strategy&

Part of the PwC network

How development finance can boost economic diversity in the GCC: the $100 billion prize

GCC governments have been trying to diversify their economies away from hydrocarbons for many years with mixed success. More recently, the dual shock of lower oil prices and the COVID-19 pandemic — which devastated the construction, retail, and real estate sectors in particular — has underscored how dependent GCC economies remain on government largess, which derives mostly from the energy sector. To accelerate the development of the non-oil economy, GCC governments must attract more private-sector investments, from both domestic and international sources. Foreign direct investment, which according to the World Bank has declined by about 40 percent as a percentage of GDP over the past decade, must be rekindled.

Jorge Camarate
partner,
j.camarate
@strategyand.ae.pwc.com

Aurélien Vincent
partner,
aurelien.vincent
@strategyand.ae.pwc.com

Krzysztof Ignaciuk
senior manager,
krzysztof.ignaciuk
@strategyand.ae.pwc.com

Misa Lazovic
senior associate,
misa.lazovic
@strategyand.ae.pwc.com

Development finance institutions (DFIs) are ideal catalysts for private-sector investments. DFIs are specialized organizations usually funded by national or regional governments to finance projects with a significant developmental impact. Their purpose varies, but typically they pursue socioeconomic impact—in areas as diverse as agriculture, culture, SMEs, and mortgages — while ensuring self-sustainability.

A DFI's involvement in a particular company or sector can provide a strong signal of confidence to the private sector and can create a significant multiplier effect for investment. For every $1 a DFI invests, we estimate based on our research that it can attract $10 of private capital. Given that the top five GCC DFIs (excluding sovereign wealth funds) have invested US$10 billion, the DFIs could help unlock upward of $100 billion.

To make this happen, DFIs must walk a fine line as they pursue economic diversification in the GCC: try to maximize socioeconomic impact while delivering superior financial returns. A common issue that restrains DFIs' organizational agility and investment effectiveness is rigid pipeline management and reporting processes. As a result, some GCC DFIs have only 60 percent of their assets invested, while global best-in-class DFIs invest around 95 percent, based on GCC and global DFIs' annual reports.

We believe DFIs should take three actions to spur economic diversification in a post-pandemic world: rethink internal processes, enhance product offerings, and develop new partnerships.

1. Rethink internal processes

DFIs should clarify their mandate and institute flexible and pragmatic day-to-day decision making. To invest more quickly on more promising opportunities, DFIs should review authorization steps, simplify pipeline management, streamline their governance wherever possible, and exploit data, analytics, and automation to improve risk management and reporting practices.

2. Enhance product offerings

DFIs should improve existing products and offer innovative approaches to expand the breadth of offerings and the scope of opportunities. They should improve the versatility of existing products. They also can introduce loans and credit lines of various sizes and tenures, with flexible features such as easy prepayment options or grace periods, and take into account new sources of collateral such as government guarantees, inventories, and receivables. DFIs should propose tailored products, such as lines of credit to help small businesses develop e-commerce channels.

3. Develop new partnerships

DFIs should rethink their distribution strategy, especially in pandemic-affected, fragmented sectors where they want to reach small players that can create growth and innovation. If they lack certain sector-specific expertise, they should build or acquire it swiftly to properly assess and originate deals, and then invite private capital to co-invest with them. This means new partnership capabilities, such as express approval to accelerate co-financing with qualified private lenders. It also means exploring partnerships with new types of organizations, such as financial technology startups focused on micro- and small-businesses lending.

With pandemic-related government support gradually coming to an end, DFIs in the GCC will have ample opportunities to put more money to work and enhance their socioeconomic impact. Capturing these opportunities, and accelerating private-sector investments at large scale, will require more agile investment processes and more creative, digital-powered organizations that can take advantage of a wider set of partnerships and products.

www.strategyand.pwc.com/me