The Arab Gulf States Institute in Washington

Building bridges of understanding

The AGSIW *Visions of Change* Series

Beyond Building: Private Financing, Ownership, and Management of Gulf Infrastructure

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The Arab Gulf States Institute in Washington (AGSIW), launched in 2015, is an independent, nonprofit institution dedicated to increasing the understanding and appreciation of the social, economic, and political diversity of the Gulf Arab states. Through expert research, analysis, exchanges, and public discussion, the institute seeks to encourage thoughtful debate and inform decision makers shaping U.S. policy regarding this critical geostrategic region.

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As Gulf Arab governments adjust to fiscal deficits driven by lower oil prices, the state, traditionally the leader in economic development, is under pressure to utilize available finance from the private sector. In labor markets, the state will need to reassess its role in providing the bulk of job creation for Gulf citizens, as well as question its reliance on low-wage foreign labor. These recalibrations of the Gulf economic development model have been under discussion in the "visions" of national development plans for some time. But the necessity of expeditious structural reforms is now far more pressing. Diversification away from resource-dependent state spending will require changes across the economies, and the societies, of the Gulf Arab countries.

This paper is a part of AGSIW's *Visions of Change* series, examining how the Gulf Arab countries are addressing reduced hydrocarbon revenue and responding to pressures to liberalize their economies. This series engages how these efforts are unfolding across the region, by sector and country, to underline the challenges, opportunities, and risks of innovation and economic change.

About the Author

Justin Alexander is an economist and a political risk analyst with over a decade of experience working on the Gulf for the Economist Intelligence Unit, QNB, and Qatar's Ministry of Finance. He has also worked more broadly in the Middle East, including with the U.N. Assistance Mission for Iraq. He studied at Balliol College, Oxford and Birkbeck College, London. He now covers the region as a freelance consultant based mainly out of the United States.

Executive Summary

In response to fiscal pressures and concerns about the efficiency of project and service implementation, Gulf Arab states are increasingly looking to the private sector to finance and manage infrastructure projects. This is a relatively new development because private involvement was previously limited largely to the telecoms and the power and desalination sectors. Now, a broader array of projects and activities are being considered for private sector involvement, ranging from airports in Saudi Arabia to hospitals in Kuwait and a stadium in Qatar. There is widespread interest in public-private partnership (PPP) models: Kuwait and Dubai have passed laws to govern these structures, and Qatar and Oman (and possibly Saudi Arabia) are also developing their own. In addition, there has been a renewed focus on privatization of state-owned assets, particularly in Saudi Arabia in the context of its National Transformation Program.

Private financing can help Gulf states to press ahead with infrastructure plans, aimed at diversifying their economies, while consolidating fiscal expenditure to adapt to new oil price realities. However, PPPs and privatizations are not a panacea and if not properly implemented they can result in project delays and have a negative impact on the cost and quality of services. There is also the threat of opposition from citizens, questioning the rollback of the public sector and the potential impact on employment, particularly if privatization plans are pushed ahead without adequate communication and consultation.

Policy Recommendations: Gulf Arab States

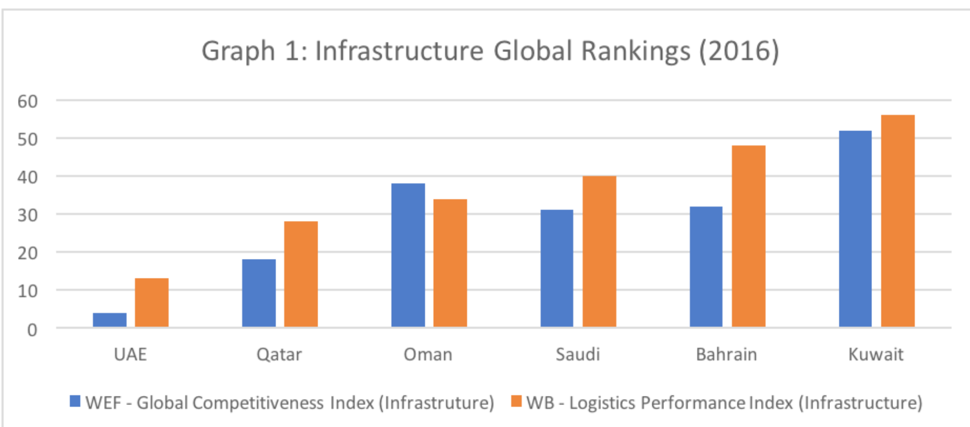
- Strengthen the legal protections for minority and foreign investors to catalyze financing for privatizations and PPPs.
- Ensure privatizations are staggered appropriately and involve sufficient disclosures to motivate favorable pricing from investors.
- Split up large firms before privatization and improve the business environment for competition to avoid the risk of private sector monopolies.
- Draw on regional and international best practices in developing guidelines and model contracts for PPPs.
- Clearly communicate planning about private sector involvement in infrastructure and service delivery and conduct public consultations ahead of tenders or auctions.
- Balance the employment requirements of Gulf nationals with private sector operational needs in structuring the framework for privatized firms or PPP ventures.

