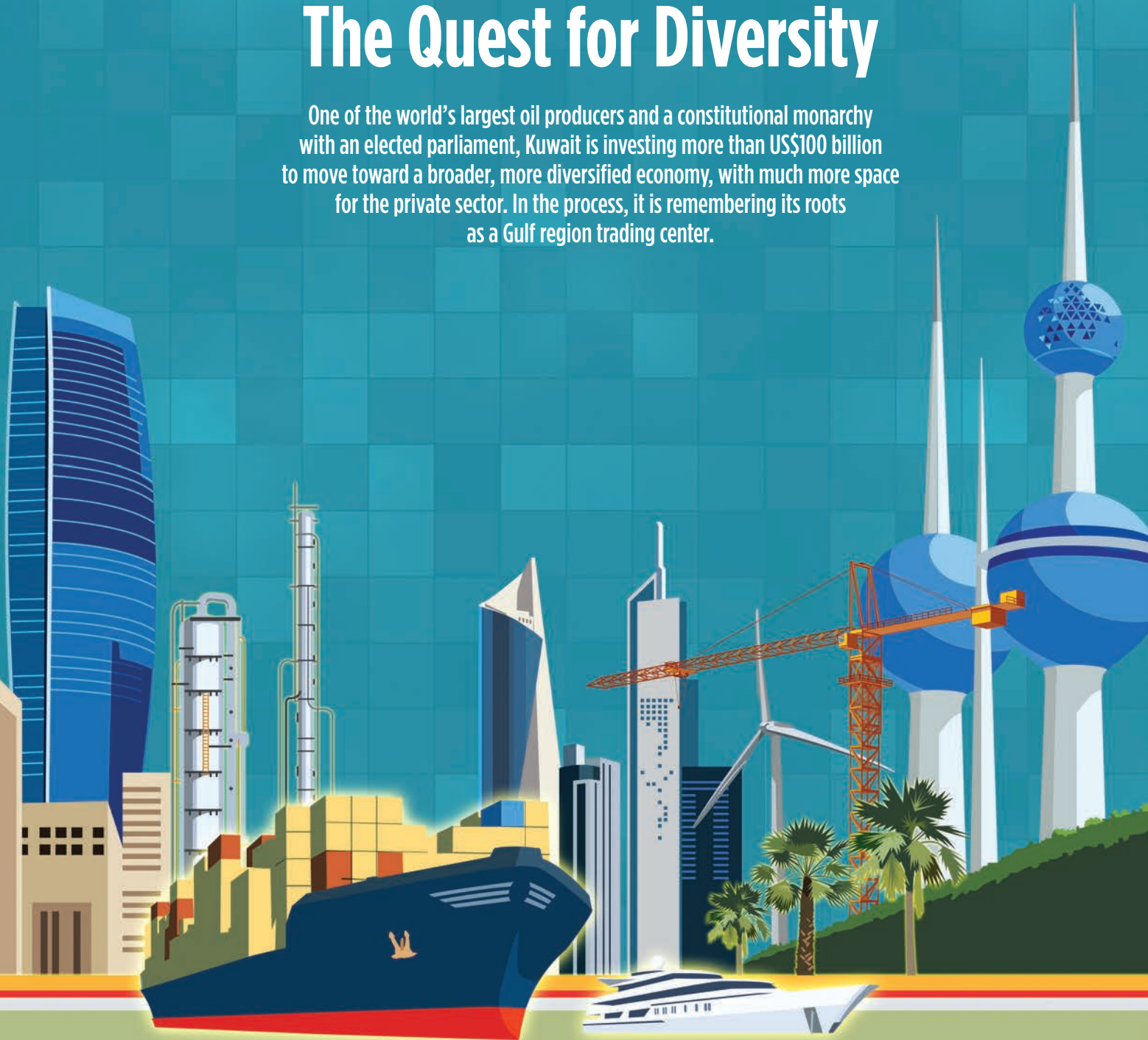


KUWAIT

The Quest for Diversity

One of the world's largest oil producers and a constitutional monarchy with an elected parliament, Kuwait is investing more than US\$100 billion to move toward a broader, more diversified economy, with much more space for the private sector. In the process, it is remembering its roots as a Gulf region trading center.





H.E. Sheikh Mohammed Abdullah Al-Mubarak Al-Sabah
Minister of State for Cabinet Affairs

H

ow would you describe this moment in time for Kuwait?

This is truly a turning point in the history of modern Kuwait, meaning Kuwait after the [1962] constitution. We have recently changed the electoral law to allow one man, one vote. We have also pushed through a dramatic development plan that aims to inject a lot of government money into infrastructure, and more important into developing our human capital, which is our most valuable resource. Finally, it is a time in history when, thankfully, things have recently stabilized much more in our neighborhood than has been the case in the last ten or fifteen years, because Kuwait's position and size mean that we are normally greatly influenced by what is going on in the region. When you consider all of these developments, you find that it is truly a moment with great opportunity for Kuwait. Not only for Kuwaitis, but also for foreign businesses who intend to partner with us.

The government is placing great emphasis on youth development...

Right we recently created the Ministry for Youth and Youth Affairs to ensure that we have one body where we can concentrate government spending and initiatives so they effectively reach young people. And eighteen to thirty five year olds certainly receive a large proportion our new SME [small and medium enterprises] fund. We also have a fantastic initiative by which any Kuwaiti who receives accreditation or acceptance from the top one hundred universities automatically gets a government scholarship. ●

Traditional Strengths, New Directions

Once a sleepy fishing village in an idyllic niche of the Arabian Gulf, Kuwait boomed in the eighteenth century as a major commercial center and entrepôt. Kuwaiti-built boats were famed for their quality; merchants from far and wide set up shop and Kuwait became a haven of peaceful prosperity.

Then came the twentieth century. Flush with easy oil revenues that regularly finance nine-tenths of public expenditure and spared Kuwaitis the burden of paying income tax, as many as 95 percent of citizens shunned the private sector to work in safe, well-paid government jobs. In 1990, the Iraqi invasion frightened away foreign investors who were beginning to grow the non-oil economy.

But Kuwaitis have not forgotten their commercial and entrepreneurial past. While Kuwait's oil reserves will last for many years, and the country has massive hard-currency reserves to tide it over low prices, the International Monetary Fund (IMF) has warned for some time that government spending could soon exceed oil revenues. Led by Emir Sabah Al-Ahmad Al-Jaber Al-Sabah, who came to power in 2006, public- and private-sector leaders have started planning to diversify the economy and shift away from an over reliance on petroleum, drawing on the state's historical strengths to become a regional trade and financial hub.

