

# the INVESTOR

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## MAHDI: SILK CITY, PRIVATIZATION & KUWAIT'S STRATEGIC PLAN

IIF EXAMINES KUWAIT'S FINANCIAL FUTURE

TURKEY INVESTING IN KUWAIT FOR THE LONG TERM

FITCH RATINGS: ME AMBITIOUS FOR RENEWABLES

GLOBAL MORTGAGE CRISIS 10 YEARS ON



# DEVELOPING PROMISING

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INVESTMENT ENTITIES THROUGH  
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 Union of Investment Companies  
3rd Floor  
Kuwait Chamber of Commerce & Industry Building  
Mubarak Al-Kabeer Street, Qibla  
Kuwait City, Kuwait

 00 965-22280370  
 00 965-22490091/2  
 [uic@unioninvest.org](mailto:uic@unioninvest.org)



اتحاد شركات الاستثمار  
UNION OF INVESTMENT COMPANIES

## Silk City and Kuwait's strategic development



The New Kuwait 2035 strategic development plan is ambitious, sweeping and necessary. Kuwait stands at the cusp of a critical juncture. Will we move toward the future with a strong, diversified and sustainable economy beyond oil or will we continue to fall behind?

Our choice is clear: We need to grow the private sector to build a vibrant and thriving knowledge economy, a regional trading hub that rivals the glory of our illustrious past and that serves not only Kuwait but the rest of the region and the world as an important destination for economic development in the Arab world.

Opportunities like the Northern Economic Zone – also known as the Silk City project – are not only a chance for Kuwait to regain its past glory as an important trading hub, but also for us as local investors to partner with international investors to build profitable, sustainable economic opportunities.

To achieve these ambitions, there are many challenges ahead and many details that remain to be decided. To this end, the investment community as a whole needs to understand fully what opportunities and challenges exist and what role we have to play in this exciting future.

In this issue, we hope to offer some answers to these questions through

our in-depth interview with Dr Khalid Mahdi, Secretary General of the Supreme Council for Planning and the man overseeing the implementation of Kuwait's strategic development plan. He offers some important insights into how this plan is evolving and what challenges lie ahead.

We are also pleased to share important insights on Kuwait's economic future from Dr Garbis Iradian, Chief Economist for MENA and Boban Markovic, Senior Analyst at the Institute of International Finance. In this issue, we also are pleased to share an interview with Turkish Ambassador to Kuwait Her Excellency Ayse Hilal Sayan Koytak, an article examining the evolving role of fintech in the region and much more.

As President of the Union of Investment Companies, I look forward to a future filled with opportunities, to a changing economy where private sector and investment lead the way in building efficient, effective businesses that serve the varied needs of the country's growing population, provide our youth with employment and professional development opportunities, and transfer and develop the knowledge bases and skills we will need far into the future.

Thank you

Saleh S. Al-Selmi

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Investor Briefs

Gulf adopts modern bankruptcy laws

Oman is the latest in the Gulf Cooperation Council to work on the adoption of a bankruptcy and insolvency law intended to help protect businesses and investors. The law is expected in the second half of 2019.

Saudi Arabia adopted a new bankruptcy law last August and may soon see its first major test now that the Saudi conglomerate Ahmad Hamad Alghosaibi and Brothers (AHAB) has filed for financial restructuring under the new law. The UAE issued a bankruptcy law in 2016 to oversee financial bankruptcies and restructuring but the law wasn't implemented until March 2019, when the first UAE company successfully restructured its debt under the Chapter 4 filing. Bahrain introduced new insolvency legislation in December 2018, using Chapter 11 bankruptcy legislation from the United States as a model.

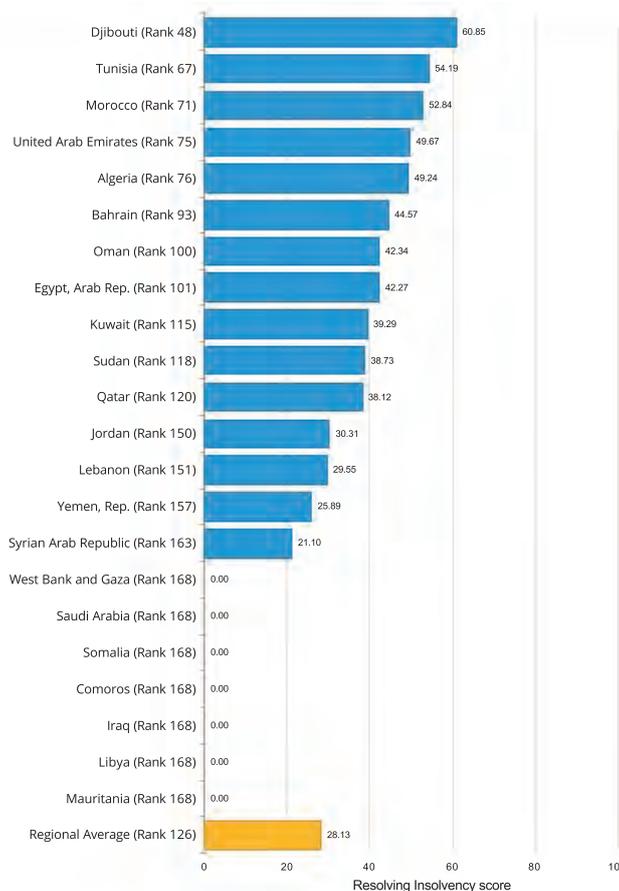
Kuwait and Qatar have yet to update their insolvency legislation. The Kuwait Central Bank completed draft legislation on the issue of banks' bankruptcies but general insolvency laws remain outdated or insufficient.

The GCC states have begun modernizing bankruptcy legislation in a bid to create a more attractive destination for foreign investors and to provide a legal framework for local businesses that need to restructure debt due to a three year slump in global oil prices.

Oman's new bankruptcy legislation is part of a slate of new statutes planned by Muscat to improve the sultanate's investment and business climate and improve its ease of doing business rankings. According to the World Bank's Ease of Doing Business 2019 ranking, the United Arab Emirates leads the Gulf region, ranked at 11. Bahrain comes in much further down the index at 62; Oman at 78; Qatar at 83; Saudi Arabia at 92 and Kuwait at 97, with the scale from 1 to 190 with 190 being the worst ranking.

Investors typically consider a country's legal framework and protections for investors, especially minority investors, when making investment decisions – especially in frontier or emerging markets.

How economies in Arab World rank on the ease of resolving insolvency



Source: Doing Business database.

Cent banks up gold holdings



Central banks across the globe are revising their relationship with gold bullion, buying more of the metal and bringing more home to be held domestically. Central Banks in China, Hungary, India, Poland, Russia and Kazakhstan among others have upped monthly gold purchases.

“Demand from central banks in January and February amounted to 90 tons of fresh buying,” said Ross Norman, CEO of London-based gold bullion broker Sharps Pixley speaking at the recent Dubai Precious Metals Conference. The purchases are 61% higher than the 56 tons bought at the same time last year, according to a Zawya report on the subject.

At the same time, central banks are also shifting more gold to home territories. Zawya attributes the moves, at least in part, to the recent decision by the Bank of England to refuse a request from the Venezuelan government of Nicolas Maduro to repatriate \$1.2 billion in gold reserves.

# World Energy Balances

The IEA's World Energy Balances presents comprehensive energy balances for all the world's largest energy producing and consuming countries. It contains detailed data on the supply and consumption of energy for 150 countries and regions, including all OECD countries, over 100 other key countries, as well as world totals.

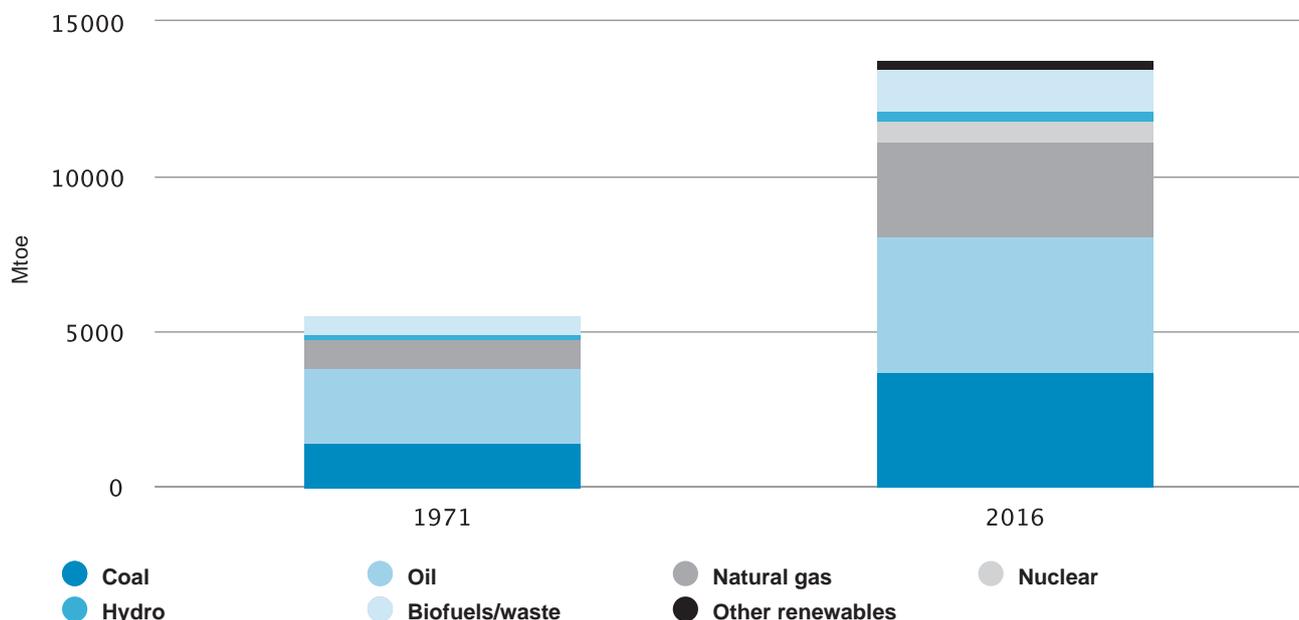
The companion World Energy Statistics provides more detailed data for all energy sources - coal, gas, oil, electricity, renewables and waste - in original units. Purchase them together for a discounted price.

Access documentation and methodology for IEA balances and world energy statistics.

Between 1971 and 2016, world total primary energy supply (TPES) increased by almost 2.5 times.

While oil was still the dominant fuel in 2016, its share has fallen over the past decades. In contrast, the share of natural gas and nuclear power have both grown significantly. In 2011, coal reached its highest level since 1971 at 29% (peaking at 71% of TPES in China). However in the past five years its share has declined.

## Total primary energy supply by fuel

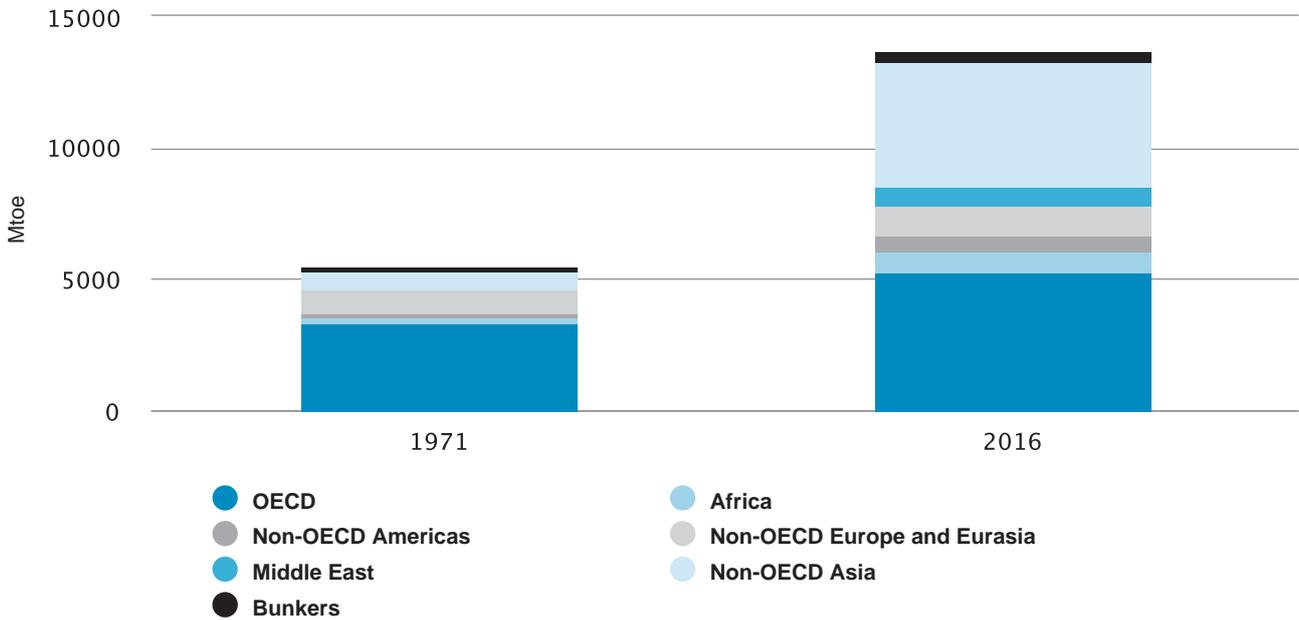


IEA. All rights reserved.

