

THE BOT SYSTEM, ITS PROSPECTS IN EGYPT

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This paper consists of two major parts:

The first part will deal with the economic aspects of BOT system and its impact on the government public expenditure. The advantages and disadvantages of BOT system would be also highlighted.

The second part of the paper will be concerned with BOT projects in Egypt. The history of BOT projects would be indicated and the recent regulations to such system would be analyzed.

Part one: Economic aspects of the BOT system.

BOT system is a tendency welcomed from many developing countries for at least three reasons:

- The big load of growth requirements burdened governments in developing countries particularly in the area of infrastructure. Facing mean resources of finance from local markets, developing Countries try to invite foreign capital to participate in their development efforts.

- The long gestation period for infrastructure investment is considered to be a major hindrance for private investment to participate in such projects.

Given the unstable political, economic, and environmental situations in the majority of developing countries, the private investors normally hesitate to put money in long-term projects.

- The increasing gap between the industrialized countries and developing world creates incentives for policy makers on both sides to persuade international capital to invest in infrastructure projects in developing countries in an acceptable format from both sides.

From international point of view, the history of BOT system is known for a long time. Without evaluating the pos and cons of this history international projects such as Suez Canal, Panama Canal and other international projects played a major role in world business presenting

But the attraction of BOT projects to developing countries was not positive in the mid 1950 and 1960 due to the wave of dependency and sensitivity of the leaders to the foreign involvement in the national activities at that time.

We can also indicate that the old history of the BOT system and the direct involvement of the countries of the

origin of capital to reserve the rights and interests of their nations were also a bad signal to receive BOT projects.

Definitely, with the world moving fast for more integration the globalization impact and the acceptable legal frames of the BOT system were main reasons behind the rebounding of this system again.

From the other side, the situation in developing countries itself has changed in the last few decades. New leaders were able to get rid of the memories of the old colonies era with fresh look at their nations future, having ambitious projects to raise the living standards of

their nations but they are subject to limited financial resources.

The dimension of applications of traditional investment has been also rearranged. The traditional role of public investment that is directed to public infrastructure and leave private investment to dominate projects with higher and short-term returns was reconsidered.

The public sector finance became more valuable and also scarce. The demand of public funding for environmental purposes, basic health, educational needs, defense and justice became more expensive than it used to be. With the application of price mechanism and expanding

market regulations on infrastructure area, private investors can operate easily in such areas getting their appropriate returns and stay happily for a long time in the market without erratic movement from one project to another.

Basically BOT system working within the same vision Privatization is the transfer of assets or service delivery from the Government to the private sector. The broader definition of privatization also includes a wide range of public-private partnerships.

Privatization, if properly structured, yields substantial benefits. A study found that 41 firms

privatized by public offerings in 15 countries increased returns on sales, assets, and equity, raised internal efficiency, and improved their capital structure. Privatization works when it is part of a larger program of reforms promoting efficiency.

Private sector involvement was one of the critical options for the development of Egypt's port facilities.

The East Port-Said project is expected to accommodate Egypt with a modern container terminal for shipping to the eastern Mediterranean.

The new port will be served by an industrial free zone structured to boost exports particularly in the food processing and textile sectors.

One BOOT power project is targeted to serve the SIDI Krier II project. Transparency provided in tendering process attracted foreign investors. Intergen , a subsidiary of Bechtel of the United States won the bid, which was priced the electricity at \$0.26 per kWh as the cheapest electricity in the World.

While the Egyptian Electricity Authority (EEA) remains the owner of the national electricity grid, private sector power stations supplied seven power generation zones each as Joint Stock Company.

The increased capacity will make Egypt an important player in Mediterranean Power Pool project, which will link the electricity grids of most of the countries of the Mediterranean.

Four private sector airport projects are under way. El-Alamein airport has 50-year concession for operations to be started in 2001. Marsa Alam will have a 40-year concession and Ras-sidr airport with 50-year concession. Two additional airports were planned on BOOT basis, at Baharia and Faarafra.

In order to support the implementation of build-operate-transfer projects, the Egyptian Government issued different laws such as law No. 18 of 1998 which set up a regulatory authority to supervise operations and allowed for the creation of BOT contracts for electricity.

Law No. 229 of 1996 concerning road projects allowing domestic as well as foreign investors to build, maintain and operate main and highway roads.

National Assembly has approved law No.100 for 1996 allowed the private sector in selling electricity power.

The Egyptian Electricity Authority offers a concession of 99 years for domestic and foreign

companies through a ministerial decree from the responsible Minister.

The above mentioned law was supported by Law No.22 of 1998 for general and specialized ports to be run through BOT.

Providing gaz to areas with no current supply by private sector companies was for the first time awarded to the British Gaz International (Egypt) which will construct with its partners (Edison International, Orascom and Middle East Gas Association) a gaz transmission pipeline along the Nile Valley .The first phase of the project will provide

gaz under pressure from Kuriamat to Beni Suef for around 20000 consumers.15 BOOT)Power projects will be offered to the private sector in coming years to meet the increase in demand for electricity of 7 - 8 % annually.

Part Two: BOT prospects in Egypt.

Since Egypt adopted its economic reform program in 1991, privatization considered a major determinant of the whole economic management issue of the country.

In the last five years, Egypt spent around 18% of its GDP in investment. One third of this investment went to

infrastructure projects. Since it was financed from public funds, it absorbed 21% of public revenues.

It is expected that the share of infrastructure projects grows bigger and bigger with more involvement of the government in the coming Mega projects. Leaving less and less resources for expenditures on education, health, environment, and other important activities. So it is logical that government direct its interest in BOT system to alleviate such huge burden of expenditures on infrastructure from its shoulders to pass it to key investors.

According to the year 1999/2000 plan, total national investment expected to reach 18% of GDP amounted to 21.2 U.S.\$ billions. At least 10% of such investment is for BOT system especially in electricity, communications and roads.

Looking at the distant future according to the strategic plan, Egypt is going to invest around U.S.\$ 500 billion on the next twenty years which means that Egypt is going to spend around U.S. \$ 25 billions on investment each year.

Major investment directed to Sinai projects amounted to U.S.\$ 22.2 billions, South development projects U.S. \$

88 billions, Toshky and East El-owinate U.S.\$ 40 billions, East port- said projects U.S.\$ 10 billions, North of Suez Gulf U.S. \$ 40 billions, and finally rehabilitation and rural areas U.S. \$ 50 billions.

Brief presentation of investment and magnitude of values involved reflect three points. The first point indicates prosperity of the Egyptian future and clear view of policy makers of how to exploit the wealth and richness of the country. The second point is to highlight the feasibility of different opportunities offered to investors to stay in the country for long time. The third point is the generous incentives offered to investors in

**order to make them able to share the future and
prosperity of the country.**