

12 August 2007

West Delta Water Conservation and Irrigation Rehabilitation Project

Pre-Qualification Clarification Note

Questions were received from firms interested in submitting application for pre-qualification for the project. According to our policy, the questions and their answers are hereafter shared with all firms previously expressed interest in the project. They will be also posted on the project's website.

Question 1: Would you please help us by providing what exactly are the requirements for meeting the financial criteria described under Clauses 4.4.2 (1) and 4.4.2 (4)?

Answer 1: Our clarification is the following:

- Ø Pertaining clause 4.4.2(1) in GITA and its correspondent clause in PITA

Kindly note that the intent of this criteria is to ensure that the Operator will have sufficient financial standing in order to be able to fulfill its required financial contribution of 15% to the financing of the initial construction program. As such, the Operator, either individual or in the form of a joint venture must demonstrate having adequate liquid assets (Cash, A/C Receivables, Traded securities) or the ability to expediently source these assets which for the purposes of prequalification are estimated at \$25 million. If the Applicant (by itself or collectively with its partners) does not have such liquid assets readily showing in its financial statement, it must demonstrate its capacity to source such liquid assets in order to implement the project. For example, it can submit evidentiary information that such assets can be either sourced through a capital injection or financing by a Bank though a verified letter of intent or other evidence that can demonstrate that the assets previously mentioned are not assigned by any means to other parties for the minimum amount of \$25 millions as stated in the PITA.

- Ø Pertaining clause 4.4.2(4) in GITA and its correspondent application form (3) concerning the financial capabilities

The Operator must identify how he managed to finance previous or current projects through filling in the tabulation included in the application form, in addition to the sources of finance he intends to use in the West Delta project which must comply with his letter concerning the liquid assets in case relying on such assets or the letter of intent from his Bank.

For expressing willingness and seriousness in getting engaged in financing and managing the West Delta project, the Operator must also state in the tabulation the sources of finance whether through additional capital injections, liquid assets or bank credit lines that will be made available for the expansion beyond the 90,000 feddans.

Question 2: By saying that the prequalification is based on Pass/fail evaluation system does this mean that partial satisfaction of even one single criterion will be considered as fail?

Answer 2: We are afraid that it is very true. However, if any applicant will have difficulties to submit the documentation supporting his situation with any criterion by the deadline, he will be conditionally prequalified provided he submits the missing documentation before the invitation for bidding.

REMINDER: The closing date for submitting the PQ application is 23 August 2007.

Q: Should requirements under clause 4.4.1 (3) and clause 7.1; General experience section of the Prequalification Document; both be satisfied for prequalification?

A: MWRI, World Bank and transaction advisors agreed that for management, operation and maintenance experience clause 4.4.1(3) is enough as an evaluation criteria and no more need for the general experience section in clause 7.1 of the prequalification document.

Q: What are the responses to the comments raised by interested companies (questions feedback)?

A: West Delta Water Conservation and Irrigation Rehabilitation Project

N0	Company Name	Company's comments	Responses
1.	Nuteca	<ul style="list-style-type: none">• discuss in the third workshop: open field irrigation projects – greenhouse production units – nurseries –water treatment plants – power generators – food and packaging machinery- water pipes – drainage systems• I think it is very interesting.	<ul style="list-style-type: none">• Project is not concerned with on-farm development but provides greater opportunity for overall on and off farm development.• Noted

2.	SNC-Lavaalin International Inc	<ul style="list-style-type: none"> • Listing of the likely number of contracts / bid packages to be awarded would be a valuable subject for this workshop. • The design, build and operate format has great potential for enhancing quality, reducing cost and optimizing scheduling. 	<ul style="list-style-type: none"> • Only one contract will be let between the government and the DBO concessionaire. The winning operator may issue subcontracts at a later stage to the extent that they are in compliance with procurement rules specified. • Noted.
3.	Irridelco International corporation	<ul style="list-style-type: none"> • This is a historic project at a time when the country is rapidly developing and implementing mega projects. We believe the country of Egypt as a whole will be benefited. 	<ul style="list-style-type: none"> • Noted
4.	Royal Haskoning	<ul style="list-style-type: none"> • The technical set-up leaves significant room for deviation of project concept 	<ul style="list-style-type: none"> • Contract with PO will include Technical Specifications and Service Standards which must be adhered to in addition to a connection requirement that must be met at the outset. The choice of technology and detailed design are otherwise left to the bidders as long as they meet the specified requirements.

