The Investment Security in the Mediterranean Newsletter

September 2014, Issue 4

*The **Investment Security in the Mediterranean (ISMED) Programme**, implemented by the MENA-OECD Investment Programme with financial support from the European Union and France, seeks to increase infrastructure investment in the region. ISMED provides a forum where governments, international financial institutions, development agencies, private sector operators, lenders and investors, work together toward the objective of facilitating private-sector investment in infrastructure projects in the MENA region with a focus on public-private partnerships. ISMED provides policy support to governments and helps them engage in public-private dialogues on reducing legal and regulatory risks for specific infrastructure projects and fosters integrated approaches to innovative policy and financial tools to develop PPPs.*

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Upcoming: the ISMED Annual Conference (Paris, 4 December)

On 4 December 2014, at the OECD Conference Centre in Paris, the ISMED Annual Conference will gather experts and officials from OECD countries and from across the MENA region to consider the work of both the EU-funded ISMED Support Programme and the ISMED Working Group throughout 2013-2014.

These experts and officials will gather to share experiences and perspectives on policy challenges to boost infrastructure investment, discuss innovative tools to improve the legal environment and financial arrangements to facilitate the successful completion of infrastructure projects and discuss the priorities and next steps for international co-operation in infrastructure development and investment promotion and security.

The ISMED Support Programme is developing policy recommendations to address barriers to private sector investment in MENA-region infrastructure projects with a particular focus on transportation, logistics zones and renewable energy. The project-specific activities of the ISMED Support Programme in Egypt, Jordan and Morocco provide concrete insight into the opportunities and persisting challenges of infrastructure development in the region. These experiences and a series of extensive consultations will inform the guidance provided by the forthcoming, *Handbook on Public-Private Partnerships (PPPs) in the MENA Region as well as the legal study for protecting Infrastructure Investments in Arab Countries in transition,* to be launched at the Conference.

The ISMED Working Group is developing innovative policy tools to foster private infrastructure investment. Task Forces of the Working Group will report on topical issues such as risk sharing in PPPs, risk mitigation instruments, regional commercial arbitration and Islamic finance.

We look forward to meeting you on 4 December in Paris.

A publication of the MENA-OECD Investment Programme, OECD Global Relations Secretariat. To subscribe, or cease subscription, please send an email with your contact details to mena@oecd.org. Further information about MENA-related work at the OECD can be found at *www.oecd.org/investment/psd/ismed.htm.*

With the financial assistance of the European Union

ISMED Update on Egypt: *Promoting Nile River Transport through PPPs*

The ISMED Support Programme held its assistance mission to Egypt on 15-19 September 2014, with a focus on the Nile River Ports PPP project.

The mission took the form of a training session on Public-Private Partnerships (PPP), delivered to the River Transport Authority of Egypt, and of a Public-Private Dialogue on PPPs in Egypt's River Transport Sector.

What is the Nile River Ports project?

According to a 2012 study conducted on behalf of the French Development Agency, the Nile River Market, Financial and Institutional transport study; River transport accounts for less than 1% of total Cargo volume shipped in Egypt. In 2009-10, the River Transport Authority of Egypt (RTA) was unsuccessful in attracting private sector bids for a pilot river port project in Qena (Upper Egypt). OECD analysis suggests that investors were reluctant to participate as they were being asked to bear too much risk.

Consequently, the RTA requested the assistance of the ISMED Support Programme to improve the chances of private sector participation in a future project to construct river ports in Qena, Sohag, Meet Ghamr and Asyut. The goal of this project is to substantially increase transport of cargo by river within the next five years, thereby reducing road congestion, pollution, and state-expenditure on fuel subsidies. The RTA is considering developing the project by way of PPP.

1st Step: Project assessment & Assistance to the River Transport Authority

Since 2013, ISMED has worked on legal framework and risk-sharing issues for the river ports project in co-operation with the RTA, the Egyptian PPP Central Unit and other public and private, national as well as international stakeholders in Egypt.

The objective is to raise the RTA's profile and build capacity to assist in advancing the project to the tendering stage. Specifically, ISMED assistance focused on:

a) A proper delineation of risk sharing between public and private sector actors;

b) The drafting of template tender documents and indicative terms of reference for a feasibility study;

c) Advice on other aspects of the PPP and/or sectoral framework that are critical for private investors and may constitute obstacles to private sector participation in river transport infrastructure projects.

