

DAILY NEWS


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EGYPT

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President Abdel Fattah Al-Sisi to **DAILY NEWS**
EGYPT

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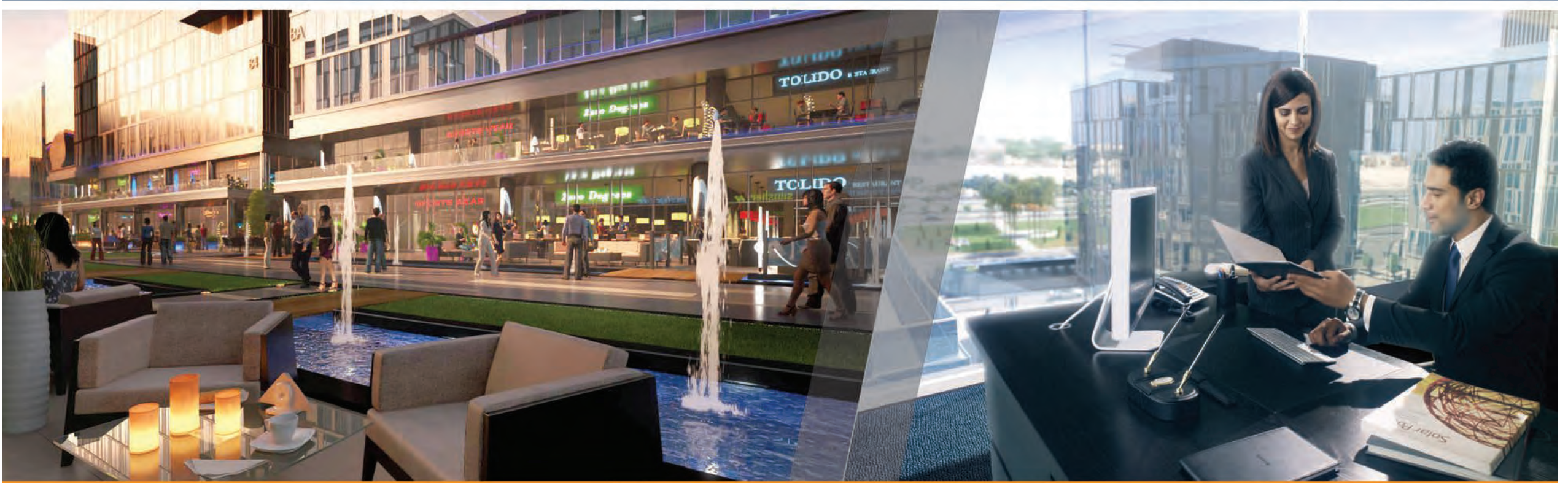
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TDA needs major upgrade

Tourism officials have called for the restructuring of the Tourism Development Authority. Workers in the authority responded by saying that they have started a development and restructuring process.

The Tourism Development Authority is generating "gold" for the country, said Ilhamy Zayat, head of the Egyptian Tourism Federation - referring to the high revenues it generates and its major contribution to the Egyptian economy.

An official at the Tourism Development Agency said that the authority needs a significant restructuring in the coming period in order to cope with the changes in the global tourism market.

"The Central Agency for Organisation and Administration has approved the restructuring of the authority," Ahmed Shokry, head of the International Tourism Department in the Agency said, adding that the coming period will witness "radical changes".

By Abdel Razek Al-Shuwekhi

1 Online advertising project for tourism services begun

The Tourism Activation Authority (TAA) has started tapping into the potential of search engine advertising, whilst also creating a social media presence, to increase tourism to Egypt. The Ministry of Tourism signed a deal with Visa Inc. last May to market tourism services in the largest European markets.

The Ministry of Tourism hopes to attract between 2% to 4% of visitors annually via the Visa Inc. website over

the next year.

Online marketing for tourism services saves money spent on reaching new segments of consumers of Egyptian tourism services.

Experts believe that online marketing forms a major opportunity for tourism for reaching out to major exporting markets.

Additionally, these new marketing patterns will be used to identify pat-

terns of tourism coming into the country, allowing for policies to be adjusted accordingly. They will take into account competing markets and global conditions that will affect the influx of tourists.

The ministry has resorted to this new direction due to the growth of electronic marketing at the expense of traditional marketing. There is also a need to ration costs in the light of the financial crisis that Egypt is currently experiencing.

2 ETA marketing budget to be slashed by 25%

The Egyptian Tourism Authority (ETA) is planning to slash its \$40m marketing budget by 25%, while reducing its participation in international and regional tourism exhibitions.

However, the ETA will continue taking part in international tourism bourses.

The authority has signed an agreement with a tourism marketing company operating in Egypt's main tourist

markets, including France, Italy, Germany, Britain, and the US.

Russia accounts for the largest proportion of tourism to Egypt, followed by Germany, France, Italy and Britain, according to data released by the ETA.

The association has faced vehement criticism in the last few months for having offices in 17 countries, while the number of tourists from those states failed to surpass 11 million over

the last three years.

The Ministry of Tourism shut down three offices in Japan, Switzerland and Canada as tourists who visit Egypt from those countries did not exceed 100,000 per year.

Officials say that the ETA is planning to cooperate with privately-held tourism firms to promote Egypt's tourism destinations in international tourism bourses.

3 Egypt eyes more Southeast Asian and Gulf tourists

The ETA seeks to attract more tourists from Asian and the GCC (Gulf Cooperation Council) as visitors from these countries have largely stayed away since the 25 January Revolution due to political unrest.

The authority will focus on Chinese and Indian markets as they represent two of the world's fastest growing economies. The ETA aims to raise Indian tourists to Egypt to 3 million and Chinese tourists to 300,000.

The Cairo-based authority will also

try to increase tourism to the Upper Egyptian cities of Luxor and Aswan and as well as the capital Cairo. These destinations have taken a battering by the recession since the popular uprising toppled former long-time dictator Hosni Mubarak in 2011.

The Ministry of Tourism pins its hopes on strong cooperation with EgyptAir Holding Company to make such an achievement.

The average Indian tourist's spending totals \$92 per night, while the Chi-

nese tourist spends an average of \$80 per night.

The ETA also wishes to encourage young people to visit Egypt's Red Sea resorts and other landmarks nationwide.

Meanwhile, the ministry will offer travel incentives to GCC tourists by slashing prices of tourism programmes to \$450 for three nights.

European tourists who flock to Egypt annually account for 72% of the total tourist influx, while Arab tourists make up about 20%.

4 Central Agency for Organization and Administration

The Central Agency for Organization and Administration (CAOA) has given its approval for TAA restructuring, which is set to establish new departments.

The Tourism Activation Authority will introduce new departments within existing jobs for the marketing of tourist patterns and attraction of new consumer segments.

The restructuring is aimed at creating a new marketing department that will focus on the international tour-

ism sector. Another department will manage crises and a third will focus on new tourism services, such as golf and desert tourism, spas, diving, and education.

In the coming months, the TAA hopes to target the high-income market - marketing to tourists whose expenditures exceed \$80 per night, compared to ordinary tourists' average of \$36.3 per night.

Beach tourism represents approximately 95% of Egyptian tourist, while

cultural tourism does not exceed 3%. The remaining 2% is distributed across other types of tourism.

The authorities hope that the establishment of these special departments within the TAA will be a useful opportunity to identify the strong points of Egypt's tourism market.

The same number of staff will be maintained throughout the restructuring process, and no additional restructuring expenses will be incurred.

Tourism Development Authority needs major upgrade

The Tourism Development Authority (TDA) is in need of a boost amid tough political and economic circumstances that have plagued the country since the 25 January Revolution, tourism officials said.

"It is the goose that lays golden eggs," said Ilhamy Zayat, head of the Egyptian Tourism Federation (ETF), of the authority, which injects billions of dollars into the state's coffers.

The TDA promotes Egypt's tourism programmes and services in countries exporting tourism to Egypt, according to Zayat.

The Egyptian official said that the authority needs to undergo a major restructuring in the coming period.

The North African country's tourism revenues declined to \$5.9bn in 2013, compared to \$10bn in 2012 and \$8.8bn in 2011. Revenues reached their peak in 2010, standing at \$12.5bn, according to data released by the Ministry of Tourism.

The tourism industry employs approximately 3.5 million workers directly and indirectly, and accounts for 11.3% of the country's GDP, according to Minister of Tourism Hisham Zaazou.

"One unit at the Egyptian Tourism Federation provides three job opportunities," Zayat said. She added that the authority will play a major role invigorating the ailing economy in the coming period by increasing tourist numbers to Egypt.

Magdy Selim, head of the Domestic Tourism Department at the TDA, said they are organising parties in many tourist attractions in the coming period to increase occupancy rates. He added that domestic tourism has given a boost to the tourism industry over the last three and a half years.

The authority has promoted many tourism programmes for Egyptians in Luxor and Aswan, according to Selim.

"Yet, some tourism personnel working for the private sector complain that the authority's activities are confined to particular cities," said an official at the Tourism Development Authority.

The anonymous official said the authority has not promoted Egypt's tourist destinations abroad over the past few months and focuses on the Red Sea resorts of Hurghada and Sharm El-Sheikh. "The TDA lends a blind eye to the other cities," he added.

The official, who owns a group of hotels in the Red Sea and South Sinai, said the air route launched by the Ministry of Tourism between Cairo and Taba was stopped. The cancellation came due to low demand and declining promotion efforts by the authority, with the official adding: "The authority employs civil servants, not professionals."

Zayat requested the formation of a private sector committee to supervise TDA promotion of activities inside and outside Egypt.

"The committee members will not find a conflict of interest between running the committee and managing their own businesses. On the contrary, there will be competition between the committee members to win tourists back for Egypt," Zayat said.

The 2013 Muslim Brotherhood sit-ins in Rabaa al-Adaweya and Nahda squares and their subsequent dispersals further affected tourism levels to Egypt. Since then, Minister of Tourism Hisham Zaazou has played a major role in pushing Western and European countries to lift their travel warnings for Egypt's tourist attractions.

"The TDA did not play a role in this," the Tourism Development Authority official said.

"Zaazou was very active while the TDA remained in a state of shock due to deteriorating conditions in the tourism sector over the last year," he added.

The TDA did not shut down its 17 un-

productive offices abroad until July 2014 claimed the official.

According to the anonymous official, the TDA's decision to close three offices in Japan, Switzerland and Canada was delayed for over seven months.

According to the Ministry of Tourism, tourist influx to Egypt sank by 70% in September last year, representing its biggest fall in decades.

"The TDA chief should have sent a report informing the Minister of Tourism that the authority's foreign offices were completely useless and all officials at the authority and those working in the Japan, Switzerland and Canada offices should be held accountable," he added.

"Tourist influx from the three countries did not surpass 300,000 last year," the official said, adding that officials at those offices and the TDA did not report the minister.

"There is favouritism and negligence within the authority. The foreign offices should not form luxury locations for the authority's employees in light of hard economic conditions," he added.

Adel Zaki, head of the Foreign Ministry Committee at the Egyptian Travel Agents Association, said that the offices are still using old marketing techniques. He added that 24 European companies became bankrupt as a result of using such techniques.

Zaki called upon officials at the TDA and the ministry to move faster to use modern communications methods, including social media and search engines instead of traditional advertisements. "This method saves time and expenses," he added.

The budget for tourism promotion stands at \$40mn annually, a figure which has remained since the 25 January Revolution, Zaki said. He added that foreign companies are far more effective than Egyptian offices in some markets.

From 16-17 September 2014 e-Finance participates in 'Euromoney Conference' for the second time as one of the official sponsors

Cairo - 16 September 2014:

e-Finance - the Egyptian company for the technology of operating financial institutions - announced its participation in "Euromoney Conference" for the second time. The Conference will be held in Cairo during the period between 16-17 September 2014, under the slogan "Stability, Investment and Growth." "Euromoney Conference" is considered one of the largest specialised conferences in which the most important experts in the field of finance and investment in Egypt and the world participate.

Ibrahim Sarhan, e-Finance Chairman, stated that the company's sponsorship for this leading event comes as a confirmation of its leadership in the e-payment and e-collection industry. "In addition, our participation aims at demonstrating our unique capabilities to the government and the private sector in executing and sponsoring the biggest financial events in the Middle East", he added.

Sarhan expressed his happiness with e-Finance's participation in this conference, which brings together the poles of investment in Egypt and the world.

He went on to say that "Euromoney Conference" is one of the largest and most important international economic conferences, which focuses on financing and evaluating the economy in a realistic manner. He added that the fact that "Euromoney Conference" is taking place in Cairo, especially in light of the economic conditions in the country, is considered a positive step which will contribute to creating and attracting new in-

vestments to Egypt.

The conference - held over the span of two days - will showcase the real state of the Egyptian economy and the actual economic measures taken on the ground to improve its conditions, according to the latest and most recent developments.

The most important topics to be discussed in the conference this year will include the new political map in Egypt, the current government's economic strategy, the economic and investment future of Egypt, Gulf aid to Egypt, and the role of the International Monetary Fund (IMF) and international financial institutions in the development of the Egyptian economy. Other topics discussed will also include reforms in the subsidy system, capital markets, new IPOs in the stock market, infrastructure, energy and the challenges facing the state's public resources.

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Tourism In Numbers

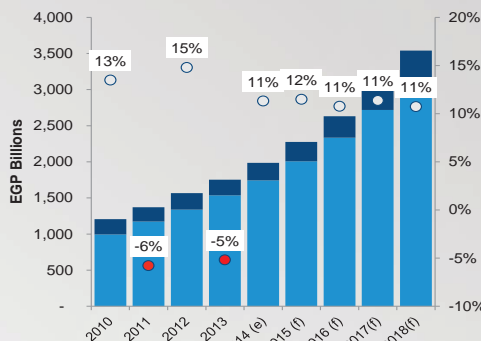
Egypt is currently going through a period of economic recovery, with tourism and hospitality at the forefront. The country's economic status witnessed a downturn in the recent past due to market instability. Although this has had a downward impact on the country's tourism sector, the state of the economy is expected to return to pre-2011 levels in the mid-term.

Egypt Market Overview

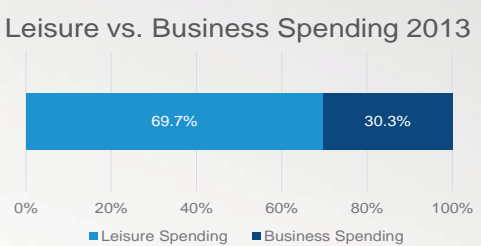
2013	Y-O-Y Growth 2012-2013	2013	Y-O-Y Growth 2012-2013
Population (Millions)	84.5 ↑ 2.4%	Total Domestic Tourists (Millions)	15.9 ↑ 8.8%
GDP (EGP Billions)	1.8 ↑ 12.0%	Total Overnight Stays (Millions)	53.9 ↑ 1.6%
Tourism GDP (EGP Billions; Real Growth %)	217 ↓ -2.0%	Hotel Occupancy % (Occupancy %)	43.4% ↓ -14.3%
Capital Investment (EGP Millions)	31 ↑ 4.0%	Hotel ADR (EGP)	519 ↓ -8.6%
Total Inbound Tourists (Millions)	9.4 ↓ -17.9%	Hotel RevPAR (EGP)	203 ↓ -9.0%

Source: WTTC; World Population; Colliers International

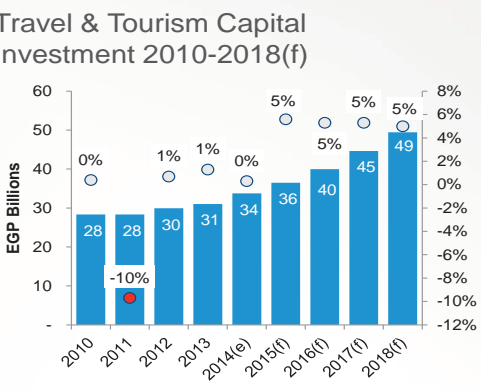
Travel & Tourism Total Contribution to GDP (EGP billions) 2010-2018(f)



Leisure vs. Business Spending 2013

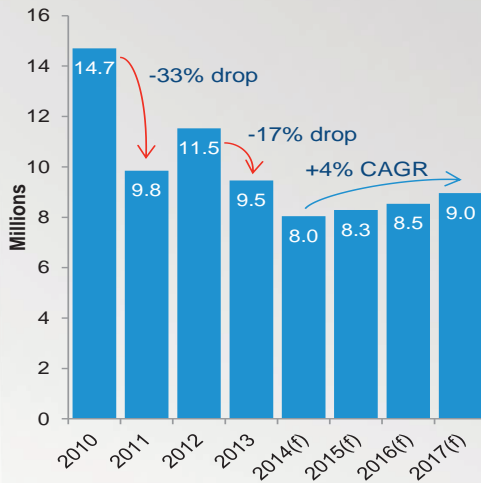


Travel & Tourism Capital Investment 2010-2018(f)

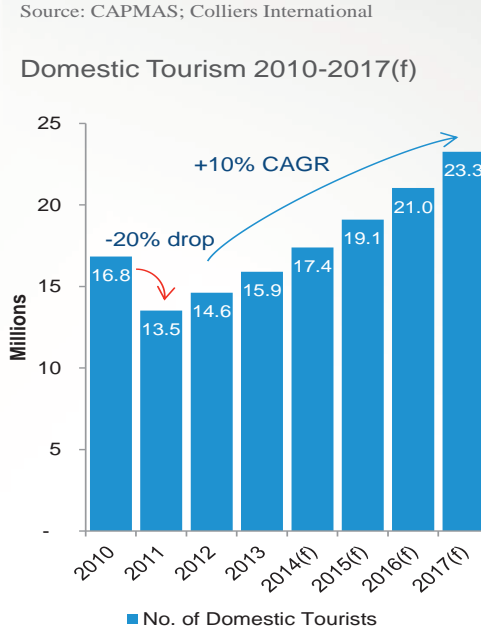


Source: WTTC

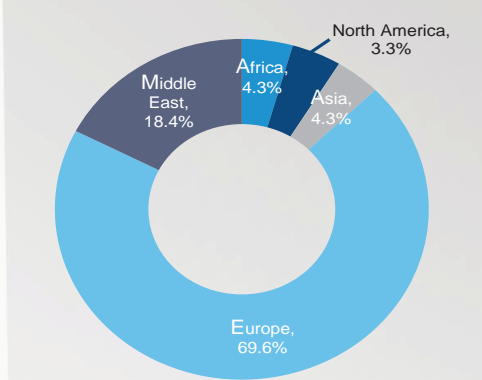
Inbound Tourism 2010-2017(f)



Domestic Tourism 2010-2017(f)

