



# EGYPT

Opening a new chapter for foreign investors

In association with



THE BANK TO TRUST



## RANIA A. AL-MASHAT

### MINISTER OF INTERNATIONAL COOPERATION

green buildings, advanced technologies and renewable resources. These are a continuation of an overarching commitment to climate action and the gradual transition to renewable energy.

The main challenge that low- and middle-income countries face in transitioning towards a greener economy is access to finance. This is exacerbated at a time of economic crisis, where many countries unfortunately face the dilemma of picking between immediate developmental needs and sustainability objectives.

The international community must play a significant role in creating an environment that facilitates financing and empowers low- and middle-income countries to commit to sustainability through the development of key natural resources via the implementation adaptation and mitigation projects. Egypt launched an international framework for innovative finance, the “Sharm El Sheikh Guidebook for Just Financing”, on the sidelines of COP27. Egypt accepts its responsibility for shaping the dialogue to ensure the availability of green finance to enable the implementation of mitigation and adaptation projects in developing countries.

#### “Egypt is committed to striking a balance between development and sustainability.”

#### SMEs still make up a huge proportion of Egyptian firms, how has the environment for smaller firms improved?

More than 95% of formal business in Egypt are micro-sized, and the government has exerted tremendous efforts in improving their access to finance, raising their capacities and opening more markets for them. In 2016, the Central Bank of Egypt introduced an initiative to encourage banks to allocate approximately 20% of their credit portfolios to financing SMEs, setting an immediate target of offering EGP200 billion to 350,000 SMEs and creating 4 million jobs.

In 2020, the Small and Medium-sized Enterprises (SMEs) Development Law provided financial incentives, including exemptions from stamp tax/duty, documentation fees and the first month's fees for the establishment contracts of companies and facilities, credit facilities contracts, mortgages and land registration contracts.

In 2023, the Supreme Council for Investments created an environment conducive to private sector engagement in all economic sectors. The Council also approved the appointment of the IFC as a strategic advisor to the Government to boost private sector engagement in the economy though

enhanced competitiveness and job creation.

The partnership with IFC is an extension of Egypt's strong partnerships with bilateral and multilateral partners to empower the private sector. The World Bank's 2023-2027 Country Partnership Framework for Egypt has three high-level outcomes, one of which is the creation of more and better private sector jobs by supporting the creation of “an empowering environment for private sector-led investments”.

#### How big a priority is digitalisation and innovation across the economy?

The Government has identified innovation and digitisation as key priorities in the path towards an inclusive and green economy. The “Digital Egypt” initiative will foster innovation in Egypt and advance the country's digital infrastructure by expanding broadband and telecommunications networks, digitising governmental services, developing smart cities, broadening digital and financial inclusion via e-commerce and digital payments, and introducing digital innovation hubs.

But you can only advance digitization and innovation as much as your workforce allows you. Therefore, the government has made raising the digital capacity of individuals another major priority. Egypt's technical and vocational education and training system has witnessed unprecedented public and private investments over the past decade, and more than 46 applied technical schools have been launched.

#### Human development will be crucial for long term growth. What is the country's strategy for investing in skills and training?

Given that 27% of Egypt's 110 million population are aged between 10-24, human development becomes an absolute necessity. The government has set forth multiple initiatives to foster investing in skills and training. Such an approach is even more critical in the aftermath of recent global economic shocks that resulted in unprecedented learning losses and many people losing their jobs.

The National Training Academy was established to empower youths in their transition from education to employment by raising their capabilities across different sectors. The Ministry of Education and Technical Education launched the ‘Education 2.0’ programme, which included smart classrooms, 2 million+ tablets, revamping the online Egyptian Knowledge Bank, achieving gender parity in primary and secondary education, and introducing digital exams. These showcase the government's recognition of human development as the cornerstone of sustainable growth and the subsequent prioritisation of investing in skills and training. ●

#### Has hosting COP27 helped create momentum for Egypt's own environmental and energy goals?

The government has recognised the grave danger of climate change and the necessity of orchestrating a cohesive international response to combat it. The monumental steps it has made since taking over the presidency of the COP show how much of a game-changer it was for Egypt's green potential. COP27 allowed for the concentration of national efforts in delivering a holistic programmatic approach to tackle the environmental, social and economic impacts of climate change. In line with this, the Government launched Egypt's platform for the Nexus of Water, Food, and Energy to affirm its dedication to national environmental and energy goals.

