



**Gulf Research Centre Cambridge**  
Knowledge for All

## Workshop 2

# **Private Delivery of Infrastructure Services in the GCC: The New Political Economy of PPPs**

### Workshop Directors:

**Mhamed Biygautane**

Associate  
Center for Commercial Law and  
Regulatory Studies  
Monash University  
Australia  
Email: [Mhamed.biygautane@monash.edu](mailto:Mhamed.biygautane@monash.edu)

**Dr. Khalid Al-Yahya**

Senior Research Fellow / Director  
King Salman Center for Governance  
and Innovation / Palladium  
Saudi Arabia  
Email: [Khalid.Alyahya@thepalladiumgroup.com](mailto:Khalid.Alyahya@thepalladiumgroup.com)

**Dr. Amer Al-Adhadh**

Economic Advisor / Adjunct Faculty  
Ministry of Economy and Trade /  
Georgetown University  
Qatar/ United States of America  
Email: [dr.aladadnyc@gmail.com](mailto:dr.aladadnyc@gmail.com)

### **Abstract**

Governments and economies of the GCC countries have been going through transformative changes in the last few years. The falling global oil prices and unsustainable public spending have affected the Gulf States' development plans and the ability to continue providing public services and financing large initiatives, especially infrastructure projects. The new policy direction is toward aggressively seeking privatization or various models of partnerships with the private sector (local and global) to address these challenges. These economic and institutional changes, often radical, have

received little attention from researchers of public management and networked governance within the context of the Gulf region. The purpose of this workshop is to gather scholars, practitioners, and policy makers to discuss and debate issues related to the new public policy instruments that actively involve the GCC's private sector in the provision of public and infrastructure services, and what these changes mean to the current state of political economy. This workshop will examine various ways in which the private sector is being and can be more involved in providing public services either in collaboration with the public sector or by fully privatizing and transferring the ownership and operation of state-owned entities to the private sector.

## **Description and Rationale**

The GCC states have achieved dramatic economic growth since the discovery of oil and gas. They have succeeded in transforming their economies, which prior to the discovery of oil and gas relied merely on fishing and pearling, into modern, state-led and service-oriented ones. The GCC governments are replacing the rentier state model as the general developmental trajectory and gradually shifting toward market liberalism, economic openness, and creating pro-business environments. The private sector, however, has not necessarily been a partner in this process (Yousef 2004). Its sharp reliance on government contracts and oil rents weakened its capacity to drive economic growth, and it continues to depend on state contracts and spending (Hertog 2014; Yousef 2004).

The significant drop in oil prices since the second half of 2014 challenges the capacity of the Gulf States to continue the provision of public services and especially mega-infrastructure projects. For example, in the next ten years, it is expected that infrastructure spending alone will reach between \$1.5 and \$2 trillion in the GCC (MEED 2015). Saudi Arabia is expected to be the largest market for infrastructure projects in the entire Middle East and North Africa (MENA) region by building mega-cities with investments exceeding \$250 billion. Qatar, on the other hand, is hosting the World Cup 2022 and plans to spend around \$140 billion over the next five years in related infrastructure projects (MEED 2015).

The Vision 2030 and the National Transformation Program in Saudi Arabia call for the urgent participation and a bigger contribution of the private sector to the local economy. Privatization and public-private partnerships are emphasized in these two government documents as vehicles to support economic transformation in the Kingdom, and shoulder the financing of public services at large.

The aim of this workshop is to contribute to the public management literature by examining the experiences of Gulf governments in introducing public management

instruments such as privatization, public-private partnerships, contracting-out and governance by network. Harnessing the potential of these policy tools to encourage economic growth and deliver improved public services is a timely subject when some Gulf States are experiencing massive budget deficits such as Bahrain, Oman and Saudi Arabia.

## **Review of Literature**

Under the banner of New Public Management (NPM), the traditional bureaucratic agencies were criticized for their lack of efficiency and effectiveness in delivering public services (Teicher, Alam and Gamberg 2006). The NPM model builds on the private sector's managerial practices which prioritize outputs, results, and require higher levels of efficiency in service delivery, and promises better value for money (Teicher et al., 2006; Grimsey and Lewis 2000, English 2006; Hodge et al., 2010). Over time, such managerial practices have included alternative service delivery methods mainly privatization, contracting out, public-private partnerships and governance by network.

Governments worldwide have implemented privatization programs and were motivated to experiment this reform instrument for two reasons. First, proponents of privatization promised that the inefficiencies normally associated with State-Owned Enterprises (SOEs) could be improved by introducing competition and private sector's managerial methods (Cook and Kirpatrick 2003). Second, privatization offered a financial solution to reduce the governments' subsidies for SOE and to partly alleviate governments' budget deficits as well.

