

**Investment Companies
& development of Kuwait economy
- Effective dimensions and financial challenges -**

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Summary

Kuwait has been witnessing the emergence of investment companies and financial services – both conventional and Islamic. These companies are active in several fields and it has positive impacts on the objectives of economic development. This paper designs to highlight the role already played by these companies within other sectors that constitute the structure of the national economy. Under part I we will analyse number of economic indicators of the State of Kuwait, performance development of Kuwait Stock Exchange (KSE), the importance of investment and financial service sector in the Kuwaiti economy and the expected role of Union of Investment Companies to activate the performance of these companies.

The paper has concluded that investment and financial service companies occupy a leading position in Kuwait Stock Exchange and in the Kuwaiti economy. It occupies a leading position in the field of traded in shares, number of deals and number of shares and companies. This fact entails activating the role of these companies. This task may be undertaken by Union of Investment Companies

State of Kuwait endeavours to diversify the sources of income via giving due attention to the industrial and petrochemical section. Further, it endeavours to activate the role of the private sector as partner in the development process. In this respect, it provides legal, financial, and technical facilities and expands privatization process as an integrated part of an overall economic development and restructuring scheme to increase the efficiency of market tools.

Under these circumstances, some investment companies – conventional and Islamic - have emerged and it is active in several fields. There is no doubt that expanding the incorporation of these companies will serve economic development objectives, such as increasing private investment, reducing the

burdens of the state budget, creating more job opportunities and increasing the rates of economic development.

Hereunder is an indication of some main economic indicators in Kuwait that reflect the role of these companies and its importance for serving the Kuwaiti economy. Further, we will point out to Kuwait Stock Exchange, its development, evaluation of this development and the importance of investment sector in Kuwait with respect to the companies already listed with Kuwait Stock Exchange, how to activate the role of these companies to serve development and the role of Union of Investment Companies in this filed.

First: Some economic indicators of the State of Kuwait

1. Gross Domestic Product at current rates was about KD28644 millions, according to 2006 estimates, at KD5051 millions increase and 21.4% compared with 2005 when the value was about KD15598 millions. The share of oil sector was about KD15598 millions at 66.1%. This means that the oil sector overwhelms the Goss Domestic Product (GDP)⁽¹⁾

Estimates point out continuous nominal positive increase of GDP in 2007 due to the increase of oil prices that reached standard levels in addition to continuous oil production at current levels. IMF expects that this rate will be 7.8% and this growth will continue in the next year. In general, it is expected that actual growth rate will reach 5.7% in 2008 after it had reached 3.8% in 2007.

It is worth mentioning that oil production rate reached 2.45 million barrels on daily basis and the price of each barrel reached the maximum, i.e. US\$85 on December 2007

⁽¹⁾ Ministry of Planning, National Accounts Accumulated totals at current rates for the period from 2004-2006, table 1

2. On April 2007 the deposits of residents with local banks were about KD18057 millions distributed as follows: 16569 for private sector and KD1488 millions as government deposits. ⁽¹⁾
3. Total public revenues of the financial year 2005/2006 were about KD13728 millions and public expenditure was KD6862 millions. Therefore, State budget achieved great surplus due to the increase of oil public revenues thanks to high oil prices.
4. On 30/6/2006 total population of Kuwait was about 3052 thousands out of which 33% Kuwaiti nationals and 67% expatriates.

Further total labour force of Kuwait was 1870 thousand workers in 2006 out of which, there was 18% Kuwaiti nationals and 82% expatriates.

Second: performance development of Kuwait Stock Exchange

Kuwait has achieved major progress in the formation and management of stock exchange. In this respect, Kuwait Stock Exchange has been established and it enjoys independent nominal personality and the ability to dispose and manage its resources. Further, it has the right of litigation.

Kuwait Stock Exchange designs to provide the opportunity to invest savings and funds in securities in a manner that serves the interest of the Kuwaiti economy, to develop and rationalize the methods and procedures of trading in securities and to develop and organize the issue of securities in the primary market, etc

Hereunder is a brief summary of Kuwait Stock Exchange performance during the period 1985-2007. This performance is reflected in the terms of development of traded in shares, its value and number of executed transactions, etc. as follows: ⁽²⁾

(1) Central Bank of Kuwait, Monthly Monetary Statistics, Vol. 28, Issue 4, Economic Research Dept., Kuwait, April 2007, P. 20

(2) See: Kuwait Stock Exchange reports, 2003-2007

1. The number of traded in shares increased from 179.3 millions in 1985 to 2798 million shares in 1988. However, it dropped and continued to decrease until it reached the minimum in 1992 when it was 303 million shares. However, it increased thereafter and reached 33988 million shares in 1997, then it increased to 42163 million shares in 2002 and 49565 million shares in 2003.

