

# EGYPT

London Media 2017 Series

## CONFIDENCE RESTORED

ECONOMY

GROWTH

In November last year, the IMF approved a long-awaited \$12 billion loan to support the Egyptian government's comprehensive economic reform plan. With painful essential reforms completed, including the floatation of the Egyptian pound, continued implementation of the program is expected to push forward economic development, revive growth and produce lasting change.

“The program is by the Egyptian government, for the Egyptian people, and to help the Egyptian economy,” stated IMF Managing Director Christine Lagarde in November on the approval of the three-year loan which aims to revive Egypt's growth by implementing structural reforms and restoring stability and confidence in the economy through monetary and exchange rate policy reform. It could not have come sooner for the Egyptian government as it faced an urgent balance of payments problem, rising public debt, low growth and high unemployment, exacerbated by political instability and regional security concerns following the 2011 uprising which scared away tourists and foreign investors, the country's main sources of hard currency.

### Structural Reform

Key policy measures to reduce the public deficit include reduction of energy subsidies and tax reform, which the government kick-started in August with the introduction of VAT. In order to protect the poor, basic goods and services are exempt. Steps are being taken to strengthen the social safety net by ensuring that resources freed up from energy subsidies are reassigned to priority areas such as health, education and infrastructure. These, along with other reform measures, should allow the government to bring down the budget deficit and maximise efficient use of state funds whilst protecting the most vulnerable and containing socio-economic discontent.

The devaluation of the Egyptian pound and liberalisation of the exchange rate regime in November, a move welcomed by the business community, was a critical step toward restoring confidence in the economy. The move is expected to support export competitiveness and remove foreign investment and

import barriers. It has already started to bring fresh capital into the country and promises to end a hard currency shortage that has plagued the economy for years. According to Central Bank Governor Tarek Amer, foreign currency liquidity is recovering steadily in the banking system with recorded inflows of \$7.5bn-\$8bn since the devaluation. He has also reassured investors that they will soon easily be able to repatriate profits and capital through the CBE repatriation mechanism.

### Investment

The draft investment and bankruptcy laws now working their way through the House of Representatives will go some way to improving the ease of doing business, and reforms such as streamlining industrial licensing and facilitating access to finance for SMEs should boost job creation. Ongoing investment in infrastructure including ports and electricity, and major projects, such as the Suez Canal Economic Zone, the national roads network, and the New Administrative Capital will help Egypt promote itself as a globally attractive business destination. The program to list leading state-owned companies on the Egyptian Exchange will also take a significant step forward this year with a number of companies already earmarked.

“Egypt is a country with immense potential,” the IMF stated in its November report, “It has a large market, a dynamic and young population, a favourable geographic location, and access to important foreign markets. The opening of the parallel Suez Canal, large investments in the energy sector, and the discovery of a major gas field also bode well for Egypt's growth potential. With sound implementation of the program, growth could rebound to 6% by 2021, similar to 2005-2010 levels”. ■

# INVESTMENT

## HE DALIA KHORSHID MINISTER OF INVESTMENT

# Q&A

### What effect do you expect the IMF loan to have on investor confidence?

On November 11 2016, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility for Egypt for an amount equivalent to SDR 8.597 billion (US\$ 12 billion) to support the Government of Egypt's economic reform program, a home-grown program endorsed by the Parliament in March 2016. At its heart are the creation of inclusive, robust growth and jobs and the restoration of macroeconomic stability through a comprehensive set of fiscal, monetary, structural and social reforms.

The approval of the IMF extended loan facility is regarded as an international recognition of the Egyptian Government's economic reform program and will undoubtedly help bolster investor confidence.

### Please comment on the currency floatation?

On November 3 2016, the Central Bank of Egypt took the unprecedented decision of liberalising the foreign exchange system to rectify the country's monetary policy with the aim of restoring confidence in the Egyptian economy and stabilising the country's monetary system to achieve price stability over the medium term. This will help resolve one of the biggest impediments to investment growth and adjust the incentive system towards promoting exports and enhancing the competitiveness of Egyptian products, ultimately leading to an improvement in Egypt's trade balance and re-directing foreign currencies into legitimate channels.

