

Projects

Kuwait: PPP projects expected to provide healthy boost to economy

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Since 2010, Kuwait has been implementing a strategic Development Plan whose aim is to improve infrastructure across a number of sectors and deepen the country's economic growth potential, especially outside the oil sector. Unlike previous investment initiatives, the current development agenda envisions a central role for the private sector. The extensive use of the public-private partnership (PPP) framework in the current plan is intended to deepen the contribution of the private sector to the country's economic growth and to spur private sector job creation, among many other benefits. The recent decline in oil prices has refocused attention on the importance of expanding the nonoil economy and the private sector, and increased the need to diversify the financing sources for projects.

The Development Plan (DP) seeks to boost aggregate investment, pledging to spend upwards of KD 32 billion between 2015 and 2019.

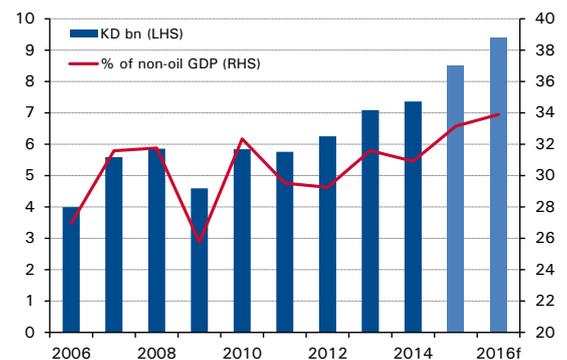
Earlier this year, authorities approved the second five-year development plan. Projects are planned in a number of sectors, including oil, transport, infrastructure, power and water. Implementation of the DP is well underway, though there has been some delay. The pace of implementation of the plan's projects is critical to Kuwait's current medium term economic outlook, which expects nonoil economic growth to average around 4% in 2015 and 2016 and to accelerate beyond that towards 5-6%.

At the core of Kuwait's Development Plan is an effort to involve private investors. This is being done through a PPP program that currently includes projects valued at KD 10 billion, mainly in power, water, wastewater treatment, housing and transportation. Once in full swing, these projects could conservatively add KD 1 billion per year to capital spending, hence boosting, by themselves, real GDP growth by almost 2%.

While projects have taken some time to take-off, an amendment to the legal and institutional framework in 2014 has reinvigorated the initiative once-again. Amendments ironed out some issues that prevented projects from taking off sooner and should lead to better regulation of the PPP initiatives. Among other things, the changes replaced the Partnerships Technical Bureau (PTB) with the Kuwait Authority for Partnership Projects (KAPP). The new body has greater independence and executive powers and should manage PPP initiatives more effectively.

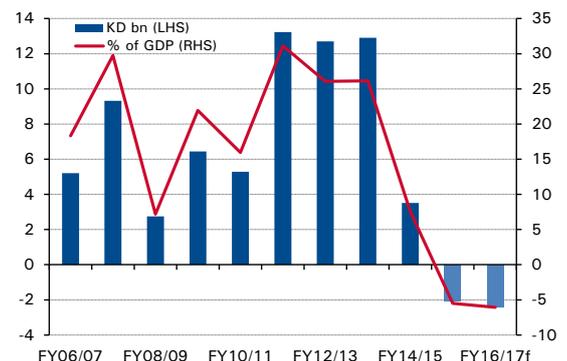
The use of PPPs has been on the rise globally over the last two decades. PPPs have been used extensively in Europe, especially in the United Kingdom, in Canada, as well as many emerging economies. In 2013, the UK had over 600 PPP schemes worth over \$100 billion in use, including hospitals, schools, and roads. PPPs have been popular around the world, particularly in power, water, healthcare, and transportation. In Kuwait, PPPs have typically taken the form of a build-own-operate (BOT) contract.

Chart 1: Investment



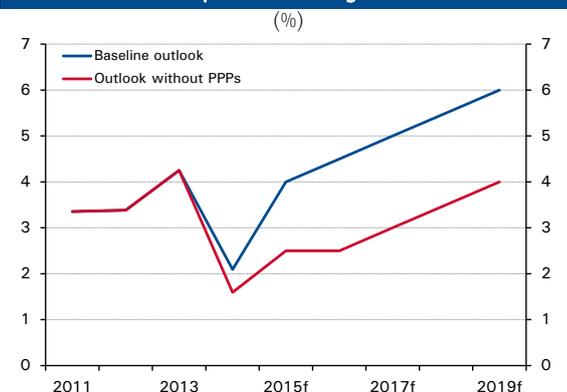
Source: Central Statistical Bureau, NBK estimates