Introduction

During the last few years there has been a flurry of announcements about initiatives to attract private financing for Gulf infrastructure. These include both full privatizations of existing assets and public-private partnerships (PPPs) for management or new builds. This marks a significant break from past practice in the region, which has largely relied on public sector financing and management of infrastructure. The new trend is being driven largely by fiscal pressure. There are significant differences between the strategies being adopted in each Gulf state, both in the speed and breadth of their efforts to engage the private sector in infrastructure, and also the mix between PPPs – which usually provide for the underlying assets to eventually be transferred to public ownership – and full privatization. This paper examines some of the history of private involvement in infrastructure and recent developments in each of the Gulf Arab states, and identifies policy challenges facing these efforts.

Past Flirtations with Private Infrastructure Financing

The rapid development of infrastructure in the Gulf Arab states since the 1960s, particularly during the 21st century, has been almost entirely the result of the investment of petrodollars by the public sector, contracting local and international firms to design and build assets and then operating them through public companies and ministries. This has led to a dramatic expansion in both the quality and capacity of infrastructure – measured by indicators such as power generation and port throughput – keeping pace with the region's population boom. The overall infrastructure in the Gulf states is now on par with OECD countries in most areas and is among the very best in the world in some states and sectors (Graph 1). If current development plans in most Gulf Cooperation Council states are implemented, these rankings are likely to improve further.



Sources: Klaus Schwab, *The Global Competitiveness Report 2016-17* (Geneva: World Economic Forum, 2016); "Logistics Performance Index 2016," The World Bank

All this has been achieved with little private sector involvement in financing or operation. There have been periodic flirtations with privatization, generally during periods of low oil prices – such as in the mid-1990s when Oman and Saudi Arabia both included privatization goals in their five-year development plans – but in most countries the results have been minimal and largely limited to a few choice sectors.

One area where there has been some privatization is telecoms, where national operators lost their monopoly status and private licenses, at least for cellular operations, were auctioned to drive the rapid rollout of networks. In addition, minority stakes of the national operators were listed on local exchanges, partly in an effort to develop the capital markets and share wealth with nationals. The process has also energized some local firms, such as Etisalat and Ooredoo, to expand internationally.

There has been a somewhat similar development in the power and water sector. Qatar, Saudi Arabia, and Abu Dhabi have listed minority stakes in their national power utilities. The private sector has also participated across the GCC states in building and operating dozens of new plants, tendered as independent power plants (IPPs) or independent power and water plants (IWPPs), which include water desalination alongside power generation. These are both forms of PPP. This process began in the 1990s when low oil prices made it difficult for Gulf states to directly finance these large projects. It was also hoped that private sector operation would boost efficiency, in a sector long plagued by project delays. Once established as an effective model, the tendering of IPPs and IWPPs continued despite the oil boom, expanding to include renewables.

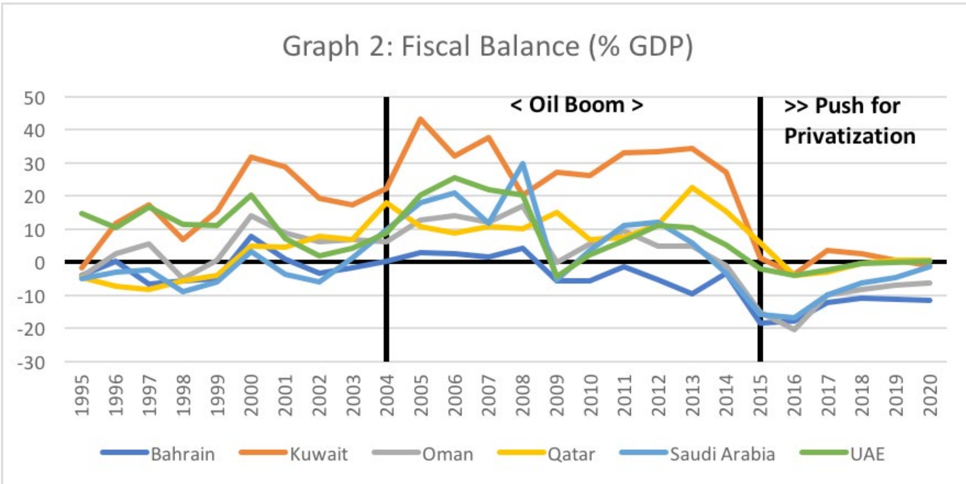
Outside of telecoms and power, the public sector largely maintained its dominant role in physical infrastructure, with private participation limited to stakes in state-owned companies, such as DP World, Dubai's port operator, which issued an initial public offering (IPO) in 2007 to raise capital for its global expansion. There has also been some private participation in soft infrastructure services, such as health care and education, in parallel to the state system. States have sometimes partnered with the private sector to deliver projects and services in these areas (albeit with the state providing financing), such as the U.S. branch campuses in Qatar's Education City and Abu Dhabi's health care joint ventures with Cleveland Clinic and Imperial College London. There have also been a smattering of PPP infrastructure projects, contracted on a build-operate-transfer or build-own-operate-transfer basis, such as the Al Wathba wastewater plant in Abu Dhabi (awarded in 2008) and Bahrain's Muharraq wastewater plant (awarded in 2011).

