



The Five Islands of Kuwait a National Vision

A brief on the island's concept, components & impact

August, 2015

Disclaimer



While every effort was made to ensure that the content provided in this short introductory conceptual presentation is reliable, TICG makes no representations or warranties regarding the content, assumptions, concept, numbers or any other statements presented in the following pages.

We have clearly noted that for this project to be successful four key activities should be undertaken as shown below. Further details on next steps are provided at the end of the document.

**Qualify and
quantify
the opportunity**

**Develop the
conceptual
master-plan**

**Assess potential
risks and
mitigations**

**Prepare charter
for submission**

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1	Kuwait today & the need for change
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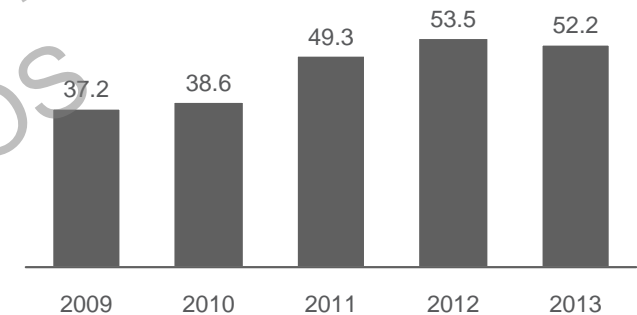
There is an urgent need to change in Kuwait, driven by declining GDP per capita, overdependence on oil and growth in public expenditure

Key areas of urgent concern

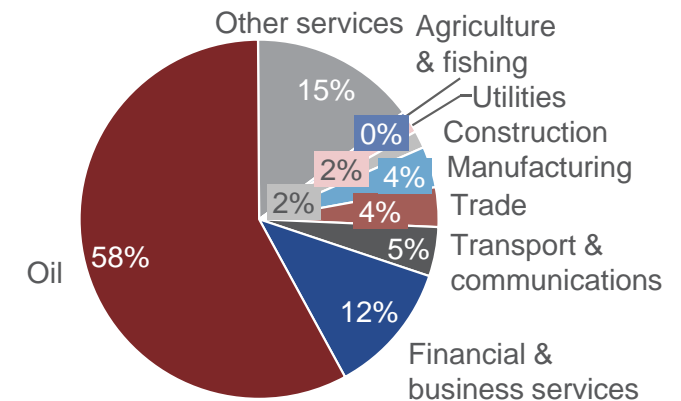
- **Massive oil dependency** – oil revenues account for 95% of government revenues, and over 50% of GDP
- **Excessive growth in public expenditure** - Kuwait's budget has grown by 600% in the past 13 years, with 30% of budget dedicated to salary & wages and around 20% to subsidies
- **Political obstacles to development** – recent political instability has blocked or delayed crucial social and economic projects worth billions of KDs in urban development, infrastructure, health & education
- **Labour market imbalances** – Kuwait's struggling private sector cannot compete with a public sector that employs 80% of the national labour force
- **Acute public health challenges** - Kuwait is the 10th most obese country in the world, and has the 10th highest prevalence of diabetes, causing public health risks that could have tremendous social and economic costs medium-term
- **Growing real estate crisis** – demographic growth and restrictions on the real estate market are causing rising pressures on Kuwait's housing stock, with up to 20 years wait time for access to public housing

Key economy metrics

GDP per capita
2009-13, current USD '000s









GDP by segment
2013



Source: TICG analysis, NBK, World Bank

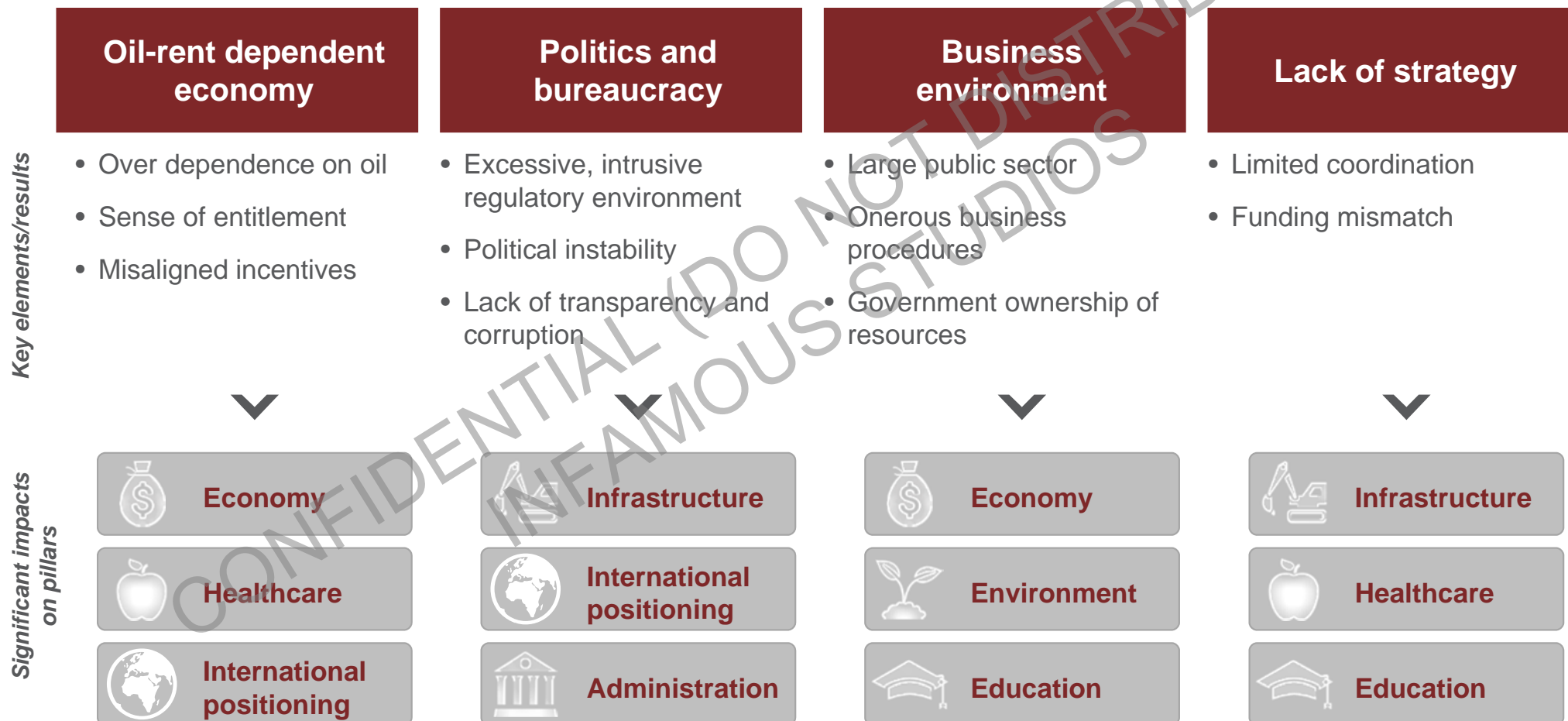
If the status quo continues, Kuwait will face crises in multiple sectors, including government reserves, subsidies and public wages

Dimension for urgency	Future scenario
Economy 	<ul style="list-style-type: none"> • With current expenditure growth and oil prices there will be an imminent deficit and risk of depletion of the general reserve • Deficit is expected to be reached in 2015 and the general reserve depleted by 2020
Health 	<ul style="list-style-type: none"> • Without reform in healthcare, the social crisis with worsen with strain on healthcare as diabetes prevalence spreads across population • Increasing diabetes will cause higher costs, with USD 3.3Bn diabetes-related spending by 2035
Unemployment 	<ul style="list-style-type: none"> • Unemployment will rise unless public or private sector job creation increases dramatically • Growing public sector employment to absorb new workers is not sustainable and there will be an increase in unemployment levels if non-oil growth levels remain constant
Subsidies 	<ul style="list-style-type: none"> • Without energy subsidy reforms there will be a dramatic rise in costs of energy subsidies • KWD 8Bn of electricity subsidies are expected to be paid in 2035, even if the growth in cost of production slows and market prices for electricity increase
Congestion 	<ul style="list-style-type: none"> • Current trends point to sharp rise in congestion in the nation's land, sea and air networks • Assuming the current trend in road building continues, congestion on the roads will increase 37% by 2035, even if the annual growth rate of number of vehicles halves
Public Wages 	<ul style="list-style-type: none"> • If the current public sector wage bill grows at the historic rate, it will reach KD 24Bn, more than three times the current bill, by 2025 • This includes promotions, wage increases and increase in number of employees

Source: TICG analysis

There are four major barriers to change which have impacts across the Kuwaiti economy which we seek to resolve

Major barriers to change in Kuwait



Source: TICG analysis, Herb "Nation of bureaucrats"

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The Emir's vision for the new Kuwait focuses on financial, social and economic elements that will take the nation to a new age

Kuwait's Vision

“Transforming Kuwait into a financial and trade centre, attractive to investors, where the private sector leads the economy, creating competition and promoting production efficiency, under the umbrella of enabling government institutions, which accentuates values, safeguards social identity, and achieve human resource development as well as balanced development, providing adequate infrastructure, advanced legislation and inspiring business environment.”



Implementing this new vision is underpinned by significant challenges and obstacles that we need to overcome

Unpredictable oil revenues*

- 50% of GDP
- 95% of government revenues
- 45% decrease in price



Governance & administrative issues

- Project delivery is insufficient
- Lack of ownership and accountability
- Shortcomings of political systems and social contract



Public employment growth

- Government absorbs 80% of the Kuwaiti labour
- High salaries and benefits



Regional & global challenges

- Regional & global change in trade and security relationships
- Iraq & Iran are further isolated and need partner



Dwindling private sector engagement

- Not a diversified economy
- Business environment not conducive to private sector



Slumping population health indicators

- Top of the world rankings in obesity and diabetes.
- 30% of Kuwaiti adults are considered obese
- 15% of Kuwaitis have diabetes



Sub-par educational offerings

- Limited preparation for private sector
- Fails to produce advanced qualifications & skills



Overarching perception challenge

- Negative global perception
- Seen as "falling behind, the country of missed opportunities."



* as of 2014/15 budget

Source: TICG analysis

TICG – A Kuwait Investment Authority, Kuwait Fund For Arab Economic Development & Oliver Wyman Joint Company

Collectively these challenges provide a platform of opportunities to tackle as we rollout vision 2035

Unpredictable oil revenues

- Focus on diversifying the economy into non oil revenues
- Improve government sources of revenue



Governance & administrative issues

- Improve overall transparency and processes in operations
- Resolve national gridlock in policy setting and delivery



Public employment growth

- Incentivize employees to move to the private sector
- Deploy constraints on public budget & improve productivity



Regional & global challenges

- Develop strong links with neighbours on the economic and political levels
- Adopt role of peacemaker



Dwindling private sector engagement

- Focus on key sectors with targeted supportive regulation, policy and incentive
- Encourage entrepreneurial activity by improving environment.



Slumping population health indicators

- Invest in preventive medicine for all citizens
- Improve lifestyle, medical venues and overall happiness



Sub-par educational offerings

- Develop the correct skills required in the public & private sectors



Overarching perception challenge

- Re-brand Kuwait with distinctive projects
- Rollout communication & PR program to lift overall image

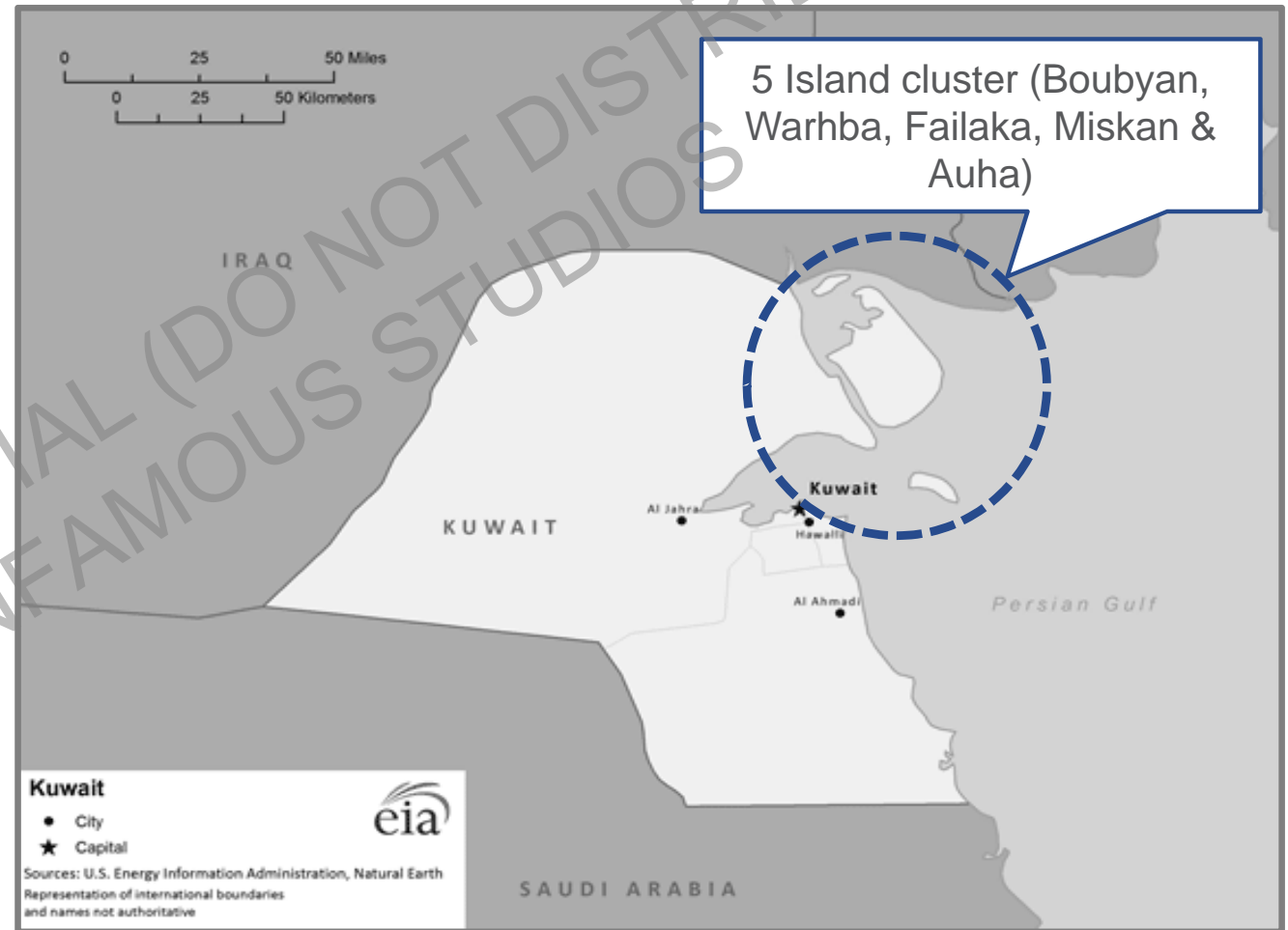


The 5 Islands off the eastern coast of Kuwait have been chosen as a launch pad for the vision to gain traction and lead to impact on the mainland

Advantages of an island launch

- 1** Independent **legal setup** (free zone) with corrective legislation to reduce bureaucracy & red tape
- 2** No infrastructure developed allows for a **blank sheet approach** aligned with **global standards**
- 3** **Geographically segregated** allowing for independent development from mainland restrictions
- 4** **Proximity** to regional major economic houses (Iran, Iraq, Saudi Arabia & rest of GCC)
- 5** Unique **environmental elements** (reserve) and at cross roads of historic **trade routes**

