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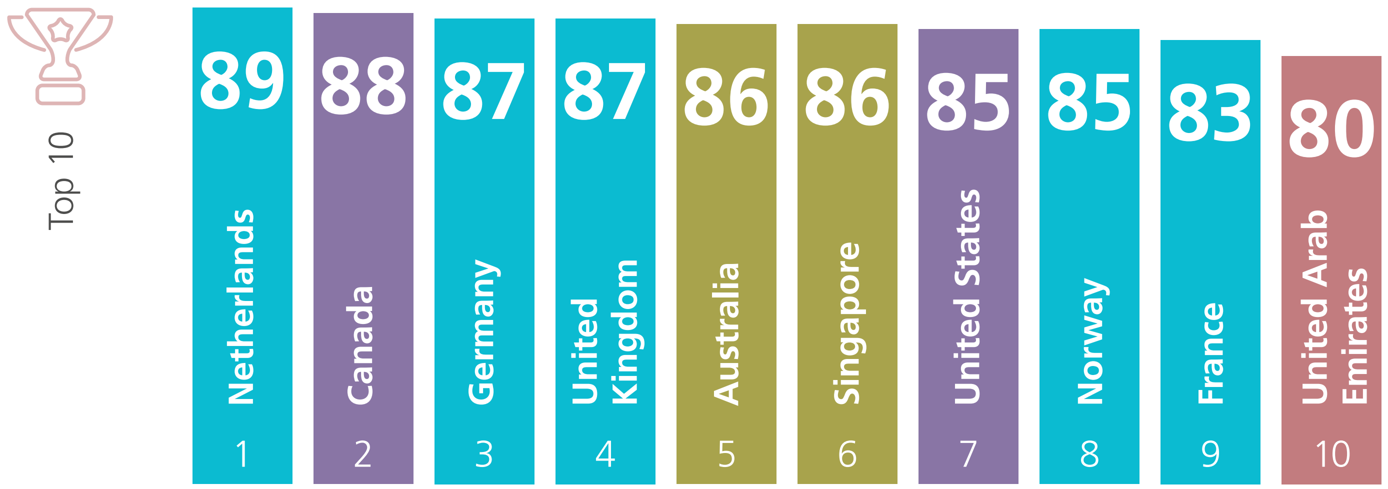
Infrastructure Index

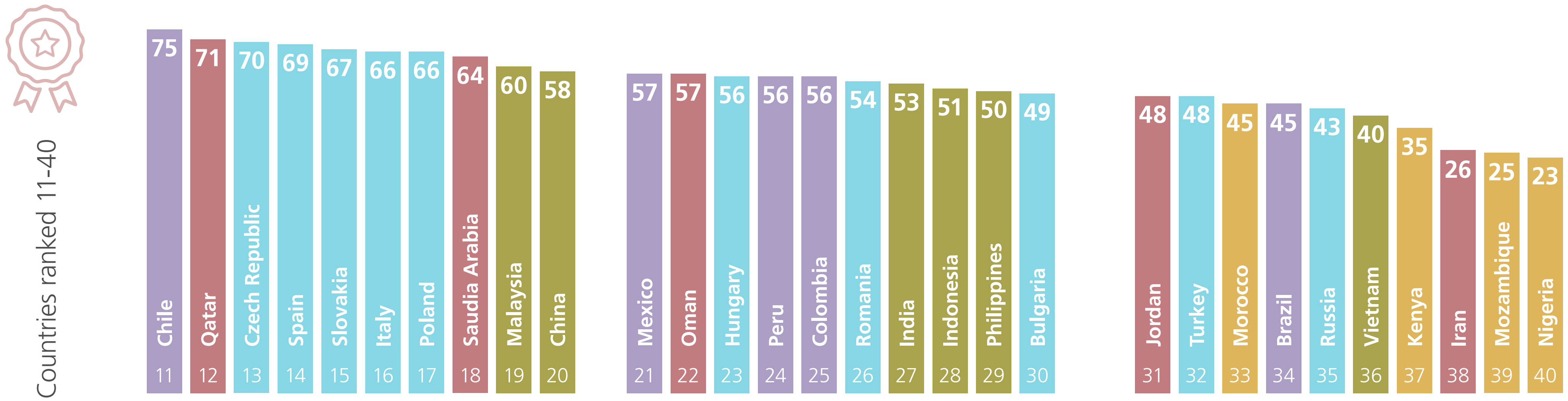
A new direction: Middle East pipeline promise

