U.S.-Saudi Business Council
مجلس الأعمال السعودي الأمريكي

May 2021
www.ussaudi.org

USSBC Economic Brief
Privatization Update

Overview

Saudi Arabia's National Center for Privatization (NCP) recently released a four-year plan outlining major asset sales and public-private partnerships (PPP) totaling SAR207 billion ($55 billion) in a variety of sectors including water, power, health, and transportation. Privatization in Saudi Arabia is part of an effort to boost the private sector's economic contribution to 65 percent of GDP by 2030. Current estimates indicate that the private sector GDP contribution in Saudi Arabia stands at 52 percent as of Q1 2021.

During 2020, the Kingdom signed significant PPP deals in the water and transportation sectors and sold off its state-owned milling sector to a consortium of private companies. As the government looks to reduce expenditures by SAR127 billion ($34 billion) over the next three years, PPP and asset sales in water services, wastewater management, health services, and port management are expected to play an important role in providing additional revenue streams and lowering government expenses.

Privatization Strategy

The government's four-year plan, announced in early 2021, contains specific projects under consideration and provides further details on the progress and outlook of its long-term privatization agenda. Despite endeavors prior to Vision 2030, a more comprehensive effort was outlined in the "Privatization Program" Delivery Plan 2020, which called for the development of a legal and regulatory basis for privatization transactions. It also targeted actions in specific sectors to accelerate the privatization of state-owned assets and services.

The Privatization Program encompasses "full/partial assets sale, IPO, management buy-out, PPP (BOT), concessions, [and] outsourcing." NCP was created in 2017 to accelerate and coordinate these privatization efforts as part of Vision 2030. However, privatization overseen by NCP does not include IPOs, actions undertaken by the Public Investment Fund (PIF), or the sale of Saudi Aramco assets. Saudi Arabia's agenda differentiates between privatization and corporatization as some projects, including several major transportation and health projects, will be corporatized rather than be fully privatized. NCP expects SAR29 billion ($8 billion) in deals with private investors in 2021 followed by SAR44 billion ($12 billion) in 2022 and SAR57 billion ($15 billion) in 2023.

Albara'a Alwazir
Director, Research / Economist
alalwazir@ussaudi.org

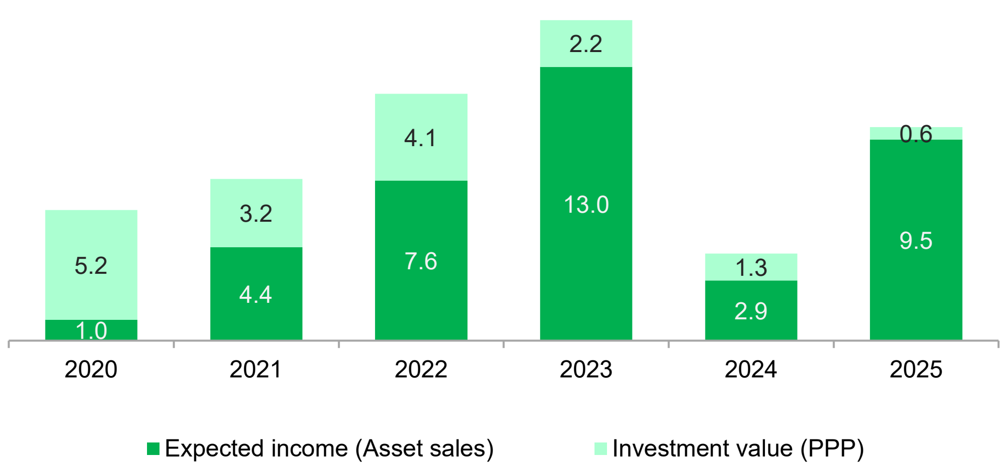
Jacob Dichter
Research Analyst
jdichter@ussaudi.org

Privatization Objectives Under Vision 2030	
Direct	
▪ Unlock state-owned assets for the private sector	▪ Privatize selected government services
Indirect	
▪ Attract foreign direct investment	▪ Grow SME contribution to the economy
▪ Design leaner and more effective governmental structure	▪ Diversify government revenues
▪ Improve municipal services quality	▪ Enhance performance of government entities
▪ Ease access to healthcare services	▪ Establish and improve the performance of logistics centers
▪ Improve value of healthcare services	▪ Develop an advanced capital market

