

Market Watch Report

**INFRASTRUCTURE PROGRESS
IN EGYPT**



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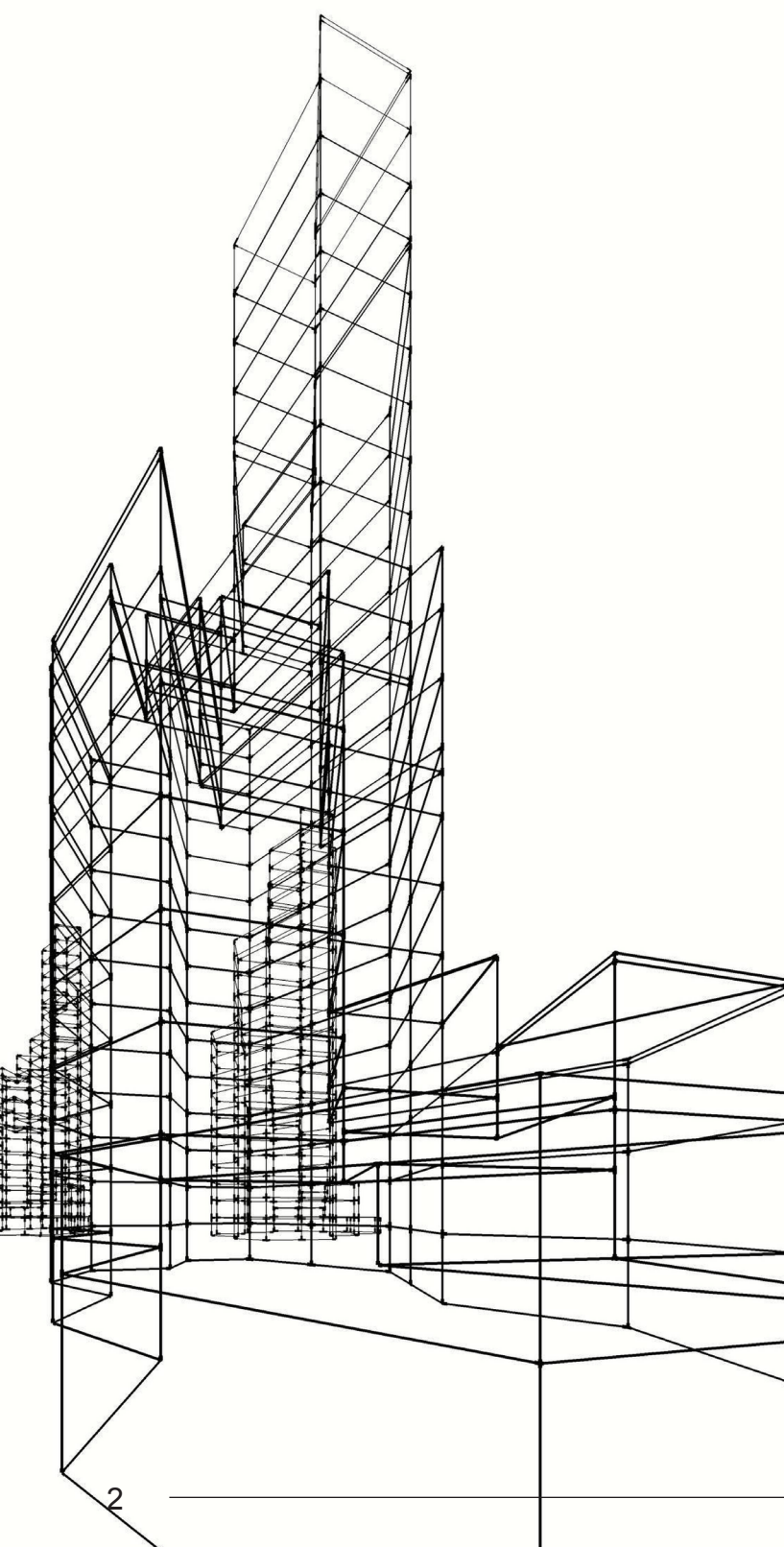


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Sewage Project Tenders to be Offered to Developers

The Housing Ministry will be offering tenders to developers next January in efforts to implement sewage projects in village of Al Rahawy in Giza, which is financed by the Kuwait Fund at a cost of KWD 45 mn, reported Al Borsa. The project will be implemented within two years of being offered, and is expected to serve 600,000 citizens.