The Infrastructure Index results

The CMS Infrastructure Index analyses data across 40 jurisdictions against six key criteria to create a guide to the most attractive destinations for infrastructure investment.



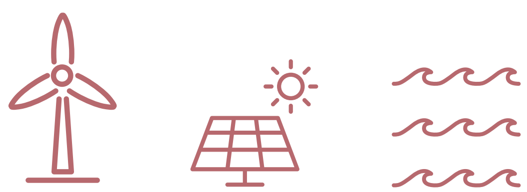
> Resilience to political change, climate change, and volatility in the energy market in the region are also key. Programmes such as Saudi Arabia's 2030 plan are vital to this resilience.
>
> *David Cox, Mott MacDonald*



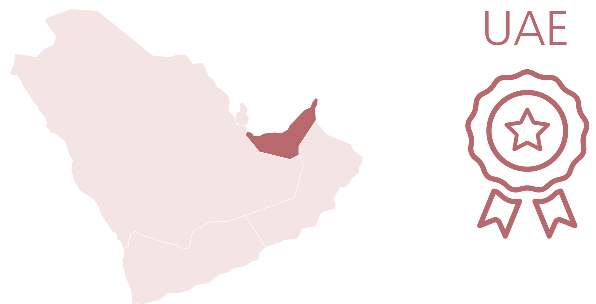
Top regional influences

State asset sales are generating private sector pipeline.

Natural **solar** and **renewable** resources are delivering a game-changing pipeline.



UAE leads the region due to **diversification** and it's **global hub** status.



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A new direction

Creating an attractive environment for investors in infrastructure is no easy task. Politics and policy can make or break private participation and the flow of investment. This sentiment is abundantly clear in this year's CMS Infrastructure Index, which ranks 40 jurisdictions in order of infrastructure investment attractiveness.

This supplement to the Infrastructure Index examines the opportunities in the Middle East specifically – and the outlook is positive. The investment climate for international investors is hotting up as the region focuses on PPPs and privatisations.

The UAE ranks highest in the region. Its strong economy, global hub status, 2015 PPP legislation and the upcoming Expo 2020 are driving this position. AED11bn in construction contracts for Expo 2020 are already awarded with more expected to follow.

The Middle East is continuing to diversify away from oil and take advantage of its natural solar resources. The region also has solid plans around healthcare, transport, water and sewage, offering some prime opportunities for investors.

David Cox of Mott MacDonald, sees the Middle East benefit from political uncertainty elsewhere. Brexit, for example, is pushing political attention towards foreign direct investment with traditional trading partners, including Middle Eastern nations. As with all countries featured in the Infrastructure Index, political stability and certainty are important ingredients to ensure a flow of private capital and a pipeline of projects that reach a successful close.

Cox reflects on the region's *"openness to learn, change and take ideas from the outside"*. This, no doubt, is helping other countries, such as Saudi Arabia, to develop ambitious plans for improving infrastructure across all asset types.

In addition, as traditional infrastructure asset classes become more competitive, investors are increasingly looking to alternatives. Examples including 4G and fibre optic networks, all of which are creating a platform for smart cities and the Internet of Things.

We would like to thank our interviewees for giving up their valuable time to share and contribute their views on the infrastructure sector in their respective markets.

