

**Government of Egypt
Ministry of Water Resources and Irrigation**



Investment Opportunity

THE WEST DELTA WATER CONSERVATION AND IRRIGATION REHABILITATION PROJECT

Preliminary Information Notice



July 2006



FOREWORD

This Information Notice has been prepared by the transaction advisors under a scope of work defined in consultation with the Ministry of Water Resources and Irrigation of the Government of Egypt (“the Government”) and the World Bank in order to solicit initial interest from investors in the proposed West Delta Conservation and Irrigation Rehabilitation Project (the Project). The information contained in the Information Notice may be subject to modification up until such time the Government announces a call for competitive bids.

The information presented in this Information¹ Notice has been prepared on the basis of own appraisals and analyses of the technical, commercial and financial documents related to the project and reach their own conclusions as to the viability of the Project.

No representation or warranty, express or implied, is made, or responsibility of any kind is or will be accepted by the Government, the transaction advisors or the World Bank, with respect to the accuracy and completeness of this Information Notice, and any liability in connection with its use is hereby disclaimed.

The Government reserves the right to amend or replace any information contained in this document at any time, without prior warning or justification.

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This Information Notice does not in any way constitute a call for bids, neither constitutes any preference or warranty of any nature whatsoever to any tender in any future bid or similar negotiation and neither the Government, the transaction advisors nor the World Bank accepts any responsibility in connection therewith. A Call for Bids, accompanied by specific guidelines, may be initiated later.

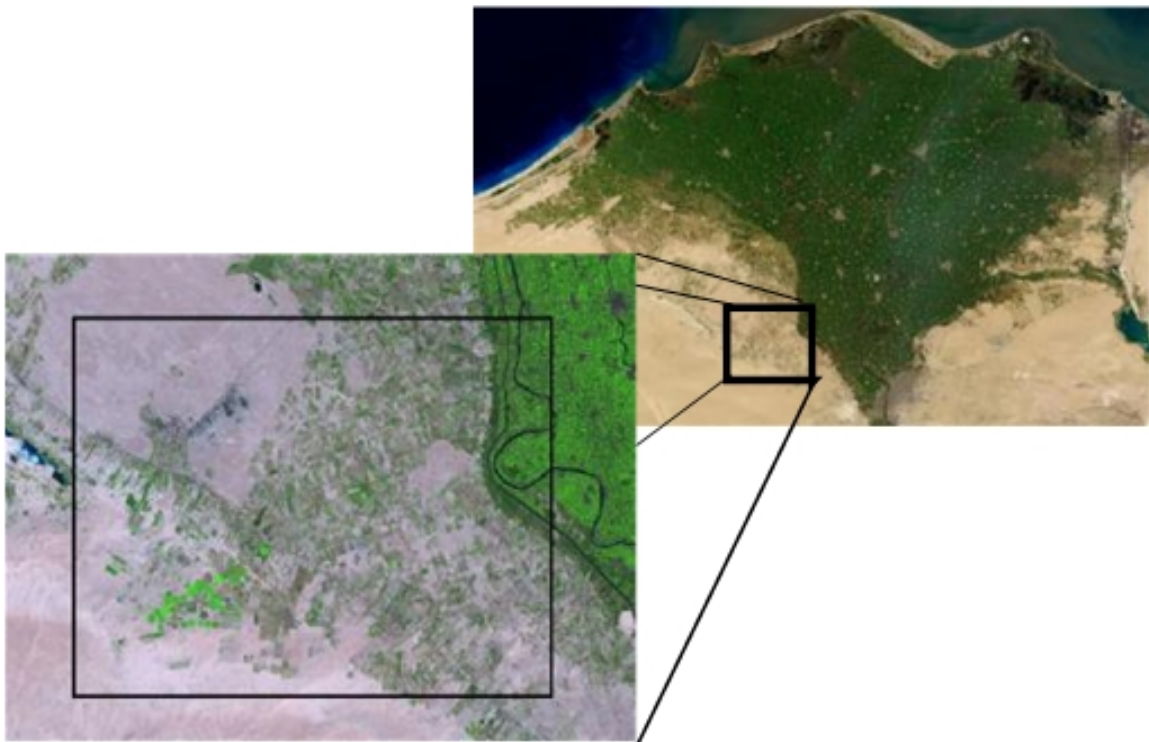
This Information Notice does not constitute an offer for sale of any financial instruments.

¹ For more information please visit the project website at <http://www.mwri.gov.eg/wdip/>

PROJECT BRIEF

I. Background

The Government of Egypt (GOE) has supported commercial farmers in reclaiming desert lands since the late 1960s in order to compensate for the loss of agricultural land in the Delta, and to provide opportunities to generate new jobs, increase production and widen the development base. As part of its continuing endeavor to improve water use efficiency and sustainable development, the Ministry of Water Resources and Irrigation is considering an ambitious plan for improving irrigation water availability to the new lands in the West of the Nile Delta. This will include areas irrigated with surface water in the Nubaria area as well as areas currently depending entirely on ground water for irrigation. In this context, an area of about 255,000 feddans (equivalent to 100,000 ha), located approximately 60 kilometers north of Cairo to the West of the Nile Delta (see map below), has experienced noticeable agricultural growth through exploitation of groundwater resources.