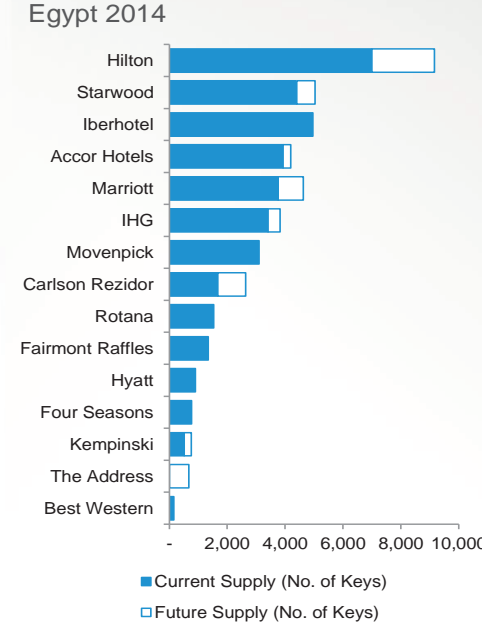


Source: CAPMAS; Colliers International



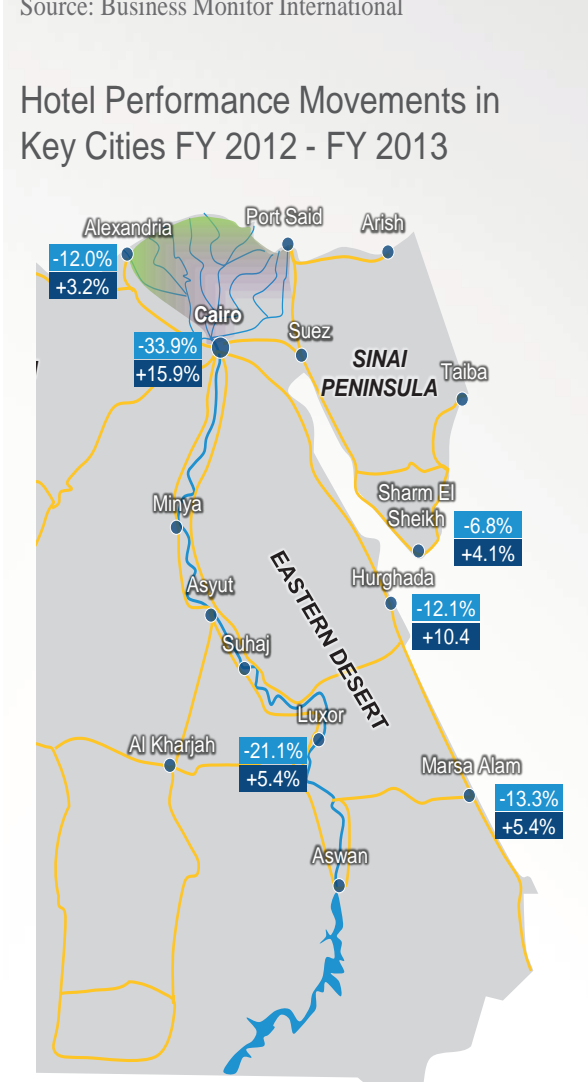
Source: Colliers International

Major Hotel Operator Presence in Egypt 2014



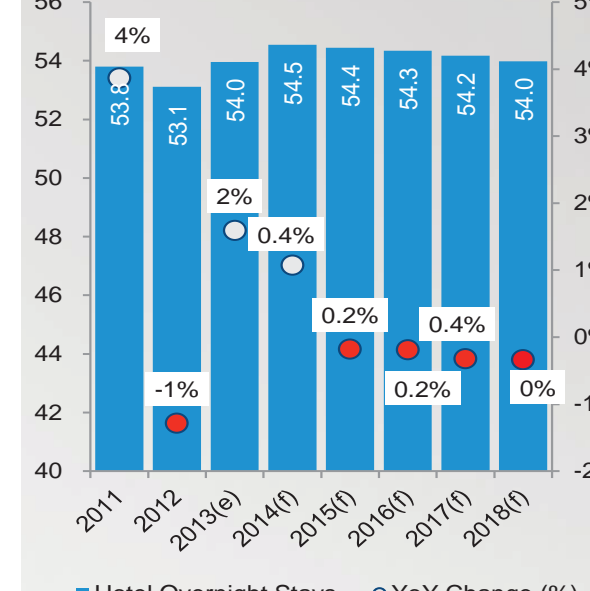
Source: Colliers International

Hotel Overnight Stays 2010-2017

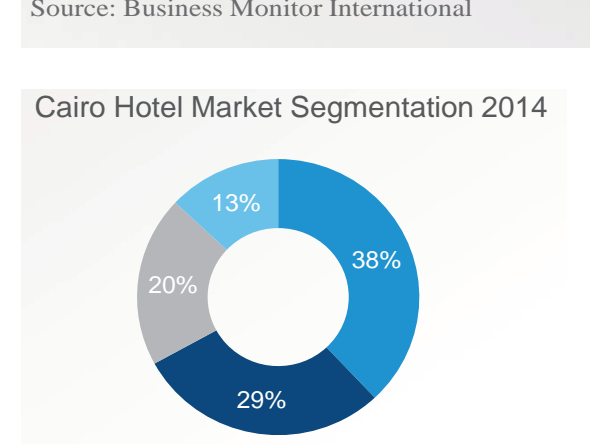


Source: STR Global; Colliers International

Hotel Overnight Stays 2010-2017



Cairo Hotel Market Segmentation 2014



Source: Colliers International

Development of Tourism Revenues



Source: Sub-Accounts Unit of the Ministry of Tourism

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Larger stake in Palm Hills sought: Ripplewood CEO

COLLINS AFFIRMS COMMITMENT TO SUPPORT EGYPT'S ECONOMIC RECOVERY, INTEREST IN MORE OPPORTUNITIES IN THE COUNTRY

By Dahlia Kholaf

Ripplewood's comeback to Egypt's business arena may be followed by more deals, as the New York-based firm mulls other opportunities in the country, founder and chief executive officer Timothy Collins told Daily News Egypt.

The firm's recent twin investment in Palm Hills and SODIC, involving the purchase of a 2.3% and a 9.4% stake respectively, has raised hope in the return of foreign investors to the country.

The deals are the company's first since 2009, when it completed the exiting of an influential stake it had purchased in the Commercial International Bank, three years earlier.

In an interview with Collins, Daily News Egypt found out more about ongoing talks that Ripplewood is a part of in Egypt, and which markets it will be targeting next. Despite several attempts to reveal updates of talks or potential deals, Collins was determined not to speak of plans that are not yet concrete. He asserted, however, his full belief in Egypt's ability to heal its economy, and his firm's commitment to provide support.

Following your recent investments in Palm Hills and SODIC, are you considering future ventures?

Investing in Egypt is our number one priority at the moment. We are looking at other investments and there are many great opportunities.

What sectors are you specifically interested in?

Agriculture, real estate, telecom-

munication and banking.

Why did you target Palm Hills and SODIC, both major real estate developers?

We believe the real estate sector is the driver of the economic recovery in Egypt. It is a significant and very important sector. For the economy to improve, real estate needs to improve, and the real estate sector will pick up as the economy improves. It's a cycle.

What about plans for the region - do you have any investments in the region or are considering any?

We just entered the region through the two Egypt investments. The Middle East is among our regions of focus, along with peripheral Europe and Africa.

Are you targeting a certain profit from your firm's two ventures in Egypt?

No. They have done really well since we invested, and we expect them to do really, really well.

But there is no targeted profit?

What we expect and target is for our presence to help them grow and become even bigger leaders in the market.

Ripplewood has bought a 2.3% stake in Palm Hills and according to reporters, the firm is aiming to increase the stake. How much of an increase are you planning?

We do not know yet. Time will tell. We expect to have a greater stake.

Are there talks taking place?

No. There is a process. We will



Timothy Collins

continue to look aggressively at how to increase our stake.

Will your next investment in Egypt be another real estate company?

I'm not sure, yet. We are really interested in investing in Egypt and we're looking at lots of things and it's always hard to predict which thing will happen, and when.

In terms of the Middle East, which country do you think will be your next to tap?

There are lots of opportunities everywhere. What we are really looking for are places where we can make a difference. In Egypt, one of the reasons why we began with real estate is because, in my view, real estate and housing and construction can drive a lot of the short-

term recovery and create momentum in the Egyptian economy, and that is really critical. So, as much as I think it would be wonderful if tourism came soaring back tomorrow, it seems very unlikely that this will be the short-term driver. Over the long-term, Egypt is one of the greatest tourism destinations on the planet, but in the short-run, this economy needs momentum, and it needs jobs. We think this is good for Egypt, and it's good for the Egyptian economy, and what is good for the Egyptian economy will be good for our investments.

Are you planning to invest in Palm Hills and SODIC during the long-term or will you be planning to exit them?

We have a great deal of faith in the potential of these two investments to

create a lot of value. And if you look at the enormous value that was created for CIB, even after we left and even after the revolution - and the same is true all around the world, and wherever we have invested - we've been able to create a lot of value.

Are there any ongoing talks?

There are lots of talks. But talk is talk. When we came and invested in CIB, foreign direct investments [FDI] tripled. And when I invested in Long-term Credit Bank of Japan, FDI went up tenfold in the two weeks that followed. So, not only do we think it is important that we'd be supportive and helpful, and that these two enterprises raise capital and do well, to create momentum for the economy, but it is also a demonstration of my commitment.

I have been here 30 times in the last two years, which is an expression of my commitment to Egypt. That, from a pretty careful and successful investor, is good news for other investors looking at Egypt.

Where does your commitment to Egypt stem from? Amid slumping FDI and fleeing investors, you have shown interest. Why?

First of all, I love Egypt. I've been here countless times. We had a wonderful, satisfying and profitable experience with CIB, which was very rewarding. My son loved it here. And Egypt is a very, very important place in the region. I have the luxury of investing in things that I think are not only profitable, but important, and I don't want to invest in anything that isn't. If you want to create a difference, this is the right place to do that.

Several Gulf states and investors have expressed interest since last June to help Egypt on its path to economic recovery. Since the goal is mutual, would you consider cooperation with Gulf companies?

Absolutely.

What about concerns with regards to Egypt's economy?

Everybody has concerns. They need to sort out the energy problem, they need to bring back momentum to the economy, and they need to get the budget under control. There are lots of concerns, but I have a high level of confidence that Egypt is a place that is on the brink of renaissance.

Would you not consider the energy sector?

I would consider it, but it's not on our top four priorities. We've looked at things in the energy sector, but it's not our strongest area of expertise, although there were some things that we looked at.

What do you think should be the main focus of the government in the near future?

I'm not an economist, nor an expert on economic policy, but I see the greatest thing the government can do to rebuild momentum in the economy is to support private investment and the private sector. There is an enormous interest in Egypt and the quickest way to bring the economy around is to begin to attract more investment and to create confidence among small, medium and large enterprises inside Egypt, which will create jobs. Creating jobs and fixing the energy situation should be the number one priority.

The Euromoney EGYPT Conference

Stability, Investment and Growth • 16-17 September 2014, JW Marriott, Cairo

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Euromoney Conferences has returned to Cairo with its nineteenth (nearly) annual Egypt conference. Euromoney started work in a very different Egypt twenty years ago this year. Since that time we have held more than 30 separate investment events about Egypt - in Cairo and elsewhere in the world. In all we have welcomed more than 25,000 delegates and 1500 speakers to our conferences.

So much has changed and yet so much has remained the same. The economy still needs massive infrastructure investment and the challenges of unemployment, subsidy reform and education are, if anything, more pressing than ever. But the role of international investors, brand-name global companies and home-grown business champions is radically different from 1994.

We have played a small part in that development and, despite critical voices, we strongly believe and advocate that global private capital has played a positive role within Egypt. We believe that it has more to offer and that Egypt should continue to position itself as an attractive destination for that capital.

We are very pleased to be back in Egypt for our 2014 edition of our annual conference and we look forward to be a part of Egypt's journey towards a more prosperous future. Thank you to all of our sponsors for their continued and new partnerships on this event.

Richard Banks

The author is Director of Emerging Markets for Euromoney Conferences. He writes in his personal capacity.

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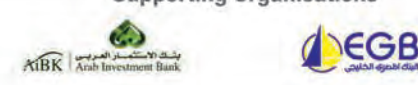


Please note the conference is strictly by invitation. Only guests who have been invited and have official confirmations will be permitted access.

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More than 20% of Egypt's energy could be solar: Consilio CEO

SOLAR ENERGY IS A SUPPLEMENTAL SOURCE AS IT REQUIRES SUBSIDIES AND STORAGE TO MEET PEAK HOURS

Egypt, which has suffered energy shortages in recent years that have led to frequent black-outs and contributed to a stagnant economy, is looking for alternative energy sources to meet growing pressures on power stations.

Coal, another fossil fuel, got the green light from the interim government in April to be used by certain industries to offset their dearth in energy. In the meantime, progress in utilising renewable energy has been slow, but steady.

In June, Minister of Industry and Foreign Trade Mounir Fakhry Abdel Nour announced that American solar energy firm, Consilio Group, is planning to set up projects worth \$100m. Like many officials before him, Abdel Nour reiterated that new and renewable energy is at the "top the government's priorities".

Daily News Egypt spoke with Consilio Group CEO Oliver Meissner to find more about this project, and other investments which the Consilio Group plans to set up in Egypt. Meissner explained that the plans have not been contracted and sealed with the government yet, and hence much of its details cannot yet be revealed. However, he voiced his optimism in the potential that lies beneath Egypt's sun.

How big are your investments around the world? How much of it is in the Arab world?
The Consilio Group is focused exclusively on Egypt.

The Consilio Group is investing \$100m in electricity from solar power in Egypt. What has lured the firm to invest in Egypt now, although previous administrations have also repeatedly affirmed that renewable energy is among their top priorities?
We see huge potential in Egypt now, given



Consilio Group is planning to set up projects worth \$100m in Egypt



Consilio Group CEO Oliver Meissner

"WE SEE HUGE POTENTIAL IN EGYPT NOW, GIVEN WHAT WE SEE AS A VERY STRONG NEW GOVERNMENT AND THE CONFIDENCE IN PRESIDENT AL-SISI"

what we see as a very strong new government and the confidence in President Al-Sisi. Our investment commitment is still pending a signed agreement with the government of Egypt.

Do you have any partners working on these projects, whether local, regional or international? If yes, could you please name them?
Yes but this is confidential at the moment.

What would Consilio's role exactly be in setting up these utilities?
We are the project owner and developer.

Could you please provide more information about these projects? Their locations, capacity each, start date, expected inauguration time, etc?
This is still confidential information.

What is the latest with regards to studies you have mentioned, pertaining to generating 300MW of electricity per year over a period of 25 years in Egypt? Has there been any update?

25 years is the standard lifetime of a solar project. Ultimately we anticipate GWs of solar capacity in Egypt.

There has been no tariff set by the government to purchase electricity generated from renewable energy. What was the tariff stated in the contracts signed with the government?

There is no project or signed contract with the government of Egypt yet. We are awaiting next steps from the Egyptian government to agree to our proposed pricing and to sign our power purchase agreement (PPA) contract.

What guarantees, or demands, did the Consilio Group request of the government, if any, for it to be investing in an industry that is largely new?

We are requesting a 25 year PPA guarantee from the Central Bank of Egypt, as well as the land for the project. If guarantees are not possible then Egypt must be willing to work closely with other governments (i.e. the US), which may be able to assist.

Egypt has a large amount of sun hours throughout the year, and therefore using sun to generate electricity, is only logical. What is your evaluation as an investor in the market, in terms of hurdles, obstacles, concerns, legislations, and facilities? How much do you think the market can grow? What is a realistic target that the govern-

ment can put for its dependence on solar energy?

Solar energy requires subsidies in order to compete with traditional energy sources such as coal, oil and gas. If a country is unwilling or unable to provide such subsidies then it must show strong cooperation with other countries which may be able to assist. For example the US government may be willing to provide such funding if they felt a sense of cooperation and trust from the Egyptian government, while now it seems that there is quite a bit of mutual animosity. This must be repaired. Another hindrance is that solar only works during sunlight hours, and it may be difficult to address peak evening demands in Egypt - therefore solar should be viewed as a supplemental energy source. To date energy storage solutions are very expensive and difficult to implement. I believe that Egypt could ultimately benefit greatly from solar due to the abundance of sun, and the clean, non-polluting nature of this energy source. Perhaps 20% or more of Egypt's energy could come from solar.

Will you be dealing with any of the several EU-based funds that promote usage of renewable energy to generate electricity?

We deal primarily with US-based funding.

What other countries in the Arab world will Consilio Group go to next? Are there any ongoing talks?

We are focused on Egypt.

What other projects is the firm planning in Egypt?

We are focused on getting this first solar energy project started with the government, potentially with cooperation from the US, before considering other projects.

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Natural gas production to reach 5.3bn cubic feet per day at end of FY 2014/15: Petroleum minister

MINISTRY HAS PAID BACK \$11.2BN TO FOREIGN COMPANIES DURING FY 2013/2014 - TOTAL OUTSTANDING DEBT WAS \$5.9BN BY END OF JUNE

By Mohamed Adel

The most salient obstacle currently facing Egypt is accumulated debts to foreign partners in the oil sector as well as a decrease in natural gas production rates. In an interview with Daily News Egypt, Petroleum Minister Sherif Ismail outlines the government's plan to stimulate investment in different sectors and solve obstacles faced by the state. He also details the Ministry of Petroleum's plans to offload debts and garner new streams of income.

It was previously announced that the Ministry of Petroleum intends to repay \$1.5bn of dues to foreign partners. What are the details of this plan?

The ministry aims to repay some \$2bn of debts to foreign partners during the year, and part of this will be paid in Egyptian pounds. An estimated \$1bn of debts to foreign partners in the oil sector will be paid back during the month of September.

The ministry aims to borrow about \$1bn from foreign banks by the end of this year in order to pay back foreign partners. In FY 2013/2014, \$11.2bn of debts were paid, while the estimated value of partners' shares in oil and gas was approximately \$11.7bn.

These measures confirm petroleum's commitment to paying dues to foreign partners on a regular basis in the form of petroleum product shipments, price adjustments, or money.

Can you tell us about the Emirati Ministry of Petroleum's request that remaining payments to foreign partners be guaranteed?

This was, in fact, requested, and the UAE government is currently studying Egyptian guarantees to pay of dues to foreign partners in the oil sector, which amounted to about \$5.9bn by the end of June.

Will there be another tender offered for oil and gas exploration in the coming months?

The Ganoub El-Wadi Petroleum Holding Company (Ganope) in partnership with EGAS [Egyptian Natural Gas Holding Company] will launch a new international tender for oil and gas exploration during the coming months, which will encompass areas in the Delta and the Mediterranean but not deep water areas. For the first time, Egypt will offer two zones for shale gas exploration in the Western Sahara, with special conditions.

Preliminary estimates indicate that Egypt has around 500tn cubic feet of shale gas and 100tn feet are extractable, according to the US Energy Information Administration.

When will the results of the bid offered by EGAS be announced?

EGAS will announce the results of the bidding during the month of September, and currently, submissions from foreign companies are being evaluated.

I expect that 15 new agreements will be signed by the end of this year, bringing the total number of agreements signed this year to around 50.



What happened with the idea to import the gas needed by power plants in the coming years?

An international tender has been offered to import about 350m cubic feet of gas per day over the next three years. These figures may be increased to serve power plants, and several international companies specialising in the field have responded to the tender. The price will be determined by the market, and will not be fixed.

An agreement was also undertaken to rent a gas tanker for the next five years. The winning company will be announced after the final signing in the coming months.

Importing gas will cost about \$170m in order for us to supply three or four LNG shipments per month. We are currently in the final stages of signing a contract with Sokhna Port, and annual fees have been agreed upon in exchange for ship parking.

Will price adjustments be issued for gas produced from new projects other than RWE's Desouk?

An unconventional gas prices adjustment is taking place for another project in the Western Desert with a foreign partner. One of the companies operating in Mediterranean deep waters has requested an adjustment for gas prices for the agreement, and the measure is being studied.

