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PROJECT FINANCE & MANAGEMENT CONSULTANTS

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How to Endorse PPPs Across the MENA

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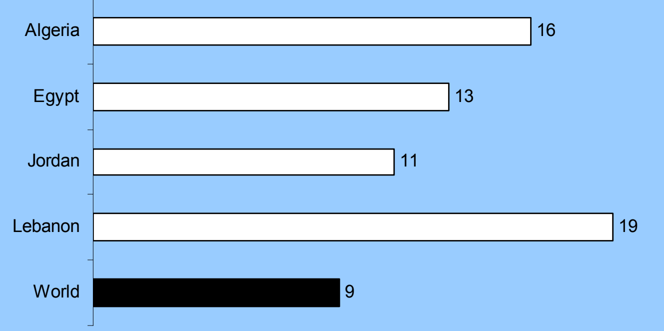
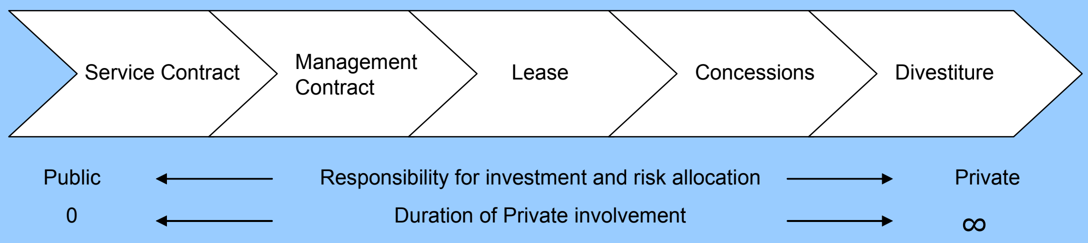
The 'infrastructure gap', and its negative impact on economic growth, job creation and social cohesion in the MENA region, has been recognized for many years. Across MENA, the need to improve infrastructure, is seen as a necessary condition to successful economic growth. However, the region's governments have limited financial resources to devote to increased capital expenditure and improving public services and face restrictions on their ability to raise debt, in particular due to adherence to the principles of economic convergence.

The Performance of Public Services in MENA Countries has been dismal compared to global averages:



Electricity Transmission Losses as % of Domestic Supply

Different Methods of PPP Allocate Risks Differently Between the Public and the Private Sector and Require a Different Investment Duration:



In order to bridge the growing gap between the cost of the infrastructure needed and the resources available, and to ensure that the infrastructure is delivered as efficiently and cost-effectively as possible, the key question is how to deliver cost-efficient investments. In this context, Public Private Partnerships ("PPPs") are a growing element of public sector procurement across MENA.

What are PPPs?

The term "public-private partnership" ("PPP") has been in general use since the 1990s. However, there is no widely agreed, single definition or model of a PPP.

Standard & Poor's definition of a PPP is any medium-to-long term relationship between the public and private sectors, involving the sharing of risks and rewards of multi sector skills, expertise and finance to deliver desired policy outcomes.

The term "PPP" covers a range of different structures where the private sector delivers a public project or service. Concession-based transport and utilities projects have existed in EU member countries for many years, particularly in France, Italy and Spain, with revenues derived from payments by end-users, e.g. toll roads. The UK's Private Finance Initiative ("PFI") expanded this concept to a broader range of public infrastructure and combined it with the introduction of services being paid for by the public sector rather than the end-users. The use of PPPs has now spread to countries and depending on the country and the politics of the time, the term can cover a spectrum of models. These range from relatively short term management contracts (with little or no capital expenditure), through concession contracts (which may encompass the design and build of substantial capital assets along with the provision of a range of services and the financing of the entire construction and operation), to joint ventures and partial privatizations where there is a sharing of ownership between the public and private sectors.

