



مكتب الوزير
Office of the Minister



Public Private Partnership Central Unit
الوحدة المركزية لشراكة القطاع العام والخاص

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Introduction

In line with the Government's strategy to promote and increase the private sector involvement in the country's economic and social development plan- particularly in the area of public utility services- the Government has taken initiative to introduce the Public Private Partnership program (PPP).

The “partnership” is in essence a way of public services provision whereby the Government contracts with private sector companies to build finance and operate infrastructure for public services or for its own use. At the end of the contract the infrastructure passes to State ownership so increasing the stock of public assets

PPP's introduce the disciplines and efficiencies of private sector management and methods to the provision of public services. By harnessing the complementary skills of public and private sectors, experience from other countries now points to significant advantages in terms of cost, value and quality of the delivered services. Such participation aims at improving the quality of services provided to citizens, alleviating the burden on the State budget without affecting the state ability in providing services at fair social prices, creating job opportunities, stimulating investment and consumption thus boosting growth, attracting FDI's, and others.

Throughout a PPP the Government's retains close control over the delivery of the specified level and standard of services. Where core social services are involved (such as teaching, medical care) these will be retained by the public sector professionals. The Government is expecting a higher quality of service delivery from PPP's. Policies on free access and user charges, however, will be the same for facilities provided under PPP's or by normal methods. For the reasons above and because PPP's open up new channels of finance, the Government will have more latitude in bringing forward its investment program. This in turn will open up opportunities for the domestic contracting and financing sectors, including smaller contractors who are expected to benefit considerably from the program.

Affirming the government seriousness to activate the PPP initiative, a PPP Central Unit was established within the Ministry of Finance and reporting directly to the Minister. The Ministry of Finance PPP unit is charged with co-coordinating the PPP national program across ministries and public bodies. The upcoming period will witness the intensification of contacts with line ministries, other government bodies and with the private sector to activate this initiative. In this context, the Central Unit in the Ministry of Finance will provide support to line ministries on all forms of PPP projects.

PPP is a complex process but with proper and experienced management can deliver projects to the benefit of all. Now that Egypt has initiated the PPP initiative and the first potential projects in the healthcare and education sectors are taking shape, more and more organisations and authorities will want to consider PPP as a way forward. This guide will be a useful tool for establishing whether PPP is a promising solution.

The Central PPP unit here at The Ministry of Finance has produced this guide with the assistance of International Capital Partnerships Ltd, a London based consultancy with wide international experience in helping Governments develop PPP programmes. This is the first time such a guide has been produced in Egypt.

Dr. Youssef B. Ghali
Minister of Finance
Egypt

Chapter1

Public Private Partnership

1.1 WHAT DO WE MEAN BY PPP?

The "Partnership" is in essence a way of public services provision whereby the Government contracts with private sector companies to build finance and operate infrastructure for public services or for its own use. At the end of the contract the infrastructure passes to State ownership so increasing the stock of public assets.

The said program envisages several contractual components enabling the private sector to participate in project implementation through various forms, such as designing, financing, building, operating, managing, maintaining, and other ancillary services.

1.2 WHY PUBLIC PRIVATE PARTNERSHIP?

Public private partnerships (PPP) have become prominent over the last decade, fuelled by insufficient investments in the economy, growing pressures on government budgets and a general concern about inefficient service provision by state enterprises/ agencies. PPPs have taken place mainly in economic infrastructure, such as telecommunications, power and water. However, recently, attention has also turned to social infrastructure, such as health and education, and other services. Traditionally, these services have been provided by the public sector mainly because most of them entail large capital outlays, and have long gestation period; in economic terms, these features imply that utility sectors are naturally monopolistic. Governments want to be able to control the delivery of the services in question also because they are considered essential for modern societies; due to social considerations their pricing tends to be inflexible. In many cases, however, public provision of infrastructure services has been characterized by unreliable services, high costs, lack of coverage and neglected maintenance. The desire for greater efficiency and better services and the need for additional sources of finance are now increasingly leading governments to embrace a PPP approach to provide these services.

1.3 WHY USE PUBLIC PRIVATE PARTNERSHIP?

Correctly structured PPPs are a useful service delivery option from both an operational and strategic perspective.

1.3.1 Operationally

- Efficiency gains;
- Output focus;
- Economies generated by integrating design, build, finance, and operation of assets;
- Innovative use of assets;
- Managerial expertise; and
- Better project identification.

These benefits can result in some combination of better and more services for the same price, and savings for the public sector, which can be used for other services or for more investment elsewhere.

1.3.2 Strategically

Partnership contracts enhance accountability by clarifying responsibilities and focusing on the key deliverables of a service. A government's managerial efficiency can benefit significantly as existing governmental financial, human and management resources can be refocused on strategic functions.

Thus benefits associated with PPPs include

- Increase in economic growth and long- term job creation,
- Efficiency in service delivery and service expansion,
- Reduction of financing burden on government budget, and
- Poverty reduction

Studies have shown that there is a close relationship between economic growth and infrastructure development. On average, for each percentage point of growth in GDP, the infrastructure stock rises by one percent. This implies that the stock of infrastructure must keep pace with growth if growth is to be sustained. Insufficient and inefficient infrastructure stifles more rapid economic growth. Efficient infrastructure creates employment, develops human capital, promotes local and foreign investment and trade, and fuels business productivity and expansion. Entrepreneurship and new business initiatives run aground in the absence of basic infrastructure services like power and water supplies, telecommunication networks and access to roads and public transport. Infrastructure also contributes significantly to country's social development and helps raise standards of living by improved access to critical services like health and education.

