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## Private Equity Finance from Boca Comm – Meet the GCC

Boca Comm, in its capacity of financial intermediary offers unique possibilities for private companies and investors seeking investment opportunities related to the region. Our global insight and cross-border specialization allow us to understand the issues and resolutions for individuals and firms interested in pursuing private equity placements – *sourced either from or to the region*. Additionally, portions of the possibilities involve Islamic Finance – financial products and services that conform to the Shariah – which has emerged in recent decades as one of the most important trends in the financial world.

### Gulf Cooperation Council Countries:

#### Bahrain

Capital: Manama  
688 km<sup>2</sup> — 0.7 million inhabitants

#### Emirates

Capital: Abu Dhabi  
83,000 km<sup>2</sup> — 2.7 million inhabitants

#### Kuwait

Capital: Kuwait City  
18,000 km<sup>2</sup> — 2.1 million inhabitants

#### Oman

Capital: Muscat  
272,000 km<sup>2</sup> — 2.7 million inhabitants

#### Qatar

Capital: Doha  
11,000 km<sup>2</sup> — 0.6 million inhabitants

#### Saudi Arabia

Capital: Riyadh  
2,200,000 km<sup>2</sup> — 21.7 million inhabitants

### Some of our process partners :

- ▶ 3i
- ▶ Adveq Management
- ▶ Bank of America
- ▶ Bank of Scotland
- ▶ BNP Paribas
- ▶ Cameron & McKenna
- ▶ Credit Suisse
- ▶ Deloitte & Touche
- ▶ Ernst & Young
- ▶ FERI Private Equity
- ▶ Harvard Business School
- ▶ HSBC
- ▶ International Monetary Fund
- ▶ INSEAD
- ▶ KPMG
- ▶ Lehman Brothers
- ▶ London Business School
- ▶ Merrill Lynch
- ▶ NVCA
- ▶ PricewaterhouseCoopers
- ▶ Simmons & Simmons
- ▶ SJ Berwin
- ▶ Stanford University
- ▶ Testa Hurwitz & Thibault
- ▶ UBS Warburg Pincus
- ▶ The Pensions Institute
- ▶ Wilshire Associates

## Equity Investment Opportunities in the GCC

Looking forward, Boca Comm continues to find attractive investment opportunities in the GCC.

The weight of the manufacturing sector has been growing very rapidly in Saudi Arabia, as has entrepôt trade and related activities in the United Arab Emirates, while the banking and insurance sector is by far the single most important sector in Bahrain. In Qatar, natural gas is well on the road to bypassing oil as the key sector in the economy, and in Oman the growth

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strategy centered on developing its natural gas resources and tourism has just begun to bear fruit.

In the region, we will organize investments primarily concentrating on the traditional niche client market of Boca Comm – mid sized companies presently underserved in the financial markets and requiring assistance to prepare for and secure finance. In particular, the region's underdeveloped banking sector provides several compelling equity investments and opportunities. Mortgage penetration and credit as a percentage of GDP in the region is very low when compared to Western Europe. Generally, we expect expansion in GDP/capita to be a stimulus for growth across sectors of the economy, and coupled with liberalization present an attractive investment climate.

### **Foreign Direct Investment - Issues and Progress in the GCC**

Although monetary policy in the GCC countries has been focused primarily on ensuring price and exchange rate stability, differences remain in the set of monetary instruments they use. Moreover, different bank regulatory practices—particularly regarding entry restrictions, liquidity requirements, loan classification and provisioning, and ownership—have slowed full integration of the region's financial and capital markets. As a result, the structure of the banking system differs across GCC countries.

On the institutional front, differences exist in commercial agency laws, industrial licensing, bankruptcy laws or regulations, and government tenders and contracts.

Regional integration efforts among the member countries of the Cooperation Council of the Arab States of the Gulf have been gaining momentum. During a summit meeting at the end of 2001, the heads of the GCC countries decided to establish by January 1, 2010, a monetary union with a single currency pegged to the U.S. dollar. Under the proposed strategy, member countries have decided to officially peg their currencies to the U.S. dollar in the interim, and adopt economic performance criteria - tentatively no later than 2005 - for the policy convergence needed to support the monetary union.

Since the GCC was created in the early 1980s, its members have taken significant steps toward economic integration, including the convergence of rules governing the mobility of capital and labor and plans for establishment of a single common external tariff. The establishment of an economic and monetary union will create an important regional entity that in 2002 had an estimated combined GDP of about \$340 billion, average weighted per capita income in nominal terms of \$12,708, and 45 and 17 percent, respectively, of the world's oil and natural gas reserves.

The region is in a period of liberalization of restrictions on foreign capital inflows so that the needed capital and associated technologies are available to support privatization and private sector development. Steps toward such liberalization could address three specific constraints:

- ▶ The discriminatory rules and regulations governing such flows relative to those for domestic investment
- ▶ The lack of a level playing field for domestic and foreign investors, as reflected, for instance, in different tax treatment despite recent efforts to narrow this difference
- ▶ The relatively undeveloped capital markets in the GCC countries

Initiatives to address these constraints—including further increasing the efficiency of the financial system both at the national and regional levels—would help meet the increase in private sector demand for credit and services. An accompanying stronger regulatory and supervisory framework would be particularly important in the development of open and diversified financial markets.

