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Are Private Equity Firms in Emerging Markets Entrepreneurial?

A Case Study of Egypt

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Abstract

Over the five year period from 2003 to 2008, private equity and venture capital investments have grown exponentially, both globally and in emerging markets, making private equity firms and funds increasingly important actors in emerging markets. In this paper, we examine the hypothesis that private equity firms in emerging markets are entrepreneurial—i.e., are more focused on creating new firms or growing and globalizing existing ones, based on a case study of Egypt.

List of Tables

Glossary of Acronyms and Technical Terms

GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GoE	Government of Egypt
ITIDA	Information Technology Industry Development Agency (Egypt)
JV	Joint Venture
LBO	Leveraged Buyout
LE	Livre Égyptienne (Egyptian Pound)
MCIT	Ministry of Communications and Information Technology (Egypt)
MENA	Middle East and North Africa region
PE	Private Equity
SOE	State-Owned Enterprise
VC	Venture Capital

Introduction

Over the past five years, private equity and venture capital investments have grown exponentially, both globally and in emerging markets. Morgan Stanley estimates that in 2007, more than 2,700 private equity funds were active globally. These funds executed around 25% of the global mergers and acquisitions transactions, and 33% of the initial public offerings (IPOs).[1] The Emerging Markets Private Equity Association (EMPEA) estimates that globally, private equity funds raised $445 billion in 2008, more than three times the 2004 figure of $141.7 billion. Lerner and Gurung[2] estimate the total value of companies[3] acquired by private equity globally in leveraged buyout transactions conducted between 2001 and 2007 to be more than $2.7 trillion.

In emerging markets, EMPEA[4] estimates that in 2008, $66.5 billion were raised by more than 210 private equity funds focusing on emerging markets, compared with $6.5 billion in 2004. In Egypt, we estimate total private equity investments over the past five years to be around $13.1 billion or, on average, $2.6 billion annually, representing 1.6% of Egypt's 2008 nominal GDP of $162.3 billion. Private equity firms and funds are becoming increasingly important actors in emerging markets. They act as a source of finance for new enterprises or provide growth capital for existing ones; they act as owners and managers of portfolio companies[5]; and they act as employers, both for management and labor.

The impact of private equity funds on their portfolio companies has been studied in the literature from several angles, including the impact on employment, wages, productivity, performance, growth, innovation, and governance. Most of these studies focus on private equity transactions in developed countries, especially in the United States and the United Kingdom, using empirical studies of completed and exited transactions. Similar large-scale empirical studies are hard to replicate in emerging markets due to data limitations and the fact that most transactions are recent and have not exited yet.

However, there is also little analysis of the entrepreneurial impact of private equity firms, especially in emerging markets. Our analysis of private equity transactions in Egypt shows that their value creation strategies are more focused on growth, rather than turnarounds and leveraged buyouts. In this paper, we hypothesize that private equity firms in emerging markets are entrepreneurial—i.e., more focused on creating new firms, or growing and globalizing existing ones.

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[1] Jensen 2007

[2] Lerner and Gurung 2008

[3] The total value of a company acquired by private equity, sometimes referred to the enterprise value, includes both equity and debt.

[4] EMPEA 2009

[5] We use the term "portfolio companies" to refer to companies that receive private equity investments, and are hence part of the *portfolio* of companies owned (fully or partially) by the private equity firm or fund.

Private equity defined

Private equity is an alternative investment class that provides investors—both individual and institutional—with professionally managed investment vehicles for equity investing in unregistered securities of private and publicly-traded companies[6,7]. Private equity firms invest in new or existing enterprises with the purpose of increasing their value over the short or medium term. Private equity funds invest in different situations, including buyouts, where the fund invests in existing (often distressed) companies through the acquisition of a significant or controlling stake; venture capital, where they invest in startup ventures, often based on technological innovations; or growth capital, where they provide capital to fast-growing companies.[8] Private equity funds maintain their investments for a limited period of time, typically three to five years. During this period, the portfolio company, in the case of buyouts, undergoes financial and operational restructuring or achieves its growth targets, or in the case of new ventures, the startup matures. At the end of this period the private equity fund exits the investment by selling the company through an initial public offering (IPO) in the stock market, to other companies (trade sale), or to other financial investors (secondary buyout).[9] Private equity funds usually capture significant profits that exceed the performance of publicly-traded companies; however, these returns reflect higher risks and volatility, along with the illiquid nature of the investments during the investment period.

Private equity in Egypt

As of mid-2008, there were 13 private equity firms managing 36 private equity funds focusing primarily on Egypt, with more than $6.4 billion in committed capital[10] (Table 1). While eight of these funds (with a total committed capital of $420 million) started operating prior to 2004, the real boom in the private equity investments began in 2004-05. In addition to the funds that are focused exclusively on Egypt, there are 35 regional funds that target Egypt along with other countries in the region.[11] Capital committed to these regional funds that include Egypt in their investment targets over the same period was around $6.1 billion. Of these, Egypt's share may be estimated to be at around 50%, or $3.0 billion, bringing the total estimated private equity committed capital invested in Egypt to around $9.4 billion, most of which has been invested over the past five years.

[6] Throughout this document, we use the following terminology in describing three different types of company ownership: private, public, and state. A private or privately-held company is owned by private investors and whose shares are not available to the general public or traded in an open market. A public, publicly-held, or publicly-traded company or corporation is primarily owned by private investors; its shares are available for the public and are traded in an open market. This is to be differentiated from a state-owned company, or state-owned enterprise (SOE) which is primarily owned by the state.

[7] Fenn, Liang and Prowse 1995

[8] Fischbein 2005; Lerner and Leamon 2008

[9] Fenn, Liang and Prowse 1995; Lerner and Leamon 2008

[10] Committed capital represents the amount of money that the fund investors commit to the fund at the start. These funds are invested over the first 2-3 years of the fund's life as the fund managers identify good target investments based on their investment strategies.

[11] There are an additional 46 funds with more than $3.8 billion that focus on other countries in the region, but do not cover Egypt.

