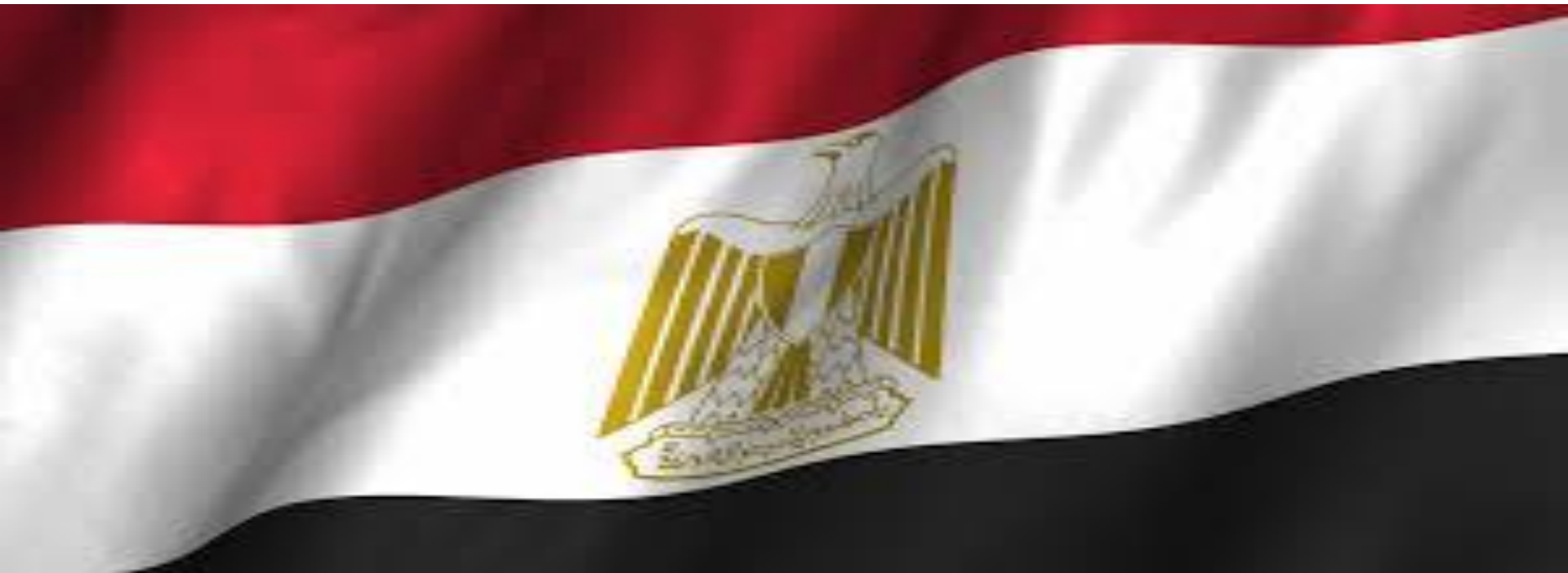


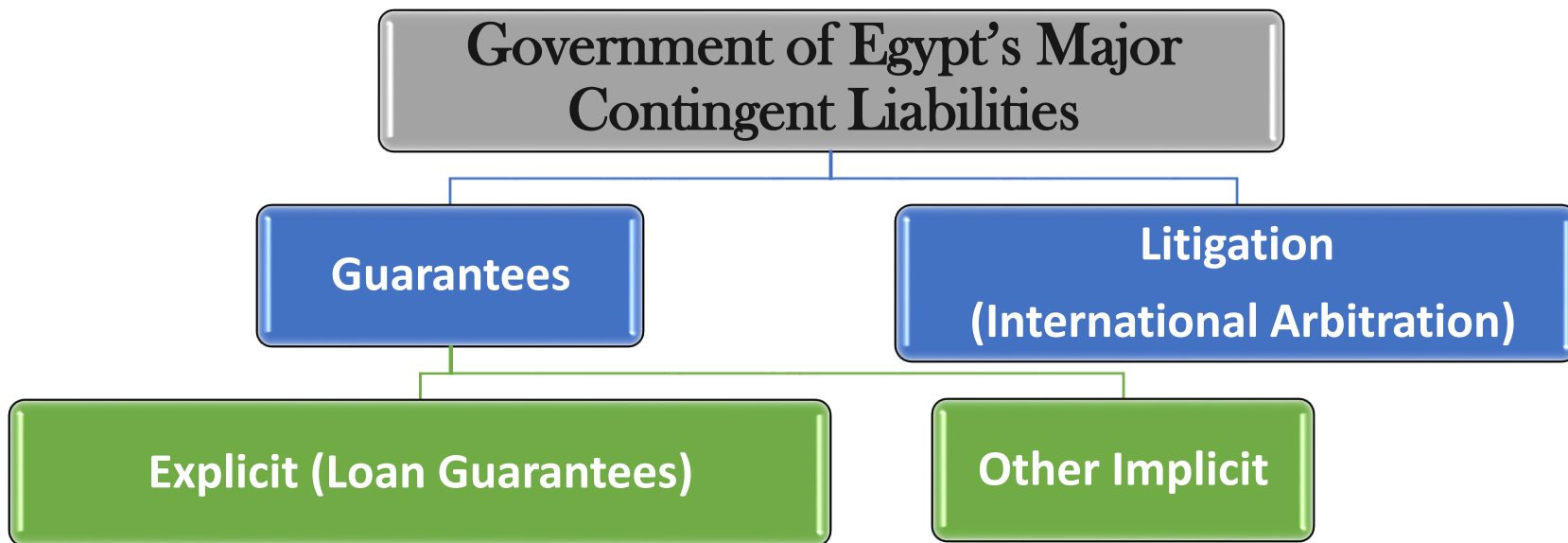


Ministry of Finance

Egypt



December 2016



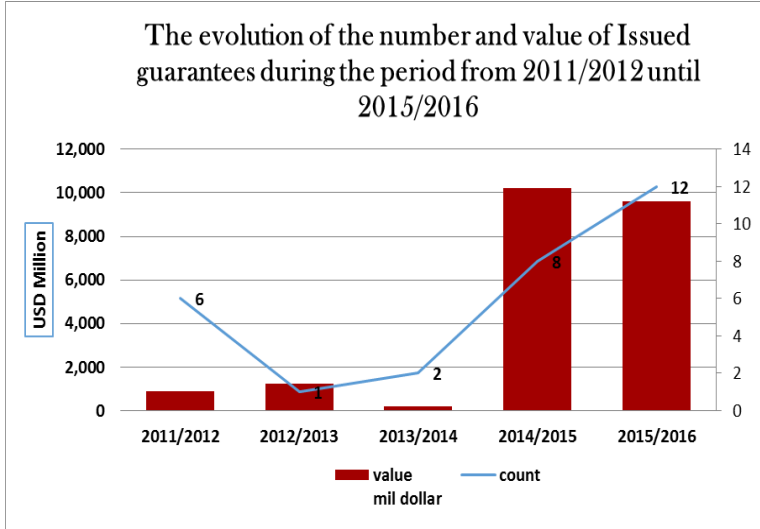
Loan Guarantees

- Provided to enable a public entity to raise financing from international or domestic financial institutions / reduces the cost of borrowing
- Public Entity is required to service the loan raised with the guarantee
- Supports national mega projects, commercial, revenue generating activities
- Enable financing to be raised where lenders are unwilling to assume the level of risk

Limited in number with low risk of default, MoF used to issue loan guarantees on an ad-hoc basis. Due to recent changes in the current environment (floatation of the Egyptian pound and the acceleration of investments in infrastructure), new institutional arrangements have to be introduced

History of defaults

Trend of guarantees issued



- Pattern of historical defaults will not necessarily continue in the future in light of current environment after the floatation of the Egyptian pound and the recent hikes in interest rate.

- Guarantees issued by the Treasury accelerated during the past two years as a result of expansion in the energy and transport sectors

Arrangements made by the Ministry of Finance

- A Public Financial Management Reform Unit was established to conduct reviews of the financial performance and assess fiscal risks arising from public entities
- The unit will report quarterly on the development of contingent liabilities and the most important fiscal risks arising from public entities
- Develop an approach to closely monitor the most troubled public entities to focus efforts and limited resources on the ones that pose the greater risks to state budget
- Will consider the introduction of limits to government guarantees
- Will explore the possibility of charging fees for issuing guarantees

A Contingent Liability Committee (CLC) will be established

Mandate

- CLC will review transactions that create contingent liability exposures for the Treasury (includes guarantees to public entities, public private partnerships and arbitration) and monitoring government's portfolio of contingent liabilities

Membership of the Committee

- Sector heads and Heads of PFM Reform Unit and Debt Management Unit

Frequency of meetings

- When a request is received from a public entity and at the end of each quarter

The PFM Reform Unit will provide CLC with the analysis of guarantee requests

Information to be submitted by a public entity

- Business plan with financial projections of the income statement, balance sheet and cash flow statement
- Key assumptions and drivers underlying the financial projections
- Implementation plan with clear milestones
- Risk assessment and mitigation strategies
- Legal considerations

Role of PFM Reform Unit

- Analysis of the business plan and of historical, current and projected financial performance
 - Scenario analysis
 - Major risks
 - Implementation plan (key milestones and timelines; responsible people; financial impact)
- Economic analysis (cost benefit analysis and socio-economic impact)
- Assess alignment with government's policy objectives