1.4 BENEFITS OF PPP PROGRAM

PPPs in the delivery of economic and social services offer local economies the opportunity to mobilize additional private sector resources per unit of available (and scarce) public sector resources for infrastructure investments. It also allows access to private sector finance and managerial expertise, and opens the door to new markets and technology. Ultimately, PPPs is about more efficient use existing resources and implementing public policy objectives with the best available tools and project designs in a flexible and pragmatic manner.

- Private sector efficiency and management skills are introduced to public service provision, producing higher service levels and / or reduced costs.
- PPPs reduce project implementation risks for the Government, and reallocate these risks to a private provider better suited to manage them.
- Access to private capital is gained and public finances are improved.
- The private sector is able to optimize whole-life asset costs, and the trade offs between capital and operating costs, in a way the public sector cannot.
- Private sector can invest in new techniques and exploit economies of scale.
- Higher stock of infrastructure results in higher growth- higher growth results in less poverty and more employment.

1.5 THE GOVERNMENT ROLE IN PPP PROGRAM

PPP's introduces the disciplines and efficiencies of private sector management and methods to the provision of public services.

By harnessing the complementary skills of public and private sectors, experience from other countries now points to significant advantages in terms of cost, value and quality of the delivered services. Such participation aims at improving the quality of services provided to citizens, alleviating the burden on the state budget without affecting the state ability in providing services at fair social prices, creating job opportunities, stimulating investment and consumption thus boosting growth, attracting FDI's, and others.

Throughout a PPP the Government's retains close control over the delivery of the specified level and standard of services. Where core social services are involved (such as teaching, medical care) these will be retained by the public sector professionals.

And also the Government still have a vital role, it focus mainly in setting the framework to increase the confidence of the private sector towards involving in PPP program with the public sector and providing the services to citizens according to their interest.

1.6 THE BENEFITS THE CITIZENS WILL GET BY IMPLEMENTING PPP

The Government is expecting a higher quality of service delivery from PPP's. Policies on free access and user charges, however, will be the same for facilities provided under PPP's or by normal methods. Providing the service with high quality and more efficient will lead to efficient use of resources. For the reasons above and because PPP's opens up new channels of finance, the Government will have more latitude in bringing forward its investment program.

This in turn will open up opportunities for the domestic contracting and financing sectors, including smaller contractors who are expected to benefit considerably from the program.

1.7 THE STRUCTURE OF PPP

The PPP usually takes the form of a contract between a private sector entity and the Government that calls for the private sector sponsor to deliver a desired service (in economic or social infrastructure, or other areas) and assume the associated risks in exchange for the right to earn an adequate return. The Government may be currently providing that service, or it may be a new service that would benefit the country and economy, but it is not currently being provided. Risk allocation is at the heart of how PPPs are structured. PPPs allow better risk allocation since PPPs are procured as services, and not assets. And unlike conventional procurement, the focus is outputs not inputs.

1.8 HOW ARE PUBLIC PARTNERSHIPS STRUCTURED?

In PPPs where substantial risk is being passed to the private sector, including financing risk, the capital cost is usually funded through project finance. Project finance is the mechanism whereby projects are financed using the future revenues flowing from the project. By involving private sector in service delivery, the cost to the public sector is spread over the long term, rather than incurred up front, thus freeing limited public sector resources for more projects without needing to raise funds via taxation – seldom a popular alternative. In addition, concession-based project finance allows for the asset to be

transferred back to the public sector at the end of the concession term after a period of time sufficient for the private sector to earn a return.

Typically, in project financing, a special purpose vehicle (SPV) is created for the specific purpose of carrying out a particular project. These project companies are set up with the express purpose of limiting the recourse of the financiers to the assets of the SPV. The SPV relies on the revenue streams it receives in return for providing the services to the public sector, in order to meet its debt obligations to the financiers, cover operating costs and, ultimately, produce a return on the equity for the shareholders.

To ensure that benefits of PPPs are realized, a value for money test is important in PPP schemes which involve the public sector paying a fee or tariff for the provision of services. In most countries with developed PPP programs, the public sector establishes a public sector comparator (PSC) before deciding to launch a project as a PPP. The PSC is an estimate of what the project would cost the public sector were it to be realized on the conventional basis of construction contracts being tendered using public sector finance. Since the public sector typically borrows at rates lower than those available to the private sector, for any project to be approved as a PPP project there must be a significant transfer of risks which the private sector is better placed to manage. The ability to better manage risk will be reflected by lower costs including a lower cost of capital for risk-adjusted calculations. Clearly, for an honest comparison to be made, all relevant capital and life cycle costs must be included in the PSC in order to determine whether the PPP demonstrates real value for money.

1.9 PAYMENT MECHANISM

Payment mechanisms are at the heart of how PPPs are rewarded. As mentioned earlier, the core difference between conventional procurement under a PPP is risk transfer. Obviously during the early period there is a big bump in budgetary requirements due to development and capital expenditure (CAPEX). Various studies have shown that in public sector projects there are almost always cost overruns and delays. Delay in service means no service and high cost of alternative service deliver mechanism. During operations too, there can be costs overruns and bad budgeting for life cycle costing – resulting in high pressures on budgets, poor service delivery and long-term difficulties because of insufficient maintenance spend.

In this case the private sector designs, constructs and operates the project following public sector requirements. The payment mechanism principle is based on 'no service, no payment'. In other words, unless the facility is built and equipped and is providing service, there will be no payment to private sector. All the initial design, finance and construction risk is taken on by private sector. Once the service is provided, the payment is based on quality and availability of service. During this later period, the private sector recoups the development and construction costs as well as operating costs. Since payment is based on quality and availability of key outputs, life cycle costing is planned carefully.

