



# The Middle East: current trends driving advice and structuring

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Having just returned from the Middle East following the opening of Ogier's new Dubai office, the overwhelming takeaway from the UAE and Saudi Arabia is the extraordinary pace of change.

This coupled with a boundless energy and a clear vision for the future makes for a very powerful combination indeed. Undoubtedly there will be challenges ahead but what is increasingly clear is the sense of "permanence" in the region.

What is happening now is for the long term in terms of the drive towards diversified economies, the infrastructure to support such economies and the work force to sustain them. In the UAE specifically we have seen significant investment in education domestically coupled with continued immigration with skilled and professional employees choosing to make Dubai and Abu Dhabi their permanent home for the future. The move from "transient" to "permanent" is very real and happening fast. Together the UAE and Saudi Arabia make up 45% of the ultra-high-net-worth (UHNW) population in the Middle East.

In the Middle East, the Knight Frank Wealth Report 2021 expects the number of UHNWIs (those with US\$30 million or more) will surge by 24.6% in the five years from 2020, with the region likely to remain the fourth largest wealth hub in the world.

Ogier has long had a significant footprint in the Gulf Cooperation Council (GCC) in terms of client mandates and we have seen strong growth in work from the region across multiple Ogier jurisdictions and service lines. We see increasing levels of work across our core service lines - Funds and Private Equity, Banking and Finance, Corporate, Dispute Resolution and Private Wealth. The purpose of this article is to consider some of the trends in the UAE and Saudi Arabia which are driving the sharp increase in activity and to consider how Ogier can assist clients and intermediaries in the region with advice and innovative and tested structuring solutions.

## Trend 1: the rise of the Kingdom

The scale and pace of change in Saudi Arabia is phenomenal and Vision 2030 is a key driver. Saudi Arabia is using its investment power to create a more diverse and sustainable economy. Further to use its strategic location to build its role as an integral driver of international trade and to connect three continents: Africa, Asia and Europe. This is happening now and at a rapid speed. The Saudi economy achieved 8.7% growth in its gross domestic product (GDP), the highest growth rate among the G20 countries in 2022, despite the difficult economic conditions and challenges, experienced by the world, according to the data released by General Authority for Statistics (GASTAT). While the contribution from oil and natural gas surged by 32.7% this was followed by government services activities at 14.2%, manufacturing activities (outside of oil) at 8.6% and wholesale and retail trade activities, restaurants and hotels by 8.2%.

In 2021, according to the Knight Frank Wealth Report, the number of UHNWIs in Saudi Arabia grew by a staggering 9.3% and notably in Riyadh and Jeddah.

In order to meet demand it is no surprise to see that leading international law firms and accountancy practices are either establishing a presence in Saudi Arabia or fast building out existing practices across multiple hubs in the Kingdom and across multiple practice areas to include infrastructure, corporate, banking and finance, funds, construction and real estate. The same for banking services both in corporate and private wealth with many of the major banks establishing or ramping up an existing presence.

What are we seeing at Ogier?

We have seen a sharp increase in structuring mandates from UHNW families in Saudi Arabia looking to structure their international assets. While this has led to traditional private wealth structuring with the use of trusts and private trust companies we have also seen a sharp demand for Jersey private funds (JPFs) and more innovative corporate structuring to meet client demand. JPFs have been useful for families or multiple but connected families wishing to spread risk and pool capital for specific real estate, private equity or venture capital investment opportunities. JPFs are highly flexible and are subject to a light regulatory regime in Jersey and are open to 50 or fewer eligible investors, though in practice many of the JPFs we have established for families or family offices in the region have involved a limited number of investors. From a corporate perspective, we have also advised on a number of pooled investment vehicles which have a required the split of economic and voting rights with the establishment of different classes of shares to ensure control with the founder albeit providing for orderly split of the income to the next generation. For some families it is too early to establish trusts and the families want a corporate solution to immediate structuring concerns with the possible overlay of trusts to follow.

## Trend 2: a more blended approach to domestic and

## international structuring

For many years UHNW families from the region have structured their international assets through the use of Jersey, Cayman, Guernsey and BVI structuring options often focusing on trusts and for bigger families, private trust companies. However, these structures were not always the answer for the holding of real estate and operating businesses situated in the region. What we have seen for a number of years now are genuine domestic structuring options and UHNW families taking a more "blended" approach to structuring their assets through a combination of domestic and international structuring options.

