

## **Interview with KIPCO Vice Chairman Executive, Mr Faisal Al Ayyar**

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### **What's stalling economic reform in Kuwait?**

The fear of decision making is stalling economic reform in Kuwait, from both the government and parliament. Members of both branches of authority have created imaginary obstacles for themselves and have given the public the impression that Kuwait is in a very good position financially, and that the State has the ability to carry every citizen's financial burdens, whether rich or poor. That's simply false. How can we ask for reform while simultaneously making promises to the public that have the opposite effect? The government and parliament must have the courage to take steps that might not necessarily be popular, but that put the State on the course of economic reform.

### **Many believe that these measures would negatively impact families of low-to-middle income.**

We're not against supporting low-to-middle income families, and there are varied methods for protecting them from the downsides of economic reform. In Jordan for instance, families from that income bracket were granted financial assistance, and that's in a country with limited resources. This allowed the country to continue its economic reform plans, ease government subsidies and implement new taxes.

Economic reform must also involve significantly reducing the country's ballooning budget and cutting costs. One way of doing that would be to privatize the production of electricity, where we can reduce the government's expenses by at least 10 fils per watt, as opposed to reducing subsidies and having the public carry the cost. Many private companies approached the government with proposals that could reduce up to 50% of the country's electricity bill, but unfortunately they were rejected.

**So you believe privatization is a big part of the solution. What would you say to those who fear that it would lead to the monopolies?**

Of course, I believe privatization would play a large role in economic reform. The Kuwaiti private sector is experienced. If you take Kuwait's airport for example, it was the private sector that completed the airport's expansion, it was also the private sector that built the Sheikh Saad Al Abdullah Terminal. Both those projects in turn increased the airport's operational capacity without costing the State's budget a single dinar. In fact, it generated a source of income for the country's Treasury.

As for monopolization, the government is in complete control of what gets privatized and is able to place the appropriate laws to prevent monopolies. At the end of the day, the competitive nature of the free market and the overall quality and price of the product or service determines who will be providing it.

**If Faisal Al Ayyar was asked for his advise on the way to reform, based on his experience, what would it be?**

I believe reform should center around the education and health sectors, which should be privatized because they've put a heavy financial burden on the country's budget. We've reached a point where the government is paying significantly more per student in the public school system, than families are paying to send their children to private schools. After the introduction of private universities, students now have a range of universities and majors to pick from.

When it comes to the health sector, I personally don't understand the government's logic behind building many large hospitals at high exorbitant costs, sometimes on prime land plots that overlook the coastline and are potentially worth millions, without discussing how to provide the necessary staff to operate them. Privatizing the health industry results in providing a higher quality of service to the public, as well as reducing a significant cost off the country's budget. This must be done through privatizing all hospitals entirely, including the medical staff, not just the administrative roles. In this situation, the government's only role would be to create different insurance program categories covering citizens and others.

The government claims it wants the private sector to play a bigger role in the country's development, but at the same time they're building a new public university that has the

capacity to take in 50,000 students, and large hospitals. This begs the question, how is the private sector supposed to compete, stay healthy and contribute when its government-backed competition gives away everything for free?

Unfortunately, the government frequently speaks about privatization but there is no actions to support this.

**From the current Cabinet, whom would you deem to be ‘minister of reform’?**

I see a true reformist in First Deputy Prime Minister Sheikh Nasser Sabah Al Ahmad Al Sabah, and I know him to be a strong believer in reform and combatting corruption. In the short time he’s held this position, he’s managed to become the first minister in Kuwait’s history to present a clear economic vision and reform plan, which he then advocated to the government and parliament, as well as foreign governments and global economic superpowers like China, who he brought on board as a strategic partner for the implementation of this vision. All this is very new to us, and there’s no doubt that the hardest part in implementing this vision has yet to come, but he has set the wheels in motion.

I also very strongly believe in the capabilities of Minister Hind Al Sabeeh – among others – regarding reform, and in her motives and intentions. Yet unfortunately she is continuously attacked for those specific reasons when, in my opinion, she is one of the pioneers of the Kuwaiti reform movement right now.

**Do you believe Sheikh Nasser Al Sabah can implement his vision?**

Yes, he is a fierce defender of what is right. I personally know several of his team members who affirm that he continues to follow-up on his responsibilities during his recovery period abroad. He’s keen on seeing his goals translate to reality, and achieving the ‘New Kuwait’ vision through developing Kuwait’s islands and Silk City with the help of local and global partnerships. I have no doubt in his ability to do what needs to be done.

**What is KIPCO’s role in the ‘New Kuwait’ vision, specifically the development of Kuwait’s islands and Silk City?**

We hope that we'll have a role in these projects, especially with the diverse industries the Group operates in, including health, insurance, banking, petrochemicals and real estate development. And even if we don't end up having a role there, the projects are still beneficial for everyone.

