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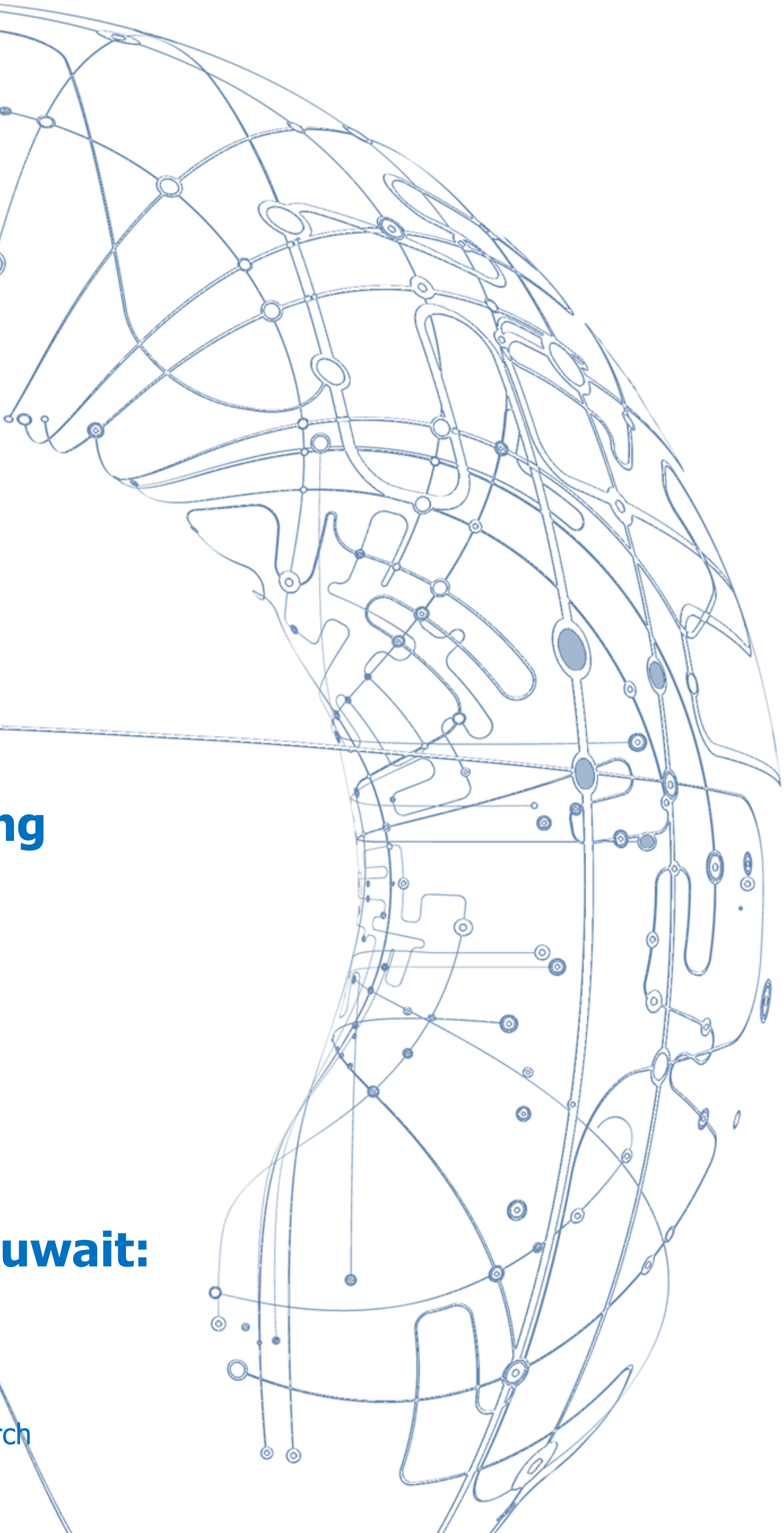
Marmore Bulletin



Featured Interview / Islamic Finance

Rushdi Siddiqui, Global Leader / Head Islamic Economy, DinarStandard

Expert Opinion / GCC Investment Banking

Ali Khalil, COO, Markaz

Renewable Energy in Kuwait: Green Dreams or Real Potential

A discussion based on Markaz policy research

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Rise of Digital Social Media in GCC

Emerging Trends in GCC ICT Sector

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Foreword

Welcome to Q3 2014 edition of The Marmore Bulletin

In this edition we bring insights from experts with vast experience on Islamic Finance and Investment Banking. Mr. Rushdi Siddiqui from DinarStandard shares his insights on current challenges faced by Islamic Finance industry and what can be done to overcome them. Mr. Ali Khalil, Markaz's COO and Investment Banking expert, sheds some light on the current status of the investment banking industry in the GCC region focussing on challenges and way forward.

We also looked at the impact of social media penetration in the region. In the past few years, in line with the global trends, the usage of social media has gone up in the entire GCC region, thanks to the increasing internet penetration and the usage of smartphones. The multi-faceted social media has been a big hit among the younger generation owing to its rich user generated content as well as other features such as chat, music, games; photos/video sharing etc. Facebook, Linkedin and Twitter are the three most widely used platforms in the region. Kuwait leads the twitter penetration in the Arab world at 12.8% while UAE leads LinkedIn penetration at 12.8%.

We analyzed the developments that are happening in the Information, Communications and Technology (ICT) sector in the GCC region. With mobile penetration exceeding 100% in all of the GCC countries, the ICT players of the region are looking to expand into emerging markets through the inorganic route. North Africa and Asia have been the top destinations for outbound investments from the region.

The increasing focus of GCC governments to move away from traditional export processing to special purpose industrial processing has given rise to FTZ (Free Trade Zones) which are being looked on as high quality knowledge and economic clusters. The UAE's cluster manufacturing facilities has been seen as a great success and serves as a role-model for that region.

Kuwait's search for alternative sources of energy could have its answer in solar and wind technologies. With Kuwait receiving a very high level of irradiance compared to other developing countries it possesses a distinct advantage. Distributed technology could help bypass the huge distribution infrastructure requirements of electrical grids.

GCC countries have been net creditors owing to their huge SWFs and they have invested globally. However, the AUMs in the region have been on the decline in the region post the economic crisis. This section suggests policy actions that would help revive the asset management sector.

We round up this edition, with a look at some recent regulatory changes, reforms and other developments of note in the MENA region.

As ever, we are eager to hear your views and suggestions on this quarter's edition. If you would like to know more about any of the topics covered, please feel free to get in touch with us.

Featured Interview

Interview with Rushdi Siddiqui, Global Leader / Head Islamic Economy, DinarStandard

Marmore held an exclusive interview with Mr. Rushdi Siddiqui. He is Global Leader/Head of Islamic Economy in DinarStandardand. He shed light on current challenges faced by Islamic Finance industry and what can be done to overcome them.

Please read below the complete transcript of the interview.

1. Global Islamic financial assets are estimated at $1.8tn in 2013 and growing at over 15% a year in most markets. How can the industry scale up to conventional finance markets in terms of size?

Let's manage expectations, especially related to time, hence, to scale will require the usual suspects of Shariah standardization, more qualified scholars (versed with capital markets) and practitioners / graduates (exposed to Shariah contracts), level regulatory field (includes tax), short term liquidity management, and so on.

There needs to be several holistic objectives to achieve scale: 1. Conventional efficiency, not necessarily conventional completeness (is there need for Islamic hedge funds?); 2. Rebranding of Islamic finance to its substance of Participation Finance (as labeled in Turkey) as it becomes about business and not about promoting religion; 3. Convergence with the Halal food industry and Muslim lifestyle (pharma, cosmetics, travel, fashion and media); 4. Building bridges with social impact, SRI and ESG communities because of common values.

It took the Islamic finance industry nearly 40 years to breach the $1 trillion mark, it will take probably 10% of that time to breach $2 trillion.

> "Islamic Finance Industry took 40 yrs to breach $1tn mark – will probably take 10% of that time to reach $2tn."

2. In an expanding Islamic finance market, how can we unify and standardize regulations?

On white boards in ivory towers, it would seem that standardization is the key for efficiency led growth and cross sell to non-Islamic entities, as rules of engagement become known. But, understand Islamic finance is also influenced by Islamic school of law, cultural factors, political sensitivities (pre-Arab spring North African countries), level of economic development, regulations, consumer education, etc. Thus, finding blue print or fast tracking unification of standardization will not happen and may result in the law of unintended consequences, it's an evolutionary process that cannot be revolutionized!

3. Moody's has recently stated that global Sukuk market's positive long-term growth trends are set to continue. What are the inherent challenges that you foresee in the industry?

There are a number of issues, some in our control and some part and parcel of the market environment, like external shocks, as Islamic finance is subset of conventional. The focus areas include; 1. Long dated Sukuk (7 years and beyond) which will help Takaful industry (mismatches), Islamic pension fund industry, etc.; 2. Diversification from Ijara and increasing use of Mushakara sukuk; 3. Time to market needs to go from months/weeks to 'shelf registration efficiency,' as applicable lessons from the development of the Eurobond market; 4. Retail sukuk, local currency for domestic market (good examples from Indonesia); 5. Secondary market trading (appropriate sukuk contract) as buy and hold to maturity does not develop the market; 6. Green Sukuk, as Islam explains we are only stewards on this planet for next generations, we must be cognizant of the environment, as Islamic banks finance much real estate and infrastructure projects.

4. Recently, Emirates and Ooredoo used intangible assets instead of property leases or land to issue Sukuks. Are other issuers expected to follow suit in the near future?

Yes, here the scholars need to work with structuring lawyers/bankers at the earliest stage possible of R&D, as this becomes about authenticity and innovation. Some will push back and say mirroring conventional debt instruments! Yes, in economic returns, but not in structuring. I believe we are only limited by our imagination, as Islam says everything is permissible unless violates one of the conditions (underlying asset is harm, speculation, uncertainty or interest).

5. Islamic banking assets amount to less than 1.5% of global banking assets (2012). What are the growth areas that Islamic banks should focus on, as government expenditure increases across the region?

The continuous reliance on Islamic debt capital markets, led by Sukuk, can grow Islamic finance only so far, hence, the development of Islamic equity capital market is a must for (1) balanced growth and (2) financing the building of knowledge based countries, a mandate for many Muslim countries in next 10-20 years. For example, when the assets under management/deposits ratio changes from present low percentage to excess of 50% plus, it means capital markets will be financing development.

To export Islamic finance, and using Malaysia as the role model, the interested country must have the political will to want Islamic finance, and then establish an enabling infrastructure that includes Shariah (to the country's level of interpretation), Tax (if applicable), Accounting (alignment with AAOIFI), Regulation, and education (STARE). Islamic finance cannot be about product pushing, but a holistic approach that is about business (with certain rules of engagement) tied to the real economy, financial inclusion (micro-finance, micro-takaful, SME, crowd funding, etc), and about profits and not profiteering, i.e., greed induced financial crisis!

6. How do you envision the growth of Islamic microfinance over the next five years?

It will require positioning for growing it, so that its intended impact, 'have not' people, are lifted and villages/towns out of their present bleak situation; lack of access to compliant capital. It may/will require:

- Clear rules on structuring in compliant manner depending on the contract- but should the formalism on structuring prevent money from flowing to these intended people (assume they are indifferent)
- Administrator of the funds, analysts (review the 'business plans'), and mentors
- Sourcing of the funds (is Islamic micro-finance an asset class?), is this an area for part of Zakat, Awqafs, purification moneys (Islamic financial institutions)
- 'Exits' of these fund recipients

> "Development of Islamic equity capital market is a must"

7. In your opinion what are the operational inefficiencies that Islamic finance industry faces?

Information inter-mediation challenge remains a key inefficiency. Islamic securitization of portfolio; consolidation as there are too many small capitalized Islamic banks (seeing consolidation taking place in Bahrain) and Takaful operators; public relations as many Muslims want the question 'what's the difference (to conventional finance)' answered and non-Muslims believe its only for Muslims as called Islamic finance; educational institutions need work more closely with Islamic financial institutions as issues of not enough qualified people keeps popping and up, and the graduates say they cannot find openings worthy of their degree/certificate; missing out on the nearly $2T halal/Muslim lifestyle industry.

8. In 2013, UK announced its plans to position London as a leading hub of Islamic finance. Do you Do you foresee the Western Islamic finance market to achieve critical mass within the next five years?

Islamic finance has been petro-liquidity led phenomenon, and countries want to tap this surplus liquidity, hence, Honk Kong, Singapore, Luxembourg, Bermuda, Australia, etc., are aggressively putting out the welcome mat. These countries do not have sizable Muslim population, hence, more wholesale play. It is also becoming a documentation led phenomenon, where GCC based entities are raising money in Malaysia, hence, the slow delinking from oil prices is a good development for the overall growth and development.

For Islamic finance to grow in non-Muslim countries, it has to also delink from local political personalities pushing it. For example, when Christine Lagarde was a minister in France, Islamic finance was getting traction (notwithstanding National Front), after she became IMF Managing director, one does not hear much about Islamic finance in France.

"For Islamic finance to grow in non-Muslim countries, it has to also delink from local political personalities pushing it."

In the case of Islamic Bank of Britain, only deposit taking (FSA licensed) Islamic bank in UK launched in 2004, it has about 50,000 customers (UK has more than 2 million Muslims) and it needed two capital rescue injections. Furthermore, if the UK issues its sovereign Sukuk this year, though few years late but still welcomed, it's just a one-off and not part of a series program.

The delinking of Islamic finance to politics in western world is a must, as politicians and others use it as a boogyman to muster votes. The industry has to do a better job on PR in positioning and branding of Islamic finance in non-Muslim countries.

9. Dubai seems to be stepping up its efforts in developing its Islamic finance market, such as the introduction of Murabaha trading system. What is your take on prospects for Islamic finance in Dubai?

Only time will tell if the existing Murabaha business on London Metal Exchange, estimated at about $10B per day, underlying for commodity Murabaha, is impacted with Dubai's initiative. For example, will the Saudi and Qatari banks switch? And it may not just be a pricing issue!

It's acknowledged by all that Dubai is global platform, and their interest being the capital of the Islamic economy is welcomed. The two biggest risks are (1) being too ambitious (wanting to do almost all aspects of the Islamic economy blue-print) and (2) execution. But, Sh. Mohd., Ruler of Dubai, has a made this almost a personal challenge, and hopefully his tasked team will be able to deliver in the time frame.

