

# Boosting growth in the GCC: The power of public-private partnerships to bridge financial gaps



The GCC is at a critical juncture, where the demand for new infrastructure to support economic development and diversification is intensifying, while traditional revenue streams, such as from oil, are being carefully managed and allocated. In this landscape, public-private partnerships (PPPs) have emerged as a pragmatic solution, enabling governments to meet growing infrastructure needs without overstressing public finances. By leveraging private sector capital and expertise, PPPs offer a viable way to finance and deliver large-scale projects, shifting the focus from short-term public spending to long-term economic benefits.

As GCC countries pursue both national and regional transformation strategies, PPPs are playing a pivotal role in bridging financial gaps, easing fiscal strain, and ensuring the efficient delivery of projects. This article explores the financial and commercial advantages of PPPs in the GCC, highlighting their potential to attract private investment, share risks, and deliver critical infrastructure in sectors such as power and utilities, healthcare, and transportation. The financial imperative for PPPs is clear, as multi-billion dollar infrastructure projects are essential to achieving ambitious goals such as Saudi Vision 2030 and UAE Centennial 2071. GCC governments face an inevitable dilemma: how to finance these projects while managing their public debt exposure. While oil revenues once funded large-scale developments, fluctuating oil prices and the aftermath of the COVID-19 pandemic have forced governments to explore new delivery models.

This is where PPPs come in. PPPs offer an innovative financial solution, enabling governments to build critical infrastructure without draining national budgets. By distributing the cost of projects over the long term, PPPs allow governments to advance essential developments without shouldering the financial burden upfront. In essence, PPPs create a win-win situation: private investors secure stable returns through long-term contracts, while

governments maintain control over key assets and services.

Private sector capital is the key driver behind PPPs, introducing financial discipline and ensuring projects are delivered on time and within budget. This is critical in a region where delays and cost overruns have historically been observed with public sector projects. Private investors follow stringent performance metrics imposed by the public side, which helps reduce inefficiencies and enhances the financial sustainability of projects. Furthermore, PPPs diversify capital sources, enabling institutional investors, sovereign wealth funds, and international banks to play a more active role in the GCC's infrastructure development. This broader capital base reduces the risk of financial shocks or funding shortages that could delay crucial developments.

#### The role of banks and lenders in PPP transactions

The role of banks and lenders in PPP transactions is crucial. They are essential in structuring and financing PPP projects, committing significant human resources and capital through project finance loans or syndicated loans. In the GCC, banks bridge the funding gap for large-scale infrastructure projects by providing long-term financing that matches the duration of PPP contracts. Their due diligence ensures that PPP projects are financially viable, sustainable, and bankable. For GCC governments, the involvement of reputable local, regional, and international banks increases credibility and attracts further international investment, making banks indispensable partners in ensuring the financial success of PPP ventures.

#### The critical role of advisors in structuring PPP transactions

The critical role of advisors in structuring PPP transactions cannot be overstated. GCC governments often lack the internal expertise to structure complex PPP deals, making advisors essential. Financial, legal, and technical advisors play a key role in

helping governments develop bankable contracts, manage risks, and ensure that transactions meet international standards. This, in turn, boosts confidence among private investors and financial institutions. Legal advisors guide governments through regulatory frameworks, while financial advisors provide in-depth knowledge of funding mechanisms and risk management strategies, all of which are supported by legal and technical expertise. By including experienced advisors, governments can attract international players, mitigate risks, and ensure that projects are delivered in a bankable manner, on a budget, and on time.

#### Risk allocation: Sharing the financial burden

Sharing the financial burden is one of the key benefits of PPPs. In a well-structured PPP agreement, risks such as construction delays, operational inefficiencies, and cost overruns are shared between the public and private sectors. This model protects governments from absorbing the full financial impact of project failures or unforeseen obstacles. Private sector partners often raise capital, manage construction risks, and oversee operational performance, while the government obtains a service and/or product and retains regulatory oversight. By transferring key risks to private entities, PPPs offer GCC governments a more financially secure path to delivering public infrastructure.

#### Commercial returns: Why private sector involvement matters

The commercial returns are clear. PPPs present an attractive investment opportunity for the private sector, offering predictable cash flows and returns through long-term contracts. This is especially true in sectors like healthcare, education, and transportation, where demand remains constant. These partnerships also provide new revenue opportunities for the private sector. PPPs offer a pathway to commercialize services that were traditionally government-funded, creating new avenues for generating revenue and

making projects more financially viable in the long term.

#### Challenges: Navigating the financial and commercial landscape of PPPs

Navigating the financial and commercial landscape of PPPs in the GCC involves several key challenges that must be addressed for these partnerships to thrive. These include:

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**Regulatory frameworks:** The success of PPPs largely depends on the regulatory environment. While countries like the UAE and Saudi Arabia have developed PPP frameworks, others may need to address gaps or seek interim solutions. Clear legal frameworks are essential to protect investors and ensure contracts are enforceable.
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**Access to financing:** Securing financing for large-scale PPPs remains a challenge. While institutional investors are increasingly interested in GCC infrastructure, concerns about political stability, regulatory uncertainty, and return on investment can act as barriers. Governments must work with financial institutions to create financing models that reduce risk and attract investment.
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**Currency and economic risks:** Given the GCC's dependence on global energy markets, economic risks can affect the financial viability of PPP projects. Governments should consider long-term financial planning as part of their PPP strategies.

#### Commercial success stories

Saudi Arabia's Renewable Energy Project Development Office (REPDO)<sup>1</sup> large-scale solar projects, Abu Dhabi's PPP initiatives such as the Zayed City Schools project,<sup>2</sup> and Qatar's Al Wakra & Al Wukair waste

treatment facility<sup>3</sup> have all demonstrated the success of PPP models in the GCC. These projects showcase how effective collaboration between the public and private sectors can drive efficient delivery of infrastructure, while mitigating risks and sharing financial burdens. These projects exemplify the potential of PPPs to achieve sustainable, long-term economic growth.

#### Financing the future of the GCC

Financing the future of the GCC through PPPs is not just a mechanism for delivering infrastructure—it is the financial strategy that will shape the future of the region. By leveraging private capital, sharing financial risks, and ensuring long-term commercial returns, PPPs provide a sustainable path to meeting the region's ambitious infrastructure needs. As governments refine regulatory frameworks and build stronger relationships with private investors, PPPs will remain a critical tool in the GCC's financial and economic development. The success of these partnerships will depend on how well risks are shared, how financing models are developed, and how effectively public and private sectors collaborate. As the region moves toward a post-oil economy, PPPs will unlock new opportunities, drive economic growth, and create a financially secure future for the GCC. ●

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#### Endnotes

- Saudi Power Procurement Company, National Renewable Energy Program eProcurement Portal, accessed 31 October 2024, <https://powersaudi Arabia.com.sa/web/index.html>.
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