We are targeting an annual reduction of GHG emissions of 17 million tons CO<sub>2</sub> through two projects. The first entails constructing and operating a 504MW onshore windfarm in the Gulf of Suez area, which will be the largest windfarm in Africa. The second a 200MW solar project in Kom Ombo, Upper Egypt. The success of NWE allowed Egypt to update its NDCs, reflecting a commitment to accelerating the transition towards a low-carbon development pathway by increasing the deployment of renewable energy to reach the target of 42% installed capacity by 2030 instead of 2035.

#### How is the country balancing its commitment to sustainability with the development of key natural resources?

By setting clear strategic objectives, promoting innovation and green technologies, sustainably managing resources, facilitating green finance and raising human capacities, Egypt is committed to striking a balance between development and sustainability.

The government has created a platform to promote green technologies, amplify the sustainable management of resources, broaden the adoption of smart agriculture and facilitate the availability of green finance. Egypt is constructing 22 new-generation green cities. Cities like the New Administrative Capital and the New Alamein City rely on

# EGYPT'S INVESTORS SEE LIGHT THROUGH THE STORM



Egypt's strategic importance, resilient banking industry and huge population remain strong fundamentals for the country. Although it faces economic volatility, investors say the government is on the right track to unlock Egypt's immense investment opportunities.

For many decades, the old Arabic expression Umm Al-Dunya or 'Mother of the World' has underpinned how the country itself and the wider Arab world thinks of Egypt. The phrase encompasses the weight of Egypt's long history, its cultural influence and its political importance.

Through recent electoral and economic uncertainty, this belief in Egypt's pivotal contributions to the region's past and future have given investors faith that it will weather the current round of challenges and come through stronger.

Many of the issues facing Egypt are not the country's fault. The Covid-19 pandemic was a colossal economic blow. Heavily reliant on imports of food and other commodities, Egypt has struggled with the rampant inflation exacerbated by the war in Ukraine. Perhaps Egypt's most pressing issue is a foreign exchange crisis brought on by a current account imbalance. The lack of foreign currency circulating is seriously dampening economic activity.

"The big question is around the dollar exchange rate," says Tarek Abdel Rahman, managing partner of Compass Capital in Cairo. "There is a 25%-30% difference between the bank rate and the black market. So if you are seeking a return on investment then this is a huge problem."

Egypt has traditionally balanced its import/export imbalance through tourism, remittances, Suez canal receipts and foreign investment. Each of these sources may have taken a serious hit in recent years, but several are showing signs of recovery. Tourism has been dented by terrorist attacks and most recently Covid, but visitor numbers are now higher than they were pre-pandemic.

The tourism ministry reported that 11.7m visitors arrived in 2022, attracted by simplified visa procedures and a growing array of destinations. In April this year, tourism numbers hit a record monthly high of 1.35m. Fitch expects tourism revenue to hit \$14.4bn in 2023, up from \$13bn in 2022. The government is hoping to attract 30m tourists a year by 2028, which will require a dramatic expansion in hotel capacity.

The picture also looks brighter on canal receipts. Recovering global trade, combined with severe supply chain shortages, have pushed up the canal's takings to record highs. In the second half of 2022, remittances fell 23% to their lowest level since 2016, according to central bank data. But this is largely due to the economic uncertainty and dual exchange rate. The government's plan to address both will allow remittances to return.

## FDI RISING

When it comes to investment, there are also positive signs. UN data show foreign direct investment (FDI) more than doubling in 2022, to \$11.4bn. There is huge scope for foreign capital flows to continue to reach new highs.

Before the pandemic, government investment was highly focussed on mega-projects, some of which are unlikely to generate immediate cash flow. This not only consumed large amounts of foreign currency but also crowded out the private sector and foreign investors.

One silver lining from the current set of economic challenges is that they are prompting vital reforms and policy changes that will bring FX inflows and private sector dynamism back to Egypt's economy.

"We've been seeing encouraging signs," says Rahman. "There have been appointments of investor-friendly people to certain important institutions and the investment authorities are working overtime to make investors' lives easier."