### What is Egypt doing to improve its World Bank Ease-of-Doing-Business ranking?

The Ease-of-Doing-Business is undoubtedly one of the areas that required prioritising and attention from the Government of Egypt. With the new Cabinet in place, and a mandate to enhance and improve the investment

climate in Egypt, it was essential to analyse each criteria separately and work on prioritising areas that required the most improvement and enhancement.

Key reforms on Establishing a Business include implementation of an online system for many procedures of company incorporations, fee payments, obtaining certificates and merging of procedures to create a one-stop-shop process for documentation submissions. These are complemented by reforms under the categories of Getting Electricity, Protecting Minority Investors and Getting Credit.

Reforms in the area of taxation mean the electronic payment of taxes is now obligatory, statutory income tax rate has been reduced to 22.5% from 25.0% and the number of documents required for submitting a tax file has been reduced.

The Ministry of Investment is currently working on enhancing several other areas and criteria by automating the Establishing a Business process; automating Judicial Procedures; issuance of a Bankruptcy Law, issuance of a Mediation Law, and executive regulations for the Collateral Registry Law and Establishment of the Registry.

### What about the upcoming business listings in the stock market?

The Ministry of Investment has launched the IPO Program, through which the Government of Egypt will sell minority stakes in State Owned Enterprises through the Egypt Stock Exchange and/or dual listings. This is a 3-5 year program and is expected to widen the ownership base; improve the stock market liquidity and depth; attract local and foreign investors; enhance transparency and corporate governance; introduce new



HE Dalia Khorshid

sectors in the stock market and diversify the State's sources of funds.

The Ministry of Investment has already worked with its advisors on analysing the different sectors and companies. The sectors include: Oil & Gas, Petrochemicals, Building Materials, Electricity, Agriculture, Real Estate Development and Banks. Due to its nature, the banking sector and the upcoming related IPOs are being handled and supervised directly by the Central Bank of Egypt, yet under the IPO Program. Currently, there has been a decision to move forward with the Oil & Gas sector and a shortlist of companies has already been approved. The shortlisting was a result of a consensus by a number of local, regional and international investment banks. The Ministry of Investment and its advisors are working on mandating the Investment Banks that will lead the IPO of the approved assets. It is expected that the first IPO will take place during Q1 2017. ■

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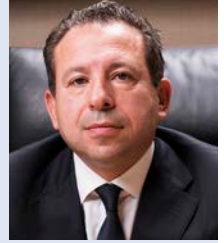
# OPINION

The new investment law will complement the structural reform program to enhance Egypt's economic competitiveness on a global scale.



*Hassan Abdalla, CEO & Vice Chairman  
Arab African International Bank (AAIB)*

Egypt has a potential 90 million consumers, cheap infrastructure, it could be extremely competitive. It has huge potential.



*Osama Bishai, CEO  
Orascom Construction*

The floatation is an excellent, overdue step and thank God we took it. We must all help to make it a success.



*Naguib Sawiris, Chairman  
OTMT*

Egypt's historic move to float its currency will help it achieve critical economic reforms and put the country back on the map for foreign investment.



*Hisham Ezz Al-Arab, Chairman & MD  
Commercial International Bank (CIB)*

CORPORATE COMPETENCIES

STRONG EQUITY

DOLLAR BASED EQUITY

REGIONAL PRESENCE

since 1964

SOLID SHARE-HOLDERS

DISTINCTION carved in HISTORY...

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Confidence.. Distinction

# BANKING

HASSAN ABDALLA, CEO & VICE CHAIRMAN  
AAIB

## What are the main challenges facing the Egyptian banking sector today?

We are part of the global banking scene. Financial institutions worldwide are facing many challenges, yet I am confident of the resilience of the Egyptian banking sector. It withstood the 2008 financial crisis and the two subsequent revolutions. The sector is a highly competitive one, both the private and public sector banks are able to speak the language of international investors and to see and assess projects in a prudent financial manner.

The challenges we are facing are similar to those facing banks worldwide. We all have to adjust and revise our business models in a very challenging macroeconomic landscape. Topping the list is facing evolving international regulatory and compliance requirements including new risk management techniques and capital adequacy requirements in addition to tighter banking supervision. Compliance costs, data reporting and essential IT infrastructure are becoming additional costly mandates. Basel III will add further capital and supervision requirements that will put pressure on profitability and trigger the risk-return tradeoffs, bringing into question whether banking will remain a profitable industry. It also faces threats from non-traditional players which are building momentum like fintech, crowdfunding, and retail financial services that are handling payments, lending and investments.

