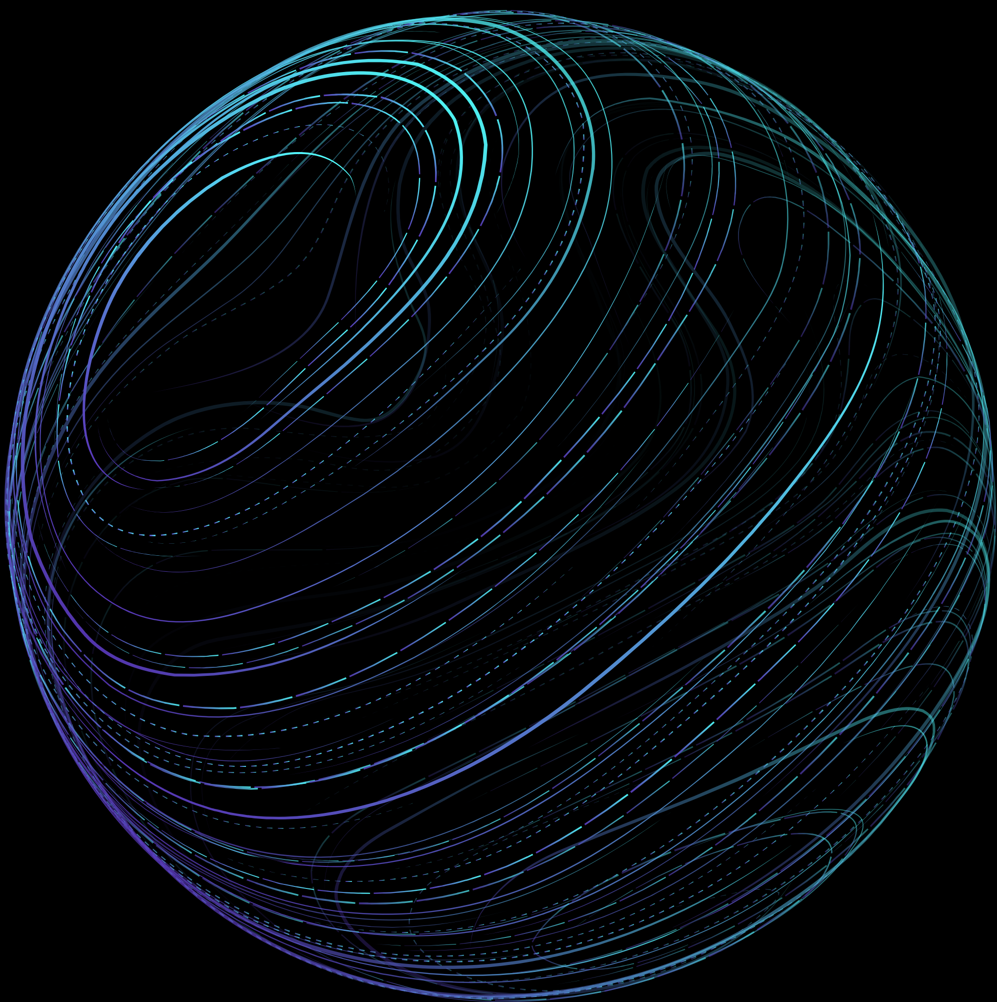
Deloitte.



GCC Investor sentiment report

March 2022

MAKING AN IMPACT THAT MATTERS since 1845

Table of content

Executive summary

It's 2016, the race for economic growth is well underway, and GCC nations are busy crafting their national programs with the intention of gaining an economic advantage. As some nations started to gain momentum over others, they all quickly realized that this race is different. It has no finish line, and "winning" is a relative term reserved for those who are able to remain resilient for the longest period.

The real test of resilience, as it is evident for everyone today, was the 2019 pandemic. GCC nations focused their efforts on addressing the immediate challenges from this disruptive event. In fact, for a moment they forgot that the race was still on and that they need to quickly start thinking, not only about immediate challenges and how to recover, but more importantly about the long-term economic race.

