Middle East

Point of View

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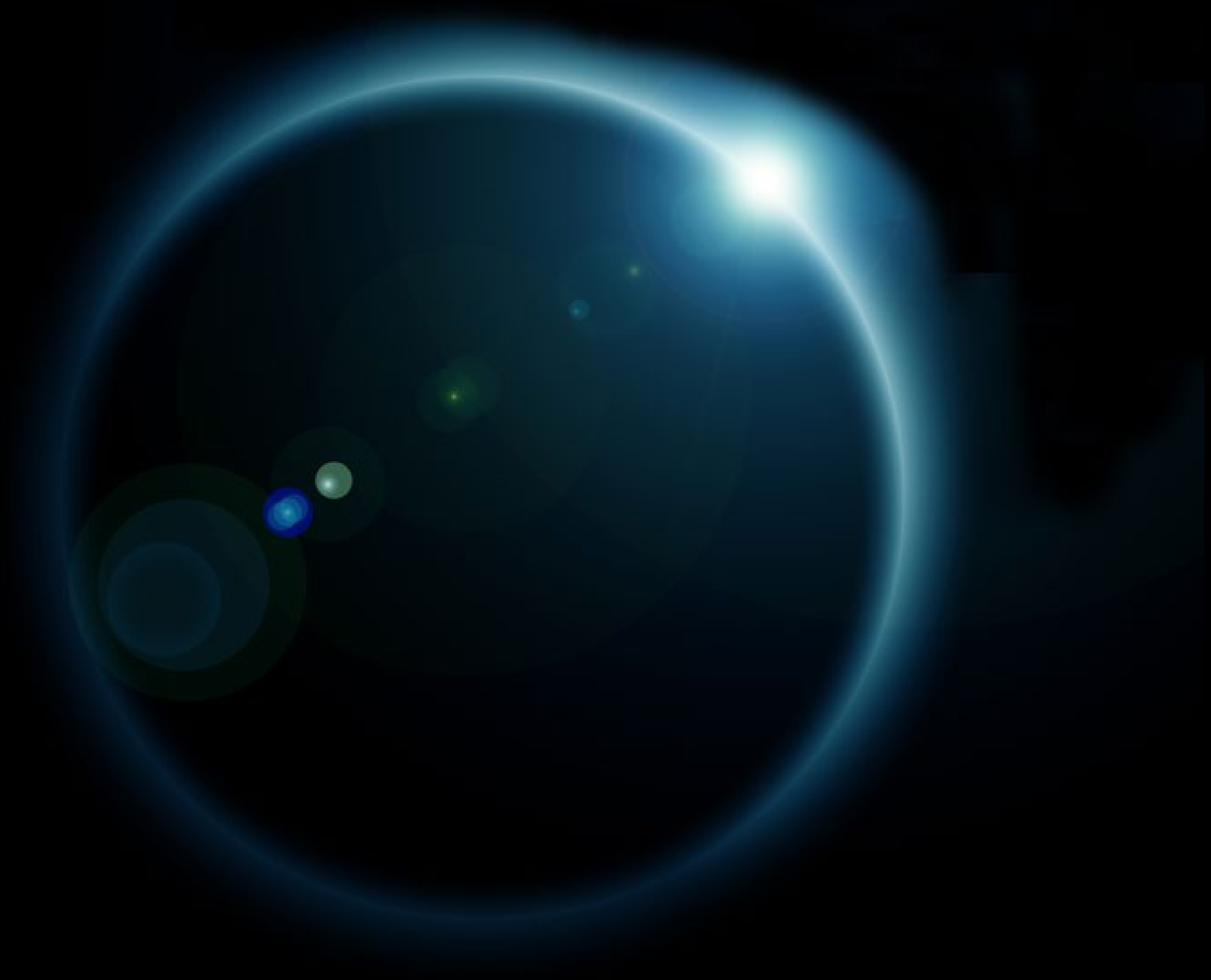
New money in the GCC
An attractive risk-return tradeoff?

The United Arab Emirates
A global hub for future industries

Transforming healthcare
The impact of AI and robotics

The surge of private credit
A new financial era

Frontiers



Fall 2024
Middle East Point of View
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A word from the editorial team

Exploring new frontiers isn't just about entering new markets or expanding geographic boundaries—it's about embracing a bold vision and stepping into the future. Today, companies and individuals are venturing into uncharted territories where technology and creativity converge to push the limits of what's possible.

As the Middle East continues to evolve, the opportunities for growth, transformation, and innovation are expanding across various sectors, from finance to healthcare, real estate, and beyond. In *New money in the GCC: An attractive risk-return tradeoff ?*, Thomas Bullock and Vuk Prelevic explore the potential for debtor-in-possession (DIP) financing as an attractive risk-return tradeoff in the GCC, driven by recent bankruptcy law reforms and the need for companies facing liquidity challenges to secure new funding for recovery.

In *Boosting growth in the GCC: The power of public-private partnerships to bridge financial gaps*, Sean Benghiat highlights the critical role of these partnerships in realizing the region's potential. As governments look to diversify their economies away from oil dependency, public-private partnerships (PPPs) are emerging as a strategic tool to "finance and deliver large-scale projects, shifting the focus from short-term spending to long-term economic benefit."

Arif Zaman's *The surge of private credit in the Middle East: A new financial era* explores the growing appeal of private credit as an alternative to traditional bank lending. As businesses and governments in the GCC seek new ways to fund development, private credit providers are stepping in to fill the gaps.

Mergers and acquisitions (M&A) remain a critical strategy for growth in the Middle East, yet uncovering the hidden value within these deals requires a keen eye and expertise. In *Buyer beware: The key to unlocking hidden value in M&A*, Saima Jalal and Hisham Saadat offer invaluable guidance and mention how: "While traditional financial performance metrics remain a key focus, M&A practitioners are increasingly seeking a broader understanding of a target's operations through operational due diligence (ODD) and synergy assessments to achieve sustainable value creation."

The healthcare sector in the Middle East is undergoing a transformative shift, driven by the rapid adoption of artificial intelligence (AI) and robotics. Sachin Bhandari and Avilash Singh's *Transforming healthcare in the Middle East: The impact of AI and robotics* explores how these technologies are not only enhancing patient care but improving operational efficiency. The future of real estate in the GCC is also poised for a technological revolution, and GenAI is playing a pivotal role. In *Building the future: The role of GenAI in real estate evolution*, Samina Rangoonwala explores how Generative AI is transforming property development, urban planning, and real estate investment.

In *The United Arab Emirates: A global hub for future industries*, Alexios Zachariadis, Farida Gamal, and Marwan Kamel highlight the UAE's ambitious strategy to position itself as a global leader in emerging industries. They state how "the UAE remains an attractive location for many, with its dynamic business ecosystem appealing to international players looking to tap into one of the world's fastest-growing regions—a region with ambitious plans to transform and lead across several sectors."

In *The physics of lending to multinational corporations*, Paul Leggett and Vuk Prelevic emphasize the importance of incorporating distance, time, and velocity into credit risk analysis for multinational corporations, particularly in distressed scenarios. They discuss how "lenders need to be adequately compensated for the complexity they are importing into their portfolio of risks" and how "this is especially true when venturing across borders, where factors such as supply chain disruptions and geopolitical dynamics can shape the range of possible outcomes."

While there will inevitably be challenges along the way, the Middle East is on the brink of exciting new frontiers, where innovation, strategic collaboration, and forward-thinking financial solutions are shaping its future. We hope you enjoy reading this Fall issue of the Middle East Point of View.

The ME PoV editorial team

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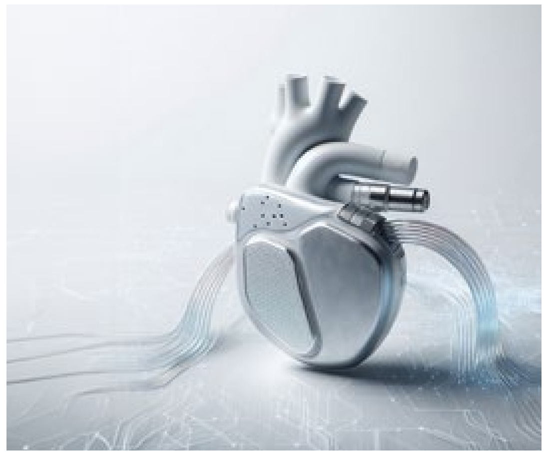