The number of traded in shares continued its increase until it reached the maximum in 2007 at 100% increase as indicated in table No.1. However, this increase dropped in 2004 and 2006.

2. The number of executed transactions was 11.2 thousand transaction in 1985. Thereafter, it fluctuated until it reached the minimum i.e. 9.1 thousand transactions in 1992, but it increased thereafter until it reached 588.2 thousand transactions in 1997 and 1082 thousand transaction in 2003.

The number of transactions slightly decreased in 2004. However, it increased and then decreased once again in 2006, but it increased thereafter until it reached 2101.7 thousand transaction in 2007 at 41.4% compared with 2006.

It is remarkable that the first ten companies dealing with traded in shares are Kuwait Enterprises Investment Company, Kuwait Real Estate Bank, Al Ahlea Investment Company, National Telecommunications Company, Public Warehousing Company, National Industries Company, Real Estate Interests Company, Industrial Investments Company, Burgan Bank and Bayan Investment Company.

3. The value of traded in Shares increased from KD116.3 millions to KD710.2 millions in 1988. However, it decreased thereafter until it

reached the minimum at KD116.5 millions in 1992. Thereafter, it fluctuated until it reached KD16253 millions in 2003.

The value of traded in Shares continued their increase until it reached the maximum in 2007 when it reached KD37009.5 millions, as reflected in Table No.1, at 108% increase compared with its value in 2006.

Table (1)

Development of trading activity in Kuwait Stock Exchange (2003-2007)

Year	Trading indicators			Annual variance rate (%)		
	No. of traded in shares (in millions)	Value of traded in shares (in millions)	No. of deals (in thousand)	No. of shares	Value	Executed deals
2003	49565	16253	1082	78.1	143.3	107.6
2004	33537	15276	1057	(32.3)	(6)	(2.3)
2005	52246	28422	1956	55.8	86	85
2006	37658	17284	1486	(27.9)	(39.2)	(24)
2007	70438	37009.5	2101.7	87	114.1	41.4

Source: Kuwait Stock Exchange annual report, Kuwait, 2007, P. 20

4. With regard to sector distribution of the value of traded in shares during the period from 2001 to 2007, table No.2 indicates the following:
 - a) The value of traded in shares of different sectors listed with Kuwait Stock Exchange increased without exemption and the percentage of increase ranged between 17.3% minimum (the shares of insurance companies) and 125.8% maximum (service sector shares).
 - b) Service sector companies (53 companies) came at the top of the traded in shares with respect to its value. The shares of this sector acquired 29.1 of total value of traded in shares and it reached KD10741.4 millions in 2007

compared with KD790.8 millions during 2001, i.e. at KD9950.6 million increase rate and 1258.3%.

Table (2)

Development of traded in shares value within Kuwait Stock Exchange & its relative importance during the period (2001-2007)

In million KD

Sector	No. of companies registered in each sector	2001		2002		2003		2007	
		Value	%	Value	%	Value	%	Value	%
Real estate	34	273.1	7.6	909.5	13.6	2826.5	17.4	4946.5	13.3
Investment	43	710.1	19.8	1813.7	27.2	5527.2	34	4993.4	25.7
Industry	27	494.4	13.8	921.8	13.8	2145.6	13.2	4003.4	10.8
Services	53	790.5	22.1	1111.1	16.6	2461.8	15.1	10741.4	29.1
Food	6	94.6	2.6	158.3	2.4	330	2	443.2	1.2
Banks	9	1139.5	31.8	1619	24.2	2322.7	14.3	5415.6	14.6
Insurance	7	18.3	0.5	32.6	0.5	38.4	0.2	48.9	0.1
Non Kuwaiti	17	60.6	1.7	113.9	1.7	598	3.7	1917.1	5.2
Total	196	3581.1	100	6680	100	16250.3	100	37009.5	100

Source: Kuwait Stock Exchange, annual report, various years

Note: statements do not include investment funds

- c) Investment companies (43 companies) occupied the second rank with respect to the value traded in shares during 2007. The value of traded in shares of the companies of this sector constituted 25.7% of total value of traded in shares and its value was KD4993.4 millions in 2007 at 1237% compared with KD710 millions in 2001. Therefore, investment and service companies together acquired 54.8% of total value of traded in shares during 2007.

