

MENA Workshop on Public-Private Partnerships for Infrastructure Financing

(Istanbul, 8 November 2006)

Summary Conclusions

The workshop was organised jointly by the Investment and Governance Pillars of the MENA Initiative on Governance and Investment for Development. The event featured high level participation and contributions from private sector and government officials on the evolving scenario of Public Private Partnerships (PPP) for infrastructure financing in the MENA region. More than 65 delegates from the public and private sector, academia, international organisations, consultancy firms and OECD Ambassadors attended the meeting.

The workshop provided an useful forum for MENA participants from both the public and private sector to discuss how the region can benefit from PPP arrangements to develop infrastructure, using them as a tool for the delivery of public services benefiting from private sector financing, know-how and efficiency gains.

As background material for the meeting, the ‘Draft OECD Principles for International Investor Participation in Infrastructure’ developed by the OECD’s Investment Committee and the ‘2005 OECD Guiding Principles for Regulatory Quality and Performance’ developed by the OECD Regulatory Policy Division and adopted by the OECD Council were tabled. These documents show that Public-Private Partnership arrangements for financing of infrastructure increasingly emerge as a key vehicle for public sector reform, strengthen the role of the private sector in the economy, and improve the investment climate.

In their presentations, participants from the MENA region highlighted a number of prominent projects and the challenges of implementing them. Presentations from Egypt, Jordan, Morocco and Turkey pointed out that the countries in the region are ‘catching up’ with the rest of the world with regards to the use of PPPs for infrastructure development.

Other presentations highlighted the fact that the water sector is of particular interest for PPP development, since a number of countries in the region are facing significant challenges in satisfying the growing demand for water. In Egypt, in particular, several domestic factors underscore the potential success of PPP schemes in the water sector. These factors include, among others, the possibility to implement large scale projects in partnership with the private sector, high interest by large national and international investors, familiarity of local investors with cost recovery mechanisms; and finally, the encouragement of these arrangements by the donor community. Overall, MENA governments plan to spend around \$100 billion USD by 2015 to meet this growing demand. This statistic suggests that PPP mechanisms will be required to support the future development of this sector, noting that a holistic reform approach will be required to implement such arrangements. Case studies based on experiences in Abu Dhabi, Saudi Arabia and Oman showed that MENA governments need to review their institutional setting, focusing on involvement in policy-making and on planning effective employee transition when restructuring and creating new institutions. These experiences have shown that PPP initiatives in general, and in particular in the water sector, should be driven by clear objectives and monitored by a set of

evolving key performance indicators. Furthermore, a careful management of tariff changes and their impact on the privatization process by governments is necessary. A common view among participants was that MENA countries should explore different PPP approaches and tailor them to the specific needs and maturity of the water sector and local environment.

Going beyond country specific projects, the workshop revealed that given the mixed experiences with the PPP arrangements in other regions of the world, the challenge remains to translate the concept into sustainable projects and guarantee not only their economic viability but also their political support. Therefore, sharing of experience between MENA and OECD member countries on the most efficient design and use of PPPs can offer valuable guidance and lessons learned for future PPP development in the region.

The panels in the workshop provided such a forum for sharing of experience. In particular, discussions during the workshop focused on managing public and private interests and establishing a transparent and efficient procurement process. The diversity among countries in setting up PPP management units (centralized or differentiated by sectors) was also highlighted. The views from public authorities (e.g. the French experience) on how to integrate the private interest when providing public services were presented, and participants from the private sector expressed their concerns and interests to participate in the development of infrastructure projects. Lessons learnt from the South African experience on establishing a PPP unit inside the administration showed that governments need technical and human resources as well as legal frameworks to understand the costs, risks and advantages of setting up PPPs. The OECD presented the Principles for International Investor Participation in Infrastructure and the public sector's view, and in particular the budget implications on PPPs.

Another observation emphasized during the workshop was that a holistic approach is required to effectively tackle all regulatory and political issues involved in successful use of PPPs. The design of such an approach was a key issue discussed during the panel dealing with PPP designs and the establishment of effective legal and contractual frameworks. The discussion highlighted the importance of an adequate investment climate, political buy-in on the highest level, specific regulatory frameworks allowing for sufficient flexibility, as well as the importance of anti-bribery policies and transparent procedures. Negotiation and implementation capacities on both public and private sides and adequate risk sharing were also addressed in this panel. There was agreement that successful PPPs require: a) a strong investment environment based on transparent and predictable regulatory frameworks; b) a policy framework which addresses anti-bribery issues and sets specific PPP oriented regulatory guidelines; c) an *ex ante* assessment to examine if a particular PPP arrangement is consistent with specific public policy objectives (achieving value for money, etc).

