



The Sovereign Fund of Egypt

Unconventional Step to Stimulate the Egyptian Economy

Policy Paper

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The Sovereign Fund of Egypt is one of unconventional economic tools created by the Egyptian government in context of seeking to besiege the crisis of governmental hindered and suspended companies. It is a sovereign wealth fund includes state-owned assets in Egypt with a licensed capital of 200 billion EGP. This fund follows the presidency whose law was passed by the Egyptian parliament as submitted by the government in 16th July 2018 after being approved by the Cabinet in April 2018. The law gives the fund's founder the right to establish sub-funds on his own or in partnership with Arab funds. Although the fund has started its activities, yet questions have been raised about what is the fund and its nature after a number of rumors in regard to the government approval on some amendments on the law of establishing the Sovereign Fund of Egypt which strengthen the fund against any supervision and accountability by any party or body. Yet the Ministry of Planning denied these rumors and assured that the amendments on the law of the Sovereign Fund of Egypt no. 177 of 2018 and approved by the Cabinet on 26th December 2019 mainly aimed at maximizing the fund's efficiency to manage some state-owned assets without need to transfer its ownership to it. In addition, the amendments come to widen and expand the fund's objectives to include contribution to sustainable economic development through good usage and management of state-owned assets and funds. Also one competence has been added to the fund's board to be able to entrust one of the international experienced bodies to evaluate assets in the fund's records in addition to granting them new privilege in sub-funds or companies in which the fund contributes with ratio of more than 50%. Moreover, the new amendments include refunding taxes on added value paid by sub-funds or companies in which the fund contribute with more than 50% of its capital while the law before did not exempt sub-funds and companies in which the fund contributes from all taxes and fees except dividends.

The Sovereign Fund of Egypt works upon finding suitable mechanisms to convert small and medium enterprises to segment of large enterprises through supporting an developing them. On level of all industries, there is an orientation to integrate and unify similar bodies in the activities of the fund with the aim of forming big economic entities which are able to compete outside local framework. Besides, the fund is ready to consider the integration or formation of union among group of medium companies and enterprises whether they are with similar, complementary or related activities after agreeing upon who will run the entity and its targets and objectives.



Legal Framework

According to the law of establishing the fund, the fund's resources consist of its capital and assets (which it owns) in addition to revenue of investing its funds and assets, loans and facilities it has, outcome of issuances and other financial instruments and other resources approved by the fund's board and by a decision of approval by the Prime Minister.

Moreover, the law allows the Fund to establish sub-companies and funds or to increase its capitals on its own or with others in addition to be partner with similar Arab and foreign funds, different financial institutions and investment in stocks and debt instruments, loan, get credit facilities and issuing bonds, instruments and other debt tools. In accordance with the law, the fund is allowed to buy, sell, rent and use fixed and movable assets besides loan and insure investment funds and affiliated companies. Also the fund has the right to dispose its-owned assets or funds totally by any of forms of sale, rent or permit to use it or participate as a sample portion according to the market value of these assets and the establishment law.

The law also states that transfer of ownership of unused state-owned assets to the fund or to any of the funds it owns or establishes is done by a decision of the President based on a presentation by the Prime Minister and Minister of Planning. As for the used assets, its transfer of ownership is according to the decision of the President based on a presentation by the Prime Minister and Minister of Planning and the Minister of Finance in coordination with the minister concerned with these assets.

On other hand, there are many positive sides of the law of the Sovereign Fund of Egypt among which is that the law texts includes positive sides in regard to motivating private sector and assuring the integration among the fund's project and foreign investments. In addition, the amendments of the law in December 2019 have revealed that the government is keen on the independence of the fund's work and expanding its work scope. For example, article no. 3 (after amendments) states that the fund aims at contribute to sustainable economic development through managing its funds and assets, funds and assets of state-owned bodies and entities, its affiliated bodies or state-owned companies according to regulations stated by the statute and to achieve the best usage of these funds and assets in accordance with the best international standards and rules to maximize its value for the coming generations. So in this regard the fund is to cooperate and partner with counterpart Arab and foreign funds and different financial institutions.



The economic atmosphere of founding the Fund

The foundation of the Sovereign Fund of Egypt has come to save the state economic entities which is hindered and suspended from one side and to achieve the goals of sustainable development according to Egypt vision 2030 form another in addition to creating big economic entity which is able to increase best investment, operation and usage of assets and resources of state to maximize their value and strongly stimulate development through partnership with local and international institutions.

Also by founding this fund, the Egyptian government aims at contributing to sustainable economic development by managing its funds and assets in addition to achieving their best usage according to the best international standards and rules to maximize their value for the coming generations according to the Ministry of Planning.

There are some economic considerations represent 'governing' priorities in Egypt's orientation in regard to found the Sovereign Fund. They can be stated as follows:

Managing the state-owned assets

The Sovereign Fund of Egypt aims at managing the state-owned assets which will be transferred to it and whose official licensed capital is 200 billion EGP with a source of 5 billion EGP.

Sustainable Development

By founding this fund, the Egyptian government aims at contributing to economic sustainable development through managing its funds and assets in addition to achieving the best utilization of them according to the best international standards and rules to maximize their values for the coming generations.

Stimulating the Agenda of 2030

The foundation of the Sovereign Fund of Egypt comes in the context of the state plan to achieve the goals of Egypt's agenda of 2030 through creating great economic entity which is able to increase investment, operation and best usage of the state's assets and resources to maximize their values and strongly advance the development throughout partnerships with international and local institutions and companies.