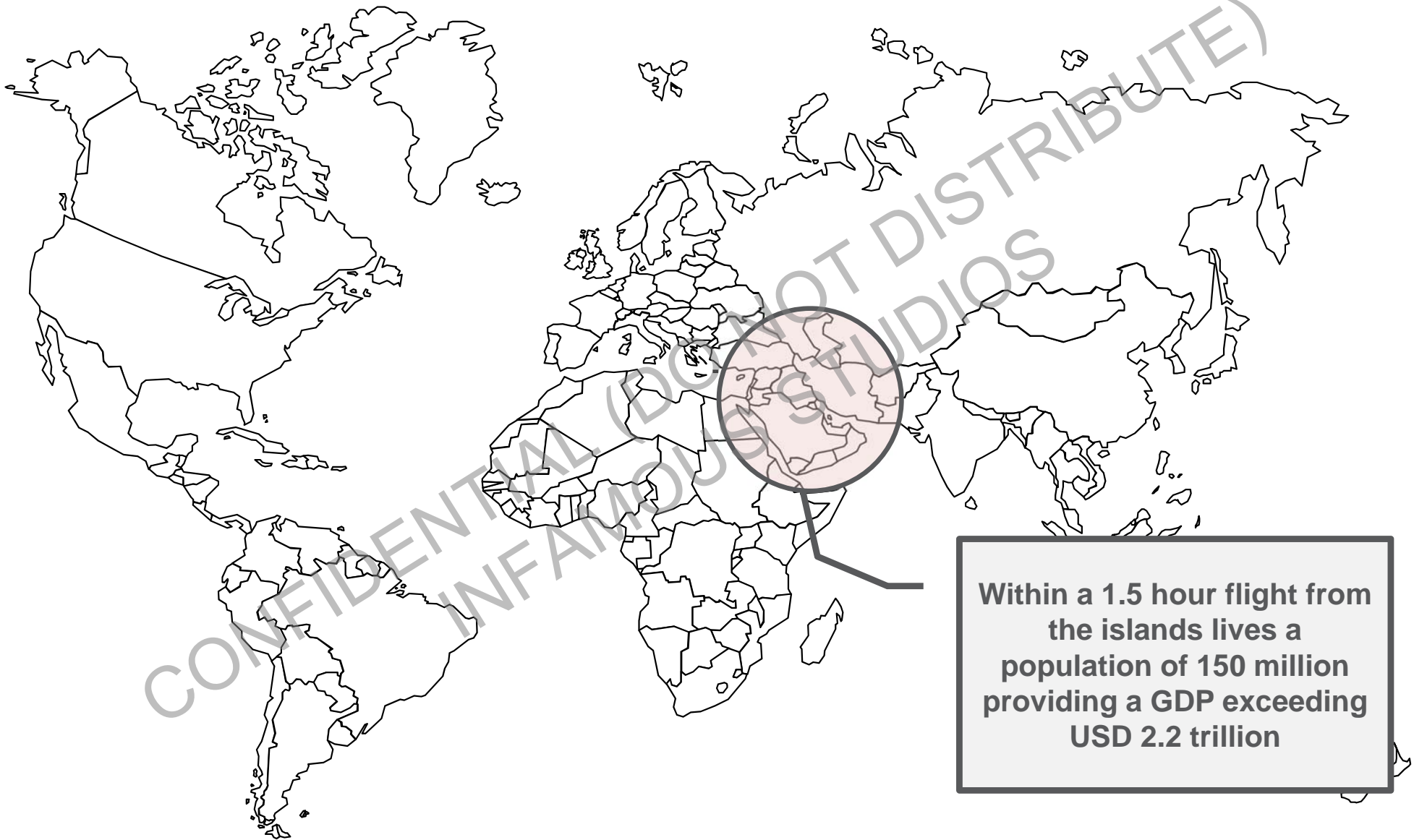
Geographic location



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Globally the islands are positioned very well to become a global hub for travel, trade and connectivity...



In addition, the 5 Islands lie in the region's heart connecting the Middle East, Africa, Eastern Europe, Central Asia and the Far East



The 5 islands played a major historic role in the region

The Ancient Hub

- 2000 BC, Mesopotamians settled in the Islands, a century before the Dilmun civilization.
- Traders from the Sumerian city of Ur occupied Failaka and ran a mercantile business.
- The five Islands were the centre of trading routes, they became a hub for centuries
- The five Islands were guided into prosperity and development



The Greek Conquest

- After Alexander the Great's initial advance in 331 BC, he returned to Mesopotamia
- The ancient Greeks colonized the island and named it "Ikaros"
- During the next centuries the islands played a role as a trading outpost in the region



The Iraqi Invasion

- In 1990 the battle of Failaka broke out between Kuwait and Iraq
- The Kuwaiti garrison was poorly equipped compared to the invading Iraqi forces
- After the Iraqi take over the Islands were depopulated
- The Islands became a military zone with limited development since.



The 5 islands have the perfect size and proximity to major neighbouring countries

Key facts & figures about the 5 islands

- The five islands collectively form a land mass close to 1,000 KM² or 5% of the total state of Kuwait.
- The closest land masses of the five islands stands at less than 5 KM from Kuwait and Iraq and around 30 KM from Iran.
- Kuwait's five islands are situated in an area that has a population of a 150 million people within a 1.5 hour flight radius, providing an immense market to serve coupled with a regional GDP exceeding USD 2.2 trillion.
- The five islands are physically independent from the mainland providing an additional level of security and safety and an opportunity to create a new operating unit apart from existing rules and regulations.

Snapshots from Failaka



The 5 islands are endowed with great natural resources

Key natural attributes

- Natural treasures range from a world renowned bird sanctuary and nesting grounds to the north of Boubyan and on Warbah Island.
- These islands form a part of the vast Mesopotamian Delta Ecoregion one of Western Asia's most important areas for biodiversity.
- Boubyan's northern water channel inlets have important concentrations of fish, marine life and other animal species including Indo-pacific humpback dolphins.

Snapshots from the islands



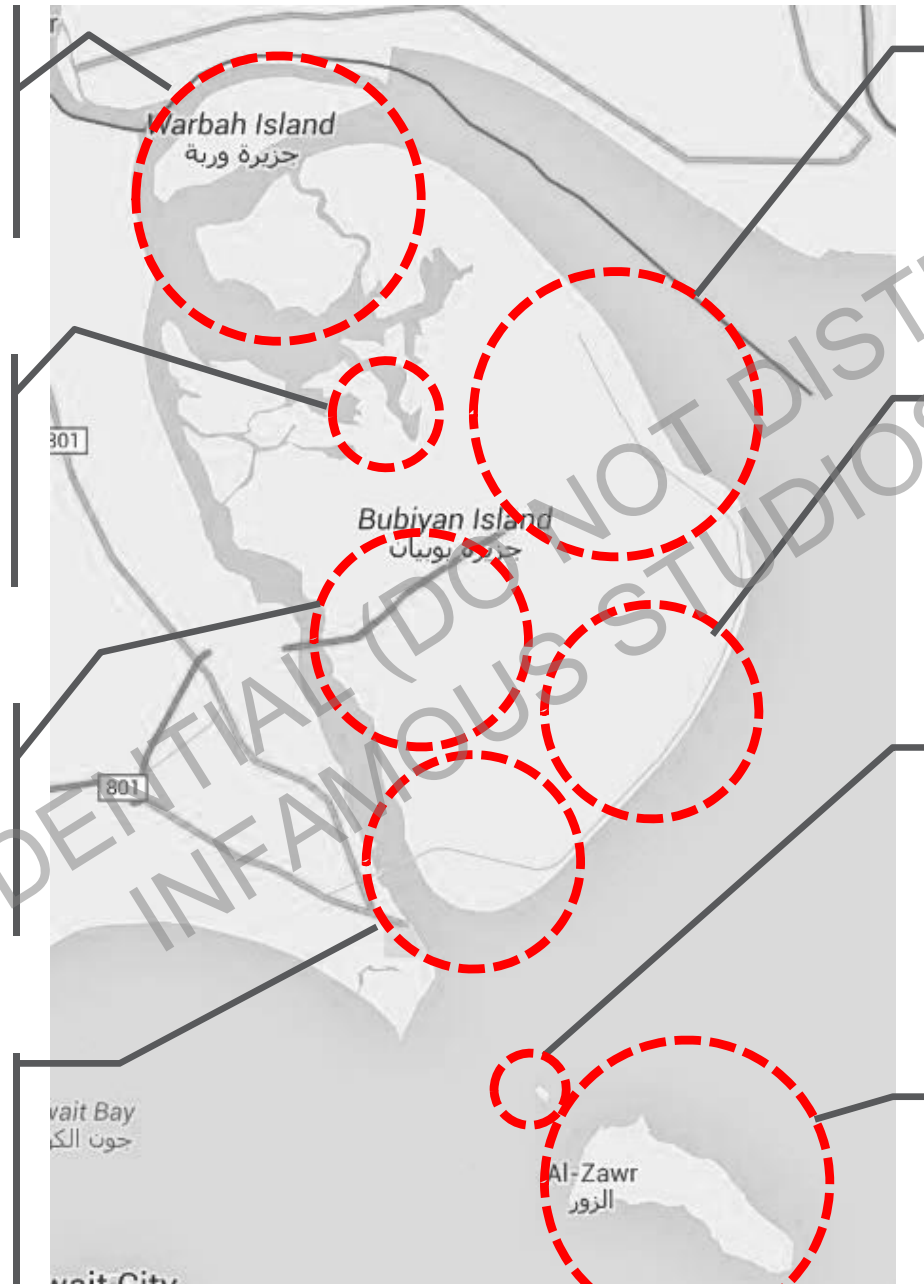
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The different components and elements of the islands

Zone 1

- Warbah Reserve & Eco zone



Zone 5

- Harbour & trade zone

Zone 2

- Waterways zone

Zone 6

- Residential zone

Zone 3

- Business & economy zone

Zone 7

- Miskan security zone

Zone 4

- Entertainment zone

Zone 8

- Cultural & retreat zone

A closer look at the elements & main components (1 of 2)

Zone 1 – Warbah reserve & ecological zone

- Natural marine reserve facing Shaat Al-Arab
- World acclaimed natural reserve for birds
- Improved marine environment
- Recreational accessible zone
- Boutique eco friendly hotel facilities
- Environmental R&D & scientific research

Zone 3 – Business & economy zone

- Business district with commercial buildings
- Central grand commerce and trading area
- Stock exchange buildings and tickers
- Green parks and recreational zones
- Restaurants, malls and parking
- International professionals

Zone 2 – Waterways zone

- Venice like water canals
- Paradise islands shown with exclusive housing
- Delicately preserved area

Zone 4 – Entertainment zone

- Largest theme and recreational park in the region
- Sports city with full supportive facilities
- Select industry clusters (media, creative industry and others)

A closer look at the elements & main components (2 of 2)

Zone 5 – Harbour & trade zone

- Mega port with containers & ships
- Major links shown to neighbouring countries and extended geographies
- Water ferries, taxis and containers ships
- Rail, highway and air links exist
- Airport strip with planes

Zone 7 – Miskan security zone

- Security base including both military and non military personal
- Surveillance forces supported by land, sea and air forces

Zone 6 – Residential zone

- Neighbourhood with residential buildings & houses
- Grand mosque between residential and central Boubyan
- Supportive marina, beaches, best in class medical and educational services

Zone 8 – Cultural & retreat zone

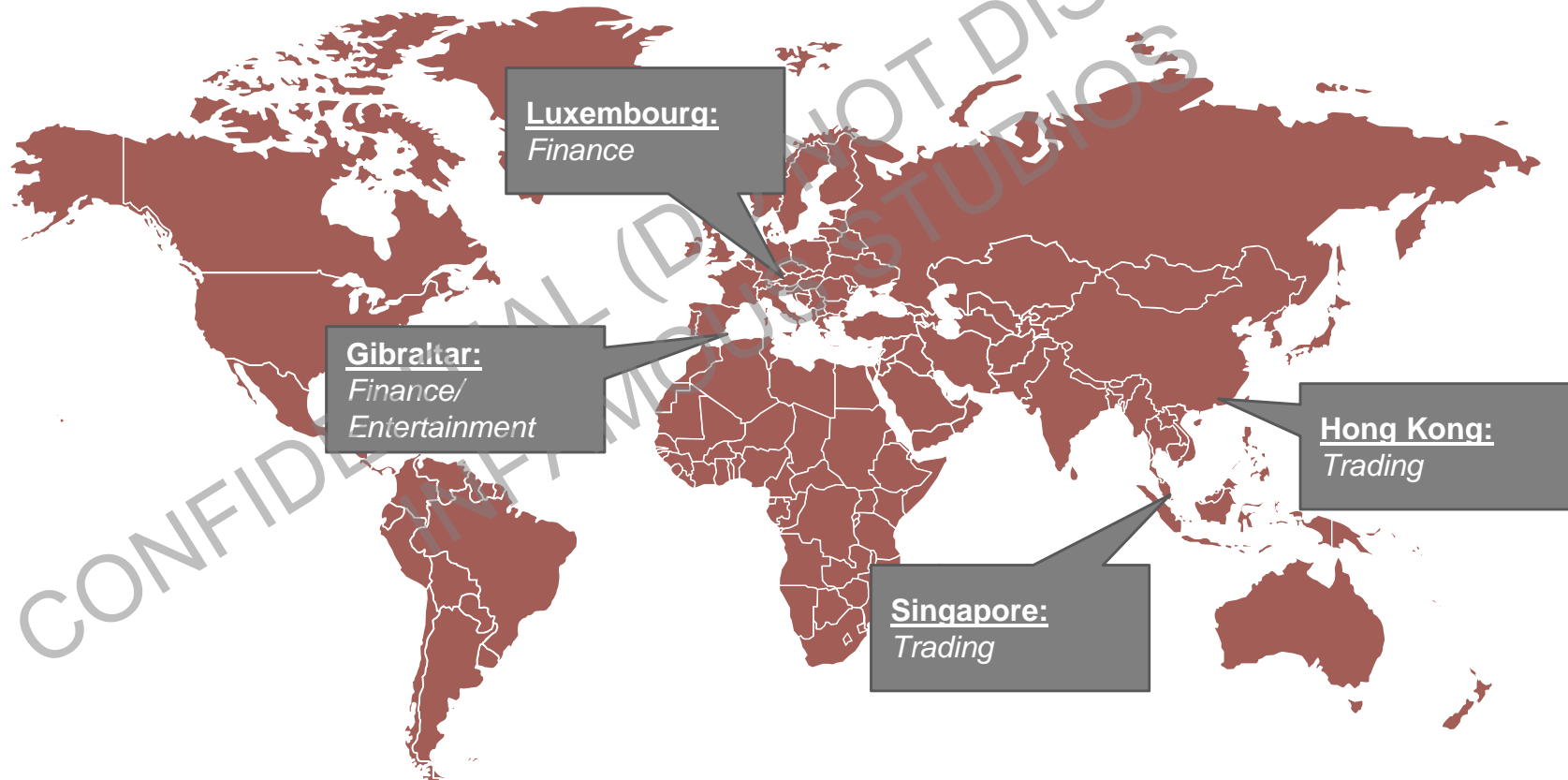
- Celebrated museums and archaeological sites with a landmark amphitheatre to support
- Warba forms a retreat zone with centres for Yoga, revitalization & holistic treatment
- International markets with a central Asian spirit (bazar style)