1.10 THE ESSENTIAL CHARACTERISTICS OF PPP CONTRACTING

The PPP partner (PPP contractor) is selected by a process of competitive tender, which conforms to accepted best national and international practice for public procurement. The selected PPP partner stands at the managerial, technical and operational apex of the project

and takes full commercial responsibility for and is fully focused on delivering an integrated set of facilities and services.

The Public sector commissioning authority (the Client) becomes the specifier, determining the scope and requirements of the project and, during the operational phase, acts as client on behalf of the users. The Client stipulates the dividing line between the generic services provided by the PPP Contractor and those reserved for State.

The PPP partnership is captured in a very detailed contract that sets out the rulebook for a commercial relationship that could last up to 25 years or more. This contract sets out certain key principles:

- The Client specifies its needs in terms of outputs, performance levels and standards over the extended term of the contract
- The PPP Contractor provides the full technical package of inputs (detailed design, construction, operational method etc.) that meet the outputs and accepts the inherent technical and commercial risks
- The PPP Contractor finances the necessary investment, and therefore has loan and equity capital "at risk" over the life of the contract
- The PPP Contractor only receives payments when the project enters its operational phase after construction and those payments are spread evenly over the contract period
- In performance level or standards fall short of what is specified, payments are reduced to compensate the authority for the shortfall
- The PPP Contractor is accorded a certain latitude to innovate technically and generate additional income from the project
- The Client has an absolute right to validate the engineering and monitor the service performance

Chapter 2

THE MAIN HEADS OF TERMS FOR A PPP CONTRACT

A) Parties:

The parties to contract will be the Government of Egypt as represented by the Ministry of Education (the client) and the Contractor. The Contractor will be a newly incorporated company whose shareholders are disclosed. After the construction is completed and a period of successful operation recorded, shareholders may dispose of their interest with the consent of the client.

B) Term:

A build period and an operational period [as agreed- target in aggregate 20 years]

C) Description of services:

Setting out the output specifications specified by the Client and the input specifications specified by the Contractor.

D) Commencement of services:

The date on which the facilities are required for occupation by the Client, which is also the date from which obligations for the Client to make monthly payments begin.

E) Primacy of schedules:

This clause puts the obligation for fulfilling the contracted outputs on the Contractor. There is no defence that the client has agreed the inputs, the Contractor will still be subject to and responsible for the output specifications.

F) Land interest/ licences:

The Contractor will receive a lease / other necessary interest in the land in order to carry its obligations over the term of the contract. If the main contract is terminated before full term, the lease will also terminate.

The Contractor will also receive license / permission to conduct other revenue generating activities as agreed.

The Contractor will not however have the right to allow the creation of any security right over the land or the construction.

At the end of the lease, the land and all assets/buildings as specified in the contract will revert to the client.

G) Employment:

Any employees of the state who transfer to the Contractor's employ as a result of the contract shall be offered terms of employment no less favourable than they enjoyed as state employees [if applicable].

H) Changes to services/facilities:

Within agreed limits the client will have the right to require and the Contractor the obligation to deliver changes to the services and facilities during the life of the contract. If the changes involve extra cost, the Contractor can increase charges to a level that maintains the economic return on the contract taking into account the extra capital or running costs.

I) Market testing:

At periodic intervals during the contract period the element in the Contractor's services that relate to specific services for which there is a ready market will be tested against prevailing market prices. If out of line, the Contractor will reset that the element to market price.

J) Performance monitoring:

Detailed drafting will set out the rights of the Client to monitor and the obligations of the Contractor to self-monitor and report on performance. These clauses will apply to both the construction and the operational phases of the contract.

K) Payment:

The Client will pay for the services by way of monthly service charge during the operational phase of the contract. These payments may increase as a result of annual inflation indexation on the cost of ongoing services or changes to service that incur additional cost. They may decrease as a result of deductions for substandard service or for partial or total unavailability of facilities (other than as a result of client actions).

L) Change of law:

In case of discriminatory changes in law with regard to PPP contracts, the Contractor has the right to raise the monthly charge to offset the cost of any such changes.

M) Profit share:

There will be no cap on the profit the Contractor may make under the contract due to efficiency. Windfall profits due to exceptional opportunities in the financial markets or otherwise as specified, will be shared.

N) Client loss or damage:

The Contractor will be obliged to indemnify the Client for any loss, damage or extra cost resulting from actions or failure to fulfil its obligations under the contract.

O) Relief and compensation events:

In the event of certain pre-defined circumstances which are temporary (extreme weather/strikes/protester action), it is not possible for the Contractor to carry out construction or services, any right of termination will be suspended and obligations of the parties will be suspended until services can be re-commenced.

P) Client step-in:

In very exceptional circumstances (major catastrophe/epidemic) the Client will have the right to take over the operations temporarily if in the public interest.

Q) Bank step-in:

If the Contractor is in series risk of breach of contract for persistent default, the Contractor's Funders will have the right to take control of the Contractor for a limited

period in order to rectify the performance. This right will also be set out in separate Direct Agreement between the Client, Contractor and Funders.

The Client will provide no direct or indirect guarantee of the Contractors' obligations towards Funders.

R) Grounds for early termination:

Will be

1. Unilateral right of the Client.
2. Breach by the Client.
3. Breach by reason of persistent default.
4. Breach by reason of corrupt practice.
5. Force major (narrowly defined).

S) Compensation for early termination:

Will be payable by the Client as follows

1. Contractor and Funders receive compensation for forgone future profit and interest.
2. As above
3. Contractor receives the present value of the cash flows from a losing-making Contract (which will be less than the amounts lent).
4. No compensation to the Contractor. Banks can reclaim outstanding loans
5. Contractor receives original capital and Funders the outstanding debt.

