

Reforming Egypt's Private Sector

CIPE's project with the Federation of Egyptian Industries (FEI) is one of the most important in the Federation's history. Sponsored by the US Agency for International Development (USAID), the purpose of the project has been to provide Egypt's private sector industrialists, both large and small, with a more effective voice in Egypt's development.

Despite a slow start, the FEI project has seen dramatic improvement in the quantity and quality of services to its members. As a result, the project is providing important economic, social and political benefits to the private sector in Egypt. The FEI's National Business Agenda, one of the main accomplishments of the program, is widely seen as a key step toward securing the policy changes needed to maintain Egypt's economic advances. Dr. Youssef Botros Ghali, Minister of Economy and Foreign Trade, has stated that the government now knows where to go when it needs to discuss problems facing industry—they just go to the FEI.

Background

The Egyptian economy has long been considered weak: supported by foreign aid and heavily dependent on foreign currency and tourism. To strengthen the coun-

try's economy and spur economic development, the government of Egypt and USAID agreed that the privatization of Egyptian industry was essential. Both parties also agreed that the revitalization and privatization of the FEI, which is the only representative group in Egypt that speaks for the entire industrial sector, was a key part of the overall reform program.

Accordingly, USAID/Cairo and the Federation of Egyptian Industries (FEI) formed a partnership in 1994 to transform FEI into a voluntary, membership-based business association able to provide its members with valued services. Specific goals were to:

- ▶ secure new legislation that would establish FEI as an independent business association rather than a quasi-public institution;
- ▶ equip FEI's board and staff to become advocates for market-oriented reform, on behalf of the Egyptian private sector;
- ▶ establish a full complement of business services for Egyptian firms to enable them to succeed in the global economy; and
- ▶ assist the FEI to become financially self-sufficient based on voluntary membership rather than dependent on mandatory membership.

CIPE was brought in under a cooperative agreement with USAID to assist FEI in this effort.

Phase I: The Early Years

Beginning in October 1994, CIPE and FEI conducted an assessment and developed a work plan for achieving the project goals. This effort laid the groundwork for providing FEI leadership with a substantive information base to advise the government on how to change the business environment to increase foreign and domestic investment. FEI developed workshops on quality control that became the foundation for later work in training and technology transfer. Progress was also made on developing professional staff to provide services in key project areas.

These early years were a time of transition for the private sector and the government of Egypt, and the project ran into some initial resistance in implementing the work plan. Specifically, FEI membership was still dominated by those who preferred to maintain the status quo, and its leadership included many "old guard" members from Egypt's statist period. There was also great concern among FEI members and staff that an independent FEI, stripped of its government subsidy (in the form of mandatory membership), could not

be sustained. The internal debate generated by these and other factors boiled over at times and threatened to undermine the entire project.

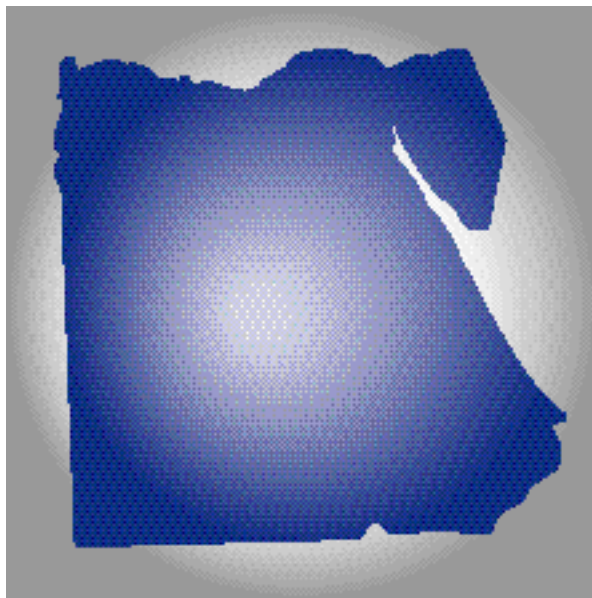
Phase II: Transition

Over time, the situation came to a head, and there was a significant turnover of leadership and staff at FEI in late 1996 and early 1997. CIPE worked closely with FEI during this period to develop a plan for making structural adjustments in the organization. Based on CIPE's successes elsewhere, a series of program contracts were put into place, whereby proposals for specific projects were developed and submitted by FEI to CIPE. Once the proposal was approved, CIPE transferred the funds to FEI, which was responsible for implementing all aspects of the project. Under this system, CIPE no longer managed the project directly but played an oversight role to ensure that the funds were managed in ways consistent with USAID policies and procedures. FEI's management of the project promoted ownership and enhanced organizational capacity for future sustainability.

