# THE REPORT

## Kuwait 2019

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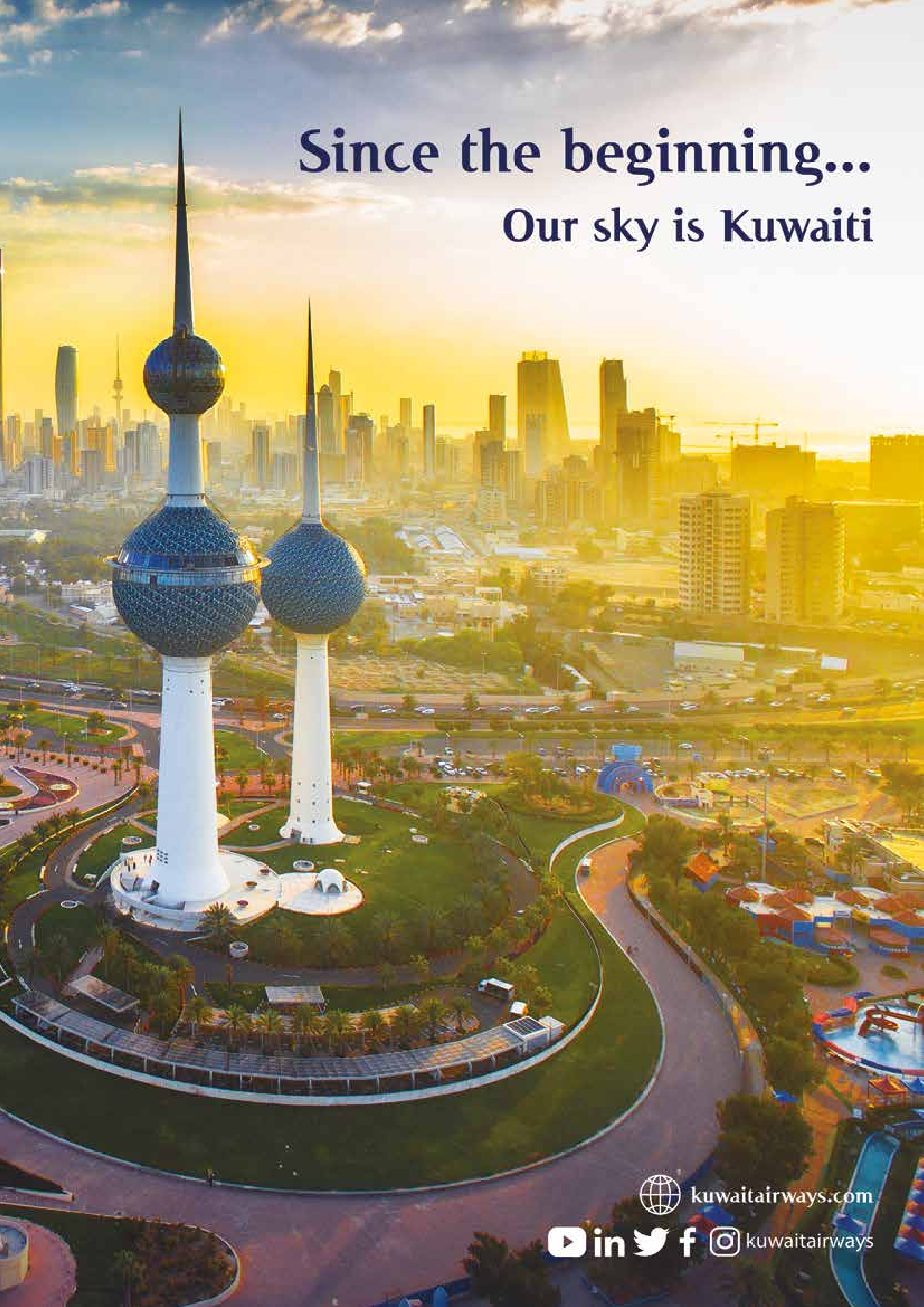

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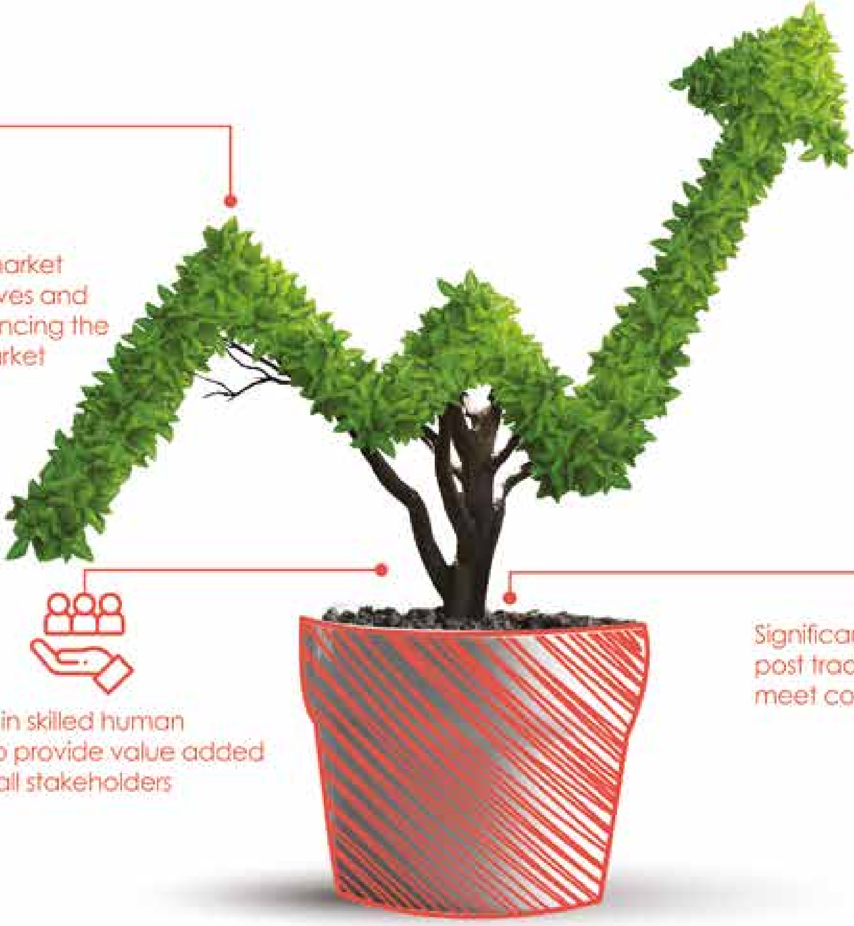
# TRANSFORMING VISION INTO REALITY, FOCUSING ON DEVELOPMENT, **THE JOURNEY CONTINUES....**

Pivotal role in Kuwait's upgrade to Emerging Market status boosting the "Kuwait Vision 2035" development strategy

An integral part of market development initiatives and instrumental in enhancing the Kuwaiti securities market



Significant development of the post trade infrastructure to meet corporate strategy goals

Investment in skilled human resources to provide value added services to all stakeholders

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# A rally year

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The country saw a return to growth in 2018, with its current account moving back into surplus territory and credit growth resuming due to ample liquidity. Public debt remains well covered, inflation close to zero and the banking sector robust. GDP expansion was around 1.8% in 2018 and is forecast at 2.5% in 2019. Although diversification efforts are under way, oil and gas continues to contribute more than 40% to GDP, and oil comprised 91% of exports in 2018.



# Expanding scope

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The New Kuwait 2035 vision aims to deploy the nation's oil wealth to diversify the economy. The private sector is vital to this, with partnerships and privatisation, improvements to the business environment and efforts to attract foreign direct investment (FDI) and harness knowledge from abroad all being key moves. Kuwait seeks to attract $200bn in FDI during 2020-35 to become a global centre for trade and finance.


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# By the book

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Kuwait's Islamic financial services (IFS) sector has expanded in recent years, building upon the country's reputation as an emerging centre for sharia-compliant banking, insurance and investment products. This is reflected by Kuwait accounting for 6.3% of the world's Islamic financial assets in the second quarter of 2018. The government has enacted a series of laws aimed at further developing IFS, and there remains strong demand for sharia-compliant products.

## ISLAMIC FINANCIAL SERVICES



## INSURANCE



## TRANSPORT & LOGISTICS



## ENERGY



## CONSTRUCTION



## REAL ESTATE



## ICT



# Wider network

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Kuwait is undergoing a major revamp of its transport and logistics networks via the air, land and marine transport development programmes within the New Kuwait 2035 vision. The country is keen to attract foreign investment and participation in this revitalisation, with the government working hard to encourage public-private partnerships and reduce bureaucratic obstacles to investment.

# Aim high

Page 100

In addition to having the sixth-largest proven oil reserves in the world, Kuwait is one of the top energy investors. A range of mega-projects are under way in refining, petrochemicals, new oilfield development and mature oilfield recovery that should see the sector lessen its dependence on crude oil exports and move to associated, higher-value outputs in pursuit of economic diversification.

# Back in action

Page 114

Major infrastructure works from roads and schools to airports and hospitals are either under way or in the design phase in Kuwait, with perhaps the most ambitious project being the 700,000-inhabitant Silk City mega-development in the north. Higher oil prices and overall economic recovery saw the construction sector grow by 3.5% year-on-year in the first quarter of 2019 to $818.2m.

# Building blocks

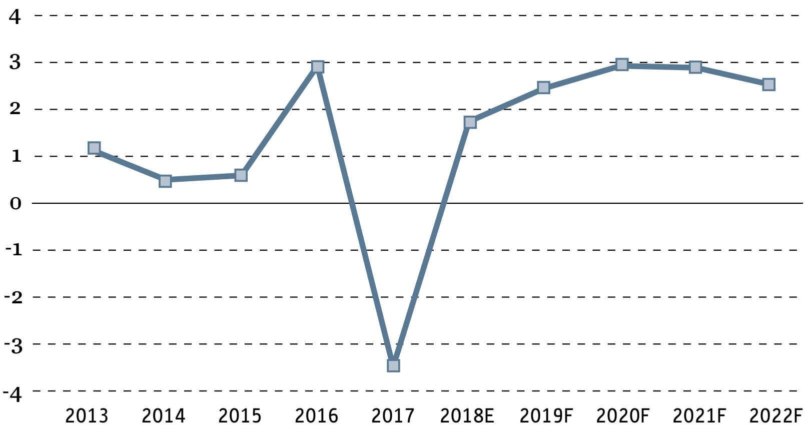
Page 142

As Kuwait works to ease its dependence on hydrocarbons, manufacturing is one of the sectors the government is looking to further develop. At the intersection of hydrocarbons and industry, petrochemicals have received considerable attention and investment. Indeed, refined petroleum products is the top industrial segment, followed by chemical products and metal products.

# Kuwait in brief

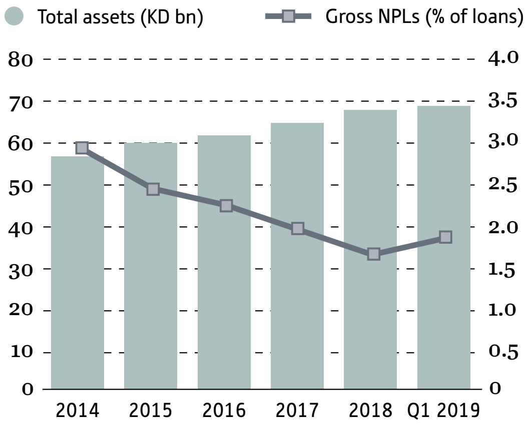
Various developments point to healthy economic performance in the near term for Kuwait. Chief among them are the upgrade of the country's stock exchange, which has been approved for inclusion in the MSCI Emerging Markets Index; the rollout of projects such as the Silk City development; major upgrades to the oil and gas downstream segment; and enhanced transport and logistics links that are set to boost added value across a variety of sectors. Furthermore, the New Kuwait 2035 vision – the country's development plan to shift to a private sector-led, knowledge-based economy – should ensure a buffer against the types of fiscal challenges associated with a volatile hydrocarbons industry.

### Real GDP growth, 2013-22F (%)



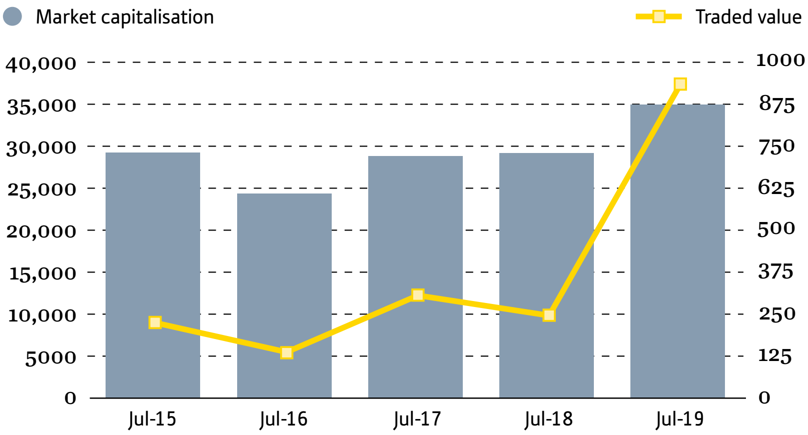

Source: IMF

### Banking indicators, 2014-19



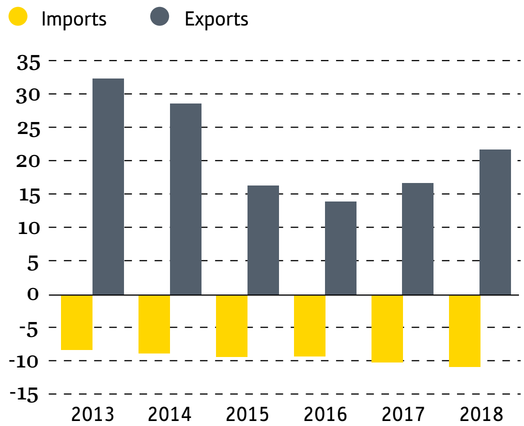

Source: CBK

### Boursa Kuwait indicators, 2015-19 (KD m)



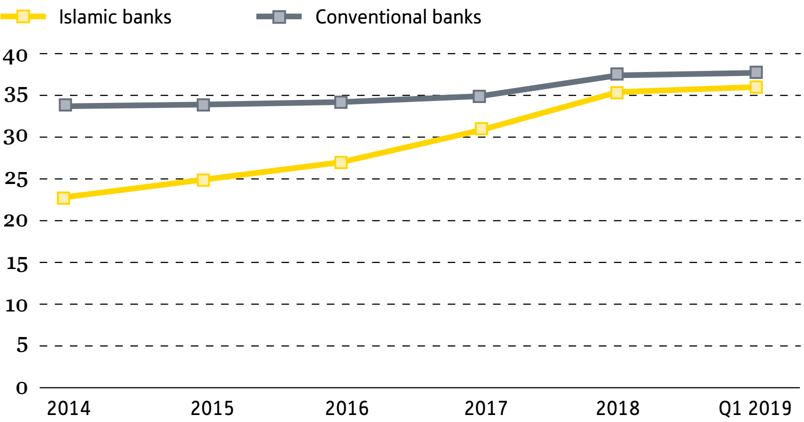

Source: Boursa Kuwait

### Trade balance, 2013-18 (KD bn)



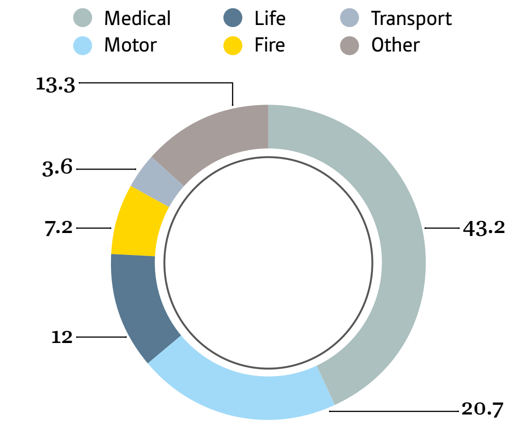

Source: CBK

### Net profit margin, 2014-19 (%)



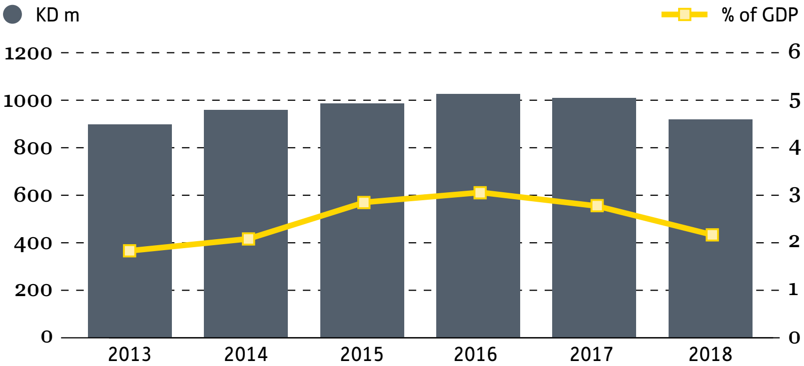

Source: CBK

### Gross written premium by line, 2018 (%)




Source: Kuwait Insurance Federation

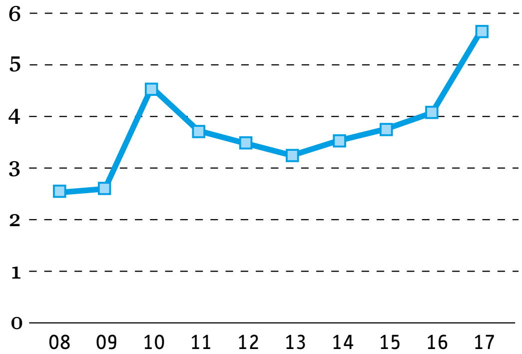
## Construction GDP*, 2013-18




Source: CSB

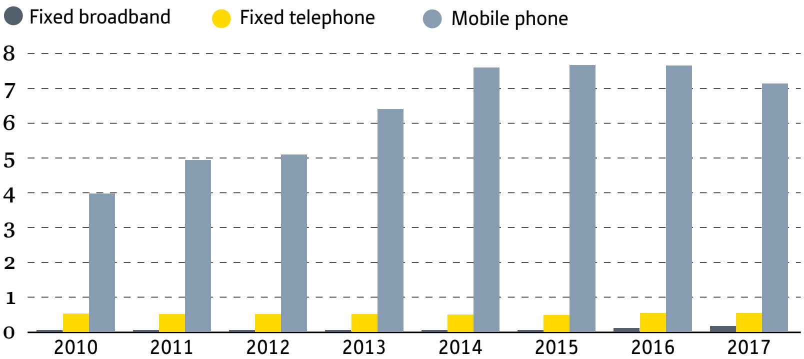
*current prices

## Air passengers, 2008-17 (m)



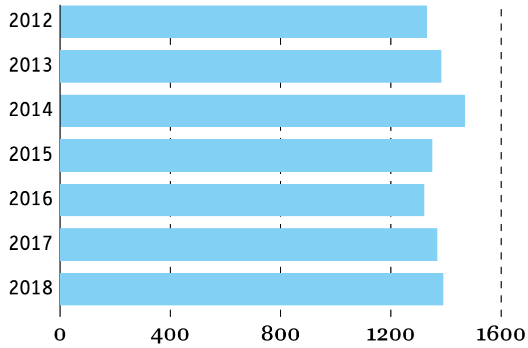

Source: World Bank

## Telecoms subscriptions, 2010-17 (m)




Source: ITU

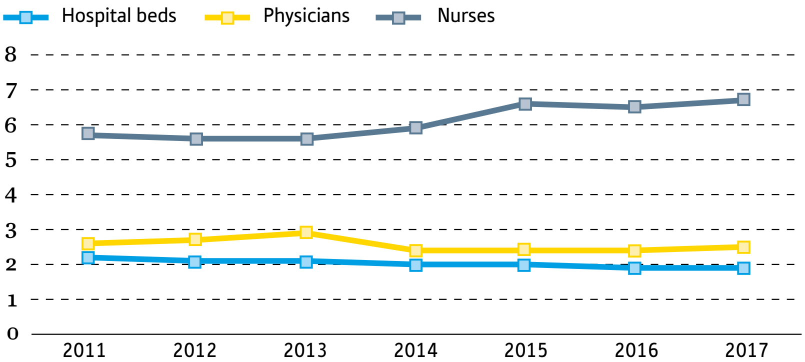
## Wholesale & retail trade, 2012-18 (KD m*)




Source: CSB

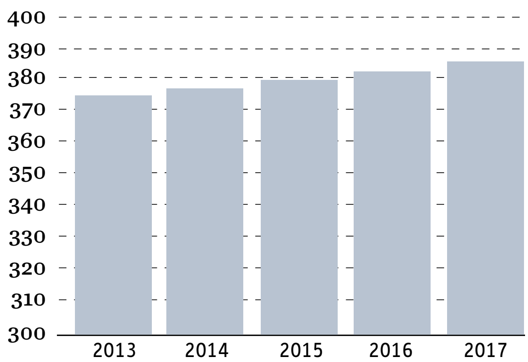
*constant 2010 prices

## Health indicators, 2011-17 (per 1000 people)



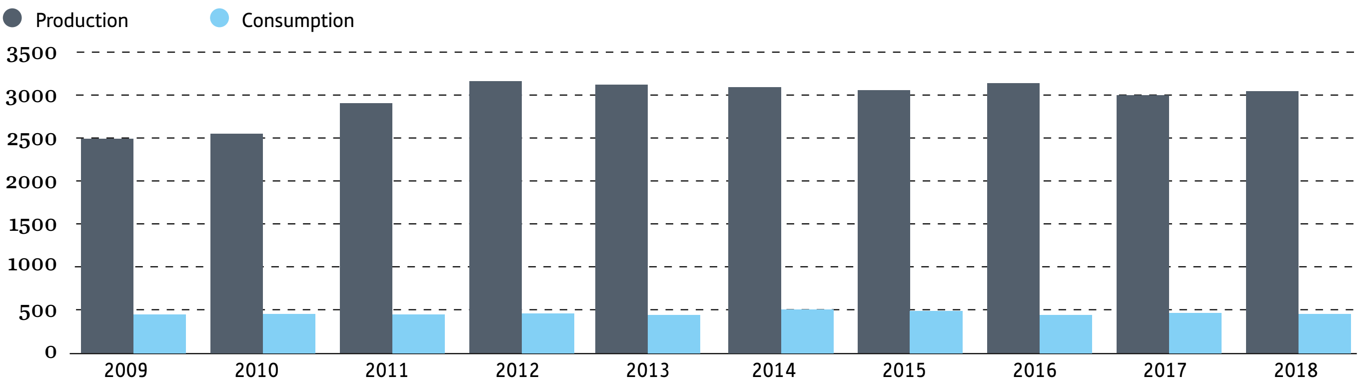

Source: CSB

## FDI in industry, 2013-17 (KD m)




Source: CSB

## Oil indicators, 2009-18 (000 bpd)




Source: BP Statistical Review of World Energy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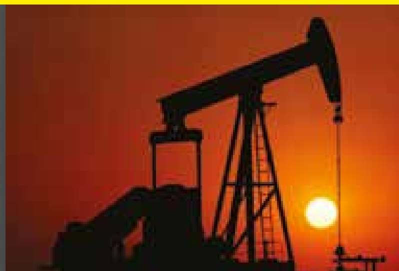
# Country Profile

New Kuwait 2035 programme to boost the private sector

Growth strengthens as infrastructure projects kick off

Urbanised population at centre of diversification plans

Substantial upgrades needed to boost oil production



The majority of settlements are located along the 500-km coastline

# Position of strength

## Efforts to diversify and shift to a knowledge-based economy encourage infrastructure development and investment

Kuwait is a constitutional sovereign state situated in the north-western corner of the Gulf, bordered by Iraq and Saudi Arabia. As a founding member of both the Organisation of the Petroleum Exporting Countries (OPEC) and the GCC, Kuwait has forged a number of strategic relationships throughout its history. Despite the rising geopolitical challenges in the region, Kuwait has largely maintained a neutral stance and worked to promote peace, which has benefitted its multilateral trade, investment and political bonds with its neighbours and the wider global community. It is arguably the most politically dynamic country in the Gulf, which has afforded it strong foundations to tackle issues surrounding parliamentary elections and accountability.

By continuing with efforts to diversify the economy and reduce its dependence on oil revenues, Kuwait is adding momentum to several large infrastructure development projects and encouraging greater levels of private sector participation and investment. Ongoing and future projects are set to further integrate Kuwait into the global economy and raise its overall competitiveness.

**DEVELOPMENT:** Kuwait's economic muscle largely comes from its substantial oil reserves, ranked as the world's sixth largest and equivalent to more than 101.5bn barrels. The government has set a production target of 4m barrels per day (bpd) by 2020 and 4.27m bpd by 2040, up from the current level of 3.15m bpd. Oil has fuelled Kuwait's development since the Second World War, and production took on a central role in the economy after it was nationalised in 1975. Oil revenue accounts for more than 60% of GDP and 95% of exports, according to statistics provided by the Central Statistical Bureau (CSB), and has contributed to decades of strong public finances and consecutive annual budget surpluses, as well as to the development of a generous welfare system that has given nationals a good quality of life.

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, global logistics company Agility and low-cost air carrier Jazeera Airways. In more recent years Kuwait has been pursuing a programme of economic diversification to jump-start expansion of the private sector via a boost in infrastructure projects and privatisation of government assets.

**NEW KUWAIT:** In January 2017 the government launched the country's national economic development plan called New Kuwait 2035, or the Kuwait National Development Plan. This programme intends to transform Kuwait into a financial, cultural and commercial hub within the Gulf through 164 strategic programmes centred on seven pillars: public administration, economy, infrastructure, the living environment, health care, human capital and global position. Each pillar has a number of strategic programmes and projects that are designed to have the greatest impact on the economy. The progress of the Kuwait National Development Plan will be tracked by key global indicators used to measure its performance compared to other countries.

Among the many priorities for this development plan are goals to expand the role of the private sector in the country's economy, incentivise more public-private partnerships, upgrade existing infrastructure, generate a support mechanism for small and medium-sized enterprises, stimulate a knowledge-based economy and provide more employment opportunities for the local population. New Kuwait 2035 is seen as a catalyst to restore the balance between the public and private sectors, as well as to accommodate the needs and demands of a growing population. Given lower oil prices seen in global markets in recent years, the initiatives outlined by the New Kuwait 2035 come at a critical time in terms

Kuwait has the

6th

largest oil reserves in the world

The New Kuwait 2035 development plan aims to expand the role of the private sector in the economy, incentivise public-private partnerships and upgrade infrastructure, among other priorities.

At the start of 2019 the population was estimated at 4.42m people

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 around 90% of government revenues in 2018.

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 approximately 90% of government revenues 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. It was in this vein that the government launched New Kuwait 2035.

In recent years economic growth has strengthened as infrastructure projects kicked off and credit recovered, according to a March 2019 report from the IMF. Much of the recent growth – as well as improving fiscal and external balances – was seen as oil prices recovered in 2017 and the first three quarters of 2018. However, falling prices in October 2018 highlighted the need for continued diversification. To encourage further expansion, there are 164 projects in the pipeline that are expected to contribute more than KD50bn ($164.7bn) in revenue. Among these key infrastructure projects are a new airport terminal, the Sheikh Jaber Al Ahmad Al Sabah Causeway, large health care and education facilities, the South Al Mutlaa housing project, the Clean Fuels Project and the Al Zour Refinery.

**POPULATION & DEMOGRAPHICS:** The CSB estimated that Kuwait had 4.42m inhabitants at the beginning of 2019. Demographic breakdowns show that expatriates comprised the majority of residents, with a population of 3.08m, while there were 1.33m Kuwaitis. Driven by the high numbers of male immigrants seeking work in the country, the Kuwaiti population is majority men, who make up 62% of the total population and 67.2% of the expatriate community. Meanwhile, the youth cohort is robust: 31.4% of inhabitants were 24 years of age or younger. With 98% of the population living in cities, Kuwait has a very high rate of urbanisation centred on the capital of Kuwait City on the coast, largely due to the somewhat extreme desert climate.

As Kuwait embraces 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.

**PARLIAMENT & POLITICS:** Agreements between the government, Parliament and opposition blocs have at times been 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

Saudi Arabia and Kuwait share a key oil-producing zone in the south

**31.4%**

of inhabitants are 24 years old or younger

assemblies, such as the ratification and vetoing of laws proposed by the executive branch. Formal inquiries and the 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.

**CHECKS & BALANCES:** Parliamentarians have historically pursued their responsibilities with conviction, which brought them into confrontation with the government in 2009, when the Parliament summoned then-Prime Minister (PM) Sheikh Nasser Al Mohammed Al Ahmad Al Sabah. Between 2009 and 2011 the Parliament forced Sheikh Nasser to resign four times; however, 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,

Kuwait aims to boost crude oil production to 4m barrels per day (bpd) by 2020 and to 4.27m bpd by 2040

effectively reinforcing the constitutional integrity of the country'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 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 a 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. The next general elections are set to be held in 2020.

**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.

Kuwait's territory includes nine islands off its coast, the largest of which is Boubyan Island, north of Kuwait City and home to Mubarak Al Kabeer Port, which is currently under development.

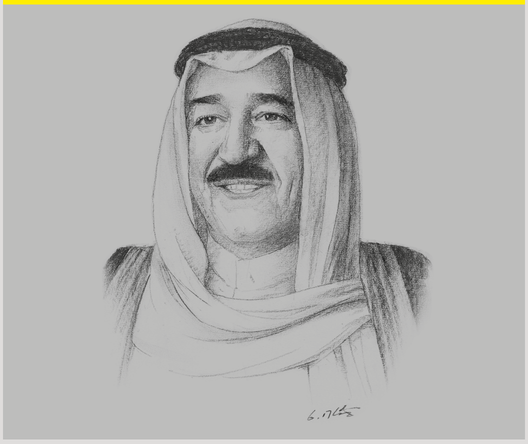
Sharia law is a primary source of legislation, but law and government regulations remain largely secular. While adherence to Islamic strictures is strict in some respects – for example, there is a total ban on alcohol – the country granted universal suffrage in 2005, and female members of Parliament were elected in 2009, 2013 and 2016.

**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 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 for nationals.

Pressure to reform the education system and align it with economic needs is increasing, resulting in a rise in popularity of international schools that offer Western curricula. Catering to the domestic market, Kuwait University remains the country's sole public higher education institution. Private tertiary institutions – including the Gulf University for Science and Technology, the American University of Kuwait, the Arab Open University, the American University of the Middle East and the Australian College of Kuwait – also cater to unmet demand.

**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 home to 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 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 cultivation. As such, 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 water needs met through the use of desalination plants.

**NATURAL RESOURCES:** While Kuwait's oil reserves are abundant, as its oilfields matured they have become harder to access. Output has tapered, putting pressure on the economy. Plans to increase production will require substantial infrastructure upgrades – a central aspect of the New Kuwait 2035 vision. Kuwait is also host to a number of cement manufacturers that use local resources, and the coastal waters support a small fishing industry.



Emir Sheikh Sabah Al Ahmed Al Jaber Al Sabah

# United front

## Emir Sheikh Sabah Al Ahmed Al Jaber Al Sabah, on the occasion of the last 10 days of Ramadan

The bitter reality of the region, its dangerous dimensions and consequences, and the developments taking place in the region call upon us to realise the current situation and circumstances, and be cautious and ready to confront them in order to protect the safety and security of our country. This will not be achieved but through cohesion and an adherence to our national unity. We assure Kuwaitis that sticking to our Gulf community and keeping the privileges that we have achieved within the framework of the GCC is the security that will enable us to face such dangers and challenges.

Our homeland is entrusted to us all, and this requires everyone to be faithful and loyal, and to work diligently, earnestly and sincerely to advance the country and push its development process towards its desired goals.

Our people should be proud of the elite position of Kuwait within the international community, with its achievements in humanitarian, relief and community work, including its active participation in the efforts that are aimed towards keeping international peace and security, and spreading the culture of both tolerance and peace.

We have to adhere to our national achievements, our firm democratic approach, which we have chosen and which is inherited by the people of Kuwait, and to our comprehensive and complementary constitution, which we always affirm and protect. We will not allow its prejudice, as it is the real guarantee of the stability of our system, the main pillar of the security of our country and a source of pride of our just and fair judicial system.

I avail this opportunity to reassure the importance of fruitful and constructive cooperation between the legislative and the executive powers to strengthen the state of institutions and rule of law, continuing the desired course of development and reform, completing the consideration of the submitted draft laws, implementing economic programmes aimed at the diversification of national sources of income, creating productive job opportunities for young people to participate in pushing forward the wheel of development, and enhancing our state's non-oil revenues.

I call on all of those in charge of the media – namely text, video and audio – to play their role consciously and responsibly. We look forward to the time when our media will be the light of civilisation, a tool to advance construction and development efforts, and a platform for responsible freedom and informed public opinion.

I have repeatedly stressed, on several occasions, that our youth are the true wealth of the nation – they have both our attention and the attention of the government, as they are the most precious part of our wealth and the best investment.

Since the first National Youth Conference in 2013 under the slogan "Kuwait Listens", the government has studied the important recommendations issued by it, accelerated their implementation and taken measures to enable our youth to develop their capabilities and skills, address their issues, and overcome the obstacles that they face.

As a follow-up to these efforts, Al Diwan Al Amiri recently launched the national youth project under the title "Kuwait is Proud", which aims to honour and nurture this promising generation, and enable them to contribute to the national responsibility of participating in the development process to build the present and future Kuwait.

We have also announced the initiative of establishing the National Centre for Innovation, through which we will develop the ideas and innovations of young people, and turn them into projects of economic feasibility for their benefit and the benefit of the country. You young people, as I have said on more than one occasion, are the source of hope.

The Belt and Road Initiative aims to enhance worldwide maritime links

# Looking east

## Enhanced cooperation and investment across a range of sectors is strengthening ties between China and the GCC

In 2018 the GCC accounted for

**27.7%**

of China's oil imports

Since 2016 there have been a number of notable joint ventures between state-owned oil companies in the GCC and China's state-owned oil firms.

With both economic diversification plans under way across the region, GCC states are seeking to bolster international trade relations and draw in foreign investment. Regional governments have found a willing partner in China, which is seeking to expand its trade and investment presence on the Eurasian continent, as demonstrated by its Belt and Road Initiative (BRI). In 2014 President Xi Jinping of China laid out a blueprint for the development of Sino-Arab cooperation, referred to as the 1+2+3 framework. Energy was identified as the first pillar of that cooperation, to be reinforced by infrastructure development and trade and finance facilitation between the parties. Capitalising on Arab states' geostrategic location between Europe, Africa and the Far East, China's long-term plans align well with those of GCC governments, as they also sustain higher demand for their oil. Although the recent slowdown of China's economy may be a source of some concern to Gulf nations, the intensification of both commercial transactions and political engagement between the parties in recent years demonstrate the deepening relationship between China and the region. Indeed, the February 2019 visit to Beijing by Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud of Saudi Arabia was the latest in a string of such visits by GCC leaders.

**OIL & GAS RELATIONSHIP:** As indicated by the 1+2+3 strategy, China's primary interest in the GCC remains its vast energy reserves, with the bloc accounting for some 27.7% of oil imports to the country in 2018. Although economic diversification plans recognise the need to move away from a dependency on oil, hydrocarbons revenue and related activities will continue to be a dominant driver of growth for GCC states in the medium term. With China replacing the US as the world's largest oil importer in 2017 and maintaining that position in 2018, its consumption has driven overall demand. As a result, expanding energy trade and enhancing Chinese investment in the GCC's energy infrastructure is likely to become more pronounced in the coming years ahead.

Growing cooperation between Saudi Arabia's national oil company, Saudi Aramco, and various Chinese state-owned oil and gas companies is a prominent example of the concerted effort both sides are making to expand the relationship. In January 2016 President Xi, Saudi Arabia's King Salman, and representatives of Saudi Aramco and the Chinese state-owned Sinopec inaugurated a giant $10bn refinery at the Saudi port city of Yanbu, which is strategically located along the so-called Maritime Silk Road connecting China to Europe. The 400,000-barrel-per-day (bpd) refinery is the second joint venture between the partners, following the 2009 launch of a 240,000-bpd refinery in China that Saudi Aramco supplies with crude. More recently, in late 2018 Saudi Aramco signed a string of agreements that could see it become China's single-largest oil supplier. Additionally, in September 2019 the company signed a memorandum of understanding (MoU) with the Zhejiang Free Trade Zone that facilitated its acquisition of a 9% stake in the zone's integrated refinery and petrochemicals complex.

In the UAE in 2017 and 2018 there were a series of agreements between the country's largest oil company Abu Dhabi National Oil Company (ADNOC) and the state-owned China National Petroleum Corporation. In those years the Chinese company acquired stakes totalling $3bn in Abu Dhabi oilfields, while also receiving the largest onshore-offshore seismic survey contract from ADNOC in March 2018, worth $1.6bn. More recently, in July 2019 ADNOC signed an agreement with the China National Offshore Oil Company (CNOOC) to partner on upstream exploration and development, oil refining, and liquefied natural gas. The agreement also opened the door to CNOOC's engineering units providing contracting and oilfield services to ADNOC.

**INFRASTRUCTURE:** Alongside China's interest in the region's energy resources, another notable trend has been the surge in Chinese investment in infrastructure mega-projects across the GCC. Drawn by the Gulf's growing consumer markets, investment-friendly environment and geostrategic location, Chinese firms have been committing hundreds of millions of dollars to such projects. As well as being a boon for local construction, Chinese investment can act as the catalyst that kick-starts diversification in the GCC at a time when government budgets are being re-evaluated.

A prominent example of this is the Chinese consortium investing in the free zone in Oman's port of Duqm. Envisaged in 2011 and boasting a prime location on the south coast of the Arabian Peninsula, the Duqm Free Zone is central to Oman's diversification plans and the focal point of Chinese investment in the country. In May 2016 a group of six Chinese firms called Wanfang Oman signed an agreement with the Duqm Special Economic Zone Authority to develop an industrial park in Duqm. The consortium plans to invest over $10bn in the park, including for a $2.3bn methanol plant, a $138m building material storage complex and an $84m vehicle assembly plant, with Wanfang breaking ground on the park in April 2018. As of December 2018 total of 10 Chinese firms signed agreements to operate in the facility.

A similar development has been under way since mid-2017 in Abu Dhabi, where Abu Dhabi Ports (ADP) signed an agreement with the Jiangsu Provincial Overseas Cooperation and Investment Company for the lease of 2.2 sq km of land in the free trade zone at Khalifa Port. The China-UAE Industrial Capacity Cooperation Industrial Park will be home to some 15 Chinese companies whose combined investment is estimated to total $1bn. The announcement came after China's Cosco Shipping Ports acquired a 35-year lease from ADP to build and operate a container terminal at Khalifa Port.

Of potentially even larger scope is China's involvement in Kuwait's $100bn Silk City mega-project, with the two countries signing a MoU to form a partnership for the initiative and the development of Kuwait's five islands in November 2018. Kuwaiti authorities hope Silk City – which will be home to a major seaport, airport and economic free zone – could become a BRI hub.

**TRADE & FINANCE:** Accompanying the growth in commercial relations have been efforts to facilitate investment and trade. Chinese financial institutions have extended their presence in the region in recent years, facilitating the exchange of currency and opening up yuan financing options. The UAE has been the at the centre of this trend. The two countries signed an MoU to establish a yuan clearing centre in the UAE during a December 2015 visit to China by Sheikh Mohammed bin Zayed Al Nahyan, the Crown Prince of Abu Dhabi, giving UAE borrowers access to yuan loans. During the same visit the People's Bank of China, the nation's central bank, and the Central Bank of the UAE renewed a three-year CNY35bn ($5.2bn) agreement to reduce the cost of currency exchange swaps by bypassing the need to convert local currency into dollars. With use of the yuan growing in the region, such deals could help position the UAE as a hub for yuan financial flows.

As of December 2018 a total of 10 Chinese companies signed agreements to operate in Oman's Duqm Free Zone, which lies on the south coast of the Arabian Peninsula.

GCC states' long-term plans put a high premium on developing local technical and scientific capabilities, both in terms of human resources and technology.

In addition, a growing number of Chinese banks and financial firms are setting up regional offices. A July 2018 visit by President Xi to Dubai saw the state-owned conglomerate Chinese Everbright Group (CEG) sign an MoU with the Dubai International Finance Centre (DIFC) to collaborate on BRI opportunities in the Middle East, Africa and South Asia (MEASA). Speaking at the signing ceremony Li Xiaopeng, chairman of CEG, cited Dubai's location and stable financial centre as strong factors. "Dubai in particular has proven to be the ideal location from which we can access the potential of the fast-growing emerging markets in the MEASA region... and we are confident that the centre's credible and enabling infrastructure will help us to build our business," he stated. Four Chinese banks and a host of other major Chinese firms have also opened offices in the DIFC.

In July 2018 the Chinese state-owned Industrial Capacity Cooperation Financial Group announced it would open an office in the Abu Dhabi Global Markets financial centre. The stated aim of the office is to provide financial services to Chinese investors in the UAE-China cooperation park at Khalifa Port and to support the internationalisation of the yuan.

**TECHNOLOGICAL COOPERATION:** GCC states' long-term plans put a high premium on developing local technical and scientific capabilities, both in terms of human resources and technology. Accordingly, China has sought to sow the seeds of future partnerships in these fields by investing early. This is particularly true in the realm of unconventional energy, in which China is a global leader. For example, Chinese authorities signed nuclear energy cooperation deals with both the UAE and Saudi Arabia in 2017 and 2018, respectively. The former, signed by China's Nuclear Safety Administration, covers information exchange and training opportunities for the UAE's Federal Authority for Nuclear Regulation, while the latter includes MoUs for nuclear fuel exploration and the development of nuclear reactor-fed desalination plants by the China National Nuclear Corporation.

China and the UAE have named green energy as one of 10 key focus points in a strategic partnership announced in July 2018. Just a month earlier China's state-owned investment fund, the Silk Road Fund, revealed it was investing in the $3.9bn Mohammed Bin Rashid Al Maktoum Solar Park in Seih Al Dahal, which is the world's largest concentrated solar project.

China has also shown an interest in Saudi Arabia's aerospace sector, signing a cooperation agreement with the Kingdom in March 2017. The deal has subsequently seen Saudi Arabia's King Abdullah University of Science and Technology develop cameras for a relay satellite mission ahead of the Chang'e-4 lunar probe and China develop a rocket that launched two Saudi satellites from a launchpad in Gansu Province in December 2018. Such agreements provide Gulf states with opportunities to develop and test their technical skills at a global level, while boosting their economic relationship with China.

# Economy

Oil and gas continues to play fundamental role

Efforts to transition to knowledge-based economy

Major investments under New Kuwait 2035 roadmap

National plan to privatise government-run entities



Some 279 projects are in the pipeline under the New Kuwait 2035 plan

# A rally year

## Plans to move to a private sector-led, knowledge-based economy and careful spending should act to buffer against fiscal challenges

**The Kuwait Investment Authority, the country's sovereign wealth fund, has around**

**$592bn**

**in assets under management**

Various developments point to healthy economic performance in the near term for Kuwait. Chief among them are the upgrade of the country's stock exchange, which has been approved for addition to the MSCI Emerging Markets Index; the continuing rollout of a large infrastructure programme; and the transition into higher value-added downstream production within the country's leading hydrocarbons industry. Meanwhile, prudent macroeconomic policies – including building one of the world's largest sovereign wealth funds (SWFs) – have helped Kuwait weather the recent downturn in oil and gas prices.

**POSITIVE PROCEEDINGS:** The country returned to growth in 2018, and its current account has moved back into surplus territory and credit growth is resuming on the back of ample liquidity. Public debt remains well covered, inflation close to zero and the banking sector robust. The state is also carrying on its programme of economic diversification, supporting a major shift from a public sector, resource-dominated economy to a private sector, knowledge-based one. The move has particular consequences for employment, too, as efforts are being made to encourage Kuwaiti nationals to establish their own businesses and create job opportunities for fellow citizens.

Foreign investment has been welcomed with these changes, as Kuwait capitalises on its strong regional and international connections to mobilise global interest. Positive sentiment for the country's overall economic health is reflected in a *Reuters* poll of Middle Eastern fund managers in June 2019. The poll concluded that Kuwait is the nation that most would consider for regional investment over the following three months, with six of the 11 managers saying they plan to increase investment in Kuwait.

**RUNNING THE SHOW:** The government is headed by Prime Minister Sheikh Jaber Al Mubarak Al Hamad Al Sabah, who was appointed by Emir Sheikh Sabah Al Ahmad Al Jaber Al Sabah in December 2011. The prime minister oversees the Council of Ministers, or Cabinet, which includes the first deputy prime minister along with the ministers of commerce and industry, finance, oil, public works, economic affairs, housing affairs, and social affairs and labour.

Key ministers from the Cabinet also sit on the Supreme Council for Planning and Development (SCPD), which includes the governor of the Central Bank of Kuwait (CBK). The SCPD has a general secretariat, currently headed by secretary-general Khaled Mahdi, while its meetings are chaired by Sheikh Nasser Sabah Al Ahmad Al Sabah, the first deputy prime minister and minister of defence. The minister of finance also chairs the board of the Kuwait Investment Authority (KIA), the country's SWF. The KIA is the world's oldest SWF, tracing its origins to 1953; it is also one of the richest. Although there are no officially published figures, the SWF Institute estimates the KIA's assets under management at $592bn. The KIA manages two funds: the General Reserve Fund (GRF) and the Future Generations Fund (FGF). The former is used as a treasury and stabilisation account, while the latter receives 10% of all state revenue and 10% of the GRF's income each year. The FGF is managed by the KIA as an intergenerational savings scheme that is separate from federal budgets.

Other key government bodies include the Kuwait Direct Investment Promotion Agency (KDIPA) and the Kuwait Authority for Partnership Projects (KAPP), which is managing the country's public-private partnership strategy. In addition, the Supreme Council for Privatisation (SCP) is in charge of rolling out the country's privatisation programme, with this being spearheaded by the sell off of a share of the country's stock exchange, Boursa Kuwait, in early 2019. Another important body is the National Fund for Small and Medium Enterprise Development, which is an independent public corporation able to finance up to 80% of the capital costs of small business projects.

Recent times have also seen an enlarged role for the Kuwait National Competitiveness Committee and the Permanent Committee for Streamlining Business Environment and Enhancing Competitiveness in the State of Kuwait, headed by the KDIPA. In cooperation with a range of other state and non-state actors, including the World Bank, these committees have been working to implement the national agenda for streamlining business environment in Kuwait, known as the Tahseen Programme.

Kuwait was ranked 97th out of 190 economies in the World Bank's "Doing Business 2019" report, one place lower compared to the previous year's index. However, the move was largely due to improvements in the regulatory environment of other countries, as Kuwait showed notable improvements in the categories of starting a business, getting electricity and protecting minority investors. There are already signs of progress moving into 2020; in a preliminary announcement for its "Doing Business 2020" report, the World Bank placed Kuwait among the top-20 economies that improved the most on the ease of doing business index score.

**ECONOMIC ACTIVITY:** Kuwait's massive oil and gas industry is state owned, with the Supreme Petroleum Council the primary government body overseeing the sector. This is headed by the prime minister and includes six cabinet ministers, six representatives of the private sector, the head of the CBK and the head of the national oil company, Kuwait Petroleum Corporation (KPC). The KPC is an umbrella organisation for a range of upstream, midstream and downstream companies, which are also all state owned (see Energy Chapter). This high-level, all-encompassing state presence underscores the fundamental role the energy sector plays in the economy. The most recent statistics from the CBK show that GDP in 2017 was KD47.4bn ($156.1bn) at current prices before bank and insurance service charges were deducted and taxes net of subsidies on products were added, bringing GDP at market value to KD42.7bn ($140.6bn). Of the former figure, oil and gas accounted for KD20.6bn ($67.8bn), or 43.5%. In 2018 Kuwait exported KD20.4bn ($67.2bn) worth of goods and services, of which 91% was oil.

Besides energy being the largest sector, state revenue is highly dependent on oil and gas because there are no personal taxes in Kuwait to help pad government coffers. Indeed, in May 2018 the government postponed plans to implement value-added tax until 2021, delaying a move that was originally planned as part of a GCC-wide introduction of the measure.

Other sectors of the economy tracked by the CBK include community, social and personal services, responsible for KD9.1bn ($30bn; 19.2%) of GDP in 2018; financial intermediaries and insurance, accounting for KD3.7bn ($12.2bn; 7.8%); real estate at KD3.66bn ($12bn; 7.7%); manufacturing, accounting for KD3.4bn ($11.2bn; 7.2%); transport, storage and communications, bringing in KD3bn ($9.9bn; 6.3%); wholesale and retail at KD1.7bn ($5.6bn; 3.6%); and

Oil and gas accounted for $67.8bn, or 43.5% of Kuwait's GDP in 2017

electricity, gas and water, responsible for KD1.1bn ($3.6bn; 2.3%). Construction, hotels and restaurants, and agriculture and fishing accounted for less than KD1bn ($3.3bn) each. The government, in part through the KIA, has also played an important role in other industries, either as a shareholder or full owner. This has led the public sector to be a key employer in the country, with more than 90% of the national labour force in state jobs.

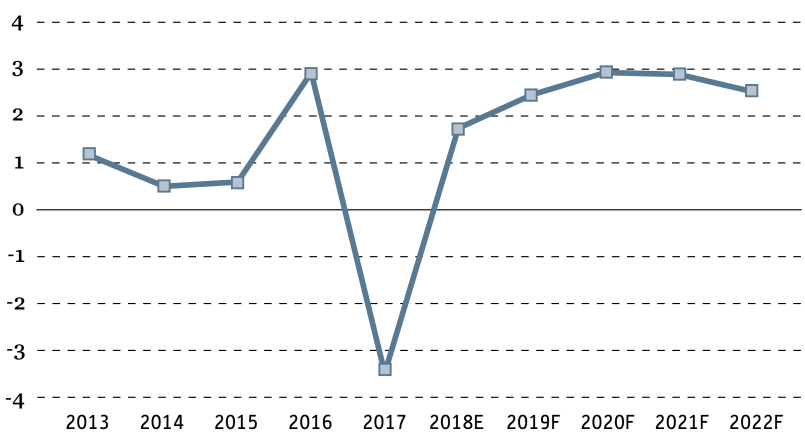
**NEW KUWAIT:** A thorough study of the current makeup of economic activity and where the government would like to steer it resulted in the long-term development plan New Kuwait 2035. Rebranded in January 2017, this plan aims to further transform the country into a cultural, financial, trading and institutional centre for the region.

With this roadmap Kuwait plans to shift from a resource-based economy to an innovation-led, knowledge economy – the path towards Smart Kuwait. Some 28 programmes and 279 projects are

GDP at current prices in 2017 was

**$156.1bn**

**Real GDP growth, 2013-22F** (%)




Source: IMF

By late 2018 around

**$60bn**

had been invested in ICT, energy, construction and housing as part of New Kuwait 2035

involved in this, with 42% in oil and gas, 22% in logistics, 11% in energy, 9% each in health and education, and 7% in small business development. By late 2018 approximately $60bn in ICT, energy, construction and housing had been invested in the plan, according to Nayef Al Hajraf, the minister of finance, while $100bn was still to come. These investments include the new Terminal 2 at Kuwait International Airport, which was under construction as of October 2019; a national railroad; additional power and water plants, as well as renewable energy plants; the Al Zour refinery and petrochemicals complex; more hospitals, health centres, colleges and university buildings; the Mubarak Al Kabeer Port; and the Silk City project.

The latter will see a city for some 700,000 people built across an area that encompasses Failaka, Boubyan Island and Subiyah, the district on the opposite side of the bay from Kuwait City. May 2019 saw a major step towards the city being realised with the opening of the Sheikh Jaber Al Ahmad Al Sabah Causeway (see Construction chapter).

While state financing is behind much of these undertakings, the KAPP and the SCP are driving a much larger role for the private sector. The KDIPA is aiming to encourage foreign businesses, in particular, to take part. Mubarak Al Kabeer Port has already attracted interest from China as part of that country's Belt and Road Initiative (see Transport chapter).

**GDP:** With the economy closely linked to oil prices, their protracted downturn beginning in mid-2014 impacted performance. GDP contracted by 2.7% year-on-year (y-o-y) in the fourth quarter of 2014, then posted y-o-y growth of 1.7% and 4% in the final quarters of 2015 and 2016, respectively. The following year recorded a y-o-y contraction of 4.3% in the last quarter, with GDP returning to growth of 0.6% in the second quarter of 2018. Growth picked up as 2018 continued, with the third quarter seeing a 2.9% y-o-y expansion. This was led by the oil sector, which grew by 3.3%, while non-oil – which includes the refining industry – increased by 2.3%. The fourth quarter of the year showed 2% growth y-o-y, while the first quarter of 2019 saw a 2.6% y-o-y expansion on the back of strong growth in the non-oil sectors. In its April 2019 Article IV report, the World Bank predicted GDP expansion of 2.5% for the year.

With oil prices being such a large determinant of GDP performance, measures are often taken to keep them in balance. As a member of the Organisation of the Petroleum Exporting Countries (OPEC), Kuwait has followed the OPEC+ agreement to cut output in order to support prices. Along with other member countries, Kuwait has overcomplied with its production cut quota, hitting 111% as of May 2019. The agreement, which helped push Kuwaiti export crude over the $70-per-barrel mark in early April 2019, was extended in July 2019 for another nine months. Abundant US shale supply and concerns over sluggish global growth have continued to suppress prices.

Nevertheless, the major investments being made in Kuwait's oil sector – particularly in the downstream segment – are expected to have an impact beginning in 2020. The Clean Fuels Project is set for completion by early that year, an initiative to increase the combined capacity of the Mina Al Ahmadi and Mina Abdullah refineries to 800,000 barrels per day. The new Al Zour refinery will then open in 2021 (see Energy chapter). These moves are set to boost added value, increasing the sector's contribution to GDP.

**FISCAL BALANCES:** Public finances, also heavily shaped by oil prices, have improved recently. The National Bank of Kuwait (NBK) predicts a budget surplus of KD800m ($2.6bn) in FY 2018/19, based on provisional data for the first 11 months, from April 2018 through March 2019. Revenues swelled from KD1.4bn ($4.6bn) to KD18.4bn ($60.6bn) over this period as Kuwait's export crude rose in value. While this was in part due to rising oil prices in 2018, a slowdown in spending factored in as well. In the first 11 months of FY 2018/19 spending was down by 5% y-o-y, despite a planned 8% increase for the fiscal year as a whole. Final full-year figures had not been released as of October 2019.

As in other GCC economies, the long period of low oil prices saw government debt rise considerably when Kuwait continued to fund programmes and subsidies despite a drop in revenue. Indeed, total gross debt rose from 3.4% of GDP in 2014 to 20.7% in 2017. However, this position has improved since, with the IMF estimating debt at 14.8% of GDP in 2018. Debt financing has been undertaken via transfers from the KIA's GRF since the Parliament blocked a new debt law in 2017. The law had proposed increasing the debt ceiling from $32bn to $82bn, and the tenor from 10 years to 30 years. While the GRF's resources are substantial, transfers are hampered by the state of liquidity of the fund's assets, with credit rating

### Economic indicators, 2019-22F

| | 2019F | 2020F | 2021F | 2022F |
|---|---|---|---|---|
| GDP, current prices (KD bn) | 41.34 | 43.17 | 45.15 | 47.09 |
| GDP per capita, current prices (KD) | 8793.91 | 8933.90 | 9090.85 | 9223.56 |
| Inflation, avg. consumer prices (% change) | 2.5 | 2.7 | 4.7 | 3.9 |
| Vol. of imports of goods & services (% change) | 3.24 | 3.58 | 3.99 | 3.65 |
| Vol. of exports of goods & services (% change) | 1.92 | 2.43 | 2.43 | 1.87 |
| Population (m) | 4.70 | 4.83 | 4.97 | 5.11 |
| General gov't revenue (KD bn) | 24.78 | 25.11 | 26.41 | 27.11 |
| General gov't revenue (% of GDP) | 59.93 | 58.17 | 58.48 | 57.57 |
| Total gov't expenditure (KD bn) | 20.83 | 21.83 | 23.12 | 24.19 |
| Total gov't expenditure (% of GDP) | 50.39 | 50.57 | 51.20 | 51.37 |
| Gov't net lending/borrowing (KD bn) | 3.95 | 3.28 | 3.29 | 2.92 |
| Gov't net lending/borrowing (% of GDP) | 9.54 | 7.60 | 7.28 | 6.20 |
| Gov't gross debt (KD bn) | 7.35 | 9.05 | 11.85 | 14.65 |
| Gov't gross debt (% of GDP) | 17.78 | 20.97 | 26.25 | 31.12 |
| Current account balance (% of GDP) | 7.45 | 8.00 | 7.98 | 6.65 |

Source: IMF World Economic Outlook, April 2019 agency Moody's estimating that only around 65% are liquid – enough to finance three years of deficits. The return to budget surplus is thus welcome, while efforts to pass a new debt law continue.

**ACROSS BORDERS:** Oil price increases lifted the current account balance back into a surplus after a deficit in 2016 – the first in two decades. The current account surplus stood at 5.9% of GDP in 2017 and 12.7% in 2018. Exports rose from KD16.7bn ($55bn) in 2017 to KD21.8bn ($71.8bn) in 2018, according to the CBK, of which non-oil exports accounted for KD1.7bn ($5.6bn) during the former year and KD2.1bn ($6.9bn) during the latter. Non-oil exports primarily comprise chemicals and machinery. Imports also rose between 2017 and 2018, although to a lesser degree: KD9bn ($29.6bn) to KD9.5bn ($31.3bn).

Furthermore, a record increase in foreign investment income was logged in 2018, reaching KD6.4bn ($21.1bn), largely due to higher returns from KIA investments. At the same time, remittances sent home by expatriates working in Kuwait fell as the number of foreigners living in the country declined. This also had a positive effect on the current account balance, with the NBK estimating remittances dropping from KD15.8bn ($52bn) in 2016 to KD12.3bn ($40.5bn) in 2017 and KD10.9bn ($35.9bn) in 2018.

Net foreign inflows to the Boursa Kuwait, for their part, have been growing, with the market the best performing in the GCC as of March 2019. Inflows are widely expected to surge in 2020, when the exchange is added to the MSCI Emerging Markets Index.

**MONEY & CREDIT:** With 2018 seeing the US Federal Reserve rate hikes impact many emerging markets negatively, the CBK was obliged to intervene during the year, raising its repo rate several times. However, the policy lending rate has been kept at 3% since March 2018, with bank lending rates consequently rising less than deposit rates. Buoyed by returning confidence and strong bank liquidity, this CBK interest rate policy helped credit growth pick up in 2018, with figures from the NBK showing credit growth of 2.3% for the whole of 2018 and 5.3% y-o-y in February 2019. Business loans were up by 6.2% y-o-y in February 2019 after a 6% rise in January. Household credit also increased, with consumer loans showing their highest growth in four years in February 2019, at 3.9%, while housing lending was up by 5.9% y-o-y.

The money supply, meanwhile, has also crept up in recent years, by 3.6% in 2016, 3.8% in 2017 and an estimated 4% in 2018, according to the NBK. This increase has had little impact on prices, however. Consumers and businesses benefit from low inflation, with the headline consumer price index (CPI) showing price climbs of less than 1% between early 2018 and early 2019. In February 2019 the CPI stood at 0.6% y-o-y, up from 0.4% in January, mainly due to a small rise in food prices. This category moved from 0% in January to 0.4% in February. Housing, for its part, is helping keep overall inflation down, with rents softening in 2018. At the same time, the Kuwaiti dinar remains stable, pegged to a basket of

Kuwaitisation has seen nationals replace expatriates in the private sector at an accelerated pace in 2019

currencies. The average rate of KD1:$3.31 remained largely constant in 2016, 2017 and 2018.

**POPULATION:** The total population of Kuwait stood at an estimated 4.42m at the start of 2019, according to the Central Statistical Bureau, with around 70% being expatriates. The latter group has been in decline in recent times, however, due to the policy of Kuwaitisation – the issuing of caps on non-Kuwaiti workers in different industries. Kuwaitisation has helped lead a decline in the unemployment rate of Kuwaiti nationals, from 5% in 2014 to 3.3% in 2016, where it remained the following year.

The push for Kuwaitisation has seen nationals replacing expatriates in the private sector accelerate in 2019. Indeed, in the first four days of May 2019 alone it was reported in local media that some 30,000 foreigners left the country. This shift has, however, been a major factor in the softening of the real estate market and slow growth in areas such as retail. Still, the years ahead will see Kuwaitisation extend further as a means to ultimately balance the population between nationals and foreigners to 50:50.

**OUTLOOK:** As the nation looks set to emerge from a trying couple of years, the need for the New Kuwait 2035 vision to be implemented is clearer than ever. Indeed, the country's plans to shift to a private sector-led, knowledge-based economy would act as a long-term buffer against the fiscal challenges it faced at the hands of a volatile hydrocarbons industry.

Such a transformation will come with challenges, however, as issues such as the role of expatriates and state privatisation plans prove contentious. Yet Kuwait has many of the tools necessary to achieve its 2035 goals, given its ample financial reserves, entrepreneurial tradition and strategic location. Moreover, the rollout of projects such as the Silk City development, major upgrades in the oil and gas downstream segment, and transport and logistics links are set to boost added value in the years ahead.

Foreign investment reached a record

**$21.1bn**

in 2018

Khaled Mahdi, Secretary-General, Supreme Council for Planning and Development

# Capitalising on potential

## Khaled Mahdi, Secretary-General, Supreme Council for Planning and Development, on competitiveness, partnerships and the importance of female empowerment

**In what specific areas is the Kuwait National Development Plan (KNDP) 2020-25 aiming to enhance the country's global competitiveness?**

**MAHDI:** Our largest sector in Kuwait – besides the oil industry – is the public sector, and we are working to restructure the government to improve its effectiveness, its operations and its delivery, thus changing its role from an operator to a regulator. As part of these efforts, we have set up the Kuwait Public Policy Centre (KPPC) to generate evidence-based policy to support the KNDP. Studying the impact of public policies on the economy is a major exercise we are engaged in. The KPPC also enhances our partnership with the rest of the world, as it will act as a knowledge hub, allowing for knowledge transfer and exchange.

Second, we are focusing on the oil sector by expanding our petrochemicals capacity, and including small and medium-sized enterprises and entrepreneurs in the oil industry supply chain. We are also improving our production efficiency and operational reliability, and delivering projects that meet the highest international standards, such as the Clean Fuels Project.

Third, the overarching theme of the KNDP is to nurture a knowledge-based economy through the introduction of blockchain, internet of things, big data and enhanced ICT infrastructure. The digital transformation of the country is key to allowing the government and businesses to fully realise their potential. By strengthening the capabilities of our institutions and individuals, we will enhance the ease of doing business.

**How is Kuwait looking to harness the full potential of public-private partnerships (PPPs)?**

**MAHDI:** In Kuwait we have a unique public-private-people partnership model. This method of wealth distribution seeks to include the private sector in the establishment of corporate entities and the privatisation process of former government assets, and ensures that PPPs do not only have an economic impact but a social one as well. It has been deployed by entities such as Warba Bank, from which every registered Kuwaiti receives shares. Likewise, the independent water and power producer Shamal Azzour allows Kuwaitis to have up to 50% of ownership in their project. In our interaction with foreign investors as part of PPPs, we are seeking knowledge rather than financial resources. To successfully transition from a rentier state to a productive one, we need to capitalise on our human, institutional and natural resources to stimulate the formation of a knowledge-based economy.

**Can you elaborate on the importance of female empowerment to the KNDP and to the overall performance of the economy?**

**MAHDI:** Female employees comprise around 57% of our civil servant workforce. However, their number in leadership positions is still small. Our goal is to have 35% of leadership positions within the government occupied by women by 2025. We believe that female empowerment is critical to the KNDP, and there are a number of economic reasons for it. Men and women should not be differentiated in the economy based on gender, but rather measured in terms of their productivity. We have adopted many programmes to facilitate this inclusion, the first being the UN's Sustainable Development Goal 5 – which focuses on women empowerment – by establishing the Women's Research and Studies Centre at the University of Kuwait (KU). The collaboration between the UN Development Programme and KU has led to the creation of a political and economic incubator for social issues surrounding women, such as violence against women, fertility issues, and economic empowerment, among others. Other efforts include launching the Kuwait Distinguished Women Award and partnering up with the Ban Ki-Moon Centre for Global Citizens to organise a seminar featuring female leaders directed towards empowering women for leadership purposes.


In 2019 the government sold a 44% stake in the national stock exchange

# Strategic sales

## Privatisation is part of a national plan to create a new economic model with reduced reliance on oil and gas revenue

February 2019 saw the government complete its sell-off of a 44% stake in Boursa Kuwait, the country's stock exchange, which is due to be followed by an initial public offering of a further 50% in late 2019. The sale followed a year of promising performance for the exchange, in addition to the June 2018 announcement that the bourse will soon be included in the main emerging markets index of global financial information provider MSCI – a move that is expected to bring approximately $2.8bn of passive fund inflows when the listing takes effect in May 2020.

**PROGRAMME PUSH:** The sale was a marker for a wider divestment programme undertaken by the government. The move will see 40 state assets privatised over the next 20-30 years, handing the private sector a considerably larger share of Kuwait's business. In February 2019 Khaled Al Roudhan, minister of commerce and industry, and minister of state for services affairs, told local media that the Boursa Kuwait sale is "a reflection of the huge strides Kuwait is taking to raise its global competitive index, improve its business climate and develop its efficiency in attracting foreign capital".

Pushing the privatisation programme through will require considerable political and administrative effort, as well as the application of sound business practices. Past sell-off plans have often stalled in Kuwait and elsewhere in the GCC. However, a new determination by the government to see the programme through is driven by the need for economic diversification away from hydrocarbons and the view that the private sector is vital to a more sustainable fiscal future.

**PRIVATISATION CYCLES:** The need to fuel economic diversification via privatisation has long been recognised in Kuwait. Indeed, the government first asked the World Bank to look into the benefits of a sell-off programme in 1996. At that time, oil prices were around $20 per barrel and had been low for approximately a decade. This created considerable fiscal pressure on the government, which in the past – as is still the case today – had a high dependency on oil revenue for its income. IMF figures show that while total government revenue amounted to an estimated 60.9% of GDP in 2018, 43.7 percentage points came from oil and gas.

Periods of sustained low oil prices put pressure on the state's ability to fund projects and provide benefits to citizens. When prices rise, then, fiscal break-even points are more easily reached and the need for diversification and privatisation eases. Thus, the initial interest in privatisation in the mid-1990s waned after 2003, when oil prices began to rise substantially, hitting a series of three-figure averages.

A similar trend was observed after 2014, when oil entered another period of sustained low prices. The "2019 BP Statistical Review of World Energy" report shows average annual spot Brent crude prices falling from $108.66 per barrel in 2013 to $98.95 in 2014 and $52.39 the following year, before bottoming out at $43.73 in 2016. This has negatively impacted the state's finances, as a budget deficit was reported for four consecutive years leading up to FY 2018/19.

In this context, the diversification and privatisation programme was revived. In 2016 the government announced that some 60% of public sector companies were earmarked for privatisation, with the private sector allowed to acquire shares of up to $9bn. Adding to this renewed commitment are signs that even though oil prices have been rising since 2018 – when Brent crude reached $85.45 per barrel in October of that year – market disruptions such as large exports of shale gas from the US, along with sluggish global growth, are keeping the nation focused on its diversification goals. Kuwait is also applying lessons learned from previous privatisation efforts, such as the unsuccessful sale of Kuwait Airways in 2013. The high cost of existing employment arrangements was cited as one reason why a deal could not be reached, as Kuwaiti parliamentarians sought to protect jobs and working practices in future privatised entities. Other hurdles included

In 2016 the government announced that **60%** of public sector companies were earmarked for privatisation

The New Kuwait Vision 2035 aims to create new private sector jobs and promote public-private partnerships

national pride over the country's flag carrier and the value of the asset proving contentious in the highly competitive Gulf aviation sector. Since then, the airline has restructured its business and purchased new aeroplanes. Political opposition has also been weakened by the need for fiscal tightening during the period of low oil prices. While the privatisation of Kuwait Airways is still some ways off, these steps have helped place it in a stronger position for a potential sale.

**EMPLOYMENT:** The New Kuwait 2035 vision, formulated in early 2017, sees privatisation as part of a wider strategy to boost the private sector's role in the economy. Policies include creating more private sector jobs, mandating the share of public sector contracts that must be given to private small and medium-sized enterprises (SMEs), boosting the application of public-private partnerships (PPPs) and pursuing the sale of state industries. The government is a major employer and the preferred career choice for many young Kuwaitis, who see the private sector as a riskier alternative with fewer benefits. As a result, only 9.6% of private sector jobs were held by Kuwaitis as of 2017. Some opponents have associated privatisation with the loss of well-paying state jobs with lifetime contracts, thus leading the government to increase mandatory quotas of Kuwaiti citizens in private sector companies – a move known as Kuwaitisation.

In March 2019 the Public Authority of Manpower announced it was finalising a plan to increase the proportion of jobs for nationals in the private sector by around 70% in 2020. Some businesses and commentators have warned against this approach, however, fearing that it will initially lead to a lower-skilled workforce, as experienced expatriates will be obligated to leave.

In March 2019 the Public Authority of Manpower announced it was finalising a plan to increase the proportion of jobs for nationals in the private sector by 70% in 2020.

At the same time, the government has been helping private businesses through initiatives such as the National Fund for SME Development, established in 2013 to support youth and ease unemployment by financing up to 80% of capital for feasible projects submitted by citizens. Creating a private sector where companies can take on tasks currently done by the state is crucial to the success of the economic shift outlined in the 2035 vision. "There has been a lot of success with this effort," Salah Eyadah, director of the foreign relations department at the Kuwait Chamber of Commerce and Industry, told OBG. "Online food delivery service Talabat and mobile accessories retailer Cavaraty are successes in the region. They show the results of the state's effort to support SMEs and move people from the public sector to the private."

**ENABLING ENVIRONMENT:** The PPP tenet of the 2035 plan is supported by the Kuwait Authority for Partnership Projects (KAPP), which was established in 2008. The KAPP has a variety of initiatives under its purview, from the proposed Kuwait National Rail Road (see Transport chapter) to the Umm Al Hayman wastewater treatment project (see Energy chapter).

The Supreme Council for Privatisation is another body key to the new economic model. "A major target of privatisation is to open the market to local and foreign business," Eyadah told OBG. "Government-owned companies in the petroleum sector have also been asked to list." Such an event would mark a major step forward in the privatisation strategy. Other government utilities, such as the North Shuaiba power plant and the fixed-line broadband network run by the Ministry of Services (formerly the Ministry of Communications, see ICT chapter), are also under review for future privatisation. Possible privatisations may also extend to the Ministry of Electricity and Water.

The coming years will see this programme continue to roll out, with a firm commitment to privatisation backed by a period of fiscal deficit and reminders of the volatility of the hydrocarbons sector. Kuwait has an entrepreneurial tradition, putting the country in a strong position to benefit from privatisation in the long term, particularly with the support of clearer strategy and partnerships with blue-chip oil and gas entities.

Public firms in the petroleum sector are under review for privatisation

Global Perspective

# Shifting trade winds

## Regional integration among emerging economies and a raft of new multilateral agreements bolster international trade

Global trade faces protectionist headwinds that are dampening the outlook for growth in the coming years. According to the World Trade Organisation (WTO), trade volumes grew by 3% in 2018 and are expected to decline slightly to 2.6% in 2019 before climbing to 3% in 2020. This may be the first time since the 2007-08 global financial crisis that growth will fall below a 3% average, as significant uncertainty driven by an escalating US-China tariff war, acrimonious Brexit negotiations, and wariness surrounding US involvement in several multilateral trade agreements affect business confidence and investment decisions.

Nevertheless, although US protectionist measures and President Donald Trump's fiery rhetoric currently dominate global headlines, trade blocs in Latin America, Asia Pacific and Africa are creating exciting new multilateral trade areas. Furthermore, several major bilateral trade agreements have been ratified or are in the pipeline and are expected to further boost trade.

**US PROTECTIONISM:** President Trump has taken an unconventional policy direction on trade, engaging in tit-for-tat tariff wars and withdrawing from major multilateral agreements like the Trans-Pacific Partnership (TPP). In trying to encourage US consumers to purchase local goods, and by imposing taxes on imports from major economic partners such as China, the EU, Canada and Mexico, President Trump's administration is challenging and overhauling the free trade policies that have governed US economic policy for decades. However, the Trump administration claims that the global trade system is unfair and prejudicial to US companies, arguing that its trading partners impose excessive tariffs on the US and steal its intellectual property.

In June 2019 Christine Lagarde, managing director of the IMF, forecast that the US-China trade war would cut global GDP by 0.5%, or around $455bn, by 2020. An ongoing tariff war between the US and China escalated during the second half of 2018 and most of 2019. As of August 2019 the US had imposed a 25% tariff on $250bn worth of Chinese imports, with plans to introduce a 10% tariff on an additional $300bn in Chinese goods the following month. China responded with tariffs on $110bn worth of US exports, including aircraft and coffee. With neither side seemingly willing to de-escalate the situation, further tariffs are expected. The US has warned of higher tariffs on additional imports if China continues to retaliate. While China does not have the ability to match US tariffs one-for-one – it imports $130bn of US goods, compared to around $500bn in exports destined for the US – it has other policy tools at its disposal. It can respond by disrupting US businesses in the country and undervaluing the yuan. In August 2019 China devalued its currency in order to offset the impact of the trade restrictions.

