ECONOMIC INSIGHT REPORT

Kuwait Projects' Landscape

June 2020

بنك الخليج
GULF BANK

“Addressing Funding Constraints is Key to Revive Projects in Kuwait”

SUMMARY

- The outbreak of COVID-19 and the drastic fall in oil prices have dealt a dual blow to Kuwait’s economy, stalling all forms of activity. With oil markets in uncertain territory, the need for Kuwait to stimulate economic growth and diversify away from oil has never been greater. Providing an economic stimulus to revive growth in the short term and abiding by the objectives to diversify the economy in the long term are necessary actions that need to be taken up by the government.

- Achieving economic diversification and reviving growth requires capital expenditure on projects. Shrinkage of government revenue will pose challenges, necessitating the need to look for funding solutions.

- Project market in Kuwait witnessed an uptick in the first quarter of 2020, before the outbreak of COVID-19 brought the country to a halt. However, on an overall level, project awards in Kuwait has been sluggish since 2015, falling in value every year. With the pandemic causing major dislocations in supply chain, further disruptions are expected in the projects space in the near term.

- Major impediment to infrastructure investment have surfaced in the form of falling project awards, delayed payments to contractors, private sector supply imbalances, falling credit allocation to construction sector and the lack of a sovereign yield curve.

- Public Private Partnerships are emerging as the preferred path to bring private investors in to fund major projects, reducing the fiscal burden on governments, and perhaps as importantly, bringing private sector expertise and efficiency to the table. Furthermore, boosting infrastructure finance will also require the broadening of the potential group of investors and the tapping of the vast financial resources of capital markets. This, in turn, necessitates a broader mix of financial instruments.

DUAL SHOCK OF COVID-19 AND LOW OIL PRICES

The unexpected turn of events in 2020 that include the spread of COVID-19 and an oil price war has meant that the global economy is facing a sudden economic downturn. As this double blow has hit Kuwait, staging an economic recovery would require two key measures, a massive economic stimulus for the short term and economic diversification in the long term.

Economic Stimulus to Absorb Short-term Pain

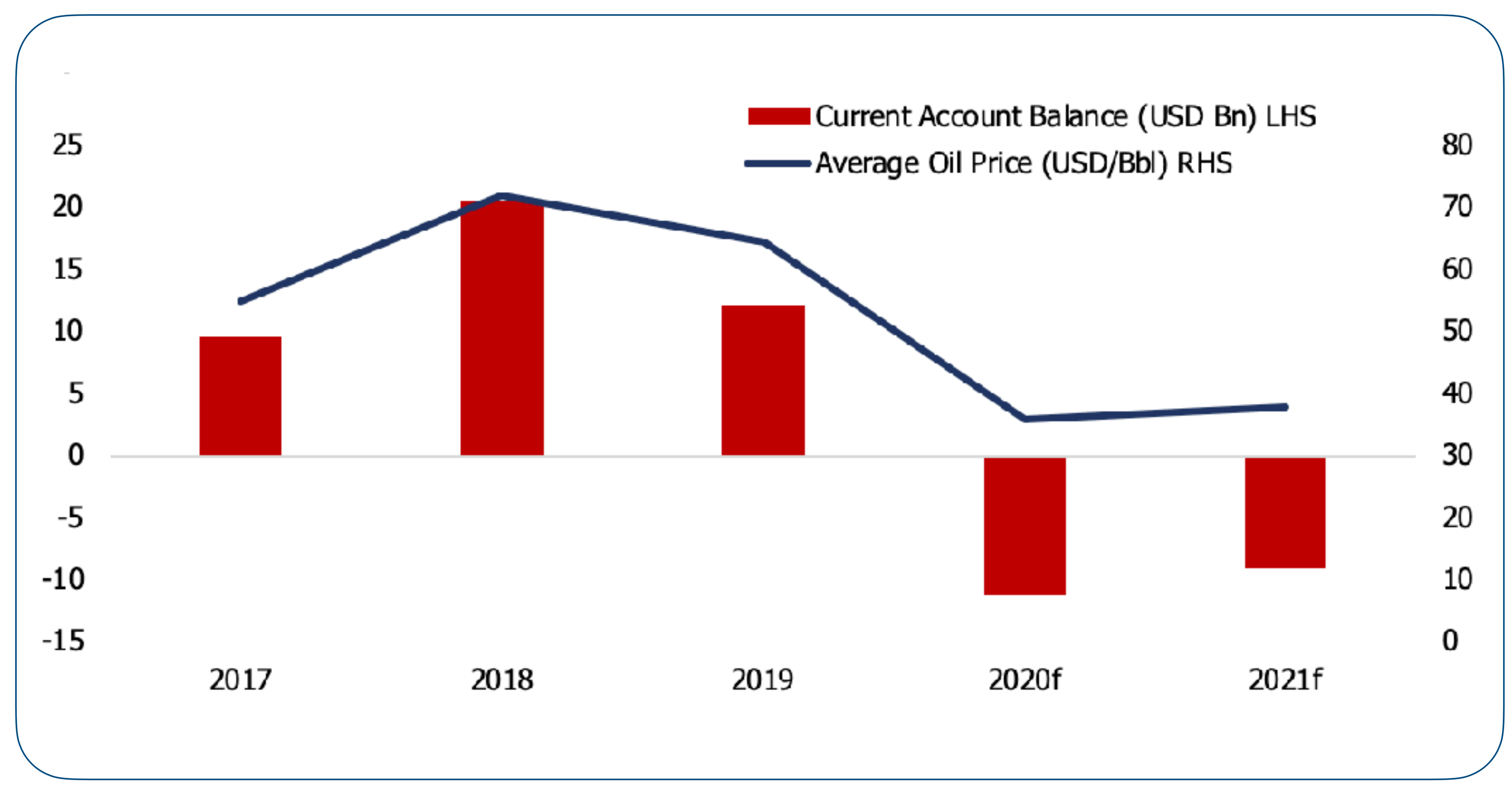
Kuwait's sizeable financial buffers, low debt to GDP ratio and well-capitalised banking underpin its financial resilience and highlights its capability to provide the necessary intervention. Kuwait Investment Authority's (KIA) assets and central bank's reserves total to about 435% of Kuwait's GDP[1]. Revival of economic growth needs a strong and well thought out stimulus package that includes supportive measures such as moratoriums on debt payments, wage support for the unemployed, subsidies to increase consumption and credit to SMEs would be required in the near term. So far, Kuwait's cabinet has approved a bill to increase the budget of ministries and governmental departments by KD 500 million (USD 1.6 billion) for the 2020/21 fiscal year. Other measures include the setup of a temporary fund that will allow contributions from companies, individuals and institutions where the Kuwaiti banks initiated a KD 10 million fund to support the economy. Kuwaiti banks have suspended the charges and commissions levied on POS, ATM and online banking transactions and extended collection of due payments. Central Bank of Kuwait (CBK) will be providing liquidity to commercial banks during the period. The Central Bank also has kept the discount rates at a record low of 1.5%. The loan to value ratio for properties has also been increased.