10. What is your view on the growth of Islamic mutual funds over the next five years?

There are about 700 plus Islamic funds with assets under management of about $75 billion, both concentrated in Saudi and Malaysia, it can only go up! I see the rise of low cost funds, index funds and Exchange Traded funds. I see variety of Islamic asset classes, including trade finance, agro-halal food, either via private equity of mutual funds. I see Islamic fund screening moving into positive screen, from the present negative screening, hence, building bridges to the SRI and ESG investors/community. I see countries like, Malaysia, wanting to be an Islamic/wealth management hub.

11. What are the steps that need to be taken by the Takaful operators to make a regional or global impact in the coming years?

The need for consolidation is probably the number one challenge to address, as size matters on efficiency and distribution, may be Banc assurance? A close second is education and awareness of Takaful, viewed as impermissible by large segment of audience in selected countries, as low penetration rate in many Muslim countries.

12. Which opportunities do you think are ripe for Islamic Finance in the MENA region and emerging market economies?

One of the key area of growth for Islamic Finance, as identified by DinarStandard, is the global Halal food & lifestyle sectors market (travel, clothing, pharma/ personal care, media/ recreation) worth $1.62 trillion as of 2012 and projected to reach $2.47 trillion by 2018. Another key area, as identified by DinarStandard, is the investment opportunity across key emerging OIC countries industry clusters (renewable energy, downstream petrochemical sectors, infrastructure, pharmaceutical/healthcare, food/agriculture, retail, education, basic materials.)

There are viable opportunities for Islamic private equity for healthcare (obesity resulting in diabetes and heart disease), alternative energy (solar), education, agro-food sector (food security is national security issue in, say, most OIC), etc, for both sourcing money in, say, GCC and investing in GCC. Obviously, infrastructure projects, railroads, airports, roads, hospitals, clean power, etc. present are lower hanging fruits, and these areas in the MENA geography may just be the risk adjusted returns for investors in US and EU.))

13. Could you please provide a brief introduction about your organization and its purpose?

DinarStandard™ is a growth strategy research and advisory firm empowering organizations for profitable and responsible global impact. DinarStandard specializes in the Halal/Tayyab food, Islamic/Ethical Finance, Halal travel, Islamic NGO's and OIC member country sectors. Since 2008, DinarStandard has been advising organizations globally on market expansion, business/investment strategy, and innovative marketing strategies. Its clients include global multi-nationals, Islamic financial institutions, Halal market startups and NGOs, served by a team of research & strategy associates from across the USA, as well as from France, Turkey, Malaysia, Indonesia, Saudi Arabia, India, Pakistan, Egypt, Nigeria, and the UAE.

Expert Opinion – GCC Investment Banking

Interview with Ali Khalil, COO of Kuwait Financial Centre 'Markaz'

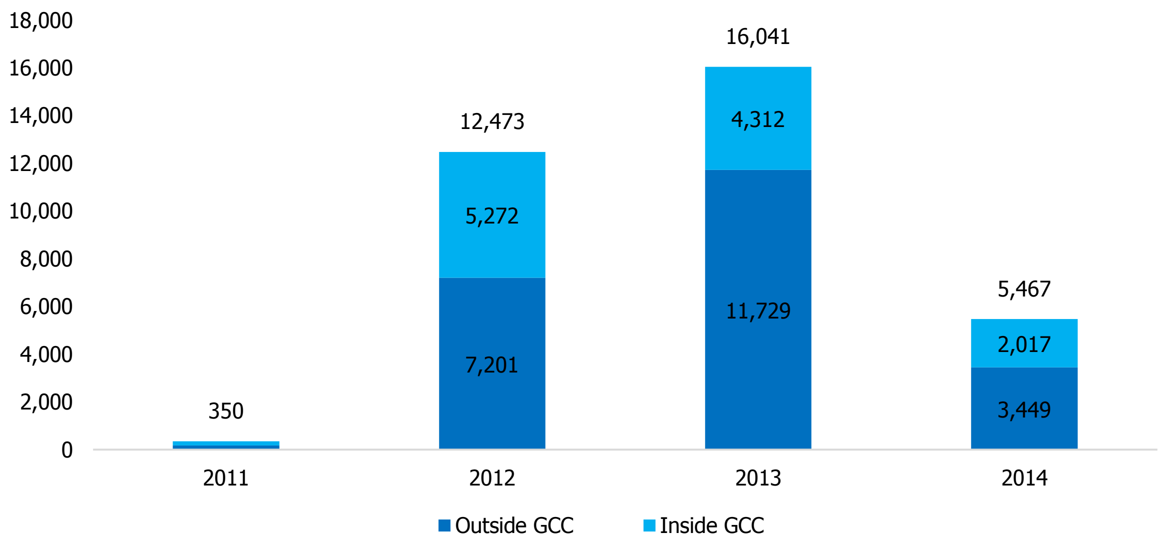
The Investment Banking activities in the GCC region have come to the fore in recent times with a number of international players setting up their bases in the region and local players stepping up. However, there remains some caveats because of limited M&A activities and constrained regulatory environment. We met with Mr. Ali Khalil, COO of Kuwait Financial Centre 'Markaz', to develop better understanding of the regional investment banking activities.

Please read below the complete transcript of the interview.

1. GCC companies have not been very active in pursuing cross-border M&As which is in stark contrast to what their SWFs have done. Do you expect a marked change in this trend going forward?

The M&A activities across the GCC remain limited. In total, only 12% of the total transactions for the period from 2011 to date have been cross border GCC transactions, 22% within the same GCC country, and 66% outside the GCC. Total investments increased significantly from US$ 350 million to US$ 16.04 billion in 2013. Majority of the growth is due to increase in activity by the UAE based corporates, which have reported a growth from US$ 96 million of transactions in 2011 to US$ 11.85 billion in 2013.

Figure: Total reported M&A Activity by GCC corporates (US$ million)



Source: Markaz Analysis, S&P Capital IQ, 2014 relates YTD (September 2014).

Whilst looking at the M&A activity by GCC corporates between 2011 and 2014 indicates that Oman is the only country amongst its GCC peers which invests more within the country as opposed to other markets. Whereas, Kuwaiti and Saudi Arabian corporates preferred investing within GCC markets compared to international markets. Moreover, Bahrain and Qatar lead their peers in terms of percentage of transaction value allocated to international markets.

Table: M&A Activity by GCC Corporates

Investor	Within Own Country	Within GCC	Outside GCC	Total
Bahrain	310	22	1,958	2,290
Kuwait	911	396	552	1,859
Oman	113	0	78	192
Qatar	613	2,150	9,059	11,822
Saudi Arabia	1,039	1,598	631	3,268
United Arab Emirates	4,605	17	10,278	14,900
Grand Total	**7,591**	**4,183**	**22,557**	**34,331**

Source: Markaz Analysis, S&P Capital IQ

It is difficult to assess the direct reason for the limited transactions, but we can ascertain that the GCC remains fragmented, and outside the movement of labor and capital, the cross boarder investments remain constrained somehow by differences in rules and regulations across the GCC which are sometimes opaque, and are not conducive for cross border acquisitions. Another explanation is that the companies in the GCC prefer to remain in their respective home turf, and service the neighbouring GCC markets form their own locations.

It is important to note that the above is in stark contrast to international markets, whereby domestic acquisitions typically exceed cross-border activity and, furthermore, intra-regional acquisitions (e.g. intra-European acquisitions dominate cross-border activity). In fact, regional corporates have been more active than international counterparts in pursuing cross-border acquisitions. However, the regional M&A market is small relative to the size of the economy and the local corporates are also typically smaller compared to international standards.

Having said that, the telecom sector has witnessed several cross border transactions in the past five years, and we are likely to see more consolidations in the future. The sector that can benefit most from consolidation across the GCC are the banking and asset management sectors; however, this is unlikely to happen under the current environment, in the absence of common regulations, and common currency.

Both KSA and Kuwait are engaging in initiatives to facilitate direct foreign investors, which is likely to be catalyst for cross-border transactions in the future. KSA has recently changed certain rules of Sagia to speed up the process of approving foreign investments and Kuwait as well has issued Law 116 / 2013 to encourage direct investments by foreigners.

As it relates to SWFs, their mandate is typically to diversify the respective economy's income sources; therefore, it is not uncommon to see them invest internationally (and specifically outside the region in order to diversify revenues away from energy-related sources). SWFs have, as a result, been large investors in targets abroad, but these have generally been limited to non-controlling interests and passive acquisitions.

2. GCC region has relied on imported talent pool and investment banking is no exception, Could you please give your view on the current situation. Has there been any steps to increase the local talent pool?

The Investment Banking sector is no different than other sectors, and is staffed with large percentage of expatriates. However, the sector is attracting the most qualified national talent, and along with consulting, offers the most attractive remuneration. The national talent is proving to be essential to any investment bank, especially for access to transactions, knowledge of the local regulatory and legal landscape, understanding the stakeholders, and appreciation of the local business values. An increasing numbers of GCC nationals are attending the best MBA schools and are being trained by consultant firms, and we expect the percentage of nationals to increase substantially.

3. Commercial banks in the region looks well suited to handle the investment banking activities of the region owing to their huge balance sheets and large customer base. Do you see international regulations such as BASEL III norms to hinder their growth?

Commercial banks have entered the investment-banking arena, however, with mixed results.

- Historically, they perceived that capital market competed with their core lending business, and most of the time, they were unlikely to encourage their clients to issue public debt in lieu of syndicated loans.
- Banks have maintained a credit mindset, and were not geared to adequately underwrite equity issues.
- However, the more progressive of them have established subsidiaries such as Al-Rajhi Capital, NBK Capital, KFH Capital, Boubyan Capital. However, they remained substantially controlled by a commercial banking mindset.

I expect banks to become more involved in investment banking while seeking to de-risk their balance sheet, and increase their fee income, they are definitely capable of underwriting large issues, and are well poised to effectively place them given their distribution capabilities.

4. Is the full-fledged investment service offering Advisory, capital rising (equity & debt) and Sales and trading the order of the day in the GCC region or do you foresee a rise of specialised investment banking firms?

This is a business that relies on expensive talent to succeed, and our markets remain limited in size and highly cyclical. It would be difficult for specialized boutique firms to be sustainable focusing on one aspect of the business.

5. Which segments of investment banking offers future potential?

Debt capital markets and M&A are the most likely activities to be needed in the next five years. As GCC public budgets become strained, governments will be increasingly relying on debt securities to fund large-scale infrastructure projects. Also, family businesses are maturing, and are facing succession issues as most family companies in the GCC region are now being passed on to the third generation. We are more likely to see conglomerates becoming fragmented, divisions spun off and sold, and companies going public.

6. How critical is the professionalization of family business to investment banking operations?

First, it is more critical for the survival of the family companies. With increased regulation, and tougher competition, the professionalism of the management in place will enhance the sustainability of such companies. Absence of that, investment banks will find it very challenging to work with such companies, and assist them in dealing with the critical issues that such companies face.

7. Could you please give your views on the scope of Islamic Investment Banking in the GCC region?

Islamic investment banking does cater to a very fast growing segment of the market. The demand for sharia compliant investment instruments has been growing regionally and internationally, and no regional investment banking can afford to ignore it, or avoid building capabilities serve the segment. However, we are still in the trial and error phase, and we will continue to witness fast changes in regulations to deal with the arising risk, and the emergence of new products and structures.

8. Your views on the competition between local and foreign investment banks present in the region.

The larger regional transactions (especially involving energy companies and telecommunications) are dominated by international investment banks: Morgan Stanley, Bank of America, JP Morgan, Goldman Sachs, etc. The middle-market and smaller deals are competed by the big-four audit firms (PwC, EY, KPMG, Deloitte) and a large number of local investment banks and boutiques. The local companies seem to be more focused on inter-country transactions, which dominate deal flow for middle-market deals and smaller transactions.

As private equity in the region gains traction and as larger international players focus on local assets, we expect that foreign and international investment banks will continue to cooperate on transactions.

According to Merger Market's 2013 league tables (Middle East & Africa – Value of deals), Morgan Stanley ranks first in value of deals with USD 15 million spread across 11 deals. Bank of America Merrill Lynch ranks second with USD 13 million spread across 12 deals. Attijariwafa bank (Morocco) is the only MENA based bank featuring in the top 10 (rank 10) with USD 7 million spread across 7 deals.