T) Obligations on termination:

The Contractor is obliged to co-operate with an orderly handover of the services and facilities. Specific clauses will address the establishment, management and use of a sinking fund at the Client's disposal in order to rectify any shortcomings in the standards of the facilities on the normal termination date at the end of the contract period.

U) Insurance:

The obligations of the Contractor to take out and maintain adequate levels of insurance cover will be specified.

V) Dispute resolution:

Detailed clauses will set out an escalating fast-track dispute resolution procedure culminating in arbitration.

W) Law:

Under Egyptian law

Chapter 3

THE PPP PARTNER SELECTION PROCESS

1. The PPP partner selection will conform to best national and international practice for public project procurement
2. There will be a public call for tenders
3. Realistic timetables will be set for the preparation of tenders

4.The selection process will be two-stage. Only a shortlist of tenderers will be required to table full proposals

5.The evaluation methodology will be disclosed to tenderers

6.The selection criterion will be on the basis of the bid that offers the best value for money over the life of the contract

7.The Ministry of Finance Central Unit will advise on the tender documentation, protocols and proper application of the evaluation methodology.

Chapter 4

PUBLIC PRIVATE PARTNERSHIP

The Ministry of Finance PPP unit is charged with co-ordinating the PPP national program across ministries and public bodies. It will be working closely with the Ministry of Economic development and the Ministry of Investments to ensure a controlled roll-out of a series of significant infrastructure and public services projects.

The unit will be in charge of the study, application, as well as coordination with line ministries, financial institution and with the private sector to develop this PPP theme in policy framework, a clear action plan and its legal framework.

An essential task of the unit is to ensure that PPP project proposals are supported by sound analysis as to needs and priority, receive the necessary budget approvals and the ministries that are responsible for that. This is coincide with the establishment and commencement of specialized units located in the line ministries who have plans to implement projects under the PPP program and also setting training programs for line ministries representatives to implement the program according to international program.

Chapter 5

IDENTIFYING SUITABLE PPP PROJECTS

PPP is a method of procurement of more effective investment and service delivery, not just for public services, but also for the working of the public administration. However, not all areas of investment in public service improvement are susceptible to the PPP methodology.

Experience has shown that potential PPP projects should conform to the following characteristics:

- The investment required, in particular for pilot projects should be at least over L.E. 100 million, This is because the complexity and expense involved in launching such projects using proper public procurement procedures are only justified for projects of a larger-scale
- The assets and services required should be those that the private sector is capable of supplying, and there should be an actual or potential competitive market for such supply

- Projects should not have a high technology content, or require technology that is not readily available on a competitive basis
- The Public authority proposing a PPP should be able to specify in output or outcome terms the scope and scale of its needs for the life of the project
- The project proposal should be justified by a detailed analysis of needs and arguments for the suitability of the PPP approach. This is frequently called the Business Case

It is essential that the Business Case is well argued, and receives the formal approval of senior governmental/political authorities before a PPP project be put out to formal tender.

Chapter 6

HOW WILL EGYPT IMPLEMENT THIS PROGRAM?

Egypt gave the priority of implementing the public private partnership program to construct 2210 government schools covering all education stages according to different governorates needs.

The 2210 schools will be divided on 7 batches. The construction of these schools through the private sector will not affect the current price of the service that the student pays but it will reflect the service quality provided through managing and maintaining the building, although the MOE will be providing the educational service.

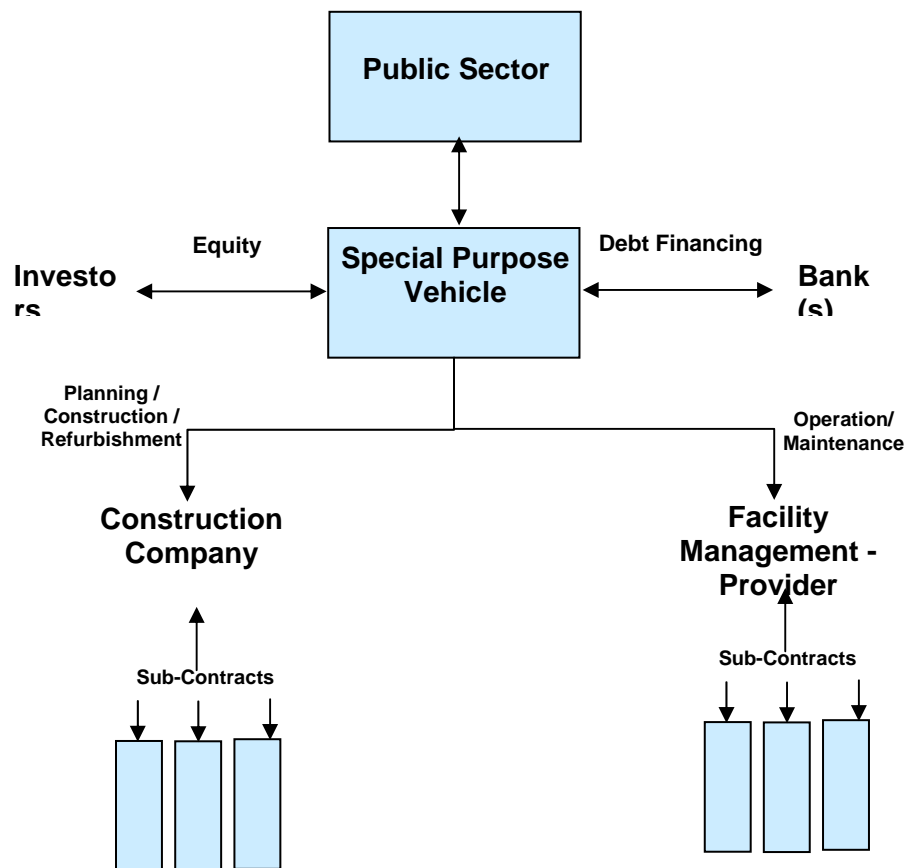
At the same time, there are several other projects under review to be conducted through PPP in different fields like: health, transport, irrigation, housing, urban development, as example New Cairo water, New Cairo waste water.