Some forms of privatization involve the sale of government-owned assets to the public whether through a share flotation, as is the case in most OECD countries, or to existing companies in terms of trade sales. The new organizations which emerged from the privatization process could be fully owned by the private sector or the government could maintain a 'golden share' to maintain some form of control over these companies.

Public-private partnerships are a relatively recent extension of the NPM agenda for changes in the way public services are provided (Broadbent and Laughlin 2003). They have become a popular strand of public policy in many western countries, such as the United Kingdom, Australia and Canada, with claims of better efficiency for funding public services through the appropriate allocation of risks, rewards, and responsibilities.

Governments have adopted PPPs for a variety of reasons. First of all, they promise to provide value for money (English 2006). Grimsey and Lewis (2000) state that the principal aim of the public sector's involvement in PPPs is to achieve value for money from the services provided when the private sector meets its contractual obligations

“properly” and “efficiently.” This is achieved through “lower construction costs, lower operating costs and more efficient maintenance in the long run” (Webb and Pulle, 2002. p. 5). The private sector needs to perform efficiently to make the projects they undertake profitable, and this enhances the quality of services and minimizes their costs. Another source of value for money arises from the “bundling” of services. The obligation to build, operate, maintain and transfer the asset to the state at the end of the contract are additional incentives to minimize project costs (English 2006). Therefore, the efficiency of the service provided is maximized through effective and efficient design and construction of infrastructure projects and its costs are kept to the minimum.

A second reason for adopting PPPs is to transfer risk to the party that is best prepared to handle it (Grimsey and Lewis 2000; Hodge and Greve 2013). It is the driver of value for money and the government’s key justification for PPPs because without significant risk held by the private sector, PPPs would not be politically feasible (English 2006). These risks could be related to construction, the size of the market, the cost of operations and maintenance, delays in finishing the projects, force majeure and any changes to laws and regulations. The private sector, however, is restricted by a tight budget and limited sources which forces it to perform its services with minimal costs and higher quality to generate profitability for its shareholders.

### **Objectives of the Workshop**

The workshop aims to situate the GCC states within the academic conversations around topics such as privatization, public private partnerships, contracting out public services and governance by network within GCC governments. Participants will have the opportunity to discuss and debate the theoretical underpinnings of each of these models of service delivery and shed light on the issues that challenge their implementation. The involvement of the private sector in financing and delivering public services is inevitable for the future development of the GCC states. Reflecting on both successful and unsuccessful cases of such public management reforms in the Gulf can potentially inform both scholars and practitioners as to the opportunities and challenges that these public policy instruments face and present.

**Some of the questions which the workshop will aim to discuss include (but are not limited to):**

- What lessons can be learned from successful and unsuccessful cases of privatization of state owned enterprises, public private partnerships, outsourcing of public services and governing by network within GCC states?
- What lessons can be learnt from the extensive use of Independent Water Power Project (IWPPs) within the GCC context?
- What lessons can be learned from international cases of cooperation and partnership among the public and private sectors for application within the GCC?
- What are the opportunities and challenges for using private sector capacity and innovation in delivering future public services within the Gulf region?

By investigating these questions, the workshop aims to discern the rationale behind introducing such policy instruments to the Gulf region and assess their strengths and weaknesses. This will enhance our understanding of these policy instruments and how they can perform in the GCC region. Moreover, discussion of successful and failed experiences will enable us to provide some recommendations on how to ensure that these reforms achieve better outcomes.

### **Contribution to the Expansion of Gulf Studies**

The purpose of this workshop is to fill significant gaps in both the public policy discourse as well as the current literature on public management practices within the GCC states. While studies relating to broader matters of energy and socio-political economy of the Gulf have been given emphasis within academic circles, focused research on public management practices in the Gulf has not attracted much attention. This workshop aims to attract high quality original research and document successful and unsuccessful cases of privatization, public private partnership, outsourcing public services, and government by networking within the context of the Gulf States. Lessons learnt from these experiences will inform our understanding of the potential of these instruments to address the fiscal deficits of the GCC states, and it will shed light on innovative ways in which the private sector can partner with the public sector to deliver public services more efficiently.

### **The key themes of the workshop include (but are not limited to):**

- Privatization
- Outsourcing and contracting out government services
- Governance by network
- Infrastructure financing and delivery
- Public-private partnerships
- Governance of state owned enterprises

- International best practices in implementing complex policies and projects
- State owned enterprises in the GCC

## **Anticipated Participants**

The workshop aims to bring together academics, practitioners, and policy makers to discuss and debate the challenges and opportunities that policy tools such as privatization, public private partnerships, and outsourcing can have on the economic development of the region.

