

# New Cairo Wastewater: Pounds and sense

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New Cairo Wastewater, Egypt's first PPP, closed in February 2010 using local bank debt with an unprecedented 15-year tenor. The project forged a template for the Egyptian PPP pipeline, and overcame the difficulty of closing too early to benefit from Egypt's new PPP law, which was ratified in May.

The Egyptian government made the development of infrastructure in New Cairo a priority due to a predicted three-year population rise from 550,000 to three million people. The project's procurement authority is the Ministry of Housing, Utilities and Urban Development (MHUUD) through the New Urban Communities Authority, with technical assistance from Egypt's PPP Central Unit. This unit was launched from within the Ministry of Finance in 2006.

The PPP Central Unit appointed the International Finance Corporation lead adviser for the structuring of the transaction and tendering of the E£2.6 billion (\$444 million) contract. The IFC carried out technical, financial and legal due diligence on the transaction structure before advising the tendering process, prequalifying potential investors, drafting bidding documents and selecting the winning bidder. The IFC remained in its advisory role until financial close.

Prequalification of prospective bidders was based on specific criteria such as minimum net worth and relevant project experience. Out of the 10 applications received, seven bidders were prequalified. Bidding then moved to a technical bid, evaluated on a pass/fail basis. The final stage was a financial bid, evaluated on the basis of the lowest projected sewage treatment charge during the concession period and expected electricity consumption. Orasqualia submitted the lowest bid on this basis and was awarded the concession in June 2009.

The government gave Orasqualia a six-month window to close financing, an incredibly tight timeframe that was eventually extended by one month. As Egypt's first PPP, lawyers and advisers had no earlier experience to fall back on. The project falling under Law 89 rather than the new PPP law did not help the process. As a further complication, the project site was owned by the Egyptian Army. The Army provided verbal assent to the project early on, but extracting a formal written agreement to permit use of the land for 20 years was an arduous task. Finally, Orasqualia also had to secure final approval for its plant designs during this period.

Financing closed with the participation of local banks only, although there were no restrictions on international participation. Egyptian banks had an advantage because revenues are in Egyptian Pounds and international banks were not willing to stretch to the longer tenor eventually offered by the locals. Egyptian banks are unused to offering tenors in the region of 15 years, but were willing to go out that far because revenues consist of government payments during the 20-year contract and the sponsors are offering full completion guarantees. Law 89, while not as up-to-date as the PPP law, stipulates that the government must cover any outstanding debt in the case of sponsor default.

The debt package consists of a E£550 million 15-year term loan and a E£16 million performance guarantee facility. The remaining E£220 million project costs were covered with sponsor equity. NSGB was the facility agent and CIB the security agent and technical bank. These two banks provided the majority of the debt, around 72% collectively, and the remainder came from Arab African International Bank and Ahli United Bank.

The debt is priced at around 300bp above the overnight rate offered by the Egyptian Central Bank. This rate was considered by the commercial banks as the least erratic Egyptian pricing benchmarks, and was 8.15% when the deal

closed. Debt service coverage ratios are in the region of 1.25x.

The bulk of government payments come in the form of the sewage treatment charge. This charge has three components. The first is a fixed tranche covering debt service and return on equity, the second covers fixed operational costs, while the third covers variable operational costs and is based on the volume of sewage treated. Electricity costs are covered as a pass-through charge by the New Urban Communities Authority. This coverage is capped, however, at the level of maximum electricity usage Orasqualia supplied in its bid. Orasqualia must cover any excess costs if usage rises above this level.

The two-year construction process, slated to finish in March 2012, is running to schedule, with the project currently 43% complete. On completion, Orasqualia will operate the 250,000m<sup>3</sup> per day wastewater treatment plant for 18 years. In 2030, ownership of the plant will transfer to the government.

New Cairo Wastewater is proof of Egyptian banks growing ability to provide debt at both longer tenors and lower margins than international banks. Orasqualia coped impressively with a tight timeframe, and the support of the Egyptian government and the IFC enabled Egypt's first PPP to close without bespoke legislation.

### **Orasqualia**

**Status:** Financial close February 2010

**Size:** E£786 million (\$134 million)

**Location:** Egypt

**Description:** 20-year concession for a wastewater treatment plant.

**Sponsors:** Orascom (50%), Aqualia (50%)

**Mandated lead arrangers:**

NSGB (facility agent); CIB (security agent and technical); Ahli United Bank; Arab African International Bank.

**Financial adviser:** IFC

**Legal adviser to sponsors:** Helmy Hamza & Partners

**Legal adviser to the government:** Gide Loyrette Nouel.

**Legal adviser to lenders:** Zulficar & Partners

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