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HOW PUBLIC-PRIVATE PARTNERSHIPS CAN SUPPORT THE GULF'S ECONOMIC DEVELOPMENT

ABSTRACT

Gulf countries have endured significant hits on government finances as a result of the 2014 oil price slump. In the years since, plans have emerged across the Gulf to curb fiscal deficits and diversify economies, most notably through the development of national infrastructure.

However, regional ambitions may well prove unattainable without private sector contribution, particularly when available government capital falls short of that needed to sustain infrastructure development pipelines. Public-private partnerships (PPPs) thus stand among the main levers being considered in the Gulf as a means both to boost private sector contribution to the economy and to offload some of the financing burden onto private investors.

Gulf countries have seen a string of PPP projects going live with regained private sector attention. However, benefits from such efforts may prove short-lived if fundamental challenges in areas such as political consistency, legislation, regulation and communications are not addressed.

1 | INFRASTRUCTURE DRIVING THE GULF'S ECONOMIC GROWTH

Gulf countries, through their national development programmes, aspire to attain world-class infrastructure within the next 15 to 20 years, to support the growth of their economies and populations.

AMBITIOUS DEVELOPMENT PROGRAMMES

Over the past few years, Gulf countries have all unveiled national development programmes aimed at stimulating economic growth by developing infrastructure and increasing the contribution of the private sector to the economy (see Exhibit 1).

Such programmes typically span more than 15 years, with a focus on diversifying away from oil and gas, while ensuring key sectors (e.g. energy, transportation, healthcare and education) receive hefty investments for world-class services and

Exhibit 1: Gulf countries' national development plans

LONG-TERM PLAN	SHORT-TERM PLAN	MAIN GOALS
Economic Vision 2030 for Bahrain	National development strategy 2015 – 2018	• Develop national cutting-edge infrastructure to attract investment • Stimulate private sector to be a growth engine for Bahrain's economy • Increase productivity and create high-wage jobs • Invest in human resources, primarily health and education
New Kuwait 2035	Development plan 2015 – 2019	• Transform Kuwait into a financial and trade hub for investment, in which the private sector leads economic activity • Improve infrastructure across various sectors • Create more and better-paid jobs in the private sector
Oman 2020 Vision	Five-year plan 2016 – 2020	• Diversify the production base of the country and reduce the oil sector's contribution to GDP • Identify government assets for short-term privatisation • Increase investment in the private sector and infrastructure and support SME development
Qatar National Vision 2030	Qatar national development strategy 2018 – 2022	• Develop a world-class infrastructure backbone, a hub for knowledge, and high-value industrial and service activities • Improve the business environment for the private sector
Saudi Vision 2030	Development plan 2015 – 2019	• Develop economic zones and infrastructure for future growth • Attract FDI, create jobs in private sector and revamp education system • Diversify exports and increase the contribution of SMEs to GDP • (Partial) privatisation of major state assets: sale of stake in Aramco and privatisation of airports
UAE Vision 2021	Strategic plan 2017 – 2021	• Diversify the country's income and reduce dependency on oil • Ensure highest quality of infrastructure and environment sustainability • Promote innovation, research, and development to support high-growth sectors such as financial services or aviation

Source: National development strategies, Hvidt (2013): Economic diversification in GCC countries: Past record and future trends thus help generate new revenue streams for governments (see Exhibit 2).

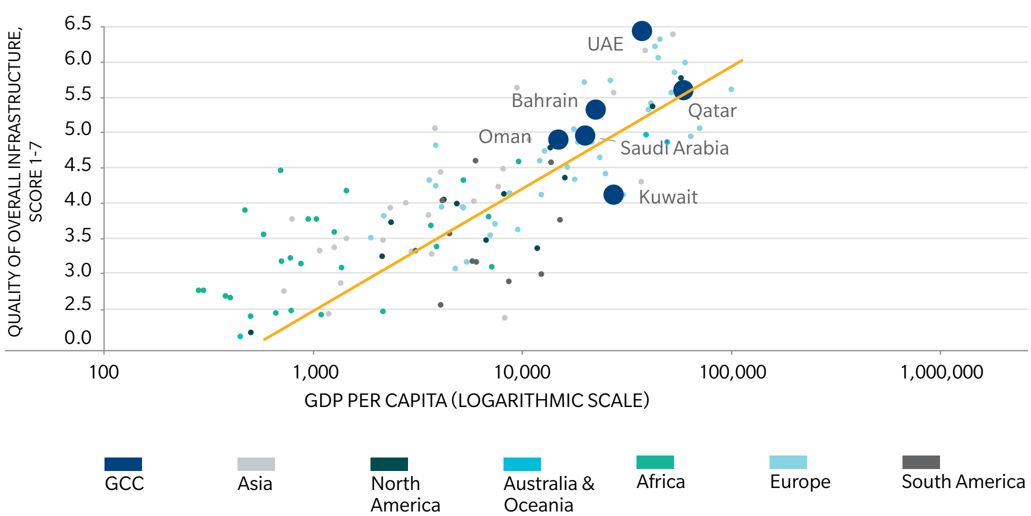
Quality of infrastructure is a key driver of national GDP, with a positive correlation commonly seen between quality of infrastructure and investment as share of GDP – for which most Gulf nations are either at or below the median (see Exhibit 3). Gulf governments should therefore sustain – and boost – their investment in infrastructure, to support GDP growth.

