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Panel V: **Infrastructure Investments**

Moderator: **Richard Banks (RB)**, Director, Middle East, Euromoney Conferences

Panelists: **Khaled El Shalakany (KS)**, Senior and Managing Partner, Shalakany Law Office, **Adil Marghub (AM)**, Manager, Infrastructure and Natural Resources, Middle East and North Africa, International Finance Corporation, **Paddy Padmanathan (PP)**, President and Chief Executive Officer, ACWA Power International, **Peter McCreanor (PM)**, Senior Vice President, ADCB Macquarie Corporate Finance, **Rania Galal Zayed (RGZ)**, Adviser to the Minister, Director, Public Private Partnership Central Unit, Ministry of Finance, Arab Republic of Egypt

Investment in infrastructure is now the flavor of the month – but will it be flavor of the decade? Infrastructure is for the long-term and it needs long-term partners, financiers and regulatory consistency. All of these things are in short supply in Egypt. The demand-side of the equation is clear and the passage of the PPP bill through the Shoura Council has signaled clear intent from the Government to mobilize this sector. But then, Egypt is not the only country that is doing this. We will discuss the possibilities and pitfalls with equity investors, debt financiers, project sponsors and government regulators.

RB: Rania, please give us a background of your unit and areas of responsibilities? How will this change in the future, after the law is passed?

RZ: EGP 2.6-2.7 billion for waste water treatment plant. We manage with the infrastructure programs.

The PPP law was approved by parliament in May and was enacted in July. We expect by early Nov. we will go ahead with implementation of the law. Between this year and next, the market will be heavily saturated by infrastructure projects including roads.

With the increasing inequality of utilities for the population, private sector is better than public at managing assets and the gaps in debts vs. assets. The gap in the public balance sheet moves us to try to close that gap by inviting private investment. Budget this year is EGP 38 billion for infrastructure projects. The involvement of the private sector mobilizes, create jobs and expands the overall the economy.

RB: What happened in the past to bring us up-to-date today?

PP: There is a lot of misunderstanding and mistrust in what the private sector can bring to the table. The law of contracts and transparency laws facilitates the inclusion of the private sector. Egypt stands out as unique, because in the 80s there were competitive IPP contracts and then the bonds were devalued and started to default. So, today, when Egypt comes to market with the old track record (success in original IPP) it was a well-rounded and transparent process that has now attracted investors to Egypt today.

RB: The law, contracts, relationships, require legal infrastructure that will support it. Do you feel the infrastructure, lawyers, law and courts are capable of receiving the level of activity that Rania is pointing to?

KS: There have been tremendous developments and advances. In the past it was difficult because we had to deal with all the ministries separately and their different systems. There were also high levels of mistrust in the private sector. It took a long time to educate the ministries on how things work in the private sector to bring them up to date. On the side of the government, I am impressed with the level of education that is happening inside the ministries. We are in an environment that is quite ahead of where we were 10-15 years ago.

RB: The IFC is a major partner with governments all over the world, Is Egypt exciting you? Are you positive and what do you see as the future?

AM: The PPP program is useful because it is a program. We need to implement multiple units.

RB: Rania, what is in the pipeline?

RZ: US\$ 7 billion for roads, metros on the west side. Also de-salinization, university facilities, and hospitals are all areas of interest.

RB: What sort of assets does your fund like and do you see them in Egypt? Are things in line with what you would like them to be?

PM: We look at MENA-based projects, the positive here is there is a pipeline of projects to roll out, assuming the projects are planned well and efficient then we have to work less hard. In MENA, Egypt has advantage, there's real push on procurement side

PP: I think it is important that transactions aren't deferred because private sector is capable of dropping and running at the first sign of problems. We are concerned that under the highest level of government there is a deep divide on how private sector is viewed.

RZ: Now management of change takes time and as long as there is national initiative and government backing, it can be done. Private investment has to be embraced.

KS: Egypt's private sector needs to step in. It can't be done alone by the government and foreign investors. Egyptian investors have to help.

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PP: The sustainability of PPPs and the delivery of public services will be determined by how we are going to collaborate and leverage the local capacity (labor, investment, supply chain). You come in and spend years building something and then you have to maintain and operate. Egypt is a very large economy that can support these activities. If we don't do that, all parties will suffer. The only way to sustain in the long-term is by users paying for the operation of the service and that takes time.

#### Q&A

1. Banks should be on the panel to represent their view on how PPPs are facilitated.

PM: The banks need to be confident in the governments to feel comfortable to invest. Hopefully, what's happening in Korea will happen here. Foreign capital is now being replaced by local capital and the hope is the local capital will create a secondary market and int'l capital can see its exit with good return and help in the development of local market.

PP: The banks are very liquid. There is money that should be used for financing projects. There are also places like insurance companies, there are many options out there for financing. With the right transactions, money is never going to be the constraint.

AM: The first PPP in West Cairo was done with local banks.

Q: I hate the copy and paste comparisons; we are not Saudi Arabia or Korea. It takes a long time to pay back the investments.

RZ: We spent years researching the capability of local banks and other things. And the Egyptian banks are not able to cover this EGP 50 billion but there are other options.

Q: The foreigners are the ones really benefitting, our concern is how will Egyptians benefit? Especially when it comes to long-term money? When 10% is actually Egyptian?

PP: It will be the differentiator in how Egyptian capital is mobilized and blended with international capital.

RZ: Actually it is hard for Egyptian banks to balance debts. You'd be surprised that people are evolving in the right direction.

PP: Long-term borrowing from Egyptian banks has its limits. There are also limits to the length of tenders. This is changing and they are growing to 25-30 years.

RZ: We are currently creating an institution for refinancing the debt of banks with the help of the World Bank.

KS: To answer the questions, in my opinion, all shareholders are benefitting. It's a win-win situation for all. Even if foreigners come out on top, so do those using the infrastructure for the next 30 years.

Q: What types of returns on equity are required to complete these PPPs?

PM: Look at the country risk and that determines the level of investment. The more we can encourage local investment, the more we find the risk decreases and thus the equity.

Q: Are the rates between that of bond rate and the stock market?

PP: They are higher than the bond rate but you can't compare them to the stock market, that's just a gambling game. The rate of return on the first project compared to the last one, is far higher. As the competition increases, the rates come down.

Q: After several successes, does a bond market develop?

PP: Yes, absolutely. Free market will play and will form quasi bond markets.

AM: The focus should be on the value to the consumer.

Q: When lots of projects going concurrently, is the Egyptian government looking at hedging on the short term?

RZ: Not currently. Especially not in the short term. We basically are making transactions that future generations have to pay, so we can't promise they will pay things that aren't realistic.