



PROJECT FINANCING IN QATAR: A CASE OF EVOLUTION

Amid the ongoing oil price dip, the need for diversification becomes even more crucial for Qatar. While the non-hydrocarbon sector will take its time to develop substantially, the government is considering a variety of project funding models to support the country's construction industry among other sectors, writes Dani Kabbani of Eversheds LLP.

Qatar, like other countries in the Gulf, has seen the effect of lower oil prices on its budget. Some less urgent projects have been postponed, but the momentum continues with regard to the 2022 World Cup related projects. Most of the construction contracts were signed before the oil price decline, and the fixed deadline means that these projects are going ahead.

Generally, low oil and gas prices are considered to be part of a cyclical process and the belief that prices will sooner or later improve means that Qatar is mainly making use of this period to restructure government entities, such as the recent ministerial reshuffling and merger of portfolios, and concentrate on core business in the oil and gas sector by moving away from previously owned companies providing add-on services.

World Cup-related projects such as stadiums, roads and metro projects are the priority at the moment, along with the extension and modification of the infrastructure to cope with the population growth. Funding for those projects will mainly continue in the same way, although the government is looking at alternative structures mainly through public-private partnerships (PPPs) for upcoming hospital and school projects. In fact, the Ministry of Economy and Commerce is in the process of drafting the PPP law for Qatar. For now, Kahramaa generally finances its projects through a hybrid but effective PPP model that will most probably continue until a detailed law is in place.

Project funding models in Qatar

In terms of financing models, all kind of alternatives are being considered at the moment, and any opportunity to raise funds through conventional and less conventional ways is being tackled. These vary from bonds

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to global depositary receipts to sukuk. There is also a flurry of initial public offering activities where even small- and medium-sized enterprises (SMEs) are trying to raise funds through public offerings.

Qatari banks have kept funding projects and international contractors working in Qatar. Although there may be some pricing revision, fees and interest rates will continue to be very competitive but emphasis will be on increased security and scrutiny on profitability or return on long-term projects. Plans are also underway to encourage SMEs to obtain financing by creating a register for mobile assets provided as a security by SMEs. Such a drive to push investors towards moving ahead with their projects and encouragement of banks to continue lending such projects is part of the state's effort to diversify the economy away from oil and gas.

Governments in the region are seeking to diversify their economies, as they are involving the private sector to accelerate economic growth. Furthermore, the drive towards encouraging the enhancement of the investment climate and competitiveness;

the increased employment of nationals in the private sector, and the improvement of government services in key sectors (education and health) reflect Qatar's emphasis on the private sector's development as a key national goal. In this realm, Qatar was among the first adopters of the PPP model in the region mainly in the power generation projects. Eversheds is assisting the Ministry of Economy and Commerce in drafting the PPP law and setting-up a governance and supervisory framework. Although the programme has leadership support, certain challenges will need to be addressed, such as clear risk allocation and well-defined costs and returns on investment. A dedicated PPP legal framework will help increase transparency, improve and unify the procurement process, and identify security rights granted to lenders.

Export credit agencies have always played a major role in project financing in Qatar, being engaged mainly in major oil and gas, petrochemical as well as power projects. In the future, we see their involvement to continue within relevant projects, although these particularly large projects will generally be reduced in number.

Eventually, Qatar's diversification drive and private sector empowerment will mean that investors from various sectors will be looking to the country. Despite the lower oil and gas price, as long as the cost of production remains one of the lowest in the world, Qatar will continue to see further investments in the oil and gas sector albeit in more specialised sectors of the industry, particularly downstream. **QCN**

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