Energy demand has evolved differently across world regions – the OECD's share of global TPES has fallen significantly since 1971, while almost tripling in non-OECD Asia.

The IEA family of countries, which includes IEA member economies, Association and Accession countries, accounted for 71% of global TPES in 2016.

### Total primary energy supply by region



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One of the drivers for the change seen in Asia has been the growth of energy consumption which has soared since the early 2000s.

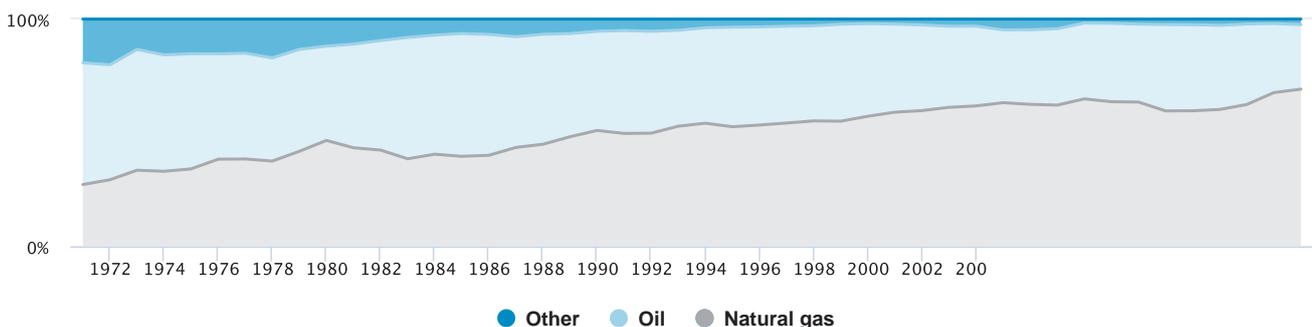
Meanwhile, energy consumption growth in the OECD stopped in 2008 with the global economic crisis, and total final consumption is oscillating around a plateau of just over 3,500 Mtoe or 38% of global TFC.

#### Middle East

With energy production more than 2.5 times as large as demand, the Middle East has the highest energy self-sufficiency ratio in the world. The region produced nearly 15% of global energy in 2016, an increase from just over 13% for the previous five years. The Middle East produced 34% of global oil, and nearly 17% of the world's gas.

Natural gas is developing rapidly in the region, used for power generation and the petrochemical sector. This has resulted in the share of oil in electricity production continuing to shrink, falling from 54% in 1971 to 28% in 2016.

### Electricity generation by source, Middle East



# Kuwait's financial future: A view from the IIF

*“We expect the current account and fiscal balances (including investment income) to remain in surpluses over the next three years if oil prices stay above \$60 per barrel.”*



Kuwait Finance Minister Dr. Nayef Al-Hajraf during the press conference announcing the country's fiscal budget for 2019-2020.

## Interview by Jamie Etheridge

Kuwait's economic future will depend in large part on its ability to diversify its revenue streams, attract foreign investment and grow its private sector. To understand better the challenges Kuwait faces, The Investor spoke with Dr Garbis Iradian, Chief Economist for MENA at the Institute of International Finance for his take on where Kuwait's economy is heading.

The IIF is a global association of financial services industry organizations with members from more than 70 countries, and offers expertise and technical insight into the financial and structural challenges facing economies around the globe.



Garbis Iradian

**The Investor: Overall, what is your view of Kuwait's financial position in the short- to medium-term (3-5 years) in terms of economic stability, GDP growth, diversification, etc?**

**Dr Iradian:** Large financial buffers (including the foreign assets of Kuwait's Investment Authority which peaked at \$560 billion in 2018) allow Kuwait to approach fiscal reforms with less urgency than other Gulf Cooperation Council (GCC) countries. Even with continued limited fiscal reforms, we expect the current account and fiscal balances (including investment income) to remain in surpluses over the next three years if oil prices stay above \$60 per barrel.

Kuwait is still behind peers in the region in international competitiveness rankings and scores poorly in terms of the ease of doing business (97 out of 190 countries in 2019). Bureaucracy, restrictive labor rules and difficulties in access to finance (particularly for SMEs) are cited as major impediments. The rankings should gradually improve in the coming years if reforms are implemented. Kuwait needs to attract adequate FDI outside the energy sector to diversify the economy and create a dynamic and expanded private sector. Also, more needs to be done to improve the infrastructure in Kuwait, which lacks well behind the UAE and Qatar, due to limited public investment in the past two decades.

The main constraint for a fundamental restructuring of the economy and diversification is the gridlock in the legislative branch. While such a constraint is unlikely to be resolved in the short-term, we expect some progress in structural reforms in the next few years. However, reforms to diversify the economy away from oil will take some time to bear fruit.

**The Investor: Kuwait remains highly dependent on oil as the primary source of government revenues. What is your opinion of Kuwait's strategy to diversify its revenue and to wean itself off oil dependence?**

**Dr Iradian:** Government's inability to push unpopular fiscal measures through the parliament, along with the lack of administrative capacity, hinders the fiscal adjustment agenda. Fiscal reforms continue to face bureaucratic resistance as the state is involved heavily in the delivery of a range of services. While there is a desire to shift to a private sec-

tor-led growth model, there has been limited progress in privatization, and initial public offerings have been rare. The prospects for non-oil government revenues (aside from the investment income) remain grim. Despite earlier reforms, the fuel and utility subsidy bills remain large in the budget. The VAT at 5% is unlikely to be introduced before 2021, and the implementation of excise taxes on tobacco and sugary drinks remains uncertain.

*"Higher oil prices in 2018, which led to larger current account surplus and lower fiscal financing need, allowed the authorities to invest more abroad, both in the form of portfolio investment and other investments abroad. Going forward we expect resident capital outflows to remain around \$20 billion per year."*

**The Investor: Kuwaitis remain among the top regional investors; how do you view capital outflows for the 2019/2020 period changing?**

**Dr Iradian:** Resident capital outflows have declined since 2014 following the sharp decline in oil prices, which led to much smaller current account surpluses. Also, the government tapped a portion of its foreign assets (Kuwait Investment Fund) to finance the growing fiscal deficits. Higher oil prices in 2018, which led to a larger current account surplus and lower fiscal financing need, allowed the authorities to invest more abroad, both in the form of portfolio investment and other investments abroad. Going forward we expect resident capital outflows to remain around \$20 billion per year.



Kuwait government officials attend a recent business forum.  
- Photo by KUNA



Kuwaiti and Chinese officials discussing investment in Silk City and related projects.

*“Reform of the educational system is necessary to align the skills of the new labor market entrants with the market needs.”*



Kuwait Investment Outreach Roadshow themed Discover the Opportunities in a Transformed Economy in Silicon Valley in 2018

**The Investor: What do you see as the key challenges facing Kuwait’s economic growth in the medium term?**

**Dr Iradian:** Downside risks to the economic outlook in the medium term include: (1) Lower oil prices than our projection (say significantly less than \$60/b), slower imple-

mentation of reforms, and regional political instability. Significantly lower oil prices than \$60/b over the medium term may lead to weaker consumer confidence, weaker private investment, and prolonged large fiscal deficits. While neighboring Saudi Arabia and the UAE have pushed for significant fiscal and structural reforms over the past three years, Kuwait’s reform agenda remained in the blueprint phase.

The labor market structure in Kuwait needs to create the right incentive for nationals to expand their participation in the private sector. Unfortunately, the potential appeal of the private sector is overshadowed by lucrative benefits in the public sector, which employs 80% of Kuwaiti nationals or 40% of the total labor force. Current policies to keep national unemployment low through public employment are counterproductive and unsustainable in the long run. In this context, the reform of the educational system is necessary to align the skills of the new labor market entrants with the market needs.

While the authorities recognize the challenges to diversify the economy away from oil, limited progress has been made in implementing reforms to improve the business environment and encourage the private sector, particularly the development of small and medium-sized enterprises (SMEs). Continued opposition to deeper reform by some of the lawmakers could delay further progress in implementing the New Kuwait 2035 development plan.

# Kuwait and FDI: More reform, regulation needed

By Jamie Etheridge

The Investor spoke with Boban Markovic, Senior Analyst at the Institute of International Finance, to hear his views on Kuwait's attractiveness as a destination for foreign direct investment (FDI), challenges remaining and the FDI outlook for the short to midterm.



Boban Markovic



**The Investor:** What are the key factors impacting Kuwait's attractiveness as a destination for foreign direct investment (FDI)?

**Boban Markovic:** FDI inflows to Kuwait continue to be stymied by poor business climate and limited opportunities for investment. Particularly hampering is the fact that foreign companies and individuals who wish to invest or set up businesses in Kuwait

must have a Kuwaiti partnership prescribed by law that holds at least 51% stake. Introduction of the Kuwait Direct Investment Promotion Law, which allows direct investment and 100% foreign ownership in certain sectors, is a positive development but may be insufficient to significantly raise foreign investments. An improvement in the business climate, competitiveness, workforce readiness and policymaking remain prerequisites for higher FDI.