By way of example, Dubai International Finance Centre (DIFC) foundations have been available since 2017 closely followed by foundations in the Abu Dhabi Global Market (ADGM) and RAK International Corporate Centre (RAK ICC). At the end of 2022, a total of 619 foundations had been incorporated in the DIFC, the ADGM and RAK ICC and the number continues to rise fast. These foundations are typically used to hold real estate in the region but interestingly they are now being used for a wide variety of structuring opportunities - the holding of luxury asset classes or simply to act as an orphaned vehicle in a fund or corporate structure. This mirrors what we have seen in Jersey, Guernsey and Cayman in terms of their respective foundation offerings.

Another key initiative has been the evolution of new family business regulations issued in conjunction with the Global Family Business and Private Wealth Centre in the DIFC. Family owned businesses are the powerhouse of the GCC accounting for as much as 60% of GDP (with a higher number in the UAE). Many have grown rapidly taking advantage of simple decision-making processes and light touch regulation, though many still do not have effective succession plans in terms of the transfer of control to the next generation and beyond. Fundamental to the success of any family business is avoiding dispute and conflict and the new regulations now authorise family trusts or other entities holding family run businesses to incorporate binding arbitration procedures in the event of a dispute (for example, a forced heirship claim under Sharia law). The purpose of the new regulations is to assist the UAE Business Law to allow families to plan for the future in terms of succession, long term legacy planning and avoiding dispute. They also provide a framework whereby advisors, corporate service providers and registered persons can become "accredited" with a view to ensuring good governance, expertise and conduct. It is early days but the vision is a progressive one and over time with precedent should provide a genuine long-term solution to ensuring an orderly succession in respect of UAE situs assets.

Ogier has assisted families all over the world with their succession and estate planning requirements and ensuring an effective family governance framework with a view to the preservation of wealth whether from Jersey, Cayman, Guernsey, BVI and Luxembourg and are well placed to assist GCC families on their international structuring requirements. To the extent dispute resolution is required and sometimes this is inevitable, Ogier has significant and deep experience in dealing with disputes around trusts, companies, funds and estates.

## Trend 3: the great wealth transfer and the influence of millennials and generation X

Globally, there is a titanic transfer of wealth underway from one generation to the next and the Middle East is no different here except perhaps that, in contrast to western economies, the pivotal event is more likely a transfer from founder to first generation or second generation whereas dynastic US, UK and European families are traditionally some way further down the generational line. In the US, Cerulli anticipates from January 2022 to 2045 a total of US\$84 trillion will be transferred either to heirs (US\$72.6 trillion) or charities (US\$11.9 trillion).

In the Middle East, there have been decades of wealth accumulation and the need for a clear succession plan for the transfer of control, the family operating businesses and privately held assets is fundamental. As detailed above, the DIFC has taken proactive and innovative steps to assist families with assets and operating businesses in the region find solutions on a viable and binding succession plan. For many families this needs to go hand in hand with the structuring of international assets - cash, venture capital and private equity investments, foreign situate real estate and other private market opportunities. That is where Ogier can add real value.

Ogier has been at the forefront of structuring for UHNW clients for decades and has built up considerable experience in drafting dynastic structures designed to preserve wealth often partnering with other leading international law firms and accountancy practices. Tax has for the most part been a relatively simple experience in the GCC but even on tax there are the winds of change. We have already seen the introduction of VAT in the region and the coming into force of corporation tax in the UAE on 1 June 2023 is a key change. It seems likely similar corporation tax regimes will follow across the GCC to bring the region into line with OECD best practice. Tax will undoubtedly become more relevant in the region.

Advisors have always needed to be experts on the law, regulatory issues and tax but how do they keep relevant and engaged when it comes to millennials and generation X and is the GCC any different here?

The UAE is a global leader in technology, fintech and digital assets and Saudi Arabia is following a similar path. Technology is likely to be an integral catalyst for change and in finding simple and pragmatic solutions for millennials and generation X. According to Forbes in the US, fintech companies have agility, valuable technological capabilities, unique talent and invaluable brand positioning in the eyes of younger generations yet lack the scale and risk management of more established banks. Forbes predict more partnerships between traditional banks and fintech brands. The 2023 E&Y Global Wealth Research Report concludes three key bullet points:

1. millennial wealth management clients are more responsive, mobile and unpredictable than older investors

2. a sophisticated understanding of individual traits is key to meeting their needs and creating long term value
3. wealth managers can position themselves as trusted advisors by fostering good investment behaviour

Interestingly, millennials consistently show a stronger appetite for advice than older clients despite having an increased tendency to switch between providers. Undoubtedly, a strong and customised digital offering will be key as will sustainable investment options. One of the most interesting conclusions is around the need for personal advice and dialogue and the need for clear and regular communication and a steadying hand for millennial and generation X. The same themes apply to trustees and the need to communicate with millennial and generation X beneficiaries.