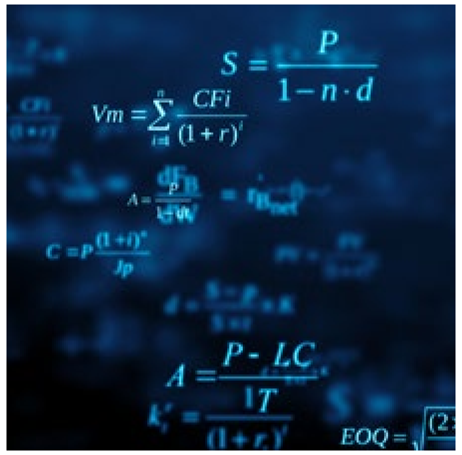

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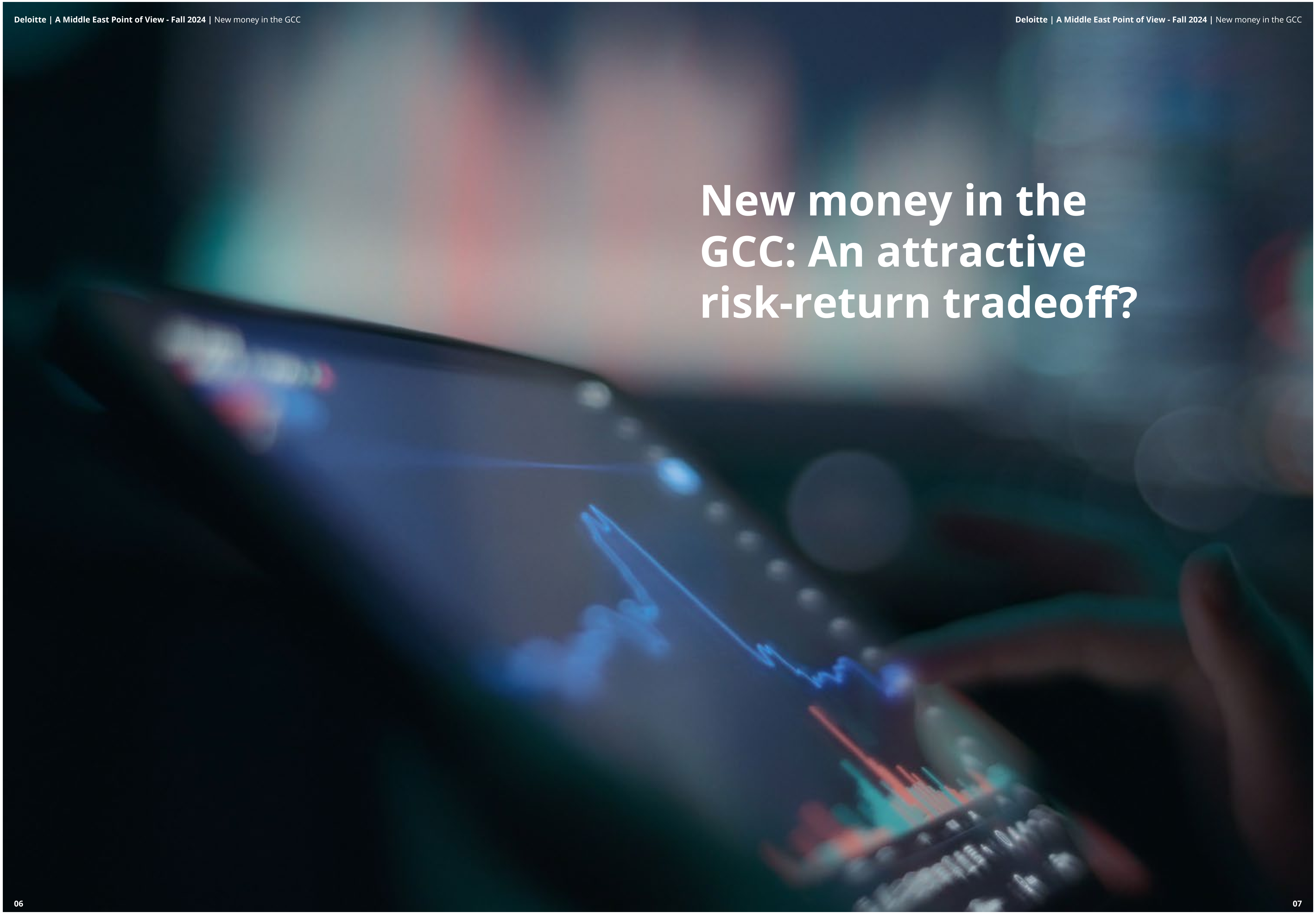

New money in the GCC: An attractive risk-return tradeoff?

After more than a decade of a loose monetary environment, policymakers began restricting access to capital in 2022, resulting in a more constrained financial backdrop. The effects of higher interest rates became evident across the globe, including the Middle East, with certain sectors and regions more negatively impacted than others. Cash regained its central importance as businesses scrambled to secure liquidity, either by optimizing internal cash generation or seeking external sources. Company boards faced continuous challenges, as they operated around the precarious zone of insolvency, where, according to available data from the UK[1], recoveries can be impaired for all stakeholders.

The central question then becomes: what are some potential avenues to inject liquidity and improve overall outcomes?

36%	83%	36%	4%	N/A
Fixed charge secured creditors	Preferential creditors	Floating charge secured creditors	Unsecured creditors	Shareholders

Figure 1: Average debt recovered (% of outstanding claim)

Source: HM Treasury, Budget 2018, 'Protecting your taxes in insolvency,' (2018)

The central question then becomes: what are some potential avenues to inject liquidity and improve overall outcomes? Bankruptcy law reforms in the UAE (2016 Federal Bankruptcy Law, revised in 2023) and KSA (2018 Bankruptcy Law) create opportunities for debtor-in-possession (DIP) financing which may offer new money providers an attractive risk-return tradeoff.

New money

Caught between a lack of cash and the threat of insolvency, directors of the borrower must pivot quickly. At a minimum, the chief financial officer (CFO) must ensure that employee salaries are paid and supplier balances are settled. The challenge is that, during such crises, cash becomes particularly scarce as existing lenders have become exhausted. Introducing new funding could offer relief, effectively buying time for a turnaround. Based on the structural characteristics of the company's balance sheet and the availability of unencumbered assets, directors could seek additional liquidity through a consensual process, potentially involving existing creditors, or by initiating a time-out using applicable statutory tools in the relevant jurisdiction.

Out-of-court

Directors may consider exploring out-of-court options to retain autonomy in managing the company. Creditors may also favor out-of-court solutions to avoid the potential compromise of their claims. However, some degree of compromise among different parties, including shareholders, is often necessary to reallocate value, particularly to attract "new money" providers to support the company's recovery. Therefore, the following are expected to be key ingredients for a successful consensual injection of new money:

1. **Unencumbered assets:** If assets are available to serve as collateral for the new funding provider, this will encourage a quicker capital injection. The absence of unencumbered assets will necessitate careful negotiations among creditors to release or share security.

2. **Intercreditor agreements:** Careful management of intercreditor positions is essential to either respect or subordinate the rights of other stakeholders.

3. **Equity upside:** The equity value of a financially distressed business is often low and, in certain circumstances, could be negligible. Additional liquidity could help revitalize the business, and therefore, may be necessary for shareholders to offer a portion of equity in return.

As initial participants in the situation, existing lenders likely possess an informational advantage and may be best positioned to provide additional credit to the debtor under preferential terms. In the US Chapter 11 framework, historical data[2] suggests that 83% of DIP loans are provided by existing creditors and shareholders.

"Time-out" with court protection

When there are no unencumbered assets, creditors are unwilling to share security, and shareholders cannot relinquish their equity claims, company directors may need to seek court protection in order to reorganize the capital structure under the auspices of a moratorium on creditor claims. Recent amendments to bankruptcy laws in the United Arab Emirates and Saudi Arabia aim to encourage rehabilitation, including accessing new funding through DIP financing (as seen on some of the larger restructurings to date). Considering the emerging legal framework for new funding in the region, it is useful to examine the appeal of DIP financing based on empirical evidence from the United States[3,4] and the Chapter 11 process, specifically:

1. **DIP financing as a governance tool for lenders:** During periods of loose monetary policy, when covenant-light agreements are common, DIP financing is structured with tailored terms to enhance lenders' oversight of the debtor.

2. **Roll-up:** Existing lenders providing additional funding to the debtor may enhance their overall recoveries by incorporating some of their existing exposure into the new financing package. There is also the opportunity to provide exit financing once the debtor emerges from the Chapter 11 process with a restructured balance sheet.

3. **Low repayment risk:** Depending on the period considered, DIP financing in the United States has typically had a repayment risk of 0.08%,[5] accounting for both principal and interest. However, lenders may need to be comfortable equitizing some of their existing exposure.

4. **Attractive pricing:** DIP financing features higher average spreads, along with various additional fees such as monitoring, commitment, and exit fees.

5. **Shorter maturity:** A key condition for DIP financing is for the debtor to exit the Chapter 11 process within a short timeframe. As a result, new funding typically has a maturity of 9 to 12 months,[6] which, when combined with the roll-up option, can expedite the repayment of a lender's existing exposure.

Recent regulatory reforms in the GCC and the growth of local credit markets have made DIP financing a compelling solution for companies aiming to recapitalize in distressed situations, as well as for lenders seeking an attractive risk-return profile. However, not all financially strained borrowers will have the appropriate capital structure or business profile for new capital injections. In such cases, restructuring under local insolvency laws may be necessary to optimize the balance sheet before pursuing exit financing to support business recovery.

By **Thomas Bullock**, Partner and **Vuk Prelevic**, Director, Strategy & Transactions, Deloitte Middle East

Endnotes

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Deloitte | A Middle East Point of View - Fall 2024 | Unlocking hidden value in M&A

Buyer beware: The key to unlocking hidden value in M&A

In the dynamic realm of mergers and acquisitions (M&A), unlocking a deal's potential requires a thorough understanding of the fundamental drivers of performance and asset value. While traditional financial performance metrics remain a key focus, M&A practitioners are increasingly seeking a broader understanding of a target's operations through operational due diligence (ODD) and synergy assessments to achieve sustainable value creation. By integrating these aspects, organizations can gain valuable insights into the operational landscape of target companies, paving the way for long-term cost savings, synergistic benefits, and maximized investments.

Operational due diligence and synergy assessments

ODD is a forward-looking evaluation of the target's operational health, designed to identify opportunities and risks within key operations that may influence future performance. Unlike conventional due diligence, which primarily focuses on financial metrics and legal compliance, ODD highlights operational resilience, potential for growth, and opportunities for synergy realization. Through a detailed ODD assessment, acquirers gain a holistic view of the target's capabilities, technological infrastructure, applications, and overall organizational efficiency. This enables them to identify target areas for enhancement and value creation.

Synergy assessments provide clients with detailed insights into the alignment between the acquirer's operations and infrastructure and the target company's overall strategy. These assessments can be conducted through various key functional areas such as procurement, production, and marketing. When organizations undergo this exercise, they can uncover potential synergies that may lead to long-term cost savings and enhance operational efficiency across the organization. Synergy assessments provide clients with a roadmap for integration and optimization post-acquisition, defining strategies and next steps to capitalize on opportunities and ensure sustainable value generation.