**The Investor: How do foreign investors view Kuwait's investment environment? What are the key sectors or segments of the economy most likely to attract FDI in short to medium term?**

**Markovic:** FDI (as a share to GDP) in Kuwait

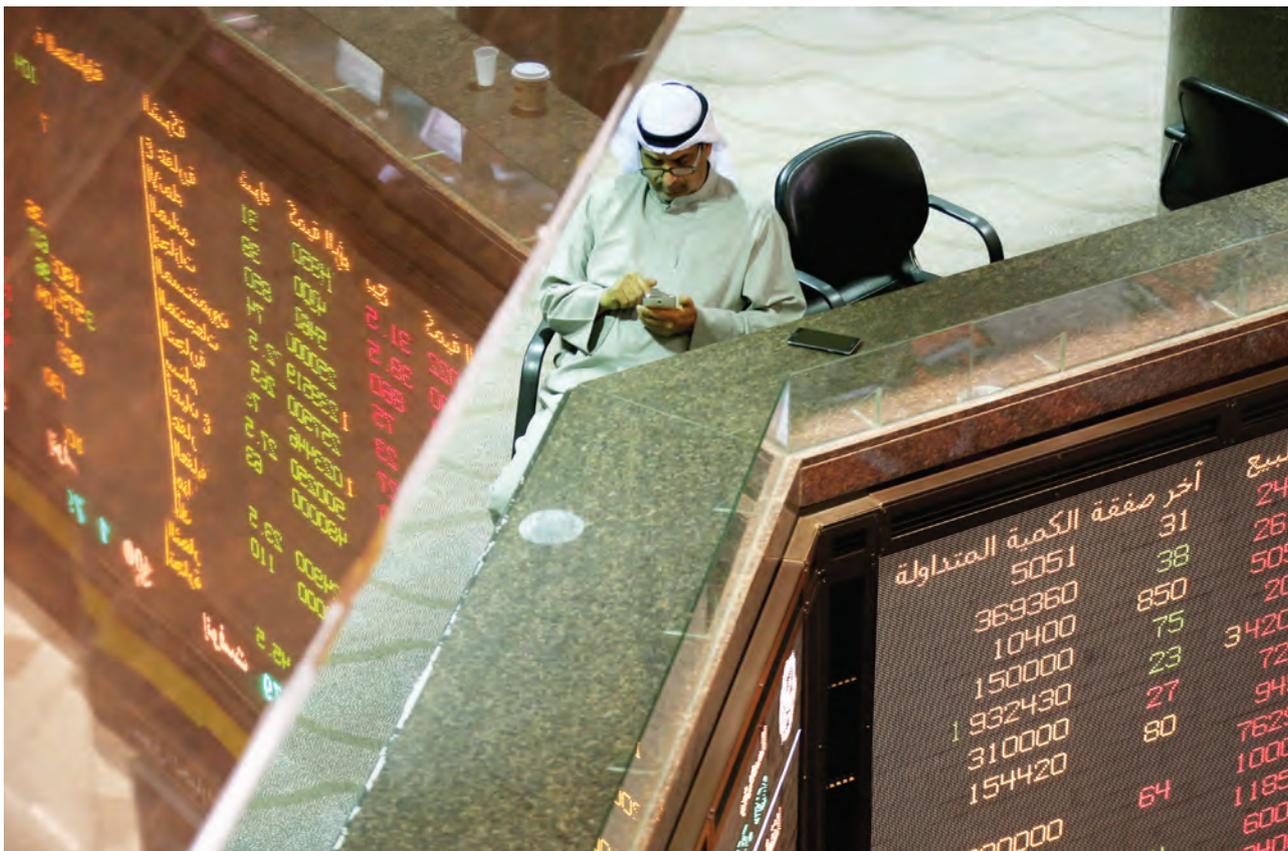
*FDI is expected to remain below 0.4 % of GDP as compared with the GCC average of 1.3 % of GDP. Nonetheless, the stock exchange reforms will attract higher equity inflows in the next two years.*

remains the lowest in the GCC. This is not surprising given that Kuwait lags behind other GCC countries in terms of global competitiveness and doing business. Kuwait, like Saudi Arabia, needs to attract adequate FDI outside the energy sector to help diversify the economy away from oil and create a dynamic private sector. The IT, renewable energy and finance sectors could attract the non-oil FDI. However, persistent regulatory and administrative impediments, lack of transparency and slow reforms make Kuwait a less attractive destination compared to other GCC countries.

**The Investor: What are the IIF predictions for private capital inflows to Kuwait for 2019/2020 and beyond? How do these compare to the rest of the GCC?**

**Markovic:** Excluding possible sovereign Euro-bond issuance, capital inflows are relatively small compared to other GCC countries. FDI is expected to remain below 0.4% of GDP as compared with the GCC average of 1.3% of GDP. Nonetheless, the stock exchange reforms, FTSE upgrade and possible MSCI upgrade will attract higher equity inflows in the next two years. However, the limited size of the market and the country's heavy reliance on oil may prevent di-





verified emerging-market portfolio managers from allocating more funds to Kuwait's equities. Inclusion into JP Morgan EMBI index could potentially bring an additional \$2.4 billion in portfolio debt inflows this year. Banking inflows have been positive in the past five years, and we expect this trend to continue unless global investment sentiment deteriorates significantly.

**The Investor: What is the IIF's view of Kuwait's economic outlook in short to medium term?**

**Markovic:** The pickup in credit growth to businesses and households in the past few months is encouraging, and it bodes well for consumer spending. Projected government spending increase of around 5% and the lag effect from the last year's expansionary fiscal stance will support non-oil real GDP growth, which could pick up from 2.6% in 2018 to around 3.0% this year. However, overall growth will remain around 1% due to oil production cuts in the context of OPEC+ agreement. Continuous government spending, strong consumer confidence and a healthy project pipeline will support non-oil growth of around 3.5% over the medium term.

**The Investor: In your view, what do you think are the most important changes or improve-**

**ments Kuwait has made in legislation and reform that will improve its FDI position?**

**Markovic:** Reforms have been limited due to political frictions in the parliament and the lack of administrative capacity to carry out ambitious plans. Under the National Development Plan, the authorities listed 20 international benchmark indexes to track the country's development. Although the goal is to be ranked within the 30th percentile by 2025, Kuwait's position has stagnated since the plan was presented in 2015. As noted before, a law that allows direct investment and 100% foreign ownership in some sectors, and a series of laws related to businesses and public-private partnership are steps in the right direction.

However, constraints such as quotas regarding employment of Kuwaiti nationals are making Kuwait less competitive for FDI as compared with the UAE, for example. The Capital Markets Authority and Boursa Kuwait improved the operational infrastructure of the stock exchange which led to FTSE inclusion. While this won't attract FDI directly, it will put Kuwait on the radar of investment funds and send a positive message to the business community.



# Fitch Ratings: Middle East in ambitious drive for Renewables generation

Several governments in the Middle East have set ambitious targets for the development of renewable energy, which will give rise to large capital requirements in the region, Fitch Ratings says. The sovereign rating may be a critical factor in our assessment of credit strength of renewable projects due to the government-related entity (GRE) status of many off-takers or entire projects.

Between 2006 and 2016, per capita energy consumption flat-lined in the EU, while it grew at approximately 3.7% across the Middle East. Consumption in a number of countries in the region, whilst not growing, has been very high for a long time. Underlying causes are the climate, the extensive use of air conditioning and water desalination plants, and a tradition of subsidies

for energy use. Furthermore, there has been a focus on energy-intensive industries in some countries, such as some of the world's largest aluminum smelters in Bahrain and the UAE. Renewables represent a small share of the region's generation mix, with hydropower having the most meaningful presence of about 2%, and a fraction of a percent for other renewables.

We expect that the increase in per-capita energy consumption and strong population growth will support a large increase in renewables generation in the Middle East. This reflects governments' desire both to add new capacity and diversify away from a historical dependence on hydrocarbons.

Many utility-scale renewable projects in the region are procured with a GRE, such as Abu Dhabi Water and Electricity Company, Dubai Electricity and Water Authority, or Qatar General Electricity and Water Corporation, as an off-taker. The off-taker rating typically caps the project rating under Fitch's Renewable Energy Project Rating Criteria. If the off-taker is a GRE, we would assess its rating under our Government-Related Entities Rating Criteria and may include some uplift for the sovereign linkage.

In addition, when the government has control over the project itself, we would assess the entire transaction under our GRE criteria and it could benefit from an uplift, depending on our assessment of the strength of the sovereign linkage and the government incentives to support the project. The rating of the sovereign may therefore be a critical factor in the assessment of the credit strength of these projects.

The initiatives to broaden the energy mix are likely to be realized largely through the use of solar PV and wind power, which benefit from abundant renewable resources in the region. Solar power generation in particular could be supported by very high regional irradiance, which can be more than twice as high as in central Germany, a country that has built out 40GW of solar PV, mostly since 2000. Another advantage of solar PV generation in the Middle East is its correlation with periods of high air-conditioning demand and the abundant availability of non-arable land for solar PV parks.

Challenges for both wind and solar PV generation are likely to include the harsh operating environment, such as sand storms, and the ability and suitability of the grid infrastructure to cope with the additional intermittent capacity. Furthermore, the contractor capacity in the market to deliver the build-out at the desired pace, scale and cost could be a constraint. Despite there having been ambitious targets for a number of years, progress has varied across the re-



gion, and this trend might continue.

Recent tenders in Saudi Arabia set records for the lowest solar PV and onshore wind levelised cost of energy as at end-2018, at 2.32 c/kWh for the 300MW Sakaka solar PV plant (October 2017) and at 2.13 c/kWh for the 400MW Dumat Al Jandal onshore wind farm (July 2018), according to the country's National Renewable Energy Program. In our view, this is largely due to a combination of favorable natural resources and the timing of entry into this market when the technology is more mature and significantly cheaper than before. These factors may prove to be the catalysts that accelerate the region's roll out of renewable capacity.

- Fitch Ratings (<https://www.fitchratings.com/site/pr/10072372>)



The three basic components of the Silk City Project, the Masterplan, the financing and legal frameworks, are all under development.

- Photos by Yasser Al-Zayyat

'The **INVESTOR** speaks with Dr Khaled Mahdi, Secretary General for the Supreme Council for Planning'

# Silk City, diversification, privatization and Kuwait's national development strategy

Interview by Jamie Etheridge

Dr. Khaled Mahdi, Secretary General of the Supreme Council for Planning and Development (SCPD), is a man with a plan. His mandate is to implement the vision of His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah as articulated in the New Kuwait 2035 strategic development plan, and oversee the implementation of the country's development vision.

In an hour-long conversation with The Investor, Dr. Mahdi offers insights on the status of Kuwait's historic effort to shift to a diversified, private sector-led economy and shares details about upcoming projects including the Silk City Northern Region project, amendments to the privatization and bankruptcy laws and opportunities for investors, both local and foreign.

**The Investor:** Please tell us a bit about the role of the Supreme Council for Planning and yours as Secretary General?

**Dr. Khaled Mahdi:** The mandate of the Supreme Council for Planning and Development (SCPD) is to ensure that the State Vision is pursued as envisioned by H.H. the Amir of Kuwait and that it is accomplished by 2035, and so it sets out the country's strategic national development planning framework, oversees its progress and implementation and streamlines planning and development policies. In my role as SCPD's Secretary General, it is my responsibility to facilitate and coordinate the planning and development process starting

from conceptualization throughout to completion, which requires doing extensive research, using quality data. The planning portfolio also focuses on setting goals, targets and indicators and to work out execution plans and timeframes for implementation. Simultaneously, policy research is conducted by local and international specialists, as part of developing evidence-based public policies and supporting sound and informed decision-making process. Concurrently, our national development planning is mapped in alignment with the Sustainable Development Agenda 2030 and the 17 Global Sustainable Development Goals. Finally, the final draft of the national development plan is

submitted to SCPD for review before it is submitted to the Council of Ministers, which, in turn, refers it to the National Assembly for ratification.

**The Investor: What are the key factors that the current planning model uses to ensure success?**

**Dr. Khaled Mahdi:** Our current model uses a holistic approach for development planning. The model is a shift from the top-down, government-centered conventional pattern to a more vertically interactive participatory methodology that engages almost all stakeholders, to include all government and non-government entities, the private sector, academia and civil society. Basically, our model is 'human capital-centered'. It leverages our most



*Dr. Khaled Mahdi is the Secretary General for the Supreme Council for Planning and Development (GSS-CPD) of the State of Kuwait and is the Director of Kuwait's Country Cooperation Program with the UNDP. He is also a member on several high-level government boards and committees, such as the Public Authority for the Industry, Kuwait Institute for Scientific Research, Public Housing Authority, the Economic and Fiscal Reform Committee and the Kuwait Masterplan 2040, among others. Dr. Mahdi was an Associate Professor in the College of Engineering and Petroleum at Kuwait University. He also served as an Advisor to the Kuwait University Strategic Office and the Office of the Minister of Planning and Development. Dr. Mahdi is a B.Sc. graduate of the University of Toronto, CANADA and holds a Ph. D. in Chemical Engineering from Northwestern University, USA.*

sustainable resource, our human capital, in synergizing an all-inclusive position to national development. We recognize that Kuwait's real wealth is our young and older technocrats who are professionally competent, capable and they are willing to share their energies, knowledge and expertise with us. So, we created local 'communities of practice' comprising of local experts from all specializations and we're working closely to build up a body of knowledge and expertise which is the core of the knowledge-based economy that is currently evolving as the country's sustainable development model. Technically, we have also developed various tools and almost every government entity now has its own set of Key Performance Indicators (KPIs) to apply for monitoring and reporting. Planning and development wouldn't be possible without the use of technology, and we have developed several computer programs to support economic modelling and future forecasting.