Trade relations between Mexico, Canada and the US have also come under strain following trade tariffs imposed during the North American Free Trade Agreement (NAFTA) renegotiations. Immediately after assuming office, President Trump threatened to exit NAFTA unless the US could renegotiate more favourable trade terms. To apply pressure, his administration imposed levies on metal imports on its North American trade partners, applying a 25% tariff on steel imports and a 10% tariff on aluminium in May 2018. EU exports also faced the same tariffs, and the bloc, along with Mexico and Canada, responded with countermeasures targeting US exports, particularly food, steel and alcohol. Renegotiation of the NAFTA agreement, which commenced in May 2017, centred on quotas, labour and procurement laws, and rules of origin. With midterm elections in the US and a change of presidency in Mexico occurring in late 2018, negotiators from the three countries signed a last-minute deal on November 30, 2018 to overhaul the agreement, thereby ending several months of uncertainty.

**NAFTA 2.0:** In August 2019 democrats in the US House of Representatives were working towards ratification of the revised pact, which has been renamed the

Global trade grew by
**3%**
in 2018

Renegotiation of the North American Free Trade Agreement commenced in May 2017, and in November 2018 the US, Canada and Mexico signed a new deal.

In March 2018, 11 countries accounting for 13.5% of global GDP signed a new agreement: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

US-Mexico-Canada Agreement. In June 2019 the revised pact was ratified by Mexico, while in Canada it received its second reading in the House of Commons. If it is ratified by the three governments, the revised agreement will be a major political victory for President Trump's administration. It is also likely to soothe economic volatility in Mexico, where President Andrés Manuel López Obrador has publicly stated he will not attempt to modify the deal. In May 2019 the US agreed to lift steel and aluminium tariffs on Canada and Mexico, removing a significant hurdle to ratifying NAFTA 2.0.

**BREXIT TROUBLES:** Across the Atlantic, Brexit negotiations between the UK and the EU face an uncertain future. With the UK unable to formally leave the economic and political bloc on March 29, 2019, Prime Minister Boris Johnson is struggling to mobilise support within his own party for a draft deal with leaders in Brussels, though he has stated he is looking to the October 2019 deadline in close discussion with his party and EU representatives on the future of a "deal or no deal" Brexit. Around 43% of the UK's global trade in 2016, worth approximately £241bn, was with the EU. Another 12% was with countries covered by the EU preferential agreements, meaning that the EU Customs Union and the Single Market together accounted for 55% of the UK's international trade.

**OPENING NEW DOORS:** Following President Trump's 2017 decision to withdraw from the TPP, parties to the original agreement have forged ahead to create a new deal. In March 2018, 11 countries accounting for 13.5% of global GDP signed a new agreement, the Comprehensive and Progressive Agreement for TPP (CPTPP). The deal constitutes the world's second-largest free trade bloc after NAFTA. The CPTPP is an umbrella agreement encompassing 18 separate free trade agreements among the member countries.

Participating nations are expected to see their economies expand by 1.7% more than they otherwise would have by 2030, according to the Peterson Institute for International Economics. The biggest winners are in Asia, with the economies of Malaysia, Singapore, Brunei Darussalam and Vietnam expected to grow by an extra 2-3% by 2030, compared to 1% or less for New Zealand, Japan, Australia, Canada, Mexico and Chile.

The conditions for activation of the CPTPP were agreed to come into effect 60 days after at least 50% of signatories ratify the agreement. The pact came into force for six initial countries, including New Zealand, Mexico, Japan, Singapore, Canada and Australia, on December 30, 2018 and for Vietnam on January 14, 2019. As of early August 2019 the four remaining nations – Brunei Darussalam, Chile, Malaysia and Peru – had yet to ratify. The signatories have left the door open to other countries interested in joining the pact, with the UK, for example, already expressing interest.

China has been focusing on the Regional Comprehensive Economic Partnership, a free trade deal involving the 10 members of the Association of South-East Asian Nations plus its six dialogue partners.

**CHINA'S OWN COURSE:** The US and China are noteworthy absentees from the CPTPP, as the latter preferred to forge its own multilateral trade pacts. China has not shown any interest in joining the CPTPP and has instead focused on another major Asia-Pacific trade partnership, the Regional Comprehensive Economic Partnership (RCEP). The RCEP is a free trade agreement involving the 10 members of the Association of South-East Asian Nations (ASEAN), plus its six dialogue partners (Australia, China, India, Japan, South Korea and New Zealand), which collectively account for 4bn people and $49.5trn in GDP. Technically an attempt to harmonise existing free trade agreements among member countries rather than a new pact, formal RCEP negotiations began in 2012 and were expected to conclude in November 2018. However, disagreements among negotiators, particularly between India and China, pushed back this timeline. India is wary of opening its economy to an influx of Chinese goods and has called for limited implementation of tariff concessions, a demand China appears willing to accept to save the pact. Once ratified, the RCEP is forecast to drive 5.1% GDP growth in ASEAN countries by 2021, as well as boost employment and facilitate technology transfer. However, as of the beginning of August 2019 both India and China looked unlikely to sign the trade deal.

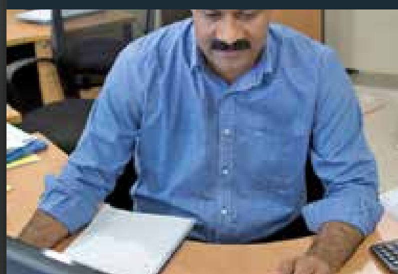
**DECADES IN THE MAKING:** Negotiations between the EU and the Mercosur group of Argentina, Uruguay, Brazil and Paraguay – the fourth-largest trading bloc in the world – had been ongoing for almost 20 years, but in June 2019 an agreement was reached. Bilateral trade between the two blocs exceeded $87.5bn in 2018, according to the European Commission. The EU is Mercosur's second-largest trade partner, accounting for 21.5% of its total, and the EU exports goods worth around $45bn to the South American bloc.

**AFRICA'S TRADE POTENTIAL:** Undermined by red tape, intra-African trade stands at less than 20% of total trade, compared to 60% for Europe and 30% for ASEAN countries. Recognising the billions of dollars of trade potential not being actualised, 44 African heads of state signed the African Continental Free Trade Area (AfCFTA) agreement in March 2018. The AfCFTA's goal is to create a single market for goods and services for the 55 African Union (AU) member countries, which have a combined GDP of $2.3trn and 1.2bn people. The AU hopes that freer trade will boost industrial capacity and investment, allowing African economies to move away from their traditional commodity export dependence. More developed industrial economies such as Egypt are hoping the AfCFTA will be a boon for local exporters in industries such as garments and other textiles. Mervat Soltan, chairperson of the Export Development Bank of Egypt, told OBG that the AfCFTA "greatly expands the opportunities for Egyptian exporters" even though they "will be under considerable pressure to meet the demand for lower prices" amid increased competition.

AfCFTA entered into force in May 2019 after 24 member states ratified the agreement through their respective parliaments and was officially launched in Niamey, Niger in July 2019. The dismantling of tariffs is expected to start in July 2020. The International Centre for Trade and Sustainable Development expects intra-African trade to increase by as much as 52% by 2022. Following the commitment to the AfCFTA made in July 2019 by Nigeria, one of the region's largest economies, the forecast looks even more likely to become a reality.

# Trade & Investment

## Efforts to leverage central location and trading history
## Privatisation offers opportunities for new investment
## Large-scale projects help drive economic diversification
## Incentives for overseas companies operating in Kuwait

Digital transformation is a key focus area under the New Kuwait 35 plan

# Expanding scope

## Improving the business environment to attract foreign investment is supporting the country's diversification drive

The nation aims to attract more than

**$200bn**

in foreign direct investment between 2020 and 2035

As a resource-rich economy, Kuwait is diligently looking to deploy its oil wealth to develop and diversify the economy. The nation aims to attract more than $200bn in foreign direct investment (FDI) between 2020 and 2035 in order to become a global centre for trade and finance. The government is taking concrete steps towards achieving its ambitions to boost private sector investment in key sectors.

**VISION 2035 & DIVERSIFICATION:** Kuwait has revisited its long-term development goals in New Kuwait 2035, a comprehensive national development plan published in 2017 that places economic diversification at the forefront of state objectives. The private sector is vital to achieving this, with active partnerships and privatisation, improvements to the business environment and attracting FDI to harness knowledge from abroad all important moves. Kuwait's third development plan, which covers the period from 2021/20 to 2025/26, emphasises private sector growth and economic diversification, two areas that are key to creating desirable job opportunities for the population.

Central to the 2035 vision is the Northern Gateway Project, which is intended to attract more than $200bn in FDI and leverage Kuwait's geographic location to better connect it with other regions. In this regard, a specific focus has been placed on incorporating Kuwait into China's Belt and Road Initiative (BRI) for global trade. This will be followed by additional development plans, with the aim of first transforming Kuwait into a knowledge economy and then into a smart economy.

Digital transformation is already under way, according to the Communication and Information Technology Regulatory Authority, which has signed memoranda of understanding (MoUs) with Microsoft and Amazon in order to support Kuwait's efforts to create smart cities, utilise artificial intelligence and cloud service governance, and up-skill citizens.

The $86bn first phase of the Silk City development envisions an international airport, rail network, industrial hub and free trade zone for Mubarak Al Kabeer Port, which was half complete as of mid-2019.

**SILK CITY:** The 250-sq-km Silk City encapsulates the ambitions of the Kuwaiti government. It is a primary recipient of investment aimed at driving economic diversification and will be a large source of job creation. The $86bn first phase envisions an international airport, rail network, industrial hub and free trade zone for Mubarak Al Kabeer Port, which was half complete as of mid-2019. Additional phases will add an Olympic stadium, the 1-km-high Mubarak Al Kabir tower and housing for up to 700,000 people.

The authorities hope to create 200,000 jobs through the project, which is scheduled to be completed around 2035. The $3.6bn Sheikh Jaber Al Ahmad Al Sabah Causeway connecting Kuwait City to the development in the northern desert area of Subiyah opened in May 2019, and it is the fourth-longest sea bridge in the world at 36 km (see Transport chapter). The plan aims to leverage Kuwait's merchant trading history and central location, bordering the major markets of Iran, Iraq and Saudi Arabia and acting as a crossroads between the Middle East and Asia, Europe and Africa.

With this vision in mind, Silk City plans to connect with China's BRI. "Kuwait's location is better than Dubai in that we are closer to Iraq, Iran, Turkey, Europe and Africa," Abdullah Al Bader, senior manager of the alternative investment department at local Dimah Capital, told OBG. "Kuwait needs a new business hub with different laws, innovative strategies, strong infrastructure and easy access for travellers and foreign companies."

Not everyone is as enthusiastic about Silk City, however. When presented with the plan in March 2019, some members of Parliament were critical of attempts to place the project beyond parliamentary oversight, believing that it would create a "state within a state". There is opposition in Parliament to the concept of Silk City in general, with members of the conservative party expressing concern that the development could lead to liberalisation in sensitive areas, such as allowing the consumption of alcohol.

Officials say that the bulk of the funding for Silk City will come from the private sector, but heightened regional tensions could dampen investor appetite. Stability in neighbouring Iraq and Iran will therefore be a key ingredient to the long-term success of the development. China and its various state-owned enterprises (SOEs) will also be involved in funding some aspects of Silk City, likely taking on a role in managing the port or an economic zone. According to Reuters, an MoU was signed in late April 2019 with China's Development Bank for development, construction and consultative cooperation.

**INWARD FDI:** Inflows of FDI into Kuwait are relatively low in comparison to the amount invested abroad by the Kuwait Investment Authority (KIA), with inflows amounting to KD155.9m ($513.5m) in 2018/19, or a cumulative FDI of KD960m ($3.2bn) between January 2015 and the end of March 2019. While these figures are not transformational, it is not the magnitude that matters to Kuwait, as the country can afford to be selective. As such, Kuwait does not in turn seek avenues of direct investment for the purposes of capital accumulation, but rather is cognizant of added value. This is reflected by the type of investments that multinational companies have made in the country in recent years. For example, General Electric established a technology training centre in Kuwait in October 2016, and in June 2019 Al Mulla Automobiles, the sole distributor of Mercedes-Benz in Kuwait, inaugurated an automotive academy and training centre. These targeted investments are aimed at increasing skills and capacity within the country. They were also linked to investments made by the KIA in these companies, effectively leveraging the nation's sovereign wealth fund (SWF) for strategic development.

In its vision for 2035 the government aims to boost FDI considerably by the end of the plan's term. One channel of FDI into Kuwait is regulated by the Kuwait Direct Investment Promotion Authority (KDIPA), which was established by Law No. 116 of 2013. This law marked a significant change in the framework for promoting FDI and grants KDIPA a wide remit. The institution's responsibilities include processing applications for new investments, promoting Kuwait at international forums, supporting the development of domestic capabilities in an effort to attract FDI, and ensuring progress in terms of technology transfer and job creation for citizens. As a result of the authorities' efforts, more than 40 foreign companies have invested in Kuwait in areas such as ICT, health, renewable energy, education and entertainment.

**INVESTMENT INCENTIVES:** The 2013 law also made a series of improvements to the investment framework and established incentives for overseas companies in Kuwait. These include allowing 100% foreign ownership of a firm operating in Kuwait in almost any sector and the establishment of 100% foreign-owned branches in Kuwait. In addition, foreign investors are permitted to set up representative offices in Kuwait, which enables them to test the market before fully committing.

The Kuwait Authority for Partnership Projects has helped launch several large-scale projects since 2015

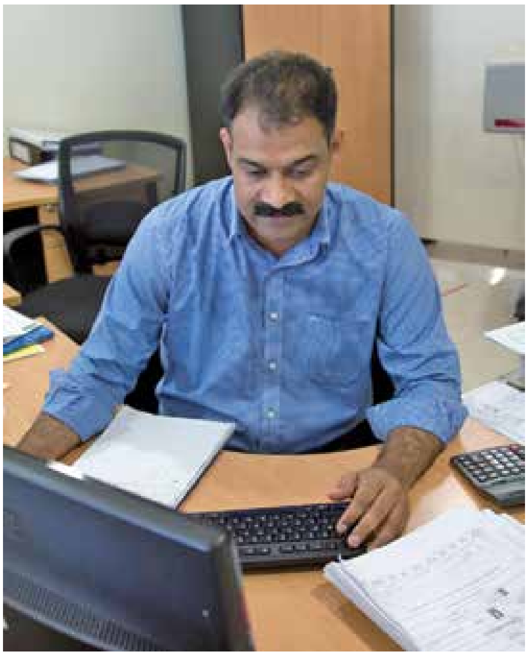
There are also a number of tax exemptions that foreign investors are able to qualify for through KDIPA, including exemption from a 15% corporation tax, and exemption from a 5% Customs tax on raw materials and construction equipment. In order to continue qualifying for these exemptions, foreign companies are required to meet the performance criteria laid out in their investment application.

The Kuwait Authority for Partnership Projects (KAPP) is another important institution supporting investment in the country by developing the public-private partnership (PPP) model. KAPP was established in 2015 following the passing of a new PPP law in 2014. Its responsibilities include assisting other government entities in developing PPP projects and identifying potential opportunities for partnerships with private investors.

In 2018 KAPP revised Kuwait's PPP Project Guidebook and helped get the $1.6bn Umm Al Hayman wastewater treatment plant to commercial close under the law, working in partnership with Germany's WTE Wassertechnik and local firm International Financial Advisors, which won the development contract. Another successful development built under the PPP model is the Al Zour North independent water and power project, which began in 2013. In the first phase of the project approximately $1.4bn worth of contracts were awarded.

Contracts for a third solid waste treatment facility located 35 km from Kuwait City have been awarded and were awaiting final approval in mid-2019 before commercial close. The project was won by a consortium of France's Constructions industrielles de la Méditerranée and Kuwait's Al Mulla Group in August 2017, and was approved by the Council of Ministers at the same time as the Umm Al Hayman plant.

There are several tax exemptions that foreign investors can qualify for, including exemption from a 15% corporation tax, and exemption from a 5% Customs tax on raw materials and construction equipment.



New regulations should help improve Kuwait's business environment

In 2019 Kuwait ranked

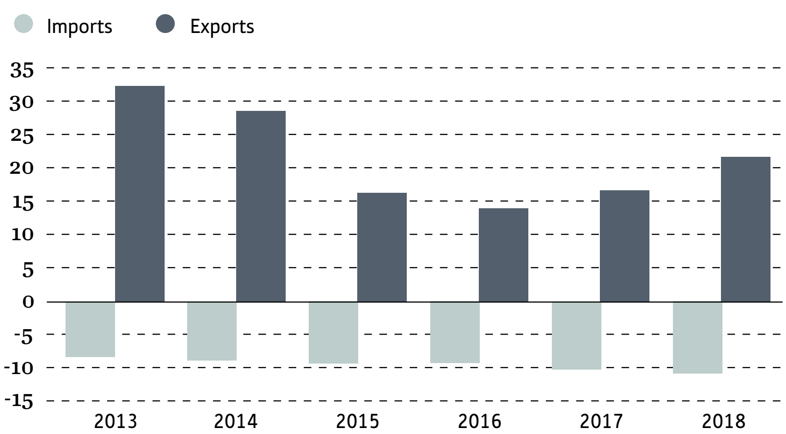
**97th**

out of 190 economies in the World Bank's ease of doing business index

The privatisation of SOEs could offer significant opportunities for investors, building on the successful privatisation of Boursa Kuwait in 2019. A number of foreign investors took up stakes in Kuwait's stock exchange, which, in addition to capital, will bring a great deal of knowledge, experience and skills to the local capital markets. Recent reform and development of capital markets in Kuwait has been extremely successful and is likely to continue in the years ahead. The exchange has already attracted significant inflows following upgrades by global equity index providers such as MSCI and FTSE Russell (see Capital Markets chapter).

**BUSINESS ENVIRONMENT:** KDIPA was established with the aim of improving Kuwait's business environment based on its position in the World Bank's annual ease of doing business index. To this end, the authority was put in charge of the Permanent Committee for Streamlining Business Environment and Enhancing Competitiveness in the State of Kuwait.

**Trade balance, 2013-18** (KD bn)




Source: CBK

Alongside its member institutions, KDIPA has coordinated efforts to improve the country's score across the index's 10 indicators.

In the 2019 iteration Kuwait ranked 97th out of 190 economies, compared to 102nd in 2017 and 96th in 2018. Kuwait performed well in the category of paying taxes (seventh), but needs to improve its trading practices in terms of time and cost (159th).

A number of developments are likely to boost the country's ranking in the years ahead. The establishment of Ci-Net, a credit information agency, should go a long way to increasing access to credit. New regulations from the Capital Markets Authority to protect minority investors, updated rules for listed companies and inclusion in global equity indices should also help support Kuwait's overall score. Teams have been incorporated into various ministries with the express objective of enacting reforms that will support the business environment. There are a number of areas where improvements are taking place, including credit access, starting new companies, property registration, construction permits and intellectual property rights. In a preliminary announcement for its "Doing Business 2020" report, the World Bank placed Kuwait among the top-20 economies that improved the most on the ease of doing business index score.

Nonetheless, there is still considerable room for improvement. "The main challenge to improving the business environment in most of the developing countries is changing the mindset of government bureaucracy," she added. "Officials must realise how each one of them plays an integral part in attaining the country's long-term development agenda. Quality training and continuous learning is crucial to ensure effective government and to achieve citizen engagement in policy-making."

**OUTWARD INVESTMENT:** The institution responsible for outward investment is the KIA, which was founded in 1953 and is the oldest SWF in the world. The institution has, to date, declined to formally report its total assets or investment strategy, but estimates from the IMF put the KIA's holdings at approximately 400% of GDP at the end of 2018, or some KD172bn ($566.5bn). According to the SWF Institute, the KIA is the fourth-largest SWF in the world, after Norway's Government Pension Fund Global, the China Investment Corporation and the Abu Dhabi Investment Authority.

The KIA oversees two investment accounts: the General Reserve Fund (GRF), established in 1953, and the Future Generations Fund (FGF), launched in 1976. The FGF is approximately twice the size of the GRF, as the government has annually deposited at least 10% of state revenue in the former since its creation. Meanwhile, the GRF receives all government revenue, and is used to transfer payments to the FGF and other state accounts as needed. An estimated 80% of assets in the GRF are held in cash, and the remaining 20% are invested in short- and medium-term assets in Kuwait and the MENA region.

# OUR PERSPECTIVE

At The Public Institution For Social Security, one of our main strategies is to include all citizens eligible within the security system both inside and outside of the country, especially because its founding principles belong to the people. Since the Institution is the sole pension system in Kuwait, and has made major contributions to the growth of the local economy, we strongly believe that we are entrusted with a responsibility to consistently embrace a culture of an ever-evolving and challenging global environment with efficiency and the capabilities of staff

# A SECURE FUTURE

المؤسسة العامة للتأمينات الاجتماعية

**The Public Institution For Social Security**

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In 2018 oil exports generated $64.9bn, representing approximately 90% of the country's total exports

The FGF invests 100% of its holdings overseas, targeting long-term assets across diversified geographies and asset classes. By law, funds cannot be withdrawn from 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 to fund rebuilding. According to the Central Bank of Kuwait (CBK), direct investment abroad totalled KD1.1bn ($3.7bn) that year, down by 58% from KD2.7bn ($8.9bn) in 2017.

Not passing a new debt law in mid-2019 has implications for the different funds within the KIA. The old debt law expired in 2017, and Parliament could not agree to increase borrowing when the money would simply go into the SWF to be invested at a lower return than the cost of borrowing. The government has therefore been unable to issue debt since October 2017, and sizeable fiscal deficits are expected once transfers to the FGF and investment income are deducted. It is likely that a deficit will be financed by drawing on the GRF. The IMF estimates that the GRF has the equivalent of 54% of GDP in assets for FY 2019/20, thus there are plenty of resources in place to finance a deficit. However, this amount could fall in the coming years.

Kuwait is strengthening the framework for overseeing these important national wealth funds. An asset-liability committee was created in 2018, which includes the Ministry of Finance, the CBK, the KIA and the Kuwait Petroleum Corporation. According to the IMF, this will improve coordination and help form a more systematic view of asset-liability management, weighing the costs and benefits of borrowing and investment, including the implications on GRF liquidity buffers, central bank reserves, domestic liquidity and debt market development. In this regard, publishing an issuance calendar and moving to market-based auctions to allow for price discovery is likely to help deepen debt markets.

Kuwait had a trade surplus of

**$40.8bn**

in 2018

**TRADE:** Oil is Kuwait's main product export and it dominates the trade accounts. In 2018 the nation sold some KD19.7bn ($64.9bn) of the commodity, which represented 90% of total exports. In addition to crude oil, exports include a number of oil-related products, such as petrochemicals, as well as some non-oil exports, such as motor vehicles, telecommunications hardware and live animals.

Kuwait's domestic production capacity is limited, and the country imports a significant percentage of products consumed by the local population, although the amounts are still small relative to oil exports. In 2018 product imports totalled KD9.5bn ($31.3bn), mainly comprising motor vehicles, mobile phones, pharmaceuticals, cigarettes, jewellery, gold, oil-drilling equipment and food. Overall, Kuwait's trade balance has matched the evolution of oil prices, rising to a peak surplus of KD27bn ($88.9bn) in 2012 before plunging to KD6bn ($19.8bn) in 2016 and then climbing to KD12.4bn ($40.8bn) in 2018.

Boosting trade – specifically non-crude oil trade – is one of the key objectives of the New Kuwait 2035 vision through positioning the country as a global centre for the petrochemicals industry, as well as for trade more generally. To build the foundations for this ambition, Kuwait is investing heavily in infrastructure to encourage trade, with multiple new ports and airports under construction.

**OUTLOOK:** Kuwait has shown its commitment to the long-term goal of creating a supportive and attractive environment for trade and investment to drive economic diversification for a more sustainable future. With major projects in the pipeline supported by foreign investors, a healthy number of companies already active in the Kuwaiti market, the desire to integrate with global trade routes and ample financial resources at the state's disposal, the outlook for trade and investment appears positive barring another period of sustained low oil prices.

Boosting trade is one of the main aims of the New Kuwait 2035 vision

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

# Coordinated efforts

## Sheikh Meshaal Jaber Al Sabah, Director-General, Kuwait Direct Investment Promotion Authority (KDIPA), on facilitating foreign investment, business and innovation

**To what extent is foreign direct investment being attracted in line with the New Kuwait 2035 vision?**

**AL SABAH:** Kuwait has always been an open market, forging strong economic and commercial relationships to integrate it in the global market, as reflected in Law No. 116 of 2013 for the promotion of direct investment into Kuwait. In full alignment with the New Kuwait 2035 vision, KDIPA's operational strategy and promotional activities aim to attract added value investments. In November 2017 KDIPA enhanced its outreach programme by launching the "Kuwait Investment Outreach Roadshow" in London. A second roadshow was held in Silicon Valley in November 2018 and a third in Singapore is scheduled for 2019. There have been positive developments as Kuwait enters the third phase of its NDP. For example, FTSE Russell, Standard & Poor's and MSCI upgraded the Kuwait Stock Exchange to emerging market status. This development reflects the increased attractiveness of Kuwait's capital markets, strong investment opportunities and ongoing project pipelines in various sectors.

**How is coordination being enhanced across government agencies to facilitate the ease of doing business for foreign investors?**

**AL SABAH:** KDIPA heads the Permanent Committee for Streamlining Business Environment and Enhancing Competitiveness in the State of Kuwait (PCK), which was established by the Council of Ministers Decision No. 1551 in December 2013. Other members of PCK include representatives from the government, the private sector and civil society organisations. The committee aims to coordinate national efforts to improve the business environment. KDIPA launched an indicator-based reform with the hope of achieving further improvements in the country's overall performance. Under this initiative, the first and second national reform agenda were developed and dubbed the Tahseen Programme 1 and 2. KDIPA also launched the Tahseen Portal to give the public access to government reports and presentations in a bid to improve transparency. These efforts resulted in enhanced engagement by the authorities in their area of specialisation. In turn, this triggered several regulatory and legal reforms aimed at reducing the number of procedures, duration and cost for starting a business, registering property, protecting minority investors and getting credit. In the "Doing Business 2020" report, the World Bank identified Kuwait as one of the top-20 improvers out of 190 economies. According to the report, Kuwait has enhanced business reforms in six components: starting a business, getting electricity, registering property, getting credit, protecting minority investors and trading across borders.

Additionally, KDIPA developed its investment facilitation model in accordance with international principles to provide continuous support and aftercare to investors entering the market. This includes establishing designated account managers, an online investors service centre, a mechanism to address complaints and suggestions, and an investors' grievances committee.

**What steps is KDIPA taking to support the country's transition towards an economy more focused on innovation and sustainability?**

**AL SABAH:** KDIPA initiated a national project to prepare a study called "Enhancing the Competitiveness of Kuwait in International Indices: Engine for Transformation into Knowledge and Innovation-Based Economy", in partnership with the Kuwait Institute for Scientific Research. The project ultimately aims to propose a national roadmap aimed at transitioning Kuwait towards an innovation-driven economy. Phases I and II of this project have been completed, and KDIPA is in the process of finalising Phase III, which comprises a coherent strategy that sets priorities, identifies policies, and develops programmes aimed at facilitating sustained inclusive growth and competitiveness in order to achieve socio-economic development goals.

Meshal Alothman, Director-General, Public Institution for Social Security

# Expanding services

## Meshal Alothman, Director-General, Public Institution for Social Security (PIFSS), on securing long-term industry growth

**What role has technology played in improving the social security system, increasing penetration and enhancing the delivery of services?**

**ALOTHMAN:** PIFSS was a pioneer in the Arab world in computerising its systems and processes. We started by working on a system that archived all documents, which could then be easily retrieved from any PC, ensuring seamless transactions for our customers across all branches. Internally, PIFSS began improving processes by using business process management tools, a type of software that offers paperless workflow-enhancing solutions and features intelligent tools that enable greater efficiency in the workplace. We also started a business intelligence initiative in response to high demand for corporate performance management and actionable analytics for financial and actuarial needs. At the same time, we created a system for GCC employees working in Kuwait that facilitates communication with other GCC insurance institutions.

In order to help reduce clients' and employers' visits to PIFSS branches, we implemented a number of online services, including client e-services, which allow people to check their personal information and apply for documents; employer e-services; KNET online payments; finance, transfers and legal case management; and government-to-government services. PIFSS aims to roll out more services during the coming phases, including the newly developed and released mobile app for iOS and Android.

**In what ways is the country's broadening its product portfolio to Kuwaitis, and how is PIFSS enabling this expansion?**

**ALOTHMAN:** The safety net is the responsibility of the state. It is not limited to the social security system, but extends to health insurance and primary care, social welfare, social security, and social insurance. Part of PIFSS' strategy is to expand its services to all citizens subject to the security system, whether inside or outside Kuwait. The comprehensive implementation and expansion of the pension system, as reflected in the Extension of Insurance Protection Law for Kuwaitis working in the GCC and abroad, is one of our main objectives.

**How has PIFSS been able to maintain a balance between its local investments and its participation in investment schemes?**

**ALOTHMAN:** PIFSS is an institutional investor with a large exposure to global markets, as well as a significant exposure in Kuwait. The institution is the only pension scheme in the country and one of the key contributors to the development of the local economy. As the second-largest shareholder in the local equity market, PIFSS has a social responsibility towards its community and country. We follow a detailed asset allocation strategy, and approach markets based on size and breadth, focusing on the best investment managers globally and across all asset classes. According to the strategy, seeking country-specific investment restricts the scope of finding the best investment opportunities and may affect returns. Therefore, PIFSS follows a regional approach that allows more flexibility for global asset managers to seek value and opportunities on both the macro and micro level.

**To what extent is competitiveness key to the Kuwaiti social security system?**

**ALOTHMAN:** Paying into the social security system offered by PIFSS is mandatory for every Kuwaiti citizen in the labour force, and the laws that govern the system set the amount. While competitiveness is not a key commercial factor to the social security system, service quality is. We currently serve over 500,000 individuals, which makes us one of the biggest service providers of any sector in Kuwait.

Global Perspective

# Global village

## Medium-term prospects suggest globalisation is set to continue for the foreseeable future

Decades of growth in trade and foreign investment have made the economies of the world more interdependent than ever before. The production of goods and, increasingly, the provision of services has become fractured across borders as corporations integrate into regional and global value chains – a process reinforced by international trade and investment regimes. On aggregate, advanced economies have benefitted from these changes, while emerging markets have become the main drivers of growth around the world. However, recent years have seen a new scepticism towards globalisation emerge, alongside more protectionist policies that could threaten this global economic landscape.

**POLITICAL FALLOUT:** Globalisation has always had its critics, but the global financial crisis of 2007-08 and the widespread political backlash that followed, particularly in advanced economies, have called its principles into question. Many regard the election of Donald Trump as US president on the strength of protectionist rhetoric, along with the UK vote for Brexit in 2016 and the revival of the Catalonian independence movement, as evidence of economic discontent in these communities.

This deglobalisation phenomenon is not confined to the most advanced economies. The GCC founded a formal Customs union in January 2015 as part of a regional integration effort. However, this process stalled in June 2017 with the imposition of an embargo on Qatar and the severance of diplomatic ties with several GCC states. Similarly, the trading bloc Mercosur, which was founded by Argentina, Brazil, Paraguay and Uruguay in 1991, indefinitely suspended its fifth member, Venezuela, in August 2017 for violating the common market's democratic principles.

Emerging economies are often characterised by greater trade tariffs and investment limits than their advanced counterparts. As a result, any reversal of liberalisation may pose a greater threat to development in emerging markets, leading to negative implications for their further integration into global value chains.

**CAUSE FOR OPTIMISM:** There have been positive developments in the face of this trend. When the US withdrew from the Trans-Pacific Partnership (TPP) in January 2017, its 11 other parties resurrected the pact as the Comprehensive Progressive Agreement for TPP, and the deal entered into force in December 2018 for its first six ratifiers. Similarly, the Comprehensive Economic and Trade Agreement between Canada and the EU entered into provisional force in September 2017. If ratified, it will eliminate tariffs on 98% of traded goods and provide a new means for resolving investor-state disputes. The EU has also signalled that it could work as a model for the EU-UK relationship following Brexit.

**INTEGRATION & GROWTH:** While political and economic integration within Europe may have arrived at something of a crossroads, other regions have continued their own integration efforts. In Africa, plurilateral integration has a long pedigree, and the African Union currently recognises eight regional economic communities. In June 2017 the Economic Community of West African States, which was founded in 1975 to achieve collective self-sufficiency for its 15 members, approved in principle Morocco's application to join the bloc.

While trade growth has been disappointing for most of the decade since the global financial crisis, data from the World Trade Organisation suggest that merchandise trade is picking up again. The growth rate for global trade reached 4.7% in 2017, 1.5 times that of global GDP, and was projected to moderate only slightly in 2018, to 4.4%, against a GDP growth forecast of 3.2%. The UN Conference on Trade and Development also expected global foreign direct investment (FDI) for 2018 would grow by as much as 10% over the $1.43trn recorded in 2017, though FDI flows were expected to remain below the $1.83trn high recorded in 2007.

Even if progress has slowed, the renewed interest in regional economic agreements, combined with forecast growth of trade and FDI, suggest that the processes and dividends of globalisation are unlikely to end soon.

A slowdown, or even a reversal, in liberalisation may be an issue for some emerging markets, with negative implications for their further integration into global value chains.

Global foreign direct investment flows were expected to grow by as much as

**10%**

in 2018

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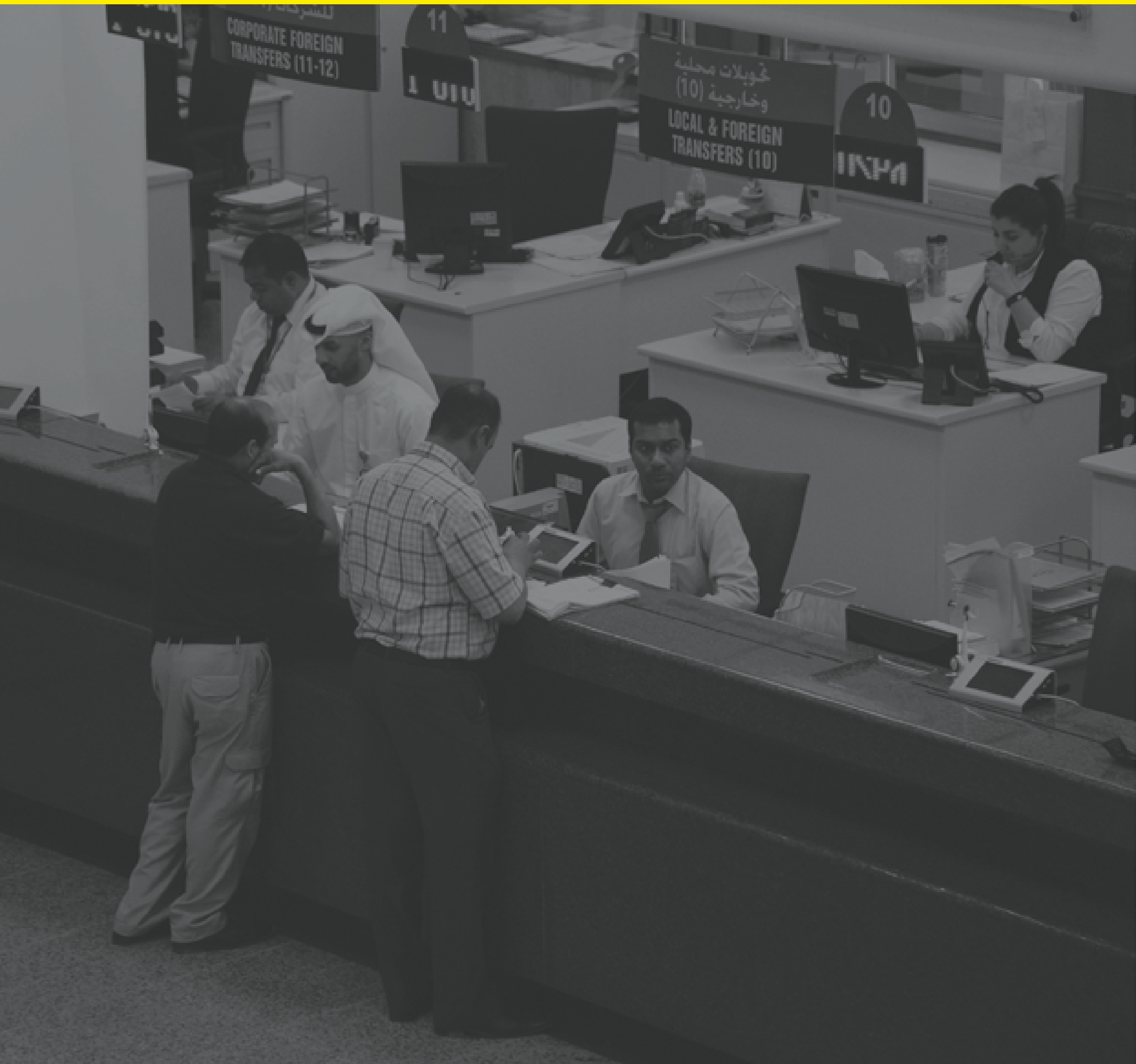
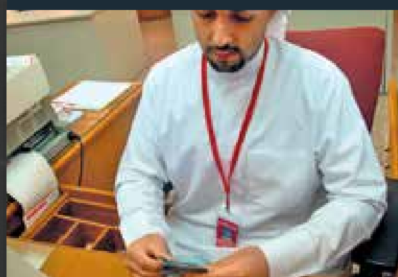
# Banking

## Digital innovation continues to gain momentum
## Exposure to bad debt declines across the board
## New regulations put in place for lending caps
## Public projects spur investment and borrowing



Bottom-line profits in the sector were up 19%, to around $3.2bn, in 2018

# Strong fundamentals

## Prudent regulation and years of provisioning result in solid metrics and promising financial performance

The performance of the banking sector has rebounded since the 2007-08 global financial crisis. Banks' balance sheets show that net profit, assets, loans and deposits are all growing strongly, financial metrics look robust, and various industry assessments show that the industry is well capitalised. "It has been several years of effort and costs for banks following the implementation of Basel III," Waleed Al Awadhi, executive director of supervision at the Central Bank of Kuwait (CBK), told OBG. "Banks have come through it stronger, non-performing loans (NPLs) are at record lows, capital adequacy is high and profits are rising."

**HISTORY:** Kuwait's modern banking sector was created in 1941, when a group of British investors obtained a 30-year concession from then-Emir Sheikh Ahmed Al Jaber Al Sabah to establish the the Imperial Bank of Persia, the first domestic lender. The bank changed its name to Bank of Kuwait and the Middle East when it became fully owned by the Kuwaiti government in 1971. National Bank of Kuwait (NBK), which is now the largest lender in the country, was founded in 1952 by merchants of Kuwaiti origin, followed by Gulf Bank and Commercial Bank of Kuwait in 1960. That year also saw the foundation of the Kuwait Currency Board (KCB), which created the Kuwaiti dinar in 1961 as the new national currency. With Law No. 32 of 1968, the government introduced the first comprehensive financial regulatory framework and replaced the KCB with a new regulator, the CBK. The first domestic Islamic financial institution, Kuwait Finance House (KFH), was launched in 1977. Boubyan Bank was the first Islamic bank to be established in Kuwait per the Law of Islamic Banks No. 33 of 2003.

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. 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 growth trajectories in financial sectors across the broader Gulf region, continued through the mid-2000s.

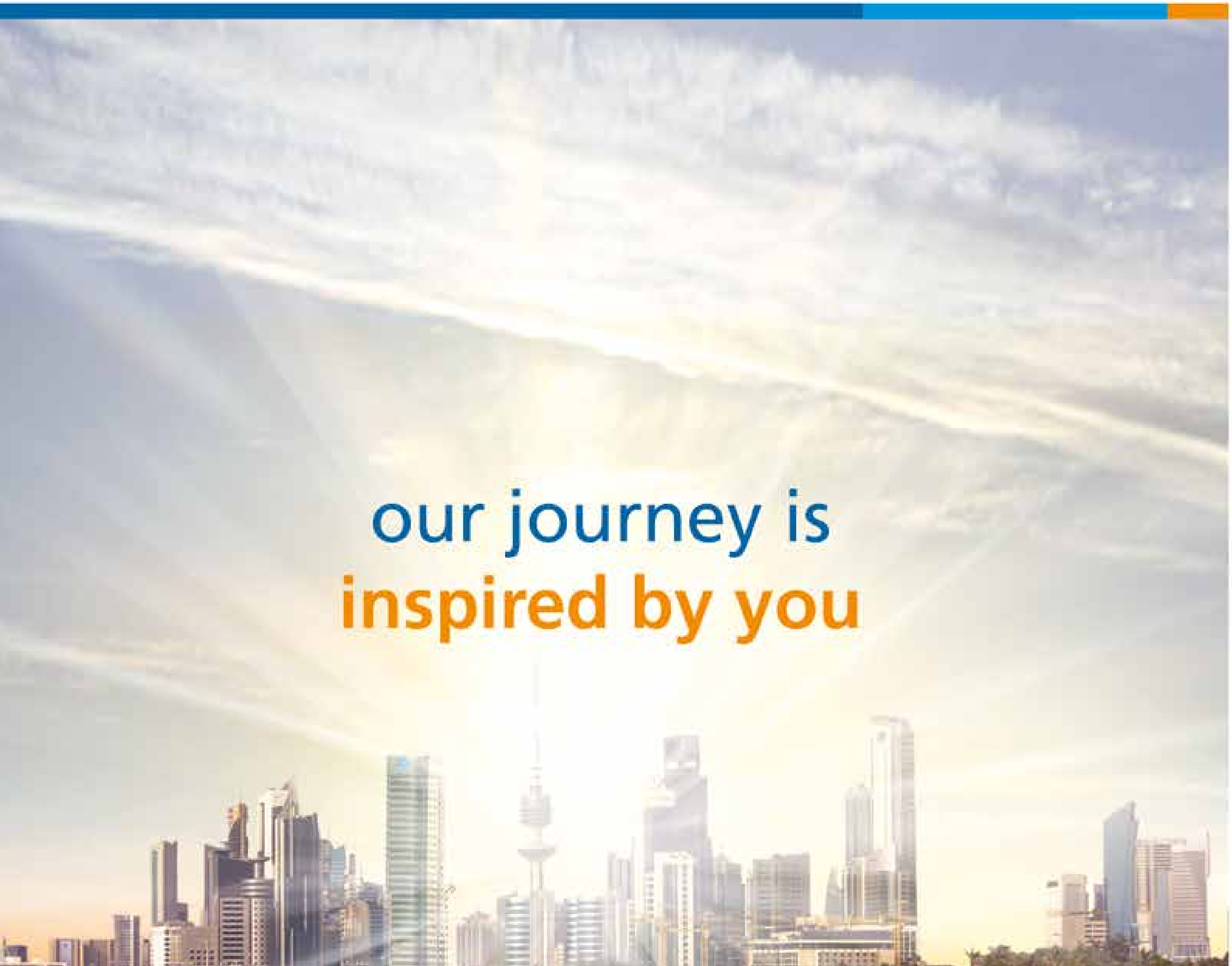
**DAMAGE CONTROL:** However, Kuwait suffered particularly acutely from the repercussions of the 2007-08 global financial crisis. Initially, Gulf Bank was found to have suffered losses in its derivative book of around $1.2bn. In order to quell lingering fears in the market, the state stepped in to guarantee all deposits in domestic banks without any apparent limits on the amount or type of deposit. The fallout then spread to Kuwait's numerous investment companies.

While other banks were relatively insulated from the shock, the proliferation of investment companies – with over 100 operating by 2008 – led to many of them being caught holding bad credit after the crisis, primarily in the form of property and Boursa Kuwait securities purchased with loans from the banking sector. As a result, domestic banks reported a sharp increase in NPLs during the post-crisis period.

The central bank mandated stringent provisioning for bad loans, which banks were forced to take from profits for a number of years, leading to a serious drag on performance in the post-crisis era. However, this process of provisioning for and writing off bad debt is now almost complete. Investment companies have reduced their leverage, and bank exposure to bad debt has declined from approximately 12% of bank assets during the crisis to 2% as of 2017.

**OVERSIGHT:** The banking industry is regulated by the CBK, whose board of directors oversees sector functions. The board includes representatives from

Banks' balance sheets show that net profits, assets, loans and deposits are all growing strongly, financial metrics look robust, and various industry assessments show that the sector is well capitalised.


our journey is
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the Ministry of Finance and the Ministry of Commerce and Industry. The role of the central bank is to maintain a stable currency, manage credit to support GDP and oversee the banking system, among others. The CBK is widely regarded as a conservative regulator, which has kept banks well insulated and aided them in recovering from the financial crisis. According to the IMF's April 2019 Article IV consultation, prudent regulation and supervision in Kuwait has protected the sector from potential credit, liquidity and market shocks.

Major recent regulatory developments overseen by the CBK include lending caps and the implementation of the International Accounting Standards Board's new International Financial Reporting Standards (IFRS) 9, which came into effect on January 1, 2018. Kuwait began implementing new lending regulations in November 2018, lifting the cap on consumer loans from 15 times the monthly salary up to a maximum of KD15,000 ($49,400), to 25 times the monthly salary and a maximum KD25,000 ($82,300). However, there remain other constraints on borrowing that will prevent the new rule from significantly impacting credit levels. Monthly loan payments are not permitted to be more than 40% of individual salaries, and the limit on housing loans remains set at $231,000. As many consumers are already fully utilising their instalment limits, the capacity for them to increase consumer borrowing remains limited. "The new regulations were really just to clarify a split in the overall global limit. There will be very little impact since borrowers are still subject to the 40% debt service-to-income limit," Al Awadhi told OBG. "In our calculations, it is only those earning over $50,000 who will be impacted; most other people will still be constrained by the global limit on debt service to income, at 40% of salary."

The CBK is overseeing the implementation of IFRS 9, which can be characterised by a more forward-looking approach to provisioning. However, given the CBK's conservative stance, its own rules were already more

Average return on equity has risen, reaching 10.7% at the end of 2018

As of mid-2019 Kuwait was home to 12 foreign and 10 domestic banks, five of which are sharia-compliant

stringent than the IFRS 9 requirements; therefore, the changes have had little impact on the banking system. As provisioning is already fairly high, some lenders suggest they may even receive money back as a result of the new regulations. The central bank agrees that there may be surplus provisions once IFRS 9 rules are implemented but is uncertain on its stance to allow banks to draw down the provisions. "In dialogue with the banks, we have decided to maintain the surplus from IFRS 9 as a buffer for now," Al Awadhi told OBG. "It could be premature to release the cash now, so we will review the situation on a quarterly basis."

**SYSTEM STABILITY:** The banking sector remains fundamentally sound thanks to good regulation. According to the IMF, prudent regulation and supervision by the CBK has helped keep bank metrics strong. It added that further efforts should focus on strengthening cross-border supervision, enhancing the crisis management and liquidity forecasting frameworks, and deepening capital markets. The IMF and the CBK carried out recent stress tests to analyse the stability of Kuwait's banking sector. The IMF found it to be resilient to simulated shocks. "The IMF has its independent view, and we in the central bank carry out our own stress tests," Al Awadhi told OBG. "We came up with the same results. We carried out a range of different tests, including bottom-up stressors with banks affecting their own balance sheets, and our own view of how bank balance sheets will be stressed in different scenarios. In all situations we found the banking sector to be resilient – even when we combined solvency, liquidity and credit shocks all at once."

**STRUCTURE:** As of mid-2019 Kuwait was home to 10 domestic banks, five of which are sharia-compliant. In addition, there are 12 foreign banks, which are permitted to have up to two branches in the country. Industry assets are concentrated among a few of the most prominent institutions, with NBK, the largest conventional lender, holding KD27bn ($88.9bn), or 34%

The limit on housing loans remains set at

**$231,000**

Bank assets mainly comprise loans to the domestic private sector

In mid-2019 Islamic financial institutions held
**38%**
of total sector assets

of total assets at the end of 2018, while the largest Islamic lender, KFH, comprised KD17.7bn ($58.3bn), or around 22% of the total. Islamic financial institutions held 38% of total sector assets, while foreign banks, which are limited in size, accounted for less than 4%.

Given the small, concentrated market, banks are more likely to look overseas for expansion, and foreign assets grew to account for 20% of the sector total in 2018. KFH, for example, is in the process of acquiring Bahraini lender Ahli United Bank, creating the largest financial institution in Kuwait and the sixth-largest in the GCC region, with approximate assets of KD94bn ($309.6bn). The IMF cautions against some risks that this may entail, saying that "while foreign exchange mismatches appear negligible due to the small net open positions, the growth of foreign operations may pose a challenge to effective supervision".

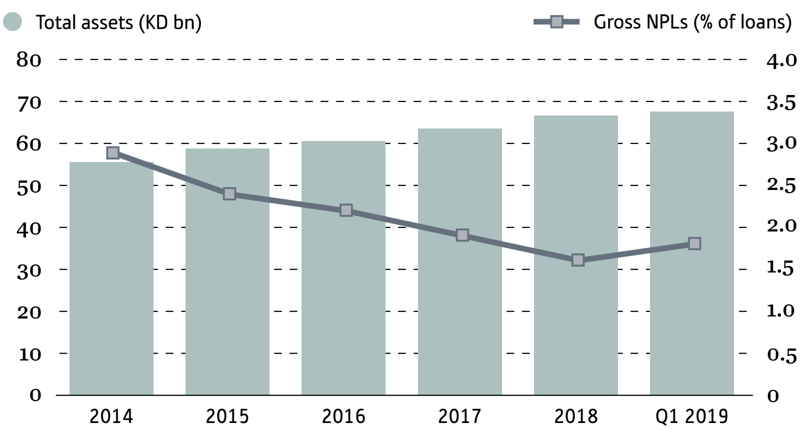
While some regard the sector overbanked, the regulator may not see it this way. "The sector is not crowded; it is not too large for the size of the economy, and there is no official stance on the question of mergers and acquisitions in the banking sector," Al Awadhi told OBG. "We are as concerned about monopolistic factors as we are about the sector being overbanked. We would not say a definite 'no' to any merger, but it would not be an easy 'yes' either. We would need to evaluate the overall sector and any impact the deal may have on financial stability."

Bank assets mainly comprise loans to the local private sector, concentrated on households (43% of total credit, predominantly for home purchases and repairs), real estate and construction. Hovering between 17% and 19% of risk-weighted assets in recent years, capital adequacy remains well above the Basel III minimum requirement of 13%. Meanwhile, the liquidity ratio is high and continues to rise – thanks to robust government spending – reaching 31% at the end of 2018. The IMF wrote in April 2019, "Banks operate relatively simple business models and continue to see their activity grow despite the fall in oil prices."

**PERFORMANCE:** Sector profits have largely recovered from the post-financial crisis era. Insolvencies and bad debt among investment firms hit bank profits hard after the financial crisis but have now rebounded. NPLs rose to over 11% of total loans in 2009 but have since fallen, reaching 1.6% by end-2018. Banks took some time to build up provisions and write off bad debts, but provisioning is now very high, at over 200%. Since 2017 the sector has recorded solid bottom-line profit growth, with a particularly stellar year in 2018: profits were up 19% at KD984m ($3.2bn), from a low of KD531m ($1.7bn) in 2013. Average return on equity has risen in line with profits, reaching 10.7% at end-2018, up from a low of 7.4% in 2013. Banks have also been helped by the approval of major government projects. "From 2013 to 2014 the Parliament worked with the government to approve a raft of infrastructure projects. This led to an increase in lending to construction companies," Masud Ul Hassan Khalid, CFO at the Commercial Bank of Kuwait, told OBG. "This included clean fuels, Kuwait International Airport, hospitals, roads, bridges and $20bn-30bn in Chinese investment for the Silk City mega-development. This has led to higher demand for credit and greater profits for banks. It also draws in global firms that need facilities, letters of credit and other banking services."

**LOANS GROWTH:** The strong performance of banks has come despite pressure on interest margins. The cost of funds has been pushed up as a result of interest rate increases by the US Federal Reserve and the recent escalation of regional tensions. Although short-term liquidity is ample, meeting the net stable funding ratio required under Basel III is further elevating the cost of funds. At the same time, the banking sector is highly competitive, which is driving down loan rates. In September 2019 the CBK announced that it would keep its policy rate unchanged at the current 3%, choosing not to increase rates as rapidly as the Federal Reserve. As a result, the difference between the lending and deposit rate shrunk to 290 basis points in early 2019, compared to over 300 basis points in

## Banking indicators, 2014-19




Source: CBK

Foreign assets grew to account for around 20% of the domestic banking system total by the end of 2018

2017 and 2018. Overall loan growth in the banking sector was 0.6% in 2018, down from 7% in 2017. This was mainly a consequence of a winding down of large-scale public sector projects. Meanwhile, banks' profits were sustained by the lower burden of provisions as NPLs fell at the end of 2018. Deposit growth exceeded 3% in 2017 and 2018, which has driven a build-up in liquidity and means that banks are comfortably funded to meet any demand for credit. Given the sector's strong performance, growing numbers of foreign companies are entering the local market and starting to diversify their scope of operations. "Kuwait is a promising market," Leon Pang, general manager at the Kuwait Branch of the Industrial and Commercial Bank of China, told OBG. "There are great opportunities for Chinese companies to expand throughout the country over the coming years," he added.

**FINANCIAL INCLUSION:** To generate jobs for the large number of Kuwaitis expected to enter the labour market in the coming years, the government is prioritising the development of small and medium-sized enterprises (SMEs). Encouraging SME growth has been identified in the New Kuwait 2035 long-term development strategy as integral to economic growth. As a result, the CBK gives preferential risk weights for SME loans, making it cheaper for banks to lend to them. Meanwhile, the National Fund for SME Development was established in 2013 to finance small and medium-sized projects submitted by Kuwaiti nationals.

Despite these efforts, banking penetration has fallen in recent years, measured by total loans as a share of non-oil GDP, from 70% in 2012 to less than 60% in 2018, suggesting that the banking sector is having difficulty deepening its lending portfolio. Additionally, access to finance for smaller players remains weak, with only 2.5% of total bank credit going to SMEs. Surveys have shown that SMEs still struggle with access to finance. The main issue appears to be that the SME sector is too small to pique the interest of banks. While efforts are being made, it may be that more SMEs are needed before banks will become interested in serving the segment. "SMEs will be an important driver of the economy going forward," Al Awadhi told OBG. "Banks need to enhance their ability to serve SMEs at a reasonable cost. They could enable SME growth by offering advisory services."

Deposit growth exceeded

**3%**

in 2017 and 2018

**OUTLOOK:** Continued government spending and major projects should support bank lending and profits. "Government spending, especially on infrastructure, is the main driver of growth. So far, there is little link between performance of the banking sector and oil prices," Al Awadhi told OBG. However, the public infrastructure project pipeline has slowed recently. "If no new projects are launched soon to replace the current pipeline, there could be a slowdown in credit and profit growth," Khalid told OBG. For now, this has been offset by increases in oil production capacity, fuelled by over $100bn in spending from 2015 to 2020. "There is a backlog of projects in the petrochemical, energy, refinery, power and water sectors that will lead to a pickup in the banking sector," Saade Chami, group chief economist at NBK, told OBG. Even with lower capital spending, banks may remain largely unaffected. Many lenders report growing profits from multiple business lines as well as strong consumption growth.

Additionally, the government might require financing for operational expenditure, making project spending less important for banks in the short term. According to the IMF, the financing needs of the government are considerable. Once the transfers to theFuture Generations Fund have been made and investment income has been deducted, the fiscal deficit is forecast to average 12% of GDP per year up to 2025, requiring approximately $116bn in cumulative net financing. Ongoing issues with getting a new debt law passed through the Parliament mean that the government is likely to call heavily on financial institutions to meet public spending requirements.

Monthly loan payments are not to exceed 40% of individual salaries

Financial technology is becoming key to providing local banking services

# Let's get digital

## Financial technology is changing the local banking landscape

While the digital revolution has swept through many industries, the Kuwaiti banking and finance sectors remain largely unchanged. However, there is a definite sense that digital innovations are gaining ground as banks establish financial technology (fintech) departments in order to guide policy. Technology has the potential to reform the face of banking, and the way in which changes are implemented in the short term will be key. Mobile and online banking, e-payments and new regulations will be important areas of development moving forward.

**DIGITAL ADVANCEMENT:** While a seamless, instant, peer-to-peer payment system remains largely unavailable on a global scale, fintech is becoming key to providing bank services locally. As such, the authorities have identified the digital transformation as key to successfully driving economic growth in the New Kuwait 2035 long-term development strategy. "It is clear that we will need to embrace the digital banking transformation," Waleed Al Awadhi, executive director of supervision at the Central Bank of Kuwait, told OBG. "Fintech is going to revolutionise the entire profile of financial services, and we need to keep up with the rapid pace of change in the global banking environment," he added.

In line with this strategy, in September 2018 the central bank mandated that all service providers register on its e-payments system and develop plans for a digital version of the Kuwaiti dinar by FY 2020/21. "Real-time payments are the top priority, and we are working with electronic banking services firm K-net to achieve this," Al Awadhi told OBG. "We are looking at a digital dinar and blockchain technologies as well." Among local banks, Commercial Bank of Kuwait has been a leading proponent of tech innovation by introducing a series of digital upgrades since 2013. Chief among these was the 2017 introduction of InstaPay, a service that allows the peer-to-peer transfer of dinars through Kuwait's existing payments system provided by K-net. The Commercial Bank of Kuwait also offers a foreign exchange service that allows customers to see complete, real-time charges by multiple different counterparties.

**DEVELOPMENTS:** More recently, in April 2019 the Commercial Bank of Kuwait launched T-Pay, a digital wallet attached to a bank account that can process payments through point-of-sale devices, other digital wallets using QR codes and via the popular messenger service WhatsApp. Bader Qamhieh, acting general manager of IT at the Commercial Bank of Kuwait, told OBG that the bank has introduced self-service terminals, integrated with a smart queue e-system and customer self-service kiosks. By automatically filing paperwork, it should generate cost savings in terms of human resources, he added. "We used to have seven customer service officers at the head office, we now have two, with eight self-service machines. Banks are evolving into technology-enabled, modern institutions that effectively support the fintech ecosystem," Qamhieh told OBG.

Bank customers are gradually becoming more comfortable with a wide range of digital services. "This is especially true of younger generations," Adel Abdul Wahab Al Majed, vice-chairman and CEO of Boubyan Bank, told OBG. "Young people prefer real-time transactions, and are set to move up the ranks to become banks' principal client base," he said.

Other banks have also been active in fintech. In May 2016 Gulf Bank became the first establishment in the region to launch a biometric data platform for enhanced security. One year later, NBK opened a fully digital customer care centre, which was part of an overarching strategy to move towards virtual branches and online service delivery. Meanwhile, Kuwait International Bank is planning to use digital innovations to improve customer service by investing in an interactive voice response portal, live chat assistance, and more mobile and online services.

In September 2018 the central bank mandated that all service providers register on its e-payments system and develop plans for a digital version of the Kuwaiti dinar by FY 2020/21.

Adel Abdul Wahab Al Majed, Chairman, Kuwait Banking Association; and Vice-Chairman and CEO, Boubyan Bank

# Strategic lending

## Adel Abdul Wahab Al Majed, Chairman, Kuwait Banking Association; and Vice-Chairman and CEO, Boubyan Bank;

**In what ways do you expect lending to grow, and what impact will regional developments have?**

**MAHFOUZ:** The upgrade of Boursa Kuwait has generated large money inflows and we have also seen local banks going out for borrowing by issuing bonds, all of which have been well received by the market. Kuwait is a politically neutral country with strong financial buffers through the sovereign wealth fund, which provides a high level of comfort to international investor sentiment. In this context, corporate lending growth in 2019 is expected to be reasonable, with most of our growth centred on construction, contracting and retail, whereas Islamic banks have focused on real estate, as they tend to own land. Mega-projects under the state's development plan, a major driver for lending activity in 2017 and 2018, have slowed down in 2019; however, there is still some major construction activity in the oil and gas sector, health care and education. Construction works have been supported by the government, even through the 2008 financial crisis.

Retail business is an important factor for everyone in the banking sector. Customer service and innovative product offerings through technology and digitalisation shall always remain the prime factor for servicing customers professionally, catering to various customer segments and attaining customers' loyalty and satisfaction. In 2020 retail business is expected to grow despite the market limitation. However, competition will intensify over fees and offerings.

Cost of funding has increased in the region due to the geopolitical situation across the GCC, which has affected pricing. Similarly, governments are not injecting money into the system as before, and countries need long-term funds to finance upcoming projects, which has increased the cost of funds. Simultaneously, customers are demanding to pay lower interest rates, which is shrinking returns for banks as they seek to retain good customers. Lastly, some banks are driving prices down as they look to aggressively expand in the market, creating higher pressure for existing players to keep good customers and adequate risk portfolios.

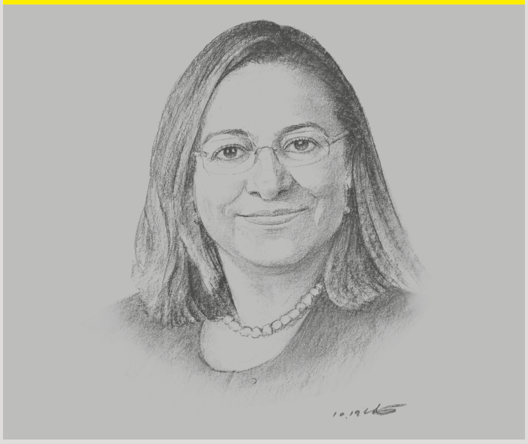
**AL MAJED:** Corporate lending grew at the rate of 3% to 4% during the last two to five years. However, we expect growth in the short and medium term to be in the range of 6% to 7%. This positive outlook is supported by Kuwait's stable economy, steady government spending, good corporate earnings and its inclusion in the MSCI Emerging Markets Index, which lifted sentiment and attracted large foreign inflows. Its inclusion was fuelled by aggressive strategic pipeline projects worth $230bn, covering different sectors but mainly focusing on construction as well as oil and gas.

The real estate market provides another boost for corporate credit growth; its stability stimulates banks to focus on this secured finance activity. We expect retail lending to grow by around 8%. If the mortgage legislation is passed, this will further accelerate growth in the short and medium term. Positive GDP growth and an expected increase on capital expenditure spending by the government and bankable population are the main growth drivers. Kuwait's banking sector has historically been resilient to regional developments due to strong fundamentals. However, growth over the long term could be curtailed by a marginal rate, due to public sentiments, the global market and economic tensions.

**How can banks meet the needs of non-oil growth, such as small and medium-sized enterprises (SMEs)?**

**ACCAD:** Although the pace at which public-private partnerships (PPPs) have been rolled out could be expedited, there are major projects being finalised very soon and some are expected to be officially mandated over the next few months. All banks are welcome to participate in these opportunities; however, leading and arranging these deals is delicate and requires specific skills in project finance, which few local banks possess. We are not only developing capabilities for this and looking at PPP financing but also at transactions in

Michel Accad, Group CEO, Al Ahli Bank of Kuwait



Elham Y Mahfouz, CEO, Commercial Bank of Kuwait

## Michel Accad, Group CEO, Al Ahli Bank of Kuwait; and Elham Y Mahfouz, CEO, Commercial Bank of Kuwait, on new adaptations

corporate finance in Kuwait and across the region. Major areas for investment in the short term are centred on power generators and waste-to-energy projects, whereas in the longer term there will be sizeable opportunities for health and education, especially as these tie in with the broader New Kuwait 2035 vision.

Some structural issues need to be addressed first to unlock the potential of SME financing. To best incentivise banks lending to SMEs, there must be a shared risk arrangement, where banks have some skin in the game and loans are partially guaranteed by the government. This form of partnership ensures security for the banks but also poses enough risk to force them to make the right lending choices to their SME customers.

**AL MAJED:** Local banks have an aggressive appetite for financing government-related projects, due to the low credit risk element and lower capital requirements. However, this will depend on the pace at which government development plans are executed as well as on the initiatives emerging from the private sector. Obstacles may also limit a banks' capabilities. These include financing capabilities to a single obligor; shortage of liquidity and its impact on the financing cost; scarcity of foreign currency sources and the subsequent impact on the financing cost and competition with international agencies that can provide cheap funding; and introducing new techniques in offering strategic projects to the market, like PPPs, or delay of payment to suppliers or contractors from some government entities, which may cause irregularity of accounts.

Banks usually compete to improve or at least maintain their market share, which can be sourced from both private sector and government projects under different forms like PPPs, build-operate-transfer models or corporate finance. In order to succeed in capturing a decent market share, banks need to be equipped with good expertise, especially in project finance, as well as have turnkey solutions for corporate clients that cover most of their banking needs in an innovative way.

**To what extent is the banking system absorbing disruptive technology, whether on digital or mobile platforms, to improve customer experience?**

**AL MAJED:** Consumers are in the fast lane regarding digital adoption, and competition is heating up in this segment. Banks in Kuwait are investing heavily in internet and mobile banking to digitise the customer journey and scale up innovative digital solutions. Innovating existing products through partnerships is another way in which banks are accelerating in this segment.

Banks are also strengthening collaboration for payment systems through the central bank's new projects payment platform and sandbox for financial technology. The market is strictly regulated, but there is an opportunity for external solutions and innovation – such as cloud and biometrics – for banks to adopt.

**ACCAD:** Going forward, we strive to differentiate ourselves through simplification. Having a stronger digital presence is a key factor in this process, as customers increasingly feel more comfortable using mobile or digital platforms than going to a physical branch. It is advantageous to have a smaller branch network, as it facilitates the transition into tomorrow's banking world.

Automation is already part of our everyday internal processes, and it is being done with incredible efficiency. For instance, we have small bots doing some transactions, including processing salary payments for company employees. In addition, the underlying technology behind cryptocurrencies and blockchain has tremendous potential to expedite financial transfers in seconds, while also fulfilling the necessary know-your-client requirements on both ends. Unlocking the full benefit of blockchain will be a gradual process, but we are firm believers in this technology. Banks must not only invest in financial innovation tools but in core banking systems and enhanced digital infrastructure to support the deployment of these new offers. At the same time, precautions must be taken, as increased digital spending will also entail some cybersecurity risks.


Mohammad Y Al Hashel, Governor, Central Bank of Kuwait

# Above and beyond

## Mohammad Y Al Hashel, Governor, Central Bank of Kuwait, on improving prudential regulations and boosting credit

**What challenges does the sector face as it works to implement Basel III requirements and International Financial Reporting Standards (IFRS) 9?**

**AL HASHEL:** The Central Bank of Kuwait (CBK) has already implemented the key elements of the Basel III reforms and our banking system is well above each benchmark set under the framework. For example, the capital-adequacy ratio (CAR) of the industry stood at 18% in June 2019, well above the Basel III requirement.

Furthermore, the sector's leverage ratio stood at 10.3% – substantially higher than the 3% global benchmark – reflecting the strong capacity of Kuwaiti banks to extend credit. We have also strengthened banks' capacity to withstand liquidity stress and made their funding structure more stable by implementing a liquidity coverage ratio and net stable funding ratio; in both cases our banks are above the applicable benchmarks.

Taken together, these indicators highlight not only the sector's compliance with Basel III rules, but also underpin the sector's capacity to effectively perform the role of financial intermediation even under conditions of stress. Meanwhile, the impact of the adoption of IFRS 9 has been fairly limited, given the high level of provisions our banks already have in place. This has allowed us to introduce the IFRS 9 framework in parallel with our domestic provisions, with banks required to comply with the higher of the two benchmarks.

**How can the CBK boost credit and better align lending criteria with the needs of non-oil sectors?**

**AL HASHEL:** Ensuring healthy credit growth has been a key consideration informing both our monetary policy and our prudential regulation. The CBK has aimed to strike a balance between healthy private sector credit growth and preserving the attractiveness of the Kuwaiti dinar as a currency for domestic savings. Indeed, to encourage private sector credit in Kuwait, we skipped three of the four rate hikes undertaken by the US Federal Reserve in 2018. In terms of prudential regulation, in late 2018 we revised our earlier instructions on housing and other consumer loans to reflect the changing needs and greater borrowing capacity of households. Specifically, we increased the maximum limit on housing and consumer loans to 25 times the net salary of the borrower or a maximum of KD25,000 ($82,300). These measures were helpful in boosting credit growth in 2018. For example, domestic credit by Kuwaiti banks was up 4.9% in 2018, compared to 3.9% in 2017. Meanwhile, lending to households increased by 7.8% in 2018, although the impact of our revised regulatory instructions will be evident in 2019.

Furthermore, the CBK has continued to provide a number of incentives to encourage Kuwaiti banks to lend to small and medium-sized enterprises (SMEs). The CBK offers a risk weight of 75% for the financing of SMEs, compared to the standard risk weight of 100%. In addition, the government has provided funding and other forms of support through its National Fund for SME Development. Nevertheless, the overall SME segment remains challenged by certain operational and structural obstacles, which have so far prevented it from reaching its true growth potential.

**Describe how Kuwaiti banks have fared in terms of the issue of non-performing loans.**

**AL HASHEL:** Indicators of the asset quality of our banks reflect the best picture we have had in over a decade. Notably, both the gross and net non-performing loan (NPL) ratios have steadily declined for the ninth year in a row. Moreover, the gross NPL ratio, on a consolidated basis, dropped to a historically low level of 1.6% in 2018, well below the 3.8% observed in 2007 before the global financial crisis. The impressive progress in bringing down the NPL ratio over the last decade is particularly evident if you compare the current NPL ratio of 1.6% with the 11.5% ratio recorded in 2009. The net NPL has also been experiencing a receding trend since 2009 and reached a record low of 1.1% in 2018.

Global Perspective

# A swing in the balance

## Following a retrenchment of overseas operations by numerous major banks, how are firms in emerging markets responding?

In the three decades before the 2007-08 global financial crisis, the world's financial networks became increasingly interconnected. Financial system regulatory convergence and the growing penetration of World Trade Organisation rules, as well as the creation of currency unions such as the euro, resulted in a surge in cross-border capital flows. Global banks began to see the emergence of a single global marketplace, and the potential this held for revenue and asset growth. International players such as Citigroup, the Royal Bank of Scotland (RBS), Deutsche Bank, BNP Paribas, Barclays, HSBC, Crédit Agricole, UBS, Bank of America, Société Générale and JPMorgan grew their international businesses on the back of a rising tide of global capital, which saw cross-border transfers rise from $500bn in 1980 to a record high of $12.4trn in 2007.

**DISAPPEARING ACT:** The global financial crisis, however, brought an end to this trend. According to data from McKinsey Global Institute, cross-border capital flows had declined by more than 80% from their peak by 2009, reduced to a level lower than that seen in the early 1990s. By 2016 cross-border capital movement had rebounded to $4.3trn, above the level it was in the late 1990s, but still 65% lower than the high of 2007.

During that period, banks offloaded foreign assets acquired during boom years, and the foreign claims of banks in the eurozone slumped by $7.3trn, or around 45%, as a result of this de-risking process. The primary driver of this trend was a reassessment of risk attached to foreign business, and the realisation that in many cases, the revenue and margins obtainable in home markets – where banks enjoy the benefits of scale and local knowledge – are higher than those abroad.

Since 2008 there has also been a gradual withdrawal of banks from both developed and emerging markets. In 2014 Citibank announced that it was pulling out from 11 markets, including Egypt, the Czech Republic and Japan. The announcement followed similar exits from consumer markets in Pakistan, Uruguay and Spain, and left the bank's global footprint at 24 countries – half that of 2012. HSBC, meanwhile, has retreated from more than 20 markets since 2011, including Chile, Peru, Colombia, Jordan, Kuwait, Thailand and South Korea.

Barclays' retrenchment in mainland Europe – starting with the sale of its retail banking networks in Spain, Italy and Portugal – spread to Asia, Brazil, Russia and Africa after 2014. The bank's departure from Egypt in 2016 ended a relationship with the country that stretched back, with only the occasional interruption, to 1864.

In 2015 Deutsche Bank announced that it would shed 9000 full-time jobs by 2020 and close operations in 10 countries, including Argentina, Chile, Mexico, Malta and New Zealand. The trend is clear: many of the world's biggest banks are withdrawing from the advances they made in the 1990s and 2000s in order to focus on their domestic bases, which are largely in the US and Europe.

**REGULATORY PRESSURES:** The reasons multinational banks give for the closure of overseas businesses generally include improved profitability, income stability, more efficient allocation of capital and political instability in the host countries. The most frequently cited reason, however, is the question of regulation. A 2016 analysis by Spanish banking group BBVA of banks from the US, Canada, the UK, Sweden, Germany, Austria, the Netherlands, France, Italy, Spain and China found that regulation was the key driver in the trend of banks pulling out of certain countries and business lines. Regulatory pressure points include the introduction of stricter capital and liquidity requirements, the ring-fencing of wholesale and investment banking from retail banking, and the different speeds at which countries are implementing banking reforms.

In addition, new reporting standards and a tougher stance on money laundering by the world's major regulators over the past 10 years have further encouraged geographic contraction. Banks have found it difficult to avoid the $800bn-2trn of "dirty money" that the UN estimates is laundered annually, and which has become

Since the global financial crisis of 2007-08, cross-border capital flows have fallen from a record-breaking $12.4trn in 2007 to $4.3trn in 2016.

In recent years there has been a gradual withdrawal of global banks from both developed and emerging markets, with regulation as the most frequently cited reason for departure.

The withdrawal of global banks from emerging markets has seen a concomitant decline in the number of correspondent relationships between large multinational players and smaller, regional banks.

a matter of interest to law-enforcement agencies around the world, with global banks receiving multi-billion-dollar fines from the US Department of Justice.

**CORRESPONDENT DECLINE:** The withdrawal of global banks from emerging markets is not limited to the closure of head offices and branches. Indeed, there has also been a decline in the number of correspondent relationships between large multinational players and smaller, regional banks – where one lender provides services such as wire transfers and deposit acceptance on behalf of another. Correspondent banking relationships are considered to be important facilitators of the global economic system, and therefore any change in their operation is a matter of concern for regulators.

