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Tuesday 28th September 2010

Workshop A - Sustainable Finance: The New Engine for Value Creation- AAIB

The workshop included the following panelists: **Hassan Abdalla** (HA), Chief Executive Officer, Arab African International Bank; **Giorgio Bodo** (GB), Chief Executive Officer, ASEC Cement; **Salah Hafez** (SH), Chief Executive Officer, National Petroleum Company and **Hany Tawfik** (HT), Chief Executive Officer, Arab Private Equity Association. Below are excerpts from the session.

HA: How can finance help in sustainable growth? Sustainable finance; how can we do it? How can we incorporate social responsibility?

GB: ASEC Cement is a new company started in 2006. We currently have a capacity to produce 4.5 million tons of cement and our aim is to reach 10 million tons. In order to achieve this we have to be competitive. Cement is a heavy industry; we have to be careful of the environment. We have to try and reuse as much as possible. If we have the best technology to reduce waste and sustain production and the environment, we'd have better relations with customers, governments, and the international community. If you don't comply with these regulations the company will be forced to close down at some point.

Having a business plan based on retail we focus on technology. We use the best equipment and have important stakes in existing companies so we have to handle existing factories. We decided to utilize simple technology. We are improving and monitoring the progress of our plants so that we can improve them. We devote a large amount of resources to protect the environment and non-renewable resources. Considering environment energy, and because of cheap fuel, we need to work on the consumption of energy, that's polluting the environment. One of our concerns is how to reduce CO2 emissions. On the other hand energy prices are increasing because of finite fuels. Another element is social. We have tried to implement best practices in all of our plants, creating a happy and safe working environment. We launched the zero hazard project and are investing in training people to ensure these protections. It is not easy to change a strong state of mind but we are dedicated to this change. In terms of social stability, we ensure there is no discrimination and we heavily invest in the human resources of our people. In Nigeria 95% of our work force are locals and in Sudan we are training the Sudanese and want to have as many Sudanese locals working in our plants as well. Workers have to read and sign a code of ethics and we have created a committee to verify the company, and employees abide by this code of conduct. We have to pursue renewable energy solutions it is in our interest to create sustainable policies.

SH: The principle of sustainable development was introduced in the book "Our Common Future" written by the Brooklyn Commission in 1983. The commission defined sustainable development as being able to meet the needs of today without compromising the needs of future generations and communities. At the time the issue of protecting the environment was considered local or regional, but there was a concern that it could become international. Today, the problem is international, the Ozone layer is depleting, there is climate change, international waters are polluted, deforestation is spreading, and mass extinction of animals and plants is taking place. The main cause of these problems has been climate change caused by CO2 emissions. Building the economy beyond traditional energy we need to focus on the financing of green collared jobs. Since 2004, green collar employment has almost doubled, reaching almost 2 million, but we still need more creativity and entrepreneurship. If we were implementing smart policies we would already be treating low carbon solutions as the smart way to do business.

CO2 emissions will rise by 50% by 2030 if no changes take place. Energy needs to be focused on development of the renewable energy sector, a sector, which is one of the fastest growing in the world. Low carbon goods and services from 2008 onwards were making more money than aeronautics industry. In 2008, the UK and USA started to focus on renewable energy too. Trends are encouraging but need scaling up. There are a number of third world countries, who are heavily investing in renewable energy. China, is one of them, India has launched a solar power project expected to create 20 thousand megawatts of power. In the Arab region, 2.6 billion dollars are invested in this sector, this is a progress but only a fraction of what we could be doing is we compare to the Asian investment of 22 billion dollars.

Last year Qatar invested 240,000 dollars in developing renewable energy programs and technology. Kuwait is developing solar energy plants which they hope will supply 5% of the country's electricity by the end of this year. Egypt is working on the development of a solar thermal plant. Tunisia is working to convert 10% of the total primary energy into renewable energy sources by 2011. Abu Dhabi is even going as far as to put forward plans for a zero carbon system which they want to implement nationwide.

Whilst 64 countries have some type of policies on renewable energy, only Algeria and Tunisia have adopted specific policies. The renewable energy offers huge potential for investors, a potential that has yet to be fulfilled. A consort of banks announced they will develop a massive energy generator in Africa. The generator is expected to provide more than 300,000 mega watts of energy. Is it enough to wait for the rest of the world? The low carbon economies will have a competitive advantage over other players, as the countries who utilized these new technologies first.

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HT: Building on what Hafez said, global investment has grown from 22 billion dollars to 155 billion dollars in 2008. This number means that investments in this field are greater than fossil fuel investments. However, there are many challenges impeding the private and public sectors from funding this market. Technological value is one of these problems. Investors prefer to finance traditional projects, like plants, because the technology is already there and this makes it a safe bet. The lack of infrastructure and legal entity also discourages investors. Lack of tax incentives for companies, institutions and individuals, worsens the problem as production facilities need money to be successful and implement change. The lack of policy stability in emerging markets is also a problem and this applies to Egypt. The legal structure of these countries makes their ability to amend laws and ensure legal reform difficult. Renewable projects require very long term investments so investors need to be sure of the political and policies environment they are investing in.

Countries need to prove they are stable. The recent financial crisis has added to the financing problem. There is an increased budget deficit, changes have become cheap, credit risk banks are not lending because credit risk has increased and they don't want to lend to new companies. Existing subsidies make traditional sources of power much more attractive than the relatively expensive renewable energy. The lack of mature stock markets which provide financing and safe exit market, are not present here, we also face problems with local currency and stability. If the local currency is weak you risk eating up all your profits if you look at it in real terms. Finally, we must think about credit worthiness when selling to consumers, where not all of whom are trustworthy. By the time you get money back; it has lost its worth because of the slow bureaucracy to push through legal action. What to do? We need to reverse the solutions and implement reforms including getting private financiers to be involved in this process. Have a tax rebate to encourage investors. Get the Central Bank to go back to what has been learned over the last 20 years and calculate the economic price of the project i.e. social and political cost and not just financial cost.