Proceedings of the
Conference on
The Reform of the Egyptian Financial Sector

Organized by
American Chamber of Commerce in Egypt
Opening Session

Dr. Taher Helmy, President, AmCham Egypt; and Partner, Helmy, Hamza & Partners (Baker & McKenzie)

Chairpersons

Mr. Fathy El-Sebai Mansour, Chairman, AmCham Egypt Real Estate Committee; and Chairman, Housing and Development Bank Hamza & Partners (Baker & McKenzie)

Mr. Roderick Richards, Managing Director, Egyptian American Bank-EAB

Mr. Hassan Heikal, Co-Chief Executive Officer, EFG-Hermes

Dr. Hazem Yassin, Board Member, Capital Market Authority

Mr. John Metcalf, Executive Chairman, Allianz Egypt

Dr. Samir Radwan, Executive Director, Economic Research Forum

Mr. Sherif Fathy, Chief Financial Officer, Ridgewood Egypt for Infrastructure Projects

Dr. Taher Helmy, President, AmCham Egypt; and Partner, Helmy, Hamza & Partners (Baker & McKenzie)

Speakers

Mr. Ahmed Abou Ali, Chairman, AmCham Egypt Legal Affairs Committee; and Partner, Hassouna & Abou Ali Law Offices

Mr. Aladdin Saba, Chairman, Beltone Asset Management (Fund Management)

Dr. Amira Shalaby, Consultant, Housing and Development Bank and Representative of Canada Mortgage and Housing Corporation (CMHC) in Egypt

Mr. Hassan Hussein, Chairman, AmCham Egypt Banking, Finance & Insurance Committee; and Chairman and Managing Director, United Bank of Egypt
Dr. Mohamed Taymour, Member of the Board, AmCham Egypt; & Chairman, EFG-Hermes Holdings

Mr. Mustafa Abdel Wadood, Co-Chairman, AmCham Egypt Investment & Capital Market Committee; and Managing Director, Investment Banking, EFG-Hermes Holdings (Capital Market)

Dr. Nadeem ul-Haque, Country Representative, International Monetary Fund-IMF

Mr. Saad Mered, Co-Chairman, AmCham Egypt Banking, Finance & Insurance Committee; and Vice Chairman and Managing Director, AIG Pharaonic Insurance Company

Dr. Sameh El Torgoman, Chairman, Cairo & Alexandria Stock Exchanges

Mr. Tarek Mansour, Country Senior Partner, Mansour & Co. PricewaterhouseCoopers

Mr. Yasser El Mallawany, Treasurer, AmCham Egypt; and Chief Executive Officer, EFG-Hermes Holdings

Dr. Ziad Bahaa Eldin, Managing Partner, Bahaa Eldin Law Office "Legislative Process"

Panelists

Mr. Ahmed El Bardai, Chairman of Banque Du Caire, and Chairman of the Federation of Egyptian Banks

Dr. Ahmed Galal, Executive Director, Egyptian Center for Economic Studies

Mr. Greg Wiitala, Division Chief, Finance & IT Section, USAID

Mr. Hassan Abdalla, Deputy Chairman & Managing Director, Arab African International Bank

Mr. Hussein Choucri, Chairman, H.C. Securities & Investment

Dr. Khalil Nougaim, Chief Executive Officer, Cairo Capital Group

Dr. Mahmoud Mohieldin, Member of the General Secretariat, Chairman of the Economic Committee, The National Democratic Party

Mr. Martin Moorhouse, CFO, Vodafone Egypt
Mr. Mustafa Bakier, Finance Director, Al Mansour Automotive Co.

Mr. Mohamed Abdallah, Co-Chairman, AmCham Egypt Real Estate Committee; and Chairman, Coldwell Banker Affiliates of the Middle East

Mr. Naguib Sawiris, Chairman, Orascom Telecom

Mr. Ricardo Resende, Finance Director, General Motors Egypt

Mr. Robert Naudi, Consultant, Aon, Ltd. UK

Dr. Samir Hamza, Partner, Helmy, Hamza & Partners (Baker & McKenzie)
Acknowledgements

I would like to extend deep appreciation to each and every member of the Financial Reform Taskforce for the extensive efforts they made throughout the preparation for this important conference. It is these efforts that have made it a success.

Let me start by thanking members of the Finance Forum, particularly Mr. Tarek Mansour, Country Senior Partner of Mansour and Co. PricewaterhouseCoopers and Mr. Sherif Fathy, Chief Financial Officer, of Ridgewood Egypt for Infrastructure Projects, for initiating the discussion of the topic of financial reform in Egypt and following it through to the end.

I thank Dr. Taher Helmy, President of AmCham Egypt, for his enthusiasm for the idea, encouragement, and support. This was essential in kick starting the whole process and ensured its success.

I thank Dr. Mohamed Taymour, Amcham Board Member and Chairman of EFG-Hermes Holdings, for his guidance as head of the Financial Reform Taskforce and for contributing to the sponsorship of the event. Dr. Taymour was also a prominent speaker at the conference. Additionally Dr. Taymour was highly involved in the review of the final conclusion and recommendations for financial reform.

I would also like to acknowledge the support of Dr. Nadim Ul Haque, who at the time was the IMF Country Representative for Egypt and shared his insight on financial reform in Egypt in light of other countries’ experiences. Dr. Nadim continued to provide his support throughout the conference and even and after even though he was no longer in Egypt.

Special thanks are due to AmCham committee chairpersons; Mr. Fathy El-Sebai Mansour, Chairman of the Real Estate committee, Mr. Ahmed Abou Ali, Chairman of the Legal Affairs committee, Mr. Hassan Hussein, Chairman of the Banking, Finance and Insurance committee, Mr. Moustafa Abdel Wadood, Co-chairman of the Investment & Capital Markets committee, and Mr. Saad Merad, co-chairman of the Banking, Finance and Insurance committee. These were the steering committees for the whole process.

