

Industry Agenda

# Strategic Infrastructure and Real Estate Dubai Roundtable

Dubai, United Arab Emirates 2 June 2014



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# Executive Summary

The World Economic Forum's Infrastructure & Urban Development Industries, and the Middle East and North Africa teams, hosted a roundtable meeting on 2 June 2014 in Dubai, United Arab Emirates.

This roundtable was part of a series of discussions for the Global Strategic Infrastructure, Real Estate, New Vision for Arab Employment, and Partnering Against Corruption Initiative. It focused on important, current issues critical to the Middle East's infrastructure and real estate industries, and aimed to generate insights on the issues by drawing on the diverse perspectives and expertise of leading stakeholders from business, government and civil society.

The insights, recommendations and scenarios arising from this roundtable will help to shape the agenda for future meetings, initiatives and reports at the Forum.

## Regional Outlook: Competitiveness in Times of Transformation

In the context of recent geopolitical transformations, leaders in the Middle East and North Africa region (MENA) are faced with increasingly complex and interlinked global, regional and national challenges. Competitive economies provide rising living standards for their citizens, enabling policy-makers to better achieve essential aims such as the creation of wealth and gainful employment, sustainable development, management of the youth bulge (the rapid increase in youth population) and the attraction of foreign direct investment. Addressing how infrastructure, institutions, markets and innovation can boost attractiveness is crucial to the region's sustainable prosperity for future generations.

The Regional Outlook session explored the recent regional developments and their implications for long-term investment. It particularly addressed the environment for competitiveness

in the region's countries, and the role of infrastructure in boosting its attractiveness. The following topics were also covered:

- What are the implications of the recent regional developments for long-term investment?
- What crucial practices can be put in place to help the region raise its competitive edge?
- What role can infrastructure play for regional attractiveness?

Competitiveness in MENA varies widely from one country to another, with those in the Gulf Cooperation Council (GCC) scoring significantly above others, including on the infrastructure sub-index. The need to strengthen institutions, promote entrepreneurship, and investment in research and development (R&D) to encourage innovation, will be central to increasing competitiveness and attractiveness in the future.

## Global Strategic Infrastructure: the Middle East Context

Among developing regions, MENA has the most developed infrastructure assets – for transportation, power and water/sanitation. However, according to World Bank estimates, about \$106 billion, or approximately 7% of annual regional gross domestic product (GDP), would be needed every year through 2020 to meet investment and maintenance priorities. Spanning from the high-income GCC countries to the generally lower-middle-income oil importing countries, the region must address diverse stages of infrastructure development and, consequently, a wider range of related issues that include not only attracting more investment, but also operating and maintaining existing infrastructure assets.

This session focused on the current challenges of delivering strategic infrastructure in the Middle East.

Participants shared ideas for unlocking opportunities, such as public-private partnership (PPP) models, the adoption of best-practice solutions, and ways to collaborate more effectively among stakeholders to ensure better delivery and usage of strategic infrastructure in the region. The session was based on the Forum's Global Strategic Infrastructure initiative, and addressed the following:

- What are the strategic infrastructure opportunities and challenges in the region?
- How can the region accelerate the delivery of infrastructure, and use best practices from other countries?
- What are the important improvements that GCC countries need to focus on to ensure that infrastructure provides the most value to society? Also, how does this pertain to lower-income countries?

To overcome major obstacles, such as a lack of bankable projects and political champions, an underdeveloped project pipeline, and investors retreating to core markets, a multistakeholder approach will help to anticipate and address the challenges of the future, to support collaboration across the public and private sectors, improve bankability and infrastructure funding models, and close credibility gaps.

## The Future of Real Estate and Sustainable Urbanization

Since 2007, the real estate market in major cities around the world has seen unprecedented change – the financial crisis and subsequent lengthy recession, new regulatory policies, distorted availability of credit, a record-low interest rate environment and changes in consumer confidence – which have had a tremendous impact on residential and commercial real estate. Consequently, trends in the real estate industry became unpredictable.





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**01:** Participants of the Strategic Infrastructure and Real Estate Roundtable

**02:** Welcome remarks by Mouhtaz Sawaf, Vice-Chairman of the Board and Chair of the Executive Committee, Construction Products Holding Company (GPC), Saudi Arabia

Having a long-term perspective is imperative to safely navigating this challenging environment. The session looked at the important factors capable of disrupting both traditional real estate business and urban development models. In addition, innovations from building materials to transportation systems and information technologies play an increasingly significant role in sustainable cities. The new frameworks in urban development, and their implications in the context of Dubai's sustainable city initiative for 2020 and the Dubai World Expo 2020, were discussed, including:

- What are the important challenges and opportunities for the real estate sector today in the Middle East?
- What new technologies can more effectively help the region's cities to achieve their aspirations?
- How can the private and public sectors support each other to provide societies with a better urban environment in decades to come?

For innovation in sustainable urban development in MENA, it is important to follow smart city principles and to address urban transportation issues through new infrastructure, shared use and smoothing demand. Smart city solutions are needed to optimize energy supply and demand by using sustainable as well as smart metering solutions. For innovation in urban

environments, design standards, regulation and legislation must be improved to meet and exceed required targets.

### Anti-Corruption and Transparency for Growth

As regional demand for infrastructure continues to increase, policy makers are under pressure to find ways of supporting rapid project expansion. At the same time, enforcement, supported by the global reach of laws such as the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act, remains significant. Since the introduction of the FCPA, an estimated 10% of all global enforcement activity concerns the engineering, construction and real estate industries.

