



ARAB REPUBLIC OF EGYPT

MINISTER OF FINANCE

SPEECH BY
H.E. DR. MEDHAT HASSANEIN
MINISTER OF FINANCE
IN
THE INTERNATIONAL CONFERENCE
ON
SUCCESSFUL BOT
PROJECTS IN EGYPT

Excellencies.

Your Excellency Mr. Daniel Kurtzer, Ambassador of the United States of America.

Professor Donald Wallace, Chairman, International Law Institute.

Ms. Linda Wells, Director, Commercial Law Development Program.

Mr. Stephen Gardner, Managing Attorney for Egypt, Commercial Law Development Program.

Dr. Mohammed Abul Enein, Director, Cairo Regional Center for International Commercial Arbitration.

*Excellencies,
Distinguished Guests,
Ladies and Gentlemen:*

It is my pleasure to join you today.

I am pleased to welcome you all to the international Conference on successful BOT Projects in Egypt, and to express my deep appreciation to all agencies and programs for their organizational and financial contributions that have been instrumental to holding this very important international conference.

I would also like to express my special thanks to the Commercial Law Development Program of the US Department of Commerce, the US Agency for International Law Institute, and the Cairo Regional Center for International Commercial Arbitration.

I also wish to extend a warm welcome to all those who are present here today.

As you are all aware, BOT is one of the innovative project finance schemes. It allows governments to expand and improve infrastructure by tapping resources outside public allocation and debt commitments.

In many developing countries an awareness of the importance of infrastructure led to the promotion of large investments programs in the 1960s and 1970s. Such programs were financed from public sector resources and sovereign loans. However, economic and debt crises in the 1980s, and lack of sufficient financial resources, severely reduced the capacity of governments to raise funds to implement new infrastructure programs or even to maintain existing services in good conditions. Given such factors, besides the worldwide movement to apply economic liberalization policies, caused the governments to invite the private sector to participate in the infrastructure projects. Virtually in every region of the globe, governments have been recently looking for new techniques to implement infrastructure projects. Those techniques put less emphasis on governmental resources and involvements. As a result of these changes several models have been invented in this area ranging from Build-Operate-Transfer (BOT) to Build-Lease- Transfer (BLT) Models.

Actually Egypt is not out of these global developments. Egypt is one of the countries that focused on the alternative models for the involvement of the private sector in infrastructure projects. In order to sustain our economic growth, as a developing country, we need to rapidly develop our infrastructure. What may hinder us is finance; hence finding and tapping new financial resources is in order.

As you might be aware in this connection, Egypt has various infrastructure projects under the BOT model in the fields of transportation, communications and electricity. Some of these projects have been finally contracted out and others are still in the pipeline. We hope that the outcome of these projects will lead to the achievement of the desired objectives for all parties concerned. We are also confident that the successful implementation of such projects will constitute an encouragement for further projects under the same model.

Designing an optimal financial plan for a BOT project involves meeting 5 objectives:

1. ensuring the availability of financial resources to complete the project;
2. securing the funds at the lowest prevailing cost;
3. establishing a dividend policy that maximizes the rate of return on the sponsors' equity subject to lenders' constraints and cash flow generated;
4. maximize the value of tax benefits; and
5. achieve the best beneficial regulatory agreement.

BOT transactions are regarded as an efficient way of allocating the risks and responsibilities of developing projects - infrastructure is a perfect and typical example. Recent experiences have shown that the private sector is perceived as being able to bring to a project efficiencies that the public sector traditionally cannot match, as well as technical expertise developed in the private sector. The government, on the other hand, can facilitate the BOT project by assets, such as land and licenses, and providing subsidies, guarantees and/or revenues. The government, still, in BOT projects has a major role: a role as a customer, a role as a regulator and a role as a guarantor.

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I would like to emphasize that the BOT model is significantly more complex than the classical Finance model both in structure and documentation. Therefore, developing BOT projects is a complex task because of the numerous actors and aspects involved, the web of financial and contractual arrangements, and the need to establish a regulatory framework for private sector participation in such undertakings.

The rights and obligations of the involved parties in the BOT agreement should be determined carefully. The agreement should include the rules that determine the tariffs and specify the capacity of the project, quality of the services, and the involved technology transfer. It is important as well to mention clearly the functions and the rights of the supervisory body and the arbitration mechanism.

Ladies and Gentlemen:

My objective today really is not to just give a speech in a conference; but rather I would like to maximize the benefit of this very special assembly and raise some issues which seem to be relevant to the theme of this conference and which I hope your gathering may have some time to address during the course of your conference.

First, and as I mentioned earlier, the procurement/contracting aspects of BOT transactions are quite extensive and are sometimes complicated-well beyond the reach of many government employees who may be charged with consummating such deals. Help is needed in this regard. Training for government employees to realize the intricacies of BOT issues and to be able to set the specifications and handle the negotiation requirements would certainly be a priority. Provision of donor funds dedicated specifically for such specialized training would be highly appreciated.

Further, and to achieve some genuine benefits from this conference I hope you may have the time to consider the different financing schemes for BOT projects and how they fit within, and can be adapted to, the Egyptian context. Typical financing sources for BOT projects include:

1. equity financing and this naturally depends on project economics, market perception, cost of equity and naturally country risk;
2. mezzanine financing which can take the form of subordinated debt and preference shares. Mezzanine capital may be provided by venture capital entities or investment trusts;
3. typical commercial lending - probably in the form of syndicated term debt;
4. bond financing through capital markets;

5. development finance institutions: a leader among those of course is the IFC that has all along been a strong advocate of BOT transactions and that has always acted as "*the honest broker*" to put such deals together. The European Bank for Reconstruction and Development (EBRD), the Asian Development Bank (ADB) and the European Investment Bank (EIB) are all key players in this arena. This also raises a question: is it possible that we may have a regional developmental entity of similar nature to encourage and catalyze BOT transactions in the region; the middle east region, the MENA region...?;
6. support and insurance provided by export credit agencies;
7. along these lines also fall the special guarantee schemes provided by the World Bank and which again serve to significantly facilitate BOT transactions;

And Finally,

8. because BOT transactions in many cases involve cross border investments, derivatives such as interest rate swaps and currency swaps can play a significant role in securing such transactions.

Ladies and Gentlemen:

As you see, there is a real wealth of methods and techniques out there. My question is how many of these can and have been considered within the Egyptian context? Just by way of example, Egypt does have a thriving capital market - how many BOT transactions in Egypt were structured to properly tap the bond market and make use of that resource?

Ladies and Gentlemen:

As I told you from the very beginning, I do not have all the answers. I am simply coming here today to raise some issues and to seek your help. I am sure your conference will address these and many more issues.

Distinguished Guests,

I wish you an effective and successful event.

Thank you.