AmCham was also fortunate in receiving sponsorship for the event itself from six of our esteemed members. In particular, we thank Dr. Mohammed Magued, Chairman and Managing Director of the Egyptian Banks Co. for Technological Advancements for his major contribution. We also thank AIG Pharaonic Insurance, the Egyptian American Bank, the Housing and Development Bank, the United Bank of Egypt, Coldwell Banker Affiliates of the Middle East and USAID. In addition to the large financial support, sponsors and members have taken an active role in the Taskforce meetings and during the conference itself.

AmCham would also like to thank guest speakers from key government positions for accepting our invitation to be prominent members of the panel throughout the various sessions. Their presence has no doubt enriched conference discussions and opened new horizons. We thank Dr. Mahmoud Mohieldin, recently appointed as Minister of Investment, Dr. Samah El Torgoman, previous Chairman of the CASE and currently the Chairman of the General
Finally, thanks are due to all other chairpersons, panelists and speakers who enriched the discussions. We highly acknowledge the role of these financial experts in sharing their experiences and insight throughout the sessions.

Last but not least, the work of our Business Studies & Analysis Center (BSAC) must be acknowledged. The BSAC team was responsible for summarizing the sessions and consolidating the conclusion during the conference itself. They also worked hard at the editing, design, and layout of this volume of proceedings.

Hisham A. Fahmy

Executive Director, AmCham Egypt
Contents

Preface .................................................................................................................................................1

Session Summaries .............................................................................................................................9

I- On The Development of Financial Markets in Developing Economies........I.1
   Dr. Nadim Il Haque

II- The Egyptian Capital Market .................................................................................................II.1
   Mr. Moustafa A/Wadood

III- Regulatory development and Legislative Process: The Case of the Egyptian
     Securities Market ...................................................................................................................III.1
   Mr. Ahmed Abou Ali

IV- The Insurance Market ............................................................................................................IV.1
   Mr. Saad Merad

V- Real Estate and The Mortgage System .....................................................................................V.1
   Dr. Amira Shalaby

VI- Corporate Finance in Egypt .....................................................................................................VI.1
   Mr. Tarek Mansour

VII- Conference Conclusion and Recommendations ...............................................................VII.1

Appendix of Figures
Preface

The relationship between financial sector development and growth is of particular relevance to all developing countries. Empirical research and live country experiences have revealed that financial development is positively correlated with current and future economic growth. However, the mere erection of stock exchanges and existence of banks is inconsequential if not accompanied by an appropriate regulatory environment, institutional framework and market practices that are conducive to investment.

Recognizing this, AmCham Egypt organized and hosted a two-day conference devoted to the latest developments in Egypt's financial sector. There is one common vision for the conference and that is to restore Egypt's position as the financial center of the Middle East. This conference has brought together a galaxy of finance heavyweights from the local private sector and from multilateral institutions, to speak about a range of issues, including: reform policies; the banking system; capital markets and fund management; regulation and the government role; insurance; real estate; and corporate finance. In this way the conference was able to convey all the inter-relations within Egypt's financial sector.

Planning and preparation for the conference took over six months of continuous hard work from the esteemed members of the Financial Reform Taskforce, a miniature representative of Egypt's private financial sector. The taskforce is headed by Dr. Mohamed Taymour, Board Member of AmCham Egypt, and Chairman of EFG-Hermes Holdings, the largest investment bank currently operating in Egypt. The taskforce also included Dr. Nadim Ul Haque, IMF Country Representative for Egypt. Dr. Ul Haque was not merely a special guest and distinguished speaker at the conference itself but shared his views and international expertise throughout the whole process, providing guidance wherever possible. The outcome is a successful event with a set of excellent, comprehensive papers and presentations from financial market practitioners.

The six distinctive papers that were presented at the conference are re-produced in this volume of proceedings followed by the final set of recommendations resulting from continuous discussions and debate that took place at the time.

Proceedings begin with the paper presented by Dr. Nadim Ul Haque on "The Global Experience" for financial sector development. In his paper, Dr. Ul Haque begins with briefly reviewing development finance literature. It is then stressed that financial sector reform should "not necessarily be guided by the path it took in advanced economies". From the viewpoint that the most fundamental role of the financial system remains the intermediation between savers and investors, there are seven core functions that should act as a guide and anchor for financial sector policies. Using this functional approach, the paper provides a general assessment of the financial sector in developing countries, moving on to present a policy agenda for an emerging economy to develop its financial sector. Stress is placed on the necessity of adequate public infrastructure, meaning a credible national regulatory scheme.
that promotes private initiative. This is where the role of the government as regulator comes in. It is also important to allow the development cycle for each country to determine its own natural sequence for reform. Resistance to financial innovation will only encourage informal sector growth and so should not be suppressed. In the end, the paper states that government policies should be directed towards reducing the costs of the financial system by facilitating liquidity and promoting market transparency, rather than stifling innovation and trading.

The second paper on "The Egyptian Capital Market" was presented by Mr. Mustafa Abdel Wadood, Co-Chairman of the AmCham Egypt Investment and Capital Market Committee and Managing Director for Investment Banking at EFG-Hermes Holdings. The paper measures the current status of the capital market in Egypt against other emerging countries and Arab countries. It proceeds to analyze the current structure of the market, going through financial intermediaries, the equity and bond markets, and the pension system. The paper concludes that the financial sector in Egypt "is not performing in line with its peers or at least in line with its potential". To realize this potential a set of "practical measures" is given with respect to regulatory issues, disclosure and transparency, quality of intermediaries, development of the bond market, new products and technical issues related to trading, and demand/supply-side issues.

