THE REPORT

Kuwait 2018

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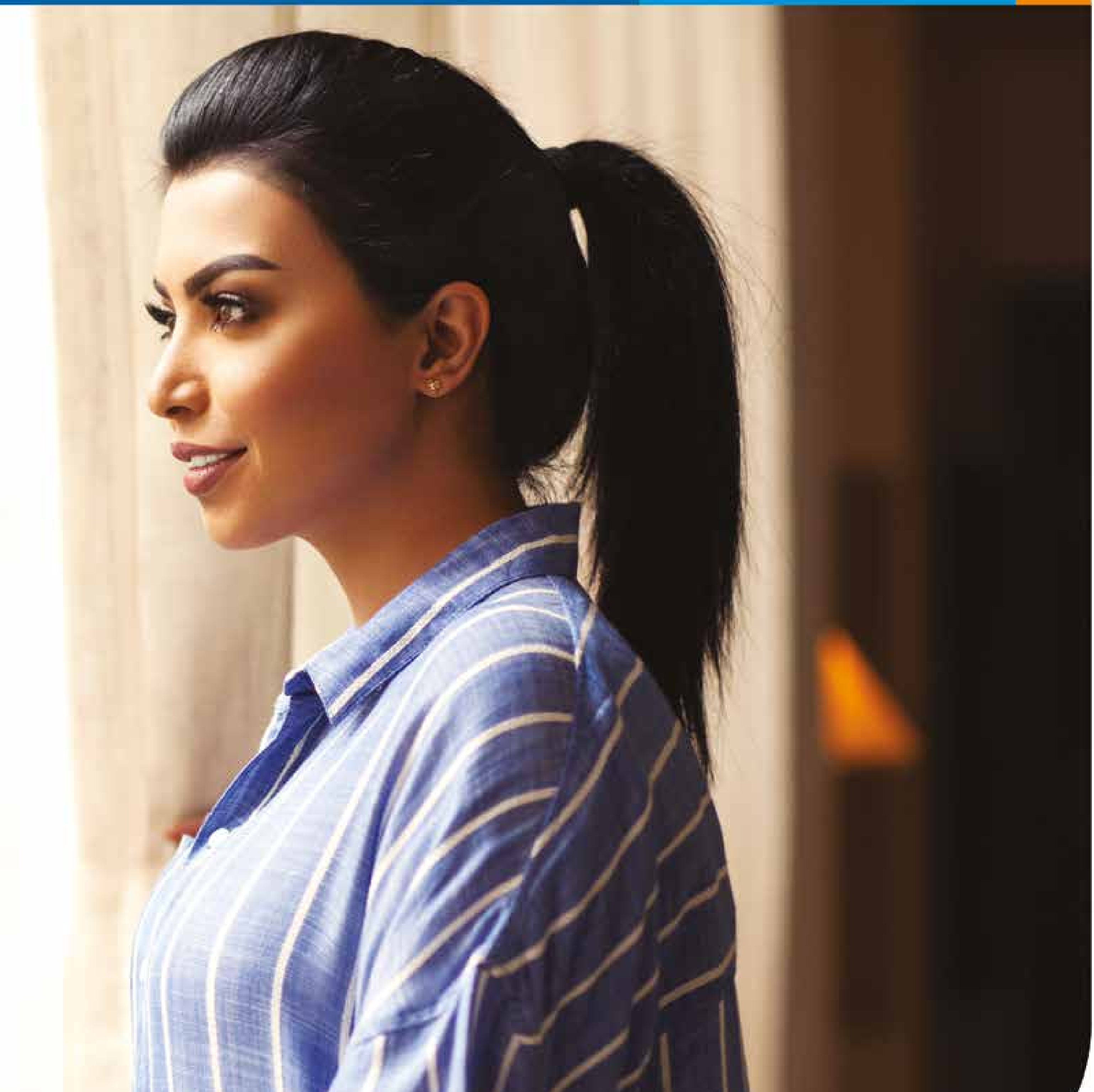

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The second quarter of 2018 saw Kuwait's non-oil GDP expand by 6.9% year-on-year (y-o-y) to $17.8bn. This was largely driven by 49% y-o-y growth in manufacturing, 42.3% in telecoms and 8.9% in transport, with the government's commitment to capital spending despite the sustained period of lower oil prices likely helping to fuel the expansion. Meanwhile, the Ara consumer confidence index experienced a 12.3% y-o-y jump in July 2018, rising to 119.

A source of stability

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Kuwait has long used oil revenue both to build a deep portfolio of global investments and to support economic diversification projects at home, with an eye towards developing new industries and attracting foreign investment in strategic areas. In an effort to boost economic activity the government has moved to expand its public-private partnership programme and relax a range of regulations related to trade and investment.

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New gateways

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Kuwait is pouring billions of dinars into transforming its roads, ports and airports. The country's medium-term objective is to capitalise on its strategic location to become the northern nexus of the Gulf, facilitating and profiting from flows of international trade across the region for decades to come. In the shorter term, however, it must tackle delays and congestion that slow the movement of people and cargo.

TRANSPORT & LOGISTICS

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INDUSTRY

Building capacity

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The energy sector accounts for roughly 90% of both exports and government revenue. Mega-projects led by state-owned companies responsible for the extraction, processing and marketing of oil and gas also drive the non-oil economy by supporting tens of thousands of jobs in engineering, construction and support services. Sector goals include optimising oil extraction, realising the full potential of domestic natural gas fields and doubling refining capacity.

Bold blueprints

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Construction workers in Kuwait are busy building bridges, roads, homes, the region's largest refinery, an expanded airport terminal and a new port. Despite a period of reduced crude oil revenues, Kuwait is pushing ahead with major infrastructure works, and these are just some of the projects being completed as the country works towards the New Kuwait 2035 vision.

Strategic moves

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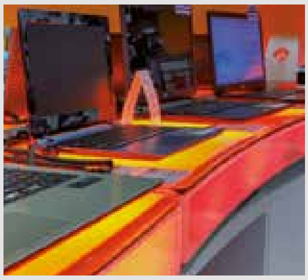
Kuwait's 2035 strategy highlights ICT development as a key area that is expected to attract investment and boost the local economy. In 2017 the telecoms industry's contribution to the non-oil sector grew to 8.2%, accounting for 3.9% of total GDP. The sector grew by 34% year-on-year in the first half of 2018, and this positive trajectory is expected to continue.



Gaining steam

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As Kuwait tries to curb its dependence on oil, other industries are coming into focus. Manufacturing industries' contribution to GDP rose by 6.2% to $5.6bn in 2017, while refined petroleum products and nuclear fuel's portion – excluded from the above – expanded by 18% to $3.3bn. This growth is largely driven by the emphasis on infrastructure and economic diversification.

Ready to shop

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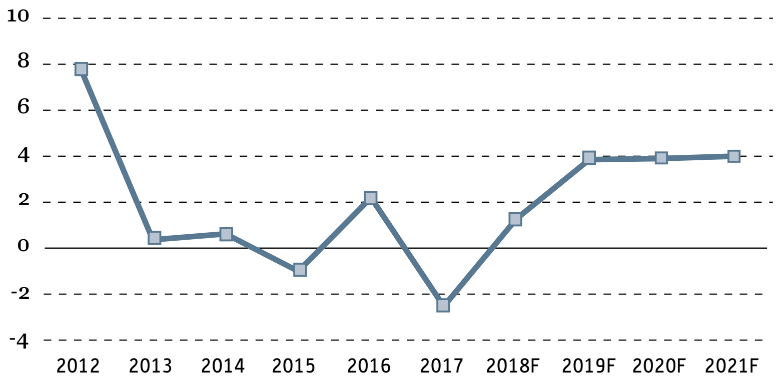
The retail sector accounts for around 9% of non-oil GDP, and there are solid growth forecasts for the coming year. Kuwait has one of the highest per capita incomes in the world, at $68,500 in 2017, thus there is strong demand for luxury and imported goods among wealthy locals and foreign residents, who now make up around 70% of the population.

Kuwait in brief

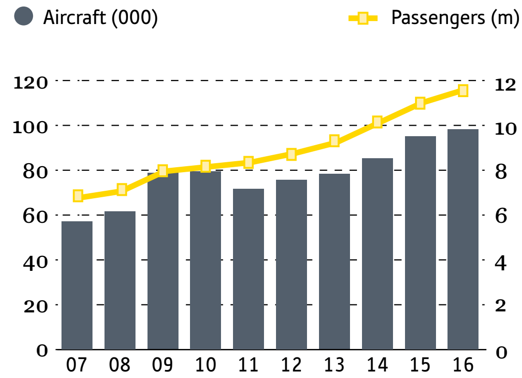
Boosting trade, and particularly non-oil trade, is one of the key objectives of New Kuwait 2035, a comprehensive economic diversification and national development plan launched by the government in 2017. The initiative lays out a range of goals to achieve by the year 2035, including increasing foreign direct investment by 300% and positioning the country as a global petrochemicals centre. To achieve these bold targets, the plan details 164 strategic development programmes across multiple sectors of the economy. These diversification efforts led non-oil GDP to post 2.2% growth in 2017, up from 1.6% the year before, with 2018 expected to bring an increase of 2.8%.

Real GDP growth, 2012-22F (%)



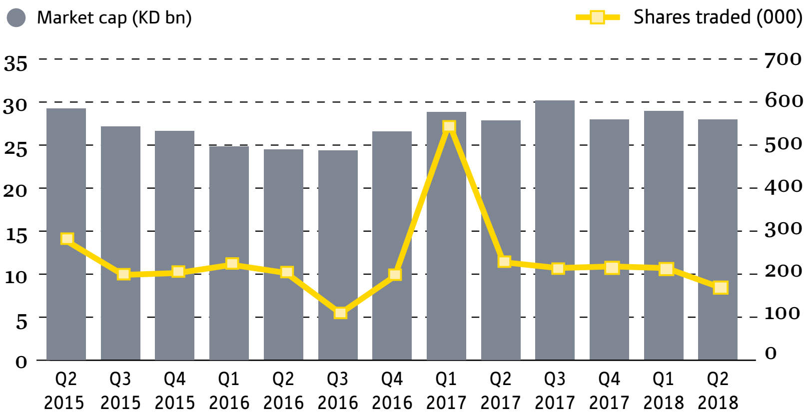
Source: IMF

Air traffic at Kuwait International Airport, 2007-16



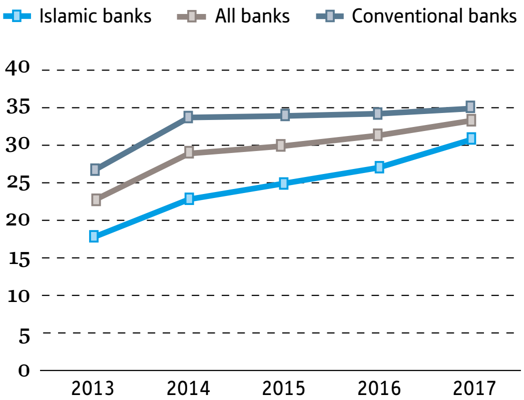
Source: DCA

Boursa Kuwait performance, 2015-18



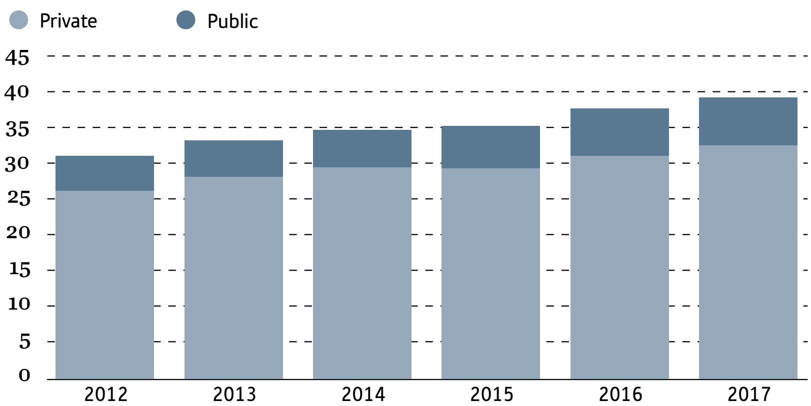
Source: Boursa Kuwait

Net profit margin, 2013-17 (%)



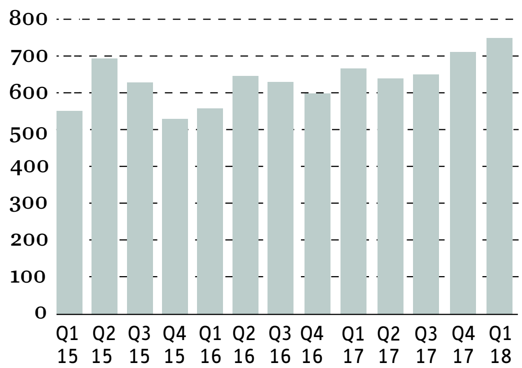
Source: CBK

Local bank deposits, 2012-17 (KD bn)



Source: CBK

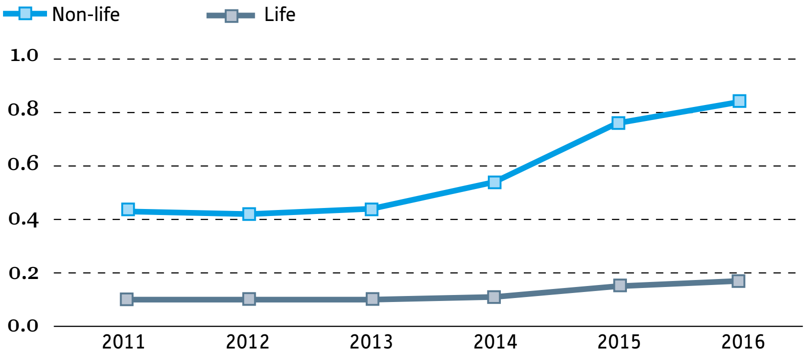
Manufacturing's contribution to GDP*, 2015-18 (KD m)



Source: CBS

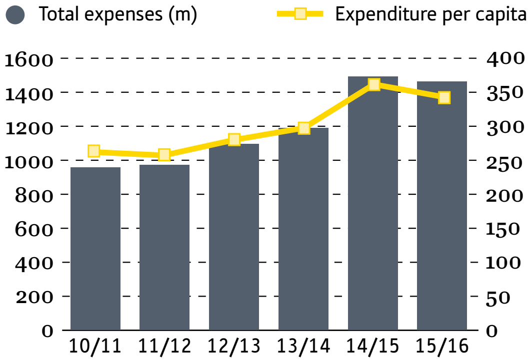
*current prices

Insurance penetration, 2011-16 (% of GDP)



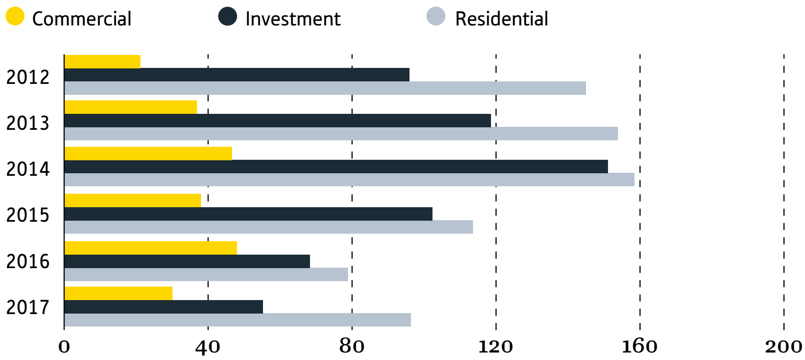
Source: Alpen Capital

Public health spending, 2010-15 (KD)



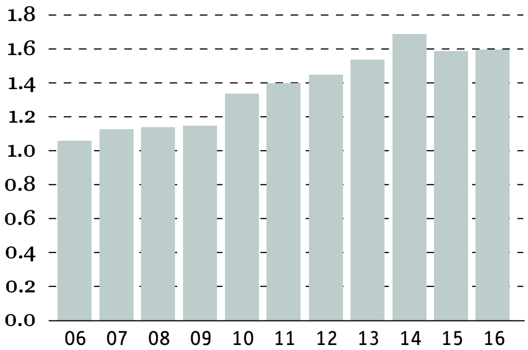
Source: CSB

Average monthly real estate sales, 2012-17 (KD m)



Source: Ministry of Justice, NBK

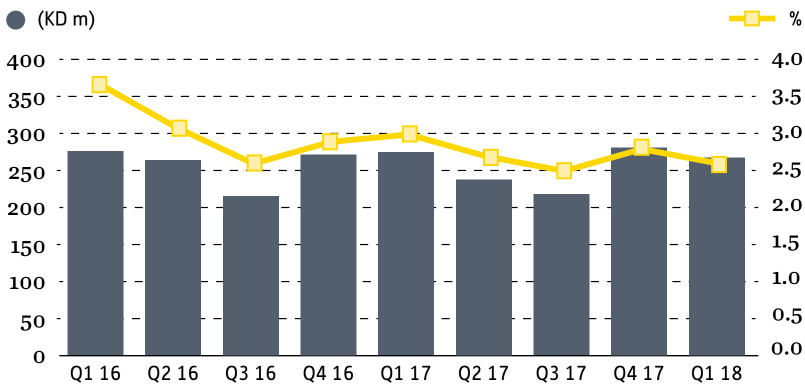
Wholesale & retail trade GDP*, 2006-16 (KD bn)



Source: CBK

*current prices

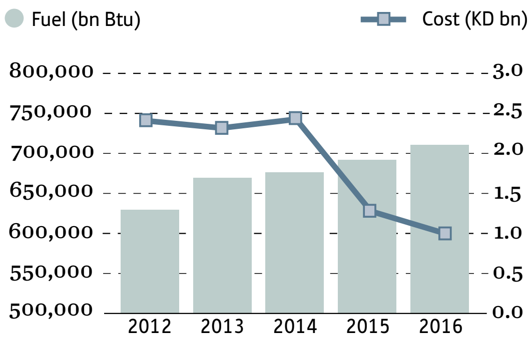
Construction's contribution to GDP*, 2016-18



Source: CSB

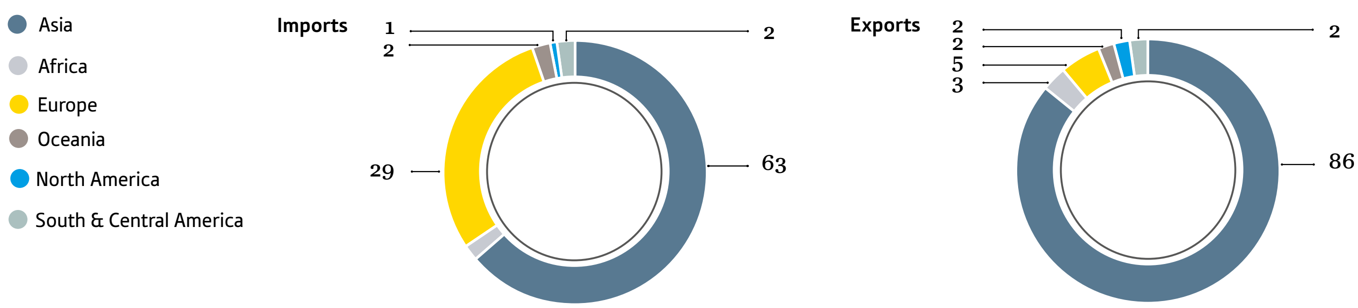
*current prices

Consumption of fuel energy & costs to power stations, 2012-16



Source: MEW

Trade by region, 2017 (%)



Source: CSB

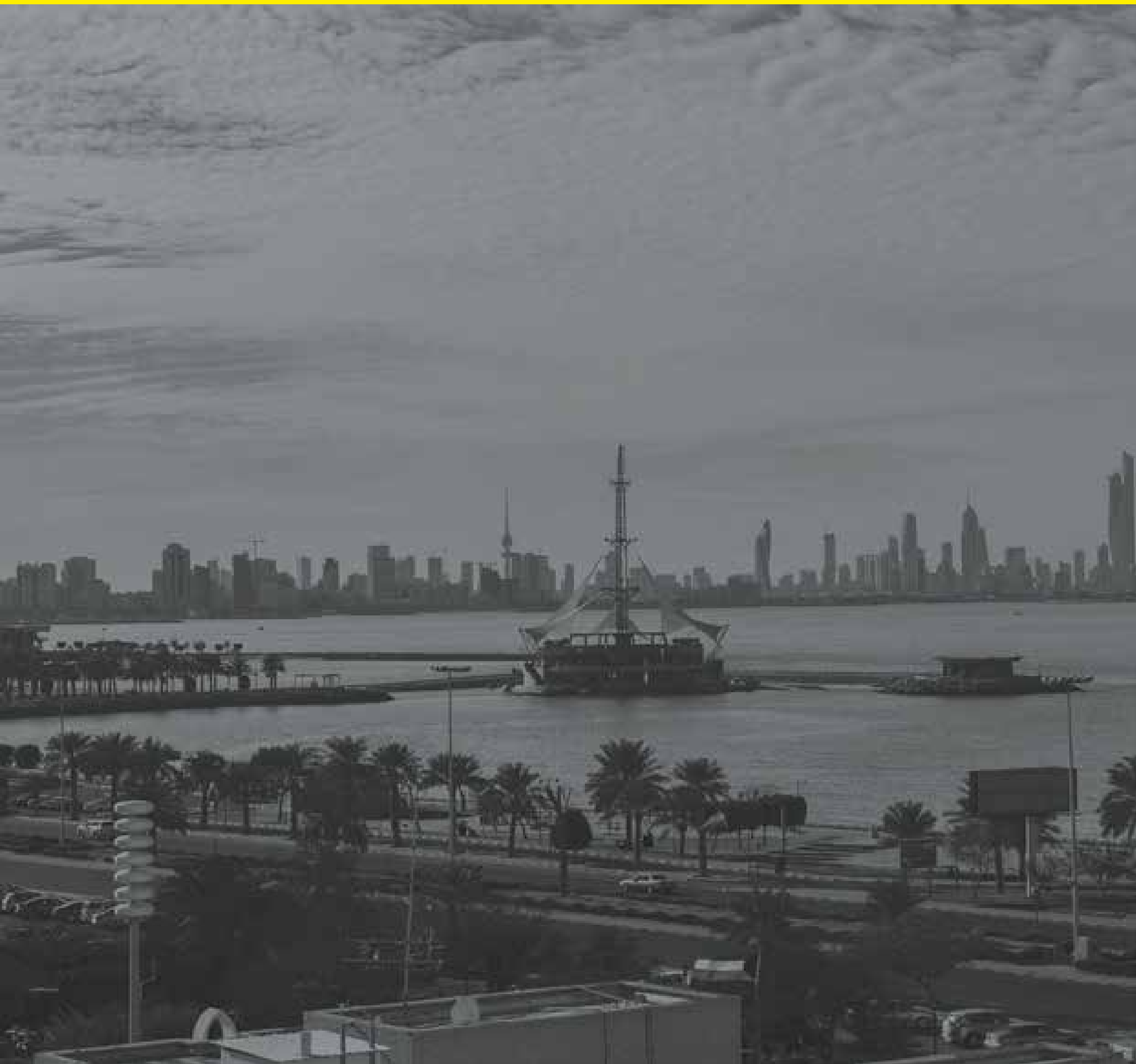
Country Profile

Kuwait Development Plan set to ramp up oil production

4.23m-strong population remains concentrated in cities

Universal enrolment in primary and secondary schools

Sovereign wealth funds in GCC recover with oil prices



The government aims to produce 4m barrels of oil per day by 2020

Fuelling development

Government initiatives aim to diversify the economy away from hydrocarbons and encourage global integration

The country has more than
101.5bn
barrels of estimated oil reserves

As a member of both the Organisation of the Petroleum Exporting Countries (OPEC) and the GCC, Kuwait has various strategic ties. Additionally, the country is arguably the most politically dynamic in the Gulf, which has afforded it strong foundations to help tackle recent issues regarding parliamentary elections and accountability.

By continuing with economic diversification efforts and reducing dependence on oil revenue, Kuwait is also adding momentum to several large infrastructure projects. The tabled projects are set to further integrate Kuwait into the global economy.

DEVELOPMENT: Kuwait's economic strength largely comes from its substantial oil reserves, which are equivalent to more than 101.5bn barrels, with the government setting a production target of 4m barrels per day (bpd) by 2020, up from the current level of 2.83m bpd (see Energy chapter). Oil has fuelled development since the Second World War, and production took on a central role in the economy after it was nationalised in 1975. Accounting for more than 60% of GDP and 95% of exports, according to Kuwait's Central Statistical Bureau (CSB), oil revenue has contributed to strong public finances, consecutive annual budget surpluses and the development of a generous welfare system.

Although the private sector played a somewhat limited role in economic expansion in the late 1900s and early 2000s, Kuwait has produced a number of globally successful firms, such as telecoms giant Zain and low-cost air carrier Jazeera Airways. Kuwait has also been pursuing a programme of economic diversification to jump-start the private sector via a boost in infrastructure projects.

The five-year, $155bn Kuwait Development Plan aims to enhance the country's role as a banking, trade and services centre within the Gulf by 2020.

Approved by Parliament in February 2015, the five-year, $155bn Kuwait Development Plan (KDP) is the government's blueprint to enhance the country's role as a banking, trade and services centre within the Gulf by 2020. With plans for upgraded infrastructure, expanded utilities and housing investment, the government has seen more than 500 projects nominated under the KDP. This can act as a catalyst to restore the balance between the public and private sectors, as well as accommodate the demands of a growing population. Given the lower oil prices seen in recent years, the initiatives outlined by the KDP also come at a critical time in terms of enhancing the state's competitiveness as a destination for foreign direct investment.

HISTORY: Kuwait's archaeological record begins in the second millennium BCE with the colonisation of an outlying island, Failaka, by the Mesopotamians and later by the Greeks. The region came under the Islamic caliphate during its expansion throughout the Arabian Peninsula in the 7th century CE. Permanently settled in the 17th century by the Bani Khalid tribe, the area prospered as a key trading hub on the silk route between India, Central Asia, the Middle East and Europe. As its wealth grew, the city fortified, which gave Kuwait its name, a diminutive of an Arabic word meaning "fortress built near water".

Faced with imperial interests from the Ottoman Empire in the 19th century, Kuwait's ruling Al Sabah family courted British favour and formally agreed to become a protectorate in 1899. Declared an independent principality under British protection during the Second World War, Kuwait remained allied to the British until it declared independence in 1961. Kuwait's economic wealth and regional ties grew in the second half of the 20th century, as it became a founding member of the GCC in 1981 alongside Bahrain, Oman, Qatar, Saudi Arabia and the UAE. However, its history in the latter part of the century was defined by Iraqi occupation in 1990-91, during which some 749 oil wells were set alight and destroyed by occupying forces. Kuwait made a strong recovery, though its economic agenda in the aftermath was largely focused on rebuilding the country. In subsequent years the focus has shifted towards diversification and sustainable economic development, as the nation aims to avoid reliance on a single source of income.

RECENT GROWTH: The economy has been largely driven by the government since the nationalisation of the oil and gas industry in 1975, with the sector accounting for over 60% of GDP and 95% of exports in 2018. While this led to a golden era for the country, security soon took precedence over economic development during the Iran-Iraq War in 1980-88 and the Iraqi occupation in 1990-91. While the two decades since these conflicts have seen considerable stability and growing prosperity, economic and industrial development remains largely state-led. Launched in 2015, the KDP follows the National Development Plan (NDP) 2010-14, which had more than 500 projects tabled to upgrade infrastructure, utilities and housing while improving other services intended to re-energise the private sector.

Although progressing major plans has been a challenge in the past, with 421 projects carried over from the previous NDP, the government has continued to invest heavily in key infrastructure projects. Hydrocarbons revenue has enabled the establishment of a universal and comprehensive welfare system. This brings a number of challenges that the authorities are seeking to address, not least of which is inflation driven by government spending. The growing public debt burden is also of concern, with the IMF warning in 2012 that based on spending projections, revenue would be entirely committed by 2017, preventing any future savings.

POPULATION & DEMOGRAPHICS: The CSB estimated that Kuwait had 4.23m inhabitants at the beginning of 2018. The latest figures from the CSB with demographic breakdowns show that expatriates comprised the majority of the 4.08m-strong population in 2017, with 53.4% of people living in the country being non-citizens at that time. Driven by the high numbers of male immigrants seeking work in the country, Kuwait has a somewhat male-dominated populace, with 60.1% of the total population and 64.8% of expatriates being men. Meanwhile, the youth cohort is robust: 32.1% of inhabitants were 24 years of age or younger in 2017. With 98% of the population living in cities, Kuwait also has a very high rate of urbanisation, largely due to the somewhat extreme climate.

As Kuwait has embraced more liberal socio-political concepts, including universal female suffrage in 2005, representation has become a point of contention, particularly among the state's post-liberation generation. At the forefront of this are the 105,000 Bidoon, or stateless people, in the country. Additionally, while around 200,000 tribal and Bedouin people were granted nationality in the 1960s and 1970s, in some cases citizenship has not been extended to the second and third generations. Excluded from political, economic and social participation, the tribal groups operate as para-political structures, and they have consistently demonstrated against the government's policies towards them.

The population is quite diverse, with more than half of inhabitants being non-Kuwaiti nationals in 2017

The economy has been largely driven by the government since the nationalisation of the oil and gas industry in 1975, with the sector accounting for over 60% of GDP and 95% of exports in 2018.

PARLIAMENT & POLITICS: Agreements between the government, Parliament and opposition blocs have at times been somewhat volatile, and the contemporary political landscape is symptomatic of that relationship. The principal prerogative of Parliament is to oversee and maintain the quality of ministerial policy and conduct. However, it can also exercise power that is not afforded to neighbouring national assemblies, such as the ratification and vetoing of laws proposed by the executive branch. Formal inquiries and questioning of ministers have been a precursor to votes of no confidence, which is the strongest tool available for Parliament to ensure government accountability; however, a declaration of non-cooperation by either party requires the emir to dissolve the legislature or executive.

Kuwait's parliamentarians have historically pursued these responsibilities with conviction and certainty, which brought them into confrontation with the government in 2009, when Parliament summoned then-Prime Minister (PM) Sheikh Nasser Al Mohammed Al Ahmad Al Sabah. Between 2009 and 2011 Parliament forced Sheikh Nasser to resign four times, but in all four cases he was reappointed by the emir. However, Sheikh Nasser was ultimately replaced by PM Sheikh Jaber Al Mubarak Al Hamad Al Sabah in December 2011, reinforcing the constitutional integrity of Kuwait's checks and balances.

The emir's dissolution of Parliament precipitated national elections that were held in February 2012. The elections heralded a new Parliament that embodied Kuwait's disparate groups. Adjourned in June 2012 when it called in the ministers of finance and labour for questioning, the Constitutional Court (CC) ruled in the same month that the 2011 dissolution of Parliament was unconstitutional, rendering the February 2012 elections null and void, and a

Parliament primarily oversees and maintains the quality of ministerial policy and conduct, though it can also ratify and veto laws proposed by the executive.

Largely due to the harsh climate and lack of cultivatable land, 98% of the population lives in urban centres

The country has achieved a

100%

enrolment rate in primary and secondary schooling

new Parliament was elected in 2013. Parliament was dissolved by the emir in October 2016, and a general election was held on November 26, 2016, with voter turnout of around 70%. Opposition candidates took the lead in the results, winning 24 out of 50 seats, while 20 incumbents were re-elected.

CONSTITUTIONAL CONSTRUCTS: While the CC's June 2012 ruling outwardly reinforces the judiciary's impartiality, the ramifications were less obvious. The recall of the 2011 Parliament, seen as a pro-government move, was only avoided because many officials declined to return to office. However, the CC reinforced its impartiality in August 2012, when it upheld – against government wishes – the motion to cut the number of voting districts from 25 to five.

The key challenge for the CC and Kuwait's imminent political fortunes came in June 2013, when the court ruled on the legitimacy of the emir's October 2012 emergency decree that reduced the number of votes per person from four to one. While this brought Kuwait in line with international norms, opposition groups condemned the move, as the previous four-vote system enabled voters to lend their support to disparate ballots. Sharia law is a primary source of legislation, but law and government regulations remain largely secular. While adherence to Islamic strictures is strict in some respects – for example, there is a total ban on alcohol – the country granted universal suffrage in 2005, and female MPs were elected in both 2009 and 2013.

LANGUAGE: Kuwait's official language is Arabic, in which all government announcements and documents are issued. However, English is widely spoken, especially within business and academia. The *Kuwait Times* and *Arab Times* are the two main newspapers, and are written in English, while other publications – including *Gulf News*, *Gulf Times* and *Arabian Business* – also provide regional coverage, publish some of their stories in English and are widely circulated.

Just 20% of Kuwait is inhabited, with the majority of settlements located along the 500-km coastline and 90% of water requirements met through desalination plants.

EDUCATION: Schooling is compulsory between the ages of six and 14. Budget surpluses have supported the development of a comprehensive education system, and the country has achieved a 100% enrolment rate in primary and secondary schooling for both boys and girls. The compulsory education system is divided into three tiers: elementary, intermediate and secondary. It is overseen by the Ministry of Education, while post-secondary schooling is handled by the Ministry of Higher Education. Domestic enrolment is notably lower at the tertiary level, partially because many Kuwaitis choose to study abroad. All public schools are segregated by gender and are free of charge for nationals.

Pressure to reform the education system to align it with economic needs is increasing, which has seen the growing popularity of international schools offering Western curricula. Catering to the domestic market, Kuwait University remains the country's sole public higher-education institution. Private tertiary institutions – including the Gulf Institute of Science and Technology, the American University of Kuwait, the Arab Open University, Kuwait Asia University and the Australian College of Kuwait – also cater to unmet demand in the education sector.

GEOGRAPHY & CLIMATE: Kuwait's landmass covers an area of 17,818 sq km. Its territory includes nine islands off its coast, the largest of which is Boubyan Island, north of Kuwait City and the site of Mubarak Al Kabeer Port, which is currently under development. Kuwait City is based on a natural deepwater port, but extensive dredging works have been undertaken to extend access to other port facilities.

Kuwait is predominantly a desert plain, with a maximum elevation of 306 metres, and it shares land borders with Saudi Arabia and Iraq, in addition to a maritime border with Iran. An important oil-producing area, the southern region is a neutral zone shared with Saudi Arabia, which is under joint administration. The oilfields straddling Kuwait's northern borders with Iraq are expected to undergo joint redevelopment in the near term, as relations between the two countries improve.

The desert climate, with average temperatures reaching as high as 48°C in summer, makes most of the country unsuitable for typical cultivation practices. Just 20% of Kuwait is inhabited, and the majority of settlements are located along the 500-km coastline. Annual rainfall is negligible, with 90% of the country's water requirements met through the use of desalination plants.

NATURAL RESOURCES: While Kuwait's oil reserves remain abundant, as its oilfields have matured they have become harder to access. Output levels have tapered, putting pressure on the economy. However, plans to increase production to 4m bpd by 2020 will require substantial infrastructure upgrades – a central aspect of the KDP. Kuwait is also host to a number of cement manufacturers that use local resources, and the coastal waters successfully support the relatively small local fishing industry.

Emir Sheikh Sabah Al Ahmed Al Jaber Al Sabah

Seeking stability

Emir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, on fostering national unity through awareness and stability

Our national march, which urges the pursuit of comprehensive sustainable development, is confronted by external dangers and difficult internal challenges.

The internal challenge facing our national march is the necessity and inevitability of reforming our economy, which suffers from gross structural imbalances stemming from our reliance on a singular and depleting natural resource – oil. This reliance carries with it all the burdens and associated repercussions of the oil market and its fluctuations.

Therefore, the economic reform programme must diversify our sources of income, enhance non-oil revenues and focus on developing Kuwait's human resources via education, training and qualifications. It must also aim to rationalise public spending, address wasteful areas and improve the efficiency of the government's performance to build a new and promising future for Kuwait – as we wish it to be. We should all cooperate in the building of Kuwait's future and the deepening of its solid foundations.

In view of developments and economic changes, it is unacceptable to see proposals and projects that do not serve the efforts of reforming the national economy, and instead serve to oppose them, weakening them and harming the interests of the country. In the face of recent developments and challenges, Parliament must spearhead the necessary corrections to maintain and strengthen our most important national gains.

We will continue our commitment to our constitution, which is the basic guarantee for the security and stability of the country. Indeed, our belief in the democratic approach is deep, and we must continue to evaluate our democratic process, while addressing its negative aspects and manifestations. We will work to uphold responsible, substantive and serious accountability, which is governed by both the constitution and the law, and imposed by the national interest. The country's parliamentary practices need to mature. For this, everyone needs to be fully aware of the seriousness of the current political, security and economic situation, and this awareness must be reflected in all practices. The external dangers facing our country include the civil wars and armed conflicts in our region, of which we experience collateral damage. Although Kuwait boasts safety, security, stability and prosperity, we are surrounded by dangers that threaten our country. Security is the basis upon which all other interests and services rely, and if there is insecurity, public life is disrupted.

Therefore, our primary concern is the security and stability of Kuwait, with our national unity being our primary objective and goal. Unfortunately, contrary to our hopes and wishes, there is the possibility that the current instability in the region will escalate further. We all have to be aware of these dangers, as they represent an explicit call for regional and international interventions. These conflicts have extremely damaging and destructive effects on both the security of the Gulf states and of their peoples. Our objective is the reconciliation and the restoration of security and stability in the region.

The GCC is a glimmer of hope and a model worthy of emulation for constructive harmony and cooperation in the greater Arab nation. Here, I call on my fellow citizens to abide by our approach of calming things down and avoiding the absurd war of words in order to contain this crisis and overcome it. What brings us together is far greater and far stronger than what divides us, so let us focus on keeping the GCC as an symbol of pride, security and prosperity.

In conclusion, by understanding and being aware of current dangers and challenges, we will be better equipped to shoulder the responsibility of effecting the anticipated cooperation between the Assembly and the government, opening a new page for the hopes and aspirations of the people of Kuwait, which can overcome all pitfalls, and keep Kuwait as a beacon for civilisation and an oasis for security and prosperity.

Kuwait has the fourth-largest sovereign wealth fund in the world

Money matters

Activity among the region's sovereign wealth funds picks up as oil prices stabilise

The number of sovereign wealth funds (SWFs) operating in the Gulf has grown in the decade to 2018. The value of these SWFs – created to invest and manage the huge sums of money flowing into the region from hydrocarbons sales – stood at $2.78trn in mid-2018, according to the SWF Institute (SWFI), representing 35.6% of the global total.

TURNING A CORNER: With oil prices remaining relatively low from mid-2014 to late 2017, before rebounding somewhat in 2018, many SWFs have had to rein in their capital outlays, pulling money out of global stock markets and holding off on investment to make up for shortfalls in government spending. According to investment management firm eVestment, between 2015 and 2016 SWFs around the world withdrew upwards of $85bn from investment houses. This trend was particularly noticeable in countries such as Saudi Arabia, where net foreign assets held by the kingdom's central bank dropped from $737bn in August 2014 to $478bn in September 2017 as the government made use of reserves to cover its budget deficit. This saw a moderate rebound later in 2017 and throughout the first half of 2018, reaching $492bn by August 2018.

Despite mid-2018 oil prices still being below those seen prior to the middle of 2014, the weaker investment landscape for SWFs has shown some recovery, with the August 2018 levels of net foreign assets held by the Saudi Arabian Monetary Authority representing the highest levels seen since February of 2017.

GLOBAL GIANTS: According to a SWFI ranking published in August 2018, the largest fund in the GCC is the Abu Dhabi Investment Authority (ADIA). Founded in 1976, it manages the third-largest amount of assets in the world, behind only Norway's Government Pension Fund and the China Investment Corporation. Among the top-10 global SWFs are those overseen by the Kuwait Investment Authority (KIA), SAMA Foreign Holdings of Saudi Arabia and the Qatar Investment Authority. In total, seven of the top-20 SWFs in the world are from the GCC.

UAE: ADIA has a portfolio valued at $683bn, with investments spanning over a dozen asset classes and subcategories. According to the fund's own data, its 20- and 30-year annualised rates of return in US dollar terms were 6.1% and 6.9%, respectively, as of December 2016. One current area of interest for ADIA is India's transport infrastructure, with the fund looking to buy a stake in Hyderabad International Airport and Cube Highways, the operator of toll roads in the country. Concerning European assets, it was reported in May 2017 that ADIA was actively looking for buyers for $1.7bn worth of Paris office buildings.

The UAE has a number of other important SWFs, with the Investment Corporation of Dubai, Mubadala Investment Company, Abu Dhabi Investment Council, Emirates Investment Authority, RAK Investment Authority and Sharjah Asset Management also involved in managing the sovereign wealth of the various emirates. More recently established funds, such as the Abu Dhabi Investment Council, launched in 2007, have also been tasked with making investments that aid in supporting domestic economic growth and facilitating the development of local companies on the international stage.

KUWAIT: Fourth on the list of the largest SWFs in operation is the KIA, considered by some to be the oldest fund in the world, with roots tracing back to 1953. Managing approximately $592bn in assets, the KIA holds high-profile stakes in German car manufacturer Daimler, BP, Vodafone and HSBC.

In August 2017 the KIA sold its 4.8% stake in French energy company Areva for a reported €83m, significantly less than from the €600m it paid in December 2010. The loss in value was attributed to a global shift away from nuclear power after the Fukushima nuclear reactor disaster in Japan in 2011. Despite the loss on the sale, the KIA said it made a profit of

The Gulf's sovereign wealth funds were valued at

$2.78trn

in mid-2018

The Kuwait Investment Authority manages approximately $592bn in assets and holds high-profile stakes in various international companies.

On the back of lower oil prices, there was talk of mergers among sovereign wealth funds (SWFs) in 2017, with the creation of larger funds seen as a way to cut costs and limit overlaps from coexisting national accounts.

KD45.2bn ($149.5bn) in the six fiscal years it held the shares leading up to March 31, 2017. In early 2017 the KIA announced that it was aiming to increase the allocation of funds managed in-house – from less than 2% to as much as 8% – with plans to invest more in private assets and global infrastructure projects.

SAUDI ARABIA: Important developments have also been taking place at the Public Investment Fund (PIF) of Kuwait's neighbour, Saudi Arabia. PIF was originally established in 1971 to invest in commercial projects, but it has been little known for much of its operating life, functioning largely as a no-frills holding company. However, in March 2015 a decree was issued transferring oversight of PIF from the Ministry of Finance to the Council of Economic and Development Affairs, with the fund's goals brought in line with Saudi Vision 2030. Since 2015 PIF has been among the most visible SWFs in the world. In 2016 the fund invested $3.5bn in ride-hailing app Uber and agreed to invest $45bn in a $100bn technology fund in partnership with Japan's SoftBank. In May 2017 it also announced plans to contribute $20bn to US private investment firm Blackstone Group to finance US infrastructure projects. Its biggest deal, however, has yet to come. PIF is expected to benefit from government plans to offer shares representing around 5% of state-owned oil giant Saudi Aramco through an initial public offering (IPO). The proceeds, worth a potential $100bn, would go to the fund, according to officials, but by mid-2018 it was apparent that the IPO would be delayed until at least 2019.

The SWF already has considerable reserves, with the government allocating it SR100bn ($26.7bn) from the central bank in November 2016. One banker told the *Financial Times* in January 2017 that the fund's assets could rise from around $190bn to $500bn even before Saudi Aramco's IPO, and in mid-2018 PIF had $250bn, according to the SWFI.

In other developments, PIF is set to engage in theme park construction with US entertainment operator Six Flags and participate in efforts to develop a domestic defence industry. In May 2017 PIF established Saudi Arabian Military Industries to reduce reliance on foreign purchases of military equipment. PIF's portfolio includes stakes in Saudi Basic Industries Corporation – one of the world's biggest chemicals manufacturers – and National Commercial Bank, the kingdom's largest lender.

In August 2017 it was reported that PIF had hired Rashed Sharif, former CEO of the investment banking unit at Riyad Bank, as the new head of its domestic investments, reporting to the fund's managing director, Yasir Al Rumayyan. That same month the government announced plans to transfer ownership of the kingdom's airports to PIF as part of privatisation efforts. Individual companies would be set up for each airport, operating under Saudi Civil Aviation Holding, which itself was spun off from Saudi Arabia's General Authority of Civil Aviation.

BAHRAIN: Mumtalakat Holding Company of Bahrain has accumulated an estimated $10.6bn worth of assets under management since its 2006 inception, according to the SWFI. After Mumtalakat signed a mutual investment agreement with the Russian Direct Investment Fund in 2014, February 2016 saw the holding company make a $250m investment in the Russian management account. Speaking to international media in June 2017, Mahmood Hashim Al Kooheji, CEO of Mumtalakat, highlighted the pipeline of investment deals that Bahrain has with Russia.

In October 2015 Mumtalakat, along with Blackstone Group and Dubai-based Fajr Capital, bought a significant stake in the UAE's GEMS Education, and in 2016 the SWF acquired notable equity stakes in UK-based water treatment company Envirogen Group and European health care provider KOS Group.

MERGERS: On the back of lower global oil prices, there was talk of SWF mergers in 2017, with the creation of larger funds seen as a way to cut costs and limit overlaps from coexisting national accounts. In February 2017, for example, it was announced that Abu Dhabi finalised the merger of Mubadala Investment Company and International Petroleum Investment Company (IPIC), operating under the former name. According to the SWFI, the new entity became the 14th-largest fund globally by mid-2018, with around $226bn in assets.

Mubadala is active in 13 sectors and more than 30 countries, and is focused on developing industrial heavyweights in sectors like aerospace manufacturing, ICT, the semiconductor industry, metals and mining, and renewable energy. Meanwhile, IPIC traditionally focused on oil and gas exploration and production, with stakes in 18 companies around the world in nations such as Kazakhstan, Pakistan and Austria. The new fund is continuing to invest in energy, infrastructure, metals, real estate and aerospace while expanding into an array of new sectors.

In April 2017 reports surfaced of Oman following suit, with plans to merge the country's two main SWFs, though no further progress had been announced by mid-2018. The State General Reserve Fund (SGRF) and Oman Investment Fund would together create an entity with approximately $25bn in assets. The SGRF is the older of the two, established in 1980 to invest and manage the country's financial surplus from its oil and gas revenue, and maintains assets of around $18bn, according to the SWFI. Meanwhile, the Oman Investment Fund – founded in 2006 – has approximately $6bn in assets.

GROWING ROLE: As countries in the GCC push to further diversify their economies away from hydrocarbons, some SWFs have been tasked with promoting alternative domestic industries and facilitating the development of regional firms able to operate at the highest international level.

As a state-owned holding company, Mubadala Investment is one such example, but various other funds could take a more active role in developing domestic industries. As SWF investments in the region continue to pick up with oil price recovery, this is likely to be an important development to follow.

As GCC nations diversify their economies away from hydrocarbons, some SWFs have been tasked with promoting alternative domestic industries and facilitating the development of regional firms able to operate at the highest international level.

Economy

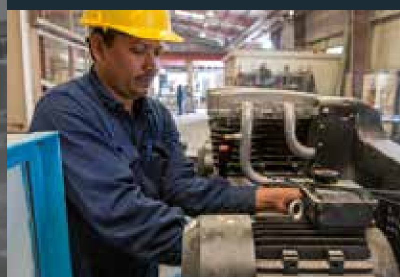
Current account surplus projected to increase in 2018

Non-oil GDP growth accelerating with diversification

Large-scale infrastructure to support expansion efforts

Kuwait Investment Authority assets rebound to $592bn

Global trend towards lower corporate income tax rates



In 2017 oil-based revenue comprised 90.7% of public sector earnings

Back to black

Current account balance returns to surplus as oil prices recover and the authorities work to implement diversification strategies

GDP per capita was
$71,943
in 2017

With 6% of the world's proven oil reserves and 1% of its natural gas, Kuwait had an estimated GDP per capita of $71,943 in power purchasing parity terms in 2017, according to the World Bank. This was the eighth-highest value for any country or autonomous region, putting it behind only Qatar, Macao, Luxembourg, Singapore, Brunei Darussalam, Ireland and the UAE. Kuwait has also been a prudent saver of its petrodollars and has the world's fourth-largest sovereign wealth fund (SWF), with the Kuwait Investment Authority (KIA) managing $592bn in assets in mid-2018, according to the SWF Institute (see analysis). In 2018 the IMF calculated this financial buffer to be equivalent to 470% of Kuwait's GDP.

PRICE FLUCTUATIONS: Although this helped to cushion the economy, the sudden fall in the value of crude oil from mid-2014 to 2017 was reflected in GDP performance. According to data from the National Bank of Kuwait (NBK), the nadir was reached in the midst of this: nominal GDP declined by 32.9%, from KD49.4bn ($164bn) in 2013 to KD33.1bn ($110bn) in 2016. Over this period, oil's contribution to GDP fell from 66% of the total, or KD32.7bn ($108bn), in 2013 to 41.1%, or KD13.6bn, ($45.1bn) in 2016.

At the end of 2016 Kuwait helped lead the charge of oil-producing countries working to address the excess supply that triggered the sharp price decline. Kuwait was a founding member of the Organisation of the Petroleum Exporting Countries (OPEC) in 1960, and it was one of six countries tasked with monitoring compliance with the production cuts agreed by OPEC countries and 10 other participating non-OPEC oil producing countries, including Russia, in December 2016. From January 2017 OPEC members agreed to cut production by 1.2m barrels per day (bpd), with the other countries committing to reductions of 558,000 bpd. For its part, Kuwait's output declined from 2.95m bpd in 2016 to 2.7m bpd in 2017. While seen as a necessary move to stabilise the market, this resulted in a GDP contraction of 2.9% in 2017, and the value of sector output at constant prices declined by 7.2% that year to KD22.8bn ($75.6bn).

Before OPEC agreed to reduce production in November 2016, Brent crude was $46.48 per barrel, but by May 2018 the price rallied to $80, a 72% rise. In June 2018 OPEC leaders agreed to increase supply through the end of the year in response to the rebound in prices, deciding to expand output by 1m bpd, thus reducing production cut compliance from 162% in May 2018 to 100% later in the year.

GOVERNMENT REVENUE: Fluctuating international oil prices had a direct impact on public finances. Kuwait's oil revenue as a percentage of GDP at current prices sank by 43%, from 61.5% in 2012 to 34.9% in 2016. The makeup of government revenue also shifted, with hydrocarbons' share easing from 94% in 2012 to 89% in 2016. Even as production volumes declined, the edging up of oil prices in 2017 saw public revenue and oil's contribution to the economy rebounding, with the government recording earnings worth 44.2% of nominal GDP and oil revenue comprising 90.7% of that. Government expenditure peaked at 52.9% of GDP in 2015 before moderating to 50.1% in 2017. Lower oil prices helped to reduce public spending, as the value of government fuel subsidies fell by KD2bn ($6.63bn), over this period, according to the IMF. However, rising oil prices in late 2017 and throughout 2018 have helped consolidate the country's fiscal position, with the budget deficit as a percentage of GDP projected to fall from 17.7% in FY 2016/17 to 10.3% in FY 2017/18.

The current account balance has similarly improved. In 2016 Kuwait recorded a deficit of 4.6% of GDP, the first negative balance in a number of years and one which was largely due to lower oil prices. However, as prices rose in 2017, the government registered a 5.9% surplus, and the NBK projected that this would increase to 10% in 2018. As

The rebound in oil prices beginning in late 2017 helped the government register a current account surplus worth 5.9% of GDP that year, after recording a 4.6% deficit in 2016.

part of policy harmonisation efforts and to diversify public revenue away from hydrocarbons, in 2016 members of the GCC agreed to implement a flat 5% value-added tax (VAT) beginning in 2018.

However, only the UAE and Saudi Arabia have adhered to this schedule, with Kuwait's Parliament announcing in May 2018 that it would likely postpone implementation until 2021. While a parliamentary vote on the introduction of VAT is anticipated by late 2018, excise tax is expected to be rolled out sooner, both of which should bolster public revenue.

BALANCING THE BOOKS: The KIA administers two SWFs. First, the Future Generations Fund (FGF) is legally entitled to 10% of public revenue, and this can be increased at the government's discretion if inflows are particularly high, as they were over the 2011-13 period, when one-quarter of government income was transferred to the fund.

The FGF is also entitled to 10% of the annual net income of the General Reserve Fund (GRF). When revenue falls, the authorities can draw on the GRF's assets, and this tactic, along with domestic borrowing and an international sovereign bond sale, was part of its response to the challenging economic environment in 2016 and 2017. In March 2017 the government issued a $3.5bn, five-year bond with a 2.9% yield and a $4.5bn, 10-year bond at a 3.6% yield.

NON-OIL SECTORS: According to the NBK, the non-oil economy grew by 2.2% in 2017, an acceleration from the 1.6% expansion seen in 2016. In September 2018 the bank estimated this would further ramp up to 2.8% and 3% in 2018 and 2019, respectively. The government's commitment to capital spending despite the sustained period of lower oil prices likely helped to fuel growth, with the NBK reporting that in July 2018 the Ara consumer confidence index rose to 119, a 12.3% year-on-year (y-o-y) increase.

Data from Kuwait's Central Statistical Bureau (CSB) shows that in the second quarter of 2018 non-oil GDP grew by 6.9% y-o-y, from KD5.02bn ($16.6bn) to KD5.37bn ($17.8bn). This was largely driven by 49% y-o-y growth in manufacturing, 42.3% in telecoms and 8.9% in transport, with respective contributions of KD909.5m ($3bn), KD514.8m ($1.7bn) and KD302.6m ($1bn). Over this period public administration and defence saw the greatest decline of 4.9%, from KD1.08bn ($3.6bn) to KD1.03bn ($3.4bn).

In its Article IV report on Kuwait published in January 2018, the IMF anticipated that increased consumer confidence in the country would support real non-oil GDP growth of 2.5% for the year, while higher international oil prices would help hydrocarbons GDP expand by 4.6%, contributing to overall economic growth of 3.9% at constant prices. The latter figure was more optimistic than NBK's estimate, which put forecast real growth of 2.6% in 2018 and 3% in 2019.

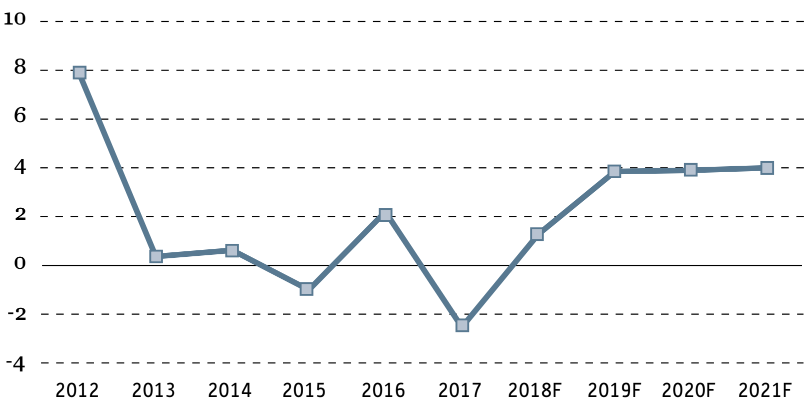
SOVEREIGN RATINGS: According to an analysis by *Forbes*, Kuwait had the highest sovereign credit rating of any Arab country in 2018. In May 2017 international ratings agency Moody's changed its outlook from negative to stable, reaffirming its long-term score of "Aa2". Moody's explained the upgrade by saying it has seen "sufficient signs" of the government's capacity to implement fiscal and economic reforms. The agency noted it was encouraged by the establishment of a debt-management unit at the Ministry of Finance, as well as parliamentary debate over public sector compensation. The report also found that the slower pace of fiscal reforms was offset by the country's "extraordinarily strong balance sheet with very high wealth levels and vast hydrocarbons reserves".

Fitch joined Moody's in giving Kuwait a favourable sovereign credit rating of "AA" with a stable outlook in May 2018, citing strong financial metrics and a forecast fiscal break-even Brent crude price of $56 per barrel – one of the lowest among oil exporters – as motivating factors. However, the agency noted these positive indicators were tempered by the high degree of oil dependency, notable geopolitical risks, and less-than-ideal governance and business

Manufacturing grew by 49% year-on-year in the second quarter of 2018

Non-oil growth accelerated from 1.6% in 2016 to 2.2% in 2017. This is projected to increase further to 2.8% and 3% in 2018 and 2019, respectively.

Real GDP growth, 2012-21F (%)



Source: IMF

Through the islands project, Boubyan Island is set to become a centre for manufacturing and IT by 2035

While efforts are under way to branch out into new activities, the economy is considered to be undiversified. In 2017 nearly 60% of GDP was derived from hydrocarbons-related activities, as was more than 90% of exports and fiscal receipts.

environment. The report added that the substantial population growth could strain government finances, as the country has a robust social safety net and an economically dominant public sector.

Similarly, in February 2018 Standard & Poor's (S&P) affirmed its ratings for Kuwait at "AA/A-1+" with a stable outlook. S&P stated that it could lower its outlook in the case of lower-for-longer oil prices weakening fiscal and external finances, domestic political stability deteriorating or significant escalation in regional geopolitical tensions. Nevertheless, the agency indicated the outlook could improve if there was a significant increase in oil prices, or if political reforms enhanced long-term economic diversification or institutional effectiveness. The agency views the economy as being undiversified, because in 2017 nearly 60% of GDP was derived from hydrocarbons-related activities, as was more than 90% of exports and fiscal receipts.

DIVERSIFICATION EFFORTS: Faced with a growing population and lower oil prices after mid-2014, Kuwait crystallised its reform agenda in successive strategies, first with the release of its medium-term agenda in May 2015 and subsequently the unveiling of an overarching long-term vision in January 2017.

The former is the latest iteration of the mid-range development plan, which runs from 2015/16 to 2019/20. The blueprint highlights five desired end states that are being pursued through to 2035: citizen participation and respect of the law; effective and transparent government; prosperous and diversified economy; nurturing and cohesive nation; and globally relevant and influential player. The mid-range plan also outlines seven pillars by which these end states are to be achieved: administration, economy, infrastructure, living environment, health care, education and capital, and international positioning.

In January 2017 the country unveiled New Kuwait, also known as the Kuwait National Development Plan, setting out long-term development priorities through to 2035, with 164 strategic programmes organised into five themes and seven pillars. These included positioning Kuwait as a global hub for the petrochemical industry and tripling foreign direct investment. At the March 2018 Kuwait Investment Forum, ministers provided updates on the progress made towards the New Kuwait goals, with reports on the level of completion of key infrastructure developments: the Clean Fuels Project to overhaul the Mina Abdullah and Mina Al Ahmadi refineries was 84.8% finished; the construction of 24 berths with a combined capacity of 8.1m twenty-foot equivalent units at Mubarak Al Kabeer Port was 51.5% completed; Al Shagaya renewable energy complex 80%; Sheikh Jaber Al Ahmad Al Sabah Causeway 83.6%; and the Municipal Solid Waste Treatment Plant 75%.

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INTERNATIONAL INDICES: The forum was also given updates on Kuwait's rankings in international indices. The World Bank's "Doing Business 2018" report, which compares the business environment for domestic firms in 190 economies, ranked Kuwait 96th in terms of ease of doing business, an improvement from 98th in the 2017 edition. The report also measures distance to frontier – how far a country is from the best existing performance of any nation for each of the indicators – and gave Kuwait a score of 61.23 out of 100, up from 59.71 the previous year. This put Kuwait ahead of the MENA average (56.72), but behind both Oman and Bahrain, which had scores of 67.20 and 68.13, respectively, and ranked 71st and 66th in terms of ease of doing business.

Meanwhile, in its "Global Competitiveness Report 2017-2018", the World Economic Forum (WEF) ranked nations on 12 pillars, comprising its global competitiveness index. Kuwait fell from 38th out of 138 economies in the 2016-17 edition of the report to 52nd of 137 countries in 2017-18. The WEF attributed this to the deterioration of the macroeconomic environment and a revision of ICT readiness indicators supplied by the International Telecommunications Union. However, there was a smaller change in Kuwait's index score, which stood at 4.4 in the 2017-18 report, down only slightly from 4.5 in the previous iteration. Ranked 62nd, Oman was the only GCC nation with a lower position on the 2018 index. The four remaining Gulf countries had seen some decline in their standings from 2017, although the UAE placed favourably at 17th, Qatar 25th, Saudi Arabia 30th and Bahrain 44th.

Although less favourable GDP growth was cited as being behind Kuwait's drop down the ranking, the country placed 30th – its best-performing category – in the macroeconomic environment pillar. The WEF highlighted in the report that Kuwait should expand its innovation capacity by investing in higher education and training, creating a more inclusive labour market and making the most of its human capital. The WEF report included a survey, in which 21.7% of executives identified government bureaucracy as a main challenge to doing business in Kuwait, while 12% and

11.5% noted that corruption and restrictive labour conditions, respectively, were a concern. "Kuwait has placed improving its business environment at the core of its policies, with 14 different government agencies working together, along with technical support from the World Bank to achieve these goals," Mona Bseiso, an economic consultant at the Kuwait Direct Investment Promotion Authority, told OBG.

TRANSFORMATION PROJECT: A number of infrastructure projects are set to support the business and economic landscapes. By late 2018 the Sheikh Jaber Al Ahmad Al Sabah Causeway project, a $3bn, 36-km bridge spanning Kuwait Bay, should be completed. Having taken five years to build, the mega-structure will link Shuwaikh Port to Subiyah, enabling vehicles to cross the bay in 20 minutes – 50 minutes less than before. This is set to boost not only connectivity and communications, but also the development of various regions of the country.

Furthermore, the Silk City initiative and Kuwait Islands Project (KIP) 2035, which entails the development of five islands off the northern coast, are intended to address untapped economic potential. An April 2018 report by the CSB forecasts that these initiatives will require KD36bn ($119bn) of primarily private sector investment, creating 408,000 non-oil jobs, 75% of which will be filled by local workers. This would represent a stark contrast to current employment patterns, as public sector roles accounted for 80% of employment for nationals in 2017, according to the IMF. The development of the KIP and Silk City is also set to lessen Kuwait's reliance on hydrocarbons, with the aim being to reduce oil's share of public revenue from 89% in 2017 to 51% by 2035 and its proportion of GDP from 59% to 22% over the period.

Boubyan Island – an uninhabited 863-sq-km marshland formed over centuries from Mesopotamian mud that washed down the Tigris and the Euphrates rivers – is set to be transformed into a centre for manufacturing, IT, renewable energy, eco-tourism, fish farming and logistics based around the Mubarak Al Kabeer port, which aims to serve as a commercial hub for the northern Gulf. Failaka Island, which has been largely uninhabited since the 1990 invasion by Iraqi forces, is set to be a tourism, education, historical and cultural centre. It will have a museum to showcase 5000 years of civilisation and host six private universities, attracting 60,000 students, and vocational schools dedicated to culinary arts, theatre, music, coding and science.

Meanwhile, Silk City will grow on the other side of the causeway and will feature, alongside new homes and amenities, a financial centre and theme park with around 21,000 and 5000 employees, respectively. These developments are being led by the emir's eldest son, the First Deputy Prime Minister and Minister of Defence Sheikh Nasser Sabah Al Ahmad Al Sabah. "The emir's son taking charge of this project is a clear indication that the government wants to see this development happen, and happen fast, in order to prepare Kuwait for the challenges of the next generation," Reaven D'Souza, managing editor of *The Times Kuwait*, told OBG.