New gas price adjustments are calculated according to studies of the project and are completed in a manner that suits the economics of each region, therefore achieving revenues for the foreign partner.

Gas prices were adjusted in order to stimulate investments in the area, as prices have held steady at \$2.5-\$2.65 since July 2000, and required an adjustment for production-linking projects due to the increased costs of investment for partners. Price adjustments will be considered occasionally in order to push foreign partners to increase investments in the region.

What are some of the most prominent projects underway in the field of oil and gas research and exploration during FY 2014/2015?

British Gas (BG) is investing approximately \$1.6bn in gas production during FY 2014/2015. Investments in British Petroleum's North Alexandria project, which aims to add 1.25bn cubic feet of gas production, may exceed \$9m. Good opportunities exist for exploration in Abu Rudeis, which will play a positive role in increasing crude oil production over the coming months and conducting assessments of the area.

How much investment will be injected in the refining and petrochemical sectors during the coming months?

A range of projects are now underway for the next phase with investments of \$9m in the fields of petrochemicals and refineries. Capital and bank loans will finance the projects in ac-



EGYPT HAS GREAT POTENTIAL IN CRUDE OIL AND GAS RESERVES

cordance with the results of feasibility studies.

The Egyptian General Petroleum Authority (EGPC) contributes 23.8% of financing for hydrocracking unit projects for the Egyptian Refining Company, supplying investments totalling \$3.7m. The remaining funding will come from foreign banks. The Islamic Bank is financing the establishment of a gasoline production unit for the Assiut Oil Refining Company.

What are targeted production rates for gas and oil during FY 2014/2015?

I expect our natural gas production rate to rise to 5.3bn cubic feet per day by the end of FY2014/2015, compared to the current 4.8bn cubic feet now. The Ministry of Petroleum aims to raise production rate of crude oil to more than 700,000 barrels per day by the end of FY2014/2015 compared to the current 690,000 barrels.

What are the details of UAE financing petroleum product shipments worth \$9bn? Will grants that do not need to be paid back be part of the package?

This is simply a commercial agreement with the EGPC and ADNOC to provide 65% of petroleum product shipments that we will import for FY 2014/2015. They are offering us payment facilities only and the package does not include any grants. The details of the facilities will be announced through an official statement made by both the UAE and Egypt.

When will the second phase of the smart card project be approved?

Petroleum product smart cards are cur-

rently being printed and will be distributed after this process is completed. Consumers and stations will be granted a grace period of two months and then partial approval will be given, according to the Minister.

The second phase of the smart card project has no relation to prices, and this phase is targeted at citizens who drive cars using the cards to obtain fuel. The goal of the cards is to regulate the market.

We want to know who the actual beneficiary of the products is whether it be industry, agriculture, tourism, or ordinary citizens, so that we can account for actual use on the part of each sector.

The goal of the smart card collection system is to create clear and accurate databases so that we are able to determine the best and most accurate methods for dealing with fuels.

Are negotiations taking place with partners in the Damietta Liquefaction Plant in order to waive international arbitration?

There are no negotiations taking place between the ministry and partners in Damietta regarding a waiver of international arbitration.

How do you view the influence of increasing petroleum product prices on the local market?

Increasing prices for petroleum products is a positive step toward improving Egypt's economic situation, and part of the liquidity needed by the Ministry of Petroleum has been provided through this process. We hope for the best and will increase fuel prices gradually.

What is the current situation for opening gas imports to the private sector?

The private sector was permitted to import its needs for natural gas without the Ministry of Petroleum getting involved, and the role of EGAS will be limited to receiving the gas on the national gas line and transporting it to suppliers.

No private sector companies have approached EGAS on the subject of importing gas, and the allowance for private sector imports will apply to groups of companies, not each company separately.

The importer will enter into agreements with suppliers and pay the prices to be agreed upon without any material support from the government, and the private sector must construct the infrastructure necessary to receive the liquefied gas.

What is the current situation regarding the creation of two agencies, one to take care of gas affairs and the other for petroleum products?

A study will take place regarding the establishment of an agency independent from all government agencies to organise affairs relating to gas another for petroleum products by the end of 2014. The goal is to organise interactions with consumers.

The two agencies' missions will be to regulate the relationship between the producer, consumer, and distributor in all cases, as well as to monitor the process of trading and petroleum product use in the markets.

What petroleum sector companies will be offered for an IPO?

A study is underway to offer an IPO to petroleum sector companies on the Egyptian Exchange, and the needs of the companies to be offered will be reviewed with a special focus on restructuring, improving their financial status, the availability liquidity and assets, and the proportion of the company that will be offered.

The Ministry will utilise financial advisors from Egyptian banks like National Bank of Egypt, and Banque Misr.

How do you view the investment market in the Egyptian petroleum sector in light of the current situation?

Egypt is a large and promising market with great potential in terms of crude oil and gas reserves. Egypt has good human resources as well, and investment opportunities in the sector abound. They include work in research and exploration for petroleum and gas, which are considered the cornerstone of the sector. New agreements are continuously expected to be signed for the sector.

We also have investment opportunities to develop petroleum infrastructure, which entails the construction of pipelines to transport petroleum products as well as refineries to increase refining capacity and provide for market needs. Sector infrastructure has grown old as a result of a lack of new investments for some time.

The petrochemicals sector in Egypt contains many investment opportunities, and we strive to attract investments in order to provide value-added for petrochemical products like propylene, ethylene, and other products.

Investment opportunities in the mineral resources sector are also available. We will offer bids as soon as the new law is issued, and we are working to construct industrial complexes based on mineral resources in order to maximise benefit.

What is the current situation regarding the Mineral Resources Law?

Procedures have been completed and the law will be passed soon. The executive regulations have been prepared, and they encompass the relevant financial categories.

POTENTIAL FOR 15 NEW OIL AND GAS AGREEMENTS TO BE SIGNED BY END OF YEAR, TAKING YEAR'S TOTAL TO 50

Waste Water Treatment Plant, Egypt



Kuraymat Solar Power Plant, Egypt



Hamma Desalination Plant, Algeria



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Industrial sector, investments will rise when Egypt offers preferential treatment to local products: Trade and industry minister

MINISTER OF INDUSTRY AND FOREIGN TRADE MOUNIR FAKHRY ABDEL NOUR TALKS WITH DAILY NEWS EGYPT ABOUT THE GOVERNMENT'S EXPECTATIONS OF THE EUROMONEY CONFERENCE, THE STATE OF EGYPT'S ECONOMY AND EXPORTS, THE LOCAL PRODUCTS LAW AND THE ALLOCATION OF LANDS FOR INDUSTRIAL DEVELOPMENT

By Doaa Farid

What are the government's expectations with from the Euro-money conference?

We are targeting regaining the confidence of investors and markets because Egypt needs at least 25% of GDP in investments and all the actions of the government are aiming to regain this confidence.

During the Euromoney conference, the government will discuss its economic policies including everything the government is doing to reduce the budget deficit, balance of trade and balance of payment (BOP) deficit and the deficit in GDP growth rates; we will focus on those three things.

The government will present, in the conference, the ongoing mega projects that need investments and that also will result in high economic growth rates. With regard to the budget deficit, we will state our fiscal policy that aims to increase the state's resources, boost the budget's revenues and reduce public expenditures such as the energy subsidies system that does not reach the neediest portions of the society.

The government is also working on trimming the balance of trade deficit through increasing exports and decreasing imports to fill the gap.

Our exports have significantly increased as they have registered a 24% increase in August compared to August 2013.

I also stress that we will achieve our target of reaching at least \$24bn in exports in 2014 up from recording \$21.5bn in exports in 2013. So the Egyptian exports have managed to increase despite the high energy prices that resulted in high production costs and the closure of many potential markets such as the Syrian, Libyan, Iraqi and Sudanese markets.

Speaking about the procedures that the government has taken in the regard, the draft law that stipulates granting preferential treatment to the local product will be issued and ratified in the next few days, and it will have a significant effect in reducing imports and thus balancing the trade balance.

Why did exports achieve only a 3% growth rate from January to August?

Because of the unstable security situation in the important markets to Egypt as I said earlier, and the energy crisis that has caused a decrease in production, but the surge that happened in August levels has raised hopes.

Does the law that offers preferential treatment to local products contradict the WTO trade agreements?

It does not contradict [them] at all, and who says that it contradicts them does not know the rules of the WTO. I would like to add that most of the world's countries have that law that prefers the local product such as the United States, Russia, Canada, as well as Brazil, Turkey and other developing countries.

The law is approved by the cabi-



"WE ARE ABOUT TO SIGN A PROTOCOL WITH THE NEW URBAN COMMITTEES AUTHORITY THAT WOULD ALLOW THE INDUSTRY MINISTRY AND THE IDA TO ALLOCATE INDUSTRIAL AREAS TO BUSINESSMEN, SUPERVISE THEIR DEVELOPMENT AND SELL THEM"

net of ministers and it will be sent to the presidency by the end of September for ratifying. The law will have positive effects on the industrial sector, trade balance and investments.

What does the law entail? Will it protect local products from smuggling for example?

The law is applied only in the scale of governmental purchases in the frame that is identified in the state's budget and the government's economic plan. There are other areas that come

under "protecting the local product from unfair practices" that harm the consumer such as smuggling, adulteration, monopoly and all other practices that affect the competitiveness.

We already have a regulation that criminalises monopolisation; meanwhile, the government is continuously meeting in order to find a solution that reduces smuggling and adulteration. In a parallel regard, we are working on raising the level of the Egyptian standard specifications, and on the other hand, improving the quality of the local product. Also there is supervision on imports, through the Egyptian Exports and Imports Supervisory Authority, which checks that products meet the imposed specifications.

How is the ministry solving the problem of unavailability of industrial lands?

The unavailability of lands was

forming one of the biggest problems that challenge the Egyptian industrial sector and especially investments. In that regard, we are about to sign a protocol with the New Urban Communities Authority (NUCA) that would allow the industry ministry and the Industrial Development Authority (IDA) to allocate the industrial areas to businessmen, supervise their development, sell them, conduct an usufruct contract for them, collect their values or manage them on the behalf of NUCA. There are no hurdles in implementing the to-be-signed agreement and the prime minister himself is insisting on implementing it.

Will the regulations of allocating lands be changed after the agreement takes effect?

The regulations of allocating the lands will be reviewed especially their selling or renting prices for foreign or local investors; because we eventually want to encourage and attract investors [and] especially reduce the burdens they suffer from at the beginning of their investment activity.

Are there any intentions to offer privileges to industrial land in Upper Egypt and remote areas?

Not only intentions, but there are real steps on the ground. As per a decision taken by NUCA's board of directors, the prices and usufruct rates of lands in Upper Egypt will be much lower than of those in Cairo and Lower Egypt.

Will the government depend on the usufruct system in the next period when allocating lands?

Not necessarily, but it will be one of the government's tools, and we will give the investor the choice of how he wants to use the land; on usufruct basis or selling basis.

The government will also weigh which system it prefers according to the location of lands and the nationality of the investor [whether local or foreign], but we will be flexible as much as we can.

What is the ministry doing in order to support and reopen insolvent factories since the January 2011 revolution?

I highly stress that it is not my ministry's responsibility to solve the insolvent factories issue; they are just companies that have financial problems, so who can solve this problem are the financial institutions and the banking sector. What I can only do is study these problems to refer them to the banking sector, nothing more.

The ministry-affiliated Industrial Modernisation Centre can help factories if they are facing technical or marketing hurdles, but if the hurdle is a financial one then it does not fall under our responsibility.

The EGP 500m that was allocated in the government's economic stimulus package last year, to help 170 factories out of 952 insol-

vent factories, were not used by banks because the governor of Central Bank of Egypt Hisham Ramez said that the 170 factories are listed in banks' "blacklist", so the sector cannot lend them.

Are you considering allowing rice exports?

The government, represented in the ministries of Agriculture, Supply and Industry, is now studying the conditions to allow rice exports, and the decision will be taken within days.

The most important thing before taking this decision is ensuring that the supply ministry has enough rice quantities to meet the needs of the local market, with reasonable prices that do not burden the budget.

Did Egypt receive any warning from the European Union regarding dealing with Russia?

I think the European Union and the US are not happy with boosting the relations between Egypt and Russia.

What are the new laws the government is preparing to stimulate the market?

There is a long list of laws; we need to finalise the law that should organise micro-financing process, and it is a very important law in my point of view. There is also a law that targets attracting workers in the non-formal sector to join the formal sector through offering them incentives such as financial and technical support and also we might study offering them tax exemptions and facilitate the process of obtaining business licences.

There are many models in other countries that we are studying; in that regard, an international delegation will come to Egypt next week and we will hear the experiments of different countries in that area.

Are you going to impose protection fees on imported steel?

I have received requests from local producers to impose protection fees on imported steel. The decision is not easy as I have to take the side of local products and I also have to consider the benefit of producers as well as consumers, so I have to carefully study the situation not to harm any of both sides.

According to the law, such requests should be submitted through a representative portion of this sector, steel production, to be representative. The percentage of local suppliers, who have stated that they have been harmed from steel importing, were not representative, and the statistics they have shown me do not indicate that they were harmed by steel imports, which represents only 10% of steel market in Egypt in the first half of 2014.

Are you considering issuing new licences for operating in the steel and cement industries?

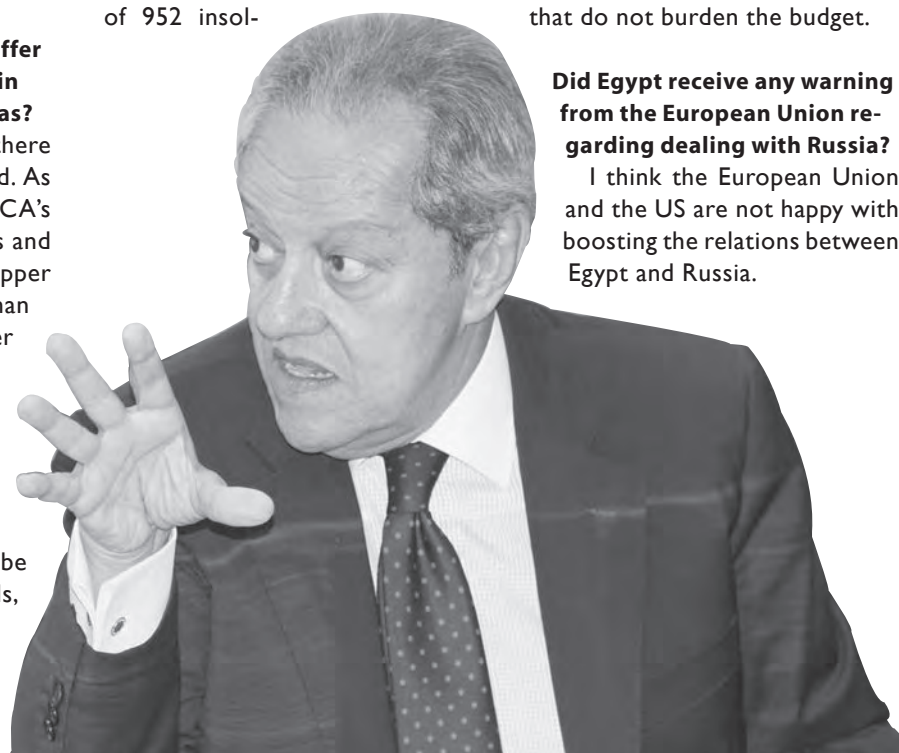
We did not study that, especially because the country is suffering from a huge energy crisis. The ministry is working under very hard conditions, and the industrial sector is the most negatively affected sector by the current turmoil as it had suffered from low quantities of energy supply and it is the most harmed sector by increasing the prices of petroleum products.

However, by the end of 2014, we will be able to meet the energy demands of factories. Through the coming two years, we will witness an improvement in oil and natural gas production due to the new investments pumped in the energy sector and also the new potential investment opportunities in the areas of natural gas, oil, solar energy and coal.

What are the procedures the government has already taken to lure investments?

A lot of things; the recent reforming of the subsidies system is enough. Also the approved law which prevents third parties from challenges contracts between the government and investors, in addition to the launching of national projects such as the Suez Canal Axis Development Project and the new Suez Canal project.

"I THINK THE EUROPEAN UNION AND THE UNITED STATES ARE NOT HAPPY WITH BOOSTING THE RELATIONS BETWEEN EGYPT AND RUSSIA"



The business and financial community awaits the Egyptian government's economic plans to be revealed during the Sharm El-Sheikh summit to be held on February 2015. The plans are expected to involve procedures correcting Egypt's economic path amid the government's efforts to restore international and local investment in the economy.

Egypt's economy has struggled through years of stalled tourism flow, a decrease in local and foreign investments, and foreign companies' suspending oil production. The downturn has thrust the country into the worst energy crisis it has faced in years.

Businessmen believe the government should reveal its plans to solve the energy crisis first through a timetable illustrating the future of the crisis and provide a number of solutions. The businessmen are also looking for a government deadline for ending the crisis before promoting new projects or offering new investment opportunities.

Additionally, businessmen encourage the government, while taking the above action, to improve the business environment by facilitating market entry procedures through "incorporation, operating licences, allocating land, and providing energy".

They also requested that market exits be facilitated through "liquidation or bankruptcy" by reviewing all economic legislation to ensure the state's rights, protect bona fide investors, and respect government contracts. These outlines would also limit fines resulting from international arbitration that the state budget cannot currently afford.

During the economic summit, convened by Saudi King Abdullah bin Abdul-Aziz, the government plans to announce the amount of hard currency required for the Egyptian economy for its economic reform programme. This would include the necessary investments that must be pumped into various sectors.

By Mohamed Ayyad



King Abdullah bin Abdul-Aziz invites the world to participate in the economic summit to support Egypt

DURING THE ECONOMIC SUMMIT, THE GOVERNMENT PLANS TO ANNOUNCE THE AMOUNT OF HARD CURRENCY REQUIRED FOR THE ECONOMIC REFORM PROGRAMME

Egypt's economic summit under the microscope

AN ECONOMIC ROADMAP TO ATTRACT FOREIGN CAPITAL TO EGYPT: HUSSEIN SABOUR



Hussein Sabour, the president of the Egyptian Businessmen Association, said Egypt's economic woes are not new and began with the end of former President Hosni Mubarak's rule.

"The Friends of Egypt Summit or Donors Conference, whatever the name is, grants the government the opportunity to announce its economic roadmap," said Sabour. "This will allow for billions of dollars, Arab capital that has migrated out of Egypt to markets in East Asia and Europe due to a decline in risks, to be reclaimed."

Sabour added: "There is no doubt that recent times were very harsh on the economy, but to be honest, this preceded the Muslim Brotherhood's rule."

Since the ouster of former president Hosni Mubarak in 25 January Revolution, the economy has suffered greatly due to a lack of political stability, the absence of tourists and foreign investors, and ongoing unrest.

Sabour said: "We now have a range of stalled projects, and some have been affected by poor economic conditions, especially construction and tourism companies among others... we do not expect the economy to repair itself in the same period in which it was harmed, but at least the business community will have the desire and the enthusiasm to foster a speedy economic recovery, reopen stalled factories, and supply Arab and international investments."

Sabour praised the King Abdullah bin Abdul-Aziz for his call to hold a conference to assist Egypt's economy. He also praised the role of the Arab League, which announced through Secretary General Nabil El-Araby its readiness to help prepare the summit.