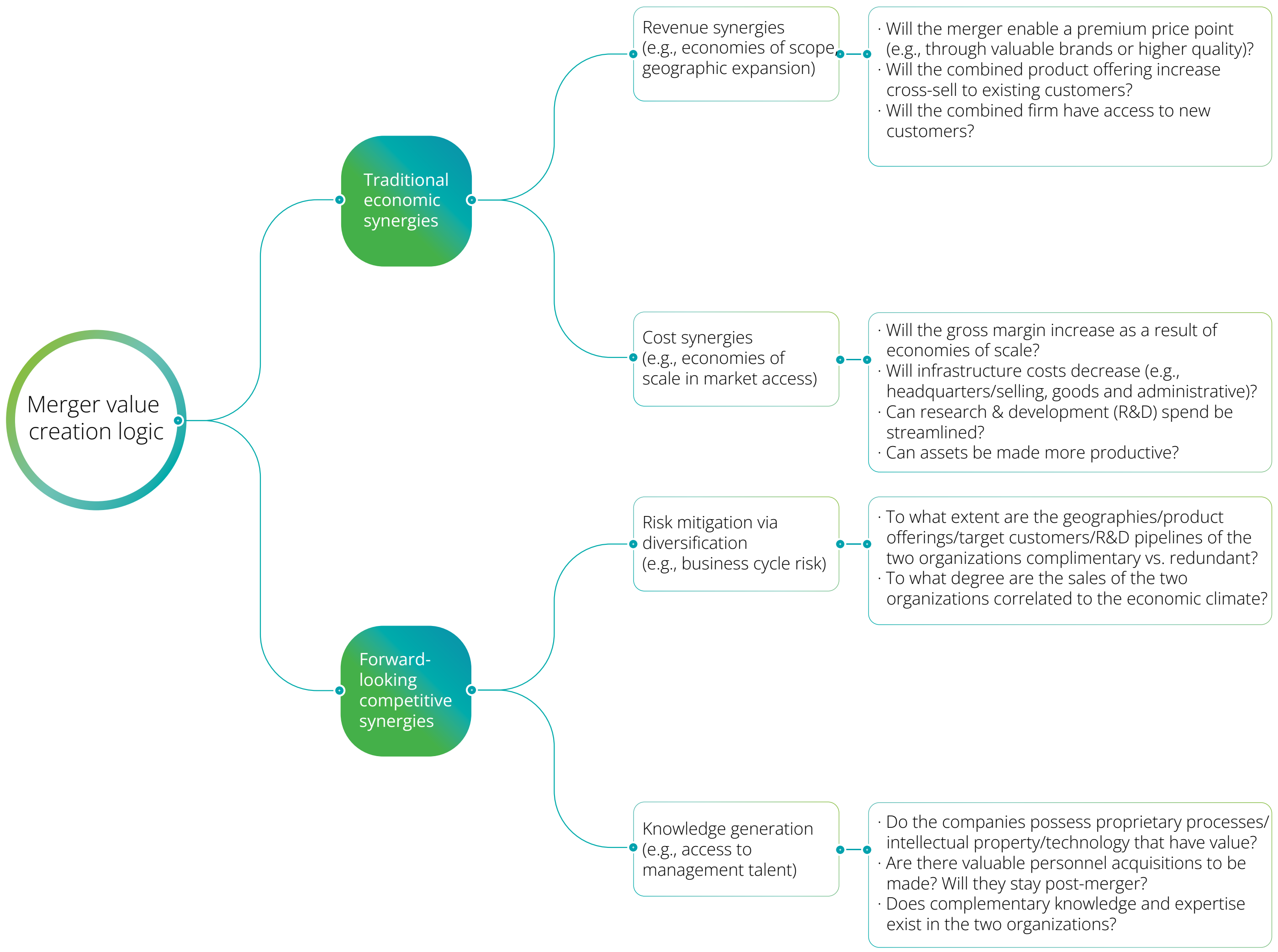

Figure 1: Identify synergy drivers

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Synergy assessments: Long-term cost saving opportunities and revenue generating potential

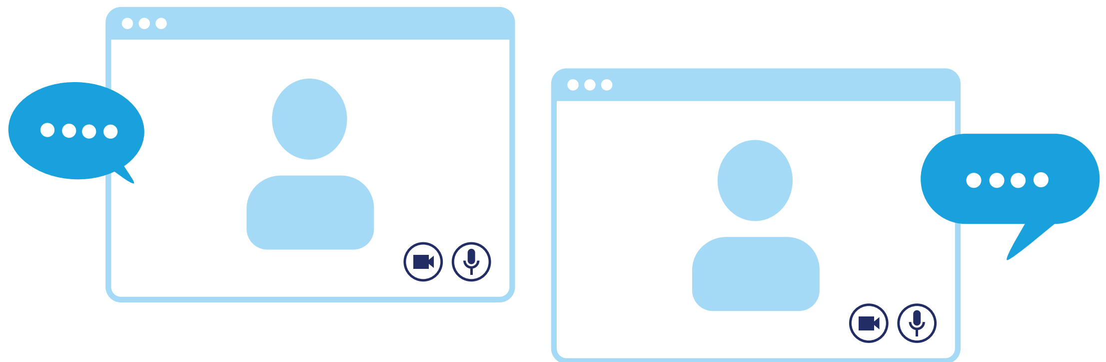
Synergy assessments play a crucial role in identifying cost-saving opportunities that emerge from aligning the resources, capabilities, or operations of an acquirer and a target firm. By identifying and assessing synergies across various functions, organizations can reveal potential efficiencies, such as leveraging joint purchasing power for long-term cost reductions and optimizing processes while utilizing shared resources to enhance operational efficiency. Additionally, synergy assessments enable companies to identify redundancies and inefficiencies, facilitating rationalization and consolidation to achieve long-term cost savings across the organization.

Moreover, synergy assessments provide clients with key insights into revenue enhancement opportunities, often stemming from cross-selling activities and effective synergy realization. Through the strategic utilization of complementary products and customer bases, organizations can create further revenue streams and drive top-line growth in the post-acquisition period. This approach can facilitate a smoother integration process while also promoting long-term sustainable growth and, in turn, profitability.

Case study one: eBay's acquisition of Skype

In eBay's acquisition of Skype, the inability to identify and leverage value creation factors significantly contributed to the deal's failure. Despite initial enthusiasm around the strategic fit of the deal around synergies between the e-commerce giant and the communication platform, the implementation of the integration efforts did not capitalize on these opportunities. The main challenge was the failure to seamlessly integrate Skype's communication services into eBay's online platform. Despite the businesses seeming complimentary, eBay struggled to develop a detailed integration strategy to leverage Skype's capabilities to augment user experience and grow transaction volume. This is a key example of where integration remained superficial, lacking the strategic and functional depth necessary for sustained operational value creation.

Regulatory hurdles posed significant challenges to the transaction, hindering the long-term realization of synergies and sustainable value creation. The heavily regulated telecommunications landscape proved a barrier for eBay to fully integrate Skype's services into its platform. These barriers funneled down within the organization, creating compliance issues and operational bottlenecks that shifted employee goals from the larger strategic initiative, ultimately impacting the development of innovative solutions. In addition, incompatibilities in technology infrastructure hindered platform alignment, slowing down the development of user-centric solutions and transactional efficiency. The lack of integration planning to bridge these technological divides impacted eBay's ability to leverage Skype's technology as a value creation lever, not maximizing deal value.



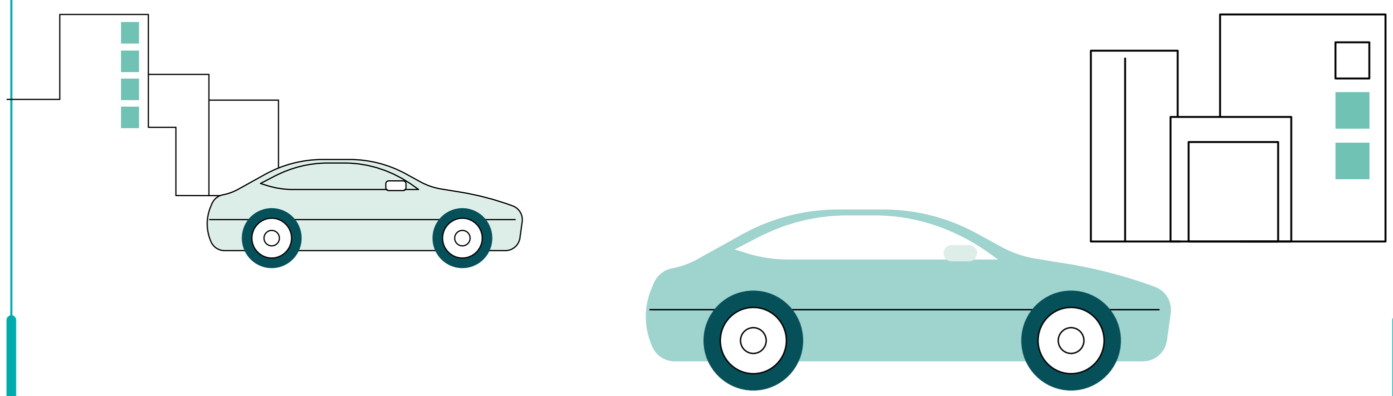
Case study two: The Daimler-Benz and Chrysler merger

The failure of the Daimler-Chrysler merger underscores the inability to leverage value creation drivers due to strategic missteps and operational barriers. The merger struggled to integrate organizational cultures and management styles due to cultural differences. Unclear strategies and ineffective implementation led to operational inefficiencies and cultural misalignment, significantly hindering value creation potential.

Regulatory challenges, including labor relations and corporate governance issues, diverted focus and resources from the overarching vision and strategic initiatives, limiting the realization of synergies.

Moreover, technological disparities emerged as significant obstacles, creating integration bottlenecks and impeding the alignment of product development and manufacturing processes.

Product platform misalignment obstructed cost-saving synergies and hampered the development of competitive products. Failure to address these technological gaps early in the deal was a critical factor in the merger's collapse. The collapse of the Daimler-Chrysler merger highlights the significance of strategic alignment, cultural integration, and technological compatibility in actualizing synergies and sustaining long-term value creation in M&A.