"Kuwait was built on the pri-

private sector, its roots come from being a natural port," says Faisal Al-Mutawa, CEO of Ali Abdulwahab Sons & Co., a century-old trading company and retail distributor. "With the discovery of oil, Kuwait has moved toward government more and more because the government has grown richer; it started to have more power and to employ more people. That is why we in the private sector became very small. We have to change the culture." Today's lower oil prices merely reinforce the necessity, he said. "Because of the excess wealth of the oil, they have become blind to what could happen in the future. We have to go back to previous ages."

Al-Mutawa is far from alone in his analysis. "Kuwait is gifted with talent, it is a trading community; this worked very well for us when there was no oil," noted Finance Minister and Deputy Prime Minister Anas Khalid Al-Saleh. "We were gifted with being strong merchants along with our strategic location at the top of the Gulf. I think there is no other option for us than to be a trading hub with financial services. It's what we do best."



Dr. Sheik Meshaal Jaber Al-Sabah
Director General
Kuwait Direct Investment Promotion Authority

WHY KUWAIT WANTS FOREIGN INVESTMENT

There is a widespread notion that an oil-rich country like Kuwait does not need foreign direct investment (FDI). Dr. Sheik Meshaal Jaber Al-Ahmad Al-Sabah explains why it does: "Kuwait needs FDI to attract top global corporations that bring in their technology and their modern managerial, administrative, and marketing systems. That enhances our country's technological capabilities and helps establish viable linkages with global value chains via successful partnerships and joint ventures with the local private sector. The ultimate goal is to diversify the economy, ensure sustainable growth and broaden the jobs pool and capacity-building opportunities for Kuwaitis."

Tackling Systemic Problems

The government has launched an ambitious plan to invest some US\$110 billion in infrastructure to make the country more efficient and help promote the private sector. There is also a major fund to foster small and medium enterprises, and new legislation to facilitate foreign direct investment and public-private partnerships.

Moreover, Kuwait is attacking some deep-rooted systemic problems, not least ingrained bureaucracy and corruption. In 2015, the World Bank's Doing Business Survey ranked Kuwait 86 out of 189 countries for ease of doing business, 150 for starting a business, and 131 for contract enforcement, while Transparency International's 2014 Index of Corruption Perceptions placed Kuwait 67 out of 175 countries.

Kancor, the Kuwait Anti-Corruption Authority, was

created in 2012 and became operational this year with a mandate to implement the UN Convention against Corruption, which Kuwait ratified in 2007. Kancor President Abulrahman Nemash Al-Nemash said Kuwait has good anti-corruption legislation and hailed the establishment of a Financial Investigations Unit. "However, we do see deficiency in the paucity and weakness of procedural monitoring measures inside state institutions... aimed at the performance of employees and officials, especially those whose tasks involve administering public funds and property," Al-Nemash said, adding that Kancor is studying mechanisms to rectify this. The authority sent staffers abroad to study best practices and is promoting seminars and workshops to raise public awareness.

Some commentators were skeptical. "Kuwait's corruption body has a mountain to

NEUTRALITY

"Kuwait had the great honor to be asked by the UN to hold not one but two donor conferences on the Syrian humanitarian crisis. Kuwait has the ability to bring different parties to the table, because it truly is politically neutral on many events."

Sheikh Mohammed Al-Sabah

climb," the Gulf States Newsletter commented, pointing in particular to labyrinth bureaucracy that favors bribery as a way of getting things done.

Foreign observers are optimistic. Peter Somekh of the DLA Piper law firm said that "recent legislative developments have undoubtedly made Kuwait a more attractive investment region. Attracting foreign investment has the benefit of introducing more rigor and discipline in relation to corporate governance practices." ●

Q&A



H.E. Anas Khalid Al Saleh
Deputy Prime Minister
and Minister of Finance

D

oes the current low price of oil make it easier or more difficult to diversify the economy?

It definitely helps to sell the idea and brings urgency to the notion. In the past, diversification was a program that we had to initiate to be prepared; now it is a necessity. The positive outcome of major reforms is the solid backing not only from politicians but moreover the worldwide public: they are listening.

What are the short- and long-term implications of current oil prices?

Kuwait is well prepared for this, thanks to the prudent and skillful policy that was implemented to maintain reserves. Over the last two financial years, we managed to increase from 10 percent to 25 percent the credit reserve transfer to the Future Generations Fund. We treat it as an expense; this is part of our conservative policy.

What are the plans to offset the deficit you will face?

We started to implement practices before the oil price fell. We began attacking the subsidies, launched our partnership with the private sector and now are giving the private sector, the space it needs to participate and support us in the development plan.

Does lower oil revenue lead to a greater need for foreign investment in projects?

We have recognized the need for foreign investment since 2008. A department was created to facilitate and encourage FDI but it did not perform as we wished so we developed KDIPA to provide a welcoming environment for foreign investors. Kuwait used to be the least accommodating state in the Gulf Cooperation Council (GCC) for foreign investors, but last year saw major legislative reforms: the corporate law, the license law, and the KDIPA law. Now we have to enforce these laws and implement them efficiently. ●



Faisal Alhijher

**Bader Nasser Al-Kharafi**Vice Chairman
Zain**A**

s a leading mobile telecommunications provider in the Middle East and North Africa, Zain is one of a number of Kuwaiti firms that have leveraged local roots to go international. Along the way, many have professionalized their management and opened their capital—Zain is 100 percent traded on the Kuwait Stock Exchange.

This exposure to—and success in—a competitive environment gives Zain Vice Chairman Bader Nasser Al-Kharafi, a graduate mechanical engineer and an ardent supporter of entrepreneurial youth training, an exceptional vantage point from which to analyze Kuwait's economic progress.

How can the Kuwaiti private sector grow stronger?

To sustain and manage the growth achieved by the public sector, the way forward is to privatize businesses and create efficiencies, enhancing scale and profitability and spurring healthy competition. The private sector will gain traction once the government increases infrastructure spending under the Kuwait Development Plan. It would also be helpful for the government to set up an infrastructure and national projects financing plan under which an autonomous financing institution provides flexible long-term financing for private-sector projects in areas of economic interest, for example retail, health care, services, food, and technology. This will empower the private sector to take on large-scale projects whose feasibility improves significantly with long-term funding. ●



Mishal Albattar

National Development Plan**New Directions**

Despite falling oil revenues, Kuwait is pursuing an ambitious five-year plan designed to pump some US\$112 billion into economic and social development, mainly major infrastructure projects. The goals? Diversify the economy, boost private-sector participation—including foreign investment—and create thousands of opportunities for young people.