Exhibit 2: Selected economic benefits of infrastructure

GDP GROWTH			TAX REVENUE GROWTH
Broadband penetration	Air connectivity	Ports	Infrastructure project
10 p.p. increase in broadband penetration	**10 p.p.** increase in air connectivity	Indirect port economic contribution	Infrastructure projects growth
+1% GDP growth	**+0.07%** GDP growth	**1.5x** direct impact	**Increased** tax revenue

Source: Broadband penetration impact based on World Bank data; Connectivity defined as the increased travel capacity at an airport, Port economic contribution based on average economic contribution mix in Europe and UK

Exhibit 3: Infrastructure quality vs. GDP per capita, 2016



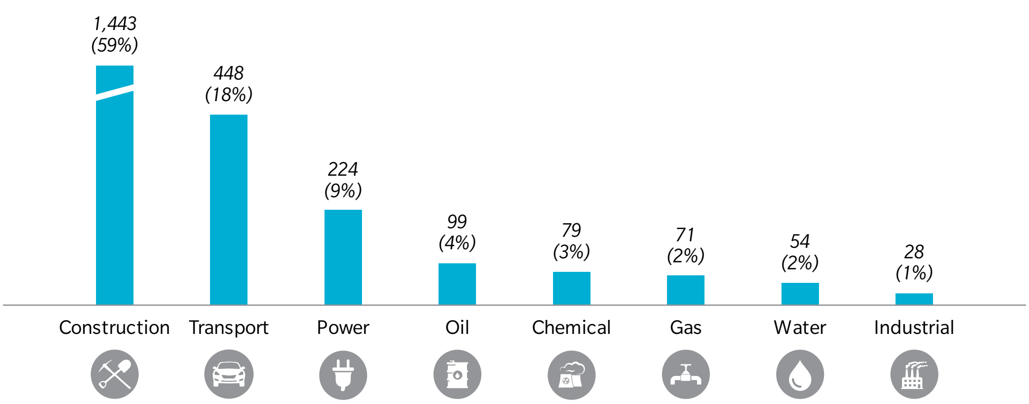
Note: GDP per capita (in current USD, 2016) in logarithmic scale; quality of overall infrastructure (2015-2016) – each country is assigned a score from 1 to 7. The question asked is how would you assess general infrastructure (e.g. transport, telephony, etc.) in your country? (1 = extremely underdeveloped, one of the worst in the world; 7 – extensive and efficient, one of the best in the world); measured through executive surveys. Countries for which the data on both axes is available.

Source: World Bank, Global Competitiveness Index

STRONG INFRASTRUCTURE PIPELINE

The infrastructure pipeline is solid in the Gulf. In 2017 alone, USD 108 billion of infrastructure projects was awarded, with 63% accounted for by the UAE and Saudi Arabia (i.e. USD 44 billion in the UAE and USD 24 billion in Saudi Arabia[1]). The total pipeline of projects in the planning stage exceeds USD 2.4 trillion with over 86% of value distributed across the construction, transportation and power sectors (see Exhibit 4). Dubai and Qatar are contributing to the infrastructure spur with event-based projects such as Expo 2020 and World Cup 2022, whereas Saudi Arabia is currently planning several mega real-estate developments across the Kingdom.

Exhibit 4: Infrastructure projects pipeline value in the Gulf, by sector; USD billion



Source: MEED projects 2017

1 MEED projects 2017

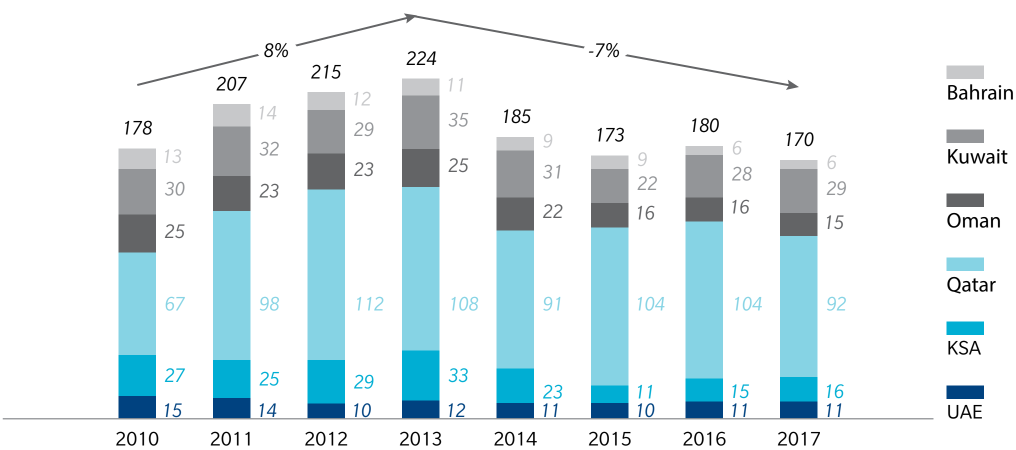
2 | PRIVATE SECTOR PARTICIPATION IS KEY

Gulf nations' infrastructure ambitions might well prove unattainable without private sector contribution. The constraint on national investments brought about by low oil prices has led to large funding gaps over the coming years, which can only be bridged through private sector involvement.

