POLICY BIREF

PPPs in Tunisia: A promising Path for Infrastructure Development

Policy Brief

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Executive Summary

An important challenge facing Tunisia's economic growth and development is one of an aging, inadequate infrastructure network. PPPs offer a strategic solution by bringing in private sector expertise and financing. While the adoption of PPP legislation has already been made in Tunisia, there is still an extremely complex legal framework, limited institutional capacity, and subpar practices in the selection of projects. This policy brief outlines a comprehensive framework for unlocking the transformative potential of PPPs in Tunisia. It gives key recommendations to:

1. Clarify, strengthen, and make more transparent the legal and regulatory framework for PPPs, coupled with risk allocation that is clear and fair.

2. Strengthening the institutional capacity of government institutions to develop, manage, and monitor PPP projects over the project lifecycle.

3. Project selection and prioritization could be enhanced by the setting up of a strategic framework that orientates PPP initiatives with respect to national development goals, with an emphasis on value for money and long-term sustainability.

4. Foster the participation of the private sector by developing an attractive investment environment and addressing the apprehensions of investors over political and economic stability.

Introduction

The structural deficit in the Tunisian economy is a major bottleneck to economic growth, job creation, and competitiveness. The country's deteriorating transport network, insufficient energy capacity, and lack of adequate water and sanitation systems are a serious impediment to development efforts. The World Bank is estimating that Tunisia needs an annual investment of USD 5-6 billion over the coming decade to close its infrastructure gap[1]. Traditional public financing for infrastructure projects, due to budgetary constraints, is becoming increasingly insufficient to meet such growing requirements.

A very attractive alternative is PPPs because of the efficiency, expertise, and financing capabilities of the private sector. PPPs have many different forms, with the public sector transferring ownership, financing, or operational responsibility for an infrastructure project to a private partner, either solely or in a consortium. Through this partnership, the public sector is in a position to benefit from private sector expertise and financing in developing and managing infrastructure projects, while the private sector benefits in the form of a return on its investment.

The successful completion of Enfidha International Airport, already well-structured as a PPP initiative, represents the potential in Tunisia for PPPs The project involved the construction, financing, and operation of a new international airport, completed in 2011. Besides meeting the growing need for air-travel capacity, the project also contributed to job opportunities and other economic activities in the surrounding area[2].

1 https://documents1.worldbank.org/curated/en/099838011032326761/pdf/IDU0b66401ea0d71b04eb00adb20a93d03ca730e.pdf

2 Case Study When the institutional context thwarts public-private partnerships: The role of political factors in the failure of PPPs Mhamed Biygautane1,2*, Omar Ahermouch3

1. Existing Difficulties

This generated the need to understand the main challenges affecting the generation of PPPs[3] in Tunisia as this is explored in this chapter. These challenges fall into four categories: These challenges fall into four categories:

Unorthodox legislation and extended permits challenge the private sector involvement. Lack of experience especially among the government officials in the development and management of PPPs becomes an obstacle to the success of projects that are undertaken. Decision making for a new project often lacks a strategic perspective and does not prioritize the potential long-term gains. Few potential investors pose a challenge since the competition reduces and the cost of projects goes high.

To consider the PPPs successfully applicable to Tunisian infrastructure development these challenges need to be meet.

1.1 Institutional Capacity and Legal Framework

Lack of Clearness and Openness: The existing laws governing PPPs[4] are unclear and opaque as regards to kinds of projects, contract tendering processes and risk distribution policies. Such ambiguity results in inconsistent information for prospective investors thus making them unwell to participate.

Complicated and Bureaucratic Approval Processes: The present approval process for PPP projects is quite intricate hence leading to lengthy development timelines for several developments that may be needed. This discourages private sector participation on grounds of time and money requirements associated with these obstacles.

