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UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

EGYPT

PRIVATIZATION

263-0238

PROJECT PAPER

DATED SIGNED: 8/11/93

UNCLASSIFIED

BEST AVAILABLE

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0238

4. BUREAU/OFFICE: Near East 04

5. PROJECT TITLE (maximum 40 characters): Privatization

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 12 31 98

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 93 B. Quarter 4 C. Final FY 97

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(2,000)	( )	(2,000)	(35,000)	( )	(35,000
(Loan)	(2,000)	( )	(2,000)	(35,000)	( )	(35,000
Other U.S. 1.						
Other U.S. 2.						
Host Country					*	*
Other Donor(s)						
TOTALS	2,000		2,000	35,000		35,000

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ESF						35,000		35,000	
(2)									
(3)									
(4)									
TOTALS						35,000		35,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE C

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist the Government of Egypt (GOE) to implement its privatization program through institutional development and assistance for the sale of public enterprises and properties.

14. SCHEDULED EVALUATIONS

Interim MM YY 09 96 | MM YY | Final MM YY 09 98

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [ ] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

The USAID/Egypt controller concurs with the proposed method of implementation and financing.

Nimalka Wijesooriya, A/AD/FM

* See Discussion in Section III Cost Estimate and Financial Plan.

17. APPROVED BY

Signature: Christopher D. Crowley

Title: Christopher D. Crowley, Acting Mission Director

Date Signed: MM DD YY 08 11 93

18. DATE DOCUMENT RECEI IN AID/W, OR FOR AID/W D MENTS, DATE OF DISTRIBU

MM DD YY

AID 1330-4 (8-79)

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Privatization

Number of Project: 263-0238

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Privatization Project (the "Project") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed $35,000,000 United States Dollars ($35,000,000) in grant funds over a four year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. Operating Year Budget/Allotment process, to help in financing the foreign-exchange and local-currency costs of goods and services required for the Project. The estimated life of the Project is five years from date of initial obligation.

2. The Project will assist the Government of Egypt in implementing its privatization program.

3. The Project Agreement may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority. The Project shall be subject to the following essential terms, together with such other terms, conditions, and covenants as A.I.D. may deem appropriate.

a. Source and Origin of Goods and Services

Goods and services financed by A.I.D. under the Project, except for ocean shipping, shall have their source and origin in the United States, or as authorized pursuant to the requirements of AID Handbook 1B, Chapter 18, except as the USAID/Cairo Mission Director, or his/her designee, may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

4. Based upon the justification set forth in the Project Paper, I hereby determine, in accordance with Section 612(b) of the Act, that the expenditure of United States Dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this Project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for the certification required by Section 612(b) of the Act.

Christopher D. Crowley
Christopher D. Crowley
Acting Director

August 11, 1993
Date

Clearances:

(A)OD/TI/FI, THamman
(A)AD/TI, LBrown
PDS/PS, CDerrick
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Drafted:LEG:VMoore:6/24/93:PAUTH238

PRIVATIZATION PROJECT

#263-0238

PROJECT PAPER

USAID/Egypt
August 9, 1993

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PRIVATIZATION PROJECT
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EXECUTIVE SUMMARY

The Government of Egypt (GOE) has decided to privatize most of the businesses it owns. Seventeen Holding Companies (HCs) are charged with managing and selling their properties over the next five to ten years. The GOE goal for the next five years is to put up for sale 150 properties. To help the GOE implement its privatization program, the Project will provide access to needed operational skills while developing the abilities of the PEO to carry out privatization tasks. The sales component resources proposed to be made available by this Project are estimated to be sufficient to allow for the privatization of 50 Public Enterprises (PEs) and 23 Public Joint Venture Company (PJVC) Banks (for a total of approximately 73 "privatizations").

Having made the difficult and bold decision to embark on a privatization program, and having taken the first few steps to implement it, the GOE now faces the difficulties involved in making privatization a successful venture. The GOE recognizes that privatization on the scale envisioned requires timely access to proven expertise and experience which are in short supply. USAID assistance has been requested.

The Project will continue the work already begun by USAID with the Public Enterprise Office (PEO) and extend it to other critical aspects of the GOE's privatization program. The Project will require $35 million of USAID financing, and will feature five components, all of which will serve to provide immediate access to needed operational skills while developing the capabilities of the PEO to carry out privatization.

The Project Goal is to increase economic growth through increased private trade and investment.

The Project Purpose is to assist the GOE with its privatization program through institutional development and assistance for the sale of public enterprises and properties.

The Project will focus on the following five major areas:

- **Program Promotion** -- Since it is important to promote the privatization program to the public and interest groups, the Project will assist the PEO to prepare an approach to promotion to develop an out-reach capability and implement an effective program.

- **Organizational Development** -- Many of the institutions involved in privatization are unprepared organizationally to carry out the program. The PEO and HCs have only recently taken on privatization responsibilities and are still defining their roles, developing operating procedures, and proving they can perform. The Project will provide organization development assistance to strengthen the abilities of these organizations and others involved in privatizing PEs.

- **Sales** -- The Project will provide merchant bank services to the HCs through the PEO to evaluate the marketability of properties and to assist in the challenging task of actually selling the properties. This component is essentially divided into Sales A, a Merchant Bank Advisor who will provide advice to the PEO and HCs on merchant banking and the sales processes, and Sales B, which will actually market and sell the properties.

- **Financial Instrument Development** -- The Project will respond to needs identified in connection with specific sales for financial instruments new to the Egyptian financial markets that will mobilize capital for divestitures of PEs. Limited technical assistance and training may be provided directly to banks, brokerage firms, stock exchanges, and selected new financial institutions.

- **Decision Making Support** -- Sales of PEs have surfaced policy impediments to privatization. The Project will assist the PEO to develop the ability to identify, analyze, and implement solutions to such impediments.

Based on the experiences that have been observed worldwide with regard to privatization, and the lessons learned locally from USAID's current privatization activity, Partnership in Development, the project proposed is the most cost effective and efficient way of meeting the project purpose, and of providing the needed initiative to the privatization process in Egypt.

The Project Paper proposes to implement and manage the five major areas described above primarily through two major A.I.D.-direct contracts. One contract will supply technical assistance services directed to strengthen Egypt's privatization procedures and process and another contract will provide merchant banking services to assess, evaluate, market and facilitate the sale of State Owned Enterprises (SOEs) and their assets. Another smaller contract will provide expanded evaluation services for the Project. This last element will be necessary to develop project evaluation baselines, collect and analyze data related to the GOE privatization program and implementation of this Project, and provide regular reporting and impact assessments to USAID on the economic effects of privatization and progress toward achieving Project objectives. This will be a departure from traditional A.I.D. project evaluation, normally limited to mid-term and final evaluation events, but is determined to be a needed facet of the Project.

Although the $35.0 million activity will have a five year project life, actual implementation will probably not exceed four years of implementation inputs since the contracting process will require most of the first year. The PID was shared with the PEO, and PEO privatization and contracting personnel have been consulted regarding various aspects of Project design. The PEO concurs with the purpose and structure of the Project and has requested that USAID finance the Project.

ABBREVIATIONS AND TERMS

AC	Affiliated Company
CBE	Central Bank of Egypt
COP	Chief of Party
CP	Condition Precedent
CPS	Country Program Strategy of USAID
CMA	Capital Markets Authority
EOPS	End of Project Status Indicators
ERSA	GOE/World Bank/IMF Economic Reform and Structural Adjustment Program
FSN	Foreign Service National Employee
FY	Fiscal Year
GOE	Government of Egypt
GNP	Gross National Product
HC	Holding Company
IMF	International Monetary Fund
Law 203	Public Sector Business Law
LE	Egyptian Pounds
M&E	Monitoring and Evaluation
PD-P	Partnership in Development (Privatization) Project (USAID)
PE	Public Enterprise, same as AC
PEBSR	Technical Assistance Project for Privatization and Enterprise and Banking Sector Reform (World Bank)
PEO	Public Enterprise Office
PIO/T	Project Implementation Order for Technical Services
PJVC	Public Joint Venture Company
PP	Project Paper
RFP	Request for Proposal
SOE	State Owned Enterprise
TA	Technical Assistance
TI/FI	Finance and Investment Office of USAID/Egypt
TSSPR	Technical Support for Sector Policy Reform Project (USAID)
UNDP	United Nations Development Program
USDH	United States Direct Hire employee
$	United States Dollars
8(a)	Small Business Administration contract with a small minority-owned business

Section I

PROJECT RATIONALE AND DESCRIPTION

The Government of Egypt (GOE) has set in motion a program to sell Public Enterprises (PEs) and to sell its minority shares in Public Joint Venture Companies (PJVCs) and PJVC banks. Consistent with USAID/Egypt's strategic objective of promoting increased levels of private trade and investment, support for this privatization program is an integral element of the Mission's economic assistance program in Egypt.

Challenge of Privatization in Egypt

Over a thirty year period after the 1952 Revolution, which brought a socialist government to power, the GOE expropriated, nationalized, and otherwise acquired a large number of businesses and came to dominate many sectors of the formal economy. These businesses fell under the influence of politics, poor management, and in the end had to be heavily subsidized. Efficiency indicators show a steady deterioration in the performance of the PEs since the mid-1970s and an accelerated deterioration in the 1980s as the PEs financial rate of return fell to less than 10%, real output per worker declined, and the value added per worker fell, largely reflecting the burden of surplus labor.

Although the GOE recently halted most direct subsidies, these businesses still represent a substantial drag on the state banks and on the economy in general. The debt of the PEs, including long term loans, stood at LE 14.9 billion in July 1992. The state banks, the principal creditors of the PEs, are presently in the process of making provisions again to write off most of this credit. The loans to the PEs are a substantial part of their portfolio and will continue to be a serious drag on their performance for the foreseeable future.

The existence of the PEs has been detrimental to the economy in other ways as well. Government favoritism of the PEs has led to several distortions impeding economic growth such as easy access to state bank credit, tariff protection against foreign competition, protection of the market shares of PEs against private domestic competitors, and control over raw materials (effectively creating barriers to entry).

The poor performance of the PEs and their diminishing role in contributing to the Gross National Product (GNP) has forced the GOE to set about to restructure and privatize them. Privatization in the context of Egypt in the 1990s refers to an evolving commitment and process to remove from the state the responsibility and the control of most of the business activities and assets the GOE has acquired. In its broadest sense privatization refers to the re-introduction of market forces into the economy. For the purposes of this Project, privatization refers to the transfer of government business activities or assets to some form of private ownership. Although project resources will primarily be used to accomplish complete divestitures, privatization for the GOE goes beyond the transfer of ownership (complete or partial divestiture) to include leasing arrangements, management contracts, and franchise agreements.

The privatization process in Egypt, however, is proving to be difficult to implement. It is technically complex; the private sector and government institutions required to implement the program are inexperienced, and the issue is politically sensitive. Thus, some critical assumptions were made during the design of the Project. In some cases these assumptions are reinforced as Conditions Precedent or Covenants for release of project funds. These assumptions are of such a magnitude that they deserve special attention in this discussion.

The GOE is committed to the privatization process - This assumption is pivotal to the project. Any relaxation by the GOE in its commitment to privatization of public sector companies and sale of its shares in joint venture companies/banks could keep the project's purpose from being achieved. This, among other factors, will be reviewed by the Project Team and the Mission on a regular basis. Project modifications and continuation will be based on GOE performance in privatization.

The PEO will continue to play the coordinating role in the privatization process. If this assumption does not hold, the project may have to be substantially modified to coordinate with a new implementing agency within the GOE. Or, the absence of a central coordinator to the privatization process may decentralize the process to such an extent that USAID may choose to end its participation.

Other donors will continue to provide funding at the anticipated levels and duration. A failure by other donors to provide anticipated levels of support could seriously constrain the GOE's privatization program. The support from other donors ranges from assistance in sales of SOEs, to IBRD/IMF policy reform targets and financing of other policy reform activities. USAID will make every effort to help ensure effective coordination of the substantial number of donor activities directed toward the GOE's privatization program.

Conformity with Recipient Country Strategy/Programs

The GOE, after protracted negotiations, agreed in 1991 to the Economic Reform and Structural Adjustment (ERSA) Program with the World Bank and the International Monetary Fund (IMF) and committed itself to the privatization of 150 PEs over the next five years. The GOE has also decided to sell off its shares in more than 250 PJVCs and 23 PJVC banks. President Mubarak and key GOE ministers have on a number of occasions expressed publicly their commitment to privatization. Several positive steps and accomplishments lend credence to their declarations. Actual sales of two state-owned enterprises have already occurred in the examples of the Sheraton Hurghada and Meridien Hotels. The sales of these hotels have demonstrated, at the least, that the necessary legal framework for privatization exists in Egypt. Additionally, the local governorates over the past two years have sold 1564 properties (for a total of LE 35.7 million). The Peoples' Assembly passed legislation (Law 203 of 1991, the Public Sector Business Law) which focuses on restructuring PEs and allows privatization. The GOE has since named a strong Minister for Public Enterprise (presently the Prime Minister), has empowered Holding Companies (HCs) to manage and sell the PEs, and has established the Public Enterprise Office (PEO) to support and monitor the work of the HCs.

The PEO is following a strategy of targeting a manageable group of fairly easy-to-sell properties during the first two years of the program. It has prepared a set of procedures for the privatization process. Preparations for a number of sales are under way. Eighteen properties have been evaluated by consultants working with the PEO (ten evaluations were financed by the USAID Partnership in Development (Privatization) (PD-P) Project and another eight with Japanese funding managed by the World Bank). Several additional properties were recently assigned to the PD-P Project. The Prime Minister directed the HCs to sell these properties as quickly as possible. USAID activities are working in close coordination with the GOE program and are the principal source of technical experience and expertise. The project proposed herein will similarly conform with and support the GOE program.

The current GOE privatization program, as has been described publicly, is directed toward increasing productivity through a market economy that takes social norms into consideration. The program is designed to foster competition by opening markets to both public and private entities, and to redefine the role of government, allowing it to stay in areas where it needs to be, and getting out of those areas that can be adequately managed by the private sector.

Project Relationship to USAID Country Program Strategy

The USAID/Egypt Country Program Strategy (CPS) establishes increased levels of private trade and investment as a strategic objective[1] and justifies support for privatization as a means of achieving the strategic objective.

It has been suggested that active privatization may not be necessary if policies are adjusted to ensure a level playing field for both publicly and privately owned firms. With a level playing field, it is argued, new and existing private firms, by virtue of their generally superior efficiency, will over time dominate the economy. Policies established, however, are not necessarily policies implemented. It is exceedingly difficult to change the behavior of the political system vis a vis the PEs. The PEs were established for political reasons and will continue to be used for political purposes as long as they exist. With their political mandate and connections they are able to obtain special privileges which make it difficult, if not impossible, for private firms to compete. Furthermore in the absence of a proactive privatization program, the GOE will have few alternatives to continuing the use of massive budgetary resources to keep hundreds of inefficient PEs in operation. Thus, a complete approach toward privatization in an economy such as that of Egypt requires both policies to level the playing field and promote private investment and trade, as well as an active all-out effort to sell the PEs to private concerns.

Activities contributing to privatization explicitly contemplated in the CPS include inter alia assistance:

* to develop the legal and administrative framework for privatization,
* to carry out the actual divestiture,
* to provide sector assistance to enable the GOE to reduce surplus labor,
* to develop effective investment promotion,
* to eliminate distortions in the trade sector, and
* to help develop the scope and breadth of financial markets.

The USAID program already actively and directly supports the GOE privatization program with technical assistance under the PD-P Project and the Sector Policy Reform Program[2] as well as with the equivalent of $10 million of GOE/AID jointly programmed local currency for PEO budget support.

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[1]This strategic objective directly supports one of the three USAID sub-goals, namely **increased economic growth**. This sub-goal in turn supports the overall program goal which is the **enhancement of Egypt's role as a model of stability, democracy, free markets and prosperity in the region.**

[2]Brief descriptions of the existing Project and the Program are provided in Annex G, Coordination: Other Donors, the GOE and USAID.

Project Goal and Purpose

The Project Goal is to increase economic growth through increased private trade and investment. The goal of the project combines a Mission sub-goal and a Mission strategic objective.

The Project Purpose is to assist the GOE with its privatization program through institutional development and assistance for the sale of public enterprises and properties.

Planned Project Activities

What the Project will Address

Having committed itself to carrying out a program of privatization and having established the basic procedures for its initiation, the GOE now faces the exceedingly difficult challenge of actually implementing the privatization program. It is this problem that the Project will address. At this stage of the program there are five areas that are critical to overcoming this problem and needed for successful implementation. Project activities are proposed and described in each of these areas.

Program Promotion

Organizational Development

Sales

Financial Instrument Development

Decision Making Support

Program Promotion

While the Government has publicly stated its commitment to the restructuring and privatization program, there is little understanding within the state enterprise system about the merits of this initiative. The rationale behind the promulgation of Law 203 and its applicability still remain to be understood within the system and by the public at large. Even though there is a general understanding of the economic reform program and the applicability of Law 203 at the HC level, there are no clear cut perceptions about the government's reorganization program among those in the Affiliated Companies (ACs). Furthermore, the lack of clear communications about the process has contributed to a number of inconsistencies in the handling of the properties presently being sold.

The government has not made significant headway in preparing the public in general, and the private sector in particular, to accept and subscribe to the concept of privatization. There is also no effort to encourage popular participation in the process. Key groups that need to be courted to support privatization include the GOE Economic Cabinet, the Peoples' Assembly, the local population, media, academics, public sector employees, the organized private sector, labor, and local and international investors.

Egypt has much to learn from the experience of other countries in the design of awareness, or promotion programs for privatization. The Project will bring this experience to bear by providing technical assistance to the PEO to develop and implement a strategy to communicate with key target groups. The technical assistance will develop profiles of the information that these target groups need in order to understand, and keep abreast of, the privatization program, and will design systems for providing that information. The banking system, for example, will have information requirements quite different from those of organized labor. Some target groups will be hostile and others more supportive and the communications systems must be designed accordingly.

Technical assistance provided will help plan, organize, and implement communication activities. These activities will also train professionals in the PEO to carry out the communications activities and then oversee and support these activities over the life of the Project. There will be an expert on the Project's technical assistance team for communications and program promotion activities. His/her work will be supported by short term experts (expatriate and/or Egyptian) and contracts with local firms. The Project will provide funds for media coverage and will finance seminars and visitation travel as well. Salaries, commodities and other local currency support costs of the program promotion unit will be covered by the PEO.

Organizational Development

Because the responsibility for selling the PEs has been assigned to the seventeen HCs (and the selling of the PJVC banks to the four State Banks), the privatization process as currently structured promises to be decentralized. The role of the PEO, however, will also be critical to the success of the privatization program. First, the GOE has assigned to the PEO the responsibility of ensuring that the GOE meets the privatization commitments that it has signed with the donor community. Although it seems that many of the HCs are committed to the privatization program, the PEO must oversee progress against the established privatization targets, and, should problems arise in meeting the targets, assist the other parts of the GOE to implement incentives and/or penalties to meet the target. Second, the PEO is the designated channel for donor assistance to the privatization program. Its responsibility is to work with the donors and holding companies to define the assistance required and to help manage and coordinate that assistance. Third, the PEO must assist the HCs and the other parts of the GOE to overcome the myriad of obstacles, including many at the policy level, that are encountered in taking the properties to sale. Fourth and fifth, the PEO is responsible for a couple of areas not addressed by this Project but supported by the World Bank project: training for HC and AC personnel and restructuring (financial, organizational, and technical) many of the ACs not scheduled for sale in the near future. The role of the PEO is predominately to support the work of the HCs. In the area of privatization, it is principally to support their work in taking the ACs to sale.

The PEO is actively engaged in these activities. However, as a nascent organization with a difficult, new, and complex role, the PEO faces the challenge of strengthening its structure, personnel, and procedures, and gaining the experience to be able to accomplish effectively that which is expected of it. The new HCs find themselves in a very similar predicament. For many who have been assigned to manage the HCs, the responsibilities are large and the available resources are limited.

The Project will assist the PEO and the HCs in strengthening their organizations and their capability to carry out privatization by providing a combination of regular management audit consultancies and on-the-job training. A group of two or three organizational development specialists (expatriate and/or Egyptian) will engage in regularly scheduled consultancies aimed at assisting the organizations to define achievable objectives and to develop the organizational capacities to accomplish the objectives. Where specialized assistance is required for specific work such as strategic plan preparation for the HCs, information system development, procurement system development, short-term experts in those areas will be provided.

Sales

The market in Egypt for selling and buying businesses has been virtually non-existent for the past 40 years. The specialized skills and experience necessary to competently handle the nature and volume of PEs to be sold is therefore very limited in Egypt. Assistance is required.

Taking an enterprise to sale generally involves a four stage process. Stage I requires that the Holding Company prepare a business plan which includes *inter alia* a determination of how and when to divest each property. Stage II requires carrying out an evaluation or a comprehensive analysis of the enterprise to be sold. An in-depth review is made of the financial, legal, regulatory, marketing, environmental and labor aspects of the enterprise. A range of experts is used to produce a comprehensive report which addresses the main issues that will or might arise during the privatization of the enterprise. The report consists of two documents: first an information memorandum detailing all evaluated areas related to the firm and second a valuation report suggesting a reference value for the enterprise and providing alternative sales strategies. Stage III is centered around facilitating the HC decisions concerning how to go about selling a property and resolving the policy issues associated with that sale. The reports produced in Stage II are presented to the PEO and the relevant HC and AC, soliciting their comments and questions. After careful consideration of the issues and options and the resolution of policy impediments, the HC decides on a sales strategy. This strategy will include options for the mobilization of the capital required for divestiture. Any financial instrument deficiencies will be identified and can be addressed by the Financial Instruments Development element of this Project. Stage IV implements the sales strategy.

Potential buyers are identified, advertisements are prepared, an offering memorandum and/or prospectus is prepared (depending on the preferred mode of sale), proposals are reviewed, negotiations are conducted and a deal concluded. Finally, a public report, a "white book," documenting all aspects of the sale is prepared and distributed to reinforce the transparency of the transaction.

An HC will usually pursue objectives that go beyond simply obtaining a reasonable price for the sale. Included in the list of objectives may be such concerns as assuring that a business will continue in operation, attracting new investors who will have access to improved technology, markets, financing, and management; selling the property to a firm which can absorb the surplus labor; breaking up a monopoly; ensuring that the debt of the property be paid off; etc. Because of these numerous and varied requirements, the sale must be expertly prepared and executed. Because there is very limited experience in Egypt in handling international tenders for the sale of companies, or in evaluating, establishing a reference value, and selling companies, a group of merchant banks with international expertise and privatization experience is required.

The Project will provide technical assistance to work with the HCs and the GOE to privatize specific properties. Once the decision to privatize is made, the PEO may group these properties in small batches (usually between three and eight properties per batch). A merchant banking services contractor will be selected and assigned to provide assistance in the sale of each batch[3].

The merchant bank will be responsible for evaluation of the current market, operational, financial, environmental and legal position of the company; analysis of the value of the firm; consideration of the alternative forms of the sale; the preparation of an offering memorandum or a prospectus of the firm; the marketing of the firm; the negotiation of the deal, closing the deal, and preparation of the "white book" detailing all aspects of the offer and sale. Usually a merchant bank will require three months of actual work, spread over a period of six months to prepare a property for sale.

Local firms may be involved in this activity as subcontractors to assist the sales process and to be the recipients of the transfer of technology. Formal and on-the-job training may be provided to these local firms, as well as possibly other firms that, with training, could be helpful with some aspect of the sales.

Financial Instrument Development

Virtually all of the sales, even those involving foreign buyers, will require local financing. The existing financial institutions in Egypt are ill-prepared to participate in financing these sales and currently have access to few financial instruments. In fact, some banks which the

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[3]The World Bank Technical Assistance Project for Privatization and Enterprise and Banking Sector Reform (PEBSR) can provide limited funds to the PEO to contract Sales Teams using host-country-type contracts, referred to under that project as "multi-transactional contracts," if the PEO follows World Bank procedures.

PEO has requested to participate in its current privatization efforts have already approached USAID for technical assistance in undertaking the tasks. Local financial institutions presently are barely part of the privatization process and do not have the financial services and instruments necessary to participate fully in the sales of the businesses.

The Project will provide technical assistance and training directly to banks, brokerage firms, stock exchanges, and selected new financial institutions (e.g. investment funds and mutual funds). An important part of the work will be the development and refinement of financial instruments/activities which are required for specific deals.

During implementation the Project will evaluate the interest in, and feasibility of, several mechanisms/instruments which have been suggested to facilitate the sale of the PEs. Such mechanisms/instruments include broad based investment funds, mutual funds, underwriting, and other methods which would encourage and enable workers and small investors to buy shares in the privatized firms.

The Project will provide one long-term expert in finance and investment, backed up with substantial short term expatriate and/or Egyptian experts, to carry out these activities. Formal or on-the-job training will be provided to the extent it will assist in the introduction of new financial instruments; visitations to other countries with privatization programs taking place in the context of developing financial sectors will also be financed under the Project.

<u>**Decision Making Support**</u>

The process of privatization will likely present numerous policy and regulatory issues which must be resolved if privatization is to proceed. Presently the GOE lacks an organized approach to the analysis and consideration of alternative solutions to policy impediments to privatization. If the GOE is unable to resolve policy and regulatory impediments expeditiously, possible sales will be jeopardized, investors will become disillusioned, and privatization will stall. Even though the first batch of PEs evaluated as candidates for privatization were selected because they presented no particularly difficult problems, the evaluations have shown that each sale tends to raise issues which will require resolution before the sale is consummated. These issues include, for example, deciding whether investors of all nationalities are eligible to bid on a hotel in the Sinai, whether a legal monopoly will be abolished, when to institute a unified price for electricity for private and government businesses, whether to allow an unofficial cartel to continue to exist, whether to lay-off surplus employees before the sale of a property, and whether to forgive/restructure AC debt before or after the sale. Other PEs scheduled for later privatization present these same problems, but with larger dimensions, as well as other problems. At some point, the social/political effects of labor displacement and the macroeconomic ramifications of restructuring the massive bad debt portfolio of the HCs will reach critical proportions unless they are dealt with promptly and responsibly[4]. There are other more generic issues which could stop privatization sooner rather than later, such as the lack of policy decision(s) concerning the use of sales proceeds and the organizational development of the PEO and the HCs. The GOE lacks a mechanism for resolving such issues quickly

A key role of the PEO is to help the HCs deal with the political and policy issues which arise during the process of selling a PE. The PEO can best influence the resolution of these policy issues by presenting quick, but well-thought-out, position papers on the issues to the Prime Minister and the economic cabinet. The Project will provide technical assistance to the PEO to analyze policy options and to present them for consideration. The Project will also assist the PEO to contract out analyses and to work for the resolution of policy impediments to privatization. The Project will provide a policy analyst to provide the leadership in this area, and short term expatriate and Egyptian experts as required. Formal and on-the-job training will be provided for selected PEO and HC staff as well as site visits to countries managing well the policy issues associated with privatization.

Project Inputs, Outputs, End of Project Status (EOPS) Accomplishments, and Project Beneficiaries

Project Inputs

The following Project Inputs will be provided under the Project:

--Technical assistance provided by long-term and short-term advisors, on-the-job training for PEO and HC staff; The TA and training will be under all 5 of the Project's major components: Program Promotion, Organizational Development, Sales, Financial Instruments Development, and Decision Support Services;

--Seminars, workshops, visits, studies, analyses;

--Merchant Bank Services to assist with the sale of properties and enterprises;

--Counterpart contributions: support for PEO staff, facilities, and HC sales activities.

[4]The labor redundancy and PE indebtedness are particularly difficult issues and may eventually cause serious delays in the privatization program. The Project, although it will contribute to their solution with technical assistance, need not solve these problems to accomplish its purpose. There are many firms for which these issues are minor considerations.

Project Outputs

The afore listed Project Inputs are expected to produce the following Project Outputs:

--Comprehensive, timely information provided to general population and targeted groups on the need for privatization and the results of privatizing companies;

--Demonstrated capability of the PEO and HCs to effectively manage the privatization process;

--Marketing information (on companies offered for sale) prepared and made available to potential buyers;

--Creation of local financial instruments/mechanisms to facilitate privatization process;

--Policy studies and options papers prepared and presented to GOE recommending solutions to policy impediments to privatization.

End of Project Status (EOPS)

The Project Outputs are expected to produce the following End of Project Status (EOPS) accomplishments:

--The general population, including key target groups, will be able to make informed decisions to support, and participate in, Egypt's privatization program.

--There will be a recognized and effective process for raising policy impediments to privatization to the attention of the relevant decision makers and for resolving the problems.

--Efficient processes for all aspects of privatization in Egypt established, widely recognized, and followed.

--There will be a substantial number of PEs sold. The sales assistance provided under this project is expected to be sufficient to allow for the sale of approximately 50 companies over the life of the project, and for the sale of an estimated 23 PJVC Banks.

Project Beneficiaries

There are five major sets of direct and indirect beneficiaries under this Project. They are:

--**The GOE:** As a result of this Project, the GOE's support/subsidy budget for PEs will be substantially reduced;

--**The PEO, Financial Institutions, HCs and ACs:** These entities will directly benefit in terms of a strengthened institutional capability to implement the privatization program, as well as receiving access to improved technology and management techniques.

--**Employees:** This group includes retrained, relocated employees of divested PEs, as well as new entrants into the workforce as a result of increased investment and new or expanded firms. However, there clearly will also be employees who are not positively affected by the project.

--**Consumers:** As an indirect beneficiary, this group is expected to have more choice in buying better quality goods and services as a result of competition among, and more efficient management, of privatized companies.

--**Recipients of Government Services:** This group is expected to indirectly benefit from the project, as fewer GOE resources will be spent on inefficient SOEs, and thus enabling the GOE to provide for needed social services.

Please refer to the Social Soundness Analysis (Annex M) for further discussion of project beneficiaries and the anticipated socio-economic impact of the Project.

Section II

IMPLEMENTATION PLAN

Below is an outline describing the scale and pace of planned Project implementation. A detailed description of the implementation can be found in Annex I, Implementation Annex. Additional information on the implementation and implementation agencies\organizations can be found in Annex E (Administrative Analysis), Annex D (Technical Analysis), Annex F (Procurement Plan) and Annex H (Monitoring, Evaluation and Audit Plan). Budgetary information can be found in Annex J (Budget Annex).

Background

The Mission is currently funding a privatization activity under Projects 263-0102 and 263-0233. The Partnership in Development activity, the predecessor to this proposed Project which began implementation in 1990, provides Technical Assistance (TA) to the PEO through a contract with Overseas Bechtel Inc. (OBI). Until recently, the major effort of the contractor has been to provide TA for analysis of companies planned for privatization. This activity will be included in the Sales Component of this new, more comprehensive Project. Technical assistance for the four other project areas described in this Project Paper, have also been provided to the PEO under the current OBI contract, but not at the level presented, nor in the manner proposed, in the new Project.

The new Project differs from the current effort in that it will provide specific support to the institutionalization of the privatization process which has just been developed; strengthen the institutions involved in privatization; and encourage the participation of merchant banks in providing the needed expertise for selling the companies and properties currently under GOE complete or partial control. The addition of actually facilitating the sales, rather than just doing the analysis and preparing the offering memorandum for selling, expands the focus of the USAID funded activities.

To respond to the very recent changes in the privatization process by the GOE, this follow-on activity will now also work with institutions other than just the PEO, namely the HCs, Affiliated Companies, Central Bank of Egypt, and the State Banks.

General Description

The Project will be managed by the Office of Finance and Investment (TI/FI) in the Directorate of Trade and Investment. The primary implementing agency within the GOE is the PEO. The core activities of the Project will be implemented through two contracts. One contract will provide technical assistance services to organizations participating in the privatization process and another contract will provide merchant banking services to prepare and execute the sale of public sector companies/properties. A third contract will be let to conduct extensive information collection and to undertake expanded, continual evaluation of the Project. There will also be a limited portion of Project funds which will be available to hire a contracting specialist who will assist the DIR/CS Contracting Officer with the anticipated significant and complex set of contracting actions associated with this Project.

As a result of USAID Project assistance, it is anticipated that the institutional structure of the PEO and the institutionalization of the privatization process will be strengthened. A program of dissemination of information and promotion of the privatization process will occur, led by the PEO. Assistance will be provided to financial institutions to develop and utilize new financial instruments to facilitate the privatization of public sector holdings. The Project will also assist the PEO in the identification and resolution of policy impediments to privatization. Over the course of the Project, it is estimated that the merchant banking services assistance will be sufficient for approximately 50 public sector companies/properties and 23 joint-venture banks to be privatized.

Implementing Organizations

Below are listed the major implementing organizations and a brief description or their roles and responsibilities. Details can be found in the Implementation Annex (Annex I).

USAID - The USAID Mission will be responsible for selecting and contracting with the firms providing assistance. TI/FI will draft the Scopes of Work for all the required needs of the project and the Office of Contacting Services (DIR/CS) will issue the Requests for Proposals (RFPs) and negotiate all contracts. Other than one possible exception (contracting for the Evaluation contract which may be handled by AID/W or the Small Business Administration (SBA), DIR/CS will manage the process of selection and contracting of firms. The TI/FI Office has assigned its privatization division (1 USDH, 2 FSN professionals) to monitor and manage the Project and contractors under the project (this responsibility includes signing vouchers for the contractors, performing site visits, monitoring the performance of the contractors and review of all contractor and GOE reports).

In addition to the normal project management role, the Mission senior staff will also interact on a periodic basis with the relevant GOE officials to provide encouragement or motivation, as necessary, on the progress of the privatization process, especially with respect to policy constraints and relief from regulations which inhibit the process.

Public Enterprise Office - The PEO has the prime responsibility to coordinate the privatization process. The staff currently in place, and the planned staff increases, will coordinate with the Holding Companies, Affiliated Companies, the contractors, USAID, other donors, financial institutions, and the Central Bank of Egypt. The PEO will be assisted in developing its organization and coordinating the technical assistance to HCs and the companies/banks. Requests for technical assistance from the Project will be funneled through the PEO. For all purposes of the Project, the PEO is the implementing agency within the GOE. In addition to the PEO role in managing the privatization process, it also has responsibilities for assisting in the restructuring of public enterprises. However, the Project will not finance the restructuring activities of the PEO.

Holding Companies and the State Banks - These entities are responsible for the actual sale of companies, properties and the GOE interest in joint venture companies. Support for developing plans for privatization of companies/banks held by these entities, technical assistance in support of managerial improvements of the entities, and other services will be provided through the PEO. These entities will provide information to the PEO for development of overall privatization plans. During the sales process Privatization Teams within the HCs will review and approve the information memorandum and offering memorandum provided by the Merchant Banking Services contractor. A critical part of the sales process will be the Holding Companies' and the Banks' initial negotiation/agreement with the selling agent (merchant bank group) to provide success fees upon closure of the sale and, in the case of a decision not to sell the property, to provide abort fees. The entity will be required to negotiate an agreement with the selling agent prior to commencement of work by the merchant bank. There may have to be a fund set up by the GOE to cover abort fees as they may not always be available from the HC. The Project contains several conditions precedent and covenants associated with the sales assistance portion of this Project (Please see Section VI of the PP for clarification).

It is important to note here that the PEO and several HCs are already aware of this proposed type of success and abort fee sales mechanism, and have demonstrated support (written agreement) for such terms in recent privatization activities conducted through local financial institutions. The contracts drawn up to execute the sales of the companies offered include success and abort fee percentages, and offer a higher success fee in the event an international merchant bank is brought in for the sale.

Public Sector Entities being Privatized - The ACs and PJVC Banks may receive technical assistance and training from the PEO and will provide information to the PEO (or its selling agent) necessary for valuation and sale of the property.

Contractors - The firms receiving contracts for implementation and evaluation of the project will be under direct contracts with the Mission.

- Technical Assistance Services Contractor - The TA contractor will be responsible for assisting the PEO in many of its functions related to privatization of GOE held properties. In addition to providing extensive TA to the PEO, the TA contractor will be responsible for monitoring and reporting on the PEO's achievements. The TA contractor will probably be composed of U.S. and Egyptian companies led by a U.S. firm in implementation of the project activities. See Section I of the PP for further discussion of types of TA to be provided for individual components of the project.

- Merchant Banking Services Contractor - This contractor will most likely be a group of merchant banks, working as a consortium, with the full range of skills needed to prepare and conclude the sale of GOE properties. The Merchant Banking Services contractor would operate under two different agreements. The first is a direct contract with the Mission which could provide separate engagement fees for each property (or group of small properties) to the contractor for preparation and sale. In addition, the contractor would negotiate with individual Holding Companies (or the State Banks) the success fee to be paid upon the successful sale of the property and an abort fee if the HC or Bank decides not to sell. The contractor will be provided (by either the PEO, the HC, or the AC/PJVC) the information necessary for the sale of the assigned company/property. One member of the Technical Assistance Service Contractor's staff (Merchant Bank Advisor position) will help PEO coordinate and oversee the work of the Merchant Bank Group.

- Evaluation Contractor - This contractor will provide expanded evaluation services for the Project. The contractor will develop project evaluation baselines, collect and analyze data related to the GOE privatization program and implementation of this Project, and provide regular reporting and impact assessments to USAID on the economic effects of privatization and progress toward achieving Project objectives. This will be a departure from traditional A.I.D. project evaluation, normally limited to mid-term and final evaluation events, but is determined to be a needed facet of the Project. The Evaluation contractor is expected to be selected from the Small Business Administration (SBA) list of 8(a) firms. The PIO/T for acquiring these services will be processed immediately after GOE acceptance of the project with the expectation of having the long-term staff of the contractor in place within four to five months after signing of the Project Grant Agreement. However, within two months of the award of the contract, the contractor will be expected to send an initial evaluation team to Egypt to begin the initial three month exercise of developing the evaluation baselines and indicators to be used as benchmarks for project implementation.

Other Donors - Other bilateral and multilateral donors are expected to participate in full or in part in the privatization of GOE properties. These organizations will have their own objectives but will generally be parallel to the USAID objectives. To help facilitate donor coordination, USAID/Egypt may arrange for periodic meetings at several levels with the donors and the GOE to ensure harmony in privatization activities. Annex G provides descriptions of currently known activities financed by other donors and other USAID projects/programs.

Implementation Schedule

The Project will commence upon signing of the Project Grant Agreement with the GOE. This should occur in late FY 1993 or early FY 1994. The planned project life is five years. During the project life, actual implementation will span only four of the five planned project years. Although the Evaluation contract and the DIR/CS contracting specialist may commence working within a few months of obligation, the other two contracts, necessary for project implementation, will probably not be in place prior to one year into the project life. The table below presents an illustrative schedule for selected implementation activities; more detailed information is provided in Annex I.

Event	Date
PP approved	August 1993
ProAg. signed	September 1993
Initial CPs met	October 1993
Contract for Evaluation awarded	December 1993
Contract for TA awarded	June 1994
Contract for Merchant Banking awarded	September 1994
Mid-term evaluation	September 1996
Final evaluation	September 1998
Project completion date	December 1998

Procurement Plan

The Project will finance the procurement of technical assistance services for project implementation, and finance merchant bank services for the valuation of public sector properties and to take them to sale. There will be two major contracts for project implementation and several lesser contracting actions under this project. Below is a brief description of the Project's procurement. Annexes F, H, and I have detailed descriptions of the roles and responsibilities of the contractors. As noted in the individual possible scopes of work for the different contracts, it is anticipated that the prime contractors will sub-contract for some technical assistance from Egyptian sources. This choice of using Egyptian professionals, where possible, will develop Egyptian capabilities to allow for privatization to continue beyond the life of the project, and will also keep project costs within a reasonable level. Although the Project Paper and budget estimates contemplate that some subcontracting will be done with local firms, the level and extent of which is currently uncertain, the implementing contractors of the Project will be expected to comply with the source, origin, and nationality requirements of A.I.D. Handbook 1B, or seek waivers of these requirements for allowable reasons.

Some commodities may be required by the TA and Evaluation contractors to implement their responsibilities. These commodities will either be of U.S. source and origin, be available within the local procurement exceptions in Handbook 1, Supplement B, Chapter 18, or have a waiver of these requirements. Annex N includes a source waiver for computer/electronic equipment and a source and origin waiver for office furniture and supplies. Annex N also includes justification for exceeding normal salary levels for some professional positions. The project budget tables reflect some estimated salary levels which exceed current A.I.D. established levels. Mission waivers for salaries above A.I.D. established levels will be required on a case by case basis, but it is recognized that salaries for some U.S. and Egyptian professionals may exceed normal limits due to the specialized skills required.

Technical Assistance Services Contract - A draft scope of work for the TA contractor is included in Annex D and F. This information will be refined and modified, as necessary, and put into a PIO/T upon authorization of the project. The PIO/T will be submitted to the Mission Contracts Office in September and an RFP issued by November 1993. Proposals should be received and reviewed in February 1994 and a contract awarded by June 1994. The contractor and staff should be in Egypt by August 1994 and fully established in their offices by October 1994. The first activity undertaken by the contractor will be an annual workplan which should be approved by the PEO and USAID in December 1994.

Merchant Banking Services Contract - This may be the most difficult contracting action to undertake and requires the GOE to meet certain conditions prior to award of a contract. The proposed contractor, described in Annex D, will likely be a consortium of merchant banks. This group would be composed of several merchant banks working together to provide the required services for selling public sector properties held (in part or whole) by the GOE. Like the TA Contract scope of work, Annex D and F contains the basis for a possible scope of work for the Merchant Banking Services contract. A PIO/T should be cleared and submitted to the Contracts Office by December 1993 and an RFP issued by March 1994. The proposals should be received by June and reviewed by the technical committee, with the contract awarded by September 1994 and the contractor fully functional within a couple of months after award. Note that this proposed arrangement for implementation of this function has not previously been used by USAID for development projects but is common in the private sector.

Evaluation Contract - This is an important part of the Project and will need to be place early in the project. The draft scope of work is included in Annex H and will be used in preparing the PIO/T for approval in September 1993. This third contract will provide expanded evaluation services for the Project, and will be a departure from traditional A.I.D. project evaluation normally limited to mid-term and final evaluation events. The proposed method of obtaining this extended evaluation firm is through an 8(a) contract. The selection method allows an abbreviated selection and contracting period. Once a firm has been identified, the Mission will process the PIO/T for obtaining the services of the selected 8(a) firm. A contract could be awarded in December 1993 and essential staff in Egypt by February 1994. Although other firm selection methods were reviewed by the Project Design Team, this was felt the most appropriate and expeditious for project purposes.

Audit and Local Support Contracts - The Mission foresees a need to use a small portion of Project funds to hire a contracting specialist to assist the Contracting Officer responsible for this Project. Due to the significant amount and sophisticated level of contracting actions associated with this Project, DIR/CS will require this additional assistance through a Professional Services Contractor (PSC) arrangement. There will also be small contracts to finance any required audits of organizations involved in implementation and evaluation of the Project.

Training Plan

In the analysis of the institutions implementing the project, Annex E (Administrative Analysis), it was noted that the agencies implementing privatization require some training of their staffs to achieve the Project Purpose. The exact training needs have not been determined, but preliminary projections have been made to facilitate the budgeting requirements of the Project. The exact training needs will be determined by the TA contractor in the needs assessments. The training plan for PEO will be completed and the training needs of the HCs determined in early 1995. Some undetermined amount of training will be provided to financial institutions. In addition, some training may be provided to the Central Bank of Egypt, State Banks and/or joint venture banks to be privatized. These activities will take place in the second or third year of the project and no exact costs can be determined at this point in time. All training (in-country, U.S., third country) will be organized and financed under the TA contract, and all participant training will be conducted in accordance with A.I.D. Handbook 10 and Mission Order 10-1. There may be several non GOE organizations which receive limited training. These may include financial institutions, media companies, local consulting firms, other organizations whose capability, when enhanced, will contribute substantially to Project success.

Section III

COST ESTIMATE AND FINANCIAL PLAN

General

Total life-of-project funding amounts to $35.0 million for five years. In late FY 93, an initial obligation of $4.0 million is planned with the remainder being obligated through FY 97. Annex J contains budget tables outlining the estimated costs for implementing the project. Other than a very small amount of funds used to finance purchases of furniture, equipment, and office space for the TA contractor, the Project will finance technical assistance services which will be provided to GOE institutions and, in a few cases, other local non-governmental institutions.

Host Country Contributions to the Project

Mission Policy: Current Mission policy (Mission Order 3-31) mandates that Project Paper and Project Agreement budgets include the total estimated host country in-kind and cash contributions. The estimate shall be projected on an annual basis over the life of project and may be categorized by GOE budget chapter (BAB 1, 2 or 3) to facilitate monitoring. The policy also specifies that all contributions shall be quantifiable and/or monetizable project costs to be borne by Egypt in implementing the project.

Impracticality of Quantifying Level of GOE Contribution: When analyzing potential sources of GOE contribution to the project, two sources of counterpart support were identified: the PEO itself and success/abort fees that are realized as a result of the sales of 50 PEs and 23 PJVCs. In addition to support from other entities, the PEO was provided LE33 million from the BAB 3 account for GOE FY92/93 to support all of PEO organizational operations. Part of the PEO organization will be dedicated solely to implementation of this project. Although the privatization element of PEO is expected to grow as a result of this project, no separate accounting system exists to measure costs specifically attributable to privatization. Hence, it is impractical to estimate the specific level, quality and number of PEO personnel, logistics, operational and indirect cost solely dedicated to this project. Nonetheless, the major GOE contribution to the Project will be in the form of success/abort fees paid to the Merchant Banks for selling PEs. This contribution will be a percentage of the selling price of each PE and as such cannot be estimated at this time (due to uncertainty of which PEs will be allocated to the USAID contractor for sale). Furthermore, it is likely that a series of shorter lists of properties requiring Project assistance will be presented by the GOE for Project assistance over the life of the Project. The values of the properties will not be known until the sale is consummated. No reliable estimates of the value of the firms presently exist.

Mission Approach: Although not in conformance with standard Mission policy on host country contributions, the Mission recognizes that the host country contribution can not be projected and monitored quantitatively at this time due to a lack of baseline data. Rather, the Mission will monitor the host country contribution to the Project by evaluating GOE commitment to privatization (through PEO appropriate staffing levels, operational support and actual sales of PEs by Merchant Banks). A special reporting provision shall also be included in the Project Agreement Annex I which shall require the GOE to report to USAID the number of successful sales as well as the amount of success and abort fees paid each year.

Proposed Method of Implementation and Financing

The Project will be implemented through contracts to two U.S. firms (and possibly their U.S. and local sub-contractors) and several smaller contracts for evaluation, audits and a contracting specialist to assist DIR/CS with the Project's substantial contracting actions. The major, and most of the minor, contracting actions will be Direct Contracts by A.I.D. Table 1, on page 30, shows the cost estimates for each of the TA contract components, Merchant Bank services, the Evaluation contract, and miscellaneous contracts. Two major contracts will be competitively awarded, the evaluation contract is expected to be awarded to an 8(a) firm and would not necessarily be competed. Other smaller contracts would follow A.I.D. procurement procedures which allow non-competitive procurement of services if they are of small value or waived for allowable reasons. The intention is for two of the contracts (TA and Evaluation) to be level of effort contracts (requests for the required Deputy Mission Director approval of this contracting type have been included in Annex N).

Other than the waiver of procurement of U.S. origin electronics (computers, etc.) equipment from Egyptian source, all commodities will be low cost shelf items (local procurement) which the Agency allows under Handbook 1B, Chapter 18 or locally-produced commodities. Although the Project Paper and budget estimates contemplate that some subcontracting will be done with local firms, the level and extent of which is currently uncertain. The implementing contractors of the Project will be expected to comply with the source, origin, and nationality requirements of A.I.D. Handbook 1B, or seek waivers of these requirements for allowable reasons.

Annex N also includes justification for salaries in excess of FS-1 and FSN-12 for some of the critical technical professional positions. These salaries are reflected in the budget estimates included in Annex J.

Proposed Schedule of Expenditures

The initial $4.0 million obligation for the project will be sufficient to start the process of contracting for technical assistance services. The remaining funds for the project will be obligated as needed. At this time it is rather difficult to estimate the timing of funds required for the engagement fees to the Merchant Bank component, thus there is a larger amount in the first year of projected PE sales (year two of the project). This is also true of the sale of PJVC Banks, where sales should be rather rapid relative to other properties for sale. Table 2 provides the estimated obligation amounts and the year of the project. Obviously if implementation is delayed, the funds would be obligated at a slower pace.

PRIVATIZATION PROJECT # 263-0238

METHODS OF IMPLEMENTATION AND FINANCING ($000)

Project Components and Method of Implementation	Method of Financing	US $ Amount
1. TECHNICAL ASSISTANCE	Direct Pay	17,150
Program Promotion		3,700
Organizational Development		2,650
Financial Instruments		3,830
Sales Advisory		3,670
Decision Making Support		3,300
Direct Contract		
2. SALES	Direct Pay	14,800
Direct Contract		
3. EVALUATION	Direct Pay	2,530
Direct Contract		
4. AUDIT	Direct Pay	200
Direct Contract		
5. LOCAL SUPPORT	Direct Pay	320
Direct Contract		
TOTAL		35,000

Table 1

PRIVATIZATION PROJECT # 263-0238

SUMMARY COST ESTIMATES AND FINANCIAL PLAN ($000)

ELEMENTS	FX	LC	TOTAL
TECHNICAL ASSISTANCE	11,000	6,150	17,150
SALES	14,800	0	14,800
EVALUATION	2,000	530	2,530
AUDIT	135	65	200
LOCAL SUPPORT	320	0	320
TOTAL	28,255	6,745	35,000

Table 2

Table 3

PRIVATIZATION PROJECT # 263-0238

Projected Expenditure by Project Year

($)

ELEMENT	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
TECHNICAL ASSISTANCE	1,028,435	4,221,794	4,575,865	4,456,168	2,870,908	17,153,170
SALES	0	5,500,000	6,000,000	3,300,000	0	14,800,000
EVALUATION	510,042	489,256	559,537	765,630	204,863	2,529,328
AUDIT	0	45,000	45,000	45,000	67,500	202,500
LOCAL SUPPORT	87,500	70,000	70,000	70,000	17,500	315,000
TOTAL DOLLAR	1.625,977	10,326,050	11.250,402	8,636,798	3,160,771	34,999,998

Section IV

SUMMARIES OF ANALYSES

Summaries of the main analyses that are contained in the Annexes to the Paper are provided in this section. The reader is referred to the Annexes for more information.

