# A spur to investment

**INTERVIEW WITH DIRAAR Y ALGHANIM**

CHAIRMAN AND MANAGING DIRECTOR, KUWAIT FINANCIAL CENTRE 'MARKAZ'

DIRAAR Y ALGHANIM has been the Chairman of Kuwait Financial Centre 'Markaz' since 1982. He has always been involved in Banking, Investment, Insurance and varied commercial enterprises, locally, regionally and internationally. Presently he is a Board member of the Kuwait Chamber of Commerce and Industry (KCCI) and chairman of the finance committee. Mr Alghanim was also the founding Chairman of the Union of Investment Companies from 2004-2009.

**How would you describe the performance of the Kuwait stock market in 2011/12, and how have Markaz's own funds fared over the period?**

The Kuwait stock market has demonstrated a mixed trend. Measured through the KSE weighted index, the market is positive by 2.26 per cent for the year. This is in comparison to 0.99 per cent for the S&P GCC index and 7.52 per cent for the MSCI Emerging market. As per the latest IMF report, the real GDP for Kuwait increased by 8.2 per cent during 2011 with a projected growth of 6.3 per cent for 2012. The fragile political situation in the region has had a bearing on the market. Trading activity in local Kuwait market remained weak. Possible factors are the increasing volatility on the political front slowing down the economic development and also affecting the investor confidence. Kuwait's banking sector continues to remain vulnerable resulting from its exposure to distressed assets and also lack of lending opportunities which has kept growth in credit to private sector sluggish. Nevertheless, the market is evolving gradually and is expected to stabilise in due course. Most of our funds have managed to deliver positive returns beating their respective benchmarks. Our flagship funds, Mumtaz and Midaf, yielded a year to date return of 2.7 per cent and 1.6 per cent as compared to -1.1 per cent for the benchmark (KIC index). Our real estate fund has yielded 7.2 per cent for the year while our energy fund returned 5.1 per cent for the year.

**In a recent research paper, Markaz highlighted what it called the "distressed" state of most Kuwaiti investment companies. The paper called for "serious and committed government intervention (not bail-out)." What are the underlying causes of the problems facing the Kuwaiti investment sector, why do you believe government intervention is necessary, and what form it should take?**

The AUM (assets under management) of the investment companies in Kuwait have declined sharply in the recent years. It dropped by 27 per cent in 2011 as against 24 per cent during 2008. The decline in 2011 has been more pronounced than 2008. This clearly highlights that the decline is not solely triggered by the global slowdown. The core problem emerges from the investment companies investing the funds in illiquid assets underpinned by negative real interest rates, resulting in a liquidity crunch. It can also be attributed to excess presence of investment companies (oversupply) and a natural clearing up of the market similar to the experiences of other markets (US, UK, etc). Consequently, only the fittest remain in the business.

The existing commercial law is out-dated to handle the hangover of the crisis. However, the new version of the law is giving renewed hopes on this front. Also, reactivating the economy will enable business to expand and provide the necessary 'breather' for investment companies. Therefore, as solutions, one should focus on an orderly wind-up of non-viable firms, providing sufficient financing to viable firms, and creating an effective regulatory framework to avoid future problems. These in turn would boost the sector and increase investor confidence.

**Markaz has produced extensive research in recent years highlighting the need for greater private sector involvement in the economy. How urgent a task is this, and what strategies do you propose to address it?**

The Kuwait economy is totally dependent on government expenditure. Consequently the private sector is at the mercy of the implementation of the development plan. Our laws and regulations are out-dated and inadequate to the current needs of the business. Also the effectiveness of regulations is further limited by *ad hoc* implementation. We also have a deeper structural issue related to dominant political and economic arrangements in Kuwait. As a starting point, we could look to revamping our laws and regulations to make it more private sector and foreign investment friendly, which is the declared intention of the recent governments.