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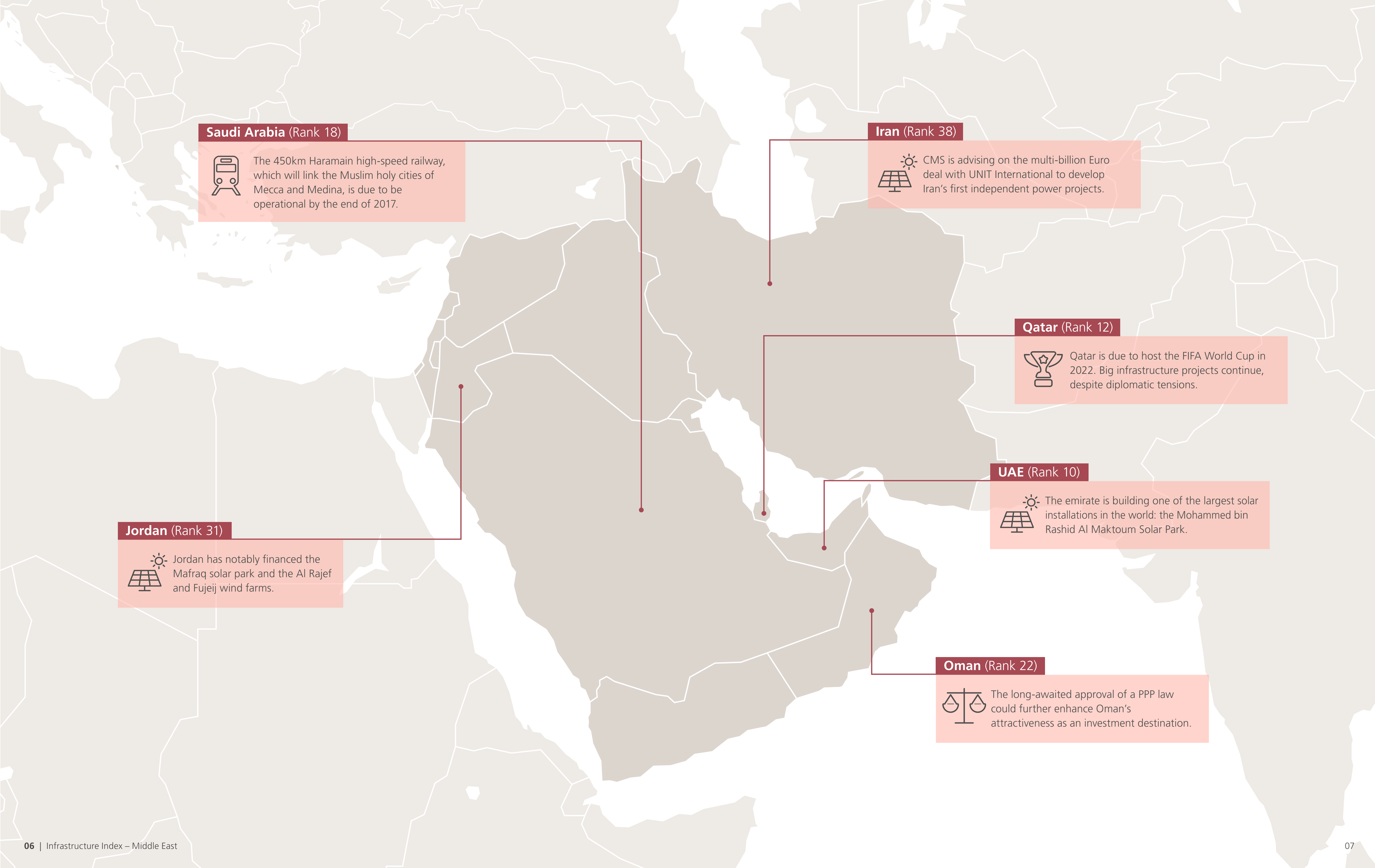
Middle East infrastructure opportunities



Middle East pipeline promise

The current environment in the Middle East provides strong incentives for the development of PPPs and privatisation, opening up new opportunities for international investors.