Table 1: Private equity funds operating in Egypt
(Current US$ in millions)

Fund Geographic Focus	Year of first closing						
	Prior	2004	2005	2006	2007	N/A	Total
Egypt Funds:							
Number of Funds	8	4	7	5	7	5	36
Fund Size/ Committed Capital ($M)	420	533	2,097	314	2,102	933	6,399
MENA Funds, covering Egypt:							
Number of Funds	9	5	6	5		10	35
Fund Size/ Committed Capital ($M)	1,088	544	1,912	1,410		1,170	6,124

Note: N/A indicates year of first closing not available

Source: Compiled by author from Zawya, MIT's Emerging Markets Portal (Emergis), and individual funds data, as of July 2008

The activities of these funds translated into an increase in the number and size of individual transactions (buy/sell). In the five-year period between 2003-04 and 2007-08, we recorded 78 private equity transactions (Table 2). The transaction value was available for only 37 of these transactions, totaling $8.0 billion, with an average transaction size of $215 million. If the remaining 41 transactions where values are not available have a similar average size, this would indicate a total of ~$16.8 billion of private equity transactions over the past five years. Based on the fund and transaction calculations, we estimate private equity investments in Egypt over the past five years to be in the range of $9.4 to $16.8 billion, or $1.9 to $3.4 billion annually. Through the rest of our analysis, we use the average of these two figures: $13.1 billion for the five-year period, and $2.6 billion annually. This figure corresponds to 1.6% of Egypt's 2008 nominal GDP of $162.3 billion[12] – a level of private equity investments that is significantly higher than the regional average and other emerging markets. For example, private equity investments as a percentage of GDP are ~0.3% in the Middle East and North Africa (MENA) region, compared with 3.2% in the US, 0.8% in the European Union, and 0.5% in emerging markets in Asia (EMPEA 2009a).

Table 2: Private equity transactions in Egypt (2003-2008)
(current US$ in millions)

Year	2003	2004	2005	2006	2007	2008	Total
Number of transactions	3	7	17	21	16	14	78
Total value of transactions	17.5	13.7	484.3	1,299.9	3,396.0	2,754.7	7,966.1
Average transaction value	9	7	81	100	340	689	215

Note: Based on completed private equity transactions in Egypt during the five-year period from mid-2003 to mid-2008. 2003 figures are for the second half of the year; 2008 figures are for the first half of the year. Average transaction value is based on 37 transactions with available values.

Source: Author's estimates based on data from MIT Emergis and Zawya

[12] World Bank 2009

Research Methodology and Data

What do we know from the literature?

The impact of private equity on the portfolio companies that they acquire has been studied in the literature from several angles, including impact on labor, wages and employment[13], productivity[14], performance and growth[15], innovation, in the form of investments in research and development[16], and governance[17]. The overarching hypothesis in this type of research is that private ownership of companies by private equity funds affects their behavior and performance, compared with public ownership in the form of publicly-traded corporations. Historically, this research has been motivated by a vigorous debate in developed countries with a long history of private equity transactions on whether private equity ownership, especially in leveraged buyout (LBO) situations, has a positive or negative impact on the portfolio companies. On the one hand, proponents argue that private equity ownership improves the governance and increases the productivity and profitability of otherwise distressed or low-performing companies. Rappaport[18] argues that private equity ownership provides a short-term "shock therapy" that improves the performance and governance of distressed or low-performing companies. Jensen[19] argues that the concentrated ownership of private equity firms in LBO situations provides a superior ownership and governance structure over the long term, compared to the public corporation model. On the other hand, opponents argue that private equity firms capture significant financial profits by taking a short-term approach by aggressively cutting costs, reducing employment through layoffs, and reducing investments in the future of the company (e.g., research and development). The most comprehensive look at the impact of private equity on portfolio companies came in a recent set of working papers on the globalization of alternative investments and the global economic impact of private equity, published by the World Economic Forum[20], which examined these effects through several large-scale econometric studies using a data set of global private equity transactions executed over the past three decades, and through six case studies of private equity transactions in Europe, China and India.

In addition to the literature covering the LBO model, there is an extensive literature covering venture capital in developed countries, and its role in supporting entrepreneurial ventures[21]; however, there is limited literature covering venture capital in emerging markets.

Research approach

While this body of empirical literature provides an understanding of the impact of private equity on portfolio companies, these findings are primarily based on transactions data from developed

[13] McGuckin and Nguyen 2001; EVCA 2005; Amess and Wright 2007; Kearney 2007

[14] Lichtenberg and Siegel 1987; Kaplan 1989; Lichtenberg and Siegel 1990; Harris, Siegel and Wright 2005

[15] Long and Ravenscraft 1993; Kaplan and Schoar 2003; Davis, Haltiwanger and Jarmin 2007; Taylor and Bryant 2007

[16] Hall 1990; Lichtenberg and Siegel 1990; Hall 1992; Hao and Jaffe 1993; Himmerlberg and Petersen 1994

[17] Jensen 1989; Lerner 1995; Walker 2007

[18] Rappaport 1990

[19] Jensen 1989

[20] World Economic Forum 2008

[21] e.g., Sahlman 1990; Amir, Brander and Zott 1998; Hellmann and Puri 2002; Gompers and Lerner 2004

countries, and it is not clear if they can be extended to emerging markets. Most of these studies are based on transactions in the United States and the United Kingdom[22], and even when the data set includes global transactions[23], the majority of these transactions are still in developed countries. These large-scale empirical studies cannot be replicated for emerging countries' private equity in the near future because of the limited number of transactions, and the fact that most of these transactions were initiated over the past few years and have not yet been exited. From a theoretical point of view, we expect the outcomes of these studies to differ between developed countries and emerging countries due to several factors. Among these factors are the different market conditions and stages of development; the different value creation strategies used by the private equity firms; and, the difference in the companies acquired in terms of their size, business challenges, governance, and management capabilities.

For example, the typical business model for private equity funds in developed countries, especially in leveraged buyout transactions, is to acquire companies that are suffering from financial, operational or management problems, and to restructure them to become more profitable and hence, increase their value. The restructuring process, more often than not, is associated with replacing management, changing the financial structure to include higher leverage, aggressively cutting costs and reducing labor, downsizing or closing less profitable business units and, sometimes, breaking up the company into smaller entities that may be more valuable separately, or divestment of some assets, especially real estate assets that maybe of high cash value on their own.

However, analysts observe that private equity transactions in emerging markets show different value creation strategies, with a greater emphasis on growth. For example, changes in management are focused on strengthening and professionalizing the management team; changes in governance are focused on establishing a board where it did not yet exist (especially in recently privatized state-owned enterprises, or family-owned businesses) or adding stronger members to existing boards; changes in financial structure, while still benefiting from high leverage, are focused on providing capital for new investments in new facilities or on regional/global growth. For example, Fang and Leeds[24] cite a similar trend in India and extend this argument to other emerging economies at similar stages of development:

> Like most private equity transactions in India, as well as other emerging markets, it is noteworthy that these cases do not fit the profile of US and European buyouts – both involved minority investments rather than control, leverage was not a factor, and although major financial and operational restructuring was extremely important, neither transaction involved disruptive layoffs, management changes or other features that have been targeted by critics of Western buyouts. On the contrary, the cases illustrate that for economies like India that are in the midst of major structural changes, there are ample opportunities for more traditional "growth capital" investments in companies that are expanding rapidly, especially in sectors like retail and telecoms that are undergoing consolidation.

