

Egypt-US trade Finance: A win-win formula

On 12 November 2008, the Trade Related Assistance Center (TRAC) at the American Chamber of Commerce in Egypt (AmCham) in coordination with the U.S. Embassy hosted a conference on *Egypt-U.S. Trade Finance*. Held at the Intercontinental, Cairo, the conference aimed to acquaint Egyptian and U.S. companies, investors, local government officials and commercial banks with the export finance and investment programs of the U.S.-based Export-Import Bank (Ex-Im Bank), the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (USTDA).

This is a very appropriate time to be welcoming these three major financial institutions. At this time of crisis, when liquidity is scarce and the world economy is slowing down, these agencies have come to Egypt to offer financing opportunities. It now falls upon the Egyptian government to utilize these opportunities to their maximum.

Although the current cabinet has already done an immense job in turning Egypt to one of the most attractive destinations for foreign direct investment (FDI), a formidable task lays ahead. The current cabinet must steer the economy through the dangerous economic climate, taking optimal advantage of all favorable winds.

These institutions also offer a significant opportunity for the Egyptian private sector which can make use of financing opportunities available through letters of credit to purchase American products and long term loans extended to investors who purchase American capital goods. Furthermore, these institutions encourage the American private sector to invest in emerging markets, such as Egypt. By offering that sector low interest, long-maturing loans, they stimulate the flow of FDI towards large scale projects, thus opening up new markets for the Egyptian private sector.

The three agencies have already financed several successful projects in Egypt. Ex-Im Bank has approved a \$230 million loan to finance the purchase of U.S. exports necessary in building an Ammonia plant in the Suez industrial zone. OPIC signed a grant to finance a styrene plant feasibility study with the Egyptian government earlier this year. USTDA offers long-term financing to the U.S. private sector investing in developing countries, presenting an excellent opportunity for Egypt to increase its share of FDI. According to Egypt's Central Bank statistics, the U.S. tops the list of countries investing in Egypt, accounting for 35.7% of foreign investment inflows in 2006/07. Still, we believe that Egypt, which topped the list of stable economies in the wake of the financial crisis, can augment its share of FDI from the U.S.

The 12 November meeting allowed the three financial institutions to explain the procedures for applying for funding. In addition, USTDA took the opportunity to extend an offer of technical assistance to the Egyptian private sector to help them partner with U.S. businesses. Partnering with U.S. firms will not only have the potential of injecting liquidity into a cash-scarce economy but may also help supply necessary know-how and technical expertise.

Egypt's economic and social development can gain considerably through the opportunities these agencies offer for supporting developmental infrastructure, the development of skills through training, the transfer of technology and managerial skills, job creation, support for private ownership, and stimulation of SMEs. For example, these agencies are poised to play a key role in financing public projects. According to His Excellency Minister of Transportation Mohamed Mansour, the Egyptian transportation sector is in need of considerable investment. The fact that the largest share (30 per cent) of Ex-Im's total annual authorization of \$12-15 billion is directed toward the transportation sector, makes this institution is an ideal financier. It is all the more so given that it offers low cost financing, longer repayment terms and, most importantly, places no dollar caps on countries or projects.

The benefits will be mutual in view of the anticipated slow-down in growth in the U.S. and the simultaneously expected stronger growth among emerging economies over the next few years. Egypt, moreover, will prove particularly attractive due to its large population and domestic market, highly skilled labor force and vast investment opportunities. It is, therefore, likely that U.S. investors will seize the chance to diversify their business portfolios in Egypt.

Mr. Omar Mohanna, President of the American Chamber of Commerce, welcomed the three agencies, noting that they are, in fact, no strangers to Egypt, having done business here in the past. The Honorable Margaret Scobey, U.S. Ambassador to Egypt, then expressed her support for the continued efforts of TRAC and the American Chamber to promote U.S.-Egypt trade and investment relations despite the precarious financial climate.