Table: Some Notable Transactions over last 3 years

Buyer	Target	Target Location	Year	Value (US$ mn)
Emirates Telecommunications Corporation	Itissalat Al-Maghrib	Morocco	2013	7,185
Qatar National Bank SAQ	Qatar National Bank Alahli S.A.E	Egypt	2012	2,450
Aldar Properties	Sorouh Real Estate Company	UAE	2013	2,207
Divine Investments	Printemps SAS	France	2013	2,124
Ooredoo	National Mobile Telecommunications Company K.S.C.P.	Kuwait	2012	1,849
Al Mirqab Capital	Heritage Oil Plc	Channel Islands	2014	1,692
Ooredoo	Asiacell Communications PJSC	Iraq	2012	1,470
The National Shipping Company of Saudi Arabia	Vela International Marine Limited	UAE	2012	1,206
CHAMP Private Equity; Castle Harlan, Inc.; Lime Rock Partners	Shelf Drilling Holdings Limited	UAE	2012	1,050
EFG-Hermes Private Equity and Mannai Corporation	Damas International Limited	UAE	2012	1,031

Source: Markaz Analysis, S&P Capital IQ

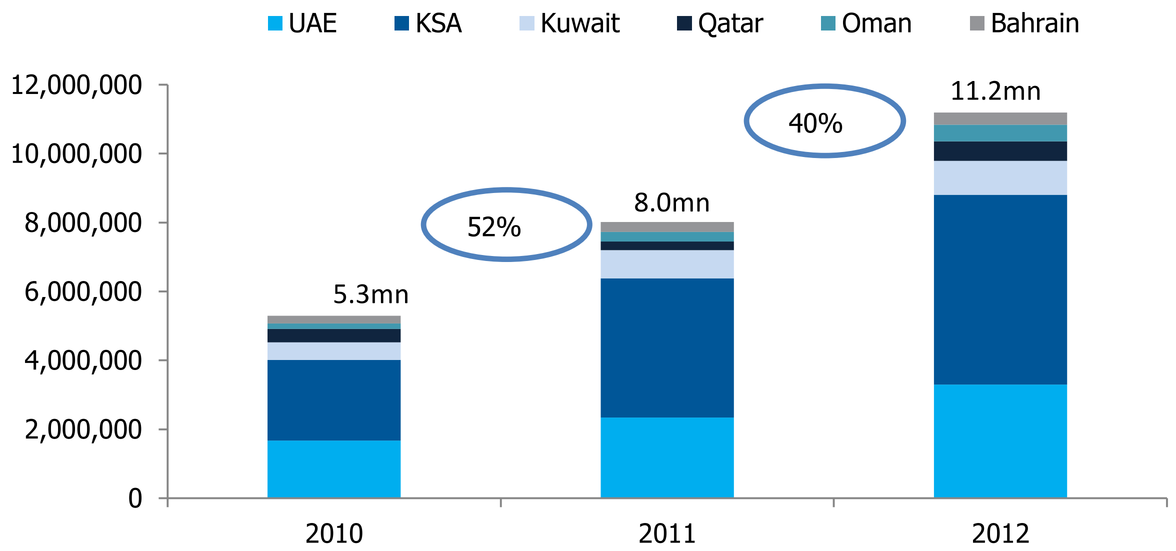
Markaz Research Highlights

Rise of Digital Social Media in GCC

The digital social media has gained prominence on the back of improvement in technology and infrastructure development. With increase in internet penetration, smart phone usage etc. people have greater access to digital contents and networking forums. People of the Arab world have shown a lot of enthusiasm in using the social media channels. This has helped to break the monopolies of state control in the media and entertainment segment. The social media platform has brought in greater transparency and access to information and news.

The growth of social media has been robust in the GCC. The use of Facebook, LinkedIn, and Twitter has been on the rise. The social networking sites are a big hit as they provide a plethora of features like music, chat, games, mail, share pictures and videos etc. It helps the users to not only stay connected but also stay abreast of the happenings across the globe. It facilitates the users to share their thoughts, ideas, opinions and experience. The social networking sites gained more prominence in the Arab countries on the back of political uprisings and related civic movements in the region. The number of Facebook users in the GCC region stood at 11.2mn as on Jun-12, implying a growth of 40% over the previous year.

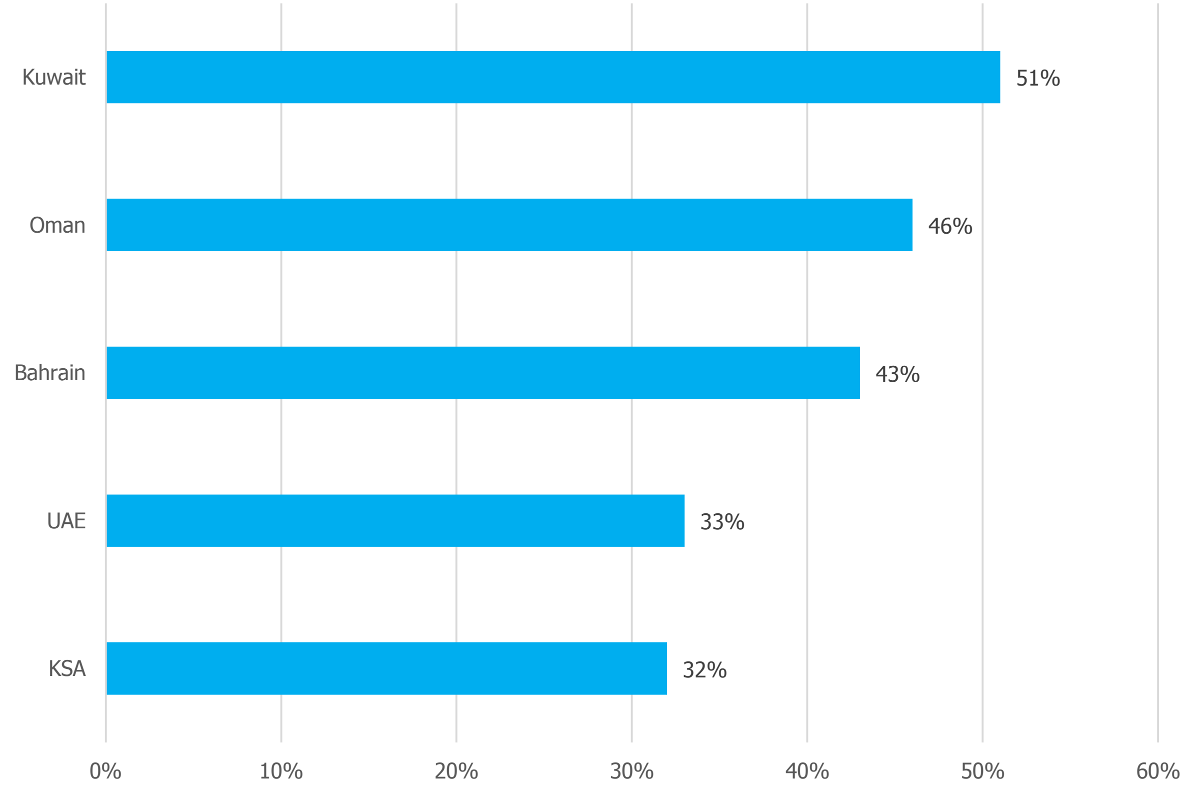
Figure: Facebook user growth in GCC countries



Source: Arab Social Media Report, Dubai School of Government

According to the Arab Social Media Report, the scope of social media usage has widened in the region. Social media has evolved from merely being a social networking platform to an indispensable tool that influences various factors ranging from social interaction, business engagements, dealing with government etc. for millions of users in the GCC. The GCC users used the social media platform extensively to get updates on political issues when the region was affected by political unrests. Many of the government organizations in the GCC have recognized and accepted the potential of social media and the impact it can create on the mass. It has come forward to tap this opportunity to create a transparent, participatory and an all-inclusive governance models.

Figure: Share of GCC social media users who felt digital networks empowered them to influence change in their community



Source: Arab Social Media Report, Dubai School of Government

Large corporations use the social media platform to showcase their product offerings and market their brand. It helps the companies to stay connected with the ultimate consumers and obtain their feedback. This certainly facilitates the companies to understand the consumer better and forces it to be proactive and innovative. Flip side to this is, companies are apprehensive that the grievances or negative feedback shared by the consumers on such social platforms could mar their image.

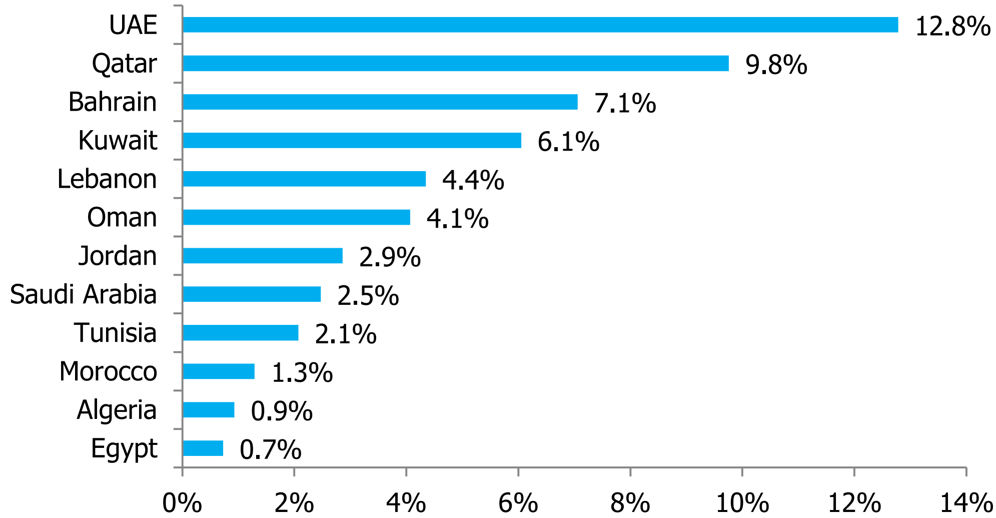
GCC countries enjoyed the highest Facebook penetration in the Arab world. UAE topped the list with 41% followed by Kuwait with 34.3%. GCC countries were on the top 10 amongst all the Arab nations.

English, Arabic and French are the most preferred language interface for the Facebook users. As per the study by the Dubai School of government, the GCC countries except Saudi Arabia preferred English as the language interface. On the other hand, Arabic is also picking up fast on Facebook. It also revealed that the youth population dominated the use of Facebook.

LinkedIn is another portal which has gained significance in the recent past. It is a forum which helps to gain insights on various topics. This platform helps to create professional network and also helps in finding suitable job opportunities.

UAE had the highest LinkedIn penetration of 12.8% in the Arab world. LinkedIn users are on the rise. According to ASMR, the number of LinkedIn users increased by 20% between February and June 2012.The youth population account for more than 70% of LinkedIn users.

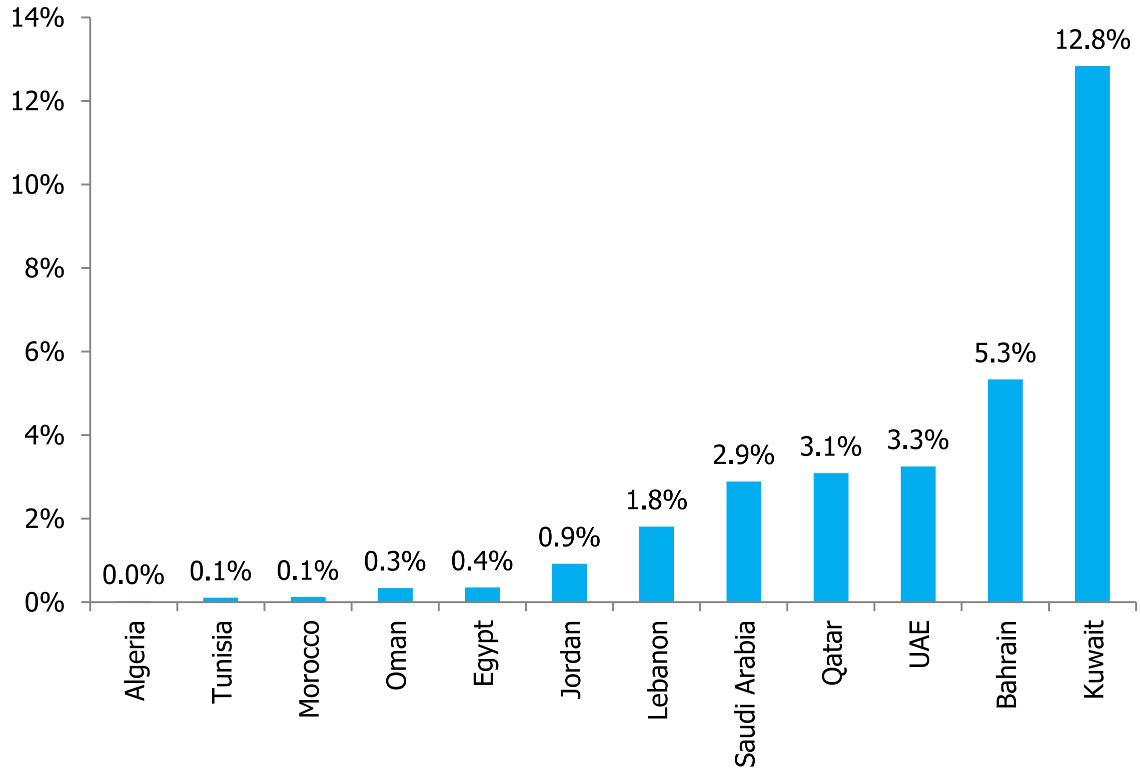
Figure: LinkedIn penetration in the Arab nations (as of Jun-12)



Source: Arab Social Media Report, Dubai School of Government

Twitter, yet another social media platform, has gained thrust in the Arab world. Kuwait had the highest Twitter penetration of 12.8% in the Arab world. According to the ASMR publication, 88% of tweets in Mar-12 were generated by Kuwait, Saudi Arabia, Egypt, UAE and Bahrain. English and Arabic were the languages dominantly used in Twitter. As of Mar-12, 32.6% of twitters used English whilst 62.1% used Arabic for communication.

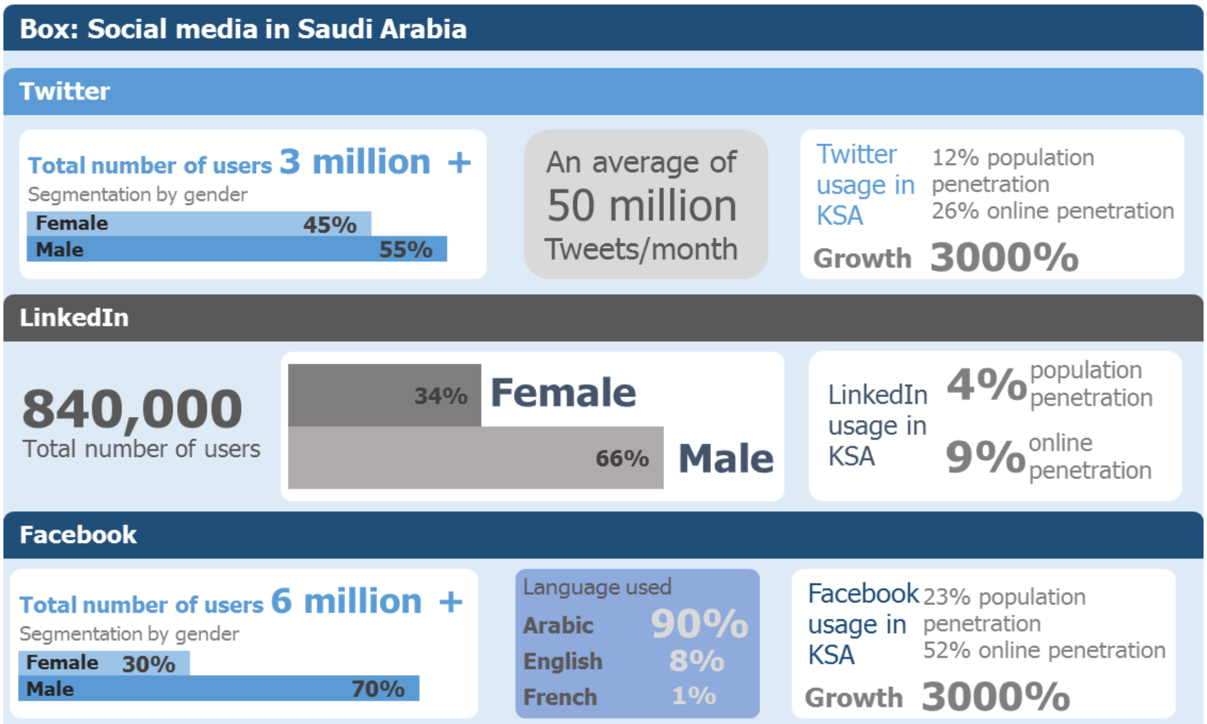
Figure: Twitter penetration in the Arab nations (as of Jun-12)



Source: Arab Social Media Report, Dubai School of Government

Social media forums provide the citizens a platform for information diffusion and to express their opinions freely. Nevertheless, there are rigorous laws which govern the internet freedom in the Arab world.

