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# Egypt 2017 the withdrawal of companies

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## Economy of Egypt 2017: the withdrawal of companies

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Observers thought that the withdrawal of investment companies from Egypt during the year 2017 was one of the consequences of floating the pound at the end of last year, which resulted in the departure of many foreign banks and companies and ceasing their operations in the Egyptian market. They thought that the difficult economic situation in Egypt pushed a number of banks to exit markets; the latest was Barclays Bank, who decided to leave Egypt as a result of the economic situation. Before Barclays Bank, there were banks like: Societe Generale Bank, French bank BNP, Canada's Nova Scotia Bank, Piraeus Egypt Bank and National Bank of Oman.

In addition, international companies kept withdrawing one after the other. The most recent one was the US "General Motors", who announced its exit because of the inability to bring equipment to its factories because of the dollar crisis. The crises, according to GM, led to "high costs of shipping operations, transport and customs fees". GM also has suffered from significant losses in the domestic market. Other companies like Shell Oil, Yildiz Turkish Food Industries, Yahoo International Group, Thomas Cook Travel & Tourism, Swedish Electrolux Appliances, Toyota and Suzuki, as well as the German Chemical company, Basf, have all left the market.

In addition, the 2017 economic landscape faced news of the withdrawal of companies from Egyptian projects, whether current or future ones. The news represents how the Egyptian economy suffered during the 2017 in a way that affected all the economic indicators, especially the internal and external debt indicators, which have achieved unprecedented low numbers. Those issues will make the future generations spend years in the future just to fix them.

There are four major types of withdrawals in 2017: the withdrawal from the new administrative capital projects, the withdrawal from shipping lines, the withdrawal from renewable energy projects, and finally the withdrawal from the implementation or operation of schools.

The occurrence of these four types of withdrawals can be examined as follows:

### **First: Withdrawal from renewable energy projects:**

In September 2016, the Ministry of Electricity announced the launch of the second phase of the Renewable Energy Tariff Project with a total capacity of 4,300 MW and investments of 6 billion US dollars. According to the requirements of Renewable Energy Tariff schemes, each eligible company will establish a private company dedicated to the project. Each should provide a letter of guarantee of \$750,000 in local banks and 16.5 thousand LE in the Authority. The purchase price of solar energy from households is about 1.028 LE per kilowatt. The cost of purchasing power for major projects is 8.4 cents per kilowatt, and the price of purchasing kilowatt of wind power is 7 cents of projects.

According to the head of the New and Renewable Energy Authority, the number of companies that withdrew from the Renewable Energy Tariff project was about 23 companies. The total value of foreign companies' withdrawals from the first phase of Renewable Energy Tariff Projects reached 1 billion US dollars, while the capacity was supposed to generate 990 megawatts of total 4300 MW tendered in the projects. The list of withdrawn companies included 18 companies. They have withdrawn from the solar projects with capacity of 740 megawatts, out of the total of 2000 megawatts were tendered in the areas of West Nile and Zafarana.

The withdrawal was not only limited on the solar projects, but also to wind energy projects. The list included the withdrawal of 5 companies with a capacity of 250 megawatts in the Gulf of Suez region.

### Reasons for withdrawal:

- The companies that submitted their bids to the government tender in the Renewable Energy Tariff Project depended on a group of international institutions to finance their projects, who, in turn, provided loans at lower interest rates than the Egyptian market.

\* The Egyptian government wants to oblige companies, and therefore international financial institutions, to resort to local arbitration instead of international one. This proposal was rejected by these institutions.

Thus, it can be said that the withdrawal came as an objection to the Energy Purchase Agreement, which includes a clause on "Arbitration within Egypt in case of dispute". The IFIs have notified the eligible companies of the Renewable Energy Tariff Project that they will withdraw from financing these projects after failing to reach an agreement with the Government on resorting to international arbitration in the event of legal disputes between contracting parties.

- The logic in this case is that arbitration in any dispute between one of the contracting parties in the recharge tariff projects for renewable energy should be resolved domestically, especially that these projects are taken place on Egyptian soil, and the cost of service is paid by the Egyptian government.