The Minister of Finance and Chair of the Financial Committee of the IMF, His Excellency Youssef Boutros Ghali, inaugurated the conference with a sum-up of the current state of global affairs in the wake of the financial crisis. The crisis, according to Minister Ghali, was caused by "a combination of ingenuity, greed, massive confidence in market forces and benevolent neglect of regulations and supervision." At the root of the collapse was a policy mistake: letting Lehman Brothers collapse. "Lehman brothers, was a systemically important institution," the collapse of which "created a massive crisis of confidence." The action that must be taken now, he asserted, is to forge a global solution such as creating "a supra-national institution to distribute global risk amongst nations, as opposed to sustaining beggar thy neighbor policies." He stressed, as well, that protectionist policies are not the answer.

The panel discussions that day focused on the significant opportunities available to the Egyptian private and public sectors through the U.S. government trade finance and regional export credit agencies.

John Richter, Regional Director of Africa, U.S. Ex-Im Bank, believed that the Egyptian economy was doing well and that although it would be affected by the global slow-down it would still enjoy positive growth. He noted that the total Ex-Im Bank authorizations in Egypt since 1960 total over \$1.3 billion and that current exposure is \$325 million. Given

the abundance of funding and the growth potential, his bank is keen to take on more projects in Egypt.

Mr. Richter attempted to allay concerns that the Ex-Im Bank might compete with the private lenders. The services offered by the bank compliment those offered by the private sector because they filled gaps in trade finance, he said. The bank also assumes credit and country risks that the private sector is unable or unwilling to accept, thus promoting growth in most developing countries where country risk tends to be significant. Therefore, the bank minimized risk, leveled the playing field, and supplemented commercial financing. He added that the Ex-Im Bank also provided additional enhancements such as local cost cover, capitalized interest during construction, and maximum allowable repayment terms for certain types of transactions such as environmental, medical, and transportation safety projects.

Building on Mr. Richter's remarks, Mrs. Hala El-Mohandes, Director of Structured and Project Finance, and Mrs. Kamil Cook, Deputy General Counsel of Ex-Im Bank, stressed that Ex-Im financing not only covered riskier markets, hedged political risk and was limitless but that it also provided benefits such as: lowering the cost of financing because of the AAA rating and offering longer repayment terms (up to 14 years). The speakers then explained the procedures for applying for financing.

Richter outlined the general eligibility criteria, which are largely similar to those required by most banks, and include audited or signed unaudited financial statements for latest two fiscal years, no material adverse issues in the general affairs of the applicant, a continuous operation period of a minimum of three years for a business, a favorable credit report no older than six months and favorable trade references no older than six months.

Mrs. El-Mohandes and Mrs. Cook added that the Ex-Im Bank takes the borrowers' status into consideration. If the borrower is an established entity, debt repayment is based on previous and future cash flows, while security and collateral depends on the size of the loan requested. But if the borrower is new or too small for new debt, repayment is based on future cash flows, and the security and collateral are contingent on the assessment/allocation of risks (construction/completion, market, regulatory, etc.).

Mr. Rod Morris, Vice President of Insurance of the Overseas Private Investment Corporation (OPIC) explained that OPIC differs from the Ex-Im bank in that it has a developmental objective which it achieves through supporting U.S. private sector investment in developing countries. OPIC provides a number of incentives for U.S. business to invest abroad, especially in developing countries. Incentives include providing long-term financing, equity financing and insurance against political risk.

Moreover, OPIC supports the creation and capitalization of privately-owned and managed investment funds. However, in order to be eligible the funds must be structured as limited partnerships or limited liability companies, and they must be managed by private sector fund managers. The funds are also encouraged to make direct equity and

equity-related investments in new, expanding, or privatizing companies. In addition, they should have a regional or sectoral focus.

Mr. Carl B. Kress, Regional Director for Middle East & North Africa, United States Trade and Development Agency (USTDA), shared with the audience USTDA's mission to advance economic development, to promote U.S. commercial interests in developing and middle-income countries, and to support the development of a modern infrastructure and a fair and open trading environment. He pointed out that USTDA usually targets activities such as trade capacity-building assistance, transportation safety and security, and post-conflict reconstruction efforts, and sectors such as environment, energy, information and communication technology, and transportation infrastructure.