Indeed, our national planning, as we see it, gives ownership to all stakeholders and we can only see a real impact when non-government entities participate in the process, share their opinions, have their voices heard and their needs met.

**The Investor: What are the major challenges you are facing in implementing this strategy?**

**Dr. Khaled Mahdi:** We have taken every key challenge into consideration when designing the development plan. The most pressing challenge is that most of our national workforce are employed by the government. The youth makes up the largest part of this country's population and most of them work for the public sector.

The second challenge is the skill gap; the human capital gap and the basic yet pressing mismatch between the needs of the labor market and the educational outcomes of tertiary education. There are many other challenges, such as inefficient public administration practices, the slow if not absent digitalization of public services, in addition to the issue of corruption.

**The Investor: Could you elaborate on how Kuwait's national development plan shall implement the New Kuwait Vision 2035?**

**Dr. Khaled Mahdi:** The KNDP is essentially designed so it can translate HH the Amir's Vision of a New Kuwait by 2035. The Vision was first conceptualized in 2006 based on four main components and was later articulated in 2010 as the first five-year national plans.

Basically, the theme of the KNDP is about reviving Kuwait's leading role as a regional trad-

ing hub by means of (a) changing the role of the government, which is essentially a policymaker, from an operator of the national economy to a regulator of economic activities, while encouraging the private sector to take a more leading role in the country's economic development; and (b) building and developing Kuwait's individual and institutional human capital that is strong and capable enough to support the transformation to a private sector-led economy.

In order to achieve this, the principal goal would be to have a diversified sustainable economy and that requires extensive modifications and alterations to the current economic systems so to allow and encourage the private sector to take a leadership role to diversify economic activities, promoting entrepreneurship and facilitating funding and investing in commercial and business projects. And to achieve diversification, four main economic enablers are mobilized:

## The Silk City Vision

The New Kuwait Vision 2035 is built on seven pillars intended to address Kuwait's long-term development and global standing: the economy, infrastructure, human capital, public administration, healthcare, global position and living environment. A centerpiece of this development is the Silk City (Medeenat Al-Hareer) region which is expected to include the five islands and most of the northern territory of Kuwait in a special economic zone. The area will serve as a key trading and transit hub, part of China's Silk Road Economic Belt and Road Initiative and will have a special zone, major port on Bubiyan Island (currently under construction), airport, Olympic-size stadium, housing for 700,000 people, a central business district, schools, public facilities and entertainment areas. Access to the area will be linked to Kuwait City via the newly built \$2.3 billion Sheikh Jaber Al Ahmed causeway.



(a) promoting Foreign Direct Investments (FDIs), and this is enabled under the KDIPA law which treats the whole country as a free zone allowing FDIs 100% ownership, and we've seen more than \$2 billion in FDIs through KDIPA come in under this law from major investors, like Microsoft, GE, Huawei, Limak and others. Under the FDI law, investors are required to provide knowledge transfer and job creation for national labor force. (b) the SME National Fund is another mechanism that the government has created to attract Kuwaitis away from public sector employment by enabling funding of small and medium enterprises. The fund has been endowed by HH the Amir and is the largest such fund in the world with a paid-up capital of around \$7 billion, and it basically targets Kuwaiti entrepreneurs and provides them with funding and ca-



*Investors are invited to invest in facility management and operations in the healthcare sector and in the petrochemical sector.*

capacity development; (c) the third enabler is the PPPs that empowers private sector engagement through the Kuwait Authority for Partnership Projects (KAPP), which is responsible for forming a tripartite partnership between the public sector, private sector companies and the people (as incumbent shareholders). The beauty of this model is that it fosters the participation of Kuwaitis in funding and benefiting from strategic development projects; (d) the fourth enabler is the model for the privatization of public entities, which, let me explain, is not similar to commonly known privatization models. What is 'privatized' here is the management component of a government-owned entity and the Supreme Council for Privatization has already identified 38 such entities as potential privatization units that will be corporatized then privatized.

**The Investor: Are you talking about where the government will sell off pieces of government bodies?**

**Dr. Khaled Mahdi:** Our Privatization Model includes several mechanisms and it is not about selling off pieces of the government. For example, one mechanism is to leverage private sector's operational management expertise to manage certain public services. For example, Sheikh Jaber Hospital will be run by a company that the government will establish, called Al-Enaya Hospital Management Company, to manage the operations of the entire hospital. There are around 38 other projects that are considered for privatization over the coming 20 years, mainly, the Northern Shuaiba Power Station and Kuwait's landlines, fiber optics and DSL services.

**The Investor: Is there a public list of these 38 entities?**

**Dr. Khaled Mahdi:** The list of projects has already been approved, and the Supreme Council for Privatization will start to gradually issue the projects for privatization once they are ready.

**The Investor: Can you tell us more about the Supreme Council for Privatization?**

**Dr. Khaled Mahdi:** The Supreme Council for Privatization steers the country's privatization policies and plans, in the same manner that the SME National Fund is in charge of SMEs, the KDIPA is in charge of FDI and the Kuwait Public Private Partnership Authority is responsible for PPP projects. Every economic enabler has its own authority that operates within a legal framework. Kuwait believes in the institutionalized model of long-term development.

**The Investor: What are the upcoming opportunities for investors (both local and foreign?)**

**Dr. Khaled Mahdi:** There is a wide range of opportunities available in the form of public-private partnership projects, such as power stations, wastewater treatment and solid waste management plants, to name just a few. The new amendments to the privatization law provide a broader concept of privatization that is not limited to the transfer of assets, but it extends to the transfer of management as well as to leasing. There are different forms of privatization, focusing mainly on the management of operations of the health sector and the railroads, as well. In other words, the government establishes the infrastructure, but the operations of the project will be managed by the private sector. So, yes, there are a lot of opportunities coming up.

**The Investor: You mentioned shifting the leadership of the economy to the private sector but at the same time we've seen an increase in purchasing and taking over of projects by the Amiri Diwan (Shaheed Park, Sheikh Jaber Cultural Center, Sheikh Salem Cultural Center, and now Entertainment City), which seems at odds with the plans mentioned. What do you think?**

**Dr. Khaled Mahdi:** The private sector will take over the management, operation and financing of the Entertainment City project. As for the other projects, these are all national cultural centers and their operations will be privatized. In the Vision of HH the Amir and its national development plans, private sector institutions aren't perceived as contractors but as partners and investors.

**The Investor: What are the opportunities for investment companies and how can they participate in the New Kuwait 2035 vision?**

**Dr. Khaled Mahdi:** Investment companies are invited to look for PPP projects that are offered by the PPP Authority, such as power stations, wastewater management and others. These are key development projects and more in the pipeline. Investors are invited to invest in facility management and operations in the health-care sector and in the petrochemical sector, such as the Al-Zour refinery, which will be coupled with a petrochemical plant. PPP projects provide excellent investment opportunities for the private sector at the vertical level including support services and industry.

**The Investor: The New Kuwait 2035 vision envisions the development of the Silk City, an entire economic zone in the northern part of Kuwait. What is the status of this plan/project? What**



*Government plans to privatize "total of 38 projects in the next 20 years".*

**steps will take place in 2019/2020 to move this forward and what can investors expect in terms of opportunities or things to watch out for? And what about establishing or working with investment companies to open funds related to projects like Silk City?**

**Dr. Khaled Mahdi:** There are three components to the Silk City project that are considered as main prerequisites for the success of the Special Economic Zone or Northern Region project - known locally as the Silk City project. (a) the masterplan which is currently in progress and is being finalized by the consultants who are also working out the project's feasibility, zoning and implementation; (b) the financing model which will be developed once the masterplan has been articulated to allow 100% financing by the private sector. Until now, the engagement of the public sector hasn't yet been addressed; and (c) the legislative framework, and, in fact, a draft of the new legislation has recently been submitted to the National Assembly for review.

**The Investor: What is the status and where we are over the different components and what do you expect to happen within the next year?**

**Dr. Khaled Mahdi:** Kuwait is a country that takes pride in its constitution and institutions, and there is a different government entity responsible for the execution of the different components. I, myself, am following up on their progress as they have already initiated the process, especially that the draft law has been submitted (as mentioned). Regarding the financing, several models are being considered.

**The Investor: To move forward with the development of the Silk Region project, the draft law must be approved by parliament. What is your view on how long this might take and is there consensus and support for the proposal?**

**Dr. Khaled Mahdi:** I expect it'll take some negotiations to pass this law, which, when promulgated, the legal framework will support the project in a more efficient and practical manner. It will be much more effective to work according to the law for faster and better results allowing a bigger leading role of the private sector.

**The Investor: Who holds the decision making for these? And under which authority?**

**Dr. Khaled Mahdi:** The Silk City Authority (Medinat Al-Hareer Authority) oversees the project; previously, it was under the authority of the Council of Ministers. Now, it is under the authority of the Deputy Prime Minister Sheikh Nasser Al-Sabah.

**The Investor: Let me go back. Clearly, the human capital is vital in all the national development efforts. Can you give an example of what you mean by educational reform?**

**Dr. Khaled Mahdi:** The "Human Capital" is another strategic pillar in the national plan, which requires introducing educational reforms that can narrow the gap between the needs of the economy and educational outcomes. The Human Capital Pillar also extends to include women's empowerment, persons with special needs and the youth. The concept of the educational reforms would be to move to a more STEM-based syllabus in public schools that is science and math intensive. The reforms will also introduce an accreditation program of schoolteachers in the private sector, and to ensure that the whole education system is operated by licensed teachers.

**The Investor: And do you foresee more involvement by the private sector in the public education field?**

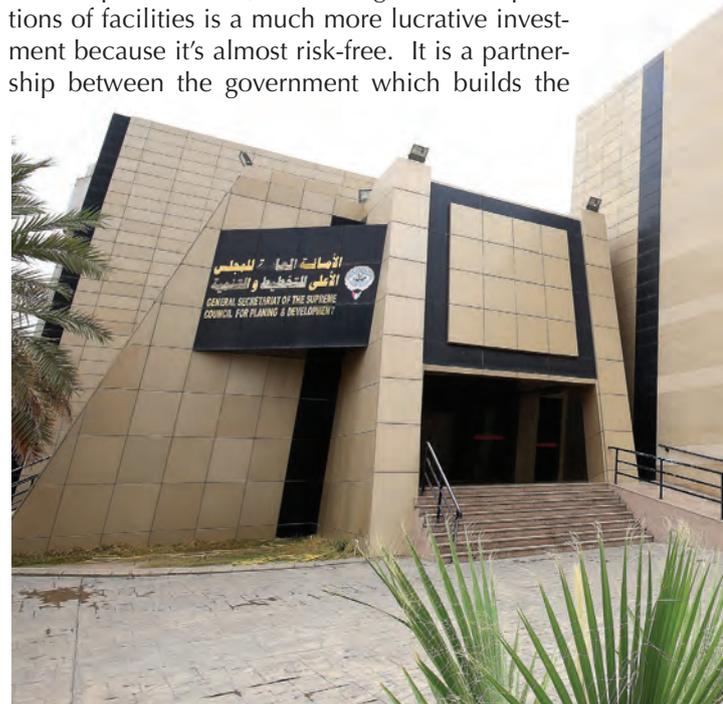
**Dr. Khaled Mahdi:** Yes, I do, based on the views of the Supreme Council for Planning and Development. It will be considered when the new amended privatization law is passed to permit the private sector to manage and operate public entities. As I said, privatization is no longer about the transfer of assets, but it entails leasing and transfer of management. The new draft of the privatization law was originally issued in 2010. The National Assembly is currently reviewing the amendments that the government has submitted a year ago.

**The Investor: What do you foresee as opportunities for investors – local and foreign – coming up in the next one or two years?**

**Dr. Khaled Mahdi:** It'll be in the short to medium terms and will focus on the management of operations of strategic projects that, when complete, will require international and local expertise of private companies for managing these facilities efficiently and effectively. For instance, the bed capacity of almost all the hospitals in the country are doubled and this will need management arrangements with the support of the private sector. Investors will certainly find potential opportunities and they need to move aggressively to push the government to stay away from operations and let the private sector actively engage.