By contrasting the differences between the private equity value creation strategies in developed countries versus emerging markets, we hypothesize that the impact on the portfolio companies is substantially different, and likely to be positive and entrepreneurial.

[22] e.g., Cornelli and Karakas 2008; Davis et al. 2008

[23] e.g., Lerner, Stromberg and Sorensen 2008

[24] Fang and Leeds 2008d

Defining "entrepreneurial"

Schumpeter[25] puts the entrepreneur at the core of economic growth, as the innovator of new ideas, the risk taker, the agent of change, and the creator of new businesses. In this paper, our research approach focuses on understanding these entrepreneurial value creation strategies used by private equity firms in emerging markets and how they impact the portfolio companies. Specifically, we hypothesize that private equity firms have a positive impact on the companies that they acquire in developing economies because they act as catalysts for initiating, growing and globalizing portfolio companies. In other words, when private equity firms adopt these growth-oriented value creation strategies, they are likely to create positive outcomes for their portfolio companies as well as the broader economic development. Private equity funds initiate new companies through "green field" investments, venture capital investments, or by financing new joint ventures; they grow these companies by investing in new operations, manufacturing facilities, or systems; and they expand their scope of operations from domestic markets to regional and global markets. By doing so, they contribute to economic competitiveness in emerging markets. In this context, private equity firms play the role of a Schumpeterian entrepreneur.[26]

Data sources

Our case analysis is based on multiple data sources, including: (i) survey and interviews with ten private equity firms in Egypt; (ii) a data set on private equity firms in Egypt compiled by the author from Zawya, MIT Emergis, as well as private equity firms' Websites and publications; (iii) a data set on private equity transactions in Egypt compiled by the author from Zawya, Zephyr, as well as other sources; (iv) a number of tables created by the author from publicly available data on the private equity firms' Websites and other data sources; and (v) other secondary information sources on private equity firms, funds; and, transactions. In the rest of this section, we explain the details of each of these data sources.

First, we use a structured survey and interviews conducted with ten private equity firms in Egypt over the period between July 2007 and October 2007: Actis, Beltone Financial, Carlyle Group, Citadel Capital, Concord International Investments Group, EFG-Hermes Private Equity, Sphinx Capital/ Grandview, Haykala Investment Managers, IT investment, and Mansour & Maghraby Investment & Development (MMID). The ten private equity firms interviewed were selected based on where access to high-level executives at the partner or managing director level and/ or owners of firms could be acquired. The ten firms interviewed are collectively managing more than 80% of the private equity funds invested in Egypt. We have no reason to believe that there is a systematic bias in the sample selection.

The interview questions examined issues at the fund level and at the portfolio company level. At the fund level, we asked them about the fund background and history, their investment focus, the investment process and the government impact on their business. At the portfolio company level, we asked them questions on one or more of their portfolio companies, including the transaction background, their governance and performance management approach, their restructuring and value adding strategies, and their exit strategy. While interviewees provided

[25] Schumpeter 1950, 1961

[26] Schumpeter 1950, 1961

a wealth of information on their private equity firms and their transactions, they did not always adhere to the scripted questions. Some included more anecdotes that were useful in getting a deeper understanding of some of the questions.

Second, we use a data set on private equity firms in Egypt and MENA region. We compiled this data set based on primary data from two sources: Zawya, a specialized financial portal focusing on the Middle East and North Africa (MENA) region[27], and MIT Emergis[28], a startup project in the MIT media lab focusing on private equity and venture capital data in emerging markets. This data set includes a complete list of all private equity firms and funds publicly announced that operate in the Middle East and North Africa (MENA) region. By combining data from both sources, we created a more comprehensive and complete data set about the region, with a special focus on Egypt. However, it is important to note that only publicly announced funds are included. Table 3 lists the data sources used to construct this data set.

Table 3: Data sources used

Source	*Regional Coverage*	*Number of Funds*	*Number of Transactions*	*Date Downloaded*
Zawya	MENA region			June 2008
- MENA		143	415	
- Egypt		12	42	
MIT Emergis	Emerging Markets			June 2008
- MENA		109	n/a	
- Egypt		29	n/a	
Zypher	Global			June 2008
- Egypt		n/a	38	

Note: List of funds downloaded includes some inactive or rumored funds.

Source: The author

Third, we use a data set on the private equity transactions in Egypt. We compiled this data set based on primary data from two sources: Zawya, and Zephyr[29], a financial database for all global buyout transactions. This data set includes a broad list of transactions (buys/sells) conducted by private equity firms in Egypt, based on publicly announced information. It is important to note that the overlap between the two datasets was limited. This indicates that the data collection effort is far from being comprehensive, and that more transactions may exist, but are unaccounted for in either data set.

[27] A Dow Jones service, www.zawya.com

[28] www.emergisglobal.com

[29] Zephyr is a financial database that provides detailed information on business mergers, acquisitions and venture capital transactions. It includes more than 500,000 transactions, with up to 100,000 new transactions added each year. Zephyr's coverage goes back five years for international transactions and back to 1997 for transactions involving European and American companies.

Fourth, we create a number of tables from publicly available data on private equity firms' Websites and other data sources, including a database of all senior executives in private equity firms in Egypt, covering their professional and educational background.

Fifth, we use other secondary sources on private equity firms, including articles, press releases, their Websites, and other publicly available information. Some of these are collected from specialized financial portals that monitor private equity activities.

One important issue to highlight relates to data accuracy. During our analysis, we compiled a detailed data set of funds and transaction covering the MENA region for the period between 2003 and mid 2008, based on primary data from multiple sources that track such funds and transactions. This data set shows the actual size of private equity funds in the MENA region to be larger than the figures reported by industry sources such as EMPEA and Prequin. This under-counting of the industry size is likely to be the same in other emerging markets.

Are Private Equity Firms in Egypt Entrepreneurial?

Schumpeter[30] describes the role of the entrepreneur as the innovator of new ideas, the risk taker, the agent of change, and the creator of new businesses. While initiating new ventures has often been in the realm of individual entrepreneurs; an analysis of private equity transactions in Egypt (Table 4) shows that private equity firms are actively engaged in initiating new companies as well as in supporting local entrepreneurs. There are three different business models used by private equity firms to initiate new companies: venture capital, green field investments, and joint ventures.

Venture capital and initiating new ventures

Venture capital (VC)[31] is the typical business model used in developed countries to invest in startup companies. Venture capital firms undertake risky investments in unlisted startups or companies with high growth potential. Venture capital can be broadly classified based on the stage of development of the venture: Seed capital is used by startups to finance the early stages of product innovation and company building; second round financing is used by young companies to further develop or expand the range of products; and development financing is used by established companies to develop alternative products or expand through acquisitions. The venture capital business model is based on a portfolio approach, where the fund invests small amounts of money in a large number of startups, with the expectation that many of them would fail or have limited success, and the hope that one of them would become a blockbuster success that would provide significant profits on exit. Startups supported by venture capital are usually based on innovative business models or new technologies, where the market potential has not been proven or sized yet. They are usually risky and carry a high potential for failure. Large private equity buyout funds rarely invest in early-stage ventures that have not yet proven their success.

