Business as usual - international promotion of PPPs in North Africa

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May 2012

# The IFIs, privatisation and PPPs in north Africa

For many years before 2011, international institutions encouraged privatisation and the development of PPPs under the dictatorships in north Africa. The institutions involved include the IMF, the World Bank (and its private finance arm, the IFC), the European Union, and especially the European Investment Bank (EIB), and the OECD.

This helped the regimes. The allocation of valuable PPPs and privatisation became an important instrument, not only for rewarding cronies but also to strengthen the power of the regimes which: “generate and protract uneven distribution of property rights in favor of a few private actors as tactics of regime survival that go beyond the mere interest of self-enrichment”.[[1]](#endnote-1) An example of this is Morocco, where there are PPPs in water and electricity in the major cities- Casblanca, Tangiers, Tetouan, and Rabat – which include both large European multinationals and Moroccan companies, including companies owned by the king and royal family.

In 2010 the IMF endorsed the policies of the Mubarak regime as “Five years of reforms and prudent macroeconomic policies” and called for “Resuming privatization and increasing the role of carefully structured and appropriately priced PPPs”. Also in 2010, an IMF staff mission congratulated the Gaddafi regime in Libya for a programme to make 340,000 public employees redundant, recommended that the process “should be accelerated”, and added that “The mission would like to thank the authorities for their excellent cooperation and hospitality.” [[2]](#endnote-2)

The EU approach to north Africa is part of the European Neighbourhood Policy (ENP), which deals with political and economic relations with countries in north Africa, eastern Mediterranean and eastern Europe. The ENP includes a Euro-med Partnership covering relations with the north African and eastern Mediterranean countries. Throughout the region, the loans of the European Investment Bank (EIB) are a key policy mechanism. In the Mediterranean, the main vehicle through which the EIB has operated has been the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). This was set up in 2002 as an vehicle to increase European lending to finance investment in countries in the Euro-Med partnership, specifically to encourage economic liberalization and the development of the private sector, by “focusing on sectors that offer the greatest leverage in order to encourage structural reform and promote private initiatives, whether local or foreign.” [[3]](#endnote-3)

# PPPs in Egypt under Mubarak

Egypt privatised 149 state companies, but the programme was widely resented and strongly opposed, both because of its impact on services and employment, and the “rampant corruption that allegedly accompanied many of the deals” – or, as the OECD put it, “With regard to the privatisation process itself, an overall lack of transparency is also problematic”. [[4]](#endnote-4)

PPPs were introduced in a number of sectors, even before the creation of a formal PPPs policy.

Private companies were introduced into waste management services, through PPPs set up from 2002. The service got warose as a result, as well as being unpopular: “The involvement of the multinational private sector companies in solid waste management (SWM) is one of the most controversial issues that is often quoted as a main reason for the failure of SWM in Egypt. After eight years of international private sector participation in SWM in Egypt, particularly Cairo, Alexandria and Giza governorates, the situation has deteriorated as admitted by the Minister of State for Environmental Affairs in a report issued in2009.”[[5]](#endnote-5)

Private electricity generating companies (independent power Producers, or IPPs) were introduced in the 1990s, but by the late 2000s it was already accepted that this was a more expensive way of generating electricity than using the public sector. Ports and airports were also privatised via PPPs[[6]](#endnote-6)

1. Earlier PPPs in Egypt: 1990-2004

|  |  |  |  |
| --- | --- | --- | --- |
| Primary Sector | Sub-sector | Number of PPP Projects in Infrastructure | Total Value of PPP Investments (USD million) |
| Energy | Electricity | 3 | 1158 |
|  | Natural Gas | 1 | 220 |
|  | Total | 4 | 1378 |
| Telecom |  | 3 | 964 |
| Transport |  |  |  |
|  | Airports | 6 | 398 |
|  | Seaports | 2 | 461 |
| Total |  | 16 | 6208 |

Source: MENA-OECD Investment Programme Business Climate Development Strategy Phase 1 Policy Assessment Egypt Dimension I-2 Privatisation Policy and Public Private Partnerships July 2010 <http://www.oecd.org/dataoecd/49/55/46340470.pdf>