In its role as intermediary Boca Comm is able to properly structure finance to accommodate the existing problems with a proper mix of local and external finance, due to our unique position and introductions in both the industry and region.

An increasing number of companies and investors in the region request that the structure of the financial solution or investment conform to the Sharia (Islamic Law). Boca Comm has developed relationships with private equity funds and banks worldwide with the capability to satisfy this request.

The completion of major infrastructural projects in the region has reduced the role of government spending in non-oil growth. And the large public sector means that private sector investment, though growing, remained relatively low as a percent of GDP.

Bahrain	Eased rules on non-GCC firms to own buildings and lease land; established a one-stop shop to facilitate licensing procedures; and permitted foreign ownership to increase from 49 to 100 percent of businesses in all but a few strategic sectors (e.g., oil and aluminum).
Kuwait	Passed a law allowing foreigners to own 100 percent of Kuwaiti companies and reduced corporate taxes from 55 percent to 25 percent. Established Foreign Investment Capital Office to process foreign direct investment applications.
Oman	Allowed 100 percent foreign ownership of companies in most sectors; reduced income tax disparity between Omani and foreign companies by raising the single rate for the former from 7.5 percent to 12 percent and lowering the rates for the latter from 15–50 percent to 5–30 percent; redefined "foreign" company as one with more than 70 percent foreign ownership instead of currently 49 percent; and allowed foreign, non-GCC, firms to own buildings and lease land. Opening up the service sector to full foreign ownership in line with WTO agreements, starting in 2003 with the information technology sector.
Qatar	Allowed 100 percent foreign ownership in agriculture, industry, health, education, and tourism sectors, and streamlined investment approval procedures. Reduced maximum corporate tax from 35 percent to 30 percent.
Saudi Arabia	Enacted a new Investment Law and established the associated investment authority (SAGIA) to facilitate foreign direct investment processing, including the establishment of a one-stop shop. Allowed for 100 percent foreign ownership of business in most sectors, including gas, power generation, water desalination and petrochemicals. Cut the highest

corporate income tax on foreign investment from 45 percent to 30 percent. Permitted non-Saudis to own real estate for their business or residence, except in the two holy cities.

UAE Launched several new free trade zones intended to establish the emirate as a global center for trade in gold bullion, research and development of technology, and financial activities. Relaxed restrictions for foreign investment in specific real estate projects.

### Equity Markets – Economic Summary

Over the past three decades the member countries of the Cooperation Council of the Arab States of the Gulf (GCC)—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—have witnessed an unprecedented economic and social transformation.

- ▶ Oil proceeds have been used to **modernize infrastructure, create employment, and improve social indicators**, while the countries have been able to accumulate official reserves, **maintain relatively low external debt**, and remain important donors to poor countries.
- ▶ **Life expectancy** in the GCC area increased by almost 10 years to 74 years during 1980–2000, and literacy rates increased by 20 percentage points to about 80 percent over the same period.
- ▶ Average **per capita income** in the GCC countries was estimated at about \$12,000 in 2002, with their combined nominal GDP reaching close to \$340 billion.
- ▶ With **very low inflation**, overall **real economic growth has averaged 4 percent a year during the past three decades**, while the importance of non-oil economic activities has grown steadily, reflecting GCC countries' efforts at economic diversification. Moreover, central bank international reserves alone in some GCC countries are equivalent to about 10 months of imports.

This progress has been achieved with an open exchange and trade system and liberal capital flows, as well as open borders for foreign labor. The GCC area has become an important center for regional economic growth.

As the region progresses in reforms, the GCC equity markets continue to be a growing area of interest in the investment community. Despite modest improvements over the past two years, equity markets continue to lag behind the debt markets. Additionally, inflows have been strong from regional portfolios and more recently, from GCC based emerging funds.

### Financial Intermediation Services

Specialized business and professional services provide businesses the opportunity to contract out for particular expertise, thus increasing their competitiveness at minimal cost.

The United Nations Conference on Trade and Development (UNCTAD) has found the presence or absence of sophisticated business and professional services to be a key differentiator between developed and developing countries.

Where business services are not readily available externally, expertise must be hired in-house (thus increasing fixed operating costs), purchased from a distant domestic source (thus reducing price competitiveness), or simply procured from a foreign supplier.

Boca Comm has a practice specialty in international finance, concentrating on the small- and middle-market companies underserved in the equity finance markets.

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Boca Comm ([www.bocacomm.com](http://www.bocacomm.com)) has a practice specialty in providing cross-border, international creative financial solutions to the liquidity and capital needs of mid-size businesses. It offers a unique approach of integrating financial engineering, capital sourcing, and capital investment so as to create tailor-made and substantial value-added partnership solutions for its clients.