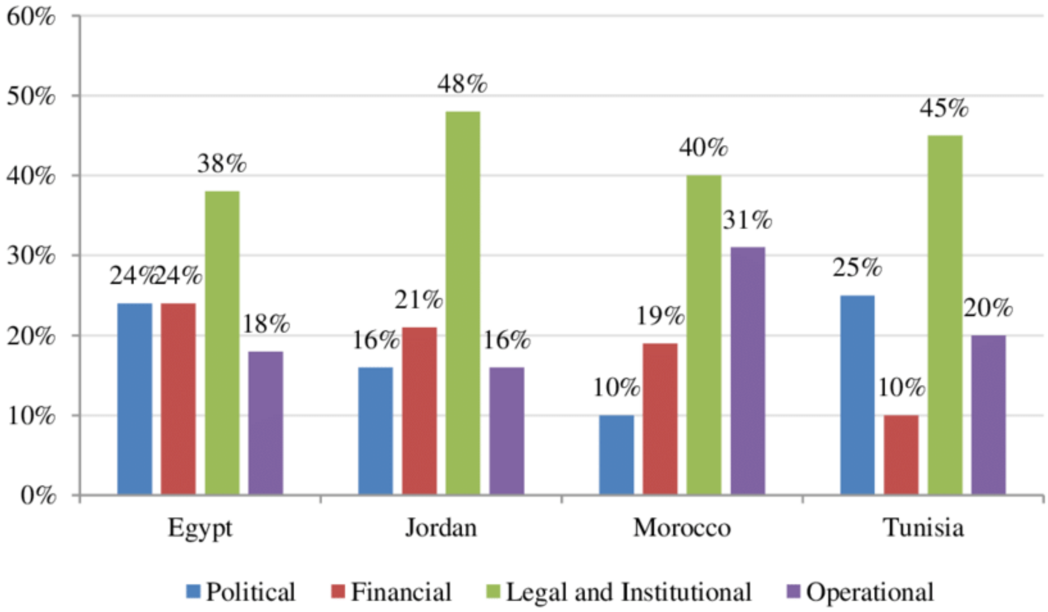
Imbalance in Risk Sharing: Most times, risk allocation models heavily lean towards the public sector thereby overburdening governmental agencies. As a result, this discourages private sector participation since investors will perceive more risks than potential benefits.

Limited Knowledge: Some government bodies do not have enough know-how for successful designing, management, and monitoring of PPP schemes from inception to completion. Among factors which should be taken into consideration are an understanding of technicalities regarding how PPPs are organized, procurement methodologies used as well as risks associated with them. Limited Expertise: Some of the challenges that prevent many government agencies to effectively manage and be knowledgeable of managing PPP projects all along the lifecycle of the project include. This comprises of the understanding of PPP structures, various procurement processes, and safe measures to undertake when handling various risks.

Inadequate Capacity for Project Phases: This is a biggest challenge especially in government agencies where there often no dedicated staff and financial resources for key stages such as project preparation, bid, and contract development. Such situations can lead to faulty project flow, damage, and even project failure in extreme case scenarios.

[3] DESA Working Paper No. 148 ST/ESA/2016/DWP/148 February 2016

[4] https://www.oecd.org/investment/investment-policy/PPP-en-Tunisie-Vol-2.pdf



Risk-factors-to-PPP-in-Egypt-Jordan-Morocco-and-Tunisia-17

1.2 Project Selection and Prioritization:

There are many challenges and consequences of the flawed selection processes that include the following.

This section draws attention to some of the key concerns in relation to a country's strategy on the identification and subsequent prioritization of infrastructure development projects through PPP. Let's delve deeper into each challenge and its consequences: Let's delve deeper into each challenge and its consequences:

1. Absence of Strategic Framework:

I examined several issues that most governments face within their PPP settings: absence of a vision or a strategic plan at the national level leaves the project selection process uncoordinated. Unfortunately, unlike in other countries, there is no development strategy that determines which projects would help the country make the most significant positive changes for its population.

Consequences: Misallocation of Resources: They good resources (financial, human, material) could be given to the projects which have minimum value added to existing national needs. Suboptimal Infrastructure Development: The country could easily wind-up developing infrastructure that is not relevant to the nation's current or future needs and, thus, may be economically unbeneficial. Missed Opportunities: This may result in potentially powerful ideas being ignored in Favor of far less an effective concept.