In December 2022, President Abdel Fattah el-Sisi approved a transformational state ownership policy that outlines the government's vision for the future role of the state in the economy. This includes raising the participation of the private sector in public investments

**"There have been appointments of investor-friendly people to certain important institutions"**

**—Tarek Abdel Rahman, managing partner of Compass Capital in Cairo**

# Egyptian state companies scheduled for partial privatisation

## FINANCE

Banque du Caire  
 United Bank of Egypt  
 Arab African International Bank (AAIB),  
 Misr Life Insurance  
 Misr Insurance

## INFRASTRUCTURE

Elnasr Housing and Development  
 Maadi Company For Development & Reconstruction  
 El Mosktabel for Urban Development,  
 Misr Concrete Development

## CHEMICALS AND MANUFACTURING

Helwan Fertilizers  
 Wataniya Company for the Sale and Distribution of  
 Petroleum Products  
 Egyptian Polypropylene & Polypropylene (EPP)  
 Chemical Industries Development Company (CID)  
 Paints and Chemical Industries (PACHIN),  
 Alamal Alsharif Plastics  
 The Egyptian Ethylene and Derivative Company  
 (ETHYDCO)  
 Egyptian Linear Alkyl Benzene (ELAB)

## METALS AND MINING

El Nasr Mining  
 Egyptian Drilling Company (EDC)  
 Sinai Manganese Company  
 Egyptian Ferrous Alloys Company

## TRANSPORT AND LOGISTICS

Canal Company for Mooring and Lights  
 Port Said Container & Cargo Handling Company  
 (PSCCHC)  
 Damietta Container and Cargo Handling Company  
 (DCHC)

## OTHER

Salhia Investment and Development Company,  
 Hotels owned by the Public Sector Ministry  
 Misr Technology Service (MTS)  
 Misr Pharma.  
 Safi Waters

## ENERGY

Gabal El Zayt Wind Power Plant  
 Zafarana Wind Farm  
 Beni Suef Power Station

## "Reform policies will reduce the state's involvement and increase transparency in state-owned enterprises."

—Hussein Abaza, chief executive officer and managing director, CIB

from 30% to 65% within three to five years.

Enhancing private sector participation should lead to higher growth — the government wants GDP to grow at 7% to 9% — boost exports and provide new, higher paying jobs for a growing population.

Under the new policy, the state will exit sectors including passenger and cargo transport, food and beverages, retail, and commercial insurance.

### SWATHE OF PRIVATISATIONS

Hussein Abaza, CEO of Egypt's Commercial International Bank, points to government plans to sell or list its stakes in 32 state-owned firms, in a privatisation programme covering a range of sectors from tourism and energy to banking and insurance.

Government holdings of United Bank of Egypt, Banque du Caire and Arab African International Bank are all scheduled to be sold. "Selling state assets will enable the Egyptian economy to weather the crisis inflicted by the Russia-Ukraine war, since the war has sparked a huge outflow of foreign investments," he says. "Reform policies will reduce the state's involvement and increase transparency in state-owned enterprises."

This privatisation approach is also likely to be crucial in unlocking additional funding from the International Monetary Fund and the country's Gulf allies. This funding has been delayed until certain reforms were implemented — not least the introduction of a flexible exchange rate.

The IMF wants to see solid progress, while the Gulf states want to make a return on any assistance, which means the ability to buy state-owned assets.

Analysts say the Egyptian authorities are understandably waiting for the initial inflow of foreign currency from asset sales before adjusting the exchange rate. This will enable them to adjust the value of the Egyptian pound from a stronger position.

"This would also hopefully reduce the amount of adjustment needed, limiting the inflationary impact on the population," says Trevor Cullinan, director at S&P Global Ratings in Dubai.

In short, privatisation is to raise foreign currency, allowing a currency adjustment that would in turn unlock a new wave of donor funding. All this should go a long way to calming domestic and international investors, especially at a time of broader unease across emerging markets.

S&P analysts note that, under its agreement

with the IMF, the government aims to raise \$4.6bn from asset sales in the 2023-24 fiscal year, having broadly achieved its initial target by raising \$1.9bn over the six months to June 2023.

Together with the Gulf governments' pledge to invest in Egyptian companies, the government has a plan that should have real impact.

### STRONG FUNDAMENTALS

Egypt also benefits from a host of strong fundamentals that will support investment. One is a strong, well-regulated banking sector able to cope with the rapid rise in interest rates and inflation.

"Banks are the backbone of the economy and we are blessed with very strong banks and very strict regulations on what banks are allowed to do," says Rahman.

