Middle East

Point of View

Published by Deloitte & Touche (M.E.) and distributed to thought leaders across the region | Summer 2022

International taxation
Trials and tribulations

Secure the move
Let's talk about cloud

Inflation impact
Higher prices... lower equity values

Demystifying insights
Power of data analytics

Dynamic evolution

Deloitte.

MAKING AN IMPACT THAT MATTERS since 1845

Summer 2022
Middle East Point of View
Published by Deloitte & Touche (M.E.)

www.deloitte.com/middleeast

A word from the editorial team

It's time to wipe our lenses and take a glimpse into the future. We are evolving, and dynamically so. As the world accelerates into an exciting and promising new era, the possibilities in technology and business are seemingly endless. Whether the focus is on data-sharing capabilities that continue to advance, or on artificial intelligence expansion that will alter how we live and conduct business, there is no doubt that the next few years will prove to be revolutionary.

From advances in digital technologies that could reshape entire industries and sectors, to the ever so relevant issues of cloud security and data-backed decision making, come ***Securing the move to cloud*** by Simon Rohan Chandran and ***Demystifying insights through analytics*** by Bhavna Lakhani, Vivek Sam Abraham, and Krutika Ramwani. In the first article, Chandran explains how "As with many unknowns, the move to a virtual data centre and hyperscale global networking sees many organizations try to reinvent their IT strategy. They expect not just IT operations, but also security and privacy to adapt rapidly to this new way of digitalization…" Touching on the subject of data analytics, the next article discusses how "Now more than ever, at a moment when data, science, and facts have been challenged from many quarters, becoming a data-driven organization really does matter."

This dynamic evolution also echoes in the chambers of healthcare, an area that will continue to transform with new business models and emerging technologies over time. "The pandemic required widespread fundamental change in the healthcare industry as well—from operations and supply chains, to consumer engagement and future strategies. As healthcare shifts away from an inpatient hospital revenue focus, finance chiefs have an important and growing role," explains Haseeb Akram In ***Dynamics in healthcare post COVID-19***. As time goes on, healthcare organizations will have no choice but to decide what role they want to play from here on out.

Looking towards the future, it is evident that the global economy, the financial sector, and society as a whole will take shape according to the many forces taking effect. Considering how inflation and international taxation have become such pertinent topics in our interconnected world, we have ***Trials and tribulations of international taxation: The impact of BEPS Action 5 and the recent introduction of a global minimum tax on Middle East-based special economic zones*** by Abi Man Joshi and ***The high inflation impact: Higher prices… yet lower equity values*** by Muhammad Faiq Khalid in this summer issue. They discuss how the international tax landscape has changed dramatically in recent years in addition to how the impact of inflation on investment valuations will vary across businesses, industries, and geographies.

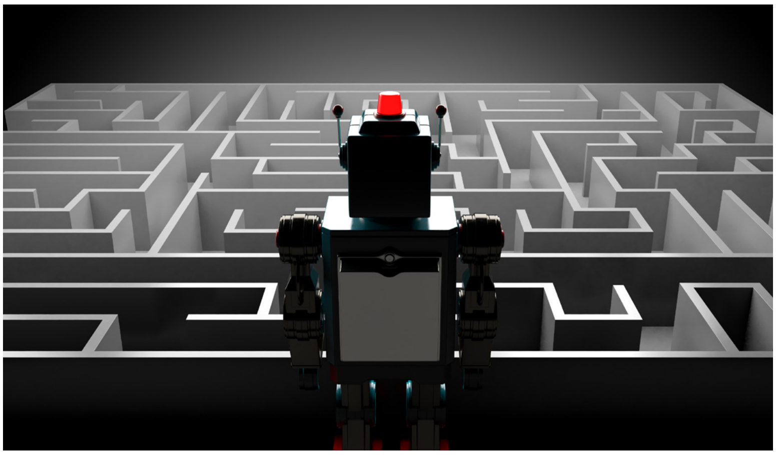
The issue would not be complete without touching on the evolution of sustainability, climate change, and governance frameworks as well. ***Building a sustainable future: Leading the discussion in Egypt and the UAE at the COP 27 and COP 28***, written by Damian Regan, reflects on how attention will be on North Africa and the Middle East as the international community takes numerous major steps over the next few years to reduce the impact of climate change and work towards building a more sustainable world.

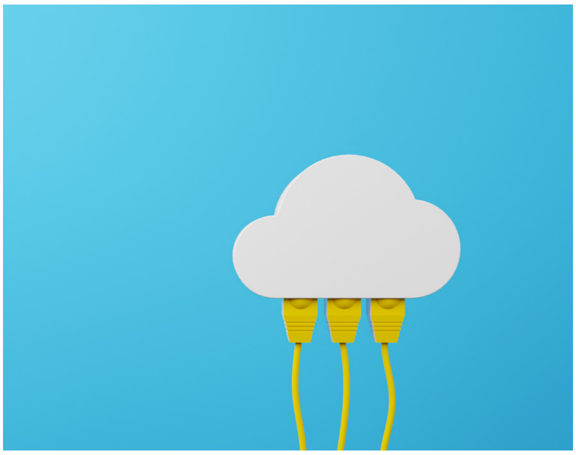
In *Governance frameworks: One size does not fit all* by Wael Kaafarani and Melissa Scully, they express how "The challenges facing governments nowadays are not easy…" and how "Alongside these challenges comes increased scrutiny of performance, and a need to enhance governance practices that help government organizations navigate these complexities and uncertainties."

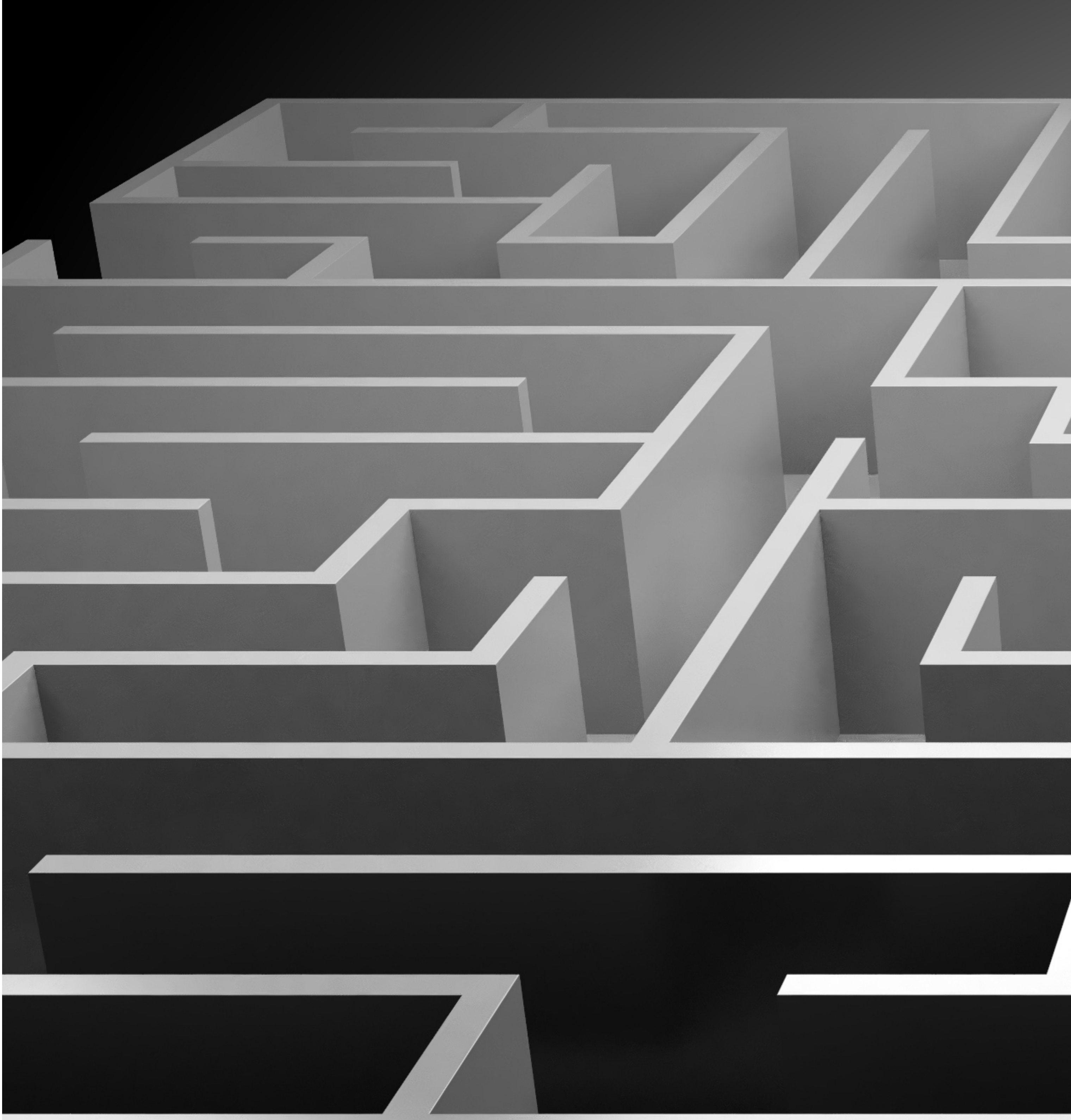
All in all, it remains to be seen how the world will evolve as we move forward and what elements and areas, long thought to be unattainable, will become within our grasp. It clearly is an exciting and dynamic evolution in time which we are here to witness.