Approximate location and general view of the project area (2002)

Today, this area is a flourishing agricultural economy estimated between \$300 million to half billion dollars annually, serving both domestic and export markets in the European Union
<http://www.investintech.com/purchasea2e.html>

and elsewhere. Moreover, the area is now home to 500,000 people and provides about 250,000 jobs in the agriculture sector alone. However, with the rapid development over the past few years, there has been an excessive depletion of the groundwater reserves. With about 47% of the total 255,000 feddans under cultivation, water extraction by the year 2000 reached 870 million m³ annually, or an increase of 36.2% in just over a decade. Groundwater is quickly depleting² with a commensurate effect on overall water quality, posing a substantial threat to the farming economy that has been developed over the years.

II. The Project Concept

The West Delta Water Conservation and Irrigation Rehabilitation Project is GOE's response to resolve the problem of excess groundwater exploitation and to foster continued agricultural growth, employment and investment in the area. The Project proposes to implement a surface water conveyance system extracting water from the Nile River and initially to connect commercial farmers in the southern part of the area "Project Area"³. In achieving this objective the Government also intends to introduce important reforms in the sector, particularly to charge farmers for the full cost of service through volumetric pricing. Such reforms are part of the Government's own Integrated Water Resources Management (IWRM) Action Plan developed in 2005 to ensure correct incentives to conserve and utilize water more efficiently.⁴

Beyond its objective to achieve full cost recovery, the Government also wishes to involve the private sector in the design, construction and operation of the new irrigation system and to share certain responsibilities for financing the investment costs, thus bearing certain risks as well as returns from this undertaking. While the Government fully endorses the Project and is willing to source a substantial amount of the related investment financing, it desires to assign responsibilities to the Private Operator for the design, construction, operations and maintenance of the activity and for it to assume the implementation and other related risks of these activities.

III. Investment Opportunity Description

The Project is an attractive investment opportunity for companies in the construction, infrastructure, irrigation design, management and operation as well as for pump suppliers and or consortium of firms to be extended a long term concession to build and operate irrigation infrastructure where the need for such service is in high demand. A vast majority of the farmers in the area have voiced a strong willingness to pay full cost recovery tariffs

² It is estimated that the groundwater recharge rate is extremely low (around 20 million m³/year) implying an almost complete depletion of reserves in the near term at current extraction rates.

³ The southern part of the Project Area is estimated to include approximately 190,000 feddans of the total 255,000 referenced. Most of the area is cultivated by commercial farms utilizing modern irrigation and farming techniques. Financial sustainability of this transaction can be assessed through the participation of a relatively manageable number of farms in the proposed area.

⁴ The Government is implementing a cost recovery policy in the old lands to recover O&M costs. In the newly reclaimed lands, it is seeking to further expand this principle to achieve higher and even full cost recovery levels in irrigation services.

for this service. This is based on an extensive dialogue with the farmers in the area as well as documented surveys on their "willingness to connect and pay". Moreover, given the pioneering nature of this project, entry this initial stage can have important advantages to any company that has strategic business interests in a fast growing agribusiness sector in Egypt as well as in other countries with similar development interests.

A private operator is sought to take on a concession area consisting of approximately 190,000 feddans located in the southern portion of the West Delta Area. The remaining 65,000 feddans are located in the northern part which together with the southern concession total the 255,000 feddans described. The northern area may be concessioned at a later stage and is not part of the proposed opportunity.

The concession agreement will have a 30-year term with possibility of renewal. The private operator would be contracted to complete the technical design, construct and operate a closed conduit (piped) surface water irrigation system that would connect a specified number of feddans within the area (to be finalized). Based on preliminary technical studies that will be made available to qualified bidders, the cost per feddan would be prohibitively high below a participation of 60,000 feddans. As such, the call for bids to qualified operators will be above this 60,000 feddan threshold. The private operator would be allowed to withdraw from the project without recourse in the event farmers' participation is less than the reference project size called for in the bid. Estimates however, indicate that there is a much greater willingness to connect from farmers, reaching more than 85% of the total concession area.

IV. Preliminary Transaction Structure

The transaction structure is largely premised on a Design-Build-Operate transaction model whereby the private operator will assume the associated risk of the final design, construction and operation of the surface water irrigation system within the concession area. The system would be operated on commercial principles whereby the operator would have the same recourse as in other commercial services in the event required payments are not made by farmers. Tariffs charged to farmers will be the main source of revenue for the private operator to defray its costs of operations, inclusive of an annual concession fee to be paid to the Government.