### **What sets Kuwait apart economically from the other countries of the region?**

Geographically, our strongest point is that we're situated between the three major regional powers. Other factors making Kuwait unique are its stable political and judiciary systems, its institutions and the services the government provides. Unfortunately, we haven't taken advantage of these benefits. We've missed historical opportunities, including the chance to be the gateway to Iraq. Southern Iraq is rich in oil and other resources, and has a population of over 5 million people, and the potential to be a very large market for us. Even the distance between Kuwait and Iran is very minimal, and we can open a new frontier by building a bridge or a railway between us. This is also a part of Sheikh Nasser Al Sabah's vision.

### **How would assess the current Prime Minister's performance?**

In his 6 years since becoming Prime Minister, Sheikh Jaber Al Mubarak has attempted to implement reformist policies, but has lately stayed out of the limelight and has kept his opinions private.

### **What about the current Parliament Speaker, Mr Marzouq Al Ghanim?**

On a personal level, I like Marzouq Al Ghanim. He is balanced, humble and displays an enviable sense of calmness. He's also done a very good job as the speaker of parliament. In the near future, I hope he will create a parliamentary bloc dedicated to passing reformist bills and policies. I believe he is capable of doing this.

### **Are you for or against appointing a Prime Minister who is not of the Al Sabah family?**

His Highness the Amir chooses the Prime Minister, and personally I'm not against having one from outside of the royal family. However, I also believe that this must be done gradually. We

can start by having a Prime Minister from the royal family, but not from Mubarak's lineage, to eventually having a Prime Minister who is not of the Al Sabah royal family. There are many qualified and deserving royal family members, not from Mubarak's lineage, who are more than capable of fulfilling this role, and I do hope they get their chance one day.

**Do you believe that the complaints of the previous opposition parliament disappeared with the introduction of the current parliament?**

The opposition's presence is essential to any healthy nation and we support it, but that's as long as their criticism is constructive and does not cripple the State, like what happened with the previous parliament.

I believe the government will never find an easier parliament to work with than the current MPs we have now. They've been able to pass legislations, raise parliamentary questions and interpellations when necessary. We hope that the government and parliament won't let the demands for reform get swept under the rug, and that they have the courage to act even with the less popular reform proposals. They also need to have a very clear vision regarding reform.

**Is there a problem in the election law?**

In every country there are problems with the way that constituents elect the parliament. On top of that, we have MPs who unfortunately cater to populist sentiment at the cost of reformist policies. That being said, it's still the government's responsibility to propose solutions to these problems, and not simply shift the blame to the MPs.

**What do you think of the government's current efforts to combat corruption?**

If we look at it from a glass-half-full perspective, I'm personally glad that we're finally able to take those corruption files from under the carpet and discuss them out in the open. It's true that resolving this issue will take longer than what most people would like, but more importantly these efforts show the public how serious the government feels towards reform. The recent crackdown on forged degrees and nationalization documents is a prime example of

this. This is a positive first step and at the very least acknowledges the existence of a corruption that the government must put an end to.

**What do you think of the efforts of Kuwait Anti-Corruption Authority (Nazaha) so far?**

We support any institution combatting corruption, but we still haven't seen any concrete results from that entity. Additionally, they were appointed by the government and that alone can strongly impact their work.

**Ideally, how should Nazaha operate?**

They should start by easing bureaucracy across all levels and sectors of government. The more complicated the procedure, the more likely corruption can find its way in through back channels. We must also ensure that the laws in place are being enforced and that we act once a crime has been committed.

**What are your thoughts on the State Audit Bureau? Is it within their scope of work to decide whether the government should borrow money?**

The State Audit Bureau has done a good job in past years, but was also given responsibilities beyond its capabilities that it wasn't qualified for. I also think that it isn't within the scope of their work to pass judgement on whether the State should borrow money to cover its deficit.

**After the ruling of the Court of Cassations in the 'parliament break-in' case, do you see the need to issue a pardon for the guilty parties, including the former and current MPs and the young people involved?**

First, pardons are the prerogative of His Highness the Amir and no other. And on a political level, I don't see a crisis emerging as a consequence of the court order that may require a pardon. However, it is painful to see politicians behind bars and others outside the country, and so perhaps the humanitarian aspect should be the motive for a pardon. There remain a few important questions we must answer: How have the convicted parties' attitudes changed?

Shouldn't they issue a formal public apology to His Highness the Amir? Shouldn't the apology take precedent over any potential pardon?