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The estimated impact of the 5 Islands new free / international zone has been estimated based on comparable international free zones globally

Selected nation states represent successful economies which can be replicated on the 5 islands



These free zones / city-states can have a disproportional economic and social value versus their geographic size

How define value of city states

Importance of FDI

$$= \frac{FDI(City\ State)}{FDI(City\ State + Neighbour)}$$

Relative size

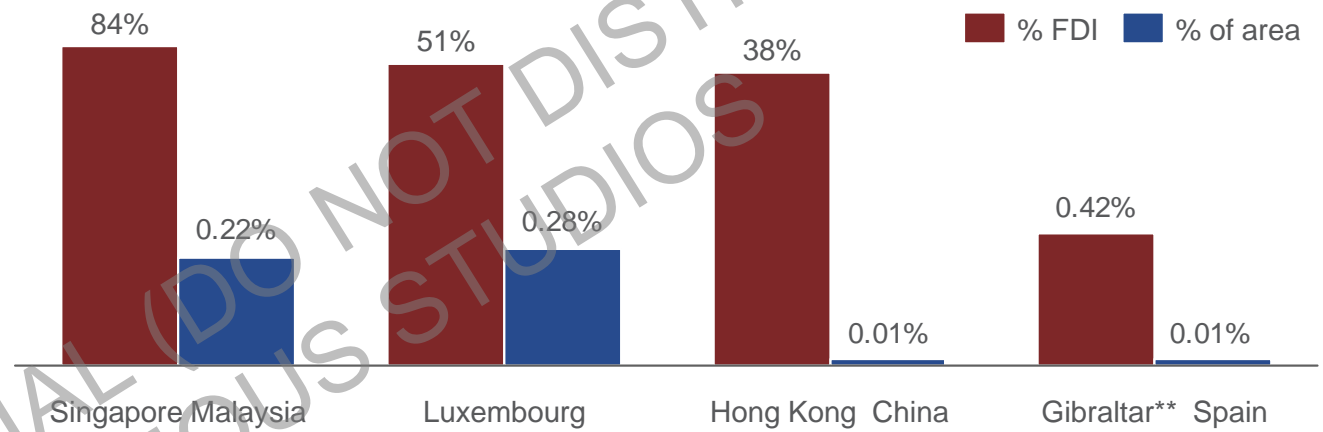
$$= \frac{Size(City\ State)}{Size(City\ State + Neighbour)}$$

Foreign workers

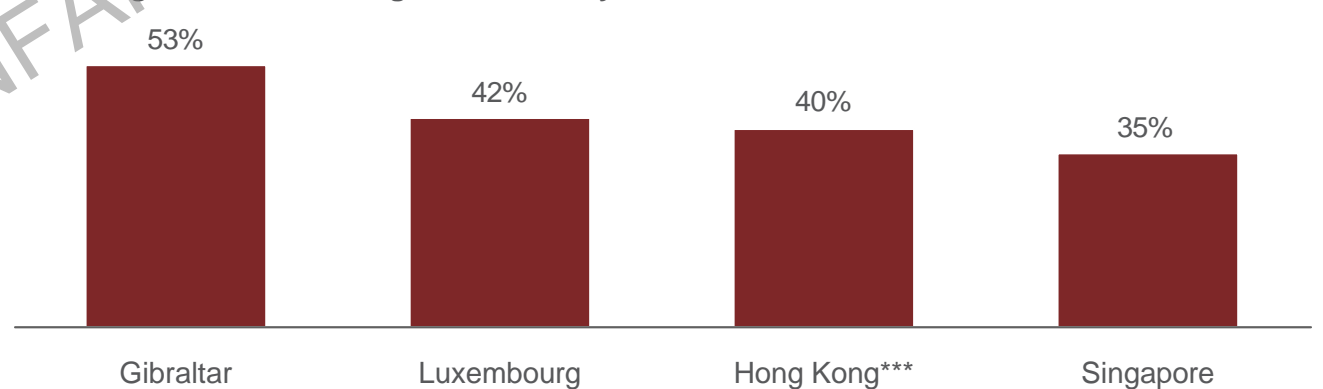
$$= \frac{Expat\ Workers}{Total\ Workers}$$

Impact of city states

City-state FDI and area as % combined FDI and area respectively



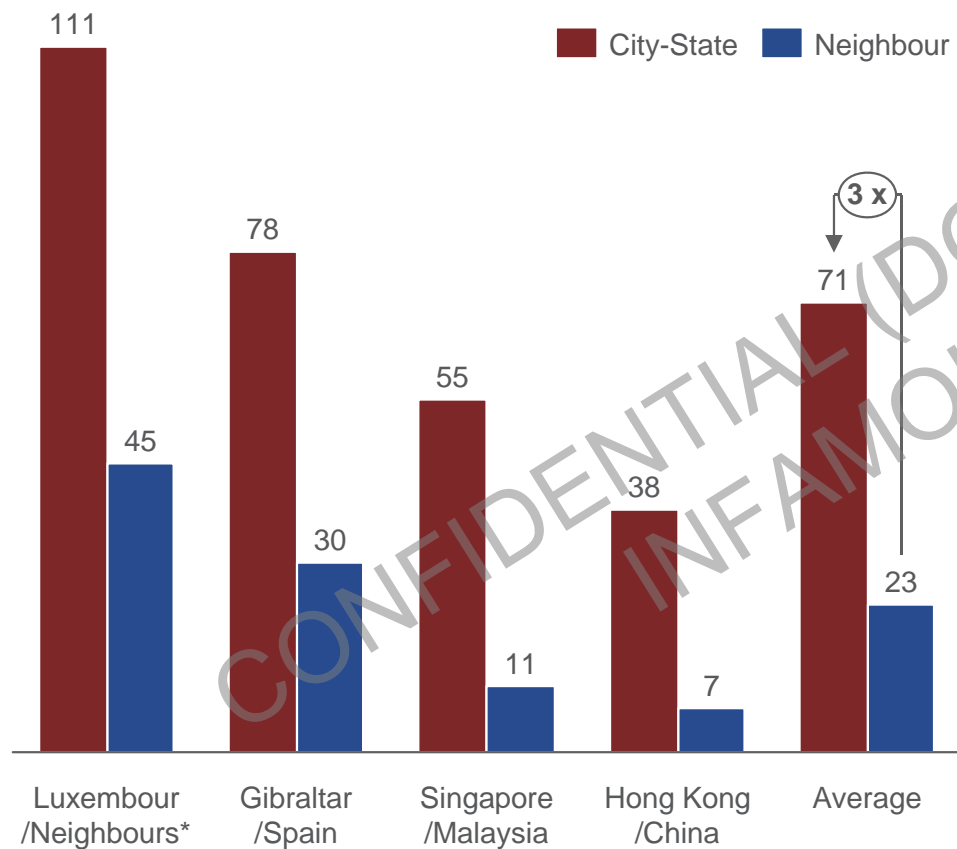
% Foreign workers working within the City-state



Additionally, the community within a free zone / city state has a high better quality of life

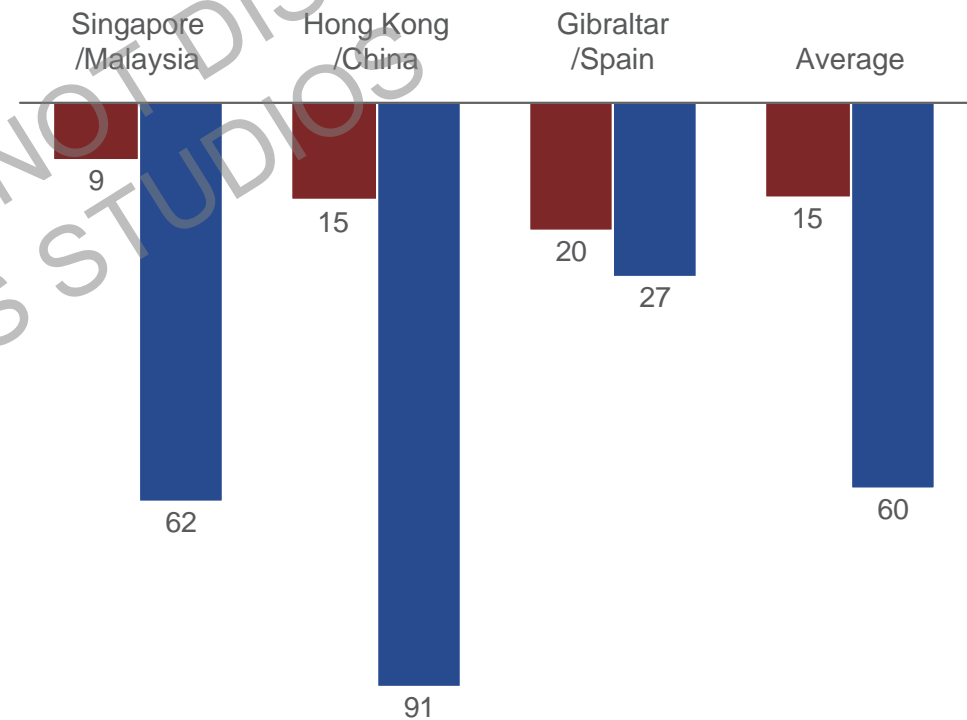
GDP per capita in a City-state is on average three times higher than it's neighbours

GDP per capita (USD '000s)



HDI index of a City-state always ranks in the top twenty

Human Development Index**



* Luxembourg is evaluated against combined FDIs of Germany, France and Belgium; ** HDI ranks 1-best; Source: World Bank, BMI, UN, TICG analysis

A basic initial assessment suggest that these islands can have a major success for both Kuwait onshore & offshore indicators

Islands GDP generated

Approx. USD 35 billion annually



Attracted FDI (foreign direct investment)

Approx. USD 1.5-2 billion annually



Projected trade volume

Approximately 4-5 million TEU & 8-9 million tons of cargo



Projected air traffic

15-20 million passengers annually



Population, growth & employment

400,000 inhabitants growing at 3-4% annually with 90% in private sector



Expected tourism

3-5 million tourists annually constituting 20% of the overall economy



Expected nationality mix

80% expats and 20% Kuwaiti nationals



Estimated resource utilization

90 mcm of desalinated water annually and 4-5 million Kwh of energy from solar sources





Critical next steps

To ensure that the overall islands project will succeed a robust assessment needs to be done at the economic, social and conceptual levels

Key next steps

Description of key activities

1

Qualify and quantify the opportunity



- Articulate clearly the concept (e.g. free zone, access) compared to peers
- Define clearly the unique value proposition focus (e.g. financial, trading, logistics, entertainment) versus peers
- Estimate opportunity size (economic, fiscal and social)
- Prepare preliminary land use and investment requirements

2

Develop the conceptual master-plan



- Prepare preliminary conceptual master plan showing the various activities within the zones
- Prepare illustrations and bird eye's views to explain the overall relationship and style of the project components

3

Assess potential risks and mitigations



- Assessment of the land (environmental and topographical)
- Infrastructure requirements and availability
- Outline legal requirements to deliver the concept and implications
- Assess public opinion and investor sentiment

4

Prepare charter for submission



- Develop KDP project charter for the new Islands project
- Integrate with remaining and existing projects

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The Five Islands of Kuwait a National Vision

BACK UP Material

August, 2015

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With current expenditure there will be an imminent deficit and risk of depletion of the general reserve



Estimated year of budget deficit based on different oil prices (USD / barrel)

Growth of expenditure (%)	40	45	60	70	80
7%	2015	2015	2015	2015	2019
5%	2015	2015	2015	2015	2021
2%	2015	2015	2015	2017	>2050
0%	2015	2015	2015	>2050	>2050

Estimated year of depletion of the General Reserve based on different oil prices (USD / barrel)

Growth of expenditure (%)	40	45	60	70	80
7%	2020	2021	2021	2023	2027
5%	2021	2022	2023	2025	2031
2%	2023	2025	2028	2038	>2050
0%	2029	>2050	>2050	>2050	>2050

Source: Kuwait Development Plan 2013/2014, Quarterly Follow-up Reports, Kuwait Times

1. Assumes the continued growth of public spending at 7% p.a. and the growth of non-oil revenues at 5.5% p.a. and oil production by 3MM barrels / day; oil production growth is at 2% annually over the next period, note growth in public spending over the last three years has been 9.4%; 2. Investments are up to 31/-Dec-14 and have been pro-rated for full year

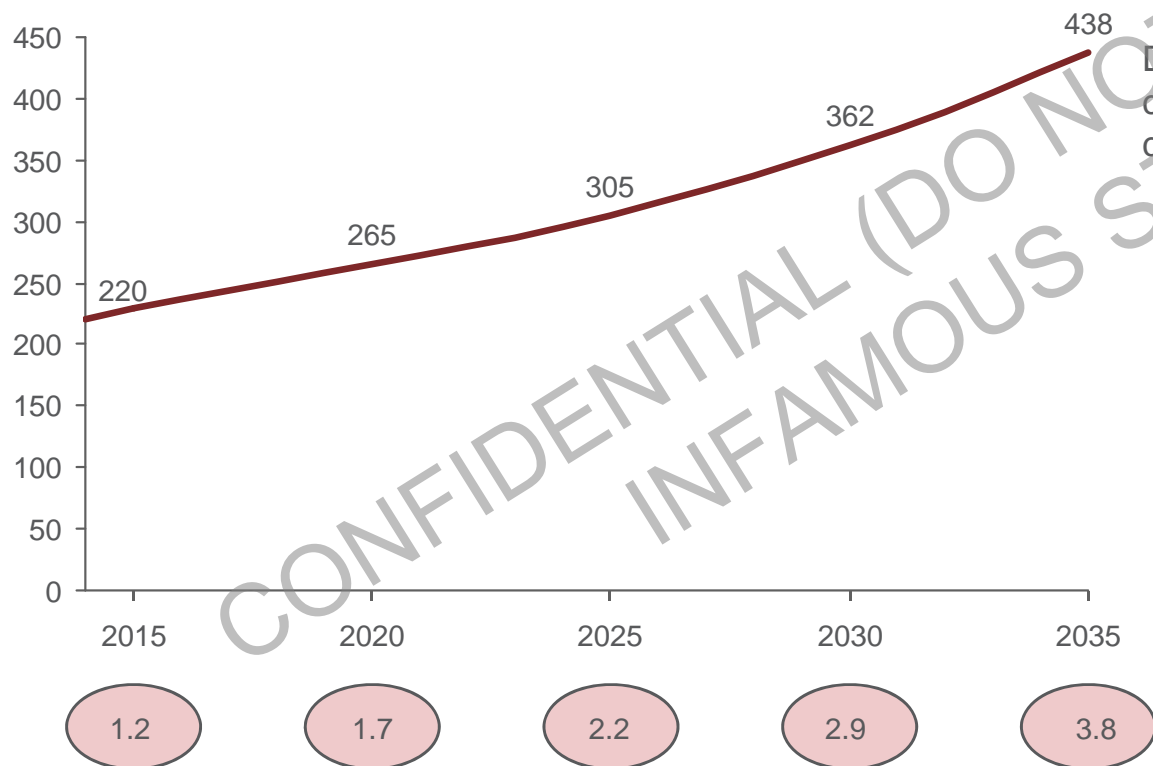
Without reform in healthcare, the social crisis with worsen