Technical Analysis

The technical analysis (Annex D) presents the rationale and approaches for the Project's activities. The annex also outlines and describes in detail the Project's five components and how each will contribute to the Project's purpose of helping the government of Egypt implement its privatization program. The *Program Promotion* component will help the government formulate an effective public relations campaign to facilitate the privatization process. The *Organizational Development* component is aimed at helping the Public Enterprise Office (PEO) and the holding companies (HCs) strengthen their organizations and their capabilities to carry out privatization. Technical advisory services under the Sales component *(Sales A)* will enable the GOE to receive the best technical expertise in the preparation of and carrying out of sales transactions. Merchant Banking Services under that same component *(Sales B)* are proposed to manage the actual sale of the properties being offered. The development of financial intermediaries and instruments required for mobilizing capital for privatization will be addressed through the *Financial Instruments Development* component. Finally, the *Decision Making Support* component will help the PEO develop the capability to identify and effectively address policy impediments to privatization.

The annex outlines each of the five project components in terms of the major sub-purposes and expected accomplishments, the essential actors, tasks to be accomplished, estimated levels of effort, and the qualifications required of the contracting firms proposed to implement the components. Following the component description section, there are four attachments to this annex which supplement the analysis primarily with discussions of other countries' privatization experiences.

Administrative Analysis

The Administrative Analysis (Annex E) describes and then critically reviews the organizations involved in the GOE privatization program and this Project.

The analysis first gives an overview of how the GOE is organized to undertake privatization, then briefly describes the principal organizations, their responsibilities/authorities and their interrelationships. The analysis then presents a candid assessment of the capabilities of these organizations. The two main implications of the Administrative Analysis for the project design are:

First - The Project requires substantial resources devoted toward institutional development and organizational strengthening activities;

Second - The Public Enterprise Office is the most appropriate choice to be the principal counterpart for the Project.

Coordination: Other Donors, the GOE, and USAID

The Coordination Analysis (Annex G) gives an overview of the financing and programs being developed to support the GOE privatization program.

The privatization program is a major undertaking by the GOE. The program requires significant technical, financial and other assistance on the part of the donor community as well as the GOE. The sheer size of this task and overlapping areas of donor interest demand formal coordination among donors. USAID recognizes the importance of efficiently orchestrating the use of both its own resources and counterpart funds. A well coordinated approach will mean a better executed, streamlined, and cost effective privatization program. It will require the Privatization Project to examine on a regular basis areas of coordination, areas of common concern, donor-specific sector interests, and areas of conflict.

The three main implications of this Coordination Analysis on Project design are:

First - Donor coordination is important to the success of the GOE's privatization program. USAID should make every effort to help facilitate this coordination.

Second - GOE financial support for the Project and for the privatization program more generally should not be an issue. The PEO presently has sufficient USAID generated counterpart funds to cover a portion of the PEO operating costs. Other funds will also be available: funds from the general treasury and eventually sales proceeds. The Project should help the GOE develop ways for the sale proceeds to be fed back into the privatization program.

Third - There are a variety of other USAID programs and projects that could possibly be called upon to provide services to the privatization program. It is incumbent on TI/FI to make the connections as opportunities arise. Additionally, forming a team within the Mission may be a way to facilitate such connections among projects.

Economic and Financial Analyses

The Economic Analysis (Annex K) provides the economic rationale for the design of the Project. The Purpose of the Project is to assist the GOE in implementing its privatization program. USAID assistance is expected to speed up the privatization process and thereby to strengthen the economy. A substantial increase in investment is essential for the recovery of the Egyptian economy. The GOE for too long has depended on public sector investment and the results have been disappointing. Private sector investment is required. The investment environment must be fundamentally changed; the Economic Reform and Structural Adjustment Program (ERSAP) is aimed at bringing about this change. Privatization is an essential part of the ERSAP. Thus privatization is fundamentally aimed at increasing private sector investment. As is becoming obvious in a number of countries, privatization in and of itself is insufficient to encourage private investment. On the other hand, in an economy so dominated by the public sector, private investment does not happen without privatization. USAID and the World Bank must continue to push a broad agenda of economic reform through their Sector Policy Reform and Structural Adjustment Program. This Project at the same time, principally through the Decision Making Support Component must address the broader group of policy and regulatory impediments to privatization which include impediments to private sector investment.

Conceptually the impact that privatization should have on the economy is clear. However, it will be important over the life of the Project to research the actual impact so that the benefits of privatization can be measured, documented, and disseminated. The analysis lays out a number of considerations for such research and proposes a methodology. The Evaluation contractor will be responsible for refining a methodology and carrying out the data collection and research.

In conclusion, privatization is part of a broader set of economic reforms aimed at substantially increasing private sector investment in the economy. As such it will contribute to the restructuring of the economy required to reestablish the growth of the economy and improve the welfare of the Egyptian people.

The Financial Analysis (Annex L) projects an increase in financial returns to the GOE by selling the proposed public enterprises and properties. In addition. the analysis includes a discussion of the cost effectiveness of the proposed method of implementation. The project implementation plan was designed with consideration of the different possible methods of achieving the Project Purpose. The Project's chosen method is reinforced by the cost efficiency analysis in this section. The inclusion of merchant banking services as a part of the Project increases the chances of sustaining privatization in Egypt after the project is concluded.

Social Soundness Analysis

The Social Soundness Analysis (Annex M) looks first at the socio-cultural context of Egypt's structural economic reforms including privatization and then looks at the social costs and benefits related to achieving the purpose of the Project.

The Egyptian people have for a long time seen the state as the principal agent of economic welfare and development. The essence of the Economic Reform and Structural Adjustment Program is to diminish the role of the state in this area and to depend on private initiative and investment to propel the growth and development of the economy. The socio-cultural context for the reform program is changing slowly as the population grows accustomed and more supportive of the Program and its implications for their lives.

The principal cost of the privatization program occurs in the short run. Perhaps as many as 20,000 workers may join the ranks of the unemployed. The GOE rightfully needs to be concerned about such vulnerable groups. The groups of employees that may become unemployed appears to be actually rather small, compared to the PE work force and especially compared to the country's unemployed. The potential unemployed are more a political problem than a social problem. Other countries such as Mexico and Nicaragua have effectively used their Social Funds to ameliorate both the social and political issues. The Project needs to keep these issues in perspective, but also to bring the experience of the other countries to bear in dealing with the problems. As the economy recovers and begins to grow again, these and many other workers, however, will find jobs.

The socio-economic benefits of the Project will accrue in a variety of forms:

- Economic growth will occur and growth of employment will be accelerated with an expanded role for the private sector in the productive segments of the economy;
- Firms will be more efficient and competitive under private management and will produce consumer goods more cheaply;
- Diversifying the ownership base of assets in society will contribute to the productivity of the citizens and a greater sense of participation in the economy;
- Public outlays for operating subsidies will decrease and possibly stop;
- Government of Egypt (GOE) resources can be reallocated to priority areas such as human resources and social services; and
- There will be reduced requirements for GOE borrowing, easing the pressure on interest rates and lessening the threat of renewed inflation;
- Beneficiaries of goods and services will pay true costs, thus reducing the cost to the GOE.

The groups benefiting from the privatization program, especially consumers, tend to be more diffuse and less visible than the potential unemployed. An important challenge to the Project will be to seek out, document, and communicate the stories of the benefits of privatization. This will be an important task of the program promotion component.

Environmental Analysis

An Initial Environmental Examination (Annex P) was approved by the Near East Bureau Environmental Coordinator on March 3, 1993. The categorical exclusion recommendation was based on the activity being within the class of actions including technical assistance. The PID was approved on May 11, 1993. Since that time the method of implementing the sales component of the Project has shifted from the previous method where USAID directly contracted for the analysis of companies to be sold. Under that scenario the project would have directly financed technical assistance to analyze the environmental concerns associated with companies and include that analysis in the information to the potential buyers. The Project now considers contracting directly with merchant banks, to do the valuations of the public sector companies and the actual sale, as a more efficient and effective method of implementation. However, inclusion of information to the potential buyers on environmental issues related to companies offered for sale will be a part of the due diligence of the Merchant Banks involved in the Project. Additionally, as a part of the scope of work of the proposed Evaluation Contract, environmental information contained in "White Books," (documents completed following the sales of companies detailing all sale aspects), will be analyzed and reported on to USAID. The change in method of implementing the Sales Component of the Project does not effect the approval of the categorical exclusion recommendation.

Section V
MONITORING, EVALUATION, AND AUDIT PLAN

The Privatization Project will require substantial monitoring of implementation, and expanded evaluation services for the Project. An evaluation contractor will develop project evaluation baselines, collect and analyze data related to the GOE privatization program and implementation of this Project, and provide regular reporting and impact assessments to USAID on the economic effects of privatization and Project progress. This will be a departure from traditional A.I.D. project evaluation normally limited to mid-term and final evaluation events, but is determined to be a needed facet of the Project. The project also includes financing for annual audits of the required implementing organizations.

Monitoring

The Privatization Project will require a substantial monitoring, reporting, and evaluation emphasis. TI/FI will monitor the project through regular interface with PEO staff and the HCs, and contractor staff; through required contractor reports, media reports, and economic and Project information collected by the Evaluation Contractor. Due to the special nature and high priority of this Project, it is anticipated that TI/FI staff will face a heightened need to assess and report frequently to Mission management on the GOE privatization program and Project progress. The TI/FI privatization division, consisting of 1 USDH and 2 senior FSN professionals, will be the USAID staff primarily responsible for effective management and monitoring of project implementation.

Evaluation

An Evaluation contractor is expected to be selected from the Small Business Administration (SBA) list of 8(a) firms. The PIO/T for acquiring these services will be processed immediately after GOE acceptance of the project with the expectation of having the contract awarded by December 1993. Once the contract is awarded, the contractor is expected to start the initial three month exercise of developing the evaluation baselines and indicators to be used as benchmarks for project implementation. Following the establishment of evaluation baselines, the Evaluation contractor will do extensive privatization information and economic data collection, communicate directly and immediately with USAID on particularly significant findings, provide to USAID evaluative assessments on a semi-annual basis, complete annual evaluation summary reports, and conduct a mid-term evaluation and final evaluation. The evaluation scheme, designed to help management identify implementation constraints, as well as to determine impact, foresees the following parameters for the mid-term and final evaluations:

Mid-Term Evaluation. A mid-term evaluation is planned by the end of the second year to examine the implementation of all Project components and the progress in achieving the multiple Project objectives. Because of the possibility that the different components will be implemented at different rates and be affected by different factors, a major purpose of this evaluation will be to reassess the underpinnings of the five Project elements. Elements to be considered in the mid-term evaluation include: the investigation of whether the planned services and institutions are in place and performing as expected; examination of the interactions among the institutions involved in Project implementation and the adequacy of the support and services provided; issues relating to the valuation and sale of firms; and the Project's success in dealing with the socio-political environment, limited capital markets, and other implementation constraints. Following the mid-term evaluation, USAID will review Project status and the progress of the GOE's privatization program, and determine what changes to the project are necessary, including possible adjustments to the planned levels of project funding.

Final Evaluation. A final evaluation is planned at the end of the Project's five years. This evaluation will examine the extent to which the Project has achieved its purposes. A central element in determining success will be the number of firms taken to sale through Project assistance. The final evaluation must also: (1) analyze the direct and indirect effects of privatization on the intended beneficiaries; (2) provide management guidance to the GOE institutions responsible for privatization; (3) determine the constraints to continued privatization by the GOE; and (4) provide recommendations to assist USAID officials in making decision regarding the future of its assistance to Egypt's privatization efforts. As noted in the Economic Analysis (Annex K), assessing the economic impact of the privatization program is an essential part of this final evaluation. However, the information needed to make this assessment must be developed from the start of the Project.

The Project envisions the evaluation aspects described above as requiring the following: 1 American professional (knowledgeable in privatization and evaluation) to be resident in Egypt for approximately 54 months, 1 support staff person (secretary) for approximately 54 months, and approximately 18 months in American short-term evaluation team assistance (for the baseline setting, mid-term, and final evaluations), and an estimated 24 months in Egyptian short-term assistance for data collection and analysis efforts. Annex H gives a detailed rationale and tentative statement of work for the expanded evaluation facet of this Project. See Annex I for additional details on the proposed implementation schedule for this activity.

In addition to providing more thorough and accurate project evaluation services on the Project, the Evaluation contractor will be invaluable in providing critical insight and analysis to the Mission on the Project during periods of flux in the privatization process. The evaluation data and information collected regarding the benefits accruing to the GOE and the

Egyptian public in the privatization of public enterprises will be an invaluable asset to the Project.

Audits

The Project will finance audits as required of organizations involved in implementing and evaluating the Project. The use of sub-contractors by a prime contractor will require audits of firms employed by them, and this cost will be a part of the costs of the prime contract. If the Agency chooses in addition to audit some of the Egyptian sub-contracts, there is adequate funding provided under the audit line-item. Prime contractor audits are budgeted at $30,000 each and local audits of Egyptian firms are estimated at $15,000 each. Only a limited number of local audits are expected to occur that are financed outside the major contracts.

Section VI

CONDITIONS AND COVENANTS

Conditions Precedent

Before USAID releases funds for certain activities the GOE and/or its implementing agencies need to meet certain conditions. For the Project there will be the normal initial Conditions Precedent to release of project funds, such as the project agreement being ratified in accordance with regular GOE procedures. The GOE must designate the appropriate authorized representatives for correspondence and implementation of the Project. These and other similar conditions must be met prior to the release of any funds for Project purposes.

The specific conditions required for release of Project funds revolve around the GOE commitment to privatization and its willingness to cover a portion of the costs. Conditions for the Project include several steps which the GOE and its implementing organizations must accomplish *prior to disbursement of project funds allotted for merchant banking services assistance.* These conditions are described below.

1. The Public Enterprise Office (PEO) will submit in form and substance acceptable to USAID, a copy of the proforma letter of agreement and general terms the Holding Companies and the Central Bank of Egypt (CBE)/State Banks intend to use to enter into agreements with the merchant banking services contractor(s) for the sale of assigned properties and enterprises.

2. The Public Enterprise Minister (PEM) will provide written representations in form and substance satisfactory to USAID that the HCs will make the necessary resources

available to: (i) pay success fees upon the conclusion of a sale assigned to the merchant banking services contractor(s); and, (ii) in cases where the HC may decide not to complete a sale, to pay abort fees to the contractor(s).

3. The Governor of the Central Bank of Egypt, or his designee, will provide to USAID the same representations as described in 2. above to be applicable to the sales of GOE shares in joint venture banks assigned to the merchant banking services contractor(s).

Covenant

The following covenants will be included in the Project Grant Agreement.

1. The GOE agrees that the relevant Holding Companies and the Central Bank of Egypt/State Banks will enter into letters of agreement, similar in form and substance to the form referred to in Condition Precedent 1, for each property to be sold by the Merchant Banking Services Contractor under this Project.

2. Properties selected for sale under this Project will be representative of all properties assigned for sale by the GOE in its privatization effort.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

DECISION MEMORANDUM

FROM: PDS/PS Eugene H. Rauch

TO: The Files, Privatization Project.

DATE: April 4, 1993

SUBJECT: Privatization Project (263-0238) - Results of the Executive Committee Meeting on the Project Identification Document (PID).

PURPOSE:

The purpose of this memorandum is to record the results of the Executive Committee meeting to review the subject PID.

DISCUSSION:

On March 17, 1993 the Executive Committee reviewed the subject PID. The Committee recommended the approval of the PID and the development of a Project Paper for the project.
The meeting focused on five issues which were identified prior to the meeting. These five issues were;

1- The GOE commitment to privatization.
2- Contracting arrangements for the sales preparation component of the project.
3- The use of sales proceeds from privatization.
4- Planned project resources and their adequacy to meet the project's purpose.
5- The appropriateness of classifying leasing and management contracts as privatization activities that can be financed by the project.

1- GOE Commitment:

While there was no way to assure the GOE's firm and full commitment to privatization, the issue was not perceived as a hinderance to the development of the project. The current efforts by the GOE show real commitment. The project was seen as a tool that would assist the GOE in meeting its stated commitments that were believed to outweigh its current capabilities.

2-Contracting Arrangements for the Sales Preparation:

The issue of the contracting arrangements for the delivery of the sales preparation component of the project was to be resolved during the design of the project paper after conducting an assessment of the PEO's capabilities. The Executive Committee however cautioned against getting entangled in the contracting procedures of other donor agencies as this may cause certain complications. The contracting arrangements for this component should be kept as simple as possible.

3-The Use of Sales Proceeds:

The Executive Committee felt there was no compelling reason to be involved with the issues of the sales proceeds from privatization. Decisions on the allocation of sales proceeds would be decided by the political processes of the GOE and, perhaps, by influences of the multilateral donors. The project could provide suggestions to the GOE, if requested.

4-Project Resources:

At the present stage the project resources were seen as adequate for its purpose of actually privatizing 50 public enterprises. Acknowledging that the mission, at the present time, cannot provide the necessary resources to carry out the whole privatization process; the project purpose should be defined in the PP to reflect an expected 50 privatized Public Enterprises.

5-Privatization Activities:

Although the project will direct its principal effort at facilitating the actual sale of the public enterprises, some activities anticipated in the broader definition of "privatization" will also occur. Leasing and mangement contracts are considered interim steps toward complete privatization and are not the objective of this activity. Because of the sales preparation process, there is the possibility of companies being prepared for less than complete divestiture and thus could be financed under the project. To clarify the use of the project funds a footnote will be added to the definition of privatization on page (2) of the PID.

Clearances:

AD/PDS, R. Jordan ______ Date: 4/20/93

AD/TI, P. Del Bosque P Del Bosque Date: 4/15/93

Drafted by: E. Rauch / T. El-Meshy, PDS/PS

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Annex B

LOGICAL FRAMEWORK, PRIVATIZATION PROJECT (263-0238)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Goal: Increased economic growth through increased private trade and investment.	Increased private sector share of GDP and investment.	-Central Bank of Egypt reports -IMF, World Bank reports -Project evaluations	-Policy and regulatory environment continues to improve -Political stability
Purpose: To assist the GOE with its privatization program through institutional development and assistance for the sale of public enterprises and properties.	End of Project Status: -Informed public support for privatization; -Efficient privatization process established and followed; -An estimated 50 Public Enterprises, 23 Joint Venture Banks sold; -Policy impediments identified and resolved.	-Media reports, opinion surveys -Project monitoring/evaluations -Contractor reports -PEO reports -Financial institution annual reports -White Books	-GOE becomes more openly supportive of privatization; -Capital Market Authority (CMA) regulations adequate for functioning capital markets.
Outputs: -Privatization information provided to public; -Marketing info. available to possible buyers; -Demonstrated capability of PEO, HCs to effectively manage the privatization process; -PE valuation, offering and sale documents; -Creation of financial instruments; -Policy studies/options papers prepared and presented to GOE.	-Priv. Program Promotion Strategy; -PEO/HC orgnz. development plan; -Privatization strategies developed for the HCs; -Evaluations of properties, sales strategies, offering and sales docs., potential buyers list; -Local financial instruments and mechanisms for privatization developed and implemented; -Policy impediment analyses completed and presented.	-Project monitoring/evaluations -Contractor reports -PEO reports -Financial institution annual reports	-Policy recommendations derived from analyses and studies are actually acted upon by the appropriate GOE authorities; -HCs and CBE act appropriately to allow for privatization of ACs and PJVBs; -PEO continues to play an important role in the privatization program.
Inputs: -Technical assistance, on-the-job training; -Seminars, workshops, visits, studies, analyses; -Merchant bank assistance -Counterpart contributions to support PEO staff and facilities and HC sales activities	-$35 million disbursed according to budget	-Contractor reports -USAID reports -Project evaluations	-Privatization remains a high priority for the Mission. -GOE willing to support Project. -Merchant Bank Interest in Project.

Public. Enterprise Office

(PEO)

وزير قطاع الأعمال العام
المكتب الفني

Annex C

June 29, 1993

Dr. Hassan Selim
First Underesecretary for
Ministry of International Cooperation
Department of Economic Cooperation with USA
48/50 Abdel Khalik Tharwat Street
Cairo, Egypt

المكتب الفني لوزير قطاع الأعمال العام
٢٩ يونيو ١٩٩٣
صادر رقم 1341
مرفقات عدد

Dear Dr. Selim:

The launching of the privatization program represented a milestone in Egypt's economic reform and structural adjustment program. The World Bank helped us prepare a comprehensive five year program of technical assistance to meet the requirements of privatization and financial sector reform. We recognize that privatization on the scale envisioned requires timely access to proven expertise and experience which are in short supply and costly. A well coordinated approach among the various donors is being undertaken to implement this program.

USAID's assistance under the Partnership in Development project (263-0102.01) is the mainstay of the Egyptian privatization program. It is providing the support and technical assistance required to study, value and bring to the point of sale the current offering of about twenty companies.

To further increase the impact and effectiveness of Egypt's privatization program, and to enhance sustainability of the institutions undertaking it, USAID assistance will be helpful for implementing only a portion of the total envisioned program, we estimate a need for further assistance and support from USAID for five years valued at about $35 million. The USAID assistance would include five components (USAID will forward a Five Year Budget Plan on the day of the signature agreement):

Program Promotion: To assist the PEO with promotion of the privatization program to the public and interested groups.

Organizational Development: To strengthen the abilities of the PEO and Holding Companies tasked with privatization.

Sales: To continue assisting the PEO and Holding Companies with evaluations and to assist with the sale of 50 to 75 properties.

/ublic Enterprise Office

(PEO)

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المكتب الفني

المكتب الفني لوزير قطاع الأعمال العام

صادر رقم 1341
مرفقات عدد

Financial Instruments Development: To respond to needs for financial tools new to Egypt for mobilizing capital for sales.

Decision Making Support: To assist the PEO identify and resolve policy impediments to privatization as they emerge in the process, such as Labour Redundancy, Financial Restructuring and Training Programs.

To enable us to accomplish this ambitious program we seek your assistance in requesting USAID to provide the essential $35 million for project assistance over the next five years (a yearly report concerning the implementation of the program will be forwarded both to PEO and MIC). The World Bank and other donors expressed interest in providing sufficient technical assistance and support in addition to this requested USAID assistance for us to achieve the envisioned program goals.

Thank you for your continuing support and cooperation.

Sincerely yours,

Fouad Abdel Wahab Fahmy
Executive Director
Public Enterprise Office

PUBLIC ENTERPRISE OFFICE
EGYPT

cc: Mr. Lawrence M. Brown - USAID
Office Director
Office of Finance and Investment
Fax: 3562832

BEST AVAILABLE

ANNEX D

TECHNICAL ANALYSIS

Summary

In this analysis, the technical rationale and approach for undertaking each of the Project activities are discussed. This annex also outlines and describes in detail the Project's five components and how each will contribute to the Project's purpose of helping the government of Egypt implement its privatization program. The *Program Promotion* component will help the government formulate an effective public relations campaign to ease the privatization process. The *Organizational Development* component is aimed at helping the Public Enterprise Office (PEO) and the holding companies (HCs) strengthen their organizations and their capabilities to carry out privatization. Technical advisory services under the *Sales* component will enable the GOE to receive the best technical expertise in the preparation of and carrying out of sales transactions. Merchant Banking Services under that same component are proposed to manage the actual sale of the properties being offered. The development of financial intermediaries and instruments required for mobilizing capital for privatization will be addressed through the *Financial Instruments Development* component. Finally, the *Decision Making Support* component will help the PEO develop the capability of identifying and effectively addressing policy impediments to privatization.

The annex outlines each of the five project components in terms of the major sub-purposes and expected accomplishments, the essential actors, tasks to be accomplished, estimated levels of effort, and the qualifications required of the contracting firms proposed to implement the components. Following the component description section, there are four attachments to this annex which supplement the analysis primarily with discussions of other countries' privatization experiences.

Rationale for Proposed Activities and Approaches

The rationale for selecting the Project activities and technical approaches discussed in this analysis was primarily derived from two key sets of experiences: 1) the experience of the current USAID privatization effort in Egypt, and 2) the experiences of privatization in other countries around the world.

The INTRADOS evaluation done in early 1993 evaluated the current USAID/Egypt-funded privatization activity (Partnership in Development) against other world wide experiences and against programmed objectives. The members of the INTRADOS evaluation team had substantial experience and knowledge of other privatization activities worldwide and were able to provide extensive and useful information on these privatization activities elsewhere in the world. A review of the INTRADOS evaluation document provides a broader discussion of the rationale for including some components in the program based on experiences here and elsewhere. Following the analysis section of this Annex is a more detailed description and analysis of the technical assistance required to fulfill the Project purpose.

Background - The Project Purpose is to assist the GOE with its privatization program through institutional development and assistance for the sale of public enterprises and properties. In order to achieve this purpose, the following types of assistance are required to achieve the Purpose - (1) Assistance in the development of the organizations involved with privatization and (2) direct assistance in the actual sale of Public Enterprises. The following discussion provides the rationale for the proposed selection of activities to be undertaken and the implementation methods to be used. The proposed implementation methodology of this project is based on experience with the on-going privatization project in Egypt and experiences of privatization in other countries around the world.

Project Activities - The following five components are critical to the privatization project in Egypt:

Organizational Development - The Administrative Analysis in Annex E discusses the capabilities of the organizations essential to the privatization process. Clearly, the Project in order to reach its objectives will have to support these organizations. The decentralized method of privatization employed by the GOE requires more resources than the centralized method used by several other countries (refer to the discussion in Annex E), but until the GOE chooses to create a different system for privatization, the project needs to provide the technical assistance and training to strengthen the relevant organizations responsible for privatization.

Sales - The sale of public enterprises is vital to efforts to stimulate economic development in Egypt. Even with the assistance of A.I.D. funding for privatization over the last two years the GOE performance in sales has been very disappointing. The expertise in preparing companies for sale and actually closing a sale is not within the capability of the GOE, at this time. To accomplish sales of PEs during the project (estimated at 50 companies/properties and 23 joint venture banks) the GOE requires assistance in valuation of companies, preparation of sales offerings, reviewing the offerings and concluding the sales. Currently USAID assists the GOE in these functions by providing technical assistance to the Public Enterprise Office (PEO) to do valuations and preparing sales documents. Any reduction of assistance in this area will surely halt the privatization of PEs. Other donors (see Annex G) are providing very limited assistance in this area but not enough to sustain progress in the GOE's privatization program.

Program Promotion - The lack of public support for privatization of Egyptian PEs has slowed efforts. Newspaper articles and public statements made in the media tend often to show a lack of understanding of the proved benefits of privatization. This lack of understanding exists in most sectors of the population and economic groups. Experiences from around the world have shown that promotion efforts have greatly contributed to the rate of privatization of PEs. The promotion effort is not merely a marketing/publicity effort but needs to include the provision of concrete economic data and information for a wide range of interested individuals. This promotion effort needs to be substantial in the early periods of privatization and, although less is needed in the out years, a continuous flow of information and media coverage will support the process.

Financial Instruments Development - In order to access adequate capital to purchase the companies and properties for sale, new financial instruments may be required. This component will assist the financial institutions both public and private in creating and enhancing financial instruments necessary to provide new capital. Although not a major constraint to privatization in all countries, in many cases the creation or further development and implementation of financial instruments have overcome domestic capital constraints and allowed for a wider distribution of ownership in the newly privatized companies.

Decision Making Support - Absence of this component would probably not halt the privatization of some of the easier companies to sell, but the assistance to be provided under this component will be important to resolving the more difficult policy and regulatory issues which may face the "tougher sales" . Identifying and addressing problems early on will result in establishing procedures to help solve or ameliorate subsequent problems which may be encountered when privatizing the more difficult companies. Here, as in the above component, not all privatization will require substantial effort to influence the policy makers and legislators. But when those occasions arrive, thorough analysis and its effective presentation to the relevant government body can help remove obstacles or impediments to a privatization or group of privatization. Examples of the issues which may need to be addressed include issues dealing with the nationality of potential investors, release of redundant labor from privatized companies, compensation of redundant labor, and state held debt of companies to be privatized.

Evaluation - Experience in the current project has shown that substantial effort is required for oversight of the privatization efforts of the contractors and for evaluating the economic impact and performance of the GOE's privatization program. The importance of having an objective and immediate review of the performance of the critical activities, actors, and outside factors engaged in the privatization process is particularly important in the changing environment of Egypt. Oversight, or this continuous evaluation function, is not a major activity under the Project, yet should not diminish its importance. Independent review of the process and players has always been vital to the A.I.D. project process. For this particular project, a more frequent and comprehensive review is absolutely critical to project success.

Implementing Organizations - The organizations required for implementation of the project are listed below:

Public Enterprise Office - The PEO has the responsibility to coordinate the process of privatization. This key institution will require assistance under the project. Over the last two years A.I.D. and other donors have used the PEO and its predecessor to implement privatization activities. The PEO, because of its central role in privatization, will be the GOE counterpart for the project.

Holding Companies and the Central Bank of Egypt/State Banks - Because of their responsibilities of managing the companies, properties and other government holdings, the Holding Companies and the CBE/State Banks have roles to play in the privatization of the holdings. These entities are responsible for assigning companies for sale and for providing the information necessary to evaluate these properties for sale. The HCs also control the sales of the properties and will have access to the sales proceeds which are necessary for obtaining the sale services.

Entities being Privatized - The State Owned Enterprises, Companies, and holdings in Public Joint Venture Companies banks, become participants in the privatization process as they are required to provide data necessary to assess the companies value and constraints to privatization. These units are also critical in the process as they may not understand the reasoning for privatization and thus should be kept fully informed of the process and important issues such as the future of employees.

The three groups above of GOE organizations are all key to privatization of PEs and by association will be participants in the project. It is likely the PEO and HCs (and to a lesser extent some Affiliated Companies) will receive assistance in developing privatization plans for companies and properties. They will also be involved in the selection of companies to be privatized, determining the timing for when they will be privatized, and review of the offering memorandum and proposals (the original companies selected for sale were selected independent of the HCs and ACs). They will also receive technical assistance and training under the Project.

Technical Assistance Contractor(s) - The Mission will also require the services of professional consultants in several areas. Although there are many ways and sources of obtaining these services, these technical assistance and training services will be required and no other way of transferring these skills is possible. The training (long and medium term training) can not be a large component of the assistance as the staff levels in all these entities are limited and the employees too essential to be diverted from their responsibilities for long periods. Most assistance would be in the form of on the job training, actually doing the action for the GOE, or a combination of the two.

Merchant Banking Services Contractor - Some of the necessary services required are available from only a limited number or types of firms. Merchant banker services are in this category. The task of preparing offering memoranda and doing valuations of PEs can be done by technical assistance providers, but the sale of PEs (or other companies) is a specialized service normally done by Merchant Banks. Under the current project, Overseas Bechtel Inc. has been responsible for preparing all the preliminary work for the sale of

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companies to be privatized and then GOE banks have been delegated the responsibility of selling the company. The experience in Egypt has not been particularly good as essentially none of the GOE-selected banks have had the required experience in selling companies. Some of these banks reached agreements with Merchant Banks to provide this service while others are still struggling to accomplish sales. To implement the current methods and practice under the new project is not feasible, particularly since the sales cannot be accomplished in a timely manner using Egyptian financial institutions. Merchant Banks normally prefer to do their own assessments of companies they are employed to sell. Combining the preparation of the company for sale and selling the company makes financial sense as well as efficiently uses resources.

Evaluation Contractor - Experience with the on-going project has provided adequate evidence of the need to closely review and evaluate the privatization process. In addition, the economic analysis of this project assumes that a system will be in place and used throughout the project to measure the economic impact of privatization on the domestic economy. In many projects the TA contractor is tasked with providing these oversight and evaluative services. However, it is felt that the privatization environment in Egypt is in such flux and changes may be required in such rapid fashion, that employing the services of a contractor to specifically just observe, report, and evaluate will be more beneficial to project success. The introduction of another "pair of eyes" to continuously assess the situation and report on the impact of project efforts and responsiveness of the key players is essential to ensure Project success. The component (an independent evaluation contractor throughout the project) is a direct recommendation coming from the INTRADOS evaluation to improve implementation.

Methods of Implementation - The choice of implementing methods has been based both on experience with the current project and other privatization experiences around the world. For ease of presentation the technical assistance requirements will be discussed first, followed by a discussion of training and commodities. The training services and commodities will be procured through the TA contractors.

A.I.D. Direct Contracts - The two most broad and obvious options as to how the A.I.D. financed assistance could be obtained is through either a direct or host country contract. As noted in the Administrative Annex, the PEO, the GOE implementing agency, does not have the necessary skills or capability to negotiate nor award contracts of the types presented in the project. Although PEO may be capable of contracting for small value services and commodities they do not have the trained people available for negotiating or monitoring long term contracts for technical services. Since the PEO does not have the capability to handle these contracts, the PEO would have to acquire that capability or the Mission would have to do direct contracting. The PEO would not be able to obtain the necessary capability within a reasonable length of time, thus project implementation would be delayed. The choice of using direct contracts is not easy as the Mission is currently short of contracting personnel and the likelihood of getting more staff is small. To implement the project using A.I.D. direct contracts, the project will provide funding for obtaining and

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training one contract specialist (PSC position) to be used solely on privatization activities. Because of A.I.D. accountability requirements, and the limited capacity of the PEO in contracting, the only feasible method of obtaining the technical assistance in a timely fashion is through A.I.D. direct contracting.

Composition of TA contractor Tasks - The TA contractor is tasked with providing numerous varying types of specialized services. The Project Design Team determined that although there may be some disadvantages to requiring a single TA contractor to provide an extensive list of services and professionals, one prime contractor with several U.S. and Egyptian sub-contractors will ensure better coordination of services. This arrangement also will be easier for the technical office to monitor and manage contractor performance. The cost of the provision of these services through several separate contracts or through one prime contractor may not differ greatly, although overhead costs to the project should probably be less under one contract, but the amount of time which would be used by the Mission in contracting with multiple firms, advertising for multiple contract opportunities, managing multiple contracts, not to mention the time needed by technical evaluation committees and others to review multiple RFPs, all would add up to an inefficient and unacceptable dedication of scarce Mission resources.

The TA contractor is also providing a Merchant Bank Advisor as a part of its requirements, as opposed to this position being provided by the merchant banking services contractor. The reason for the inclusion of this professional is to assist the PEO in coordinating sales of PEs and other activities undertaken by the USAID-funded merchant banking services contractor, and to assist the PEO in oversight of other Merchant Banks (or other providers of the services) who are funded by other donors or the GOE. This individual will have greater objectivity and ensure that there is less opportunity for conflict of interest situations involving the merchant banking services contractor. The sub-contracting of technical assistance services from U.S. and Egyptian firms is a common method of managing A.I.D. contracts in Egypt. Although the contract proposals provided by the prime contractor may require more time to review, the eventual management burden for the Mission will be lessened through the contracting arrangements proposed above.

Level of Effort Contracts - Although completion type contracts are now the preferred method of contracting for services, not all project requirements can be met by this type of contract. For the provision of assistance by the TA contractor and the Evaluation contractor, the contracts should be level of effort, cost reimbursement (cost plus fixed fee). Annex F provides further discussion of this issues as do the two waiver requests (in Annex N) for allowing level of effort contracts for the TA and Evaluation contracts.

Completion Contract - The nature of the Sales B element of the project lends itself to a completion type contract with a merchant banking services contractor. The terms for receiving the engagement fee (as discussed later in this annex and in the Procurement Annex) will be paid to the merchant banking services contractor upon receipt of documentation confirming an agreement between the Holding Company (or other GOE entity charged with controlling the sale of the PE or property) and the contractor on conditions for payment of the contractor for services following the sale of the PE. Upon presentation of a letter of agreement, the Mission will release the agreed amount of engagement fee negotiated in the USAID contract with the contractor. This rather simple contract structure is proposed to reduce the contract management burden on the Mission.

Source of Technical Assistance - As required by present federal government procurement regulations, all prime contractors will be from the U.S. Although the Project Paper and budget estimates contemplate that the prime contractors may subsequently subcontract with local firms, the level, extent, and value of subcontracting is currently uncertain. It is unclear whether the TA prime contractor would seek to directly employ individuals to fill some of the professional positions, or whether they will seek to subcontract with Egyptian firms to fill some of the positions. In all cases, the implementing contractors of the Project will be expected to comply with the source, origin, and nationality requirements of A.I.D. Handbook 1B, or seek waivers of these requirements for allowable reasons. Although all of the professional services needed to implement the project are probably available from U.S. sources, services of Egyptian nationality will be important to help build a local capacity to sustain the GOE privatization program after the conclusion of A.I.D. funding. The services of the Merchant Bank contractor will be of U.S. nationality as well as will associated banks or organizations directly involved in providing the sales assistance. The Mission anticipates some type of Merchant Bank consortium to be formed and led by one bank.

Engagement Fees - In that no Merchant Banks are actively engaged in sales of Egyptian companies at this time, it is expected that some type of enticement or risk payment is necessary to get them engaged in assisting the GOE in selling PEs. The provision of Merchant Bank services to accomplish the actual sales is financially and technically sound. As discussed earlier, the use of a Merchant Bank to do the valuations is necessary for the sale, will expedite the process, and reduce the expected costs of selling PEs. The current experience with Overseas Bechtel Inc. (OBI) doing the valuations and a GOE bank or financial institution being responsible for the sale (some of these local institutions have subsequently gone to Merchant Banks because the necessary technical skills to conclude the transaction are lacking locally) is time consuming and the more players involved the greater the chance of delays. If inducing Merchant Banks to Egypt to provide services under the contract entices these banks to continue to operate in Egypt, then the institutionalization of the process is also enhanced.

Continuous Evaluation - The project has included a separate evaluation component which will be responsible for continuously collecting information and data and reporting on the progress of the project (contractors and GOE entities) and analyzing the economic data to provide the GOE with statistics which show the economic effects of privatization. The inclusion of this component was a technical decision of the TI/FI office supported by the INTRADOS evaluation. The rapidly changing environment in the privatization efforts of the GOE has negatively affected implementation of the current privatization activity. In order to be more aware of changes in conditions and be in a position to rapidly adapt the Project to those changed conditions, this evaluation activity is included.

Training - Training activities, limited as they are, will be financed and managed through the TA contract. As the needs assessments have not as yet been completed, the actual value and extent of staff training can not yet be determined. The training will be of short duration and generally done in-country, except for observation trips, conferences and the like which could be in the U.S. or other developed countries. The limited staff of the PEO and the Holding Companies mean that even medium term training will be restricted to a few people. On the job training by the TA professionals will be the prime method of skills transfer in this project.

Life of Project - The Project is designed to be completed after only five years of activity. Only four of those years will involve the actual provision of assistance by the TA and Sales contractors. First of the contracting actions, the Evaluation contract is expected to be awarded by December 1993. The current privatization project is funded through OBI until June of 1994. If the contracting of all technical assistance can be accomplished as projected, this project will be able to easily manage the shift from one contractor to another. On the other hand, if contracting for the technical assistance is delayed, a serious gap could develop in the GOE's privatization program, as USAID plays a critical role in its implementation. Provision of TA and sales assistance after 1998 will probably not be of much benefit as privatization will either be working efficiently by then, or the political environment will be such that privatization is not possible.

The following sections provide outlines and detailed discussion of each of the project components, their expected accomplishments, and possible associated tasks:

Program Promotion Component

Background

There currently is limited understanding about what privatization means in Egypt. This is true in all quarters including the government, labor, and private citizens. Mis-communication about the process and its relationship with the general economic reform program has further confused the issue. The local business community and segments of the international business community are also unaware of the commercial and business opportunities privatization will generate in Egypt. The shortage of information available about companies to be sold, in addition to a lack of understanding about the transaction process, has curbed the potential for new investor interest.

Egypt has much to learn from the experiences of other countries in designing a communications program for privatization. The lack of a well-orchestrated education program in Egypt is similar to what existed, for example, in the United Kingdom and Sri Lanka when these countries began to carry out their privatization programs (see Attachment 1 to this annex for more information on these programs). At the outset, both countries experienced resistance to privatization in part because the governments had not organized their approach to privatization. However, they did both eventually design public relations programs that helped their privatization efforts.

The GOE has begun to acknowledge the importance of the comprehension of the restructuring and privatization program by both the public and private sectors. The PEO has recently initiated an effort to develop a professional communications program. It will be creating a new unit to deal exclusively with setting the communication policy for the program and carrying out its activities.

The Project will work with the PEO in designing and setting up its communications program as it pertains to privatization. The Project will provide technical assistance to the PEO communication personnel to support the design and implementation of a communications campaign that will involve foreign and local investors, GOE officials, and other audiences. Key to program success will be the targeting of strategic decision-makers and entrepreneurs to actively involve them in the privatization effort. For a number of reasons, public relations work must be handled carefully.

Component Sub-Purpose and Expected Accomplishments

The *sub-purpose* associated with this component is *to help in the formulation of an effective local and international public relations program to educate about, and gain the support of key audiences for, the opportunities and benefits presented by privatization.* Using the experiences of other countries, this Project will provide technical assistance to the PEO, and perhaps other elements of the government[1], to develop and carry out a strategy to achieve this sub-purpose.

The *expected accomplishments* of this component include:

1. The development of a clear sense of *purpose* and ability to communicate an image uniformly and aggressively by the PEO and the HCs;

2. The development of the capacity of the PEO and the HCs to define, structure, and

[1]Initially the Project will work with the PEO. There exists, however, the possibility that, because privatization is such a high visibility and politically sensitive activity, that the GOE will assign one or more other agencies to assist with this effort. Should that decision occur, the Project would review the possibility of also working with the other agency(ies).

communicate the privatization message;

3. The generation of new foreign and local business interest in Egypt;

4. The gaining of support for privatization from key, targeted groups; and

5. The formation of local institutional and private sector capacities to carry out the communications in support of privatization and the larger economic reform program.

The Actors

Both the PEO and the Project-financed Technical Assistance Services contractor have roles to play from the start in Program Promotion.

The PEO is expected to establish a new small Public Relations Unit of professionals to focus on public relations and other communications activities. A Public Relations Specialist position at the PEO has been established, but has not yet been filled. It is anticipated that this Specialist will head a PR Unit of two or three other professionals and will develop into the spokesperson for the PEO and more generally for the GOE privatization program. It should be noted that the work of the Unit will cover all the activities of the PEO and not just the privatization activities. The Project will provide the Unit with technical assistance to implement a communications program for privatization. Technical assistance will focus on strategic influencing activities and will include the provision of the services of both a local advertising/communications agency and an American public relations or organizational development firm.

The Technical Assistance Services contractor will manage all Project technical assistance for this Component. A sub-contract with a local advertising agency and/or "think tank" is anticipated. Although there are capable advertising agencies in Egypt, no firm specializes in public relations per se. There is a lack of familiarity among Egyptian communications professionals with many current public relations techniques and methodologies used in privatization programs worldwide. This is a shortcoming that could have serious ramifications for the success of the Egyptian privatization program. However, it is imperative that an Egyptian agency well conversant with the domestic market and ways of exercising strategic influence be fully involved in this process.

The services of an American public relations or organizational development firm will be included as part of the Technical Assistance Services contract provided for by the Project. The expatriate firm will play an important role in supporting the development of a communications program with the local agency and the PEO.

Target Audiences

A tentative list of six principal target audiences to which the communications effort might be directed has been identified. The list is subject to study and revision. It is more illustrative than definitive.

Group A	Members of middle and upper classes who may oppose or support privatization: union leadership, management of public enterprises, academia, journalists, religious leaders, and chambers of commerce;
Group B	Experienced investors and financial institutions: strategic investors, multinational corporations, local business people financial community, international merchant banks, local merchant banks, local financial institutions;
Group C	Decision-makers: public and private sector individuals at strategic points in the privatization process;
Group D	Public sector audiences: PE bureaucrats, the Economic Cabinet, the People's Assembly, and regional development institutions;
Group E	Working class audiences: public sector industrial workforce, union rank-and-file and working classes in general, local associations; and
Group F	Sectors not directly affected but which could remain neutral to industrial transition unless their support is actively sought: consumers, business leaders and large-scale entrepreneurs, civil leaders and local elected officials, professionals, the military, and college graduates.

Tasks to be Accomplished (Possible Scope of Work)

The development of a clear sense of purpose and the ability to communicate an image uniformly and aggressively by the PEO and the HCs (#1)

- Provide support to the PEO staff, as well as the HCs, in drawing together a consensus on goals and objectives of the privatization program; this could be supported by staff retreats, leadership training, and consensus building workshops;
- Help the PEO and HCs staff understand how to present a uniform "picture" of the program through communications/public relations training, informal work shops, on-the-job training by public relations experts, and site visitations to other country programs;
- Help in the development of leadership within the PEO to guide the privatization process; and
- Coordinate this process with the HCs and local sub-contractors to ensure a consensus in approach and unity in implementation.

The development of the capacity of the PEO and the HCs to define, structure, and *communicate the privatization message (#2).* The tasks required are:

- Help the PEO and the HCs to define the major privatization goals;
- Work with the PEO and HCs to formulate goals into an appropriate structure to solidify and communicate them effectively;
- define the critical issues and players that must be targeted to carry out a successful privatization program; develop a methodology for regularly reviewing the issues and players; this task may include opinion surveys and/or other sounding techniques;
- Provide counsel and advice to the PEO and HCs to work with new groups of opposition as they arise;
- Provide training, technical assistance, and operational support for all public relations activities based in the PEO. This will involve the development of newsletters, press releases, newspaper and magazine articles, and mass media campaign; and
- Develop regular communication avenues to meet with, talk to, and work with target groups. Develop educational packages that incorporate identified concerns and address them convincingly.

The generation of new foreign and local commercial interest in Egypt (#3). The tasks required are:

- Conduct an assessment to decide the types of businesses interested in Egypt - their interests and concerns. Use this information to help the HCs both develop their business plans and in deciding a strategy for firm sales;
- Design and carry out a public relations and information program for foreign investors and the international financial community, i.e.
  - identify qualified sources of information on investment sectors;
  - gather and disseminate information;
  - act as a source of resources on investment climate information, sectoral facts and figures, and technical data;
  - explore the possibility to link these efforts into on-going programs (for example, the American Chamber of Commerce in Egypt may be setting up an investor information center); and
- Support a coordinated and collaborative sales promotion campaign based either in the office of the contractor or in the PEO, i.e.
  - establish good working relationships with the international merchant banks involved in Egypt's privatization program;
  - develop affiliations with local Chambers of Commerce and other private sector groups promoting commercial activity in Egypt;
  - work with OPIC, FIAS, IFC and others to encourage their interest in Egypt, sharing information, and providing investor insurance and financial assistance where needed;
  - In response to initial inquiries, provide follow-up information to interested investors or financial institutions;
  - Explore the potential to tap "passive" or managed funds for investment;

- Develop lists of potential buyers and investors: monitor buyer offerings in Egypt and other countries; monitor activities of international merchant banks; and
- Develop a system to track and monitor impact of business promotion campaign, to include: an initial awareness assessment, design of ideas and programs to meet "gaps" of understanding, ad hoc sample assessments of communication campaign's impact.

The gaining of support for privatization from key target groups (#4). The tasks required are:

- Develop profiles of information for target groups to help them understand and keep abreast of the privatization program;
- Identify and monitor major issues, constraints and problems faced by the different target groups that effect their acceptance of and support for privatization;
- Help in the formulation and implementation of creative and effective public relations programs for targeted groups based on the identification of key issues and the groups most likely to be affected;
- Incorporate key private sector leaders into the communications process (including selected members of the press, HC chairmen, business leaders); actively involve them in what is being done in privatization and how the private sector can play a supporting role;
- Develop and maintain a list of opinion makers; monitor what they are saying, their arguments and validity; address key points being made through the Project's communication mechanisms;
- Develop contacts with private sector organizations and associations in other countries undergoing privatization. Draw lessons learned from these organizations for Egypt and apply them into training programs, workshops, and skills development; and
- Identify exemplary countries for site visitations and exchange programs.

The formation of local institutional and private sector capacities to carry out the communications process in support of the privatization program (#5). The tasks are:

- Provide training to personnel from the Project's local sub-contractors; hold skills development workshops on current public relations techniques and methodologies;
- Provide training and site visitations for Egyptian journalists, local sub-contractors, and public relations firm employees - to learn about other country's privatization programs; and
- Explore the possibility of working with USIS in Egypt to develop training programs for Egyptian journalists.

Estimated Level of Effort

To maintain the momentum established by the PD-P Project, the activities of this component will begin immediately upon the award of the contract. Although there are several accomplishments that entail establishing a unified approach to communications, the contractor will be expected to initiate activities associated with accomplishments #3 through #5 (e.g., generating foreign and local commercial interest, gaining support from target groups, and providing assistance for local institutional development) within the first six months of contract award. The contractor will provide the services of the following professionals:

- One Egyptian communications specialist, four years full time;
- American experts in communications, privatization, media, strategic influencing, business promotion and other relevant fields available for regular visits, equivalent of 60 person months; one of the experts must serve as the anchor senior short term consultant and oversee the use of other experts short term;
- Egyptian experts in media, video, print, public opinion polling, business promotion, and other relevant fields, equivalent of 60 person months; and
- An Egyptian communications assistant, for four years.

The Egyptian communications specialist will be based at the PEO part-time and at the offices of the contractor (see details below) part-time. Similarly the American anchor consultant will have space available to him/her at the PEO, but also at the offices of the contractor. The other short term consultants will be based in the offices of the contractor.