The shortfall in oil revenues would translate to a large budget deficit. S&P has forecasted the general government deficit to exceed 10% of GDP in 2020. However, at a wartime-like scenario like now, drawing from the General Reserve Fund (GRF), which is estimated to be around 50% of GDP would be required. According to the IMF, after compulsory transfers to the Future Generations Fund (FGF) and excluding investment income, financing needs would cumulatively be KD 57 billion (USD 189 billion) over the next 6 years. At this rate, it GRF's assets could be exhausted soon. Therefore, the passage of Kuwait's revised debt law must be fast-tracked so that future budgetary requirements could be plugged through external borrowings.

Economic Diversification - The Long-term Solution

The current economic situation highlights a long-known problem for Kuwait, which has been its over-dependence on oil for its revenue. The problem started to exacerbate after the oil price crash in 2014-15, having a massive toll on revenues. Likewise, in the current scenario when oil is trading at historically low prices and high volatility, the impact on Kuwait's balances is expected to be very high.

Impact of Oil Price Fall on Kuwait's Current Account Balance



Source: IMF, Refinitiv; 2020 and 2021 average oil price based on IMF forecasts in April 2020 Outlook

Likewise, the pace of reforms to develop the non-oil sector must also be accelerated. Capital expenditure on infrastructure projects, improvement of the business environment, better regulatory framework and favourable policies for the development of the private sector will aid the growth of non-oil sector. With oil prices remaining in uncertain territory, efforts must be fast tracked to diversify the sources of revenue away from oil for a sustainable future.

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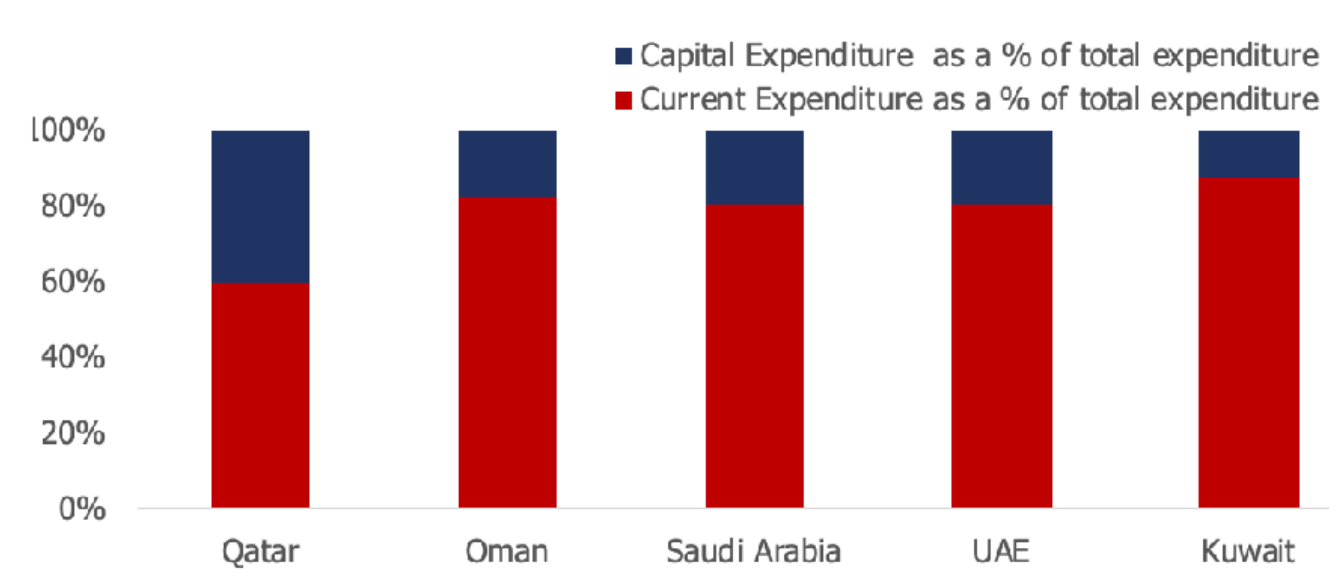
[1] IMF Article IV report 2020 - Kuwait

CAPITAL EXPENDITURE ON PROJECTS IS KEY TO ACHIEVING DIVERSIFICATION

Kuwait has slowly adopted austerity measures such as reducing subsidies on fuel and electricity and rationalised their spending. However, their total expenditure is still highly skewed towards current expenditure in the form of wages, transfers and subsidies. Capital expenditure has not been ramped up at the necessary pace and new project awards have been slow. Even among GCC countries, Kuwait has one of the lowest capital expenditure to total expenditure ratio at 12.3% in 2019.