“I aim to maintain expenditure and run a higher deficit rather than cause stagnation in an economy that depends on government spending,” Finance Minister and Deputy Prime Minister Anas Khalid Al-Saleh said in an interview. “We are pushing ahead with our development plan and have announced 521 projects at a cost of KWD 6 billion for this financial year. But we would like [the government] to slowly move out [of the economy] and allow the private sector to step in.”

The 2015-2020 Kuwait Development Plan (KDP) builds on its 2010-2015 predecessor. Some 80 percent of the projects

are continued, with the addition of around one hundred. The emphasis on local and international private participation remains the same, as does the overall goal, officially described as transforming Kuwait into “a regional trade and financial hub through sustained economic development, economic diversification, and GDP [gross domestic product] growth.”

Although infrastructure megaprojects, many structured as public-private partnerships, are the eye-catchers, the plan also targets housing, demographics, and other structural imbalances, according to Planning and Development Minister Hind Sabeeh Al-Sabeeh.

Many Kuwaitis in and out of government speak of the KDP as creating a historic shift in priorities aimed at decreasing the country's dependence on oil revenues, although it also includes some US\$35 billion to boost oil and natural gas production.

Better to Start Early

Reshaping an oil-rich national economy is rarely easy. “Inter-

national experience shows that diversifying away from oil is very difficult. Success or failure appears to depend on the implementation of appropriate policies ahead of the decline in oil revenues,” IMF economists warned in a staff discussion note published December 2014. The report, “Economic Diversification in the GCC: Past, Present, and Future,” argued that “greater diversification would reduce exposure to volatility and uncertainty in the global oil market, help create private sector jobs, increase productivity and sustainable growth, and establish the non-oil economy that will be needed in the future when oil revenues start to dwindle.”

Kuwait does not face an imminent decline in oil receipts, but the KDP strategy closely matches the IMF economists' analysis: “Diversification in the GCC will require realigning incentives for firms and workers. At present, the distribution of oil revenues within the economy crowds out production of non-oil tradables. Producing non-tradables is less risky and more profitable for firms because they can benefit from the rapid growth in government spending, while the easy availability of low

At a Glance
KDP 2015-2020

- US\$112 billion over five years
- US\$19 billion in current financial year
- FDI attraction, with public-private partnerships (PPPs)
- support for SMEs
- US\$20 billion Kuwait City metro, 69 km, construction starts 2017
- KWD 8 billion rail link with Kuwait's five GCC partners
- a new “media city”
- privatization of some public schools and a university
- construction of a new terminal at Kuwait airport
- power-generation projects
- sewage network expansion
- development of low-cost housing
- major new container port on Boubiyah Island
- Silk City—a huge new business and residential area
- tourism development of Failaka Island

skilled, low-wage foreign labor has helped extract larger rents. The continued availability of public sector jobs discourages nationals from pursuing entrepreneurship and private sector employment.”

Many of the infrastructure projects in the KDP are designed to stimulate the private sector. Plans call for development of the Mubarak Al-Kabeer Port on Boubiyah Island, plus a major business and residential development at Silk City in Subiya, a 250-square-kilometer area north of Kuwait Bay. This will link to Kuwait City via the twenty-four-mile Subiya Causeway, due for completion in 2018. ➤



Jonathan Perle

Q&A**Lord Jonathan Marland**Co-Chair
UK-Kuwait Business Council**Alliances for the Future**

Lord Jonathan Marland, a former British government parliamentary under secretary and prime minister's trade envoy, serves as co-chair of the UK-Kuwait Business Council alongside Mohammed Alshaya, the executive chairman of Kuwait's Alshaya retail and entertainment conglomerate. The Business Council is a semi-official body created in 2013 to boost trade and investment between the two countries, and to identify and remove any obstacles hindering these bilateral flows. Marland, a successful businessman, also serves on the High Advisory Council of the Kuwait National Fund for Small and Medium Enterprise Development—a body with US\$7 billion in Kuwaiti government capital.

Y

ou have said that the Kuwait Development Plan offers great opportunities for Kuwaiti and British companies to build “alliances for the future.” Where, in particular?

There are tremendous opportunities in the oil sector and British companies have been awarded some of the new oil sector contracts. The rejuvenation of Kuwait Airways has seen the order of Airbus planes with Rolls Royce engines, and these will be arriving very soon. With regard to the new airport, the architect selected was Norman Foster. There will be a lot more activity relating to the airport in which British companies can be involved.

Where else?

Britain has skills and the need to grow our economy through exports, while Kuwait has complimentary skills and capital. I think that the combination of investment, skill sharing, and trust makes Kuwait an ideal partner for Britain. If you look at our medical profession, for example, there are thousands of Kuwaitis coming to London for medical treatment and we are privileged to receive them, but why should we not transfer some of our skills to Kuwait? Business can develop as a result of that. And just look at our education system—a lot of Kuwaitis come to the UK to be educated, or further educated. So why don't we create this opportunity in Kuwait, so that they have



the system available within their country and don't need to travel?

Britain and Kuwait have enjoyed very long relations. When you were in government, how did you help promote that?

Well, Britain had a very good ambassador in Kuwait and our diplomatic relations were excellent, so it was possible to start building strong business relationships relatively easily. Kuwait and Britain have a good royal connection, matched with great ministerial links. This helps foster businesses. Kuwait has had a sovereign wealth fund based in the United Kingdom for sixty years, and Kuwait has been one of the biggest investors in the United Kingdom for many years and will continue to invest, so the platform is there for mutual development. We organized a series of events; we took British business people to Kuwait, and Kuwaiti business delegates then came to the United Kingdom with the country's ministers to show what opportunities Kuwait offers. And the state visit of the emir [in November of 2012] was considered hugely successful; it reminded us that we were long-term friends.

What's your advice for British business-people wanting to get involved in Kuwait?

