

Public Private Partnership in Kuwait (Presentation)

Manaf Alhajeri, CEO, Markaz
American business council, Kuwait Chamber of Commerce
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1. Capacity Issues in Infrastructure, the imminent sectors

Kuwait infrastructure remains weak and it needs investments to boost the capacity across categories such as power, water, transportation and housing. Demand for power is outgrowing supply in Kuwait. There is an urgent need to raise the capacity of power from the current level of 12.5GW to 30GW by 2030. In this regard, power sector needs investments worth KD 2.1 billion to boost its capacity.

According to Public Authority for Housing Welfare (PAHW), waiting list for state housing applications stands at 103,000 as of Q3, 2016. To address the housing shortage, Kuwait government has plans to build 36,000 welfare housing units.

2. Kuwait's 2 current two gateways for PPP

Though Public Private Partnership (PPP) projects were mooted way back in 2008, progress has been slow. The first PPP project in Kuwait, Az Zour North IWPP was awarded in 2013 and it remains as the only project to have been implemented so far. Promulgation of the new PPP Law no. 116 of 2014 was a step to reinvigorate interest and boost infrastructure investments. The new PPP law has several incentives to note: application system has been streamlined, feasibility studies are undertaken and appropriate subsidies are awarded, provides specific incentives on a project-by-project basis, exemptions from income tax and other duties; tax holidays are offered by virtue of KDIPA laws, the timeframe post completion of project has been extended to a maximum of 50 years, to recover project value.

Kuwait Authority for Partnership Projects (KAPP) previously known as Partnerships Technical Bureau (PTB) – as the main body responsible for implementing the state's PPP program was established. To help in widening the funding pool available for investors' broader range of assets could now be considered as collateral, including project assets. Prior law inhibited the use of non-recourse financing, repealing the same has also added an additional layer of diligence and monitoring by banks. Moreover, project revenues could be utilized towards repayment of debt availed, thus expediting the implementation. Greater access to project finance also negated the need for upfront and largescale investment by the players.

3. Infrastructure Project Awards has Gained Momentum in Recent Years

Despite the low oil prices, which resulted in governments reining in their expenditure elsewhere, Kuwait has pressed ahead with awarding of projects in 2015 and 2016. Projects worth over USD 30bn were awarded across sectors such as oil & gas; projects to expand the power capacity, enhance the existing infrastructure and establish new transportation facilities were started. However, only 5% of total project awards were in PPP mode so far.

4. PPP is slowly gaining traction

There are many reasons why PPP has not taken off yet in a big way. Kuwait earned a dubious distinction of offering an environment where it is difficult to do business, and existence of unfair competition between local and international players. Contracts were rigid and costly, performance bond of 10% of contract value was sought by the government and the payment for services was back ended. Prior experiences of foreign companies on legal issues and operating in Kuwait's business landscape have made them hesitant to invest in PPP projects. Kuwait has a history of delays in awarding and executing projects. International players have not been offered a level playing field in case of PPP projects.

Government's excessive control on project award and financing is also a reason for lower private participation in Kuwait. The government has the right to cancel the project at any stage of execution (eg., Failaka), which puts the executing company at a higher risk as the project losses have to borne by them. Limited project financing options such as restriction on granting pledges over construction during the project's term have made the landscape difficult for private players. However, KDIPA has emphasised on securing potential financing and credit facilities, in coordination with concerned parties, in order to encourage investments.

5. Opportunities across Infrastructure Space

Kuwait offers investment and business opportunities across infrastructure spectrum. Projects across real estate (housing), power & water network, solid waste management and transportation sector exist at various stages of planning and development. Flagship projects include South Jahra Labor City, which includes creation of residential units to house the expat labor; Az-Zour North Phase-II, power and desalination plant with a capacity of 1,800MW and 464 MIGD. Big ticket projects that are in planning phase include 200Km long metro that would

run across Kuwait at a cost of KD 2.1bn and an integrated rail network to link Kuwait City to airport, seaport and other GCC countries at a cost of KD 2.4bn.

In the newly developed cities of Jaber Al-Ahmad City & Sabah Al-Ahmad City, 90% of welfare units have been handed over by PAHW and over 180,000 people are expected to live. This is expected to create investment opportunities for the development of retail spaces including restaurants, malls, cafes; business centres, investment properties and utilities infrastructure for which the expertise of private sector is being sought via PPP model.

6. Overhaul of Project Landscape, Enhanced Participation by Various Actors

The policies with regard to PPP have been redrawn with greater co-ordination with direct investment promotion law (KDIPA). Earlier law was considered restrictive on agreement negotiations; this has been addressed now, especially with regard to procurement process. National Offset program was discontinued as it was seen as a disincentive for international players. Greater participation from international firms, consultants, financial institutions could now be expected for various activities such as due diligence, conducting feasibility studies, mobilizing capital, and for evaluating risks. We expect these measures to overhaul the PPP landscape in Kuwait.

7. Success of Az Zour - Phase I & G.E Technology Centre Case Study

Az-Zour Electricity and Water Plant (Phase I) was the first PPP project that was to be successfully tendered and completed in Kuwait. The project was awarded in 2013 and successfully completed on schedule and within budget. Currently, it caters to 10% of Kuwait's power requirement and 20% of water needs underlining the criticality of the project.

G.E Technology Centre in Kuwait is the first facility of its kind outside U.S by G.E. The technology centre fosters research on localized problems. In this regard, it has signed a Memorandum of Understanding (MoU) with Kuwait University for Research & Development purpose. The facilities available at the centre spur the innovation ecosystem in Kuwait. For instance, the control simulation laboratory located at the centre is the world's first and the only cloud based operating system for the industry. Apart from providing facilities and enhancing the infrastructure, the centre is also involved in training and skill development of over 900 students and professionals every year.