ME PoV editorial team

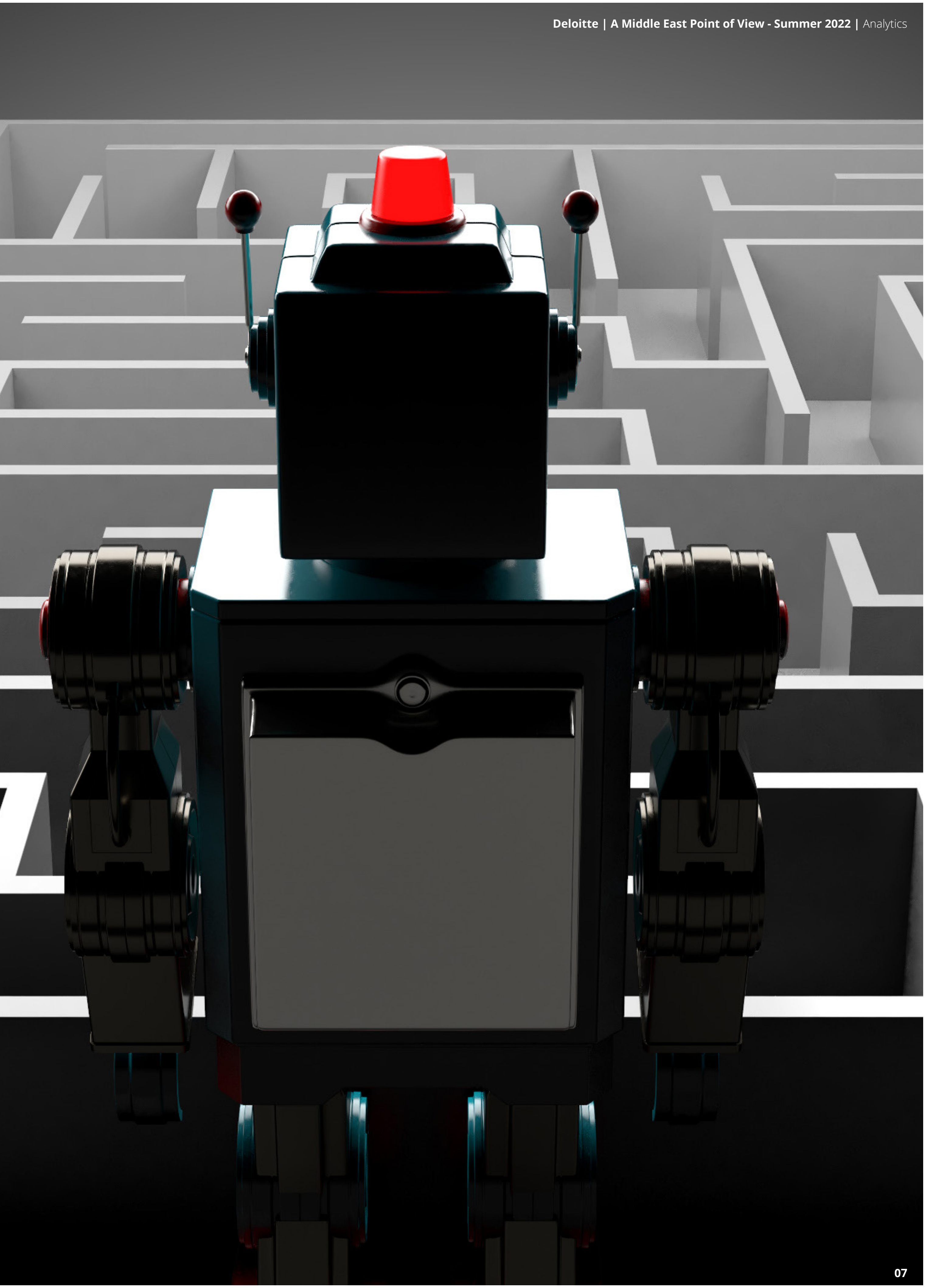
Contents





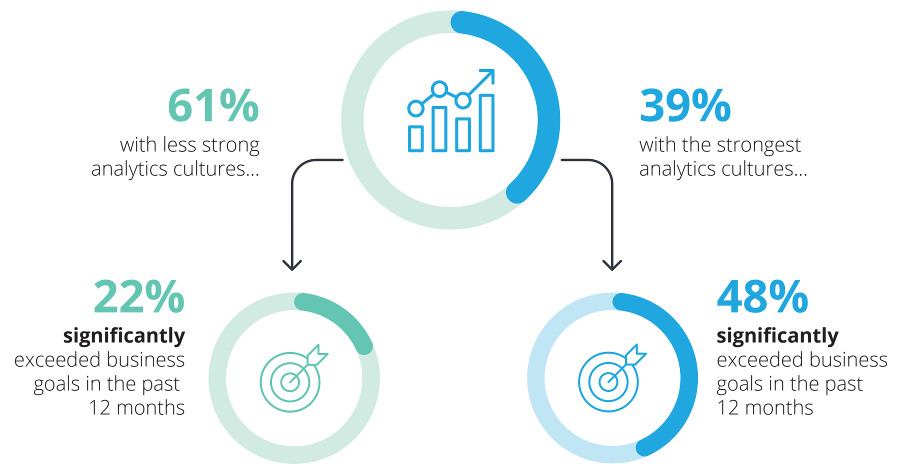


Demystifying insights through analytics



In a Deloitte study[1] which examined 1,048 senior executives who work with data at large companies (501+ employees), it was highlighted that there was an extremely strong correlation between culture and business performance. Organizations that reported having the strongest cultural orientation to data-driven insights and decision-making are twice as likely to have reported exceeding business goals in the past 12 months. Forty-eight percent of these businesses say they outperformed their target versus just 22 percent of those with a more diluted analytics culture.

Clearly, the future is bright for insight-driven organizations (IDOs) that put data at the heart of business strategy development and decision-making. Data enables companies to achieve a competitive differentiation by pursuing a deeper understanding of its customer requirements through analyzing data, monitoring trends, patterns, and reporting on key performance indicators (KPIs). Information is power, but only in so far as the insights they reveal. Figure 2[2] highlights the advantages of pursuing data analytics initiatives in a mature market, such as the US where analytics has driven success for top companies leading to faster innovation cycles, improved business efficiency, more effective R&D, and better product or service.



Source: Deloitte's 2019 becoming an insight-driven organization survey

Figure 1: Correlation between culture and business performance

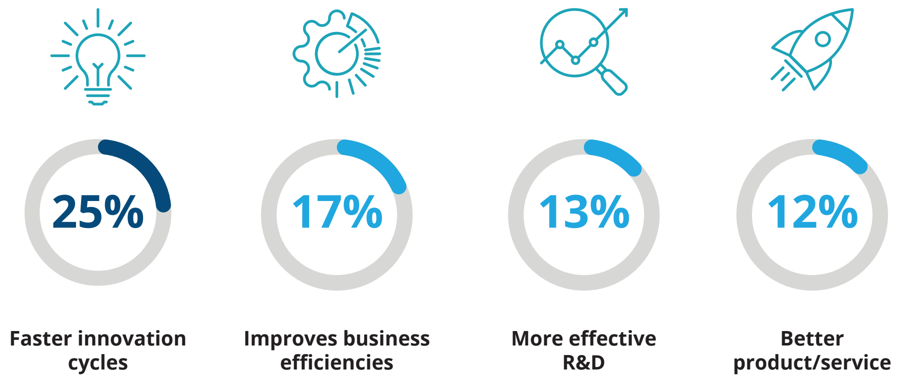


Figure 2: Top benefits of data analytics

Although organizations across the globe, and particularly in the Middle East, recognize the benefits of using data analytics, each organization's challenges with implementing data analytics initiatives are unique given the various maturity levels and several other external and internal factors. Where some organizations struggle with foundational concerns, such as data quality and trust, others are unable to look beyond historical data and towards forecasting and predictive analytics. CXOs want to gain real-time visibility to shed light on complex business problems without a million-dollar price tag.

In a world that has been grappling with the pandemic and several economic trends, digital transformation has forced companies to unleash the potential of data to make informed data-backed business decisions pertaining to customer retention, productivity measurement, marketing efforts, and profitability trends. According to a Forbes 2021 article[3], only 12% of companies had a chief data officer (CDO) less than 10 years ago, compared to 65% that claim to have now appointed one. Although the pandemic has magnified the importance of data, a 2022 report from Harvard Business Review[4] states that only 40.2% of companies that have a role of chief data and analytics officer consider the role as successful and well established within their organization. This is because analytics isn't a one-size-fits-all solution. An organization is required to have a clear vision of what it wants to gain out of the available data, understand the structure and quality of the data, and ensure that the culture of the organization is one to embrace, rather than resist, change in technology.

Digital technology, big data, social media metrics, and the Internet of Things (IoT), all produce vast amounts of data that businesses and organizations can tap; however, it takes more than just a combination of software and data to generate the market and consumer insights that will drive business strategy and innovation. Deloitte continues to leverage its data, analytics, and artificial intelligence (AI) capability to help clients on this journey in becoming an insight-driven organization by establishing five pillars of success when using analytics to pave the path forward:

Strategy	People	Process	Data	Technology
Analytics vision	Leadership	Ideation and prioritization	Information model and data sources	Tech disruptors and vendor strategy
Value driven and business case	Organizational design	Agility and scalability	Data quality and management	Reference architecture
Stakeholder management	Talent	Process re-engineering and automation	Ethics and sharing	Discovery zone
Operating model	Alter journey and decision process	Governance	Regulation and compliance	Cloud vs. on premise
Innovation	Knowledge management	Benefits realization	Third party data	Security, reliability, and continuity

Figure 3: Pillars of successful IDOs

Figure 4: Challenges in becoming a data-driven organization

A NewVantage survey[5] identified the principal challenge in becoming data-driven was not the technology (7.8%) but the people, business process, and cultural aspects (92.2%) making it more important to incorporate not one, but all five pillars to drive home the goal of becoming an IDO. With the technology boom and a multitude of affordable analytics tools and platforms available in the market, most companies have joined the movement of embracing analytics without understanding the core of its existence and how it can be effectively used to positively impact the bottom line.

According to an article from Nasdaq[6], Netflix saves US$1 billion each year by using big data to its advantage, and most successful IDOs focus on the following primary strategies to achieve competitive differentiation:

1. Strategic alignment - A well-defined data strategy is a key contributor to relevant, useful data needed for key business objectives and important decision-making.
2. Data quality - According to a 2022 Yahoo Finance article[7], 82% of companies are making decisions based on stale information, and 85% state this stale data is leading to incorrect decisions and lost revenue. It is crucial for a company to resolve ongoing data quality issues and to have confidence that there is a pertinent single source of truth to progress with data analytics initiatives.
3. Change management - For most firms, becoming data-driven requires a significant shift in people's existing mindsets and behaviors. Enough attention needs to be paid to preparing managers and employees for the transition to a more data-driven culture.
4. Adequate collaboration - A sharp focus on business use cases is required to drive home the goal that is to be achieved by the designed data strategy. The analytics team should be involved early in the process, so measurement is a core component of each project, not just an afterthought.

Benefits from data-backed decision making are continuous and effective when the insights are forward-looking rather than historical. Large volumes of data need to be transformed into trends and outliers to help filter out business value that is measurable. When insights are brewed constantly, decision-making is speedy and cost-effective leading to lasting competitive advantage from existing data assets. Now more than ever, at a moment when data, science, and facts have been challenged from many quarters, becoming a data-driven organization matters.

By **Bhavna Lakhani**, Partner, Analytics and IT Assurance, **Vivek Sam Abraham**, Director, Analytics and IT Assurance, and **Krutika Ramwani**, Senior Consultant, Analytics, Audit & Assurance, Deloitte Middle East

Endnotes

1. https://www2.deloitte.com/us/en/insights/topics/analytics/insight-driven-organization.html
2. https://financesonline.com/big-data-statistics/
3. https://www.forbes.com/sites/brunoaziza/2021/03/29/calling-on-all-cios-have-you-hired-a-cdo-yet/?sh=52d55d41e859
4. https://hbr.org/2022/02/why-becoming-a-data-driven-organization-is-so-hard
5. https://www.forbes.com/sites/brentdykes/2021/06/01/10-reasons-why-your-organization-still-isnt-data-driven/?sh=72fc378d7d80
6. https://www.nasdaq.com/articles/how-netflixs-ai-saves-it-1-billion-every-year-2016-06-19
7. https://finance.yahoo.com/news/over-80-percent-companies-rely-100000291html?guccounter=1&guce_

Building a sustainable future

Leading the discussion in Egypt and the UAE at the COP 27 and COP 28

In November 2022, Egypt will play host to the 27th annual gathering of countries seeking to tackle the global challenge of climate change, the United Nations Framework Convention on Climate Change's (UNFCCC) Conference of the Parties (COP 27). Then in November 2023, the United Arab Emirates will host the 28th annual gathering, as they continue to develop frameworks and further position the critical roles that the public and private sectors play. All eyes of the world will be on these two regions, North Africa and the Middle East, as the international community takes several major steps over the next few years.

What can we expect of these conferences, and how do we anticipate Egypt and the UAE to help demonstrate the steps needed to be taken?

The current concern of climate change policy is to limit global warming to well below 2 degrees Celsius, (preferably to 1.5 degrees Celsius) compared to pre-industrial levels. This was made legally binding in the Paris Agreement, an international treaty on climate change adopted by 196 countries, following COP 21 in Paris in 2015. This requires a global peaking of greenhouse gas emissions as soon as possible to achieve a climate neutral world by mid-century.[1]

The Agreement not only set this target, but also required countries to submit plans for five-year cycles of increasingly ambitious climate action known as "nationally determined contributions" (NDCs) and communicate the actions they will take to build resilience to adapt to rising temperatures. The Agreement also put in place a framework of financial, technical, and capacity building support to those countries that need it.

