PPPs will ease fund strain for GCC infrastructure projects

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THE DUBAI Public Private Partnership (PPP) Law came into force in November 2015 and will facilitate greater collaboration between the public sector and private sector parties looking to do business in the projects space in Dubai.

The Dubai PPP Law is the legislation in the UAE dealing specifically with PPPs. It represents an intention to implement a major deviation from Dubai's traditional use of self-funding for major infrastructure and energy projects.

The aim of the new Dubai PPP Law is to regulate the partnership between the private and public sectors, procuring the best services at the best prices, increasing productivity, improving the quality of public services and transferring knowledge and experience from the private sector to the public sector, with a focus on UAE nationals.

The UAE is also planning to govern PPPs as it encourages more private sector participation in infrastructure projects. It will regulate agreements between the private sector and the government.

The Qatari government has indicated that PPPs will be used to support projects connected to the Qatar 2030 vision and the 2022 World Cup. PPPs are expected to be used for a range of projects, including hospitals and healthcare, sports facilities, schools, housing, mixed-use real estate projects and other public infrastructure. The major challenge is lack of adequate participation by the private sector due to appropriate legislations.

Qatar is planning to introduce a new law governing the use of PPPs in early 2017 as the government looks to ease the strain of funding a pipeline of projects. The earliest introduction of this law will bring private investors to partner on large-scale infrastructure projects and reduce the liquidity strain in the economy.

The New Kuwait PPP Law heralds a positive step in the right direction for PPP projects in Kuwait. Through this, the government of Kuwait has clearly signalled open-mindedness to continue developing its PPP laws to align them with international standards and make foreign investment into Kuwait more attractive. The New Kuwait PPP Law allows for key new incentives such as targeted tax exemptions for foreign investors, exemptions from certain customs duties and relaxation of foreign ownership requirements.

Disputes tend to have an adverse effect on project efficiency and timelines of project completion. — *File photo*

Saudi Arabia has long implemented informal PPP projects across various sectors. However, there are currently no local laws in Saudi Arabia that specifically govern PPPs. The PPP tender process operates under the Saudi Arabia Procurement Law in the same way that typical procurements do.

In light of the fiscal challenges being faced by Saudi Arabia due to declining oil prices, it remains to be seen whether Saudi Arabia will more formally embrace PPPs by implementing some form of PPP legal framework.

> Contract financing challenges in the GCC need to be addressed to support non-oil diversification

The establishment of the new PPP model is part of the Oman government's five-year plan to encourage PPPs. Oman's 2017 budget underlines the need of the private sector in driving economic growth in the country. Privatising government assets will help the government in its diversification plans.

The financing model for most PPPs in the GCC region has been project finance which is financing raised for a defined project on a limited recourse basis whereby the repayment by the borrower will be dependent on the project's internally generated cash flows. The external debt financing for regional PPPs structured on a project finance basis has generally been characterised by long tenors, and almost always sourced primarily from commercial banks and, in the case of large projects, export credit agencies through guarantees or direct loans.

The challenges in the contract sector have arisen on account of various disputes such as variation orders, extensions/variations of time, changes in design resulting in cost escalation, bills partially certified, bills certified and not paid and late collection of payments. Disputes tend to have an adverse effect on project efficiency and timelines of project completion, with no forum to settle differences which tend to eventually build up to detrimental issues.

Considering that many of the contractors who operate in the GCC are on a project basis, the continuous disputes may cause contractors to cut their losses and possibly leave the business; leaving all other parties, including banks, to fend for themselves. The contract financing challenges in the GCC need to be addressed to support non-hydrocarbon diversification.

A key focus is to ensure that all businesses operating in GCC have access to the best possible dispute resolution mechanisms administered in the most efficient manner. The need of the hour is to bring PPP regulation to give impetus to GCC diversification.

The writer is group CEO at Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.