Sabour said: "The test is in how well thought out the economic roadmap is... on the political side, we are largely confident, but, from an economic point of view, there are still a lot of question marks."

He stressed that a lack of security and political stability are the reasons behind the flight of foreign investors and the damaged local confidence that have prevented Al-Sisi's roadmap for the future from being fully executed.

In light of worsening unemployment and deteriorating living conditions, more than 40% of Egypt's total 87 million population lives on less than \$2 per day.

An atmosphere of optimism prevails in the business sector, Sabour said, as he called on banks to help the business sector thrive once again, saying: "All we are asking is that banks help to finance new projects and reduce the bureaucracy so that we can catch up on what we missed."

ECONOMIC POLICIES REMAIN DEFLATIONARY AND GOVERNMENT MUST STIMULATE THE ECONOMY: GALAL AL-ZORBA

Galal Al-Zorba, former president of the Federation of Industries, said the government's economic policies have been deflationary. This comes at a time the economy needs a stimulus overcoming the challenges of a deepening budget deficit and inflated debt.

Al-Zorba added that "unemployment is growing, it is unforgiving while growth rates remain weak."

He added that the government must stimulate all economic sectors and that the number of national projects currently proposed by the government, including the Suez Canal Project, are not sufficient.

"The Egyptian administration needs to speed up the processes finding solutions to the energy crisis, otherwise, Egypt will not move forward," Al-Zorba said.

He emphasised that the economic summit, to be hosted by Egypt and set to involve development partners, will prove a good opportunity to announce plans on how to handle the energy crisis.

King Abdullah bin Abdul-Aziz had called for a conference to bring together friends of Egypt for donors "to help it overcome its economic difficulties". He added: "All those who are able and capable but reluctant today meet this obligation, by the grace of God, have no place among us tomorrow if befallen by adversity and crises."

Al-Zorba said: "The government should leave the private sector to invest in new and renewable energy sector by providing land



and facilitating market entry procedures."

He added that whilst the tourism sector continues to suffer, the government should help the sector's companies become active once again by providing them with financing and restructuring their debts. These companies have incurred severe losses as a result of the state of lawlessness that have affected the sector and harmed the flow of tourists, he said.

"The tourism sector is one of the main pillars of Egypt's economy but has been negatively affected by the state of political and economic unrest," Al-Zorba said. He stressed the need to solve security and political problems in the short-term in parallel with economic reform.

"Agricultural manufacturing without exports is a solution that the government has to examine," Al-Zorba said, who believes that Egypt has a promising opportunity to plant imported grains. He added that global grain companies post revenues even higher than that of weapon manufacturing companies.

Al-Zorba believes that the conference will prove an excellent opportunity for Egypt to rectify its political, social, and economic image in the finance and business community and with development partners. This will ease the flow of investments to various sectors and contribute to increasing growth rates and job opportunities, eventually boosting employment rates.

Although Al-Zorba described government policies as deflationary, he agrees with the majority of the policies and he believes that it was necessary to cut energy subsidies to ease the burden on the state budget. However, he also believes that these reforms must be accompanied by a range of social policies in order to protect the citizens from inflation.

"A speedy revival of confidence of the economy will accelerate the flow of foreign direct investment, which has plunged since the ouster of former president Hosni Mubarak," Al-Zorba said, citing Central Bank of Egypt data. "Egypt used to attract \$8bn per year in foreign direct investment."

ECONOMIC "STATE OF CRISIS" AND SOLUTIONS TO ENERGY CRISIS, FORM CHALLENGES: ALAA ARAFA

Alaa Arafa, a businessman in Egypt's retail sector, said the Egyptian economy continues to suffer and is currently in a "state of crisis". Arafa added that the economy must be stimulated in order to overcome the obstacles, and argued against the imposition of any new taxes on the business sector at present. He explained that these measures should be delayed until a minimum amount of economic recovery is achieved.

Public finances in Egypt have been hit hard due to a drop in tourism revenues, a weakening currency, and the exodus of foreign investors ushered in by the ouster of Hosni Mubarak in 2011. However, Arafa believes the solution lies in the government's move toward developing urgent solutions to the energy crisis that is severely weakening the country.

"The donor conference, which was called for by the King of Saudi Arabia and of which the exact timing is yet to be announced, requires that the government exert a great deal of effort to revive confidence in the Egyptian economy and restore the confidence of international markets," Arafa said.



"These markets must be reassured that investment contracts will be protected, that they can enter and exit markets quickly, and that economic policy will stabilise."

He added that although restoring this confidence represents a significant challenge, the current Egyptian government is capable of doing so.

According to government sources, Saudi Arabia and the UAE are coordinating with the various countries

participating in the conference. The two countries are also working with international institutions including the International Monetary Fund (IMF), World Bank, African Development Bank, European Bank for Reconstruction and Development, and the Islamic Development Bank.

The UAE government has held several sessions with the IMF to discuss the possibility of its contributing to the conference by providing a loan to Egypt.

To attract more investments to Egypt, Arafa said: "We have to reassure the Egyptian investor before the foreign investor and work to create an investable climate. It is imperative that the government focus on problems of energy, industry, investment, and inflation."

Arafa added that "foreign direct investment is still generally weak", and according to government data, "foreign direct investment increased to \$1.25bn between July and September 2013 from \$1.16bn during the corresponding period in 2012. The figure for the 2013/2014 fiscal year (FY) amounted to \$3bn, almost \$1bn less than FY 2012/2013."

EGYPT REQUIRES \$100BN INFRASTRUCTURE INVESTMENT, ENERGY CRISIS FORMS INVESTMENT OPPORTUNITY: AHMED EL-SEWEDY



Ahmed El-Sewedy, head of Elsewedy Electric, said that Egypt is a strong country, and it is unnecessary for a country to be rich.

El-Sewedy said: "It will suffice just to organise and create a level-playing field for investors that protects citizens and the states rights" in addition to guaranteeing the rights of the investor."

El-Sewedy added: "Egypt requires investments worth nearly \$100bn in the infrastructure sector for constructing and paving roads and building of water plants, power plants and sewage systems".

El-Sewedy requested the government announce a clear policy to deal with the energy crisis currently weakening Egypt, during the economic summit scheduled to take place in the upcoming months.

There is no development, no employment, and no investment without energy, he said, adding: "[Since] the state does not have funds to invest, it must create a level-playing field for the private sector to produce energy."

El-Sewedy further added that the government "must also review all economic legislation, especially legislation that facilitates market access measures, incorporation, licence issuing, and energy provision measures. This also includes expediting procedures to exit the market, whether this takes place in an optional manner through liquidation or compulsory through bankruptcy so long as it does not negatively affect any investor or freeze their funds."

Egypt suffers from declining foreign direct investment due to the magnitude of debts and weak currency. However, billions of dollars poured into the country from the Gulf states have led to limited economic improvement.

El-Sewedy called on the government to quickly announce an energy tariff for its purchase of new and renewable energy that the private sector will produce. The government has allowed the private sector to invest in new and renewable energy within efforts to solve the energy crisis that has slammed Egypt since 2011.

12.5% deficit in FY 2013-2014 budget, financing gap valued at EGP 10-11bn: Finance minister

CBE's temporary financial account is strategic reserve and will not be used to solve budget deficit

By Ahmed Farhat

The government will expand the tax base to include all activities and income attained as part of the unified investment law currently being prepared, said Minister of Finance Hany Kadry Dimian.

In an interview with Al-Borsa, Dimian said the government will prepare a new system for calculating taxes for small and medium enterprises (SMEs). The changes will entail a combined income and sales tax to facilitate administrative dealings with the taxpayer, as well as administrative tax work.

Dimian said that exempting larger establishments from taxes deprives society of the opportunity to recover a portion of its profits from these establishments' transactions as they utilise state resources.

"This is incompatible with the principle of tax justice, which is based on the ability to pay," Dimian said. "As long as the ability to pay exists, a natural person or establishment must perform his/its tax duties."

He added that the state will not benefit from exemptions granted to foreign investors, as they will pay full tax in their home countries in accordance with agreements prohibiting double taxation.

Regarding the budget deficit for the fiscal year (FY) 2013/2014, Dimian said the ministry is in the process of finalising settlements with government bodies and authorities. Significant settlements with the Ministry of Petroleum have already been made.

Dimian said the deficit hovers around 12.5%, and could measure

slightly more than this amount. He added that tax arrears were not paid for FY 2013/2014 but will be paid during FY 2014/2015.

Dimian responded to questions on the ministry utilising EGP 30bn linked to a stimulus package from the Central Bank of Egypt (CBE)'s temporary accounts to reduce the budget deficit. He said that the budget law and its appendices granted the finance minister the right to use a portion of these funds in emergency situations but only through cabinet approval.

He added that these sums were deposited by the CBE as strategic reserves to be used to confront exceptional circumstances, not to overcome the state's budget deficit.

Dimian said that the government is depending on a number of major projects to get the economy rolling once again. These include the Suez Canal Axis Development project and an initiative to reclaim 1m feddans of land. Other projects involve partnerships with the private sector, such as constructing a desalination plant in Sharm El-Sheikh and Safaga Industrial Port as well as developing port logistics.

Dimian said the role of the finance ministry in funding projects was limited to Part VI of the state budget, pertaining to government investments. An amount worth EGP 50bn was stipulated in the budget for FY 2014/2015 compared to EGP 30bn last year, representing an increase of 40%.



Minister of Finance Hany Kadry Dimian

Dimian predicted that projects included in the FY 2013/2014 budget were implemented at an average of 80%, in light of the settlements that are presently ongoing.

Regarding budget savings over the past two months, Dimian said the most important items saved on in the budget include a reduction in energy subsidies. The ministry conducts settlements every three months in accordance with economic reform programmes in order to adjust prices for petroleum products and electricity.

Savings for FY 2014/2015 are estimated to be approximately EGP 50bn, and the settlements to be made at the end of September will determine savings achieved at the beginning of sub-

sidy reductions.

Dimian noted that the Ministry of Social Solidarity is moving swiftly to develop support programmes and improve social security pensions after a 50% increase in allocations was stipulated in January.

He said the number of beneficiaries for social security pensions rose to 3 million households. Targeting mechanisms have improved while new programmes have been added, including pensions for those above 65 years of age and the disabled, programmes for street children, and school meal programmes. There has also been an overall improvement of the quality of meals provided to students in schools.

Dimian added that the govern-

ment cares about the structure of energy and electricity subsidies, noting the new constitution stipulated an increase in education and health allocations over three years to FY 2016/2017. The constitution also stipulates an improvement in the quality of life for Egyptian citizens and that savings achieved by the new supply goods system be injected into other programmes.

Dimian said that the ministry's programme to bridge the funding gap will be changed with the flow of tourism, exports, indirect investment rates in the financial market, and government treasury bills and bonds. These factors will help shrink the funding gap alongside economic reform measures and the economic growth expected from attracting direct and indirect investments.

Dimian stated that the funding gap ranges between \$10-11bn, with the government possibly resorting to the international market to fill the gap or locate international sources of funding.

He added that the government has put forth several scenarios for offering dollar bonds to global markets by entering into the markets without a financial guarantee. He added that this may also happen by producing one in cooperation with a country that enjoys high credit to cover the principal, the interest, or both.

He also added that those guarantees will determine the decision to

enter, the value, and all other choices to be made. There are no objections to any of these alternatives, Dimian said, adding: "We can go to one of our sister states for collateral if they express a willingness to enter as a guarantor."

Regarding the Deauville initiative, Dimian said that it is a regional initiative, and that through it, relatively limited resources are available in comparison to Egypt's needs.

He pointed out that Egypt is currently participating in meetings in Berlin as a member of the initiative in order to study the extent to which Egypt can benefit.

On the subject of Egyptian cooperation with the International Monetary Fund (IMF), Dimian said the government is waiting for an economic summit to be held in January or February 2015. During the summit, the IMF will visit Egypt to hold consultations and exchange opinions relating to the economy.

He denied ministry intentions to grant establishments the right to issue bonds and bills for implementing projects, saying that fiscal decentralisation takes time to absorb bonds and bills. He said that the precautionary measure will help avoid the crises currently experienced by Columbia and several other Latin American countries.

Dimian said that the government is committed to apply international standards in measuring GDP as well as inventory traffic. "Changing measurement methods unnecessarily harmed efforts to track the economy in recent years," he said.

The government will prepare a new system for calculating taxes for SMEs

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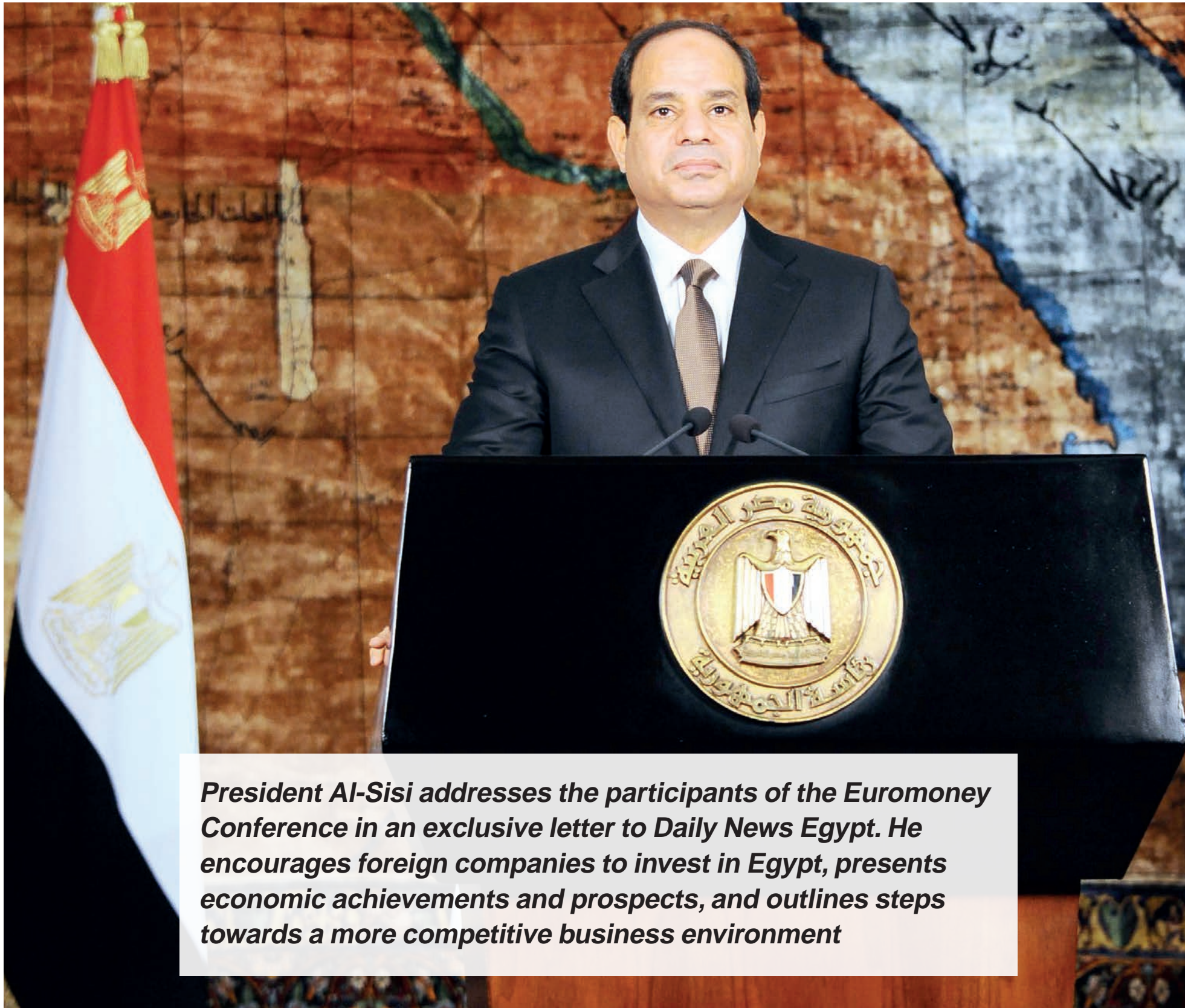
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President Abdel Fattah Al-Sisi to **DAILY NEWS**
EGYPT

Egypt's Blueprint for Stability, Investment and Growth



President Al-Sisi addresses the participants of the Euromoney Conference in an exclusive letter to Daily News Egypt. He encourages foreign companies to invest in Egypt, presents economic achievements and prospects, and outlines steps towards a more competitive business environment

Over the next five years, we will eliminate remaining energy subsidies for all commercial and residential users except for LPG aimed for the poor

Egypt not only boasts considerable human resources, but also significant natural resources, a diverse economic base and a geo-strategically important position

On behalf of the Egyptian people, I welcome the international investment community to Euromoney's Egypt Conference: Stability, Investment and Growth. This is an opportune time for the global financial community to come to Egypt to witness firsthand the changes that the country has made over the past year to fundamentally reform the economy and unleash its productive capacity. Our government is committed to pursuing policies aimed at achieving high and sustainable rates of growth and creating an attractive, predictable, fair and internationally competitive business environment. We know that we face many challenges ahead on both a macro and micro-level before we can fully realise these objectives, but Egypt is on the right track. This country is turning the corner on its recent unusual period of political strife and uncertainty, and a positive momentum has already begun. As we now look ahead to fulfilling Egypt's potential, we invite both domestic and foreign investors to take part actively in the re-invigoration of the Egyptian economy.

Egypt's economic revival is first and foremost being driven by the ongoing restoration of confidence in the country's path. This reflects the improvement in political stability as we have implemented our political roadmap. So far we have succeeded in implementing two of the three major milestones outlined in the roadmap, namely adopting the constitution and holding the presidential elections. The third one – the election of a new legislature – will follow in the very near future.

Growing confidence also rests on the structural reforms the government has already implemented – as well as on the many additional reforms still in the pipeline – to correct fundamental deficiencies in our economy. For too long, excessive and ineffective government spending, wasteful energy subsidies, endemic corruption and economic mismanagement had undermined the promise of our country, strangling our economy and our people's dreams. Although a preceding period of prudent macroeconomic policies and structural reforms pursued during 2004 to 2008 quickly generated 7% growth per annum, we did not have enough time then to institutionalise the reforms nor to enable the average Egyptian citizen to benefit from the fruits of this take-off in growth.

When the Egyptian people took to the streets to demand real change, first on 25 January 2011 and again on 30 July 2013, they sought to bring about effective and accountable governance and a fresh economic direction. However, the troubles we endured as we collectively struggled to reach a new political settlement exacerbated the country's underlying problems, causing our budget deficit to balloon to an unsustainable level, our national debt to soar, our unemployment rate to rise and our already stretched infrastructure and services to deteriorate. A course correction was hard but absolutely necessary. Today, we are doing just that, charting a new path for Egypt that ensures fiscal discipline and a return to high growth, but this time with an eye to social justice in

order to meet the legitimate demands of the Egyptian people for a better and more dignified life, and to safeguard the durability of the reform effort.

The decision to roll back energy subsidies demonstrates the boldness and vigour with which the government is now pursuing reforms. These subsidies had subsumed a massive portion of the national budget, costing the treasury EGP 143bn in the 2013/2014 fiscal year, or roughly 20% of the entire budget. Moreover, they were highly regressive, with the richest quintile in the population consuming the lion's share of the benefit, and led to waste and distortions of incentives, particularly by favouring capital intensive investment over the labour intensive investment that Egypt badly needs. Although many doubted that we would be able to take meaningful action on this front – in large part because the government had promised to do so in the past, but had repeatedly shied away from going ahead – we substantially slashed fuel and electricity subsidies within one month into my tenure in office. This move has sent a clear signal to global markets and investors that Egypt is finally serious about addressing a longstanding structural weakness. We are pleased to note that the international financial community, led by the international financial institutions, has recognised this decisive course of action, offering strong praise.

