KUWAIT

Part 1

The Rising Pearl of the Gulf

2011 marks an emblematic year for this democratic state, which has set in motion essential plans for growth and development

In the 19th century, Kuwait was a thriving commercial hub, linking trade routes between east and west. Kuwaitis were renowned merchants and pearl divers, and as such the small country became prominently known as the "Pearl of the Gulf." Kuwait willingly went under British protection in 1899 to ward off threats from the encroaching Ottoman Empire, and following the discovery of oil in 1938—which consequently spurred economic growth—it voluntarily terminated its protectorate agreement in 1961.

The two decades that followed saw great progress, as the tiny emirate (which is smaller than New Jersey in landmass) led the entire Gulf region in socio-economic growth and development. Soon after independence the government established a constitution, creating what is considered today the most democratic and powerful parliament of any of the Gulf countries. Women were given the right to vote in 2005, and 2009 saw the first women elected to Parliament.

"Kuwait has a rich heritage of open exchange and dialogue. It has a strong foundation with a good Constitution and a freely-elected Parliament," observes Deborah Jones, U.S. Ambassador to Kuwait.

As you read this, Kuwaitis are celebrating three milestone anniversaries. 2011 marks 50 years of independence from the U.K., 20 years since the country's liberation from Iraq, and five years since H.H. the Emir ascended to the throne. By coincidence, this year is also the 30th anniversary of the Gulf Cooperation Council (GCC), which was first envisioned and greatly pushed forward by the late Emir of Kuwait, Sheikh Jaber Al-Ahmad Al-Sabah.

"The significance of celebrating Kuwait's national occasions is that they represent the decades-long journey of struggle by the people of Kuwait to build their modern state, by which they maintained its independence and sovereignty through difficult circumstances and various international challenges," says Prime Minister H.H. Sheikh Nasser Al-Mohammed Al-Sabah.

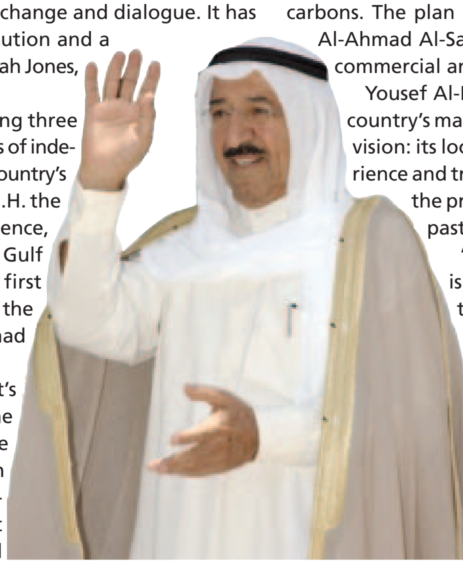
The Iraqi invasion of the early 1990s turned Kuwait's post-independence flight into plight, and the country is still struggling to catch up to the rate of development enjoyed by its neighbors. Nevertheless, Kuwait remains one of the wealthiest nations on the planet, predominantly thanks to its vast oil reserves, and the government's commitment to ensure its wealth is redistributed amongst its citizens. This, coupled with a strong democratic tradition, is certainly one failsafe preventing the political instability currently sweeping across North Africa and the Middle Eastern region from affecting Kuwait. It must be noted, however, that in tandem with the uprisings, opposition members in Kuwait's Parliament placed pressure on the cabinet with several difficult requests which led to the resignation of Government in March. However, order has been restored under the same Prime Minister, with six new changes to the cabinet.

Despite its vast oil wealth, Kuwait has of late lagged behind its neighbors in terms of economic development, and its infrastructure is in need of attention. In 2010, Parliament unanimously approved a five-year, $104 billion Development Plan (KDP), intended as a potential platform to jumpstart and diversify the economy away from hydrocarbons. The plan also aims to achieve H.H. the Emir Sheikh Sabah Al-Ahmad Al-Sabah's long-term vision: to reposition Kuwait as a commercial and financial hub for the region.