Realizing that the online channel is going to dominate the media world, we believe use of such networking sites would be more pronounced in the GCC region. With continuous allocation of funds for infrastructure development by the states, the broadband penetration and the speed of internet are expected to improve manifold. This in turn would result in increase in the usage of internet going forward.



Source: Socialclinic

With increasing prevalence of using social media and other digital medium, global online ad spending in 2011 reached nearly US$ 85 billion increasing by 16% over the previous year. This figure is further expected to have touched US$ 99 billion in 2012, constituting around 19% of overall ad spending[1]. In 2013, the digital ad spending is estimated to capture 21% share of overall ad spending by reaching US$ 114 billion globally.

With different sources estimating share of digital ad spend in the GCC in the range of 4-9% of overall ad spending, this trend is set to grow further in line with the global trend. According to CMO Council, digital advertising has immense potential and is being used by increasing number of companies across the Middle-Easter region. In the Middle-East, ad spend on the digital marketing is expected to grow 35% between 2011 and 2015, generating around $580m by 2015 across the region. This will account for an estimated 10% of the total advertising spend by 2015[2].

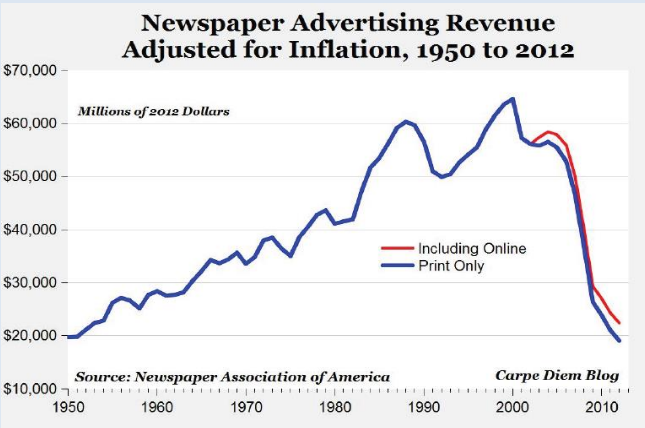
[1] GroupM
[2] CMO Council Middle East

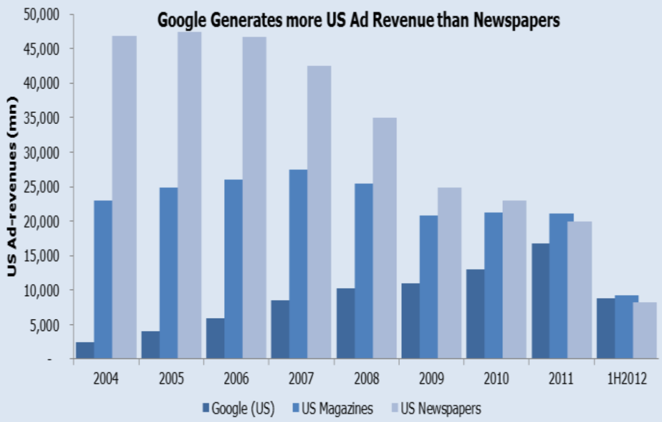
The Future of Digital

The digital medium is now more than 20 years old with over two billion people online – which still constitutes only about one-third of the world population, indicating tremendous untapped opportunities. Despite the growth of internet users, Personal Computers (PC) sales stalled as a result of its replacement with Tablets and Smartphones. Tablets are now driving all the growth in PC market. However, these are still early days for Smartphones as its worldwide penetration is still low – unlike in the USA where the Smartphone penetration has reached its peak but will continue to grow, albeit at a slower rate than in other developing economies.

With the increasing pervasiveness of digital medium, the advertising and content publishing sector is undergoing a sea change. Digital content providers are growing in size and strengths. In recent years, the revenues of digital content providers such as iTunes, Netflix, Kindle and Zynga are exploding. Most of the largest media companies in the US now generate larger share of their ad revenues through online advertising – from 23% share in 2006 to 38% share in 2011. In US, Television still holds the largest ad-revenues share with 42%, closely followed now by online advertising with 38%. On the other hand, print media is being smashed and trudges with a mere 9% ad-revenue share from 20% share in 2006.

Traditional news media has received bashing as a result of growth of the digital medium. In recent times, newspaper ad-revenues have collapsed. Today, Google generates more ad-revenue than all US newspapers combined.



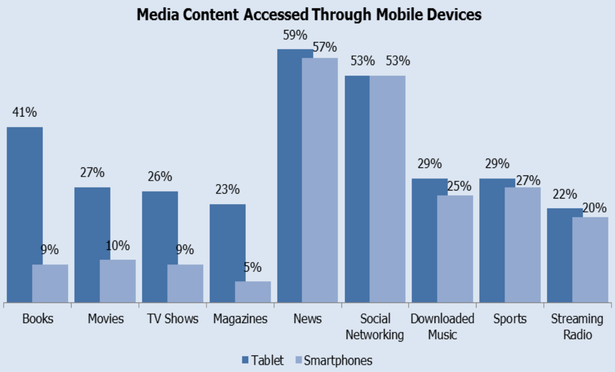


Source: Google, NAA, PIB

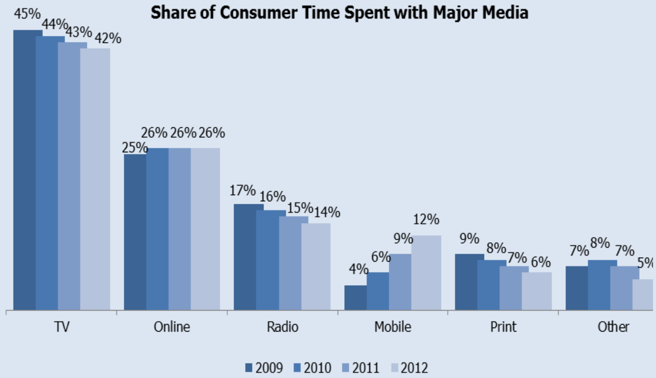
It is apparent that the print media is struggling and it seems Television media will also follow suit – if not sooner than later. For now ad-spending in TV media is still holding its ground but pay TV subscriptions are trending down in US. On the contrary, digital video ad-revenues are growing rapidly as live events are increasingly being viewed over the Internet

Moreover, even within the online medium, there are noticeable changes in consumer habits. Americans now spend more time on social networks than web-portals. About one-seventh of the world population is now on Facebook, whereas time spent on portals such as Yahoo, et al, continues to decline. Now, most of online ad dollars are being spent on Google, Facebook and other similar social networks.

As evident, the major reason for this digital revolution is radical changes in the mobile phone technology. The advent of Smartphones has literally made PC extinct. Today, everything that can be done online using a PC is being done over Smartphones. From listening music, to watching online movies, to playing games, to taking and sharing video/pictures, and even for shopping. Now people are consuming a huge amount of content through mobile; as mobile increases, all other media decreases.



Source: Nielsen Q4 2011 Mobile Connected Device Report



Source: eMarketer, October 2012

But increasing share of time-spent and various contents accessed on Smartphones are currently not translating into increased ad-revenues on mobile because of its limited screen size, where ads have limited space to be displayed. Overall, presently mobile is still a tiny fraction of digital ad spending and it's growing much slower than TV and Internet in the first five years. However, mobile ads have just begun to take baby-steps and have a bright prospect. Smartphones Apps are another lucrative avenue for advertising. Smartphone users spend more time on apps than web and as Smartphones penetration increases there will be more opportunities in this segment for media players.

Source: BI Intelligence, Business Insider

Source: Excerpts from our sector research report titled "GCC Media". To find out more details, please visit www.e-marmore.com

Emerging Trends in GCC ICT Sector

"Governments, which once focused on the concrete issues of building infrastructure and providing access to citizens, are beginning to recognize that technology itself is not as important as the socioeconomic achievements it can engender—via e-health programs, e-government services, and smart grids for utilities. Businesses have recognized that ICT is not just an avenue to cost-cutting and more efficient operations, but a critical way to open a dialogue with consumers and other stakeholders via all kinds of digital communications. And consumers inhabit a new, always connected digital world."
World Economic Forum

The GCC countries, fueled by an investment and oil boom, have kept pace with an increasingly digital world by making rapid strides in Information and Communications Technology (ICT), in both the public and private sector. ICT is a dynamic and ever-changing sector. This is more so in the GCC countries because of the ongoing structural changes. The ICT sector is essential to project the GCC as an increasingly sophisticated region for investors and businesses. We expect the following trends in the future:

Saturating markets leading to consolidation
According to a report by Fitch Ratings,[3] Saudi Arabia, Qatar, and Kuwait are the markets with the most potential for growth in the coming three years. We expect high population growth and continued economic health to fuel growth in Saudi Arabia and Qatar while, in the case of Kuwait, a low mobile penetration rate, coupled with intensified competition, caused by new entrants, will spur subscriber growth for the next few years.

Table: Main indicators for the GCC countries

	Bahrain	Kuwait	Oman	Qatar	KSA	UAE
Mobile Penetration Rate (2012)	161.2	156.9	159.2	126.9	187.5	149.6
Fixed Line Penetration Rate (2012)	22.7	15.7	9.2	19.2	17.0	21.4
Internet Penetration Rate (2012)	88.0	79.2	60.0	88.1	54.0	85.0
Residential Phone Installation, PPP $ (2009)	65.8	122.3	30.4	71.7	128.9	49.4
Mobile Phone Tariffs, PPP$/min (2012)	0.16	0.14	0.24	0.2	0.23	0.09

Source : World Economic Forum GITR-2013, World Bank, CITC for Saudi Arabia

Fixed-line subscriptions are naturally stagnating, at around 10%–20% penetration depending on countries. The strong growth in mobile telecom line penetration has made the KSA reach close to the 190% penetration level. Mobile penetration of Kuwait in 2010 was 160.8%.There has been a surge in mobile broadband in 2009. However, the use of 3G handsets are also accounted for as "mobile broadband."

Fitch expects capital expenditures among telecom firms to remain on track considering the relatively strong liquidity positions of major telecoms in the region who are flush with cash and may begin looking at regional players that are looking attractive: for example, Etisalat's attempted acquisition of a controlling stake in Zain Group in addition to Batelco's attempt at purchasing Zain Group's stake in Zain Saudi.

Future growth will come from international investment; as the local markets become increasingly saturated, GCC players seek inorganic growth from emerging markets. There is a consolidation as well as an international acquisition or investment trend. While European operators are buying or setting up subsidiaries across North Africa and the Middle East, Gulf-based operators are expanding into North Africa and Asia. However, this is obviously a higher risk strategy with some analysts describing STC's overseas expansion as "confused."[4]

[3] Fitch Ratings, December 2009.
[4] Al Rajhi Capital, Saudi Telecoms, Oct 2010.

Despite the ongoing technological shifts, the industry is gradually maturing. It is natural for players to seek consolidation. CICR considers that the industry is ripe for mergers and acquisitions during 2011–2012.[5] The Fitch report named the three largest GCC players (Etisalat, Saudi Telecom, and Qtel), which have the healthiest balance sheets, as likely to snap up many of the smaller regional players in the next five to ten years.

The critical role of the regulator for successful development

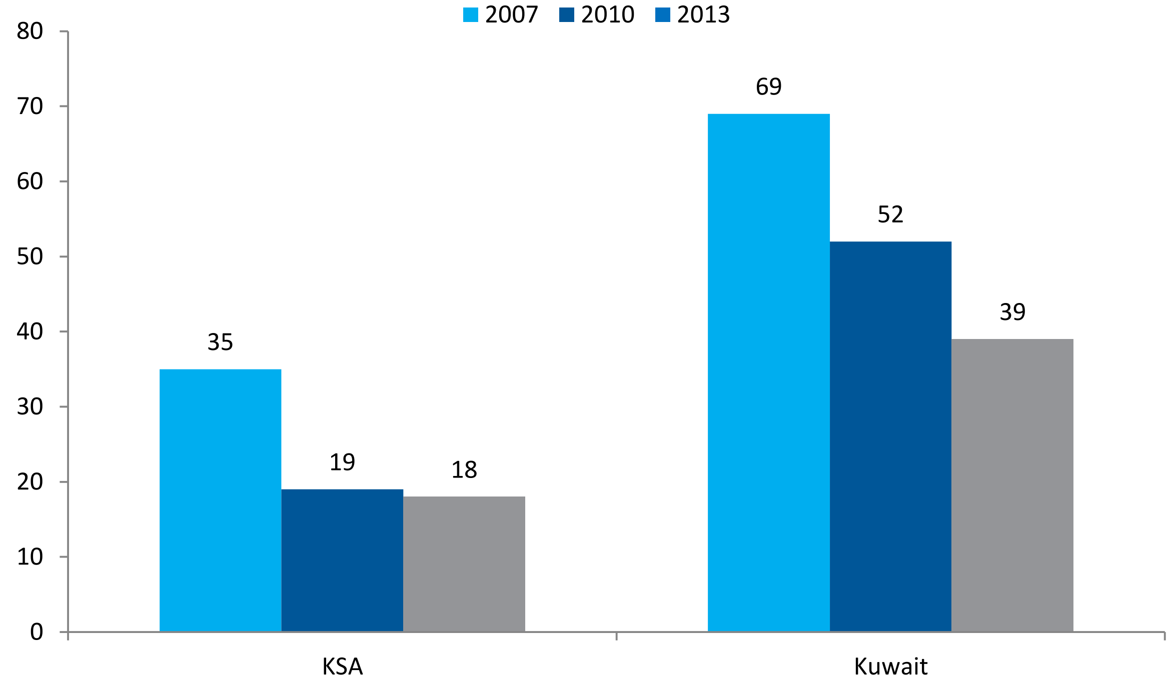
The establishment of an independent regulatory body is vital for the development of the ICT sector as it fosters fair competition in the market, whether it be in the fixed line, mobile, or Internet segments. Most of the GCC countries have established independent regulators who are actively moving toward opening up of their respective markets by issuing new licenses to mobile operators. Kuwait is the only GCC country, lacking an independent telecommunications regulator.

