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Tuesday 30 September 2009

Panel VIII

Infrastructure, will they come before we can build it?

The panel was moderated by **Richard Ensor (RE)**, Managing Director, Euromoney Institutional Investor PLC with panelists: **Tim Armsby (TA)**, Partner, Trowers & Hamblins LLC; **Hisham Fouad (HF)**, Technical Adviser, General Authority for Roads, Bridges, and Land Transport (GARBLT); **Yasser El Kady (YE)**, Senior Assistant to the Minister of Investment, Ministry of Investment; **Robert Hambleton (RH)**, Chief Commercial Officer, Suez Canal Container Terminal; **Khaled Hegazy (KH)**, Corporate Affairs Director, Vodafone Egypt. Below are excerpts from the session.

**RE:** What are the government and the private sector doing for infrastructure? How much is spent on it, how it will be financed because the government has deficit, and what about the approval and legislation process?

**YE:** The infrastructure is a main pillar for economic growth. It has a ripple effect on socio-economic growth too. Spending on infrastructure includes 52strategic projects, worth LE137 billion. We are attracting investors to these projects.

**RE:** The transportation sector is very important, how much do you spend on it?

**HF:** We spend LE10 to 15 billion, but it doesn't meet the need. We need an extra LE20 to 25 billion. PPP is a big part of the ministry of transports objectives for a safer network. The PPP needs to be well studied. Minister of transport signed an MOU worth 10 billion for bankable studies.

**KH:** On the telecom sector, the ICT sector is very promising, growth has been phenomenal. The government is spending money on making the network ready for mobile operators to install their networks. Government is preparing the backbone. The growth on ICT sector has surpassed the economy by far. ICT sector represents 3.7% of GDP. The sector is still growing and pulling the economy with it.

**RE:** If you look at infrastructure in Egypt compared to the gulf?

**TA:** We have a huge population. Clearly there is insufficient finance for infrastructure; therefore they ask the private sector to contribute. If you compare it to the Gulf, yes there is a huge problem. However, compared to other cities like Mumbai, the situation there is much worst. There has been a lack of investment, however the government has acknowledged that and is seeking new investors for transport but also in other sectors such as health and education. This is exciting and opening new doors for investors.

**RE:** I work in the port industry. It's not just the ports that are in need of investment but also all the routes to and from the ports. The government is supporting the ports required for business and is going in the right direction.

**RE:** The private sector is scared.

**YE:** How can we secure the funds? Through a shift and a new approach to attract investors including: defining flagship projects, unifying projects so there is no need for approvals, and providing profiles with preliminary feasibility studies.

**RE:** What do you expect the private sector and international institutions to provide?

**YE:** The government will support the major part of the project and the rest will be financed by private investors.

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**RE:** There is a massive shortage of private investment. Is Egypt going the right way?

**TA:** In certain sectors Egypt has a good track record and has been successful in attracting investment. The challenge is to attract investments for new sectors. Egypt is trying to do that based on well-tested models to attract investors. We need to back up all models with all ministries.

**RE:** Are foreign investors interested in Egypt?

**RH:** Port investment has been successful but the economic crisis has made it less attractive. The justification has to be more solid than it used to be. We need to buck the trend in terms of attracting business. Ports don't work independently; it is part of the supply chain. That is the area that needs more concentration.

**RE:** Telecom sector, do you have any shortcomings?

**KH:** The barriers are we have call centers serving other countries. The government has built the Smart Village and to get the people to the Smart Village was a challenge. We need to fix the rest of the matrix.

**RE:** The spending on infrastructure has to be right.

**HF:** The majority of Egyptians use land transport. It needs to shift toward rail usage which has been underfunded for a long time. It is a huge challenge. There were strides in Nile transport. We have many tenders for river transport from the private sector:

**RE:** Other views on the balance of investment?

**KH:** People tend to invest in projects with higher yield. They like more lucrative fields.

**RH:** We have to stress that the railway system has some challenges. The tracks are there but they are not used, government invested in locomotives but they are not being used. If Egypt wants to import and export more, they have to use railways. It makes sense to put more investment into rails for transport from ports

**RE:** Why not spend already?

**HF:** Investment in transport is a target and a responsibility. The government is trying to provide a well designed transport system. We have responsibility to spend on transport to improve the system. Investment is important and we try to provide it. It is difficult to attract investment for transportation because they are not profitable.