On the second day of the conference sessions began with a discussion of "Regulation and the Role of the Government" in the financial system. In this session Mr. Ahmed Abou Ali, Chairman of AmCham's Legal Affairs Committee and Partner of Hassouna & Abou Ali Law Offices, presented a thorough paper on the "Legislative Process" in the Egyptian securities market. In his paper he points out some of the pertinent areas where additional efforts in legislation and regulation are needed. After overviewing the structure and legal framework of the Egyptian financial sector, internationally known standards and principles governing global financial markets are explained at length. Principles of the International Organization of Securities Commissions (IOSCO) are then used as a test of the compatibility of the current Egyptian capital market's legal framework with international standards. The three IOSCO objectives, namely protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk, are examined with respect to current securities regulation in Egypt. To conclude, and in conformance with the capital market paper, realization of Egypt's full potential requires sustained effort to improve the current legal framework to meet the evolving challenges of future development. Focus here is placed on the legal framework of the securities market, as a key component of the financial sector in Egypt.

The vital role of the insurance sector in economic growth and development is addressed in the paper presented by Mr. Saad Mered, who at the time was Co-Chairman of AmCham Egypt's Banking, Finance & Insurance Committee and Vice Chairman and Managing Director of American International Group (AIG) Pharaonic Insurance Company. Recent liberalization of the insurance sector has led to the entry of several major international insurers, including AIG Pharaonic Insurance itself, to benefit from the sector's high growth potential. Egypt's insurance sector is still in its early stages of development, though, and so must deal
with several structural impediments to growth before realizing this potential. The main focus of this paper is to identify structural impediments to insurance sector development one by one. Excessive premium taxes, restrictive investment regulations, ineffectual pension fund legislation, lack of effective distribution channels, the slow progress of privatization, and dual role of the regulatory and supervisory authority all constrain the growth of the sector. The paper prescribes solutions for each of these impediments based on best practice comparisons from other countries. It is concluded that unleashing Egypt's full growth potential requires a series of liberalization measures, best implemented simultaneously.

The real estate market and mortgage system are an important and newly introduced component of the Egyptian financial sector. Also, with the recent enactment of the executive regulations of the Mortgage Law No. 148/2001 in 2003, it is definitely a hot topic for discussion. At the time of the conference, the first private real estate mortgage had only just been announced.

In this respect, Dr. Amira Shalaby, Consultant at the Housing and Development Bank and Representative of the Canada Mortgage and Housing Corporation (CMHC) in Egypt, presented her paper on the challenges facing Egypt's real estate market. After a clear mapping of the market and relevant legislation and regulation, the reasons for the (1998-2002) recession are analyzed. Factors affecting the implementation of mortgage finance in Egypt, divided into simple and complex issues, are then highlighted and respective recommendations are discussed.

Corporate finance issues were presented by Mr. Tarek Mansour, Country Senior Partner of Mansour & Co. PricewaterhouseCoopers. Mr. Mansour conveyed the views of the Finance Forum, members of which hold management or directorial positions in manufacturing and industry. In keeping with the vision of Egypt becoming a world-class financial center attracting increased local and foreign investment, there are several government-related and financial market issues that constrain corporate finance in Egypt. Resolving these issues mainly involves creating a credible and transparent environment, dealing with foreign exchange problems without causing market panic, removing unwanted red-tape, and strengthening legal enforcement. All these are in the hands of the government. Other issues are more related to market conditions and the specific structure of Egypt's financial sector. Here there is common ground with the other papers as many of the recommendations are similar in essence.

Without much overlapping the papers presented at the conference have succeeded in conveying a true picture of the financial sector in Egypt as it currently stands and covering essentially every aspect that needs to be covered. The closing session managed to consolidate all the main issues presented throughout the sessions and stressed on priority recommendations. In general, less government intervention, more mergers and acquisitions, increased transparency, fewer taxes and duties, and stronger enforcement of rules and regulations all contribute to a more liberalized framework for the financial sector to operate in and become an
engine of growth for the economy as a whole.

With that I would like to point out that this great effort does not end here. In the quest to resolve Egypt's financial sector deficiencies, the full set of recommendations for the sector as a whole and for each sub-sector in specific have been presented to the Prime Minister in one comprehensive document. Members of the Financial Reform Taskforce have taken the responsibility to follow-up on these issues into their own hands and will heartedly carry it through to the very end.

It is my hope that we can see these recommendations materialize in the near future, to mark the success of the conference and inspire us to organize future events that will make a difference in Egypt's drive for private sector-led economic growth and sustainable development.

_Taher S. Helmy_

_President, AmCham Egypt_
Session Summaries
Day 1: Session I

Vision for Financial Sector Reform

**Chairman:**

Dr. Taher Helmy, President, AmCham Egypt and Partner, Helmy, Hamza & Partners (Baker & McKenzie)

**Speaker:**

"The Global Experience"

*Dr. Nadeem ul-Haque, Country Representative, International Monetary Fund-IMF*

**Summary**

This paper presents a selection of ideas from global research pointing to misconceptions of finance and the importance of financial depth to future growth and future productivity growth. Financial markets are crucial for credit allocation, risk management, and price discovery.

A competitive market is a form of a public good. However, in most LDCs the government is the player, owner and regulator all at once.

After presenting different models for the role of the regulator, the referee model is taken as the best example for a competitive financial market. The good referee makes sensible rules, allowing players to compete vigorously and is felt rather than seen.

The importance of the often forgotten quality of human resources in the financial system was also discussed.

To conclude, developing an owned reform agenda is key to its success, which the main purpose of this conference.

**Questions & Answers**

Extensive Questions were raised from the floor highlighting the following points:

- Supportive media and public awareness are key to the success of reform and the strengthening of public opinion.

- Side effects must be accepted as part of any reform agenda
• Debate among market players, academia and government officials must be encouraged.
• Privatization is key to reviving the stock exchange and must be pushed forward
• The currency float is an important step that has reflected positively on the stock exchange
• Implementation of recent legislation will help positive market movement

“Benchmarking Egypt”

Dr. Mohamed Taymour, Member of the Board, AmCham Egypt; and Chairman, EFG-Hermes Holdings

Summary

This paper stresses the importance of the financial sector in mobilizing savings and re-directing them to investment. In the first part, Egypt's financial system is compared with six emerging economies with similar development backgrounds namely Turkey, India, Thailand, Brazil, and South Africa.

