WASHINGTON | May 16, 2014

Islamic financing a new investment avenue into Egypt

By ROSHANAK TAGHAVI

Photo: Ann Hermes/The Christian Science Monitor

A landmark Islamic loan, structured by Egypt's Al Nouran Multitrading to help finance construction of a EGP 2.5 billion ($366 million) sugar facility, reveals a new investment avenue for Egypt as it strives to boost its economy after three years of revolutionary turmoil.

Al Nouran Sugar's $215 million senior loan, $30 million mezzanine facility and $21 million in working capital are totally Shariah-compliant, Al Nouran chief executive officer Ashraf Mahmoud told Monitor Global Outlook in a phone interview from Cairo.

"We were asked by our main partner, the Islamic Corporation for the Development of the Private Sector (ICD), to adopt Islamic financing. So the entire structure - which is the senior debt, the mezzanine financing, and the working capital facility - is based on Islamic Shariah financing. This is the first time mezzanine financing has been structured based on Islamic Shariah," Mr. Mahmoud tells MGO. "Now, we are getting ready to prepare for an international tender to start actual construction."

Banque Misr, Abu Dhabi Islamic Bank, and Lebanon's Bank Audi S.A.L. were the lead arrangers for the senior loan, which was syndicated by a consortium of thirteen Egyptian banks and will be repaid over an eight and a half year period, Mahmoud says.

Al Nouran has retained a 35 percent stake in the project, while the ICD (a subsidiary of Jeddah-based Islamic Development Bank) and the Arab Fund for Economic and Social Development each have a 25 percent stake. The state owned Egyptian Sugar and Integrated Industries Company has a 15 percent share.

Together, the four shareholders are investing $100 million in core equity. According to Mahmoud, the ICD, Egypt's Socit Arabe Internationale de Banque (SAIB) and the Kuwait based multinational Arab Fund for Economic and Social Development each gave $10 million for the mezzanine.

Al Nouran is supplying a working capital facility worth roughly 150 million Egyptian pounds ($21 million).Regional analysts say the involvement of local Egyptian banks, which previously had minimal dealings with Shariah-compliant finance, will set a precedent for the use of similar financing mechanisms in the future.

The unique financing scheme for Al Nouran's new facility also widens an avenue into Egypt for new investors keen to invest in a Shariah-compliant way, says Montasser Khelifi, head of research at Quantam Investment Bank, an Islamic investment bank based in Dubai.

"Given the political situation in Egypt, it's a good sign that a quasi-sovereign entity like the ICD has come and expressed its confidence in the Egyptian economy. When a big name comes into a deal like this, it encourages [others] to come also," Mr. Khelifi tells MGO. "It will encourage Egyptian corporates to tap into Shariah compliant markets."

The economic implications of the project for Egypt's al-Sharqia province, a farming region in the restive Nile Delta, are huge. The new facility, slated to produce 250,000 tons of sugar in its first phase of operations at the start of Egypt's 2016 fiscal year, is expected to create 3,000 new jobs and conduct direct and indirect business with 55,000 farmers and beet growers in the province. About 40 percent of the facility will be locally manufactured, using local contractors and engineering businesses, Mahmoud tells MGO.

More farmers in Sharqia will also have access to technology and agricultural techniques that have allowed Al Nouran, which launched its own agricultural operations five years ago, to produce beets at a rate almost double the national average.

Sugar cane is the primary source for refined sugar in Egypt, which has 10 sugar cane processing plants and six sugar beet facilities. Egyptians consume 3.1 million tons of sugar a year, while the country produces an annual one million tons from cane sugar and one million tons from beet sugar, according to Mahmoud. The remaining 1.1 million tons-worth of consumption - a demand that has been growing by between 2.5 percent and 3 percent a year - is satisfied with raw sugar imports.

Mahmoud says Al Nouran's new plant will operate year-round to help narrow that sugar deficit. In between beet seasons, it will process imported raw sugar, which typically comes from Brazil, Thailand, or Australia. The plant is designed to have three production lines, with each eventually producing 250,000 tons of sugar.

At today's prices, a quarter million tons of locally-produced sugar would save Egypt's balance of payments over $100 million, says the Al Nouran executive.

Still, even with the new plant at full capacity, Mahmoud tells MGO, the Arab Republic will harbor a sugar deficit. "Demand increases up to 80,000 tons a year. So to meet the deficit, you have to build a facility like ours every two years," he says.