However, Egyptian arbitration suffers from a delay in procedures and the length of litigation. Foreign investors, on the other hand, have concerns over the length of proceedings in Egypt. Therefore, the idea of resorting to an international arbitration,

using Egyptian laws, has been raised; however, the idea has been rejected by the Egyptian government.

- The other reason for the withdrawal was due to the statement of the Minister of Electricity and Energy who told the investors that the financing of their projects should be financed as follows: 85% foreign components from abroad and 15% local component. The investors replied that this condition is impossible to implement.

- The companies, who withdrew from Egypt and their participation in the project, pointed out to the fact that the returns are expected to be weak. In addition, Egypt suffered from the dollar crisis, especially the Egyptian companies, where other markets offered incentives for investors to invest in their countries. The list of those countries included Jordan, UAE and Morocco, where they offer advantages that vary from granting good tariff to granting the land for the implementation of projects free of charge. Therefore, those companies said that the difficulties set by the Egyptian Ministry of Electricity caused them to invest in other countries to implement the project as fast as possible.

### **Third: Withdrawal from the “Administrative Capital” projects**

The “Administrative Capital” Project is a project announced by Minister of Housing Mustafa Madbouli during the economic conference last year, on March 13<sup>th</sup>, 2015. It was supposed to be completed by 2020 and 2024. In mid-March 2015, the Egyptian government, represented by the Ministry of Housing, Utilities and Urban Communities, signed a cooperation protocol with the Emirati company Eagle Hills, owned by the Emirati businessman Mohammed Alabbar, who created the company specifically for this purpose.

A few months later, the government announced that the negotiations to approve the execution of the administrative capital entered a dark tunnel due to the refusal of the Emirati businessman to abide by the terms of the memorandum of understanding signed with him. It was said that Al-Abbar demanded that the Egyptian government allow him to get loans from Egyptian banks, using his new company Eagle Hills as a guarantee, which he founded for the administrative capital specifically for this purpose. The Egyptian government rejected the demand, as it reduces the size of the dollar in the market in light of the crisis of the dollar, and puts the investment portfolios of banks under pressure.

In fact, the problem was not in the withdrawal from this phase as much as the random terms set during the negotiations with the Emirati side. Those terms did not specify the basic items for negotiation, like first and foremost how to finance the various stages of implementation, and ways of bringing funds from abroad, in addition to whether the government should be represented in the BoD or not, and the prices of the sold units.

The government did not even verify the financial capacity of Al-Abbar company. The reasons for the requirement of the company to obtain loans from Egyptian banks, not to bring funds from foreign banks, is that it did not have enough funds to build the project, in addition to uncertainty about the stability of the situation in Egypt. This, in turns, shows the confusion Egypt is facing nowadays.

### **Exclusion of China from the implementation of the new Egyptian capital:**

Egypt's Ministry of Housing said Wednesday (February 8<sup>th</sup>, 2017) that a proposed \$3 billion project between Egypt and a Chinese government construction company in the planned new administrative capital would not be implemented by the Chinese company because of a disagreement on the price. Following the exit of the UAE

company, two Chinese companies tried to compete to compete for the project: CSCIC and CFLD.

CSCIC has promised a 3 billion US Dollars loan to build government facilities for the new administrative capital. While a 20 billion dollars' memorandum of understanding was supposed to be signed in December with CFLD, but it has not happened yet. In the end, there was no final agreement, according to a statement by the Egyptian Ministry of Housing.

It is worth mentioning that the Chinese company was not the only one who withdrew, but also the company executing the electric train project. It was supposed to implement the project to generate electricity using solar energy. The suspended train project was supposed to link the administrative capital and Sheikh Zayed. The government started the project with a Canadian company then it stopped. Then it started again with a Chinese company and it stumbled too, in spite of the existence of bank credit estimated at 6 billion L.E.

### **Reasons for withdrawal according to the government's narrative:**

The government says the withdrawal came due to a mismatch of views and sees that the companies that withdrew would have taken millions of dollars. Ayman Ismael, Chairman of the Capital Management Company for Urban Development, justified the withdrawal of the Chinese company from the new administrative capital project by saying that was due to a disagreement on the price of implementation per square meter. The final price reached was higher than what the Egyptian construction companies offered. The Chinese company has not completed its executive arm in Egypt and wanted to rely on Egyptian contracting companies. This led the company to increase its tender offer to higher rate the negotiating directly with the Egyptian

construction companies”. That is, the government discovered - suddenly - that the capital company got a lower price from the Egyptian companies than the Chinese one!!