[30] Schumpeter 1950, 1961

[31] Venture capital funds are a special case of private equity, but are often treated separately in literature because their business model differs from the typical leveraged-buyout (LBO) model used by private equity firms.

Most of the venture capital-backed startups in Egypt were supported by two venture capital funds (Table 4). The first fund, IT Investments, was initiated in 1999 by one of the IT industry veterans in Egypt, Dr. Hisham El-Sherif, an MIT alumnus. The fund had a subscribed capital of $110 million at closing in 1999, and is focused on investing in low-to-medium risk early stage, startup and turnaround companies in the telecommunications, information technology and high-tech industries. Currently, the fund has 14 portfolio companies at different stages of development. In the 1990s, El-Sherif was one of the leaders in the government who worked on creating the basic infrastructure for Egypt's IT and telecommunications industry. In doing so, he created several governmental agencies, training institutes, nonprofits, and public-private partnerships in this area. Many of these organizations were later consolidated into a newly created Ministry of Communications and Information Technology (MCIT). As he transitioned from the government to the private sector, El-Sherif created IT Investments and continued to fund and support some of these initiatives as new startups. Table 4 highlights ten startup ventures that were funded by IT Investments between 1999 and 2001.

The second venture capital fund that is active in Egypt is the Technology Development Fund, which is a public-private partnership initiated by the Government of Egypt in 2004. The fund is sponsored by the Ministry of Communication and Information Technology (MCIT) and managed by EFG-Hermes, one of the largest private equity firms in Egypt and the region. The fund is also advised by Ideavelopers, an incubation and venture capital advisory firm that is also initiated by MCIT and EFG-Hermes to support the fund-backed companies. The fund is focused on investing in startup companies in the communications and information technology space[32].

The Technology Development Fund is part of a government-supported "national innovation system"[33] aimed at growing the infant telecommunication and information technology industry in Egypt. Since its inception, the Technology Development Fund has backed more than 14 startups in communication and information technology (Table 4). While the level of success of these companies is still to be judged, this will become more transparent as the fund starts to exit these investments. However, the results of the whole ecosystem are starting to payoff—a new business report[34] ranks Cairo at the seventh position in the "Top 50 Emerging Global Outsourcing Cities," and the government is projecting that local IT outsourcing and offshoring companies will reach a milestone of more than $1 billion in revenues by 2010 – four times their 2005 revenues.[35]

There are very few examples of venture capital-backed companies that went public. One of these examples is Raya Holding, the largest IT holding company in Egypt, with gross revenues of $400 million in 2008. Raya was established in 1999 as a result of the merger of seven companies, and operates different business units, including software development and IT services, contact

[32] EFG-Hermes Private Equity 2009, Ideavelopers 2009, MCIT 2009

[33] Nelson and Rosenberg 1993, Lundvall and Johnson 1994, Kim and Nelson 2000, Nelson 2000, Stern, Porter and Furman 2000

[34] Tholons 2008

[35] Marson and Blodgett 2008

centers, mobile phone retail distribution, and commercial real estate and technology parks. In 2003, Injazat Technology Fund invested $5 million in Raya Holding for a 6.79% stake in the company, to fund Raya's domestic and regional growth in the Internet service provider (ISP) business, mobile phone distribution business, and IT integration and services business. Two years later, the fund sold its stake in the company for a 40% return. Later in the year, Raya Holding went public in an initial public offering (IPO) in the Egyptian Stock Exchange.[36]

Green field investments

Another business model that some of the large private equity firms in Egypt have adopted is initiating large "green field" companies in capital-intensive industries such as transportation or oil and gas (Table 5). These are industries where the private equity firm identifies an attractive opportunity; however, there are no existing companies operating in this area that they can acquire and grow, so they proceed to initiate a new business.

Citadel Capital has been a leader in initiating "green field" companies in capital intensive industries. Table 4 highlights the five green field companies they initiated since 2005, in the transportation and logistics, oil refining, commercial real estate, and glass manufacturing industries. The National River Transportation Company (NRTC) and The National River Port Management Company (NRPMC) are two examples of green field companies initiated by Citadel Capital in 2006 to capitalize on Egypt's underdeveloped and underutilized Nile river transportation and logistics network. In the 1960s, more than 20 million tons per annum were transported on the Nile River; today, this number has significantly fallen to less than 1.5 million tons, less than 1% of the total goods moved every year. This is primarily due to the underdeveloped river transportation infrastructure.[37]

The first of these two companies, The National River Transportation Company (NRTC), was created in 2006 with committed equity of $80 million from Citadel Capital. NRTC will be building a fleet of state-of-the-art, fuel-efficient, environmentally friendly river barges to transport heavy industrial products across the Nile River. The planned fleet will be capable of transporting up to 9.12 million tons per annum by 2012.[38]

On the one hand, continuous rises in fuel costs and reductions in fuel subsidies (to date and anticipated) are increasing the transportation costs for industries that rely on heavy bulk products, and are significantly influencing their economics. This is particularly critical for industries such as cement, fertilizers, steel and other industrial manufacturing industries. On the other hand, river transportation offers a low-cost, efficient alternative to long-distance trucking, especially because the Nile River connects most large industrial cities in Egypt with large population centers and export ports. River transport will also reduce the burden on the road network, which is currently supporting more than 95% of all goods transported in Egypt, but which is barely able to keep up with the rapid growth and demand.[39]

[36] Raya Holding 2009

[37] Citadel Capital 2008a

[38] Citadel Capital 2008a

[39] Citadel Capital 2008a

NRTC began operations in May 2008 with a small fleet of refurbished barges. The company has also commissioned the building of 30 new barges to the Alexandria Shipyard and 32 new barges to the Arab Contractors Shipyard in Helwan. The first fleet will be operational by late 2010. The first client for NRTC will be Al-Nasr Company for Coke & Chemicals, which contracted NRTC for one year to transport 750 thousand tons of coal and coke to its factories for $3.6 million.[40]

The second of these two companies, The National River Port Management Company (NRPMC), was created in 2006 with committed equity of $32 million from Citadel Capital. NRPMC will build, own and operate a series of state-of-the-art river ports and logistics hubs along the Nile River that will handle bulk and container cargo. The port management company will operate in synergy with its sister company, NRTC, which operates the river barge fleet to provide high-quality door-to-door transportation and logistics services to the industrial and agricultural sectors in Egypt.[41]

The company has already started working on three ports on the Nile River and other navigable waterways. The first port is in Tebbin, 15 kilometers south of Cairo, where the company has acquired a 55,373 square meter plot of land. The Tebbin port, currently under construction, will have a capacity of 4.5 million tons per annum and will be operational by 2011. The second port is in Imbaba, north of Cairo, where the company has rented a 27,500 square meter plot of land. The Imbaba port will have a capacity of one million tons per annum. The third is in Alexandria, near the Alexandria Port, where the company has acquired an 81,000 square meter plot of land. The port is in the design phase and should also be operational within the next few years (Citadel Capital 2008a).