The contractor (or subcontractors) must also have the facilities and equipment to prepare, produce and distribute communications through all media including newspaper, radio, television, news letters, mailings, press conferences, seminars, and speeches.

Qualifications of the Firm

The Technical Assistance Services Contractor will manage all Project technical assistance for this Component. If the Contractor does not have adequate expertise in the areas required for this Component, it will be necessary to develop a sub-contract with another American firm specializing in these areas. A sub-contract with a local advertising agency capable of public relations work and media production is anticipated. The American firm will play a lead role in these activities but must involve the local firm in every stage. Initially the local firm may not have many technical skills required to carry out this component but can gain this capacity through formal and on-the-job training with the American experts.

The Egyptian communications expert will provide the long-term continuity to carry out this component. Similarly, one of the American experts will serve as the anchor consultant, visit the Project regularly and help manage the use of other American and Egyptian experts. Through the guidance of the Chief of Party (COP) and the help of short-term technical assistance, these persons will have a key role in accomplishing the tasks of the Component. What follows is a list of the qualifications required of the local and American firms.

Local firm: The firm will demonstrate the potential to successfully implement a public relations program in Egypt and experience in designing and implementing targeted communications campaigns. It must have the capacity to write and edit newsletters, articles, and press releases on a variety of topics. It will have ability to support training programs. It will also have experience in developing professional brochures and educational and information packages. It will also have extensive network of local firms and organizations involved in the communications business. This firm will be responsible for providing the local public relations or communications expert, probably an administrative assistant, and supply project-related assistance (such as identifying professional printing houses, finding locally available specialists to perform short-term functions, and supplying general office assistance). The local firm should consider the possibility of working also with an organization which can handle the substance of the message. The Egyptian Center for Economic Studies could, for example, help understand and respond to the substance of the concerns of some of the key target groups.

American public relations or organizational development firm: The firm will demonstrate extensive background and experience designing and implementing public relations programs in the United States and developing countries and proven success in carrying out corporate communications campaigns and investment promotion programs. It will have knowledge of and experience in developing information awareness programs and educational packages for the international business and financial community as well as experience in writing and distributing newsletters, newspaper and magazine articles and press releases. It will have experience working with local governments in the development and implementation of a public relations program as well as the capacity to implement training programs for journalists and target audiences. To lend continuity to Project implementation, it will have the internal capacity to provide short-term technical assistance from in-house resources.

Organizational Development Component

Background

The Administrative Analysis (Annex E) evaluates the institutional framework for privatization in Egypt, and highlights the need for strategic guidance for the nascent organizations responsible for privatization, namely the seventeen HCs and the PEO, as they move to strengthen their organizational capabilities to effectively execute the program.

The HCs are responsible for developing strategic plans and initiating privatization actions for their respective Affiliated Companies (ACs)[2]. Many HCs, however, do require assistance in carrying out the privatization plan and carrying out their responsibilities under this program. The HCs have not been well informed during the on-going privatization process and must be better assimilated into the process. At this time, the HCs possess limited institutional capability to handle their role as implementors of the privatization effort.

The PEO, which is responsible for providing all the technical and financial assistance to the HCs and ACs, has a difficult and complex role. The PEO currently requires additional technical skills to provide the leadership to direct the GOE privatization program. It faces the challenge of quickly strengthening its structure, personnel, and procedures and gaining the experience necessary to accomplish effectively what is expected of it.

Other countries have faced similar difficulties in organizing their privatization programs and their experiences are instructive. For example, the Philippines privatization program was developed in a very decentralized manner and as a result faced a variety of bureaucratic and organizational obstacles. More successful, centralized approaches were taken by countries such as Mexico and Canada (for more information on these examples please see Attachment 1 of Annex E).

The USAID Privatization Project will include an organizational development component to address many institutional obstacles faced by the privatization program. The component will focus its energies on the major organizational players: the PEO and the HCs.

Component Sub-Purpose and Expected Accomplishments

The *sub-purpose* associated with this component is *to help the HCs and the PEO to strengthen their organizations and their ability to effectively carry out privatization.*

The major *expected accomplishments* of this component will include:

1. The development of the organizational capabilities of the HCs to effectively carry out privatization; and

2. The development of the organizational capacity of the PEO to provide the vision, leadership, and technical skills necessary to propel the privatization program.

The Actors

The principal actors in the Organizational Development Component will be the main organizations involved in privatization, namely the Privatization Team of the HCS and the

[2] For the PJVC banks, the PEO will take the lead and the Central Bank of Egypt will act as a quasi-holding company.

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PEO as well as the Project Technical Assistance Services contractor.

The Privatization Team of the Holding Companies. The HCs manage a diverse portfolio of properties. They are led by a Board of Directors consisting of private sector delegates, representatives from the ACs, and a chairperson. Although each HC is structured differently, they usually have separate departments that focus on functional areas, such as finance, administration and technical areas. The procedures and guidelines developed for the privatization program mandate the HCs to establish a Privatization Team (with representatives from the AC being privatized) to take each property from evaluation to sale. When established, these Privatization Teams will be the coordinating entities regarding each privatization transaction.

The Public Enterprise Office. This small organization is the technical secretariat to the Minister of Public Enterprises. Its function is one of providing assistance and guidance to the HCs and their Privatization Team. However, the PEO is also charged with rendering leadership to advance the privatization program. The PEO has several units: training, restructuring, privatization, business planning, economics, and public relations. There is at least one professional in each unit. Although currently understaffed, it now has the funds (from the World Bank) to hire an expatriate counterpart advisor for two of the units.

Project Technical Services Contractor. Expatriate and/or Egyptian organizational development (OD) advisors will be required to provide assistance aimed at helping these organizations develop core competencies in the field of privatization. The specialists will work directly with the PEO and the HC Privatization Teams to strengthen their ability to organize around privatization tasks. Specific expertise needed may entail many different areas. Assistance, for example, in facilitating the preparation of organizational plans in support of privatization; building procurement capabilities; fashioning personnel systems; instituting performance evaluation and reward systems; developing career training programs; and doing a better job of outreach, will be provided through short-term experts.

The OD advisors will develop sometimes quarterly, sometimes monthly, mini-retreats to work with the PEO and the HCs to become more effective organizations. They will also work on a more constant basis on certain tasks that require more concerted attention.

The functioning of the main institutional actors involved in privatization -- the HCs and the PEO is central to the progress privatization can make. How they operate -- separately and together -- will be critical to the entire program. To achieve this component's objectives, those involved in the project must have a clear sense of what their product is. It must be effective and efficient HCs and PEO. Below are working definitions of what would be considered viable, competent organizations. All associated tasks should be designed with these definitions in mind.

The Ideal Holding Company and Privatization Team - The HCs must exercise competent stewardship of their group of properties to be privatized. The Privatization Teams must possess the internal expertise to oversee and effectively execute the privatization process. The HCs must maintain competency in areas such as business administration, strategic planning, and financial management. They must manage the business property sales process in a competent and timely manner. They must also deal with specific problems of the ACs, especially labor redundancy and AC indebtedness. HCs should also promote and support a competitive environment in their sector(s) that breeds efficiency.

The Ideal Public Enterprise Office - The PEO must provide leadership to the privatization effort and have the authority to carry out its vision. The PEO must obtain the level of expertise necessary to advise and inform the HCs on the alternatives available during the privatization process, i.e., donor funding packages, financing techniques, technical assistance, and restructuring options. It must deliver a set of quality services on time and on target. It must maintain good working relationships with all key actors and deal creatively with challenges as they arise. The HCs must see the PEO as their best collaborator in privatization and must demand first rate support from the PEO.

The HCs and their Privatization Teams are the main institutional actors. The Project will supply technical assistance to these entities with the coordination and guidance of the PEO.

Tasks to be Accomplished (Possible Scope of Work)

The major theme of all work to be accomplished under the organizational development component will be development of the HC Privatization Teams, the PEO, and AC management into organizations capable of carrying out privatization. The ability to *inspire* improvement -- among individuals and organizations -- will be key to establishing institutions that will not only function efficiently under the Project but will continue to meet the demands of future GOE programming. A tentative list of tasks associated with major component objectives is provided below.

The development of the organizational capacities of the HCs to effectively implement privatization (#1). The tasks are:

- Help empower the HCs in terms of authority and responsibility to implement the privatization program; develop the skills necessary to make helpful presentations and to gain approvals from senior decision-makers and provide guidance to the implementors of privatization;
- Help establish well functioning Privatization Teams within the HCs to implement their privatization program;
- Help the HCs use the technical assistance available from the PEO;
- Help the Privatization Teams develop expertise in the evaluation of bids and proposals from merchant banks;
- Design and carry out practical training programs and site visitations that may include assistance in business planning, strategic planning, financial management, privatization procedures;

- Help in the generation of strategic plans on two major issues, namely labor redundancy and AC indebtedness; and
- Provide technical assistance and guidance to the ACs to understand, accept, and advance the privatization program.

The development of the PEO's organizational capacity to provide the vision, leadership and technical skills necessary to propel the privatization program forward (#2). The tasks are:

- Help develop the PEO's capacity to provide advice and counsel to the HCs in devising business plans and sales strategies;
- Help strengthen the PEO's capacity to monitor the implementation of HCs business plans;
- Help develop the skills that the PEO will require to win approvals from senior decision-makers on the privatization program;
- Help the PEO to define its major objectives; identify obstacles to their implementation; and design a strategy to achieve stated goals;
- Develop a personnel system that has the capacity and authority to hire and attract the best and the brightest in the country; obtain the ability to fire non-essential or non-performing personnel;
- Support good working relations with the HCs and ACs;
- Develop institutional arrangements to assure an orderly, transparent process for the PEO;
- Assist in the on-going assessment and modifications of GOE procedures for implementing privatization;
- Help in the development and adoption of a comprehensive code of conduct and regulation of the PEO's operations;
- Design a manual of administrative procedures to guide the orderly development of an effective and results-oriented PEO;
- Conduct a training needs assessment for the PEO staff and identify relevant training opportunities for increasing their effectiveness; work closely with the PEO training officials to design workshops, seminars, and study tours abroad for those responsible for monitoring the privatization program;
- Design an accounting and financial system manual to guide the PEO in the management of donor agency funds, and to ensure accountability for public resources entrusted to it; and
- Design a mechanism for the PEO for assessing and monitoring its organization, staff and resources, and capabilities.

Estimated Level of Effort

The activities of the Component will begin immediately upon the award of the contract. An organizational development needs assessment and workplan will be completed in the first month after contract award. As prioritized in the workplan, activities addressing component accomplishments will commence in the subsequent two to three months. The contractor staff for this component consists of:

- Core team of three organizational development specialists, two Americans and one Egyptian, working intermittently throughout the four years, probably for a period of two weeks each quarter; equivalent of 16 person months for the American specialists and 16 person months for the Egyptian specialist and
- American and Egyptian experts in areas essential to well-functioning organizations, e.g, personnel systems, procurement systems, and internal procedure systems; the equivalent of 20 person months each for American and Egyptian experts.

The organizational development consultants will be accommodated in the offices both of the PEO and the contractor.

Qualifications of the Consulting Firm

The successful firm will have a strong background in organizational development and institution building in developing countries. The firm will demonstrate:

- Proven ability to provide advice and assistance to organizations requiring significant strengthening;
- Experience working with governments (or other institutions) to implement complex and multi-tiered programs;
- Experience in designing and implementing targeted training programs for organizational development;
- Knowledge of "model" organizational development efforts in other developing countries that can be tapped for site visitations and inter-government collaboration;
- Capability of providing regular, short-term professional advisory assistance on an as-needed basis in areas identified above;
- Ability to provide continuity providing the same individuals for short assignments over the life of the Project;
- Institutional knowledge on the organizational requirements and potential institutional obstacles peculiar to carrying out complex programs like privatization;
- Capacity to work in developing country settings; and
- Experience in working with A.I.D. and host country governments in the Middle East.

Sales Component

Background

Selling state-owned businesses in developing countries is a complex process and must be managed professionally to ensure a successful sale. Recent examples of privatization in the U.K., Spain, Nigeria, and Mexico have involved international merchant banks with established local merchant bankers working in joint arrangements. These banks have played a role in providing overall advice to the government, assistance in developing action plans, identifying potential buyers, analyzing offers, and assistance in final negotiations. The approach of Mexico toward using merchant banks for undertaking sales transactions is discussed in Attachment 2 at the end of this analysis.

As the market in Egypt for selling and buying businesses has been virtually non-existent for the past 40 years, Egypt has not developed merchant banks[3]. Some existing commercial banks would like to develop merchant banking capabilities and operations. Although the present policy of Egyptian financial sector authorities appears to favor the development of universal banks or multi-banks and thus allow the commercial banks to move into merchant banking operations, this development will require considerable time, expense, and effort; the commercial operations of most Egyptian banks are rather weak to begin with. In Egypt it is possible that financial institutions other than commercial banks may develop and prove more aggressive and capable of participating with the expatriate merchant banks in this work.

USAID and the GOE have learned an important lesson through the existing Partnership for Development (Privatization) Project. Under that project, an A.I.D. direct contract was competed for a wide range of support services for the GOE privatization program during its initiation. Proposals were solicited from all firms with the anticipation that a consulting firm would be able to pull together a number of subcontractors to assist in providing the range of services. Two responsive proposals were received, both from consulting firms; and the contract was signed with one of them. In fact USAID and the PEO have chosen to utilize the contractor and its subs principally to carry out due diligence[4] work and to make estimates of the value of a number of firms. The contractor has not been used to then take the firms to sale, even though the contractor has individuals with considerable merchant banking experience on its in-country staff.

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[3]The term "merchant bank" is used deliberately in this paper although the term is used more in Europe than the United States. The term "investment bank" is used in the States, but within the A.I.D. organization the term has oftentimes been used in a very narrow sense for banks in developing countries, frequently started by donors, which take equity positions in development projects.

[4]The basic function of due diligence, using the term in its broadest sense, is to assess the benefits and the liabilities of a proposed acquisition by inquiring into all relevant aspects of the past, present, and predictable future of the business to be sold/purchased. The term is also used, more narrowly, to describe the duty of care and review to be exercised by officers, directors, underwriters, and others in connection with offerings of securities/companies.

Both USAID and the PEO came to recognize that a different type of contract, and probably a different type of firm, was needed to take the firms to sale. The contract should provide incentives to go the extra mile in marketing the public enterprise firm, to get the best deal possible for Egypt. It became apparent that there are probably good reasons for consulting firms to stick to consulting and merchant banks to stick to merchant banking. It also became apparent, because any merchant bank assigned to sell a property would do its own due diligence work and make its own estimates of value, that asking a consultant to do these tasks first before turning the property over to merchant bank was a waste of time and money.

A decision was made to pass the first group of evaluated/valued firms to sales agents to take them to sale. Unfortunately, it was a not-well-informed political decision; local commercial banks with no relevant experience or expertise were assigned as sale agents, apparently to put an Egyptian face on the privatization program. The banks did not have the ability to do the due diligence or to do an estimate of value. A month later the decision was amended and the local banks were urged to take on foreign merchant bank partners to assist with the task.

Out of this experience, and in recognition of the lessons from other countries, the HCs and the PEO have decided to employ experienced merchant banks to take properties from the very beginning of the sales process all the way through to the sale itself. It has become apparent that, to support an aggressive privatization strategy, foreign merchant banks with experience in selling state enterprises will need to be brought in.

The PEO has developed a program, with the assistance of the World Bank, to utilize what they are calling "multi-transactional contracts," with foreign merchant banks to sell batches of properties. A World Bank loan, combined with success fees to be paid out of the proceeds of the sales, will allow the PEO, jointly with the HCs, finance and contract for these services. The PEO at one point informally requested of USAID that the Agency grant funds simply be added to the World Bank scheme to finance the host country contracting of these "multi-transactional" contracts and suggested that other donors intended to do likewise. That request has since been retracted in favor of a USAID suggestion that A.I.D. direct contracting with American merchant banks would be a more appropriate use of United States funds. It also now appears that few, if any, other donors will utilize host country contracting.

Although USAID wants to coordinate its privatization efforts with those funded by other donors, it does not consider that the PEO and the HCs presently have the requisite procedures and skills to administrate this effort. For this reason, USAID will contract directly with a group of three to five merchant banks to help in the sales transactions under this Project. The PEO concurs.

The GOE goal for privatization is not simply maximizing the revenue from the sale of its properties. Nor is it simply to get the GOE out of the business of business. The Project will also attempt to draw on other countries' experiences in using privatization to support the development of a stronger private sector. The PEO and the HCs have determined that the transfer of new technologies, opening of new markets, engendering new management techniques, and boosting private sector competitiveness are goals of their privatization program. Although peripheral to merchant bankers' priorities, these issues *must* be given adequate attention during the course of privatization.

Currently, the GOE privatization program is moving forward principally in response to leveraging from the World Bank, IMF and USAID. Privatization efforts may expand or contract in the future as a response to the intensity of these pressures. For example, the World Bank is presently encouraging the GOE to privatize other areas of its economy such as the banking industry. The GOE in response has decided to privatize 23 of the PJVC banks. USAID has agreed to help with this effort under this Project, although the Project Identification Document (PID) did not contemplate the involvement of this Project with these banks.

The GOE privatization program may grow in the next few years as the economic reform program takes hold, as the economy becomes more liberalized, and as European, Japanese and Middle Eastern donors become involved in this area and complement the work started by USAID, UNDP, and the World Bank. These efforts will place increased management and administrative burdens on the PEO to orchestrate its privatization process. The lack of experience on the part of the PEO and the HCs in managing merchant banks will be partially overcome through the Project funding of a Merchant Bank Advisor and an Associate Advisor to provide consultant advice and technical assistance in managing the transaction process.

The changing dimensions of the GOE privatization program will require continuing flexibility of the USAID Privatization Project. To be effective, it must be able to adapt contractually and structurally to the GOE program. Given the existing set of conditions, the Sales Component is structured within two major elements:

- *"Sales A"* refers to the element of this Component which provides only technical assistance and advice by a Merchant Bank Advisor and an Associate and does not carry out the sale; these are consultant services, are not transaction oriented, and will be provided by a contract for technical assistance services.

- *"Sales B"* refers to the element of this Component which carries out the sales; these services will be provided by a contract for merchant banking services.

Component Sub-Purpose and Expected Accomplishments

The *sub-purpose* of this component is *to provide technical assistance to work with the HCs and the PEO to privatize identified properties.* The *expected accomplishments* will include the following:

1. A logical and steady flow of properties being offered for sale;

2. Appropriate assignment of batches of properties to the Merchant Bank Group and other sales agents;[5]

3. The sale of 50 PEs and 23 PJVC Banks, (73 actual "privatization");[6]

4. Building a stronger private sector, where appropriate, through the transfer of new technologies; encouragement of new investments; opening new markets; bringing new management techniques; increasing competition; and encouraging competitiveness; and

5. The advancement of social goals, as long as the cost-efficiency of the sales transaction process is not seriously compromised.

The Actors

Four main actors will be involved in the sales transaction process. These include the HCs and their Privatization Teams, the PEO, the Merchant Bank Group, and the Merchant Bank Advisor.

The Holding Companies and their Privatization Teams - The HCs are the principal decision makers. The Privatization Teams will carry out most of the work and implementation decision making. They recommend to sell or not to sell. If they decide to sell, then they manage all aspects of the sales process. Should they decide to handle the sale in-house, it is their prerogative to do so. Should they decide they need assistance they can contract directly with their own funds with merchant banks, or any other firms or individuals, for such assistance. Should they require donor-funded assistance, they must normally direct their request to the PEO. The final decision to sell any property must be ratified by the general assembly of the HC. The Public Enterprise Minister, as chairman of the HC general assembly retains the right to veto any transaction[7]. As noted in the Administrative Analysis

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[5] As mentioned elsewhere in this Paper, other merchant banks will also be contracted, with funds from other donors and the GOE, to carry out sales.

[6] Properties in this Paper are defined to include both companies and major assets of companies. As noted elsewhere in this Paper, the preference of the Project will be to work towards the sale of whole companies rather than pieces of companies.

[7] The HCs are stewards of GOE property. If the GOE decides that an HC or some of its personnel are carrying out their responsibilities improperly, it may make changes in personnel. The GOE, through the Public Enterprise Minister (PEM), may also veto actions of the HC board of directors and/or general assembly. It is assumed, since the PEM has named the boards and general assemblies, that the PEM will normally prefer not to interfere in the activities of the HCs.

(Annex E), the HCs tend not to have personnel with private sector business experience or experience in selling/buying businesses/assets. Conversations with several HC chairmen have revealed an interest in substantial technical assistance in most areas of their responsibilities.

The Public Enterprise Office - The task of the PEO is to provide leadership and assistance to the public enterprise restructuring and privatization process. Concerning property sales, the PEO is responsible for overseeing (and reporting to the PEM) the activities of the HCs. It is also responsible for coordinating all donor assistance to the HCs as well as for overseeing the contracting arrangements between the HCs and merchant banks when donor funds are involved. The PEO has asked for assistance to be channeled to the HCs to help in the process of privatization. The Project will provide that assistance through both the Merchant Bank Advisor and the Merchant Bank Group. The PEO is also involved in restructuring efforts. To the extent that certain elements of these efforts contribute directly to privatization, the Project will help with restructuring activities.

Merchant Bank Advisor - The "Sales A" element of this component will provide the services of a Merchant Banking Advisor who will have the primary function of advising and helping the PEO in overseeing and managing the Project-financed Merchant Bank Group as well as the merchant banks with other donor funding (through assistance provided from other donors such as the EEC, World Bank, and KFW). Working as an in-house consultant to the PEO, this Advisor will help identify and group together companies for privatization, help in identifying the most appropriate merchant bank for specific task(s), help in structuring fee arrangements, and provide advice as may be requested concerning structuring the deal leading up to the sales transaction. This person will also be called upon to help in other disposition-oriented activities of the restructuring unit of the PEO. The Merchant Bank Advisor will have one or two Egyptian specialists helping him/her in the above activities.

Merchant Bank Group: The "Sales B" element of this Component will provide the services of a group of three to five merchant banks capable of preparing companies for sale and executing marketing strategies. The Merchant Bank Group will be responsible for supplying sales teams to provide advice on the establishment of an action plan for the sale of several specific companies, on their valuation, on financial readying measures, on the preparation of brochures for direct sale and/or public stock offerings, a search for and identification of potential buyers, an analysis and evaluation of offers, and assistance in the final negotiations. Technical advisory services provided will include the preparation of companies for sale leading up to the implementation of the sales transaction. Merchant banks financed by this Project will always be the representatives for the seller, never the buyer.

Tasks to be accomplished (Possible Scope of Work)

The GOE has identified a group of 150 properties that will be privatized over the next five years. This Project will work with the PEO and HCs to privatize 50 PEs and 23 PJVC

Banks ("73 privatization"). Although an initial list has been identified, preliminary valuations still need to be completed to gain an accurate assessment of the viability of these properties.

The *Merchant Bank Advisor (Sales A),* under an consultancy contract and under the guidance of the PEO, will be responsible for a number of tasks associated with the expected accomplishments #1, #2, #3, and #5 for the Sales Component:

A logical and steady flow of properties being offered for sale (#1). The tasks are:

- Help the HCs develop strategic plans for the sale of their properties;
- Aid in the diagnosis of which companies to sell and the timing of sales;
- Provide assistance to the HCs in understanding and working with merchant banks;
- Help educate the HCs concerning what investors are looking for in terms of a profitable investment; and
- Provide assistance to the HCs in the "packaging" of properties in a way that will be attractive to merchant banks.

Appropriate assignment of batches of properties to the merchant banks and other sales agents (#2). The tasks are:

- Provide support to the PEO and the HCs in defining an approach to batching properties;
- Help in applying the defined batching approach to the flow of properties being sold;
- Advise concerning the assignment of batches to merchant banks,
- Help in structuring fee arrangements with the merchant banks, and
- Help the restructuring unit of the PEO, as well as the HCs, in making determinations for divestiture and liquidation of properties.

The actual sale of 73 properties (50 PEs, 23 PJVC Banks) (#3). The tasks are:

- Assist the PEO and HCs to manage the implementation of the workplans of merchant bankers and assure that the work of the banks is done in a complete and timely manner;
- Follow-up on contacts to ensure, in cooperation with the PEO communications unit, that potential buyers have access to the information they need to make investment decisions;
- Support the restructuring unit in the divestiture of non-core activities of companies to be eventually privatized; and
- Oversee the training and technical assistance to local financial institutions to support the transfer of basic skills and knowledge regarding sales transaction procedures for privatization.

The advancement of cost-effective sales transactions that embody social goals (#5). The tasks are:

- Help the PEO and HCs define their goals in terms of their privatization approach (to be coordinated with the work completed under the organizational development component);
- Help the PEO, HCs, and USAID monitor the costs of privatization and identify the most cost-effective approaches;
- Counsel the PEO and HCs in analyzing acceptable trade offs in terms of costs economic approaches and potential social benefits;
- Support the PEO and HCs to design contracting arrangements that legally support the implementation of a buyer's investment packages;
- Help in developing privatization mechanisms such as employee/management buyouts and ownership distribution schemes; and
- Provide advice about other country experiences in developing socially conscious[8] privatization programs; support site visitations in other countries as necessary.

On the other hand, the *Merchant Bank Group (Sales B)* under a separate transactions contract will be responsible for a number of tasks associated with expected accomplishments #3 and #4 for the Sales Component.

A group of three to five merchant banks will be contracted by the Project. An important part of their work, beyond the sales process, will be to support the local financial community in developing its skills base in investment transactions. This will be encouraged through the use of local sub-contractors wherever possible. These merchant banks will always be acting in the capacity of representing the sellers and never the buyer in these transactions.

The actual sale of 73 properties (#3, again). The tasks are:

The sales process is described in some detail in the PEO's "General Procedures and Guidelines for ...Privatization..." The contractor will be responsible for facilitating this process. This includes in very general terms the following tasks:

- Provide assistance in defining a realistic value for PEs to be sold;
- Provide assistance in preparing sales documents;
- Carry out the marketing of the properties to local and foreign investors;
- Screen potential buyers; and
- Advise the HCs on all aspects of negotiating and clinching the sale.

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[8]Two of the eight secondary objectives at the GOE privatization program are: 1) "widening the base of ownership" and 2) "increasing long-term job creation." Furthermore, among the criteria against which tender offers would be judged are the following: "Protection of the public interest; commitment to continue operating the business; [increased] competition...; job protection or retrenchment to employees; possible regional/community impact; and intention to offer expended or related services."

Building a stronger private sector, where appropriate, through the transfer of new technologies; promotion of new investments; opening new markets; bringing new management techniques; increasing competition; and encouraging competitiveness (#4). The tasks are:

- Identify appropriate investors and develop strategy for attracting them to the privatization program;
- Complete study of potential buyers;
- Analyze and screen investor proposals; and
- Support the negotiation of proposals to bring new capital, technological improvements, and modern management techniques.

Estimated Level of Effort

As noted above, there are two providers of services for this Component: the *Technical Assistance Services Contractor* will provide advice on merchant banking to the HCs and the PEO. The *Merchant Banking Services Contractor*, on the other hand, will be in charge of selling approximately 73 companies or major assets. The activities of this Component will begin immediately upon the award of the two contracts. Although preliminary assessments will be necessary before bringing in the Merchant Bank Group for specific deals, the Merchant Bank Advisor must be selected and begin work within the first month after contract award. Targeted activities should commence in the following two to three months.

Technical Assistance Services Contractor:

The technical assistance services contractor will provide the following staff:
- One American investment banker to serve as the Merchant Bank Advisor to the PEO; three-quarters time (to be shared with the Financial Instruments Development Component); for four years; and
- One local hire Associate Merchant Banking Advisor to apprentice the Merchant Bank Advisor and to support his/her work.

These individuals will initially be located in the office of the contractor, but space will also be made part time at the PEO.

Merchant Bank Group:

Three to five merchant banks will share the workload of selling 73 properties over the course of four years. Approximately twelve non-bank sales transactions per year are anticipated. 23 bank sales transactions are additionally anticipated during the life of the Project. Participating merchant banks will provide three to five months of technical advisory services (through two to four person teams) in the preparation of each company for sale; and provide advisory assistance for up to 18 months to complete sales transactions.

The Group will identify a representative of the Group to be based in Cairo for the duration of the Project. The banks and their representative(s) will be based in their own offices.

Qualifications of the Firms

The *Technical Assistance Services Contractor* will provide the services of Merchant Bank Advisor, the Associate Merchant Banking Advisor, and a support staff. These individuals will be required to implement the component tasks described above. (The Merchant Bank Advisor will, with the assistance of a local hire Financial Engineering Associate Advisor, also be responsible for implementing the Financial Instrument Development Component; see later section).

> *Merchant Banking Advisor (American).* A detailed job description for the Merchant Banking Advisor position is outlined in the Procurement Plan, in Annex F. The Merchant Bank Advisor will serve as counselor to the PEO and HCs in dealing with the merchant banks that are funded by USAID as well as other donors. This is a key position of the Project and the successful firm must demonstrate strong profitable private sector business experience in merchant banking transactions and financial advisory services. The firm must be capable of overseeing and supporting the activities of the Advisors, of providing short term experts in related areas, of replacing the advisors should they leave the service of the Project, and of guaranteeing their performance. The Advisor should have at least 10 years experience working as a merchant banker; at least two years in emerging economy markets; experience in the management of complex investment portfolios; practical working knowledge of privatization transactions in a developing country context; and substantial senior management advisory experience.
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> *Associate Merchant Banking Advisor (Egyptian)*: At least three years of work experience relevant to merchant banking. Solid masters degree in business or banking. Potential to learn and develop as merchant banker.

The *Merchant Banking Services Contractor* will provide the services of a group of three to five established merchant banks. The group of banks will be known as the Merchant Bank Group. The banks will demonstrate significant experience working in privatization transactions in emerging economies. They will have proven ability to effectively prepare companies for sale and execute the marketing strategies to successfully implement the sale of companies. Association with local financial groups and a proven capacity to work with financial institutions in a developing country will also be essential. The Group, the individual merchant banks, and/or the local associated financial groups must be eligible to be registered by the Egyptian Capital Markets Authority so that they can offer company shares.

Financial Instruments Development Component

Background

Competent financial institutions, sound capital markets, and access to effective financing mechanisms are important (although, hopefully, not essential) for a successful privatization program. Although Egypt's privatization program would benefit from this set of conditions, the country's financial sector is presently ill-prepared.

Currently, the local commercial banking sector has a very limited ability to participate in the privatization process. They do not have the appropriate skills and do not have the financial services and instruments necessary to support the sales transaction process; they also do not have access to new capital to facilitate and support the transaction process.

Egypt's weak capital markets are also an impediment to the country's overall private sector growth and its privatization program. Privatization can lead to the supply of high quality shares to the stock market. This in turn can lead to further mobilization of capital and increase in the liquidity of capital markets. It is therefore important to work simultaneously toward making the privatization program successful and strengthening the financial market base.

The experiences of other countries in dealing with fragile financial institutions while pursuing privatization programs could prove instructive to Egypt. Eastern Europe, Asia, and Latin American offer insights into different approaches and lessons learned. Attachment 3 to this annex contains discussion of some of these experiences.

Assistance in the creation and refinement of financial instruments and other financial engineering activities that are required for privatization transactions will be provided. Training will also be provided directly to banks, brokerage firms, stock exchanges, and other financial institutions.

Component Sub-Purpose and Expected Accomplishments

The *sub-purpose* of this component is *to help selected financial institutions gain access to new sources of funding and to develop instruments and capabilities useful in meeting some of the financial demands of privatization.* The major *expected accomplishments* of this component will include:

1. The development of new sources of funding for privatization;

2. The formation and employment of new financial instruments in privatization transactions; and

3. The increased ability of existing and new local financial institutions to help

privatization.

The Actors

The principal actors for this Component are the Egyptian financial institutions and Project provided technical advisors. The PEO and the HCs are not directly involved, although they stand to benefit indirectly from the activities of this Component.

The Project will provide assistance directly to selected financial institutions and in doing so will help in the identification and creation of new financing mechanisms, the development of certain capabilities in local financial institutions, as well as the tasks noted below.

The Project will provide one Egyptian expert in finance and investment, backed with substantial short-term expatriate[9] and Egyptian experts to carry out these activities. The Merchant Bank Advisor will also play an important directing and coordinating role in identifying technical assistance and directing this component's activities.

Support for the local financial community will play a large role in this component. Understanding the local financial actors is central to addressing financial obstacles to privatization. An abbreviated list of these institutions includes:

Commercial banks: Dominated by the public sector (around 80% of deposits), they include: state banks, private banks, and public joint venture company banks;

Foreign and local emerging merchant banks: There is strong, growing interest by foreign merchant banks to establish offices in Cairo; currently, there are no local financial institutions that can be considered true investment or merchant banks even though some commercial banks are setting up "merchant banking" departments; however, foreign/local joint ventures are anticipated;

Investment Authority: This is the GOE entity that grants approval and incentives to new private sector investments in the country under the Investment Act (Law 230);

Companies Authority: This is the GOE entity set up under the Public Joint Venture Companies Law (Law 159) to register this type of company;

Insurance Companies: The Social Insurance Authority, the government social

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[9]Much of the expertise required for the introduction of new instruments for facilitating privatization resides in the countries that have successfully introduced innovative ways of raising capital in underdeveloped financial systems. Therefore, there may be a need for accessing financial expertise from these countries. However, special efforts will be made to tap into the expertise available in the United States that has been instrumental in setting up financing mechanisms and instruments in countries described in Attachment A-3.

security agency, dominates the insurance market; on a small scale, there are several private pension funds and insurance agents;

Capital Markets Authority: This government agency has the role of monitoring and regulating the securities markets in Egypt;

Brokerage Firms: Thirteen private brokerage firms are currently functioning in Egypt;

Security Exchange: There is one exchange in Egypt, owned and operated by the State;

Local Mutual Funds: There are currently no mutual funds established in Egypt but there are plans to develop several in the near future;

Egypt Funds: Several off-shore mutual funds are being set up;

Foreign Investment Funds: Several Arab investment funds exist in Egypt and several other new funds are being planned;

Financial Consulting Offices: A few private financial consulting offices are presently operating in Egypt; and

Post Office Savings Deposits: Post offices currently offer Egyptians access to savings mechanisms and provide a source of capital to the local financial community.

Tasks to be Accomplished (Possible Scope of Work)

The tasks to be completed under the financial instruments component will be undertaken in response to sales transaction requirements associated with specific sales. Although generally reactive, several activities will occur over the life of the Project and will be carried out by the Technical Assistance Services Contractor. The local-hire Financial Engineering Advisor will coordinate this activity under the supervision of the Merchant Banking Advisor. Much of the work of this Component will be accomplished with short term Financial Engineers working in specialized areas. Below is a summary of the major tasks to be completed under this component.

The development of new sources of funding for privatization (#1.) The tasks are:

- Identify sources of financing to complement domestic investor and lending institutions capabilities:
  - foreign investments as sources of capital: investigate the potential for trading

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  stock in regional markets; develop relationships to country funds;
  - domestic mobilization of capital: explore incentives to attract Egyptian funds from abroad; orient and develop small investors to privatization; develop private sector pension funds;
  - donor agencies and international markets: work with donor investors and guarantors like IFC, KFW, MIGA, OPIC and others; and
  - other sources of financing.
- Execute strategies and develop approaches for involving institutional investors in privatization; and
- Assess the feasibility of donor and/or GOE contributions to the capitalization of certain of these mechanisms.

The formation and employment of new financial instruments in privatization transactions (#2). The tasks are:

- To support specific privatization transactions, work with emerging local financial institutions to identify financing requirements and identify appropriate financial instruments;
- Design identified financial instruments;
- Work with the Capital Markets Authority (and other government agencies) to gain approval for new financial instruments;
- Help develop markets for new instruments; work with the local stock exchange and financial brokers to initiate client interest; and design educational campaigns.

A number of financial instruments and funding sources may be explored, including:
- convertible bonds;
- debt conversion programs;
- management buyouts, ESOPs, loan guarantees, stock purchase plans, voucher schemes;
- non-bank financial institutions resource mobilization, e.g., development financial institutions, leasing companies, venture capital companies, contractual savings institutions, credit facilities, revolving credit programs, term credit lending, transaction financing, bridge financing; and
- mobilization of traditional sources of financing, e.g., structuring public stock offerings, strategies for institutional investor involvement (insurance and pension funds, unit trusts, mutual funds, and investment companies, credit unions, mortgage banks, or finance companies).

The increased ability of existing and new financial institutions to facilitate privatization (#3)

- Provide technical assistance and training directly to banks, brokerage firms, stock exchanges, and selected new financial institutions (e.g. investment funds and mutual funds) aimed at helping them develop a capability to participate in the financing of the planned divestitures;

- Establish linkages with the stock exchange and the Capital Markets Authority to facilitate a scheme for issuance and trade-ability of shares of privatized enterprises;
- Help the financial intermediaries to develop and market new instruments such as special purpose mutual funds, voucher schemes, and others; and
- Arrange for visitation to other countries to learn from their experience in developing local financial systems.

Estimated Level of Effort

Although most of the work under this component will be reactive to sales transaction requirements, the Project will complete a workplan during the first two months after contract award to outline a strategy to component activities. The Technical Assistance Services Contractor will provide the following personnel:

- One local hire Financial Engineering Advisor; specialization in instruments used in privatization; full-time four years.
- The Merchant Banking Advisor one quarter time, supervising the Financial Engineering Advisor; and
- Regular short term financial engineering advisory consultancies by American, Egyptian, and other specialists; 2-6 week assignments, up to 15 assignments; equivalent to 48 person months each for Americans and 24 person months for Egyptians.

The Financial Engineering Advisor will be based in the offices of the contractor. The short term consultants will normally be based at the banks that they are advising. The Merchant Banking Advisor will be based as described above.

Qualifications of the Firm

The successful American firm will have: extensive experience in financial markets development in a developing country setting; practical experience in the design and implementation of financial instruments for privatization; background in developing training programs in these areas; knowledge of world-wide experiences in privatization under limited capital conditions; experience working with the development of stock exchanges and local financial capabilities, and knowledge of and contacts in the international financial markets.

A local sub-contractor will be used to the extent possible to supply needed technical assistance, provide access to the local financial community, and to help identify the local financial engineer, and to supply other apprentices.

Short-term, technical assistance will be required regularly. To provide continuity to the Project, the contractor will be required to supply needed expertise primarily from in-house sources.

Decision Making Support Component

Background

The process of privatization brings to the fore many policy and other issues that must be resolved if privatization is to proceed successfully. Presently the GOE lacks an organized approach to the analysis and consideration of alternative solutions to policy impediments. When the government is unable to resolve policy problems expeditiously, possible sales are delayed or lost, investors become disillusioned, and privatization is stalled.

Although the first batch of PEs evaluated as candidates for privatization were selected because, when initially reviewed, they appeared to present no particularly difficult problems, subsequent evaluations of the properties have shown that each sale tends to raise issues that require resolution before the sale is consummated. It has also become apparent that the GOE lacks a mechanism for resolving these issues quickly.

These issues entail questions such as: deciding whether investors of all nationalities are eligible to bid on a hotel in the Sinai; whether a legal monopoly will be abolished; when to begin a unified price for electricity for private and government businesses; whether to allow an unofficial cartel to continue to exist; whether to lay-off surplus employees before the sale of a property; or whether to forgive or restructure AC debt before or after the sale. There are other more generic issues that could stop privatization sooner rather than later, such as the lack of policy decision(s) concerning the use of sales proceeds and the organizational development of the PEO and the HCs.

These policy issues have been faced by almost all countries during privatization. Successful privatization plans have been able effectively to recognize and facilitate the quick resolution of policy impediments to their program's progress. This Project component is designed to help the PEO and the HCs deal with the political and policy issues that arise during privatization.

Component Sub-Purpose and Expected Accomplishments

The *sub-purpose* of this component is *to help the organizations involved in privatization overcome prevailing political, and policy, regulatory, and organizational impediments*. The major *expected accomplishments* of the Component will be:

1. Establish a process to identify political, policy, regulatory, and organizational impediments[10] to privatization;

[10] Abbreviated in this paper to "policy impediments" requiring "policy analysis" for resolution.

2. Provide assistance in the analysis of these impediments and present alternative solutions;

3. Help in engaging decision-makers in the impediment analysis and resolution process; and

4. Establish a policy impediment resolution capability within the PEO.

The Actors

The actors involved in this component will include the decision makers in the GOE Economic Cabinet and elsewhere in the GOE, a small unit within the PEO staff (headed by a PEO Specialist), the HCs, the Project Merchant Banking Group, and the Project technical advisors including a long-term local hire policy analysis advisor and short-term technical advisors.

The *GOE decision makers* are the targets of this Component. Over the life of the Project, these decision makers may turn to the Project for specific analyses and guidance. Initially, however, the analyses to be pursued by the Project will be generated by the impediments that the HCs, PEO, and merchant bankers encounter as properties are prepared for sale.

The *PEO policy analysis unit* that will coordinate this work will consist of 2-3 professionals and be headed by a PEO Specialist.[11] This unit will provide the guidance and leadership in the areas of exploring the exact nature of political, policy, regulatory, and organizational impediments to specific sales and to other privatization related actions; determining who has the responsibility/authority to resolve the impediment; determining whether the decision maker has the information required to make a decision; developing alternative solutions; preparing a presentation of the analysis and alternative solutions; and pressing for a decision. When the unit can deal with the issue in-house, it will proceed to do so. Sometimes, the PEO will contract out the work. When assistance is required, the unit will prepare contractible statements of work to procure that assistance. Other times the PEO will turn to the Project to undertake the work. The unit will remain small, with an ability to perform smaller studies, but will contract out most of its technical needs either through the USAID Project or other donor funds.

The *Holding Companies and the Privatization Teams* will identify impediments to the sale of certain of their properties. They will ask the PEO policy analysis unit for assistance in understanding and resolving the impediments in question. Similarly, the *Merchant Banking*

[11]The PEO is currently considering filling this position with a local economist. Although it will be important to have an Egyptian in this position, USAID feels the existing policy environment requires the skills that could also be addressed by an Egyptian lawyer, political scientist, or policy analyst.

Group will flag impediments and alert the HCs and the PEO for resolution. Because the impediments are related to specific sales, the resolution of the impediment must usually go quickly to avoid delays in the intended sales.

The *Project technical advisors* will advise and otherwise support the work of the PEO unit, and in addition will carry out some of the analyses and presentations. Short-term technical assistance will be provided by specialists with technical backgrounds in areas such as: public policy analysis, strategic planning, consensus building, organizational systems, legal reform, sectoral expertise, information systems development, and training.

Tasks to be Accomplished (Possible Scope of Work)

Above all, the work of the PEO policy unit must be practical, to the point, and timely. This is a tall order for a unit that does not yet exist. The Project must help in setting up the unit and establishing the standards and methods of the work to be pursued. The specific substantive tasks assigned to the Advisors are envisioned as follows:

Establish a process to identify and understand policy impediments to privatization (#1). The tasks are:

Help establish a policy analysis unit in the PEO by:
- Helping with the preparation of scopes of work and a general mandate for the unit;
- Assisting with recruitment of competent staff for the unit; and
- Developing an esprit de corps within the unit.

Subsequently, work with the policy analysis unit to track and anticipate policy problems, to include:

- Analyze up-coming sets of companies for sale and expected policy problems;
- Work with merchant banks to identify policy issues related to specific sales transactions; and
- Maintain a dialogue with the HCs and ACs to develop a list of their on-going policy issues regarding privatization.

Provide assistance in the analysis of policy impediments and presentation of alternatives (#2). The tasks are:

- Develop a generic set of procedures to approach identified constraints;
- Support the Policy Unit in the implementation of their "approach" to identifying constraints; provide specialized, short-term technical assistance as needed;
- Provide training or site visitations to supplement existing technical skills and develop an understanding of how other countries have dealt with policy issues in privatization;

Examples of the types of issues which may be examined under this component include: (1) the design of approaches for deregulating, liberalizing and privatizing key sectors; (2)

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address issues on redundancies and employee ownership issues and the displacement of labor; (3) the effective use of privatization proceeds.

Help in engaging decision-makers in the policy analysis and implementation process (#3). The tasks are:

- Develop the policy analysis unit's capacity to identify and work with key decision-makers; supply specialized training for unit personnel and, possibly, decision makers, as needed;
- Help in developing options papers that are appropriate for senior decision-makers and politicians;
- Provide information necessary in taking decisions, on various topics/constraints, and formulating actions plans around them;
- Provide assistance in the implementation of action plans: develop plans to gain a broad understanding and acceptance of the problem; help in generating support for actions being taken; and work through obstacles as they arise.

Establish a policy impediment resolution capability within the PEO (#4). The tasks are:

- Provide assistance in developing the organizational capacity of the Unit to effectively perform its functions;
- Provide guidance on developing a system to monitor policy areas that will affect privatization;
- Supply the necessary technical assistance to develop an in-house capacity to perform limited, technical analyses; and
- Support the Unit's capacity to develop appropriate scopes of work and terms of reference for short-term technical assistance.

Estimated Level of Effort

To sustain and increase the momentum for on-going privatization efforts, the activities of this Component must be initiated during the first two months after contract award. During the first month, a needs assessment and workplan will be completed and activities associated with setting up the unit started. This will be followed by the start up of the planned activities.

The Technical Assistance Services Contractor will provide the following staff for this Component:

- One full time Egyptian expert in public policy; perhaps a lawyer, public administration specialist or a political economist; four years full time; and
- Regular, short-term professional advisory services by Egyptians and Americans for 2-6 week assignments throughout the life of the Project; 10 such assignments; the equivalent of 36 person months for Egyptians and 48 person months for Americans.

The expert in public policy will be based in the PEO. The short term consultants will be based in the offices of the Technical Assistance Services Contractor.

Qualifications

The American contractor must demonstrate its effectiveness in organizing successful economic policy reform interventions in other countries, preferably in the Middle East. It must demonstrate its effectiveness in setting up and supporting successful task-oriented multi-disciplinary teams in developing countries. It must also show the ability to field advisors competent in the areas of work anticipated for the unit including: public policy analysis, public administration, political economics, legal reform, labor issues, banking issues, etc.

To provide continuity to Project efforts, the contractor must be able to supply many of the short-term technical specialists over the life of the Project. Using in-house capabilities would achieve the most satisfactory results. The use of local qualified sub-contractors and experts by the prime contractor will be encouraged. Local firms and individuals with specialized skills in areas under examination are available locally and will bring important insights to the activities of this component.

Attachment 1

Understanding Economic Reform and Privatization: Experiences of the United Kingdom and Sri Lanka

United Kingdom

Let us review the experience of the U.K. concerning its approach toward introducing a program for public awareness, and how it worked toward helping the country's privatization program. Perhaps this experience can serve as a lesson learned for the implementors of the privatization program in Egypt.

Like many other countries, privatization implementors in the U.K., for the first three years of its privatization program, had no coordinated program and made no deliberate marketing/publicity efforts. The policy suffered from many problems of criticism and non-cooperation that are currently being seen in Egypt.

From mid 1983, a centrally coordinated program was introduced. The Treasury was charged with coordinating it and the Financial Secretary to the Treasury (third ranking Treasury minister) was given responsibility for privatization. Though not a cabinet minister, the individual was a highly respected figure who was moving swiftly up the ministerial and the party ranks. The initial publicity effort made was intended to win the intellectual argument over the benefits of privatization. The Privatization Minister made a series of carefully written speeches putting forward the benefits of privatization and copies of these were widely distributed. The top civil servants involved then spent time giving background briefing to journalists on privatization. They also produced a briefing folder for journalists. This activity resulted in substantial press, radio and TV coverage on privatization and its benefits, and comments in editorials. This material was also used to make the privatization policy a central subject for the Conservative political party with similar speeches being made at all levels by the party faithful. Once this initial intellectual thrust was over, they then concentrated on encouraging the maximum volume of favorable publicity at the time of each sale. A ministerial level committee on privatization was established which met once every three months, chaired by the Prime Minister. A briefing book was developed for this committee consisting of two pages showing the status of each privatization, presented in common format.

Several meetings were held for bankers and discussion papers sent out to them with requests for comment. Little general publicity effort was made toward private investors, who came forward readily enough provided the price was right and the specific privatization was well marketed. No special effort was made toward the unions who were considered irretrievably

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biased by their close associations with the opposition Labor party. However, written information was provided directly by the government to the employees, thereby avoiding the unions. The government relied on this and the free/cheap share offers to convince the employees. The degree of publicity for each privatization opportunity varied directly and intentionally. However, in the cases that it had been decided were appropriate for widespread share ownership there was also a massive advertising campaign to encourage individuals to purchase the shares. These campaigns were larger than had ever previously been used for the sale of shares. They were also successful, with a far larger proportion of the population purchasing shares than had done so previously and increased public and institutional demand permitting share issues much larger than had ever been attempted previously.

Sri Lanka[12]

One of the earliest decisions taken by the Privatization Commission in 1987 was on the need for a vigorous and extensive publicity campaign. The recognition of the need to mount a publicity campaign to explain the advantages of privatization stemmed from the realization that there would be opposition to privatization from many quarters. It was agreed that one of the strategies to be adopted was to identify possible quarters from which opposition would come, and target the publicity campaign to allay fear of these groups. While much material was available from many countries on strategies adopted for publicizing share issues and promoting share sales in state enterprises to be privatized, there was no material available on a systematic public awareness campaign promoting the concept of privatization. Sri Lanka's public awareness program is perhaps unique in that, for the first time a planned publicity campaign had been devised to expose a whole nation to the advantages of privatization, while attempting to allay fears of potentially hostile and vulnerable groups.

It was decided that this vigorous and extensive publicity program would have two components:

- A general publicity campaign to explain the objectives of the privatization program and the economic benefits that would accrue; and
- A publicity campaign in respect of each state enterprise to be privatized, to build up its image and promote the sales of its shares.