Source: "Privatization Program" Delivery Plan 2020

The four-year privatization plan includes 160 projects in 16 sectors identified for asset sales or PPP, of which 96 projects have been approved. Approved projects are predominantly in the water sector followed by health, municipal, human resources, and transportation. Of the SAR207 billion ($55 billion) in expected value from privatization through 2025, approximately 70 percent will be from asset sales. This would provide a considerable SAR144 billion ($38 billion) in additional income for the government as it seeks to lower the fiscal deficit to SAR285 billion ($76 billion), or 96 percent of the current deficit, by the end of 2023.

Expected Value of Privatization Projects
(USD Billion)



Source: National Center for Privatization

Other Strategies

The Kingdom has also pursued IPOs of state-led entities, most notably Saudi Aramco which listed 1.5 percent of its shares on the Tadawul in December 2019. Planned IPOs for Elm, Tadawul, and ACWA Power all represent PIF-backed companies looking to capitalize on investor demand. State-owned companies such as Saudi Electricity Company, SABIC, and Ma'aden that have already sold partial ownership through IPOs are also expected to consider the sale of additional stakes to local and foreign investors. The Kingdom announced in April 2021 it was in advanced talks to sell an additional 1 percent of Saudi Aramco, worth an estimated SAR71 billion ($19 billion), to an unnamed leading global energy company.

Challenges

Historically, the government has been the primary service provider in Saudi Arabia and previous privatization efforts have been limited to sectors with high levels of domestic experience and knowledge. Prudent implementation of privatization in Saudi Arabia's industries necessitate the navigation of several key challenges.

Experience

Due to limited private sector experience within targeted sectors where the public sector has traditionally provided services, progress has been limited to specific sectors or subsectors that are mature enough to be privatized without significant knowledge, efficiency, or capacity loss. Given the public sector's dominant role in Saudi industries, key competencies must be developed in industry domains before privatization has been successfully implemented.

Currently, Saudi Arabia has a shortage of domestic private sector companies with the appropriate background to take over privatized services. Sectors like education and healthcare have seen services primarily provided by the government. While substantial opportunities to lower the government's cost burden exist, experienced companies must possess the requisite background to fill the gap. For this reason, PPP with established foreign entities have been common in sectors such as water, healthcare, and transportation.

Regulatory

The government's delivery plan identifies a previously challenging regulatory framework, including unclear governance and procedures for approvals, preparation, and execution of privatization schemes, as one of the most significant impediments to PPP in Saudi Arabia. Legacy corporate, bankruptcy, financing, competition, and procurement regulations reflect a legal environment where the government was the primary entity, and the private sector was a secondary consideration.

Since Vision 2030, several major business reforms affecting foreign ownership, procurement, and competition have been implemented to address these regulatory challenges. The developments are aimed towards reaping the full benefits of privatization by boosting private investor confidence in the business potential of sectors where the public sector has historically dominated.

Regulatory Developments

The regulatory changes have culminated in a major new Private Sector Participation Law, which will enter into effect in July 2021 after public consultation and considerable market anticipation. Broadly defined, the new law will cover any relationships between the government and private sector arising from a contractual agreement exceeding five years relating to the provision of public services.

The PSP law will introduce several changes that seek to level the playing field for foreign investors, allow direct collection of public fees and revenues, and permit some exemptions to Saudization employment policies at the discretion of NCP and the Ministry of Human Resources & Social Development. Many of these regulatory changes reflect an effort to make PPP more attractive to foreign investors. The law also appears to open contractual disputes up to international arbitration as a forum for resolution.

These changes follow major reforms in the Saudi business landscape that include implementation of the Bankruptcy Law, Moveable Assets Security Law, Commercial Mortgage Law, and relaxing of rules limiting foreign investors from owning controlling stakes in Saudi companies. The government's commitment to regulatory reform is particularly aimed at attracting foreign direct investment and facilitating the ease of doing business in the Kingdom.