### Justifications from the Chinese side:

- The reasons for withdrawal and exiting the market, from the Chinese side, were that the feasibility studies were unrealistic, as well as the difficulty of obtaining financing support for construction. They did not reach a satisfactory final agreement between both parties on the price of implementation per square meter. It is worth mentioning that the Chinese company (CSCEC) provided a loan worth 3 billion dollars to build government facilities.
- The company's request to issue government incentives before signing the final agreement was rejected. The incentives requested by the company include tax exemptions, financial offers suitable for the implementation of the neighborhood and ensuring feasibility of money transfer to avoid any future issues.
- It is worth mentioning that the Chinese company, prior to the announcement of the withdrawal, had completed the designs of government buildings. It presented, before the Ministry of Housing, 24 designs for 18 government buildings to be implemented in the first phase. The list included the building of the Council of Ministers, the Parliament and the Conference Hall, and the implementation of buildings of ministries. The company aimed to complete the government district by 2018.

### Contracting national companies:

The official announcement of the withdrawal of Chinese companies from the new administrative capital project was accompanied with an announcement that the Egyptian construction companies would implement the project. This happened despite

the government's previous refusal of any local company to work on the project. It was announced to assign the work of implementing the headquarters of the ministries to 12 Egyptian contracting companies. Those companies received directly the lands of the project and began to work to complete the project fast within the period of 18 months.

**Contracting the new capital projects to national companies raised a number of questions including:**

- Is the source of project funding local? Is the pressure on the national banks to finance projects without a meaningful study of the obvious returns, especially that most of the projects offered service and infrastructure and require huge funding, will cause a future crisis for these banks with the executing companies, where they cannot ask for their money from the main owner of the new “administrative capital development” company, which is the Ministry of Defense. All what have been said regarding the sale of land in dollars to foreign investors has not been implemented. All sales were in local currency and most of them happened to get gains from its raise in price in future and to wait for the extraordinary profit in the future.
- The availability of local expertise to complete the implementation of the project, especially since most of the large construction companies are already working in a group of so-called “National Projects” as subcontractors to a lead executer, which the National Service of the Armed Forces.
- Where are the feasibility studies? Chinese companies have prepared studies and research cost millions of dollars. On the other hand, the studies prepared by the government on the capital and its implementation turned out to be completely useless. The government should have conducted enough studies before assigning the companies, but this did not happen before the assignment of Chinese companies. It did not also happen before even assigning the Egyptian companies.



In general, it can be said that: The completion of the implementation of the project with local investment represents an increasing burden on the Egyptian economy, due to the multiplicity of requirements and ways of spending on the needs of the Egyptian citizen. This project was not a priority for putting it on the agenda of government expenditure; it can be dispensed until Egypt overcomes the economic impasse that the country suffers.

#### **Fourth: Japan's withdrawal from the joint school project:**

During a visit to Tokyo in February 2016, Abdul Fattah al-Sisi decided to transfer the Japanese experience in education to Egypt through the construction of 100 Egyptian-Japanese schools.

The schools were supposed to apply the Tokatsu style in education and provide a parallel educational system for American, British, German and French schools in Egypt. Tokatsu style is a well-known teaching method in Japan that focuses first and foremost on developing student skills by expanding activities rather than curriculum and eliminating anything related to memorizing by heart, replacing it with creativity and thinking skills.

#### **The steps of the project and what happened to it:**

##### **1- Eight schools instead of forty-five**

- The plan of the ministry to transfer the Japanese experience was first by nominating 100 schools already exist and adjust them to implement the Japanese experience. Then, building another 100 schools over two years: 45 schools in the first phase (and they start during the academic year 2017/2018), and another 55 schools (and they start in the academic year 2018/2019).

- The pilot has been applied to only 12 existing schools during the academic year 2016/2017 so far. The Engineering Corps of the Armed Forces, which is entrusted with the construction work, has announced the ability to deliver only 28 schools out of 45. The Ministry of Education stated that it will not accept a child in any school until it is completed and handed over by the Engineering Authority of the Armed Forces. After about 4 months of postponements, the Ministry of Education opened the door to apply for the Egyptian-Japanese schools, but to only 8 schools, not 28.