Compared to peers, Egypt has not witnessed significant improvements in saving/investment since 1992, and while there were minor improvements in GDP growth, Egypt's peers have improved substantially. As for attracting foreign direct investment (FDI), Egypt is an average performer compared to the other emerging markets. The top performers are China and South Korea. Although Egypt's total debt (external + domestic), as a percent of GDP is very high at 140%, external debt alone is similar to its peers. Finally, the growth of per capita income since 1998 has been very low.

The second part presented an overview of the main sub-sectors of the financial system: banking, insurance and the capital market. Allowing 100% foreign ownership of banks is a significant development in the banking system. Another positive point is the increase in deposit bank claims on the private sector. However, on the negative side, bank deposits remain dominated by the government, which controls 57% of deposits in the four public sector banks in addition to deposits in joint venture banks, raising the government's share in the total banking system to almost 70%. Non-performing loans are another problem due to the lack of transparency.

The insurance sector also suffers from public-sector dominance although there has been entry of some foreign companies. The capital market faces a major problem in the form of low turnover. This is mainly caused by the crawling privatization process witnessed lately, the lack of hedging instruments, coupled with the low volume of bonds trading and government dominance of the bond market.

To conclude, the currency float is seen as a hopeful sign of renewal of movement. Recent legislation is also a driving reform force once implementation is underway.
Day 1: Session II

Banking

Chairman:
Mr. Hassan Hussien, Chairman, AmCham Egypt Banking, Finance & Insurance Committee and Chairman & Managing Director, United Bank of Egypt (UBE)

Panelists:
Mr. Hassan Abdalla, Deputy Chairman & Managing Director, Arab African International Bank
Mr. Roderick Richards, Managing Director, Egyptian American Bank (EAB)

Speaker:

Banking

Mr. Hassan Hussien, Chairman, AmCham Egypt Banking, Finance & Insurance Committee and Chairman & Managing Director, United Bank of Egypt (UBE)

Summary

Mr. Hussien presented a paper detailing the challenges facing the banking sector and making recommendations.

The first part of the paper gave a quick rundown of how banks are managed in Egypt, which is primarily through short term funding, likewise lending is also based on short term funding. As such long term loans with short term funding result in mismatching of the balance sheet.

Banks have to be managed within Central Bank of Egypt's (CBE) rules and ratios, which include a domestic cash ratio of 14%, a liquidity ratio of 20% local currency and 25% foreign currency, and a capital adequacy rate of 10%, amongst other rules. As witnessed, CBE regulations play an active role in day-to-day bank management.

Although 2002-2003 witnessed no growth, the potential for growth is there. However, lending has remained stagnant, foreign currency loans have decreased, there are signs of dollarization, leading to a decrease in profitability for banks in Egypt. But internationally, banks' total assets have been shrinking all around.
Nevertheless, the picture is not all bad. Moody Egypt has rated the efficiency ratio of Egypt's banks at 60%, which is the same as Europe. As such "good" banks and financial services companies can be an export business for the Egyptian economy.

The paper then went on to detail the challenges faced by the banking sector. One such challenge can be found in the high costs in settlement of land or real estate; the high cost of carrying non-performing loans, and the cost of investments being mostly low earning assets. These shortcomings result in a low return on assets and create pressure on book- ing new earning assets. Additionally, taxes are "high" on everyday banking activities. This is turn causes a tax liability on a bank's books and is therefore a barrier to acquisition.

Egypt is also over banked. While the market is dominated by the four state-owned commercial banks (accounting for 58% of the banking sector with around 55% of the assets and 75% of all transactions), there are 62 other banks with 2598 branches. Out of the 62, 35 are private and joint venture banks and 20 are off shore or branches of foreign banks. Despite the number of the banks in Egypt, the banking sector's products still remain very basic. Growth potential is very high in SME's, retail, private banking, investment banking and project finance.

The challenge for local banks today, however, is to manage "old" (non performing loans, etc.) problems while simultaneously competing in higher growth areas with foreign banks that do not have "old" problems. The other challenge is how to link economic growth to bank lending (i.e. more funds to stimulate GDP growth). This can happen through more innovation of banking products, which entails interest rate trends for the future, and long-term instruments based on interest rates and FX rates projected up to 10 years.

In terms of regulation, the CBE actively controls banks, but should play a more active role in mergers & acquisitions (M&A), and in product innovation. On the other hand, recent government reforms received an "A". The reforms include the LE500 million minimum capital requirement decree, and the change in CBE management and in the management of public sector banks. While the government has taken strong and positive actions to stimulate bank reform, there is still more reforms needed.

New reforms should focus on reducing and eliminating barriers to entry, the encouragement of mergers, and providing tax exemptions. Recommendations for the future include: active issuance and management of fixed interest rates, active secondary market for debt, increased transparency in dealing with "bad loans" including a clear provisional plan to be adhered to. The paper also reminded the audience that innovation in banking requires sound management, and future foreign exchange and interest rate projections to result in greater diversity and growth for the Egyptian economy as a whole.
Questions & Answers

Extensive Questions were raised from the floor highlighting the following points:

- The concept that Egypt is "over-banked" is challenged and suggested to be replaced by "fragmented" or "badly-distributed" banking.
- Need for consolidation and M&As is stressed upon.
- Human resources are an extremely important component of Internal issues on re-structuring.
- Corporate governance will allow Egypt to be viewed as more competent.
- Asset liability management is redundant if hedging instruments are not present.
- Privatization is past over due in all sectors.
- It is important to know the "price" of reform and who will pay it. IMF study shows that it is 10-15% of GDP in a sample of countries.
- Development of proper credit information on both the corporate and consumer levels is essential.
- The CBE is the Government's financial advisor and should act as a focal point for M&A.
- New banks should be encouraged to enter and to offer sector-specific services, e.g. in the agricultural sector.
- Egypt suffers from very low penetration in banking services on the retail level (accounts, debit cards, credit cards) as compared to peers (Turkey and South Africa).
- Quantifiable objectives should by targeted (e.g. to achieve a certain number of debit cards over a given period)
- The use of checks as collateral by banks is detrimental and against commercial practice. Criminal aspects should not be involved. The chapter on checks in the commercial law is still suspended.
- There is a clear overlap in the role of the government as a regulator and as an owner, which is creating conflict of interest.
• Re-capitalization of public sector banks should be accompanied by other methods.