Kuwaitis are extremely friendly people, [but] they take a long-term view and drive a very hard bargain. Once you have taken the time to build relationships—and business is all about relationships—you can establish very strong, open and trusted ties in Kuwait. ●



Ghosson Ghassan Al-Khaled

Chief Operating Officer
ACICO Industries Company



The Kuwait Development Plan is creating huge construction opportunities, but it's not the only game in town. The ACICO group—civil construction, cement, prefabricated construction materials, and real estate—has seen strong growth concentrating mainly in low-rise residential development, both in Kuwait and throughout the region, with factories in Kuwait, Saudi Arabia, Qatar, and Dubai. Now it is branching out into precast concrete to supply projects such as hospitals, bridges, roads, transportation, and schools, says COO Ghosson Ghassan Al-Khaled.

Making It Happen

Kuwait's new development plan seeks to increase the number of Kuwaitis working in the private sector by roughly 50 percent through 2020, from 92,000 to 137,000, boosting the private sector share of GDP from 26.4 percent to 41.9 percent. Billions of dollars will be poured into promoting local SMEs, in particular in sectors where Kuwait has potential for homegrown development and innovation.

KDIPA's simplified "one-stop shop" promises to reduce FDI bureaucracy, while infrastructure megaprojects should benefit from recent improvements to legislation.

A 2013 FDI law received detailed regulation in December of 2014, allowing up to 100 percent foreign capital in most Kuwait-registered companies and the installation of branch and representative offices. In February 2015, the Council of Ministers

named just ten sectors that are excluded from the 100 percent rule; they include oil and gas production, some downstream activities, real estate activities, and professional services such as law firms. Everything else is up for grabs.

This year also saw a new public-private partnership law that brings Kuwait closer to international best practices. Ashurst LLP, a global law firm based in London, noted that

KUWAIT LABOR LAW PROGRESS

Human Rights Watch (HRW) recently praised Kuwait's National Assembly for new legislation that gives domestic workers enforceable labor rights. The country has an estimated 660,000-plus domestic workers, mainly women from Asia and Africa. "Kuwait has set an important precedent for its Gulf neighbors by accepting that domestic workers' rights should be protected in law," HRW researcher Rothna Begum told reporters.



"the new PPP law places an emphasis on the principles of transparency, openness, freedom of competition and equality of opportunities, all of which will be welcomed by investors. This over-arching philosophy translates into more investor-friendly provisions in the new PPP law, particularly in relation to attracting financing."

All Pull Together?

However, analysts caution that transforming fine plans into real change and effective development will require more than just good intentions, in particular given the disappointing rate of implementation of the 2010-2015 plan, caused, they say, by administrative inefficiency and political squabbling. As of January 2014, the government had spent just 57 percent of the allocated budget.

"Partly because of its vast oil wealth, Kuwait has been slower than regional peers in developing its non-oil sector through encouraging private sector activity and attracting foreign investment," Moody's Investors Service noted in November 2014. While stating that "the inherent instability of Kuwait's institutional set-up does not pose a risk to overall political stability," Moody's warned that "the continued confrontation of the legislative and executive branches of government hampers effectiveness of policymaking."

Similarly, Peter Somekh, managing partner (Dubai) of the DLA Piper law firm, cautioned that "Kuwait needs to ensure that the political framework supports a swifter approach to executing development projects. We often hear ambitious plans that fail to come to fruition. There needs to be confidence that projects will get off the ground."

KFH Research Limited, an investment research firm that focuses on Kuwait, noted that the major KDP infrastructure projects will "undoubtedly" stimulate the national economy to include wider aspects like housing, education, health, airports, and harbors, in addition to oil and infrastructure projects: "If the government and National Assembly establish a better working relationship, major progress is expected on development projects." ●

Spotlight



Marzouk Al-Kharafi
Chairman
Kharafi National

Q&A



H. E. Hind Sabeeh Al-Sabeeh
Minister of State for Planning
and Development

"The new Kuwait Development Plan seeks to match projects with goals, and there's a system to monitor implementation on a daily basis"

H

ow does the 2015-2020 Kuwait Development Plan differ from the 2010-2015 plan?

The first KDP did not focus enough on the policy and the goals to be achieved; it mainly just put in place the projects. However, we must match each project with the required policy and goals. Now we have instituted a daily follow-up process to maximize implementation. Each project affects others so we must look at the output of each one, and we must focus on the megaprojects to expand other areas. We used to adopt a top-down approach based on targets; there was a lack of implementation and understanding. We needed target-driven planning in which the implementer must have autonomy determining how to achieve his goals.

Is there a central goal to the 2015-2020 KDP or do the components work alongside each other?

We have five goals in the plan and more than two hundred policies. Whatever we propose, we then have to implement it, so there is not just one goal. We want the entire cabinet and Parliament to focus on the plan, and we have succeeded in that. We also now have a committee to schedule Parliament's priorities in accordance with the plan.

You are in charge of the communication of the Development Plan. Have you received any collaboration from abroad?

I visited Japan to seek Tokyo's input and experience; also Korea and England to learn how people can help us speed up the implementation of our plan. We have memorandums of understanding with countries for input, in particular with the United Kingdom.

Can SMEs be involved in KDP projects?
They definitely can! There are huge opportunities in the private sector. ●

"Kuwait should achieve significant progress in diversification of sources of income, reducing reliance on oil"

In just four decades, Kharafi National has grown from a local Kuwaiti contractor into a major regional infrastructure project developer, contractor, and service provider to the oil industry and other sectors. With more than 27,750 employees, the company is active in build-operate-transfer (BOT), build-own-operate (BOO) and public-private-partnership (PPP) projects in various countries. This wide experience gives Chairman Marzouk Al-Kharafi a unique advantage in assessing his country's best paths forward: "Kuwait should promote a number of sectors that can most benefit from foreign investment and expertise, such as infrastructure investments, water, waste-water treatment, power, and communications," he said. "Kuwait also should focus on investment in the banking and financial sectors, insurance, IT and software development, hospitals and pharmaceuticals". Mr. Al-Kharafi added that the vision of KN is to become the foremost infrastructure project player in the region.



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30% are citizens

Kuwait has a population of around four million but just three in ten are citizens; the rest are immigrant workers.

41% are under 25

One in four people in Kuwait is aged fourteen or under, while just 7 percent are fifty-five or older. This means Kuwait must focus on education.

30% more than the USA

Kuwait's per-capita GDP is US\$71,000, 30 percent higher than the United States and 88 percent higher than the UK (PPP, 2014).



People to Watch



Basil Alsaalem
CEO
Kuwait Food Concepts



Ghazi F. Alhajer
Founder
United Sports Co.



