

PUBLIC-PRIVATE PARTNERSHIPS CONFERENCE JUNE 6, 2012 | DAKAR, SENEGAL

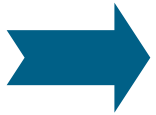
Case study on New Cairo Wastewater Project

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**FIRST PPP
PROJECT
IN EGYPT**





The Decision

The Project

Challenges

Current Situation

Success Factors

“To PPP or not to PPP?”... That is the Question!

- ***1/3 of population connected to sewer system*** (11% in rural areas);
- Many ***competing authorities*** with no clear responsibilities (Overstaffed & heavily subsidized);
- Government of Egypt (“GoE”) ***objective to expand and improve Egypt’s infrastructure***; however, suffering from ***fiscal deficit***;
- ***New PPP Unit*** established at the Ministry of Finance (“MoF”) to attract private sector participation; however, with limited capacity and experience;
- ***BOOT projects frowned upon*** (*IPP experience in the 90’s*);
- ***Investors appetite low*** for deals with the GoE (IPPs and solid waste management deals);
- ***No attractive regulatory framework*** (Tender Law of 1989).

MoF Decision

- MoF decided to sign a Memorandum of Understanding (“MoU”) with IFC to:
 - i. Implement 5 pilot PPP transactions across different sectors; and
 - ii. Provide technical assistance to increase capacity of the PPP Unit to undertake PPP projects.
- 5 pilot projects were identified:
 - Egypt Schools
 - *New Cairo Wastewater*
 - New Cairo Potable Water
 - Cairo-Alexandria Highway
 - Alexandria Hospitals



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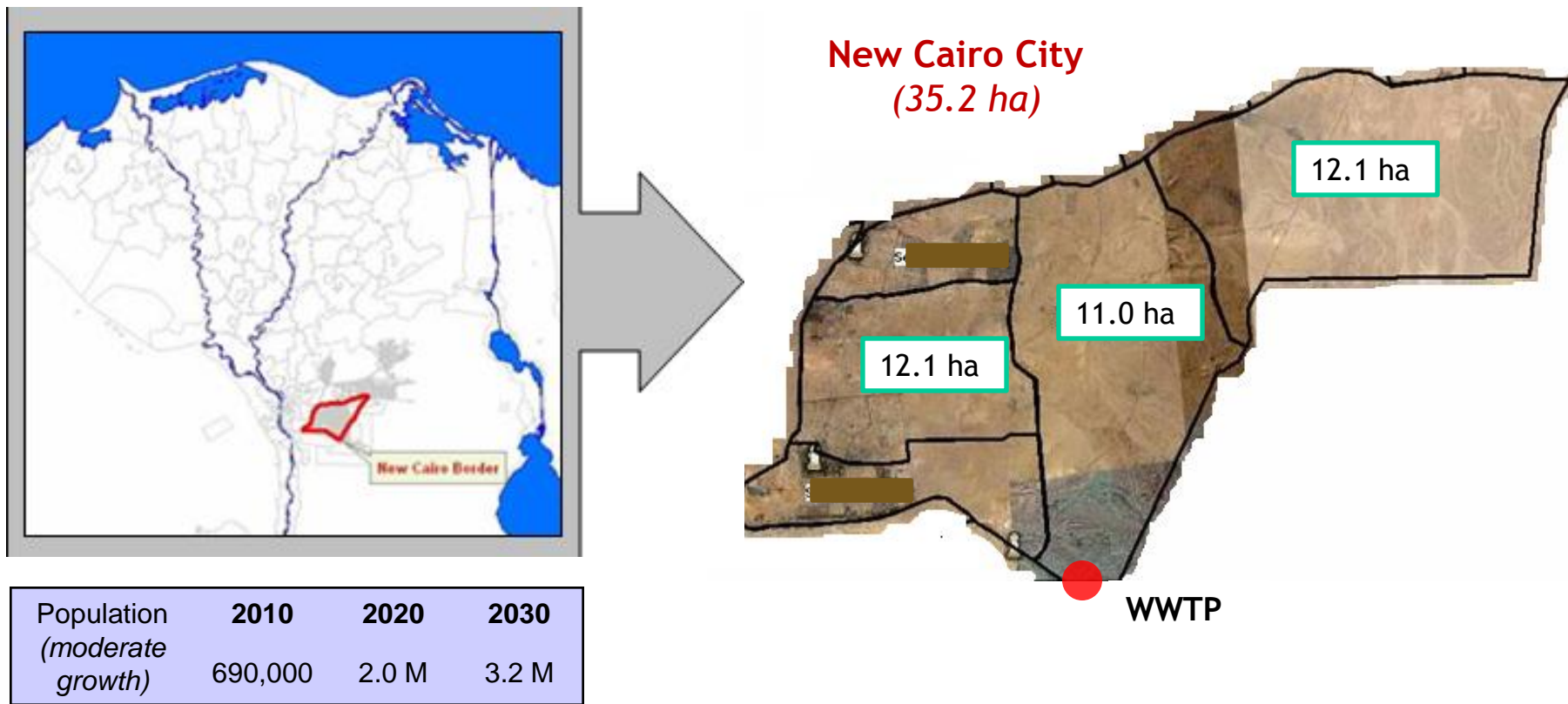
Success Factors

The Wastewater Project

- IFC supported GoE to structure a PPP where the private sector would be responsible for the design, financing, construction, operation and maintenance of a Wastewater Treatment Plant (“WWTP”) in New Cairo;
- GoE’s objectives included:
 - (i) Provision of adequate **water sanitation** to New Cairo to meet present and projected growth;
 - (ii) Implementation of a **model PPP transaction** which can be replicated in other parts of the water sector; and
 - (iii) **Mobilization of private sector** finance and know-how.