• Deposit insurance should not be unlimited to allow more competition among banks.

• There is need for a primary dealer system first before establishing a secondary market.

• Lately there has been a convergence between the official and parallel market exchange rates.

• Consumer protection is a necessary condition for banking reform.

• The value of the license is over-priced.

• The burden of Non Performing Loans is placed on the government.
Day 1: Session III

Capital Market and Fund Management

Chairman:
Mr. Hazem Yassin, Board Member, Capital Market Authority

Panelists:
Mr. Hussein Choucri, Chairman, H.C Securities & Investment
Mr. Sherif Raafat, Chief Executive Officer, Concord International Investments
Dr. Khalil Nougaim, Chief Executive Officer, Cairo Capital Group

Speakers:
“Capital Market”
Mr. Mustafa Abdel Wadood, Co-Chairman, AmCham Egypt Investment & Capital Market Committee and Managing Director, EFG Hermes Holdings (Capital Market)

Summary

The Capital Market presentation, given by the first speaker, Mr. Mustafa Abdel Wadood, provided an overview and history of the capital market, and detailed recommendations for the further development of the market.

The Egyptian Stock Exchange is one of the oldest in the world, and has just recently celebrated its 100th birthday. During the 1940s and, the Cairo & Alexandria Stock Exchange (CASE) was the fifth largest capital market in the world. The decades that followed marked an era of a government controlled capital market. This was the case until 1991 with the onset of the Economic Reform & Structural Adjustment Program, which saw the revival of the capital market.

The capital market captured further interest during the mid 90s with the beginning of the privatization wave. Also put in place were several key milestones aimed at improving transparency and efficiency such as drafting of listing rules of the CASE, establishing settlement guarantee fund, and authorization of bond dealers amongst others.

However, by the late 90s, issues of overpricing and worsening macro environment contributed to dismal performances. Declining performance and further thinning trading volumes
for the CASE came about at the start of the decade with worsening global market conditions, global telecom crash, and unstable global environment.

While there is a fairly good infrastructure in place to support the CASE, and the 2003 currency float has shown signs of economic recovery of the market, there is still much to be done. Key recommendations include: strengthening the listing requirements, the CMA should balance its role as regulator versus a catalyst for financial markets development and promotion, improvement in the mergers & acquisition process, streamlining the offering process, addressing bankruptcy law and related exit mechanisms, and developing of an efficient dispute settlement mechanism and infrastructure.

“Funds & Portfolio Management Perspective”
Mr. Aladdin Saba, Chairman, Beltone Asset Management

Summary

The second presentation by Mr. Aladdin Saba, complemented the first, in that it focused on fund and portfolio management. Mr. Saba defined the main constraints to the development of fund management as due to the under-development of the capital market, coupled with inefficient access to capital and limited financial instruments.

Discussing the role of regulator, protecting the general public, which demands strict regulations, and liberalizing to speed up financial market development, was outlined as the inherent tension the regulator faces in Egypt - striking a balance is difficult. Regulators should not aim to treat everyone equally, rather they should offer protection to small investors that lack financial sophistication, reduce protection for financial institutions, and reduce protection for large investors who have the capacity to get financial/legal advice.

The discussion then moved on to the recommended fund management reforms, which included several amendments to the original Capital Markets LAW 95/1992. Another major reform had to do with reforming the pension system to include individual pension accounts, private pension accounts, and endowments. Investment pension funds should be managed through professionals, while debt to equity swaps are not recommended.

Panel Discussion

Mr. Choucri and Mr Nougaim both saw that privatization and pension reform were the two key aspects of rejuvenating the capital market. Compared to our emerging market peers, Mr. Choucry viewed Egypt's performance as dismal with a liquidity turnover of $15 million, while Turkey's liquidity turnover is $1 billion. He recommended as the first priority increasing the market capitalization rate. He also emphasized the need for creative econom-
ic policy and good management of it.

Some quick reforms outlined included: reducing taxes, reducing budget deficit and especially the growth in domestic debt due to its overcrowding effect, and revision of the entire corporate law structure.

**Questions & Answers**

The questions and answers session focused on:

- Introducing new instruments to benefit from the strong infrastructure of the stock exchange.
- Need for a known investment performance standards.
- Focus on private pension systems.
- Separating the services of fund management from commercial banks. (viewed as an impediment)
- Need to educate the market players.
- Changing public’s financial culture of preferring commercial banks to stock exchange.
Day 2: Session I

Regulation and the Government Role

Chairman:
Dr. Samir Radwan, Executive Director, Economic Research Forum

Panelists:
Dr. Mahmoud Mohieldin, Member of the General Secretariat, Chairman of the Economic Committee, The National Democratic Party

Dr. Ahmed Galal, Executive Director, Egyptian Center for Economic Studies

Dr. Samir Hamza, Partner, Helmy, Hamza & Partners (Baker & McKenzie)

Speakers:

"Role of the Government as an Owner (Privatization)"
Mr. Yasser El Mallawany, Treasurer, AmCham Egypt; and Chief Executive Officer, EFG-Hermes Holdings

Summary

After the Chairman's introduction, Mr. Yasser El Mallawany began the session with his presentation on the role of the government and privatization. He gave a very thorough presentation with detail statistics describing the performance of the Egyptian financial system, including comparison to other emerging markets and developed countries.

The importance of bank privatization is stressed once again, as banks are the dominant financial institution in Egypt, similar to other emerging markets. Currently, the state controls over 80% of banking assets and Egypt has one of the lowest levels of private sector control share. Insurance was touched upon briefly as suffering from extremely low penetration of insurance companies (1% of GDP) and way behind the banking sector in development. The state also controls 80% of premiums in the insurance sector. The Egyptian equity market is also seen as under-developed compared to peers, with only a minority of liquid companies. The fixed income market suffers form low liquidity, pricing and lack of depth.

