Saudi investment climate good for power sector

ROGER HARRISON | ARAB NEWS

JEDDAH: The investment climate is good, but expect longer-term rather than shorter-term tenures and smaller Independent Water and Power Production (IWPP) for the next few years, this was the message of the 5th annual Saudi Water and Power Forum, which opened in Jeddah on Sunday.

The message from the expert speakers in the four-day seminar confirmed the underlying strength of the economy and the investment climate but warned that even the Kingdom's very stable economy had been affected by the global downturn.

Adrian Creed of law firm Towers and Hamlins, which specializes in IWPPs in the GCC region, said, "An underlying driver (for the economy) in the power sector is the need for one 2000mw project a year for the next 20 years."

He pointed out that while the interface between Saudi law and English law presented some challenges, protocols were available that allowed parties to establish sound and legally enforceable contracts, and an independent arbitration which he described as "essential."

The expert panel at the afternoon seminar that discussed investment and cooperation in the Kingdom's water and power sector thought that this, coupled with a projected spend of $400 billion over the next 20 years to build infrastructure projects to cope with the four percent population, would keep the investment market lively but with some marked changes.

Paul Gamble, head of research at Jadwa Investment, said that the maintenance and development of investment by internal and external sources in projects in the Kingdom depended critically on the restoration of confidence that had been undermined by the global downturn. "Confidence is the key," he emphasized, noting that it would not be until 2011 that global factors affecting confidence wore off. "As a result, growth is still weak." Gamble tracked the course of the crisis and demonstrated that after the crash in Q1 2008, the plunge in oil prices and the massive drop in point of sale purchases, banks were disinclined to lend to anyone, even other banks.

After the Q4 2008 plunge in corporate asset prices he detected a slow revival in Q1 2009 — but through to Q3 it was still poor. "Issues around name lending and failure to conduct due-diligence of borrowers in the private sector have made banks very cautious indeed," he said. The good news was however that bank deposits with SAMA were up to $65 billion while bank holdings were topping out at $70 billion. However, it seemed that many banks preferred to gain the 2.5 percent commission from SAMA than lend to investors. "Confidence will return, but credit remains a problem," he said.

Wassim Bou-Ghanem, vice president of CRA International and a development consultant to many concerns in the Middle East, said that the parameters for public/private partnership in the Kingdom had clarified to the extent that they could be narrowed down to four areas. There should be financial equilibrium, clear and fair allocation of risk to all parties, transparency of the whole process and appropriate governance that gives a regulatory framework that produces enforceable contracts independent of operators from the state.

He suggested that, in the light of international legislation, contracts must include a strong environmental element. "Clean air and reduction in emissions, water pollution, discharge or dumping various materials into seas, waste disposal and cleanup are all essential elements in any contract," he said.