Failaka Island is set to host six private universities with 60,000 students

OUTLOOK: While the far-reaching New Kuwait initiative calls for longer-term change, immediate pressure from lower oil revenues has been offset by the emergence of higher hydrocarbons prices since late 2017. Indeed, the new price environment could make the delay in the introduction of VAT less consequential from a public revenue perspective, although stakeholders have highlighted that this could leave the country exposed to oil price fluctuations in the near term. Nonetheless, the development initiatives being implemented by the state should ensure a sustainable economic growth path over the longer run.

The Silk City initiative and Kuwait Islands Project are anticipated to create 408,000 non-oil jobs, 75% of which are expected to be filled by Kuwaiti citizens.

Inflation, avg. consumer prices (% change)

Economic indicators, 2018-21F	2018F	2019F	2020F	2021F
GDP, current prices (KD bn)	40.85	40.85	40.85	40.85
GDP per capita, current prices (KD)	9,020.71	9,020.71	9,020.71	9,020.71
Inflation, avg. consumer prices (% change)	2.50	2.50	2.50	2.50
Vol. of imports of goods & services (% change)	0.71	0.71	0.71	0.71
Vol. of exports of goods & services (% change)	-0.38	-0.38	-0.38	-0.38
Population (m)	4.53	4.53	4.53	4.53
General gov't revenue (KD bn)	22.19	22.19	22.19	22.19
General gov't revenue (% of GDP)	54.31	54.31	54.31	54.31
Total gov't expenditure (KD bn)	19.30	19.30	19.30	19.30
Total gov't expenditure (% of GDP)	47.25	47.25	47.25	47.25
Gov't net lending/borrowing (KD bn)	2.89	2.89	2.89	2.89
Gov't net lending/borrowing (% of GDP)	7.07	7.07	7.07	7.07
Gov't gross debt (KD bn)	10.92	10.92	10.92	10.92
Gov't gross debt (% of GDP)	26.72	26.72	26.72	26.72
Current account balance (% of GDP)	5.79	5.79	5.79	5.79

Source: IMF World Economic Outlook, April 2018


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Enhance Kuwait's regional and global presence in spheres such as diplomacy, trade, culture and philanthropy.

HUMAN CAPITAL
Reform the education system to better prepare youth to become competitive and productive members of the workforce.

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Reform administrative and bureaucratic practices to reinforce transparency, accountability, and efficiency in the government.

INFRASTRUCTURE
Develop and modernize the national infrastructure to improve the quality of life for all citizens.

HEALTHCARE
Improve service quality in the public healthcare system and develop national capabilities at a reasonable cost.

ECONOMY
Develop a prosperous and diversified economy to reduce the country's dependence on oil export revenues.

LIVING ENVIRONMENT
Ensure the availability of living accommodation through environmentally sound resources and tactics.

Sheikh Meshaal Jaber Al Sabah, Director-General, Kuwait Direct Investment Promotion Agency

Rewards of reform

Sheikh Meshaal Jaber Al Sabah, Director-General, Kuwait Direct Investment Promotion Agency (KDIPA), on current policies to promote investment opportunities

What sectors are able to offer new opportunities for bankable investment projects?

AL SABAH: Kuwait continues to offer numerous investment opportunities with its dynamic project pipeline in key sectors like energy, oil and gas, ICT, industry, urban development, transport and logistics, among others. Key investment opportunities in these sectors were highlighted at KDIPA's flagship promotional event in its second edition – Kuwait Investment Forum (KIF 2018) – which revealed the multibillion-dollar Northern Gulf Gateway development project, which incorporates the Silk City project and will provide further potential for investment in the tourism, hospitality and leisure sectors. This is in addition to connecting to China's Belt and Road Initiative, which will extend to neighbouring countries in the region and other Gulf states, connecting Kuwait to Central Asia, and via Asia to the rest of the world. KIF 2018 also served as a venue to host an exclusive special feature on the status of New Kuwait by top officials, who presented an update on the progress of the projects conducted under the current development plan. The achievements of New Kuwait were highlighted under seven pillars: Effective Government; Diverse and Sustainable Economy; Quality Infrastructure; Sustainable Living Communities; Quality Health Care; Innovative Human Capital; and Prominent International Position.

In line with global trends Kuwait has committed to investing more in renewables, smart cities, ICT and innovation-based industries, nurturing competitive clusters in these sectors and paving the way for it to become a more knowledge-based economy, driven by its private sector and talented youth. In January 2018 the IMF commended the government's recent efforts to streamline current spending, diversify revenues and improve the business climate, which sends a message to the global business community about its attractiveness as an investment hub.

How is policy being developed to encourage long-term investment and private sector growth?

AL SABAH: Kuwait's investment and business climates have been on a steady course, reflecting the commitment and seriousness of the government to improve its business environment and enhance transparency by implementing required reforms and utilising e-transactions, online services, e-links and one-stop shops. The national effort to improve the business climate culminated in formulating the national agenda for streamlining business environment in Kuwait (Tahseen Programme), conducted under the Permanent Committee for Streamlining Business Environment and Enhancing Competitiveness in the State of Kuwait, and headed by KDIPA, who is assigned to coordinate national reform efforts with the relevant government entities, private sector and civil society organisations.

Accordingly, the Tahseen Portal was launched to disseminate information efficiently and timely pertaining to decisions, laws, procedures, regulations and other measures that contribute to reducing time, duration and cost of doing business in order to achieve the required impact on improving Kuwait's business environment to be more in line with international best practices.

KDIPA fosters its advocacy role further by providing a direct channel and constant support through a series of open dialogues between the public and private sectors to depict potential obstacles, receive suggestions and address them collaboratively. Furthermore, KDIPA adopts a full facilitation paradigm based on investor services to encourage business retention and expansion.

The goal of such initiatives underline that the country is moving in the right direction with reforms put in place to support the developmental goals, particularly to enhance economic diversification and secure a prosperous, sustainable future.

The Kuwait Investment Board was founded in London in 1953

Big fund

As one of the oldest and largest sovereign wealth funds in the world, the Kuwait Investment Authority is a key public asset

Despite volatility in international oil prices and delays in the implementation of economic diversification strategies, ratings agencies and the IMF agree the outlook for Kuwait is strong and stable, as it is home to substantial oil reserves and one of the world's richest sovereign wealth funds (SWFs). Geologists calculate domestic oil fields could yield 101.5bn barrels of oil, and the Kuwait Investment Authority (KIA) has the fourth-largest amount of assets under management (AUM) in the world.

FUNDING ROLES: The KIA is reportedly the oldest SWF in the world. Its roots trace back to the formation of the Kuwait Investment Board (KIB) by Sheikh Abdullah Al Salem Al Sabah in London in 1953, eight years before the country achieved its independence. The KIB's mandate was to use surplus oil revenue to invest in financial assets that would promote sustainable domestic development.

In 1965 the KIB was rebranded as the Kuwait Investment Office (KIO), and in 1976 a law was passed to create the Future Generations Fund (FGF) by transferring 50% of the funds accrued to date to a new account with 10% of general government revenue to be transferred to the FGF each year beginning in FY 1976/77, as well as 10% of the net income from the General Reserve Fund (GRF). The law prohibited withdrawals from the FGF or reductions in the annual share of revenue it received.

The GRF is the main repository for Kuwait's oil revenue, and it holds other government assets, including a stake in the Kuwait Fund for Arab Economic Development and the Kuwait Petroleum Company. In 1982 Law No. 47 established the KIA to administer the GRF and FGF, with its headquarters located in Kuwait City. The FGF serves as a nest egg for the citizens of Kuwait and their descendants. Meanwhile, the GRF has an investment function but can also be used as a pressure valve to mitigate the effects of oil price fluctuations on public balances and spending.

INVESTMENTS: The London-based KIO has a long history of real estate investment in the UK through various companies. It acquired St Martin's Property Group in 1974, which has since invested in a number of landmark schemes in London's City and Canary Wharf, as well as in other countries, such as Turkey, Australia and Japan. In 2013 Wren House Infrastructure Management was incorporated with an initial commitment of $5bn, and it is wholly owned by the FGF. In 2016 Wren House joined a consortium with Alberta Investment Management Corporation and Ontario Teachers' Pension Plan to buy the company that owns and operates London City Airport, and in 2017 it partnered with another Canadian pension fund investor, Borealis Infrastructure, to buy a minority stake in UK utility company Thames Water on behalf of the FGF. In 2014 the London KIO provided $1.5bn in seed capital to Cale Street Partners, a European-focused real estate venture.

The KIA has also been active in markets outside of Europe. In 2011 the KIA opened the Kuwait Investment Representative Office in Beijing. It has primarily focused on investing in public and private markets, the China Interbank Bond Market and real estate. In the US, the KIA has made a number of high-profile real estate investments in New York City and Washington, DC through Atlanta, Georgia-based Fosterlane Management Company.

CORPORATE ACTIVITY: Furthermore, the KIA has purchased minority stakes in international corporations. In 2018 it had a 6.8% share in Daimler, and in 2008, during the global financial crisis, it invested $2.39bn in Citigroup and $984m in Merrill Lynch. It sold its Citigroup stake in December 2009 for a $1.1bn profit, but retained its shares in Merrill Lynch when it was bought by Bank of America.

However, not all ventures have proven to be as profitable. For instance, in 2010 the KIA paid $676m for a 4.82% stake in Areva, a largely

The Future Generations Fund receives **10%** of public revenue and net income from the General Reserve Fund each year

The Kuwait Investment Authority is the fourth-largest sovereign wealth fund in the world in terms of assets

The Kuwait Investment Authority had an estimated
$592bn
in assets in mid-2018

government-owned French firm specialising in uranium and nuclear energy, but by 2016 the company's share value fell by 90%. One year later KIA was offered €83m for its stake in the company, a significant loss on its $676m investment. Despite this misstep, financiers generally find that Kuwait's SWF has outperformed many of its regional peers. "The KIA has developed a diversified global portfolio and has invested in strategic sectors," Rani Selwanes, head of investment banking at local investment firm NBK Capital, told OBG. "That is one of the fundamental reasons why Kuwait's credit is so strong."

RATINGS AGENCIES: While some high-profile moves are published by the media, the KIA has remained opaque about its performance, leaving ratings agencies to draw their own conclusions about the scale of its AUM. Moody's, Fitch and Standard & Poor's (S&P) gave Kuwait ratings of "Aa2", "AA" and "AA/A-1+", respectively, in 2017 and 2018, with stable outlooks. While all the agencies noted that the KIA did not publicly disclose its assets, Moody's estimated the KIA had $612bn in AUM by the end of 2016, while Fitch calculations suggested the figure was $514bn, or 453% of GDP. In 2017 S&P estimated the KIA's AUM at 390% of GDP.

With a reported nominal GDP worth $121bn in 2017, this would indicate combined funds worth $472bn, a notable decline from the Moody's calculation for 2016. The three ratings agencies also differed in their estimates of the proportion of assets held in the FGF, with Fitch, S&P and Moody's suggesting rates of 78%, 75% and 66%, respectively.

While disclosure of the Kuwait Investment Authority's assets and performance is prohibited by law, the minister of finance indicated that the fund recorded $81.8m of net profits between the beginning of FY 2014/15 and the end of FY 2016/17.

OTHER ESTIMATES: In its annual appraisal on Kuwait for 2017, prepared in consultation with domestic civil servants, the IMF estimated the combined value of the KIA's funds was 470% of GDP in FY 2016/17, with the FGF valued at 333.1% of GDP, translating to $521bn of AUM in 2016. The KIA gave a rare insight into the scale of its assets in May 2017, when it refuted claims of larger losses for FY 2015/16 (ending on March 31, 2016) by saying it had incurred a loss of $1.03bn, according to local news sources. The KIA said the loss was the equivalent of 0.2% of its total assets, which would suggest a total of $515bn AUM. The SWF Institute (SWFI), which makes international comparisons, estimated the KIA's assets were $592bn in mid-2018, up from $524bn earlier in the year.

TRANSPARENCY: In 2008 the SWFI developed the Linaburg-Maduell Transparency Index, which assigns scores between one and 10 based on disclosure. While, according to the SWFI, any SWF wishing to claim its dealings are transparent should earn an eight or higher, the KIA was given a score of six. In 1982 the government issued Law No. 47, which included rules and regulations relating to transparency and disclosure about the KIA's investments. Clause five of the law requires the KIA to present a report on AUM and performance to the Council of Ministers – comprising the Prime Minister and 15 portfolio-holders appointed by the emir – while clauses eight and nine prohibit any disclosure of this information to the wider public and detail penalties for those who release or publish such data.

The KIA authorities say that the Council of Ministers is informed at least once per year about its assets, but this leaves local media to interpret sometimes contradictory hints about the KIA's performance from government officials. In September 2017 local media reported a speech given by Anas Al Saleh, the then-minister of finance, saying the KIA's AUM had grown by more than 34% over five years, although no further figures were given. In March 2018 Nayef Al Hajraf, the subsequent minister of finance, revealed in a memo to members of Parliament that the net profit from the KIA's activities for the three-year period from FY 2014/15 to the end of FY 2016/17 had reached KD24.68m ($81.8m).

The Council of Ministers is informed every year about the fund's assets

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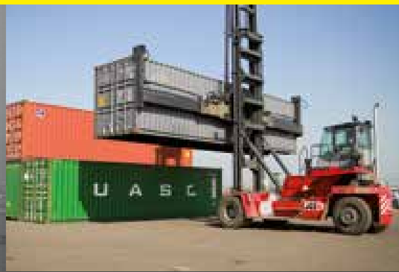
Trade & Investment

Local bourse adopts global standards and benchmarks

Sovereign wealth fund provides buffer against shocks

Improved business conditions attract foreign investors

National plans to diversify dependency on oil exports



Diversification and reforms have positioned Kuwait on solid footing

A source of stability

Vested interest in the health of the sovereign wealth fund has placed the nation in a strong position

The key institution in terms of outward investment is the Kuwait Investment Authority, likely the fourth-largest sovereign wealth fund in the world with $592bn in assets, according to a mid-2018 estimate.

As a founding member of the Organisation of the Petroleum Exporting Countries (OPEC) as well as the site of approximately 7% of the world's crude oil reserves, Kuwait has long been a major energy exporter. In 2017 the nation's oil sector generated more than 90% of government revenues, and oil exports were equal to some 42% of GDP, the highest figure among member states, according to OPEC data. Like other countries in the GCC, Kuwait has long taken advantage of these revenues both to build a deep portfolio of global investments, thereby ensuring long-term returns, and to invest in economic diversification projects at home, with an eye towards developing new industries and attracting foreign direct investment (FDI) in strategic areas. In 2017 and 2018 the country made major strides towards greater diversification on various fronts. Boursa Kuwait, the nation's stock exchange, for instance, introduced a series of major reforms aimed at modernising the stock exchange and tapping new sources of investment. Alongside this, in an effort to boost economic activity in these areas, the government moved to expand its public-private partnership (PPP) programme and relax a range of regulations related to trade and investment.

ECONOMIC DIVERSIFICATION: Given Kuwait's long-standing reliance on hydrocarbons, the rise in global oil prices – from around $50 per barrel in 2016 to around $73 per barrel in mid-2018 – was widely taken to be a positive sign for the future of trade and investment in Kuwait. While the decline in prices that began in 2014 had put pressure on Kuwait's long-term development plans, the improving energy revenues moving into 2018 will allow Kuwait to move forward with economic development and diversification plans that have been put under pressure in recent years. While the country faces a range of challenges related to trade and investment, including its relatively weak performance on international ease of doing business rankings, the state's ongoing efforts to remove barriers to trade and develop new, non-energy industries bode well for investors and future returns alike.

STRUCTURE & STRATEGY: A range of state agencies are involved in regulating and facilitating trade and investment in Kuwait. Perhaps the key institution in the country in terms of outward investment is the Kuwait Investment Authority (KIA), the nation's sovereign wealth fund (SWF). Founded in 1953 as a Bank of England account for depositing the government's oil revenues, the KIA is the oldest SWF in the world. While the institution has to date declined to formally report its total assets or investment strategy, estimates from the IMF put the KIA's holdings at around $530bn as of 2016. This is lower than a mid-2018 estimate of $592bn by the US-based Sovereign Wealth Fund Institute. The KIA is likely the fourth-largest SWF in the world, after Norway's Government Pension Fund Global, the Abu Dhabi Investment Authority and the China Investment Corporation.

The KIA oversees two pots of investments, namely the General Reserve Fund (GRF), established in 1953, and the Future Generations Fund (FGF). The FGF, which was launched in 1976, is thought to be about twice the size of the GRF, as a result of the government depositing a minimum of 10% of state revenues on an annual basis since its creation. The GRF functions as an account that receives all government revenues and is used for transferring payments to the FGF and other state accounts as it is needed. Given this function, an estimated 80% of assets in the GRF are held in cash, with the remaining 20% invested in short- and medium-term assets in Kuwait and around the MENA region. The FGF, meanwhile, invests 100% of its holdings abroad, targeting long-term assets across diversified geographies and asset classes. By law, no withdrawals can be made from

In 2017 the oil sector generated more than

90%

of government revenues

the FGF without prior government approval; the only known withdrawal from the FGF was made following the 1990-91 Gulf War, when Kuwait took $85bn from the account to fund rebuilding.

Most of the KIA's international investments are managed by external fund managers. In some cases the authority has set up specialised companies to handle investment in particular markets or asset classes. For instance, in London the KIA owns an investment firm charged with overseeing global infrastructure assets. In recent years the authority has moved to shift an increasing percentage of fund management activities in-house, in part to consolidate control over its activities in light of volatile oil prices. Considering the scale of the KIA's investments, the size of Kuwait's population, and the rate of population growth, the country is widely regarded as particularly well situated to ride out future volatility. According to IMF data, as of the end of 2016 the KIA's assets were worth nearly five times the value of Kuwait's annual GDP, suggesting that the government could, if necessary, support the economy through considerable future shocks.

OVERSIGHT: The KIA plays an important role not only in terms of foreign investment of the government's oil revenues, but also in terms of state financing. For instance, the GRF has, in the past, extended liquidity to the state's Treasury when required, and in 2017 the KIA was reportedly working with the IMF, the Central Bank of Kuwait (CBK) and the nation's Debt Management Office to develop and put in place a liquidity forecasting framework.

In addition to the KIA, a number of other institutions are involved in overseeing trade and investment. The Kuwait Authority for Partnership Projects (KAPP), which was established in 2015 as a result of the passage of a new PPP law in 2014, has a mandate to assist other government entities in the process of launching PPP projects and identifying potential opportunities for new PPP investments. As of mid-2018 KAPP was in the midst of revising Kuwait's PPP Project Guidebook, which is expected to result in streamlined project management and establishment procedures. In late July 2018 KAPP announced that it was seeking local, regional and international companies to invest in power plants and water desalination projects. This follows on the successful development of the Al Zour North independent water and power project, which was awarded in 2013 on a PPP basis (see Energy & Utilities chapter).

FDI into Kuwait is regulated in large part by the Kuwait Direct Investment Promotion Authority (KDIPA), which was established as a result of the passage of Law No. 116 of 2013. This law, which represents a major shift in the existing framework for the promotion of FDI into the country, grants KDIPA a wide remit. The institution is responsible not only for receiving and approving applications for new investments in Kuwait, but also promoting the country at international trade shows, building up domestic industries in an effort to attract foreign players, and ensuring national development, such as that relating to technology transfer and job creation for nationals. In addition to establishing KDIPA, the 2013 law enacted various improvements to the investment framework, and established a raft of incentives aimed at attracting foreign investors. Key incentives enacted as a result of the 2013 law include granting foreign investors the ability to own 100% of a firm operating in Kuwait in nearly any sector of the economy, and allowing foreigners to set up 100% foreign-owned branches in Kuwait.

Kuwait ranked 96th overall out of 190 economies on the World Bank's ease of doing business index in 2018

IMPROVING BUSINESS ENVIRONMENT: One of KDIPA's key tasks upon its founding in 2013 was to improve Kuwait's score on the World Bank's annual ease of doing business index. To this end, soon after it was launched the authority was put in charge of the Permanent Committee for Streamlining the Business Environment and Enhancing Competitiveness in Kuwait, which was founded by the Council of Ministers and counts 11 public sector institutions as members – among them the Ministry of Commerce and Industry, the Ministry of Finance, the CBK and the Public Authority of Manpower – as well as the Kuwait Chamber of Commerce and Industry, which represents the private sector, and two other NGOs – the Kuwait Economic Society and Kuwait National Competitiveness Committee. In conjunction with member institutions, KDIPA has coordinated national efforts to improve Kuwait's score on the 10 indicators measured in the ease of doing business index. For instance, in the 2018 iteration of the index, out of 190 ranked economies, Kuwait was placed 96th overall, up from 102nd in 2017.

Kuwait ranked sixth in the world in terms of paying taxes, 70th in the category for registering property, 73rd in terms of enforcing contracts, and 81st in protecting minority investors. However, it ranked 149th in terms of ease of starting a business, slightly below the MENA regional average, and lower than

Considering the scale of Kuwait Investment Authority's investments, the population size, and the rate of population growth, Kuwait is widely regarded as well situated to ride out future volatility and considerable future shocks.

An estimated 80% of assets in the General Reserve Fund are held in cash, with the remainder in assets

Exports totalled
$55.4bn
in 2017

Bahrain, Jordan and Oman. Nonetheless, this represents a significant improvement on the country's 2017 ranking of 173rd on the same indicator. This jump is reflected in the 2018 World Bank report, which reveals that the number of procedures required to start a business in Kuwait dropped from 12.5 in 2017 to 9.5 in 2018, the number of days required decreased from 61.5 to 38.5, the associated costs fell from 2.8% of per capita income to 1.7%, and the cost of required minimum capital fell from 10.2% to 8.5% of per capita income. KDIPA, in cooperation with relevant government entities, is working to implement additional changes aimed at improving Kuwait's score in the next report, and given that the country ranked eighth among Arab nations in 2018, there remains room for improvement.

TRADE DATA: The recent push to develop new sources of revenue and investment has taken place against a backdrop of slowing exports and declining government revenues since 2014, when the price of oil began to decline. Kuwait's balance of trade peaked at around KD24bn ($79.6bn) in 2012 and 2013 alike, as a direct result of oil prices topping more than $120 per barrel. In 2014, when the price of crude began to drop, the country recorded KD19.8bn ($65.6bn), followed by KD6.9bn ($22.9bn) in 2015 and a decade-low of KD4.7bn ($15.6bn) in 2016, according to data compiled by the government's Central Statistical Bureau (CSB). In line with the oil price rise in 2017, however, the country saw a slight recovery in the balance of trade, with provisional data showing a surplus of KD6.5bn ($21.6bn). Data from the first half of 2018 suggest that this growth will continue. The country saw a balance of trade surplus of KD2.3bn ($7.6bn) for the first quarter of 2018, compared to KD1.6bn ($5.3bn) during the same period the previous year. This rose to KD2.6bn ($8.8bn) in the second quarter of 2018 compared to KD14.5bn ($48bn) the previous year.

Key export destinations for Kuwaiti crude and other products include India, which was the single largest export market for Kuwait in the first quarter of 2018, followed by China, Iraq, Qatar, Saudi Arabia, the UAE, Pakistan, Oman, Taiwan, the US, Brazil, Turkey, Australia and Jordan.

Oil is by far Kuwait's main export. In 2017 the nation sold some KD15bn ($49.7bn) worth of the commodity to its trading partners, which represented more than 90% of Kuwait's total exports, which amounted to KD16.7bn ($55.4bn). In addition to crude oil, Kuwait's key exports include a number of oil-related products, such as propane, ethylene glycol, polyethylene and polypropylene, as well as some non-oil exports, including motor vehicles, telecommunications hardware and live animals.

Key export destinations for Kuwaiti crude and other products include India, which was the single largest export market for Kuwait in the first quarter of 2018, followed by China, Iraq, Qatar, Saudi Arabia, the UAE, Pakistan, Oman, Taiwan, the US, Brazil, Turkey, Australia and Jordan. Kuwait shares a land border with both Iraq and Saudi Arabia.

IMPORTS: As a result of the limited nature of local manufacturing capacities, Kuwait imports a significant percentage of the products consumed by the local population. Additionally, the country is a hub for re-export to the northern Gulf region, particularly to Iraq. Over the past decade Kuwait has seen steady growth in imports on an annual basis. In 2017 the CSB recorded total imports worth KD10.2bn ($33.8bn), up from KD9.3bn ($30.8bn) in 2016 and 2015 alike, KD8.8bn ($29.2bn) in 2014, and KD8.3bn ($27.5bn) in 2013. In the first quarter of 2018 imports into the country were recorded at KD2.6bn ($8.7bn), up from KD2.5bn ($8.3bn) during the same period in 2017. In the second quarter of 2018, imports totalled KD2.7bn ($9bn), up from KD2.4bn ($8.1bn) in the second quarter of 2017, an 11.6% year-on-year increase. The data suggests that 2018 will see a continuing upwards trend in the country's overall imports.

The types of products imported into Kuwait vary widely, with the list topped by motor vehicles, though a percentage of these are re-exported to neighbouring countries. Other key categories include mobile telephone handsets, pharmaceuticals, cigarettes, jewellery, gold, oil-drilling equipment, including steel pipes and industry pumps of various sorts, and major foodstuffs such as rice. The largest sources of imports coming into Kuwait in the first quarter of 2018 were China, the US, the UAE, Japan, Saudi Arabia, Germany, India, Italy, South Korea, the UK, France, the Netherlands, Turkey, Spain and Switzerland, according to CSB data.

STRATEGISING IMPROVEMENT: Boosting trade, and particularly non-oil trade, is one of the key objectives of New Kuwait 2035, a comprehensive economic diversification and national development plan launched by the government in 2017. The initiative lays out a range of goals for Kuwait to achieve by the year 2035, including increasing FDI by 300% and positioning Kuwait as a global hub for the petrochemicals industry. To achieve these bold goals, the New Kuwait 2035 details 164 strategic development programmes, based on seven pillars: global position, human capital, public administration, infrastructure, health care, economy and living environment. In 2016 and 2017 alone, the government spent KD2.3bn ($7.6bn) on related projects, including the development of the new airport, a major port expansion, a range of oil infrastructure projects and various other transport and power initiatives, according to the General Secretariat of Supreme Council for Planning and Development, which is involved in many of the country's large-scale projects. A range of these initiatives – particularly the new airport and port – are expected to have knock-on effects on trade (see Transport chapter).

In March 2018 the government announced the Northern Gulf Gateway development project, which aims to add $220bn to Kuwait's GDP by developing the non-oil sector, turning Kuwait into a regional hub for the manufacturing, tourism and leisure industries. Premised on attracting some $200bn in FDI by 2035 – the Northern Gulf Gateway is a flagship project within the New Kuwait 2035 vision – is expected to create as many as 400,000 jobs for Kuwaiti citizens in knowledge-based sectors and industries, while also attracting 3m-5m tourists annually to the nation by 2035.

BOURSA KUWAIT: Another key area of recent development activity with major implications for the future of investment and trade in Kuwait is Boursa Kuwait. In April 2018 the Capital Markets Authority (CMA), the sector regulator, announced the start of bidding for a 26-44% equity stake in the bourse, with the winner bidding not only for ownership, but also to operate the stock exchange for the foreseeable future. The privatisation of Boursa Kuwait has been a long-term goal of the CMA since the authority was established in February 2010.

In June 2018, meanwhile, Boursa Kuwait adopted the FTSE Russell Industry Classification Benchmark (ICB) for all listed stocks, aligning the exchange with best practices. "Adopting the FTSE Russell ICB ensures that our bourse will adhere to international standards and increase transparency as well as adopt universal benchmarks, allowing the exchange to flourish and expand," Khaled Abdulrazzaq Al Khaled, CEO of Boursa Kuwait, told local media in mid-2018. This change, which went into effect in September 2018, took place as a direct result of Boursa Kuwait being added to the FTSE Secondary Emerging Markets classification list in September 2017. It is expected to generate inflows of as much as $700m in foreign capital to the bourse (see Capital Markets chapter).

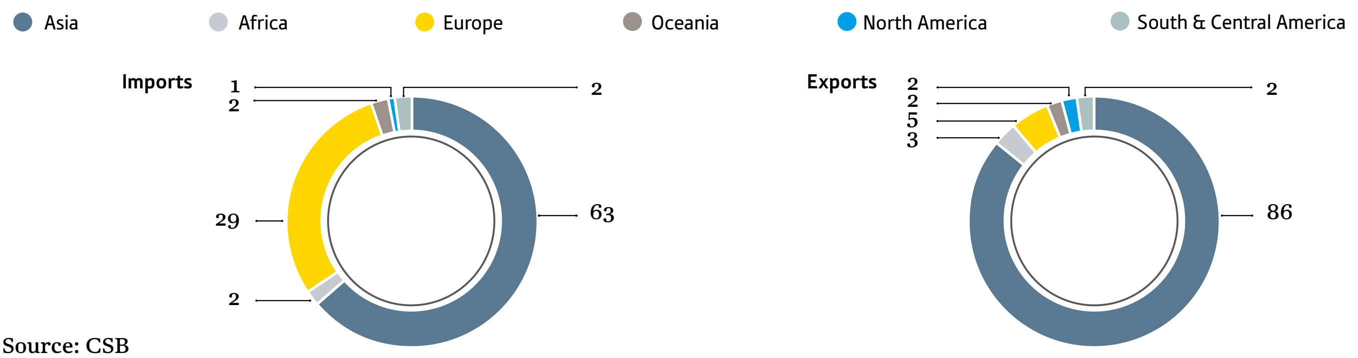
Boosting non-oil trade remains key to the New Kuwait 2035 vision

OUTLOOK: Considering the varied efforts to attract new investment and ongoing economic diversification plans, combined with recovering crude prices, it is not surprising that the nation's non-oil economy has expanded in recent years. In 2017 Kuwait's non-oil GDP posted growth of 2.2%, according to an October 2018 economic brief by the National Bank of Kuwait, up from 1.6% the year before, with 2018 expected to bring an increase of 2.8%.

Much of this expansion is a direct result of capital spending by the government itself, under the aegis of both the New Kuwait 2035 development programme and also a result of a series of shorter-term projects. Government expenditure on capital projects, like the Northern Gulf Gateway integrated mega-project, will likely account for a considerable percentage of Kuwait's non-oil GDP for many years to come, and will thus drive trade and investment in the nation for the foreseeable future and beyond.

In March 2018 the state announced the Northern Gulf Gateway development project, which aims to add $220bn to Kuwait's GDP by developing the non-oil sector, turning Kuwait into a regional hub for the manufacturing, tourism and leisure industries.

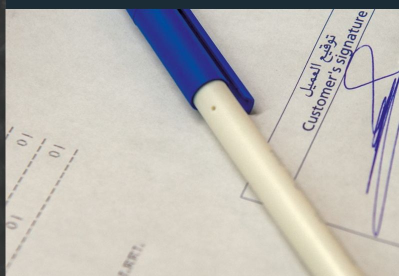
Trade by region, 2017 (%)

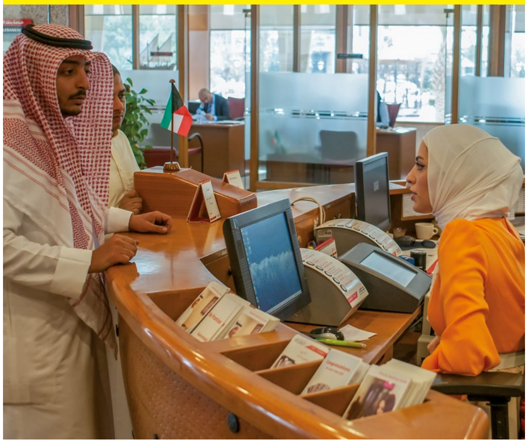


Source: CSB

Banking

Local entities see growth in assets, deposits and profit
Credit rating maintained at “Aa2” with stable outlook
International debt issues of three banks oversubscribed
Pursuit of national plans brings opportunity for financing
Financial technology at forefront of sector development





In 2017 local institutions sustained average liquidity ratios of nearly 30%

Strong and steady

Years of provisioning have left local lenders in a stable position, with many continuing to post gains

The banking sector recorded net profit growth of

8.9%

in 2017

Underpinned by rising commodity prices and, consequently, increased domestic spending, Kuwait's banking sector performed well in the 18 months to mid-2018. The industry posted net profit growth of 8.9% and total asset growth of 5.9% to $251.9bn in 2017, according to professional services firm KPMG, even as local banks moved to adhere to a raft of new provisioning rules. With the price of crude more than doubling from $28 per barrel in January 2016 to $76 in September 2018, the state has expressed confidence in its ability to move forward with KD34bn ($112.5bn) in planned capital expenditure under the National Development Plan, which runs from 2015 to 2020. This will have positive knock-on effects for the banking sector, which has long been a beneficiary of state spending in the form of government deposits and financing opportunities.

OVERARCHING TRENDS: While the sector's performance will continue to be linked to the price of hydrocarbons in the coming years, it is widely expected that non-oil activity will account for a rising percentage of lending over the next decade. Forecasts by National Bank of Kuwait (NBK) put non-oil economic growth at 3.5-4% in 2018, up from 3.2% in 2016 and an estimated 3.3% in 2017. According to the IMF, this steady expansion is due to improved market confidence and the state's ongoing drive to diversify away from hydrocarbons.

Banks, specifically, have reduced their overall exposure to the sluggish real estate market and volatile investment industry, and are working to expand their activities in the digital realm in line with goals under the long-term developmental blueprint, New Kuwait 2035.

HISTORY: Kuwait's modern financial services industry got its start in 1941. That year a group of British investors obtained a 30-year concession from then-Emir Sheikh Ahmed Al Jaber Al Sabah to establish Bank of Kuwait and the Middle East (BKME), the nation's first domestic lender. This was followed just over a decade later, in 1952, by the founding of NBK, which is the largest lender in the country today. Gulf Bank and Commercial Bank of Kuwait – both of which were among the top-five largest local players in 2017 – were created in 1960. That year also saw the establishment of the Kuwait Currency Board (KCB), which created the Kuwaiti dinar in 1961 as the new national currency.

In 1968 the government passed Law No. 32, introducing the nation's first comprehensive financial regulatory framework and replacing the KCB with a new regulator, the CBK. Kuwait Finance House (KFH) was launched in 1977 as the first domestic Islamic financial institution. The sector continued to develop throughout the 1980s and early 1990s despite internal and external instability – the most notable source of which was the 1990-91 Gulf War. The conflict necessitated the complete shutdown of domestic lending institutions, and saw the physical destruction of bank buildings and financial documents, as well as asset theft.

NEW FOUND STABILITY: Following the rebuilding of the banking sector after the war, there was a period of rapid expansion. Beginning in the mid-1990s, most lenders reported exponential profit growth as a result of high oil prices, the introduction of a raft of new public development projects and a surge in private investment activity, particularly in the real estate sector. These trends, which mirrored similar growth trajectories in financial sectors across the Gulf region, continued through the mid-2000s. Over the decade from 1996 to 2006, Kuwait's total banking assets more than doubled, rising from KD11.5bn ($38bn) to KD27bn ($89.3bn), according to the CBK, with most banks maintaining relatively responsible lending practices during this period.

The effect of this conservative approach was evident in the wake of the 2008-09 global financial crisis. When other institutions across the region had issued high amounts of bad debt, resulting in serious repercussions for some markets, Kuwait's banks saw only a slight stall in growth and a rapid recovery afterward. Indeed, between 2006 and 2009 the nation's total domestic banking assets grew from KD27bn ($89.3bn)

Non-oil economic growth, forecast to reach 3.5-4% in 2018, is expected to account for a rising percentage of lending over the next decade, as Kuwait works to diversify away from hydrocarbons.

to KD40.4bn ($133.6bn), with the help of steady performances from Islamic banks. Asset growth has continued since 2009, hitting KD64.48bn ($213.3bn) in July 2018.

RAPID RESPONSE: The ease with which most local banks rode out the global economic downturn can also be attributed to the state's legislative and regulatory efforts after the crisis. The worst hit domestic lender, Gulf Bank, declared on October 26, 2008 that it had suffered losses as a result of its trading in financial derivatives on behalf of its clients. External auditors found that the losses equated to KD375m ($1.2bn), and the government sought to quell investor fears of a crash by implementing Law No.30/2008, whereby the state guaranteed all deposits in Kuwait's domestic banks.

While other banks were relatively insulated against the shock, a number of investment companies were caught holding bad credit, primarily in the form of property and KSE securities purchased with loans from the banking sector. As a result, a handful of domestic banks reported an increase in non-performing loans (NPLs) during the post-crisis period. In response to this situation, the CBK rolled out various policies in the years after 2008 aimed at facilitating the restructuring of bad debt with state support. To address system NPLs, the biggest challenge at the time, the CBK adopted a conservative provisioning approach, requiring banks to build precautionary provisions, and at a later stage adopted Basel III requirements, improving capitalisation with a focus on core capital. The Financial Stability Law was also introduced in March 2009, guaranteeing coverage of shortfalls in bank provisioning for loan losses and provided a blueprint for restructuring outstanding debt held by investment companies, with provisions for state-sponsored financing, if necessary.

Under the 2010 Capital Markets Law, meanwhile, officials completely restructured the country's exchanges, creating a new regulatory agency – the Capital Markets Authority – and enacted more conservative rules for investment firms. The latter action was an effort to prevent high levels of exposure to risky securities and protect against future crises. The Financial Stability Law and the Capital Markets Law, plus heavy provisioning by local lenders, quickly stabilised the sector after the downturn, laying the groundwork for rapid recovery.

IFRS 9: A more forward-looking approach to provisioning characterises the International Accounting Standards Board's ninth International Financial Reporting Standards (IFRS 9), which came into effect at the start of 2018. Although the general consensus was that the conservative approach of Kuwait's banks to loan-loss provisioning would allow for a smooth transition, some financial institutions were reported in mid-2018 as having had difficulty implementing the standards due to contraventions with sharia law. Nonetheless, the general provisions accumulated by domestic banks in recent years, comfortable liquidity buffers and high asset quality – with the NPL ratio at 1.9% and record coverage of around 230% – should ensure a smooth transition overall moving forward.

BY THE NUMBERS: Consistent asset growth has accompanies strong asset quality, and according to the CBK, domestic banks had total assets of KD64.48bn ($213.3bn) in July 2018, up from KD63.41bn ($209.8bn) a year earlier, KD60.44bn ($199.9bn) at end-2016 and KD58.61bn ($193.9bn) at end-2015. Within these totals, foreign assets remained largely stable, rising from KD12.55bn ($41.5bn) at end-2015 to KD12.89bn ($42.6bn) in July 2018. Overall, assets held by local banks grew by 5.1% per year on average in the 2012-17 period.

The country's total banking assets have grown significantly in recent years, rising to $213.3bn in July 2018

Key to this expansion has been growth in credit issued to the government, which rose from KD1.58bn ($5.2bn) at the end of 2015 to KD5.06bn ($16.7bn) at end-2017 and KD4.08bn ($13.5bn) in July 2018.

Credit issued to private sector businesses and residents, meanwhile, expanded at a slower pace between the end of 2015 and July 2018, rising from KD35.3bn ($116.8bn) to KD38.13bn ($126.1bn). "Due to their liquidity, the government borrows from banks to finance large-scale projects," Elham V Mahfouz, CEO of Commercial Bank of Kuwait, told OBG. "However, there is a need to unlock further big projects to bolster the economy and foster new business."

The deposits side of the ledger has expanded steadily as well. In July 2018 private sector deposits in Kuwaiti banks equalled KD36.34bn ($120.2bn), up from KD35.4bn ($117.1bn) at the end of 2017, KD34bn ($112.7bn) at the close of 2016 and KD33.71bn ($111.8bn) at end-2015. These figures represent consistent growth in domestic savings since the global financial crisis. Indeed, private sector deposits have risen every year since 2011, when they totalled KD26.73bn ($88.4bn). Government deposits have also grown steadily over the decade, from KD4.01bn ($13.3bn) in 2011 to KD6.75bn ($22.3bn) in July 2018.

Positive indicators across Kuwait's banking sector point to rising confidence in the industry, both at home and in foreign markets. Indeed, in 2017 three banks – NBK, Al Ahli Bank of Kuwait and Warba Bank – successfully issued a total of $1.5bn in debt on the international market, with all three issues oversubscribed.

Credit issued to the state rose from $5.2bn at end-2015 to $13.5bn as of July 2018, while credit to the private sector grew from $116.8bn to $126.1bn over the same period.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Furthermore, in May 2017 global credit ratings agency Moody's announced that it was maintaining its "Aa2" rating for Kuwait government debt, but revised the outlook from negative to stable. This decision was a reflection of international investors' trust in the state's ability to move forward with its development plans, not to mention the overall strength of the economy.

MAJOR PLAYERS: At the end of 2017 Kuwait was home to 11 domestic banks, five of which abide by sharia principles. In addition, 12 foreign banks operate branches in the country. Industry assets are heavily concentrated in a few of the largest institutions, with NBK and KFH together holding roughly 57% of all bank assets at the end of 2017. In the same year, Islamic institutions held just over 37% of total sector assets.

NBK, which has long been Kuwait's largest lender, continues to lead across a range of indicators. The bank had total assets of KD26bn ($86bn) at the end of 2017, up 7.4% over the previous year, while net profit came in at KD322.4m ($1.1bn), a 9.2% increase on 2016. The bank also reported an NPL ratio of 1.42% in 2017, and an NPL coverage ratio of 287%, which is in line with coverage rates across the sector. "Credit growth in Kuwait remains solid, supported by positive economic activity as the government's capital spending programme remains intact," Nasser Al Sayer, group chairman of NBK, told local media in January 2018. "Kuwait's fiscal position is better than its peers' given our substantial buffers and strong sovereign ratings, creating room for acceleration in spending despite lower oil prices."

In addition to operating on four continents and being present in many major global financial centres such as New York and Singapore, NBK owns a majority 58.4% stake in Boubyan Bank, a domestic sharia-compliant institution that has been experiencing strong growth (see Islamic Financial Services chapter).

The country's second-largest lender is Islamic bank KFH, which posted net profit of KD184.2m ($609.4m) in 2017, up 11.5% over 2016. The bank attributed the jump in profit to an increase in operating income and a decline in general administrative expenses. Meanwhile, KFH's total assets rose by 5.2% over the course of 2017, from KD16.5bn ($54.6bn) to KD17.36bn ($57.4bn). The institution's NPL ratio was at 1.58% for the year, and its NPL coverage ratio equalled 330%.

KFH has invested heavily in digital connectivity and other technological solutions in recent years. This includes placing foreign currency ATMs at Kuwait International Airport, revamping its online presence and introducing an updated mobile banking application. Although KFH has been a major beneficiary of the state's ongoing development push in terms of credit extension, in early 2018 it announced it would focus on financing small and medium-sized enterprises in the coming years. Another strategic decision was made in July 2018 to pursue a merger with Bahrain'a Ahli United Bank, which would result in the establishment of a new sharia-compliant lender worth some $92bn in total.

Burgan Bank, which was founded back in 1977, was the third-largest commercial lender at 2017, followed by Gulf Bank and the Commercial Bank of Kuwait.

Private sector deposits in Kuwaiti banks totalled $120.2bn in July 2018

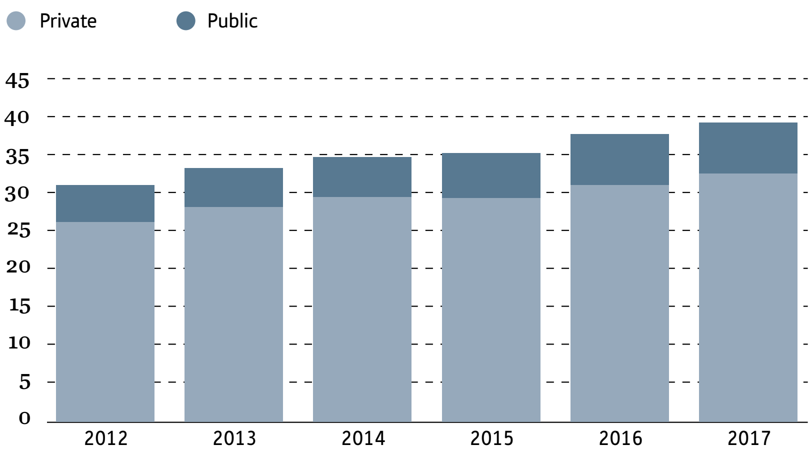
NEW KUWAIT 2035: As Kuwait looks to develop a prosperous and diversified economy under the seven pillars of the New Kuwait 2035 plan, developing partnerships between public and private actors across a range of sectors is seen as key. Indeed, Kuwait has embraced the public-private partnership (PPP) model in recent years, and updates to the legal framework governing them were implemented under the "New PPP Law" of 2014. The new regulations sought, among other targets, to ensure that lenders are able to finance such projects on reasonable terms and conditions.

A high level of PPP activity is generally seen as a fillip to domestic banks, with NBK highlighting in its 2017 annual report that "increased economic liberalisation means a greater requirement for banking services across industries and sectors, which will further support growth in credit and investment".

As one of the pillars of New Kuwait 2035, opportunities for lending would appear particularly promising in the infrastructure sector, with several large-scale

Kuwait is home to
11
domestic banks, five of which abide by sharia principles

Local bank deposits, 2012-17 (KD bn)



Source: CBK

Three banks issued debt totalling $1.5bn on the international market in 2017, with all issues oversubscribed

PPP projects in the pipeline. As the country's largest lender, NBK has lead financing in a number of major infrastructure works, including the ongoing expansion of Kuwait International Airport, the Al Zour North Independent Water and Power Project, and the $20bn South Al Mutlaa City project – Kuwait's largest housing development – among others.

DIGITAL TRANSFORMATION: Under New Kuwait 2035 and the National Development Plan, the state also aims to foster a digital transformation to drive economic growth. Looking to overhaul and automate its own systems in line with this national goal, the CBK bank appointed former chief digital officer at NBK, Tariq Al Usaimi, as head of its digital strategy in July 2018. Speaking to local press after his appointment, Al Usaimi said, "It is no longer feasible to do things manually at the central bank... systems need to be smart enough to cope with the digital age."

The CBK has also recently moved to ensure improved oversight of digital payments in September 2018, mandating that all service providers must register on its e-payment system. The foundation for this move was laid in Law No. 20/2014, which put the central bank in charge of supervising and controlling electronic transactions. All service providers, including private businesses and public institutions, have 12 months to register, after which all electronic payment methods will be subject to the regulator's scrutiny.

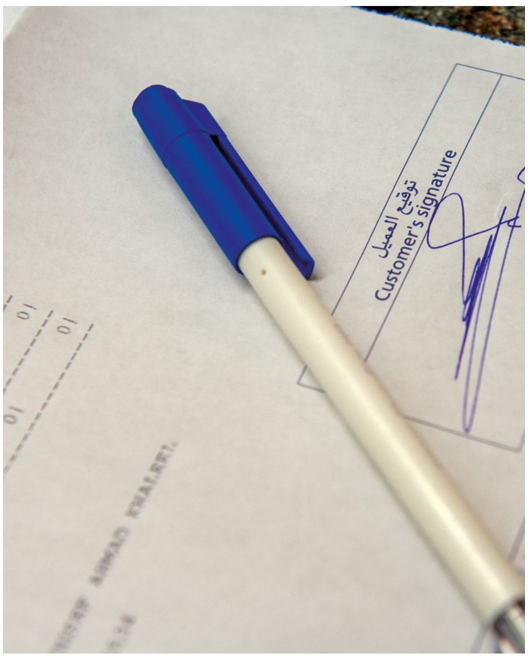
Regarding local commercial lenders, Gulf Bank has perhaps been one of the most pro-active in its pursuit of digital innovation, becoming in May 2016 the first bank in the Gulf region to launch a platform using biometrics for digital banking security. One year later, NBK opened a fully digital customer care centre in Bayan – part of an overarching strategy to move towards virtual branches and online service delivery. The country's Islamic banks have also been recognised for their digital achievements, with Boubyan Bank named the world's Best Islamic Digital Bank by *Global Finance* magazine in 2018.

In September 2018 the central bank moved to improve oversight of digital payments, mandating that all service providers register with its e-payment system within 12 months.

CALCULATED OVERSIGHT: Continued asset growth among many sector players is supported by robust, enforced regulation, on which the CBK has taken a particularly active stance since the 2008-09 global financial crisis. Heavy provisioning requirements enacted in the wake of the downturn have left the banking sector in a strong position today, with the IMF noting in a January 2018 report that the industry is "resilient to various stress tests, including credit, liquidity and market shocks". Kuwaiti banks indeed have ample liquidity: in 2017 local institutions maintained average liquidity ratios of nearly 30%, some 12 percentage points above the minimum required rate of 18% set by the CBK. In conjunction with the IMF, the CBK is working to build on the sector's strong position by implementing enhanced liquidity management measures, crisis management frameworks and an anti-corruption oversight system.

The anti-corruption drive has picked up speed in recent years, with officials establishing the Kuwait Anti-Corruption Authority in 2016. The entity has a broad remit to ensure transparency and improve integrity throughout the economy in an effort to improve the country's performance on a series of global indices. "Last year we embarked on a strategy to enhance Kuwait's position on international corruption indicators," Hind Al Sabeeh, minister of economic affairs, social affairs and labour, told local media in March 2018. "We aim to finish this by the end of 2018 so that we can implement it as soon as possible. This should give investors the confidence they need [to do business here]."

OUTLOOK: Provided that oil prices retain the gains made during 2017 and the first half of 2018, local lenders expect to see a rise in credit demand from the public, corporate and retail segments alike. Furthermore, the sector's strong liquidity position, as well as the economic liberalisation and infrastructure development being pursued under the auspices of Kuwait's development plans, should give lenders another reason to be optimistic about asset growth in the years ahead.



Positive indicators in the sector point to rising confidence in the industry

Mohammad Y Al Hashel, Governor, Central Bank of Kuwait

Prudential policies

Mohammad Y Al Hashel, Governor, Central Bank of Kuwait, on how the regulator is responding to market changes

In what ways could monetary policy stimulate and encourage growth in non-oil GDP?

AL HASHEL: We have already kept the interest rate as low as possible in order to help support credit growth in the non-oil sector of the Kuwaiti economy. In 2017 we raised the benchmark interest rate once, by 25 basis points, notwithstanding the three hikes undertaken by the US Federal Reserve.

We raised our policy rate again by 25 basis point in March 2018, pushing the discount rate to 3%; however, it was to ensure that the Kuwaiti dinar remained an attractive source of domestic savings. In general, our approach has been to encourage credit growth, particularly in the productive business sector.

How do you assess the challenges of managing the interest rate in the short to medium term?

AL HASHEL: When we set interest rates, we are trying to strike a balance between healthy private sector credit growth and preserving the attractiveness of the Kuwaiti dinar as a source of domestic savings. This task is a particularly challenging one when our domestic economic conditions differ from those of our major trading partners or some of the world's most advanced economies.

For example, as the US Federal Reserve has been steadily hiking its policy rates, taking no action would allow the spread between domestic and international rates to widen, placing pressure on the domestic currency. We have tried to mitigate this while also ensuring access to credit at reasonable rates by skipping two of the last three rate hikes by the US Federal Reserve in 2017.

How are cryptocurrencies being used, and in what ways are they impacting banks?

AL HASHEL: So far, cryptocurrencies like Bitcoin have only emerged in the private domain. Moreover, their use remains limited and their values are volatile. At present, these currencies have little impact on the conduct of monetary policy or even on financial stability. However, the situation will be different if central banks themselves start issuing cryptocurrencies. Some central banks in advanced economies – like the European Central Bank and the Bank of Canada – have explored the potential of issuing cryptocurrencies, but nothing concrete has been done. If central banks decide to issue cryptocurrencies, it would surely change monetary policies and their targets. For instance, new definitions of monetary aggregates would be adopted.

What are some of the contributing factors to the recent decrease in inflation?

AL HASHEL: In 2017 inflation slowed significantly, averaging 1.5% during the year. The two primary causes of the lower rate of inflation were weaker food and housing prices. Slower growth in the real estate market – which was partly caused by a greater supply of investment buildings and higher vacancy rates – has dampened rental yields, contributing towards lower inflation alongside lower food prices.

What types of measures can be introduced to help attract foreign direct investment?

AL HASHEL: A number of factors, such as the overall investment climate, the availability of suitable projects and the ease of doing business, are critical to attracting foreign direct investment.

Accordingly, concerned government bodies, including the Kuwait Direct Investment Promotion Authority, have been taking the necessary steps to help Kuwait become a destination of choice in the world for foreign direct investment.

For its part, the Central Bank of Kuwait has played a key role by ensuring monetary and financial stability in the country, thus maintaining a healthy economic environment conducive to foreign investment.

Global Perspective

Fintech revolution

Tech solutions are driving the evolution of the sector landscape

Once reserved for ambitious start-ups and industry-leading tech operators, financial technology (fintech) has more recently caught the attention of major private sector firms and government planners alike, becoming a regular feature in budget speeches and strategic development plans. As fintech progressively plays a larger part in the lives of consumers, investors have quickly come to recognise its potential as a growth industry. The tech-focused Janus Henderson Global Technology Fund, for example, has expanded by more than 160% since February 2013, and grew by some 30% over the course of 2017.

Fintech is rapidly advancing across an array of global markets. While the concept was pioneered in developed countries, the fluidity of international capital and the border-less nature of technology adoption means emerging markets are catching up quickly. As competition mounts between regulatory jurisdictions, the coming years are likely to see fintech innovations across a widening geographic front.

However, the rise of fintech will inevitably be attended by unprecedented challenges. As large tech groups move into the banking arena, traditional lenders will face more difficulty maintaining market share. Regulators, meanwhile, are being compelled to adopt a flexible stance with regard to fintech activity to attract investment, but must also maintain their prudential standards, or risk reputational damage. With high levels of investment and a rapidly evolving landscape, fintech offers real possibilities for growth. The uptake of fintech by the world's banks, however, is likely to follow an unpredictable trajectory.

CONVERGENCE: One of the most interesting facets of today's fintech industry is the convergence of a large number of actors that both cooperate and compete to drive growth. While the early days of the fintech revolution were characterised by start-ups taking on and beating incumbents, in 2018 there is a significantly greater element of cooperation in the market. Fintech start-ups can benefit from the large customer bases of established financial institutions, while existing institutions are constantly seeking innovative ways to boost productivity and gain a competitive edge in the market, at times through partnerships with nascent fintech counterparts.

COOPERATIVE TREND: The enthusiasm of banks and other financial institutions to work with fintech companies varies widely from country to country, but a recent PwC survey found that at the global level, 45% of respondents had formed such partnerships in 2017, up from 32% the previous year. In Germany the level was as high as 70%. Even in less established financial markets, this cooperative trend is gaining momentum. For example, in South Africa and Indonesia the rate was 64% and 55%, respectively. Crucially, in all 32 markets surveyed in the report, a majority of respondents expected to see an increase in this type of partnership over the next three to five years.

The strengthening of ties between fintech start-ups and established financial institutions does not mean the era of usefully disruptive competition is over. New fintech players are entering the complex financial services ecosystem, and some are adopting a more confrontational stance when it comes to client acquisition. These players include ICT firms, large tech companies, social media platforms, e-retailers and financial infrastructure companies.

The growing diversity of fintech actors bodes well for innovation and product development; however, traditional financial institutions are understandably concerned about the risks these tech-savvy newcomers pose to their business models. Some 80% of the respondents in PwC's survey fear losing business to innovators, particularly in the areas of payments, funds transfers and personal finance.

TECHNOLOGY TREE: As well as competing with a widening field of fintech participants, banks and other financial institutions face the challenge of

While the early days of fintech advances were characterised by start-ups competing with traditional banks, more partnerships are taking place in 2018.

The range of fintech players continues to diversify, with ICT companies, social media platforms, e-retailers and financial infrastructure firms entering the market.

Financial institutions are spending

3x

more than non-financial firms on cybersecurity

keeping pace with the expanding selection of fintech products and services in the market. For banks, lending- and payment-related products have been the entry point to the fintech arena, with this category of business serving as the main growth driver of the segment. The Fintech100 list for 2017 – a collaboration between H2 Ventures and KPMG to analyse and assess the international fintech landscape – found that 32 of the top-100 fintech companies were lending operations, while 21 were based on new payments technology. Together, these two areas made up the single-biggest category of fintech services – a status they are likely to retain given the lucrative returns available if they continue to disrupt the global lending market.

In terms of underlying technology, effective data use forms the basis of business models for the majority of fintech firms, and manipulating and analysing large datasets is likely to continue to form the foundation of fintech development for the time being. In the 2017 PwC survey, some 74% of the large financial firms interviewed stated that data analytics would be the "most relevant" technology they planned to invest in over the following 12 months.

More recently, however, artificial intelligence (AI) has begun to emerge as the most interesting area of innovation as far as some banks are concerned. Recent advances in AI have propelled the technology to the top of the development list for financial services, with start-ups that apply AI receiving collective average funding of $1bn over 2016 and 2017.

In the banking sector, AI technology has a broad range of potential applications, including contract intelligence, which is used to analyse contracts and extract important data points; lending opportunity engines, which search for and select clients most suitable for credit extension; robo-advisors, used to provide counsel for various investment activities; and virtual assistants, which can communicate with customers to help with various tasks, such as retrieving account information and resetting passwords.

MOBILE SERVICES: Mobile fintech is another priority area for banks. The cost advantages of creating mobile apps that allow customers to manage their finances without walking into a brick-and-mortar branch are obvious, and most of the world's largest financial institutions have developed retail-focused mobile platforms. Over recent years the field of mobile fintech has expanded from the basic functionality of the earliest portals to include mobile wallets, peer-to-peer payments and digital-only banks. The popularity of such developments among consumers has compelled traditional financial institutions to offer their customers the same services, with banks sometimes forming partnerships to do so.

As more financial services go remote, digital security is receiving greater levels of investment. With high-profile data breaches having the potential to not only damage reputations, but also incur monetary losses, financial institutions are now spending three times more than non-financial organisations on cybersecurity measures, according to a recent report by Kaspersky Lab, a multinational cybersecurity and anti-virus firm headquartered in Moscow.

FRIEND OR FOE: The increasing diversity of fintech has implications for banking sectors around the globe. Technologies have developed so rapidly that banks have often found it difficult to decide whether they are a threat to business or a potential means to increase profitability. In some markets, however, the challenge to banking incumbents is an unambiguous one, with fintech companies obtaining their own banking licences and competing head-to-head with established lenders. After a decade where hardly any new banking licences were issued in the US, for example, 2017 saw a number of fintech companies announce their intention to transform themselves into fully fledged lending institutions.

Varo Money, founded in 2015 with $27m in capital from US-based private equity firm Warburg Pincus, applied for a national bank charter in July 2017, having already developed its banking offer through a partnership with the Bancorp Bank. Its business model is similar to that of traditional institutions, in that it is based on checking accounts, direct deposits, online bill payments and debit cards. Unlike traditional players in the US market, however, it aims to attract customers by waving overdraft fees, minimum balance fees and ATM charges.

Later in 2017 US payments processor Square signalled its intention to form an industrial loan company, which is a type of lending institution that enjoys the same privileges as traditional banks, but is also granted permission to form part of a corporation that undertakes other business activities outside of the conventional banking realm.

On the other side of the Atlantic, Sweden's Klarna, one of Europe's most highly valued fintech start-ups, obtained a banking licence in June 2017. Its approval by Sweden's Financial Supervisory Authority allows the company to offer retail banking services, including credit card provision, across the EU.

Traditional banks have been quick to react to this growing trend. One response has been to provide the financial infrastructure that supports the operations of new digital banks, thereby retaining a stake in this rapidly evolving area of the market. In the UAE, for example, Bank Clearly was set up in early 2017 as a digital operator offering standard retail banking services in partnership with a traditional lender.

OUTSOURCING: In other circumstances, where the creation of new institutions through partnerships is not the preferred option, banks are instead joining forces with fintech firms to enhance their digital offerings under their existing brands. In doing so, they aim to establish proprietary digital infrastructure that is capable of competing with more digitally nimble newcomers. These arrangements frequently cross national – and even continental – borders. In October 2013, for example, Canada's Scotiabank inked an agreement with one of Latin America's most prominent start-up accelerators, the

Argentina-based NXTP Labs, to gain access to promising fintech developments emerging from Mexico, Colombia, Chile and Peru.

Bank Islam Malaysia has formed a strategic partnership with Cognizant, one of the main professional service companies in the US, to build a new digital platform that will enable the bank to boost its exposure to small and medium-sized enterprises, and Malaysia's rural, underbanked population.

Partnerships with fintech firms have proven particularly popular in emerging markets that are already saturated with modestly capitalised lenders, since regulators in these environments are generally less willing to issue new banking licences.

In more developed markets, some traditional lenders have taken a further step, establishing standalone digital banks to compete with this new breed of competitor. Spain's Santander Group, for example, launched Openbank, the nation's first completely digital banking institution, in June 2017. It has similarly grouped its mobile services – including brokerage, personal financial management, card control and payments – into a single app, which it advertises as a "virtual branch", offering personal account managers and on-call access to customers.

WIDENING ACCESS: Whether digital financial services are implemented via partnerships or within banks' existing infrastructure, the potential for fintech firms and services to engage unbanked populations places the segment's development high on the agenda of emerging countries.

"The greatest innovation for the banking sector can also come with enhancing inclusion," Abubakar Jimoh, CEO of Nigeria's Coronation Merchant Bank, told OBG. "The current number of people participating in the formal financial sector is still grossly inadequate, and that is where fintech services can play their part in the sector's development."

REGULATION: Financial authorities, too, are being compelled to react quickly to the dynamic impacts of new technologies. In most respects, the burgeoning fintech industry is viewed by regulators as a positive development. Worldwide, the fintech segment attracted $31bn in investment in 2017, according to global consultancy KPMG, bringing the total investment since 2015 to $122bn.

Governments across the globe have taken note of this new magnet for domestic and foreign investment, and central banks are increasingly adopting an accommodative approach to tech firms operating within their financial sectors. The disruptive power of tech-based products and services has increased levels of competition and compelled traditional institutions to improve their offerings across their business lines, ranging from retail to corporate. These moves have been widely welcomed by regulators, as they are enhancing the consumer experience and driving financial sector growth.

Regulators are also mindful of the prestige attached to the fintech concept, and the fact that financial jurisdictions that lack a thriving ecosystem for young tech companies and start-ups run the risk of appearing as second-tier destinations for capital.

Nevertheless, the growth of the global fintech industry and the absorption of its products by banks from New York to New Delhi have raised a number of concerns on the part of regulators, especially regarding consumer protection and market stability. Determining regulations for high-risk start-ups and advanced technologies is a complex undertaking, and the prudential mandate of regulators means protecting the general public and the wider financial system from technological misadventures is a primary responsibility. At the same time, an overly rigid regulatory framework makes financial innovation all but impossible, and could deny markets the possible advantages of new technology.

SANDBOX: Many regulators have therefore employed a cautiously creative approach to the fintech industry. For an increasing number of them, the answer to the regulatory balancing act of encouraging growth while also ensuring stability lies in creating a regulatory sandbox. The concept is straightforward: a separate regulatory entity, endorsed or operated by the regulator, allows for limited-scale testing of new products for a fixed period, during which time the normal regulatory requirements are relaxed or lifted entirely. For example, a fintech company may be granted permission to test out a mobile payment platform on 2000 customers for three months, after which time the regulator will judge the product's performance against a previously agreed upon set of metrics. The regulator is then able to make a risk-based decision regarding the merits of the innovation, and rule on it accordingly.