Recent Privatization

Several of the key 2020 goals from the government's delivery plan have been achieved, including the sale of four state-owned milling companies and the signing of several build-own-transfer (BOT) contracts in the ports sector, while others have stalled or seen delays, including the privatization of the postal service and the Ras Al-Khair power station. The government's sale of its flour-milling sector to a consortium of local and international investors represents the most lucrative asset sale made during 2020. NCP confirmed the industry is now fully divested and that the government netted SAR5.8 billion ($1.5 billion) from the total sales.

The water sector, which encompasses desalination, wastewater treatment, and power generation, has also been a strong focus due to its dominance in the Saudi economy. Saudi Arabia's annual water consumption totals around 1.1 billion cubic meters per year which ranks as the third highest water consumption per capita behind the U.S. and Canada. Privatization of Saudi Arabia's water sector precedes Vision 2030 as numerous Independent Water and Power Projects (IWPP) have been launched since 2002 for integrated power and desalination services. Most recently, Saudi Arabia closed deals for the Rabigh, Jubail 3A and 3B, Shuqaiq-3, and Yanbu 4 IWPP projects.

The Kingdom has also recently pursued Independent Sewage Treatment Plant (ISTP) contracts, which follow a build-own-operate-transfer concession model. Saudi Arabia's first ISTP contract was awarded to a consortium led by Dubai's Metito Group in January 2019 and was valued at SAR919 million ($245 million). The Dammam West ISTP project was followed by two additional ISTP contracts in Jeddah and Taif which were signed in 2020. Saudi Arabia has 204 wastewater treatment plants in operation of which 15 are to be privatized during the first phase of the water sector privatization plan implemented by the National Water Company (NWC). The Kingdom plans to increase national wastewater treatment processing capacity by 50 percent to 8.4 million cubic meters per day by 2023 to meet rising demand and expects the private sector to play a significant role in the growth of the sector through ISTPs.

The health sector also saw the first privatization of a government-owned healthcare entity following the majority stake acquisition of Saudia Medical Services Company by Dr Soliman Abdel Kader Fakeeh Hospital Company. Healthcare privatization is expected to be a leading sector of the government's four-year plan, which has been subject to less privatization opportunities relative to the water sector. Major deals were also closed in the transportation sector, including build-own-operate (BOT) concession contracts for the container terminals at Jeddah Islamic Port valued at SAR9 billion ($2.4 billion) and King Abdulaziz Port Dammam valued at SAR7 billion ($1.9 billion).

Closed Privatization Projects

Project Name	Sector	Primary Entity	Date Closed
Rabigh Plant Initiative 3 Independent Desalination Plant	Water	Ministry of Environment, Water, & Agriculture	Dec 2018
Rabigh Independent Water Project	Water	Ministry of Environment, Water, & Agriculture	Dec 2018
Dammam West Independent Sewage Treatment Plant	Water	Ministry of Environment, Water, & Agriculture	Jan 2019
Shuqaiq-3 Independent Water Project	Water	Ministry of Environment, Water, & Agriculture	Jan 2019
Container Terminals at Jeddah Islamic Port	Transportation	Ministry of Transportation	Dec 2019
Second Cargo Terminal at King Khalid International Airport	Transportation	Ministry of Transportation	Jan 2020
Saudi Airlines Medical Airlines Services	Transportation	Ministry of Transportation	Feb 2020
Yanbu Independent Water Project - Phase 4	Water	Ministry of Environment, Water, & Agriculture	Feb 2020
Jubail 3A Independent Water Project	Water	Ministry of Environment, Water, & Agriculture	Apr 2020
Asset Sale of Flour Milling Companies (1 and 3)	Agriculture	Saudi Grains Organization	Sep 2020
Jeddah Airport 2 Independent Sewage Treatment Plant	Water	Ministry of Environment, Water, & Agriculture	Sep 2020
Container Terminals at King Abdulaziz Port Dammam	Transportation	Ministry of Transportation	Oct 2020
Investments to Finance New Education Buildings - Wave 1	Education	Ministry of Education	Nov 2020
Taif Independent Sewage Treatment Plant	Water	Ministry of Environment, Water, & Agriculture	Nov 2020
Asset Sale of Flour Milling Companies (2 and 4)	Agriculture	Saudi Grains Organization	Apr 2021

Source: National Center for Privatization

Saudi Aramco also signed a SAR47 billion ($12.4 billion) deal in April 2021 to sell a 49 percent stake in its pipelines to a consortium led by U.S.-based EIG Global Energy Partners. The lease and leaseback agreement grants rights to 25 years of tariff payments for oil carried through Aramco's pipelines. The deal was the largest for Saudi Aramco since its record SAR110 billion ($29.4 billion) IPO in December 2019.