Strategic buyers vs. private equity (PE) firms

Both strategic buyers and private equity (PE) firms approach M&A with distinct strategies and objectives, each adopting tailored methods to achieve their strategic goals. Strategic buyers, such as large operating companies aiming to expand geographic reach or enhance product offerings, typically focus on integration planning to achieve synergies and gain a competitive edge in the market. For example, the acquisition of WhatsApp by Facebook (Meta), a strategic buyer, aimed to leverage WhatsApp's messaging platform to enhance its core social media ecosystem. Facebook sought to establish a dominant position in the messaging market by utilizing WhatsApp's user base and core functionalities, while also realizing synergies to drive significant value creation over time.

Both strategic buyers and private equity (PE) firms approach M&A with distinct strategies and objectives, each adopting tailored methods to achieve their strategic goals

Strategic buyers often face challenges related to cultural integration, strategic alignment, and organizational coherence. For example, the acquisition of AOL by Time Warner illustrates the complexities often faced in strategic acquisitions. Time Warner aimed to merge its traditional media operations with AOL's digital expertise in content and distribution. However, integration efforts were hampered by misaligned business models, company cultures, and operational goals. Failure to address these challenges early in the transaction led to AOL's divestiture, underscoring the risks of strategic acquisitions lacking comprehensive integration strategies.

Private equity (PE) firms create value through targeted initiatives that leverage their financial and operational expertise. When 3G Capital acquired Burger King, it identified and implemented initiatives for cost savings and operational efficiencies, improving profitability, and streamlining operations. 3G Capital transformed Burger King's supply chain, introduced innovative marketing strategies, and created a lean, efficient organization that began generating returns for investors.

In summary, ODD and synergy assessments are vital tools for gaining detailed insights into a target company's operational landscape and identifying opportunities for sustainable value creation. Through meticulous ODD processes, acquirers can identify areas for enhancement and strategic decision-making, while synergy assessments provide a roadmap for integration and optimization, fostering long-term cost savings and revenue enhancement. These assessments are essential for both strategic buyers and private equity firms, enabling them to unlock the full potential of acquisitions and drive sustainable growth by understanding operational risks and opportunities.

By **Saima Jalal**, Partner and **Hisham Saadat**, Assistant Manager, Strategy & Transactions, Deloitte Middle East

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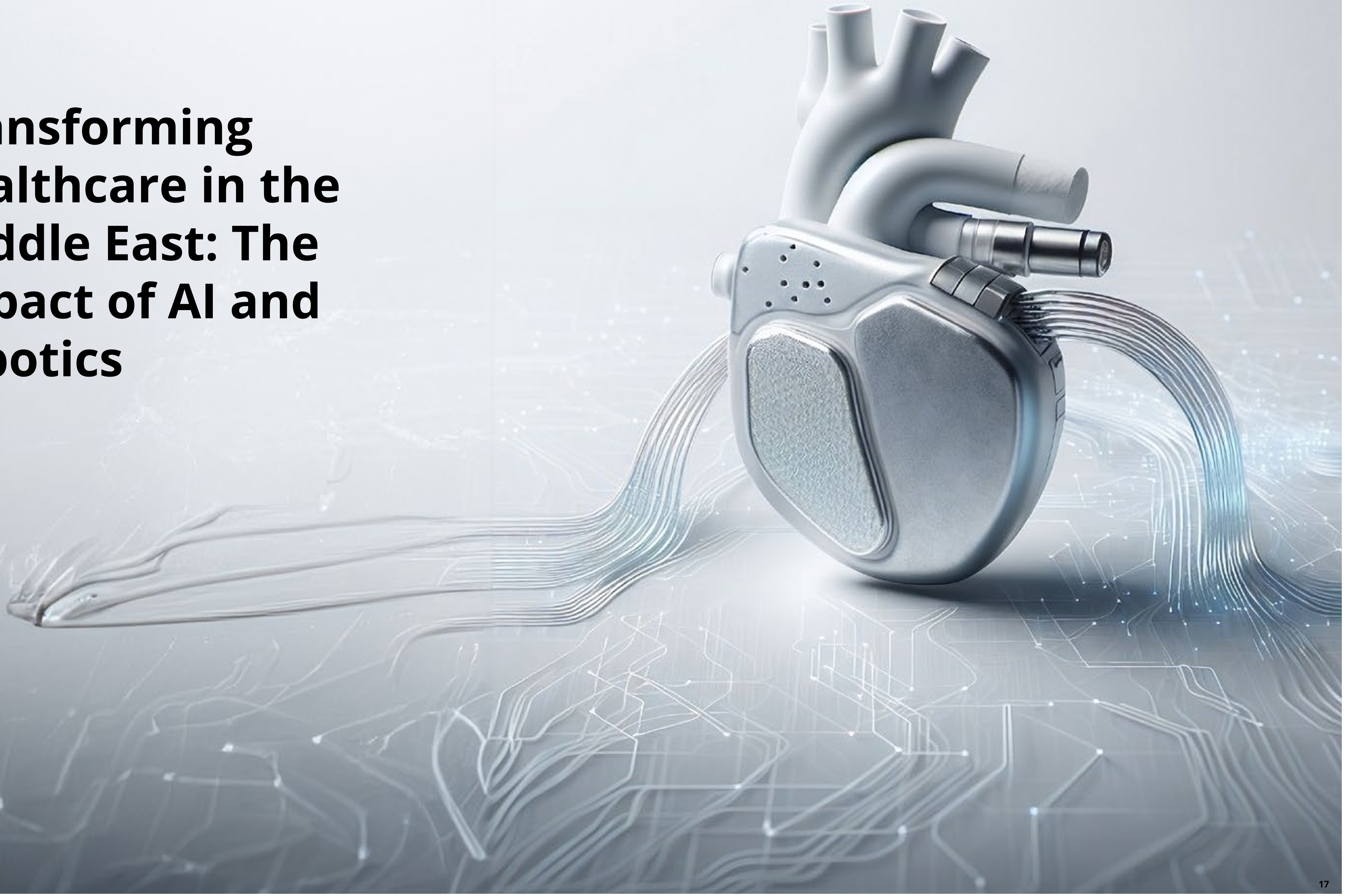
Private equity (PE) firms create value through targeted initiatives that leverage their financial and operational expertise

Deloitte | A Middle East Point of View - Fall 2024 | Healthcare in the Middle East

Transforming healthcare in the Middle East: The impact of AI and robotics



We are witnessing a paradigm shift in the healthcare sector within Middle East due to the emergence of digital innovations through advanced technologies like artificial intelligence (AI) and robotics, which are delivering greater efficiencies and enhancing patient care. Governments and healthcare institutions in the region are heavily investing in cutting-edge innovations and a range of initiatives, including digital health services, to improve efficiency, accessibility, and transparency in healthcare. Known for its rapid economic development and technological adoption, the Middle East is now poised to become a global leader in AI-driven healthcare solutions.

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The role of AI in healthcare: An overview

Artificial intelligence (AI) is rapidly transforming healthcare and medicine. This emerging technology has the potential to revolutionize the field by redefining the doctor-patient relationship and improving the efficiency of the healthcare industry through its ability to process and analyze vast amounts of medical data far beyond human capacity. This capability is instrumental in diagnosing diseases, predicting outcomes, and recommending treatments. AI's role in healthcare can be broadly categorized into the following areas:

Diagnostics

AI tools help reduce costs, improve accuracy, and save time compared to traditional diagnostic methods. They support medical decisions by providing clinicians with real-time assistance and insights, including the analysis of medical images, X-rays, CT scans, and MRIs with remarkable accuracy. AI also helps in identifying abnormalities, detecting fractures, tumors, and other conditions, while providing quantitative measurements for faster and more accurate diagnoses.

Drug information

AI enables quick and comprehensive retrieval of drug-related information by analyzing current medical literature, drug databases, and clinical guidelines. This enables healthcare providers to make accurate, evidence-based decisions.

Predictive analytics

Machine learning algorithms and other technologies are used to analyze data and develop predictive models to identify patients at risk of developing chronic diseases, such as endocrine or cardiac diseases. By analyzing data such as medical history, demographics, and lifestyle factors, predictive models can identify patients at higher risk, allowing for targeted interventions to prevent or treat these diseases.

Genomic medicine

The fusion of AI and genotype analysis has become a game-changer in disease surveillance, prediction, and personalized medicine. The advent of high-throughput genomic (HTG) sequencing technologies, combined with advancements in AI and machine learning (ML), has laid a strong foundation for accelerating personalized medicine and drug discovery.

The rise of robotics

The Middle East has been quick to adopt the below mentioned robotic technologies in healthcare, leveraging them to address both operational inefficiencies and clinical challenges.

Surgical robots

Robotic-assisted surgery is a method that helps surgeons to perform complex surgical procedures with greater precision, flexibility, and command than traditional techniques. This approach enhances care and treatment of life-threatening medical conditions by improving the accuracy of operations and reducing patients' recovery times.

Robotics in rehabilitation

Exoskeletons have emerged as advantageous rehabilitation tools, revolutionizing rehabilitation for disabled individuals. These wearable devices assist patients in relearning how to walk by providing support and feedback during rehabilitation exercises.

Robotic pharmacy and medication management

Robotic systems are being used in pharmacies to automate the dispensing of medications, reducing human error and improving efficiency. These systems also facilitate the proper movement of supplies, maintain inventory of medicines and tools, and ensure timely placement of orders.

Machine learning algorithms and other technologies are used to analyze data and develop predictive models to identify patients at risk of developing chronic diseases, such as endocrine or cardiac diseases

Deloitte | A Middle East Point of View - Fall 2024 | Healthcare in the Middle East

AI and robotics adoption in the Middle East

AI for societal betterment is being integrated into the healthcare sector along with robotics. The market has grown from US$78 billion in 2021 to an expected US$320 billion by 2030. In the Middle East and UAE, the annual contribution of AI is expected to grow by 34%. The use of robots in the healthcare or medical field is helping to promote digital healthcare, with the sector anticipated to generate US$626.10 million in 2024, reaching US$811.30 million by 2028. The compound annual growth rate (CAGR) for this period is estimated at 6.69%.