Key healthcare metrics based on status quo

Projected growth of diabetes related deaths and chronic complications

In '000s



2035 outcome

3.8K

diabetes-related deaths in 2035

Comments

- Strain on healthcare as diabetes prevalence spreads across population
- Increasing diabetes causes higher costs: USD 3.3Bn diabetes-related spending by 2035

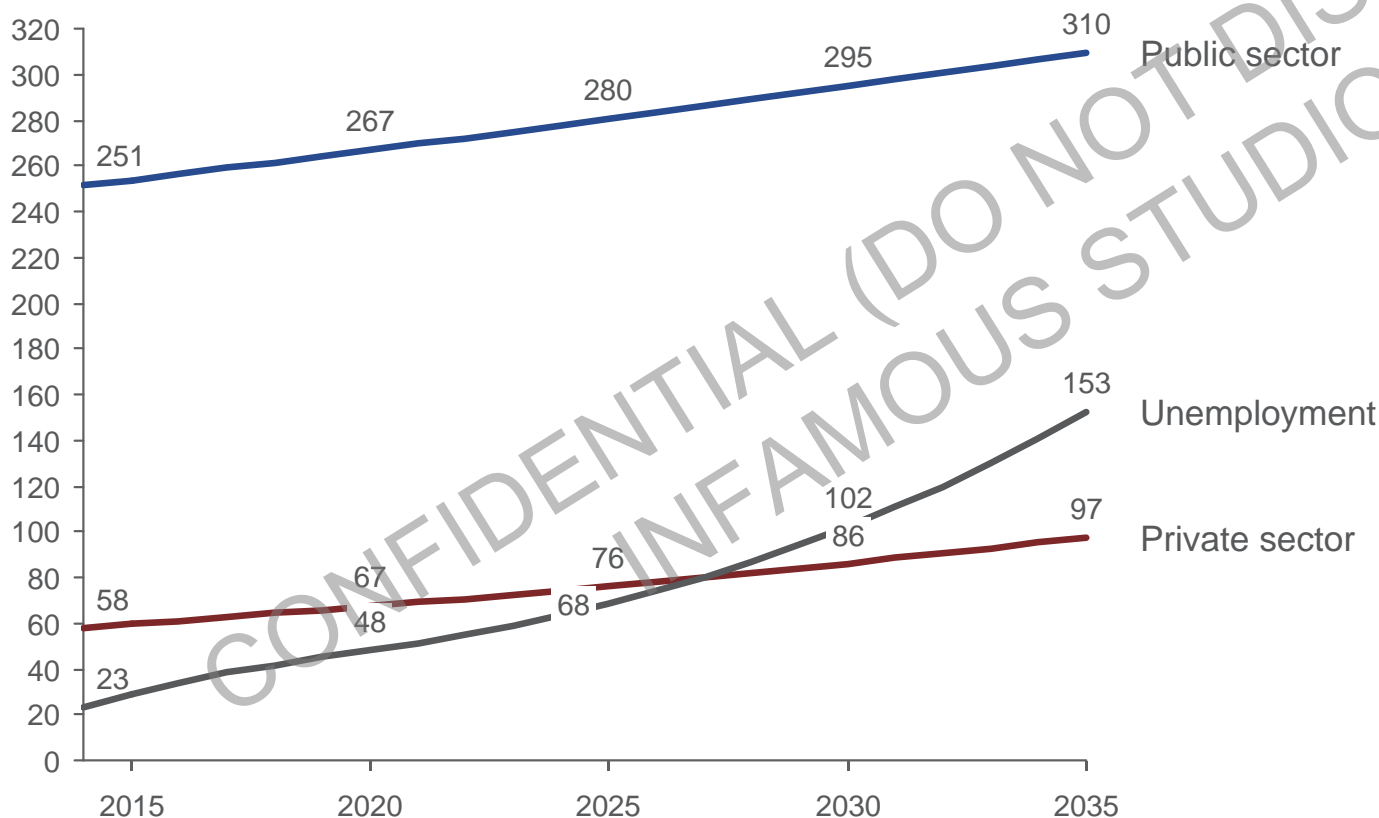
Notes: Assumed growth of diabetes prevalence rate as per growth in 2013-2014 and assumed small portion of undiagnosed cases being diagnosed in the future (0.5% up to 2025 and 1% up to 2035). Assumes mortality rate to grow based on growth 2011-2014 and chronic complication rates for diabetics to continue at historic levels (52%)
 Source: World Bank, IDF, HQLO, TICG Analysis

Similarly unemployment will rise unless public or private sector job creation increases dramatically



Key employment metrics based on status quo

Projected growth of unemployment and public and private sector employment **2035 outcome** In '000s



27%

of labor force unemployed

Comments

- Growing public sector employment to absorb new workers not sustainable
- Rise in unemployment levels if non-oil growth levels remain constant

Notes: Covers all types of unemployment (<6 months, 6-11 months, >12 months). Assumes employment in the government sector to grow with 1% per year, steady growth of employment in the private sector, based on last 4 years (average ~2%) and overall labour force to grow at same pace as work force (population between 15-65)
Source: World Bank, Central Statistical Bureau of Kuwait, TICG Analysis

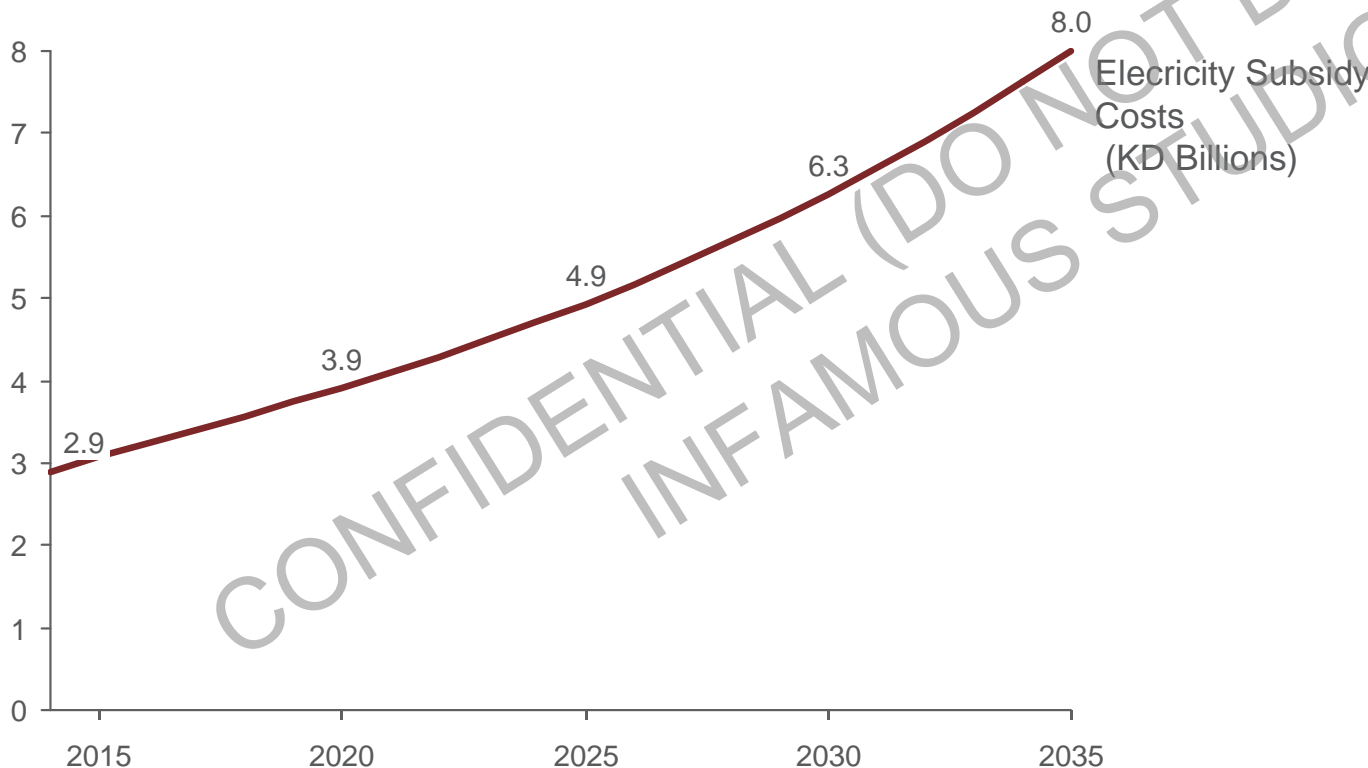
Without energy subsidy reforms there will be a dramatic rise in costs of energy subsidies



Key electricity consumption metrics based on status quo

Projected growth in government spending on electricity subsidies

In KD Billions



2035 outcome

8Bn

paid in electricity subsidies in 2035

Comments

- Rise in costs of electricity production is assumed to slow down after 15% per year average 2005-2011
- Market prices for electricity are assumed to rise from 2 fils per kWh to 5 fils per kWh in 2035 to allow for limited subsidy reforms

Notes: Assumed growth of electricity production costs set at a conservative 3%, compared to 15% average annual growth (2005-2011). Market price for electricity assumed to grow at 10% per year, to account for any partial reforms on subsidies that would raise the price. The growth rate of electric power consumption per capita is set at 0% compared to -0.62% average over period 2005-2013

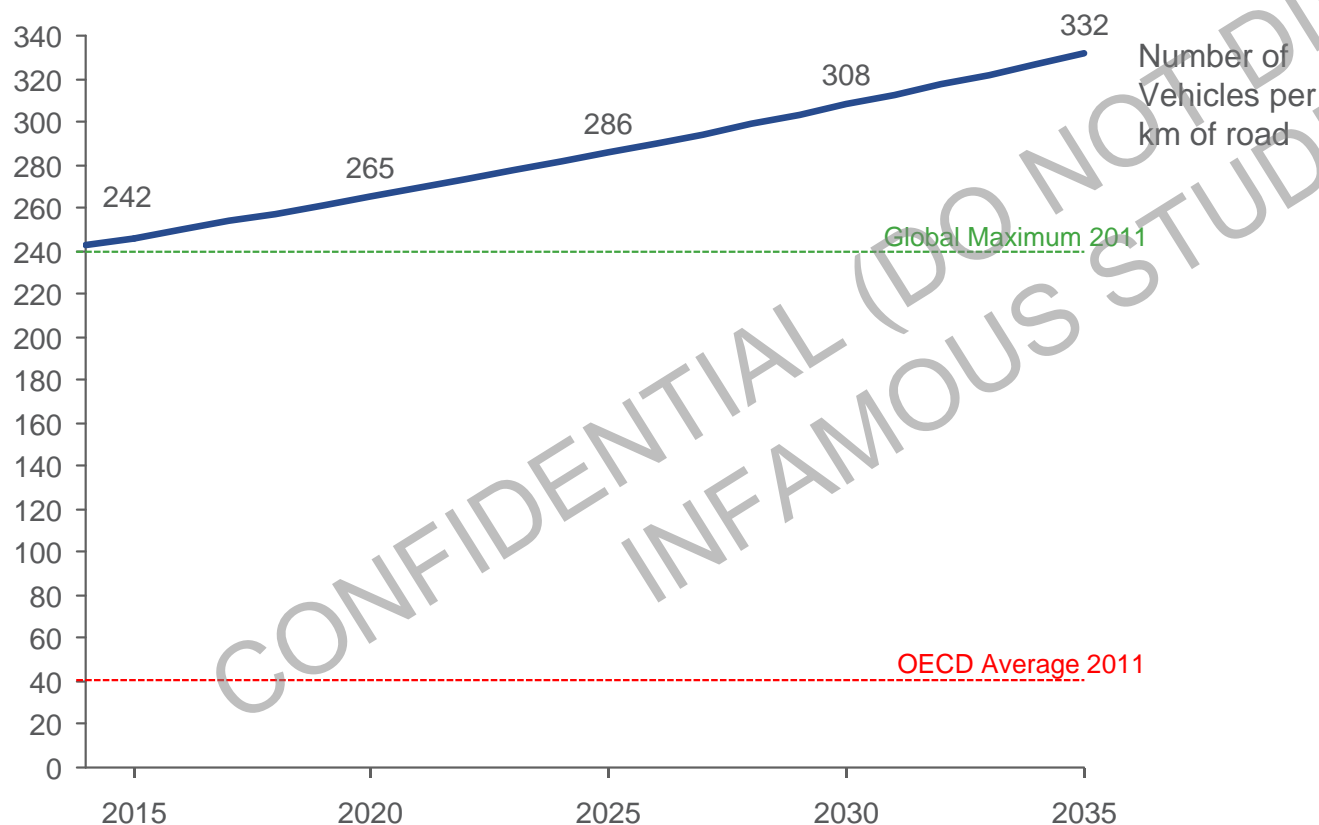
Source: World Bank, Oxford Institute for Energy Studies, and TICG Analysis

Current trends point to sharp rise in congestion in the nation's land, sea and air networks



Key infrastructure usage metrics based on status quo

Projected motor vehicle density per network length (vehicles/ km of road) 2015-2035



2035 outcome

37%

Increase in congestion on roads

Comments

- Post-2014 annual growth rate of number of vehicles is assumed to be half of the average annual growth rate experienced 2003-2014

Notes: The assumed growth rate for Kuwait's road network (km's of road) is set at the average actual growth rate 2004-2013 (2.7%). The assumed growth rate for the number of vehicles is taken as the average of (1) the average actual growth rate 2004-2013 (5.9%) and (2) the projected average growth rate of Kuwait's population until 2035 (2.64%).