Rank	Country	2017 Score
10	UAE	80
12	Qatar	71
18	Saudi Arabia	64
22	Oman	57
31	Jordan	48
38	Iran	26

Members of the GCC are increasingly looking to the private sector and abroad for new sources of capital. The current environment provides strong incentives for the development of PPPs and privatisation, opening up new opportunities for international investors. Kuwait and Dubai have already enacted PPP legislation, in 2014 and 2015 respectively, while Saudi Arabia is now envisaging sales of state assets on an unprecedented scale.

Another source of infrastructure financing may be found in the capital markets, which could be unlocked by sukuk finance. Often inaccurately called Islamic bonds, sukuk can be particularly suitable for the refinancing of existing assets. Islamic financial contracts, which have already been adopted for water and conventional energy projects, are likely to be used to structure an increasing number of infrastructure deals.

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Falling oil prices have raised awareness of the need to diversify the economy away from oil. As a result, the Middle East, with a large share of the world's hydrocarbon reserves, is also rapidly becoming a renewables hub. Jordan and the UAE have already played a pioneering role in exploiting their high levels of solar irradiation, while Saudi Arabia's recent commitment to clean energy is hailed as a game changer for the regional pipeline.

Mott MacDonald

David Cox, Managing Director (MENA)

David Cox is Managing Director for the Middle East and South Asia at Mott MacDonald, focusing on infrastructure opportunities in the region. He is responsible for all aspects of operations, spanning multiple consultancy and development markets.

Headquartered in London, the UK remains one of Mott MacDonald's core markets. Reflecting on the recent political and economic turbulence due to Brexit, Cox is largely optimistic. "Change creates challenges but also new opportunities," he says.

For instance, Brexit is, "pushing political attention" towards foreign direct investment with traditional trading partners, which include the Middle Eastern nations he focuses on.

Cox observes that countries are also diversifying who they do business with. "Governments are investing in multiple trading partners to negate situations like Brexit," he says.

And while investment attractiveness may have taken a hit over the past year, the UK's trade with the EU – which amounts to 44% of the UK's goods and services – "cannot be switched off."

Middle Eastern promise

Cox focuses on infrastructure opportunities in the Middle East and South Asia, growing economic powerhouses where the company has managed and advised on several projects, such as Turkey's Ikitelli Health Campus and Saudi Arabia's Madinah airport concession. There are opportunities in the transportation, energy, healthcare, education and science park sectors as primary investment opportunities.

Many nations in the Middle East and South Asia have embraced change in the infrastructure market in recent years, according to Cox.

One of these nations is the UAE, where investment has been fuelled by its position as a regional transport hub and due to the upcoming Expo 2020 in Dubai, with hotels, malls, and residential estates being developed as a result.

> “Resilience to political change, climate change, and volatility in the energy market in the region are also key. Programmes such as Saudi Arabia's 2030 plan are vital to this resilience.”

Saudi Arabia is also undergoing a "huge transformation", Cox says, not just through its sweeping 2030 reforms, but also because the nation is "serious about social change" – highlighted by the government's recent decision to allow women to drive.

Above all, Cox underscores the need for stability to maintain the "drive to spend capital" in the Middle Eastern infrastructure market.

Resilience to political change, climate change, and volatility in the energy market in the region are also key. Programmes such as Saudi Arabia's 2030 plan are vital to this resilience, Cox says.

Lessons to learn

Ease of doing business is also fundamental to an attractive infrastructure market, Cox notes, calling for more transparency on data and improved tax regimes.

There is currently a wide disparity in the levels of bureaucracy across the region. For instance, the UAE has reduced red tape, while Kuwait has more work to do.

Attracting global talent is also important. "There needs to be a workforce that is mobile, and businesses need to celebrate local diversity while contributing to society," he says. Cox points to the example of Singapore, before adding that Dubai is trying to create a similarly prosperous society.

Nations can learn from the region's, "openness to learn, change and take ideas from the outside", Cox says, especially regarding finance mechanisms, procurement and technology.