**What do you think about the State's regulatory oversight bodies like the Central Bank of Kuwait, the Capital Markets Authority, and the Ministry of Finance to name a few?**

I think their performance is generally average, and some have abused their roles. Some are being overly protective and cautious to the point that it's creating unnecessary obstacles and hindering progress. Plus, they tend to look at things from a very narrow point of view, and sometimes forget to consider the financial and business aspects of an issue, which to the shareholder is the priority.

**What do you mean?**

Take IFRS 9 for example, which the banks fully prepared for but wasn't implemented by the Central Bank of Kuwait. We need these regulatory oversight bodies to implement international standards as they are, instead of creating their own unreasonable guidelines.

**Credit growth is near 0%. Would you attribute that to the general economic climate or to tighter measures being implemented by the regulatory oversight bodies?**

I think it's due to the general economic conditions which have been discouraging for investors.

**What do you think about the level of competitiveness in the local banking industry?**

I think it's very healthy for the banking sector, especially when done in a respectable and professional manner, and greatly benefits the customers. With regards to Burgan, the bank has a significant market share when it comes to corporate finance, and its stock earnings per share in the first half of the year have surpassed every other banks' this year.

**Some have said that certain banks have tight hold over the financial dealings of most government entities. Would you agree? If so, why is that the case?**

I do agree, there seems to be somewhat of a monopoly on which banks get to carry out most ministries and government entities' financial dealings, and I think that's mainly due to existing relationships.

**Doesn't that go against the healthy competitive nature of the banking sector you mentioned earlier?**

I was strictly speaking about non-governmental entities, be it retail customers or corporate clients. Government institutes are strongly influenced by relationships.

**What is your opinion on the proposed merger of Kuwait Finance House and Al Ahli United?**

Mergers are nothing new to the banking industry and occur everywhere banks exist. KFH and Al Ahli United are two of the region's best-run and most respectable banks. However there is the issue of shareholders who have a significant stake in both banks, as I believe they should be left out of the decision making process. I think this deal's biggest benefactor is Al Ahli United, and that we need more clarity on what KFH stands to gain from this merger.

**There is a very large social media campaign against this deal. Do you feel it's justified?**

I think there's a lot of misguided criticism coming from that campaign, as we're commonly seeing the name of Parliament Speaker Marzouq Al Ghanim being brought up, among other political figures. The parties involved in this deal have a responsibility to dispel any rumors and to come out with the facts to avoid incorrect information from spreading, especially with the rise of social media where those spreading rumors no longer suffer any consequence for their actions.

**Do you support punishing people for voicing their opinion on social media platforms?**

We're for freedom of expression especially when it's done in a constructive and respectful manner, but we're against spreading rumors and falsely accusing people of corruption without presenting any proof to back it up, and then having the accused carry the burden of proving he's innocent. That's why I think it's necessary for law enforcement agencies to act quickly

against those using social media to spread rumors, and either have them substantiate their claims or let the law take its course.

**Have you been affected by social media?**

GIG has had false accusations made against it on social media platforms regarding the 'Afya' retirees health insurance program. Had our cost evaluation and numbers not been precise and correct, then there would've been no need for our competitor to withdraw a bid they had already won by submitting a cheaper price than ours.

GIG is a very experienced insurance company and deals with large segments of clients. Its clients include 50,000 employees from the oil sector, whose medical files are catered to with the upmost care and professionalism, as is the case with all our clients.

I would like to point that despite the false allegations on social media, there are many more social media users who commend us for our work in general, and specifically with regards to 'Afya'.

**Are you satisfied with the services GIG is providing retirees?**

Of course we are. Numbers don't lie, and they show that the average retiree covered by 'Afya' services is making 20 to 30 hospital visits a year. Since we launched in October 2016, we've covered 3.2 million medical cases including 28,000 surgeries and one-day procedures, which is a testament to the program's success and shows how much the people it covers appreciate it.

**What about Afya's contract renewal?**

The current contract was extended for another six months, meaning it'll end in January 2019, after which we'll be revisiting this issue again.

**What do you think about the CMA's new Board of Commissioners?**

I can't judge them personally, but we, as the private sector, hope that they don't have the same attitude as their predecessors, and that they don't use the private sector as a trial dummy for any new proposals and laws they might enact. We hope they're cooperative and stand side by

side with the private sector, especially when it comes to the issue of pre-approvals, which should be eliminated, and after which you can fine any company not following the CMA's rules and guidelines. Towards the end of the last Board of Commissioners' term, we saw a huge improvement in their interactions with the private sector. They became much more flexible, and we hope this current Board is even more flexible.

**The new head of the Board of Commissioners Dr Ahmad Al Melham comes from an academic background. Do you support hiring academics over people more experienced with capital markets?**

I don't know Dr Al Melham personally, but experience tells me that there academics who succeed in these roles, and there are those who fail, and the same applies for those with experience in capital markets. I believe a mix of the two is the ideal solution; someone with an academic background and also has experience with capital markets. Many would argue that a legal expert should head a regulatory authority. I do wish Dr Melham and the new Board the best of luck in their new roles.