Housing Minister Meets with World Bank Delegation

Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly met with an evaluation delegation from the World Bank to discuss projects that are set to be undertaken in the drinking water and sewage sectors. The delegation is also expected to evaluate works within 10 days, as it will be meeting with the ministry and several parties involved in the execution of the water projects.

Housing Ministry Delivers 3,547 Units in Gharbeya

A total of 3,547 social housing units have been delivered to citizens in Gharbeya after the signing of contracts, according to Minister of Housing, Utilities, and Urban Communities Mostafa Madbouly. Madbouly also confirmed that approximately 1,500 water projects are underway, including a water treatment plant, drinking water stations, and sewage projects that are expected to be finalized within the next two years, set to serve 893 villages.

China and Egypt Joint Projects Total \$7.5 bn

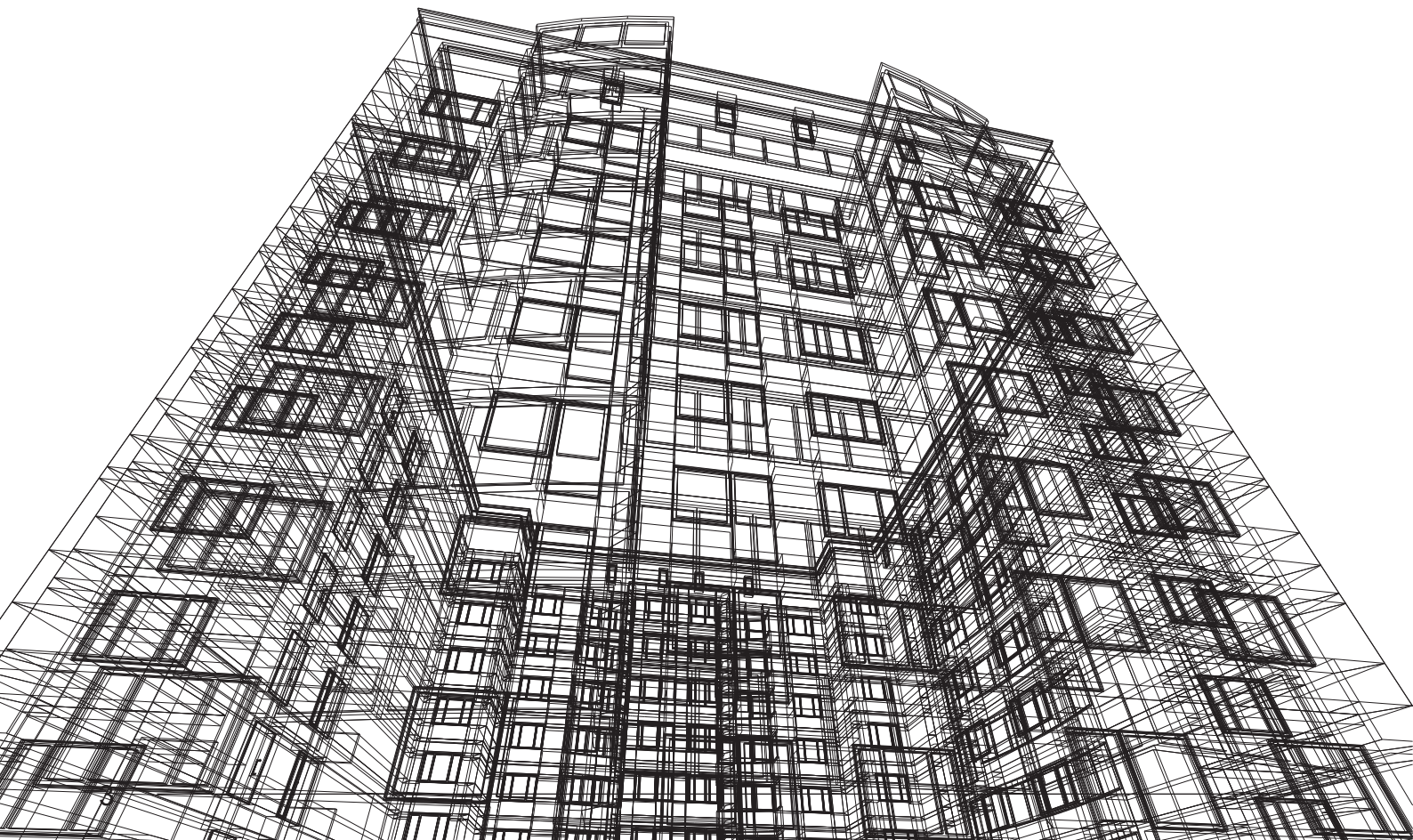
The total value of the joint projects between Egypt and China currently underway amounts to \$7.5 bn, according to the Cabinet's Spokesperson Hossam El Qawish, Mubasher reported on Wednesday. The projects are focused on several sectors including electricity, housing, sewage, transportation and solar energy, El Qawish added.