The area tangibly demonstrating the above point is fiber-optic networks. Meed contends that countries with strong regulators, such as the UAE, Qatar, and Bahrain, have managed to develop more robust fiber-optic networks.

From voice to data services

US consultancy Research and Markets anticipates rapid change mostly through VoIP (Voice over Internet Protocol), calling-card operators, and later WiMax (Worldwide Interoperability for Microwave Access) operators, and the sharing of infrastructure. All fixed-line incumbents also offer mobile phone services and, in many countries, operators who began in the mobile sector are moving into the fixed-line sector.

Figure: Average Revenue Per User in KSA & Kuwait



Source: Various Annual Reports of Telecom Companies

With the mobile voice market reaching saturation level, future growth is set to come from data services. Operators will need to invest in technology to benefit from this demand.[6] There will be as much as 1,000 times more data and voice traffic across the world by 2020.[7] Falling ARPUs (as well as saturating demand) is a cause of this development. High ARPU levels in Kuwait fell to USD 39 in 2013, for example,

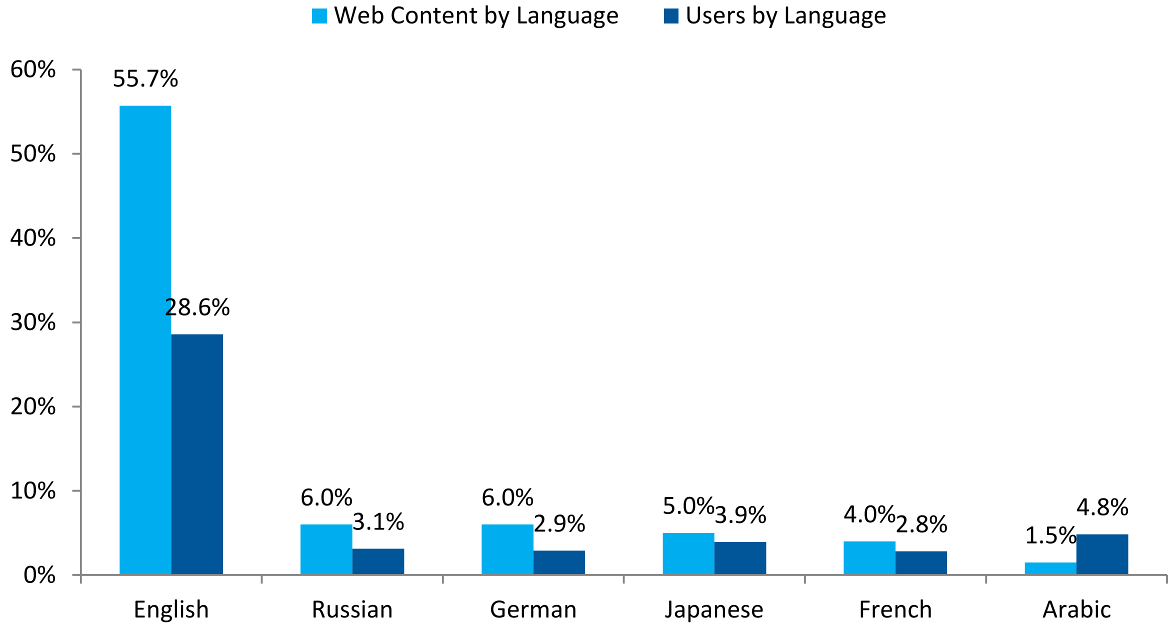
[5] CICR Thematic Note, MENA Telecoms, Dec 2010.
[6] Meed, February 2011.
[7] Ericsson.

and the downtrend is expected to continue. Similarly in Saudi Arabia, increased competition has halved ARPU levels.

Emphasis on Arabic content

One of the main challenges in Internet penetration for the GCC, with broader implications for IT spending, has been the scant amount of Arabic content on the Internet. Arab speakers account for roughly 6% of the world population , however in comaprison online content in Arabic is very less[8]. The private sector has made distinct steps in addressing this gap; Google estimates that only 1.5% of the world's unique web pages is in Arabic.

Figure: Web Content and Internet Users by Language



Source: Internet Stats

Since social networking website Facebook launched in Arabic, it has become the fourth most popular site in Qatar, attracting more than 37% of Internet users and about one-fifth of all users in the UAE and Kuwait.[9] Opportunities will also grow for web-based advertising, which makes up less than 2% of regional advertising spending. The fact that the UAE and Qatar encourage businesses to use local domain names to gain international recognition shows that this sector is becoming more sophisticated and is indeed a driver of economic development at national and even international levels.

ICT to accelerate nation-building efforts

According to the World Bank, for every 10% increase in broadband penetration, there is a 1% increase in GDP. For every 1,000 users of mobile broadband, 80 jobs are created.[10] The GCC countries have everything to gain from this renewed, qualitative drive within the ICT sector, from much needed streamlined services through e-governance to vibrant private sector growth. Major initiatives have been launched by each country. Government funding is not the issue. A modern regulatory framework pitched ambitiously at a "harmonized," GCC level— maybe using the opportunity of the fiber-optic grid as a tangible catalyst—will greatly help to drive GCC growth even further.

[8] World bank
[9] Meed, September 2010.
[10] Meed, Dec 2010.

ICT Application in Kuwait Government Sector

The Central Agency for Information Technology

The Central Agency for Information Technology (CAI) was established in 2006 by Amri decree 266/2006. The main objective of this entity is to plan and implement Information Technology policies. Currently the CAI is supervising the E-government project; which, once completed, will combine all government related entities into one portal. This will enable users to complete all requisite formalities online and pay fees and fines (TASDEED). Government bodies will also post all their budgets online to consolidate it with the national budget through a Budget Information System.
The following are CAI's current projects:

Kuwait Government Online Portal (e.gov.kw)

The portal provides government services to citizens, residents and visitors both in Arabic and English. The main purpose of this portal is to provide a one stop window for government paperwork, documentation, licensing fees etc. to minimize time and increase efficiencies of the current bureaucracy. The portal will be supported by "Kuwait Government Call Center" a 24/7 call center providing users with around the clock help on various issues regarding the online portal.
Other projects under the mandate of the CAI are; "Kuwait information Network" and "Kuwait News Project" which are still not updated on the CAI website.

Current Application in Government Sector

ICT infrastructure and development is one of the top priorities for the Kuwait development plan (medium term 2009/10-20013/14) the plan envisions a developed ICT society where technology is used to:

1) Unify and speed documentation cycles
2) Measure and compare employees' Key performance Indicators
3) Measure and compare Institutions' Key performance Indicators
4) Asses the progress of the Kuwait development plan

Along with measuring performance and progress, the government of Kuwait is planning to up haul the education sector by increasing IT hardware and software in the education sector, introducing smart rooms and replacing text books with a storage/retrieval device (laptops, iPads, flash memory)

The Ministry of Education is contemplating the use of e-learning portals to augment students learning experience. The strategy was to use e-learning along- side the traditional method, in which students will be able to review the course work without the need of home tutors as all the curriculum would be made available through online portals Audio/visual. The process is still in the planning and testing phase and no set date has been announced. Moreover, the e-learning method was first initiated by the private higher education sector where students interacted with 'visiting' professors through video conference, the introduction of e-learning in university seem a much more viable method as students are more mature and could comprehend static information. The Ministry of higher education seems to have taken that into account as Sabah Al Salem University will have the largest e-learning community in Kuwait.

The Ministry of Health has an ambitious project in managing logistics, cost and wait time. The project in essence will help manage the supply of medicine to patients as each transaction is recorded and based on that the Ministry could determine which hospital/clinic has the highest density of patients, manage the flow of medicine to avoid shortage, etc. This management software will also give indicators to the ministry and the supreme council of planning on patient densities and asses the needs of capacity accordingly be it medicine, doctors, nurses and beds.

The centralized documentation process between public hospitals and health clinics in Kuwait was successful in establishing a more efficient patient record system and upon its completion the system will create a single healthcare file which in essence could be shared between the ministry's hospitals and clinics.

Kuwait acquired a complete customs and shipping solution called E-mirsal which was developed by Dubai customs. The software will facilitate companies, shippers to speed up the clearing process through a 24 hour secure portal. This process once perfected will go a long way in transforming Kuwait into a regional hub and re-export portal. The process will be of vital use especially with the expected increase in port capacity when Boubyan port is completed.

The Ministry of Interior moved to a digitized database in which software's were acquired and used in vital areas such as immigration, visa processing, criminal record management, finger print data, forensic data base, application process for driver's license , vehicle renewal to facilitate and enhance service provided by the ministry. IT development created new challenges for the ministry, fraud and cyber-crimes increased demand for technical forensics and server protection solutions. The challenge also moved to the judicial system as laws and regulations had to be enhanced to take into consideration cyber-crimes.

Oil and Gas sector were one of the first government sectors to adopt digitization of information and use of technology for resource planning through the introduction of; resource planning, relational database management systems and customer relationship management systems. Also the development of digitization of information is growing at an exponential level in the private sector as customers increase the use of computers and the internet to complete process namely bill payment, online banking and online trading. Human resource management in the private and public sector are increasingly using software to enhance employee experiences and reduce human errors in payroll.

Source: Excerpts from our infrastructure research report titled "GCC ICT".
To find out more details, please visit www.e-marmore.com

A Comparative Study of FTZ Characteristics in the GCC

There is evidence that many authorities in the GCC are looking at free zones as not simple tax free areas, but as high quality knowledge and economic clusters that would spur innovation and tap new economic productivity potential. The imperative across GCC is to move away from the concept of traditional export processing to special purpose industrial and economic zones. The UAE's practice of clustering or grouping manufacturing facilities in sectors of high commercial and scientific value has proved to be a trendsetter[11]. For e.g., Dubai's Technology and Media Free Zone was set up in 2003 and within five years, hosted the regional offices of major broadcasting companies such as BBC, Reuters, etc[12]. It appears that Qatar is the one closely trying to stimulate this model, though with a tinge of quality educational refinement along with the commercial angle that Dubai (UAE) so clearly focuses upon. JAFZA (the UAE) alone has about 7,100 companies, including 800 American firms[13].

JAFZA enjoys a competitive advantage of excellent geographical capabilities, supportive policies and a visionary leadership in terms of support from the government. The sea-air-land strength of JAFZA is sketched in some detail by the following table.

[11] OECD
[12] Strategy& (Formerly Booz & Company)
[13] Jafza

Table: JAFZA, Sea-Air-Land Multimodality Strength

Sea	Air	Land
Co-located with the world's largest human-made port	Very close to Dubai International Airport	Supported by a Dubai road network of 16,800 km
Capacity to handle 15 million containers, annually	Capacity to handle 2.7 million metric tons	Very high quality roads
Serviced by over 170 shipping lines	Adjacent to the new Al Maktoum Airport, which is expected to emerge as one of the largest cargo airports in the world	Road network supported by constantly growing Metro network
	Single, customs bonded corridor connectivity from Jebel Ali Port to the Al Maktoum Airport	Metro network currently covers 75 km of track

Source: Jafza

Thus, one of the key success points required is effective multimodal support, in light of the lesson emanating from JAFZA. Other free zones in the region are quickly picking up the lesson. For instance, the Sohar Free Zone in Oman will be worked upon in five phases, complete with plans for a new rail system and an international airport[14]. Situated close to the UAE border, the Sohar zone has so far received about $14 billion of Omani government investment in the financing of multiple industrial projects. Also, the Sohar Industrial Port Company (SIPC), a 50-50 joint venture of the Government of Oman and the Port of Rotterdam (Netherlands), has a concession for developing, operating and managing a 4,500 hectare free zone close to the industrial port.

The subject of effective transport modalities is receiving strong attention. Recent evidence is the Duqm zone, again in Oman, for which works are afoot to link it to the 2,244km national railway network. This link will in turn be connected to the GCC rail system[15]. Compared to some of the successful zones in the UAE and even Oman, the free zone in Kuwait has not been able to attain the desired level of investor interest. Culling lessons from the successes across UAE and Oman, a list can be simulated in terms of the common factors that inhibit the success of a zone[16]:

- Poor site selection, causing overshoot in projected capital expenditures
- Policies that are uncompetitive in terms of tax holidays, labor practices and rigid performance stipulations
- Weak zone development practices, i.e., ill-designed or over engineered facilities. Also, lack of adequate maintenance and poor promotion or marketing efforts will hinder cultivation of investor interest
- Highly subsidized rent and other essential services, which drives down financial profitability and viability in terms of offsetting benefits of incoming foreign investments
- Wearisome procedures, customs and red tape
- Lack of appropriate administrative oversight or an overkill in terms of supervisory bodies
- Low level of cooperation and trust between private and public sector partners

The success or failure of a zone is closely linked to the policy and incentive framework, strategic nature of the location, development and management efficiency. The use of generous incentives to offset key disadvantages in location and management is pointed out as ineffective by experts in the field. Also, there is a growing consensus that trade or economic zones should not be seen as a substitute for a

[14] Intec Export Intelligence Limited
[15] Oman Daily Observer
[16] The World Bank Group

nation's overall trade and investment reform strategy and efforts. Zones are only one tool in an array of mechanisms in terms of creating jobs, generating exports and improving levels of foreign investment. Probably, the success of the economic zones in Dubai lies in how seamlessly it is integrated with the overall national strategy of turning into a commercial and manufacturing hub, in terms of serving regional and global stakeholders.