Sustainable economic growth cannot happen without growing the participation of the private sector and its continuous investment in an economy. For this reason, governments have always sought to maintain and grow the private sector investment, whether domestic or foreign. They were therefore always driven to gage the investors' changing perceptions on the economy, in order to estimate the flow of future investments.

With the above in mind, Deloitte is launching its first GCC investor sentiment survey. The survey looks at 628 companies in the 6 GCC markets with two main objectives in mind:
- Understand investor sentiment today and for the next 5 years
- Identify practical recommendations for policy makers to consider when crafting winning and resilient strategies.

The Deloitte survey asked respondents to describe their company growth in the past 5 years (2016-2021) and discuss their expansion plans for the 5 years to come (2022-2026). Respondents were also asked to provide more details about the reasons for the past performance and their expansion decisions (expansion plans and destination).

Investor sentiment key takeaways

Below is a simplified summary of our findings. Further details will be available in our full survey profile.

Larger economies are more resilient: Companies operating in KSA and UAE (the larger economies in the GCC) have performed better from 2015 to 2021, and especially during the pandemic. According to the survey results, 56% and 52% of companies in KSA and UAE respectively have had positive growth in that period, against only 44% for companies operating in other smaller economies in GCC.

The survey also shows that the resilience of the larger economies of KSA and UAE will lead to stronger investment activity moving forward since these two countries were mentioned more than other countries in the region as destinations for investment (18% for KSA and 16% for UAE vs. 9% GCC average), even after adjusting for the number of respondents from each country.

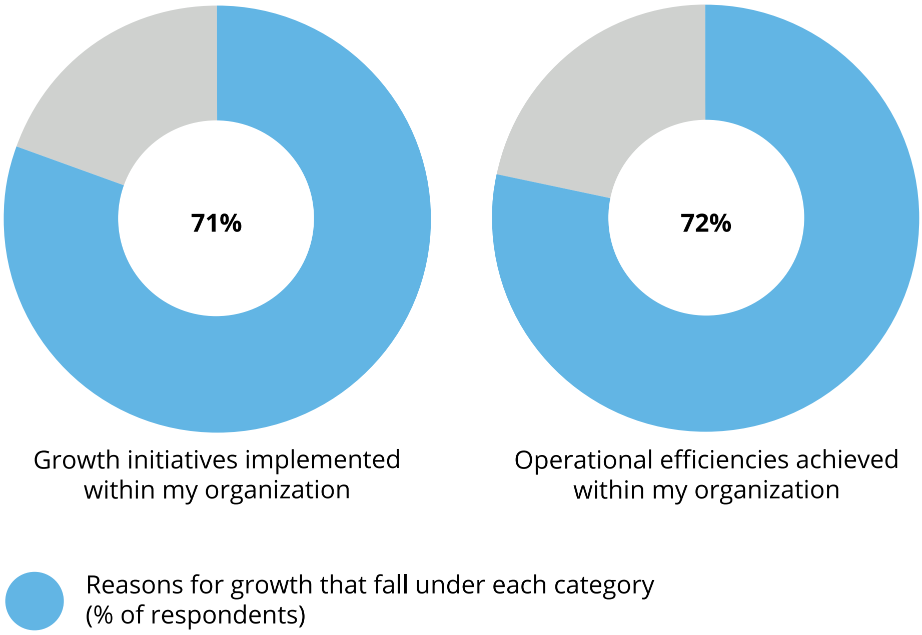
Efficient and innovative companies performed better than their peers: The survey shows that larger companies performed better on average than smaller companies. 57% of surveyed companies of 1,000+ employees experienced positive growth, against only 35% of companies of 9 employees or fewer.

However, when adjusting for the differences in company size, it appears that despite its importance, size is not the only factor impacting the resilience of GCC companies. Companies that performed well in the last period overwhelmingly mention that their high growth was mainly due to proactive internal initiatives. Variations of these initiatives were highlighted by companies of various sizes. The initiatives were categorized in the report under two types: initiatives that improved efficiency and innovative initiatives that focused on leveraging new growth opportunities (Figure 1).

Although many of these companies were also large companies, even smaller companies with these types of internal initiatives outperformed other companies of similar size.