Total Expenditure Break-up of GCC Countries (2019)



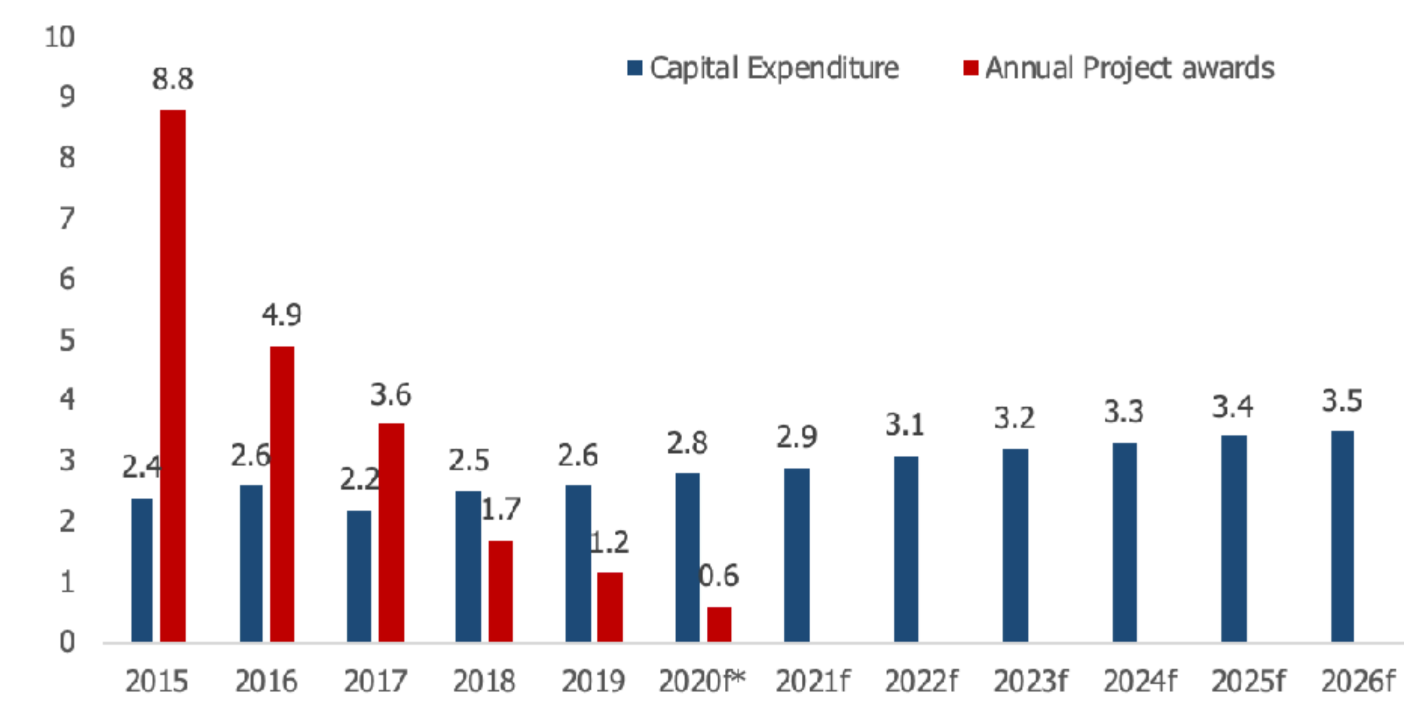
Source: IIF

The need for further capital expenditure is urgent, as diversification is the only way to stay relatively protected from future shocks in the oil market. Despite the low oil price environment, spending on infrastructure projects must not be compromised. Considering the delays and cost overruns caused by the spread of COVID-19, improving the efficiency through better project selection, planning and execution would be important. The government needs to encourage greater participation of the private sector in executing public private partnership projects. Capital expenditure is a necessity in both the short and long term as it is key for Kuwait to achieve its goals of stimulating the economy and diversifying its revenue away from oil.

Falling Project Awards Due to Shrinkage in Government Revenue

Kuwait awarded a mere KD 1.15 billion of major project contracts in 2019, a 31% fall from 2018 levels. This will be the fourth year in a row that Kuwait's project spending has fallen, and the value of awards will just be 13% of the level of awards seen in 2015. The lack of investment spending in Kuwait has made it very difficult for businesses to operate in the projects market. The problem has been partly due to the fall in government revenue.

Kuwait Capital Expenditure and Annual Project Awards (KD billion)