6.1 The legal and legislative frame work of PPP program

MOF has formed a team work of legal consultants and international expertise that had the experience in implementing several PPP projects and was qualified to prepare PPP contracts and annexes to regulate the contractual relationship for long terms and fears.

Now, the PPP schooling project will be tendered under the Egyptian laws umbrella until the PPP law is furnished, and that's what the MOF team work is doing now to be submitted to the Minister's council and the parliament.

6.2 Basic Structure



6.3 Objectives

- Successful implementation of pilot projects
- EGYPT focal point on the map of PPP's
- New opportunities for local & international entrepreneurship

6.4 The Vision Model for EGYPT

- A Public Private Partnership 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.
- The main principle is the allocation of risk to the party which is best suited to manage the particular risk in question.
- The private partner undertakes to design, build, finance, refurbish, operate and maintain the asset.
- The public partner deals only with one partner / consortium for making service available.
- Output-based specification of required services.

6.5 Advantages for the Egyptian Market

- Makes projects affordable
- Maximize the use of private sector skills
- The private sector takes life cycle cost risk
- Risks are allocated to the party best able to manage or absorb each particular risk
- Deliver Budget Certainty
- Deliver Value for Money
- Leverage private spending against public spending for infrastructure
- Force the public sector to focus on outputs and benefits from the start
- The quality of service has to be maintained for the life of the PPP project
- Development of specialized skills
- Encourage the injection of private sector capital

6.6 Mission ... & Strategy

- **Provide the right environment for implementation**
 - New Legal Framework – Under Preparation
 - Adopt International Successful Implementation Models (UK)
 - Stability and Incentives for Private Sector – GAFI
- **Creation of a Central PPP Unit at Ministry of Finance – June 2006**
 - Expertise and support centre
 - Identification of pilot projects
 - Setting national guidelines for implementation
 - Standardization of Contracts
 - Provide technical monitoring techniques for implementation
 - Public face of PPP in Egypt
- **Capacity building**
 - Public Awareness Campaign across EGYPT
 - Publication of Bilingual Guidelines for Implementation
 - Bilingual Web Site both in Arabic and English
 - Workshops and Training Seminars for Public and Private entities
 - Hosting MENA Region PPP Summit in March 07
- **Implementation and monitoring**
 - Coordination with various advisors
 - Standardize procurement process
 - Post contract follow up on implementation
 - Reporting system on financial implication of PPP's to government budget.
- **Set precedence through Pilot Projects**
 - Follow up successful examples in implementation
 - Open Various Sectors
 - Group Similar Projects for line ministries
 - Screening for PPP able projects
 - Encourage local funding market

Chapter 7

1.7 PPP Schooling Project Agenda

Schooling Background

The Egyptian government spends around 19% of its total expenditure on education; this is considered one of the highest ratios in the world. However, the expenditure on education is not enough, not in value terms but rather in quality terms. Most of the expenditure on education is allocated on construction of new buildings and classes; however, the major draw back is the lack of allocation of resources for the maintenance of the buildings. According to a World Bank report published in 2005 there is a gap in school maintenance expenditure between the actual maintenance spending and the required spending, this gap has reached three folds in the year 2003.

Over and above the problems with regards to maintenance, the public authority lacks the efficiency in construction expenditure, it is estimated that the government spends 30 % more than it should on construction while it spends two thirds less than it should on maintenance. The biases in the figures are a direct result to the rapid population growth which must be met by adequate schooling. However, this bias has resulted in poor infrastructure as a result of the lack of maintenance, as well as, poor quality of service delivery due to the misallocation of resources.

Another major concern in the educational sector is the institutional framework upon which several public authorities work under. Bureaucracy and lack of transparency are the most contributors to inefficiency, which results in double counting, misallocation of resources and above all mismanagement of the expenditure process. Instead of the government's focus on refining and updating the curriculum of the pre-university educational phase, it on the other hand allocates most of its resources to the construction, expansion of the educational venues and wages and salaries, which unfortunately have negative results on both quality and quantity of education in Egypt.

Key Issues Facing the Education Sector In-Brief:

- Lack of Budgetary Planning
- Inadequate Capital Investment
- Gaps between Actual and Required Figures
- Bureaucracy and flow of information
- Lack of Proper Data Collection

In the line with the government's strategy to develop the education sector and to solve the problems facing the infrastructure of public schools in Egypt. The government has decided on having 500 schools solely built by the private sector, while the remaining 3,000 schools would be built by the public sector, of which 790 would be solely innovated and expanded by the government while the remaining 2,210 schools are going to be completed using the PPP approach. The execution of the project will take place within 5 years at a rate of 450 schools per year.

For the schools to be implemented via PPP 300 schools have been selected as phase 1, these schools will be covering 27 governorates. Accordingly, each school has been given its location (Village, district and governorate), specification (number of classrooms, total

surface area, etc...) and type of construction (complete renovation, new construction, etc...).

Under PPP the private sector is not only entitled to the construction of the infrastructure but rather on providing certain services throughout the timing of the partnership.