The regulatory sandbox was pioneered by the UK's Financial Conduct Authority in 2015, with the first fintech firms beginning to utilise the platform for trials as recently as 2016. Sandbox tests have so far included cross-border and domestic payments solutions based on blockchain technology, consumer-oriented mobile applications, securities management platforms and new lending products.

By the beginning of 2017 there were sandboxes at various stages of development in the US, Singapore, Hong Kong, Malaysia, Thailand, Switzerland and the UAE, and several more have since been established. The European Banking Federation, for its part, has suggested that a fintech sandbox be created for the whole of Europe, which would allow companies to trial their products on a cross-border basis.

While traditional centres for fintech innovation – notably the US and the UK – continue to dominate the industry, the regulatory sandbox concept empowers developing financial industries to establish themselves on equal regulatory terms. As a result, emerging markets are becoming more prominent in the global arena, a trend that is likely to become more pronounced in the years ahead.

MENA: The MENA region has been an early adopter of this new regulatory model. Abu Dhabi was the first in the region to launch a regulatory sandbox,

The potential for fintech firms to engage unbanked populations places the segment's development high on the agenda of emerging countries.

In emerging markets, where millions of people lack access to the formal financial system, banks are increasingly turning to fintech to broaden their customer bases.

Egypt's large consumer base makes it an attractive market compared to the high-net-worth but relatively small markets of its Gulf neighbours.

accepting the first five start-ups to its Reg Lab in 2017. Projects that emerge successfully from the new platform are then allowed to establish a commercial presence within the Abu Dhabi Global Market, the emirate's offshore financial centre.

In June 2017 Bahrain's regulator unveiled its first onshore sandbox, which, like its counterpart in Abu Dhabi, is available to both foreign and domestic players. Jordan, meanwhile, has taken a private sector-led approach, with the AhliSandbox developed as a proprietary facility of the country's Ahli Bank.

While emerging regulatory sandboxes are expected to fuel further experimentation and innovation in MENA, the region has already made considerable progress in the financial start-up sphere. Along with the UAE and Jordan, Lebanon and Egypt – neither of which have established sandboxes – account for around 75% of start-ups in the region.

Egypt's extensive consumer base, which is quickly approaching 100m, makes it an attractive destination compared to the high-net-worth but relatively small markets of the Gulf, and recent years have seen a steady stream of fintech accelerators established in the country. The most recent of these – Fekretak Sherketak, which translates to "Your Idea is Your Company" – was launched in late 2017 by Egypt's Ministry of Investment and International Cooperation, the UN Development Programme and the Egyptian investment bank EFG Hermes.

ASIA: In Asia, China, Singapore and Hong Kong maintain their positions as the main drivers of fintech, though other large economies, such as India and South Korea, are also exploring major fintech deals. Hong Kong, in particular, has warmed to the sandbox concept. In the third quarter of 2017 the Hong Kong Monetary Authority upgraded its existing fintech sandbox, while the Securities and Futures Commission and the Insurance Authority both revealed plans to establish sandboxes of their own.

As with the Egyptian example, emerging markets with large consumer bases are proving to be fertile ground for fintech activities. At the start of 2018 there were over 150 fintech start-ups in Indonesia, nearly 80% more than in 2015. In a country where only 40% of the 250m-strong population has access to the formal financial system, banks are turning to fintech to broaden their customer base.

Bank Mandiri established its venture arm – Mandiri Capital Indonesia (MCI) – in January 2016, and within its first 18 months MCI had already invested around $2m in seven start-ups in areas such as peer-to-peer lending and payment options. The Indonesian market has also garnered attention from established regional players; in May 2017, for example, Japanese financial services provider SBI Group invested $6.3m in Indonesian start-up Taralite, a platform for low-interest, collateral-free loans.

LATIN AMERICA: Accelerators continue to act as the main drivers of fintech growth in Latin America, helping to channel significant capital to the sector. According to the Latin America Private Equity and Venture Capital Association, the region's fintech industry attracted $186m in venture capital investment in 2017, with more than one-third of inflows directed to start-ups operating in the segment.

Mexico has established itself as a centre for fintech innovation, particularly in the mobile banking space, a development that has caught the interest of banks and investment firms alike. In the second half of 2017, for example, HSBC and Ignia announced their support for Startupbootcamp FinTech Mexico City, part of an international network of fintech programmes that extends to London, Amsterdam, New York, Singapore and Mumbai. While the lack of a regulatory framework is often seen as a block to growth in the country, a fintech law passed by the Mexican Senate in December 2017 is expected to provide a timely boost to the domestic industry.

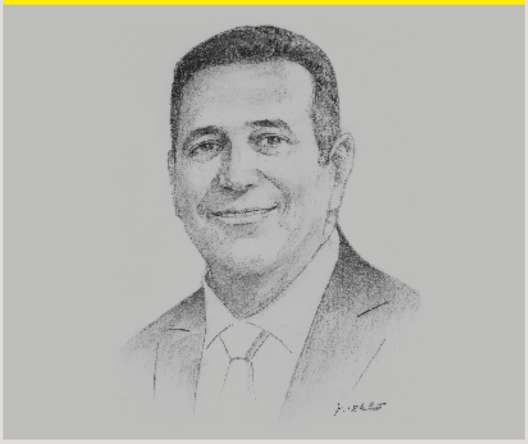
Argentina made a similar legislative advance earlier in the year with the passing of the Entrepreneurs Law. The new framework replaces old procedures for applications, approvals and financing that had previously taken up to one year for businesses to complete. The country is already home to many of Latin America's most notable start-up success stories, and NXTP Labs, which was launched in Buenos Aires in 2011, has grown its portfolio to include more than 150 regional and global start-ups.

BLOCKCHAIN: As global fintech investment develops further, the variety of technologies with useful applications for the banking sector continues to broaden. Biometrics, identity management and public cloud infrastructure are likely to join data analytics, mobile fintech and cybersecurity as mainstays of the industry. In the shorter term, blockchain technology is an area of interest for banks and brokerages, thanks to the ability of distributed-ledger technology to curb the incidence of financial fraud, and reduce the cost and burden of due diligence compliance.

While only 20% of the financial institutions that responded to the PwC survey in 2017 identified blockchain as an area in which they planned to make significant investments over the coming year, around 50% of larger fintech companies expressed their intention to do so. According to the World Economic Forum, by 2025 the equivalent of 10% of the world's GDP will be stored in blockchains or blockchain-related technology, making it a strong growth area.

"Mobile banking and cryptocurrencies – especially blockchain technologies – will certainly be a disruptive force in the market," Karen Darbasie, group CEO of First Citizens Trinidad and Tobago, told OBG. "However, exactly how that disruption will actually occur is still largely unknown."

Whatever the outcome, emerging markets are well positioned to compete with more developed ones in this new technological sphere, assuming regulators are willing to adopt a progressive attitude. For banks and other financial institutions, usefully disrupting their own operations and processes will become increasingly necessary if they are to benefit from the opportunities these technological changes offer.



Fatah Adour, General Manager, Citibank Kuwait

Ongoing transformation

Fatah Adour, General Manager, Citibank Kuwait, on higher funding costs, regulatory change and embracing technology

How will higher funding costs affect sector liquidity?

ADOUR: The impact of increased funding costs should be limited in the short term. First, Kuwait enjoys a strong buffer provided by its large sovereign wealth fund, as well as a low fiscal breakeven point compared to the average oil prices witnessed in 2018. This will further strengthen the country's liquidity position. Second, Kuwait pegs the dinar to a basket of currencies, giving monetary authorities the flexibility to deviate from the dollar when the US Federal Reserve increases interest rates. The Central Bank of Kuwait did this once in 2017.

However, in April 2018 the dinar followed the dollar to maintain competitiveness and keep local savings attractive. If we consider the strong liquidity ratios, this will persist in the medium term. As in any contractionary policy environment, and due to the time lag between rate hikes and the repricing of cash accounts, banks will enjoy an improved net interest margin in the near term.

What is the outlook for loan delinquency rates?

ADOUR: At below 2.5%, the non-performing loan (NPL) ratio in Kuwait is lower than in other GCC countries despite the challenging economic environment brought about by the sharp drop in oil prices since 2014. Indeed, the domestic banking system is in a good health, as it benefits from strong and coordinated regulatory oversight by the Central Bank of Kuwait.

The banking sector also holds impressive capital adequacy ratios due to prudent provisions and the prompt implementation of liquidity coverage ratios, net stable funding ratios and the ninth International Financial Reporting Standard (IFRS 9). Therefore, local banks' management, robust credit-extension policies and due diligence will maintain NPLs at manageable levels. Additionally, with the systematic implementation of reforms to reflect market costs and reduce subsidies, consumer behaviour will gradually adjust to a more prudent stance in terms of recession-cycle spending, which will prevent NPLs from growing uncontrollably.

How are issuances likely to change in the near term?

ADOUR: The outlook for bond issuances is not very clear. Although we will see transactions coming to the market, rising funding costs and improved liquidity from higher oil prices will decelerate their pace and reduce the number of issuances in the short term. However, implementing IFRS 9 might put some pressure on the required regulatory capital of some banks, necessitating that they raise more capital. In any case, market participants would be wise to forecast a tight balance sheet and plan their issuances accordingly, especially if they believe liquidity will change soon.

What role can technology play in financial services?

ADOUR: The global finance industry has to compete with small entrepreneurs as well as internet giants such as Facebook and Google. However, banks have a key competitive edge: customer trust. Banks will stay around for a long time, but they have to become faster, smarter and more efficient to stay relevant.

This will require an ongoing transformation of the business model, organisational structure, culture and technology infrastructure. Among other factors, players will have to adopt key technologies such as artificial intelligence, automation and blockchain; overhaul digital assets and core banking systems; and employ cloud-based services. For incumbent banks to evolve, they will need to focus on digital transformation, a simpler business mix by geography and products, and better financial returns, which would allow management to divert their attention away from near-term stability.

With a stable, profitable and strong banking system, the Central Bank of Kuwait and domestic banks have an opportunity to take a leadership role in the region and help develop the next generation of finance. The gains could be substantial for both banks, which will gain access to a many-fold-larger global customer base, and their clientele, who will benefit from much lower costs and a significantly improved consumer experience.

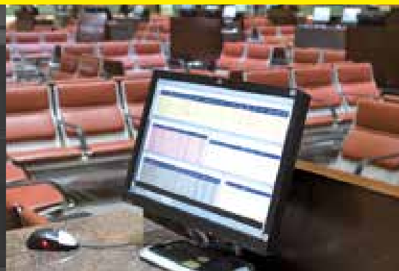
Capital Markets

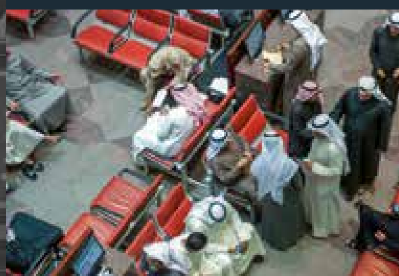
Major reforms to broaden the exchange's investor base

Sector regulator continues with privatisation push

Banks and mid- to large-cap firms dominate activity

State-owned entities a potential source of new listings





Market capitalisation at the end of June 2018 totalled some $92.4bn

Reforms under way

The bourse is attracting attention with an array of upgrades

Boursa Kuwait was promoted to secondary emerging market status in September 2018 after adopting the FTSE Russell Industry Classification Benchmark in June 2017.

In 2017 Kuwait's bourse was the best-performing market in the GCC region, with a price-weighted index return of 16.9%. This performance was carried forward into 2018, with the main index up nearly 9% in the third quarter of 2018.

The Kuwait stock market is undergoing a series of upgrades and changes, which taken together have the potential to trigger a transformation in the market's daily operations and long-term prospects.

These changes began in 2016, with private operator Boursa Kuwait taking over operations of the publicly owned bourse, then known as the Kuwait Stock Exchange (KSE). In mid-February 2018 the Capital Markets Authority (CMA) – established in 2010 to regulate and supervise all activities related to securities trading – announced that it expanded the team of companies overseeing the privatisation of the exchange, adding local firm Tri International Consulting to a group that had previously included local and international investment management firms, consultancies and law firms.

The following April the CMA launched a bidding process for an equity stake in Boursa Kuwait capital stocks of between 26% and 44%. The winner of the auction will take control of an exchange that, in September 2018, was promoted to secondary emerging market status after adopting the FTSE Russell Industry Classification Benchmark (ICB) the previous June. The initial public offering (IPO) of the stake is expected to be launched in the first quarter of 2019.

In a sign of the increasing maturity of the country's financial services, Boursa Kuwait was admitted to the World Federation of Exchanges in October 2018, the international association of regulated securities exchanges. Taken together, the shift from public to private ownership and the new emerging market status signal an attempt on the part of the CMA to further strengthen its financial sector and to attract additional investment in the coming years.

BULLISH FORECAST: These upgrades follow on what was by all accounts a banner year for Kuwait's capital markets. In 2017 the exchange was the best-performing market in the GCC region, with a price-weighted index return of 16.9%, according to a recent report published by First Abu Dhabi Bank. In addition, as of the third quarter of 2018, Kuwait's main index was up nearly 9%, out competing neighbouring markets.

This performance, together with recent changes, have lead the CMA and local investors to have a bullish outlook on 2018, with the new market designation alone forecast to attract foreign capital inflows of between $100m and $700m in the coming years, according to FTSE's most recent country classification review. "Our objective is to develop a competitive, leading regional stock exchange for the state of Kuwait, which provides issuers with efficient access to capital and investors with diverse return opportunities," Mohammed Ahmed Al Saqqaf, the chairman of Boursa Kuwait, told local media in February 2018.

MARKET HISTORY & RESTRUCTURING: The first shareholding company in Kuwait was the Bank of Kuwait and the Middle East, which was established by a group of UK investors in the early 1940s. Over the ensuing decades a range of additional shareholding firms were launched, primarily in the financial services sector. Stock trading was carried out on an informal, loosely regulated basis during the 1960s and 1970s, which resulted in a number of boom-and-bust cycles and considerable economic volatility in certain segments of the economy (see Banking chapter).

Following a particularly injurious bust in the early 1980s, which left most domestic financial institutions insolvent, the Central Bank of Kuwait and the Ministry of Finance intervened, introducing sweeping regulatory framework reform and formally establishing the KSE, which is now known as Boursa Kuwait. Today, the exchange ranks among the oldest and largest in the GCC. Since the 1990-91 Gulf War, which again decimated Kuwait's financial infrastructure, necessitating another state intervention, the bourse has expanded rapidly. In preparation for the upcoming privatisation effort, the market has undergone a series of technical upgrades and restructuring moves. In May 2017, for instance, the exchange instituted a T+3 settlement cycle, requiring investors to settle their security transactions within three business days of the trade date. This change brought Kuwait in line with global settlement standards.

The second stage of the market's strategic reformation was enacted in April 2018, when the bourse was reorganised into three new market segments, namely a premier market, a main market and an auction market. Each listed security will be assigned to one of the new segments, based on a range of criteria, including capitalisation, years in operation, regulatory compliance and liquidity, among others.

Broadly speaking, large companies with high liquidity and a strict record of compliance and transparency have been listed under the premier market heading, while firms with low liquidity are listed under the auction market. All other companies are listed on the main board. The CMA reforms also included updated listing requirements and the issuance of a new rulebook for listed companies. Market segmentation is common practice at most major exchanges around the world, including at the Nasdaq and the London Stock Exchange, and provides greater investor protection.

Along with the changes, Boursa Kuwait introduced a new set of market cap-weighted indices to replace those previously used. The Premier Market Index and the Main Market Index track their respective segments separately, while the General Market Index covers securities in the main and premier markets together. Boursa Kuwait has also implemented 13 sector-specific weighted indices covering oil and gas, basic materials, industrials, consumer goods, health care, consumer services, telecommunications, utilities, banks, insurance, real estate, financial services and technology. Companies included on the auction market are not yet tracked by any index. Furthermore, besides segmenting the market and adding new indices, Boursa Kuwait also relaxed its listing rules and delisted companies seen as unsuitable for public investment.

RECENT PERFORMANCE: As of the end of June 2018 there were 175 securities listed on the exchange in total, according to data reported by Boursa Kuwait. Of these, 16 firms were listed on the premier market, 146 were on the main market and 13 on the auction market. Market capitalisation in the same period registered KD27.88bn ($92.4bn), down slightly from KD27.94bn ($92.6bn) at the end of 2017, but notably up on KD26.54bn ($88bn) at the end of 2016.

As mentioned above, 2017 was a strong year for the exchange. In 249 days of trading, the market saw an increase in shares traded of almost 66%, from 30.5bn in 2016 to 50.6bn. The value of traded shares rose nearly 99%, from KD2.88bn ($9.5bn) in 2016 to KD5.73bn ($9bn) in 2017. Similarly, market capitalisation rose almost 5.3% over the course of 2017.

Market analysts and exchange representatives alike attribute rising activity on the bourse in 2017 to the ongoing privatisation effort and the implementation of the CMA's oversight and reform programme. However, the value of listed stocks is heavily concentrated in a handful of sectors. As of the end of 2017, the value of listed banks totalled KD13.94bn ($46.2bn), which was equal to 49.8% of total market capitalisation, according to data reported by the National Bank of Kuwait (NBK). This was followed by industrials, whose overall capitalisation stood at KD3.43bn ($11.4bn), or 12.2% of the total; telecommunications, with a market capitalisation of KD2.85bn ($9.5bn), or 10.2%; financial services, with KD2.51bn ($8.3bn), or 8.9%; and real estate, with KD2.09bn ($6.9bn), or 7.5%. The remaining eight sector indices had capitalisation of less than KD900m ($3bn), or under 3% of total.


Companies in the premier segment account for around 60% of the total market capitalisation of the bourse

Bank securities accounted for **50.1%** of traded value on the exchange in the first half of 2018

Trading data from the first six months of 2018 affirmed the continued centrality of the banking sector on the stock market. From January to June 2018 bank securities accounted for 50.1% of the total traded value on the exchange. This was followed by industrials with 12.5%, telecommunications (10.8%) and financial services (9.9%). Other relatively important sectors included real estate (5.2%), basic materials (4.8%), consumer services (3.8%) and consumer goods (1.8%).

SEGMENTS: The market segmentation implemented in April 2018 has not been in place long enough to generate meaningful longitudinal data on the development of each of the three newly established segments. However, it is worth noting that companies in the premier segment account for around 60% of the total market capitalisation on the bourse.

To qualify for listing, each premier market firm must be valued at more than KD144m ($477.4m), with an average daily trading of at least KD90,000 ($298,400). By definition the largest listed firms in Kuwait are located on the premier market, including banking giant NBK, telecoms provider Zain Group and logistics firm Agility Public Warehousing Company.

Banking institutions account for the top-six largest firms by capitalisation on the premier market. Other key sectors included on the premier index include financial services, industrials, real estate, telecoms, basic materials and consumer goods. The main market,

meanwhile, consists of 146 listed companies, each with average daily trading values of between KD22,500 ($74,600) and KD90,000 ($298,400).

Notable securities include major lenders – notably the Commercial Bank of Kuwait, Al Ahli Bank and Ahli United Bank – and a significant number of financial services providers, these include Kuwait Financial Center, First Investment Company, and KAMCO Investment Company, among others.

ATTRACTING INVESTMENT: Market segmentation, technical upgrades and the pending privatisation of the bourse have been driven by the CMA, which has made it clear that it is working to expand the exchange to attract additional investment. “Over the past two years the CMA has been very active in upgrading regulations, both with regard to trading and in terms of protecting investors,” Wajih Al Boustany, an analyst at the investment management arm of NBK Capital, told OBG in July 2018. “As a result, the exchange is now looking like a more attractive option for investment, as opposed to, for instance, the real estate market.”

Boursa Kuwait has sought to raise awareness about recent changes in a range of foreign markets, with the aim of attracting additional foreign investment. In April 2018 the bourse and the regulator together brought representatives of eight of the country’s largest listed firms to London, where they hosted more than 60 meetings with potential institutional investors, these included commercial banks, endowment funds, pension funds and insurance firms. These meetings followed earlier visits to Dubai and New York.

“We came to London to raise awareness of [....] investment opportunities in the Kuwaiti stock market,” Khaled Abdulrazzaq Al Khaled, CEO of Boursa Kuwait, told local media. “The participation of eight of our locally listed companies was key to showcase specific investment options across a variety of sectors. Boursa Kuwait’s vision is to create a vibrant, mature and diversified market, and we have been making immense progress over the past two years.”

Nonetheless, the sector is not without its challenges. Corporate transparency has improved considerably over the recent past, in large part as a result of new rules and regulations put in place by the CMA. However, on the equity side, transparency remains an issue in some sectors of the market, according to local analysts. Indeed, the recent market segmentation calls attention to this issue, with listings on the main board held to a slightly lower standard in terms of corporate reporting than those listed on the premier market.

NEW LISTINGS: One of the more pressing challenges currently facing the exchange has to do with the continued lack of market depth. Attracting new listings across a wide range of sectors and facilitating regular trading of currently listed firms remains an ongoing issue for the CMA and the bourse operators.

Indeed, the current privatisation and regulatory reform drive is aimed precisely at drawing in additional market participants, in particular international institutional investors. At the same time, the regulator is working to attract new listings. The development of

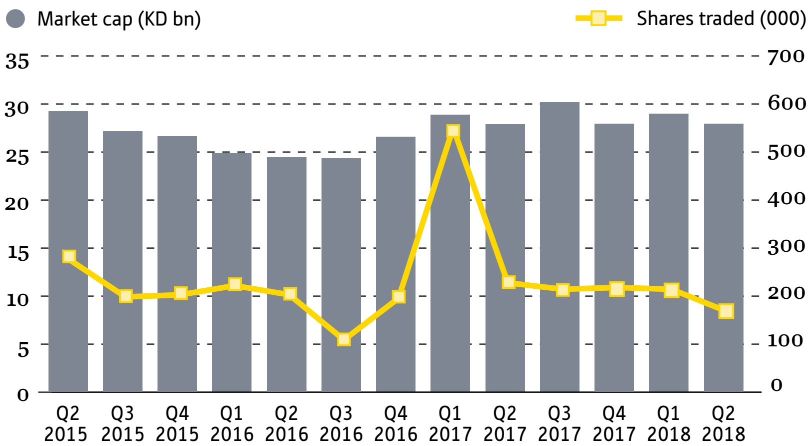
As of mid-2018 there were 175 securities listed on the exchange

an IPO pipeline has become a key goal for the coming years. “While there are more than 170 listed firms in Kuwait, many of them see very little trading activity on a daily basis, and many of the country’s largest companies are not listed on the exchange,” Al Boustany, told OBG. “The bourse and the regulator need to explain the benefits of being listed to local private firms. They need to convince people that listing is a good way to raise financing.” However, as regulations and enforcement have become tighter in recent years, a number of firms have delisted from the bourse. Indeed, since 2012 some 49 companies have exited the market. According to the CMA, these departures were largely a result of companies not being able to meet newly instituted transparency requirements.

In the meantime, listing activity has been relatively slow. In February 2018 the bourse handled the private placement of 35% of the Integrated Holding Company (IHC), a sharia-compliant equipment rental and logistics company. The listing was oversubscribed by

Boursa Kuwait has sought to raise awareness about recent changes in a range of foreign markets, with the aim of attracting additional foreign investment.

Boursa Kuwait performance, 2015-18



Source: Boursa Kuwait

In March 2018 the government sold $3.5bn worth of five-year bonds and $4.5bn worth of 10-year bonds

more than 230%, signalling significant appetite on the market. Given the number of investors involved in the private placement, IHC may be eligible to join the premier market upon launching.

The firm has announced that it plans to issue an IPO before the end of 2018, making it the first family-owned business to be listed on Boursa Kuwait in four years. Furthermore, the IPO is expected to be issued through a private subscription by selling a share of the equity without raising the capital.

STATE-OWNED ENTERPRISES: A key potential future source of new listings are state-owned enterprises, of which a number are currently considering going public. For example, the Az Zour North Independent Water and Power Project, a public-private partnership (PPP) generation project, is expected to carry out a public share sale before the end of 2018.

Az Zour was developed by a collection of publicly-owned entities, including the Kuwait Authority for Partnership Projects, the Kuwait Investment Authority and the Public Institution for Social Security, in conjunction with a handful of private sector players, namely the French natural gas distribution firm Engie, the Japanese general trading company Sumitomo, and the Kuwait-based Abdulla Al Hamad Al Sagar & Brothers. The government plans to sell 50% of Az Zour North One, a 1500-MW power plant.

According to Boursa Kuwait's management, an additional five to six Kuwaiti PPP projects will likely list on the market before 2022. Indeed, under a major revision to Kuwait's PPP law in 2015, consortia set up to deliver power and infrastructure projects are required to eventually float a certain number of shares on the exchange in an effort to extend ownership of national projects to local investors. "We are expecting two or three major IPOs this year and the beginning of next year," said Boursa Kuwait's Al Khaled in March 2018.

In January 2018 the Parliament approved a new draft debt law, allowing the government to issue international debt up to $82.9bn on a 30-year basis.

DEBT MARKET: While Boursa Kuwait has plans to add additional products in the coming years, as of mid-2018 it hosted only equities. Despite the lack of a formal debt platform, in the past half decade Kuwait has become a major player in the regional issuance of debt, with both the state and local firms issuing a significant amount of debt recently.

The list of players that issued primary, off-market bonds in 2016, 2017 and 2018 includes Kuwait International Bank, NBK, Kuwait Energy, Boubyan Bank, the Kuwait Projects Company, Burgan Bank and the Gulf Investment Corporation, among others. Most of these bonds are issued domestically and denominated in Kuwaiti dinars. Furthermore, in January 2018 the Parliament approved a draft of a new debt law, allowing the government to issue international debt up to KD25bn ($82.9bn) on a 30-year basis.

The law was widely seen as a move to protect the country from the effects of fluctuations in commodities prices, such as the falling oil prices in 2014, which required Gulf sovereigns to secure financing elsewhere. A recovery in the international price of oil since mid-2017, however, has reduced demand among regional countries. In March 2018, for instance, the government sold $3.5bn worth of five-year bonds and $4.5bn worth of 10-year bonds – less than a previously announced $10bn issuance. The appetite for Kuwait debt has proved significant, however, with orders for the issue totalling some $29bn.

OUTLOOK: While Kuwait's capital markets have undergone significant reforms in recent years, additional changes are on the horizon. Following the anticipated sale of between 26% and 44% of Boursa Kuwait to an international operator or consortium, which is scheduled for early 2019, there are plans to sell between 6% and 24% of the exchange to public entities, as well as 3.5% of the bourse's equity to Kuwaiti citizens in early 2019. The offering is expected to enable the implementation of a series of further upgrades and reforms in the future, including new trading and settlement systems and, eventually, the launch of derivatives.

In 2019 there are plans to offer 3.5% of the bourse's equity to citizens

Khaled Abdulrazzaq Al Khaled, CEO, Boursa Kuwait

Elevating the exchange

Khaled Abdulrazzaq Al Khaled, CEO, Boursa Kuwait, on market segmentation and increased investor interest

How is Boursa Kuwait encouraging more listings?

AL KHALED: Before Boursa Kuwait was privatised, the listing rules were rather complicated, which undoubtedly influenced whether companies went public. However, the progress in the first three quarters of 2018 has been exceptional. In September 2018 Boursa Kuwait was included in the emerging markets list of the FTSE Russell Emerging Markets Index, which is set to trigger significant growth in liquidity. We also launched a new rulebook outlining updated regulations and guidelines in an easy-to-comprehend manner.

The rulebook specifies a new three-tiered market segmentation, consisting of the premier market, the main market and the auction market. The new structure aims to remedy two major problems facing the current market, which are the lack of transparency and the suboptimal issuers base. It will create an attractive investment platform that will help increase the percentage of shares traded in the market in the long run. We are confident that this is another step in the right direction to put Kuwait on the international markets map and on the radars of foreign investors.

In addition to the segmentation, a new set of indices was also announced. This represents the phase in our development plan aimed at overhauling and reforming the stock exchange and elevating it to international standards. While 2018 was a transitory year, we forecast the changes will incentivise many companies to consider listing in the near future.

Lastly, we launched a new, free-of-charge digital education portal called Boursa Academy Kuwait Online, which is aimed to promote financial literacy among new and professional retail investors.

How does Boursa Kuwait plan to further attract foreign investor participation?

AL KHALED: The infrastructural upgrades we have developed since 2016 set a solid foundation for expanding the offerings of Boursa Kuwait. Furthermore, we plan to introduce short selling, margin trading, exchange-traded funds and derivatives. Beyond investment products, a strong network of reliable service providers and participants is crucial, as is corporate governance. In 2018 we conducted roadshows in New York, London and Dubai, all of which were met with keen interest by some of the most reputable institutional investors, indicating an increased awareness of the investment opportunities in Kuwait's stock market.

To what extent are businesses in Kuwait making use of the sovereign and corporate debt markets?

AL KHALED: Despite considerable progress over the past years, GCC corporate and sovereign debt markets are still in the early stages of development, and Kuwait is no exception. However, in line with the momentum gained by global debt markets, the GCC's debt markets also surged in 2017. While sovereign debtors account for the lion's share of the market, corporates are a close second. Boursa Kuwait has been paving the way for local businesses to explore the advantages of corporate bonds, in addition to further strengthening their understanding of the benefits of equity financing.

What are your expectations for Boursa Kuwait?

AL KHALED: We were thrilled to attain the emerging markets status from FTSE Russell, after having worked hard to meet all the requirements. Instrumental to this achievement were the infrastructural changes implemented in areas such as the settlement cycle, trading efficiency, transparency and disclosures, as well as the additional services offered, including extended auctions, block trades and market makers.

While we do not provide quantitative forecasts for active and passive inflows, it is evident that there is strong and growing interest in the Kuwaiti market from foreign investors. After obtaining full membership in the World Federation of Exchanges, we are set on a path towards further integration with global markets.

Global Perspective

Indexed growth

Inclusion in global indices often results in a greater flow of funds to capital markets, but it is just one aspect of the economic picture

Inclusion on benchmark indices requires specific standards that indicate to investors that the participating countries apply certain regulations and best practices.

The period of easily raising funds from abroad seems to be coming to an end for emerging markets. In the new environment of higher US interest rates and increased competition for capital flows, portfolio managers are becoming more selective with where they place their money. One way for developing nations to ensure that their financial markets can continue to attract foreign funds and remain sustainably liquid is by being included in well-regarded benchmark indices. In addition to drawing in fund managers, inclusion on such indices indicates to investors that the participating countries apply certain regulations and best practices.

RECENT UPGRADES: For two countries, 2018 is proving to be a pivotal year in how they are viewed by the global financial community. On June 20 stock market index provider MSCI granted Argentina and Saudi Arabia emerging market status – upgrading Argentina from a frontier market and including Saudi Arabia in its indices for the first time. Speculation during the lead-up to the MSCI announcement resulted in a large amount of research by banks and brokerages, countless financial press articles and comments from Luis Caputa, the previous minister of finance of Argentina. Confidence in both countries' capital markets proved to be well placed with the mid-year move. Prior to this, FTSE Russell, another global index provider, gave Saudi Arabia a boost by upgrading it from frontier to emerging market status in March. The announcement significantly increased the probability of MSCI doing the same, Fahad Al Turki, chief economist and head of research at Riyadh-based Jadwa Investment, told OBG.

Argentines, meanwhile, were also optimistic heading into 2018. The feeling was based on MSCI's June 2017 report maintaining the country's frontier market status. The index provider noted that although Argentina had already met most of the emerging market criteria, the positive changes instituted by the country regarding market accessibility factors needed to remain in place for a longer period of time to be deemed irreversible.

Argentina's pro-business government subsequently solidified a majority in the October 2017 mid-term elections. Even though challenges remain, demonstrated by a drastic sell-off of the peso between late April and June 2018, MSCI felt confident that Argentina would not be returning to its practices of market interference.

A CLOSER LOOK: Such classifications are important to a country's financial environment. FTSE Russell and MSCI have specific criteria they use to determine whether a country is classified as frontier, emerging or developed, including size and liquidity measurements, and market accessibility factors. Frontier nations display characteristics that, when taken together, translate into a riskier bet for global investors. The MSCI Frontier Market Index includes countries ranging from Romania and Kazakhstan to Tunisia, Oman and Bangladesh.

However, it is important to note that the risks evaluated in determining a country's category are generally related to equity market practices, which do not directly translate to how risky or stable the overall economy is. For example, there are many countries in the MSCI Frontier Market Index that can boast investment-grade ratings from credit ratings agencies, meaning their economies are strong enough that evaluators do not think their sovereign debt is a risky investment. Indeed, some frontier markets – such as Kuwait, Estonia and Lithuania – have ratings in the "A" category – ahead of some exchanges that qualify for MSCI's World Index of developed markets, such as Portugal, Spain and Italy.

Other countries are not included in the MSCI Emerging Market or Frontier Market indices, but are monitored with their own standalone index that uses the same emerging or frontier market methodological criteria concerning size and liquidity. Standalone indices under the frontier market category include Jamaica, Bulgaria, Zimbabwe and Palestine.

The risks evaluated in determining a country's index category are generally related to equity market practices, which do not directly translate to how risky or stable the overall economy is.

ARGENTINA & SAUDI ARABIA: Both Argentina and Saudi Arabia were upgraded as the direct result of reformist governments working to open up their country's financial markets to global investors and specialised products. Argentina's reclassification comes amid President Mauricio Macri's efforts to bring the country back to a respected position after repaying funds for sovereign debt on which it defaulted in 2001 at the height of an economic crisis. Among other measures, his administration has removed foreign exchange restrictions and capital controls, eliminated cash reserves and monthly repatriation limits in the equity market, and abolished lock-up periods for investments. In addition, in September 2017 the stock market moved from the T+3 trading settlement cycle, in which trades of listed securities were settled in three days, to the T+2 cycle of two days. The shift benefits the exchange by standardising it with others around the world. However, Argentina's economy remains vulnerable, as demonstrated by its "B" credit rating.

Saudi Arabia, meanwhile, is undergoing rapid reforms as part of its Vision 2030 economic plan to increase investment and reduce dependence on oil revenue. In April 2018 the country also moved to the T+2 trading settlement cycle. Previously, Saudi Arabia employed same-day execution and settlement. Listed companies are also aligning their accounting practices with international financial reporting standards, enabling their statements to be directly compared to other companies employing the same system. Furthermore, the Saudi Capital Market Authority has eased restrictions for foreign investors looking to enter the local financial arena.

In achieving emerging market status, both countries sent a message about the calibre of their exchange operations. As Bassel Khatoun and Salah Shamma of Franklin Templeton Investments wrote on the company blog in April 2018, FTSE Russell's classification of Saudi Arabia as an emerging market "sends a strong signal to investors that the country has made significant progress in opening up its capital markets, and has proved its levels of corporate governance and transparency".

MATTER OF PRESTIGE: Beyond technical frameworks and revised regulations, a classification upgrade can have a ripple effect across the entire economy. "It has importance as a public relations and marketing concept," Robert Abad, founder of US emerging market advisory firm EM+BRACE, told OBG. "In the old days, emerging economies were simply synonymous with 'less developed'." Speaking to Argentina's history, Abad added, "One hundred years ago the country was a trading giant and the eighth-richest country in the world. Being labelled as a frontier market placed it in the same bucket as apparently third-tier countries. The emerging market classification raises Argentina's status."

This aligns with the local view of Federico Sidi, the Argentine equity portfolio manager at Compass Group, a Latin American advisory firm. "The government is pushing for this type of recognition as a kind of seal of quality or trademark," Sidi told OBG. "It is not just financial markets – Argentina wants to join the OECD and use the hosting of the 2018 G20 summit to show the world how the country has bettered itself." While agreeing that Argentina's global visibility and reputation will likely improve, Matías Lara Mateos, investor relations officer at Bolsas y Mercados Argentina (ByMA), the local stock exchange, adds that the enhanced perception of the country could reduce national financial risk.

NUMBERS GAME: While positive changes in reputation are welcome, the most material result of an index upgrade is the amount of money a country's capital markets can attract. Benchmarks hold considerable power in the global investment landscape: MSCI notes that 99 of the top-100 global investment managers were among its clients as of December 2017, and the firm estimates that its indices are the primary benchmark tools for more than 85% of all international-focused fund assets. In November 2017 MSCI estimated that $12.4trn of assets under management were benchmarked to its equity indices, including $1.65trn to its Emerging Markets Index. Approximately 84% of those following the index are active managers, with the remaining 16% passive observers.

Before Argentina's upgrade, JP Morgan estimated that $463bn worth of funds were passively tracking MSCI's Emerging Market Index. In April 2018 MSCI stated that Argentina would likely represent 0.6% of the index should it be reclassified, translating into approximately $2.78bn of passive inflows.

Active emerging market investors manage around $1.2trn, according to JP Morgan, which estimated their exposure to Argentina at 0.41% as of February 2018. Assuming these investors stay neutral on their positions now that Argentina is included in the Emerging Market Index, the additional active inflows are expected to be around $2.7bn. In total, this aligns with the company's forecast that Argentina will experience around $5.5bn of inflows to its stock market after reclassification. Sidi told OBG that JP Morgan's inflow estimates are among the highest he has seen, but it is clear that global emerging market fund managers are set to turn their eyes to Argentina. "The fact is that a lot of funds are unable to invest in frontier markets," he said. "Our understanding is that hedge funds have taken advantage of the massive upside in Argentina since 2013, and that most of the largest long funds are here – but not in such a big way."

With daily trading volumes on the ByMA in the first quarter of 2018 averaging just $50m, more investor activity would have a huge impact on liquidity. "Being part of the emerging market environment again should see local market volumes pick up significantly," Sidi added. Average daily trading volumes are much higher in Saudi Arabia – around $1bn – as are estimates from analysts regarding future inflows. Saudi Arabia's NCB Capital estimates that around $39bn will flow to the Saudi Stock Exchange (Tadawul) as a result of the MSCI upgrade, with the country set to have a weight of 2.6% in the index. This figure compares to the $3.2bn of inflows that NCB Capital predicted in September 2017 regarding the FTSE Russell reclassification in March 2018.

Saudi Arabia's inclusion in the FTSE Emerging Market Index will be implemented in five tranches between March and December 2019, and the country will comprise 2.7% of the index value. Some 99% of the $115bn of assets under management benchmarked against FTSE Russell's Emerging Market Index have passively

Argentina has removed foreign exchange restrictions and capital controls, eliminated cash reserves and monthly repatriation limits in the equity market, and abolished lock-up periods for investments.

In April 2018 Saudi Arabia shifted to the T+2 trading settlement cycle, in which trades of listed securities are settled in two days. The move standardises the exchange with others around the world.

Inflows from passive investor accounts are concentrated around the date a country is included in a new index, while active managers tend to anticipate the change before it is implemented.

managed, meaning the inflows are effectively guaranteed. "The promotion into FTSE Russell's emerging market category marks a key milestone for Saudi Arabia, and rewards the depth and pace of reform that has taken place within the Kingdom's capital markets in the last few years," Jadwa Investment's Al Turki told OBG. Both Saudi Arabia and Argentina will be included in the MSCI Emerging Market Index beginning in mid-2019.

TRANSITION TROUBLES: What inflows mean for share prices can be hard to predict. Where necessary, MSCI and FTSE Russell stagger the inclusion of individual countries by gradually increasing their weight in indices, as will be the case for Saudi Arabia in 2019. However, while inflows from passive accounts are concentrated around the inclusion date, active managers tend to anticipate the change before it is implemented. Often this means that any market rally comes before the official inclusion. For instance, Qatar's index boasted implied returns of 38% and the UAE index returns of 78% in the 11 months between MSCI's reclassification announcement of the two countries in June 2013 and their official inclusion, compared to 12% for the MSCI Emerging Markets Index as whole.

This is not always sustainable. Pakistan's stock market hit a record high after MSCI upgraded it from frontier to emerging in June 2017, but by the end of that year, the KSE-100, which measures performance on the Pakistani exchange, posted negative returns in excess of between 15% and 20% in dollar terms. With a weight of just 0.1% of the index, Pakistan is proving to be less attractive to large fund managers than other markets. "Pakistan is at risk of being left out of the financing race, as I do not believe that core global emerging market managers are looking at it closely," Edward Evans, equities portfolio manager at Ashmore, told OBG.

INTERNAL WORKINGS: While the numbers can be somewhat volatile surrounding a reclassification announcement, Al Turki believes that one of the main qualitative benefits of Saudi stocks being included in the MSCI index is an excepted steady improvement in the efficiency of company operations. He highlights that profit margins in some local sectors are currently "propped up" by either a lack of competition or strong government support. "Foreign investors taking up larger stakes in Saudi companies and holding management accountable for strategic decisions will promote improvements in the use of assets in generating sales and ultimately increase return on equity," he told OBG. Improved internal processes will place Saudi companies in a better position to attract investment once the state decreases the support, as is planned, he added.

BEYOND THE BENCHMARK: It is important to understand that indices do not tell the whole story about a capital market. Saudi Arabia is a special case, given that foreign investors have only been allowed to participate in the stock market since 2015, but exclusion from an index does not necessarily mean that a country or a particular exchange is unsophisticated.

Ashmore's Evans says he does not place much importance on index inclusion. He highlights that many businesses in emerging markets are continuously looking to attract capital and expand – regardless of inclusion in indices – and many follow best practices that enable rapid growth. "There is a wider, very attractive universe out there beyond the indices," he told OBG. "Exclusively following an index provider means you are exposed to a very narrow representation of all emerging markets."

WIDER SCOPE: These comments lead to a broader a question about the role of indices in emerging markets. Jan Dehn, head of research at Ashmore, highlights that such markets represent 60% of global GDP, but just 20% of global finance. "Emerging economies need a huge amount of finance to update infrastructure," Dehn told OBG. "So why not start by trying to solve the index issue?" The problem, Dehn added, is the lack of representation of most developing countries in indices. This applies to both equity and debt markets. MSCI's Emerging Market Index includes just 24 countries, and its Frontier Markets Index covers roughly the same.

In debt markets, where governments and companies can fund investment at a lower cost than in stock markets, the lack of coverage by index providers is arguably more critical. Although most emerging market sovereign dollar bonds are included in JP Morgan's Emerging Market Bond Index, just 18 local currency markets are included in the bank's indices.

With most developing countries' governments relying far more on domestic than international debt markets to finance themselves, Dehn has argued that provision of local bond market indices could be considered a "public good". Not only would it improve access to funding for these governments, but it would reduce risk and inefficiencies in the financial system. "With more comprehensive indices, investors around the world would benefit from more diversification and increased investment opportunities," he told OBG. Dehn suggests that multilateral organisations such as the IMF or the World Bank could provide more inclusive indices, and benefit their purpose of advancing economic and financial development in emerging and frontier markets.

IN PERSPECTIVE: In addition to index gaps, it should be highlighted that a particular classification is simply a reflection of one private company. As nations like Saudi Arabia and Argentina look to modernise their capital markets, they must remember that an MSCI upgrade is a signal of their efforts moving in the right direction, not the driver of change itself, no matter how much money may enter the country as a result. "MSCI including Argentina in its Emerging Market Index is just one step in the development of the local market," Lara Mateos told OBG. "There is a lot of work to do beyond MSCI's assessment." Lara Mateos says that Argentina needs greater financial education so everyday citizens better understand how to invest and companies learn the benefits of capital market access. While an MSCI or FTSE Russell classification can indeed focus attention on capital markets both domestically and internationally, the regulations implemented to secure the status are usually of much greater fundamental importance.

Still, if a country's upgrade on a popular global index can play even a small role in increasing awareness of local financial markets, it is certainly worth promoting.

Many businesses in emerging markets are continuously looking to attract capital and expand – regardless of inclusion in indices – and many follow best practices that enable their rapid growth.

Islamic Financial Services

Sharia-compliant market is fifth largest in the world

Central bank taps sukuk market to boost liquidity

Takaful providers await revised regulatory framework

Advancements in technology offer new growth avenues





The country holds 6% of all sharia-compliant assets around the world

Principled finance

Sharia-compliant products and services drive development of the wider financial sector

A founding member of the Organisation of Islamic Cooperation, Kuwait played a key role in developing Islamic finance, hosting a number of planning meetings in the 1970s.

Over the course of 2017-18 Kuwait's Islamic financial services (IFS) industry saw continued growth and ongoing development, shoring up the country's long-standing reputation as a global centre for sharia-compliant banking, insurance and investment activities. At the end of 2017 Kuwait was home to 6% of all sharia-compliant assets, according to the "IFS Industry Stability Report 2018" published by the Kuala Lumpur-based Islamic Financial Services Board (IFSB) in June 2018. Global IFS assets topped $2trn for the first time in 2017, up 8.3% from the end of 2016, according to the IFSB.

At the end of 2017 Kuwait held an estimated $123bn in IFS assets. The majority of this total, as is the case at the global level, was held by Islamic banks, while the remainder was accounted for by *takaful* (sharia-compliant insurance) firms and sharia-compliant investment companies. In terms of Islamic banking, Kuwaiti institutions accounted for the fifth-largest asset base in the world, after Iran, Saudi Arabia, the UAE and Malaysia.

The majority of Kuwait's IFS assets are concentrated in a single entity, namely Kuwait Finance House (KFH), which is one of the oldest and largest sharia-compliant lenders not only in the Gulf region, but worldwide. KFH reported total assets of KD17.4bn ($57.7bn) at the close of 2017, an increase of 5.2% from the previous year, and equal to almost half of all IFS assets held in the country at that time.

GAINING GROUND: KFH has had to compete with a raft of new entrants since the early 2000s, resulting in the sharia-compliant segment steadily gaining a larger share of total banking assets over the past decade in particular. Indeed, the proportion of assets held at conventional banks has fallen from over 70% in 2008 to 60% of as of early 2018, according to the Central Bank of Kuwait (CBK). At the same time, the country's thriving Islamic financial institutions (IFIs) have led the market in terms of technological innovation, and the introduction of new products, services and investment activities. As such, many local players expect to see continued expansion in the segment for the foreseeable future.

"The demand for sharia-compliant products has risen dramatically in the past 15-20 years," Waleed Mohammed, vice-president of investment at Dimah Capital, a Kuwait-based Islamic investment company, told OBG. "Given the increased popularity of Islamic products worldwide, Kuwait could eventually become a predominantly Islamic financial market, though this is still a ways off."

HISTORY: Kuwait's government has been a pioneer in the development of IFS in the Gulf and, as such, the world. The state was a key driving force behind the organisation of a series of regional meetings focused on facilitating the introduction of early sharia-compliant products in the region, beginning in the early 1970s. These summits brought together financial regulators, sharia scholars, and various commercial interests to hash out details and regulatory frameworks around key issues related to Islamic banking, *sukuk* (sharia-compliant bonds) and takaful products. This planning and implementation work was organised in large part under the aegis of the Organisation of Islamic Cooperation, of which Kuwait was a founding member. Indeed, Kuwait hosted a number of key early meetings around the development of IFS products and services.

In 1977 the government launched KFH, which was the country's first sharia-compliant financial institution, and remains a leader across a range of segments. Until the early 2000s KFH was the sole IFI allowed to operate domestically – others were banned under the 1968 banking law, which prohibited the establishment and operation of privately held sharia-compliant banks and other financial institutions. Consequently, through the 1980s and 1990s KFH effectively had a monopoly on the local

At the end of 2017 Kuwait held an estimated

$123bn

in Islamic financial services assets

market, as well as privileged access to public projects and financing as a state-owned institution.

This situation changed in the early 2000s, when Kuwait relaxed its regulations with regard to the establishment of new financial entities. This shift, which was in line with newly liberalised business and regulatory frameworks across the Gulf, heralded a major shift in Kuwait's financial services industry. In 2003 the government passed Law No. 33, which allowed for the establishment of new Islamic banks and non-lending financial institutions.

ENTER NEW PLAYERS: The following year the privately operated Boubyan Bank was established, becoming KFH's first sharia-compliant competitor. In subsequent years Boubyan was followed by a handful of other new entrants or older conventional operators which converted to sharia-compliant status. In 2007 Kuwait International Bank, which had been operating as a conventional lender as Kuwait Real Estate Bank since the early 1970s, converted all of its operations to meet Islamic requirements. In April 2010 Ahli United Bank of Kuwait also moved from conventional to Islamic status. That same year Warba Bank, a newly established lender, obtained an operating licence, becoming the fifth Islamic bank in a market with a total of 11 domestic banks.

As of September 2018 there have been no further entrants to the banking sector, either on the conventional or Islamic side. And yet, a number of deals are currently under way which may eventually contribute to the growth of Kuwait's Islamic market. In 2014 Commercial Bank of Kuwait, a conventional lender, announced that its shareholders had approved a plan to convert the institution to sharia-compliant status, though the plan has yet to be implemented.

In July 2018, meanwhile, KFH announced plans to begin merger talks with Bahrain-based Ahli United Bank, renewing discussions between the two entities that came to an end in 2017 due to a disagreement about the price of Ahli United Bank's shares. If the deal goes ahead – negotiations had only just begun as of early September 2018 – it could potentially result in the establishment of a new sharia-compliant lender with assets valued at around $92bn, which would make it the largest Islamic bank in the world. Lastly, in April 2018, National Bank of Kuwait (NBK), a conventional lender and the country's largest bank, announced ambitions to increase its controlling stake in Boubyan Bank, given an opportunity at the right price. At the time of the announcement, NBK held around 61% of Boubyan Bank's shares.

RECENT PERFORMANCE: For much of the past decade Kuwait's Islamic banks have posted higher growth rates than their conventional peers. In 2014, a high point for Islamic lenders across the Gulf, the sharia-compliant segment in Kuwait grew by 13%, compared to 4% in the conventional segment during the same period. According to the most recent available data from the CBK, the banking sector at large had a capital adequacy ratio (CAR) of 18.6% of risk-weighted assets in 2016, well above the regulator's required minimum of 13%. Islamic banks had higher CARs than their conventional counterparts, which contributed to the sharia-compliant segment's stability, but also to its lower efficiency ratios as compared to conventional lenders.

As of September 2018 there were 11 banks serving the local market, of which five are sharia-compliant

Islamic banks have a higher capital adequacy ratio than their conventional counterparts, which contributes to the segment's stability, but also lowers its efficiency ratio.

In another show of the industry's strength, Islamic banks have expanded their branch networks considerably in recent years. In 2016 alone sharia-compliant institutions launched seven new branches, whereas there were no new openings by conventional lenders that year. Nonetheless, the conventional banking system had considerably more branches at the end of 2016 – some 235 against 173 operated by sharia-compliant lenders.

Kuwait's 11 domestic banks posted net profits of KD745.8m ($2.5bn) in 2016, which represents growth of 5.8%, down slightly from the previous two years but up on the 2011-13 period. The Islamic segment accounted for much higher profit growth in 2016 than conventional lenders – 11% compared to 2.7%, according to CBK data. Furthermore, in 2016 the gap between industry-wide returns and the return ratio among Islamic banks continued to shrink. Whereas in 2010-12 sharia-compliant lenders posted considerably lower return on assets than their conventional counterparts, the difference has decreased considerably since 2013 and was nearly at parity as of late 2018.

According to IMF data, as of early 2017 the assets held by Kuwait's Islamic banks were primarily debt-based instruments, which was in line with the nation's banking sector as a whole. Bank loans, which are concentrated primarily in real estate, personal and interbank lines, account for some 60% of total Islamic bank assets.

SUKUK: Kuwait's relatively recent formalisation of regulations governing the issuance of sukuk suggests further scope for growth in these products. In late 2015 the government introduced a

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new regulatory framework for the issuance of sharia-compliant debt instruments. The framework, which was developed and implemented in part to encourage new sukuk listings in Kuwait, established rules dealing with all aspects of the Islamic debt market, including those having to do with governance, special purpose vehicles and sharia compliance.

All sukuk issues in Kuwait are required to receive approval from both the CBK and the Capital Markets Authority (CMA), the latter of which regulates the stock exchange and other domestic trading activities, and must receive a credit rating for public issuance. The new regulatory framework, paired with the government's rising financing needs due to slowing oil revenues, resulted in an influx of new sukuk and conventional bond issuance in Kuwait in 2016-17. In the year following the implementation of the new regulations, for instance, the CMA reported that it approved around $700m in sukuk and $4bn in conventional bond issuances.

REGIONAL ISSUE: This disparity reflects the long-standing gap between bond and sukuk issuance not only in Kuwait, but across the GCC. In 2017 conventional issuances in the GCC as a whole totalled $81.4bn, according to data compiled by the Kuwait Financial Centre (Markaz), compared to $22.9bn in sukuk issuance. This latter figure is equal to 21.9% of the total, while conventional debt instruments accounted for the remaining 78.1%. Notably, however, sukuk issuance as a percentage of total debt issuance across the GCC rose by 81% in 2017; the region saw just $12.6bn in sukuk the previous year, according to Markaz figures.

Regional data indicates that sovereign issues contributed almost 63% to total debt issuance in 2017, which is commensurate with continued pressure on the oil price and, as such, government revenue across the GCC. As of the end of 2017 Kuwait was the only GCC sovereign that had yet to tap the sukuk market, despite the state announcing that it planned to do so in 2016; most analysts and market observers expect Kuwait to issue sukuk before the end of 2018.

The central bank, meanwhile, raised KD10.9bn ($36.2bn) in central bank local issuances (CBLIs) in 2017. CBLIs are issued by central banks in the form of fixed-income securities with short maturities in order to assist with regulating domestic liquidity levels. The CBK's issuance in 2017 represented the highest amount in the GCC, accounting for 51.8% of CBLIs across the region.

In May 2018 KFH announced that it had established a $3bn sukuk programme, to be operated out of a special purpose vehicle incorporated in the Dubai International Financial Centre, and thus benefitting from free zone status. The instrument signals a major move into Islamic debt issuance on the part of KFH, which had previously issued sukuk via a Turkish subsidiary, Kuveyt Türk. KFH's move is in line with global trends, which suggest that sukuk is becoming an increasingly important component of the IFS industry at large. According to data from

Market observers expect Kuwait to issue sukuk before the end of 2018

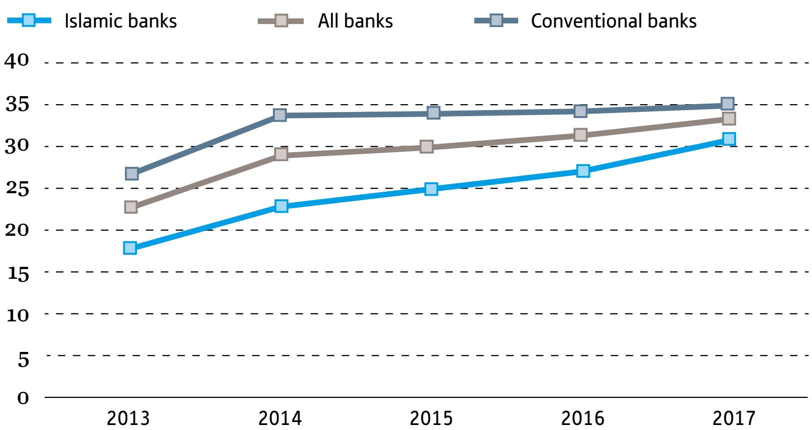
the IFSB, in 2017 sukuk and Islamic funds saw growth of 25.6% and 19%, respectively, which made Islamic capital markets the fastest-growing segment in the global IFS industry during this period.

Furthermore, by the end of 2017 sukuk and Islamic funds accounted for a combined 22.8% of overall IFS assets, up from the 19.8% recorded the previous year. By comparison, the global Islamic banking industry posted growth of 4.3% in 2017, and the takaful market saw expansion of 4% that year.

TAKAFUL: Sharia-compliant insurance is widely regarded as a high-potential growth area throughout the GCC, and Kuwait is no exception. Around 12 of the country's more than 40 insurance companies currently operate as either fully fledged takaful providers, or maintain a so-called takaful window, offering Islamic insurance products alongside conventional lines. However, unlike in the banking segment, where sharia-compliant products have taken hold in recent years, the takaful business has yet to

Conventional bond issuances outweigh sukuk (Islamic bonds) listings by a large margin across the GCC, with $81.4bn raised by the former and $22.9bn by the latter in 2017.

Net profit margin, 2013-17 (%)



Source: CBK

As the fifth-largest market for Islamic financial services, Kuwait is poised to benefit from rising demand

Expectations of consolidation in the insurance sector by way of higher capital requirements are likely to have a particularly strong effect on *takaful* (Islamic insurance) providers.

make major inroads into the domestic insurance market at large or, indeed, the IFS sector.

This has much to do with low uptake of insurance products in general. According to a recent industry report published by Alpen Capital, a Dubai-based financial advisory firm, in 2016 insurance penetration in Kuwait – which measures premiums as a percent of GDP – was just 1%, with the industry worth $1.1bn. Alpen forecasts indicate that the total value of the domestic insurance sector could rise to $1.7bn by 2021 – with penetration increasing to 1.1% by the same period – reflecting the small size and incremental expansion of the industry as a whole. Another key challenge has to do with the slow pace of regulatory development. The country's current insurance law, which dates back to independence in 1961, is widely regarded as out of date and insufficient given current economic conditions. In April 2018 the Ministry of Commerce and Industry (MoCI), which is responsible for regulating the insurance sector, announced that it would form a committee to study and develop a new draft insurance law, with the objective of drawing up regulations aimed at both growing the insurance industry and protecting consumers (see Insurance chapter).

The MoCI's efforts build on long-standing plans to develop a comprehensive regulatory framework for the local industry. Indeed, an early draft insurance law has been circulating among sector stakeholders since at least 2012, though it was never taken up formally by the government.

CREATING A FRAMEWORK: Any new insurance law is widely expected to address a number of key challenges facing takaful and conventional underwriters alike. It would likely raise capital requirements and tighten actuarial controls, which has the potential to encourage mergers and acquisitions, thereby consolidating the industry. This, in turn, is likely to result in a lesser degree of price competition among local underwriters, which would be expected to benefit takaful providers in particular.

An early 2018 paper declaring the permissibility of blockchain technology under sharia law precipitated a jump in the value of the cryptocurrency bitcoin, the market for which could now include the world's 1.6bn Muslims.

Many sharia-compliant firms have been content to accept underwriting losses in order to accrue premium, which they then invest in an effort to turn a profit. A softening of competition, and thus less of a race to the bottom on prices, could therefore improve their bottom lines. This is particularly relevant for insurance lines like motor and property, which account for the largest share of gross written premium in Kuwait. Some firms are making a headstart at adjusting their portfolios with this in mind. First Takaful Insurance crediting its double-digit profit growth in 2017 to its success in cleaning up unprofitable lines such as motor.

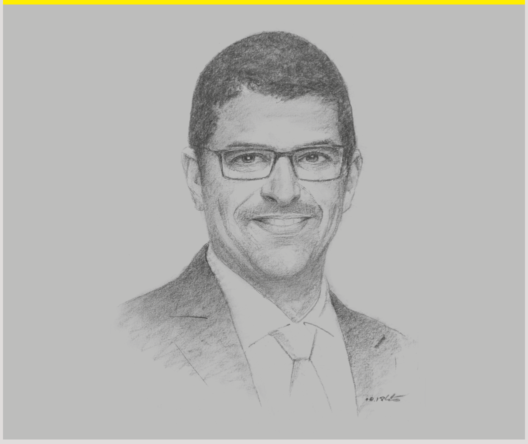
As takaful continues to gain in prominence across the GCC and around the world, and provided a new insurance framework comes into effect in Kuwait in the near future, local sharia-compliant underwriters expect to see continued growth in the years to come.

TECHNOLOGY: In 2017 and 2018 technology started to gain prominence as a focus area for Kuwait's IFIs, with potentially transformative results. In February 2018 a report by a sharia scholar in Indonesia, under the aegis of the Indonesian firm Blossom Finance, declared that blockchain technology was permissible under Islamic law. The report preceded an increase in the price of bitcoin – the cryptocurrency traded using blockchain technology – of more than $1000 in less than an hour, in what was widely regarded as a response to the news that the world's 1.6bn Muslims may be allowed to make use of cryptocurrencies.

In April 2018, in what was widely regarded as a direct response to the earlier report, KFH announced that it would be the first bank in Kuwait to join RippleNet, a global corporate blockchain network aimed at enabling instant cross-border payments at low costs. Pending approval from the CBK, KFH's participation in RippleNet could benefit local consumers sending and receiving money across Kuwait's boarders before the end of the year.

OUTLOOK: As the fifth-largest IFS market, Kuwait is well positioned to benefit from rising demand for sharia-compliant products. Taking into account plans to develop a comprehensive insurance regulatory framework, which will likely include propositions aimed at facilitating the expansion of takaful, sharia-compliant insurers are looking to gain increased market share (see Insurance chapter).

Another key area of potential growth is the sukuk market, which is widely expected to benefit from rising demand for sharia-compliant debt from both the government and corporate entities in the immediate future. Lastly, while the modest recovery in oil prices in 2017-18 has translated into a moderate reduction in pressure on public revenue in Kuwait, the government is nonetheless expected to draw on bank financing and debt instruments as it pursues the projects under the New Kuwait development plan, which lays out ambitious economic and social objectives for the country through to the year 2035.



Mazin Saad Alnahedh, CEO, Kuwait Finance House

Finding solutions

Mazin Saad Alnahedh, Group CEO, Kuwait Finance House (KFH), on how Islamic banking can expand

Do you think that there is an absence of sharia-compliant liquidity management tools, and what solutions would you propose to this?

ALNAHEDH: Sharia-compliant banking has recently become a much more influential factor in the global financial sector, thanks to the creation of products and services that can compete with their conventional counterparts. KFH Group banks have continued their strong performance in accordance with the set plans and strategies to benefit from the elements of strength in each market. The issue of liquidity management in Islamic finance needs to be addressed while considering the developments currently taking place in conventional finance. There are two main issues, especially in the short term. The first is the lack of a developed money market, and especially an interbank market, of the kind seen in conventional finance. The other is a shortage of short term, or highly tradeable, investment instruments with limited capital risk and predictable returns.

The Basel Committee on Banking Supervision proposes two new regulatory standards for liquidity risk. The first, the liquidity coverage ratio, ensures that institutions have sufficient high-quality liquid resources to survive an acute stress scenario lasting one month. The second, the net stable funding ratio, promotes longer-term resiliency by encouraging banks to fund their activities from more stable sources.

What are the main factors driving economic growth in Kuwait, and how do they affect Islamic banking?

ALNAHEDH: The growth in Islamic banking assets is a reflection of the country's growing economy. Kuwait has to follow the regional trend of pursuing economic and fiscal reform programmes with multiple initiatives that seek to support economic diversification to non-oil income-generating projects, including its historical commercial role as a trade hub in the Gulf.

Small and medium-sized enterprises can play a pivotal role in transforming Kuwait into an attractive financial and trade centre to investors, where the private sector leads the economy, fostering competition and promoting production efficiency, furthering human resource development while inspiring business environment with a balanced development plan. Currently, the public sector wage bill accounts for the largest portion of Kuwait's government expenditure, and its generous allocation of government subsidies including fuel, electricity, water and food staples. Subsidies represent 22% of government spending, with average annual benefits of approximately $10,000 per capita, out of which $2500 are fossil-fuel subsidies.