The banks do not rely on foreign funding nor have exposure to risky financial products. Fitch Ratings says the average Tier 1 capital adequacy ratio across the banking sector is above 17% — higher than international standards. Banks have enough reserves to cover the expected rise in non-performing loans, and Fitch analysts expect payment facilities to prevent a significant deterioration in asset quality.

"Banks like CIB responded to high interest rates by issuing foreign and local certificates of deposit with varying annual interest rates," says Abaza at CIB. Such certificates are intended to support local currency saving and are in line with central bank efforts to strengthen the pound and stop the black market sale of dollars.

"The Central Bank of Egypt is taking the necessary steps to safeguard people's local currency savings and establish a price for the Egyptian pound against the US dollar," Abaza says.

Fitch expects the central bank to devalue the currency in the third or fourth quarter this year, hoping to relieve the main source of pressure on the banking system.

"Egyptian expatriates will resume remitting money through official channels, while receding FX risk will encourage portfolio investors to re-enter the Egyptian debt and equity markets," the rating agency said in an August outlook.

FDI flows will also improve the financial sector's net foreign asset position, which hit a record low of minus \$27.1bn in June, according to Fitch. It expects Egyptian banks' net foreign asset position to improve by the end of this year or early 2024.

Egypt's financial sector was already entering a new phase of dynamism even before the gov-



### Production and construction

Clockwise from top left: the production of drugs used in the treatment of Covid-19 at Eva Pharma in Cairo; New Mansoura City; The site of the Central Business District in the new administrative capital, east of Cairo and the new Cairo monorail on track

ernment announced its privatisation plans. The authorities have made fintech a priority, not least to boost financial inclusion.

Looking at the numbers, Egypt is a financial start-up's dream. It is a country of over 100m people with mobile penetration of almost 95% and internet use north of 72%. But financial inclusion is still less than 65% for adults, and under 60% for women. The possibilities are immense, and fintechs are already making inroads.

In 2017, the authorities surveyed how many fintech firms and payment service providers there were in the country — they found 38. In 2022, that number had grown to 199, of which almost a quarter had offices overseas.

Over the same period, venture capital and private equity investment in fintechs rose from \$15.5m to almost \$800m. More than half of firms in 2022 said they were planning to expand in the next 12 months, with key markets including the Mena region, Turkey, Pakistan and parts of Africa.

Payments and remittances account for more than a third of the fintechs, but the alternative lending, data analytics and business-to-business marketplace segments are expanding quickly.

Egyptian banks and global lenders like HSBC and Standard Chartered are enthusiastically partnering with nimble start-ups to help tap into underserved client groups like small and

medium sized enterprises.

### HEALTH AND HOUSING

Egypt's population of almost 110m and its solid long term growth outlook mean there are huge opportunities for investors, both domestic and international.

The real estate market has long been one of the most attractive options. Almost one fifth of Egypt's population is aged between 10 and 19, and there are around 26m people aged 24 or below. This massive pool of young people will drive demand for retail space and later housing.

The government is building an array of large real estate infrastructure projects — including the New Administrative Capital, New Mansoura City and New Alamein City — that blend residential, commercial and industrial spaces.

“If you look at the last 10 years, real estate has returned around 22% per year in terms of total investment return,” says Rahman. “Nothing else even comes close, and real estate also acts as a hedge against inflation.”

Healthcare is another sector analysts expect to be very attractive to investors, and which enjoys the same fundamental support as housing. Egypt aims to provide universal health coverage as part of its Vision 2030 strategy, but private hospitals and care providers are becoming increasingly important.

The government has opened state-affiliated hospitals to private investment. Healthcare providers have continued to expand despite the economic difficulties.

In May this year, outpatient provider Dawi Clinics announced it would open 30 new clinics with E£250m (\$8.1m) raised in a funding round led by National Bank of Egypt's AlAhly Capital Holding, with a co-investment by the Egyptian-American Enterprise Fund. Egypt is an increasingly popular destination for medical tourism across the region.

Not only is Egypt's population the largest in the Middle East and North Africa, but it is forecast to grow by almost 50% by 2050. For investors in the education sector, this puts the country front and centre of any growth strategy.

Enrolment rates are higher than the global average. The population places incredible importance on education, and private schools are among the priorities for households even on modest incomes. “It's an industry that a lot of corporations have entered over the last few years — especially universities and even schools,” says Rahman.