The advertising campaign comprised four component activities:

- A competent economic journalist to be commissioned to write a series of articles on privatization using information and data supplied by the Privatization Commission;
- A panel discussion on privatization on television;
- The centerpiece of the campaign, an intensive advertising campaign in all national

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[12]Extracted from "Publicizing Privatization: Sri Lanka's Public Awareness Program, by Tissa Jayasinghe, Director, Commercialization Division, Ministry of Finance, Sri Lanka.

newspapers in all three national languages; and

- The preparation of a booklet in Question and Answer form to meet the arguments and concerns expressed by persons opposed to privatization.

Newspaper Features: The public awareness campaign commenced with a series of articles published in leading newspapers and dealing with various aspects of privatization. Written by a well-known journalist, they were intended to create an awareness of the total concept of privatization while provoking debate on its merits.

Panel Discussion on Privatization: The Publicity Division of the Ministry of Finance and Planning produced a monthly television program titled "Rupes and Sense," and arrangements were made to have a 15 minute panel discussion on privatization on this program. The services of a well-known TV moderator were obtained to interview two members of the Commission. The program, for which a draft script was prepared by the Commission's Secretariat, was designed to introduce the subject of privatization to the public while responding to, rejoinders to the feature articles on privatization that the Commissions had sponsored.

The Advertising Campaign: The centerpiece of the public awareness program was a series of full page and half page advertisements placed at intervals in all daily newspapers, in all three languages spoken in Sri Lanka. Since the responses to the pro-privatization newspaper features had been appearing periodically since November 1987, it was possible at this stage to isolate the main concerns and reservations about privatization, and design some advertisements to meet them. Five separate advertisements were designed, and the advertising agency decided that a common symbol and a slogan should be adopted as a link between them and to attract reader attention. The symbol they chose was a stylized version of an ancient fertility symbol of a clay pot with flowers in it. Alongside the symbol, and printed in red letters appeared the slogan "Going Private, For the Good of the People!" The symbol and slogan boxed together, were placed at the bottom right corner of each advertisement. The translation of the word "Privatization" into a term in the local language caught the imagination of the reading public, and irrespective of whether one was for privatization, against it, or simply indifferent to it, an awareness of the concept of privatization was implanted in the minds of the people. These five advertisements were very well thought out and described the poor performance of state enterprises, the need for privatization, the benefits that would accrue, and concerns of the workers concerning possible retrenchment. These advertisements also constantly emphasized the broadbased ownership of enterprises among the people.

In keeping with the policy of broadbased ownership of privatized state enterprises, the name of the Presidential Commission was changed to the "Presidential Commission on People-ization" and the program was henceforth called the "people-ization program." The Sri Lankan experience is interesting as it presents an orderly approach adopted by implementors to introduce the concept of privatization in the country.

Undertaking Sales Transactions: The Case of Mexico

The actual management of each sale of a state owned enterprise (an SOE) is undertaken by a merchant bank, selected from among 18 banks appointed by the Privatization Unit to help in the sales transactions. The appointed bank carries out many functions. First, it prepares a prospectus for sale. Bids are then invited with bidders often pre-screened for financial viability. Deposits are required before a prospectus is released. Second, the bank performs a technical valuation of the company to arrive at a floor price below which the enterprise could not be sold. This price is derived from the use of one or a combination of the following methods:

- Discounted cash flow,
- Book value,
- Liquidation value, and
- Market value.

The basic approach of the sale is through a sealed bid first-price auction. As mentioned earlier, the bidders are pre-screened to make sure they are acceptable in terms of their technical, management, and financial capabilities. All bids are then received simultaneously in a previously specified location in the presence of public notaries. The third function of the bank is to examine and homogenize the bids, i.e., put the bids on the same basis to make them comparable. The plans of the bidders for the company in terms of investment programs and policies toward labor are considered, but the primary choice criterion at this stage is the highest and best offered price.

The bank then makes a recommendation to the Privatization Unit regarding the offer that guarantees the best sale conditions for the State. In case the bids are established under the floor price, or there is only one offer, the obtained results are submitted to the divestment authorities who either accept the offer or ask for new bids. Usually, in such a case, the company is offered three times and, if favorable results are not obtained, the offer can be negotiated directly with the interested party.

When the final decision has been made, the Finance Secretariat issues an official authorization and sale resolution in favor of the offer that guarantees the best conditions for the state. The agency owner of the Federal Government shares and the purchaser will underwrite the purchase agreement to legalize the operation. The purchaser then makes a due diligence audit that is submitted to the Finance Secretariat, and if his claims are valid, the corresponding reimbursement is paid.

The proceeds from the sale are deposited in the Federal Treasury and, according to the purchase contract, the Finance Secretariat sends an official letter to the Programming Office and Budget Secretariat and to the Comptroller Secretariat to formalize the separation of the company from the state-owned sector.

After the sales process has been concluded, a final responsibility of the agent bank is to prepare a document known as the "White Book" which comprises all the official documents related to each stage of the sales process. The General Coordinator of the Privatization Unit sends this document to the Programming and Budget Secretariat, to the Sector Coordinator of the Enterprise, and to the Comptroller Secretariat so that the latter, within its authority, carries out the follow-up and control of the divestiture processes. In addition, a copy is sent to the Finance Secretariat of the Chamber of Deputies. This congressional committee will go with technical inspections and corresponding evaluations of the companies. Similarly, an additional copy of the "White Book" is kept in the Privatization Unit.

Financial Instruments Development: Some Country Experiences

Below are examples of countries that have devised ingenious ways of raising capital for privatization as well as developing the capability of financial institutions to assist in this effort.

Chile

Sources tapped were the public, pension funds, foreign and domestic investors, employees of the enterprises themselves, and of the public sector.

Popular capitalism: Used in 1985 concerning certain financial institutions and pension funds. Aimed mainly at small investors, mostly individuals, with subsidized loans and tax advantages. Money was lent for up to US$32,000 for five years under preferential conditions, to small investors buying into some financial institutions. The sales ended in 1986, 3 years earlier than the period established by the law.

Pension funds: Given the amount of financial resources managed by the private pension funds, investments made by them in SOEs have had an important impact on the decrease of state participation in these enterprises. The government started using this mechanism in 1986 with some companies it owned or controlled. Their participation has been well regulated to avoid the concentration of ownership and minimize risky investment.

Foreign Investors: Foreign investors purchased equity through stock market auctions. Although the number of shares acquired exceeded 10% in some cases, no single buyer obtained a controlling portion of equity through this mechanism. When a controlling group of shares of the whole enterprise was to be sold, the method was an open bid. In most cases, foreign investors acquired shares through a foreign debt-equity swap.

Labor Capitalism: Finally, the government used direct sales to workers or "Labor capitalism" frequently. Initially, the shares were only sold to the company's own workers, but the process was extended later to public sector employees, including the armed forces, in several cases. Sales to a company's workers undertook a variety of forms of payment: a) anticipated payment of accrued and non-accrued severance benefits; b) in exchange for benefits obtained in collective bargaining, profit sharing or other bonuses; c) loan from the enterprise; d) loan from banks; e) own funds; f) in exchange for paid vacations. When workers were given the option of receiving their severance payment as equity, two incentives were provided: 1) usually 80% had to be used for buying equity so that workers also received cash; and 2) the company pledged to compensate the worker for any decline in the price of shares below the value of the severance benefits accrued at the time of requirement. The former was an incentive to participate in the program, while the second was an incentive to keep the shares until retirement. In several cases the first group of shares was purchased with severance benefits, but then additional packages were purchased with loans. For that purchase investment companies were created by workers and managers. These companies borrowed from financial institutions to pay for the new shares, using the shares previously purchased as collateral.

Hungary

In Hungary, besides the traditional sources for raising capital, there exist several funds set up with a view to support privatization and promote entrepreneurship. Among these, the extensively used "E-credit"(Entrepreneur credit) program in 1992. The credit is preferential, though the interest rate is higher than the most preferential rate. One problem faced in granting these credits was the hesitancy of the commercial banks to allow for the use of this credit line without collateral. Recently, the Hungarian government introduced the "E-loans" concept. This allowed for the citizens to buy shares-- of SOEs being privatized-- on credit with the shares serving as collateral. There also exists a scheme where an ESOP scheme could be funded through the "E-credit" line. Possibilities of having yet another new scheme, "Privatization leasing" is also being considered where the property could get into private ownership only after a few years, and "E-loans" could be used to make up for the payment obligations.

Czech and Slovak Republics

The voucher form of privatization was first started in these two republics and has made a fairly successful beginning. At the end of 1991, each Czech and Slovak citizen over 18 years of age was offered a book of investment vouchers representing 1,000 points of investment "money" with limited maturity for a registration fee of Kcs 1,000, about 25% of the average monthly wage. Helped along by a massive advertising campaign by the newly formed closed-end investment privatization funds (IPFs) organized as joint stock companies (mutual funds), over 8.5 million people, representing over 75% of those eligible purchased these vouchers. These vouchers would allow each such citizen or their nominee investment fund to bid for ownership of shares of any company that was being privatized by the voucher method. The 434 mutual funds that were approved collected 72% of the total vouchers with the 10 largest funds accounting for 40% of the total vouchers. While the mutual funds were initially fairly unregulated, on April 28, 1992 a law regulating and requiring appropriate disclosure, diversification, and avoidance of conflicts of interests by mutual funds and other investment was passed.

The point value of each share (representing Kcs 1000 of book value) for the first round was determined by dividing the total value of the shares offered through the voucher system by the total number of vouchers issued rounded down to 30 shares per voucher of 1,000 points.

At the end of the 1st round, about 30% of the shares were sold and 35% of the vouchers distributed were used. Of the total of about 90 million shares distributed, the mutual funds received 70 million shares while individuals received 20 million shares.

Rather than be set at the same rate, prices of second round shares began diversifying. Rates fluctuated from 10 shares 100 investment points to one share per 300 investment points. This differentiation has brought about:

- a better distribution of demand (37% of volume supplied, or 78 million shares sold); and
- increase in the number of orders submitted by investors (53% of ordered shares were purchased)

Poland

The government began a very detailed mass privatization program-- through a voucher type of mode-- covering about 600 large and medium-sized enterprises. The program has three stages:

- "commercialization" of the 600 SOEs;
- establishment of about 90 National Investment Funds in the form of joint-stock companies. Each Fund, according to a random selection scheme, will receive the controlling shares in each of about 20 companies (included in the first tranche of about 400 companies). Firms will be hired to manage the funds through a worldwide tender. The Funds will compete with each other and will be remunerated from the income from the sale (postponed for the first two years). This mechanism will encourage them to increase the long-term value of the companies. The shares of each company transformed will be allocated in the following manner:
    - 33% to the leading fund;
    - 27% to the remaining funds;
    - 30% to the state treasury; and
    - 10% given free to the employees.
- Having paid a registration fee (set at 10% of the average monthly wage), each Polish citizen over 18 years old will receive a certificate, which will be a security entitling him/her to one share in each National Investment Fund.

This mass privatization program will allow for the rapid privatization (no need for an initial valuation) of Many large and medium-sized enterprises, whose financial standing is better than average (annual turnover of at least US$10 million).

Mexico

Employees were sold shares of the company to encourage their cooperation. For example, the Telmex union was sold 4.4% of the shares of the company for US$325 million; the money for the purchase was lent to the union by a government bank.

Selected examples of different types of financial mechanisms employed in privatization programs around the world are given below.

Acceptance of payment terms: Bangladesh, Canada, Chile, U.K., Togo. All these countries have effected sales of state-holdings by agreeing on payments over time, both in public offerings and private sales. However, this mechanism-if not exercised effectively, can be abused as seen in Bangladesh and Chile. Bangladesh has experienced the danger of unsecured financing and the resulting lack of recourse in dealing with defaults. In Chile, the later privatization phases no longer permitted debt-led transactions as had been the case between 1975 and 1979. Countries with successful experiences in privatization advocate that sales should be in as much cash as possible.

Direct Borrowing: The decision to allow allocation of credit for purposes of acquiring government-held shares or assets, depends on the state of the banking system and the government's consideration toward encouraging rediscounting of loans for this purpose. Lines of credit have been proposed in some countries for the financing of new equity issues of SOEs. Other governments that have undertaken privatization have considered measures to enable or encourage bankers to provide financial assistance to purchasers. Commercial bank financing has been used in management/employee baits and in the acquisition by workers of substantial participation in the capital of SOEs offered for sale.

Debt-Equity and Debt-Asset Swaps: Such arrangements have been developed by many major debtor countries. These mechanisms have benefits and drawbacks, and therefore have to be structured effectively. These swaps arrangements help privatization transactions, and are a relevant method of financing private investment in SOEs.

Institutional Investors: Measures can be taken toward modifying the laws or charters governing pension funds, insurance companies and other institutional investors where they are presently restricted to a very narrow range of assets to foster large-scale investments. A legislation passed in Chile in late 1980s allowing pension funds to invest in shares of selected companies is a good case in point.

Setting up Mutual Funds: Mutual funds have been actively considered to foster privatization. These funds would be designed to acquire and hold a number of SOE shares and sell these shares to investors who would otherwise not acquire shares in individual SOEs. The case of Argentina, Poland and others, etc. are good examples of countries that have adopted this mechanism.

Vouchers: Distribution of vouchers to the citizens of the population-- free or at some nominal cost-- who can then use these to exchange for shares being offered-- of SOEs being privatized-- has been yet another way to mobilize capital for privatization. Examples of such a type of privatization can be found in Czech- and Slovak republics, Poland, Russia, and others, etc.

Employee Share Schemes: Special kind of scheme designed to allow credit access to employees-- through a trustee-- to enable them to take up the block of shares offered for sale in an SOE. Such a scheme has been seen in Jamaica, Cosa Rica and other countries.

Other measures: Tax incentives specially directed at privatization programs. Tax concessions introduced in Chile include a reduction of taxable income of investors by 20% of the value of the SOE shares purchased as well as tax-free dividends on selected shares. Assistance by development organizations is a possible option.

Attachment 4

Privatization Process[13]

The privatization process consists of three distinct phases: Preparation/Evaluation; Decision-Making; and implementation. The steps which would normally be followed in the Preparation/ *Evaluation phase* consist of the following.

a. HCs to prepare annual privatization program as part of their annual business plan. It is worth mentioning that the annual bonuses and other incentives, and the percentage share in the profit of HC and AC General Assemblies and Boards of Directors will be tied invariably to the success that they achieve in implementing their annual privatization program.

b. Public Enterprise Minister to approve and select jointly and severally with the HCs and ACs the proper candidates within the overall annual GOE privatization program.

c. The HC/AC Board will appoint an individual or team of individuals to be responsible for management of the entire privatization process - from evaluation through implementation of the sales transaction. This "Privatization Team" may consist of individuals with recognized experience.

d. In case of a decision to select a loss-making company, cancellation or conversion of debt into equity, consolidation and debt restructuring would be key tools to be applied by the ACs and their creditors and investors to clean up any financial problems in order to make the assets unencumbered of liabilities and liens and available for sale.

e. HCs and ACs to submit applications to the PEO for technical assistance in privatizing the chosen candidates with relevant Board of Directors' decision to this effect.

f. The PEO director to consider such applications for approval.

g. Consultants would be employed by the HC under multi-transaction contracts, over an tended period time, to provide professional advisory services for an identified group of privatization transactions.

h. The scope of work to be done by consultants for privatization transactions would be specified in the consultant's terms of reference (TOR), prepared jointly by the PEO

[13] An excerpt from the "General Procedures and Guidelines for the Government's Programs of Privatization. Restricting, and Reward System" Published by the PEO, February 14, 1993.

and the holding and affiliated companies and reviewed by the PEO and attached to that contract. Said scope of work would specify the exact services to be provided by the consultants for each transaction, the concerted outputs expected from them and a time-bound work plan.

i. The services to be provided for each transaction would be contained in a letter of understanding between the PEO and the relevant holding (or affiliated) company, which will specify not only the services possibly to be provided by the consultants, but also the obligations of the holding or affiliated company, including provisions for partial cost recovery through fee payment to the PEO for these advisory services.

j. Consultants undertake a valuation of the company's assets and an evaluation of its operating and financial performance. Consultants would recommend a sales strategy, including a target or reserve price in the event of a public tender offer or auction, or an offering price in the event of a share offer. A copy is sent to PEO for follow-up and possibly comment.

The preparation/evaluation phase will result in a written report that serves both as a recommended strategy for future action and as documentation verifying to the PEO and to the HC and AC that the analysis is thorough and complete. This document is the prime deliverable document presented by the consultants to the HC/AC. In many cases, technical memoranda prepared as part of the evaluation and valuation process will be appended to the written report. The report will contain a comprehensive privatization Action Plan, that synthesizes the information from the preparation phase. The Privatization Action Plan will contain the strategy recommended by the consultants to be followed during the implementation stage. This document, with little change or dilution, is expected to form the basis for the offering or information memorandum.

The steps to be followed in the Decision-Making Phase would normally consist of the following:

a. The evaluation report containing the *Privatization Action Plan will* be submitted to the Privatization Team responsible,for managing the privatization process for each transaction. It will also be submitted simultaneously to the PEO for review and comment. The comments of the PEO will be made known to the HC/AC decision makers.

b. The Privatization Team will evaluate the report and present its recommendations to the relevant HC/AC decision-making body.

c. The HC/AC decision-making body will decide whether or not to sell the asset/company, select a sales strategy, and instruct the Privatization Team to start sales procedures.

The steps to be followed normally in the Implementation Phase would consist of the following:

a. Prior to selling the company or asset, the HC/AC will finish cleaning up any financial problems and may arrange for - a corporate or restructuring. Alternatively, the decision-making body may prefer to sell the company/asset "as is".

b. After a decision to proceed has been adopted, consultants would proceed with support activities under the implementation (second) phase of their contract. Consulting assistance with the implementation phase could include, *inter alia,* preparing a sales prospectus, offering memorandum, or bid documents for a tender offer, underwriting arrangements, evaluation of buyers' offers and negotiation assistance.

c. HCs, and ACs start marketing the target candidates.

d. The PE Minister publicly announces completion of the transaction after closing the sale.

e. When the sales process has been concluded, the assigned financial institution or consulting firm will prepare a "White Book" which will contain all official documents related to each stage of the process. Copies of the "White Book" will be sent to the Cabinet, the HC, the AC, the Central Audit Organization, the Parliament, and a copy will be kept at the PEO. The "White Book" will be a public document.

f. The Purchaser will perform a "Due Diligence Audit" within a period of six month after closing the deal and the delivery of the assets to him. This audit would cover:

    -- any new physical and intangible assets that were not included in the transaction; and

    -- any new contingent liabilities that were overlooked during the evaluation process.

g. The Purchaser would submit his "Due Diligence Audit" and claim to the PEO and the HC/AC;

The Privatization Team main tasks would be to:

a. recommend to HC/AC management the "Offering Price" of shares to be offered when the transaction is to be carried out on the stock exchange, based on the consultant's evaluation of the company and recommendations regarding price;

b. recommend to HC/AC management a "Target Price" in the event of a Tender Offer or Public Auction. A "Reserve Price" will be determined very close to the proposed auction or tender date;

c. without revealing the contents of each bid, manage the public opening of sealed bids on assets in the presence of all bidders as well as one or more public notaries who will sign each copy of the bidding documents;

d. examine and evaluate the bids received;

e. recommend to the HC/AC decision-making body and to the PEO the best offer and terms of sale; and

f. negotiate the sale on behalf of the HC/AC. Negotiation strategy would always be based on:

- the results of evaluation and valuation; and
- the terms of sale which were presented in the tender offers received, such as cash payment, new capital investment, modernization program, the future treatment of personnel; and other conditions of sale, as stated clearly in the bidding documents.

ANNEX E

ADMINISTRATIVE ANALYSIS

Summary

This Analysis describes and critically reviews the organizations involved in the GOE privatization program and to be involved in this Project.

The analysis first gives an overview of how the GOE is organized to undertake privatization. The analysis briefly describes the principal organizations, their responsibilities/authorities and their relationships. The analysis then presents a candid assessment of the capabilities of these organizations. The two main implications of the Analysis for the project design are noted:

- The Project requires substantial resources devoted toward institutional development and organizational strengthening activities;

- The Public Enterprise Office (PEO) is the best choice to be the principal counterpart for the Project.

Organization of GOE Privatization Program

The Peoples Assembly promulgated the Public Business Sector Law (Law 203) in 1991 to create the ministerial post of Public Enterprise Minister, presently held by the Prime Minister, and to establish policies that relate to the reform of the public enterprise sector. The law removes most of the government-owned businesses (known as Affiliated Companies, ACs, and as Public Joint Venture Companies, PJVCs) from direct GOE control, requires that the ACs and PJVCs be in competition with the private sector, and allows for the privatization of the sector. The law established the position of Public Enterprise Minister to exercise the role of shareholder for the PEs, and established Holding Companies (HCs) to oversee and control the PEs.

The Public Enterprise Minister (PEM)

The PEM is responsible for charting the course of the public enterprise reform and privatization program. He is responsible inter alia for: a) approving and announcing the government's annual privatization program of the GOE and instructing the PEO, the HCs and the ACs to implement that program, b) serving as the president of the general assembly for each of the holding companies (HCs, described below), and c) mobilizing the political support and commitment of the government toward privatization. The PEM has the power to exercise considerable control over the PE sector because he, as the chairman of the general assembly of each of the HCs, has the authority to replace any member of the general assembly and/or board of directors of any HC.

Ministerial Team Assigned to Negotiate with the World Bank and IMF

The Economic Cabinet exercises oversight of the GOE privatization program. However, there is a group that is responsible for the on-going negotiations with the World Bank and IMF on the Economic Reform and Structural Adjustment Program (ERSA) that is most directly involved with the various components of that program. The group includes the Minister of Cabinet Affairs; the Deputy Prime Minister and Minister of Planning; the Prime Minister and Minister of Public Enterprise, and the Minister of State attached to the Prime Minister's Office. This group exercises considerable influence on the privatization program at the policy level. It should be noted that USAID does not negotiate formally with this group, but rather with the Ministry for International Cooperation.

The Public Enterprise Office (PEO)

The PEO was established in December 1991 by Prime Ministerial Decree and is the technical secretariat responsible for helping the PEM in implementing the PE law. The PEO serves as the channel for all legitimate contact between the state and its holding companies and their affiliated companies. It also proposes candidates for the posts of chairman and members of the board of directors for each HC, as well as for the key management positions of holding companies, and it evaluates the performance of each of these persons. The PEO must also prepare the GOE annual privatization plan for Cabinet approval and works closely with various holding companies that have the actual responsibility to select companies to be privatized. As part of their annual business plans, the holding companies will be instructed to select and list companies to be privatized or restructured.

The size of the PEO is expected to remain small. There are presently only 12 professional positions and about 18 support staff positions. Nine of the 12 professional positions are filled. It is expected that much of the work of the PEO will be contracted out to private sector firms. A part of the costs of funding the staff is provided by the United Nations Development Programme (UNDP) for the first two years of its operation. The PEO has received budget support of LE 33 million of jointly funded GOE/USAID local currency funds and a more modest GOE funded operating expenses budget. Two expatriate counterparts may be employed in the near future using World Bank funds.

The structure of the PEO is fairly simple. The Executive Director oversees its operations. Six technical specialists plus an administrator and lawyer report directly to the Executive

Director. The technical areas covered by the PEO are:

Privatization:	managing all aspects of the PEO privatization services to the HCs, preparing an annual privatization plan and helping the HCs with the sales of the PEs, monitoring privatization progress, and developing more effective privatization processes;
Restructuring:	managing all aspects of the PEO services to the HCs for liquidation, financial restructuring, and divestiture of certain ACs;
Business Planning:	managing PEO assistance to HCs for business planning and review of annual HC business plans;
Training:	providing training to HC and selected AC personnel to improve PE management and to facilitate privatization;
Economics:	providing recommendations to overcome policy and regulatory obstacles to privatization and;
Public Relations:	managing a program of communications and outreach in support of privatization and restructuring.

The administrator is responsible inter alia for financial management of the PEO and contracting services.

The Holding Companies (HCs)

Law 203 allowed for roughly 380 ACs owned by the government to be transferred to a number of HCs that have been granted the autonomy to carry out their business activity without government interference. The 17 HCs have been given the mandate to restructure and privatize their respective ACs to increase efficiency. Most of the GOE-held shares in PJVCs that are not held by the state banks have been handed over also to the HCs. They have been given the mandate to sell off the shares they hold in the PJVCs. There are some 250 PJVCs.

Some HCs have small staffs and are presently not able to carry out all of their assigned responsibilities. On the other hand, other HCs have large staffs and budgets. Nearly all of the HC staff have spent their careers in the Public Enterprise sector. The public enterprise sector managers and directors in PEs, who have operated for the past three decades largely in an environment of administered prices and other special concessions, in many cases may lack the technical knowledge and management skills necessary to operate effectively in a competitive market environment.

Even though the PE Minister, supported by the PEO, is responsible for implementing the GOE privatization program, the HCs are expected to initiate, implement, and administer the privatization of these ACs. The PEM and the PEO provide guidance and supervision to the HCs in this process.

Central Bank of Egypt (CBE)

The CBE oversees 4 State Banks which act for the GOE as the owners of its shares in the 23 PJVC banks which are to be privatized. In this role they will act very much like the HCs do for the shares that they hold in the other PJVCs. The CBE will create a Project Management Office to manage this and other activities agreed to by the CBE and the World Bank under the Banking Sector Reform Technical Assistance Program (BTAP). A Project Coordination Committee, chaired by the Deputy Governor of the CBE will ensure coordination within the Bank.

Affiliated Companies (ACs)

The ACs work directly under the guidance of the HCs. Privatization actions for any of these ACs will be initiated primarily by their HCs and the PEO. However, the ACs will have the authority to sell or lease assets and productive units in the normal course of their business, based on decisions made by their board of directors or the general assemblies. The ACs are also expected to initiate privatization on their own.

The ACs tend to be staffed and managed by personnel with very limited private sector business experience.

Public Joint Venture Companies (PJVCs)

After President Sadat's 1974 initiative to open the Egyptian economy, the GOE sought out a number of private sector partners and established Public Joint Venture Companies (PJVCs) with the GOE sometimes in a majority-shareholder position, other times as a minority shareholder. The HCs presently manage an important share of the GOE shares in the PJVCs. The PE Minister has issued instructions to the HCs to divest themselves of these shares as soon as possible. The state-owned banks own most of the other GOE shares of the PJVCs. The GOE has not issued a similar mandate yet to the banks to divest themselves, but has decided to sell its shares in the PJVC banks as agreed to with the World Bank. The State Banks manage the GOE shares in the banks. The PEO is responsible for helping the HCs (and the Banks) with carrying out the sale of their shares.

Most of the PJVCs have been run as private businesses even though the GOE has been represented as shareholders. The personnel of the PJVCs are generally more familiar with private sector standards.

Choice of Implementing Agency

As seen from the above, many entities are involved in the privatization program. As the technical secretariat responsible for helping the PE Minister to chart the course of the GOE restructuring and privatization program, the PEO is required to prepare the GOE annual privatization plan in consultation with the HCs; ensure implementation of this program; provide technical and financial assistance to all of the HCs and ACs implementing privatization, coordinate and act as intermediary between the HCs and the government; and, finally, provide leadership for the country's privatization program. Because of this central role, the PEO was the logical choice as implementing agency for the USAID-financed follow-on privatization project.

Analysis of the Administrative Capabilities of the GOE and USAID Privatization Programs

A basic assumption of this Project is that there is an underlying commitment in the upper echelons of the GOE to structural reforms that will reorient the economy to market forces. The ongoing debate within the GOE has more to do with the pace of the restructuring process than whether to pursue the process. The corollary to the assumption is that the principal obstacle to privatization is a lack of administrative and technical capability, not a lack of political will. Consequently, the Project focuses on assisting the GOE to implement its privatization program through institutional development and assistance for the sale of public enterprises and properties.

The PEM

The Portfolio of the PEM is presently held by the Prime Minister (PM). The reason for this is that many ACs were previously directly controlled by various ministers. Law 203 removed the ACs from this control. However, the ministers tend to continue to identify very closely with the fate of the ACs that they once controlled. It requires a strong PEM to operate effectively, given this recent history. The Prime Minister, by virtue of his position and personal stature, can wield the requisite authority. The principal problem with the present arrangement is that the Prime Minister, because of his enormous responsibilities, has little time available for dealing with public enterprise reform. The GOE reportedly hopes to name a separate PEM within the next year.

The PEO

The PEO is characterized by organizational weaknesses that must be attended to if it is to provide the leadership and assistance required by the privatization program. A short description of some the institutional strengthening needs of the PEO follows:

Definition of responsibilities: The PEO needs to operate under a better definition of responsibilities. This is partly a function of the newness of the organization, but it is also a function of not having a clear charter, particularly in the area of privatization. The goals and objectives of the privatization program are only outlined. The structure of the PEO is currently little more than the aggregate of a set of position descriptions. The definition of the responsibilities of the PEO is gradually evolving. The recently published Privatization Procedures and Guidelines[1] assigns the PEO the principal role in providing the HCs assistance in selling their properties.

Strategic direction: As the implementor of the GOE privatization policy, the PEO has to strategically think about the course for privatization in the country. It has to counsel the Prime Minister and other political leaders constantly on strategies and approaches for broad-based support for the process. The PEO will need substantial support and assistance in its decision making as well as developing itself as a strong organization.

Limited authority: This is in part a function of the decentralized structure of the privatization program established by Law 203. Although the law permits the initiation of a privatization program, the law was not designed specifically as a "privatization law" and therefore on its own does not necessarily provide the most effective structure and system for privatization. In most of the other countries where privatization was attempted with a very decentralized structure, it has had poor results. The authority of the PEO resides principally in its designation as the conduit for all donor assistance to the privatization program. Presently, however, even in this role the authority of the PEO remains limited because the Executive Director of the PEO has received limited delegations of authority from the PEM, and most decisions must be cleared with the PEM.

Strengthen capacity and profile of privatization unit within the PEO: The privatization unit of the PEO, as it stands today, is organizationally weak. This unit is led by a privatization expert who reports directly to the Executive Director of the PEO. He is supported by junior level professionals. In his effort to reinforce the role of the PEO as an assistance provider, the Privatization expert has to endeavor constantly to address the diverse needs of the HCs. He is also supposed to work toward providing the strategic direction for the PEO as well as for the larger government on the future course of the privatization program. The contribution made by the privatization expert toward the development of the country's privatization program is commendable. However, one man's efforts are not enough for this major undertaking, and the PEO lacks the desired professional pool of talent needed to steer the organization toward achieving its end objectives. There is a need to develop talent and expertise in more than one individual to ensure that the institution can carry out its functions

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[1]Actually the document is entitled the "General Procedures and Guidelines for the Government's Programs of Privatization, Restructuring and Reward System," and was issued by the Office of the PM on February 14, 1993.

in the event that there is a change in personnel. The PEO privatization unit needs bolstering to ensure the success of the GOE's privatization program.

The HCs

The decentralization of the privatization program allows for each of the HCs to initiate their own privatization actions, provided they follow the procedures and guidelines issued by the PEO. The level of commitment of the HCs' professional management to the goals of privatization is important to the success of the decentralized approach. Also important is the development of the skills required to carry out privatization. A brief analysis of the HCs has revealed a lack of clear guidance and understanding on their part about the approach to take toward privatizing their ACs. Such a situation does not bode well for an effective undertaking of a decentralized privatization process. Some deficiencies within the HCs that could have an adverse effect on the process are:

Lack of appreciation of GOE privatization commitment. On the part of some personnel of some HCs and their ACs, there is a lack of a clear understanding of the merits of privatization and of strategies for approving and undertaking a privatization program.

Weak organization. There is often little or no institutional capability within the HCs to administer and operate the privatization program for their holdings.

Poor relationships with the PEO. There has been a real reluctance on the part of some HCs to accept the PEO as a strategic ally in the process of privatization. Project activities should be undertaken with this in mind, and should strive to help improve this relationship.

USAID/Egypt

The primary responsibility for the implementation of the USAID program of support for the GOE privatization program rests with the Privatization Division of the Office of Finance and Investment (TI/FI). In addition, there are other Offices in the Mission that are directly involved in this project.

TI/FI's Privatization Division consists of three Operating Expense (OE) funded positions: one USDH and two FSNs. These positions are dedicated full-time to the privatization program. The USDH position is a Project Development Officer position with full responsibility for project design and implementation. The two senior level FSN positions are intended to provide assistance in project management, in interpreting the ever evolving political and administrative environment in which the program is implemented, in nurturing and managing the relationships with the many Egyptian organizations involved in the program, in management of project finances, and in preparing intra-Agency reporting. The Division shares the services of an Office secretary.

The Office for Contracts Services (DIR/CS) is directly involved in providing support for all aspects of contract development and management for the privatization program. The existing privatization program has presented many difficult contracting issues and has required at least weekly involvement of one USDH Contract Officer and one FSN Contract Assistant assigned part-time to the privatization program. Project funds should be available to hire an additional contracting assistant for 5 years to help the Contracting Officer full time with the significant amount and sophisticated level of contracting actions associated with this Project.

The Project Support Office (PDS/PS) is responsible for project design and participates in many aspects of project monitoring and reporting. One USDH Project Development Officer and one FSN Project Development Assistant are assigned part-time to the privatization program. The Program Office (PDS/P) has a senior FSN Program Assistant who is involved in providing assistance in relations with the Ministry of International Cooperation and in managing dollar and local currency resources for the privatization program. The Mission Legal Office, The Office of Financial Management, and other technical offices (AGR/ACE, HRDC/IDS, HRDC/ET, and others) are often directly involved in privatization issues in specific sectors or on specific issues

The new Project will, without doubt, place an increased burden on the Mission directly and indirectly. The new Project will prove to be more labor intensive than the present activities because the volume of the activities is greater, certain aspects of the merchant bank services activities will be unique and relatively new for A.I.D., and the visibility is much higher.

Analysis of the Decentralized Approach to Privatization

The approach toward privatization in Egypt has been gradual and decentralized with the HCs having been given the charge to initiate privatization actions for their holdings. Such an approach of "decentralization" has been applied in several countries with poor results. Countries where the implementation of privatization has been more speedy are those that have avoided the complexities of involving too many government departments. The emphasis in successful privatization programs has been placed on simplicity, flexibility, speed and transparency. Because the GOE will be considering the possibility of moving to a more centralized approach with the next year, it is worth discussing the issue of "approach" here:

Managing a privatization program requires a variety of skills. Some may be available within the government departments, and others may have to be procured from the outside. On looking at the institutional arrangements in Egypt it seems that the HCs do not possess adequate technical skills to carry out the program.

In a decentralized approach, the level of commitment of the professional management at the HC level to the goals of the proposed privatization is also very important. Looking at the Egyptian perspective, this again is a relevant concern. The 17 HCs that are now controlling over 380 affiliated companies in all sectors of the economy are responsible for maximizing the return on their portfolios of affiliated companies (ACs). In achieving their objectives, these companies are required to formulate and implement strategies for competing in a competitive market environment that no longer offers them the protection and subsidies they previously enjoyed as part of a government ministry. Therefore in order for these HCs or board members to survive and be profitable, they must undertake restructuring schemes for all those ACs that need to be rehabilitated. As part of the privatization program, these entities have also been called upon to assume the role of disposition entities to dispose of some of their ACs, with assistance from the PEO. In fulfilling their objective to maximize returns, the HCs will be reluctant to privatize profitable and intrinsically viable operations. Moreover, the HC management see only limited incentives for them to initiate these privatization actions. Instead, they view these as a threat to their future.

HCs have been slow to put up for sale companies under their charge. This is due in part to the slowness of the GOE to provide procedures and guidelines for the sales (only recently provided by the PEO), but also to the HCs' reluctance to detach themselves from the management of the earmarked companies. Also, since they are not purely disposition entities, the sale of state assets has not been their primary objective. Their attitude toward the privatization process has differed, and will probably continue to differ, from those expressed by the PEM and the PEO.

Such a conflict in objectives is likely to have an impact on the pace of the program. In the similar cases of Italy and Tunisia, the decentralized approach was a little better since the commitment of the managers was present and the privatization objectives were clear. However, in the Philippines, a similar kind of arrangement has not worked satisfactorily due to reasons akin to the ones currently seen in Egypt.

There are some useful lessons to be learned by all those associated with the privatization program in Egypt. The successful experiences of Mexico, Chile, and Canada (refer to Attachment 1 at the end of this analysis to examine in detail the experiences of other countries in the organization of the privatization process) seem to suggest that these countries have laid great emphasis on centralization, simplicity, flexibility, speed and transparency. They have realized that managing a privatization program requires a variety of skills that can be quickly developed if the administration of privatization is concentrated into a few capable hands in a privatization unit. In centralizing their privatization process, they have been able successfully to avoid any conflict of interest between privatization and entrenched bureaucracies inherent in the state-enterprise system.

Already there is talk of an 18th HC being formed primarily with the purpose of charging this entity to undertake the disposition of state enterprises. All the companies identified for privatization from within the 17 HCs would be transferred to this HC that would undertake all actions necessary toward carrying out their disposition. In such an eventuality, project assistance must be directed toward this entity as the primary beneficiary.

The World Bank apparently has agreed with the GOE to give the present decentralized structure a chance to succeed or to fail. The trial period probably will extend through the end of 1993. This Project must be prepared to work with either a decentralized or centralized structure.

The dilemma for USAID is initiating a program in what may be a highly unstable institutional environment. At least one PEO official clearly does not favor the status quo. He argues that so long as 17 HCs are the implementing authorities there will be long delays in privatization (let alone restructuring) and enormous duplication of analysis and consulting arrangements. The way out is to transfer the assets of all firms scheduled for privatization to a trust which would own the assets and contract for the consultants and investment bankers to dispose of them. In this square, or possibly pentagon, the HCs would lose relevance except insofar as restructuring remained on the agenda, with all the caveats mentioned above. The PEO might disappear altogether, be absorbed into the trust, or remain an appendage of the office of the PEM.

If the 18th HC were created, the role of the PEM itself would be called into question. Many of the functions of that Minister would be transferred to the head of the new HC. The Ministry might be dissolved and the PEO along with it. The Project proposes to deepen the analytic skills, management, and contracting capacity of the personnel of the PEO and of select HCs. If the status quo is maintained, then the PP as currently structured will make good sense. If the status quo is radically changed along the lines suggested above, then the PEO and HC personnel trained under this Project would be ideally suited to work in the new privatization structure.

Implications of Analysis for Project Design

The above analysis leads to the following conclusions which influence the design of the Project:

First - The capabilities of the PEO and of the HCs to administer the privatization program are limited due to the relative inexperience of these organizations, their limited authority, and the lack of experience in privatization. Furthermore, Egypt has a poor record for establishing effective task-oriented organizations. Therefore, the implementing organizations must be ready to contract for assistance on, or otherwise assign, a number of the tasks associated with the privatization program to private firms with the requisite experience and capability. Furthermore, the Project itself must have: a) the capability to undertake a number of important tasks in the GOE's stead, until such time as the current organizations develop the experience and capability to conduct those tasks; and b) to help strengthen the abilities of the PEO and the HC Privatization Teams.

The contractor for the Program Promotion Component must, for example, in the early phases of the Project, help design and implement the component activities, not just advise the PEO about how to do these activities. Over several years, however, the technical assistance and training for communications and organizational development should be able to move to the background. The same dynamics can be expected for the other components as well.

Second - Although the type of privatization process may transform over the life of the project, and the main organizational bodies responsible for privatization may be changed in name or in function somewhat, the PEO is the best choice as the primary counterpart agency for this Project. Key staff from the PEO and HCs will remain involved and important players in the privatization process even if it changes shape and form.

Attachment 1

Organizing for Privatization: Experiences Of Other Countries

Egypt is not the first country to undertake an ambitious privatization program. The experience of other countries in organizing such a program can be very instructive for the Egyptian program. This attachment briefly outlines the experiences of Mexico, Chile, Canada, and the Philippines and is offered as material for comparison and thought.

Mexico

The coordination, supervision, and execution of the sale of state-owned companies are the responsibilities of the Finance Secretariat. To strengthen federal government actions for the sale of state-owned companies, the President of Mexico created a special unit in the Finance Secretariat that is called the Office for Privatization of State-owned Enterprises of the Finance and Public Credit Secretariat. This office/unit is composed of a Coordinator General- the head of the unit, who is helped by six director generals as well as support personnel making it a total staff of 16. The privatization unit reports to the Secretary of the Ministry of Finance, and the Coordinator General has the rank of a sub-secretary. The Coordinator General is an economist by training who was a professor at a reputable institute in Mexico, the six director generals are highly trained, motivated and non-bureaucratic professionals. Their job is to manage the specific sales, but they do so in a managerial capacity as the details are delegated to Agent Banks.

Although the sector ministry with administrative responsibility for an enterprise formally proposes it for privatization, the assumption now is that in principle all enterprises are to be divested, and the sector ministry must justify its retention. Once the decision to privatize is taken, the administrative control of the enterprise is transferred to the privatization unit at the Finance Secretariat. Actual management of each sale is undertaken by one of the 18 commercial banks in the country acting as sales agent for the Federal Government. The selection of the bank-- a responsibility of the privatization unit-- to carry out the sale, depends on its experience and workload. The activities of the bank are supervised by one of the director generals of the privatization unit.

Separating the enterprises for privatization from their relevant ministry, and transferring these to a privatization unit, thereby centralizing the process of privatization, has proved to be very advantageous for Mexico. Advantages of the centralized process being:

Actions deemed necessary as precursors to privatization could be taken quickly and without dilution or delay- different government bureaucracies can obstruct privatization and bog down decision making;

Any potential conflict of interest between privatization and entrenched bureaucracies was avoided; and

The management of divestitures was concentrated into a few capable hands at the privatization unit, allowing benefits from learning and specialization to be realized.

Chile

In Chile, SOEs are broadly classified into state enterprises owned directly by the central government through ministries and government institutions and public corporations owned by CORFO, a state development and holding corporation. CORFO was viewed as the most important entity to carry out government privatization policies, and a privatization structure, described below was set up within CORFO that has been responsible for most of the privatization transactions in Chile.

The organization of privatization in Chile has been as follows:

CORFO's Council: Headed by the Ministry of Economy, the Council's function is to have final responsibility for privatization strategies and decisions, as proposed by the Privatization Committee. Other members include the Finance Minister, the Planning Minister, and the Vice-President of CORFO.

Privatization Committee: The Committee acts as the link between the Normalization Unit and the Council. It also supervises the implementation of the actions approved by the Council.

Normalization Unit: The Unit carries out the actions approved by the Council and implements the selected method. It also oversees the whole privatization transaction, including the prior restructuring of SOEs, selecting financial intermediaries, screening prospective bidders, handling negotiations (if necessary), and collecting proceeds from sales.

Again, the entire privatization activity in Chile was centralized in one unit-- the Normalization Unit-- under the CORFO. The success of this approach can be gauged by the ability of the government to reduce the size of its public sector in relation to GDP from 39% in 1973 to 16% in 1989.

Canada

The Office of Privatization and Regulatory Affairs (OPRA) is the single organization that controls and implements all four elements of the privatization process: selecting/prioritizing, examining public policy implications, recommending individual privatization plans to the Cabinet, and selling the SOE. The OPRA contracts-out the preparatory work required for putting companies for sale.

Philippines

The Committee on Privatization (COP) is a cabinet-level committee under the Office of the President tasked with overseeing the government's privatization program. Five cabinet members comprise the COP, with the Secretary of the Department of Finance (DOF) as its chairman. The COP is supported by a Technical Committee, which is headed by the Undersecretary of Finance and composed of senior officials of the other COP member departments. The other departments represented in the COP are the Department of Budget and Management, the Department of Justice, the Department of Trade and Industry, and the National Economic and Development Authority. From 1986 up to the present, there have been four secretaries and six undersecretaries of the DOF who have been directly involved with the country's privatization program.

The COP is also in charge of formulating the policies and general guidelines regarding privatization issues, approving the sale and disposition of government corporations and assets, and monitoring the progress of privatization activities. A main function of the COP is to supervise the privatization activities of the Asset Privatization Trust (APT), and the 13 parent government corporations or government departments designated as disposition entities (DEs). The APT was created as the principal disposition entity, acting as trustee for the Government in the implementation of the program. APT was assigned the responsibility of disposing of 399 assets transferred to government control. These assets were transferred through foreclosure or defaulted loans. Initially, 10 GOCCs (government corporations) were also assigned to the APT for privatization, while responsibility for divestiture of more than a hundred GOCCs was allocated among the 13 other DEs. Subsequently, the task of disposing 16 GOCCS were also transferred from the other DEs to the APT.

Another entity now involved in the Philippines privatization program-- which featured nowhere in the country's program organization chart-- has been the Committee of Audit (COA). It reviews the price and the terms of sale for government acceptability. Although not created for privatization, the COA has become an integral part of the process and devotes a fair share of its full-time resources to accomplish its newly assigned tasks.

Implementation of privatization in the Philippines has been slow and below stated intentions. A major reason for this slow pace has been an inefficient organizational structure. As can be seen from above, the Philippines privatization program has been unable to avoid the complexities of involving too many government departments/entities. The large number of disposition entities, coupled with the COA having a major influence on the price and terms of sale, has contributed to slowing the program.

PROCUREMENT PLAN

Introduction

The Project features several components plus an expanded evaluation activity all designed to assist the GOE in carrying out its privatization program. The Technical Analysis (Annex D) describes in detail the technical rationale and approach for undertaking each of the Components and their respective tasks. The Monitoring, Evaluation and Audit Plan provides similar information for those activities. For simplicity in discussing this Procurement Plan, eight areas are considered, dividing the Sales component into Sales A and Sales B and listing the evaluation activity as a separate element. The eight basic elements of the Project are:

Program Promotion: To assist the GOE to formulate an effective communications program to facilitate the privatization process.

Organizational Development: To assist the PEO and the HCs to identify and overcome organizational obstacles to privatization.

Decision Making Support: To assist the PEO to develop the capability to identify and effectively address policy impediments to privatization.

Financial Instruments Development: To support the development of financial instruments and institutions required for mobilizing capital for privatization.

Sales A: To provide professional advisory services to the PEO and the HCs in managing the contracts with merchant banks and other financial institutions.

Sales B: To provide merchant banking services to take properties through the sales transaction process.

Evaluation: To assist USAID (and indirectly the GOE) with collecting extensive data and information about the economic effects of privatization and the Project, and to allow USAID to effectively evaluate Project performance.

Miscellaneous: The Project will provide a limited amount of funds to hire a contracting specialist (PSC position) to assist the Contracting Officer (DIR/CS) with the substantial contracting actions associated with this project. The Project's proposed budget also provides for audits to be conducted on the Project's contractors.

These components require a wide range of technical skills including: public relations and marketing, organizational development, training, privatization techniques, merchant banking and transaction oriented procedures, legal practices, public policy, research techniques, and evaluation techniques.

In terms of contracting, the Project major components break logically into two major contracts. In addition to the major contracts, there will also be an evaluation contract, the PSC contracting specialist position for DIR/CS, and contractor audits.

There are a couple of basic differences between Sales B and the other components. As mentioned in the Technical Analysis discussion of the Sales Component, the services planned under Sales B require specific services organization, namely a merchant bank, otherwise known as an investment bank. The services planned under the other components tend to be provided by consulting firms, albeit sometimes *specialized* consulting firms. Sales B services are transaction oriented. The other services are not. Sales B services produce a clear definable result: the sale of a property. The results of the other services are more difficult to define. Thus, the Project will have two major separate contracts and several lesser contracts:

--*Contract 1 - Technical Assistance Services* brings together all of the technical assistance and training activities and covers the Program Promotion, Organizational Development, Decision-Making Support, Financial Instruments Development, and Sales A Components.

--*Contract 2 - Merchant Banking Services* covers only the Sales B Component.

--*Contract 3 - Evaluation*
--*Contract 4 - Contracting Specialist (DIR/CS)*
--*Contracting for Audits*

The contracting requirements for each contract will be discussed, a number of other considerations explained, and further recommendations made in the next section. Two contracts, TA and evaluation will require some furniture, equipment and local services (telephone, offices space, etc.) to implement their services. These two contracts will include funds for the equipment and services.

The Contracting Approach

Contract 1: Technical Assistance Services

Contract 1 brings together all of the technical assistance and training activities under one contractual arrangement: Program Promotion, Organizational Development, Decision Making Support, Financial Instruments Development, and Sales A. Contractually, these components fit well together in terms of the types of support needed and the management and oversight functions they require. Similar arrangements are often found under other large A.I.D. projects.

It is not expected that one firm alone will be able to supply all the needed expertise to implement these activities. It is recommended, therefore, that a prime contractor utilize the services of one or more sub-contractors to implement the Technical Assistance Services Contract. Proposals must clearly define the role of each of the sub-contractors and the skills they bring to the Project. A prime contractor with experience in privatization would be best suited to lead the consortium. Sub-contractors with technical skills in specialized areas would supplement those of the prime contractor. Local sub-contractors are also recommended. One important aspect of the use of sub-contractors is the transfer of new technology and skill to local private sector individuals and firms.

The Technical Analysis further describes the activities, possible scopes of work, level of effort, and qualifications of the contractors needed for project implementation.

A level-of-effort-type of cost-plus-fixed-fee contract should be awarded based on full and open competition. The possibility of using, instead, a completion-type contract was analyzed and was found to be impractical for several reasons which have been mentioned in other contexts elsewhere in the Paper:

--the many uncertainties and complexities associated with the GOE privatization program;
--the many factors outside the control of a contractor;
--the weakness and inexperience of the organizations implementing the program.

A waiver requesting Deputy Mission Director approval for a level-of-effort-type contract for the TA is included in Annex N.

To ensure a wide search for well qualified firm to provide these technical assistance services, advertisement of the RFP should done in other media in addition to the CBD. Specialized newspapers and magazines should be considered, including, for example, *The Wall Street Journal*. Adequate Project funds for advertisement will be provided in the PIO/T.

Contract 2: Merchant Banking Services

Implementation of the Sales B Component at the project is proposed to be done by the services of a small group of merchant banks under the leadership of one of the banks.