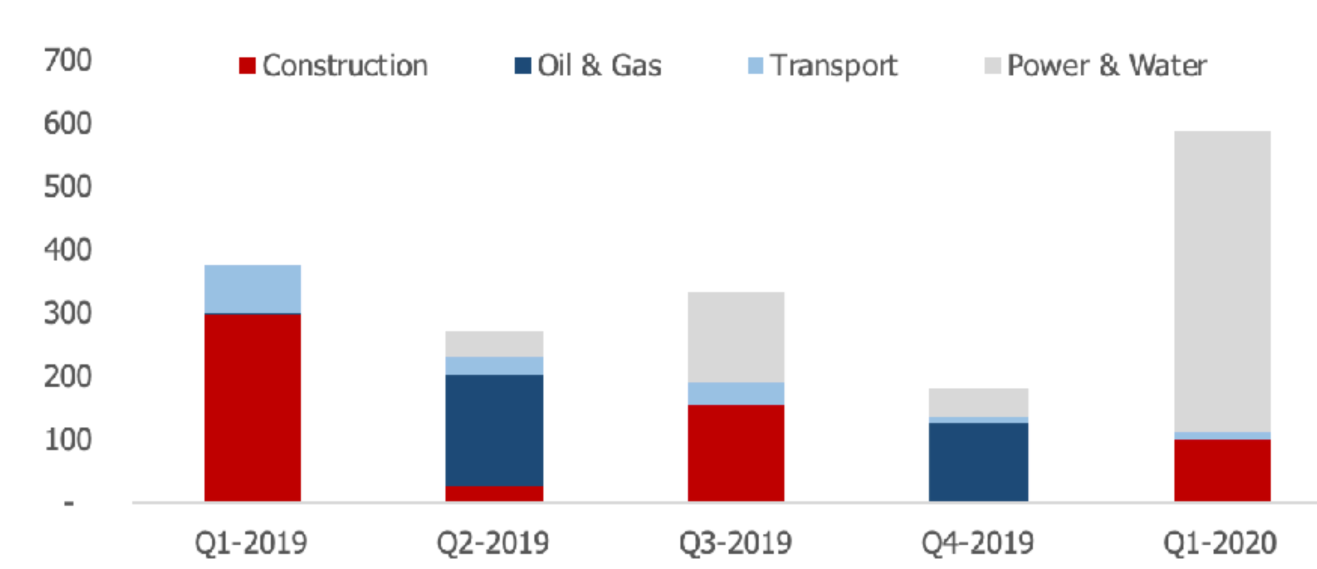
Source: IMF, MEED Projects, RSM; Note: * - 2020 project awards is only till Q1, Purchase of nonfinancial assets considered as capital expenditure, Capital expenditure data is for the respective fiscal year.

High current expenditure requirements and the fall in oil revenue have seen the project awards fall gradually. The first quarter of 2020 showed promise, however, the outbreak of COVID-19 is expected to defer project awards further. Shrinking government revenue is expected to exacerbate problems in attaining funding for projects. Funding solutions must be explored in depth to bridge the funding gap and ensure continuity in project activity.

KUWAIT PROJECTS LANDSCAPE – CURRENT STATUS

Project awards in the fourth quarter of 2019 declined to KD 183 million, 45% lower than what was witnessed in the previous quarter. However, the value of project awards increased sharply in the first quarter of 2020 to KD 587 million, driven by the power and water sector, which accounted for about 81% of the total awards in the quarter.

Kuwait Project Awards by Sector (KD millions)



Source: RSM

Total projects that have been planned and unawarded stands at KD 62 billion. These projects include partly delayed ones in 2019. However, considering the current macroeconomic scenario, they are highly likely to be delayed further. Construction, transport and power projects account for the majority of unawarded projects at 38%, 32% and 14% respectively.

Major Projects in Kuwait

Project Owner	Project Name	Sector	Project Value (KD Mn)	Current Status	Award Date	Completion Year
Kuwait Authority for Partnership Projects (KAPP)	Kuwait City Metropolitan Rapid Transit	Transportation	5,580	Design	Jul-21	2030
	Az-Zour North IWPP	Power	4,650	Execution	Nov-13	2026
	Kuwait National Railroad (KNRR)	Transportation	3,100	Study	Jul-22	2030
	Doha East Power & Desalination Plant (IWPP)	Power	620	Study	Aug-22	2024
	Al Khiran Power & Desalination Plant	Power	530	Main Contract PQ	Jun-20	2025
	Umm Al Hayman WWTP	Water	527	Study	Jan-20	2026
	Kabd Municipal Solid Waste Project	Power	273	Execution	NA	2020
	Kuwait Municipality - South Al-Jahra Labour City	Construction	153	Main Contract PQ	Jun-20	2030
	Services and Entertainment Center in Egaila	Construction	37	Main Contract Bid	Dec-20	2023
Kuwait Ministry of Public Works (MPW)	Mubarak Al-Kabeer Seaport Development	Transport	3,255	Execution	Nov-19	2030
	Bubiyan Island Development	Construction	1,860	Design	May-21	2040
	Improvement of Fahaheel Expressway Route 30	Transport	930	Design	Oct-20	2024
	North & East Regional Highway	Transport	631	Execution	May-17	2024
	Regional Road South Part	Transport	527	Execution	Apr-19	2023
	South Surra Road Upgrade	Transport	383	Execution	Mar-17	2025
	Jamal Abdul Nasser Road Development	Transport	295	Execution	Oct-20	2020
	New Pediatric Hospital in Al-Sabah Medical Area	Construction	264	Design	May-16	2023
	New Maternity Hospital	Construction	253	Execution	May-16	2021
	Upgrade of Al Ghouse Road	Transport	248	Execution	May-16	2022
Kuwait Oil Company (KOC)	Ratqa Lower Fars Heavy Oil (LFHO) Handling Facilities	Oil & Gas	3,720	FEED	May – 2024	2030
	Crude Oil Gathering Centers 33-35	Oil & Gas	930	FEED	Sep-21	2025
	Crude Oil Gathering Centers 29-31	Oil & Gas	930	Execution	Mar – 2015	2020
	Jurassic Non-Associated Oil&Gas Reserves Expansion: Phase 2	Oil & Gas	775	Main Contract PQ	May-21	2024
	Gathering Centre 32 SEK at Burgan	Oil & Gas	775	Execution	Mar-17	2020
Kuwait National Petroleum Company	Clean Fuels Project 2020 Mina Al Ahmadi Refinery Gas	Oil-Downstream	7,440	Execution	Nov-17	2020
	Fractionation Train 6 & 7	Gas-Downstream	620	Study	May-21	2025
	Al Dibdibah Solar PV Power Plant inShagaya Renewable Energy Complex	Power-Generation	372	Bid Evaluation	Apr-20	2025
	Local Marketing Depot at Matlaa	Oil - Storage	248	FEED	Jul-20	2022
Public Authority for Housing Welfare (PAHW)	Al Khiran Residential City Development	Construction	4,309	Study	Feb-22	2035
	South Al Mutlaa City	Construction	6,231	Execution	Jun-16	2030
	Sabah Al Ahmed Township	Construction	1,925	Execution	Aug-08	2030
	Jaber Al Ahmed Residential City Development	Construction	899	Bi Evaluation	Apr-20	2024
	West Abdullah Al-Mubarak Master Plan	Construction	620	Execution	Jul-15	2020
	Jahra & Sulaibiya Low Cost Housing Development	Construction	516	Execution	Jan-19	2030