Egypt has had a difficult year, but there is cause for optimism that a new generation of targeted reforms will allow the country and its highly educated, industrious population to reach their true potential. ●

# HUSSEIN ABAZA,

## CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR, CIB



### How has hosting COP27 helped Egypt and CIB strengthen their commitment to sustainability and the energy transition?

COP27 demonstrated the power of well organised climate-vulnerable nations pursuing collective, purposeful action for climate justice. The Middle East and Africa were core actors at COP27, since they were considered to be the most vulnerable to climate change. CIB is committed to working with stakeholders to achieve decarbonisation and climate goals. By collaborating and providing leadership, the bank aims to support the transition towards a green economy that benefits communities, the environment, and the economy.

Our bank has partnered with the International Finance Corporation in developing a climate risk management framework according to the Task Force on Climate-related Financial Disclosures' recommendations and guidance. The advisory services include initial portfolio screening against transition and physical risks, along with scenario analysis and stress testing framework. CIB has also collaborated with the IFC in issuing Egypt's first private sector corporate green bond — a \$100m transaction — to help unlock finance for climate-smart projects. This is in addition to another \$100m from the IFC as a green trust fund for climate mitigation and adaptation finance.

CIB's client transition programs are helping support clients to develop carbon emission reduction solutions, in addition to innovating sustainable finance instruments. Our Sustaining Sectors and Sustaining SMEs Program helps corporates in different sectors leverage sustainability to realise their growth potential while driving system transformation toward a circular economy. An ESG Data Digitalisation programme, meanwhile, will develop an innovative hub to track sustainability performance.

### What is the bank's strategy for expansion into new markets?

Looking for lucrative opportunities whenever and wherever they arise has always been an integral part of CIB's overall growth strategy. Egypt is the gateway to Africa, which makes the continent a

logical market for a focus of expansion. Expansion into the African continent serves to accelerate balance sheet and earnings growth and follow our corporate customers who are moving into Africa. It also allows us to capture a significant share of the fast growing Egypt-Africa trade, export CIB's competitive advantage in data and consumer markets to select African countries, and have CIB play a national role in serving the sovereign mission to maintain close economic ties with the entire continent.

CIB has looked to Kenya as the most economically developed market in East Africa and for its relative geographic proximity. The bank recently acquired Mayfair Bank, making CIB the first Egyptian bank to expand its operations into Sub-Saharan Africa. Kenya is widely viewed as the region's commercial and industrial hub, due to its political stability, macroeconomic fundamentals, business environment and logistical services that place the country very close to all regional trade transactions.

CIB Kenya will enable the bank to capitalise on Kenya's position as a trade hub by providing trade finance and credit facilities for Egyptian mid-sized corporates. Firms will benefit from the

### "CIB's client transition programs are helping support clients to develop carbon emission reduction solutions"

strength, safety and security of Egypt's leading private sector bank. Importantly, having an established and fully operational bank will allow for a focus on SMEs, in addition to high net worth individuals. Finally, I would like to note this acquisition is a first step in our continued identification and evaluation of further opportunities in Africa.

### Digitalisation, innovation and fintech hold great potential for Egyptian banks. How is CIB engaging with these trends?

Digitalisation has the potential to revolutionise Egypt's banking industry. By adopting digital technologies, banks can improve efficiency, reduce costs and reach a wider range of customers. They can also offer new and innovative products and services that meet the needs of a changing customer base. CIB is one of the leading Egyptian banks in engaging with digitalisation trends. Our commitment to innovation and digitalisation led to the creation of our Bank of the Future program in late 2020. Its six key pillars are service digitalisation; operations centralisation; robotics; branch digital experience; branch classification; and digital

sales. The program has improved several customer service areas including internal and external fund transfer migration rates, cost synergies and transaction volumes.

The bank has invested heavily in digital infrastructure and technologies, and has launched a number of innovative digital products and services. Our focus has been — and continues to be — on innovative solutions, digital channels, data analytics and the customer journey. This has allowed us to create unique digital value propositions and sales efficiency and to manage costs. Our digital readiness enables us to support our customers as well as the wider community.

Online platforms have become a highly effective digital sales channel. They now contribute 48% of the bank's total annual certificates of deposit and term deposit booking by volume and 44% by value. This has enabled CIB to reduce branch traffic and enhance the customer experience. Almost 66% of the bank's customer base uses online banking, with 2.2 million internet banking transactions totalling around EGP 65.6bn executed last year — a 13% year-on-year increase. The online banking customer base reached 1.3 million users in 2022 — an increase of 25% — and mobile banking transactions increased by 57% to 11.4 million. Zaki the Bot — CIB's AI-powered chatbot — conducted over 488,000 interactions on both the public website and Facebook Messenger.