A 2017 paper published by the IMF found that some emerging economies have been more adversely affected than others by this trend. In Belize, Iran, Liberia and Sudan, for example, there has been a considerable decline in the number of correspondent bank relationships, which has increased financial sector fragility and exposed some lenders to a potential ratings downgrade.

However, in markets such as Kuwait, the Bahamas, Morocco, Saudi Arabia and the UAE, the withdrawal of global banks from correspondent banking relationships has been less marked. In some cases, such as Kuwait, domestic banks acted pre-emptively to reduce the perception of risk associated with their operations, which might have otherwise prompted global banks to cut relations. The challenge of maintaining correspondent banking relations for institutions with smaller capital bases remains a significant one in 2019. "It has definitely been an issue for smaller banks, where carrying out a more thorough risk assessment by foreign correspondent entities is more difficult," Ronald Harford, chairman of Trinidad and Tobago's Republic Financial Holdings, told OBG. "In addition, smaller banks usually do not have the capacity to certify that deposits do not have an origin in certain activities, such as gambling."

**NEW OPPORTUNITIES:** The retrenchment of international banks has resulted in opportunities and challenges. Regional lenders, which had for decades fought for market share against global institutions, welcomed the chance to move into recently vacated territory.

In some parts of the world, this process has been an incremental one, characterised by domestic banks boosting lending capacity through large bond issuances or initial public offerings, and subsequently using their stronger financial bases to move into nearby markets. In other regions, large domestic players have bought significant amounts of foreign assets, quickly establishing themselves as regional giants.

**AFRICA:** Regional lenders from Africa's most vibrant economies, such as Nigeria, Morocco and South Africa, have been quick to capitalise on the space left by departing global players. Nigeria's biggest lender, GTBank, first stepped outside the domestic market in 2002, but since 2013 has pursued a more aggressive expansion strategy. Its acquisition of a 70% stake in the Nairobi-based Fina Bank Group gave it an East African foothold, and a strong digital offering has established it as one of the drivers of digital banking in the region.

Regional lenders from Africa's most vibrant economies, such as Nigeria, Morocco and South Africa, have been quick to address the market space left by departing global players.

Moroccan banks, meanwhile, have been competing with global lenders across the continent since the early 2000s, and are now enthusiastically grasping at opportunities presented by the withdrawal of global players. Leading the pack is Attijariwafa Bank, which took over Barclays' Egypt operation in 2016 and is now present in 16 African markets. In 2018 Moroccan banks had some 50 subsidiaries in 25 African countries, and as income growth has slowed at home, their continental holdings are providing them with vibrant revenue streams. Around 28% of the consolidated net income of Attijariwafa, Banque Centrale Populaire and BMCE Bank of Africa was derived from African subsidiaries in 2017.

**GCC:** Some Gulf Cooperation Council (GCC) markets have been particularly affected by the retrenchment of global players. Since the 2007 global crisis, for example, the UAE has lost RBS, Lloyds, Barclays and Standard Chartered, though HSBC has strengthened its presence. However, some regional lenders have made their own expansionary moves into economies beyond the region. For example, Qatar National Bank, which until recently was the most formidable lender in the region in terms of Tier-1 capital, opened its first foreign branch in London in 1976, before expanding its presence through subsidiaries or associates to more than 30 countries.

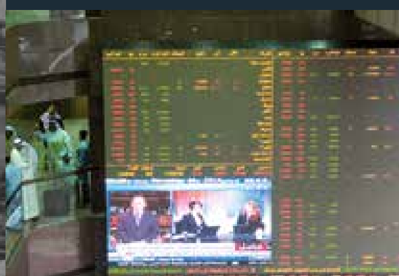
A phase of consolidation is also sweeping the region, creating new lenders with balance sheets capable of financing large projects. Saudi Arabia's first bank consolidation in two decades saw Saudi British Bank agree to complete a merger with Alawwal in the first half of 2019. With more than 70 listed banks in the GCC's crowded market, more mergers and acquisitions are expected over the short to medium term.

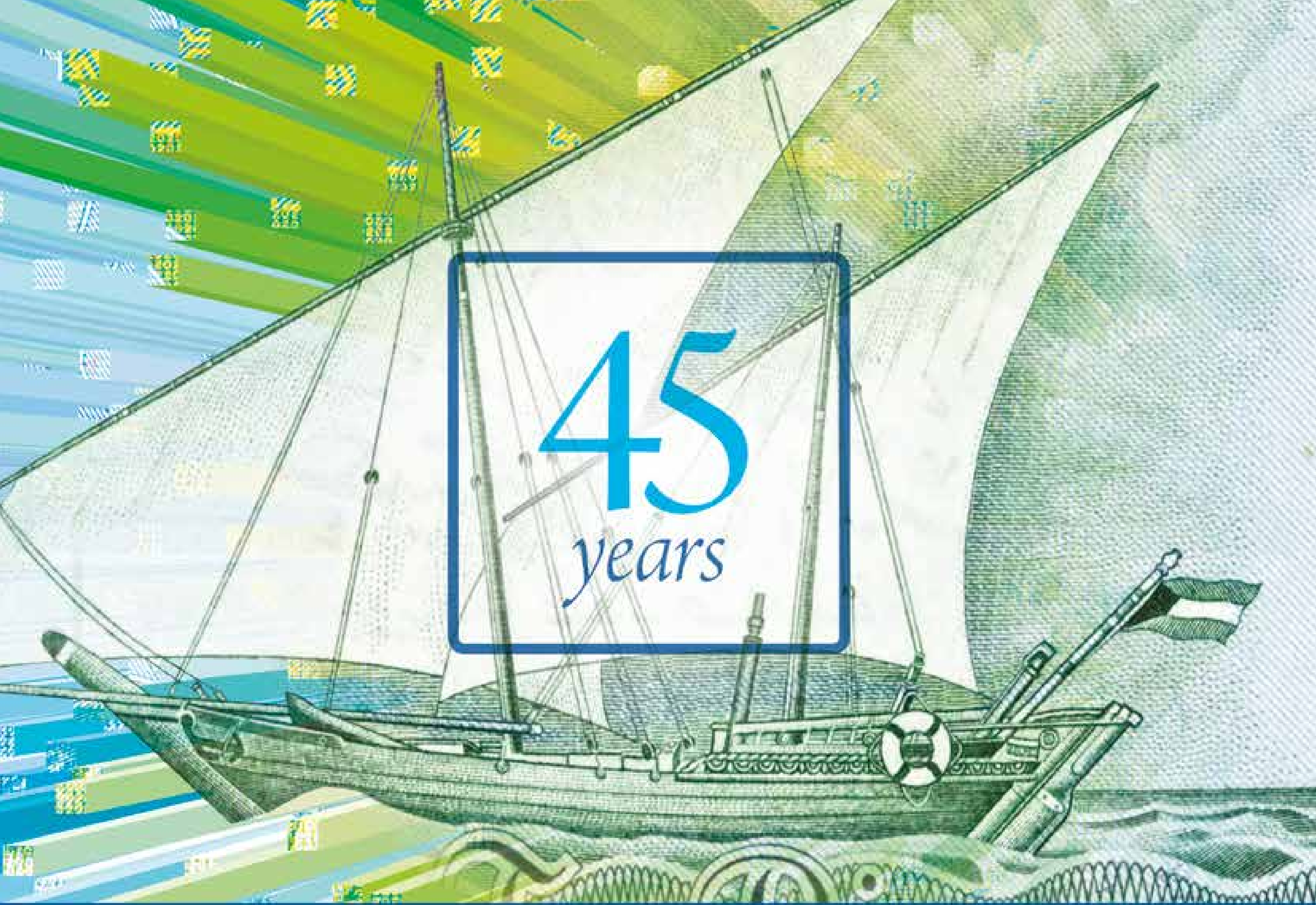
**LATIN AMERICA:** Many multinationals such as HSBC, Citigroup and Crédit Suisse have sold or reduced their operations in Latin America since 2013. While some players with strong franchises in the region, such as Santander and BBVA, remain, opportunities for regional banks have risen. Six of the 10 biggest regional banks in 2018 were based in Brazil, and the largest players, such as state-owned Banco do Brasil and private lender Itaú Unibanco, have established a solid presence across the continent. Colombian banks also expanded regionally, kicked off by Bancolombia's acquisition of El Salvador's largest bank in 2007. By 2017 Colombian banks controlled 53% of the financial system of El Salvador, 25.5% of Panama and 21% of Costa Rica.

**ASIA:** Domestic and cross-border loans in Asia (excluding Japan) have risen from $7.8trn in 2008 to $17.6trn in 2018. Chinese institutions have recorded especially strong growth, expanding their lending portfolios at a compound annual rate of 17% over this period. They have also shown a willingness to take on more credit risk than Western counterparts, offering leveraged loans to private equity firms at up to eight times earnings before interest, tax, depreciation and amortisation (EBITDA), while most US and European banks are limited by credit risk rules to around four times EBITDA. Banks from Taiwan, India, South Korea, Japan and Australia have ramped up regional operations, as have lenders from the smaller markets of Singapore and Malaysia.

# Capital Markets

## Reform efforts rewarded by upgrades on global indices
## Exchange continues expansion, led by premier market
## Upgrade to emerging market status expected in 2020
## Two major mergers solidify Kuwait's regional position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years

Global index compilers have upgraded the status of Kuwait's markets

# Continuous improvement

## Years of reforms have led to global recognition and greater inflows

Kuwait's equity markets have gone through a remarkable series of reforms in recent years, which have been rewarded with upgrades by international index compilers and ballooning inflows of foreign investment. Enabling infrastructure and a robust legal framework are in place to ensure the markets' continued development, and demand for assets has been proven. What is critical going forward is a greater supply of high-quality investable securities, from sovereign bonds to small company equity listings by businesses with solid track records.

**HISTORY:** Established in the early 1940s, the first shareholding firm was the Bank of Kuwait and the Middle East. Trading was informally and loosely regulated during the 1960s and 1970s; however, following a particularly detrimental bust cycle in the early 1980s that left most domestic financial institutions insolvent, the Central Bank of Kuwait (CBK) and the Ministry of Finance intervened. They introduced sweeping regulatory reform and officially set up the Kuwait Stock Exchange (KSE), now known as Boursa Kuwait. Kuwait Clearing Company (KCC) was established by the government in 1982 to build trust in the market, and is the region's oldest established clearing house. It provides clearing, settlement and depository services to Boursa Kuwait, as well as depository services for unlisted securities. It has also played a central role in the recent development of the capital markets. Since the 1990-91 Gulf War, which again damaged Kuwait's financial infrastructure and necessitated another public intervention, the bourse has expanded rapidly. Today the exchange ranks among the oldest and largest in the region.

**REGULATION & OVERSIGHT:** The Capital Markets Authority (CMA) was established in 2010 under Law No. 7 to regulate and supervise all activities related to securities trading in Kuwait. Under its purview, in 2016 the publicly run KSE was replaced by Boursa Kuwait as part of the planned process to privatise the operation of the exchange. Boursa Kuwait is responsible for introducing new trading rules, risk-management practices, price discovery mechanisms and technology to ensure that the market is as robust and secure as possible. Since taking over the stock exchange, Boursa Kuwait has been focused on upgrading the infrastructure and business environment to meet international standards.

Another step towards privatisation of the bourse occurred in February 2019, when an auction was held for a 44% stake in the operator. A consortium of the Athens Stock Exchange and local investors, led by the National Investment Company, won with an offer of KD0.237 ($0.78) per share for a total of KD19.9m ($65.5m). The Public Institution for Social Security owns a 6% stake and there are plans for the remaining 50% to be listed on the exchange via an initial public offering (IPO). "It is great that the private sector is now handling the development of the bourse," Abdullah Al Bader, senior manager of the alternative investment department at local Dimah Capital, told OBG. "This is a very good step, and we appreciate the government's efforts on this front. It will have a positive impact and presents an opportunity for greater foreign investment in Kuwait."

**RECENT REFORMS:** The creation of Boursa Kuwait in 2016 kicked off a round of reforms aimed at the further development of the market. The CMA, Boursa Kuwait and KCC have implemented an expansive series of regular annual reforms that have yielded positive results, including inclusion in a number of global indices: the FTSE Emerging All Cap Index in 2018; the S&P Dow Jones Global Broad Market Index, effective September 2019; and the MSCI Emerging Markets Index, from June 2020 (see analysis).

There have been four phases of market development in quick succession. The first was completed in May 2017, when the exchange enacted a range of updates to its legal and technical infrastructure,

In February 2019 a consortium of the Athens Stock Exchange and local investors purchased a 44% stake in Kuwait's stock market for $65.5m.

The creation of Boursa Kuwait in 2016 kicked off a round of reforms aimed at the further development of the market. The first round was completed in 2017 when the exchange enacted a range of updates to its legal and technical infrastructure.

The 49% limit on foreign ownership of bank equity was lifted and off-exchange trades were introduced in 2019

bringing Kuwait more in line with international standards. A T+3 settlement cycle was introduced, requiring investors to settle their security transactions within three business days of the trade date; delivery-versus-payment processes were put in place so all securities were delivered on payment for each transaction; foreign account opening processes were simplified and improved; standard tick sizes and up/down limits were introduced; and changes were made to bourse by-laws. These reforms played a large part in the Kuwaiti market joining the FTSE Emerging All Cap Index in 2018.

The second phase of reform was enacted in April 2018 and focused on trading enhancements. The bourse was reorganised into three new market segments, namely a premier market, a main market and an auction market, with securities assigned to one of the categories based on criteria including capitalisation, years in operation, regulatory compliance and liquidity. Market segmentation is common practice at most major exchanges around the world, including the Nasdaq and the London Stock Exchange, and it provides greater investor protection. Boursa Kuwait added indices for the new segments and different sectors, relaxed its listing rules, delisted companies seen as unsuitable for public investment and introduced circuit breakers to the markets. The reforms also included updated listing requirements and the issuance of a new rulebook for listed firms. These reforms contributed to the upgrade to emerging market status within the S&P Dow Jones Global Broad Market Index, effective September 2019.

The third phase of improvements came in April 2019, with the specific objective of attaining an upgrade from index provider MSCI. Foreign accounts can now be opened within 72 hours, the 49% limit on foreign ownership of bank equity has been lifted and off-exchange trades have been introduced, as well as short selling and stock lending and borrowing.

Total market capitalisation stood at
**$106.4bn**
at end-September 2019

Following these reforms, in June 2019 the MSCI announced that Kuwait will be included in its Emerging Markets Index beginning in June 2020.

**REFORMS:** The reforms achieved by the CMA, Boursa Kuwait and KCC are held in high regard by many market participants, as the legal, physical and digital infrastructure that underpins Kuwait's capital markets have been upgraded substantially, and regulations have been clarified. Indeed, the reforms and enhancements have had a positive impact on the market. The upgrades by international index compilers have led to sizeable inflows of foreign investment, driving market performance and improving liquidity. Additional inflows are expected in 2019 and 2020 in the run-up to the MSCI upgrade becoming effective in mid-2020. Areas with room for improvement, however, include accelerating certain approval processes and increasing firms' corporate transparency.

**STRUCTURE:** Boursa Kuwait had a total market capitalisation of KD32.3bn ($106.4bn) at the end of September 2019, with 175 listed companies. Banks are among the largest listed entities, followed by other financial services firms, industrials, telecoms providers and real estate companies. Since April 2018 the market has been divided into three segments depending on the size and information available on the security. To qualify for listing in the premier market, a firm must be valued at more than KD144m ($474.3m), with average daily trading of at least KD90,000 ($296,000). The premier market had 19 firms and a market capitalisation of KD23.7bn ($78.1bn) at the end of September 2019. Banks account for four of the five largest firms by capitalisation on the premier market, led by Kuwait Finance House and National Bank of Kuwait, with Mobile Telecommunications being the only non-banking entity.

The main market, meanwhile, requires average daily trading values of between KD22,500 ($74,100) and KD90,000 ($296,000). The main market had 144 listed securities with a market capitalisation of KD8.6bn ($28.3bn) at the end of September 2019. At the same time, the auction market had 12 listings with a market capitalisation of KD82.1m ($270.4m).

**PERFORMANCE:** The bourse has performed well in recent years, particularly the premier market, which is the destination for the bulk of foreign investment. Looking at total returns of the premier index, including dividends, the market was up 11% in 2017, 12% in 2018 and a sizeable 26% in the first six months of 2019. This made Boursa Kuwait the top-performing market in the GCC in the first half of the year, with Saudi Arabia's Tadawul in second.

In terms of trading activity, the value of traded shares rose from KD2.9bn ($9.6bn) in 2016 to KD4.1bn ($13.5bn) in 2018. Again, improved performance was particularly stark in the first half of 2019, with traded value reaching KD3.8bn ($12.5bn) in six months, up 164% on the same period of 2018.

The upgrades to emerging market status and the resulting inflows of foreign investment are the primary driver of improved performance. The bourse


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There are plans to introduce a trading platform for debt securities

A $300m Islamic bond issued in May 2019 was

**15x**

oversubscribed

has seen approximately $2bn in foreign inflows as a result of the index providers' announcements, with more to come. Beyond the upgrades, a significant improvement in the bottom line of banks has contributed to higher metrics (see Banking chapter), along with steady economic growth in Kuwait that contrasts with slowdowns in other GCC countries.

**IPO:** As recent reforms have increased demand for assets, Kuwait now needs to deepen the pool of available quality assets to further grow the market. Boursa Kuwait has been proactive in trying to attract new companies, visiting family offices and educating them on the benefits of a public listing. For many of these firms, opening their accounts to the public is not appealing, especially at the lower valuations seen in the past. However, with the recent market upgrades, strong foreign demand and ever-rising valuations, the mindset of many family holding companies could begin to change. Passing on generational wealth within large families may also necessitate a public listing in order to realise the equity value in some of these companies. "Kuwait was a challenging market in the past, and private companies decided not to go public at low valuations," Wajih Al Boustany, a portfolio manager at local financial services firm NBK Capital, told OBG. "However, the current market conditions are getting more interesting with better valuations. There is more money chasing Kuwaiti assets, and this could generate a drive for the listing of large family businesses." An increase in listings is also needed to provide more opportunities to investors, according to Al Boustany. "More participation would take the market to the next level, but they need to be quality companies with a proper operational track record," he said. According to Manaf Abdulaziz Alhajeri, CEO of Kuwait Financial Centre, strengthening the market will first require growing the domestic base. "To achieve sustainable growth, we need to be able to invest internally," Alhajeri told OBG. "This would only materialise by improving the ease of doing business in the country, fully activating the private sector and nurturing a domestic institutional investor base. By institutionalising the stock market, it also becomes less volatile and more attractive for international investors."

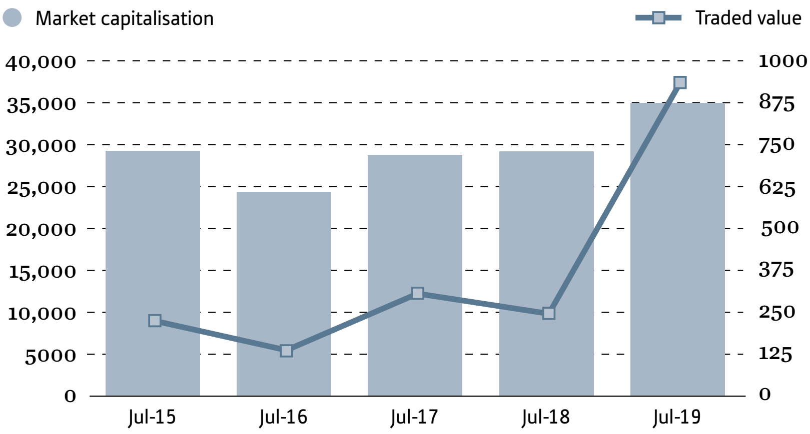
The government is supporting this effort because it is aligned with the aim of growing the private sector, including through the privatisation of public companies. In June 2019 Mohamed Al Osaimi, acting CEO of Boursa Kuwait, told local media that the remaining 50% share of the exchange would be listed by the beginning of 2020, and that he expected another two or three IPOs in the coming 12 months.

The Al Zour North Independent Water and Power Project is another major public asset scheduled for a future IPO, a process that began with consultations in the second half of 2017. "All the reforms that have been implemented and the subsequent upgrade and inclusion into major global indices, and then a couple of IPOs after a silent period will be good for the market, increasing citizen trust and confidence that has been dented by the global financial crisis," Khaldoun Al Tabtabaie, CEO of KCC, told OBG.

**DEBT MARKET:** Activity in Kuwait's debt markets has been limited recently, especially with regards to sovereign issuances, although some banks have come to market for capital-raising and some senior debt issuance. The only sovereign bond was issued in 2017, and liquidity on the secondary market is low. Further issuance is being blocked by parliamentary delays in passing a new debt law in mid-2019 after the previous law expired in October 2017.

The hold-up is not a question of demand, as there is clearly appetite for Kuwaiti debt. Past issuances have been heavily oversubscribed, such as a $300m *sukuk* (Islamic bond) issuance by Kuwait Investment Bank in May 2019 that was approximately 15 times oversubscribed. The lack of issuance in the market encourages long-term investors to buy and hold, thus discouraging secondary trading and weakening the price-discovery function of Kuwait's debt markets.

**Boursa Kuwait indicators, 2015-19** (KD m)




Source: Boursa Kuwait

**SOVEREIGN SUPPORT:** More sovereign debt activity would support issuance by other government-related entities (GREs), as well as by corporates. It is difficult and expensive for corporates to issue debt when there is no sovereign debt in the market to provide a benchmark and guideline for pricing. Parliament passing a new law to allow the sovereign to issue debt would lead to greater corporate issuance, thus increasing the pool of investable assets in Kuwait, and supporting the development of the country's capital markets and financial services more widely.

With excess liquidity in the banking system, banks and insurance firms are also in need of quality assets to invest in. Banks have been pushed into low-yielding assets from the central bank, and insurers are over-exposed to domestic equity markets partly because they have few alternative investment options.

"The debt law is in its final stages; it is agreed and just needs to be passed by Parliament. Some covenants have been added – such as tying the debt ceiling to GDP, which make sense – and they are unlikely to impact the volume of issuance," Waleed Al Awadhi, executive director of supervision at the CBK, told OBG in June 2019.

Once the law is passed, there is potential for the government and some large GREs to issue debt within the next 12 months. In early 2019 Kuwait Petroleum Company (KPC) formulated a long-term financing plan for the organisation with the help of a specialised adviser, and the Cabinet approved its borrowing plan in April 2019.

"A committee exists between the government, the CBK and the Kuwait Investment Authority to manage public debt issuance, such as when issuance takes place and who carries it out," Al Awadhi told OBG. "We have also set up a new committee that includes KPC to align debt issuance plans with the oil sector, as this will help answer questions about when the oil sector should tap international and local markets."

The premier market had 19 companies at the end of September 2019

Boursa Kuwait was the highest-performing capital market in the GCC region in the first half of 2019

**OUTLOOK:** A recent series of reforms has lead to the continued positive performance of the Kuwaiti stock exchange, as has the sound structure of the financial services sector in the country overall. "Returns are very low risk in Kuwait. State banks and the currency are backed by the central bank, and markets are liquid and of good value," Al Bader of Dimah Capital, told OBG. "We expect the market to expand by 15-20% in 2019, mainly as a result of upgrades. The upside will primarily be seen among the blue-chip companies that are to become part of the MSCI Emerging Markets Index."

Further improvements to the market are expected over the medium term. By 2020 compulsory investor relations for companies trading in the premier market is expected to be introduced. By the end of 2020 enhancements will include the introduction of central counterparty clearing, clearing member structures and a reformed risk waterfall for defaults. In early 2021 Boursa Kuwait is set to become the first exchange in the GCC region to offer derivative products, and there are plans to introduce a trading platform for debt securities.

The drive to develop Kuwait's capital markets is far from over, and participants in the domestic market appear upbeat. "The outlook for the market is positive, as the MSCI upgrade is still to come and will be implemented in 2020. Although on-budget government spending has slowed, it should pick up with the upcoming infrastructure project pipeline, and off-budget spending in the oil and gas sector will stay strong with future plans. This will continue to drive bank profits and support the market," Al Boustany told OBG. Positive market sentiment from abroad was reflected in a June 2019 poll by Reuters. Of the 11 Middle East funds surveyed, six said they planned to increase their investments in Kuwait in the coming months, while keeping their exposure to countries in the rest of the region largely constant.

In early 2021 Boursa Kuwait is set to become the first exchange in the GCC region to offer derivative products, and there are plans to introduce a trading platform for debt securities.

Khaldoun Al Tabtabaie, CEO, Kuwait Clearing Company

# On the map

## Khaldoun Al Tabtabaie, CEO, Kuwait Clearing Company (KCC), on upgrading processes and aligning with best practices

**What guides KCC's strategy, and what are the main challenges the entity has faced?**

**AL TABTABAIE:** The pillars of KCC's strategy include the contribution to capital market development initiatives, alignment with international best practices, improvement to core services, and most importantly, investment in human capital. One of the challenging aspects we faced was how to translate plans into meaningful results, particularly when there are different stakeholders in a market that has seen little change to its infrastructure previously.

The other challenge was how to achieve rapid transformation within a short period in order to deliver market initiatives, and thus contribute to the upgrade of Kuwait's capital markets. However, our continuous investment in people and technology, which we take seriously, has served us well in achieving the goals set within our strategy and those in the market's strategy.

**In what ways is technology helping KCC achieve its goals, and how can it improve the market?**

**AL TABTABAIE:** KCC's investment in technologies allowed it to become agile in terms of development, thereby enabling it to provide added-value services to the different stakeholders it serves. Technology has also helped the company undertake the different market requirements with confidence, thereby adapting to rapid change. Recently, it launched IPO Kuwait, a service that allows investors to complete an initial public offering (IPO) or capital increment subscription from order to payment through simplified e-channels, without the need to go to banks. The new service has already been utilised in two of the largest IPOs in the country, Boursa Kuwait and Shamal Azzour. We are now looking at blockchain and the ways in which we could utilise the technology to serve global investors. In doing so, KCC took part in the world's first cross-border securities settlement between two central depositories using blockchain, which was announced earlier in 2019. The successful test allows the company to explore the possibility to offer new services and introduce operational efficiencies to the market.

**How has KCC contributed to the development of local capital markets, and how is this increasing international investor appetite?**

**AL TABTABAIE:** Back in 2016, KCC embarked upon a long-term strategy aiming to bring its operations and services in alignment with the International Organisation of Securities Commissions' principles for financial market infrastructures standards, thereby supporting the Capital Markets Authority's market development initiatives and contributing to the country's goal to turn into a leading financial centre. Since then, it has significantly invested in its infrastructure and human capital to meet the goals set forth in its strategy and that of the State of Kuwait.

The development projects that KCC undertook required the implementation of various regulatory and operational enhancements in the Kuwaiti securities market infrastructure to bring it in line with international standards for capital markets, thus making it more accessible and attractive to global investors. This involved the redesign and implementation of the entire post-trade infrastructure as well as the introduction of related operations and rules, thereby easing access for foreign investors to Kuwait's capital markets.

Various changes were introduced to the post-trade infrastructure over the past two years, including a T+3 settlement cycle, custodian rejection facilities for foreign investors, a risk waterfall model to deal with failed settlements and a simplified account opening process, among others. The successful completion and delivery of these projects resulted in the reclassification of Kuwait to emerging market status, thereby putting it on the global investors' map. As a result, the number of new foreign investor accounts rose significantly, and in turn this contributed to increased trading volumes.

Passive inflows as a result of an MSCI upgrade should total $2.8bn

# Growth ahead

## Major index providers upgrade Kuwait to emerging market status

The reforms that have been carried out by the authorities to develop Kuwait's market have been recognised by the international investor community via inclusions in influential emerging market indices. This should be of considerable benefit to the market, encouraging professionalisation and driving performance.

**NEW RANKS:** In the second half of 2018 Kuwait was included in the FTSE Emerging All Cap Index. A total of 12 Kuwaiti stocks were included for a combined weight of 0.5%, which had risen to 15 stocks for a weight of 0.91% by July 2019. Then, in December 2018 S&P Dow Jones announced that it would include Kuwait in its Global Broad Market Index with an emerging market classification from September 2019. In June 2019 MSCI announced that it would be reclassifying Kuwait from frontier to emerging market status effective June 2020. The MSCI Emerging Markets Index is tracked by more funds than any other index and is therefore likely to have the greatest impact on Kuwait's capital markets.

MSCI made its upgrade conditional on two enhancements that would need to be in place by November 2019: technical trading updates to foreign accounts and order systems that would streamline processes for foreign investors. The Capital Markets Authority (CMA) said that it would be implementing these updates even before the MSCI announcement was made, and that they would be in place well before the November deadline. "The likelihood of the MSCI upgrade going ahead in 2020 is very high, with market participants seeing it as a done deal," Wajih Al Boustany, a portfolio manager at NBK Capital, told OBG.

MSCI stated that Kuwait would have a weight in its Emerging Markets Index of about 0.5%, comprised nine stocks from various sectors: the National Bank of Kuwait, Kuwait Finance House, Boubyan Bank, Gulf Bank and Burgan Bank from the financial sector; Mobile Telecommunications from ICT; Agility in transport and logistics; holding firm Mabanee in real estate; and Boubyan Petrochemical Company in the industrial sector.

**OUTCOMES:** News of the upgrades has already had a positive impact on Kuwait's stock market. In 2017 net foreign inflows to the local exchange were $200m, according to data from Boursa Kuwait. During the second half of 2018, after the announcement and implementation of the FTSE upgrade, foreign inflows spiked to $700m and rose again to $1.1bn in the first five months of 2019, compared to $200m in the same period of 2018. Inflows have further room for improvement if the external environment is favourable. "Inflows could have been even higher if it were not for heightened regional tensions," Masud Ul Hassan Khalid, CFO at the Commercial Bank of Kuwait, told OBG.

Strong inflows from abroad are likely to continue. Analysts are in agreement that the passive inflows to the stock market as a result of the MSCI upgrade should total around $2.8bn, compared with around $1bn for the FTSE upgrade. "Around $3bn in passive inflows sounds about right to me, but we are expecting much more in active inflows – something like $10bn," Saade Chami, group chief economist at the National Bank of Kuwait, told OBG. In June 2019 the CMA stated that Kuwait could attract inflows of up to $5bn from the MSCI upgrade, showing the variation in estimates. Unlike the consensus on passive inflows, there is much less agreement about the likely scale of actively managed funds, as their decisions are more discretionary than automatic. "Active inflows are hard to predict, as these require decent opportunities. However, if they come, they will come big," said Al Boustany.

In Qatar the Institute of International Finance estimates that net inflows into its equity market rose from $600m to $2.5bn as a result of its upgrade to emerging market status in 2014, while in the UAE net inflows more than doubled to $2.1bn and in Saudi Arabia net inflows leapt from $100m in 2018 to over $10bn in the first half of 2019. If such sums of money end up flowing into Kuwait, it will be very positive for the market, lifting valuations, encouraging listings and boosting liquidity.

In June 2019 MSCI announced that it would grant Kuwait emerging market status effective June 2020, conditional on two enhancements: technical trading updates to foreign accounts and order systems that would streamline processes for foreigners.

Further consolidation among investment companies in Kuwait is likely

# Strategic expansion

## Calculated agreements aim to strengthen Kuwait's presence in regional banking and investment

Two major mergers were under way in Kuwait's financial sector in mid-2019. The first was estimated to have $13bn of assets under management and the second to have total assets of about $92bn.

Two major transactions were under way in Kuwait's financial sector in mid-2019. First, KAMCO Investment Company, the investment banking subsidiary of Kuwaiti conglomerate KIPCO, was merging with Global Investment House (GIH), another local investment firm. Second, Kuwait Finance House (KFH), the country's largest Islamic bank, was looking to purchase Ahli United Bank (AUB) of Bahrain for around $8bn.

**MAKING MOVES:** The joining of KAMCO and GIH is the largest merger in Kuwait's investment sector and follows the 70% stake in GIH that KAMCO acquired in September 2018. A memorandum of understanding was signed in March 2019 to begin the regulatory process for the merger. The combined entity will be the largest asset management and investment banking business in Kuwait, and one of the largest in the MENA region, with $13bn of assets under management and a presence in Kuwait, Saudi Arabia, the UAE, Egypt, Bahrain, Jordan and Turkey. The aim of the merger is to create a regional investment banking powerhouse with a broad range of products that is likely to expand over time. There is room for an investment bank from the region, as the Kuwaiti market is currently dominated by international banks leveraging their scale and global networks. It is hoped that the KAMCO-GIH entity will be able to fully support public and private sector development plans, and utilise its regional partnerships and know-how to compete with international rivals.

Banking sectors in the GCC are ripe for consolidation; the region is known for having a large number of banks relative to the size of its populations. Mergers would greatly enhance the ability of these entities to compete internationally, as well as the capacity to finance some major projects planned in the region, particularly in the energy sector. The operating environment for banks has been tough in Kuwait in recent years, and while this would ordinarily encourage consolidation, not much has occurred on this front. A recently improved operating environment and regulatory concerns about oligopolistic powers are likely to prevent any mergers in the short term (see Banking chapter). Therefore, some of the larger Kuwaiti banks are looking overseas for expansion opportunities. This thinking is likely behind KFH's acquisition of Bahraini lender AUB, which, if completed, would be the first major regional bank merger in the GCC in recent years. A preliminary deal was reached in January 2019 and due diligence was completed in early September that year. The merger would create the sixth-largest bank in the GCC and one of the world's largest Islamic banks, with total assets of about $92bn.

Kuwait had the second-most mergers and acquisitions activity in the GCC between 2014 and 2018, with the number of transactions totalling 127 over the period.

**FUTURE ACTIVITY:** Reforms in Kuwait could drive further mergers and acquisitions (M&A). Foreign ownership limits have been raised in the banking sector, and the economy and capital markets are being opened to international investors. Indeed, Kuwait had the second-most M&A activity in the GCC between 2014 and 2018, with the number of transactions totalling 127 over the period, according to the Kuwait Financial Centre in February 2019. When foreign ownership restrictions were removed from Kuwait's telecoms sector in 2015, it quickly became foreign owned, and some market watchers believe the banking sector could follow the same path. However, foreign entrants would still be subject to approval from the central bank, in an effort to prevent a takeover of the banking sector.

Looking ahead, the development of capital markets across the region is likely to encourage more firms to list, creating additional potential targets for M&A and ensuring Kuwait remains an attractive place for such transactions. Further consolidation among investment companies is likely due to their high quantity and as the outlook for some of them improves. Banking sector consolidation is less likely in the near term, however, due to regulatory obstacles and the reluctance of bank shareholders to sell. Large Kuwaiti banks may seek additional acquisitions of foreign banks, though, as the performance and capitalisation of these local entities improve and they look overseas for quicker expansion.

Mohamed Al Osaimi, Acting CEO, Boursa Kuwait

# Enhanced capacities

## Mohamed Al Osaimi, Acting CEO, Boursa Kuwait, on boosting the stock exchange's status and product portfolio

**What gains are to be expected from the privatisation of Boursa Kuwait and Kuwait's upgrade to emerging market status by several indices?**

**AL OSAIMI:** Boursa Kuwait's privatisation and ongoing progressive market reforms have paved the way for the implementation of numerous regulatory and operational enhancements in the Kuwaiti equity market. These reforms established an exchange capable of supporting the strength, depth and long-term growth of the Kuwaiti private sector. The upgrade of Kuwait to emerging market status is instrumental in attracting foreign investment from large institutions, reinforcing investors' confidence in the market's stability, all the while substantially boosting the market's liquidity. We received an upgrade from FTSE Russell in 2017 and S&P Dow Jones in 2018, and we are working with the Capital Markets Authority to get the final decision of reclassification to emerging market status from MSCI. This upgrade, if affirmed by end-2019, is expected to lead to inflows ranging from $1.8bn to $2.8bn of passive funds, in addition to lateral growth in local trading.

**Which measures are currently being taken to boost the attractiveness of Boursa Kuwait?**

**AL OSAIMI:** We have been working with partners from across the investment community, locally and abroad, to introduce new products and services, and to encourage government entities and family businesses to list on the exchange. We are engaging in a strategy that incentivises foreign companies to list and invest in the market.

We have also established a long-term partnership with Refinitiv, a global provider of financial markets data, to supply investors with real-time analysis on financial statements and ratios, charting and comparability capabilities and daily updates on a number of ratios according to closing prices. Additionally, Boursa Kuwait's continuous pursuit of international recognition, accreditation and upgrades from international credit ratings agencies and indices providers, such as MSCI or FTSE Russell and S&P Dow Jones, entails compliance with global transparency standards.

**In what ways can Boursa Kuwait encourage further diversification of issuers and local investors?**

**AL OSAIMI:** Boursa Kuwait is keen to diversify and develop its product portfolio in line with international standards, taking solid steps towards continuously introducing new products and services that address market and investor needs. Product launches such as an over-the-counter platform, short selling, a trade-at-last session, stock-swap transactions and real estate investment trusts reflect the pace at which Boursa Kuwait is operating and rolling out its market developments, and elevating market offerings.

Driven by its market development strategy, the stock exchange is focused on infrastructural upgrades, regulatory reforms and the diversification of offerings in a bid to improve the business environment, and expand its issuer and investor bases.

**How is Boursa Kuwait encouraging listings, and what role has market segmentation had in this?**

**AL OSAIMI:** At Boursa Kuwait we have a team working with government entities and family businesses to optimise their market readiness. Our internal programme helps firms to adopt international best practices and assists with compliance and financial disclosures. While the segmentation of the market has resulted in a notable leap in enhancing market conditions and catering to firms of different sizes, it is the changes in requirements that has encouraged more listings. The free-float concept is now implemented, which improves the attractiveness of the issuers base for family businesses and government entities, while a rise in the number of total shareholders boosts liquidity. Meanwhile, more flexible international standards for listing have been adopted, providing market participants with the opportunity to invest in newly established companies and start-ups.

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# Islamic Financial Services

## Merger to create world's largest Islamic bank
## Islamic banking assets at 35-40% of sector total
## Law makes takaful windows standalone entities
## Sovereign Islamic bond issuance in high demand

The central bank oversees both Islamic and conventional institutions

# By the book

## Targeted legislation and issuances give a boost to the financial system's sharia-compliant segment

Kuwait's sharia-compliant assets accounted for

**6.3%**

of the world total in the second quarter of 2018

Kuwait's Islamic financial services (IFS) sector is well established, with a long history in both Islamic banking and *takaful*, or Islamic insurance. The segment has expanded in recent years, building upon the country's reputation as an emerging centre for sharia-compliant banking, insurance and investment products. The government has enacted a series of laws and regulations aimed at further developing Islamic finance, and there remains a strong demand for such products. This is reflected in the country's increasing world share of sharia-compliant assets, with Kuwait accounting for 6.3% of such products in the second quarter of 2018, up from 6.0% during the same period of 2017, according to the "IFS Industry Stability Report 2019", published by the Kuala Lumpur-based Islamic Financial Services Board in July 2019. The GCC as a whole was home to 44.3% of all Islamic financial assets in 2018.

Islamic finance players in Kuwait have historically been more conservative in terms of lending and asset composition than the conventional banking segment, which has proved prescient, especially in light of the 2008-09 global financial crisis and its aftermath. Islamic banks have found themselves less exposed to bad debt and, as such, have enjoyed faster profit growth. Similarly, takaful providers have been less aggressive than their conventional counterparts in pushing down prices in recent years and, as a result, are better positioned for the upcoming regulatory changes to the sector.

**HISTORY:** The Kuwaiti government has been a pioneer in the development of IFS in the Gulf and, as an extension, the world. The nation was a key driving force behind the organisation of a series of regional meetings focused on facilitating the introduction of early sharia-compliant products, beginning in the 1970s. These summits brought together financial regulators, sharia scholars and various commercial interests to agree on details and regulatory frameworks around key issues related to Islamic banking, *sukuk* (Islamic 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 Kuwait Finance House (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 Islamic financial entity allowed to operate in Kuwait. Others were banned under the 1968 banking law, which prohibited the establishment and operation of privately held sharia-compliant banks and other financial institutions. As such, through the 1980s and 1990s, KFH effectively had a monopoly on the local market, as well as privileged access to public projects and financing as a state-owned institution.

**ENTER PLAYERS:** This situation changed in the early 2000s, when Kuwait relaxed its regulations regarding 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 creation of new Islamic banks and non-lending financial institutions.

In 2003 the government passed Law No. 33, which allowed for the creation of new Islamic banks and non-lending financial institutions, ending a decades-long monopoly in the segment.

The following year, the privately operated Boubyan Bank was established, becoming KFH's first sharia-compliant competitor. Boubyan was followed by a handful of other new entrants and older conventional operators that entered the sharia-compliant arena. In 2007 Kuwait International Bank (KIB), which had been operating as a conventional lender as Kuwait Real Estate Bank since the early 1970s, converted all its operations to meet Islamic requirements. In April 2010 Bahrain's Ahli United Bank (AUB), which has a presence in Kuwait, also moved from conventional to Islamic status. That same year Warba Bank, a newly established lender, obtained an operating licence and became the fifth Islamic bank in the local market, with 11 branches.

Opening up the segment resulted in sharia-compliant offerings steadily gaining a larger share of total banking assets in the country. Indeed, the proportion of assets held by conventional banks fell from over 70% in 2008 to 62% in 2010. However, in the years since, the growth of the Islamic segment and the conventional banking segment have been broadly aligned, and the regulator has sought to ensure that both are treated equally, with similar rates of growth and profits.

In July 2018 KFH announced plans to restart merger talks with AUB, renewing discussions between the two entities that came to an end in 2017 due to a disagreement about the price of AUB's shares. The purchase of AUB by KFH for an estimated $7bn would result in the establishment of a new sharia-compliant lender with assets valued at around $92bn and equities worth $10bn, which would make it the largest Islamic bank in the world. The acquisition is also expected to increase the reach of the Kuwaiti lender, giving it an advantageous position in markets such as Egypt and the UK, where AUB already has an established profile. KFH said in a statement in January 2019 that the bank expects the merger to have a significant and immediate impact on earnings, and projects a 90% increase in consolidated profits compared to those of 2018. If completed, the merger would be the first major bank merger in the GCC in recent years. A preliminary deal was reached in January 2019 and due diligence was under way as of August of that year.

The potential merger of KFH and AUB is not the only change in process in the segment. In May 2019 the National Bank of Kuwait (NBK), a conventional lender and the country's largest bank, announced it acquired additional shares in Boubyan Bank, increasing its holding from 59.15% to 59.9%. NBK therefore owns the controlling stake in Boubyan Bank, whose capital stood at KD288.4m ($949.9m) in May 2019.

All Islamic banking assets in Kuwait were valued at $98.8bn in 2018

Growth of the Islamic segment and the conventional banking segment have been broadly aligned since 2010

**OVERSIGHT:** The Islamic banking segment, like conventional banking, is under the supervision of the Central Bank of Kuwait (CBK), which works to maintain equity between the two segments. "We try to ensure a level playing field for Islamic banks and conventional banks," Waleed Al Awadhi, executive director of supervision at the CBK, told OBG. Even so, the CBK has taken a number of steps to develop the oversight of sharia-compliant products.

The CBK is working to keep up to date with regulatory needs and revises its supervisory framework accordingly, states an April 2019 staff report from the IMF. The organisation noted that the authorities proposed draft amendments to legislation establishing a dedicated sharia board in the central bank. "We are building capacity in the Islamic banking sector and creating a proper control function," Al Awadhi told OBG. "Further, we are implementing these changes smoothly through dialogue with sharia oversight boards."

**STRUCTURE:** Banks account for the bulk of Islamic assets in Kuwait, at around 80%. All Islamic banking assets were valued at KD30bn ($98.8bn) in 2018, accounting for 38% of the total assets in the banking sector, a share that has remained relatively unchanged in recent years. KFH is by far the largest of the Islamic banks, accounting for 58.5% of total Islamic assets at the end of 2018, with KD17.77bn ($58.3bn). Boubyan Bank was second, with 14.3% of Islamic assets, equal to KD4.35bn ($14.2bn); followed by AUB, with 12.9% of assets at KD3.91bn ($12.9bn); Warba Bank, with market share of 7.2%, or KD2.19bn ($7.2bn); and KIB, also holding 7.2% of total assets.

A merger under way in 2019 would result in a new sharia-compliant lender with assets valued at around $92bn and equities worth $10bn, which would make it the largest Islamic bank in the world.

The largest takaful companies in Kuwait are part of leading banks: Boubyan Takaful and KFH Takaful. The financial backing this affords has allowed the banks to overtake older takaful companies, such as First Takaful, which was established in 2000.

**PERFORMANCE:** Islamic banks in Kuwait have followed a largely similar pattern of growth as conventional banks. Between 2014 and 2018 the total assets of Islamic lenders grew at an average of 6% per year, the same rate as conventional banks. However, in terms of profits, Islamic banks have outperformed their conventional counterparts, with an average growth rate of 12% over the same period, compared to 6% for conventional banks. Much of this profit growth is due to the fact that Islamic banks were less exposed to the investment companies that caused the debt-related issues in the aftermath of the global financial crisis.

Islamic banks have continued to outperform conventional entities, reaching profit growth of 22% in 2018, compared to 17% for the latter. Conventional banks, however, dominate in terms of absolute value, taking in total profits of KD616m ($2bn) in 2018, versus KD268bn ($882.7m) for Islamic banks.

**SUKUK:** Kuwait's relatively recent formalisation of regulations governing the issuance of sukuk suggests further scope for growth. In late 2015 the government introduced a new regulatory framework for sharia-compliant debt instruments. The framework, which was developed and implemented in part to encourage new sukuk listings, established rules for dealing with all aspects of the Islamic debt market, including those related to 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 between 2016 and 2017. 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.

As of February 2019 Kuwait was the only GCC sovereign to not issue a sukuk, despite announcing plans in 2016 to do so. There is a strong appetite for such instruments, and a sovereign sukuk issuance would further the development of the local Islamic financial market. It is notable that in the absence of sovereign issuances, several banks have released sukuk. In May 2018 KFH announced a $3bn sukuk. More recently, KIB issued its first sukuk for $300m in May 2019 to bolster its Tier 1 capital, and the offering was 15 times oversubscribed. "This sukuk transaction is clear evidence that Kuwait possesses the components required to attract international investors to the local market," Raed Jawad Bukhamseen,

In 2014-18 the total assets of Islamic lenders grew at an average of 6% per year, while profits grew at 12%

vice chairman and CEO of KIB, said at the time in a statement. The sukuk was subsequently listed for trading on a secondary market through Euronext Dublin. Other banks are following suit. In July 2019 Warba Bank announced a $500m sukuk, which would be part of an overall $2bn offering.

**REGIONAL ISSUANCE:** There is a long-standing gap between bond and sukuk issuance not only in Kuwait, but across the GCC. In 2018 conventional sovereign and corporate issuances in the GCC totalled $68.1bn, according to data compiled by the Kuwait Financial Centre (Markaz), compared to $23.8bn in sukuk issuance. This latter figure is equal to 26% of the total, while conventional debt instruments accounted for the majority 74%.

Notably, however, sukuk issuance has been growing faster than conventional bond debuts, with total sukuk issued in the region rising by 4% in 2018, compared to a decline of 12% for conventional bonds. The increase for sukuk was even larger than that seen in the previous year, with the total primary issuance of sukuk almost doubling since 2016, when it was $13bn, according to Markaz. Regional data indicates that sovereign issues contributed half of the total in 2018, versus 63% in 2017. A recovery in oil prices and lower budget deficits in the region eased the pressure on sovereigns to issue debt.

**TAKAFUL:** Islamic insurance is a relatively new product in Kuwait, with the establishment of First Takaful in 2000 marking the country's first step into a burgeoning global market for such services. Interest in supplying takaful surged in the latter half of that decade as the market developed, and there are now 17 fully fledged takaful companies operating in Kuwait, including one foreign company. The largest players in the market are all backed by banks. Boubyan, KFH and KIB have their own dedicated takaful operations and are the largest operators. Like the conventional insurance market, motor insurance

There is a long-standing gap between bond and sukuk issuance not only in Kuwait, but across the GCC. In 2018 conventional sovereign and corporate issuances in the region totalled $68.1bn, while sukuk issuance was $23.8bn.

Banks account for the bulk of Islamic assets in Kuwait, at around 80%

Total premium income for pure takaful companies reached

**$303m**

in 2018, equal to 20% of the total insurance market

is the most popular product, particularly compulsory cover, and price competition in this segment is fierce. By 2018 total premium income for pure takaful companies reached KD92m ($303m), or 20% of the total insurance market.

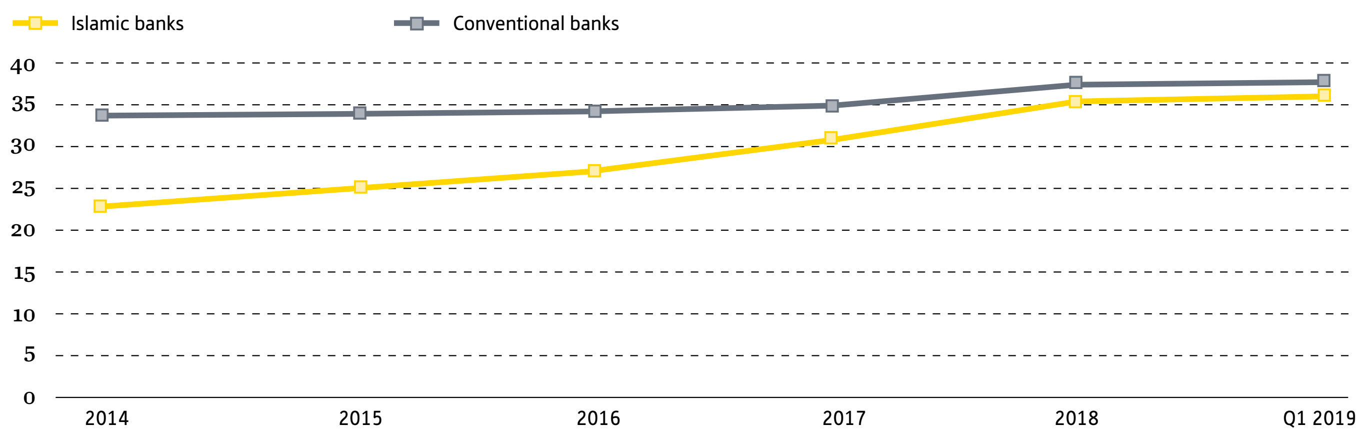
In mid-2019 a long-awaited insurance law was passed by Parliament with updates to a previous law that had been in place since 1961. The most significant change was that takaful units will no longer be permitted, thus conventional companies will be required to separate their takaful business into independent companies with their own capital. The new legislation is expected to open the segment to more rapid growth in the medium to long term. The immediate impact, however, is likely to be minimal. The amount of premiums written by takaful units are relatively small, at KD4m ($13.2m) in 2018, a fraction of the total premiums of KD449m ($1.5bn). The new insurance law will also rewrite the rule book for takaful companies and will likely compel takaful providers to increase reserves, hire more experienced personnel and tighten their risk functions, all of which are likely to negatively impact firms' bottom lines (see Insurance chapter).

Takaful companies are expected to be less impacted by the new regulations than conventional insurance providers, as the former have been more conservative in the past and their reserve levels are higher than their conventional counterparts; the race to cut premiums has been more prevalent in the conventional segment. Takaful companies should therefore benefit because the extent to which they are undercut on pricing is likely to be less severe in the future, encouraging more people to switch over to takaful.

Cultural barriers continue to inhibit the development of the insurance market, however, according to Mohammad Al Beeshi, vice-president of technical services at Gulf Takaful. "Awareness is the main issue facing the insurance and takaful market today," he told OBG. "The market is also grappling with capacity within some insurance companies, and liquidity." Nonetheless, many market participants are optimistic, particularly in certain segments of the market. "Medical coverage is booming as more and more people are switching to private insurance," Al Beeshi told OBG. "The oil sector is also an important segment for takaful insurers, with large premiums written to cover their operations."

**OUTLOOK:** Kuwait's Islamic financial services market is well positioned to benefit from increasing demand for sharia-compliant products. As the market expands and Islamic providers develop their product offerings and bring themselves in line with conventional services, the outlook for Islamic offerings looks positive. Islamic banks' strong growth in profits and the shift from takaful units to fully fledged takaful companies underscores the opportunities in the segment. Key to further development will be an issuance of a sovereign sukuk, which would provide an attractive security for investors and act as a benchmark for corporate sukuk issuances.

**Net profit margin, 2014-19 (%)**




Source: CBK

Mazin Al Nahedh, CEO, Kuwait Finance House

# Leveraging potential

## Mazin Al Nahedh, CEO, Kuwait Finance House (KFH), on challenges and regulations for sharia-compliant banking

**What challenges do banks face in leveraging and developing new Islamic instruments?**

**AL NAHEDH:** Acceptability of new product documentation among banks is one of the key challenges faced by Islamic banks. Each bank prepares documentation for a new product in accordance with the acceptability of its sharia board. However, this approach has resulted in different sets of documentation among banks, which consumes time and resources. The International Islamic Financial Market has played a very significant role in standardising product documentation such as Treasury bonds, hedging and swaps, and risk participation, among others. However, there is still a significant time lapse between the launch of a new product and the standardisation of its documentation.

**How can the regulatory framework support growth in the sukuk (Islamic bond) market?**

**AL NAHEDH:** The sovereign issuer is generally the starting point to promote the sukuk market in a given country. Sovereign issuance not only creates a pricing benchmark for corporations and banks in the relevant jurisdiction, but also sets up a regulatory framework to structure the sukuk market for such corporations and banks. Accordingly, our key focus is on countries that have not yet issued a sovereign sukuk but are looking into it. We are encouraging them to launch a debut issuance, as we strongly believe this approach will open doors for the development of dynamic sukuk markets for both corporations and banks in those countries.

From a regulatory standpoint, supporting development and growth in the sukuk market first requires that regulators focus on the core nature of the underlying instrument: the senior unsecured paper, and therefore the asset base for structuring purposes. The issuer should have to identify and ring-fence some assets to support issuance of the sukuk, but it is not required to mortgage assets, as is typically done in asset-backed financing. For instance, if a country is issuing a sukuk based on certain assets, such as toll roads, the general perception is that the country would have sold such toll roads in order to secure sukuk funding. The fact is, that in no circumstance – including in the event of default by the country – would the sukuk holders be able to take possession of such a toll road or sell it to a third party for the recovery of their sukuk amount. The only recourse to sukuk holders is to force the government to buy back such assets from the sukuk holders, and they will be in line with any other unsecured conventional bondholders.

**In what ways are Kuwaiti Islamic banks pursuing internationalisation, and what challenges are they facing in the current economic climate?**

**AL NAHEDH:** Islamic financial centres play a certain role in the internationalisation of financial markets, and the global Islamic finance industry has witnessed steady double-digit growth in assets over the past few years. Islamic finance assets are now estimated to surpass $3trn in value, with further growth expected in the coming years.

Banks are facing challenges in a number of areas. While oil remains the dominant force and the single most important economic lever, prices have become more volatile due to the geopolitical context. For that reason, governments need to accelerate the diversification of their economies away from reliance on oil exports for revenue.

With regards to the challenges that the banking industry faces, financial technology is a main disruptor. It challenges the sector in terms of regulatory compliance since standards have to be applied to digital solutions, and in terms of management of information and customer experience by overhauling legacy systems and requiring quick adaptation.

Raed Jawad Bukhamseen, Vice-Chairman and CEO, Kuwait International Bank

# Ready for more

## Raed Jawad Bukhamseen, Vice-Chairman and CEO, Kuwait International Bank, on the growth potential and benefits of sharia-compliant banking

**How would you assess the growth potential for Islamic banking in Kuwait, and what are the main factors driving demand for Islamic institutions?**

**BUKHAMSEEN:** The Islamic finance industry is expected to continue growing, albeit slowly. For instance, in 2017 the industry grew by 5%, whereas in 2016 it grew by about 2%. Nevertheless, Islamic banking is expected to reach $3.5trn by 2021, as countries look for alternative sources of funding.

The number of Islamic financial institutions and their market shares has largely accelerated across all indicators – including asset volume and financing volume – becoming a cornerstone of the Kuwaiti economy and a resource for banking activity. Some key factors driving demand include the rise in *sukuk* (Islamic bond) issuances, and the improvement of Islamic banking offerings and service quality, which are easing customers into making the switch. The Islamic financial industry therefore has strong potential for further growth and development.

**To what extent can sharia-compliant financial institutions support the needs of small and medium-sized enterprises (SMEs)?**

**BUKHAMSEEN:** In Kuwait the SME sector constitutes a large portion of private institutions. However, compared to larger enterprises, SMEs experience more difficulties in obtaining financing from financial institutions due to their frequent lack of assets and credit history, among other factors. Islamic banks are better suited to SMEs in terms of easing collateral requirements than conventional banks, which tend to focus more on projected cash flows and partnership-style financing. Additionally, Islamic finance aims to provide access to financing regardless of the size of businesses, emphasising asset-backed financing and risk sharing to support all businesses. By expanding the range of financial products, Islamic financial institutions can improve financial access and foster inclusion.

**In what ways could regulation help boost the Islamic financial sector's overall attractiveness?**

**BUKHAMSEEN:** Regulating the Islamic finance sector and defining its frameworks will not only expand the market further, but will also enhance its social and economic impact. A more regulated sector will also help achieve the desired sustainability. Standardising interpretation and legal documentation can streamline sukuk issuance, simplify assessment of risk exposure when investing in sukuk, clarify the tangibility ratio to help institutions plan issuance and use assets more efficiently, prevent uncertainty on compliance after a transaction closes, and provide clarity for investors on the options available. By improving governance, the Islamic finance industry will have more robust compliance tools in place, which will in turn minimise reputation risk across the whole industry.

**Do you see sharia-compliant banking eventually competing directly with conventional banking?**

**BUKHAMSEEN:** The Islamic banking industry is poised for growth, adopting an array of new banking technologies, revamping regulatory structures and equipping itself with expert manpower. Traditionally, the industry has been dominated by Muslim-majority countries; however, it has also been gaining traction in the rest of the world. The global financial crisis was the result of excessive speculation – something that Islamic finance avoids. This non-speculative nature, as well as the increased appeal for sustainable and responsible investment, has attracted investors from non-Muslim countries, especially in the sukuk market.

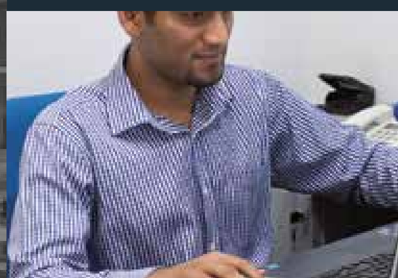
The Islamic banking industry offers the opportunity to target previously unexplored consumer and business segments, but it must continue strengthening its regulatory framework and developing human capital to attract more global investors. Governments need to ensure that the regulatory frameworks are being expanded for the full use of Islamic finance segments.

# Insurance

## New law introduces greater financial requirements
## Medical coverage accounts for majority of the market
## Growth potential for corporate life policy packages
## Sector capitalises on technology and mobile phone use







Total premium across all segments rose by 7.5% in 2018 to $1.5bn

# Extending coverage

## After two decades of rapid growth, the industry charts a more sustainable path

Domestic insurers welcomed high amounts of inward investment in the mid-1990s, prompting the state to sell most of its stakes in various providers, leaving the industry largely under private control.

Kuwait's insurance sector has expanded rapidly in recent years, with numerous new entrants competing and driving down premium. This has led to concerns that companies are booking high profits at the risk of not keeping enough in reserve to meet future payouts on policies. To counter these worries, a new law was passed in July 2019 which is likely to have a profound impact on the sector and put the industry on a sustainable long-term trajectory (see analysis). However, with the law pushing for increased reserves and stricter regulation, flatter profit growth and a major restructuring of the market could be seen over the next two to three years.

**HISTORY:** Some of the country's firms have a long history, dating back to the 1960s and 1970s. Founded by Emiri decree in 1960, the Kuwait Insurance Company (KIC) was the first national insurance firm that pioneered a range of now standard practices. Following its creation, Law No. 24 of 1961 provided the first regulations for the sector. The bill and its various amendments applied to every insurance provider in Kuwait, regardless of its status as a domestic or foreign firm. Local insurers must also follow the Civil Code laid out in Decree Law No. 67 of 1980, which covers the general principles of insurance contracting, including the rights and responsibilities of contracted parties.

In the 15 years after the 1961 law was introduced, a handful of new firms were established. These were Al Ahleia Insurance Company (AAIC, 1962), Bahrain Kuwait Insurance Company (1972) and Warba Insurance Company (1976). Together with KIC and the Gulf Insurance Group (GIG), which was founded in 1962 and operates across the region, these firms constituted the entire insurance market until the economic boom of the late 1990s and early 2000s encouraged a raft of insurance firms to come to market.

Oil-fuelled speculative trading in the mid-1970s contributed to the crash of the Kuwait Stock Exchange (KSE) in 1977 that ruined much of the country's financial infrastructure and threatened even the largest insurance companies with bankruptcy. Led by the Kuwait Investment Authority (KIA), the government bailed out several illiquid businesses and ushered in a period of commercial investment by state-owned institutions. As late as 1993 the KIA owned over 80% of GIG, just under 60% of Warba Insurance, some 20% of AAIC and nearly 10% of KIC.

The 1990-91 Gulf War severely disrupted the insurance market once again, but by the mid-1990s another state-led recovery effort had generated considerable growth in the local economy. Domestic insurers welcomed high amounts of inward investment, prompting the KIA to sell most of its stakes in various providers, leaving the industry largely under private control.

**CROWDED ENVIRONMENT:** Meanwhile, a cohort of new insurance firms were able to establish themselves in the market by capitalising on several supportive conditions, including the low cost of credit, relatively low capital requirements and high rates of return on the KSE. By 2015 Kuwait was home to 23 domestic and 10 foreign insurance companies.

This influx of new players in the late 1990s and early 2000s was the seed of many of the challenges the sector currently faces. The ease of credit access and the attractiveness of earning supplementary revenue on the capital market led to a race to the bottom on premium pricing. Charging low prices has made it a challenge for some companies to turn a profit on their core underwriting business, thus investment returns have become central to many operating budgets.

New players continued to enter the market, with a total of 42 insurers operating in Kuwait in 2019, including 11 foreign firms. This has increased competition and driven rates down further. "It is hoped that the new law will address various issues faced by the local insurance industry," Varghese Abraham, reinsurance manager at Warba Insurance, told OBG, highlighting the high number of companies serving the market.

**42**
insurers were operating in Kuwait as of 2019, including 11 foreign firms

The authorities made some reforms ahead of the law to address the dynamics of the operating environment. 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 ($16.5m), while reinsurance groups must keep at least KD15m ($49.4m) on hand.

The Kuwaiti market remains accessible to foreign insurers, with 100% foreign ownership permitted and the Kuwait Direct Investment Promotion Authority offering a one-stop shop to foreign applicants.

Although the number of insurance companies is high, they are competing for relatively small pieces of the market. Insurance premium amounts to just 1.3% of GDP, suggesting low uptake of insurance plans among 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 government, which provides a range of services to citizens at heavily or entirely subsidised prices, including free medical treatment at clinics and hospitals.

**OVERSIGHT:** The new insurance law passed in July 2019 created a dedicated unit within the Ministry of Commerce and Industry to oversee the sector. The unit will bring in new staff with the expertise to monitor the industry to a greater extent, and give more focus to its long-term development and stability. Prior to this, the ministry had already taken several steps in order to improve oversight of the industry. In 2017, for example, it set up an audit committee to check the accounts of all insurance companies to ensure the validity of their financial transactions. This came after the Kuwait Insurance Federation said some insurers failed to meet technical and financial requirements, warning that some were nearing insolvency, and may be unable to meet their financial obligations to individuals and companies due to low, unsustainable pricing models. The law will also introduce a new framework for *takaful* (Islamic insurance). Importantly, takaful products can only be offered by separate takaful-registered companies with their own capital, rather than by units of conventional insurance companies. Additional laws and regulations are expected to be introduced specifically for takaful providers.

**SECTOR DEVELOPMENTS:** The insurance sector has seen rapid growth in recent years. Total premium rose by 20% from KD347.3m ($1.1bn) in 2016 to KD417.6m ($1.4bn) in 2017, and by a further 7.5% to KD449.1m ($1.5bn) in 2018, with approximately 1.8m people holding insurance policies. Investment income has also been healthy in recent years, mainly due to the strong performance of the KSE, which provides considerable support to firms' bottom lines.

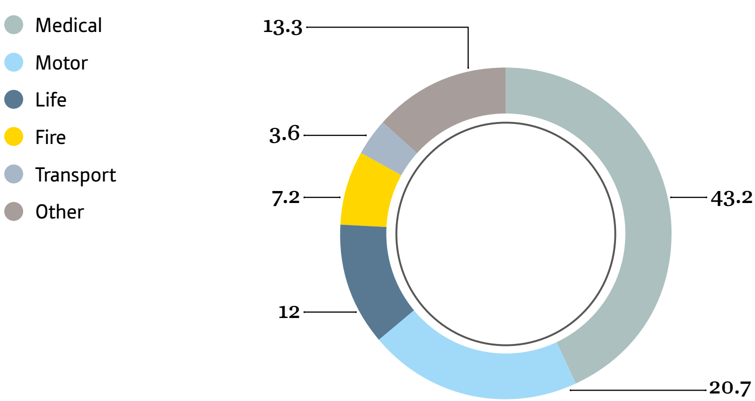
Much of the premium growth is the result of new medical insurance policies taken out by the government to cover public sector retirees. GIG won the first tender for this contract, which began in 2017, and won a second tender in 2019 that will run for two years with an option to extend for another year. The second tender is worth KD300m ($988.1m) in premium over the stated two years, and will thus provide a notable boost to income. GIG was able to win the contract for government retiree medical insurance mainly because of its large size, as the undertaking requires considerable capital investment and a significant number of new hires to serve an additional 50,000 customers.


Kuwaiti law allows 100% foreign ownership of insurance companies

Regulations passed in 2011 mandate that composite, life and non-life insurance firms maintain reserves of $16.5m, while reinsurance groups must keep at least $49.4m on hand.

While winning the second contract has cemented the dominance of GIG and driven an increase in written premium in the medical segment, the performance of most other lines remain relatively flat, and overall profit growth is likely to level off going forward. "The marine segment rises and falls with oil prices, and other business lines are likely to remain stable," Ahmed Ragab, head of risk at GIG, told OBG. Other industry stakeholders are more optimistic. "Lines are growing across the board," Abraham told OBG. "However, the most important customers remain the government and the oil sector." Abraham also pointed to mega-projects that will have a significant effect

**Gross written premium by line, 2018 (%)**




Source: Kuwait Insurance Federation

Non-takaful companies accounted for

**72.1%**

of local market premium in 2018

on profits. "Silk City will be the next big thing for the sector in terms of construction insurance," he said.

**STRUCTURE:** Of the 31 local firms operating in Kuwait, non-takaful companies accounted for 72.1% of market premium in 2018. Within this figure, 87.5% was accounted for by five businesses. GIG and its subsidiary Gulf Insurance and Reinsurance Company dominated with a combined 59% share. Given its strength in the market, GIG has looked abroad for expansion, with investments in Egypt, Jordan, the UAE and elsewhere. The others holding positions in the top five are KIC (11%), Ahliya Insurance (10%) and Warba Insurance (7.5%). The many remaining players accounted for a combined 12.5% of local, non-takaful premium in 2018.

Pure, local takaful companies accounted for 20.4% of total premium that year. However, combined takaful business is slightly larger than this given that many conventional companies had takaful windows in 2018. These will transition to standalone takaful providers once the new insurance law is fully implemented.

The 11 foreign companies, meanwhile, accounted for 7.5% of overall premium in 2018. They struggle to compete on the same scale as local insurers because they are not included on the panel of insurance providers to the government or the oil industry, both of which are key customers for the sector.

**SEGMENT FIGURES:** Medical insurance made up 43.2% of market premium in 2018 and is outperforming other segments. The line received a boost as a result of the November 2017 announcement by the Ministry of Health and the Health Assurance Hospitals Company – a public-private venture created to handle the primary and secondary care needs of expatriates living in Kuwait – that the annual health insurance fee charged to foreign residents would rise 260% from KD50 ($165) to KD130 ($428).

Motor insurance, which accounted for 20.7% of the market in 2018, is the segment that is most likely to be impacted by new regulations. As third-party coverage is compulsory and motor is one of the larger segments in the sector, competition for business has been stiff among insurance companies, driving premium prices down. However, the new insurance law is likely to push up prices through tougher financial requirements (see analysis).

Life insurance is a line with potential for growth, as corporate policies accounted for 10% of premium in 2018 and individual life polices for 2%. "Car sales have grown sluggishly, which has led to less activity in motor insurance," Anwar Al Sabej, CEO of Warba Insurance, told OBG. "However, one driver of growth has been employee benefits on the corporate side, as there is higher demand for life and medical insurance to help recruit new employees and retain talent." The 2% individual figure is low when compared to other countries in the region: in Lebanon it is 30%, in Egypt 40% and in the UAE 25%, for example. The main growth constraint in this segment is a lack of awareness of the benefits that life insurance offers, thus the majority of life premium comes through corporate packages.

Fire, marine and aviation, and other general insurance, meanwhile, accounted for a combined 24.1% of the market. These lines are primarily driven by government projects. While government spending has eased recently, a recovery would provide a boost to local insurance companies.

**REINSURANCE:** Local insurers have historically ceded a considerable amount of risk to the reinsurance industry. In 2019 Kuwait's insurance companies continue to reinsure a relatively large portion of their risk, at around 50%, according to GIG, which compares to a regional average of 30%. Much of this risk is taken on by large international reinsurers such as Swiss Re or Munich Re, especially risks in specialised areas such as financial risks for investment managers and cyber-risks, which are only covered in detail by the main global reinsurance companies.

There is a local reinsurance market, but it is mostly confined to larger companies for two reasons. First, capital requirements for reinsurers are three times greater than standard insurance companies, at KD15m ($49.4m). Second, the scale of insurance risks is high,

particularly in the important government, real estate and energy sectors, forcing small local insurance companies to reinsure much of their risk. The structure of the reinsurance market is unlikely to change going forward, given the amount of internal risk already retained in the local market.

Domestic reinsurance business therefore mainly flows to a few big firms, such as GIG's Gulf Insurance and Reinsurance Company, and Kuwait Re. The latter, which is the country's oldest reinsurer and a subsidiary of AAIC, undertook a major portfolio realignment in 2017 that resulted in a 57% jump in net profit that year. The company then reported solid profit growth of 10% in 2018 to KD3.37m ($11.1m) despite large payouts due to heavy rains and floods that struck Kuwait. In the first half of 2019 Kuwait Re recorded profit growth of 49% compared to the first six months of 2018, with strong increases in both premium income and investment income from the KSE.

"Rates and conditions in the reinsurance market are hard," Abraham told OBG. "The unprecedented rains in 2018 have pushed up the cost of reinsuring for the construction sector, especially for road projects, while heavy losses for insurance companies globally have pushed up reinsurance rates more generally." This will have the knock-on effect of driving premium upwards.

**OUTLOOK:** Given the competitive environment and low premium rates of recent years, excessive risk is likely to have built up in the sector. Profits have risen as premium income has been healthy, reinsurance costs low and investment income strong. All these trends have the potential to reverse, however, and costs and capital requirements are set to rise with the new law, squeezing profits in the short term but ultimately resulting in better controls.

In the future, new accounting regulations for insurance companies, such as International Financial Reporting Standard 17 (IFRS17), are likely to force insurance companies globally to recognise more future risks in their accounts today. IFRS17 is expected to start impacting insurance companies from 2021.

Medical insurance made up around 43.2% of market premium in 2018

"IFRS17 will be another big change for the sector, as it will affect systems, data and financial accounts. Accounting will not just be recording revenue and losses today, but expected revenue and expected losses, and this will be reflected throughout all areas of the business, including pricing, reserves and capital management," Ragab told OBG.

Although larger companies are likely to have enough cash in reserve to withstand any downturn in the market, there is risk among smaller firms that a dip in the stock market – combined with new regulations – could threaten their solvency. A considerable restructuring and consolidation of the sector is therefore a likely outcome of the new insurance law, in addition to a few years of rising costs and lower profits for all players. This should be positive for the sector in the long term, incentivising companies to streamline their internal processes. Hiring additional skilled staff could also raise the standard of professionalism in the industry.

Accounting regulations such as International Financial Reporting Standard 17 are likely to force insurance companies around the world to recognise more future risks in their accounts today.

A gradual restructuring of the sector is expected over the coming years

# Worth the wait

## A long overdue law brings big changes to the sector

Oversight has been delegated to a dedicated unit within the Ministry of Commerce and Industry, the body that regulated the sector before the new law was passed in July 2019.

A new insurance law was approved by the Kuwaiti Parliament in July 2019 to support the maturation and growth of the sector. While premium are likely to rise in the short term and a gradual consolidation of the sector is expected, a more viable, lower-risk environment is set to emerge in the coming years.

**MODERN SOLUTIONS:** The insurance market in Kuwait was previously governed by a law dating back to 1961, thus the legislation has been widely regarded as needing modernisation. According to local media, in May 2019 Khaled Al Roudhan, minister of commerce and industry, and minister of state for services affairs, said that Kuwait needed a new insurance law, especially because the existing legislation was issued some 60 years ago and last amended in 1981. He highlighted that the law does not include supervisory tools and the new one would help tackle the "negative aspects" of the insurance sector. Indeed, in recent times numerous companies have entered the market by charging very low premium to gain a foothold. This has generated concerns that many of these firms may be unable to meet future claims on the policies they wrote due to undercharging for the risk involved.