The World Economic Forum recently launched a project to address the opportunity for industry-wide engagement on anti-corruption solutions. As technologically-driven transparency affects how the industry conducts business, collective industry action on corruption may be an avenue for mitigating the destruction in value caused by corruption and bribery. At the roundtable, industry leaders could discuss some of the industry's common concerns and practical steps it can take to address this issue. The "Transparency for Growth" session explored regional perspectives on

anti-corruption transparency, including risks, opportunities and regionally driven initiatives that seek to increase transparency and contribute to a more level playing field. Emphasizing transparency's link to growth, competitiveness and the need for strong leadership from the private sector are important elements in designing corruption out of the system. Questions addressed in this discussion included:

- What risks are associated with corruption across participants' value chains?
- How can a multistakeholder approach improve prevention, oversight, investigation and deterrence?
- What is the magnitude of the problem?

Lack of transparency and corrupt practices negatively affect the real estate and infrastructure industries by creating risk in a variety of areas. In addition, running an organization based on ethics and values is important in an environment where employees can take pride in "keeping a clean house", finding industry solutions and working together for a stronger industry with more stability. This includes PPPs, and defining corruption and common industry agreements.

# Regional Outlook: Competitiveness in Times of Transformation

Plenary session, The Ritz-Carlton Hotel, Dubai, 2 June 2014, 09.30 - 10.30

## Session Description

In the context of recent geopolitical transformations, leaders in the Middle East and North Africa region (MENA) are faced with increasingly complex and interlinked global, regional and national challenges. Competitive economies provide rising living standards for their citizens, enabling policy-makers to better achieve essential aims such as the creation of wealth and gainful employment, sustainable development, management of the youth bulge (the rapid increase in youth population) and the attraction of foreign direct investment. Addressing how infrastructure, institutions, markets and innovation can boost attractiveness is crucial to the region's sustainable prosperity for future generations. The Regional Outlook session explored the recent regional developments and their implications for long-term investment. It particularly addressed the environment for competitiveness in the region's countries, and the role of infrastructure in boosting its attractiveness. The following subjects were also covered:

- What are the implications of the recent regional developments for long-term investment?
- What crucial practices can be put in place to help the region raise its competitive edge?
- What role can infrastructure play for regional attractiveness?

## Panellists

Abdulsalam Haykal, Chief Executive Officer, Haykal Group, United Arab Emirates; Young Global Leader

Sir Mohammad Jaafar, Chairman and Chief Executive Officer, Kuwaiti Danish Dairy Company, Kuwait  
Rafik Nayed, Vice-Chairman, Middle East and North Africa, Deutsche Bank, United Arab Emirates

## Moderated by

Zeina Soufan, Senior Business Presenter, Dubai Media Incorporated, United Arab Emirates

## Presentation by

Margareta Drzeniek Hanouz, Director and Lead Economist, Global Competitiveness and Benchmarking Network, World Economic Forum  
Hala Hanna, Senior Manager, Middle East and North Africa; Global Leadership Fellow, World Economic Forum

## Key Points

- Competitiveness in MENA varies widely among countries; but there is agreement that there is a critical need to strengthen institutions in order to encourage innovation, for the future good of the region.

- The importance of institutions for stability and prosperity is reflected by recent events, particularly among those Arab economies in transition and taking radically different paths.
- A cultural shift towards entrepreneurship and risk-taking is still required for MENA to create jobs in the quantity and quality needed for the next generation.
- More investment in Research and Development is crucial to future prosperity.

## Synopsis

Competitiveness in MENA varies widely from one country to another, with those in the Gulf Cooperation Council (GCC) scoring significantly above others, including on the infrastructure

**01:** Panellists Sir Mohammad Jaafar, Chairman and Chief Executive Officer, Kuwaiti Danish Dairy Company, Kuwait; Rafik Nayed, Vice-Chairman, Middle East and North Africa, Deutsche Bank,

United Arab Emirates; Abdulsalam Haykal, Chief Executive Officer, Haykal Group, United Arab Emirates; and moderator Zeina Soufan, Senior Business Presenter, Dubai Media Incorporated, United Arab Emirates







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**01:** Participants in the Regional Outlook: Competitiveness in Times of Transformation session

**02:** Presentation by Margareta Drzeniek-Hanouz, Director and Lead Economist, Global Competitiveness and Benchmarking Network, World Economic Forum



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sub-index. The need for strengthening institutions, promoting entrepreneurship and investing in research and development (R&D) to encourage innovation will be central to increasing competitiveness and attractiveness in the future.

The importance of institutions for stability and prosperity has been further underlined by events of the last few years, particularly in Arab economies in transition and taking radically different paths. Morocco is successful at attracting foreign investment, while in Libya, the polarization of the political debate has taken violent forms. The protracted conflict in Syria has had devastating effects on the country's infrastructure and institutions, threatening to drag neighbouring countries along with it. On the other hand, Lebanon's strong banking institutions and the confidence of its diaspora keep it economically stable. Similarly, Jordan benefits from international support and healthy public finance management. In Egypt, an inclusive growth model is sorely

needed. Egypt's added challenge is its high population growth and density.

At the other end of the spectrum, the GCC also includes wide, country-level variations that make its integration challenging when it concerns synchronizing and harmonizing investments – the creation of various aviation hubs is a case in point. Regionally, in spite of some differing motives, local and national agendas could lead to a common agenda on some issues. For example, the region could address the mismatch of its resources and demographics. Similarly, an abundance of liquidity exists regionally, but heavy subsidizing of water and energy could hamper other investment opportunities, such as in North Africa.