The reduction of the energy subsidy will narrow the budget deficit in the current fiscal year by some EGP 50bn, or 2% of GDP. Demand will further be rationalised

through the use of smartcards, which will be rolled out first in Port Said in November and then nationwide in April of next year. Over the next five years, we will eliminate remaining energy subsidies for all commercial and residential users except for LPG targeted to the poor and lower income segments of our population. Beyond the fiscal objectives, an equally important goal dimension is that the reform will generate better capital allocations that will result in greater economic efficiencies, including incentivising a shift to renewable energy, as well as foster greater inclusivity.

Furthermore, the energy subsidy reform will strengthen the financial position of EGPC, our national oil company and thereby prevent the accumulation of any new arrears to its foreign partners. As for the stock of existing arrears, EGPC has already started to pay back part of this obligation while the government is considering several options to accelerate their full repayment. Egypt has had a good track record in dealing with our foreign partners in the oil and gas sector, many of which have been operating here for decades successfully and profitably. It is vitally important for us to restore our standing with this important group of investors in our country.

Fiscal consolidation will also be driven by reforms to make our tax regime more sensible and equitable, to widen the tax base and to improve tax buoyancy. The government is continuing work on improving the progressivity of the tax regime, while introducing new capital gains and dividend taxes, introducing a temporary 5% tax in-

crease on those earning EGP 1m or more annually, applying new rules to combat harmful tax planning and to close other existing loopholes, implementing a fair property tax system, and increasing taxes on certain commodities, primarily tobacco and alcoholic beverages.

In addition, the government is preparing to introduce a new fully-fledged VAT system in the current fiscal year to replace the GST. The new VAT will have many advantages over our existing regime: it will be fairer to taxpayers, allowing an immediate full tax refund on capital goods and broader tax credit system as well as applying a single unified rate, incorporating a high threshold and extending to a wider range of goods and services. We expect the VAT to yield 1.6% of GDP to government revenues on a yearly basis. Moreover, the VAT is designed to incentivise business investment because it allows firms to deduct tax on capital inputs, and obtain refunds of paid tax. Therefore, it will reduce costs of investment, improve cash flows and improve the local business climate. We foresee little, if any, impact on the prices of basic food items, which will continue to be exempt from the VAT. In effect, the new tax will serve as a win-win for both the government and the business community, while Egyptian consumers should see little change in the costs of most goods and services.

The government is also planning to introduce a new simplified tax regime for Small and Medium-sized Enterprises (SMEs). This will be designed to not only

The new tax will serve as a win-win for both the government and the business community, while Egyptian consumers should see little change in the costs of most goods and services

Investment opportunities in Suez Canal Project are endless: Dar Al-Handasah director of operations

CLOSENESS OF NAME BETWEEN COMPANY AND ARMY'S ENGINEERING CORPS LED TO CONFUSION

By Sara Aggour

In August, after a long wait, the Suez Canal Authority announced that the winner of the Suez Canal project's development bid was the alliance of Dar Al-Handasah Shair and Partners firm and its Egyptian arm. Some speculation alleged the company was tied with the Egyptian Armed Forces, while others suggested it was owned by Gulf businessmen.

Daily News Egypt sat down with Yehia Zaki, the director of operations at Dar Al-Handasah, to discuss the future of the plan, contract details and expected investment.

Can you tell us more about Dar Al-Handasah?

Dar Al-Handasah is a multi-disciplinary firm. All engineering fields that we operate in are under one roof. We are a consultancy firm that offers designs and manages projects as well as supervises them. The company was founded in 1956 in Beirut, and it expanded to have an office in Cairo and another in London. Later on, in the 1980s, it expanded further into the US and Europe, becoming what would now be a holding company under the name of Dar Group. The bottom line here is that Dar Al-Handasah is an international company with 193 offices all over the world, as Dar Al-Handasah and its subsidiaries doesn't have a flag.

The prerequisites to apply for the Suez Canal development required a joint venture between an international company and a local company. This joint venture was between the global Dar Al-Handasah Shair and Partners, which is registered in Bahrain, and Dar Al-Handasah Egypt. They are totally different entities; each has its own board of directors. Around 46 companies applied for the project and 14 were shortlisted.

What's your role in the Suez Canal Development Project?

The Project is about preparing a master plan for the area of the Suez Canal and it has nothing to do with the drilling of the new canal path. The new canal is being constructed and supervised by the Army's Engineering Corps "Al-Haya'a Al-Handaseyah". There was mix up due to the closeness of the names. Some companies, also in Saudi Arabia, have similar names. The lack of research led some to believe that this is all one project and that Dar Al-Handasah and the engineering corps are one and the same.

So to clarify, the one-year project is operated by the Engineering Corps while the master plan for the bigger Suez Canal Development project is done by Dar Al-Handasah?

We are doing the master plan for the development of the area, yes. We will operate in the area that is provided to us by the country. It will be focusing on ports alongside other areas. The project is related to the areas of the Suez Canal, which include the area of the new channel. These areas are mainly six ports, East Port Said Port, West Port Said Port, Al-Arish Port, Al-Adabeya Port, Ain Al-Sokhna and the recently added Al-Toor Port. Each one of these six ports has a master plan, whether it's an old one or a new one and whether the implementation started before or didn't. Our job is to take all these master plans then study and upgrade them. The plan for the ports is not to compete with one another but to offer complementary services. Also, we will study the area of the north western area of the Gulf of Suez, which was developed by some 10%, that needs some upgrades, as well as the newly introduced Technology Valley



"WE'LL MEET WITH BUSINESSMEN, YOUTH, AND DIFFERENT ORGANISATIONS TO HELP US COLLECT INFORMATION"

in Ismailia. We will be making suggestions for the land uses and industries to be placed in the master plan.

The master plan will not only be [project] drawings but also [ideas on] how to market this area and the investment opportunities. There will also be a study for the placement of utilities such as electricity, tunnels and roads. We will not be physically [constructing] these roads or tunnels but we'll plan [their placements]. All of that will be accompanied with an economic plan which studies the investment opportunities. Another very important task will be [doing] the social economic impact assessment to the area and then state how to brand this project.

The objective is not to just have an engineering design but to make it attractive and to be able to do that

we need to interact with a lot of stakeholders and to collect a lot of data. This will depend on the wealth of the data and the participation of the shareholders. We look at ourselves as integrators of ideas and visions more than a physical plan and accordingly the time frame that is given to us, which is six to eight months, will involve interaction with businessmen, industry federations and chambers of commerce.

You mentioned the interaction with shareholders; can you specify who are they?

We'll meet with businessmen, youth, and different organisations to help us collect information.

The data, names of businessmen for example, was provided by the government?

No. We took from the government the information on the ports themselves.

What are the criteria for selecting those businessmen?

It's open and we have no limitations. We'll have several economic events, gatherings and summits where the project will be a hot topic and people will start to debate it. We'll rely on their feedback. We prefer that the Federation of Egyptian Industries would organise meetings with businessmen as well. We are choosing the spectrum that we need to interact with. We also need to interact with Egyptian ministries and a committee has been formed to follow up with us. The committee is headed by Egyptian Prime Minister Ibrahim Mehleb and mainly includes the economic team

and related ministries. The coordinator will be the Suez Canal Authority, the one with which we signed the contract.

What data is the company is expecting to receive from the government?

We have expectations to what we want, actually it's a list. At the same time, the Suez Canal Authority will provide us with information and we'll communicate if we sign anything else.

How often does Dar Al-Handasah meet with the authority?

We meet a lot. We have a meeting every other week, with the coordination of the government. On the sale of information exchange, we can say that we almost have a liaison office there.

Can we discuss some details on the contract? What was the value of the contract?

It is slightly less than \$1.8m. We prefer not to discuss those details; however, it was already publicised during the Suez Canal Project's presentation.

Do you believe this figure is enough for the work the firm will be providing?

These projects are not calculated in that method, they have special nature. It is a very aggressive study and it will cost money but at the end it was a competition and we wanted to be associated with this [project]. The cost can be more but this page is turned. This is not one of the projects where we'll be targeting profit. We wanted to contribute to the country in some format. The real cost of this [project] is not much higher.

Is there a possibility for an increase in the contract's value or is this final? Is there an article that would allow for an increase?

Actually, there is, but this is a project that is set to end in a specific period with a specific budget.

Will Dar Al-Handasah be responsible of following up after the submission of the master plan?

We are just responsible for the submission of the plan.

How much investment can be expected in this project?

It is still early to say. It has endless number of investment opportunities.

What are the types of industries that can be expected to invest?

The priority is for the added value [projects] that would generate variety.

Aside from the price advantage, what qualified Dar Al-Handasah to win that bid?

Well actually we had the best technical offer. We scored 86% [on the technical offer]. Four out of the nine shortlisted companies qualified above 80%. The second, third and fourth scores varied between 80% and 81%.



"THE NEW CANAL IS BEING CONSTRUCTED AND SUPERVISED BY THE ARMY'S ENGINEERING CORPS "AL-HAYA'A AL-HANDASEYAH. THERE WAS MIX UP DUE TO THE CLOSENESS OF THE NAMES"



We expect our reforms to produce the following results:

- (1) Real growth will reach 6%**
- (2) We will lock into a budget deficit that will be in the single digits, down from 13.7% of GDP in fiscal year 2013/14 and 10% of GDP in fiscal year 2014/2015, even as we will be spending more on health and education in line with our constitutional commitments**
- (3) The public debt will be put on a long-term sustainable path, falling toward 80% of GDP in the projected time frame from 94% at the end of fiscal year 2013/2014**
- (4) The inflation rate will fall to single digits as we maintain fiscal and monetary policy prudence**

to bring a wider pool of economic actors into the tax net, but also to incentivise the SMEs to grow and develop. Such an outcome is particularly important given that SMEs tend to be important job creators.

The new and expanded sources of revenue and our expected budget savings mean that Egypt can spend more on areas that boost efficiency and productivity, particularly of our workers. Part of the proceeds from the energy subsidy reform will be redirected to spending on health, education and R&D. In this way, we are not only removing a heavy and wasteful burden from the budget and our economy, but also improving the quality of our spending by redirecting it to areas that will enhance Egypt's growth potential over the medium and longer-term. Education and vocational skills training are at the top of our priority list so that we can take advantage of our demographic dividend. We are a country of young people who are eager to learn and acquire skills, to obtain meaningful jobs, and to become productive citizens in a renewed and prosperous Egypt. We want to tap and develop the energy and brainpower that the country's youth offers.

Egypt not only boasts considerable human resources, but also significant natural resources, a diverse economic base and a geo-strategically important position straddling Asia and Africa. There are many opportunities for both domestic and foreign investors in an array of sectors. We have an unparalleled tourism product that has never been fully tapped, even before the 2011 revolution; it will inevitably recover

and again become an important venue for investment and catalyst for growth. Light manufacturing should take off in this country given the advantages that Egypt offers in terms of its relatively low costs, large labour pool and accessibility to markets in Europe, the GCC and Asia. Another dynamic area of opportunity is information and communications technology, which we see poised for take-off. The energy sector will also revive as the energy subsidies are overhauled, leading to renewed exploration and production. Other sectors include transportation, housing, agriculture, and mining. The ambitious Suez Canal Regional Development project, the flagship of the government's investment recovery program, will provide many opportunities for investors as it sets the stage to enlarge and cement Egypt's role as a global trading and logistics hub.

Blueprints for other major national projects are being drawn, including a "Golden Triangle" development project in Upper Egypt. This project envisions exploiting Egypt's natural resources and mineral wealth in the "Golden Triangle" region between Qena, Quseir and Safaga, while also developing the area for touristic, industrial, commercial and agricultural opportunities. We are also drafting a "North West Coast Development Plan" which also seeks to develop that area's rich potential.

Egypt is furthermore launching a PPP program that will provide an important gateway for investment, addressing the country's infrastructure needs while involving the participation of the private

sector in varied projects ranging from seaports, utilities, railway and metro transportation, wastewater treatment and new schools. We expect to tender one project per month over the remainder of this calendar year, and 6-7 projects in the next calendar year. We are seeing very significant interest in these projects from domestic investors as well as foreign investors across the globe.

Accompanying these big-picture reforms and large projects are concerted new efforts to tackle the regulatory and bureaucratic obstacles that stand in the way of private sector and foreign investors, as well as policies to ensure a level playing field for all investors where transparency and the rule of law prevail. This is an ongoing process with much still to do, but one that has a firm political consensus behind it. We have introduced amendments to the competition and anti-monopoly laws. We have removed legal hurdles and will soon introduce a new uniform investment law that will further streamline the path for foreign investment. In the past, companies have hesitated to do business in Egypt due to antiquated and unfair legal practices. The government is determined to remove these constraints in order to create a welcoming climate for all investors.

We are already seeing signs of an upturn in our economy as political stability has gathered pace and as economic actors and investors respond to the government's structural reforms. Industrial production and manufacturing production have turned up sharply over May and June 2014, particu-

larly manufacturing, which was up 27.8% in May and 37.6% in June year-on-year. Real GDP growth is estimated for the final April to June quarter of fiscal year 2013/2014 at 3.5%, up from 2.5% growth in the third quarter and only 1.2% growth over the first half. Foreign investors have returned to our stock market and are again participating in government debt auctions. Critically, FDI is also reviving: over the first three quarters of FY 2013/14, net FDI inflows reached \$4.7bn, more than 20% up from the corresponding period in the preceding fiscal year. We see major multinationals already reinvesting in Egypt, both upgrading old facilities as well as building new capacity.

The international rating agencies have also begun to revise their views of Egypt. Standard & Poor's raised Egypt's foreign currency sovereign credit rating to B- in late 2013. In early 2014, Fitch also upgraded Egypt's long-term outlook to stable, affirming a rating of B-. But while the rating agencies are cognizant of the country's positive direction, we believe that they have fallen behind the curve. Egypt's five-year CDS spreads have fallen to below 270 basis points, down from some 900 basis points in the summer of 2013, implying that the global markets see us as trading like countries with ratings a full grade above our own.

Our concluding message is this: our ultimate goal is to generate sustainable high growth that is well-balanced and inclusive in order to build prosperity for the Egyptian people. This is necessary to maintain political stability, and will also benefit the

business community. We know that macroeconomic stability is a necessary condition for securing the business community's continuing confidence and to ensure that our economic recovery remains durable. We also know that we must maintain the momentum of reforms so that growth can accelerate on a sustainable footing. Over the span of the next five years, we expect our reforms to produce the following results:

- 1. Real growth will reach 6%;
- 2. We will lock into a budget deficit that will be in the single digits, down from 13.7% of GDP in fiscal year 2013/14 and 10% of GDP in fiscal year 2014/2015, even as we will be spending more on health and education in line with our constitutional commitments;
- 3. The public debt will be put on a long-term sustainable path, falling toward 80% of GDP in the projected time frame from 94% at the end of fiscal year 2013/2014;
- 4. The inflation rate will fall to single digits as we maintain fiscal and monetary policy prudence.

I am fully confident that we will succeed in achieving these results. With a sensible macroeconomic policy framework, persistent structural reform, the full and welcome participation of the investor community, and the hard work and persistence of the Egyptian citizen, Egypt's renewed blueprint for stability, investment and growth will no doubt be realised.

**President of the Arab Republic of Egypt,
Abdel Fattah Al-Sisi**

Our ultimate goal is to generate sustainable high growth that is well-balanced and inclusive in order to build prosperity for the Egyptian people

Egypt can still attract foreign investment of \$10bn in 2014-15: Investment minister

ASHRAF SALMAN SAYS ENERGY INVESTMENT IS TOP PRIORITY

By Mohamed Ayyad

Despite the challenges that Egypt is experiencing, Minister of Investment Ashraf Salman, the Minister of Investment, is standing behind the Egyptian economy's ability to attract foreign direct investment (FDI) at about \$10bn during the 2014-2015 year. The minister did not shy away from admitting the difficulty of reaching that target, which he had announced when he took office three months ago. "From the very beginning this number proved very difficult," he said.

Why was the \$10bn FDI target for the current fiscal year identified despite the economy being in the initial stages of recovery?

This number was chosen based on the \$4.7bn achieved over nine months on 30 June 2014 and a second quarter estimate of approximately \$1.3bn to \$1.4bn. Crossing the \$6bn threshold is very difficult for one year, but repetition makes it more feasible. That depends on oil companies' abilities to pay foreign partners and make a timetable to schedule repayments over a one or one and a half year period.

It is expected that the foreign partners will resume injecting large investment repayments of delayed payments. The debts resulted in a slow-down in investments by companies, so the government is keen on completing the agreement with the foreign partners as soon as possible.

This process will be followed by investments totalling at least \$6bn to \$6.5bn by companies investing in the oil sector. The delayed payments to foreign partners are approximately \$6bn and rescheduled payment is currently being agreed upon.

The estimated size of FDI is associated with targeted growth rates of 3% and eventually pushing this to a higher rate. It is also linked with the 2020 Plan as well as the government's commitments to increase spending on education and healthcare up to 3% of the GNP. This rate was stipulated in the constitution for the coming years, and it represents a challenge.

How do you see investment in the energy sector in light of the current situation?

Investment in energy is at the top of our priorities. The estimate of \$10bn for FDI comes at a time when foreign investments is at its lowest, betting on opportunities in the alternative energy sector. This sector is expected to attract \$4bn during the 2014/2015 fiscal year after the cabinet approved both the feed-in tariff and energy purchasing model for the private sector.

Regarding creating opportunities from the crisis, everyone has become fully aware of the need for investment to compensate for the deficit while also supplying fuel for targeted local foreign investments and the expansion projects that the government is leading. The energy crisis has another face, and that is a huge opportunity for investments.

Short-term planning is no longer meaningful in overcoming these future requirements; as a result, the plan is to double Egypt's electricity production capacity by adding an additional 30,000 (MW), which would require 10 years and many stages.

Can this additional capacity be completed and funded in the same way as the current 30,000 MW?

Of course not. For 10 years before 2011, an additional 1,000 megawatts were added to total current capacity, an indicator of our ability to double production over the next 10 years. The



NO SELLING OR BIDDING IN THE STOCK EXCHANGE FOR BUSINESS SECTOR COMPANIES; MY MISSION IS ITS DEVELOPMENT AND RESTRUCTURING

problem will lie in funding, and we have no other option than to rely on the private sector to fund these projects. The government has a clear vision for moving in this direction.

It is natural for the state to be in control of transportation activities and the private sector must participate in distribution, but expanding production must be made available to the private sector entirely and production must be doubled to 30,000 megawatts through investments ranging from \$35bn to \$40bn over 10 years.

Investment in energy has become clear a clear priority for the government. The feed-in tariff and purchase agreement have been presented to the cabinet several times and discussions are underway to produce an integrated, fair price for 1 MW. This will allow the investor an opportunity to achieve an acceptable internal rate of return (IRR) for the project while agreements will also ensure the price of usufruct. Discussions are currently taking place to increase the period of usufruct from 20 to 25 years.

Are new investments expected to arrive in the field of new energy?