Despite its importance, size is not the only factor impacting the resilience of companies

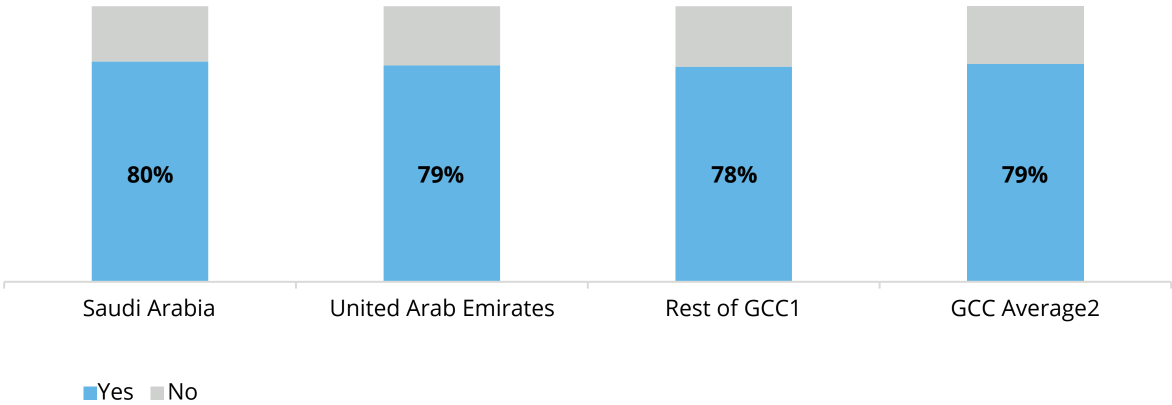
Figure 1: Percentage of respondents that attributed positive growth to internal initiatives



Across all company sizes, high growth was linked to internal efficiency improvements or innovative ways to capture new opportunities

2025 growth outlook is positive: :
Despite the risks, the majority of respondents (around 80%) still said they planned to expand their business before 2025 (Figure 2), indicating a positive outlook for a post-pandemic recovery.

Figure 2: Likelihood to have expansion plans by country

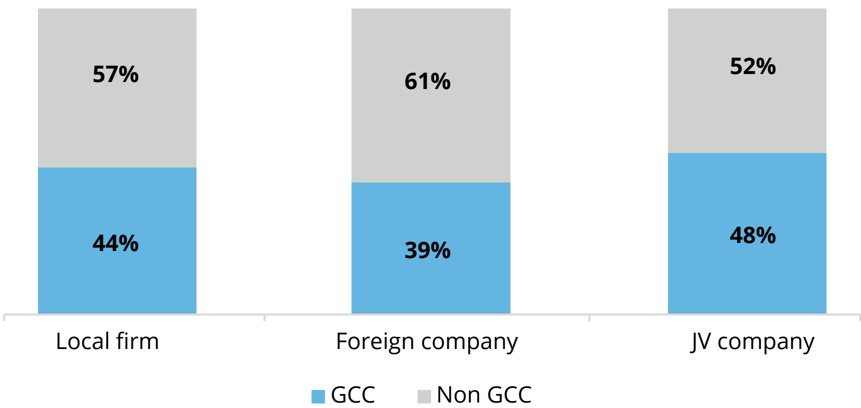


Local investors prefer to invest locally:
The survey shows that the investors with the strongest appetite to invest in each country are usually the local investors. This is particularly true for Saudi Arabia and UAE, where local investors constitute 59% and 87% of total investors, respectively. Even if we look at the region as a whole, subsidiaries of foreign companies operating in the region prefer to invest and expand globally instead of investing within the region (61%, vs 57% for local companies, Figure 3).

Although FDI is generally pursued and used as the primary investment metric, the local investor can potentially provide a more stable and perhaps more sizeable domestic investment flow compared to the flow of foreign investment coming to the GCC.