**His Highness The Amir's State Visit to London is an historic occasion that underlines the long-standing ties between Britain and Kuwait. How would you characterise the economic relationship between the two countries, and the importance of the City of London to Kuwait's financial services sector in particular?**

His Highness The Amir's State visit to the United Kingdom on 27/28th November 2012 will strengthen the historical relationship between the two countries and fortify the areas of mutual benefit. To this end, the two countries have set a target to double their financial trade to £4 billion by 2015. Britain is interested in Kuwaiti firms investing more in the UK's infrastructure programme and major transport and energy developments. On the other hand, UK exports to Kuwait includes financial services, design, engineering services, retail products and fashion, for which there is a great potential market in Kuwait.

**As part of its strategy to promote greater private sector participation in infrastructure development, the Government of Kuwait has established a Public-Private Partnership programme providing significant investment and financing opportunities for the private sector. The healthcare and education infrastructure schemes in particular will be developed using UK models. What potential do you see for the UK financial services industry to provide advisory services and expertise on PPP infrastructure development in Kuwait?**

To facilitate the activities of UK businesses in the PPP programme, UK Government has entered into an agreement on Trade and Technical Cooperation which covers the area of advisory and consultancy services allied to Kuwait's £100bn development programme. This agreement opens opportunities from the PPP Advisory Services Programme potentially to be worth £500bn to UK companies spread across sectors like Financial Services, Business Services and Construction, and that is in addition to the value to be derived from the projects themselves.

**Markaz sponsored a conference earlier this year on infrastructure in Kuwait City, where it was agreed that high oil prices have given the GCC increased spending power, and that as surpluses grow, mega projects will be launched through large-scale development plans. Nevertheless, the rollout of the Kuwaiti government's infrastructure plan has been slow. How is this affecting the banking and financial services sector?**

The slow roll-out of the Kuwaiti government's infrastructure plans has had a bearing on the banking and financial services sector. The banks are ready to lend money but there is no demand for it. The banking business has become stagnant on the back of a slowdown in the government's developmental activities. Also, the corporates are apprehensive about venturing into new projects given the fragile global economic conditions, resulting in lower borrowing. Hence acceleration of the government's plans would ease pressure on the banking sector to a great degree and regenerate the economy.

**Last year saw the setting up of the Capital Markets Authority (CMA), Kuwait's first independent stock market regulator, as part of a larger regulatory framework for the country's capital markets. The CMA regulates the Kuwait Stock Exchange (KSE), supervises public and private subscriptions and oversees mergers and acquisitions. How would you assess its impact on attracting greater foreign investment into the KSE?**

The CMA aims at streamlining the activities and strengthening the market. It focuses on increasing efficiency and promoting fair play and transparency. This in turn should boost the confidence of investors so we can see more investments flowing into the KSE. There are signs that the establishment of the CMA has positively affected the market, and we have great expectations of the future impact as a whole.

**The government has established incentives for foreign investors that include a reduction in its tax rate from 55 per cent to 15 per cent, has begun to offer tax breaks of up to ten years, now requires zero custom charges for products relating to FDI projects and has instituted a liberalised employment regime for FDI projects, irrespective of whether they employ foreign or Kuwaiti nationals. Other countries in the region have articulated similar strategies. Is Kuwait doing enough to differentiate itself?**

While the steps taken so far are pro-investment, this may not be enough to attract long-term investors to Kuwait. We need an advanced legal system that can cope with the investment sophistication that has evolved over the years coupled with a stable political climate that is a basic requirement for FDI's. Kuwait's democratic/political structure and stable polity certainly differentiates it from others in the region.

**What is Markaz's investment strategy for 2013? Will you be staying close to home, looking at emerging markets, or do you think that there is still potential in Europe and North America?**

The current situation requires market participants to be highly flexible and quick to react towards changes. Therefore, it is essential for companies to provide up-to-date investment solutions, to keep up with the developments in the marketplace, as well as manoeuvre between different asset classes meeting the investors' requirements. Markaz follows a dynamic investment strategy which enables the firm to identify eligible investment opportunities. Of these opportunities, advising local and regional companies on restructuring and recapitalisation, as well as the increased demand for distressed Kuwaiti debt by regional and international investors, have been on the rise. Markaz is constantly in pursuit of new investment opportunities spanning across different sectors, industries and borders. F

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