**The Investor: This is different, however, from PPP or privatization?**

**Dr. Khaled Mahdi:** The PPP or privatization schemes use other investment arrangements than mere capital. In fact, the management of operations of facilities is a much more lucrative investment because it's almost risk-free. It is a partnership between the government which builds the



infrastructure and the investor as the operator of the facility. After all, the government needs to operate and manage the facility, and this is where the private sector manages the facility not as a contractor but as an operator. For example, the government builds a hospital then invites the private sector to manage its operations and generates its own revenue. This is different from acting as a contractor that receives its payments from the government, but instead, it'll act as an operator providing services.

**The Investor: How will this work in public hospitals, like Jaber Hospital, when the hospital is for Kuwaitis only and healthcare is free for citizens?**

**Dr. Khaled Mahdi:** Per the operating model approved, if you are a non-Kuwaiti who has insurance, then you can go to Jaber Hospital. Although the operation of the hospital is privatized, but we don't have full privatization in Kuwait. The model doesn't cater for full privatization; it's a public private and people partnership.

**The Investor: Then in a government hospital, the government will be paying for citizens?**

**Dr. Khaled Mahdi:** The government will cover all medical services. The operator company will be providing the same services as prescribed by the hospital. The government will continue to exercise its regulatory and monitoring role, where the Ministry of Health who is on the board of directors of the



Sheikh Jaber Al-Ahmad Hospital will continue to monitor and regulate the operations. We believe that if the private sector will be able to manage these mega development projects effectively and efficiently, while acting in their investment capacity, they will also have to attend to the operations, equipment, establishing infrastructures and systems for operations.

**The Investor: Taking government services and privatizing them?**

**Dr. Khaled Mahdi:** Yes. This will be achieved gradually but not all at once. The transforming of the role of the government from an operator of the economy to its regulatory role takes time. If we look at the Kuwait Boursa project, we see how it has developed on an operator-investor model. We've just started but there is one success story after another. Another success story is the North Al-Zour power station, developed under public-private-partnership, had been set up entirely in 22 months and the government will buy the electricity and water from the operator. The government didn't pay one cent for the building and the construction of the facility. It's owned by a company under the PPP arrangement at present, we're looking at this same model for investment options in the two islands.

**The Investor: As Secretary General of the Supreme Council for Planning, what do you foresee for the Kuwait economy in 2019/2020? Where do you expect growth and development and what are the Council's main concerns for Kuwait's short- and medium-term economic future?**

**Dr. Khaled Mahdi:** Our main aim is to gradually achieve deviation from dependency on crude oil being the main source of national income and this can be possible through diversification which in itself is an enabler; moreover, and as I mentioned earlier, advancing privatization and expanding the SMEs portfolio, as well as improving the ease of doing business should holistically make investing in mega projects attractive to foreign and local investors.

**The Investor: Speaking of that, do you have any insight or knowledge about possible changes or updates to Kuwait's bankruptcy laws?**

**Dr. Khaled Mahdi:** There is a package of laws that are considered to be revised for amendments as part of improving the ease of doing business environment, including the new draft bankruptcy law which is nearly ready for submission to the National Assembly. The plan is to have them ready by 2020 for implementation.

# Developing Kuwait's future economy through its youth

*KAFO's nine communities – art & culture, entrepreneurship, education and environment, health, humanitarian, media, science & technology and sport – are also structured to support the New Kuwait vision's pillars of development.*



KAFO founder Dr Fatima Al-Mousawi

One of the greatest challenges facing Kuwait's future will be the imbalance between private and public sector employment. As the World Bank has noted, Kuwait's "public sector is one of the largest in the world, with a spending to GDP ratio of 53 percent. Oil revenues are distributed through subsidies, transfers and public employment, with 80 percent of employed Kuwaiti nationals working in the public sector."

To tackle this and push the country toward becoming a cultural, commercial and financial hub, the government in 2017 launched a new strategic plan, known as New Kuwait 2035. New Kuwait 2035 is built upon seven pillars: Global positioning, creative human capital, effective civil service, developed infrastructure, high quality healthcare, sustainable and diversified economy and sustainable living environment.



The Kuwait Achievers for Future Opportunities, KAFO for short, is part of this strategy. KAFO aims to showcase local and Kuwait-based achievers, especially Kuwait youth achievers, to help them connect with opportunities in the private sector. The Amiri Diwan initiative, created in partnership with the Ministry of Youth, also aims to encourage collaboration among the country’s youth achievers and develop knowledge transfer among all the populations of Kuwait.

“KAFO works in support of the New Kuwait, as a theme for dialogue and to identify different achievers that are aligned with the different pillars (of the New Kuwait Vision 2035),” explains KAFO founder Dr Fatima Al-Mousawi. “So for example, for human capital, we’re arranging online courses and we’ve brought experts to provide content for online courses and that’s our way of contributing to help achievers develop their soft skills,” she said.

“We introduced the vision first and through that we came up with activities. So to correspond to the pillar of global positioning, we thought of featuring people who have won awards internationally because they brought up the name of Kuwait globally and we appreciate them through talks we’ve set up.”

KAFO’s nine communities – art & culture, entrepreneurship, education and environment, health, humanitarian, media, science & technology and sport – are also structured to support the New Kuwait vision’s pillars of development.

“Take healthcare,” says Dr Al-Mousawi. “KAFO is looking for experts in healthcare

and people who have won awards, and we plan activities that support the pillars. We also want people to think about opportunities. The vision is created in a way so that people can contribute. We want to have a dialogue. Make it a vision that everyone owns. It’s not just a government order to follow but it’s a roadmap for our collective aspirations.”

Along with annual conferences, KAFO has launched initiatives including partnering with the Silicon Valley-based 500 StartUps fund to connect Kuwait youth with startup opportunities in the US and further encourage the local startup scene. The efforts, backed by the National Fund for Small and Medium Enterprises, are meant to help startup investors overcome some of the hurdles of Kuwait’s business environment.

Onerous government regulations continue to contribute to Kuwait’s rank of 96 out of 190 countries in the Ease of Doing Business scale. “Comprehensive reforms are needed to rebalance the economy away from the energy sector to a more diversified growth path underpinned by innovation, private sector entrepreneurship and job creation,” notes the World Bank in its April 2018 Economic Outlook on Kuwait.

KAFO and similar initiatives, under the umbrella of the Amiri Diwan’s New Kuwait 2035, aim to change this picture drastically in the coming years. “We want synergy and collaboration...to encourage youth to look into the private sector and to start their own enterprises and innovation,” explains Dr Al-Mousawi, “and the New Kuwait 2035 of HH the Amir is the roadmap we are utilizing to achieve this.”



## Turkey investing in Kuwait for the long term: **Growing interest in bilateral, greenfield investments**



Her Excellency Ayse Hilal Sayan Koytak, Turkish Ambassador to Kuwait

*Turkish companies would like to contribute more to the New Kuwait 2035 vision. As the Embassy of Turkey in Kuwait, we encourage our companies to settle in Kuwait with long-term investment projects.*

### **Interview by Sajeev K Peter**

Turkey is a powerful, important trade partner for Kuwait. Bilateral investments between Turkey and Kuwait have grown exponentially over the last few years, reaching billions of dollars. The Investor magazine spoke with Her Excellency Ayse Hilal Sayan Koytak, Turkish Ambassador to Kuwait, to learn more about the current and future path for financial ties between the two countries, Turkey's long term view of Kuwait as an investment destination and what Turkish companies are looking for in Kuwait.



**T**he Investor: Kuwaiti and Turkish relations date back to 1969 when both countries signed a treaty for establishing diplomatic ties. Over the last five decades, bilateral relations have witnessed phenomenal growth, especially in the fields of trade and investments. Kuwaiti investments in Turkey are reported to have grown to around \$2 billion over the last few years. Similarly, Kuwait is ranked 11th in terms of Turkish companies operating in Kuwait carrying out about 34 projects worth \$6.5 billion. How do you look at the bilateral relations between the two countries, especially in the fields of investments?

**Her Excellency Ayse Hilal Sayan Koytak, Turkish Ambassador to Kuwait:** With its strong economic growth, Turkey has been able to attract \$193 billion in foreign direct investments during the past 15 years, whereas it only attracted \$15 billion in the preceding eight decades.

As for Kuwaiti investments in Turkey, the figures still do not reflect the positive political environment that our countries have experienced in recent years. Even though there are more than 300 companies having Kuwaiti shareholders in Turkey, the total amount of these investments is only around \$2 billion. This figure can be accepted as very tiny when you compare Kuwaiti foreign direct investments all over the world. We need to increase this number to \$5 billion, to \$10 billion, or even to \$20 billion.

As the ambassador of Turkey to Kuwait, I do not see any obstacles to reach this goal. We would like to see more involvement of Kuwaiti companies in the growth story of Turkey, not only in the fields of banking and real estate, but also in other profitable industries such as manufacturing, IT services, telecommunication, healthcare, agriculture, energy and media.

It is important to underline that the domestic market in Turkey is well-connected with key markets not only through a customs union with the EU and free trade agreements with around 30 countries, but also it is geographically and logistically well-connected with the rest of the world. As such, Turkey's geostrategic location provides investors easy access to lucrative markets around Turkey, with combined populations of around 1.5 billion people and \$24 trillion of GDP.

Around half of global trade takes place within a four-hour flight radius of Turkey. These markets are not only large, but also economically and socially diverse, providing investors with more opportunities and less risks. Well aware of Turkey's unique geostrategic advantages, many multinational companies have chosen Turkey as a manufacturing and management hub in the region, using Turkey as a springboard



His Highness the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and Turkish President Recep Tayyip Erdogan exchange orders of honor



Kuwait Minister of Commerce and Industry Khaled Al-Roudhan with Turkish Deputy Premier Mehmet Simsek

to access regional markets. Likewise, we believe that Turkey can be a hub for Kuwaiti investors not only for operating in the dynamic Turkish domestic market, but also for reaching out to many diversified markets surrounding Turkey.

When we look at Turkish investments in Kuwait, we mostly see that Turkish construction companies are investing in Kuwait, some of whom have already got their KDIPA licenses. Apart from construction, we can see some Turkish companies in real estate, hospitality and tourism sectors in Kuwait. Especially since the last five years, we are witnessing an increase in the appetite of Turkish companies for investing in Kuwait. They are all aware that Kuwait is in the middle of a transformation from an oil-dependent economy into a global trade and investment center.



*The development of Kuwait means the development of Turkey, that is to say, both countries will flourish from the increase in bilateral greenfield investments.*

With the motivation of the superior political environment between our countries, Turkish companies would like to contribute more to the New Kuwait vision of 2035. As the Embassy of Turkey in Kuwait, we are encouraging our companies to settle in Kuwait with long-term investment projections. We are also guiding them by emphasizing that development of Kuwait means development of Turkey, that is to say, both countries will flourish from the increase in bilateral greenfield investments between our countries.

**The Investor:** According to a recent report, Kuwait is Turkey's 53rd largest export destination and 80th largest import partner. The trade volume between the two countries reached \$678 million in 2018. Are you content with the current level of bilateral trade between Kuwait and Turkey? Do you see any scope for further growth in exports and imports?

**Ambassador Koytak:** When we look at the bilateral trade figures in 2018, we can see that the level of trade has been increased for both countries. Turkish exports to Kuwait have risen 22% and reached the level of \$534 million in 2018. On the other hand, Kuwaiti exports to Turkey reached the level of \$144 million in 2018. Most of Kuwaiti exports to Turkey is composed of oil-related products. On the other hand, Turkish exports to Kuwait are composed of carpets, furniture, dairy products, fish, auto parts, construction materials, gold and jewelry and ready-made garments.

Even though trade volume between Turkey and Kuwait has witnessed a favorable increase in the last decade and the year 2018 was a perfect year in terms of the increase in trade, Turkey is only the 12th largest exporter origin of Kuwait. Turkish exports only make up 1.4% of market share within the \$35 billion of Kuwaiti import market. Therefore, we can easily say that bilateral trade relations between our countries still has not reached the perfect level of our bilateral political relations rooted in the perfect relation between HH the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah and President Recep Tayyip Erdogan. The current level of trade is not satisfying for us and we believe that both our countries have more potential.