Yousef Al-Ebraheem, Economic Advisor to the Emir, lists the country's main advantages that will work toward achieving this vision: its location at the north of the Gulf; the wealth of experience and trust in its legal system and financial institutions that the private and public sectors have accumulated over the past 50 years; and lastly, a well-educated population.

"The vision is very clear and the Development Plan is a first step towards achieving it. I do not believe that we will achieve this vision in four years, and I do not think it will be an easy task either," says Al-Ebraheem. "This is our optimum objective."

He adds that the Emir's vision is not about competing with other GCC countries, but rather working with them. "I think we complement each other and we are aiming to integrate our economies in the future," explains Al-Ebraheem. ■



H.H. the Emir Sheikh Sabah Al-Ahmad Al-Sabah

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An enviable welfare state

Kuwait's government makes smart investments to ensure a comfortable future for its citizens

An oil-rich nation in an oil-rich region, Kuwait boasts one of the most comprehensive welfare systems in the world. Based on the principle of sharing the income from the nation's highly demanded natural resources with its people, the system effectively guarantees a comfortable life for every citizen.

Basic services such as electricity, water and fixed telephone lines are heavily subsidized by the government, while local cooperative societies provide food at a very reduced price. Meanwhile, medical care and education are free, and a job and a home are considered constitutional rights.

Kuwaitis enjoy excellent services through the state pension fund, which invests premiums in world markets through the privately owned investment firm, Wafra

As a result, 90% of Kuwaitis are in the middle class and the Ginni coefficient is 21.8, one of the lowest in the world.

"The strength of Kuwait lays in our constitution, our democracy, our lack of debt, the country's small population and of course the oil reserves," explains Fahad Al-Rajaan, director general of the Public Institution for Social Security (PIFSS). "If you look at these five elements it is evident that we are in a much better position than many countries in the world."

Established in 1977, PIFSS is one of the oldest institutions in the Middle East. Despite being a public institution its success lay partly in its independence, which allows it to operate much like a private pension fund.

There are three main unique characteristics in the structure of Kuwait's social pension system. Firstly, it receives financing from three different entities, namely, the contributors and the employers—who jointly pay 60%—and the government, which pays the remaining 40%. According to Al-Rajaan, this is the main reason why the Kuwaiti pension scheme has the highest benefits for its people in the entire Gulf region, the Arab world, and most of the Western world.

Second, PIFSS is a fully funded institution, meaning the income it receives from today's contributors does not directly affect the funds available to pay its policy holders, thus ensuring the sustainability of the scheme in the forthcoming years, given its greater liquidity for investment. This is in contrast to state pension funds in many other countries, where the money currently injected is going directly back out to the present policy claimers, creating a degree of uncertainty for future generations.

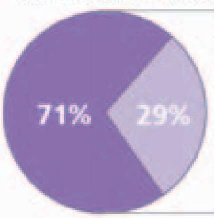
Finally, the pension fund pays out generously. "After the age of 30 our coverage goes up to 95% of their salary which is the highest coverage. Most pension schemes pay a maximum of 65% after 30 years. The minimum we can pay out is 65% so these are tremendous benefits for Kuwaitis in comparison to the rest of the world. In addition, people can still retire at the age of 50," comments Al-Rajaan.

PIFSS is also a powerful investor both nationally and internationally. Once it collects the premiums, PIFSS invests the money through institutions like Wafra Investment Advisory Group (Wafra).

Based in New York City, Wafra was established in 1985 by Al-Rajaan (along with other partners), specifically to give PIFSS access to experienced investment professionals who specialize in a diverse group of asset management activities that allow for efficient management of the institution's funds abroad. Today, Wafra has expanded and has approximately $10 billion in assets (including unfunded commitments) under management, of which just 30% is from PIFSS. The remainder stems from other institutional clients from around the Gulf region.

Assets Under Management by Product Type*

Total Firm AUM = $10,481 Million



Division	In Millions (USD)
Securities	2,034
Alternative Investments	1,352
Direct Equity	399
Real Estate	455
Private Asset Management	1,935
Structured Finance	2,490
Other	1,816

■ Conventional Products ■ Shari'ah-Compliant Products

* Wafra and its affiliates' recent valuations of assets and commitments under management as of 12/31/10. All figures are estimated.