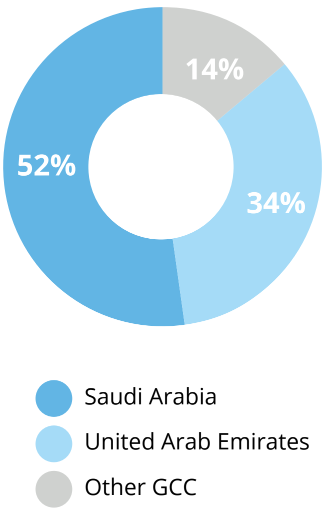
The majority of respondents, especially in Saudi Arabia, said they planned to expand their business before 2025

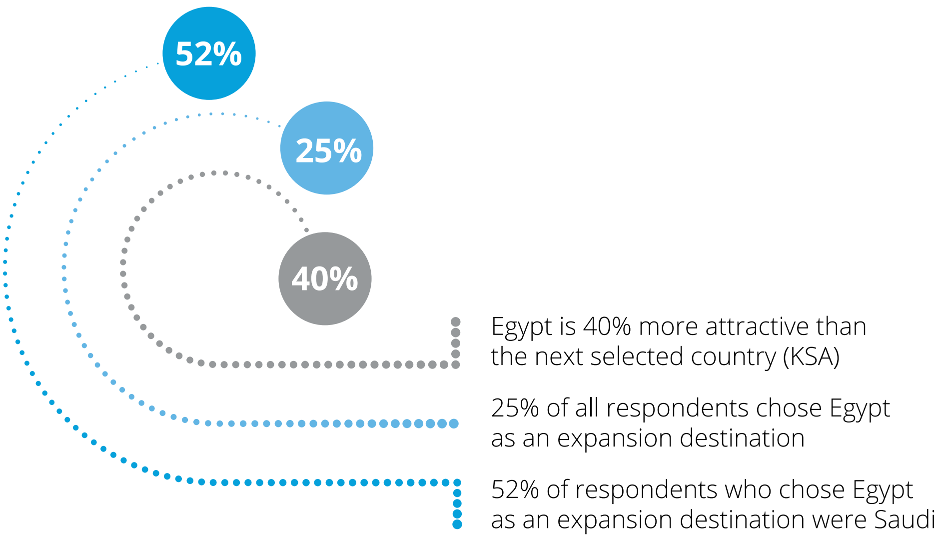
Figure 3: Destination of investment for companies in the GCC



For investors who chose to invest abroad, new players in MENA are emerging as attractive investment destinations:
Egypt has proven to be a new MENA economic powerhouse to which many investors are looking to expand; 25% of the respondents in the GCC plan to expand into Egypt (Figure 4), and 40% of Saudi respondents in particular chose Egypt as a destination.