Shortly before the most recent conference, the UK's COP 26 (November 2021), a report was issued by the Intergovernmental Panel on Climate Change (IPCC), which was referred to in very strong terms by the UN Secretary-General António Guterres as "a code red for humanity" and that "The alarm bells are deafening, and the evidence is irrefutable: greenhouse gas emissions from fossil fuel burning and deforestation are choking our planet and putting billions of people at immediate risk. Global heating is affecting every region on Earth, with many of the changes becoming irreversible.... we are already at 1.2 degrees and rising."[2]

The pressure was therefore on the UK's COP 26 to take some bold steps; the resulting Glasgow Climate Pact sought member countries to cut greenhouse emissions (including methane) at a greater rate by 2030, curb oil and gas exploration, protect forests, and shift from coal to clean power. In particular, it managed to articulate a "phase down" of coal, which was the first time that a UN climate text included a specific coal commitment.[3]

Other successes were the side agreements, such as those on deforestation (COP 26 saw a landmark commitment to end deforestation by 2030, signed by over 100 countries that together account for 85% of the world's forests, including Brazil); on methane reduction, with over 100 countries agreeing a scheme to cut 30% of methane emissions by 2030 (methane is a significant contributor to climate warming having a global warming potential (GWP) 80 times greater than that of carbon dioxide and responsible for 25% of the warming we are experiencing today[4]); and also on governance, the finalization of the important Paris Rulebook, by adding transparency on how and when emissions, financial, and adaptation actions in each country are reported, enabling countries to both better measure and better manage.[5]

Was this enough to keep a target of 1.5 degrees Celsius within reach?

Patricia Espinosa, executive secretary of the UNFCCC, said that the target was "definitely alive" due to the "big package of different decisions that will allow us and gives us very, very specific direction on what we need to work on in order to get there."[6]

However, other organizations were less enthusiastic. Environmental organization Greenpeace considered the text of the Glasgow Pact as "meek, it's weak and the 1.5C goal is only just alive." In particular, as the group's executive director, Jennifer Morgan, said: "A signal has been sent that the era of coal is ending. And that matters. While the deal recognizes the need for deep emissions cuts this decade, those commitments have been punted to next year."[7]

And this is where Egypt's COP 27 and the UAE's COP 28 come in.

One of the Glasgow Pact's most positive actions was to increase the frequency of the compilation of NDCs required from each country from a five-yearly to an annual reporting cycle. The next two years, with the eyes of the world focused on the COPs in Egypt and then the UAE, will see both conferences take the Glasgow Climate Pact and drive the global community towards making more ambitious commitments to revised 2030 carbon emission targets and longer-term net-zero goals, update commitments for climate reduction activities, phase out coal, and hold contributors to the agreement for a US$100 billion climate financing package.

What will we see as Egypt's particular contribution as host in 2022?

It is positioning itself to drive the acceleration of global climate action through emission reduction, scaled-up adaption efforts, and enhance flows of finance from its viewpoint of being a developing country in Africa.[8]

While developing countries are often particularly vulnerable to climate change, there is potential for their future development to be built on energy-efficient and low-carbon economies. Egypt will therefore be championing a "just transition" with assistance from the developed world (that created many of the existing emissions in the atmosphere) to the developing world (so the same mistakes are not made).[9]

We are also likely to see a focus on representation, with the inclusion and participation of vulnerable communities from Africa in particular, demonstrating the impacts of climate change. In addition, we are likely to witness a level of collaboration, where governments will be called to take the lead and encourage all non-state actors, particularly those in developing countries, to adjust and adapt to climate change and be part of the solutions needed to address it.

If we are looking for an overall theme for COP 27, as the COP Egyptian Presidency stated, "Ensuring humans are at the center of climate talks is imperative."[10]

The UAE's COP 28 conference, set to take place a year later, is likely to change the theme to one of technology and innovation. Hosting the event at the EXPO 2020 site (an emphatic demonstration of recycling at scale), this event will reflect the government's effort to transform and transition the economy to one that is fueled by clean and renewable energy. No doubt its significant achievements in renewable energy plants, hydrogen ambitions, nuclear facilities, carbon capture facilities, and mangrove planting endeavors, will feature heavily, as will the assistance the UAE is providing to 27 island nations facing the climate change threat with solar, wind, and battery storage projects, and its huge investments in climate-smart agriculture and food systems over the next 5 years.[11]

Indeed, Sheikh Abdullah bin Zayed Al Nahyan, Minister of Foreign Affairs and International Cooperation, stated that COP 28 should be a "solutions COP" and it should create shareable solutions for all the difficult challenges the world is facing today.[12]

Both COP 27 and COP 28 will make demands of the global community and hold it to its updated commitments for climate change policies for the greater good, but they are likely to also be distinctive and persuasive through highlighting the impact on humanity of climate change and ensuring "just transition," as well as, the importance of developing and sharing technology and innovation to assist transition. These will be two very important events in our global battle to reduce climate change and its impact, further fortifying the impact that both public and private sector companies will play both in Egypt and the UAE in ensuring that we continue to reduce the impact of climate change in building a more sustainable world.

By **Damian Regan**, Sustainability Reporting & Assurance Leader, Deloitte Middle East

In addition, we are likely to witness a level of collaboration, where governments will be called to take the lead and encourage all non-state actors, particularly those in developing countries, to adjust and adapt to climate change and be part of the solutions needed to address it

Endnotes

1. The Paris Agreement | UNFCCC
2. Guterres: The IPCC Report is a code red for humanity (unric.org)
3. COP26 The Glasgow Climate Pact, 2021
4. Facts about Methane | UNEP - UN Environment Programme
5. Was COP26 a success? | Good Energy
6. Was Cop26 a success? | The Independent
7. Was Cop26 a success? | The Independent
8. COP27 - Egypt Goals
9. COP27 - Egypt Goals
10. COP27 - Egypt Presidency
11. UNFCCC COP 28 - The Global Climate Summit in UAE (globalmediainsight.com)
12. UNFCCC COP 28 - The Global Climate Summit in UAE (globalmediainsight.com)

The high inflation impact:

Higher prices… yet lower equity values

To understand inflation and its impact on valuations of businesses and investments, one must understand its two forms: the demand side and the supply side

Inflation has recently hit new highs across the globe; for most European and American countries, prices are rising faster than they have in the past 40 years. The Dean of Valuations at New York University, Professor Damodaran, recently commented: "The good news is that the culprit behind the volatility in current markets is easy to identify, and it is inflation, but the bad news is that inflation remains the most unpredictable of all macroeconomic indicators to factor into stock prices and value."[1] But why is that so?

To understand inflation and its impact on valuations of businesses and investments, one must understand its two forms: the demand side and the supply side.

Inflation on the demand side occurs when the demand for goods and services outpaces the available supply. On the other hand, supply side inflation is caused by a shortage of input goods and services as a result of diminished supply.

COVID-19 affected both the demand and supply of goods and services in recent times. The demand side was affected by government stimulus packages announced globally to support those affected by lockdowns, resulting in increased spending power, although temporary, and therefore driving demand. On the supply side, there were a number of disruptions, including manufacturing disruptions, lockdowns to contain COVID-19, as well as logistics and supply chain issues.

Central banks are mandated to keep inflation under control by exercising the available monetary tools, the primary one being to set benchmark interest rates. By controlling interest rates, central banks can influence spending, borrowing, and saving patterns. They can lower the demand for goods and services today by encouraging saving and reducing borrowing through increasing interest rates. However, the control of central banks is limited to demand side factors as they are unable to affect global supply related issues noted above. Therefore, the ability of central banks to actively control inflation is limited. Nonetheless, among the available tools, interest rates typically rank at the top when attempting to fight inflation. Between January and July 2022, the US Federal Reserve raised interest rates four times from near zero to a level between 2.25% to 2.5%.[2] These hikes have led central banks in the GCC to follow in order to maintain their currency's peg to the US dollar.

In any intrinsic valuation exercise, there are two key inputs: the forecast cashflows and the discount rate used to calculate the present value of these forecast cashflows. Inflation directly impacts forecast cashflows and underlying growth rates as prices of goods and services rise. In the discount rate, there are three components which tend to increase with rising inflation:

a) Risk free rates which are driven by benchmark interest rates set by central banks. These are also often considered as a proxy for long-term steady state growth rate at any point in time;
b) Equity risk premium which tends to go up during periods of high volatility and high inflation; and
c) Cost of debt or simply the borrowing rate which rises with increasing benchmark interest rates.[3]

Any increase in discount rate lowers the present value of future cash flows, thus lowering equity value.

The demand and supply side forces, and the response by central banks, all play an important role in setting valuation expectations. An induced slowdown of the economy by raising interest rates can reduce demand side inflation factors; but it also suppresses valuations in the short term. If supply side inflation persists, the market volatility will continue, causing an increase in return required by equity holders because of the higher equity risk premium, which will also suppress valuations. Therefore, in general, high inflation is detrimental to value.

However, these demand and supply inflation forces do not affect all industries equally. As per research undertaken by Schroders, energy, oil, and gas companies typically tend to outperform during high inflation periods as their revenue is naturally tied to energy prices, a key component of inflation indices.[4] Similarly, Equity Real Estate Investment Trusts (REITs) perform better than broader markets as they provide a partial inflation hedge via the pass-through of price increases in rent. In contrast, mortgage REITs generally underperform as a sector as their future payments become less valuable due to inflation. In the same way, consumer staples perform better than consumer discretionary sector. Early-stage technology companies are also harmed by inflation as the bulk of their cash flows are expected to come in a distant future, which will be worth less in today's present value terms.

According to Bloomberg, the oil rich GCC countries have fared better in terms of inflation due to caps on domestic fuel costs in some countries and price controls/ subsidies on food items.[5] As a result, inflation is expected to remain lower in the GCC than in the US, at least in the short term. Most countries in the region are beneficiaries of high oil prices and are expected to run large budget surpluses in 2022, according to the International Monetary Fund (IMF). This provides some flexibility to have a mix of fiscal and monetary policy to control inflation and its effect on citizens.

In summary, it is important to note that the impact of inflation on investment valuations will vary across businesses, industries, and geographies. For the valuation of individual businesses, the operational and financial leverage will play a key role with higher leverage resulting in greater adverse exposure. Some sectors tend to outperform others depending on their ability to pass on price increases to their customers, long-term debt levels, and the timing of expected future cash flows. Lastly, not all countries are experiencing the same level of inflation, resulting in a variety of monetary policy responses by central banks in the form of higher interest rates and, thus, a varying level of adjustment is seen to the 'price of risk' as measured by the discount rate. For these reasons, the specifics of each valuation must be carefully considered in order to appropriately account for inflation.

By **Muhammad Faiq Khalid**, Director, Valuations & Modeling, Financial Advisory, Deloitte Middle East

For the valuation of individual businesses, the operational and financial leverage will play a key role with higher leverage resulting in greater adverse exposure

Endnotes

1. "In Search of a Steady State: Inflation, Interest Rates and Value" by Prof. Damodaran dated 6 May 2022 (https://aswathdamodaran.blogspot.com/2022/05/in-search-of-steady-state-inflation.html)
2. "Fed Hike Leads Gulf to Follow, But Rate Paths Diverge Again" by Bloomberg, published on 27 July 2022. (https://www.bloomberg.com/news/articles/2022-07-27/fed-s-hike-prompts-gulf-to-follow-but-rate-paths-diverge-again)
3. "In Search of a Steady State: Inflation, Interest Rates and Value" by Prof. Damodaran dated 6 May 2022 (https://aswathdamodaran.blogspot.com/2022/05/in-search-of-steady-state-inflation.html)
4. "Which equity sectors can combat higher inflation?" by Schroders, published on 24 March 2021. (https://www.schroders.com/es/media-relations/newsroom/insights/which-equity-sectors-can-combat-higher-inflation/)
5. "Fed Hike Leads Gulf to Follow, But Rate Paths Diverge Again" by Bloomberg, published on 27 July 2022. (https://www.bloomberg.com/news/articles/2022-07-27/fed-s-hike-prompts-gulf-to-follow-but-rate-paths-diverge-again

Securing the move to cloud

The route to a successful and secure cloud transformation can be a journey strewn with obstacles and potential pitfalls. Here are some top tips to smooth the way forward.

