Public-Private-Partnership in Irrigation and Drainage in Egypt

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Presentation Outline

- Public-Private-Partnership: The Concept and Balance
- Different Forms of PPP
- Major Challenges
- Risk Involved in PPP in I&D
- Hard Facts About Egypt
- Need For PPP in Egypt’s Water Sector
- PPP could be a Success
- Examples of PPP in Egypt
- Lessons Learned
Public-Private-Partnership: The Concept

- PPP refers to a public entity entering into a contractual agreement with the private sector to take some or all of its essential services for the general public.

- The goals of PPP include:
  - To provide the service using suitable recent technologies more efficiently at a lower cost.
  - To allocate the risks of the venture fairly between the private and public entities.
Public-Private-Partnership: The Balance

- **Left Hand Side**
  Government and public sector goals are to create job opportunities, redistribute population, relieve construction and management burden, and guarantee system sustainability.

- **Right Hand Side**
  The nature of private sector is to make profit. However, it mostly contributes to service improvement and introducing modern and economic technologies.

The Balance is to develop and sustain a PPP where the above equation IS practically balanced and sustained.
## Different Forms of PPP

<table>
<thead>
<tr>
<th>Option</th>
<th>Asset Ownership</th>
<th>Operation and maintenance</th>
<th>Capital investment</th>
<th>Commercial risk</th>
<th>Duration (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service contract</td>
<td>Public</td>
<td>Public and private</td>
<td>Public</td>
<td>Public</td>
<td>1-2</td>
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<tr>
<td>Management contract</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
<td>Public</td>
<td>3-5</td>
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<tr>
<td>Lease (Afferemage)</td>
<td>Public</td>
<td>Private</td>
<td>Public</td>
<td>Shared</td>
<td>8-15</td>
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<tr>
<td>Build-Operate-Transfer (BOT)</td>
<td>Private (bulk services)</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>20-30</td>
</tr>
<tr>
<td>Concession</td>
<td>Public</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>25-30</td>
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<tr>
<td>Divestiture</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Private</td>
<td>Indefinite</td>
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The Challenge

- Sector dominated by long-stand of public investments and strong bureaucratic control.
- Cultural beliefs about the value of water.
- Negative experience with privatization.
- The political economy.
Risk Involved in PPP in I&D

- Commercial risks, related to the direct income of the professional third-party, whether private or public (e.g. private provider is unable to satisfy creditors or discharge liabilities).

- Country risks, those related to other sectors or decision levels, most often at country level or above (e.g. currency devaluation, global markets); i.e. those risks linked to the political situation of the country.

- Water specific risks include water demand risk (i.e. possible decrease in water demand) water supply risk (i.e. unavailability of the agreed upon water rights or allocations in part or in full) and technical risks (most related to construction quality).
Hard Facts About EGYPT

- About 8 million feddans (3.2 million ha) of cultivated land
- Agricultural production contributes about 20% of GDP
- Agricultural employment represents about 35% of total labor force
- Real GDP growth is estimated by 5% (2004/2005)
- Land fragmentation especially in old lands
- Private sector role is now considered in Mega projects (El-Salam, Toshka, West Delta, etc.)
- User participation is growing in the form of Water Users Associations (WUAs) and Water Boards (WBs).
- Annual expenditure on water services absorbs up to 10% of GOE’s total public expenditure.
- Water sector expenditure reached about LE 18.35 in 2001/02.
- 12 billion LE on national irrigation infrastructure and water resources related programs 6 billion LE O&M in the irrigation sector.
Need for PPP in Egypt’s Water Sector

- Need for sharing the ever-escalating capital, operation and maintenance costs.
- Need for society commitment to optimize water use and maximize returns.
- Need for decentralization to improve decision making.
- Need for improving water management services.
- Need for implementing mega projects to create job opportunities and redistribute population.
PPP could be a success in Egypt’s Water Sector

- Trend for implementing mega projects in partnership with private sector.
- Adequate interest of large national and international investors.
- Acquaintance of private sector with marketing and profit-making tools.
- Familiarity with Water Users Groups.
- Acquaintance with cost recovery mechanisms.
- Encouragement and support by Donor’s society.
Win-Win Situations are Possible

- Investors are interested.
- Government to have clear policy on how PPP will contribute to its objectives.
- Private investment in new land development is costly and bring risks, therefore:
  - Sustainability of PPP is a joint responsibility.
  - Involvement of investors in an early stage is useful.
Examples of Projects Where PPP is Practiced in Egypt

El-Salam Canal Project

- 50% of the project area is allocated to large investors, 20% to small investors, and 30% to small farmers.
- Transfer of low cost farming technologies from large investors to small investors and individual farmers.
- Holding company distributes, operates, and maintain facilities, and provide on-farm services including marketing.
Examples of Projects Where PPP is Practiced in Egypt (cont.)

Toshka Development Project

- The largest part of the project area, is allocated to large investors at minimal price.
- MWRI construct main infrastructure while investors are responsible for developing their own facilities.
- A great deal of project cost is recovered from users.
- Holding company operates
West Nile Delta Project

- Surface water system will be developed to minimize over-exploitation of groundwater resource.
- Full cost recovery for infrastructure, operation and maintenance are to be applied.
- Private sector will be involved in design, operation and financing of new facilities.
- PPP will be objectively oriented to risk sharing of construction, O&M, and loan amortization; possibly applying DBL model.
Examples of Projects Where PPP is Practiced in Egypt (cont.)

Integrated Irrigation Improvement and Management Project

- Establishment of Water Users Groups for O&M at all hydraulic levels.
- Stakeholders participation from day 1 in planning, design, and implementation and in management afterwards.
- Integrating irrigation and drainage cost in one cost recovery mechanism.
- Economizing improvement package in view of users’ capacity to pay.
Lessons Learned

- More involvement and delegation to WUAs and WBs in modernization projects, and more regulatory and normative role to MWRI.
- Incentives for large investors to BOT, DBL, etc. (information, national infrastructures, financial exemptions, and the like).
- Large investors can examine modern and low cost technologies that are to be franchised to smaller investors and landholders.
- Investors and small farmers as well may lease government lands for certain periods.
- Investors should be committed to the government’s reform policies.