INFRASTRUCTURE SPEND CONSTRAINED BY FISCAL DEFICITS

Historically, private sector participation in the Gulf's infrastructure development has been strongly correlated with oil price. Since 2014, the oil price slump has led to a decline in government revenue and the emergence of fiscal deficits across the region's oil-driven economies, after decades of surplus. While spend reduction

Exhibit 5: Gulf infrastructure investment per capita; USD per 10,000 population



	2010	2011	2012	2013	2014	2015	2016	2017
Brent crude average price (USD/bbl)	80	111	112	109	99	52	44	54

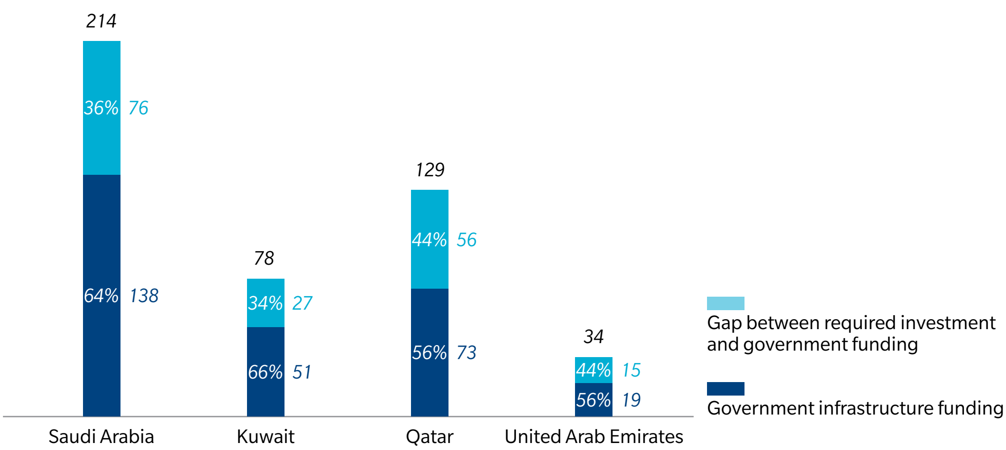
Note: Year represents calendar year, except for Kuwait, Oman, and Qatar where it indicates the fiscal year which starts on 1-April of the specified year and ends on 31-March of the next year

Source: Ministries of Finance and Central banks of Gulf nations, World Bank database, CEIC Data, Oxford Economics database (2010 to 2017) measures normally strive to focus on non-capital expenditure, budgetary constraints now limit the ability of governments to allocate sufficient funds to infrastructure projects. Infrastructure spend per capita had increased at 8% per annum in the 4 years prior to the oil price shock, only to shrink at 7% per annum thereafter (see Exhibit 5).

STRUCTURAL FUNDING GAPS HAMPERING DEVELOPMENT PLANS

With the fiscal challenges currently faced by Gulf governments, historic levels of infrastructure spend are unlikely to continue. Gulf nations now face an average infrastructure funding gap of as much as 40% over the coming five years (see Exhibit 6). Private sector involvement will be critical in remedying this gap.

Exhibit 6: Gulf infrastructure funding gap over the next five years; USD billion



Note: Analysis considers planned government infrastructure projects until 2040 based on the various national development plans. The infrastructure obligations are then normalized over 5 years, from 2018 to 2022.

Source: KSA Vision 2030 plan, Kuwait National Development Plan, Qatar National Vision 2030, UAE Vision

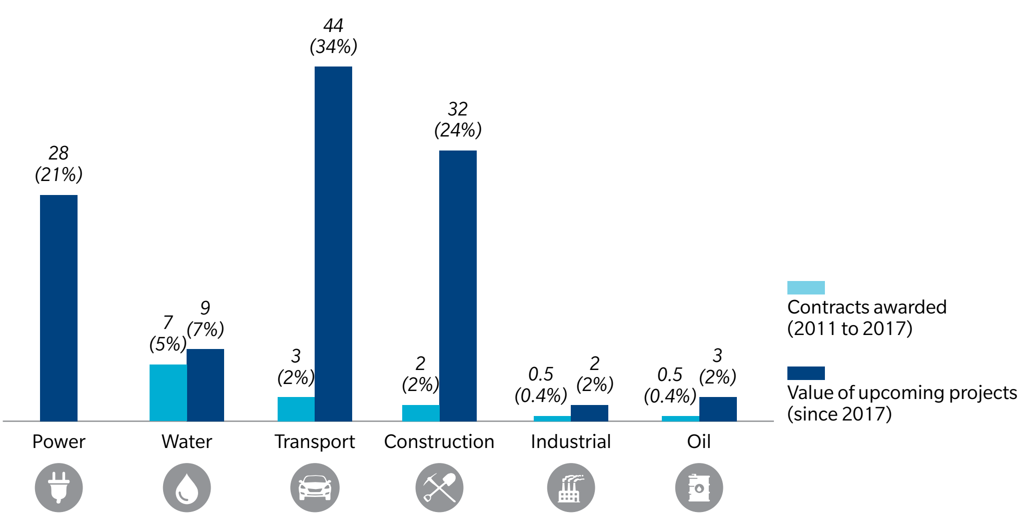
3 | PPPS IN THE GULF – A GLOOMY TALE SO FAR

Since 1994, Gulf nations have been turning to the PPP model to attract international investors, to energise their private sector and to develop local talent[1]. Projects have been successfully completed across industries such as healthcare, education, sports and real estate. The establishment of the King Abdullah University of Science and Technology (KAUST) in Saudi Arabia and the construction of the Burj Khalifa in Dubai are both noteworthy examples of PPP successes.