Project Location

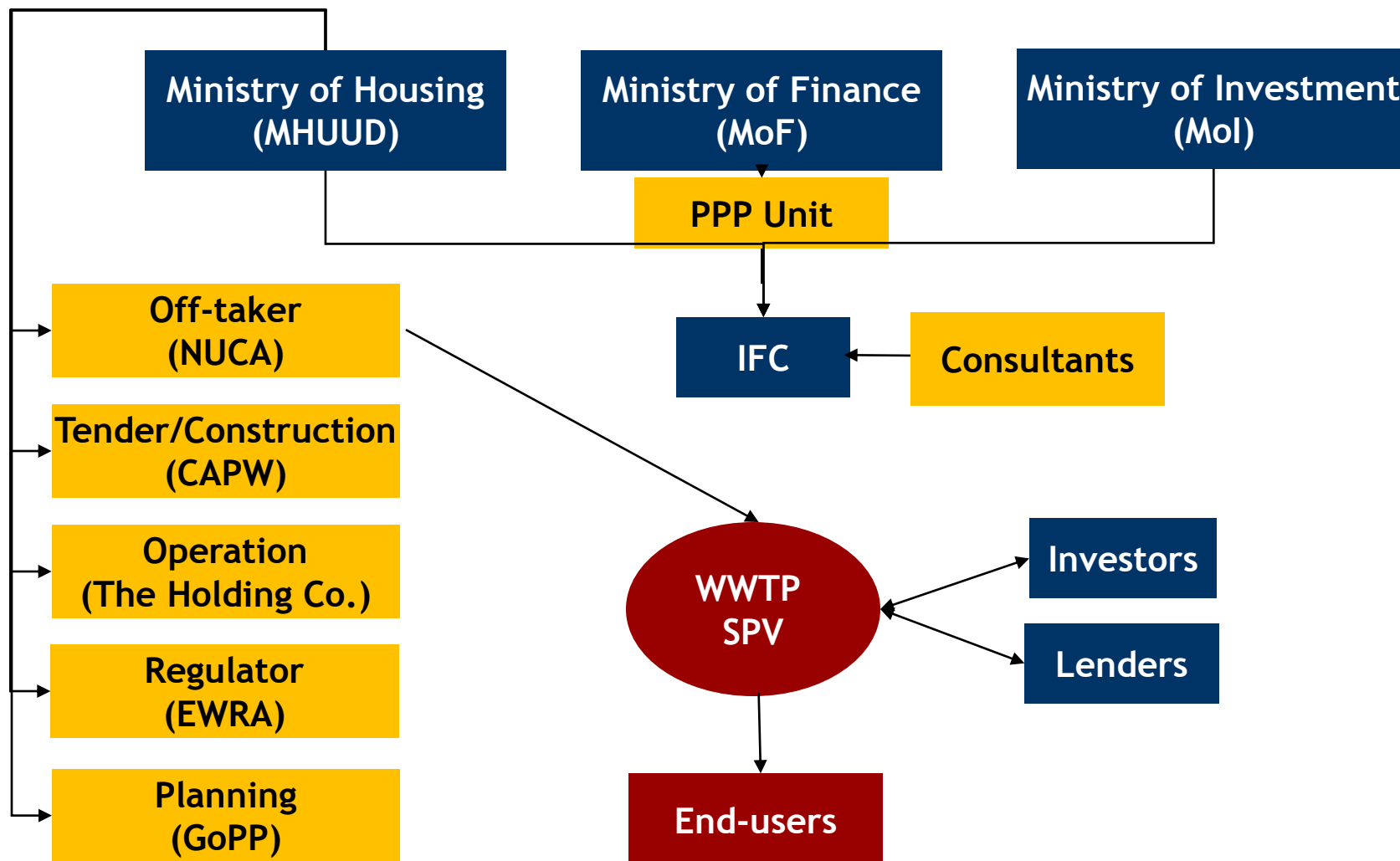
- New Cairo is one of the new centers promoted to help alleviate the problems of urban overcrowding in Greater Cairo;
- Water sanitation and supply were identified as priority sectors by the GoE as the existing infrastructure are insufficient and of poor quality.



