

# BOYADJIAN & ASSOCIATES

## PROJECT FINANCE & MANAGEMENT CONSULTANTS

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Boyadjian & Associates  
P.O.Box: 175-293 Beirut Lebanon  
Phone/Fax: 961-1-980138  
e-mail: [info@boyadjiangroup.com](mailto:info@boyadjiangroup.com)

# Investing in the Middle East and North Africa

Driven by staggering economic growth and liquidity, there are a variety of converging factors that make opportunities for investment in the Middle East and North Africa region (MENA) more enticing than ever before. As energy demand and commodity prices continue to experience near-record levels, it stands to reason that MENA – a region with more than half of the world's crude oil reserves and one-third of its natural gas reserves – would offer the biggest profit prospects. Even those companies that have never ventured onto foreign soil should take a long, hard look at the MENA region. Quite simply, now is the time to be in the MENA region.

### *MENA Profile:*

Population, total	300.1 million
Population growth (annual %)	2.6
Life expectancy at birth, total (years)	69.3
Fertility rate, total (births per woman)	3
Mortality rate, infant (per 1,000 live births)	44.1
Surface area (sq. km)	9.0 million
Forest area (sq. km)	208.0 thousand
Agricultural land (% of land area)	22.9
Improved water source (% of population with access)	89.5
Improved sanitation facilities (% of urban population with access)	92.2
Electric power consumption (kWh per capita)	1,072.20

Source: World Bank

## *MENA Economic Profile:*

	<b>2000</b>	<b>2004</b>	<b>2005</b>
GNI, Atlas method (current US\$)	463.2 billion	598.6 billion	684.6 billion
GNI per capita, Atlas method (current US\$)	1,665.00	1,994.80	2,241.40
GDP (current US\$)	447.6 billion	550.0 billion	632.6 billion
GDP growth (annual %)	3.2	5.6	6
Inflation, GDP deflator (annual %)	9.8	9.1	5.4
Agriculture, value added (% of GDP)	12	12.1	11.4
Industry, value added (% of GDP)	43.6	39.2	40.5
Services, etc., value added (% of GDP)	44.4	48.7	48.1
Exports of goods and services (% of GDP)	28.4	33.8	34.8
Imports of goods and services (% of GDP)	26	33.5	33.5
Gross capital formation (% of GDP)	23.5	26.4	25.6
Merchandise trade (% of GDP)	50	54.9	57

Source: World Bank

### **Economic Growth**

Figures from the World Bank show that, for the third year in a row, the Middle East and North Africa region (MENA) enjoyed a spectacular year of growth, buoyed by record-high growth rates among the region's oil exporters. As oil prices continued their upward climb, the MENA region grew by an average of 6.0 percent over 2005, up from 5.6 percent over 2004, compared with average growth of only 3.7 percent over the late 1990s. On an annual basis, MENA's average economic growth over the past three years, at 6.2 percent a year, has been the highest three-year growth period for the region since the late 1970s.

### **Population Explosion**

The MENA region is characterized by a young and rapidly growing population. Only 4% of the population, in fact, is over 65, vs. 12.5% in the U.S. According to the World Bank, the MENA region had the world's second-fastest growing population from 1980 to 2002, posting 2.6% growth vs. 2% for the South Asia. Moreover, the World Bank projects that this pattern will continue through 2015.

### **Wanted: Technologies & Know-How**

With MENA governments aware that they can no longer provide full employment for their citizens, the enormous need for private-sector jobs for their young, rapidly growing populations is fundamental

to the effort to attract foreign investment. But the primary need is not for foreign money- the present high oil prices have enabled MENA governments to strengthen their foreign reserves and free up funds for future investments but rather, for the technology and the know-how that are required to create long-term economic opportunities for these nations' citizens.

While the most of the pressure to attract outside investors is coming from inside their borders, the oil-exporting nations of MENA face tremendous political pressure from oil-consuming nations to increase exports. With production already at or near capacity, huge investments in additional energy infrastructure will be needed to accomplish this goal.

### **Incentives Abound**

What are MENA governments doing to attract foreign investment? The efforts encompass measures including substantial changes in their tax, legal and regulatory environments, all designed to make investment more appealing.

### **Tax Rates Are Falling Across the Region**

Saudi Arabia recently passed a new income tax law to replace its 54-year-old predecessor. Among the highlights are corporate income taxes, which are now fixed at 20% (formerly 20% to 30%), and a tax rate applicable to natural gas activities of 30%. In

addition, companies investing in the sector will also be subject to a tax that will range from 30% to 85%, based upon the projected rate of return.