These services would include:

- Cleaning
- Security
- Maintenance
- Help Desk
- Catering (if applicable)

Having the private sector in charge of these services would have a great impact on the provision of the services in terms of quality and quantity. These would allow the public sector to allocate resources in solving more important problems regarding the content of the curriculum and the tutoring process itself.

Implementation of the Schools Projects under PPP

In previous sections we have highlighted the need for a new PPP program in Egypt, as part of the long-term strategy to enhance the economic development of the country. However, the immediate timescales for introducing a PPP program for schools and promoting significant numbers of PPP school projects is direct result of the key issues facing the education sector in Egypt as well as the need for increasing the private sector involvement and the increase of both the infrastructure and the investment levels in the economy. It is worth mentioning that schools PPP are considered amongst the simplest types of PPP projects in terms of description and documentation.

Translating educational needs, standards and policy into fabric of school buildings, fully equipped, maintained and regulated is the responsibility of the General Authority of Educational Buildings (GAEB). This in fact was the first obstacle ahead of the PPP program. GAEB is more concerned with the inputs, specifications of the sites is so details that it includes the material specifications including where to get it and at what price. On the other hand a PPP program is an output oriented approach, which is not concerned with the details and the various specifications of the project. Accordingly it was important to create this level of understanding with GAEB with regards to the criteria upon which a PPP project is implemented.

The schools were then divided into clusters, each cluster aggregating an investment of at least 800 million Egyptian Pounds covering 300 schools. The first 300 schools are considered a testing of the market and acceptability of the market forces to a new idea such as the PPP, in an attempt to pave the way for the rest of the projects to come in line as well as projects from other sectors. The following table illustrates the total amount of schools and classrooms needed to be built under PPP.

Ser.	City	Number of Classes	Number of Schools
1	Cairo	2448	139
2	Alex.	2178	134
3	Port – Said	167	12
4	Suez	172	11
5	Damietta	553	35
6	Dakahlia	2021	129
7	Sharkia	2028	140
8	Kalyoubia	2165	120
9	Kafr el Sheikh	1465	98
10	Gharbia	1390	89
11	Monofia	938	60
12	Bhera	2673	168
13	Ismailia	61	4
14	Giza	4133	251
15	Bany Swif	1588	98
16	Fayoum	917	58
17	Elminia	2846	173
18	Asuit	3202	200
19	Sohag	2071	130
20	Qenna	1102	69
21	Aswan	329	27
22	The Red Sea	57	3
23	The New Valley	220	15
24	Marsa Matrouh	146	16
25	North Sinai	235	16
26	South Sinai	19	2
27	Luxor	174	14
Total		35298	2210

Current Status

Project Description

As noted, the Government has embarked on an ambitious PPP program to expand and improve public infrastructure, including schools, hospitals, transport, gas, and water/sanitation. Under the Project, GAEB and MOF will jointly tender for one or more private Service Providers to design, build, furnish capital finance and maintain up to 300 new public schools as the first stage of a program that is expected to include about 2,210 new schools. The Service Provider will also provide other non-educational services such as cleaning, security, pest control, etc.

The number of schools and classrooms for the first 300 schools are shown below:

Governorate School List			
Governorate	No. of Schools	No. of Classes	Site Area
Alexandria	10	210	48,226.34
Assyut	10	159	24,256.84
Aswan	7	108	31,604.91
Beheira	11	140	26,532.55
Beni Swaif	5	96	13,541.49
Cairo	8	212	49,909.22
Dakahlya	20	397	67,831.12
Damietta	13	213	50,190.42
Fayoum	4	74	10,026.97
Gharbya	11	140	20,240.87
Giza	14	259	54,652.00
Ismalia	2	22	5,770.00
Kafr El-Sheikh	10	126	20,894.95
Luxor	5	60	14,860.48
Matrouh	6	61	51,300.00
Menoufya	11	194	11,169.99
Menya	25	402	77,661.69
New Valley	2	29	39,900.00
North Sinai	3	33	18,025.96
Port Said	5	72	29,850.33
Qalyubia	17	445	63,596.18
Qena	12	152	40,619.12
Red Sea	2	51	

			11,616.85
Sharkya	50	683	132,204.47
South Sinai	2	17	7,600.00
Suez	1	28	9,870.35
Suhag	34	520	81,852.63
Total	300	4,903	1,013,805.73

The types of schools are divided as follows:

School Types		
School Type	Number of Schools	No. of Classes
Basic	61	1013
Primary	127	1960
Preparatory	50	703
Secondary	28	481
Experimental	10	213
Special Needs	8	121
Technical	2	55
Agricultural	1	9
Industrial	4	118
Vocational	1	19
Hospitality	1	15
Motamayez	7	196
Total	300	4903

It is expected that there will be 40 students per class in all types of schools except special needs, where the ratio will be 12 students per class. For all 300 sites, GAEB has obtained the land, conducted soil analysis, and completed the data gathering on the physical characteristics (e.g. location of utilities, etc...).

Tender Process and Timetable

The tender will be conducted under the Law 89 (1998), the Law on Organizing Tenders and Bids (“Tenders Law”), as amended by Law 5 (2005). The tender will be conducted by GAEB, as the authority responsible for procuring school construction and related services. The bids will be opened in public and decisions will be made by two committees in accordance with the Tenders Law. It is expected that, following Contract signature, detailed designs will be submitted and reviewed by Government within [three] months and construction will be completed within 12 months of design approval.

A summary of the main steps in the tender and construction process and an indicative timetable are set out below.