Extensive consultations were held with key stakeholders, at which initial data, analysis and findings were tested and refined, leading to a 2nd step which is the *Draft Assessment Report on the Nile River Ports Project.*

2nd Step: Building Capacity in PPP

A vital component of the ISMED Support Programme's cooperation with the RTA was a *Training session on PPPs* on held on 16 and 17 September in Cairo, in collaboration with the RTA and the Egyptian PPP Central Unit and the support of IFI experts. The event was intended to build the capacity of the RTA to engage in a PPP transaction and to help advance the proposed river ports PPP project on the Government of Egypt's PPP pipeline.

The audience for the event consisted of staff members of the RTA along with a number of officials from Ministry of Transport, Ministry of Water Resources and Irrigation and the PPP Central Unit (Ministry of Finance), as well as representatives of river transport operators. In total, 50 attendees participated.

Opening speech by Admiral Mostafa Ibrahim Amer, Chairman of the RTA (Cairo, 16 September 2014)

The ISMED team was assisted in delivering the training by a number of IFIs including the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the African Development Bank (AfDB), Dr Atter Hannoura, Head of the Egyptian PPP Central Unit, as well as Egyptian transport and legal experts also contributed.

Topics discussed included the need to build capacity at the RTA to enter and manage a PPP contract over its up to 30-year term, the need for a detailed feasibility and demand study to determine if it is desirable to build the proposed river ports project by way of PPP and the necessity of an integrated all of government approach to the many issues facing a PPP in the transport sector.

Training on PPPs: Diagnosis of Egypt's Inland Waterways Transport by Dr. Lashine (Cairo, 17 September 2014).

Feedback was positive with many expressing the view that the session was very useful and timely. The frank discussion that took place between private-sector representatives and public officials was noted as especially useful. At the end of the second day of the session, officials from the European Bank for Reconstruction and Development and the African Development Bank indicated that their organisations had begun to work with the RTA to better define the feasibility of the river ports project.

"It was very timely of the OECD to organize this event as it was clear the RTA needed it." (Mr. Philip ter Woort, Director, Cairo Resident Office, EBRD).

3rd Step: Public-Private Dialogue on Egypt's River Transport

Following the training session, the ISMED Support Programme concluded its assistance cycle in Egypt with the convening of a high-level *Public-Private Dialogue on Egypt's River Transport Sector*.

The objective of this policy dialogue meeting, gathering experts and top officials from the private and public sectors, as well as international financial institutions, was to examine the *[Draft Assessment Report on the Nile River Ports Project]* with a view to address, in collaboration with competent authorities, the short and longer term actions required to strengthen the legal and regulatory environment of the proposed river ports PPP, identify investment climate shortcomings, and prioritise the implementation of appropriate policy remedies.

Public-Private Dialogue on PPPs in Egypt's River Transport Sector (Cairo, 18 September 2014).

The meeting was inaugurated by Ms Nicola Ehlermann-Cache (MENA-OECD Investment Programme), Admiral Mostafa Ibrahim Amer (RTA Chairman), Mr Sebastian Trenner (EU Delegation to Egypt) and Dr Atter Hannoura (PPP Central Unit). After a brief diagnosis of river transport in Egypt by Dr Abdel Kader Lashine, and a presentation of the ISMED Draft Assessment Report by Andrew Fitzpatrick (ISMED Support Programme), a roundtable discussion followed covering the pros and cons of the RTA's river ports PPP project, and more broadly the numerous challenges facing private investment in the river transport sector.

The audience, around 70 attendees, involved mainly Egyptian public authorities, including staff from the River Transport Authority (RTA), Ministry of Transportation, Ministry of Investment, PPP Central Unit and other public entities, as well as private sector river operators, representatives of EU embassies and international financial institutions.

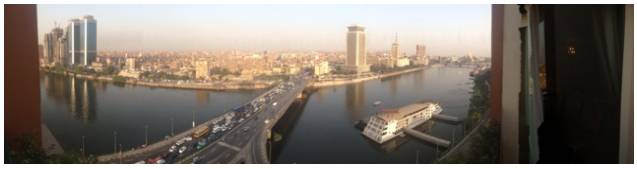
Experts from diverse consultative bodies, such as the Arab Academy for Science, Technology and Maritime Transport and the Nile Research Institute, also took part in the discussions.