Source: MEED Projects, RSM

Disruptions in the Project Space Due to the Pandemic

The COVID-19 outbreak is likely to cause several disruptions to the project workflow and subsequent cost overrun. As contractors would not be able to keep their workforce fully mobilised, they would not be able to make significant progress in the work onsite. As contract workers are majorly migrants from different parts of the world, travel bans, screening and restrictions would affect labour supply. As the pandemic peaks at different periods in different countries, restriction on movement could be extended in certain countries even after activity recovers in Kuwait. These factors could affect workflow and extend the deadlines for completion. In a worst-case, there could be closure of project sites as well. Some of the materials required for infrastructure projects are sometimes prefabricated and imported from subcontractors. Raw materials are also imported from different locations. As there are restrictions to the import of goods and materials, challenges in procurement could add further bottlenecks. If the supply-chain is severely stressed, contractors would have to find alternate suppliers or find alternate shipping routes through channels which are relatively less affected. This would incur additional costs that would not have been budgeted earlier. In addition, certain vendors receive advance payments, which they might not be able to repay. If an alternate vendor is identified, further advance payments must be made, straining cash flows. These additional costs would accrue and ultimately affect the bottom line. Operators in the construction and related sector are expected to face severe repercussions on liquidity and cash flow in the near term.

FUNDING CHALLENGES AND SOLUTIONS

Delays in the realisation of infrastructure projects pose large potential socio-economic costs, and Kuwait's infrastructure investments are lagging. While there is a consensus on infrastructure bottlenecks, the underlying reasons for the lack of infrastructure finance is something worth looking into, given the abundant funds available in domestic and world markets and a low interest rates environment.

Delayed Project Payments

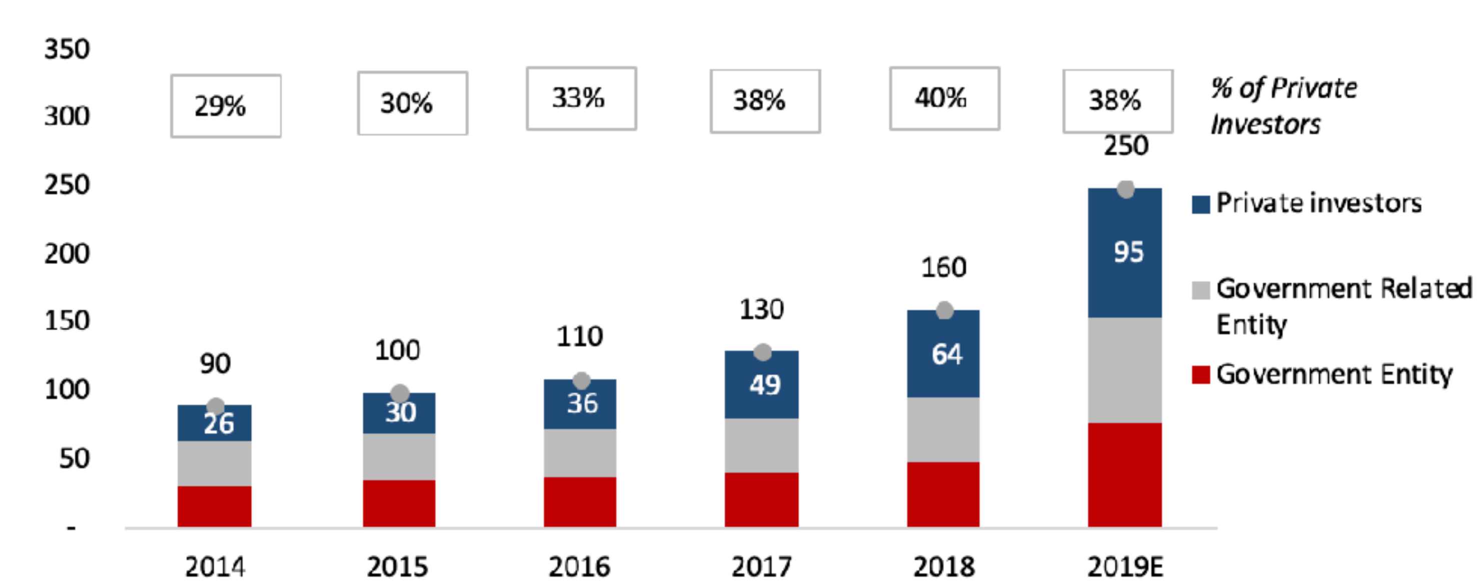
One of the biggest obstacles in financing of projects are the delayed payments of contractors by the government, which negatively affects the dates of delivery of different stages of projects and eventually the level of achievement in the long run. There is also a lack of coordination among the government officials to facilitate procedures and eliminate bureaucracy. In order to deal with these imbalances, several governmental agencies have reached an agreement with the Ministry of Finance to form a flexible mechanism for spending their budget for the current projects and reduce the operational roadblocks in due to delayed payment. Especially with the outbreak of COVID-19, the government must focus on accelerating payment to project contractors to reduce delays in completion.