The key challenge for Egyptian banks will be adapting to a very fluid and dynamic socio-economic landscape. Egypt offers a huge diversified economy, deep market and a population of 90 million. This creates challenges as much as it creates opportunities. It all depends on your ability and agility to develop your business models to leverage opportunities. With 60% of the population below the age of 30, banks should be shifting their traditional operations towards microfinance, entrepreneurship funding and SMEs. Financial inclusion has

become a nation-wide mandate endorsed by the Central Bank and it provides rising growth potential. Funding clean energy and energy efficiency is another new track that is becoming very relevant to the Egyptian context.

It is no longer business as usual. Banks cannot sustain their profitability unless they undergo a fundamental revision of how they do business, revising policies, systems, structures, including developing HR skills. Despite this, the Egyptian banking sector is in a fairly good position; it managed to maintain its growth despite all sorts of challenges. The sector also managed to stay relatively intact over governance and compliance issues, especially when compared to the global scene where big banks are exposed to heavy fines.

## How important to Egypt's economic recovery is the IMF loan?

IMF loans are a golden stamp of creditworthiness. It means that fundamentals are in place pending restructuring of the economy. The overall aim is to restore Egypt's macroeconomic stability and growth rates. We are on track. The government has completed the three toughest parts of its economic reform program. Elements of the classic IMF program are the currency devaluation, reduced public spending, and raising new revenue to reduce the budget deficit. The announced structural reforms should aim to transform Egypt's economy into a market-driven, private sector-led, competitive enterprise capable of generating high rates of inclusive and sustainable growth. Outlook on banks' ratings are revised to 'stable', S&P for instance, affirmed the rating for three large banks B-/C short and long-term credit rating and have revised the outlook on long-term ratings from 'negative' to 'stable'. We are still aware of the challenges. The new investment law will complement the structural reform program to enhance Egypt's economic competitiveness on a global scale.

# Q&A



Hassan Abdalla

## What opportunities would you highlight?

Egypt is currently showing promising growth rates when compared to other emerging markets. It is a resilient economy that has withstood and overcome internal and external shocks and investments in Egypt tend to provide relatively high return compared to risk.

Continuing with the structural reform program, Egypt is expected to witness an uptick in growth over the medium term due to inherent advantages in the economy, namely a large population, deep market and a highly diversified economy. Currently, sectors with high growth potential include food & beverage, construction, hydrocarbon, energy including clean energy and energy efficiency projects. Along with

*The Egyptian banking sector is in a fairly good position; it managed to maintain its growth despite all sorts of challenges.*

megaprojects that offer substantial investment opportunities including the New Suez Canal Economic Zone, a well-integrated investment and industrial hub highly privileged for its central location and logistical facilities. The New Capital of Egypt is another megaproject offering diversified investment opportunities. Investing in the equity market is quite lucrative; Egypt's stock market recorded exceptionally high performance in January 2017. There are numerous untapped opportunities that are lucrative especially over the medium term. It takes a special investor with a sharp sense of risk-return tradeoff to identify these opportunities.

#### How has the bank performed in 2016?

A major feature of AAIB is its ability to face challenges and solicit opportunities; constantly developing optimum strategies to deal with change. We have talented personnel, who know how to eye opportunity, develop customised solutions in record turnaround time and deliver, while abiding by governance and compliance standards. During the first six months of 2016, the bank achieved net profit of EGP 1.1 billion indicating a growth rate of 41% despite the challenges facing the banking sector.

We have maintained well our traditional business in terms of investment banking and corporate finance activities locally and regionally through our presence in the Gulf. We were awarded Best Investment Bank in Egypt for 2016 from Global Banking and Finance Review. Together with the consistent growth of our comprehensive financial services offering; mortgage finance, leasing, asset management and brokerage, we remain one of the strongest investment and corporate banks within Egypt - able to offer both investment banking to our big corporate clients, as well as traditional banking, which we have been doing for years.