The new insurance law has been circulating within government departments since at least 2012. The main obstacle to its passage was the question of who would take over the role of regulating the insurance sector, which was being overseen by the Ministry of Commerce and Industry. The idea of an independent regulator was floated but rejected by Parliament due to the extra cost involved. Both the Central Bank of Kuwait and the Capital Markets Authority turned down the role, mainly due to concerns about finding skilled staff to oversee the complex sector. In the end, the July law gave oversight responsibilities to a new unit within the Ministry of Commerce and Industry.

**RULE CHANGES:** Overall, the law is likely to increase the long-term stability of the sector. It is expected to achieve this by increasing the capital and reserves that companies need to hold, while also requiring them to bring in more qualified and experienced technical staff and risk functions. "The new insurance law should lead to better enforcement of claims payment and set minimum capital requirements, creating a more organised market," Mohammad Al Beeshi, vice-president of Gulf Takaful, told OBG.

The impact of the new law can be broken down into six components – although executive orders from the Cabinet were still pending as of September 2019, so some details could change. First, technical reserves are expected to increase. This means companies need to hold more cash on hand to meet likely future payouts. Second, capital requirements need to be paid up front, and are higher for reinsurance and *takaful* (Islamic insurance) business. Third, solvency rules are tightened by requiring firms to hold a percentage of their premium income in reserve in case of bankruptcy. Fourth, investment rules are tightened regarding acceptable assets for insurance companies to acquire, including designated funds for investment in Kuwait. Many insurance companies will be forced to exit investments in the equity market and switch to fixed-income products, although the availability of these investments is another subject of attention (see Capital Markets chapter). Fifth, regular actuarial reports will be required, pushing up costs for firms. Sixth, takaful units are required to be separate companies with their own capital (see overview).

The result of these new rules is that premium rates are likely to rise to adequately cover risks, and many smaller firms that cannot afford the higher costs and reserve requirements will either exit the market or merge with other players. A gradual restructuring of the sector and flatter profit growth for the next few years are, therefore, likely outcomes of the law. However, the changes should also see insurance firms boost the confidence of individuals and businesses by being able to meet their long-term service obligations.

Higher reserve requirements, tighter solvency and investment rules, the submission of regular actuarial reports and the separation of Islamic insurance units are among the changes brought about by the new insurance law.

# Digital disruption

## Insurance technology (insurtech) taps premium growth potential in emerging markets

Two of the biggest trends in global insurance in recent years are premium growth in emerging markets and the rising importance of technology across the supply chain. The latter has come to be referred to as insurtech, a potentially disruptive trend that heralds both threats to and opportunities for incumbents and newcomers alike.

While technological solutions are being applied along the insurance supply chain in advanced markets, their focus in emerging markets has primarily been on driving premium growth. Many lower- and some middle-income countries have managed to largely skip the mass rollout of fixed-line telephony, as the prevalence of low-cost mobile telephony has seen a surge in mobile phone penetration rates not too dissimilar to those in advanced economies. In turn, this has facilitated financial inclusion, allowing tens of millions to access formal financial services for the first time. The sophistication and availability of digital financial services has therefore expanded greatly, from e-payments to microcredits and, more recently, insurance products.

**INSURTECH:** According to a report titled "Technology and Innovation in the Insurance Sector", published in 2017 by the OECD, insurtech is used to describe "new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets". Insurtech, compared to financial technology (fintech), is more often related to service improvements for individuals, as opposed to businesses. Sector participants sometimes use the term more broadly to encompass the application of digital technology to all stages of the insurance supply chain. In its insurance market outlook for 2018-19, global insurer Munich Re noted that "Insurtech start-ups benefit from the achievements of fintech companies, as new financial technologies also allow insurers' product ranges to be expanded, alternative sales channels to be created and additional groups of clients to be reached". This is highlighted as being particularly relevant in "underdeveloped insurance markets by offering simple, innovative and needs-based products digitally, and thereby developing new markets". Concrete examples cited by Munich Re include micro-insurance for health and crop insurance, which can be contracted and managed via mobile phones.

**PENETRATION:** The share of insurance premium in GDP is closely and positively correlated with GDP per capita, and varies significantly across regions. According to the report "World Insurance in 2017: Solid, but mature life markets weigh on growth" by Sigma, Swiss Re's research and analysis arm, North America and Europe had the highest insurance penetration rates that year, measured as a percentage of premium to GDP, at 7.1% and 6.5% of GDP, respectively. Asia, which includes the Middle East, and Oceania tied in third place with 5.6%. While Taiwan (21.3%), Hong Kong (17.9%), South Korea (11.6%), Japan (8.6%) and Singapore (8.2%) recorded rates above those seen in North America, about half of the countries in Asia had rates of less than 3% of GDP, with large, populous economies such as Pakistan and Bangladesh registering rates under 1%. The most potential for growth is in Africa, which has a rate of 3.06%, and Latin America and the Caribbean, with 2.96%.

**PREMIUM GROWTH:** The pattern of premium growth, however, is somewhat different, reflecting both stronger growth in emerging markets and the catch-up potential represented by relatively low penetration rates. In 2017 premium were flat in North America, and contracted in Europe and Oceania by 0.5% and 6.2%, respectively. Meanwhile, premium growth in Asia registered 5.7%, but differed markedly between its sub-segments. Advanced Asian economies contracted by 1.1%, while emerging Asian markets in the Middle East and Central Asia grew by 14.7% and 5%, respectively. Premium growth in Latin America and the Caribbean was a modest 0.1%, reflecting muted economic activity across the region, particularly in Venezuela, Argentina and Brazil. Similarly, premium growth in Africa was weak, at 0.5%, dragged down by

Insurance technology is used to describe new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets.

North America and Europe had the highest insurance penetration rates in 2017, equivalent to 7.1% and 6.5% of GDP, respectively, followed by Asia and Oceania, with 5.6% each.

The total capital invested in insurtech start-ups and scale-ups worldwide in 2018 was

**$3.18bn**

the performance of South Africa, which dominates the continent's insurance market, and Nigeria, which experienced an economic blowback from weak oil prices.

**GOING ONLINE:** According to the World Bank's 2017 Global Findex database, the share of the adult population that used a mobile phone or the internet to access an account at a financial institution in the past year was 68% in North America, 36% in Europe and Central Asia, 32% in the East Asia and Pacific region, 12% in the Middle East and North Africa region, 10% in Latin America and the Caribbean, and 8% in sub-Saharan Africa. Although not surveyed specifically, it could be expected that the penetration of digital insurance products across these regions would be an even smaller percentage. Worldwide, mobile phone penetration is high relative to the use of mobile banking, underlining the potential for growth going forward. For bancassurers in particular, this provides significant opportunities to cross-sell insurance products, while for pure insurers there is potential for joint ventures with banks and technology companies, particularly in e-payments.

**KEY FIGURES:** With regard to the insurtech segment itself, CB Insights, a tech market intelligence platform, estimated that total global investment reached $2.3bn in 2017, following a compound annual growth rate of 45% since 2012. In the fourth quarter of 2018, 63 insurtech deals were announced, with a total value of $1.59bn, while funding volume also increased by 155% relative to the same quarter in 2017. The capital invested in insurtech start-ups and scale-ups reached a total of $3.18bn worldwide in 2018, according to data from the FinTech Global database. The bulk of insurtech deals since 2013 have been made in developed markets, with the US alone accounting for 58% of deals that year. While leading emerging markets China and India only recorded shares of 5% and 4%, respectively, they are beginning to make their presence felt. Emerging markets' share of global insurtech deals is increasing, with China and India accounting for 13% and 10%, respectively, in the second quarter of 2018. Meanwhile, Israel accounted for 6% and South Africa for 4%. While new and sometimes disruptive market entrants are starting to account for a larger share of sales, 83% of those sales made between 2012 and 2017 involved the participation of an established insurer or reinsurer as a sole or joint investor.

**EMERGING ASIA:** Given the size and growth rate of its economy and its fast-expanding insurance sector, it is unsurprising that China is the top contributor to global premium growth. It has also been a key driver of overall growth in recent years when many advanced economies saw relatively lacklustre performances. In 2017 Chinese insurance premium adjusted for inflation grew by 16.2% to reach a 4.1% share of GDP. According to Swiss Re, "China will remain the biggest contributor to global insurance market growth among emerging markets for the next decade at least". However, given the extent of convergence with the insurance penetration rate in more advanced economies by 2030, the increase in Chinese premium is expected to moderate thereafter, with other emerging markets driving the expansion of global premium.

Beyond China, the extent of insurtech's impact varies. Kheedhej Anansiriprapha, executive director at Thai General Insurance Association, told OBG that "online insurance sales account for a relatively small proportion of the market, with only motor and travel products being purchased online. For life and non-life, agents and bancassurance will be the vehicles for distribution in the short to medium term". By contrast, Mark Lwin, president and CEO of AIG Philippines Insurance, explained that some segments have already seen a big impact. "Technology has had a broad and deep impact on retail and high-volume insurance segments, such as life and consumer insurance," he told OBG. "However, the commercial segment in the Philippines lags globally and has not undertaken major investments in ICT or digitally enabled products and capabilities."

Thailand is one of the most-developed insurance markets in South-east Asia, with a penetration rate of 5.3% of GDP in 2017. Lower rates can be found in Malaysia (4.8%), Indonesia (2.4%), Vietnam (2.1%) and the Philippines (1.8%), suggesting that insurtech could play an even stronger role in driving catch-up premium growth in regional markets that are less saturated.

**MIDDLE EAST & NORTH AFRICA:** Both insurance penetration and digitisation rates vary across the MENA region, registering higher rates on average in the Gulf countries than in North Africa. In the latter, some countries are tapping into insurtech to help drive premium growth. Philippe Vial, administrative director-general of La Marocaine Vie, a Morocco-based life insurer and subsidiary of financial services multinational Société Générale, stated that bancassurance holds a competitive advantage due to the contacts they have with customers. "These contacts constitute an asset in that they provide us with personal information that helps us to better serve our customers," Vial told OBG. "The optimisation of these assets is one of our major priorities in the coming years."

By contrast, the use of technology in the Algerian and Egyptian insurance sectors is very much in its infancy, though it has broken some ground. Youcef Benmicia, CEO of Compagnie Algérienne des Assurances, an Algerian non-life insurer, told OBG that the firm has "introduced e-payments and bank card payments for insurance premiums, SMS notifications of contract expiry and online subscriptions for some types of insurance". Some Algerian insurers also use social media to contact clients, but digitisation efforts in the country are still relatively unsophisticated and insurance penetration is lower than the rest of the region. For example, the penetration rate in Algeria in 2017 was 0.7% of GDP, compared to 3.5% in Morocco.

**SUB-SAHARAN AFRICA:** South Africa's insurance market is already relatively saturated, with a penetration rate of 13.8% of GDP in 2017 – higher than most advanced countries and many other economies in the region. Namibia ranked second in this cluster, at 7.6%, and Kenya third, at 2.6%. However, there is considerable scope for tech-driven premium growth in West and East Africa. Players are confident in the potential of digitisation to raise premium in Ghana, for example.

"Digitisation is needed to help customers apply advanced payment techniques, such as staggered premium payments," Esther Osei-Yeboah, managing director of Imperial General Assurance, told OBG. "By removing the feeling of a bulk payment, staggered payments will increase uptake of insurance." Bode Oseni, managing director of insurance company RegencyNem, added that premium are already advertised, sold and collected by telecoms companies. "Mobile money is helping to increase Ghana's insurance penetration rate, particularly in more rural areas," Oseni told OBG.

With the continent's largest population and economy, but a penetration rate of 0.3% of GDP in 2017 – one of Africa's lowest – Nigeria has perhaps the most striking potential for premium growth in the years ahead. Adebowale Banjo, general manager of global insurance product distributor AutoGenius, told OBG, "WhatsApp coverage has provided a great way to distribute insurance online, using a platform Nigerians already understand and trust. WhatsApp Insure, for example, has been very effective for dealing with enquiries and sending information related to vehicle licence information, insurance certificates and e-payment links via messaging. Eventually, artificial intelligence will be employed to handle enquires, claims and build better risk profiles. Independent firms will continue to drive insurtech in Nigeria and the more established incumbents will have no choice but to join the prevailing trend."

**GROWING TIDE:** Insurtech will remain a key driver of premium growth, and therefore rising insurance penetration, in emerging economies for years to come. In markets where mobile phone penetration greatly exceeds that of financial services, the scope for technology-driven, catch-up growth is particularly large. Still, achieving insurance penetration rates comparable to those in advanced economies will ultimately require further convergence of macroeconomic development and rising disposable income levels. Efforts to boost financial literacy and awareness of the benefits of insurance products in markets where they have not traditionally had a strong presence will also be essential.

Increasing insurance penetration requires further convergence of macroeconomic development and rising disposable income levels, as well as efforts to boost financial literacy and awareness of the benefits of insurance products.

# Transport & Logistics

Improvements to infrastructure boost sector activity

Kuwait International Airport to see major expansion

Series of urban road construction initiatives under way

New port to increase regional and global connectivity


The road network extends around 5749 km, of which 4887 km is paved

# Wider network

## Large-scale infrastructure projects are in the pipeline as the country aims to become a regional centre for transportation

Kuwait is undergoing a major revamp of its transport and logistics networks, which are set to transform local and international connectivity in the lead-up to 2020. New roads, railways, airports and ports are either already being built or are in the pipeline, as part of the ambitious aim to re-establish Kuwait's historical role as a regional centre for the sector. The country is keen to attract foreign investment and participation in this revitalisation, with the government working hard to encourage public-private partnerships (PPPs) and reduce bureaucratic obstacles to investment.

However, challenges remain as the rollout of new infrastructure takes place within uncertain global economic conditions, in a region that has its own political risks. Yet with new drive in its development plans, Kuwait is well positioned to push through these headwinds and continue to take greater advantage of its strategic location within international and regional transport and logistics networks.

**SECTOR ACTIVITY:** Transport services have made a significant contribution to Kuwait's economy in recent years, with their share of annual GDP remaining fairly consistent and sector revenue rising steadily.

According to the Central Statistical Bureau (CSB), in 2018 transport contributed 5.7% of non-oil GDP at current prices, compared to 5.5% in 2017. Meanwhile, its share of total GDP in 2018 was 3%, compared to 3.2% the previous year. Overall revenue for the sector rose from KD1.15bn ($3.8bn) in 2017 to KD1.26bn ($4.2bn) in 2018. The most recent CSB figures for 2019 estimate that transport's share of non-oil GDP increased slightly year-on-year, from 5.3% in the first quarter of 2018 to 5.5% in the same period of 2019.

**STRUCTURE & OVERSIGHT:** Recent years have seen some reorganisation in the administration of the transport sector, with the creation of the Public Authority for Roads and Transportation (PART) in 2014. PART is responsible for issuing driving licences, car registrations and licence plates, as well as overseeing vehicle inspections and planning the construction of new roads. The organisation took on some of the transport roles previously held by other bodies such as the Ministry of Public Works (MPW), the Ministry of Interior (MoI) and the Traffic General Department, a subdivision of the MoI. The MPW is responsible for developing infrastructure in a range of sectors including transport. Under its remit is the Directorate General of Civil Aviation (DGCA), which is responsible for overseeing the aviation sector, the development of new air travel facilities, and the management and operation of Kuwait International Airport (KIA).

Kuwait Public Transport Company (KPTC) is responsible for operating the bus network throughout the country, as well as connecting into neighbouring Saudi Arabia and Iraq. In the private sector, City Bus owns the GoCity taxi- and van-hailing apps. Taxis are increasingly being supplemented with ride-hailing services such as UAE-headquartered Careem, which operates throughout the MENA region.

Meanwhile, Kuwait Ports Authority (KPA) manages the regulation, supervision and development of maritime transport. It oversees three ports: Shuaiba, 45 km south of Kuwait City; Shuwaikh, in the heart of the capital; and Doha Port. KPA is governed by a board of directors, and also has a corporate presence in the form of the Kuwait Ports Corporation.

**NEW KUWAIT:** The expansion of transport infrastructure is crucial to Kuwait's short-, medium- and long-term development plans. These fall within the framework of the Kuwait National Development Plan, known as New Kuwait 2035. The strategy was launched in January 2017 and aims to reduce the country's dependence on oil revenue, which in 2017 made up 50% of GDP and 93.6% of fiscal revenue. New Kuwait 2035 also aims to reduce reliance on public sector spending. Around 16% of the 2018/19 budget was allocated to spending on subsidies and 54% to salaries of public sector employees. Therefore, the strategy

In 2018 transport contributed

**5.7%**

of non-oil GDP

The $241m upgrade of the Northern Regional Road will be crucial to fostering inter-regional connectivity

seeks to create a diversified economy led by the private sector, with one of the seven pillars of New Kuwait 2035 focusing on developing infrastructure to re-establish the country as a regional and global commercial centre.

Projects with particular relevance to transport come under this pillar, such as the Air Transport Development Programme, which seeks to increase KIA's capacity and service offering through the new Terminal 2 building and eastern runway; the Land Transport Development Programme, which includes warehousing, rail and road schemes, the Sheikh Jaber Al Ahmad Al Sabah Causeway, which opened in May 2019; and the Maritime System Development Programme, which is overseeing the construction of the new Mubarak Al Kabeer Port on Boubyan Island, as well as the ongoing maintenance of the country's three main ports.

In the shorter term, the New Kuwait 2035 programme is being implemented through a series of five-year plans. The current plan was launched in 2015 and is due to end in 2020. To ensure that there is a continuous flow of policies and programmes, the Supreme Council for Planning and Development (SCPD) is already looking to the 2020-25 plan. According to reports from local media, the council expects it to be finalised by the end of October 2019.

Furthermore, in February 2017 the General Secretariat of the SCPD, in collaboration with the UN Development Programme (UNDP), began a project to establish the Kuwait Public Policy Centre (KPPC). The KPPC aims to address gaps in policy-making and support the formation of development plans to achieve the aims of New Kuwait 2035. According to the UNDP, the project's estimated completion date is the end of December 2019, meaning that the 2020-25 development plan will benefit from its guidance.

Three major motorways connect Kuwait City with neighbouring countries: Highway 40, which runs south along the coast until it joins Saudi Arabia's Highway 5; Highway 70, which heads west to Saudi Arabia via Doha and Yahra; and Highway 80, which runs north towards Iraq.

**LOGISTICS ACTIVITY:** The improvements to infrastructure under New Kuwait 2035 are set to boost logistics activity in particular. In November 2018 India-headquartered market research firm Ken Research estimated that the Kuwaiti logistics and warehousing segment would be worth $3.4bn by 2022, driven primarily by e-commerce and express delivery services. There were 55 courier services in Kuwait as of May 2019, with international companies such as DHL, UPS, FedEx, Frontline Express and Aramex operating alongside local players like KGL Logistics, Crown Logistics, Agility and Move One Logistics.

**ROADS & BRIDGES:** Kuwait's road network extends around 5749 km, of which roughly 4887 km is paved. Kuwait City sits at the centre of an extensive network of roadways. There are three major motorways connecting Kuwait City with neighbouring countries: Highway 40, which runs south along the coast until it joins Saudi Arabia's Highway 5; Highway 70, which heads west to Saudi Arabia via Doha and Yahra; and Highway 80, which runs north towards Iraq.

The road system in Kuwait City itself exists within a ring-road framework, which divides the coastal city into districts, which are then further subdivided into numbered neighbourhoods. The road network was significantly improved following the opening of the 37.5-km Sheikh Jaber Al Ahmad Al Sabah Causeway in May 2019, which crosses Kuwait Bay from Kuwait City to the northern district of Subiyah. The causeway also has a 13-km spur at its southern end, running across from Kuwait City to Doha. The result is a dual-carriageway bridge, approximately 30.6 metres wide, with each carriageway containing three main and one emergency lane, reducing travel time between Kuwait City and Subiyah from 90 minutes to 30.

Meanwhile, in September 2018 the MPW began its two-year upgrade of the Northern Regional Road. The Kuwait Technical Consulting Bureau and UK-headquartered Halcrow International are the main contractors for the $241m project, which will extend the existing road beyond the Abdaly Expressway to eventually create an intersection with the Subiyah Expressway at the northern end of the Sheikh Jaber Al Ahmad Al Sabah Causeway. According to MEED Projects, a project-tracking database for the MENA region, the extension will be crucial to fostering increased inter-regional connectivity in the GCC.

Also in the north, a $45m contract was awarded to Kuwait Systems and United Engineering and Technical Consultants in October 2018 to establish new access roads to the Ratqa oilfields on the border with Iraq. The main stakeholder is Kuwait Oil Company. In addition, as relations with Iraq begin to ease, regional media announced in May 2019 that Kuwait would be funding the reconstruction of the main border crossing with Iraq at Safwan. Iraq's Border Crossing Authority issued a statement that a memorandum of understanding had been signed between the two countries at a meeting of the Iraqi-Kuwaiti Joint Committee in the same month.

Kuwait City itself also has a series of urban road construction projects under way. In February 2020 the MPW plans to open the $350m upgrade to Cairo Street, which is being undertaken by US-headquartered Parsons Brinckerhoff, in partnership with Kuwaiti architects Gulf Consult. In October 2020 a $100m

Kuwait Airways is set to increase its fleet size from 28 to 53 aircraft, with the first delivered by the end of 2019

In 2020 the city's second ring road will get a

**$100m**

upgrade

upgrade to the city's second ring road is expected to be completed by SSH Kuwait and Turkey's PROYAPI Engineering & Consultancy. Additionally, UK-based Mott MacDonald received the $50m maintenance contract for the Fourth Ring Road, which has an estimated finalisation date of 2022.

The MPW is also working with Khatib & Alami Consolidated Engineering to upgrade the main southern road, Highway 30. The $3bn project is expected to run from August 2019 to February 2022. During this time, 22 interchanges and 16 pedestrian bridges will be upgraded. Kuwait is also in the process of constructing a number of new residential cities around the capital to meet growing demand for public housing. These satellite cities will require new road infrastructure, with Turkey's Limak Construction, Italian Salini Impregilo, Kuwaiti Dar Al Dowailah Engineering Consultants & Construction Managers and US-based Louis Berger working on a $315m access road project for South Al Mutlaa City, a project due to be completed in 2020.

**RAIL CONNECTIONS:** Although Kuwait does not yet have a rail system, an important part of the northern development project is the construction of a 153-km rail link between Kuwait City and Mubarak Al Kabeer Port. This will also connect to two other planned rail developments: the Kuwait Metro and the 2177-km GCC railway, a network designed to connect the six countries in the region. In 2018 PART announced that the first phase of the Kuwait National Rail Road (KNRR) project would include a PPP organised by the Kuwait Authority for Partnership Projects, which plans to establish a public joint-stock company to tender individual rail construction projects.

Although Kuwait does not yet have a rail system, an important part of the northern development project is the construction of a 153-km rail link between Kuwait City and Mubarak Al Kabeer Port.

The first phase of the KNRR will be a 111-km line south to Al Nuwaiseeb and the border with Saudi Arabia, where it will connect with the Saudi stretch of the GCC railway project. While this multinational project has been in the pipeline since 2009, progress appears to have stalled as the fall in oil prices continues to impact growth in the region. However, in June 2019 international media reported that the project was still on track to be completed 2021.

The 171-km Kuwait Metro project has also suffered delays due to recent economic downturns, with the original plans revised in 2017 to reduce maintenance costs. According to local media reports from November 2018, PART was liaising with international advisers on the design of the metro system. Despite these setbacks, rail development remains a key part of the Land Transport System Development Programme, a branch of New Kuwait 2035, and KD135m ($444.6m) was spent under this programme in 2018/19.

**AIR TRANSPORT:** KIA, the country's sole international airport, is located 15.5 km south of Kuwait city. The central structure of the airport dates back to the 1970s, but it was renovated and expanded in 1999-2000, and new terminals were added in 2008 and 2018.

As of June 2019 KIA had four operating terminals, with Terminal 3 designed to be used exclusively by private aircraft. Terminal 5 will be operated by the low-cost carrier Jazeera Airways.

The government-owned national carrier, Kuwait Airways (KA), was founded in 1954. As of May 2019 the airline had a fleet of 28 aircraft: 13 Airbus A320s, five Airbus A330s and 10 Boeing 777s. In the same month, KA ran its last services using the Boeing 747, with plans for a major update of the fleet in the pipeline. The retired aircraft will be replaced with Boeing 777s, in addition to KA's upcoming order of 28 new Airbus models: 15 A320s, eight A330s and five A350s. This will almost double KA's total fleet size, bringing it to 53 planes. International media reported in May 2019 that the first of the new aircraft are expected to be delivered by the end of 2019.

Meanwhile, Jazeera Airways was founded in 2005 and has a fleet of nine aircraft, all Airbus A320s. Its new terminal at KIA had a successful first year of operation. The airline transported 2m passengers between May 2018 and May 2019, an increase of 46.4% year-on-year. In May 2019 Jazeera announced routes to London, India, Pakistan and Bangladesh, as well as the delivery of three new A320 aircraft, planned for later that year.

KIA is undergoing a major expansion with the construction of the new Terminal 2, which began in May 2017. The KD1.3bn ($4.3bn) project is being coordinated by the MPW and the DGCA, together with UK-based designers Foster and Partners, and Turkey's Limak Construction (see Construction chapter). The 130,000-sq-metre terminal will have a capacity of around 13m passengers per year when it is completed, with the potential to double capacity in the future by constructing an additional, identical building. The terminal will include a basement, ground floor and two upper levels, a multi-storey car park with at least 4500 spaces, 28 terminal gates with eight gates dedicated to the Airbus A380 and a transit hotel with 400 beds. Construction has involved moving the nearby military airfield to make space for a third, 4.5-km runway to the west of the airport. The new runway will be capable of receiving the Airbus A380, and primarily used for cargo

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Container traffic has steadily increased since 2013. In that year Kuwait's ports handled 950,000 twenty-foot equivalent units (TEUs), increasing to 1.26m TEUs in 2016 and 1.32m TEUs in 2017.

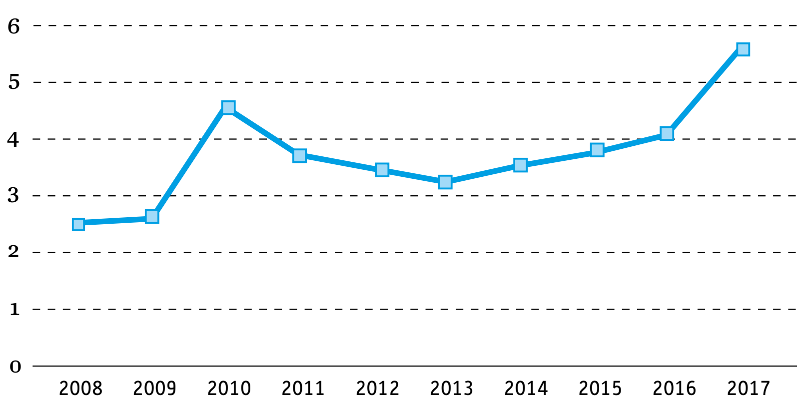
and military aircraft. Sustainability is an important part of the ongoing construction process, and the building is on track to become the world's first LEED gold-certified passenger terminal.

The new terminal and runway are the two pillars of New Kuwait's Air Transport System Development Programme, with an estimated KD232.5m ($765.8m) spent on these projects in 2018/19. In this period the focus has primarily been on expanding the capacity of the airport, improving services, updating safety and security systems, and utilising modern technologies. In the future, Madinat Al Hareer, or Silk City – the planned new city in the north of the country – is also scheduled to have its own international airport. These developments have, in turn, had positive flow-off effects for other sub-sectors. "As a result of new airport infrastructure, there has been a surge in demand for jet fuel supply by the growing requirements of local and other commercial airlines," Abdullah Muhammed Al Duaijani, deputy chairman and general manager of Kuwait Aviation Fuelling Company, told OBG.

**PORTS:** In FY 2018/19 KPA recorded its highest net profit since its establishment in 1977, at KD48m ($158.1m), with revenue of KD97m ($319.5m) – largely a result of the revival of shipping activity in Iraq and Iran, which Kuwait was able to benefit from. Figures from the World Bank show that container traffic has steadily increased since 2013. In that year Kuwait's ports handled 950,000 twenty-foot equivalent units (TEUs), increasing to 1.26m TEUs in 2016 and 1.32m TEUs in 2017. In addition, passenger traffic is on the rise, with Qatar opening a permanent shipping line between Doha's Port Hamad and Shuwaikh Port in December 2018. The 250-room passenger and cargo ship also connects to Sohar Port in Oman.

Shuwaikh is the largest of KPA's three ports and is considered the country's primary commercial port. The 4.4m-sq-metre site is located just west of downtown Kuwait City. The port has 21 berths and is capable of handling vessels with a maximum draught of 9.5 metres at high tide. It also has 170,323 sq metres of warehousing space and 485,718 sq metres of open-air storage.

**Air passengers, 2008-17** (m)

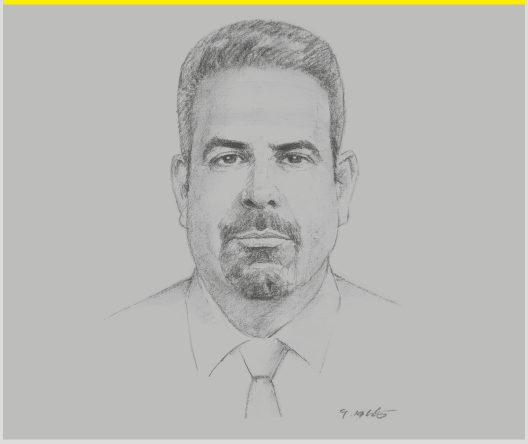



Source: World Bank

North-west of the port is Shuwaikh Container Terminal, on a 260,000-sq-metre site, which uses three of the port's main berths. Each of these has two gantries, nine reach stackers and four empty container handlers. The smaller Doha Port is located west of Shuwaikh and can handle vessels of up to 4.3 metres in draught. It has 4100 sq metres of covered warehousing space and a 3250-sq-metre cattle pen. Doha largely handles fishing boat and *dhow* (traditional sailboat) traffic. The third port, Shuaiba, is located around 45 km south of Kuwait City and has 20 berths. The port has a specialist facility for transporting petroleum, under the management of the Kuwait National Petroleum Company. The facility, which has a depth of 16 metres, has conveyor belts installed at four berths for coke, sulphur and other petroleum products. Four berths are dedicated to container traffic, with seven gantry cranes in operation. Ships with a draught of up to 13 metres can be accommodated at the container terminal, which has around 14,500 sq metres of warehousing.

Under New Kuwait's Maritime Transport System Development Programme, all three ports have been earmarked for further development. In 2018/19 KD140.3m ($462.1m) was spent on maritime development under this programme. Plans include connecting the ports to an integrated management system; establishing a new export, import and Customs inspection area at Shuaiba; and implementing of the National Centre for Passenger Traffic, Search and Rescue Systems. Sector players remain confident in the ability of the ports segment to attract greater investment. "Shipping is a global industry, where trends have been moving towards increased efficiency through larger ship capacity, technical advances and greater availability of data. This also means that companies are constantly investing to keep pace with safety and environmental requirements as they are updated," Bader Al Khashti, chairman of Kuwait Oil Tanker Company, told OBG.

**OUTLOOK:** With continued progress on the construction of the new airport terminal, renewed focus on the development of Mubarak Al Kabeer Port, and road extension and improvement projects under way, subsequent years will see significant expansion in transport and logistics infrastructure. While investment in these large-scale schemes is expected to remain dominated by the public sector, a number of major opportunities for private and foreign investors also lie ahead, and the government is keen to promote a PPP model as it launches the next stage of Kuwait's development plan in 2020. The sector's progress, however, will largely depend on regional stability, with Kuwait set to benefit from Iraqi reconstruction and a potential easing of international tensions with Iran. The series of projects to improve connections between Kuwait and its neighbours, such as motorway upgrades, should bring new opportunities. The new terminal at KIA and Mubarak Al Kabeer Port will boost global connectivity and enhance the country's status as a centre for shipping and logistics. Furthermore, domestic economic growth and the expansion of the e-commerce segment will offer potential for local transport companies to expand.



Kamil Al Awadhi, CEO, Kuwait Airways

# Depth and breadth

## Kamil Al Awadhi, CEO, Kuwait Airways, on expansion strategies and leveraging human capital

**What priority routes are being considered as part of the airline's ongoing expansion, and what is the rationale behind this expanding network?**

**AL AWADHI:** Our transformation has been centred on increasing the size of our fleet in a very short period and phasing out all our old and leased aircraft. This has led to us having one of the youngest fleets in the region, with most aircraft being between two and three years old, which is a major investment for any airline. Given that new equipment experiences fewer failures, a new fleet has a direct impact on customer satisfaction as it enables on-time performance. It also allows for more passengers and, most importantly, it cuts operating costs through fuel efficiency and reduced maintenance.

This plan is in line with our long-term strategy, which involves overhauling the airline's schedules, routes and network. Our focus will cover depth and breadth. For example, we are set to expand in popular markets like India and London, solidifying established routes with higher frequencies or passenger loads.

Following this, we will widen our scope, especially as there is only so much frequency that can be added through existing bilateral agreements. We are looking at China as a new, promising destination that we aim to beef up significantly. On a national level, there have been growing bilateral ties between Kuwait and China, particularly surrounding the development of Silk City in northern Kuwait, and we are well-positioned to benefit from and strengthen these ties. Thanks to our new aircraft, we are also rolling out seasonal tag flights to destinations like Nice. This allows us to test the waters in different markets, observing the percentage of flights and the value proposition of the destination.

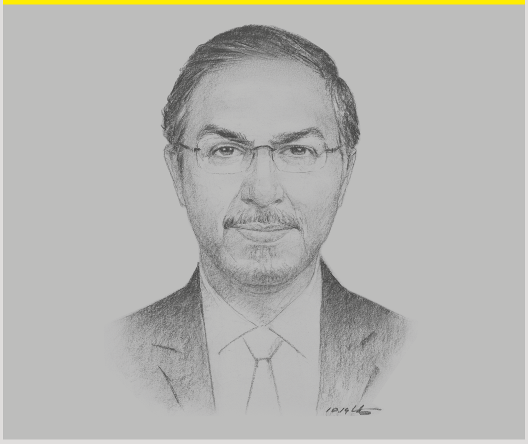
**How have improvements in air transport infrastructure helped boost industry growth?**

**AL AWADHI:** The biggest challenge for the aviation industry is infrastructure. Pressure on existing facilities has been relieved by the opening of Terminal 4. However, there need to be further improvements in and outside the airport, which will require multiple entities to work synergistically together. As part of the airline's transformation, we are moving very fast and pushing other relevant entities to match this pace.

Improvements are not limited to infrastructure. We have already invested around KD9m ($29.6m) in ground equipment, focusing on better air-conditioned buses for VIP, business class and economy. This amount is double what ground-handling companies typically invest in their start-ups. These investments serve two purposes: they enable us to run more efficiently, so aircraft are grounded for less time, and they allow bags to be delivered on time. A passenger might have a great airline experience, from booking online to the flight crew, but that experience can be ruined at the last leg if bags take too long. By focusing on passenger experience, an airline can deploy IT solutions, digital applications and innovation to deliver improved services and react to real-time passenger feedback.

**In what ways is the aviation segment leveraging human capital and local employment?**

**AL AWADHI:** Manpower represents roughly a third of our operating budget and is a critical part of any airline's business plan. In 2019, as part of the airline's re-fleeting and growth plan, we have to develop a new manpower plan. As aviation moves into the 21st century, there is an increased need to invest in better-trained staff, who are in tune with the industry's latest developments. It is counterproductive to invest in new and more modern equipment if it is operated in the old way. With this in mind, we have large investment plans to train, educate and upgrade our staff, whether managerial or technical, so they can stay abreast of advancements in the industry. Alongside this, given the large opportunities for private companies to support aviation, the more market share that local airlines get, the more local businesses are attracted to contributing to the sector's growth.



Saud Al Naki, Vice-Chairman, Public Authority for Roads and Transportation

# Coming down the pike

## Saud Al Naki, Vice-Chairman, Public Authority for Roads and Transportation (PART), on near-term expansion plans

**What long-term role can a railway system play in the development of Kuwait's land transport network?**

**AL NAKI:** A significantly delayed project is the construction of a railway network to connect Kuwait to its GCC neighbours via Saudi Arabia. Plans have been under way for years. The project will require a number of feasibility studies, the qualification of contractors and a large budget. The Kuwait Authority for Partnership Projects is supervising the tendering and pre-qualification process. PART will be the end user of this project, which will include a main station near the international airport and 110 km of rail built southwards to the border with Saudi Arabia. This project can be developed as a public-private partnership (PPP), in which an investor builds and operates the stations and earns profits from ticketing and other services. However, nobody will invest in the tracks themselves or other utilities that do not generate revenue, so these will need to be built as a direct contract, while the operations can be managed as a PPP. We also expect to have a second phase that connects the upcoming Mubarak Al Kabeer Port to Iraq.

**How can public transit address urban congestion?**

**AL NAKI:** Although engineered solutions like more bridges will support connectivity, they will not solve congestion in Kuwait City. Two major strategies to do so will need to entail the enforcement of traffic laws and public education on how to deal with public transport. On one front, we must ensure that drivers respect the law and that penalties are levied against violators. Likewise, we must identify why public transport is not widely used, whether it be comfort, routes or otherwise.

We have been working with a grassroots group called Kuwait Commute, which seeks to encourage people to use public transport. To make public transport viable, there must be cooperation between existing bus operators, as well as dedicated fast lanes for public vehicles and improvements to existing bus stations. In order to raise public awareness, there must also be initiatives encouraging the use of public transport, such as shuttle buses between high-transit destinations.

**In what ways is PART looking to upgrade land connectivity and stimulate decentralisation?**

**AL NAKI:** Law No. 115 established PART as the government entity responsible for all roads and land transportation, from design and construction to improvements. Some 30 years ago, when the Ministry of Public Works began to build the first federal highways, Kuwait City was small, with the downtown area encircled by the first ring road. Currently, there are seven ring roads, and the seventh one encircles all of Kuwait City, allowing traffic to go from north to south without entering the city.

Moving forward, there is a need for regional roads and enhanced connectivity with neighbours like Saudi Arabia and Iraq. Likewise, there is a need to upgrade existing roads and highways. A KD500m ($1.6bn) budget has been allocated for these projects in 2020, which are expected to be completed over the next three years.

To catalyse decentralisation, we have been engaged for over 10 years in upgrading the northern roads leading to the future site of Silk City, especially in Subiya and Boubyan Island. If one looks at the planned road network for northern Kuwait, it provides extensive connectivity to Silk City and to the newly opened Sheikh Jaber Causeway, which reduces the distance from Kuwait City to Silk City from 150 km to 36 km. At the same time, all the older northern area roads are being upgraded to cope with current and future traffic.

Whereas a lot of investment has been made to connect northern Kuwait, there are only two major roads – Fahaheel Highway and King Fahad Road – connecting the southern part of the country. The region is occupied by the Burgan oil field, limiting the amount of network that can be built. As a result, we are looking to upgrade existing roads where there can be more capacity. As part of this process, we are looking to partner with foreign contractors experienced with large-scale projects.

Mubarak Al Kabeer Port will have a free trade zone and industrial park

# From the ground up

## Major seaport project boosts connectivity and strengthens partnerships

Kuwait has historically been an important location for regional trade, although in recent years the country has seen more conflict than trade with its neighbours. However, relations are beginning to improve, which has had major implications for transport and logistics. Kuwait is planning to construct a new urban centre, Madinat Al Hareer – or Silk City – near the coast of Iraq, which it hopes will be a further boost to the country's regional and global connectivity. The 250-sq-km city will be served by an international airport, road and rail connections, and a major seaport and trans-shipment zone. In terms of the latter, the new port, Mubarak Al Kabeer, aims to become a hub for the import and export of goods in MENA, as well as a link between Kuwait and China's global Belt and Road Initiative (BRI). Madinat Al Hareer, the new mega-city, will incorporate earlier plans for urban expansion in Kuwait's northern region. The current plan aims to completely transform the islands of Failaka and Boubyan, as well as some of the smaller surrounding areas, giving it the alternative title of the Five Islands project. The first phase of the plan was released in February 2019, with an estimated cost of $86bn. Transport and logistics form an important part of this phase, as it involves the establishment of the city's basic ground infrastructure.

**MUBARAK AL KABEER:** Central to this is Mubarak Al Kabeer Port on Boubyan Island, which was initially launched in April 2011 with a four-stage construction plan. The site will include a container storage facility capable of handling 2.5m twenty-foot equivalent units per year when it reaches full capacity. According to the plan, the port will also contain a free trade zone, an industrial park and a number of deepwater berths, and road and rail connections will be built to connect the island to the rest of the country.

In 2014 the container facility and 16 berths were completed, and by 2017 soil treatment and a road bridge had also been finished. In November 2018 the procurement process for the key dredging and reclamation works was restarted, with a number of companies in the running that pre-qualified back in 2014, including China Harbour Engineering and South Korea's Hyundai Engineering and Construction.

**KEY PLAYERS:** Hyundai has already played an important part in the rollout of infrastructure in Silk City. The company completed the 37.5-km Sheikh Jaber Al Ahmad Al Sabah Causeway, which opened in May 2019. The causeway links Kuwait City to Subiyah, on the north side of Kuwait Bay, where the road continues to Boubyan Island and north to the Iraqi border.

China also has an important role in the plan. The details of the first stage were released following a visit by representatives from the Chinese National Development and Reform Commission, China Communications Construction and the China Development Bank. The port, sector players argue, could become a staging post for China's ambitious BRI, linking maritime and land routes on the new Silk Road.

**LOOKING AHEAD:** Mubarak Al Kabeer has seen a number of challenges, however. Iraq plans to develop its own port, Grand Faw, opposite the site, which could be a potential rival. It also shows that in order to successfully flourish, Mubarak Al Kabeer will need to work in partnership with its neighbours. To this end, Kuwait has been seeking to improve relations with Iraq in recent years. For example, the first Kuwait International Conference for Reconstruction of Iraq was held in Kuwait City in February 2018, and in May 2019 Kuwait offered to fund the reconstruction of one of the main border crossings with Iraq, Safwan.

Sector stakeholders argue that once the port is effectively connected to the rest of Kuwait by road and rail, it will be able to act as a new and easily expandable entry point into the country, freeing up the existing three ports in the south and offering notable potential for redevelopment. Looking beyond 2019 there will likely be continued debate surrounding this ambitious project as the basic infrastructure is rolled out.

The Mubarak Al Kabeer Port on Boubyan Island was initially launched in April 2011 with a four-stage construction plan, including a container storage facility capable of handling 2.5m twenty-foot equivalent units per year when it reaches full capacity.

Global Perspective

# Ticket to ride

## A combination of large-scale infrastructure investment and vehicle-sharing platforms are boosting urban mobility

Across the globe the urban transportation sector is experiencing rapid expansion, driven by economic growth and a global demographic shift towards urbanisation. Politicians, urban planners and private sector actors are working together to find new solutions for reducing congestion and increasing the speed and efficiency of urban transport. However, unless proactive steps are taken to plan and invest in well-executed infrastructure, urban mobility can deteriorate.

**CHALLENGES & POTENTIAL:** Urban mobility has become a critical quality-of-life issue worldwide, due to rising migration to urban centres and the emergence of mega-cities. According to the UN, 4.2bn people, or 55.3% of the world's population, lived in urban areas in 2018. It will be crucial for governments to address the major negative side effects of growing urban populations. In Latin America cars and motorcycles generate more than two-thirds of all $CO_2$ emissions in urban areas. On a worldwide level, air pollution is expected to cause 6.6m deaths a year by 2050, according to research from the Max Planck Institute for Chemistry. On a global level, policymakers, city planners and the private sector are collaborating to reduce congestion and pollution, while allowing residents to move quickly and easily throughout urban spaces. New urban transport networks are combining access for passenger vehicles, metro and bus systems, bicycles, and new means of transportation such as app-based scooters and electric bicycles. "Cities need to rethink urban transport systems to enable safe and connected networks between traditional transit, pedestrians and cyclists," Claudia Glen, a transport consultant at the Inter-American Development Bank, told OBG. "Streets are valuable public spaces, and cities need to reimagine how to allocate that space in a more equitable way."

**ROAD VEHICLES:** Urban residents continue to rely heavily on privately owned vehicles. Worldwide, the number of cars in use is expected to exceed 2bn by 2040, according to investment research firm Bernstein. Much of this will be driven by new vehicle purchases by the burgeoning middle class in emerging markets such as India, China, the Philippines, Indonesia and Vietnam. By 2025 the 600 largest cities in the developing world are expected to house 235m middle-class households earning an average annual wage of over $20,000 a year, according to the McKinsey Global Institute.

For example, Indonesia has a population of around 260m, but a car ownership rate of 4%, according to figures from Pew Research Centre. Indonesia's capital city Jakarta, a city with a population of 10.5m, is already overburdened by traffic. It is also one of the fastest-growing cities in terms of new car ownership and one of the world's most congested cities, with vehicle emissions accounting for 70% of urban air pollution. On average, drivers in Jakarta spend 184 hours a year stuck in traffic, incurring $7.1bn in economic losses. Traffic congestion is a major challenge in other urban areas, such as Mexico City, which is the world's most congested city. Nearly half of all residents own cars, with 4.7m cars registered in Mexico City and an additional 5.1m registered in the surrounding Mexico State.

**CONGESTION:** Other cities around the world are also confronting the challenge of congestion. In Algiers there are now more than 300,000 cars operating on a road system that was originally designed to handle 40,000. Meanwhile, there are nearly 7m registered vehicles in Saudi Arabia, approximately one-third of which are registered in the capital Riyadh, the most-congested city in the Middle East. Riyadh's population is expected to increase from 6.5m to 8.3m by 2030.

In addition, many mega-cities across the globe have experienced significant increases in motorcycle usage. In Mexico City motorcycle ownership increased from just under 294,000 in 2000 to over 3.5m in 2017. "The motorcycle market is relatively new in Mexico; it is growing slowly but hasn't yet become part of the lifestyle like in other countries," Fernando Zapata, director-general of Grupo Zapata, told OBG. India is the world's biggest

Asia was home to **55.3%** of the world's population lived in urban areas in 2018

Cities are working to build new urban transport networks that combine access for passenger vehicles, metro and bus systems, bicycles, and new means of transportation such as app-based scooters and electric bicycles.

The adoption of electric vehicles could help decrease air pollution, but it does not address the congestion problem. Thus, long-term solutions are likely to be driven by investment in public transportation.

market for motorcycles and scooters. For example, residents of Bangalore – a city whose population grew from under 5.6m in 2000 to nearly 11.4m in 2018 – now own nearly 5m motorcycles and scooters. Motorcycles and scooters now make up 70% of city's vehicles. While the adoption of electric vehicles could help decrease air pollution, it still does not address the congestion problem. Thus, long-term solutions are likely to be driven largely by public transport.

**RAIL:** In some major cities metro rail lines form the central pillar of the public transport system. The metro system in South Korea's capital city Seoul transports 7m passengers per day over 1600 km of track. The system includes nine lines and a commuter rail linking the central station to Seoul's new international airports.

Seoul has set a high standard for urban mass transit, and global governments are looking to catch up. City planners in Algeria inaugurated the country's first metro line in the city of Algiers in 2011 and in 2018 added two metro lines and two new tram lines. Algiers now has 17 metro stations, which carried between 100,000 and 200,000 passengers per day in 2018, according to the Algerian Business Leaders' Forum. Authorities in Algiers are now planning further extensions to the metro system and a refurbishment of the city's roads, tramway system and public bus fleet.

Other countries are working to adapt older systems for rapidly expanding populations. In Brazil many of the mass transit systems built in the early 20th century were dismantled between the 1930s and 1970s. Although more than a dozen cities in Brazil have built rail-based public transport networks, Rio de Janeiro and São Paulo are the only two cities in the country that have fully functional underground metro systems. Municipal authorities are undertaking efforts to improve this system further, with a major extension of the São Paulo metro system earmarked for completion by 2020. The expansion project features 11 new stations along 14.4 km of track with four integrated bus terminals, and has been developed under a public-private partnership supported by the World Bank.

In Jakarta severe congestion has rendered buses slow and inefficient. The centrepiece of the city's public transport overhaul is a mass rapid transit system. The first phase of the project, which opened in March 2019, comprises 13 stations across 16 km of track, connecting the south of the city to the business district. The $1.2bn project is expected to move 170,000 passengers per day. The second phase of the project, which will extend to the north of the city, is expected to open in 2024. The government hopes that public transport will accommodate 60% of commuters by 2030.

Meanwhile, Cairo – the largest city in Africa – was an early adopter of mass transit in the region, opening the first fully fledged metro system in Africa in 1987, which carries over 4m passengers a day. As part of the Vision 2030 development programme, the government plans to develop a further 180 km of metro lines to accommodate over 7m passengers per day.

Given the relatively recent urbanisation of the Gulf, many cities grew around the car and therefore have limited public transport systems. However, the 21st century has brought a number of important projects to the region.

Given the relatively recent urbanisation of the Gulf, many cities grew around the prominent use of cars and therefore have limited public transport systems. However, the 21st century has brought a number of key projects to the region. This began with the opening of Dubai Metro in September 2009, followed by Makkah Metro, which opened for the Hajj season in 2010. Although not yet operational, Doha Metro is currently in the testing stage, and its first three lines are expected to enter into service by 2020, with 37 stations being included in the network. There is scope for up to 60 more stations, the addition of another line and the extension of existing lines, all of which are planned for 2026. Doha Metro is also on track to become one of the fastest driverless trains in the world, with speeds of up to 100 km per hour, and is expected to contribute to a 50% reduction in traffic congestion. An added benefit to inaugurating the system in 2020 will be its use for the 2022 FIFA World Cup, to be held in Qatar during November and December of that year.

Another international event to be held in the region is Expo 2020, which will take place in Dubai. To prepare for the increase in events and visitors, the city's Roads and Transport Authority enacted a 15-km extension to the current system, known as Route 2020, which will come on-line in May 2020. Route 2020 will bring the city's total network to 110 km of metro track, with hopes to extend the network to 421 km by 2030.

Riyadh is also in the process of building a $22.5bn metro system. The metro will partially open in 2019 and is set to be fully operational by 2021. The new metro system will use driverless electric trains running on six lines, covering 176 km of track and connecting 85 metro stations. Upon completion, the Riyadh Metro is expected to increase the share of residents using public transport from 2% to 20%.

**BUS:** Mass transit systems that are bus-based provide another critical tool for improving urban mobility. In Latin America, Bogotá, Mexico City and Santiago de Chile have invested heavily in this segment. Bogotá's TransMilenio articulated bus system was an early pioneer in this regard, with 12 routes spanning more than 114 km as of March 2019. The city's bus network carries more than 1.7m passengers every day.

Smaller cities are also implementing smart bus systems, many of which incorporate new green technology. In 2019 Indianapolis is expected to introduce a 13-mile north-south electric bus system. Los Angeles – the second-largest city in the US – is in the process of replacing its entire 2200-vehicle bus fleet with electric vehicles. Meanwhile, Riyadh is expanding its bus network to include 956 buses travelling routes spanning over 1000 km. Jakarta has also followed Bogotá's example by investing in a rapid bus transit system. The 251-km TransJakarta system carries over 350,000 passengers every day in air-conditioned buses.

**BIKE LANES:** Bicycles are also set to play a critical role in the transport systems of 21st century cities. Copenhagen and Amsterdam are known around the world as bike-friendly cities. Nearly two-thirds of Copenhagen's residents commute on bicycles, making use of 350 km of dedicated bike lanes. In addition, mid-sized urban areas like Boulder and Montreal are also investing heavily in bike lane infrastructure. Within Latin America, Rio de Janeiro has led the way in embracing bicycle-based transit and building bike-friendly infrastructure. The city offers over 435 km of well-paved bike lanes, which makes it the largest network in South America. Buenos Aires also has a municipally run service that provides free bicycle-sharing services for residents and tourists to use, with over 195 km of dedicated bike lanes as of March 2019. In Jakarta thousands of cyclists enjoy Sunday morning rides on the city's car-free days, but struggle to make use of their bikes as a tool for commuting. In 2005 Bogotá initiated a weekly Ciclovía every Sunday, granting cyclists exclusive usage of some of the city's main avenues. Mexico City has built a dedicated bike line along Reforma Avenue in the city centre and opens a recreational cycling-only route on Sundays. Furthermore, the city's public EcoBici bike-sharing programme has over 120,000 users. Nevertheless, cycling advocates state that the city still lacks sufficient infrastructure to make daily commutes feasible and safe. In Cairo urban planners are introducing a new bike-sharing programme and building over 700 cycling lanes. In China, Beijing was long touted as a world capital for bicycle commuting; in 1980 nearly two thirds of all commuters in Beijing rode bicycles, but by 2014 bicycles were used by less than one-fifth of all commuters. However, Beijing has recently experienced a massive expansion in cycling thanks to the introduction of more than 16m shared bicycles by around 60 new bicycle-sharing firms. City planners aim to support this by expanding the network of bike lanes and sidewalks to over 3000 km by the end of 2020.

**CREATIVE SOLUTIONS:** A number of new start-ups have emerged, following in the wake of ride-hailing apps such as Uber, Lyft and Didi, offering access to privately owned, shared-use scooters and electric bicycles. "New semi-public modes of transit such as ride sharing and shared vehicles are challenging conventional urban transport planning and providing a more tailored mobility solution," Mariana Torres, vice-president at New York-headquartered John Laing Investments, told OBG. For example, two Chinese two-wheel vehicle-sharing companies – Ofo and Mobike – are expanding their operations across the world.

Electric scooter-sharing apps are also emerging, with Bird being launched in Santa Monica by former Uber executives in September 2017. Santa Monica is already taking a leadership role in embracing car-free transit and providing infrastructure to facilitate the adoption of electric scooters. Bird has since expanded its operations to Mexico City in October 2018, with plans to enter other major cities in Latin America. Meanwhile, in Jakarta, GO-JEK, a local motorbike ride-hailing and delivery platform, began to allow users to rent electric scooters. Nevertheless, while electric scooters and motorcycles may offer an alternative to private cars, they remain a complement to, rather than a replacement for, investment in rail, bike and bus systems.

A number of new start-ups have emerged, following in the wake of popular ride-hailing apps, offering access to privately owned, shared-use scooters and electric bicycles.

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# Energy

## Authorities invest in bolstering the sector value chain

## Focus on gas-fired generation to free up oil for export

## Exploring solar potential in enhanced oil recovery

## Pursuing a 15% renewables contribution by 2040

Domestic gas consumption increased to 21.8bn cu metres in 2018

# Aim high

## The industry is investing heavily to move up the value chain and away from its historical role as a crude oil exporter

The Gulf country is one of the top energy sector investors in the world, with a range of mega-projects under way in refining, petrochemicals, new oilfield development and mature oilfield recovery.

With the sixth-largest proven oil reserves in the world, and an industry that dates back to the early days of oil and gas dominance in energy, Kuwait is among the world's principal hydrocarbons powers. The Gulf country is also one of the top energy sector investors, with a range of mega-projects under way in refining, petrochemicals, new oilfield development and mature oilfield recovery.

Supporting such programmes is a range of government-owned companies that benefit from a well-resourced, financially robust and sound administrative foundation. While the sector is very much a national industry, Kuwait is also a destination for international private sector players, with a range of contract and tendering opportunities available, from the upstream to the downstream segment.

Because of its established nature, shifting the energy balance towards more sustainable sources is an ongoing challenge for the sector, as is fully utilising resources to promote economic diversification and boost value-added industries. Nonetheless, Kuwait has made advances on some key projects to meet these challenges, securing a new generation of facilities and methodologies through an ambitious sector development programme.

**STRUCTURE & OVERSIGHT:** The Supreme Petroleum Council (SPC) is the highest body overseeing oil and gas policy in Kuwait. The SPC, whose members are appointed by the emir, is headed by the prime minister and includes the minister of oil. Since a reorganisation took place in 2013, the council has included six ministers, six representatives of the private sector, the head of the central bank and the leader of the national oil company, the Kuwait Petroleum Corporation (KPC).

Fully owned by the government, KPC was established in 1980 and is widely recognised as one of the world's top-10 oil energy conglomerates. Its formation brought together a range of public outfits that had been operating in the sector since Kuwait nationalised its oil industry in 1975. In 1981 KPC took over responsibility for marketing Kuwaiti oil outside the country and for exploration interests overseas – tasks previously handled by the Ministry of Oil.

**KPC:** In the upstream segment of its business, KPC is the parent company of Kuwait Oil Company (KOC), which manages development of both oil and gas. KOC also has responsibilities for crude oil storage and transport to tankers. The firm divides operations regionally, with deputy CEOs for south and east Kuwait, north Kuwait and west Kuwait.

Another KPC subsidiary, the Kuwait Foreign Petroleum Exploration Company (KUFPEC), managed 47 overseas assets in 13 countries as of 2019. KUFPEC intends to expand its international investment programme in the year ahead, raising oil and gas production from 120,000 barrels of oil equivalent per day (boepd) in mid-2019 to 150,000 boepd by the end of 2020. The company's CEO, Sheikh Nawaf Al Sabah, told Reuters in June 2019 that it is actively looking for more acquisitions in South-east Asia, Pakistan, Norway and Canada.

A third upstream subsidiary, the Kuwait Gulf Oil Company, works exclusively in the Partitioned Neutral Zone (PNZ) – an area that sits on the border with Saudi Arabia, where the two countries share the energy resources located there. Recent years have seen production in the PNZ halted, however, due to disagreements between the nations, environmental concerns and technical difficulties.

Prior to the suspension of production in the Partitioned Neutral Zone along the border with Saudi Arabia, the fields there accounted for some 500,000 barrels per day of crude oil output.

Regional press reports from late 2018 indicated that production might restart in the PNZ in 2019, with the US attempting to mediate a new joint-production agreement. However, operations had not resumed as of September 2019. Prior to the suspension of production in the PNZ, the fields there accounted for some 500,000 barrels per day (bpd) of output. Global industry monitor Kallanish Energy estimates resumption could add 100,000-125,000 bpd to Kuwait's annual production. KOC also has partnerships with Saudi Arabia's Aramco Gulf Operations Company and Saudi Arabian Chevron for work in the PNZ, at the Khafji and Wafra fields, respectively.

Downstream, two main companies control the segment: the Kuwait National Petroleum Company (KNPC) and, since 2016, the Kuwait Integrated Petroleum Industries Company (KIPIC). The latter was formed to operate and manage the new Al Zour refinery and petrochemicals complex (see analysis), while KNPC has a similar role in the existing refinery and petrochemicals hubs of Mina Abdullah and Mina Al Ahmadi. KNPC owns and operates a portfolio of petrol stations. The segment is also home to KPC subsidiary Petrochemicals Industry Company, which takes feedstock from KNPC and KIPIC to manufacture and market products such as ammonia, urea and polypropylene. Futhermore, Kuwait Petroleum International, a subsidiary of KPC in charge of overseas refining and marketing, operates retail outlets internationally under the name Q8.

KPC has its own transport arm, called the Kuwait Oil Tanker Company (KOTC). The company has a fleet of 28 vessels that includes 12 very large crude carriers (VLCCs), four liquefied petroleum gas (LPG) carriers, two bunker ships and 10 petroleum product carriers. In addition to the fleet, KOTC has a marine agent arm and an LPG filling plant.

**ADDITIONAL PLAYERS:** When it comes to non-government-owned companies, several outfits exist in Kuwait, but their operations are primarily abroad. Kuwait Energy, for example, is a subsidiary of Hong Kong-based United Energy Group and operates upstream assets in Iraq, Egypt and Yemen. Energy House Holding, previously AREF Energy Holding, is an arm of Kuwait Finance House with assets in Sudan, the UAE, India and Saudi Arabia. A third player, the Independent Petroleum Group, has interests in petroleum product marketing and trading, with associate companies in seven countries, a joint venture in Lebanon and a subsidiary in the UAE.

**RESERVES & PRODUCTION:** The "BP Statistical Review of World Energy 2019" report measured Kuwait's proven oil reserves at 101.5bn barrels in 2018, or 5.9% of the global total. Production, meanwhile, stood at 3.05m bpd, or 3.2% of the total. This equates to a reserves-to-production ratio of 91.2 years. Most of Kuwait's natural gas comes from associated fields, strongly tying it to oil production figures. Kuwait had proven reserves of 1.7trn cu metres, or 59.9trn cu feet, at the end of 2018, representing 0.9% of the global total. With annual production at around 17.5bn cu metres, the reserves-to-production ratio is 97 years. UK research firm Fitch Solutions estimates that 15bn cu metres of yearly output is associated sour gas, and the remainder non-associated gas is primarily from the northern Jurassic fields.

There has been very little change in Kuwait's total proven oil and gas reserves over the years: the BP report calculated them at 101.5bn barrels and 1.7trn cu metres, respectively, at year-end 2008 as well. However, these figures are notably up from 1998, when proven oil reserves stood at 96.5bn barrels and gas reserves totalled 1.4trn cu metres.

Kuwait's proven oil reserves were estimated at 101.5bn barrels as of 2018, or 5.9% of the global total

As a member of the Organisation of the Petroleum Exporting Countries (OPEC) since 1960, Kuwait has participated in coordinated production cuts to stabilise global prices when necessary. It has also supported efforts for a long-term cooperation agreement between OPEC and non-OPEC members. The OPEC+ pact among many of the world's hydrocarbons producers was an agreement to cut oil production in the first half of 2019, but during the G20 Summit in Japan at the end of June 2019 Saudi Arabia and Russia agreed to extend production cuts at the same rate for another six to nine months.

**CONSUMPTION:** In terms of domestic consumption, the BP report estimates a total of 451,000 bpd for 2018, down slightly from 455,000 bpd in 2017. Domestic consumption has remained below the 500,000-bpd mark for the last decade, with the exception of 2013. Local use consumes roughly 15% of output, demonstrating the size and importance of the industry's export operations. Most output is targeted at nations in the Asia-Pacific region, and Kuwait is one of China's most important oil suppliers.

Meanwhile, local oil refinery throughput in 2018 was 679,000 bpd – around 22% of production – showing the significant amount of Kuwaiti crude that is exported unrefined. Boosting the amount that is refined domestically – or by Kuwaiti refinery projects overseas – is therefore a major part of the government's hydrocarbons programme.

Kuwait consumed around 21.8bn cu metres of natural gas in 2018, up slightly on 21bn cu metres the previous year. Domestic natural gas use has been steadily rising since 2008, growing from just 12.1bn cu metres that year. The feedstock has increasingly been used for power generation and

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Local use consumes 15% of oil output, demonstrating the importance of export operations. Most output is targeted at nations in the Asia-Pacific region, and Kuwait is one of China's most important oil suppliers.

Sector planners aims to achieve a sustainable crude oil production level of 4.75m barrels per day by 2040

In the three years to April 2019 the top-three providers of imported liquefied natural gas (LNG) sold a combined 7.5m tonnes of LNG to Kuwait.

water desalination. This is broadly in line with the government's long-term strategy, which places an emphasis on natural gas for domestic power and desalination needs in order to free up more oil output for export. Although fossil fuel-fired power continues to generate almost all of the country's electricity and desalinated water, renewables are receiving greater attention in energy mix targets (see analysis).

As Kuwait consumes all the gas it produces, imports are important to the country, arriving largely in the form of liquefied natural gas (LNG). Three major sources of this are BP, Shell and Qatargas, which sold a total of 7.5m tonnes of LNG to Kuwait in the three years leading up to April 2019, according to KPC. Plans for an LNG import terminal at the new Al Zour complex show that this trade is expected to continue for many years to come.

**PERFORMANCE:** In terms of the sector's contribution to the overall economy, in 2018 oil and gas accounted for $65.7bn worth of exports, according to the IMF. This was significantly higher than the $49.6bn recorded in 2017. The sector was responsible for 43.7% of GDP in 2018, up from 38% the year before, with the change mainly due to higher oil prices. Recovery has been a slow process for all major hydrocarbons producers since global prices tumbled in mid-2014. The sector accounted for 51.9% of Kuwait's GDP that year and fell to 34.5% in 2016. While oil prices rose significantly in the second half of 2018 – reaching $85 per barrel in early October – underlying instability remained due to concerns over sluggish global growth, robust inventories and the large supply of US shale, all of which served to suppress international benchmark prices.

In 2018 oil and gas accounted for $65.7bn worth of exports. This was significantly higher than the $49.6bn in exports recorded in 2017.

Regional security concerns also affect oil prices. A series of attacks on oil tankers in the Strait of Hormuz and a growing US military presence in the area led to renewed tensions between Iran and the US in the summer of 2019. This led to trading volatility as well as a couple of price spikes. Brent crude moved from a monthly high of $66.55 per barrel on June 28 to $62.40 on July 2, before climbing back up to $67.01 on July 10. Per barrel prices were holding at just under $60 as of mid-October 2019.

**2040 GOALS:** KPC is working to implement its strategic plan for 2040, for which each of its subsidiaries was given the task of drawing up its own chapter in accordance with overarching guidelines. The new strategy is an update to the previous 2030 plan that was formulated in 2008. After beginning the revision process in 2017 KPC announced in January 2019 that it had begun the task of selecting a consultant to review the new 2040 roadmap.

In the upstream segment, goals for the domestic sector – including the PNZ – encompass achieving a sustainable crude oil production level of 4.75m bpd by 2040. Planners are also targeting 2.5bn standard cu feet per day (scfd) in sustainable, non-associated natural gas production. Downstream, domestic refining capacity is hoped to grow to 2m bpd by 2035, with local refining and petrochemicals operations fully integrated. The core petrochemicals business is to be expanded both at home and abroad, while the plan also calls for an expansion of downstream derivatives and speciality chemical production.

KOTC, meanwhile, aims to increase its fleet size to 60 vessels by the end of the 2040 plan period. As part of this, in the first quarter of 2018 the company ordered three new LPG carriers from South Korea's Hyundai Heavy Industries and one VLCC from China's Bohai Shipbuilding Heavy Industry. At the same time, the 2040 plan looks for KOTC to improve its shipping operations through greater efficiency, lower costs and better environmental standards.

KPC has provisionally assigned a capital expenditure of $114bn for the five-year period of 2018 through to 2022, with $394bn more for the remaining years to 2040. Some 75% of the total will go to domestic upstream projects, 9% for domestic downstream operations, 6% to petrochemicals, 5% for the international upstream, 4% for the international downstream and 1% to midstream operations.

The strategy – which aligns with the New Kuwait 2035 vision, the overarching development plan – sees the private sector playing a greater role. In the downstream segment, the growth of refining and petrochemicals capacity aims to open opportunities for private manufacturing, while local suppliers and contractors have been reserved a 30% share of spending. At least four opportunities for private sector involvement in KPC activities or investments are targeted by 2020, with at least five more by 2025.

At the same time, the country's ongoing localisation drive aligns with plans to boost Kuwaitisation: the hiring of Kuwaiti citizens to replace expatriates in the workforce in line with industry quotas. In July 2018 local media reported that Kuwaitis accounted for 85% of workers in the oil sector, yet continued pressure to increase this figure has raised some concerns over the impact it could have on expertise and experience among the workforce. Still, the Kuwaitisation drive continues to enjoy considerable political support given its perceived long-term benefits for the country and young graduates.

**UPSTREAM OIL:** Kuwait's Burgan field in the south is widely considered the world's second largest, after the Ghawar field in Saudi Arabia. Burgan is also one of the world's oldest commercially exploited formations, with the first test wells drilled in 1938 and 1946 seeing the first commercial exports. Today, Greater Burgan accounts for around 50% of oil production.

Other significant fields are Ratqa in the northwest, south of the Iraqi border; Umm Gudair, close to Burgan; and Wafra in the PNZ. The north is also home to the fields of Abdali, Umm Niqa, Raudhatain, Sabriyah and Bahra, with Mutriba and Ladira adjacent to Ratqa, Kra Al Maru in the centre, and Hout and Lulu offshore. Kuwait has a mix of light and heavy oils, which are blended into a single Kuwait Export Crude product. This has an American Petroleum Institute gravity of 31, an indication of its weight compared to water. The Raudhatain, Sabriyah and Umm Niqa fields also have natural gas deposits, as does the Minagish oilfield west of Burgan. Dorra, meanwhile, is the largest offshore natural gas field.

With the 2040 strategy demanding a substantial increase in output, KOC Exploration Group has been carrying out a full range of exploration activities, including 4D and multi-component seismic surveys, mapping and fracture detection, and pore pressure prediction both onshore and offshore. The company has also been boosting enhanced oil recovery (EOR) at existing fields. This poses many technical challenges, however, as the fields in question – particularly those in the north – generally contain sour oil and heavy oil. KOC has thus become a world leader in increasing production at mature formations, launching the first chemical surfactant injection project in the Middle East in its northern fields in 2017.

The Ratqa field is also where the first undertaking aimed at developing heavy oil is taking place. The $7bn Lower Fars Heavy Oil Project is one of the largest upstream initiatives in the Middle East, with an eventual production target of 430,000 bpd in 2040. Cyclic steam injection will be used to extract the sluggish heavy oil, thinning it for transport by pipeline to the Mina Al Ahmadi tank farm. Its final destination, however, will be the refinery at Al Zour, which is being built to specifically handle heavy oil. The crude will be extracted from more than 1300 different wells, given the size of the field. State-run Kuwait News Agency reported in April 2019 that first oil would be produced in August of that year.

KOC is working with a number of contractors on the project, rather than a single international major – although Shell Kuwait is involved in developing EOR projects in the north more broadly through an enhanced technical service agreement (ETSA). The Lower Fars contractors include Italian industrial company Sinergia, China's Sinopec, the UK's Petrofac, regional player Consolidated Contractors Company, local firm ABJ Engineering and Severn Glocon India.

At the same time, KOC is exploring using concentrated solar power to produce steam for oil well injection, with a tender out in April 2019 for such a scheme at Ratqa (see analysis). In the south, Burgan has EOR projects as well, with an ETSA for the giant field signed between KOC and BP in 2014.

KOC recently implemented the first two phases of its Kuwait Integrated Digital Field (KwIDF) project. This involved connecting all the wells in the north expansion project to the KwIDF project after the first limited pilot phase showed increased efficiency and a 5% hike in production in 2017. Working alongside the US' Halliburton, KOC has developed a real-time information system that integrates surface and subsurface data, processing this to help oil well operators improve decision-making and optimise responses.

**UPSTREAM GAS:** Exploration work has led to the discovery of new tight gas fields in the north, now being exploited via the North Kuwait Jurassic Gas Project. This was launched in 2010 with an early

Kuwait has become a world leader in increasing production at mature formations, launching the first chemical surfactant injection project in the Middle East in its northern fields in 2017.

Upstream expansion in north Kuwait has created a need for more gathering centres. The latest three additions, from 2019, are each designed to hold up to 100,000 barrels per day (bpd) of oil, 240,000 bpd of water and 240m standard cu feet per day of associated gas.

production facility (EPF) adding some 1.8bn cu metres of gas and 55,000 bpd of condensates to the total. This was expanded under phase two, raising output to 5.3bn cu metres and 175,000 bpd, respectively, in 2018 via three new EPFs. Two went to the US' Schlumberger and the third to local firm SPETCO.

Phase three of the project is now under way. In May 2019 KOC announced that it had pre-qualified 17 international firms for this ambitious stage, which will see construction of two production facilities for Jurassic gas, with an output of 160m cu feet and 50,000 bpd of light crude each. The eventual winner or winners will receive a build-own-operate contract, according to regional media reports from May 2019. Kuwaiti authorities have favoured this type of EPF contract in recent times, moving away from the engineering, procurement and construction model in the upstream segment. EPFs also mean that production can begin more quickly, helping Kuwait ramp up output in line with strategic goals.

Plans for offshore gas development, however, remain on hold. The Dorra gas field is one of the most promising prospects, but because it is located off the shores of the PNZ and subject to an Iranian claim, progress is unlikely in the foreseeable future. Nonetheless, in March 2019 Saudi Arabia's Al Khafji Joint Operations outlined plans for Dorra's development via six offshore platforms connected by flow lines.

**MIDSTREAM:** With KOC not only responsible for oil and gas exploration and production, but also transport and storage, the company is Kuwait's midstream agency. It is the authority for pipelines, gathering centres (GCs), warehouses, and distribution and loading facilities. After Kuwait's network of GCs was badly impacted in the 1990-91 Gulf War, KOC has engaged in a replacement, upgrade and expansion programme. Upstream expansion in north Kuwait has added to the need for more GCs, with GC 29, 30 and 31 the latest additions in 2019. Each of these is designed to hold up to 100,000 bpd of oil, 240,000 bpd of water and 240m scfd of associated gas. Companies involved in their construction included India's Larsen & Tourbo (L&T), Bahrain's Raymond International and the UK's TechnipFMC.

TechnipFMC is also involved in the Strategic Gas Export Pipeline project. This is a 145-km, 48-inch-diameter link that will run from northern Kuwait to a central mixing manifold at the Mina Al Ahmadi refinery, where a major upgrade known as the Clean Fuels Project is ongoing (see analysis). In April 2019 the construction contract was awarded to L&T.