Source: World Bank, Central Statistical Bureau of Kuwait, TICG Analysis

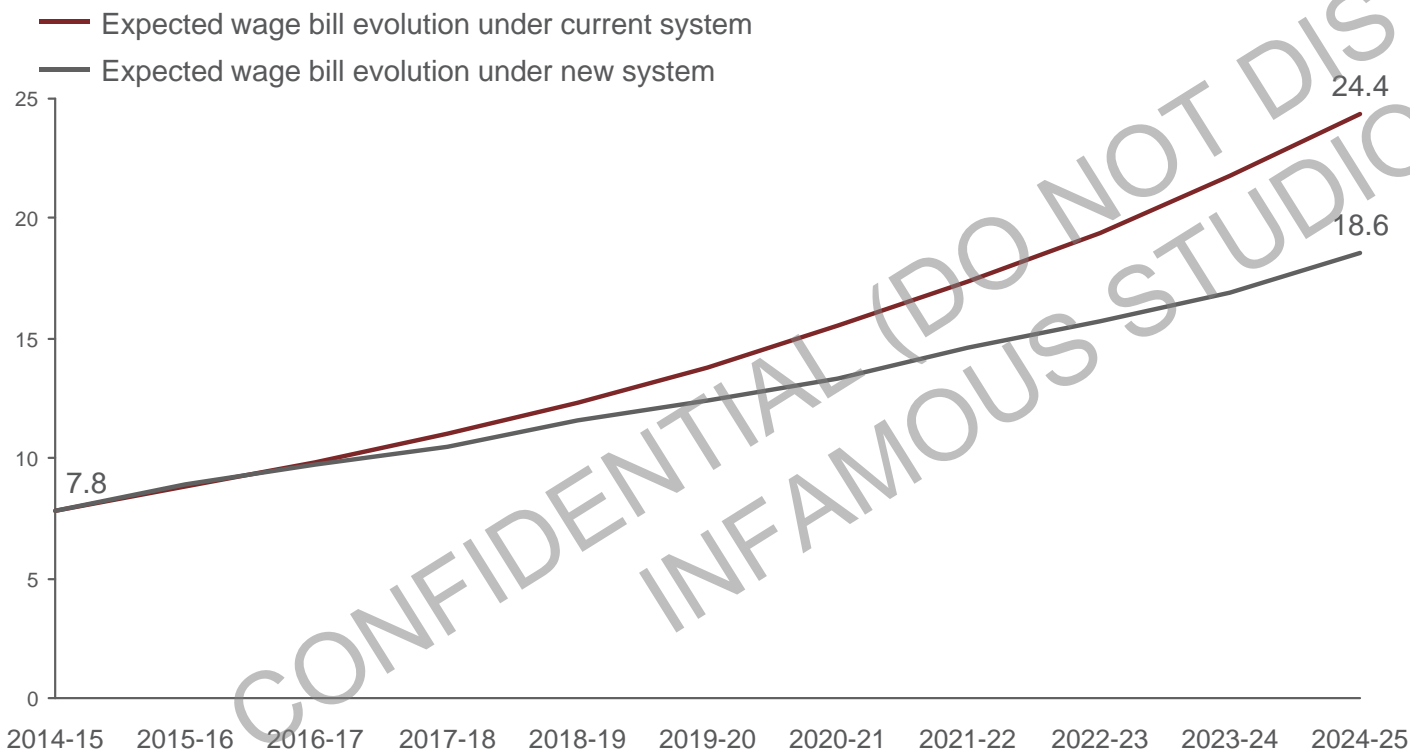
If the current public sector wage bill grows at the historic rate, it will reach KD 24Bn, more than three times the current bill, by 2025



Key public sector metrics based on status quo

Projected growth of public sector wage bill

In KD Bn



2025 outcome

24 Bn

Public sector wage bill in 2025

Comments

- Assumes wage bill grows at historic rates
- Includes promotions, wage increases and increase in number of employees

Non-oil private economic development needs to be supported to pick up some of this burden through diversification, increasing competitiveness and lowering barriers to entry

Notes: Assumes annual growth rate is the CAGR from 1990-2014 by employee type; includes promotions, wage increases and increase in number of employees
 Source: Ministry of Finance wage bill historic data, TICG Analysis

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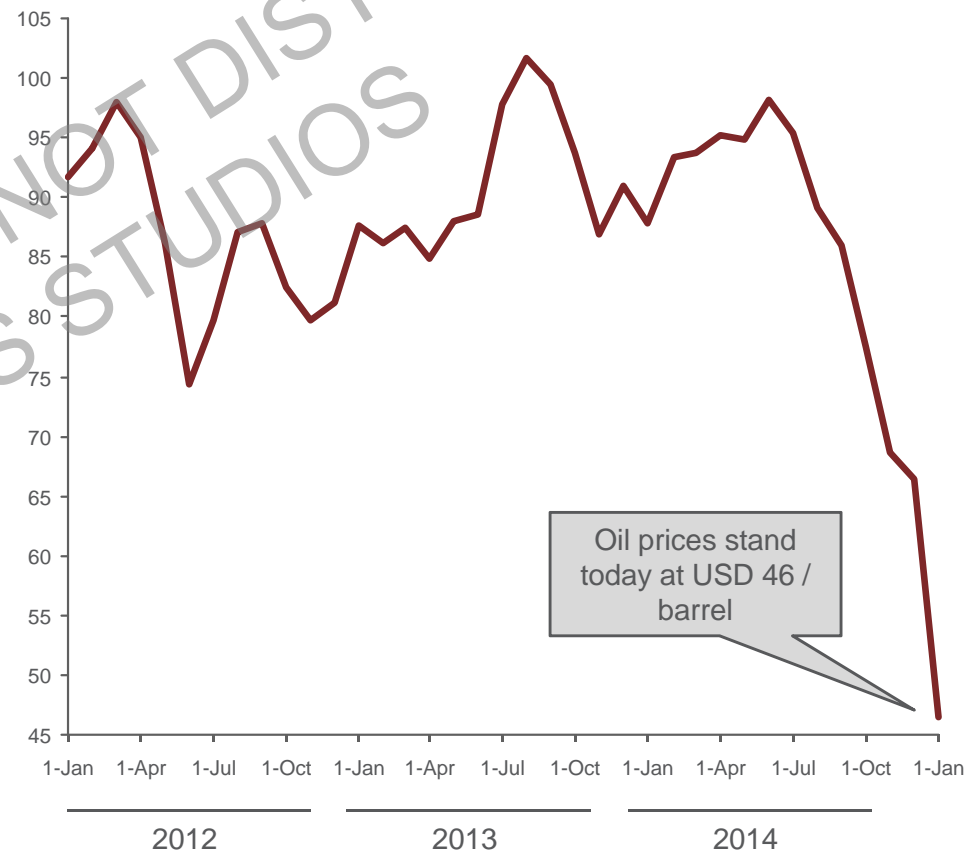
Unpredictable oil revenues

Contracting oil revenues and Kuwait's high dependency on it is putting a major pressure point on public spending and budgets



- Uncertainty in oil prices
 - Will continue to be a e source of energy
 - Volatility is expected to maintain
 - Limited possibility of regaining old price
- Insecurity about expansion in oil capacity
 - No progress on planned expansion
 - Todays capacity at 2.9-3MM barrels per day
 - Planned capacity 4MM barrels per day
- Falling production per capita
 - 2014 stood at 750 barrels p.a. per capita
 - In 2035 will fall to 360-550 barrels p.a. per capita
 - Reflect reduction of wealth per citizen

Nominal oil prices
2012-2015



Source: OPEC Stat, EIA, TICG analysis

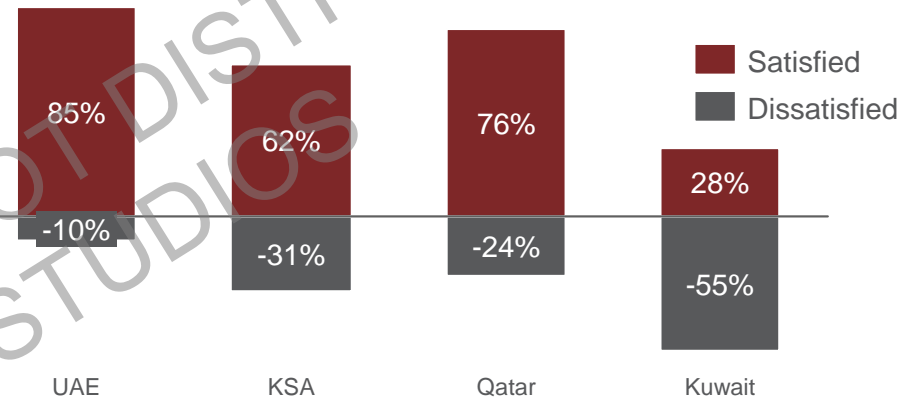
Governance & administrative issues

Kuwait lacks the ability to deliver due to internal governance issues, misalignment between different parties and no accountability

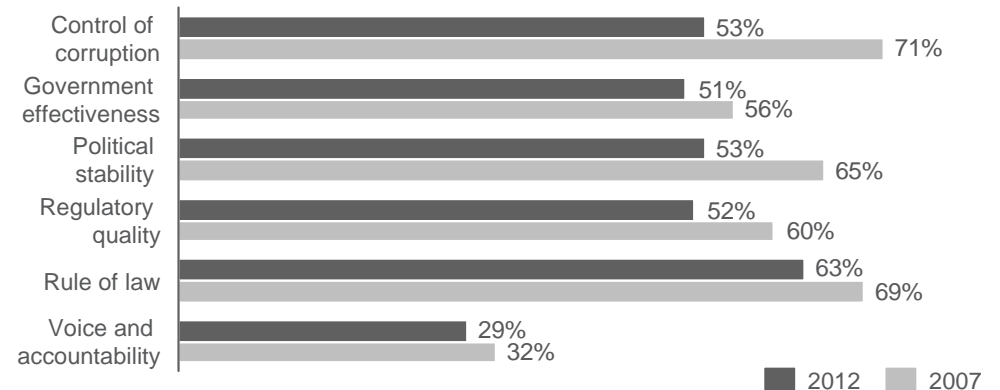


- Challenge not new
 - Historically identified multiple issues but no concrete action to resolve them
 - Actions plans developed but lacked delivery mechanisms
 - Overall system transparency increased corruption
 - Vested interests and “veto players” are hampering overall reform
- Suspected drivers are many
 - Kuwait’s democratic systems is not well balanced between benefits and responsibilities
 - Public officials don’t take ownership or are held accountable for results
 - Social contract current in place has multiple shortcomings
 - Weakness of overall administration driven by organization, procedures and resource allocation issues

How satisfied are you with your government’s response to economic challenges in your country?



Governance indicators (percentile rank)



Source: Zogby/OW 9th GCC Business Confidence And Government Reform Survey Jan 2014, TICG analysis



Public employment growth

A population whose 80% of the national workforce is employed by government in a quickly changing environment is not sustainable

- High public sector employment
 - Top employer of nationals
 - Wage bill growing at 15-18% annually
- High salaries with a growing trend
 - Salaries increasing on average 12% annually driven by allowances and cadres
 - High level of transfers in the form of early pensions, welfare payments and subsidies are also triggering tremendous growth and are part of the overarching Kuwaiti social contract
- High risk on government budget
 - Workforce will double by 2035
 - Oil production is expected to increase by 50% by 2035
 - Avoiding political chaos strife would become the number one priority in case of deficit



Source: TICG Analysis

Dwindling private sector engagement

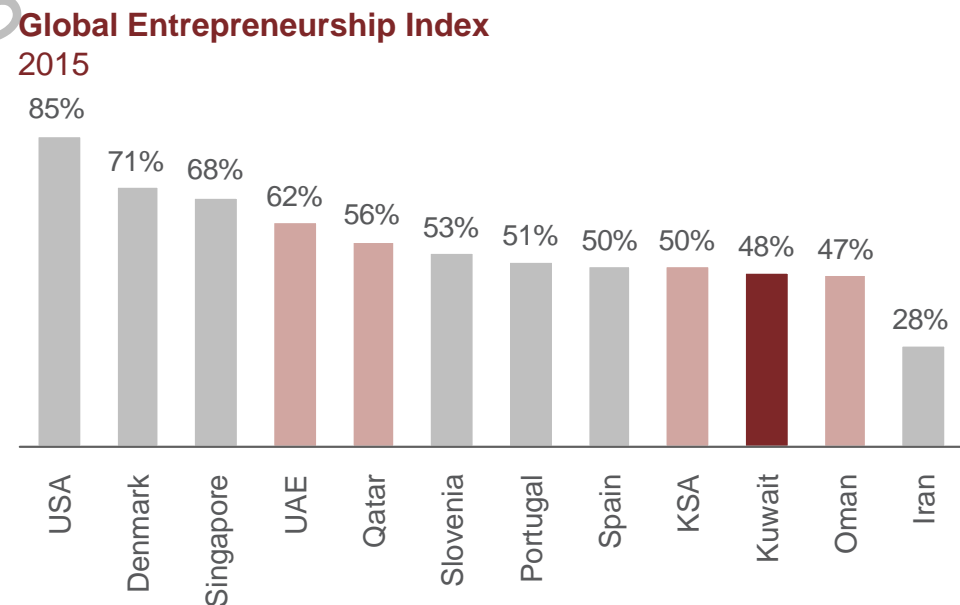
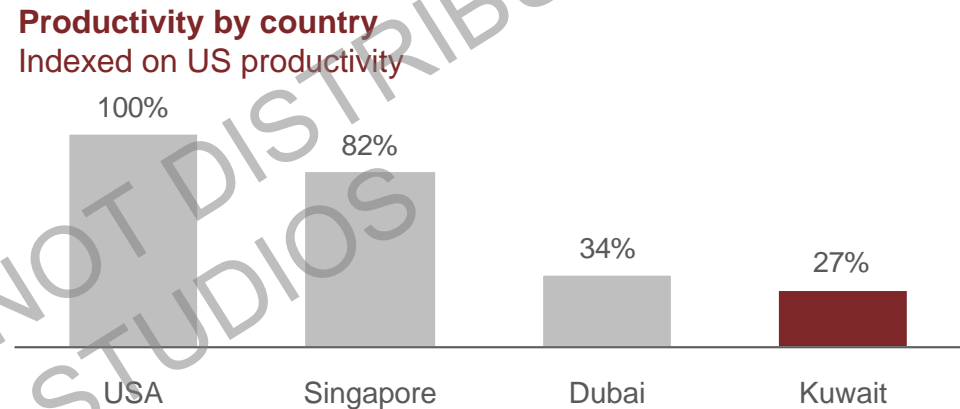
Slowing down of the entrepreneurial spirit in the private sector is increasing the risk of a highly oil-dependent and un-diversified economy



- Diversification
 - Non oil diversification not achieved
 - Non oil revenues constitute >80% of government budget

- Ease of doing business
 - Kuwait ranks 86th in global doing business
 - Kuwait ranks 150th in starting a business
 - Kuwait ranks 130th in enforcing contracts
 - Environment not conducive for private sector

- Foreign ownership & investment
 - Still restricted, although liberal on paper
 - Lacks implementation and enforcement mechanism



Source: OPEC Stat, EIA , GEDI, TICG analysis

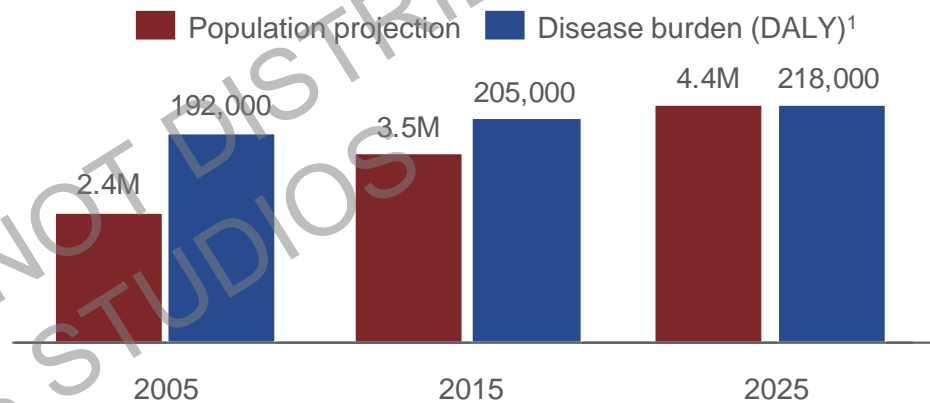
Slumping population health indicators

Kuwait health indicators are plummeting and may be the biggest risk for the nation's overall future economic & social development

