

Egypt after the new Suez Canal

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The financing of mega projects, in a country that has suffered economic hardship in the past few years, is a challenging objective. Surprisingly to many critics, who were skeptical at the time, Egypt has successfully sourced funding for the first part of the development project (expansion of the Canal) by resorting to the local market. A reported \$8.5 billion has been secured within eight days. Investments came directly from the Egyptian market and both retail and institutional investors participated. The financing structure used was fairly simple, yet had attractive returns. Five-year investment certificates with a 12% interest rate, paying quarterly dividends (first distribution received by investors) came in 10, 100 and 1,000 Egyptian pound (\$1.40-\$140) denominations sold by local banks to investors.

An important question will be whether Egypt can expect to rely on similar funding structures for the remainder of its major projects announced during the Egyptian Economic Development Conference held in Sharm El- Sheikh during March 2015.

The answer is a simple no, in our view. The Egyptian government is well aware of this and has indicated the types of financial structures it is considering.

The five-year macroeconomic strategy and the draft budget summary of Egypt announced by the Egyptian government highlighted promoting investment and public private partnerships (PPPs) as one of the key structures for financing upcoming projects. In addition, continued debt instruments and taxation and revenue reforms would permit the government to continue spending to facilitate, but not undertake, numerous projects in the pipeline. On the PPP side, the Egyptian government announced a potential pipeline of up to an estimated E£28 billion in the coming two years. These projects will be adopted using structures available under the Egyptian PPP Law issued in 2010. The government has also announced that it will continue to manage standard project finance related investor concerns, through a series of measures, including providing sovereign guarantees as reasonably required. With participation of foreign investors, including international financial institutions, such pipeline projects can be realised and will be an important step in the right direction.

Despite Egypt's overall debt position, the government must continue to spend strategically in specific social sectors to facilitate the completion of infrastructure projects. Conventional debt instruments, and the associated legal structures alone are no longer sustainable options.

The financing of Egypt's aggressive projects' pipeline will require a lot more involvement at the private sector level both locally, and by securing more foreign investment.

With the legislative reform agenda having been launched, including the so-called Unified Investment Law provisions (Law 17 of 2015), a pool of financing structures will need to be considered on both the debt and equity sides. These will include Islamic finance options, structured finance and hybrid debt and equity finance options.

Our recommendation would be to focus more on equity finance options, whether in PPP-structured projects or even in projects not structured under the umbrella of conventional PPPs. Consideration can be given to launching greenfield initial public offerings for some of the projects announced not only strictly covered under the PPP Law which requires multi-structure components. Public, retail and institutional investors, could be attracted as partners in some upcoming projects rather than merely becoming creditors. All this

remains a form of PPP, but can also be offered to the wider public rather than the investment certificated used to fund the Suez Canal project. This would encourage investors to seek long-term profit sharing for such important projects.

Resorting to convertible bonds could also be supportive in ultimately providing equity financing structures, once conversion is practised.

By all means, debt will continue to be an intrinsic component for financing Egypt's future projects. However, introducing new diversified options is a pressing requirement that is recognised by the government.

Experiences from foreign partners in terms of legal finance structures will also play a part in informing Egypt's evolving funding needs. Dubai's achievements in developing successful legal structures for finance options is a clear example. Advisors will therefore need to look beyond conventional finance structures and build on experiences adopted throughout the region.

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