CIB's 'bank-as-a-service' infrastructure enables fintechs and corporates to interact directly through application programming interfaces or APIs, and it has adopted new technologies, such as the instant payment network (IPN) that creates a real time, interoperable ecosystem allowing instant, seamless transfers through digital channels or payment service provider applications.

### How is CIB using collaboration and partnerships to expand its services?

Egypt is a country with a large population of over 105 million people. Most Egyptians are either entirely unbanked or underserved, meaning they lack access to basic financial services such as payment products, savings accounts, credit facilities and insurance. CIB is partnering with fintechs and other technology-enabled platforms to develop innovative tailored solutions that can help facilitate access to financial services to vulnerable segments of society in a more sustainable manner. CIB is providing entrepreneurs with the mentorship, infrastructure and banking services needed to complement CIB's strategy and drive the national agenda of sustainable financial inclusion for all segments of society. ●

# EGYPT: AN EMERGING POWERHOUSE OF GREEN ENERGY



© REUTERS/Amr Abdallah Dalal

Egypt may lack the Gulf region's capacity for state-directed investment, but its savvy policy choices and private sector dynamism have still made it a regional leader in renewable energy growth.

From endless desert sunshine to strong coastal winds, the Middle East and North Africa is not short of potential for green energy. Looking at the countries expected to drive most of the region's renewables growth, Egypt is at the head of the pack.

Given the country's abundant supply of sunlight, solar power is often what comes to mind when thinking about green energy in Egypt. But the Gulf of Suez is a world class wind source.

BMI Renewables Industry Research expects wind capacity in the MENA region to increase by almost 14GW over the next 10 years. Easily the largest source of growth — providing over half of the predicted increase — will be Egypt.

The government deserves much of the credit. The authorities have worked hard to expand renewables capacity with the aid of international partners. Egypt has used its Sovereign Fund along with collabo-

ration from a range of multinational entities and international investors to tap into its wind potential.

One such project — Gulf of Suez II — will be one of the largest wind farms in Africa. Located in the Ras Ghareb area some 300km southeast of Cairo, the 500MW project is due to come online in 2025 and supply more than 800,000 Egyptian homes with green energy.

Egyptian authorities think the project could reduce Egypt's CO2 emissions by about 1m tonnes a year. In late 2022, the authorities announced the 500MW Amunet wind project — a joint venture between Japan's Sumitomo Corp and AMEA Power of the United Arab Emirates.

This year, Egypt has continued to build momentum for wind investment. In July, the New and Renewable Energy Authority announced an agreement with Norwegian firm Scatec to develop a 5GW wind power plant in West Sohag, in the south of the country.

In August, NREA signed a deal with a consortium of Orascom Construction, France-based Engie and Japan's Toyota Tsusho to provide land for a 3GW wind farm in the same area.

Egypt is also moving forward with a colossal 10GW wind project — which would be one of the largest in the world — first agreed on the sidelines of COP27. NREA recently signed an agreement with a group of firms — including Egyptian-Abu Dhabi joint venture Infinity Power — to provide land for the project, which would avoid 23.8m tonnes of CO2 and an estimated \$5bn in natural gas costs each year.

## PRIVATE SECTOR SUPPORT

Wind might be driving much of the increase in renewable capacity, but the possibilities for solar are no less impressive. Estimates put the country's total annual sunshine at up to 4,000 hours, or 11 hours a day.

Egypt is undertaking a mix of large,

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## Desert storm

The Zafarana Wind Farm outside Cairo

## “The Central Bank of Egypt is establishing an enabling environment for Egyptian banks to benefit from the opportunities provided by sustainable financing”

—Hussein Abaza, CEO of Commercial International Bank

utility-scale solar projects and using targeted policies to help grow solar in the retail and small scale segment. Financial assistance programmes for farmers are helping them roll out solar-powered irrigation systems that save money and reduce reliance on diesel generators. The government has introduced net metering and feed-in tariffs, meaning residential and commercial property owners can sell excess electricity they generate to the grid.

On the larger end of the scale, Saudi firm Acwa Power recently closed financing for the 200MW Kom Ombo power plant — expected to come online early next year. Funding from multilateral agencies and private banks will create a utility-scale solar plant able to power 130,000 homes.

