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WHERE NEXT FOR THE MIDDLE EAST?

Some key factors will drive the region to embrace PPPs

Governments in the Gulf Cooperation Council (GCC), which includes Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE, continue to face challenges in addressing the medium and long-term needs of their expanding populations. While some are coping with a fall in commodity prices and the consequential funding gap for vital projects, others are developing strategies to diversify their economies. The Middle East has looked overseas for the development of its PPP programmes in the past and many outside the region have proposed ideas for investing in and developing infrastructure.

In the next few years we will see a PPP model (or indeed sector specific models) emerge for Middle Eastern countries that acknowledges the structural issues unique to this region, and the rise of a local delivery market tailored to its specific needs. With that in mind, what are the key issues that will drive growth and innovation in the PPP delivery model?

Population growth, alongside the desire of governments to diversify economies away from dependence on hydrocarbons and to cultivate a more skilled indigenous workforce, is driving the development of education projects. Rapid population expansion of the GCC over the next five years will mean more educational facilities. Saudi Arabia is investing heavily in education, with new build and refurbishment programmes, and other neighbouring countries are following suit including Kuwait. While there has been an emphasis on campus style projects, Kuwait's approach locates facilities in neighbourhoods, thereby reducing the transportation pressures associated with single campus projects serving a wide area. Given the need for nursery, secondary and further education in the coming decades, the sector represents a significant opportunity.

Housing needs linked to population growth (including expatriates) and developments in healthcare mean PPP housing projects similar to those successfully completed in Oman and Bahrain are a positive step. Projects in Kuwait, Saudi Arabia, and UAE reflect the need for affordable housing to satisfy local demands, while the role played by local developers is increasing.

Healthcare requirements, particularly maternity and paediatrics, and longer-term care for diabetes, heart disease and congenital problems, will need more specialised facilities. The need for facilities is not just about new build. There continue to be operational projects involving existing assets either being repackaged for different use (for example, the recent Qatari tender for a single male labourers hospital), or combined across a geographic region to benefit from economies of scale. The Qatar government is seeking private healthcare operators for hospitals and clinics to provide world-class service at competitive market rates. While the government is building (and regulating) the facilities, the challenge is to create incentives for foreign long-term investment, balancing the assumption of risk, such as guaranteeing patient volumes, preventing unfair competition and relinquishing control on operational decisions. Clearly the efficient operation of existing assets is as important for an integrated service as the building of state of the art facilities. In Saudi Arabia, the requirement for hospital beds is likely to increase by 20,000 between 2015 and 2016.

Environmental impact has long been a factor in developing waste and wastewater projects. As urbanisation spreads, treatment and disposal becomes a significant issue. With waste growing at a rate of 80 million tonnes per year in the GCC, plants to handle such volumes are increasingly required. Kuwait and Qatar have committed to large-scale energy from waste schemes. We could see a market developing for the movement of waste to regional facilities with the capacity and technology to deal with increasing volume. Water projects are a priority, not just for power generation but also the transmission and process of wastewater. The Umm Al Hayman project in Kuwait combines both transmission and process assets into one, an approach that could be replicated elsewhere as an integrated solution.

Changes to project financing are a new development as few projects have been funded using sharia principles to date. The adoption of new financing models will require concrete project pipelines. As these emerge, more locally financed solutions can be provided by regional and local funders. Since the global financial crisis, European banks have been less active and regional banks have expanded their role in the funding of complex projects. The European Bank of Reconstruction and Development's involvement in projects in Jordan and Egypt can only be seen as a positive step to a diversification of regional financing requirements.

Growth of the private sector – GCC countries typically have a significant public sector and less developed private sector. The development of strong, experienced local private sector companies involved in project delivery and management, design and engineering could be a catalyst for more locally sourced infrastructure provision. Governments are looking to the private sector for the skills and expertise to develop and execute projects and provide employment for growing young populations.

As we survey the Middle East, one thing is certain: PPP models developed in mature PPP markets can be used as a guideline, but ultimately Middle Eastern countries looking to adopt a PPP delivery solution will need to find their own structures, adapted to local markets and government requirements.