Citadel Capital has recruited a strong management team of industry experts for both companies. Management is supported by local and international consultants including some of Europe's leading experts in river transport, such as the Netherlands' Royal Haskoning (Citadel Capital 2008a).

Citadel Capital has also engaged in creating other green field companies in the commercial real estate sector, manufacturing of glass containers, and oil refining (Citadel Capital 2008a).

Creating new companies through joint ventures

Another business model used by private equity firms to initiate new companies is through joint ventures (JV), which are partnership agreements between two or more companies to embark on a new business (Table 6). In many situations, one of the companies is a multinational corporation that brings a specific product or manufacturing knowledge to the venture, and the other partner is a local partner with market knowledge, distribution network, or privileged market access. Private equity firms join this venture as a provider of capital and business knowledge.

OT WiMax is an example of this joint venture model. The company is a result of a joint venture agreement between Orascom Telecom (OT), a leading international telecommunications, and Intel Capital, the venture capital arm of Intel Corporation. The new venture will seek WiMAX (Wireless Interoperability for Microwave Access) spectrum licenses, establish commercial operations, and support the deployment of low cost broadband Internet access through WiMAX networks. Orascom Telecom is an Egyptian-based company with global operations in the Middle East, Africa, and South Asia. The company operates GSM mobile phone networks through a large geographic

[40] Citadel Capital 2008a

[41] Citadel Capital 2008a

footprint, which includes Algeria, Pakistan, Egypt, Tunisia, Iraq, Bangladesh, Zimbabwe and North Korea, serving a total of more than 80 million subscribers.[42] Orascom Telecom brings this market access to the joint venture, where it sees an opportunity to extend its existing GSM voice and data services into broadband Internet connectivity, using WiMAX technology, and offering advanced applications and services. Intel Capital makes equity investments in innovative technology startups and companies worldwide, often leveraging Intel's technologies and capabilities. In this case, Intel Capital will provide the new venture with access to Intel's significant technical and marketing resources and capabilities, in addition to capital.[43]

A second example of private equity-backed joint ventures is Centro Egypt. The joint venture, created in 2008 between Orascom Hotels Holding, Shuaa Hospitality Fund and Rotana Hotel Management Corporation, will invest in developing and operating a new budget business hotel chain in Egypt. The venture will start by developing five "affordable, trendy, budget business hotels" in Cairo and other Egyptian cities, under the brand Centro by Rotana to address a clear gap in the hotels market in Egypt.

Orascom Hotels Holding is an Egyptian "global town developer specializing in planning, building and operating integrated, self-sufficient leisure and residential towns around the world," with current properties and operations in Egypt, Oman, Jordan, the United Arab Emirates, Switzerland, Mauritius, and Morocco, and plans to expand to other countries. The company is also the largest owner of hotel rooms in Egypt, with 5,800 rooms currently in operation and a target of 10,000 rooms by 2010. Orascom's flagship development in Egypt's Red Sea coast, El-Gouna, began as a simple touristic real estate project, but has since evolved into a fast-growing fully independent town with a strong infrastructure and residential population.[44] This new venture will enable Orascom to diversify its properties beyond touristic villages to include business-oriented hotels.[45]

Shuaa Partners is the private equity arm of Shuaa Capital, a Dubai-based investment bank. Over the past five years, Shuaa Partners has launched several private equity funds focusing on investing in the Middle East and North Africa (MENA) region, including its inaugural fund, Shuaa Partners Fund I, which closed in 2005 with committed capital of $200 million; Frontier Opportunities Fund I, which closed in 2007 with committed capital of US$100 million; Hospitality Fund I, which closed in 2008 with committed capital of $165 million; and Shuaa Saudi Hospitality Fund I, which closed in 2008 with committed capital of $240 million. The first three funds are focused on the whole region, while the last one is focused solely on Saudi Arabia.[46]

Rotana Hotels Management Corporation is a regional hotels chain operator founded in 1992 and headquartered in Abu Dhabi in the United Arab Emirates. Rotana currently manages 67 hotel properties across the Middle East and North Africa region, including luxury and business budget hotels in Abu Dhabi, Dubai, Al Ain, Sharjah, Fujairah, Ras Al Khaimah, Beirut, Kuwait, Syria, Sudan, Hurgada and Sharm El Sheikh in Egypt, and new properties under development in Bahrain, Egypt, Iraq, Kurdistan, Lebanon, Oman, Qatar, Saudi Arabia, Syria, and the United Arab Emirates. Rotana

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[42] As of March 2009; Orascom Telecom Holding 2009

[43] Orascom Telecom 2006

[44] Orascom Hotels Holding 2009

[45] Shuaa Partners 2008

[46] Shuaa Partners 2009

is one of the portfolio companies of Shuaa Capital and has received significant capital from the private equity fund since 2006. In 2005, Rotana announced the launch of a new hotel concept, "Centro by Rotana," designed to meet the growing demands of business travelers in the region. The new concept offers an affordable three-star business-friendly hotel chain. This new joint venture will focus on developing five Centro hotels in Egypt.

These three business models – venture capital, green field investments, and joint ventures – highlight how private equity is initiating new companies in Egypt, where private equity funds act as both the financier and risk taker. In the case of venture capital and joint ventures, they act as a catalyst for the initiation of these ventures by partnering with individual entrepreneurs or other companies. In the case of green field ventures, they act as the entrepreneur in actually initiating the new venture. Throughout the past five years, where the private equity model showed rapid growth, these funds were part of the creation of scores of new businesses in technology, infrastructure and other industries, with clear contribution to employment and economic growth. Absent the private equity model, it is unclear which, if any, of these ventures would have been initiated.