This Merchant Bank Services Group will be assigned the sale of approximately 73 properties (50 PEs and 23 joint venture banks). These properties will represent principally the industrial, tourism and banking sectors, but may also represent wholesale/retail and transport sectors. Most of the properties will be entire companies, some may be blocks of shares of companies, and some may be major assets of these companies. The Group will enter into a letter of agreement with the HC for the property to be sold, pursuant to which the Group will earn a success fee comprised of a percentage of the sales price of the property. This fee will be paid by the HC directly out of the proceeds of the sale.

The USAID contract with the Group will consist solely of offering a set of incentives to the Group to set up and pursue operations in Egypt. If Egypt were an attractive market for these banks, they would have already set up offices. As it is, the economic environment of Egypt and the privatization program itself are still suffering from uncertainties. The Project proposes that fixed engagement, or appointment fees, be paid by USAID to the Merchant Banking Services Contractor (sales agent) upon the completion and signing of a contract/agreement between the contractor and a Holding Company to sell a property, or batch of properties. This agreement will be the first phase of the sales process expected under this Project.

When an agreement is reached between a Holding Company and the Project sales contractor to sell a particular property, or batch of properties, the sales contractor will present evidence of the agreement to USAID. USAID will then pay the contractor the engagement fee. The payment of the engagement fee to the contractor will constitute the extent of USAID's financial involvement in the actual sales transactions to be undertaken under this Project.

The next phase of the sales process, which involves the actual privatization work of the contractor, the subsequent payment of success fees to the sales contractor upon completion of a sale, or, in the case of a GOE decision to not continue the sale of a property, payment of abort fees to the contractor, will all be the sole financial responsibility of the GOE.

The engagement fees of the USAID contract with the merchant banking services contractor, are designed to induce merchant banks to come to Egypt, and represent payment for costs to be incurred in establishing a presence in Egypt and for effort expended in negotiations with the GOE to reach agreements for privatization. The engagement fee is believed to be a necessary incentive to help overcome merchant bank reluctance to come to Egypt. In contrast, the success and abort fees represent payment by the GOE for the actual privatization work and/or completion of a sale.

The exact form of the Project-financed engagement fee which will be paid to the Group under the USAID contract will depend on the proposals from competing groups and the result of negotiations which ensue. The RFP could offer to negotiate an engagement fee which would be paid for each property that the group agrees to take to sale. This should be a fixed price payable as soon each letter of agreement is executed by the relevant HC, the PEO, and the Group. There is also the possibility that the Group will negotiate payment of a limited amount of funds on a one-time basis to be used to set up operations in Egypt. If so, this amount would be paid by USAID in addition to the engagement fees.

The contract for these services will not be limited to, but will most likely be awarded to, a group of merchant banks. The group will be led by a single merchant bank, or similarly qualified firm. The lead merchant bank will be required to bring in other banks, but in any manner it chooses. It could be through an IQC type arrangement for sub-contractors or contracting mechanisms that are more familiar to merchant banks. The lead merchant bank would be requested to confirm its ability to be able to support the range of sales transaction requirements of the HCs.

Given the above set of conditions, it is proposed that the Project award a single merchant banking services contract to a lead merchant bank which will sub-contract for the services of another two to four merchant banks. The successful contractor will bring extensive experience in investment transactions.

The competition for this contract will not be limited to investment banks but they are the most likely organizations able to provide the necessary experience and expertise. It will be a firm fixed price type of contract and will also be awarded based on full and open competition. Advertisement of the RFP should done in other media in addition to the CBD. Specialized newspapers and magazines should be considered and financing for advertisement included in the PIO/T.

Contract 3: Evaluation

Contract 3 entails all evaluation services for the Project. Evaluation plays a particularly large role in this Project. These services will go beyond the normal evaluation functions to include extensive collection of information and data, providing to USAID regular evaluative assessments of project performance and analysis of key issues relating to the GOE's privatization program. This expanded evaluation capability is necessary for USAID to accommodate an evolving and complex project implementation environment. See Annex H for more description of the scope of work, level of effort, and firm qualifications of the evaluation contract. The need for evaluation services will begin immediately when the Project commences. The Evaluation contractor must initiate its bench-mark survey and data gathering plan at the onset of the Project to ensure a solid basis for continual evaluation of the Project. Local sub-contracting for specialized data collection or information gathering skills will be encouraged. Existing USAID/Egypt projects, such as the Egyptian Center for Economic Studies, might also be tapped for targeted Project analyses.

For the same reasons cited for the TA Contract, a level of effort, cost reimbursement plus fixed fee, type contract is recommended for the Evaluation services. Annex N includes the waiver request for a level of effort contract.

The Mission has examined the options and has determined that procurement of the Evaluation services will best be pursued using the procedures for contracting an 8(a) or Gray Amendment firm.

Organizational Structure and Personnel

Each contractor will maintain a good working relationship with the other contractors, with USAID, and with the clients of the Project. Each contractor will name a Chief of Party or Representative responsible for fulfilling the terms of the contract. Each contractor will provide active and high level home office support to the Project. An illustrative list of key personnel and key sub-contracts, which should be presented in proposals and will require USAID approval, are briefly described below.

Technical Assistance Services

Technical Assistance Chief of Party, Privatization Expert: Full-time long-term expatriate technical assistance manager and privatization expert to be responsible for the competent delivery of all services provided by the contractor, to supervise all other long-term and short term advisors under the contract, and to represent the contractor with relevant organizations including the PEO, the HCs, the ACs, the financial institutions, the other Project Contractors, and USAID.

Program Promotion Sub-contract(s) with Local Firm/Organization: To provide a full-time long-term public relations and communications specialist to apprentice short term consultants and eventually to take the lead in the Program Promotion Component, to provide short term assistance in program promotion, and to provide other promotion services and products.

Decision Making Support Sub-contract(s) with Local Firm/Organization: To provide a full-time long term professional to apprentice short term consultants and eventually take the lead in the Decision Making Support Component, to provide short term consultants, to do analyses and presentation, and to otherwise provide assistance in implementing the Component.

Merchant Bank Advisor: Full-time long-term expatriate merchant banker to advise and assist the PEO, the HCs, and USAID in managing the activities of merchant banks engaged in the sale of GOE properties, to assist local financial institutions to develop and utilize new financial instruments helpful to privatization, and to supervise two Egyptian advisors in these areas.

Merchant Banking Associate: Full-time long-term banker to apprentice and work with the Merchant Bank Advisor to help the HCs develop strategic business plans and implement the sale of properties.

Financial Engineer: Full-time long-term Egyptian financial engineer to apprentice and work with the Merchant Bank Advisor to support the local financial community in the development and use of transaction-oriented financial instruments needed for privatization.

Contract Administrator: Full-time long-term U.S. contract administrator. He/she will be responsible for administering the USAID contract and the subcontracts. Previous experience by the Mission recommends that the position be accounted for/included at the design stage rather than having to modify budgets for later inclusion.

In addition to the above, the contractor will assure that adequate local and home office support is provided. Local office support includes, management of project training activities, translation, local procurement, financial management, and support for short term consultants.

Merchant Banking Services

Merchant Bank Representative: The Group Representative and coordinator for the Merchant Bank Group to be responsible for the delivery of all services under the contract and ultimately for the sale of properties assigned to the Project for sale. This person may or may not be resident in Cairo, depending on what the contractor proposes.

The contractor will operate on a fixed fee basis (engagement fee) and will not require USAID approval of personnel.

Evaluation Services

Evaluation Chief of Party and Specialist: A full-time U. S. professional to be responsible for the work of the contractor, to supervise short term consultants, to oversee local sub-contractors, and to represent the contractor with relevant organizations including the PEO, the HCs, the ACs, the financial institutions, the other Project Contractors, and USAID. The Chief of Party will be assisted by a secretary.

U.S. short term TA: Evaluation teams to visit Cairo; initially to set baselines for project evaluation, periodically to conduct reviews and analysis, and to conduct a mid-term and final evaluation.

Local short term TA: Local consulting firm that can assist with data collection, as well as provide support for formal reports and evaluations, do follow up work for those reviews, and provide support to the Chief of Party.

In addition to the above, the contractor will provide short term consultants in a variety of areas, local office support, and home office support.

More Detailed Position Descriptions

Brief position descriptions are provided for three key positions:

A. *Technical Assistance Chief of Party, Privatization Specialist* - The Chief of Party will be the team leader for all Technical Assistance contractor staff. This is a long-term, full time position to work out of a local office established by the prime contractor.

Qualifications:

-Sufficiently high position within the organization of the contractor to assure ready access to all relevant resources of the contractor.

-Three years of experience in designing, implementing, and/or monitoring privatization programs.

-Specialization and practical knowledge in at least two of the five project component areas: public relations and communications, organizational development, sales transactions, public policy, and financial instruments; general knowledge and understanding of all project areas.

-Strong managerial and team building capability.

-Working knowledge of privatization programs occurring world-wide.

Responsibilities:

-Act as team leader and supervisor for all long and short term consultants under the contract.

-Identify and coordinate all short term, technical assistance.

-Work in close collaboration with the PEO, HCs, and participating financial institutions to monitor and identify their concerns and needs.

-Work in close collaboration with USAID TI/FI staff.

B. *Merchant Bank Advisor* The position is for a long term advisor to work within the PEO in providing technical advisory services for the privatization of companies. The Advisor will be provided by the contractor for technical services.

Qualifications:

-10 years of experience working as a merchant banker.

-Broad knowledge of American, European, Asian, and other merchant banks and their operations.

-A minimum of 5 years working in emerging market economies.

-Experience in the management of complex investment portfolios.

-Five years experience in senior level management positions.

Responsibilities:

-Act as advisor to the PEO, HCs, and USAID in managing the work of merchant banks involved in the sale of PEs.

-Assist the HCs in strategic planning for privatization, help identify and group together companies for privatization.

-Advise participating banks concerning the development and use of new financial instruments.

-Assist in identifying the most appropriate merchant bank for undertaking specific tasks.

-Help in the structuring of fee arrangements.

-Provide as needed support for structuring deals leading up to the sales transactions, including: defining acquisition criteria, reviewing industry studies, and setting appropriate price ranges for PEs.

-Make regular follow-up calls on all potential buyers or investors.

-Assist in other divestiture-oriented activities of the restructuring unit of the PEO, including: the divestiture of non-core activities, debt/equity swaps, employee/management buy-outs, and liquidation.

C. *Merchant Bank Representative*

This Representative will be provided by the merchant bank group to manage the day-to-day local operations of the group and to be the liaison with the Project.

Qualifications: Sufficiently high rank within his/her bank to be able to represent the bank and the Group on most project implementation matters.

Responsibilities: Ensure the performance of the Merchant Banking Group in all aspects of their work, provide regular reports as may be required, and participate in Project meetings.

The representative need not necessarily be resident in Cairo, but must be able to be present on a regular basis.

Review of Issues Associated with the Contract for Merchant Banking Services

The decision to employ merchant banks (or a firm that provides merchant bank services) under separate contract(s) was based on the lessons learned from the on-going privatization project as well as other countries' experiences. In other country privatization programs A.I.D. Missions have contracted with the large, well-known accounting firms to manage the sales process. However, this generally has not worked well. These firms can be good at technical assistance but generally do not have experience in sales transactions. Countries with successful privatization programs have moved beyond seeking help from accounting and auditing firms to acquiring assistance from institutions that have transaction oriented skills and can be effective in the realization of sales.

The Partnership in Development (Privatization) Project has also not had a good experience in acquiring due diligence[1] services from non-merchant banks. Under this arrangement, the Mission has worked with a consulting firm to conduct due diligence of properties. In general, this approach has proven less than completely successful since merchant banks are unwilling to accept the valuations of other firms; in the end, many activities would have to be paid for and conducted twice due to the lack of transaction-oriented skills of the consulting firm.

Once the decision to use merchant banks was taken, several other issues were analyzed and discussed within USAID/Egypt. Below is a summary of these issues and recommendations that have been made.

Success Fees - Success fees are a standard part of a sales transaction with a merchant bank - usually a percentage of the sales proceeds. The percentage of this fee revolves around the expected amount of the sale; as the expected sales price goes up, the percentage success fee goes down. In general, fees average between one and two percent of the sales price. A mechanism to incorporate success fees into the contracting mechanism is essential. The Project will not be able to attract merchant banks to Egypt if there are not profits to be made. Discussions with the PEO and selected HC chairmen have indicated that the HCs are willing to pay these fees (and the PEO to guarantee them) and willing to negotiate them directly with the merchant

[1]The basic function of due diligence, using the term in its broadest sense, it to assess the benefits and the liabilities of a proposed acquisition by inquiring into all relevant aspects of the past, present, and predictable future of the business to be sold/purchased. Term is also used, more narrowly, to describe the duty of care and review to be exercised by officers, directors, underwriters, and others in connection with offerings of securities/companies.

bank. Indeed, recent experiences with privatization in Egypt actually demonstrate this support. A separate tied contract between the HC/PEO and the merchant bank will be negotiated for each batch of properties. The Project Agreement should incorporate a covenant in the grant agreement with the GOE to require that the GOE comply with this arrangement. This covenant would apply only to this (sub-)component of the Project. A Condition Precedent will be included in the Project Agreement pursuant to which the Public Enterprise Minister will represent that the HCs will make the necessary resources available to pay success fees.

Abort Fees - Another concern of the Project is the possibility that the GOE may stop the sales process once it is underway. The Project suggests and will encourage the Merchant Bank Advisor to support the institutionalization of a substantial abort fee. High abort fees will provide an incentive to the GOE not to stop a sales transaction and provide a safety net for the merchant banks when a sale is terminated. The main obstacle in negotiating this will be the source of funds to pay abort fees. They cannot logically be paid from sale proceeds when a sale does not occur. The GOE may need to provide abort fees from the general treasury. A Condition Precedent will be included in the Project Agreement pursuant to which the Public Enterprise Minister will represent that the HCs will make the necessary resources available to pay abort fees.

Engagement or Appointment Fee - Even with firm agreements with the GOE for the payment of success fees and abort fees, merchant banks have been reluctant to come to Egypt perhaps for 1) political, economic, and other uncertainties and 2) lack of reliable information on even the most basic aspects of the companies being sold. An engagement fee may be paid to compensate the Merchant Banking Group for the high level of uncertainty involved in these transactions and in the GOE privatization process generally, as well as the low level of reliable information.

Why Fixed Amount for Start-Up Costs? - With regard to financing costs incurred by the Merchant Bank Group in commencing operations in Egypt, negotiation of a fixed amount to cover such costs is preferable for three reasons: 1) merchant bank charges tend to be higher than the levels which A.I.D. can reimburse and it is easier for the Agency to pay for a product or event, 2) the fixed price provides an incentive to the merchant banks to move quickly through the evaluation, valuation and sales exercise, and 3) the fixed price contract is simpler and less labor intensive to administer. The engagement fee would have to be low enough to place the emphasis on bank performance being rewarded principally with the payment of a success fee from the proceeds of the sale.

Property Selection - Up to this point, USAID has not had a large role in deciding which properties would be assigned to its contractor and which the contractor would be responsible for taking to sale. The ability to have a voice in this decision-making process will be important as the Project attempts to meet its goal of selling 73 properties for two reasons. First, the Project should work on feasible rather than not feasible sales. Second, unless many of the more attractive properties are assigned to the Project, it will be difficult to attract competent merchant banks. A covenant should be included in the Project Agreement to ensure that assignments made to the USAID-financed Merchant Bank Group are representative of the total set of properties to be privatized.

There are a number of conditions that merchant banks bidding under this contract need to understand and accept.

Letter of Agreement between the HC and the PEO. An agreement will be subscribed between the PEO and each HC that has decided to sell (a) property(ies) and that is interested in availing itself of Project assistance. In the agreement the HC documents its decision to sell, commits to the payment of a success fee (within a specified range) out of the proceeds of the sale of the property, commits to the payment of an abort fee (should the HC or GOE prevent the sale of the property) out of other funds or presents a guarantee for the payment of the abort fee, and identifies the members of the privatization committee or negotiating committee.

PEO Guarantee of Payment of Fees. The PEO will provide the merchant bank with a full guarantee (possibly by a letter of credit) by the GOE for the payment of the success fee or the abort fee, providing the conditions of the contract between the bank and HC are respected. A proforma contract prepared by the PEO will be included in the RFP.

Negotiating Fees - Merchant banks under contract to USAID will agree to enter into separate contracts with the GOE with predetermined fee structures; these will be set within ranges of success/abort fees and engagement fees negotiated between the merchant bank group and USAID. The actual negotiation of fees for a specific sales transaction, however, will be done with the PEO and HCs. Although the contractor would be dealing with USAID in terms of engagement fees, each bank will have to deal with the PEO and HCs individually to negotiate the terms of reference for the sale, success fees, and abort fees. Merchant banks will be working closely with these entities related to specific transactions.

Registration - Merchant banks should be aware of the need to register locally to operate as a traditional investment bank in Egypt. However, for the purposes of this Project, merchant banks will be able to operate under association or agreement with any local firm that is or can be registered.

COORDINATION: OTHER DONORS, GOE, USAID

Summary

The privatization program is a major undertaking by the GOE. The program requires significant technical, financial and other assistance on the part of the donor community as well as the GOE.

The sheer size of this task and overlapping areas of donor interest demand formal coordination among donors. USAID recognizes the importance of efficiently orchestrating the use of both its own resources and counterpart funds. A well coordinated approach will mean a better executed, streamlined, and cost effective privatization program. It will require the Privatization Project to examine on a regular basis areas of coordination, areas of common concern, donor-specific sector interests, and areas of conflict.

Other Donor Coordination

The World Bank has helped the GOE prepare a comprehensive five-year program of technical assistance to meet the requirements of privatization and financial sector reform[1]. The purpose of this broad technical assistance program is to provide a framework in which the technical assistance, funded by the bi- and multi-lateral donors working in Egypt, can be harmonized and coordinated to enhance its overall effectiveness. The overall technical assistance program covers the PEO, professional advisory services, a comprehensive training program, reform of the banking sector, securities market, and business regulatory environment. The estimated cost to implement this technical assistance program is $103 million over the period 1992-1997.

At the planned rate of 25 firms or major assets to be sold per year, cost estimates for privatization transactions (other than the costs of success fees) range around $18 million a year. This would mean a significant funding gap still exists given current donor programs and plans thus far. This gap has been estimated to be between $50 and $60 million to finance the GOE privatization program over the next five years. Furthermore once the

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[1] World Bank "Memorandum and Recommendations of the President of the IDA to the Executive Directors on a proposed SDR 6.6 million to the Arab Republic of Egypt for a Technical Assistance Project for Privatization and Enterprise and Banking Sector Reforms," June 2, 1992.

privatization program is initiated, it is likely to go beyond the 150 companies and the five years envisioned at the present time. At this time, it is not clear how these financial needs will be met. In the near term USAID, and to a much smaller extent the International Development Association (IDA), Canadian International Development Agency (CIDA) and United Nations Development Program (UNDP), will be the only source of donor-funded technical assistance for sales transactions. USAID should play an active role in donor coordination.

Below is a brief summary of donor programs and plans - as of April, 1993:

> *United Nations Development Programme (UNDP)* - $3 million. To finance the salaries of PEO personnel and other administrative costs. A portion of funds may also fund limited short-term consultancy. Status: Implementation started almost two years ago, funds nearly exhausted.
>
> *International Development Association (IDA)* - $9 million. Around $3 million will support professional advisory services for privatization transactions and restructuring transactions. Status: Approved and implementation recently started.
>
> *Canadian International Development Agency (CIDA)* - $3 million. Most of these funds will provide professional advisory services for privatization transactions and restructuring. (CIDA monies have been lumped with IDA and its contribution will be administered through IDA.) Status: Approved and implementation recently stated.
>
> *German Development Bank (KFW)* - $8 million in pledges. The majority of KFW funds would be used to provide professional advisory services for restructuring transactions and banking sector reform. Status: New funds planned to start disbursement 1993. Five companies assigned for KFW privatization assistance.
>
> *EEC* - $1.1 million committed and another $43 million in pledges. This funding will be used, in part, for the provision of technical advisory services for the preparation and sale of PEs and for banking sector reforms. A portion will also support training programs as part of the economic reform effort. Status: Employment impact study being contracted out. Larger project planned for 1994-1995.
>
> *Overseas Development Association (United Kingdom)* - $7 million in pledges. To be used, in part, for banking reform efforts. Status: Planned for 1994.
>
> *Italian Government* - $9 million in pledges. To finance professional advisory services for privatization transactions and restructuring transactions. Status: Planned for 1995.

The scope of donor activity supporting Egypt's privatization program demands a coordinated approach. Below are a few illustrative types of mechanisms that could be used by the donors to strengthen information sharing and decision making procedures:

Technical, working-level meetings between the donors initiated by USAID and co-sponsored by the World Bank.

Policy-level meetings held periodically between the USAID Mission Director and Deputy Mission Director and senior representatives of the donor agencies; privatization will remain an important topic.

Periodic meetings will be held between the USAID Mission Director and the Public Enterprises Minister to ensure the GOE needs are met by the Agency's privatization program. There is a possibility that other donors may participate.

Host Country Contributions to the Project

Mission Policy: Current Mission policy (Mission Order 3-31) mandates that Project Paper and Project Agreement budgets include the total estimated host country in-kind and cash contributions. The estimate shall be projected on an annual basis over the life of project and may be categorized by GOE budget chapter (BAB 1, 2 or 3) to facilitate monitoring. The policy also specifies that all contributions shall be quantifiable and/or monetizable project costs to be borne by Egypt in implementing the project.

Impracticality of Quantifying Level of GOE Contribution: When analyzing potential sources of GOE contribution to the project, two sources of counterpart support were identified: the PEO itself and success/abort fees that are realized as a result of the sales of 50 PEs and 23 PJVCs. In addition to support from other entities, the PEO was provided LE33 million from the BAB 3 account for GOE FY92/93 to support all of PEO organizational operations. Part of the PEO organization will be dedicated solely to implementation of this project. Although the privatization element of PEO is expected to grow as a result of this project, no separate accounting system exists to measure costs specifically attributable to privatization. Hence, it is impractical to estimate the specific level, quality and number of PEO personnel, logistics, operational and indirect cost solely dedicated to this project. Nonetheless, the major GOE contribution to the Project will be in the form of success/abort fees paid to the Merchant Banks for selling PEs. This contribution will be a percentage of the selling price of each PE and as such cannot be estimated at this time (due to uncertainty of which PEs will be allocated to the USAID contractor for sale). Furthermore, it is likely that a series of shorter lists of properties requiring Project assistance will be presented by the GOE for Project assistance over the life of the Project. The values of the properties will not be known until the sale is consummated. No reliable estimates of the value of the firms presently exist.

Mission Approach: Although not in conformance with standard Mission policy on host country contributions, the Mission recognizes that the host country contribution can not be projected and monitored quantitatively at this time due to a lack of baseline data. Rather, the Mission will monitor the host country contribution to the Project by evaluating GOE commitment to privatization (through PEO appropriate staffing levels, operational support and actual sales of PEs by Merchant Banks). A special reporting provision shall also be included in the Project Agreement Annex I which shall require the GOE to report to USAID the number of successful sales as well as the amount of success and abort fees paid each year.

Net Proceeds from the Sale of Properties

The net proceeds from the sale of properties represent a potential source of financing for activities associate with the privatization program. However, the GOE presently has not yet established its policy on the use of proceeds. Nor are there any even half-way reliable estimates at the value or the cash flow of this potential resource. Presently the GOE is considering channeling the proceeds to four uses:

- Social Fund type activities,
- Employee services pay,
- Maintenance required on existing assets and new investments in companies to be kept, and
- Contributions to the GOE treasury.

The new Project will assist the GOE, through the PEO, to review and to design mechanisms for selected uses of these funds.

Social Fund

The Social Fund has been developed by the GOE with World Bank assistance as a social safety net for its economic reform program. Other donors have made contributions to this fund. As the Fund begins to play a role in off-setting the potential negative effects of privatization, there may be occasions when USAID's Privatization Project's activities have an overlapping agenda with the Fund. When this is the case, USAID will attempt to play a role in achieving significant benefits through the allocation of these funds. The PEO may also have the flexibility to fund its own social safety net-type programs. In this respect, the issues surrounding the necessity of a "social fund" are important and will mandate further attention by all donors working in Egypt. For further discussion of the social fund, see the Social Soundness Analysis, Annex M.

Other USAID Activities

USAID has promoted and supported privatization in a variety of ways over the past five years. Three projects/programs have supported it directly.

Partnership in Development (Privatization) Component of the Technical Cooperation and Feasibility Studies Project (263-0102: $5.2 million) and (FT-800: LE 21 million). This project is assisting the PEO through a contract with Overseas Bechtel Inc. (OBI) to analyze a limited number of policy issues and to prepare evaluation of 30 PEs scheduled for sale. The PEO has recently asked that the OBI contract to be amended to provide assistance on the sale of 15 PEs scheduled for privatization in 1994. Additional funding for the existing contract has been approved for this purpose.

Technical Support for the Sector Policy Reform (TSSPR) Project (263-0233) This project has contributed $2.4 million to the extension of the OBI contract mentioned above. In the future, the resources of the TSSPR Project may be utilized in support of this Project. When the sale of a property leads to the review of larger and more difficult policy issue, TSSPR could finance/provide the policy analysis work. TSSPR is designed with considerable flexibility with the aim of supporting USAID/Cairo programs such as the privatization program.

Sector Policy Reform (SPR) Program (263-K-626). $200 million per year for FY 93-95. Privatization policy reform measures part of the conditionality of this program. The FY 93 requirements were: 1) the offer for sale of at least five companies, 2) the preparation of a national privatization plan, and 3) the preparation of a study concerning the liberalization of the cotton spinning and weaving sector. The conditions for FY94 are not yet negotiated.

There are resources of several other USAID projects which will be used in coordination with the Privatization Project. These include:

The Egyptian Center for Economic Studies Project - has been established as a "think tank" on macro-economic issues. Chaired by a Board of Directors from Egypt's private sector, this project may be tapped to draw on expertise regarding local macro-economic conditions which effect privatization. Project contractor will be able to subcontract with the other for analyses and after studies. The Project is managed by TI/FI.

Export Enterprise Development Project - This project is designed to assist Egyptian firms to export from non-traditional sectors (light manufacturing and fruit). The Project may be able to contribute export-related assistance to newly privatized firms as well as furnish general information on the investment climate in Egypt. The project is managed by TI/FI.

Agricultural Policy Reform - supports macro-economic policy reform measures in Egypt's agricultural sector. The Project is managed by AGR/ACE.

International Executive Services Corps Project - is funded by A.I.D. to bring retired business executives to Egypt to supply managerial technical assistance. The IESC Project is available to furnish these type of resources to newly privatized firms that may need specialized managerial assistance. The project is managed by TI/FI.

Education and Training - USAID Cairo Education and Training Office Development Training (DT) Project is designed to provide cost effective education and training opportunities for key individuals in development sectors. Both the Development Training and Privatization Project have an interest in training GOE officials in strategic areas. The DT Project may have limited funds available for specialized training for newly privatized firm's employees. The Project is managed by HRDC/ET.

American Chamber of Commerce in Egypt - The Mission is currently designing a Project to work with the local American Chamber of Commerce in Egypt to provide assistance in developing a business information function. Data gathering, data analysis, information development, and marketing will be key elements to the project. The project's focus on promoting investment opportunities in Egypt fits closely to the objectives in its Program Promotion Component. Jointly funded activities will be examined that could meet both goals of both projects. The project will be managed by TI/FI.

The Privatization Project Team will regularly work with the managers of these other projects to coordinate activities.

Contact with Privatization Activities in other Countries

Privatization is beginning to take off around the world as a mechanism to decrease government budget outlays and bolster more efficient and competitive private sectors. As experience in this area develops, lessons about overcoming obstacles and building successful approaches to this process are being gleaned. Although Egypt has taken some of these lessons learned from other countries and applied them to its own privatization efforts, there is still much that could be done in this respect.

The USAID Technical Assistance Services Contractor may work with the PEO in developing collaborative relationships with other government's privatization offices in Eastern Europe, in the New Independent States, Latin America, Africa, and Asia. These relationships will be used as a mechanism to share lessons learned and provide an opportunity to exchange experts from various governments to work with the PEO and vice versa.

Implications of the Analysis for the Project Design

First - Donor coordination is important to the success of the GOE's privatization program. USAID should make every effort to help facilitate this coordination.

Second - GOE financial support for the Project and for the privatization program more generally should not be a problem. The PEO presently has sufficient USAID generated counterpart funds to cover a portion of the PEO operating costs. Other funds are available: funds from the general treasury and sales proceeds. The Project should help the GOE develop ways for the sale proceeds to be fed back into the privatization program.

Third - There are variety of other USAID programs and projects that could possibly be called upon the provide services to the privatization program. It is incumbent on TI/FI to make the connections as opportunities arise. Additionally, forming a team within the Mission may be a way to facilitate such connections among projects.

Monitoring, Evaluation, Audit Plan

ANNEX SUMMARY

The Privatization Project will require substantial monitoring of implementation, and expanded evaluation services throughout the life of the Project. An evaluation contractor will develop project evaluation baselines, collect and analyze data related to the GOE privatization program and implementation of this Project, and provide regular reporting and impact assessments to USAID on the economic effects of privatization and Project progress. This will be a departure from traditional A.I.D. project evaluation normally limited to mid-term and final evaluation events, but is determined to be a needed facet of the Project. With this in mind, this Annex focuses primarily on describing the Project's approach to evaluation. The project also includes financing for annual audits of the required implementing organizations.

Monitoring

TI/FI will monitor the project through regular interface with PEO staff and the HCs, and contractor staff; through required contractor reports, media reports, and economic and Project data and information collected and analyzed by the Evaluation Contractor. Due to the special nature and high priority of this Project, it is anticipated that TI/FI staff will face a heightened need to assess and report frequently to Mission management on the GOE privatization program and Project progress. The TI/FI privatization division, consisting of 1 USDH and 2 senior FSN professionals, will be the USAID staff primarily responsible for management and monitoring of project implementation.

Evaluation

As stated above, the Evaluation contractor will be engaged in evaluation activities throughout the life of the project. In addition to providing more thorough and accurate project evaluation services on the Project, the Evaluation contractor will be invaluable in providing critical insight and analysis to the Mission on the Project during periods of flux in the privatization process. The evaluation data and information collected regarding the benefits accruing to the GOE and the Egyptian public in the privatization of public enterprises will be of substantial benefit to the Project. The Evaluation contractor is expected to be selected from the Small Business Administration (SBA) list of 8(a) firms. The PIO/T for acquiring these services will be processed immediately after GOE acceptance of the project with the expectation of having the contract awarded by December 1993. Once the contract is awarded the contractor is expected to start the initial three month exercise of developing the evaluation baselines and indicators to be used as benchmarks for project implementation. Following the establishment of evaluation baselines, the Evaluation contractor will do extensive privatization and economic data collection, communicate directly and immediately with

USAID on particularly significant findings, provide to USAID formal evaluative assessments on a semi-annual basis, complete annual evaluation summary reports, and conduct a mid-term evaluation and final evaluation. See Annex I for additional details on the proposed implementation schedule for this activity.

Audits

The Project will finance annual audits of the contractors hired to implement and evaluate the project. The use of sub-contractors by a prime contractor will require annual audits of firms employed by them and this cost will be a part of the cost of the prime contracts. If the Agency chooses to audit some of the Egyptian sub-contracts, there is adequate funding provided under the audit line-item. Prime contractor audits are budgeted at $30,000 each and local audits of Egyptian firms are estimated at $15,000 each. Only a limited number of local audits are expected to occur that are financed outside the major contracts.

Why an Expanded Evaluation Emphasis?

This Privatization Project demonstrates a serious commitment on the part of USAID to support the GOE's privatization program. Larger and more complex than the previous privatization project, this new endeavor will require a unique set of evaluation tools. Political sensitivity and the high visibility of privatization, changing organizational structures, a profusion of PEs requiring rapid sales action and follow-up, a wide disparity of actors, importance of performance indicators, and complex contracting needs are among the issues requiring a larger program.

High Visibility - The privatization program in Egypt is a sensitive and potentially volatile issue which must be addressed with care. As a highly visible symbol of the government's economic reform agenda, privatization efforts supported by USAID must be closely followed and evaluated to gauge how these efforts are being received by the public. Decisions concerning the program are made at the highest levels of the GOE and the evaluation activities must relate effectively to this decision-making environment. A number of aspects of the approach of this Project to privatization are new to A.I.D. and should be carefully monitored and evaluated to track proper implementation and progress.

Organizational Structure - The GOE currently employs a fluid organizational structure to deal with privatization. As a new endeavor for the government, it has structured its program to accommodate a changing political and economic environment. The evaluation plan will examine organizational structures as they evolve and provide guidance on developing more efficient and effective institutional arrangements and Project activities to suit these arrangements.

Level and Pace of Performance - The number of divestitures to be undertaken with the Project and the pace at which they must occur require that below-target performance be identified early on and that solutions be implemented quickly. As one group of privatization transactions advances to the sales stage, new companies will be added to the program. Thus the number and variety of privatization transactions multiply quickly requiring significant additional resources to effectively assimilate information and data, subsequent analysis, and report to USAID on their findings and recommendations.

Multiple Actors - The GOE's privatization effort is gaining attention and resources from an increasing number of donors from around the world. Although supplementing the work of the World Bank and USAID, these donor agencies will have their own agendas to follow regarding privatization. Efforts will be made to ensure the sharing of key indicator data by donors to strengthen the evaluation process. Also the lessons learned with the USAID privatization activities should be regularly documented so that other donors can incorporate the lessons into their own designs.

Performance Indicators - The GOE privatization effort is being strongly supported by the IMF and World Bank. These institutions have linked their allocation of funds to meeting specific targets; loan disbursements are being tied to the level of Public Enterprises sold. The Project evaluation system will develop indicators that can track progress and identify obstacles that could slow the privatization process. As discussed in the Economic Analysis (Annex K), it is important to do some empirical research on the economic impact of the privatization program over the life of this Project.

Evaluation Activities

If managers have adequate information about Project progress, the current and potential effects of project activities, and complete information about the environment in which the project is operating, they will be able to make better informed decisions about improving the effectiveness of the Project. The Evaluation contract will allow TI/FI and Mission management to be informed as early as possible about critical issues to success of the GOE's privatization program, or potential trouble spots or deficiencies in project implementation. Below is an outline of the main evaluation activities for the Project.

It should be noted that the Technical Assistance Services contractor and the Merchant Banking Services contractor will bear the responsibility to carry out monitoring and reporting concerning activities in which they are directly involved. The fact that the Project will negotiate a separate, expanded Evaluation contract does not relieve these other contractors of monitoring and reporting responsibilities, which will be delineated in their respective contracts. However, again, this Annex deals principally with the activities of the Evaluation contractor.

Evaluation Work Plan

A management information needs assessment and determination of baselines for evaluation will be completed by the Evaluation contractor in the first three months after award of the contract. The assessment will be crafted to examine and analyze the complex set of conditions under which the Project will exist, i.e., high political visibility, weak and changing organizational structures, and multiple donor involvement.

This assessment will prepare a more complete statement of Project benchmarks, utilizing the EOPS indicators contained in the Project logical framework as the starting point. In addition to looking at what the Project must achieve, the assessment must look at the information needs for tracking what and how the Project is doing to achieve its purpose. Furthermore it must determine how best to obtain the data and turn it into useable information.

Evaluation Reviews and Reporting

The evolving nature of the GOE privatization effort demands a flexible Project strategy. One mechanism to regularly assess how the Project is conforming with these changing conditions in a timely fashion will be through semi-annual reviews and reports. These reviews will involve the Evaluation contractor in extensive and in depth interviews/meetings with all the major actors in the project and the privatization program. Workshops may also be utilized. The semi-annual reviews will be supplemented by ad hoc reviews/reports - on an as-needed basis. The semi-annual reports will discuss relevant findings from data and information collection, project performance, and progress of, and issues related to the GOE's privatization process. The reports are intended to be working-level and Mission management tools that may quickly feed into the decision-making functions of the Project. The reports may, when warranted, be accompanied by presentations/meetings attended by all Project contractors, GOE representatives, and USAID representatives.

Evaluation Approach Considerations

All Evaluation systems are faced with the limitations of determining net impact, that is, the direct impact of project inputs. Extraneous variables are difficult to account for and it is important that the proper indicators are selected that can measure this performance. One practical solution is to supplement indicator data on trends and changes of a project with qualitative studies. Although qualitative studies are not necessarily designed to measure net changes, they can provide a plausible answer to the question of whether a project has contributed to a particular observed outcome. Well designed qualitative studies can examine the underlying assumptions on which an intervention is based; their relevance in a given project setting; the effectiveness of activities undertaken to initiate change; and the possible explanations for changes measured by impact indicators. The Evaluation work plan will anticipate such qualitative studies as a complement to the on-going evaluation of more straight-forward indicators. There also may be reason to carry out some opinion survey work[1].

[1] This apparently must be approved by the GOE as all survey work in Egypt must be approved.

Clearly, measuring true progress in attaining the EOPS will require qualitative, as well as quantitative information. The EOPS for the Program Promotion Component, for example, is "Informed support for privatization in general population and target groups." Turning this into a measurable indicator will require a bit of work. What is "support," what is "informed support," what is the "general population," and what are the "target groups" are all questions that must be answered in this evaluation component.

Evaluating implementation activities themselves will also require analysis and planning. The reporting requirements of GOE and USAID management are both extensive and intensive. For example, requirements of the Mission's Program Performance Monitoring, Evaluation and Reporting Plan must be recognized and must be incorporated into the evaluation work plan. There are several important elements that should be considered when developing the evaluation system:

> *User Responsiveness* - It is imperative to identify the users of the information being gathered. The following questions are indicative of the types of issues to be considered: What do the users need to know? What type of information can best give them practical feed-back into project-level decision making? How will the information be used? How often does the information need to be up-dated?
>
> *Practicality* - Gathering information can be labor intensive and expensive. It is essential that the evaluation system take into account the personnel and budgetary restrictions faced by the Project and the GOE.
>
> *Timeliness* - Rigorous data collection is always the best approach. However, the amount of time to gather information in the most empirically sound method may not be practical. Project managers have high demands on their time; making new decisions regarding the implementation of their project requires succinct, timely information that can feed directly into this process.

Incorporated as part of the evaluation system should be a means to help draw on the information and data gathering efforts of other donors working on privatization. Ideas and systems should be developed that can pool the information generated by the multiple donor-funded projects and feed into the Evaluation contractor's assessments of progress of the overall GOE privatization process.

An attachment to this Annex provides a first cut at a possible list of Project indicators.

<u>Contracting Arrangements</u>

As discussed in the Procurement Plan (Annex F), the Evaluation services should be contracted for through a set aside for an SBA contract with an 8(a) firm.

The American contractor will be encouraged to tap into existing local skills to sub-contract parts of the Evaluation effort. This could be done through individuals (university students, independent consultants, professors); consulting firms; local think tanks, policy analysis groups; or business associations.

Possible Statement of Work

The following is a simplified scope of work for the Evaluation services contract.

The contractor will conduct a management information needs assessment and determine of evaluation baselines for the Privatization Project. It will lay out the needs of the Project management in order: 1) to evaluate the degree to which the Project purpose is accomplished, 2) to evaluate the degree to which the sub-purposes associated with the five components are accomplished, 3) to investigate and evaluate the effect of major political, economic, religious, and other events on the Project and on privatization in general. 4) to ensure that these and other issues confronted by management are adequately explored and that the information needed for management decisions is provided, 5) to help assist USAID and GOE in donor coordination through shared information about privatization efforts in Egypt. This initial assessment will be conducted in Egypt within two months following the award of the contract by a short-term 3-4 person team of contractor evaluation personnel.

The contractor will prepare an Evaluation work plan which will present a scheme for developing, maintaining, and sharing the needed information; for preparing required reports; and conducting needed presentations and/or meetings. The plan will acknowledge the range of information to be provided by the Technical Assistance Services and the Merchant Banking Services contractors and describe how it will be handled and utilized. The plan will also define the degree of confidence needed in the various data and information, look for ways of economizing, and accommodate the services to be provided within the negotiated budget. It will lay out pro-forma presentation of data and information. It will note when non-routine information development interventions are required and it will anticipate the nature of those interventions. In the case of opinion surveys and similar exercises, it will anticipate the government approvals required. It will provide a schedule for all activities and it will identify the critical path for the set of activities. It will anticipate the work that must be done in committee, will look for ways of economizing the time required, and will estimate the time requirements, focusing especially on the time of decision makers. The plan will anticipate the nature and level of decision makers requiring information and will tailor the presentations and presentation teams accordingly. (HCs should be viewed as integral players in the privatization program, along with the PEO, certain ministers, and a select group of opinion makers.)

Semi-annual Reviews and Reports

The contractor may organize and manage regular semi-annual reviews to assess the Project's progress: 1) against key indicators - an emphasis will be placed on adjusting the overall implementation plan (and its progress indicators) to meet the needs of the changing (political, organization, financial) environment and 2) against other management criteria - to be anticipated in the Evaluation plan. It should be recognized by all that this Project is being implemented in a rapidly evolving administrative/political environment and that it is possible that the Project may have to be modified frequently in order to keep ahead of events.

Evaluation reports to USAID are expected to address the findings of the reviews, be completed in a timely manner and presented as Project management tools. Issues regarding the Project will be raised and addressed in a practical fashion, i.e. "this is what need to be modified and this is how you might do it." Reports are to be completed in close collaboration with Project management and will support their decision-making and implementation processes.

Mid-term Evaluation

The contractor will conduct a mid-term evaluation two years into Project implementation that will examine the implementation of all Project components, the progress made in achieving the Project purpose, and consider modifications in Project design and implementation. Evaluation emphasis will be placed on reassessing the underpinnings of the five Project Components, their continued validity, and recommending needed changes in the Project's approach. The data gathering and evaluation plan will be reviewed and up-dated as necessary. Following the mid-term evaluation, USAID will review Project status and the progress of the GOE's privatization program, and determine what changes to the project are necessary, including possible adjustments to the planned levels of project funding.

Final Evaluation

The contractor will perform a final evaluation of the Project to examine the extent to which the Project has achieved its purposes. The evaluation will:

- Analyze the direct and indirect effects of privatization on intended beneficiaries.
- Provide management guidance to the GOE institutions implementing privatization regarding future activities.
- Determine the constraints to continued privatization by the GOE.
- Provide recommendations to USAID regarding future privatization activities in Egypt.

Estimated Level of Effort

The Project envisions the evaluation aspects described above as requiring the following: 1 American professional (knowledgeable in privatization and evaluation) to be resident in Egypt for approximately 54 months, 1 support staff person (secretary) for approximately 54 months, and approximately 18 months in american short-term evaluation team assistance (for the baseline, mid-term, and final evaluations), and an estimated 24 months in Egyptian short-term assistance for data collection and analysis efforts. Annex I provides a schedule of the evaluation plan in Table I-5 along with the auditing schedule.

<u>Proposed Qualifications of Firm and Key Individuals</u>

The Evaluation Services Firm

The successful firm will have a strong background in evaluation and have experience working with bilateral A.I.D. Missions. The firm will be able to draw on skills from its own staff with expertise in evaluation techniques, data gathering, monitoring systems, general research techniques, technical assistance team management. Access to professionals experienced in implementing activities in all of the technical areas covered by the Project is required. The firm will have a demonstrated capability of working effectively with the highest levels of government and corporate executive decision makers.

Evaluation Specialist (to be resident in Cairo)

The contractor will supply one long-term employee to work on evaluation activities throughout Project implementation. This person will be an American.

Responsibilities: In the first three months of the Project, assist the short-term evaluation team which will conduct management information needs assessment and complete an evaluation plan. Coordinate implementation in Cairo of all aspects of the evaluation program, manage the formal semi-annual evaluation review and report process. Assist subsequent short-term evaluation teams (mid-term and final evaluation).

Desired Qualifications: Demonstrated successful experience in evaluation systems; successful experience in and knowledge of donor (or similar organization) reporting procedures and requirements; direct experience in managing privatization activities and a good working knowledge of privatization activities world-wide, based in part on experience and with some programs and in part on a careful reading of the literature. Experience and effectiveness in working effectively in multi-cultural environments. At least a Bachelors Degree in a related field.

Short Term Evaluation Team Members

Responsibilities: Work on initial evaluation assessment and work plan, mid-term and final evaluations, perhaps also on ad hoc short-term assignments to review and analyze Project activities.

Desired Qualifications: Knowledgeable about privatization programs worldwide, evaluation techniques, the current state of Egypt's economy as well as their privatization process.

Implication of the Plan for the Design of the Project

The expanded Evaluation capacity of the Project will be an invaluable management tool for the Mission and source of information for the GOE regarding the economic effects of privatization. The continual evaluation feature of the project will allow for rapid assessment and response to an evolving privatization program and to help the Project Team and Mission management make any needed adjustments to project implementation. The ambitious sets of activities laid out in the Technical Analysis (Annex D) are feasible, in part, because the Project will be able to adapt itself to the changing organizational and political environment. Having the Project's information and data collection and performance evaluation functions conducted by an independent contractor on a continual basis will allow the Project's main contractors to not be diverted from the extremely demanding technical assistance and sales assistance roles with which they will be tasked.

Attachment 1

Evaluation Plan
Indicators and Data Gathering

Below is an illustrative set of indicators and data that could be gathered and monitored during the life of the Project.

Economic Impact

Refer to the Financial and Economic Analysis (Annex K) for a discussion of measuring the economic impact of the Project.

Program Promotion

Indicators

- Level of foreign investor interest in Egypt
- Level of local investor interest in privatized companies
- Change of the general public's awareness and or interest in the GOE's privatization work; (Including areas such as: interest in the use of sales proceeds; interest or concern regarding the transparency of sales transactions.)
- Change of targeted group's awareness, support and/or opposition to the GOE's privatization work (target groups include: the Economic Cabinet, the People's Assembly, academics, public sector employees, the organized private sector, labor)
- Change in key Governmental positions taking a more active, leadership role in privatization, including: PEO chairperson, HCs' Chairpersons, Prime Minister

Data Gathering

- Number of investment information and awareness services developed
- Marketing strategy activities, such as: targeted investor campaigns, promoting awareness among international investment banks
- Number of international investor's statements of interest: noted through bids or initiating financial arrangements or valuation of properties
- Number of local investor statements of interest in purchasing privatized firms
- Names of local and international firms that have expressed initial interest in purchasing PEs
- Numbers and types of news or media events in privatization - in favor and

against privatization.

- The number of promotional media events (television, newspaper, radio, other) sponsored by Project
- Number of journalists trained - through formal training and other country program site visits
- Number of senior level Government statements advocating privatization (Prime Minister or President)

Organizational Development

Indicators:

- Increase in the efficiency and streamlining of institutions involved in privatization
- Increase in donor coordinated activities (studies, monitoring and information gathering, etc.)
- Procedures and personnel in place to support privatization
- Ability and competence in supporting activities

Data Gathering:

Training:

- Number of persons trained, broken down by type of training completed and types of trainees (PEO, HC, AC, or newly privatized firm's employees).
- Number of workshops designed and implemented.
- Follow-up interviews with trainees at the end of 6 months and 18 months to track potential impact of training.

Organizational Development:

- Number of changes in institutional structures dealing with privatization - increase in the centralization of activities
- Number of site visits by specialists/consultants
- Number of new plans developed by specialists
- Implementation of proposed plans such as: strategic plan preparation for HC, information system development; and procurement system development
- Number of donor coordinated activities supporting organizational development

Sales Component

Indicators:

- Number of firms privatization - at the national level - through USAID assistance

- Disposition of workers initially employed and those associated with privatization
- Percentage change in aggregate private sector investment (non-petroleum)
- Percentage change in private sector contribution to GDP
- Percentage change in growth rate of the manufacturing sector: public versus private rates

Data Gathering

- Total value of privatized PEs - at the national level
- The level of ownership transfer from the public to the private sector.
- The number of workers in newly privatized firms - before and after privatization.
- Number of employees unemployed due to privatization.
- Number of labor strikes or formalized protests to privatization.
- Level of compensation paid to employees who lose their jobs due to privatization.
- Number of redundant employees trained by project; number of trained people acquiring new employment (comparability of new employment status)
- Number completed of the following: valuations of PEs; sales documents; and offering documents
- Number of contractual changes, revisions made regarding arrangements with investment banks

Financial Instruments Development

Indicators:

- Increase in the use of new more sophisticated financial instruments
- Increase in international investment banks involved in the privatization of PEs
- Increase in local financial institutions involved in privatization
- Increase in capital markets transactions

Data Gathering:

- Number and names of Egyptian financial institutions involved in privatization transactions.
- Types of new financial tools being used in privatization, such as ESOPs, mutual funds, etc.
- The number of investors purchasing shares in PEs and the number of shares purchased.
- Number and types of training and technical assistance given to local banks,

brokerage firms, stock exchanges, and financial institutions

Decision Making Support

Indicators:

- Use of Project-supported studies and options papers prepared on policy changes to support:
  - Alleviation of regulatory and policy impediments to privatization.
  - Organizational change (or attempts to change);
  - Changes in decision-making procedures;
  - Strengthening of guidelines regarding privatization

Data Gathering:

- Number and types of policy papers prepared
- Number of studies on the use of investment banks and their fee structures
- Number of studies concerning the sales proceeds
- Number of intra-donor coordinated studies
- Number and types of training and site visits funded

IMPLEMENTATION PLAN

The implementation plan is presented as several tables, included in this annex, and the following narrative. For reasons of presentation several other annexes have some or all of the same material as presented in this annex. When reference is made to other annexes, the material presented here may be a brief summary of that material and one should look to the referred-to annex for the complete presentation of that particular subject.

A brief explanation of the implementation process is contained in Section III of the Project Paper. This Annex will (1) expand on the roles of the individual participants in the project, (2) present a schedule of events from PP approval through the end of the project, (3) present the proposed procurement method for all project commodities and services, and (4) present a tentative training plan for different project components.