We are aware of the fact that the Kuwait market is an open and competitive market for all kinds of international goods. However, we are very certain that Turkish exports have a well-deserved place for Kuwaiti buyers. We are also receiving feedback from both consumers and end-users that Turkish products have higher quality in the Kuwaiti market with reasonable costs. The quality perception of Turkish products is very high.

To expand the fingerprint of Turkish products in the Kuwaiti market, we are also suggesting our companies to focus more on higher end and more value-added products with branding. Instead of traditional Turkish products like carpets, furniture or dairy products, we would like to focus more on electronics, machinery, healthcare and pharmaceutical products.

Even though the current market share of Turkish products is only 1.4%, we believe that Turkish exports can



get at least 5% market share in the Kuwaiti market and can reach to \$2 billion in the near future. By achieving this goal, we are certain that Turkey is going to be among the top five trade partners of Kuwait.

**The Investor: The Turkey Investment Office is the official organization promoting Turkey’s investment opportunities to the global business community. Can you briefly tell us how the office facilitates assistance to potential foreign investors?**

**Ambassador Koytak:** The Presidency of the Republic of Turkey Investment Office is the official organization for promoting Turkey’s investment opportunities to the global business community and for providing assistance to investors before, during, and after their entry into Turkey.

Investment Office supports high-technology, value-added and employment-generating investments with its facilitation and follow-up services during the whole processes of relevant investments. The office offers an extensive range of services to investors through a one-stop-shop approach, ensuring that they obtain optimal results from their investments in Turkey.

In order to increase FDI inflows into Turkey, the Investment Office is increasing its promotional activities in the world to reach out to more investors and create more awareness. The office regularly organizes investment seminars, panel discussions and 1:1 com-

pany visits, participates in summits and fairs, communicates strong dynamics of the Turkish economy through the international media as well as our social networks, with a focus on global platforms in various languages.

Additionally, the office cooperates with our global counterparts such as investment promotion agencies, other NGOs and sectorial associations in organizing some of the events and activities. Advisors of the office throughout the world are always in direct contact with international investors to support them regarding their business operations and investments in Turkey. With the help of their sector-based and task-based teams in Turkey, they provide support services such as consulting, coordination, business facilitation, site-selection, delegation visits, partnership development, and aftercare services.

**The Investor: Do you see any growth in the FDI inflow from Kuwait into Turkey over the last few years since the formation of the office?**

**Ambassador Koytak:** FDI inflow into Turkey during the 2002-2018 period from Kuwait was realized at \$1.8 billion. Total FDI inflow into Turkey during the same period from the Gulf countries was realized at \$10.3 billion.

The Investment Office is very keen on attracting FDI from Kuwait and in the upcoming period, they plan to attend more investment-related meetings and sem-



Kuwait International Airport Terminal II



inars in the country. The office also plans to collaborate with business associations and government institutions to hold B2B meetings with potential investors, organize their visits to Turkey, and help them with their investment process.

In 2019, a further increase in FDI into Turkey from Kuwait is expected thanks in part to an improving global economy, the end of the recession concerns in Europe, and Turkey's transition to the executive presidential system, which strengthened the political stability in Turkey and saw the continuation of economic reforms. In the wake of the local elections on March 31, Turkey has a long period of around 4.5 years ahead with no elections on the agenda. Thus, Turkey will totally be focused on structural reforms to improve the investment climate and enhance FDI.

**The Investor: Several Turkish companies are currently engaged in many key infrastructure developments in Kuwait, especially in housing and construction sectors. Briefly tell us about the latest developments.**

**Ambassador Koytak:** First of all, we have to underline that Turkish overseas contracting companies rank second with 46 companies listed in the annual list of the world's 250 largest contractors, designated by Engineering News Record (ENR) magazine, one of the leading publications of the contracting service sector. Overseas contracting is one of the most growing

sectors of Turkey. To date, more than 9,000 projects have been undertaken by Turkish companies in 120 countries with a worth of \$370 billion.

In Kuwait, \$450 million worth of projects were undertaken by Turkish contractors in 2018 and to date, 40 project tenders with a value of \$7.1 billion have been granted to Turkish companies. The fact that 90% of these projects are undertaken in the last five years is quite satisfactory in line with the increasing economic relationship among our countries. It is also significant to emphasize that construction companies are the main economic connectors between Kuwait and Turkey at present. We hope that the increase in the number of the projects undertaken by Turkish construction companies will foster the developing relations between our countries.

In fact, many major projects in Kuwait are now built by Turkish contractors. Apart from oil and petrochemical industry tenders, the largest tender in the history of Kuwait with a worth of KD 1.3 billion, namely the project of Terminal II building of Kuwait International Airport, is now built by a Turkish company. With this project, Turkey and Turkish companies are showing their commitments to the New Kuwait 2035 vision of HH the Amir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah.

Some of our companies are also operating in South Al Mutlaa residential city project. They are building the





infrastructure of the newest residential area of Kuwait. We are very proud that all of the Turkish contractors in South Al Mutlaa are performing well and all of them are ahead of the schedule. In addition, one of our engineering consultancy companies has undertaken an important road maintenance project recently. It is essential to say that not only our contractor companies but also our engineering consultancy companies are very strong in the Kuwaiti market.

Turkish construction companies in Kuwait are not here for short term purposes. They have long term plans and they are eager to contribute to the development of Kuwait. In the meantime, they would like to take part in road, bridge, infrastructure projects not only for residential areas but also for industrial zones and oil and gas fields. They would like to participate in different types of tenders in healthcare and energy sector. We hope that the portfolio of the projects executed by Turkish companies will rise year by year with the help of the perfect political climate between our countries.

**The Investor: Turkey is ranked as the 13th largest economy, achieving an impressive annual growth rate of nearly 6 percent over the past 15 years. However, the Turkish economy has begun to experience some negative developments over the last two years impacting its growth rate and adversely affecting the financial markets. Do you anticipate any long-term implications from these volatilities on Turkey's macroeconomic dynamics and fundamentals?**

**Ambassador Koytak:** For the last 15 years, Turkey has achieved a sustainable production and investment-oriented export-led growth strategy. In the last two years, the growth rate of the economy was 7.4% and 2.6% successively. As a result of the sustainable growth of the economy, Turkey is ranked as the 13th largest economy in the world according to the amount of GDP in purchasing power parity.

After the recent exchange rate fluctuations experienced last year, our economic policy authorities took prudent and timely measures to support financial stability and sustain the effective functioning of financial markets. With the help of the measures taken so far, the economy is rebalancing with fiscal discipline and price stability. We have experienced initial implications of rebalancing in manufacturing index, economic confidence index, consumer confidence index, rate of exports meeting imports and inflation rate.

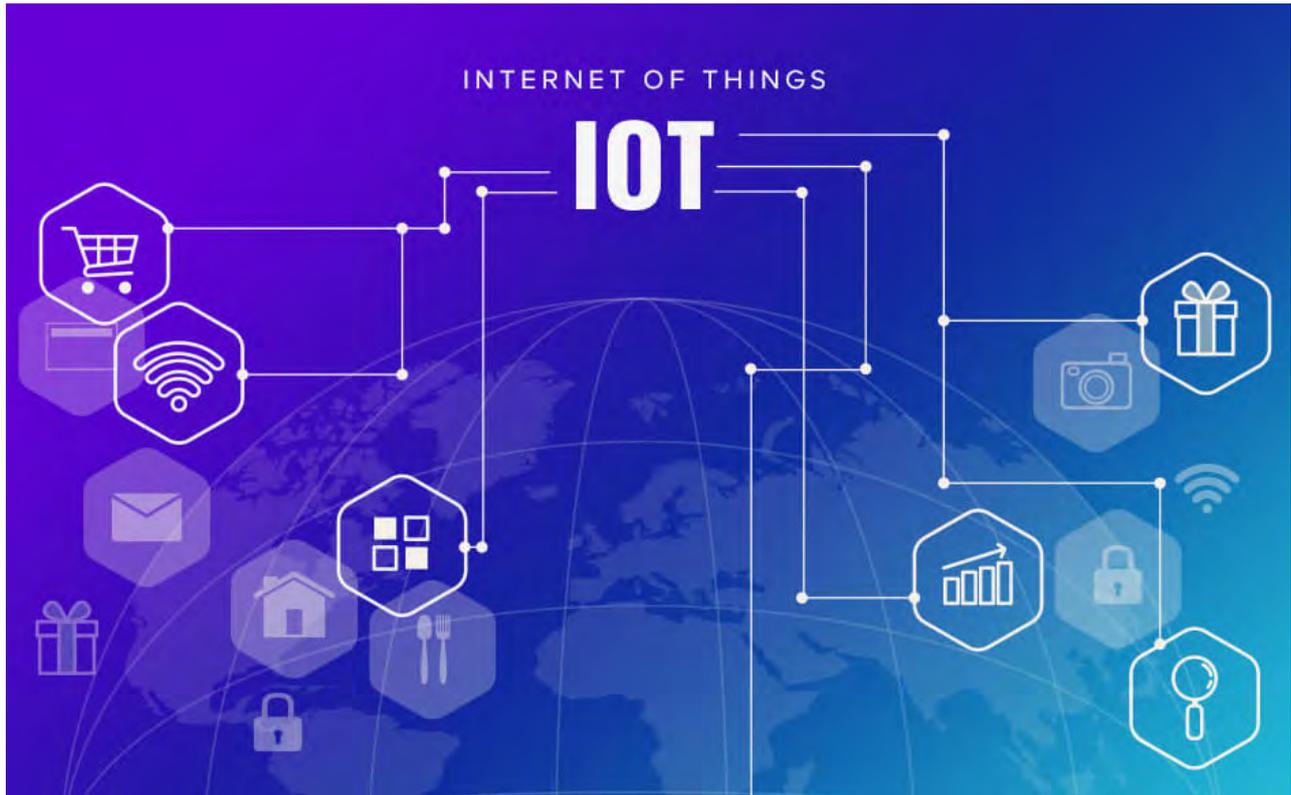
After decreasing six months in a row, manufacturing index went up 1% in January. Economic confidence index went up from 79.4 to 81.9 in March. Consumer confidence index went up from 57.8 to 59.4 in



*Trade volume between Turkey and Kuwait jumped 140% in the last decade.*

March. Rate of exports meeting imports were 69.4% one year ago but it became 86.4% in March. The inflation rate was 25.24% in last October but it gradually decreased to 19.71% in March. Even though Turkey experienced negative growth in the last quarter of 2018, these figures are showing the preliminary indications of rebalancing and soft-landing process of the economy.

The New Economic Program of Turkey has been launched on April 9, 2019 and it envisions 2.3% growth rate for 2019, 3.5% for 2020 and 5% for 2021. Therefore, without any elections for the upcoming 4.5 years on the agenda, with the strong mandate of policy makers in financial discipline and price stability and with the strong structure of Turkish financial and private sectors, we believe that the recent economic fluctuations in Turkey will not have long term damages on the macroeconomic dynamics of the Turkish economy.



Embracing digital economy:

# Kuwait makes great strides

By Sajeev K Peter

**K**uwait's ambitious digital transformation strategy as envisaged in the "New Kuwait" 2035 vision will radically alter the way we live and the way businesses function in the coming decades. Internet of Things (IoT) is critical to Kuwait's economic diversification strategy as the country takes measures to transform itself into an information and communication technology (ICT) hub in the region.

"Disruption is everywhere, affecting every aspect of our lives in Kuwait today. Technology innovation is constantly evolving and accelerating at a significant pace. This has led to challenges across all industries, be it in banking, telecom, healthcare, hospitality or even in the retail sector. It is inevitable that an entity now needs to keep

abreast with the high pace of digitization, including use of artificial intelligence and big data analytics in their businesses," said a technology expert on the condition of anonymity.