In addition, infrastructure and energy interested specialist contractors in the first quarter of 2018, following Kuwait's target to supply 15% of its energy demand with renewables by 2030. In the third quarter of 2018 numerous contracts and projects were secured and it was also revealed that China may become a major construction investor in Kuwait.

Kuwait is behind other GCC countries in global sukuk (Islamic bonds) issuance. What needs to be done to encourage sukuk issuances?

ALNAHEDH: Although short-term sovereign sukuk issuances were successfully established in Bahrain, other governments may be reluctant to issue sukuk, especially if they carry a higher cost of funding.

The international shortage of sukuk is usually cited as the main reason why we do not have an actively traded market in Kuwait, despite efforts to develop one. In this context, a task force recently proposed a new intergovernmental entity responsible for issuing sukuk. This is an interesting initiative, though it is not yet clear whether it will develop traction. A key issue will be whether enough governments find it attractive to commit assets when they have the alternate option of issuing sukuk directly themselves. The trade-off will be between the finer rates that the new entity should be able to secure, against the associated loss of control.

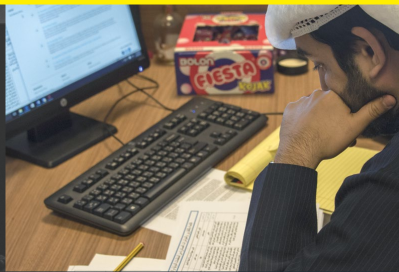
Insurance

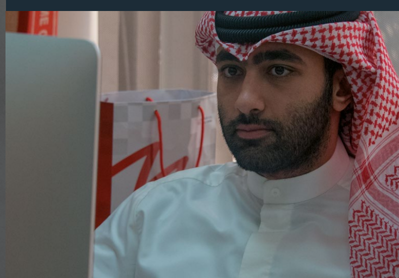
Islamic insurance to deepen market penetration

Stakeholders call for an independent oversight body

Firms eye opportunities in cybercrime insurance

Diversification could smooth out volatile yields





Legal reform is expected to catalyse rapid consolidation and growth

Rising potential

Major changes to the decades-old insurance law are being deliberated as premium growth continues

The central amendment proposed by drafts to reform the Insurance Law of 1961 is the establishment of an independent body charged with overseeing and enforcing standards in the industry.

The industry's gross written premium was equivalent to

1%

of GDP in 2016

In 2017 and early 2018 Kuwait's insurance sector enjoyed growth on the strength of steadily rising premium, regulatory tweaks and forays by individual underwriters into a number of new market segments. Nonetheless, according to many stakeholders, the obsolescence of the country's insurance law – which dates back to 1961, when Kuwait declared independence – remains a major hurdle to the sector's future growth. While stop-gap improvements have been made on the legal front in fits and starts, the likelihood of measurable change seemed to grow markedly in April 2018, when Abdullah Al Awais, the assistant undersecretary at the Ministry of Commerce and Industry (MoCI), announced to local media that "The ministry is currently working on studying and evaluating a number of options, including a draft law regulating the insurance market".

Various iterations of a new insurance law have been circulating among government bodies since at least 2012. The central amendment proposed by these drafts is the establishment of an independent body charged with oversight and enforcement responsibilities, which many local insurers believe is needed to ensure the sector's stability profitability over the long-term. In the meantime, local insurance providers remain subject to a slue of pressures, including low barriers to competitors' market entry, price undercutting from these rivals, and weak consumer demand across different segments.

Indeed, despite discernible growth in 2016, the industry's gross written premium (GWP) was equivalent to just 1% of GDP, well below the average penetration rates of 1.9% among GCC members, 3.2% in emerging markets and 6.3% globally, owing to various challenging market dynamics. Even so, local operators remain optimistic about the sector's potential, provided that reforms – particularly the inauguration of an autonomous oversight body – move from draft to bill to law in the years to come.

ORIGINS IN INDEPENDENCE: While Kuwait appears to lag behind many of its GCC neighbours in terms of insurance market development, its firms have been major providers of underwriting services in the Gulf since the industry's emergence in the region in the 1960s and 1970s. The Kuwait Insurance Company (KIC), which was founded by Amiri decree in 1960 as the first such firm, is widely understood to have pioneered a range of now-standard local practices.

Shortly thereafter, the promulgation of Law No. 24 of 1961 provided the nascent sector with a scaffold of growth-supportive rules and regulations. The bill, which has been amended numerous times since its introduction, applies to every company providing coverage in Kuwait, regardless of domestic or foreign registration status. Local insurers must also abide by the terms of the Civil Code, laid down in Decree Law No. 67 of 1980, which covers the general principles of insurance contracting, including the rights and responsibilities of contracted parties.

THREE ERAS OF GROWTH: In the decade and a half following the passage of the 1961 law a handful of new underwriters were established, including a quintet of businesses that today control more than half of the domestic market share. Four Kuwaiti firms – KIC; Bahrain Kuwait Insurance Company (BKIC), founded in 1972; Al Ahleia Insurance Company (AAIC), incorporated in 1962; and Warba Insurance Company (WIC), launched in 1976 – along with the Gulf Insurance Group (GIG), which was established in 1962 and operates across the region, together constituted the entire insurance market, until the economic boom of the late 1990s and early 2000s saw the establishment of a raft of new underwriters.

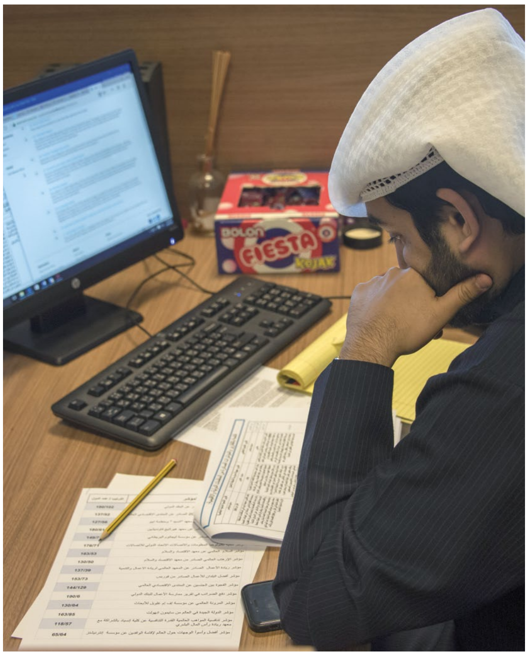
The oil-fuelled speculation of the mid-1970s and the 1977 crash of the Kuwait Stock Exchange (KSE) decimated much of the country's financial infrastructure and threatened even its most prominent underwriters with dissolution (see Capital

Markets chapter). Led by the Kuwait Investment Authority, which ranks today as the world's oldest and fourth-largest sovereign wealth fund, the state bailed out several critically illiquid businesses. This intervention ushered in a new era of commercial investment by state-owned institutions, with OECD data showing that, even as late as 1993, the KIA owned more than 80% of GIG, nearly 60% of Warba, 20% of AAIC and almost 10% of KIC.

While the 1990-91 Gulf War severely disrupted the insurance market, the conflict emphasised the importance of insuring assets, particularly against political risk. By the mid-1990s, the state-led recovery effort had generated considerable growth in the local economy. Brokered by new found stability, local insurers enjoyed new and generous streams of inward investment, prompting the KIA to sell of most of its stakes in local policy writers, leaving the industry largely under private control.

At the same time, in line with exponential growth in the local economy, a cohort of new underwriting firms gained footing in the market by exploiting several advantageous conditions, including the low cost of local credit, relatively low capital requirements and the KSE's high rates of return. By 2015 Kuwait was home to 23 domestic and 10 foreign insurance companies, many of which were mainly engaged in managing active investment portfolios, despite purporting underwriting to be their core business.

OPERATING ENVIRONMENT: This influx of new entrants in the late 1990s and early 2000s is at the heart of many of the challenges currently facing local underwriters. The ease of credit access and the appeal of earning revenues on the capital market contributed to a race to the bottom on premium pricing, as rival firms sought to undermine their competitors on price. This has made it a challenge for some firms to turn a profit on their core underwriting business, as investment returns have



Foreign investment surged amid the stability following the Gulf War


New firms and branches of established insurers offering only Islamic insurance have multiplied since 2000

become central components of many operating budgets. Some of the crowding that is driving down premium revenues and dampening growth can be attributed to an excess of foreign firms. Under one of the lasting provisions encoded in the 1961 insurance law, investors are allowed, irrespective of their geographic registrations, to own 100% of a Kuwaiti company's equity, which has served to expose local firms to pressure from foreign capital. As Anwar F Al Sabej, CEO of Warba Insurance, told OBG, "The difficulty is seeking to balance the top and bottom lines while constantly investing in improving internal processes, in addition to raising insurance awareness in the country and the region". A lack of reliable technical revenues has stymied innovations in design and marketing, meaning that some firms, including a few of the foremost providers, are stuck at their business volumes. Moreover, despite the multiplication of service providers, the sector is still heavily weighted at the top end, where a few large, carefully managed underwriters have remained in charge of a significant percentage of the overall market. As of 2016, the five largest players – namely KIA, GIG, AAIC, Warba and BKIC – together accounted for nearly three fifths of total sector GWP.

ADDITIONAL CHALLENGES: Growth is further encumbered by the knock-on effects of three cultural idiosyncrasies that may be, at best, indirectly addressed by way of legal amendments. First, many local insurers are family-owned businesses, which has negative impacts on their management generally and the potential for mergers and acquisitions more narrowly. Second, as the rate of penetration suggests, insurance in all of its varieties is yet to catch on across much of Kuwait, across categories of individuals, households, small and medium-sized enterprises, and corporations. This is a function, at least in part, of the depth and breadth of the social safety net supplied by the state, which provides a

As of 2015 Kuwait was home to

33

insurance providers


The state safety net grants Kuwaitis access to free health care services

The low penetration of life insurance policies, due in part to Islamic prohibitions on some kinds of investment, leaves significant opportunity for the development of sharia-compliant services.

bevy of services to citizens at heavily or entirely subsidised prices, including free medical treatment in hospitals and clinics. Given this public dispersal of risk and the generosity of the resources at their disposal in the event of emergencies, many Kuwaitis – individuals and businesses alike – do not feel the compelled to privately shoulder the burden of hedging against risk. “Kuwaitis have access to interest-free loans, so many people do not feel the need to acquire home insurance,” Joseph Bejjani, the general manager of AIG in Kuwait, told OBG in September 2017. “Additionally, life insurance presents a range of religious challenges to locals, and so many do not feel the need to buy it.”

OVERSIGHT & REGULATION: Cultural issues aside, the lack of a dedicated oversight authority is the primary hurdle to future development, according to most local players. “The insurance sector is non-controlled, and there is no regulator,” said Youssef Ghali, the CEO of the National Takaful Insurance Company (NTIC), in October 2017. “The MoCI sets the protocol for regulations, but the ministry has no audit power, which means that each company is effectively unregulated”. This situation has led to year-on-year deterioration of reserves and, as a result, market stability, as increasing numbers of firms cut premium rates to attract new business.

While questions about the specifics of reform are still pending, the MoCI and other public offices have enacted in recent years a handful of important updates to update the extant insurance law, in lieu of a complete overhaul. For instance, in 2011, ministerial resolution No. 511 established new minimum capital requirements for underwriters: composite, life and non-life insurance firms are required to maintain reserves of KD5m ($16.6m), while reinsurance groups must keep at least KD15m ($49.7m) on hand. Meanwhile, Law No. 113 of 2015 established the Kuwait Direct Investment Promotion Authority (KDIPA) as a means to facilitate inward investment. A modifier, the Council of Ministers Decision No. 75 of 2015, forbid the issuance of licences in listed sectors, including hydrocarbon extraction, fertiliser manufacture and public defence. As of mid-2018, insurance remains exempt, allowing foreign insurance providers to utilise the KDIPA as a one-stop shop for establishing licensed branches, opening representative offices, and managing Kuwaiti entities in which they may own up to 100% of the equity.

Finally, in November 2017, the Ministry of Health and the Health Assurance Hospitals Company, a public-private venture set up to handle primary and secondary care for expatriates living in Kuwait, announced that the annual health insurance fee charged to foreign residents living in the country will increase by more than two-fold, from KD50 ($431) to KD130 ($165.77), as one among several measures intended to reduce the size of the foreign workforce.

RECENT PERFORMANCE: Despite the downward pressure exerted by competition on premium prices, data from Alpen Capital estimates that GWP has increased considerably in recent years, from $820m in 2011 to $1.12bn in 2016. While year-over-year growth during the period was uneven – premium intake surged in 2014, dipped in 2015 and ticked up again in 2016 – the compound annual growth rate (CAGR) was strong, at 6.4%. Moreover, though that figure lagged considerably behind the GCC-wide CAGR of 12.1%, Alpen expects local premium CAGR to increase by 9% over the period 2016-21, on the strength of demographic growth, higher disposable income and boosted infrastructure spending.

In 2016, 83.9% of GWP was derived from non-life segments, predominantly motor and health insurance, owing in part to coverage mandates for both services. The largest portion of the market was comprised by third-party liability (TPL) policies for motor vehicles, which are required for all automobiles on the road. As is the case throughout the region, price competition has been intense, with some underwriters selling policies at a loss in their efforts to preserve market share.

Recently, some insurers have begun reducing motor TPL's share in their portfolios, in favour of more profitable segments like marine and other non-TPL motor policies. Provider interest in health services, however, is trending the opposite way, as higher fees assessed to expatriate health plans, coupled with expatriates' legal obligation to obtain insurance coverage, could significantly increase the segment's density, or GWP per capita.

In 2016 the life segment accounted for 16.4% of GWP. While life policies have long had a low market share and a slow growth vis-à-vis other policies, its year-over-year gains are more stable than those of the non-life segment. The development of sharia-compliant, family programmes may provide the means to significantly deepen the market penetration of life insurance in the country, as these schema comply fully with those principles of sharia that pertain to interest, gambling and uncertainty.

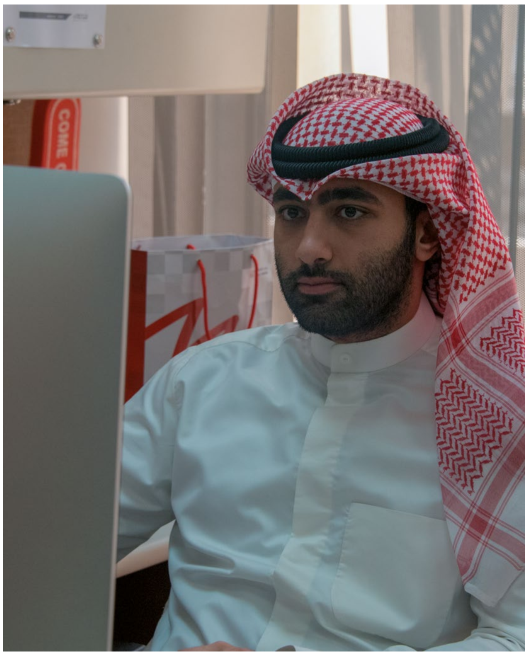
Motor vehicle insurance comprises the largest share of the market

KEY PLAYERS: At the time of publication, 23 local players and 10 foreign insurers were active in Kuwait, with five of these firms – KIA, KRC, AAIC, Warba and GIG – accounting for 56% of overall GWP in 2016. Foremost among those players is GIG, which, according to local media reports, turned net profits of KD10.3m ($34.2m) in 2017, down roughly 14% from KD12m ($39.8m) in 2016. This decline came despite a 43% increase in GWP over the same period, from KD213.2 ($706.8m) in 2016 to KD304.8m ($1bn) at the end of 2017. The total volume of the company's assets, meanwhile, jumped by nearly 32%, equal to around KD118.2m ($391.9m), to reach KD494.1m ($1.6bn) at the end of 2017. This rapid asset growth, as well as the disparity between shrinking profits and a growing premium base, can be attributed in part to GIG's acquisition of AIG Sigorta AS, a Turkey-based non-life insurance company. GIG paid $47.8m for the Turkish firm, which, in turn, pulled in

In 2016 just five firms accounted for

56%

of market share



At 44%, the non-life cession rate is above the MENA average of 29%

Profit at the first firm in the country to underwrite sharia-compliant insurance grew by

11.6%

in 2017

GWPs of $86.8m in 2016, according to Alpen Capital. By comparison, AAIC took in GWP of $202.3m, KIC earned GWP of $120.9m, Warba earned GWP of $115.2m, and KRC brought in GWP of $111.6m.

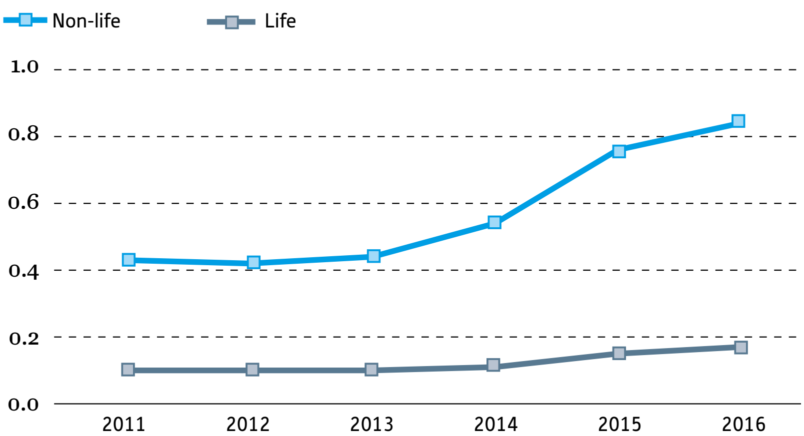
ROOM FOR GROWTH: *Takaful* (Islamic insurance) is a relatively new product in Kuwait, with the establishment of First Takaful in 2000 marking the inaugural foray into a burgeoning global market for such services. Interest in supplying such services surged in the latter half of that decade, evinced by the clutch of launches of new firms offering exclusively takaful products, as well as new products from older companies looking to diversify their holdings. Some among them have posted significant revenue growth: First Takaful brought in KD1.2m ($4m) in 2017, up 11.6% from KD1.08m ($3.6m) in 2016, providing some evidence of a local appetite for these culturally tailored insurance vehicles. This subsector growth, though, has not yet been accompanied by a shift in the legal terrain. Neither the Insurance law of 1961 nor its amendments provides for any nationwide, sharia-compliant regulatory framework, and service across the takaful market remains uneven. That said, the MoCI's reforming committee has already taken the establishment of such a framework and the standardisation it would confer into consideration in the draft of the new insurance law.

Two ICT innovations may help to further develop the insurance market. According to some local players, there is considerable potential for the development of policies covering cybercrime and digital identity theft. Joseph Bejjani, AIG-Kuwait's general manager, told OBG, "Cyber insurance, which is an important growth segment globally, has also grown rapidly in Kuwait." In 2018, meanwhile, on the strength of recent investment in e-government services, the state's Central Agency for Information Technology announced the launch of a website meant to streamline registration, renewal and other services related to the provision of health care.

REINSURANCE: In 2016 Kuwait claimed the lowest rate of insurance density among GCC states, at $263.9, compared with $487.34 across the region. Given its relatively small size, it might come as no surprise that Kuwait's insurers cede a considerable amount of insured risks – and so premium revenues – to the reinsurance industry. In 2016, for instance, the cession rate – or the portion of insurer obligations transferred to a reinsurer – for non-life policies in Kuwait was at around 44%, according to data published by Qatar Financial Centre, compared to a MENA-wide average of 29%. The fact that capital requirements for reinsurers are three greater than those imposed on other underwriters has narrowed the market relative to the insurance market as a whole, and the dividends of this risk transfer accrue to a few large firms, such as Gulf Insurance and Reinsurance Company – the local subsidiary of GIG – and Kuwait Re. The latter, which is the country's oldest reinsurer and a current subsidiary of AAIC, undertook a major portfolio realignment in 2017, resulting in a 57% jump in net profits that year.

OUTLOOK: The future of Kuwait's insurance market largely depends on the decisions of the MoCI's deliberating committee, which, at the time of publication, was still amending the draft law that will potentially replace the insurance law of 1961. Critically, that proposal includes provisions to establish a new regulatory body, reportedly to be called the Insurance Supervisory Authority, and to raise minimum capital requirements by at least 100%. Taken together, these various updates have the potential to lead to a round of mergers and acquisitions across the industry, as smaller, less competitive firms often find the stricter operating requirements difficult to abide by. Consolidation could certainly mitigate the worst dampening effects of ongoing price competition, and more stable growth in premium revenue should solidify providers' financial foundations and facilitate future investments in innovative services with high growth potential, such as takaful.

Insurance penetration, 2011-16 (% of GDP)



Source: Alpen Capital

Global Perspective

Reassuring trend

New reinsurance programmes are bolstering coverage against natural disasters in emerging markets

While advanced economies generate the vast majority of insurance and reinsurance business, emerging markets are posting higher rates of growth. Complementing this underlying trend is the strong and expanding interest in catastrophic risk, which by nature tends to pertain to emerging markets.

This is coming alongside fast-paced, sector-transforming innovation, which could provide a significant boost to industries in less-developed economies. "You have nothing but opportunity: big populations and tonnes of risks," Tom Johansmeyer, assistant vice-president of property claim services at ISO Claims Analytics, a division of Verisk Insurance Solutions, told OBG.

BY THE NUMBERS: In terms of simple throughput, insurance remains very much centred in North America, Europe and mature Asian markets. With long histories of trading risk, a general acceptance of the relevant products, and massive and increasingly vulnerable asset bases that need protection, developed economies generate steady volumes. According to insurance group Munich Re, in 2016 North America paid 31.1% of global premium, Western Europe paid 28.8% and the more advanced Asian markets, such as Japan, paid 19.8%.

However, growth rates in emerging markets outpace them by far: according to global accountancy EY, life premium in developing markets rose by 7.8% in 2014, while advanced markets grew by 4%. Those rates were 13.2% and 3.4% in 2015, respectively, 20.1% and 2% in 2016 and an estimated 14.9% against 2.1% in 2017. Particularly strong growth was noted in the life segments in Vietnam, Malaysia and Indonesia. Regarding non-life insurance, the growth in emerging markets has been in the range of 5-8.5% since 2012, while growth in developed markets has remained around 2%.

These trends are leading to a relative decline in the share of business in developed insurance markets. Munich Re has estimated that primary premium in North America will fall to 27.8% of the world's total by 2026, Western Europe to 24.5% and mature Asian markets to 17.5%. Meanwhile, emerging Asia's share will jump from 13.3% in 2016 to 21.4%, the MENA region's allocation will rise from 1.3% to 1.8%, and the share held by sub-Saharan Africa will remain at 1.1%. Swiss Re, another international reinsurer, forecasts the global rate of growth in reinsurance at 1% over the three years to 2019; by comparison, reinsurance in emerging markets is presently growing at about 10% per year.

REINSURANCE TRENDS: The global reinsurance market is on firm footing, with capital reaching $605bn at the end of the second quarter of 2017. However, according to its "Global Insurance Trends Analysis" for the first half of 2017, EY reported that 2016 was the biggest year for catastrophe (CAT) claims since 2012, with $54bn in losses reported on $210bn of damage, a coverage rate of 26%. In the first six months of 2017 the proportion of insured losses rose to 42% of the total.

Reinsurance returns are already at or below the cost of capital: Fitch ratings agency expected return on equity to fall from 8.5% in 2016 to 2.1% in 2017, but forecast it would increase to approximately 7.1% in 2018. The cost of capital for companies, meanwhile, is thought to have ranged between 6% and 7% in 2017.

MICRO-INSURANCE: In August 2017 a global partnership was formally forged between the global insurance industry and the UN, which will help boost the micro-insurance segment. Swiss Re has forecast that this market could cover as many as 4bn people. As the market increases in size, added capacity will be needed beyond what domestic markets can provide, making international reinsurers vital to expansion, though to date their participation has been limited.

While major reinsurance companies are supportive of micro-insurance – especially in terms of grants, research and promotion – the exact level of their engagement in the risk transference part of the equation remains unclear. This is partly a structural issue: the insured amount is usually so low with micro-insurance that reinsurance rarely kicks in on a per policy basis.

Reinsurance in emerging markets is growing by roughly

10%

per year, compared to 1% globally

Around $54bn in insurance losses were reported on $210bn of damage in 2016, making it the biggest year for catastrophe claims since 2012.

One of the main avenues to emerging markets for reinsurers is through catastrophe coverage, as developing countries often need to go abroad to cover major disasters, due to limited domestic capacity.

INDEX LINKING: For the most part, reinsurance companies are only involved with the micro-segment indirectly via the index-linked market, and a number of programmes are under way to increase reinsurance participation in this market. For instance, Mongolia's Agriculture Reinsurance (AgRe), which provides index-based livestock cover, is supported by major international players, including SCOR, Swiss Re and Qatar Re. AgRe was originally formed with the assistance of the World Bank in 2005, becoming a fully fledged corporate entity in 2014. Despite early losses, it has been in positive territory every year since 2010, according to company data. In 2015 the International Financial Corporation, part of the World Bank Group, opened the Global Index Insurance Facility (GIIF), a donor-funded programme designed to support index-linked insurance in developing countries, with Swiss Re as its technical partner. In that same year, France's AXA announced it would provide reinsurance capacity for weather-linked products introduced by the World Bank under the GIIF.

CATASTROPHE RISK: One of the main avenues to emerging markets for reinsurers is through CAT coverage. Developing countries are often compelled to turn to overseas firms to cover major disasters, as they have limited domestic capacity due to the size of their economies and local insurance markets. It is also a product line where the modes of participation for international reinsurers are straightforward, with ample opportunity for innovation and product development. The triggers are transparent, the events are well defined and the duration of the cover tends to be short.

Although CAT coverage is needed and utilised everywhere, and most claims are paid in developed markets, the insurance is particularly suited to emerging economies. Because of their geographies, populations and lack of infrastructure, these countries tend to be most affected by weather-related and seismic events. Thailand, the Philippines, Mexico, Indonesia, Papua New Guinea and a number of sub-Saharan African nations, among many others are all highly vulnerable to natural disasters and are good candidates for coverage.

A number of these programmes are already in place. For example, the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which is currently owned and operated by 16 governments from the region, was created in 2007 with international assistance. It is the first and only regional fund to date that pays out claims based on statistical parameters rather than actual losses incurred. Reinsurance is a key component of the coverage, as it allows for the purchase of CAT insurance at lower rates than would usually be available commercially. Payouts from the CCRIF totalled $100m as of late 2017.

Another such entity is the Pacific Catastrophe Risk Insurance Company (PCRIC), which covers the Cook Islands, the Republic of the Marshall Islands, Samoa, Tonga and Vanuatu. The entity was designed to pool risk and tap international reinsurance markets to cover key regional vulnerabilities, such as tsunamis, earthquakes and cyclones. Established in June 2016 on the heels of a pilot programme that ran from 2013 to 2015, the PCRIC mobilised $45m worth of coverage for the 2017/18 cyclone season, up from $38m a year earlier.

In 2014 the African Union launched the African Risk Capacity (ARC), a CAT fund that covers member states against weather-related damages. It aims to have $1.5bn of coverage available by 2020, although it will likely require significant support to meet this goal. In this regard, the ARC has reported that the response from the reinsurance market has been positive so far.

INNOVATION: Adding to traditional reinsurance arrangements, CAT bonds and CAT swaps are becoming part of the landscape. These developments allow for the quick identification of risk and deployment of capital, in turn resulting in highly competitive terms. As reinsurance further orients itself towards capital markets, some developing markets may be better served.

For instance, Mexico's Fund for Natural Disasters (Fondo de Desastres Naturales, FONDEN) uses an index based on the Richter scale to provide reinsurance to cover costs after the country's earthquake insurance fund is tapped out. In 2017 FONDEN sold a $360m CAT bond, surpassing the $290m that was initially planned.

In the Philippines, a parametric disaster line to cover the 25 most disaster-prone provinces was initiated in 2017. The fund, valued at P1bn ($19.8m), received support from the World Bank, with the risk fully ceded to international reinsurers. In a related development, the World Bank arranged a $206m CAT swap line for the country, which will cover typhoon and earthquake risk.

At a global level, the World Bank has initiated a pandemic CAT programme, issuing a $320m bond and completing $105m worth of swap transactions in 2017. The pandemic emergency financing facility will provide cover for the flu; coronaviruses, such as SARS; filoviruses, including Ebola and Marburg; Crimean-Congo fever; Rift Valley fever; Lassa fever; and others. World Health Organisation data on the number of people affected by an outbreak is used to trigger payments.

The size of the CAT bond market has more than doubled over the past decade. It reached record volumes in 2017, estimated at $12bn, with more than $30bn outstanding. There are signs that alternative financing is outpacing traditional reinsurance, which could have a major impact on developing economies, given the speed and flexibility of market-based solutions.

BARRIERS TO RISK: Historically, issuers of micro- and index lines have faced challenges in generating sufficient demand for these products. The Manggarai Water Gate micro-insurance programme, for example, was established in 2009 with the help of Munich Re. It paid out a fixed amount when the level at the Manggarai Gate – built to help control floods in Jakarta – breached a predetermined level. However, the demand was not there: only 50 policies were sold, and as a result, the programme was discontinued in 2010.

In terms of index-linked initiatives, it is not clear whether or not these securities can be fully self-sustaining, as most such programmes rely on significant multilateral and donor support. Owing to their size, the markets in places like China and India are able to fund the risk internally, But in smaller markets, the mismatch between the potential losses and the critical mass on the ground is substantial. Island nations in particular lack the domestic markets to fund the amount of reinsurance required to cover inevitable natural disasters.

Poor performance also threatens the sector, and one major loss can shift sentiment, which can freeze markets and make risk difficult to transfer. For instance, an 8.1-magnitude earthquake in Mexico in August 2017 could have wiped out FONDEN's financing completely. Although the payout ended up being a manageable $150m, it highlighted potential problems.

STRUCTURAL RISKS: There are also common structural risks in emerging markets, such as limited data and underwriting experience. However, advances in technology should see these areas improve over time, and some emerging markets already have a substantial amount of detailed information available. For example, Papua New Guinea has 50 years of cyclone data, while Mongolia's livestock census records date back to 1918.

Distribution is another widespread issue in emerging markets, as extending coverage to both individuals and corporations can often be challenging. More involvement by reinsurers at the local level is one potential solution; however, this sort of activity is outside of their normal fields of operations and responsibility.

Globally, the reinsurance market is becoming increasingly concentrated – the top-five players currently control around 90% of activity – but in some cases local markets are becoming too competitive, which can lead to mismatches in terms of pricing. In Papua New Guinea, foreign exchange restrictions have led to reinsurance payment challenges, while in other markets, the fall in local currencies has led to a decline in the market size in dollar terms, despite strong business.

LOOKING AHEAD: The reinsurance sector is changing in both developing and emerging markets all over the world. Although natural disasters have led to a tightening of the market, new technologies and innovation are assisting insurers and reinsurers in reaching historically underpenetrated areas. Alternative solutions are likely to create uncertainties as well as opportunities, but all indications suggest that reinsurance in emerging markets is set to grow in both absolute and relative terms.

Although natural disasters have led to a tightening of the market, new technologies and innovation are assisting insurers and reinsurers in reaching historically underpenetrated markets.

Transport & Logistics

Efforts under way to enhance public transit system

Congestion reduction to ease passage across borders

Airport expansions reflect rising passenger numbers

Long-term plans focus on environment and efficiency

At end-2016 the country had approximately 7620 km of paved roads

New gateways

Developments promise to improve transport by land, sea and air

In 2017 the transport sector's GDP grew by 6% at constant prices to

$4bn

With major new development projects under way across all transport sectors, Kuwait is pouring billions of dinars into transforming its roads, ports and airports. The country's medium-term objective is to capitalise on its strategic location in order to become the northern nexus of the Gulf, facilitating and profiting from flows of international trade across the region for decades to come. In the shorter term, Kuwait faces challenges in tackling delays and congestion that slow the flow of goods and people around the country and across its borders.

SECTOR SIGNIFICANCE: Activity in the transport sector made a significant and growing contribution to Kuwait's economy in 2017. According to data from the Central Statistical Bureau (CSB), sector GDP rose by 11% at current prices to KD1.3bn ($4.3bn) and by 6% at constant prices to KD1.2bn ($4bn). That year the industry contributed 6.6% of non-oil and 3.6% of total nominal GDP, and 7% of non-oil and 3.7% of total real GDP. The Public Authority for Civil Aviation revealed in June 2018 that the transport, storage and communications sectors employed 69,421 private sector workers and 102 government staff at that time.

GOVERNMENT SUPERVISION: A number of different government bodies have responsibilities pertaining to transport. The portfolio of the Ministry of Communication includes transport, postal services and telecommunications, and the ministry originally held responsibility for road and maritime transport issues. Amiri Decree 115 of 2014 established the Public Authority for Roads and Transportation (PART), giving it responsibility for delivering an integrated and sustainable land transportation system for Kuwait. Its board of directors includes representatives from 11 government ministries and departments. PART was tasked with planning the introduction of light rapid transit and rail solutions. The Ministry of Public Works (MoPW) also plays a key role in commissioning, tendering and overseeing infrastructure projects. In May 2018 a review of major projects by the National Bank of Kuwait's (NBK) economic research department reported that the MoPW was reviewing PART's mandate for overseeing transport schemes following parliamentary questions about its role and interactions with other government agencies. The Directorate General of Civil Aviation (DGCA) was formed in 1975 when the government's Civil Aviation Department was renamed. Its duties include air safety and the development of the aviation sector, while the Kuwait Ports Authority's jurisdiction includes maritime traffic and control of the country's seaports and terminals. The Ministry of Interior oversees visas, immigration and the monitoring of traveller numbers.

TRAFFIC INDICATORS: Data collated by the CSB for 2016 shows that traffic on Kuwait's roads, and through its ports and airports increased significantly between 2007 and 2016. In that 10 years the numbers of vehicles on the roads grew by 55%, from 1.29m to 2m. Furthermore, private car numbers increased at the same rate, from 1.03m to 1.6m, and private trucks increased by 56%, from 165,252 to 258,394. The number of construction vehicles rose by 78%, from 12,594 to 22,441.

Over the same ten-year period, Kuwait's ports saw tonnage handled increase by 51%. From 2012 to 2016 the volume of sea cargo loaded and unloaded increased by 20%, from 39.9m to 42.3m tonnes, while the throughput of twenty-foot equivalent units (TEUs) or containers, including imports and exports, grew by 21.5%, from 824,196 to over 1m TEUs per annum. The most significant increases in traffic in the ten years from 2007 to 2016 were seen at Kuwait International Airport, which has a maximum capacity of 7m passengers. The number of flights grew by 77%, from 54,773 to 96,990, while passenger numbers grew by 70%, from 6.9m to 11.76m. The DGCA revealed in early 2018 that annual passenger numbers had grown 17% since 2016, reaching 13.7m – almost double the intended maximum capacity of the facility.

INTERNATIONAL INDICES: The congestion experienced by travellers and shipping companies is reflected in Kuwait's ranking and performance in a number of key international indices. In the World Economic Forum's 2017 Global Competitiveness Index of 137 countries, Kuwait's rank fell from 38th to 52nd. The index compares 12 pillars of each economy, with infrastructure and goods market efficiency being particularly relevant to assessments of its transport sector. Kuwait's infrastructure as a whole ranked 64th, and in the sub-categories for roads, ports and airports it placed 63rd, 78th and 117th, respectively. While these aspects of the study are indicative of the physical state of the country's road, maritime and aviation infrastructure, Kuwait's goods market efficiency rank of 89th is more a reflection of the performance of its systems and processes. The report ranked Kuwait 103rd under the heading "burden of customs procedures", while a survey of Kuwaiti business leaders revealed that the most common complaint, registered by 21.7% of respondents, was the ongoing presence of inefficient bureaucratic procedures.

The World Bank publishes two separate reports that give indicators on transport and logistics. "Doing Business 2018" ranked Kuwait 96th out of 190 countries, and calculated that the country's distance to the frontier was 61.23, where the optimum score is 100. Across the 10 categories, Kuwait's lowest score was in an area of the economy with great pertinence to transport and logistics: trading across borders. By this measure Kuwait ranked 154th out of 190, and had a distance to frontier score of 54.24. The report noted that border compliance for exports took 96 hours to receive, and it took the

Maritime trade is a central focus of the New Kuwait 2035 vision

Activity in the transport sector continues to a make significant and growing contribution to the economy

same length of time to obtain documentary compliance for imports. Import border compliance took 89 hours, with businesses waiting up to 72 hours for export document clearance. It was also costly, with exporters paying $602 plus $191 for border and export compliance, and importers charged $491 for border compliance and $332 for import documents.

The World Bank's Logistics Performance Index, published in 2016, ranked 159 countries. Kuwait came 53rd overall, with the following sub-category ranks: Customs (56th); infrastructure (56th); international shipments (24th); logistics quality (70th); tracking and tracing (53rd); and timeliness (55th).

CUTTING RED TAPE: In June 2017 the World Bank surveyed all countries in the Doing Business report in order to establish whether or not port authorities and Customs officials were using two specific digital methods to encourage speedy and effective clearance: a Customs Electronic Digital Interchange (EDI) system and an Electronic Single Window (SW). Kuwait was using the Global Link EDI system for all imports and exports, but it did not have an SW system installed. The World Bank observed in 2017 that using a single electronic gateway to submit online documents to every relevant government agency at once has enabled many trading nations to become more efficient and competitive. However, it noted that is not possible to install a one-off "plug and play" system that is used elsewhere in each country, and many economies are held back by lack of coordination and digital awareness among their disparate government agencies.

ROAD WORKS: As it strives to ease traffic congestion on highways, Kuwait is investing billions of dinars in road building. At the end of 2016 the country had 7620 km of paved roads, representing a 25% increase in its street network since 2007. 102 km of new roads were laid in 2016, which matched the progress made in 2015. Although there were

As it strives to ease congestion on existing streets, build new towns and improve regional highways, Kuwait is investing billions of dinars in road building.

some delays in new project awards in the second half of 2017, work continued on major infrastructure schemes, as well as on new suburban streets.

The most high profile highway scheme that is under way in in the country is the construction of two bridges that will connect Shuwaikh Port with the western tip and northern shores of Kuwait Bay. The 12.4-km Doha link will carry three lanes of traffic in each direction and create major new intersections that are expected to serve Kuwait for the next 30 years. At the eastern extreme, the Shuwaikh interchange will serve as the starting point for both new bridges. Traffic heading west will come to the Doha interchange and can then turn south on the Doha Peninsular Road to the new Entertainment City interchange. Traffic heading north from Shuwaikh will take the Sheikh Jaber Causeway to the Subiyah district, a journey that will reduce the driving distance from 104 km to 36 km. It will form a strategic highway carrying traffic from Kuwait to the site of the planned Silk City development and beyond to Boubiyan Island, drawing together the northern and southern parts of the country. Work commenced on the KD738m ($2.5bn) causeway project in November 2013 and is due to be completed by November 2018.

ROAD TENDERS: A number of the key road building projects awarded to construction companies in 2017 and 2018 were related to the development of Subiyah and the surrounding area. These include a KD212m ($703m) project for infrastructure, consisting of roads in South Al Mutlaa, and additional works tendered by the Public Authority For Housing Welfare in the first few months of 2018.

It was anticipated that an additional crossroads construction project for South Al Mutlaa would be awarded in 2018, after a KD85m ($282m) bid encountered problems obtaining credit for the scheme. Furthermore, the existing road network is being enhanced with a new KD26m ($86m) intersection at Fifth Ring Road and King Abdul Aziz Road. In the first three months of 2018, projects with a combined value of KD139m ($461m) were awarded to improve Kuwait's Regional Road South and to complete works on the Northern Regional Road from Abdaly Expressway to Future Crossroads.

An improved metro network will reduce pollution and travel times

Between 2007 and 2016 the country's ports saw the tonnage they handle increase by more than 51%

SEAPORTS: Kuwait is served by three seaports. Shuwaikh Port is 4055 metres in length, and has 21 berths. Seven of these can accommodate vessels with deeper drafts: three with 6.7-metre depths and four with 8.5 metres. Vessels with 9.5-metre depths are able to dock at high tide. Berths 10, 12 and 13 receive container ships and have gantry cranes with 65-tonne capacities. The port has 16 closed warehouses and a total area of 170,323 sq metres. Shuaiba Port is 4068 metres in length, and has 20 berths with depths ranging from 7.5 to 14 metres. Four are dedicated to container handling and are equipped with seven container gantry cranes, each with a capacity of 56 tonnes. Kuwait National Petroleum Company also operates an oil pier at the port, which has a depth of 16 metres and exports sulphur and petroleum coke. Meanwhile, Doha Port has a depth of 4.3 metres and is used by dhows, barges and coastal vessels operating between Gulf ports.

Maritime trade is a central focus of the New Kuwait 2035 vision, and Mubarak Al Kabeer Port on Boubiyan Island is expected to be a major regional hub after its scheduled opening in 2019. With an anticipated final investment of KD1.2bn ($4.0bn), Mubarak Al Kabeer Port will have 24 berths and a capacity of 8.1m TEUs. In March 2018 Kuwait Investment Forum was advised that Mina Mubarak Al Kabeer was 51.5% complete. Kuwait is not the only country in the Gulf investing in considerable increases in port infrastructure. In particular, Dubai is planning new capacity of 3.1m, 1m and 4m TEUs at Jebel Ali's Terminal four, two and three, respectively.

A highway scheme is under way to construct two bridges that will connect Shuwaikh Port with the western tip and northern shores of Kuwait Bay.

Terminal 4 at the international airport was opened in August 2018

Kuwait's national carrier has invested $5bn to modernise its fleet, purchasing 10 Boeing 777s for $2bn and leasing 15 A350s for $3bn.

A study by Eleonora Ademagni of the Aspen Institute in Italy states Iran also plans to expand its major container facility, Shahid Rajaeed Port in Bandar e-Abbas, from 4m TEUs to 6m TEUs. By the end of 2019, Iraq's Port of Umm Qasr will invest $250m to increase its container handling capacity, and at the February 2018 Kuwait International Conference for Iraq Construction, potential investors were presented with extensive plans for southern Iraq. Iraq's National Investment Commission told delegates that the $6bn Iraqi Grand Port of Al Faw project at Basra would be completed in three phases between 2018 and 2038, and that the facility would eventually allow for 70m tonnes per annum of containers and 40m tpa of unpacked cargo. These moves reflect a broader global trend. "Shipping is a global industry, where trends have been moving towards increased efficiency through larger ship capacity, technical advances, and increased availability of data," Bader Al Kashti, chairman and managing director of the Kuwait Oil Tanker Company, told OBG. "The global nature of the industry also means that companies are constantly investing to keep pace with safety and environmental requirements as they are updated".

AIRPORT EXPANSION: Kuwait's overcrowded international airport has been the focus of several expansion projects. In August 2018 a support facility, Terminal 4, opened as a stop-gap measure while work on the new $4.3bn Terminal 2 continued. Terminal 4 will be used exclusively by the national carrier Kuwait Airways. The KD52.89m ($175.4m), 55,000-sq-metre facility has nine gates and 2450 parking spaces. Plans to build Terminal 4 were announced in 2015 when it became clear that the country could not wait for the major Terminal 2 project to be completed. Work on Terminal 2 began in 2017, and is being completed by Turkish company Limak and Kuwaiti firm Kharafi International. Construction is expected to take four years and will increase capacity to 13m, with provision to grow to 25m in the future. Sheikh Salman Al Humoud Al Sabah, director-general of the GDCA, told the Kuwait Investment Forum in March 2018 that more than $25bn is projected to be invested in the aviation sector in the years to come.

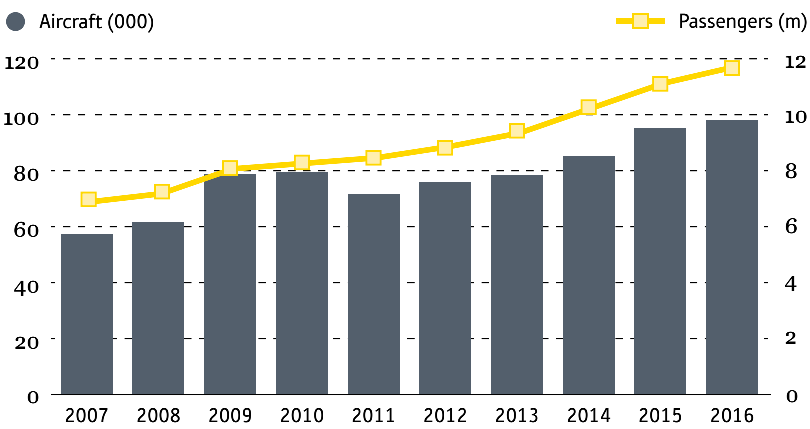
In addition to the construction of Terminal 2, a 3m-sq-metre temporary cargo facility called Cargo City will be built. Increasing volumes of cargo are driving demand for the new location. "We are looking forward to the expansion of the airport's facilities, because we hope it will lead to increased capacity and a reduction in delays, which will enable us to improve the services we provide to our customers," Sheen Thomas, Sales Manager, Hellmann Worldwide Logistics, told OBG. Sheikh Al Sabah also announced that beyond the expansion of the existing facilities, a completely new $12bn airport with a capacity of 25m passengers would be built in the north of Kuwait. He reported that in the shorter term, national carrier Kuwait Airways had invested $5bn to modernise its fleet, purchasing 10 Boeing 777s for $2bn and leasing 15 A350s for $3bn. According to local media reports in 2018, the state-owned airline had losses of KD47.426m ($157.2m) in 2016.

The private airline Jazeera completed its own terminal (T5) at KIA in mid-2018. The new 4750-sq-metre terminal has a capacity of 2.5m passengers and parking for 350 vehicles. In 2017 the company saw revenues climb by 7.3% to KD56.6m ($187.7m) while net profits fell by 23.7% to KD8.2m ($27.2m). Another private Kuwaiti airline, Wataniya Airways, invested $2.7bn ($9.0bn) in 2017 in a fleet of 25 Airbus A320neo aircraft. In June 2017 the DGCA granted Wataniya a licence to operate from Kuwait Airport.

OUTLOOK: With the opening of its new causeways, port and expanded airport, Kuwait's ongoing investment in its land, sea and air infrastructure should yield positive results by the early 2020s.

Each of these new facilities has an important role to play in the country's long-term goal of diversifying, moving its economy away from oil and reinventing itself as a vibrant trade centre in the northern Gulf.

Air traffic at Kuwait International Airport, 2007-16



Source: DCA

Sheikh Yousef Al Abdullah Al Sabah Al Nasser Al Sabah, Director-General, Kuwait Ports Authority

Port potential

Sheikh Yousef Al Abdullah Al Sabah Al Nasser Al Sabah, Director-General, Kuwait Ports Authority, on infrastructure progress

How would you characterise the development of port infrastructure in Kuwait compared to other countries in the Gulf?

AL SABAH: We are in the development phase of the New Kuwait 2035 strategy, which seeks to transform the country into a financial and commercial hub in the region. In order to serve our neighbours, we need to develop our ports to enable greater container throughput. We also need to increase throughput for general cargo, such as machinery, pipes, and raw and construction material.

The region has experienced significant port infrastructure developments in various countries. The region has also witnessed overall population growth, which has led to increased port activity. Moreover, population growth has resulted in growing demand for daily consumable items to be imported from different parts of the world to the region, which has created an increasing need for the development of port infrastructure in all GCC countries. In fact, the consumer market drives the majority of cargo port activity in Kuwait, followed by cargo related to government projects, which make up around 20% to 25% of total port activities. Lastly, similar to many other countries in the Gulf, Kuwait's economic strategy includes reducing its reliance on oil in the years to come. Since port activities reflect a country's macroeconomic performance, Kuwait's ports are expected to play a key role in handling more diverse shipments going forward.

What upcoming infrastructure development projects could help transform Kuwait into a regional transport and logistics hub?

AL SABAH: Net profits from our ports are equivalent to approximately 35% of total KPA revenue. Therefore, the best investment for us is to continue developing economically viable port infrastructure projects that increase the prospects of high returns.

Developing current port infrastructure complements the new projects we are developing. Although we have to invest in existing port infrastructure to increase overall efficiency by replacing water systems and mechanical systems, we are also investing in brand new development projects, such as the Mubarak Al Kabeer Port on the largest island in the country's coastal chain, Boubyan Island. The major $1.6bn container seaport project is expected to allow the Kuwaiti economy better access to previously untapped markets, particularly in Asia. For example, since Hong Kong and Singapore are both cargo and shipment hubs for the Asian region, access to these countries also means access to Japan, Indonesia and China. Furthermore, Kuwait could benefit from the experiences of these countries with regards to general and bulk cargo.

Additionally, cargo shipments to former USSR countries located to the north-east of Kuwait are expected to be facilitated by the Mubarak Al Kabeer Port. Once the necessary infrastructure has been set in place, Kuwait could serve as the principal passageway for the transport of goods from markets across Asia to the rest of the Gulf region, as well as to countries of the former USSR.

Other projects in the pipeline include the development of logistic cities around Kuwait, such as the one we are planning next to Doha Port. Our goal is to move away from warehousing to provide a complete logistics service. We are also working on developing the Port Community System (PCS), which will integrate all ports and government agencies into one digital portal. The system is expected to operate as a control centre, with the goal of achieving transparency and efficiency in the handling of all port operations. The PCS will also transfer current paperwork clearance to an online digital system, which will eliminate any unnecessary bureaucracy and provide live data to allow operational optimisation.

Plans are under way to reduce congestion on Kuwait's busy streets

Strong connections

New rail system to be environmentally friendly and efficient

It will cost an estimated
$31bn
to complete the national rail network

As the infrastructure schemes identified in Kuwait's 2035 strategic plan are implemented, high-speed international passenger rail journeys from Boubiyan to Dammam and daily metro commutes from suburbs to commercial districts could be a feature of daily life as early as the 2020s. A national rail network has also been designed to connect to other GCC countries and carry freight and passengers around the region, while the Kuwait Metropolitan Rapid Transit (KMRT) system was approved in 2012 in the hope of alleviating urban congestion by offering millions of commuters an environmentally friendly alternative to the roads. Both networks have been mapped out in detail, and Kuwait's strategic planners consider them vital in the effort to increase productivity and connectivity.

NEW KUWAIT: Kuwait's railway will form the northernmost section of the GCC railway network, with a 317-km-line running from the Iraq border to Saudi Arabia. An additional 257 km of track will feed into the main line. Subject to satisfactory agreements with Iraq, passengers and freight will be able to pass through the new Silk City and Mubarak Al Kabeer Port into Basra and beyond. The goal is to reduce reliance on road transport, increase trade between the Gulf states and Iraq and to provide jobs for Kuwaiti citizens. The Kuwait National Development Plan, New Kuwait, is a project conceived to transform Kuwait into a financial, cultural and institutional leader, and estimates it will cost KD922m ($31bn) to complete the rail network. In addition to the main railway network, New Kuwait estimates that a metro network for the capital will cost KD3.46bn ($11.5bn) and be capable of carrying 19,000 passengers at rush hour. This will alleviate congestion, reducing air pollution and commuting times. The plan envisions both a subway and suspended metro network. When New Kuwait launched in January 2017, it was anticipated that the railway network would be completed by 2018, and the metro by 2019; however, in June 2018 the New Kuwait website reported that just 28% of the rail project had been completed, along with 11% of the metro scheme. At the time of publishing, neither project had been tendered.

One proposal for the new metro system includes an underground section comprising 68 stations that would run through the central business district.

IMPLEMENTATION: In the first quarter of 2018 the National Bank of Kuwait (NBK) reported on Kuwait infrastructure project progress, finding that there were delays with both the railway and metro projects, stemming in part from possible restructuring of government agencies. In FY 2016/17, the responsibility of arranging tenders for the construction of both schemes had been transferred from the Ministry of Public Works and minister of communication to the Public Authority for Roads and Transportation (PART). The NBK report also noted that Parliament had raised questions about inconsistencies in the roles of different agencies.

PPP MODEL: The plan to use a public-private partnership (PPP) model to finance both schemes meant that the Kuwait Authority for Partnership Projects (KAPP) would be responsible for arranging the project's feasibility studies and tendering. Its website notes that the Kuwait National Rail Road (KNRR) project is in the feasibility phase, but that the intention is to implement it on a build-own-transfer (BOT) basis.

KAPP also notes the importance of the new railway in connecting Kuwait City to the international airport, seaports and other GCC countries in order to speed communication and facilitate increased trade. KAPP describes the KMRT project as a 160-km network serving the metropolitan area of Kuwait City. Proposals include an underground section running through Kuwait's central business district with a total of 68 stations: eight underground stations, a subterranean link at the international airport, and the remaining network running above ground.

Local media reported in September 2017 that Motlaq Al Sanea, KAPP's director general, had told them the $7bn metro project was "back on track" following a successful feasibility study and government approval. Al Sanea said KAPP hoped to have discussions with banks and investors in order to establish a possible PPP finance model for the scheme.

DELAYS: Progress on the metro scheme has been slower than anticipated. In May 2008 Railway Gazette reported that tenders for the project would be issued in July of the same year. At that point, annual ridership was estimated at 69.1m passengers and the scheme being discussed was expected to cost $11.3bn. According to the report, the national rail project was also being planned at that time. Since the 2008 report was published, the number of vehicles on Kuwait's roads has increased by 48%, from 1.35m to 2m in 2016. Concerns about traffic jams have been raised in Parliament, with one minister calling for all expatriate residents to be charged a $3300 annual fee for vehicle ownership, in an attempt to deter car usage among non-citizens. This proposal was rejected in February 2018.

BUSES & TAXIS: According to the Ministry of Interior, 80% of the 2m vehicles on the road in Kuwait in 2016 were private vehicles. Kuwait Public Transport Company (KPTC), which is owned by the government's Kuwait Investment Authority, offers bus services, as do two private companies: KGL and City Bus. However, Kuwait does not have a public transport regulator and while bus companies offer services in the busiest areas, they do not cover less-profitable districts.

Between 2012 and 2016, the total number of passengers using the three companies fell by 17% to 87,349; however the two private companies saw a 43% increase in numbers over that period, while KPTC's passenger figures fell by 67%. The company believes that a government regulator for the sector could improve the service and also ease congestion. "If there was a regulator, there would have to be commitments from operators, and companies could be offered subsidies to run routes through under-served parts of Kuwait," Abdulla Naser, executive director for transport affairs at KPTC, told OBG. "The regulator would also control the flow of traffic and so prevent the situation today, where sometimes you can see 10 buses at a set of traffic lights, effectively contributing to congestion rather than alleviating it." Major employers offer some bus services for their workers, and the government's state schools are served by a bus fleet. There were more than 16,000 registered taxis in 2016. Taxis in Kuwait are metered, but there is limited enforcement of meter usage, particularly with licensed vehicles operating from the airport. Some licensed taxis use the hailing application Careem, which is permitted.

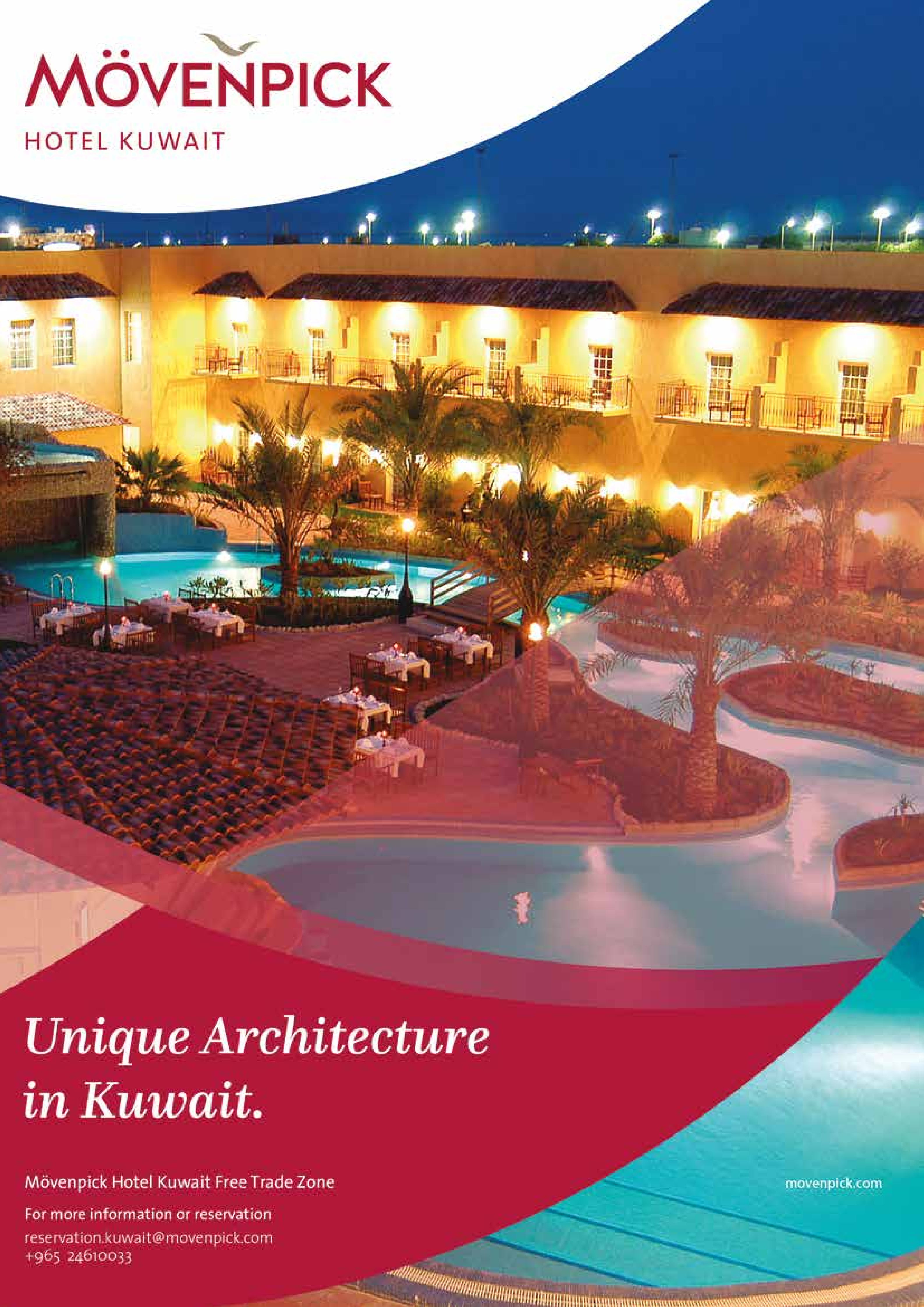
There are more than 16,000 taxis currently registered in Kuwait

According to government data, 80% of the 2m vehicles on the road in Kuwait in 2016 were private vehicles

In a 2018 survey on traffic congestion and urban growth, 70% of respondents said they would like to use the train in the future.

PUBLIC SOLUTIONS: As Kuwait expands beyond its existing metropolitan area and starts to build as many as 12 new towns, academics suggest there is an ideal opportunity to integrate light-rapid transit systems into the blueprints for these communities.

The academic journal Heliyon's March 2018 issue featured a paper by University of Queensland's Nayef Alghais and David Pullar, which used computer modelling to create and display projections of urban growth and traffic congestion in Kuwait. Their results suggested that construction of homes in new cities in Kuwait would eliminate the housing shortage and lead to a decrease in population density by 2050, but that traffic congestion would be reduced more effectively if a rail network was developed to serve the new communities. Over 1200 people were surveyed about their views on housing and public transport, and responses showed that people were enthusiastic about the prospect of rail transport. Of those surveyed, 99% said they prefer to use their own vehicle, and 70% said they would like to use the train in the future. "If you build a new city, you need a tram or metro, and I believe that when it proves to be more convenient and efficient, it will be used by Kuwaitis and expatriates alike," Naser told OBG. "You only have to look at the underground, metro or subway in London, Paris or New York. These were not built with wealthy citizens in mind, but now everybody uses these networks. We are planning this infrastructure to serve Kuwait for the next 50 or so years."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Energy & Utilities

Ambitious long-term production targets being pursued

Renewable generation gets boost from new solar farm

Government offering public stakes in large projects

Oil prices rebound on the back of production cuts

Moves to further strengthen water infrastructure

The energy sector accounts for around 90% of government revenue

Building capacity

Ambitious production targets are creating a raft of opportunities

Kuwait holds
6%
of global proven oil reserves

The energy sector is the backbone of Kuwait's economy, accounting for roughly 90% of both exports and government revenue. Ambitious mega-projects led by state-owned companies responsible for the extraction, processing and marketing of oil and gas also drive the non-oil economy by supporting tens of thousands of jobs in engineering, construction and support services. Despite the sharp fall in oil prices starting in 2014, progress on these projects and investment in new technology across the energy and utility sectors continues. With self-imposed production cuts involving major oil-exporting countries coming to an end, the strategic intent is to transform Kuwait from a country that primarily pumps and exports crude oil, to one with an integrated energy industry. Sector goals include optimising oil extraction, realising the full potential of domestic natural gas fields and doubling refining capacity to produce cleaner fuels and increased volumes of feedstock for a more diversified downstream sector.

HIGH USE, HIGH POTENTIAL: Kuwait is one of the world's highest per capita consumers of primary energy, with each of its 4.1m residents consuming 9.6 tonnes in 2017, or 39.3m tonnes in total, according to BP's "Statistical Review of World Energy 2018". The country has proven oil reserves of 101.5bn barrels, or 14bn tonnes, representing around 6% of the global total. This is also the second-highest figure for any GCC country after Saudi Arabia, which was estimated to have 266.2bn barrels, or 36.6bn tonnes. To compare, regional neighbours Iran and Iraq have reserves of 157.2bn and 148.8bn barrels, respectively. In 2017 Kuwait produced 3.03m barrels per day (bpd), a 3.8% drop on the year before, but in-line with production figures for the previous five years, which averaged out to approximately 3.1m bpd.

With self-imposed production cuts involving major oil-exporting countries coming to an end, the strategic intent is to transform Kuwait from a country that primarily pumps and exports crude oil, to one with an integrated energy industry.

HISTORY: The first concession agreement for oil drilling was signed in 1934 with the Kuwait Oil Company (KOC), a joint venture formed by the Gulf Oil Company, now known as Chevron, and the Anglo-Persian Oil Company, now known as BP. The newly formed firm made its first significant discovery in the Burgan field in February 1938.

Preliminary oil exports came in 1946, and by 1972 the privately owned KOC had reached output of 3.27m bpd, with production reaching as much as 3.7m bpd some days – the highest rate in the country's history. That same year saw the government acquire a 25% stake in the company, with this share gradually increasing over the next three years until it had fully nationalised KOC in December 1975.

NATIONALISATION: Prior to the nationalisation of KOC, the government formed the Supreme Petroleum Council in 1974 to devise policy, while the Ministry of Oil was tasked with overseeing the sector as a whole. The council remains one of the highest-ranking bodies in the industry today. With KOC in government ownership, the Kuwait National Petroleum Company (KNPC), which managed downstream refining and marketing, and the Petrochemical Industries Company were also nationalised in 1975 and 1976, respectively.

Onshore oil production in the Partitioned Neutral Zone (PNZ) between Kuwait and Saudi Arabia as well as the Mina Abdullah Oil refinery were developed by the American Independent Oil Company, which was nationalised in 1977 along with the Kuwait Oil Tanker Company (KOTC) in 1979.