United Arab Emirates (UAE): The UAE is one of the most economically advanced and diversified markets in the GCC. Launched in 2017, the UAE's Centennial 2071 Plan prioritizes healthcare, aiming to develop infrastructure, expertise, and services that match international standards, with a focus on lifestyle-related diseases. This has gained momentum in the last few years as they plan to enhance access to healthcare through digitization and position the UAE as a top destination for medical tourism. Further, the UAE launched the Artificial Intelligence Strategy 2031, aiming to make the nation a global leader in AI. For instance, Cleveland Clinic Abu Dhabi has invested in robotic-assisted surgery, particularly in the fields of urology and cardiology. Furthermore, the UAE, which was the first country in the world to appoint an AI minister, signed an agreement with the US software company Care AI in 2023 to advance its healthcare initiatives.

Saudi Arabia: Under its Vision 2030 plan, Saudi Arabia is focused on transforming its healthcare sector through technology. Launched in 2021, the newly established Health Sector Transformation Program aims to provide inclusive health services to 88% of the Kingdom's population and implement a unified digital medical records system for 100% of the population by 2025. The Saudi Arabian Ministry of Health has further partnered with several tech companies to introduce AI-based solutions in medical imaging and predictive analytics. King Faisal Specialist Hospital in Riyadh, for example, uses AI for cancer diagnosis and treatment planning. Additionally, the use of robotic systems in surgery is becoming increasingly common across the country. Artificial intelligence (AI) is already playing a growing role in healthcare in the Middle East. Saudi Arabia's National AI Strategy 2031 is bringing AI tools and technology to various sectors, including healthcare, benefiting local providers. Altib, the Middle East's largest AI-based digital health platform, raised US$44 million in 2022 to develop fully integrated primary care, supporting the goals of Saudi Vision 2030 (as per the World Economic Forum).

Qatar, Kuwait, Oman, and Bahrain: The governments of the GCC continue to upgrade the quality of healthcare through AI and robotics initiatives. In Kuwait's Jaber Hospital, AI is being utilized in surgeries, endoscopic procedures, cardiac monitoring tools, and to enhance robotics. In 2023, surgeons in the country began deploying 3D devices to create sophisticated visualizations of patients' internal organs for use during procedures. In Bahrain, the nation's commitment to healthcare innovation has been highlighted by the newly-opened King Hamad American Mission Hospital, which focuses on cutting-edge technologies in digital medicine and AI. This reflects the country's broader digital advancements across other sectors, including sports and technology (as per the World Economic Forum).

AI for societal betterment is being integrated into the healthcare sector along with robotics. The market has grown from US$78 billion in 2021 to an expected US$320 billion by 2030.

Challenges to AI and robotics implementation in healthcare

While the adoption of AI and robotics in healthcare has been swift, there are several challenges that the Middle East must address to fully realize the potential of these technologies.

Regulatory frameworks: There is a lack of clear regulatory frameworks for AI and robotics in healthcare. Many countries in the Middle East are still developing policies to govern the use of these technologies, particularly in areas such as patient data privacy and the ethical use of AI in decision-making.

Data infrastructure: AI relies heavily on data, and the Middle East must continue to invest in robust data infrastructure to support its healthcare systems. Ensuring that healthcare providers have access to accurate, high-quality data is crucial for the success of AI initiatives.

Cost and accessibility: While larger, wealthier nations in the region have made significant investments in AI and robotics, smaller countries may face financial constraints. Making these technologies accessible to all populations, regardless of income level, is a challenge that will need to be addressed.

Skill shortages: The Middle East still faces a shortage of professionals trained in AI, robotics, and data science. While governments and educational institutions are working to close this skills gap, additional investment in training and education is needed to meet the growing demand for healthcare technology specialists.

Healthcare organizations, both globally and regionally, are adopting AI and robotic technologies to manage operations in a variety of fields, including surgery, pharmacy, rehabilitation, telemedicine, and others. As technology advances rapidly and costs continue to decline, more healthcare institutions are embracing these innovations in proven areas. Technology has the potential to automate repetitive tasks, improve accuracy and speed, reduce workloads, provide services remotely, and reduce costs.

It is worthwhile for healthcare leaders to recognize the immense potential and long-term benefits of leveraging innovative, yet maturing, AI and robotic technologies. Investing in these advancements can help manage their organizations more effectively. As Gijs van Wulfen, a keynote speaker and authority on innovation and design thinking, once said, "Operational excellence generates your profits today. Innovation excellence will generate your profits tomorrow."

By **Sachin Bhandari**, Director and **Avilash Singh**, Senior Manager, External Audit, Deloitte Middle East

Endnotes

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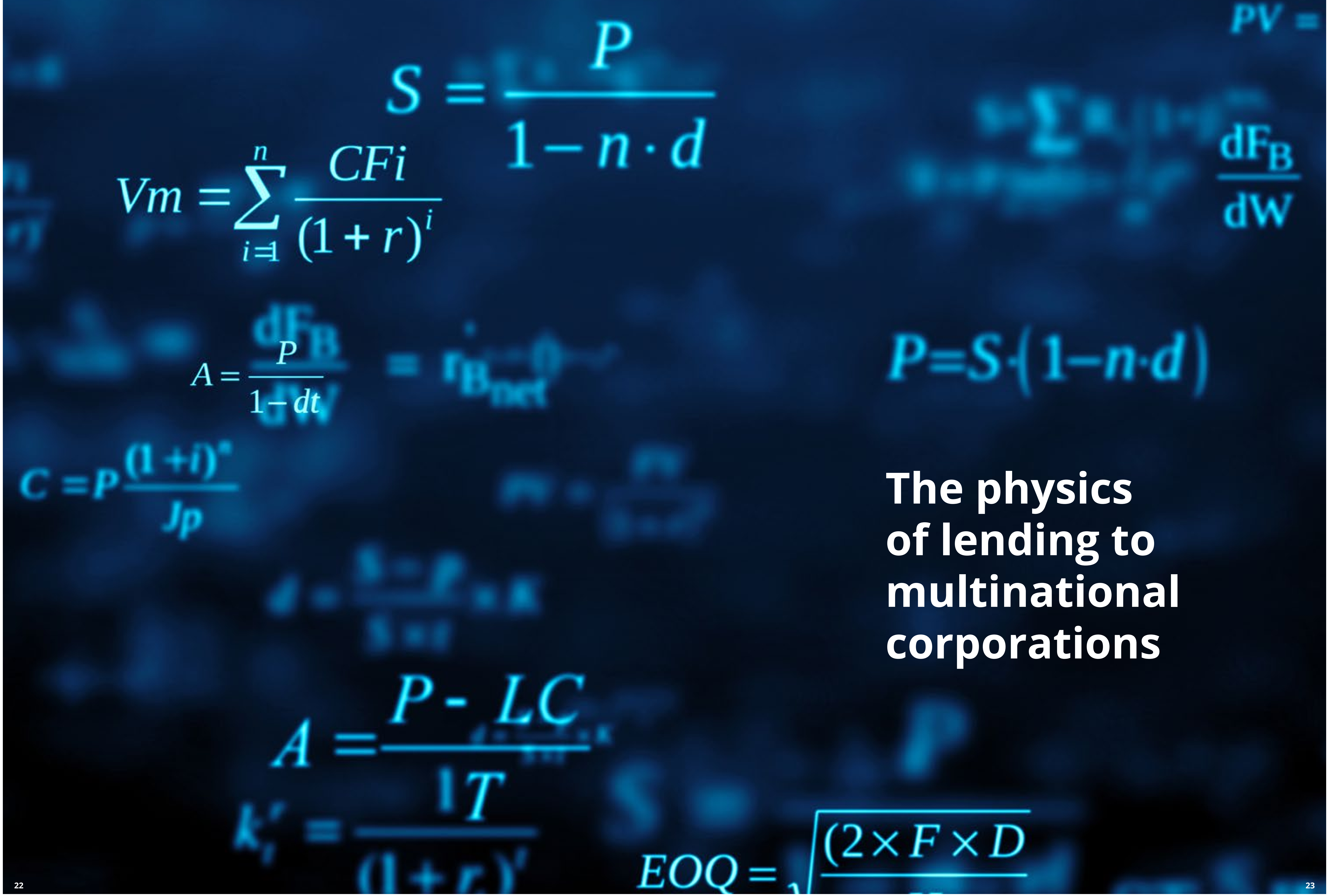
Deloitte | A Middle East Point of View - Fall 2024 | Lending to multinational corporations



The physics of lending to multinational corporations

Scenario analysis is a key component of any decision-making process, particularly in credit investing, where preventing losses and understanding the range of potential downside scenarios is essential. When a multinational corporation (MNC) borrower underperforms against initial projections, the consequences can extend beyond a simple drop in earnings before interest, taxes, depreciation, and amortization (EBITDA) or a lower enterprise value (EV)/EBITDA exit multiple. While these are certainly unfavorable and plausible outcomes, they do not necessarily model sufficient downside when lenders need to exercise control over a distressed group of companies. In such cases, the dispersion of outcomes is dependent on three specific variables that can be drawn from the world of physics: distance, time, and velocity.

The ubiquity of MNCs

A 2022 study[1] of over 6,000 major international corporations found that MNCs collectively manage more than 370,000 subsidiaries worldwide. On average, this equates to roughly 60 subsidiaries per MNC, with the most active managing nearly 2,700 subsidiaries. While these findings may not be surprising given the study's focus on large corporations, they highlight a broader trend: with today's interconnected global value chains, even smaller companies can have dozens of subsidiaries spread across different regions.

Variable one: Distance

A lender's ability to effectively control an MNC borrower in distress often depends on the distance between the borrowing entity and the MNC's key subsidiaries, which hold critical assets and operations. The greater the distance, the more challenging it becomes to control the outcome. However, this distance is an artificial construct that can be managed by understanding the group structure of the MNC borrower.

Group structures are designed to help an MNC achieve its strategic objectives. For instance, if an MNC aims to maximize profitability, it typically pursues this goal through three structural silos that include increasing operational efficiency, optimizing capital allocation, and tax structuring. The MNC's group structure reflects these silos, helping the lender understand how capital flows from the subsidiaries' cash registers to the borrowing entity, the likely point of attachment for the lender.