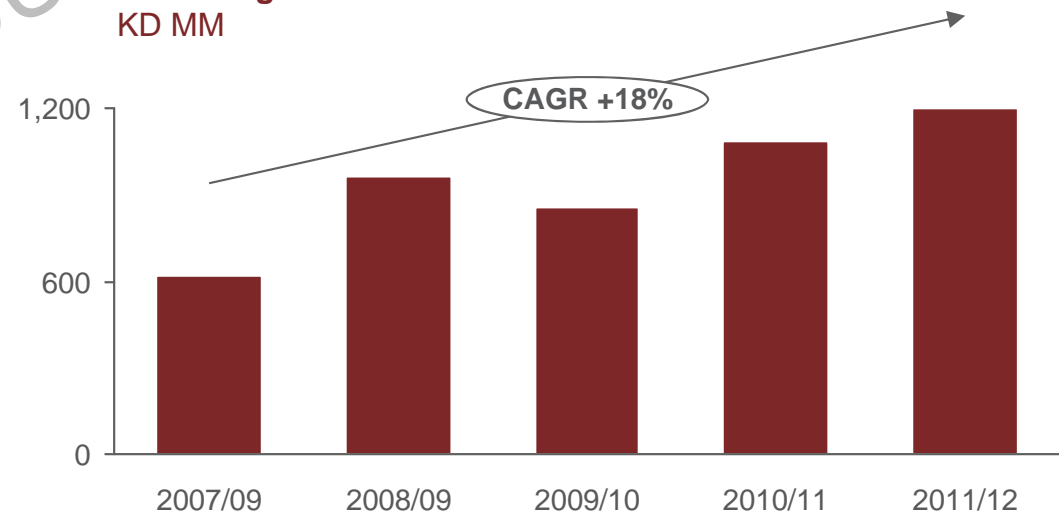


- Skyrocketing diabetes prevalence
 - Prevalence rate is expected to be between 18-25%
 - Expected to grow by 30% over the next 2 decades
- Significant increase in hypertension & cardiovascular disease
 - 38.4% of the population show raised blood pressure
 - Driven by bad diet and limited exercise
- Epidemic rate of comorbidity
 - BMI indicators over 30 is at 42.8%
 - BMI of overweight covers 79.3% of the population

Disease burden and population growth



MoH budget KD MM



Note 1: DALY= disability-adjusted life years according to BMI

Source: WHO, UNICEF, ESCWA, Kuwait stats, TIMSS, UNDP Development Indicator , American Diabetes association, TICG analysis

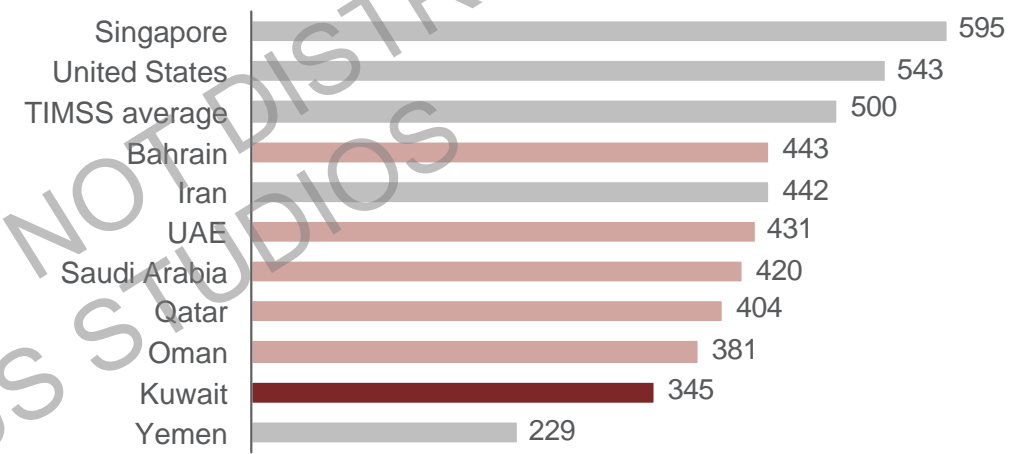


Sub-par education offerings

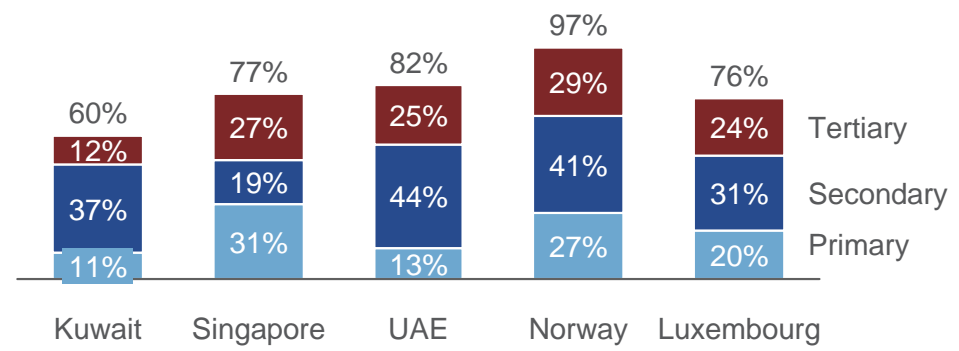
Kuwait educational performance is preventing the true economic potential of the nation from being realised

- Falling basic standards
 - TIMSS¹ scores 1995 and 2007 shows no significant improvement
 - Average scores fall in the last quartile compared to global averages
- Weak outlook
 - Low university enrolment rate in Kuwait (27% as opposed to 84% in Korea)
 - Labour market structure does not provide incentives for most Kuwaitis to pursue a higher education.

TIMSS scoring
2011, Average of 4th grade maths and science scores



Population by educational status²



Note 1: Trends in International Mathematics and Science Study

Note 2: Latest available data used: Kuwait 2005, Singapore 2013, UAE 2009, Norway 2012, Luxembourg 2011

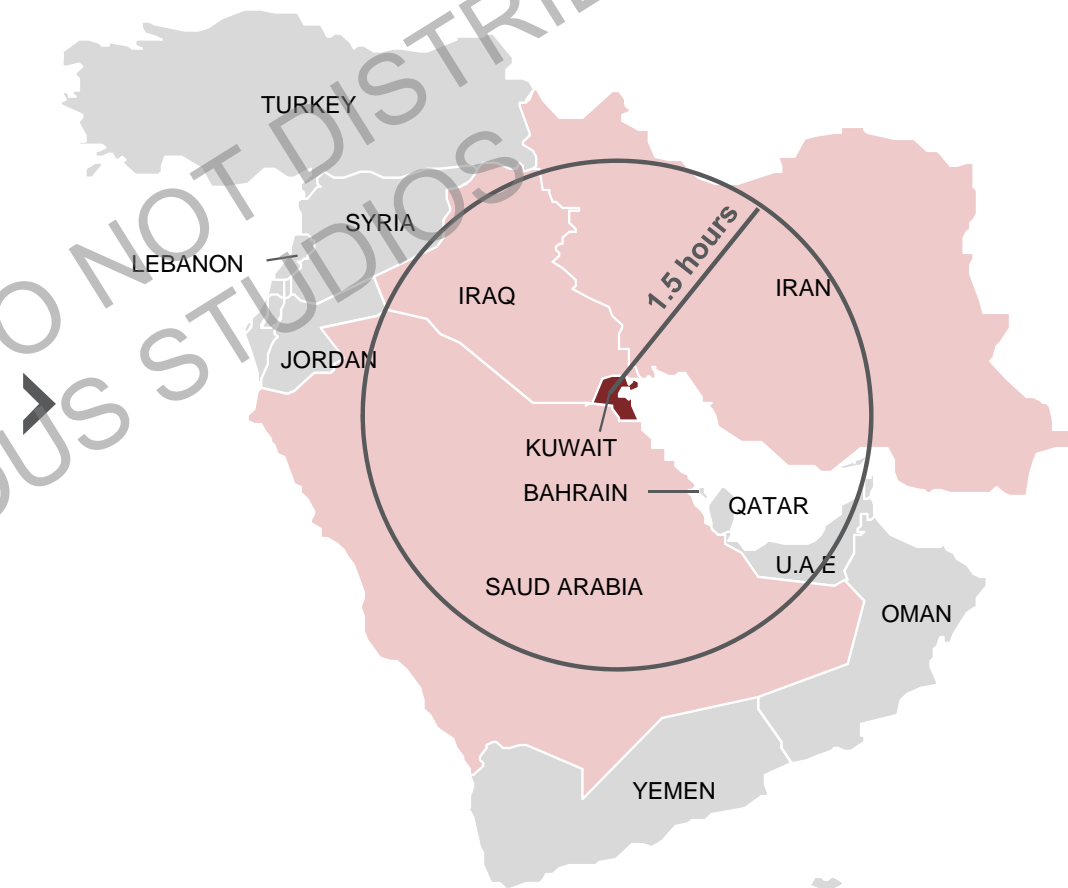
Source: IEA, TICG analysis, BMI

Regional & global challenges

Kuwait is in a midst of regional and global storm, with quickly changing geo-political borders and economic powers which may present a better positioning opportunity



- Regional & global changes
 - Turbulent Levant region
 - Growing Islamic state in Syria
 - Unrest in Yemen & Libya
 - Power struggle between Russian, USA, China & Iran
- Biggest opportunity with neighbours
 - Constraints on neighbours opens an opportunity for Kuwait
 - Collective population within 1.5 hours of flight equivalent to ~ 150 million
- Best positioned to maneuverer
 - Historic peace-making role
 - Diplomatic ties not severed
 - Historical and cultural ties with Iraq, Iran & Saudi Arabia position Kuwait well



Source: TICG Analysis

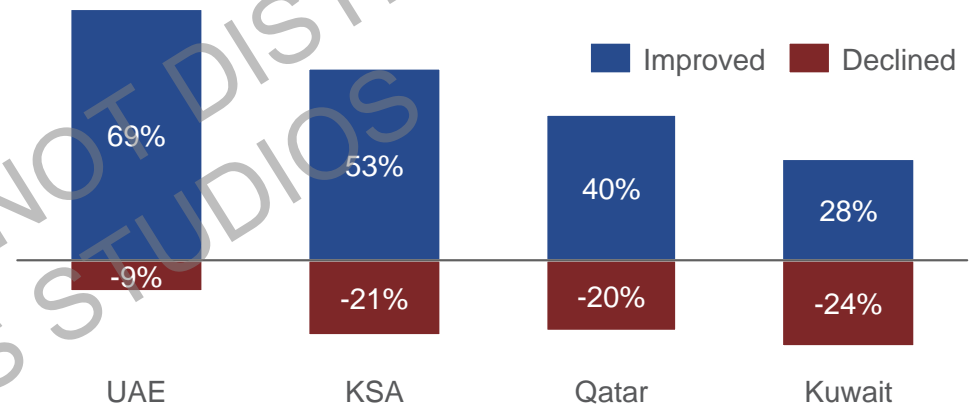
Overarching perception challenge

Kuwait suffers from an internal & external perception challenge that has limited its ability to compete on the international scene

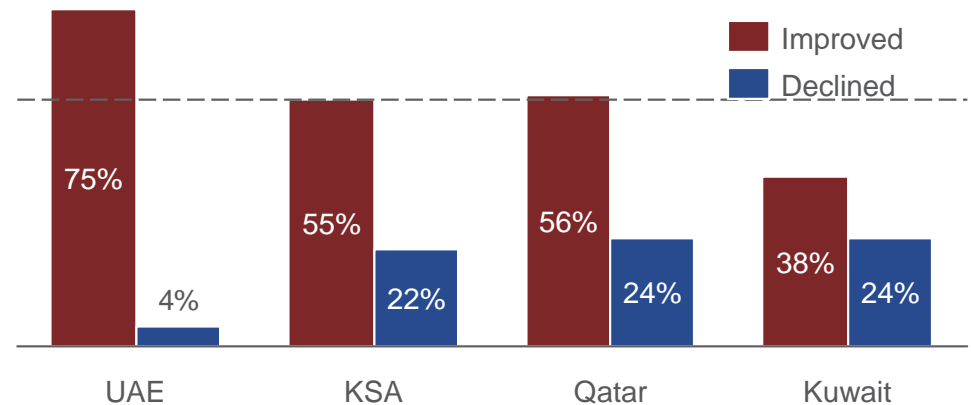


- Perception challenge persistent
 - Seen as detrimental to Kuwait
 - Lead to being marginalized by companies, institutions, business men and others
 - This perception, if sustained, negative impact on the nation will only be multiplied

How has business confidence in government institutions changed over the last year? (2014)



What is your view of the current business conditions in your country versus what they were a year ago?

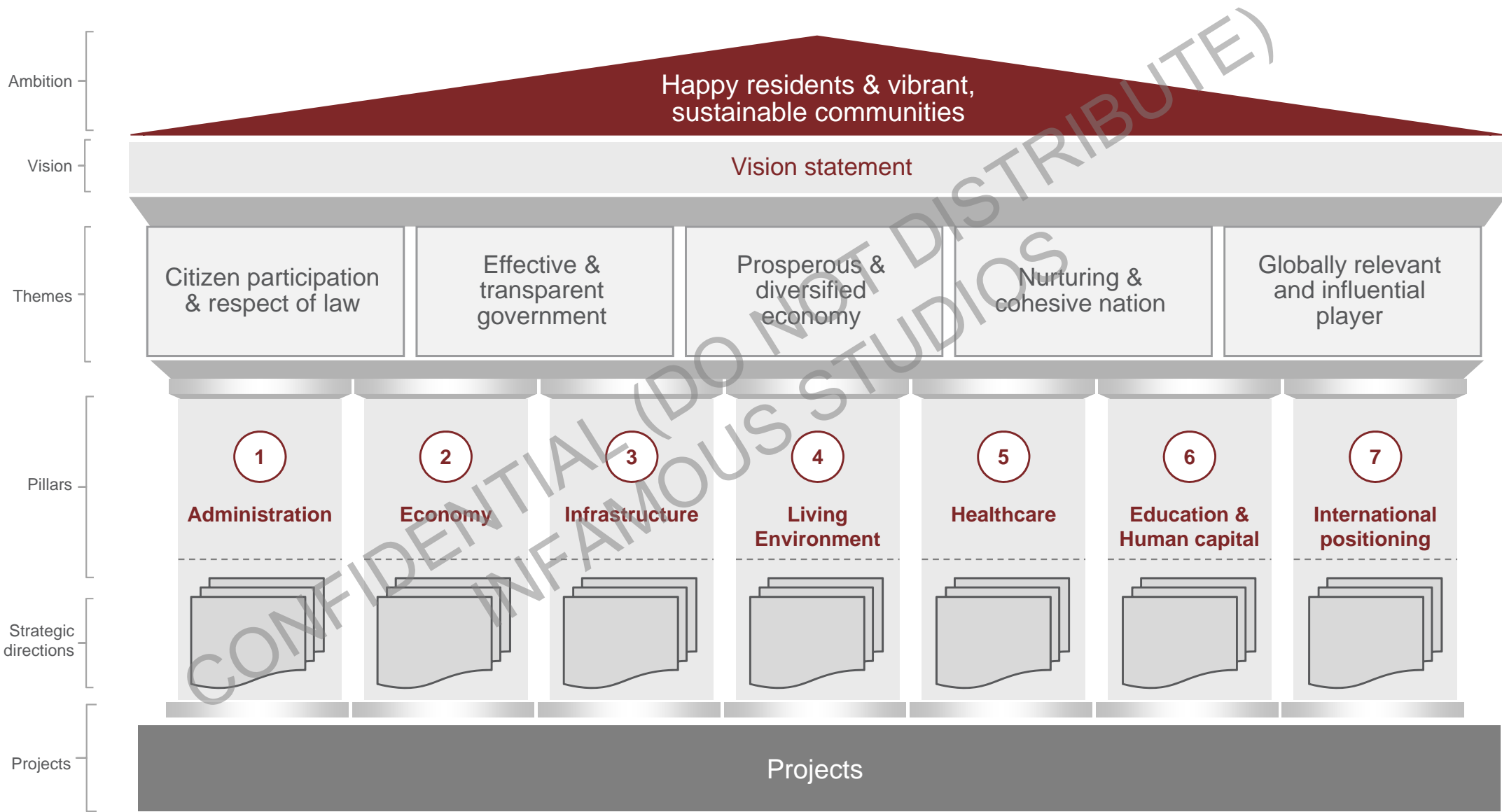


“While others in the Gulf have powered ahead, attracting foreign investment and developing infrastructure, Kuwait has stagnated, frustrating the people of a country once seen as a Middle East trailblazer.” ~ Reuters 2014



Source: Press search, Zogby/OW 9th GCC Business Confidence And Government Reform Survey Jan 2014, TICG analysis

The vision for Kuwait 2035 project will be developed across a scheme composed of multiple layers



Kuwait's overarching ambition is what the nation's leadership will seek to achieve in the future

Happy residents & vibrant, sustainable communities

People are at the core of the Vision 2035, they come first



The supportive environment they live in is equally important



Today’s adopted vision has been positioned to align with a set of themes that help better define the implications

Kuwait’s Vision

“Transforming Kuwait into a financial and trade centre, attractive to investors, where the private sector leads the economy, creating competition and promoting production efficiency, under the umbrella of enabling government institutions, which accentuates values, safeguards social identify, and achieve human resource development as well as balanced development, providing adequate infrastructure, advanced legislation and inspiring business environment.”