Unlike some of its GCC neighbours, Kuwait's constitution does not allow foreign firms to own concessions in oil and gas, with the country preferring instead to work with international oil companies through service contracts. However, the prohibition on foreign companies owning concessions does not mean international oil firms are not involved in Kuwait's energy sector. BP, Royal Dutch Shell and Chevron continue to play an influential role in the industry through service contracts and agreements.

K COMPANIES: In 1980 the Kuwait Petroleum Corporation (KPC) was formed as the umbrella business for all nationalised assets in the country's oil industry. Government-controlled businesses, collectively referred to as the "K Companies", remain in charge of the sector to this day with KOC, KNPC and KOTC responsible for upstream, downstream and shipping, respectively, while the Petrochemicals Industries Company explores opportunities in the petrochemical sector. On May 1, 2017 the Kuwait Integrated Petroleum Industries Company (KIPIC) was launched as a subsidiary of KPC to lead integrated refining, petrochemicals and liquefied natural gas (LNG) imports at the Al Zour complex, one of the energy sector's key development projects, located some 40 km to the south of Kuwait City.

Kuwait Gulf Oil Company, in coordination with Saudi Arab Chevron and Aramco Gulf Oil Company, is responsible for the country's share of oil and gas exploration, development and production in the PNZ through the onshore Wafra Joint Operations (WJO) and the offshore Khafji Joint Operations (KJO). The natural resources in the PNZ are shared equally by both countries; however, a protracted dispute with partner Saudi Arabia has resulted in both fields standing idle for several years, with production ceasing at KJO in October 2014 and at WJO in May 2015. Prior to this, the PNZ's two fields were producing around 500,000 bpd per day.

It was not long before the government decided to take business global, and in 1981 the Kuwait Foreign Petroleum Exploration Company (KUFPEC) was formed by KPC to lead international upstream business. KUFPEC has a share in operations in 14 countries, including Canada, Norway, Egypt, Pakistan, Indonesia, Malaysia, China and Australia. Kuwait Petroleum International (KPI), commonly known as Q8, is responsible for international refining and marketing. In December 2017 Bakheet Al Rashidi, the president of KPI, was appointed minister of oil, replacing Essam Abdulmohsen Al Marzooq, who had held the position since December 2016.

OPEC PLUS: As a founding member of the Organisation of the Petroleum Exporting Countries (OPEC), Kuwait has played a key role in its response to the slump in global oil prices beginning in 2014. Production cuts implemented in January 2017 by OPEC members – plus non-OPEC oil producers including Russia, Angola and Venezuela – saw global inventories fall by about 1%, propping up the price of crude. OPEC agreed to decrease output by 1.3m bpd, from 33.8m bpd to 32.5m bpd, with Kuwait reducing output by 131,000 bpd, from 2.84m bpd to 2.71m bpd. Kuwait was also tasked with chairing the committee formed to monitor implementation.

The caps lasted until June 2018 and had a clear effect on oil prices. US Energy Information Administration (EIA) data on monthly spot prices for Brent crude show that oil prices recovered to $69.08 per barrel by January 2018 from $54.58 the previous year. By April 2018 the price had climbed to $72.11, and in the immediate aftermath of US President Donald Trump's May 2018 decision to withdraw from the Joint Comprehensive Plan of Action that allowed Iran to export oil, the price of Brent crude touched $80. As of October 1, 2018 the price of oil had reached $84.94 per barrel.

Sector goals include boosting crude oil production capacity from 2.7m barrels per day in 2017 to 4m by 2020

Oil export revenue reached

$49.7bn

in 2017

Despite the reduction in output, Kuwait's oil economy saw benefits. Oil exports generated KD15bn ($49.7bn) in sales in 2017, compared with a respective KD12.5bn ($41.4bn) and KD14.6bn ($48.4bn) in 2016 and 2015. This had direct results on the government's current account deficit, leading to a 6.3% surplus in 2017, from a 4.5% deficit in 2016, according to National Bank of Kuwait (NBK).

"In round numbers, Kuwait produces around 1bn barrels of crude oil per year," Omar Nakib, senior economist of economic research at NBK, told OBG. "So each US dollar increase in the price produces an additional $1bn in revenues for Kuwait, which is a meaningful increase that has a significant impact on the fiscal position," he added.

LONG-TERM STRATEGY: Although the OPEC-led production caps curbed oil output in 2017 into the first half of 2018, Kuwait's long-term goals include boosting production of crude and non-associated gas, as well as increasing refinery throughput (see analysis). KPC crude targets include increasing output from 2.7m bdp in 2017 to 4m bpd by 2020 and to maintain this level until 2030. KOC plans to ultimately produce 3.65m bpd from domestic fields, with the remainder coming from the PNZ.

Meanwhile, capacity targets for non-associated natural gas production will see output increase from 215m standard cu feet per day (scfd) in FY 2017/18 to 2bn scfd as of 2040 by enhancing recovery from existing reservoirs and pursuing an aggressive onshore and offshore exploration programme.

With regard to downstream activities, KPC aims to almost double domestic refining capacity, from

Production cuts implemented at the outset of 2017 helped lift oil prices from $54.58 in January 2017 to $84.94 per barrel as of October 2018.

Seismic exploratory surveys in Kuwait Bay, Burgan field and Khabrat Ali were completed in FY 2017/18

701,000 bpd in 2017 to 2m bpd by 2035 through the modernisation of existing refineries and the construction of new facilities.

Internationally, upstream oil and gas production goals include reaching 200,000 barrels of oil equivalent (boe) per day and 650,000 boe in reserves by 2020, as well as a 20% ownership in international upstream assets by 2030. While global downstream aims include securing an oversees refining capacity of 800,000 bpd of Kuwaiti hydrocarbons by 2020.

OIL FIELDS: From its headquarters in Ahmadi some 40 km south of the capital city, KOC is tasked with managing production of Kuwait's oil fields. Company annual reports for FY 2017/18 showed that crude production capacity that year registered 3.15m bpd, remaining relatively constant with FY 2016/17 figures, and above 3.02m bpd in FY 2015/16.

The Greater Burgan field, which includes the Burgan, Magwa and Ahmadi fields in Kuwait's southeast, is the world's second-largest oil field after the Ghawar field in Saudi Arabia and remains the country's most productive. Including the smaller Umm Gudair, Minagish and Abduliyah fields, crude production reached 1.68m bpd in FY 2017/18, a decrease on the previous year's 1.73m bpd.

Regarding fields in the North Kuwait asset, which include the Raudhatain and Sabriyah fields, as well as the Ratqa and Abdali fields on the border with Iraq, crude production reached 763,000 bpd in FY 2017/18, compared to 801,000 bpd in FY 2016/17.

The West Kuwait asset, meanwhile, which includes Upper, Middle and Lower Marrat reservoirs, reached crude production of 530,000 bpd, down only marginally from 536,000 on the previous year.

648

new crude oil and non-associated gas wells were drilled in FY 2017/18

The government is keen to bounce back from production caps. Across all assets, the total number of new crude oil and non-associated gas wells drilled in FY 2017/18 reached 648, up from 558 and 398 in FY 2016/17 and FY 2015/16, respectively. Of these, 352 Cretaceous development wells were drilled, followed by 276 heavy development, 11 exploratory and nine Jurassic development wells.

MEETING TARGETS: As it strives to achieve its ambitious production targets, KOC is facing new challenges in extracting heavier grades of oil in some fields while utilising enhanced oil recovery (EOR) techniques to improve production in older fields.

To draw on international expertise and technology, in 2016 KOC signed enhanced technical services agreements with Royal Dutch Shell for the North Kuwait fields and with BP for the Burgan oil field. In FY 2017/18 the first phase of chemical injection test for EOR techniques in the Sabriyah-Modoud reservoir in North Kuwait was completed. That same fiscal year also saw the completions of a single well chemical tracer test in the Raudhatain field, which will extend production at the well.

As part of efforts to better utilise offshore assets, the company also completed field operations at two 3D seismic exploratory surveys in FY 2017/18, with one covering Kuwait Bay and built-up areas while the other concentrated on the Burgan field and Khabrat Ali. As part of the operation, which is one of the largest geophysical projects in shallow water in the world, the surveyors identified and removed three tonnes of explosives and ammunition spread over a 1000-sq-km area: remnants of Iraq's 1990 invasion. This comes on the back of two new oil field discoveries made in FY 2016/17 with promising quantities of crude. The reservoirs were found in Ratawi Limestone, Minagish and Zubair fields. That year also saw field development begin at five exploratory reservoirs in the Lower Fars, Mudoud, Burgan and Kahlula fields.

However, Kuwait's success in reaching its production targets will likely involve settling disputes with Saudi Arabia over the two fields in the PNZ. According to EIA estimates, the area holds some

Reduced flaring means 99% of associated gas is now used in production

BEST POSSIBLE TRAVEL EXPERIENCE

BEST WESTERN SALMIYA

The Best Western plus Salmiya, is the second branch in Kuwait of a world-famous, well-trusted brand chosen by millions each year, and a representative of the largest hotel chain all over the world. The hotel is located in the heart of the business and entertainment district area, close to the beach, shopping malls, banks, gift shops and all other places which you might need or simple spend and enjoy your time by. We are dedicated to reaching and even exceeding your expectations by treating and looking after you as if we were welcoming you back home.

BEST WESTERN MAHBOULA

The Best Western plus Mahboula is located on Arjan al Ajran Street, in the Mahboula area of the city. The hotel consists of 18 floors, with a range of facilities including a car rental office, a swimming pool with men and women's changing and shower rooms and a poolside cafe, a gymnasium and business center. Food and beverage outlets at the hotel include a lounge cafe at the lobby level, the Buffalo's Restaurant, serving daily buffet breakfast and all-day international cuisine, plus the Quizznos snack bar, and for the corporate and events market, the hotel offers two conference and banqueting rooms on the third floor.

THE VENUE

Located in Kuwait, The Venue Resident offers an indoor pool and a restaurant. This self-catering accommodation features free Wi-Fi. The property is 10 minutes by car from Al Kout Mall and 5 minutes' walk to Kuwait Magic Mall. Accommodation will provide you with a flat-screen TV and air conditioning. There is a full kitchen with a microwave and oven. Private bathrooms also come with a bath or shower. You can enjoy a sea view from the balcony.

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5bn barrels of oil and 1trn cu feet of natural gas. The governments of both countries may be more likely to come to an agreement to boost production volumes now that OPEC has lifted output caps.

GAS PRODUCTION: While Kuwait has the sixth-highest reserves of any crude oil producer, its domestic demand for natural gas outstrips current supply. Historically, the associated gas encountered in crude oil extraction was burned off at the well-head, but efforts to reduce this flaring have seen Kuwait use nearly 99% of associated gas for production, according to the World Bank. Key drivers of demand include refining and petrochemicals, which account for 60% of gas demand, and water and power generation, responsible for 40%. According to the "BP Statistical Review of World Energy 2018" report, at the end of 2017 Kuwait had 1.7trn cu metres of proven natural gas reserves; representing 0.9% of the global total. Natural gas production has steadily grown over the past decade, from 10.7bn cu metres in 2007 to 17.4bn cu metres in 2017. While natural gas consumption increased from 10.7bn cu metres to 22.2bn cu metres over the same period.

At the same time, Kuwait is slowly building up its capacity to extract non-associated gas, and March 2018 saw free gas production reach peak levels of 264m scfd. This is partly due to concerted efforts to achieve strategic goals of 2bn scfd by 2040. In FY 2016/17, 15 deep wells were drilled to access free gas in the country's Jurassic formations in the north.

Still, non-associated gas makes a relatively modest contribution to overall production, although this share is growing rapidly. In FY 2017/18 free gas comprised 12.1% of total production, up from 7.7% the previous fiscal year. According to KOC reports, overall gas production levels increased 12.5% from 1.6bn scfd in FY 2016/17 to 1.8bn scfd in FY 2017/18, while average non-associated gas production rose 66.7%, from 129m scfd to 215m scfd over the period.

The engineering design process for the first of four Jurassic Gas Projects was completed in September 2017, and it was reported that engineering companies were being invited to submit tenders for the construction of facilities (see analysis).

LNG IMPORTS: Royal Dutch Shell has been importing LNG to Kuwait since 2010 to free up oil products for export, and in December 2017 KPC announced it had signed another LNG import agreement with the company to help Kuwait meet energy needs. While there was no official disclosure of the volumes being imported, Bloomberg cited sources who estimated the contract would cover 2m-3m tonnes per annum, priced at 11% below a Brent benchmark for 15 years starting in 2020. Shell's "LNG outlook 2018" report noted that the number of countries importing LNG had quadrupled between 2000 and 2017, while global LNG trade volumes had tripled to 300m tonnes over the period.

DOWNSTREAM DEVELOPMENTS: Domestic refineries are being targeted in Kuwait's production increases. After the closure of the Shuaiba refinery in March 2017, domestic refining capacity in Kuwait stood at around 736,000 bpd, with the Min Al Ahmadi and Mina Abdulla refineries responsible for 466,000 bpd and of 270,000 bpd, respectively. KPC is looking to nearly double refinery throughput to around 1.4m bpd by 2030.

Domestic refining capacity is set to hit 800,000 bpd by end-2018

To help achieve these goals, KIPIC is overseeing the construction and operation of three key projects set to come on-line in the short-to-medium term at Al Zour: a 615,000-bpd refinery due to be completed in mid-2019; an LNG import terminal with a daily capacity of 3trn British thermal units (BTU) set to come on-line in December 2020; and a petrochemicals processing plant with an annual capacity of 2.8m tonnes per annum of aromatics and polypropylene set for 2024.

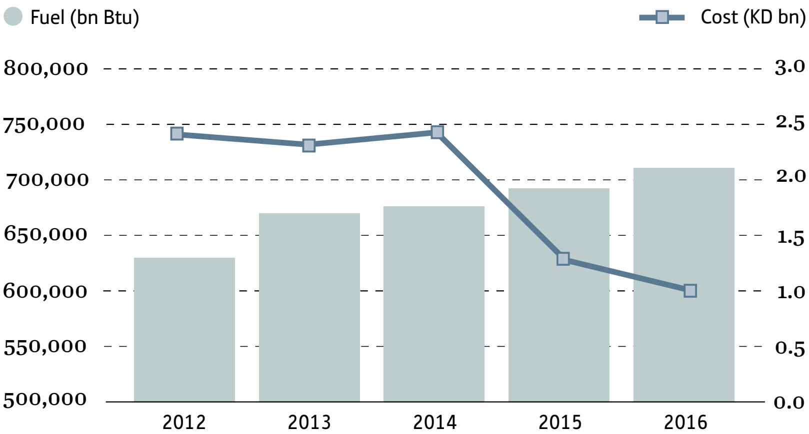
In addition to this, the country's existing refineries need to be overhauled to ensure their products meet environmental emissions standards. The Clean Fuel Project, which is being administered by KNPC,

Average non-associated gas production rose by

66.7%

to 215m standard cu feet per day in FY 2017/18

Consumption of fuel energy & costs to power stations, 2012-16



Source: MEW

The Clean Fuel Project is seeking to reduce sulphur content in petrol from 500 to 10 parts per million

is set to bring combined capacity to 800,000 bpd by the end of 2018, with sulphur content in petrol reduced from 500 parts per million (ppm) to 10 ppm, and in diesel gas from 5000 ppm to 10 ppm.

In its 2017 annual report, KPC noted the Clean Fuel Project was 82.5% complete in March 2017, while one year later, Al Rashidi, the minister of oil, told an audience at the Kuwait Investment Forum that 84.8% of the project had been finished.

OVERSEAS OPERATIONS: Kuwait has already invested in refining facilities closer to some of its target export markets. KPC's Italian subsidiary has a 50% share in the $34m Milazzo Oil Refinery in Sicily, with local partner Eni. With an in installed capacity of 80,000 bpd, the refinery's primary products include liquefied petroleum gas (LPG), gasoline, propylene, kerosene, diesel and fuel oil.

In Vietnam, KPI has a 35% share in a partnership with PetroVietnam, Idemitsu Kosan and Mitsui Chemicals to build the $9bn Nhgi Son Refinery and Petrochemical complex. With a capacity of 200,000 bpd, the refinery will produce jet fuel, diesel, LPG and other petrochemicals, with plans to double capacity to 400,000 bpd by 2025.

Adding to this, in February 2018 KPI announced it was acquiring a 50% share in Oman's Duqm refinery and petrochemical complex, to be located in the Duqm Special Economic Zone. The refinery will have a capacity of 230,000 bpd and primarily produce naphtha, jet fuel, diesel and LPG, among others.

POWER & WATER: A significant proportion of Kuwait's domestic energy consumption is used to generate electricity and desalinate water. Data from the Ministry of Electricity and Water showed that as of April 2018 there was an installed production capacity of 18.7 GW of electricity and 623.8m imperial gallons per day (MIGD) of water.

Continued investment in infrastructure has seen installed production capacity reach 623.8m imperial gallons per day of water and 18.7 GW of electricity as of April 2018.

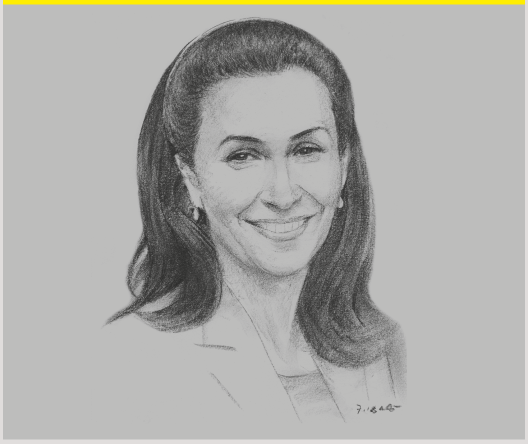
Demand for electricity and water reaches its highest points in the summer months, with the most recent peak loads reaching more than 13,000 MW per day in August 2018. Residents consumed more than half of all the electricity produced in 2016, with 48% supplied to private homes and a further 6% to those living in Public Authority for Housing Welfare properties. Expatriates living in investment buildings consumed 16% of the total, with 11% used by commercial premises, 10% by government offices, 6% by industry and 3% for agriculture.

Although Kuwait has modest supplies of groundwater, the country's growing population is largely reliant on desalination for fresh water supplies. In 2016 average per capita residential water consumption was 275.8 litres, a slight increase on the previous year, but lower than the highest point in 2002, at 359 litres per person.

Although total energy used to meet electricity and water demand increased 12.8% between 2012 and 2016, from 630,067bn BTU to 710,980bn BTU, falling prices meant the cost more than halved from KD2.4bn ($8bn) to KD1bn ($3.3bn) over the same period. In 2016, 36% of energy needs were met by natural gas, with oil and petroleum products accounting for the remainder. Meanwhile, utility plants used 58.2m barrels of liquid fuel in 2016, 86% of it heavy oil, 10% gas oil and 7% crude.

OUTLOOK: Fluctuating crude oil prices have a profound effect on Kuwait's economy, but the government has shown it is prepared to continue investing in the industry even in times of lower revenues. Within five years, the sector will have new domestic facilities enabling it to produce and market clean fuels, as well as increased production capacities for both crude oil and natural gas. Its ability to meet ambitious long-term targets will be also depend on dispute resolution in the PNZ; ongoing co-operation with international energy companies in exploration and extraction in new and challenging fields; and in growing local and global demand for primary energy.

Demand for water and electricity is highest in the summer months



Nouf Al Abdul Razzaq, General Manager, BP Kuwait

Staying power

Nouf Al Abdul Razzaq, General Manager, BP Kuwait, on investing in technology and people to foster long-term growth

What incentives exist for international oil companies to develop innovative and advanced technologies in the upstream segment?

AL ABDUL RAZZAQ: In the upstream segment, we focus technology on exploration, deepwater, managing giant fields and gas value chains.

It is in these areas where technology can enable competitive advantages and deliver the most value for resource holders and shareholders, as well as help meet the world's energy needs. Technology can ensure the most efficient recovery is delivered through adaptive and integrated solutions.

For example, seismic imaging technologies enable companies to find more oil and gas, and enhanced oil recovery technologies help extract more oil from existing fields. Real-time data, meanwhile, helps to enhance safety, reliability and efficiency across operations. More fundamentally, technology supports our number-one priority, which is safety. Corrosion management and advancements in detection and inspection, as well as sensors, data analytics, advisory systems and robotics, all work to support this goal.

Looking beyond the Middle East, the world is growing rapidly, and this growth requires energy. However, we recognise that we must produce and deliver that energy with fewer emissions. We need to be part of the solution by improving the efficiency of our operations, moving portfolios to lower-carbon options and investing in energy development. Examples include improving sizeable wind and sugar cane ethanol businesses, and increasing the renewable content in downstream products.

How can technology aid Kuwait as it looks to diversify its oil production?

AL ABDUL RAZZAQ: Advances in drilling technologies and know-how have transformed the energy industry. This has been seen in the shale revolution in the US, and as we have shown with Khazzan in Oman, these techniques and technologies can be transferred elsewhere to unlock previously inaccessible resources. In Kuwait, the integration of drilling technology, people and process can increase barrels per well and recovery rates while reducing unit cost.

International and national oil companies can also support diversification away from pure upstream activities by investing in the downstream sector, through refineries and petrochemicals. Several Middle Eastern countries are investing heavily in this area, and we see that here in Kuwait, with the Kuwait Integrated Petroleum Industries Company.

In an increasingly competitive world, technology will remain important for our whole industry, including Kuwait, to maintain a clear focus on efficiency, driving cost and capital discipline. Indeed, applying technology and innovation competitively while deepening long-term, mutually beneficial relationships between international and national oil companies is essential to secure growth.

What are some key advantages of international mergers and joint ventures in terms of downstream developments?

AL ABDUL RAZZAQ: The main advantages stem from partnerships, and these can take on many forms, beyond mergers and joint ventures. In the oil and gas industry, we need to find ways to do more with less, while consistently delivering safe and reliable operations at lower costs.

In this regard, one key advantage that partnerships can bring is efficiency. The greatest value comes from relationships that look towards the long term, where value is shared fairly over time, and each partner brings an equal share to the table.

Much can be done to transfer knowledge between the upstream and downstream segments, and applying previous experience in this regard is an important role international oil companies can and should play.

Rapid population growth has contributed to high demand for water

Securing resources

The government is working to improve water infrastructure and production capacity

10
desalination plants produce 156bn imperial gallons of fresh water per year

With no fresh surface water and an average rainfall of just 110 mm per year, Kuwait depends heavily on desalination to meet its fresh water requirements. Rapid growth in the country's resident population, coupled with some of the world's highest per capita consumption levels, has fuelled demand and contributed to a serious water problem. As new communities are constructed, additional facilities will be required for the storage and distribution of potable water.

WATER SOURCES: The early 20th century marked the beginning of Kuwait's water shortage issues, when shallow wells that had been used to collect rainwater began to dry out, forcing the government to ship in fresh water. In 1939 the first water transport company was established, and by 1946 a fleet of 45 sailing boats was importing 80,000 gallons of fresh water per day.

That same year saw the first exports of Kuwaiti crude oil, and six years later, in 1951, the then privately run Kuwait Oil Company opened the country's first desalination plant at Mina Al Ahmadi, which processed 80,000 gallons per day. With the rising revenues coming from oil, Kuwait was able to build more desalination plants, and by 1976 production capacity had reached 62m imperial gallons per day (MIGD) with an average consumption of 39.1 MIGD.

PRODUCTION & CAPACITY: Installed capacity has continued to keep pace with population growth and rising water consumption. By 2016 capacity registered 624.3 MIGD, while average consumption was 430.8 MIGD. According to the Ministry of Electricity and Water (MoEW), average per capita consumption in Kuwait is one of the highest in the world, growing from 9252 imperial gallons in 1970 to 35,744 in 2016. The total consumption rate in 2016 was 157.6bn imperial gallons. Desalination makes up the lion's share of fresh water produced in the country. There are 10 desalination stations in Kuwait, including two reverse osmosis (RO) plants at the Az Zour South and Shuwaikh stations that each contribute 30 MIGD of installed capacity. Two new 60-MIGD RO plants are being built at Doha station, with the first due to open at the end of 2018, followed by a second at the end of 2021, at which time the 30-MIGD Shuaiba South Power Station will be decommissioned. Of the 158.1bn imperial gallons of fresh water produced in 2016, 156bn imperial gallons came from the country's desalination plants.

Some groundwater is extracted from sub-surface reservoirs in the south-west and in the north of the country at Raudhatain and Umm Al Aish. The water found in these areas is brackish, or salty, and is predominantly used for agricultural purposes, in construction and for landscaping. It is also mixed with desalinated water to make it safe to drink. According to MoEW, the total production and consumption of brackish water has fallen steadily over the past decade. Production peaked in 2006 with 36.2bn gallons, while consumption reached its highest point in 2005 at 33.9bn gallons. In 2016 production and consumption registered 18.7bn and 17bn gallons, respectively.

STORAGE & DISTRIBUTION: Fresh and brackish water is stored in underground reservoirs and in water towers. In 2016 total storage capacity for fresh water amounted to 4.33bn gallons, with 4.28bn gallons in 102 underground reservoirs and 55.19m gallons held in 84 elevated storage towers. Total brackish water storage capacity was 547.7m gallons, with 28 underground reservoirs and 15 elevated towers holding 537.8m and 9.9m gallons, respectively.

Fresh and brackish water is stored in a combination of underground reservoirs and water towers. In 2016 total fresh water storage capacity amounted to 4.33bn gallons.

Kuwait operates two distinct distribution networks, piping fresh and brackish water through separate systems, which are monitored and supervised from the water control centre in Shuwaikh, the site of the country's first storage reservoirs. By the end of 2016 the total length of the entire network was 17,796 km, with 163,070 metered connections for fresh water and 78,655 connections for brackish water. The total length of fresh water pipes registered 9678 km, while the brackish distribution network was 8118 km.

Where pipe connections are not available, water is supplied to customers by tankers. According to MoEW estimates, some 10-12% of all water consumption is off-grid, although numbers are reducing as new pipelines are laid. A total of 4326 new connections and water lines were made in 2016, with 4104 of those for fresh water and 222 for brackish. Data from the MoEW shows that older asbestos pipes are twice as likely to fail due to corrosion and decay with 536 natural bursts reported for asbestos pipes carrying fresh water compared to 247 among ductile iron pipes. There was also considerable damage caused to the network as pipes were breached during construction work, and in 2016 the MoEW carried out 18,422 repairs to the fresh water network and 1556 to brackish pipes.

PRIVATE SECTOR INVOLVEMENT: The Az Zour North-1 independent water and power plant (IWPP) opened in November 2016 as Kuwait's first public-private partnership (PPP) project. Government entities own 60% of the project, with the remaining 40% held by a consortium of three private companies: GDF Suez (17.5%), Sumitomo (17.5%) and AH Al Sagar & Brothers (5%). With a capacity of 107 MIGD, the $1.7bn facility was planned as step one of a five-phase development using the PPP financing model; however, the cancellation of the 102-MIGD Az Zour North-2 plant by the government led some stakeholders to cast doubts on the viability of such projects. The government has since moved to assure the second plant would be incorporated into the Az Zour North-3 project.

According to the National Bank of Kuwait, the value of contracts awarded in the water segment reached a record KD900m ($3bn) in 2017, including an agreement to build an extension to Umm Al Hayman wastewater treatment plant in Al Ahmadi. The Kuwait Authority for Partnership Projects appointed a consortium led by Germany's WTE Wassertechnik and Kuwaiti shareholding company International Financial Advisers to design, finance and build the wastewater treatment plant extension with a capacity of 500,000 sq metres per day at a cost of KD473m ($1.6bn).

A total of 4326 new connections and water lines were made in 2016

The government is turning to public-private partnerships to help build infrastructure and meet demand

Another PPP project awaiting final approval is the Al Khairan IWPP development adjacent to the Az Zour South desalination plant. The new site will have the capacity to produce 125 MIGD of desalinated water. In June 2018 MEW announced it was receiving expressions of interest for the first phase of Al Khairan.

INFRASTRUCTURE NEEDS: As Kuwait's population grows, new communities are being built to meet demand for housing necessitating water infrastructure projects. In June 2016 the Public Authority for Housing Welfare awarded a $955m contract to a consortium led by Italian construction company Salini Impregilo to build the 12,000-ha South Al Mutlaa residential development on the northern side of Kuwait Bay. The community is expected to be home to 400,000 residents, with 12 suburbs, more than 28,000 houses, 116 schools, 156 mosques and 12 public health centres. Infrastructure required for the development includes 150 km of roads, traffic control systems and telecommunications networks, as well as water distribution networks, and rain-water gathering and sewage systems. In the meantime, up to 60 new contracts are being awarded for parcels of work connected to the new town's infrastructure, including utilities and power plants. In January 2018 Bakheet Al Rashidi, the minister of oil and president of Kuwait Petroleum International, signed a three-year, KD44m ($145.9m) contract to build five underground water tanks in to service the South Al Mutlaa residential development. Additional contracts will see extensions to the water distribution network. In December 2017 a KD14m ($46.4m) contract was awarded to build a pipeline south from the Mina Abdulla distribution plant to Julaiaa and Nuwaiseeb over a period of 30 months. The pipeline is expected to reduce the dependence on tanker deliveries, which are still used to service domestic consumption needs in some communities.

A record

$3bn

worth of contracts were awarded in the water segment in 2017

Crude oil production is planned to reach 4.75m barrels per day by 2040

A concerted effort

Projects in the pipeline are set to drive hydrocarbons production

The decision to invest $500bn in Kuwait's energy sector by 2040 is part of the government's drive to pursue significant increases in hydrocarbons production. Long-term goals include boosting domestic refinery throughput to 2m barrels per day (bpd) by 2035, and increasing crude oil production and non-associated natural gas output to 4.75m bpd and 2.5bn standard cu feet per day (scfd) by 2040, respectively. Included in the long-term strategy is a more immediate five-year $114bn capital expenditure plan starting in 2018, and medium-term goals of raising oil production capacity to 4m bpd by 2020, according to Nizar Al Adsani, CEO and deputy chairman of Kuwait Petroleum Company (KPC).

TRACK RECORD: The decision to optimise the value of Kuwait's natural resources came in 2016, during which time the government was managing a 4.5% current account deficit. Lower global oil prices beginning in 2014 have played a key role in lower production volumes, and over the previous decade the country's track record in raising the production of oil, gas and refined products had been modest. According to the "BP Statistical Review of World Energy 2018", Kuwait registered a 13.9% increase in oil production (including crude, shale and oil sands), from 2.66m bpd in 2007 to 3.03m bpd in 2017, compared with a 12.5% rise in global oil production to 92.7bn bpd over the same period. Meeting production goals of 4m bpd will require an increase of 32% from 2017 to 2020, while meeting 2040 targets of 4.75m bpd will necessitate a 57% rise.

As for throughput goals, delays in building and upgrading the country's refineries have seen output of petroleum products decrease by around 0.7% per year in the 2006-16 period, to 841,000 bpd. With the closure of Shuaiba refinery in May 2017, output fell again to 701,000 bpd in 2017 marking a decline of 16.6% on the previous year. The Kuwait National Petroleum Company's Clean Fuel Project will see production at the Mina Abdullah and Mina Al Ahmadi refineries rise from 736,000 bpd to 800,000 bpd once expansions and upgrades are complete in the fourth quarter of 2018. Still, with plans to boost figures to 2m bpd by 2035, refineries will need to increase output by over 185% over the next 15 years. The Clean Fuel Project and the transformation of Kuwait's refining operations will also involve complying with global standards (see overview).

Meanwhile, the government expects non-associated natural gas production to reach 500m scfd by the end of 2018. Most natural gas in Kuwait is associated: in FY 2016/17 combined associated and non-associated gas production registered 1.6bn scfd, of which around 8%, or 129m scfd, was non-associated. Plans to boost non-associated natural gas to 1bn scfd by 2023 will require a doubling of output over the next five years, while expanding output to 2bn scfd by 2040 will require an increase in production volumes of 400%.

STEP CHANGE: It is clear that if KPC and its subsidiaries are to achieve these ambitious targets over the next two decades, a sharp change in both the pace and scale of projects will be required. In more than 40 years of state ownership KPC has never surpassed the 3.7m-bpd production levels achieved by the then privately run Kuwait Oil Company (KOC) in the early 1970s. Hitting new production targets will require expanding production and further developing the country's natural resources.

"KOC's targets are ambitious, but achievable. To reach them, the company will be depending on an increase in the production of heavy crude oils from the Lower Fars reservoir and lighter crude (condensates) from the Jurassic fields, both of which are situated in the north of the country," Omar Al Nakib, senior economist of economic research at National Bank of Kuwait (NBK), told OBG. "By the end of 2018 they should be able to produce 60,000 bpd of heavy

The government has plans to invest **$500bn** in the energy sector by 2040

The Clean Fuel Project will see production at the Mina Abdullah and Mina Al Ahmadi refineries rise from 736,000 to 800,000 barrels per day once expansions and upgrades are completed in late 2018.

The government will need to develop an additional 600,000 bpd of refining capacity to meet 2035 goals

With a capacity of 615,000 barrels per day, the refinery at Al Zour will be one of the largest in the world once it comes on-line in 2024, bringing national refining capacity to 1.4m bpd.

crude and 120,000 bpd of condensate. KOC goals include increasing heavy crude production up to a final plateau of 270,000 bpd by 2030."

JURASSIC GAS: As part of its Jurassic Gas Facility Project (JGF-1), KOC was hoping to see three new interim facilities, each capable of handling 40,000 bpd of oil and 100m scfd of gas, come on-stream by the end of 2018 to process light oil and non-associated gas in the Jurassic fields in northern Kuwait. The KOC first began non-associated gas production in the Jurassic fields in 2008 with the commissioning of an early production facility, or EPF-50. In the 10 years since, six major tight gas fields have been found in northern Kuwait's carbonate reservoirs covering an area of 1800 sq km.

At the end of FY 2016/17 the front-end engineering design for the JGF-1 had been completed, and KPC's board had approved funding for the KD1.1bn ($3.6bn) project. In September 2017 it was reported that engineering and construction firms had been given until February 2018 to submit proposals for the development of the facilities. JGF-1 will have the capacity around 600m scfd and is expected to take at least three years to build once the contract award has been announced.

INFRASTRUCTURE PROJECTS: Kuwait is also investing in infrastructure that will help integrate its upstream and downstream facilities. The NBK noted that in 2017 some KD1.1bn ($3.6bn) worth of projects were awarded in the oil sector. British company Petrofac won the KD390m ($1.3bn) contract to build GC-32, a sour gathering centre in the Burgan field to process crude oil and associated gas from the Arifjan, Marat, Minagish Oolite and Burgan Wara high hydrogen sulphide fields. The work is expected to be completed by 2020.

$3.6bn
worth of government contracts were awarded in the oil sector in 2017

Italy's Saipem was awarded the KD255m ($845.4m) project in August 2017 to construct a 450-km system of pipelines to transport crude oil and gas from KOC's South Tank Farm in Ahmadi, some 40 km south of Kuwait City, to the new Al Zour refinery some 70 km further south. The project also includes a pipeline to carry refined products to storage areas at the Mina Al Ahmadi refinery where they can be used as feedstock for the northern power station. Meanwhile, Indian construction and engineering company Larsen & Toubro won the KD113m ($374.6m) engineering, procurement and construction (EPC) contract to build the TL-5 crude transit pipeline from north Kuwait to Ahmadi, with construction work expected to be completed by the end of 2020.

However, early predictions see the pace of contracts slowing in 2018. In May the NBK reported that contract awards in the oil sector had slowed in the first quarter of the year, with deals limited to KD70m ($232.1m), predicting that total investments for the year would not surpass KD500m ($1.7m).

REFINERY PLANS: While Kuwait may be focusing new oil and natural gas output on its northern Jurassic fields, its major downstream projects are taking place in the south. KPC launched its new subsidiary Kuwait Integrated Petroleum Industries Company (KIPIC) in 2017 to lead the development and operation of integrated refining and petrochemicals operations, as well as liquefied natural gas import facilities at Al Zour, which are expected to come on-stream at various dates between 2019 and 2024.

The EPC phase of the development at the Al Zour refinery is expected to be completed in 2019 with the operation of the plant commencing in stages. A joint venture including the US multinational Fluor and South Korean firms Daewoo Construction and Hyundai Heavy Industries was selected as the preferred bidder for major EPC packages for the refinery project. Upon completion the new refinery will have a capacity of 615,000 bpd making it one of the largest in the world. It will also be adapted to process different types of oil and expanded to refine up to 535,000 bpd of heavy mix Kuwait crude. Fluor is anticipating up to 17,000 workers will be involved in the construction and development of the facility.

When construction has been completed at Al Zour refinery, capacity is expected to reach 1.4m bpd. However, if the government is to meet its 2m-bpd refining target by 2035, another facility with the same capacity as Al Zour, or possibly two additional 300,000-bpd refineries, will need to be completed within the following decade.

GOING GLOBAL: In addition to the investment in domestic refining, outsourcing refining has remained a primary focus. Kuwait is investing in joint ventures abroad that will soon enable its crude oil to be refined in Italy, Vietnam and Oman, with Kuwait Petroleum International (KPI) reportedly assessing the feasibility of entering the additional refining markets of India, China, Indonesia and the Philippines. In December 2017 KPI said it hoped to have developed overseas refining capacity of 800,000 bpd by 2023, meaning that after some delays Kuwait's long-term ambitions may be met.

Contracts for a 1-GW solar power plant are set to be signed in 2019

Solar wave

Turning to solar energy projects to further renewable goals

In early 2019 contracts could be signed for a 1-GW solar photovoltaic (PV) power plant in Kuwait, marking a significant step forward on emir of Kuwait Sheikh Sabah Al Ahmad Al Jaber Al Sabah's pledge to generate 15% of the country's energy needs from clean, renewable sources by 2030. While the oil-producing country may wish to play its part in achieving global warming targets, advocates of renewable energy say solar schemes can also help with the export and refining of fossil fuels by providing low-cost energy to oilfields.

DIBDIBAH: In line with the government's renewable energy goals, completion of the 1-GW Al Dibdibah solar power station is set to generate half of the country's planned renewable output. The plant will sit on a 3185-ha site at the Shagaya Renewable Energy Park in northern Kuwait where the country's first 60-MW pilot renewable energy plant already operates. Kuwait National Petroleum Company (KNPC) has tendered the project and is expected to award KD360m ($1.2bn) in contracts to build the plant in 2019. Although KNPC had planned to sign the construction contracts in 2018, delays in the pre-qualification process meant the award date had to be postponed. The plant is expected to replace the need for 5.2m barrels of oil per year while reducing annual carbon emissions by 1.3m tonnes. The completion date is scheduled for 2020.

SOLAR DEBATE: While the environmental benefits of going green may be clear, there have been critics of plans to produce solar energy in a country with such vast reserves of oil. However, the oil-exporting countries of the GCC would not be the first nations with extensive hydrocarbons reserves to invest in alternative sources of energy generation.

According to the "BP Statistical Review of World Energy 2017", Norway produced 195.4m tonnes of oil or oil equivalent from hydrocarbons in 2016, compared to 167.1m in Kuwait. That same year, two-thirds of Norway's primary energy consumption was supplied by hydroelectricity, with oil and gas accounting for a respective 21% and 9%. In contrast, 53% of Kuwait's primary energy consumption was met by oil, with gas making up the remaining 47%.

Those in favour of solar energy development point out that in addition to large-scale solar schemes, smaller rooftop solutions could help government save money by meeting energy needs at the hottest times of day and year, when air conditioning is in greatest demand. The Renewable Energy Development Organisation (REDO), a US-headquartered non-profit, believes the government is taking the proposition seriously. "They understand that if you reduce electricity consumption by 10% per year in every school or government building, the potential to save money and energy across the public sector is significant," Fadel Jerman, consultant and head of oil and gas for REDO in Kuwait, told OBG.

PILOT PROJECT: The country's first foray into utility-scale solar projects came from Kuwait Oil Company (KOC) in 2016. Sidrah 500 consists of 32,450 solar panels on a 36-ha site. The solar panels can collectively generate 10 MW, which is used to power the 29 electric pumps in the Umm-Gudair oilfield in western Kuwait, in a first for the domestic oil business.

"KOC currently has plans to embrace renewable energy," Jamal Jaafar, CEO of KOC, told OBG. "This will enable us to create better efficiency and ensure sustainable energy production. Renewable energy drives technological innovation and employment, and will continue to play a key role in helping Kuwait and others meet the energy needs of the future."

While there have been concerns that dust particles in the air might reduce the effectiveness of PV panels by coating them with a film of dust, scientists operating the Sidrah 500 power plant have placated such concerns. "We were worried about dust, but were delighted to discover that summer humidity and the movement of the panels effectively made them self-cleaning, reducing losses to between 1% and 3%," Raed Sherif, renewable energy consultant at KOC, told OBG.

The government aims to produce

15%

of energy from renewable sources by 2030

In addition to large-scale solar schemes, smaller rooftop solutions could help the government save money by meeting energy needs at the hottest times, when air conditioning is in greatest demand.

Construction & Real Estate

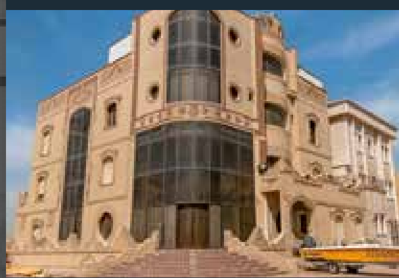
Public-private partnership framework gains traction

Building companies on the bourse post solid returns

Property developers to tap expanding opportunities

Awarded tenders to add to the existing retail space




Bidders must buy at least 30% of contract requirements from locals

Bold blueprints

Key infrastructure projects to break ground, laying the foundations for decades of future growth

As of the second quarter of 2018, the construction sector accounted for

1.9%

of total GDP

Hundreds of thousands of construction workers in Kuwait are busy building bridges, roads, homes, the region's largest refinery, an expanded airport terminal and a new port. These are just some of the major projects being completed as the country works towards the New Kuwait 2035 vision. However, these developments are almost entirely driven by government spending and components of the Kuwait National Development Plan 2015-20, which have been subject to delays and postponements in 2017 and 2018. Despite these setbacks, the remaining two years of the plan should see the completion of major infrastructure improvements that could serve as the catalyst for significant changes within Kuwait's economic landscape.

SECTOR SIGNIFICANCE: At current prices, the construction sector contributed just over KD1bn ($3.3bn) in 2017; 5% of non-oil GDP; and 2.8% of total GDP. That represented a 1.5% fall in its value compared to 2016, according to Kuwait's Central Statistical Bureau. As of the second quarter of 2018 the construction sector made up 3.9% of non-oil GDP and 1.9% of total GDP. Data from the Public Authority for Civil Information (PACI) shows that in June 2018 there were 431,233 people in the construction workforce, including 18,122 Kuwaitis. Only 800 workers were employed by the public sector. In total, construction workers accounted for 15.6% of the 2.8m-strong workforce. There were 1494 construction businesses in 2016, according to PACI figures, including four joint ventures with foreign partners.

STATE CONTRACTS: The Central Agency for Public Tenders (CAPT) oversees the tendering process for government contracts. It awarded 36 tenders in the second quarter of 2018, compared to 49 the previous quarter. Tenders are published weekly in the *Kuwait Official Gazette*. Law No. 49 of 2016 (the New Tenders Law) replaced Law No. 37 of 1964.

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This subsequent law removed the need for foreign companies to have a local agent bid for public tenders, although in practice companies would require an agent to carry out any business they won. The new law also provides protection for the local construction market, stipulating that bidders must buy at least 30% of their contractual requirements from local suppliers registered with the CAPT, and award no less than 30% of their contracting work to local businesses.

GOVERNMENT CLIENTS: Construction projects are commissioned by government ministries, such as those responsible for health, education or defence, and the Ministry of Public Works (MPW) oversees infrastructure projects including roads, bridges and ports. The Public Authority for Housing Welfare (PAHW) provides tracts of land as well as homes for citizens, and is administering the construction of several new townships, including South Al Mutlaa City. State-owned enterprises in the oil and gas sector, the so-called "K companies", also commission multiple projects, with upstream business handled by Kuwait Oil Company (KOC), and downstream work shared by Kuwait National Petroleum Company (KNPC) and the Kuwait Integrated Petroleum Industries Company (KIPIC), with the latter responsible for refining, petrochemicals and the import of liquefied natural gas at the Al Zour complex.

PPP PROJECTS: Although state spending dominates the construction sector, Kuwait is also following the lead of other GCC countries in utilising the public-private partnerships (PPPs). The Kuwait Authority for Partnership Projects (KAPP) was created in 2008 to identify sectors where government bodies could work with private companies to deliver development schemes and services. The water and power sector has the strongest record in PPP delivery in the GCC. In November 2016 the Al Zour North phase one independent water and power plant (IWPP) was the first such scheme successfully completed in Kuwait. KAPP originally identified four subsequent phases of development at Al Zour, as well as an equivalent IWPP project at Al Khairan and the Al Abdaliyah Integrated Solar Combined Cycle plant. KAPP has also identified five real estate schemes, the country's planned rail network, a wastewater treatment centre, a municipal solid waste facility and an improvement programme for schools as potential PPP agreements. However, there have been delays in moving many of these ideas beyond the drawing board.

APPROVAL SLOWDOWN: As of April 2018 some KD1.8bn ($6bn) worth of projects were in the bidding phase in Kuwait, but the first quarter of the year had seen just KD614m ($2bn) worth of projects approved, lower than the quarterly average of KD1bn ($3.3bn) in 2017, according to the National Bank of Kuwait (NBK). The bank's analysis also showed that the combined value of projects awarded in 2017 had declined by 28% to KD4bn ($13.3bn). The average value from 2012-16 had been KD5bn ($16.6bn), with expenditure peaking at over KD8bn ($26.5bn) in 2015.

However, a number of delays took place in 2017, a trend that continued in the first quarter of 2018. In December 2017 approval for the Umm Al Hayman Wastewater Treatment Plant PPP was granted by KAPP to a consortium led by the German firm WTE Wassertechnik and International Financial Advisors. A state-owned joint stock company will be formed to build, operate and manage the new treatment plant, which will have the capacity to treat up to 700,000 cu metres per day under a 25-year partnership agreement with the MPW. NBK reported that this project accounted for most of the KD900m ($3bn) worth of water schemes awarded under the budget in 2017, and it represented a second milestone in Kuwait's adoption of PPP financing.

However, two other significant PPP schemes were stalled in 2017. KAPP announced that the second phase of the five-phase Al Zour North IWPP scheme was to be scrapped and would subsequently be rolled into an expanded version of the scheme's anticipated third phase. It had initially been estimated that the second phase would be worth KD800m ($2.7bn).

Another notable delay also pushed back the Kabd Municipal Solid Waste Project, which would see power

The new wastewater treatment plant is a water project milestone

As of April 2018 some approximately $6bn worth of projects were in the bidding phase across the country

generated from municipal waste. In September 2016 KAPP announced that a consortium led by Constructions Industrielles de la Méditerranée, Gulf Investment Corporation and Al Mulla Group was the preferred bidder for the project at KD236m ($782.4m), but the State Audit Bureau rejected the tender documents and called for them to be re-submitted in 2018. The consortium planned to generate 100 MW of electric power from a plant using half of Kuwait's municipal solid waste with a daily capacity of 3274 tonnes. If approval is granted by the State Audit Bureau, a project company will be formed to offer the service for 25 years beyond construction of the facility.

In the first quarter of 2018 some $2bn worth of construction projects were approved, marginally lower than the quarterly average of $3.3bn in 2017.

In late 2017 two other projects were postponed, with the KD260m ($862m) Al Jahra Ministries Complex delayed due to budgetary constraints. In the first quarter of 2018 it was announced the award for the KD360m ($1.2bn) Al Dibdibah Solar Photovoltaic Power Plant to be built for KNPC at Shagaya would be delayed until early 2019, because the prequalification took longer than expected. In its May 2018 projects report, NBK predicted that the total value of power sector contracts in 2018 would be more modest than 2017.

PROJECT APPROVALS: Despite the approval slowdown in 2017 and early 2018, several projects were given the green light in 2017 when 15 tenders in the oil sector with a combined value of KD1.1bn ($3.6bn) were accepted. International firms from the UK, Italy and India won three bids worth KD390m ($1.3bn), KD255m ($845.4m) and KD113m ($374.6m) respectively. Petrofac, a UK oilfield services provider, will build a new gathering centre in the Burgan oilfield, while Italy's Saipem, a drilling services firm, is constructing a new refinery feed pipeline, and Indian contractor Larsen and Toubro was selected to deliver a crude transit pipeline from North Kuwait to the central mixing manifold at Mina Al Ahmadi. In 2017 new awards in the gas sector totalled KD96m ($318.3m), compared to KD1.3bn ($4.3bn) in both 2015 and 2016. New construction projects in the

A state-owned company will be formed to build, operate and manage the Umm Al Hayman Wastewater Treatment Plant, which will have the capacity to treat 700,000 cu metres per day under an agreement with the Ministry of Public Works.

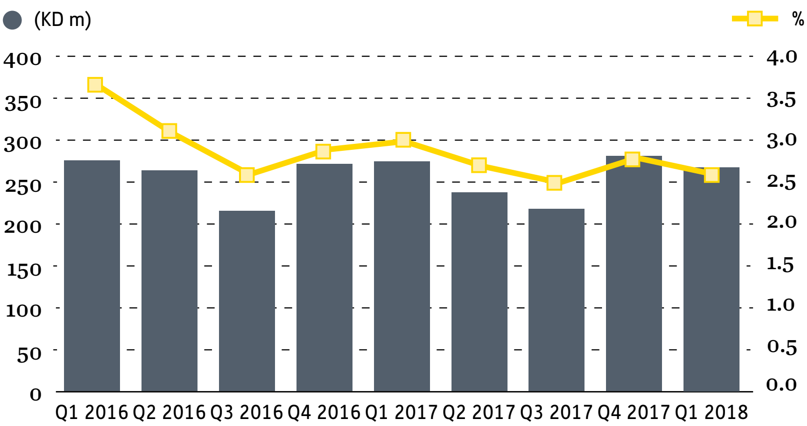
The authorities awarded 36 tenders in the second quarter of 2018

Engineering, procurement and construction contracts for many of the landmark projects have been awarded to international consortia, but components of these schemes are being fulfilled by local firms.

energy sector worth KD70m ($232.1m) were signed in the first quarter of 2018, with up to KD620m ($2.1bn) expected for the entire year, according to the NBK. In 2017, KD800m ($2.7bn) worth of transport projects were commissioned, with the largest plans including a KD212m ($702.9m) infrastructure deal for South Al Mutlaa City and a KD147m ($487.4m) contract for the first phase of the Kuwait Airport expansion project. Total construction plans for transport in the pipeline have a combined value of KD780m ($2.6bn). It was also anticipated new transport projects would be commissioned by KOC, Kuwait University and the PAHW.

The government awarded over 30 construction projects in 2017, but with a relatively small overall budget of KD500m ($1.7bn). There were plans to commission up to KD2bn ($6.6bn) of construction projects over the course of 2018, including PAHW's KD470m ($1.6bn) Jahra and Sulaibiya low-cost housing developments and, the Kuwait National Guard's KD300m ($994.6m) Kazema Camp project, as well as three PPP projects.

Construction's contribution to GDP*, Q1 2016-Q1 2018



Source: CSB

*Current prices

CONSTRUCTION FIRMS: Although 2017 and 2018 have not been as busy in terms of awarded tenders, ongoing work on mega-projects undertaken since 2013 are keeping many construction firms busy. Engineering, procurement and construction contracts for many of the landmark projects have been awarded to international consortia, but components of these schemes are being fulfilled by local firms. The annual returns of construction industry firms listed on Boursa Kuwait show many have continued to make sizeable profits, despite the global downturn in oil prices since mid-2014 and the consequent impact on government revenues.

Kuwait Portland Cement Company (KPCC) boasts a 58,000-tonne cement storage facility at Shuwaikh Port, four machines to package its supplies as well as six bulk cement machines that load cement onto lorries. KPCC's sales improved from KD80.6m ($267.3m) in 2016 to KD85.7m ($284.1m) in 2017. The company's profits increased from KD8.1m ($27m) to KD9.2m ($30.5m) over the same timeframe. In the first six months of 2018 sales equalled KD56.3m ($186.8m), representing a year-on-year increase of 46.4%. Integrated Holding Company (IHC), a sharia-compliant equipment leasing firm serving the construction sector, saw its net profits grow by 36% from KD9.8m ($32.5m) in 2016 to KD13.3m ($44.1m) in 2017, and its net revenues increase by 30% from KD31m ($102.8m) to KD40m ($132.6m), with 89% of its income coming from the local market. IHC has also expanded its stock of heavy equipment, for instance its number of cranes rose from 1832 in 2014 to 2161 by the end of 2017. Kuwait Bruckner Construction Contracting Company specialises in foundation and tunnel works, operating and maintaining a specialised fleet of equipment. "We have not seen utilisation rates for our equipment this high since 2005-06, and that level of utility is across the board," Ahmad Jafar, vice-chairman of Kuwait Bruckner, told OBG. "If you ask equipment rental companies you will find that everything is hired out and everyone is reinvesting in capital assets."

CREDIT FACILITIES: However, some businesses in the Kuwait construction sector appear to have been finding it harder to return a profit. Rashed Abdulaziz Al Rashed, chairman of Kuwait Cement Company, a public cement manufacturer, noted that delays in the implementation of some major government residential projects have impacted its financial performance. The company's sales of cement decreased by 1.3% from KD98.5m ($326.6m) in 2016 to KD97.3m ($322.4m) in 2017. The company has the capacity to produce 5m tonnes per annum at its facility in Shuaiba, and competes against imported cement from Iran and elsewhere in the region.

According to one local media report, the Ministry of Commerce and Industry had refused requests for liquidation from 13 companies that blamed weak cash flow and project delays for their financial difficulties. Companies securing loans to cover running costs while they wait for payment are faced with interest charges that were not factored into original pricing plans. The Central Bank of Kuwait's "Financial Stability Report 2017" showed that loans to the construction and real estate sector, including instalment loans for citizens paying for the construction of private homes, had grown steadily since 2012 to reach KD21.6bn ($71.6bn) by 2017. Of that total, approximately KD3bn ($9.9bn) was loaned directly to construction firms, with the remaining credit extended to real estate businesses and private individuals. In addition, 66.3% of all bank collateral was in the form of real estate. The report also noted an increased incidence of loan default in the real estate sector. The non-performing loan ratio fell to 2.8% for the real estate and construction sector by December 2017, compared to 3.2% the previous year.

ONGOING PROJECTS: Projects within the nation continued to be awarded and bid upon over the last quarter of 2017 and throughout the course of 2018 thus far. According to a 2017 report commissioned by The Big 5 Kuwait trade fair, Kuwait is working on $234.4bn worth of construction projects, with a further $34bn in the concept or design phase. Notably, by the end of 2018 the 36-km Sheikh Jaber Al Ahmad Al Sabah Causeway across Kuwait Bay should be complete. The shorter 12.4-km Doha link of the causeway will take traffic to the west across a narrower stretch of water. The causeway's $3bn infrastructure development is designed to speed up travel times to the northern shore of Kuwait Bay, where the new 250-sq-km Silk City will be built at Subiyah. The consortium completing the causeway project will include Dar Al Handasah, Hyundai Engineering and Construction, Combined Group Contracting Company, TY Lin International Group and SSH Design. In the longer term, huge investments are to be directed to these northern regions of Kuwait, and work has already commenced on the construction of South Al Mutlaa City as well as the first two phases of the 18 container berths at the Mubarak Al Kabeer Port being built on Boubyan Island, which is northeast of Subiyah.

Turkish company Limak Construction is undertaking the KD1.3bn ($4.3bn) construction of a new terminal at Kuwait International Airport. The new building is designed to accommodate 13m passengers annually in order to meet rising traffic levels witnessed recently, which surpassed 13.7m travellers in 2017, a 17% increase from the previous year. Later phases plan to eventually expand annual capacity to 25m.

Expansion and overhaul of the downstream energy sector has resulted in major schemes employing tens of thousands of construction workers. The Clean Fuels Project (CFP) will see both of the country's two existing oil refineries, Mina Al Ahmadi and Mina Abdullah upgraded and expanded. The CFP will enable the refineries to produce both petrol and diesel, while boosting capacity to 346,000 barrels per day (bpd) and 454,000 bpd, respectively. The combined CFP schemes have employed a total of 40,000 contractors. A new state-owned company was formed in November 2016 to deal with three major downstream construction projects at the Al Zour refinery. KIPIC is overseeing the construction of a 615,000-bpd refinery; a liquefied natural gas import terminal with capacity for 3000 British thermal units per day; and a 2761-kilo-tonnes-per-annum petrochemicals plant, with these major projects expected to be completed in phases between 2019 and 2024.


As of June 2018 construction workers accounted for 15.6% of the country's total 2.8m-strong workforce

OUTLOOK: By 2020 some of Kuwait's key infrastructure projects will have been completed, but in the decade that follows the country has outlined bold plans to reduce its economic dependence on crude oil to broaden the horizons and opportunities of Kuwaiti citizens. In early 2018 an economic feasibility report on plans to develop the Silk City area and the islands of Boubyan and Failaka estimated that required spending on infrastructure would reach up to KD12.8bn ($42.3bn). Although Failaka Island was occupied before the 1990-91 Iraqi invasion, Boubyan and the site where Silk City now sits are parts of Kuwait that have never broken ground, with sandstone in some places and muddy silt remaining on Boubyan Island. "All the projects there are going to be technically challenging, which is good for our company, because we are in the soil-improvement business," Jafar told OBG.

However, all of these major schemes will also require political backing if they are to be attractive to both private and foreign investors. Sheikh Nasser Sabah Al Ahmed Al Sabah, the country's first deputy prime minister, is taking the lead on the Northern Gulf Gateway and Silk City mega-project. "We are very confident in Sheikh Nasser and in the committee leading on this project," Tawfiq Aljarrah, executive director of Kuwait Projects Company, told OBG. "I think the new area in northern Kuwait will expand, but it will not grow overnight. However, Kuwait does need to expand given the high growth rate of the population. With that growth, we will need new homes, new schools and new hospitals."

Even at a time of reduced crude oil revenues, Kuwait's government, unlike some of its Gulf neighbours, has pushed ahead with a number of major infrastructure projects. The challenge for the country's leaders will be to continue to maintain both political momentum for growth as well as economic diversification if oil prices continue their upward trajectory during 2018 and beyond. If they succeed, the country's construction sector can expect to remain busy beyond the 2020s.

The new terminal building at Kuwait International Airport is designed to accommodate 13m passengers annually in order to meet the rising traffic levels, which surpassed 13.7m in 2017.

Global Perspective

Sustainable urbanisation

As urban populations undergo rapid growth around the globe, planners are striving to create efficient spaces

The UN has estimated that by 2030 **60%** of the world's population will live in urban areas

In 2008, for the first time in history, more than half of humanity was living in urban areas. Perhaps the most remarkable observation about this trend is the speed at which it has happened: as recently as 1900 urban areas accounted for 13% of the global population. Towns and cities are seen as the crucibles of opportunity for many rural dwellers. The UN estimates that by 2030 urban areas will host 60% of the world's population – up from 54.5% in 2016 – with the pace of urban growth especially rapid across Africa and parts of Asia. Urban areas are home to more than 470m people in Africa, accounting for 40% of the continent's population, up from 14% in the middle of the 20th century.

GROWING PAINS: In 2016 there were 512 cities around the world with at least 1m inhabitants, more than 100 of which were in China. By 2030 this number is set to rise to 660, with around 40 being categorised as mega-cities home to more than 10m inhabitants, including Bogotá, Bangkok, Dar es Salaam and Ho Chi Minh City. All cities, even those in prosperous and stable countries, face challenges, from providing adequate housing, sanitation, transport and energy, to combating pollution and inequality. These issues are often magnified in emerging countries, where limited resources and weak institutions can struggle to cope with eventualities such as waves of migrants or the effects of climate change. Nonetheless, opportunities abound for authorities and the construction industry to create urban areas that are sustainable, dynamic, healthy and safe.

BUILDING INNOVATIONS: The construction sector is not generally considered a frontrunner in embracing innovation. The basic techniques of constructing brick and timber buildings date back centuries and have tended not to evolve dramatically. However, this tendency is changing, spearheaded by the advent of lighter, stronger and more flexible materials, along with innovative techniques such as modular construction and 3D printing. While large projects are increasingly complex, industry players can use tools like building information modelling (BIM), robotics and the internet of things to ease their undertaking. These can improve efficiency and bring down costs, while also enhancing quality and sustainability, which will be important considerations as many urban areas need to be resilient against earthquakes and extreme weather, such as tropical storms, flash floods and heatwaves.

TECH & PROJECT MANAGEMENT: The process by which buildings are constructed and woven into wider infrastructure is of the utmost importance, with projects becoming increasingly complex and challenging to deliver. According to estimates from the IHS Herold Global Projects Database, large infrastructure projects cost on average 80% over the original budget and run more than 20 months late. Many are also delivered with defects, suggesting project management teams have failed to cope with rising complexity and external risks.

BIM is increasingly at the forefront of streamlining construction and infrastructure schemes. It combines 3D-modelling software with layers of data on every detail along a project's timeline, enabling architects and engineers to rigorously test and analyse designs. BIM has been widely adopted across Europe, the US, South Korea, Singapore and the Gulf. In the UK the government requires all centrally procured contracts to achieve BIM Level 2. Take-up has been slower in emerging markets, but in 2017 Dubai became the first public authority to mandate the use of BIM for most large-scale building projects. Neighbouring emirate Abu Dhabi also uses BIM, employing it for the $3bn Midfield Terminal Building by Abu Dhabi Airports Company.

SMART CITIES: The miniaturisation of sensors and the evolution of the internet means that information on almost all aspects of urban life – from air and water quality, to the movement of people and objects, weather, road and rail traffic, and energy generation and consumption – can be measured in real time. By linking houses, public buildings, factories, vehicles, power stations, traffic signals and street lighting, cities

The number of cities with at least 1m inhabitants is set to increase from 512 in 2016 to 660 by 2030, around 40 of which will be categorised as mega-cities home to over 10m people.

can be smart and responsive to the needs of residents. Developments in smart metering, solar photovoltaic technology and battery storage are leading to more local energy generation, which should facilitate the shift to cleaner, more efficient and quieter electric vehicles.

In the face of a rapidly urbanising population, the concept of smart cities is being developed in numerous African nations, including Kenya's Konza Technological City, 60 km outside of Nairobi and extending over 2020 ha of land. Dubbed "Silicon Savannah", the project is slated to see a combined $15.5bn in investment. Due for completion after 2030, it is expected to create 100,000 jobs and generate $1bn annually, according to the Konza Development Authority.

URBANISATION: Smart cities are now firmly on the radar across the world, but older metropolises are also embracing digital technology to improve services and quality of life. Buenos Aires, for example, has recently surveyed its infrastructure and developed the SAP HANA platform, an application to speed up administrative processes. The city of 16m people has 372,625 trees, 91,000 street lights, 50,700 pavements, 30,000 storm drains and 27,000 roads. Previously, certifying maintenance and repair work was time-consuming, requiring thousands of sheets of paper to be printed and filed. For other emerging markets, however, urban planning and smart infrastructure may seem far removed from the reality of urban sprawl, traffic congestion, air pollution, flooding and sanitation problems. Yangon, Myanmar's largest city, illustrates these challenges. Following six decades of military rule and international isolation, the city lacks an effective public transport system and suffers from chronic congestion.