During and after the long period of low oil prices in the 1990s, when public finances were squeezed and debt stock rose sharply, ambitious privatization plans developed in some of the Gulf states, notably Saudi Arabia, which planned full or partial privatization in sectors including electricity and water, ports, rail, aviation, and education. However, aside from the IPO of minority stakes in a few enterprises – such as Saudi Telecom in 2003 – the privatization plans stalled, largely because the second oil boom, from 2004-14, no longer made them a fiscal priority.

During this decade, the Gulf states entered a historic period of infrastructure development,[1] because, unlike during the first boom in the 1970s, they elected to invest a sizable share of the windfall domestically, rather than just in foreign assets. The collapse in oil prices that began in late 2014 caused deficits to either deepen in some countries (Bahrain and Oman) or develop for the first time in over a decade in others, such as Kuwait. These deficits are forecast to

1 The MEED "Gulf Projects Index" records the surge in project spending, largely in infrastructure, from 2005.

continue in the medium term (Graph 2). This new fiscal reality has sparked a reconsideration of the role of private financing for infrastructure, together with other fiscal reforms, such as subsidy reduction.



Source: "World Economic Outlook," International Monetary Fund, April 2017

Kuwait and Dubai Lead the Way

Kuwait and Dubai were among the first in the Gulf to push ahead in the current wave of private financing for infrastructure, albeit for very different reasons – Kuwait because of weaknesses in public sector project implementation and Dubai because of a desire for great efficiency.

Kuwait's infrastructure has long lagged behind its neighbors' and its wealth, ranking last regionally in the infrastructure pillars of the World Economic Forum's Global Competitiveness Index and the World Bank's Global Logistics Index (Graph 1). The infrastructure shortcomings have led to national embarrassments, such as power blackouts and a heavily congested airport, and efforts are underway to address them through the current national development plan.[2]

Successive governments have struggled to implement infrastructure projects due to opposition from Parliament and bodies like the State Audit Bureau. This is a consequence of Kuwait's unique political system, which has more checks and balances on the executive than other Gulf states and a political culture that can often be obstructionist and suspicious of foreign investment and perceived corruption and mismanagement. The particularly charged political environment following the 2011 Arab Spring helped to largely sink a previous push for private investment, managed by the Partnerships Technical Bureau, which was created in 2008 to develop PPPs, the first body in the GCC states dedicated to doing this. The bureau only succeeded with one major project, Al-Zour North 1 IWPP, which was awarded in 2013 and commissioned in 2016. The rare circumstance of a more permissive Parliament in 2014-

2 "Kuwait Mid-Range Development Plan, 2015/2016 – 2019/2020," *Ministry of Planning*, May 2015.

16 allowed the government to renew its efforts, including revising the PPP and IWPP laws and creating a new body, the Kuwait Authority for Partnership Projects, which replaced the Partnerships Technical Bureau in 2015.

The Kuwait Authority for Partnership Projects started life energetically, tendering five projects in late 2015, including Al-Zour North 2 power plant, a waste-to-energy scheme, and schools. However, nearly two years later, none of these projects have been awarded and the tenders have seen repeated bid extensions and even plans for retendering. At the same time, new proposals have emerged for residential housing PPPs, such as the South Jahra Labour City project for migrant worker accommodation, and for rail PPPs, to produce the track and other physical infrastructure for the planned national railway system.[3] There also has been some talk of putting ports and the airport under private management.[4]

Meanwhile, Kuwait has sought to privatize some public firms, particularly Kuwait Airlines, whose privatization was first approved by Parliament in 2008. However, the plan has been repeatedly revised, from an initial goal of selling up to 80 percent to a current plan of selling just 25 percent, given objections from the unionized staff and difficulties in attracting investor interest in the loss-making airline. A broader privatization bill was passed in 2010. The stock exchange was privatized in 2016 and there has been talk of spinning off assets from ministries such as communications and electricity and water, initially by bringing them under the remit of a new sovereign wealth fund.[5]

Dubai has the best infrastructure in the Gulf, as well as the most developed and diversified private sector.