Growing and globalizing portfolio companies

Growing a business seems like an intuitive goal that all companies would aspire toward, but that is not always the case. There are three reasons why companies do not always try to grow their business: (i) lack of will to grow, (ii) lack of skill to grow, or (iii) lack of capital to grow. The first is a matter of risk aversion, especially in many small and medium family businesses, where the owners may be satisfied with the profits generated, and may not be willing to take additional risk to grow the business. For example, Donckels and Fröhlich[47] compare objectives, values and strategic behavior of family and nonfamily businesses using observations of 1,132 small and medium enterprises in eight European countries. They find that family businesses are typically risk averse, inwardly-focused, and demonstrate a conservative strategic behavior. "[R]isk aversion and fear of losing control of the business lead many family businesses to seriously limit their growth potential by not adopting generally accepted financial management policies."[48] This risk averse behavior is often compounded by the limited skills and human capital, especially in technical, marketing, or product design areas, and the limited access to capital to finance the growth opportunities. For example, in Egypt, only 21.1% of firms have access to long-term bank credit. Among the former, larger firms are more likely to have access (41.5%), compared with medium size (19.1%) and smaller (13.7%) firms.[49]

Tables 7 and 8 highlight examples of private equity firms growing and globalizing their portfolio companies. One example is Mo'men, a local chain of fast-food outlets, which received investments from Actis, a United Kingdom-based private equity firm. Mo'men was founded in 1988 by two brothers at a small sandwich place in the Heliopolis suburb of Cairo, and has since grown to become one of the largest food chains in Egypt with 36 branches, as well as a presence in Libya and Sudan. The company has expanded to include two other restaurant chains—a ready-made food label, while also operating its own meat and poultry production facilities. It also has plans to acquire a domestic coffee shop chain.[50]

[47] Donckels and Fröhlich 1991

[48] Donckels and Fröhlich 1991

[49] Based on our analysis of a 2003/4 World Bank survey of a random sample of 1,000 Egyptian companies.

[50] Schurgott 2008

Table 4: Examples of venture capital firms investing in startup ventures

Company	PE Firm/ Fund	Year	Description
EBCTA	IT Investments	1995	Provides software for banks to handle clearing and transaction settlements between banks
LADIS	IT Investments	1996	Information system and support provider for clients in the legal community
CIT Group	IT Investments	1997	M-Commerce solution and services provider. Provides e-payment solutions
Nile Online	IT Investments	1999	Broadband infrastructure provider
Arab Internet Company	IT Investments	1999	Provides R&D and value-added technology for ISPs and Internet professionals in Egypt, designed to compliment Nile Online›s services
Telcomedia	IT Investments	2000	Audio text and IDR services for the Arab World
TIBA-CITE Group	IT Investments	2000	Regional distributer of IT products, solutions, services and enterprise management systems
PT Trust	IT Investments	2000	Online payment and e-commerce platform provider
El Rowad	IT Investments	2001	Creation of educational software and providing educational facilities to students and teachers in Egypt
E-Knowledge	IT Investments	2001	Creating training tools for developing E-Learning environments
Raya Holding (IT services)	Injazat Technology Fund	2003	Investment to develop Raya's domestic and regional Internet service provider (ISP) business, mobile phone distribution business, and IT integration and services business
OstazOnline	Technology Development Fund	2004	Developing online educational tools and teaching aids for the Egyptian market
Smart Cards Application	Technology Development Fund	2005	Implements and manages operations for state-of-the-art smart card solutions for government agencies

iModel it	Technology Development Fund	2005	Enables communication among researchers, research institutions, publishers, e-learning companies, and industry in the area of device modeling for microwave and optical domains.
Flat World Consulting	Technology Development Fund	2005	Provides comprehensive engineering, computer-aided design (CAD) and 3D Rendering and Animation for the architectural/ engineering/ construction (AEC) industry
Allied Information Technology Services	Technology Development Fund	2005	AITS provides business process outsourcing (BPO) and technology solutions to healthcare providers, including medical and legal transcriptions, call center services, medical billing and coding, BPO training services, and web-enabled software solutions to manage medical records
Timeline Interactive	Technology Development Fund	2005	A software development company specializing in producing high quality games on all major platforms
Research and Development International (RDI)	Technology Development Fund	2005	Software development house focusing on the creation of Arabic language technology, both written and spoken
OpenCraft	Technology Development Fund	2005	Providing IT solutions to large corporate clients
COLTECH	Technology Development Fund	2005	Arabic language search and data analysis technology solutions
Allied Soft	Technology Development Fund	2005	System development firm, specializing in security and offshore development
Advanced Smart Card	Technology Development Fund	2005	Large-scale manufacturer of secure credit/plastic card
IdealRatings	Technology Development Fund	2006	A service provider for financial institutions to identify Shariah-compliant instruments globally and manage the overall Shariah fund management process
ConnectmeTV	Technology Development Fund	2006	A leading provider of integrated digital media delivery platforms in the Middle East, including software and application development, business management, product positioning, consumer marketing, sales distribution, operation and manufacturing
Smart Wireless Systems	Technology Development Fund	2006	Provider of analog/mixed-signal and RF (Radio-Frequency) research and design solutions for ASIC (Application-Specific-Integrated-Circuit) development in different application segments

Source: Compiled by the author based on private equity firms» Websites and annual reports. industry reports, and financial news Websites

Table 5: Examples of private equity firms investing in green field investments

Company	PE Firm/ Fund	Year	Description
ECC	EFG Hermes	1995	First private cement company in Egypt
National River Transportation Company	Citadel Capital	2006	A platform company for investments in transportation and logistics, focusing on Nile River transportation
National River Port Management Company	Citadel Capital	2006	A platform company to develop and manage a new port network along the Nile River
Egyptian Propylene and Polypropylene Company	Amwaal Al-Khaleej	2007	Chemical company started by number of regional investors, expected to go commercial by 2010
Egyptian Refining Company	Citadel Capital	2007	New company that will construct, own and operate a new hydro-cracking facility and ancillary unit
Bonyan	Citadel Capital	2007	A specialty real estate developer focusing on furniture and home accessories malls
GlassWorks	Citadel Capital	2007	A company set up to invest in the glass manufacturing sector through both consolidation and green field projects
Beltone Retail	Beltone Financial	2007	Retail company set up to consolidate other retail brands in region
Al-Nouran Trading Corporation	Beltone Financial	2007	Green field investment in sugar manufacturing complex

Source: Compiled by the author based on private equity firms' Websites and annual reports, industry reports, and financial news Websites

Table 6: Examples of private equity firms investing in joint ventures

Company	PE Firm/ Fund	Year	Description
OT WiMax Limited	Intel Capital	2006	A joint venture between Orascom Telecom Holding and Intel Capital, the VC investment arm of Intel Corp. The new company will support the deployment of low cost broadband internet access through WiMAX networks. Intel Capital will also provide access to the significant technical and marketing resources of Intel.
Centro	Shuaa Partners	2008	A joint venture between Orascom, Shuaa and Rotana to operate budget business hotels

Source: Compiled by the author based on private equity firms' Websites and annual reports, industry reports, and financial news Websites