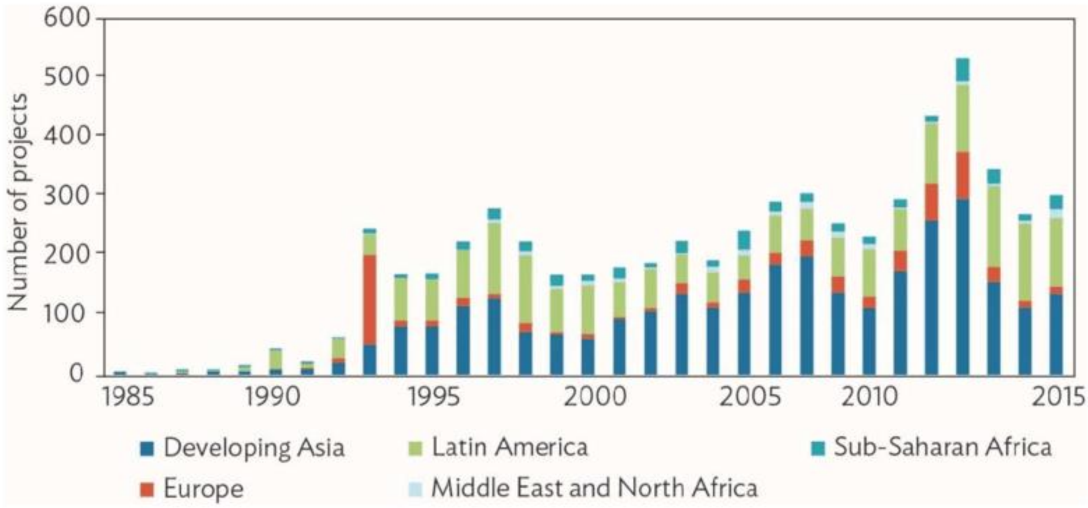
2. Insufficient Focus on Value for Money: There are two forms of project selection, namely, new build projects and the procurement of services, and value for money evaluations are not given sufficient importance in any of these. This is because, by balancing the short-term and long-term effects of their decisions, decision-makers reduce the likelihood of making decisions solely based on short-term profits at the expense of the long-term goals of the organization.

Consequences: Inefficient Use of Public Funds: Public funds could be used in projects that do not benefit as per the expected value addition or investments made.

Increased Long-Term Costs: When things start off well but has promising hidden costs in future, the government of a country may end up in more financial strains. Reduced Public Confidence: Due to this, the citizens may develop a perception that disregards the capacity of the government to efficiently manage the public resources. 3. Limited Consideration of Sustainability The social and environmental factors are some of the most important considerations in project selection and development and yet they are frequently overlooked. This can lead to projects that harm the environment and resulting in untold suffering to many vulnerable people.

Consequences: Environmental Degradation: Based on the given projects; they might cause negative externalities such as the destruction of natural resources, depletion of natural resources. Social Disruption: There is the possibility of social unrest or even resentment from the people if he or she's displaced or affected by construction activities within his or her immediate surroundings.

Long-Term Project Challenges: Peculiarities of social discourse and conflicting views on environmental protection that surface at the planning stage or during development may become chronic threats to future project performance and successful delivery.



Source: World Bank. Private Participation in Infrastructure database. https://ppi.worldbank.org/data (accessed 20 March 2017).

Infrastructure Public-Private Partnership Projects in Developing Regions, 1985-2015

(2010) note that the private sector's involvement in infrastructure, either exclusively or through PPPs, is motivated by inefficiencies observed in public projects, such as cost blowouts, planning and construction delays, safety problems, and a lack of innovation and technological advancement. Figure 1 shows the gradual rise of PPP transactions in developing regions since the mid-1980s. The World Bank's Private Participation in Infrastructure database records 6,124 infrastructure PPP projects, totalling $1.7 trillion from 1985 to 2015 among 139 low-and middle-income countries.

1.3 Private Sector Participation:

It would be pertinent to note that Tunisian desires to harness PPPs for infrastructure development are surrounded by a host of concerns which negate a strong PPP regime for the private sector. Here's a deeper dive into the difficulties: Here's a deeper dive into the difficulties:

1. Limited Pool of Qualified Investors

Domestic Imbalance: The current environment-show that few domestic private sector participants are familiar with the execution of challenging PPP projects. This lack of qualified participants creates an environment ripe for: This lack of qualified participants creates an environment ripe for: Reduced Competition: Less qualified bidders reduce the number of companies that will be competing thus a smaller market competition in the bidding competition. The following can result in enhanced costs hence risking cancellation of the cost-saving factor that PPPs have in place. Knowledge Gap: The two countries also face major challenges in the PPP area such as the lack of well experienced players to design and implement structural and efficient PPP initiatives[5]. The end-vendor may not have sufficient control over the direction they take therefore leading to situations where the overall project design is substandard or the risk/reward ratio between the public and private partners is improperly aligned.