Stock exchanges would also benefit from strengthening. Indeed, despite their profitability in the region, notably in Egypt, the lack of pension funds and long-term investment opportunities are detrimental to investors, threatening to hamper long-term economic growth.

With one of the highest unemployment rates in the world, MENA is under pressure to create jobs in the quantity and quality needed for the next generation. The infrastructure sector has traditionally been a job creator in the region and continues to hold part of the answer to the employment quagmire. The World Bank estimates that if the region were to invest all of its \$160 billion in infrastructure investment and maintenance needs through 2020, 2.5 million jobs could be created annually. A recent Brookings Institution study finds that infrastructure investment has a long-term impact on job creation, with positive implications as well for equality and competitiveness. Whether infrastructure can create sustainable jobs, given the mix of capital and labour currently used, remains to be seen. A growing awareness exists in the region that jobs created in the future will be different than those today. The GCC, in particular, is heavily investing in job creation for youth, with Kuwait alone having created a \$7 billion fund. However, the mental shift to entrepreneurship and risk-taking remains to be completed, and legislation in the region is still ill-adapted to business failure.

Innovation goes hand in hand with entrepreneurship: the ideal entrepreneurial system generates innovation and new technologies, such as solar energy and water irrigation. This will require more investment in R&D, especially at the graduate level, as well as coordination and collaboration with industries to close the skills mismatch, and produce skills and research for the market (highlighted by a recent, encouraging trend of such institutions). Overhauling the education system is another necessity, as curricula still mould students for secure and governmental jobs.

# Global Strategic Infrastructure: the Middle East Context

*Roundtable discussion, The Ritz-Carlton Hotel, 2 June 2014,  
10.30 - 11.45*

## Session Description

Among developing regions, MENA has the most developed infrastructure assets – for transportation, power and water/sanitation. However, according to World Bank estimates, about \$106 billion, or approximately 7% of annual regional gross domestic product (GDP), would be needed every year through 2020 to meet investment and maintenance priorities. Spanning from the high-income GCC countries to the generally lower-middle-income oil importing countries, the region must address diverse stages of infrastructure development and, consequently, a wider range of related issues that include not only attracting greater investments, but also operating and maintaining existing infrastructure assets.

This session focused on the current challenges of delivering strategic infrastructure in the Middle East. Participants shared ideas for unlocking opportunities, such as public-private partnership (PPP) models, the adoption of best-practice solutions, and ways to collaborate more effectively among stakeholders to ensure better delivery and usage of strategic infrastructure in the region. The session was based on the Forum's Global Strategic Infrastructure initiative and addressed the following questions:

- What are the strategic infrastructure opportunities and challenges in the region?



**01:** Breakout session on Optimizing Existing Assets, led by Ziyad Awad, Senior Vice-President and Head, Middle East and Africa, SNC-Lavalin, United Arab Emirates

- How can the region accelerate the delivery of infrastructure, and use best practices from other countries?
- What are the important improvements that GCC countries need to focus on to ensure that infrastructure provides the most value to society? Also, how does this pertain to lower-income countries?

To overcome major obstacles, such as a lack of bankable projects and political champions, an underdeveloped project pipeline, and investors retreating to core markets, a multistakeholder approach will help to anticipate and address the challenges of the future, to support collaboration across the public and private sectors, improve bankability

and infrastructure funding models, and close credibility gaps.

### Briefing by

Pedro Rodrigues de Almeida, Director, Head of Infrastructure & Urban Development Industries, World Economic Forum

Muneer Ferozie, Regional Head, PPP, Privatization and Infrastructure Financial Advisory Group, Middle East, North Africa and Pakistan, World Bank, Washington DC

### Discussion Leaders

Ziyad Awad, Senior Vice-President and Head, Middle East and Africa, SNC-Lavalin, United Arab Emirates  
Tabish Gauhar, Partner, The Abraaj Group, United Arab Emirates



Wadie Habboush, President and Chief Executive Officer, Habboush Group, Iraq  
 Mark Lemmon, Chief Executive Officer, MENA Infrastructure, Fajr Capital, United Arab Emirates

**Session Chair**

Walid Samaha, Chief Executive Officer, Construction Products Holding Company, Saudi Arabia

**Special Remarks by**

Abdulla Bin Touq, Head, Infrastructure and Environmental Department, Strategy and Policy Sector, Office of the Prime Minister, United Arab Emirates; Global Agenda Council on Governance for Sustainability 2012-2014

**Key Points**

- A multistakeholder approach will help anticipate the challenges of the future and support collaboration across the public and private domains, improve infrastructure funding models and close credibility gaps.
- Important problems are the lack of bankable projects, a weak project pipeline, investors retreating to core markets and the lack of political champions.

- Greater investment in infrastructure is required, as is support in prioritizing and delivering projects across the MENA region.
- Besides building new infrastructure, strategies to optimize operations, and maintenance of existing infrastructure stock for the longest period possible, can also partially address the region's infrastructure needs.
- Every project must have a real commercial return, whether the project is initiated and owned by the private sector or the government.
- The financial resources across the entire MENA region need to be adequately matched to fund the infrastructure gap; different pools of capital need to be identified for the differing stages of the infrastructure asset management cycle.
- More bankable and feasible projects are needed, proposed by the public sector to the private sector; governments do not always adequately understand what constitutes a bankable infrastructure project and what is investment grade.
- Asset optimization of built infrastructure should be incorporated at the earliest project stages and designed into the concept phase.