Privatization Opportunities

NCP plans to privatize 26 government assets and oversee the establishment of at least 64 new PPP in more than 16 sectors by 2025. According to the four-year plan, all of the proposed water projects have received government approval and are in various stages from EOI to Closed. However, the health sector comprises 36 percent of proposed privatization projects that remain under consideration. The Kingdom's privatization plan will see an increased level of investment and partnership opportunities for foreign companies in healthcare, water services, transportation, municipal services, education, and other sectors over the next four years.

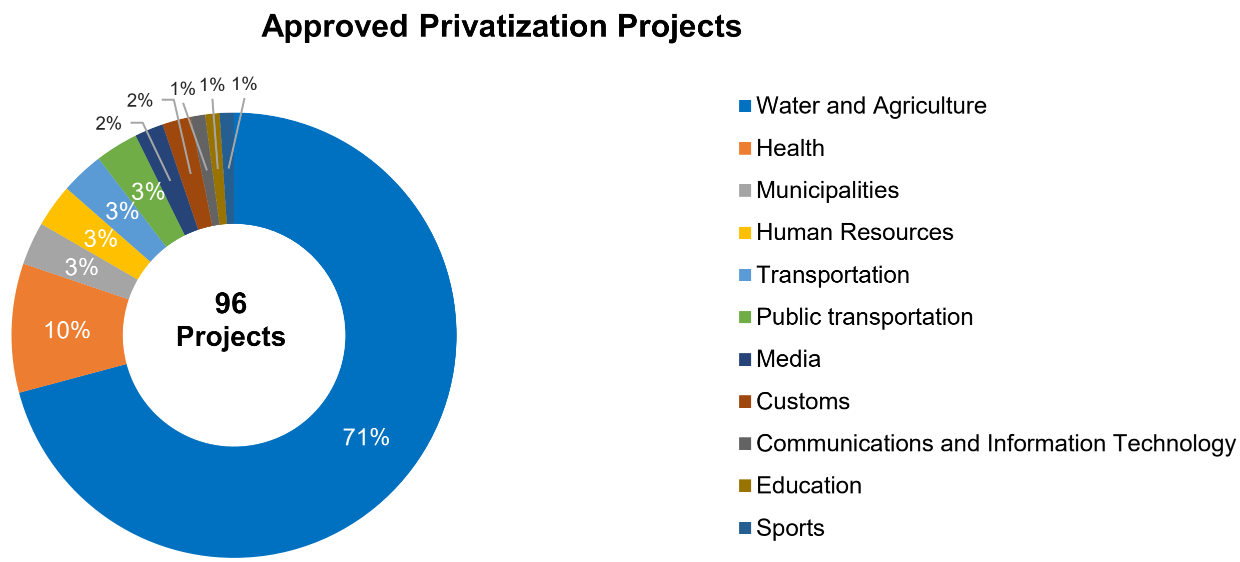
Water

Saudi Arabia's National Water Strategy, aligned with the Vision 2030 Privatization Program, outlines private sector involvement in the Saudi water and wastewater sector as a key focus for driving foreign direct investment, building domestic capacity, and creating local jobs. NCP has currently approved 68 projects in 'water & agriculture,' several of which are currently accepting bids. Plans to privatize the production sector of the Saline Water Conversion Corp. (SWCC) and the Ras Al Khair desalination and power plant have been delayed but remain in place, according to official sources. The Ras Al Khair Independent Water Project, one of the key privatization goals of the government's delivery plan, is currently in the RFP phase along with ISTPs in Madinah, Tabuk, and Buraidah (A full list of future water privatization initiatives can be found in the Appendix).

A total of six contracts will be offered by the NWC for operating its water distribution assets for a period between three and seven years, with long term goals to transfer these contracts into concession arrangements lasting 25 to 30 years. NWC offered its third operation and maintenance (O&M) tender to local and international private firms in March 2021 for water and sanitary drainage infrastructure for all cities and governorates in the Eastern Province. The first O&M contract, which comprises water services in Madinah and Tabuk, was awarded in December 2020 to a Saudi-French-Philippine consortium and is valued at SAR198 million ($53 million).