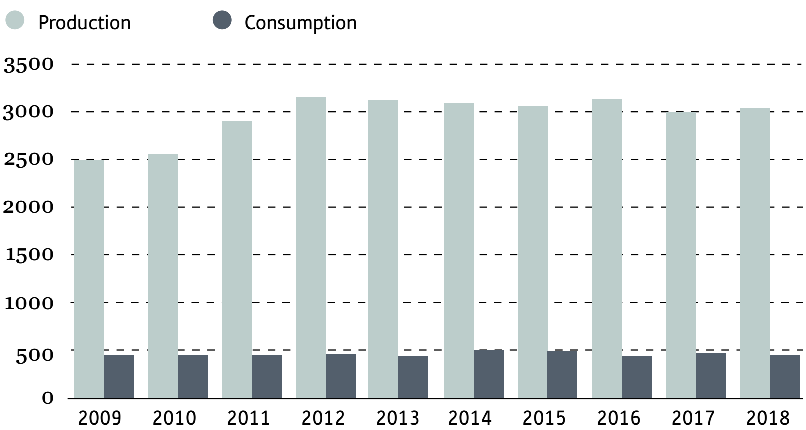
The Mina Al Ahmadi refinery is also where compressed gas and condensate are piped in for conversion to LPG. With the refinery and petrochemicals complex at Al Zour requiring major midstream distribution and transport operations, in 2017 KOC contracted Italy's Saipem to build a system of onshore feed pipelines to the site. This involves laying some 450 km of pipeline linking Al Zour to facilities in south Kuwait. KIPIC, the new complex operator, declared in April 2019 that it expected the pipelines to be completed in October of that year.

The downstream is therefore setting the midstream agenda, which in turn is connected to upstream developments in the north, as well as EOR and EPF developments more generally. Al Zour and the Clean Fuels Project are slated to transform the downstream as Kuwait attempts to gain more added value from its hydrocarbons reserves and accelerate economic diversity. Additional refinery capacity will help produce petrochemicals products that Kuwait currently has to import – for example, automotive and industrial oil-based lubricants. "There is no refinery for base oil in Kuwait," Mishal Al Refai, executive partner of Kuwait Dana Lubes Company, told OBG. "We must import this from Greece, the UAE, Germany and others. These imports account for about 90% of our budget, but it does not have to be that way."

**OUTLOOK:** As rollout continues on major projects over the next few years, Kuwait will see the energy sector transform from a crude oil export-dominated industry to one in which petrochemicals and fertilisers are joined by a range of associated industrial outputs, supporting and diversifying the economy, as well as Kuwait's overseas earnings. Meanwhile, wider development plans, including the construction of new cities and a port at Mubarak Al Kabeer (see Transport & Logistics chapter), will see demand for energy rise. With the shift from oil to gas as the primary power generation source, its development is even more crucial. More investment in gas exploration and in securing associated gas will thus dovetail with expanded LNG import capacity at Al Zour.

Externally, rising tensions between the US and Iran impacted the sector negatively, with Kuwait moving to secure alternative outlets for its exports. A route through Iraq and Turkey was being explored in mid-2019, with implications for the sector's future development not yet clear. At the same time, concerns over global economic sluggishness continue to weigh on oil prices. Kuwait, however, is in a strong position to ride out a short-term slowdown, with sufficient financial reserves to ensure necessary investment.

**Oil indicators, 2009-18** (000 bpd)




Source: BP Statistical Review of World Energy

Hashem Hashem, Deputy Chairman and CEO, Kuwait Petroleum Corporation

# In with the new

## Hashem Hashem, Deputy Chairman and CEO, Kuwait Petroleum Corporation (KPC), on modernising oil and gas operations

**To what extent are operational efficiencies being strengthened across KPC subsidiaries to improve productivity and optimise costs?**

**HASHEM:** The historical volatility of oil prices will not change, and it is very likely that technology and the energy transition will continue to have a major impact on the industry. In that context, we must be prepared for price troughs. High oil prices should be considered a windfall, not the norm. This is the mindset needed to drive efficiency and control costs.

Our goal is to sustain Kuwait's oil prosperity by increasing the competitive edge that the scale and the quality of our fields have given us over the last 70 years. Our focus is not only on production volumes but also on associated costs. Boosting operational efficiencies is a top priority in the Kuwait Master Plan 2040. All of our subsidiaries are engaged in this paradigm shift, which will require us to control our operational expenditures, optimise our capital expenditure portfolio, align our priorities, strengthen our marketing capabilities, and reshape the company's culture and workforce skills. We must consider improving our current ways of working and culture in a holistic way: this will support the profit-driven model we want to enforce. It will also streamline our decision-making processes, foster integration in the "K-Companies" value chain and create the right conditions for higher economies of scale.

**What are the ways in which KPC is developing its human capital strategy to support future growth and nurture domestic talent?**

**HASHEM:** Traditionally, national oil companies have a strategic role in developing capabilities and talents for its country. In Kuwait, we have shaped one of the leading oil and gas industries, covering all the energy sector domains, from geomechanics to trading. We have played a key role in creating training institutions and research and development centres, and incorporated the training element in all our projects and partnerships to ensure the development of local talent. New knowledge is required at each stage of KPC's development; for example, in our offshore ventures, during tertiary recovery, in our petrochemicals activities and in boosting Kuwait's capacities in renewable energy.

There are three key areas that KPC needs to focus on when it comes to human capital development. One is the traditional aspect of attracting, developing and retaining talent, as KPC has an important role not only in ensuring it has the right human resources but also in developing human capital for the rest of the country. Second, is ensuring that the talent is geared towards the challenges of the future, focused on the promises and challenges of the digital economy, as well as the need to deploy capital efficiently. Third, is ensuring that we improve the organisation and delegate decisions to the front line as much as possible; this is required by the new technology trends and made possible by the focus on high-quality individuals with multiple skills. Oil companies worldwide are having to rethink the ways in which their organisations function, especially in terms of the traditional top-down model.

**How are emerging technologies like artificial intelligence and big data being integrated to facilitate the industry's development?**

**HASHEM:** Though the oil and gas industry is not typically seen as an innovator in emerging technologies, that perception may soon change. The digital revolution is upending many traditional patterns in the oil and gas industry, which not only allows us to diagnose and control operations in much greater detail, with the cost of sensors and data processing having fallen dramatically, but also facilitate a multitude of innovative approaches to managing the industry, from applying remote expertise to real-time monitoring of reservoir and refinery unit behaviours. At our company, we are not envisaging digital transformation as a simple change of software, but as a major rethinking of the entire work stream.

Kuwait aims to grow refining capacity to 1.4m barrels per day by 2040

# Front and centre

## Two projects aim to dramatically improve local refining capacity and petrochemicals production

To create a stronger network, the country will divest itself from overseas operations that have become less cost-effective, and open itself to mergers and joint ventures with competitors where there is a clear advantage to be gained from cooperation.

Emerging markets in Asia and elsewhere are being targeted as buyers of Kuwait's petrochemicals, with high-growth products such as olefins and aromatics to be the focus of exports to these overseas destinations.

The Kuwaiti government is set to become one of the world's largest downstream oil and gas investors thanks to plans by state-owned Kuwait Petroleum Corporation (KPC) to diversify its oil products and boost petrochemicals output. Central to this strategy, which comes at a $50bn price tag, is the goal of more than doubling the country's refining capacity to boost Kuwait's standing in a highly competitive regional market. KPC's overseas arm, Kuwait Petroleum International (KPI), is coordinating this expansion strategy with a number of undertakings around the globe, securing international refining and petrochemicals capacity from Oman to Vietnam.

**CONNECT THE DOTS:** Enlarging its downstream footprint is a key component of KPC's long-term development plan. On the domestic side the plan aims to grow refining capacity from around 615,000 barrels per day (bpd) in early 2019 to 1.4m bpd by 2040. Beyond the numbers, the vision hopes to maximise the conversion complexity of KPC's domestic refineries without impacting local energy demand, and provide petroleum products that meet local and international standards.

Internationally, the plan aims to significantly increase KPC's overseas refining capacity by securing outlets for crude oil. Partnerships with international and national oil companies – particularly in Asia – are seen as the way forward. To create a stronger network the country will divest itself from overseas operations that have become less cost-effective, and open itself to mergers and joint ventures with competitors where there is a clear advantage to be gained from cooperation.

Emerging markets in Asia and elsewhere are being targeted as buyers of Kuwait's petrochemicals. While domestic core business will continue to expand and integrate with international plans, high-growth products such as olefins and aromatics are set to be the focus of exports to these overseas destinations.

**COMING TOGETHER:** KPC subsidiary Kuwait National Petroleum Company (KNPC) runs the country's refineries and is the lead agency for new projects. The 2040 vision calls for the merger of two domestic refineries, and creation of a new refinery and petrochemicals complex at Al Zour, 100 km south of Kuwait City. The merger is known as the Clean Fuels Project and is priced at around $12bn. Since 2014 KNPC has worked to join the Mina Al Ahmadi (MAA) and Mina Abdullah (MAB) refineries, located 45 km and 50 km south of the capital, respectively. As part of this, the Shuaiba refinery – the first national oil refinery built in the Gulf, which was set to close in 2017 and sits between the two facilities – now provides tanks and export support to the combined plant. Local crude will be refined there, with MAA having an eventual capacity of 346,000 bpd and MAB 454,000 bpd. Combined, it will substantially increase the quantity of crude being refined in-country before being sold on, yielding a much-desired increase in added value. Indeed, the project's internal rate of return is expected to be around 11.5%.

As the name suggests, the merger sets out to transform production into more environmentally friendly fuels. The plant's petroleum products will meet Euro-4 standards, meaning that, for example, the sulphur content in both the petrol and gasoil produced will fall from 500 parts per million (ppm) to 10 ppm. This addresses a key issue for Kuwaiti oil, which tends to be sour – an industry term that denotes elevated sulphur content, which makes it costlier to refine than sweeter crude.

The project is being carried out by a consortium led by the US' Fluor Corporation, along with South Korea's Daewoo Engineering & Construction, and Hyundai Heavy Industries. Fluor reported in November 2018 that first steam had been generated successfully, while KNPC announced that month that the project was 97% complete, with a 73,000-bpd, low-sulphur diesel unit ready to begin operations in December 2018. However, in May 2019 S&P Global Platts reported that the project was running about six months late and would likely be completed at the end of 2019 or in early 2020, with each month hoping to see an additional unit commissioned.

**AL ZOUR:** Meanwhile, work at Al Zour is advancing. The $25bn project includes a refinery, petrochemicals plant and liquefied natural gas (LNG) facility, with another KPC subsidiary, Kuwait Integrated Petroleum Industries Company (KIPIC), as the lead agency. The refinery is on a greenfield site and will have a capacity of 615,000 bpd of crude, along with storage for 6.5m barrels.

The refinery is being built by the same Fluor-led consortium. Fluor is carrying out much of the pipe manufacturing at its Zhuhai fabrication yard in China, via its partnership with China's Offshore Oil Engineering. According to the Ministry of Oil, the refinery part of Al Zour was 76% complete in January 2019 and was expected to start operating in 2020. The Al Zour site will include a $3bn LNG processing facility, financed by Japan's Sumitomo Mitsui Banking, with Hyundai Engineering & Construction and Korea Gas building the plant. In March 2019 it was reportedly two-thirds complete, with a commissioning date set for 2020.

The third component of the Al Zour complex is the integrated petrochemicals plant, which will use feedstock from the refinery. In January 2019 the Ministry of Oil reported that this was still at the front-end engineering design phase. The engineering, procurement and construction stage is expected to be completed in the third quarter of 2023, with subsequent operations at the plant due to start in early 2024. In April 2019 KIPIC announced that the US' McDermott International had been awarded the contract to supply basic engineering, technology licensing and catalyst for an integrated low-pressure recovery and olefins conversion technology unit at the plant. The complex will receive power from the recently completed nearby Al Zour Power Station. This includes the new, 1500-MW Al Zour North gas-fired combined-cycle plant and the Al Zour South plant, which began KD20m ($65.9m) in renovations and upgrades in 2018.

**GLOBAL EXPANSION:** The integration and expansion of domestic petrochemicals and refinery activities ties in with strategic overseas moves. A primary example is KPI's acquisition of a 50% stake in Oman's new $8bn Duqm refinery and petrochemicals complex. Being developed with Oman Oil Company via the Duqm Refinery and Petrochemicals Industries Company (DRPIC), the complex will have the capacity to process 230,000 bpd of sour oil, including Kuwaiti crude. Formal notice to proceed with the refinery was issued by DRPIC in June 2019, with a 42-month deadline for completion. KPI is looking to embark on refinery and petrochemicals projects in India and Canada in addition to its existing presence in Vietnam and China.

A international network of integrated refinery and petrochemicals complexes is emerging for Kuwait, with crude oil either being processed at home or at facilities in which an agency of KPC has a sizeable stake. The result should be that there will be a major surge in earnings for Kuwait, as the nation takes a larger share for the world's higher-value-added petroleum products.

A global network of integrated refinery and petrochemicals complexes is emerging for Kuwait, with crude oil either being processed at home or at facilities in which an agency of the government-owned energy company has a sizeable stake.

Energy firms are seeking to use solar power in enhanced oil recovery

# Alternative means

## Solar power could help lower the energy import bill and recover oil from mature wells

In 2015 the country had one of the highest per capita energy demand levels in the world, at 8.9 tonnes of oil equivalent per person per year.

At the 2012 UN Conference on Climate Change in Doha, the emir of Kuwait announced that the country was aiming to generate 15% of its electricity from sun and wind by 2030 – a target since reasserted in the New Kuwait 2035 vision. While this goal will help reduce greenhouse gas emissions and combat climate change, Kuwait's desire to boost renewable energy is also linked to its aim to reduce the almost 100% share of power generation accounted for by oil and gas. Achieving this would enable more hydrocarbons to be used in higher-value-added petrochemical and refining processes, both in Kuwait and at Kuwaiti-backed projects abroad (see overview).

**IMPORTS:** At the same time, more renewable energy would enable Kuwait to cut its energy import bill. In recent years domestic electricity demand has grown substantially: in 2015 the country had one of the highest per capita energy demand levels in the world, at 8.9 tonnes of oil equivalent per person per year.

With generation capacity shifting from oil-fired to gas-fired, and domestic gas supplies not growing significantly, Kuwait has had to make up the shortfall by importing liquefied natural gas (LNG) to feed its power plants. The new Al Zour refinery and petrochemicals complex, for example, will also have a $3.6bn LNG import terminal to receive 11m tonnes per year when it opens in 2021.

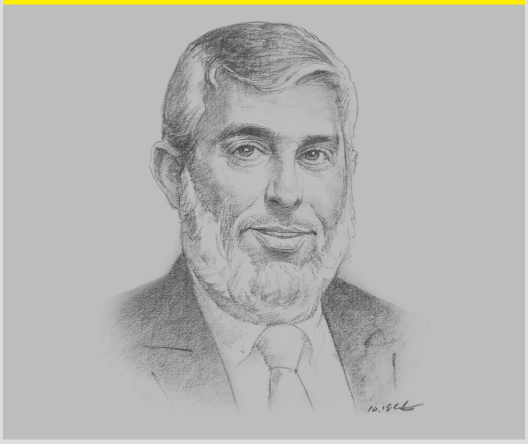
**SOLAR STEPS:** With Kuwait's electricity needs expected to be around 30,000 MW by 2030, renewables will have to account for some 4500 MW by that date to meet the 15% target. The Al Shagaya renewable energy park, a 45-minute drive west of Kuwait City, has been the focus of this effort to date. It is being jointly developed by the Kuwait Institute for Scientific Research and the Ministry of Electricity and Water. Its first phase, which kicked off in February 2019, involves building facilities to add 10 MW of capacity from thin-film solar photovoltaic (PV), 50 MW via concentrated solar power (CSP) and 10 MW from wind. Another project nearby, the Al Dibdibah plant being put together by the Kuwait National Petroleum Company, will be entirely composed of solar PV and will add a sizeable 1.5 GW to Kuwait's renewable capacity. In May 2019 bids from 28 companies were being evaluated to partner in the facility, with a winner likely to be announced in the second half of 2019.

The Kuwait Oil Company (KOC) has also been pioneering the use of solar power in its upstream operations. "Electricity use by the oil sector is already high and is set to quadruple over the next few years," Raed Sherif, a solar energy consultant at KOC, told OBG. "A lot of projects need artificial lift, along with all the new refining and petrochemicals uses."

In 2016 KOC launched a 10-MW solar plant at the Umm Gudair oilfield in western Kuwait, with electricity from the plant used to power 29 electric pumps. KOC is also seeking to use solar power to aid in enhanced oil recovery (EOR). Using CSP, water will be heated to create steam that can then be injected into mature wells to help push out heavy crude. In May 2019 KOC was in the process of evaluating bids for a 100-MW CSP EOR plant at the Ratqa oilfield as part of its broader plans to develop the north Kuwait region. The plant will be capable of supplying 3000 barrels of solar steam per day, or 1.1m barrels of oil per year.

**MODERN SOLUTIONS:** Using solar power in such schemes does not come without challenges, however. These include being subjected to extreme heat and dust, as conventional solar panels need frequent cleaning so their efficiency is not significantly impaired by wind-blown desert sands. Luckily, new technologies have emerged to tackle these issues. California-based GlassPoint Solar, for example, has developed a greenhouse arrangement with robotic cleaners, which is currently used in Oman. In the Ratqa tender, KOC is allowing bidders to produce their own solutions to these issues, too, which is encouraging further innovation in the growing industry subsector.

With Kuwait's electricity needs expected to be around 30,000 MW by 2030, renewables will have to account for some 4500 MW by that date to meet the 15% target it set at the 2012 UN Conference on Climate Change in Doha.



Emad Sultan, CEO, Kuwait Oil Company

# Operational growth

## Emad Sultan, CEO, Kuwait Oil Company (KOC), on expanding production and minimising environmental impact

**How is Kuwait pursuing its energy security goals, and will expansion of gas production play a role?**

**SULTAN:** The expansion of non-associated gas production, development of heavy oil production and commissioning of the new Al Zour refinery are key to fulfilling increasing energy needs in Kuwait.

Regarding non-associated gas production, KOC recently increased its total production capacity from 200m to 500m standard cu feet per day (scfd), with the commissioning of three new Jurassic production facilities in FY 2018/19. Plans are in the pipeline to upgrade the new facilities, which will provide an additional 150m scfd by March 2020. Furthermore, the construction of two more Jurassic production facilities will bring total non-associated gas production capacity to 980m scfd by the beginning of FY 2022/23. Additional upgrades of Jurassic gas facilities are on the way and are anticipated to provide a production capacity of over 1bn scfd by FY 2023/24. Heavy oil will also contribute to fulfilling Kuwait's energy needs. By the close of FY 2019/20 KOC will commission a new central production facility that is expected to increase heavy oil production by 60,000 barrels per day. Once the Al Zour refinery is commissioned, this heavy oil production will be converted into low sulphur fuel oil for power generation.

**In what ways has cost optimisation been integrated as part of KOC's operational strategy?**

**SULTAN:** A top priority for KOC is the optimised use of resources across all levels of the organisation. Optimisation will keep operational and capital expenditures as efficient as possible, with an increased emphasis on delivering projects in a timely manner and with strict cost controls. We have several processes in place to ensure that cost optimisation is integrated into our activities. These include integrated asset plans to help ensure the efficient use of rigs – a major cost component for any oil and gas company – and a stage gate process, which ensures proper identification, selection, definition and execution of our production development projects. We are using the latest technology to ensure the efficiency of our operations, such as a real-time drilling decision centre for optimal implementation of our drilling activities, and our integrated digital fields system, which provides information for better control of water produced from reservoirs. Furthermore, we are evaluating the execution of concentrated solar power technologies to produce steam for our heavy oil operations. All of these activities provide substantial cost savings and help to optimise operations.

**What are some of the challenges that must be overcome in order to best pursue heavy oil projects?**

**SULTAN:** We can group the challenges heavy oil projects into two main categories: technical and economic. There is a certain amount of uncertainty about the performance of the oil recovery technologies that are needed to produce heavy oil. To overcome this challenge we have established several initiatives at pilot and laboratory levels, in order to evaluate and optimise both well and reservoir performance.

There are a number of other challenges that are related to costs associated with this type of project. We are currently considering actions such as implementing concentrated solar power in order to reduce steam generation costs, which contribute greatly to the total development cost of heavy oil projects.

**Which initiatives are used to minimise environmental impact of existing assets and future projects?**

**SULTAN:** The biggest environmental impact of any oil and gas company operation comes from gas flaring, gas emissions and liquid spills. We have strict controls in place to minimise all of these issues. Moreover, we are expecting to reach maximum flaring of 1.2% by the end of 2019, and a new gas-sweetening facility is planned for commission in the West Kuwait area to further reduce flaring – to below 1% – after 2020.

# Global Perspective

## Cheaper and greener

### As costs decline, renewable sources are seeing an inexorable rise, particularly among developing economies

Emerging markets accounted for

**70%**

of new global investment in renewables in 2018

Although the world remains largely dependent upon fossil fuels for power generation, a gradual transition towards renewable sources has been taking place since the 1990s, underpinned by multilateral deals such as the Kyoto Protocol, the Doha Amendment and, more recently, the Paris Agreement. Investment and development in renewable technologies has historically been led by developed countries, however, in recent years the renewable energy industry has expanded in emerging markets. In 2018 these markets accounted for nearly 70% of new global investment in renewables.

**TAKING THE LEAD:** Emerging markets exceeded developed economies in terms of onshore wind and solar photovoltaics (PV) capacity in 2013 and 2016, respectively. While China is the main emerging market driving the rapid growth in renewable energy usage, other countries have also made a considerable contribution. The five countries with the highest renewable energy investment as a percentage of GDP are all emerging or developing economies, according to the multi-stakeholder Renewable Energy Policy Network for the 21st Century: Marshall Islands, Rwanda, Solomon Islands, Guinea-Bissau and Serbia. Going forward, sub-Saharan Africa constitutes the world's largest untapped market for electrification, and consequently represents a huge opportunity for renewable energy. The International Energy Agency (IEA) estimates that by 2028 the majority of regions without electricity will gain access through decentralised solar PV systems and micro-grids.

**DECLINING COSTS:** Technological innovation, proactive climate change policies, heightened consumer awareness and stronger corporate commitment have all helped to position renewable energy as a viable replacement for fossil fuels. However, perhaps the most important factor driving emerging markets towards developing renewable energy is its decreasing cost. A report published by the International Renewable Energy Agency (IRENA) indicates that a number of renewable technologies are now cost-competitive with traditional, fossil fuel power plants. In 2017 the global weighted average price of electricity from hydropower sources was $0.05 per KWh and the cost of on-shore wind was $0.06/KWh, while the cost of bioenergy and geothermal was $0.07/KWh. This is compared to a cost range for fossil fuel-fired power generation for G20 countries of between $0.05/KWh and $0.17/KWh.

Technological innovation, proactive climate change policies, heightened consumer awareness and stronger corporate commitments have all helped to boost renewable energy. However, perhaps the most important factor to its growth is its decreasing cost.

Solar power is expected to see stronger growth than wind in emerging markets. By the end of 2019, credit ratings agency Moody's expects emerging markets to possess 353 GW of solar power capacity, which would be 2.6 times the 2015 level and 349 GW of wind capacity, 1.5 times the 2015 level. While solar PV is not yet competitive with fossil fuels, with a current average cost of $0.10/KWh, the cost of this source has fallen by 73% since 2010. Moreover, IRENA expects that all renewable technologies, including solar PV, will fall within the fossil fuel cost range by the end of 2020, with most being at the lower end. Solar PV saw record low prices in Dubai, Abu Dhabi, Saudi Arabia, Chile, Mexico and Peru in recent years. In Mexico, a total of three long-term energy auctions were held between 2015 and 2017, with the average bid price for solar PV falling 54% from $44.90/MWh in the first auction held in March 2016, to $20.53/MWh at the third in November 2017. A fourth auction had been scheduled to take place in November 2018 but this was cancelled due to "administrative changes in the entities involved".

In Mexico clean energy certificates (CELs) were created as a measure of the country's clean energy progress and deemed to be a major factor in these considerable price cuts. Energy suppliers receive a CEL for every MWh of electricity produced from clean technology. Large consumers of electricity are required to consume clean energy, with requirements increasing from 5% at their inception in 2018 to 35% by 2024. They must then purchase the necessary CELs from qualified service providers and submit the CELs to the Energy Regulatory Committee to avoid sanctions.

Beyond certificates, IRENA has identified a range of key factors that should promote low auction prices, among them a favourable regulatory and institutional framework; low off-take and country risks; a strong local civil engineering base; a favourable tax regime; low project development costs; and a wealth of natural and manufacturing resources.

Efforts are being made to promote green debt instruments to finance clean energy projects. For example, the Association of South-East Asian Nations (ASEAN) has agreed to a set of voluntary guidelines intended to enhance the transparency, consistency and uniformity of ASEAN green bonds, while reducing due diligence costs and informing investor decision-making, with the hope of boosting confidence in the green asset class and channelling investments towards clean energy to help meet rising regional demand. "Standardisation creates more visibility and more recognition for the product. If the ASEAN Green Bond becomes a benchmark for such issuances, then more parties may use these standards," Seth Tan Keng Hwee, executive director of Singapore-based Infrastructure Asia, told OBG.

**GLOBAL GOALS:** This investment trend is set to continue, prompted by global and regional agreements with ambitious climate goals. The most recent and wide-reaching of these deals, the Paris Agreement, aims to keep the global increase in temperature below 2°C above pre-industrial levels. As of March 2019 some 184 out of 195 (194 states plus the EU) signatories had ratified the deal, including all the countries covered by OBG. Under this agreement each party is responsible for setting its own targets and deadlines. For example, the EU's 2030 Climate and Energy Framework stipulates that renewables must supply at least 27% of EU energy consumption by 2030, up from 16.4% in 2015.

Some targets in emerging markets are considerably higher than those of the EU. Kenya, for example, aims to raise the current rate of 70% renewables to 100% by 2020. Nigeria is one of the continent's largest hydrocarbons producers, yet has targeted deriving 30% of its electricity from renewables by 2030. Nigeria also hopes to increase the share of the population with electricity access from 57.7% in 2018 to 90% in 2030.

In the Asia-Pacific region, Sri Lanka aims to derive 60% of its energy from renewables – primarily wind – by 2030. Thailand was an early pioneer of solar deployment in the region, but recently announced a five-year moratorium on new solar and wind procurement, citing upward pressure on wholesale electricity prices. Nevertheless, some companies remain focused on developing rooftop solar and power distribution channels that blur the distinction between producer and consumer. Papua New Guinea aims to reach 32% by 2030 and 100% by 2050, with several hydropower projects and the Lae biomass venture already in the development phase.

"If we look at it from a commercial perspective, energy production by individuals and businesses is very attractive for all parties," Bundit Sapianchai, president and CEO of BCPG, told OBG. "As individual producers sell to the national grid they will also reduce demand, as they depend to some extent on their own energy source. This structure therefore reduces the government's need to invest in building large-scale power plants to meet the growing demand for electricity."

Other countries could look towards Latin America for strategies that may help meet their ambitious targets. For example, 65% of Colombia's power comes hydro, and other renewables account for 6%. The country has set a 30% target for these non-hydro renewables by 2030. As part of efforts to reach this, Colombia hosted its first auction in February 2019, with the aim of adding some 1 GW of renewable power capacity. However, the auction ended with no winning bidders, as the "competition standards had not been met". A new auction is expected to be held before June 30, 2019.

Meanwhile, Mexico aims to increase the share of renewables from 21% in 2018 to 35% by 2024 and 50% by 2050. To do so, Mexico introduced a differentiated auction system for energy, capacity and CELs that aims to capture relative values of different technologies by location and production profile, while 15- to 20-year contracts offer stability to investors.

**POWERING JOB CREATION:** Growth in renewables has also helped to drive job creation. IRENA found that some 10.3m people around the world worked directly or indirectly in renewables in 2017, up 5.3% from 2016. While 43% of this employment is in China, a growing number of emerging markets are starting to derive socio-economic benefits from renewables.

Saudi Arabia, like Nigeria, is one of the world's largest oil producers, yet it aims to meet 10% of its power requirements via renewables by 2023. The Kingdom plans to invest $7bn over the 2018-19 period to build 4000 MW of renewable capacity. In addition to diversifying its economy and power supply, Saudi Arabia's strategy is to prioritise local industry and job creation. The unemployment rate among Saudi nationals was 12.7% at the end of 2018, and around 25% among people aged 15-24. "If we are able to move down the supply chain by manufacturing solar generation components, including PV panels and inverters, rather than simply building power plants using equipment from China or India, then that approach will definitely create job opportunities for young Saudi men and women," Anwar Al Itani, vice-chairman of the Renewable Energy Committee of the Riyadh Chamber, told OBG.

This focus was clear during the tender process for the 300-MW Sakaka PV project in the Al Jouf region. The project was awarded to a consortium led by local power company ACWA, despite a bid by a consortium of UAE's Masdar and France's EDF Energies Nouvelles that was 24% lower. It required a minimum of 30% of expenditure to be allocated to domestic suppliers, and this portion is expected to increase.

Turkey's solar PV sector has expanded with the implementation of new local content rules. IRENA estimates that solar PV employs 33,400 people, with a further 16,600 people in solar heating and cooling. Altogether, IRENA puts the total number of people working in renewable energy in the country at 84,000.

Despite deriving only 2% of its power from renewables, Malaysia has developed a thriving solar PV

Key factors that promote low auction prices include a favourable regulatory and institutional framework; low off-take and country risks; a strong local civil engineering base; a favourable tax regime; low project development costs; and a wealth of natural and manufacturing resources.

**10.3m**

people worked in the global renewables sector as of 2017

The potential for off-grid jobs is high in Africa, particularly as energy access improves and domestic supply chain capacities are developed.

manufacturing industry with the help of foreign direct investment and the Malaysian Investment Development Authority. The Sustainable Energy Development Authority estimates that some 250 companies provide about 40,300 jobs, accounting for nearly half of the 87,100 people employed in renewable energy jobs. The Philippines, meanwhile, reports having 34,000 employees in solar PV, 33,000 in small hydro and 14,000 in wind, while IRENA estimates that 30,000 are engaged in biofuels.

As of early 2019 renewables employment data remains limited in Africa. Egypt estimates it has around 3000 people working in solar PV. The largest project currently under way is the Benban Solar complex, one of the biggest PV installations in the world. The complex is expected to provide between 1.6 and 2 GW upon its completion in mid-2019, with the aim of supplying around 20% of the nation's total power by 2020. Africa's largest solar PV project to date is the 155-MW Nzema plant in Ghana, which created an estimated 500 jobs during construction, 200 direct jobs and over 2100 indirect jobs in sub-contracting. The highest level of employment is found in South Africa, where legislation has generated close to 35,000 renewable energy jobs.

**CONNECTIVITY TO THE GRID:** Renewable energy is also an increasingly viable solution for connecting people to electricity in emerging markets. Papua New Guinea plans to increase the share of the population with access to electricity from less than 20% in 2018 to 70% by 2030. PNG Power is implementing a pilot rooftop solar power project with the International Finance Corporation (IFC) in Port Moresby. This follows the IFC's successful off-grid solar programme, Lighting PNG, which connected around 20% of the population to basic lighting and mobile phone charging services for the first time. The IFC is now working with Origin Energy PNG to roll out a pay-as-you-go model, allowing customers to make monthly payments for solar systems, giving them access to light, radio and cell phone charging from a rooftop panel. In sub-Saharan Africa, companies such as M-Kopa are trying to increase accessibility by deploying similar models in Kenya and Uganda.

With support from the World Bank, the Nigerian government has launched a five-year, $350m project to help finance rural electrification. Regulation has also been updated to facilitate licensing and registration for mini-grid developers. "Mini-grid regulation, eligible customer regulation and rural grid regulations have emerged in the past few years, substantially increasing opportunities for alternative off-grid energy solutions. The sector has attracted both local and international companies," David Umezurike, CEO of renewable energy services supplier Solar Force, told OBG. Indeed, the African Development Bank has estimated that in order to expand access to electricity to the 600m people who presently lack it, roughly 40% of all the continent's new connections will need to come from off-grid solutions.

To achieve universal electricity access in Africa,

**40%**

of new connections will need to come from off-grid solutions

To this end, 2018 saw the creation of the Africa Mini-grid Developers Association, which aims to completely electrify Africa by 2030. It plans to establish a results-based financing fund to help mini-grids scale up. In August 2018 Odyssey Energy Solutions, a software platform connecting investors with mini-grid developers, announced that it had amassed a pipeline of over 550 projects seeking investment of more than $500m.

**FOSSIL FUELS & OTHER CHALLENGES:** Cheaper, conventional sources such as coal or gas are still appealing since they can ramp up generation capacity to meet growing demand. Indonesia aims to derive 23% of its power from renewables by 2025, but this is expected to slip back to 20.4% in 2027, as new coal-fired and gas-fired plants come on-line. Moreover, in March 2018 the government capped the price of domestic coal at $70 per tonne for two years to keep electricity tariffs level and ensure that the population has access to affordable electricity. Similarly, Vietnam aims to generate 21% of its power with renewables by 2030, but is nonetheless planning to commission several new coal-fired plants. As a result, the share of power generated by coal is expected to jump from 33% in 2018 to 43% in 2030.

Elsewhere, the development of renewables can be impeded by limited talent or financing. Ghana, for example, has considerable potential and has set itself a target of deriving 10% of its energy from renewables by 2020. However, the financing terms and conditions for renewable energy projects make it difficult for local companies with relatively weak balance sheets to find the capital to invest. In an attempt to address such issues, Côte d'Ivoire ratified the establishment of the Africa Finance Corporation (AFC) in November 2018. This ratification will convey more benefits from the AFC's transaction structuring and project development expertise, open access to AFC funds and enable more investment in energy infrastructure. However, access to a sufficiently large and skilled workforce is still an issue.

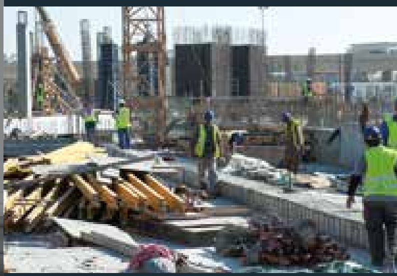
Even Mexico, which the IEA has lauded as having implemented "one of the most ambitious, comprehensive and well-developed reforms undertaken in the world since the 1990s", faces its own challenges. "To be competitive, Mexican companies need scale, cash balance and risk appetite," Adrian Katzew, CEO of Zuma Energía, told OBG. "Commercial banks are more likely to get involved now, having confirmed how previous projects, which were mostly supported by development banks, have mitigated risks."

In Peru, meanwhile, where most electricity comes from hydropower and natural gas, challenges are of a different order. "At present, self-generated energy cannot be sold back to the national grid," Rik de Buyserie, CEO and country manager of ENGIE Peru, told OBG. "We are confident that changing the regulation of distributed generation will promote conditions for fair competition and foster autonomous green energy production in isolated and remote areas."

Despite issues related to regulatory and skills gaps, not to mention the lingering temptation of fossil fuels, the prospects for the expansion of renewable sources in the energy mixes of emerging markets are bright. As the costs of renewables continue to fall and climate pressures build, investments in clean energy innovation and deployment increasingly make commercial and ecological sense for governments aiming to meet rising demand from their rapidly developing economies.

# Construction

## Long-term development plan kicks off major projects
## Domestic producers of building materials boost output
## Shift to public-private partnerships for financing
## Local firms boost regional and international footprint



The authorities set aside $124bn for projects between 2015 and 2020

# Back in action

## Long-term development plans and a rebounding economy drive major infrastructure projects

The New Kuwait 2035 development programme has seven pillars, of which three in particular are expected to result in heightened long-term building activity.

Public spending finances around

**90%**

of construction projects

Major infrastructure works – from roads and schools to airports and hospitals – are either under way or in the design phase in Kuwait, highlighting the significant activity seen in the construction sector in recent years as the country works towards the goals outlined in the New Kuwait 2035 development plan. Perhaps the most ambitious of these projects is the 700,000-inhabitant Silk City mega-development in Subiyah on the northern side of Kuwait Bay.

These projects have by and large been driven by government spending, and 2017 and 2018 saw delays and postponements. As such, getting the investment and development balance right will be key to maintaining sustainable development, with a healthy mix of pubic and private participation now being sought. This will be especially important as Kuwait is not immune to the overall headwinds being experienced by construction outfits globally. However, with a strong demand for infrastructure going forwards, local and international developers will have much to focus on in coming years.

**NEW KUWAIT 2035:** As 90% of government income and around 50% of Kuwait's GDP comes from oil revenue, performance in the energy sector is a determining factor in overall economic well-being. The government is focused on diversifying the economy, which has been given extra impetus in recent years by sustained low global oil prices. At the same time, public spending is a key driver of economic activity. The construction industry, for example, is mainly public sector-driven in terms of the project's complexity. "The majority of construction projects in Kuwait are being driven by public spending," Shiraz Basma, senior manager at Khatib & Alami, told OBG. "Investment from the private sector has slowed down and mainly the focus is on mixed-used commercial projects with an eye towards investment in more lucrative projects supported by the government," she said. Understandably, the country's leadership wants to place a long-term emphasis on a more private sector-led economy. These overall strategic goals were outlined in the New Kuwait 2035 vision, released in 2017, aiming to establish Kuwait as a global financial and commercial centre. Many advocates see New Kuwait 2035 as integral to reviving the country's role as a transport and logistics hub, allowing it to wield global influence in financial and political spheres.

New Kuwait 2035 is supported by seven pillars, of which three in particular are expected to result in heightened long-term building activity. The first pillar, which focuses on the creation of a more robust health system, will require a major programme of hospital and health care centre construction; the second pillar, aimed at the development of quality infrastructure, is geared towards re-establishing Kuwait's regional and international commercial credentials; while the third pillar, which focuses on fostering a sustainable living environment, will involve major new housing and real estate projects.

Also included in New Kuwait 2035 are a series of short-term, five-year development plans. The current plan, covering the 2015-20 period, targets a range of major infrastructure works, including the revival of several stalled projects, such as the Mubarak Al Kabeer Port. In this period alone, policymakers have earmarked $124bn for projects, which is expected to boost sector growth by 15-20%.

**OVERSIGHT:** A number of government ministries and agencies are tasked with delivering the 2035 goals. Key to almost everything is the Ministry of Public Works (MPW), which has responsibility for a range of developments, from municipal buildings and schools, to canalisation and hospitals. Divided into a number of units, the MPW includes specialist authorities on construction project engineering, mega-projects, road engineering and sanitary engineering. Also under the jurisdiction of the MPW is the Department of Airport Projects, which is responsible for the construction and delivery of the new Terminal 2 project at Kuwait International Airport. The MPW also has a legal affairs section,and conducts testing and surveying work, ensuring construction materials are up to code and that practices meet the required standards. Occupational health and safety is also one of its primary roles. While the MPW originally held responsibility for road and maritime transport issues, Emiri decree No. 115 of 2014 established the Public Authority for Roads and Transportation (PART), which has a mandate to deliver an integrated and sustainable land transportation system for Kuwait, including providing services such as car registration, rail systems, public parking and driving schools.

**KEY PLAYERS:** Although public spending dominates the construction sector, similarly to other GCC countries Kuwait is utilising public-private partnerships (PPPs). The Kuwait Authority for Partnership Projects (KAPP) was created in 2008 to identify sectors the government can work with private companies to deliver development schemes and services. KAPP is credited with bringing together Japan's Sumitomo Corporation and French multinational electric utility ENGIE to build the Al Zour North gas-fired, combined-cycle power plant and water desalination facility. Shareholders in the project include the Kuwait Investment Authority (KIA), the Public Institution of Social Security and KAPP itself.

The KIA is the fifth-largest sovereign wealth fund in the world, with assets exceeding $592bn in 2019, according to the fund. While much of its activity is abroad, it also holds significant stakes in many major Kuwaiti companies. Returns on KIA investments form a major source of income for the country, with one of the KIA's two investment vehicles, the General Reserve Fund, providing a major source of deficit financing, helping to maintain public expenditure in the construction sector and elsewhere.

The Emiri Diwan of Kuwait, which serves as the royal palace, also has its own portfolio of projects. These mostly involve public buildings, such as hospitals, administrative buildings, cultural centres and palaces. In April 2019 it was announced that the Emiri Diwan would be working to accelerate rehabilitation works at the Kuwait Entertainment City amusement park and recreation centre, although it would not be bearing any of the incurred costs.

The Environment Public Authority (EPA) is the regulatory body tasked with overseeing green construction works. The EPA also runs campaigns to promote environmental issues and awareness, such as Project UCON, which encouraged the consistent use of sustainable waste management and recycling in buildings under construction.

With regard to real estate, the Public Authority for Housing Welfare (PAHW) is responsible for the provision of houses or land free of charge for Kuwaiti nationals (see Real Estate chapter).

The government works with a wide variety of developers and construction outfits. At the larger end are companies such as the Ahmadiah Group, HOT Engineering and Construction (HOTECC), Alargan International Real Estate Company, Kuwait Company for Process Plant Construction and Contracting, Marafie Group, Al Hani Group, MNA International Group and Khatib & Alami. Most of these firms have international offices and are engaged in projects both at home and abroad. Specifically, many have a strong and established presence in the region. Khatib & Alami, for example, is working in the UAE on major road projects, while HOTECC has a subsidiary in Qatar.

**K-COMPANIES:** Given the importance of hydrocarbons to the broader economy, the government is heavily involved in the sector. 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, and downstream work shared by Kuwait National Petroleum Company and Kuwait Integrated Petroleum Industries Company (KIPIC). The latter is responsible for refining petrochemicals and importing liquefied natural gas at the Al Zour Petrochemical Complex. Also at the Al Zour complex, the KIPIC is overseeing the construction of a 615,000-barrel-per-day (bpd) refinery, a liquefied natural gas import terminal with capacity for 3000 British thermal units per day and a 2.8m-tonne-per-annum petrochemicals plant. These projects are expected to be completed in a number of planned phases between 2019 and 2024. The UK's Wood Group is doing the front-end engineering and design work, while Canadian engineering company SNC-Lavalin will be providing management and consultancy services. Likewise, the Ministry of Electricity and Water is behind contracts to develop several power-generation stations, and water desalination and distillation plants.

**GLOBAL REACH:** Foreign construction and engineering companies are well represented in Kuwait, and the government is keen to encourage more international participation in PPPs. Recent reforms

A series of major infrastructure works including roads and airports are under way or in the design phase

Kuwait is turning to public-private partnerships to fund infrastructure development projects such as the Al Zour North power plant and water desalination facility.

Several government bodies are working to deliver the goals of New Kuwait 2035, including the Ministry of Public Works and the Environment Public Authority.


Construction accounts for 2.4% of total GDP and 4.4% of non-oil GDP, and is expected to grow through 2020

In the first quarter of 2019 the construction sector was valued at

**$818.2m**

at current prices

aimed at improving the ease of doing business have included establishing a one stop shop, boosting transparency in land administration and easing procedures for online registration. However, there remains an unmet demand for land, which is tightly controlled by the government. "To support construction growth there is a critical need for additional industrial land that would allow our factories to expand," Ghosson Ghassan Al Khaled, deputy CEO of ACICO Group, told OBG. "Industrial lots need to keep pace with this level of expansion."

Turkish company Limak Construction is undertaking the KD1.3bn ($4.3bn) construction of a new terminal at Kuwait International Airport (see Transport & Logistics chapter). The building will accommodate 13m passengers annually in order to meet rising traffic levels. Later phases plan to expand annual capacity to 25m people. In 2018 Limak Construction also won a $153m contract from the PAHW to construct government housing. Meanwhile, South Korea's Hyundai Engineering and Construction was behind the recently opened Sheikh Jaber Al Ahmad Al Sabah Causeway (see analysis), while China State Construction Engineering has undertaken a string of major projects, including the KD215.5m ($709.8m) new headquarters of the National Bank of Kuwait (NBK), which were finished in 2016.

**SIZE & PERFORMANCE:** According to the most recent statistics from the Central Statistical Bureau, the construction sector grew by 3.5% year-on-year to reach KD248.4m ($818.2m) at current prices in the first quarter of 2019. This represented 2.4% of total GDP and 4.4% of non-oil GDP. Growth is expected to continue throughout 2019 and into 2020, spurred by a recovery in oil prices and a rebound in broader economic growth, with construction in particular benefitting. According to the NBK, GDP recovered to 2.9% in 2018 due in large part to increasing oil output, while forecasts it at 2.2% for full-year 2019.

The new terminal at the Kuwait International Airport is designed to accommodate 13m passengers a year to meet rising traffic levels. Later phases plan to expand capacity to 25m people.

The most recent annual survey of construction establishments published in 2018 shows that the 1494 private sector construction companies registered in Kuwait in 2016 employed some 184,762 people, of which 151,056 were employed in businesses that undertook both the construction of private projects as well as civil engineering works.

**REBOUNDING FIGURES:** Although the economic climate is improving, the number and value of project awards decline since 2015, according to the NBK, with 2018 recording a nine-year low of KD1.7bn ($5.6bn), or around half of the total budgeted at the start of the year. While broader economic conditions played a major role, stakeholders have pointed to administrative factors as a cause of subdued figures, including the reorganisation of the PART and KAPP, which resulted in delays in the implementation of PPP projects. However, the project pipeline looks to have overcome many of these issues. By April 2019 the NBK reported KD700m ($2.3bn) in projects awarded, with KD4.4bn ($14.5bn) earmarked for 2019 as the backlog from 2018 is processed and new projects are brought on-line. These builds are largely in the transport, electricity and water, housing construction, and hydrocarbons and petrochemicals sectors.

**INFRASTRUCTURE WORKS:** In line with the 2035 plan, the government has five infrastructure programmes running in the 2015-20 period, which together make up 24 projects. These five infrastructure programmes are aimed at addressing deficiencies in air, land and maritime transport, as well as servicing ICT and utilities needs.

The air transport system development programme involves a total expenditure of KD1.6bn ($5.3bn), of which KD232.5m ($765.8m) was allocated for 2018-19, to increase capacity at the Kuwait International Airport and improve security with modern technology. The land transport development programme, meanwhile, is worth KD2.8bn ($9.2bn), of which KD135m ($444.6m) is set aside for projects in 2018-19. These include the Sheikh Jaber Al Ahmad Al Sabah Causeway, which is now complete; a rail network; and the design and construction of the 258-km northern section of a regional road.

The KD1.7bn ($5.6bn) programme regarding maritime transport includes the development of Mubarak Al Kabeer Port on Boubyan Island; a search and rescue system; work to deepen and dredge access to the harbour on Failaka Island; new storage areas for Kuwait Ports Authority; export, import and Customs inspection areas at Shuaiba Port; and the further development of existing ports in Doha, Shuaiba and Shuwaikh. For the 2018-19 period total outlay is estimated at KD140.3m ($462.1m).

The fourth programme involves the development of KD153.4m ($505.3m) of hard ICT infrastructure, including fibre-optic networks, photovoltaic networks, and broadcast and digital archiving. Some KD4.3m ($14.2m) was allocated for 2018-19.

Meanwhile, the fifth programme, aimed at electricity and water production, is expected to cost


There are 24 infrastructure projects in the 2015-20 development plan

Demand for building materials is rising major projects are rolled out. While Kuwait remains dependent on imports, domestic suppliers are expanding capacity.

KD444.7m ($1.5bn), with KD153m ($503.9m) earmarked for the 2018-19 period. This will see the first phase of a reverse-osmosis desalination plant in Doha completed, and the installation of gas turbines at a variety of combined-cycle power plants.

In addition to existing infrastructure schemes, there are a range of new housing projects, including some KD1bn ($3.3bn) set aside for residential developments to build housing for Kuwaiti nationals currently on waiting lists. These new projects include the cities of South Saad Al Abdullah, South Sabah Al Ahmad, the City of Jaber Al Ahmad, South Al Mutlaa and South Abdullah Al Mubarak.

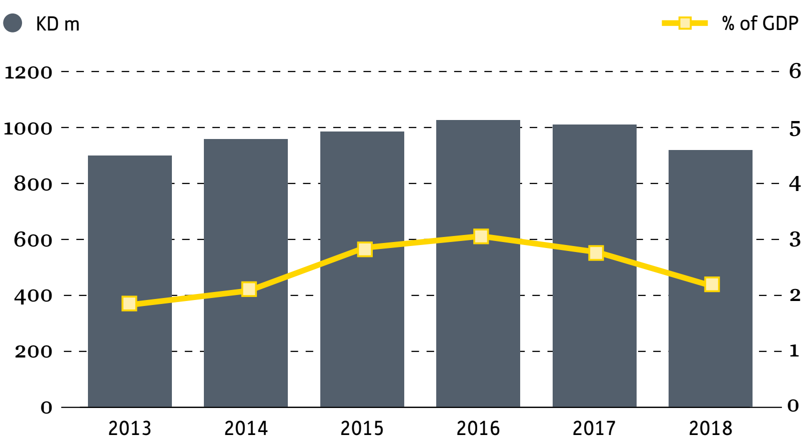
A number of major projects were completed in 2018. The $1.2bn Jahra Medical City opened its doors in July 2018. Built on 72.4 ha of land, the hospital complex consists of four 14-storey towers, an emergency department, and the largest maternity and gynaecological units in Kuwait. What is more, laboratories, robotic pharmacies, outpatient clinics and dental centres are housed within the complex. There was also progress on the long-awaited, $7bn Kuwait Metro. In November 2018 PART announced it was looking for international advisers for the project's design, which will include lengthy above-ground sections. The first phase of the metro is planned to run to Nuwaiseeb on the Saudi border. When finished, some 111 km of track will be laid, connecting the city to the forthcoming GCC rail network. In future phases, a 153-km line linking to Boubyan Island will also be completed. Looking to the future, the Silk City mega-development is back on Kuwait's agenda, with early 2019 seeing a proposed new regulation for the $132bn project put forward (see analysis).

**BUILDING MATERIALS:** Given the rollout of major projects, demand for building materials is rising. While Kuwait is dependent on imports, domestic suppliers are expanding capacity to meet this challenge. Kuwait Cement Company (KCC) is one of the oldest manufacturers of clinker, ordinary Portland cement, sulphate-resistant cement, white cement and ready-mix concrete. In March 2019 KCC started offering oil-well cement, and hired Belgium's Magotteaux to modernise three of its cement mills to boost production. Kuwait's other local manufacturer of cement products, ACICO, is also expanding capacity. In February 2019 the firm announced it ordered a second 1m-tonne-per-annum grinding mill from Spain's Cemengal. The mill is expected to come on-line in the first half of 2020. Despite these efforts, Kuwait's domestic producers are not yet able to fully meet growing demand. In early 2019 Saudi firm Qassim Cement signed a contract with Kuwait's Al Aradah Building Materials Company to send 120,000 tonnes to Kuwait by the end of 2019. Iran is also an important source for cement imports.

Other key companies include Salbookh Trading Company and the United Steel Industrial Company, also known as Kuwait Steel, the country's sole steel producer since 1996. The latter has two rolling mills with a combined annual capacity of 1.4m tonnes of rebar, while its plant in Shuaiba has a 1.2m tonnes per year capacity of steel billets.

**OUTLOOK:** With major projects in the pipeline, stakeholders will likely be working hard in the immediate future to complete existing works and begin new ones. Mega-projects, such as the Silk City development, and transport infrastructure will benefit the sector, with the years ahead also likely to see a clearer PPP structure emerge, alongside ongoing efforts to boost transparency and ease of doing business. Green building codes will likely tighten as Kuwait seeks to meet rising international standards in sustainable construction and the use of renewable energy. While for the time being Kuwait remains dependent on the oil market, the government has demonstrated its commitment to public infrastructure projects, even if this means running a deficit. At present, the state is able to use its robust finances to keep the pipeline full, with the years ahead likely to see an increased level of construction sector activity.

**Construction GDP*, 2013-18**




Source: CSB

*current prices

Several mega-developments are being built in the Northern Gateway

# Northern gateway

## As urban populations undergo rapid growth, planners are striving to develop the north of the country

Major infrastructure developments are driving Kuwait's construction sector, as large-scale projects are either nearing completion or gaining renewed momentum. As such, planners are looking to the sparsely populated northern area of the country – commonly known as the Northern Gateway – for the implementation of mega-developments that will require significant political, and public and private sector backing.

**CAUSEWAY:** One of the largest road transport projects of late is the 37.5-km Sheikh Jaber Al Ahmad Al Sabah Causeway, which opened to traffic on May 1, 2019, shortening the driving time between the capital Kuwait City and Subiyah, which is located to the north of Kuwait Bay, from 90 minutes to less than 30 minutes. The causeway is a 30.6-metre-wide dual carriageway, with a shorter 13-km spur at its southern end running from Kuwait City to Doha. The $2.6bn project was designed by France's Systra and took over five years to complete. Construction was carried out by Kuwait's Combined Group Contracting Company.

**SILK CITY:** The causeway falls in with a wider initiative, namely the $82.2bn Madinat Al Hareer mega-project, also known as Silk City, a 250-sq-km planned urban area in Subiyah. The Silk City project will tie together the development of five islands, linked by the causeway at its south-west end, and the new Mubarak Al Kabeer Port at its north-east side on Boubyan Island (see Transport & Logistics chapter). In addition, the Silk City development will see the construction of a new airport, a nature reserve, an Olympic stadium, the 1-km-tall Burj Mubarak Al Kabir tower, accommodation for some 700,000 people, as well as an adjacent industrial and logistics zone. To serve the new developments, the Subiyah Thermal Power Plant is currently being extended with a further 900 MW of generation capacity. In the long term, this is an integral step to powering the development of future cities stretching from Subiyah to the Iraqi border.

**PORT SIDE:** While the Mubarak Al Kabeer Port was originally planned for completion in 2016, a series of setbacks saw the due date pushed to 2019 and then again to 2020. Renewed momentum has gathered around the project, however, and in late 2018 a package of key infrastructure works, including dredging, land reclamation and road building, were put to tender. At that time, the project was reportedly 52% complete.

In early 2019 the port was given an additional boost by the signing of memorandum of understanding between the Kuwaiti and Chinese governments to further Chinese involvement in Silk City's development. The agreement reinforced Kuwait's commitment to the Belt and Road Initiative (BRI), in which the Mubarak Al Kabeer Port plays a major role. "There has been a real shift in gears recently with the Northern Gateway project," Mona Bseiso, economic consultant for the Kuwait Direct Investment Promotion Authority, told OBG. "It is a very important investment in the future of Kuwait and is considered a special economic zone sunder the fifth theme of New Kuwait 2035."

**CHALLENGES:** While the wider project is expected to benefit the country, certain aspects are running into opposition, including a proposal that Silk City be administered under special laws designed to attract foreign investors. This idea has been met with some resistance, with several deputies in Parliament expressing concern over its impact on cultural and religious norms. The project also has implications for infrastructure far beyond domestic borders, with the port being well placed to open up routes into Iraq and Iran, further tying Kuwait with logistics initiatives included in the BRI.

Crucial to the project's success will be Kuwait's relationship with neighbouring Iraq. Ties between the two countries have improved in recent years, and in 2018 Kuwait held the first International Conference for Reconstruction of Iraq. In May 2019 Kuwait also announced it would be funding the reconstruction of border posts with Iraq in an effort to enhance cross-border trade. The future for Kuwait's local infrastructure development may therefore truly be global.

The $2.6bn, 37.5-km Sheikh Jaber Al Ahmad Al Sabah Causeway cut driving time between the capital Kuwait City and Subiyah from 90 minutes to 30 minutes.

The 250-sq-km Silk City in Subiyah will tie together the development of five islands and include a new airport, a nature reserve, an Olympic stadium and accommodation for some 700,000 people.

Global Perspective

# Over land and sea

## China's implementation of a new trade network is energising the global construction industry

Chinese involvement is mostly concentrated in the financing and construction aspects of infrastructure projects abroad, and less intense in design, engineering and the supply of building materials.

From 206 BCE to 220 CE, China's Han dynasty fostered a booming trade industry for silk, a precious commodity in high demand among the elites of the Mediterranean. The Silk Road was the name given to the network of trade routes connecting the East and West at the time. Later, spices and other precious cargo would be traded using the system, fostering not only economic, but also cultural links between Asia and its contiguous continents. As such, the network became the information superhighway of its time as well, transmitting knowledge and expertise across distance and cultures.

Extremely rapid economic expansion in China in the four decades since former leader Deng Xiaoping's revolutionary reforms in 1978 has seen the country once again emerge as a global economic powerhouse. It is the largest country by population and is on course to become the world's biggest economy in dollar terms in the coming decades.

**GLOBAL VISION:** In recent times, China has flexed its diplomatic muscle across Asia and further afield. Upon assuming leadership in 2013, President Xi Jinping launched the Belt and Road Initiative (BRI) as a means to strategically expand China's economic footprint and diplomatic leverage, as well as to facilitate the east-west trade on which it depends and boost its access to raw materials. In essence, the BRI is the Silk Road of the 21st century – a network of maritime (the "belt") and terrestrial (the "road") trade routes connecting its East Asian hinterland with Western Europe via South-east and Central Asia, the Middle East, Africa and Eastern Europe. In the Pacific, Latin America and Australasia have also been included in the trade network.

The BRI is multifaceted, but its cornerstone is the vast amount of Chinese investment in hard transport infrastructure across the network. As such, it is perhaps the most significant development in the global construction sector since the beginning of the 21st century, particularly in emerging markets where the initiative has a presence. The fact that a large majority of transportation construction contracts in developing economies have been won by Chinese firms has allowed them to scale up and become competitive at a global level with their Western counterparts. Indeed, projects often come with financing on attractive terms provided by China's state-run banks, with the retention of a Chinese construction company as a precondition.

A study by Boston Consulting Group (BCG) noted that Chinese involvement is mostly concentrated in the financing and construction stages of infrastructure projects, and somewhat less intense in design, engineering and the supply of building materials. Infrastructure is typically transferred to local institutions or organisations following construction, although Chinese firms are also beginning to offer operation and maintenance contracts.

**SECTOR SHIFTS:** Breakneck economic growth in China has allowed for, and been facilitated by, enormous public investment in construction, particularly large-scale infrastructure. With some of the highest investment rates in the world in past decades, the country has at times fallen victim to over-investment. This has meant decreasing marginal returns on infrastructure projects in some cases, as well as overcapacity in the industrial sector, notably in cement and steel production.

In order to use this excess capacity productively, since the turn of the century Chinese firms have increasingly looked abroad, as Michael Taylor, chief credit officer for Asia Pacific of credit ratings agency Moody's, explained to attendees of the 8th Caixin Summit in Beijing in November 2017. As such, Chinese companies have become a cost-competitive option for infrastructure investment in lower- and middle-income countries, while also developing increasingly sophisticated expertise in construction and civil engineering to be able to compete at a global level in terms of quality.

The BRI has had a significant impact on the global market for heavy building materials, with Chinese overproduction of cement leading to price pressures internationally. According to the "Global Cement Report" published in 2018, China's overcapacity in cement production increased from 23% in 2010 to 42% in 2017. This poses challenges for domestic producers in BRI-recipient countries that import building materials from China, particularly in East Africa and South-east Asia. In a May 2018 article, BCG stated that the average price of cement in East Africa has fallen by 50% in recent years as a result. The group also documents the case of Laos, where China has built five new cement plants since 2015, despite considerable oversupply in South-east Asia. Meanwhile, Chinese exports of iron and steel amounted to $57.3bn in 2017, enough to see this rank among the country's top-10 export categories.

Furthermore, the BRI is shaping the competitive landscape of the global construction and civil engineering sectors, accelerating some trends that began to emerge at the turn of the century. Budding Chinese players now have the scale, experience, sophistication and financial backing to compete with established rivals in the West as well as popular local providers. This competition is most fierce in emerging markets, where price pressures are particularly acute. Although Chinese actors provide stiff competition to local construction companies, the vast scale of BRI investment tends to minimise the disruption to the bottom line of the latter. At the same time, BRI works generate major new opportunities for local firms to partner with Chinese contractors, providing localised knowledge in exchange for specialised expertise and training.

**BY THE NUMBERS:** The BRI rounded out its first six years in 2019, by which time it had already grown to include 71 countries as of April – encompassing half of the world's population – and is ultimately forecast to cost more than $1trn. However, while BCG stated in May 2018 that investment is expected to reach up to $700bn by 2021, a Chinese media article from April 2019 said Chinese foreign direct investment (FDI) in countries included in the BRI surpassed $90bn between 2013 and 2018. Roughly $15.7bn was spent in 2018 alone, equal to 13% of China's outward FDI flows that year. Analysis by *The New York Times* shows that India, Russia and Indonesia are likely to be the three largest recipients of BRI investments over the 2017-21 period, while Nigeria, Iran, Egypt, South Africa and the Philippines are also expected to be among its top beneficiaries.

China has also established 113 economic and trade cooperation zones in BRI countries as of November 2018, to which some 302,000 local jobs have been attributed. As well as direct investment, Chinese financial institutions are providing tailored resources that enable BRI countries to pay for their own infrastructure upgrades. By the end of 2016, five of China's state-run banks had extended $425bn in credits and loans for BRI projects, and the rate of lending remained robust in 2017 and 2018 as well.

**TRADE COSTS:** Significantly increasing the quantity and quality of transport infrastructure around the world can be expected to improve logistics, reduce journey times and lower trade costs. In an October 2018 research paper, the World Bank estimated that full implementation of the BRI could yield an average reduction in global shipment times of 1.2-2.5%, with a consequent lowering of trade costs by 1.1-2.2%. Naturally, these gains are likely to be concentrated in the economies participating in the BRI, many of which are lower- and middle-income countries. The same study estimated that those nations located along corridors where BRI projects are being built could see shipment times reduced by up to 11.9% and trade costs lowered by up to 10.2%. These gains can be magnified if investment in hard infrastructure is accompanied by improvements in soft infrastructure that, for example, reduced paperwork and border delays.

**ASIA:** It is hardly surprising that China's neighbours and continental peers account for the majority of BRI investment. One of the single largest elements of the plan is the Pan-Asia Railway Network, which will upgrade and fill gaps in the existing rail networks of South-east Asia, eventually linking Kunming in southern China with Singapore along three axes: an eastern route via Vietnam, a central route through Laos and a western route across Myanmar. All three are to converge near Bangkok, Thailand before continuing south through Malaysia. While Chinese players are taking the lead, there are opportunities for local subcontractors, engineers, workers and material suppliers to benefit from the investment.

Speaking to OBG, Serge Pun, chairman of Yangon-based conglomerate Serge Pun & Associates, highlighted the potential win-win scenario arising from Myanmar's participation in the pan-Asia railway. "Imagine having an efficient rail network operating in Myanmar and running from Myitkyina or Muse down to Yangon," he said. "Yes, China will use it to export whatever they need to export through the Indian Ocean, but that will be secondary to Myanmar's benefits from the network."

In the energy space, in addition to the flagship 3666-km gas pipeline connecting Gedaim on the Turkmenistan-Uzbekistan border to Horgos at China's border with Kazakhstan, the BRI entails multiple localised energy projects across Asia. This has given rise to many power plant construction opportunities with local partners, whether hydropower (as in Indonesia), coal-fired (as in Mongolia and Bangladesh) or nuclear (as in Pakistan). In turn, this new generation capacity necessitates ancillary infrastructure, such as electricity distribution systems.

**AFRICA:** In December 2015 King Mohammed VI of Morocco spoke at that year's Forum on China-Africa Cooperation of the strategic role the initiative will play in strengthening European, Asian and African

**71**

countries had been included in the Belt and Road Initiative as of April 2019

Countries that are located along corridors where projects under the Belt and Road Initiative are being built could see shipment times reduced by up to 11.9% and trade costs lowered by up to 10.2%.

China has played a leading role in developing infrastructure in Africa for decades, and remains a crucial destination for the continent's raw materials exports, while acting as a significant source of construction financing.

ties. Morocco became the first African country to officially become a member of the BRI, following the signing of a memorandum of understanding (MoU) with China in November 2017. That same year, it was announced that Chinese firms would be linchpin investors over the course of the next decade in the planned $10bn Mohammed VI Tangier Tech City, although the initial stages of the project have moved slower than hoped. Algeria, for its part, became a member of the BRI in September 2018, with the flagship project being the $3.3bn Port of El Hamdania, to be constructed over a seven-year period by two Chinese firms.

The strengthening economic relations between sub-Saharan Africa and China are also well documented. China has played a leading role in developing infrastructure across the continent for decades, and remains a crucial destination for African raw materials exports, while acting as a significant source of financing. Indeed, China accounts for over 70% of the external debt of Cameroon and Kenya, while the figure rises to 80% in the case of Djibouti. China even established its first military base on foreign territory in Djibouti in 2017, at the southern Red Sea gateway to the Suez Canal.

Notable projects include the 472-km Nairobi-Mombasa rail line in Kenya, and the 756-km electrified railway linking landlocked Ethiopia with Djibouti and its port infrastructure. These entered into service in mid-2017 and early 2018, respectively.

**LATIN AMERICA & THE CARIBBEAN:** Although Central and South America and the Caribbean were not initially included within the scope of the BRI, this changed in early 2018 when Wang Yi, the foreign minister of China, invited countries to participate. China's economic links with the region have greatly expanded over the past two decades, with many countries exporting raw materials to China and the latter investing in infrastructure projects before the conception of the BRI. High-profile examples of Chinese involvement include the Belgrano Cargas Railway in Argentina and the Central Bi-Oceanic Railway linking the Atlantic to the Pacific via Brazil and Peru. Chile, Bolivia, Panama, Trinidad and Tobago, and Antigua and Barbuda had all signed formal BRI cooperation agreements with China as of April 2019, with more expected to do so in the future.

**THE GULF:** While Iraq, Iran and Pakistan were regarded as pivotal to the BRI from the outset – and are expected to be core recipients of further investment – it was not clear in the early years that ambitions would extend to the Gulf, despite its location astride important shipping routes. As the size and scope of the BRI increased, however, the Gulf has become a significant region for the initiative.

Speaking at the Gateway Gulf Investor Forum in May 2018, Kamal bin Ahmed Mohammed, minister of transportation and telecommunications of Bahrain, highlighted the potential win-win outcome for China and the region by participating in the BRI. "We see a great opportunity for the GCC countries. The infrastructure already exists, we have the routes and the [trade] corridor available, it is a politically stable region with a resilient financial sector, and there are a lot of areas in which China and the GCC can benefit from each other," he said.

One of the first major projects announced in the region came in 2016: the $10.7bn transformation of Duqm, a small fishing village in Oman, into a major port and transit-oriented industrial city. Located within the Duqm Special Economic Zone, this new "Sino-Oman Industrial City" is eventually expected to have an oil refinery and methanol plant, in addition to factories producing automobiles as well as oil, gas and solar energy equipment. That same year also saw China's Cosco Shipping Ports selected for a 35-year concession to operate Khalifa Port Container Terminal 2 in Abu Dhabi. In December 2018 Cosco announced an investment of $200m to expand the terminal, having already invested some $300m in the facility and $130m in a nearby container freight station.

Furthermore, in November 2018 China signed a MoU to participate in the $86bn development of Kuwait's new Silk City initiative. This 250-sq-km project is to be phased in over a 25-year period and is expected to ultimately house up to 700,000 people. It will be linked to Kuwait City by the Sheikh Jaber Al Ahmad Al Sabah Causeway, which was under construction as of early 2019 and is forecast to be the world's fourth-longest bridge upon completion.

**POTENTIAL OVER-INDEBTEDNESS:** One concern that has been raised about the BRI is the possibility of lower-income countries contracting infrastructure projects that considerably increase their debt burden without having the capacity to repay loans. Moreover, China has been criticised for requiring that public assets be pledged as collateral in the event of non-payment. One highly publicised example is that of Sri Lanka, which in December 2017 transferred control of the new Chinese-built Hambantota Port to a Chinese state-run port operator on a 99-year lease after it could not make repayments.

Countries considered by the non-profit Centre for Global Development to be particularly at risk of not being able to service their debts as a result of the BRI include Djibouti, Kyrgyzstan, Laos, the Maldives, Mongolia, Montenegro, Pakistan and Tajikistan. Even before the launch of the BRI, China wrote off an undisclosed amount of debt owed by Tajikistan in exchange for 1158 sq km of disputed border land.

One concern that has been raised about the initiative is the possibility of lower-income countries contracting infrastructure projects that considerably increase their debt burden without having the capacity to repay loans.

**TOOLS OF THE TRADE:** The rollout of the BRI highlights the dual role of Chinese FDI as both an economic proposition and a tool of diplomacy. Beyond construction and financing, government-backed firms have also begun offering contracts to operate and maintain new infrastructure, a trend that has raised concerns about China's lingering influence in BRI-recipient countries and the resulting lack of skills transfer and local job creation. How China handles debt defaults will also be watched closely by the international community going forward.

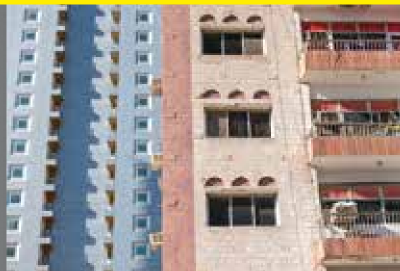
# Real Estate

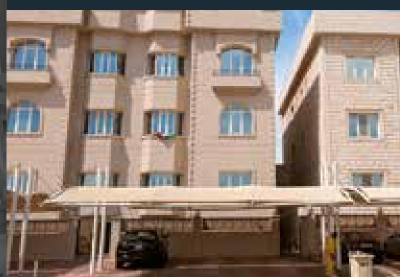
Energy prices spur bold property development plans

Authorities take measures to face supply challenges

Investment property segment continues to gain ground

Pressure on emerging markets to solve housing deficits



The last quarter of 2018 had the strongest sales growth in four years

# On the up

## Higher oil prices support a growing roster of private and public mixed-use developments

Recent figures show the real estate market rebounding from declining sales that started in 2014 due to low oil prices. The recovery in energy prices will likely contribute to more purchases.

After some years of slowing growth, Kuwait's real estate sector saw signs of a significant revival in 2018, with sales increasing and prices stabilising. At the same time, new projects are under way, with some of the first of a number of large-scale, mixed-use developments nearing completion. Better economic growth overall, fuelled by rising oil prices and a government infrastructure programme, has also created a more buoyant economy, despite some global and regional headwinds. A limited supply of land is another factor increasing prices, although this has also caused bottlenecks in meeting housing demand, with Kuwaiti citizens particularly affected.

Meanwhile, major urban expansion works have been unveiled as the Silk City mega-project takes a step forward with the opening of the Sheikh Jaber Al Ahmad Al Sabah Causeway across Kuwait Bay. This has potentially opened up areas beyond the Kuwait City metropolitan area, while also promising development space on the causeway's own artificial islands.

**STRUCTURE & OVERSIGHT:** The residential real estate market in Kuwait is divided into two segments: investment development and private housing. "Investment housing is mainly lease-driven and open to all, but it is primarily for expats," Tarek Al Kazzaz, chairman of Al Mutawir Real Estate Development Company, told OBG. "Meanwhile, private housing can only be owned by citizens of Kuwait or the GCC." This is the result of the ownership and housing laws that allocate state housing support to Kuwaiti nationals.

The Public Authority for Housing Welfare (PAHW) was originally established in 1993 to succeed the National Housing Authority. It is a public entity responsible for providing housing to nationals, and has its own budget. PAHW is headed by the minister of state for housing affairs. As of July 2019 this position was held by Jenan Mohsen Ramadan Boushehri, who was also appointed as minister of public works and confirmed as chair of PAHW in December 2018.

Al Diwan Al Amiri, which serves as the royal palace takes on key real estate projects, mainly involving public buildings, such as hospitals and health care centres, administrative and cultural centres, as well as palaces. It also takes on other projects, such as the rehabilitation of Entertainment City, a gaming, recreation and leisure facility in Doha.

**PERFORMANCE:** Recent figures from the National Bank of Kuwait (NBK) show the real estate market rebounding from declining sales that started in 2014 due to low oil prices. With some 55% of Kuwait's GDP coming from the oil and gas industry in 2018, the recovery in energy prices that began the previous year will likely contribute to more purchases.

The fourth quarter of 2018 showed the strongest sales growth in four years, reaching KD1bn ($3.3bn), representing an increase of 23% quarter-on-quarter (q-o-q) and 91% year-on-year (y-o-y). Of this figure, residential real estate made up the lion's share. Investment housing sales increased by 241.5% y-o-y to comprise KD470.2m ($1.5bn) of the quarterly total, while private residential sales accounted for KD368m ($1.2bn). This was followed by commercial sales at KD184.9m ($609m).

The number of transactions rose by 48.3% y-o-y to reach 1757 in the same period, with commercial transactions up 138.5%, followed by investment (127%) and private residential transactions (45.6%). Prices were up with private housing rates rising by 8% in the last quarter of 2018, reversing a downward trend in the first three quarters of the year. Investment property prices also increased by 3.7% y-o-y.

The first quarter of 2019 saw sales figures decline, although they remained solid at KD789m ($2.6bn), reflecting a continuation of the recovery witnessed in 2018, according to the NBK. The drop came mostly from the investment segment, which fell by 47% q-o-q to KD248m ($816.8m). Investment sales volumes also slowed from 504 transactions in the previous quarter to 327, which the NBK attributed to subdued immigration growth. Still, the residential and commercial segments showcased a solid performance, with the former up 2% to KD377m ($1.2bn). While commercial sales decreased by 13.8% q-o-q to KD161m ($530.2m), this represented a 46% y-o-y rise.

**SECTOR TRENDS:** Commercial activity is benefitting from a recent trend that prioritises upgrading existing stock, particularly in downtown Kuwait City. This is especially prevalent in the office segment. In 2018 a 5800-sq-metre building in Sharq, for example, was sold for KD45m ($148.2m), or KD7758 ($25,600) per sq metre. The average rate for commercial space stood at KD5946 ($19,600) per sq metre at the end of 2017. The trend towards fewer but more valuable commercial transactions continued into 2019. NBK figures for February show the value of commercial sales rose by 400% at KD100m ($329.4m) that month, while the number of transactions had fallen by 30%.

NBK's real estate price index also climbed slightly for residential homes. From a baseline of 100 points in 2010, the real estate index increased from 156 points at the end of 2018 to 159 in February 2019. While investment housing has undergone a period of recovery since 2015, a number of external factors are impacting the segment (see analysis).