A privately owned subsidiary of Wafra InterVest Corporation, Wafra manages structured products, alternative investment products, commingled investment vehicles, and Islamic products for its clients. It invests in public equity and fixed income markets across the globe, as well as in direct equity, alternative investments and real estate markets.

Although PIFSS and other Kuwaiti institutions such as Kuwait Investment Authority (KIA)—established in 1953 and the world's oldest sovereign wealth fund—have investments all over the world, the government considers the U.S. market to be an attractive destination.

According to Mustafa Al-Shamali, the Minister of Finance and Chairman of KIA, "The U.S. continues to remain an important investment destination, even considering the current crisis, based on the fact that it continues to remain technically attractive with large market capitalization as a percent of the global market cap. There is, however, a recent trend in emerging markets becoming more attractive. Nevertheless, these markets face limitations due to the amount of stocks available to invest in as well as appropriate market regulations.

"Today [Wafra] manages approximately $10 billion; only 30% from our institution [PIFSS] and 70% from others."

–Fahad Al-Rajaan, Director General of PIFSS

"The U.S. also continues to remain a leading source of R&D as it still dominates absolute spending in R&D globally at a level which is well above its share of global GDP."

Interestingly, through KIA and investment vehicles such as Wafra, Kuwait has internationalized its presence and assets by acquiring important stakes in many leading multinational enterprises ranging from BP to Citigroup and Daimler AG, which as Al-Rajaan puts it, is because "we are all part of an increasingly globalized world". ■

Half a century catalyzing the growth of countries in need

As far back as the 19th century when the country was known as a thriving commercial hub, Kuwaitis have been an outward looking people, learning languages for trade and collaborating with other countries for security and commerce.

This worldly view was behind the creation of the Gulf Cooperation Council (GCC) in 1981. "The GCC is not just a security pact, but also a cultural and economic pact because we share the same culture, and we have the same economic concerns as resource-based economies," says Sheikh Dr. Mohammad Sabah Al-Sabah, Kuwait's Deputy Prime Minister and Minister of Foreign Affairs.

Even before the establishment of the GCC, Kuwait was looking beyond its borders, yet not so much with a watchful eye as with a benevolent one. Just four months after declaring its independence in 1961 and several months before drafting a constitution, Kuwait established the Kuwait Fund for Arab Economic Development (KFAED). This was not Kuwait's first institution of this kind.

"The concept of aid was not new in 1961. It formed part of Kuwait's goodwill way before that," explains Adbulwahab Al-Bader, director general of KFAED. "In the 1950s, when Kuwait was not yet independent, there was an institution for social assistance which provided grants in the Arab peninsula. It used to be called the Authority for the South, and it provided our [neighboring countries] with grants for building hospitals and schools. The Kuwait Fund was then established to assist in economic development, including infrastructure projects."

The second fund of its kind ever created (after the World Bank) and the first one established by a developing nation, Kuwait's contribution to the world's poorest countries amounts to 1.4% of Kuwait's GDP. This is double the target the United Nations sets for Official Development Assistance to developing countries, impressive given Kuwait is still a developing nation itself. Since 1961, KFAED has provided loans totalling $16.3 billion for a variety of projects including infrastructure, transport and energy.

"We have more than 100 clients around the world, and if you look at the World Bank's list of countries ranked by GDP per capita, the bottom 50 are our customers," explains Sheikh Dr. Mohammed.

"I think that providing assistance to countries is an investment in relationships with others. You shouldn't look at this from a return of investment point of view. This institution has used its own resources to assist other countries, and we've used our liquid assets in the international markets to earn money to help us reinvest in our main lending operation, which sustains our development cooperation with our partners in the developing world," says Al-Bader.

"The GCC is not just a security pact, but also a cultural and economic pact."