5.	The Henry Pratt	<ul style="list-style-type: none"> • The importance of having an AWWA product in your water system. • Please keep me posted as to how The Henry Pratt Company may help in working with your company and others. • We are very interested in working on this project. 	<ul style="list-style-type: none"> • What is AWWA? • Noted • Noted
6.	Hydrotech for Engineering and Technical Services	<ul style="list-style-type: none"> • More detailed information about the project 	<ul style="list-style-type: none"> • All additional related information will be made available to pre-qualified firms in a data room. The relevant contracts will also be included in the bid documents available to qualified applicants.
7.	Archirodon Construction (Overseas) Co.S.A	<ul style="list-style-type: none"> • In the summer time you mentioned that there will be a water balanced system, which will be through the tunnel, we propose to be done by one of the following, pipe jacking or bolted segment or steel ribs. 	<ul style="list-style-type: none"> • The supplementary infrastructure for balancing the water in the Nasiry Rayah will be implemented separately by the government from the project. The investment cost pertaining to the supplementary infrastructure will be included in computing the fixed tariff in order to fully recover the costs incurred by the Government.
8.	Misr Elhegaz Group For pipes & Fittings	<ul style="list-style-type: none"> • Very Promising and profitable. 	<ul style="list-style-type: none"> • Noted

9.	Cadman Power Equipment Ltd.	<ul style="list-style-type: none">• Would like more detailed information on what kind of systems are to be used	<ul style="list-style-type: none">• The supply system will consist of piped system designed and constructed by the PO according to pre-specified technical conditions and standards. General and specific instructions and guidelines will be provided in the request for bids to qualified applicants for preparing their conceptual design along with financial proposal.
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10.	Orascom Construction Industries	<ul style="list-style-type: none"> • The status of other supplementary works to be undertaken directly by the MWRI (Time & Budget) • The proposed arrangements for the Electricity and its cost • How to guarantee that farmers will pay both the flat & volumetric fees • More details for the World Bank Loan considering the risk for (a) interest rates and (b) exchange rates • More details for the several possibilities for distributing the total allocated water (5,200 m³/feddan/year) among the farms • How to guarantee that the anticipated water quantity will be made available at all times (max. & min.) From the MWRI as the Investor will have certain obligations towards the farmers to make the water available as per the common needs 	<ul style="list-style-type: none"> • MWRI is in the process of preparing the detailed designs of the supplementary infrastructure and arrangements for the required power supply to the project area. • Same • Legal agreement with provision to fine and disconnect those who are not paying; security deposit paid in advance; higher fees for reconnection. • The specific financial arrangements between the operator and the government will be finalized just before the bid is issued and will be fully disclosed in the bid documents. However, for initial planning purposes, the consultants in preparing the financial model that will be made available to qualified applicants have been working on the assumption of a total 20 year maturity; with 3-5 year grace period at a reasonably low fixed interest rate. • The 5200 m³/feddan/year is a maximum rate and farmers can request as much as he wants within this amount. • The water quantity and arrangements of supply-demand will be specified in the will be specified in the legal agreements between the PO and MWRI and between the PO and Farmers.
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11.	Grundfos Gulf distribution	<ul style="list-style-type: none"> • Pumps list showing in details the required duties for the pumps – head and flow, installation types, voltage at site this data will be sufficient in order to make a complete offer for the pumps required for the project. • It is a huge project which requires professionals at all aspects to be involved from the beginning of design stage in order to get a better service and high quality. 	<ul style="list-style-type: none"> • All information that the government has utilized in preparing the transaction will be available in the data room to qualified applicants. .However, the actual data will depend on the final design to be prepared by the PO along the specified standards and guidelines. • This should be the case and both PQ and bidding conditions aim at securing these requirements.
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12.	KECC – Korea Engineering Consultants Corporation	<ul style="list-style-type: none"> • We understand that executing agency of the Project might have Feasibility study reports on technical soundness and economical viability are assessed. It would be much helpful to understand the detailed Concept of PPP and financial and economical viabilities of the Project If it could be supplied to the prospected investors. • We have concern on the Project concept of DBO. We are thinking to make our own appraisals and analyses of the technical, commercial and financial documents related to the Project and reach our own conclusions as to the viability of the Project through formulating consortium with firms of construction, system operation and/or pump supplier. • We, as one of the top class engineering consulting firms in Korea, have sincere interesting on the Project. With this concern, additionally to the information provided through the Preliminary Information Notice, we have visited the web sites of the MWRI and World Bank and got more acquainted with the project concept of the PPP – Public Private Partnership. However, we need more detailed information on the proposed involvement of the private sector, the proposed sharing of responsibilities for financing the investment costs, and thus bearing of certain risks as well as returns from this undertaking 	<ul style="list-style-type: none"> • All project related technical, financial and regulatory studies and information will be made available for the qualified firms in a data room when invited for bidding. • There is no contradiction between the DBO concept and forming a consortium for implementing the project. All risks related to the DBO approach are being addressed in the legal agreements as well as in the institutional and regulatory arrangements. Concerns, ideas and comments by the investors are welcomed during the prequalification stage and at the pre-bidding workshop. • As an engineering and consulting firm you may need to team up with other firms that have experience in the construction and operations of such systems. The pre-qualification document describes in sufficient details the requirements for eligibility of firms and joint ventures. A meeting will be organized during the prequalification period (January 15, 2007) The project coordinator, the Transaction advisor and the User Organization will be available for further queries during the pre-qualification period. Complete set of information relevant to bid preparation will be available for qualified bidders.