Actis, founded more than 60 years ago, is a UK-based private equity investor focusing on investing in emerging markets. Actis has 11 offices in emerging markets and $7.6 billion in assets under management, out of which $1.5 billion are invested in Africa.[51] The private equity firm started its operations in Egypt in 2002 through a local office, and has since completed four transactions in Egypt. The firm's value-creation strategy is focused on growth: They invest in "existing, profitable, established businesses," with the objective of growing them and expanding their operations internationally.[52]

In September 2008, Actis acquired a 28% stake in Mo'men for $48.5 million, with the goal of providing capital to Mo'men for rapid growth domestically and regionally. For 20 years, the company was growing organically through retained earnings. Their negotiations with Actis started in 2006 and took more than two years to complete. As with most family-owned businesses, control over their company was the key concern. For example, Sherif Elkhouly, the investment principal for Actis Egypt, comments on his initial interaction with Mo'men:

> When I spoke to [Mr. Mo'men] for the first time, the concept of private equity was completely new to him. It was a closed family-oriented business, and the thought of having an "outsider" coming into the shareholder base was taboo. It took quite a lot of work and explanation of what Actis is about and why it's in his company's interest to have Actis alongside them to get a second meeting and to explain more, to show him what we've done in this sector over the world before and what we've added to these businesses. It was a process of building trust (Schurgott 2008).

Once the two parties established a trust-based relationship, the discussion shifted towards the business plan. Mo'men established a five-year business plan, with specific milestones, projects, and investment requirements. The company plans to grow its local franchises across the country. They are also planning to expand their presence through franchising agreements in the region, starting with Sudan, Libya, Bahrain and the United Arab Emirates, and following in Saudi Arabia, Kuwait, and Qatar. They are also expanding its meat and poultry production and processing and bakery capacity, and looking into establishing other food processing facilities, including tomato paste, fruit pulp and frozen vegetables. They are also negotiating with other multinationals to establish a logistics and supply chain joint venture to support their operations. These actions will enable Mo'men to operate in a vertically integrated model, and have better control over their cost structure and supply chain.[53]

For Actis, the value creation strategy for this transaction is through the rapid growth, both domestically and regionally, of Mo'men. Their contribution to the transaction comes in the form of the capital injection, as well as the management support, which comes in various forms. First, Actis provides a strong presence at the board of directors' level, where they can monitor performance and advise the company on strategic decisions. Second, they also provide consulting support through their network of industry experts, and access to other markets through their offices across the globe. Beyond that, they do not interfere in the day-to-day management of the company.[54]

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[51] Actis 2009

[52] Schurgott 2008

[53] Schurgott 2008

[54] Schurgott 2008

This transition also had significant implications on Mo'men's corporate governance, which further supports the role of private equity in professionalizing their portfolio companies, as analyzed in the previous section. The company had to reorganize its operations and change its legal structure, moving from an ad hoc organization with some partnerships and some shareholder companies, to a holding company with multiple business units with clear boundaries. They had to create a board of directors, assign corporate management responsibilities, and institute formal governance and reporting processes. They also had to streamline their tax accounting and settle any outstanding tax issues.[55]

This example highlights a private equity value creation model that is completely focused on growth and regional/global expansion. The company had a successful growth story and a strong management team. The private equity firm did not go for a majority ownership, but instead accepted a minority share, with control remaining with the original family owners. Their contribution was to provide capital, as well as business know-how and support during the fast growth process. In these types of transactions, the private equity exit strategy is more likely to be through a share sale back to the owners, or an initial public offering, rather than a trade sale to a multinational or another financial investor.

Another example of private equity growing and globalizing their portfolio companies is their investment in Al-Borg Laboratories, the largest private provider of medical lab tests in the Middle East, by Abraaj Capital, a Dubai-based private equity firm. Al-Borg was founded in 1991, and has since served more than 10 million patients and conducted more than 29 million medical tests. Al-Borg operates a network of more than 60 medical labs across Egypt, as well as 14 labs in Saudi Arabia, four in the United Arab Emirates and one in Qatar. It employs more than a thousand medical professionals, including specialized lab physicians, experienced technologists and management staff, and conducts more than five million tests per year.[56]

Abraaj Capital is a Dubai-based private equity firm that invests in the Middle East, North Africa and South Asia (MENASA) region. The firm has $5 billion of assets under management in four funds—buyout funds I and II, real estate fund, and infrastructure and growth capital fund. The firm's investors include pension funds such as the Qatar Pension Fund and the Kuwaiti Public Institution for Social Security; international banks such as Deutsche Bank; regional holding companies such as Al Jaber Group (UAE), Al Qudra Holdings (Abu Dhabi); as well as wealthy individuals from the GCC countries.[57]

In May 2008, Abraaj acquired a 76.9% stake in Al-Borg Company for an estimated $143.7 million; the remaining shares are still publicly traded in the Egyptian Stock Exchange. The main objective of the transaction was to provide Al-Borg lab with additional capital and management support to grow its operations within the region due to three factors. The first factor is the region's demographics of a young and rapidly growing population, with growing income and demand for quality healthcare. Second, the region is underserved in terms of medical service; for example, the average lab tests per capita is 2.5 in Egypt and six in Saudi Arabia, compared with 16 lab tests in Europe and 22 in the United States. The third factor is the potential for the lab to go

[55] Schurgott 2008

[56] Abraaj Capital 2008

[57] Abraaj Capital 2008

beyond Egypt to cover the whole region, which it has already started through its presence in the three previously mentioned GCC countries. Providing regional growth requires two critical resources—trained experienced lab physicians and technicians, which Al-Borg has developed through ongoing professional training; and, significant capital to finance the acquisition of the required equipment and technology, which requires constant upgrading every three to five years. This transaction provides the lab with access to capital for its regional growth.[58]

These examples highlight a private equity value creation model based on growth and regional/ global expansion. The companies in each of these examples are successful and rapidly growing; however, they need additional capital as well as support in setting their strategic direction, professionalizing management and gaining market access, which the private equity firm is able to provide. Table 5 provides additional examples where private equity firms grew the operations of their portfolio companies domestically and regionally, or globally as a value-creation strategy.

