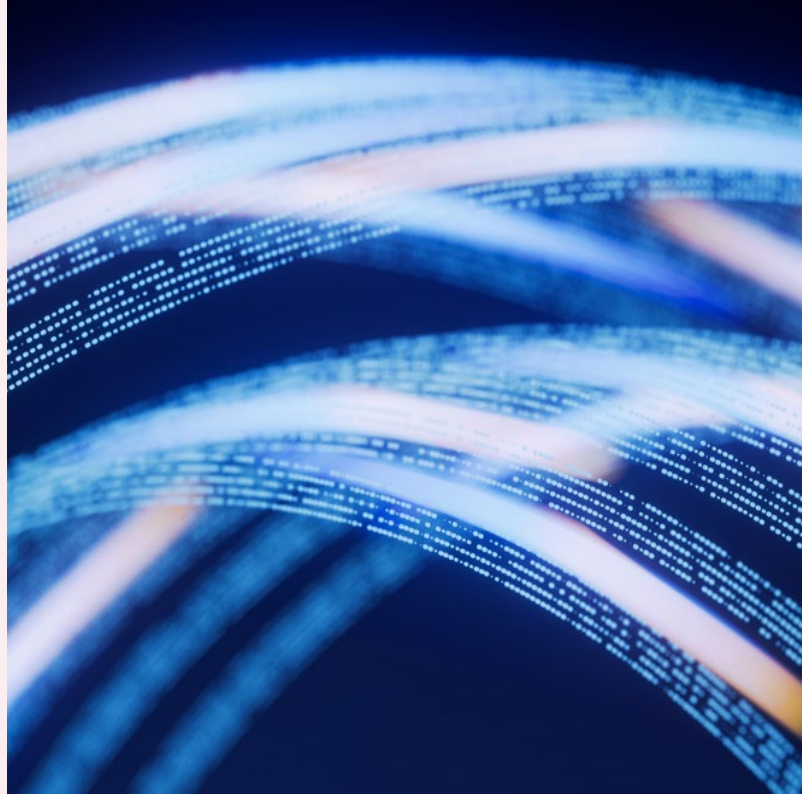


## Smart cities infrastructure

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Clifford Chance, in collaboration with the International Project Finance Association (IPFA), recently hosted its first dedicated infrastructure event in the Middle East: "Smart cities in the Middle East: shaping the future of urban infrastructure". This briefing distils the key insights from the discussion, focusing on the factors that will determine whether smart city infrastructure can be delivered at scale and attract long-term private sector investment.

### Key takeaways

- 1 Smart cities are increasingly being delivered not as a collection of standalone assets, but as integrated systems of infrastructure spanning transport, utilities, social assets and digital platforms.
- 2 In the Middle East, governments are using this model to support rapid urbanisation, enhance liveability and meet sustainability objectives.
- 3 Public private partnership (PPP) frameworks are one of the most effective mechanisms for integrating complex systems, allocating risk and creating bankable projects – provided that governance, payment structures and long term policy commitment are clear from the outset.

### What is a "smart city"?

A "smart city" is best understood as an integrated ecosystem designed to enhance how a city functions for its users.

Rather than focusing on individual technologies, smart cities combine physical infrastructure, digital platforms and data to deliver better outcomes – such as more efficient mobility and utilities, enhanced public services and reduced environmental impact.

Because smart cities depend on seamless interoperability, value is created when systems work together. Conversely, failures in integration create operational risk, undermine service performance and directly impact users, government stakeholders and investors. As a result, the way in which smart city infrastructure is planned, procured and governed is as important as the built environment.

### **The key roles in delivering smart cities:**

#### **The role of the procurer – architect, integrator and long-term steward**

The procurer – typically a government or central delivery authority – plays a foundational role in the success of a smart city. Only the procurer is positioned to take a system-wide view and manage risks that cannot be efficiently transferred to the private sector.

In particular, the procurer is responsible for:

- **Defining outcomes:** The procurer must articulate clear, measurable outcomes that reflect user needs and wider government policy objectives. These outcomes must also be capable of being translated into revenue streams and opportunities that investors and lenders can underwrite. Projects procured on the basis of outcomes, rather than inputs (for example, specific technologies) will unlock innovation and limit technology obsolescence.
- **Managing integration risk:** Smart cities depend on the interaction of multiple systems and stakeholders. Integration risk – across infrastructure, data and operations – should, as a general rule, be retained by the procuring authority. Effective delivery requires a central authority with the mandate to coordinate across sectors and government entities.
- **Preventing fragmentation:** Fragmented procurement often results in incompatible systems and higher costs. Successful smart city programmes typically depend on a single empowered delivery entity or a robust cross-government governance structure, to ensure accountability, consistency and clear decision-making.
- **Data ownership:** Data underpins the operation of a smart city. Decisions around data ownership, access and permitted uses must be addressed in the early stages of the procurement process.

#### **The role of private capital: innovation and delivery capability**

Investors, developers and operators bring capital, innovation and delivery expertise to smart city infrastructure. Attracting private sector participation will typically depend on a number of prerequisites, including:

- **long-term government commitment:** demonstrated through stable policy and stakeholder institutions;
- **clear and efficient decision-making:** particularly where multiple public stakeholders are involved;
- **revenue streams:** clearly defined and aligned with project outcomes and capable of supporting long term investment and financing; and
- **appropriate risk allocation:** ensuring policy, risks are allocated to the party best able to manage them.

## The role of financiers: bankability and risk

From a financing perspective, smart city infrastructure is an evolving asset class. While we understand that appetite to support smart city infrastructure projects is growing, lenders remain focused on core infrastructure fundamentals, in particular:

- **Technology and obsolescence risk:** financiers are sensitive to the pace of technological change and the cost of upgrades and replacements. Although contract structures are likely to be output based, clarity around technology refresh and the associated cost implications are likely to be a key area of focus for all parties.
- **Demand and user risk:** projects reliant on user demand typically require support or structural enhancements (for example, minimum revenue guarantees and/or exclusivity arrangements). As smart city infrastructure projects mature and usage becomes more predictable, greater risk transfer may be achievable.

## Considerations for all stakeholders

- **Managing long-term change:** smart city infrastructure is inherently long-term. Contractual structures must be flexible to accommodate change, innovation and evolving user needs, while preserving risk allocations.
- **technological obsolescence:** outcomes should be defined in a technology and vendor agnostic manner, enabling innovation and adaptability, while allowing investors and financiers to set clear parameters around obsolescence risk.
- **Government capacity and credibility:** the ability of the procurer to make and sustain long-term commitments is central to investor and financier confidence.
- **Risk allocation:** risk should be allocated to the party best able to manage it.
- **Building a bankable pipeline:** building and coordinating projects into a coherent pipeline of opportunities creates scale, supports private sector innovation and investment and helps reduce overall delivery costs.



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