ESCWA Experts Group Meeting – Executive Summary

Infrastructure Investments and Public-Private Partnerships

RABAT, MOROCCO – 17/18 APRIL 2013

In cooperation with the Ministry of Transportation and Equipment of the Kingdom of Morocco, on April 17 and 18, ESCWA Economic Development and Globalization Division (“EDGD”) held an Experts Group Meeting entitled “Unlocking Infrastructure Investments and Mobilizing Financial Resources in the Arab Region”. The event gathered more than 130 public and private sector participants across member countries.

H.E. Aziz Rabbah, Minister of Equipment and Transportation of the Kingdom of Morocco opened the meeting, thanking ESCWA for choosing Morocco as partner for its first initiative in the area of infrastructure and PPPs. In his speech, H.E. emphasized the importance of political stability, strong institutions and governance in attracting private investments, together with positive messages on free market economy and non-interference of the state. The Minister pointed out that annual infrastructure investment needs in Morocco are estimated at 10% of GDP, with the Government aiming to promote private participation for the development of airports, railways, ports, and to benefit from competitive pressure on operational and maintenance costs brought about by private operators.

On behalf of UN ESCWA, Abdallah Al Dardari, Chief Economist and Director of EDGD, thanked H.E. the Minister for hosting ESCWA and all participants, underlining the significance for the Arab region of initiatives designed at exchanging experience and knowledge among member countries. Mr. Dardari’s speech focused on the opportunity for the creation of employment driven by investments in infrastructure and the need for finding a right balance between public and private interests.

Geoffrey Hamilton, Chief of Section, Economic Cooperation and Integration Division, United Nations Economic Commission for Europe (“UNECE”), concluded the opening remarks making an introduction on the role and activities of the UNECE International PPP Center of Excellence. He welcomed the prospect to transfer knowledge and expertise between the two regions, with
fundamental functions played by capacity building and project preparation especially in countries that are starting to introduce PPP as an instrument to deliver infrastructure investments.

The first session focused on the host country, Morocco, with the Director of Public Enterprises and Privatization of the Ministry of Economy and Finance, Mr. Samir Mohammed Tazi, promoting the efforts of the government to promote infrastructure projects through the proven concession based legal framework, with investments almost doubling between 2006 and 2012. In particular, he moved to the fore the critical element of financial viability of projects, from both public and private sector perspectives, as requirement for reaching ‘win-win’ solutions. This session benefitted also from contributions across several agencies of the Ministry of Transportation, the National Ports Agency, the National Railways Office, the Airports Authority and the Highways of Morocco, together with the relevant experience of the Ministry of Agriculture in irrigation projects implemented with private sector participation.

The following session was on Egypt, the first country in the region to adopt a comprehensive approach to PPP with framework law and a central PPP unit. Atter Hannoura, Director of the PPP Central Unit at the Ministry of Finance, discussed how projects face two types of challenges: limited capacity within the public administration, in particular in identification and preparation of projects suitable to be implemented through a PPP structure, and financing constraints, due to the weak financial situation of procuring entities. Furthermore, he emphasized the importance of learning from the drawbacks of past experience, stating that based on the last few years learning curve Egypt is now in a position to plan for the delivery of a significant pipeline, also in the most challenging areas of social infrastructure, education and health.

The point of views of public officials in Morocco and Egypt was completed with the experience of private developers: Taqa, the Abu Dhabi energy company owner and operator of the largest power plant in Morocco contracted with the public utility ONE, and Orascom Construction Industries, the winning bidder for the first wastewater project awarded under the PPP scheme in Egypt, New Cairo.

Countries in transition, Libya and Tunisia, were represented by officials from the ministries of infrastructure and planning who elaborated on the tasks their countries are facing following profound changes in political regimes.

The conclusion of the first day was dedicated to Iraq. Mhand Hsam Al Den Mhamd Amin, Chief of Staff in the Office of the Deputy Prime Minister for Infrastructure, discussed the lack of capacity within public organizations as a major obstacle and announced the forthcoming promulgation of a law on PPP. As a resource rich country, Iraq should be in a more positive situation but the lack of actual delivery of projects is holding back the development of the nation. He described positively the role of OECD and other international institutions in supporting the government in its redevelopment efforts and in promoting private participation.
The second day was focused on financing topics. The Ouarzazate solar power project in Morocco, once completed the largest IPP concentrated solar power plant in the world, showed how strong commitment and cooperation among international financial institutions, represented in Rabat by the World Bank and the European Investment Bank, were instrumental in reaching an extremely low cost of funds while promoting competitive tension between power developers. The result, with the winning consortium led by Acwa Power International, is an electricity tariff well below original expectations, even if further improvements in the cost base are essential in order to make the CSP technology viable on commercial terms. In addition, the creation of a single purpose agency dedicated to the implementation of the Moroccan Solar Plan, Masen, coordinated effectively the different aspects of state involvement and support to the project providing the financial structure to intermediate funding from the IFIs to the project company, as debt but also with an equity component.

The role of institutional investors and of alternative financial instruments in infrastructure financing was debated in the last morning session. CDG Capital Infrastructure, the Moroccan partner of InfraMed Infrastructure, defined the broad parameters institutional investors look at when considering investing in an emerging country and the bottom up approach in project risk mitigation when structuring a deal. The development of capital market solutions with the issuance of project bonds were at the core of a BNP Paribas presentation, with key factors summarized by a broader investor universe and secondary market liquidity. The European Project Bond initiative promoted by the EIB could be an important tool to encourage an increase in long term capital market financing for infrastructure projects, with credit enhancement solutions through both mezzanine tranche and/or unfunded guarantee. Due to their intrinsic nature as asset-backed transactions, and therefore linked to the “real economy”, infrastructure and PPP projects should also be ideal candidates for Islamic financing, as the presentation from the Islamic Development Bank discussed. In this changing environment, the traditional project finance market has still a role to play. The Apicorp contribution provided an overview of the decrease in volume and deals in the MENA region since the start of the financial crisis, particularly pronounced in 2012, with the energy sector the least effected and the increase in participation from local banks as two of the most significant trends.

A final panel brought to an end the proceedings with UN ESCWA and UNECE representatives joined by the Agence Nationale pour le Développement des Energies Renouvelables et de l’Efficacité Energétique (Aderee) from Morocco.

Mr. Dardari closed the two days event with a summary of the main points addressed and a discussion of the way forward following the strong participation to the EGM. His final remarks laid the foundations for the creation in the Arab region of an international network for PPP experts and senior advisors from both the public and the private sector, and the launch of preliminary actions for the establishments of PPP Specialist Centres in member countries, in particular in renewables energy and infrastructure and Islamic finance, activities to be promoted in close cooperation with UNECE.