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An Expanding PPP Framework for Qatar

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In August 2016, His Excellency, the Minister of Economy and Commerce, Sheikh Ahmed bin Jassim bin Mohamed al-Thani, announced that the State of Qatar is looking to increase direct foreign investment in the development of national infrastructure. An important aspect of this proposed infrastructure development will be the use of Public Private Partnerships ("PPPs") as a form of procurement.

Public-Private Partnerships

The term "PPP" is frequently used to refer to different kinds of public-private partnership models for the procuring of infrastructure assets, including build-transfer-operate (BTO), build-own-operate (BOO) and build-operate-transfer (BOT), among others.

One of the most common forms of "PPP" throughout the world is the model under which a government entity enters into a concession agreement with an expert private sector developer to privately finance, construct, operate and maintain an infrastructure asset for a period of years (typically 20-25 years) in exchange for the payment of a monthly availability payment. The monthly availability payments are usually equal to monthly debt repayments, fixed and variable operation and maintenance costs and a fixed return on the equity invested by the private-sector sponsors.

Other PPP models may not include a monthly payment; instead the developer is assigned the right to collect rents or charges from end-users of the asset(s), such as tenants or passengers and to share these with the government.

Advantages of the PPP Model

Apart from the obvious benefit of having expert developers and operators build and operate key public assets, one of the main advantages of the two PPP models described above, particularly in an economic climate where some governments are experiencing budgetary constraints or launching huge infrastructure delivery programs, is that they enable governments to pay for assets over a number of years (once construction is complete) or allow the asset to pay for itself, with user demand risk passed to the private sector developer.

The requirement for private sector developers to invest in the project company in exchange for a return on their equity gives them "skin in the game" to ensure the asset is constructed on time and performs well, as they may otherwise suffer deductions to their returns or stand to lose their equity completely if the project defaults.

Potential advantages of the PPP model therefore include:

- more efficient asset delivery and performance - leveraging the experience and expertise of specialist private sector developers and operators to raise the quality and efficiency of public infrastructure and services;
- transferring the risk of building and operating public infrastructure and services to expert private sector developers who stand to lose a material financial investment in the project if they fail to perform;

- freeing up public sector finances and resources to reduce the burden on annual government budgets and the public balance sheet;
- attracting foreign investors and lenders into local economies - by offering fixed return low risk long term investment opportunities, with a guaranteed repayment structure backed by a sovereign entity; and
- building better and more transparent relationships between the public and private sectors.

PPP Projects in the Gulf

To date, PPP projects in the Gulf region have mostly been implemented in the water and energy sectors, with occasional projects in the transportation sector. PPPs were first launched in Oman in 1994 when Oman developed the Al-Manah Independent Power Project. Abu Dhabi then launched its PPP framework in 1998. Qatar, Bahrain, and Saudi Arabia then followed. The most recent such project in Qatar was an independent power and water project procured by the Qatar General Electricity and Water Corporation (Kahramaa). After proving to be successful, it appears that Qatar may now be ready to expand the program to other sectors.

New PPP Law

Presently there is no special law in Qatar concerned with PPPs. However, a new PPP law is understood to have been placed before the cabinet over the summer for consideration. It is expected that a new law will be implemented by the end of 2016. Having a PPP law should provide an additional level of comfort to foreign investors and greater guidance to government entities wishing to undertake PPP projects.

Potential Projects in Qatar

The Qatari government has indicated that PPPs will be used to support projects connected to the Qatar 2030 vision and the 2022 World Cup. The total expected project values are thought to be in the region of US$350 billion.

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 Future

In a time of low oil prices and economic uncertainty across the region, combined with large infrastructure development programs, the expanded use of PPPs in Qatar is expected to facilitate the delivery of major government infrastructure programs and offers an exciting opportunity for private sector developers, financiers and investors.

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