Mohammed Jaffar
Owner
Talabat

Kuwait can become an exporter of ideas, and that would be a great regional business. I want Kuwaitis to travel, gain experience, and see progress. It's in Kuwait's DNA.

We could benefit from partnerships in technology, which are human-intensive, and could take advantage of our young, educated population. Kuwait can become a technological hub.

Developing the tech sector requires easy interaction between government, finance, and entrepreneurs, with the least complication possible. Not every company will succeed, but some will.

Three Young Private-Sector Trailblazers Offer Their Visions for the Future

Q&A



Faisal Ali Al-Mutawa
Chief Executive Officer
Ali AbdulWahab Sons & Co.

Kuwait's origins are in commerce, as a trading port, and your company is a great example of that tradition. What's needed to get back to those roots?

In a word, economic freedom. Throughout history, economic freedom has always created wealth. The problem we are facing in Kuwait is that we have a very large public sector that is very expensive and very inefficient.

You're talking about a change in culture?

Right. Look at countries that have grown and become very wealthy without natural resources, like Japan, Hong Kong, Singapore, and Dubai, which is the most prosperous. Economic freedom means laissez-faire, which facilitates and creates a friendly working environment without too many restrictions, too much bureaucracy, or too many laws. Regulations need to be limited to the protection of society against malpractice. As long as people are working within the rules and ethics and laws, then we should help them. What Kuwait requires is less government and more private sector.

What's your dream?

I would like to bring Kuwait back as the Pearl of the Gulf, as it used to be in the 1960s. ●

The Future Is Small... and Medium!



There's widespread understanding that Kuwait needs to reduce the presence of the state in the economy, both via privatization and by growing the private sector. In particular, this means supporting small and medium enterprises in sectors that can offer good jobs for Kuwaiti citizens rather than relying on immigrant labor.

"It could be a business that brings in technology, and if it is labor intensive then it's important that there are jobs that Kuwaitis like doing or are able to," said Dr. Mohammad Al-Zuhair, executive chairman of the recently created Kuwait National Fund for SME Development. "ICT [information and communications technology] is an obvious choice to develop as a sector; another is media and creative design. We have many marketing graduates as well as architects and we want to tap in to their minds. Historically, those people do not go and work for government."

Planners have ruled out heavy industry but some light manufacturing could make sense. "Traditionally SMEs are part of a large value change; we would be focusing

on the petrochemical sector," Dr. Al-Zuhair said.

Planning and Development Minister Hind Sabeeh Al-Sabeeh is another SME fan, in particular given the potential to provide good jobs for young Kuwaitis. Her portfolio includes labor, and recently she created a special department just for SMEs. It has helped more than three hundred companies. "Up to 80 percent of SMEs involve working with young people and they want everything quickly," she said. "Kuwaiti SMEs don't necessarily need finance; they need help in areas like obtaining licenses quickly."

Al-Sabeeh said her ministry is involving all areas of government to speed up licensing and minimize costs. She also wants government-procurement tenders to be open to smaller companies, and to help budding entrepreneurs seize opportunities outside of Kuwait. "If we work together as a government, we can help the growth process. Young people are the engine for progress; they drive the process through speed, efficiency and technology."

Enthusiastic Entrepreneurs

Not surprisingly, Kuwait's successful young businesspeople are extremely supportive of the government's focus on SMEs. Bader Nasser Al-Kharafi, vice chairman of Zain, a Kuwaiti telecoms company, called the newly established SME Fund

Q&A



Dr. Mohammad Al-Zuhair
Executive Chairman
Kuwait National Fund for
SME Development

"a remarkable initiative that emphasizes the government's desire to promote the development of Kuwaiti youth and the private sector."

This initiative, Al-Kharafi predicted, would provide much-needed impetus to the SME sector and encourage Kuwaitis to set up their own businesses, not least those people who were previously held back by the non-availability or high cost of seed capital. "This [SME Fund] is just one of the many steps that we expect the government to announce. It would also be immensely helpful to have dedicated business and industrial parks established with supporting infrastructure that can further boost the productivity and profitability of the industrial and manufacturing sectors," Al-Kharafi said.

Basil Al-Salem, cofounder and owner of the Kuwait Food Concepts Company, noted that many SMEs face a shortage of

"Our allocated capital is KWD 2 billion (US\$7 bn), making this the world's largest SME Fund. We will work actively with the private sector; I have no intention of the fund becoming an unnecessarily-large organisation."

Why did Kuwait decide to promote small and medium enterprises?

The SME Fund was created by law in 2013 but it was not the first time the government has tried to support smaller firms. There have been many attempts since 1997 and 1998 to promote SMEs in terms of financing but they were not development-focused. People complained that they did not have access to financing and that they were being asked for financial history and collateral which made things more difficult.

So what's different about the SME Fund?

Everything to do with SMEs is now under

one umbrella. We're not just a fund; we're also the country's SME agency which seeks to enhance the entrepreneurial spirit of Kuwaiti citizens; provide finance to grow their businesses; and upgrade their skills through training and technical assistance.

How do you, or will you, operate?

We have developed our strategy during the past year, and it was a challenge. Our main objective is to develop businesses which in the long run can provide returns for the fund to sustain itself. We will not be charging market interest rates even though we are assuming the

risk of the projects that we finance. Awareness and education are key if we are to change the culture; the way that small and medium enterprises are viewed; and to explain the difference between a small business and a start-up.

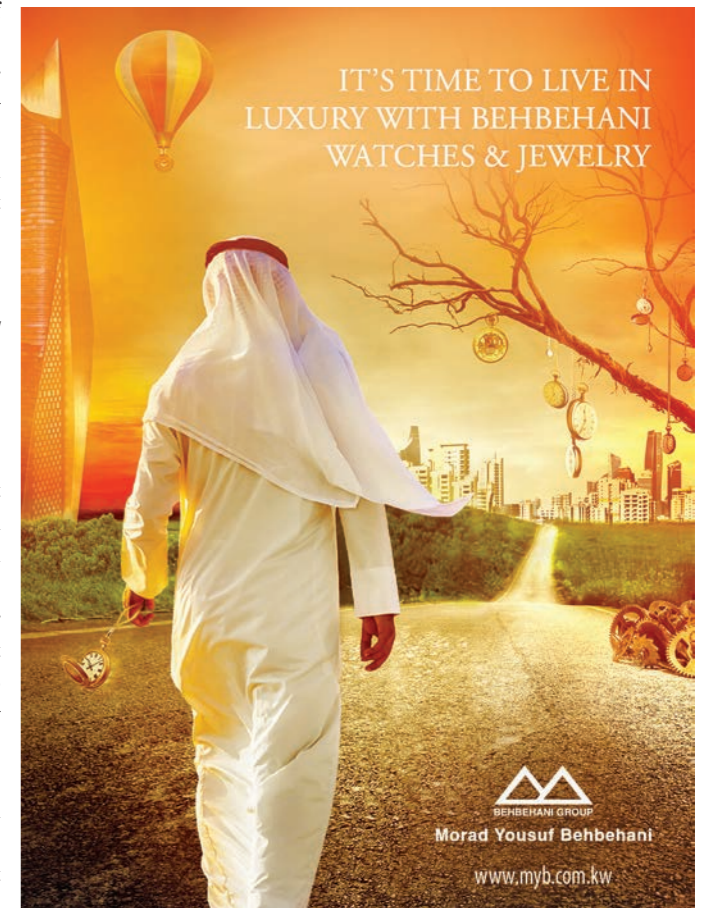
How will you support start-ups?