In Egypt a new tax law is expected in the near future to replace the one that has been in place since 1981. Under the proposed new law, the tax rate is expected to fall from 42% to 20%. Numerous special incentives are in place for oil and gas companies.

In Kuwait, a proposed new law would reduce the maximum tax rate to 25%, although internal resistance makes the imminent passage of this proposal unlikely.

In Oman, tax rates for all companies registered there have been set at 12%.

Qatar's Ministry of Finance is reviewing its current taxation system; it is expected that a new tax law will be enacted soon that will include additional tax incentives for foreign investors, as well as a reduced tax rate.

## Liberalizing Rules

In addition to reducing corporate tax rates, many MENA countries are liberalizing ownership regulations, residency rules, and trade laws to allow foreign companies to more easily set up shop.

## Creating Single Economic Blocs

Another development in the region is the continued push by the States of the Gulf Co-operation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) to create a single economic bloc with uniform economic policies. This initiative has already given rise to a common customs union in the region and plans are afoot to adopt a single currency. Harmonization of rules across the region will make it easier for investors to adopt a regional focus for their future activities.

## Taking the Plunge: First Steps

While global business is always complex, entering the MENA region presents a unique set of

### *A Wealth of Opportunities:*

Across the region, numerous opportunities are emerging in many sectors.

**The natural gas business is booming:** With huge reserves of non-associated gas, but lacking the infrastructure to transport and consume it, countries such as Qatar, Egypt, and Oman continue to make enormous investments in LNG facilities and natural gas pipelines. Saudi Arabia has also launched a number of projects under its Saudi Gas Initiative, where partnering arrangements with foreign companies in the upstream sector have been allowed for the first time since the creation of Saudi Aramco. Qatar is currently developing or planning a number of gas processing projects to convert methane-rich associated gas into middle distillates.

**Water and power needs present opportunities:** A growing population and an increasing industrial base present many opportunities for the development of independent power and desalination projects across the region. To meet the power requirements of the GCC countries alone, the region will need to develop new power projects estimated at USD 100 billion over the next decade to meet their energy needs.

**The market for financial services is broadening:** In addition to financing hydrocarbon projects and large public infrastructure projects, banks are entering the region to capitalize on demand for a wide range of services. Wealth management and private banking are seen as interesting opportunities. With a growing number of companies in the region operating globally and making cross-border acquisitions, investment banking services are also seen as a priority.

**Massive development underway in the tourism industry:** According to the World Tourism Organization, although diversification of MENA oil-based economies through tourism is a relatively recent phenomenon, governments in the region have been actively making efforts to tap tourism's potentials. Tourism capital investment is estimated at USD 21,1 billion or 9.9% of total investment in year 2006. By 2016, this should reach USD 39.4 billion or 9.6% of total. Mega projects are already underway in the region or are planned for the near future.

challenges for any company. Consequently, it is imperative to map out one's strategy as clearly as possible and answer some very basic questions:

**Where Do You Want to Go?**

Some countries, such as Bahrain and the United Arab Emirates, have traditionally been open to foreign investors, while others- including Egypt, Kuwait, Oman, Qatar, and Saudi Arabia- continue to open their doors. But there are newcomers with huge potential, including Libya and Iraq, ready to make their entrance onto the world business stage for those who understand how to do business in them.

**What Do You Know About Your Potential Target?**

It's common for foreigners to paint the MENA region with a broad brush, as a single homogeneous region, but it's only after their differences have been understood that foreign companies can fully appreciate the characteristics these nations share, particularly from business, economic and religious points of view. While the nations in the region share many cultural characteristics, and continue to promote a drive to harmonize rules and regulations,

it's important to realize that each country is a unique entity with its own set of opportunities and challenges. Some countries in the region are wealthy; others are poor. Some have modern legal and business environments; others do not. Some have a long history of working with Western companies, while others have only recently begun encouraging foreign investment.

**What Kind of Assistance Do You Need?**

While the value of good professional assistance cannot be underestimated in any area of the world, it is particularly valuable in the MENA, with its combination of political, economic and religious issues. Among the issues you must deal with: How can you identify potential local partners and suppliers for your venture? How do you choose the legal structure that will offer the best advantages in the realm of taxation? Which are the appropriate government authorities and agencies to deal with your particular needs?

Indeed the MENA region will continue to present attractive investment opportunities for the foreseeable future- but foreign companies must plan their regional market entirely in order to reap the rewards of their investments for years to come.

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