Even if Kuwait can make PPP tender awards and advance plans for privatization of existing assets, there could be pushback from Parliament and workers. About half of the current members of Parliament, elected in November 2016, are from the various opposition blocs, and they are likely to resist any privatization moves that they think might be harmful to their constituents. Public sector workers in Kuwait also have a history of industrial action, something that is extremely rare in the Gulf states. For example, in January, the Kuwait Oil Company's union held a sit-in protest against privatization proposals in the oil sector[6] (the sale of minority stakes in some downstream firms is being considered).

Dubai has the best infrastructure in the Gulf, as well as the most developed and diversified private sector. Oil revenue now only provides a small part of the emirate's budget, and so it is not so directly affected by the downturn in oil prices, although there are significant indirect impacts from this on the economy and hence public revenue. Here, the push for greater private sector involvement is more philosophical, as the government looks to the private sector for efficiency gains, advanced technology, and new investment to help maintain Dubai's momentum as a regional and global hub.

3 Jennifer Aguinaldo, "Kuwait Expected to Reschedule Rail Request for Interest," *MEED*, March 20, 2017.

4 "Kuwait to Let Private Sector Manage Airport, Ports," *Reuters*, March 8, 2016.

5 "Kuwait Said to Plan New 100bn Sovereign Wealth Fund – Bid to Rationalize Subsidies," *Arab Times*, January 24, 2016.

6 Meshaal Al-Enezi, "KOC Union Holds Sit-In against Privatization," *Kuwait Times*, January 26, 2017.

Dubai was the next in the region, after Kuwait, to pass a PPP law, which came into force in November 2015.[7] Even before this was developed, some PPP projects had already been implemented, mainly in the power sector, including the Hassyan clean coal IPP and the various phases of the Mohammed bin Rashid Al Maktoum Solar Park. The Roads and Transport Authority has been a strong advocate for the PPP law and has tendered a contract for the development of Union Oasis station, a hub at the intersection of the metro's Red and Green lines, which is expected to be awarded in the third quarter of 2017. It would be the second award under the law, following one for a car park at Dubai Courts in May 2016.[8]

Dubai had previously considered privatization as a means to raise capital to pay down the debts of its government-related enterprises, following the global financial crisis and its debt payment standstill in 2010. Companies that were mooted for privatization included those in infrastructure – such as Emirates Airline and Dubai Electricity and Water Authority[9] – but the initiative did not move ahead. Privatization had also been considered in 2003, before the start of the regional oil boom.[10] Looking forward, it is unclear whether privatization of existing assets will play a part in Dubai's strategy, although the use of PPPs for new projects will certainly expand.

Dubai's renewed interest in private financing may have a bearing also on the United Arab Emirates' federal government, which administers much of the infrastructure in the northern emirates, including soft infrastructure such as health care and education. Sheikh Mohammed bin Rashid al-Maktoum, the ruler of Dubai, is also the UAE's prime minister and he announced, in February 2016, amid a major Cabinet reorganization, that there is "a roadmap for outsourcing most of the government services to the private sector,"[11] although few details have emerged on how this will be implemented.

Saudi Arabia's Ambitious Privatization Agenda

Saudi Arabia has become the Gulf state that seems most energetically committed to engaging the private sector in infrastructure, and more generally. This is because of the considerable fiscal pressure it is under as well as Crown Prince Mohammed bin Salman's reformist vision, which looks to develop the private sector and improve infrastructure to help move the economy beyond oil. The ascension of King Salman bin Abdulaziz to the throne in January 2015, just as the seriousness of the oil price collapse was becoming evident, created a unique opportunity to reform the kingdom's fiscal and economic structure. This has been led by the Council of Economic and Development Affairs, a vehicle created for Mohammed bin Salman to implement reforms, which were sketched out in 2016 through the Vision 2030 plan and National Transformation Program (NTP).[12]

7 Trevor Butcher, "Partnerships between the Public and Private Sectors in Dubai," *DLA Piper*, November 10, 2015.

8 Jennifer Aguinaldo, "Dubai Signs First Project Using New PPP Law," *MEED*, May 5, 2016.

9 Frank Kane, "Privatisation of Dubai's Assets Could Raise $20bn," *The National*, December 6, 2010.

10 "Study on Privatisation in Dubai to be Conducted," *Khaleej Times*, October 20, 2003.

11 Samir Salama, "Visionary Government Overhaul Catapults UAE into Future," *Gulf News*, February 9, 2016.

12 "National Transformation Program 2020," Kingdom of Saudi Arabia, accessed August 1, 2017.