Consolidation analysis of an MNC's accounts is another useful method for evaluating the group structure, as it maps each subsidiary's contribution to the group and highlights key inter-group dependencies. This becomes particularly useful during a crisis when pockets of cash need to be identified and accessed within a short time frame.

Variable two: Time

When a borrower encounters corporate "turbulence," it often coincides with a period of declining cash reserves. In such cases, the critical factor becomes the time remaining before cash depletion. If this period is shorter than the time required for lenders to take control of the MNC, the downside analysis should either include provisions for additional capital injections or account for the potential risk of value destruction (beyond lower EBITDA and reduced exit multiples). Since the directors of the MNC borrower and its subsidiaries often hold significant control over both cash management and timelines, understanding their level of involvement is crucial.

Directors are agents of the shareholders, which generally is not an issue, since all stakeholders—shareholders and creditors alike— aim for the company to be well-managed and profitable. However, issues may arise if directors are not independent (friends or family members) and not disinterested (i.e., they have a substantial economic or personal interest in the company). In such situations, the rights of other stakeholders, particularly creditors, may be overlooked. Therefore, it is often beneficial to create a map of directors responsible for decisions at each of the MNC's subsidiaries and actively monitor any changes, as directors have the authority to pass resolutions, transfer shares, sell assets, approve financials, and manage operations.

In a business-as-usual scenario, this may seem excessive since the group will often operate as one, with customers, suppliers, creditors, and other stakeholders generally disregarding the group structure. However, in times of distress, the group structure may be utilized at the discretion and speed of the borrower to protect shareholder interests, potentially at the expense of creditors' rights. Achieving a creditor-friendly outcome could be challenging, which is why it can be helpful to bear in mind an adapted version of Gordon Pepper's law,[2] i.e., calculate the maximum period of time that a situation will take to resolve itself favorably, and then double it.

A lender's ability to effectively control an MNC borrower in distress often depends on the distance between the borrowing entity and the MNC's key subsidiaries, which hold critical assets and operations

Variable three: Velocity

Velocity is a combination of speed and direction. Depending on the jurisdiction of the MNC borrower and its subsidiaries, the speed of movement can be extremely fast but in the wrong direction, such as transferring assets beyond the reach of the lenders. Alternatively, it can be extremely slow when required to move in the right direction, such as replacing directors or enforcing a share pledge.

Due to globalized value chains, restricting credit investment decisions solely to "Goldilocks jurisdictions," where the velocity of lender outcomes is just right, is not always feasible. Therefore, an interesting aspect of allocating capital to an international group of companies is the interplay between different geographies and the effect that legal systems can have on the terminal velocity of a business.

Due to globalized value chains, restricting credit investment decisions solely to "Goldilocks jurisdictions," where the velocity of lender outcomes is just right, is not always feasible

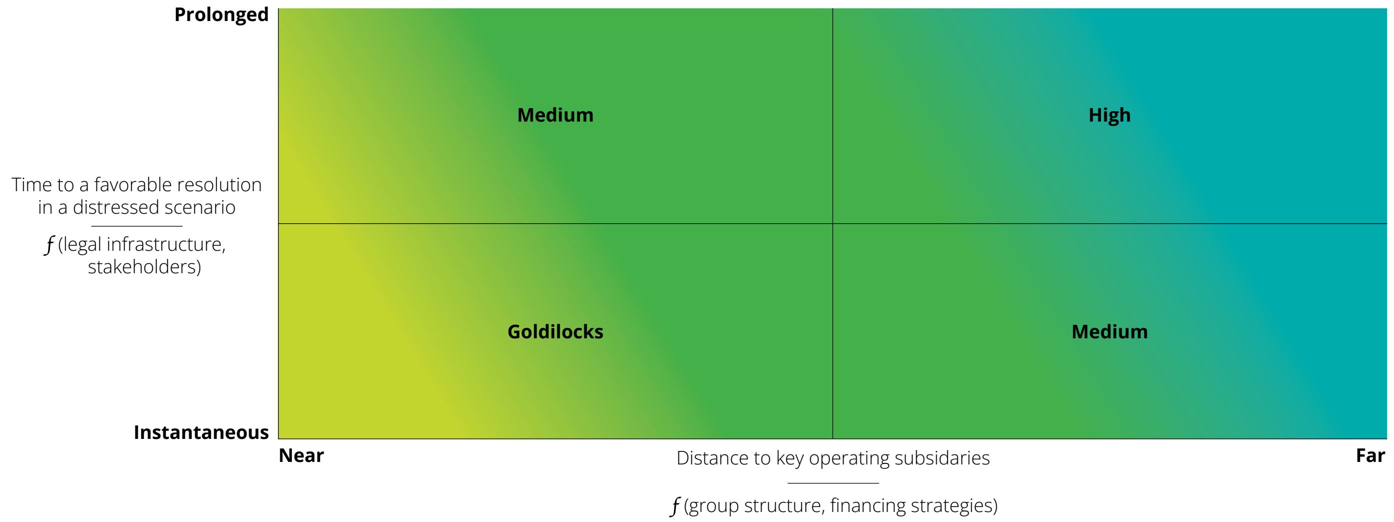


Figure 1: Cross-border credit complexity heatmap

Source: Deloitte

The geographical dispersion of MNCs may pose challenges when pricing credit risk. Lenders could be inclined to take a macro view and assign an MNC the credit spread based on the location of the ultimate borrowing entity even though the underlying operations and significant assets or sources of value are scattered across the globe. Depending on the size of the MNC and the distance and time factors discussed earlier, it might be appropriate to adopt a more granular view in analyzing the fundamental credit exposure. This approach can help in adjusting the pricing and introducing contractual protections, or alternatively, considering the walk-away option.

In summary, lenders need to be adequately compensated for the complexity they are importing into their portfolio of risks. This is especially true when venturing across borders, where factors including supply chain disruptions and geopolitical dynamics can shape the range of possible outcomes. Using principles such as distance, time, and velocity to map out and quantify those sets of outcomes at the start of the underwriting process can help identify the right levers needed to drive a successful resolution in times of distress.

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The United Arab Emirates: A global hub for future industries

The United Arab Emirates (UAE) holds a significant position in the Arab world and ranked 27th globally[1] in the United Nations Industrial Development Organization's (UNIDO) Competitive Industrial Performance Index in 2022. This index evaluates the industrial performance of 153 countries, assessing their capacity to produce and export goods competitively. The UAE's various strategies and programs,[2] such as the flagship "Make it in the Emirates" campaign, the National In-Country Value (ICV) Program, and the National Program to Transform Technology, have played a pivotal role in driving the growth of the manufacturing sector. These efforts have enhanced support and incentives for both local and international investors, helping to diversify the economy and reduce dependence on oil.

Launched in 2021, Operation 300bn aims to elevate the industrial sector's role in the UAE economy, with a target of increasing its contribution to Gross Domestic Product (GDP) from AED133 billion in 2021 to AED300 billion[2] by 2031. The initiative focuses on establishing an attractive business environment for both local and international investors, fostering the growth of national industries, and enhancing global competitiveness. By positioning the country as a global hub for future industries, Operation 300bn seeks to boost exports and expand the UAE's presence in international markets.

In parallel, Abu Dhabi's Industrial Strategy,[3] backed by six transformational programs targeting the circular economy, talent development, ecosystem growth, and value chain enhancement, aims to double the manufacturing sector's size to AED172 billion. The strategy also targets the creation of 13,600 skilled jobs and a 143% increase in Abu Dhabi's non-oil exports, reaching AED179 billion by 2031.

Priority sectors

The UAE's manufacturing localization strategy prioritizes value-added sectors,[4] including food and beverage (processed foods, dairy, and beverages), pharmaceuticals, chemicals (basic chemicals, petrochemicals, and specialty chemicals), electrical equipment and electronics, machinery and equipment, and hydrogen, among others. Other sectors are also being increasingly emphasized to advance the country's decarbonization goals following the 28th Conference of the Parties (COP28). Low-carbon technologies, such as solar PV manufacturing, are being actively pursued.[5]

By targeting these sectors, the UAE aims to build a more diversified and sustainable economy, reducing reliance on imported goods while also creating jobs for both nationals and residents. A parallel objective of this strategy is to also attract foreign players to establish a manufacturing presence in selected sectors, positioning the UAE as a base outside of traditional markets that are subject to ongoing trade difficulties or high regulations.

Why localize in the Emirates?

As one of the world's top 20 economies, the UAE has secured a leading position in foreign direct investment (FDI) inflows within the region. The World Investment Report 2024 by the United Nations Conference on Trade and Development reported that FDI flows into the UAE reached approximately US$30.69 billion in 2023, up from US$22.74 billion in 2022, placing the UAE second globally in FDI inflows.[6]

The UAE's status as a premier business hub is underscored by the influx of international companies due to the country's overall value proposition and central position in high-growth markets. In 2022, the Dubai Multi Commodities Center (DMCC) welcomed 665 new companies, marking its best first quarter in over 20 years, with significant registrations from China, India, the United Kingdom, Germany, and France.[7] By 2023, the DMCC's total number of companies exceeded 24,000.[8] Similarly, the Jebel Ali Free Zone supports nearly 800 manufacturing firms with tailored infrastructure, excellent logistics, and over 100 customized projects.[9]

The UAE's robust and stable economy, along with its growing population, makes it an attractive destination for investors. Its strategic location at the crossroads of Europe, Asia, and Africa, offers seamless connectivity to global markets, which enables efficient distribution of products to a wide range of customers and end-users. Further, the UAE's strong logistics and infrastructure, absence of trade sanctions, and a growing number of free trade agreements with streamlined, duty-free access to Gulf Cooperation Council (GCC) and Middle East and North Africa (MENA) markets, make it an attractive location for establishing manufacturing bases. This favorable trade environment, combined with the ease of obtaining commercial and industrial licenses and access to world-class services and amenities, encourages international investment and expansion.

