

Welcome to FT.com, the global source of business news and analysis. Register now to receive 8 free articles per month.

June 27, 2011 5:39 pm

Construction sector illustrates Egypt's woes

By Heba Saleh

The construction boom that helped sustain Egypt's economic growth amid the global downturn has stalled amid political uncertainty and state funding squeezes since the ousting of President Hosni Mubarak.

Even the largest building companies say orders have dried up as government plans for new infrastructure projects seem to have been placed on hold before national elections due later this year.

"I don't see a bidding pipeline for 2012," says Osama Bishai, chief operating officer of [Orascom Construction Industries](#), the country's largest private contractor. "Ministries should be giving today contracts to engineering firms to start making plans for projects for 2012."

The decline in construction is a microcosm of the wider economic disarray provoked by the political turmoil accompanying February's revolution, which has left the interim military-led government grappling with mounting demands from the general public for pay increases and more social spending.

Tourists and investors have taken fright and exports have fallen, exacting a heavy toll on growth, which dropped to 2.6 per cent from a forecast 6 per cent for the fiscal year due to end this month.

"In the past ministries had known plans for infrastructure projects," says Mr Bishai. "But now they are focusing on day-to-day problems and no one is thinking about this industry, which is a big employer."

The revolution has severely curbed the government-funded infrastructure projects and luxury residential and holiday home building programmes that kept the construction industry afloat and provided business for a range of small and medium suppliers.

Weak property sales have affected the industry as homebuyers, anxious about the future, defer purchases, while public confidence in property companies has plummeted because of corruption investigations against former regime officials in connection with land sales to developers.

Some of the biggest real estate companies face legal challenges to their landholdings. Two former housing ministers are being tried on corruption charges related to the allocation of state land.

Industry sources say banks are now reluctant to lend to property developers for fear that more land contracts might come into question.

"There is a very serious drop in real estate sales," says Hassan Allam, managing director of Hassan Allam Construction, a contractor and property developer. "There is a shock to the market. Everyone is waiting."

Mr Allam expects earnings from his company's real estate arm to decline 50 per cent or more this year.

"Our suppliers are beyond desperate," he says. "They are now doing a lot of business on a cash and carry basis. This is not how it usually works but it is happening with small companies selling timber, or tools and building materials."

Even public-sector contractors say they are feeling the pressure. Ibrahim Mahlab, chairman of Arab Contractors, one of the biggest construction companies in the Middle East, says profits in the first half of this year have dropped 25 per cent compared with the same period in 2010.

Under pressure from the state that is trying to address popular demands for "social justice", the company has had to offer permanent jobs to 23,000 workers previously on temporary contracts. Its labour force has risen to 76,000.

Arab Contractors, he says, is now seeking more business outside the country.

"This company is like an elephant," he says. "You have to feed it every day a big quantity of potatoes. If you just give it a little bit of rice, it will die."

The answer, some contractors say, is for the government to activate its public-private partnerships programme, which has been on hold in recent months.

A PPP law was enacted last year in the hope of luring private investment to help plug a wide gap between government finances and the country's infrastructure needs. A number of projects have been tendered, but progress has stalled since the revolution.

Mr Bishai argues that loan guarantees pledged by international donors in recent weeks should be used to support the PPP programme to help address the reluctance of local banks to finance long-term infrastructure projects.

“Construction should be looked at as the catalyst to rebuild the country,” he says. “This is a sector which creates, directly and indirectly, employment for four to five million people.”

Printed from: <http://www.ft.com/cms/s/0/86ef3e94-a0d9-11e0-adae-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© **THE FINANCIAL TIMES LTD 2012** FT and 'Financial Times' are trademarks of The Financial Times Ltd.