I expect investments to arrive to the energy sector immediately following the adoption of the feed-in tariff as well as energy purchase agreements, as there will be a real opportunity for the investor to achieve a profit. Power stations are expecting investments in fixed income instruments and financing from international financial institutions.

Are there any offers from energy companies to set up power plants for new and renewable energy?

There are already offers from the private sector to the Ministry of Electricity, as well as a consortium of Arab and foreign companies to set up a 3,500 megawatt plant, while local investors have shown interest in the sector and a willingness to supply investments following the adoption of the feed-in tariff.

Also, around 6,000 mega-

watts have been offered to the private sector enough with the goal of attracting investments worth \$8bn to be implemented over an 18-month period, meaning that \$4bn will be attained during FY 2014-2015.

What do you expect from private sector investments in energy?

I expect a positive impact as well as other private sector investments in petrochemicals for example. At present, providing additional energy to these projects is not possible, but the private sector can begin working as soon as the start of energy projects are confirmed and a date is set for production.

A contract has been signed for the economic zone in the northwest Gulf of Suez between Egyptian and Greek investors to establish a petrochemicals project with investments estimated at \$600m over two years. Total investments for this project exceed that value several times.

How was the \$10bn of FDI on energy, excluding electricity and oil, estimated?

There are many other projects, but energy occupies the largest share. Others include the acquisition of the glass factory owned by Citadel, and Al-Futtaim Group's expansion after resolving its problems and many other projects in various sectors.

What is the current status of accumulated dispute settlements with investors?

I will not give details on any settlements with investors regarding their accumulated disputes for several years, but the government is exerting its best efforts to resolve all outstanding disputes and it is not appropriate to announce any details before reaching a final settlement with investors. There were problems that fell under the jurisdiction of the courts and a law was issued to ensure that they do not recur in the future.

As for the disputes for which final judgments have been issued, there is no way to resolve them except through negotiations with the investors, which is already underway.

In addition to these disputes, there are others pertaining to the land licensing and administrative procedures numbering several times more than disputes surrounding certain state or privatisation contract provisions. We have witnessed progress in resolving the disputes which became entangled with the governorates as well as the Tourism Activation Authority and Industrial Activation Authority, among other entities that deals with investors. I expect an end to the disputes with the issuance of the unified investment law.

What is the current situation for the unified investment law?

The law has been completed and several copies of it were reviewed. Its preparation in the final form aims to activate the investors' deals with a single party that has all investment map details, as well as all necessary facilities and procedures required from projects. It also aims to notify the Investment Authority of all lands and their development schemes to present them to investors with their own pricing system.

The project doesn't make the Investment Authority the state's party at allocating lands - this is because it's logistically difficult and requires substantial financial resources - but the authority will become an agent of the state's parties so investors don't have to deal with more than one party. However, one-stop representatives of parties in the Investment Authority have to be authorised to make decisions after reviewing models from the Investment Authority, and then sign them.

The project includes a law for providing incentives to specific geographical areas in order to develop them and facilitate procedures in other areas. This step comes along with the issuance of bankruptcy law, market exiting organising, and the unified law of lands.

Can the government agree on investment incentives that include tax breaks for certain areas?

I propose granting tax breaks to certain areas that need development according to the state's strategy in expanding inhabited geographic areas. I'm also proposing breaks for other areas. However, I'm not sure if it would be accepted as a general policy or if it's premature.

What is the truth behind rumours that the stock exchange has increased the capital of business firms?

There is no truth behind those rumours. And the policy adopted by the cabinet is "no selling", whether directly or through increasing IPO [initial public offering] capital. And its mission is to "develop and restructure business assets".

As a financial consultant becoming a minister, my personal opinion is that it's wrong to sell firms that need restructuring and have a significant opportunity to grow and maximise value. The timing is also wrong.

Resorting to a partnership with other parties is subject to the unavailability of the role in companies' portfolios, like tourism development companies that we can resort to in order to partner in the land of Ain Sokhna

owned by the holding company. Other than that, we could consider sacrificing part of the profits while they could be shifted to the company in the business sector.

The financial structure of business firms includes limited percentages of loans and debts versus capital, thus resorting to increasing capital is a wrong decision based on the funding costs.

A number of companies, such as Sayyed Pharmaceutical Ind has achieved revenues of EGP 320m last year, and net profit was EGP 22m. It can be expanded with a line of capsules production that needs EGP 100m, so why increase its capital when its default capacity reaches EGP 300m, according to its cash flows?

The Arab Company for Pharmaceuticals attains weak revenues but has zero debts - thus the best way to develop it is not through a tender or capital increase.

Business sectors shouldn't be dealt with as one thing, such as the absence of distinction between textile and cotton. While cotton companies are making profits, textile is the biggest problem in the business portfolio.

A new perspective of textile sectors was revealed through a study of Mahalla Textile Company which attains revenues of EGP 1bn, and losses of nearly half its revenues. There's a financial study being prepared aiming to inject EGP 250m working capital for the company to double its production capacity, leading to an end to the losses and the company breaking even.

The study revealed that the increase in the company's production capacity with the same machinery and equipment was from 30% to 70%, which means a reduction of losses of EGP 100m, doubling production capacity and ending the losses.

Negotiations with the private sector confirmed its willingness to buy the company's products if production energy increased. However, it turned down the inventory due to its lack of demand and poor condition.

Moreover, a restructure plan of the company as well as a financial study will be presented to the National Investment Bank, in order to obtain a loan worth EGP 250m to double the production capacity. The providence of capital can be followed by many development aspects.

What about the Iron and Steel Company's factory?

It needs different handling if the state wants to keep this industry. A new factory with modern technologies must be established, using lands and licensing owned by the Iron and Steel Company, which requires at least \$900m.

How important is the new Suez Canal project?

It's very important considering it's a development project that stimulates the economy under reduced energy subsidies, imposing taxes and the lack of any deflationary pressures. Then there's the projects revenues, adding \$3m- \$4m a year after the project is finished depending on ships that wait for 18 hours, in addition to the growth of global trade and trades that resorts to faster alternatives to passing through the Suez Canal.

He revealed that Egypt has received bids from several European and Gulf countries to fund the entire project, but the Egyptian authority has refused the intervention of any non-Egyptian entity in the project. He alluded to a Chinese bid to entirely undertake and fund the project, and receive half of its revenues in exchange.

What about the private sector's concerns of the state crowding it out?

The government is keen to encourage local and foreign direct investments and remove all obstacles in their way. The government is completely convinced that the private sector will achieve the development - and the 6%-7% growth rates - not the government. Energy projects that target 30,000 MW are all for the private sector as well as petrochemical projects and other projects to be established as soon as energy is available.

At the same time, the government wants to manage the state's assets and maximise its revenues; one tool to do that is through partnerships with the private sector without a waiver of assets. There is a certainty that the government can't attain target growth rates without the private sector.



GOVERNMENT IS AWARE THAT PRIVATE SECTOR WILL ACHIEVE HIGH GROWTH RATES

Smart Card System to be completed in December, second phase of subsidy restructuring in hands of elected government: Planning minister

NATIONAL INVESTMENT VEERED OFF ITS DEVELOPMENTAL COURSE AND WE SEEK TO RESOLVE THE FINANCIAL ENTANGLEMENTS WITH GOVERNMENT AGENCIES, SAYS EL-ARABY

By Mohamed Ayyad

In an interview with Daily News Egypt, Minister of Planning Ashraf El-Araby said: "The government is preparing for the Egypt Economic Summit to be held next February in Sharm El-Sheikh by developing studies for several projects aiming to attract EGP 600bn worth of investments to help reach a growth rate of 4%."

He points to the start of planning for the establishment of a holding company for mass transit and another for operating with a start in restructuring of the National Investment Bank.

What are the fourth quarter indicators of the fiscal year (FY) 2013/2014 and the estimates of the first quarter of the current FY?

The indicators of the fourth quarter of the last FY 2013/2014 includes 3.5% growth in the economy, the highest in the last three quarters, while the unemployment rate fell to 13.2%.

The first quarter of 2014/2015 saw the implementation of government investments estimated at four times the same period last year. The first quarter always experiences a slowdown in implementation and withdrawal of government investments estimated at EGP 67bn, including EGP 50bn funded by the state treasury.

The estimated results for the first quarter are a good indicator and will restore the confidence of international markets and recovery after the reform of the energy system. The world is beginning to see a recovery of the Egyptian economy.

Has the government settlement of investor disputes accelerated the restoration of confidence of markets and investors?

The settlement of investment disputes emphasizes the respect of the state's contracts and agreements and its protection of investors. The Minister of Housing finalised the settlements of nearly 11 investment disputes with the Urban Communities Authority, leaving only two disputes to be resolved within the housing sector.

The Legislative Reform Committee, formed by President Abdel Fattah Al-Sisi, presents a strong message that the state will protect the investor with all of its will and will protect public money. The conflict between the government and the Egyptian-Kuwaiti Company over the Ayat land is still ongoing.

What measures is the government taking to prepare for the upcoming economic summit?

The government seeks to complete a series of economic and social reforms to show the business community and financial institutions during the summit that the new Egypt has a vision that includes a plan of real reform. This began being implemented with the economic recovery plan, as well as with several national projects that have been initiated in addition to the plan to construct the new road axis.

The government has only completed 70% of the plan to stimulate



WE FACE MANY DIFFICULTIES IN PAYING DUES TO FOREIGN PARTNERS

the economy during the last FY, and we did not hide this fact.

When will the holding company, which is expected to create job opportunities and has capital of EGP 10bn, be established?

The holding company includes 20% shares which belong to the government and 80% to the private sector. The company will include subsidiaries in every governorate, and this month will witness the completion of the formation of its Board of Trustees whose responsibility will be to ensure the establishment of procedures and gathering funds from the private sector. The government will

inject EGP 2bn in the company, but the Board of Trustees will be responsible for gathering funds from the private sector and determining the rate of returns, investments, and conducting feasibility studies to be submitted to the private sector.

The partnership with the private sector will be based on mutual profit – "the government profits and the private sector profits". The projects undertaken by the holding company should vary between recycling waste and transport as standard projects over the 27 governorates in addition to projects presented by the local community.

Are you targeting specific sectors for the investment partnership?

The government is conducting consultations with various investors in the different sectors to contribute to establishment of the new company. Listing the company in the stock exchange is still being studied.

The dues of the foreign partners are a problematic issue for the government that requires uncon-

ventional solutions so as to not strain the budget and assures the partner to increase production to overcome the energy crises? What about the new scheduling plan for repayments and how do you see the borrowing with interest rate repayment solution? And when will the first batch be repaid and in which currency?

We face many difficulties in the paying of dues to foreign partners, which is estimated at around \$5.9bn. There is a tri-government committee made up of the ministries of Finance and Petroleum and the Central Bank [of Egypt], which is responsible for holding negotiations for the scheduling of these payments, in a move to increase the production rates of foreign partners and overcome the energy crisis.

Are there negotiations with Arab investors, such as Sheikh Saleh Kamel, to establish a new investment fund?

Saudi investor Sheikh Saleh Kamel, in coordination with several investors, is considering setting up a huge investment fund in the Egyptian market divided between the ministries of Religious Endowments and Investment. [We are expecting] to see the establishment of this fund by year's end.

There are no issues in the establishment procedures for funds, but the government put the regulatory frameworks for such funds in the framework of governance.

When will the government begin the second phase of restructuring energy subsidies and will they be completely lifted with the circulation of the smart cards?

The government intends on subjecting prices of petroleum products to supply and demand in a time-period ranging between three to five years. But in the current FY, the government will work on the dissemination and distribution of fuel smart cards to the majority of vehicle owners only.

The first phase the government implemented is a reform package that helped end the smuggling of

fuel, which exhausted previous governments and wasted a large chunk of public money.

We printed nearly 2.5m cards and they have already been marketed. But, the traffic authority says that the total number of vehicles that will receive the smartcards is estimated at 4m. There is ongoing coordination with the ministries of Petroleum and Finance as well as the Traffic Authority to complete the distribution of all smart cards before the end of the current FY. This will be followed by a period of at least six months of evaluation and experimenting with the new system without increasing prices or quotas or quantities.

The current government will complete its work by the coming 30 June but will not take the decision to raise the prices of petroleum products. After 30 June 2015, we will have a newly elected government and parliament – only then may we determine quotas and quantities. We will be ready from 1 July 2015, if approved by parliament.

Leaving prices to supply and demand does not mean the abolition of subsidies. Targeting subsidies and more to those who need it, while working on improving the mass transit system currently in place to serve citizens during the three to five year period already set by the government, will free the prices of petroleum products while retaining subsidies for those who need it.

You talked about the government's intention to improve the mass transit system; what are your plans to achieve that?

We are currently planning to set up a new company for special public transport with investments ranging between EGP 4bn to 5bn, with the participation of the private and public sectors. National banks and the National Investment Bank, as well as insurance companies, are all willing to contribute to this new public transport project.

The pricing of this service will be decided in coordination with private sector, but the contribution rates between the government and private

sector have yet to be determined. The planning of this new company will be planned in line with the new subway lines.

The government requires that the manufacturing of buses to be used in the company to be produced locally; the manufacturer is also required to be a contributor in this project.

The procedures for the establishment of this company are nearing completion, with the government

working on completing the construction of metro lines at an unusual speed. The development of river transportation will take place during the current year, and EGP 5bn will be used to develop the railway system.

Can you provide us with details regarding the reform plan and restructuring of the National Investment Bank affiliated with the ministry? What has been done to resolve financial entanglements with government agencies?

The National Investment Bank was established as a bank to increase rates of development, but it veered off course. Its main sources of funds come from the postal service, insurance surplus, pensions, and government investment certificates. Historically, the bank funded projects by government agencies which made losses and did not pay premiums, so debt was continuously increasing.

The mixing of economics and politics is the reason behind the current economic situation and financial indebtedness between the bank and several government agencies, but a committee headed by the Prime Minister is now working on resolving financial entanglements between national investments and all government agencies.

The bank will only finance economic development projects that generate a profit for the bank, in order to end a long history of financing profit-losing government projects which only results in the increase of financial entanglements and indebtedness.

National investments will contribute to the reform of some of the indebted government agencies for example the Egyptian Radio and Television Union, which maximises the return of any funds pumped into those entities.

Which authority is responsible for the coordination of the Egypt economic summit to take place in Sharm El-Sheikh next year?

There is a ministerial group headed by general coordinator Naglaa Al-Ahwany, the Minister of International Cooperation. [The authority] includes the ministries of Investment, Finance, Planning, Trade and Industry and they are responsible for making all the necessary arrangements for the economic summit, which is expected to be held next February in Sharm El-Sheikh. The Ministry of Investment is responsible for the private sector projects while joint projects between the public and private sectors are handled by the Ministry of Finance. As for trade projects, they are handled by the Ministry of Trade and Industry.

There is a specialised company that will be responsible for the preparation and coordination for the economic summit which may be a government company. The government received huge offers from the private sector to coordinate the summit, saying the government benefited very well from past lessons and it is very possible that it [the government company] will organise the summit.

Buses should be locally manufactured with local manufacturers to be involved

What are the sizes of investment that the government plans to attract through the summit? Will the summit only be limited to investments or will there be "cash and oil" aid? And what are the most important projects that are expected to be presented during the summit? And

have you made the necessary feasibility studies?

The government is planning to attract investments worth EGP 600bn during the summit to achieve a growth rate exceeding 5% versus 3.5% during the fourth quarter of 2013/2014. Investments worth EGP 337bn have only achieved a 3% growth.

The governments is serious in its presentation of its clear investment projects and are backed by feasibility studies that include all national projects such as the development of the Suez Canal Axes, the Golden Triangle, the North West Coast and ports, and East Port Said.

Is the government currently negotiating new Gulf aid?

The government is currently not negotiating for new aid, be it oil or financial aid. We are still continuing to negotiate on the \$8.7bn from the UAE, saying that the grant element in it is very high, but the regulatory frameworks for the start of converting petroleum products is still awaiting the decision of the political leadership.

THE DEVELOPMENT OF RIVER TRANSPORTATION WILL TAKE PLACE DURING THE CURRENT YEAR

WHAT RATING AGENCIES SAY ABOUT EGYPT



Egypt recently witnessed some progress on fiscal consolidation, such as the recent increases in fuel prices and the introduction of new taxes

Fitch

In January, Fitch Rating Agency restored Egypt's outlook to stable for the first time since it was downgraded to negative nearly three years ago. This reflects an improvement in an economy hammered by years of violence and political instability that had a massive toll on foreign reserves and many industries. The ratings firm, however, confirms that there is still a lot more that needs to be done.

Paul Gamble, the director of sovereign group Fitch, answered Daily News Egypt's questions on what the Egyptian administration needs to do in order to secure an upgrade in the upcoming evaluation, and what the chances are of this happening.

Egypt's B-credit rating was affirmed in Fitch's most recent revision on 27 June. When will the next evaluation be?

The next evaluation will be issued on 19 December.

What does Egypt's government need to do in order to achieve an upgrade? Do you believe the government moving in the right direction? If yes, how so?

The triggers we have identified that could collectively or individually lead to upgrade are: "Material progress on fiscal consolidation" and "Improved political stability, potentially supported by efforts to accommodate currently marginalised groups". There has been some progress on fiscal consolidation, such as the recent increases in fuel prices and the introduction of new taxes. We will monitor the data between now and our review time to see how material this progress has been.

What is your evaluation of the measures taken to reduce subsidies and raise certain forms of taxes? Is that enough to fix the country's expanding deficit?

These measures will help reduce the deficit. The combined savings and extra revenue are likely to cut the deficit by 2-2.5% of GDP. This compares to a deficit in 2013/14 of 12.1% of GDP, so there is still a long way to go. It is also not clear whether some of the savings and additional revenue will be spent elsewhere. Strengthening economic activity will help lower the deficit, but it is expected to stay large for some time.

What do you see are elements that can possibly keep Egypt's rating as is for a third consecutive evaluation?

This would probably involve Egypt not [exerting] sufficient [effort] to hit the triggers for an upgrade outlined above, and the [current] situation [must remain stable] so that one or more of the triggers for a downgrade are hit. The triggers we have identified for a downgrade are: "Disruption to GCC inflows that strains the balance of payments and fiscal position", "A failure to reduce the fiscal deficit significantly or a weakening of the willingness or ability of local banks to finance the deficit" and "A serious breakdown of public order or a severe and sustained period of political violence that further damages the economy".

The new president and government have announced multi-million dollar national mega projects, which they say will reduce unemployment rates and draw investors. How do you view such steps?

If these projects go ahead they are likely to cut unemployment and potentially draw in investors. The question for us is how they will be financed. The government runs a very large budget deficit, so a large amount of foreign government and private sector investment would probably be necessary to get these off the ground. Measures to improve the business environment would be much less costly.

What are your expectations for the influx of GCC aid and the value of the Egyptian pound given strategies of new leadership?

GCC support will continue to underpin Egypt's economy for the near term. The form of this support is likely to change from direct deposits in the central bank and budgetary support to spending on projects, though short-term assistance from the GCC will be available if it is needed. The GCC private sector is also likely to take an increasing role.

How do you view concerns that the expansion of the army's economic empire will compete with the private sector over future projects?

We think that the military will see private sector contractors for large elements of the projects.