I. IMPLEMENTING ORGANIZATIONS -ROLES AND RESPONSIBILITIES

A. The U.S. Government - In addition to the U.S. Agency for International Development, project implementation will require the assistance of other agencies. Although the USAID Mission to Egypt and its staff will be the primary implementing organization, the Agency headquarters in AID/W and the Near East Bureau may also participate to a lesser extent. As currently proposed, the Small Business Administration may also be requested to enter into a contract with an 8(a) firm to provide services to the Mission in monitoring and evaluating the project and other implementing organizations in the project.

1. USAID/Egypt - The Mission's roles and responsibilities are assigned to several offices as noted below:

A. Trade and Investment Directorate (Office of Finance and Investment)

Responsibilities

- Draft the RFPs for planned contracts
- Review and recommend to DIR/CS successful proposals for the RFP (technical review)
- Monitor the Project
- Develop the annual work plan for the project
- Develop the scope of work for all contractors
- Meet regularly with PEO on relevant implementation issues
- Drafting modifications to obligating and implementing documents
- Certifying the accomplishment of work by the contractors by approving vouchers for payment

Reporting requirements

- Periodic site visit reports
- Issuance of annual work plans
- Filing quarterly/semi-annual Project Imp. Reports

B. Contracts Office (DIR/CS)

Responsibilities

- Issue RFPs for each contract
- Issue contracts to successful bidders
- Modify contracts as required

C. Associate Director's and Director's Offices

Responsibilities

- Meet periodically with PEO and other essential GOE agencies/organizations necessary to implement the project
- Meet with other donors involved with privatization activities and coordinate efforts

2. AID/W - Provide assistance as required in finding and contracting any needed technical assistance not acquired under the prime contracts (e.g. helping find contractors to do evaluations).

3. Small Business Administration - Assist in the selection and contracting for an 8(a) firm to implement the Evaluation Component of the Project.

B. THE PUBLIC ENTERPRISE OFFICE - This office has a major role to play in coordination with other GOE offices and implementing agencies as well as providing the facilities for several of the contract technical assistance. The office will also be the recipient of much of the technical assistance and training.

Responsibilities

- Coordinate with Holding Companies
- Coordinate with Central Bank for Egypt
- Provide office space for staff under the TA contract
- Provide staff time for training activities
- Provide staff support for consultants at PEO
- Fully staff the PEO with appropriate individuals

- Provide information to the Evaluation contractor
- Allow access to relevant info. by TA contractor
- Coordinate meetings (high level) between USAID and GOE
- Provide access to USAID for auditing requirements
- Provide assurances that HCs will pay success and abort fees (CP)

Reporting requirements

- Provide Privatization Strategy/Plan (1st 6 months)
- Provide semi-annual/annual financial information
- Provide information on financial condition of HCs to pay success and abort fees

C. HOLDING COMPANIES AND THE CENTRAL BANK OF EGYPT/STATE BANKS

- These entities currently have the responsibility for the sales of public owned properties. These organizations will also receive limited technical assistance and training provided under the project.

Responsibilities

- Provide funding for success and abort fees
- Provide staff time for training activities
- Provide information on companies being sold to TA consultants and Merchant Banker consultant
- Provide information for Evaluation contractor
- Provide information to PEO and the Merchant Bank Advisor

D. PUBLIC SECTOR ENTITIES BEING PRIVATIZED - These are the companies and banks being sold directly to the private sector or the stock of these companies which will be offered to the public.

Responsibilities

- Provide information to PEO (TA contractor, Merchant Bank contractor, and Eva luation contractor) on relevant aspects of the company
- Provide staff time for training activities

E. USAID DIRECT CONTRACTORS - There will be two prime contractors involved in implementing project activities. In addition there will be a contractor to provide expanded evaluation services throughout the life of the project. Their responsibilities are more fully discussed in the Technical Analysis (Annex D), Procurement Plan (Annex F), and the

Monitoring, Evaluation, and Audit Plan (Annex H). There will also be small contracts awarded for audits, as well as for a PSC contracting specialist position for DIR/CS. The responsibilities and reports for these contracts will be contained in the procurement documents.

SUMMARY OF CONTRACTOR RESPONSIBILITIES AND REPORTING REQUIREMENTS:

A. TECHNICAL ASSISTANCE CONTRACTOR

Responsibilities

-Provide TA as noted in RFP (this to include Training plan, Promotion strategy, economic and political analysis)

Reporting requirements

- Quarterly Reports

B. MERCHANT BANK CONTRACTOR

Responsibilities

- Negotiate fee structure with Holding Companies
- Provide necessary analysis for sale of companies
- Provide other services for completion of sales

Reporting requirements

- Provide sales documents to USAID prior to issuance
- Provide documents to PEO and HCs for approval

C. EVALUATION CONTRACTOR

Responsibilities

- Provide expanded evaluation services as noted in RFP

Reporting requirements

- Semi Annual Evaluation Reports

- Mid-term and Final Evaluation Reports
- Ad hoc reporting on an as-needed basis

F. OTHER DONORS - Several bilateral and multilateral donors are expected to participate in the GOE's privatization activity. Their roles and responsibilities are up to the GOE but will affect project implementation. Some of the donors will be providing financial support to the PEO and participating in other tangential activities. The TI/FI office plans on coordinating periodic meetings with all donors to ensure coordination in supplying inputs and the privatization approach. Annex G discusses at some length the participation of donors and other A.I.D. financed activities.

<u>II. IMPLEMENTATION SCHEDULE</u> - DETAILED PLANS

The following tables (Table I-1 through I-5) lay out a tentative implementation plan. The actual date for particular actions to occur may vary from those projected in the plans although the sequencing and relative time frame between actions should remain the same.

Table I-1 provides a general overview of the project schedule relating to approvals by USAID, the GOE and elements of the GOE. The current projection is that the PP will be approved in August 1993 and Grant Agreement with the GOE will occur in September or October. Once the standard conditions precedent are met, the Project Officer in TI/FI responsible for the project will initiate the procurement of all services required to implement the project. There are special conditions precedent (CP) to initiating the procurement of the Merchant Bank services. These CPs involve the PEO, the individual Holding Companies, and the Central Bank of Egypt agreeing to providing success and abort fees to the Merchant Bank(s) responsible for the sale of public sector properties. The meeting of these CPs are projected to be prior to the implementation of activities requiring the actions.

Table I-2 provides an estimated schedule for the procurement of the technical assistance from the three contractors. The priority of the three contracting plans is based on the project needs. The Evaluation contract will be providing base line data for future evaluations and thus should be in place first. In addition, the Evaluation contractor will observe the actions of the PEO and other donors (and the project activity which is currently underway). The merchant banking services contract schedule of procurement is illustrative as this is one contract with which the Mission does not have experience. The lack of this contract at the immediate outset would not affect implementation, as CPs need to be met and other donors may be situated to provide the sales assistance services if the A.I.D. funded contractor is not in place.

Table I-3 and I-4 are the illustrative implementation schedules for the two TA contracts (the merchant banking services contract need not have as detailed a schedule). The implementation plans/schedules will be updated annually by the contractor and approved by the PEO and the Mission.

Because the Merchant Bank services will only be used when HCs and the PEO have agreed to the valuation of a company for sale, it is not possible to project when the companies will be provided to the merchant banking group to commence work. This assignment of companies to the Merchant Banks, the valuation activities and the actual sale of the public sector properties will be closely monitored by TI/FI. See the Technical Analysis (Annex D) and the Procurement Plan (Annex F) for more detail on the Merchant Banking services contract's implementation schedule (re: estimated time to valuate and sell public sector properties).

Table I-5 is the planned schedule of evaluations and audits for the project. Adequate funding has been reserved for audits of the three major contractors, and, as needed, audits of U.S. and Egyptian subcontractors to the primes.

III. PROCUREMENT PLAN -

Annex F of the Project Paper has included a detailed description of the requirements of the different major contractors. The Project will finance the procurement of technical assistance services for project implementation, and finance merchant bank services for the valuation of public sector properties and to take them to sale. There will be two major contracts for project implementation and several lesser contracting actions under this project. The implementing contractors of the Project will be expected to comply with the source, origin, and nationality requirements of A.I.D. Handbook 1B, or seek waivers of these requirements for allowable reasons. Annex N includes a waiver for $435,000 worth of U.S. origin and Egyptian source electronics equipment, and Egyptian source and origin for furniture and office supplies, and a justification for waiving salary levels above the FS-01 and FSN-12 ceilings. Individual waivers will be required for all individuals receiving salaries above the ceilings, based on salary history, among other criteria.

The two technical assistance contracts (TA and Evaluation) will be level of effort contracts and justification for this method of contracts is contained in Annex N.

The TA contractor will be procuring some commodities which are to be used for their main office facilities in Egypt. The budget annex (Annex J) includes a list of the commodities to be procured and the estimated amount of rent they will pay for office space. These procurement, along with the procurement of electronics, will follow A.I.D. procedures and will be noted in the contract. Some locally procured items will be from non code 000 countries but are allowable under Chapter 18, Handbook 1B local procurement exceptions. Primarily utilities, office space, expendable office supplies, etc. Funds have also been budgeted for the Evaluation contractor to procure office space and furnishings.

The audits and other A.I.D. financed assistance outside the prime contracts will also follow

A.I.D. procurement regulations.

IV. TRAINING PLAN - SUMMARY

Presented below is a tentative training plan. As noted in the PP text, a training plan will be developed early in the use of the TA contractor. The plan will be extracted from the needs assessments done with the PEO and HCs. The following tentative training requirements will be confirmed by the needs assessments.

A. Program Promotion

1. On the job training

The development of the PEO's capacity in:

- Defining its major privatization goals, the critical issues and players which the PEO must target to implement a successful privatization program.

- The development of the HCs' capacity in determining a strategy for firm sales and the Business plans in view of the foreign and the local commercial interest in Egypt.

- Develop affiliation with local Chambers of commerce and other private sector groups, merchants banks, actively interested investors or financial institutions and similar associations in other countries.

2. Seminars, Workshops, training sessions, visitations

To assure the development of local institutions and the private sector capacities to carry out the program:

- Provide training to personnel from the communication's component local subcontractors; hold skills development workshops on current public relations techniques and methodologies.

- Provide training and site visitations for Egyptian journalists, local sub-contractors, and public relations firms employees - to learn about other country's privatization programs.

B. Organizational Development

1. On the job training

- Development of the organizational capacities of the PEO, HCs, and ACs in terms of authority and responsibility to effectively implement the program.

PEO - Develop capacities to provide advice, monitor, define objectives and develop its institutional capacities.

HCs - Develop capacities in Acquisition of technical assistance, experience in evaluation of bids and proposals preparation of strategic plans, etc.

ACs - accept and advance the program.

2. Seminars, workshops, training sessions, visitations

Design and implement practical training programs and site visitations that may include assistance in: Business planning, strategic planning, financial management, privatization procedures.

C. Sales Component

1. On the job training

HCs. Develop capacities in strategic planning, diagnosis of companies, merchant banking techniques, investors interests, Batching of properties, divestitures and liquidation of properties.

2. Seminars, workshops, training sessions, visitations

Provide training concerning sales transaction procedures, contracting arrangements, new privatization techniques, other countries experiences.

D. Financial Instruments

1. on the job training

Help develop skills in new financial instruments with a number of financial institutions.

2. Seminars, workshops, training sessions, visitations

Training to banks, brokerage firms, stock exchanges, and selected new financial institutions in the new financial instruments. Arrange for visitations to other countries to learn from their experience in developing local financial instruments.

E. Decision Making Support

1. on the job training

Help develop skills in making policy choices, identify policy issues, maintain dialogue with key players and institutionalizing procedures.

2. Seminars, workshops, visitations

Provide training or site visitations to develop an understanding of other country's policy issues in the context of privatization.

Annex I

Table I-1

Implementation Schedule
Agreements, Conditions Precedent and Covenants
by Project Year (projected dates are in parenthesis)

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
PP Approval/Authorization	X (8/93)				
Project Agreement signed	X (9/93)				
Initial CPs Met.	X (11/93)				
CPs on abort and success fees met by PEO	X (12/93)				
CP for sales of Banks met by CBE		X (12/94)			
Pro Ag Amendments (Obligations)	X (2/94)	X (2/95)	X (2/96)	X (2/97)	

DOC (TABLE4.GEN) on LAN Office Directory, hmikhail, 7/8/93.

Table I-2A

Contracting Schedule for
Evaluation and Technical Assistance Components
by Project Year (projected dates are in parenthesis)

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Evaluation					
PIO/T received by DIR/CS	X (9/93)				
RFP forwarded to selected 8(a)	X (10/93)				
Proposal received from 8(a)	X (11/93)				
Contract awarded	X (12/93)				
TA					
PIO/T received by DIR/CS	X (9/93)				
RFP issued	X (11/93)				
Proposals received	X (1/94)				
Contract awarded	X (6/94)				
Contractor in place	X (8/94)				

Table I-2B

Contracting Schedule for
Sales Component
by Project Year (projected dates are in parenthesis)

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Sales					
PIO/T received by DIR/CS	X (10/93)				
CP with PEO met	X (12/93)				
RFP issued	X (1/94)				
Proposals received	X (4/94)				
Contract awarded		X (9/94)			
Contractor in place		X (11/94)			

DOC (TABLE4.GEN) on LAN Office Directory, hmikhail, 7/8/93.

Table I-3

Implementation Schedule
Evaluation Contract

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Evaluation:					
TA team initial visit to Egypt	X (1/94)				
Periodic TA visits for data collection & evaluation (illustrative)	X (8/94)	X (1/95) X (8/95)	X (1/96) X (6/96)	X (1/97) X (8/97)	X (1/98) X (6/98)
Needs assessment and development of evaluation plan	XxxxxxX (1/94 - 4/94)				
Special TA (illustrative)		X (1/95) X (5/95)	X (11/95) X (5/96)	X (11/96) X (5/97)	X (11/97) (5/98)
Annual Report		X ([illegible]/95)	X (3/96)	X (3/97)	X (3/98)

Table I-4A

Implementation Schedule
for Technical Assistance Contractor
General

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
TA Contractor:					
Contract Awarded	X (6/94)				
Contractor Team on site	X (8/94)				
Annual Plan drafted		X (11/94)			
Annual Plan submitted & approved by PEO and USAID		X (12/94)			
Office facilities rented/ established		X (1/95)			
Office commodities ordered		X (11/94)			
Office fully operational		X (2/95)			

Table I-4B

Technical Assistance Contractor
Program Promotion Component

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
<u>Program Promotion Component</u>:					
PEO establishes PR Unit	X (1/94)				
TA provided to PEO PR Unit		X (10/94)			
Consensus building with PEO		XxxxX (10/94 - (12/94)			
Develop privatization messages		X (2/94) ------	----------------------	--------------------	------------------
Communicate Privatization messages		X (4/95) ---	----------------------	--------------------	------------------
Conduct assessment of Business Info needs (foreign & domestic)		X (5/95)			
Design and Implement information program for investors			X (9/95)		

DOC (<u>TABLE4.GEN</u>), on LAN Office Directory, hmikhail, 7/8/93.

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Table I-4C

Implementation Schedule for
Technical Assistance Contractor
The Organization Development Component

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Organizational needs assessment and work plan for PEO		X (10/94)			
Implementation of Organizational development activities with PEO		X (12/94) -----------	----------------------	--------------------	-------------------
Assessment of different HC needs for Organizational development (illustrative)		X (2/95) X (7/95)	X (10/95) X (4/96) X (8/96)	X (1/97) X (7/97)	X (1/98) X (7/98)
Short-term TA visits to PEO and HCs (illustrative)		X (12/94) X (4/95)	X (10/95) X (1/96) X (7/96)	X (10/96) X (6/97)	X (10/97) X (6/98)
Long-term TA supplied to privatization joint-venture Banks			X (9/95)		

Table I-4D

Implementation Schedule for
Technical Assistance Contractor
Financial Development & Decision Making Support

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Financial Development Component:					
T.A. finance engineer		X (9/94) ----------------	----------------------	--------------------	------------------
Short-term U.S. T.A. visits		X (1/95) ----------	----------------------	--------------------	------------------
Decision Making Support:					
Form Policy Unit in PEO		X (9/94)			
Needs Assessment conducted		XxxxX (9/94 - 11/94)			
TA provided to PEO		X (1/95) ----------	----------------------	--------------------	------------------

Table I-4E

Implementation Schedule for
Training Activities (Illustrative)

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Training Activities:					
Training Needs assessment of PEO		X (11/94)			
Training Needs assessment of HCs		X (2/95) ---------	------------------------	----------------------	----------------------
Off shore training of PEO and HCs personnel		X (3/95) X (6/95)	X (10/95) X (1/96) X (6/96)	X (10/96) X (1/97) X (6/97)	X (10/97) X (1/98) X (6/98)
In-country seminars		X (2/95) X (7/95)	X (12/95) X (7/96)	X (12/96) X (7/97)	X (12/97) X (7/98)
U.S. Observational tours			X (12/95)	X (12/96)	X (12/97) X (6/98)

DOC (TABLE4.GEN) on LAN Office Directory, hmikhail, 7/8/93.

Table I-5

Implementation Schedule
Evaluation and Audits

Item	Year 1 (9/93 - 8/94)	Year 2 (9/94 - 8/95)	Year 3 (9/95 - 8/96)	Year 4 (9/96 - 8/97)	Year 5 (9/97 - 8/98)
Mid-term Evaluation team arrives			X (7/96)		
Mid-term evaluation completed				X (9/96)	
Final Evaluation team arrives					X (7/98)
Final Evaluation completed					X (9/98)
Annual Audits (illustrative)	X (7/94)	X (7/95)	X (7/96)	X (7/97)	X (7/98)

DOC (TABLE4.GEN), on LAN Office Directory, hmikhail, 7/8/93.

ANNEX J
BUDGET ANNEX

TABLE OF CONTENTS

PRIVATIZATION PROJECT
#263-0238

BUDGET NARRATIVE

The Project's estimated budget is presented in this Annex through a series of tables and consists of 5 sections:

I. **Technical Assistance contract (USAID Direct)**
II. **Evaluation contract (USAID Direct)**
III. **Sales Contract (USAID Direct)**
IV. **Audit**
V. **Local Support**

I. The technical assistance contract includes five components:

- Program Promotion
- Organizational Development
- Financial Instrument Development
- Sales Advisory Services
- Decision Making Support

The contract total budget is estimated to be approximately $17 million. Contract duration is 4 years (48 months). Total estimated level of effort is 1060 person months (PM). It includes estimates of 672 person months long-term (144 expatriate and 528 local) and 388 person months short-term (207 expatriate and 181 local).

The TA contract budget also includes training, equipment and office expenses, and contingency line-items for long and short-term technical assistance. Short-term technical assistance is estimated to cost $15,000 and $5,000 equivalent for expatriate and local consultants.

II. The Evaluation contract total budget is approximately $2.5 million. Contract duration is 4.5 years (54 months). Total estimated level of effort is 150 person months (PM). It includes 108 long-term PM (54 local support and 54 expatriate professional), and 42 short-term PM (24 local professional and 18 expatriate). The contract budget includes and equipment and office expense budget.

III. The sales contract will pay engagement fees to the merchant banking services contractor. International experience has shown that these investment banks usually require similar "mobilization," or engagement fees before operating in an emerging market or in an LDC. The contract is expected to provide engagement fees for 73 transactions: 50 PEs (assets, companies, majority share-holdings) and 23 joint venture banks. Engagement fees are estimated to cost $250,000 per property, and $100,000 per joint venture bank.

These estimates are based on TI/FI's experience and exposure to the fees charged by international and US investment banks implementing privatization transactions around the world. The estimated Sales Contract total budget is $14,800,000.

IV. Audit

The Project will finance audits as required of organizations involved in implementing and evaluating the Project. The use of sub-contractors by a prime contractor will require audits of firms employed by them, and this cost will be a part of the costs of the prime contract. If the Agency chooses in addition to audit some of the Egyptian sub-contracts, there is adequate funding provided under the audit line-item. Prime contractor audits are budgeted at $30,000 each and local audits of Egyptian firms are estimated at $15,000 each. Only a limited number of local audits are expected to occur that are financed outside the major contracts.
Total audit budget is approximately $200,000 for 4.5 years.

V. Local Support

Due to the complexity and magnitude of the expected contracting needed under the Project, it is recommended that a contracting specialist (US local resident) be hired to assist the USAID USDH contracting officer in the execution of project related contracting actions. The contracting specialist will be located in USAID DIR/CS. Total budget is $315,000 for 4.5 years which includes salary and any required training.

PRIVATIZATION PROJECT #263-0238
ILLUSTRATIVE FINANCIAL PLAN $

PROJECT ELEMENTS	CURRENT YEAR OBLIGATION	FUTURE YEARS OBLIGATION	TOTAL COST
TECHNICAL ASSISTANCE	3,402,458	13,750,714	17,153,172
SALES	0	14,800,000	14,800,000
EVALUATION	510,042	2,019,286	2,529,328
AUDIT	0	202,500	202,500
LOCAL SUPPORT	87,500	227,500	315,000
TOTAL	4,000,000	31,000,000	35,000,000

I. TECHNICAL ASSISTANCE BUDGET TOTALS (CONTRACT YEARS)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
TOTAL $	1,803,785	2,241,112	2,311,925	1,831,278	8,188,100
TOTAL LE EQUI-VALENT	1,372,209	1,292,081	1,321,197	1,108,463	5,093,950
TOTAL COST	3,175,994	3,533,193	3,633,122	2,939,741	13,282,050
G&A	317,599	353,319	363,312	293,974	1,328,205
TOTAL COST PLUS G&A	3,493,593	3,886,512	3,996,434	3,233,715	14,610,255
FIXED FEE	349,359	388,651	399,643	323,372	1,461,026
TOTAL PLUS FIXED FEE	3,842,952	4,275,163	4,396,077	3,557,087	16,071,281
CONT.	338,486	270,474	269,839	203,093	1,081,891
				GRAND TOTAL	17,153,172

TECHNICAL ASSISTANCE CONTRACT BUDGET
(CONTRACT YEARS)
($)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Sal.	300,000	315,000	330,750	347,288	1,293,038
Fringe Bnfts	75,000	78,750	82,688	86,823	323,261
Sal Plus Fringe	375,000	393,750	413,438	434,111	1,616,299
O.H.	281,250	295,313	310,079	325,583	1,212,225
Misc. Allo-wances	302,535	212,049	233,408	286,584	1,034,576
Short-Term	270,000	517,500	525,000	240,000	1,552,500
Subs.	270,000	517,500	525,000	240,000	1,552,500
Trng	290,000	290,000	290,000	290,000	1,160,000
ODC	15,000	15,000	15,000	15,000	60,000
TOTAL	1,803,785	2,241,112	2,311,925	1,831,278	8,188,100

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TECHNICAL ASSISTANCE LOCAL CURRENCY EQUIVALENT BUDGET
EXCHANGE RATE $=LE 3.35
(CONTRACT YEARS)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Sal.	221,793	232,882	244,529	256,758	955,962
Frng.	55,448	58,221	61,132	64,189	238,990
Sal plus Frng	277,241	291,103	305,661	320,947	1,194,952
O.H	277,241	291,103	305,661	320,947	1,194,952
Local Travel	23,232	23,232	23,232	23,232	92,928
Short-Term	170,000	300,000	300,000	135,000	905,000
ODC	9,388	9,388	9,388	9,388	37,552
Rent, Equip. and Off. Exp.	495,107	257,255	257,255	178,949	1,188,566
Trng	120,000	120,000	120,000	120,000	480,000
TOTAL	1,372,209	1,292,081	1,321,197	1,108,463	5,093,950

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LEVEL OF EFFORT BREAKDOWN AND BUDGET FOR TECHNICAL ASSISTANCE CONTRACT

LEVEL OF EFFORT BREAKDOWN	PERSON MONTHS	DOLLARS	LOCAL CURRENCY EQUIVALENT
LONG-TERM LOCAL	528		2,497,166
LONG-TERM EXPATRIATE	144	3,946,331	
SUBTOTAL	672	3,946,331	2,497,166
SHORT-TERM LOCAL	181		905,000
SHORT-TERM EXPATRIATE	207	3,105,000	
SUBTOTAL	388	3,105,000	905,000
TOTAL	1060	7,051,331	3,402,166

	Dollars and Local Currency Equivalent (in Dollars)
Technical Assistance Total	10,453,497
G&A	1,045,350
Total Plus G&A	11,498,847
Fixed Fee	1,149,884
Total Plus Fixed Fee	12,648,731
CONTINGENCY	1,081,891
GRAND TOTAL	13,730,622

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CONSOLIDATED LEVEL OF EFFORT AND BUDGET FOR LONG TERM-PERSONNEL

I. LONG-TERM EXPATRIATE STAFF

Long-Term Expatriate Staff	Person/Months	Dollars
Chief of Party	48	1,520,813
Merchant Banking Advisor	48	1,520,813
Contract Administrator	48	904,705
TOTAL	144	3,946,331

G&A	394,633
TOTAL PLUS G&A	4,340,964
FIXED FEE	434,097
TOTAL PLUS FIXED FEE	4,775,061

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II. LONG-TERM LOCAL PROFESSIONAL AND SUPPORT STAFF

Long-term Local Staff	Person/Months	Dollars
Program Promotion Specialist	48	401,602
Program Promotion Assistant	48	120,158
Financial Engineer	48	401,602
Decision Making Support Specialist	48	401,602
Senior Assistant to Merchant Banking Advisor	48	401,602
Administrative/Financial Manager	48	401,602
Project Accountant	48	108,542
SUBTOTAL	336	2,236,710
FOUR LOCAL SECRETARIES	192	260,456
TOTAL	528	2,497,166

G&A	249,717
TOTAL PLUS G&A	2,746,883
FIXED FEE	274,688
TOTAL PLUS FIXED FEE	3,021,571

III. TOTAL LONG-TERM LEVEL OF EFFORT AND BUDGET

TOTAL	672 PERSON MONTHS	7,796,632

SHORT-TERM TECHNICAL ASSISTANCE

COMPONENT	PERSON MONTHS	LE EQUIVALENT IN DOLLARS
PROGRAM PROMOTION		
LOCAL TA	60	300,000
EXPATRIATE TA	60	900,000
SUBTOTAL	120	1,200,000
ORGANIZATIONAL DEVELOPMENT		
LOCAL TA	36	180,000
EXPATRIATE TA	36	540,000
SUBTOTAL	72	720,000
FINANCIAL INSTRUMENT DEVELOPMENT		
LOCAL TA	24	120,000
EXPATRIATE TA	48	720,000
SUBTOTAL	72	840,000
DECISION MAKING SUPPORT		
LOCAL TA	36	180,000
EXPATRIATE TA	48	720,000
SUBTOTAL	84	900,000

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COMPONENT	PERSON/MONTHS	DOLLARS
PROJECT MANAGEMENT		
LOCAL TA	25	125,000
EXPATRIATE TA	15	225,000
SUBTOTAL	40	350,000
TOTAL	388	4,010,000

G&A	401,000
TOTAL PLUS G&A	4,411,000
FIXED FEE	441,100
TOTAL PLUS FIXED FEE	4,852,100

ASSUMPTIONS:

Local short-term TA is calculated to cost $5,000 per person month
Expatriate short-term TA is calculated to cost $15,000 per month.

LOCAL PROFESSIONAL
(sample table representing each of the 5 specialists)

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	35,821	37,612	39,493	41,468	154,394
Fringe	8,955	9,403	9,873	10,367	38,599
Sal+Fringe	44,776	47,015	49,366	51,835	192,993
Local Travel	2,904	2,904	2,904	2,904	11,616
ODC	1,000	1,000	1,000	1,000	4,000
TOTAL DIRECT COST	48,680	50,919	53,270	55,739	208,609
OVERHEAD	44,776	47,015	49,366	51,835	192,993
TOTAL COST	93,456	97,934	102,636	107,574	401,602

Total	93,456	97,934	102,636	107,574	401,602
G&A	9,345	9,793	10,264	10,757	40,160
Total Plus G&A	102,801	107,727	112,900	118,331	441,762
Fixed Fee	10,280	10,773	11,290	11,833	44,176
Total Plus Fixed Fee	113,081	118,500	124,190	130,164	485,938

ASSUMPTIONS:

- Salary increase is 5% to match inflation
- Salary is calculated on the basis of 13 months (1 month bonus)
- Allowances for taxation, social insurance, and health insurance are not and should not be added to salary. i.e. salary is gross
- Fringe benefits are 25% of salary
- Overhead is 100% of both salary and fringe
- Exchange rate is 1$= LE3.35
- ODC is fixed at $ 1,000 per year
- Local Travel is estimated taking the highest current per diem for Cairo ($132/Day)*22 days=$2,904
- G&A is 10% of total cost plus overhead
- Fixed Fee is 10% of budget total cost

EXPATRIATE PROFESSIONAL

Illustrative Table for Chief of Party and Merchant Banking Advisor

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	120,000	126,000	132,300	138,915	517,215
Post diff.	18,000	18,900	19,845	20,838	77,583
Fringe	30,000	31,500	33,075	34,729	129,304
Int'l Travel	10,000			10,000	20,000
Temp. Lodg.	5,000				5,000
Unacc. Baggage	2,500			2,500	5,000
Shipment	15,000				15,000
Vehicle Ship.	6,000			6,000	12,000
Hhld Storage	2,000			2,000	4,000
Rent	18,300	18,300	18,300	18,300	73,200
R&R		10,000		10,000	20,000
Home Leave			15,000		15,000
Education All.	24,000	25,200	26,460	27,783	103,443
Local Travel	2,904	2,904	2,904	2,904	11,616
Emergency Med.	1,365	1,433	1,505	1,580	5,883
Physical	1,680				1,680
ODC	5,000	5,000	5,000	5,000	20,000
TOTAL DIRECT COST	261,749	239,237	254,389	280,549	1,035,924
OVERHEAD	112,500	118,125	124,031	130,233	484,889
TOTAL COST	374,249	357,362	378,420	410,782	1,520,813
G&A	37,425	35,736	37,842	41,078	152,081
TOTAL COST PLUS G&A	411,674	393,098	416,262	451,860	1,672,894
FIXED FEE	41,167	39,310	41,626	45,186	167,289
TOTAL PLUS FIXED FEE	452,841	432,408	457,888	497,046	1,840,183

ASSUMPTIONS:

- Salary increase is 5%/ year to match inflation
- Fringe is 25% of basic salary and fringe. It includes health and life insurance
- Calculations assume four persons: employee and three dependents
- Local travel includes per diem and transportation
- Overhead is 75% of basic salary+fringe.
- ODC is fixed at $ 5,000 per year
- G&A is 10% of total cost
- Fixed Fee is 10% of total cost+ G&A

(8)

EXPATRIATE CONTRACT ADMINISTRATOR

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	60,000	63,000	66,150	69,458	258,608
Post diff.	9,000	9,450	9,923	10,419	38,792
Fringe	15,000	15,750	16,538	17,365	64,653
Int'l Travel	10,000			10,000	20,000
Temp. Lodg.	5,000				5,000
Unacc. Baggage	2,500			2,500	5,000
Shipment	15,000				15,000
Vehicle Ship.	6,000			6,000	12,000
Hhld Storage	2,000			2,000	4,000
Rent	18,300	18,300	18,300	18,300	73,200
R&R		10,000		10,000	20,000
Home Leave			15,000		15,000
Education All.	24,000	25,200	26,460	27,783	103,443
Local Travel	0	0	0	0	0
Emergency Med.	1,365	1,433	1,505	1,580	5,883
Physical	1,680				1,680
ODC	5,000	5,000	5,000	5,000	20,000
TOTAL DIRECT COST	174,845	148,133	158,876	180,405	662,259
OVERHEAD	56,250	59,063	62,016	65,117	242,446
TOTAL COST	231,095	207,196	220,892	245,522	904,705
G&A	23,110	20,720	22,089	24,552	90,471
TOTAL COST PLUS G&A	254,205	227,916	242,981	270,074	995,176
FIXED FEE	25,420	22,792	24,298	27,008	99,518
TOTAL PLUS FIXED FEE	279,625	250,708	267,279	297,082	1,094,694

ASSUMPTIONS:

- Salary increase is 5%/ year to match inflation
- Fringe is 25% of basic salary and fringe. It includes health and life insurance
- Calculations assume four persons: employee and three dependents
- Local travel includes per diem and transportation
- Overhead is 75% of basic salary+fringe.
- ODC is fixed at $ 5,000 per year
- G&A is 10% of total cost
- Fixed Fee is 10% of total cost+ G&A

ASSISTANT TO PROGRAM PROMOTION SPECIALIST - ILLUSTRATIVE BUDGET IN LE EQUIVALENT

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	9,702	10,187	10,696	11,231	41,816
Fringe	2,426	2,547	2,674	2,808	10,455
Sal+Fringe	12,128	12,734	13,370	14,039	52,271
Local Travel	2,904	2,904	2,904	2,904	11,616
ODC	1,000	1,000	1,000	1,000	4,000
TOTAL DIRECT COST	16,032	16,638	17,274	17,943	67,887
OVERHEAD	12,128	12,734	13,370	14,039	52,271
TOTAL COST	28,160	29,372	30,644	31,982	120,158

TOTAL COST	28,160	29,372	30,644	31,982	120,158
G&A	2,816	2,937	3,064	3,198	12,016
Total Plus G&A	30,976	32,309	33,708	35,180	132,174
Fixed Fee	3,098	3,231	3,371	3,518	13,217
Total Plus Fixed Fee	34,074	35,540	37,079	38,698	145,391

ASSUMPTIONS:

- Salary increase is 5% to match inflation
- Salary is calculated on the basis of 13 months (1 month bonus)
- Allowances for taxation, social insurance, and health insurance are not and should not be added to salary. i.e. salary is gross
- Fringe benefits are 25% of salary
- Overhead is 100% of both salary and fringe
- Exchange rate is 1$= LE3.35
- ODC is fixed at $ 1,000 per year
- G&A is 10% of total cost
- Fixed Fee is 10% of budget total cost

PROJECT ACCOUNTANT - ILLUSTRATIVE BUDGET IN LE EQUIVALENT

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	9,702	10,187	10,696	11,231	41,816
Fringe	2,426	2,547	2,674	2,808	10,455
Sal+Fringe	12,128	12,734	13,370	14,039	52,271
Local Travel	0	0	0	0	0
ODC	1,000	1,000	1,000	1,000	4,000
TOTAL DIRECT COST	13,128	13,734	14,370	15,039	56,271
OVERHEAD	12,128	12,734	13,370	14,039	52,271
TOTAL COST	25,256	26,468	27,740	29,078	108,542

TOTAL COST	25,256	26,468	27,740	29,078	108,542
G&A	2,526	2,647	2,774	2,908	10,854
Total Plus G&A	27,782	29,115	30,514	31,986	119,396
Fixed Fee	2,778	2,912	3,051	3,199	11,940
Total Plus Fixed Fee	30,560	32,026	33,565	35,185	131,336

ASSUMPTIONS:

- Salary increase is 5% to match inflation
- Salary is calculated on the basis of 13 months (1 month bonus)
- Allowances for taxation, social insurance, and health insurance are not and should not be added to salary. i.e. salary is gross
- Fringe benefits are 25% of salary
- Overhead is 100% of both salary and fringe
- Exchange rate is 1$= LE3.35
- ODC is fixed at $ 1,000 per year
- G&A is 10% of total cost
- Fixed Fee is 10% of budget total cost

LOCAL SUPPORT
(sample table representing each of the 4 secretaries)

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	5,821	6,112	6,418	6,739	25,090
Fringe	1,455	1,528	1,605	1,685	6,273
Sal+Fringe	7,276	7,640	8,023	8,424	31,363
ODC	597	597	597	597	2,388
TOTAL DIRECT COST	7,873	8,237	8,620	9,021	33,751
OVERHEAD	7,276	7,640	8,023	8,424	31,363
TOTAL COST	14,552	15,280	16,046	17,445	65,114

Total Cost	14,552	15,280	16,046	17,445	65,114
G&A	1,455	1,528	1,605	1,745	6,511
Total Plus G&A	16,007	16,808	17,651	19,190	71,625
Fixed Fee	1,601	1,681	1,765	1,919	7,163
Total Plus Fixed Fee	17,608	18,489	19,416	21,109	78,788

ASSUMPTIONS:

- Salary increase is 5% to match inflation
- Salary is calculated on the basis of 13 months (1 month bonus)
- Allowances for taxation, social insurance, and health insurance are not and should not be added to salary. i.e. salary is gross
- Fringe benefits are 25% of salary
- Overhead is 100% of both salary and fringe
- Exchange rate is 1$= LE3.35
- ODC is fixed at $ 1,000 per year
- G&A is 10% of total cost
- Fixed Fee is 10% of budget total cost

TRAINING COMPONENT

TRAINING	DOLLARS	LOCAL CURRENCY EQUIVALENT
OFF-SHORE SEMINARS-WORKSHOPS	300,000	180,000
IN-COUNTRY SEMINARS-WORKSHOPS	720,000	240,000
OBSERVATIONAL TOURS	140,000	60,000
SUBTOTAL	1,160,000	480,000
TOTAL		1,640,000
G&A		164,000
TOTAL PLUS G&A		1,804,000
FIXED FEE		180,400
TOTAL PLUS FIXED FEE		1,984,400

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TRAINING COMPONENT
ILLUSTRATIVE BUDGET
EXCHANGE RATE ($=LE3.35)

I. OFF-SHORE SEMINARS AND WORKSHOPS

Years	Workshops /Seminars Per Year	Participant Per Workshop	$Cost Per Participant	LE Equivalent Cost Per Participant
4	3	5	5,000	3,000

	DOLLARS	LOCAL CURRENCY
SUBTOTAL	300,000	180,000

- Total Dollar and LE Equivalent Cost is $480,000
- An amount of LE 603,000 is reserved for air tickets ($180,000)

II. IN-COUNTRY SEMINARS AND WORKSHOPS

Years	Workshops/Seminars Per Year	$Cost Per Workshop/ Seminar	LE EQUIVALENTCOST PER WORK/SEM.
4	2	90,000	30,000

	DOLLAR	LOCAL CURRENCY
SUBTOTAL	720,000	240,000

- Total dollar and LE equivalent cost is $960,000
- An amount of LE 804,000 is reserved for local expenses

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III. OBSERVATIONAL TOURS

Years	Tour Per Year	Participant Per Tour	$Cost Per Participant	LE Equivalent Cost Per Participant
4	1	5	7,000	3,000

	DOLLARS	LOCAL CURRENCY
SUBTOTAL	140,000	60,000

- Total Dollar and LE Equivalent cost is $200,000
- An amount of LE 201,000 is reserved for air tickets

TOTAL LE EQUIVALENT	$ 480,000
TOTAL DOLLAR BUDGET	$ 1,160,000

TOTAL DOLLAR BUDGET	$ 1,640,000

EQUIPMENT AND OFFICE EXPENSES

EQUIPMENT AND OFFICE EXPENSES	LE EQUIVALENT IN DOLLARS
OFFICE RENT	597,015
OFFICE EQUIPMENT	193,200
OTHER	398,352
SUBTOTAL	1,188,567
G&A	118,857
TOTAL PLUS G&A	1,307,424
FIXED FEE	130,742
TOTAL PLUS FIXED FEE	1,438,166

OFFICE EQUIPMENT ILLUSTRATIVE BUDGET ($=LE3.35)

ITEM	LOCAL CURRENCY EQUIVALENT IN $
20 Personal computers	60,000
2 Large processing computers	24,000
3 Laser printers	10,500
2 Modems	1,200
2 Match coprocessors	2,000
2 Plotters	4,000
12 Software	30,000
1 LAN	10,000
1 FAX machine	5,000
3 Photocopiers	45,000
3 Typewriters	1,500
TOTAL	193,200

G&A	19,320
TOTAL PLUS G&A	212,520
FIXED FEE	21,252
TOTAL PLUS FIXED FEE	233,772

II. EVALUATION CONTRACT BUDGET TOTALS
(CONTRACT YEARS)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
TOTAL $	379,533	268,556	375,319	529,842	1,553,250
TOTAL LE EQUI-VALENT	182,497	83,225	123,991	147,390	537,104
TOTAL COST	562,030	351,781	499,310	677,232	2,090,354
G&A	56,203	35,178	49,931	67,723	209,035
TOTAL COST PLUS G&A	618,233	386,959	549,241	744,955	2,299,389
FIXED FEE	61,823	38,696	54,924	74,496	229,939
TOTAL PLUS FIXED FEE	680,056	425,655	604,165	819,451	2,529,328

- Contract budget assumes 54 months (4.5) years. Year IV includes 18 months.

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EVALUATION CONTRACT
DOLLAR BUDGET
(CONTRACT YEARS)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Sal.	85,000	89,250	93,713	147,598	415,561
Fringe Bnfts	21,250	22,313	23,428	36,910	103,901
Sal plus Fringe	106,250	111,563	117,141	184,508	519,462
O.H.	79,688	83,672	87,856	138,381	389,597
Misc. Allo-wances	98,595	68,321	75,322	109,453	351,691
Short-Term	90,000		90,000	90,000	270,000
Subs.	0	0	0	0	0
Trng	0	0	0	0	0
ODC	5,000	5,000	5,000	7,500	22,500
TOTAL	379,533	268,556	375,319	529,842	1,553,250

- Contract budget assumes 54 months (4.5) years. Year IV includes 18 months.

EVALUATION LOCAL CURRENCY BUDGET
EXCHANGE RATE $=LE 3.35
(CONTRACT YEARS)

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Sal.	5,821	6,112	6,418	10,108	28,459
Frng.	1,455	1,528	1,605	2,527	7,115
Sal plus Frng	7,276	7,640	8,023	12,635	35,574
O.H	7,276	7,640	8,023	12,635	35,574
Local Travel	2,904	2,904	2,904	4,356	13,068
Short-Term	40,000		40,000	40,000	120,000
ODC	597	597	597	597	2,388
Rent, Equip. and Off. Exp.	124,444	64,444	64,444	77,167	330,500
Trng	0	0	0	0	0
TOTAL	182,497	83,225	123,991	147,390	537,104

- Contract budget assumes 54 months (4.5) years. Year IV includes 18 months.

EVALUATION CONTRACT
LEVEL OF EFFORT AND BUDGET BREAKDOWN

COMPONENT	PERSON - MONTHS	DOLLARS	LOCAL CURRENCY EQUIVALENT
EVALUATION			
LONG-TERM LOCAL	54		71,148
LONG-TERM EXPATRIATE	54	1,296,317	0
SHORT-TERM EXPATRIATE	18	270,000	0
SHORT-TERM LOCAL	24	0	120,000
SUBTOTAL	150	1,566,317	191,148
TOTAL			1,757,465
G&A			175,747
TOTAL PLUS G&A			1,933,212
FIXED FEE			193,321
TOTAL PLUS FIXED FEE			2,126,533

CHIEF OF PARTY - EVALUATION

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	85,000	89,250	93,713	147,598	415,561
Post diff.	12,750	13,388	14,057	22,140	62,334
Fringe	21,250	22,313	23,428	36,910	103,901
Int'l Travel	10,000			10,000	20,000
Temp. Lodg.	5,000				5,000
Unacc. Baggage	2,500			2,500	5,000
Shipment	15,000				15,000
Vehicle Ship.	6,000			6,000	12,000
Hhld Storage	2,000			2,000	4,000
Rent	18,300	18,300	18,300	27,450	82,350
R&R		10,000		10,000	20,000
Home Leave			15,000		15,000
Education All.	24,000	25,200	26,460	27,783	103,443
Local Travel	2,904	2,904	2,904	4,356	13,068
Emergency Med.	1,365	1,433	1,505	1,580	5,883
Physical	1,680				1,680
ODC	5,000	5,000	5,000	7,500	22,500
TOTAL DIRECT COST	212,749	187,788	200,367	305,817	906,720
OVERHEAD	79,688	83,672	87,856	138,381	389,597
TOTAL COST	292,437	271,460	288,223	444,198	1,296,317
G&A	29,244	27,146	28,822	44,420	129,632
TOTAL COST PLUS G&A	321,681	298,606	317,045	488,618	1,425,949
FIXED FEE	32,168	29,861	31,705	48,862	142,595
TOTAL COST PLUS FIXED FEE	353,849	328,467	348,750	537,480	1,568,544

- Calculatons assume 54 per months (4.5 years).

EVALUATION COMPONENT - SECRETARY

	YEAR I	YEAR II	YEAR III	YEAR IV	TOTAL
Salary	5,821	6,112	6,418	10,108	28,459
Fringe	1,455	1,528	1,605	2,527	7,115
Sal+Fringe	7,276	7,640	8,023	12,635	35,574
ODC	597	597	597	597	2,388
TOTAL DIRECT COST	7,873	8,237	8,620	13,232	37,962
OVERHEAD	7,276	7,640	8,023	12,635	35,574
TOTAL COST	14,552	15,280	16,046	25,270	71,148

Total Cost	14,552	15,280	16,046	25,270	71,148
G&A	1,455	1,528	1,605	2,527	7,115
Total Plus G&A	16,007	16,808	17,651	27,797	78,263
Fixed Fee	1,601	1,681	1,765	2,780	7,827
Total Plus Fixed Fee	17,608	18,489	19,416	30,577	86,089

- Calculations assume 54 person months level of effort (4.5 years). The last year includes 18 months.

SHORT-TERM LEVEL OF EFFORT AND BUDGET

EVALUATION	PERSON MONTHS	DOLLARS	LOCAL CURRENCY
SHORT-TERM LOCAL	24	0	120,000
SHORT-TERM EXPATRIATE	18	270,000	0
TOTAL COST	42	270,000	120,000

TOTAL COST	390,000
G&A	39,000
TOTAL PLUS G&A	429,000
FIXED FEE	42,900
TOTAL PLUS FIXED FEE	471,900

- Expatriate short-term is estimated to cost $15,000 per person months. Local short-term is estimated to cost $5,000 per person months.

EVALUATION COMPONENT
OFFICE EQUIPMENT AND EXPENSES BUDGET

ITEM	LE EQUIVALENT
Office Equip.	50,500
Rent	200,000
Other	80,000
TOTAL	330,500

ITEM	LE EQUIVALENT
5 Personal computers	15,000
2 laser printers	7,000
1 Match coprocessor	1,000
1 Plotter	2,000
6 Software	15,000
1 Photocopier	10,000
1 Typewriter	500
TOTAL	50,500

TOTAL COST	330,500
G&A	33,050
TOTAL COST PLUS G&A	363,550
FIXED FEE	36,355
TOTAL COST PLUS FIXED FEE	399,905

III. SALES CONTRACT

PROPERTY	ENGAGEMENT FEE	DOLLARS
50 PROPERTIES	250,000	12,500,000
23 JOINT VENTURE BANKS	100,000	2,300,000
TOTAL		14,800,000

IV. AUDIT

CATEGORY	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	TOTAL
AUDIT OF PRIME CONTRACT	30,000	30,000	30,000	30,000	15,000	135,000
AUDIT OF ONE SUB-CONTRACT	15,000	15,000	15,000	15,000	7,500	67,500
TOTAL	45,000	45,000	45,000	45,000	22,500	202,500

- Budget is for 54 months. Year V consists of 6 months of level of effort

V. CONTRACTING SPECIALIST

CAT.	YEAR I	YEAR II	YEAR III	YEAR IV	YEAR V	TOTAL
CONTRACTING SPECIALIST	75,000	70,000	70,000	70,000	30,000	315,000

- The contracting specialist will be located at USAID/Cairo DIR/CS.
- Budget is for 54 months. Year V consists of 6 months of level of effort
- The contracting specialist's salary is estimated to be around $60,000 a year. An additional amount of $10,000 per year ($15,000 for the first year) is budgeted to enhance his skills in AID contracting procedures through training in FAR, AIDAR, and other courses as appropriate.

ECONOMIC ANALYSIS

Summary

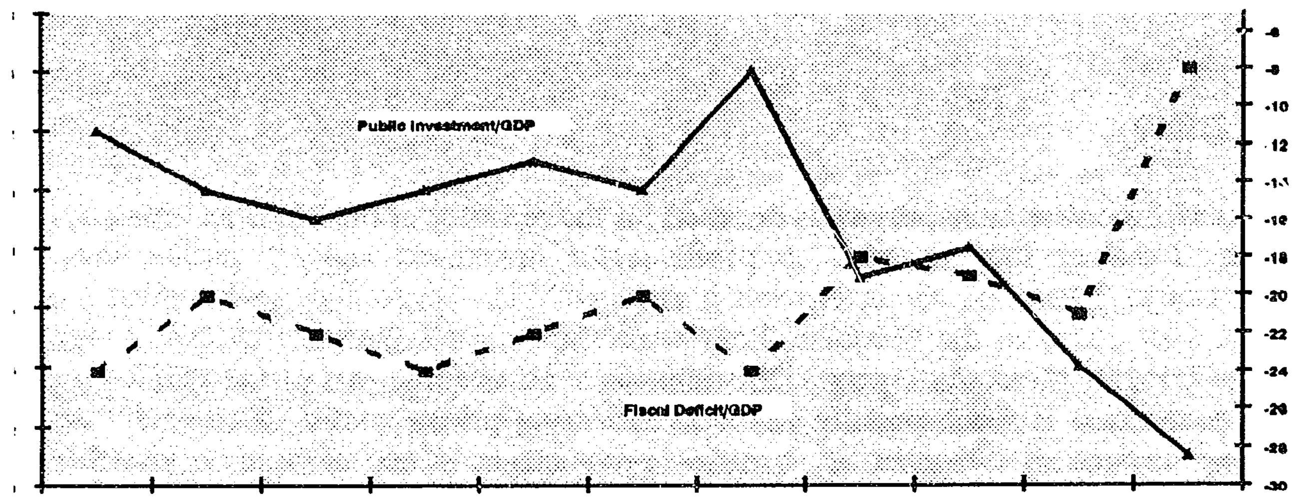
A substantial increase in investment is essential for the recovery of the Egyptian economy. The GOE for too long has depended on public sector investment and the results have been disappointing. Private sector investment is required. The investment environment must be fundamentally changed; the Economic Reform and Structural Adjustment (ERSA) Program is aimed at bringing about this change. Privatization is an essential part of the ERSA program. Thus privatization is fundamentally aimed at increasing private sector investment. As it is becoming obvious in a number of countries, privatization in and of itself is insufficient to encourage private investment. On the other hand, in an economy so dominated by the public sector, private investment does not happen without privatization. Benign neglect of the Public Enterprise Sector with the hope of seeing it whither away has been suggested, but its size and its strong claims on public resources makes such neglect impossible. USAID and the World Bank must continue to push a broad agenda of economic reform through their Sector Policy Reform and Structural Adjustment Program. This Project at the same time, principally through the Decision Making Support Component must address the broader group of policy and regulatory impediments to privatization which include impediments to private sector investment.