As Kuwait seeks to embrace the digital economy in a rapidly changing IT landscape, analysts also see meaningful collaboration between the public and private sectors. "One of the focal points of Kuwait's 2035 vision is to ensure digital growth through use of modern fintech. Significantly, the government launched a \$200 million fund in January 2019 for technology investments, which is expected to serve as a catalyst to the 2035 vision. Firms that embrace technological challenges will have a head-start in this emerging tech-driven era," he pointed out.

“The technology fund is a landmark step towards embracing a digital economy and driving transformation through emerging technologies. This in turn will give great boost to economic growth and invite more investments from the region and the world by positioning Kuwait as a tech hub as part of the leadership’s efforts,” Charles Nahas, Country General Manager, Microsoft Kuwait, told The Investor.

This government initiative is expected to create more jobs in the technology sector, which has a multiplier effect as well. A World Bank report found that for every one high-tech job, 4.3 jobs are created across all other occupations. In 2009, Kuwait launched a \$500 million fund that helped save 437,000 jobs in the region and financed more than 7,000 Arab-launched initiatives in the post-crash global economy.

“Kuwait is ambitiously steering towards achieving the country’s 2035 ‘New Kuwait’ vision. Cloud and artificial intelligence can be at the heart of this journey to accelerate the pace of e-services in the public sector, while overcoming future

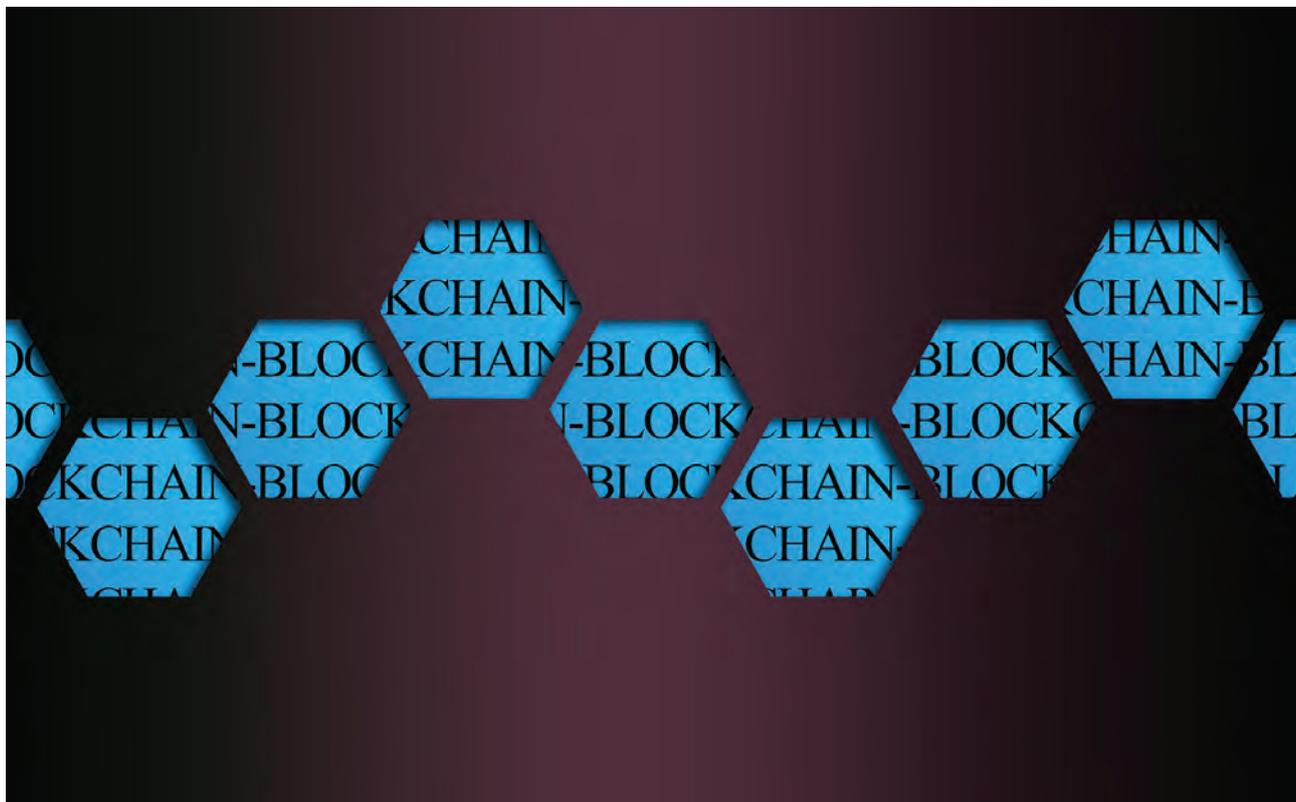
challenges and meet the needs and expectations of citizens,” Nahas added.

**Fintech revolution**

The use of fintech has grown manifold across the globe and it is predicted that more companies will join this race in the next decade. Kuwait has always been in the forefront in encouraging its citizens to

*“Disruption is everywhere, affecting every aspect of our lives in Kuwait today”.*

adapt and embrace technology. Some of the major players in this space are Talabat, Carriage, Boutiqaat and Careem. In Kuwait, fintech startups are pushing the limits and trying out new ideas. In the finance sector, mobile payment apps like Tap and



MyFatourah shook up the payments market and opened an entirely new segment dominated by fintech.

Meanwhile, Kuwaiti banks are introducing new features their customers can use conveniently and allow them to collect bills or rent by sending an SMS to the recipient. The banks are also embracing open API specifications and data standards which can be beneficial to the industry's development, and most importantly, enhance customer experience.

"Kuwait is taking leaps and bounds in its efforts to lead the fintech revolution in the country and the wider region. Leading financial institutions in Kuwait are adopting and deploying a range of innovative technologies across various business functions

that will enable them to reinvent customer experiences," Nahas said.

Zain has announced the launch of zBot, its first smart customer service channel. Built on Microsoft artificial intelligence (AI) technologies, zBot is an autonomous virtual employee, fulfilling the role of front-line service agent for Zain's customers, who make up the largest subscriber base in the country. zBot is a great example of how the intelligent Microsoft Cloud can help organizations to engage customers, empower employees, optimize operations and reinvent products and services. This is digital transformation in action, and Zain is once more stepping forward as a leader in its sector and showing both customers and industry peers exactly what is possible.



Kuwait Finance House (KFH) has launched the first banking robot in Kuwait leveraging artificial intelligence to accelerate customer transactions in consumer and installment financing. Its performance helps reduce processing time and save customers time and effort by reducing significantly turnaround time. KFH has also launched an artificial-intelligence chatbot, also built on AI technologies, in a move that promises to drive digital transformation by improving customer engagement and empowering KFH employees.

Technology specialists see huge potential for investments in the fintech sector in Kuwait in the wake of the government initiative. "Recently, we have noticed a significant increase in the number of venture capital funds that are willing to fund startups, especially small and medium businesses such as laundry services, coffee marketplaces and e-groceries. The Kuwait government has also established a National Fund for SME Development (the 'SME Fund') with an intention to help the country make a major stride in the efforts to support the youth, combat unemployment and enable the private sector to drive economic growth. This fund is also expected to support building an innovative ecosystem for young entrepreneurs driven by technology," a banking expert pointed out.

5G is a game-changer for Kuwait as well and will fix a lot of latency issues. It is a leap forward in wireless technology that promises much higher speeds and performance, far broader capacity and a platform for a variety of new computing scenarios such as IoT. The intelligent cloud paves the way forward with 5G and other technologies, enabling digital transformation journeys in the country and the wider region.

"At the same time, financial innovation can also create heightened sensitivity for investors, regulators and the broader market," a banking expert warned. "It is therefore essential for fintech entities to demonstrate a heightened focus on risk management activities, giving investors the confidence to invest in financial innovation and new products to keep pace with consumer demand," he pointed out.

## the INVESTOR

### CALL FOR SUBMISSIONS

- The Investor would like to invite UIC members and other interested parties to submit articles and analysis on any topic of interest to the investment community in Kuwait.
- Possible topics: Wealth management, mutual funds, investment in Kuwait or GCC, FDI, SMEs, transparency, PPP, venture capital, bourses, market makers, governance, private equity, real estate, etc.
- Articles will be considered for publication in upcoming issues of *The Investor*.
- Article should be written in Arabic or English, with a clear point of view. Technical language should be kept to a minimum.
- Graphs, charts and images are welcome. A high resolution head shot photo of author is acceptable.

Please send **NO LATER** than  
**September 15, 2019**  
by email to the following:

[fadwadarwish@unioninvest.org](mailto:fadwadarwish@unioninvest.org)

[etheridge@kuwaittimes.com](mailto:etheridge@kuwaittimes.com)

# Global mortgage crisis 10 years on

*No country in the world, including the GCC states, was safe from the impact of the global financial crisis though affected in different ways depending on their exposure to advanced economies, global capital, international investment, export and import.*



**By Dr Farid Habib Lian**

It may seem that the subprime mortgage crisis occurred a long time ago and has sunk into oblivion. It is difficult to remember the panic or the details of that event, which is only a decade old, despite the disastrous impact it had on many of the world's leading financial institutions as well as the global economy and ordinary individuals.

While we witness the 10th anniversary of the fall of Lehman Brothers as the first victims of the mortgage crisis and the subsequent global financial recession, it may be useful to recall the events that led to such a crisis, and the reasons for the continuation

of its negative effects in these last 10 years.

First, a subprime mortgage is a mortgage with low credit. It is a reference to the low credit level of borrowers obtaining such mortgages. The question is how the factors that led to the signs of such a crisis in 2007 were generated and caused the crisis to be fully manifested in mid-2008, with their differing repercussions on most of the world's economies.

In fact, this crisis did not arise overnight. From early 2000 to the middle of the decade, mortgage rates in the United States were very low as a direct result of the Federal Reserve's decision to cut interest rates to stimulate economic growth after the recession in early 2000.

As a result, a large segment of borrowers with shaky financial solvency were qualified for mortgage loans that had previously been blocked for them by high interest rates. At the same time, investors with financial solvency, who had already suffered losses from the collapse of technology stocks from March 2000 to October 2002, had turned to real estate investment, especially as real estate prices were starting to rise, and many expected their continued upward trend for a long time.

Against the background of the bubble of real estate prices, and the false pretense of high mortgage guarantees, local banks in the US rushed to invest their liquidity in mortgage lending through intensive marketing campaigns by brokers, most of whom were not working in the banking industry - their main motive was to collect as much as they could from credit applications, even if they had to embellish (or falsify) the facts surrounding the applications.

**Financial instruments lacking transparency**

The credit irregularity scenario did not stop at this point, as the original lenders sold these loans to investment banks. The latter split these credit portfolios and made blends in the form of investment instruments called CDOs (Collateralized Debt Obligations) that were promoted as financial instruments secured by real estate guarantees. The crisis started as a result of the formation and promotion of such instruments, which are made up of fragments of multiple credit portfolios that vary in terms of creditworthiness, where it is difficult to analyze the final product to determine the actual level of risk.



Hence, these high-risk instruments were spread due to their excellent earnings, to the extent that Fannie Mae and Freddie Mac, two institutions sponsored by the US government and specialized in securitization of mortgages, purchased large amounts of these mortgages from banks and resold them as investment securities secured by real estate assets.

### Evolution of the crisis

As real estate prices continued to rise, the volume of credit guarantees provided by real estate increased falsely, which led to the further spread of real estate loans granted to those who were previously not qualified to borrow. Things went on this way till post-2004, when the US Federal Reserve Bank raised rates twelvefold in an effort to avoid a severe inflation in the US economy. By the end of 2004, the interest rate was 2.25%. By mid-2006, it was 5.25%.

In addition, most of the mortgages mentioned were based on a variable rate of interest. They rise with rising interest rates determined by the main central bank, which is the Federal Reserve in the case of the United States. Therefore, many borrowers were unable to meet the demands of banks' increasing values for paying their debts.