We will provide the right incubation for entrepreneurs. Incubators are often placed in universities, where innovation is booming and students have fewer distractions from other aspects of life. Many people talk about incubators when in reality they are just referring to working space, and we know this is not enough. There needs to be an element of handholding to develop and pilot ideas, followed by effective mentoring to turn ideas into thriving businesses. ●

suitable employees because of restrictive rules and regulations. However, as a volunteer member of a Labor Ministry committee that seeks to address SME questions, Al-Salem said he was optimistic about achieving "fruitful results."

Saleh Al-Tunaib, a co-founder of the Jaribha crowdfunding site, told the *National* in April that bureaucracy was his biggest start-up challenge. But Samar Mohammad Baqer, a professor of entrepreneurship and marketing at Kuwait University, who holds a PhD in business administration from the University of Texas at Arlington, noted that the number of Kuwaiti SMEs has grown fast recently, with the potential to foster change in the economy and create new jobs.

A key driver, she said, was private investors' expectation of money from the SME Fund: "Everybody is waiting for that fund to officially work." ●





Q&A

**Nader Al-Awadhi**Senior Partner
NEN/DLA Piper**From a legal point of view, how would you describe the business environment in Kuwait today, and in the context of the Gulf region?**

From my experience, international clients coming to Kuwait do not necessarily have full confidence in the legal system. However, we started developing a legal system conducive to business before our neighbors, and Kuwait has a real democracy with a good judicial system. This gives us a competitive advantage over others; a sound legal framework is a key component of both commercial development and social change.

What is the advantage of having a joint venture with a major international practice?

Law firms in Kuwait are mostly a one-man show. When you work for institutional clients, you need to include the type of special services that such clients require. Most of our lawyers are general practitioners with appropriate industry experience who can provide clients with a general overview of each particular situation. We also leverage our firm's global trade and government affairs practice to support clients in Kuwait, and Kuwaiti sovereign and commercial entities internationally. ●

A Blossoming Private Sector

Like changing course in the massive tankers that carry Kuwaiti crude, it will take time to steer the economy toward the private sector. But much is happening.

Sectors offering value-added services such as finance, education, telecommunications, and health already boast many vibrant local companies, often with international links. "A number of Kuwait's traditional business families have recently been investing in areas such as finance and banking, hospitality, leisure, retail, and fast-moving consumer goods," notes Bader Nasser Al-Kharafi, vice chairman of Zain. He also sees good prospects for tourism: "The World Travel and Tourism Council predicts 440,000 tourist arrivals by 2024, up from 270,000 in 2014." Investments in infrastructure, not least the new terminal at Kuwait International Airport and the development of tourist facilities on Boubiyan and Failaka Islands, will help.

Interestingly, many of Kuwait's new entrepreneurs are women. Nouf Al-Mutawa, who has a degree in mass communications and advertising, joined forces with her sister-in-law eleven years ago. Today they have an expanding chain of high-end chocolate bars in malls and shopping centers.

"When we founded Bon Group, the idea of starting your own business, especially in the food industry, was not very common," Al-Mutawa recalled. "The idea was mostly for large corporations that were bringing in international franchises that are established all over the world. For two young female Kuwaitis starting up their own food business, it was challenging in terms of people's mindsets." One clue to success: "Eleven years ago, it was all word of mouth and location was the most important thing. Today we have Instagram and Facebook. Social media has made all the difference."

Engineering graduate Ghosson Ghassan Al-Khaled was one of seventeen Kuwaitis named in *Forbes Middle East's* 2014 ranking of Most Powerful Women. As COO of ACICO Industries Company, she runs part of a cement, prefabricated construction and property development group started by her father. Expanding throughout the Gulf has meant adapting: "Kuwait is very different; the biggest difference is the culture so the marketing has to be very different." ●

**Ali Morad Yousef Behbehani**President
Morad Yousuf Behbehani Group

Formed in 1935 by Morad Yousuf Behbehani, a legendary Kuwaiti entrepreneur, the group that today bears his name is a leader in various areas of luxury retailing and wholesaling, telecommunications, vehicle distribution, engineering, and travel. The group pioneered both radio and TV broadcasting in the country, and in 1949 introduced the first air-conditioning units, so transforming living conditions and the potential for modern economic development. Today the group is led by Ali Morad Yousef Behbehani, who holds a degree in English literature from Kuwait University and has experience in fields that include banking and insurance.



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Spotlight



Prof. Moudi Al-Homoud
Rector
Arab Open University—AOU

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he Arab Open University (AOU) was founded in 2002 by Prince Talal bin Abdulaziz Al Saud of Saudi Arabia, with support from Unesco. A private, nonprofit institution offering mainly online courses, AOU is headquartered in Kuwait with branches in Jordan, Lebanon, Bahrain, Sudan, Egypt, Oman, and Saudi Arabia, where it has six campuses. The original focus on information technology and computing (ITC), business studies, education, and English is now expanding to include engineering, international law, graphic design, and media, and there is a collaboration and certification agreement with Britain's Open University.

Rector Moudi Al-Homoud, who holds a PhD in business administration from the City University London, said that the AOU's strategic plan calls for the aggregate student body to rise from just over thirty thousand to fifty thousand by 2017. To date, more than twenty thousand have graduated, more than half of them women.