Panelists and participants engaged in a lively debate, exchanging views and experiences of Nile river transport infrastructure development. In particular, issues such as river navigability (water depth and dredging programmes, schedule constraints and time losses in crossing locks), deteriorated infrastructure and the lack of capacity at the RTA as an operator, came up most frequently.

Key findings and recommendations included:

- the urgent need for capacity building at the RTA and the establishment of a satellite PPP unit that could smooth cooperation with the PPP Central Unit in better handling and monitoring the PPP process;
- the need for public authorities to understand commercial demand factors and the business case for river ports (hence, to define feasibility of this specific project under PPP);
- the integration of river transport into a comprehensive multimodal transportation strategy;
- the need to select sites on the basis of demand and traffic, and to consider a mechanism to share traffic/volume risk;
- the need to clarify the role of the RTA as a regulator and a river operator;
- the need to reduce and ultimately eliminate subsidies on road fuel (diesel).

More immediately, improved navigability of the Nile in terms of increased draft, better aids to navigation, and 24-hour operation, would increase commercial freight traffic prior to the aforementioned actions.



View on the Nile River (Cairo, 2014).

Next Steps

The final version of the Assessment Report, a final version including comments and input from this meeting – will be presented at the ISMED Annual Conference to be held at the OECD Headquarters in Paris, France, on 4 December 2014.

ISMED Update on Jordan: *Towards an Optimal Incentives Framework for Renewable Energy*

In Jordan, the ISMED Support Programme has recently completed a draft study of an optimal incentives framework for renewable energy development.

This study, undertaken at the request of the Jordanian Ministry of Environment, is the result of a participatory process based on extensive consultations with public and private, national as well as international stakeholders.

What is an Optimal Incentive Framework?

Renewables form a vital component of the Kingdom's future energy supply and the government is currently defining strategic orientations and policies. This study considers the current incentive framework for promoting renewables in Jordan and develops recommendations for the enhancement of this framework. It identifies the key features of the energy sector within Jordan and the role of renewables within this; it then uses a best practice incentive framework for renewables development in the MENA region, developed by the OECD, to identify where there may be gaps, and how these gaps may best be filled.

Existing Legal and Institutional Framework

Jordan issued in 2011 the Renewable Energy and Energy Efficiency Law (REEEL) and accompanying directives. This law builds on a 2007 Master Strategy of the Energy Sector that recognised the importance of renewable energy to the country and established a target that 7% of total energy would come from renewables by 2015 and 10% by 2020. The REEEL sets out the key elements of the incentive regime. It specifies two processes for awarding Power Purchase Agreements (PPAs) to procure renewable energy (competitive tendering and direct proposals); regulates access to the grid for renewable power; establishes a renewables tax incentive; and allows for the establishment of the Jordan Renewable Energy and Energy Efficiency Fund (JREEEF).

While current rates of renewable generation remain low, the REEEL has been successful at stimulating

considerable interest in the sector. To date, levels of renewable power generation in Jordan have been minimal. However, the framework established by the REEEL, especially the direct proposals route, has proved popular with developers. There is currently 525 MW of renewable capacity in the pipeline that may be operational by the end of 2015; this would allow the 2015 renewable energy target to be met.

Draft Study Findings: There are Major Gaps in the Existing Framework

Despite some success, a number of gaps in the current incentive framework have been identified. Beyond the capacity already in the pipeline, a further gigawatt of renewable energy capacity is likely to be required to meet the 2020 Energy Strategy target. In the context of this ambitious target, and using the OECD's framework for analysing renewable energy incentive frameworks, there are a number of areas where further progress on the renewables incentive framework may be warranted.

- *Regulatory & Institutional Gaps*

The main regulatory incentive challenges concern the length of time since the Master Strategy for the Energy Sector was updated, the weaknesses and gaps of some supporting institutions, the difficulties in securing grid access and problems with the procurement process. While the 2007 Master Strategy of the Energy Sector sets out an overall vision for renewables, there is increasing concern among developers on whether the targets and ambitions expressed in this document retain high-level political support, especially given recent political focus on nuclear power options. Consistent with this, there is limited information provided on how the how the incentive framework will evolve as the sector matures.

Institutionally, Jordan lacks a national renewable energy agency, while JREEEF's development has been much slower than might have been hoped. The country is seeking to enhance the institutional framework through the restructuring of the regulator and the intended development of a one-stop shop; but there are some concerns as to whether the restructuring of the regulator may lead to a lack of oversight in the short-term, while there is no timetable in place for the development of the one-stop shop.