Another issue that was noted as potentially problematic is risk sharing between public and private sectors, which brought forward the debate on optimal risk allocation schemes. As a general best practice, it was agreed that risks more closely related to the project (such as construction risk, performance risk, demand risk) should be allocated to private investors, political risks specific to the project should be allocated to public sector, while other risks (currency, etc.) should be shared. Participants from different countries focused attention on risk allocation in the procurement phase, discussing issues such as the importance of choosing providers based on price and quality, ways to maximise competitiveness, and unconditional bid options.

The last session of the workshop explored PPP financing arrangements, a key component when developing successful PPP infrastructure projects. Experience from different countries has proved that investors demonstrate an interest in PPP projects only when there is a clear guidance on financial arrangements of a potential project, in addition to a reliable government/administrative/legislative

framework. These include a sustainable debt coverage and Debt Equity Ratio, where equity should be provided by private sector investors (e.g. large private equity investors or retail investors through funds), whereas debt is provided by commercial banks (local and foreign) through Project Financing operations as well as International Financial Institutions. A significant remark is that currently the potentially available capital is abundant - both debt and equity -for PPP projects which are well defined and structured. In particular, the MENA region is attracting an increasing interest among investors and intermediaries from Europe and the US, which is relevant to bring know-how and build up networks in the region. Moreover, investor's innovative power is important to define a price for different types of projects, both from a debt and an equity perspective.

PPP Infrastructure Funds were also highlighted as increasingly useful tools to attract money from long term investors (such as pension funds, banks, foundations). PPP funds in OECD countries (such as Italy, France, Spain, Portugal, Greece and the UK) have benefited both private investors and the public sector as they stress rigorous analysis of economic and financial feasibility of projects in the long term.

With regard to public sector participation, financing can take different forms:

- publicly funded development finance institutions can partner with the private sector;
- the public sector itself can play the role of an asset owner with private investors participating with low capital and investment risk through service or management contracts;
- the public sector can participate through guarantees and insurances, to mitigate investment risks;
- through tax or concession incentives, the public sector can encourage packaging of investment in infrastructure.

Finally, the role of international financing institutions (IFI) in PPP projects was highlighted as these institutions tend to bring credibility, enhance environmental and social assessment, and help bring other sources of funding (commercial sources, equity). IFIs' role is even more crucial in the MENA region, where a major development impact can be achieved through the IFI's potential role as a pioneer of a specific technology, etc. A particularly relevant experience has been presented by the Islamic Development Bank, which has structured project finance transactions combining Islamic Financing and Conventional Financing (i.e. IDB participation in the first PPP in hydro-sector in Pakistan). This structure is also specific to most MENA countries.

The workshop gave OECD and MENA countries an opportunity to share experiences in the establishment of PPP projects for infrastructure financing, and to discuss the various ways to integrate public and private interests for effective and successful PPP projects.

Major outcomes of the workshop include:

- Participants confirmed their commitment and support to the OECD - Middle East and North Africa Initiative on Governance and Investment for Development and emphasized the benefits of a regional policy dialogue on the use of PPPs for infrastructure financing.
- Participants confirmed the need to learn more about effective legal and regulatory frameworks as well as financing arrangements to develop successful PPPs for infrastructure in the MENA region.
- The meeting facilitated contacts between professionals involved in the design and financing of PPPs in OECD countries and countries in the MENA region. It provided a unique opportunity to discuss, learn and share experiences related to PPPs for infrastructure financing.

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The concluding remarks of the workshop highlighted the key role of PPPs for infrastructure development for economic growth in the MENA region, noting however the potential for both success and failures. Sharing of best practices is therefore a crucial point for MENA countries and the workshop provided a first step in establishing a process of peer dialogue and learning among MENA countries and their OECD counterparts.

As a follow-up to this event, a number of measures have been agreed upon among participants, including:

- publishing panelist contributions on the OECD website (www.oecd.org/mena);
- developing an inventory of regulatory frameworks for PPP infrastructure projects for the use of MENA countries;
- sharing a set of guidelines on good practice of implementation of PPPs in OECD countries and developing specific guidelines for the MENA region;
- applying guidelines to the water sector as a pilot project (and priority for the OECD);
- integrating PPP framework assessments into the National Investment Reform Agendas and Country Action Plans of MENA countries (respectively under the Investment and the Governance pillar of the MENA-OECD Initiative).