A vocal advocate of women's rights, Al-Homoud—a former Kuwaiti minister in various portfolios—said that governments are not taking women's empowerment seriously enough, and this is hampering growth and development. "Women form around 74 percent of the Kuwait University student population; society has to use these resources more effectively. Today the [Kuwaiti] constitution considers males and females to be equal, so there is no excuse; they have to empower women." One personal aim, Al-Homoud said, was to make Arab governments realize that women can deliver as affectively as men in certain areas, if not in all. "Kuwait is more progressive in the educational field than most of the Arab world," she said. "We are trying to provide a role model; that is, Arab women can be as efficient as men." ●



Education

"Must try harder"

Kuwaitis in both government and the private sector know they have to focus on improving and broadening education to power the dream of becoming a world-class services hub.

In the latest (2013) Human Development Index compiled by the UN Development Programme, Kuwait ranks 46 overall, with HDI of 0.814. That puts the state just inside the group of countries with "very high human development." But Kuwait is significantly below the average for this elite group in terms of "mean years of schooling" and "expected years of schooling." However, the gap for the former indicator, which measures the adult population, is much greater than that for current youngsters. So Kuwait is catching up, but still has a way to go.

Adult literacy is 94 percent and virtually all boys and girls are in state or private schools; 22 percent go on to tertiary education. Prof. Moudi Al-Homoud of the AOU says Kuwait must retrain teachers, re-empower schools, and reform the curriculum to give more emphasis to the sciences, technology, and languages: "We have to provide a sound educational system to ensure better outcomes at the elementary, secondary, and university levels. However, although our system has some serious shortcomings, we have succeeded in certain areas."

In March of 2015 Kuwait launched a five-year program with the World Bank to "support capacity building, improve the quality of teaching and learning, and monitor [the] impact on schools and students."

Consortium Targets SMEs

Wael Ghafoor, CEO of the American School of Kuwait, a private institution, criticizes the complicated curriculum and lack of motivation at state schools. Educational specialist Hanan Al Mutawa who, together with Russell Byrne, founded the Education Consortium (EC), an award-winning NGO, links better education to the program to promote SMEs.

"The opportunity the government is now giving people with regards to funding SMEs, all these new start-ups, that's great," Al-Mutawa says. "But how they go about it is just pushing money at them to get them going. They haven't actually trained them in implementation, how to process procedures and actually complete projects. That comes back to education and training, and that's an area where we feel we should work more closely with government to channel the money in a better way." The EC has a strong focus on school leadership, empowering students, and engaging stakeholders. ●

TOMORROW'S TYCOONS

INJAZ-Kuwait is an educational NGO modeled on the United States' century-old Junior Achievement. Volunteers from private companies provide young people with hands-on, real-world experience and help them understand the role of business in a global economy, plus the importance of ethical and sustainable practices. Since it was founded in 2005, INJAZ-Kuwait has reached more than 27,000 students at 70-plus schools and universities, aided by 1,200-plus volunteers. "I believe INJAZ-Kuwait will make a real difference in the lives of young people and help mold Kuwait's future generations of business leaders and entrepreneurs," said INJAZ-Kuwait Chairman Omar Kutaiba Alghanim.

Creating the Future

Kuwait's native workforce may be small but many people hold good international degrees, so one key watchword is innovation.



"Our competitive advantage is that Kuwait has the best educated young population in the region," said Basil Al-Salem of the Kuwait Food Concepts Company. "Our youth travel and they bring home their experience. Kuwait is a huge exporter of ideas. If we can harness and capitalize on that, and the government provides the infrastructure for their development, Kuwait can create the right ecosystem for innovation."

Britain's Lord Marland sees Kuwait as a niche for the medical sector: "One must identify what skills sets are available within the country and set up the incubator to build those skills, so that they become businesses that can progress and build upon themselves."

Talabat founder Mohammed Jaffar says the environment for technology is not as developed as in the United States or Europe, but it is progressing: "The most successful e-businesses have not re-invented the wheel; they have taken offline services and converted them online,

making them easier. The Talabat deal [bought by Germany's Rocket Internet] has given people hope and inspiration. In the next few years we will see more companies like Talabat in Kuwait and the GCC."

Kuwaiti women are also driving innovation. Mona Al-Mukhaizeem is chief dealmaker at Sirdab Lab, a start-up that offers co-working space, training, and networking to other start-ups. "There are many women entrepreneurs in the [Gulf] region, and many wonderful initiatives supporting women in entrepreneurship," she said.

Sheikha Inistar Al-Sabah created Alnowair in 2013 as a nongovernmental organization (NGO) dedicated to the application of positive psychology—helping people feel better about life and by extension Kuwait. One program "focuses on inculcating positive thinking and attitudes in schools and universities, at the grass roots of our society," she said. Another has placed thirty bright yellow benches at key locations, offering people the chance to sit and reflect on a beautiful view. ●

However, over the past fifteen years we have started to have a problem with diabetes because of the change in lifestyles. We did not have the professional manpower to deal with diabetes, so this institution was established. We are looking at a completely new disease in Kuwait, which is affecting children under ten years old—Type 2 diabetes is supposed to be adult onset.

It's not just a Kuwaiti phenomenon...

Right, the whole world suddenly changed, even countries that aren't rich. Unfortunately, Kuwait is number two among GCC countries for diabetes. We were number three globally; now we are number nine. But we have 365,000 diabetic patients. That's the problem.

You want people to change their behavior?

Yes, we are looking to the future and the younger generations. So we are going into schools, and we bring the children here and teach them what diabetes is, how it works, and how to prevent it. They go home and change the views of their parents. ●

Q&A



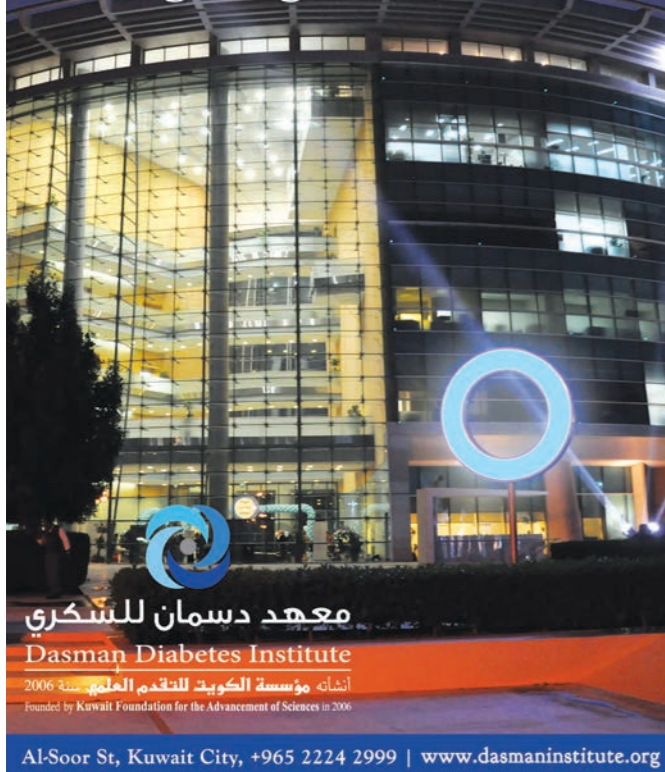
Dr. Kazem Behbehani, OBE
Director General
Dasman Diabetes Institute