**RESIDENTIAL:** The government plays a pivotal role in driving forward the development of residential properties for the country's growing national population. The PAHW provides Kuwaitis with three housing options. The first option is the provision of a government house built on a plot of land with a minimum built-up area of 400 sq metres or a 400-sq-metre apartment, along with a monthly rental allowance until the accommodation is available. The second option is a 400-sq-metre plot of land, along with a long-term, interest-free loan of KD70,000 ($231,000) from the Kuwait Credit Bank (KCB) to finance the construction of a house and subsidise material purchase for the amount of KD30,000 ($98,800). The third option is a long-term, interest-free loan from the KCB to buy or build a house or apartment with a minimum area of 360 sq metres. This system creates a key role for the KCB, while also stimulating both the construction and residential real estate markets.

**SUPPLY CHALLENGES:** At the same time, however, the PAHW faces two significant challenges. The first obstacle is the issue of pent-up demand for housing, which is contributing to a long waiting list. In August 2018, for example, local media reported that some 100,000 applicants were waiting for accommodation, with wait times averaging between seven and 18 years depending on the desired location. This bottleneck is partly a result of population growth over the past few decades.

According to the Public Authority for Civil Information, there were 4.8m people living in Kuwait in 2019, up from 2.7m in 2008 and 1.8m in 1998. Of this, Kuwaiti nationals accounted for 1.4m, or 29.4% of the entire population. The second challenge for PAHW is to increase housing supply over the longer term to cope with future demand, as almost two-thirds of Kuwaitis are under the age of 30, of which approximately half are under the age of 15.


The state plays a significant role in the development of residential properties for Kuwaiti nationals

Facing rising population growth, the authorities have set the goal of distributing 12,000 units per year and have pledged to deliver 60,000 homes from 2015 to 2020.

Adding to the demographics challenge is land scarcity. In Kuwait, the state is the largest land owner, holding around 80% of the total. This extensive portfolio includes land owned by state institutions, such as the Kuwait Oil Company and other so-called "K Companies", as well as state ministries and authorities. The availability of land for new housing is thus largely determined by the state, which periodically releases territory to provide space for new buildings.

At the same time, private developers are not permitted to develop private residential projects for Kuwaitis, with only an individual Kuwaiti national or the government able to do so – which ends up putting more stress on the latter. Private companies, however, are allowed to be contracted to design and/or build property in these projects.

To try and ease supply constraints on residential housing, in 2013 PAHW adopted a strategy with the goal of distributing 12,000 new units per year. This initiative has been largely successful, and in 2014, 2015 and 2016 a respective 12,030, 15,240 and 12,000 units came onto the market. In addition, a total delivery of 60,000 homes was pledged under the National Development Plan 2015-20.

**FUTURE CITIES:** Alongside these strategies, critical to further increasing supply will be the development of future cities, which form part of the country's ambitious New Kuwait 2035 Vision (see Economy chapter). Across the country, PAHW is overseeing a number of ongoing, mixed-use mega-developments aimed at adding a new supply of apartments and villas, as well as fresh territory for building.

On the agenda is the 104-sq-km South Al Mutlaa City development, which is set for completion in 2023. In addition to public and commercial areas, hospitals and schools, 28,363 new houses for over

The state is the largest land owner, holding around

**80%**

of the total

While public infrastructure projects are integral to sector performance, private actors also play a key role

A draft law aimed at creating a housing mortgage regulation that would remove much of the financing burden from the Kuwait Credit Bank is being debated in Parliament.

40,000 residents will be built. As of May 2019 the project was reportedly 39% complete. Both slated for completion in 2029, the 59-sq-km South Saad Al Abdullah and the 60-sq-km South Sabah Al Ahmad developments will provide 20,000 and 25,000 new units, respectively. As of May 2019 both projects were around 10% complete. Meanwhile, the scope of the Al Khiran Residential City project includes 35,000 units on a 140-sq-km site, as well as commercial areas, hospitals, and sports and entertainment venues. The project will be carried out in five stages, each adding between 4500 and 8500 units.

PAHW's future plans also include building some 52,000 homes in the Nawaf Al Ahmad City project, approximately 60 km north of Kuwait City. The city will bring to the area new commercial and office spaces, a shopping mall, sports and tourism facilities, hospitals, schools and mosques.

Other major residential projects currently under way include the Abdullah Al Mubarak suburb, which was 35% complete as of May 2019 and scheduled to finish in 2025, as well as the Jaber Al Ahmad City, which upon completion in 2022 will provide housing for 80,000 people. The 80-sq-km Al Sabriya City development will also contribute a further 52,000 units. This and other projects in the north of Kuwait are now being re-examined, as part of the broader Silk City and Boubyan Island redevelopment scheme (see Construction chapter).

**LEGISLATIVE REFORM:** To further tackle the housing shortage issue, a new draft mortgage law was under review by Parliament as of July 2019. Currently, Kuwait lacks a mortgage market despite real estate forming a major part of banks' balance sheets. This sector is largely composed of lending to the commercial and industrial segments, while lending to the residential segment tends to take the form of instalment and consumer loans. The draft law seeks to expand the market to the residential segment, effectively tripling the amount customers can borrow for real estate purposes.

Ownership of land is restricted to Kuwaiti citizens, though non-Kuwaiti Arab nationals may own a single property in designated areas.

The new legislation would also remove much of the burden of financing new homes from the KCB, a task that has become increasingly arduous. For example, in order to meet the target of building 12,000 new units per year, the KCB requested raising its core capital from KD750m ($2.5bn) to KD3.8bn ($12.5bn) in May 2019 to meet funding obligations.

Citizens are expected to retain financing benefits currently on offer from the KCB. However, the draft legislation would see ordinary banks take on the responsibility of providing loans under the same long-term and interest-free terms. The KCB will still have a financing role by paying banks the mortgage interest at a rate it will determine. The law was still at the draft stage as of mid-2019, but there is pressure for it to be adopted soon, with Qais Al Ghanim, the secretary of the Kuwait Real Estate Association, telling local media in September 2018 that the KCB would not be able to provide the required loans for property in the South Al Mutlaa City, South Saad Al Abdullah and Abdullah Al Mubarak developments.

**FOREIGN PARTICIPATION:** Given the constraints on private residential housing, many real estate developers have concentrated on the investment housing market (see analysis). This is open to foreign and local participation, although ownership of land is restricted to Kuwaiti citizens only. Non-Arab, foreign ownership of real estate in Kuwait was explicitly ruled out by Law No. 74 of 1979, with non-Kuwaiti Arab nationals limited to a single property in designated areas. The Commercial Law No. 68 of 1980, meanwhile, requires companies to be at least 51% owned by Kuwaiti nationals. The latter law was liberalised to a degree in 2013 by Law No. 116 regarding direct investment, which allowed 100% foreign ownership of a Kuwaiti-registered company, provided it meets certain criteria, such as generating significant employment opportunities, allowing the transfer of knowledge and technology, or would provide assistance to local small and medium-sized enterprises. In practice, real estate developers are thus generally majority Kuwaiti-owned, with growing pressure to increase the number of local employees in such companies (see Economy chapter).

**KEY PLAYERS:** While public infrastructure projects are integral to sector performance, private actors also play a key role. Kuwait Real Estate Company, which is behind the Pearl Marzouq apartment properties and the Arabella dining and entertainment complex, was the first company to list on the Kuwait Stock Exchange (KSE) in 1984. As of July 2019 there were 36 real estate companies listed on the KSE main board and one – Mabanee Al Kuwait Real Estate – on the premier board. Mabanee was the lead developer behind The Avenues shopping and leisure destination, which in 2018 saw the completion of a phased expansion project bringing total gross leasable area to 360,000 sq metres. The Avenues is also expecting to see a 400-room Hilton Garden Inn added to the site before the end of 2019, while a Waldorf Astoria hotel is also in the pipeline.

Meanwhile, Tamdeen Group was named "Real Estate Developer of the Year" at the 2019 Arabian Business Real Estate Awards. Tamdeen is known for its large-scale projects, including the Sheikh Jaber Al Abdullah Al Jaber Al Sabah International Tennis Complex, which is due for completion by the end of 2019, the Al Khiran Outlet Mall in Sabah Al Ahmad Sea City, as well as the entertainment, culture and trade development project in South Sabahiya. Other sector heavyweights include Alargan International Real Estate, the National Real Estate Company and United Real Estate Company.

**MIXED-USE DEVELOPMENTS:** Going forward, incoming supply is planned for the investment and residential segments, with several major projects in the former category edging towards completion. United Real Estate Company's Hessah Towers development in the Hessah Al Mubarak district saw construction of its first phase start in December 2018. As the first large-scale, mixed-use venture of its kind in Kuwait City, the district will house medical, retail and commercial areas, with 82 plots set aside for high- and low-rise residential buildings and duplexes. The project is headed by the Kuwait Projects Company (KIPCO), which announced in April 2019 that 80% of the plots in the district were currently under development either by KIPCO outfits or third parties. The first tenants are expected to move into the Hessah Al Mubarak district in 2020.

Elsewhere, the Al Assima project, next to KIPCO's headquarters in downtown Kuwait City, is also progressing. This includes a six-level shopping centre, a 120-room extended-stay residence for business travellers, and the 54-storey Assima Tower, which will be home to 150 professional offices.

Adding to the country's growing retail space is the 10,356-sq-metre Al Andalous Complex, which will bring a shopping mall, a cinema complex, office space, a hotel, serviced apartment buildings, and restaurant and entertainment facilities to Kuwait City. There are now some 50 malls in the country, according to Dubai real estate surveyors Cavendish Maxwell, with the largest being The Avenues.

In the longer term a fresh supply of residential, investment and commercial stock is planned, as new projects north of Kuwait Bay are being carried out. After the opening of the 37.5-km Sheikh Jaber Al Ahmad Al Sabah Causeway on May 1, 2019, linking Kuwait City with Subiya on the north side of the bay, news later that month reported that the artificial islands created along the causeway would be opened to tourism and real estate development. Subiya itself could also be due for major expansion, if current proposals for the 250-sq-km Silk City mega-development come to fruition. Plans for the $86bn first phase were announced in February 2019.

**OUTLOOK:** Current data suggests that the sector overall has made some progress in recovering from the slowdown in activity, with an uptick in oil prices

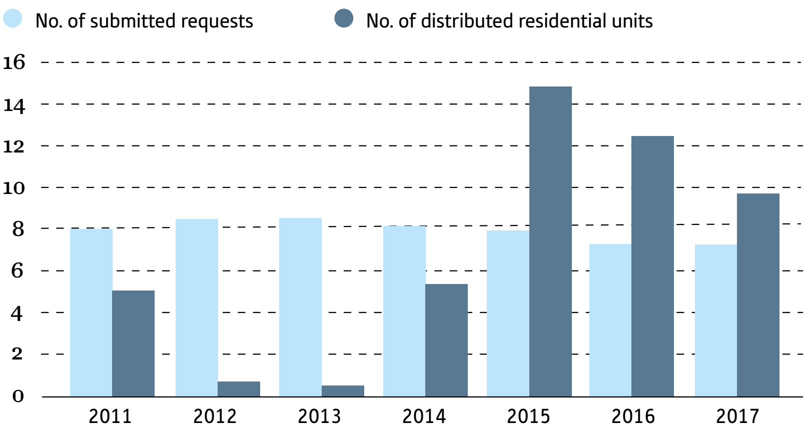
In the first quarter of 2019 real estate sales totalled some $2.6bn

giving the project pipeline fresh momentum. At the same time, increasing housing supply may mean a year of price stability, rather than major rises. Demographics also remain a challenge, as fewer expatriates are incentivised to live and work in the country, a situation that will impact investment housing the most. Supply bottlenecks in the residential sector may ease as current projects are completed, yet with the current backlog, waiting lists are likely to remain a reality in the medium term.

Looking further ahead, much depends on the mega-projects currently being planned for the north of the country, which have the potential to transform Kuwait into a more multi-polar real estate market. Finding new ways of attracting citizens and foreigners into these new projects will also be crucial, with the GCC region a competitive investment destination for mixed-use developments. Current debates over the future of investment regulations will thus have far-reaching consequences in the years to come.

The opening of the Sheikh Jaber Al Ahmad Al Sabah Causeway in May 2019 is expected to provide new opportunities for tourism and real estate development on the artificial islands surrounding the causeway.

**Government programmes for housing citizens, 2011-17** (000)




Source: CSB

The high number of planned projects is a promising sign for the sector

# Finding balance

## After a strong recovery, the market for investment properties remains subject to broader demographic factors

Despite a decline in population growth, expatriates still make up around 70% of the population in the country. Developments in the investment housing segment are therefore key to the sector.

Kuwait's residential real estate market has long been divided into two main segments: private residential housing, which is only available to Kuwaiti and GCC citizens; and investment housing, which usually involves apartments targeted at short-term, expat renters, but is also open to GCC nationals. With expatriates making up around 70% of the population, developments within the investment housing segment are of key importance to the sector. It is in this area, too, that some of the largest private developers and contractors are present, producing some of the country's most notable housing projects.

**INVESTMENT PERFORMANCE:** According to the National Bank of Kuwait (NBK), in the fourth quarter of 2018 investment property sales grew by 19% to reach KD470m ($1.5bn), marking the fifth consecutive quarter of rising figures and a year-on-year (y-o-y) increase of more than 300%. This upward trajectory was the result of an increase in both the volume and the value of transactions, with the NBK's real estate price index showing a 3.7% y-o-y increase, while the number of transactions jumped by 127% over the same period. Figures were also boosted by a number of large, one-off sales in December 2018, according to NBK. However, the first quarter of 2019 saw real estate sector sales moderate as a whole, mostly due to a sharp decline in investment properties, which fell by 47% to KD248m ($816.8m). While these are traditionally low-activity months, the drop is also attributed to softer demand from foreigners trying to get in the market.

The recent pattern in investment property sales does not accurately illustrate the longer-term dynamics of the market, which has been in recovery for four years. In 2015 quarterly sales figures for investment properties averaged KD306.7m ($1bn), but by 2016 and 2017 they slumped to KD204.2m ($672.6m) and KD165.1m ($543.8m), respectively, before recovering to KD392.9m ($1.3bn) in 2018 on the back of rising global oil prices. Showing a similar – if less extreme – pattern, the NBK property index fell from 211 in December 2015 to 190 in December 2016 and 181 in December 2017, but by the end of 2018 it was back up to 194.

In the fourth quarter of 2018 investment property sales grew by 19% to

**$1.5bn**

**SUPPLY & DEMAND:** This volatility can be attributed to the nature of investment property itself, which, as it is available to expatriates as well as nationals, is less dependent on demographic growth than private residential housing. This does, however, mean that government spending and broader economic performance play a more significant role.

Looking ahead, the high number of projects on the way is a positive sign for the segment in the short and medium term, as government capital expenditure continues to increase (see Economy chapter) and new projects spur demand for labour. Such a rise would be welcomed by investors in the segment, as expatriate population growth has been declining from an average of around 5% per annum in 2008-09 to 2.8% in 2018. This was only slightly higher than population growth of Kuwaiti citizens, of 2.4%. Efforts to shore up the number of nationals in the workforce have contributed to the drop in foreigner numbers, as existing labour laws mandate expats leave Kuwait once their contracts finish.

In addition, the construction and finishing of new apartments will bring more supply to the market in the years ahead, which will likely contribute to lower prices. Indeed, the strong supply in the investment segment is widely seen to be behind a softening in rent prices in recent years, with these falling by a month-on-month average of 0.7% in March 2019, reflecting a weakness in the sector, according to the NBK, which suggests that this trend may continue throughout 2019. Going forward, sustaining recent growth in investment housing will therefore depend greatly on matching supply and demand with implications beyond the broader housing market itself.

# Global Perspective

# Urban adaptation

## Rapid urbanisation and young, growing populations put pressure on emerging markets to solve housing deficits

Urbanisation is a mega-trend redefining contemporary life in both developed and emerging markets across the world. According to the UN, in 1950, 751m people lived in urban areas; however, by 2018 this number had risen to 4.2bn, equivalent to roughly 55% of the world's population. By 2050 the UN estimates that this figure will rise to 68%. This growth is likely to be disproportionately concentrated in the developing world, with high rates of population growth and urban expansion in sub-Saharan Africa, the Middle East and Asia. China, India and Nigeria alone are expected to account for 35% of urban population growth between 2018 and 2050. Against this backdrop, governments are under pressure to deliver a combination of safety, security, wealth and opportunity for their urban citizenry.

**GROWING PROBLEM:** Access to housing is an important determinant of quality of life and human welfare. US consultancy McKinsey estimates that 330m households worldwide suffer from a lack of access to affordable, quality housing — a number that could increase to 440m by 2025 if sufficient action is not taken. Therefore, without concerted policies to meet the growing need for housing that is both socially acceptable and financially sustainable, an estimated 1.6bn people will find themselves living under unaffordable, informal and inadequate conditions by 2025.

**SOCIAL ISSUES:** The scale and scope of the housing challenge will be felt most acutely in cities where slum populations have skyrocketed in recent decades. An estimated 880m people could be categorised as slum dwellers, according to a 2016 UN report. Unaffordable and substandard housing closely intersects with a range of social challenges, from petty crime and gang violence, to income inequality and environmental degradation. If not responsibly managed, rapid development and the accompanying influx of foreign capital can magnify disparities in housing access and affordability by drastically driving up urban real estate prices. Speculative investment in rapid-growth markets can price migrants and lower-income residents out of the formal housing market and into illegal, poorly built accommodation. Investment in affordable housing currently remains far below the level of public demand. Without trillions of dollars in new capital allocation to revitalise existing housing stock and accelerate the construction of new units, developing countries will struggle to meet the needs of urban populations, potentially excluding millions from the benefits of growth and development.

**STRATEGIES & SOLUTIONS:** Governments generally rely on a number of mechanisms for delivering affordable housing. Although public housing provision remains a common approach, states are increasingly looking to the private sector to address housing shortfalls. Through public-private partnerships (PPPs) and targeted interventions, governments are deploying financial incentives and regulatory inducements to mitigate risk while encouraging participation from private firms. On the supply side, land costs can hinder the development of affordable housing. Expanding access to unused land and creating incentives for redevelopment through updated land-use regulations can help to lower costs, as can cracking down on speculative practices and opening up government-owned land.

Improving efficiencies in construction processes offers another avenue to reduce the cost of housing development. The World Economic Forum estimates that revising outdated construction regulations would significantly cut down on both production costs and housing delivery times. Additionally, companies who embrace standardisation will be better positioned to deliver cost savings. In particular, by relying on prefabricated parts developed off-site, builders can decrease costs and improve product quality. Incorporating new forms of ICT can also help lower costs by improving modelling and design processes, and making logistics systems and procurement management more efficient.

Access to finance remains a major obstacle for developers, as well as the end-users struggling to find an

**4.2bn**
people lived in urban areas as of 2018

With high rates of population growth in sub-Saharan Africa, the Middle East and Asia, the effects of urban expansion will be disproportionately concentrated in the developing world.

Subsidies for collective savings programmes, government-backed mortgage banks and improved systems of risk assessment can help to make mortgage financing channels more accessible to lower-income urban populations.

affordable home. Lower-income urban populations in developing markets often work in the informal sector and remain excluded from formal mortgage financing channels. A combination of measures, including subsidies for developers for the establishment of better collective savings programmes, government-backed mortgage banks and improved systems of risk assessment, can help drive down loan costs and reduce the lending risks faced by financial institutions. Furthermore, legal reforms that clearly delineate ownership, secure property rights and provide land titles can work in tandem with effective mortgage lending to pave the way for improved access to secure home ownership.

**ASIA:** Indonesia, the country with the largest population and GDP in South-east Asia, has seen surging demand for housing among its rapidly growing urban population. Roughly 20% of housing stock is considered to be in poor condition, and the World Bank has estimated that Indonesia requires over 1m new units per year to address the deficit.

In response to these challenges, the government rolled out the One Million Houses initiative in 2015. The World Bank is supporting the programme, pledging to provide $450m in investment between 2017 and 2021. The initiative has already seen promising results; in 2018 the country exceeded the target of constructing 1m new affordable homes in a year for the first time, with around 50% built through government assistance schemes and 50% funded by private developers.

The Philippine government is also seeking to construct 2m new homes between 2017 and 2022. In February 2019 a new Department of Housing and Urban Development was created to address the chronic shortage of affordable homes. Part of the department's mandate is to monitor and maintain records on idle land, housing stock and housing beneficiaries. Additionally, the department is responsible for controlling government-owned land, setting the scene for a potentially more efficient PPP environment.

Prefabricated housing is increasingly being used in Metro Manila to reduce construction time and costs. "The production costs are lower in the first place compared to traditional home building," Robbie Antonio, founder of Revolution Precrafted Properties, told OBG. "Moreover, because of streamlined processes, the production timetable is between two and three months, allowing investors to recover their investment faster."

**MIDDLE EAST:** In the Gulf, Saudi Arabia has committed to build 300,000 new housing units and increase the level of home ownership from 50% in 2018 to 70% by 2030. To achieve this aim, the kingdom has mobilised a range of government entities and undertaken action on both the supply and demand fronts. In 2018 the country unveiled a series of programmes to improve access to mortgage financing, allocating SR18bn ($4.8bn) for loan guarantees to banks and SR12.5bn ($3.3bn) to assist homeowners in making down payments.

In Bahrain, the government has mixed state housing with PPPs to alleviate demand, establishing a finance scheme in 2013 that offers subsidised mortgages and incentives for private sector development. Residential construction, particularly in the affordable segment, will likely serve as a major catalyst for the sector's medium-term growth, although Bahrain faces the additional challenge of land constraints. Mohammed Khalil Alsayed, CEO of Ithmaar Development Company, sees PPPs as a viable and efficient model which should boost investor confidence. "PPPs allow the government and the private sector to work together to provide affordable housing with greater efficiency than either party could achieve on its own," he told OBG.

**AFRICA:** The largest economies in sub-Saharan Africa all face shortages in excess of 1m units. For example, Kenya faces a housing backlog of 2m units, while Nigeria's shortage is as high as 17m. In recent years governments partnering with private firms have begun taking proactive steps to address the challenge.

In 2017 the Kenyan government unveiled a KSh2.6trn ($25.5bn) programme to develop roughly 1m new affordable housing units by 2023. In January 2018 the government also established a short-list of 35 private firms cleared to participate in the tendering process for a pilot project to build 8000 two- and three-bedroom homes in the town of Mavoko. "There are many opportunities for the private sector to work with the state to achieve their housing goals," Mucai Kunyiha, chairman of the Kenya Property Developers Association, told OBG. "The public sector is in charge of the development of urban master plans, as well as incentives such as stamp duties and tax rebates. The government is also working to form a housing fund, a mortgage refinance company, and joint ventures and PPPs on public land."

In Nigeria, the government launched a pilot project in August 2017 to construct over 2700 units in 33 states, with over 600 contractors involved. "We are now at the infrastructure stage, and many of the houses are already finished. We are also building roads across the country, increasing access and connectivity," Babatunde Fashola, minister of power, works and housing, told OBG.

**LATIN AMERICA:** In Mexico, where approximately 46% of the population live at or below the poverty line, the deficit of affordable housing remains a major policy issue. Large-scale government initiatives aimed at boosting housing supply have mobilised billions of dollars and seen the establishment of partnerships with private developers, the World Bank and global financial groups. Significant results have been achieved, with the overall housing stock increasing by 43% from 2000 to 2014. However, there is still more to be done; according to the World Bank, in 2017 roughly half the population still lacked access to formal, affordable housing.

Meanwhile, Colombia has demonstrated substantial progress in delivering affordable housing to its growing urban population. These projects are tailored to both lower-income citizens working in the informal sector and the burgeoning middle class. "Social housing has a double-sided impact: it creates activity in the construction sector while also allowing people who have never had a home to receive additional contributions as a subsidy to make housing credit more affordable," Edwin Chirivi, vice-president of sectorial development at the Colombian Chamber of Construction, told OBG.

# ICT

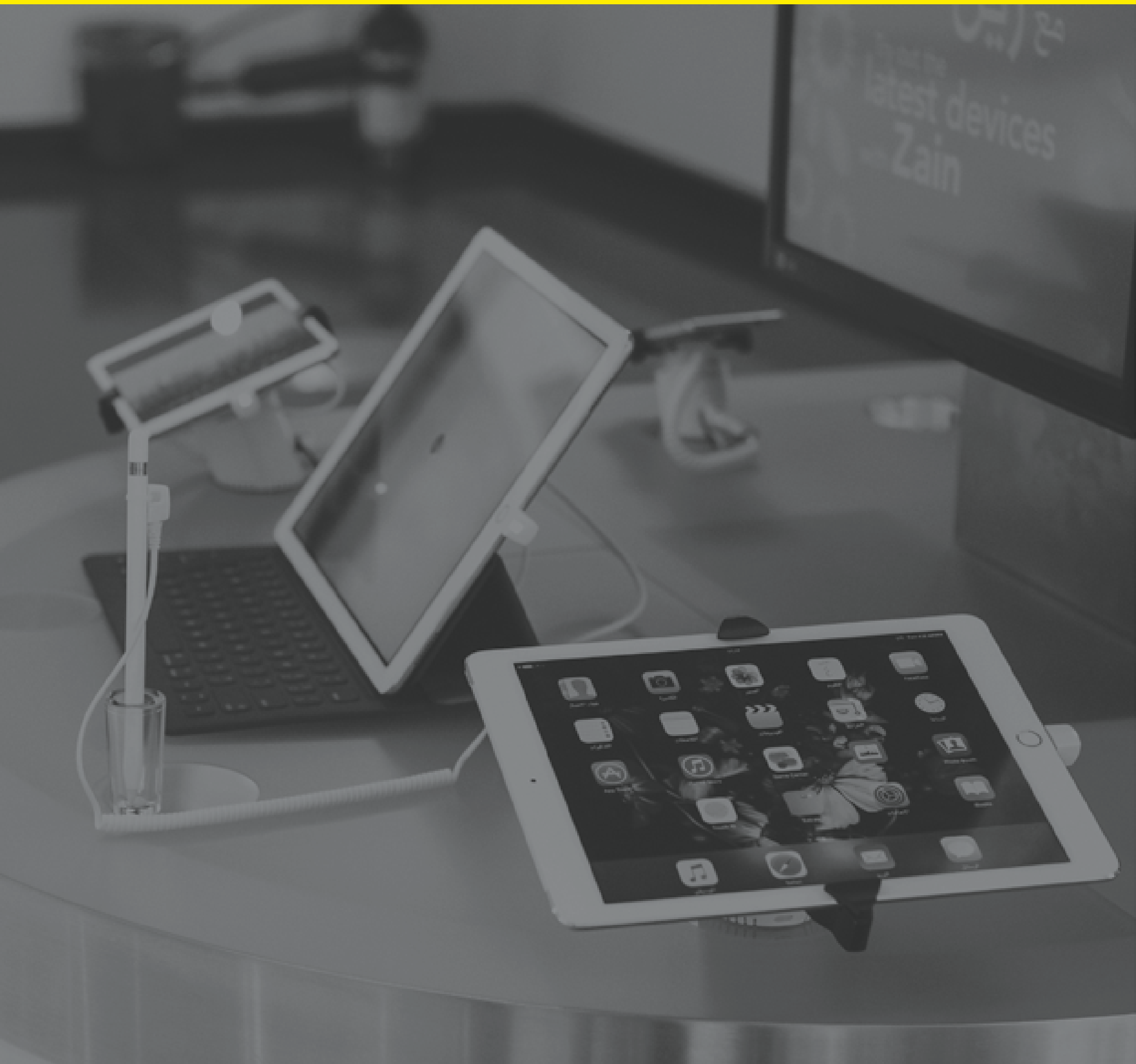
National development strategy prioritises the sector

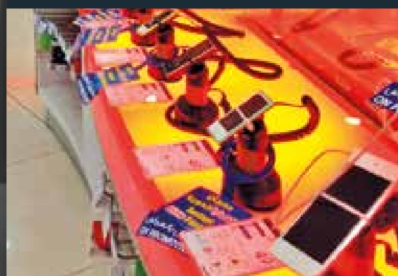
Rollout of new high-speed 5G mobile internet network

Emerging technologies provide new growth potential

Smart city solutions and e-governance boost efficiency

Efforts under way to improve start-up ecosystem



Kuwait has a young, tech-savvy population, with a median age of 29

# Expanded service

## Providers diversify offerings to increase their revenue and customer base

The country's development strategy, New Kuwait 2035, places ICT at the heart of efforts to modernise and diversify the economy in order to encourage sustainable growth.

With Kuwait's national strategy focused on establishing the country as a global and regional knowledge and communications centre, ICT development has gained significance in the country's shift away from an economy based on hydrocarbons. The adoption of 5G technology has been key to achieving these goals, as is the earmarking of financial and human resources to create a wider and deeper IT ecosystem. Technology start-ups are being encouraged in the country, and private sector jobs and initiatives are seen by the government as an important part of the drive to diversify the economy and attract higher levels of international investment.

While there are many opportunities, there are considerable challenges as well. Telecommunications firms are seeing their traditional business models come under pressure as customer habits and demands change. Significant levels of investment are needed to keep up with rapidly evolving technology in a highly competitive market. As a result, companies are looking to find new lines of business and provide a wider range of services as they strive to maintain or expand market share.

In the case of Kuwait, the market is a highly compact one, with a technology-savvy, youthful population driving it forwards. The country's development blueprint, New Kuwait 2035, places ICT at the heart of efforts to modernise and diversify the economy in order to encourage sustainable growth.

**STRUCTURE & OVERSIGHT:** For many years the main government body responsible for the sector was the Ministry of Communications (MoC), which had oversight over telecommunications as well as postal services. However, the MoC is in the process of being renamed the Ministry of Services and is headed by the minister of state for services affairs, a post held since December 2018 by Khaled Al Roudhan, who is also the minister of commerce and industry. The MoC's fixed-line broadband services are supplied via five internet service providers (ISPs). Four of them are wire-based – Qualitynet, Fasttelco, Zajil Telecom and Gulfnet – one wireless ISP, which is Mada. Since 2014, however, the Communication and Information Technology Regulatory Authority (CITRA) took over as sector regulator in 2016, leaving the MoC as the sole provider of fixed-line telephony and fibre-to-the-home (FTTH) services. CITRA is headed by an independent board of directors, and is in charge of managing fair competition, licensing, the release of spectrum, cybersecurity measures and smart government strategies.

Another important body is the Central Agency for Information Technology (CAIT), which coordinates national e-services strategy and initiatives. It is responsible for 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 established the data- and disaster-recovery centres used by various government ministries.

**NATIONAL VISION:** The New Kuwait 2035 vision has identified ICT as a key sector that is expected to attract investment and boost the local economy. It focuses on seven pillars, with ICT development playing a central role in each. One such pillar is public administration, to which the improvement of e-government services is central. A planned privatisation of the MoC's fixed-line service is also in the development plan, as is increased investment in ICT infrastructure. It lays out the third phases of the FTTH network, which will cover 100% of residential and business areas, and a broadcast and digital archiving system. The second phase of the FTTH network was launched in April 2018, with the MoC's Gigabit-capable Passive Optical Network (GPON) delivering access to speeds of up to 100 Mbps. At the launch of the second phase, some 55% of Kuwaiti households were already covered by the GPON.

The second phase of the fibre-to-the-home network was launched in April 2018, with the Gigabit-capable Passive Optical Network delivering access to speeds of up to 100 Mbps.

**MAIN PLAYERS:** The mobile telecommunications sector is dominated by three providers: Zain Kuwait, VIVA and Ooredoo. Three ISPs were acquired by mobile operators: FASTtelco, bOnline, QualityNet and Zajil-KEMS. FASTtelco was purchased by Ooredoo Kuwait in 2016, although they continue to exist as a separate legal entities. bOnline is a subsidiary of United Networks Company, part of investment outfit Kuwait Projects Company. QualityNet, meanwhile, was 90% owned by Bahrain's Batelco until May 2019, when the company sold its stake to VIVA for around KD28.3m ($93.2m). Kuwait's ISPs offer a wide variety of solutions, including the cloud, managed services and cybersecurity. QualityNet, Zajil and Ooredoo also offer co-location data centres in Kuwait City. Mada, a more specialised company, provides wireless corporate intranet and internet services, along with Integrated Services Digital Network lines.

**INTERNATIONAL CONNECTIONS:** The country's main satellite mobile provider is Gulfsat, which is also a subsidiary of the United Networks Company, in partnership with the UAE's Thuraya Telecommunications. Kuwait is connected through a main landing station with the FALCON/GCX undersea cable, the Fibre Optic Gulf cable, the Gulf Bridge International cable system and the Kuwait-Iran submarine cable.

The first phase of CITRA's Kuwait National ICT Plan includes the construction of a regional telecommunications corridor cable that will connect Kuwait to Iraq over land, before linking to Turkey and Europe. This cable system is key to accomplishing the goal of creating an internet exchange point for the region in Kuwait, thereby making the country more attractive to global data centre investors.

**PERFORMANCE & SIZE:** Kuwait is a highly saturated and competitive market for telecommunications companies. Indeed, in 2017 Kuwait had a mobile penetration rate of 172.6% and a mobile broadband penetration rate of 223.2%, with 98% of individuals using the internet, according to the most recent national figures from CITRA. Additionally, 99.7% of households had internet access and 99.6% of the population was covered by an LTE network.

The country has a both highly saturated and competitive market for telecommunications companies


Plans are under way to privatise the state-owned fixed-line service

Ooredoo Kuwait reported that in the first quarter of 2019 its customer base stood at 2.5m, up 13% from the first quarter of 2018. Revenue for the same period totalled KD56.1m ($184.8m), down 14.4% year-on-year (y-o-y) from KD65.5m ($215.7m). However, operational efficiency and the use of new accounting standards, namely the International Financial Reporting Standard 16, meant that the company's earnings before interest, taxes and amortisation (EBITA) rose by 48% y-o-y, from KD11.8m ($39.9m) in the first quarter of 2018 to KD17.5m ($57.6m). VIVA has gained a reputation as Kuwait's newest and fastest-growing telecommunications firm. Established in 2008 by Emiri decree, VIVA operates as the Kuwait Telecommunications Company and was listed on Boursa Kuwait, the country's stock exchange, in 2014. The Saudi Telecom Company owns a 51.8% majority stake in the business. First quarter results for 2019 show that VIVA's revenue dropped from KD77.6m ($255.6m) in the first quarter of 2018 to KD66.6m ($219.4m). However, the company recorded a 4.2% increase in EBITA, rising to KD18.7m ($61.6m) in the first quarter of 2019, and served a customer base of 2m. Following its acquisition of QualityNet, VIVA launched its first post-paid, home broadband packages in May 2019.

Zain Kuwait is the oldest telecommunications company in the country, founded in 1983 as the Mobile Telecommunications Company. It listed on Boursa Kuwait in 1985. The Kuwait Investment Authority holds a 24.6% share and Oman Telecommunications has a 21.9% share. In 1994 Zain became the first firm in the region to offer a commercial GSM service. Similar to Ooredoo, Zain is a global business and operates in eight countries in the

The country is connected via a main landing station at Safat with the FALCON undersea cable, the Fibre Optic Gulf cable, the Gulf Bridge International cable system and the Kuwait-Iran submarine cable.

In 2017 the mobile broadband penetration rate was

**223.2%**

As of 2017, 99.6% of the population was covered by an LTE network

The rollout of the new, higher-speed 5G network is happening at an accelerated pace, with the first commercial operations launched in 2019.

Middle East and Africa. The company's first quarter results showed it maintained its position as market leader in Kuwait, with some 2.6m subscribers.

Zain Kuwait generated KD82m ($270.1m) in revenue for the quarter, with an EBITA of KD32m ($105.4m), representing an increase of 21% y-o-y. Data revenue for the company grew by 9% and accounted for 38% of total revenue. In 2019 Zain Kuwait launched an LTE-based home broadband service called BEAM, which offers unlimited data under a two-year contract. The company also signed an agreement with Microsoft in October 2018 to offer a range of cloud services to businesses.

The decline in revenue experienced by operators in 2018 is widely attributed to competition that resulted in a surge of promotional offerings that occurred in the beginning of the year. In the months since, all three firms have refocused their efforts on enhancing quality and service delivery in order to boost operational efficiencies. While this may reduce overall revenue in the shorter term, these investments are expected to eventually pay off over the longer term. "From the perspective of the telecommunications companies, there is a lot of pressure at the top," Kamil Hilali, chief strategy officer of Zain Group, told OBG. "The use of voice services is decreasing while the use of data is increasing, but data is generally cheap and it has not been enough to offset the loss of revenue from voice services. At the same time, technology has been quickly improving, and companies that invested in 4G must now shift and invest in 5G."

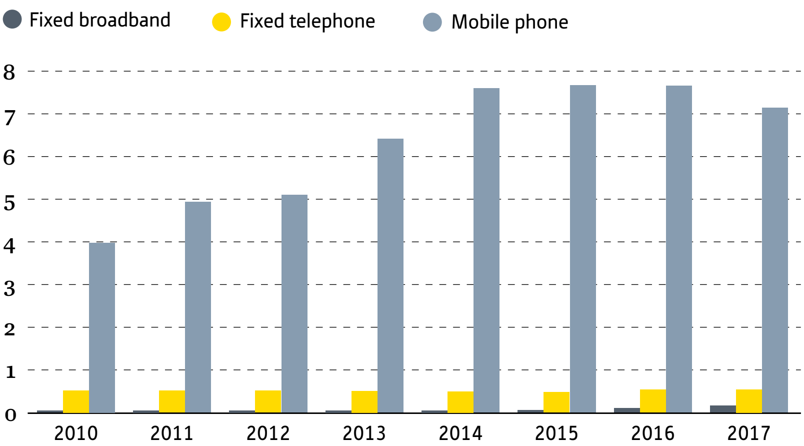
**DIVERSIFICATION EFFORTS:** The rollout of the new, higher-speed 5G network is happening at an accelerated pace, with first commercial operations launched in 2019 (see analysis). The nature of the rapidly changing market has pushed firms to identify new lines of business and revenue sources. One such stream is the digitalisation of services, as more and more functions are conducted online. Ooredoo, for example, introduced an eSIM that can be embedded into a phone and activated remotely, allowing multiple numbers to operate from a single handset. Local firms have also been expanding their international roaming offerings, taking advantage of existing expansive global networks to bring unlimited roaming to customers for a weekly fixed fee.

Providers are similarly looking to business-to-business (B2B) and machine-to-machine (M2M) offerings to diversify revenue sources, with Zain's partnership with Microsoft for cloud services a prime example. Additionally, in September 2018 CITRA signed a memorandum of understanding with Amazon Web Services to enhance capacity for secure cloud governance. Zain also announced partnerships with Samsung and local firm Al Babtain Turnkey Solutions in October 2018 to develop internet-of-things (IoT) and smart city solutions for education, health, security and mobility in line with New Kuwait 2035. The adoption of these technologies and their potential for growth is reflected in the country's performance on the Huawei Global Connectivity Index, which ranked Kuwait 37th out of 79 countries in 2018. Huawei expects that cloud computing, e-government and M2M services will prove to be key areas of expansion, and that new infrastructure investment will create various opportunities for cloud service providers.

**SMART CITIES:** Kuwait has adopted several policies that encourage the development of smart cities. Contracts for construction must include provisions for the installation of smart networks, and the MoC's FTTH rollout is being carried out in coordination with new city developments to deliver the high-speed broadband required by the IoT and smart cities.

There are several smart city projects in the pipeline that complement Kuwait's long-term vision to shift its economy away from oil revenue and towards technology, finance and tourism. In July 2018 Kuwait signed an agreement with Huawei to implement a smart city strategy based on the development of

**Telecoms subscriptions, 2010-17 (m)**




Source: ITU

intelligent infrastructure networks, security, virtual systems, and digital transformation of businesses and the government. The agreement proposed developing Silk City in the north as a smart city. The planned $86bn, 700,000-person megapolis will span 250 sq km, from Subiyah on the north side of the recently opened Sheikh Jaber Al Ahmad Al Sabah Causeway to Boubyan Island and its new Mubarak Al Kabeer Port. Additionally, in May 2019 the authorities announced that work had been started on the South Saad Al Abdullah project, billed as the Middle East's first green and smart city. The 64-sq-km development, built in partnership with South Korea, is expected to cost $4bn and will be home to 400,000 individuals once completed in 2029. Elsewhere, smart city technology has already been integrated into developments such as the South Al Mutlaa City project, located near the capital.

**START-UPS:** Kuwait is also looking to build an indigenous IT entrepreneurial ecosystem as part of the New Kuwait 2035 strategy. In this regard, Kuwait is well positioned to take advantage of its growing, 4.2m-strong population, 83% of which lives in the greater Kuwait City area. It is also a youthful country, with a tech-savvy median age of 29.

While the development of the ecosystem is in the early stages, Kuwaitis have already built several successful start-ups. Talabat, a food-ordering service that started in Kuwait in 2004, is now present throughout the GCC. In 2015 it was bought by Germany's venture capital firm Rocket Internet for $170m. Another food-delivery service, Carriage, has operations across the GCC and was acquired by Germany's Delivery Hero in May 2017. The service launched most recently in Egypt in March 2019.

JustClean, an online laundry service platform previously known as Masbagti, was bought by Kuwait-based Faith Capital in May 2017 for an undisclosed amount. The venture capital company announced in February 2019 that it was investing an additional $8m into the start-up. The authorities are working to encourage the ongoing development of technology and financial technology start-ups by boosting funding, easing access to the market and infrastructure, building a strong human resources and establishing a regulatory framework conducive to growth.

Start-ups also benefit from recent efforts to enhance the ease of doing business, including bills introduced in 2018 and 2019 to improve conditions surrounding bankruptcy, labour, protection of competition and financial controllers. Financing continues to be an issue for Kuwaiti start-ups, however. According to a 2018 survey by ArabNet, 43% of technology start-ups do not receive any kind of financing and 17% have used angel funds, reflecting the ecosystem's early stage of development. Instead, entrepreneurs use personal savings (76%) and bank loans (33%). In recent years the government has worked to address this issue. In 2013 the $6bn Kuwait National Fund for Small and Medium-sized Enterprise (SME) Development was established to finance up to 80% of the capital requirements of local SMEs. Furthermore, 10% of all government spending must be on SMEs, including those done via tenders. Several private funds have also entered the market to support start-ups, including sharia-compliant KISP Ventures, Faith Capital and Seeds Partners. "The SME segment is a very competitive area of the industry, with high growth potential," Mohammed N Al Nusif, CEO of ICT and enterprise services provider Qualitynet, told OBG.

Mobile internet providers are looking to expand business-to-business and machine-to-machine offerings

The country is looking to build an indigenous IT entrepreneurial ecosystem and support the establishment of start-ups as part of the New Kuwait 2035 strategy.

While further improvements to financing are needed, start-ups report that access to communication services such as mobile and fixed broadband, as well as payment infrastructure, is strong. The rollout of FTTH, 5G and widespread high-speed mobile coverage are all significant advantages for technology start-ups. There are also several incubators present to provide a higher level of support to growing start-ups. One such firm, Mefazec, provides mentoring, networking and assistance with finance, while Sirdab Lab offers boot camps and co-working spaces. Additionally, StartupQ8 offers business advice, discussions and workshops, while Brilliant Lab holds an annual competition for the best start-up. Brilliant Lab also partners with Zain for the Zain Great Idea accelerator programme, which is conducted in partnership with Silicon Valley-based organisation Mind the Bridge.

**OUTLOOK:** As the national 5G network rolls out, Kuwait's telecommunications firms will continue to compete for customers while absorbing the major infrastructure costs associated with the upgrade. With voice in decline and low-cost data an increasingly dominant line of business, players are looking to new services such as B2B, M2M, cloud, big data and data centres. Government efforts to establish Kuwait as a global IT and communications hub will be strengthened with the establishment of smart cities and a more supportive start-up ecosystem.

Start-ups stand to benefit from recent efforts to enhance the ease of doing business, including bills introduced in 2018 and 2019 to improve conditions surrounding bankruptcy, labour, competition and financial controllers.

Salim Al Ozainah, Chairman and CEO, Communication and Information Technology Regulatory Authority

# Digital drive

## Salim Al Ozainah, Chairman and CEO, Communication and Information Technology Regulatory Authority (CITRA), on diversifying sources of connectivity and mitigating risks

**How is the government encouraging Kuwait's digital transformation, and what benefits can citizens expect to see from these efforts?**

**AL OZAINAH:** The overarching aims of the New Kuwait 2035 vision is to transform the country into an international commercial and trade hub, and help meet the goal of sustainable development with digital transformation at the heart of this strategy. Kuwait is exerting great effort in this regard on all fronts, including by adopting best practices, partnering with leading institutions worldwide, engaging the public sector and encouraging human development. CITRA believes that the cornerstone of this transformation is the people of Kuwait, and the authority is working with pioneers in cloud computing and the digital economy to transfer knowledge and share experiences. We want to nurture top talent and create an intelligent generation that supports the vision of the digital economy in Kuwait.

**What is being done to increase Kuwait's share of global bandwidth traffic?**

**AL OZAINAH:** Growth in demand, price erosion and shifts in availability are all creating challenges for the international bandwidth market. Bandwidth demand in the Middle East has grown by 45%, and there is a concern about the availability and reliability of connectivity as the internet becomes the backbone of local economies worldwide.

The MENA region is served mainly through submarine cables routed through the Suez Canal; however, this poses a significant risk due to the heavy shipping traffic that can damage cables. To address challenges, CITRA is working to diversify sources of connectivity for our neighbours and countries around the world by improving the regulatory framework and licensing system. This will lower the cost of connectivity throughout Kuwait and ensure that global service providers have access to key co-location infrastructure and transnational connectivity to and from Kuwait. We are in the process of establishing the Kuwait Corridor, which will serve as a new pathway for global bandwidth extending from Kuwait to Europe, effectively placing us in the middle of international traffic. Kuwait will be ideal as a centre for global bandwidth traffic as our net neutrality stance allows us to freely distribute bandwidth throughout the region and beyond.

Our initial targets are to service 10% of regional bandwidth requirements and improve route diversity. This will provide the region with new alternative terrestrial connectivity paths to the internet and mitigate the current risks. Our intention is to move Kuwait from a net consumer of international bandwidth to a net exporter of digital traffic.

**In what ways has the privatisation of telecoms assets been approached, and how much interest has it seen from investors?**

**AL OZAINAH:** Kuwait recognised the importance of liberalising telecoms services and assets early on, and the country was one of the first in the region to privatise the sector. Since its inception, CITRA has continued to create a favourable environment for investment in the ICT industry. Today, all three operators have substantial foreign ownership and major international footprints in countries across the region. The ICT sector continues to grow in importance and has become a major driver of economic growth in Kuwait. The market has also been active with major acquisitions between operators and internet service providers since 2017. In addition, the introduction of a process in July 2019 to grant mobile virtual network operator licenses will improve the utilisation of existing infrastructure and scarce resources as well as create new wholesale markets. It is expected to encourage competition and provide more price options for the end user.


Kuwait's first integrated 5G mobile internet service launched in 2019

# Come on-line

## Investment in next-generation technology has been improving communication speed and capacity

In June 2019 Zain Kuwait launched the country's first fully integrated 5G mobile internet service. Speaking at the launch, Nawaf Al Gharabally, chief technology officer at Zain, told local press that telecommunications services are key to accelerating economic growth and boosting trade. "Obviously, existing mobile networks will not be able to satisfy the future needs of the telecoms sector," Al Gharabally said. "5G will contribute to the digital transformation and prosperity of Kuwait." With other players following suit, Kuwait is setting an example for the Middle East in the adoption of this new technology.

The 5G rollout does not come without considerable challenges, however. The current market is one of limited growth for telecommunications firms as the technological cycle quickens and infrastructure becomes more expensive. That said, 5G offers new opportunities for services with its higher speeds and volumes. Kuwait's championing of the technology is key to its wider goal of becoming a telecommunications and global trading centre.

**INCREASED SPEED:** Zain's announcement came after several years of trials, with the company successfully testing 5G in September 2017 at a throughput speed of over 70 Gbps on a 2-GHz spectrum. The Communication and Information Technology Regulatory Authority reserved a 3.5-GHz C-band for the new technology, announcing in June 2019 that licences would be available for a one-time fee of KD1m ($3.3m) per operator.

5G offers three main improvements on the existing 4G network. The first is an increase in speed and capacity, and the second is a reduction in latency, allowing more uninterrupted services with high data delivery. Third is 5G's increased usability for massive machine-type communications (mMTC) given its low power and wide-area utility over many devices. There are inherent benefits for consumers and businesses alike in the technology. It is advantageous for augmented reality, virtual reality and artificial intelligence, and its high speed and capacity and low latency are vital for continuous, secure strategic services. What is more, mMTC capability is important in the development of the internet of things and smart cities as it enables large numbers of machines to be connected over a wide area.

**SHIFT IN BUSINESS LINES:** While there are numerous benefits to the technology, 5G is expected to put fixed-line broadband under pressure. This is a worry for telecommunications companies, which have come to see the segment as one of the few areas of financial growth. Additionally, significant levels of investment are needed to bring the technology on-line. The change to the new generation – which operates on different parts of the spectrum – will require a shift away from 4G's macrocells towards small cells and multiple towers.

As such, most telecoms companies worldwide have opted for a cautious, phased rollout of 5G technology, and Kuwait is no exception. Zain Kuwait's 5G services were launched at a number of prominent locations, with a gradual expansion of coverage planned for the future. Ooredoo Kuwait, which conducted the first international 5G call in the region to its parent network in Qatar in January 2019, is following a similar strategy, and also launched its services in June 2019. VIVA, however, is being more assertive. In February 2019 the company announced the rollout of a 1000-site 5G network in partnership with Huawei that will support over 100,000 devices.

The introduction of 5G poses a broader question for the telecommunications industry with regard to how it will adapt to the changing environment. "You cannot continue as a mobile-centric operator," Kamil Hilali, chief strategy officer of Zain Group, told OBG. "You have to develop and create other areas of value for customers." Gearing up to meet these challenges will be crucial for the segment in the years to come.

5G offers three main improvements on the existing 4G network: increased speed and capacity; a reduction in latency, allowing more uninterrupted services with high data delivery; and greater usability for massive machine-type communications.

The change to the new generation – which operates on different parts of the spectrum – will require a move from 4G's macrocells towards small cells and multiple towers.

# Global Perspective

# Bridging the divide

## The ever-expanding digital economy is creating widespread opportunities in the developing world

In emerging economies the development of digital channels has, in some cases, allowed sectors to move directly to digital solutions rather than having to invest in vast networks of hard infrastructure.

More and more commercial transactions are moving online and the so-called digital economy continues to expand its reach into every facet of the traditional analogue economy. For businesses this means they have access to new channels to reach existing clients as well as new opportunities to expand market share with a competitive digital offering. For consumers the ever-expanding digital economy promises greater access to products and services at their fingertips, as well as increased ease in accessing and comparing information about them. This also tends to encourage more competitive pricing among providers. In emerging economies the development of digital channels has, in some cases, allowed sectors to essentially skip stages of development seen in other countries, moving directly to digital solutions rather than having to invest in vast networks of hard infrastructure.

**DIGITAL DIVIDE:** While it is clear that the digital economy has opened up many potential growth opportunities, one of the most important barriers is the so-called digital divide. The quantity and quality of mobile phone network coverage in some emerging and developing economies still lags behind that of more advanced economies. That said, there is no country of any income level in which access to mobile phones and the networks that support their use is universal, although this digital divide is obviously far more acute in lower- and middle-income economies. It can be a particular challenge in countries marked by relatively lower rates of urbanisation or tough terrain, which complicates the extension of physical networks.

However, the example of the success of M-Pesa in extending financial services to rural areas of Kenya, to the great benefit of farmers in particular, show that these challenges are far from insurmountable. What is key moving forward is to recognise that alongside the requisite hard infrastructure investment, there is also a need for policymakers to put in place soft infrastructure: the legislative and institutional frameworks necessary to sustain growth in the digital economy. Countries in the Gulf have been among the most forward-looking in this regard. While the digitalisation of public services in countries like the UAE is driving the transition towards digital, the favourable regulatory environments in place are helping to foster and support digital innovation in many economic areas.

Alongside requisite hard infrastructure investment, there is a need for policymakers to create the necessary legislative and institutional frameworks to sustain growth in the digital economy.

**MOBILE BANKING:** One example brings home the manifold opportunities that digital can present. Building on the early success of pilot projects in Africa and elsewhere, Kenyan mobile network operator Safaricom brought M-Pesa to market in 2007, in partnership with Vodafone. This revolutionary service allows anyone in Kenya with a mobile phone to use it as an electronic wallet, letting users borrow small amounts, transfer money to others, pay utilities, and deposit and withdraw funds via agents, thereby bringing such services to large swathes of the population not served by the conventional banking system. The M-Pesa model has since spread to other countries and given rise to copycat services from traditional banks and mobile network operators worldwide. Following its success in neighbouring Tanzania, the service has spread further afield to Egypt, Afghanistan, India and Eastern Europe.

In developing economies with relatively poor fixed telephony infrastructure and a sparse network of bank branches, the rapid improvement in network coverage and the increasing ubiquity of smartphones is allowing financial service providers to reach more clients than ever. Once the initial investment is made in establishing a digital platform, the cost of each new client is minimal compared to the marginal cost of attracting those same clients via the rollout of physical infrastructure.

**EMERGING OPPORTUNITIES:** Building on the runaway success of mobile money systems, a wider range of more sophisticated financial services is being made available to emerging market consumers. Insurance technology (insurtech), for example, is becoming an increasingly important force in the insurance sector globally. Tellingly, its emerging market share has been rising steadily in recent years. In the second quarter of 2018 China, India, Israel and South Africa together accounted for one-third of all insurtech deals globally, and the highest projected growth rates over the coming decades are in large emerging markets.

Digital trends from advanced economies are lagging in many emerging and developing markets. However, the generally higher economic and population growth in the latter ensure they are likely to remain among the most important growth drivers for years to come. Retail and transport are cases in point. Uber, for example, is beginning to tailor its app to lower-income markets, developing Uber Lite in India so that riders can get the same service with lower data intensity. This is important in markets where network infrastructure has not yet reached the most advanced levels, but which are nonetheless among the most important revenue drivers.

Meanwhile, India has become the fastest-growing geographic market for Amazon, as well as the fastest-growing subscriber base of any country for its Prime service. Although the biggest names in the global tech industry are profiting from surging growth in emerging markets, they are by no means alone in looking to capitalise, with these markets also seeing the birth of behemoth competitor firms. Alibaba, for example, is the dominant player in China's online retail space, and it is rapidly expanding its footprint throughout emerging Asia and beyond, including in India, where it is competing directly with Amazon. In fact, since 2015 Alibaba's online sales have surpassed those of Amazon, eBay and Walmart combined. While the population density in Alibaba's natural target markets clearly puts it at an advantage in this regard, digital firms from the region are by no means relying solely on regional demographics to fuel expansion.

**SUB-SAHARAN AFRICA:** Sub-Saharan Africa saw a surge to 75 mobile cellular subscriptions per 100 people in 2017. At just under 70 cellular subscriptions per 100 people, Tanzania lagged slightly behind the regional average, while Nigeria tied the average of 75. Other countries in the region in which OBG operates fared even better: Kenya (86), Ghana (127), Côte d'Ivoire (131), Gabon (132) and South Africa (162), compared to the global average of 104.

Even countries whose ICT infrastructure compares favourably with the regional average are not resting on their laurels, however. Côte d'Ivoire is a case in point; its National Agency for the Universal Service of Telecommunications is in the process of deploying a 7000-km fibre-optic network to rural areas. "On multiple levels the government-led fibre-optic infrastructure project is a tremendous opportunity for digital transformation," Serge Kouakou, general manager of Orange Business Côte d'Ivoire, told OBG. "Fibre optics allows more bandwidth than copper infrastructure, and it is a more stable technology to use than copper, considering Côte d'Ivoire's climate. The service's reliability should

The generally higher economic and population growth in developing economies ensure they are likely to remain among the most important markets for digital trends.

Countries in the GCC were among the earliest to recognise the potential of digitalisation for all areas of the economy, while also pioneering the implementation of legislation to support the digital economy.

increase and rural populations can gradually gain access to better internet and telecommunication services."

**ASIA:** In terms of mobile cellular subscriptions per 100 people, Thailand and Indonesia are the standout performers in the Asia-Pacific region, with 176 and 174 respectively, well ahead of the regional average of 119. Myanmar, at 90 subscriptions per 100 people, is on a similar level to India (87). At 105, China is around the global average and not far behind the Philippines (110). All of the other countries in the region in which OBG operates rank above the regional average, as follows: Mongolia (126), Vietnam (126), Brunei Darussalam (127), Malaysia (134) and Sri Lanka (135).

Having only opened its mobile telephony segment to foreign investment in 2013, Myanmar is currently catching up in terms of developing its infrastructure, making great strides in recent years. "Telecommunications is a textbook example of great development in Myanmar, where companies can receive their licence, connect to the network and start operations within a year. It has become a little more challenging recently, however, since the permit system for extending the fibre-optic network has been decentralised to regional governments, which do not always fully understand its importance," Lin Roye, deputy managing director at Myanmar Fibre Optic Communication Network, told OBG. In a similar vein, U Myo Ohn, CEO of Campana Group, underlined the continued importance of mobile connectivity, even as the fibre-optic network expands, noting that "mobile internet is cheaper and more widely available because more telecom towers are being installed, resulting in better connectivity. Mobile reaches users faster, but only when fibre optics arrives do you truly have broadband." Myanmar demonstrates the difficulty of extending fixed-line infrastructure to remote areas in challenging terrain, underlining the continued importance of mobile internet connectivity.

**MIDDLE EAST & NORTH AFRICA:** At 112, the average number of mobile cellular subscriptions per 100 people in the MENA region is slightly above the global average. There is significant divergence across the region, however, with Turkey lagging at 96 and the UAE far ahead at 211. The North African countries, for their part, are somewhat above the global average, with Egypt at 106 and the Maghreb countries clustered in the low 120s. Saudi Arabia (122) and Kuwait (124) are at similar levels, while others in the Gulf have made more progress, notably Qatar (148), Oman (150) and Bahrain (158).

Countries in the GCC were among the earliest to recognise the potential of increased digitalisation across all areas of the economy, as well as the importance of implementing the necessary legislation. For example, in 2018 Bahrain introduced a nationwide Law on the Protection of Personal Data. In fact, the island nation has long been a digital pioneer, introducing the region's first 4G-LTE network in 2013.

In another important initiative, in September 2018 Abu Dhabi Global Market – the emirate's international financial centre – announced the creation of a "digital sandbox" to accelerate financial services innovation, and boost financial inclusion in the UAE and across the region. This will provide a regulatory environment for financial institutions and financial technology (fintech) players to experiment on new products and services through digital platforms. A number of GCC countries have also been at the forefront in trying to bring the digital economy within the tax net.

As part of a drive to develop their digital economies and close the gap with their peers in the Gulf, the Maghreb countries have introduced important institutional initiatives in recent years. Building on its significant investments in ICT infrastructure, Algeria has been trying to foster ICT start-up clusters and, through the Algiers Smart City initiative, improve urban living standards in its capital using digital solutions.

Speaking to OBG, Cameron MacLeod, founder of the Global Civic Innovation Centre, explained that "just as large portions of the developing world used mobile phones to leapfrog landline technology, artificial intelligence, drones, 3D printing, biotech and other exponential technologies are set to provide the world's least-developed regions with the opportunity to apply these innovations at a faster and more scaleable rate than in the developed world with its entrenched legacy infrastructure." This is the logic underpinning the Algiers Smart City project. "The project has been developed as an answer to three fundamental challenges: a fairly isolated technology ecosystem, limited technology transfer and low confidence in growing tech giants," Riad Hartani, strategic technology adviser to the Algiers Smart City project, told OBG.

Not to be outdone, in late 2017 Morocco established the legal framework underpinning a new Agency for Digital Development, the aim of which is to establish the kingdom as a regional centre for digital products and help deliver on the country's overarching digital strategy, called Maroc Digital 2020.

**LATIN AMERICA & CARIBBEAN:** Some countries in this region have mobile cellular subscriptions per 100 people on a par with advanced economies, with Argentina, Panama and Trinidad and Tobago all above 140 in 2017. Colombia was not far behind at 127, with Peru at 121. At 113, Brazil was just ahead of the regional average of 107, while Mexico stood at 89.

Even though some countries in the region may have lagged behind in terms of mobile phone penetration, several have been leading the charge in soft infrastructure: policy experimentation to foster, regulate and tax the digital economy. In 2018, for example, Mexico became one of the few countries in the world to have promulgated a dedicated fintech law. The new legislation governs firms operating in the crowdfunding, online payments and cryptocurrency segments, and includes measures to guard against money laundering. Among other elements, the law introduced an accelerated process for the registration and approval of fintech firms, which is expected to allow them to operate in Mexico within six to 12 months of beginning the process. The legal framework also includes a regulatory sandbox, which allows fintech firms to operate on the basis of a temporary authorisation so that they can test their product with a limited number of clients.

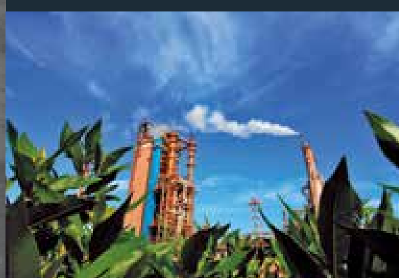
# Industry

Petrochemicals segment sees growing investment

Technology manufacturers to help increase efficiency

Commitments made to increase availability of land

Pharmaceuticals designated a high-priority industry



Investment in the sector grew from $13.8bn in 2014 to $17.1bn in 2017

# Building blocks

## New industrial zones and diversified petrochemical products spark expansion

Technology manufacturers are winning lucrative contracts to serve the government's goals of adding greater efficiency to oil and gas production.

The non-hydrocarbons industrial sector has long played a secondary role to oil and gas in Kuwait. As the country pivots towards easing the dependence of its economy on hydrocarbons, manufacturing is one of the sectors the government is looking to further develop, with the Public Authority of Industry (PAI) taking the lead. Sector stakeholders are welcoming the increased availability of industrial land, as construction continues in the Al Shadadiya Industrial Zone and plans take shape for the ambitious multi-sector Silk City in the country's north. At the intersection of hydrocarbons and industry, the petrochemicals segment has received considerable attention and investment, while technology manufacturers are winning a number of lucrative contracts to serve the government's goals of adding increased efficiency to oil and gas production.

**STRUCTURE & OVERSIGHT:** The PAI is the main sector regulator and is responsible for developing, promoting and supervising the industry. Established in 1977, the authority has a mandate to encourage the ongoing development of industries that serve the national interest by manufacturing products of strategic benefit.

As of April 2019 the PAI was in the final stages of its first internal restructuring since its foundation, with 161 new staff hired in 2018. The restructuring and capacity-building initiatives were deemed a necessary step towards realising the Kuwait National Development Plan's goal of developing "a prosperous and diversified economy". The plan, branded New Kuwait 2035, was launched in January 2017 and comprises 164 strategic development programmes under seven pillars: global position, human capital, health care, living environment, infrastructure, economy and public administration. It also outlines five strategic directions for the country: enhanced citizen participation and respect for law; effective governance; economic prosperity; the creation of a nurturing nation; and to be a globally relevant player. Two programmes in the plan will directly impact Kuwait's industrial sector, namely the construction and completion of the Al Shadadiya Industrial Area project, and the Silk City and Islands Development project. The first phase of the latter is scheduled to be completed in 2022. The industrial sector will benefit from a range of improvements to transport and logistics networks and infrastructure, including expanding and renovating road infrastructure, developing three ports and adding to existing warehouse facilities.

Companies in manufacturing and agriculture are required to have a workforce that is at least 3% Kuwaiti, while companies in the petrochemical and refining segments must have at least 30% Kuwaiti nationals.

The government supports financing for the sector via a 49.1% stake in the Industrial Bank of Kuwait, a specialised bank established in 1973 with the aim of encouraging viable projects in manufacturing sector. Its products include long-term industrial loans with a fixed interest rate of 3.5% per year, and Islamic industrial financing, which uses Islamic-compliant products to finance industry-related projects approved by the PAI. In March 2019 the PAI was considering the closure of 14 industrial plants until the payment of full financial dues to the authority were made, reflecting the PAI's strict policy on debt. In accordance with regulations, the first penalties for non-payment arise after 15 days and increase in severity after one month.

**EMPLOYMENT:** Employment in the sector is overseen by the Public Authority of Manpower (PAM). As part of the government's Kuwaitisation policy, which looks to increase the proportion of Kuwaitis in the workforce using sector-specific quotas, companies in manufacturing and agriculture are required to have a workforce that is at least 3% Kuwaiti, while companies in the petrochemical and refining segments must have at least 30% Kuwaiti nationals.

PAM has been stepping up its Kuwaitisation efforts in recent years; for example, by issuing a decision that as of June 2019 an annual fee of KD300 ($988) will be required for every work permit issued to a non-Kuwaiti employee to incentivise hiring locally.

Private sector players are represented by the Kuwait Chamber of Commerce and Industry, which lobbies for the interests of industry; and the Kuwait Industries

Union, a non-profit organisation representing around 300 industrial establishments operating in the country. Other key institutions include the Kuwait Direct Investment Promotion Authority (KDIPA), which manages free trade zones and promotes investment.

**LEAD SEGMENTS:** The industrial sector in Kuwait is dominated by hydrocarbons, with coke and refined petroleum products leading the PAI's list of the top industrial segments (see Energy chapter), followed by chemicals and chemical products, fabricated metal products, other non-metallic mineral products and furniture. Accordingly, World Trade Organisation data noted that in 2017 fuels and mining products accounted for 89.8% of exports, followed by manufactures, at 9.2%. That year, hydrocarbons products accounted for three of country's top-five exports in terms of value, with petrochemical acrylic alcohols and automotive exports accounting for the remaining two. Nonetheless, the government is actively supporting the development of manufacturing and other non-hydrocarbons industrial segments as part of its New Kuwait 2035 initiative. Leather tanning, paper, prefabricated steel buildings, electrical cables and metal pipes are among the industries being targeted due to their export potential.

**PERFORMANCE & SIZE:** While the contribution of the manufacturing sector to GDP dipped in both 2015 and 2016, it climbed 12%, from KD2.4bn ($7.8bn) in 2014 to KD2.7bn ($8.8bn) in 2018, according to the Central Statistical Bureau (CSB). Much of this gain was made in 2017, when the segment's contribution to GDP rose from KD2.1bn ($7bn) to KD2.7bn ($8.9bn), an increase of 25%. The degree of this expansion largely negated the marginal decline experienced by the sector in 2018, when its contribution fell by approximately 0.3%.

According to a survey of 750 industrial companies issued by the PAI in 2018, investment in the sector grew from KD4.2bn ($13.8bn) in 2014 to KD5.2bn ($17.1bn) in 2017, an increase of 24% over the three years. Foreign direct investment (FDI) grew more consistently, albeit

In 2018 the private manufacturing sector employed 230,305 people

In 2017 hydrocarbons products accounted for three of country's top-five exports in terms of value

less dramatically, between 2013 and 2017. According to a survey released by the CSB in 2018, FDI in industry maintained steady growth, rising 2.9% from KD375.4m ($1.2bn) to KD386.2m ($1.3bn).

As of June 2018, according to CSB data, the private manufacturing sector in Kuwait employed a total of 230,305 people, of which 222,881 (97%) were non-Kuwaiti and 7434 (3%) were Kuwaiti. In the PAI's 2017 survey of the industrial sector, the total number of Kuwaitis working in industry reached 11,000, representing an increase of 22% from the 2014 figure of 9000. The PAI told OBG that the agency is hoping to continue to increase the proportion of Kuwaitis working in the sector, but that one of the challenges of attracting nationals to private sector industrial work is the comparably long working hours. "The work week in the industrial sector typically lasts six days, while in the public sector it is a more traditional five days a week," Hanouf Al Dhaferi, economic researcher at the PAI, told OBG. "There is also the perception that public sector work is safer, which further tilts preferences."

**INDUSTRIAL LAND:** Historically, one of the major challenges for investors in manufacturing and stakeholders seeking expansion is the scarcity of industrial land. The government, which is in charge of the availability of appropriately zoned land for industrial activities, carefully controls the release of industrial land. In an interview with OBG in early 2018, Faisal Awwad Al Khaldi, deputy CEO of Kuwait Steel, said that the allocation and availability of land reserved for manufacturing was "the most challenging factor for industries in Kuwait".

The year 2018 saw the Ministry of Commerce and Industry make several announcements that looked to address this issue by increasing the availability of industrial land stock. In January of that year the ministry announced that it would make 1036 industrial blocks available in the Al Shadadiya area by the end of 2018. The land would be allocated according to new standards, with industrial capital – namely the size of

Manufacturing's contribution to GDP reached

**$8.8bn**

in 2018


KARO
الشركة الكويتية للعطريات
Kuwait Aromatics Co.
WE VALUE OUR
ENVIRONMENT
KPPC
TKSC
THE KUWAIT STYRENE COMPANY
الشركة الكويتية للستايرين
Kuwait Paraxylene Production Company (KPPC) (Producing Para-xylene, Benzene)
The Kuwait Styrene Company (TKSC ( Producing Styrene Monomer)
KUWAIT AROMATICS COMPANY
PO BOX 1084 Safat 13011 Kuwait | +965 9 965 4751 | kuwaitaromatics.com

capital used in technology, machinery, equipment and operation – weighted at 20%; industrial priority of the quality of investment and products weighted at 30%; and expected value added to the national economy, including Kuwaitis employed and indirect economic value, weighted at roughly 50%.

In October 2018 Khaled Al Roudhan, the minister of commerce and industry, announced that the government would increase the total amount of industrial real estate by 50% via the addition of 700 specialised units in the Al Salmi and Al Shadadiya industrial cities. Conditions placed on the acquisition of the land included a stipulation that investors possess at least $825,000 in capital investment. Commenting on the government's decision, an October 2018 article by the non-profit Arab Gulf States Institute in Washington, DC, noted that government management of the new supply will be key to ensuring investors engage in productive economic activities while discouraging harmful property speculation and buy-to-rent investments.

**ZONES:** One of the brightest prospects for Kuwait's industrial sector is the government-supported development of industrial zones. The zones are intended to respond to demand for industrial land and spur further non-hydrocarbons growth in the sector. In April 2019 Abdulkarim Taqi, director-general of the PAI, told local press he expected initial revenue in the proposed industrial cities to reach KD90m ($296.4m) per year.

One of the sites is located just 25 km south-west of Kuwait City. Al Shadadiya Industrial Zone is set to measure 5m sq metres, with a food zone, a mixed-use zone and a chemical zone. The master plan for the project was drawn up by Kuwait United Development, with Kuwaiti architectural and engineering consultancy SSH contracted by Mushrif Trading and Contracting Company to provide design, engineering and value engineering services. Infrastructure works for the project are valued at $300m. As of October 2018 construction was ongoing, with the project expected to be completed in late 2019 or early 2020.

An industrial zone is also planned to be part of the government's proposed Silk City development. The first phase of the 250-sq-km project, which will be built with the cooperation of the Chinese government following the signing of a series of memoranda of understanding, is expected to cost $86bn and include an international airport and a rail network, as well as a logistics and industrial centre and a free-trade zone for Mubarak Al Kabeer Port. Both zones represent significant steps forward in increasing the private sector's role in the economy, with the New Kuwait 2035 programme aiming to increase the private sector's contribution to GDP from the 26.4% seen in 2013 to 41.9% by 2020.

**MANUFACTURING:** Kuwait has a number of manufacturing growth areas, including pharmaceuticals and secondary hydrocarbons technology. Along with health care, the government has designated the pharmaceutical industry a high-priority segment, and encouraged the use of the public-private partnership model to finance and manage new production facilities. In December 2016 the Ministry of Health granted 12


In 2019 the authorities announced an initial investment of $296.4m for the development of industrial zones

local pharmaceutical companies permits to construct manufacturing facilities. The expansion of local pharmaceuticals production is being largely underpinned by rising demand, with Fitch Solutions forecasting that sales of pharmaceutical products in Kuwait will grow at a compound annual growth rate of approximately 5.2% between 2017 and 2022.

The growing use of technology in the sector has led to increased focus on digitalisation and other tools that can be used to improve processes. "Digitalisation is one example of a tool that can be used to enhance the decision-making process, support plant changes and reflect changing market prices," Abdulaziz Al Duaij, chairman of Kuwait Aromatics, told OBG.

In line with the goals of New Kuwait 2035 and Kuwait Petroleum Corporation Vision 2040, which both articulate the need to leverage technology to increase efficiency and maximise energy resources, February 2019 saw the opening of the country's first manufacturing, integration and testing centre for advanced automation technology. Established by US multinational Honeywell, the plant will help drive digital transformation in the oil, gas and petrochemical industries. The facility will produce distributed control systems platforms and operator consoles for automation projects.

**COSTS:** The aforementioned scarcity of available land means that it is the highest input cost facing prospective industrial investors in Kuwait. Considering the scarcity of industrial land in particular, prices are skyrocketing, which could lead to potential difficulties for investors when seeking out feasible projects.

In other aspects of the cost analysis, however, Kuwait presents a more favourable business environment. Despite increases in the cost of electricity and water in recent years, for example, utilities in Kuwait remain cheaper than in most other GCC countries. The PAI's Al Dhaferi told OBG that prospective industrial investors further benefit from incentives, such as tariff exemptions on imported raw materials and subsidised

The expansion of local pharmaceuticals production is being largely underpinned by rising demand, with sales of pharmaceutical products forecast to grow at a compound annual growth rate of 5.2% between 2017 and 2022.