Trade capacity building and sector development is mostly preformed by supporting the establishment of industry standards, rules and regulations, trade agreements, market liberalization and other policy reforms. Project definition and investment analysis involves technical assistance and feasibility studies related to large capital investments that contribute to overseas development.

Mr. Kress then explained the criteria on the basis of which USTDA evaluated proposed projects. The criteria included the relevance of the project to sponsor and host country, their likelihood of receiving implementation financing, the mutual benefit for the host country and the United States including prospects for commercial cooperation with U.S. firms, and the existence of competition from foreign companies that may receive subsidies and other support from their governments.

There are several instances of successful cooperation between USTDA and the Egyptian government. For example, Mr. Kress said, USTDA has already signed a grant agreement with the Egyptian government for a styrene plant feasibility study with the Egyptian Styrenics Production Company. The USTDA also provided the Egyptian Ministry of Maritime Transport with a USD 300,000 grant to fund a feasibility study that helped to establish a pilot vessel traffic system by utilizing modern communications, computers, and MIS equipment to keep track of shipping and reduce collisions at sea.

The last panel of the day consisted primarily of members of the business community keen to address some of the concerns regarding the role of the three financing institutions.

According to Mr. Stephen Craen, Director Project finance, Oil and Gas, Societe Generale, the current financial crisis and the credit crunch make the Export Credit Agencies (ECAs) an ideal way to finance exports as well as projects. The need for political risk insurance is much higher in Egypt now and the financial crisis is putting considerable pressure on the banks' balance sheets. The banks are less willing to lend despite the fact that governments around the world are helping re-capitalize the banks, causing what Mr. Craen called a "perfect storm" in which the costs of project financing over the last three years have tripled or even quadrupled.

This does not mean that Export Credit Agency (ECA) funding is without problems. Mr. Kenneth W. Hanson, Partner, Chadbourne & Parke, discussed tensions that arise from multiple lenders in a transaction. He suggested that combining multiple ECAs as well as multilateral financing institutions, such as the African Development Bank and the Islamic Development Bank, usually gives rise to tensions; “We need to figure out how to “play together nicely.”

Hanson suggested that this trend started in the 1990s when governments around the world started putting an emphasis on trying to perform public functions with private capital and expertise, privatizing one way or another through Public Private Partnerships (PPPs) or Build, Operate and Transfer contracts (BOTs). That created an opportunity for private investors that was partly obtained from equity. Debt institutions began to respond and credit agencies made funds more available. However, this was not enough. Credit agencies had to coordinate their efforts. This was not so easy, since each had its own standards and rules of procedures. Most of these differences arose as the result of varying environmental and social policies, procurement policies, preferred credit assessments, and pledged share problems.

Mr. Mohamed Ozlap, Vice Chairman of Banque Misr, pointed out that their presence is still very important, especially today in light of the Egyptian market’s lack of foreign currency liquidity. In addition, he said that the 70% loan to deposit ratio reduces the bank's ability to finance large projects and; therefore, the availability of funding from the ECAs is especially useful at this time. The ECAs can provide the funding, while the local banks can act as catalysts, bringing to bear their knowledge of the customer, the domestic market and the programs offered by the various ECAs and multilateral credit agencies.

Finally the panel featured Mr. Basil El-Baz, Chairman of the Egyptian Basic Industries Company (EBIC), who asserted that his firm is the epitome of an Ex-Im funded development project. EBIC received a USD 250 million loan from Ex-Im Bank almost ten years ago. Although Mr. El-Baz admits that completing a transaction with one or more of the ECAs is a lengthy and difficult process, he assured the audience that it was a manageable one. Much depends on how willing one is to work with ECAs and the central banks. In his case, the work clearly paid off. “100% of EBIC’s success is due to the support of the Ex-Im Bank,” he said, adding that because of Ex-Im’s backing, EBIC became attractive enough to appeal to other investors.