- d) Banking sector (9 banks) occupied the third rank and constituted 14.3% of total share value. The value of traded in shares of this sector reached KD2145.6 millions in 2003 compared with KD921.8 millions in 2002, i.e. at KD1223.8 million increase representing 132.8% increase rate. However, the value of these shares increased thereafter and reached KD5415.6 millions in 2007 at 14.6% of total value of traded in shares for the same year.
- e) Real Estate sector companies (34 companies) occupied the third rank representing 13.3% of total value of the traded in shares. The value of the shares of this sector during 2007 was KD9496.5 millions compared with KD273.1 millions for 2007, i.e. at KD4673.1 million increase and 1711% increase rate. Therefore, service, investment, banks and real estate companies together acquired 82.7% of total value of traded in shares in 2007.
- f) The value of the shares of Industrial sector companies (27 companies) constituted 10.8% of total value of traded in shares. The value of traded in shares of this sector was KD.4003.4 millions in 2007 compared with KD494.4 millions in 2001, i.e. at KD3509 millions increase and 709.5% increase rate.

Finally, the value of traded in shares of insurance and food companies as well as non-Kuwaiti companies constituted 6.5% of total value of traded in shares in 2007.

- g) In addition to traded in share value indicator, we have other indicators that reflect the relative importance of different sectors engaged in the Stock Exchange, including but not limited to the number of traded in shares and number of transactions. The available information already reflected in

table No.3 – that indicates distribution of traded in activity as per sector – indicate that investment companies occupied the first position among 8 sectors engaged in the Stock Exchange with respect to trading activity during 2007. This sector had occupied 32.1 of total traded in shares, i.e. 22608.6 million shares distributed to 641.3 thousand transactions representing 30.5% of total transactions. Then real estate sector occupied the second position having 26.5% of total number of traded in shares during that year, i.e. 18651.4 million shares distributed to 440.2 thousand transactions, i.e. 21% of total transactions. However, service sector occupied the third position at 18.9% of total number of traded in shares, i.e. 13305.9 million shares distributed to 477.8 thousand transactions at 22.7%.

Table (3)
**Relative importance of Kuwait Stock Exchange sectors compared with
number of traded in shares and number of deals**

Sector	No. of companies registered in each sector	number of traded in shares		number of deals	
		(Million shares)	Market %	(thousand deals)	Market %
Banks	9	4476	6.4	157.3	7.5
Investment	43	22608.6	32.1	641.3	30.5
Insurance	7	86.4	0.1	2.9	0.1
Real estate	34	18651.4	26.5	440.2	21
Industry	27	5088.2	7.2	209.2	10
Services	53	13305.9	18.9	477.8	22.7
Food	6	994.5	1.4	36.2	1.7
Non Kuwaiti	17	5227	7.4	136.8	6.5
Total	196	70438	100	2101.7	100

Source: Kuwait Stock Exchange annual report, 2007, P. 22

Third: The importance of investment and financial services sector to the Kuwaiti economy

Investment and finance services sector in Kuwait is divided into two main sections, viz:

1. Companies that practise investment, portfolio and investment fund management as main business. These companies are divided into investment companies practising traditional activities and other companies that work in accordance with the provisions of the Islamic Law.
2. Service companies that provide financial services. These companies are divided into companies that render traditional services and others that perform financial Islamic services.

Investment and financial services sector in the Kuwaiti market plays a leading role that enables it to achieve development due to several reasons, the most important of which are: ⁽¹⁾

- a. This sector comprises 45 companies already listed with Kuwait Stock Exchange as of April 2008 at 22.73% of total companies already listed amounting to 189 companies which is the highest percentage among different market sectors
- b. As previously stated these companies have achieved the second position with respect to the value of shares already traded in the stock

⁽¹⁾ See :

- Ayman Boodai, the cherished role of investment and financial service Kuwaiti companies to achieve developmental finance, paper submitted to Fourth Islamic Economic Forum, Kuwait, 28/4/2008
- Monthly Monetary Statistics, vol. 29, Issue No.1, Economic Researches Dept., Central Bank of Kuwait, 2006, P.22
- www.unioninvest.org

exchange. Further, it has achieved the first position with respect to total number of traded in shares and the number of transactions.