**Synopsis**

This session covered some of the critical issues arising out of estimates that over \$100 billion, or approximately 7% of annual regional GDP, would be needed yearly through 2020 to meet MENA's investment and maintenance priorities. This included the diversity of infrastructure development stages across countries, investment in new infrastructure projects and a wide array of issues related to operating, maintaining and optimizing existing infrastructure assets. The session was an extension of the work undertaken by the Forum's Global Strategic Infrastructure initiative.

Panellists began by emphasizing the deep connection between infrastructure investment and national GDP, and the importance of setting country-level agendas and aligning priorities to properly set up the industry for success, and to deliver first-class infrastructure to citizens. It is necessary to anticipate future challenges and collaborate across both the public and private domains, such as through improving the infrastructure funding model, closing credibility gaps and advancing PPP models. It was stressed that innovations and expertise, so abundant in the private sector, should be shared and cross-pollinated to the public sector. Further, it was stated that events of the Arab Spring has exacerbated the need for infrastructure and the perceived political risk of entering the region's countries. Important problems noted were the lack of bankable projects, a weak project pipeline, investors retreating to core markets and the lack of political champions.

**01:** Breakout session on Identifying and Accelerating Priority Projects in MENA led

by Mark Lemmon, Chief Executive Officer of MENA Infrastructure, Fajr Capital, United Arab Emirates

**02:** Special remarks by Abdulla Bin Touq, Head, Infrastructure and Environmental

Department, Strategy and Policy Sector, Office of the Prime Minister, United Arab Emirates



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**01:** Briefing by Muneer Ferozie, Regional Head - PPP, Privatization and Infrastructure Financial Advisory - Middle East, North Africa and Pakistan, World Bank, Washington DC

**02:** Breakout session on Optimizing Existing Assets, led by Ziyad Awad, Senior Vice-President and Head, Middle East and Africa, SNC-Lavalin, United Arab Emirates

**03:** Breakout session on Enhancing Financing and the Investment Landscape, led by Tabish Gauhar, Partner, The Abraaj Group, United Arab Emirates



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The session's common theme was: How real is the need for greater investment in the region's infrastructure? And, how should the prioritization and delivery of projects be supported across MENA? It was argued that PPP is one model (but not the only or always the best one), and that sometimes it is used with the wrong results.

### Breakout sessions

Discussions in the four breakout groups concerned a variety of issues:

#### 1. Identifying and accelerating priority projects in MENA

- Building new infrastructure is not the only lever for addressing the infrastructure need; strategies to optimize operations and maintenance of existing infrastructure stock for the longest period possible can also help to solve the problem.

- The occasional mismatch exists between the infrastructure projects available, and those in which investors wish to commit capital.
- Improving the enabling environment and thus increasing the speed of delivery of infrastructure projects are needed.
- Priority infrastructure projects can be accelerated through a wider partnership between government and the private sector, as well as through the distinctions between different parts of the region.
- A significant amount of money is moving between governments, and from wealthier to poorer nations, but this flow of investment is not sufficiently targeted and commercially driven.
- It is critical for every project to have a real commercial return, whether the project is initiated

and owned by the private sector or by the government. The UAE was a focal point of the discussion, as it provides a very good regional example of PPP success stories, such as the private-sector provision of education and the solar energy industry.

- Small to medium-sized enterprises make important contributions to the economy, particularly concerning jobs created by operations and supply chains.

#### 2. Enhancing financing and the investment landscape

- It is important to focus on how to adequately match the financial resources across all of MENA to fund the infrastructure gap, and how different pools of capital should be identified for the various stages of the infrastructure asset management cycle. Different pockets of capital



exhibit different risk appetites; understanding this is critical for making a compelling case for these capital pools to invest in MENA and accept particular risks.

- A potential solution would be to break down large PPPs, parcelling them into smaller units and enabling financing with different risk profiles.
- Matching asset fundamentals with the social dividend, and supporting and enabling the local population are needed.
- Recommending governments and national agencies implement clear time limits for regulatory approvals would help instil a built-in understanding of the obligation shared by government and business on project delivery.

### 3. *Overcoming obstacles to delivering infrastructure*

- The challenges of public and private sector coordination must be addressed, including the lack of transparency on factors that affect the speed and timing of projects; the occasional absence of a clear strategy on the part of governments; obstacles in the permitting and permissions processes; and losing contract bids to competitors that cut corners.
- Regarding execution strategy, the planning for infrastructure investments is not always clear, and misalignment exists between government strategy and what would comprise an investable project.
- Possible solutions include having a solid local partner wherever business is conducted, and increasing training for the public sector in line with private-sector training levels.
- On the need for more bankable and feasible projects proposed by the public sector to the private sector, governments may not adequately understand what the private sector considers to be a bankable infrastructure project, and what is investment grade.

- An opportunity exists for the private sector to build public-sector appreciation for how it can support delivery capability; at times, the reins should be freed for the private sector.

### 4. *Optimizing existing assets*

- It is one thing to build infrastructure assets, and another to operate them in a way that yields real value. The United Arab Can Manufacturing Company should be seen as an example of how operations and asset maintenance have been managed well to optimize value; it is important to realize that it also takes additional investment and money to properly optimize existing assets.