The Ministry of Environment, Water, and Agriculture (MEWA) also established a new water transmission company, the Water Transmission and Technologies Company (WTTCO), that will manage 8,400 kilometers of Saudi water pipeline infrastructure. The state-owned transmission company will seek SAR60 billion ($16 billion) in private investments including PPP before a planned IPO on the Tadawul.

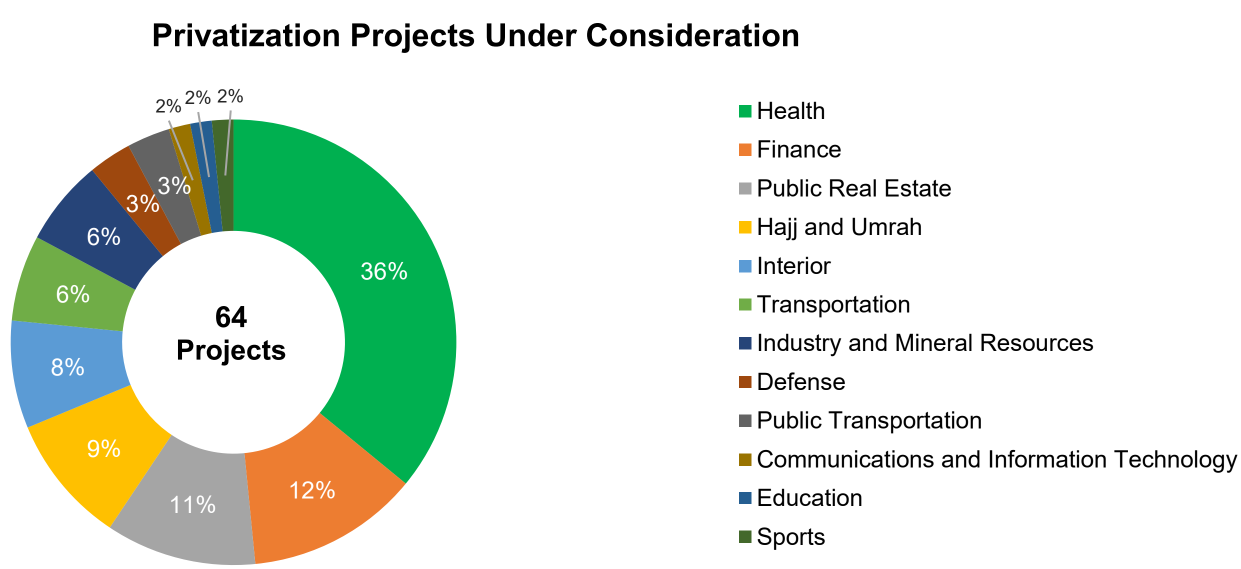
The Yanbu-4 IWP plant, Saudi Arabia's first renewable integrated, seawater reverse osmosis project that was awarded in February 2020 to a consortium led by France's ENGIE is expected to be utilized in future water service contracts. The project is the first water pipeline in Saudi Arabia developed under the public-private-partnership (PPP) structure and is expected to achieve one of the most competitive power consumption efficiency levels in the Kingdom.



Source: National Center for Privatization

Health

The health sector has 9 privatization projects that have received government approval and 23 projects that are under consideration. Healthcare in Saudi Arabia is a key target for long-term privatization including dialysis care, radiology services, and operation of primary care clinics. Partial privatization of the sector would allow significant reduction in government healthcare expenditures which currently accounts for SAR175 billion ($47 billion), or 18 percent of the total budget. Four health contracts are currently in the RFQ phase, including two contracts at King Faisal Specialist Hospital in Jeddah, a PPP contract for a radiology and medical imaging services pilot, and a contract to provide veterinary vaccine services. A full list of future opportunities released by NCP can be found in the Appendix of this report.