Although forecasting the economic impact of the privatization program and of the Project based on firm-level changes is very difficult because basic financial and other performance information on the ACs has been very poorly kept in the past, this analysis compiles data from various sources and conducts an economic rate of return analysis based on assumptions laid out in the text. Conceptually the impact that privatization should have on the economy is clear. However, it will be important over the life of the Project to research the actual impact so that an empirical case for privatization can be developed. The Analysis lays out a number of considerations for such research and proposes a methodology. The Evaluation contractor will be responsible for refining a methodology and carrying out the analysis.

Overview of The Egyptian Economy

Egypt underwent rapid economic growth, increased public investment, and import substitution in the 1970s, primarily brought on by high oil prices. The sharp decline in oil prices and revenue in the mid-1980s was initially masked by foreign borrowing; however, the excess of public expenditures over public revenues resulted in significant transfers of both foreign and domestic private savings to the public sector. This resulted in fiscal deficits averaging about 20 percent of Gross Domestic Product (GDP) until recently.

Fiscal Deficit & Public Investment % GDP



In addition to the inflated government administration and social services sector, state-owned enterprises continue to play a significant role in the productive sector. Despite attempts to promote the private sector, the public sector's overall and sectoral contribution to GDP has remained predominant. The share of the public sector is about 70 percent in total industrial production and 85 percent in industrial exports. The implications of excessive public sector involvement are lower levels of productivity. There are a number of efficiency indicators that highlight the weak performance of the public enterprises. For example,the financial rate of return has been less than 10 percent since 1982, real output per worker has been declining, and wage productivity has declined.[2]

The recent deficit reduction reflects a sharp decline in public investment but a limited increase in private investment. As demonstrated in the chart below, the share of public investment in GDP declined to 11 percent by 1992 as a result of shrinking revenues and attempts to restrict the budget deficit. Public investments as a percentage of GDP during the First and Second Five-Year Plan represented 17 percent and 15 percent, respectively.[3]

[1]Note: The left-hand vertical axis is public investment as percentage of GDP and the right-hand vertical axis is fiscal deficit as percentage of GDP. Source: Ministry of Finance (MOF), National Investment Bank (NIB), and World Bank.
[2]Source: Ministry of Planning (MOP), NIB, The Cabinet Public Sector Information Center (Cairo), and World Bank.
[3]Source: MOF, NIB, and World Bank Estimates.

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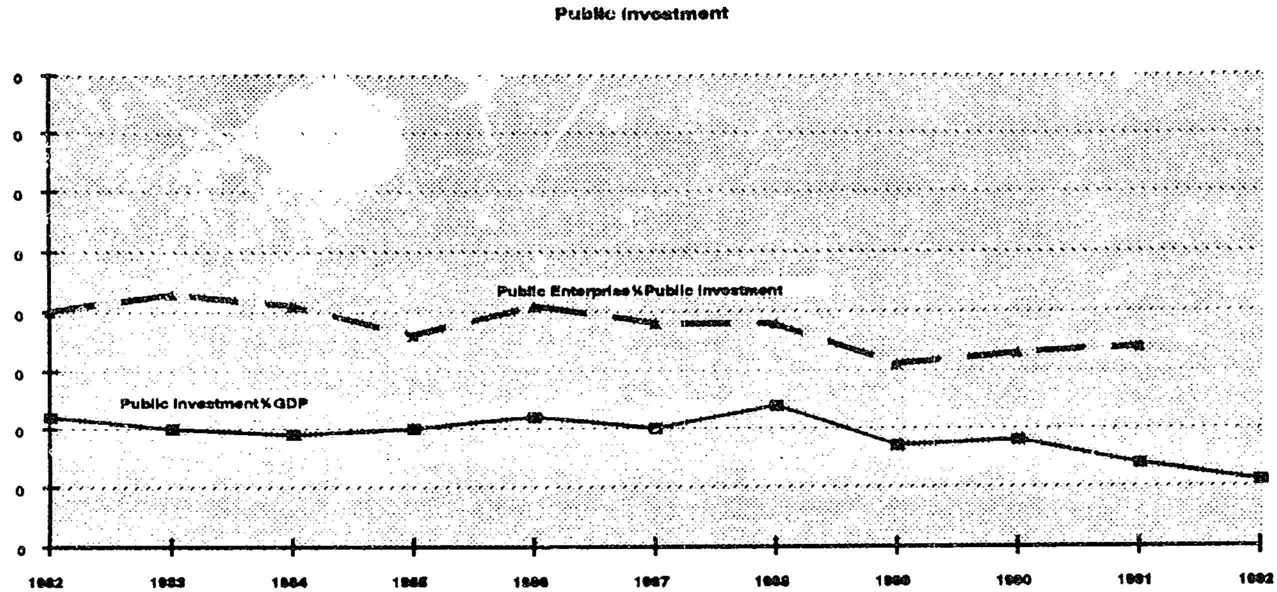

Given the budgetary and external debt constraints that the GOE will continue to face, the only way for Egypt to achieve sustained and non-inflationary growth is by substantially raising the efficiency of public sector investment, while facilitating a much greater private sector investment.

If it could be demonstrated with some confidence that the macro-economic equilibria recently established would not be jeopardized by subjecting the PE Sector to benign neglect, then it would be reasonable to advocate such neglect on political grounds, and concentrate the reform effort on credit markets, deregulation, stimulating private investment, and increasing production. One could then bank on a rapidly growing private sector to eclipse the public sector and to reduce its relative weight in the economy. This, in essence, is what Turkey has done since 1983, with large government deficits and 60 percent inflation. Economists puzzle as to why hyperinflation has not set in and even more why private and foreign investment has been increasing. This example is cited only to suggest that the benign neglect path is sustainable for awhile at any rate. However in Egypt, the size of the PE Sector, its claims on public resources through its wage bill, overdrafts, and use of raw materials probably make benign neglect impossible even in the short term.

By accelerating the privatization program, the GOE can involve the private sector and further rationalize targeted investments for public enterprises and restrict its scarce resources to areas where the private sector normally under-invests such as infrastructure.

The GOE has prepared a list of 85 public sector companies which were selected for privatization. The plan is to privatize them by the end of 1994. Until now, none of these companies has been privatized. The GOE is late in implementing its plan as it is still testing the market and trying to find high enough bids. It is expected, however, that the procedure will speed up in the next stage, after the GOE succeeds in selling some of the companies that are currently up for sale.

Economic Rationale of Privatization in Egypt

The economic rationale of the privatization program is similar to that of other countries pursuing privatization and is straight-forward. Economies, such as that of Egypt, that are dominated by state ownership and control and are relatively isolated from world markets have performed very poorly compared to more liberal economies with more limited state ownership and more integration with world markets. The advanced economies of the world are becoming ever more enmeshed and consequently are forced into substantial structural changes to remain competitive. Egypt must undergo even more drastic structural change to try to catch up with the advanced economies.

If Egypt cares to raise significantly the standard of living of its citizens, it can do so only by reorienting its economy to become much more efficient and to develop a variety of export markets. This will require serious investment. The GOE has never had the investment funds necessary to build competitive businesses and certainly did not have the know-how and the motivation systems in place. Today it, like most other governments, has severe fiscal problems. Other sources of investment funds are required if the Egyptian economy is to privatize. The only significant source of such funds is the domestic and foreign private sector. Frequently export markets are unavailable without foreign partners, foreign investment, and foreign technology.

It is in this context that privatization is important. There are several reasons.

First. Privatization is the key to market liberalization. In many sectors, such as the fertilizer and textile sectors, privatization will break a monopoly and allow free and easy entry of the private sector into the market. Competition, consequently, will ensure better quality products and market price signals, which will enhance the rationale allocation of resources. Higher export proceeds will be gained.

Second. Privatization will foster economic growth. Better management of the companies by private sector management and the elimination of redundant employees will improve productivity levels, lower the companies' capital/output ratio, and hence increase their value added.

Third. Privatization will pave the way for more policy reform. The GOE's direct control over the market will be phased out since it will no longer subsidize the public sector companies by bearing their losses or salaries.

Fourth. Privatization will enhance the development of the Capital Market as more shares will be available for trade. It will also absorb liquidity from the market, which will be directed to productive activities. This will have a positive impact on the inflation rate.

Fifth. Private sector investment capital must be enticed into Egypt. Egyptian flight capital

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must be attracted back and foreign firms must be convinced that Egypt is a good place to invest and set up operations. There are innumerable alternative places for Egyptians and foreigners to invest. The environment for investment must become more favorable and must be able to compete with the environment in other comparable countries. An important element of improving the investment environment is to remove the state as the dominant player in the economy because the state is usually an unfair competitor. A state bent on controlling the economy usually turns off entrepreneurs and investors. Domination and control must be forsaken. The GOE must divest itself of its ownership in most of its businesses so that entrepreneurs can compete on a level playing field with those businesses and open up new businesses.

Sixth. The state rarely allows a business that it started to die. Many businesses are poorly conceived, irresponsibly financed, badly managed, and bankrupt. [Total losses in public sector companies amount to approximately LE 615 million per year.] They should be liquidated to stop their being a drain on the GOE coffers. Similarly, although the GOE has made a policy decision to stop further public investment in most public enterprises and to drastically limit public lending for operations of these businesses, the fact is that these businesses continue to receive government funds. The continued existence of these firms could result in crowding out the private sector from the debt market. Furthermore, in order to remain liquid, financial institutions may be forced to roll over the debt of weak enterprises, refrain from charging them a risk-adjusted cost of funds, and charge higher rates to financially sound enterprises in order to compensate for losses from substandard and non-performing loans. The only feasible alternative is one that maintains liberalization but resolves the problems of loss-making enterprises.

Seventh. Because of the relative weak and uncertain investment environment in Egypt, many private firms will be looking for start up investments with limited risks. The existing pool of public enterprises contain a number of companies and assets which should be attractive to investors who would like to "test the water" in Egypt. Similarly, the pool may contain businesses which would lend themselves to management or employee buy-outs. The importance of broadening the population with ownership responsibilities is recognized. Finally, the sale of shares of the public enterprises will offer an opportunity for many citizens to become capitalists with less risk than might be normally associated with a newly started business. It is important that the private sector not only grow, but that there be wide participation in the private sector so that it is not seen as the domain of an elite.

Eighth. The state is a poor manager of businesses. It tends to introduce a variety of goals when it goes into business and this variety of goals tends to distract it from the goal of running the business to make a profit. Although the state may take measures to isolate its businesses from political influences, such measures are usually short-lived and ineffective. The approach of the private sector is very different from that of the state. An important element of the rationale for privatization is that the efficiency and profitability of the existing public enterprises will significantly improve under private sector ownership. A corollary is that these businesses will find investment funds when they are profitable and that they will

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prosper and grow. Another corollary is that when the business is poorly run, it will shut down or it will trade hands. Much of the rest of this Annex deals with developing an approach to evaluate what happens to the former public enterprises in terms of efficiency and profitability. The Project will take on the responsibility of documenting and reporting on the impact of the privatization program.

Finally, while the proceeds from divestiture do not constitute direct economic benefits to society and may not be substantial, they will enable the GOE to recoup part of the funds previously invested. The GOE can then use these funds for basic services traditionally provided by government and for GOE budget reductions.

COST/BENEFIT ANALYSIS

The purpose of this analysis is to quantify the net gain to the economy that is expected to result from the privatization project, which will assist the GOE in valuating and selling 50 public sector properties and 23 joint-venture banks. Since these properties and banks are not identified yet, the analysis is based on average data for public sector enterprises.

The expected benefit considered in this analysis is the improvement of management, labor productivity, and hence the efficiency of the privatized entities which will lead to the decline in their capital output ratio. As a result, total value added would increase and economic growth would be enhanced. There are external benefits related to this project which were not quantitatively assessed, though important too. It is highly conceivable that the early retirement compensation paid to redundant employees may lead to further increases in value added as the employee invest it in a productive activity.

On the cost side, the investment cost requested for the project is approximately $ 35 million, distributed over the life of the project (5 years). The labor cost is another major component. It is composed of retraining costs that the economy would bear to reallocate redundant labors among other new projects and early retirement compensation to reduce the number of employees in the privatized entities.

Due to the difficulty of quantifying the increase in value added resulting from the privatization of banks, this analysis will concentrate on the privatization of properties, which represents about two thirds of the project. The following points are assumed in order to be able to quantify the net gain to the economy:

1. The number of properties to be privatized under the project is 0 in the first year, 15 in the second year, 15 in the third year and 10 for each of the next two years.

2. Redundant employees represent 30 percent of total employees in the companies.

3. Redundant employees will eventually leave the privatized company. It is assumed

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that this will happen in 5 years, directly after the company is privatized; i.e., 20 percent of redundant employees per year. [This is the period assumed for the company to readjust to run as a private sector company.]

4. All of those employees will get an early retirement bonus of LE 10,000 - 15,000 plus one year salary (about LE 2,000 - 3,000). 70 percent of them will need retraining.

5. The company's efficiency will improve over a 5 year period. Production will improve by 15 percent on average over that period, assuming constant capital. (3 percent per year) [According to experts, improvement in production resulting from privatization is expected to range from 0 to 50 percent. The 15 percent was depicted to show less than average increase in production since most of the first batch of public companies to be privatized in the period 1993-96 are not loser companies.]

6. 60 percent of the production value is value added to the economy. (This is the economy's average for the period 1986-1990)

7. The private sector will inject new capital investment to the privatized firms of about 10 percent annually of the existing capital over a 5 year period.

8. 4 percent US inflation, 10 percent Egypt's inflation, and 10 percent discount rate.

9. Capital-output ratio of the first batch of public sector properties that the GOE will privatize over the next 5 years is estimated at 6, reflecting a fair performance of non-loser public sector properties. This ratio would decline by 3 percent per year to reach about 5 by the fifth year.

Data were compiled from various sources-- PEO, World Bank, CAPMAS, and NBE. A time series of 20 years is considered, starting from 1994. Values were deflated to reflect constant 1994 prices. (see table)

According to the calculation, the project is expected to show a positive and considerably high economic internal rate of return of 36 percent. At a 10 percent discount rate, economic benefit is 2.7 times more than cost, leading to a high, positive economic net present value which is higher than the investment cost. In fact, the project is expected to repay back its investment in about 7 years. The project will show a negative real net benefit to the economy for the first 5 years, then will turn to be positive in the sixth year and forecasted to remain positive in the 20 year period thereafter.

To be more conservative, a sensitivity analysis is conducted to account for possible delay in the actual implementation of the project of one year. It is assumed that the actual sale of the properties may take more time than anticipated, resulting in a lower than expected number of privatized properties during the second and third years of the project. In this case, the number of privatized properties is 10 per year over a 5 year period. Accordingly, the

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project is also expected to realize a still high positive economic internal rate of return of about 34 percent.

It can be concluded from the above analysis that benefits from the privatization of the public sector properties under this project are expected to outweigh costs, and realize a positive net gain to the economy. From an economic point of view, this conclusion justifies the carry out of the privatization project.

Tracking the Economic Impact of Privatization

Forecasting the economic impact of the privatization program and of the Project based on firm-level changes is very difficult because basic financial and other performance information on the ACs has been very poorly kept in the past. The Project will, under the Evaluation activity, track the performance of a small sample of firms which are privatized early in the Project in order to develop a sense of the economic impact on those firms and firms and individuals associated with them. There are a number of considerations which could be pursued. This section of the Analysis presents those considerations. The intention of the Analysis is only to suggest alternative approaches. The M&E contractor will review these approaches and others and recommend its own approach.

As part of the current financial liberalization program, public enterprises no longer enjoy negative real interest rates, preferential access to credit, automatic government loan guarantees, subsidized exchange rates, and trade protection. In 1992, for the first time in recent history, many of these firms faced a positive cost of capital. It is probable that public enterprises have suffered a net loss of several percentage points of GDP as a result of the financial liberalization. As long as these firms are shielded, they will continue to pass their inefficiently high costs on to consumers.

The strategy of the Third Five-Year Plan is to emphasize productivity increase as the key factor in the growth process and to promote the growing role that private investment must play in all spheres of productive activity. As demonstrated in the chart below, measures of labor productivity all seem to indicate systematic differences in the efficiency of public and private sector activity, as clearly demonstrated by the manufacturing sector in which the private sector has made significant progress. The major economic impact from privatization is likely to be the increase in value added of privatized firms.

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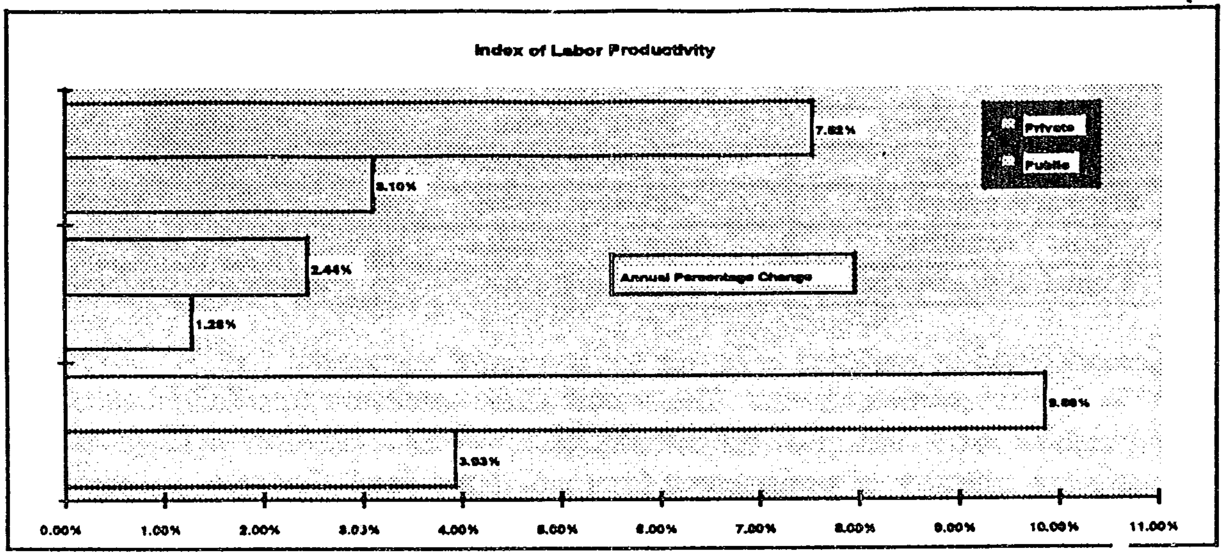

The economic viability of the Project can be justified in terms of the expected improvement in earnings and a reduction in losses of divested entities. Any improvement in efficiency results in an increase in value added, which represents the amount each firm contributes to gross national product. In order to measure the economic impact of the Project, each firm's performance could be analyzed based on the level of input necessary to produce output. A comparison then could be made between firm performance level before the sale and at intervals after divestiture to gauge the improvement in productivity.

Examining Performance & Monitoring of Divested Firms

Traditional means of monitoring privatized enterprises are generally carried out by three main groups; the government, the market, and the public. The government has the ability to monitor through equity sharing, price constraints, mandatory reporting requirements, and public audits. The market generally monitors through stock exchange pricing, financial reporting, shareholder reports/meetings, and investment analyst reports. In addition, the public can monitor privatized enterprises through public interest groups and media reports. The areas to be monitored fall into the following broad categories: growth, profitability, and efficiency; competitive performance, both domestic and international; and ownership structure and stock performance.

Growth, Profitability, and Efficiency

The efficiency of enterprises can be accurately measured through indicators such as cost, productivity, return on equity, profitability, and global competitive advantage. In this category, analyses include revenue and sales growth, turnover, return on assets and equity, increase in profit margin, and improvement in asset and employee productivity. The

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[4]Source: MOP and World Bank.

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following represent a sample of performance indicators commonly used. Each of the following illustrative indicators should include actual, inflation adjusted, and growth in the performance:

Inventory Turnover	**Profit Margins**	**Earnings per Share**
Profitability Ratios	**Employment Numbers**	**Dividends per Share**
Revenue per Employee	**Collection Period**	**Dividend Payout**
Asset Productivity	**Capacity Utilization**	**Book Value per Share**
Capital Expenditures	**Debt to Equity**	**Production per Employee**

Other indicators could be analyzed to ensure the successful management of the privatized enterprise through measurable results. This would allow agencies and official bodies to accurately gauge the performance of the privatization program. Issues of equity could also be examined as an indicator of performance for a privatized firm. Accurate assessments can be achieved through the evaluation of price, availability, responsive posture, distribution of wealth, distribution of ownership and standard of living.

Competitive Performance

This category measures the effectiveness of the privatized enterprise through various quantitative mechanisms including quantity and quality of output, schedule fulfillment, profitability, and global competitive advantage. Analyses could also include firms' market share; growth in market share vs competitors; productivity, efficiency, and performance ratios relative to industry averages; performance relative to foreign competitors, and monopolies versus presence of substantial competitors.

Stock Performance

This category relates to the stock performance, ownership structure, and shareholder issues such as: share price appreciation, trend of ownership concentration and majority control, voting power of operating management, board of directors composition, diversification strategy, employee shareholdings i.e. ESOPs, limitations on shareholdings, and private sale versus public offer.

Methodology to Determine Impact of Privatization

To determine the impact of privatization, the economic and financial aspects of the firms' performance should be reviewed prior to and subsequent to divestiture. The chart on the following page represents a sample of indicators commonly used.

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Economic and Financial Indicators

ECONOMIC	FINANCIAL	OTHER
Direct Employment Generation	Comparative Profits/Losses	Capital/Financial Investments, Growth
Number of Persons Employed	Comparative Debt Burden & Interest Costs	Performance in the Market vs. Competitors
Indirect Employment Generation	Sales, Growth in Sales, Inflation Adjusted	Import, Export, and Distribution
Increased Demand for Firm's Product	Profitability, Growth in Earnings, Inflation Adj.	Currency Effect on Competitive Position
Foreign Exchange Generation/Usage	Total Asset Productivity Ratios	Performance of Shares on the Stock Market
Quantity of Materials Imported	Productivity of Capital Employed	Number and Availability of Traded Shares
Materials/Products Imported vs. Exported	Working Capital Management	Profit Performance of Shares
Production Efficiency Ratios	Inventory Turnover & Inventory Management	Ownership Limitation on Shareholdings
Production Growth, Production Per Employee	Loan to Capital Funding LTD to Equity	Employee Assessment of Remuneration
Capacity Utilization vs. Technological Improvement	Interest & Depreciation Coverage	Employee Perceptions on Promotion, Involvement

After estimating the improvement in efficiency based on the financial information of the divested firms i.e. the benefits, the economic merit of the Project can be verified by calculating the cost of the required $35 million of financing over five years. The economic cost of the financing can be computed under numerous scenarios. Given the economic cost, the discount rate in Egypt should be applied to determine the required economic impact to justify this investment. The level of achievement of the required economic return can be reviewed in terms of the required increase in contribution to gross value added and in aggregate gross revenues of public enterprises. This analysis should concentrate on the public entities approved and prepared for privatization once the data on the individual accounts are available.

THE NEW PRIVATIZATION PROJECT
ECONOMIC ANALYSIS

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
COSTS													
A. Current Investment Costs ($Mil)	1.63	10.33	11.25	8.64	3.16								
B. Labor Costs													
Retraining	0.00	2.45	4.89	6.52	8.15	8.15	5.71	3.26	1.63				
Early Retirement	0.00	26.21	52.41	69.88	87.35	87.35	61.15	34.94	17.47				
Labor Costs (Constant LE Mil)	0.00	28.65	57.30	76.40	95.51	95.51	66.85	38.20	19.10	0.00	0.00	0.00	0.00
C. TOTAL COSTS (Constant $Mil)	1.63	18.61	27.77	30.83	31.64	28.94	20.26	11.58	5.79	0.00	0.00	0.00	0.00
BENEFITS													
D. Increase in Value Added (LE Mil) 1/													
At existing capital (real)	0.00	0.00	4.89	14.82	28.32	45.47	63.14	75.68	82.91	86.58	86.58	86.58	86.58
With capital increase (nominal)	0.00	0.00	16.80	51.90	100.98	155.00	233.17	277.28	302.49	315.09	315.09	315.09	315.09
Net Increase in VA (constant LE Mil)	0.00	0.00	18.77	53.82	97.29	141.71	194.76	217.96	224.02	220.21	208.06	197.02	186.98
E. TOTAL BENEFITS (Constant $Mil)	0.00	0.00	5.69	16.31	29.48	42.94	59.02	66.05	67.89	66.73	63.05	59.70	56.66
REAL NET BENEFIT (1994, $Mil)	(1.63)	(18.61)	(22.08)	(14.52)	(2.16)	14.00	38.76	54.47	62.10	66.73	63.05	59.70	56.66

INTERNAL RATE OF RETURN	0.36
BENEFIT/COST RATIO	2.65
NET PRESENT VALUE	186.01
PAYBACK PERIOD	7 years

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
MEMORANDA													
No. of privatized properties	0	15	15	10	10								
Exchange Rate, LE/$	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
US Deflator	100	104	108	112	117	122	127	132	137	142	148	154	160
Egypt's Deflator	100	110	121	133	146	161	177	195	214	236	259	285	314

*1/ Calculated on the basis of an expected annual increase in output of the privatized property: first at the pre-existing capital of the property, then at an assumed increase in investment of 10 percent annually until the property is restructured and function according to private sector rules. Since the properties to be assessed by the project are not identified yet, calculations are based on an average PSE multiplied by the number of properties to be privatized--e.g., output for the privatized properties = (total public sector output / total number of public enterprises) * number of privatized properties.*

July 29, 1993

BEST AVAILABLE

ANNEX L

FINANCIAL ANALYSIS

Return on Investment

The Privatization Project was developed with the view that substantial financial and economic returns can be realized on the USAID investment. It is a very basic premise of this project that the sale of PEs, SOEs and PJVC is a desirable option from a financial standpoint. Financial return on the USAID investment would result from a positive net present value (NPV) of the sale for the GOE. A positive NPV would result from the following scenarios. Where the GOE neither subsidizes nor receives revenues from the enterprise, financial proceeds from divestiture must at least equal the financial cost of the investment plus earnings if the cost were invested in an interest bearing account. Where the GOE is receiving net revenues from the firm, the net sale proceeds must cover the discounted value of earnings less outstanding liabilities. Finally where the GOE is a net provider of resources, the reduction in revenue outflows must exceed the privatization costs. Economic returns would include improvement in the performance, and improved utilization of assets for the privatized companies. Economic returns are expected to be many times larger than financial returns.

At this time a realistic financial analysis of the return on USAID's investment is not possible as the data is unavailable. One of the major components of the project, Sales, will be primarily engaged in valuing and selling enterprises. A large part of the valuation will be focused on determining the financial viability of sales. The Buyer will be looking for sales prices that will result in a positive net present value. As the results of this exercise begin to come in and some actual sales are achieved it will be possible to begin forecasting and monitoring the financial impact of USAID's investment.

In advance of specific data, we can still consider some scenarios that would result in acceptable rates of return on the AID investment. The GOE recently listed 85 properties with a <u>book value</u> in excess of $2.5 billion for privatization. Assuming other barriers are overcome and the project results in privatization of 50 properties and 23 joint venture banks, an average net present value of property and joint venture bank sales would have to reach $615,000 and $250,000 respectively in order to obtain an internal rate of return in excess of 10%. The analysis assumes that privatization will be spread evenly over the 4 years of active implementation of the project. All GOE cost of sales would be included in the NPV computation. An increase in the average NPV of properties to $700,000 would result in a decrease in the joint venture bank required NPV to $70,000 to obtain the same IRR. If only 40 properties and 20 joint venture banks are privatized the required NPVs would be $770,000 and $290,000. If such results can be considered attainable the project makes sense from a strictly financial perspective, even without consideration of the significant economic benefits that are anticipated from privatization.

Cost Effectiveness and Sustainability

In planning for this project the Technical Office considered several approaches to attaining the desired output of actual privatization completed. The approach adopted for the Project is to provide financial, technical, advisory and training assistance, to establish standard policies and procedures for privatization, to strengthen organizations involved in privatization of the GOE's SOEs, to implement actual privatization of SOEs, and to develop broad support for privatization activities in Egypt. This multi-focused approach is appropriate for supporting privatization activities because of the need to complete the task within the schedule, the enormity and complexity of the task, the lack of sophistication of the market, the limited experience of local groups in performing advanced analytical evaluations and assessments, the diversity of sectors involved, the deficiency in the legal and legislative base, and the need to improve public awareness regarding the privatization process.

The approach uses both US and Egyptian personnel. The utilization of primarily expatriate services is not preferred primarily in light of the Project's objective of building a local capacity for managing the privatization process, and to a lesser extent due to cost considerations. Utilization of exclusively Egyptian services is not feasible as the required expertise in international markets , buyers, and financial source and techniques is not locally available. The Project will maximize efficiency by use of Egyptian expertise wherever possible. This Project will not finance any budget support for the PEO.

The single most expensive component of the project is the Sales component. This component does not contemplate a direct transfer of technology or skills. Its objective is to access the very specialized skills necessary to valuate and sell properties. The technical analysis has concluded that combining assistance for both steps is the most likely to result in sales being consummated. The merchant banks will have a substantial commercial interest in seeing that properties are sold, and have the expertise and experience necessary to bring large sales such as these about. The funding for the component will serve to pay engagement fees to the merchant banks. The engagement fees are deemed necessary as an enticement needed to bring merchant banks to Egypt to undertake privatization. The engagement fees paid by USAID under the component are expected to be only a small fraction of the total payment which the merchant bank will receive for the ultimate sale of a property or joint venture bank. The success and abort fees paid by the HCs will represent the large majority of the total fees received by the merchant banks for their efforts in the privatization process. However, even with the enticement of success fees representing a percentage of the sales proceeds, there remains an element of risk for the banks taking on privatization in Egypt. The engagement fee will encourage the banks to take on that risk. It is hoped that the merchant banks will find work in Egypt profitable and will continue work with the HCs after the end of the project even in the absence of engagement fees. Increased success and abort fees may cover the merchant banks increased risk, or the HCs may pay engagement fees from the proceeds of prior sales.

SOCIAL SOUNDNESS ANALYSIS

Summary

This Analysis looks first at the socio-cultural context of the structural economic reforms including privatization and then looks at the socio-economic costs and benefits of achieving the purpose of the Project.

The Egyptian people have for a long time seen the state as the principal agent of economic change and development. The essence of the Economic Reform and Structural Adjustment Program is to diminish the role of the state in this area and to depend on private initiative and investment to propel the growth and development of the economy. The socio-cultural context for the reform program is changing slowly as the population grow accustomed and more supportive of the Program and its implications for their lives.

The principal cost of the privatization program occurs in the short run. Perhaps 20,000 workers may join the ranks of the unemployed. The GOE rightfully needs to be concerned about such vulnerable groups. The groups of employees that may become unemployed appear to be actually rather small, compared the PE work force and especially compared to the numbers already unemployed. The potential unemployed are more a political problem than a social problem. Other countries such as Mexico and Nicaragua have effectively used their Social Funds to ameliorate both the social and political problems. The Project needs to keep these problems in perspective, but also to bring the experience of the other countries to bear in dealing with the problems. As the economy recovers and begins to grow again, these and many other worker, however, will find jobs.

The socio-economic benefits of the Project will accrue in a variety of forms:

- Economic growth will be enhanced and growth of employment will be accelerated with an expanded role for the private sector in the productive segments of the economy;
- Firms will be more efficient and competitive operating under private management and will produce consumer goods more cheaply;
- Diversifying the ownership base of assets in society will contribute to the productivity of the citizens and a greater sense of participation in the economy;
- Public outlays for operating subsidies will decrease and possibly stop;
- Government of Egypt (GOE) resources can be reallocated to priority areas such as human resources and social services; and
- There will be reduced requirements for GOE borrowing, easing the pressure on interest rates and lessening the threat of renewed inflation.

- Increased incomes will contribute toward an improved quality of life.

The groups benefiting from the privatization program tend to be more diffuse and less visible than the potential unemployed. An important challenge to the Project will be to seek out, document, and communicate the stories of the beneficiaries. This will be an important task of the program promotion component and the monitoring and evaluation activities.

Understanding Country Specific Setting

It is useful to keep in mind both the socio-cultural context and the context of rather drastic economic structural reforms when one is trying to understand the social soundness of the Project activities.

The socio-cultural context, due to a long history of state-ism that Egypt has witnessed, has always recognized a leading role for the state in the Egyptian economy and its development. The state was perceived as the main economic actor and the main employer. Starting in the sixties, the government was seen as responsible for the promotion of both economic development and the provision of sufficient jobs for an ever-expanding labor force. On the other hand, such a context has naturally inhibited the development of a sense of responsibility towards the development process on the part of the population. Such a context has also served to inhibit the growth of serious private initiatives and of a strong private sector that could lead economic growth. Moreover, the policy of nationalization which took place in the 1960s managed to do away with what used to be a well-established private sector prior to the 1952 revolution.

Fortunately, this traditional context is slowly starting to change. In fact this change started to evolve during the 1970s under Anwar Sadat. The GOE and various opinion leaders are developing a growing conviction of the importance of private initiative in leading the development of the county. The Project would rely on, and at the same time enhance, this positive development of the socio-cultural context towards private initiative and recognizes its important role in shaping Egypt's future. Such a development would also promote the sense of responsibility and participation on the side of the population vis a vis the developmental processes instead of expecting the state to perform the main role. This sense of responsibility will undoubtedly be expanded through the expansion of the ownership base of the privatized PEs, an option that the design of the Project was careful to address. The program promotion component will also contribute through its various mechanisms to the much-needed development of the traditional socio-cultural context.

There is a set of identifiable factors which are limiting the growth of the Egyptian economy. These have resulted in an inadequate framework for private sector growth, the dominance of the public sector in the country's economy, and the limited capacity of the capital market. However, if these constraints are properly addressed, the potential for more rapid, private-sector led growth is substantial. Widespread social benefits are expected to result from the economic growth, particularly increased employment, income and quality of life.

The Privatization Project will be implemented within a privatization policy framew rk already set in place by the GOE. In addition, project support for the government's privatization program is aimed at rectifying the massive fragmentation and mis-allocation of resources that have plagued the public sector. Emphasis on public-sector led economic development has resulted in significant losses in budgetary income as well as tremendous deterioration in productivity levels. The situation is alarming and needs to be corrected soon, as the impact of the inefficiencies in the public enterprise system have led to lower GDP growth rates as well as indebtedness to external resources, neither of which is sustainable.

However, in the last couple of years, Egypt has done more in terms of financial reform than anyone would have anticipated a few years back. It has restored a fragile equilibrium in several domains: exchange rate, inflation, debt, public expenditures and revenues, balance of payments, foreign exchange reserves, etc.

Egyptians have already paid the bulk of the price of reform. Their real incomes have shrunk since 1986 (at least) as they faced 20-percent-plus inflation. Between two and three million Egyptians are openly unemployed. The Gulf War sent hundreds of thousands of worker migrants back to an economy unprepared to receive them. Many Egyptians have already adjusted their behavior to the new and harsh realities. That does not make them palatable and does not mean the situation is not without risk, but it does put in context the threat represented by privatization.

It should be understood that the social benefits to be realized from the Project will be indirect and can involve a time lag which may go beyond the life of the Project. If the privatization program proceeds according to plan, there will be social costs, namely loss of employment for some public enterprise sector employees. However, these costs will be outweighed in the long run by increased employment resulting from more viable and profitable firms under private management and ownership.

Social Costs and Benefits

In identifying broad social issues which may affect implementation of the Egyptian privatization program, two basic concerns exist: dealing with displaced workers and assuring that the long term social and economic benefits of the Economic Reform and Structural Adjustment Program are understood. However, a close analysis of these concerns, carried out below, reveals that the Project has been designed to help the government effectively address them.

Employee Concerns

Egypt's potential for growth in the near future will clearly depend on the ability of the economy to utilize productively the abundant and fast growing labor force.

Trends in employment growth in the various divisions of the public business sector (Law 203) companies during the 1980s confirm that recruitment in government administration has greatly surpassed that of the economic authorities and public enterprises. However, the levels of surplus labor in these Law 203 companies is smaller in absolute and relative terms when compared with government administration. In the public business enterprise sector, the forced hiring of workers was a serious problem in the 1960s and the 1970s. It continues to be felt today even though this practice has been discontinued and enterprises have been encouraged to reduce labor force through attrition.

Efficiency indicators in Egypt show a steady deterioration in the PEs' performance since the mid 1970s, which accelerated in the 1980s, leading to declines in: a) the financial rates of return, b) the real output per worker, and c) the ratio of value added per worker. The decline in productivity of public enterprises is attributed to a great extent to the burdens of surplus labor with which the enterprises have been forced to contend. Increasing the efficiency of the public sector will require restructuring efforts aimed at curtailing the hiring of new personnel, followed by the trimming of excess labor from public enterprises.

According to data made available from the PEO, the work force of the companies falling under Law 203 is estimated at 1,068,747[1]. These Law 203 companies include small/medium size enterprises and large production units of ACs as well as the government-owned shares in joint venture companies. These enterprises have worker employment ranging from as low as 200 employees to as high as 25,477. According to World Bank figures (and also verified from the PEO), surplus labor is estimated at over 30 percent in the public-enterprise dominated manufacturing sector, which is the highest compared to other sectors of the economy.

The levels of surplus labor in sectors other than manufacturing are lower than 30 percent. However, if one were to assume that the redundancy level in all the Law 203 companies is around 30 percent, this could lead to a loss of 300,000 jobs over a five to ten year period. However, the privatization program for the next five years only involves 150 companies, and therefore, the number of people unemployed at the end of 5 years should be substantially less than 300,000. The validity of this estimate can be further strengthened by the argument that the government in the initial years of its privatization program, will be disposing-off the relatively easier-to-privatize companies having as few problems as possible. There is a

[1]The PJVCs are assumed to have few redundant workers, since, as noted elsewhere, they are run more like private sector businesses.

greater unlikelihood that the government would begin by tackling any of the companies with large number of employees.

The preliminary list of 85 companies that are now being closely looked at for privatization over then next couple of years have approximately 165,000 employees, and none of these over 9000 employees. If all these companies were to be privatized in the next three to four years, then assuming a redundancy of 30%, the government will have to make provisions for about 48,000 employees that are likely to lose their jobs. This estimate excludes the increased levels of employment that the new owners might introduce in these privatized companies as they begin to expand their operations.

The position of this Analysis is that, although some employees may lose their jobs directly due to privatization, it will not significantly increase the ranks of the total unemployed in Egypt today. Estimating on the high, top end of 48,000 losing their jobs through privatization, this still would not significantly increase total unemployment in Egypt. Programs, including early retirement schemes, severance packages, and retraining, can be developed to help lessen the blow to that size of a group. Some already have more than one job; this has been seen in the case of some Affiliated Companies that have started using time cards and other devices to track the presence of their workers. All factors considered, it would be surprising if more than 20,000 were added to the ranks of the unemployed. In Mexico's very rapid privatization process to date, a total of 200,000 jobs have been eliminated, but a far smaller number of people have had to look for new work. If resort to liquidation of bankrupt firms were pursued, then these estimates would have to be revised upwards, but note that the Mexican figure includes job loss through both liquidation and privatization.

Thus, while privatization will have a somewhat negative short-term impact on employment, it should have a relatively large, positive impact on the economy by reducing the deficit further, freeing up credit markets to private borrowers, and allowing the government to shift scarce investment resources to the traded sectors and to infrastructure.

The more serious problem is that of low productivity of many workers in the economy. New management and new investment will: 1) increase the productivity of the workers who stay; 2) increase their incomes, and 3) will foment the creation of new jobs which should be able over time to reemploy many of the job-losers and provide new and better jobs for the continuing stream of those who graduate from school.

The GOE Approach to Addressing this Concern: The Social Fund

The GOE is giving considerable attention to ameliorating the effects on those who will lose employment. In order to address the issue of redundancy and unemployment, the government has set up the Social Fund for Development that is responsible for alleviating some of the negative social impacts of the economic reform program. The Fund is responsible for providing new job opportunities for public enterprise workers displaced as a result of the economic reform program, as well as for other selected vulnerable target groups among which are women often adversely affected by the measures taken for structural adjustment. The Social Fund is likely to be used to fund retirement benefits for some of these affected workers. Special programs/projects are geared by the Fund to finance Women in Development activities (WID) to alleviate the negative social impact on women as a vulnerable target group.

Privatization Project Interventions

The Project recognizes the inability of the government to continue to pursue the role of a major provider of jobs in the economy. Further, it recognizes the government's target for reduced unemployment levels relies almost totally on the accelerated growth of the private sector.

Although the long-term economic benefits of privatization are expected to be substantial and to benefit all Egyptians, it is important to realize that the Project activities may lead to the dislocation of some workers. As indicated above, an analysis of the companies scheduled for privatization for the next three to four years shows that they will have a relatively small impact on total number unemployed. The Project is designed to help in the privatization of 50 companies and 23 banks. Therefore, the unemployment dislocations caused due to activities carried out through the Project will be much lower than the number of 48,000 estimated for 85 companies.

As part of the decision making component, the Project may offer technical assistance to the PEO for identifying some of the issues being faced by the Social Fund and suggest innovative approaches for addressing employment dislocations. Also, project assistance will be used to assist HCs in addressing these concerns on a case-by-case basis for their respective ACs as a decision is made towards their privatization. The utility and effectiveness of these institutions will be strengthened by helping them address redundancies and employee ownership issues-social/political side of the displacement of labor.

This component will have a special focus on helping address the costs of displacement specifically through analyzing the extent of redundancies, designing and costing redundancy packages, and initiating schemes for severance and gratuity payments. Gender disaggregated data would be sought and gender considerations addressed in this context. The Project will also help design methods for spreading the ownership of the newly privatized firms to small investors. Some of the work done in the area of ESOP design and implementation under the previous project will be further expanded and replicated to involve employees in the privatization program.

The Project will bring to bear the experience of other countries in dealing with unemployment issues. Some of these experiences discussed below could be studied further— through project assistance— to assess their applicability to Egypt.

Productive Dialogue: Productive dialogue with workers, workers' associations or unions addressing the merits and rationale of privatization have proved to be useful (as seen in the privatization of British Telecom).

Labor/Management Buy-out: In such a case, a combination of labor and management gains a controlling interest in the firms being privatized, often by means of leveraging. Examples of these can be found in Britain, the best known as the National Freight Company. Others include the water supply company in Cote de Ivoire that was taken over in a buy-out to avoid liquidation and in Chile where there have been a number of buy-outs with full or partial worker participation.

Lessening the Adverse Consequences on Employees: Country-wide measures to encourage employment can be the most effective factor to negative employment consequences for privatization. In the case of Jamaica, proceeds of sale of SOEs are being used towards setting small-scale industries by channelling these as loans at low interest rates to all those retrenched and interested in setting up something on their own.

Employee Ownership: One measure used in a number of privatization is the reservation of shares for employee participation, with employees encouraged to participate. In the case of British Telecom, 96% of eligible applied for and were allotted shares. In Chile, a common procedure for workers' participation has been to use their severance payments in the form of equity. In such a case, two incentives were provided: a) usually 80% had to be used for buying equity so the workers also received cash; and 2) the company pledged to compensate the worker for any decline in the price of shares below the value of the severance benefits accrued at the time of retirement. In Jamaica, in the case of the National Bank and the Cement Corporation offerings, employees were offered 20 free shares, up to 350 matching shares at the offering price, 850 shares at 10% discount, and a further 850 priority shares at the offering price.

Government Absorption of Employees: Out of a total work force of 559 in Tunisia's Fluobar Company, the government, having agreed with institutional investors on the number of surplus jobs (150), was expected to assume the costs of the wages of these workers while trying to find alternative employment for them elsewhere. In Guinea, the government retained in the civil service, as a transitional measure, the employees of the dissolved SOE who were not re-employed by the new private company. A program has been developed with French bilateral assistance, to retrain these public sector employees and others, and to support financially and technically those who elect, or have to leave public employment.

Special Payments to Employees Retiring Voluntarily or Laid-off: British Airways established such a program as part of its readying for privatization. Severance packages were offered on a voluntary basis and approximately 22,000 employees took them an reportedly, largely used them to set themselves up in small businesses.

Adjustment to Pension Benefits: In the case of British Airways, index-linked pensions actually had to be bought as part of the conversion from public service to private employment.

Obtaining Commitments from the Private Purchaser: This was done in the case of Bangladesh's jute mills. In the case of two matchmaking industries, the purchaser reportedly agreed not to lay-off workers for two years so that attrition could play a key role. The "Cashier des Charges" for sale of enterprises or assets in Tunisia routinely include a requirement for bidders to commit themselves to take all personnel.

Beneficiaries

There are several important groups of beneficiaries of the privatization program.

First. The Sales Component will help in the divestiture of over 50 companies and 23 banks to the private sector. The first and most obvious beneficiary through undertaking this component will be the GOE. It will divest itself of these firms which have served more as financial burdens rather than as assets; it will recoup part of the investment which otherwise would have been considered lost; such steps will create an environment which is conducive to maximizing returns on and enhancing the efficiency of its investments in the public sector. Assistance offered through this component will also enable the government to reallocate its resources towards the development of human resources and social services. The size of the public sector investment and the total annual expenditures incurred in the productive/commercial sectors have far exceeded preset targets and have taken a toll on the GOE plans for investing in health, education, and public works. Investment in these three sectors amounted to only 16 percent of the total investment budget, nearly the same share as that of the manufacturing sector alone. The public sector would be in a better position to target those sectors in which the private sector would normally under-invest, and government investment should only be used in areas where it can act as a catalyst to attract private investment. The privatization program will enable the government to shift its attention from owning and managing operations that can best be handled by the private sector to concentrating on social programs discussed above as well as development issues that are not normally tackled by the private sector, such as problems of regional imbalance and equity, protection of vulnerable groups, and environmental issues.

The possibility of the GOE creating a social program along with the privatization program have not been spelled out fully. However, some initiatives have been made towards assessing the use of sales proceeds generated from privatization. Through the Project's Decision Making Support Component, assistance will be offered to the government to implement an effective approach for a better utilization of the sales proceeds. The Decision Making Support Component will also be able to offer assistance to the PEO to create special programs--as seen in other countries such as Mexico (described in detail below)-- that will use proceeds from the renegotiation of foreign debt and the divestiture of public enterprises to fund: a) job creation, b) productive projects, c) health care, d) education, e) nutrition, f) food distribution, and g) development of basic infrastructure. An illustration of the case of Mexico and its judicious use of sales proceeds can be found at the end of this Annex.

Thus the savings accrued, and proceeds received from sales, can be partly invested in areas of legitimate government activity which can benefit a broad range of citizens and that are geared to improve the quality of life for the people.

Second. The Project is also aimed at building a strong base of support for free market policies and privatization among the people in Egypt. Therefore, the second group of beneficiaries will be the local population. It is frequently expressed that the privatization program is aimed at the privileged few in society and not the common masses. Therefore, a successful privatization program must incorporate a well planned strategy for diversifying the ownership of assets among individuals in society and a well-defined social program that will allow for the improvement of the well being of the people.

The buyers of public enterprises themselves, who will be purchasing established business concerns, are obviously beneficiaries The project-- towards the end of its life-- will be able to increase the size of the private sector and assist in rejuvenating the entrepreneurial talent that has been stifled by excessive government involvement in the economy.

Through assistance provided under the financial instruments development component, the emphasis of the Project is to encourage the government to create instruments for privatization that will offer opportunities for smaller investors who would otherwise be excluded if privatization were only accomplished through public bidding and negotiated sales. Schemes and instruments aimed at mobilizing capital for the workers, individuals, and institutions to buy shares will be initiated and developed for the program. The applicability of voucher schemes, ESOPs, credit facilities, loan guarantees, and mechanisms to introduce labor capitalism, E-credit, mutual funds, etc., as seen in other countries around the world (refer to "Technical Analysis" for a detailed discussion) will be studied to enable the GOE achieve its important objective of widening the ownership base, and dispersing economic wealth throughout the country. Also, the program promotion" component will assist in apprising all the target groups about the benefits of private ownership.

Third. Consumers stand to benefit substantially from introducing competition where state monopolies now dominate. The new private sector owner will drive the companies to become more competitive and to produce in many cases consumer good more cheaply. This will increase the real income of the citizenry.

2b

WID Analysis -

Privatization in the short term will lead to significant levels of unemployment. To accurately assess who will be harmed by layoffs due to efforts to reduce labor redundancy, there is a need to examine labor force characteristics within the firms that are targeted for privatization. The Project should seek wherever possible and appropriate to gender disaggregate data and information related to the privatization program. This will be particularly relevant for information and data collected and analyzed by the Evaluation contractor.

Attachment 1

Mexico's Solidarity Program: Some Lessons for the Egyptian Privatization Program

The Solidarity Program is the fulcrum of President Carlos Salinas de Gortari's effort to ensure that the benefits from Mexico's free-market renaissance reach the very poor. Launched in December 1988, the Solidarity program forms part of an economic policy characterized by control of inflation and strict fiscal discipline. This program has not been financed by printing more money or increasing public expenditure, but rather by using funds proceeding from the renegotiation of the foreign debt, the divestiture of state enterprises, and resources provided by the beneficiary communities.