–Sheikh Dr. Mohammad Sabah Al-Sabah, Deputy Prime Minister and Minister of Foreign Affairs

"Kuwait is not just about oil resources; it is much more than that. We want to live in a peaceful world that is free of hunger, poverty and disorder, so we as a development institution try our best to help." ■

Some of the mega projects under the KDP: the new "Silk City", Metro link and the airport expansion

Turning a vision into reality

In 2010, Kuwait unanimously approved a $104 billion Development Plan through 2014

Kuwait's potential to compete globally as a regional commercial and financial hub has gone unexploited since the Iraqi invasion stalled growth and damaged the country's infrastructure. Some development projects have been in the pipeline for up to 20 years but have been hindered by the combination of bureaucracy and lack of technical expertise. Also, as a country with a dominating public sector, a much-needed entrepreneurial zest has been missing.

This is changing, however, thanks to the Development Plan 2010-2014 (KDP), the purpose of which is twofold: to diversify the economy away from the oil sector—while also investing in greater oil and natural gas production—and to increase the role of the private sector.

The plan encompasses myriad infrastructure projects, ranging from a new business city, known as Silk City, to the Boubyan Port project, intended to service the growing markets of Iraq and Iran.

While the government aims to increase private sector participation, rather than capital investment, Kuwait seeks transfer of knowledge and technologies, especially from future U.S. partners.

"We have a very good cash flow situation. We are doing this to change our economic model, not because we need money," comments the man who is overseeing the implementation of the Development Plan, Sheikh Ahmad Al-Fahad Al-Sabah, Deputy Prime Minister of Economic Affairs, Minister of State for Development Affairs, and Minister of Housing.

Working under the auspice of the Ministry of Commerce & Industry, the Kuwait Foreign Investment Bureau (KFIB) works to improve conditions for foreign investors. For example, the KFIB passed legislation that slashes tax paid on net profits by foreign companies from up to 55% down to a flat 15%.

"KFIB works to streamline the business environment and reduce bureaucracy," explains Sheikh Meshaal Al-Jaber Al-Sabah, chief of the KFIB. He adds, "KFIB serves as the first entry point for foreign investors in Kuwait."

To date, KFIB has approved $1.2 billion in investments into Kuwait, of which 90% are in the manufacturing industries—especially petrochemical—and 7% in services. The latter are mainly for branches of major international banks.

To help future potential investors along, KFIB is currently preparing an "investment map" and is engaged in the development of three economic zones in Abdali, Wafra and Shagaya.

KFIB concentrates its efforts on ensuring a more conducive business climate for both domestic and foreign investments, whether these come through KFIB, PTB (Partnerships Technical Bureau), NOC (the National Offset Company), or others, says Sheikh Meshaal. Coordination Committees have been established to coordinate activities between these three institutions.

The KFIB, PTB and NOC all share the mutual goals of ensuring the availability and development of modern technology, as well as job creation to absorb the increasing number of qualified Kuwaiti graduates. ■

Facts & figures

Kuwait Development Plan

- **Exchange rate:** KD1=$3.63
- **Estimated cost of KDP:** $104bn
- **Completion time:** 2010-2014
- **Total number of projects:** 1,100
- **Guaranteed Return on Investment (ROI) for all projects:** 16%
- **Total number of non-oil mega projects:** 14
- **Government pledge in bank guarantees for funding of KDP:** $36.3 billion
- **Private sector's contribution to non-oil investments:** 40% (2009) to 65% (2014)
- **Average private sector investment contribution to non-oil GDP:** 4.7% (2009) to 12.5% (2014)
- **Total private sector contribution to GDP expected by 2014:** 44%

New laws strengthen Kuwait as gateway into region

Within the scope of the KDP—the first plan of its kind since 1986—Kuwait aims to increase private sector participation and overall competition. In order to expedite this, the government has passed the Privatization and the Build-Operate-Transfer laws and is encouraging private-public partnerships (PPPs), specifically through the Partnerships Technical Bureau (PTB).

PTB's vision is to encourage the private sector's participation in development projects considered vital for the national economy.

"Most of our projects are services that the government used to provide directly, but we are now providing these services through partnerships with the private sector," explains Adel Al-Roumi, president of PTB.