Figure 4: Share and distribution of GCC countries expanding into Egypt

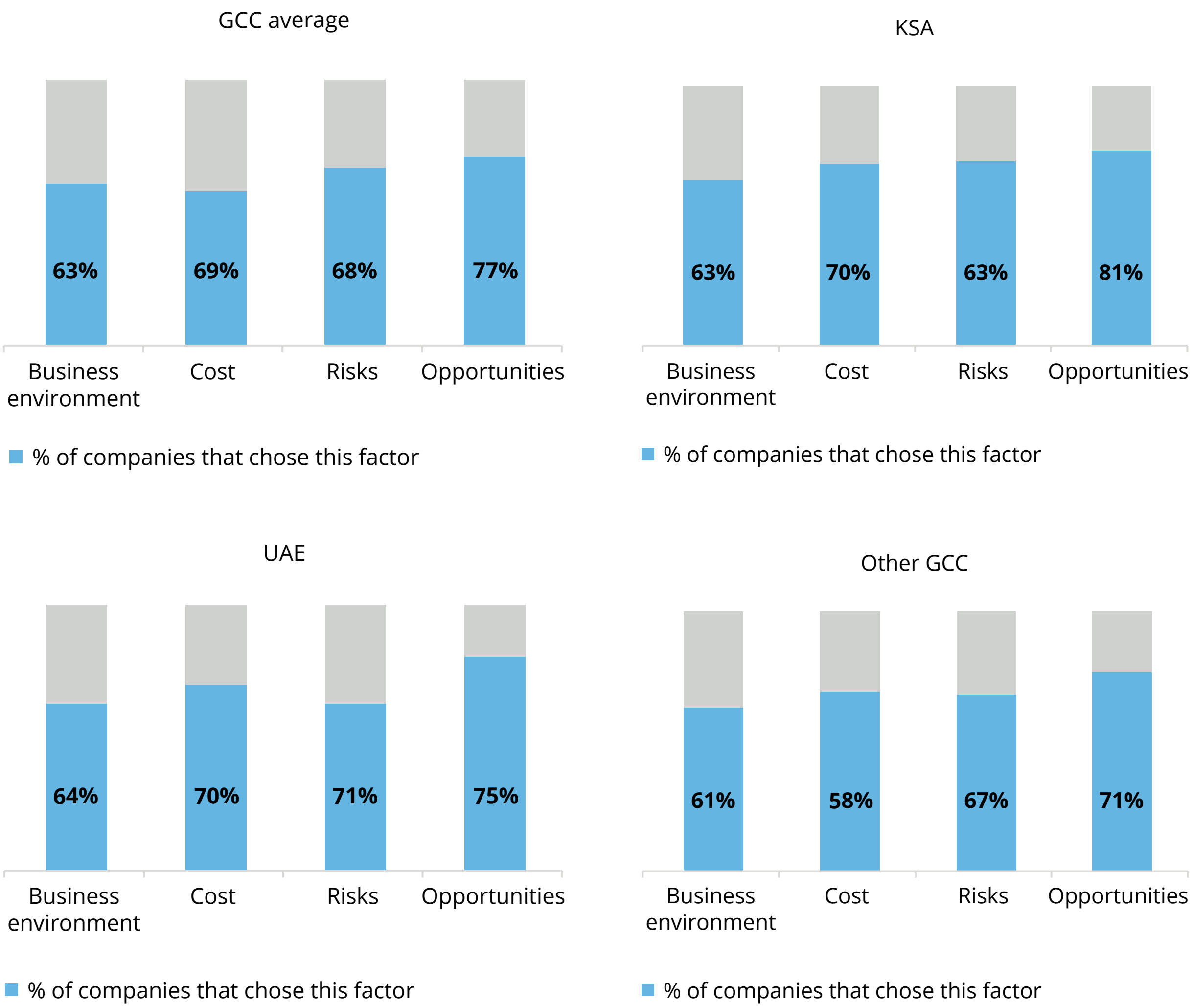




Investment decision is driven by 4 key themes with a balanced weight:
The responses showed a clear pattern across the survey. When categorizing the diverse main concerns and drivers for investment, 4 recurring themes emerged. These themes were clearly driving the investment decision of the private sector and will therefore occupy the minds of every policy maker in the region:

- Business environment and ease of business set-up and operation.
- Cost incurred while conducting business.
- Risks to growth, profitability, or viability of the business.
- Opportunities and potential for growth in the market.

Figure 5: Percentage of companies who selected variations of each factors as inhibitors to growth



These factors of growth carry a relatively equal weight to the investors when evaluating the investment decisions (Figure 5). The respondent used variations of these factors when discussing reasons for past growth, reasons behind future expansion plans, and reasons for the selection of investment destinations. The results were also uniform and consistent across economies, with a slight tendency to focus on opportunities, and to a lesser extent risk, across all countries. There was also a bit of extra emphasis on cost in KSA, which could be attributed to the recent increase in business costs in the country.

Guiding principles for investment policy:

Our findings have led us to identify 3 emerging guiding principles for the GCC decision-maker:

Size provides more resilience:
Larger economies and larger companies are more resilient and were able to recover quicker. This gives larger economies and companies more leeway when designing their strategies. Smaller economies and companies have less room for error and need to be more thorough in where they apply their efforts if they want to remain resilient.

Productivity & efficiency are key drivers:
The deciding factor when it comes to resilience are internal initiatives. Smaller companies who adopt better productivity initiatives will outperform their peers, and even big companies that don't apply these types of initiatives will lag within their segment.

Companies are not geographically bound anymore:
Organizations look away from their current market to get the full factors of growth they desire. Those who address the key investment driving themes correctly can, not only retain and grow current investments, but may even see themselves the subject of a renewed investment boom. Indeed, new entrants on the region's investors' radar, such as Egypt and India, are benefitting from their size advantage and sustained efforts across the 4 drivers. They are presenting themselves as complete investor-friendly destinations.