A major development is the expansion of our retail branch network to achieve financial inclusion. Retail business has huge potential in Egypt and AAIB is focusing on growing its branch network to reach the unbanked, with 30 branches established recently in remote governorates. We are also committed to better serving our differently-abled clients, who unfortunately have been long marginalised, by equipping selected branches with ramps and special service areas.



We are increasingly focusing on clean energy, mainly solar. In 2016, the IFC extended a \$100m loan to AAIB to scale up our lending operations to SMEs and clean energy funding, extending credit lines to support energy efficiency, helping businesses to make capital investments to renovate existing operations to reduce energy costs.

We are also investing in training emerging talent from the corporate and retail lines to build a strong knowledge base in SME and clean energy funding through a joint training program with Frankfurt School of Finance & Management. We established MOSTADAM, a platform to promote sustainable finance in Egypt and the region through capacity building, advocacy and advancing sustainable products and services. The industry needs a new mindset to sustain its growth.

The bank is about to launch a standalone microfinance company called Sandah. Our challenge is to move from the big-ticket items, which is a challenge for most banks in Egypt. We need to focus on doing that effectively and swiftly, constantly developing to meet the challenges of the dynamic socio-economic landscape.

#### How would you define AAIB's corporate culture?

We have a distinguished corporate culture developed over half a century of banking. Whilst we have a deep-rooted tradition of corporate banking, our dynamism and agility has succeeded in setting industry trends with innovative initiatives. Our culture is defined by its

resilience and capacity to meet challenges only to come out stronger with another round of growth. As early as 2006, we had a proprietary understanding of growth that went beyond just numbers. We coined "Value Creation to all Stakeholders" as a mantra guiding our decisions. AAIB's culture is pinned on a cohesive and professional workforce with a deep sense of belonging to the organisation. Our values: empowerment, customer satisfaction, patriotism and dynamism, help cement this culture and give AAIB its defining character.

#### Scope for developing Egyptian-British relations?

The relation is a long-standing and historic one. The UK is the largest investor in Egypt with direct investments exceeding \$20 billion. The foreign trade volume between the two countries was over \$2 billion in 2015. We are both are facing economic challenges within the coming five years: the UK exiting the EU; and the economic reform program in Egypt. The UK needs to establish bilateral trade and investment agreements to secure its trade position, and Egypt needs to increase FDI and exports. Based on UK investors' understanding of Egypt's economic environment and their experience in the country, there are opportunities in several fields: renewable energy, healthcare, construction, infrastructure, technology transfer. Finally, the UK can benefit from Egypt as an industrial base in the Suez Canal Zone to expand its exports to Africa and the EU. ■



## NAGUIB SAWIRIS, CHAIRMAN OTMT

# Q&A

Egyptian telecom billionaire Naguib Sawiris discusses the IMF loan, tackling bureaucracy and his ambitions within the financial services sector.

### How do you view the IMF loan deal?

I think it is going to have a very positive effect because what the IMF achieves with such deals is discipline. Governments have to adhere to the reforms they have committed to. In the absence of an IMF agreement, they have a free hand and push problems into the future; but the future inevitably arrives one day and you are confronted with realities. In my opinion this agreement is the best news for Egypt. It's not just a short-term headache pill to avoid collapse. The IMF helps to build a robust economy which is sustainable going forward. We actually had no choice other than to accept it but I am pleased that the government had the courage to go and sign it amid public and media criticism. You cannot shy away from tough decisions if you are to succeed.

### And the currency liberalisation?

The floatation is an excellent, overdue step and thank God we took it. We must all help to make it a success. I believe it should have happened months ago as the delay was counterproductive for production and GDP growth. The price of the dollar is not important; what is important is the availability of the dollar. Now the pound is lower, importation is more expensive but Egypt becomes attractive - tourists will return and our exports will become more competitive. Hopefully investment decisions, which were on hold as investors waited for the true market rate, will now start to be realised.

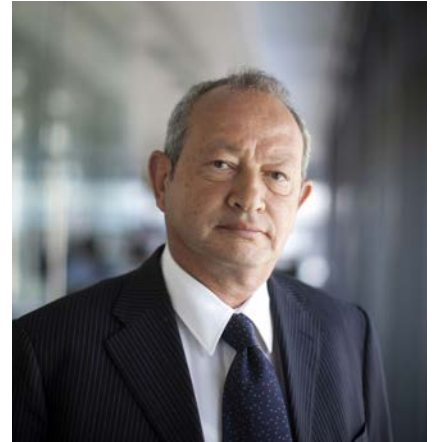
### What about the risk of social unrest in reaction to reforms?