This touches on a key aspect of Egypt’s progress. Unlike the Gulf states — the other regional green energy powers — in Egypt it is the private sector, foreign investment and debt financing that will drive green growth.

The NREA reported that foreign investment into Egyptian energy projects doubled to \$3.5bn in the 2021-22 financial year. Again, sound policy is part of the story. New cross-border power connections are making projects more appealing by boosting

export capacity. Moves to raise electricity prices and lower fuel subsidies will make green power more competitive and support profits in the private sector power industry.

### MAKING BANKING BETTER

Financial sector support for the energy transition is soaring as Egypt’s banking sector embraces green and sustainable finance as part of its own transformation.

In the last few years, the Central Bank of Egypt and the Financial Regulatory Authority have introduced new regulatory directives across the financial industry.

In late 2022, just before the start of COP 27 in Sharm el-Sheikh, the CBE issued binding sustainable finance regulations with specific requirements and timelines (see table).

Egyptian banks have to introduce sustainable finance products, increase their green portfolios and analyse environmental risk from projects. This requires new policies, creating and staffing new departments, and publishing annual sustainability reports. Mandatory reporting and disclosures started in the second half of 2023.

“The Central Bank of Egypt is establishing an enabling environment for Egyptian banks to benefit from the

opportunities provided by sustainable financing, while managing risks and benefiting all stakeholders’ groups,” says Hussein Abaza, CEO of Commercial International Bank. “The infrastructure base for the Sustainable Finance Roadmap is now being implemented, which starts with sustainable finance capacity building for the Egyptian financial sector, through training programmes and workshops to build up the necessary knowledge and skills in this field.”

In the capital markets, the Egyptian government showcased its commitment to sustainability and inspired other emerging markets by issuing its inaugural green bond for \$1.9bn in 2020. The banks have followed in its footsteps. CIB issued Egypt’s first corporate green bond during the pandemic — a \$100m note fully subscribed by the International Finance Corp — to increase financing for sustainable solutions to climate change.

Abaza sees potential for green and sustainable financing in many fields — renewable energy, industrial energy efficiency, green buildings, waste and water treatment, sustainable transport, tourism and agriculture.

This also benefits Egypt’s economy, he says, “by increasing the percentage

## Binding Sustainable Finance Regulations

In November 2022, the Central Bank of Egypt issued binding sustainable finance regulations as part of the country’s commitment to the UN Sustainable Development Goals and Egypt’s Vision 2030. The regulations include:

Banks must incorporate sustainable finance policies within their existing credit and investment policies. In addition, banks must set procedures consistent with the CBE’s Guiding Principles for Sustainable Finance, and sub-

mit the new policies and procedures to the central bank by October 1, 2023.

A bank’s board of directors should ensure the new policies and procedures are put in place and validate the required reports.

Banks must establish an independent Department for Sustainability and Sustainable Finance that reports directly to their CEO or deputy CEO by April 1, 2023. This department should include individuals who have expertise in credit and risk, and who can coor-

dinate between the various departments within the bank.

These new departments will take responsibility for implementing sustainability and sustainable finance policies through the bank.

Banks must consult an environmental expert accredited by the Ministry of Environment to assess environmental risks of large corporate projects from July 2023.

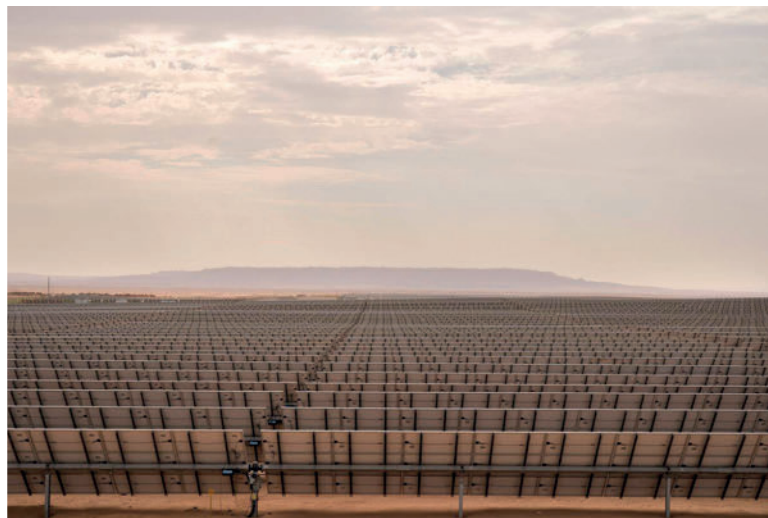
Banks must prepare periodic reports to be provided to the central bank’s own Sustainability De-

partment. These reports include:

Semi-annual status reports on the implementation of the Sustainable Finance Guiding Principles starting from July 2023.