The NTP frequently mentions privatization in outlining its targets for public entities. Beyond this, an audit has been conducted of hundreds of public firms, determining which are suited for partial or full privatization and where PPP tenders might be appropriate. This has resulted in a dizzying flurry of activities across many sectors. Most of the targets for private sector involvement relate to infrastructure, but the push is broader and includes entities ranging from grain mills and football clubs to the kingdom's crown jewel, Aramco, which is planning to list up to 5 percent of its shares in what is expected to be the world's largest ever IPO. The privatization process is now being overseen by the National Center for Privatization, which was established under the Ministry of Economy and Planning and began operations in March.[13] Regarding PPPs, Saudi Arabia has not yet developed a separate law, but instead utilizes the existing public procurement law, although there are reports that a PPP law is under consideration.[14]

Aviation is one of the first sectors to press ahead with private involvement. There is a precedent here as a PPP was used for the recently opened Medina airport. Now the General Authority of Civil Aviation, which previously owned and operated airports, is being converted into a regulator and the plan is to hand all airports over to the private sector by 2020. In the first stage, existing airports were transferred to a new entity, Saudi Arabia's Civil Aviation Holding Company, a subsidiary of the Public Investment Fund. PPPs are being used for new airport projects: The first set of PPP contracts were signed in June with private partners for the Taif, Yanbu, Hail, and Al-Qassim airports. In addition, Singapore's Changi Airport Group has been contracted to manage Jeddah's new airport and Goldman Sachs is advising Saudi Arabia on plans to sell a minority stake in the King Khalid International Airport in Riyadh in 2018.[15] Meanwhile, Saudi Arabian Airlines (Saudia) is planning to float more of its noncore units, as it did with its catering and ground services units in 2012 and 2015, following a plan first developed in 2006, and eventually to issue an IPO of the airline itself.[16]

The cancellation in February of 6.1 billion Saudi riyals (over $1.6 billion) in municipal fees owed by the Saudi Electricity Company seems to have been part of the process of preparing the company for privatization.

The biggest infrastructure privatization will be that of the Saudi Electricity Company. A minority stake has been listed on the Tadawul exchange since 2000, private sector power generation has been permitted since 2002, and a plan to fully privatize the Saudi Electricity Company was developed over a decade ago. The plan, which is similar to the process used to privatize the British electricity sector in the 1990s, involves separating distribution from generation, and breaking up the company's generating assets into four holding companies to encourage competition between them and with existing private sector firms, such as ACWA Power. The National Grid Company was established in 2012 to manage distribution, but the privatization effort had stalled until recently. It is now moving forward apace and the first of the four holding

13 "Saudi Cabinet Approves Setting Up National Center for Privatization," *Argaam*, March 7, 2017.

14 Colin Foreman and Sarmad Khan, "Saudi PPP Framework to be Finalised This Year," *MEED*, April 12, 2017; See also David Baxter, "2017: A Pivotal Year for PPPs in Saudi Arabia?," January 1, 2017.

15 "Saudi Arabia Hires Goldman for Riyadh Airport's Stake Sale," *Reuters*, July 25, 2017.

16 Alexander Cornwell, "Saudi Arabian Airlines Planning Own IPO," *Gulf News*, April 25, 2016.

companies could be sold as early as the end of 2017. The cancellation in February of 6.1 billion Saudi riyals (over $1.6 billion) in municipal fees owed by the Saudi Electricity Company seems to have been part of the process of preparing the company for privatization. Similar efforts to restructure and reduce liabilities are underway in other sectors being readied for privatization.

Desalination, sometimes paired with power generation, is another key component of Saudi Arabia's infrastructure. The Saline Water Conversion Corporation has also been a target for privatization for many years, but with little action. Now preparations are being made to sell Ras al-Khair, the world's largest desalination facility, and there are also plans to tender PPPs for eight new independent plants, starting with the Jubail 3 IWPP by the end of 2017.[17]

Other infrastructure sectors being considered for private involvement include transportation and health care. The Public Transport Authority has invited expressions of interest for PPPs spanning train services, station management, dry ports, and rolling stock maintenance. The biggest PPP project is likely to be the planned King Hamad Causeway, a second 15-mile road and rail link to Bahrain to relieve congestion on the existing King Fahd Causeway. The project is being prepared jointly by the Saudi and Bahraini transportation ministries, and around a hundred firms have expressed interest in participating.[18] The Ministry of Health is looking to privatize primary health care centers in Riyadh and the King Faisal Specialist Hospital is also said to be high on the agenda for privatization. There are likely many other assets in health care and other sectors that will be considered for privatization in the coming years.

Rushed privatizations could fail to generate the best value for both the state and service users and there is also some danger of competition for the same, limited, pot of private capital interested in Saudi or GCC assets, forcing down sales prices.