Social unrest can be avoided by identifying the basic needs of the most vulnerable and seeing how you can offset them. Bread, for example, is subsidised, and beans (foul) are local

so aren't affected by price hikes. It has to be a structured approach. Raising petrol prices will not affect the poorest in society as they don't own cars and a higher tax could be introduced on larger cars for example. The best mechanism to subsidise though is via cash from a subsidy budget, not interference in the market. The current policy of controlling wheat and sugar should be revised. It appears to be a temporary solution but has damaging consequences. A market economy means you don't challenge the market. Nobody has ever managed to challenge the market. Not in currency, not in the price of goods, nothing.

### Is the government doing enough to encourage investment?

The government has many problems to deal with but I believe bureaucracy is the major obstacle to investment as it cripples business. We need to change our laws to protect civil servants who are currently held personally legally responsible for the outcome of their decisions. Eliminating this fear of making the wrong decision would reduce bureaucracy considerably. Regulations and taxes also need to be simplified. Tackling bureaucracy and the bureaucratic mind-set is essential to making Egypt more attractive to investors.



Naguib Sawiris

**OTMT bought Beltone in 2015 and last year attempted to acquire CI Capital, a deal which was blocked by regulators. What is your ultimate objective within the financial services sector?**

To form the largest financial advisory investment firm in Egypt. Currently the only large player is EFG Hermes. I have not given up on acquiring CI Capital. I am fighting for this transaction to go through because it makes no sense to block such a deal. I actually then bought Auerbach Grayson, the New York-based brokerage firm with a global network which specialises in emerging and frontier markets. I'm an entrepreneur and those with an entrepreneurial mind-set cannot be stopped by bureaucracy. ■

*Hopefully investment decisions, which were on hold as investors waited for the true market rate, will now start to be realised.*

# INFRASTRUCTURE

OSAMA BISHAI, CEO

## ORASCOM CONSTRUCTION

Orascom Construction is playing a central role in the development of Egypt's infrastructure with involvement in power generation projects and major transport developments such as the Cairo Metro. CEO Osama Bishai discusses the company's current activities in Egypt and some of the major challenges facing the country.

### Could you comment on performance for 2016?

These are challenging times regionally and indeed globally, so we are conservative on how we approach our results but we are happy thus far. Firstly, we have a record backlog which allows us to only book work that is up to our standards as far as quality of clients, the financing, the funding, the terms and conditions. Secondly, most of our backlog, particularly in Egypt, is in foreign currency positions which gave us a natural hedge against the expected devaluation. We're very much focused on improving operations and improving efficiencies because that's the only way to protect ourselves in these challenging times. We're giving the same guidance for the next couple of quarters, although in construction there are always surprises.

### Last time we spoke, you had just completed Phase 1 of the Assiut Power Plant in world record time. Which current projects would you like to highlight?

We were very happy with that achievement because it was a key factor in us being awarded more power business. We are building, as we speak, 10,000MW of capacity in four projects between partnerships with Siemens and GE. They will be completed over the next 14-18 months in different phases so we're heavily involved, and pursuing other opportunities, in the power sector. We're also very much involved with the transport sector: we have 30-40% share in all the new roads under construction and are part of the joint venture that was successfully awarded for two portions of the Cairo Metro (4A/4B and Phase 3 of Line 3). We have added to our backlog between \$500m - \$800m of work with the

National Authority for Tunnels (NAT) part of the joint venture with Vinci, Bouygues and Arab Contractors. It's an important program that has continuity and repeat business. Line 4 will be funded by the Japanese and we're shortlisted. There have been discussions on potential Line 5 and 6 and it gives us good visibility to be able to carry out similar work in the region. I believe transport and power are key for Egypt right now. We've been awarded the receiving jetty for LNG vessels in Egypt so infrastructure is an ongoing exercise for us. I also believe that Ports will become another focus area in the next few months because if Egypt wants to grow, our current ports need an upgrade, either in Alexandria or in Port Said or in Suez. We are currently working with military forces in Port Said to make some improvements to the port there but I expect we will see major port improvements coming in the next year or two.