Attracting Investments

The Sovereign Fund of Egypt aims at increase the ability of attracting investments on different strategic and new fields through flexibility and independence in addition to the local and international experiences it will attract and creating new partnerships with great investment institutions which will occur essential leap in state-owned assets and companies for the coming generations.

Diversity of Income Sources

One of the main goals of this fund is economic diversity and diverse income resources in addition to implementing for-profit developmental investment. So the assets should be investing ones and non-economic ones will not be transferred to the fund.

Building investment unions

The Sovereign Fund of Egypt aims at forming investment partnerships with all legal forms in all activities and sectors in a way which provide distinguished and new opportunities for investors. These opportunities raise the value of Egyptian assets and stimulate the contribution of private sector to the Egyptian economy; the matter which creates more job opportunities. Also the fund seeks to build investment unions with different local, regional and international institutions according to international rules of governance and expression within supervising the performance.

Successes

Diverse Opportunities: *since its registration, the fund has studied 16 opportunities varied from tourism and archeology (monuments) in addition to the joint companies whose ownership may disintegrate between state-owned companies and banks besides energy and industry. The most successful step comes when the Sovereign Fund of Egypt and the National Service Projects Organization – affiliated to the Egyptian Ministry of Defense – signed cooperation protocol according to which the fund may float on some of the companies affiliated to the armed forces to the stock market and allow investment in regard to it with portions which may reach about 10%. So the assets should be investing ones and non-economic ones will not be transferred to the fund in addition to implementing for-profit developmental investment.*

Solving the Problem of Ownership Disintegration: *the Sovereign Fund of Egypt has played a considerable role on addressing and solving the problem of ownership*



disintegration of state-owned companies by transferring them to sub-fund and float them whether for strategic investor or prepare them for public subscription on later stage after being developed to raise their efficiency and productivity. Undoubtedly, ownership disintegration confuses management and obstacle communication among owners. So unifying the ownership side in the fund and putting one and unified thought for the management in addition to vision for development and growth alongside with the availability of financial capacity to 'pump' more investments will increase the opportunity evaluation from about 20% to 30% upon attracting strategic investor.

Developing Investment in Human Sector: *developing human capacities and skills is one of the fund's priorities so the human calibers are the most important investment for the Sovereign Fund of Egypt as being the effective party in maximizing the assets value and well negotiate the opportunities. Also human sector is the strategic fulcrum in building up strong database for all available opportunities and assets to fulfill the investors' desires and plans.*

Signing Partnership Contracts with Different Entities: *the law no. 177 of 2018 which regulates the work of the Sovereign Fund of Egypt allows working with different governmental entities to maximize revenue of these entities and develop them through creating partnerships with private sector. In such context, the fund has recently signed two agreements with the Ministry of Public Business Sector and the National Investment Bank to provide group of investment opportunities to better use the ministry and bank-owned assets through partnership with private sector.*

Increasing Confidence of Investment Entities: *the Sovereign Fund of Egypt does not differ from other internationally applicable sovereign funds; the matter which provides a 'fertile' environment to increase the confidence of investment entities all over the world. The policy of the fund bases mainly on economic and income sources diversity in addition to implementing for-profit developmental investment. So the assets should be investing ones and non-economic ones will not be transferred to the fund. The law has defined three accredited evaluation bodies from the Central Bank. In addition, the investor has a board and always has an investment vision regarding elements of achieving added value and also conducting studies in parallel with the fund as both of them will be investors in such case.*

Partnership with international and regional entities: *recently, a joint strategic investment platform has been launched between Egypt and United Arab Emirates with 20 billion \$ equally between the Sovereign Fund of Egypt and Abu Dhabi Development*



Holding Company. Also the fund has signed memorandum in last January with Actis Company for direct investment in London to start strategic cooperation for investment in many sectors in Egypt.

Establishing Sub-Investment Funds: *the Sovereign Fund of Egypt was able to establish three sub-entities in sectors of energy, tourism and industry. These sub-funds were established in partnership with investors in the capitals of these funds or the acquired companies. The first sub-fund is dedicated to tourism sector and developing ancient and archeological areas. The tasks of this fund lay in developing unused archeological areas. This has been appeared in studying the development of Bab Al Azab Area in cooperation with the businessman Sameeh Sawiris and Al Ismailia Company for Real Estate Investment. The second fund is dedicated to industry sector which is an attractive sector especially for investments come from Arab Gulf while the third is dedicated to the sector of renewable energy.*

International Organizations Membership: although the Sovereign Fund of Egypt is only two-year, it has joined the International Forum for Sovereign Wealth Funds which requires transparency and commitment to expression and transparency standards. Joining this forum is very important matter to attract big investors to have local and international partnership with the fund.

Finally, we can say that the Sovereign Fund of Egypt is a “wealth” which aims at achieving various objectives, at the top of which is re-operate state-owned assets by re-activate them and increase their economic attendance especially as most of state-owned assets still suffer from weak economic and productive output, yet some of them represent a burden on the state. Despite legitimate questions about the fund’s terms of reference, yet wide range of observers and supervisors think that supervision and accountability which the fund is subject to block and end up all doubts.

On a significant level, the experience of the Sovereign Fund of Egypt enjoy trust of wide sectors of international community and foreign investment and funding organizations especially as the main task of the fund is maximize benefiting from unused state-owned assets and not to compete the private sector in Egypt. In addition, the state is keen on the transparency of the fund’s work to attract more foreign investments from one side and to activate the private sector from another one.