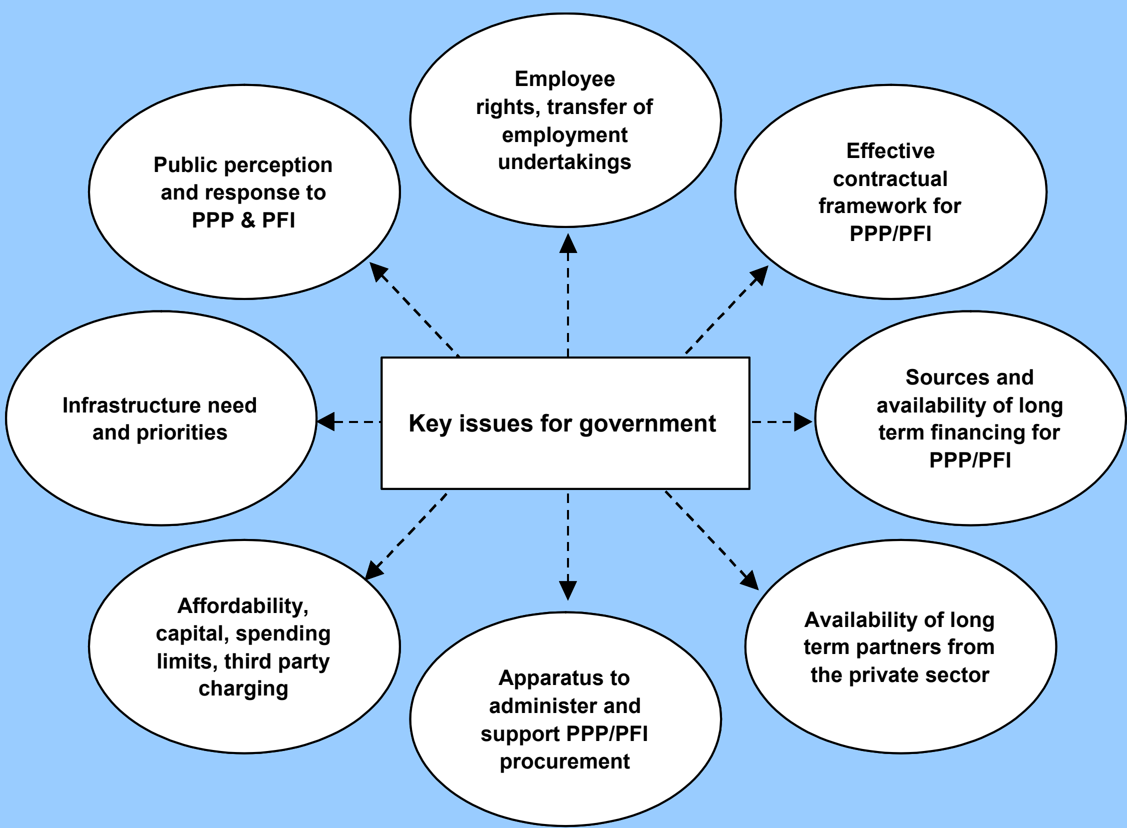
Solving Recurring Issues

One of the ideas originally driving the private sector's advance into public provision was the assumption that the private sector does things better: it is more efficient, responsive to change and outcome-focused. Based on this concept, the overall thrust of PFI and PPP has been to create arm's-length contractual arrangements with private sector providers, leaving them to do what they do best without interference from the public sector client. But the use of PPPs raises a number of complex issues and choices, the solutions to which are often project or country specific. To meet these challenges, MENA governments might need to consolidate their reforms to establish an enabling environment for PPP management. Minimum features of a good enabling environment are as follows:

- **Investment and business climate and perception of risks.** These are determined by a series of factors such as rate of exchange policies, macroeconomic stability, sound investments and profit repatriation, and the respect to due process in the solution of conflicts at the judiciary. If the judiciary is too slow or not predictable, conflict resolution mechanisms can be part of concession contracts to mitigate perception of risks.

- **Political commitment to expedite the formation of PPP**. Political commitment at the highest level can be shown by hierarchy of legal instruments to put in practice a PPP contract. Committed governments use contractual instruments endorsed by law.
- **Clear rules for tariff making based on sound economic and financial principles.** Rules for tariff making and adjustments should be embodied in specific laws or equivalent legal instruments, and form the basis to prepare financial projections, upon which the private sector can make qualified assessments about the convenience or inconvenience of going into a PPP.
- **Well defined institutional framework.** Clearly defined institutional responsibilities and well qualified staff in key positions will reduce the perception of risk by the private sector.
- **Sound database.** Available technical studies will allow the private sector to make all estimations needed, especially those that have financial implications and affect the profitability of the business. Therefore the more trustworthy the data, the less room for uncertainty and the more willing the private sector will be to get into PPP.
- **Clear risk sharing schemes between the public and private sectors.** Clear distribution

Developing a PPP Framework – Key Issues for Government:



of risks and instruments to overcome contingencies make a contract easier to agree on, given that costs and benefits of taking the risks can be incorporated in the financial analysis.

Conclusion

The investment challenge faced by governments in the modernization of public infrastructure and services continues as a focus for MENA agendas. The political and public controversy of past years has lessened and PPPs are now more generally accepted as a viable means of procuring and delivering this required modernization and they are being increasingly adopted. There is strong deal flow in a significant number of countries within MENA, increasing uptake in project procurement in countries where activity has previously been low, and increasing interest in PPP models across the rest of the region. And more and more countries are establishing dedicated PPP units or enacting legislation to assist in streamlining the procurement process.

However, PPPs are complex and recurring issues continue to hinder their development. Given the potential which PPPs have for the delivery of these essential public services we believe it is vital to share experiences, look at precedents for the market, and find resolutions to key impediments, thus enabling the advancement of PPPs across MENA.

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