MISALIGNED DRIVER: Housing construction has been a key growth driver in Yangon since reforms began in 2011, but developers have focused on the upper-tier segments, due to the paucity of accommodation and Myanmar's position as a frontier market in a dynamic region. In 2013 rents in central areas soared above those in Bangkok and even parts of Manhattan. However, this resulted in an oversupply of high-end units and not enough affordable housing for average families.

Similarly, rapid urbanisation and the adoption of smart networks has been challenging across Africa. At 4.5%, the continent has the world's highest urban growth rate, and by 2050 over half of the population is set to be living in cities. Inadequate planning has seen informal settlements proliferate, as is the case in Lagos, Africa's most populous city. With over 21m people and growing at 3.2% per year, Lagos has experienced unprecedented urbanisation, leading to the development of slums. However, as the government aims to turn the city into the "Dubai of Africa", settlements are gradually being cleared, as was the case for Ilubirin and Otodo-Gbame in 2016. Despite these struggles, the city is a powerful economic engine, accounting for more than 35% of GDP and 62.3% of non-oil GDP in 2010, per the UN Economic Commission for Africa.

This is a testament to the potential cities have as drivers of transformation and economic growth. In addition to developing infrastructure, promoting economic efficiency, improving urban density and ensuring social inclusion, the success of Africa's urban centres will depend on their ability to create employment for the continent's ever-growing youth population. Half of Africa's population are under the age of 18.5, and 19% are between 15 and 24 years old, representing significant potential should it be tapped effectively.

A report from the African Development Bank, the OECD and the UN Development Programme in 2016 called for reforms to make the most of the "urbanisation dividend", and for African countries to spend the equivalent of 5-7% of GDP per year on infrastructure. The report stated two-thirds of the investment needed in urban infrastructure through to 2050 has yet to be made, suggesting substantial opportunities lie ahead. Africa's future hinges on the ability to efficiently manage and develop city landscapes, and the capacity to turn major centres into engines for sustainable growth.

CURBING SPRAWL: Sprawl is a fairly recent and undesirable phenomenon that refers not only to low-density suburbs, but also to development of sterile apartment blocks, which have sprouted in large numbers. Writer Jane Jacobs argued that the dramatic growth of car traffic has facilitated sprawl. Private cars have brought traffic congestion and a resultant loss in productivity and increase in stress, mental illness and non-communicable diseases. Jan Gehl, an urban architect, wrote about the importance of safe places to walk, cycle and enjoy outdoor spaces. Others refer to the "Goldilocks density", where buildings are densely populated enough for vibrant main streets with retail and services, but are not so tall that people are removed from the streetscape. Some of the principles for solving sprawl and building sustainable cities that are likely to be taken up as city authorities work to manage their expanding populations include the preservation of natural ecologies, historical sites and architecture as a way to imbue urban communities with a sense of identity. The benefits of creating opportunities for mixed-use infrastructure as well as mixed-income communities to prevent monolithic neighbourhoods divided by wealth is also likely to shape urban planning in cities.

In terms of urban transport, investment in high-quality and affordable mass transit systems, and a focus on matching city density with transport capacity, is key to keeping cities moving. The increasing take-up of smart infrastructure will aid this, while the convergence of streets to allow for multiple modes of transport on a single path may likewise become popular if it enhances the potential for mass transit systems to gain traction in previously car-dominated areas. In addition, an emphasis on walkability and bicycle access to reduce road congestion is being seen as important for the health of the environment and urban dwellers alike.

The model of urban planning that extended from modernism and its vision of the city as a machine has proved extremely popular throughout the past half century – and it endures. However, there is now a growing realisation around the globe that if urban areas are to be lively, safe, healthy and truly sustainable, planners will need to develop a different form and complexion.

Africa has the highest urban growth rate in the world, at

4.5%

New principles of urban planning will be necessary to avoid sprawl, combat traffic congestion, and ensure an ideal and sustainable population density in cities.

The government plays a key role in residential property development

Home stretch

The drive towards building new communities stands to meet the growing backlog of homes for citizens

In 2017 real estate contributed to
8.6%
of total GDP

Property development, sales and rentals play a significant role in Kuwait's economy, and home ownership is set to grow as new cities are built to accommodate a growing population. Landlords in the office, retail and industrial sectors enjoy high occupancy levels and there has been extensive development of rented residential properties for the expatriate workers, who constitute almost 70% of the country's 4.6m population. Private sector developers have opened new flagship hotels and shopping malls in 2017 and 2018, with others under construction. The government itself is driving the construction of new communities to meet the sizeable backlog in homes for citizens.

ECONOMIC IMPACT: The Central Statistical Bureau data on national accounts shows the real estate sector's contribution at current prices grew from KD2.9bn ($9.5bn) in 2015 to KD3bn ($10bn) in 2016 and KD3.1bn ($10.3bn) in 2017. In 2016 the sector generated 9.1% of total GDP and 12.2% of non-oil GDP. The provisional data for 2017 showed that the real estate sector contributed 8.6% of total GDP, and like 2016, 12.2% of non-oil GDP. As of September 2018 there were 38 real estate companies listed on Boursa Kuwait. Mabanee, with a market capitalisation of KD623.4m ($2.1bn), was the only real estate business listed on the premier market, but the main market also included Salhia Real Estate Company, Ream Real Estate Company, Commercial Real Estate Company and Tamdeen Group. Mabanee owns The Avenues Malls in Kuwait and Bahrain, and is building two new destination malls with the same brand in Al Khobar and Riyadh in Saudi Arabia. Salhia owns landmark upmarket retail and leisure complexes in Kuwait City as well as the JW Marriott and Courtyard by Marriott hotels and office towers, and is building the new mixed-use Al Assima development in the Sharq area of Kuwait City, with a business tower, mall and leisure facilities. Tamdeen is working to complete a number of major projects in 2018, including the Tamdeen Square development, which features four 40-storey residential towers with more than 400 apartments that can be acquired as homes or investment properties; two hotel-apartment buildings; a hotel; and a shopping centre in Sabah Al Salem. Its KD123m ($407.8m) mixed-use waterfront Al Kout development in Al Ahmadi includes a mall with gross leasable area (GLA) of 100,000 sq metres, which opened in April 2018 and had 84% of its outlets leased by December 2017. Upon completion, the mall will have 360 shops, 12 cinema screens as well as restaurants and cafes. The Al Kout Rotana Hotel will be adjacent to the mall, with both facilities serving the headquarters of Kuwait's state-owned oil and gas companies. Ream owns and manages 402 buildings in Kuwait and the UAE.

DEMOGRAPHIC DRIVERS: While the commercial activities of some of the country's larger real estate developers illustrate the breadth of activity taking place in the sector, the government plays a pivotal role in driving forward the development of residential properties for the country's growing national population. According to the Public Authority for Civil Information (PACI), there were 1.39m Kuwaitis living in the country in June 2018, accounting for 30.4% of the entire population. Of those national citizens, 62.6% are under the age of 30, a total of around 867,000 people. A cornerstone of the social contract between citizens and the government is the provision of free homes or plots of land. The Public Authority for Housing Welfare (PAHW), which is the body tasked with delivering on this promise, faces two significant challenges. The first obstacle is the issue of pent up demand for housing. However, by the end of 2017, the numbers of citizens on the housing waiting list had fallen to 100,000, which was a significant improvement on 2014, when there were more than 111,000 outstanding applications, according to data published by Kuwait Finance House (KFH).

A cornerstone of the social contract between citizens and the government's Public Authority for Housing Welfare is the provision of free homes or plots of land for Kuwaitis.

In 2017 PAHW pledged to deliver 36,000 residential units. To put this in historical context, this is equivalent to almost 40% of the 93,040 homes built and handed over to citizens by PAHW from 1954 to 2012.

The second challenge for PAHW is to increase this level of delivery over the longer term to cope with future demand, as almost two-thirds of Kuwaitis are under 30. The backlog in housing distribution means that some Kuwaitis are moving into rented private properties, while in other cases multiple generations of the same extended family remain under one roof. PACI data from June 2018 shows that 2.05m people, including servants, were living in homes of a Kuwaiti citizen. Of that total, 1.08m people, or 52.5%, were living in households with 10 or more people, while 400,492, or 19.5%, were in homes with 14 or more people living together.

LEGAL FOUNDATIONS: In addition to PAHW's activities in the residential housing market, the country's laws restrict land and property ownership to GCC citizens. Laws passed in 1959, 1960 and 1978 established regulations for the registration of real estate, the operation of commercial companies and the leasing of property. Law No. 74 of 1979 regulated foreign ownership of property and effectively prohibited foreign residents or companies from owning property. A subsequent law in 2004 did permit citizens of GCC countries residing in Kuwait to buy real estate, and the same rights have been extended to citizens of other Arab countries. The Ministry of Justice (MoJ) operates a land registry and can also consider applications for property ownership from Arab nationals. In 2015 local media reported that six foreign residents from Lebanon, Jordan, Yemen and Egypt had been granted permission by the MoJ to purchase plots of land under Law No. 74. In 2018 the Cabinet's economic affairs committee prepared a report suggesting foreign residents be allowed to own their own homes in certain areas. It claimed the move could stimulate the real estate market without having an impact on housing options or prices for Kuwaitis.

In the wake of the global financial crisis of 2008, Kuwait passed Law No. 8 and Law No. 9 which restricted commercial ownership of land in residential areas. The laws were designed to prevent monopolisation of land ownership and reduce speculation. The new laws stipulated that any party owning more than 5000 sq metres of land for more than three years for trading purposes would have to pay a KD10 ($33.15) fee for every additional square metre of land they owned. KFH, an Islamic lender, subsequently challenged the law in 2009, successfully arguing that banks should be excluded from the fees, as the land was being held in collateral rather than for trading purposes. However, the impact of the legislation has effectively hampered the growth of commercial residential property development in Kuwait. "The impact is that homes are either being built as part of government-funded schemes or by individuals using government loans, but without medium-sized property developers in the market," Bashar Al Salem, CEO of architectural practice Kayan, told OBG.

PROPERTY LOANS: In its "Financial Stability Report 2017", the Central Bank of Kuwait (CBK) notes that the combination of property loans to individuals, real estate companies and construction firms meant that half of Kuwaiti banks' credit portfolios were exposed to the real estate sector. The CBK reported that lending

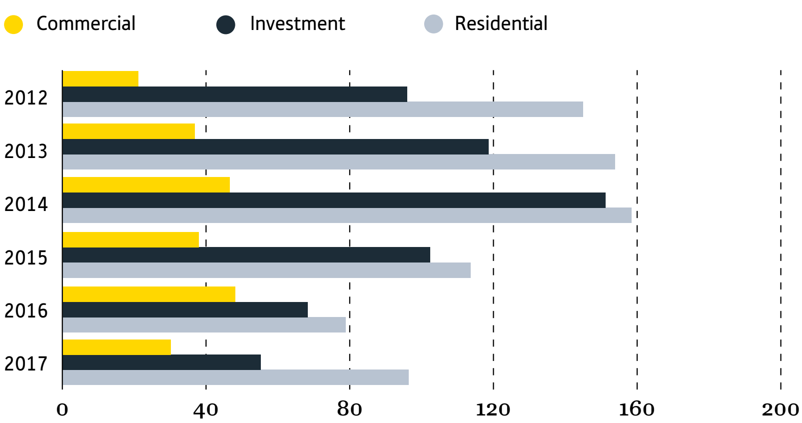
Kuwait households with over 10 people make up 52.5% of dwellings

to households grew by 7.6% in 2017, with 86% of that credit accounted for by instalment loans for the repair and purchase of private homes. In the same year direct lending to the real estate sector increased by 4.4%, reversing the 3.4% loss the sector had experienced in 2016. The CBK attributed the real estate market's partial recovery in 2017 to renewed activity in the residential segment. In 2017 bank credit to households increased by 7.6% to KD11.5bn ($38.1bn), making it the top recipient of bank credit, followed by the real estate sector, which was loaned KD9.5bn ($31.5bn).

PROPERTY PRICES: The government's commitment to providing homes for citizens, combined with laws largely prohibiting foreign ownership of property, has resulted in a two-tier home market in Kuwait. Villas and apartments built for Kuwaitis are classified as residential, while buildings designed for occupancy by foreign residents are regarded as investment properties. MoJ data on transactions across the real estate sector is analysed by both KFH and NBK, while the Real Estate

In 2018 the Cabinet's economic affairs committee prepared a report suggesting foreign residents should be allowed to own their own homes in certain areas.

Average monthly real estate sales, 2012-17 (KD m)



Source: Ministry of Justice, NBK

New investment properties and apartments are forecast to increase supply by 6.6% during 2018-19

There were

671

property transactions in 2017

In 2017 the occupancy rate of office space reached 95.6%. Alongside this, lease rates have grown to $25.76 per sq metre, not including common area charges.

Association (REA) makes its own surveys of activity in residential, investment, office and industrial property transactions. NBK noted that in 2017 overall activity in all property segments saw a 6.5% increase in the number of transactions to 4524, but a 6.9% decline in the value of sales to KD2.2bn ($7.3bn). It reported that residential sales increased by 22%, but that the investment and commercial sectors declined by 19% and 37%, respectively. The market picked up in the second quarter of 2018, with sales totalling KD774m ($2.6bn), a 31% year-on-year increase. Residential sales for the quarter were KD306m ($1bn); investment sales nearly doubled year-on-year to KD347m ($1.2bn); and commercial sales increased by 40% to KD120m ($397.8m). According to KFH's report, in the first quarter of 2018 the average prices per sq metre for residential, investment and commercial land were KD610 ($2022), KD1500 ($4970) and KD3386 ($11,200), respectively. Land in Capital Governorate was the most expensive with average prices of KD838 ($2780), KD2380 ($7890) and KD6011 ($19,900) per sq metre for residential, investment and commercial plots, respectively.

INVESTMENT PROPERTIES: The REA's analysis of the market found the occupancy levels of properties leased to foreign residents had fallen from 95% during 2011-16 to 86.8% in 2017. The REA attributed this to a slowdown in the growth rate of the expatriate population, thereby reducing demand for some of the new properties that are being built. The association found the average annual growth rate in foreign citizens living in Kuwait had been between 3% and 4% during 2011-15, peaking at 4.8% in 2016. In 2017 the overall number of foreign residents living in Kuwait increased, but by just 2%. Data from PACI shows there are 13,353 investment properties in Kuwait, which the REA estimates contain 371,006 residential apartments. The association's detailed analysis covers a 42.6% sample of these, or 5695 properties containing 162,576 apartments. The 2017 survey noted 21,529 vacant apartments and based on its sample, estimated that 48,973 apartments were standing empty across the country. It also counted 875 new investment properties under construction, with 26,466 apartments, which it forecast would swell supply by 6.6% in 2018-19. Investors have also seen average monthly rental receipts decline from KD313.2 ($1040) in the second quarter of 2015 to KD278.9 ($927) at the end of 2017. The REA predicted it would take until 2022 for market demand to absorb the 75,000 apartments that are already empty or under construction if the growth rate of the expatriate population over that period were to remain at 1.5-2%.

FREEHOLD APARTMENTS: Although many Kuwaitis prefer to live in family villas, freehold apartment buildings are an attractive alternative. Despite this being a relatively small segment of the real estate market in the country, such properties offer some of the best yields for property investors. MoJ data shows 2017 was a modest year, with 671 property transactions compared to 819 the year before, and 973 in 2015. The REA analysed 43 properties including 1590 flats in the fourth quarter of 2017, and counted 599 unsold units. The association calculated that it was taking an average of 31.3 months for a project to sell out, against a construction time of 24 months. Although the market may have stalled in 2017, over the preceding decade from 2007 the compound annual growth rate in freehold prices was 7.6%, with rents growing by an average of 6-6.5% per annum. The result is that over the 10-year period the combined return for investors was some 14.3% per annum.

By 2018 the infrastructure works had been completed on the Hessah Al Mubarak district, allowing developers to commence the design phase for apartments. "There will be two 40-storey towers on the seafront with 212 apartments and 20 buildings for low-rise homes, 300 in all," Tawfiq Aljarrah, executive director of Kuwait Projects Company, told OBG. "The homes will be sold freehold to Kuwaitis."

OFFICE PROPERTIES: The office space segment in Kuwait enjoyed some of its highest occupancy rates since the global downturn of 2008, according to the REA. Their research shows the rate grew from 59.4% in 2011 to 95.6% in 2017. Alongside this, average lease rates have grown to KD7.77 ($25.76) per sq metre, not including common area charges. Some 415 office buildings generated KD127.7m ($423.4m) in annual rental income, with the REA estimating the combined value of properties was KD1.8bn ($6bn). In the fourth quarter of 2017, the REA reported there was 1.43m sq metres of existing office space, up from 1.17m sq metres in the second quarter of 2015. However, the REA report cautioned that some significant new developments could draw tenants from existing properties. In Sharq, near the central business district, new headquarters for the Kuwait Investment Authority and the CBK were nearing completion which had a combined space of 140,000 sq metres, with the possibility of additional tenants filling available added space. NBK and Mabanee are also building headquarters towers in Asma Governorate, with 50,000 sq metres between them.

RETAIL SPACE: In 2018 the fourth and final phase of The Avenues Mall by Mabanee opened, bringing the total GLA for the regional destination mall to 360,000 sq metres. According to the REA, there was 799,141 sq metres of existing retail space in Kuwait at the end of 2017, with 346,046 sq metres under construction. This is a significant increase from the second quarter of 2015, when there was 770,196 sq metres of retail space, but just 28,945 sq metres under construction.

At the end of 2017 the occupancy rate of existing retail property was 98.7%, but only half of units under construction had been leased, putting the occupancy ratio for retail mall space at 84%, according to the REA. From the second quarter of 2015 to the end of 2017, the average lease rates per sq metre fell from KD18 ($59.68) to KD17.5 ($58.02) for basement units, and from KD25.7 ($85.21) to KD23.5 ($77.91) for ground-floor spaces.

HOTELS: Kuwait's real estate developers are also working on hospitality developments. By 2020, the five-star Waldorf Astoria hotel and the four-star Hilton Garden Inn will have been completed, adjacent to The Avenues Mall with 600 rooms between them. This follows the opening in early 2017 of the 284-room Four Seasons Hotel Kuwait at Burj Alshaya, a 140,000-sq-metre development that includes the 43-storey Western Tower, which also serves as Alshaya's corporate headquarters. Tamdeen is working on two additional hotel projects, with the 200-room Rotana Hotel as part of the Al Kout development and the planned 261-room Grand Hyatt.

INDUSTRIAL SITES: Kuwait's existing stock of industrial real estate is limited. The REA's 2017 report focused on eight areas offering warehousing space, estimating that occupancy rates are above 95%, with strong demand for warehousing and leasing rates holding steady or even increasing marginally. Prices per sq metre range from KD2 ($6.63) in Abdullah Port, to KD9.5 ($31.50) for the most expensive cold storage facilities.

OUTLOOK: In 2018 the Sheikh Al Jaber Al Ahmad Al Sabah Causeway is due to open, linking the existing city to Subiyah, where one of the landmark real estate projects is set to be unveiled at the proposed location of the Silk City mega-project development. Along with the development of uninhabited Boubyan Island and the redevelopment of Failaka Island, Silk City offers a wealth of opportunity for private property developers as well as for the construction firms, building tens of thousands of new homes for Kuwaitis. Failaka is to host new hotels, universities and cultural centres, while leisure facilities, solar generation and data storage facilities are planned alongside a logistics zone on Boubyan. Silk City is to have a new financial centre and an amusement park as well as homes and amenities. These large-scale developments along with the country's markedly growing population appear set to be central drivers across all segments of Kuwait's real estate market over the next decade. "The real estate sector in the Gulf is full of models and drawings, but when we can show the people of Kuwait something real, they will embrace it," Aljarrah told OBG.

As of end-2017, there were

799,141 sq metres

of retail space

Government loans will enable citizens to build homes on their plots

Project developments

An increased budget for the sector will result in dozens of new developments by 2020

The Public Authority for Housing Welfare distributed

36,000

residential plots in 2017

The Public Authority for Housing Welfare (PAWH), responsible for building towns, neighbourhoods and homes for Kuwaitis, is spending almost KD1bn ($3.3bn) per year on new developments, aiming to hand over 36,000 residential plots in 2017. Generous government-backed instalment loans are being extended to enable citizens to build homes on their plots. Local media reported PAHW's budget would be increased from KD911.3m ($3.02bn) to KD916.6m ($3.04bn) in FY 2018/19 for work on 28 projects to provide roads, housing plots, infrastructure, public buildings and amenities. The project development costs in two new neighbourhoods in Jaber Al Ahmad and Al Mutlaa cities were amended, rising from KD336m ($1.1bn) to KD388m ($1.3bn). Other projects are progressing as planned, with PAHW stating that by the end of 2018 a mosque, clinic, schools and shops would be handed over in the Wafra expansion project, where all the homes were due to be completed by 2020.

MAJOR PROJECTS: As it strives to clear the 100,000 applications on the housing waiting list that has built up over years, PAHW is also planning ahead for the needs of a young, growing population. Across the country, the authority is overseeing eight ongoing projects with a combined area of 17,398 ha, on which 56,614 homes are being built at Abu Halifa, Wafra, Jaber Al Ahmad, South Al Mutlaa, North West Sulaibikhat, Sabah Al Ahmad and West Abdullah Al Mubarak. Some homes will be apartments, while others will be villas or plots for Kuwaitis to build their own homes. The properties will range in size from 400 sq metres to 600 sq metres. For these communities, PAHW is commissioning 299 schools, 330 mosques, stations for the police, fire and ambulance, shops, clinics and government buildings.

As it strives to clear the 100,000 applications on the housing waiting list, the Public Authority for Housing Welfare is planning ahead for the needs of a young, growing population.

Beyond the current projects, PAHW has six other schemes currently in the design phase to provide an additional 66,017 homes on 14,136 ha at South Sabah Al Ahmad, South Saad Al Abdullah, South Abdullah Al Mubarak, South Khaitan, East Taima and East Sabah Al Ahmad, as well as a low-cost housing scheme. Looking further ahead, PAHW is planning three new communities at Nawaf Al Ahmad, Al Sabriya and Al Khairan that will be built on 34,680 ha, providing an additional 139,530 properties for Kuwaitis.

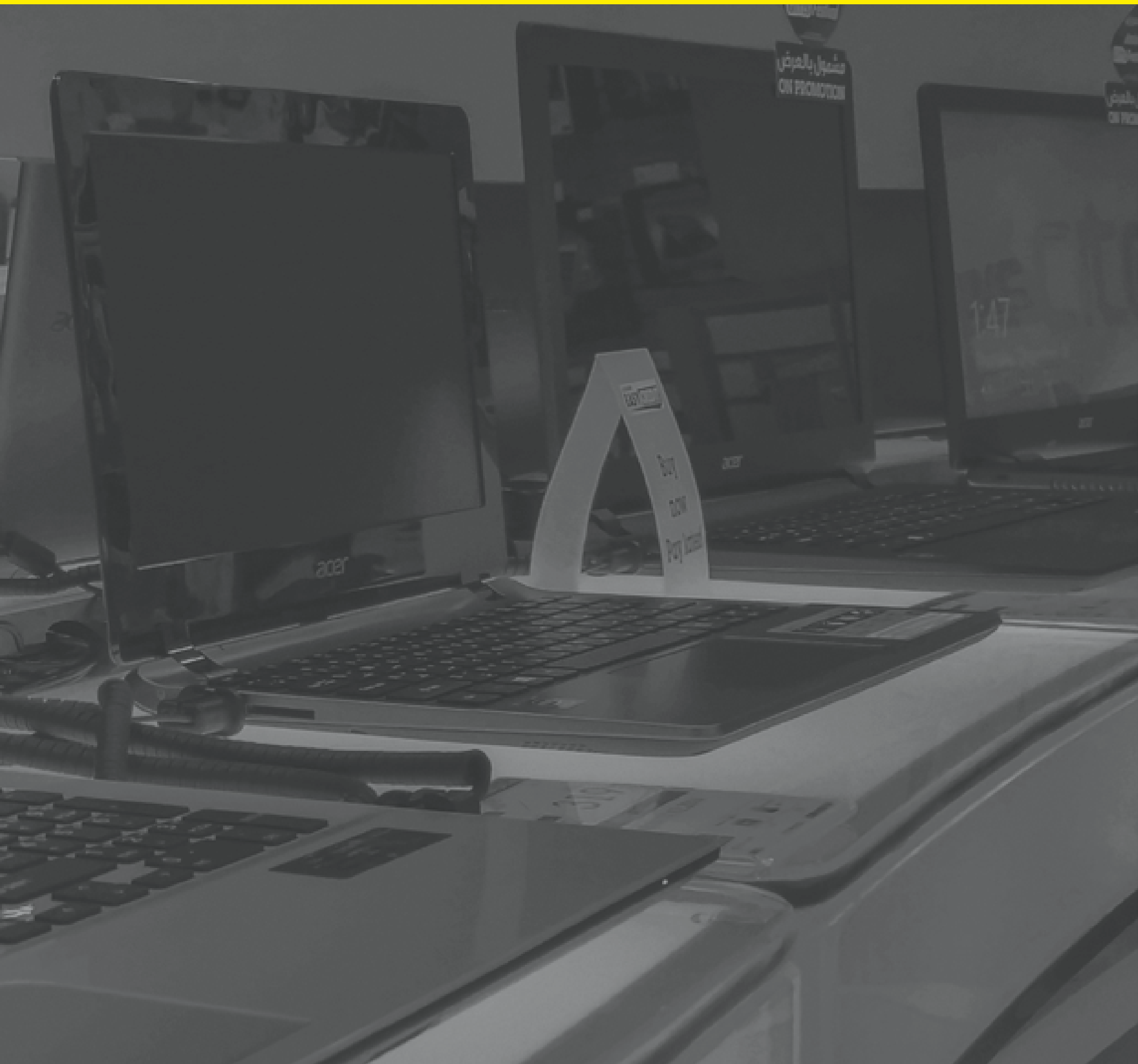
INTERNATIONAL FIRMS: In March 2018 PAHW signed a KD29m ($96.1m) contract with the Turkish construction firm Limak to construct one of the projects currently in the design phase; South Abdullah Al Mubarak, which will have 3260 plots on 435.8 ha, and associated amenities including five schools, three kindergartens and a mosque. The construction company will also be responsible for the new community's roads, drains, sewage system and telecoms infrastructure. This is not the first time in Kuwait's history that international firms have been awarded construction contracts for government-funded communities.

On the surface, international firms delivering housing and building new towns and estates would appear to remove local real estate companies from the equation and reduce the overall demand for freehold apartments. However, the real estate market is segmented between homes for Kuwaitis and those for foreign residents, with the latter regarded as investment properties. Therefore, the additional supply of villas for Kuwaiti citizens is more than likely to have a minimal impact on the separate rental market for foreign residents. Real estate companies also recognise opportunities to build commercial premises, in addition to the civic buildings that will serve these new towns and cities for Kuwaitis.

However, some private developments are easing Kuwaiti demand for affordable and cost-efficient housing. Sabah Al Ahmad Sea City in the south of the country, for example, has been built by Kuwaitis who are able to afford seaside homes. The reclaimed, palm-shaped development hopes to allocate homes for 150,000 Kuwaiti citizens. Local real estate developer Athra plans to provide those residents with retail and leisure facilities in the form of the KD30m ($99.5m) Blue Water Mall.

ICT

Surge in mobile phone and internet subscriptions
Major mobile operators record revenue growth for 2017
Continued efforts to expand fibre-optic cable network
Preparations under way for the rollout of 5G services



In 2017, 83.5% of homes had a computer and 77.7% had internet access

Strategic moves

Expansion of network services and infrastructure expected to further innovate the market

In the first half of 2018 telecoms accounted for

5%

of GDP

The Ministry of Communications offered the country's only fixed-line telephony and postal services until the Communication and Information Technology Regulatory Authority took over as regulator in 2016.

The government's New Kuwait 2035 strategy has signalled ICT development as a key pillar that is expected to attract investment and boost the local economy. While government data does not collate information for the broader ICT sector, it does show the contribution of the telecoms sector to GDP. In 2016 telecoms accounted for 7.7% of non-oil revenue and 3.92% of total GDP at constant prices, according to the Central Statistical Bureau (CSB).

Though its contribution to the non-oil sector grew to 8.2% in 2017, its GDP share dipped slightly to 3.86%; however, sector contribution to GDP is regaining momentum, with telecoms accounting for about 5% in the first half of 2018. The sector generated KD572.1m ($1.9bn) at constant prices by the end of the second quarter of 2018, a year-on-year growth of 34%, and its positive trajectory is expected to continue, backed by the expansion of three international mobile network operators in Kuwait: VIVA, Ooredoo and Zain.

REGULATORS: As with many countries, the telecoms sector in Kuwait has evolved from a state-owned postal and fixed-line telephone service to a more complex marketplace, with mobile phone operators experiencing rapid growth in the 21st century and adapting their business models to offer a more comprehensive range of technological services. The Ministry of Communications (MoC) traces its history back to 1956, five years before Kuwait gained independence, and until 2016 it offered the country's only fixed-line telephony and postal services, as well as regulated the ICT sector, including mobile operators. In 2016 the Communication and Information Technology Regulatory Authority (CITRA) took over as sector regulator following an Amiri decree issued in 2014. CITRA has an independent board of directors and is charged with overseeing the country's long-term economic development plan, in addition to managing fair competition, licensing, release of spectrum, national cybersecurity measures and smart government strategies.

Another regulatory body, the Central Agency for Information Technology (CAIT), was founded by Amiri decree in 2006. It is attached to the Minister of State for Cabinet Affairs, and is responsible for devising, developing and overseeing public sector e-services and initiatives, including the Kuwait Government Online Portal, the Kuwait Government Call Centre and the Kuwait National IT Governance Framework. CAIT has commissioned detailed surveys of the ICT sector and has established the data and disaster recovery centres used by government ministries.

INDICATORS: From 2007 to 2016, the latter being the most recent year for which data is available, there are contrasting results for government-owned landline services and privately owned mobile telephone operators. Over the period fixed-line subscriptions fell by 17% from 538,219 to 446,699, while revenues from international landline calls fell by 80% from KD106.4m ($352.8m) to KD21.6m ($71.6m). Of the international calls made in 2016, 30% were to Saudi Arabia, 20% to Egypt and 18% to the UAE, generating KD3.7m ($12.3m), KD3.6m ($11.9m) and KD2.2m ($7.3m), respectively, collectively accounting for 44% of all revenue from international calls.

In contrast to these contracting revenues and customer numbers, private mobile phone companies saw their subscriber figures increase by 168% from 2.8m in 2007 to 7.5m in 2016, while mobile internet subscriptions surged by 784% from 350,134 in 2008 to 3.1m in 2016. Fixed-line internet services have also grown, but uptake has been much lower than in the mobile marketplace. Although a complete data set for 2016 was not provided by the CSB, between 2007 and 2015 the number of available internet lines grew by 345% from 97,338 to 431,700, while internet subscribers expanded by 68% from 74,689 to 125,338. The total number of internet users increased from

457,960 in 2007 to 635,485 in 2015, while high-speed internet user numbers rose from 35,373 to 116,527.

Data collated by the UN's International Telecommunications Union (ITU), which draws on government statistics, measured penetration of telephone and internet usage in Kuwait. Per 100 inhabitants there were 10 fixed-line subscriptions, 1.3 fixed-line broadband subscriptions, 133.1 mobile phone subscriptions and 254.4 mobile broadband subscriptions in 2017. The ITU also reported that 83.5% of households had a computer, 77.7% of households had internet access and 78.4% of individuals were using the internet. When comparing wireless broadband and fixed-line broadband access in Kuwait to ITU figures for other countries, it is apparent there is a stronger preference for mobile broadband and a slower uptake of fixed broadband services. The average use of mobile broadband in developed economies in 2017 was under 100 per 100 inhabitants, while fixed-line broadband was used by more than 30 people per 100 inhabitants.

Low levels of fixed-line broadband uptake may be a reflection of Kuwait's demographics, with almost 70% of the population, or 3.1m people, being non-Kuwaitis. In Kuwait, foreign nationals are not entitled to own property and their residence visas are connected to employment, so they may be less inclined to invest in a broadband line for their rented property. In addition, 1.1m of foreign nationals live in collective households.

Among the 1.4m Kuwaiti nationals, there were 300,629 family homes as of June 2018, with 34% of citizens living in homes with 10 or more of their relatives, all potentially sharing one fixed-line broadband connection. In contrast, the results for mobile broadband penetration suggest that consumers have often owned more than one sim card or mobile phone number, enabling them to shop around for the best deals, and separate work and leisure commitments.

ZAIN: Founded in Kuwait as the Mobile Telecommunications Company in 1983, Zain remains the country's leading operator. In its 2017 annual report, the company noted that it had 46.6m customers in eight countries across the Middle East and Africa. According to the report, the company had a 37% market share in Kuwait, with VIVA and Ooredoo accounting for 32% and 31% of customers, respectively. By the end of the first quarter of 2018 Zain reported its market share had increased to 39%, equalling 2.8m customers, while VIVA and Ooredoo held shares of 31% and 30%, respectively. Zain Kuwait remains the most profitable company in operation in the Zain international group and has the highest average revenue per user (ARPU) at $24, with 69% of its subscribers on pre-paid plans. In the first quarter of 2018 Zain Kuwait reported ARPU of $25.

More broadly, however, the company's financial performance over the past years demonstrates a downward trend, which is reflective of the fierce competition in the telecoms market in Kuwait. Between 2016 and 2017 Zain saw an 8% drop in

Per 100 inhabitants there are 133.1 mobile phone subscriptions and 254.4 mobile broadband subscriptions

customer numbers, from 3m to 2.7m, and an 11% fall in net profits, from $298m to $265m. ARPU also fell over the same period, from $27 to $24. Nevertheless, the company grew its revenues by 2% to reach $1.1bn by the end of 2017. Of those revenues, 32% came from data consumption at an average of 1460 TB per day, with customers consuming an average of 18 GB per month. Across its international companies, including Kuwait, Zain reported total revenues of $3.4bn and a net income of $527m, demonstrating a compound annual growth rate of -6.1% and -8.9%, respectively, during the 2013-17 period. In the first three months of 2018 Zain Kuwait recorded revenues of KD259m ($858.7m) and net profits of KD42m ($139.2m), up 4.9% and 7.7%, respectively, on the first quarter of 2017. As of June 2018 the company reported a market capitalisation of KD1.8bn ($6bn).

OOREDOO: The Qatari-owned company Ooredoo began trading in Kuwait in 1999 under the name of Wataniya Telecom, and it is listed on Boursa Kuwait as the National Mobile Telecommunications Company. According to its 2017 annual report, Ooredoo Kuwait saw a 6% decline in subscribers from 2016 to 2017, and a 5% drop in the first quarter of 2018 compared to the same period in 2017. As of the final quarter of 2017 its customer base stood at 2.2m and it held a market share of 30.7%. Ooredoo attributed the decline in subscriptions to intense competition in the market, which affected its annual income. Company revenues hit KD222.7m ($738.3m), up 13% on 2016 figures; however, net income fell by 80% from KD11.3m ($34.5m) to KD2.2m ($7.3m). In the first quarter of 2018 there was an upturn in financial performance, with revenues increasing by 37% year-on-year from KD48m ($159.1m) to KD66m ($218.8m), which the company attributed to increased sales of handsets. Ooredoo saw a ten-fold increase in device sales in 2017 after deciding to focus on this aspect of the business as an additional revenue stream.

Among the 1.4m Kuwaiti nationals, there were 300,629 family homes as of June 2018, with 34% of citizens living in homes with 10 or more of their relatives, all potentially sharing one fixed-line broadband connection.

Kuwait has the highest mobile penetration rate in the MENA region

Government bodies own under 25% equity in local telecoms companies, with largely state-owned GCC firms increasing their stake in the Kuwait market.

VIVA: The newest of the three mobile phone operators in Kuwait is VIVA, which began operations in December 2008, and listed on Boursa Kuwait in December 2014. In the course of a decade the company has made inroads into the market, claiming in its first quarter report for 2018 that it held a 32% share of both subscribers and mobile operator revenues, and 34% of net profits made by the three companies. Though the number of subscribers declined from 2.4m in 2016 to 2.3m in 2017, its annual revenues climbed from KD279.1m ($925.3m) to KD287.7m ($953.8m) and net profits from KD39.8m ($132m) to KD42.8m ($141.9m). VIVA estimated that the decline in the number of mobile subscriptions in Kuwait saw penetration rates fall from 227% to 200% by the end of 2017, but noted that this was the highest level for any country in the MENA region.

TELCO FIRMS: In addition to the three aforementioned telecoms operators, there are two additional telecoms companies listed on Boursa Kuwait: AAN Digital and Hayat Communications. AAN Digital, formally known as Hits Telecom, is headquartered in Kuwait and focuses on acquiring stakes in mobile network operators in emerging markets. In 2017 AAN Digital recorded losses of KD6.9m ($22.9m), up from KD5.4m ($17.9m) in 2016. In the first quarter of 2018 the company recorded a loss of KD239,597 ($794,000), an improvement on the loss of KD357,122 ($1.2m) incurred in the same period in 2017.

Hayat Communications works in partnership with telecoms companies across the Middle East by supplying and installing towers, rooftop equipment, generators, as well as providing fibre and fibre-laying services. According to its 2017 annual report, company revenues increased from KD19m ($63m) in 2016 to KD22.5m ($74.6m) in 2017. In contrast, net profit declined from KD289,877 ($961,000) to KD187,365 ($621,000) over the same period.

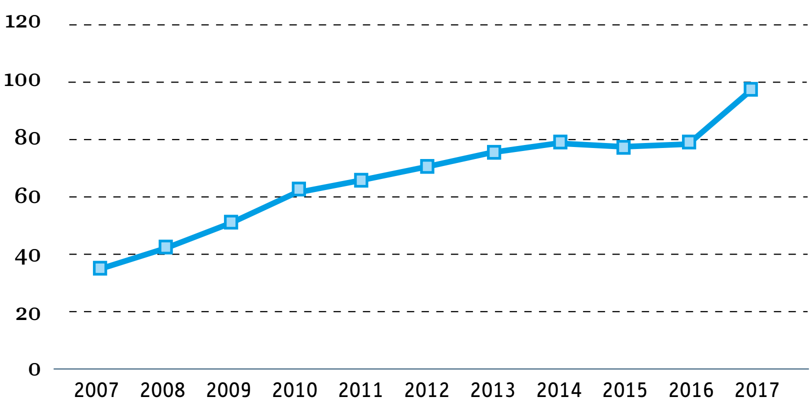
EQUITY SHARES: In many GCC countries, sovereign wealth funds and state pension plans own majority stakes in their country's leading mobile network operators. This is not the case in Kuwait, where government bodies own just under 25% equity in Zain and VIVA. Indeed, in recent years largely state-owned GCC telecoms companies have increased their stake in the Kuwait market. In 2016 Saudi Telecom Company (STC), in which the Saudi Public Investment Fund and state pension organisations own more than 84% of the equity, increased its stake in VIVA from 26% to approximately 52%. The government of Kuwait owns 24% equity in the company through a number of different state funds, while the remaining 24% is owned by public shareholders.

In Oman, the government has a 51% stake in Omantel, which operates both mobile and fixed-line services. In 2017 Omantel became the second-largest shareholder in Zain Group, purchasing 9.8% of the issued shares in August for $846.1m before acquiring an additional 12.2% in November 2017 for $1.4bn, taking its total stake to 22%. Through Kuwait Investment Authority, the government of Kuwait remains the company's largest shareholder with 24.6%.

In Qatar, state bodies own 68% of the equity in Ooredoo, while the sovereign wealth fund Abu Dhabi Investment Authority owns 10%. In the UAE, the state owns 60% of the equity in the Emirates Telecommunications Corporation and the Emirates Integrated Telecommunications Company, while in Bahrain state-owned holding companies and pension funds own 55% of Bahrain Telecommunications Company.

OVER THE TOP: A key challenge for telecoms companies across the globe has been responding and adapting to the growth of over-the-top (OTT) applications, which have increasingly taken over traditional revenue streams from voice and messaging services. In 2017 global consultancy firm McKinsey estimated that OTT apps, such as Apple's FaceTime, Facebook's Messenger, Instagram and WhatsApp, and Microsoft's Skype would capture a 60%, 50% and 25% share of messaging, fixed voice and mobile voice revenues, respectively, by the end of 2018.

Internet users, 2007-17 (% of population)



Source: ITU

Many telecoms providers in the GCC have been cushioned from these financial pressures by some of the world's most restrictive regulations on OTT services, including voice-over-internet-protocol (VoIP) applications. VoIP services have been banned in the UAE, unless they are provided as a paid service by its own mobile phone operators, and are restricted in Oman and Qatar. Saudi Arabia lifted its ban in September 2017. The bans, or partial bans, on VoIP applications in these countries have helped protect revenue streams for largely state-owned companies such as STC, Omantel and Ooredoo; however, these companies have invested in telecoms firms in Kuwait, where consumers are free to use OTT services. As of September 2018 WhatsApp was the most popular free application for Apple and Android users in Kuwait, while Messenger, Snapchat, imo and Viber ranked among the top 20 for both mobile operating systems, according to global digital market intelligence company Similar Web.

INFRASTRUCTURE MANAGEMENT: As they seek to adjust their business models to changing patterns of consumer behaviour, mobile network operators in Kuwait are placing more scrutiny on their capital expenditure on infrastructure. All three companies are committed to preparing for 5G technologies and have invested in network improvements, but they are also seeking to address costs associated with infrastructure management. In October 2017 Zain reached an agreement to sell and lease back its mobile tower network in Kuwait, making it the first deal of its kind in the Middle East. IHS, an international telecoms infrastructure company paid $165m for the network, a transaction which was approved by CITRA. In its 2017 annual report, Zain noted that the income, as well as future cost savings from the agreement, would enable it to invest in new technology and improve customer service. Zain operates 2292 network sites in Kuwait, including 1600 towers, and recorded $87m in capital expenditure on its network in 2017. IHS managed 23,300 towers in five countries across Africa, Europe and the Middle East at the time of the agreement.

Also in 2017, Ooredoo expanded its network in Kuwait, adding 160 new sites to reach over 1200 locations, while VIVA noted it had invested KD316m ($1bn) in infrastructure in Kuwait from the end of 2008 to 2017. In February 2018 CITRA announced its intention to support both mobile and fixed-line operators in sharing the burden of network expansion. Salim Al Ozainah, chairman and CEO of CITRA, told international media that 30% of the mobile towers in Kuwait are shared by operators, while 100% of last-mile, fixed-line infrastructure is shared by internet service providers (ISPs). He added that government departments, including the MoC, would be encouraged to share underutilised existing infrastructure – such as ducts, fibre-optic cables, towers and poles – with commercial operators.

DATA CENTRE: In addition to a nationwide fibre-optics infrastructure, officials are also planning to construct a KD1.4bn ($4.6bn) solar-powered data centre to serve the information storage needs of its northern neighbours. The Tier-3 facility, with two dedicated 500-MW power stations, is expected to sit at the centre of a 20-sq-km ICT zone on Boubyan Island, which will also host 600 ICT firms, ranging from local start-ups to international companies. Plans for the facility are included in a feasibility study entitled "Silk City and the Islands", which was commissioned by the Kuwait Direct Investment Promotion Authority to provide a blueprint for Kuwait's economic diversification strategy over the next two decades. The study predicts that companies will be attracted to the ICT zone's high-tech infrastructure, business-friendly environment and availability of skilled labour. An estimated 6900 people would work in the zone, 75% of which would be Kuwaiti citizens. This means that a quarter of the workforce is to be made up of foreigners, helping transform the zone into an international technological hub. The scope of the long-term plan illustrates Kuwait's ambition to elevate the role of the ICT sector in the economy.

Telecoms companies are investing in network infrastructure in preparation for 5G technology adoption

Officials are planning to construct a $4.6bn solar-powered data centre with two 500-MW power stations in a 20-sq-km ICT zone on Boubyan Island.

NEW STRATEGIES: Given the shifting trends in the global telecoms industry, operators in Kuwait are offering services that might previously have been the domain of IT firms as they seek to diversify revenue streams and remain competitive. In 2017 Zain signed a KD22m ($72.9m) development, management and operation agreement with the Ministry of Electricity and Water (MEW) to develop connectivity support for its smart meters programme. The project is designed to provide the MEW real-time automated data on water and electricity consumption using automation and machine-to-machine technology. Zain will work alongside international partners including EY, Ericsson and NXN to construct and install smart meters over a two-year period and then manage their operation for a further five years, with the project expected to reach completion in 2024.

100%

of last-mile, fixed-line infrastructure is shared by internet service providers

International firms are partnering with Kuwaiti companies to engage with customers and offer training

All four internet service providers rely on the Ministry of Communication's rollout of fibre-optic cabling to be able to compete with mobile broadband speeds.

In 2016 Ooredoo signalled its move into the ICT sphere with the acquisition of Kuwaiti ISP FASTtelco, and in 2017 the company launched a Tier-3 data centre offering cloud hosting and managed co-location services to help businesses reduce company expenditure on IT departments, while potentially improving their cybersecurity measures.

FIBRE OPTICS: FASTtelco is one of four ISPs using the fixed-line network provided by the MoC. QualityNet, bOnline (formerly Gulfnet) and KEMS serve residential, government and commercial customers, but all four rely on the MoC's rollout of fibre-optic cabling, or a Gigabit Passive Optical Network (GPON), to enable them to offer speeds that can compete with mobile broadband services.

A progress update on Kuwait's fibre-to-the-home (FTTH) services was presented at the FTTH Council MENA conference in Tunis in September 2017, which noted that the MoC had initially laid fibre to homes in 16 areas and that it hoped to have 50% of the country covered by the end of 2018 in its second phase, with plans to cover the entire population in its third phase. The GPON will offer speeds of up to 100 Mbps and enable the provision of internet protocol television. By September 2017, 14.6% of fixed broadband consumers in Kuwait were using higher speed fibre connections.

The three GCC countries leading the way with FTTH infrastructure are Saudi Arabia, the UAE and Qatar, with 3.2m, 1.5m and 400,000 connected homes, respectively, in 2017. The UAE has the highest number of subscribers at 1.6m, followed by Saudi Arabia with 729,000 and Qatar with 337,000. Kuwait's plan was to reach 67,000 homes by the end of 2017 and 100,000 by the end of 2018. A swift rollout of the fibre network is vital if they are to retain and increase customer numbers. "Nowadays, customers are hungry for bandwidth and they are not satisfied with 2 Mbps or 6 Mbps, and so our only option is to put pressure on CITRA," Essa Al Kooheji, chief commercial officer at QualityNet, told OBG. "Any delay would really weaken the position for fixed operators competing with mobile companies."

The entrepreneurial mindset of young Kuwaitis has spawned technology success stories, including app-based food delivery services that have expanded internationally.

CLOUD COMPARISONS: The distribution of fibre networks was one of the factors used by non-profit industry association MENA Cloud Alliance to draw up its Cloud Competitiveness Index 2017, which assessed the six GCC countries. The status of network infrastructure falls under the connectivity pillar of the index, with scores also given for regulation, talent, government and business. Kuwait ranked sixth overall, and also placed sixth for government, talent and regulation. It has the fourth-most attractive business environment and the second-best connectivity, with some of its highest scores in telecoms infrastructure and affordability. Notably, Kuwait received the highest score among the six countries for business risk. Contrary to the country's performance on the index, however, Microsoft sees Kuwait as a leader in cloud and technology adoption in the region. "The appetite for new technology is high in Kuwait, and we are working on our partner programme to engage with customers, and to offer training and knowledge transfer," Charles Nahas, general manager of Microsoft Kuwait, told OBG. The entrepreneurial mindset of young Kuwaitis has spawned success stories such as Talabat and Carriage, app-based food delivery services developed in Kuwait and subsequently expanded. Both companies now operate under the umbrella of Delivery Hero, which is based in Berlin.

OUTLOOK: The appetite of the young population has driven the early adoption of new technology in Kuwait, and with it, the demand for data-driven services. This has been met to date by the three mobile operators in an intensely competitive market place, but with plans to build new communities under way, fibre connectivity could play an increasingly important part in the infrastructure of new smart cities.

Some tech giants see Kuwait as a leader in cloud adoption in the region

Salman bin Abdulaziz Al Badran, CEO, VIVA Kuwait

Rising to the challenge

Salman bin Abdulaziz Al Badran, CEO, VIVA Kuwait, on the potential of cloud computing and the promise of smart cities

In what ways is the country developing and applying the smart city concept?

AL BADRAN: We hear a lot about smart cities as win-win solutions. Cities with mature smart city deployments have significant benefits, including increased quality of life, reduced environmental impacts and increased operational efficiency. The smart city concept for Kuwait is more relevant now than ever, as there is a huge opportunity for operators and vendors. The smart city paradigm is based upon the fact that it connects virtually every aspect of a city – transportation, homes, government and businesses – and makes them more efficient. It is no surprise that in existing smart cities, major players are taking collaborative approaches in terms of focus and resources in the market, and leveraging public and government support. In fact, in many cities, government funding plays a key role in running trials and establishing smart cities. Meanwhile, telecom providers have the responsibility of making these multi-network connections happen, with connectivity being the cornerstone of successful smart city deployment. In addition, these firms should play a role in engaging various stakeholders in the deployment of the smart city, which is critical to the integration and success of any project.

How do you assess the current appetite for cloud-computing centres in Kuwait?

AL BADRAN: As with many other countries, the appetite for running cloud-based services and exploiting cloud opportunities is growing, especially for the business-to-business segment. Cloud computing reduces investments, minimises IT risks and improves the total cost of ownership in the long-term. In fact, virtualisation and provisioning software enables the efficient allocation of computing resources, rationalising the cost of hardware and storage and thereby allowing extensive exploitation of economies of scale. This also lays the foundations for a shift from upfront capital investments to operational expenses. In scenarios such as this, infrastructure components can easily be outsourced and used only when needed. This heavily reduces up-front risks, while improving concepts such as scalability and flexibility of infrastructure.

The mobility of cloud computing also allows users to carry out their operations in any part of the world provided they have internet access. New and innovative pricing schemes are also possible, such as pay-per-use pricing, which could significantly reduce up-front expenditures while only requiring users to pay for the capacity that they are using.

What are the authorities doing to attract higher levels of investment into ICT?

AL BADRAN: Kuwait is making significant progress towards enhancing its foreign investment climate. The latest Kuwait national development plan known as New Kuwait Vision 2035 has set the nation's long-term development priorities by focusing on seven pillars, including public administration. National and international ICT players should look at this pillar favourably, considering the $40m plan to expand e-government and civil information system applications. ICT businesses may also benefit from investment incentives offered by the Kuwait Direct Investment Promotion Authority, including the allowance for 100% foreign-ownership of Kuwait entities and a corporate tax framework that includes exemptions up to 10 years.

The future in the country looks bright as a result of its ICT tradition, current ICT usage across sectors, the New Kuwait Vision 2035 programme and favourable regulatory frameworks. Household and business statistics are promising: smartphone penetration is more than 90%, six out of 10 households have access to a computer or a tablet and more than 80% of people have access to the internet. Similar numbers apply to businesses in Kuwait: 50% have a web presence and use business applications for their operations.

5G would use additional spectrum in the 4G LTE frequency range

Tech update

Network providers prepare for the rollout of 5G services

Telecoms companies are teaming up with international partners to utilise the latest advances in equipment as they roll out new technology across their existing network infrastructure.

The GSMA, an international industry trade body, forecasts that 14% of the world will have adopted 5G technology by 2025, led by the US with an adoption rate of 49%. However, Kuwait has frequently punched above its weight in the adoption of telecoms technology and enjoys some of the world's highest mobile penetration rates. In line with its positive technology uptake, the country's major providers are gearing up for the adoption of 5G and have begun testing their networks.

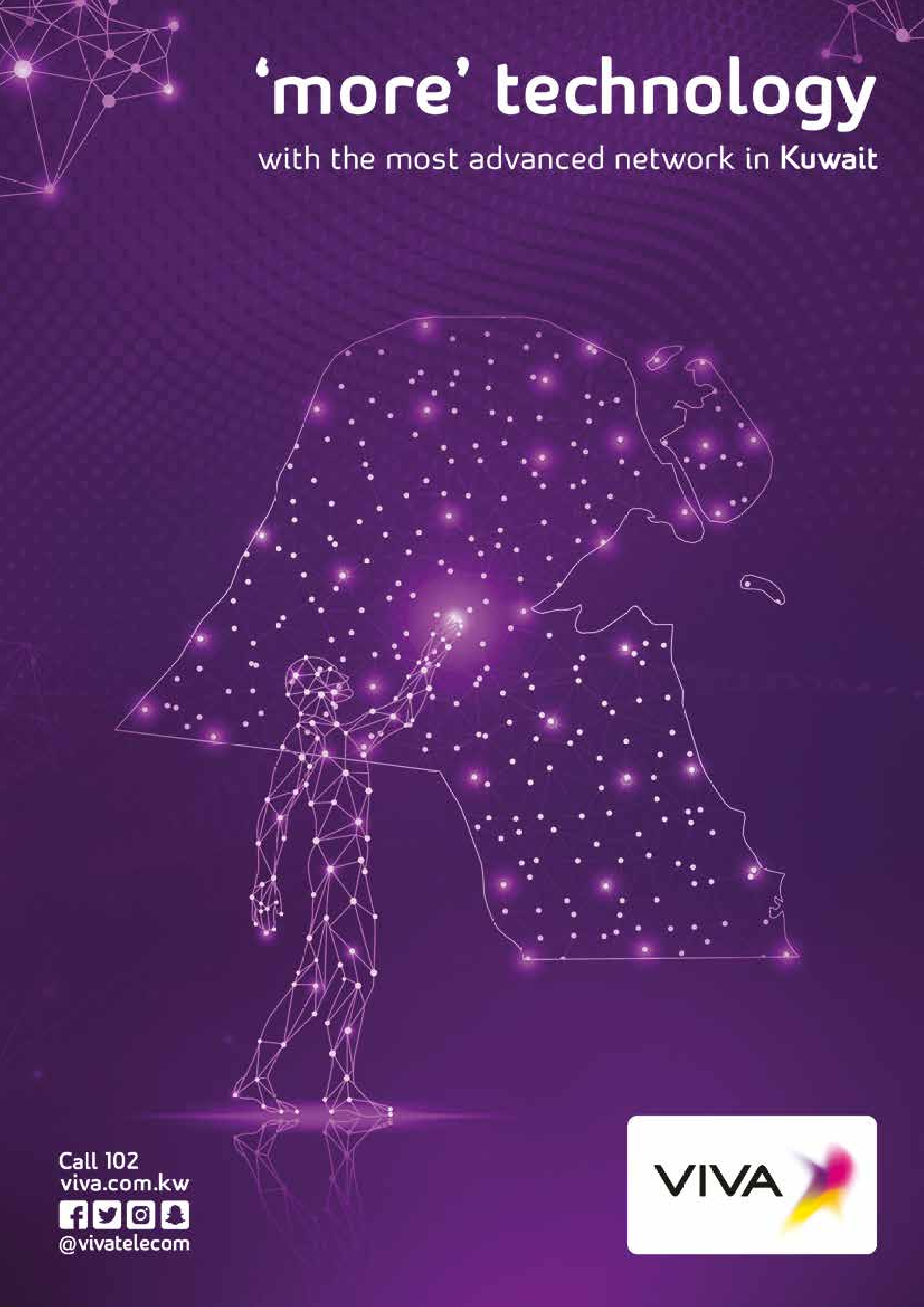
NEW GENERATION: In early June 2018 all three of the country's major operators were vying to become the first to unveil their new 5G technology services. Zain announced it had integrated the new technology in parts of its network. Meanwhile, Ooredoo demonstrated the use of 5G at its head office on Facebook live, saying it had the equipment in place to deploy data at up to 10 Gbps. VIVA also announced it had launched a public demonstration of the technology to show the service it could offer once approval had been received from Communication and Information Technology Regulatory Authority (CITRA). CITRA responded to the announcements by acknowledging that 5G technology was being tested in Kuwait. Furthermore, it promised smartphone users and businesses the ability to transmit 10 Gbps or more, and revealed that 5G would use additional spectrum in the existing 4G LTE frequency range and new millimetre wave bands at 28-86 GHz, which can support up to 20 Gbps. Salim Al Ozainah, chairman and CEO of CITRA, said in a press statement in June 2018 that the systems would prove instrumental in transforming Kuwait into a technology hub.

TECHNOLOGY PARTNERS: As they work to roll out the new technology across their existing network infrastructure, the telecoms companies are teaming up with international partners to utilise the latest advances in equipment. At the GSMA World Mobile Congress held in February 2018 in Barcelona, Zain signed a memorandum of understanding with Sweden's Ericsson to test internet-of-things (IoT) innovations on the enhanced 5G network. "5G will open the door to new applications that will transform consumer behaviour and industries," Bader Nasser Al Kharafi, vice-chairman and group CEO of Zain, told international media in February 2018. In the same month Ericsson said it believed 5G would enable new applications in smart transport, connected cars and appliances, remote health care and remote control of machinery. The pact with Zain followed the signing of an IoT partnership agreement between Ericsson and Ooredoo Kuwait in December 2017, which took place at the IoT Conference and Expo in Kuwait. Ooredoo also discussed 5G, IoT and artificial intelligence with its strategic partner Huawei in April 2018. According to the GSMA, the technological breakthroughs necessary to introduce 5G technology have already been made, with operators able to choose whether to operate new 5G networks or to gradually integrate and upgrade the technology with their 4G infrastructure.

INTERNATIONAL SPECIFICATIONS: In order to ensure international compliance with a common set of principles, a global collaboration between telecoms associations, known as the 3G Partnership Project, spent almost three years developing specifications for the deployment of 5G technology. The completion of an agreed set of international standards in June 2018 was described as a key milestone on the road to commercial implementation of the technology.

PARADIGM SHIFT: Although mobile operators and technology companies are racing to make 5G technology available in Kuwait, uncertainty about the implications on existing business models remains. The 5G network is expected to allow for an exponential shift in the numbers of devices operating online, while also reducing latency, and in so doing, create new possibilities. "With the deployment of 5G, the rules of the industry will change completely, because it will not be just about speed, but also machine-to-machine technology and the IoT," Essa Al Kooheji, chief commercial officer of local internet service provider QualityNet, told OBG.

The 5G network is expected to allow for an exponential shift in the numbers of devices operating online, while also reducing latency, and in so doing, create new possibilities in the industry.



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Industry

Construction projects support related manufacturers

Reforms help to incentivise private sector investment

Downstream petrochemicals production set to increase

Automation and digitalisation initiatives under way

Cement demand is set to grow by 2% per year between 2017 and 2021

Gaining steam

Key infrastructure developments are under way to support petrochemicals and other manufacturing segments

Manufacturing industries contributed
$5.6bn
to GDP in 2017

As Kuwait tries to curb its dependency on hydrocarbons, which accounted for over 90% of state revenues in 2017, other industries are coming into focus. Excluding refined petroleum products and nuclear fuel, manufacturing industries' contribution to GDP rose by 6.2% in 2017 to KD1.7bn ($5.6bn), according to the central bank. This figure has grown steadily from KD1.6bn ($5.3bn) in 2016, KD1.5bn ($4.9bn) in 2015 and KD1.4bn ($4.6bn) in 2014. Meanwhile, refined petroleum products and nuclear fuel's portion of GDP expanded by 18% to KD1bn ($3.3bn) in 2017 from KD844.5m ($2.8bn) the year before. This compares to the 2015 and 2014 figures of KD927.7m ($3.1bn) and KD1.2bn ($3.9bn), respectively.

Much of this recent performance is due to implementation of the country's national development plan, New Kuwait 2035, which prioritises infrastructure upgrades and economic diversification as part of 164 programmes, projects and initiatives that aim to transform the country into a centre of finance and industry. The strategy lays out ambitions of tripling foreign direct investment (FDI), developing $100bn worth of infrastructure through public-private partnerships (PPPs) and enhancing the country's position as a global centre for petrochemicals production.

The FY 2018/19 budget allocated 17% for construction projects, which will cover a multitude of new roads, railways, refineries and airports in the development pipeline. Large-scale upgrades are being rolled out alongside reforms aimed at attracting FDI, and international competition for the tenders of several infrastructure projects is heating up. Opportunities are also emerging for a range of related industries, such as telecoms, fabric manufacturing, automation, facilities management and services providers.

SECTOR STRUCTURE: The Public Authority for Industry (PAI) is the primary sector regulator. Its mandate includes developing, promoting and supervising industrial activity, implementing national policies and strategies, and deepening cooperation with the GCC and other countries. Other key state institutions include the Kuwait Direct Investment Promotion Authority (KDIPA), which manages the country's free trade zones and promotes investment. Financing for industrial sector development is driven by the Industrial Bank of Kuwait, which the government has a 49.11% stake in. Private sector players are represented by the Kuwait Chamber of Commerce and Industry, which represents and lobbies for the interests of industrialists; and the Kuwait Industries Union, a non-profit organisation representing around 300 industrial establishments operating in the country.

MACRO NUMBERS: Total industrial investment in Kuwait in 2016 amounted to KD4.2bn ($13.9bn), according to latest available data from the PAI. The largest industrial segments by output were chemicals, metal products, petroleum products, coal, rubber and plastics. Chemicals production comprised a 24% share of the manufacturing sector in 2016, slightly below the GCC average of 28%. Kuwait produced 6% of the region's chemicals output, compared to Saudi Arabia (67%), Qatar (12%) and the UAE (8%).

In April 2017 regional media reported that there were over $234bn worth of active construction projects under way in Kuwait, with a further $34bn worth in the design phase. This has created opportunities for local related industries, such as manufacturers of building materials and furniture. Real estate made up the largest portion of upcoming projects, accounting for 49% of the total, followed by oil and gas (22%), infrastructure (15%), and power and water utilities (6%). According to KDIPA data, there were plans for over 90,000 housing projects to be added to the market from 2015 and 2022.

There are several major Kuwaiti industrial companies, such as Kharafi Group, which is one of the largest players in the country. There are other local companies which meet the basic demands of the population, such as water bottling, electricity and food production. Key export-focused industries include leather tanning, paper, prefabricated steel buildings, electric cables and metal pipes. Most of Kuwait's industrial machinery, food and manufacturing equipment, and consumer goods are imported.

RECENT PERFORMANCE: While industrial production fell by an estimated 1.5% in 2017, output looks set to rebound in 2018. Non-oil growth rose modestly by 2% in 2016 and 2.5% in 2017, however, its medium-term performance is projected to reach 3% in 2018, and rise further to 4% by 2021, according to an IMF report released in January 2018. According to Ahli Capital, a Kuwaiti investment company, the number of listed industrial companies rose by 14.3% between March 2017 and March 2018.

The construction and chemicals segments have performed well recently, facilitating this growth. Annual growth for cement companies in the country increased following a dip in 2016. Domestic cement demand is forecast to grow by 2% per annum between 2017 and 2021, up from a 1.2% decrease in demand in 2016, but still well below the compound annual growth rate (CAGR) of 18% seen between 2010 and 2016. However, production in the chemicals segment may be impacted by increased competition, with more manufacturers set to produce key materials, such as those used to create polyethylene terephthalate bottles. "We are likely to see an oversupply of paraxylene in the market in the near future, as new plants in China, India and Saudi Arabia start production, which will impact local players," Mahmoud Al Qattann, CEO of Kuwait Aromatics, told OBG.