The Reasons behind UAE FTZs' Success

Since close to 85% of the FTZs in the GCC region are based out of the UAE, the study of the UAE's FTZ's ecosystem becomes necessary as to why the nation, particularly Dubai, has been able to build a highly efficient system. The system is known for its efficiency, worldwide, while many other GCC countries try to replicate the success.

While many parts of the world are still recovering from the economic crisis of 2008, the FTZs in the UAE have only kept growing. For instance, in 2013, 2,900 new companies registered with the FTZ of Ras Al Khaimah (RAK), which is an increase of 30% over the previous year[17]. One of the key reasons of the success of RAK is the low levels of capital requirement (Dh103,000 as of 2011) needed to start a business[18]. RAK specializes in the SMEs area. The costs are kept low as the FTZ provides them with sharing of costs through the shared services model.

A trait that many of the FTZs in the UAE have displayed is the ability to seize opportunities when they are presented, even during times of adversity. For instance, around October 2009, when the impact of the financial crisis was working its way to the peak in many parts of the world, including UAE, the Hamriyah Free Zone in Sharjah announced a boost to its marketing budget by 20%[19]. The counterintuitive strategy was adopted as a means of sending out the message that the UAE was one of the few places in the world that was still garnering investor interest despite the devastating impact and fear that the financial crisis was generating. Ultra-cheap office space was put on offer (even as low as $5,000) in order to entice clients, which demonstrated flexible thinking in difficult times[20].

The UAE definitely has location-specific advantage, a factor that feeds into the success of the FTZs. For instance, Dubai airport is on an average within eight hours flying time of most major world destinations, covering about two-thirds of the global population[21]. It is notable that 1/3rd of the global population are within just four hours of flying time from Dubai. But location specific advantage is not singular to the UAE in the GCC region. UAE's success with FTZs in relation with other GCC countries is largely put down to its pioneering efforts in the area[22]. The pioneering interest that the UAE leadership displayed gave the country the first-mover advantage over peers in the region, given the fact FTZs typically require long incubation periods[23].

Revolutionary reforms of domestic environment have been one of the hallmarks of FTZs success in the UAE. If the UAE (particularly Dubai) seems an astounding success in terms of FTZs, that success is a product of years of continuous reforms that have often been punctuated with sudden leaps. For instance, Dubai International Financial Centre (DIFC), a financial free zone, through decree in 2004, was allowed to establish its own legal and regulatory framework for civil and commercial matters[24]. English common law, which is held in trust in many key parts of the world, is used in the DIFC, which has raised the level of confidence for investors[25].

The voluntary withdrawal of national laws in favor of the laws of another country across the FTZ has sent out the clear message that the focus in on efficiency and enabling international ease of doing business. Thus, investors and businesses are confident in terms of aligning behind and trusting the

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[17] RAK FTZ
[18] Abu Dhabi Media
[19] Ibid.
[20] Ibid.
[21] Dubai Airports
[22] Abu Dhabi Media
[23] Ibid.
[24] DIFC LCIA Arbitration Centre
[25] Telegraph Media Group Limited

government's commitment to supporting economic growth through FTZs. Apart from an independent legal framework, the DIFC is under an independent regulatory governance framework that operates under the Dubai Financial Services Authority (DFSA)[26]. The European Commission, in August 2013, formally announced the DFSA's audit controls to be of "equivalent status" with those of the Eurozone. Following the declaration, DIFC was able to seal an agreement with the European Securities and Markets Authority, under which companies in the DIFC will be able to market alternative investment vehicles, such as hedge funds and private equity, to European investors.

The early urgency and foresight that the UAE displayed in terms of economic diversification can be highlighted as the spur behind the push for FTZs in the country at a time much before other GCC countries took and applied the concept seriously and strategically. The FTZs of the UAE have proved very successful in attracting FDI and technological expertise, thus providing a robust foundation for a non-oil economy and making the UAE a key center for global commerce and re-exports[27]. Even within the UAE, the emirates of Dubai and Sharjah have enjoyed more success in FTZs, which other emirates within the country are trying to emulate.

UAE seems to consciously follow the approach and strategy of fostering economic development through adoption and building on concepts that may not produce immediate results, but are set to dictate the way global commerce is going to move in the future. Masdar City, dual free zone and investment location in the UAE, is consistently chipping away at making the location a green energy cluster[28]. Though Masdar's record is punctuated with remarks of lack of success in some assessments, the fact remains that the location has global companies such as Schneider Electric, Siemens, Mitsubishi Heavy Industries, General Electric, Wrightbus International, etc, operating there[29]. There are 130 companies registered within Masdar City and the initiative will likely boost UAE's capacity to lead in the field of green technologies in the future[30]. Thus, the UAE's FTZ strategy is meticulously built on the logic that well run FTZs will bring in important FDI that will in turn ramp up technology and knowledge transfers, trade flows, job creation and increased opportunities for UAE businesses to directly or indirectly enjoy the fruits of an ecosphere of success[31].

Experts point out that the fiscal incentives that are offered by several leading free zones in the UAE are the best in the world and that there is little scope of upward movement in terms of further incentives that the major zones can offer. In other words, they have gone to the maximum upper limit in terms of incentives. Even as one round of a model of growth is coming to a close, over the recent years, another round based on 'differentiated options' has begun in the UAE[32]. Zones based on industry clusters, similar to green energy of Masdar, have come up in high frequency over recent years. Examples include the Dubai Media City, Dubai Internet City and Dubai Healthcare City. SMEs from a singular sector are able to congregate together, thus bringing into play opportunities for intense collaboration and creative ventures. The ability of free zones in the UAE to connect people and competencies is emerging as the new competitive differentiation package, giving an edge over competitors, worldwide.

Source: Excerpts from our economic research report titled "Accelerating Growth of Free Trade Zones". To find out more details, please visit www.e-marmore.com

[26] Knowledge@Wharton
[27] QNB
[28] Guardian News and Media Limited
[29] Arabian Business Publishing Ltd
[30] Ibid.
[31] Abu Dhabi Media
[32] HSBC

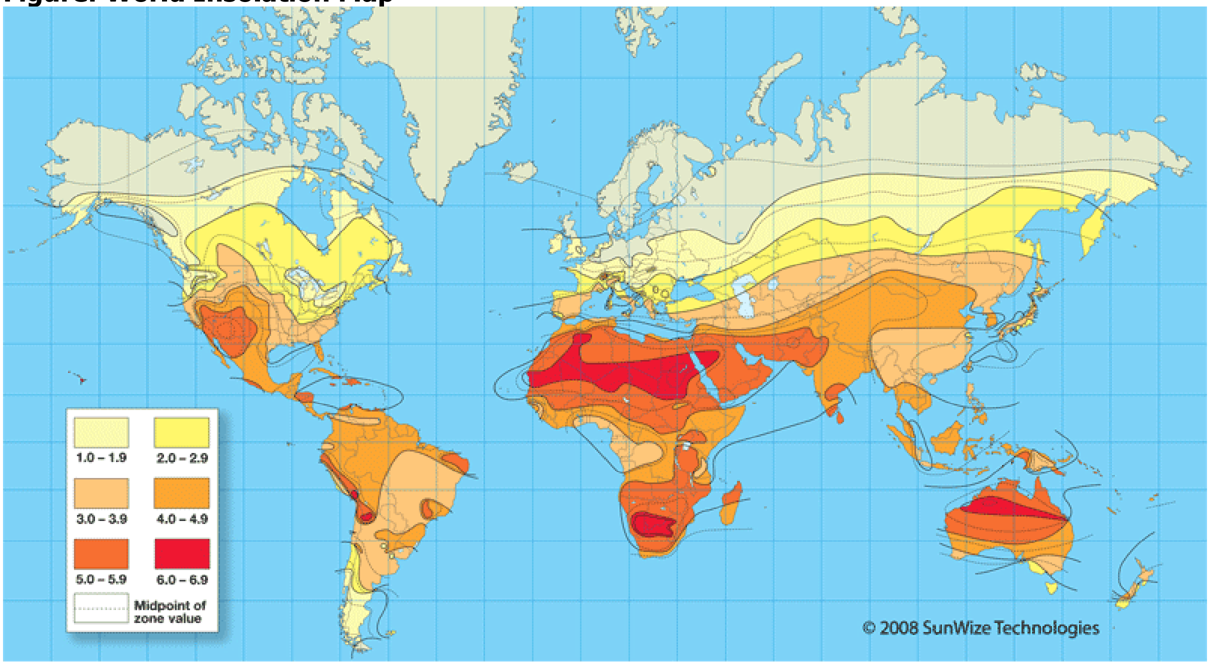
Renewable Energy in Kuwait: Green Dreams or Real Potential?

Renewable energy presents a good opportunity to Kuwait to diversify the power mix. Kuwait belongs to the world's Sun Belt, and its Gulf neighbours are aggressively developing renewable technologies. According to IRENA (the International Renewable Energy Agency), each square meter of the Gulf receives each year an amount of solar energy equivalent to 1.5 million barrels of crude oil. For countries controlling today's oil resources, the perspective of having a grip on tomorrow's energy is appealing.
Renewables aren't new for Kuwait. After all, it started developing renewables in the 1970s, when oil prices were booming at a then high of $47/barrel. In the eighties, 140 pilot projects were developed covering different solar and wind technologies. Today, oil prices are on the rise again; the cost of renewable technologies has substantially fallen, the climate for investments in upstream oil and gas is negative, and the country seeks way to diversify its economy. Renewables are politically more in line with Kuwait's concern over energy independency than gas imports. Based on scientific studies, this article argues that renewables will have a key role to play in the diversification of Kuwait's power mix, in particular to reduce peak load, in the medium term. However, the development of a renewable industry is still a long way ahead.

An overview of the technologies and Kuwait resources

Kuwait has a natural advantage when it comes to solar technologies. It benefits from a clear sky and strong sunlight, and consequently has a high level of Global Solar Radiation (GRS)

Figure: World Insolation Map



Source: SunWize Technologies, 2008 & 2010 Technology Market Report, US Department of Energy

Different technologies exist ranging from photovoltaic (PV) panels, transforming light into electric power, or concentrated solar power CSP (or thermal power), concentrating light and transforming it into heat so as to drive an engine connected to an electrical generator. PV can take advantage of direct or indirect (diffuse) radiation (i.e. GHI) whereas CSP uses only direct insulation (DNI), using tracking systems. Table below shows that Kuwait has a high level of both diffuse and direct insulation. It is therefore more beneficial to develop renewable in Kuwait than in Europe.

Table: Solar Radiation in Gulf Countries

	Global Horizontal Irradiance	Direct Normal Irradiance (kWh/m^2/day
Kuwait	5.6	6.2
UAE	5.5	5.5
Egypt	6.0	6.7
Germany	2.7	2.6
USA (California)	4.7	5.1

Source: Kuwait Institute of Scientific Research

Solar power can be developed in the form of centralized solar farms connected to the grid. Today, PV is the most developed solar technology. It can be applied at the scale of a utility, or be distributed for residential and commercial uses. CSP is to be used at the level of utilities, and is on average 15% more expensive.

Renewables have lower efficiencies compared conventional fuel or nuclear power plants. Their capacity factor (the ratio of the energy generation system's actual energy output on the energy output, if the system run at full time capacity) is affected by the intermittency of the resource (sun or wind). Wind is the most efficient renewable technology today, with a capacity factor ranging from 20% to 40%; PV has a load factor of about 15%, depending on the technology considered; and CSP ranges from 20% to 50%. Consequently, renewable generally need to be backed up with fuel-fired stations, which substantially adds to the final cost. For instance, the development of renewable in Europe led to rising electricity prices.

Generally though, Kuwait has a very high level of irradiance compared to other countries worldwide. It also has stable insolation and wind patterns at peak electricity demand hours. Renewables can therefore be used during peak load periods. Moreover, the introduction of renewable into the power mix should not be as difficult as in Europe as Kuwait's power plants are conventional power plants, which are flexible.
Weather conditions in Kuwait could however affect the efficiency of solar technologies. The amount of data on wind and solar resources available for Kuwait is currently incomplete for a variety of reasons. Several aspects can however be mentioned.

High temperature would probably reduce PV performance as the panels are being gradually damaged. The dust mixed humidity decreases the efficiency of PVs. Some experts affirm that there is less humidity in Kuwait relative to other Gulf countries (save Saudi Arabia). Dust is also a problem for CSP, as it decreases the amount of direct radiation. In Kuwait DNI data suggest that CSP will be better off in the south and desert areas.

Today, wind is the most mature renewable technology. From 1985 to 1988, Kuwait collected wind data from its demonstration project. The Kuwait Institute for Scientific Research concluded that the speed of wind was on average quite low 4.5m/s (around 16km/h), while onshore wind turbines work with wind speed comprised between 15km/h and 90km/h. More interestingly, wind data matches Kuwait's power demand curve, peaking at around 2-3pm in the summer. Recent data and the advancement of technology consider wind turbines to be economically viable at a load of 1,400 hours per year (16% capacity factor). Kuwait's capacity factor is 18.3%.

Table: Wind Speed and Capacity Factor in Gulf Countries

	Full load of Wind/Year	Capacity Factor %
Bahrain	1,360	15.5
Kuwait	1,605	18.3
Oman	1,463	16.7
Qatar	1,421	16.2
Saudi Arabia	1,789	20.4
UAE	1,170	13.3

Source: IRENA, UNDP Meeting; Note: Average wind speed 6m/s

Distributed renewables

Distributed technologies, in particular solar technologies such as PV integrated in buildings (BiPV) and solar cooling or solar heating applied to building, could significantly contribute to reduce the power load on conventional fossil fuels power plants. Additionally, distributed technologies bypass the constraint of the electric grids. In Europe, the hectic development of distributed renewables, supported by feed-in tariffs and subsidies has led to problems of grid management. This risk is to some extent limited in Kuwait, given the high consumption of houses.