- The approach of optimizing assets of built infrastructure should be incorporated at the earliest project stages and designed into the concept phase.
- Involving the private sector will ensure good knowledge transfer, expertise and sharing of know-how, and allow this sector to do what it does best. This entails partnerships, collaboration and aligning objectives between government and the private sector, as well as industry peers.

**01:** Breakout session on Overcoming Obstacles in Infrastructure Delivery, led by Wadie Habboush, President and Chief Executive Officer, Habboush Group, Iraq  
**02:** Report by Ziyad Awad, Senior Vice-President and Head, Middle East and Africa, SNC-Lavalin, United Arab Emirates





# The Future of Real Estate and Sustainable Urbanization

*Roundtable discussion, The Ritz-Carlton Hotel, 2 June 2014, 12.00 - 13.15*

## Session Description

Since 2007, the real estate market in major cities around the world has seen unprecedented change – the financial crisis and subsequent lengthy recession, new regulatory policies, distorted availability of credit, a record-low interest rate environment and changes in consumer confidence – which have had a tremendous impact on residential and commercial real estate. Consequently, trends in the real estate industry became unpredictable.

Having a long-term perspective is imperative to safely navigate through this challenging environment. The session looked at the important factors capable of disrupting both traditional real estate business and urban development models. In addition, innovations from building materials to transportation systems and information technologies play an increasingly significant role in sustainable cities. The new frameworks in urban development, and their implications in the context of Dubai's sustainable city initiative for 2020 and the Dubai World Expo 2020, were discussed, including:

- What are the important challenges and opportunities for the real estate sector today in the Middle East?
- What new technologies can more effectively help the region's cities to achieve their aspirations?
- How can the private and public sectors support each other to provide societies with a better urban environment in decades to come?

## Briefing by

Michael Buehler, Associate Director, Head of Real Estate, Infrastructure & Urban Development Industries, World Economic Forum

## Discussion Leaders

Mohammed Alshaya, Executive Chairman, Alshaya Group, Kuwait (did not take the role?)

Nicholas Brooke, Chairman, Professional Property Services, Hong Kong SAR

Deepak Chhabria, Managing Director, Finance, RMZ Corp., India

Malek Sukkar, Chief Executive Officer, Averda, Lebanon

Tony Lovell, Head of Middle East, Arup Group, United Kingdom

## Session Chair

Talal Khalid Idriss, Chief Executive Officer, Bahra Advanced Cable Manufacture Co., Saudi Arabia

## Moderated by

Pedro Rodrigues de Almeida, Director, Head of Infrastructure & Urban Development Industries, World Economic Forum

## Key Points

- Urban transportation issues must be addressed through new infrastructure, shared use and smoothing demand. Smart city solutions are needed to optimize energy supply and demand; and, for innovation in urban environments, design standards, regulation and legislation must be improved to meet and exceed required targets.
- Innovation in construction, building materials and equipment requires not only investment in improved

education of local architects and engineers, but also proactive support from government.

- Emerging markets such as China show that being a technical innovator is not necessarily a requirement for becoming the sustainability industry's world leader. MENA should better apply the lessons learned from emerging and mature markets to be ahead of the curve in sustainability.
- For innovation in real estate, the need for affordable housing is one of the most important challenges. Innovative solutions include new regulations, incentives to promote social housing, change of building regulations and zoning to increase capacity, and new construction methods.



- Discipline is needed in urban design, as well as understanding the role of development and making sure that the right incentives and government subsidization are in place.
- Global leading practices in investment and financing must be adopted to ease access to institutional and private capital available in the region. Increased monetary and fiscal coordination on the regional level is required to improve financial capacity and overcome the region's inhomogeneity.

## Synopsis

MENA countries are rapidly urbanizing, with many of the most developed to approach a level of 90% urbanized by 2030. With this urbanization rate comes many challenges, including the high proportion of informal housing and its social and economic pressures. In this session, participants considered innovations in real estate to address these challenges. Solutions included making private housing more accessible, having a better understanding of changing customer needs and responding to demographic changes in an efficient and effective manner. For the latter, new business models can optimise the solutions addressing the identified need.

Participants discussed the important challenges and opportunities in the real estate industry and some of its latest models of business innovation. This included factors and practices identified and adapted from different countries and regions.

Important observations made by participants included the need for greater discipline in undertaking urban design; the selection of the right business models to ensure affordability of housing; and the urgent need to address the mismatch between land prices and government planning. Some participants argued that an inadequate understanding of development causes incorrect government subsidization.

Participants commented on the need to encourage the sector and build flexibility into the industry's practices and approaches (e.g. modular building design). Some speakers raised the issue that technology in the industry was moving faster than the passage of regulations and laws by governments in the region.

The session finished on a positive note; Dubai was identified as being ahead of other MENA governments, mainly because of the leadership displayed by the government. It was observed that too many agencies and bureaucracies influence outcomes in the building industry. To solve the challenge of affordable housing, streamlining and

simplifying processes related to the real estate industry should be a starting point. Other solutions might include developing better high-density housing solutions, addressing vacancy land tax issues and using sustainable materials.

In breakout discussions, participants focused on the following sub-topics:

### Innovation in sustainable urban development

In MENA, 57% of the 300 million residents live in urban areas. According to United Nations (UN) projections, this will grow to 65% of 430 million residents by 2020, an increase of over 65% compared to a projected rural population increase of only 8.5%. The region has two megacities, Cairo and Tehran, where population already exceeds 10 million. According to the World Bank, Cairo, Tehran and Baghdad together account for 25% of the region's urban population. Given rapid urban growth, cities must become catalysts in solving critical challenges such as increasing inequality, climate-change energy usage and resource consumption, including access to water. Promising concepts are being developed under the label "smart city", "intelligent city" or "sustainable city". Examples in MENA are Masdar City, Dubai Sustainable City and Abu Dhabi Environment Vision 2030.