Prime Minister Sheikh Nasser Al-Mohammed Al-Sabah stresses the importance of the private sector in shaping the new Kuwait. "The Kuwaiti private sector is highly efficient and has proven its strength at home and abroad," he says.

When referring to the attainment of the H.H. the Emir's Vision he emphasizes the role of foreign players: "This step requires opening up to the world from east to west, attracting foreign investment, learning from the experiences of different countries, and exchanging expertise, especially in the field of technological development."

PTB has launched 23 projects in wastewater and solid waste management, electricity, and renewable power, among others, to both foreign and local investors, yet the greater the value of the project, the greater the preference Kuwaitis receive.

"We've divided the projects into three areas," says Al-Roumi. "First, there are projects valued at $217 million and under. Depending on the technical nature of these projects, they will be tendered on a competitive basis and if there isn't a huge requirement for a technical background, it will be a purely financial competition. For projects between $217-906 million the law states that Kuwaiti companies must own at least 40% and for projects of $906 million and over, they have to be fully Kuwaiti owned."

Kuwait's metro and railway project will help decongest Kuwait City and connect the country to the rest of the GCC countries.

The KDP's implementer, Sheikh Ahmad Al-Fahad encourages U.S. investors to enter Kuwait, though he cautions patience. "I know it will be a little slow at the beginning, but the best opportunities will be obtained by those who come first," he says. "I think this is the right time for American companies to come over and partner with us."

Sheikh Meshaal, chief of the Kuwait Foreign Investment Bureau (KFIB), highlights various sectors where U.S. investors could participate. "There are several opportunities that present themselves for American companies in widespread activities relating to utilities, environment, renewable energy, R&D, electronic industries, metro, railway, airport and ports development, healthcare, and logistics, among others," he says.

Currently under development, the 106-mile Kuwait Metro Rail mega project is intended to reduce escalating traffic problems in Kuwait City.

At a cost of approximately $9 billion, the metro will have three lines and 40 miles of underground tunnels. Tenders for each individual line will be released in 2012.

Kuwait is also planning a cross-country railway that will link it with the other GCC countries, thus creating an entire railway network across the six states.

"There are three main rail projects: Eurasia, Mishref and GCC," explains Hussain Al-Sayegh, chairman of the leading real estate company Aknan Global. "Kuwait is in the center of the plan; it is extremely important. In fact, one of the main depots is in Kuwait, so we are all looking forward to this as an indirect way of increasing revenue."

In order to ensure relationships between foreign investors and Kuwait are beneficial and endure in the long run for local businesses and industries, the Kuwaiti government previously established the National Offset Company (NOC).

The concept of "offset" is an investment obligation, estimated at 35% of the net monetary value of a supply contract signed between a foreign company and Kuwaiti government entities. Offset directly helps in job creation and the transfer of technology and knowledge through long-term partnerships between foreigners and locals. Benefits are twofold: armed with knowledgeable partners, Kuwaiti companies are able to diversify the country's economic base and strengthen local production capacity as a result of enhanced research and development potential and improved technical and managerial skills.

Conversely, foreign contractors gain the advantage of establishing and developing new business relations, growing a better understanding of the domestic market, and strengthening international production chains in Kuwait, and through the latter, the emerging GCC.

Although NOC is a government owned institution, it is run like a private sector business in the capable hands of Anwar Abdul Rahman Al-Jawdar, appointed chairman in early 2010.

Al-Jawdar introduced various changes upon entering NOC, the most important of which was to give foreign investors the upper hand in managing the Kuwaiti company they invest in.

"I want the foreign company, even if the amount it invests is less than the Kuwaiti partner, to be the leader of the company, not the Kuwaitis. This is the Offset's objective—that Kuwaitis can learn," he explains. "Also, nobody will put money in if someone else is going to run his or her business. Foreign companies have the know-how and the technology, and if they run the business themselves they will be satisfied that their investment is in good hands."

"I want the foreign companies to have the upper hand."