CIPE also organized a watershed training program on business association management that was attended by more than 125 people, including key Egyptian leaders such as Mamdouh Thabet Mekki, a member of the Egyptian legislature and FEI's executive in July 1998. In a demonstration of the "spill-over" effectiveness of the training, Mekki introduced reform measures to the Board of the Egyptian Chambers of Commerce the following week. While still in transition, the Egyptian

Chambers of Commerce is now moving toward privatization along with FEI.

CIPE continued the training efforts by organizing two other major training sessions in early 1999. Stand-alone management seminars continued throughout the remainder of the program. Trainers from Peru and India brought considerable international experience to these sessions and were able to share their experiences in implementing modern management techniques. The impact of these interactive training sessions was to stimulate a new



sense of identity among Egypt's business associations.

Phase III: FEI Today

Over the past 18 months, FEI has undergone a remarkable transformation and became one of the most powerful agents for economic and business reform in Egypt. FEI's services in support of its private sector members now include

- advocating for policy reforms;
- providing an increasing range of training programs;
- developing an accreditation system for key skills;

- providing information services; and
- supporting Egypt's many new sectoral and geographical private sector business associations.

FEI also provides substantial services to small- and medium-sized businesses including women-owned enterprises.

The Federation rapidly achieved four key milestones: creating a professional staff, a national business agenda, a financial sustainability plan, and draft legislation on FEI. With assistance and training from

CIPE, FEI staff developed *Business Agenda 2000*, which enunciates the organization's formal positions on the major issues facing Egyptian industry. Development of the Agenda began in late 1998 with the convening of fifteen focus groups addressing different areas of concern to Egyptian industry. During a two-day policy analysis workshop in March 1999, initial positions were solidified with representatives of all the 14 chambers of commerce that comprise FEI. FEI then refined its positions, which were subsequently adopted by its Board of Directors.

Business Agenda 2000 was distributed at a conference held in May 1999, which was attended by more than 600 individuals representing all of FEI's sectoral chambers of commerce, other business associations, eight Government ministers and other policymakers, as well as representatives of USAID, European donors and the media. This was followed by seven sessions, held over the course of two days, during which private sector FEI members and Egyptian ministers conducted a policy dialogue on the FEI positions. Each of the seven sessions was attended by more than 400 people.

CIPE provided essential support to FEI in a variety of ways including:

- ▶ expanding FEI's membership to include affiliated companies such as banks, insurance companies and other firms that provide goods and services to member firms, as well as private sector business associations;
- ▶ conducting intensive training sessions for board members, staff, and members of constituent chambers, thereby enhancing their effectiveness;
- ▶ hosting a conference, attended by the Minister of Finance, to bring more firms into the formal sector;
- ▶ organizing a conference that highlighted for the Minister of Economy why government support of public sector printing firms was unfair; and
- ▶ drafting legislation for the creation of an independent FEI and submitting it to Egypt's executive branch of government.

FEI is still in transition and financially vulnerable, but it is moving rapidly toward self-sufficiency. The board has expanded eligibility to allow new classes of affiliate entities to become members. Membership dues have been increased substantially in most categories. In addition, FEI's upgraded programs and information services will enable the organization to raise more money through participation fees.

The Federation has come so far so fast because of the extraordinary professional risks assumed by its leaders. The majority of FEI's new

core staff left excellent positions in Egyptian industry to work with FEI in the belief that the transformation of FEI is of fundamental importance to Egypt. Many other Egyptian business leaders have also contributed to the success of the project, which is widely seen to be a key element in the revitalization of Egypt's private sector and the economy as a whole.

What the Future Holds

As Egypt transforms itself into a full-fledged market economy, it

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lacks one important element: an efficient network of institutions that support Egypt's private sector. The FEI project, supported by USAID and CIPE, plays an invaluable role as a catalyst for private sector change and for developing and maintaining a strong, independent business community in Egypt.

After a challenging start, FEI is making great institutional improvements that are, in turn, yielding powerful economic, social and political benefits. With the support of

USAID and CIPE, FEI is developing into a first-of-its-kind organization that provides national and sector-wide information, business services and policy reform advocacy. As a result, FEI is leading Egypt toward greater democratic governance and the development of a vital private sector capable of competing in the global marketplace.

With the conclusion of USAID institutional support for the Federation of Egyptian Industries, the challenge facing the Federation is to complete its privatization process by changing its legal status in order to build a modern business association. FEI also must undertake the task of sustaining recent gains without this support. Aggressive membership development and public relations programs are in the works to accomplish that goal. CIPE and FEI plan to continue working on these and other issue areas, including corporate governance, association development and support for entrepreneurship. 🌐🌐

This article is based on an independent evaluation conducted by Richard H. Sines. The evaluation underscored the innovative nature of FEI's effort to privatize business associations in Egypt. It also highlighted the internal struggle the organization went through in moving in this direction. The full evaluation is available on CIPE's Web site at www.cipe.org.