Alignment to the 5 themes

- Prosperous & diversified economy** - Developing a prosperous & diversified economy through ensuring growth in the economy other than from oil production and developing a strong presence in a variety of industries

- Effective & transparent government** - Creating a transparent government through improving fairness and responsibility in policymaking, formalizing rules and regulations and the proper implementation of formulated policies

- Citizen participation & respect of the law** - Creating a respected rule of law through controlling corruption, building confidence in and respect of rules of society and improving citizen participation in government

- Nurturing & cohesive nation** - Developing a nurturing & cohesive nation through providing high quality healthcare and education and ensuring the economy, infrastructure provides a good quality of life for residents

- Globally relevant and influential player** - Acting as a globally relevant and effective partner through maintaining strong political, economical, trade and diplomatic influence internationally

Source: TICG Analysis

The 'five' top themes have a 20 year time frame and are measured by a set of indicators over that period

	Description	Indicator
1	Citizen participation & respect of the law	Citizen participation and respect of rule of law index
	<ul style="list-style-type: none"> • Control of corruption • Confidence in and respect of rules of society • Citizen participation in government 	Source: World Bank
2	Effective & transparent govt.	Government effectiveness index
	<ul style="list-style-type: none"> • Fairness and responsibility in policymaking • Formalized rules and regulations • Proper implementation of formulated policies 	Source: World Bank
3	Prosperous & diversified economy	GDP without oil and government spending per capita
	<ul style="list-style-type: none"> • Ensuring growth in the economy other than from oil production • Developing a strong presence in a variety of industries 	Source: World Bank
4	Nurturing & cohesive society	Human development index
	<ul style="list-style-type: none"> • Providing high quality healthcare and education for all residents, at a sustainable cost to the government • Ensuring the economy, infrastructure and habitat provide good quality of life for residents 	Source: UNDP
5	Globally relevant & influential player	Global influence index
	<ul style="list-style-type: none"> • Maintaining strong political and diplomatic influence internationally • Developing significant economic influence internationally, through investment abroad 	Source: TICG / OW Index

Back Up – Content

1	Kuwait today & the need for change
2	The Emir's vision & the launch of the islands
3	The uniqueness of the islands & overall context
4	The components & elements of the islands
5	The impact it will achieve on & off shore

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Features of the development

Expected output of the islands project (1/2)

Free Zone

- The five islands of Kuwait will constitute an international free zone with its own laws,
- New regulations and policies will help it escape from the inefficiencies and bureaucracy of the mainland.

Independent Governance Structure

- The new regulatory environment will facilitate trade flows and will elevate the pressure of corruption.
- It will have an independent governance structure.
- This setup would guarantee optimal investment and operational conditions in the five islands
- It will promote an attractive value proposition to investors.

Preferential Regulatory Environment

- The five islands will also facilitate foreign investment and people flows towards the new development and associated infrastructure.
- The five islands would be a separate free trade microcosm with a preferential regulatory environment

Private Sector Involvement

- The Kuwaiti and international private sector will have a key role in developing the different zones and
- It will support their operations and successful management.

Specific Sectors and Industries

- The five islands, once developed, will constitute a set of zones that are specialised in specific sectors and industries
- It will collectively form a solid operating ecosystem.

Features of the development

Expected output of the islands project (2/2)

Specific Sectors and Industries

- The five islands, once developed, will constitute a set zones that are specialised in specific sectors and industries
- It will collectively form a solid operating ecosystem.

Commercial zone: Large central souk, retail spaces, lake side commercial zones, lifestyle centres and civic centres.

Logistics & transportation zone: Mega sea port and harbour city, air-rail-road transportation link and a light industrial zone to facilitate the port operation.

Landscape and food zone: Landscaped edible plantations, gardens of Eden, eco domes for tourism, botanical gardens and high tech agriculture

University and education zone: Art education, campuses and facilities to support the economic activities on the islands.

Residential zone: Residential complexes form around communities with a marine lifestyle and heritage and are fully integrated with education, health care and entertainment facilities.

Entertainment zone: Set of golf courses, water parks, sports centres, amusement centres and more.

Business zone: It is the gateway to the islands and where a lot of the business linking the islands to the rest of the world takes place.

Environmental zone: five star eco resorts and chalets, nature reserves, wildlife retreats, bird sanctuaries, wellbeing spas and more.

Nature zone: Strict natural reserve that maintains the natural endowment of the island and a series of wildlife research outposts.

Archaeological zone: Islands historical heritage, specialised colleges dealing with the arts, curatorship and other cultural topics.

Destination zone: Untouched zones destined for day trips, camping and other non-permanent activities




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Impact on Kuwait

The five islands will impact the nation on different levels

Impact on Kuwait

<p>Social</p> 	<ul style="list-style-type: none"> • Expected to host a population of 400k • Will contain 100k homes distributed across all islands • The living population of the five islands expected to predominantly expats. • The Island population will enjoy liberal living conditions • The living population is expected to operate and manage the different zones of the islands • Education Health and other human indicators expected to be 3-4 times higher than the main land • All the improvement on the islands are expected to transfer knowledge and skills to the mainland
<p>Economy</p> 	<ul style="list-style-type: none"> • Will generate a GDP of USD 35B billion • Expected to double the foreign direct investment in Kuwait • GDP of individuals on the Islands to be 2-3 times higher than those on the main land • Employment is expected to be 90% of the private sector, • 10% of the public sector ensures effective operation of the islands
<p>Tourism and trade</p> 	<ul style="list-style-type: none"> • The islands will be a free trading zones • Tourism expected to reach 3-5 million individuals annually • Tourism mainly driven by the Iraqi, Iranian and Saudi market • Airport traffic volumes will increase significantly to match the transit demand • Trade Volumes are expected to be around 10 times what they are today

Detailed impacts of the five islands

Economic and financial impacts(1/2)

Economic & financial figures

	Data item	Figure	Source / Assumptions
1	GDP of 5 islands – what is the total expected gross domestic products generated?	<i>Approx. USD 35 billion</i>	<i>Benchmark comparable city states</i>
2	Projected FDI – what is the value of FDI that is expected to be generated?	<i>Approx. USD 1.5-2 billion</i>	<i>60% increase to today's level compared to mainland</i>
3	Projected Trade volume – what are the trade volumes with neighbours & internationally?	<i>8-10 million TEUs</i>	<i>Assumed a 10 fold increase from today's volume</i>
4	Projected air traffic – What is the traffic via airports expected?	<i>15-20 million passenger traffic</i>	<i>Sized to the tourism number projected / approximated</i>
5	GDP / capita – what is the projected domestic product per individuals on the islands?	<i>USD 100,000 – 150,000 / Capita</i>	<i>Approximated to be 2-3 folds the existing GDP / capita of Kuwait</i>



Detailed impacts of the five islands

Economic and financial impacts(2/2)

Economic & financial figures

	Data item	Figure	Source / Assumptions
6	Average income – what is the average income for individuals living on the Island	<i>Approx. USD 80,000</i>	<i>Approximated at 2 folds current incomes</i>
7	Employment type – how is the private / public employment split on the islands?	<i>90% private sector, 10% public sector</i>	<i>Global benchmark of comparable city state</i>
8	Operating sectors – what are the core economic sectors and their contribution?	<i>Tourism, logistics, hospitality, finance</i>	<i>Decided on through planning</i>
9	Tourism – how many tourists are expected to visit the islands annually? Hotel rooms?	<i>3-5 million tourists annually</i>	<i>Benchmark to comparable city states and regional market size</i>
10	Entertainment – what is the expected revenues from the sector and channels?	<i>Tourism will constitute 20% of economy</i>	<i>Global benchmark of comparable city state</i>



Detailed impacts of the five islands

Social impacts(1/2)

Social & human figures

	Data item	Figure	Source / Assumptions
1	Population – what is the projected population of the 5 islands (inhabitants)?	<i>Around 400,000 full time inhabitants</i>	<i>Global benchmark of comparable city state</i>
2	Education – what are the expected education levels of the population?	<i>Top 10th percentile in quality & spending</i>	<i>Global benchmark of comparable city state</i>
3	Health – what is the expected prevalence of disease on the island and key indicators?	<i>Top 10th percentile in quality & spending</i>	<i>Global benchmark of comparable city state</i>
4	Growth rate – what is the expected population growth rate over the next 10 & 20 years?	<i>3-4% annually</i>	<i>Global benchmark of comparable city state</i>

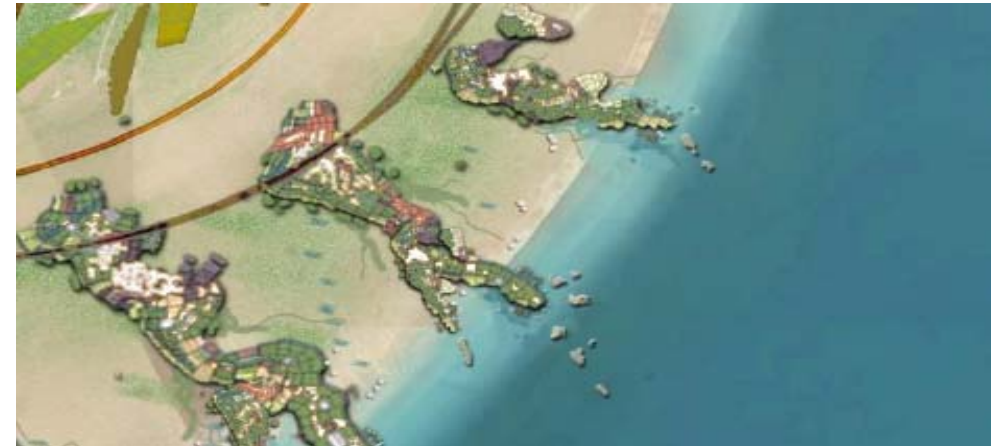


Detailed impacts of the five islands

Social impacts(2/2)

Social & human figures

	Data item	Figure	Source / Assumptions
5	Crime rate – what is the expected crime rate within the island boundaries?	<i>Crime index: 15-20 & Safety index: 80-85</i>	<i>Singapore taken as proxy</i>
6	Population age mix – what is the structure of the population in terms of age?	<i>Youthful with 20-35 compromising >60%</i>	<i>Global benchmark of comparable city state</i>
7	Nationality mix – what is the makeup of the population in terms of countries of origin?	<i>80% expats & 20% Kuwaiti nationals</i>	<i>Set through planning process</i>



Detailed impacts of the five islands

Geographic and environmental impacts(1/2)

Geographic & environmental figures

	Data item	Figure	Source / Assumptions
1	Area – total area, natural reserve area, water surfaces, area of water passage ways	<i>Approx. 950 Km (all 5 islands)</i>	<i>World Atlas</i>
2	Distances – from Iran, Iraq, Kuwait main land and from the closest airports & sea ports	<i>5 Km from Iraq & Kuwait, 30 Km Iran</i>	<i>Note: from closest island to that country</i>
3	Resources – water and energy demand of the islands when developed + Technologies	<i>90 mcm (water) & solar energy</i>	<i>Assuming 800,000 population (residents & average tourism)</i>
4	Climate – average temperature, rainfall and other indicators compared to the mainland	<i>Same as Kuwait</i>	<i>N/A</i>



Detailed impacts of the five islands

Geographic and environmental impacts(2/2)

Geographic & environmental figures

	Data item	Figure	Source / Assumptions
5	Fisheries – types of fish, caught fish volumes and aquaculture potential	40-60 thousand tons of live weight	FAO & Sized up
6	Waste – expected waste generation from population and methods of processing	0.5 million tons, waste to energy processing	Global benchmark
7	Green building – technologies and expected impact on carbon savings of the islands	Green building council standards	Global benchmark

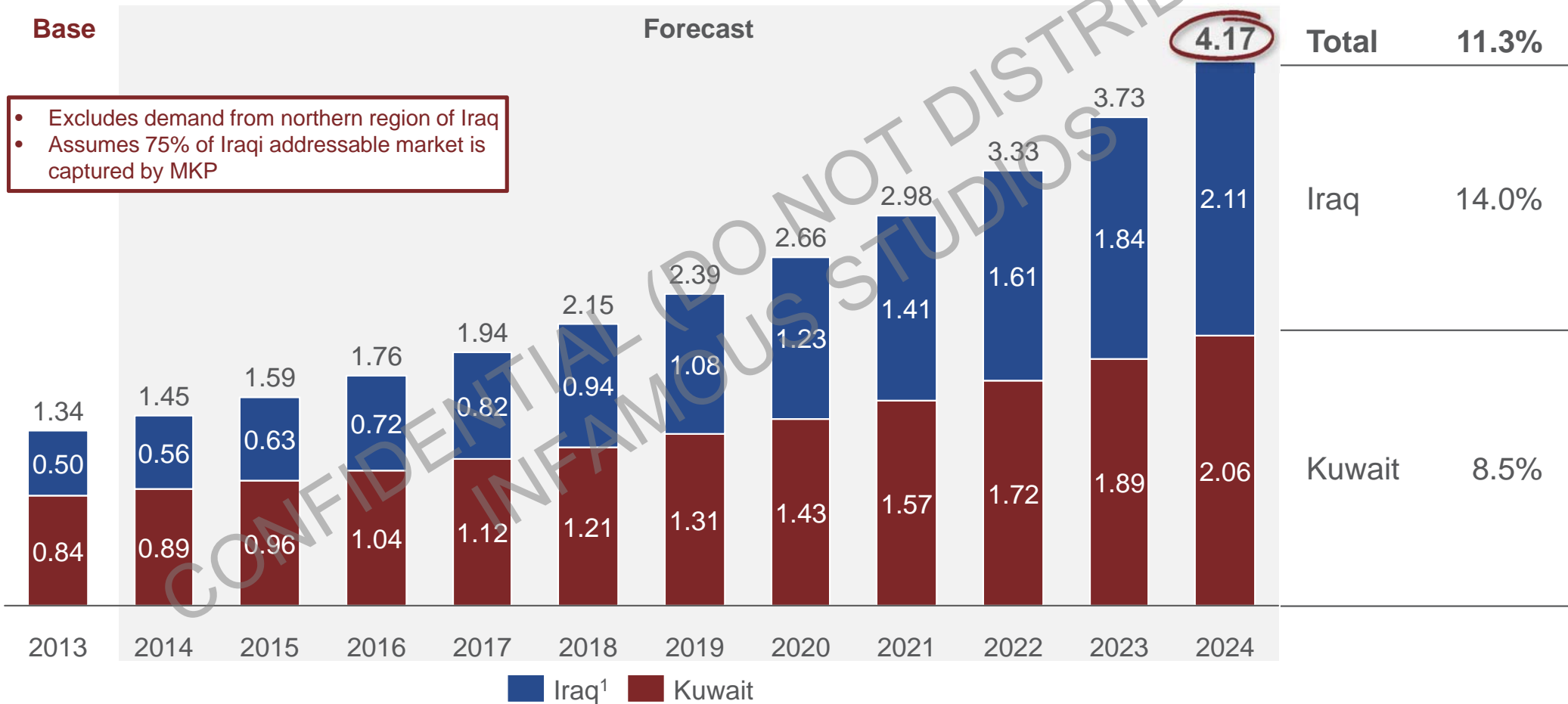


If traffic from a wider hinterland can be captured, total container traffic is forecast to increase to up to 4.2MM TEU by 2024