This sub-topic also included:

- What are the important challenges and opportunities for sustainability in the region?
- What are the new sustainability models in the urban space, and what is driving change in the industry on national and regional levels?
- How can leading practices and lessons learned from other countries be employed to ensure maximal value to society?

In the years to come, one of the most important factors for innovation in sustainable urban development in MENA will be to better address and solve urban transportation issues. Therefore, smart city principles must be applied, for instance by increasing shared use and smoothing transportation demand. New infrastructure will be required to improve service delivery, and smart solutions must be applied in areas other than transportation to optimize energy, as well as water supply and demand, by using sustainable and smart metering. Additionally, to enable and increase innovation in the urban space, design standards, regulation and legislation must be improved to meet and exceed required targets.

### Innovation in construction, building materials and equipment

Construction output, as a percentage of 2013 GDP, ranged from 1.8% in Kuwait to 10.5% in the UAE. The MENA construction, building materials and equipment industry has demonstrated that it is able to successfully deliver megaprojects; one such project, the “one-mile tower”, is currently under discussion in Dubai and estimated to be worth \$1.2 billion. Therefore, the region has the potential of driving innovation that could be applied globally. Yet, to provide a successful, global impulse, it must consider topics of major concern worldwide, such as technological innovation, ecological and carbon footprint reduction, business efficiency and global competitiveness, as well as the skills gap and labour standards.

This sub-topic also included:

- What are the important challenges and opportunities for the region’s construction, building materials and equipment industry?
- What new technologies will be able to disrupt the industry, and what will drive change in the industry on national and regional levels?
- How can the industry employ leading practices and lessons

learned from other countries to provide maximal value to society?

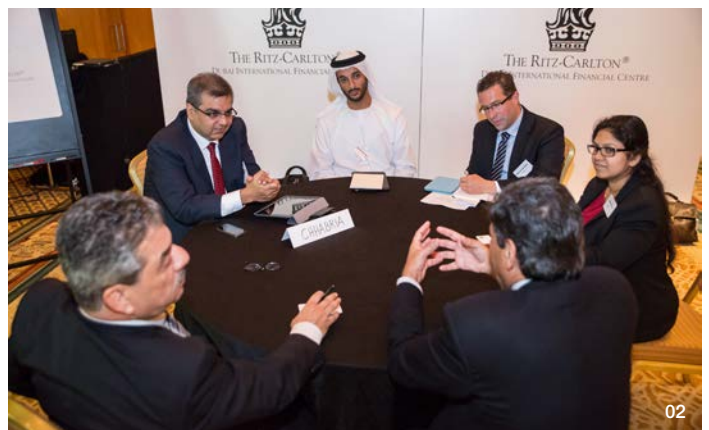
Accelerated innovation in construction, building materials and equipment requires not only investment in improved education of local architects and engineers, but also proactive support from government. Sustainable regulation, which is rigorously enforced by local government, must be an important driver of change. This includes the introduction of new regulations to encourage and promote sustainable leading practices. Emerging markets such as China, which became the largest solar energy provider globally, show that being a technical innovator is not necessarily a requirement for becoming the sustainability industry’s world leader. MENA should better apply the lessons learned from emerging and mature markets to be ahead of the curve in sustainability.

### Innovation in real estate

According to the UN Human Settlements Programme (UN-Habitat), eight MENA countries will be more than 90% urbanized by around 2030: Bahrain (95%), Kuwait (98%), Lebanon (94%), Libya (92%), Oman (95%), Qatar (96%), Saudi Arabia (93%) and the UAE (93%). All MENA nations face



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**01:** Breakout session on Innovation in Sustainable City Development, led by Tony Lovell, Head of Middle East, Arup Group, United Kingdom

**02:** Breakout session on Innovation in Real Estate Investment and Municipal Finance led by Deepak Chhabria, Managing Director, Finance, RMZ Corp., India

**03:** Breakout session on Innovation in Construction, Building

Materials and Equipment, led by Talal Khalid Idriss, Chief Executive Officer, Bahra Advanced Cable Manufacture, Saudi Arabia



the challenges of rapid urbanization. At the same time, a major challenge in the region is the high percentage of informal housing, reaching 20-40% in some parts. While this situation is creating social pressures, it could provide economic opportunity for lower-income groups, according to the World Bank. New business models might be needed to enable access to private housing, satisfy changing customer needs and respond to demographic trends as well as the respective infrastructure demand.

This sub-topic also included:

- What are the important challenges to and opportunities for the real estate and urbanization industry in the region?
- What are the new models in the real estate industry, and what will drive change in it on national and regional levels?
- How can the industry employ leading practices and lessons learned from other countries to provide maximal value to society?