Housing Ministry to Invest EGP 2.6 bn in Sohag Projects

The Ministry of Housing, Utilities, and Urban Communities will launch social housing projects in Sohag at a cost of EGP 2.6 bn, as well as sewage and water plants projects for low-income residents. A total of 4,368 homes have been completed and 3,288 are under construction in New Sohag City, while 3,508 units have been completed in Sohag with 24 others underway, according to Minister of Housing Mostafa Madbouly.

Planned Sewage Projects in Giza and Qaliubiya 50% Completed

The National Authority for Potable Water and Sewage has completed 50% of its planned sewage projects in governorates of Giza and Qaliubiya, unnamed sources from the authority told Al Mal. The authority is expected to build the sewage projects after it has received parliament's approval and a KWD 45 mn (approximately EGP 2.58 bn) loan from the Arab Fund last June.





PPP Projects: A Way Out for Egypt's Economy?

By Fatma Khaled

In the light of major economic decisions in Egypt, including the recent flotation of the Egyptian pound against the US dollar and the subsequent devaluation of the local currency, the Egyptian economy has been walking a tightrope in order to meet growing citizen needs.

With infrastructure and transportation being in particular high demand, the state has struggled to find budget-effective solutions to provide services to citizens. However, one such solution that has been applied internationally is private-public partnership (PPP). PPP projects are defined as those involving a long-term contract between the government and a private partner, whereby the latter would be providing a service traditionally provided by the government.

The PPP method was introduced in Egypt in 2010, under law 67 which governs it and aims to organize project tenders, offerings, and techniques that facilitate contracting with the private sector. Such projects in Egypt have primarily focused on infrastructure, transportation, schools, and other services.

Invest-Gate spoke to Atter Hannoura, Director of the PPP Central Unit at the Ministry of Finance, about the projects conducted through the unit, as well as challenges, future projects and economic factors that jeopardize these projects, and methods to attract investors from the private sector.

What are the main current and upcoming projects being conducted under the PPP Unit?

The current projects in the pipeline include the river bus project, upgrading the commercial and real estate registry, and building 1,000 international schools. Future projects that will be offered in March include the Safaga Port, which will include three

main activities. Firstly, it currently functions as a port for treating phosphate products and exporting them, and will be turned into a port for producing phosphate products. The second will be for importing fresh meat, where there will be areas for meat manufacturing, and third will be manufacturing wheat.

Other projects that will be offered includes several water treatment plants in the Red Sea and Matrouh governorates.

We have also been studying the potential of the participation of private sector in transportation projects such as public buses and the metro to be able to accommodate the large numbers of people that rely on daily public transportation. We are also currently studying the possibility of waste recycling projects, especially medical waste, which is very risky for due to the possibility of contagion.

What are the updates on the commercial and real estate registry projects that started in May?

We have completed the pre-qualification stage and assigned four major companies, including foreign ones and local ones, to execute the project. We are now finalizing the contract, which will include data on the places where the offices will be constructed, as well as enhancing the existing registries.

The commercial registry is being finalized; there are 89 existing locations for commercial registry, and we are drafting the contract that will be handled to qualified companies who will manage such projects. Companies are expected to offer their plans within three months to begin immediate execution.

Are there any potential delays or risks posed to the projects?