Source: National Center for Privatization

Transportation

Several contracts relating to the operation of Saudi marine ports, dry ports, and bus transportation are expected to be awarded over the next four years. Six transportation projects have been approved by the relevant authorities and another six are under consideration. Of this total, five projects are related to public transportation or municipal services. These projects include the operation of the Obhur Suspension Bridge in Jeddah and operation of the bus transportation systems in Jeddah and Madinah. With Saudi Arabia planning major railway and public transportation investments over the next decade, we expect these services to be likely targets for major PPP contracts over the next decade.

The Saudi Ports Authority (Mawani) is currently targeting PPP to advance operational efficiency of logistics infrastructure and optimize the benefits from private investments. These contracts are part of a broader strategy to position Saudi Arabia as a global logistic hub, covered in USSBC's **Logistics Economic Brief**. The Saudi Ports Authority (Mawani) is reportedly preparing 12 private sector contracts on a build-operate-transfer (BOT) basis for 2021, though none have yet been awarded. The Ministry of Transportation will also pursue a PPP for the operation of Riyadh's land port, the largest dry port in Saudi Arabia.

Education

The education sector represents another significant expenditure for the government, totaling SAR186 billion ($50 billion) and 19 percent of the total budget. Two education contracts are either approved or planned under NCP's four-year plan. The most significant education project announced to date is a multi-phase plan to privatize 60 schools in several regions. The first phase of the PPP program was awarded to a local consortium in September and the second and third phases are still under study. The private sector's role will reportedly be granted in financing, constructing, and facility management opportunities.

Sports

Saudi Arabia announced plans to privatize the Saudi Professional League along with other football clubs. The strategy is to turn the clubs into corporate entities and formalize the process of private investment. The Kingdom sees the business framework of corporatization as a benefit to nurturing talent, attracting short-term capital, and adopting best practices in club management. Plans to facilitate a more competitive and internationally engaged sporting industry in Saudi Arabia is covered USSBC's **Sports Economic Brief**. NCP reportedly has two privatization projects planned under its four-year agenda, one of which has been approved by relevant entities.

Airports

Considerable privatization plans exist for the airport sector, but progress has been limited to select services and terminals. Saudi Arabia's domestic and international airports will be corporatized, or restructured to operate like a private company, in advance of full privatization. Regulatory changes have been made to allow foreign firms to own at least 75 percent shares in some airports, according to GACA.

Terminal 5 of King Khalid International Airport (KKIA) has been operated by the Dublin Airport Authority, a semi-state entity, since 2016 and is considered Saudi Arabia's first privately run airport. King Abdulaziz International Airport at Jeddah and King Fahd International Airport at Dammam were also slated for privatization in late 2017 but plans have been delayed. Additional plans to privatize other terminals of KKIA and Taif International Airport have been postponed. All 27 Saudi airports are intended to eventually be either privatized or corporatized.

Open Privatization Projects

Project Name	Sector	Primary Entity	Status
Al Khobar Waterfront Development PPP (Part of Joint Development Agreement)	Municipal	Ministry of Municipal & Rural Affairs	EOI
Real Estate Development Project in Madinah (Part of Joint Development Agreement)	Real Estate	Ministry of Municipal & Rural Affairs	EOI
Buraydah-2 Independent Sewage Treatment Plant	Water	Ministry of Environment Water & Agriculture	RFP
Madinah 3 Independent Sewage Treatment Plant	Water	Ministry of Environment Water & Agriculture	RFP
New Investments to Finance Educational Buildings - Wave 3 - 60 schools in Madinah	Education	Ministry of Education	RFP
Ras Al Khair Independent Water Project	Water	Ministry of Environment Water & Agriculture	RFP
Tabuk-2 Independent Sewage Treatment Plant	Water	Ministry of Environment Water & Agriculture	RFP
Car Park Construction & Management Project	Municipal	Ministry of Municipal & Rural Affairs	RFQ
King Faisal Specialist Hospital and Research Center - Housing Project - Jeddah	Health	Ministry of Health	RFQ
King Faisal Specialist Hospital and Research Center - Medical Equipment - Jeddah	Health	Ministry of Health	RFQ
PPP in Radiology and Medical Imaging Services Pilot	Health	Ministry of Health	RFQ
Ras Mohaisan Independent Water Project	Water	Ministry of Environment Water & Agriculture	RFQ
Veterinary Vaccines Center	Health	Ministry of Health	RFQ