The GOE intends to apply for a \$175 million loan to the World Bank for which it will make available, very much like a line of credit, to finance a portion of the total investment costs. The private operator, at its option, may draw down this facility up to the full amount to cover part of the total construction costs on the basis of 85% from the facility against 15% from the private operator's own contribution⁵. As the operator draws down from the loan facility, it establishes an annual repayment obligation (annual concession fee) by the Private Operator to the Government based on defined payment terms and conditions, the formula of which will be specified in its contractual agreement with Government. The amount of the annual concession fee will be in direct proportion to the amount of funds drawn down from the World Bank loan facility. The concession fee would cease upon the private operator fulfilling its full repayment obligations to the Government.

⁵ The loan facility would reimburse the private operator 85% of the eligible contraction costs, meaning a 15% contribution from the private operator.

The Government would assume the currency risks associated with World Bank supported financing and charge a premium to the operator for bearing this risk. The private operator would mobilize any remaining funds needed for expansion, since it is estimated that the loan facility together with the initial investor's equity will not meet all the investment needs for extending coverage to the entire concession area. Additional financing may include, but not be limited to, the initial capitalization of the operation (through a special purpose company), interest charged during construction on the loan facility, working capital, as well as subsequent capital expenditures needed to expand coverage from the initial investment to the rest of the concession area. Farmers that will be connecting to the system will make an advance security deposit to the private operator which, in part, can be utilized for counterpart financing to access the World Bank loan.

The Government will make Nile water available to the area through the private operator based on 5,200 m³ annually per feddan for those farmers that connect to the surface water system. Month-to-month variations will be made for peak and non peak use.

The concession along with the Design-Build-Operate contracts will be tendered on a competitive basis. The basis for the final bid will be the lowest combined tariff that will be charged to farmers who will connect to the system. The bid tariff will be expressed in two parts consisting of:

- (i) a fixed or flat annual tariff⁶ paid in L.E. on a per feddan basis that will be charged to connecting farmers over a 20-year period in order to defray the private operator's annual concession fee, additional capital expenditures financed by the operator plus returns/profits of the operator for his investment in the project. The flat fee must be paid by connecting farmers regardless of the amount of the allocated water that is actually consumed and will remain fixed, not subject to inflation adjustment; and
- (ii) a volumetric tariff expressed in LE per cubic meter that will be charged to connected farmers for their actual water usage and which will defray the operator's cost of operations, routine maintenance and management fees. The volumetric tariff will be index to inflation.

This combined two-part tariff must fully capture all of the operator's costs, including the expected profits, and was designed as such to mitigate the demand risk in the event connecting farmers continue to utilize underground instead of surface water for their irrigation needs. Under such circumstances, revenues from the flat fee would recover most or all of the fixed cost of the investment and returns to that investment.

A specified project size will be established for the bid (above minimum 60,000 feddans) for which qualified bidders will be requested to submit a conceptual design together with the associated cost estimates and financial projections which would support the proposed tariff. This bid shall be based on the bidder's own due diligence and assessment of farmers' willingness to connect. However, following contract award, a "Subscription Period" will be given to the private operator in order to sign up connecting farmers, thus again reducing substantially the demand risk associated with the undertaking. This subscription would be backed by the execution of legal "connection" agreements and the submission of a security

⁶ The flat fee may be billed to farmers in monthly or quarterly instalments.

deposit for each feddan that will be connected to the system. Through this process, the private operator will be able to verify an exact figure for the demand for the service and on this basis he would complete the final design and begin construction to connect the users that have subscribed. Farmers who decide to connect at a later stage would be subject to a higher flat fee rate, the mechanism of which will be specified in the regulatory arrangements.

A pre-qualification period will take place of interested parties which will be announced separately. Prequalification of bidders will be made on a pass/fail method for required qualifying criteria. Qualified bidders will be provided a Terms of Reference for the planned infrastructure works which will include technical specification and service standards which they must adhere to in their final design of the system.

V. Additional Information

For further inquiries about this investment opportunity you may contact:

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VI. Egypt's Economy - at a glance

Key Macroeconomic Indicators	2001/02	2002/03	2003/04	2004/05
Real GDP growth (%)	3.2	3.1	4.2	4.9
Inflation CPI year-end (%)	2.4	3.2	4.9	11.4
Current Account (% of GDP)	0.7	2.4	4.3	3.3
Exports (US\$ bn)	7.1	8.2	10.5	13.8
Imports (US\$ bn)	14.6	14.8	18.3	24.2
International reserves (US\$ bn)	12.9	13.6	13.6	19.9
Primary balance (% of GDP)	N/A	0.0	0.6	1.1
Avg. Exchange rate LE: US\$	4.449	5.195	6.163	6.006

Source: Ministry of Finance - Monthly Bulletin March 2006