

FOCUS

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Growth in the Gulf Region

GCC Economic Growth

The Gulf Cooperation Council (GCC) growth model has delivered strong economic and social outcomes over several decades. Low oil prices, geo-political instability and lower government expenditure are the three most important economic issues for the GCC region during 2016. GCCs growth is expected to fall from 2.9 per cent in 2015 to 2 per cent this year, the lowest since 2009.

GCC share a common vision for economic development, set out in national development plans that highlight the need for diversification of the productive base to reduce dependence on the hydrocarbon sector. Greater diversification would reduce exposure to volatility and uncertainty in the global oil market.

Targeted areas for diversification include integrating economies with the global knowledge economy, encouraging entrepreneurship, attracting foreign investment, fostering innovation, and ensuring access to finance for small and medium sized enterprises (SMEs).

SMEs are the backbone of any successful and sustainable economy and are often considered as the main drivers of economic growth, development and diversification. It is imperative for all SMEs to raise their 'game' to higher standards and focus on

essential survival strategies to edge past the masses.

- Understand diversification priorities and align strategy
- Leverage global talent to develop local skills
- Develop partnerships and synergies with range of regional companies in key sectors
- Exploit regions strategic position to reassess global supply chains & corporate structures
- Regular dialogue with both the broader business community and government
- Focus on strategies to utilize growing physical integration of the GCC markets
- Articulate how business solutions are relevant in crucial areas
- Ensure that corporate responsibility initiatives align with stability needs
- Robust Business Plan
- Business Innovation
- Talent Development

A Boost to the Growth:

The new Bankruptcy law provides a comprehensive legal framework to assist distressed companies in the UAE. It seeks to safeguard the rights of both creditors and debtors in insolvency situations, including measures that prioritize secured

creditor rights and enable companies to restructure without unanimous creditor approval.

Companies large and small that run into financial trouble are all but unable to persuade the local courts to offer a moratorium on debt claims while they restructure their business and finances, leaving them at the mercy of creditors.

The issuance of this new law 'aims to strengthen the legal sustainability and attractiveness of the investment environment and to increase the ease of doing business.'

This would make the national economy more competitive and investment environment more attractive. It will enhance the economic and investment legislative system thus contributing to better ranking of the state in the global indicators in terms of ease of doing business, competitiveness, and entrepreneurship.

It would ensure the continuity of companies and provide the flexibility needed to manage their finances. This will give confidence to the investors hence increase FDI's resulting to one of the major factors in the growth of the economy.

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Five Most Under-Rated Real Estate Investments in Dubai

A more mature real estate market that is now evident, it's best to focus on mid-term to long term residential investments in ready units that go beyond 2020.

Scanning through multiple media sources it can be simplified that a few real estate properties and locations receive a greater coverage than others. Some go under the radar and are underrated, though are a lucrative opportunity for investors

There is a high potential for greater capital appreciation in areas that will benefit from upcoming infrastructure projects, retail space and attractions within the next 5 to 10 years.

Below are the top five underrated locations in Dubai that may be worth considering for investment:

1. Business Bay

One of the most prominent business districts in Dubai with connectivity to multiple hotels, business hubs and

retail options. The area has matured to be home for multiple multinational and large private companies. With excellent metro and transport connectivity, a truly ideal area for business and residents to reside.

2. International Media Production Zone (IMPZ)

IMPZ is dedicated and designed to meet the needs of the global media production industry. It will have an ecofriendly industrial environment. It will adapt the tested concepts and practices of recycle waste and enable companies to utilize each other's by products instead of disposing them off as a waste.

Renewable energy sources will be included in the infrastructure of the site and that will guarantee reliable and clean power. With its unique capabilities, making the zone and area an attractive opportunity for investors

3. Dubai Silicon Oasis (DSO)

With DSOs technology area already enjoying the strong infrastructure shall be included in Roads & Transport

Authority (RTA) of extension to the metro lines

4. TECOM

A prominent area with the multiple retail options including the Mall of the Emirates, the upcoming Mall of The World. An attractive area for residential and commercial related investments

5. Downtown Jebel Ali, Zone 1

Downtown Jebel Ali (DJA) is an 11-km master planned project, spread into 4 zones, situated on Sheikh Zayed Road opposite JAFZA and Dubai Waterfront. A short drive to the new theme parks, the Expo2020 site and Al Maktoum Airport.