2. The Investment Climate: The position a company holds in each industry relates to the Web of Uncertainty, a concept that can be defined according to the following parameters:

Political Instability: Perhaps most significantly, the looming reality of political and economic volatility has remained a constant concern. It discourages the private sector from engaging in long-term investment initiatives like the PPPs which call for huge cash commitment initially. Businessmen and investors cannot be blamed for being sceptical and cautious when investing tens of millions of dollars when the political environment and outlook is quite uncertain in the apparent distant future.

Economic Risks: Other economic factors that were perceived added twist to the situation. Some of the risks that discourage investors include fluctuation of currencies, inflation, changes in price levels, and possible future economic downturns may lead to investors avoiding long-term projects that involve complicated structures of cash flow. Opaque Regulations: Inadequate legal structures governing PPPs might cause excessive legal uncertainties, which makes it very complex for potential private sector players to penetrate the system. Many a times the investors may face uncertainties on the approvals pertaining to projects, risk[6] sharing mechanisms, and conflict solving mechanisms may disrupt investments.

Bureaucratic Hurdles: Appointments can be an intricate, time consuming and priced affair and this spirals the bureaucratic procedure and in turn takes a toll on the private sectors interest. They offer five key factors to the would-be investor; efficient approval processes and an efficient administrative system are some of the factors.

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[5] https://www.worldbank.org/en/programs/teri/brief/pdf-for-ppp-in-tunisia#:~:text=Public-Private%20Partnerships%20are%20an,%24200-300%20million%20through%20PPPs.

[6] https://www.researchgate.net/figure/Risk-factors-to-PPP-in-Egypt-Jordan-Morocco-and-Tunisia-17_fig1_338161836

Recommendations

- Robust Legal and Regulatory Framework: This shall entail the development of a clear PPP law that clearly defines the types of projects that will be eligible for funding, the procurement procedures and the way risks will be shared between the private and public partners. Separate dedicated PPP teams within the ministries will relieve PPP projects from unnecessary bureaucratic approvals and effective ways will be initiated or developed in case of project related disputes or conflicts.

- Institutional Capacity Building: Cultivate training programs for government officials on designing, bidding and managing of PPP projects. Using the experience of other countries and in the long run, the permanent PPP units staffed with skilled human resource will be created in corresponding ministries. It shall prompt knowledge sharing, cooperation, and benchmarking of agreed-upon standard practices.

- Strategic Project Selection: Strengthening the PPP programmes by having a clear priority list of major PPP programmes which should take economic, social and relational considerations into consideration at the national level. For, convenience, life cycle cost analysis performance will be a vital aspect where value for money assessments will guarantee the efficient and effective use of public funds available for such projects. Likewise, proposals will embrace environmental and social sustainability.

- Promoting Private Sector Participation: Special PPP website: A website will be made accessible for public use and

- it will contain information about the PPP option and projects, thus appealing the domestic and international investors. Such actions touch on issues to do with enhancement of political and economic stability, reduction of bureaucratic barriers, and creation of structures of investment. Some of the measures to be implemented that will improve competitiveness amongst local companies when it comes to PPP tenders include capacity building programs. There will be some encouragement of both the domestic and the foreign private sectors in an effort to encourage partnership in business.

Expected Benefits of Effective PPPs:

- Infrastructure Development: Based on the analysis, greetings PPPs will fulfil the role of filling the gap of infrastructure in Tunisia through mobilizing resources for classical projects in sectors such as transport, energy and telecommunication. This will revive economic circulation, establish new workplaces, and increase the population's quality of life.

- Enhanced Efficiency and Innovation: The letting of contracts to private partners can increase efficiency and innovation on project deliveries depending on time and cost estimates, and probably an improvement to delivery time and quality of service.

- Reduced Fiscal Burden: Implemented, PPPs allow for the Private sector to contribute financially thus reducing the burden of the public sector and will provide the necessary funds for investment in priority sectors of, education, health etc.

- Transparency and Accountability: Positive PPPs enhance transparency and accountability implications within the procurement process. A clear and detailed contract and follow up supervision with ad hoc monitoring of the project will guarantee that they are delivered on budget, on time and to the right standard of quality.

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