–Anwar Abdul Rahman Al-Jawdar, Chairman of NOC

Al-Jawdar is earnest in his commitment to form long-term, win-win relationships: "I am willing to make these partnerships successful. I aim to do this, and if I do not, I will resign."

For KFIB, PTB and NOC, technology transfer, job creation and training are of utmost importance. Changes in the legal framework reflect Kuwait's willingness to allow foreign investors to play a bigger role in the country's development.

When explaining the facilities that KFIB provides to investors, which include protecting the right to transfer capital and earnings, Sheikh Meshaal says: "KFIB is entrusted with powers to grant several incentives to investors including tax holidays for 10 years, full or partial customs exemptions, the opportunity to set up a Kuwaiti company without a local partner with up to 100% foreign ownership, help with obtaining land, facilitating procedures and allowing hiring of needed foreign employees for the project." ■

Positioning Kuwait as a regional financial and insurance hub

The country's financial institutions will play a greater role in financing new projects and move the sector significantly closer to achieving the Emir's goals

The KDP encompasses H.H. the Emir's vision to transform Kuwait into a regional trade and finance center by 2035. It also envisions greater private sector input that will directly affect the banking sector, as these projects will require increased financial backing. As a result, banks play a major role in Kuwait's growth strategy.

"Kuwait's banking sector will be given ample opportunities to participate in the financing of projects. This will have a direct positive impact on Kuwait's GDP. The expansionary monetary policy will increase liquidity and further develop the economy," comments Mustafa Al-Shamali, Minister of Finance.

Fortunately for the KDP, the financial sector recovered comparatively quickly from the global financial crisis, thanks to quick government responses that included liquidity support, the introduction of a financial stability law, and the Central Bank's requirement that banks make precautionary provisions.

A change in Kuwaiti mentality is resulting in a youthful surge in insurance.

Al-Shamali says that the actions taken to minimize negative fallout in the face of the financial crisis will also help Kuwait withstand the geopolitical crisis that various Middle Eastern and North African countries are undergoing.

While banking and finance are playing an ever-more important role in Kuwait's development, so is the insurance sector. Article 50 of the country's Insurance Law states that all assets in Kuwait must be insured from within Kuwait. Consequently, "insurance companies operating in Kuwait will have to be involved in the Development Plan by law," says Tawfik Al-Bahar, managing director of Warba Insurance. "Kuwait's insurance market is poised for major development and the premium is likely to be doubled within three to five years," he adds.

Tawfik Al-Bahar, Managing Director of Warba Insurance Company

This growth is already underway. Kuwaiti insurance companies grew 15.9% in the first half of 2010, as opposed to an 8.3% rise in the same period in 2009. Although there are presently 33 insurers operating in Kuwait, the market is dominated by four main players: Gulf Insurance, Kuwait Insurance, Al-Ahleaia Insurance and Warba Insurance.

The KDP, the Privatization Law and the possible passing of an Insurance Reform Bill are due to boost expansion in the sector, as they will make insurance mandatory in certain areas.

"We welcome the new reform bill, which might impose compulsory insurance if the property is used by the public, such as shopping malls, amusement parks, and so forth," says Al-Bahar.

Other factors, such as an emerging younger population, increasing awareness of the wisdom of insurance (until recently, insurance was simply not a common part of the Kuwaiti culture), and prospects beyond Kuwait's borders, are contributing to the growth of this industry. Moreover, special "Takaful" insurance products are being promoted by the Takaful companies, which comprise about half of all insurers in Kuwait.

"Takaful insurance represents a way of investment based on Shariah law. There is no interest and money comes back to the contributors. Takaful means cooperation," explains Nasser Al-Omar of Gulf Takaful Insurance Company.

Al-Bahar says, "If the right types of Takaful products are offered with good marketing techniques, then there is a bright market for these products. As the majority of the Kuwaiti population—some 95%—are Muslims, Takaful insurance products have a very promising future."