On a more positive note, Egypt has made significant strives towards a more liberalized financial system in terms of legal structure. Passing the new Banking Law (no.88/2003) has established approximately 80% of the required framework.
Mr. El Mallawany dwelled on the numerous benefits of bank privatization whether through flotation or direct sale to a strategic investor. The direct cost of not privatizing was quantified to be LE19 billion, not to mention an additional LE0.5 billion of lost revenue to the treasury every year as well as other indirect costs.

Two sequential steps were recommended at the end. These are the privatization of JVBs followed by sale of the big four public sector banks. Sale of the big four will be tough but manageable with equity sweeteners.

To conclude, there is a need to create a super regulatory body for the financial sector as a whole and privatization is a must, no longer a luxury, due to the highly associated costs.

"Legislative Process"
Mr. Ahmed Abou Ali, Chairman, AmCham Egypt Legal Affairs Committee; and Partner, Hassouna & Abou Ali Law Offices

Summary

Moving on to the second presentation given by Mr. Ahmed Abou Ali on the legislative process, it was stated that there are at least 20 pieces of legislation currently governing the financial system in Egypt, excluding executive regulations. When compared to the principles of the International Organization of Securities Commission (IOSCO) Egypt fairs well. Securities regulation in Egypt aspires to achieve three objectives, investor protection, ensuring that markets are fair, efficient and transparent and the reduction of systemic risk. The presentation continues with a detailed regulatory assessment of existing elements pertaining to the Egyptian financial system.

Finally, Mr. Ziad Bahaa El Din's presentation was concise and to the point. He focused on identifying the constraints to a better legal and regulatory framework for the financial system as a whole and what the government can do with respect to registration, regulation and dispute settlement procedures.

"Role of the Government"
Dr. Ziad Bahaa Eldin, Managing Partner, Bahaa Eldin Law Office

Summary

Mr. Bahaa El Din clarified that one constraint is that the Civil Law tradition requires a continuous need to adopt from the common law system. There are also constitutional constraints, constraints of legislative hierarchy and transparency, and uncertainty.

The final recommendations include flexible rulemaking, promotion of self-regulation, judicial reform, procedural reform, agency cooperation and professional training and supervision.
Panel Discussion

The high content of the three presentations gave rise to an extremely interesting panel discussion with both supportive and apposing views. All discussants agreed that privatization is key to an efficient financial system and efficient regulation. However, sweeteners were not recommended by Dr. Galal. He argued that it is an issue of setting the right price. Dr. Galal also questioned why there was no mentioning of the preconditions to privatization and counter-experiences from other developing countries.

On the issue of judiciary reform, there arises the dilemma of balancing between specialty and flexibility, which should be resolved. It was also noted that despite that fact that we are comparable to international standards, there is a large gap between the present legal framework and it's actual implementation, which is below standard.

As for Mr. Samir Hamza, his comments were more specific to the regulatory reform of the banking sector including, working out rules for NPLs, the suspended check rules, the stamp duty, and the mortgage law. He stated that the issuance of the e-signature law last week would hopefully thrive e-payment and e-signature in Egypt.

Dr. Mahmoud Mohieldin focused on missing issues in the speakers' presentations. He disagreed with bundling the regulation of all financial sub-sectors under one superior body. He pointed to the absence of implementation of a primary dealers system until now. Dr. Mohieldin agreed with Mr. El Mallawany on the urgency of privatizing JVBs through the stock market and wondered why it has not happened yet.
Day 2 Session II

Insurance

Chairman

Mr. John Metcalf, Chairman, Allianz Egypt

Panelist

Mr. Robert Naudi, Consultant, Aon, Ltd. UK

Speaker

“The Insurance Market Thoughts on Restructuring For Dynamic Growth”

Mr. Saad Mered, Co-Chairman, AmCham Egypt Banking, Finance & Insurance Committee; and Vice Chairman & Managing Director, AIG Pharaonic Insurance Company

Summary

Mr. Saad Mered first began with a brief on the vital role that insurance development contributes to economic growth. Insurance market contributes to economic growth in several ways including the promotion of financial stability, substitution and complementing government security programs, facilitating trade & commerce, mobilizing savings, more efficient risk management, encouraging of loss mitigation, and efficient capital allocation.

Mr. Mered then proceeded to discuss the current state of affairs in the insurance market today in Egypt. The insurance market in Egypt is dominated by four public sector insurance companies, one of which is a reinsurance company. These firms hold a total market share of around 75%, although 11 other companies also operate. Annual premiums account for just 1.1% of GDP.

The domestic insurance market was closed to foreign companies until May 1995, although they had been able to operate as minority partners in free zones. However, new legislation in 1998 removed the 49% cap on foreign holdings for domestic insurers, abolished the nationality stipulation for general managers and allowed the privatization of public sector insurers, although investors taking a stake of more than 10% have to obtain approval from the Egyptian Insurance Supervisory Authority (EISA).

The market remains closed to foreign insurance intermediaries, but some recent liberalization of the sector has led to the entry of several major insurers including Allianz, Legal & General
(UK), Royal Sun Alliance and the American International Group. Although valuation of the four public sector insurance was completed in mid 2001, no decision has yet been made on whether to privatize them.

Mr. Mered then went on to discuss incumbent obstacles to growth of insurance in Egypt. These include legal restrictions, public sector control, unclear role of the regulator (i.e. EISA), and the mistrust of the buying public. On the other hand, there are also structural impediments to growth, which tend to be more complex and convoluted in nature. These are primarily found in the excessive stamp duties/premium taxes found in Egypt.

To develop a deeper insurance market, Mr. Mered prescribed the following prescription:

The privatization of pension funds that provide tax and fiscal incentives, the creation of fluid distribution channels and a legitimate broker infrastructure, the expansion of opportunities for privately owned insurance companies to erode traditional market predominance, and the establishment of a fully independent industry regulatory authority and clear division of industry-level roles of supervision and ownership.