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he Dasman Diabetes Institute is a world leader in its field; you have partnerships with Harvard Medical School, Cambridge University, and several other top institutions. But why did Kuwait develop such an interest in diabetes?

The main health issue in Kuwait today is chronic diseases like diabetes. Many years ago this was not a disease here; diabetes was a disease of the North, not the South, and we are considered part of the South.

A regional flagship in the fight against Diabetes



Spotlight



Abdulwahab Al-Bader
Director General
Kuwait Fund for Arab Economic
Development—KFAED

For more than half a century, Kuwait has dedicated part of its oil wealth to helping less fortunate countries around the world. Created in 1961, as of mid-2015 KFAED had extended loans totaling the equivalent of some US\$18.4 billion for 890 projects in more than 100 countries. “Philanthropy is not a good word for what we do; development aid is a better term,” said Abdulwahab Ahmed Al-Bader, an economist who has been director general of KFAED since 2005.

Energy and transportation projects normally lead the loans list, with around three-fifths of total commitments, followed by agriculture, water and sewage, industry, and communications. Just over half of the total loan amount has been directed to Arab countries.

Al-Bader noted that KFAED was created the same year that Kuwait gained independence, and reflects part of the country’s fundamental philosophy: “We are not into development aid for the sake of it. We truly believe that aid assistance is pivotal to the future of this world.” Recent loans have averaged maturity of 18 to 28 years with grace of three to six years, and carry annual interest (including a 0.5 percent service charge) of between 1.5 percent and 3.5 percent. According to KFAED’s most recent available report, these terms imply a substantial average grant element in the value of the loans. Recent grants include US\$22 million to support a drinking water project in the historic city of Axum, in Ethiopia, and US\$17 million for irrigation in Eastern and Central Nepal. ●

Springboard for Development

Foreign investors can now receive significant help to address bureaucracy, and may soon be able to place into three planned new economic zones.

Two of the most significant recent developments in Kuwait, at least as far as potential foreign investors are concerned, were the operational start-up in December 2014 of the Kuwait Direct Investment Promotion Authority and the definition this year of sectors open to FDI.

Prior to KDIPA, the country had an agency tasked with promoting inward FDI, the Kuwait Foreign Investment Bureau (KFIB), but a consensus emerged that it lacked the teeth to be effective. In the period 2003-2012, KFIB approved investment applications totaling just KWD 1.05 billion—equivalent to some US\$3.5 billion at current exchange rates, with roughly 85 percent of that destined for industrial projects.

The new 2015-2020 Kuwait Development Plan calls for investments averaging some US\$22 billion per year, with about half coming from private sources. Though there is no fixed share for FDI, the government wants to attract significant foreign involvement for the technology and market links it can bring. This suggests average annual inflows of FDI will need to be significantly higher than the old agency achieved.

“I believe that the three most important improvements brought about by the new investment law are, first, the



Muhannad Al-Sane
Chairman and Chief Executive Officer
Al-Riyada Finance & Investment Co. KSC

“There is a huge focus on how to encourage [foreign] direct investment in Kuwait. Business in Kuwait is a great opportunity. Education is growing; health care is growing; services are doing great; ICT [information and communications technology] is amazing. There is a big market they can share. That is what Kuwait needs: foreign experience to help and move forward.”

establishment of KDIPA as a separate and multidisciplinary public authority, as compared to KFIB which was a division within a ministry,” said KDIPA Director General Dr. Sheik Meshaal Jaber Al-Ahmad Al-Sabah. “Second was mandating KDIPA with broader tasks in addition to simply promoting Kuwait as an attractive direct investment location targeting both foreign and local investors; and lastly, supporting the creation within KDIPA of an administrative unit that is effectively a ‘one-stop shop’ to facilitate and speed up pro-



Faisal Albisher

cedures in collaboration with relevant government entities.

Kuwait offers approved income-tax exemption for foreign investors for up to ten years, plus customs duty exemption for the importation of raw materials, machinery, equipment, and spare parts. Foreigners may have 100 percent ownership in all but a few sectors (see page 6).

Asked about his “sales pitch” to potential foreign investors, Dr. Al-Sabah first mentioned the country’s recent legislative reforms that favor FDI. Then he added: “Kuwait’s unique selling proposition is based on its strategic location, the open and stable economy, 10 percent of the world’s proven oil reserves, democracy, sound macroeconomic conditions with high purchasing power reflecting high per-capita income, investor grade rating, low-risk classification, adequate infrastructure, a friendly, youthful and dynamic society, and a good record in human development indicators.”

Two major investments assisted by KDIPA in its first months of operation were the establishment of a KWD 353 million, fully owned subsidiary of Chinese telecoms giant Huawei and a fully owned subsidiary of IBM that will support local research and development (R&D)

and innovation, in particular for oil sector services.

Economic Zones

One of KDIPA’s potential trump cards for attracting FDI, in addition to the KDP mega-projects, could be the creation of three new economic zones.

“The ultimate goal of these economic zones will be to lay the optimal foundation to develop new areas of specialization within Kuwait to enhance its competitive advantage, creating added-value clusters and differentiating Kuwait from other countries in the region,” Dr. Al-Sabah said.

Potential locations are Abdali on the main highway north of Kuwait City near the Iraqi border; Al-Wafra near the southern border with Saudi Arabia; and Shaghaya, west of Kuwait City on the main highway to Riyadh. Potentially, all three sites will have links to the proposed national rail network that will connect with other GCC countries.

International consultants led by U.S. firm Skidmore, Owings & Merrill (SOM) have been preparing a feasibility study for the zones, looking at aspects such as potential investor demand and the legal framework. The World Bank has been supporting this work. ●



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