The Mubarak regime created a ‘Supportive Legislative Environment’ in Egypt for PPPs, including a PPPs unit, which promoted the use of PPPs and administered the tenders for PPP projects. Legislation came into force in July 2010, which ‘significantly enhanced the progress of PPPs, according to a report by the OECD. A presentation by the unit in 2008 emphasised the importance of finding the ‘right investors’ and ‘right advisors’, creating a ‘modern’ legal framework, but also the dangers arising from the ‘public perception of PPPs as privatisation’, ‘resistance to change’. It pays particular attention to the need for government to provide finance for PPPs, including public money to pay companies for the costs of preparing tenders, a fund of public money for lending to PPP projects, and a ‘viability gap fund’ to subsidise PPPs. The development of the unit was also supported by the IFC, the private sector arm of the World Bank.[[7]](#endnote-7)

This regime, designed to be ‘supportive’for PPPs, is problematic for public services. The box below presents a report by a former PPP unit employee, highlighting the involvement of officials from international institutions; their alignment with private companies, who were also strongly represented by lawyers; and how the needs of the education service were subordinated to the profitability of the project.

1. PPP projects in pipeline (Egypt 2008)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Number of projects | $ billion USD | $ billion USD |
| Social Infrastructure |  | 6.03 |  |
| Education Sector | 7 |  | 5.00 |
| Health Sector | 5 |  |  |
| Educational Medical Facilities | 1 |  | 0.23 |
| General Medical Facilities | 4 |  | 0.80 |
| Utilities Sector | 6 | 2.20 |  |
| Wastewater Treatment Plants | 6 |  | 2.20 |
| Transportation Sector | 14 | 7.00 |  |
| Total Current PPP Projects | 32 | 15.23 |  |

Source: Rania G. Zayed 2008 Overview on the Development of the Egyptian PPP Programme

<http://www.energytoolbox.org/library/ppp_in_infrastructure/presentations/Overview_on_the_Development_of_the_Egyptian_PPP_Program.pdf>

* + - **Box: Skewed PPPs and the IMF in Mubarak’s Egypt**

“As a former employee of the PPP Authority in Egypt which is under the mandate of Ministry of Finance MoF, I know first hand how these deals work and how the IMF and World Bank use these neo-colonial programs to enslave us.

First, the IMF and World Bank are main consultants on almost all projects. During negotiation meetings with the main private sector bidders on the Project, the IMF team would side with almost all of the private companies request when it came to contact drafting, payment mechanisms and responsibility and services provided.

I worked on a project that was suppose to build nearly 345 public schools in 18 governorates (has not been implemented so far to the best of my knowledge). The main bidder on the Project had high profile lawyers that would continuously twist the arm of the MoF and the General Authority for Educational Buildings(GAEB).

Most of the time, the bidders requests would be approved and drafted in the contract. For example, and this is one of many, schools usually have after school and weekend programs for their students. This was unacceptable to bidders and their high priced Dubai stationed lawyers. Schools in the contract were only to be open from 7am to 4pm. According to the lawyers, "the opening of schools on weekends or later on in the evening during the week would be a security threat to the investors and if such programs were to be implemented that would come with an extra cost". An extra cost the MoF could not afford. Further, the investors wanted to expand their "revenue streams" by having "cultural events" at the schools at night, such programs would inhibit the "cultural events" from taking place. Also, no students could be at school after 4pm. This means, a child that was waiting for their older brother or sister to pick them up would have to stay out in the street and wait if the person responsible for picking them up was late for any reason.

My point is this, the process and discourse to making money is unethical in its essence, especially on large scale projects. The maximization of profits always comes at the cost of people closest to the business operation, whether cutting costs, reduced services, unethical treatment of students...etc. If we want to build a new Egypt that meets the demands of its people we should not allow these types of aid programs to operate. These investors don't build schools to improve education, the build schools to make money. They don't build hospitals to provide decent health care, they build hospitals to overprice medical care that us the tax payers and generations after us will have to pay.