Currently, more than 70 PPP ventures are in the pipeline across the region, with both value and volume peaking across the transportation, construction and power sectors (see Exhibit 7). The largest PPP projects include Kuwait's Al-Khairan IWPP power-generation project, valued at USD 4 billion[2], Qatar's USD 2.5 billion Umm Al Houl Power – a natural gas-fired power generation and desalination plant, and Saudi Arabia's Prince Muhammad bin Abdulaziz International Airport, valued at USD 1.2 billion.

The increased adoption of PPPs in the region is a positive signal. However, their share is still minimal, accounting for only 5% of all contracts awarded between 2011 and 2017[3], and consisting mainly of low-risk ventures (see 'A. PPP agreements in the Gulf').

Exhibit 7: PPP projects in the Gulf across sectors[4]; USD billion, % of total



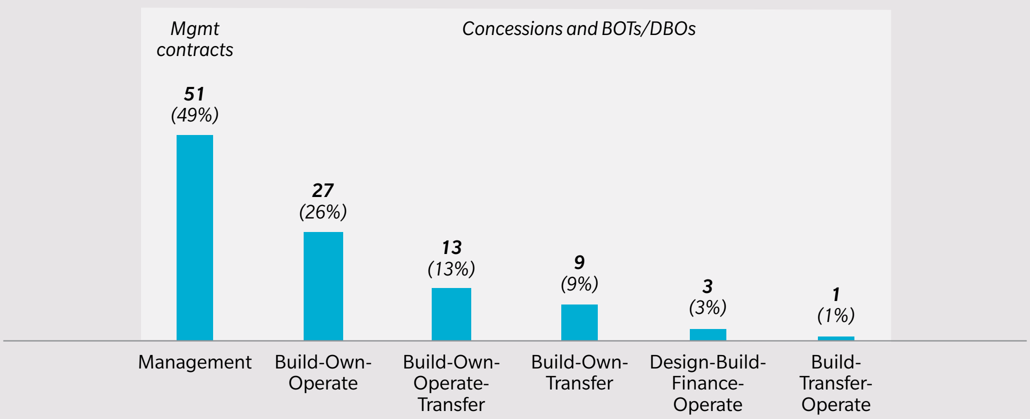
Source: MEED projects 2017

1 Introduction to PPP with Focus on Qatar, Lexology (2015)
2 Kuwait National Development Plan
3 MEED database extract in August 2017, excluding environment and waste management
4 MEED Projects (projects considered are either ongoing or under financial closure)

A. PPP AGREEMENTS IN THE GULF

PPPs in the Gulf have been limited in terms of risk and liability sharing, skewed more towards management contracts instead of Build-Transfer-Operate (BTO) agreements.

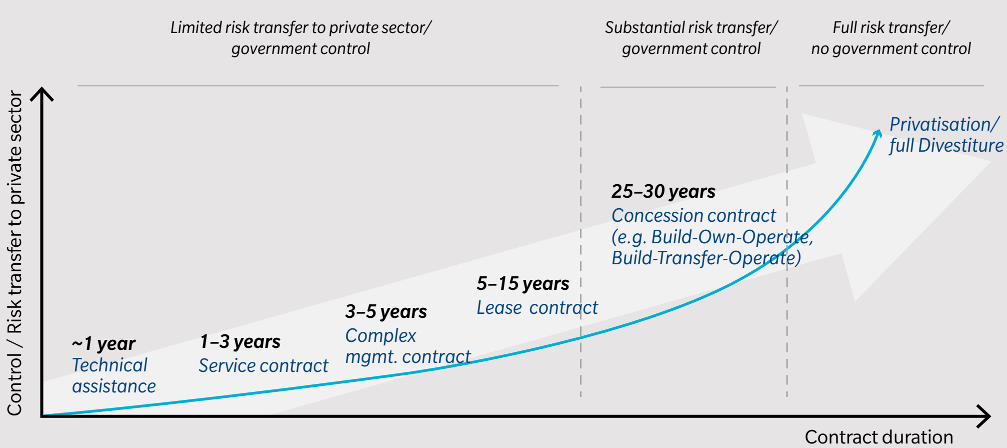
Distribution of PPP agreements in the Gulf; Number of projects, 2005-2010



Source: MEED Projects

Management contracts tend to be basic, short-term (three to five years) and entail minimal risk allocation onto the private sector. They also do not require raising the long-term project financing obligations of a BTO contract. In contrast, 90% of PPP projects in the UK run under a long-term concession of 20 years or more[1]. As the contract term increases, government exposure to risk is reduced and transferred to the private sector investor, increasing private sector participation, generally at the expense of government control.

