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Tuesday 29 September 2009

Panel II

Public-Private Partnership (PPP): inaction or in action?

The panel was moderated by **Sui Chung** (SC), Deputy Publisher, Euromoney Magazine, with panelists: **Osama Saleh** (OS), Chairman, General Authority for Investment (GAFI); **Bastien Simeon** (BS), Global Head of Water, KPMG Corporate Finance; **Simon Monk** (SM), Managing Director, Instrata Capital BSC; **Sherif Oteifa** (SO), Adviser on Mortgage Finance, Ministry of Investment; **Nabil Rashdan** (NR), Deputy Minister of Finance; **Rania Zayed** (RZ), Adviser to the Minister of Finance, Director, PPP Central Unit. Below are excerpts from the session.

SC: We will be discussing the PPP program the Egyptian government has in place, and how it's progressing and evolving.

BS: There is definitely a very strong appetite from contractors and financial investors for PPP projects. In Egypt there is great interest in such programs since they are well managed and have followed successful models. We're working on several projects. The main challenge is the lack of financing.

SM: The Middle East has lots of PPP infrastructure opportunities. The Egyptian PPP programs are very high quality in terms of the teams put in place to handle them. They are also transparent and well structured compared when you consider the PPP programs in other emerging market in North Africa. If we compare the PPP program in the GCC, which I must admit is quite good, to that of Egypt then I think I can say Egypt is doing very well.

RZ: The Ministry of Finance started the PPP initiative 3 yrs ago. We worked with international multilateral advisers and high class advisors and out of this, were able to create a fair and transparent bidding process. We've had great success in closing the first deal in the New Cairo project, and we are currently tendering out other projects related to roads, hospitals in local universities, as well as 7 other projects that are in the pipelines. What are the stumbling blocks, asked Sui? The answer is the contracts. They are typically 20 year long contracts which explain the reluctance of local financial companies and banks to get involved, particularly since this type of contract tends to be at odds with their lending programs. The second challenge is the interest rate.

SO: The Ministry of Investment is working closely with the Ministry of Finance to promote PPP's. In the past couple of years we've identified 4 to 5 projects some of which were in Upper Egypt. We're interested in promoting areas such as agriculture and mining.

NR: The PPP program involves joint management, a concept that is still very new to Egypt. The main success of the program lies in the fact that the risk is shared by all shareholders. The partnership is mainly between the Ministry of Finance, other ministries, local companies and advertising agencies. This is a one stop shop model which in the case of the taxi project facilitated the procedures required to become a taxi driver.

RZ: The taxi project is not a conventional PPP program. The cooperation between the public and private sector creates the retail PPP sector of the industry and not the infrastructure sector of PPP. We have been issuing our bonds and have been trying to work with international multilateral specialists. We believe that the synergy between different government bodies will start to appear very soon.

OS: GAFI is the business enabler and promoter, with the primary role of "making business happen". We are cooperating with the Ministry of Finance and are currently working on expanding our scope of work. Previous and upcoming experience will enable us to continue promoting PPP. Just to clarify, a typical PPP would be investment zones; typically PPP's cover the industrial and service sectors.

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We currently have 52 national labor projects, and are working on packaging new projects, most of which will fall under the PPP industry. We need more involvement from the insurance companies and have amended the laws governing insurance companies interactions with PPP's to make it easier for them to get involved.

In terms of the infrastructure, Egypt is taking good steps. We have a transaction that started and one year from now we will have even more projects. I am expecting that the free zones will represent a good example of the cooperation between the government and the private sector and will help to create new investment opportunities in these areas as well. We are working on establishing new free zones, and the Ministry of Investment are encouraging the public sector to expand their range of portfolios and get involved in Egypt's markets in greater depth.

SM: The use of long term instruments such as long term bonds, effective communication and better capital markets will be very beneficial to Egypt.

BC: How much is Egypt losing out on because of the relatively low levels of long term financing? Well there loss is similar to the losses of other models that have already been applied in other countries in the Gulf.

Q & A

Floor: There are strong plans for the establishment of free zones taking place in numerous countries across the globe. What competitive advantage will the Egyptian free zone have?

OS: Offshore free zones are great facilitators of the export industry. What would make investors come here, are Egypt's central location, as well as the countries low labor wages. It is very important that we act quickly, in attracting investors, as we will definitely have some stiff competition, particularly from Dubai.

Floor: The microbus project, will it be happening soon? If so aren't we rushing? 35,000 taxis are already being replaced. What other incentives can the Ministry of Finance provide to attract more investors from the public sector?

NR: Regarding microbuses, we are definitely planning for this to be our next project, but for the time being we are not working on this. According to the new traffic law, all forms of passenger transportation which are 30 years or older will not have their licenses renewed. We are exempting taxi drivers from taxes, getting them good deal from car dealers, so they can replace their old cars, and giving them a 5,000 L.E. advance fee. 11,000 taxis were delivered to distributors and over 10,000 taxis have already been delivered to taxi drivers. Advertising companies are also paying taxi drivers 650 L.E a month to place ads on their taxi, so there are already some very good incentives on offer for those entering the new taxi programme.

Floor: Central bank regulations already represent an obstacle to the development of the PPP industry. Won't legal lending limitations hinder this development further?

NR: We are already in discussions with the Central Bank of Egypt's top management, but as I am sure you know, changing existing regulations is not an easy task.

Floor: How will you address the issue of collecting data and what systems do you have in place to tackle debt?

OS: The title registration process has been simplified. Before, you needed to have 179 stops in order to complete the procedural forms, which ended up meaning that the process took around 2 years to complete. Today, you only need 30-35 stops before your procedural forms can be completed and this usually works out at 180 days or 6 months. We are also working with financial insurance companies to cover debts until the required registration process is finalized.

Closing remark:

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SC: If you could remove one barrier in the PPP market, for the next 12 months, what would it be?

BC: The key challenge to the PPP market is local financing, but there is always a way around this.

RZ & OS: Lack of local financing.

NR: Taxes, I would definitely get rid of a few.

SO: Capacity building, administration and intellectual infrastructure, I believe these are hindering the development of the PPP sector.

SM: The barriers that prevent the PPP industry from opening up to the capital markets.