Sources: Gulf News, Khaleej News, Valustrat, Department of Tourism and Commerce Marketing, REIDIN

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The Path To Peril – Companies Beware

Not many of us realize that we are in the midst of a revolution; some of us would like to term this as a new industrial revolution. I would rather coin it as a 'service revolution'. We are on the threshold of a service revolution driven by the incessant demanding consumer.

Yes, we are just on the threshold of this new revolution and the coming decade with witness the rapidly changing landscape of business models. Today's customer is looking for a better 'experience' in whichever product/service he or she chooses.

What is a better experience?

(i) A better and improved product/service (ii) at a reduced cost (iii) with an exceptional customer service is expected by default. A good product at a reasonable price can fail if the customer/consumer does not have a good experience with the company as there are always others who would offer the same/similar product at a similar cost.

Change is the constant. In the world in which we are now living, the current 'change' is driven by technology, particularly the digital technology. I am

unable to figure one single aspect of life which has not changed due the new technological advancements. Digital technology is everywhere, its omnipresent.

This is actually the path to extinction; consumer and customers will not give a second thought to move to a different supplier if the 'experience' is better or presumed to be better. Brand royalty is becoming fickle unless it is supported by the good experience.

Business houses, whether big or small must gear themselves and invest in technology to continue to innovate and try to satiate the demanding consumer. Improvement in the company's processes which saves costs and/or makes the process more efficient is also an innovation. Giants like Nokia, Blackberry and Kodak who were leaders in their own fields have succumbed as they failed to keep pace with innovation.

It is not the strongest of the species that survive, nor the most intelligent that survives. It is the one that is the most adaptable to change – Charles Darwin

Acute competition, performance pressure, lower margins, increasing

customer expectations and global consumers are here to stay. Technology has made both the large 'goliaths' and the small 'davids' to attract similar consumer attention by the help of a global platform which is accessible equally to all. I will not be surprised if in the future, even a mobile phone or tablet is offered free to the customer where the manufacturer earns from targeted advertisements.

This has forced the managements to continuously readapt themselves and come out with new ideas routinely and then to ensure their continuity. Many forward-looking organizations have Innovation officers who to take a pulse of the 'future' market based on the probable innovations expected soon.

Companies and its leaders would need to accept that innovation is irresistible and perpetual. The investment is both in the form of funds and initiative. Companies, whether small or large, who have this tone at the top will excel and even large companies which disregard this technology change are treading on a path to peril. Perform or perish.

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The effect of Brexit on the exchange rate

We have all read a lot in the press and are already feeling the pinch of the falling pound. Whilst this is wonderful news for us in the export sector, inflation will be a key factor of consideration.

Whilst British produce is amongst the finest in the world, we rely significantly on imported food. Though consumers are expected to place greater emphasis on British products, the average supermarket basket is expected to become pricier.

Of course, on the other side, the depressed Sterling should in theory make holidaying in the UK more attractive. However, an overall slowdown in major global economies (which are the key source of Tourists in Britain), may be the reason why visitors are being thrifty and not digging deep into their pockets.

One of the lesser discussed impacts of Brexit is the fact that the falling Sterling is probably going to make the London Housing crisis worse.

As London remains a top global destination, investors abroad are now keener than ever to get their hands on our real estate. Perhaps, this is the best test for Sadiq Khan's Homes for London campaign – and whether the thousands of homes he has promised, are delivered to Londoners!

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Stay Away Bad Debts?

Financial challenges may convert to grave economic difficulties. Threats may show up towards bankruptcies. Warnings, if ignored, may lead to insolvency of customer. Preemptive action can avoid such circumstance.