FitchRatings



Paul Gamble

STANDARD & POOR'S



Trevor Cullinan

Standard and Poor's

On 16 May 2014, Standard & Poor's Ratings Services affirmed its 'B-/B' long-and short-term foreign and local currency sovereign credit rating assessment on Egypt. The ratings service added that the country has a "stable" outlook, signifying an improvement in economic conditions.

During the current fiscal year, Saudi Arabia, United Arab Emirates and Kuwait have pledged and provided around \$15bn.

Trevor Cullinan, director of sovereign rating at the agency, explained to Daily News

Egypt the affirmation reflects S&P's view that the Gulf's lifeline will continue to flow and finance economic recovery. He also emphasised that more political stability is needed to secure an upgrade.

When will the S&P next evaluate Egypt's rating?

Our next scheduled rating publication on Egypt is 14 November.

You were previously quoted by reports as saying the B- rating is likely to last for this current year - is this correct? If so, why?

Our outlook speaks to the next 12 months for non-investment grade ratings. The stable outlook indicates that we do not expect to change the rating. The stable outlook balances our view of Egypt's difficult political landscape and significant external financing pressures against our expectation that official donors will continue to provide support to the country.

Have recent economic measures including a reduction in energy subsidies, a rise in taxes and launch of new projects, increased the likelihood of possible upgrade? If yes, how so? If not, why not?

We understand that the authorities have begun restructuring the energy subsidy system and have increased some taxes. We will assess the effectiveness of implementation of these measures over the coming fiscal year ending 30 June 2015.

What does Egypt's government need to do in order to achieve an upgrade? What is it missing in order to reduce credit risk?

We could raise the ratings in the next 12 months if political developments in Egypt strengthen relations between the government and wider society, and improve external performance, including net international

reserves, thereby easing external pressures.

What is your evaluation of the measures taken to reduce subsidies and raise certain forms of taxes? Is that enough to fix the country's expanding deficit?

We will assess the effectiveness of implementation of these measures over the coming fiscal year ending 30 June 2015.

What does Egypt need to do in order to increase international reserves?

Further stabilising the domestic political situation and improving economic growth should improve investor confidence in Egypt and increase demand for the Egyptian pound, supporting the purchase of foreign currency by the central bank. Achieving a current account surplus, which seems unlikely at present, would also result in a positive balance of foreign currency being received by the country rather than the current outflow.

What are your expectations for Egypt's ability to meet financial obligations?

Although risks to the government's medium-term credit standing are high, we do not see a risk of imminent default.

Is the launching of new national projects enough to draw FDI? President Abdel Fattah Al-Sisi and his government have announced multi-billion dollar national mega projects, including the Suez Canal expansion, with the aim of reducing unemployment rates and draw investors. How do you see such steps?

The challenge to reinvigorate the economy is significant. We will assess the effectiveness of implementation of the government measures over the medium-term.

What are your expectations for the influx of GCC aid and value of Egyptian pound given strategies of new leadership?

The B- rating reflects our view that official donors will continue to provide the Egyptian government sufficient foreign currency funds to manage the country's short-term fiscal and external financing needs. We expect ongoing support from official donors.

Time line of Egypt's Economic Ratings since 2011

- 28 January 2011: Fitch ratings revised its outlook for Egypt to negative.
- 31 January 2011: Moody's downgraded Egypt's government bond ratings to BA2 from BA1 and changed the outlook from stable to negative.
- 1 February 2011: Standard & Poor's cut Egypt's long-term foreign and local currency ratings by one notch to BB and BB+ respectively, both with a negative outlook.
- 3 February 2011: Fitch Ratings lowered Egypt's debt ratings by one notch to BB from BB+.
- 16 March 2011: Moody's downgraded Egypt's foreign and local currency government bond ratings by one notch to Ba3 from Ba2. The outlook on these ratings remains negative.
- 18 October 2011: S&P Ratings cut Egypt's long-term foreign currency sovereign credit rating to BB- from BB and its long-term local currency rating was cut to BB- from BB+. It maintained a negative outlook on the rating.
- 27 October 2011: Moody's downgraded Egypt's government bond ratings by one notch to B1 from Ba3. The outlook remains negative.
- 24 November 2011: S&P said it cut Egypt's long-term foreign and local currency sovereign ratings to B+ from BB-, with a negative outlook.
- 21 December 2011: Moody's downgraded Egypt's government bond ratings to B2 from B1.
- 30 December 2011: Fitch ratings cut Egypt's long-term foreign currency debt to BB- from BB with a negative outlook.
- 10 February 2012: S&P downgraded Egypt's long-term rating from B+ to B. It affirmed the negative outlook.
- 15 June 2012: Fitch downgraded Egypt's long-term foreign currency rating to B+ from BB-, with a negative outlook.
- 24 December 2012: S&P cut Egypt's long-term credit rating to B- from B, with a negative outlook.
- 30 January 2013: Fitch Ratings cut Egypt's sovereign credit rating to B from B+.
- 12 February 2013: Moody's Investors Service downgraded Egypt's government bond ratings to B3 from B2, and maintained the negative outlook.
- 21 March 2013: Moody's Investors Service downgraded Egypt's government bond ratings to Caa1 from B3. The rating outlook is negative.
- 9 May 2013: S&P lowered Egypt's long-term credit rating to CCC+ from B-.
- 6 July 2013: Fitch cuts Egypt's credit rating to B- from B.
- 17 July 2013: S&P maintained Egypt's long-term sovereign credit ratings on Egypt at CCC+/C, with a "stable" outlook.
- 24 July 2013: Moody's affirmed Egypt's CAA1 government bond rating, while maintaining the 'negative' outlook.
- 15 November 2013: S&P raised its long-term foreign currency sovereign credit rating for Egypt to B-/B from CCC+/C, with a 'stable' outlook.
- 3 January 2014: Fitch raises Egypt's economic outlook from 'negative' to 'stable'. The rating firm, however, maintained its rating for the long-term foreign sovereign credit ratings at B-.

Date	foreign currency long term rating	outlook
28 January 2011	BB+	Negative
3 February 2011	BB	Negative
28 June 2011	BB	Rating Watch
30 December 2011	BB-	Negative
15 June 2012	B+	Negative
5 July 2013	B-	Negative
4 January 2014	B-	Stable

Company President Basil El-Baz talks to Daily News Egypt

The Carbon Holdings Company plans for the largest IPO in the history of the Egyptian stock exchange, valued at \$2bn

by Alia Stohy and Mahmoud Al-Qasas

The Carbon Holdings Company is planning to present its initial public offering (IPO) to the main stock exchange at the value of \$2bn. The company nearly resolved negotiations with four investment banks to put 35% of its shares on the market, despite the fact that it is contracted through the financial advisor to go on offer in early 2015.

Basil El-Baz, the head of Carbon Holdings, said in an interview with Daily News Egypt that the company intends to implement the IPO within the limits of \$2bn, which he regarded as the largest public offering that the Egyptian stock market has ever seen.

He added that the IPO process was intended to increase capital, and it is expected that important institutions and strategic investors and individuals will participate.

El-Baz also indicated that his company was deciding among local and international investment banks to manage the IPO process. The selection process is expected to take a long period of time, possibly more than a year, in order to guarantee that the bank is equipped for the task.

The head of Carbon Holdings also discussed a list of large expansions for his company encompassing six years, for which it requires funding of billions of dollars. This is what pushed the administration to consider the constraints of the stock market, which he considers a tool to obtain easy, sustainable funding which could fulfill their financial needs on an ongoing basis.

He remarked that Carbon Holding's current capital has grown to \$500m, and there are plans to increase it to \$1bn before the middle of 2015. This expansion will be followed by several subsequent increases in the following periods, in line with the size of the mega projects planned for the future.

El-Baz also revealed two new projects which are included in the long-term future plan: first, the Egyptian-Japanese Petrochemical Company. This project represents an investment cost of \$2.3bn and aims to produce 6,000 tons of methanol and two thousand tons of Ammonia.

He added that the company plans to start the project during the last quarter of 2020 and it will be established in the Suez region. Carbon Holdings holds 32.2% of the capital of the Egyptian-Japanese project and intends to contribute a controlling stake of 51%.

The second project represents a new phase for the Tahrir Petrochemical Complex, he said, and will constitute an investment cost of \$1.2bn. It will produce 220,000 tons of polypropylene and refine 550,000 barrels of crude oil a day. This phase will take place on land adjacent to the complex.

El-Baz noted, "The most prominent project of interest to the company in the short and middle term is the Tahrir Petrochemical Complex, and after the completion of detailed studies, its investment cost will increase from \$5bn to around \$6.5bn."

He also announced that the Carbon Holdings Company had signed with Hassan Allam Contractors and the Greek CCC company to compose a list of contractors for the Tahrir project. He pointed out that the agreement set the implementation period as 52 months, though construction was set to begin in the middle of 2015.

He also revealed an expansion in the funding base which includes five financial institutions instead of three. The Foundation for Italian Exports had agreed to lend \$1.25bn from the OPEC Fund for International Development and \$2 billion was to be divided equally between the Korea Export Insurance Corporation and the Export-Import Bank of Korea.

The Export-Import Bank of the United States will also provide \$1.4 billion, bringing the total amount of international funds to \$4.65bn though \$2 billion will be obtained as payment for the rest of the project through institutions and local investors.

El-Baz justified the dependence on international financial institutions by high-



Hassan Allam and the Greek company CCC join the list of contractors for the project, which is expected to create \$9.5bn a year in investment returns

lighting their ability to finance large-scale projects on long-term repayment plans. This type of massive financial value would require the participation of around 40 commercial banks, which is difficult to achieve.

However, the head of Carbon Holdings hinted that the company would turn to local banks for funding certain parts of the project, especially domestic components and the construction. They expect to sign the financing contracts during the first quarter of 2015, on payment terms of 17.5 years.

El-Baz said that the company had signed export contracts guaranteeing the sale of 100% of the Tahrir Complex products, to achieve returns ranging from \$7.5bn to \$9.5bn annually. The capital rate of return ranges from 9-14%, a fact which helped the process of negotiating with banks and international institutions to obtain the necessary funding.

The Tahrir Petrochemicals Complex is considered the largest Naphtha petroleum cracker factory in the world. It includes eight factories and will break down 3.5 million tons of Naphtha annually, and will produce 1.5 million tons of polyethylene, 880,000 tons of polypropylene, around 350,000 tons of petrol, 150,000 tons of gas, 215,000 tons of Butadiene and 100,000 tons of HEXENE-1.

The project is housed on five million square meters in an industrial area, northwest of the Gulf of Suez. The buildings and factories will be built on 3 million meters and the rest of the space will be left empty in anticipation of any new expansions.

Carbon Holding's manager said that he planned to build a power plant to provide for the electricity needs of the complex, with a production capacity of 300 MW.

The project is expected to provide around 20,000 direct job opportunities during the construction period and will include 3,500 workers after the project begins operations. Indirect employment is expected to include 50,000 workers during the construction period, in addition to 25,000 indirectly employed workers during the project's working operations.

According to El-Baz, the Tahrir Complex project represents a major shift in the industrial sector. He considers this to be, in its essence, the shift of local industries towards manufacturing and away from their focus on importing. Originally, the dependence of imports was due to a lack of availability of intermediate inputs for production. This limited the majority of Egyptian industries to assembly operations in the past.

He stressed that after the transition from assembly to production and manufacturing, the Egyptian economy will see an unprecedented leap. This is what the project aims to achieve, by way of creating all raw materials and intermediate inputs in the production process.

The head of Carbon Holdings expected that the new Petrochemical complex will increase the value of Egyptian exports by around 25% based on its current value, which is circulating at the rate of EGP 150bn annually.

He added that the new complex can compete globally and provide for the

needs of the country through producing important products. It will offer competitive value and increase the worth of industrial output in the country, in addition to integrating with major regional companies.

Carbon Holdings was granted a contract worth \$3.6bn last December, allying it with the German firm Linde and the Korean company SK to establish factories that will be included in the Tahrir complex. The Korean company is building three factories for polyethylene worth \$900m, while the German company is establishing the Naphtha cracking plants and the production of propylene, benzene and Albitadin. SK is considered one of the largest petrochemical companies in Korea and owns four Naphtha cracking plants in Ulsan, South Korea.

Additionally, the Italian company Maire Tecnimont joined with Dutch Archirodon Group N., and signed a contract for the construction of facilities and installations outside the site, which included the power plants and water desalination units, tanks of crude oil and products, and pipes and cables in the industrial complex.

A study of the project has been undertaken to recover between 10 and 15% of the annual investments. The payback period of investments on these types of projects ranges between five to seven years after the start of initial operations.

Basil El-Baz expects to begin working on the first company project, an Ammonium Nitrate and Nitric acid factory owned by the Egyptian Hydrocarbons Company, before the end of 2014. This project will

produce 370,000 tons annually. Ninety-three percent of the factory has already been completed, and it has entered the testing phase.

He estimated the investment cost of the factory to be around \$500m, which is funded with \$170m in capital and \$330m from Egyptian banks, the Commercial International Bank, and Ahli United Bank in Egypt and Bahrain.

El-Baz explained that the Ammonium Nitrate project has contracts to sell its products for 17 years. Carbon Holdings relies on the marketing of its products far in advance, which is included in the project's financial plan. It offers this to banks for financing and in order to increase its attractiveness, and takes into account that the selling prices are linked to global price indicators at the time of export.

Carbon Holdings has contracted with an international company to provide raw ammonia to the factory, either domestically or internationally, especially now that the feasibility study is based on the purchase of raw materials and the sale of products at global prices.

The Carbon Holdings Company also seeks to restart the Oriental Petrochemicals company after it acquired about 67% of its shares. The company had been closed for a long time due to the unavailability of crude propylene which the company relied upon for producing polypropylene in the plastics industry.

El-Baz said that the Oriental factory was reliant on Libya to provide it with crude propylene, but the repercussions of the Libyan revolution led to a halt in production for a Naphtha cracking factory in Ras Lanuf.

This factory had been fulfilling 60% of the company's needs on an annual basis while the available raw material was only available in Asia. However, the increase in the cost of transport and shipping indicates a decrease in the feasibility of reopening the factory.

The total production capacity of the Oriental Factory reached 160,000 tons annually, and it requires 180,000 tons of the raw material. El-Baz mentioned that the Carbon Holdings Company was seeking to add a new production line for the factory to add capacity ranging between 350,000 and 400,000 tons.

He added that, at the time of its establishment in 2011, the Oriental Project had appropriate production capacity, but polypropylene factories now generally do not produce less than 350,000 tons. This requires the additional line to increase the factory's production to 500,000 tons, in light of the company's intent to rely on economies of scale.

El-Baz discussed the economic situation in the country and the extent of its investor appeal, and said that the Egyptian economy was still strong and had succeeded in overcoming the challenges that it had faced in the past few years, to a large extent. He attributes this success to its strong purchasing power.

He added that the Egyptian economy urgently needs guidance to correct its path. This can only come with the strength of consumption, he believes. El-Baz went on to explain that no economy will grow without an increase in production and local inputs. This would solve the crisis of the increasing volume of Egyptian imports, and instead, shift to an increase in exports.

El-Baz emphasized that any investment opportunity that is supported by detailed, comprehensive feasibility studies which include expected returns, production sales contracts for the project, funding directives and specifics about the period of implementation, will succeed in terms of its international marketing. This is what helped his company in terms of marketing the Tahrir Complex project, for which he managed to obtain the necessary funding without difficulty.

Lastly, El-Baz mentioned that the Carbon Holdings Company was established by local contributions, which exceeded 50% of its shares. A number of regional companies and financial institutions from the UAE and Saudi Arabia contributed to it, and among these, two companies that are included on the Emirati and English stock exchange.

The investment cost for the Tahrir Petrochemical Complex rises to \$6.6bn and the financing contracts include five financial institutions

Two projects comprising investments of \$3.5bn are included in the company's long-term plan



IPOs and the stock market

THE DAILY NEWS EGYPT TALKS TO THE CHAIRMAN OF THE EGYPTIAN EXCHANGE MOHAMED OMRAN, AS WELL AS EGYPTIAN ANALYSTS, TO REVIEW THE FUTURE OF INITIAL PUBLIC OFFERINGS (IPOS) – STOCK MARKET LAUNCHES - IN THE MARKET AND THEIR LIKELY INFLUENCE

Capital market eager to present exchange traded funds to investors: EGX chairman

By Sara Aggour

Following three years of serious fluctuations, the Egyptian stock market (EGX) started to show notable improvements at the beginning of 2014. The recent changes in legislation and regulation on the capital market have prompted several companies to list on the EGX. The expected wave of initial public offerings (IPOs) - stock market launches - has not hit as expected, however, with the only significant IPO belonging to Arabian Cement.

Daily News Egypt sat down with the Egyptian Exchange's Chairman Mohamed Omeran to discuss the future of IPOs, the sectors that are expected to have a strong showing, and why he believes that the newly introduced regulations have influenced the capital market.

New legislation and regulations were passed earlier this year - was the market influenced by these new measures? Have there been any new requests to be listed on the market?

"We have a very particular role. It is to place the legislative laws and regulations that aim not only to attract companies, but to guarantee more transparency and to protect investors. We aim to create a clear system. As you know, Arabian Cement recently joined the market, and I believe Nile Company is finalising the last procedures to join and launch its initial public offering. The market is not just influenced by the new regulations, but by the overall economic environment and political stability as well.

The aim of the regulation was to cope with the country's current economic situation. For example, one regulation was to allow companies that have not made previous financial statements, to be listed on the market. What we seek to do is

to publicise that we introduced new laws that weren't available before, and inform companies who might be interested in joining the market.

So the stock market has a market-ing role?

"Yes, we have a role. We have previously held a summit for an initial public offering. But at the end of the day, the decision to list a company or a project is the investors' decision not the bourse's.

Many regard 2014 as being the year of several new IPOs. However, there have been some delays. Are they related to the economic environment in the country?

"That question should be directed to investors and not the stock market. The decision to have an IPO and rely on the capital market's financing is the investor's and not the market's. So whether it's a governmental institution, private sector or joint companies, the decision is theirs. That decision also depends on their need of financing, their timing and their clear future investment plans.

You have previously stated that you would not allow companies who might harm the stock market's reputation to be listed. What did you mean exactly?

"I made that statement to say that the market has rules and regulations, and I am keen for those rules and regulations to play their role. That role is to efficiently use the resources, help companies increase their capital, and allow the bourse to be a financing platform. However, the capital market must also protect investors [share buyers] such as these companies. I have to make sure that the companies being listed are serious. When we receive a list of the companies who are seeking to join the market, we



Mohamed Omeran, Chairman of the Egyptian Exchange

INFRASTRUCTURE, TELECOMMUNICATIONS, AND REAL ESTATE ALL SEEM PROMISING

send it to the Egyptian Financial Supervisory Authority (EFSA) to be checked. That is what I wanted to say.

So there have not been previous cases that led you to make such announcements?

"No, there were no previous cases. But it was important to highlight the system we are dealing with, which can result in delays in the listing of some companies due to those governance checks. If the listing committee is not sure through its checks, follow-ups from the paperwork and EFSA approval can result in delays or preventions of companies from entering the market.

We've been hearing about the desire of some companies to be delisted due to the harshness of the regulations. What do you think about that?

"The market has about 240 com-

panies listed that are still operating, so I believe that answers your question. Also, the decision to be delisted is the investors' decision and the general assemblies'.

During the first half of 2014, the capital of the listed companies increased by some 12% - what are the expectations for the second half?