Nowadays, more and more organizations are relying on cloud. Recent figures show[1] that by 2023, worldwide public cloud spending is expected to reach US$600 billion, contributed by organizations that are driving digital transformation across their ecosystem. In the Middle East, we see digitalization agendas high across key sectors, such as financial institutions and government. In Saudi Arabia, for example, one of the Kingdom's key efforts under the Vision 2030 plan is to deliver on digitalization across public services and banking processes (such as "Know Your Customer" (KYC) procedures) through the use of emerging technologies such as cloud. But in order to do so, it is imperative to understand the risks of operating in the cloud with a new approach to security and the necessary privacy.

What does cloud security mean in practice? Not many companies have started from scratch in their move to cloud; some may have already adopted a level of cloud usage, e.g., leveraging cloud for non-production workloads, for non-critical workloads, or for ones permitted by regulators. This has provided an understanding of the known unknowns, for example, the challenges associated with data. Data is often fragmented across a business, perhaps stored in cloud applications already purchased and used ad hoc by individual departments, and frequently without the knowledge of the CIO. This lack of strong governance in technology adoption can lead to siloed data and application islands, limiting an organization's ability to take advantage of cloud's benefits. Many enterprises now tackle this by performing a cloud security maturity assessment and defining a unified cloud strategy based on the results.

The approach

As rising security threats, risks, and compliance requirements become more important to businesses, it is recommended to follow steps 1- 6 (outlined below) for a cloud transformation journey. These elements are not security driven, but rather focus on an overall cloud transformation. However, security and privacy are integrated aspects that need to be considered at every step.

1. Baseline
Assess the current IT footprint, including in-flight projects and constraints. Capture issues and opportunities and perform a security maturity assessment of the current state cloud estate.

2. Vision
Get business alignment, define guiding principles, and set the pace of the journey to cloud, including the security and privacy vision.

3. Strategic decisions
Find the right mix of public, private, or hybrid cloud. Evaluate key platforms taking security and privacy aspects into account, and decide on the transformation approach.

4. Organizational impact
Define the future governance and organization, including processes, considering DevSecOps (the philosophy of integrating security practices within the DevOps process) principles. Highlight impact on talent acquisition.

5. Financial impact
Calculate the value case. Show costs, potential savings, and the impact on both capital expenditure for upfront IT investments and operational expenditure, based on a subscription model for IT consumption.

6. Roadmap
Wrap up decisions of previous phases into a bought-in plan, including dependencies and key milestones.

Nowadays, more and more organizations are relying on cloud

To make this more tangible, the following are three key areas to address as part of a cloud security strategy, which will be part of an overall cloud transformation. Firstly, the importance of building a security strategy with identity at its heart. Next, the emergence of DevSecOps for building modern security from the ground up. And finally, how monitoring can ensure knowing exactly what's going on in the cloud environment at any time. This list is not exhaustive, but highlights some of the critical challenges faced moving from traditional to cloud-based environments.

1. Identity
An organization's traditional security perimeter used to be a physical boundary; it is now a digital one. This approach is still used initially, but is no longer as effective as using business applications. IT, in general, has changed significantly; with the growth of mobility and cloud, it is still just as important to protect and manage sensitive data outside the confines of an organization. With cloud enabling a new generation of employees who can work from anywhere, across any device, creating the waves of data flowing freely, a new perimeter of identity and access management needs to be defined. Cloud security strategy must be based on credentials: who is the employee, partner, or contractor and what access are they allowed to particular data and services, under which conditions, and from where? For example, identification to access data might be different if it is done from country "x" compared to country "y." This is particularly relevant in the Middle East as government agencies and the private sector are increasingly open to foreign talent and organizations to support their business. Getting identity and access management right is crucial and needs to be a central element in every cloud transformation.

2. DevSecOps
In the cloud environment, organizations need stronger collaboration between the development, security, and operational functions to develop business applications more rapidly or to have a more agile way to extend their IT infrastructure. It is where we see the convergence of the traditional security team with the software development and the IT operations team within an organization. The initial concept was called DevOps and is now extended to include security and privacy at its core with DevSecOps. Incorporating culture, practices, and collaboration, DevSecOps leverages the best of all worlds. It sees the security, development, and operations teams working together holistically to ensure security is embedded from the very beginning and into each phase of the DevSecOps pipeline.

This may be no easy task initially[2] and will be as much a cultural issue as a technical challenge. Some employees may be reluctant to embrace the new way of working, which means business leaders may need to educate them to instill this mentality throughout the organization. The main challenge is to ensure all stakeholders adapt to the new approach and work together. It is important to establish foundational DevSecOps governance in the early stages to provide a roadmap to transform people, processes, and technology.

3. Cloud security and compliance monitoring
Another key area is to establish continuous, proactive monitoring of the cloud environment to ensure security and compliance controls are being adhered to. This will enable detection of possible intrusions, as well as security and compliance policy violations, and ensure a quick response to any threats and compliance breaches. Continuous cloud monitoring will not only help detect cyberthreats, but will also enable clear sight of all workloads migrated to cloud to monitor whether they are running as they should on a day-to-day basis, ensuring optimum cost-efficiency and that they fulfill all security, privacy, and compliance requirements.

With cloud enabling a new generation of employees who can work from anywhere, across any device, creating the waves of data flowing freely, a new perimeter of identity and access management needs to be defined

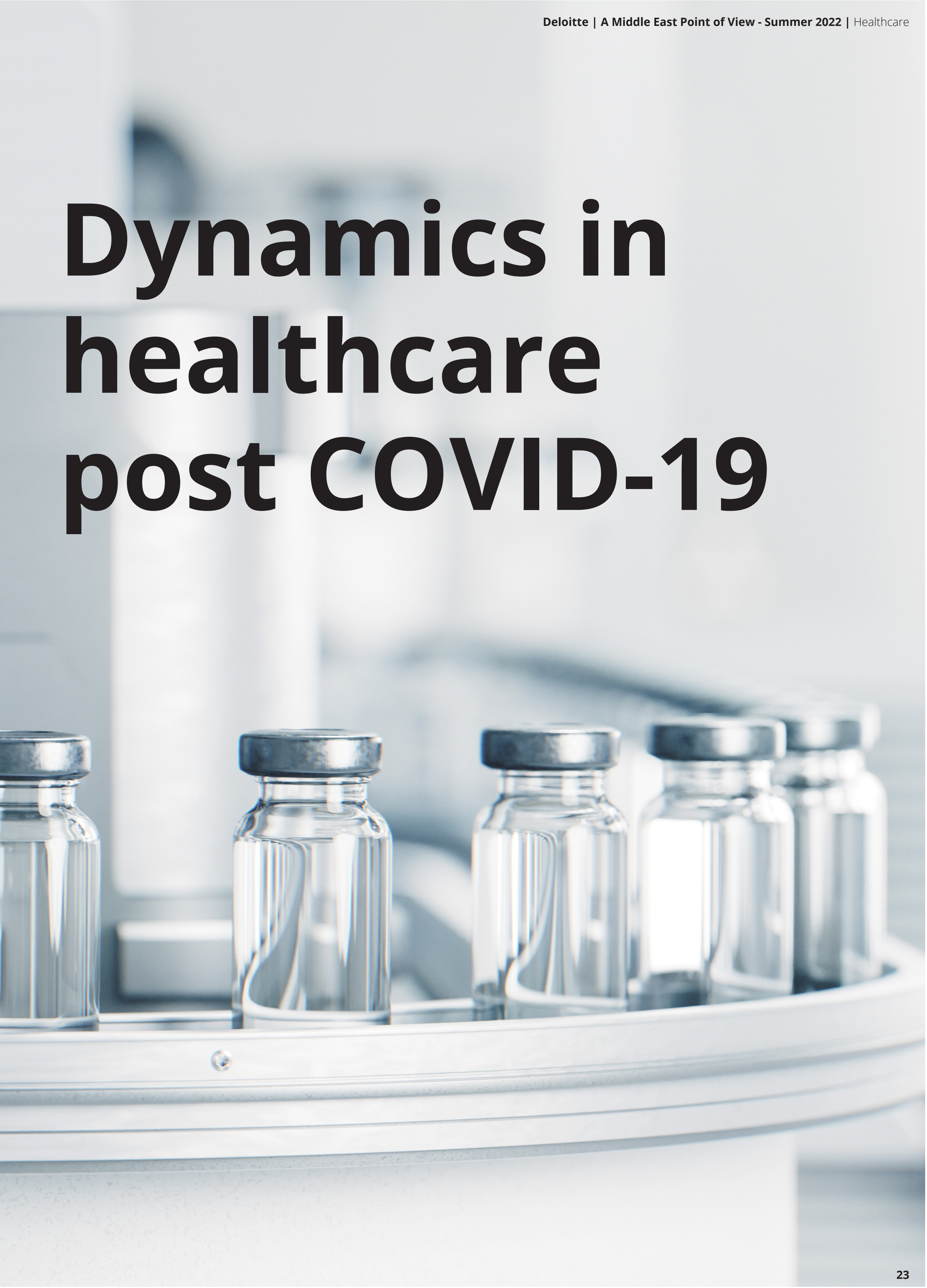
In conclusion

As with many unknowns, the move to a virtual data centre and hyperscale global networking sees many organizations try to reinvent their IT strategy. They expect not just IT operations, but also security and privacy to adapt rapidly to this new way of digitalization to keep information and systems compliant, secure, and available. As a CIO, CISO, CFO, or even a CEO, you need to ensure that your organization has a unified cloud security framework that supports your overall cloud adoption strategy.

By **Simon Rohan Chandran**, Partner, Risk Advisory, Deloitte Middle East

Endnotes
1. https://www.gartner.com/en/newsroom/press-releases/2022-04-19-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-reach-nearly-500-billion-in-2022#:~:text=Worldwide%20end%2Duser%20spending%20on,to%20reach%20nearly%20%24600%20billion
2. https://www.tanium.com/press_releases/tanium-study-strained-relationships-between-security-and-it-ops-teams-leave-businesses-at-risk/

Dynamics in healthcare post COVID-19



The coronavirus (COVID-19) pandemic changed the world as we know it, and people were obliged to change the way in which they live their lives while considering the dynamic factors continuously emerging. The pandemic required widespread fundamental change in the healthcare industry as well—from operations and supply chains, to consumer engagement and future strategies. As healthcare shifts away from an inpatient hospital revenue focus, finance chiefs have an important and growing role. Digital technologies such as virtual health (68%), and core technologies such as revenue cycle management (57%), are top areas of capital spending, according to surveyed CFOs.

The new beginning of a post-pandemic age is bringing about rigorous challenges for people across the globe significantly due to mobility hinderance and the disruption of economic activities despite critical restrictive measures. Technology is expected to play a large role in healthcare transformation; GCC countries have already started leveraging technology to streamline processes, especially in areas such as digitization of health records and telemedicine.