I believe the motivation and financing behind a project can always provide a good indicator of who will benefit most. Investors one and only goal is to make a profit, this is my view is not the motivation we need as Egyptians to build a country we fought for and will continue to fight for as this article clearly points out.”

Comment by Ahmed Tarik on Jadaliyya website 12 June 2011 <http://www.jadaliyya.com/pages/index/1711/egypts-%E2%80%98orderly-transition%E2%80%99-international-aid-and->

# PPPs in Egypt since the 2011 uprising

Since the uprising in 2011 which overthrew the Mubarak regime, the work of the PPP unit, and the PPP programme itself, was expected to be frozen until a new government is elected: “The PPP programme pushed forward by the previous government is in a state of flux, as no new projects can be procured until the new government comes to power and outlines its stance on private investment in infrastructure”.

However, the PPP programme continues to be actively pursued under a Supreme PPP Committee, headed by Prime Minister. In February 2012 it amended the rules for PPPs to allow for disputes to be settled through international arbitration rather than subject to Egyptian courts: this was “part of a series of measures to make the PPPs more attractive to investors”. The new rules will be applied to new water, wastewater and road PPP projects in the Cairo area worth £11 billion, and a PPP for hospitals in Alexandria, where one of the bids is from Siemens, which has recently been involved in a major corruption scandal in Germany. Egypt is also considering providing sovereign guarantees for the debt of PPP projects, and has been discussing these issues with the EIB, AfDB, MIGA, and OPIC. [[8]](#endnote-8)

As this last point shows, much of the impetus for this continued drive for PPPs comes from the continuing commitments of the international financial institutions.

# IFI coordination

European countries and the USA initially supported the dictators against the uprisings of 2011 in the Arab world, but by summer 2011 were keen to show that they now supported democratic forces where they had succeeded in overthrowing dictators, basically in Tunisia and Egypt. They offered large amounts of aid, while a number of the international institutions began offering large loans.

In May 2011, a conference of the richest countries in the world (the G8) agreed to encourage loans worth $20billion USD by development banks to Egypt and Tunisia. TheG8 stated that they : “welcomed the Egyptian authorities' decision to request IMF and multilateral development banks' assistance and Tunisia's request for a joint and coordinated development policy loan.” It was also agreed that the IMF would provide a framework for the coordination of loans from the World Bank, the African Development Bank, the European Investment Bank / FEMIP, the European Bank for Reconstruction and Development (EBRD), the Islamic Development Bank and aid from donor countries.

In September 2011 the total amount of loans was increased to $38 billion, and the countries were extended to include Morocco and Jordan – whose regimes remain largely unchanged - with an expectation that Libya will also be included. In addition, the G8 countries were joined by Kuwait, Qatar, Saudi Arabia, Turkey and the UAE, and the Arab monetary fund: the rich countries in the region are thus no longer an ‘alternative’ possible source of funds, but part of the IMF co-ordinated group.

As a result, Arab countries are now faced with a consolidated international consortium of international financial institutions led by rich countries and the IMF. This group effectively controls access to the great majority of the world’s development funds, and is in a powerful position to impose policy conditions on access to these funds.

This approach has been criticised as an attempt to ensure that the economic policies of any new democratic governments will continue to follow the principles of neo-liberalism: “the initial focus of this structural adjustment will be the privatization of Egypt’s infrastructure and the opening of the economy to foreign investment and trade through PPPs” (Adam Hanieh).

# IFIs and promotion of PPPs

The IFIs, apart from applying policy conditionalities to all loans, will in particular encourage PPPs.