"The new projects that will be undertaken in the country during the coming period will lead some companies to seek financing from the capital market. The economic activity will reflect the bourse's activity.

How do you feel the capitals gain tax affected the market so far?

"I think that it has been surpassed a long time ago. If you go back to the bourse's indexes before and after the capital gains tax, you'll see that they have currently reached their highest since July 2008. However,

generally speaking, no business likes to be taxed. It was applied as part of an economic policy made by the government and the fixation of the taxation system. Those hierarchical changes in the country's economic policies, investment plans, subsidies system and legislative introduction will have positive outcomes that will outweigh the announcement of the taxes.

Do you have any expectation of the capital market going back to pre-January 2011 rates such as 12,000 points?

"I never discuss the points expectation, and it's not something the bourse's chairman discusses. The important thing for the bourse's chairman is for the market to function properly. This function is to assist companies who seek financing to find it. The role is the mobilisation of resources and best capital allocation. This is why we focus more on the availability of liquidity more than the ascendance or descendance of the indexes.

What are the important files the stock market is working on improving at the moment?

"They all still relate to regulations and legislations. We seek to remove hindrance and improve work efficiency in managing the listing requests. These rules aren't fixed and require updates every once in a while. The previous changes we made were general revision for the old regulations. In a year, maybe, we can sit down again and make some revision to examine the changes that had a significant positive impact and what we need to review. I discussed with the EFSA president the possibility of having this evaluation for the newly introduced rules.

But at the moment there is nothing specific that the bourse is

working on?

"We seek to see the exchange traded funds (ETF) being traded. I believe that this is a product that will be available for the end of this year. We are currently finalising the process, the first time ETF will be listed in the market.

"There are also some changes that go unnoticed by the market but are believed to be very important such as the update of IT infrastructure and data centres.

"There is also the topic of introducing bonds into the stock market. We are still awaiting the final detailed rules on the possibility of having government bonds available for the public. We have made broad-line agreements and objectives. The Central Bank of Egypt has a lot of priorities at its work. Once we're done it will be announced.

"We have identified how the trading will happen and how it will be placed on the trading system. We even clarified how the trading will appear and be reported on screens. What we need right now is the availability of the product itself.

Are there any negotiations with the public business sector companies to be listed?

"Currently, no there is not.

Generally speaking, are there any details on the future of companies seeking to enter the market?

"Without a doubt, we expect 2015 to have new entries in the stock market. Some companies are conducting studies to join the market but are still unclear about the timing.

What sectors do you expect to make a strong presence?

"Infrastructure, telecommunications, and real estate all seem promising.

New IPOs to revive stock market: Analysts

In EGP Billion	Close	Open	change %
Total listed stocks Market Capital	477.641	426.810	11.9%
EGX 30 Market Capital	204.086	175.675	16.2%
EGX 70 Market Capital	126.517	130.512	-3.1%
EGX 100 Market Capital	330.603	306.187	8%
NILEX Market Capital	1.041	1.429	-27.2%

The total market capitalisation of the listed stocks culminated at EGP 478bn at the end of the first half of 2014, representing a 12% increase

By Sara Aggour

Following the changes in regulations and legislative laws of the Egyptian capital market, eyes have been on the Egyptian bourse to examine which sectors will seek to expand their capital by getting listed. Daily News Egypt talked to several experts to understand how initial public offerings (IPOs) can assist the stock market in recovering after more than three years of stagnation.

Head of Egyptian Finance Association Ayman Metwally said that, despite the emergence of strong purchasing power in the market after post-25 January Revolution downturn, companies maintain some reluctance due to the economic situation.

He explained that there are many state-owned enterprises and private companies that would receive overwhelming acceptance by investors if they decided to enter the stock market.

Member of the Egyptian Finance Association Mohamed Salah said that, following the removal of tax exemptions, several companies have exited the market. He added that, during the past five years, the market saw less than 20 new IPOs.

He added that companies such as MIDOR Petroleum Company, Egyptian Linear Alkyl Benzene (ELAB), and Misr Oil Processing and Fertilizers Company (MOPCO) have a good opportunity if they decide to enter the market.

He also said, after the annulment of the privatisation of Omar Effendi department store, the government can list part of its shares for trading, the optimal solution for the management of the resources needed to restructure and pay dues to the Kuwaiti investor.

Technical Analyst Islam Abdel Atty said that an important topic that needs addressing is the availability of regulations allowing newly established companies to offer their shares in the market. He stated that this will offer an alternative to banks, which are stricter at lending during this early period of businesses.

Abdel Atty said that IPOs of start-up companies will revive the market and attract new young investors.

Managing director of Amwal Financial Investment Company, Mohamed Gebriil, said the absence of IPOs has limited investors to specific shares, but that would change as new companies are introduced to the market.

Financial analyst Mohsen Adel said that new IPOs will send a positive message to Arab and foreign investors and assure that the market still retains the vitality and dynamism it once had.

Deputy CEO of HC Securities and Investments Mohamed Metwally stated however that operating in a specific sector has little to do with the desire to join the stock market.

"I don't think it is sector-oriented," Metwally said, adding that "it is investor-oriented" and is chosen by "companies that require an increase in capital".

Metwally said that the capital market is picked because of the "high lending rate".

The stock market expert said that currently the bourse is the only venue left for companies.

Metwally said that, in banks, the growth rate in lending is "decimal when it should be at least twice the growth rate of the gross domestic product".

"Growth rate is very small and doesn't even reflect the growth in economic activities," Metwally said on the banks' lending rates.

Discussing criteria allowing a company to have a successful IPO, Metwally said that it mainly depends on the company's "growth rate and profit margin".

Siemens participates at Energy session of Euromoney Egypt 2014 Financial Forum and addresses the energy challenges of Egypt

Siemens, the global powerhouse in electronics and electrical engineering operating in the energy, infrastructure, industry and healthcare, demonstrated today the importance of dialogue between the public and private sectors in Egypt through its participation in the Euromoney Egypt financial Forum held on September 16th and 17th under the slogan: "Stability, Investment and Growth". Siemens participation in the event stems from the company's belief that the private sector has to support the government in strengthening the local economy while also contributing to achieve a sustainable development for Egypt.

During the Energy session of Euromoney, Siemens CEO and Managing Director, Mohamed El Mahdi will present a comprehensive picture of the solutions that can create reliable, sustainable and highly-efficient energy system.

"The rapidly increasing domestic demand for energy is a major challenge for Egypt. More efficient power plants, greater utilization of natural

and renewable energy resources combined with a push for energy efficiency can help quench the thirst for energy and ensures sustainability, affordability and availability for consumers as well as for industrial and non-industrial sectors," says Mohamed El-Mahdi.

The Energy system is a key factor to achieve economic competitiveness and growth in all sectors in Egypt while lowering the burden on the national budget. With Siemens wealth of experience, manpower and our strong local presence, the company is well-positioned to help Egypt accommodate its growing demand for power.

"The energy situation calls for the proper energy mix and mid and long term approach. First of all, renewable energy sources must be available at competitive prices through supportive regulatory framework. The replacement of small and medium sized inefficient power plants with highly efficient combined cycle power plants can also be a vital quick win. A detailed grid stability study

will also be important to pin-point critical grid bottlenecks. In addition, management of energy demand and supply for domestic usage, industry, buildings and transportation must be introduced in an effective manner," El-Mahdi, concluded.

It's worth mentioning that Siemens presence at the Euromoney follows its participation in "Egypt, Road to Future" international economic forum which was held on September 7th, 2014 to discuss different ways to boost the Egyptian economy while also serves as a precursor for Egypt's International Economic Conference. Throughout the forum, Siemens provided a comprehensive vision for the development of local energy sector.

For over 114 years, Siemens in Egypt contributed in developing, manufacturing, designing, installing most of the vital systems and projects for Egypt in all fields. Siemens has always seen its customers as long term partners and provided them with the highest quality, innovative products, solutions and services.

Many public-private partnerships underway, but process cannot be rushed: Ater Hanoura

Head of Public Private Partnerships Central Unit speaks about developing private sector

By Ihab Aldobabby and Ahmed Farahat

Egypt's successive governments have each renewed a bet on private sector participation in developing services projects under the Public Private Partnership (PPP) system. However, steps to begin tendering the projects move slowly and challenges abound.

In the financial statement of the general budget for the 2014/2015 fiscal year, Finance Minister Hany Kadry said that he will focus on fiscal policy during the coming phase in order to re-prioritise public spending and achieve social justice. The process will involve moving growth rates forward through government investments and joint ventures between the public and private sectors under the umbrella of PPP partnerships.

Ater Hanoura, chairman of the Public Private Partnerships Central Unit at the Ministry of Finance, told Daily News Egypt. "We have 12 projects in education, health, ports, and transport sectors. The projects are in different stages; some have been studied, others prepared for tender, and others still under study."

Hanoura said that companies were prepared to bid for the Abo Rawash sewage station project. Amendments were introduced to the tender following directives issued by President Abdel Fattah el-Sisi.

The project includes designing, funding, and expanding the station's absorptive capacity of 1.2m cubic metres to 1.6m cubic metres daily, as well as the establishment of a second advanced treatment stage for the station. The project also provides for complete operations and maintenance for the plant, and is set to be implemented within four years.

Plant expansions were scheduled to be implemented and absorptive capacity expanded first, but the directives recently issued by el-Sisi stipulated that implementation take no more than two years and that the second treatment stage be completed first. The other stages of the project are to be implemented following these stipulations, according to Hanoura.

He added: "The amendments will increase investment costs for the plan, but they are beneficial overall. The amendments will limit pollution rates and unite us with alliances qualified to bid for the project, and have already been agreed upon."

He pointed to the agreement between the European Bank for Reconstruction and Development, the International Finance Corporation (IFC), the National Bank of Egypt, Banque Misr, and Commercial International Bank (CIB), saying that these institutions were the main financiers of the new amendments to the project. The investment cost will not be re-evaluated and the banks will offer a loan to the winning alliance during the first stage of project implementation. This loan will be available until the start of the second phase, which will involve increasing the plant's capacity.

According to previous estimates, the cost of investment in the Abu Rawash plant measured approximately EGP 2.5bn for 20 years, and the bid is scheduled to be awarded and the contract signed in February.

Four alliances are competing for the project, the first of which is led by Orascom Construction and includes France's Viola, Spain's Aqualia, and Egypt's Ay-Kat. The second

alliance is comprised of the UAE's Metito, Germany's Hochtief, and Turkey's PWT. They are competing with giants Kharafi National and Degremont, Kuwaiti and French respectively.

These companies are qualified to compete in the tender in February and obtained the necessary documents and requirements attached to the contract in March.

They are given a deadline of 45 days to study the bid requirements, but sometimes companies request a longer duration to prepare more studies and inquiries.

Hanoura pointed out that the timeline between the date that the project is tendered and the date on which bids are submitted ranges between five and seven months, including a six month period in which companies prepare bids.

In an attempt to refute criticisms that purport that the unit has been slow in carrying out its work, Hanoura pulled out ten volumes of the contract concluded by the Ministry of Higher Education and the University of Alexandria with a consortium of companies to finance implementation, operation, and maintenance of the Al-Mouwasat University Hospital and the Smouha Maternity Hospital and Blood Bank.

He added: "Companies submit their bids in boxes carried by pickup trucks, and we must read and examine all documents. The companies need periods of time to prepare bids and price services."

"If the unit or body offering the tender wants to delay awarding the bid, this decision must be well thought-out. In one of the tenders, the tender period was shortened to three months and the qualified companies requested more time to prepare the bids. However, the party offering the tender refused, which led to the companies withdrawing due to an insufficient duration of study," he said.

He explained that contracts for projects in which the private sector participates are different than equipment supply, construction, or service provision contracts, because the partnership contains all previous contracts, excluding the financial, design, and administrative aspects and maintenance plan. The contract period often lasts 20 years or more.

He added: "Each portion of the project will be priced separately, which will require an audit in order for the price of the service to be determined. This will entail that either the competitor wins the bid and incurs large costs that will impact them throughout the period of the contract, or they refuse the offer. In the second case, the company is surrounded by potential risks and conducts extra studies, and for this reason the period between offering the project and awarding the project is quite long."

He said that the High Committee for Participation agreed to offer three projects and conduct studies. These include a river bus project, a technological zone in Maadi, and a real estate automation project with a total investment cost of EGP 1.86bn. "We are looking to launch major projects with private sector participation in the coming period," Hanoura said.

The government is hoping to assign development for service projects to private investors in order to ease the burden on the public budget, which currently suffers



Government seeks to launch new projects with private sector participation

from a chronic shortfall that has been estimated at EGP 240bn for FY 2014/2015, equivalent to 10% of GDP.

He said that the river bus project will cost between EGP 500m-600m and aims to increase the river transport fleet as well as the number of workers and passengers by offering 50, 100, and 200-passenger buses. The new buses will help reduce waiting periods to 10 minutes at most, while also serving to increase speed from 12 to 25km per hour.

The project includes funding for design, development, operation, and maintenance of 16 existing marinas and the addition of approximately 12 new ones.

Hanoura said that the PPP Central Unit opened the bidding process in order to select a consultant for the river bus project, and 13 consultants of various nationalities applied. The winning consultant will be chosen within the month through an agreement with the European Bank for Reconstruction and Development to finance studies for the project, which will come into fruition after the tender is offered.

The second project that the Supreme Committee of the PPP Central Unit agreed upon involves automating real estate in order to jumpstart complete documentation services across the country in 270 new offices. The process will take place by engineering the development of documentation offices and existing main offices in all parts of Egypt, as well as renewing the connections between them. The project also provides for existing applications to be developed in order to host cloud computing and for some services to be provided to citizens through mobile phones, email, and hot lines.

Hanoura said that the project will require investments worth EGP 560m, and the PPP Central Unit is currently conducting negotiations with two bodies to fund feasibility studies for the project. Tender

procedures are set to begin next month.

Approval has been granted to offer the first phase of a technological zone project in Maadi for bidding at a cost of EGP 700m.

This project includes the construction of several buildings in the technological investment area in order to export communications services to meet growing local and global needs for communications and information technology services and communications centers. A growing need also exists to absorb expansions, develop services locally, and export them globally. The project will provide approximately 40,000 direct employment opportunities.

Hanoura said that projects involving private sector cooperation have succeeded in Egypt and form a point of interest in some Arab and African countries, who have borrowed a law regulating partnerships between the government and the private sector or large portions therein.

He also pointed out that the European Bank for Reconstruction and Development requested to acquire a share of Orascom/Aqualia, which conducted a project involving a wastewater treatment plant in New Cairo through an alliance between the two companies. The companies were awarded the project at the end of June 2009, and the value of the contract was EGP 2.646bn.

The goal of the project was to design, build, fund, operate, and manage a wastewater treatment plant with a capacity of 250,000 cubic meters daily to treat wastewater in New Cairo, Madinaty, and Mostaqbal. The duration of this project has been set at 18 years.

Hanoura said that an international financing organisation like the European Bank for Reconstruction and Development has requested to invest in a project with private sector participation. This is an indication of the success of these projects, he noted.

He added that the PPP Central Unit approved a request submitted by the bank and the company is still awaiting permission from the Urban Communities Authority, the body that offered the project for a tender.

Hanoura stated that a lack of studies represents the biggest challenge facing the projects involved, because the parties offering the tender often present the project as an idea only. After this, study is required of authorisations to implement the project through a partnership.

He added, "Sometimes, we bring together information on the projects from the street. This is a difficult matter; for example, studies for the river bus project were supposed to have been completed within 12 weeks. The studies took 10 months to finalise due to a lack of information available from the party offering the tender, which required that consultant contracts be amended so that they would also be assigned data collection."

Hanoura noted that Prime Minister Ibrahim Mehleb decided to establish a sub-unit for private sector partnerships in all ministries and authorities that can offer projects for a tender in partnership with the private sector. The Central Unit will be charged with training employees of the sub-units in other ministries.

He added that each sub-unit would include technical, legal, and financial personnel, and PPP Central Unit officials would train employees of these units on participation project studies.

He pointed out that a committee is being formed in the Cairo governorate to facilitate follow-up on implementation of the river bus project, along with with other committees at the ministries of Communications and Education.

Hanoura also said that high interest and inflation rates and currency fluctuations do not represent the biggest fears for companies applying to compete for partnership projects, since they study these indicators and take them into account during the bidding process.

"The companies are looking for political and economic stability to ensure that the projects will succeed. It is wrong to hold a tender and oblige companies to bid in unstable circumstances because the body offering the tender in this case will see two outcomes: either the companies will be reluctant to compete, or they will give high prices for financial offers."

Hanoura pointed out that a major project was offered for bidding previously by the Ministry of Water Resources and Irrigation to connect the waters of the Nile with 250,000 feddan (1 feddan = 4,200 metres) on the Cairo-Alexandria Desert Road. The goal was to reclaim the space after sanitising water wells in the area. The area itself is characterised by quality agricultural products, a large proportion of which are exported.

He said that a major project was scheduled to be offered for a tender in 2011 before the 25 January Revolution. Following the revolution, the water ministry conducted tender procedures. The Central Unit felt that the project should be postponed, but water officials

refused to delay the tender until after May 2011, the deadline for companies to submit bids, because the World Bank was charged with financing the studies and the financing contract would expire in July 2011.

Hanoura added: "The result was that two out of four companies withdrew, and the day on which bids were supposed to be offered, a third company withdrew. Those that remained submitted tender prices at more than three times more than what was previously estimated."

Hanoura said that England is most successful in public-private partnerships and currently boasts 1200 such projects, of which 750 have been fully implemented while the rest remain in various stages of construction or tendering.

He pointed out that these projects were carried out over nearly 35 years. During the first 10 years, four projects were implemented, and that number grew to 20 over the subsequent 5 years. Over the last 20 years, 700 public-private partnership projects have been implemented.

He stated that the sectors that find it most difficult to work under this model on a global level are education and health, as these fields require three years from the beginning of the tender through financial closure. England implements these projects over 12-15 months, of which 3 months are allocated to studies and the rest to the tender and award.

He continued: "If projects are underway in England that are similar to those in Egypt, and sectors with solid expertise are in existence like health, schools, and hospitals, they will require between 8-9 months from the start of the tender through the award. These are good rates, taking into account government bidding contracts that are have been worked on for a number of years."

He said that contracts for private sector participation projects in Egypt have set mechanisms to solve potential disputes. Partnership laws stipulates that it is permissible to use arbitration mechanisms to resolve disputes that arise from contracts after the Supreme Committee approves the measure. The Supreme Committee monitors the program, and all projects that are negotiated include a dispute resolution mechanism through arbitration. The High Council has the right to refuse or accept arbitration.

"The arbitration system stipulates that the headquarters for arbitration is located in the Cairo Regional Centre for Commercial Arbitration, and that Egyptian law is the main source for arbitration for projects implemented in Egypt."

He said that the presence of arbitration headquarters in Cairo does not mean that it is local arbitration, taking into account the fact that this is an international body and that its domestic location does not necessarily make it 'local.'

He stated that if a dispute arrives at arbitration, the UNCITRAL rules adopted by the United Nations will be followed, under which the UN prepared international trade law.

In conclusion, Hanoura said that arbitration is the final stage of solving a dispute, and in each stage of adjudication, the company may not abandon its contractual obligations. The same stipulation applies to the government as well.

European Reconstruction and Development Bank requests to acquire share of Orascom/Aqualia



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