In terms of grid access, extra transmission capacity may be needed to connect renewable sites in the south of the country while there remains ambiguity about the ability of the grid to balance intermittent renewables without further upgrades. Some developers also express concerns that NEPCO may not be sufficiently incentivised to connect renewables to the grid.

Finally, the procurement process has been hindered by a lack of transparent information flows about the process; significant delays; and a fear of retroactive changes to agreed terms, all of which have the potential to undermine trust in the process.

- *Financial Gaps*

Gaps in the financial incentive relate to the limited availability of guarantees. NEPCO's current financial challenges expose investors to considerable counterparty risk when signing a PPA. At present, there are limited means to address this risk. In addition, the limited transparency mentioned above may also reduce the value of the existing financial incentives.

- *Fiscal Gaps*

Fiscal incentives are not the main form of incentive used for renewables in Jordan, with just one provision providing an exemption from sales tax and customs duties for relevant renewable energy (and energy efficient) equipment. However the apparent inconsistent application of the tax exemptions is of concern as it causes developers to not consider the exemption as a valuable incentive.

- *Monitoring and Evaluation*

There are major gaps in monitoring and evaluation. There does not appear to be any active monitoring and evaluation of the current incentive schemes. This is necessary to ensure that the incentive scheme continues to be effective and deliver value for money for the government. A monitoring and evaluation process should be transparent and pre-announced, so that investors can form expectations over possible changes in the framework.

- *Local Appropriation*

There are also gaps in tailoring the incentive framework to the local economy. There is no incentive for research and development, which may reduce costs in the long run. There is also limited tailoring of the financial incentive offered for local

content to take advantage of Jordan's engineering expertise.

- *Access to Finance*

Gaps in access to finance should also be considered. Currently, equity is being provided by relatively small project developers – often focused on exporting their services to the MENA region, with investments in Jordan primarily valued for the evidence of track record it provides – or specialised private equity firms, while debt is largely being provided by IFIs, who appear willing to provide financing for future renewables development.

By contrast, Jordan's private banks have not yet taken an active role in renewables, other than Arab Bank. Further, the failure to date of JREEEF as a body to support the funding of renewables projects can be contrasted with the successful role taken by public institutions in providing (equity) finance in other countries, for example Morocco' Agency for Solar Energy (MASEN) and the UK's Green Investment Bank; both cases have been credited with building longer-term investor confidence in the renewables sector of the respective country.

This suggests that while access to finance does not currently seem to be a barrier in Jordan, there may be issues in the longer term if IFIs reduce their support and private banks do not increase theirs, and there may be better ways to finance more ambitious, larger scale, projects in Jordan.

Next Steps

The study identifies 17 recommendations for enhancing the quality of the renewable energy incentives framework. Some of the highest priority recommendations include determining whether the grid needs reinforcement to cope with additional renewables generation; increasing transparency about the way in which direct proposals are assessed; expediting the establishment of a one-stop shop; clarifying and, if necessary strengthening the incentive for NEPCO to connect renewables to the grid; and increasing the capacity of the Ministry of Energy and Mineral Resources.

A Public-Private Dialogue took place in Amman, Jordan, on 26 October. This Public Private Dialogue allowed for frank discussion of the opportunities and challenges of developing renewable energy infrastructure projects in the Kingdom, by public and private actors as well as International Financial Institutions and Organizations.

As was the case with Egypt and the RTA, the final version of this study, revised to include comments and input from the Public-Private Dialogue meeting, will be presented at the ISMED Annual Conference to be held at the OECD Headquarters in Paris, France, on 4 December 2014.

Next Steps

- ***Public-Private Dialogue: Jordan (October 2014)***

This Public-Private Dialogue seeks to present and discuss the *Assessment Report on Jordan's Incentives Framework for Renewable Energy Infrastructure* to Jordanian public authorities, private sector stakeholders and international financial institutions. The meeting will specifically address the main findings and recommendations resulting from the report, drawing on OECD good practices and aiming to ensure positive spill-over effects for the economy. This event will be held on the October in Amman.