## 2. the fees:

The fees of the Egyptian-Japanese schools has led to a crisis between the Egyptian and Japanese sides. The Japanese administration, which supervises the transfer of the experiment, has set the fees of schools between 2000 and 4000 L.E. to suit low-income citizens. The Ministry of Education suggested that fees should start at LE 2,000 for the kindergartens, Up to 4000 pounds for the third grade.

The Japanese side, on the other hand, suggested the fees should start at 2,000 L.E., up to 4,000 pounds in the secondary stage, not to third grade. This caused a crisis that has not been resolved between both parties so far.

## 3. Criteria for selecting students and teachers:

The number of students who applied to be enrolled in the Egyptian-Japanese schools was ~ 29,700. Only 1,800 students have been accepted. This has raised the parents' anger and prompted the Ministry of Education to announce the selection criteria for the students, where it stressed on factors like age and the approximately to the school as the main conditions to accept students. The ministry stressed that no human intervention has been occurred and the selection process was done completely via the

computer. However, the emergence of a situation of twins, one of which was accepted and the second were not despite the fact that their info were identical, indicates a flaw in the selection process and the non-application of these criteria and even corruption in the selection process.

Also, sources revealed issues and errors in the selection process of some students, who were accepted in the list of "1800 students". One of those accepted student had an illiterate parent, which will contradict the requirement stating that the parent should attend 30 hours a year to help his child in the application of Takatsu activities. Those activities are based on group work and the development of the spirit of work and leadership. Parents discovered that the schools accepted students younger than the age of other students who were on the waiting list, which aroused parents' anger and objection to the method of acceptance.

As for the selection of teachers, which Japan has pledged to train; a major crisis raised and ended with the intervention of Abdul Fattah al-Sisi, who called for establishing a committee of professors of mathematics, languages, meeting and psychology to choose teachers and students of Egyptian Japanese schools. According to the statements of the minister, they have been pre-trained; however, new standards have required re-training, not to mention the training scandal in Japan, which we will address in a subsequent paragraph.

#### 4 - Study Dates:

The crisis began with the announcement of the ministry to open the door for the student to apply, then, postponed it more than once for 4 months, ended by setting the date October 15<sup>th</sup>, which, in the other hand, was beyond the normal start of the school year in Egypt. When the day to start the study arrived, the schools were not adequately equipped, and therefore it was postponed again indefinitely.

As a part of the Ministry of Education's review of the main reasons for the postponement of some schools, it said that the reason because those schools were not equipped with safety and security tools in fields and playgrounds, and uniforms, bus expenses and school expenses had not yet been determined. It added that the date will not be defined until completing all what have been mentioned above. It is unacceptable for schools to admit students before fully prepared.

Minister of Education, Dr. Tareq Shawqi, said that the mood in Egyptian society does not tolerate 80% of the quality and the completion of the shortcomings over time. He stressed that the Japanese are even more concerned with quality and accuracy.

He said that no student, who was accepted in the Japanese school, will face any issue, and all transferred students will be back to their original schools. As for the new students, who were 258, they will be accepted in nearby schools according to their ages. He added, "the problems we faced because of the postponement decision are simple compared to the benefits that will occur when we implement a successful experience".

The minister did not say that the project unit of the Japanese schools in the Ministry of Education witnessed a kind of confusion and the school project manager was replaced 4 times in a short period of time. This was mainly due to the lack of defining roles within the management unit of the Egyptian-Japanese schools in the ministry office. This created some confusion in roles and then decisions and controls related to application of the experiment, resulting problems in the file management.

The minister did not say that 90% of those who traveled to Japan to receive a training course on the Japanese system "Tokatsu" to be deployed in the new Egyptian Japanese schools were from within the ministry's cadre. Most of them were from the follow-up office, and only 10% were teachers. This corruption was the main issue that forced president Al-Sisi to interfere and cancel the decision of hiring those teachers in the

Japanese schools, since they were employees, not teachers. It was difficult for them to move to the schools located in all provinces of Egypt to train other teachers.