Despite this, the local investor is still more likely to offer a steady and assured stream of investment into the economy. It is essential therefore to retain local investors, in tandem with attracting new foreign ones.

Key considerations for the decision makers

As the threat of sustained fallout from the COVID-19 pandemic is still prevalent in the short term, more focus is still needed to resolve the repercussions of the pandemic on the economy.

However, the investor view on the recovery is relatively optimistic across the GCC, and investors show an appetite for growth and expansion. Therefore, GCC governments should build on their previous impactful reforms to nurture the private sector growth; improving foreign and local investor appetite; and improving the size and quality of the investment that they attract.

Based on the survey findings and the guiding principles, there are several considerations which must be covered by public policy makers to drive future investment growth in their economies. These include the below:

Continue and expand business environment reforms:

The survey results are clear that the regulatory landscape can be a key enabler or hinderer of growth. Governments in the region have been improving the region's business environment drastically over the last decade, and it certainly shows in the relatively positive view of investors on that front. The business environment is not considered by investors as a factor that is hindering growth (Figure 7), and more investors than not think that it is in fact an enabler of growth in the region (Figure 6).

However, further improvements are required in terms of access to credit, trading across borders, and resolving insolvency, which were singled out by investors in certain countries. Some countries such as the UAE and Saudi Arabia are already aware of this gap and have made big strides in many of these aspects lately, which is expected to be reflected in future iterations of this survey.

When investors look abroad, they focus on factors that they find lacking at home. Governments need to ramp up their efforts to satisfy these needs locally.

Figure 6: Percentage of respondents listing any type of business environment reforms as contributors to growth

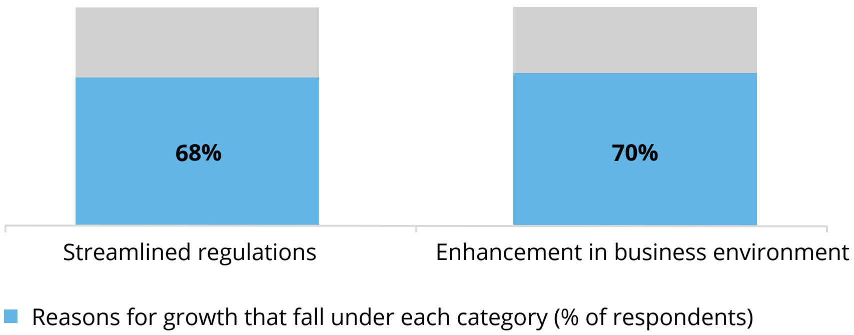
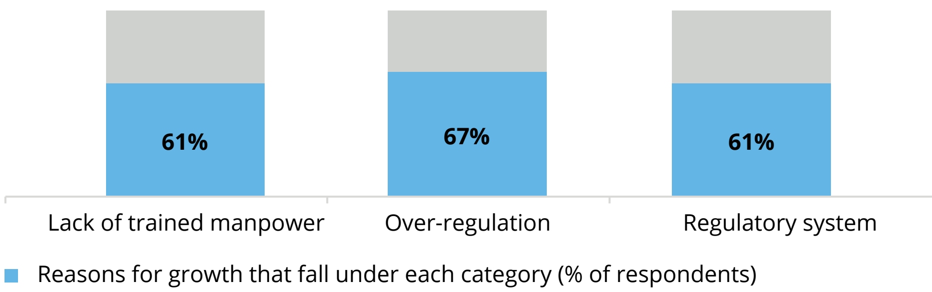


Figure 7: Percentage of respondents listing remaining issues with business environment as factors hindering growth



Expand reforms to be more holistic and consistent:
Government policies need to be flexible, quick, and dynamic when responding to the private sector requirements. They also need to be holistic and consistent. Some of the implemented reforms, especially those related to the business environment, were clearly seen as a positive by the investors in the survey. However, contradictory measures such as the increased business costs and the inconsistency of regulations, contributed to mixed sentiments in most GCC countries and eroded the reform impact and momentum.