**RE:** It is very difficult to attract investment in transport. How do you tackle this?

**YE:** Transport is a big issue. We have to realize that the government has put a lot of money to finance transport systems. Money went to modernize the railway in Egypt. On the other side, the 52 projects are a way to attract investments. Transport has to be integrated with other projects to be more attractive. We need preliminary feasibility studies to show that it is a win-win situation. There are innovative ideas that we have to introduce to attract investors.

**KH:** They have the stigma of not being profitable. If they are not, they would be shut down. In the outskirts of Egypt, millions of people are using land transport. If they used public transport, they should be profitable.

**Q&A:**

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**Floor:** There has been a lot of competition between companies for Nile harbors, how can you say that transport is not attractive?

**HF:** Transport is attractive with extra activities like fiber optics system. These incentives make it profitable. In the past there were no incentives, we are trying to come up with ideas to make it attractive.

**Floor:** Logistics are important especially for the future of Egypt in logistics. We need to transport goods efficiently. We are trying to compensate the transport of people. How do you de-couple the transport of people and goods?

**HF:** Regarding transportation of goods, we can't move to any kind of transport before improving the infrastructure first. As far as people, it is lagging and is not appropriate but if you check the papers today they talk about enhancing the transport within greater Cairo.

**Floor:** The transportation fares of people, will this make investment more valuable, be removing the cap for example?

**HF:** There have been some measures in the past to upgrade the current transportation system. However, not many of us will relinquish their car. We need flexibility of using our own of transportation and public transport. There are social and economic reasons that cannot allow the removal of the price cap.

**RE:** Does approval process work here?

**TA:** Process to get companies established needs improvement. Timing can be very inconsistent and unreliable; especially with military permits that have no clear mechanism. There is a high level of uncertainty. If approvals don't happen or are revoked, this has a negative impact on investors.

**RH:** From a port point of view, approvals take a long time. Approvals we are interested in are for establishing a distribution center to link business in Cairo with the outside world. We need work to improve the approval process. You must have a physical area of land that will not be hindered in the future.

**KH:** In the telecom sector we have a mix of approval cycles: regulators (structured), municipalities (red tape is in the way and slows down your investment), military and national security.

**RE:** Will decentralization help?

**YE:** It may reduce the time needed for approvals. With regards to the telecom sector, many people are satisfied. This means the approvals are ok. Cairo is difficult because of environmental issues. I agree about the approvals: we are not perfect. But there are improvements from GAFI. We are trying to facilitate things in cooperation with GAFI. We still need to work on this more to make sure that the approval process is better.

**Floor:** What will happen to maintenance?

**HF:** Maintenance has been lacking. It is the responsibility of the government. Budget to maintain roads and bridges has quadrupled. However, it takes time to show as we started 2 years ago. We try to maximize budget for maintenance.

**Floor:** There are several government entities working on infrastructure; however the information from promotion agencies has been lacking. There is not enough information for industry players. What steps have been taken to improve coordination and increase information available?

**OS:** We are building strong bridges with governorates. Decentralization will help provide more information within governorates. We are building a good network; this was successful in Cairo and will replicate it in other places. We are also focusing on co-coordinating with ministries so we can see into their plans and promote all projects in a consistent way and to raise finances for the 52 main projects. We see them as PPP which comes with a lot of equity. Government backed investments also offers security for investors.

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**Floor:** Provide us with some projects approved post-crisis and has there been a shift in priorities?

**YE:** The plans have not been shifted as they are all strategic. They are in different sectors: tourism, rail way, water, waste treatment, etc. We are still committed to these projects as they are critical to economic growth. The level of spending is the same. We will support all infrastructure projects. There has been a delay from the stimulus package coming forward.