Certain inconspicuous signals are vital and need to be recognized outright. Non-collection from customers can be easily avoided when appropriate action is taken at the right time on noticing and investigating in depth certain customer-red-flags highlighted below:-

1. First-time huge order

While struggling to achieve revenue targets, large orders may be taken up with minimal urgent checks. Apposite credit worthiness checks if not done before transacting will lead to non-collection and fraud.

2. Growth, expansion or something else?

If customer is financially stressed, is it due to expanding their own business or is it venturing into greener pastures or is it that others in line with you are panicky about their collections?

3. Changes in annual accounts closure date

Date change may be embraced with specific objectives like loss dilution, mitigating recurrent bad results or liquidity issues with favourable seasonal impact.

4. Customer going concern issue

Delayed regulatory filing due to adverse monetary numbers and/or modified audit report of the customer may lead to uncertainty of business continuity of the customer.

5. Customer suppresses standard information

The customer cannot be met? Is the customer hiding information or reluctant to share standard information?

6. Arranging new finance or restructuring credit lines

Is the shakeup for major expansion or for covering hefty financial damages?

7. Slow account payments

Why restraint is not exercised when the amount receivable already falls in an old aged bucket and sale orders are still being executed?

8. Loss of an important employee

Is there high turnover of important executives and/or the loss of key decision maker of the customer?

Is immediate replacement of key skillsets being ignored by the customer?

9. Reasoning for delay

When customer gives any of the following reasons for dilly-dally on payments, it may be construed that such customer will soon become bad:-

- (i) Cheque signatories unavailable;
- (ii) audit is in progress;
- (iii) bankers are being changed;
- (iv) banking facilities are being altered;
- (v) glitch in information technology and underlying systems;
- (vi) regulatory inspection is underway.

10. Customer's cash flow affected

Are there other suppliers to the customer who have not received any payments? Are statutory dues not being made on time? What about salaries and wage payments?

11. 80/20 Pareto Principle

Some industries thrive on the 80/20 Pareto Principle (more than 80% of revenue is generated by 20% of customers). Did the customer's major customer go bust?

12. Repeat requests for further trade discounts

If customer assures repeat orders but repeatedly requests for more and more discounts, it could be a case of financial crunch for the customer.

13. Non-compliance with agreement

Did the customer fail on the terms of agreement and continually insist on further deliveries?

Market awareness, exercise of caution at all times and case-by-case investigation is a must. Inexorable credit appraisals and continual recovery process embossed in the system will persistently facilitate 'keeping clear of bad debts'.

Staying away from bad debts wouldn't be really grim!

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Neighbors

The Messenger of Allah (peace be upon him) said:

“Be kind to your neighbor and you will be a believer; love for the people what you love for yourself and you will be a Muslim”.

[Sunan At-Tirmidhi, Book of Asceticism, Number 2305, Sahih]

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Crowe Horwath - Your global partner

Crowe Horwath in UAE is a leading member firm of Crowe Horwath International which is ranked as the top 9 global accounting network with more 752 offices with 33,000 partners and staff. In 2016, Crowe Horwath is ranked as the 5th largest accountancy network in United Arab Emirates.

The firm continually demonstrates a commitment to quality and provides an exceptional experience to those clients it serves. As a multidisciplinary practice, we offer unparalleled access to international expertise and talent. Our commitment, to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

Providing quality and efficient professional services leverage by our extensive experience of local businesses and a high level of partner involvement. Our aim to provide due diligence with care has enabled us to serve a diverse range of clients ranging from small family-owned businesses to large multinational conglomerates.

Smart Decisions. Lasting Value.

Connecting deep industry and specialized knowledge with innovative technology, our dedicated professionals create value for our clients with integrity and objectivity. We accomplish this by listening to our clients about their businesses, trends in their industries, and the challenges they face. We forge each relationship with the intention of delivering exceptional client service while upholding our core values and our industry's strong professional standards.

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*Source: The ranking is based as per International Accounting Bulletin's, April 2016 Issue 560, publication.