One instance of market leadership is the introduction of PAS 2080, the first industry standard for managing carbon emissions. Launched in May 2016, it has been proven to save costs, drawing strong regional interest from governments.

The country review

UAE – 10th

The UAE tops our list of the most attractive Middle Eastern countries for infrastructure investment, ranking tenth globally. One of the main strengths of the UAE's economy is its high degree of diversification, which was achieved in conjunction with establishing itself as a global infrastructure hub with world-leading airports and ports. The country, which already enjoys one of the world's most business-friendly tax regimes, has crafted a favourable environment for private investment in infrastructure, since the approval of a PPP law in Dubai in 2015.

> Dubai is also a regional renewable energy pioneer, targeting US$163bn of investment in the sector over the next 30 years.

Infrastructure spending is due to increase significantly ahead of the Dubai Expo 2020, as the emirate upgrades its transport, water, sewage and health networks. Dubai is also a regional renewable energy pioneer, targeting US$163bn of investment in the sector over the next 30 years while aiming to obtain 44% of its power from clean sources by 2050. The emirate is also building one of the largest solar installations in the world: the Mohammed bin Rashid Al Maktoum Solar Park.

Saudi Arabia – 18th

Saudi Arabia, the largest economy of the region, is currently implementing "Vision 2030", a bold agenda shaped by crown prince Mohammed bin Salman to reduce oil dependence and attract international private capital. The initiative includes wide-ranging privatisations across the transport, energy, education, healthcare and water sectors. In particular, extensive airport privatisations are due to be unveiled by the end of 2017. If these plans go ahead, the sheer size of the companies and assets up for grabs are likely to transform Saudi Arabia into one of the world's most active infrastructure M&A markets.

Saudi Arabia currently has several large-capex, publicly procured projects in construction, such as the Riyadh metro and Jeddah airport. In addition, the 450km Haramain high-speed railway, which will link the Muslim holy cities of Mecca and Medina, is due to be operational by the end of 2017. Despite being the world's second-largest oil producer, Saudi is now keen to develop renewable energy by tendering 700MW of solar and onshore wind capacity.

Qatar – 12th

Due to host the FIFA World Cup in 2022, Qatar was previously one of the most promising infrastructure markets in the region. Besides building several new stadiums, the country is also developing new roads, such as the New Orbital Highway. However, recent diplomatic tensions between Qatar and its Arab neighbours – and key trading partners – may hinder the country's long-term growth prospects.

> Recent diplomatic tensions between Qatar and its Arab neighbours – and key trading partners – may hinder the country's long-term growth prospects.

Oman – 22nd

In Oman, fiscal policies enacted to control its severe budget deficit through the removal of subsidies and increasing corporate taxes have been relatively successful. Strategically situated on the Strait of Hormuz – a crucial oil chokepoint – the country aims to increase its position as a regional trade hub by enhancing its transport network. The long-awaited approval of a PPP law could further enhance Oman's attractiveness as an investment destination.

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Jordan – 31st

With the backing of multilaterals such as the EBRD, Jordan is currently upgrading its energy sector, as well as its municipal and environmental infrastructure. Despite tensions and instability in surrounding countries, Jordan has demonstrated a high degree of resilience, but the country's infrastructure has been strained by the influx of hundreds of thousands of Syrian refugees. Jordan has sought to address its position as one of the few net importers of hydrocarbons in the region. The country has notably financed the Mafraq solar park and the wind farms of Al Rajef and Fujeij.

> Jordan has demonstrated a high degree of resilience, but the country's infrastructure has been strained by the influx of hundreds of thousands of Syrian refugees.

Iran – 38th

After a decade, economic sanctions against Iran were partially lifted in 2016 and the country is now eager to attract international capital and expertise to upgrade and expand its infrastructure sector – in particular railways, ports, airports and energy and power facilities. While the scale of the opportunities are enormous, geopolitical factors and bankability issues are still a major challenge for private companies looking at the country. To enhance the bankability of capital-intensive infrastructure projects and to attract more foreign developers, new laws have passed which enable the government to provide guarantees subject to certain conditions.