Project Structure

- **Project Scope:** Private sector to design, finance, construct, operate and maintain a 250,000 m³/day WWTP in New Cairo;
- **Grantor:** The New Urban Communities Authorities (“NUCA”) who would in turn collect sewage tariffs from end-users;
- **Duration of the PPP:** 20 years;
- **Payment Mechanism:** Sewage Treatment Charge (“STC”) denominated in EGP paid every quarter, composed of a:
 - (i) **fixed portion** (fixed opex, debt service and RoE); and
 - (ii) **variable portion** (variable opex).
- **Payment indexation:**
 - Capital expense (debt portion) indexed to interest rates;
 - Operating costs indexed to inflation.

Key Stakeholders



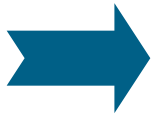
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Challenges (1/4)

I. Low buy-in within Line Ministry - Too many clashing interests

- *MHUUD vs. MoF PPP Unit*
 - Who controls the process?
 - Water sector law vs. PPP Law;
- *Minister at MHUUD vs. water authorities* – who calls the shots?
- *Weak grantor commitment (NUCA)*
 - Lack of timely review and participation in meetings
 - No agreement on important issues (e.g. plant location/size, influent quality parameters, grantor obligations, etc.)
 - Technically not as strong as CAPW – not their line of business.
- *CAPW suitable counterpart*, however, did not view PPPs favorably (high costs, no perks for tendering authority)

Approach: - IFC had MHUUD sign a letter to confirm its commitment to Project
- CAPW was assigned to perform NUCA's tasks
- Lots of handholding with CAPW to ensure that PPPs were accepted.

Challenges (2/4)

II. PPP Unit Capacity

- New staff being introduced to the PPP concept;
- Understaffed with many tasks at hand;
 - Simultaneously launching of various pilot PPP projects
 - No systematic way to choose new PPP projects (no affordability tests nor good filtering system)
 - Start drafting of the PPP Law and its executive regulations
- Final decision made only by head of PPP Unit

III. Prioritization of Projects under an MoU arrangement

- Political Priority given to the Schools project under the MoU
 - Issue with standardization of documentation, especially that Schools Project had delays
- Wastewater vs. Schools PPP project (simplicity wins)
 - Ring Fencing - Well defined input parameters and output specifications
 - Public / Private responsibilities well defined (equipment vs. operators)

Challenges (3/4)

IV. Cautious International and Regional Market

- Some firms reluctant to invest in a first PPP considering prior experience

Approach:

- IFC conducted extensive road show meeting potential investors face to face;
- Adequate transaction structure and risk allocation catering to GoE objectives and private sector needs (project scope, legal framework, payment mechanisms, credit enhancement)
- Client and IFC transparent and objective throughout the process.

V. Low Capacity of Local Banks

- Need for local financing since payments denominated in EGP;
- Project Finance vs. more conventional Corporate Finance;
- Need to explain contract clauses to the banks.

Challenges (4/4)

VI. Ensuring Capacity for Post Transaction Project Management

- The hard work only begins once the transaction is signed in terms of:
 - Implementing the clauses of the contract;
 - Monitoring the performance of the private sector;
 - Applying payment indexation and other re-equilibrium formulas.

Approach:

- CAPW agreed to support NUCA and to take on the monitoring of the construction and operation of the WWTP as well as be responsible for any technical matters, which GoE was responsible of fulfilling;
- MoF decided to be responsible for calculating the payment various indexations mechanisms until NUCA was proficient enough to do it themselves.

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Orasqualia was awarded the PPP Contract

Bid	EGP/m ³	US\$/m ³
Orascom / Aqualia	1.74	0.31
Samcrete / Befesa	2.10	0.38
Al Kharafi	1.98	0.36
Veolia / Abdel Warith	2.50	0.45

- **Total Project Investment:** US\$ 120 million
- **Capital Structure:** 70/30 Debt / Equity
 - Debt: 4 local banks;
 - Equity: Orascom (55%), Aqualia (40%) and Aqualia Infrastructure (5%).

Closure

- Signing of the PPP Mandate between Orasqualia and CAPW was achieved on June 6th, 2009 (*Commercial Close*);
- IFC team continued its support to the GoE up until Financial Close, which took place on *February 4th, 2010*;
- The New Cairo Wastewater Treatment Plant is now being constructed and should start operations in Q4 2012;
- The Project has allowed GoE to replicate the concept and start a pipeline of PPP projects in the Wastewater sector including Abu Rawash and 6th of October plants.

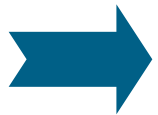


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Success Factors

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- Thorough due diligence to reach a good project structure;
 - Legal (e.g. issues with current tender law);
 - Technical (scope of work and performance criteria);
 - Financial (good reference for Governments to expect project outcome and payment)
- Client commitment (MoF and later CAPW);
- Proactive management of stakeholders (*Line Ministries, public authorities, awareness campaigns*);
- Strong marketing of the project and good understanding of the market needs (*scope, payment mechanism, credit enhancement, etc.*);
- Transparent process (*investor conferences, objective evaluation, no post bid negotiations, etc.*);
- *Keep it simple*, especially with the first PPP in a country.

International PPP know-how and sector expertise combined with good international marketing and catering to local market needs is key for successful structuring and implementation of a PPP Project.