Coinciding with the rise in federal interest rates, the market witnessed a decline, and then the bubble of real estate prices disappeared during 2005 and 2006, when the rates of hous-

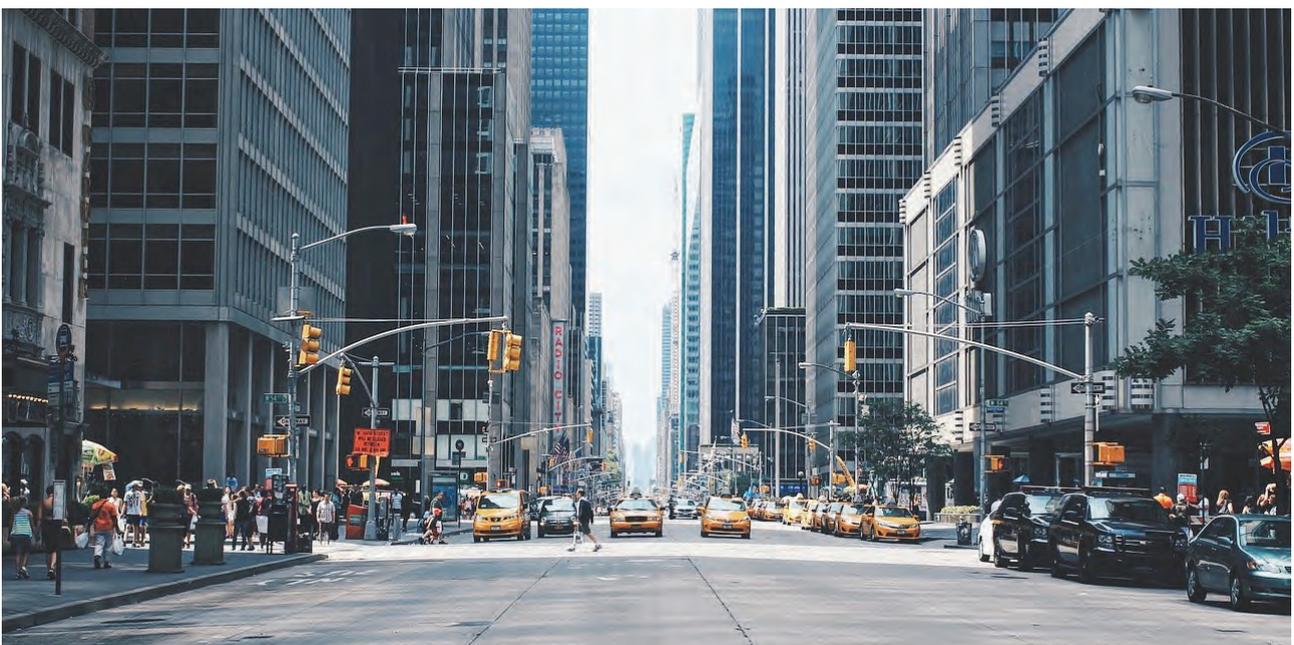
ing prices reached the lowest levels, provoking lenders to ask for additional guarantees for debt, which borrowers with low solvency failed to provide. The mortgaged market value was no longer equal to what was borrowed against it, and its sale would only result in an inevitable loss for its owner.

This made most borrowers abandon the loan and waive the assets provided as security to the lender. This constituted the starting point of the chain reactions that led to the collapse of the real estate market as a result of the crisis, where these lenders had to lay off thousands of employees to cut their operational expenses. The collapse of the investment banks that segmented, re-formed and marketed these debts in the form of investment instruments started as a small fraction of the loans which formed the core of these instruments that had become bad debts. By 2008, economic activity in the United States of America was clearly declining.

### The crisis and the Arab Gulf states

No country in the world was safe from the impact of the global financial crisis. All countries were impacted but in different ways, depending on the level of engagement with advanced economies, global capital, international investment, export and import. This applies to the economies of the Arab Gulf states.

The United Arab Emirates was clearly affected, especially Dubai, which relies heavily on inter-





national capital, inbound tourism and international investment in its properties, while Saudi Arabia had been less affected.

However, there are common causes of the crisis' impact on the Gulf states, such as the decline in global demand for oil and the global economic slowdown caused by the crisis. This had a direct impact on the balance of payments of these countries. However, on the other hand, the adoption of strict monetary control in the Arab Gulf countries had the greatest impact in securing a significant degree of protection for their economies from the worst impacts of the crisis.

The relative abundance of liquidity in these countries has also formed a catalyst for maintaining the stability of their monetary systems.

### **How Kuwait was affected**

Before the crisis, some major Kuwaiti investment companies had credit relationships with banks and foreign lenders. These companies got short-term facilities, maturing within 12 months, in an attempt to reduce the cost of borrowing. However, with high global interest rates and deterioration of asset values used as guarantees for the debt, these companies were unable to renew these loans. Therefore, they resorted to the local banking system, but without success in this endeavor. It is known in the context of globalization that crises' consequences and infection may spread from one

market to another. The local market has seen a surge of over-diligence and abundance of caution for lending, in terms of the value and quality of guarantees required.

In pursuit of getting the needed liquidity, these companies, in turn, had to liquidate a portion of their stock portfolios, which consequently led to a gradual decline in the Kuwait Stock Exchange and the decline in capitalization to unprecedented limits. All of these factors negatively impacted business activity despite low interest rates.

To counter this situation, the role of the Ministry of Finance in Kuwait emerged in the provision of funds from the general reserve to pay the deficit of banks during the crisis. The enactment of the Financial Stability Act also helped to reduce the impact of the global financial crisis on the local economy and restore confidence in the services and financial brokerage sector by providing government guarantees against any deficit in appropriations. This encouraged Kuwaiti banks to resume lending to companies, and provide liquidity to troubled institutions.

It should be noted that the Financial Stability Act in Kuwait was the least severe in terms of the interventions of the Gulf governments. In comparison, Qatar bought about 20% of the banks' ownerships and acquired investment assets of about \$600 million, and in a similar approach, other GCC countries did the same.

*Dr Lian is an economist, accredited management consultant and chartered risk analyst.*



## اتحاد شركات الاستثمار UNION OF INVESTMENT COMPANIES

### Overview

During the last two decades, the investment companies have been an immense impetus within the local and regional economy. They have provided financing and investment services, asset management, in addition to the financial investment services, such as mergers & acquisitions and more. Furthermore, they have rapidly extended their business operations in the regional and international markets, including the provision of financial services in accordance with the provisions of the Islamic regulations.

According to the statistics provided by the Central Bank of Kuwait in December 2018, the number of investment and financial services companies reached 73 companies, including 27 listed companies in the Boursa Kuwait, where they altogether manage assets of around 19.9 billion Kuwaiti Dinars.

The investment sector is considered the second largest sector in the Boursa Kuwait after the banking sector in terms of the size of its capital, as it is the third largest sector after oil and manufacturing industries as well as banks in terms of contribution to GDP.

Given the importance of this sector emerged the idea of establishing the Union of Investment Companies (UIC) in January 2005, which currently holds 33 investment

and financial services companies within its membership. 19 Companies listed in Boursa Kuwait.

### Mission

Adapting the appropriate atmosphere for developing the efficiency of the investment sector and financial services in consistency with developments in the international markets, including legislation and autonomous regulations to serve national economy.

### Objectives of Union of Investment Companies (UIC)

- Activating the involvement and participation with all formal and informal establishments in the country as well as working with them to develop a clear strategy to transform Kuwait into an advanced financial center to create a competitive atmosphere for all investment companies.
- Providing and suggesting draft proposals to update and reform legislation on the financial sector (the Capital Markets Authority law, corporate law, and the foreign investor law, etc.)
- Working to complete the institutional structure of a mature financial market, which operates to protect the investments and improve the investment environment and stability of transactions, raising confidence in the economy.

- Working to increase the number of UIC members, and to provide detailed data on member companies.
- Expanding the investment base for investment companies and assisting the investment sector in launching its investment projects and overcoming all obstacles facing investments and the promotion of the investment companies inside and outside Kuwait.
- Encouraging investment companies and financial markets on growing their activities and widening their financial instruments (various funds, fixed income debt instruments, convertible bonds, Islamic bonds, etc.) to assist investors in diversifying their operations and investment choices.
- Seeking arbitration to settle internal disputes that may arise between UIC members.
- Direct communication and establishing joint committees with all the official entities that are relevant to the investment sector (Central Bank of Kuwait, Capital Markets Authority, Ministry of Commerce and Industry, Ministry of Finance, Kuwait Chamber of Commerce and Industry, Committee of Finance and Economic Affairs in the National Assembly, Financial Committee at the Council of Ministers, Workforce Program and Restructuring, and more).
- Activating the role of Investment Studies Center (ISC) to provide services and trainings to those interested in the investment field.

## UIC Members

- |   |  |
|---|--|
| 1. Arzan Financial Group for Financing & Investment | 23 UniCap Investment and Finance                               |
| 2 National Investments Company                      | 24 Watani Investment Company                                   |
| 3 Al-Safat Investment Co. K.S.C.C.                  | 25 The Investment Dar Company                                  |
| 4 KAMCO Investment Company (KAMCO)                  | 26 Dimah Capital Investment Company                            |
| 5 Kuwait Investment Company                         | 27 Adeem Investment & Wealth Management                        |
| 6 Amar Finance & Leasing Company                    | 28 Boubyan Capital Investment Company                          |
| 7 Al-Ritaj Investment Company                       | 29 Noor Financial Investment Co.                               |
| 8 Al-Fanar Investment Company                       | 30 First Investment Company (FIC)                              |
| 9 A'ayan Leasing & Investment Company               | 31 Kuwait Finance & Investment Company (KFIC)                  |
| 10 Al-Imtiaz Investment Company (A.I.I.C)           | 32 Aref Investment Group                                       |
| 11 Kuwait Clearing Company                          | 33 Coast Investment & Development Company K.S.C.P              |
| 12 Kuwait Financial Centre S.A.K.C.                 |  |
| 13 The Securities House Company                     | <b>Saleh S. Al-Selmi</b> UIC President                         |
| 14 Global Investment House                          | <b>Hamad A. AlAmeeri</b> Vice President                        |
| 15 KFH Capital Investment Company                   | <b>Abdullah H. Al-Terkait</b> General Secretary & Board Member |
| 16 Kuwait & Middle East Fin. Inv. Co. KSCC          | <b>Faisal M. Sarkhou</b> Treasurer & Board Member              |
| 17 Wafra International Investment Company           | <b>Bader N. AlSubaiee</b> Board Member                         |
| 18 Osoul Investment Co. (K.S.C) closed              | <b>Hamad M. Al-Saad</b> Board Member                           |
| 19 Al-Aman Investment Company                       | <b>Khaled A. Al-Saeed</b> Board Member                         |
| 20 Al-Tamdeen Investment Co. K.S.C.C.               | <b>Tarek I. Al-Mansour</b> Board Member                        |
| 21 Al-Manar Financing & Leasing Company             | <b>Mansour H. Al Mubarak</b> Board Member                      |
| 22 Kuwait Pillars for Financial Investment          |  |



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UIC Director of Technical Support & ISC

Acting Director

\*\*\*\*\*

Managing Editor

**Jamie Etheridge**

[etheridge@kuwaittimes.com](mailto:etheridge@kuwaittimes.com)

**For Advertising Enquiries,  
please contact:**

**[ads@KuwaitTimes.com](mailto:ads@KuwaitTimes.com)**

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**Union of Investment Companies Kuwait**

Kuwait Chamber of Commerce & Industry

Building, Floor 2

Mubarak Al-Kabeer Street,

Murgab, Kuwait City

PO Box 27555, Safat

13136-Kuwait

Telephone: +(965) 2228-0370

Fax: +(965) 2249-0091/2

Email: [uic@unioninvest.org](mailto:uic@unioninvest.org)

Website: <http://unioninvest.org>

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**Kuwait Times**

Newspaper Street

Industrial Shuwaikh

PO Box 1301 Safat

13014 Kuwait

Telephone: +(965) 2483-3199

Fax: +(965) 2483-5620

Email: [etheridge@kuwaittimes.com](mailto:etheridge@kuwaittimes.com)

Website: [www.kuwaittimes.net](http://www.kuwaittimes.net)