The global economy is projected to grow 3.6 percent in 2022 and 2023.[1] The region should benefit from the recent rebound in oil prices, stronger external demand, and less economically disruptive new outbreaks. Firming activity in 2022 will be underpinned by increasingly robust private consumption and investment growth, as mobility restrictions ease and vaccinations progress. Yet the outlook is still highly uncertain and tied to the course of the pandemic and vaccine rollouts.[2]

As healthcare shifts away from an inpatient hospital revenue focus, finance chiefs have an important and growing role

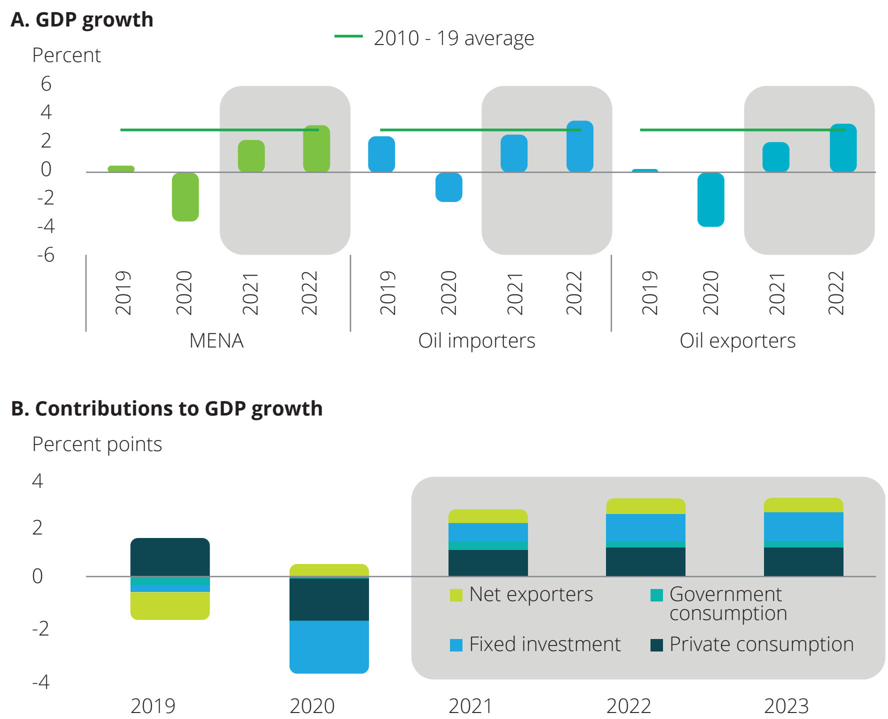


Figure 1: Pre- and post-COVID-19 GDP comparison

Sources: Bloomberg; BP Statistical Review; Haver Analytics; World Bank
Note: EMDEs = Emerging Market and Developing Economies; MENA = Middle East and North Africa
B. Includes countries that report expenditure components of GDP in their national accounts and excludes change in inventories and residuals

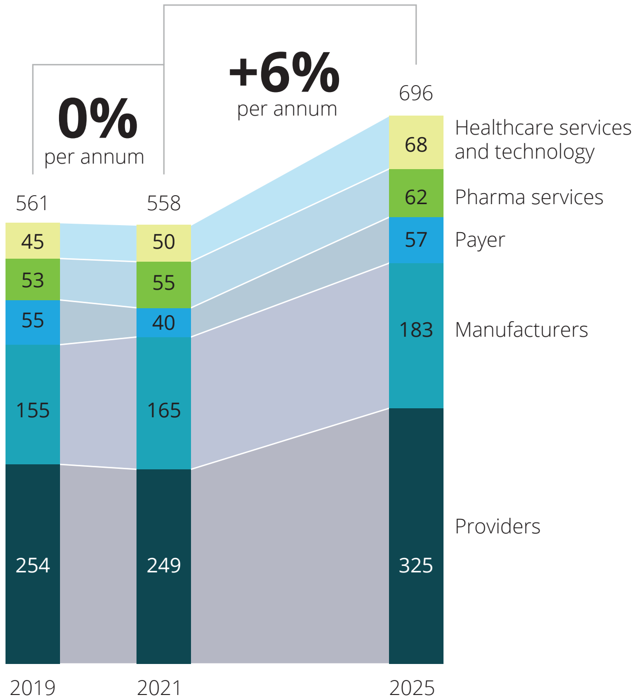
Post-pandemic recovery

Healthcare industry earnings before interest, taxes, depreciation, and amortization (EBITDA) grew 5 percent pre-COVID-19 (between 2017 and 2019) and remained flat over 2020 and 2021. We estimate post-COVID-19 (between 2021 and 2025) growth at 6 percent. If the industry achieves this rate of growth, it could add about US$31 billion in profit between 2021 and 2025.[3]

The GCC governments have already begun to lay the groundwork for recovery and rebuilding a stronger healthcare ecosystem while laying higher emphasis on economic revival. The region is expected to rebound over the next two years with the GDP likely to see 5.9% growth in 2022, as the COVID-19 situation normalizes.[4] Growth in the healthcare sector has been driven by the region's growing population share of senior citizens, increasing life expectancies, and rising prevalence of lifestyle diseases. To meet the rising demand, GCC countries continue to develop their healthcare infrastructure and are investing heavily on developing medical facilities.

The GCC has been reverted to pre-pandemic levels by as early as 2022, marginally surpassing projections in peer countries like the US, UK, Singapore, Japan, and Germany. It is forecasted to maintain a growth trajectory in line with peer countries up to 2025. The unprecedented reforms and effective responses to curb the rising cases coupled with strong emphasis towards economic diversification and private sector participation will aid economic growth in the long run. Engaging the private sector as a crucial stakeholder in the healthcare sector will also expand opportunities to build on local manufacturing capabilities.

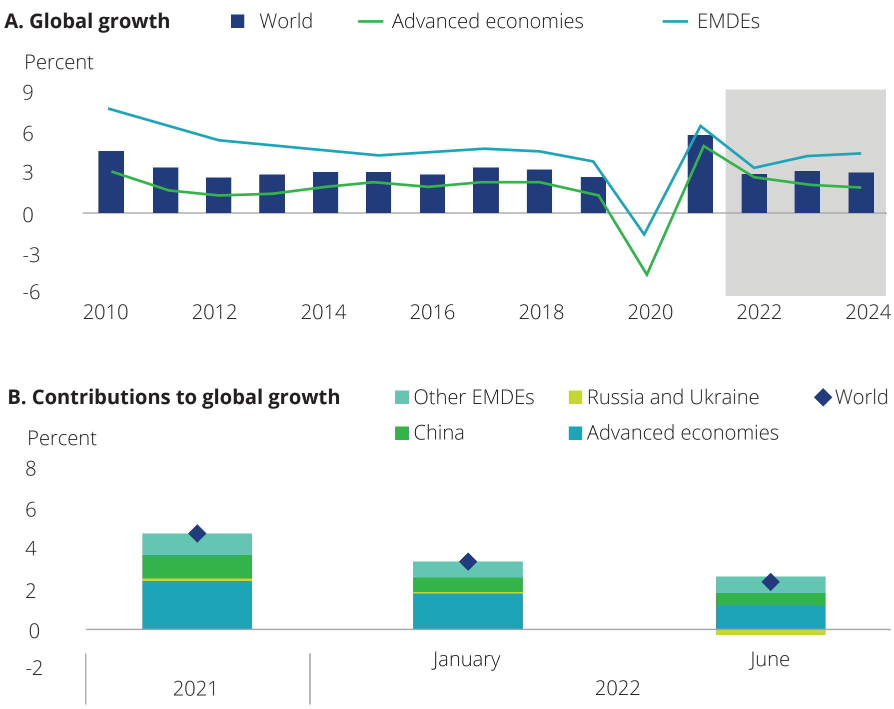
Projected healthcare EBITDA[1] across segments, 2010 - 25, $ billion



[1]Earnings before interest, taxes, depreciation and amortization
Source: Mckinsey Profit Pools Model

Figure 2: Projected healthcare EBITDA across segments

To meet the rising demand, GCC countries continue to develop their healthcare infrastructure and are investing heavily on developing medical facilities



Source: Global Economic Prospects - June 2022

Figure 3: Global prospect

Note: EMDEs = Emerging Market and Developing Economies; unless otherwise indicated, aggregate growth rates are calculated using real US dollar GDP weights at average 2010-19 prices and market exchange rates
A. Shaded area indicates forecasts
B. Figure shows the contributions to global growth forecasts in the January 2022 and June 2022 editions of Global Economic Prospects

The investment outlook is expected to be resilient for the healthcare sector, and the confluence of all above factors is likely to drive its recovery as well. In the short term, surge in demand is expected for elective procedures, especially from non-urgent surgical patients that were put on hold due to the crisis.

The investment outlook is expected to be resilient for the healthcare sector, and the confluence of all above factors is likely to drive its recovery as well. In the short term, surge in demand is expected for elective procedures, especially from non-urgent surgical patients that were put on hold due to the crisis. The COVID-19 pandemic will further expedite the need for public-private collaborations and diversification of services provided by the healthcare providers. On the supply side, health systems will be better positioned to rethink their traditional models and will look to invest in digitization while increasing investments in critical care infrastructure.

"COVID-19 has dramatically changed the healthcare sector and more successful healthcare providers have evolved via improved productivity and leveraging technology – especially inpatient experience, telehealth, homecare, and revenue cycle management - to create more sustainable business models. This increased pace of change and focus on the patient will continue to drive the health sector."

George Kapitelli - Group CFO - Abu Dhabi Health Services Company PJSC – SEHA (The UAE's largest healthcare provider)

"The use of technology in the audit of healthcare is evolving and exceeding stakeholder expectation. Due to an increase in the complexity and high-volume data environment, the use of technology and data analytics offers opportunities for the auditor to obtain a more effective and robust understanding of the entity and its environment, enhancing the quality of the auditor's risk assessment and response. Auditors will need to stay abreast of recent developments in this space to consider how to tailor audit procedures to take advantage of disruptive technology benefits as well as address incremental risks."

Mohammad Jallad - Group Audit Partner - Abu Dhabi Health Services Company PJSC – SEHA (The UAE's largest healthcare provider)

Strong expected projects

Regional governments and private operators have consequently laid out plans to increase the number of hospitals, primary healthcare centers, clinics, and laboratories. The region has an estimated 161 healthcare projects with a combined value of US$53.2 billion under various stages of development. Upon completion, these projects are expected to add more than 40,326 beds to the region's existing capacity. Saudi Arabia has the highest number of healthcare projects under construction, accounting for 19.2%, followed by Kuwait (12.9%), the UAE (10.3%), and Oman (2.1%).[6] The massive investment in building a robust infrastructure is in line with regional governments' agendas to transform their healthcare ecosystem and improve the quality of healthcare services.

Regional governments and private operators have consequently laid out plans to increase the number of hospitals, primary healthcare centers, clinics, and laboratories. The region has an estimated 161 healthcare projects with a combined value of US$53.2 billion under various stages of development.

Medical tourism

The GCC countries continue to promote the region as a hub for medical tourism as part of their economic diversification plans. Dubai and Abu Dhabi lead the region in attracting the highest number of medical tourists. The cities were ranked as the sixth and ninth most popular medical tourism destinations in the world during 2020-21. Dubai witnessed a 4% year-over-year rise in medical tourism arrivals in 2019 to reach 350,118. Asian tourists accounted for the highest share of 34%, followed by medical tourists from neighboring Arab countries at 28%, and 17% from Europe.[7]

In order to attract over half a million medical tourists by 2021, the Dubai Health Authority (DHA) issued 3,397 licenses to healthcare facilities in Dubai, while 45 new health facilities, a hospital, and 10 general and specialized medical clinics were inaugurated during the first half of 2020.

In September 2019, the healthcare arm of Abu Dhabi's Mubadala Investment Co. signed a new agreement with Nirvana Travel and Tourism to grow medical tourists from the Gulf region, Africa, Russia, China, and India.

Saudi Arabia's ambitious eHealth strategy aims to connect all levels of care digitally and attract international patients though a five-year implementation plan.

Bahrain also holds a distinct reputation for specialized healthcare in the areas of cardiology and oncology, which helps the country attract sizeable medical tourists. As quality of infrastructure and care continues to soar, the region is expected to attract a higher number of medical tourists and simultaneously reduce outbound medical tourism.

The GCC medical tourism market is expected to reach US$28 billion by the end of 2024, growing at a compound annual growth rate (CAGR) of 8.8% since 2018.[8]

Compulsory health insurance

The GCC healthcare sector has been primarily driven by governments, which has put significant burden on state finances and GCC countries that are at different stages of rolling out mandatory health insurance. Such factors will increase the utilization and demand for quality care to drive healthcare costs and the overall cost of insurance.