Warba, the company that first insured both Kuwait Airways' and the Ministry of Defense's aircraft as well the oil industry as a whole, was established by Amiri Decree in 1976 and privatized in the late 1990s. It is the only company in the Gulf region to have eight alliances with international insurance companies, a factor that enables Warba to offer a wider range of products with specialized features. ■

Banking: the backbone of the development plan

The Government of Kuwait is expected to carry out 50% of the KDP funding, with the remainder looking to be contributed by the private sector. In turn, banks will play a leading role in the KDP, as private sector participation is spurred. To encourage banks' participation, the government has pledged $36.3 billion as a sign of good faith and to encourage bank lending.

Because approximately half of the projects to be developed under the KDP will require financing, there will be big opportunities as banks vie to provide credit lines. The Kuwait Stock Exchange (KSE)—the second-largest in the Gulf—will mirror the new economic activity, says Hamed Saleh Al-Saif, director general of the KSE.

"The Development Plan will modernize the country and this will greatly affect the stock exchange. Industrial, real estate, and services companies will be involved in this project either directly or indirectly, and that will be immediately reflected in the KSE. Importantly, foreign investors can also get involved in this huge five-year spending drive, which in turn will also be reflected," he explains.

There have been significant changes to Kuwait's Stock Market in recent years, with the introduction of a new NASDAQ OMX automation system, which brought the system up to international standards.

Most important in the capital markets was the introduction of the Capital Markets Law, and the resulting establishment of the Capital Markets Authority (CMA), which began operating in March. Described by Ahmad Al-Haroun, outgoing Minister of Commerce & Industry, as "a major push for Kuwait's comprehensive economic development," the CMA acts as a regulator of the exchange and bonds market, leaving the management duties to the KSE and increasing overall efficiency.

"Everyone was asking for this for a long time," comments Majeed Essa Al-Ajeel, chairman of Burgan Bank, one of Kuwait's fastest-growing banks. "This is the part of the new legislation which is needed in order for Kuwait to develop into a financial center."

According to Michel Accad, CEO of Gulf Bank, the second-largest conventional bank in Kuwait, the CMA "is an attempt to bring a bit more governance, transparency and regulation. I think this is to the advantage of the minority interests in various companies that will be listed. This is extremely positive and it should attract more people into the Kuwaiti market."

Kuwait's banks stand behind the KDP, financing the projects that will transform the country into a regional commercial hub.

The KDP aims to inject an estimated $104 billion into the economy, and institutions such as Gulf Bank and Burgan Bank are fine-tuning their services to cater to incoming investors and partners.

"A lot of the development work will be undertaken by foreign companies that have the expertise, like foreign construction companies," says Accad. "They will need local partners both on the technical front and on the financial front. We're developing our project finance and corporate finance team right now; we've hired world-class talent to lead this new unit in Gulf Bank. We can contribute a lot in terms of advisory and corporate finance."

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The new Capital Market Authority is bringing greater transparency and regulation to the KSE.

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So far, Gulf Bank has already invested in many of the newly awarded projects, raising its market share from the bank's standard 13% to 30%.

In 2008, Gulf Bank suffered a run-on-the-bank after a derivatives trade lost it approximately $1.3 billion. With government support and a clever restructuring deal, however, the bank has made a comeback. It posted nine-month profits in 2010 of KD10.4 million, owing to improved loan and investment portfolios and better market conditions.

Today, Gulf Bank's strategy revolves around four pillars. "One is to refocus on our core retail and commercial banking competencies. Another is to strengthen our balance sheet by being more aggressive on the provision side and having strong capital and liquidity," explains Accad.

"A third is to ring-fence our legacy problems and manage the 'bad bank' separately from our profitable business. Lastly, we want to provide superior services to our customers by empowering our people and improving our business processes."

The lender has long prided itself on its strong customer focus, which Accad attributes to the bank's concentration on a single country with a limited set of products.

In contrast, Burgan Bank is rapidly expanding abroad and is the majority shareholder in four banks in the Middle East and North Africa (MENA) region: Jordan Kuwait Bank (with branches in West Bank and Cyprus), the Bank of Baghdad (the leading private bank in Iraq), Gulf Bank Algeria (with nearly 20 branches) and Tunis International (also licensed in Malta). This has raised its number of branches in the MENA region to more than 130 and has placed Burgan at number four in terms of price-earnings ratio and investments in Kuwait.