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13.	Société du Canal de Provence	<ul style="list-style-type: none"> • Economic sustainability of a water utility with a single irrigation purpose. Our own operation is economically viable owing to the fact that we sell water to industries and cities in addition to irrigation. Should we sell water for irrigation purpose only, this would not be the case. In fact we have developed our own tariffication system whereby our farmers are subsidized by our industry and city clients. • We entertain strong reservations concerning the economic viability of an operation with a single irrigation purpose without heavy state subsidies. 	<ul style="list-style-type: none"> • Good point, but the area under consideration is mainly for agricultural development. Provision of water for non-agricultural purposes is not foreseen as immediate and major issue for consideration. However it could be considered for further discussion. • The financial analysis made so far provides different conclusion. It will be available for the pre-qualified firms who will provide their own financial analyses to support their bidding offer.
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14.	Future Pipe Industries S.A.E	<ul style="list-style-type: none"> • Payment plan through the project's execution phase • Types of the pipes recommended by the World Bank's consultant, dr. Ayman Nassar. Upon discussion with dr. Nassar at the second workshop , GRP pipes have been limited due to some bad experience with another GRP supplier • Concerning the supply part, it must be from the local market. Also, leveraging the use of environmentally friendly products e.g. Pipes should be emphasized through the tender specs. Especially that the project should be handed over to the government, after the concession period, in a good shape. • Private-Public-Partnership seems to be the best approach for such a project 	<ul style="list-style-type: none"> • Payments will be made in the percentage of 85% of each bill submitted representing progress in work. The 85% will be sourced from the loan whereby, the amount of loan facility draw down will establish a repayment obligation based on defined terms and conditions. The private operator will bear the 15% as his contribution in the project. The loan will be available in US\$, other international trading currencies and Egyptian pounds. • The final choice is left to the bidder as far as it meets the technical standards and supports the economic viability of the project. The choice has consequences on the investment and maintenance costs and hence on the value of the tariff which will determine the winner. • Supply of pipes for the project from local or foreign markets is the bidder decision given that he will bear the financial consequences and the risk of the cost impact on his offer. • Noted
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15.	HITACHI PLANT TECHNOLOGIES,LTD (HPT)	<ul style="list-style-type: none">• Being the first pioneer project in Egypt adopting this concept, a liable Guarantee from the government should be provided, either in the form of a new law or regulations that would secure long term success of the project.	<ul style="list-style-type: none">• Good point and legal aspects related to the project are being carefully examined by experts and will be reflected in the contracts with the governments and the farmers.
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16.	Marubeni Corporation	<ul style="list-style-type: none"> • We would like to discuss how the Government can be involved more...) • Internal discussion in Marubeni after second workshop concluded that the current project scheme proposed by the Government is too risky especially in the area of 1) demand risk and 2) tariff collection risk. Therefore we would like you to change the project scheme. • We would like to propose feasible scheme for both side of the Government and private sector. We attached the possible project scheme and we are happy to explain detailed our intention and discuss to find out the solution. 	<ul style="list-style-type: none"> • All discussions are welcomed. • The Government has taken great care and study in formulating what it feels is a fair risk allocation scheme between the PO, the area farmers and the Government. This risk allocation is encompassed in the various contractual arrangements and imbedded in the transaction design. All the elements of the transaction design will be available to qualified firms for study in the bid documents. Per-qualified bidders will be invited to review these elements in detail including the risk mitigation arrangements that have been included in the project design, contracts formulation, and the regulatory arrangements. Specific concerns with such arrangements will be reviewed by the Government at a scheduled pre-bid conference of qualified firms that have been invited to bid. At that point the Government may need to consider what modifications, if any need to be made in order to proceed with a successful and competitive tender of the concession area.
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17.	Dr. Ahmed Abdel Warith (AAW) Consulting Engineering	<ul style="list-style-type: none"> • The final workshop should concentrate on the guarantees to be provided to the Investors and the role and responsibility of the Government. • The final workshop should take place prior the announcement of the PQ. • The Government should provide guarantees to secure the Farmers payments. This shall attract serious investors • This is considered the first concession Project in the Irrigation sector. The MWR1 supported by the World Bank had provided good basic studies and informative project base. • The awareness workshops are also very effective. • More effort is expected to secure payment guarantees. • The operator should have the power by law to disconnect the water in case the farmer shall not pay. • The Government should be part of the agreement between the operator and the farmer, to guarantee the payment. 	<ul style="list-style-type: none"> • Noted • It is scheduled at early stage of the PQ to provide opportunity to discuss any comments or concerns related to the PQ process. • Provision is made in the legal contracts. • Noted • Noted, the project organized several awareness workshops over the past three years at different levels. • See above • Same • The legal arrangements and other related risk mitigation measures provide the necessary guarantees.