	Milestone	Indicative Target Date
1	Conference for Investors and Banks	February 14 th
2	Publication of Invitation for Prequalification	February 26 th
3	Deadline for submission of questions on Prequalification	March 11 th
4	Q&A Conference on Prequalification	March 18 th
5	Deadline for submission of Prequalification Application	April 11 th
6	Announcement of pre qualified bidders	April 24 th
7	CD ROM (virtual 'data room') issued to pre qualified bidders	May 2 nd
8	Issuance of draft PPP Contract and annexes to pre qualified bidders for comment (30 days)	May 2 nd
9	Deadline for submission of comments on contract	June 3 rd
10	Issuance of final PPP Contract and tender documentation	July 2 nd
11	Submission of bids (technical and financial)	September 2 nd
12	Evaluation of technical bids	Sept 3 rd -Oct 2 nd
13	Notification of technical bid results	October 11 th
14	Opening of financial bids	October 30 th
15	Letter of Award	November 4 th
16	Contract Signing Ceremony	November 8 th
17	Contract Effectiveness (will depend on conditions precedent, but may involve incorporation of SPV, confirmation of soil analysis, financial close)	
18	Approval of final designs	3 months from signature
19	Completion of construction	12 months from design approval

The criteria for prequalification and for evaluation of technical and financial bids will be set out in the prequalification and tender procedures respectively.

The Ministry of Housing, Utilities and Urban Development Concept Paper for Wastewater Treatment Plant Project in New Cairo under Public Private Partnership Mechanism

Introduction:

As a logical follow-on to the water sector reform which was carried out in 2004, the Ministry of Housing Utilities and Urban Development (MHUUD) is now considering off-balance-sheet financing of infrastructure projects i.e., water and wastewater treatment facilities. The concept of Public Private Partnership (PPP) is now adopted as a strategy for MHUUD where private sector companies will be invited to finance, construct and operate water& wastewater facilities for long term contracts.

Project Identification:

The project is a Wastewater Treatment Plant in New Cairo area with an estimated treatment capacity of 1.25 million cubic meter/day (on three phases).
The estimated cost of the project is LE 2.5 billion.
The population served is 2.0 million at year 2020

Required Tasks:

First Stage:

A feasibility study which will investigate the following:

- Legal, regulatory and institutional impediments (if any)
- Supply and demand of water in the area and the consequent wastewater discharge
- Affordability with the current tariff
- Forms of government support
- Guarantees requirements
- Effective management and transfer of risk
- Appropriate rate of return for the private sector

Second Stage:

If the project is feasible, the assistance required is transaction support which includes the following:

- clear identification of outputs
- tender document preparation for the project
- contract structure and payment mechanisms
- selection criteria
- procedures for requesting proposals
- evaluation of proposals
- Final negotiations and project award to the successful bidder.

Private Sector Participation in the New Cairo Water Supply Project

The New Urban Communities Authority (NUCA) had indicated its desire to appoint an advisor to assist it in attracting Public Private Participation ("PPP") for the concessioning of a water treatment plant for the New Cairo Water Supply Project (the "Project").

In order to meet the challenge of a fast growing urban population and particularly to address the burden of overcrowding in Cairo, the Ministry of Housing, Utilities and Urban Development is promoting the development of new urban cities, such as the New Cairo city. High population growth in the Egyptian urban centers is putting increasing pressure on the existing infrastructure to provide for the expected growth in demand. This situation is particularly critical in the case of water and sanitation, where the existing services are already insufficient and of poor quality. In the case of New Cairo, the town population is expected to grow exponentially from the 2 million people, but expected to grow up to 5 million by 2010. The Ministry thus requires substantial resources to meet the twin challenges of both the service improvement and service expansion. In absence of these resources, the Ministry has decided to look into other means, such as private sector participation ("PSP") or public private participation ("PPP") schemes to undertake the needed services.

The Ministry wishes to undertake construction of a potable water treatment plant for the city of New Cairo under a Build-Own-Operate ("BOT") scheme for about 2 million cubic meters capacity (the "New Cairo Water Supply Project") or (the "Project"). The objectives of the Ministry are to: (i) provide adequate potable water supply to the population of New City; (ii) implement a model PPP transaction in the urban services area which can then be replicated in other parts of the water of the water sector; (iii) reduce the fiscal burden of building new infrastructure; and (iv) put in place a regulatory framework which assures sustainability of the Project and future PPP schemes.

The plant will have an initial estimated capacity of 500,000 cubic meters per day for servicing the population of New Cairo and that of adjacent areas with additional capacity to be added in line with the growth in the expected demand.

The potable water treatment plant is to be constructed under a Build-Operate-Transfer ("BOT") contract or similar arrangement and wishes to mobilize the private sector participation for this purpose.

The MOHUUD desires to implement the Project by way of identifying one or more private sector investors with experience in the construction, financing, management, operation and maintenance of infrastructure facilities to carry out the Project.

Chapter 8

A) WHY ARE YOU ADOPTING THE PPP METHOD?	
<p>1. Please explain what advantages GAEB sees with the PPP method</p> <p>2. What is wrong with your normal methods of contracting for schools?</p> <p>3. Why cannot the contractor provide a design and build package, GAEB provides its own maintenance and services and a bank leasing package if payment is to be deferred?</p> <p>4. A Contractor business is construction, not financing the Government's investment programme. They do not have the capacity to provide finance.</p>	<ul style="list-style-type: none"> • PPP is a new approach to public sector contracting. • In recent years the UK has been the pioneer • But there are schools programmes under development in a number of countries including Greece, Germany and the Netherlands and South Africa. • A PPP contract invites the Private partner to offer on an integrated basis a full range of services from design to the operation of the building over its working life. By the Partner being fully focused on a total services package, evidence from other countries is that the result is better in cost and quality. <p>Like any professional organisation we are keen to test new methods if these will prove advantageous. PPP schools will after all only represent a small proportion of the total schools estate for which we have responsibility. We are of course honoured to champion the first project in the national PPP programme</p> <p>This could be another approach, but it is not the PPP way. PPP means that the partner offers all the elements in a single integrated package.</p> <ul style="list-style-type: none"> • We expect the PPP partner to be a consortium of contracting and financial members. • The main contractor would generally provide a proportion of the initial project capital, but as