The Kuwaiti government is very much aware of these issues and has undertaken several necessary steps to promote a healthy projects market. As highlighted in the World Bank's Doing Business Report 2020, Kuwait made dealing with construction permits easier by streamlining its permitting process, integrating additional authorities to its electronic permitting platform, enhancing inter-agency communication and reducing the time to obtain a construction permit. This has allowed Kuwait to cut the time needed to get a construction permit to 103 days from 194, and almost 50 days fewer than the Organisation for Economic Co-operation and Development (OECD) high-income economy average. Kuwait also made property registration easier by streamlining the inspection process and property registration. Kuwait also improved the quality of its land administration system by publishing official service standards on property transfers. The time it takes to complete all necessary procedures was cut in half from 35 days to 17 days. Moreover, the Kuwait government is actively pursuing privatization programs.

Imbalances in Matching Supply of Finance from Private Sector

The cumulative investment requirements for infrastructure development in the GCC region from 2019-2023 is about USD 1.6 trillion, including large mega projects such as Neom, Al Hareer City, Qiddiya, Amala, South Sabah Al Ahmad residential city and others. This is 65% higher than the total invested in the last five years from 2014-2018. The issue therefore, is not whether to invest in more and better-quality infrastructure, but rather how to find the funding to do so. Governments in the region do not have sufficient funds to meet swelling infrastructure demand, and this puts the focus on their ability to draw private investment to bridge the funding gap. It is estimated that private investment to the tune of USD 400 billion will be needed over the next five years to plug the funding gap. Failure to do so might lead to the delay, postponement or even cancellation of some of the planned projects owing to funding shortfalls. In Kuwait, as of the end of 2018, USD 60 billion worth of projects related to Kuwait Vision 2035 had been executed, with an additional USD 100 billion to be invested in future. Currently, there are 2,296 active projects, valued at a total of KD 138.5 billion in Kuwait[2].

Breakdown of Infrastructure Investment by Type of Investor in the GCC (USD billion)



Source: MEED Projects as at 8 March 2019, Preqin, Oliver Wyman

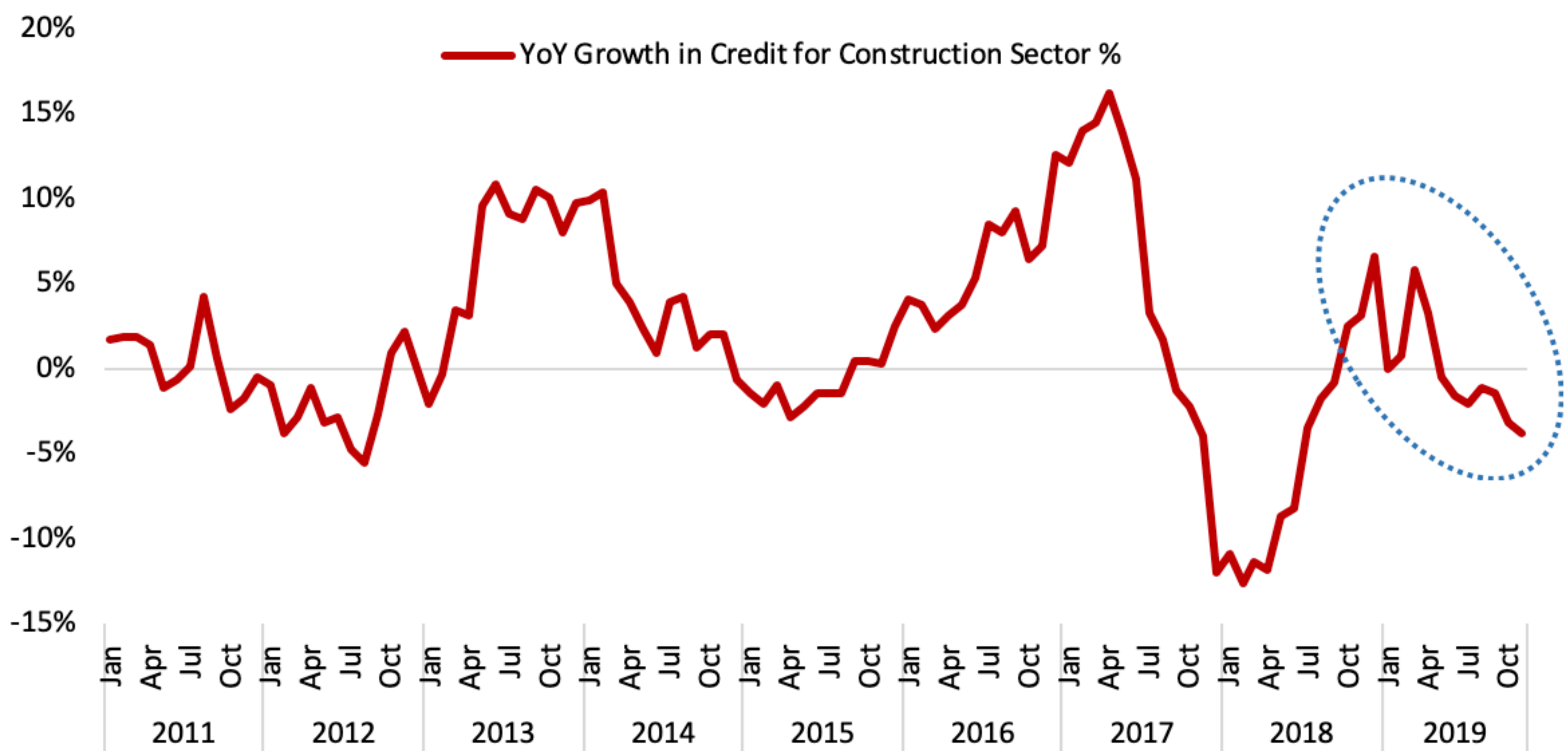
Note: Government-related entities include SWFs, development funds, and government-owned companies. Private investor participation includes captive funding of infrastructure by corporates and third party investments.