Mexico, in the last five years, has sold or liquidated all but 200 of the 1,155 companies that were government owned in 1982. The government has used the US$22 million proceeds from privatization to reduce the government's borrowing on the Mexican market. And the interest savings are being used to raise social spending, which now takes up 50% of the budget, compared to about 25% two decades ago.

The results of this program have been impressive. In 4 years, neighborhood building brigades have refurbished 75,000 schools and paved thousands of miles of streets Communities have also played a major role in designing and implementing heavier projects that have brought electricity and potable water to more than 10 million people and drainage services to another 8 million. People are also starting small businesses with the aid of a Solidarity venture-capital fund, which already has helped finance some 2,400 enterprises. An important feature of this program has been the ability of the government to guarantee better distribution of opportunities. A number of people laid-off as a result of privatization have been able to combine their private savings with venture capital from Solidarity to open small businesses. When Mr. Salinas visits communities to dedicate new solidarity projects, he never fails to mention that the money came from the privatization program. This message has started to sink in among the people of Mexico. Despite long exposure to state-ist rhetoric, a majority of Mexicans in a recent survey said they believed the sale of state-owned enterprises was good for the average people. The government has endeavored to build a strong base of support for free-market policies that Mexico never returns to the old paternalistic way of running the country's economy.

The Solidarity program has made an important innovation: the program's priorities in each community are determined by the beneficiaries themselves; they organize their own communities and elect their own representatives, who in turn are responsible for overseeing the allocation and use of funds- made available through privatization proceeds and renegotiation of debt. This "do-it-yourself" plan-- which encourages citizen participation-- has caught on so quickly that now 60,000 Solidarity committees are building everything from scenic roads for tourists in mountainous Michoacan to recycling centers in the heavily polluted capital. Since these projects are handled at the community level, Solidarity road building projects, according to Carlos Rojas, who heads the Solidarity program, cost just 70% of what the government used to pay to do the job; the programs' school repair costs average only 60% of earlier outlays. While Mexico has set up Latin America's largest social program, it has also attained its first federal budget surplus.

The actions of Solidarity are thus governed by 4 straightforward principles: respect for initiative, will, organization and decision of communities, full and effective community participation and organization; shared responsibility between government institutions and communities; and the honest, transparent use of funds. The Solidarity program is mainly concerned with a) job creation, b) productive projects, c) health care, d) education, e) nutrition, f) food distribution, and g) development of basic infrastructure, thereby tackling the most serious causes and consequences of poverty. In 1991, approximately US$2.6 billion were allocated to Solidarity with the federal government contributing about US$1.7 billion of the total- realized through privatization proceeds and debt renegotiation, and the remaining US$900 million were provided by state and municipal governments and by beneficiaries.

The program encompasses three parallel spheres of action. These are:

> *Solidarity for Social Well-Being*: aimed at extending health care coverage, education benefits, providing food and benefits, better drinking water and sewage facilities, providing electricity to the people, urbanization of communities, protecting the environment, establishment of municipal solidarity funds to the country's poorest municipalities, promoting the organization of women's groups, regularization of land ownership, and building road infrastructure.
>
> *Solidarity for Production*: has resulted in the setting up of i) a solidarity venture capital fund which has already helped start over 2,400 small businesses and is also being accessed by all those laid-off from state enterprises that have been privatized, ii) solidarity funds for production to assist producers with low agricultural yields, iii) regional funds for the development of indigenous communities, iv) a program for productive support in the areas of coffee cultivation, small-scale mining, river fishing, and aquaculture, and v) a program for the improvement of living standards of agricultural day laborers.
>
> *Solidarity for Regional Development*: Solidarity has launched development programs in regions that, despite major deficiencies, have a high productive potential.

In conclusion, Mexico's well defined and orchestrated Solidarity program has made significant advances towards utilizing the proceeds of privatization towards the development of social services and human resources. It is interesting how Mexico has been careful to separate revenues from privatization from budgetary receipts. Achieving balanced budgets through revenues from privatization brings limited added economic benefits to society- as has been seen in the case of some countries where post privatization results have been minimal.

The Mexican approach has not only improved provision of social services but also helped in gaining support for the entire economic reform and privatization process underway in the country. Such a judicious approach is now being closely studied by other countries around the globe, and it would be worthy to examine the validity of such a successful experiment in Egypt.

WAIVERS AND JUSTIFICATIONS

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

FROM : Priscilla Del Bosque, AD/TI

SUBJECT: Privatization Project
(263-0238) - Procurement Source and Origin Waiver

ACTION REQUESTED

Approval of a waiver of source and origin requirements to allow the Privatization Project to purchase **locally-available** computer software and electronic and electrical equipment (such as computers and fax machines, etc.) of U.S. origin (Code 000), in addition to **local source and origin** office furniture and expendable items (printing paper, office supplies,etc.). The total value of these purchases will not exceed $435,000.

BACKGROUND

The purpose of the Privatization Project is to assist the GOE to implement its privatization program through institutional development and assistance for the sale of public enterprises and properties. Assistance will be provided in five main areas: Program Promotion, Organizational Development, Sales, Financial Instruments Development, and Decision Making Support. $35 million will be provided to implement the Project over a five year period. The approved source and origin of goods and services under this project is A.I.D. Geographic Code 000 (U.S.).

Local procurement under this project will be required to support project operations and activities under two contracts for technical assistance and evaluation. Handbook 1B, Chapter 18, A.1.c., states that all locally-financed procurement must be covered by source and nationality waivers with certain exceptions. As none of the exceptions are applicable to this project's anticipated local procurement of electronic equipment of U.S origin (with a transaction value in excess of $100,000) and local source and origin office furniture and expendable items (with a transaction value in excess of $5,000), a source and origin waiver is needed to procure this U.S. origin, locally-sourced electronic equipment, and the local source, local origin office furniture and expendable items.

DISCUSSION AND JUSTIFICATION

The Privatization Project requires certain commodities to be procured which are necessary for the functioning of the technical assistance and Evaluation contracts. Certain local procurement, including rent, utilities, communications, etc., is allowed under Handbook 1B Chapter 18, therefore, this type of procurement is not included under this waiver request. However, equipment and software valued at approximately $245,000, in addition to local origin office furniture valued at approximately $130,000 ($5,000 per person for approximately 26 persons), and office expendable items valued at approximately $60,000 (roughly $20,000 for the evaluation contract and $40,000 for the technical assistance contract) will also be purchased under the project.

As the Project's implementation involves a series of time sensitive activities, any delays in receiving the technical assistance and these needed commodities will negatively affect achievement of project objectives. For both the TA and Evaluation contracts mentioned above, the long-term staff is expected to be fully functional in Cairo within two months of the award of the contracts. As both contractors will be responsible for procurement of needed commodities, it would be extremely difficult to meet these projected deadlines with procurement of furniture from the U.S. since the commodities would need to be ordered, shipped, and delivered within two months of contract award. A recent survey of cost for furniture procured in the U.S. versus locally procured furniture has shown that for most of the needed expendable office furnishings that, even without including the costs involved in clearing customs and moving the furniture to the site, that U.S. costs generally exceed local cost by more than 50 percent. In addition, obtaining local warranties, repair contracts and replacing computer hardware components for commodities procured from the U.S. would be problematic and could further disrupt project operations.

A.I.D. Handbook 1B, Section 5B4a(3) states as a criteria for changing an authorized geographic code: "For project assistance only, when Geographic Code 000 is authorized and the lowest available delivery price from the United States is reasonably estimated to be 50 percent or more higher than the delivered price from a country or area included in A.I.D. Geographic Code 941." Also, Section 5B4a(8), of Handbook 1B, allows for a change of geographic code when: "Such other circumstances as are determined to be critical to the success of project objectives." These circumstances are: 1) The timely delivery of project commodities on site (both office furnishings and electronic equipment); and, 2) The importance of warranty and repair contracts for electronic equipment.

Under these conditions only one alternative is feasible and, therefore, critical to the success of project objectives. This is a waiver of source and origin requirements to allow the purchase of electronic equipment of local source and U.S. origin and office furniture and expendable items of local source and origin. The sources, origins and values of the commodities to be purchased covered under this waiver are shown in the table on the following page:

CONTRACT	ITEM	ORIGIN	SOURCE	VALUE IN $
Technical Assistance	Office Equipment	U.S	Egypt	195,000
	Furniture	Egypt	Egypt	100,000
	Expendable Items	Egypt	Egypt	40,000
	Total			335,000
Evaluation	Office Equipment	U.S	Egypt	50,000
	Furniture	Egypt	Egypt	30,000
	Expendable Items	Egypt	Egypt	20,000
	Total			100,500
Grand Total				**435,000**

AUTHORITY

Under Handbook 1B Chapter 5B4 c (2) and Delegation of Authority No. 653 paragraph 7a, you are authorized to waive U.S. source and origin requirements to allow A.I.D. financing of goods and services from the Cooperating Country, without limitation on the amount. The information stated herein related to the difficulty of importing these goods at a reasonable cost, on a timely basis, and with enforceable warranties, provides the basis for such a waiver. Criteria found in Handbook 1B, Sections 5B4a(3) and (8), which are discussed in the Justification section of this waiver, allow for waiving the source and origin of commodities from A.I.D. geographic code 000, given the circumstances of this Project. The authority to approve such waivers in excess of $50,000 has not been redelegated by the USAID/Egypt Director.

RECOMMENDATION

For the above reasons, we recommend that you waive source and origin requirements for the above mentioned purchases to allow procurement by the Privatization project of Egyptian source and origin and Egyptian source and U.S. origin goods, not to exceed the total of $435,000.

Clearances

OD/TI/FI, L.Brown (draft)
LEG , T.Carter
PDS/PS , B.Cypser

Approved Christopher D. Crowley

Disapproved ____________

Date 8/11/93

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

GRAY AMENDMENT CERTIFICATION

Privatization Project

As Acting Director and Acting Principal Officer of the Agency for International Development in Egypt, I, Christopher D. Crowley, certify that full consideration has been given to the potential involvement of small and/or economically and socially disadvantaged enterprises, historically black colleges and universities and minority controlled private and voluntary organizations covered by the Gray Amendment.

The attached Project Paper discusses the efforts that will be undertaken in connection with the procurement plan to include the participation of minority-owned and small and disadvantaged organizations. Where appropriate, every effort will be made to encourage the participation of these organizations and draw upon their knowledge and expertise.

Christopher D. Crowley

Christopher D. Crowley

8/11/93

Date

JUSTIFICATION FOR PAYMENT OF SALARIES TO EGYPTIAN AND EXPATRIATE PROFESSIONALS OF THE PRIVATIZATION PROJECT TO EXCEED THE FSN-12 RATE AND THE FS-O1 SALARY CAP

REQUEST:

That the Mission, in approving the Privatization Project, support the Privatization proposal to pay salaries to certain employees which exceed the levels normally allowed to professionals paid from A.I.D. financing. Salaries exceeding those levels will require approval by the Mission Director.

BACKGROUND:

The purpose of the Privatization Project is to assist the GOE to implement its privatization program by providing assistance in five areas: program promotion, organizational development, sales preparation, financial instruments development, and decision making support. Under the project, $35 million is being provided to support these areas over a five year period. A cardinal input to the Privatization project would be the recruitment of highly qualified short and long term personnel in various areas of expertise in order to ensure a smooth functioning privatization process. Such skills and expertise are not available at local market rates and are internationally scarce. To ensure that people of quality are recruited and retained for these positions, it will be necessary to ensure adequate compensation.

Under AID Acquisition Regulations applicable to A.I.D. direct contracts, approval is required to exceed both the FSN-12 salary level and the FS-01 salary level for Egyptian employees. Justification for allowing the Privatization project to pay salaries above those normally approved for A.I.D.-financed activities is provided below for some of the key positions.

DISCUSSION:

1) The technical assistance contractor's chief of party and privatization expert - a full-time long-term expatriate - would be responsible for the competent delivery of all services provided by the contractor, the supervision of all the other long-term and short-term advisors under the contract, and to represent the contractor with relevant organizations including the PEO, the HCs, the ACs, the financial institutions, the other project contractors, in addition to USAID. This person is expected to have considerable international development experience and a wide and in-depth working-knowledge of privatization programs occurring world-wide. In addition to enjoying a general knowledge of the five project component areas (public relations and communications,

organizational development, sales transactions, public policy, and financial instruments), the privatization expert should have specialized knowledge in at least two of these areas.

2) A full-time long-term expatriate will be needed to fill the position of merchant bank advisor. In his capacity he will advise and assist the PEO, the Hcs, and USAID in managing the activities of the merchant banks engaged in the sale of the PEs to be privatized, assist local financial institutions to develop and utilize new financial instruments helpful to privatization, and supervise two Egyptian advisors in these areas. Such a person should have long years of experience working as a senior merchant banker and managing complex investment portfolios. The advisor would also have a broad knowledge of American, European, Asian, and other merchant banks with considerable working experience in emerging market economies.

3) The merchant bank advisor will be assisted by a full-time long-term Egyptian merchant bank associate who would assist the Hcs develop strategic business plans and implement the sales of properties. The candidate should have a solid banking experience that would enable him to perform these crucial tasks.

4) Another assistant to the merchant bank advisor would be a long-term full-time Egyptian financial specialist. The incumbent would support the local financial community in the development and use of transaction-oriented financial instruments needed for privatization. He should have a graduate degree in finance and a complete acquaintance with the Egyptian financial environment and its development potentials.

Such skills, due to the recent world-wide experience with privatization, are not only unavailable at conventional market rates but are also internationally scarce.

5) The project will also need the recruitment of a full-time long-term Egyptian public relations and communications specialist to take the lead in the program promotion component of the project. He would assist the PEO and the HCs to define, structure, and communicate the privatization message, and to develop a clear sense of purpose and ability to uniformly communicate their image. The public relations and communications specialist would moreover provide assistance in program promotion, design and implement different promotion and communication strategies corresponding to the needs and characteristics of the selected target groups with the aim of gaining their support for the privatization program and generating new local and foreign commercial interests in Egypt. He would also assist in the formation of local institutional and private sector capacities to carry out and sustain the communications process supporting the program. Apparently there is a scarcity of Egyptian communications professionals that are familiar with many current public relations techniques and methodologies used in privatization programs worldwide. This makes the utilization of an Egyptian specialist who is knowledgeable of such techniques more expensive compared to the local market rates.

6) To implement the decision making support component, a full-time long-term Egyptian expert in public policy and/or public administration will be recruited to be based in the PEO. The incumbent will assist the PEO policy analysis unit to identify political, policy, regulatory, and

organizational impediments to privatization, provide assistance in the analysis of these impediments and present alternative solutions, establish a policy impediment resolution capability within the PEO, and help in engaging decision-makers in the impediment analysis and resolution processes. Based on the expected scope and nature of these impediments, the expert would enjoy a thorough knowledge of the Egyptian political, policy, and regulatory environment. He should combine expertise in both public policy and the Egyptian legal system. Furthermore he should enjoy a demonstrated thorough knowledge with the Egyptian economy and the problems associated with privatization in Egypt and emerging market economies. Such a combination of expertise is definitely not easy to find in the Egyptian market at the local rates.

7) To coordinate the multiple activities of the TA contract, an Egyptian administration and management specialist will be required. The expansion and complexity of the project requires corresponding strengthened internal management including inter alia project controls and administration, logistics and supervision of non-professional staff, and managing the work at the enterprise level. This involves monitoring the progress of the various individual field tasks, supervising the implementation of the project's management information system (MIS), coordination with the various subcontractors to obtain the required technical inputs. The absence of a highly qualified program manager/administrator to effectively perform these tasks can have severe negative impacts on the overall project performance. On the other hand, such tasks requires the recruitment of a highly qualified and experienced candidate who must also be thoroughly experienced with project management and USAID regulations and procedures. This would not only facilitate the overall performance of the project but also reduce the cost, effort and strain that is to be otherwise exerted by USAID in managing and administering such a complex project. A candidate with such qualifications cannot be recruited at the local market rates.

JUSTIFICATION:

Although waivers of salaries above the FSN-12 and FS-01 levels must be submitted to the Mission Director along with the individual candidates' salary history, the project has budgeted for these higher costs. The estimated costs are:

An international privatization expert would normally receive an annual salary of approximately $140,000, as well as fringe benefits and payment of other costs. It is anticipated that such a rate is also applicable in the case of the merchant bank advisor.

The anticipated annual rate for each of the local experts with the aforementioned qualifications would be around $42,000. This number, if added to the other costs would amount to a total direct annual cost of $57,000.

In addition, it is important to note that these salaries are lower than those offered by the major international agencies, where tax-free incomes and added supplements make for unusually attractive compensation packages. The importance, complexity and sensitivity of the Privatization Project make it necessary for the mission to utilize such expensive and rare expertise and talents to ensure the project's success in delivering its outputs. Such expertise and talents are unavailable at the prevailing local market rates. As such, in order for the project to succeed it must offer compensation that is at least comparable, if not equivalent, to the international market rates.

AUTHORITY:

In the case of waiving of salary levels (both the FSN-12 and FS-01) the Mission Director is delegated the authority in AIDAR 722.170(b) and AIDAR 731.205(b)(2), respectively. The following conditions must exist to waive the FS-01 salary cap, and is often used as a measure for waiving the FSN-12 salary cap for Egyptian professionals. That (1) the work requires a high level of competence, (2) the work requires a high level of responsibility, and (3) the consultant(s) salary history warrants the proposed compensation. The first two points have been discussed above and the third condition, that of previous salary history, will be reviewed and documented in the course of the selection process for each candidate.

RECOMMENDATION:

That you approve the fact that the Privatization Project Paper and the related PIO/Ts allow for approval of salaries of these experts and advisors in excess of the FSN-12 and the FS-01 salary levels. It is understood that individual salary waivers for candidates to fill each position discussed herein will be submitted to the Director for individual approvals.

Approved Christopher D. Crowley

Disapproved______________

Date 8/11/93

Clearances

OD/TI/FI, L.Brown (draft)

LEG , T.Carter TBC

PDS/PS , B.Cypser BC

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE DEPUTY MISSION DIRECTOR:

FROM: OD/DIR/CS, James J. Dunlap

DATE: August 5, 1993

SUBJECT: Approval for Use of a Level-of-Effort Contract Technical Assistance, Privatization Project

BACKGROUND

One of the joint AID and Office of Management and Budget (OMB) recommendations for management improvement in AID was that

> Use of "level-of-effort" contracts should be reduced and their future use should require certification by the Deputy Mission Director. Fixed price contracts should be used to the maximum feasible extent.

The Administrator and senior AID staff agreed to implement this recommendation and issued CIB 92-18 which states that

> ...use of a level-of-effort contract must be approved in writing by the Deputy Mission Director for Mission-issued contracts.... Evidence of this approval must be included in the contract file.

FAR Requirements

FAR Part 16 describes the types of contracts that may be used in acquisitions. It also prescribes policies and procedures and provides guidance for selecting a contract type appropriate to the circumstances of the acquisition. FAR 16.306 (d) (2) defines the "term form" of a cost-plus-fixed-fee contract:

> The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period.

The "term form" of contract is what is referred to in AID as a level-of-effort contract. Contract Information Bulletin 89-22 further describes the "term form" of contract by stating:

> In the term contract, there is no necessity for the contractor ever to attain the general objectives or target stated in the contract, but rather to provide the specified level of effort in a satisfactory manner.

The other type of cost-plus-fixed-fee contract is the "completion form" which describes the scope of work by stating a definite goal or target and specifying an end product. The completion form is preferred over the term form whenever the work, or specified milestones for the work, can be defined well enough to permit development of estimates within which the contractor can be expected to complete the work.

Contract Requirements

The purpose of the privatization project is to assist the GOE to implement its privatization program through institutional development and assistance for the sale of public enterprises and properties. To achieve this purpose the project will provide technical assistance in five areas: program promotion, organizational development, sales, financial instrument development, and decision making support. The project paper delineated the objectives and requirements of the technical assistance contract as follows:

1- To help in the formulation of an effective local and international public relations program to educate about, and gain the support of key audiences for, the opportunities and benefits presented by privatization.

- The development of a clear sense of purpose and the ability to communicate an image uniformly and aggressively by the Public Enterprise Office and the Holding Companies.

- The development of the capacity of the Public Enterprise Office and the Holding Companies to define, structure, and communicate the privatization message.

- The generation of new foreign and local commercial interest in Egypt.

- The gaining of support for privatization from key target groups.

- The formation of local institutional and private sector capacities to carry out the communications process in support of the privatization program.

2- To help the Holding Companies and the Public Enterprise Office to strengthen their organizations and their ability to effectively carry out privatization.

- The development of the organizational capacities of the Holding Companies to effectively implement privatization.

- The development of the Public Enterprise Office's organizational capacity to provide the vision, leadership and technical skills necessary to propel the privatization program forward.

3- To provide technical assistance to work with the Holding Companies and the Public Enterprise Office to privatize identified properties.

- A logical and steady flow of properties being offered for sale.

- Appropriate assignment of batches of properties to the merchant banks and other sales agents.

- The actual sale of 50 PEs and 23 joint venture banks.

- The advancement of cost-effective sales transactions that embody social goals.

4- To help selected financial institutions gain access to new sources of funding and to develop instruments and capabilities useful in meeting some of the financial demands of privatization.

- The development of new sources of funding for privatization.

- The formation and employment of new financial instruments in privatization transactions.

- The increased ability of existing and new financial institutions to facilitate privatization.

5- To help the organizations involved in privatization overcome prevailing political, and policy, regulatory, and organizational impediments.

- Establish a process to identify and understand policy impediments to privatization.

- Provide assistance in the analysis of policy impediments and presentation of alternatives.

- Help in engaging decision-makers in the policy analysis and implementation process.

- Establish a policy impediments resolution capability within the Public Enterprise Office.

Given the requirements of the proposed contract as specified in the draft statement of work, it was determined that a level-of-effort **term form** of a cost-plus-fixed-fee contract was most appropriate in this instance since the contractor will provide technical assistance to **assist** the GOE in carrying out **its** privatization program. The main assumption underlying the design of the project is the continuous support and commitment of the GOE for privatization. The final responsibility for meeting the objectives does not rest with the Technical Assistance contractor, but rather with the GOE. The technical office will prepare an evaluation plan for the contractor's performance in providing that assistance and a copy of this evaluation plan will be attached to the PIO/T.

RECOMMENDATION

It is recommended that the Deputy Mission Director approve the use of a level-of-effort (term form) contract for the Technical Assistance Contract under the Privatization Project.

Approved Christopher D Crowley

Disapproved____________

Date 8/11/93

Clearances

OD/TI/FI, L.Brown (draft)

LEG , T.Carter

PDS/PS , B.Cypser

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE DEPUTY MISSION DIRECTOR

FROM: OD/DIR/CS, James J. Dunlap

DATE: August 5, 1993

SUBJECT: Approval for Use of a Level-of-Effort Contract for Evaluation of the Privatization Project

BACKGROUND

One of the joint AID and Office of Management and Budget (OMB) recommendations for management improvement in AID was that

> Use of "level-of-effort" contracts should be reduced and their future use should require certification by the Deputy Mission Director. Fixed price contracts should be used to the maximum feasible extent.

The Administrator and senior A.I.D staff agreed to implement this recommendation and issued CIB 92-18 which states that:

> ...use of a level-of-effort contract must be approved in writing by the Deputy Mission Director for Mission-issued contracts.... Evidence of this approval must be included in the contract file.

FAR Requirements

FAR Part 16 describes the types of contracts that may be used in acquisitions. It also prescribes policies and procedures and provides guidance for selecting a contract type appropriate to the circumstances of the acquisition. FAR 16.306 (d) (2) defines the "term form" of a cost-plus-fixed-fee contract:

> The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period.

The "term form" of contract is what is referred to in A.I.D as a level-of-effort contract. The other type of cost-plus-fixed-fee contract is the "completion form" which describes the scope of work by stating a definite goal or target and specifying an end product. The completion form is preferred over the term form whenever the work, or specified milestones for the work, can be defined well enough to permit development of estimates within which the contractor can be expected to complete the work.

Contract Requirements

The project paper delineated the objectives and requirements of the Monitoring, Evaluation, Audit (Annex H of the PP) contract as follows:

> If managers have adequate information about Project progress, the current and potential effects of project activities, and complete information about the environment in which the project is operating, they will be able to make better informed decisions about improving the effectiveness of the Project. The Evaluation contract will allow TI/FI and Mission management to be informed as early as possible about critical issues affecting success of the GOE's privatization program, or potential trouble spots or deficiencies in project implementation.
>
> A management information needs assessment and determination of baselines for evaluation will be completed by the Evaluation contractor in the first three months after award of the contract. The assessment will be crafted to examine and analyze the complex set of conditions under which the Project will exist, i.e., high political visibility, weak and changing organizational structures, and multiple donor involvement.
>
> This assessment will prepare a more complete statement of Project benchmarks, utilizing the EOPS indicators contained in the Project logical framework as the starting point. In addition to looking at what the Project must achieve, the assessment must look at the information needs for tracking what and how the Project is doing to achieve its purpose.

The Technical Analysis (Annex D of the PP) explains why this kind of Evaluation contract is needed:

> ...it is felt that the privatization environment in Egypt is in such flux and changes may be required in such rapid fashion, that employing the services of a contractor to specifically just observe, report, and evaluate will be more beneficial to project success. The introduction of another "pair of eyes" to continuously assess the situation and report on the impact of project efforts and responsiveness of the key players is essential to ensure Project success. The component (an independent evaluation contractor throughout the project) is a direct recommendation coming from the INTRADOS evaluation to improve implementation.

Given the requirements of the proposed contract as specified in the draft statement of work, it was determined that a level-of-effort **term form** of a cost-plus-fixed-fee contract was most appropriate in this instance since the contractor will provide continual evaluation services directly related and proportional to the level of accomplishments of other Project elements and the GOE'S privatization program, both aspects which cannot be predicted or established. The technical office will prepare an evaluation plan for the contractor's performance in providing that assistance and a copy of this evaluation plan will be attached to the PIO/T.

RECOMMENDATION

It is recommended that the Deputy Mission Director approve the use of a level-of-effort (term form) contract for the Evaluation Contract under the Privatization Project.

Approved Christopher D Crowley

Disapproved_____________

Date 8/11/93

Clearances

OD/TI/FI, L.Brown (draft)
LEG , T.Carter
PDS/PS , B.Cypser

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

MEMORANDUM

TO:	James Dunlap, OD/DIR/CS
FROM:	Lawrence Brown (A) AD/TI
SUBJECT:	Justification for Advisory and Assistance (A&A) Services - Contracting Specialist
REFERENCES:	AID Acquisition Regulation (AIDAR) 737.206 Federal Acquisition Regulation (FAR) 37.2 Contract Information Bulletin (CIB) 93-6

PURPOSE: The purpose of this memorandum is to provide a justification for advisory and assistance (A&A) services in the acquisition of a Contracting Specialist to support implementation of the Privatization Project 263-0238.

BACKGROUND: Pursuant to OMB Circular A-120 and subsequent guidance provided to all executive agencies, advisory and assistance services are those services acquired from non-government personnel sources by contract or by personnel appointment to support or improve agency policy development, decision-making, management, and administration, or to support or improve the operation of management systems. Such services may take the form of information, advise, opinions, alternatives, conclusions, recommendations, training, and direct assistance. The beneficiary of the contract is irrelevant as to the determination of whether the contract is for advisory and assistance services. Contracts in which the contractor is providing technical assistance or advice that benefits a third party are advisory and assistance services in the context of OMB A-120.

AID implements these OMB A-120 requirements through the reference regulations and policy guidance. Accordingly, this memorandum serves to satisfy the regulatory requirements for properly classifying and justifying the use of advisory and assistance services.

CERTIFICATION: It is hereby certified that the requirement for a Contracting Specialist (as further described below) is for advisory and assistance (A&A) services.

JUSTIFICATION:

Needs and Utilization: As further discussed in the Privatization Project Paper, the Mission estimates that $315,000 is needed to hire a Contracting Specialist to assist the Contracting Officer implement the project. Due to the significant volume and sophisticated level of contracting actions associated with the Privatization project, DIR/CS will require this additional assistance through a direct professional services type contract arrangement. USAID directly benefits from the individual's services as project implementation is more effectively managed. One individual solely dedicated to the Project will improve the time for implementation of the contract activities anticipated.

Review of Prior Work: As the Government of Egypt has made a difficult decision to embark on privatization for the first time, all anticipated contracting requirements clearly do not duplicate work conducted previously.

In-House Capability: While in house procurement expertise exists, the anticipated workload associated with the Privatization project and competing in house procurement priorities necessitate the need for additional procurement assistance in DIR/CS.

AUTHORITY: Pursuant to AIDAR 737.206 (c) (3), justification for use of advisory and assistance services must be approved two levels above the requesting organizational unit during the fourth quarter of the fiscal year.

RECOMMENDATION: Based on the foregoing, it is recommended that you approve the justification for use of advisory and assistance services of a Contracting Specialist to support implementation of the Privatization Project.

Clearances

OD/TI/FI, L.Brown (draft)

LEG , T.Carter

PDS/PS , B.Cypser

Approved: Christopher D. Crowley

Disapproved: ______________

Date: 8/11/93

Christopher D. Crowley
Acting Mission Director

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

MEMORANDUM

TO: James Dunlap, OD/DIR/CS

FROM: Lawrence Brown, (A) AD/TI

SUBJECT: Justification for Advisory and Assistance (A&A) Services - Evaluation Contractor

REFERENCES: AID Acquisition Regulation (AIDAR) 737.206
Federal Acquisition Regulation (FAR) 37.2
Contract Information Bulletin (CIB) 93-6

PURPOSE: The purpose of this memorandum is to provide a justification for advisory and assistance (A&A) services in the acquisition of an evaluation contractor to support implementation of the Privatization Project 263-0238.

BACKGROUND: Pursuant to OMB Circular A-120 and subsequent guidance provided to all executive agencies, advisory and assistance services are those services acquired from non-government personnel sources by contract or by personnel appointment to support or improve agency policy development, decision-making, management, and administration, or to support or improve the operation of management systems. Such services may take the form of information, advise, opinions, alternatives, conclusions, recommendations, training, and direct assistance. The beneficiary of the contract is irrelevant as to the determination of whether the contract is for advisory and assistance services. Contracts in which the contractor is providing technical assistance or advice that benefits a third party are advisory and assistance services in the context of OMB A-120.

AID implements these OMB A-120 requirements through the reference regulations and policy guidance. Accordingly, this memorandum serves to satisfy the regulatory requirements for properly classifying and justifying the use of advisory and assistance services.

CERTIFICATION: It is hereby certified that the requirement for an evaluation contractor (as further described below) is for advisory and assistance (A&A) services.

JUSTIFICATION:

Needs and Utilization: As further discussed in the Privatization Project Paper, the Mission estimates that $2.529 million is required for the services of a contractor to provide expanded evaluation services for the project. The contractor will develop project evaluation baselines, collect and analyze data related to the GOE privatization program and implementation of the project, and provide regular reporting and impact assessments to USAID on the economic effects of privatization and progress toward achieving project objectives. USAID directly benefits from the contractor's services as success of project implementation is objectively monitored and evaluated. As a result of the ongoing evaluation activities, USAID will have information which will enable it to more clearly link its assistance to increased economic growth through increased private trade and investment.

Review of Prior Work: As the Government of Egypt has made a difficult decision to embark on privatization for the first time, all anticipated contracting requirements clearly do not duplicate work conducted previously.

In-House Capability: In house evaluation expertise for the magnitude of evaluation activities contemplated by the Privatization project does not exist. A broad evaluation capability is needed to draw on skills with expertise in evaluation techniques, data gathering, monitoring systems, general research techniques, and technical assistance team management. Access to all of these skill areas is required for the evaluation contractor. sing GOE progress toward privatization does not exist.

AUTHORITY: Pursuant to AIDAR 737.206 (c) (3), justification for use of advisory and assistance services must be approved two levels above the requesting organizational unit during the fourth quarter of the fiscal year.

RECOMMENDATION: Based on the foregoing, it is recommended that you approve the justification for use of advisory and assistance services of an evaluation contractor to support implementation of the Privatization Project.

Clearances

OD/TI/FI, L.Brown (draft)
LEG , T.Carter
PDS/PS , B.Cypser

Approved: Christopher D. Crowley

Disapproved: ______________

Date: 8/11/93

Christopher D. Crowley
Acting Mission Director

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

TO:	James Dunlap, OD/DIR/CS
FROM:	Lawrence Brown, (A)AD/TI
SUBJECT:	Justification for Advisory and Assistance (A&A) Services - Technical Assistance Services Contractor
REFERENCES:	AID Acquisition Regulation (AIDAR) 737.206 Federal Acquisition Regulation (FAR) 37.2 Contract Information Bulletin (CIB) 93-6

PURPOSE: The purpose of this memorandum is to provide a justification for advisory and assistance (A&A) services in the acquisition of a technical assistance services contractor to support implementation of the Privatization Project 263-0238.

BACKGROUND: Pursuant to OMB Circular A-120 and subsequent guidance provided to all executive agencies, advisory and assistance services are those services acquired from non-government personnel sources by contract or by personnel appointment to support or improve agency policy development, decision-making, management, and administration, or to support or improve the operation of management systems. Such services may take the form of information, advise, opinions, alternatives, conclusions, recommendations, training, and direct assistance. The beneficiary of the contract is irrelevant as to the determination of whether the contract is for advisory and assistance services. Contracts in which the contractor is providing technical assistance or advice that benefits a third party are advisory and assistance services in the context of OMB A-120.

AID implements these OMB A-120 requirements through the reference regulations and policy guidance. Accordingly, this memorandum serves to satisfy the regulatory requirements for properly classifying and justifying the use of advisory and assistance services.

CERTIFICATION: It is hereby certified that the requirement for a technical assistance services contractor (as further described below) is for advisory and assistance (A&A) services.

JUSTIFICATION:

Needs and Utilization: As further discussed in the Privatization Project Paper, the Mission estimates that $17.153 million is needed to obtain the services of a technical assistance services contractor to assist the PEO in many of its functions related to privatization of GOE held properties. The following activities are included:

1. Assist in formulation of an effective local and international public relations program to educate and gain the support of key audiences for the opportunities and benefits presented by privatization.

2. Strengthen HCs and the PEO organizations and their ability to effectively carry out privatization.

3. Provide technical assistance to work with the HCs and the PEO to privatize identified properties.

4. Assist in the selection of financial institutions which gain access to new sources of funding and develop instruments and capabilities useful in meeting some of the financial demands of privatization.

5- Assist the organizations involved in privatization overcome prevailing political, and policy, regulatory, and organizational impediments.

In addition to providing the foregoing technical assistance, the contractor shall be reporting and monitoring on PEO's achievements. USAID directly benefits from the contractor's services as expertise is brought to bear on successful implementation of the project. As a result of the technical assistance, USAID will come significantly closer to achieving its strategic objective of increased economic growth through increased private trade and investment.

Review of Prior Work: As the Government of Egypt has made a difficult decision to embark on privatization for the first time, all anticipated contracting requirements clearly do not duplicate work conducted previously.

In-House Capability: Given the extremely broad nature and multidisciplinary amount of work to be undertaken by the technical assistance contractor, in house expertise for "hands on" implementation of the Privatization project does not exist.

AUTHORITY: Pursuant to AIDAR 737.206 (c) (3), justification for use of advisory and assistance services must be approved two levels above the requesting organizational unit during the fourth quarter of the fiscal year.

RECOMMENDATION: Based on the foregoing, it is recommended that you approve the justification for use of advisory and assistance services of a technical assistance services to support implementation of the Privatization Project.

Approved: Christopher D. Crowley

Disapproved: ______________

Date: 8/11/93

Christopher D. Crowley
Acting Mission Director

Clearances

OD/TI/FI, L.Brown (draft)
LEG , T.Carter
PDS/PS , B.Cypser

A.I.D. PROJECT STATUTORY CHECKLIST FOR FY 1993

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE? Yes, Checklist is contained in Telecommunications Sector Support Project (263-0223) Project Paper.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. **Host Country Development Efforts** (FAA Sec. 601(a)): Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

Project's goal is to increase the economic growth through increased private trade and investment.

Project's purpose is to assit the GOE with its privatization program through institutional development and assistance for the sale of public enterprises and properties.

(a) yes, depending on level of non-Egyptian investment in privatization program; (b) yes; (c) no; (d) yes; (e) yes; (f) yes, indirectly.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

U.S. private enterprises will be a source of procurement for the technical assistance required for this project.

3. **Congressional Notification**

a. **General requirement** (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

Standard Congressional Notification procedures will be satisfied prior to obligation of funds.

b. **Notice of new account obligation** (FY 1993 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. **Cash transfers and nonproject sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

The People's Assembly should ratify the Grant Agreement in a timely manner. In the past, the Assembly has ratified all grant agreements in time to permit orderly accomplishment of the project.

6. **Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent

N/A

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practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

7. **Cash Transfer and Sector Assistance** (FY 1993 Appropriations Act Sec. 571(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

N/A

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A

9. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GOE currently supports its privatization office and will contribute to financing of the services required for the sale of public enterprises and properties.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

c. **Separate Account** (FY 1993 Appropriations Act Sec. 571). If assistance is furnished to a foreign

N/A

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government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

10. **Trade Restri ons**

a. **Surplus Commodities** (FY 1993 Appropriations Act Sec. 520(a)): If assistance is for the production of any commodity for export, is the

No

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commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

b. **Textiles (Lautenberg Amendment)** (FY 1993 Appropriations Act Sec. 520(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? — No

11. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)(as referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? — No

12. **PVO Assistance**

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., — N/A and is the PVO registered with A.I.D.?

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

13. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Case - Zablocki Act reporting procedures will be followed with respect to this project.

14. **Women in Development** (FY 1993 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

The project will encourage more active participation by women. Disaggregated data on participation of women in project activities will be collected.

15. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No

16. **Abortions** (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec.

524):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No

b. Will any funds be used to lobby for abortion?

No

17. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

N/A

18. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509): Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

No U.S. owned foreign currencies are available to be used in this project.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No

19. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes

b. **U.S. procurement** (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act):

Yes

Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the criteria of this section?

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

Egypt does not so discriminate.

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

No

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk

No

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carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

i. **Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

j. **Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)? — Yes

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference — Yes report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

20. Construction

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of — N/A

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productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

21. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

22. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

23. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? — Yes

24. **Expropriation and Land** — Yes

Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

25. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes

26. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? Yes

27. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

28. **Military Personnel** (FY 1993 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? Yes

29. **Payment of U.N. Assessments** (FY 1993 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes

30. **Multilateral Organization Lending** (FY 1993 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes

31. **Export of Nuclear Resources** (FY 1993 Appropriations Act Sec. 510): Yes

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Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology?

32. **Repression of Population** (FY 1993 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

Yes

33. **Publicity or Propaganda** (FY 1993 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

No.

34. **Marine Insurance** (FY 1993 Appropriations Act Sec. 560): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

Yes

35. **Exchange for Prohibited Act** (FY 1993 Appropriations Act Sec. 565): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No

36. **Commitment of Funds** (FAA

No

Sec. 635(h)): Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

37. **Impact on U.S. Jobs** (FY 1993 Appropriations Act, Sec. 599):

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

No

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

No

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

No

B. CRITERIA APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY — N/A

N.B: PART B OF THE ASSISTANCE CHECKLIST, WHICH IS APPLICABLE TO DEVELOPMENT ASSISTANCE ONLY, HAS BEEN OMITTED BECAUSE ALL ASSISTANCE IS ESF-FUNDED PROJECT.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions,

Yes. It will enhance the ability of the GOE to sustain and enhance the economic growth, which will have positive political results.

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purposes, and programs of Part I of the FAA?

2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?

No

3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

N/A

4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

N/A

5. **Cash Transfer Requirements** (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)). If assistance is in the form of a cash transfer:

a. **Separate account**: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

N/A

b. **Local currencies**: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and

N/A

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has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

c. **U.S. Government use of local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA) or ESF purposes?

N/A

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

N/A

6. **Capital Projects** (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec. 595): If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)

N/A

USAID
CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

THRESHOLD DECISION BASED ON
INITIAL ENVIRONMENTAL EXAMINATION

Project Location: Egypt

Project Title/ID: Privatization Project (263-0238)

Funding (Fiscal Year and Amount): FY 93 - 98, $30 million LOP

IEE Prepared By: Date:

02/25/93

Marc Madland, PDS/ENV

Environmental Action Recommended: Categorical Exclusion as per:

Education, technical assistance, or training programs.
[22 CFR 216.2(c)(2)(i)].

Associate Mission Director's Concurrence: Date:

Priscilla Del Bosque March 1, 1993.

Priscilla Del Bosque
AD/TI

Decision of Environmental Coordinator, Bureau for the Near East:

Approved: Gilbert S. Jackson

Disapproved: ______

Date: 3/2/93

Clearances:

GRWhaley, Mission Env. Officer	GRW	Date: 2/23/93
D.Jessee, TI/FI	[illegible]	Date: 2/23/93
VMoore, LEG	[illegible]	Date: 2/23/93
RRhoda, OD/PDS/ENV	[illegible]	Date: [illegible]
LBrown, OD/TI/FI	[illegible]	Date: 3/1/93

INITIAL ENVIRONMENTAL EXAMINATION

1. Project Location: Egypt

2. Project Title/ID: Privatization Project (263-0238)

3. Funding (Fiscal Year and Amount): FY 93 - 98, $30 million LOP

4. IEE Prepared By: Date:

02/25/95

Marc Madland, PDS/ENV

5. Action Recommended: Categorical Exclusion as per:

Education, technical assistance, or training programs. [22 CFR 216.2(c)(2)(i)].

6. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

Background

In 1991, the Government of Egypt (GOE) began a major economic reform program that is being supported by a Structural Adjustment Loan from the World Bank and a Standby Arrangement from the International Monetary Fund (IMF). An important element of this reform strategy is a comprehensive reform of the enterprise sector and the initiation of a privatization program. In June 1991, the Public Business Sector Law was passed (GOE Law Number 203). The law transferred the control of public sector enterprises from government ministries to government holding companies (HCs) and allowed privatization of these public sector enterprises. Prime Ministerial Decree No. 1741 of November 1991 established the Public Enterprise Office (PEO) to assist the Prime Minister, who is responsible for public sector companies, in the implementation of public enterprise reform and privatization.

The proposed project would finance technical assistance and advisory services to assist the PEO in the following areas:

- **Program Promotion** -- Since no provisions were made to promote the privatization program to the public and interest groups, the

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Project will assist the PEO to prepare an approach to promotion and to develop an out-reach capability.

- **Organizational Development** -- The institutions involved are unprepared organizationally to carry out the program. The PEO and HCs are recent inventions still defining their roles, developing operating procedures, and proving they can perform. The Project will provide organizational development assistance to strengthen their abilities.

- **Sales Preparation** -- The Project will provide assistance to the PEO to evaluate the marketability of properties. It will also assist in the difficult work necessary to actually sell the properties -- the most labor intensive and expensive aspect of the Project (and program).

- **Financial Intermediation** -- The Project will provide technical assistance and training directly to banks, brokerage firms, stock exchanges, and selected new financial institutions (e.g., investment and mutual funds) aimed at developing the capability to participate in the financing of the planned divestitures and the newly privatized firms.

- **Policy Reform** -- Sales have surfaced important policy impediments to privatization. The Project will assist the PEO to develop the ability to find and implement solutions to such impediments.

The initial list of the planned 150 GOE public sector units for privatization is incomplete. However, given that many of these state-run enterprises are significant polluters of Egypt's air, water, and land resources, it is evident that they are causing significant negative impacts on Egypt's physical environment. The above observation should not be considered applicable to the entire universe of firms under consideration for privatization, but rather as a signal that environmental issues will have to be addressed in the course of expanding the Egyptian private sector.

The public-to-private sector shift in and of itself will not necessarily cause increased environmental pollution. In fact, increased production efficiencies and better management should result in an overall decrease in waste and pollution, especially among those industrial categories which pose a significant environmental threat, such as the chemical, food processing, leather tanning and textile dying industries. The transfer of ownership of some of the plants will indeed reduce specific pollutant emissions, but there is no guarantee that this will be the case for all of the enterprises concerned, at least not in the short-term.

The foremost country-specific concern in this area is the fact that Egypt currently possesses little or no enforceable legal, regulatory, or other environmental institutional framework to provide adequate oversight and guidance to prospective private sector owners and

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managers. There is, however, legislation before the National Peoples Assembly that may, or may not, rectify this situation, depending on the final form approved by the Assembly. The present situation is exacerbated by the fact that most state-owned enterprises have long enjoyed a virtual monopoly in Egypt within their spheres of business and, due to significant government subsidies on energy and raw materials, are not accustomed to accounting for raw materials and fuel entering their plants. These same enterprises have neither the expertise nor resources to implement preventive maintenance programs and to stock spare parts, nor to replace equipment, as needed, on a scheduled basis. As a result, some prospective private sector owners and managers may be, at least initially, at somewhat of a disadvantage in properly managing all of the technical aspects of their new business acquisitions.

The Mission proposes that the Privatization Project include sufficient funds to secure short-term environmental experts to work with the other advisory personnel on those enterprises selected for USAID assistance which are causing significant negative environmental impacts. The short-term technical assistance will appraise plant processes and identify appropriate interventions for mitigating pollution, e.g., operational/energy efficiency, proper handling of raw materials and fuel usage (waste and pollution prevention throughout the projection process), general "housekeeping" techniques, etc. With this information, the GOE can better identify potential buyers capable and willing to manage the property competently and to make investments which mitigate any negative environmental impacts. On the other hand, the potential buyers will be provided information concerning the nature and degree of the negative environmental impacts and will be better able to prepare proposals which address the concerns of the GOE. The information generated will also help the consultant make a more realistic assessment of the value of the enterprise, discounting the cost of clean up and of investments required to mitigate the negative environmental impacts. Using this approach, the Mission can contribute to the efforts of the GOE to carry out privatization in an environmentally sound manner. This latter point is in agreement with the Mission's Environmental Strategy, which focuses on improving air and water quality in Egypt.

Discussion

The proposed action is entirely within one of the categories listed in paragraph (c)(1), "Categorical Exclusions," of Section 216.2, "Applicability of Procedures," of Title 22 CFR Part 216, "AID Environmental Procedures." Pursuant to 22 CFR 216.2(c)(3), the originator of the proposed project has determined that the proposed action is fully within the following class of actions:

Education, technical assistance, or training programs. [22 CFR 216.2(c)(2)(i)].

Pursuant to 22 CFR 216.2(c)(2), the proposed project is categorically excluded from further environmental review. However, in recognition of the potentially serious environmental liabilities of being associated with certain enterprises to be privatized under this activity and in consideration of salient Agency and Mission approaches towards this subject, the proposed project will finance appropriate short-term environmental assistance services to work closely with other long-term and short-term financial, legal, and other advisory personnel as an integral part of the enterprise appraisal and privatization process for these enterprises selected for USAID's assistance which are considered to be of priority environmental concern to recommend environmentally sound practice and procedures for the improved future private management and operation of said enterprises.

ENVIRONMENTAL IMPACT IDENTIFICATION AND EVALUATION FORM

ENVIRONMENTAL IMPACT INDICATOR AREAS/ENVIRONMENT CONSIDERATIONS

A. LAND USE *

1. Changing the character of the land through:	
a. Land clearing	N
b. Construction (roads, buildings, piping)	N
c. Extraction of minerals/natural resources	N
d. Creation of deposits of unwanted materials (waste spoils)	N
2. Alteration of natural barriers (dunes, marshes)	N
3. Foreclosing important future uses	N
4. Potential for endangering populated areas	N
5. Other factors:	
[NONE]	

B. SURFACE AND GROUND WATER

1. Effects on Quality	
a. Introduction of industrial pollutants	N
b. Introduction of agricultural pollutants	N
c. Introduction of urban/sewage wastes	N
d. Introduction of biomedical wastes	N
e. Potential for transnational impacts	N
2. Effects on Quantity	
a. Changes in water flow rates	N
b. Increasing probability of floods	N
c. Potential for changing demand/supply relation	N
d. Potential for transnational impacts	N
e. Potential for evaporation losses	N

C. AIR

1. Potential for increased NO_X, SO_X, HC, CO_2/CO emissions	N
2. Potential for increased particulate emissions	N
3. Potential increase of noxious odors, vapors, pathogens	N
4. Noise pollution	N
5. Other factors:	
[NONE]	

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* N - <u>No</u> perceived environmental impact
L - Little environmental impact
M - Moderate environmental impact (substantiate)
H - High environmental impact (substantiate)
U - Unknown environmental impact

D. ENERGY

1. Potential for increased energy demand	N
2. Use of renewable energy sources	N
3. Plans for energy efficiency/conservation	N
4. Other factors:	
[NONE]	

E. COASTAL AND MARINE RESOURCES

1. Introduction of biological/chemical pollution	N
2. Introduction of agricultural runoff	N
3. Mineral extractions	N
4. Impacts on fish/shellfish harvest	N
5. Potential for algal blooms	N
6. Potential for erosion (wind, sand, water)	N
7. Other factors:	
[NONE]	

F. BIOTA

1. Introduction of exotic/pathogenic organisms	N
2. Destruction/alteration of critical habitat	N
3. Potential for impact to endangered species	N

G. ANTIQUITIES PROTECTION

1. Potential for harm to historic sites	N
2. Increased access/use of historic sites	N

H. PESTICIDE USE (Required by 22 CFR 216)

1. Will pesticides be used?	N
a. Are they USEPA registered ?	NA
b. Are they "Restricted-Use," Canceled, or under "Special Review?"	NA
c. Are complete plans in place to train and fully protect applicators?	NA
2. Impacts on wildlife and aquatic organisms	NA

I. OTHER POSSIBLE IMPACTS (not listed previously)

[NONE]

Prepared by : Marc Madland, PDS/ENV Date: 02/23/95

Project Location: Egypt
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