“Grey list removal is milestone for investor confidence”, Op-ed in Arabian Gulf Business Insight (AGBI), 1 Mar 2024

The opinion piece titled “Grey list removal is milestone for investor confidence” appeared in the Arabian Gulf Business Insight (AGBI) on 1st March 2024.

The article is published below.

Grey list removal is milestone for investor confidence

Coming off the FATF list is testament to UAE’s willingness to improve overall governance

A collective sigh of relief could be heard this week over the UAE’s removal from the Financial Action Task Force “grey list”.

Being on a grey list can damage a country’s reputation, and its sovereign credit rating, and adversely affect macroeconomic stability.

The FATF provides a framework of country measures to protect the integrity of global financial systems from illicit cash flows, money laundering and terrorist financing.

The grey list includes countries “that are actively working with the FATF to address strategic deficiencies in their regimes”, whereas the “black list” are high-risk jurisdictions (currently including North Korea, Iran and Myanmar) “that are not actively engaging with FATF to address these deficiencies”.

The International Monetary Fund finds that FATF grey-listing results in a large reduction in reported capital inflows, including foreign direct investment (FDI), portfolio flows, banking, payments and other flows.

Despite being on the list since 2022, the UAE has been resilient, has worked actively with FATF and continued attracting FDI and capital inflows.

The United Nations Conference on Trade and Development reports that the UAE (despite its much smaller economic size) ranked second after the US for greenfield FDI – in which a company creates a subsidiary in a different country from the ground up – in 2023, with project announcements rising by 28 percent.

In 2022, the UAE was ranked first in both the West Asia and Mena regions, receiving 47 percent and 32 percent respectively of total FDI inflows to the regions.

Both Abu Dhabi Exchange and Dubai Financial Market reported higher net foreign inflows in 2022-23, thanks to economic growth, a rising weighting in the MSCI Emerging Markets Index, and more initial public offering listings.

Dewa, Borouge, Salik and Empower are IPOs that gained high levels of foreign participation in 2022. In 2023, the UAE’s eight IPOs raised $6 billion. On the Abu Dhabi Exchange there was a 35 percent jump last year in the foreign ownership of shares in listed companies.

The UAE’s removal from the grey list is testament to the country’s willingness to improve the overall governance and transparency of its banking/financial sector and address weaknesses.

The removal also shows the country has increased its ability to deter illicit money flows, undertake financial investigations and extradite financial criminals.

The return to conventional status will confirm and strengthen investors’ trust and confidence in the UAE as a trade and financial centre, leading to an increase in capital, FDI, transfer of technology and portfolio flows.

The removal will support the development and expansion of the banking and financial sector (domestically and internationally) and financial markets, as well as the outward facing financial free zones. Another major beneficiary will be the asset and wealth management activities of UAE-based family offices.

The FATF de-listing reinforces the positive news for the UAE from the Organisation for Economic Co-operation and Development’s review of preferential tax regimes. This rated the UAE’s corporate tax regime for free zones and IFCs as “not harmful”.

It is important that the UAE continues on its journey in adopting and implementing international best practice and standards, and strengthens its financial regulatory regimes and systems.

However, an unintended consequence of FATF standards is an increase in compliance costs.

The costs of doing business for banks and financial service providers is often heightened by de-risking. The cost of providing formal financial services to micro- and small businesses, which are a major source of job creation and economic diversification, often rises.

Safeguards against money laundering and terrorist financing need to be designed and implemented to avoid negatively affecting financial inclusion and disincentivising the use of the formal financial system by ordinary individuals, businesses and micro- and small businesses in particular.

Simplified customer due diligence requirements can be introduced for low-risk financial inclusion products; processes for higher risk products can be enhanced using a risk-based approach to address concerns over money laundering and terrorist financing.

Similarly, digital ID systems can be used to support anti-fraud functions and to develop e-solutions that circumvent burdensome paper-based systems.

The UAE’s removal from the grey list is an important milestone and signals the growing integrity and maturity of the country’s banking and financial sector through the adoption of international standards.

This positive move further cements the UAE’s position as an international trading and financial hub.

Time to open up UAE stock markets to free zones,

Article in The National, 8 August 2019

The article titled "Time to open up UAE stock markets to free zones" appeared in The National's print edition on 8th August, 2019 and is posted below. Click here to access the original article.