In terms of technology maturity and feasibility, solar water heating is a mature, efficient and low cost technology. Solar cooling is not mature yet, but has an interesting market potential in Gulf and southern countries. Integrated Photovoltaic in buildings also has the advantages of increasing the efficiency of the building. The PV becomes part of the house's envelope, replacing windows, walls, roofs or eaves. This increases the efficiencies of old buildings with little consideration for energy consumption.

Costly energy sources

Development of renewables calls for expensive technologies. Actually fossil fuel power plants are more flexible; they have higher capacity load factors and low investment and a limited financial risk as they can be built in a few years. The initial investment cost of renewable is on the contrary very high.

Nevertheless, high oil prices have significantly increased the operational costs of oil-fired power plants. At oil market prices, renewable technologies are gradually becoming competitive. Renewable technology costs are now becoming affordable and will become cheaper over time. For each doubling of installed capacity, costs have dropped by 20% according to the IEA. Efficiency has increased on the other hand substantially. CSP is not as competitive as PV, yet the value of storage is not properly taken into account.

The International Energy Agency believes that renewables are already competitive in many off-grid situations or remote islands. PV generation costs in sunny locations where power is generated with expensive fuels is attractive, and should soon become competitive in California, the South of Italy and the Middle East. The IEA considers that for a price of $80 per barrel, both utility scale PV solar source, and CSP are competitive with oil-fired generation. The availability of the resource has a substantial impact on the price of generating electricity.

In Kuwait, sun and wind can cover peak load periods. This gives them additional competitive advantage, as the marginal cost of peak power production is higher. Renewables' high up-front costs are less problematic for Gulf countries than OECD countries given their sufficient capital base. In budget terms, renewables also ensure stable generation costs, independent of oil and gas price fluctuations.

System costs: grid connection and intermittency

Beside investment costs, system costs can hamper the massive roll out of renewables in the short term. The achievement of a 10% renewable target, with no major improvement in efficiency, could affect the stability of the grid and the network costs. Kuwaiti power plants are spread along the coast, near cities and distribution centres. Developing CSP or PV in the desert areas could end up in mismatches in grid transmission between the installations and the end use. This would raise further grid costs, which are harder to evaluate.

The grid model of Kuwait is conventional and will have difficulties to integrate distributed resources. There are no smart grids for residential renewables. Distributed resources could decrease the voltage quality of the system. The development of policies supporting renewables promoting exchanges of electricity within the grid has to take into account their implications for the network. This would require the step-by-step development of renewables, along standards for PVs and smarter grids.

Due consideration has also to be paid to the country's water desalination capacity. Most power plants are coupled with desalination plants to provide around 70% of total consumption. Taking capacity off the coast will have implications for the desalination capacity of the country. Saudi Arabia, which faces the same challenge, has therefore included a substantive program for water desalination with PV.

Prospects for Kuwait

Kuwait's political system offers little prospects for a sudden jump in renewables. The achievement of the 10% target will not be feasible without achieving energy efficiency. Larger development can however be planned for the medium term.

So far, the government is mostly developing pilot Research and Development projects. There are no development plans in place to meet the 10% target. The Kuwait Institute for Scientific Research is now testing a large variety of technologies so as to find the best applications for the country. Some of the projects could overcome the systemic costs. For instance, hybrid plants (like in Turkey) can avoid feeding intermittent electricity to the grid, solar cooling would soften the power needed for air conditioning etc. These new applications are nevertheless long-term prospects as the technologies are not yet mature.

In Kuwait, subsidized fuels do not heavily distort generation prices of electricity. Power plants buy their oil at around $50 compared to $5 in Saudi Arabia. Utilities might therefore have an interest in developing and investing in renewables. Distributed generation is on the other hand affected by the current consumer price of electricity. From a consumer perspective, there is little incentive to invest either in renewable applications so as to produce its own electricity, or to decrease their energy consumption. A study analysing the competitiveness of Building Integrated PV in Kuwait concluded that with the current power consumer tariffs, the payback period is 41 years while it is 13 with power generation cost. Despite favourable prospects for renewable costs, subsidized electricity prices that are set well below marginal costs prevent the market from taking off.

Renewables are highly capital intensive and therefore need a well-defined regulation framework. As the EU's experience shows this is not always easy. Any delay in a project will be costly. A one-year delay increases the cost by 5% to 10% in the LCOE. The development of an industrial field is a long process. It will depend on market conditions, the development of know-how and adequate human resources, regulatory and policy reliability, transparent procedures for encouraging dedicated institutions. But first and foremost it will require the removal of market barriers such as the reform of price structures that are highly uncertain.

The reform of Kuwait power fuel mix is not happening because of the current oil prices. Actually high oil prices are increasing Kuwait's export revenues and the resulting budget surplus offers a good window of opportunity to make the appropriate investments. But sadly large budget surpluses hide the need for long-term reforms intended to maintain a sustainable level of oil exports. The higher the price of oil, the lesser is the export volume needed to maintain the same amount of revenues. The lack of a long-term vision for the power sector's future is not conducive to the development of renewables.

In the short term, the development of renewables will remain limited. In the long term, the drafting of policies will be decisive to ensure the roll out and the sustainability of renewable power. The building of an industrial field to diversify the economy appears challenging.

Recent Initiatives

Contract to set up the first solar power plant in Kuwait at an estimated cost of KD 926 million, 280 MW solar thermal power plant in Al-Abdaliya, was recently signed with HSBC - which would offer consultancy service. It is expected that a public tender would be floated under public private partnership programme

(PPP) and private companies would be involved in the development of the state projects. Ministry of Electricity and Water and KISR have proposed to set up a solar power station in Al-Shaqaya, by 2016, with a total capacity of 70 MW per hour. Additionally, Ministry of Electricity and Water has launched an initiative to power ministry buildings with electricity generated by solar panels.

Source: Excerpts from our policy research report titled "Powering Kuwait into 21st Century: Alternatives for Power Generation". To find out more details, please visit www.e-marmore.com

MENA Asset Management Policy Perspectives

Carnage of global financial crisis is still felt with economic growth in most developed economies weak and outlook being uncertain. Investors who got badly bruised didn't just lose their capital but also the trust which they had in their advisors. While the global AUMs have been stagnant for the past four years, AUMs in MENA region has witnessed steady decline over the years.

Sovereign Wealth Funds are massive in size and too large for MENA markets and investing locally wouldn't help their cause in achieving diversification. Ultra high net worth individuals (UHNI's) are a niche group who are predominantly served by private bankers. The retail clients are a polarized group, they either trade aggressively or shun markets altogether and invest in bank deposits.

Though sustained economic diversification efforts and implementation of large scale state sponsored infrastructure programs - driven by huge fiscal surpluses due to sustained higher oil prices, augur well for the positive economic outlook for the region, ensuing political unrest and the resultant volatility has made the task of raising funds a challenge.

Table: Policy Actions and Expected Outcome

Policy Action	Expected Outcome
Modernize & Unify Stock Exchanges	Boosts market liquidity, limits volatility and enhances confidence for market participants.
Attract Foreign Investment	Increased market efficiency, results in increased disclosures and shareholder activism.
Develop Debt Markets	Proper pricing of risk with establishment of sovereign yield curve. Secondary market liquidity increases.
Effective Corporate Governance	Companies with good governance enjoy more investor support and confidence and command a premium for their equity.

Source: Markaz Research

What prevents the growth in Assets under Management?

Despite GCC region being a net creditor, assets under management in asset management industry has been on the decline over the years. Sovereign Wealth Funds are massive in size and too large for MENA markets and investing locally wouldn't help their cause in achieving diversification. Ultra high net worth individuals (UHNI's) are a niche group who are predominantly served by private bankers. The retail clients are a polarized group, they either trade aggressively or shun markets altogether and invest in bank deposits.

Though sustained economic diversification efforts and implementation of large scale state sponsored infrastructure programs - driven by huge fiscal surpluses due to sustained higher oil prices, augur well for the positive economic outlook for the region, lack of avenues to participate in the growth story (most contracts are bagged state owned enterprises and private players), ensuing political unrest and the resultant volatility has made the task of raising funds a challenge.

POLICY ACTIONS: Broad base the equity market, enhance participation of institutional investors, increase stock ownership for foreign investors, strive for inclusion in the emerging market index, and stock market unification.

What is ailing the debt market in the region and what can be done to improve it?

Debt markets in MENA region have remained smaller in size and underdeveloped. Based on IMF data, Debt market to GDP ratio for MENA region stands at mere 8.3%, which lower than Asia (44.5%), European Union (192%) and North America (213%)[33]. Though the small size offers scope for growth, primary market issues which are skewed towards long-term maturities often promote buy and hold strategies – and has resulted in shallow secondary markets devoid of liquidity. Sovereign yield curve across multiple durations has to be established, so that proper pricing of risk for private issuers could be done.

Islamic financial practices vary widely across the states. Presence of multiple institutions such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Development Bank (IDB) and Islamic Financial Standards Board (IFSB) has resulted in variety of definitions for Shariah based debt, leading to lack of standardized covenants, which calls for deeper scrutiny of issues. Lack of regulation enforcement and legal cover in case of default needs to be addressed to increase the confidence of investors, especially post Dubai debt standstill.

POLICY ACTIONS: Encourage regular issuance of government securities (G-Sec), across maturities. Promote local currency debt issuances.

When will Saudi Arabia and Kuwait be part of MSCI Emerging Market Index?

MSCI amends the index classification only if considers the change is irreversible. Currently, Kuwait is part of MSCI frontier index while Saudi Arabia falls under the category of MSCI standalone country index. Some of the issues that have been pointed by MSCI in its annual market accessibility review have been tabulated as below (see Table).

Saudi Arabian markets are closed for foreign (non-GCC) investors. While in Kuwait banking industry is subjected to 49% ownership limits which effectively accounts for 23 per cent of Kuwait Equity market. Also due to the presence of large strategic shareholders, the rights of minority shareholders are restricted. Lack of clarity in regulatory framework and the fact that not all regulations can be found in English is a deterrent. Lack of robustness and enforcement of local accounting standards; market information is often not complete and often not disclosed in a timely manner. In-kind transfers and off-exchange transactions are prohibited. Only one active custodian is available in Saudi Arabia and in Kuwait, local brokers have unlimited access to trading accounts and local custodians have no control over securities as part of settlement cycle. Addressing the above said issues would better prospects for both countries.

POLICY ACTIONS: Increase foreign investor's ownership level, disclose complete stock market information in a timely manner in English. Develop framework for stock lending and short selling. Recognize nominee status and establish omnibus structures, to facilitate relationship among brokers, when they operate from different jurisdictions.

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[33] 2011 Values.

Table: Current Stance of MSCI

	Kuwait	Saudi Arabia
Classification as of June, 2014	Frontier	Standalone
Openness to foreign ownership		
- Investor qualification requirement	++	+
- Foreign ownership limit (FOL) level	-/?	-/?
- Foreign room level	++	-/?
- Equal rights to foreign investors	+	-/?
Ease of capital inflows/outflows		
- Capital flow restriction level	++	++
- Foreign exchange market liberalization level	++	++
Efficiency of operational framework		
Market Entry		
- Investor registration & account setup	-/?	-/?
Market Organization		
- Market Regulations	-/?	-/?
- Competitive landscape	++	+
- Information flow	-/?	-/?
Market Infrastructure		
- Clearing & Settlement	-/?	-/?
- Custody	-/?	-/?
- Registry/Depository	+	++
- Trading	++	++
- Transferability	-/?	-/?
- Stock lending	-/?	-/?
- Short Selling	-/?	-/?
Stability of institutional framework	+	+

Source: MSCI Global Market Accessibility Review, June 2014; ++ No issues; + no major issues, improvements possible; -/? Improvements needed/extent to be assessed.

Why is liquidity so low in the region?

The decline in liquidity has been caused by several factors, most of which stem from the global credit crisis in 2008 and its repercussions. The relative halting of lending across the region played a large part in the declining liquidity on the exchanges. For instance in Kuwait, before the global financial crisis credit towards purchasing of securities, real estate sector and Investment Companies amounted to almost 50% of the total credit disbursed[34]. Loan growth across the GCC has decelerated sharply since 2009. The average annual growth in loans during 2004-2008 was 29%, reaching a high of 38% in 2007 fell subsequently to single digits. Moreover, many retail investors, who make up the bulk of those who participate in the stock market, are going through their own state of de-leveraging following the global credit crisis. Shallow markets with trading centered majorly around few blue chips also affects the liquidity.

How to attract foreign investments?

In order to attract foreign investors, equity markets have to be broadened by encouraging a wide range of industries across sectors to raise capital. Private shareholder-ship should be encouraged and government stakes trimmed. Markets have to be opened up, particularly in the case of Saudi Arabia, with enhanced ownership limits. Equal rights to foreign investors is imperative, however stringent limits on foreign ownership have limited the rights for foreign investors so far.

Most countries in the MENA region often lack in robustness and enforcement of local accounting standards. Detailed stock market information has to be disclosed effectively in a time bound manner and in English. Information flow has to be given prime importance and avenues for sensitive data distribution have to be enhanced. Corporate announcements have to be standardized and better disclosures are to be made, to promote quality research. Guidance or estimates from management would also benefit the research community at large.

[34] Kuwait: Financial Sector Transitions Out of the Crisis, IIF

Establishment of corporate governance regulations have to be expedited, as companies with good corporate governance practices tend to enjoy more investor support and confidence. The importance of adherence to corporate governance best practices is underlined by the fact that most investors are willing to pay a premium for well governed company.

Foreign exchange markets have to be liberalized and capital flows eased. Off-shore currency market has to be developed and constraints in onshore currency markets need to be removed. For instance, foreign investors in Lebanon are not allowed to hold Lebanese pound balances.