The flurry of activity across so many sectors could facilitate the privatization push by encouraging competition at the senior management level, seeking to demonstrate to ministers and the royal family that they are pressing ahead in implementing the reform agenda, thereby overcoming some of the institutional resistance to reform. However, the volume and speed of activity also poses significant challenges. Rushed privatizations could fail to generate the best value for both the state and service users and there is also some danger of competition for the same, limited, pot of private capital interested in Saudi or GCC assets, forcing down sales prices. There is extensive literature on past privatization programs that warn of the dangers of fire sales and corruption, notably in post-Soviet states in the 1990s.[19]

The risks of corruption could be mitigated through a culture of transparency, something that is being encouraged more broadly in the NTP, including clear rules for tenders and auctions. It is likely that the best sales prices could be extracted from asset sales by staggering them at appropriate intervals, particularly those in the same sector (such as the generating companies being demerged from the Saudi Electricity Company). Careful studies will be required to find common ground between the state and potential investors on fair prices for privatized firms, a

17 Andrew Roscoe, "Saudi Arabia Targets Launching Major IWPP Tender by End of Year," *MEED*, July 18, 2017.

18 Jennifer Aguinaldo, "Firms Submit Interest for Saudi-Bahrain Causeway PPP," *MEED*, July 6, 2017.

19 See, for example, Bernard Black, Reinier Kraakman, and Anna Tarassova, "Russian Privatization and Corporate Governance: What Went Wrong?," *Stanford Law Review* 52, no. 6 (July 2000): 1,731-1,808.

process that is further complicated by the rapid evolution at present of the tax system as well as other regulations, such as Saudization requirements on companies to employ nationals, which will have a bearing on profitability.

Reforming the capital markets and improving the rights of investors would help catalyze private investment. Important progress has already been made in both of these areas. Saudi Arabia's provisions for protecting the rights of minority investors now rank second in the Middle East and 67th globally (up 34 places in a year), according to the World Bank.[20] However, Saudi Arabia still ranks fairly poorly on enforcing contracts (105th globally) and investors, particularly those operating PPPs, will need reassurances on the procedures for resolving disputes with government entities, such as external arbitration. The Saudi Arabian General Investment Authority, the body charged with regulating foreign investment, can be slow to grant approvals for new investors,[21] and this will need to be improved to meet the ambitious privatization targets.

Meanwhile, the Capital Markets Authority has introduced a series of reforms that led to MSCI deciding in June to add the Tadawul to the watch list for potential inclusion in its Emerging Market Index,[22] something that would help attract some of the considerable inflows of capital needed to finance all the planned privatization IPOs. Mohammed Al-Tuwaijri, Saudi Arabia's vice minister for economy and planning, said in April that the goal was to raise around $200 billion from privatizations (excluding Aramco).[23] This is a substantial figure, given that a recent study by the consultancy firm Oliver Wyman estimated that the sale of 25 percent of government assets across the GCC states, in a 15-year period, might raise only $100 billion.[24] It is also large compared with the existing stocks and flows of capital. And, although the kingdom has been able to mobilize significant funding flows recently, notably its $17.5 billion bond issuance in 2016, Tuwaijri's target could be challenging to raise in just a few years. The target is more than six times greater than the total non-Saudi ownership in the Tadawul (6.7 percent, including GCC and strategic stake investors) and is more than the total of either the bond or syndicated loan issuance from 2012-16 (Graph 3).

A new threat to these plans is perceptions among investors of enhanced political risk in light of the Qatar dispute, which a Financial Times editorial said could "chill the appetite of foreign investors … when the rule of law is so transparently subject to the whims of absolute monarchs."[25] This may be an immediate concern for investors domiciled in countries with close ties to Qatar – for example, Turkey's TAV has been the pioneer foreign investor in Saudi

20 "Ease of Doing Business in Saudi Arabia," The World Bank, accessed August 1, 2017.

21 Hamish Walton, Chris P. Sioufi, and Husam El-Khatib, "Saudi Arabia's Transformational Privatization Plans," *Dechert LLC*, July 2017.

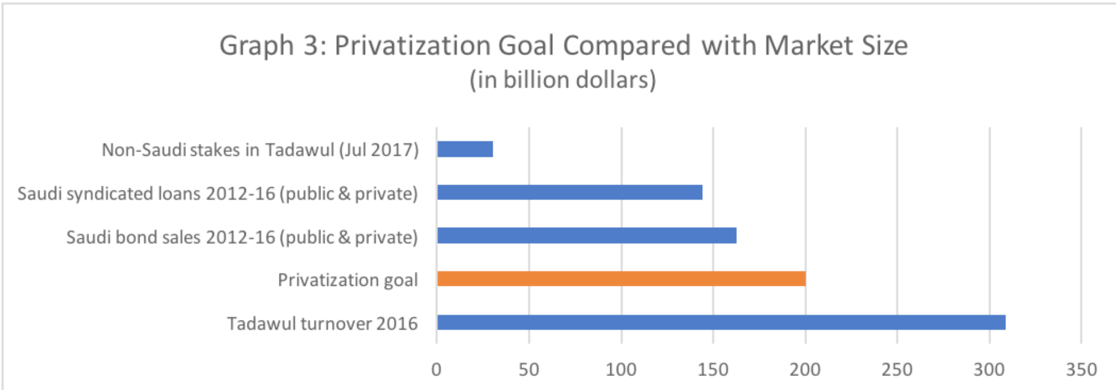
22 Filipe Pacheco and Matthew Martin, "Saudi Arabia Seen Luring Billions With MSCI Upgrade in Sight," *Bloomberg*, June 20, 2017.