In contrast, countries that have a consistent and balanced approach to the 4 driving themes of investment attract more investments. The survey shows that when assessing their investment destinations, the investors consider factors across the 4 themes in a balanced way. This means that governments should not give an asymmetrical focus to any of these factors.

Improve market attractiveness, even if your economy is large and resilient:
Market size is important. It allows for more resilience to the economy and more opportunities for investment. However, markets can't rely on their market size as the only attraction anymore. Investors are becoming more sophisticated with their investment decisions.

As seen in the survey, despite the overperformance of larger economies in the region, local and foreign investors are still eyeing other MENA and global investment destinations that provide ample opportunities and address the key investment drivers in a more balanced way. A lot of times when investors look abroad, they focus on factors that they find lacking at home. Issues related to cost and access to talent were the key aspects that investors focused on when asked about the rationale behind selecting their future expansion destination. GCC governments need to ramp up their efforts to satisfy these needs at home. Smaller economies can compensate for the weaker resilience through more robust and wider reforms. On the other hand, larger economies can improve on their size advantage through complementary and holistic efforts across the 4 investment-driving themes.

Do not forget the local investor:
For decades, the local investors have been forgotten at the expense of international investors when crafting investment strategies and policies, despite having the biggest trust and investment in country potential.

The survey shows that investors within every country tend to be the largest investor categories in every economy, and they tend to pick their country as a destination for investment sometimes more than any other destination. In addition to this, as seen before, local companies favor local growth more that foreign companies or joint ventures.

The good news is that, with slight variations, the factors and themes needed to attract investment are the same for both local and foreign investors. Governments therefore do not need to take radical extra measures to ensure that local investors are attracted. However, more attention to the particular needs of local investors, and additional efforts to involve them in strategies and in reform cycles may be all what is needed to maximize domestic investment and to keep local investors happy.

Give special attention to the private sector access to talent:
Results show that talent, cost and accessibility are one of the biggest factors for investors. Talent features as one of the main reasons to expand outwardly. Saudi-based respondents listed talent as a reason for expansion more frequently than other countries across the region, which could partially be attributed to the

Talent is critical for countries in a knowledge-driven world economy. It is a pressing challenge across the GCC, albeit less so for the UAE.

latest labor-related levies pushed by the Saudi government. Conversely, UAE-based respondents considered talent less of an expansion argument than the rest of the GCC.

In an increasingly knowledge-driven world economy, it is critical for countries to facilitate the investors' access to cost-effective talent through initiatives aimed at attracting and developing marketable skills. This can happen through more paced-out and targeted localization programs, improvement in curricula, and more adaptive residency rules.

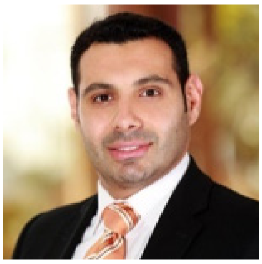
Encourage companies to improve internal efficiency:
The survey showed that companies are reaping the benefits of internal improvements such as digitization and operational efficiencies. The pandemic provided an opportunity to strengthen those capabilities, especially with accelerated government support programs related to these fields.

Organizations need to learn how to navigate uncertain times while remaining resilient in order to survive in today's economic landscape. For that they need to be at the forefront of productivity, digitization and efficiency, since the lessons from the pandemic have taught us that these factors translate directly into increased resilience.

As for the governments, the lessons learned from the pandemic is that digital transformation and operational efficiency initiatives should be promoted as a market imperative in the future for the public and private sector and should be the subject of targeted government funding and incentives.

Organizations need to learn how to navigate uncertain times while remaining resilient. They need to be at the forefront of productivity, digitization and efficiency.

Contacts



Mustafa Ibrahim
Partner, Consulting,
musibrahim@deloitte.com

Karim Mukhalalaty
Partner, Consulting,
kmukhalalaty@deloitte.com

Ahmad Issa
Senior Manager, Consulting,
aissa@deloitte.com

Michael Yehya
Senior Manager, Consulting,
myehya@deloitte.com

Deloitte.