The GCC health insurance market is expected to grow at a CAGR of 11.3% between 2020 and 2025 to reach US$25.5 billion.[9]

The UAE's new retirement visa scheme for expatriates lists mandatory UAE health insurance as one of its major criteria, highlighting the country's efforts to encourage adoption. In the rest of the GCC countries, mandatory health insurance is expected to be fully implemented by the end of 2022, which will significantly increase the utilization of medical services at private healthcare facilities.

Impact and challenges post-COVID-19

The COVID-19 pandemic has had a profound impact on regular care delivery in the GCC, hampering profitability for many operators. Consequently, revenue streams for hospital chains, diagnostics centers/laboratories, and clinics have come under increased pressure.

With the arrival of COVID-19, the relevance of home healthcare services, especially remote care delivery, has increased significantly. Emergence of telemedicine is one of the effective tools for combating COVID-19, which resulted in a decrease in the cost and an increase in access to care, while also bridging the gap between patients, physicians, and health systems

a) **Increase of gross medical inflation rate resulted in an increase cost of healthcare services:** The cost of healthcare services continues to rise within the GCC due to a growing demand for complex conditions amid limited availability of specialized treatment centers. Gross medical inflation rates ranged between 3.5% and 9.1% in GCC countries during 2020, with Saudi Arabia witnessing the highest rate (from 3.9% in 2018 to 9% in 2020), whereas in UAE from 5.8% in 2018 to 9% in 2020.[10]

b) **Limited availability of skilled healthcare professionals:** The development of medical cities and hospitals has accelerated and the requirement for skilled medical professionals has increased exponentially. As the GCC has been largely dependent on highly skilled expatriate talent for the expansion of the healthcare sector, capacity building activities and programs aimed at cultivating nationally trained healthcare professionals are therefore essential in the GCC.

c) **The effect of technology and digital health:** The UAE's health regulators are increasingly considering the adoption of new, smart technologies to modernize its healthcare ecosystem. The countries have been investing heavily in healthcare information technology such as e-Visits, digitization of electronic medical records (EMR/EHR), chatbot service, data analytics, and mobile applications for patient engagement aimed at improved healthcare delivery and disease management. This has accelerated the adoption of e-consultation, telehealth, self-diagnostics, health monitoring devices, consumer wearables, and other digitalized offerings in the region. These technology integrations are likely to grow positively and improve inclusivity, accessibility, affordability, and growth in the GCC healthcare sector.

d) **Home healthcare services:** With the arrival of COVID-19, the relevance of home healthcare services, especially remote care delivery, has increased significantly. Emergence of telemedicine is one of the effective tools for combating COVID-19, which resulted in a decrease in the cost and an increase in access to care, while also bridging the gap between patients, physicians, and health systems. Health authorities are also working in line with their e-Health strategy that aims to improve the accessibility and quality of remote care to citizens through utilizing telemedicine. Apart from being less expensive compared to hospital admission, it is also a preferable option for aged patients as treatment is enhanced in the comfort of home.

e) **Public - private investment:** Governments are encouraging the involvement of private investors to bridge the gap of demand and supply through public-private partnership. The Saudi Arabia government has allowed 100% foreign ownership in healthcare companies and plans to privatize several public healthcare facilities.[11] Dubai Health Authority (DHA) has created an investment strategy which would promote Dubai as a competitive hub for investment in healthcare and enable sustainable public-private models in Dubai.[12] Qatar Healthcare Facilities Master Plan (QHFMP) 2013-2033 is the roadmap for the next generation's healthcare infrastructure quality standards, requirements, investment priorities, service distribution, and delivery alignments, guiding the entire continuum of healthcare capital allocation and advancing the health vision of the nation. Kuwait's healthcare sector is in transition, with growing signs of private sector participation despite government dominance of the funding and provision of care.

The governments are actively encouraging the public-private model to meet the rising medical needs while reducing the burden of financing for greater public-private involvement for healthcare infrastructure development. Through public-private investment, the regional governments can leverage efficiencies and expertise of the private players to achieve their development goals and match international best practices.

f) **Climate changes - rising healthcare needs:** Climate change affects many of the social and environmental determinants of health – clean air, safe drinking water, sufficient food, and secure shelter. The health effects of these changes include increased respiratory syndromes, cardiovascular disease, injuries, and premature deaths related to extreme weather events, changes in the prevalence and geographical distribution of food, waterborne illnesses, and other infectious diseases. In the GCC region, the changes in climatic conditions bring extreme heat in the summers and reduced rain throughout the year. The consequences of climate change is increasing pressure on the healthcare system to respond on inclined frequency of healthcare visitors with viral symptoms and prevent significant dilutions of the same across the region to maintain healthcare protocols.

Looking ahead

The healthcare sector was one of the fastest to evolve and innovate to respond to the challenge, and it is likely that it will take some time post-pandemic to achieve what could be considered "business as usual." It was during these difficult times, and especially in the lockdown, that the

The healthcare sector was one of the fastest to evolve and innovate to respond to the challenge, and it is likely that it will take some time post-pandemic to achieve what could be considered "business as usual"

GCC governments realized the importance of making the healthcare sector self-sufficient in terms of developing the expertise and facilities offered.

Healthcare providers need to be alert, invest time in retrieving available data, make use of technological solutions, cross-train a skilled workforce, establish facilities that can cater to high-risk medical needs, ensure adequate inventory management of medical equipment and medicines, and ultimately, create a sustainable healthcare model that is ever ready to meet contingencies with minimal disturbances. Innovative solutions like telemedicine, e-ICU, remote monitoring, and online purchase of prescription medicines, will allow a significant proportion of primary care delivery to shift to the homes of people.

Further creation of healthcare infrastructure, digitization of healthcare delivery, business process automation on payment cycles, clinical decision support, and AI for medical diagnostics, will all force the industry to evolve faster than ever.

By **Haseeb Akram**, Director, Audit & Assurance, Deloitte Middle East

Endnotes

1. International Monetary Fund – World Economic Outlook, April 2022
2. Bloomberg; BP Statistical Review; Haver Analytics; World Bank
3. The future of US healthcare: What's next for the industry post-COVID-19 – July 19,2022/Article/ McKinsey & Company
4. GCC Economies to Expand by 5.9% in 2022- The World Bank – press release/May 23 2022
5. IMF October 2020
6. "MENA Healthcare Poised for Post COVID-19 Growth," MEED
7. "Global Medical Tourism Index (MTI) 2020-2021," "Arab MTI 2020-2021", Medical Tourism
8. "UAE top medical tourism destination in GCC," Zawya, September 2020
9. GCC Health Insurance Market to Reach US$ 25.5 Billion by 2025, Spurred by Favorable Government Initiatives, imarcgroup, March 24, 2020)
10. "2021 Global Medical Trends Survey Report," Willis Towers Watson
11. Gulf Business By Reuters August 24, 2017
12. DHA Investment Strategy 2017–2020

Governance frameworks:

One size does not fit all

There is no doubt that good governance in the public sector will result in enhanced management, performance, and stewardship of public funds

The challenges facing governments nowadays are not easy. Such challenges include, but are not limited to, geopolitical tensions, macroeconomic factors (inflation, recession, cost of living crisis, etc.), climate change, robotics, and disruptive technology. Alongside these challenges comes increased scrutiny of performance, and a need to enhance governance practices that help government organizations navigate these complexities and uncertainties. To add to this, citizens and taxpayers are becoming more skeptical; they want to know how public money is being spent, about the quality of services provided, and about the overall value derived vis-à-vis the taxes being paid.

There is no doubt that good governance in the public sector will result in enhanced management, performance, and stewardship of public funds. Whilst publicly listed companies are following a very strict and rigid corporate governance framework in most of the financial markets globally, there have been several failures (such as the Enron scandal), in addition to increasing and evolving codes, which have also led to more emphasis on governance for the public sector. However, policy makers are facing challenges in deciding which governance framework to adopt to ensure a balance between public interest, central government requirements, and regulators' requirements, and at the same time, achieving sufficient resilience in running the affairs of the public entity.

There is no "one size fits all" for public governance

There are fundamental differences between governance in public and private sectors. As a starting point, the type and nature of government "bodies" vary – departments, councils, authorities, and both commercial and non-commercial entities. Furthermore, the ecosystem within which they operate is multifaceted and complex. The governance requirements for such bodies are not the same as those for privately owned entities. In the public sector context, good governance is central to the effective operation of those bodies and importantly plays a key role in supporting them to discharge their obligations as set out under law and driven by wider government policy. As such, it can be concluded that there is no "one size fits all" for government and public sector entities.

Conformance and performance dimensions

Principles of governance can be indicated in two dimensions: conformance and performance. The government policy makers often focus on the conformance aspect by emphasizing on meeting the expectations of external scrutiny through compliance with various laws and following acceptable and defensible governance standards. On the other hand, the performance aspect is often overlooked and little focus is exercised on the strategic activities and maximizing the benefits flowing to stakeholders. While the former focuses on accountability and responsibility to demonstrate due diligence under the law, the latter has a leadership role linked to the execution of business activities and, therefore, has more of a business orientation.

The government policy makers often focus on the conformance aspect by emphasizing on meeting the expectations of external scrutiny through compliance with various laws and following acceptable and defensible governance standards

What types of standards and codes are relevant?

Several countries and bodies have developed guidance documents to support good governance in the public sector, such as the following codes:

Corporate Governance Code for Central Government Departments 2017

Protocol on Corporate Governance in the Public Sector

Code of Practice for the Governance of State Bodies 2016

Building Better Governance

Globally, there are three types of guidance issued to support good governance in the public sector:

1. **Department standards** – these are governance principles issued to drive good governance within the government departments.
2. **Behavioral/conduct codes** – these are standards of ethics that those working in public office (including senior leadership and board members) are required to follow.
3. **Governance codes** – key requirements for state bodies, often covering both commercial and non-commercial entities.

Yet, and regardless of the types of guidance issued, they all have common themes to be addressed which are depicted below:

Alignment to wider government priorities	Complex ecosystem	Policy and legislative context
Multiple stakeholders	Value of money	Public service delivery
Transparency	Accountability	Risk and internal controls
Remuneration	Ethics and culture	Reporting

Government entities should agree on the code/standard that best fits the organization; that's in addition to the agreement on the main government principles that will be applied, which are relevant to the strategy, mission, vision, and values of the organization

Practical steps for policy makers

With the several codes of governance and the differences in each government entity's mandate, environment, and regulations, government policy makers are recommended to implement the following steps:

1. **Select the standard/code that is relevant to them:** Government entities should agree on the code/standard that best fits the organization; that's in addition to the agreement on the main government principles that will be applied, which are relevant to the strategy, mission, vision, and values of the organization.
2. **Undertake a current state assessment:** The current state assessment would identify gaps that prevent the government entity from reaching the level of maturity expected from the different stakeholders.
3. **Address the gaps:** Government entities shall develop a road map of implementable initiatives to transform the governance status from "as-is" to "to-be."
4. **Ensure clarity on the mandate:** The mandate and expectations of the government entity should be known, aligned, and agreed with the different stakeholders and/or central governments.
5. **Consider agreeing on service-level agreements (SLAs) with other government entities:** Government entities should consider agreeing on SLAs with other government entities when there are intersections in operations. SLAs could include a responsibility assignment matrix (RACI matrix), communication plan, escalation procedure, etc.
6. **Ensure clarity of roles and responsibilities internally:** Roles and responsibilities between the

different departments/units within the government entity shall be clear, agreed, and communicated to all concerned parties. Some of the main enablers that would support such clarity include: an internal Delegation of Authority (DOA), RACI matrix, committees' charters, etc.