23 Andrew Torchia and Marwa Rashad, "Saudis Eye $200 Billion in Revenue as Privatization Drive Starts Up," *Reuters*, April 27, 2017.

24 Jeff Youssef, Antonio Carvalho, and Christopher Napoli, "Creating a Sustainable Privatisation Programme in the GCC," *Oliver Wyman*, October 2016.

25 "The Blockade against Qatar Damages All Sides," *Financial Times*, July 23, 2017.

Arabia's aviation PPPs. But the Financial Times' point is a broader one about the rule of law and suggests renewed efforts could be required to reassure investors of a stable and predictable business environment.



Sources: Calculations based on data from Bloomberg and Tadawul

Bahrain and Oman

Oman and Bahrain are the most fiscally constrained of the Gulf states, running double-digit deficits. Privatization therefore has a particularly strong appeal to raise revenue to cover current expenditure as well as shifting capital costs of the budget, which can also be achieved through PPP projects.

Oman pioneered the use of PPPs in the power sector in the GCC with the Manah IPP in 1994, and passed a Law of Privatization in 2004,[26] although this was not utilized much given the subsequent oil boom. In more recent moves, a PPP law has been drafted, with the help of the professional services firm EY, and could be enacted by the end of 2017.[27] A test project, ahead of the law, is the Sultan Qaboos Medical City, awarded in 2016.[28] Initial projects under consideration include other hospitals, schools, and transportation projects. There is high-level backing, with Ali bin Masoud Al Sunaidy, the minister of commerce and industry, noting that private sector involvement, including PPPs, is the backbone of the country's ninth five-year plan.[29] There appears to have been some discussion of privatizing key state-owned enterprises, such as Oman Air and Oman Post, and reducing the state's 51 percent stake in Omantel, Oman's telecommunications company. The Ministry of Finance has also been transferring ownership of its stakes in logistics-related companies, such as Salalah Port Services Company, to other public entities, potentially in preparation to sell them.[30]

26 Sultanate of Oman State Audit Institute, *A Case Study of Privatization in Oman* (Tunisia: State Audit Institute, December 2006).

27 Philippa Wilkinson, "Oman Advised to Set Up PPP Unit," *MEED*, October 31, 2016.

28 Philippa Wilkinson, "Oman Pushes Ahead with PPP Project," *MEED*, June 5, 2016.

29 A. E. James, "Oman to Strengthen Public-Private-Partnership Framework, Plans to Transfer State Assets," *Times of Oman*, October 24, 2016.

30 "Oman Reshuffles State Holdings in Step towards Privatization," *Reuters*, September 22, 2016.

Bahrain has implemented IWPPs in the past. In recent years, grant financing from its Gulf neighbors for key infrastructure projects, such as roads and the new airport terminal, has mitigated the need for PPP financing in these areas. However, Bahrain has utilized a PPP model for social housing projects, starting with a contract in 2012 for 2,800 housing units.[31] There were rumors in 2014 that Bahrain was developing a formal PPP law,[32] although it is unclear where that now stands. Meanwhile, on the privatization side, there have been long-standing discussions for the sovereign wealth fund, Mumtalakat, to sell parts of Gulf Air and Bahrain Airport Company, among others.

Qatar and Abu Dhabi

Qatar has a track record of using PPP structures to finance power and water plants, such as the Ras Laffan IWPP in 2015, but is looking to expand this model into other sectors. A PPP law was drafted in 2013, with the help of Clifford Chance, an international law firm, but was not implemented. In May 2016, the Ministry of Economy and Commerce appointed another law firm, Eversheds, together with accountancy PwC to develop a lighter weight PPP framework than the 2013 draft. It had been expected that the new PPP law would have been published by mid-2017,[33] although it seems to have been delayed slightly. However, it has high-level backing, with the emir noting in a speech in late 2016 that private sector partnerships were needed because "it is difficult to provide funds for all the projects that we want to execute,"[34] given the country's ambitious infrastructure development plan in the run up to the 2022 World Cup and Qatar's interest in advancing the goals of its 2030 National Vision. Some projects have already been lined up to be tendered as PPPs, possibly including the eighth of the World Cup football stadiums[35] and a rescoped version of the Sharq Crossing causeway project from Hamad International Airport.[36] Other sectors under consideration include hospitals, schools, and waste management.[37] The PPP effort is being spearheaded by the Ministry of Economy and Commerce, which coordinates a cross-governmental Technical Committee to Stimulate Private Sector Participation in Economic Development Projects. It is unclear how much of an impact the current boycott of Qatar might have on investor appetite for PPP projects.