Falling Credit Allocation to Construction Sector

Commercial banks in Kuwait are the largest providers of funds for large-scale, capital-intensive projects, often accounting for as much as 50% of the overall project funds and up to 100% during pre-completion[3]. Growth in credit to the construction sector saw a major dip in 2016 but saw signs of recovery in 2018. However, the construction sector credit growth rate has been on the decline throughout 2019. Moreover, a shortage of long-term financing since the 2008 crisis has choked the investment-backed growth of companies around the world, hampering the ability of credit-worthy projects to borrow successfully.

[2] Protenders [3] tamimi.com

Credit to the Construction Sector is on the Decline



Source: Central Bank of Kuwait

Central Bank of Kuwait (CBK) has made available KD 5 billion for additional lending from local banks as part of its economic stimulus package in response to COVID-19. The package includes easing lending conditions previously set for lending. Credit risk weight for SMEs was reduced from 75% to 25%. The package also increases the maximum financing for residential real estate developments to the value of the property or the cost of development.

Active intervention from the government and regulatory relaxations would be required to save existing projects from closure and help in the recovery of project activity. Contractual relief must be provided to contractors, whereby re-negotiations on timelines and cost need to be made in order to lessen the impact. Changes in current policies and standards are required, in addition to relaxation of conditions for lending. Fund transfers and releasing the contractors' dues by the government are important policy step needed in these times. Cost overrun might have to be subsidised by the government. Active communication with project stakeholders to identify their pain points would also be necessary as the event has pan-global impact and would take businesses a long time to recover.

Basel III Norms on Project Financing

Central Bank of Kuwait (CBK) approved the application of the Basel III capital adequacy standards to Kuwaiti banks in the year 2014. According to the Basel III guidelines, project finance exposures will be risk-weighted at 130% during the pre-operational phase and 100% during the operational phase. Project finance exposures in the operational phase, which are deemed high quality, will be risk weighted at 80%. Therefore, as the project moves from pre-initiation to operational phase, banks following Basel III norms will be able to lower the risk of the project. This is done to protect the interest of banks so that they capture the appropriate amount of risk for the project at each stage and keep the necessary capital buffers.

The Rise of Green Financing

Green bonds have increasingly become popular instruments among investors in recent years, with issuances scaling new highs as investor focus has started shifting towards sustainable investing. The outbreak of COVID-19 has spurred ESG investing, with green financing likely to gain more emphasis in future. Rising climate awareness, the need for strong environmental regulations, and demand for infrastructure projects in Kuwait will likely support the development of the green finance market. Global investor appetite for green bonds has been growing with the market absorbing the current instruments and showing signs of wanting more. Issuers have also been happy to tap the markets, coming out with repeat issuances. In line with the pick-up in Green bonds, there is a high likelihood that Green Sukuk could emerge to become a successful instrument in the future. Despite the market size being miniscule when compared to Green bonds and the fact that issuances have predominantly been coming from select markets like Malaysia and Indonesia, there is still a lot of potential for the instrument. Markets in the GCC and the Middle East could become important players due to the presence of faith based investors and the focus on executing renewable projects. Green financing could lower the cost of capital and help provide the massive amounts of funding for projects in the pipeline.

The Need for Sovereign Long-term Yield Curve

A number of GCC corporates have been active in the debt markets, especially in the recent past. Considering the surge in corporate and sovereign issuances and the need for development of domestic debt market, many have been advocating for the need to establish a domestic sovereign yield curve, which can be used as a benchmark to support the development of a vibrant debt market. In the absence of any sovereign benchmark yield curve in the GCC region, businesses are forced to borrow debt at a high premium than what their risk may warrant. Varied issuances at the sovereign level would help in development of a yield curve, which in turn will help in better pricing of projects by financial institutions. The systemisation of yield data would put a downward pressure on the cost of capital due to increased transparency and make more projects viable for execution.

Presence of Domestic Sovereign Issues (Active) by Maturity

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	30 Years
Bahrain	🟢	🔴	🔴	🔴	🔴	🔴	🔴
Kuwait	🔴	🟢	🟢	🟢	🟢	🔴	🔴
Oman	🟢	🔴	🟢	🟢	🟢	🔴	🔴
Qatar	🟢	🟢	🟢	🟢	🟢	🔴	🔴
KSA	🟢	🔴	🟢	🔴	🟢	🟢	🟢
UAE	🔴	🔴	🔴	🔴	🔴	🔴	🔴

🟢 Presence of a sovereign issuance of that maturity

🔴 Lack of issuance for that maturity

Source: Reuters; Note: As on 21st Jan 2020

Promoting Public Private Partnerships (PPP)

Public Private Partnership (PPP) are emerging as the preferred path to bring private investors in to fund major projects, reducing the fiscal burden on governments, and perhaps as importantly, bringing private sector expertise and efficiency to the table. Making greater use of the PPP model in infrastructure delivery will help reduce public financing pressures, while also promoting development. The Government of Kuwait has embarked on an ambitious PPP program, which promotes collaboration between the public and private sectors to develop quality infrastructure and services for Kuwaiti citizens.
PPP will be a key tool for the government to achieve the objectives of Kuwait Vision 2035. With COVID-19 outspread taking its toll on the economy in the near term, it becomes imperative for the government to take necessary steps to protect existing PPP projects and build confidence among prospective participants by showing an intent that the government is willing to be supportive during tough economic conditions.