Innovation in real estate must take place in many areas to satisfy future customer needs. However, in the Middle East, one of the important real estate-related challenges is the need for affordable housing. Innovative solutions to increase social housing inventory include implementing new regulations, such as a vacant land tax to reduce rents and property prices. Furthermore, to increase capacity, different incentives to promote social housing, and changes to building regulations and zoning, must be employed. New construction methodologies, for instance modular and prefabricated construction, can be used to make real estate more efficient and affordable. The development and growing use of sustainable

construction materials will reflect increasingly consumer demand. In this area, industry has to play a leadership role, since MENA governments are perceived as laggards in sustainability standards. Public-private cooperation models could play an important role in advancing sustainable and life-cycle-focused building standards. In addition, discipline is needed in urban design, as is an understanding of the role of development, to ensure that the right incentives and government subsidization are in place. In MENA, planners, architects and engineers must be better educated to build according to green/sustainable standards. Leadership is crucial for making the real estate business model work for the sector's multiple stakeholders.

#### Innovation in real estate investment and municipal finance

The greatest urban growth in MENA is expected in Saudi Arabia, where the population is estimated to increase by 4.5 million between 2010 and 2020. In the country today, an average home costs 700,000 SAR (approximately \$186,600), nearly 10 times the average national salary of 72,000 SAR. In the United States, home prices average three times the average salary. At the same time, according to the World Bank, infrastructure investment and maintenance needs for MENA are estimated at \$106 billion per year between 2012 and 2020, or 6.9% of annual regional GDP. The challenge will be to better attract capital for investment and to find suitable capital allocation mechanisms; new ways of financing are needed for that. Developing an end-user-oriented, PPP approach for the sustainable real estate market is something that the Dubai Real Estate Institute, for example, is assessing together with the UN.

This sub-topic also included:

- What are the important challenges and opportunities for real estate investors and pertaining to municipal finance in the region?
- What are the new models in real estate investment and urban finance, and what will drive change in the industry on national and regional levels?
- How can the industry employ leading practices and lessons learned from other countries to provide maximal value to society?

Investment in real estate in many parts of MENA is still perceived to be relatively risky. Admittedly, real estate investment, as well as innovations in municipal finance, flourish best during political stability. Therefore, leading practices in investment and financing must be better adopted to facilitate and increase access to institutional as well as private capital which, while sufficiently available in the region, needs to be better allocated. Improvement of capital allocation is required particularly for smaller municipal projects. Local funds must be used to increase the accountability of municipal projects in order to better address and solve informality and affordability issues – a common vision and mission of MENA, which has to define realistic targets to better attract long-term capital. This vision might also include increased monetary and fiscal coordination on the regional level to reduce uncertainty, which improves attractiveness to private and institutional investors, and increases financial capacity by attracting global investors. This in turn helps to overcome the region's inhomogeneity by better identifying who does what, best. Finally, some Middle Eastern governments are better than others at creating an environment of transparency and accountability. Leading anti-corruption practices must be adopted to improve the investment climate.



**01:** Breakout session on Innovation in Real Estate, led by Mohammed Alshaya, Executive Chairman, Alshaya Group, Kuwait; and Nicholas Brooke, Chairman, Professional Property Services, Hong Kong SAR

# Anti-Corruption and Transparency for Growth

*Lunch Discussion, Ritz Carlton Hotel, Monday, 2 June, 13:30 - 14:45*

## Session Description

As the demand for infrastructure continues to increase in the region, public and private entities try to find ways to support the rapid expansion of projects. At the same time, transparency-related difficulties remain a significant impediment to growth in the engineering, construction and real estate industries.

The World Economic Forum recently launched a project to address the opportunity for industry-wide engagement on anti-corruption. This session provided a chance to the infrastructure industry to hear about how transparency impacts regional business and to discuss common concerns. The outcomes of the session will be reflected within the entire project.

The session explored:

- To which extent does transparency enable growth?
- Which risks are associated with missing transparency across industries?
- How can a multi-stakeholder approach increase transparency?

## Discussion Leaders

Michael Buehler, Associate Director, Head of Real Estate, World Economic Forum, Switzerland  
Duong Phuong, Senior Project Manager and Global Leadership Fellow, Partnering Against Corruption Initiative (PACI), World Economic Forum, Switzerland  
Celine Schreiber, Program Manager,

Pearl Initiative, United Arab Emirates  
Maie Omar Bin Laden, Deputy Director of CSR, Construction Products Holding Company (CPC), Saudi Arabia

## Speaker

Craig Plumb, Head of Research for MENA region, Jones Lang LaSalle, United Kingdom

## Moderated by

Gretchen Jonker, Associate Director, Partnering Against Corruption Initiative, World Economic Forum, Switzerland

## Key Points

- The group consensus was that lack of transparency and corrupt practices negatively impact the real estate and Infrastructure industries by creating risk in a variety of areas
- In addition, many of the participants voiced the importance of running an organization based on ethics and values allowing an environment where employees take pride in 'keeping a clean house'
- Several of the CEOs and Chairmen also stressed the importance of finding industry solutions and working together for a stronger industry with more stability. This includes public private partnerships, defining corruption and common industry agreements

## Synopsis

The session began with a presentation by Mr Craig Plumb from JLL on the Real Estate Transparency Index developed and promoted by JLL for use in the global real estate industry.

Mr Plumb began his presentation by emphasising why transparency and anti-corruption were pertinent issues in the industry and how the issue cut across global markets, with a particular focus on the MENA region. He then explained that the Global Real Estate Transparency Index has been in existence since 1999 and focuses on commercial real estate, supporting investors and others anticipate and deal with transparency related challenges in the industry. Mr Plumb drew particular attention to the fact that greater industry investment occurs in markets with greatest transparency.

The presentation was followed by breakout discussions over lunch, with participants sharing their own experiences of corruption and ideas about how their companies mitigate the risk. Some of the opinions held by participants included the need to properly define what corruption entailed in the industry and in the region, allowing for variances in cultural and country-level norms.