"The vision of the group as a whole is to take Burgan to the next level and to develop it locally and internationally," says Al-Ajeel. While the bank's expansion falls right in line with the Emir's vision to reposition Kuwait as a regional financial hub, it is also contributing to the growth of the Kuwaiti economy. So far, it has financed over $725 million for the first phase of projects related to the KDP, and the bank's main focus for the following years will be to increase finance and facilities for its clients taking part in KDP projects.

Founded as a government bank in 1977, Burgan Bank was privatized in 1998. Its majority shareholder is now KIPCO Group, one of the biggest diversified holding companies in the MENA region.

With all said and done, Burgan Bank's strategy and vision is taking the company forward in a positive way. "We've increased profits elevenfold in the first quarter of 2011, compared to the same period in 2010," remarks Al-Ajeel. ■

Spurring growth in the telecoms market

Who can offer new, exciting and innovative services in this competitive market?

Kuwait's regional leadership and pioneering spirit also extends to the telecom sector. It was the first Gulf market to open itself to competition in the mobile services sector when, in 1999, the monopoly held by Zain (formerly MTC) was ended with the issue of another license by Parliament that led to the establishment of Wataniya Telecoms. A third operator, Kuwait Telecom Company (VIVA) broke this duopoly by entering the market in 2008, resulting in greater competition, driving prices down and service quality up.

"With the entrance of the third telecom operator, VIVA, competition has definitely become even fiercer," says Scott Gegenheimer, CEO of Wataniya.

"Our call charges and post-paid subscriptions aren't expensive. Kuwait is the second cheapest based on GDP among the Gulf countries," comments Khalid Al-Omar, CEO of Zain Kuwait. "There's a tug-of-war to get the subscribers among us all."

With the first two operators firmly established, VIVA had to work twice as hard to make headway in capturing market share, which it did with aggressively innovative offers.

"The successful number booking campaign permitting customers to choose their own mobile number, initial free on-net calls for three months and the market identification of VIVA as the enabler of free incoming calls, have established VIVA as a successful market competitor from the very beginning," explains Salman Albadran, CEO of VIVA Kuwait. "VIVA's customer-centric plans continue to sustain it as a successful competitor."

In less than three years since operations commenced, VIVA claims to hold an impressive 18.6% market share in this sector where cellular phone penetration has already surpassed 125%.

VIVA is backed by Saudi Telecommunications Co. (STC) and represents one of its largest subsidiaries. Such is the success of STC's VIVA as a pilot project that the Saudi company was motivated to introduce the same model last year in Bahrain.

For Albadran 2011 and 2012 are critical years during which all the operators must plan and build up the base for this new decade. "Mobile broadband (MBB) technique, services and applications will play the critical role in shaping the future of the operators. No operator can afford to miss this opportunity but the methodology of meeting the MBB targets could differ from operator to operator," he says.

The Ministry of Communications, however, continues acting as regulator for lack of an independent regulatory authority. This is something which all three companies would like to see established soon, since the ministry is the sole provider of fixed line services, and as such, controls the international gateway, resulting in the highest international calling tariffs in the region. ■

MNP points to an interesting change in market share

In Kuwaiti telecoms, big dinars are spent on numbers—phone numbers, that is.

With a population of just 3.2 million, telephone numbers are easier to recognize, more appreciated, and highly valued. A strong sense of competition, and not to mention elitism, is attached to certain numbers. Once a cellular subscriber has managed to attain his or her desired phone number, he or she is unlikely to change operators, simply for the sake of keeping those digits.

Plans to introduce Mobile Number Portability (MNP) to the market, as early as this year, will allow customers to switch to another cellular phone provider and keep their own numbers, which they've possibly had for more than 20 years.

This move will make the sector very interesting to watch: MNP could possibly rearrange market share figures for the three operators, as the companies vie for new customers with even more competitive prices and products.

"MNP…will govern the future market growth and development. Each operator has equal chances in the new scenario," says Salman Albadran, CEO of VIVA.

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