* + - * **EIB: ‘an ambitious PPP programme’**

An EIB report on ways out of the global economic crisis for North African countries, published in 2010, discussing public services and infrastructure, insisted that, although governments can provide these services directly, they “can also mobilise PPPs (public-private partnerships) and must learn to listen and be ready to respond selectively to requests from the corporate sector for measures that are compatible with competitiveness on the international market.” The EIB and the OECD organised a workshop on PPPs in the Mediterranean region in February 2011, which was also attended by the IFC. It was advertised as the “launch of an ambitious PPP programme in the FEMIP region by the EIB”. Presentations at the conference identified IPPs in electricity, renewable energy projects, water treatment plants and desalination plants as the main sectors for PPPs. In May 2011 the EIB produced, for FEMIP, a detailed review of laws and practices on PPPs in Mediterranean countries, while no less than two conferences were organised in Morocco in May 2011 on the subject of PPPs, one of them by FEMIP. [[9]](#endnote-9)

* + - * **European Bank for Reconstruction and Development (EBRD)**

The EBRD was created to finance development in the former communist countries of eastern Europe. It’s remit was specifically extended at the G8 meeting to include north Africa . The EBRD uses a set of indicators of development which assume that privatisation or liberalisation is always beneficial. For example they assume that: additional privatisation is always better; higher foreign ownership of banks is better; and price liberalisation is always better.[[10]](#endnote-10)

* + - **Aid from USA via OPIC: supporting PPPs**

The USA promised an extra $1billion USD in aid from the export credit agency OPIC. An OPIC statement noted that this would be used “to identify Egyptian government owned enterprises investing in public‐private partnerships (PPPs) in order to promote growth in mutually agreed‐upon sectors of the Egyptian economy.” The USA had earlier promised that OPIC would invest “up to $2 billion in financial support to catalyze private sector investment in the Middle East and North Africa region”. [[11]](#endnote-11)

# IMF loan offers rejected by Egypt (2011)

These relationships have developed into clear political processes. The coordinated IFIs, on the one hand, are acting in line with the interests of G8 countries in maintaining their influence in the region, as well as the interests of private companies who could profit from PPPs. On the other hand, the interim government of Egypt is under strong pressures from the new political organisations that have emerged since the revolution, to adopt policies favourable to ordinary Egyptians.

In early June 2011, the Egyptian government negotiated an agreement with the IMF for a $3 billion facility to support government finances; it was also discussing a $2.2 billion loan from the World Bank. Three weeks later, the finance minister announced that Egypt would not take up either loan. He explained that:

“the decision to scrap the loans was in response to public opposition. He said the military council, in power during the current transition to elected rule, had decided “not to burden” those who take over from them with heavy loans.” [[12]](#endnote-12)

The opposition to the loan came from many directions, including the Council for Revolutionary Trustees (CRT), which issued statements saying "outside borrowing contradicts the principles of the Egyptian Revolution that called for freedom from all sorts of local and foreign pressure", and many columnists rebuked the government for taking such major decision without representation from the Egyptian people. The opposition was summarised by a democracy activist Wael Khalil:

“"We really have a kind of distrust with the IMF and World Bank and their dealings and their praise of the previous regime during Mubarak's era," he said. "Not only are their problems with the conditions that come with these packages, but we shouldn't be taking loans that aren't needed and would go to subsidies of larger business, rather than development or to individuals in need," he added. During this transitional phase, Khalil pointed out, Egypt should decide on what kind of economy they are going to have, an economy that would adopt policies of social justice. "We have to work against these loans, as long as their conditions are not favorable and do not recognize social justice," he said. "It would be making a huge mistake getting rid of Mubarak without getting rid of the whole system that made the rich get richer before and widened the gap between the rich and the poor …. The revolution wasn't made so we would keep the same policies or to raise the capitalist race for friends of the Gamal Mubarak or the previous regime."”[[13]](#endnote-13)

# Some conclusions

* International institutions have been promoting PPPs for many years, especially inand around Europe
* The promotion of privatisation and PPPs suited the old undemocratic regimes
* Following the uprisings of the Arab spring, the international promotion of PPPs has resumed
* There is now a political context in which newly organised democratic forces are resisting initiatives by the IFIs on behalf of international companies.

1. Global PPP market 2009-2011 (PWC view)



Source: PWC 2012 World overview of the PPP Markets OECD 26 March 2012 <http://www.oecd.org/dataoecd/9/0/49945473.pdf>

# Notes

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