The government continues to promote the UAE as a reliable partner through a range of initiatives designed to expand industries locally and attract foreign direct investment (FDI). These initiatives include revised tax rates, streamlined procedures, and world-class infrastructure. As such, several industrial clusters have been successfully launched, including TA'ZIZ[10], KEZAD[11] (Khalifa Economic Zones Abu Dhabi), and Tawazun Industrial Park[12]:

- TA'ZIZ is a flagship initiative by the Abu Dhabi National Oil Company (ADNOC) and Abu Dhabi Developmental Holding Company (ADQ), aimed at establishing a large chemical production cluster, creating new revenue streams and opportunities for local manufacturers.
- KEZAD was launched by Abu Dhabi Ports Group in 2022. It serves over 1,750 clients across 17 industrial and economic sectors, including pharmaceuticals, metals, automotive, food and agriculture technology (agtech), retail and logistics, hi-tech, green energy, and specialty chemicals. It provides comprehensive access to industry and economic verticals, from processing and storage to distribution.
- The Tawazun Industrial Park in Abu Dhabi is a specialized free zone for the military and security sector, focusing on defense and security industries, including electronics, technology, and automotive. It serves as a regional hub, offering a world-class industrial park with numerous benefits, flexible space, and a supportive work environment. Investors also enjoy duty-free access to GCC and MENA markets through the UAE's free trade agreements.

Entry routes to the UAE market

The UAE's ambitious manufacturing localization strategy presents several opportunities for foreign investors. There are several market entry strategies that investors can leverage to establish a presence in the UAE, including partnerships with local companies, accessing sovereign wealth funds, or investing capital onshore. Furthermore, investors can explore free zones to benefit from tax incentives and streamlined regulations. Merger and acquisition (M&A) activity through acquiring an existing UAE-based manufacturing company is also a common strategy, enabling investors to gain an immediate foothold and access to assets, customers, and talent. Lastly, greenfield investments, which exceeded US$15 billion in 2023[13] (a 36% increase compared to 2022), are a popular option, allowing for tailored operations and long-term value creation.

By carefully considering these strategies, foreign investors can navigate the UAE's manufacturing landscape, benefit from familiar legal systems (especially in free zones), and contribute to the country's economic diversification and continued development.

Future outlook

The UAE has demonstrated remarkable resilience, both during the COVID-19 pandemic and amid the current geopolitical instability in the Middle East. FDI inflows are expected to continue growing, assuming no further regional instability, with a target of meeting the government's ambition of US$150 billion in FDI by 2031.[14] As a result, the UAE remains an attractive location for many, with its dynamic business ecosystem appealing to international players looking to tap into one of the world's fastest growing regions - one with ambitious plans to transform and lead across several sectors.

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The surge of private credit in the Middle East: A new financial era

Deloitte | A Middle East Point of View - Fall 2024 | Private credit in the Middle East

Over the past five years, the adoption of private credit by global market participants has seen a meteoric rise. Assets under management (AUM) have more than doubled to over US$2 trillion since 2019,[1,2] with financial powerhouses such as BlackRock and Blackstone forecasting a potential US$30 trillion[3] addressable market in the near future. Private credit is now expanding into the Middle East, with local investors seeking to diversify their returns after decades of wealth derived from hydrocarbons.

Several sovereign wealth funds, including the Public Investment Fund (PIF), Abu Dhabi Investment Authority (ADIA), Abu Dhabi Developmental Holding Company PJSC (ADQ), and Mubadala,[1,2,3,4] have partnered with some of the largest global credit houses to access attractive risk-adjusted returns. As this emerging asset class continues to grow within the Gulf Cooperation Council (GCC), an increase in transactions, regulatory requirements, financial reporting burdens, and investor transparency is anticipated. This article outlines the components of this asset class, its appeal to market participants, and how local markets are accelerating its adoption through regulatory reforms.

Private credit is an umbrella term that refers to lending outside traditional banking channels and public syndicated debt markets. Instead, this capital is provided by non-bank financial institutions, such as private equity firms, private credit funds, and alternative asset managers. Most private credit borrowers are highly leveraged small and medium enterprises (SMEs) considered too risky or too large for regional bank financing, or too small for public bond markets.

This asset class includes a broad range of products, such as floating rate direct lending, real estate loans, collateralized loan obligations, and specialized financings like venture debt, infrastructure debt, consumer asset-backed securities, and last-mile financing. Within the GCC, direct lending and venture debt — the latter being a more flexible financing option for early-stage borrowers that often includes equity incentives — make up the majority of private credit issuances.

The consensus among local market participants is that the potential of this asset class within the region is only just beginning to be realized. Local investors are drawn to the premium it offers over its public counterpart, which primarily compensates for increased illiquidity. This aligns with the "higher-for-longer" mantra that governs central banks' medium-term monetary policy.

Local investors also see significant opportunities to deploy capital within the region, alongside two fundamental issues that regulators are addressing. The United Arab Emirates' 40 free zones and relaxed visa processes are government-led efforts to reduce reliance on oil and are expected to create funding opportunities for private credit providers, with unbanked SMEs in the region projected to be worth approximately US$200 billion by 2030.[4]

Globally, banks allocate around 22% of their loans to SME funding. In contrast, banks in the Middle East and North Africa (MENA) region allocate less than 10% to SMEs, with GCC banks allocating less than 2%.[5] Local credit funds observe that banks remain primarily focused on government-backed contracts, well-known entities, and large family groups, where personal guarantees are easier to secure compared to engaging with smaller businesses. This focus is partly driven by the substantial funding needs of large government infrastructure projects in regions like Saudi Arabia and the UAE, which are reducing liquidity in the banking sector. Consequently, access to capital for ambitious entrepreneurs and growing companies remains a largely unresolved challenge in the region.

From a borrower's perspective, unbanked SMEs benefit from the flexibility, availability, and confidentiality provided by private credit, which often offers more favorable capital terms than traditional financing for early-stage businesses. Private credit frequently serves as an attractive alternative to founders, allowing them to retain greater equity in their businesses while serving as a vital bridge between start-up funding and traditional bank financing.

A significant driver of growth in the Middle East has been the introduction of the Private Credit Fund Rules in 2023. These rules, along with the 2023 bankruptcy laws, the alignment of Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM) laws with common law, and the emergence of institutional debt investors under the regulatory framework for enforcement actions, have facilitated the flow of debt financing throughout the region. Combined with the increasing demand for debt financing, these developments have positioned private credit as a key asset class for regional players in 2024 and beyond.

As a result of these developments, global and international players are rapidly entering the market. Chimera's US$2 billion private credit joint venture with Alpha Wave in 2022[6] was followed by the establishment of Lunate, a US$110 billion alternative asset manager reportedly interested in acquiring a minority stake in global private credit leader HPS Partners, according to Bloomberg.[7] Mubadala has formed at least seven partnerships with Apollo, Ares, Blackstone, and Goldman Sachs, committing over US$5 billion to private credit investments both domestically within the UAE and internationally.[8,9,10] Local entities like Rasmalah,[11] Ruya Partners,[12] Shorooq Partners,[13] Jada Fund of the PIF,[14] and Qatar Investment Authority (QIA)[15] have all made significant advances into the asset class, with new entrants emerging each month.

In summary, private credit encompasses a diverse range of debt instruments that are becoming increasingly integral to financing the region's revenue diversification efforts. Growing investor demand is being matched by increasing funding needs in the SME segment, facilitated by structural regulatory changes implemented by the government. Viewed from a broader perspective, this development closely resembles the state of private equity in the Middle East two decades ago. The growing demand for increased transparency, expertise within private debt funds, and specialized advisory services is expected to parallel the growth of private equity, presenting significant growth opportunities for private credit and related services.

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Globally, banks allocate around 22% of their loans to SME funding. In contrast, banks in the Middle East and North Africa (MENA) region allocate less than 10% to SMEs, with GCC banks allocating less than 2%.

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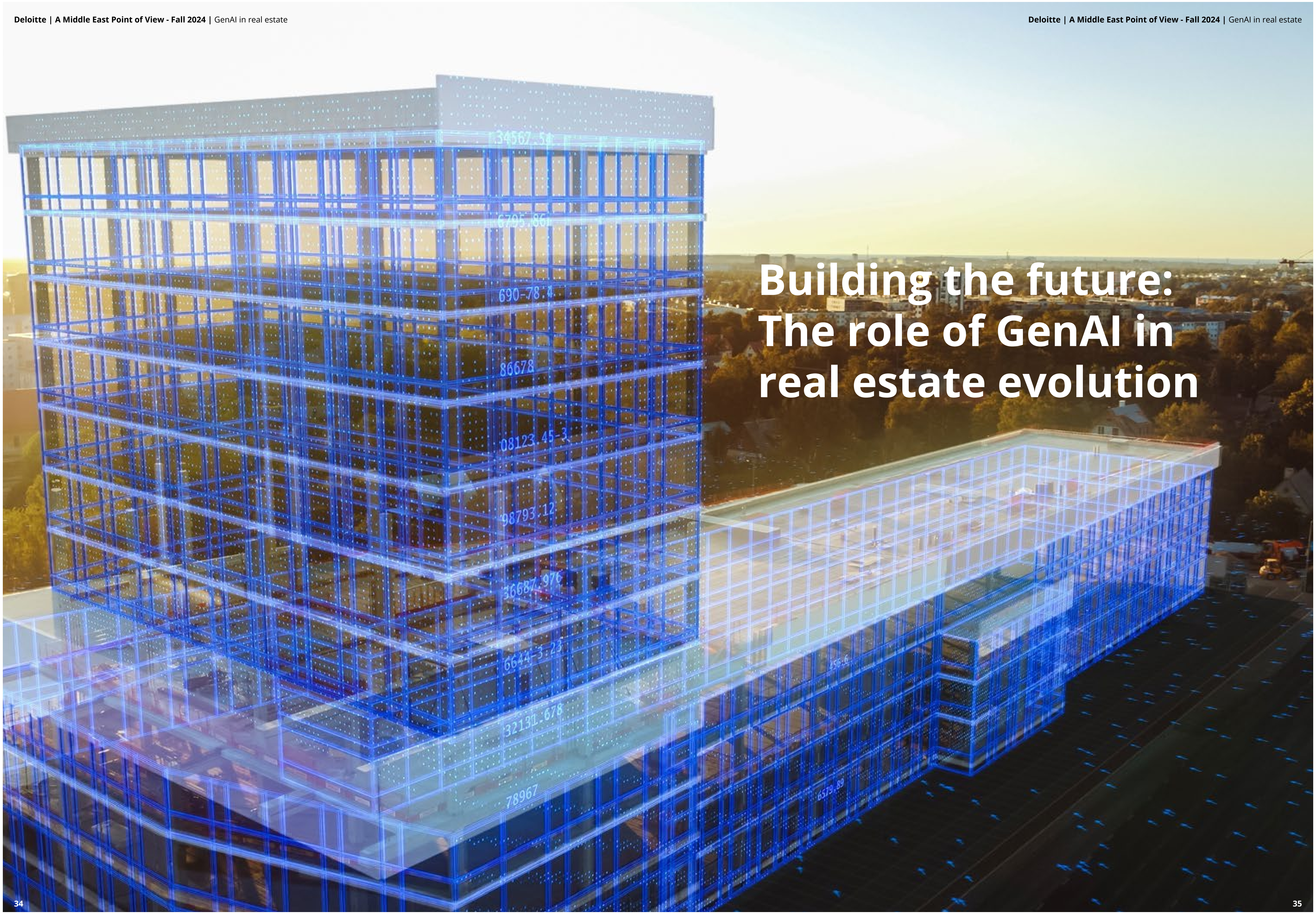