7. **Internal controls framework:** Government entities shall focus on implementing a robust internal controls framework that is fit-for-purpose. The internal control framework could include the following: control environment, risk assessment, control activities, information & communication, and monitoring.
8. **Keep the governance under regular review:** The regulations, risks, and operations are dynamic, and therefore there is a need for a regular check and assessment of the governance framework that is implemented in the government entities to ensure that the right selection of codes/principles are still valid, and there are no major gaps in the implementation of the framework that could prevent the organization from reaching its targets.

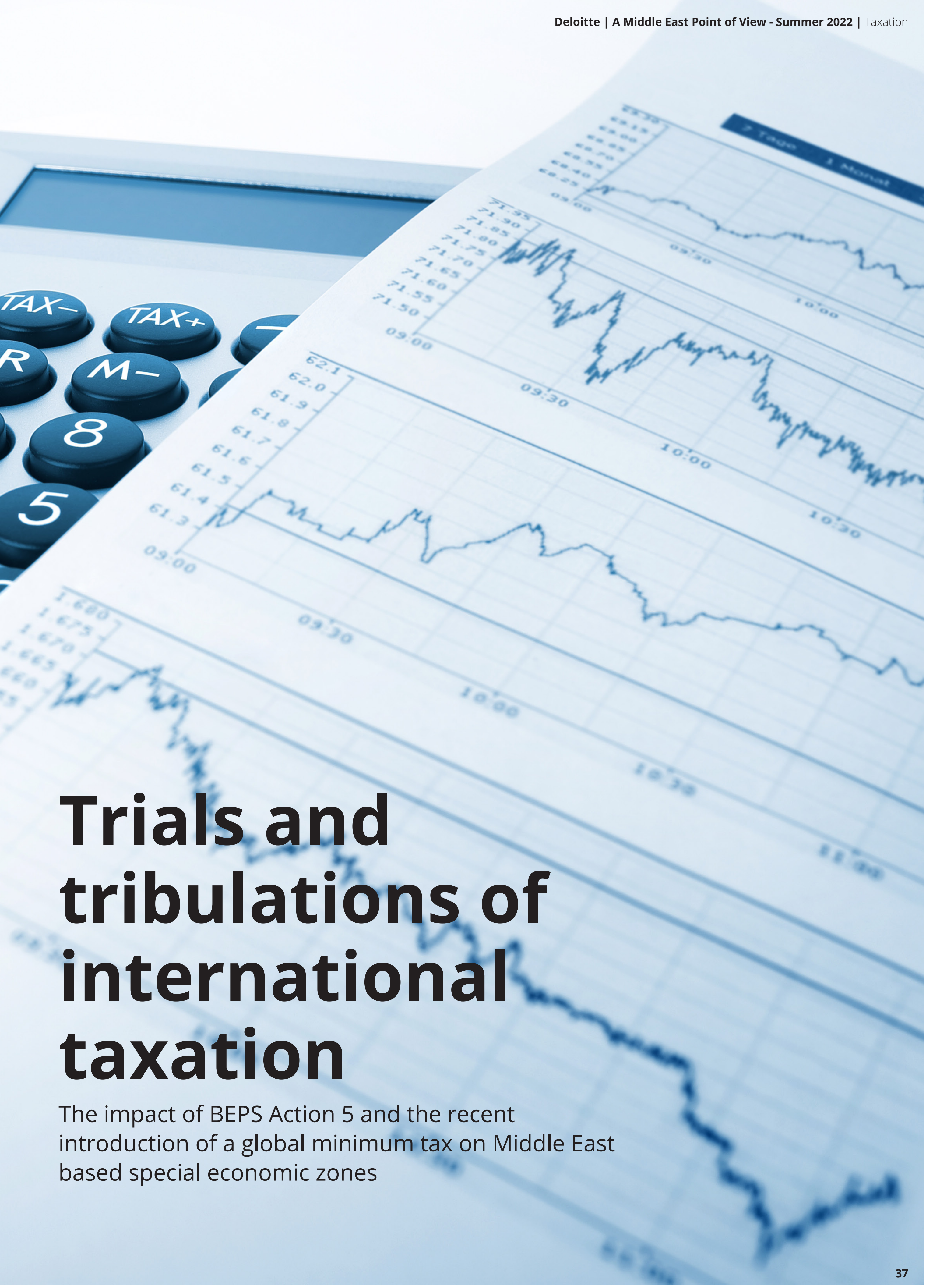
In the end, policy administrators could adapt the governance framework that they best see fit for the type and mandate of their organization. However, it is recommended that the adapted governance framework, that could enable and enhance the trust in government, reduces uncertainties to stakeholders and citizens, and achieves sustainability.

By **Wael M. Kaafarani**, Director, Risk Advisory, Deloitte Middle East and **Melissa Scully**, Director, Corporate Governance, Deloitte Ireland

Endnotes

1. Utami, M., & Silvia Sutejo, B. (2018). The importance of corporate governance. January 2012. https://doi.org/10.2991/insyma-18.2018.24
2. OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015. Access here: OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 (oecd-ilibrary.org)


SET
MC
+/-
7
OFF
4
C/CE
1
ON/AC
0



Trials and tribulations of international taxation

The impact of BEPS Action 5 and the recent introduction of a global minimum tax on Middle East based special economic zones

BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no tax locations where there is little or no economic activity or erode tax bases through deductible payments, such as interest or royalties

Since international tax rules were written decades ago, there have been fundamental changes in the worldwide landscape due to globalization and digitalization of the modern economy. For this reason, it has been imperative for tax authorities and international organizations to address the issue of double taxation, profit shifting, and tax evasion. The international tax landscape has changed dramatically in recent years, so with the political support of G20 leaders, the international community has taken joint action to increase transparency and the exchange of information in tax matters, and address weaknesses of the international tax system that create opportunities for base erosion and profit shifting (BEPS).

As a brief background, following the 2008 financial crisis, G20 countries put tax at the top of their agenda and have conscientiously led the fight against tax evasion and avoidance ever since. BEPS refers to tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no tax locations where there is little or no economic activity or erode tax bases through deductible payments, such as interest or royalties. On the same note, aggressive tax planning and enabling policies and practices of states have featured prominently on the agendas of international organizations, which have led to the Organization for Economic Co-operation and Development's (OECD's) initiative on Harmful Tax Competition, as well as to the establishment of the EU Code of Conduct on Business Taxation.

Both the OECD and EU have sought to establish standards to assess if the tax regime of a country can be considered as harmful in the sense that it may contribute to the erosion of other countries' tax bases. Most aggressive tax planning structures rely on low or no tax jurisdictions. For example, a company that invests in a subsidiary in another country can set up an intermediary financing company in a tax haven (typically without any significant business activities) to defer taxation on income from the investment. Many countries, including in the Middle East, offer low tax rates or tax exemptions for business conducted within special economic zones (SEZs), such as the Qatar Financial Center (QFC), Dubai International Financial Center (DIFC), Abu Dhabi Global Market (ADGM), etc. Hence, a company established in an SEZ can fulfill a similar function as a tax haven company in a multinational enterprise's (MNE's) tax structure. Thus, SEZs have also become the object of the OECD's and EU's initiatives for tackling aggressive tax planning.

The OECD's work on harmful tax practices was in its initial stages in 1998 and confined to its member states and tax haven jurisdictions during the 2000s. However, the scope of OECD's work significantly expanded with the endorsement of BEPS Action 5 as one of the four "minimum standards" in 2015 and the creation of BEPS Inclusive Framework (IF) in 2016. Almost all 130+ IF members have committed to complying with the BEPS minimum standards. The standard of BEPS Action 5 mandates that countries must not resort to "harmful tax practices" and establishes a review process of tax regimes.

Similarly, back in 2016, the EU Code of Conduct Group (COCG) began investigating the tax policies of non-EU countries against "good tax governance" standards, including tax transparency and fair taxation. Then, in 2017, the COCG received commitment from certain low-tax jurisdictions (2.2 jurisdictions) to introduce legal substance requirements to ensure that tax advantages were not granted to entities with no substantial economic presence. Subsequently, in December 2017, the EU Code of Conduct Group assessed the tax policies of offshore jurisdictions with no or only nominal tax (NOONs) against the criterion of economic substance. The criterion stated that a jurisdiction should not facilitate offshore structures or arrangements aimed at attracting profits which do not reflect real economic activity in the jurisdiction.

Impact of a global minimum tax on SEZs

Fast-forward to today, since the introduction of BEPS Action 5 and the EU Code of Conduct Group to address economic substance issues, there remains to be even greater challenges that SEZs must deal with. Unlike the BEPS project that addresses harmful tax competition, the proposed global minimal tax under Pillar 2 mandates all countries to require a minimum effective tax rate (ETR) of 15%. To the extent a country's ETR is less than 15%, there is the possibility that other jurisdictions can have taxing rights equivalent to that shortfall in the rate. In the long run, this can be a potential problem for countries that have SEZs that provide tax incentives and tax holidays. The concern is to what extent the minimum tax will result in less investment in developing countries, since companies carrying out investment in these countries may not get the benefit of a tax incentive anymore as the minimum tax has to be paid somehow regardless.

The use of SEZs has been historically promoted by countries not only to support the development of exports, foreign direct investment (FDI), and local employment, but also to promote investment and competitiveness in specific geographical areas. If the new global minimum tax of 15% comes into picture, and assuming all countries implement this rule, there will cease to be tax motivation for companies to shift their businesses from high tax rate jurisdictions to low tax rate jurisdictions or SEZs. As most of the 139 inclusive framework member countries have already endorsed the Pillar 2 proposal, countries with presence of heavy SEZ regimes have to properly coordinate and solve any fundamental tax policy differences between its tax authority and other SEZ administrative bodies.

While the mechanics of Pillar 2 are being worked out by the OECD and international tax community, it is currently unclear how to mitigate the impact of a global minimum tax on foreign direct investment (FDI), and how countries with heavy focus on SEZ regimes in the past can benefit and make amendments as a result of sweeping reform on the global tax landscape.

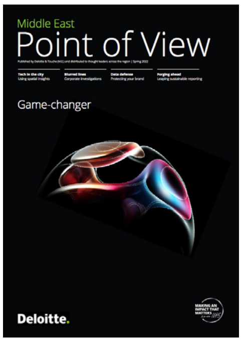
By **Abi Man Joshi**, Partner, Tax, Deloitte Middle East

Unlike the BEPS project that addresses harmful tax competition, the proposed global minimal tax under Pillar 2 mandates all countries to require a minimum effective tax rate (ETR) of 15%

Thought leadership publications from Deloitte

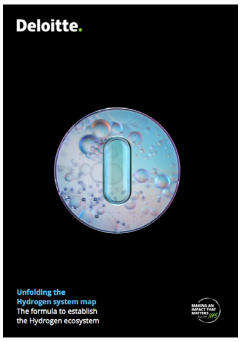
ME PoV provides you with a selection of Deloitte's most recent publications accessible on Deloitte.com

ME PoV



ME PoV Spring 2022 issue Game-changer

Energy, Resources and Industrials



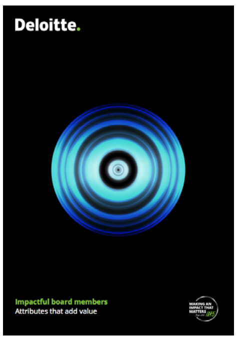
Unfolding the hydrogen system map I The formula to establish the hydrogen ecosystem

Enablers to become the hydrogen economy superpower - Closing the hydrogen capabilities gap in the GCC