### How would you assess the pace of economic reform?

Reforms are always a tough subject in Egypt because of the legacy of successive governments shouldering a lot of responsibilities. It's been difficult for governments to pass these responsibilities back to the population but this is a tough medicine that Egypt has to swallow. They started on electricity and, when negotiations started with the IMF, there was another increase. I think this has to happen because the investment Egypt has made in the power sector, and the quality of service they are now providing, should be reflected in the cost to the consumer. I believe Egypt has to focus on making power available for industry and services. Egypt took a lot of liability to improve the

# Q&A



Osama Bishai

power sector and power generation in the last two years and it will not pay for itself. Another issue is fuel cost, although today it is quite low, the devaluation of the currency means it remains a challenge.

### How can Egypt win back investor confidence?

The most important thing the government has to do today is make it crystal clear that Egypt is open for business and welcome private investors. They have to promote aggressively public private partnerships, concessions, floatations, IPOs. It has to be aggressive so investors see there are 10 - 20 multiple opportunities every month. Once investors see that today they can invest in a bank, tomorrow in a road, next week water treatment, a week later a power plant, and that the investor who comes with the best offer will profit, then they will focus on Egypt. We feel strongly about Egypt. It's our backyard and we've been working here for over 50 years.

*I believe transport and power are key for Egypt right now.*

Egypt has a potential 90 million consumers, cheap infrastructure, it could be extremely competitive. It has huge potential.

**Orascom Construction's future growth. How much of your backlog is in Egypt?**

Egypt now represents somewhere between 35-40% of our backlog. From a diversification point of view, it would preferably be lower, simply in terms of risk management. From a growth point of view we're very much focused on the US. We have a platform of two US subsidiaries that are a good axis to the US market. One is strictly working for the US government and the other is working for third party clients. We are focusing on strengthening and growing those entities, not only from a volume point of view but to improve their bottom line. We haven't changed our strategy in the Middle East: Egypt, Algeria, Saudi and Iraq - young populous countries, representing over 50% of the Arab population. We are patient. We're containing our risk in Saudi and have a long-term view like we had on Algeria. I personally feel that Africa is another

market we should focus on. It has its own challenges as far as the timing and funding but I think potential growth is higher than anywhere in the world. High growth, high population, I see a lot of potential for funding. We are talking to institutions willing to support projects in Africa but we have to study it on a case by case basis.

**What opportunities do you see for developing Egyptian-UK trade and investment?**

I see a lot of opportunities if the UK will act independently. In the past 2-3 years there's been much French, Italian and German export credit support to Egypt. It's been one of the key factors in some of the big projects we've seen. Siemens got Hermes (the German Export Credit Agency) coverage to finance their two power plants. We, as an Egyptian company, got the Italian export credit agency SACE to support our scope with Siemens to buy Italian products. I think the UK has to revisit some of the rules of their OECD guidelines to mirror those of SACE, COFACE (the French export credit

guarantee department) and Hermes to allow the support for UK services and products to kick start projects in Egypt. This will be good for Egypt because it needs infrastructure development; and it will be good for the UK indirectly as it will help SMEs sell British products to the Middle East. I think it should also be open to Egyptian contractors because UK contractors are not very active in Egypt. There are so many products and services that Egypt could use for all kinds of infrastructure e.g. water treatment and facilities, services, technical advising, etc. but Egypt requires a lot of financial engineering to help projects start. The French are supporting the metro project and supported a lot of the Egyptian military purchase requirements last year. The Germans supported €8bn of business through Siemens. Orascom, through SACE, supported \$800m worth of Italian goods so Europe has been extremely active through that vehicle and we haven't seen the UK in the picture at all. So yes, there's a lot of potential for the UK to get involved in Egypt. ■

6<sup>th</sup> October Power Plant, Egypt

**ORASCOM**  
CONSTRUCTION

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Orascom Construction is a leading global engineering and construction contractor primarily focused on infrastructure, industrial and high-end commercial projects in the Middle East, North Africa, the United States, and the Pacific Rim for public and private clients.

We take pride in our shared achievements on every project and welcome the contribution our success makes towards social and economic progress.

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Assiut Power Plant, Egypt

New Cairo Waste Water Treatment Plant, Egypt