Private sector participation by contract duration



Source: PPPs for Infrastructure Development and Financing in MENA Region, International Finance Corporation uwait Authority for Partnership Projects, National Center for Privatization, Wall Street Journal

1 UK Government Project Publications

Exhibit 8: Selected failed public-private collaborations and key issues

COUNTRY	ASSET	UNCLEAR OBJECTIVES	LACK OF POLITICAL CONSISTENCY	INADEQUATE REGULATION	COMPLEX TENDERING PROCESS
Oman	Salaleh Airport & Seeb Int'l Airport	×		×	×
Saudi Arabia	Landbridge Railway	×	×	×	×
Kuwait	Al-Zhour North 2 IWPP	×	×	×	×
UAE (Abu Dhabi)	Mafraq-Ghweifat Highway	×		×	

Source: Kuwait Authority for Partnership Projects, National Center for Privatization, Wall Street Journal

Numerous challenges have also been encountered throughout the planning, design and implementation stages of PPP, and many ventures have failed due to a range of factors (see Exhibit 8), often leading to their cancellation, or execution as standard engineering, procurement and construction projects.

UNCLEAR OBJECTIVES

Successful PPP ventures depend on well-defined objectives, aligned with infrastructure development strategy, and across stakeholders. Disagreement can occur when inter-departmental objectives are not aligned during project definition. For example, while the Ministry of Finance's goal might be to reduce public capital expenditure via PPP, this aim may clash with other government authorities' objectives, to better manage operations or service delivery. Conflicting agendas within the government can thus often create administrative gridlocks, leading to waning PPP impetus and higher risk of project delays or failures (see 'B. Misaligned objectives in Kuwait's PPP setup').

B. MISALIGNED OBJECTIVES IN KUWAIT'S PPP SETUP[1]

Kuwait lacks a set of clear and accepted state-wide objectives for PPP programmes. As a result, different government stakeholders have divergent goals in pursuing PPP opportunities. For example, some entities want to leverage PPP to improve services provided to citizens, while others primarily consider PPP a cost-saving measure. This divergence was dramatically exposed when the Ministry of Education wanted to build several "high-quality" flagship schools through PPP, but the Ministry of Finance rejected the budget just before project award, as its cost significantly exceeded that of regular public schools following the usual engineer, procure and construct (EPC) approach.

1 Kuwait Authority for Partnership Projects, Oliver Wyman analysis

LACK OF POLITICAL CONSISTENCY

PPPs are long-term agreements and are contingent on political support, which can be highly inconsistent. Ambitious plans initiated by a country's leadership are often not maintained by an explicit and steady drive during execution. Government instability has led to a short-term focus, a reluctance to push reformist agendas, and conflicting interests between government and largely government-owned private institutions. Therefore, this has caused slower execution, and sometimes cancellation of PPP projects (see 'C. Derailed KSA Landbridge Railway Project').

INADEQUATE REGULATION

The lack of a clear legal framework and governance model for PPP programmes can lead to overly long bidding and contracting processes, misaligned selection criteria and project outcomes, and unfavourable conditions for investors. Even when a PPP law and governing body are in place, the setup often proves inadequate and leads to project failures, as has been the case for Kuwait (see 'D. Kuwait's PPP framework challenges').

COMPLEX TENDERING PROCESS

Gulf nations suffer from inherent government bureaucracy, resulting in highly complex contract award processes involving many, often misaligned, stakeholders. PPP projects have repeatedly been stalled, restarted, or cancelled at various stages of the process (see Exhibit 9).

C. DERAILED KSA LANDBRIDGE RAILWAY PROJECT[1]

The Landbridge Railway Project is one of the largest infrastructure projects in the region, with an estimated investment of USD 7 billion. The railway will connect the two coasts of the country across 1,300 km, and be used primarily for freight with the aim is to enhance the efficiency of freight transport. For example, travel time from Jeddah to Dammam will be reduced from the current nine days by sea, to just 18 hours.

In 2008, the Landbridge Railway Project's tendering was earmarked for completion under a public-private partnership. A consortium of seven preferred bidders was selected for a 50-year BOT contract. However, disagreements over the financial terms and conditions led to the cancellation of the project. Three years later, the government proceeded with the project as a state-funded venture, with minimal progress to date. In 2017, in midst of fiscal pressures, the government announced that the project will be retendered as a PPP.

The lack of political commitment from the government to resolve contractual hurdles has derailed the project and harmed the trust from investors. This could lead to an increased cost on the government once the project is tendered again as a PPP, due to a higher risk of cancellation.

D. KUWAIT'S PPP FRAMEWORK CHALLENGES[2]

In terms of legal framework and established processes for PPP, Kuwait is at the forefront in the Gulf. The country boasts a PPP law first issued in 2008 (7/2008) and updated in 2014 (116/2014), and a dedicated entity (KAPP[3]), both firsts in the region. The law and its executive regulations issued in 2015 include detailed provisions covering the various aspects of the process, from the inception of a project idea to the final award and contract renewals.

However, Kuwait's execution track record is weak. A total of 16 projects have been initiated within the PPP framework, with only one success case, North Al-Zour Phase 1 power plant, which was conceived in 2010, awarded in 2012 and began operation in 2015. The other projects are either still in the tendering process, years after their initiation, or have been cancelled outright, partially driven by a misaligned legislative environment. Through the current legislation, and despite the support from a relatively strong PPP law, the tendering of projects is heavily influenced by satellite laws, which can be conflicting or slow down the process.