And finally, another issue in this file was what was announced by the Engineering Corps of the armed forces for its ability to hand over only 28 schools out of 45. Of course, no one dared to account and question the causes of delay; whether the contract stipulated the penalty conditions borne by the contractor; and when they will hand over to other schools.

In general, it can be emphasized that the projects entrusted to the Authority have become more than its capacities (equipment, human resources and organizational expertise) both in terms of meeting the delivery times, and meeting the quality decided in the contracts.

#### **Withdrawal from the implementation of schools in partnership with the government:**

The Higher Committee for Governmental Participation with The Private Sector agreed last year to put the new and distinguished schools in partnership with the private sector after completion of technical and financial feasibility studies. The project will be presented in a BOT format for 40 years, and it will be implemented in phases. The first phase involves the establishment of 200 schools. The investment cost of the schools is 3 billion L.E. The schools will be built in 18 governorates. Each governorate will have 3 schools except Cairo, Giza and Alexandria.

#### **The withdrawals from this project were as follows:**

##### ***A - The withdrawal of the English company «Carillion Construction Ltd.***

Carillion Construction Limited, the English company, withdrew from the PPP project, after qualifying within 43 companies and alliances. The company explained the reasons for the withdrawal:

As a result of the high degree of risk and the direction of the Ministry of Education to load the private sector additional burdens in the educational system. It added that the partnership projects with the private sector have a long investment life ranging from 25 to 30 years, therefore, risks must be examined thoughtfully. Moreover, there were fears of the future presence of the government and possibility of building schools adjacent to the projects and provide educational services at low prices for higher prices of private companies, which affects the profitability of the project. Protesting against the land offered.

***B. Orascom and Smart Alliance withdraw from the implementation of 200 PPP schools***

The coalition of Orascom Construction Industries (OCI) and Smart International Schools of Business, owned by the businessman Walid Al-Salmi, has pulled out of the PPP project. The consortium of Orascom Construction Industries and Smart International Business School Group, owned by Walid Al-Salami, has asked for the withdrawal, saying the reasons were because of the committee formed to study the implementation of the project.

***C - The most important companies withdrawn from the project:***

The most important companies that chose not to continue to compete on the project are Carillion Limited English, Orascom Construction Company and Sheraton Heliopolis schools. All withdrew from the first phase of the project after the end of the technical and financial offers period last Thursday. They withdrew without submitting their offers.

According to government sources, the companies will be signed with the beginning of next December and lands will be distributed to the winners. If the 54 pieces were not completed by the companies, they will be transferred to the second phase of the tender. (Not announced at this writing).

The successive withdrawals from the Egyptian market did not occur as a result of the floating of the pound as promoted by some. It was as a result of the political and security instability in the first place. The evidence is the continuation of these withdrawals; the last of which was on 31<sup>st</sup> of December were the Suadi businessman, Nasser Al-Tayyar, withdrew from 5 companies in the local market, namely: Al-Arabiah Al-Masriah for Tourism Resorts, Asala Investment, Istithmar for Hotels and Tourism Development, and Holol for Hotel Investment, Kingdom Hotels and Tourism Investment. The proceeds of the sale of shares amounted to 126 million riyals. The process took place outside the Egyptian Stock Exchange, noting that those companies that are out of them still follow the Al Tayyar, and he still has shares in them, but it is very small percentage now.

In its latest report, Moody's described the degree of Egypt's vulnerability to "high" and said that local political risks still affect its assessment, adding that security risks are still present especially in Sinai and the western regions. Egypt's geographic location within an unstable region is also exposed to a moderate degree of risk of geopolitical accidents.

In terms of economic conditions, Moody's said that Egypt has one of the highest government borrowing requirements among similar countries in the classification. The total financing needs can be estimated at 40% of GDP in 2018. In addition, the increased government dependence on deficit financing through banks to increase the exposure of banks to sovereign risks.

The previous analysis clearly shows that the various types of withdrawals were because of conscious and serious studies of the future of the Egyptian economy and the risks it faces in the short and medium term. On the other hand, the government did not do any complete and deliberate absence of feasibility studies for projects

presented to investors, project priorities and their need for economic and social development.

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