Although growth in manufacturing has been slower, it is still forecast to account for 10% of GDP by 2020 and grow at a CAGR of 7.4% between 2015 and 2030. Significant increases in the producer price index for manufactured goods rose by 14.2% in 2017, further underlining the segment's optimistic outlook.

WORKFORCE: As of 2015 there were an estimated 160,000 people employed in manufacturing and 291,000 working in construction. Combined, these two sectors are forecast to employ around 856,000 people by 2030. Expatriates hold almost 95% of manufacturing and construction jobs. Most of these are filled by low- to semi-skilled migrant workers, often from South-east Asia. Increased industrial output will require a significant influx of both technical and low- to semi-skilled labour in the coming years. However, ongoing reforms to nationalise the workforce, which is pushing businesses to replace expats with locals, is likely to constrain supply in the short to medium term. To plug this gap, authorities are ramping up efforts to provide Kuwaiti young people with tertiary, vocational and technical education and training.

INFRASTRUCTURE OVERDRIVE: Speaking in 2016, Mohammad Al Ajmi, director-general of the PAI, announced plans to increase industrial production by 25% over the coming years. This drive is taking shape under Kuwait Development Plan 2015-20, which lays out a strategy for major investments in

The manufacturing and construction sectors are expected to employ a combined 856,000 people by 2030

infrastructure and energy, with a strong emphasis on private sector involvement. The plans outlined infrastructure growth of 15-20%, which will be a major boon for construction companies. The government is prioritising new projects and upgrades to the value of $124bn, with these scheduled to be completed between 2018 and 2022. These projects include the KD274.4m ($909.7m) Regional Road, the KD3.5bn ($11.6bn) Kuwait City Metro and the KD990.8m ($3.2bn) Mubarak Al Kabeer port, as well as the execution of projects related to Doha Port and general port storage and linking.

In March 2018 the PAI announced plans to build the $600m Al Naayem Industrial City, which will be located 70 km west of Kuwait City. This development will have a residential and industrial area, and is expected to attract $6.6bn worth of investments.

CHINA'S ROAD TO KUWAIT: China is eyeing Kuwait as an important geopolitical and trade partner in its Belt and Road Initiative. In July 2018 the two countries signed several agreements relating to energy, finance and infrastructure, under which Kuwait will serve as a key maritime terminus for China's trade routes in the Gulf, linking it with neighbouring countries such as Iran and Iraq. In turn, China will invest in diversifying Kuwait's economy and support its industrial growth. So far, China has expressed interest in the $160bn project to develop an integrated free zone across five islands – Boubyan, Failaka, Warba, Miskan and Awha – in the north of the country. Representatives from the two countries also signed a memorandum of understanding to collaborate on the design and construction of the $86bn, 250-sq-km Madinat Al Hareer (Silk City) urban area in Subiya.

REFORMS: Ongoing reforms aimed at creating a favourable investment climate are also helping Kuwait reach its bold industrial development targets. Privatisation, distribution of industrial land and tax breaks are some of the incentives on offer to foreign

Although the performance of non-oil industries has been below expectations, recording growth of 2.5% in 2017, this rate is expected to reach 4% by 2021.

Kuwait Development Plan 2015-20 targets infrastructure growth of

15-20%

investors. Under the FDI law which came into effect in 2013, qualified foreign investors are allowed to own up to 100% of a Kuwaiti company, relaxing the 49% limit. Previously, this was only allowed in special industrial economic zones. Incentives such as tax holidays of up to 10 years and Customs exemptions are also on offer to companies that help meet national objectives, such as those contributing to local technological development and employment.

Since 2013 the government has offered additional incentives for investors in order to accelerate export potential and provide employment for citizens. In January 2018, for example, the Ministry of Commerce and Industry announced that it would distribute 1036 industrial blocks in the Shadadiya area to select private companies by the end of 2018. In order to be eligible, authorities would evaluate the size of the project's investment in technology, machinery and equipment; the investment as a national priority; and the project's value to the economy based on anticipated profits and local employment.

Recent moves to secure accreditation for laboratories has also created potential for the local production of pharmaceuticals. In March 2018 the PAI signed a contract with the GCC Accreditation Centre to provide certification services facilities to bring local practices up to international standards.

INVESTMENT PIPELINE: Reforms are also seeking to increase private ownership of industrial facilities. The government is rapidly opening existing infrastructure to the private sector as well as actively encouraging investment in new facilities through PPPs. Since 2017 several power and desalination plants have gone on offer and 2018 saw further tenders issued, with requests for expressions of interest for two PPP projects issued in July. Further privatisation drives, such as those in the postal and telecoms sectors, are expected to start by the end of 2018. There are plans for more large-scale infrastructure projects to be offered in 2019, with opportunities to develop new roads, cities, an airport and the ICT network.

In March 2018 the Kuwait Investment Forum laid out plans to build the Northern Gulf Gateway project, which it hopes to complete by attracting an estimated $200bn in FDI from the US, Europe, China and other parts of Asia. The multi-faceted infrastructure development – which will comprise education, residential, medical and financial facilities – is expected to create 300,000-400,000 jobs and attract 4m-5m visitors annually. Aside from the lucrative potential the project presents for construction and industrial players, it will also provide opportunities for growth in hospitality, leisure and tourism.

Additionally, the government has plans to overhaul the country's telecoms infrastructure by building a new global cable network for its economic and industrial zones, thereby reducing reliance on the link that runs through Egypt and Saudi Arabia.

BUILDING UPWARDS: Ongoing development of the country's air infrastructure has been driving investment in the sector. In April 2018 Korea's Incheon

The government has prioritised $124bn worth of new projects and upgrades between 2018 and 2022

International Airport Corporation won the tender to operate, manage, maintain and develop the newly operational Terminal 4 at Kuwait International Airport, and in July 2018 it was announced that five contracts had been awarded to build Terminal 2. The total project was priced at KD1.4bn ($4.6bn). The $46.3m expansion of low-cost Kuwaiti Al Jazeera Airways' terminal is also under way.

In March 2018 authorities announced plans to build a new airport with an annual capacity for 25m passengers per year in the north of the country. The government intends to allocate land to a private investor, who will then build, operate and manage the project, which is estimated to cost some $12bn and generate over 15,000 jobs.

The push for investment in infrastructure upgrades is also driving activity among companies in related industries. Faleh Al Ajmi, business development manager at United Facilities Management (UFM), a local facilities management company, told OBG that his company is moving to capitalise on the government's construction drive. Firms such as UFM offer service suites to buildings and facilities in the public and private sectors. According to Al Ajmi, UFM is looking for international partners to extend its business and expand into other areas such as aviation, in line with the ongoing airport upgrades.

CHEMICAL BALANCE: Kuwait is investing heavily in downstream petrochemicals production, with the country's petrochemicals output set to reach approximately 10.5m tonnes per year by 2019, up from 7.6m tonnes in 2014, according to the KDIPA. To achieve this target, the government is developing the necessary infrastructure and is working to incorporate private sector innovation.

The country's key petrochemical products include ethylene, which is used in polyester fibres, bottles and packaging, coolants, paints, resins and construction materials, among other synthetics. The KDIPA's

In January 2018 officials announced that 1036 industrial blocks would be distributed in the Shadadiya area to private firms that contribute to national development.

Digital integration presents opportunities for tech firms and producers

As of May 2018 oil and gas made up 57% of GDP, while manufacturing and construction accounted for 6% and 2%, respectively, signifying growth prospects in these two areas.

current focus is on increasing output of ethylene and ethylene glycol to meet overseas demand, principally from China and India. Kuwait Integrated Petrochemical Industries Company, a subsidiary of the state oil company Kuwait Petroleum Corporation, is the key government player in the sector and is reportedly investing over $6bn in the development of refineries and other petrochemical-related projects.

Innovation will be crucial to the success of this segment, and investments by software giants like Honeywell and SAP are ensuring that refineries and petrochemical complexes meet global standards of efficiency and technology. Honeywell, a multinational software-industrial company with long-standing operations in the country, was contracted in November 2017 to devise technological solutions for expansions at the Al Zour refinery and its petrochemicals complex, located south of Kuwait City. In January 2018 EQUATE Petrochemical Company, another global producer, also contracted German-based software firm SAP to enhance activity at its plants in Kuwait through cloud-based technological solutions.

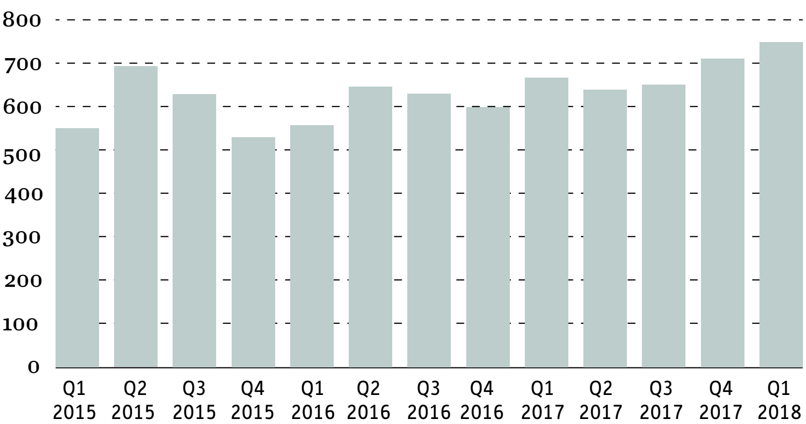
GOING DIGITAL: According to a report by management consultancy McKinsey, Kuwait's digital economy contributed around 5% to GDP as of 2016. Companies like multinational manufacturing firm Siemens are working with the Kuwait Foundation for the Advancement of Sciences, a local non-profit organisation, to provide digital solutions to industrial companies across the country. Siemens is also supporting digitalisation training for the local workforce. Some petrochemicals companies are already using new innovations to remotely monitor production and conduct real-time quality checks. Automation of production lines is also being rapidly implemented.

According to McKinsey, only around 7.6% of the country's digital potential is currently being captured, leaving considerable scope for further digitalisation and automation in the industrial sector. In March 2018 Peter Zornio, chief technical officer at US-based Emerson Automation Solutions, stated at an energy conference that the firm was interested in automation and digitalisation opportunities in the Middle East, particularly in Kuwait and Saudi Arabia, as these countries are on the crest of the new wave of global digital optimisation.

CHALLENGES: The IMF has previously cited infrastructure project delays as one of the challenges facing the burgeoning industrial sector. In the first quarter of 2018 the total value of infrastructure projects awarded was KD614m ($2bn), below the quarterly average of KD1bn ($3.3bn) seen a year earlier. Although a report by the National Bank of Kuwait noted that the transport sector showed signs of recovery in the first four months of the year, it also pointed to the restructuring of certain government bodies – such as the transfer of responsibilities from the Ministry of Public Works to the Public Authority for Roads and Land Transport – as a potential cause of delays in the future. This may in turn delay turnaround times for importers and risk driving up costs for engineering and construction companies further down the supply chain.

OUTLOOK: As of May 2018, manufacturing and construction accounted for 6% and 2% of Kuwait's GDP, respectively, while oil and gas made up 57%. As the government continues its efforts to ease the dependency on oil by implementing its bold development strategies, a range of opportunities are opening for industry stakeholders. The drive to upgrade infrastructure and the ongoing implementation of multiple projects, alongside reforms and incentives aimed at facilitating private investment, are driving activities in construction and related industries. Meanwhile, downstream chemicals development is set to expand as more refineries and complexes come on-line, and the integration of innovative and automated technologies will offer potential increases in the efficiency of production. Looking ahead, those industry players that are moving to capitalise on the authorities' national development plans are set to succeed.

Manufacturing's contribution to GDP*, 2015-18 (KD m)



Source: CBS

*current prices

Faisal Awwad Al Khaldi, CEO, Kuwait Steel

Export opportunities

Faisal Awwad Al Khaldi, Deputy CEO, Kuwait Steel, on the future of trading steel across markets

What opportunities exist for the private sector to invest in value-added activities in downstream that enhance steel's contribution to the economy?

AL KHALDI: In downstream production, there are many potential investment opportunities in both long and flat-finished products. Flat products such as steel sheets, plates and strips are used in several industries including the automotive industry, whereas long products, such as wire rod, deformed bars and structural steel, are used principally in construction. In particular, these two areas are interesting opportunities for small investors. Investment in these two areas would also provide raw materials as well as semi-finished products for downstream projects. Furthermore, all investment in industry contributes to Kuwait's economic diversification strategy away from oil, which is a primary goal for the government, as stated in the vision for New Kuwait 2035. However, increased investment is needed for Kuwaiti products to have high standards and internationally competitive prices. Beyond increasing export opportunities, investment in downstream production would also create job opportunities. From a regulatory standpoint, easing banking facilities and the process of creating small businesses should be prioritised, which would aid private sector investment.

In what ways do new standards for the distribution of industrial land facilitate new industrial projects?

AL KHALDI: The most challenging factor for industries in Kuwait is allocating industrial land for projects from the government. The new standards and the evaluation of industrial projects will be based on three basic criteria. First, industrial capital – which comprises the size of capital used in technology, machinery and equipment, in addition to the volume of energy used to operate the plant – will form 20% of the total standards. Second, industrial priority of the quality of investment and products will make up 30%. Lastly, the value added to the national economy – which includes profit volume achieved, in addition to the size of the population national working on the project and its service to other local projects, as well as the actual production volume – will form 50% of distribution standards.

Following the new standards, the distribution of 1036 industrial blocks will be located in the Al Shadadiya Industrial Zone (SIZ). New industrial projects such as this one enhance the role of the industrial sector in the economy and help diversify Kuwait's sources of income, while also increasing total domestic output. New projects also encourage the upgrading of the quality of existing and future factories. The blocks in the SIZ will be distributed to entrepreneurs who end up meeting the new settlement criteria so that industrial products from Kuwait can compete worldwide. It is not enough for Kuwait's industries to serve domestic consumption. Without exports, the industry sector will not work for the economy.

How have the US tariffs on steel and consequent trade war speculation affected the Kuwaiti steel market and its export opportunities?

AL KHALDI: The US' recent implementation of the 25% tariff on steel imports will have a negative impact on steel producers around the world, including Kuwait. For example, since some exporting countries, such as Turkey, lost the US as one of their preferred export markets, they are now shifting their exports to other potential markets, such as Kuwait. This will exert negative pressure on Kuwait's steel market as many local companies in turn will lose market share and profit margins due to imports coming in at lower prices. This knock-on effect will force local companies to revise prices accordingly in order to maintain market share and minimise imported products or materials. Additionally, steel consumption is rising annually at a fast rate within Kuwait due to increased construction and infrastructure projects as well as awarded projects that are upcoming which will benefit local producers.

Retail

VAT to be introduced as higher oil prices ease pressure

International chains join market alongside cooperatives

Traditional retail sector growing despite e-commerce

Increased scope for specialist stores in the country

Kuwait currently has a limited amount of commercial space available

Ready to shop

Traditional and online retail segments show positive upwards trends for the coming year

The retail sector accounted for around

9.1%

of non-oil GDP as of February 2018

Kuwait has a small retail sector compared to larger GCC markets like the UAE and Saudi Arabia, but consumers are quickly catching up with their regional peers in their tastes and demand for international food, brands and shopping experiences.

Despite a recent economic slump due to low oil prices, the retail sector continues to evolve with regional and global trends. Retail and wholesale trade accounts for a sizeable percentage of Kuwait's non-oil GDP, and there are solid growth forecasts for the coming year. Kuwait has one of the highest per capita incomes in the world at $68,500 in 2017, according to the World Bank. There is strong demand for luxury and imported goods among wealthy locals and foreign residents, who now make up around 70% of the population. Kuwait's retail sector saw significant growth in 2017 as new and old players rushed to adapt to changing tastes and demands.

Innovative malls and increased competition from e-commerce retailers have started reshaping the local market. These trends are expected to continue into 2019 as stable macroeconomic fundamentals and government infrastructure programmes boost growth and encourage investment.

KEY PLAYERS: Kuwait's retail sector is overseen and regulated by the Ministry of Commerce and Industry (MoCI). Its main objectives are to support commercial and industrial activities in the country, and to provide a standard of consumer support for goods and services. The Kuwait Chamber of Commerce and Industry (KCCI) is another key non-government institution which represents businesses in the country. It currently has over 79,000 members and engages in numerous activities, including bilateral trade facilitation and consulting services for the private sector. In late 2015 the MoCI launched the Kuwait Business Centre (KBC), a one-stop online portal aimed at reducing bureaucracy and increasing efficiency. The KBC allows companies to register themselves more efficiently by incorporating all the relevant government bodies under one umbrella. The initiative was well received by stakeholders, reducing the time it takes to incorporate a company from an average of seven to nine weeks, to three to five days.

Innovative malls and increased competition from e-commerce retailers are beginning to reshape the local market, and these trends are projected to continue, in line with macroeconomic growth and ongoing investment.

SECTOR BREAKDOWN: The value of Kuwait's retail market was KD3.5bn ($11.6bn), or 9.1% of non-oil GDP, as of February 2018. Wholesale and retail trade in Kuwait grew at an annual average of 4% and hit $5.9bn in 2015, representing 2.4% of the $250.5bn in retail sales in the GCC that year. Food and beverages take make up 57% of total retail value, the highest among GCC countries. It is clear that customers are loyal to cooperatives, as they account for the bulk of the share of food sales in the Kuwaiti market, at 65%. The penetration of large modern grocery stores in Kuwait is low, with the top-five large food retailers – Sultan Centre, the Kuwaiti Union of Consumer Cooperative Societies, City Centre, Carrefour and Géant Casino – comprising only 10% of the market.

2017-18 TRENDS: Retail inflation started to tick upwards at the end of 2017, following several years of weak consumer spending. The consumer price index grew by 6.5% annually, driven by a 7.3% increase in spending on durable goods, according to a July 2018 report by National Bank of Kuwait. Sales of cars, furniture and luxury items were weaker, while spending on electronics items picked up. Furthermore, household goods saw a 2% rise, and food and beverage consumer price indexes were up 1.4%, impacted by weak inflation in global food prices.

"Uncertainty and pressure on the pocketbook are forcing consumer spending to shift away from purchases in restaurants and cafes, and towards more spending on household items," general manager of the Behbehani Group, Shahzad Gidwani, told OBG. He also noted some interesting growth dynamics in the apparel and jewellery retail segments in 2017-18. Most mid-level to top-tier brands remained stable, with luggage brands such as American Tourister and Samsonite still growing because of seasonal demand. However, he also pointed out that sales for mid-level watch brands were "hurting" as a result of the economic downturn. "The middle class does not want to spend its money unless there is a very good deal somewhere," he said. Top-tier international watch brands such as Omega and Tissot, meanwhile, are leading sales and driving consumer growth.

RISE OF HYPERMARKETS: Although market penetration of modern supermarkets and hypermarkets remains low in Kuwait at 45% – the lowest in the GCC – this situation is changing. Large retailers have struggled to break into the market and cooperatives continue to dominate. Co-ops, which are built on the concept of individual contribution and aided by government subsidies, have been able to nurture a strong and loyal customer base.

Nevertheless, significant growth in supermarket and hypermarket penetration is forecast for Kuwait and the wider GCC in the coming years. Wholesale and retail trade in Kuwait grew at an annual average of 4% to $5.9bn between 2011 and 2015, according to a 2017 report by investment bank Alpen Capital. Sales at supermarkets and hypermarkets in Kuwait predicted to grow at a strong rate. Retail sales of personal luxury goods in the Middle East are forecast at $9.6bn in 2021, signifying a growth of 3.2% from 2016. Privately owned supermarket and hypermarket chains are gradually eating into the market share of cooperatives by providing different shopping experiences and a greater variety of products. They are also generally faster at responding to changing consumer demand. Moreover, government subsidies for cooperatives are declining amid the country's economic slowdown, and supermarket and hypermarket chains are increasingly able to offer more competitive prices.

Willfred Cheprion, operations manager at City Centre, told OBG that importing and selling an assortment of exclusive foreign goods, often in partnership with UK or US brands, is one of the ways "private retailers can differentiate themselves from the cooperatives". However, lower prices and increased product offerings are not the only way modern supermarket and hypermarket chains are winning Kuwaiti customers over. The Kuwaiti supermarket chain Saveco has enjoyed significant success since opening its first store, a 13,000-sq-metre branch, in 2014.

Targeting predominantly locals and mid- to high-earning expatriates, Saveco has since opened a further two establishments in the country and is pursuing plans to build branches in Qatar, the UAE and Saudi Arabia. Saveco's partnerships with global retailers have been key to its success, giving it access to a range of exclusive and health-oriented foods, while its distinctive interior design, consisting of palm trees and wide aisles, has also helped to set it apart from competitors. They have also succeeded in engaging with customers effectively online via various social media platforms, and by adapting in this manner they have been able to reach a larger customer base.

Cooperatives continue to dominate in Kuwait, and large retailers have struggled to penetrate the market

ONLINE FOOTPRINT: More Kuwaitis and expatriates are shopping online as the country's e-commerce market rapidly expands. The value of this subsector was estimated at $560m in 2014, and it is expected to rise to almost $1.1bn by 2020, according to Marmore MENA Intelligence. There are approximately 2.4m people actively shopping online in Kuwait – 65% of them are adults in their 30s.

Most retailers in Kuwait have been slow to launch online stores and engage with their customers on social media. In the past, locals and expatriates tended to make purchases from international online platforms like Amazon and Net-a-Porter, or department stores like Bloomingdale's or Nordstrom. Local retailers are now trying to make up for lost time. Growing demand is being met by both global delivery service providers and traditional retailers.

In May 2017 DHL launched its EasyShop service in Kuwait, offering customers a 50% discount on clearance and Customs fees on their first shipment. Retailers like City Centre, meanwhile, have started offering online purchasing by partnering with a local online platform and distributor. The rapid growth of the high-end Kuwaiti retailer Boutiqaat further demonstrates the growing importance of e-commerce. Started in 2015, within three years it had grown from a local e-commerce cosmetics and goods distributor into one of the largest online sellers of cosmetics, skincare products and perfumes in the Middle East. Key to its success is an innovative marketing strategy built around engagement between customers and social media influencers from the Middle East, who market products sold in virtual stores that are hosted by Boutiqaat.

FOREIGN INVESTMENT: In recent months, several large multinational retailers have announced expansion plans in Kuwait. The high-end French department store chain Galeries Lafayette is set to open a 7500-sq-metres store in Kuwait City's Assima Mall

One Kuwaiti brand has grown in the space of three years from a local e-commerce company into one of the largest online retailers in the Middle East.

Many international brands joined the Kuwaiti market in 2018 and more are expected to follow in 2019

in 2019. In March 2018 LG Electronics opened a two-storey premium store, also located in Kuwait City. The same year saw some US fast-food restaurant chains, including Wendy's, ramping up their presence in Kuwait, opening two additional stores, one in Kuwait International Airport and the other in the new $400m Al Kout mega-mall. A host of international brands – including NYX Makeup, South Korea's Etude House and H&M Group's Monki, among others – also made their entry into the market at the time of the March 2018 opening of Phase IV of the $900m Avenues mall. Meanwhile, domestic restaurant chains have also been making inroads into international markets, with the Kuwaiti burger outfit Rock House Sliders opening a branch in Los Angeles, California in July 2018.

MERGERS & ACQUISITIONS: Kuwait's food retail subsector has seen several already established local players consolidate their holdings through acquisitions. In May 2018 Kuwaiti wholesaler Oncost Cash & Carry reportedly agreed to buy a 100% stake in local supermarket chain Gulfmart for an undisclosed sum. City Centre also reportedly acquired a local cooperative and is planning additional acquisitions.

Further afield, Amazon's $650m-750m acquisition of UAE-based Souq.com in July 2017 is expected to shake up the regional retail market. The e-commerce giant commands almost 78% of online retail sales in MENA. Kuwait is one of Souq.com's major markets, and with Amazon reportedly eyeing further regional acquisitions, the country's e-commerce market is likely to become increasingly competitive.

VAT INCREASE POSTPONED: An agreement to introduce a 5% value-added tax (VAT) from January 2018 has been delayed until at least 2021 as higher oil prices ease pressure on the Kuwaiti government's finances. "The originally proposed VAT introduction was too early and new for the Kuwaiti market to understand, and was likely to have a negative impact on already difficult trading conditions. As a consequence, postponing the decision was preferable," Behbehani Group's Gidwani told OBG.

In 2017 the six GCC countries initially agreed to introduce a VAT of 5% amid region-wide economic pressure. Although significantly lower than the OECD VAT average of 19%, the 5% tax was still expected to have a significant impact on the retail sector; requiring retailers to obtain VAT registration certificates, establish tourist refund schemes and absorb the cost of the tax within their margins. At the time, international consultancy Deloitte recommended that GCC retailers "consider undertaking a detailed price modelling analysis [...] to understand what effect the introduction of VAT could have on demand for their product". With three years until the new VAT rate is introduced, retailers entering the Kuwaiti market now have time to plan their pricing strategies and factor in anticipated inflation increases. Although the introduction of VAT has been delayed, the government is still expected to implement excise taxes in 2018 or 2019 on certain goods, including tobacco, energy beverages and carbonated drinks, something grocery retailers will be keeping a close eye on.

CHALLENGES AHEAD: While a delay to the introduction of VAT might be a welcome reprieve for retailers and consumers alike, Kuwait remains a challenging market due to factors like import delays, government regulations and limitations to the availability of commercial space. According to City Centre's Cheprion, all retailers are affected by delays due to port capacity constraints and strict Customs regulations.

Kuwait currently has three major commercial ports, all of which are reportedly congested. "Today the demand for imported products exceeds the capacity and ability of the ports and authorities to get them in," said Cheprion. While government infrastructure projects to expand port capacity are expected to reduce congestion, in the meantime port congestion and capacity shortfalls are compounded by strict

GCC countries have agreed to introduce a 5% value-added tax rate

The region's e-commerce giant, which accounts for 78% of online retail sales in MENA, was bought for $700m in 2017, indicating further retail acquisitions could be in the pipeline.

regulations on imports. "Every product imported to the country needs to be validated by the municipality," Cheprion said, adding that importers "need to get approval for each product for every shipment". Quality checks on imported food items are stricter in Kuwait than in Europe, he noted, and retailers have to "anticipate and organise themselves accordingly".

Limited retail and warehousing space is another concern in Kuwait. "There are very few good opportunities to open new stores, and when they arise they tend to be very expensive," Cheprion said, adding that "finding retail space, especially for hypermarkets, is a big challenge". Zoning laws in the country are also strict, something which further squeezes the availability of retail space. This often impacts smaller firms the most, making it harder for them to increase their market share. Interest rate increases in Kuwait in line with the US Federal Reserve rate hikes have similarly raised borrowing costs, which again will most likely have the biggest impact on smaller firms that have limited access to adequate capital.

OPPORTUNITIES: While commercial space in Kuwait is limited, the traditional brick-and-mortar retail space is not yet saturated like it is in other GCC countries. Consequently, even though traditional retail outlets may come under increasing pressure from e-commerce alternatives, there is still considerable room for growth. However, to stay competitive in the long term, retailers looking to enter the Kuwaiti market could observe similar companies in more mature markets like the US, where traditional retailers have been hit hard by the growth of e-commerce.

Dynamic customer experiences and engagement are key attributes of some of the modern and successful retail outlets emerging in the wider GCC region and globally. Some retailers have adopted a so-called omni-channel strategy, which unites all sales channels into one customer experience, including physical stores, websites, phone apps and telephone orders. Innovative malls that enhance the customer experience and sell the establishment as not just a shopping centre, but rather a new downtown with a whole host of cultural and entertainment facilities – such as concert halls, art galleries and spas – are also likely to be successful. These malls typically combine modern architecture, spacing and lighting to create a positive experience, and have been tried and tested in the UAE, and more recently in Kuwait, with the opening of the Avenues mall.

With Kuwaitis increasingly seeking out international brands and foreign foods, there is also considerable scope for specialist supermarket and hypermarket chains to grow their market share. Food retailers that are flexible and quick to adapt to changing consumer tastes have enjoyed the most success in the market so far. Organic food sales currently make up around 5-10% in Kuwait, but interest in these types of goods is increasing. Nonetheless, there is still a dearth of dedicated organic food shops and health stores, and therefore businesses can see that there is considerable room for significant growth in this area in Kuwait.

Projects to expand import capacity at ports could benefit retail

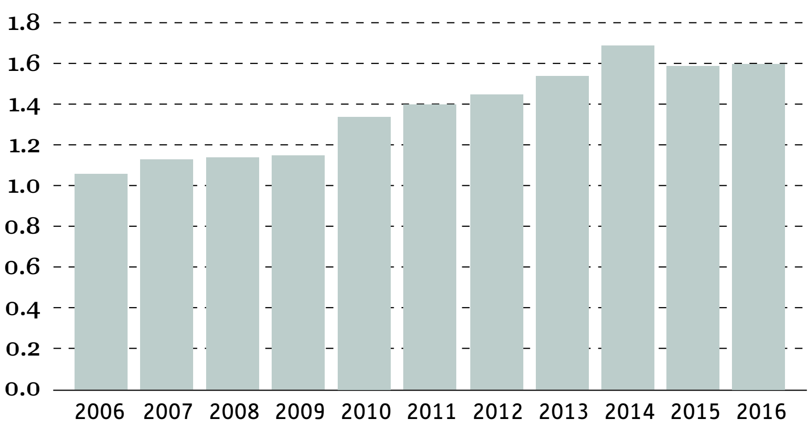
OUTLOOK: In 2019 all eyes will be on how the retail sector continues to rebound following several difficult years following the fall in international oil prices. With the 360 Mall extension and the Assima Mall set to open in 2019, there will be ample opportunity for brick-and-mortar retailers.

Competition from modern supermarkets and hypermarkets is also expected to heat up in the coming year as consumers increasingly demand foreign brands and healthy lifestyle alternatives. Retailers that can respond to local demand for new international products more quickly are likely to enjoy the greatest success. Traditional retailers are beginning to realise that they cannot afford to be complacent in the face of growing e-commerce.

As more consumers in Kuwait turn to online shopping, retailers will need to start looking into these platforms more and see how they can integrate them into their customer experience models. Otherwise businesses risk losing out on a wide customer base.

There is room for further growth in the traditional brick-and-mortar retail space, despite increasing competition from the online retail segment.

Wholesale & retail trade GDP*, 2006-16 (KD bn)

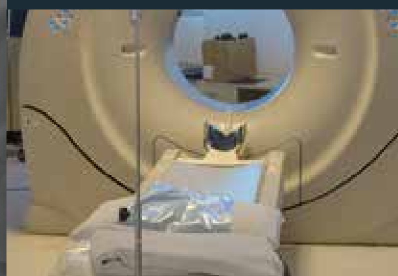


Source: CBK

*current prices

Health

Staffing needs increase to serve growing population
Hospital expansion programme to improve services
Government plans address shifting disease burden
Higher charges for expatriates to reduce public costs



The Ministry of Health recorded a total of 21m patient visits in 2017

Long-term progress

New initiatives focus on increasing capacity and addressing the rising rate of chronic disease

Vision 2035 aims to improve service quality in the public health care system and develop domestic staffing capacity at a reasonable cost.

The health profile of the Kuwaiti population has changed significantly in the past several decades. Kuwaiti citizens, who account for around 30% of the population of just over 4.2m, have become more prone to non-communicable diseases (NCDs). While deaths from infectious diseases are posing less and less of a threat, NCDs – the four main categories of which are heart disease, cancers, diabetes and upper respiratory diseases – accounted for 72% of deaths in Kuwait in 2015, according to the World Bank.

In the coming years the government will aim to address the increasing prevalence of NCDs, which are also associated with rising health care costs. Efforts to reduce public health care expenditures will also require a shift in the financing of care for the large expatriate population – a challenge for which solutions are now being modelled.

STRUCTURE & REGULATION: The public health system in Kuwait is run by the Ministry of Health (MoH), which was established more than 80 years ago. The ministry is responsible for a primary health network of over 100 centres offering general practice, dentistry, maternity care, nursing care, preventive care, pharmaceuticals and family medicine. Kuwaiti citizens benefit from publicly funded health provision, free at the point of delivery. Expatriates pay a fee for health services received from the public system and are encouraged to use medical insurance.

The MoH provides secondary care through six facilities: Jahra Hospital, Amiri Hospital, the Mubarak Al Kabeer Hospital, the Sabah Hospital, the Farwaniya Hospital and the Adan Hospital. Tertiary health care is available through specialised centres, and occasionally through MoH-funded trips abroad.

Ministry of Health spending doubled in the five years leading up to 2016, reaching $6.63bn, or around 7% of total public sector expenditure.

According to a MoH report, a total of 104 medical centres operated in Kuwait in 2017, receiving 21m patient visits. Of these, 64% were from Kuwaiti citizens and the remaining 36% were from expatriates. Apart from the six major public hospitals, the report cited 12 private hospitals operating in the country as well as three hospitals affiliated to the oil industry. According to official statistics, in 2014 there were 9789 doctors in the country, of which 7640 (78%) were employed by the MoH and 2149 (22%) in the private sector. This was the equivalent of 2.4 physicians per 1000 inhabitants, and compares to an average of 3 per 1000 across OECD countries.

GOVERNMENT POLICY: In January 2017 Kuwait launched its Vision 2035 programme, also known as New Kuwait. The objective of this long-term development plan, according to the government, is to transform Kuwait into "a financial and trade hub attractive to investors, where the private sector leads the economy". To this end Vision 2035 lays out plans to diversify the economy and reduce dependence on oil revenues.

The plan has seven pillars, one of which is health care. This part of the scheme calls for the government to "improve service quality in the public health care system and develop national capabilities at a reasonable cost". Delivering on this promise will require commitment to reducing NCDs and to increasing bed capacity in public hospitals to ensure the local population has access to proper health care.

RESOURCE MATTERS: Recent policy has in part been dictated by fiscal considerations. The combination of rapid population growth together with the rising resources needed to treat NCDs has been costly. The population is expected to continue to expand at around 3% per annum to reach 4.7m by 2020, and in 2014 alone the government spent over $1.5bn to send Kuwaitis abroad for tertiary medical care. Spending by the MoH doubled in the five years to 2016, reaching KD2bn ($6.63bn), or around 7% of total public sector expenditure. "The health sector in Kuwait will likely face rapid growth over the next five years due to the huge investment in the health care infrastructure," Osama Abdelrazek, the manager of global market insights for the Upper Gulf Region at health information technology company QuintilesIMS, told local media. However, spending on health as a proportion of GDP remains relatively low at around 3% of GDP, compared to 9% in some more advanced economies. The public sector currently accounts for around 80% of all health spending in Kuwait.

PRIVATE SECTOR: According to a report by Global Investment House, a local investment bank, total health care expenditure is set to rise at a compound annual growth rate (CAGR) of 7.5%, from $5.2bn in 2014 to $8bn in 2020. The government is increasingly looking to the private sector to shoulder some of this burden. Indeed, the government's share of total health spending is the second highest in the GCC, coming after Oman and standing at over 80%.

One way the government is working to reduce the financial squeeze on public sector health provision and boosting private sector participation is by treating more Kuwaitis at home, while also promoting inward health tourism – an inflow of foreigners seeking treatment at hospitals in Kuwait. It is acknowledged that this is a long-term goal since the country's health infrastructure and specialised medical expertise needs to be further developed to allow it to compete more effectively as a destination for medical tourists.

Nonetheless, moving forward, the government is interested in pursuing public-private partnerships with international companies to help develop this potentially lucrative segment of the health care market.

TAKING CONTROL OF NCD: The changing health profile of the Kuwaiti population is largely due to lifestyle factors. In the span of just a few generations, a sedentary, desk- and car-bound existence has replaced a previously active nomadic lifestyle, and traditional diets have given way to one of high-sugar and low-nutrition foods. Furthermore, while the country has made progress in reducing tobacco use – a major cause of cancer – in recent years, an estimated 28.5% of adults in the country were using tobacco in 2015.

The government is increasingly aware of the need to tackle NCDs. The Supreme Council for Planning and Development has listed fighting NCDs as a priority for Vision 2035. Responsibility for this task has been allocated to the MoH, the Kuwait Institute for Scientific Research, the Public Authority for Food and Nutrition, and the Public Authority for Sports.

According to the World Health Organisation, Kuwait has one of the highest obesity rates in the Middle East, with 39.7% of the population classified as obese – higher than 35% in the US and 22.7% in Germany. While the government has begun to focus on this problem, for example by locating obesity clinics within primary health centres, a comprehensive programme of population education and prevention remains under development.

According to Dedef Kayrouz, the head of Marketing and Communications at Abu-Dhabi-based health care group Capital Health, the population of Kuwait is in this way very similar to those of neighbouring states in the GCC, including Saudi Arabia and Bahrain. Policymakers in Kuwait and other countries in the GCC region have, for example, suggested implementing taxes to disincentivise the consumption of sugary products – a policy that has already been debated in some EU countries and is intended to work similarly to tobacco and alcohol taxes.

A raft of construction projects are expected to increase treatment capacity by adding 11,200 hospital beds

SPECIALISATION: Dr Siddig Salih, a principal research specialist at the Kuwait Institute for Scientific Research, told OBG that the health sector could be considered a "rising star" of the Kuwaiti economy, delivering high-value-added activities within the services sector as part of the country's desired diversification away from excessive reliance on oil and gas. The challenge, he said, will be for the country to formulate a more specific strategy for development within the health care sector so it can achieve the objectives laid out in Vision 2035.

"From a structural perspective the Kuwaiti health sector is only dealing with curative aspects so far," Salih told OBG. "It needs to do more to develop preventive medicine, to move into developing high-tech, and into pursuing value-added activities." For example, Salih said Kuwait has an opportunity to invest and develop its expertise in combating obesity not just in treatment techniques, but also in terms of awareness, education and the promotion of healthy lifestyles.

If the country could create a centre or cluster of expertise in obesity and related medical conditions, Salih said, it could rise to meet significant regional demand for theses services – particularly given that the GCC as a whole is working to combat high incidence rates of obesity and NCDs.

HIGHER CHARGES: A key policy milestone came in late 2017, when for the first time in a number of years the MoH announced an increase in medical fees charged to expatriates at public hospitals. The fee for a single hospital consultation was quintupled, from KD2 ($6.63) to KD10 ($33.15) for expatriates. A charge for each day of hospitalisation spent in a public ward, which had previously been free, was introduced

To fight rising rates of obesity and non-communicable disease, obesity clinics have been located to primary health centres, and some policymakers have suggested taxing sugary foods and beverages.

Total health care expenditure is expected to reach

$8bn

by 2020

Spending on health care remains relatively low, at around 3% of GDP

To fight rising costs, the Ministry of Health has levied fees or instituted fee increases for medical consultations, hospital stays and treatment for expatriates.

at KD10 ($33.15). Fees were also brought in or raised for intensive care and for the use of private rooms.

The increases came as members of the Kuwaiti National Assembly called for the state to stop providing subsidised health care to the expatriate community. Syed M Aljunid, a health professor at Kuwait University, told OBG that in some hospitals, in the period immediately after the revision of charges, expatriate patient numbers fell by as much as 17-18%.

RISING COSTS: One effect of the fee changes may be a growing separation of health care structures and treatment pathways for Kuwaiti nationals and expatriates. According to Jamal Al Harbi, the minster of health, hospitals accepting private health insurance plans will now serve expatriates working in the private sector, while those employed in the public sector would still be treated at public hospitals.

A first step towards separating health funding streams arrived in 2014 with the launch of the Kuwait Health Assurance Company (KHAC), known as Daman, which was established to insure expatriates, attract private investment and build new hospitals. KHAC has charged a flat health insurance premium of KD50 ($166) per annum. While the premium is designed to cover the cost of basic medical services, there have been some discussions over possibly increasing it in future to KD175 ($580) to enable it to fund the capital costs of new private hospitals capable of catering to the needs of 1.75m people.

Though all foreign residents are required to purchase insurance, many blue-collar workers remain uninsured, while white-collar employees are usually able to use a mix of private and state-provided coverage. Although required by law to have health coverage through Daman, many blue-collar expatriates simply remain uninsured. Moving forward, Daman will play a larger role in insuring the expatriate community through a programme to build six hospitals and a network of primary care centres. This system will be based on the US model, operating as a health maintenance organisation (HMO), in which access to care is coordinated through a primary care physician.

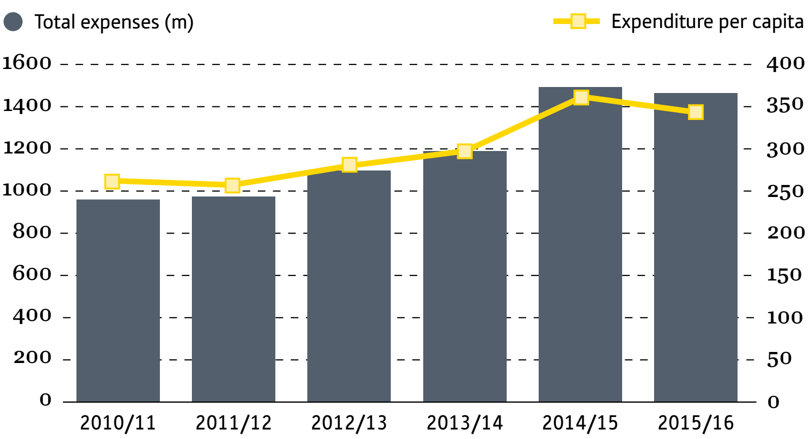
There has been some discussion of the right balance between health charges at the point of delivery and medical insurance premiums. In August 2018 Ahmad Al Shatti, a MoH spokesman, told local news organisation the *Arab Times* that expatriates would soon enjoy "health relief" which would include "the provision of health care services at moderate prices to ensure a balance between insurance coverage and health care service charges".

HOSPITAL BUILDING PROGRAMME: A prominent feature of Vision 2035 and subsequent government policy has been a major ongoing infrastructure investment programme to build new hospitals. One of the aims of Vision 2035 is to boost the number of hospital beds per 1000 inhabitants, which stood at an estimated 2.2 in 2012, according to the World Bank. As of 2016, there were 20 major government health care projects in the pipeline, with a value of KD3.5bn ($11.6bn). Together they will add around 11,200 hospital beds. Expansion programmes at eight existing hospitals are expected to add a further 4600 beds.

One of the biggest new facilities is Jaber Hospital, now one of the largest in the Middle East, with a total of 1168 beds and covers 750,000 sq metres over 13 floors. Jaber Hospital includes specialised centres for general surgery, paediatrics, obstetrics, gynaecology, and ear, nose and throat treatment, as well as associated buildings for dentistry and nurse accommodation. It also has a trauma centre, three helipads and 50 ambulance bays, construction of which was completed in November 2017.

Decisions have yet to be taken on the best operating model for the hospital, with the government ultimately opting for it to be run by a specially created private company. It is intended that Jaber will serve all potential markets, including government-financed patients, private patients, insured expatriates and patients coming in from the GCC or other parts of the Middle East. Details on the hiring of specialised

Public health spending, 2010-15 (KD)



Source: CSB

staff are also awaited with estimates placing staffing needs at 2200 doctors and 9000 nurses.

Another major project is the 1115-bed New Al Jahra Hospital, a $1.18bn project that was completed in July 2018, after a three-year construction period. It has eight buildings, with the main tower rising to 15 stories. This hospital includes secondary and tertiary care facilities, a trauma centre and outpatient clinics, as well as renal dialysis and radiology centres. It also has a women's centre, 32 operating suites, and CT and MRI centres, and parking for 5000 cars.

Among the other projects in the pipeline are the New Kuwait University Medical Centre, with 600 beds, the 500-bed New Medical City for Retirees, the 500-bed New Police Hospital, and a new facility for physical medicine and rehabilitation, expected to have between 600 and 750 beds.

The MoH is also working on a range of expansion projects, including the Farwaniyah Hospital (955 beds), the Farwaniyah Infectious Diseases Hospital (224 beds) and the Kuwait Centre for Cancer Control (618 beds), with completion dates running up to 2020. Meanwhile, KHAC has a $765m budget to engage in public-private partnerships for the construction of three 250-bed hospitals, 20 primary care clinics, and one day-surgery centre by 2020.

There have been some delays bringing completed hospital buildings into service. This has been attributed in part to significant turnover of MoH officials that has led to some projects being paused.

STAFFING: As the hospitals are completed and come into operation, there will also be a significant rise in demand for specialist staff. In March 2018 the MoH said it was ready to hire around 2000 expatriate medical personnel to staff for the new hospitals and clinics, and was seeking approval from the Civil Service Commission to begin recruitment.

The MoH said it needed more than 500 doctors and 1500 nurses, radiology technicians and other support staff, but was nevertheless seeking to reduce the number of expatriate administrative staff, recruiting

New facilities will require significant numbers of trained medical staff

Kuwaitis to fill those positions. The ministry estimated it would take a minimum of 10 years to train a sufficient number of doctors and nurses in order to fully staff domestic hospitals.

OUTLOOK: A combination of high income levels, rising demand for treatment of chronic disease and an ambitious hospital building programme virtually guarantees strong sector growth and a wide range of opportunities for private health providers.

There are, however, areas where more needs to be done to ensure health provision is effective, efficient and sustainable. While new facilities are part of the necessary response to rising rates of NCDs, a shift in the focus of health outreach efforts towards prevention at the primary care level will help build a sustainable structure for the sector. Promoting healthier lifestyles could help the population avoid expensive secondary and tertiary treatments in the long term, contributing to significant cost savings.

A combination of high income levels, rising demand for treatment of chronic disease and an ambitious hospital building programme virtually guarantees strong sector growth and a wide range of opportunities for private health providers.

Global Perspective

Promoting pharmaceuticals

As health care provision expands, demand for both local and imported pharmaceutical products is rising

Governments and private companies are pursuing pharmaceuticals development in the face of challenges, particularly regarding the resources required for the creation of new products.

In recent decades, the pharmaceutical market has expanded its geographical reach. This trend appears to be here to stay; in a survey of major pharmaceutical firms conducted by global consulting firm PwC's Strategy& team, more than half of respondents anticipated that over 30% of their global sales would originate in emerging markets by 2018.

Even in the most newly opened markets, drug companies have seen growth: forecasts for Myanmar, for instance, indicate that pharmaceuticals could quickly grow into a $1bn industry.

As governments and companies continue to take note of this high-potential sector, both are pursuing development in the face of cross-cutting challenges, particularly with regard to the resources required to develop new products and the accompanying intellectual property protection concerns.

STRONG DEMAND: As economies grow, and health care provision and insurance mechanisms expand, demand for local and imported pharmaceutical products is on the rise. Research from consulting firm McKinsey & Company highlights that emerging markets have been outspending Germany, France, Italy, the UK and Spain (the EU5) on pharmaceuticals for several years, with a total market size of $281bn compared with the EU5's $196bn in 2014.

Estimates from the research also indicate that between 2015 and 2020, emerging market spending is expected to account for $190bn in sales growth. On the African continent alone, the pharmaceutical industry expanded in value from $4.7bn in 2003 to $20.8bn in 2013, with projections that the need for medicines and medical equipment will rise by between 6% and 11% by 2020. The Strategy& survey highlighted that between 2015 and 2020, fast-growing markets like Turkey and Mexico were expected to see a 9.3% increase in sales.

Not only is demand on the rise, but the diversity of pharmaceutical needs is growing as emerging markets increasingly deal with non-communicable diseases already prevalent in wealthier economies, including diabetes and hypertension, while communicable diseases that afflict many emerging markets – such as AIDS, malaria and tuberculosis – persist.

The incidence of diabetes in particular is expected to accelerate in many emerging markets and drive demand for pharmaceutical products. According to the World Health Organisation (WHO), the global prevalence of diabetes has nearly doubled since 1980 from 4.7% to 8.5%, growing most rapidly in low- and middle-income countries. On top of this, people are living longer, with estimates that the global population over 65 years old will increase by 8% between 2015 and 2020, from 559m to 604m.

INTELLECTUAL PROPERTY & RESEARCH: Despite this rising demand for products, local production and innovation in less-developed markets is still limited, due in large part to the human and other resources required to establish and enforce intellectual property rights (IPR).

Innovation does not come cheaply or quickly; McKinsey estimates that large-scale biotech manufacturing facilities require $200m-500m and take four to five years to build, with high annual operating costs. The International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) notes that it takes 10-15 years to develop a new medicine or vaccine, and the cost can exceed $2.6bn. In established markets, governments typically grant IPR as an incentive to incur the costs of developing innovative products that can save lives and generate a return. As noted by the IFPMA, the pharmaceutical industry invests more in research and development (R&D) than any other industrial sector.

In contrast, in many emerging markets the written law and enforcement of it has often left major players wary of entering. If patent protection is not guaranteed, the anticipated returns for undertaking

The cost of developing a new medicine can exceed

$2.6bn

an expensive effort may not outweigh the costs. Another factor in many emerging economies is that the strongest need for research relates to diseases affecting populations that will not be able to pay high prices for products. Known as the "10-90" gap by the Global Forum for Health Research, R&D has historically focused only 10% of resources on diseases making up 90% of the global burden, including dengue fever and cholera, which primarily affect low-income populations in tropical environments.

Overall, the lower financial incentive to innovate has prompted debate over how to ensure these products are developed. Research from organisations like the OECD highlights that IPR reform – addressing patent protection, copyright and trademarks – is the way to drive positive economic results that benefit markets and provide the needed research. Others, including economist Joseph Stiglitz, have argued that there are other solutions that better balance the need to incentivise innovation with allowing for access to life-saving drugs, including increased support for research from centralised mechanisms or tax credits for innovative solutions.

LEGAL FRAMEWORK ADVANCEMENT: In order to help address this challenge, there has been steady progress with regard to the establishment of global mechanisms for IPR frameworks. Since 1994, the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, administered by the World Trade Organisation (WTO), has regulated intellectual property issues for WTO members, ranging from developed to emerging nations.

In addition, WHO Resolution WHA 61.21 on a Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property was adopted in 2008, and provides specific guidelines on how local production in emerging markets can promote innovation while still building local capacity and ensuring access to life-saving drugs.

Individual countries have also been making strides on the national level, at least on paper, adhering to a set of elements articulated by the WHO that make for a comprehensive and effective national pharmaceutical law, including control of marketing and supply (whether imported or domestic), procedures for mediating conflicts between parties, and a legislative framework that is aligned with national policy in the pharmaceutical sector.

Kenya, which joined the TRIPS Agreement in 2001 with the establishment of its Industrial Property Act is one example. This legislation is the basis for granting and regulating patents, utility models, technical innovations and industrial designs. It is complemented by the Pharmacy and Poisons Act, Cap. 244, which controls the manufacturing, trade and distribution of pharmaceutical products, as well as the 2008 Anti-Counterfeit Act, which prohibits trade in counterfeit goods, including pharmaceuticals.

The US International Trade Administration (ITA) also cites Qatar as a success story in terms of IPR legal frameworks. Qatar's Ministry of Public Health requires registration of all products imported into the country, and will not register unauthenticated copies of products patented overseas.

Tunisia also maintains long-established pharmaceutical regulations; since 1942 the law has mandated that all pharmaceutical products, whether locally produced or imported, must obtain a certificate of approval from the Ministry of Health before being placed on the market.

IMPLEMENTATION GAP: Even if a country's written rules align with international norms, one of the most important challenges remains the enforcement of these rules on the ground. In many markets, there remains a high incidence of piracy and counterfeits, which are often difficult to track.

According to a November 2017 WHO report, an estimated one in 10 medical products in low- and middle-income countries is either fake or substandard, which results in an estimated 10.5% failure rate of medications. Another issue when it comes to implementing written regulations is unreliable dispute resolution mechanisms; even if counterfeits are properly identified, the resolution process for companies can be long and unwieldy. In Nigeria, for example, drug producers still complain of a long and bureaucratic adjudication process, and global consulting firm PwC describes the "lack of meaningful patent legislation or pricing and reimbursement" as one of the key challenges for the development of the country's pharmaceutical industry.

However, there have been some signs of progress. Jordan, for one, has seen intellectual property protection improve in recent years, according to the World Economic Forum's 2016 Global Information Technology Report, which places the country 35th out of 139 nations on this metric. Furthermore, as highlighted by the ITA, Jordan's drug industry generally abides by its TRIPS-consistent Patent Law and shows commitment to even stronger enforcement of IPR, particularly in the pharmaceutical sector.

Elsewhere, in Myanmar, "counterfeit products represent a massive issue for firms selling premium or original products," Girish Wadhwa, president of the Myanmar office of Thailand-headquartered Mega Lifesciences, told OBG. "However, in 2015-17 companies saw improvement because of the Ministry of Health's involvement, and the increased strength of the Food and Drug Administration."

Côte d'Ivoire has also been making efforts to more effectively manage its pharmaceutical sector, reducing fraud and illegal sales. With reforms to government office the Public Health Pharmacy (Pharmacie de la Santé Publique, PSP), now known as the N-PSP, the agency manages the purchase and distribution of all pharmaceutical products, and has put in place software that tracks the flow of medications with the help of identification codes. The government is hopeful that this system will enable the authorities to track all pharmaceutical products from purchase to receipt. In Mexico firms have also seen increasingly strong enforcement of regulations.

The Trade-Related Aspects of Intellectual Property Rights Agreement regulates intellectual property issues for members of the World Trade Organisation.

One in 10 medical products in low- and middle-income countries is thought to be either fake or substandard, resulting in an estimated 10.5% failure rate of medications.

Governments around the world are using a range of fiscal incentives to encourage growth in the pharmaceutical segment, especially research. These include tax breaks, liberalised investment policies and refunds on eligible expenditure.

Gurulinga Konanur, CEO of Hetero Drugs Mexico, told OBG, "Transparency is continuously gaining importance in Mexico, and enforcement has improved in recent years in previously unregulated areas, which is giving companies a higher comfort level when it comes to investing in the pharmaceutical sector or pharmaceutical research here."

PUBLIC SUPPORT: In addition to drafting and enforcing strong pharmaceutical-related legislation, governments have taken a range of policy steps to promote drug production and research.

Cristóbal Thompson, executive director of the Mexican Association of Pharmaceutical Research Industries (Asociación Mexicana de Industrias de Investigación Farmacéutica, AMIIF), told OBG that the country employs a model of building bio-clusters that create government-industry alliances and bring jobs to various parts of the country.

"In the state of Querétaro, for example, AMIIF signed an agreement in December 2017 to further increase Mexico's clinical research in the state and support an exchange of information that will help increase local investment there," said Thompson.

On a national level, the Mexican National Council on Science and Technology administers incentive programmes that refund a percentage of company R&D-related expenses, including wages for staff involved in research, new studies, patents or copyrights, and tuition reimbursement for master's and doctorate degrees relevant to R&D. Filed projects are now evaluated by state and local jurisdictions, and funds are allocated based on the technical value of the project and the local jurisdiction's priorities.

In Saudi Arabia, developing the pharmaceutical industry is part of a series of efforts to diversify the economy, particularly in light of lower oil prices. As such, in February 2017 the minister of health, Tawfiq Al Rabiah, announced the government's intention to support the industry under the National Transformation Programme 2020, and to increase the proportion of local pharmaceuticals manufacturing in the domestic market from 18% to 40%.

Ghana has been using tax incentives to support the sector. The Value-Added Tax Amendment Law, Act 590 implemented in 2015 increased the number of active pharmaceutical ingredients on the exemption list from 66 to more than 510 to facilitate domestic production and consumption, and make trade more competitive. Vietnam aims to raise activity in pharmaceutical R&D by liberalising its investment policy. Changes introduced in 2017 lifted the previous cap of 49% foreign ownership to attract interest from multinationals, which has already resulted in several mergers and acquisitions.

RESOURCES: In addition to establishing and implementing legal and policy measures that stimulate drug production and research, aspiring research centres need further support from public and private entities that encourage R&D.

According to the WHO, only 4% of all global spending on health research is by low- or middle-income countries, funded primarily by public sectors. Emerging market players have long recognised this. A 2010 paper by the African Union, Council on Health Research for Development and the New Partnership for Africa's Development Agency of the African Union provided implementation approaches that could lead to further R&D, arguing that states should be encouraged to allocate 2% of their national budget to research. Some markets have taken this approach. Kenya, for example, now has one of the highest R&D spending rates as a percentage of GDP for a lower-middle-income country (0.22%, compared to 0.07% for Africa overall and 0.02% for lower-middle-income countries).

Only

4%

of global spending on health research is by low- or middle-income countries

In addition to a lack of physical resources to incentivise pharmaceutical innovation and growth, there is often a shortage of skilled labour. The WHO estimates that there are 352 times more health researchers in high-income countries than in low-income countries, and neither multinational nor local companies will have success in R&D without a team of highly skilled experts to oversee operations.

Indeed, the Strategy& survey found that sourcing and keeping strong local talent remains a key concern for pharmaceutical firms conducting research or looking to break into a new market. This is another area where Mexico has made strides. Konanur told OBG, "Mexico's public universities are developing courses or diplomas in more specific sub-specialties in biotechnology, pharmaceutical chemistry and bioengineering that were not previously offered in order to meet market needs, and grow a professional pool of people who can do this work."

CLINICAL TRIALS: Developing markets are also increasingly focusing on clinical trials, which can serve as an entryway into R&D. According to a 2015 Deloitte Access Economics report, an estimated $320m was spent on clinical trials in Thailand in 2015, with more than 111,000 participants. Pharmaceutical companies sponsored 38% of the trials.

"Thailand's growth in R&D is mainly in clinical trials, which contribute 0.05% of GDP and allow firms to go further in the upstream with drug discovery know-how and in the downstream from registration to the manufacturing global supply chain," Busakorn Lerswatanasivalee, president of the Pharmaceutical Research & Manufacturers Association in Thailand, told OBG. "Particularly given the health issues of Thailand's ageing population, clinical trials can be the starting point for tropical disease clinical research and innovative drugs."

In 2015 the Pharmaceutical Manufacturers Association of Turkey cited local law firm Fırat Izgi's prediction that "clinical trials may increase in Turkey, as investments in R&D are on the rise among both multinationals and local companies alike. Universities are investing heavily in R&D as well, and they will receive support from the Turkish government."

Mexico has also made clinical trials a key component of its pharmaceutical development strategy, with current investment levels of around $250m expected to triple in the next three to five years. "Three years ago, when we worked on the strategic plan with the government, we highlighted clinical trials as key to capitalising on the global annual $140bn in investment in the health care sector, given that eight out of every 10 dollars spent is on clinical research," Thompson told OBG. "One of our studies even showed that for every additional dollar spent on research there is $1.64 in added value, and every new job in clinical research adds more than four jobs in the market. So when we saw that there were delays in getting clinical research protocols approved, we started working with authorities to see how we could accelerate this, and have achieved huge progress. We have cut down approval time to 60-70 days, and within one year Mexico hopes to be in line with the top clinical trial hubs in the world."

Konanur also highlighted how efficient the Mexican government has made the process for conducting clinical research, telling OBG, "Mexico has been opened to R&D by the government, which is highly supportive of any pharmaceutical company seeking to invest in research. This includes approval systems that provide the required permissions within an established and relatively short time frame."

Provided the trials are conducted in an ethical and scientifically rigorous way, the potential benefits for companies conducting their clinical research in emerging markets are vast. Not only are operational costs lower, but the ability to work with previously untested populations on diseases specific to a certain market could provide life-saving results and products that are in high demand.

GENERICS: The burgeoning generics industry can provide lower-cost alternatives for desperately needed medications, and production is on the rise. For example, it is estimated that between 2013 and 2020, Africa's generics market will have expanded at a compound annual growth rate of 9%. While generally comprising the same active ingredients as their branded predecessors, generics do not bear the same development costs, ultimately allowing for lower sales prices and greater sales volumes.

In Nigeria, for instance, currency fluctuations in 2017 made consumers more price sensitive, increasing the market for lower-cost, generic drugs. Similarly, in Tunisia, efforts to reduce health care expenditures and improve access to medicines have led to a rise in the production of generic drugs, which account for two-thirds of local output.

Some markets also see the long-term opportunities for local pharmaceutical players as cost-effective producers of generics for export as well as local consumption. Several Egyptian pharmaceutical companies, for instance, are looking to export to less-developed markets in sub-Saharan Africa, as well as Yemen, Iraq, Sudan and Libya.

While increased access to medication is clearly positive, the expansion of generics, including those produced legally – modelled on drugs for which patents have expired or those that were never patented, for example – their use presents a challenge in that it reduces the incentive for pharmaceutical companies to invest in R&D for new products. Thailand, which implemented its sweeping Universal Coverage Scheme in 2001, has been pursuing the production of generics. However, although affordable generics are appealing to customers in the short term, this slowdown in the development of innovative products will be a future issue, particularly in countries like Thailand with large, ageing populations.

STRIKING A BALANCE: Ultimately, markets are likely to work towards a balance between supporting the development of generics to ensure short-term access to products while still providing incentives for much-needed medical innovation in the longer term.

There have been some success stories on this front. In Egypt, which has the highest incidence of Hepatitis C infections in the world, according to WHO estimates, health officials first reached a deal with US company Gilead in 2014 to purchase its patented treatment at a discounted price. Today, 18 Egyptian companies have a licence from the US innovator to locally produce the drug Sofosbuvir, which allowed for the treatment of more than 1m patients from mid-2015 to the beginning of 2017.

Similarly, in Kenya, with the aim of improving local access to essential AIDS medications, local companies Cosmos and Universal Corporation were granted voluntary licences under TRIPS provisions to manufacture treatments developed by patent holders GlaxoSmithKline and Boehringer Ingelheim.

Industry experts have also highlighted branded generics as a sound strategy to ensure high-quality products are developed, but at a price where they have a local market. These off-patent products, which include the same ingredients as the brand-name version, often fetch higher prices than unbranded generics because consumers will pay to buy the product from a trusted manufacturer, even if they cannot afford the full price of the branded version. For instance, EastPharma, a Turkish pharmaceutical firm, acquired the rights to manufacture eight Roche-branded generics registered in Turkey.

As emerging markets and companies both increasingly recognise the rapid growth in demand for pharmaceuticals, and the value that can be gained from conducting pharmaceutical R&D locally, interest in entering these markets is likely to continue rising. According to the Strategy& survey, 60% of the multinational respondents were considering investment in local R&D activities in emerging markets.

At the same time, domestic pharmaceutical companies are becoming interested in competing with these multinational firms, capitalising on their knowledge of consumer preferences, the price points for particular segments of the population and the availability of health insurance products. As the resources and legislation that govern more developed markets are put in place, the opportunities to gain knowledge of previously untested populations at a competitive price will be too great to ignore.

Conducting clinical research in emerging markets offers companies lower operational costs and the ability to work with previously untested populations on diseases specific to a certain market.

Branded generics produced under licence often fetch higher prices than unbranded generics as consumers are willing to pay more to buy from a trusted source.

Education

Sector reforms integral to national development plans
Rising demand for private schooling attracts investors
Education receives a boost in the latest public budget
Interest in technical and vocational schools surges

The female tertiary enrolment rate is nearly double that of males

A new way forward

As oil revenues decline, Kuwait redoubles its efforts to develop a foundation for market dynamism and flexibility

The government has moved to leverage public-private partnerships and build-operate-transfer agreements to develop the education sector.