Petrochemicals output is set to reach approximately 10.5m tonnes in 2019, up from 7.6m tonnes in 2014

Driven by government infrastructure projects, domestic cement demand is expected to grow by 2% per annum between 2017 and 2021.

rent in industrial zones. "If you import raw materials from abroad, the PAI facilitates tariff exemptions," Al Dhaferi explained. "In certain designated areas there are also rental subsidies, which result in prices below 1KD ($3.29) per sq metre of industrial land."

Although electricity subsidies in Kuwait are attractive from a cost perspective, this can result in fewer incentives for responsible use. "Only an updated regulatory framework will drive demand for energy efficiency in construction, whether for new or existing buildings," Ziad Al Awadhi, general manager of Al-Hadi Glass Industries, told OBG. "For instance, there are studies that show how smart glass can reduce up to 30% of electricity consumption," he said.

**PETROCHEMICALS:** Kuwait is likely to continue to invest heavily in downstream petrochemicals via the Kuwait Integrated Petrochemical Industries Company (KIPIC), a subsidiary of the government-owned KPC. KDIPA expects petrochemicals output will reach approximately 10.5m tonnes in 2019, up from 7.6m tonnes in 2014. One of the highest-potential products is ethylene used in coolants, paints and resins. Kuwait is working to increase its output of ethylene and ethylene glycol to meet growing demand from India and China.

Petrochemicals play a key role in the KPC's $10bn Al Zour Refinery project, which will combine a 615,000-barrel-per-day refinery with a petrochemical complex capable of producing approximately 1m tonnes a year of polyethylene, and between 400,000 to 600,000 tonnes a year of polypropylene, as well as petrol, diesel and low-sulfur fuel oil.

In April 2019 KIPIC awarded a technology contract to US-based engineering firm McDermott International for technological petrochemicals solutions at the plant. The firm will build a unit that uses refinery by-product streams to produce 330,000 tonnes of polygrade propylene per year. Al Zour is expected to launch in 2020. The company is also considering a fourth petrochemicals complex, named Olefins-4, to produce plastics.

The state-owned petroleum company's $10bn Al Zour Refinery project will combine a 615,000-barrel-per-day refinery with a petrochemical complex.

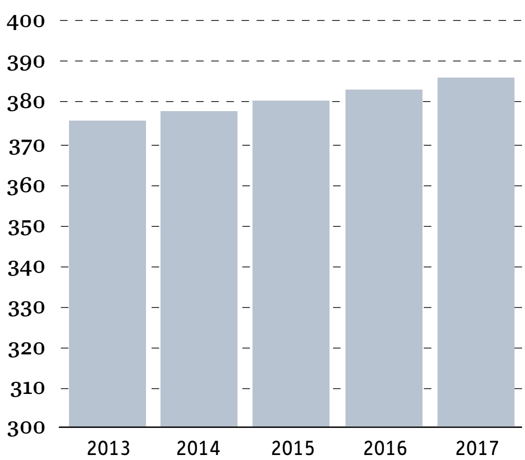
"Most of the large capital projects in the Kuwaiti oil and gas sector are reaching completion," Marzouq Issa Buarki, general manager of TechnoGas, told OBG. "While new ones have been announced, they have not been implemented, so industrial gas players are supplying mostly medium-sized projects," he said.

**CEMENT:** Driven by government infrastructure projects, domestic cement demand is forecast to grow by 2% per annum between 2017 and 2021. This is up from a 1.2% decrease in demand in 2016, but still well below the compound annual growth rate of 18% seen between 2010 and 2016. The uptick in demand is reflected in a number of new developments from local cement companies. Kuwait Cement Company (KCC) began producing oil well cement at its plant in the Shuaiba area in the east of the country in early 2019, with its first delivery going to the National Petroleum Services Company in March. That month also saw process optimisation specialist Maggoteaux begin the modernisation of three KCC cement mills, with the aim of increasing production, quality and energy efficiency. KCC is Kuwait's biggest cement producer, producing over 5m tonnes of clinker and 5m tonnes of cement each year. Elsewhere in the segment, Kuwait's ACICO Cement awarded the contract for the supply of its second cement-grinding station to Spain's Cemengal in January 2019. The projected grinding capacity of the facility is 1m tonnes per year, and the plant is expected to come on-line in 2020.

**OUTLOOK:** The restructuring of the PAI, commitments to increase the availability of industrial land, and the establishment of a number of dedicated zones at Al Shadadiya and Silk City all bode well for growth in Kuwait's industrial sector going forward.

The petrochemicals segment is attracting a significant level of investment, while manufacturers building hydrocarbons-affiliated technology are also winning large-scale contracts. In order for the government to fully realise its goal of increasing industry's overall contribution to non-hydrocarbons GDP, following through on promises to increase the stock of industrial land and providing incentives to investors to offset some associated costs should be considered top policy priorities.

**FDI in industry, 2013-17** (KD m)

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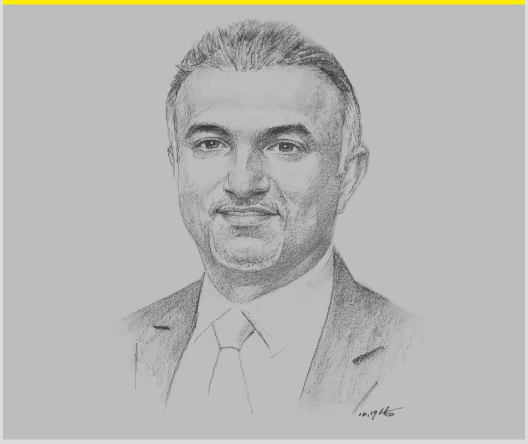


Abdulkarim Taqi, Director-General, Public Authority for Industry

# Sustainable industry

## Abdulkarim Taqi, Director-General, Public Authority for Industry (PAI), on developing and managing industrial parks

**In what ways can the PAI collaborate with the private sector to develop Kuwait's industrial parks?**

**TAQI:** Supporting infrastructure for industrial parks is key to enabling a sustainable business environment. This includes building logistics capabilities, utilities, seaports, labour housing, free trade zones, schools and entertainment facilities. The PAI can collaborate with the private sector to address infrastructure needs by giving them the responsibility of developing and managing a ready-to-use industrial estate. This is particularly important as the largest challenge in establishing an industrial estate involves land scarcity. If we outsource the development and management of the land to the private sector with state support, we would not only reduce the burden on the government, but also add to the stock of residential units near industrial areas.

To this end, the PAI aims to further promote private sector investment. We have already encouraged build-operate-transfer schemes with a number of firms, such as Jawharat Al Fanar, which has a high level of experience in developing and managing industrial estates. Kuwait has also signed a memorandum of understanding with the China Development Bank to build and operate several industrial cities in Kuwait. The bank is providing the PAI with a consultancy study on the 76-sq-km Al Nayamm area regarding how to construct and manage the city. Such projects are expected to greatly contribute to achieving partnerships between the public and private sectors on a local and international level.

**To what extent is environmental sustainability being integrated into industrial parks?**

**TAQI:** The government encourages green development by being involved in the UN Development Programme, as well as by adhering to the UN's seventh Millennium Development Goal to ensure environmental sustainability. At the PAI, any applicant for an industrial project must implement a return on environment study to both ensure the protection of open spaces and to verify that said project will bring significant financial, health and environmental advantages to the surrounding population.

The PAI also manages solid and liquid waste disposal. Sewage treatment plants are constructed in different industrial cities where waste is treated to produce water that can be used for irrigation purposes. We have also built an industrial waste processing plant to safely recycle industrial refuse. Additionally, the PAI is in the process of establishing recycling factories in Al Shaqaya. This would benefit Kuwait's economy by turning waste into wealth as well as by reducing the pollution level. At the same time, the PAI aims to employ a set of principles focused on waste prevention to achieve a more sustainable and environmentally friendly economy.

**What opportunities do economic zones present for small and medium-sized enterprises (SMEs) to act as suppliers and ancillary businesses?**

**TAQI:** To achieve sustainable economic growth for Kuwait, the PAI is launching a series of clusters in its industrial zones, which will have a significant positive impact on developing and identifying sustainable and stable industries. This is an opportunity for Kuwaiti SMEs to become high-value-added businesses. SMEs will be able to integrate into the value chain of larger establishments, which will strengthen forward and backward linkages between sectors and create opportunities for more diversified local economies. SMEs will be able to share knowledge, technology, research, human resources, product design, logistics, assembly, advertising and retailing. Moreover, the PAI established an Accreditation Affairs Section in 2013 to validate our laboratories. Having a national accreditation body will facilitate trade and enable local producers to export their products more easily.

# Global Perspective

## Outsized impact

### Support for small and medium-sized enterprises increasingly recognised as key to sustainable growth

There are around 25m-30m formal non-agricultural small and medium-sized enterprises in developing countries, with the largest share operating in the Asia-Pacific region.

Small and medium-sized enterprises (SMEs) are the engines of global economic growth and employment, accounting for an average of 33% of GDP and 45% of the workforce in high-income countries, and over 60% of GDP and 70% of employment in developing economies. In the case of the latter, the rise in the number of SMEs has been crucial to economic diversification and resilience, particularly in countries vulnerable to commodity price fluctuations. By creating employment opportunities for traditionally economically marginalised groups, such as women, migrants, youths and minorities, SMEs have also been credited with democratising the labour market and driving more inclusive economic growth. In recent years, SMEs have also been at the crest of innovation, taking advantage of their smaller size and agility relative to larger firms to respond more rapidly to technological or commercial opportunities in areas such as biotech and renewable energy.

However, SMEs still face numerous obstacles, which often limit their scope for growth and undermine their long-term sustainability. These include a disproportionately high tax burden, skills and capacity gaps, and credit and trade barriers, making SMEs particularly susceptible to adverse market conditions. As such, in 2018 governments around the world sought to address these structural issues by enacting regulatory changes, promoting knowledge sharing and creating funding mechanisms to unlock the full growth potential of SMEs.

**DRIVING INDUSTRIALISATION:** In developing countries, SMEs are generally credited with driving the transition from agrarian to industrial-based economies by holding key stakes in multiple sectors. There are around 25m-30m formal, non-agricultural SMEs in developing countries, or 67% of the global total of SMEs, with the largest share operating in the Asia-Pacific region at different levels of maturation. Agricultural enterprises still comprise a large part of the SME market in Indonesia and Sri Lanka, with primary industries, including food production, forestry and fisheries, accounting for almost 49% of SMEs in Indonesia, and between one-quarter and one-third of small businesses in Sri Lanka. In the Philippines, meanwhile, SMEs are distributed more evenly among an array of industry sectors, notably trade and retail (46.4%), services (39.4%) and manufacturing (12.5%). In sub-Saharan Africa, SMEs are heavily involved in the services and manufacturing sectors, where they account for two-thirds of employment on average, as well as industrial development, such as mining, manufacturing, services, agriculture, fishing and climate research. In Nigeria, for example, SMEs reportedly account for 70% of industrial jobs and 95% of manufacturing sector employment; in Ghana, they account for 85% of manufacturing jobs. Egypt, for its part, has around 2.5m SMEs, accounting for 75% of the labour force, many of which are involved in manufacturing. In some cases, SMEs are at the forefront of some of the most innovative and emerging sectors, such as biotech, renewable energy, green ICT and services.

In Latin America, SMEs have followed the example set by Europe's vibrant biotech industry, and major projects promoting renewable energy, energy efficiency and sustainable agriculture in Mexico, Peru, Argentina and elsewhere in the region have already gained a foothold. The ICT and start-up space is another area where SMEs can drive growth and innovation, and start-up ecosystems have emerged in numerous major cities – from Cape Town to Cairo, and Bogotá to Buenos Aires.

Small and medium-sized enterprises account for

70%

of employment in developing countries

**CHALLENGES:** The World Bank estimates that 600m workers will enter the global workforce over the next 15 years, mainly in Asia and sub-Saharan Africa. Of this projected estimate, SMEs are expected to create four out of five new jobs. However, as noted in a 2018 OECD report, most SMEs either fail in the first years of activity or remain very small. Regulatory constraints, high tax burdens, limited capacity to tender for large government contracts and difficulties tapping into global trade markets are some of the challenges facing SMEs in developing economies. Access to finance relative to large firms is far more limited. According to estimates by the SME Finance Forum, a research unit affiliated with the World Bank's International Finance Corporation, the finance gap for SMEs widened from around $1trn in 2011 to $5.2trn in 2018, and 60m, or 40% of SMEs in developing countries have unmet financing needs. Financing constraints for SMEs are often attributable to supply- and demand-side knowledge asymmetries: banks face a number of difficulties in assessing the creditworthiness of SMEs, which can discourage lending to these firms, and SMEs often refrain from applying for credit because they believe their applications will be denied due to insufficient collateral.

Regulatory uncertainty and policy inconsistencies also disproportionately affect SMEs, which are typically less efficient than large firms in negotiating the regulatory environment, particularly across borders. A uniform application of taxes to firms of all sizes also results in a relatively high tax burden on SMEs in many developing economies, creating impediments to growth. Excessive bureaucracy is often an additional obstacle to SMEs, and many governments have yet to formulate policies tailored to the needs of these types of firms. For example, few countries have tender procurement processes that cater to SMEs, meaning that smaller firms typically lose out. A deficit in skills and knowledge limitations are other major factors holding back many SMEs from growing and internationalising, and companies report in terms of skills shortages, particularly managerial and digital skills, as significant barriers. While some developed countries have set up incubator programmes aimed at addressing these skills and knowledge gaps, they have yet to be rolled out across the majority of emerging markets.

**FINANCIAL BACKING:** A number of initiatives are focusing on closing the funding gap and providing formal banking services to small businesses that otherwise lack collateral. According to a 2018 World Bank report, almost 70% of SMEs do not use external financing from commercial financial institutions. By region, SMEs in Asia Pacific have the largest financing gap, followed by Latin America and sub-Saharan Africa. Some governments have taken steps to address funding shortfalls in recent years by creating sovereign wealth funds for SMEs, reforming tax systems to foster small business growth or incentivising commercial lenders to extend credit lines to these types of businesses, among other measures. The governments of Nigeria, Egypt, Oman and Kuwait, for example, are channelling billions of dollars towards SME growth. Nigeria's Bank of Industry has extended N500bn ($1.6bn) to local businesses between 2016-18, a significant part of which has gone to SMEs. Egypt set aside LE30bn ($1.7bn) in loans in 2018 alone, with this allocation expected to increase to LE50bn ($2.8bn) in 2019. The Central Bank of Egypt has also directed commercial banks to increase the number of loans awarded to SMEs to 20% of their total portfolio.

To diversify its oil-dependent economy, in 2013 the Kuwait government established a $7bn National Fund for SME Development aimed at stimulating private sector growth. The fund has undergone several restructurings, but the contribution of SMEs to Kuwait's GDP remains relatively low at 3%. However, a number of successful Kuwaiti SMEs such as Boutiqaat – one of the largest online beauty and cosmetics retailers in the Middle East region – have directly benefitted from government support and the country is looking to position itself as a regional tech start-up hub.

In 2013 Oman's government similarly established an SME support fund, as well as the Riyada Public Authority of Small and Medium Enterprise Development (Riyada), which have been critical to small business growth and economic diversification in the country. At the December 2018 Oman Forum, a business and investment summit, Ahmed Al Ghassani, CEO of Riyada, highlighted the government's focus on the twin pillars of enabling and supporting SMEs. "We are focused on empowering SMEs. It is a great opportunity for SMEs to develop and thereby create more jobs," he said. This strategy appears to be bearing fruit; according to the National Centre for Statistics and Information, the number of registered SMEs grew from 31,835

Governments have taken steps to address funding shortfalls by creating sovereign wealth funds for small and medium-sized enterprises, reforming tax systems to foster growth and incentivising commercial lenders to extend credit lines.

Limited connections to networks of international mentors, angel investors and venture capitalists poses a challenge to some small and medium-sized enterprises and can limit growth and the ability to compete internationally.

at the end of 2017 to 36,433 by the end of October 2018. Elsewhere, tax code reforms aimed at reducing the financial burden on SMEs are driving economic growth. In 2017 the Peruvian government created a special income tax framework for small businesses with a reduced corporate tax rate of 10%. This followed additional pro-business incentives such as tax credits for SME expenses related to employee training costs, and the procurement of equipment and machinery. Similar attractive tax frameworks for SMEs have proven important drivers of economic growth. In Tunisia, for example, a new law enacted by the Parliament in April 2018 provides small businesses in the ICT sector with a corporate tax exemption period of eight years, in addition to an exemption of capital gains tax on investments and special Customs procedures.

**LOWERING TRADE BARRIERS:** SMEs often lack the infrastructure and support mechanisms to engage in international trade – a major stumbling block to unlocking their full growth potential. Small businesses are under-represented in global trade across both developed and developing economies, and only 10-25% of industrial SMEs export their products compared to 90% of large companies, according to a 2018 OECD report. Furthermore, direct exports represent 7.6% of total sales of SMEs in the manufacturing sector in developing economies, according to a 2016 World Trade Organisation report. Special economic zones, or free zones, offering infrastructure, streamlined business registration processes, tax incentives and access to trade networks are a solution offered by some governments. For example, there are around 50 free zones in the UAE, many with labs, manufacturing areas and research centres which provide SMEs with key infrastructure in supportive business ecosystems. SMEs also benefit from faster and cheaper registration processes and waivers on corporate tax in the UAE's free zones. The Dubai Multi Commodities Centre, the largest free zone in the UAE, is home to more than 15,000 businesses, of which 70% are SMEs.

Egypt's government is also supporting SMEs through attractive free zone offerings. Free zones built specifically for SMEs and strategically located along the Suez Canal are set to give light industries and services sector companies access to key global trade routes. Simplifying regulations is another measure required to support SME engagement in global trade. Trade facilitation reforms streamline trade and reduce administrative time and costs, especially for SME exporters that are often most affected by varying Customs procedures around the world. Many Asian governments are leading the way in this regard, helping SMEs to expand their export reach beyond the region and tap into global markets. For the first time, in 2018 the proportion of SMEs that export beyond Asia exceeded the proportion that export only to countries within the region. Overall, the number of SMEs exporting beyond Asia increased by 254% between 2014 and 2018.

As of 2018 trade within the region accounted for 53% of export revenues, compared to 42% in 2016. China has the highest proportion of exporting SMEs that sell to markets beyond Asia (83%), closely followed by Malaysia (82%) and Vietnam (80%).

**SKILLS INCUBATORS:** Skills shortages, particularly managerial input and digital know-how, can often hold back SME growth and productivity. In a 2018 study carried out by global professional services firm EY involving 1200 SMEs across six of the largest economies in Asia, skills shortages and talent scarcity were listed as the biggest operational challenges. In general, SMEs have been slower than larger firms when it comes to major investments and integrating Industry 4.0 systems into their production processes, despite often being better placed to adopt new technologies given their size. In response to this, some governments are focusing on skills development through incubators or targeted assistance for SMEs to adopt automation, digitalisation and robotisation. In 2018 the World Bank announced a partnership with the Kenyan government to provide $50m in entrepreneurial and managerial skills investment to almost 2400 SMEs in the country. SMEs there struggle to improve their productivity due to a lack of experience regarding upgrades and expansion. Limited connections to networks of international mentors, angel investors and venture capitalists are another challenge for Kenyan SMEs, which can hinder growth and the ability to compete internationally.

SMEs in South Africa face similar problems. The government has partnered with local non-profit small business incubators to provide training, certification and guidance on best practices. In Myanmar, meanwhile, the government is focusing on technology and skills transfer to the country's approximately 200,000 SMEs, many of which lack the technological know-how necessary to add value to finished goods. Upskilling programmes in Myanmar are focused on SMEs in the food industry, which are most in need of technological support. According to government estimates, around 60% of Myanmar's SMEs involved in producing and processing food need help in generating and adding value to their products. The Malaysian government has adopted a different approach to encourage SMEs to take up Industry 4.0 technology by offering tax incentives to firms that adopt automation, robotics and ICT.

**STATE OF PLAY:** SMEs face multiple obstacles to unlocking their growth potential, but there are promising signs that governments across the board are serious about supporting small businesses throughout their life cycle, from infancy until cross-border trade. Although there is no one-size-fits-all policy blueprint for supporting SME growth across various economic sectors and different countries, governments are recognising the importance of tailoring fiscal and regulatory environments and policies to SME needs. Similarly, state-backed funding pools and free zones are providing the capital and infrastructure injections required to support SMEs that may otherwise be left without reliable access to capital from commercial lenders. Small businesses are also being prioritised in government contracts, with countries like the UAE already stipulating minimum stakes for SMEs in procurement laws. Other countries are expected to follow this model moving forward.

# Retail

High income levels drive increasing demand for goods

Business-friendly reforms allow for expanded offerings

Mall developments focus on the shopping experience

E-commerce players continue to gain ground globally



Kuwaitis' strong purchasing power is driving demand for luxury goods

# Shop talk

## Sector performance rebounds as retailers look to secure a larger customer base

In 2018 the wholesale and retail trade sector grew by 0.9% to reach $4.6bn at constant prices, representing 3.5% of the country's GDP.

In 2018 average per capita income was

**$33,500**

With a strong fiscal base, a high average per capita income and a strong shopping culture, Kuwait looks set to rebound from a period of stagnant growth caused by declining oil prices. While the local retail sector is small compared to larger GCC markets like the UAE and Saudi Arabia, consumers are quickly catching up with their regional peers in their tastes and demand for international food, brands and shopping experiences. Retail and wholesale trade accounts for a sizeable percentage of Kuwait's GDP, and there are solid growth forecasts for the coming year. Existing sector players are expecting 2019 to be a year of increased consumer confidence and healthier disposable incomes.

**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, and provide a standard of consumer support for goods and services.

Alongside the MoCI, the Kuwait Business Centre (KBC) and the Kuwait Direct Investment Promotion Authority (KDIPA) assist prospective retail sector investors by providing information and facilitating investment. The KBC was established in late 2015 to provide an online portal service for new businesses, aimed at reducing bureaucracy and increasing efficiency. Through it, companies can register themselves more efficiently. In addition, the time required to register a new business was reduced from between seven and nine weeks to three to five days. KDIPA, meanwhile, established the Investors Service Centre Online to function as a one-stop shop that coordinates with various government bodies to provide a streamlined service to foreign and local investors, aiming to approve licences within 30 days of their application submission. Key non-government institutions include the Kuwait Chamber of Commerce and Industry (KCCI), which represents local businesses. With more than 79,000 members, the KCCI engages in bilateral trade facilitation and consulting for the private sector.

**PERFORMANCE:** With an average per capita income of $33,500 in 2018, the strong purchasing power of Kuwaiti citizens is a formative influence on the consumer profile, allowing for high average disposable income and driving demand for luxury and imported goods. With the currency valued at KD3.3:$1 as of July 2019, Kuwait's population has the strongest purchasing power parity in the GCC. As a result, the country is a popular destination among multinational retail brands. According to the "How Global is the Business of Retail? 2018" report, published by real estate services and investment firm CBRE, Kuwait is ranked 19th out of 61 countries in terms of global retail brand presence, with 41.6% of the over 1000 global retail firms surveyed maintaining a presence in the country. With regard to city rankings, Kuwait City placed 15th out of 193 cities, sharing similar scores with Tokyo, Japan and Bangkok, Thailand.

According to Kuwait's Central Statistical Bureau, in 2018 the wholesale and retail trade sector grew by 0.9% to reach KD1.39bn ($4.6bn) at constant prices, or 3.5% of GDP. This was up from KD1.37bn ($4.5bn) in 2017 and KD1.32bn ($4.3bn) in 2016. While this represents two years of upward movement, figures are still short of the five-year high of KD1.47bn ($4.8bn) experienced in 2014. There are encouraging signs that the short term could see a return to more substantial gains, however. Earnings in the first quarter of 2019 reached KD346.3m ($1.1bn), or 3.4% of quarterly GDP, representing a 2.4% increase on the same period in 2018. Investor confidence also appears to be returning, as sales of commercial property reached KD185m ($609.3m) in the fourth quarter of 2018, the highest quarterly figure in two years, representing a year-on-year increase of 50%.

**POSITIVE METRICS:** On a legislative level, the sector has benefitted from a programme of business-friendly reforms by the MoCI, the latest of which was the launch of an electronic system for the issue of commercial licences in January 2019. The online process, which is aimed at small and medium-sized businesses, requires only the submission of a lease agreement and receipt to issue a commercial licence to a company or retail premises.

Prospective investors in the retail sector will also draw encouragement from resurgent consumer indicators. Consumer spending broadly declined in the second half of 2018, but according to the National Bank of Kuwait (NBK) consumer spending index, it returned to positive growth in February 2019. In a related metric, consumer confidence on the ARA Research & Consultancy's monthly index increased to 110 as of December 2018. While this remained unchanged from December 2017, it marked an improvement on December 2016 and 2015, when figures stood at 99 and 95, respectively.

A December 2018 report by the Egyptian investment bank EFG Hermes forecast that consumer confidence would continue to grow in 2019 thanks to public investment and a thriving banking sector. In November 2018 the Central Bank of Kuwait raised the limit for consumer loans, a move that is expected to encourage spending and boost the domestic banking sector, which is already forecast for high growth rates. EFG Hermes estimated that earnings at Kuwaiti banks would rise by 15%, making it one of the GCC's best performing banking sectors. This growth would be underlined by a 6.4% increase in loans in 2019, the report noted.

Positive sentiment was echoed in credit ratings agency Fitch's report on e-commerce in Kuwait. The report forecast growth in private consumption to increase by 3.9% in 2019, up from 1.5% in 2018, partly due to the 10.5% increase in allocated public wage spending and low price inflation. Indeed, according to figures from NBK, inflation was forecast to average less than 2% during 2019. Looking to the longer term, market researcher Euromonitor predicted in December 2018 that the value of Kuwait's retail industry would grow by 9% to reach $15.4bn by 2023. Non-store retail, which includes online shopping, direct selling, mobile internet, social media and home shopping, is expected to increase by 48%, while the store retail segment is expected to expand by 8.5%. The report also outlined positive forecast for the broader GCC, with the UAE, Kuwait, Saudi Arabia and Oman set to grow by $24bn over the same period.

**GROCERY & SUPERMARKETS:** The grocery and food retail segment is divided between government-run cooperatives (co-ops); private sector supermarkets and hypermarkets; and small, informal corner shops. Co-ops are managed and regulated via the Union of Consumers Cooperative Societies. In 2018 such shops accounted for an estimated 65% of food sales and held 55% of the total grocery market.

This enduring predominance is the legacy of a long history of government-subsidised prices and customer loyalty, particularly among the country's

Consumer confidence is set to continue growing thanks to public investment and a thriving banking sector

Kuwaiti population. As a result, levels of penetration of privately owned hyper- and supermarket chains in Kuwait are the lowest in the GCC.

While co-ops dominate the broader food retail market, this could be set to change. The market share of co-ops in Kuwait's grocery segment has been declining, as the period of low global oil prices put pressure on the government to privatise unprofitable branches. Private sector supermarkets also offer a broader range of imported products and a greater focus on customer experience. At the same time, many co-ops are seeking to remain competitive by learning from the private sector. "Particularly in affluent areas, you can see them renovating, working to improve the customer experience, bringing in more gluten-free and organic products, self-check-out units and so on," Wilfrid Chaperon, operations manager at City Centre, a Kuwaiti hypermarket and supermarket chain, told OBG. "They are evolving and trying to meet new consumer patterns in order to remain relevant," he added. A similar dynamic is evolving in beverages. "Increasingly, health and wellness have become new trends demanded by the local market, primarily in products with fewer calories, less sugar and no artificial additives," Fady Elassaad, CEO of the Arabian Beverage Company, told OBG.

**CONSOLIDATION:** As with the retail sector, the expansion potential for large global supermarket chains is limited by a lack of available locations. This is due in part to strict zoning laws and government control over available land. As a result, activity in the sector is characterised by mergers and acquisitions as existing brands try to attract more market share. In November 2018 wholesale chain Oncost acquired well-known competitor Gulfmart. "There are very few suitable locations for central markets in Kuwait, and this was a hurdle to our expansion plans," Saleh Al Tunaib, CEO at Oncost, told media at the time of the sale. "By buying Gulfmart, we are able

The grocery and food retail segment is divided between government-run cooperatives; private sector supermarkets and hypermarkets; and small, informal corner shops.

The sector has benefitted from a series of business-friendly reforms

Indications of returning consumer confidence can be seen in the automotive sector, which grew by 0.8% in 2018, after three consecutive years of falling sales.

to immediately expand our presence in 16 new locations." Subdued population growth and a departing expatriate population are other factors preventing players from widening their scope. Kuwait's population grew by 2% in 2017 and 2.7% in 2018. "As options for expansion are limited, the most straightforward way to grow is to eat into competitors' customer bases," Chaperon told OBG. "For instance, brands with a traditionally upper-middle-class customer base are becoming more price competitive."

**SILK CITY:** In the long term new markets and opportunities for retailers are likely to open up with the government's proposed development of Madeenat Al Hareer, commonly known as Silk City, in the north-eastern city of Subiya. The $86.5bn mega-project will encompass the five islands of Failaka, Warba, Miskan, Awha and Boubyan, and is expected to be fully operational by 2035. In February 2019 plans for the $86bn first phase were announced, which included the construction of an airport, a rail network, a logistics and industrial centre, and a free trade zone located at the Mubarak Al Kabeer Port. Additional phases are planned to include residences for 700,000 people, an Olympic stadium and the 1-km-high Burj Mubarak Al Kabir tower. As of early 2019 construction on the $3bn Sheikh Jaber Al Ahmad Al Sabah Causeway linking Kuwait City with Subiya was nearing completion.

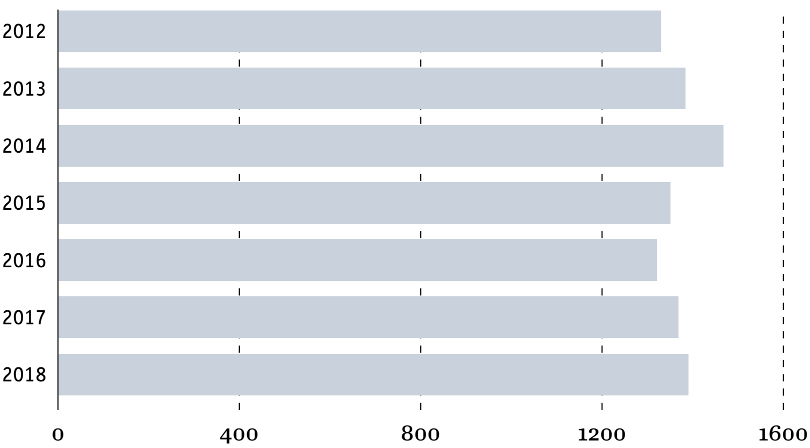
**AUTOMOTIVE:** Further indications of returning consumer confidence can be seen in the automotive sector, which grew by 0.8% in 2018, after three consecutive years of falling sales. Kuwait has traditionally had a strong market for imported cars, with SUVs particularly popular. In 2017 SUVs accounted for 43% of the automotive market. Adel Behbehani, director of MSRY Behbehani, a subsidiary of Behbehani Holding Group and one of the country's main distributors of imported vehicles, told OBG that the company was witnessing a sizeable boost in automotive demand in 2019. "The government's decision to increase the upper limit of consumer loans from KD15,000 ($49,400) to KD25,000 ($82,300) is one of the key factors behind this activity. The leasing of multi-car fleets to companies is another segment demonstrating strong emerging potential," he said. This perspective was confirmed by Mansour Al Mubarak, CEO of A'ayan Leasing and Investment. "The flexibility of car leasing allows for large corporates to fluctuate their fleet size on demand and outsource requirements, whether procurement or maintenance, to other providers," he told OBG.

**MALLS:** Shopping malls play an important part in Kuwaiti public life, in large part thanks to temperatures that routinely reach above 40°C during the summer. The country's largest mall is The Avenues in Kuwait City. The $2bn mall, which opened in 2007 and completed a four-phase extension in March 2018, is home to more than 1100 retail units and employs 30,000 people. Other landmark malls in Kuwait include Marina Mall, Al Kout Mall and 360 Mall.

One of the most highly anticipated commercial projects in Kuwait City is Alghanim Industries and Salhia Real Estate Company's Assima Mall. Upon completion, the mixed-used development will add 40,000 sq metres of gross leaseable area to Kuwait, as well as the 150-office, 54-storey Assima Tower and the high-end Assima Residence. In March 2019 Salhia Real Estate Company's chairman Ghazi F Alnafisi told industry media that 60% of the retail concepts in the mall will be new to Kuwait, including confirmed spaces for France's retail chain Monoprix and upmarket department store Galeries Lafayette. Part of the Assima Mall is scheduled to open in February 2020. As of March 2019, around 62% of the available retail space had been leased.

**E-COMMERCE:** More Kuwaitis and expatriates are shopping online as the country's e-commerce market rapidly expands and local retailers look to compete with international online retail giants like the US' Amazon, the UK's Net-a-Porter and the UAE's Amazon-owned Souq.com. One local success story is

**Wholesale & retail trade, 2012-18** (KD m*)




Source: CSB

*constant 2010 prices

online cosmetics and skincare retailer Boutiqaat, which was launched in 2015 and has since grown to become the largest online cosmetics retailer in the Middle East. In general, Kuwait's adoption of e-commerce has been more gradual than other countries in the region. While it has the highest rate of internet penetration in the Middle East, at 98%, the portion of these who shopped online stood at just 36% in 2016, according to a 2018 report published by the E-commerce Foundation. Reasons cited for this include the importance placed on the indoor mall shopping experience, as well as varying levels of trust and familiarity with online retailers. The report also noted that among Kuwait's e-shoppers, international retailers are generally preferred to local brands.

Online food delivery, however, is proving to be the exception. A February 2019 report from Fitch noted that the UK-based food delivery platform Deliveroo had chosen Kuwait as its second GCC market following its launch in the UAE in 2015. It will join online delivery services like the UAE's Talabat, and Germany's Delivery Hero, which acquired Kuwaiti food delivery firm Carriage for $100m in 2017. Deliveroo's decision to open in Kuwait represents a further vote of confidence in the country's retail outlook, which the report notes is brightened by rising private consumption, increased public wage spending and a young population, with adults aged 20-39 making up 37% of the total population.

**NEW TAXES:** However, a number of additional tariffs planned for the medium term may force retailers to adjust their profit margins and re-evaluate business models. While Parliament has long opposed the introduction of value-added tax (VAT), a report published by the Ministry of Finance (MoF) in March 2019 suggested this may change. The proposed implementation of a 5% VAT was first agreed on by the Supreme Council of the GCC in 2016. It has already been put in place in fellow member states Saudi

Local retailers are looking to compete with global online retail giants


Retail sector stakeholders maintain that Customs procedures could benefit from being further streamlined

Arabia and the UAE, and it is set to come into effect in Kuwait on April 1, 2021. According to the MoF report, there were various reasons for the new tariffs. These include recommendations recently made by the IMF, as well as the need to balance expected declines in oil revenues by increasing public revenue inflows. The same report also notes that fees on tobacco and soft drinks will be introduced in April 2020.

**CUSTOMS WOES:** The efficiency with which businesses can import goods also remains an issue. While the government has embraced initiatives that aim to simplify the process of starting a business in the country, retail sector stakeholders maintain that Customs procedures, in particular, could benefit from being further streamlined. "An excess of bureaucracy and red tape tends to make the process slower than it needs to be," Kian Saadat, CEO of Hassan's Optician, told OBG. "We have to fill in and sign lots of forms on a weekly basis. I would love to see the government move quicker to digitalise the entire import process."

**OUTLOOK:** Kuwait's retail sector is set to continue its trajectory of solid growth through 2019 and into 2020, when the opening of Assima Mall will provide an influx of new retail stock to the market. Competition from modern supermarkets and hypermarkets is also expected to heat up in the coming year as consumers increasingly demand healthy lifestyle alternatives and foreign brands. Traditional grocers and co-ops are beginning to realise that they cannot afford to be complacent in the face of growing global grocery brands. The introduction of excise duties in 2020 and a VAT in 2021 are likely to have a moderate impact on consumer behaviour, though low pre-existing duties will help inflation limit price increases. While e-commerce has yet to gain a large share of the market in Kuwait, retailers will need to start looking further into integrating these platforms into their customer experience models; otherwise, businesses risk losing out on a wide customer base.

A number of additional tariffs planned for the medium term, such as a proposed value-added tax, may force retailers to adjust their profit margins and re-evaluate business models.

While e-commerce has yet to gain a large share of the market in Kuwait, retailers will need to start looking into these platforms more, in order to integrate them into their customer experience models.

Global Perspective

# E-commerce evolution

## Online shopping is set to expand in emerging markets around the world despite logistical and payment challenges

While e-commerce has become well established in more developed markets, the segment has been slower to take off in emerging economies. Online purchasing has been held down in these markets by financing, purchasing and logistics challenges. Nevertheless, online sales are growing rapidly in many developing countries in spite of these obstacles. Some governments are changing frameworks to boost segment activity and several notable regional players are emerging, in some cases backed by large international e-commerce firms that recognise the potential of growth markets.

**RISING POPULARITY:** In advanced economies e-commerce has quickly become popular in recent years. For instance, the annual net revenue of leading international online retailer Amazon grew from $34.2bn in 2010 to $232.9bn in 2018 – a nearly seven-fold increase. In the US, online sales increased from 6.4% of retail sales to 14.3% over the same period, according to the US Department of Commerce. Growth in the segment is far outpacing that of traditional retail: in 2018 online sales expanded by 15% to $517.4bn, compared to an increase of 3% for overall retail. This expansion is not only limited to the US. According to the World Bank's Global Findex database, in 2017 some 67.2% of adults living in OECD countries had made an online purchase within the past year. Out of all the countries surveyed in the database, the rate was highest in Denmark, where 78% of residents made such a purchase, while the rate was 75% in the UK and 70% in the US.

The expansion of online commerce has generally been slower in developing countries. For example, while the percentage of fast-moving consumer goods bought online stood at 19.7% in South Korea, 7.5% in the UK and Japan, 6.2% in China, and 5.6% in France, that figure stood at just 0.1% in Indonesia, Brazil and Mexico, according to a Kantar World Panel and Credit Suisse Research report published in 2018. Looking ahead, however, the firms expect continued urbanisation will gradually lower some of the logistical issues related to online shopping, which would likely lead to a rise in these rates among developing nations.

**AFRICA:** Sub-Saharan Africa has an e-commerce penetration rate of 3.6%, which is the lowest of any region, though the figure is higher in some of the continent's major markets, such as Kenya (9.3%), South Africa (7.9%) and Nigeria (4.1%). Industry players expect rapid e-commerce growth in the region to mirror the expansion seen in other emerging markets. "Africa is a large, untapped e-commerce opportunity," Rodolphe Mollet, co-head of corporate development and strategy at Jumia, told OBG. Jumia is one of the major pan-African online retailers, with a presence in 14 countries. "The number of internet users, at 453m, is enormous, and the cost of data is falling while internet infrastructure is developing quickly." E-commerce penetration may be low compared to 4.9% for India and 20.4% for China, Mollet said, but the continent is following the same trajectory. "We can expect Africa to reach similar levels within five to 10 years," he continued.

Urbanisation also appears to play a significant role in the extent to which consumers make purchases online, which is a benefit to many of the continent's markets as African cities are expanding rapidly. Indeed, cities around the continent are expected be home to 760m people by 2030 and 1.2bn by 2050, according to the African Development Bank. This is a significant portion of the total population, which the UN estimates will reach 1.7bn in 2030 and 2.5bn in 2050.

Challenges to the development of e-commerce in many emerging markets, and to those in Africa in particular, include infrastructural issues – such as a lack of formal address systems, which makes deliveries difficult – and problems with payment systems, such as low credit and debit card penetration. "The payment network landscape is highly fragmented between services such as mobile money, bank transfers and cash deposit agencies that offer debit cards, which is a bit of a barrier to development," Mollet told OBG. Trust

Sub-Saharan Africa has an e-commerce penetration rate of

**3.6%**

With 453m internet users, urbanisation and rapidly improving internet infrastructure, there is significant potential for e-commerce players Africa.

Online sales in the Middle East and North Africa are forecast to grow by 28% every year to 2022, which would triple revenues from $8.3bn in 2017 to $28.5bn.

in payment systems is also a factor. "There is still a lot of apprehension towards electronic payments," Etop Ikpe, CEO of Nigeria-based online car trading platform Cars45, told OBG. "Trust is growing, but there needs to be a concerted effort to improve the situation."

Some countries are implementing reforms to overcome these issues. In October 2017 Ghana launched a nation-wide digital address system, GhanaPostGPS, which is expected to facilitate e-commerce deliveries. Additionally, the platform will indirectly give the segment a boost as it enhances financial inclusion by making it easier for people to open bank accounts, as they will be able to provide an official address.

Financing for e-commerce can also be a challenge. "There is funding available but there need to be more exits to give confidence to investors," Ikpe told OBG. "At the moment there is more of a focus on funding ventures for payments, logistics and supply chains than there is on the actual e-commerce sites, even though improving this infrastructure and making these kinds of investments would help to develop the market."

Unlike in other emerging regions, major international players have not yet to entered Africa. However, Mollet said that it was likely they would do so in the coming years. "Africa is not a single market and companies will have to deal with it one country at a time and adapt their approach to local conditions, rather than try to win the continent in one fell swoop," he told OBG. "However, it is inevitable that large international players will eventually develop a commanding presence here."

**MIDDLE EAST:** In 2017, 10.1% of people made an online purchase in the Middle East and North Africa, according to the Global Findex. The figure varies widely by country, standing at 2.8% in Morocco compared to 49.6% in the UAE. As in other regions, activity is expected to ramp up quickly. An October 2018 report from Google and Bain predicted that the value of online sales in the region would grow by 28% per year to 2022, tripling revenues from $8.3bn in 2017 to $28.5bn, or around 8% of retail sales. Saudi Arabia is expected to account for $10bn of the total, or 8% of total retail sales, and the UAE for $9bn, or 13% of sales. Online grocery shopping is set to have the highest growth rate of any category, at 89%.

Such anticipated expansion is attracting major players. Amazon moved into the region in mid-2017 when it acquired Dubai-headquartered regional online retailer Souq.com for $580m. Other notable players include noon.com, which was founded in mid-2017 and is backed by a Saudi sovereign wealth fund and Mohammed Alabbar, an Emirati businessman and chair of the property group Emaar. Emaar also bid for ownership of Souq and has been buying up other regional online vendors. In July 2017 Emaar secured a 16.5% share of one of the region's main logistics providers, Aramex, in a bid to bolster its market presence.

As in other regions, low levels of trust in online payments remains a setback for e-commerce players. Despite relatively high card penetration in parts of the region – notably in GCC countries – 62% of online buyers prefer to pay with cash on delivery. This is a less attractive option for online retailers and well above the single-digit figures seen in Western economies. In addition, many consumers still prefer a brick-and-mortar shopping experience. "E-commerce is the future, but at the moment people in Oman still prefer to walk into a store and physically hold the item, rather than buying online," Ajay Ganti, CEO of consumer electronics and home appliances distributor SARCO, told OBG, adding that online purchases of products that require after-sales service in particular will take time to take off.

**ASIA:** In East Asian and Pacific countries 35.7% of residents made online purchases in 2017. The region itself had a wide disparity: China had a rate of 45.3% and Malaysia had 33.9%, while Thailand had a rate of 16.8% and Indonesia had 9.9%. However, the segment is expected to grow rapidly. A 2016 report by Google and Temasek predicted a compound annual growth rate in South-east Asian e-commerce sales of 32% in the years to 2025, driven by the region's youthful population and its growing middle class. This would bring the size of the market to $88bn in 2025, edging closer to the expected offline retail sales of $120bn.

Major players in the region include Lazada, which was founded by digital start-up-focused venture capital firm Rocket Internet Group in 2012. In April 2016 Chinese e-commerce giant Alibaba acquired a controlling 51% stake in the company, raising this to 83% the following year. The Chinese company also led a $1.1bn joint investment with a consortium of backers in Indonesian e-commerce firm Tokopaedia in August 2017, which overtook Lazada as the leading e-commerce company by customer numbers in Indonesia that year, followed by Singapore-based online marketplace Shopee.

As in other regions, local markets tend to prefer cash. "Mobile payment channels exist but are not yet widely accepted and the market is very fragmented," Izak Jenie, president and director of JAS Kapital, an Indonesian financial technology firm, told OBG.

**LATIN AMERICA:** E-commerce penetration in Latin America and the Caribbean measured in at 10.7% in 2017. This figure varies country by country, from a respective 18% and 16.5% in Costa Rica and Trinidad and Tobago, to 8.4% in Colombia and 7% in Mexico. According to research firm eMarketer's "Latin America E-commerce 2019" report, Brazil is the region's largest retail market, accounting for 34% of retail sales, followed by Mexico (28.9%) and Argentina (6.3%).

The largest regional player is MercadoLibre, which is active in 18 countries. The firm was established in Argentina but is now headquartered in the US and operates its own online payment network that allows customers to buy credit they can use online at neighbourhood shops. This specialised and tailored system gives the platform a substantial competitive advantage in a region in which cash often remains the preferred form of payment. A number of major international actors are looking to compete in the region, including Amazon, which launched operations in Brazil in 2017. This followed its entry two years earlier into Mexico, where it quickly emerged as a major player, with 5.5% of total online sales in 2016, following MercadoLibre with 9.5% and locally headquartered Linio with 5.8%.

The South-east Asian e-commerce market is expected to reach

**$88bn**

in 2025

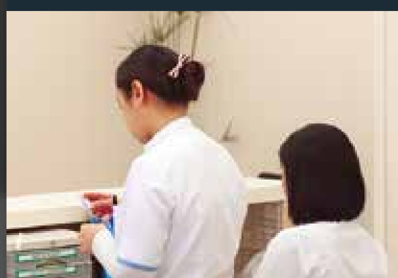
# Health

Government targets capacity pressures in public sector

Private sector sees growth in speciality treatments

Recruitment needs remain a challenge for the sector

Institutions look to technology to improve offerings



In FY 2018/19 health was allotted $7.6bn, or 10.9% of the state budget

# Lease of life

## Private sector participation set to increase to meet rising demand

The public sector accounts for over
**80%**
of health care spending

Significant improvements in health outcomes have been achieved in Kuwait over the past 20 years, especially in terms of the extension of life expectancy and the reduction of infant mortality rates. The reform of the Kuwaiti health care sector is central to the Kuwait National Development Plan, which is also known as New Kuwait 2035. With a growing population and an increasing incidence of lifestyle-related diseases, demand for health care is projected to continue to rise over the longer term, in particular for specialist treatments.

The state has traditionally played an extensive role in health care provision; however, moving forward, it aims to improve the quality and efficiency of public health services in line with international benchmarks, while also boosting private sector activity. Progress is being made in achieving key aspects of New Kuwait 2035, such as increasing bed capacity in public hospitals and combatting chronic non-communicable diseases (NCDs).

**OVERSIGHT:** The Ministry of Health (MoH) serves as the principal provider of health care services in Kuwait in addition to regulating the conditions under which the private sector may operate. Primary care is delivered through a network of health centres and clinics providing general practitioner, dentistry, maternal and child care, laboratory, radiology and preventive medical services. In the meantime secondary health care is provided through six general hospitals: Jahra Hospital, Amiri Hospital, the Mubarak Al Kabeer Hospital, Sabah Hospital, Farwaniya Hospital and Al Adan Hospital.

The combined bed capacity was 4024 in the final quarter of 2017, according to the most recent available figures from the Central Statistical Bureau (CSB). In addition, there are 13 government-run specialist hospitals located throughout the country, consisting of specialised institutions focused on cancer, infectious disease, allergy and palliative care among others, with a combined bed capacity of 3139, according to the CSB. This capacity is set to increase substantially with the expansion of Al Adan Hospital, which is earmarked for completion by April 2020. The KD232m ($764m) upgrade is set to feature specialist facilities for surgery and physiotherapy, and offer an additional 635 beds. Tertiary health care is provided through specialised clinics or overseas treatment, often at the expense of the MoH in instances where certain procedures cannot be provided in-country.

New private health care facilities often have a better reputation than their public sector equivalents, and tend to mainly focus on the provision of primary and secondary care.

**STRUCTURE:** The public sector accounts for over 80% of health care spending in the country, despite much of the population having the disposable income to pay for private care. Aware of this, the government has sought to reduce the share of the national budget allocated to the health care system through a series of reforms aimed at increasing efficiency and reducing costs. The government has also privatised certain segments and undertaken a series of public-private partnerships supporting the establishment of new private options, consisting of both hospitals and health care groups. These facilities often have a better reputation than their public sector equivalents, in part due to shorter waiting times and the perceived higher level of services and treatment on offer. They also tend to principally focus on the provision of primary and secondary care, rather than tertiary treatment.

Among the most prominent of these private hospitals are New Mowasat, a 100-bed facility which is publicly listed on Boursa Kuwait; and Al Seef Hospital, a 120-bed general hospital with a focus on maternity and children's health services, which forms part of the domestic company United Medical Services (UMS), one of the largest operators in the private sector. In 2019 UMS completed the construction of International Hospital, a 140-bed general hospital which provides a broad range of specialist treatments.

**GENERAL INDICATORS:** The government allocated KD2.3bn ($7.6bn), or 10.9% of the state budget, to the MoH for FY 2018/19, according to the Ministry of Finance. As of September 2019 the details of the national budget for FY 2019/20 were awaiting further approvals prior to publication. According to the latest available figures from the World Bank, Kuwait allocated 3.9% of GDP to health care in 2016, a slight decrease from the 4% spent in 2015. Furthermore, 83.8% of total health expenditure in 2016 was funded by the government. This figure was higher than the GCC average of 76%, but similar to that of Oman and Qatar, where the government accounted for 89.1% and 81.6% of health care spending, respectively. Per capita spending on health care, however, sits quite close to the regional average: in 2014 Kuwait spent $2320 per capita, according to the latest available figures from the World Health Organisation (WHO), as opposed to about $2330 in the wider GCC.

The majority of Kuwait's health care indicators are comparable to those of developed nations, and the country has successfully managed to eradicate most communicable diseases, including measles, tuberculosis and cholera, by providing widespread basic access to primary care facilities. Life expectancy sits at 74 for men and 76 for women, according to the WHO. The neonatal mortality rate stood at 4 per 1000 live births in 2017; while the mortality rate for children under five-years of age was recorded at 8 per 1000 births. Meanwhile, 100% of live births were attended by skilled attendants in 2015. With a decrease in the incidence of communicable diseases and an increase in life expectancy, the burden of disease has shifted towards NCDs, such as cardiovascular and respiratory diseases, diabetes and cancer. Given the high cost and length of treating such illnesses – all of which are contributed to by lifestyle choices – health care expenditure and demand growth within the Kuwaiti health care services market is set to rise. Indeed, total government and private health expenditure is forecast to reach $5.8bn by 2022, according to a report published by investment bank Alpen Capital in May 2018.

**DISEASE BURDEN:** As a result of the expected rise in expenditure, coupled with a desire from the government to reduce spending on the sector, the Kuwait Direct Investment Promotion Authority (KDIPA) has highlighted health care as a major area for investment. One particular focus the KDIPA has highlighted are the increased opportunities in providing lifestyle clinics, spas, nutrition, preventive and personalised medicine for the treatment of NCDs. These diseases were responsible for 72% of all deaths in Kuwait in 2017, with key contributing factors including tobacco usage, physical inactivity and poor diet. Kuwait ranks 11th in the world for the prevalence of obesity, and has one of the highest rates of diabetes, with 15.1% of the population affected in 2017, according to the International Diabetes Federation. In addition to NCDs, leading causes of deaths included communicable, maternal, perinatal and nutritional conditions (15%) and injuries (13%), according to the WHO.

Similar to other Gulf states, tackling NCDs through preventive measures and education initiatives has become a major cornerstone of public health policy in recent years. Bodies such as the Dasman Diabetes Institute and the Kuwait Obesity Association conduct regular awareness campaigns and host events to promote healthy lifestyle modification among the populace. The government has also actively cooperated with organisations such as the UN Interagency Task Force on the Prevention and Control of NCDs in their efforts to reduce the risks for the population.

A number of public health care institutions are planned for expansion by 2020 to meet rising demand

**PUBLIC SECTOR:** All Kuwaiti citizens are entitled to free medical treatment at public facilities, while expats are required to pay an annual fee to access these services. The majority of the foreign nationals using public facilities are blue-collar workers, with more affluent expats opting for private treatment.

As the result of rising demand and increased waiting times at public health care institutions, the government has sought to increase capacity. Progress is being made towards meeting this objective. For example, in November 2018 the KD300m ($988.1m) Jaber Al Ahmad Al Sabah Hospital complex opened to the public. Providing 1168 beds, the hospital is now the largest medical facility in the country. A total of 2479 new hospital beds are expected to come on-line by 2020 as a result of expansions at Sabah Hospital, Farwaniya Hospital and Kuwait Cancer Centre. Nevertheless, further efforts will be needed in order to adequately meet demand, with the population expected to grow at a compound annual growth rate (CAGR) 2.8% per year until 2022, while the share of the population aged over 50 years is expected to rise to 20% by the same year, according to Alpen Capital. "The main challenge faced by the government is to respond to demand while also maintaining the quality of the services provided," Dr Yousif Zahr, CEO of Seef Hospital, told OBG.

As part of its efforts to reduce congestion at public health facilities, the MoH announced a rise in April 2019 of the upfront fee expat would have to pay when seeking services at polyclinics, from KD2 ($6.59) to KD10 ($32.94). This follows the introduction of fees for all medical facilities and the doubling of annual health insurance contributions that took place in 2017.

Total government and private health expenditure is forecast to reach

**$5.8bn**

by 2022

In response to capacity pressures on the public sector, the government has encouraged the private sector to take over responsibility for providing treatment to Kuwait's large expat population.

**PRIVATE SECTOR:** Many Kuwaitis opt for private care, particularly for specialist treatment, with demand growing fastest for obstetrics, gynaecology and cardiology, according to KDIPA. There is therefore considerable scope for increased private participation in the provision of specialist treatments. Indeed, the government has sought to boost activity in the segment to reduce the need for outbound medical tourism. This is because overseas treatment for Kuwaiti nationals typically includes both health care fees and living costs, with these expenses costing the state $1.5bn for the treatment of 11,000 Kuwaitis in 2014 alone, according to the latest figures from consultancy firm PwC.

In light of ongoing capacity pressures in public health care facilities, the government has attempted to encourage the private sector to assume the bulk of responsibility for providing treatment to the sizeable expat population, which makes up roughly two-thirds, or 70%, of the population. In 2010 the government established the Kuwait Health Assurance Company (KHAC) – also known as Dhaman – a joint-stock entity that took responsibility for the provision of non-emergency health care for foreign nationals employed in the private sector. KHAC is 24% owned by the government through the Kuwait Investment Authority – the country's sovereign wealth fund – along with the Public Institution for Social Security. Meanwhile, 26% is held by Arabi Holding Group and the remaining 50% by other Kuwaiti private investors. In order to expand its range of health care services to expats, KHAC is currently building two new hospitals in Ahmad and Jahra, both of which are expected to be completed in 2020.

**INSURANCE:** The expansion of expat-specific insurance coverage has also been a key strategy undertaken by KHAC. Under the scheme, foreign nationals will be obliged to take out insurance with the company to cover the cost of their treatment, as well use KHAC facilities for non-urgent services. Currently, it is compulsory to have medical insurance in Kuwait; however, many multinationals provide private health care insurance as part of their compensation packages to both local and expat employees. A law proposing the mandatory issuance of medical insurance to visitors to the country was passed by the National Assembly in March 2019, which forbids the Ministry of Interior from issuing visit visas without a health insurance policy in place.

**MEDICAL STAFF:** Kuwait relies on both locals and foreign nationals to meet demand for health care professionals. While a Kuwaitisation policy is in place that aims to lessen dependence on foreign workers, the WHO anticipates that the country's reliance on non-Kuwaiti staff will continue. Kuwait has one medical school, the College of Medicine at Kuwait University, with many Kuwaiti citizens opting to study medicine abroad in places such as the UK and the US.

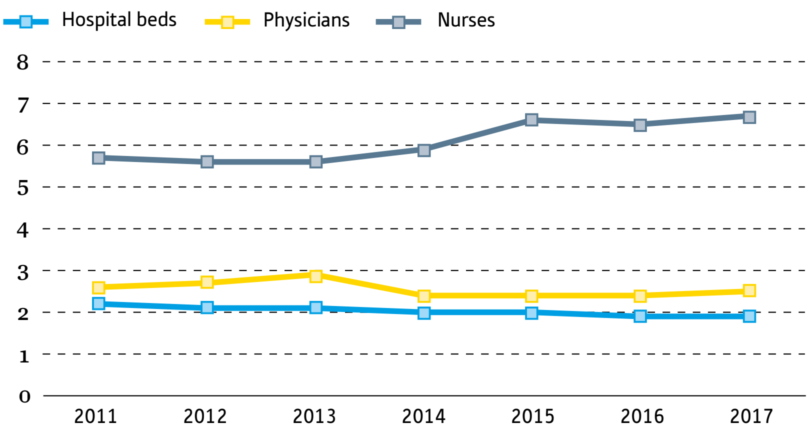
In 2019 the MoH announced that the country had a surplus of nursing staff, with three nurses for every eight hospital beds in Kuwait. However, the country still faces a shortage of other medical professionals. There were 2.6 physicians per 1000 people in 2015, according to the latest available figures from the World Bank. In general, recruiting and retaining skilled staff at private hospitals in a timely manner remains problematic, despite attempts by the MoH to make this process both more efficient and technology driven, Dr Alexander Varghese, hospital director of New Mowasat Hospital in Kuwait, told OBG.

**PHARMACEUTICALS:** Demand for pharmaceuticals is also growing, driven by the rise in NCDs, population growth and high per capita income. However, the market remains fragmented and dominated by multinationals, such a the US-based Pfizer. The more limited local production is undertaken by the Kuwait Saudi Pharmaceutical Industries Company, which makes over 120 products geared towards the local market and exports to the GCC, the Middle East and Africa. In December 2016 the government granted 12 companies permits to build pharmaceutical factories in an attempt to boost domestic manufacturing. Based on the government's current spending patterns on pharmaceuticals, enhancing these facilities could potentially generate sizeable cost savings. While the domestic pharmaceutical industry is well placed to attract greater investment, there are barriers to foreign investment, including sometimes onerous regulation, the comparatively small size of the market and a preference for branded medicines over generics. Nevertheless, drug sales are forecast to rise at a CAGR of 5.2% between 2017 and 2022, increasing from KD327bn ($1.1trn) to KD422bn ($1.4trn), according to Fitch Solutions.

**OUTLOOK:** As Kuwait accelerates its health care development strategy as part of New Kuwait 2035, the country's health care and pharmaceutical markets have both been highlighted as high-priority sectors for investment, with many projects set to be carried out under public-private partnerships.

The growing population, high per capita income and shifting disease burden broadly ensure growth in the sector into the foreseeable future. Private services are set to assume a greater role in the provision of health care, particularly in terms of specialist treatments and their delivery, with the government trying proactively to ease the burden of health care on the public purse.

**Health indicators, 2011-17** (per 1000 people)




Source: CSB

# Investing in health

## Advancing medical technology leads to improved patient care and cost savings

Rising health care costs, ageing populations and changing lifestyles in emerging economies are stoking demand for medical technology (medtech) solutions. These entail not just smart devices that remotely monitor and transmit biometric data, but any instance of technology that helps to deliver health services. These initiatives are happening everywhere, but there are significant differences in the speed and scale of medtech adoption across emerging markets.

UBS Investment Bank estimates that the emerging markets health sector will grow 6.3% annually over the next decade – double the speed of developed markets – as governments make up for historic underinvestment. Emerging markets routinely spend less than 10% of GDP on health care, compared to around 15% in developed nations, but are working to reduce the deficit. Ageing populations are a catalyst, and the UN estimates that by 2030, the 65-and-over demographic in emerging markets will rise to 15% of the population, up from 10%.

Concurrent with the rise in elderly patients needing care, diagnosis of non-communicable diseases (NCDs) is expected to increase. This is due to urbanisation and sedentary lifestyles accelerating the incidence of cancers, cardiovascular and chronic respiratory diseases, and diabetes. As NCDs demand longer and more expensive treatment than many other illnesses, emerging markets are investing in cost-effective medtech solutions to improve root cause analysis and patient care, while simultaneously reducing the rate of readmissions.

**DIGITAL REVOLUTION:** Digitisation is a critical first step towards achieving medtech synergies, facilitating the adoption of standard health care industry practices in order to reduce waste and improve analysis.

In many countries in Africa, however, obtaining a patient's medical records can often be difficult. The process has inspired solutions such as the KEA Medicals digital health platform, under which 50,000 patients from six African countries currently maintain their medical information, having created Universal Medical Identity (UMI) accounts. Once signed on, each patient receives a printed QR code that embeds their UMI code, which allows doctors to scan their patients for information at the point of delivery. Some 1700 medical professionals are connected to the network.

Such innovations, while effective, are no substitute for government-led programmes to digitise medical records, otherwise known as electronic health record (EHR) systems. Mexico aims to implement EHR across its hospitals by 2020, and recently announced the activation of HarmoniMD, a cloud-based EHR system, at Fundación de Cáncer de Mama (FUCAM), a breast cancer foundation that provides specialist care services. The system is expected to improve understanding of incidence, vaccination rates and other health occurrences.

**MEDTECH MARKET:** US-based market research company BCC Research estimates that the global medical devices market will grow to $674.5bn by 2020, up from $521.2bn in 2017. At the same time, emerging markets are earmarked to increase their share of these revenues from less than 25% to more than one-third. This has been driven by innovations in smart technologies enabling higher rates of home care, and by a push towards multifunctional devices and holistic biomedical data, consequently lowering costs across the industry.

In practice, these devices enable projects like Khon Kaen Smart Health in Thailand, an integrated smart health initiative centred on Khon Kaen Provincial Hospital. This medtech solution incorporates a smart ambulance service that uses GPS to coordinate patient pick-up, coupled with real-time video and data transmission to prep the hospital ahead of patient delivery. It also includes a sensor platform that monitors the activity and condition, including the blood pressure and sugar levels, of elderly residents with chronic diseases, enabling them to remain at home. The data is then integrated with the patient's EHR information.

Khon Kaen employs a multi-stakeholder approach to patient care, which is increasingly the norm amid

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The Middle East is set to experience the benefits of investment in digitisation as the introduction of mandatory insurance and e-health systems set the stage for improved patient outcomes.

an ongoing redefinition of the health care value chain. Traditional innovators like pharmaceuticals, hospitals and medtech giants like GE Healthcare and Medtronic are increasingly partnering with bulk buyers, including health insurers and government entities, accelerating a shift towards centralised repositories of health data. These traditional stakeholders are also vying for business with tech companies that make smart predicative analysis and monitoring tools. VC Rock Health reports that digital health companies in the US alone raised almost $6bn in 2017, and had secured a further $6.8bn by the end of the third quarter of 2018.

**RISKS & CHALLENGES:** The path to medtech adoption is often impeded by cultural, structural and regulatory factors. In the UAE the sector is undergoing a wave of consolidation and specialisation in reaction to over-investment in hospitals during the first half of the decade. Health care providers are focusing on their bottom line. "The health care sector in the UAE needs to develop their focus on providing value-added health care," Majid Kaddoumi, vice-president and regional managing director, Central and Eastern Europe and MEA for Medtronic, told OBG. "For the most part, health care providers think about reducing costs, without putting any thought into the overall outcome for the patients."

Additionally, the benefits resulting from adoption of artificial intelligence-enabled procedures are not always immediately apparent. According to David Hadley, CEO of Mediclinic Middle East in the UAE, productivity gains are currently outweighed by doctors having to maintain existing notes while also entering data into hospital systems. "Little by little, though, the amount of stored data will serve more to help doctors rather than just giving them more work. The biggest potential is expected to be in diagnostics," Hadley told OBG.

Another challenge is that information is not currently shared as effectively, seamlessly or securely as it could be, according to Michael Schelper, CEO of Cerner in the UAE. "However, this has a solution: blockchain. This technology will allow for decentralising the ownership of data and letting individuals own their own data, which in turn will allow for it to cross borders in an efficient way," he told OBG, cautioning that this technology is still in the early stages of development.

**LEADERSHIP:** Asia is the fastest-growing region in the global medtech market, fuelled by the confluence of ongoing public health reforms, a rapidly expanding private sector and revenues from a thriving medical tourism industry. UBS notes that China and India are primary engines of emerging market health care growth. The former committed to a reform programme that aims to develop a $1.29trn health care industry by 2020, marking a seven-fold increase from 2011. Both countries experience a discrepancy between the standard of care provided in urban and rural areas, and are committed to improving preventative programmes and growing the availability of mobile health care.

Regarding public health care, Thailand's programme to transform itself into an innovation-driven digital economy – under its Thailand 4.0 vision – has resulted in a new eHealth initiative, which maps national development to 2027. Targets include EHR adoption, the provision of high-quality telemedicine systems, medtech innovation and smart health care provision in rural areas, which are driven by a focus on digital education for all health care stakeholders.

In Indonesia, the government is making inroads into providing universal health insurance operated by an authorized body, the Healthcare and Social Security Agency (BPJS Kesehatan), with approximately three-quarters of the population now covered by the scheme. Yet there is still a wide education gap among much of the population. "It is important to note that most Indonesians are health care illiterate, do not believe in primary prevention, and do not really understand how insurance works. It is only after they are sick and need high-cost health care, such as an operation, that they would pay the premium in hopes that they could get the benefit right away," said Ronny Adhipurna, president director of Medikaloka, a Jakarta-based health and wellness centre that provides care before and after hospitalisation to millions of Indonesians who travel to Singapore and Malaysia for medical reasons. However, according to Ade Tarya Hidayat, president of AbadiNusa Group, an exporter of sphygmomanometers and other medical equipment, there are signs of improvement. "Technology increasingly plays a role in almost all processes, including patient registration, data monitoring, lab tests and self-care tools. More hospitals are implementing e-health records, telemedicine and tele-consultation, where patients and physicians are able to interact online and share the same portal technology to access medical records," Hidayat told OBG.

This progress has been uneven, and Indonesian patients often need to travel to Singapore or Malaysia for treatment. "Foreign investment specifically aimed at developing specialty hospitals, the manufacturing of medical consumables and disposable products, and better training initiatives for local doctors will certainly make Indonesia a more reliable and appealing treatment destination," Hidayat added.

**MIDDLE EAST REFORMS:** The Middle East is set to experience the benefits of investment in digitisation as the introduction of mandatory insurance and e-health systems set the stage for improved patient outcomes.

UAE Vision 2021 emphasises the importance of preventative medicine in reducing cancer and lifestyle-related diseases. The government has set aside more than $500m to fund a diverse assortment of innovations in priority sectors, including health care, and has already spent $232m on funding advancement of digital care between 2014 and 2016, aiming to become a regional leader in the delivery of smart medtech. "The National Unified Medical Record Project, now renamed MyCare, is an important initiative that aims to make available individual data to all health care providers," Schelper told OBG. "Proper data management will lead to a decrease in the cost of health care by improving preventive medicine and well-being. This, in turn, will drive down the high cost of insurance premiums."

In Qatar, the public sector is responsible for delivering the vast majority of health care services, and the

The trend of increasing specialisation in the Middle East is considered to be driving higher quality that can potentially counter problems associated with high costs, particularly when supported by potential income from medical tourism.

country is facing a set of typical challenges. "We are experiencing an increase in the prevalence of largely preventable lifestyle diseases, among them obesity, heart disease and Type 2 diabetes," Hanan Mohamed Al Kuwari, managing director of Hamad Medical Corporation, a non-profit health care provider, told OBG in 2018. Consequently, Qatar's National Health Strategy 2018-22 and Public Health Strategy 2017-22 each focus largely on preventive care. The former sets a series of 2022 targets, including building a national knowledge platform that will improve access to data, enabling intelligent analysis of population health, and establishing a system of clear legal frameworks to facilitate access.

Overall, the trend of increasing specialisation in the region is considered to be driving higher quality that can potentially counter problems associated with high costs, particularly when supported by potential income from medical tourism. "Medical tourism has a huge growth potential in Dubai," Dubai Healthcare City Authority's executive director, Omar Oumeish, told OBG, outlining a detailed plan to create a one-stop digital shop for medical tourists that will help fund ongoing high-value research and development.

It is also expected to incentivise the venture capital necessary to boost industry development. "Medical tourism is definitely a segment to be exploited and quality is the best way to do it," Maha Aboughali, business development and marketing director of Moorfields Eye Hospital Dubai, said in a statement to OBG. "However, cost is a very big challenge because travel and accommodation costs in Dubai are very high in comparison to other medical tourism destinations."

**LATIN AMERICAN PROGRESS:** According to a recent study by the US-based Population Reference Bureau, by 2030, some 81% of deaths in Latin America and the Caribbean will be caused by the four major NCDs: cardiovascular disease, cancer, diabetes and chronic respiratory diseases. Governments are racing to address this challenge, and have increased per capita health expenditures throughout the region, with Brazil's increase of 31% between 2008 and 2014 being at the lower end of the spending spectrum.

Brazil is also seeing a burgeoning market for medtech start-ups emerge. Entrepreneurs are looking to capitalise on the void created by the market, which spends $42bn annually on private health care, but which loses more than one-third of that to inefficiencies. Their work is being assisted by a government initiative to digitise health records in more than 40,000 public health clinics by the end of 2018. This will generate savings of $6.8bn. The initiative will help address a shortfall of more than 150m out of 208m Brazilians who did not have electronic medical records as of the end of 2017.

Politicians are increasingly open to supporting struggling public health systems with private investment. A good example of this is Brazil's decision to open its hospitals to private investors in 2016. Foreign suppliers of medtech devices are also in play due to gaps in local provision, with breathing aid technology, X-ray technology and vital sign equipment demanded in Mexico, Colombia and Brazil. At the inaugural Digital Health Forum Mexico in March 2018, Julio Sánchez y Tepoz, general commissioner of Mexico's Federal Office for Protection Against Sanitary Risks, the regulatory body for health technology, emphasised the state's commitment to deregulating the space for medical devices.

**AFRICAN POTENTIAL:** In Africa, a lack of basic hygiene remains the leading cause of death, going some way to indicate the depth of the challenges facing the continent's health care sector. Nonetheless, while there continue to be substantial barriers to further development in certain areas, there are opportunities for investment in local health care, led in most cases by private provisions made to expatriate populations.

As a result of sustained investment, a commitment that was confirmed in its Finance Law for 2019, Algeria is well-placed to benefit from medtech. Legally mandated free universal health care was also implemented, which allows the Ministry of Health to support a contract for the provision of radiotherapy equipment with Varian Medical Systems, under the Anti-Cancer Plan 2015-19, according to Mourad Belkheyar, interim director-general of Varian Healthcare Algeria.

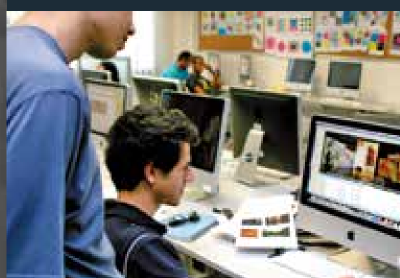
Infrastructure is already well-developed and provides national coverage, an element that is unique in Africa, according to Haissam Chraiteh, director-general of Sanofi Aventis Algeria. "Local authorities are building an ecosystem that takes into account all the dimensions related to the health sector, including production of pharmaceuticals, prevention, training, research and clinical studies [while] incentivising international partners to expand their footprint," he told OBG. Given its high regulatory standards, Algeria has the potential to act as a regional hub for health care, but there remains a variety of obstacles, such as a notable absence of standardised data. "In the long term as e-medicine and digital transformation reshape the sector worldwide, Algeria can count on a health sector that is already strong enough to incorporate and take advantage of these new technologies," Chraiteh told OBG.

Elsewhere, Côte d'Ivoire hosts a health care sector ready for medtech invigoration, but suffers from a lack of skilled labour, supply shortages and accessibility issues. "To cater to the new needs of patients, health care facilities will have to develop multidisciplinary care services," Eric Djibo, president and director-general of International Polyclinic Sainte Anne-Marie, told OBG. "Specifically, existing facilities are equipping themselves with technologies relevant to the new types of diseases the country is faced with, and facilities under construction must take this change into account."

Côte d'Ivoire enjoys universal health coverage, but the system currently only benefits a selection of the population and is limited to an identified set of essential care. However, there are plans to progressively expand it as the government continues to pursue reforms, such as those that entail building of several hospitals over the course of two years, which will incorporate centralised data and advanced equipment, according to Dr Meite Djoussoufou, general manager of CHU Cocody in Abidjan. However, there are some concerns regarding the obstacles preceding private sector involvement.

# Education

## Reforms aim to implement countrywide standards
## Demand for private education continues to rise
## Efforts to introduce technology into the curriculum
## New schools to be constructed by private contractors

There are 12 privately operated higher education institutions in Kuwait

# High standards

## Recent reforms look to improve the quality of teaching and encourage private sector participation

The government allocated

**$7bn**

to the Ministry of Education in 2019/20

Amid concerns over the quality of education and training, and in recognition of the country's growing youth population, the Kuwaiti government has demonstrated its intention to revitalise the education sector through a series of policy reforms and investments in recent years. Some 37% of the population is under the age of 14, while 35% is between the ages of 15 and 34, making the provision of high-quality education and training facilities an essential part of national strategies for economic development and diversification.

Many of the recent reforms were announced as part of the Kuwait National Development Plan, known as New Kuwait 2035, a government strategy that prioritises education as one of its seven policy pillars (see Economy chapter). Several of the education initiatives launched under New Kuwait 2035 are expected to be completed in 2020, including the National Learning Standards project, which aims to implement countrywide standards of teaching, management and student assessment.