<p>5. Long-term funds are not available to contractors to finance projects</p> <p>6. This is not the way we do things in Egypt. Previous experience with BOT type methods prove they do not work here.</p> <p>7. Are there examples of such schemes working elsewhere?</p> <p>8. What advantages can there be for the contractor? Why should we get involved?</p>	<p>you will see from the documentation you have received, the contract envisages that post-construction the contractor will be free to dispose of their project investment.</p> <ul style="list-style-type: none"> • Experience from other markets has shown that these participations in successful projects are very saleable. <p>Consultation and analysis is being undertaken for the development of longer-term domestic finance to facilitate projects.</p> <p>We must learn from past mistakes. Please appreciate that we shall be operating within the national framework for PPPs with practice being co-ordinated across ministries by the MOF Central Unit.</p> <p>See answer # 1 above</p> <p>The advantages that attract contractors are:</p> <ul style="list-style-type: none"> -Access to a long-term income stream -The opportunity to develop long-term maintenance and services activities
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B) WHAT IS A PPP CONTRACT? HOW WILL THE PARTNER BE SELECTED?	
<p>1. What do you mean by Public Private Partnership?</p> <p>2. Is it really a partnership? Is it a joint venture? Does Government expect to participate in the project company?</p> <p>3. How will the contract be regulated? Will there be any caps on profit?</p> <p>4. What does a performance-based contract mean?</p>	<p>It's a long-term contract between a Government body and a Private sector partner under which the partner builds, operates and finances facilities for Government and/or public use. The contract sets out an elaborate rulebook for a relationship that is expected to last up to 20years or more. The partner is paid on a periodical basis over the operating phase of the contract, so after construction and payment levels are subject to performance. At the end of the contract the facilities transfer to the Government.</p> <p>If we follow the international model, Government would only seek participation in very exceptional circumstances. The relationship in contract is one of client i.e. the Government and supplier, the PPP partner</p> <p>Each PPP contract sets out the method of monitoring and control which will be by the Government body, which is party to the contract. The draft Heads of Terms, Chapter 2, points to the sharing of exceptional profits of a windfall nature, but not ordinary business profits.</p> <p>The PPP partner receives a periodical fee for making available to the Government client the facilities and providing the services. The facilities and services have to meet the standards set out in the contract. If they fail to do for reasons that are at the Partner's risk, payments are reduced in accordance with formulae in the contract</p>

<p>5. How will the PPP partner be selected?</p> <p>6. We read that PPP partners are selected on the basis of value not cost. What does this mean? Surely under public procurement principles the Government must always select the lowest bid?</p> <p>7. PPP s favour international contractors, will the domestic participants be given preference?</p>	<p>PPP contracting will be established under the general framework of public procurement, <i>so by competitive tender</i>. This may involve amendment to law and regulation and these studies are underway with the assistance of international experts. Particular legal analysis is being carried out to validate the procurement of the schools projects.</p> <ul style="list-style-type: none"> • Evaluation of PPP tenders include adjustments to compensate for differences between bids in quality and project and operational risk allocation. • The bidders will be made aware of the criteria on each project. <p>The intention is to grow a domestic market. The size of the schools packages is unlikely to attract the major international companies, however where they have experience and expertise that could be drawn on by the national industry, this should be encouraged.</p>
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C) WHAT INCENTIVES CONTRACTORS WILL RECEIVE TO ENTER THIS MARKET	
<p>1. Who will be paying the Partner the periodical fee? If GAEB, what happens if GAEB runs out of budget? Who guarantees GAEB?</p> <p>2. Will the Government be providing guarantees for the bank debt necessary to finance the project?</p>	<p>The contract will be with the Government as represented by the Ministry of Education. Payments are honoured by the government and will be part of the annual budget.</p> <p>No. The banks must rely on the project cash flows.</p>

<p>3. Will there be any tax incentives?</p> <p>4. We understand that bidding costs can be very high and that expensive advisors have to get involved. Will GAEB be helping to pay such costs?</p>	<p>This is not presently regarded as necessary. In evaluating the reasonableness of bids consideration will be given to fact that project profits will be subject to normal tax.</p> <p>In principle, No. However only a very limited shortlist will be invited to submit full bids.</p>
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<p>D) SCHOOLING PROJECT</p>	
<p>1. What will the Partner's input be to design and materials?</p> <p>2. What services and operations are required besides maintenance</p> <p>3. Who will provide the land for the new schools? Has all the land been located? Is the land clear? Will the partner have to buy the land from GAEB?</p> <p>4. Will all works and services be carried out under the supervision and</p>	<ul style="list-style-type: none"> • Design innovation is one of the reasons for adopting PPP. • The Partner will be responsible for the design and the material. • All materials must be licensed/qualified for schools construction. <p>Maintenance, Cleaning, Security, Pest Control, help desk...etc.</p> <p>GAEB Yes Yes No</p>

<p>control of GAEB?</p> <p>5. Will the Partner be expected to hire or manage GAEB employees</p>	<p>No. The contract will set out GAEB's role in the acceptance of works and the monitoring of services. Under PPP GAEB is the client not the project manager.</p> <p>No</p>
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