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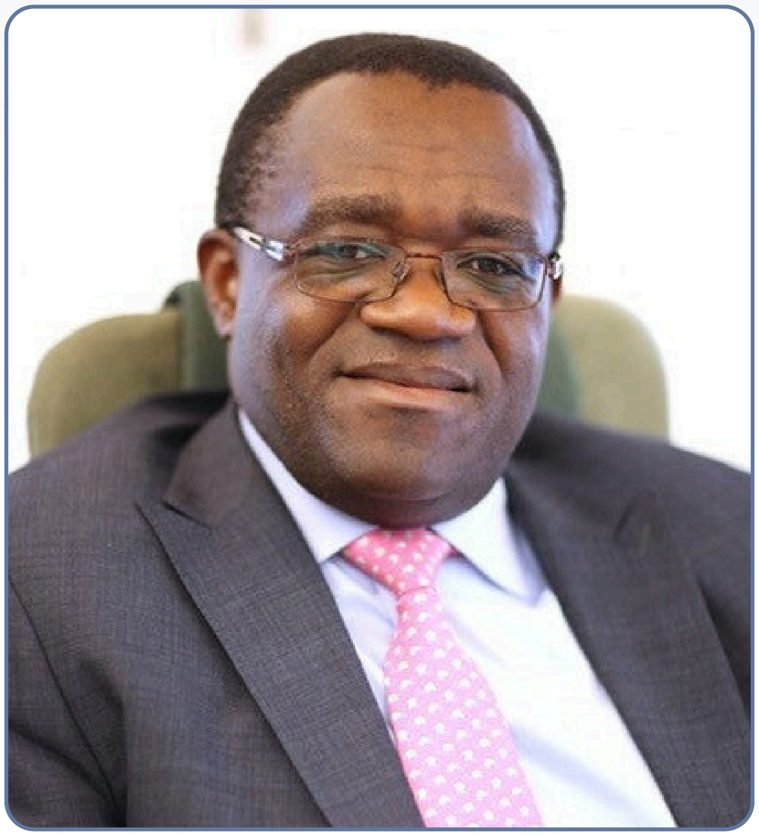

Dr. Paul Noumba Um
Former Regional Director, World Bank | Guest

Board·Talk

Edition #1

Dr. Paul, you're welcome to the first edition of Board Talk. For this segment, we'd love to hear your thoughts on the World Bank press release on the rise of Smart Spending in the GCC.

This report is an economic update about GCC countries and typically includes macroeconomic updates and thematic section addressing specific sectoral issues. In this case, making public spending more effective in Gulf countries. In most Gulf countries, spending remains significant and to achieve impact, public spending must be smart and efficient.

Yes, those are critical points. The transition from hydrocarbon-based economies to more diversified economies is indeed a huge challenge. Especially for public spending efficiency, which the World Bank report outlines.

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Exactly. Efficiency in public spending is key because a lot of money goes into state-owned enterprises and various public sector initiatives. If the spending is not smart and targeted, it won't generate the desired economic impact.

Improving the efficiency of the public sector also entails reforming institutions and enhancing the governance structures underpinning the delivery of public spending. This includes transparency, accountability, and creating an enabling and favorable environment for private sector growth alongside.

The transition cannot happen overnight. Globally, the demand for hydrocarbons is actually increasing with the demand for oil and natural gas going up. Until that demand goes down, I don't think the Gulf countries or other hydrocarbon-rich countries have a major problem. The point is how to use the proceeds from oil and gas to build a vibrant non-hydrocarbon economy that progressively takes over when the demand for hydrocarbons eventually declines.

So, would you say the role of sovereign wealth funds becomes crucial in managing the transition and diversification?

Absolutely. The Gulf has large sovereign wealth funds as well, some bigger than Norway's. Take Norway, for example, a country highly dependent on hydrocarbons as well. What they have done is take the wealth coming from hydrocarbon revenues and invested it into a sovereign wealth fund (SWF). This fund buys equities and invests strategically across various sectors, helping to promote a diversified economy. Norway can export oil, collect revenues, and use that money to build a new economy not dependent on oil.

The Gulf countries need to accelerate the transformation pace of their economies. The challenge is to ensure that SWFs resources contribute to the Golf economy diversification domestically. There is now a growing emphasis on domestic sectors, especially those that help the energy transition, such as renewable energy and this may help accelerate the pace of economic diversification.

Are there examples of Gulf sovereign wealth funds actively participating in domestic economic reforms?

Yes, several funds from Saudi Arabia, the UAE, and Oman now have clear domestic mandates. They are involved in national economic reforms and local investments focused on energy transition sectors. This marks progress in developing non-hydrocarbon sectors domestically.

Are there risks involved in shifting investments closer to home?

Certainly. Attempts to shift investments closer to home will potentially result in greater financial risks, sometimes leading to lower returns for the long-term national economic benefits.

How critical is infrastructure investment in this process?

Extremely important. Modern infrastructure supports new industries, improves competitiveness, and allows GCC countries to maintain a high quality of life, which helps attract and retain skilled professionals.

The focus on economic diversification has created tremendous potential for infrastructure growth in GCC countries.

Each GCC country's "Vision" document guides systematic infrastructure development, with several large-scale projects in progress to attract foreign direct investments. These projects also promote circular carbon economies and advance competencies across oil and gas value chains.

For example, GCC countries are planning approximately 8,000 km of railroad lines over the next decade to enhance regional connectivity and trade. Digital transformation and renewable energy are playing a significant role in economic diversification across the GCC.

GCC countries are harnessing solar and wind power and implementing innovative solutions like renewable-based desalination, district cooling, desert agriculture, solar-powered data centers, biofuels for aviation, and green hydrogen production.

That's very insightful, Dr. Paul. Thank you so much for sharing your perspectives and deep insights on economic diversification, public spending, and infrastructure development in the Gulf region. This will be valuable for our audience and businesses looking to understand the region better.

You're welcome, George. I appreciate the opportunity to share my views. It's an important conversation, and I hope it helps shed some light on the challenges and opportunities ahead for the Gulf countries.