Kuwait and the wider Gulf have some of the youngest populations in the world, with one-third of the GCC's population expected to be under the age of 25 by 2030. As such, ensuring that Kuwaiti youth are equipped with the skills to compete in the global marketplace has become one of the government's main priorities. This is laid out in New Kuwait 2035, a bold government development plan prioritising education reform and investment, among other policy pillars.

The downturn in global oil prices, following the commodity's high of $111.48 per barrel in June 2014, prompted GCC governments to cut or freeze spending, intensifying pressure for private sector involvement in sectors dominated by public actors. Recognising this, the Kuwaiti government has taken concerted steps to facilitate private investment in schooling, developing build-operate-transfer (BOT) agreements, public-private partnerships (PPPs) and technical cooperation programmes aimed at improving school curricula, teaching and management.

GOVERNMENT PRIORITY: The government has named the revitalisation of the education sector as one of the key pillars of New Kuwait 2035. It intends to advance this priority through a two-pronged approach: first, by introducing public sector reforms aimed at improving national standards of teaching, management and student assessment; and, second, by opening the sector to greater privatisation in order to meet growing demand for high-calibre education and to reduce the government's fiscal burden amid decreased oil revenues.

For FY 2018/19 the Ministry of Education (MoE) received a budget of KD2.2bn ($7.3bn), up 22% from the KD1.8bn ($6bn) allocated for FY 2017/18 and accounting for 11% of the total KD20bn approved by the Parliament. Projected spending on education as a share of total public outlays will continue to come up short of various benchmarks, including the 2016 average across the GCC (15.6%), the target range adopted in 2015 by the World Education Forum (15-20%) and industrialised states like the US (14.9%), the UK (11.8%). That said, the 11% figure does compare favourably to the share of the budgets invested in education in Qatar (10.1%) and Bahrain (8.8%), while Kuwait's state expenditure as a percentage of GDP, which is projected to approximate 6% in FY2018/19, hovers near equivalent figures in the US (6.1%), France (5.2%) and the UK (6.2%).

EDUCATION INDICATORS: Among both adults and youths, Kuwait's literacy rate stacks up well next to that of nationals of its MENA peers, where reading acquisition is growing rapidly. According to 2017 data from UNESCO, the literacy rate stood at 96.3% for Kuwaitis aged 25-64, compared to 80% across the region. Meanwhile, marking a widely positive trend, reading fluency is even higher among youths. In 2017 99.3% of Kuwaitis aged 15-24 were literate, up from 79% in 1980, while the MENA average was 89.6% in 2016. Moreover, according to World Bank statistics from 2015, among Kuwaitis 15 and older, females have caught up to and surpassed their male peers on this metric of educational attainment, which stand, for the respective sexes, at 99.4% and 96.4%. According to UNESCO, the gross enrolment rate (GER) in Kuwaiti primary schools was high in 2016, standing at 100.6%. In 2015 the equivalent figure for secondary education was only slightly lower, at 97.5%. In the meantime, tertiary GER stood at 32.6% in 2013, with the enrolment rate among females (42.7%) nearly double that of males (23%). Though that figure leaves room for improvement, Kuwait's GER at the pre-primary level – a key stage of education focused on developing soft skills and academic capabilities in preparation for more formal education – is also relatively high in relation to that of its neighbours. GER at the pre-primary level was 67.9% in 2016, higher than Bahrain (55.3%), Oman (57%) and Saudi Arabia (25%), and above the global average of 53.8%.

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of Kuwaitis aged 15-24 were literate in 2017

According to a report by the global management firm Boston Consulting Group (BCG), there were 633,900 K-12 students in Kuwait as of 2015, 41% of whom were attending private schools. According to the local press, the total number of schools in Kuwait increased from 1450 in 2014/15 to 1483 in 2016/17, while the number of teachers increased by 5.6% over the same period to 85,949 in 2016/17.

Decade-long efforts to hire staff have improved pupil-to-teacher ratios (PTRs), or the number of students per teacher, across all stages of education. The pre-primary PTR fell from 11.4 in 2008 to 9.2 in 2016, against a 2009 OECD average of 14.3. In primary schools, Kuwait's PTR decreased slightly over the same period, from 9.1 to 8.9, while the 2009 average among OECD states stood at 16. Lastly, at the secondary level, PTR in Kuwait fell from 9.1 to 7.6 between 2008 and 2015, a significant improvement on the 2009 OECD average of 13.5.

Kuwait has 16 special education schools, which provided for 1815 pupils in the 2016/17 academic year, almost half the number of such institutions in 2014/15, when there were 1739 pupils in 31 special education schools. Still, with 1201 teachers employed at these schools, the 1.5 PTR was relatively low. There were also 11 religious schools in 2016/17, with 2631 students and 704 teachers, which has a PTR of 3.7.

Despite recent improvements on these already positive metrics, the performance of students at tertiary institutions remains a cause for concern. According to Salwa Al Jassar, professor of curricula and education methodology at Kuwait University's (KU), public education has fallen behind private providers, as evidenced by the fact that even public high school graduates who attain marks of around 90% in their school exams still fail university aptitude tests. "Curriculum suffers heavily from political influences; more students have an obligation to study Islam or Arabic studies, and there is less emphasis on maths or science," Winfred Thompson, former president of the American University of Kuwait (AUK), told OBG. Meanwhile, a January 2018 study published by the General Secretariat of the Supreme Council for Planning and Development found that student attrition – or degree non-completion – and remedial support for poor academic performance cost the institution 12.9% of its budget in the 2012/13 academic year.

KEY PLAYERS: Public and private education alike are overseen and regulated by the MoE, working in conjunction with the National Centre for Educational Development (NCED). The NCED inspects schools, administers international tests and works on reform programmes with partners such as the World Bank, among other charges. The MoE supports public and private institutions primarily by formulating development policies and issuing tenders for private investment. Private schools are regulated by the ministry's Private Education Department, while tertiary education is overseen by the Ministry of Higher Education (MoHE) and the Private Universities Council (PUC). The PUC is responsible for all accreditation and facility reviews for private universities and vocational colleges.

SECTOR BREAKDOWN: Kuwaitis enjoy access to free education at the primary and secondary levels, whereas foreign residents are served only by private schools. Of the 1483 schools in Kuwait in the 2016/17 academic year, 557 were private, up from 537 in 2014/15. Of the existing 30 international schools, eight offer US curricular, and the remainder follow curricula from Canada, the UK, France and India.

With a 2017 graduating class of 4000 students, KU, the country's sole public university, is operating a full capacity. The country's 12 other tertiary schools are private, and include the likes of AUK, the American University of the Middle East (AUM), the Arab Open University, the Australian College of Kuwait and the Kuwait Maastricht Business School, as well as technical and vocational institutes. Some schools have partnered with foreign institutions, as AUK has done with the US' Dartmouth University. Meanwhile, the MoHE provides funding for 6000 scholarships, 2600 of which are reserved for study in the US.

PRIVATE SECTOR: According to BCG, Kuwait's private education market is expected to grow from $1.3bn in 2017 to $2bn by 2023, presenting plentiful opportunities for investors. There is a steady trend in Kuwait and the GCC towards private education alternatives as the local population, as well as GNI per capita, continues to grow. According to World Bank data, Kuwait's GNI per capita is one of the highest in the world, at over $83,000 in 2017. Willingness to pay for high-quality private education in Kuwait is already strong, as reflected in international school fees, the mean of which was $8069 in 2017, higher than in the UAE ($7747) and Saudi Arabia ($6325).

Kuwait's private education sector is a highly fragmented market, comprising numerous standalone private schools, unlike in the UAE, Saudi Arabia and Qatar, where large-scale education providers such as Global Education Management Systems dominate the private side of the market. As such, Kuwait presents ample room for multinational education operators to enter and consolidate.

There are already several local firms invested in education, including the Kuwait Education Fund, National Offset Company, Nafais Holding, HUMANSOFT and Educational Holding Group (EDU). These companies often control in full or retain significant stakes in several education-focused subsidiaries active in other sectors, such as health care. With a market capitalisation of approximately $254m, EDU – which counts investments in private, Arabic-language schools, school construction companies, US-curriculum institutions and special education facilities, among others – is one of the largest players in the GCC. For its part, HUMANSOFT, the only local investment company focused solely on education, has invested in large-scale projects such as the construction and development of private university AUM, which was founded in 2008 and now has a full-time matriculated body of around 9500 students.

The private education market is expected to grow to

$2bn

by 2023

Rapid growth in Kuwait's youth population and its GNI per capita have catalysed demand for high-quality private education and international schooling.

The government has partnered with global tech giants to improve the ICT skills of teachers and students

REFORMS: State efforts to improve schooling have forged ahead under the first phase of the MoE's Integrated Education Reform Programme 2011-19. This was followed in 2015 by the launch of the School Education Quality Improvement Project, in cooperation with the World Bank. Both initiatives are aimed at improving education by focusing on curriculum development, teaching skills and management, and student performance. ICT skills have featured heavily in these initiatives through partnerships with tech giants such as Microsoft and HP. In 2011 the MoE worked with HP to improve students' critical thinking skills, while in 2016 the MoE partnered with Microsoft to train 650 teachers on classroom technology.

Streamlining costs has also been central to these reforms. In early 2017 the government signalled that it would terminate the contracts of expatriate teachers in oversupplied disciplines and reduce the number of supervisory posts in the MoE. The IMF has expressed its support for these measures, arguing that Kuwait should reduce its teaching and non-teaching staff further to free up funding for programmes aimed at improving teacher performance and the quality of teaching materials.

The overhaul agenda has, moreover, been anchored in the acceleration of privatisation. In 2016 the Supreme Privatisation Council's advisory committee invited domestic and foreign firms to help draft the Kuwait Schools Development Programme, a formal system that would create investment opportunities to invest in Kuwaiti education through PPPs and BOT agreements. In a development that bodes well for such investment, the MoE issued the first tender for PPPs to develop five private boarding schools in the Wafra residential area in March 2018.

In 2017 the Ministry of Education began to terminate contracts for expatriate teachers in oversupplied disciplines to free up funding for programmes to improve teacher performance and the quality of materials.

FOREIGN INVESTMENT POTENTIAL: As parents increasingly turn to private primary and secondary education for their children, there is significant room for growth and foreign investment. According to industry statistics, the GCC's K-12 education market was valued at $67bn at the end of 2017, with the share of private schools accounting for just $8.1bn.

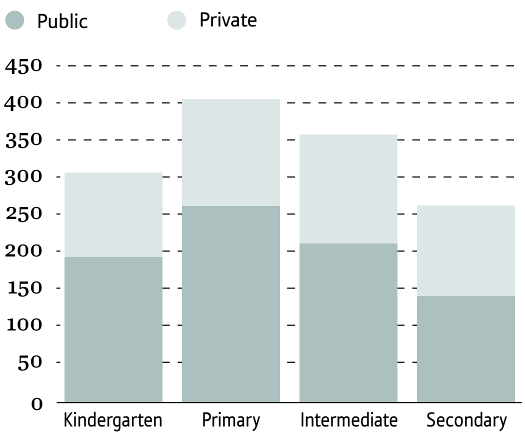
In terms of growth in established, English-medium international schools, Kuwait ranked fifth in the wider Middle East after the UAE, Saudi Arabia, Qatar and Turkey, but ahead of Oman, Bahrain and Jordan, according to a 2017 study by ISC Research, a UK-based institute conducting studies on international schools. From 2010 to 2015 the number of private schools rose from 460 to 507, and enrolment therein grew at a compound annual growth rate (CAGR) of 5.4%, compared to a CAGR of 0.9% in public schools over the same period.

Meanwhile, Global Investment House, a regional asset management and investment banking firm, expects the private sector to expand by 4% annually through 2021-23, translating to an additional 10,000-11,000 students per year. In order to satisfy new demand, therefore, six to seven schools with 1500-student capacity would need to open annually, according to local media estimates.

Although Kuwait's tertiary GER is lower than those of some other GCC markets, KU is almost operating at full capacity, and on the back of rapid demographic growth, demand for universities and other vocational and technical colleges is expected to surge. Although many Kuwaiti nationals and expatriates frequently look overseas to continue their education, this could change if local private institutions establish or deepen partnerships with globally recognised institutions. There is also considerable potential for international universities to build local campuses, as has been done in the UAE and Qatar, among others.

With vocational training in the wider GCC region expected to grow at a CAGR of 13.3% between 2016 and 2020, there is also room for this sector to grow in Kuwait. For example, the College of Aviation Technology (CAT), which offers technical diplomas in aircraft mechanics and maintenance engineering, has been looking to partner with a foreign institution in order to start offering a complete degree

Public vs. private schools by level, 2016/17



Source: CSB

programme from 2019. Abdulrahman Buhumaid, assistant vice-dean for strategy and compliance at CAT, told OBG that the student body had grown from 50 when it opened in 2015 to 670 in 2018. "We have great demand, not only from airlines, but also from the military, coast guard and national guard," Buhumaid told OBG. "We are trying to go into airport handling and marshalling for the airports and civil aviation to meet this demand."

The state is a key partner in driving expansion of the private tertiary sector, having already put forward several large-scale tenders to build universities. For instance, in June 2016 the government awarded a $580m contract to China State Construction Engineering to build Sabah Al Salem University City, which is set to become one of the largest university campuses in the world, on a built-up area of 3.7m sq metres. Furthermore, efforts by the MoE to incorporate the latest technology into education present numerous contracting opportunities for educational providers of online content, tools and platforms.

COMPETITIVENESS: Despite the clear progress the state has made in overhauling the education system and attracting foreign investment, some deterrents to private sector growth endure. Attracting enough qualified teachers to match demographic growth will remain a challenge, while high tuition costs may make the country less competitive when it comes to drawing international university students. Stringent government regulations remain another challenge facing the private sector, though this has its benefits.

"The accreditation process is a labour-intensive process that requires the involvement of all institutional stakeholders," Amal Al Binali, vice-president for admissions and public affairs at AUK, told OBG. "Unlike private institutions in the US, private universities in Kuwait are subject to the legislative governance of the PUC, which can sometimes result in delays, specifically in areas of programme development and implementation." Nevertheless, Al Binali sees the PUC's oversight as constructive because "it standardises the growth and expansion of private universities and avoids the creation of diploma mills".

OUTLOOK: Although several institutional and regulatory hurdles to the growth of private investment must still be overcome, Kuwait has so far demonstrated the resolute political will necessary to address these obstacles. With a private market that has significant room to develop, the shortage of multinational providers, relative to their presences in the wider region, presents an enticing long-term investment opportunity for such investment. Further serving to underscore the market's untapped potential, Kuwait's burgeoning youth and growing disposable incomes are expected to continue accelerating the growth of demand for private education, tertiary schooling and vocational training of the calibre availed to citizens and similarly developed states.

The state is a key partner in driving expansion of the private sector at the tertiary level, having already put forward several large-scale tenders to build new and expanded university facilities.

Global Perspective

On the job

Development and promotion of technical and vocational training key to improving employment rates

Global unemployment is expected to be above
192m
in 2018

Although priorities vary when it comes to economic development, the increasing need for skilled labour is both a cause of and a requirement for accelerated growth across markets. This demand for technical specialists is often most concentrated in the sectors that are vital to economic advancement, including infrastructure, oil and gas exploration and extraction, and value-add processes for agricultural commodities. Efforts to expand this expertise locally, rather than relying on international organisations or expatriate leadership, have come to the fore in recent years, both as part of individual country schemes and multinational efforts. As a result, markets around the world are using a range of strategies to overcome common challenges and align legal frameworks, policies, and education and training systems with industry needs.

SKILLS MISMATCH: On average, global unemployment remains an ongoing challenge, particularly in developing economies. According to the "World Employment and Social Outlook: Trends 2018" report by the International Labour Organisation, the number of unemployed people around the world is expected to fall by 400,000 in 2018 to just over 192m, compared to an increase of 2.6m in 2017. The report credits the stabilisation of unemployment to growth in developed markets where numbers will dip to pre-crisis levels. Developing countries, on the other hand, will continue to see unemployment rise. Job creation is acknowledged as a global need by international entities like UNESCO, which estimates that at least 475m new jobs need to be created over the next decade to absorb the 73m currently unemployed youth population, as well as the influx of 40m new entrants to the labour market per year.

It is not the case that high unemployment rates result from a lack of jobs, but rather from the mismatch of market needs and skills that people bring to industries. A 2014 World Bank report on Ghana's demand and supply of labour, for example, estimated that over 1m jobs could become available in the country's booming construction sector between 2015 and 2020. However, this demand remains unmatched by the local supply, resulting in a deficit of 60,000-70,000 skilled workers.

One of the main causes of unemployment around the globe is the mismatch that often exists between the needs of the market and the skills of the workforce.

Furthermore, required skill sets are constantly shifting as industries change more rapidly. The World Economic Forum reports that the top-10 skills required by companies will change between 2015 and 2020.

PRACTICAL TRAINING: Technical and vocational education and training (TVET) programmes provide a solution to this mismatch, assuming they are directly linked to market needs. To this end, TVET provision is increasingly focused on apprentice-style training to prepare students for the work they will eventually do. This has been championed as the way forward by numerous international organisations. As noted in the 2017 Inter-American Development Bank report, "On-the-job training helps develop specific skills that can boost workers' productivity. Thus, while preparedness is important, the intensity and quality of the training received in the workplace is crucial. This is even more true in a fast-changing world, where updating skills is the key to workers' relevance and longevity."

Markets like Nigeria have started working on improving the links between education and employment with the 2015 establishment of Vocational Enterprise Institutions (VEIs) and Innovation Enterprise Institutions (IEIs). These schools – 82 approved VEIs and 154 IEIs as of April 2018, according to the National Board of Technical Education – are directly partnered with businesses to provide tailored technical training.

REGULATORY ENVIRONMENTS: In addition to training, international knowledge transfer on technical subjects can be highly valuable, but can be made difficult by local content regulations that set quotas for the use of local staff and resources. According to a 2016 paper from the OECD, local content regulations can cause notable losses and inefficiencies. For example, when Ghana discovered offshore oil fields in 2007, there was a definite skill gap in the local market as Ghanaians were newcomers to the highly technical industry, making it difficult to adhere to regulations to locally staff many jobs. In the GCC, nationalisation policies that prioritise the bulk of jobs to citizens as opposed to foreigners have been adopted in Saudi Arabia, the UAE and Oman. This is intended to raise local employment, but these policies can result in high costs for private firms, as local salaries are usually higher than expatriate salaries, and training is often required for specific positions.

Some industry players are optimistic that a thoughtful revision of policies could achieve both objectives of increasing local employment while maintaining global competitiveness. Shahswar Al Balushi, CEO of the Oman Society of Contractors, explained this would involve revising local content policies to more realistic targets. "Obtaining a 30% Omanisation rate in a sector like construction that employs over 750,000 people means we would need to employ 225,000 Omanis in the sector alone, when the entire Omani workforce in the private sector is 230,000," he told OBG. "The current reality is we stand below 8%, around 55,000, in the sector, so it would make more sense to establish a target of 10%, gradually going up to 15% by 2020."

International knowledge transfer can also come from local employees who worked overseas and have returned to their home countries. For example, Mirna Arif, regional sales director in Cairo for Baker Hughes, a global oil field services company, explained that with Egypt's recent oil and gas discoveries, Egyptian engineers who have gained highly technical expertise in the Gulf are returning to Egypt for work. "We have a huge labour pool and now we also have a lot of mid-career hires who bring exposure and experience from abroad to support the Egyptian industry," she told OBG.

Universities provide another avenue to building globally competitive skill sets. Qatar, for example, relies on international consultants for deep technical expertise in the oil and gas business, according to Mike Bowman, who served as chair of the Petroleum Engineering Programme at Texas A&M University at Qatar from 2015 to 2017. "A next step could be using international campuses as vehicles to create that technical expertise by establishing PhD programmes that will make Qatar less dependent on external players," he said.

GOVERNMENT-LED EFFORTS: Another positive trend in recent years has been for governments to incorporate TVET programmes into their national education and economic strategies, though the cross-cutting challenge of streamlining this public involvement remains. When too many departments or ministries become engaged, the OECD states this can "confuse students and employers, involve some duplication of tasks such as curriculum design, and complicate transitions".

In Ghana, for example, aspects of TVET programming had been overseen by up to 18 different ministries, negatively affecting coordination. However, reporting to local press in August 2017, Ghana's minister of education announced a plan to align all TVET provision solely under the Ministry of Education. Indeed, around the world there are various success stories with regard to government reforms that can serve as blueprints.

In South Africa the establishment of the Department of Higher Education and Training (DHET) in 2009 was a key step in integrating and consolidating TVET policy, according to the OECD. Rather than dividing responsibilities between the Department of Education and the Department of Labour, the DHET now bears responsibility for an integrated "post-school" system consisting of universities, colleges, the Sector Education and Training Authority, the National Skills Fund, and regulatory bodies that oversee quality.

Increased public investment in TVET programming is also being witnessed. The Asian Development Bank notes that many economically successful countries in Asia, including Singapore and South Korea, have invested public funds in skills development as a growth strategy, and others in the region are following suit. In Indonesia, for example, vocational training is increasingly seen as a way to tackle the skills shortage, particularly in manufacturing. Airlangga Hartarto, the minister of industry, told OBG, "Our main goal is to improve workers' capabilities by developing technical skills through vocational training. The ministry is pushing for linkages between the needs of industrial development and the availability of education. Therefore, technical training and vocational schools are at the centre of our policy to develop our people's capabilities, as well as push for new entrepreneurship. The ministry runs nine vocational schools, nine polytechnics and a community college."

Rosan Roeslani, chairman of the Indonesian Chamber of Industry and Commerce (KADIN), has also observed this push. "The government has made one of its primary targets to boost vocational training education. If you look at the structure of Indonesian labour, out of 122m people, slightly more than 50% have an elementary school education, 21% have completed junior high school and about 19% have senior high school qualifications. Only 10-12% have a university background. Therefore, vocational training is important to improve workforce skills and increase competitiveness."

PUBLIC-PRIVATE PARTNERSHIPS: As highlighted by the World Economic Forum, the World Bank and markets with long-standing successful vocational training programmes, such as Germany and Austria, when government strategies directly align with and support the on-the-job training provided by private companies, economies have the most to gain. This model of cooperation is becoming more articulated around the globe.

"Both public and private institutions must collaborate, as the private sector alone should not be pushing reforms. The private sector should be responsible under the law for telling the government what work skills they require, similar to the annual consultations provided by the Sector Skills Councils in the UK," Virachai Techavijit, the chairman and founder of the private Regent's International School in Thailand, told OBG.

Efforts to reduce the supply-demand gap are under way. Governments, in conjunction with private companies, are working to equip graduates with skills to bring to the workplace. Promoting this cooperation and commitment will produce a stronger pool of talent to help economies grow throughout the 21st century.

A thoughtful revision of nationalisation policies would be expected to help increase local employment while at the same time maintain global competitiveness.

Government initiatives to incorporate vocational programmes into their national education and economic strategies have been largely well received, though further efforts to streamline oversight are often needed.

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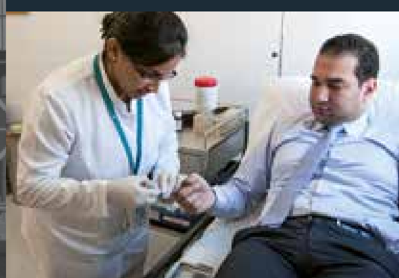
Legal Framework

Authorities work to adopt harmonised GCC tax policies

Incentives available for qualifying overseas investors

Changes to intellectual property protection framework

Expatriates subject to rises in health care service fees



Parliament is set to vote on introducing value-added tax by end-2018

Societal progress

The authorities work to support economic diversification, foreign direct investment and entrepreneurship

As one of the most democratic states in the GCC, Kuwait has an economy largely based on its petroleum wealth. The legal system has been influenced by Egyptian and French law, as well as Islamic sharia principles, though the latter apply only to family law-related matters. Although the lawmaking process was not very active in the early-mid 2010s, 2018 has brought a growing wave of legal reforms. This is largely considered to be the result of an acknowledgment that legal reforms play a pivotal role in – and are a critical constituent of – societal progress.

DEVELOPMENT AGENDA: Several factors have motivated the legal reforms outlined in Kuwait's development agenda, including:

- Global regulatory challenges, such as the OECD's action plan on base erosion and profit shifting;
- The global economic crisis;
- Oil production cuts, which led to a production deficit and highlighted the need to diversify the economy away from hydrocarbons resources;
- Political turmoil between the GCC countries; and
- Kuwait Vision 2035, which aims to make Kuwait a peerless commercial, regional, cultural and financial centre, with the private sector significantly contributing to the financial resources of the state and encouraging competitiveness.

These changes in the global, regional and national landscapes naturally create a need for comprehensive adjustments to the legal framework. These should support efforts to:

- Build a diversified and sustainable economy;
- Increase the quality of the public health care system;
- Develop and modernise infrastructure to improve domestic quality of life;
- Create jobs;
- Improve Kuwait's international standing;
- Increase transparency, accountability and efficiency in the administrative sector; and
- Attract more foreign direct investment (FDI).

The passage of Law No. 116 of 2013, known as the Kuwait Direct Investment Promotion Law or FDI Law, and its stipulated establishment of the Kuwait Direct Investment Promotion Authority (KDIPA) indicate the prioritisation of attracting FDI and local investment, as that is the objective of the legislation. The KDIPA's objectives reflect the fundamental strategic objectives of Kuwait's Vision 2035, such as Kuwaitisation – increasing the employment share of Kuwaiti nationals – in the private sector, the privatisation of various sectors and the introduction of new technology.

POLICY HARMONISATION: In line with the diversification strategy to reduce the region's dependence on hydrocarbons, member states of the GCC have agreed to introduce common indirect taxes across the bloc. All GCC countries have signed a unified value-added tax (VAT) framework agreement, under which they agreed to implement VAT and excise tax. VAT came into effect in the UAE and Saudi Arabia on January 1, 2018.

While the Kuwaiti Parliament committee has announced that Kuwait will postpone this implementation until 2021, a parliamentary vote on the introduction of VAT is expected before the end of 2018, and excise tax is expected to be implemented soon. In addition to the introduction of VAT and excise tax, a new tax on remittances made by expatriates is under debate. According to the draft law, this would see the introduction of a 1-5% tax, dependent on the level of the remittance. Furthermore, the authorities are reportedly considering an update in the income tax regime.

FOREIGN INVESTMENT: Among the changes welcomed by the international community would be a friendlier environment for non-national players. Under the current law's foreign ownership restrictions, a non-Kuwaiti entity may not establish or own a company in the country unless it has a domestic partner or partners who own at least 51% of the capital in such a company. There is an exception to this, which allows foreign investors to own up to 100% of businesses in non-restricted sectors, provided that they were issued an FDI licence by the KDIPA.

The FDI Law provides that an FDI licence may be sought for the establishment of:

- A subsidiary of a foreign company in the form of Kuwaiti joint stock companies, limited liability firms and special purpose companies;
- A branch office of a foreign company; or
- A representative office of a foreign company whose main purpose is limited to the study of markets and production.

In addition to up to 100% foreign ownership of a domestic company, the FDI Law also offers certain incentives, such as:

- Exemption from income tax or any other taxes for a period not exceeding 10 years;
- Exemption from Customs duties or any other fees that may be payable on imports of machinery and equipment and their spare parts, as well as raw materials for a period of five years;
- Permission to employ the required foreign manpower without being subject to local manpower requirements; and
- Allocation for the use of land and real estate for the investors.

LICENCE CONSIDERATION: Since the issuance of the FDI Law, the KDIPA has specified the various factors it considers when evaluating applications for FDI licences, which include but are not limited to:

- Job opportunities and training courses for Kuwaiti nationals;
- Transfer of technology and localisation;
- Support of small and medium-sized enterprises in Kuwait;
- Contribution to the diversification of Kuwait's economic base; and
- Utilisation of local suppliers of goods and services.

Decision No. 313 of 2016 – on a points-scoring mechanism for evaluating investment, licensing and granting incentives applications – was issued to describe the system to be used when the KDIPA evaluates an application for an FDI licence and corresponding to the aforementioned criteria. It concluded that the KDIPA will use a decision matrix to determine the points-scoring mechanism outcome as follows:

- If an application scores below 59%, then the application for the FDI licence incentives shall be rejected;
- If the score is above 60%, the applicant will receive only an FDI licence (and not incentives);
- If an application scores above 70%, the applicant will be entitled to receive an FDI licence, and one incentive selected by the investor; and
- Applications scoring above 80% will receive an FDI licence and will qualify to receive all incentives that are determined by the FDI Law.

Foreign direct investment licences and various incentives are offered to qualifying subsidiaries and branches

Unfortunately, there is no further guidance on exactly how the points are objectively awarded. As such, the awarding of points is assumed to be entirely within the KDIPA's discretion.

There is a two-part process for establishing a company or branch with an FDI licence: first, the foreign investor must apply to KDIPA for approval and issuance of an FDI licence. Upon receipt of the licence, the investor must carry out the standard procedures for establishing a Kuwaiti company or branch through the Ministry of Commerce and Industry (MoCI).

TAX REGIME: The corporate tax regime is governed by the Kuwaiti Income Tax Decree No. 3 of 1955 (as amended by Law No. 2 of 2008) and the Executive Bylaw issued by Ministerial Order No. 29 of 2008. Companies (wherever incorporated) that carry out trade or business in the country are subject to tax on their locally sourced profits at the rate of 15%. In practice, Kuwaiti companies and any share of profits coming from Kuwaiti or GCC nationals are not taxable in Kuwait.

Tax is imposed on the following sources of income:

- Profits realised from a contract completed (wholly or partially) in Kuwait;
- The amounts arising from the grant of a franchise to use or exploit any trademark, patent design or copyrights;
- Commissions due to or resulting from representation agreements or commercial mediation;
- Profits of the industrial and commercial business;
- Profits realised from the disposal of assets;
- Profits resulting from the purchase and sale of properties, goods and related rights;
- Profits arising from the lease of any properties; and
- Profits from the provision of services.

Taxpayers are required to file an income tax declaration with the Department of Income Tax by the


In 2015 the Kuwaiti authorities signed an intergovernmental agreement for tax compliance with the US

15th day of the fourth month following the end of the taxable period of the taxpayer.

COMPLIANCE AGREEMENTS: Kuwait has committed to implement international tax compliance and reporting standards. In light of the US Foreign Account Tax Compliance Act to combat tax evasion by US citizens, Kuwait signed an intergovernmental agreement with the US in 2015. Broadly, Kuwaiti financial institutions are required to report certain information about their US account holders to the US Internal Revenue Service.

In 2016 the authorities signed the Multilateral Competent Authority Agreement for Common Report Standards, which requires the yearly exchange of financial account information between Kuwait and other jurisdictions. Similar to the Foreign Account Tax Compliance Act, this is part of global tax transparency initiatives launched by the OECD.

CUSTOMS DUTIES: Kuwait has enacted the GCC Common Customs Law, under which goods imported into the GCC are taxed at their point of entry into the political and economic bloc. This is generally equivalent to 5% of the cost of the product plus the insurance and freight charges. Certain goods, such as tobacco products, are subject to higher rates, whereas others are exempt from Customs duty.

BANKING & CAPITAL MARKETS: Two principal authorities dominate the regulatory landscape with respect to financial matters. First, the Central Bank of Kuwait (CBK) is entrusted with the supervision of the banking system, with its supervisory authority covering a vast array of banking institutions, including:

- Conventional banks operating in Kuwait;
- Islamic banks;
- Specialised banks;
- Branches of foreign banks operating in Kuwait; and
- A number of investment and exchange companies.

Only banks licensed and regulated by the CBK are allowed to engage in domestic banking activities. In addition to the CBK's supervisory tasks and role as the monetary authority, it acts as lender of last resort to the banking sector, as well as a banker for and financial adviser to the government. The CBK issues currency and helps foster relationships with international institutions.

Responding to calls for greater regulation and transparency, the government enacted new securities laws and regulations in 2010. Law No. 7 of 2010 and Executive Bylaws for Law No. 7 of 2010 Concerning Establishment of the Capital Markets Authority (CMA) and Organisation of Securities Activity, collectively known as the Capital Markets Law, marked a complete reboot of the regulatory framework for securities and capital markets in Kuwait. The Capital Markets Law established the CMA, which regulates, develops and supervises the activities of the capital markets, with the primary objective of creating an attractive investment environment that builds investor trust. The CMA's responsibilities include:

- Regulating the marketing, offer and sale of securities;
- Regulating merger and acquisition activities;
- Disclosure of interest;
- Investment fund promotion;
- Regulating the licensing requirements for the Kuwait Stock Exchange (KSE); and
- Licensing those who operate within the KSE, such as funds, asset managers and brokers.

In addition to regulating all domestic securities activities, the CMA has issued a comprehensive set of corporate governance rules, which cover all aspects of a corporate entity, including, but not limited to, composition of the board, selection criteria of constituent members, risk management and corporate social responsibility.

To help bring Kuwait in line with international financial standards and policies, the government introduced Law No. 106 of 2013 Regarding the Combatting of Money Laundering and Financing of Terrorism, also known as the Anti-Money Laundering (AML) Law, to protect local financial institutions from being used to launder money and finance terrorism. Pursuant to the AML Law, a fully independent Financial Intelligence Unit was created to serve as the main investigative body to receive, apply for, analyse and transfer information related to suspected proceeds of money laundering or monies used to finance terrorism. In conjunction with and pursuant to the AML Law, the CBK and CMA have each issued a set of instructions or circulars with respect to AML and combatting the financing of terrorism to be followed by the entities under each of their respective auspices.

PPP: The public-private partnership (PPP) model has created significant opportunities for local and international investors to take part in financing large infrastructure projects. PPP projects in Kuwait are governed by Law No. 116 of 2014 and the executive regulations thereto, collectively known as the PPP Law. The PPP programme is administered by the Kuwait Authority for PPPs (KAPP).

The PPP Law contains provisions pertaining to the bid and selection processes, as well as the implementation of PPP projects. If a PPP project is expected to cost KD60m ($199m) or more, the PPP Law stipulates that it be implemented through a project company (PC), which falls under the following guidelines:

- It must be established and incorporated in Kuwait.
- It is to be owned and managed by the successful bidder, who is entitled to own at least 26% of the equity shares in the PC through a holding company, also known as the investor company (IC), which also must be established and incorporated in Kuwait.
- The remaining equity shares in the PC are to be owned by the Kuwaiti government at the outset.
- Part of the government's equity in the PC is to be owned by the relevant Kuwaiti governmental entities that are involved in the project in question.
- 50% of the shares in the PC are to be held by KAPP in trust on behalf of Kuwaiti citizens.

Once the project reaches the commercial operation stage, the shares held by KAPP are then distributed to Kuwaiti citizens via a public offering. The successful bidder's managerial authority over the PC is ensured pursuant to the terms of a shareholders' agreement to be entered into between the IC, KAPP and the participating governmental entities.

The PPP Law also contains provisions designed to make domestic PPP projects more attractive and bankable to international investors and contractors. Stakeholders enjoy greater certainty that their investments will yield returns through rules, regulations and procedures that allow investors to take security over project assets (except for assets deemed to be owned by the State of Kuwait, such as the land on which the project is to be implemented) and substitute investors in the event that a stakeholder fails to live up to its obligations under the project agreements.

Furthermore, the PPP Law contains an express exemption from foreign ownership restrictions while giving KAPP the authority to grant a variety of tax exemptions and incentives, all of which bring the PPP regime in Kuwait closer in alignment with prevailing international standards.

AGENCY LAW: Another important step towards the increasing liberalisation of the commercial sector's business environment came with the introduction of Law No. 13 of 2016 Regulating Commercial Agencies, also known as the Agency Law, which superseded the previous law and – along with the issuance of its executive regulations – set forth the new regulatory and legal framework of commercial agencies operating in the country.

The Agency Law became effective upon its publication in the Official Gazette and replaced the previous agency law of 1964, which was criticised as posing significant obstacles to international activity and deterring foreign players from entering the Kuwait market.


Public-private partnerships expected to cost $199m or more must be established and incorporated in Kuwait

In the application of the Agency Law, its executive regulations were issued under the Ministerial Resolution No. 565 of 2017. Furthermore, the Agency Law should be read alongside the commercial agency section of Law No. 68 of 1980 promulgating the Commercial Law.

KEY CHANGES: The most notable changes that the updated Agency Law brought can be summarised as follows:

- The scope of the definition of the commercial agency was expanded to include all agency, distributorship, franchise or licensee relationships.
- The concept of non-exclusivity was introduced, with stakeholders now permitted to appoint more than one agent or goods distributor. It also allows for the import or supply of any goods or products to not be confined to a single agent or distributor, even if that person is exclusive and even if it includes the right to use the trademark. Despite the permission of non-exclusivity, a practical issue has arisen with the Commercial Agencies Registry in the past, as the Commercial Agencies Department has sometimes not registered multiple agents for the same products. However officials in the Commercial Agencies Department have since released a statement that the concept of non-exclusivity appears to be applicable following the recent issuance of the executive regulations of the Agency Law.
- The registration requirement was reinstated, with any commercial agency that has not been entered in the Commercial Agencies Registry not considered valid and not be eligible to be heard by a court of law.
- Statutory compensation is provided in the event that a foreign principal terminates the agency

The widespread use of technology is creating a greater need for intellectual property protections

agreement without a breach on the part of the agent. Any provision to the contrary in the agency agreement would be considered null and void under Kuwait law.

- A process was outlined for the deregistration of agency agreements upon their termination by the agent, distributor, franchisee, or such a person's representative or heirs, as well as the manager of the agent or distributor company, who could submit an application to the MoCI to this effect within three months of the termination date of the agency.
- Parties to an agency agreement could opt for arbitration as a dispute-resolution mechanism for all the disputes arising thereof.

INTELLECTUAL PROPERTY: With the widespread use of technology, and as the majority of the public uses various platforms to publish their ideas, innovations, writings, designs and arts, it is becoming more important to spread knowledge and protect the intellectual property rights of such materials.

According to the World Intellectual Property Organisation, any creation of mind – such as inventions and artistic works, designs, logos, names or symbols – that are used in commerce can be defined as intellectual property. This includes three categories:

- Copyrights, such as artistic work, literary work, photography or musical productions;
- Patents, which includes any innovations and inventions; and
- Trademarks, which comprise logos, symbols or names used by commercial entities to identify their business, products or services.

Kuwait has joined a variety of conventions and adopted several laws to protect the different types of intellectual property. However, copyright and patent protection is still in its early stages in the country, as the current focus remains on trademarks.

Kuwait had previously protected trademark rights in accordance to the provisions of Commercial Law No. 68 of 1980. This was used for many years until Kuwait approved and implemented the regulations stipulated in the GCC's commercial trademark law in March 2015.

The new system regulates the protection of a trademark, from filings to the completion of registration, as well as the legal measures to protect it from any infringement or overcome a direct rejection from the trademark office. Under the previous law, if a trademark application was rejected, applicants had to appeal before the courts, but under the new system, it is possible to file a grievance objecting the rejection directly to a committee appointed by the MoCI's trademark office.

As for the general practice regarding copyrights and copyright infringement, in 2017 a department was established at the Criminal Investigation Department, which reviews cases and complaints filed for copyright infringement. The complaints must first be filed and discussed before the public prosecutor, who – if the infringement is clear – transfers the case to the Criminal Investigation Department. This newly established department will augment the domestic protection of copyrights.

Kuwait is looking to implement more laws to ensure further protection for all intellectual property matters, including patents, as the citizens are partaking in increasing numbers of technical, industrial and other projects that require protection.

HEALTH CARE: In a bid to help increase non-oil revenue and curb the rising number of expatriates and visitors who were seen to be taking advantage of the largesse of free or nominal health care charges in the country by visiting Kuwait only to receive medical treatments, the Ministry of Health (MoH) decided to increase health care service fees at public hospitals and clinics for expatriate residents and visitors

The MoH issued two ministerial decrees – Ministerial Decree No. 293 of 2017 applying to expatriate residents of Kuwait registered in the government's health insurance system and Ministerial Decree No. 294 of 2017 applying to expatriate visitors not registered in a public health insurance system – to advance these efforts.

Kuwait's health services have caused the country to gain a reputation as a kind of safe haven for expatriates. Despite the 50-500% rise in health service fees, this standing is likely to continue, as the previous prices were nominal in comparison to other countries in the region. Health services that saw an increase in applicable fees include:

- Natural child delivery;
- Open heart surgery;
- Nuclear medicines;
- Radiology tests;
- Laboratory tests; and
- Prostheses.

It is worth noting that the MoH has exempted certain categories of patients from all public health services fees. Such exemptions are applicable to the below listed categories:

- Residents of social welfare homes;
- Children of Kuwaiti women married to a foreigner;
- Children with disabilities of Kuwaiti women married to a foreigner;
- Domestic labour compound residents, as they are more vulnerable to health problems that require admission to hospital to undergo medical examinations, be operated on or be accommodated therein;
- Emergency cases of transit passengers who suffer health issues while they are at Kuwait International Airport for transit;
- All foreign prisoners;
- Residents who live in Kuwait without having the appropriate legal residency documentation but are holders of a valid identification card from the Executive Committee for Illegal Residents Affairs;
- Members of official delegations visiting Kuwait who are vulnerable to health problems;
- Scholarship students of the Ministry of Education; and
- Non-Kuwaiti children with cancer who are under the age of 12 years and who have a valid residence provided that the initial diagnosis of the disease shall have been conducted in Kuwait.

FURTHER EXEMPTIONS: In addition to the aforementioned exemptions, the MoH has freed certain categories from the fees payable for health services related to X-ray and nuclear medicine in public affiliated hospitals and health care centres. The following are included in this:

- Employees of the MoH;
- MoH employees' spouses and children who have a valid residence permit. With regards to children, their exemption is with the following caveats: The daughter of an MoH employee must not be married or employed, while the son of an MoH employee must be younger than 21, or be between 21 and 25 years of age and studying at an institute of higher learning, as well as not be employed (a certificate to this effect must be produced); and
- The children of MoH employees with impediments to legal competence.
- The non-citizen wife of a Kuwaiti national; and
- The Kuwaiti child of a non-Kuwaiti mother.

The increase of medical fees relating to expatriate residents has been a topic of controversy within parliamentarian circles and among lawmakers. The long-term effects of these price hikes remain unclear; however, this could contribute to non-oil revenue, which would positively affect the public budget and provide enhanced services offered by the public hospitals and clinics throughout the country.

MARITIME TRADE: The transport marine field constitutes a significant element of the economy due to the country's strategic geographical location. Pearl diving and fishing trades were the primary business activities until the discovery of oil, which significantly affected the relationship between Kuwait and

Employees at the Ministry of Health, along with their spouses and children, are exempt from health care fees

the rest of world. The legal field was also affected as witnessed by the issuance of the Maritime Law of Kuwait, Law No. 28 of 1980 Maritime Trade Law. The Kuwait Maritime Trade Law consists of 325 articles which deal with the following subjects:

- The vessel, such as the registration, the documents and control and the real rights on the vessel, the building of the vessel, common ownership, preference rights, marine mortgage and arresting (precautionary arrest or executive arrest);
- The persons of the vessel, such as the rights and obligations of the ship owner and the furnisher, the ship master, the crew members, the marine agent and other related individuals;
- The vessel exploitation (use), including the charter parties, the marine transport contracts, whether the cargo transport contract (bill of lading) or the person transport contracts, the tugging and piloting of the vessels;
- Marine incidents dealing with the collision, salvage and marine common losses;
- Marine insurance dealing with insurance with respect to hull and machinery, cargo, and liability insurance.

Kuwait is a signatory to the Convention for the Unification of Certain Rules of Law relating to Bills of Lading – signed in Brussels on August 25, 1924 and also known as the Hague Rules – but it is not a signatory of the protocol amending the Brussels Convention, which was created in Brussels on February 23, 1968 and is known as the Hague-Visby Rules. Likewise, it did not join the UN Convention on the Carriage of Goods by Sea – Annex I of the Final Act of the UN Conference on the Carriage of Goods by Sea – which was agreed upon in Hamburg on March 31, 1978 and is known as the Hamburg Rules.

OBG would like to thank *Al Tamimi & Co* for its contribution to THE REPORT Kuwait 2018

Alex Saleh, Partner, Al Tamimi & Co

Maximum potential

Alex Saleh, Partner, Al Tamimi & Co, on opportunities for foreign investors within public-private partnership agreements

There have been a number of improvements within Kuwait's legal system over the course of the last 25 years. Back then, we had only three significant pieces of legislation: our civil code, the commercial law and a companies' law that was already outdated for its usage. It was clear that these laws were insufficient for the requirements of modern commerce and would not provide comfort for investors, whether foreign or local.

On the foreign direct investment (FDI) front, the development of the FDI law and the establishment of the Kuwait Direct Investment Promotion Authority was a recent major legal reform that contributed significantly to the attraction of FDI. As a result, many foreign investors established 100% foreign-owned Kuwaiti entities under the FDI law.

Several new opportunities for local and foreign investors to take part in the financing of large infrastructure projects have been provided through new legislation adopted in relation to the public-private partnership (PPP) model. New PPPs remain a top priority for the state, with the Kuwait Authority for Partnership Projects announcing several large-scale projects in different sectors, such as water generation, desalination and energy, to be launched over the course of 2019. Having represented major parties on various sides of PPP projects, including the government, sponsors, consortia and project finance lenders, we have had some slight challenges in the past; however, significant progress of PPP projects seems to be afoot.

Kuwait's progressive attitude reflects on the development of the telecoms and IT sector. The recent issuance of the telecoms law and its executive regulations not only established the main regulatory and legal framework of the telecoms services, but further founded an independent telecoms regulator, the Communication and Information Technology Regulatory Authority (CITRA), to organise, supervise and control the telecoms sector. CITRA is continuously working on regulations to harmonise with international telecoms standards and cybersecurity guidelines. To this effect, CITRA is in the process of issuing new data protection guidelines within 2019, which will be in line with the European General Data Protection Regulation 2016/679.

One issue that has always been a challenge for foreign investors is the tax framework in place. Under tax laws, the taxable presence of a foreign entity is determined by whether it carries out trade or business in the country, not whether it has a permanent establishment or is registered in Kuwait. Many concerns have been raised in relation to the point at which a foreign entity is considered to be conducting business in Kuwait without having a legal presence, and as such, be subject to income tax. Although the practice of the Department of Income Tax (DIT) at the Ministry of Finance has not been very active in the recent past, this recently changed, with the DIT set to impose taxes on large multinational companies operating in Kuwait through agents or distributors.

One more notable reform that is under way and expected to change Kuwait's corporate and commercial landscape is the new proposed bankruptcy law. The current bankruptcy regime in Kuwait, governed under the commercial law, underlines the protection of creditors and puts emphasis on liquidation rather than the reorganisation of the debtor. However, the new proposed bankruptcy law, which is currently under the review of Kuwait's Department of Legal Advice and Legislation, will allow for the rehabilitation of distressed businesses instead of their shutdown.

Lastly, a new mortgage law that will give more protection to creditors is currently being prepared.

Kuwait has made a gradual transformation into an attractive, secure and business-friendly environment for foreign and local investors through the continuous development and modernisation of its laws and regulations. It is our position that over the next couple of years, Kuwait will continue its upwards trajectory and adopt reforms in each aspect of the legal system.

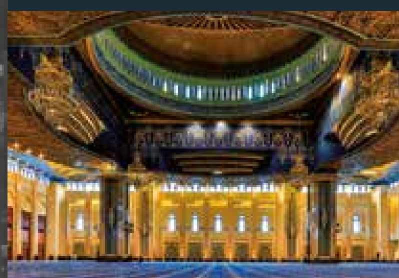
The Guide

Selection of the best hotels and accommodation

Contact numbers for important public agencies

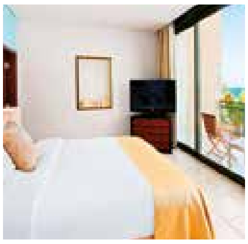
Listings for embassies and other local services

Useful tips and advice for first-time visitors

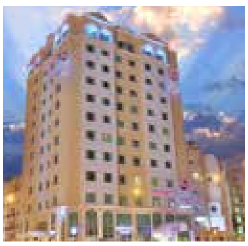



Crowne Plaza Kuwait Al Thuraya City

Kicking back


Hilton Kuwait Resort


Mövenpick Hotel Kuwait


Best Western Salmiya

CROWNE PLAZA KUWAIT AL THURAYA CITY
Farwaniya, 103 Street
Al Kuwait 81006
PO Box 18544
T: +965 1848 111 / 2474 2000
F: +965 2473 2020
www.crowneplaza.com/kuwait

Rooms: 300 rooms.
Business & Conference Facilities: 13 meeting rooms, the largest with capacity for 600 people, three ballrooms, staffed business centre and Wi-Fi.
Health & Leisure Facilities: Fitness Centre, spa and swimming pool.
Guest Services: Laundry and dry cleaning service, accessible rooms available, free Wi-Fi, wake-up calls and parking.
Dining: Ayam Zaman Lebanese Restaurant, Al Noukhaza Seafood Restaurant, Shabestan Iranian Restaurant, Sakura Japanese Restaurant, Ribeye Steak House and Silk Restaurant, an all-day dining restaurant that serves buffet breakfast, a la carte lunch and dinner.

HILTON KUWAIT RESORT
PO Box 7887, Fahaheel 64009
T: +965 2225 6222
F: +965 2225 6292
www.kuwait.hilton.com
reservations.kuwait@hilton.com

Rooms: 350 rooms and suites.
Business & Conference Facilities: Business centre with 24-hour internet, 10 meeting rooms and one ballroom with Wi-Fi and audio-visual equipment.
Health & Leisure Facilities: Two pools, spa with indoor pool, 1.7-km beach, health club, tennis courts, children's area, bike hire and shopping arcade.
Guest Services: Movie rentals, laundry, Wi-Fi, airport shuttle, car-hire and visa assistance, bidet, mini-bar and connecting rooms.
Dining: Teatro Restaurant, 24-hour room service, Palm Court, Wave Breaker, Song Bird Café, Food to Go, Naranj Restaurant, Pizza Express and Starbucks.

MÖVENPICK HOTEL KUWAIT
Free Trade Zone
PO Box 713 Safat 13008
T: +965 2461 0033
hotel.kuwait@movenpick.com

Rooms: 100 rooms.
Business & Conference Facilities: Meeting rooms, business centre and outside catering assistance.
Health & Leisure Facilities: Complimentary exercise facility, lagoon-style swimming pool, Arabian Spa which offers Moroccan beauty and skincare products.
Guest Services: Complimentary airport limousine with free Wi-Fi, free Wi-Fi in guest rooms, mini-bar, tea- and coffee-making facilities, satellite TV, in-room safe and air conditioning.
Dining: Five themed restaurants and lounges, including The Garden (Arabic Lebanese), Cuts Restaurant (South American), Al Dente (Italian) and Bays International Restaurant (buffet-style international cuisine).

BEST WESTERN SALMIYA
Block 9, Sayed Yaseen Street,
Boulevard 37, Salmiya, 556
www.bestwestern.com
T: +965 2576 1555

Rooms: 70 rooms and suites
Business & Conference Facilities: Fax and copy facilities, business centre, meeting and banquet facilities.
Health & Leisure Facilities: Wellness centre, massage services, exercise facilities, locker rooms and sports trainer.

Guest Services: Foreign currency exchange, baggage hold, 24-hour front desk, free Wi-Fi, free private parking, airport shuttle and car hire.
Dining: One on-site restaurant.

IBIS HOTEL SALMIYA KUWAIT
Salmiya Area 71 Block
8 Salem Mubarak Street
T: +965 2573 4247 / 2576 1222
F: +965 2573 4248
www.ibis.com
h5970-re@accor.com

Rooms: 179 standard rooms and eight family suites.
Business & Conference Facilities: Three meeting rooms with Wi-Fi and audio-visual equipment.
Health & Leisure Facilities: Fitness centre.
Guest Services: Laundry, airport shuttle, car hire, visa processing and currency exchange.
Dining: Moka Café, Olivo (pasta and grill) and Il Terrazzo (shisha cafe).

COSTA DEL SOL HOTEL KUWAIT
Al Shaab Al Bahari, Ibn Salam Street
PO Box 4141, Hawally 32072
T: +965 1830 083
F: +965 2266 2902
www.costadelsolhotels.net
info@costadelsolhotels.com.kw
reservations@costadelsolhotels.com.kw

Rooms: 100 rooms and suites.
Business & Conference Facilities: Six meeting rooms and a ballroom with audio-visual equipment.
Health & Leisure Facilities: Gym, specialised spa for ladies, an outdoor swimming pool and a beauty salon.
Guest Services: Room service, babysitting, car hire, 24-hour concierge, currency exchange and valet.
Dining: Olas Restaurant, Pescado Restaurant, Sukai Restaurant and Cortado Café.

FOUR SEASONS HOTEL KUWAIT AT BURJ AL SHAYA
Al Soor Street, Al Mirqab
PO Box 735, Safat 13008
T: +1 (800) 819 5053
www.fourseasons.com/kuwait/

Rooms: 284 rooms and 67 suites.
Business & Conference Facilities: Free Wi-Fi, business centre, two ballrooms and four function rooms for business and social events.
Health & Leisure Facilities: Spa with 10 treatment rooms, fitness centre, and indoor and outdoor pools.
Guest Services: Beauty salon and barber shop.
Dining: Dai Forni (Italian), Elements (Italian, Asian, Indian and Arab cuisine), Al Soor Bar and Cafe, and Al Bandar (mezze, shisha and drinks).

INN & GO KUWAIT PLAZA HOTEL
Fahad Al Salem Street
PO Box 4450, Safat 13045
T: +965 2243 6686
F: +965 2242 8169
www.innandgohotels.com
info@innandgohotels.com

Rooms: 145 rooms and five business suites.
Business & Conference Facilities: Executive lounge, high-speed Wi-Fi, meeting facilities and a ballroom for up to 250 people.
Health & Leisure Facilities: Fitness centre, indoor swimming pool, jacuzzi and sauna.
Guest Services: Airport shuttle, Wi-Fi internet, concierge, valet, laundry and dry cleaning services.
Dining: Al Dallah Restaurant, Arirang Korean Restaurant, Le Café and Triangle Café.

JUMEIRAH MESSILAH BEACH HOTEL & SPA
Al Ta'awun Street
T: +965 2226 9600
www.jumeriah.com
jmbinfo@jumeriah.com

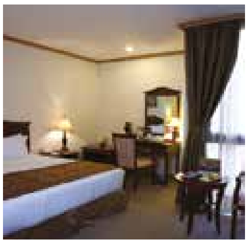
Rooms: 316 rooms and suites, 80 serviced apartments and 12 villas.
Business & Conference Facilities: Work stations, copy and fax facilities, IT facilities, and event and meeting space available.
Health & Leisure Facilities: Spa, gym, swimming pools, Sinbad's Kids Club, The Scene Teens Club, and summer water activities on the beach such as jet skiing, banana boating and parasailing.
Guest Services: Airport transfers, laundry and dry cleaning service, and concierge.
Dining: Arabesque Café and Terrace, all-day dining Garden Café, Mint Café, Olio Italian Restaurant, Pepper Steakhouse, Salt Restaurant and Tea Lounge.

SHERATON KUWAIT
Kuwait City, Fahd Al Salem Street
T: +965 2242 2055
F: +965 2244 8032
www.sheratonkuwait.com
central.kuwait@luxurycollection.com

Rooms: 300 rooms and suites.
Business & Conference Facilities: 24-hour business centre and ballrooms with audio-visual equipment.
Health & Leisure Facilities: 24-hour fitness centre, outdoor swimming pool, steam and sauna rooms and private massage available.
Guest Services: Free Wi-Fi, visa processing, airport shuttle and free shuttle to The Avenues Mall.
Dining: Le Tarbouche restaurant, Al Hambra restaurant, Riccardo Italian restaurant, Shahrayar Iranian restaurant, Bukhara restaurant, the English Tea Lounge and the Lobby Lounge.


Ibis Hotel Salmiya Kuwait


Costa Del Sol Hotel Kuwait


Inn & Go Kuwait Plaza Hotel


Jumeirah Messilah Beach Hotel & Spa

Arabic is the official language, although English is widely used and understood. It is relatively easy to get around using just English, and many business meetings are held in this language. Other widely spoken languages include Hindi, Farsi and Urdu.

Dress tends to be conservative. Many Kuwaitis wear traditional Gulf Arab attire. For women, this includes the *abaya*, a long, black cloak that covers the entire body except for the hands, feet and face, while men often wear a *dishdasha*, an ankle-length garment.

MINISTRIES

Awqaf & Islamic Affairs
2248 7225
www.islam.gov.kw
Commerce & Industry
2248 0000
www.moci.gov.kw
Communications
2481 9033
www.moc.gov.kw
Defence
2484 8300
www.mod.gov.kw
Education
2484 8586
www.moe.edu.kw
Electricity & Water
2537 1000
www.mew.gov.kw
Finance
2248 0000
www.mof.gov.kw
Foreign Affairs
2222 5555
www.mofa.gov.kw
Health
2481 0932
www.moh.gov.kw
Higher Education
1882 020
www.mohe.edu.kw
Information
2232 6000
www.media.gov.kw
Interior
2243 0500
www.moi.gov.kw
Justice
2248 6248
www.moj.gov.kw
Oil
1 858 858
www.moo.gov.kw
Public Works
2538 5520
www.mpw.gov.kw
Social Affairs & Labour
2248 0000
www.mosal.gov.kw

PUBLIC INSTITUTIONS

Central Bank of Kuwait
1814 444
Central Agency for Public Tenders
2291 0000
www.ctc.gov.kw
Kuwait Direct Investment Promotion Authority
2205 4050
www.kdipa.gov.kw
Kuwait Foundation for the Advancement of Science
2227 8100
www.kfas.org
Kuwait Fund for Arab Economic Development
2299 9000
www.kuwait-fund.org
Kuwait Institute for Scientific Research
2498 9000
www.kisr.edu.kw
Kuwait Investment Authority
2248 5600
www.kia.gov.kw
Boursa Kuwait
2299 2000
www.boursakuwait.com.kw
Public Authority for Industry
2530 2030
www.pai.gov.kw

ASSOCIATIONS

Chamber of Commerce & Industry
1 805 580
www.kuwaitchamber.org.kw
German Business Council Kuwait
info@gbc-kuwait.org

EMBASSIES

Australia
2232 2422
Bahrain
2531 8530
Belgium
2538 4513
Canada
2256 3025
China
2533 3340
Czech Republic
2252 9018
Egypt
2251 9955
France
2205 8900
Germany
2252 0827
India
2253 0600
Iran
2256 1084
Iraq
2252 0679
Japan
2530 9400
Jordan
2531 2293/4/5
Kenya
2524 3771
Lebanon
2256 2103
Morocco
2531 2980/1
Nigeria
2532 0794
Oman
2521 5870
Pakistan
2532 7649
Philippines
2252 8422
Qatar
2252 3107
Russian Federation
2256 0427/8
Saudi Arabia
2255 0021
South Africa
2561 4029
Spain
2532 5827
Syria
2539 6559
Tunisia
2252 6261
Turkey
2256 029
UAE
2252 8544
UK
2259 4320
US
2259 1001
Yemen
2534 9416

HEALTH SPA

C Club
2225 3190
Orchid (The Palms Resort)
2564 6266

NEWSPAPERS & MAGAZINES

Arab Times (English)
2481 3566
www.arabtimesonline.com
Kuwait Times (English)
2483 5616/7
news.kuwaittimes.net

LAW OFFICES

Al Tamimi & Co
2246 2253
www.tamimi.com
Abdullah Kh. Al Ayoub & Associates
2246 4321
www.al-ayoub.org

CONSULTANCY & ACCOUNTANCY SERVICES

PwC
2227 5777
www.pwc.com
Deloitte & Touche Al Fahad, Al Wazzan & Company
2240 8844
www.deloitte.com

EMERGENCY

Police, Fire & Ambulance
112
Directory Assistance
101


AQUAMARINE
Resort - Al Nuwaiseeb
منتجع أكوامارين - النويصيب

Facts for visitors

Handy tips for business travellers and tourists

ETIQUETTE: It is customary to shake hands when introducing yourself. However, it is important to allow members of the opposite sex to extend their hand to initiate the handshake. It is also not uncommon to see men greet each other with kisses on both cheeks. The dress code during business meetings is professional and conservative, and exchange of business cards is customary. If you are travelling to Kuwait during Ramadan, be advised that it is prohibited to eat, drink or smoke in public during the day.

LANGUAGE: Arabic is the official language, although English is widely used and understood. It is relatively easy to get around using just English, and many business meetings are conducted in this language. Any correspondence with government offices should be sent in Arabic. Other widely spoken languages include Hindi, Farsi, Urdu and Filipino.

VISAS: Visa conditions vary from country to country. Residents of the US, the EU, Australia and Japan can get a tourist visa on arrival or may obtain an eVisa beforehand. Residents of the GCC do not require visas. Other nationalities must acquire visas before arrival and be sponsored by a Kuwaiti firm.

CURRENCY: The Kuwaiti dinar (KD) is the official currency, and comes in denominations of 0.25, 0.5, 0.75, 1, 5, 10, 20, 250 and 500. Coins come in denominations of 5, 10, 20, 50 and 100 fils. The exchange rate was KD1:$3.29 as of November 2018. Kuwait is the only GCC state that does not peg its currency to the dollar. Exchange kiosks can be found at the airport and around town. ATMs are widely available and accept most major international bank cards.

ELECTRICITY: Outlets take a standard three-pronged UK plug. The electricity system is 220 V, 50 Hz.

COMMUNICATIONS: The international dialling code for Kuwait is +965. SIM cards are widely available for purchase at the airport as well as at stores around town. In order to purchase a SIM card you will need to have with you a valid photo ID and a current visa.

TRANSPORT: Visitors who wish to drive must have an international driving licence and purchase insurance. Travelling by taxi is generally fast and efficient, but be advised that taxis rarely use meters and when they do the price can vary significantly and rarely correspond with the fair price. The Careem app is an alternative cab service similar to Uber. Kuwait International Airport is located 15 km outside of Kuwait City. Getting to the airport from the city takes approximately 20 minutes, or 45 minutes in rush-hour traffic. The airport serves as a hub for Kuwait Airways and Jazeera Airways, which offer daily international flights. Sheikh Saad General Aviation Terminal is a temporary terminal intended to handle the increasing volume of passengers, and is reserved for flydubai flights and some private jets. It is 16 km from Kuwait City and about 5 km from Kuwait International Airport.

BUSINESS HOURS: The work week runs from Sunday to Thursday, with the weekend falling on Friday and Saturday. Working hours vary depending on the sector. Government offices tend to be open from 7.30am to 2.00pm and from 10.00am to 2.00pm during Ramadan. Private sector offices tend to keep the traditional hours of 9.00am to 5.00pm, and 10.00am to 2.00pm during Ramadan. Retail outlets open from 8.00am to 1.00pm, and again from 5.00pm to 7.00pm. Larger malls are open from 9.00am to 10.00pm.

DRESS: Many Kuwaitis wear traditional Gulf Arab attire. For women, this includes the *abaya*, a long, black cloak that covers the entire body except for the hands, feet and face. Men often wear a *dishdasha*, an ankle-length garment. Western clothing is common, but it is best to dress conservatively.

TIPPING: Tipping is left to discretion. Small tips are appreciated by baggage handlers, and petrol station and valet attendants. A 15% service charge is included for large dinners or at hotels; otherwise, 10% is appropriate. Tipping is not required with taxis.