- ***Public-Private Dialogue: Morocco (November 2014)***

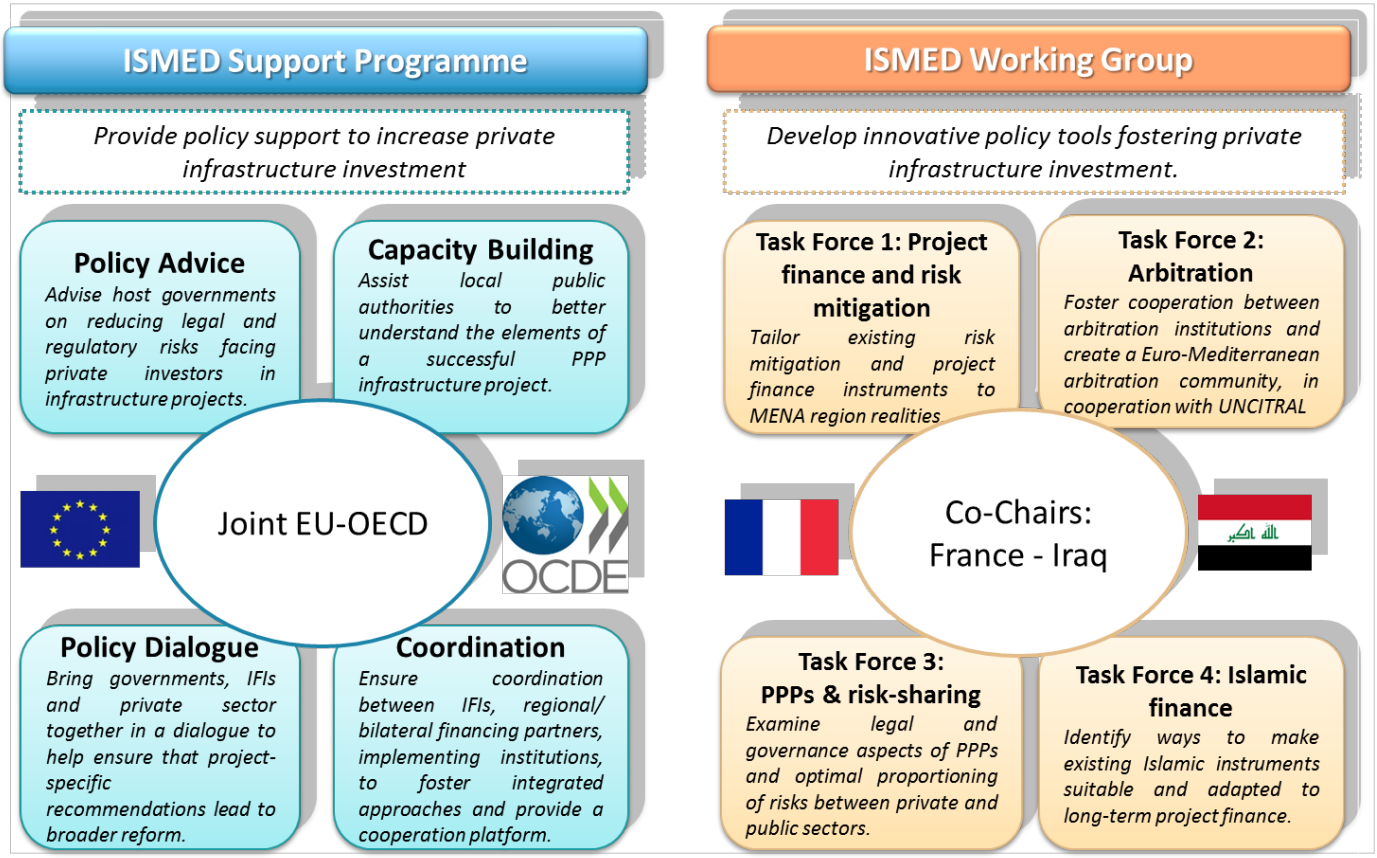
This Public-Private Dialogue seeks to present the *ISMED Assessment Report on the legal framework on the development of Logistics Zones in Morocco* to Moroccan public authorities, private sector stakeholders and international financial institutions and organisations. The main findings and recommendations resulting from the report will be addressed during the meeting, drawing on OECD good practices and aiming to ensure positive spill-over effects for the economy. This event will be held in November in Morocco.

- ***ISMED Advisory Committee (20 November 2014)***

The ISMED Advisory Committee meeting will gather the EU Commission and partner IFIs with a view to examine and assess the work achieved by the ISMED Support programme so far, prepare for the ISMED Annual Conference, to be held in Paris on 4 December 2014, and define the way forward.

Find these events online at: www.oecd.org/investment/psd/ismed.htm

About ISMED



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