PPP Program in Egypt
Sharing Experience & Lessons Learned

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What is PPP?

- **PPP** is a long term contractual relationship between the Public Sector and the Private Sector for the purpose of having the Private Sector deliver a project or service traditionally provided by the Public Sector.

- PPP projects do not minimize Line Ministries’ responsibility to improve public services, only the procurement methodology is different.
Performance-based contract under which the private sector supplies public services over time and is paid by the Public Sector, end-user or a hybrid of both. Output is specified by Line Ministers while input is the responsibility of the private sector.

**Under the PPP Contract:**

- The **Government** secures new infrastructure which becomes Government assets at the end of contract life.
- Project and performance **risks are allocated** to the party best able to manage or mitigate.
Some Models of PPP

Public –Private - Partnerships

- Traditional Works & Services Contract
- Management Contract
- Leasing & Agreements
- BOT, DBFO, & Concession Agreements
- Privatization

Low Private Ownership

High Private Ownership

- Governments & public authorities need to be prepared to act as a competent counterpart over the life of the PPP project
PPP Program Needs

A successful PPP transaction must:

 ролок Embrace the full life-cycle to foster successful and sustainable projects that provide needed public services,

 ролок Create VFM (as compared with pure public sector service provision),

 ролок Comply with general standard of good governance (i.e. transparent and competitive procurement)
Reasons not to proceed

- Is this technically viable?
  - Non-proven technology without a parent guarantee?
- Environmental and social impacts: acceptable?
  - People relocated, natural resource or scenic site affected
- Economically: providing a competitively priced service?
  - Does this appear the best long term solution for the country…
- Politically Viable:
  - Opportunity for incoming opposition to condemn predecessors?

Initial concerns like these may end further discussion of the project
Banks’ initial screening questions

- Economically competitive: on a sustainable basis
- Sector fundamentals: tariff levels, pmt. discipline, etc.
- Convincing case for reliable revenue flow
- Government committed to meet its obligations
- Credible estimation of costs
- Environmental issues which may be challenging
- Contractual framework: balanced, transparent
- Legal framework which is supportive – and enforceable
Financial Viability

• Take reasonable working assumptions on
  – Revenues, costs, financing assumptions,
  – Adjusting sponsor’s assumptions where necessary
• Is debt service coverage adequate?
  – Cash flow available for debt service each year
  – Average and minimum DSCR
• Is the return to equity still acceptable?
Risk Analysis

The Guiding principle: Lowest cost solution obtained when Risks allocated to party best placed to manage them

- Ideally that would mean party best placed to mitigate them
- “Mitigation” might mean best placed to absorb the consequences
- At a minimum, has to mean party best placed to understand them

Essence of PPP model is optimizing risk allocation
Overview of Main Project Risks

- Completion – on time and within budget
- Key inputs: (fuel, raw water, gas etc.) reliable delivery & cost
- O & M: projected performance achievable?
- Market risks: threats to the projected cash flows
- Country Risks

Identify, allocate, measure the impact, mitigate
Due Diligence

- **Country:**
  - Macroeconomic and political environment
  - Enforceability of contracts

- **Sector**
  - Regulatory framework
  - Sector cash-flows: tariffs and payment discipline
  - Supply & demand balance for the service

- **Project:**
  - Technology & design
  - Transparency of the bidding process; contractual structure
  - Project fundamentals: tariffs, least-cost option
  - Environmental and social issues

- **Sponsors:**
  - Technical experience & track-record
  - Financial strength
  - Reputation
Must be sure that the facility will deliver:

- Quantity of output expected of required quality
- Efficient use of inputs e.g. heat rate for a power plant
- Reliability – with minimal down-time

Typically achieved through a combination of:

- An O&M contract a firm with recognized expertise
- Warranties from equipment suppliers
- Insurance
Country Risks

At project design, implementation, operation
– Completion of associated facilities
– Delays in approvals, permits etc.
– Change of law and regulations incl. taxes
– Enforceability of agreed obligations
– Foreign exchange and transfer
  • PPPs now making maximum use of local currency
– Riots and civil strife:

Some transferred, or guaranteed by Government
Competitive bids; insurance, local investors help
Key Success Factors

• Meets a need competitively and efficiently
• Adequate tariffs, good adjustments, pmtdiscipline
• Political commitment & Gov. support for its obligations
• Regulatory framework independent & transparent
• Contractual arrangements balanced & fair
• Good legal documentation: this is contract-based financing
• An appropriate financial structure

*If these conditions clearly not present – walk away….*
New PPP Law

The law is divided into 4 Chapters constituted of 39 Articles

Law approved by Parliament May 2010
Chapter 1

- General provisions and Definition
- PPP Contracts & related Advisory Contracts falls under law scope and not subject to provisions of General & sector laws
- Introduction of definition of Entities related to law implementation
- Different forms of PPP Contracts
- Role of Regulatory Bodies (*should be involved in preparation*)
- Changes to PPP Contracts and Compensation Mechanisms
- Project Assets
- Subcontracts
- Reporting System
New PPP Law – cont.

- **Chapter 2**
  - Institutional Framework
  - Supreme Committee for PPP
  - PPP Central Unit
  - Satellite PPP Units
New PPP Law – cont.

Chapter 3

- Procurement and Tendering Procedures
- Expression of Interest
- Prequalification
- Initial RFP
- Public Sector Comparator
- Competitive Dialogue (Two Stage Tendering)
- Final RFP
- Evaluation Committees
- Letter of Award  SPV Formation & Contract Signature
New PPP Law – cont.

Chapter 4

- PPP Contract Heads of Terms
- Dispute Resolutions & Law of Implementation
- SPV Solvency
- Contract Assignments
- Relationship with Lenders & Direct Agreements
- Investors Complaints Committee
Institutional

- PPP Central Unit structure & role (initial staff)
  - Learn – Absorb experiences – Localize
- Establish PPP Satellite Unites (one after the other)
- Capacity Building campaigns
  - PPP Project Identifications - Structuring
  - Risk Matrix - allocation
  - Financial Models
  - PPP Tendering Projects
  - Output Specs. Vs. Input specs.
Lessons Learned

- **Awareness Campaigns**
  - Public officials
  - Private sector
  - Banks
  - Specialized **Media**

- **THEN Start with ONE project only**
  - Well selected
  - Well Prepared
Lessons Learned

- **Legal Framework**
  - Two Approaches

Draft and Issue law then tender out project

VS.

Tender a Project while drafting the law
Lessons Learned

- **PPP Project Advisors**
  - Selection (international experience Criteria – SOW – duration – idle time)
  - How to manage long term Advisors
  - Prepare competent team as counterparts
  - Scrutinize and discuss EVRY recommendation.
  - Involve local Advisors with the int’l (legal firms)
Lessons Learned

- **Project Identification** *(most critical)*
  - Follow the scientific approach.
  - Use short term experienced experts if needed.
  - Accept NO compromise in studies quality.
  - **NEVER** lean to political pressure.
  - Act professional and Reject the project if not feasible or could not be a PPP structures.
Lessons Learned

- **Project Preparation and Structuring**
  - Listen carefully to ALL stakeholder
  - Give each step its appropriate time period
  - Carefully Identify and Allocate RISKS
  - **CUT & PASTE** never worked in PPP projects
Lessons Learned

- For a successful PPP Project

1. Well Project Identification
2. Well Project preparation
3. Risk Mitigation
4. Well PPP structure
5. Transparent bid evaluation
6. Balanced contract
8. Good Private Sector selection
9. Good Long term Contract Management and project implementation
PPP Central Unit Awards

New Cairo Wastewater Treatment Plant Project awarded:

“Water Deal Of the Year” 2009 from GWI

“Best PPP Deal in Africa” 2009 from Emea Finance

Middle East and North Africa Award Winner - Egypt - PPP Central Unit Ministry Of Finance
Thank You

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