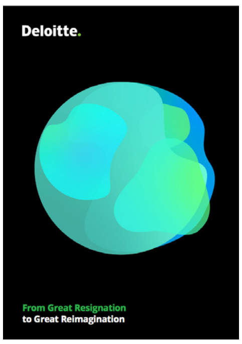
Islamic Finance

Deloitte and ISRA: The Global Gold Investment Markets

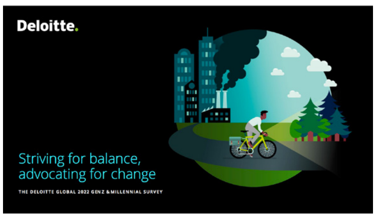
Human Capital



Impactful board members: Attributes that add value

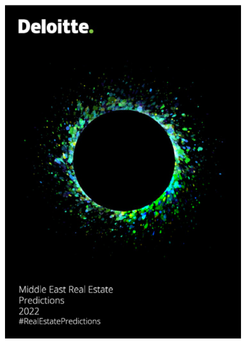


From Great Resignation to Great Reimagination Engineer your tech-forward future



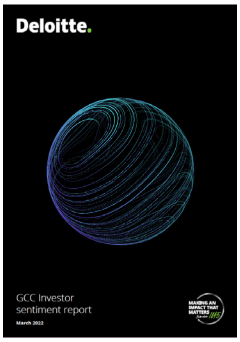
The Deloitte Global 2022 Gen Z and Millennial Survey

Financial Advisory

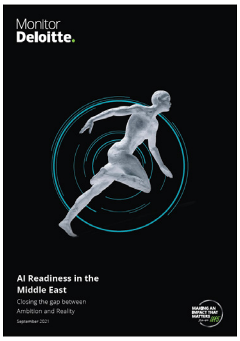


Middle East Real Estate Predictions 2022

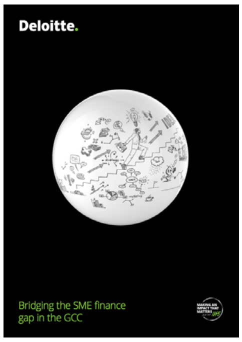
Consulting



GCC investor sentiment



AI Readiness in the Middle East 2021 edition



Bridging the SME finance gap in the GCC

Construction

Deloitte GCC Powers of Construction 2021 Building a sustainable future

Tax

Preparing for Corporate Tax in the UAE

Sustainability

Deloitte 2022 CxO Sustainability Report The disconnect between ambition and impact

Diversity

Women @ Work 2022: A Global Outlook

Deloitte offices

Regional office
Gefinor Center, Block D
Clemenceau Street
P.O. Box 113-5144
Beirut, Lebanon
Phone +961 (0) 1 748 444
Fax +961 (0) 1 748 999

Consulting
Emaar Square, Building 1, level 2
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Deloitte Digital Center
Al Ra'idah Digital City
Building: RDC IN 01, 1st floor
Riyadh, Saudi Arabia
Phone +966 (0) 11 404 5900

Financial Advisory
Al Fattan Currency House
Building 1, DIFC
P.O. Box 112865
Dubai, United Arab Emirates
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

Risk Advisory
Emaar Square, Building 3, level 6
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Tax & Legal
Al Fattan Currency House
Building 1, DIFC
P.O. Box 282056
Dubai, United Arab Emirates
Phone +971 (0) 4 506 4700
Fax +971 (0) 4 327 3637

Quick links

Website
deloitte.com/middleeast

Blog
deloittemiddleeastmatters.com

LinkedIn
Deloitte

Facebook
Deloitte

Twitter
@DeloitteME
@DeloitteMEjobs
@DeloitteKSA

Instagram
deloittemiddleeast

Bahrain
Manama
United Tower
Bahrain Bay
P.O. Box 421
Manama, Kingdom of Bahrain
Phone +973 (0) 1 721 4490
Fax +973 (0) 1 721 4550

Cyprus
Nicosia
24 Spyrou Kyprianou Avenue
CY1075
Nicosia, Cyprus
Phone +357 (0) 22 360300
Fax +357 (0) 22 360400

Limassol
Maximos Plaza, Block 1, 3rd floor
213, Arch. Makariou III Avenue
CY3030
Limassol, Cyprus
Phone +357 (0) 25 868686
Fax +357 (0) 25 868600

Egypt
Cairo
Nile City South Tower, 6th floor
2005 A Cornish El Nile
Ramlet Boulaq
Cairo, Egypt
Phone +20 (0) 2 246 199 09
Fax +20 (0) 2 246 199 04

Alexandria
Madinet El Sayadla
Building No 10, Smouha
Alexandria, Egypt
Phone +20 (0) 3 426 4975
Fax +20 (0) 3 426 4975

Iraq
Erbil
Empire Business Complex
Building C1, 5th Floor
Erbil, Iraq
Phone +964 (0) 66 219 3323

Baghdad
Al Mansour, Al Amirat Street
District 601, Street 15, Villa no. 41
Baghdad, Iraq
Phone +964 (0) 770 694 6554

Jordan
Amman
Jabal Amman
190 Zahran Street
P.O. Box 248
Amman, Jordan
Phone +962 (0) 6 550 2200
Fax +962 (0) 6 550 2210

Kuwait
Kuwait City
Dar Al-Awadi Complex
Ahmed Al-Jaber Street, Sharq
P.O. Box 20174
Safat, Kuwait
Phone +965 2240 8844
Fax +965 2240 8855

Lebanon
Beirut
Arabia House
131 Phoenicia Street
Ain Mreisseh
P.O. Box 11-961
Beirut, Lebanon
Phone +961 (0) 1 364 700
Fax +961 (0) 1 369 820

Libya
Tripoli
Tripoli Tower
P.O. Box 93645
Tripoli, Libya
Phone +218 (0) 92 370 1049

Oman
Muscat
Minaret Al Qurum Building, 6th floor
Qurum Area, Muscat
P.O. Box 258
Ruwi, Postal Code 112
Muscat, Oman
Phone +968 (0) 2481 7775
Fax +968 (0) 2481 5581

Palestinian Territories
Ramallah
Al Mashreq Insurance Building
P.O. Box 447
Ramallah, Palestinian Territories
Phone +970 (0) 2 295 4714
Fax +970 (0) 2 298 4703

Qatar
Doha
Al Ahli Bank Building
Sheikh Suhaim Bin Hamad Street
P.O. Box 431
Doha, Qatar
Phone +974 (0) 4434 1112
Fax +974 (0) 4442 2131

Saudi Arabia
Riyadh
Prince Turki Bin Abdullah
Al-Saud Street
Sulaimana Area
P.O. Box 213
Riyadh 11411, Saudi Arabia
Phone +966 (0) 1 282 8400
Fax +966 (0) 1 282 8428

Al Khobar
ABT Building, Al Khobar
P.O. Box 182
Dammam, Saudi Arabia
Phone +966 (0) 13 668 5700
Fax +966 (0) 3 887 3931

Jeddah
The Headquarters Business
Park Tower
40th floor, Corniche Road
P.O. Box 442
Jeddah, Saudi Arabia
Phone +966 (0) 12 578 1000

Sudan
Emaar Square, Building 3, level 6
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

United Arab Emirates
Abu Dhabi
Al Sila Tower, 11th floor
Abu Dhabi Global Market Square
P.O. Box 990
Abu Dhabi, United Arab Emirates
Phone +971 (0) 2 408 2424
Fax +971 (0) 2 408 2525

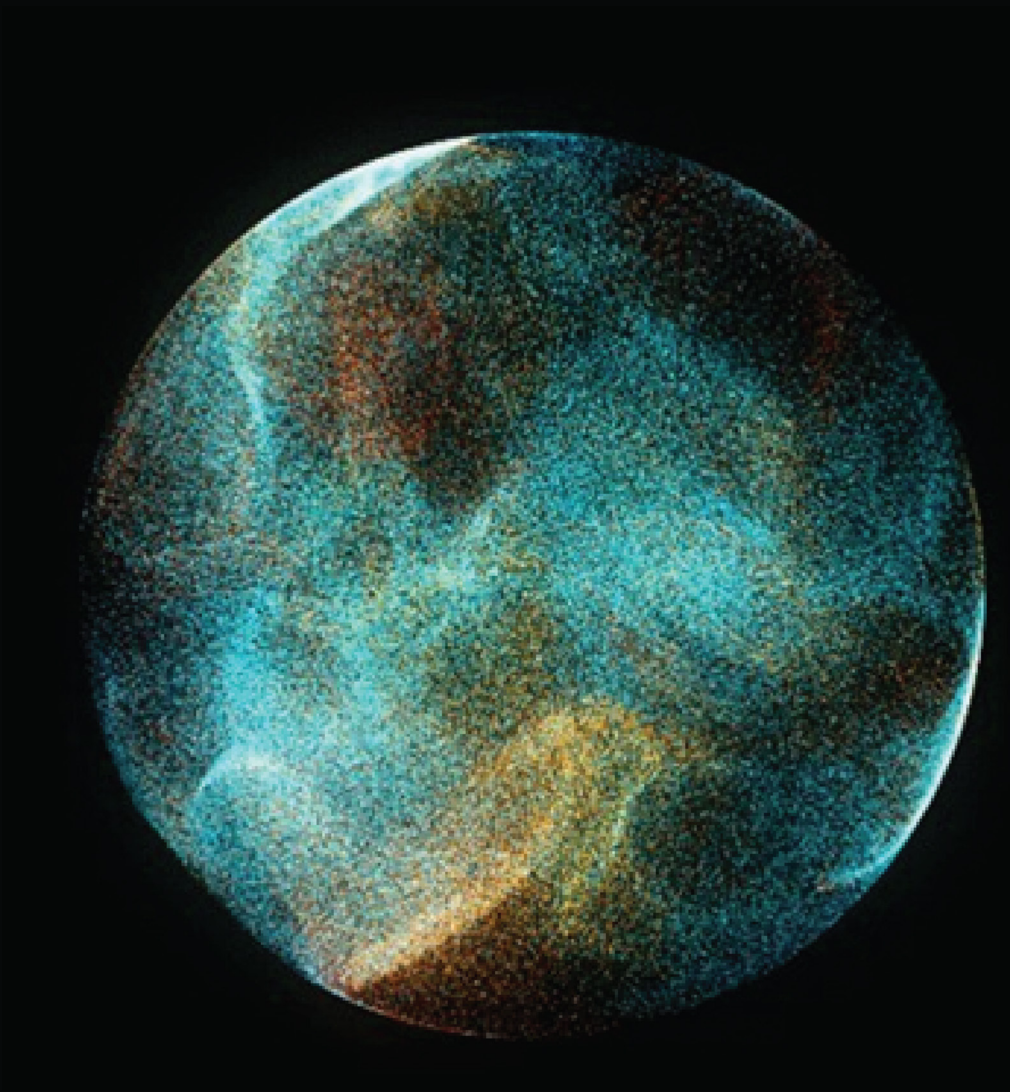
Dubai
Emaar Square, Building 3, level 6
Downtown Dubai
P.O. Box 4254
Dubai, United Arab Emirates
Phone +971 (0) 4 376 8888
Fax +971 (0) 4 376 8899

Fujairah
Al-Fujairah National Insurance Co.
Building, 6th floor
P.O. Box 462
Fujairah, United Arab Emirates
Phone +971 (0) 9 222 2320
Fax +971 (0) 9 222 5202

Ras Al-Khaimah
Julphar Commercial Towers, 19th floor
P.O. Box 435
Ras Al-Khaimah, United Arab Emirates
Phone +971 (0) 7 227 8892
Fax +971 (0) 7 227 7465

Sharjah
United Arab Bank Building, 13th floor
Al Buhairah Corniche
P.O. Box 5470
Sharjah, United Arab Emirates
Phone +971 (0) 6 517 9500
Fax +971 (0) 6 517 9501

Yemen
Sana'a
Sana'a Trade Center
Algeria Street, Sanaa
P.O. Box 15655
Alsafyah, Yemen
Phone +967 (0) 1 448 374
Fax +967 (0) 1 448 378



The Responsible Metaverse

As we embrace the future of technology, the Metaverse enables users to be more open and connected than ever before.

Visit our site to learn more about how the Metaverse will change the world:

Deloitte.