We were able to overcome risks and challenges in most of the projects that we are working on; however, the river bus project is taking a lot of time to implement because we need approval from several authorities, including the Ministry of Transportation, the military, the Ministry of Agriculture, the Ministry of Water Resources and Irrigation, and Governorate of Cairo, as it includes 16 old ports, 11 or 10 of which are still operating.

We want the bus river to be able to transport people from Helwan to Qanater, and as such it will pass on 30 ports, some of which will require license renewal. All these obstacles need to be tackled by the government to finalize an attractive contract for investors that is financially and legally feasible.

How do you think the flotation of the pound and the dollar shortage will affect partnership projects on the one hand, and each of the public and private sector on the other?

In PPP projects, funding is the responsibility of the private sector; however, the private sector prices the service based on costs and risks. PPP contracting is different from traditional contracting, and the most unattractive tenders are those for projects that are not bankable because they do not meet certain criteria. Therefore risks must be studied well. An unstudied plan in terms of the allocation of project risks results in the private sector offering a higher price than the government sector.

The dollar shortage did actually cause a challenged for PPP projects, and therefore the past period we did not offer major projects. There is a positive aspect to floating the Egyptian pound, whereby dollars have started to become available again, and investors, especially foreign ones, are facing less trouble exporting their profits abroad, which was a major problem before due to the lack of dollar liquidity, as well as the difference in prices of the dollar in the black market and in banks.

The negative aspect of the flotation is that the price of the dollar is now high, therefore affecting costs that should be once again studied.

How can partnership projects attract more investments in the country? What type of investments does the PPP Unit focus on?

Investors are generally attracted to PPP projects because they are low-risk and are governed by a firm law that ensures both parties' rights. The Egyptian PPP law has been internationally praised, and received an award from the World Bank. Investors are always looking for guarantees for an organized relation between them and government. The PPP law allows negotiations and offers a friendly two-way communication to implement a long term suitable contract, with clear technical specifications during the offering of tenders. Moreover, it respects the rights of all private partners. PPP manages to offer professionally drafted contracts that meet international standards and are tailored to Egyptian economic conditions; therefore, investors will know how to weigh their risks and costs.

Is there an estimate of how much PPP projects save the state budget?

The PPP Unit always aims to build projects without burdening the state with investment costs.

The PPP law stipulates that the investor is providing a service that the state will in turn pay for. The investor's tasks also include design, price, maintenance, finance, construction and preparation in order to provide this service while the PPP will pay for the service than project fee installments.

If the service is not provided, the state will not provide the payment, and can impose a penalty, and possibly even terminate the contract. Therefore, the project has to be well designed. Some companies even use higher quality materials than those specified to avoid costly maintenance on the short term, and therefore future losses. The government, on the other hand, monitors the project's performance, and if it finds that something is not well designed, it imposes penalties.

What are the areas or governorates in Egypt that have the largest shortage of facilities and infrastructure projects? How is the government tackling that?

There is a lack of sewage projects in the Nile Delta and Upper Egypt, and a lack of roads in Upper Egypt, as well as a lack of water treatment plants in dry areas like the Red Sea and Matrouh, where there is high demand on drinking water. Additionally, there is a lack of transportation facilities in Cairo and Alexandria, where there is high population density. The PPP Unit is currently focusing on implementing the majority of sewage projects.

What are the investment risks that the finance ministry and the PPP Unit currently face?

The inability to obtain permits easily remains one of the obstacles from the investor's side, and as such bureaucracy in licensing needs to be facilitated. Not many investors are familiar with PPPs and their required technical specifications, which are also represents a challenge for the unit, whereby it needs to promote the procedures in an informative manner.

The PPP Unit explains to investor how the service should be provided, rather than stating directly what it should be. Investors choose their technology and regulations to meet the criteria set by the PPP Unit. In any case, in PPP projects, the government side sets the rules, criteria, and standards, while the investor manages the project, which turns the government side in to an observer, supervisor, and organizer not service provider.

What types of investments do you think will most benefit Egypt in terms of ensuring economic recovery?

Investments needed to push economy forward include all major infrastructure projects, including water, sewage, facilities, ports, and roads, which constitute a great investment cost and involve several sectors, such as logistics, engineering and design, steel sector, public services, etc. PPP is the best method to work with through these projects, as it reduces burden on the state budget.



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