Chart 2: Budget balance



Source: Ministry of Finance, NBK estimates

Chart 3: Impact on nonoil growth outlook



Source: Central Statistical Bureau, NBK estimates

There are a number of advantages to using PPPs in Kuwait's development initiative. Among them is that PPPs can help reduce the financial burden on the state and limit growth in government spending and the public sector. They can also introduce economic efficiencies and facilitate the adoption of new technologies and know-how, especially when projects attract foreign investors. In Kuwait, PPPs will also help develop the private sector, generate private sector jobs, and deepen financial markets.

One of the main advantages of the PPP framework is that it attracts private funding for projects that would otherwise have been financed with government resources, thus reducing the fiscal burden on the state. In Kuwait's case, the Development Plan requires around a third of the capital spending to come from the private sector. However, for Kuwait, ample fiscal resources including sovereign financial reserves of over three times GDP, means private funding was never the main goal. Still, now that oil prices have declined, Kuwait's government has less fiscal space than it did just a year ago; reducing the burden on public funds will certainly help.

For Kuwait, one of the core advantages of the PPP initiatives is that they help diversify the economy and generate private jobs by developing the domestic private sector. Indeed, most PPP projects are in areas where private initiative has been limited due to government restrictions. Now, for the first time, the private sector is being encouraged to invest in power & water, new cities and a metro. Also, with PPPs requiring the private sector to take on more risk and a larger role in the operation of the new facilities, these schemes increase the capacity and technological know-how of the sector.

There are a number of other advantages to the PPP structure, including shifting risk to the private sector and reducing overall project cost. A project usually carries a number of risks, including the risk of faulty design, poor implementation, cost overruns, and completion delays. In a PPP scheme, the private sector takes on these risks and is better able to control them and to allocate those risks efficiently.

PPP schemes can also help reduce project implementation and life-cycle costs. Studies have shown that public-private partnership projects can introduce cost savings through the use of innovation in design and construction. But cost savings can extend past implementation, with the private investor having an incentive to control the overall cost of the project over its life-cycle including the cost of maintenance and operation.

Kuwait's PPP program can also benefit domestic financial markets and increase ordinary Kuwaitis' stake in the country's development. The program includes measures such as requiring 50% of PPP ventures to be offered to Kuwaiti nationals in a public offering. This will help deepen financial system, including both bond and equity markets, and increase Kuwaiti citizens' stake in the success of the development plan.

While there has been some delay in implementing the PPP projects in Kuwait, notable progress has already been made. The first phase of the Al-Zour North IWPP was awarded in 2013 and is already 77% complete with some electricity production already started. The second phase of the project is expected to be awarded in the coming months. Once complete, the Al-Zour North IWPP is expected to bring the total investment to KD 2.5 billion and increase Kuwait's electric power generating and water desalination capacities by 30% and 80%.

respectively. Another PPP initiative that has moved ahead is a company to provide health insurance and healthcare to over a million expatriates. Kuwait Health Assurance Company (KHAC) is still in early operational stages and is committed to building and operating three hospitals and 15 clinics.

The Development Plan's focus on public-private partnerships is expected to serve Kuwait well in the coming years, with the initiative helping to boost private sector growth, increase job creation and limit the burden on the public sector. The latter has become more crucial now that oil prices have tumbled and that deficits are a reality. The projects are likely to improve economic efficiency and to introduce new technologies, especially with the involvement of international companies as strategic partners.

Table 1: Key public-private partnership (PPP) projects

	Sector	Cost KD mn	Status
Al-Zour North IWPP	Power & water	2,500	Awarded
Kuwait Health Assurance Company	Healthcare	250	Awarded
Khairan IWPP	Power & water	510	Tendering
Al-Abdaliyah ISCC	Power	220	Tendering
Umm Al-Hayman WWTP	Wastewater	465	Tendering
Kabd municipal solid waste	Waste	265	Tendering
Egaila service & entertainment center	Mixed	90	Tendering
School development program	Education	20	Tendering
National rail	Transport	2,400	Pre-tendering
Metro	Transport	2,100	Pre-tendering
South Jahra labor city	Housing	70	Pre-tendering
Failaka Island development	Mixed	900	Pre-tendering

Source: Kuwait Authority for Partnership Projects, MEED

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