PPPs are expected to face revenue generation challenges in addition to difficulties in running day-to-day operations due to the weakening of the economy. The government's willingness to provide liquidity to the financial sector will bode well for PPP participants, as they would be able to receive support in the short and medium term. During normal circumstances, too much support from the government would create a moral hazard and set a bad precedent. However, considering the damage that inaction could do in the long term, the option of proactive intervention seems to be the best way forward. Government needs to provide financial guarantees to all critical projects and set parameters to classify each of the projects and the type of support that each would be provided. For projects where there would be a risk of low demand, direct payments could be provided to the special purpose vehicles of the project in order to make debt service payments, retain suppliers and limit the damage caused by fall in volumes. Keeping the supply chain intact by making periodic payments would ensure that once demand picks up, the project could return to its sustainable self. Projects that are of national importance must receive a government bailout, keeping national interests in mind. A clear timeline or the duration up to which there would be government support should be established based on how the crisis progresses and should be clearly communicated to all participants. If proper mitigation of damages in the near term is carried out, it would boost PPP activity in the medium to long term.

In PPPs, private parties are largely responsible for the design, construction, operation, and maintenance of an infrastructure asset, implying that they are assuming bulk of the development, finance, construction and market risks associated with the project. Governments should make this entire exercise as seamless as possible for investors, and iron out any regulatory and legal issues that can affect the performance of the asset. The Government has established a clear regulatory framework for implementing PPP projects, constituting a reference point for all stakeholders, the laws and regulations establishes high levels of transparency and certainty throughout the PPP process – both key to the success of a PPP program. The New PPP Law creates a greater degree of certainty, reliability and flexibility for foreign contractors, investors and lenders that participate in PPP projects in Kuwait.

The Kuwait Authority for Partnership Projects (KAPP) serves as the main body responsible for PPP projects implementation. KAPP aims to utilise private sector skills and expertise to maximise value for money and service quality. KAPP is currently in the process of initiating several high-impact projects in the power, water/wastewater, education, health, transportation, communications, real estate, and solid waste management sectors.

Kuwait PPP Projects Under the Supervision of KAPP

Projects	**Sector**
Kuwait National Rail Road (KNRR)	Transportation
Rest Houses And Doha Chalet's Service Centers	Real Estate Development
South Al-Jahra Labor City	Real Estate Development
Services and Entertainment Center - Egaila	Real Estate Development
Shagaya – Renewable Energy Park - Phase III - Hiring Transaction Advisor Phase	Power
Az-Zour North IWPP (Phase 1)	Power
AlKhairan IWPP (Phase I)	Power
Az-Zour North IWPP Phase 2 & 3	Power
Umm AlHayman WWTP	Water Management
Municipal Solid Waste Treatment Facility – Kabd Location	Waste Management

Source: KAPP

CASE STUDY:
Listing of Shamal Az zour Al-Oula

Shamal Azzour Al-Oula was the first company to be established as a Public-Private Partnership (PPP) project and the first PPP to be offered for public subscription. KAPP successfully concluded the public offering of its stake in Shamal Azzour Al Oula. The offering was equal to 50% of Shamal Azzour Al Oula stake totalling 550 million shares, which was equivalent to 100% of KAPP's stake in the company's capital.

The company is the owner and operator of Az-Zour North One Power and Water Plant, which is the first privately-owned gas-fired combined cycle power and water desalination plant established under the Independent Water and Power Project (IWPP) Law. The IWPP and PPP Laws, which requires the State to offer 50% of the total ownership of PPP projects to Kuwaiti citizens through a public offering, mandate the public offering. This forms an integral part of a predominant government effort to include citizens in the ownership of mega projects that are offered to private sector institutional investors. In addition to providing attractive investment opportunities to citizens, the PPP projects also help empower the private sector to take the lead in growing the non-oil economy of the nation.

RECOMMENDATIONS

The current phase where the economy is facing a slowdown is a critical stage where government intervention is greatly required. Supportive measures are required from both short and long-term perspectives.

1. Providing stimulus to the non-oil sectors will help in mitigating the risks caused by COVID-19 and also aid in achieving economic diversification. Funding infrastructure projects through greater capital expenditure will have a positive impact on Kuwait's diversification objectives.

2. Providing monetary support in the form of additional liquidity facilities and accelerating project payments would protect ongoing projects and help them in weathering the near-term disruptions caused by COVID-19. Eliminating bureaucratic challenges will help in achieving faster payment cycles, which would in turn boost project activity.

3. Most projects are financed by using a combination of equity (in the form of cash and/or Equity Bridge/Shareholder Loans) and debt (bank loans, bonds etc.) on a limited recourse or project finance basis. Banks will remain important financiers, particularly in the early stages of new projects. However, boosting infrastructure financing will require broadening of the potential group of investors and a broader mix of financial instruments.

4. Pension funds, insurance companies and other long-term institutional investors have very large and growing long-term liabilities and need long-term assets in their portfolio, very little of which is allocated to infrastructure. Alternative financing, in the form of infrastructure investment funds and bonds, can also help to tap into some of the vast resources of international capital markets.

5. Rising climate awareness, strong environmental policies and regulations, and demand for green and infrastructure projects in the region will likely support the development of the green finance market. This is likely to comprise of a diverse combination of conventional green bonds and green sukuk, which could lower the cost of capital and help provide the massive amounts of funding for projects in the pipeline.

6. Improvements in dealing with delays in payments, an ambitious PPP program, and improvements in construction permits and property registration are steps in the right direction by the government to revive the projects market.

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