**Panel Discussion**

Mr. Naudi then proceeded to comment on Mr. Mered's presentation, which he described as a fairly thorough picture of the insurance market in Egypt. While he agreed with Mr. Mered that the high tax premiums were a forceful discouragement to insurance market growth and should be lowered, Mr. Naudi wanted to go a step further than Mr. Mered and waive the tax premium altogether. He also emphasized the need of separating the role of the regulatory/supervisory body from the role of ownership because of the conflict of interests. Additionally, he emphasized that insurance was a concept of trust between two sides, so that both sides must feel safe and protected by the legal system.
Day 2 Session III

Real Estate and the Mortgage System

Chairman:

Mr. Fathy El-Sebai, Chairman, AmCham Egypt Real Estate Committee; and Chairman, Housing and Development Bank

Panelists:

Mr. Mohamed Abdallah, Co-Chairman, AmCham Egypt Real Estate Committee; and Chairman, Coldwell Banker Affiliates of the Middle East

Mr. Greg Wiitala, Division Chief, Finance & IT Section, USAID

Speaker:

“Real Estate and the Mortgage System”

Dr. Amira Shalaby, Consultant, Housing and Development Bank and Representative of Canada Mortgage and Housing Corporation (CMHC) in Egypt

Summary

With the enactment of the executive regulations for the mortgage law in 2003 (Law 148, 2001), panel participants were optimistic that the real estate market will be reinvigorated. Nonetheless, as the introductory presentation given by Amira Shalaby, consultant to the Housing and Development Bank, showed, there are plenty of challenges inherent in the country's real estate market. Key among them is the massive demand: approximately three quarters of million additional units are needed each year, with some 450,000 required by newly married couples. A lack of fit between supply and demand has also been a chronic problem. Most recently, between 1998-2002 there was a decline in demand and a surplus in supply because most of the newly built units were for people in high-income brackets.

Panel Discussion:

Mr. Fathy El-Sebai, Chairman of the Housing and Development Bank and Chairman of AmCham Egypt Real Estate Committee, pointed to the rent control policy initiated in the 1960s as being at the root of many of the current distortions in the real estate market.

But there is an opportunity side, particularly with the changes to the legislative framework.
and provision of new services by old and new market players alike. Shalaby highlighted the fact that the Central Bank of Egypt began this year to allow banks to use 10 percent of their portfolios for housing loans, up from the 5 percent previously stipulated. NSGB Bank has just begun offering mortgages, and other banks are expected to follow suit. In the real estate brokerage market, Coldwell Banker has been in Egypt for the past two years and the entrance of other firms is expected to be imminent.

As for the issue of repossession, which was the critical point in finalizing the executive regulations of Law 148, 2001, Dr. Shalaby emphasized that while no financial institution wants to repossess - their goal is rather to make performing loans - the ability to foreclose is key to giving institutions, and their investors, the confidence to extend credit.

For Mr. Mohamed Abdallah, chairman of Coldwell Banker Affiliates of the Middle East and co-chairman of AmCham’s real estate committee, another issue that needs work is the implementation of an effective appraisal system. Unless property is priced according to market price and that information is made available to the public under a transparent listing system, appraisal is merely theoretical, he said.

Mr. Greg Wiitala, division chief of the finance and IT section, USAID, highlighted the importance of good credit information - the existence of which has enabled lenders to reduce loaning rates by as much as 2 percent in other countries. Asked by Mr. El-Sebai how donor organizations can play a constructive role in helping Egypt achieve its goals for a dynamic real estate market, Wiitala said USAID could pass on information about the lessons learned by other emerging markets. For instance, fees for registering property in those markets are based on the cost to the government of that registration process. In Egypt fees are levied at 3 percent of the price paid for the property. Mr. El-Sebai noted that they had been reduced from 5 percent during the past year, but lowering them further would definitely encourage people to register property. Speeding up the process of registration, as well, would act as also encourage people to register, Mr. El-Sebai added.
Day 2, Session IV

Corporate Finance in Egypt

Chairman:

Mr. Sherif Fathy, Chief Financial Officer, Ridgewood Egypt for Infrastructure Projects

Panelists:

Mr. Martin Moorhouse, CFO, Vodafone Egypt

Mr. Mustafa Bakier, Finance Director, Al Mansour Automotive Co.

Mr. Ricardo Resende, Finance Director, General Motors Egypt

Speaker:

“Corporate Finance in Egypt”
Mr. Tarek Mansour, Country Senior Partner, Mansour & Co. PricewaterhouseCoopers

Summary

In the fourth session of the conference, devoted to "Corporate Finance in Egypt," Mr. Tarek Mansour, the country senior partner for Mansour & Co. PricewaterhouseCoopers presented a paper outlining both government-related issues and financial market issues to be dealt with before Egypt could take its place as a competitive destination for investment.

While Egypt represents a relatively "secure and hospitable environment," he said, it "doesn't attract as much foreign investment as it could." The country's competitors in the Middle East/North Africa region - he noted Morocco in particular - are doing much better vis-à-vis financial reform, he noted. Egypt, said Mr. Mansour, is on par with Tunisia in terms of foreign investment.

He noted that the current uncertain state of the foreign exchange rate regime was a primary deterrent for investors, and referred to decree 506 - which demands that forex earners transfer 75 percent of their foreign currency into Egyptian pounds - as "inadequate." The regulation, he said, resulted in a "lack of confidence" in monetary policy and caused multiple disruptions within the market.

As for the banking sector, Mr. Mansour, pointed to a history of non-performing loans and a lack of real inter-bank competition. He also said that Egypt's banking industry was still an "un SOPHISTICATED financing environment," citing the absence of a viable mortgage market as an exam-
He urged that several reformist steps be taken to enhance Egypt's reputation as an investment destination, including: clarifying monetary policy; allowing market forces to determine exchange rates; and encouraging the Central Bank of Egypt to invest in technically proficient human resources. What's more, he added, regulatory bodies should be streamlined, and, in some cases, consolidated.