## **Trend 4: the premium on human capital and incentivising the work force**

The World Bank has recognised the need in the region to foster human capital development for new generations to include prioritising education, learning skills and promoting female labour force participation. The UAE has been a front runner in the region on promoting human capital allocating the largest proportion of its budget to human welfare and social development sectors notably in education and health. In Saudi Arabia, healthcare reform is a key corner stone of the 2030 Vision.

On education, both the UAE and Saudi Arabia need an educated and skilled work force in order bring respective visions into fruition. It is key for businesses in the region to reward, retain and attract talent. This applies both to home grown talent and the increasingly sophisticated and international work force. Millennials and generation X with particular and in demand skill sets are far more demanding on starting salaries and packages and if they are to be retained for the long term it seems clear that employee incentives will need to develop fast from where they are now. This is far more involved than simply end of service gratuity but should include looking at alternative off balance sheet strategies to include stock options, deferred bonuses and equity plans. Again having the technology, portal facility and professional service providers able to administer these plans will be fundamental.

Ogier has built up significant experience on all matters relating to the use of trusts for employee incentivisation and pensions over many decades. We act for corporates, trustees and employers around the globe who have existing schemes or want to introduce new schemes to retain and incentivise their key employees. Our team can design and structure new incentive arrangements including share options plans, savings schemes, bonus schemes as well as assisting with establishing a wide range of incentive arrangements including employee ownership trusts.

## Trend 5: the rise in venture capital - both outward and inward

Traditionally, outbound investment from the region has focused on real estate and, in more recent times, private equity but times are changing fast. The Financial Times reported in April 2023 that "Silicon Valley investors are touring the Middle East, seeking to build long-term allegiances with sovereign wealth funds during the worst funding crunch for venture capital firms for almost a decade". In return for investment, sovereign wealth funds from the GCC are taking significant stakes in hot tech sectors such as artificial intelligence. Many of the sovereign wealth funds have been prevalent in making venture capital investments but PIF, the \$620 billion Saudi sovereign wealth fund, has been particularly active with investment into US tech over the past decade.

But what about inward investment into venture capital? Both the UAE and Saudi Arabia have recognised the importance of the venture capital sector to achieve their visions and economic aims. Government led-initiatives in both the ADGM and the DIFC are well established with Hub-71 in the ADGM and the DIFC Fintech Hive in the DIFC (in addition to Dtec in the tech focused free zone Dubai Silicon Oasis). These are complimented with a tax free environment and institutional support networks with a focus on start-ups. In addition, the ADGM has created a specific regulatory framework for venture capital fund managers. In terms of funding, the sovereign wealth funds have been instrumental in funding but investment is now coming into the region with as much as 31% of investment now coming from outside of the region.

Traditional investment fund jurisdictions (including the Cayman Islands, BVI, Channel Islands and Luxembourg) play a prominent role in international venture capital fund structuring and can be expected to continue to be seen as the domiciles of choice for GCC-based managers looking to raise capital globally whether for deployment outside the GCC or domestically.

## Conclusion

Given the trends highlighted above we fully expect Ogier mandates in the region to grow as both the UAE and Saudi Arabia continue on their paths of rapid expansion, diversification and implementation of their respective visions. These are undoubtedly exciting times for the region.

*Read about the opening of Ogier's [new Dubai office](#) and learn more about our services on our [Dubai location page](#).*

### About Ogier

Ogier is a professional services firm with the knowledge and expertise to handle the most demanding and complex transactions and provide expert, efficient and cost-effective services to all our clients. We regularly win awards for the quality of our client service, our work and our people.

## Disclaimer

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## Key Contacts



[James Campbell](#)

Partner

[Jersey](#)

E: [james.campbell@ogier.com](mailto:james.campbell@ogier.com)

T: [+44 1534 514230](tel:+441534514230)



[David Welford](#)

Partner

[Dubai](#)

E: [david.welford@ogier.com](mailto:david.welford@ogier.com)

T: [+971 4 450 1901](tel:+97144501901)

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