Qatar has a track record of using PPP structures to finance power and water plants, such as the Ras Laffan IWPP in 2015, but is looking to expand this model into other sectors.

Abu Dhabi has also tendered IWPPs and has experimented with private sector partnerships, albeit not full PPPs, to try and improve the management of public schools. It used a PPP structure for the Al Wathba wastewater plant, awarded in 2008, and had originally planned to use a PPP for the over 200-mile Mafraq-Ghweifat highway to Saudi Arabia, but re-evaluated

31 "Bahrain Launches Public-Private Housing Scheme," *Trade Arabia*, October 27, 2013.
32 "GCC PPPs 2016," *DLA Piper*, November 28, 2016.
33 Sarmad Khan, "New Qatar PPP Law within Weeks," *MEED*, March 2, 2017.
34 "Qatar Shifts Some State-Run Health, Education Services to Private Sector – Emir," *Reuters*, November 1, 2016.
35 Hossam Abougabal, "Qatar Supreme Committee Confident on World Cup Timeline," *MEED*, March 27, 2017.
36 Jennifer Aguinaldo, "Qatar Considers Re-scoping Landmark Project," *MEED*, May 29, 2017.
37 Abdulaziz A. Al-Ghorairi, "Qatar's New PPP Law Will Provide More Legal Certainty," *Gulf Times*, May 20, 2017.

this in 2011.[38] The emirate is currently considering privatization, notably the sale of stakes in downstream oil companies, and may also look to attract private financing for infrastructure.

Conclusion

While there are clear short-term fiscal drivers for privatization and PPPs, there are significant dangers if the private sector is viewed as inherently more efficient than the state. Experience shows that without an appropriate regulatory and competitive environment, the private sector can be as bad or worse than the public sector. There are reasons to worry that there could be significant barriers to effective privatization in the Gulf region specifically, given close family links between the public and private sector and a culture of government interventionism. Paul Stevens looks in detail at some of these barriers in the Gulf in light of the theory and experience of privatizations in a paper that should be essential reading for any Gulf officials involved in the process.[39] He warns of a host of potential problems including government failure in the privatization process, danger of monopolies (particularly if local elites buy privatized enterprises), and the risk of continued government interference in strategic sectors. A different study of the potential for Gulf privatization, by Oliver Wyman,[40] is more optimistic about the potential efficiency gains from privatization, which it views as more important than the fiscal gains (estimated at up to 5 percent of public expenditure if a quarter of state-owned enterprises were to be privatized). However, it warns about a different set of barriers to effective privatization, including opposition from the labor force, inadequate foreign ownership rights, and excessive red tape as the government shifts from an operational to a regulatory role.

Timeline

1994: Manah IPP in Oman – first PPP award in GCC

2000: Saudi Electricity Company IPO

2004: Oman privatization law

2008: Kuwait PPP law

2015: Kuwait Authority for Partnership Projects takes over management of PPP process

2015: Dubai PPP law

2016: Saudi National Transformation Program published

2017: Saudi National Center for Privatization established

2017: Saudi Arabia signs PPPs for four airports

38 Kevin Brass, "Constructors Warn Abu Dhabi of Setbacks to Big Projects if Mafraq-Al Ghweifat Highway Scrapped," *The National*, May 24, 2011.

39 Paul Stevens, "Economic Reform in the GCC: Privatization as a Panacea for Declining Oil Wealth?," *Chatham House*, December 13, 2016.

40 Jeff Youssef, Antonio Carvalho, and Christopher Napoli, "Creating a Sustainable Privatisation Programme in the GCC," *Oliver Wyman*, October 2016.

This paper intends to complement the more theoretical studies just mentioned by examining in more detail the history and current initiatives across the GCC states to engage the private sector in infrastructure PPP projects or privatize public sector enterprises in the infrastructure space. There are differences of emphasis and pace, but also many commonalities across the Gulf states. Significant progress has been made with the awards of some PPP projects, the development of legal frameworks, and planning for privatization. However, delays in tendering, notably in Kuwait, demonstrate the challenges that Gulf states will have in determining the terms and pricing for complex projects.

Saudi Arabia has the greatest momentum for privatization in the region, but could face a popular backlash if the process is not seen to serve the interests of the public or Saudi employees in the privatized firms. Experience from other countries in the region, such as Egypt and Jordan, and elsewhere in the world, suggests that clear objectives and regulation, together with transparency and good communication, will be vital to attract interest from private investors and encourage public support for the process.

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