Some examples include:

- *Specific PPP law (39/2010), related to the power and water generation sector, conflicts with the general PPP law (116/2014). Due to the confusion, the Al-Abdeliyah integrated solar combined cycle plant was initially tendered under law (116/2014), but the tender process had to be reinitiated under the specific sector law (39/2010).*
- *Peripheral laws that impose strict rules for how the PPP tendering process must be followed, including the Public Tendering Law (49/2016) and State Audit Law (30/1964). For example, KAPP is required by law to follow the process stipulated by CAPT[4] to tender the contracts for transaction advisors for each project, which adds at least two to three months to the overall process.*

1 Zawya, Railway Technology

2 Kuwait Authority for Partnership Projects, Oliver Wyman analysis

3 Kuwait Authority for Partnership Projects

4 Central Agency for Public Tenders

Exhibit 9: Stumbling execution of PPP in Kuwait

The Kuwait tendering process has five major steps, comprising more than 25 sub-steps, which are highly sequential. Although KAPP targets the completion of a process cycle within 19 months, so far it has typically taken two to three years from project initiation to award.

2-3 YEARS

1. HIRE TRANSACTION ADVISOR (TA)

1.1 | KAPP
Prepare request for proposal (RFP) documents

1.2 | KAPP
Obtain approvals from supervisory agencies

1.3 | KAPP
Advertise the RFP

1.4 | KAPP
Submit the proposals

1.5 | CC
Evaluate the proposals

1.6 | SAB
Contract TA after obtaining the approvals

2. CONDUCT FEASIBILITY STUDY

2.1 | CC/TA
Prepare feasibility study (FS)

2.2 | CC
Review the final report for the FS

2.3 | CC
Obtain approval of the final report for FS from HC

3. EXPRESSION OF INTEREST (OPTIONAL)

3.1 | CC
Prepare the call for EOI

3.2 | CC
Review the call for EOI

3.3 | KAPP
Translate the call for EOI

3.4 | KAPP
Receive EOI from prospective investors

4. QUALIFY INVESTORS

4.1 | CC/TA
Prepare request for qualification (RFQ)

4.2 | CC
Review documents for RFQ

4.3 | CC
Approve RFQ by the HC

4.4 | KAPP
Advertise RFQ

4.5 | CC
Evaluate qualification documents

4.6 | CC
Approve the results by HC

4.7 | KAPP
Advertise the qualified investors

5. PROPOSAL SUBMISSIONS

5.1 | CC/TA
Prepare the RFP documents

5.2 | CC+TA
Review the RFP documents

5.3 | CC/Fatwa
Obtain approvals from supervisory agencies

5.4 | KAPP
Advertise and issue the RFP documents

5.5 | KAPP
Receive the proposals by the vinvestors

5.6 | CC
Evaluate the proposals

5.7 | CC
Negotiate with the preferred investor

5.8 | Fatwa/SAB
Obtain approvals from supervisory agencies

5.9 | KAPP/HC
Announce identity of successful investor

LEGEND:

#.# | ENTITY
Step description

CC: competition committee, consisting of the government entity leading the project and KAPP;

SAB: State Audit Bureau;

FS: feasibility study;

EOI: expression of interest;

RFP: request for proposal;

RFQ: request for questions;

KAPP: Kuwait Authority for Partnership Projects;

FATWA: department responsible for legislation;

TA: transaction advisor

Source: Kuwait Authority for Partnership Projects, Oliver Wyman analysis

4 | HOW TO MAKE PPPS WORK

PPP plans have thus far been largely unsuccessful in the Gulf despite their unequivocal importance in supporting national infrastructure developments. Gulf nations should seek to build out sustainable PPP models with the objective to heighten private sector interest, fast-track project execution and ensure converging support (see Exhibit 10).

TRANSPARENT AND ALIGNED OBJECTIVES

A clear model that captures private- and public-sector objectives is required to ensure successful PPP ventures, considering the industry focus, project investment requirements, ownership agreement and risk level. PPP projects should be initially aligned with national strategic objectives. Governments need to agree on which benefits to capture from partnering with private sector entities, and define an operating model accordingly.

For example, if the government's primary objective is to enhance service delivery without necessarily boosting revenue, a management contract agreement with the private sector might be ideal. This would focus on improving operational efficiency and service quality through the operator, while government retains ownership of the asset. On the other hand, if the government's goal is to launch a greenfield project or overhaul an asset, longer-term partnerships

Exhibit 10: Four essential factors to ensure PPP programmes' success

Source: OW project experience

with the private sector through concessions, Build-Operate-Transfer and Design-Build-Operate models are preferred through which the government can reduce its cost of financing, optimise service delivery and operations, and maximise project profits.

Once the PPP's objectives and model are clearly defined, the drafting of a transparent financing and budget plan involving all parties is required. Only by ensuring alignment of stakeholders on partnership objectives, adequate definition of a PPP model and budget transparency, can the PPP be sustainable for government, investors and citizens (see Exhibit 11).

UNIFIED LEGAL AND REGULATORY FRAMEWORK

An autonomous, fair and proficient legal framework is an essential aspect of any successful PPP setup. Unified, unambiguous and stable legal frameworks should be established to ensure contracts and agreements are bankable, while maintaining an adequate dispute resolution system for equitable PPP arrangements.

Sufficient legal resources should be readily available to deal with the amount of legal structuring and documentation required for PPP contract design. It is crucial that regulation achieves a proper balance between the interests of private investors and those of the public. Governments must define the revenue scheme of PPP projects to incentivise the private sector to invest, while not setting artificial limits on investors' earnings.