- c. The capital of the investment companies already listed is about KD2230 millions representing 28.05% of total market capital. Market value of investment sector was KD10.934 millions representing 20.18% of total market value amounting to KD54.18 millions as of April 2008.
- d. The assets managed by investment companies are about KD17 billions, out of which there are KD300 millions belonging to investment funds already active in the Kuwaiti market. The profits attained by these companies were KD1.601 billion during 2007.
- e. Investment companies have achieved considerable growth of net profit value and it has occupied the third position among eleven of different sectors in the stock exchange. Net profits of these companies was about KD997.6 millions during 2005 compared with KD392.8 million in 2004 at KD604.8 million increase and 154% increase rate. Therefore, net increase of the profits of investment sector companies contributed by about 36.6% of the net profits increase of the companies already listed with Kuwait Stock Exchange during the referred to period. Further, investment sector companies have achieved considerable growth from investment revenues at 147% and management and subscription fees at 131% while profits from commercial activities achieved limited growth at 16%. However, investment revenues and subscription fees as well as the revenues from commercial activities increased to KD629.6 millions, KD162.4 million and KD87.5 millions respectively during 2005 compared with KD254.6 millions, KD70.3 million and KD75.2 million in 2004

1)

- f. From the previous statements, we can confirm the importance of this essential sector to the national economy. Further, this sector undertakes various functions via institutional trading that is made through portfolios and the investment funds managed by this sector. Furthermore, this sector may play an important role as market maker and consequently it can lead the market and maintain balance between supply and demand. In this way, it can decrease the impact of unjustified devaluation and protects minor investors. Moreover, it can provide the people in-charge with managing these investments with professionalism. Finally, it can promote the market, spread investment awareness, and provide transparency.

Fourth: Expected role of Union of Investment Companies to activate the performance of these companies

Despite this growth of the investment companies and the increase of their role in economic development, yet its ability to accommodate the funds available for investment is still limited. Therefore, the capital available for investment has no alternative but to make its way to international Stock Exchanges.

Union of Investment Companies that comprises 37 member companies as of early 2008 out of which 9 companies are practising business in accordance with the provisions of the Islamic Law and 28 companies acting in the traditional way, this Union may contribute in the activation of the role of these companies. In this

⁽¹⁾ Financial Statements of the companies' balance sheets published by Kuwait Stock Exchange, Central Bank of Kuwait, 2005 report, P.P. 227 – 2008

respect, the Union may give opinion regarding investment and stock exchange issues. Further, it may give opinion regarding draft economic laws that may be proposed to economic experts and analysts as already made with draft stock exchange law.

The Union can activate the performance of these companies via the following:

1. The union may contribute in the evaluation of the investment companies effectively to support the Kuwaiti economy with permanently successful companies and to achieve sustainable development.
2. Promoting the skills of employees already engaged by investment and financial service companies at different levels. In this respect, the employees may be technically and professionally pre-qualified by Investment & Financial Service Studies Centre and they can attend different courses and seminars.
3. It may promote Kuwait Stock Exchange via activating the supply and demand of the securities. In this way, direct link may be established between saving and investment. Further, it may contribute in the direction of savings towards projects and it may provide various financial instruments available in the stock exchange. Accordingly, specific category of investors may be attracted when they believe that the offered instruments can satisfy their specific requirements.
4. Improving the investment behaviour among individuals and encouraging them to work and cooperate with banks and investment companies. In this way, investments may be increased and investment awareness may be promoted among individuals via providing information on environment, local and international economic circumstances.

Conclusion

The results concluded by this paper may be summarized as follows:

1. Kuwait economy has achieved high growth rates due to high oil prices. This means that the oil sector dominates the growth domestic product, exports and public revenues. On the other hand, this economy suffers from disorder of population and labour force structure as expatriates represent high percentage of population and labour force.
2. The indicator of Kuwait Stock Exchange reflect the extent of development already achieved by this market regarding the value of traded in shares, number of shares and number of transactions .. etc.
3. Investment companies occupy an important position in the Stock Exchange and in the Kuwaiti economy. Therefore, it occupies an advanced position in the field of traded in shares, number of transactions, number of shares and number of companies, a matter that positively reflected on the Kuwaiti national economy.
4. Activating the role of these companies require effective support from Union of Investment Companies in several fields, including but not limited to assessment of these companies, promoting the skills of employees, activating Kuwait Stock Exchange and improving the investment attitude of individuals.

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