

A Brief Recap

In April 2018, the government announced the launch of 14 public-private partnership (PPP) initiatives. The headline projects were the corporatization of the Saudi ports sector, the privatization of part of the Saline Water Company (SWCC) and the sale of some of SWCC's assets. The initiative extended to the Saudi football league, the postal service and the flour mills sector. In addition, the corporatization of the King Faisal Specialist Hospital was highlighted. As well as increasing employment prospects, the key stated objective was the raising of some US\$10 billion for the State treasury. So what have we seen since April 2018?

What We Have Seen – Regulatory

We are seeing the early signs of the development of a comprehensive regulatory regime. At the top of the pyramid is the Council of Ministers, chaired by King Salman. The Council of Economic Development Affairs ranks next, chaired by the Crown Prince, Mohammad bin Salman. The Steering Management Committee (SMC) sits within CEDA and is tasked with achieving the policy objectives of Vision 2030. The SMC directs 12 separate Vision Realization Programmes (VRPs). Next are the VRP Committees for each VRP, followed by each VRP Office, which report into the relevant VRP Committee.

Rather than establishing a centralized PPP governance function, the Kingdom has instituted a hybrid arrangement. This takes the form of a number of Supervisory Committees. These are sectoral bodies, e.g., education, health, energy. Each Supervisory Committee is supported by the relevant government Minister and is responsible, within certain parameters, for reviewing and approving proposals for the implementation of PPP projects within its sector. Each Supervisory Committee is supported by an execution team responsible for facilitating the smooth operation of the Supervisory Committee.

The Supervisory Committees are supplemented by the National Center for Privatization (NCP). The NCP's responsibilities include developing a national privatization and PPP regulatory framework and sector privatization standards and guidelines. It also plays an execution function for the procurement of PPP projects on behalf of the Ministries, to the extent that a Ministry decides not to directly manage the procurement process itself.

The combination of the Supervisory Committees and NCP creates a hybrid of centralization and sectoral decentralization.

In the summer of 2018, a draft PPP law was released into the market. It is worth noting that the draft addressed a number of questions relating to the Government Procurement Regulations and whether those regulations would continue to adversely cut across the effective implementation of PPP projects in the Kingdom. The good news is that, based on the draft, they will not.

What We Have Seen – Transactions

In addition to regulatory changes, there has been a reasonable amount of deal flow, albeit primarily in the utilities sector. Two independent water projects (IWPs) have been tendered, namely the Shuqaiq IWP and the Rabigh IWP. The preferred bidder has been appointed on both deals. The Yanbu IWP and Jubail IWP are expected to follow. A preferred bidder has been appointed on the Dammam independent sewage treatment project (ISTP) and the same is shortly expected for the Jeddah ISTP. An RFP for the Taif ISTP is expected next.

In the renewables space, the Sakaka solar IPP has achieved financial close, and a preferred bidder has been appointed for the Dumat al Jandal wind IPP.

Outside of the utilities sector, Tatweer Buildings Company has launched the first wave of what is expected to be a program to procure 2000 public schools on a PPP basis. The first wave is for 60 schools across Makkah and Jeddah.

What Is Coming?

So what do we expect to see next? The utilities PPP sector is showing the early signs of success and there is a significant pipeline of projects. However, it is the sale of assets that will make a difference to the Ministry of Finance in the short term. Of the four sectors that were earmarked for early sale – ports, grain silos, football stadia and post – it seems that grain silos is likely to hit the market first. The expectation is that an RFP will be issued to bidders during the course of this year.

It is also understood that healthcare PPPs will be introduced to the market during the course of 2019, a sector with enormous potential. Transportation, particularly aviation and roads, also have great potential.

Regulatory Challenges

Although there have been some tangible achievements, there is still some way to go. The announcement of Vision 2030 and the subsequent publication of the National Transformation Program has raised private sector expectations and most indicators show there is appetite to invest.

One of the key challenges is regulation and finalizing the shape that the legal regime will take. Foreign developers will be all too familiar with some of the PPP failures seen in other jurisdictions, most of which were borne out of a failure to pay adequate attention to regulation. The appetite for more deals will inevitably have to be balanced against the need to learn from the regulatory mistakes made in other jurisdictions.

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