Other comments included:

- A broad agreement about the negative impact of corruption on the industry and a common failure to factor in the risk premium caused by corruption which could then inform the risk return trade off that businesses engaged in to justify their responses
- The benefits of transparency in better understanding cost differentials across land, acquisition, rents, tax, etc.
- The need to bring in the right local advice to illuminate the reality of local market conditions

- It was noted that many companies would never involve themselves in projects they felt were anything other than wholly legitimate, however they are nevertheless reluctant to report their suspicions due to the fear that their future prospects of doing business may be damaged.
- Some participants observed how corruption can also erode state institutions and that it was important to take both a long term and short term approach to weed out corruption and safeguard the industry from its effects.
- Some of the participants spoke about the importance of inculcating in employees a culture of zero tolerance of corruption and give them the means to report instances without the fear of punishment or retribution.
- They also commented on the need to drive this culture of integrity right down the supply chain and be aware of the undisclosed relationships and conflicts of interest that created particular risks
- The use of labour was also identified as a key risk dimension due to the prevalence of foreign labour and the reliance on intermediaries for common transactions
- A concluding remark was to the effect that compliance and a culture of zero tolerance towards corruption was a way of doing business and all companies had to have their house in order before looking to others despite the fact that the cost was on the overall system.



**01:** Presentation by Craig Plumb, Head of Research, MENA Region, Jones Lang LaSalle, United Kingdom  
**02:** Networking during lunch  
**03:** Lunch Discussion on Anti-Corruption and Transparency for Growth





# List of Participants

## From Business

Carlos Poñe	Country Manager, South Africa	ABB	United Arab Emirates
Elfatih Said	Chief Executive Officer	Abu Dhabi Business Hub	United Arab Emirates
Bassel El Dabbagh	Chief Executive Officer, Abu Dhabi	Agility	United Arab Emirates
Tham Phuay See	Chief Assets Officer	Al Ain Properties	United Arab Emirates
Aqueel Bohra	Director, Project Development	Al Nowais Investments	United Arab Emirates
Benyamin Fahmy Salama Farhan	Chief Operating Officer	Alshaya	United Arab Emirates
John Hadden	Senior Vice-President, Property	Alshaya	United Arab Emirates
Mohammed Alshaya	Executive Chairman	Alshaya Group	Kuwait
Riad Bsaibes	Chief Operating Officer	AMANA Buildings	United Arab Emirates
Hassan El-Sayed Hassan Abdalla	Vice-Chairman and Managing Director	Arab African International Bank	Egypt
Patricia J. McCall	Executive Director	Arab Stabilization Plan (ASP)	United Arab Emirates
Rasheed Mikati	Executive Director	Arabian Construction Co.	United Arab Emirates
Dennis Wijsmuller	Chief Operating Officer	Arqaam Capital	United Arab Emirates
Tony Lovell	Head of Middle East	Arup Group Ltd	United Kingdom
Malek Sukkar	Chief Executive Officer	Averda	Lebanon
Talal Khalid Idriss	Chief Executive Officer	Bahra Advanced Cable Manufacture Co. Ltd	Saudi Arabia
Faysal Alaquil	Director, Department of Business Development & CSR	Construction Products Holding Company (CPC)	Saudi Arabia
Mouhtaz El Sawaf	Vice Chairman of the Board and Chair of the Executive Committee	Construction Products Holding Company (CPC)	Saudi Arabia
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Abdulla Nasser Lootah	Secretary-General	Emirates Competitiveness Council (ECC)	United Arab Emirates
Pasha Bakhtiar	Chief Executive Officer	ES Bankers (Dubai) Ltd	United Arab Emirates
Mark Lemmon	Chief Executive Officer of MENA Infrastructure	Fajr Capital Limited	United Arab Emirates
Dino Varkey	Executive Director	GEMS Education	United Arab Emirates
Wadie Habboush	President and Chief Executive Officer	Habboush Group	Iraq
Riadh Habboush	Chairman	Habboush Group	Iraq
Abdulsalam Haykal	Chief Executive Officer	Haykal Group	United Arab Emirates

Craig Plumb	Head of Research for MENA region	Jones Lang LaSalle	United Kingdom
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Sarah Abdallah	Deputy General Manager	Qatari Businessmen Association (QBA)	Qatar
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Tomas Carlsson	Chief Executive Officer	SWECO AB	Sweden
Tabish Gauhar	Partner	The Abraaj Group	United Arab Emirates
Sir Mohammad Jaafar	Chairman and Chief Executive Officer	The Kuwaiti Danish Dairy Company KCSC	Kuwait
Muneer Ferozie	Regional Head - PPP, Privatization and Infrastructure Financial Advisory - Middle East, North Africa and Pakistan	The World Bank	USA
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## Experts

Marc Dahlke	Principal	Boston Consulting Group	United Arab Emirates
Tiago Guerra	Senior Project Manager and Consultant	LUSITANIA Insurance Company	Portugal
Celine Schreiber	Program Manager	Pearl Initiative	United Arab Emirates

## From the World Economic Forum

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The Infrastructure & Urban Development Industries aim to serve as a forward-thinking, valuable and internationally recognized partner for all stakeholders involved in infrastructure and urban development. In addition, it seeks to shape the sector's agenda, creating unparalleled opportunities to convene leaders, raise global awareness, conceive frameworks and prepare workable recommendations in the context of improving the state of the world.

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