The workshop welcomes theoretical papers, policy papers, and case studies that analyze how public management instruments are implemented and how they perform in the context of the Gulf and other Middle East and North Africa countries. Single, comparative and regional cases are all welcomed.

## **Workshop Director Profiles**

**Dr. Khalid Al-Yahya** is Senior Research Fellow at King Salman Center for Local Governance, and Director of Palladium, Saudi Arabia. Dr. Al-Yahya is a leading expert in Strategy, Development Policy, and Governance with over 20 years of global and regional experience in government, consulting, and academia. His previous work focuses on areas related to public sector transformation and innovation, strategic planning and implementation, public-private partnerships, human capital and labor, competitiveness and sustainability. He has advised and led transformative projects with several governments and international development organizations including the Ministry of Finance, SAMA, SAGIA, Ministry of Labor, Aramco in Saudi Arabia; and Prime Minister's Office, Ministry of Labor, Ministry of Interior, Executive Councils in Dubai Government, Abu Dhabi Government, and Ajman Government in the UAE; the OECD, UN, UNDP, World Bank, Bill Gates Foundation, Shell Foundation, and Citi. He is currently Palladium's Saudi Arabia country director. He has held senior leadership positions including the Managing Director of Accenture Strategy and Public Sector lead in the Middle East, Official at the MOF in Saudi Arabia, Director of Governance and Innovation in Dubai Government, and Associate at Harvard University Kennedy School (2008-2012), Assistant Professor at Arizona State University (USA) (2005-2008). Dr. Al-Yahya is an influential thought leader and has been a speaker in more than 110 international conferences and forums in 42 countries, and a regular commentator in TV news channels. He is a member of several international professional associations. He is also a certified instructor in "Strategic Thinking & Leadership", "Public-Private

Partnerships", "Public Sector Innovation", "Knowledge Management" and "Public Policy Implementation". He has more than 50 published works that were presented in international and regional venues including WEF, Government Summits, Harvard University, WB.

He completed his post-doctoral study at Harvard University's CMES, and has a Ph.D. in Development Policy and Management from University of Connecticut and MPA & MBA from University of Hartford, all in the USA.

**Dr. Amer Al-Adhadh** is Economic Advisor at the Ministry of Economy and Trade, Qatar and adjunct faculty at Georgetown University in Washington, D.C. **He is** Adviser to Qatar's Ministry of Economy and Trade and specializes in Private Sector Development and Public Private Partnership. He is well known for his extensive background in both finance and economic institutional development in the Middle East. Dr. Al-Adhadh was economic development adviser in Iraq in 2006 following a Summer Fellowship with the Institute for Mathematical Behavioral Science in 2005.

In 2007, he was awarded a research prize from the Institute for the Study of Complexity, Paris. He received his Ph.D. in Political Economy from the University of California following the completion of his mathematical undergraduate studies at the University of California, San Diego in 2000.

In 2009, he established a \$500 million SME Initiative for Qatar, and has recently been nominated Vice Chairman of the UNECE PPP Team of Specialists. Dr. Al-Adhadh has lectured on Econometrics at the University of California and on Public Policy at Georgetown University.

**Mhamed Biygautane** is currently a Research Fellow at the Center for Commercial Law and Regulatory Studies at Monash University in Australia where he specializes in infrastructure public-private partnerships in the context of the Gulf Cooperation Council (GCC) states. He is also a Non-resident Fellow at the Mohammed Bin Rashid School of Government (MBRSG) in Dubai, Visiting Research Fellow at the American University of Kuwait, and a regulator contributor to Oxford Analytica where he provides strategic analysis on the political-economic development of the GCC and the wider MENA region. He has published numerous peer-reviewed studies on public-private partnerships, privatization, knowledge management and training in the public sector, and administrative reform within public sector organizations in the GCC.

Mr. Biygautane has also authored and co-authored various studies and reports for organizations such as the World Bank, OECD, UNDP, the United Nations, and Oxford Analytica. With Dr. Khalid Al-Yahya, Mr. Biygautane co-authored a series of policy

briefs on public management and innovation in Dubai and Saudi Arabia. Mr. Biygautane has presented at more than 60 international conferences such as the Jeddah Economic Forum in Saudi Arabia, Academy of Management in Canada, International Project Management conference in Dubai and the Gulf Research Meeting at the University of Cambridge in the United Kingdom. His work has appeared in journals such as *Thunderbird International Business Review*, *Public Works Management and Policy*, and *Digest of Middle East Studies*. His work has also been featured in international and regional media such as BBC, Dubai One, the *New York Times* and other news outlets.

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