Quarterly quantitative reports on sustainable financing activities starting from July 2023.

Annual sustainability reports approved by the bank’s board, which should be prepared in accordance with the Global Reporting Initiative. These must be provided on March 31 each year, starting in 2024.



of renewables in the nation's energy composition, promotes green buildings throughout the country, and develops resource efficiency best practices in the industrial sector."

In 2023, CIB signed a \$100m green funding mechanism for climate finance with IFC to finance mitigation and adaptation projects in several sectors including tourism, transport, agriculture, industrial sectors and water and waste management.

The bank has also expanded its sustainable financing portfolio to include 12 new product offerings designed to serve companies, as well as small and medium-sized enterprises (SMEs) from both the public and private sectors. Applications include water desalination, energy management systems, retrofitting buildings, pollution prevention and control, sustainable agriculture and sustainable transport.

Abaza says CIB's efforts to increase its climate finance offerings "aim to provide convenient financial solutions to complex environmental challenges for carbon-intensive industries, enabling their transition toward a low carbon economy."

### SUSTAINING SMES

The SME space, which accounts for over 90% of Egyptian firms, is full of firms in carbon-intensive sectors facing new pressure to adapt. Egyptian garment exporters, for example, serve Europe as a vital market, which increasingly requires high sustainability standards.

SMEs are looking for financial assistance to shift to green production and future-proof their businesses. The

pressure on exporters is greater, but domestic firms are also responding to the new dynamic.

Catering to this demand, CIB has its own Sustaining SMEs lending initiative and a Sustaining Sectors programme adapted to different industries.

Major firms face even more security. Listed Egyptian companies now bear the same mandatory environmental, social and governance reporting requirements as banks.

Meanwhile, oil and gas is still a critical part of the Egyptian economy. Yet Egypt is making impressive strides to improve efficiency and lower emissions. Hosting COP 27 was an important catalyst.

At the event, Egyptian firms and government entities signed multiple agreements aimed at creating a more environmentally friendly oil and gas industry.

Egyptian Liquefied Natural Gas Co is working on the possibility of a zero-flaring system at gas terminals. In July this year, Egyptian Natural Gas Holding Co (EGAS) and partner Wintershall Dea announced that their joint venture Disouco had become the first firm in Egypt to achieve zero routine flaring.

EGAS is also working with global firms like Shell and TotalEnergies to study options for decarbonising the petroleum industry.

The combination of banks keen to boost their green portfolios and fossil fuel firms eager to clean up their operations is a winning one.

One emerging energy solution that holds promise for Egypt and its lenders is green hydrogen. In August

this year, Swiss firm Smartenergy said it was in discussions to construct a green hydrogen facility in Egypt. In March, Egypt's government said China Energy Engineering Corp would begin work on a colossal \$5bn project using solar and wind generation to produce 140,000 tonnes of green hydrogen a year. Much of this will be exported to European markets as ammonia, enlarging Egypt's access to foreign exchange.

The outlook for cleaner natural gas, burgeoning renewables and cutting edge green hydrogen could turn Egypt into an energy export powerhouse. Its electricity grid is already connected to many regional neighbours including Jordan, Turkey and Sudan. Recognising the export potential, the government is collaborating with other African countries to improve interconnections through the Nile Basin Initiative.

Even more ambitious projects could strengthen connections with Europe. The Greek and Egyptian governments have held discussions on the GREGY interconnector — a visionary project that has its origins in the private sector.

Infinity Power and Greek conglomerate Copelouzos are driving the plans, which would see a colossal 3GW capacity subsea cable transmit Egyptian solar and wind energy to Greece.

Located at the crossroads of Africa, Asia and Europe, Egypt has been a regional power and crucial source of commodities for hundreds of years. As the world undergoes an unprecedented energy transition, the country looks set to carry its historic role into a new future. ●

### Let the sun shine

Benban Solar Park, Aswan. —one of the world's largest solar power plants; an aquaponic farm, which recycles water in fish tanks to grow vegetables, in Cairo