Table: Establishment of Corporate Governance Code

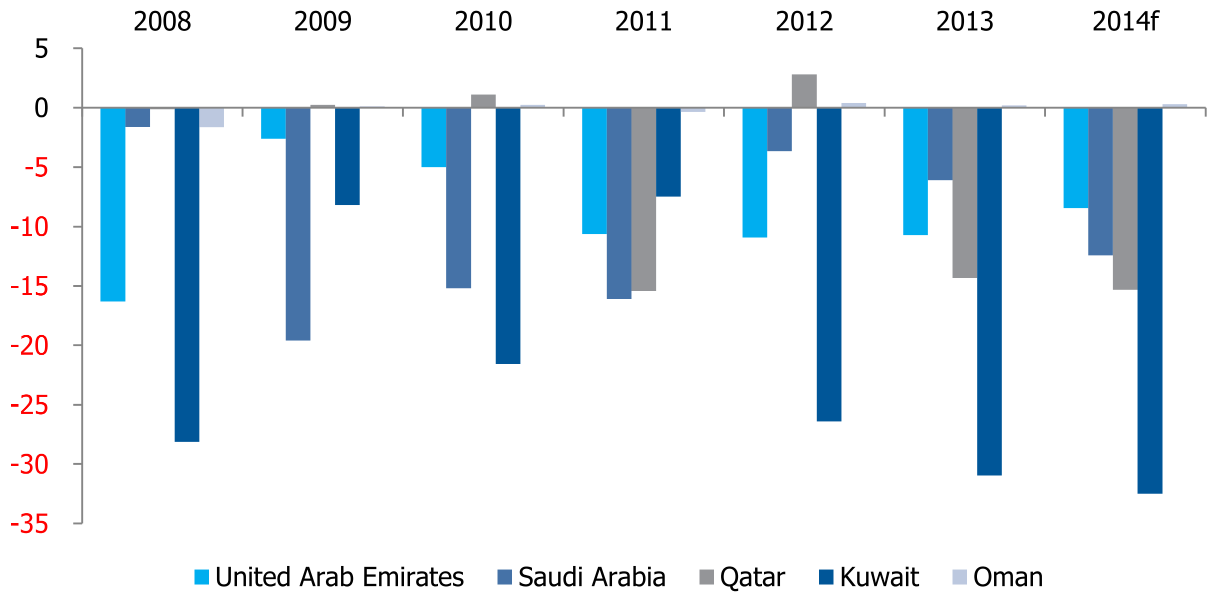
Country	Issuance of Corporate Governance code
Oman	2002
Saudi Arabia	2006
UAE	2007
Qatar	2009
Bahrain	2010
Kuwait	2013

Source: Markaz Research

Presence of limited number of broker and lack of competition amongst them, results in higher trading costs. Framework for Stock lending and short selling practices need to be developed. Lack of custodians - local and foreign players, which hitherto had been huge deterrent, needs to be addressed.

Institutional reforms to enhance the stability of the system, including adherence and enforcement of law have to be strengthened.

Figure: Portfolio Equity Investment, net (in USD bn)



Source: IIF

Market infrastructure has to be upgraded and standardized. DVP model and omnibus structures have to be introduced. Framework for in-kind and off-exchange transactions needs to be developed.

What could be Key innovation areas in MENA asset management industry?

As the regional financial hubs became more fragmented, efforts to integrate markets could be revived. Region wide unification of licensing and listing procedures for companies, by streamlining the regulations would boost stock market activities. Consolidated, bigger markets would help in increasing market liquidity, limiting volatility, enhancing confidence for market participants and consequently provide an attractive destination for international institutional investors. The successful merger of Colombian, Chilean and Peruvian stock exchanges to form Mercado Integrado Latinoamericano (MILA) exchange in 2011 and establishment of EuroNext, an amalgamation of Paris, Brussels and Amsterdam stock exchanges in 2000 could be emulated.

The MENA region (especially GCC countries) had witnessed high economic growth rates even when the global economy was facing a recession. This higher growth has managed to attract the attention of foreign investors. However due to foreign ownership restrictions in the region they have stayed on the sidelines. Liberalization of ownership rules and creation of custom investment products that suit the appetite of foreign investor could garner their attention. AMCs can also looking into the aspect of creating alternative investment solutions for the regional investor. Products such as derivatives, commodity-based investments, structured products, real-estate investment trusts, etc. can be looked into (once the regulations are in place, though).

Source: Excerpts from our capital market research report titled "MENA Asset Management Policy Perspectives". To find out more details, please visit www.e-marmore.com

GCC Regulatory Update – Q3 2014

Reforms Checklist – Q2 2014

Sector	Kuwait	KSA	UAE	Qatar	Oman	Bahrain
Financial Services					√	
Infrastructure/Transport	√					√
Governance	√	√		√	√	
Foreign Investment	√					
Capital Markets	√	√	√	√		
Legal Services		√				
Energy			√			

Source: Markaz Research

The push for economic diversification through effective capital market, labor and governance reforms continues throughout the GCC region. There is an increasing sense of urgency in pursuing various reforms that would facilitate the ease of doing business. For instance, Kuwait has suspended the Offset programme that calls for reciprocal investments into Kuwait by foreign companies that win large deals in the country. A new set of Offset guidelines are expected in early 2015. Meanwhile, the KSA is attempting to continue its market experiments by taking stock of its 2011 labour reforms and making refinements upon them. The KSA's decision to open up the capital markets of the country to foreign investors is considered a momentous step in the economic evolution of not only the country, but the entire MENA region. The UAE is showing a similar urgency in reforming its capital markets, as well, with more focus paid towards making the markets accessible for listings by domestic UAE firms. The country has also realized the value of making improvements on the profligate domestic energy usage levels. Meanwhile, Qatar is moving with strong will on its labour reform efforts, while also easing the environment more for foreign investors interested in taking stakes in Qatari companies. To cap the theme of reforms this quarter, it is notable that Oman has taken steps towards strengthening the free market system further in the country by removing bottlenecks to market competition; while Bahrain has taken a step towards clearing the bottlenecks on the road in terms of transportation.

Kuwait

Capital Markets

Kuwait Capital Markets Authority reactivates legal procedures of arbitration system *[Source: CPI Financial]*

The CMA reactivated the legal procedures of its arbitration system in order to make the system of settlement cases more amenable to greater transparency and fairer outcomes. The procedures were ratified earlier during the year.

Governance

Salary restructure, budget resilience top economic reform agenda *[Source: Mubasher Info]*

Kuwait's government is working along two axes in terms of economic reform. One axis is the State's financial management reform programme that will be implemented by enlisting the cooperation of the World Bank. The second axis is the salary restructuring programme, along with efforts to develop the skills mix of the human resources in the country.

Foreign Investment

Kuwait woos foreign investors by suspending offset scheme *[Source: Thomson Reuters]*

Kuwait suspended a programme as per which foreign contractors who win large Kuwaiti government contracts are required to invest in the economy of Kuwait. The programme, called Offsets, have been frozen as they are perceived to be a hindrance in attracting foreign firms to compete and win deals in Kuwait. New Offset rules are expected within the first quarter of 2015.

Infrastructure/Transport

Kuwait enacts Law No 116 of 2014 with respect to Public Private Partnership (PPP) *[Source: Baker Tilly International]*

Kuwait enacted a new PPP law, which sets out the creation of a public authority for PPP projects. It will replace the Partnerships Technical Bureau (PTB). The new law is an amendment of the earlier Build-Operate-Transfer (BOT) law of 2008. The contract term has been increased to 50 years instead of the earlier maximum of 40 years.

Saudi Arabia

Legal Services

Saudi Arabia opens family courts, first step in wider legal reform *[Source: Thomson Reuters]*

The KSA opened new family courts in order to settle disputes. The move is seen as first in a series of specialized tribunals that are aimed towards creating a faster and more efficient legal system. It is also seen as supportive of wider social and economic reforms as commercial legal courts too are expected to come in the offing.

Governance

Saudi Arabia cushions labour reform with new hours, subsidies *[Source: Thomson Reuters]*

In order to soften the impact on companies in the Kingdom due to the 2011 labor reforms, the KSA authorities are providing more subsidies to pay Saudi nationals in private companies. Also, draft laws are in the works in terms of reducing the working hours at private companies so that more nationals would feel that working for the private sector is attractive, too. As new measures go into effect in line with lessons gained from labor reforms' experiences, steps are also being explored in terms of making the Saudi employees more effective.

Capital Markets

Saudi Arabia accelerates reform push with market opening *[Source: Thomson Reuters]*

The KSA announced its decision to open the country's stock market to foreign investors. The move is part of a series of economic reforms, including the recent labour reforms and the mortgage lending law. As the market is opened to foreign investors, the hope is that it will ring in better processes around corporate governance and efficiency on Saudi companies.

The United Arab Emirates

Capital Markets

Reforms will make UAE stock market listings more competitive *[Source: Abu Dhabi Media]*

New rules have been introduced by the Ministry of Economy (MoE) that is considered as an important step towards making listings on the UAE bourses more attractive. Companies can now use extant shares when listing on local bourses or for raising fresh equity capital. The MoE regulations allow for sponsors to exercise control how much capital they need and how many shares they would prefer to sell down during an IPO. Thus, listing in the UAE has been relaxed, boosting the attractiveness of the UAE bourses further for companies considering IPOs.

Energy

New UAE law in the works to curb misuse of energy *[Source: Abu Dhabi Media]*

It was announced that a law was being planned in the UAE that targets curbing profligate and wasteful usage of energy and water. There is policy consensus that the UAE will have to decelerate the growth in water and electricity consumption, which has consistently clocked an average of 6% over the past decade. Rapid economic expansion and growing population levels are cited as the primary drivers behind increasing energy usage.

Qatar

Governance

Foreign worker reforms measures approved *[Source: Thomson Reuters]*
The Ministry of Labor and Social Affairs passed some foreign worker reforms measures in order to better the conditions of people working on important projects, especially those connected with the 2022 World Cup soccer tournament. One of the measures includes setting up of mandatory bank accounts for paying wages to workers.

Kafala reforms signalled *[Source: Doha News]*
The Ministry of Labor and Social Affairs indicated that reforms to the Kafala system of sponsorship would be made soon. The reforms are looked upon as important for taking incremental steps towards bettering the conditions for foreign workers in the country.

Capital Markets

Law for raising foreign ownership limits for stocks *[Source: Thomson Reuters]*
New law issued for providing foreign investors to own up to 49% of listed Qatari companies. The law is part of reforms to enlarge the stock market and further develop the financial industry. Moreover, GCC citizens will be treated as Qatari citizens in the matter of owning firms listed on the Qatari bourse.

Oman

Governance

Competition Law Draft Approved *[Source: Oman Daily Observer]*
The Omani Majlis Ash'shura approved the draft of the law called Competition Protection and Prevention of Monopoly. The approval came in the light of the report submitted by the Economic and Financial Committee. The law targets prevention of monopoly, upholding the freedom of prices to move according to market conditions, and the general upkeep of untainted free market competition.

Omani Commercial Agencies Law Amended *[Source: Business Intelligence Middle East]*
The Omani Commercial Agencies Law was amended. The amendments appear a step in the direction of creating a better environment for free transaction of business in Oman. A significant feature of the amendments is that the power that the Minister of Commerce and Industry possesses in terms of banning a foreign principal's goods into the country has been removed. Also, the prohibition that disallowed the sale of a foreign principal's goods through another agent has been withdrawn.

Financial Services

Oman's Islamic insurance law, Takaful law in final stage *[Source: Muscat Press & Publishing House SAOC]*
Omani Islamic insurance law (or Takaful insurance) is reportedly in the final stages. A new company is expected to come into existence in order to meet the growing demand for Islamic products. The low insurance penetration in the country is expected to be a fillip in terms of creating space for a strong Takaful market to take shape and grow.

Bahrain

Infrastructure/Transport

Bahrain ratifies tougher traffic law *[Source: Al Nisr Publishing LLC]*
A new traffic law that contains enhanced punishments for violations has been ratified by King Hamad Bin Eisa Al Khalifa. The new law replaces the one that was ratified 35 years ago. It is notable that the new law took seven years in order to be promulgated after the ratification by the Parliament.

MENA Data at a Glance

	GDP Growth (%)	Current Account as a % of GDP	Fiscal Surplus as a % of GDP	Inflation Rate (%)	Interest Rates (3m) **(%)**
	2014f	2014f	2014f	2014f	Latest Available data*
Bahrain	4.7	10.4	-3.2	2.5	0.30
Egypt	2.3	-1.3	-11.9	10.7	6.75
Jordan	3.5	-12.9	-5.1	3.0	0.25
Kuwait	2.6	37.4	23.4	3.4	1.10
Morocco	3.9	-6.6	-5.0	2.5	3.00
Oman	3.4	7.8	1.6	2.7	0.25
Qatar	5.9	25.4	14.1	3.6	0.35
Saudi Arabia	4.1	15.8	-5.0	3.0	0.13
UAE	4.4	13.3	8.5	2.2	0.07

Source: IMF, Reuters; *- 3 months average computed based on latest available data

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KSA	UAE
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- MENA Asset Management Policy Perspectives (2013)
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- Disruptive Technology: Bitcoins (2014)
- The Internet of Things ! Big Data (2014)
- Kuwait Credit Growth (2014)
- Kuwait SME's (2014)
- Multiple directorships in KSA (2013)
- GCC Demographic Shift (2012)
- How is GCC preparing for a "AA+" World? (2011)
- Kuwait Development Plan (2011)
- Political Risk moving to the forefront in MENA: Impact Analysis (2011)
- Diworsification - The GCC Oil Stranglehold (2009)
- The Vicious "Square": Monetary Policy Options for Kuwait (2008)

Policy Researches*

- GCC Countries & Asia: Bolstering Energy Ties (2014)
- GCC Energy Strategies: The Way Forward (2014)
- Kuwait - Private Labor Market (2013)
- Kuwait - Alternatives for Power Generation (2013)
- Kuwait - Sustainable Power Strategy (2012)
- Tools to Strengthen & Support Kuwait's Private Sector (2012)

Periodic Reports*

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Morning Brief   Fixed Income Update

Kuwait Daily

Monthly

MENA Markets Review

International Market Update

Quarterly

Equity Risk Premium

GCC Regulatory Digest

Half yearly

GCC Markets Outlook

GCC Corporate Earnings

Annual

Global Markets Outlook

*Complimentary reports

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Marmore MENA Intelligence Ltd (**Marmore**) caters to the growing research and information needs of organizations in the Middle East and North Africa (MENA) region. We offer research reports covering economies, capital markets, sectors and companies - focused on the MENA region.

We also provide research services to assist our clients in investment decision-making, scanning markets to identify investment opportunities, conducting ad-hoc researches to understand niche market segments, and other bespoke researches.

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