The government has also sought to encourage private sector participation through public–private partnerships (PPPs) overseen by the Kuwait Authority for Partnership Projects, in order to meet the rising demand for education facilities. Investor-friendly policies – including the allowance of 100% foreign ownership within the sector – have also been implemented to encourage further growth.

**STRUCTURE & OVERSIGHT:** All schools at the pre-primary, primary and secondary level are regulated and overseen by the Ministry of Education (MoE). The minister of education also chairs the Supreme Education Council (SEC), an independent government institution established in 2016 to assist in the strategic direction of education policy.

In the 2017/18 academic year the Ministry of Education oversaw a total of 1175 schools, with 624 public schools and 551 private schools.

The MoE provides free primary and secondary education for Kuwaitis at public schools, while foreign residents are served by the private sector. In the 2017/18 academic year the MoE oversaw a total of 1175 schools, with 624 public schools and 551 private schools. Of the latter, 337 were classified as foreign schools and 174 as Arabic schools. The MoE also works in close conjunction with the National Centre for Educational Development (NCED), which is responsible for conducting school inspections and administering international tests.

Tertiary education, which is split between public and private universities, is managed by the Ministry of Higher Education (MoHE). The country's only public university is the Kuwait University (KU), while the remainder of higher education institutions are private. Private universities are required to obtain an operating licence from the Private Universities Council (PUC), a regulatory body overseen by the MoHE. The PUC also provides scholarship programmes for Kuwaiti students and conducts facility reviews of higher education institutions.

**SECTOR BREAKDOWN:** The Kuwaiti government allocated KD2.13bn ($7bn) to the MoE in 2019/20, representing 9.5% of the total budget of KD22.5bn ($74.1bn). In comparison, the government earmarked 9.6% of the budget, or KD2.07bn ($6.8bn), for education spending in 2018/19. According to the "GCC Education Industry" report published by investment bank Alpen Capital in November 2018, on average, the region allocated 14.1% of national budgets to education. However, this figure was influenced by large-scale spenders such as Saudi Arabia. Although its share of the budget decreased slightly in 2019/20, education spending has generally experienced favourable growth in recent years, as continued emphasis has been placed on the importance of preparing the population for the future.

Rising demand within the sector has been driven by several factors, including the steadily increasing population and long-term government initiatives such as New Kuwait 2035. The country's high per capita GDP and the populace's willingness to spend more to receive quality education has also supported the sector's expansion in recent years.

Within the private education segment, local demand for institutes offering international curricula – including those from the US, Canada, UK, France and India – has typically been high as a result of the policy restricting public school access to Kuwaiti citizens. Combined, these factors have created the need for additional education infrastructure. According to Alpen Capital, demand for public and private schools in Kuwait is expected to increase by 15.7% between 2017 and 2022.

With education compulsory until secondary level, schools in Kuwait generally have high enrolment rates. Figures from Alpen Capital and UNESCO indicate that enrolment recorded a compound annual growth rate (CAGR) of 2% between 2011 and 2016.

The primary segment had the highest gross enrolment rate (GER) in 2016, at 100.6%, as a result of early enrolment and pupils resitting classes. Secondary schools also had a high GER, at 93.6%. Enrolment at the tertiary level was comparatively lower, with a GER of 27%. Although this was considerably higher than the 2011 figure of 18.9%, Kuwait continues to lag behind the GCC average of 54.7% and the global average of 37.5%. As a consequence, investing in higher education and vocational training is a key focus of government policy.

**PUBLIC EDUCATION:** The MoE is responsible for implementing the national curriculum across the public system, and employing teaching staff for all state-operated schools. Between 2015/16 and 2017/18 the number of teachers in public schools increased by 7.2% from 64,342 to 68,974. This is a promising sign as public schools in Kuwait have typically struggled with a shortage of qualified staff. According to the Central Statistics Bureau (CSB), in 2017/18 there were 390,673 pupils in the public school system across kindergarten, primary, intermediate and secondary schools.

In 2017/18 there were on average 5.6 pupils per teacher, and 27 pupils per classroom, with a total of 14,312 classrooms across the public school system. Approximately 86% of these students are Kuwaiti nationals. Public education is generally only available to citizens; however, there are some exceptions, which are generally granted to non-Kuwaiti children whose parents work in certain professions, such as public school teachers or medical staff in public hospitals. The government also operates 11 gender-segregated religious institutes, which had 2542 students and 589 teachers in 2017/18, and an average of 4.3 pupils per teacher.

In 2017/18 the public school segment comprised 196 kindergartens, 268 primary schools, 215 intermediate-level schools and 141 secondary schools. In terms of the number of institutions, when combined with religious institutes public schools constituted a sector share of 53.5%, a slight decrease compared to the 53.9% share the segment recorded in 2016/17.

Educational institutions in Kuwait are looking to encourage the use of technology in the curriculum

In recent years the MoE has made several agreements with private investors to rebuild old schools and open new establishments. Private investors are responsible for the construction, financing and maintenance of the institutions, while the MoE manages administration, the curriculum and the appointment of staff. In 2014 the ministry introduced the Kuwait Schools Development Programme to build schools using the build-operate-transfer model. There were plans for this programme to issue the tenders of nine public schools – including five kindergartens, two primary schools and one intermediate school – as PPPs through the Kuwait Authority for Partnership Projects, but the development programme was cancelled in April 2018.

**PRIVATE EDUCATION:** The private education segment is well established in Kuwait due to the long-standing presence of a large expatriate community in the country, which comprises around 69% of the total population. Due to the high standard of living many Kuwaitis enjoy, families who have the means to send their children to private schools often prefer to do so, particularly if they offer an international curriculum. According to the CSB, Kuwaiti students represented 27% of the student population in private schools in 2017/18.

Many private international schools, particularly those that follow a Western curriculum, are characterised by increasingly high fees. In June 2016 the MoE approved a 3% annual fee hike for private schools in 2016/17 and 2017/18, with prior approval needed for any future increases. In February 2019 local press reported that the Parliament had extended a resolution that formally suspended any further rise in private school fees for the 2019/20 academic year. This resolution applies to all private educational institutes, including international schools following the education systems of Western, Arab and Asian nations. The latest suspension of fee

Demand for public and private schools in Kuwait is expected to increase by

**15.7%**

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In 2017/18 there were on average 5.6 pupils per teacher, and 27 pupils per classroom, with a total of 14,312 classrooms across the public school system.

Between 2015/16 and 2017/18 the number of teachers in public schools increased by 7.2% to reach 68,974

**3112**

students received scholarships to study abroad in 2016/17

rises occurred after a number of private foreign schools unilaterally raised their prices without first obtaining approval from the MoE.

Between 2015/16 and 2017/18 the total number of private schools (excluding special education institutes) in Kuwait increased from 520 to 551. In 2017/18 foreign schools made up 68% of the total, and the remaining 32% were Arabic schools. Enrolment in local private schools increased at a CAGR of 4.1% between 2011 and 2016, while public school enrolment grew by 1.6% in the same period.

The growth of the private segment is expected to continue to outpace the public segment as demand for quality education rises. Notable players within the private system include Al Jeri Holding Group, an education services group that operates 20 independently branded schools across Kuwait; Al Rayan Holding, which owns five schools offering UK, Arab and Asian curricula; and the well-established Educational Holding Group, which has become one of the largest private education networks in Kuwait and manages the Afaq chain of schools.

**STAFF:** With many private schools following an international curriculum, staff are typically sourced from the country of their respective pedagogy. In 2017/18 CSB figures show that there were only 229 Kuwaiti teachers working in private schools, compared to 16,607 non-Kuwaitis. In contrast, Kuwaitis made up the majority of staff in the public segment, with 43,583 local teachers and 25,391 international. Although the majority of teachers in Kuwait were traditionally expatriates, in recent years the government has taken steps to close the gap. In 2017/18 there were 43,812 Kuwaiti teachers and 42,998 non-Kuwaitis across the sector.

In 2017/18 there were 551 private schools, excluding special education institutes. Of this number, 68% were foreign schools and the remaining 32% were Arabic schools.

The introduction of Kuwaitisation policies to limit the proportion of international staff has likely played an important role in this shift. In March 2019 the MoE announced that it would introduce further restrictions on the recruitment of teaching staff from overseas. Furthermore, rising living costs and competition with neighbouring countries in the GCC continue to deter expatriate teachers in Kuwait, resulting in high staff turnover rates. It is therefore likely that in the coming years the proportion of local teachers will increase further.

**HIGHER EDUCATION:** As the country seeks to diversify and transition to a knowledge-based economy, the tertiary education segment in Kuwait has been focused on the need to expand key disciplines such as science, technology and engineering. Higher education is provided for free to Kuwaiti nationals at the country's only public university, KU. Founded in 1966, KU offers a range of courses across 16 colleges, which are available to both Kuwaitis and international students. In 2017/18, 6717 students graduated from KU, slightly less than the 7091 graduates the previous academic year.

The most common degree specialisations are law, education and engineering, but frequently the courses offered by the university are oversubscribed. As a result, a new $5.8bn campus was built in order to ease the university's long-standing capacity issues. Sabah Al Salem University City opened in September 2019 with around 22,000 students enrolling at the new site. Although local media reported positive reviews of the campus' design and modern facilities, both students and staff complained of traffic on the roads leading up to the university on the first day of term. This underscores the importance of developing supporting infrastructure alongside new education establishments.

The remaining 12 higher education institutions in Kuwait are privately operated, and include the American University of Kuwait (AUK), the American University of the Middle East, and Gulf University for Science and Technology, which are each affiliated with foreign institutions. There are also private institutions offering diplomas, such as Algonquin College Kuwait, where students can receive qualifications based on the Canadian post-secondary system in subjects such as business, media design and advanced technology. Although many private universities in Kuwait have been awarded accreditation from major international organisations, the country is faced with the ongoing challenge of ensuring that local universities are able to match the qualifications offered by their foreign partners. "Institutions need to view accreditation as a process of continuous development," Rawda H Awwad, president of AUK, told OBG. "Accreditation is a starting point rather than an end point; quality assurance is an evolutionary process."

The MoHE has invested heavily in higher education scholarship programmes, with grants available to Kuwaiti students for both domestic and international study. According to the CSB, 3112 students received scholarships to study abroad in 2016/17. The top-three destinations were the US, UK and Ireland. It is hoped that sending Kuwaiti students

Some 10,953 students were enrolled in public vocational training centres in the first semester of 2016/17

abroad will enable them to gain expertise in sectors in which their home country is experiencing a labour shortage. As a result, the government sets stringent requirements for degrees that offer scholarship programmes. Although international study is still a popular choice, many Kuwaitis prefer to pursue university education in their home country.

**VOCATIONAL TRAINING:** The main provider of vocational education in Kuwait is the Public Authority for Applied Education and Training (PAAET), which is overseen by the MoE. PAAET operates both full-time colleges and industrial training centres. According to the most recent CSB figures, 10,953 students enrolled in PAAET campuses and training centres in the first semester of 2016/17. Given that the unemployment rate rose from 1.9% in 2017 to 2.1% in 2018, it is necessary to ensure that Kuwaitis obtain the skills required by the labour market to reduce the country's dependence on foreign workers.

The majority of students enrolled in vocational courses are Kuwaitis, accounting for 89% of the 2016/17 intake. The most popular courses offered by PAAET that year were secretarial and office work, air navigation and telecommunications. The growth of the vocational training segment has been hindered by the fact that Kuwaitis generally value university degrees above all other forms of higher education. Nevertheless, as the country seeks to reduce its reliance on expatriate labour and ensure that Kuwaitis possess the skills required by the private sector, demand for vocational training courses is expected to rise in the future.

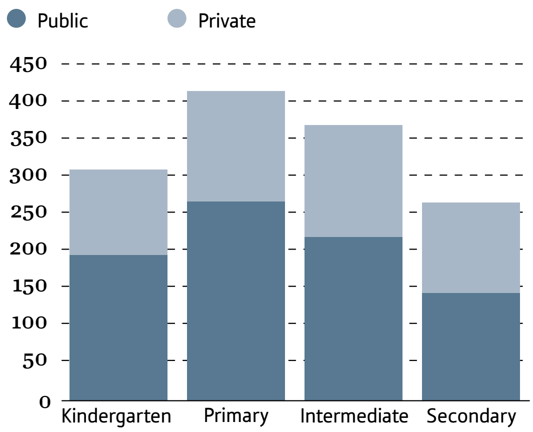
In 2017 the Ministry of Education was awarded the Technology Initiative Award in recognition of its ICT modernisation programme, which included an initiative to provide tablets for all teachers and students.

In April 2019 local media reported that 41.2% of Kuwaiti graduates were unemployed, suggesting that it will be increasingly necessary for degree holders to retrain in a different subject or obtain qualifications in a vocational skill in order to find employment in the private sector. "As the public sector is moving slowly, there is more pressure on young people to start their own business," Winfred Thompson, former president of AUK, told OBG. "It is essential for them to have soft skills as well as skills they learn in the classroom."

**EDTECH:** As in much of the world, educational institutions in Kuwait are increasingly looking to encourage the use of technology in the curriculum as much as possible. The MoE has actively sought to raise the level of ICT literacy among Kuwaiti youth and has received regional recognition for its efforts to integrate digital technology into the public education system. In 2017 the MoE won the Technology Initiative Award at the Bett Middle East Awards for its ICT infrastructure modernisation programme, which included an initiative to provide tablets for all teachers and students in the country. The project, known as the One to One Initiative, was launched in 2015 in partnership with US tech giant Hewlett-Packard. The initiative targeted 82,000 students and teachers across six school districts, and aimed to increase student engagement while equipping them with the digital skills required by the modern workplace. Although the project was withdrawn in September 2018, local media reported that it resulted in the sale of 80,000 new tablets worth a total of KD28m ($92.2m). Similarly, in 2016 the New English School, an international private school, purchased Google Chromebooks for all students.

**OUTLOOK:** Education is likely to remain a priority for the government in the years ahead as the development of human capital is a vital part of economic diversification. The sector is still in a transitional period and the authorities are primarily focused on the improvement of countrywide standards, but the country's growing youth population and high level of disposable income will continue to fuel demand for education, particularly in the private segment. Although the potential for investment opportunities mostly lies within the private school market, vocational training providers also have scope to expand amid concerns about growing unemployment and the need to compete with the expatriate workforce.

Public & private schools by level, 2017/18




Source: CSB

Global Perspective

# Digital classroom

## Investment in education technology surges as markets around the world recognise its transformative potential

In an era marked by profound technological disruption and intense global competition in new frontier industries, emerging markets are striving to improve and adapt their education systems to reconcile the demands of the modern economy and the needs of citizens. As such, innovative solutions are being developed to address barriers within traditional education systems. As such, education technology (edtech) is gaining traction worldwide as an invaluable teaching and learning tool. However, development of global edtech has been somewhat uneven, with its implementation delayed in some countries due to infrastructure deficits and tight budgets. Nevertheless, the surge in investment in the last few years indicates the substantial potential for technology to enhance the quality of education globally in a variety of ways.

**APPETITE FOR INNOVATION:** Edtech companies in developed countries came into prominence in the early 2000s. In the US, the subsector's advent was made possible by well-developed nationwide ICT networks, a large economy and successful innovation hubs, such as Silicon Valley. By 2018 the US edtech market had grown to be worth more than $8.38bn, according to the Software and Information Industry Association. In Europe, the centre for edtech is the UK, home to at least 1000 edtech companies, 200 of which are based in London.

Although the US and the UK have traditionally led the field, Asia has quickly become the fastest-growing market, with the region forecast to represent 54% of the edtech market by 2020. Asia is home to over 600m K-12 students and is the emerging global centre for online education. Many Asian countries place a premium on education, and both governments and parents are willing to spend a substantial amount on such services, particularly in the region's developed markets. Parents in Singapore, for example, spend an average of more than $70,000 each year to educate their children, while over 70% of secondary school students in Hong Kong, Taiwan and South Korea hire private tutors after school. While parents in emerging markets in Asia have less discretionary spending power, there lies great potential in these countries to utilise their burgeoning innovation ecosystems and develop new, cost-effective edtech solutions. For example, the value of Indonesian tech company Ruangguru was estimated by the country's Ministry of Communications and Information Technology to reach over $1bn in 2019, as it rolls out its one-stop learning services app across South-east Asia.

**BOOMING DEMAND:** Meanwhile the Middle East is also moving forward with its own edtech developments, particularly in the Gulf region. A 2016 education report by regional investment bank Alpen Capital suggests that more than 50,000 schools are needed across the region to accommodate an expected 20% increase in the student population to around 15m by 2020. India-based market intelligence firm Ken Research forecasts that the education market in Saudi Arabia alone will expand at a compound annual growth rate of 12.3% over the three years to 2021, reaching an estimated value of $15bn. *Forbes* estimates there are 270 edtech start-ups in the Middle East, some of which have tapped into gaming, machine learning and artificial intelligence (AI) to transform the learning environment. However, the Middle East's edtech economy is still in its infancy, indicating expansive room for further investment and strategic partnerships. According to *Forbes*, less than 1% of global funding for tech start-ups in 2017 went to countries in the Middle East, while approximately 22% went to China and India collectively, highlighting a need for more diversified economic expansion in the future.

Latin America and Africa have developed their own burgeoning edtech ecosystems. E-learning revenues in Latin America grew by 14.6% each year between 2013 and 2016 to $2.2bn, so that by 2018 it was the world's fourth-largest edtech market in terms of revenues,

In 2018 the US education technology market was estimated to be worth

**$8.38bn**

E-learning revenues in Latin America grew by 14.6% each year between 2013 and 2016 to $2.2bn, so that by 2018 it was the world's fourth-largest edtech market in terms of revenues.

In 2018 global investment in learning technology companies reached a record
**$16.3bn**

after North America, Western Europe and Asia. Markets in the region have particularly benefitted from their proximity to the US, which has allowed them to speed up the development of learning management solutions. Meanwhile, African countries have leveraged the dramatic take-up of mobile devices over the years to provide education to previously hard-to-reach areas via mobile learning apps. At the outset of 2018, there were approximately 700m mobile phone subscribers, equating to 60% of the population, with this figure forecast to hit 1bn by 2020.

**GROWING INVESTMENT:** Given the huge potential, it is not surprising that there is an influx of investment in edtech. Looking forwards, education stakeholders in less developed markets are increasingly viewing technology as a means to bridge gaps in education infrastructure and teaching resources. "With increasing infrastructure development in Indonesia there will be plenty of opportunities for edtech to supplement the education system in the country," Azhar Sunaryo, director of Primagama Tutoring Institution in Indonesia, told OBG. "However, the value of face-to-face teaching will remain irreplaceable."

US-based research institute Metaari reports that global investment in learning technology companies reached a record $16.3bn in 2018, breaking the previous record of $9.6bn in 2017. In particular, there has been a significant increase in investments made in edtech companies that specialise in augmented reality, AI, neuroscience and cognitive science.

Another consistent trend over the past few years is the enormous amount of money being invested in companies in Asia, with 2018 marking the first year China took the top spot by attracting 44.1% of global funding and surpassing long-time global leader the US with 32%. Out of the 12 companies that raised more than $200m in 2018, 11 were from China.

While China and the US dominate the industry, there is increasing investment activity in emerging regions such as Latin America. As of the end on 2017, the International Finance Corporation had spearheaded over $450m in investments to online learning institutions in Brazil and the Pacific Alliance countries, namely Chile, Colombia, Mexico and Peru. Although Brazil appears to be the biggest market in the region, investors are increasingly interested in Pacific Alliance members because of their common language, educational uniformity and higher GDP.

A number of Latin American countries are also applying e-learning tools at the corporate level. According to a survey carried out by US-based Kaagan Research Associates, approximately 41% of companies in Mexico and Brazil use digital solutions to train their staff in marketing, technical documentation and customer support. This is closely followed by Colombia (39%), Argentina (30%) and Chile (30%). The firm also found that among the 58% of companies in the region which have not adopted digital solutions, 32% claimed they were likely use them in the future.

**GOVERNMENT SUPPORT:** With regard to public policy, there has also been widespread support. In Asia, several governments have taken steps to adopt e-learning tools as part of wider efforts to transition into digital economies. The authorities in Thailand, for example, are looking to improve the country's English proficiency by using AI to assess students' writing and speaking skills online. It also launched a free mobile app called Echo English in 2016 to encourage its citizens to practice conversational English through games. Elsewhere, in December 2017 the Department of Education in the Philippines launched a new K-12 curriculum that stipulates the inclusion of media and information literacy as a core subject in public schools. The aim of the move is to equip students with the skills needed to succeed in a digital economy.

Governments in the Middle East likewise see education as key to progress and economic development, allocating as much as 19% of their budgets to schools in 2018 – well above the global average. The UAE Ministry of Education has indicated its willingness to support e-learning initiatives as tools to improve delivery in a market that is expected to expand by 60% to be worth $7.1bn in 2023, while the Ministry of Education in Egypt announced in October 2018 that 2500 secondary schools had been connected to fibre-optic internet or Wi-Fi, as part of its plans to give every student studying at that level a tablet computer.

In Latin America, governments are also investing a substantial amount of resources in edtech to improve learning outcomes. To expand access to rural areas, the Mexican government is implementing a distance learning programme called Telesecundaria, which will provide lectures to secondary students through a network of satellite televisions. "While only 50% of the population in Mexico has internet access, this figure is quickly increasing due to the government reforms in telecommunications," Jose Antonio Quesada, director of the Egade Business School, told OBG. "These initiatives make online programmes possible and can be used to complement existing learning techniques." In line with these goals, several US-based companies travelled to Latin America in 2018 to explore the possibility of establishing more programmes in the region.

**TRANSFORMATIONAL POTENTIAL:** Indeed, as digital methods of teaching and learning proliferate across the globe they are having a democratising effect by widening access to information. Online programmes are being leveraged in a number of emerging economies in Asia to address disparities in both access and quality. "Technology allows us to keep the quality of education consistent between different cities because it enables us to teach two or more classes at the same time. Therefore, no one will be able to say that students in Yangon are far more advanced than students in Mandalay or Myitkyina, for example," U Tin Maung Win, managing director of the International Language and Business Centre Myanmar, told OBG.

Massive open online courses (MOOCs) have also become accessible throughout Indonesia, enabling users to learn anytime and anywhere. In a similar way, edtech has provided much-needed support for teachers working in refugee camps in the Middle East.

Education technology is having a democratising effect by widening access to information. Online programmes are being leveraged in a number of emerging economies to address disparities in both access and quality.

For instance, the non-profit platform Edraak, which provides MOOCs in Arabic, was launched in 2018 for refugee children in Jordan, Egypt and Syria. The platform allows students to access sequential learning materials and lets teachers create more interactive and engaging learning experiences.

**ENGAGEMENT:** With the advent of data analytics, customised strategies may now be formulated to better address students' various learning needs and enhance engagement through personalised learning. In the higher education sector, software applications such as learning management systems allow students to move through materials at their own pace, giving learners who need it more time to process information. In Brunei Darussalam, Universiti Brunei Darussalam has teamed up with local technology start-up Mindplus Education to create a more tailored learning experience for students online and in the classroom. Meanwhile, schools such as Universidad Cooperativa de Colombia and Aliat Universidades in Mexico have used edtech to personalise assessments, whereby students can evidence learning through videos, multimedia presentations or online storybooks.

Researchers maintain that integrating technology makes knowledge acquisition more engaging for students. Indeed, the wide range of learning channels available, including mobile, multimedia, peer-to-peer and game-based learning apps, means content is becoming increasingly immersive. Instructors are able to utilise polls, videos, interactive texts and virtual reality tools to address the issue of disengaged and distracted students. For example, Nairobi-based online platform Kukua endeavours to empower African children with basic reading and maths skills by combining traditional instruction methods with games and animated entertainment. Codemi, an online learning management system in Indonesia, takes a similar approach, gamifying the learning process and providing rewards to engage and motivate its users.

Digital technology has also provided opportunities for schools to directly engage students' parents. This is important, given that researchers agree that parental involvement correlates positively with students' academic performance. Edtech start-ups in the Middle East are developing interactive platforms for parents to converse with teachers in real time. Abu Dhabi-based tech start-up SchoolVoice is a mobile app that keeps parents updated about school events, exams and their childrens' academic performance.

In addition to improving parent-teacher interactions, technological advances have also provided opportunities for students to fully collaborate and connect with peers both locally and globally. An example of this is Malaysia's EduPOW, an online publishing platform offering education courses that enable users to share knowledge on a diverse range of topics including arts, health, business, music and language. A healthy dose of collaboration is also credited with enhancing learning, as researchers found that students involved in online discussions felt more connected and reported high levels of course satisfaction.

Aside from widening access and offering customised, interactive learning experiences, edtech has helped cut the cost of education delivery by reducing the need for printed materials and costly books. Online content can also be easily updated and efficiently distributed without relying on manual resources. Moreover, with advanced analytics to keep track of student progress, educators are able to reduce the time spent on manual grading and record-keeping.

**AFRICA CHALLENGE:** In spite of its advanced state of development in several parts of the world, edtech is very much a new development in Africa, with most countries in the region only just beginning to incorporate such methods. Adopting modern technology can be capital intensive, thus few public schools can provide computer labs. Internet penetration has also been very slow to gain ground, with only around one in four households having permanent access to the web in 2018, despite the number of internet connections growing by 20% that year. Consequently, there remains relatively little investment in learning technology, and start-ups are struggling to compete for funding.

However, in spite of the lack of infrastructure and investment, state-led initiatives to implement edtech have begun to emerge. For instance, the government in South Africa has started funding the delivery of tablets and internet access in its schools and is exploring the possibility of delivering online programmes for students. Following the introduction of ICT into the school curriculum in 2007, successive Ghanaian governments have invested significant amounts in procuring computers and establishing computer laboratories in several secondary-level institutions. Similarly, in 2013 Kenya's Ministry of Information, Communications and Technology implemented its Digital Literacy Programme, which aimed to provide some 1.2m digital devices to the country's primary schools. Meanwhile, faced with the collapse of public services in the wake of the Ebola crisis, the government of Liberia has trialled the use of government funds to place students in schools operated by for-profit education providers, many of which make extensive use of edtech platforms. After pupils in the initial trials comfortably outperformed other students, such providers were given more schools to operate. The long-term outcome of this experiment will be keenly followed by other regional governments facing substantial financing and capacity constraints.

**PROSPECTS:** Technology has successfully penetrated education systems around the world and is rapidly revolutionising the sector, making learning more accessible, engaging and efficient. While developed countries took the lead in investment and innovation during the early stages of edtech development, emerging markets have been rapidly catching up, as governments and the private sector seek cost-effective solutions to overcome infrastructure and funding gaps.

With the general improvement in ICT infrastructure and the ubiquity of smartphones and digital devices across the emerging world, edtech is expected to become a leading industry in the years to come.

Software such as learning management systems, and peer-to-peer and game-based learning apps can increase student engagement and improve learning outcomes.

Technology can cut the cost of education delivery and increase efficiency, as it reduces the need for printed materials and enables teachers to spend less time on manual grading and record-keeping.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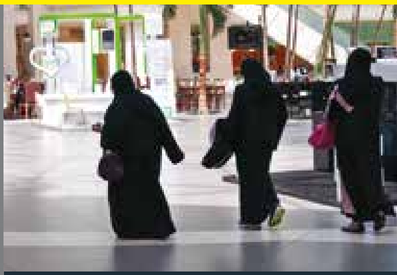
# Tax & Accountancy

Investment and tax incentives for foreign investors

Boosting competition via regulatory reform

Streamlined licensing to facilitate market entry

Aligning tax policy with international best practices


Kuwait is working to develop formal transfer pricing guidelines

# New rules

## Tax reforms aimed at shoring up the post-oil economy

After years of abundant public spending, GCC economies experienced a direct hit on their fiscal balances caused by the 2014 fall in oil prices. As such, Kuwait is following the regional trend of pursuing economic and fiscal reform programmes. Multiple government-led initiatives seek to support economic diversification, strengthen the private sector's contribution to the economy and help keep the deficit under control.

In this vein, the last few years have seen the authorities take positive steps towards sustainable development and economic growth by reducing bureaucracy and speeding up administrative processes, amending existing regulations and ratifying a number of new laws. Alongside the intended commercial improvements, there also appears to be much discussion relating to diversifying sources of income and developing other sectors, such as health care, transportation, energy, water and utilities, and housing.

**LEGAL REFORM:** According to the World Economic Forum's "Global Competitiveness Report 2019", Kuwait advanced eight places to rank 46th out of 141 countries on the global competitiveness index. This increase can be attributed to the numerous regulatory changes implemented to key pieces of investment and business legislation, including the Companies Law, the Commercial Agency Law and the Foreign Direct Investment Law, as well as revisions to Capital Markets Authority (CMA) guidelines. Government regulatory reforms have focused on easing investor access to local markets, revising the Boursa Kuwait and establishing the Kuwait Direct Investment Promotion Authority (KDIPA) in 2013 to facilitate and promote foreign direct investment (FDI) in the country. At the same time, the authorities have set up business centres aimed at reducing bureaucracy and red tape, and facilitating the formation of new businesses. In December 2014 KDIPA issued executive regulations (ERs) to Law No. 116 of 2013 regarding the promotion of FDI in Kuwait, also known as the Investment Law, via Ministerial Decision No. 502 of 2014.

Key features of the Investment Law include:
- The possibility for foreign investors to establish a wholly owned subsidiary, branch or representative office in Kuwait, compared to the maximum 49% interest permitted under the Companies Law;
- The potential to obtain a tax exemption for up to 10 years, subject to meeting prescribed requirements, which include contributions by the foreign corporation towards national technological advancement and employment;
- The potential to obtain an exemption from Customs duties, subject to meeting prescribed requirements;
- Protection from the Kuwaitisation requirements; and
- Allocation of land and real estate to investors.

Through the approval of KDIPA, a foreign investor may establish the following business types:
- A wholly owned subsidiary in Kuwait;
- A licensed branch; or
- A licensed representative office.

However, to take advantage of the incentives under the Investment Law, there are a range of requirements that need to be met, including the following:
- Approval of the type of business activity; and
- Showing the business activity will benefit the local economy through increased employment of Kuwaiti nationals, the transfer of advanced technology or by engaging local suppliers.

KDIPA has issued a list of industries, including petroleum extraction and defence, that will not be able to take advantage of the incentives.

**CRITERIA:** In keeping with its primary objectives and policies set out under New Kuwait Vision 2035, and in order to enhance the local economy by providing an investor-friendly environment, KDIPA has recently introduced amendments under Decision No. 329 of 2019 to further attract foreign investment. The decision defines the criteria and scoring mechanisms for evaluating and granting investment licences. The amendments are focused on providing investors with a set of regulations to ease the process of setting up a new business, including the following:

- The revision of key evaluation criteria, including the introduction of new criteria;
- A modified scoring mechanism for obtaining the licence; and
- A revised tax credit mechanism that includes the new criteria.

In the decision, KDIPA has also provided the following elaborations to the definitions and requirements:

- National labour requirements: If the total number employees over a three-year period stands at 24 or less, the investing entity must hire a minimum of 50% Kuwaiti nationals. The required quota of nationals can be hired over a period of three years.
- Corporate social responsibility (CSR): Any programmes and/or volunteering contributions to society, environment or health care facilities outside the scope of the proposed projects of the investment entity in Kuwait would qualify as a CSR activity.

Under the amended scoring mechanism issued in the decision, an investor would be eligible to obtain a licence for setting up an entity upon the satisfaction of a minimum of five points (i.e., a score of 30% and above under the new evaluation criteria). This is a major relaxation of the earlier benchmark of 60% (see table).

**FACILITATING LICENSING:** In order to streamline the licensing process and facilitate the market entry of investors, KDIPA has formed a one-stop shop, effectively establishing a single network involving various government entities. KDIPA's Investor Service Centre coordinates with relevant government ministries and authorities to attend to the needs of foreign investors. This reduces the previous administrative burden on investors which required them to coordinate and communicate with numerous ministries and public bodies to complete the licensing process.

Similarly, in order to aid foreign investors, KDIPA issued Ministerial Resolution No. 49 of 2019 regarding KDIPA rules and procedures for allocating commercial plots. As per the resolution, KDIPA can now assist investors in obtaining land to carry out approved activities. The evaluation criteria for land allocation to foreign investors remains the same.

**AGENCY LAW:** Another prominent update involves the Commercial Agencies Law (CAL) No. 13 of 2016, which has now come into effect and aims to arrange, clarify and clearly set out the formalities and requirements surrounding agency law in Kuwait. The new CAL replaces the previous CAL No. 36 of 1964, which was criticised for causing foreign principals to be locked out of the Kuwaiti market due to the complex formalities of setting up and monitoring agency agreements. Instead of reforming the country's agency laws, the new CAL focuses on procedure by clarifying the extensive formalities required to have an agent.

One notable change is the deletion of the exclusivity principle. The CAL provides that importing or providing any goods or products now cannot be limited to a sole agent or distributor, even if there is an exclusive arrangement in place. This means that principals may appoint multiple agents or distributors in the territory, with the aim of encouraging fair competition, protecting consumer rights and combating monopolies.

The amendments have been made so that the new CAL will help promote Kuwait to foreign principles and encourage more international trade. The definition of a commercial agent also now includes "franchisee" and "licensee". Both entities are required to abide by the same laws and regulations as agents and distributors.

**CAPITAL MARKETS:** In order to strengthen the legislative structure of the capital markets, and in the framework of its efforts to activate its supervisory role and establish an effective regulatory system in line with the latest international standards, the CMA has prepared capital adequacy rules for licensed persons. These rules represent a legal entitlement in accordance with the provisions of Law No. 7 of 2010 regarding the establishment of the CMA to regulate securities activities, and its executive by-laws and their amendments. In particular, Item No. 2 of Article 66 stipulates that, "A person licensed to engage in the management of securities activities shall comply with the regulations specified in the by-laws and in particular as follows, maintenance of adequate capital."

The rule represents an important step in this regard, especially as it is one of the most effective regulatory tools to enhance efficiency in companies licensed to deal in securities, and ensure the safety of their financial centres in proportion to the magnitude and nature of the risks they are exposed to. The rule creates a secure investment environment by providing the necessary precautions to secure risks related to the activities and transactions of licensed companies. In particular, this includes the risks resulting from the introduction of new products and financial activities within the phases of market development, such as short selling, lending and borrowing shares, and repurchase agreements, as well as capital requirements that correspond to the activities of the capital market infrastructure institutions, such as the central counterparty.

In cooperation with EY, the CMA has prepared the draft capital adequacy rules and regulations for licensed persons, as well as all templates of rules in both Arabic and English. This rule is expected to help reduce minimum capital requirements in general, which will enhance capital utilisation for companies and the market in general, and balance the risks of companies and the regulatory capital to be maintained by them.

## Changes to scoring mechanisms

| Previous scoring mechanism | Updated scoring mechanism |
|---|---|
| <60%<br>Application declined | <30%<br>Application declined |
| 60-69%<br>Licence only | 30-55%<br>Licence only |
| 70-79%<br>Licence with one incentive | 60-80%<br>Licence with one incentive |
| >80%<br>Licence with two incentives | >85%<br>Licence with two incentives |

**TRANSFER PRICING:** With the recent developments in tax globally, Kuwait is now beginning to understand that from a fiscal perspective, it must align itself to a globally accepted policy. Due to these major developments, Kuwait is now looking at non-oil sources of revenue, which may also come in the form of other tax regulations, such as selective taxation and transfer pricing. Kuwait has yet to join the Inclusive Framework on Base Erosion and Profit Shifting (BEPS). One of the minimum standards of the BEPS guidance is the implementation of a three-tiered documentation approach towards transfer pricing (i.e., a transfer pricing master file, a transfer pricing local file and a country-by-country report).

Kuwait tax law does not currently set out formal transfer pricing guidelines. However, the Kuwait Tax Authority (KTA) has issued a set of ERs that allow the KTA to appropriately tax intercompany transactions. ER No. 49 of Kuwaiti Income Tax Decree No. 3 of 1955, as amended by Law No. 2 of 2008, also known as the Kuwait Tax Law, gives the KTA the right to inspect and verify the intercompany transactions that are undertaken between associated entities. The ER further defines related companies as follows:

- A holding or parent company is a company that owns a number of subsidiaries and has the right of control or supervision over them, either due to ownership of a majority of shares in each company or because the articles of association stipulates that right.
- A subsidiary belongs to a parent or holding company either because it is wholly owned thereby or is under its control and supervision.
- A branch is an incorporated body fully affiliated to the parent company and has neither legal nor financial independence whether the branch carries out the same activities or others.
- An associate or sister company is a firm in which another entity owns a share of the capital ranging between 20% and less than 50%, and has substantial influence but is not a subsidiary as it has no right of control or supervision. Substantial influence is the right to participate in making decisions related to financial policies of the investee, but such influence does not reach a point of control or shared control of the policies. Substantial influence includes ownership of more than 20% of the voting rights.

In addition to the transfer pricing guidelines discussed above, the method of imputing profit on transactions between related parties has been addressed specifically in the case of imported materials, and design and consultancy services rendered outside Kuwait.

### Costs incurred and/or paid outside Kuwait

| | Expense incurred towards: | | |
|---|---|---|---|
| **Cost for:** | Head office | Related party | Third party |
| Material imported | 85% | 90% | 95% |
| Design & engineering services | 75% | 80% | 85% |
| Consultancy services | 70% | 75% | 80% |

As per ER No. 25 and No. 26 of the Kuwait Tax Law, for costs incurred and/or paid outside Kuwait by related parties, the KTA allows as a deduction, a proportion of the contract revenue as tabled in the graph below. Given that some of the other countries within the MENA region have recently adopted such transfer pricing regulations, Kuwait may follow suit, but there have been no publicly known discussions or developments in Kuwait in this regard.

**WITHHOLDING TAX:** Kuwait does not currently have a withholding tax regime. However, the Kuwait Tax Law requires companies in Kuwait to withhold 5% as a tax retention from every payment due to contractors until such time that the contractor provides a valid tax clearance certificate (TCC) issued by the KTA. The KTA requires tax payers to strictly comply with requirements laid out in ER No. 5 and No. 6 of the Kuwait Tax Law, where every business entity operating in Kuwait is required to comply with the following:

- Notifying the names and addresses of its contractors and subcontractors;
- Submitting copies of all the contracts and subcontracts to the KTA; and
- Retaining 5% of the contract or subcontract value from each payment due to the contractors or subcontractors until such time a valid TCC issued by the KTA is presented by the contractor or subcontractor.

As per Article 39 of the by-laws for Law No. 2 of 2008, in case the contract owner fails to retain 5% of payments made to the contractor and if the contractor fails to settle the tax dues to the KTA, the contract owner would be responsible for settlement of taxes due. The KTA does not allow the costs to be claimed in its tax returns. The above obligation also applies to related or affiliated entities.

With the recent BEPS initiatives and the application of withholding tax by other jurisdictions and in order to protect its tax base, Kuwait may look to shift from the tax retention regime to a withholding tax regime. In June 2017 Kuwait signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS to enable jurisdictions to rapidly implement treaty-related measures developed in the course of the BEPS project, including BEPS minimum standards. At the time of signing the treaty, signatory countries can provide a list of their current tax treaties that they would like to be covered, known as covered tax agreements (CTAs). However, the multilateral instrument provisions within the CTA will only come into effect in each signatory jurisdiction, once both countries have ratified the treaty, the relevant conditions have been met and a certain amount of time has passed. As Kuwait has yet to ratify the treaty, the provisions have not yet come into force.

With the recent strain on Kuwait's finances caused by low oil prices, Kuwait may look to expedite its fiscal and commercial reforms even further to attract foreign investors and lead itself towards a post-oil economy.

OBG would like to thank *EY* for its contribution to
THE REPORT Kuwait 2019

Alok Chugh, Partner, Government and Public Sector Leader MENA, EY

# Changing landscape

## Alok Chugh, Partner, Government and Public Sector Leader MENA, EY, on international and local reforms

**What steps is Kuwait taking to engage in new international tax regulations and practices?**

**CHUGH:** Tax authorities from various jurisdictions have introduced regulations for customer tax transparency and to curb tax avoidance, such as the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS). FATCA promotes tax compliance by implementing an international standard for the automatic exchange of information (AEOI) related to US taxpayers, while the CRS is a global reporting standard for the AEOI developed by the OECD. FATCA and the CRS are just the beginning of the overall customer tax transparency landscape expected in the coming years.

Since January 1, 2019 most off-shore jurisdictions, including but not limited to the Cayman Islands, Bermuda, the Bahamas, the British Virgin Islands, Jersey, Guernsey and the Isle of Man, have introduced new economic substance rules and requirements. These laws dictate that companies that are tax residents in these jurisdictions, and that undertake certain relevant activities as prescribed by the laws, will need to ensure they have enough economic substance. Other jurisdictions, such as the UAE and Bahrain, have also introduced new economic substance rules effective from 2019.

In addition, the G20 and the OECD launched the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) in 2015, which targets tax-avoidance strategies that exploit gaps and mismatches in tax rules across countries. A number of MENA countries including Saudi Arabia, Egypt, the UAE and Qatar have also introduced country-by-country reporting (CbCR) regulations in line with Action 13 of the BEPS framework. On top of that, most of the countries in the region have also implemented FATCA and the CRS.

In 2015 Kuwait signed an intergovernmental agreement with the US to become FATCA-compliant, which requires Kuwaiti financial institutions to submit the financial account details of US persons holding accounts in Kuwait to the Ministry of Finance, which then transfers the information to the US Internal Revenue Service. Similarly, in 2016 Kuwait signed the Multilateral Competent Authority Agreement to exchange information on tax residents in different jurisdictions. Kuwait-based groups with presence in low- or no-tax jurisdictions will need to assess whether their group entities fall under the new economic substance rules.

Kuwait also signed the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent BEPS (known as the Multilateral Instrument, MLI). However, the MLI provisions within the existing covered tax agreements (CTA) will only come into effect once the ratification procedure is complete in each signatory jurisdiction. Kuwait must therefore ratify the treaty to bring the MLI into force for its CTA. The country has not yet adopted Action 13, but Kuwait-based multinational groups are already having to comply with Master File, Local File and CbCR requirements in countries which have introduced such rules.

**How are digital platforms and e-commerce being harnessed by the Kuwaiti market?**

**CHUGH:** Digital platforms and e-commerce have been embraced by various sectors in Kuwait, primarily in banking, telecoms and retail. Most banks and telecoms companies have adopted platforms where individuals or businesses can easily transfer funds and pay bills, among other transactions. In line with global trends, retail businesses have introduced e-commerce websites during recent years, making shopping more convenient.

Regulatory authorities, such as the Central Bank of Kuwait, the Capital Markets Authority, Kuwait Customs and others, are at various stages of IT conversion. For instance, in a 2019 reform, the Ministry of Health announced the launch of an online platform to channel all payments of health insurance fees for residency purposes. Value-added and excise taxes are also expected to be implemented in Kuwait, a process which will require further IT integration of various ministries.

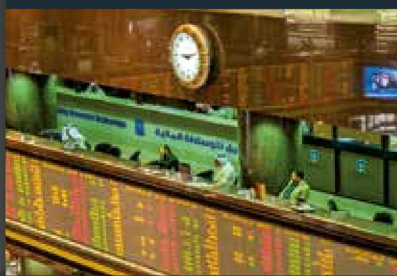
# Legal Framework

Legislative changes to support capital markets reform

New rulebook outlines listing rules for Boursa Kuwait

Regulations provided for short selling and swaps

Agreement signed on regulatory responsibilities



ASAR

The market is divided into three segments: premier, main and auction

# By the book

## New rulebook lays out the legal framework governing Boursa Kuwait and provides regulations for short selling and swaps

The modernisation of the country's capital markets continued in April 2018 through the promulgation and implementation of Boursa Kuwait's new rulebook. Its purpose is to clarify the regulatory and organisational framework of Boursa Kuwait and all other aspects of Kuwait's stock exchange. The new rules provide, among other things, for the segmentation of the market into the premier market, main market and auction market. Each segment has been designed to provide the most suitable disclosure and listing requirements for their members. These reforms also included the recognition and regularisation of specific new transactions, such as short selling, security lending and borrowing.

The reforms implemented over the last few years resulted in the upgrade of the market to secondary emerging market status by FTSE in September 2018 and the addition of Kuwait to the S&P Dow Jones Global Benchmark Indices in December 2018. It is expected that these upgrades, coupled with the implementation of the rulebook, will boost activity on the exchange, attracting a larger number of foreign investors to the Kuwaiti market. Below is a summary of the general trading rules for Boursa Kuwait, together with some of the reforms introduced through the new rulebook.

**LIBERALISATION:** The Kuwait Stock Exchange (KSE) was established in 1977 and is one of the oldest stock markets in the region. As part of a broader effort to modernise the capital markets sector, it was decided by the Kuwaiti government that the exchange should be privatised. The first step in this process were initiated by the Capital Markets Authority (CMA) in 2014 through the incorporation of a public joint-stock company under the name Boursa Kuwait. The management of the KSE, as well as its licences and assets, were transferred to Boursa Kuwait in April and October 2016, respectively.

In early 2018 and in line with Article 33 of the amended Law No. 7 of 2010 – known as the CMA Law – the CMA launched the second stage of privatisation, which culminated in February 2019 in the sale of 44% of the CMA's shares in Boursa Kuwait to an international consortium made up of the Athens Stock Exchange, National Investments Company, Al Oula Investment and Arzan Financial Group. The involvement of major international players – including some of the world's leading stock market operators – along with local Kuwaiti financial institutions has been a major boost to the local capital markets sector. It is expected that the participation of local Kuwaiti financial institutions in this landmark transaction will be a continuing trend over the next few years. The last phase of the privatisation process entails the sale of the remaining 50% of Boursa Kuwait to Kuwaiti nationals and is expected to be completed by December 2019.

**LISTING RULES:** The legal regime governing the trading of shares of Kuwaiti companies on Boursa Kuwait is primarily governed by Module 12 of the executive by-laws promulgated through Resolution 72 of 2015 – known as the Capital Markets Law (CML) By-laws – together with the CMA Law and the rulebook. The first edition of the new Boursa Kuwait rulebook, which was issued in April 2018, segmented the local exchange into three distinct market categories – premier, main and auction – and outlined in Chapter 7 the associated listing rules applicable for each market. Without prejudice to the CMA listing rules, the Boursa Kuwait listing rules apply to companies which are currently listed as well as those wishing to list on Boursa Kuwait.

In April 2019 the second issue of the rulebook was published and implemented. The new version provided a number of clarifications, including a revised version of Chapter 7 clarifying the listing requirements for each market. Pursuant to the rulebook, an application to list on the Boursa Kuwait may be submitted for the premier or main market, whereas application to list on the auction market is not permissible. Nevertheless, Boursa Kuwait may transfer listed companies from either of these markets to the auction market in accordance with the criteria set forth under Chapter 8 of the rulebook.

**PREMIER MARKET:** A company wishing to be listed on the premier market of the Boursa Kuwait must satisfy the following minimum requirements:

- The fair value of the shares that are not owned by the controller or the group controlling the company shall be at least KD45m ($148m), as determined by an asset evaluator or investment advisor licensed by the CMA.
- The number of shareholders in the company shall not be less than 450, provided each of them holds shares worth not less than KD10,000 ($32,900) according to the fair value of the share specified above.
- The company shall continue to exercise one or more of its main purposes set forth in the company's articles of association.
- The majority of company revenue shall be derived from such purposes and it shall have issued financial statements approved by the general assembly for the last seven full fiscal years prior to the submission date of the listing application.

However, a firm established as a public shareholding company shall be exempted from the minimum value of the shares owned by each shareholder and exempted from the requirements specified in the third and fourth points stated above.

To qualify for the premier market, a listed company must fulfil the following requirements:

- It must be listed on Boursa Kuwait for a minimum of two years.
- The market capitalisation of the company shall be the value determined and declared by Boursa Kuwait for each of the two years preceding the annual review.
- The firm must pass or meet the liquidity requirements determined and declared by Boursa Kuwait, for each of the two years preceding the annual review.
- The average price of the company's shares shall not be less than its par value for each of the two years preceding the annual review.
- The company continues to operate for a period of seven consecutive fiscal years.

**MAIN MARKET:** A company wishing to list on the main market must meet the following minimum requirements:

- The fair value of the shares that are not owned by the controller or the group controlling the company shall be at least KD15m ($49.4m), as determined by an asset evaluator or investment advisor licensed by the CMA.
- The number of shareholders in the company shall not be less than 450, provided each of them holds shares worth not less than KD5000 ($16,500), or the number of shareholders of the company shall not be less than 225 shareholders, provided each shareholder owns shares of not less than KD10,000 ($32,900) according to the fair value of the share specified above.
- The company shall continue to exercise one or more of its main purposes set forth in the company's articles of association.
- The majority of company revenue shall be derived from such purposes and it shall have issued financial statements approved by the general assembly for the last three full fiscal years prior to the submission date of the listing application.

The new rulebook makes specific provisions to enable parties to exchange shares listed on Boursa Kuwait

However, a firm established as a public shareholding company shall be exempted from the minimum value of the shares owned by each shareholder and exempted from the requirements specified in the third and fourth points stated above.

In addition, to qualify for the main market, a listed company must fulfil the following requirements:

- The average market capitalisation of the company shall meet the required level established by Boursa Kuwait throughout the year preceding the annual review.
- The average daily traded value of the company's shares shall be in accordance with the liquidity requirements set by Boursa Kuwait throughout the year preceding the annual review.
- The average price-to-par value ratio of the company's share shall not fall below 1 at the end of the year.
- The company shall hold an analyst conference on a quarterly basis within five days following the issuance of interim and annual financial statements.
- The announcement of the financial statements shall include the date of the analyst conference and the presentation prepared for the conference. The transcripts of the analyst conference shall be provided in both Arabic and English within three days following the date of the conference.
- The company must disclose whether or not material information – as defined in the CML By-laws – was revealed during the conference. If material information was revealed, such information shall be disclosed on Boursa Kuwait's website, no later than 40 minutes prior to the trading session following the conference.
- The company should not have repeated violations of the CML Rules.
- The company shall publish announcements and disclosures in both Arabic and English.

**GENERAL TRADING:** As a general rule, subject to certain exemptions, all trades in or transfers of title to securities in joint-stock companies must occur over the counter at the trading platform of the Boursa Kuwait – known as the Boursa Platform – in accordance with applicable trading rules. Where a given trade relates to listed securities, any such transaction would be made against the general backdrop of the CMA Law, as amended by the CMA By-laws and the rulebook and similar rules of general application.

Exemptions to this general rule include transfers of securities in the following circumstances, subject to the prior approval of Boursa Kuwait:

- Transfer of ownership pursuant to an amicable settlement between a creditor and the debtor or guarantor who owns the shares;
- Transfer of ownership in implementation of the repurchase agreements in accordance with the provisions of Article 8-11 of Module 11 of the CMA By-laws;
- Transfer of ownership of qualification shares to the members of the board of directors;
- Transfer of ownership at the request of governmental bodies, within the framework of the state's offering of the securities it owns to the private sector;
- Transfer of ownership from shareholders to the company and vice versa, as well as inter-group transfers;
- Transfers to employees under an employee share option scheme;
- Transfer of ownership based on a merger deal in respect of a registered company in the Boursa Platform;
- Transfer of the ownership of securities as a result of the company or fund's liquidation;
- Transfer of the ownership of shares owned by a company in another listed company as in-kind profits;
- Transfer of the ownership of shares for the purpose of subscribing or participating in private subscription funds;
- Transfer of the ownership of shares for in-kind offering, subscription or redemption in collective investment schemes;
- Transfers emerging from a swap of unlisted securities or a company's unlisted securities as a capital increase in a listed company; and
- Any other cases approved by Boursa Kuwait.

Additional exemptions to this general rule include transfers of securities with no requirement for the approval of Boursa Kuwait in the following circumstances:

- Transfer of ownership by way of inheritance or will;
- Transfer of ownership between spouses and relatives up to the second degree;
- Transfer of ownership at the request of the Public Authority for Minors' Affairs and the merger of the securities of a trustee or guardian;
- Transfer of ownership to and from companies licensed to manage the portfolios of others for the purpose of depositing in a portfolio or transferring from the portfolio if it is to the same customer; and
- Transfer by virtue of an enforceable court or arbitral judgement in respect of any of the foregoing events.

**EXECUTION OF TRADES:** Any trade of securities in joint-stock companies is required to be executed through a broker who has been appropriately licensed and who is registered to broker securities over the Boursa Platform. Securities are generally traded during official working days, and during trading hours and sessions as specified by Boursa Kuwait. Trades are executed in Kuwaiti dinars or any other currency that may be approved by Boursa Kuwait.

**SALE BY PUBLIC AUCTION:** Where a person wishes to acquire 5% or more of the total issued share capital of a listed company from an existing shareholder, such acquisition may be concluded through public auction, which was formerly referred to as a block trade. In order to carry out a sale by public auction, there must be an initial agreement at a fixed price with a buyer. The person selling the shares is required to apply to Boursa Kuwait requesting a sale of securities through public auction. The buyer of the securities is also required to provide a certified cheque, through the broker, representing a payment of a non-refundable advance of 10% of the total trade value. There is a 10-day window within which the trade is advertised on Boursa Kuwait and during which a person with a competing bid may apply to purchase the securities and must submit a cheque for the same non-refundable 10% advance referred to above. If, on the 11th day following the advertisement of the trade, no competitive bid is received, the trade shall be executed in favour of the buyer. However, if a competitive bid is received, a public auction of the securities will be held in Boursa Kuwait's trading hall. This auction will proceed for 15 minutes and if a higher offer is not received, the trade shall be executed in favour of the initial bidder.

Since sales by public auction entail an execution risk for buyers due to the public auction factor – i.e., the risk of a higher bidder participating in the sale – off-market trades, which are discussed further below, have become increasingly popular in Kuwait.

**UNLISTED COMPANIES:** Boursa Kuwait requires that all unlisted trades take place on the Boursa Platform. If an unlisted company at the time of registration comprises 50 shareholders or more, Boursa Kuwait may permit the company to trade its shares through continuous trading or through off-market trades, to the extent that these companies have not requested that trading is limited to off-market trades. Where the company has less than 50 shareholders, trades must be conducted off-market.

**OFF-MARKET TRADES:** The rulebook permits negotiated trades, subject to the approval of Boursa Kuwait, where the relevant trade requires that it is preceded by an agreement for the sale and purchase of securities in a specified quantity and price. The rulebook stipulates that off-market/special trade transactions may be concluded between one buyer and one seller, provided the value of the targeted securities is not less than KD150,000 ($494,000).

The securities are required to be wholly owned by the selling party and free of any legal restrictions or agreements that prevent the disposal of such securities, unless the person in whose favour the encumbrance is made signs a waiver to this effect.

The advantages of off-market/special trade transactions include the lack of execution risk given that the transaction would proceed directly between the buyer and seller without a screen trade or a block trade auction. Additionally, special trades would be conducted for cash consideration and the price is regulated by the rulebook (i.e., the price should not fall below or exceed the preceding day's closing price by more than 20%). However, if the transaction involves the sale of shares representing 5% or more of the capital of the listed company, Boursa Kuwait may exempt the sale from the price restrictions referred to above if Boursa Kuwait deems it necessary to protect the interests of the transaction and the parties involved.

It should also be noted that, in the context of an off-market/special trade transaction, the parties to the trade cannot cancel it after it has been announced on Boursa Kuwait's website. The buyer therefore would be obliged to complete the share purchase.

**TENDER OFFERS:** Where a trade relates to an acquisition of not less than 5% and not more than 30% of the shares of a listed company, the acquirer would be required to submit a tender. The offer should be made to all shareholders of the listed company, and each shareholder would have the option to sell or retain their shares. A bidder who submits a tender offer would be required to deposit to the clearing agency a cash amount or bank guarantee for the full value of the shares to be purchased. Furthermore, the tender offer must be approved by Boursa Kuwait.

The party making the bid would be required to submit all relevant details pertaining to the offer and the bidder. Tender offers have an auction process similar to that of the public auction process and applicable to the sale of more than 55 of the shares of the company discussed above. A tender offer may not be withdrawn unless it follows the 10-day collection window, the number of shares collected is less than 5% of the target company's share capital or less than 50% of the quantity of shares that are subject to the offer. Furthermore, these offers are subject to certain additional requirements and restrictions, including a mandatory tender offer if the acquired shares exceed 30% of the share capital of the company, a restriction on sharing information regarding the listed company only to certain shareholders and the risk of submission of a competing offer.

**SHORT SELLING:** Chapter 9 of the rulebook provides a legal framework for short selling. However, the short selling of securities is not permitted without a prior agreement with a licensed broker to arrange the borrowing of securities in accordance with the rules specified by the Clearing Agency. Boursa Kuwait will determine the share of securities available for short selling, with this figure not exceeding 10% of the outstanding share capital of the relevant listed company. Furthermore, Boursa Kuwait may change the percentage of securities available for short selling in accordance with the data relating to the securities lending and borrowing system of the Clearing Agency.

In order to list shares on Boursa Kuwait a company must publish announcements in English and Arabic

Boursa Kuwait will determine the securities available for short selling by listing them on its website on a regular basis. However, the short selling of securities issued by a company listed on Boursa Kuwait for less than six months is not permitted, and the CMA may suspend short selling in the event of extreme volatility.

In order to conduct short selling, a licensed broker should meet the following requirements:

- The licensed broker is required to enter into agreements with the Clearing Agency to cover short selling operations through a securities lending and borrowing agreement.
- The licensed broker is required to enter into agreements with its clients that allow it to cover short selling operations and fulfil obligations arising out of the agreement concluded with the Clearing Agency.
- The licensed broker is required to provide all applications, and automated and technical systems necessary to ensure the safety of its short selling operations. Boursa Kuwait may request that the broker improve such systems and applications.

**PLEDGED SECURITIES:** Chapter 10 of the rulebook provides that, in the event of a secured lending transaction – where the pledge lender is a bank or financial institution, and the debtor or the pledger is a professional investor, as defined by the CML – it may be agreed between the parties at the conclusion of the pledge contract or thereafter, that the pledge lender shall have the right – in cases of a breach of obligations by the debtor – to own or sell the pledge shares without having to comply with the provisions of commerce law (e.g., sell the shares at auction through the court).

Under the CML By-laws, a professional investor is defined as either a professional investor by nature, or by qualification. A professional investor by nature is:

- Any government institution, central bank or international institution, such as the World Bank;
- A licensed person or regulated financial institution in Kuwait or outside of Kuwait; or

Trades are executed in Kuwaiti dinars or any other currency that may be approved by Boursa Kuwait

- A company with paid-up capital of KD1m ($3.3m) or its equivalent.

A professional investor by qualification is:

- A person who trades in securities in large volumes that are on average no less than KD250,000 ($823,000) in each quarter for the past two years;
- An investor whose assets and funds with the licensed person are no less than KD100,000 ($329,000); or
- An investor who is working or has previously worked in the financial sector for at least one year in a position which requires knowledge of the provided services and transactions in the financial sector.

Pursuant to the rulebook, in the event of the sale of securities directly pledged to the creditor or pledged in a trading account with the Clearing Agency or held in a portfolio, the sale shall be undertaken in accordance with the following procedures:

- The pledge creditor is required to submit a sale application to one of the licensed brokers or to the manager of the investment portfolio – as the case may be.
- This must be submitted together with the relevant documents confirming the pledge, the breach by the debtor of the terms of finance or pledge contract, and a copy of the notice sent to the debtor or the guarantor in kind, informing them of the commencement of the sale procedures.
- The licensed broker or the portfolio manager – as the case may be – will execute the pledge creditor's request to sell the pledged shares after making the necessary verifications of the documentation.
- When the broker/portfolio manager implements the sale application submitted by the pledge creditor, they must comply with the duties of efficiency, integrity and due diligence, as well as the provisions of Articles 9-15 of Module 11 of the CML By-laws.
- Upon completion of the sale procedures, the licensed broker, the Clearing Agency or the portfolio manager shall pay the indebted amounts to the pledge creditor, provided the amount is determined in accordance with the documents submitted by the pledge creditor who requested the sale.

**SWAPS:** Chapter 10 of the rulebook also provides for swap transactions. These are transactions that require an agreement between the parties to exchange shares listed on Boursa Kuwait with other shares prior to the execution thereof. Swap transactions are to be carried out according to the following terms and conditions:

- The transaction may be executed only after obtaining the approval of Boursa Kuwait.
- The transaction value should not be less than KD1m ($3.3m) based on the total value of the securities subject to the transaction.
- The shares' value subject to the transaction should be equal, based on the previous day's closing price.
- The securities must be fully owned by the parties to the transaction and be free of any legal restrictions or agreements preventing their disposal.
- The transaction must be limited to two parties only and may not be undertaken during the prohibition periods for insiders outlined by the CML.
- In order to be swapped, the securities must not be suspended from trading.

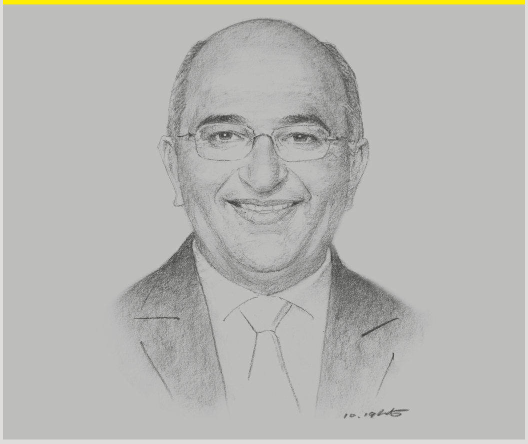
Furthermore, the transaction must be executed through a licensed broker who will be responsible for verifying the following prior to the execution of the transaction:

- Securities subject to the transaction are not Treasury shares;
- Approval granted by the Central Bank of Kuwait (CBK) if the transaction is related to securities representing 5% or more of a listed bank's capital;
- Ensure the non-applicability of one of the cases of transfer of ownership as set forth in the rulebook;
- The commission to buy and sell will be fully applied and payable on swap transactions; and
- Swap transaction commissions will be calculated based on the execution price.

The ownership of securities subject to swap transaction will be transferred from the account of the first party to the account of the second party, and from the second party to the first party. The swap transaction form will be submitted to Boursa Kuwait, following its authentication by the two brokers, via an e-mail address reserved by Boursa Kuwait for this purpose.

**CBK & CMA AGREEMENT:** In 2018 the CBK and the CMA signed a memorandum of understanding (MoU) defining their respective roles in monitoring and supervising certain activities by entities regulated by the CBK. In addition, the MoU outlines the supervisory responsibilities where an entity is regulated by both the CBK and the CMA, among other issues. The MoU provides for coordination between the CBK and the CMA with regard to investment companies established before the issuance of the CMA Law, the licensing of banks' securities activities, and mergers and acquisitions. The MoU specifies the respective roles to be undertaken by each regulator so that there is no overlap of responsibilities.

OBG would like to thank *ASAR – Al Ruwayeh & Partners* for its contribution to THE REPORT Kuwait 2019



Ahmed Barakat, Managing Partner, ASAR – Al Ruwayeh & Partners

# Room to grow

## Ahmed Barakat, Managing Partner, ASAR – Al Ruwayeh & Partners, on business-friendly legislative developments

Kuwait is undergoing a substantial overhaul of its legal framework to promote investment in the country, develop local business opportunities and help diversify its economy. This process has gained significant momentum during the last 10 years. To assist with this, antiquated laws are being replaced and updated, such as the Companies Law, the Labour Law, the Tenders Law and several laws related to the protection of intellectual property.

New laws are being promulgated to facilitate business-inclusive laws focused on public-private partnerships; the telecommunications industry, including those related to e-commerce; and the capital markets. The authorities are also looking at filling certain gaps; of particular significance, the legislature is currently considering laws relating to bankruptcy and insolvency (including a best practices approach) as well as laws concerning the provision of security for obligations, encompassing mortgages and the pledging of assets.

Arguably the most notable development related to foreign investment was the promulgation of the Foreign Direct Investment Law (FDI Law). A significant benefit under the law is that foreign investors can own up to 100% of a Kuwaiti company, up from the typical limit of 49%. Other benefits available to qualifying investors include special tax credits, assistance with employing foreign labourers and the possible allocation of land on which an investor can operate. While the FDI Law was first promulgated in 2013, the programme itself has been developed and enhanced over the years, most recently new regulations were issued clarifying how applications under the FDI Law will be scored.

The renewed focus on enhancing competition within Kuwait is also significant. Given the isolated environment within which corporations operated in past years, certain practices had evolved that stifled healthy competition. While the Kuwaiti Competition Law was put into effect in 2007, the Competition Protection Authority itself was not activated until much later, and has only recently started to ramp up its efforts to enhance fair and healthy competition in Kuwait. While the Competition Law expressly restricts certain behaviour deemed anticompetitive and requires that certain approvals be obtained in relation to sales, mergers and practices by dominant firms, given the novelty of the Competition Law and its relatively recent implementation, a number of challenges still have to be faced.

While assisting our clients with investigations regarding possible exclusionary practices, as well as with the reporting and approval of mergers and acquisitions, a significant issue that is being encountered is clarifying and establishing when a market participant is in a dominant position in a particular sector. Without getting into much detail on this issue, a party is deemed to be in a dominant position when it enjoys at least a 35% share of a relevant market. This issue becomes more complex when one considers that defining the relevant market itself poses its own issues.

There have been various opposing arguments made regarding the role and scope of the Competition Law in the context of Kuwaiti law as a whole and, in particular, how it impacts consumer protection laws. In this regard, we have seen how these issues are confused in practice by certain role players which may lead to negative consequences. Having said this, such challenges are not new in the global market, and consideration is being given to developments abroad.

On the whole, Kuwait has made significant strides towards facilitating business and promoting foreign investment in the last decade, which has been aided by changes to the legal framework. Nevertheless, the authorities have recognised that there is more to be done to attract potential investors to Kuwait.

# 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

Costa Del Sol Hotel Kuwait

# Time to rest

Jumeirah Messilah Beach Hotel & Spa

Hilton Kuwait Resort

**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.cdshotels.co
info@cdshotels.co
reservations@cdshotels.co

**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 beauty salon.
**Guest Services:** 24-hour concierge, Wi-Fi, laundry service, airport shuttle, currency exchange, valet parking, car hire and babysitting.
**Dining:** Room service, Olas Restaurant, Pescado Restaurant, Sukai Restaurant and Cortado Café.

**JUMEIRAH MESSILAH BEACH HOTEL & SPA**
Al Ta'awun Street
Messila, 13036
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:** Concierge, Wi-Fi, laundry service, airport shuttle and valet parking.
**Dining:** Arabesque Café and Terrace, all-day dining Garden Café, Mint Café, Olio Italian Restaurant, Pepper Steakhouse, Salt Restaurant and Tea Lounge.

**MILLENNIUM HOTEL & CONVENTION CENTRE KUWAIT**
4th Ring Road Salmiya, Abou Thar Al Ghafari Street
Salmiya, 29370
T: +965 2205 0505
www.millenniumhotels.com/en/kuwait-city

**Rooms:** 295 rooms and suites.
**Business & Conference Facilities:** 21 function rooms, including a ballroom and more than 6000 sq metres of conference space, and a business centre.
**Health & Leisure Facilities:** Health club with Technogym equipment, outdoor swimming pool, table tennis room and beauty salon.
**Guest Services:** Concierge, Wi-Fi, laundry service, airport shuttle, valet parking, car hire, minibar and room service.
**Dining:** Lamar (international) and Library Café.

**HILTON KUWAIT RESORT**
Salem Sabah Al Salem Al Sabah Street
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:** Concierge, Wi-Fi, laundry service, airport shuttle, visa assistance and currency exchange, accessible rooms, valet parking, car hire, minibar and room service.
**Dining:** Teatro Restaurant, Palm Court, Wave Breaker, Song Bird Café, Food to Go, Naranj Restaurant, Pizza Express and Starbucks.

**IBIS HOTEL SALMIYA KUWAIT**
8 Salem Mubarak Street
Salmiya Area 71 Block
T: +965 2573 4247 / 2576 1222
F: +965 2573 4248
www.ibis.com
h5970-re@accor.com

**Rooms:** 187 rooms and suites.
**Business & Conference Facilities:** Three meeting rooms with Wi-Fi, audio-visual equipment, and copy and print services.
**Health & Leisure Facilities:** Fitness centre.
**Guest Services:** 24-hour concierge, Wi-Fi, laundry service, airport shuttle, visa processing and currency exchange, accessible rooms and valet parking.
**Dining:** Moka Café, Olivo (international) and Il Terrazzo (shisha cafe).

**FOUR SEASONS HOTEL KUWAIT BURJ AL SHAYA**
Al Soor Street, Al Mirqab
PO Box 735, Safat, 13008
T: +965 2200 6000
www.fourseasons.com/kuwait/

**Rooms:** 284 rooms and 67 suites.
**Business & Conference Facilities:** Free Wi-Fi, business centre, two ballrooms and five function rooms for business and social events.
**Health & Leisure Facilities:** Spa with 10 treatment rooms, 24-hour fitness centre, indoor and outdoor pools, beauty salon and barber shop.
**Guest Services:** Concierge, Wi-Fi, laundry service, valet parking, children activities and room service.
**Dining:** Dai Forni (Italian), Sintoho (Asian), Elements (Italian, Indian, Arabic and Asian cuisine), Riviera (Mediterranean), Al Soor Lounge (light fare, afternoon tea, mocktails, coffee and tea) and Al Bandar Lounge (international cuisine, mezze, shisha and drinks).

**JW MARRIOTT KUWAIT CITY**
Al Shuhada Street
Safat, 13009
T: +965 2245 5550
F: +965 2245 1889
www.jwmarriottkuwaithotel.com

**Rooms:** 313 rooms and suites.
Business & Conference Facilities: Four meeting rooms, two ballrooms, executive lounge and business centre.
**Health & Leisure Facilities:** Health club, indoor pool and sauna.
**Guest Services:** Concierge, high-speed Wi-Fi, airport shuttle, visa assistance, accessible rooms available, valet parking, and Direct access to the luxury Salhia Mall.
**Dining:** Crossroads Restaurant (international), Terrace Grill Steakhouse and Kei Restaurant (Japanese).

**CROWNE PLAZA KUWAIT AL THURAYA CITY**
Farwaniya, 103 Street
PO Box 18544, Al Kuwait, 81006
T: +965 1848 111 / 24732100
F: +965 2473 2020
www.crowneplaza.com
reservation.atc@ihg.com

**Rooms:** 207 rooms.
**Business & Conference Facilities:** 13 meeting rooms, five ballrooms with a maximum capacity of 2500 people, business centre and Wi-Fi.
**Health & Leisure Facilities:** Fitness Centre, swimming pool and spa.
**Guest Services:** Laundry service, Wi-Fi, accessible rooms and parking.
**Dining:** Ayam Zaman Lebanese Restaurant, Al Noukhaza Sea Food, Sakura Japanese Restaurant, Jamawar Indian Restaurant, Rib Eye Steak House, Shabestan Iranian Restaurant, Silk Restaurant and Al Ahmadi International Restaurant.


Ibis Hotel Salmiya Kuwait


JW Marriott Kuwait City


# Kuwait's source for local business news


KuwaitTimes

www.KuwaitTimes.com

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. Other widely spoken languages include Hindi, Farsi, Urdu and Filipino.

Under most circumstances, 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.

## 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
1858 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
www.cbk.gov.kw
Boursa Kuwait
2299 2000
www.boursakuwait.com.kw
Central Agency for Public Tenders
2291 0000
www.ctc.gov.kw
Kuwait Direct Investment Promotion Authority
2205 4050
www.kdipa.gov.kw
Kuwait Clearing Company
184 1111
www.maqasa.com
Kuwait Foundation for the Advancement of Sciences
2227 8100
www.kfas.org
Kuwait Fund for Arab Economic Development
2299 9000
www.kuwait-fund.org
Public Authority for Industry
2530 2030
www.pai.gov.kw
Kuwait Institute for Scientific Research
2498 9000
www.kisr.edu.kw
Kuwait Investment Authority
2248 5600
www.kia.gov.kw
Kuwait Petroleum Corporation
185 8585
www.kpc.com.kw
Public Institution for Social Security
2299 4000
www.pifss.gov.kw

## ASSOCIATIONS

American Business Council Kuwait
2576 0137
www.abckw.org
Chamber of Commerce & Industry
1805 580
www.kuwaitchamber.org.kw
Kuwait Industries Union
2240 3561/4
www.kiu-kw.org

## EMBASSIES

Australia
2232 2422
Bahrain
2531 8530
Canada
2256 3025
China
2533 3340
Egypt
2251 9955
France
2205 8900
Germany
2252 0827
India
2253 0600
Iran
2256 1084
Iraq
2252 0679
Japan
2530 9400
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
2227 7400
UAE
2252 8544
UK
2259 4320
US
2259 1001

## NEWSPAPERS & MAGAZINES

Arab Times (English)
2481 3566
www.arabtimesonline.com
Kuwait Times (English)
2483 5616/7
news.kuwaittimes.net

## LAW OFFICES

ASAR – Al Ruwayeh & Partners
2240 0064
asar@asarlegal.com

## CONSULTANCY & ACCOUNTANCY SERVICES

EY Kuwait
2295 5000
kuwait@kw.ey.com

## AUTOMOBILE SERVICES

Priority Automobile
2225 2525
priorityautomobile.com

## EMERGENCY

Police, Fire & Ambulance
112

# 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:** Conditions vary for visas 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 October 2019. 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 a valid photo ID and a current visa with you.

**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. Terminal 2 is currently under construction and is due for completion in 2022. It is expected to expand overall capacity at the airport by 13m passengers, adding gates, parking and a hotel. This project is part of a larger plan to expand the airport's capacities, with Terminals 4 and 5 inaugurated in 2018.

**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 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.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