Container Cargo Throughput Forecast (2014–2024)

Kuwaiti and Iraqi Demands, TEU MM

CAGR
(2013-2014)



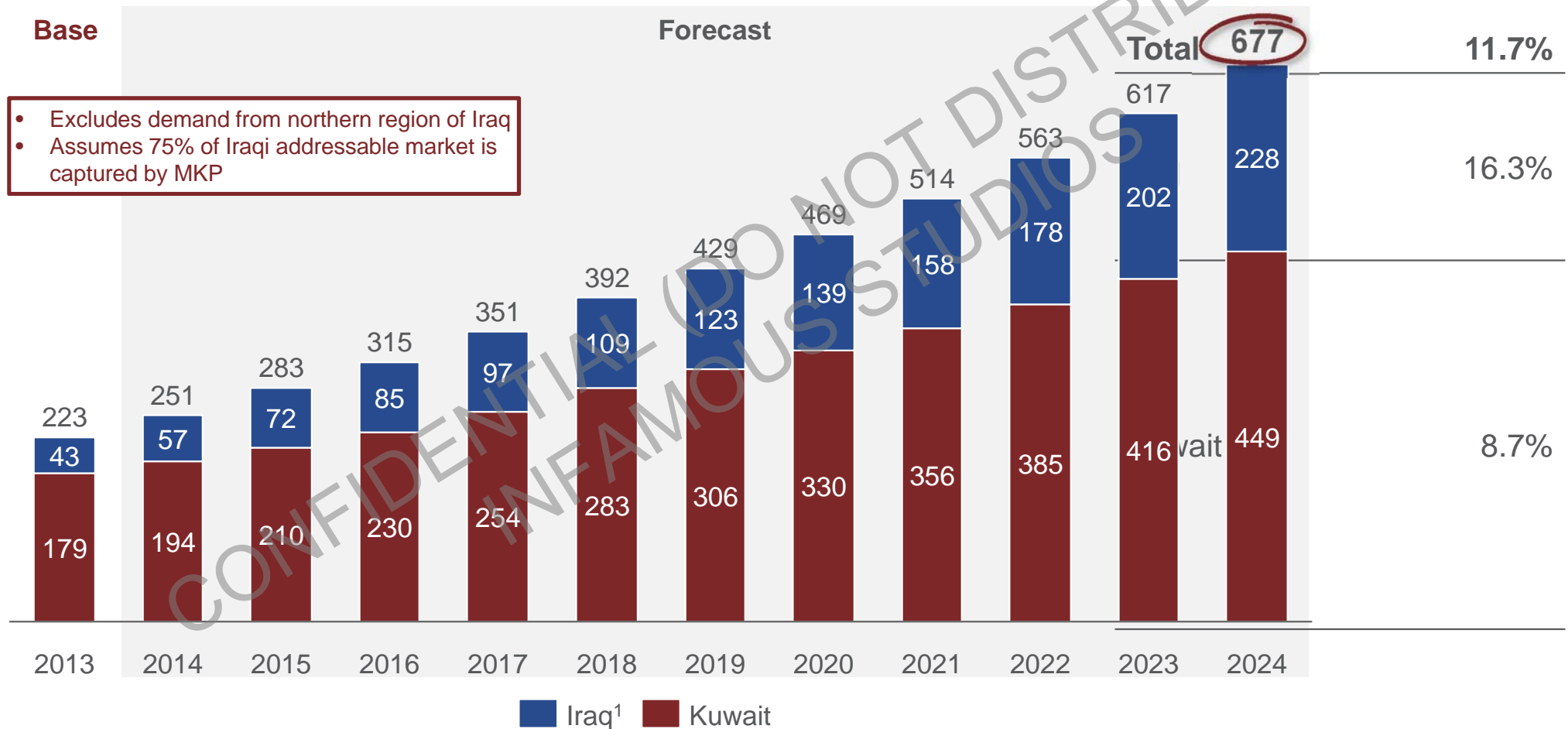
Source: Economist Intelligence Unit, Real GDP Projections; Kuwait Ports Authority Annual Statistics, 2013; Aqaba Container Terminal Statistics, 2013; Expert Interviews; Drewry Container Insight, May 2014; Oliver Wyman Analysis. (1) Based on addressable demand by MKP which includes traffic at Umm Qasr and transit volume through Aqaba.

Automotive (Ro-Ro) traffic to Kuwait and the hinterland can add 680K vehicles to MKP throughput by 2024

Vehicle Cargo Traffic Forecast (2014–2024)

Kuwaiti and Iraqi Demands, in K vehicles

CAGR
(2013-2014)



- Excludes demand from northern region of Iraq
- Assumes 75% of Iraqi addressable market is captured by MKP

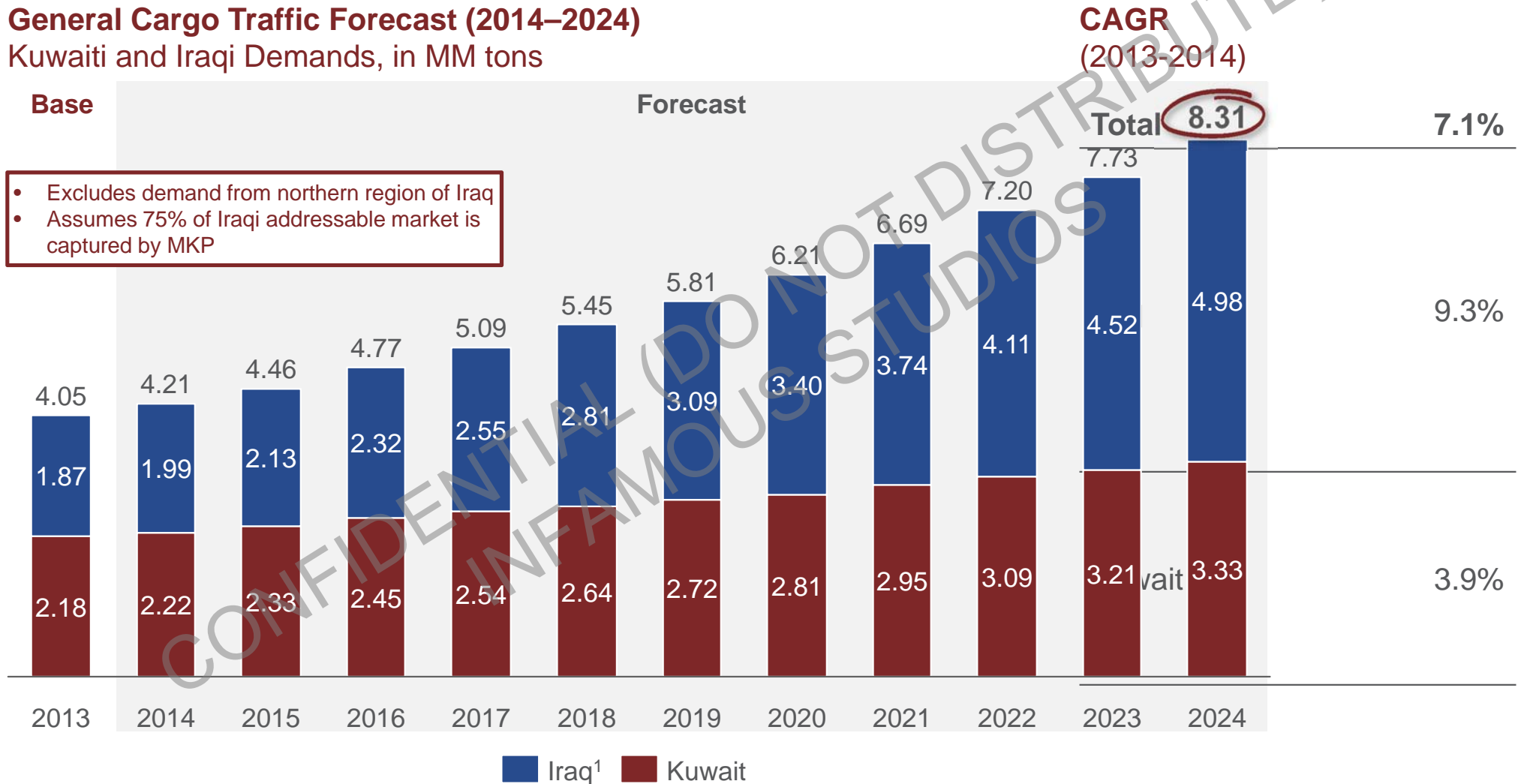
Source: Business Monitor International Kuwait Autos Report Q2 2014; Kuwait Ports Authority Annual Statistics, 2013; Business Monitor International Iraq Autos Report Q2 2014; International Monetary Fund; Aqaba Port Official Statistics, 2013; Iraq Ports Authority 2012 Annual Report; Interviews with car dealers and freight forwarders in Kuwait and Iraq; Oliver Wyman Analysis.

(1) Based on addressable demand by MKP which includes traffic at Umm Qasr and transit volume through Aqaba.

Finally, general cargo – including project cargo for Kuwait and Iraq – can grow to 8.3 MM tons by 2024, adding further to MKP throughput

General Cargo Traffic Forecast (2014–2024)

Kuwaiti and Iraqi Demands, in MM tons



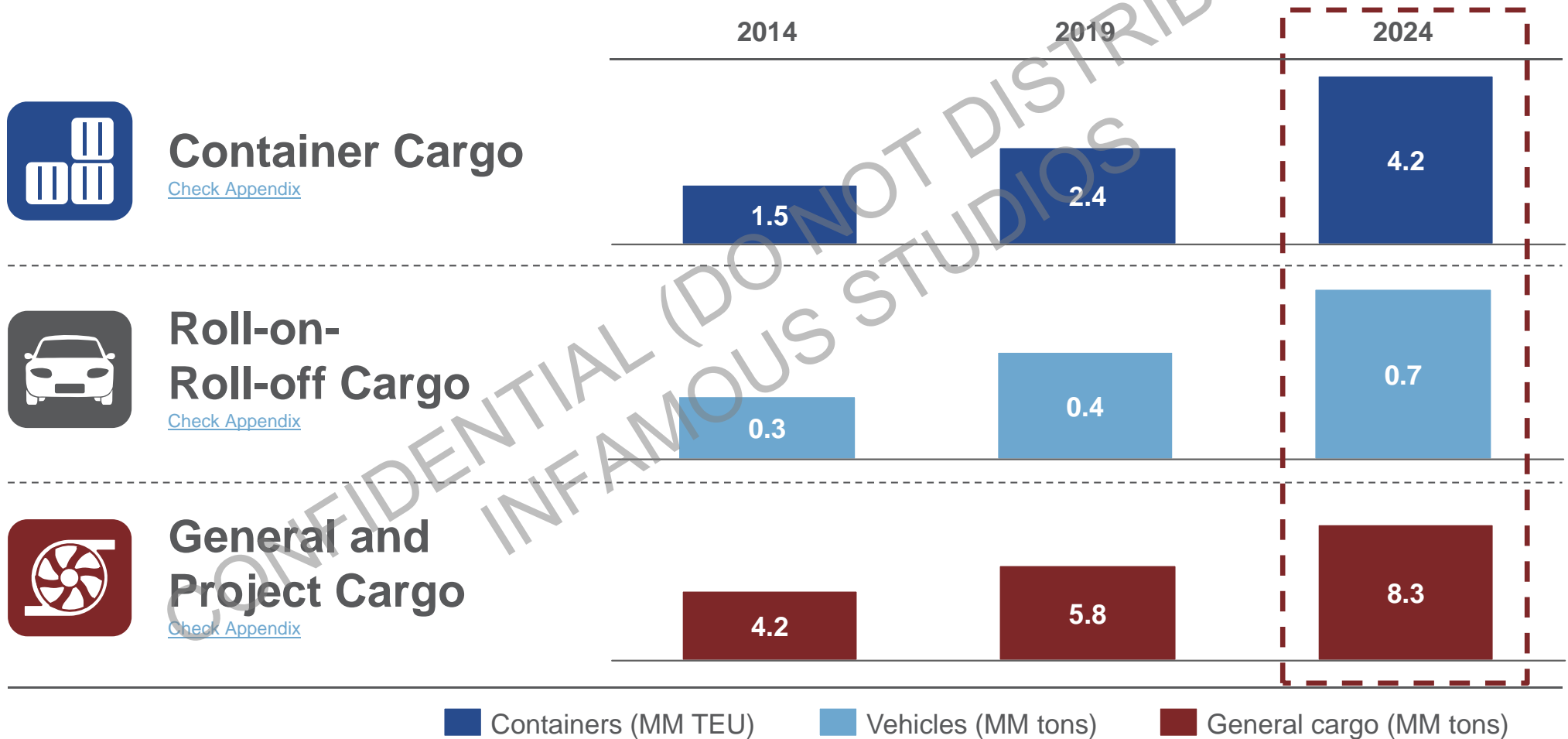
Source: Business Monitor International Kuwait Infrastructure Report Q2 2014; Kuwait Ports Authority Annual Statistics, 2013; Business Monitor International Iraq Infrastructure Report Q2 2014; International Monetary Fund; Aqaba Port Official Statistics, 2013; Iraq Ports Authority 2012 Annual Report; Interviews with car dealers and freight forwarders in Kuwait and Iraq; Oliver Wyman Analysis. (1) Based on addressable demand by MKP which includes traffic at Umm Qasr and transit volume through Aqaba.

Potential trade value of port Mubarak

Forecast of the activity of port Mubarak in 2024 based on Kuwaiti and Iraqi demands

Types of Cargo

MKP Traffic Forecast based on Kuwaiti and Iraqi Demands
Assumes 75% of southern Iraqi demand is captured by MKP¹



Source: Kuwait Ports Authority Annual Statistics, 2013; Economist Intelligence Unit, Real GDP Projections International Monetary Fund; Aqaba Port Official Statistics, 2013; Iraq Port Authority 2012 Annual Report; BMI Kuwait Auto Report Q2 2014; BMI Iraq Auto Report Q2 2014; BMI Kuwait Infrastructure Report Q2 2014; BMI Iraq Infrastructure Report Q2 2014; Oliver Wyman Analysis. (1) Addressable market excludes demand from northern Iraqi region.

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