A sound PPP framework also requires allocating appropriate levels of risk to both parties. Risks tend to be split into commercial, legal, and political risks with the private sector usually better suited to undertake commercial risks – such as asset procurement and service delivery – while the public sector manages the legal and

Exhibit 11: Alignment and transparency of objectives

A | AGREE ON BENEFITS TO CAPTURE	B | ESTABLISH AN ADEQUATE PPP MODEL	C | DEFINE A TRANSPARENT BUDGETARY PROCESS
Agree on benefits to capture from PPP while also maximising project value for money, considering:	Define a clear and equitable PPP model in line with stakeholder objectives, considering:	Ensure budget transparency to minimise financial risks and process integrity, considering:
Prioritising projects to ensure alignment of goals with national strategic objectives	Ensuring public awareness of PPP costs, benefits and risks	Maintaining synchronisation with government fiscal policies
Measuring project revenue, costs and contingencies over a lifetime	Defining mandates and responsibilities of all involved stakeholders	Integrating all PPP project costs and contingent liabilities to support long-term government asset and liability management
Transferring projects' risks to the party that manages them best	Minimising red tape and ensuring that the legal environment galvanises PPPs	Requiring transparent and competitive public procurement to avoid waste and corruption

Source: Organisation for Economic Co-operation and Development, Oliver Wyman analysis political risks. Hence, a core principle in PPP arrangements dictates that risk should always be managed by the more qualified party. Private investors should also be sufficiently incentivised to take on the risks of engaging in partnerships with the public sector (see 'E. Country examples').

EFFECTIVE GOVERNANCE AND MONITORING MECHANISMS

A clear separation of the regulatory body from the entities' owners is essential to eliminate conflicts of interest – stakeholders carrying through the PPP process should not possess any ownership of the assets themselves (see 'F. Jordan's PPP governance model'). The most neutral governance approach is to form an independent party with no ties to any PPP stakeholders – government or private sector – to carry through the institutional PPP agenda. The party will be held responsible for all aspects of performance and quality. Countries that implemented such independent governance include Singapore, Malaysia and Germany,

E. COUNTRY EXAMPLES

CHILE'S APPROACH TO RISK ALLOCATION[1]

Chile has taken an inventive approach to sharing risk with the private sector through the least present value of revenue (LPVR) model. Under this approach, the length of the concession is adjusted according to actual levels of demand. As a result, concessions are essentially auctioned, with the winning bidder being the party that proposes the least discounted revenues over the term. This is a term that ends either once the specified revenues have been collected, or the specified volumes have been reached.

This use of adjustable concession periods effectively limits the exposure to demand risk for the private-sector partner, and reduces the risk of overly optimistic usage predictions, which could prove to be inaccurate. Chile has successfully adopted this model for the Santiago-Valparaíso Highway and for the Iquique and Puerto Montt airports.

INDIA'S SUCCESSFUL PPP INCENTIVES FOR THE TRANSPORTATION SECTOR[2]

India possesses the world's second largest road network, of approximately 5 million km. To gather the necessary funding, the government applied the PPP model. However, since projects in roads were high-risk and faced numerous delays due to land- and environment-related disputes, the National Highway Authority of India (NHAI) devised a hybrid concession agreement model, under which 40% of the cost is borne by the government and 60% by private sector developers.

Other incentives for the investor include:
Land allocation: *Expenses for land acquisition and pre-construction activities assumed by government*
FDI: *Foreign direct investment allowed for up to 100%*
Capital subsidy: *Up to 40% of project viability met*
Tax: *Tax exemptions for the first five years, then 30% for the next five years*
Customs: *Duty-free import of road construction equipment*
Bonds: *Bond exempted from capital gains tax*
Justice: *Equitable dispute resolution mechanism*

1 Chile's innovative approach to PPP, World Bank
2 United Nations – Economic and Social Commission

Exhibit 12: PPP stakeholders and their respective interests

STAKEHOLDER INTERESTS

GOVERNMENT

- Maximise revenue
- Provide universal access to services
- Ensure affordable basic service
- Promote fair competition
- Attract investors
- Improve public welfare

EMPLOYEES

- Ensure fair treatment of present employees
- Provide career opportunities
- Improve productivity, efficiency, and morale

INVESTORS

- Ensure stable, transparent regulatory process
- Enable organisational restructuring and asset allocations that favour efficient operations
- Provide trained human resources
- Generate more investment opportunities

CONSUMERS

- Ensure fair pricing
- Improve quality and reliability of service
- Increase accountability and responsiveness

Source: Asian Development Bank, PPP handbook

F. JORDAN'S PPP GOVERNANCE MODEL

GOVERNMENT

- Enforce clear separation between regulatory bodies and operating entities
- Oversee all interactions and enforce jurisdictions accordingly

REGULATORY BODIES

- Supervise all companies operating within the PPP realm
- Enforce designated PPP law on all transactions

OPERATING ENTITIES

- Comply with regulatory environment
- Run operations based on economic feasibility

Jordan developed the Executive Privatisation Unit (EPU) in 1996, with a reporting line to the Higher Ministerial Committee for Privatisation (led by the Prime Minister). The EPU was tasked with strategy, selection, negotiation, and execution of all PPP projects for the country, and built in-house capacities and institutional memory on the multitude of detailed operational issues which come into play while organising and implementing a successful PPP project.

The concentration of responsibility for implementation within the EPU accelerated the accumulation of a multitude of implementation skills. As a result, the government's PPP programme boosted the performance of companies involved, provided more jobs for Jordanian nationals, and brought the state approximately USD 2.4 billion in revenue, of which USD 2.1 billion went to paying off the country's debt, and thereby greatly enhancing macroeconomic stability.