Building the future: The role of GenAI in real estate evolution

As the world rapidly evolves, artificial intelligence (AI) has become a powerful force across all industries. Over the past few years, Generative AI (GenAI), a subset of AI, has surged in popularity due to its ability to produce original content such as text, images, audio, and other forms of media. The development of user-friendly tools and improved machine learning models has made GenAI more accessible to both businesses and individuals. Consequently, it is increasingly utilized for creative endeavors, automated content creation, and problem-solving, sparking widespread conversations about its potential impact. Companies are harnessing their capabilities to boost productivity and streamline processes, resulting in increased efficiency and improved customer experiences. As such, adopting this technology is no longer optional; it is essential for remaining relevant in the market.

The GenAI global market is set to surge to US$1.3 trillion over the next decade, growing from US$40 billion in 2022. This growth is expected to generate around US$318 billion in new software revenue, driven by specialized assistants and innovative infrastructure products. Major players like Amazon Web Services, Microsoft, Google, and Nvidia are positioned to benefit as enterprises transition workloads to the cloud.[1] While GenAI is transforming industries such as retail, education, manufacturing, and healthcare, its potential in real estate has yet to be fully explored.

The data-driven nature of real estate presents significant opportunities for value creation through AI. By integrating AI throughout the real estate lifecycle, all the stakeholders can achieve more efficient and sustainable operations, boosting asset values and enhancing customer experiences. According to Deloitte's 2024 Commercial Real Estate Outlook Survey, over 72% of global real estate owners and investors plan to invest in AI-enabled solutions within their organizations.[2]

Many real estate players in the region are accelerating their efforts to capitalize on the substantial value that these new technologies are offering. For example, ROSHN Group, a leading Saudi real estate developer backed up by Public Investment Fund (PIF), has partnered with Google Cloud to leverage AI to transform how it uses and benefits from data analysis.[3] Meanwhile, Dar Al Arkan is launching a venture focused on developing technological solutions to address the major challenges faced by real estate companies.[4]

However, companies need to align several foundational factors such as securing management approval for the investment budget, effectively managing proprietary databases, and sourcing reliable third-party vendors to fully realize its potential. Once GenAI is fully understood and trusted, it will likely be integrated across the sector.

This article highlights a range of strategies that real estate companies can pursue to effectively leverage the advantages of a GenAI-driven vision and position themselves as industry leaders.

Visualization insights

When a property is vacant or sold off-plan, the decision-making process for end users or tenants often takes longer. However, GenAI can facilitate a personalized virtual tour experience, enabling investors to make swift and informed decisions. Additionally, there is an opportunity to collaborate with home furnishing companies and interior designers, allowing users to select furniture and design elements in their preferred style, thereby enhancing the overall customization of the experience.

Property valuation

Traditional property valuation methods often depend on multiple manual processes, which can be time-consuming and prone to human error. In contrast, AI-powered valuation algorithms consider all aspects of a property in real time, including location analytics, market trends, and the property's specific features. By expediting the valuation process, AI not only enhances accuracy but also facilitates quicker property turnover for real estate agents, owners, and buyers.

Bayut, the leading property website in the UAE that connects buyers, sellers, landlords, tenants, and agents, has collaborated with the Dubai Land Department (DLD) by launching TruEstimate, an AI-powered property valuation tool. This tool aims to enhance transparency and provide data-driven insights by leveraging the extensive data from the DLD.[5]

Virtual bot and broker

Businesses can leverage GenAI-powered chatbots to boost customer engagement. These chatbots can handle property inquiries, arrange viewings, and offer personalized recommendations tailored to user preferences. Additionally, virtual brokers and consultants can be developed to help avoid the challenges and delays that customers typically experience with human brokers. For example, a global real estate brokerage firm headquartered in the UAE has developed a fully qualified virtual broker capable of replacing a human agent. This virtual broker successfully advised multiple clients and closed property deals worth US$30 million within just a week of its launch. The creation of this virtual broker stems from a goal to address the inefficiencies and unpredictability inherent in traditional real estate transactions.[6]

Investor decision making

Typically, an investor conducts a return-on-investment assessment by gathering data from various sources. For instance, when considering the purchase of residential property for appreciation, an investor analyzes factors such as location, proximity to shopping malls and metro stations, availability of children's play areas and schools, and property size. GenAI tools can leverage both internal and external datasets, enabling investors to filter options based on these criteria and present relevant choices. This technology also allows for the evaluation of potential risks and returns, such as understanding how interest rate changes or rental rate fluctuations might affect profitability. Integrating GenAI enhances operational efficiency, improves customer experiences, and facilitates strategic decision-making, ultimately leading to increased profitability and a stronger competitive position in the market.

Property architect plans and designs

GenAI aids architects and developers by creating diverse architectural designs based on criteria such as budget, site dimensions, and aesthetic preferences. This technology allows for rapid prototyping, enabling quick visualization of different configurations. For example, tools can generate adjustable 3D models, providing clients with immersive previews of proposed buildings before construction begins. Developers in the UAE, such as Emaar Properties, have announced the detailed design of the Dubai Square project, positioning it as one of the most advanced projects globally utilizing GenAI.[7]

Project risk assessment

GenAI enhances risk assessment for real estate developers by analyzing large datasets to identify patterns and trends that indicate potential risks. It models various scenarios, allowing developers to visualize the impacts of decisions or external factors. Predictive analytics forecast issues like budget overruns and construction delays, enabling proactive mitigation strategies.

GenAI continuously monitors regulatory changes, alerting developers to new compliance requirements. It also assesses environmental impacts to help design sustainable solutions. By optimizing resource allocation and identifying inefficiencies, GenAI provides actionable insights that reduce uncertainties and improve decision-making throughout the project lifecycle.

Smart urban living

GenAI can analyze data from IoT sensors in buildings - such as temperature, humidity, and equipment performance - to anticipate when maintenance is needed. This proactive approach helps minimize downtime and repair costs by addressing potential issues before they escalate. For instance, AI can alert property managers to an impending failure in a heating system, allowing them to schedule maintenance proactively. This predictive maintenance not only reduces operational expenses but also boosts tenant satisfaction. For example, Aldar Properties (Aldar) has announced a partnership with Siemens to develop one of its integrated mixed-use projects in Abu Dhabi into a leading global example of smart urban living.[8]

Urban planning

GenAI can analyze data on population growth, traffic patterns, and land use to create efficient and sustainable urban designs. For example, the Government of Dubai has announced its plan to implement GenAI for urban planning, positioning the city as one of the first globally to leverage this technology in developing its urban strategy. This initiative aims to create a comprehensive vision for neighborhoods and residential areas in collaboration with the community.[9]

In adopting GenAI, stakeholders and management within real estate companies must identify the most effective tools and strategies to enhance operational efficiency. This involves pinpointing applications that streamline processes, automate routine tasks, and ultimately save time for customers and tenants. By implementing AI-driven solutions such as virtual property tours, smart property management, and intelligent chatbots, companies can significantly improve the customer experience.

In an increasingly competitive landscape, adopting generative AI-driven tools and methods isn't just beneficial—it's essential for real estate companies looking to remain relevant and capitalize on new opportunities. Thus, investing in this technology is crucial for the future.

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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 overstretching 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:

1. **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.

2. **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.

3. **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)[1] large-scale solar projects, Abu Dhabi's PPP initiatives such as the Zayed City Schools project,[2] and Qatar's Al Wakra & Al Wukair waste treatment facility[3] 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.

By **Sean Benghiat**, Director, Infrastructure & Real Estate, Deloitte Middle East

Endnotes

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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

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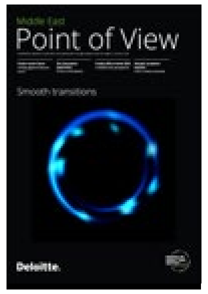

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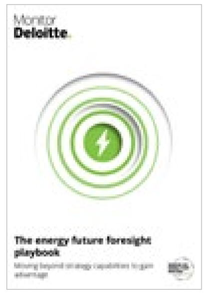

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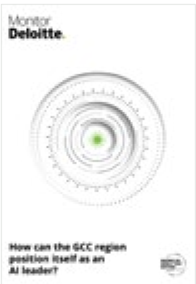

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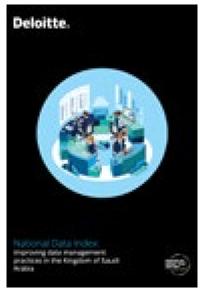

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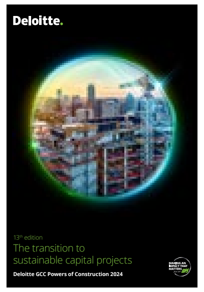

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