The signing of a number of major agreements has boosted foreign investor's confidence in investing in the Iranian energy and infrastructure sector. These include the multi-billion Euro deal with TOTAL to develop the country's South Pars gas field, the multi-billion Euro deal with UNIT International for developing Iran's first independent power projects, and the €500m solar power project with a UK-based investment firm; CMS is advising on the latter two deals. Depending on geopolitical landscape, Iran's infrastructure sector has the potential to move away from being controlled and managed by the public sector to become a more private-driven sector.

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Methodology

The Index indices are based on the following six main indicators and further sub-indicators, as shown below:

— Economic status

— Sustainability and innovation

— Tax environment

— Political stability

— Ease of doing business

— Private participation

All of these are weighted as shown in this graph:

Annual trade (% of GDP)	5%	**Economic status 30%**
Credit rating	20%	
Interest rates	5%	
Environmental performance	5%	**Sustainability & innovation 12.5%**
Innovation	2.5%	
Quality and condition of infrastructure	5%	
Corporate tax rate	3%	**Tax environment 5%**
Resource drain	1%	
Complexity	1%	
Governance and stability	10%	**Political stability 22.5%**
Rule of law	5%	
Regulatory stability	7.5%	
Transparency/corruption	5%	**Ease of doing business 10%**
Ease of doing business	5%	
Government support	5%	**Private participation 20%**
Gross fixed capital formation	5%	
Private investment	10%	

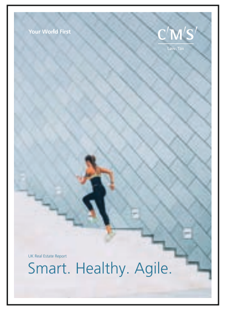
This Infrastructure Index provides an effective tool to measure the overall attractiveness of each country for infrastructure investment, also allowing a more sophisticated analysis based on the comparison of specific parameters, such as political stability and private investment in infrastructure, among different jurisdictions. The commentary provided in this report provides a regional context for our findings, also considering major themes in the industry, track-records and project pipelines.

The scores and subsequent rankings for the Middle East are highlighted below.

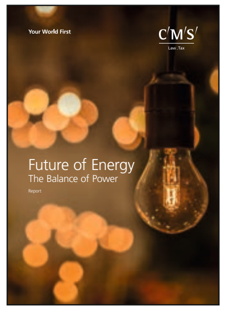
	Score	Private participation	Ease of doing business	Political stability	Tax environment	Sustainability and innovation	Economic status
United Arab Emirates	**80.44**	14.75	7.14	17.98	4.98	8.49	27.10
Qatar	**70.90**	12.16	6.23	17.69	4.98	8.04	21.80
Saudi Arabia	**63.59**	12.25	5.36	13.02	4.97	7.49	20.50
Oman	**57.34**	10.50	5.64	15.56	4.77	7.04	13.83
Jordan	**48.14**	10.25	5.27	13.07	4.42	7.33	7.80
Iran	**25.99**	6.13	4.31	3.34	3.49	6.72	2.00

About CMS

CMS is a top six global law firm, with 70+ offices in 40+ countries. With over 2,500 lawyers in the UK and a global team of over 4,500 lawyers, we have world-class bench-strength.
CMS boasts one of the leading Infrastructure and Project Finance groups, advising on some of the largest and most complex projects across the globe. Our sector expertise means we have the ability to work with clients at all stages of their project lifecycle.



Real Estate – Smart, Healthy, Agile



Future of energy: the balance of power

What has 2017 meant for Transport?

About inspiratia

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inspiratia provides clients with the tools to anticipate and analyse market trends in a way that helps grow their pipeline of deals and assists with business development. Based in London and Washington DC, inspiratia has an international team of industry experts and analysts all with in-depth sector expertise and extensive professional networks. **www.inspiratia.com**

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