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18.	Hitachi Operation & Maintenance- Egypt	<ul style="list-style-type: none"> • Responsibilities of each party (government, user, contractor) and qualification criteria of the contractor. • Payment should be secured not by the farmers but by the government. • Nobody can guarantee that the farmland exists or develop for 30 years. How will the government secure this? • The fluctuating factors (cost of electricity, replacing cost of M&E equipment) can be compensated by the government during the contract? • If the government deposits some amount in the bank and the contractor can withdraw the cost periodically, money for the contractor can be secured. 	<ul style="list-style-type: none"> • More clarification will be provided during the PQ workshop, and PQ criteria are included in the PQ document. Responsibilities of each party will be well defined in sufficient details in two agreements between User and PO as well as between the PO and the Government. • See response in 17 • Long term risks are included in the project design; however specific suggestions can be discussed. • Arrangements to adjust the tariff for fluctuations in operational costs are taken into consideration and the regulatory office will keep track and take actions. • The PO will withdraw up to 85% of the value of any bill for completed and approved work.
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19.	Dina Farm	<ul style="list-style-type: none"> • More Details about the proposed contract between the operator and the farmers and how the Egyptian Government will be involved in guaranteeing the service fees collection and the risk of us\$ rate of exchange related to the Egyptian pound during the concession period. • The rate of Power supply during the concessions period should be identified with escalation formula to all bidders. • The project is promising and challenging 	<ul style="list-style-type: none"> • The contractual arrangements will be shared with the pre-qualified bidders. Repayment by the operator of the amount drawn in the loan facility will not be affected by exchange rate fluctuations as it will be at a fixed interest rate denominated in local currency at the time the draw down is made. • The rate of power supply is expected to follow the government policy and arrangements for this type of consumption and the tariff will be adjusted for future price increases. Such price increases will be incorporated in tariff adjustments that the farmers will pay. • Noted
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20.	ICAT	<ul style="list-style-type: none"> • Explanation of Actual application of project concept and split of responsibility between government, farmers and investors. • Egyptian government liability towards the investors in Case farmers did not fulfill their obligation. • If the Egyptian Government did not give full security to investors they will not participate. • As West Delta is the first project with this concept in Egypt after Suez Water Pipe Line project of Ministry of Housing which failed several years ago on B.O.T. Basis, therefore, we believe a guarantee should be given to the investors by the Egyptian government to secure long term success of the project, such as : <ul style="list-style-type: none"> § The government should pay the investor in case the farmer did not pay the bills. § A law should be issued by the parliament to give the power of disconnect water supply to the farmer who did not pay. § The government should secure a minimum consumption to the investor in which they will pay in case it is decreased. § A certain penalty or fees to be paid by the farmer and guaranteed by the government in case the farmer damages the water meter of pipe line to avoid paying. § A pre-paid card should be applied to farmers by the government. • Meanwhile, would appreciate advising us by return with project time schedule and expecting dates for P/Q, tendering, award and contract coming into force. 	<ul style="list-style-type: none"> • Please see above. • Same. • Noted. • Please see response above on the risk allocation framework. § The connect agreement is still being finalized and will include fines and penalties for violation of the contract terms and the service standards. This will be available for review. § The contract which will allow the operator to disconnect beneficiaries in case of non payment will be ratified by parliament as part of the World Bank loan agreement. § The fixed cost component accounts for a minimum payment. § Will be considered in the connection agreement § Payment arrangements will be specified in the connection agreement.
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21.	Mondragon Soluciones	<ul style="list-style-type: none"> • Financial and Legal Aspects of the project • Detailed information about the payment methods and procedures. • Applicable local taxes to the consortiums? (If any) • Do the foreign companies need to be established officially in Egypt? • If it is possible, more concrete dates about the pre qualification and tender stages. • The winner consortium needs to contact with the farmers in order to get their acceptance and subscribe them to participate to the project. • It is better to know how many farmers or farmer organizations in the project area? • Will Consortiums receive any legal advice from the ministry and/or BDO during the subscription period? • Are there any ideas about the basic criteria of the design and engineering of the project? • Is there a preliminary topography with levels? 	<ul style="list-style-type: none"> • Are included in available documents, the prequalification document, and any further clarification required could be provided when requested. • See above. • Information on applicable taxes will be available for pre-qualified bidders. • The winning bidder will be required to set up and capitalize with a minimum amount a special purpose venture at the time of signing of the agreement as a precondition for being ratified. The SPV will be formed as a domestic company to operate within Egypt. • PQ: 23 Dec. 2006 – 22 Feb. 2007 Bidding: around 22 April 2007 • The bid winner will be given a certain subscription period to contact farmers to sign connection agreements and pay security deposits for a minimum area before he proceeds to design and construct the project. • All information will be available in the data room for prequalified firms. • Depends on what kind of advice is required. • Technical specification and Service Standards will be included in the bidding document. • Yes, there are.
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Q: Why should the bidders prepare a conceptual design for the irrigation system at the time of bidding since competition will be based on the value of the tariff?

