

# Public Private Partnerships in Israel

## From High-tech to Highways: Promoting Innovation and Infrastructure

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# Public- Private- Partnerships

**Governments in many countries around the world realized that the best way to enhance national economic development is by creating partnerships between the Government (as the Public sector) and the Private sector ("PPP").**

**Though it is more customary to use the term PPP in connection with physical infrastructures (such as: highways, power plants and trains), the principles of PPP apply with equal force in promoting technological entrepreneurship and innovation (primarily through R&D incentives).**

**The Israeli Government has been successful in applying the PPP methods in both the infrastructure and technological arenas, resulting in significant growth engines for the Israeli economy, in particular during the 2008 and current global financial crisis.**



# Government R&D Incentives for Technological Entrepreneurship

•Grants may range up to 50%-60% of approved R&D budget against annual royalties of 3%-5% payable to the Government to cover the grant, plus transfer payments when technology is transferred abroad.

•The regulatory framework of the Office of the Chief Scientist (“OCS”) through which incentives are granted is the Law for Encouragement of Industrial Research and Development-1984 (“R&D Law”), plus tax benefits which are granted under the Law for the Encouragement of Capital Investments-1959.

# Regulatory Environment: Key Ingredient for a successful PPP

- Recent studies in Israel have shown that the OCS programs are effective in achieving their goals and do not pre-empt financing from the Private sector.
- Regulatory environment that eliminates or reduces the costs of certain risks and enables a proper allocation of risks between the Private and Public sectors (Risk allocation).
- Creating direct and indirect incentives to achieve the desired goals (Direct/Indirect incentives).
- A regulatory environment that ensures certainty (Regulatory certainty).

# Ad Hoc PPP's- the example of the Manof Funds

- As a result of the economic crisis of 2008 and in view of the risk that corporate indebtedness when due would not be able to be refinanced by the market, the Government established 3 investment funds (Manof Funds) in partnership with the Private sector.
- The Government undertook to provide 1 NIS for every 3 NIS raised from the Institutional Investors. In addition, the Government provided a Downside protection by guaranteeing a minimum return (4% linked) together with Upside kickers whereby the Government undertook to share 50% of its profits above 4% with the other investors.
- The three funds succeeded in raising together NIS 4.5 billion.
- It appears that the establishment of the Manof Funds assisted the Private sector to overcome the crisis.

# Recognition of Israel as a leader in the P.P.P. infrastructure field

•The traditional reference to PPP is with respect to infrastructure projects. During the past few decades, Israel has gained unique experience and expertise in implementing sophisticated PPP methods in infrastructure projects.

•In 2007 the United Nations Economic Commission for Europe (UNECE) convened for the first time in Israel, and discussed the development of the Infrastructure projects in Israel, planned and implemented under the P.P.P. system, and issued a concluding statement of this convention, recognizing that Israel is a leader in this field.

•Projects awarded “Project of the Year” by the prestigious Project Finance Magazine in the last few years:

- The 1.6 Billion US dollars Cross Israel Highways
- The 350 Million USD Desalination project in Ashkelon
- The 800 Million USD 431 road



# Examples of Regulatory Incentives for PPP Infrastructure Projects

- **Transportation Projects (Cross Israel Highway, Light Rail, Carmel Tunnels, Fast Lane): Guarantee of minimum traffic.**
- **Energy Projects (Gas, Solar, Wind) and Desalination Projects: Government undertaking to purchase the product at a pre-determined price.**

# Advantages of using P.P.P. methods

- **Use of Non-Public budgetary sources**
- **Fast implementation of projects**
- **Developing State-of-the-art technologies**
- **Providing more efficiency and reducing bureaucracy**
- **Achieving privatization advantages without relinquishing supervision of the project**



# PPP- People-People-People

- **P.P.P. stands for Public-Private-Partnerships, but also for People-People-People.**
- **One of the main criteria of success in infrastructure projects is the PEOPLE involved:**
- **People – in the Government sector;**
- **People – in the Private Sector; and**
- **People – in the Financial Sector**



# A Few Selected PPP Projects in which our firm has been involved

- 1.6 Billion USD Cross Israel Highway
- 3 Billion USD Training City of the Israeli Defense Forces
- 5 Billion USD Tel-Aviv LRT
- 900 Million USD Jerusalem LRT
- 300 Million USD Tel-Aviv and Jerusalem Fast Lanes
- 350 Million USD Ashkelon Desalination Facility
- 120 Million USD Ashkelon IPP
- 400 Million USD Hadera Desalination Facility
- 400 Million USD Ashdod Desalination Facility
- 800 Million USD Road 431
- 1 Billion USD Road 531
- 800 Million USD Solar Power Plants



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