He also noted ambiguities in current legislation governing investment, saying that Egypt's investment law should both ensure the consistent application of tax incentives and simplify procedures aimed at transferring newly sold off companies into the private sector.

He went on to point out the relatively small capitalization of the Cairo & Alexandria Stock Exchanges, and urged the Capital Markets Authority to follow through on a host of promised stock market reforms aimed at boosting market liquidity, like the establishment of margin trading.

Such measures, he said, would serve to boost the credibility of the Egyptian financial sector.

In conclusion, he pointed out that confidence in the government to institute market reforms was currently at "a low ebb." He added, however, that foreign investors and multinationals believe that "more effective monetary policies and ongoing reform" would - if carried out - serve to make Egypt an attractive investment destination.

Panel Discussion

Vodafone Egypt CFO Mr. Martin Moorhouse began the discussion by explaining how "CFOs are driven by risk." The first thing that multinational companies look for in a potential investment destination, he explained, is "alignment with international standards."

Mr. Moorhouse rattled off a number of questions asked by chief financial officers before investments are made in a given country, like, "How stable is the monetary regime?" and, "Will I be allowed to compete? Is there a level playing field?"

While Mr. Moorhouse conceded that, "Egypt has huge possibilities to be a magnet for investment," he agreed with Mansour's overall assessment of the economy, urging further overhaul of the national financial system.

Mr. Mustafa Bakier, finance director of Al Mansour Automotive Co. then spoke, explaining that, while developing countries need investment to boost economic growth, investors need transparency - "even more than strong natural and human resources. Egypt he added, was "lagging behind," despite an abundance of both.

Concluding the panel discussion, Mr. Ricardo Resende, finance director of General Motors,
raised the question, "Why has such a potentially rich region had so much trouble financially?" Resende blamed the lack of institutional transparency and reform in the region, adding that the presence of oil - and its constantly fluctuating price - inevitably leads to economic uncertainty.

He added that the region is also being threatened by the growing influx of cheap imports from China, an up-and-coming powerhouse whose economic influence, Resende warned, along with India's, would continue to increase. He added, however, that China has also become an enormous market, the demands of which are also on the rise.

While Egypt should theoretically be able to benefit from the growing demands of the world's most populous nation, he noted, several changes must occur first. Financing must be made easily available, a sound monetary policy adhered to, and a trustworthy banking system - under the leadership of a credible central bank - must be in place.

Additionally, he noted, "The continuation of a dual exchange rate is problematic." Monetary confusion is "compounded by inefficient tax and customs regimes," which serve to deter investors further, he added.

Reiterating the theme stressed by his co-panelists, he concluded that, to attract investment, Egypt had little choice but to modernize its financial systems.
Day 2, Closing session

Conference Summary and Recommendations

Chairman

Dr. Taher Helmy, AmCham Egypt president and partner in the Helmy, Hamza & Partners (Baker & McKenzie) law firm

Summary

Dr. Helmy closed the symposium with thanks to participants, saying, "The private sector drove this conference from beginning to end."

Each session head then went on to give a summary of respective meetings:

Dr. Mohamed Taymour, noted that, thankfully, participants "didn't mince words." Consensus was reached, he said, on various points, the first being that government intervention in the financial sector is detrimental, and that money markets should be left to market forces.

Dr. Taymour also noted the positive nature of multi-sectoral conferences, as "the sub-sets within financial markets are highly interrelated." Insurance industries, he noted, by way of example, cannot work without viable capital markets.

Next, the IMF's Dr. Nadeem ul-Haque spoke as "an honest commentator," describing bank privatization as "key" - not just "the Big Four" public sector banks, but the many state-owned joint-venture banks, as well. Viable means of judicial dispute settlement, he said, are also lacking - "the heart of the Egyptian financial sector's problem."

The United Bank of Egypt's Mr. Hassan Hussein, for his part, urged the encouragement of greater M&A (mergers and acquisitions) activity, going through a quick list of recommendations aimed at attracting investment. These included a more active secondary market for debt; the application of international norms for the identification of non-performing loans; and the use of privatization proceeds to re-capitalize troubled banks.

Mr. Mustafa Abdel Wadood, managing director of investment banking at EFG-Hermes spoke next, making several additional recommendations. According to Abdel Wadood, pension reform is "critical"; primary and secondary bond markets must be activated; and market liquidity must be enhanced by the availability of a larger number of trading mechanisms.

Mr. Saad Mered, vice president and managing director of AIG Pharaonic Insurance Company, also had a list of basic suggestions for the local insurance industry, which included the reduc-
tion or elimination of taxes, the provision of offshore investment vehicles and legislation aimed at a proper "bancassurance" framework.

PricewaterhouseCoopers' Mr. Tarek Mansour, vis-à-vis corporate finance, said that, to attract new investment, the government must forgo intervention in the exchange rate and modernize customs.

On the subject of real-estate, Housing and Development Bank Chairman Mr. Fathy El-Sebai said the market needs certified brokers; a standard system of property appraisal; a secondary mortgage market; and a right to repossess in the case of default.

Dr. Taher Helmy, noting the many proposals, took the floor again, saying, "As lawyers, we'll look at these specific, legal recommendations," adding that several laws in the financial sector were in need of clarification. "The bottom line," he said, "is that we have to respond to the needs of the market."

Dr. Helmy then turned the floor over to the chairman of the Egyptian Stock Exchange Sameh El Turgoman, who reiterated that capital-market reform was essential to national development. According to Turgoman, new market mechanisms - including margin trading - would be in place at the Cairo & Alexandria Stock Exchanges by year-end.

Finally, Dr. Haque spoke again, saying that, while the conference could be considered a success, a number of open questions remained. "I hope there will be follow up to these questions," he said, urging greater efforts aimed at "marrying the chambers [of commerce] and academia" in the quest to solve Egypt's capital-market deficiencies.

Dr. Helmy then thanked panelists and attendees and expressed his hope for similar, follow-up conferences in the future.