Source: National Center for Privatization

The above sectors represent the highest proportion of expected privatization deals, but several other areas such as municipal services, real estate, defense, telecommunications, human resources, finance, and others are expected to seek corporatization, PPP, or full privatization contracts in the near future. The health sector has the highest number of proposed construction, service, and operations contracts that have not yet been offered. Given Saudi Arabia's longstanding healthcare relationships with major U.S. hospitals, universities, and service providers, we anticipate healthcare privatization will open significant opportunities for U.S. investment and partnership. The transportation sector, particularly airports, as well as the water services sector would also benefit from experienced U.S. service providers offering planning, consulting, and potentially full operations support for Saudi Arabia's privatization agenda.

Appendix:

The level of detail provided reflects the extent currently known about these individual projects.

Future Initiatives (2021-2025)

Public-Private Partnerships

Water & Agriculture	Transportation
Rabigh Desalination Plant Initiative IWP 4	Obhur Bridge Initiative
Buraidah Sewage Water Treatment Plant Initiative ISTP 2	Public Transport Network for Medium and Small Cities
Medina Sewage Water Treatment Plant Initiative ISTP 3	Dry Port in Riyadh
Tabuk Sewage Water Treatment Plant Initiative ISTP 2	Jeddah Bus Initiative
Ras Muhaisin Desalination Plant Initiative IWP	Medina Bus Initiative
Jubail Desalination Plant Initiative IWP	**Health**
Water Strategic Storing Initiative in Makkah (Al-Ju'ranah)	Experimental Radiology Initiative
Water Strategic Storing Initiative in Makkah (Al Maghmas)	Al Ansar Hospital Initiative
Water Strategic Storing Initiative in Eastern Region	King Faisal Medical City in Abha
Water Strategic Storing Initiative in Jeddah Province	Prince Mohammed Medical City in Al-Jouf
Water Strategic Storing Initiative in Jeddah	Al Iman Hospital Housing Privatization Initiative
Rabigh 5 Initiative for Desalination	Primary Healthcare - Experimental
Shuqaiq 4 Initiative for Desalination	Experimental Labs Initiative
North Jeddah Initiative for Water Treatment	Al-Ahsa Hospital Privatization Initiative
Water Strategic Storing Initiative in Al-Ahsa	Radiology Privatization Initiative, Stage 1
Water Strategic Storing Initiative in Medina	Radiology Privatization Initiative, Stage 2
Water Strategic Storing Initiative in Qasim	Yamamah Hospital Privatization Initiative
Water Strategic Storing Initiative in Aseer	Extended Healthcare Initiative, Stage 1
East Riyadh Sewage Water Treatment Plant Initiative ISTP	Extended Healthcare Initiative, Stage 2
Al-Ha'ir Sewage Water Treatment Plant Initiative ISTP	Labs Initiative, Stage 1
Khamis Mushait Sewage Water Treatment Plant Initiative ISTP	Radiology Initiative, Stage 3
South Najran Sewage Water Treatment Plant Initiative ISTP	Primary Care, Stage 1
Abu Arish Sewage Water Treatment Plant Initiative ISTP 3	Primary Healthcare, Stage 2
Jubail 6 (Al-Ahsa) Desalination Plant Initiative IWP	**Municipal**
Tabuk Desalination Plant Initiative IWP	Mutual Investment Agreements of Lands
Jazan Desalination Plant Initiative IWP 1	**Education**
Rayyis Desalination Plant	Attracting Investments for Educational Buildings for Establishing 60 schools in Riyadh – Third Stage
Water Strategic Storing Initiative in Riyadh	
Ras Al Khair Desalination Plant Initiative IWP 2	
Ras Al Khair Desalination Plant Initiative IWP	

Asset Sales

Water & Agriculture	
Privatizing the assets of water production, first group, Ras Al Khair	Water Transmission and Technologies Co.
Privatizing small sewage water plants initiatives, stage 1	Water distribution network privatization initiative, Stage 1
Sewage water treatment plants privatization initiative, stage 2	**Media**
Yanbu water production plant privatization initiative	Television broadcasting towers
Khobar plant for water production IWP	**Finance**
Al-Shuaiba plant for water production IWP	Assets of central cooling