[57] Abraaj Capital 2008

Table 7: Examples of Private equity firms growing portfolio companies

Company	PE Firm	Year	Description
Lecico	EFG Hermes	1996	Investment for increasing capacity and new production lines
Vodafone Egypt	EFG Hermes	1999	Investment allowed for purchase of bandwidth and telcom license
ACE - CIIC	EFG Hermes	2000	Investment allowed for license acquisition
Rashidi El-Mizan	Actis	2003	Continue increasing capacity after purchase from Unilever
Raya Holding (IT services)	Injazat Technology Fund	2003	Investment to develop Raya's domestic and regional Internet service provider (ISP) business, mobile phone distribution business, and IT integration and services business
Enjoy	Haykala	2005	Potential to increase capacity by 120%
Sokhna Port Company	AIG African Infrastructure Fund	2005	Finalising development of port complex
BiscoMisr	Concord	2005	Investing additional LE 80 million ($15 million) to expanding production facilities, grow local markets, and implement ERP systems
HoneyWell	Haykala	2006	Growing firm in domestic market, with a focus on turnaround
East Mediterranean Gas Company	Ampal	2006	Growth in gas export capacity
Metito Water Treatment	Gulf Capital	2006	Growth in water desalination sector
Taqa	Citadel Capital	2006	Increased capacity to satisfy domestic consumption needs
Al Nouran Holding	Abraaj Capital	2007	Investment will allow for production of sugar production facility
Sinai Holding for Marble and Investments	Actis	2007	Investment will quadruple quarrying capacity as well as triple marble capacity
SEKEM Group	Gemeinschaftsbank	2007	Investment for increase in capacity and exportation abilities
Alexandria Container Terminal	MENA Infrastructure Fund	2007	Investment in growing industry
Gozour	Citadel Capital	2007	Platform company to consolidate and grow leading consumer goods brands in agriculture and dairy, fast-moving consumer goods, and food intermediates
Tanweer (Publishing media & distribution)	Citadel Capital	2007	Expanding publishing rights and number of stores nationally and regionally
Beard	Beltone Financial	2007	Investment in international manufacturing facilities
Cairo Medical Tower Laboratory	Abraaj Capital, Concord	2008	Rapid expansion, especially as governments in the region incentivize private-sector participation in the healthcare sector

Contact Car Company	Amwal Al Khaleej	2008	Expanded the firm›s car financing to include used cars and insurance, planned entrance into the mortgage market
Mo›men (fast food chain)	Actis	2008	Looking for growing number of brands under management
Minapharm	BankInvest	2008	Growth in biotech subsidiary
SOLS and SOMICO	Haykala	2008	Adding new production lines in steel sheet production

Source: Compiled by the author based on private equity firms' Websites, reports, and financial news Websites

Table 8: Examples of private equity firms regionalizing/ globalizing portfolio companies

Company	PE Firm	Year	Description
Raya Holding (IT services)	Injazat Technology Fund	2003	Investment to develop Raya's domestic and regional Internet service provider (ISP) b usiness, mobile phone distribution business, and IT integration and services business
ASEC Cement	Citadel Capital	2005	Acquired and expanded production and operations in Algeria, Sudan and Libya
National Petroleum Company	Citadel Capital	2005	Acquiring 6 upstream oil and gas concessions or companies in the MENA in Egypt and Sudan; Pakistan planned
Research and Development International (RDI)	Technology Development Fund	2005	Regional expansion of software company focusing on the creation of Arabic language software
OstazOnline	Technology Development Fund	2005	Regional expansion of online teaching aid online portal
BiscoMisr	Concord	2005	Expanding to regional markets in Africa and Arab countries; benefiting from the COMESA free trade agreement with neighboring African countries
Commercial International Bank	Ripplewood	2006	Investment allows for regional growth
Premiere Casing Services	Haykala	2007	Regional expansion into GCC countries
Cairo Medical Tower Laboratory	Abraaj Capital, Concord	2008	Planning to expand medical lab services regionally
Mo›men (fast food chain)	Actis	2008	Expanding fast food chain stores regionally
ITWorx (IT software development)	Capital Trust Group	2008	Assisted the company in expanding regionally through acquisitions

Source: Compiled by the author based on private equity firms' Websites, reports, and financial news Websites

Conclusions

Private equity ownership of portfolio companies affects companies in many ways. This has been demonstrated by many empirical studies using data sets of completed private transactions in developed countries. Changes are often made to employment, wages, productivity, performance, growth, innovation and governance. While these studies are hard to replicate due to the nascent level of private equity transactions in emerging countries, qualitative review of these transactions show that the nature of their value creation strategies differs from those in developed countries, and that the firms are more entrepreneurial. By examining these value creation strategies, we show that private equity firms in Egypt, an emerging market example, act as financial entrepreneurs and have a positive impact on their portfolio companies. These private equity firms initiated or participated in the initiation of a large number of venture capital-backed startups, joint ventures and green field companies. In venture capital, the emphasis is on providing capital and management support to individual entrepreneurs. In joint ventures, the emphasis is on supporting existing companies as they start a new line of business through a joint venture. And in green field companies, private equity firms act as the entrepreneur and initiate new capital-intensive companies. Lastly, private equity firms increase the value of their portfolio companies through growth and regional/global expansion. The companies in these examples are successful and rapidly growing; however, they required additional capital as well as support in setting their strategic direction, professionalizing management and gaining market access, which the private equity firm was able to provide.

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About the Dubai Initiative

The Dubai Initiative is a joint venture between the Dubai School of Government (DSG) and the John F. Kennedy School of Government at Harvard University supporting the establishment of the DSG as an academic, research and outreach institution in public policy, administration and management for the Middle East. The primary objective of the Initiative is to bridge the expertise and resources of the John F. Kennedy School of Government/Harvard University with the Dubai School of Government and enable the exchange of students, scholars, knowledge and resources between the two institutions in the areas of governance, political science, economics, energy, security, gender and foreign relations in the Middle East.

The Initiative implements programs that respond to the evolving needs of the DSG and are aligned with the research interests of the various departments and centers of the Kennedy School of Government as well as other schools and departments of Harvard University. Program activities include funding, coordinating and facilitating fellowships, joint fellowships with the DSG, internships, faculty and graduate research grants, working papers, multi-year research initiatives, conferences, symposia, public lectures, policy workshops, faculty workshops, case studies and customized executive education programs delivered at the Dubai School of Government.

About the Dubai School of Government

The Dubai School of Government (DSG) is a research and teaching institution focusing on public policy in the Arab world. Established in 2005 under the patronage of HH Sheikh Mohammed Bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai, in cooperation with the Harvard Kennedy School, DSG aims to promote good governance through enhancing the region's capacity for effective public policy.

Toward this goal, the Dubai School of Government also collaborates with regional and global institutions in delivering its research and training programs. In addition, the School organizes policy forums and international conferences to facilitate the exchange of ideas and promote critical debate on public policy in the Arab world.

The School is committed to the creation of knowledge, the dissemination of best practice and the training of policy makers in the Arab world. To achieve this mission, the School is developing strong capabilities to support research and teaching programs, including

- applied research in public policy and management;
- master's degrees in public policy and public administration;
- executive education for senior officials and executives; and,
- knowledge forums for scholars and policy makers.

The Dubai Initiative
www.dubaiinitiative.org

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