Time to open up UAE stock markets to free zones

The UAE's three stock markets – the Abu Dhabi Exchange, the Dubai Financial Market and Nasdaq Dubai, have a total of 175 listed companies, with a combined market capitalisation of $230.6bn, or Dh846.8bn (as of 31 July), resulting in an equity to GDP ratio of 62.6 per cent. The markets are dominated by domestic retail investors but a number of measures can be taken to make them more dynamic and help further enable a transformation of the UAE into a more well-diversified, modern economy able to innovate and adapt to rapid technological change:

Allow free zone (FZ) companies to list on the exchanges to dynamise the markets

Several recent initiatives could be liberalising and market building:

- The One Free Zone Passport Initiative by the Dubai Free Zone Council allows firms to operate in multiple free zones on a single licence, lowering costs of establishment and increasing mobility. Details of how this will work in practice have yet to be announced.
- The Emirates Securities and Commodities Authority (SCA) announced that it was working with companies in free zones, and SMEs to facilitate access to finance through market listing (via a first-of-its-kind platform), through IPOs.

- Similarly, Abu Dhabi introduced a dual licensing scheme for onshore and free-zone firms last year, while the Dubai DED’s MoU with the Dubai Free Zone Council makes it possible for FZ companies to operate onshore and DMCC announced in July 2019 that it was partnering with DED to introduce a dual licensing scheme.

The game-changing reform would be to allow the listing of FZ companies on the exchanges. This structural reform would strongly boost the growth, development and diversification of the UAE’s capital markets. Allowing the listing of FZ companies would reduce the existing concentration risk, enabling companies from a wide variety of sectors from banking and finance in the DIFC and ADGM, to trading, manufacturing and industry, to health, pharmaceuticals, media, digital services, in the FZs, to provide substantial investment diversification benefits to investors, reducing the overall risk of investing in UAE markets, as well as promising returns that are not strongly correlated with the domestic economy with its high dependence on the energy sector.

Economic importance of the free zones

The UAE developed FZ clusters as a major policy instrument for economic liberalisation and diversification long before its regional peers. It has one of the highest number of FZs in the world: some 45, of which about 30 are in Dubai including Jebel Ali Free Zone (JAFZA), a global trade and logistics hub linked by a customs free corridor to Al Maktoum International Airport and processing trade worth $83bn in 2017. JAFZA is home to more than 7,000 businesses originating from over 100 countries, and attracting an estimated 24 per cent of the UAE’s FDI. The Dubai Multi Commodities Centre hosts more than 15,000 companies and contributes less than 10 per cent of Dubai’s gross domestic product. The DIFC is Dubai’s banking and financial FZ with 2003 active, registered companies, and contributed some 3.9 per cent to Dubai’s GDP last year. The bottom line is that the FZs are a major contributor, in excess of 45 per cent of Dubai’s economy and some 30 per cent of the

UAE’s economy. More importantly, the FZs are the main hubs of innovation and adoption of modern technologies in the UAE and are the embodiment of economic diversification, complementing the oil and gas dependent domestic economy.

UAE capital markets can boom through the FZ companies

Despite their large economic contribution, the businesses in the FZs are not represented in the UAE’s capital markets. What if a fraction of FZs companies were allowed to list or tap the capital markets by issuing bonds, commercial paper, sukuk and other instruments? Inclusion of FZ companies would:

- Increase the size of the capital markets by some $85bn to a total capitalisation of $345bn (equivalent to 90 per cent of GDP), while the bond and sukuk markets could plausibly double in size.
- Lower risk by providing access to the more diversified economy including the FZs, attract foreign investors and FDI.
- Retain domestic saving that would otherwise be remitted abroad, thus widening the investor base and improving the balance of payments
- Widen access to equity and debt finance for FZ companies, support their development and growth, expand the size of the FZs and their contribution to the UAE economy and its diversification.
- Result in lower volatility/risk of market returns through the greater depth, breadth and liquidity of expanded markets.

The prospects are promising but opening the markets for FZ companies requires a number of building blocks: a robust legal and regulatory framework, including reforming listing rules and regulations to allow access for FZ companies; transparency and disclosure by the FZs providing data, statistics and information about FZ companies to allow comparative analysis on a regional and international basis. FZ companies would clearly need to disclose their audited financials, upgrade their corporate governance and comply with applicable international codes and standards, including AML/CFT.

The bottom line is that the UAE should open its capital markets to allow access to FZ companies that will boost capital formation, dynamise the markets, encourage domestic and foreign investment and help achieve the overarching objective of job creation and economic diversification.