

أول الشجرة بذرة - A Tree Begins with a Seed: Construction and Project Finance in Qatar

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Anyone who has travelled to Qatar over the last few years will have witnessed the huge infrastructure projects that have been completed or are under construction. From the new Hamad International Airport, the dramatic road upgrade programme, to the new metro rail system – transport in Qatar is being transformed. Winning the 2022 FIFA World Cup bid has not only generated a great number of construction projects directly, with entirely new or upgraded stadiums being built, but has acted as a spur to improve infrastructure and transport links. On top of this, there is a huge amount of residential and commercial property being constructed, from the Musharib regeneration project in downtown Doha, the Motor City complex within touching distance of the KSA border, to the continued growth of the Pearl, the upscale waterfront community. So, there are a great deal of projects going on, but what about finance? How are all of these works funded?

As with many things in Qatar at present, the political situation is influencing the availability of finance. Up until June 2017 there were a number of regional lenders that were providing finance to institutions in Qatar to help fund construction projects. Whilst several banks headquartered in other GCC countries remain active in Qatar, local financial institutions have become more prominent in providing finance to projects in the country, funded in certain cases via well-publicized debt raisings on the international money markets. There are frequent announcements in the local press about lenders such as Qatar National Bank, Qatar Islamic Bank and Qatar International Islamic Bank providing financing for specific construction projects, and billboards at building sites around the country proudly announce lenders' involvements in the schemes.

There remains an active market for project finance in Qatar. Whilst the collapse of the UK construction giant Carillion, which operates in Qatar, has brought some less welcome news, the fact that the Musharib project that it was involved with continues apace demonstrates the resilience of the local economy. As a firm we currently act for a large number of major construction companies active in Qatar, and the number of inquiries received from construction and construction support companies based in Europe and Asia looking to establish a presence in Qatar demonstrates the attractiveness of the market.

From a legal perspective, it is interesting to see the form of legal and funding structures being used to undertake projects in Qatar. There is no direct equivalent of the European-style public / private finance arrangements where a government entity will contract with a private sector company to procure services over the lifetime of a contract, perhaps up to 25 years. On the back of this contract the private sector company, which will provide the service, is able to secure financing to build the road or hospital or other infrastructure, servicing the debt with the income received from the government. The closest equivalent is a company established under Article 207 of the Civil Code (formerly Article 68 under the previous law) which enables the government or a government entity (or a foreign entity together with the government or a government entity) to establish a private company. These companies can contract out of the provisions of the Companies Law, making them an attractive structure. That said, the role of the government in such an enterprise clearly precludes this structure for entirely private arrangements.

A more common structure for private contracting partners in Qatar is the joint venture. As explained in previous editions of the Law Update, there is a great deal of flexibility afforded to a JV arrangement in Qatar as it allows entities even without a formal presence in the country to operate through the JV. Many

construction and infrastructure companies operate via the JV route to allow a marriage of expertise and skills, with JVs frequently established on a project-by-project basis. From a financing perspective, the JV arrangement should be robust enough to be bankable, though lenders will often require parent company guarantees to support the obligations of the JV together with performance bonds from a financial institution (note the commentary in the press recently about the performance bonds issued on behalf of Carillion in Qatar). The exact allocation of risk can then be contracted between the JV partners.

In terms of the actual form that project financing takes in Qatar, rather like the JVs it more often than not done on a project-by-project basis. The funding could, for example, support construction of an individual building such as one of the new residential towers being erected around Doha, or funding might be provided for a broader project such as parts of the Musharib redevelopment. The same fundamentals of lending apply: how much is needed and for how long, and what underlying or projected cashflows will underpin repayment of the loans. Qatar has a sophisticated finance sector with some very experienced bankers, with the increasing role of local lenders helping to further burnish the experience of the local sector.

There are challenges facing the local and regional economies, but the upcoming World Cup and the firm commitment from the government to infrastructure upgrading in Qatar means that the sector should remain buoyant for the foreseeable future. Essential to that is the continued availability of funding. It is likely that certain banks will have a diminishing profile going forward, but the appetite for financing from key lenders in the Qatar market means that there should remain liquidity to finance these projects. The flexibility afforded by the company law in Qatar means that there are various means by which sponsors and borrowers can offer comfort to lenders and make projects bankable, even with more stringent credit conditions, which seem likely to apply given the pressures on the economy.

So next time you are transferring flights in Doha or are on the new expressway to view a newly built apartment at the Pearl or having a meeting in Musharib (once complete), give some thought to the financing that helped fund the rapidly changing environment in Qatar.