Virtue borne out of necessity?

The sharper focus on public sector spending across the region–brought about by reduced oil prices–may provide the stimulus needed to drive change in major procurements and, in the longer-term, support governments in broadening the regional economic base and securing a range of other benefits.

The scale and speed of the change in the oil price has had a clear influence on the fiscal landscape for governments across the region. While the level and immediacy of the impact varies, many have signposted a recasting–or rethinking–of major investment programs in infrastructure.

Reducing the capital allocated for essential projects carries risk. Lack of investment leaves unmet the need for economic infrastructure to create jobs that would in turn help steer economies away from a reliance on natural resources. In addition, real and unmet demand in areas of social infrastructure such as housing, health and education goes unaddressed. Tightening budgets generally across public services has the potential to exacerbate another challenge commonly experienced in the region, that of the effective whole-life maintenance of existing public assets.

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Growing public demand for increased demonstrable accountability for public spending serves to place governments and agencies across the region more strongly in the spotlight as they respond to these complex and often competing pressures.

The greater and more effective use of the private sector in the design, delivery and, potentially, financing of public sector projects and associated services is a declared key long-term objective for many governments across the region. In Saudi Arabia for example, the Kingdom's privatization strategy that dates back nearly two decades, envisages a broad spectrum of options to execute the transfer, ownership or management of public enterprises, projects and services. Its imperative is reinforced in the rolling National Development Plans and also in sector-specific plans and strategies, each with their own nuances and objectives. The National Transportation Strategy for example, recognizes that while the provision and financing of the roads network will be a public sector responsibility, reducing government involvement in tasks that can be more effectively delivered by the private sector and rationalizing existing pricing and cost recovery schemes are important objectives. Many such strategies across the region seek to promote the engagement of the private sector without the ultimate loss of control of the assets by the public sector.

Different approaches to implementation have been adopted. Jordan, Kuwait and Egypt for example have established dedicated units to foster partnerships with the private sector. There are no established parallel bodies in some jurisdictions such as any of the Emirates. The overall approach in Saudi Arabia, which also has no central partnership body, has been to empower the agencies and ministries within different sectors to adopt and advance the privatization imperative at a pace and on a route that were largely self-determined. The effectiveness of this approach has depended largely on the drive and appetite of individual organizations (and often, in reality, the individuals within them) and access to the required skills and capacity. In many cases the constraints, real or imagined, of the standing procurement regulations have acted as an impediment to accessing the expertise required to innovate. Further hurdles to clear have been establishing effective tariff or revenue structures that are clear, equitable and, critically, bankable and achieving this in an environment with often opaque subsidy arrangements.

The resulting picture is mixed. The maturity and appetite for the use of non-traditional contracting models amongst commissioning clients is variable between sectors within individual countries and also between the same sectors across different geographies. A direct consequence of this variability is a lack of consistent maturity in the available providers, funders and direct investors. These issues become self-perpetuating as the lack of credible local expertise and resources, and the resultant perception of "offshoring" government assets and services, can create a further and real disincentive to the use of different procurement models.

A number of major transport projects, such as the passenger line between the Holy Cities of Makkah and Madinah and the proposed cross-Kingdom freight landbridge in Saudi Arabia and the Mafraq-Ghweifat highway in Abu Dhabi were considered for private finance, adopting models proven in many other areas of the world, but were ultimately funded by governments. In sectors such as water, while private funding of projects has been used relatively extensively historically, there has been some backing away from this approach over the recent past in some jurisdictions.

In an environment of strong government revenues, the headline pressures to consider alternative delivery and financing models for infrastructure projects and services is reduced. The original impetus for Public Private Partnerships (PPP/P3) and other similar models often reflected fiscal pressures on governments (the United Kingdom's original Private Finance Initiative (PFI) from which many of the current models have evolved, for example, was driven by a wish to reduce the country's short term public sector borrowing requirement.) This can serve, however, to obscure the broader benefits that alternative approaches, appropriately configured and delivered, can achieve. In the regional context it is through some of this wider set of benefits that perhaps the most valuable and sustainable advantages of alternative procurement models with a greater private sector role could be seen.

Some of the advantages are well rehearsed, at least in theory, and include increasing the certainty of project timetables and cost outturns and providing the opportunity for maximizing the socio-economic benefits of the investment. These benefits are both at project-specific level, through economic multipliers, and also at the macro level, through improving the efficiency of national economies and enhancing their competitiveness. Commissioning agencies can use the greater sophistication of alternative models to contract on a basis that best reflects the value that they place across the spectrum of their objectives. These include the level of local value retention and the employment of nationals.

The cost of capital for governments will continue to remain lower than it is for private investors or funders. This, however, should be only one element of the financial consideration. A properly considered Value for Money assessment of a PPP or privately funded scheme considers cost holistically and on a risk adjusted basis. This reflects the greater opportunity for innovation and integration efficiencies provided through contracts based on performance outputs compared to prescriptive, input-based specifications. Critically, it also reflects the quantification of the risk that is transferred away from government–a cost otherwise borne by government but often not reflected. As many governments move their focus from building new assets to maintaining them, the locking-in of a responsible private partner provides not only risk transfer but also the further benefit of certainty of operating performance and predictability of cost.

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The direction of travel for many governments across the region is for the greater and more strategic engagement of the private sector in services and asset provision. To achieve this requires upfront investment, to build the skills and capacity of government's own teams and also to build the confidence and capacity of the supply market at a local level.

Governments across the region are not necessarily facing the same financial imperatives faced by the likes of the United Kingdom at the outset of its PFI program. It may be, however, that the greater focus on public spending brought by the changed regional fiscal environment will provide the kickstart that is needed to accelerate the progress towards better use of the private sector. In making this small enabling investment, governments will realize wider and more sustained advantage than could be achieved through a "business as usual" approach.

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