Source: Executive Privatization Unit, Organization for Economic Co-operation and Development have proven that an independent party can assist in overcoming the conflicting agendas of different government ministries, improve overall transparency of the PPP process and minimise red tape.

However, the mere establishment of independent PPP entities is not sufficient to galvanise and ensure the long-term sustainability of PPPs. Their independence needs to be complemented by adequate resourcing and clear mandates, roles and responsibilities.

CLEAR COMMUNICATIONS STRATEGY

An effective communications strategy is another means of ensuring transparency and alignment across all parties involved in the PPP process (see Exhibit 12). Governments must define clear objectives to crystallise the end goal of the programme vis-à-vis the public interest and national development strategy. This goal should then be communicated to all stakeholders and serve as a basis for all decisions going forward. Furthermore, policy makers need to ensure that guidelines protect the interests of both the private investors and public as this will help to alleviate stakeholders' concerns.

Proper communications strategy tools are a necessary component to help maintain realistic expectations and yield a perception of success. Development of a clear communications plan must include an attainable long-term vision. By maintaining realistic expectations (e.g. inevitable job losses), the government can help its citizens prepare for an imminent transformation.

Defining a clear roadmap that stresses the long-term benefits of structural reforms will foster PPPs and ensure alignment of stakeholders' interests. This strategy must engage all relevant parties, particularly potential opposition groups such as unions. For those stakeholders that might be impacted negatively, the government must clearly identify the repercussions and address all concerns in a well-thought-out communications strategy (see 'G. The Philippines' path to aligned objectives and an effective communications plan').

G. THE PHILIPPINES' PATH TO ALIGNED OBJECTIVES AND AN EFFECTIVE COMMUNICATIONS PLAN

The Philippines embarked on a comprehensive strategic communications programme to build support for introducing Private Participation in Infrastructure (PPI) in water and wastewater services within Manila. Among its objectives, the programme places a focus on the promotion of transparency within the PPI transaction. To educate the public on the measures being taken to ensure transparent procurement, the government launched a media campaign before the bidding process and explained the entire process and the precautions being taken.

As prior public procurements within the Philippines were commonly subject to protests, the media campaign placed a strong focus on the elaborate security measures that would be put in place to protect the integrity of the bids. To ensure the media were informed about the bid process, the government also prepared a video presentation detailing the procedure and rules for opening bids. The proactive communications and public relations efforts of the Philippines government resulted in very strong media coverage of the bid process and led to minimal controversy or opposition, especially compared to prior public procurements. The government attributed the project's success and the resulting perception among stakeholders to the transparency resulting from the media campaign.

Source: World Bank PPP Center, BMI research

5 | CONCLUSION

The potential upsides of government and private sector partnerships are sizeable for the Gulf region. Governments can benefit by offloading cost of funding and project risks, acquiring private sector expertise and improved operating efficiency, and attracting private investments into the economy. Investors can benefit from embarking on a new profitable venture through expanded market reach. Citizens can benefit from potentially higher quality of service, private sector job creation, and potential sectorial knowledge transfer. However, the journey to a successful PPP programme is not an easy one, with numerous challenges besetting the Gulf's nascent PPP market.

Gulf nations have recognised the importance of PPPs, and have laid the foundation for harnessing PPP potential – notably through the establishment of dedicated PPP laws and/or units (see Exhibit 13). Kuwait was the first country in the Gulf to establish a PPP law in 2008, and to setup a central PPP unit, the Kuwait Authority for Partnership Projects (KAPP). The UAE was the second nation to formalise a PPP law in 2015 for the Emirate of Dubai. Other Gulf nations like Oman, Qatar, Bahrain, and Saudi Arabia do not have a central PPP unit and currently regulate their PPP projects as part of wider privatisation programmes where projects are overseen by ministerial committees. However, these nations have been contemplating evolving their current privatisation or procurement laws into PPP-centric laws.

These initiatives should continue to focus on the remaining prerequisites for success – objectives, governance and communications – to avoid having PPPs becoming short-lived or costly, or both. Doing this will allow countries to ensure important infrastructure projects are completed even without government funding.

Exhibit 13: Current PPP setup in the Gulf

COUNTRY	PPP LAW		PPP UNIT	
Qatar	Planned	N/A, (initially expected in 2017)	Established	PPP ministerial working group for PPP (established in 2016)
KSA	Planned	N/A, (initially expected in 2017)	Established	National Centre for Privatisation(established in 2017)
UAE (Dubai)	Established	Law 22 (established in 2015)	Established	Supreme Committee for Fiscal Policy (established in 2016)
Bahrain	N/A	N/A	N/A	N/A
Kuwait	Established	Law 116 (established in 2014)	Established	Kuwait Authority for Partnership Projects (established in 2008)
Oman	Planned	N/A, (initially expected in 2017)	Planned	N/A, (initially expected in 2017)

N/A   Established   Planned

Source: Kuwait Authority for Partnership Projects, National Center for Privatisation, Qatar Chamber, Dubai Department of Finance, King and Spalding Law, DLA Piper 2016 / Stark and Qureshi, 2010 / State Audit Institution, Oman, 2006 / InfraPPP / Lexology / Vision 2030, KSA

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