A: Although the technical aspects of the project have been analyzed in detail and preliminary design of the irrigation system has been completed, each bidder (Private Operator) has the flexibility to choose a system configuration that he thinks would deliver water at the lowest cost to farmers. Bidders are therefore given the incentive to compete for providing services efficiently.

Q: What would happen if the weights of the various cost items are inconsistent with the proposed cost structure in the information memorandum?

A: The bidder has been given a preliminary design that is only serving an indicative purpose. He is free to explore other technical options, provided the basic design specifications are met. Bids will be evaluated on the basis of the output in terms of price bidders are offering (i.e. how much tariffs per cubic meter of water supplied to farmers are above or below the estimated price). Inconsistency with the proposed cost structure therefore does not arise. For example, if the costs estimated by the bidders are relatively high they will not be able to submit a competitive price bid. .

Q: What are the set of measures and arrangements that are or will be taken to mitigate the demand risk in the West Delta irrigation Project?

A: Demand risk is being mitigated through the following design features:

- Ø Surveys on willingness to connect have shown significant demand for the project and willingness to pay for the irrigation services. However, a winning bidder will only proceed after legally binding connect agreements have been signed with each of the farms;
- Ø In addition, earnest money will be collected from each farmer at the time the connect agreements are signed in the form of security deposits.
- Ø A flat minimum fee to recover capital costs will be paid by each farm in order to ensure

that adequate user equity in project financing;

- Ø Government will impose strict regulation on groundwater use in the project area, and
- Ø Private operator will be given the option to expand his concession boundaries on the west side of the Alexandria-Cairo Road.

Q: How will the commercial risks be mitigated?

A: Commercial risks will be mitigated through the following arrangements:

- Ø Metered volumetric tariffs;
- Ø Closed (piped) irrigation system;
- Ø Security staff;
- Ø Disconnection and reconnection policy;
- Ø Fines and Past Due Accounts;
- Ø Price adjustment mechanisms for cost increases;
- Ø Partial Risk Guarantees and Breach of contract guarantees on changes in government policies;
- Ø Regulatory arrangements that protect the interests of the government, farmers and operators; and
- Ø Empowering Water User Council to develop good relations between farmers, operator and governmental agencies.

Q: What are the measures and arrangement the allow the government, the Private operator and the Farmers assume the financial risk?

A: Financial risks will be mitigated through the following:

- Ø Each party contributes to this PPP transaction, in order to mitigate risks of the other parties
- Ø Farmers will be bound by legally binding connection agreements whereby security deposits would be forfeited in the event of default.
- Ø Government's contribution to the financing will be recovered through the concession fee until its loan obligation has been fully repaid. In the event of default, government would attach the performance bond submitted the operator is required to provide at the signing of the contract.

Q: What about the regulatory arrangement for this project?

A: A regulatory Office and regulatory arrangements will be in place to set tariff, set service

standards, determine how tariffs and service standards change over the life of contract and monitor and enforce the terms of service. In order to do so the following may apply:

Ø An independent regulatory structure will be described in the Information Memorandum and the Operator Contract document

Ø Discretionary powers of the regulator will be restricted, so that risk of political interference is minimized

Ø In case of issues that involve discretion, international panel of experts would be set up to review the case and make decision.