**Do you think the current stock market boom is temporary?**

We've witnessed some very strong gains recently and this boom has been very encouraging. But at the end of the day the market reflects Kuwait's economy, and if there aren't any new developments that give the private sector a larger role in leading the economy, then all these stock market gains will be temporary.

**Are there those who use their influence for personal gain in Kuwait?**

Everyone tries to use their influence for personal gain in Kuwait, it's a part of the life here. But not everyone with influence has the power to get what they want.

**What about KIPCO, do they use their influence to gain favor?**

This issue is nonexistent in the Group. On the contrary, we frequently face many obstacles from different ministries when getting our approvals and other government paperwork done. At

KIPCO, we don't use any influence to facilitate government procedures, nor do we have representatives in leadership positions or in any of the State's economic regulatory authorities.

**Are there any commercial groups that exercise influence in Kuwait?**

Yes, even when it comes to appointments made at the highest level, including ministerial leadership roles. That may have been acceptable should these candidates have the required experience to manage those roles, but it's not acceptable when they don't have the required experience and are underqualified.

**Let's look at Minister Anas Al Saleh for example. He started as the Kuwait Chamber of Commerce and Industry's candidate, then on went to head a few ministries, starting from the Ministry of Commerce and Industry, then onto the Ministry of Finance, and is now Deputy Prime Minister. How would you rate his performance?**

I respect him, but regarding the Ministry of Finance, which has the responsibility and power to enact most of the economic reform policies being proposed, it has been a long while since the government has appointed a Finance Minister with a true vision for economic reform. It's too early to pass judgement on the current minister, Dr Nayif Al Hajraf, who just assumed this role.

**What are the latest updates on Hessah Al Mubarak District?**

The project is going as planned. We've completed the infrastructure phase, and are in the process of obtaining the required approvals from the Kuwait Municipality to start building the towers. It's been no secret that we've suffered a lot with government bureaucracy and getting the required approvals, and we've had to deal with government officials who'll refuse any request that falls into the 'gray area' to avoid responsibility. In other countries, a project like Hessah Al Mubarak District would be welcomed with open arms and would receive government assistance.

**Through KAMCO, you recently acquired a majority share in Global Investment House. What are the latest updates regarding this deal?**

We're working on putting down operational plans for the coming period with the help of respectable global financial institutions. Regarding the Global name, it may decide to keep it in some areas in which the company maintains a strong and solid reputation.

**There's been news circulating about KIPCO hiring an international consultant to determine the best course of action to take regarding the company's investment in OSN. Is this true?**

The idea has been brought up and we've talked it about it, but we haven't hired anyone yet. There are other investors in OSN whose opinion we have to consider, as well as regulatory authorities we must inform of such developments. We're currently working on our own technical and operational assessment of the company, so that if we do hire any consultants we'll know where we stand.

**What obstacles is OSN facing?**

The main obstacle we're facing is clear and simple. The last time we tried to renew the rights for the content we had already been airing, we were faced with the news that we now had a competitor – who was backed by a government nonetheless – and that for us to get the same content we already had, we had to pay \$150 million more annually. This requires us to increase revenue and reduce expenditure just to compensate for the increased costs. Talk about OSN being affected by a digital transformation aren't true, as we own exclusive rights to the most highly watched television shows worldwide, and air Netflix original programming that they themselves can't air.

**Sometimes it may be better to let go of an investment than to hold on to it. Is that the case with OSN?**

I don't believe that's applicable to OSN. All studies by renowned global financial analysts and field experts about OSN do not suggest that route.

**How is KIPCO's credit position?**

Our credit position is solid. We're market leaders and credit cost is low for us. On average, we pay back our debt in five to seven years.

### **Where do you see KIPCO in ten years?**

Since its launch, KIPCO's primary focus has been the financial sector, specifically in the banking, insurance and asset management sectors, in addition to the media industry. Anyone who has kept up to date with the Group knows how much it has developed and expanded in the last 15 years. In the banking sector, we're now a multinational corporation, and the same applies to the insurance industry. Regarding our investments in the media industry, they're in their current state due to factors outside of the Group's control.

In ten years I believe KIPCO will be in a much better position than it is now, as the Group has managed to steer its investments and perform positively over the years despite everything that's happened in Kuwait, the region and the rest of the world, from political unrest to economic meltdowns. KIPCO faced severe and unexpected crises but still managed to grow. And I believe that whenever the region's stable again, KIPCO will be one of the biggest benefactors, considering it's one of the most diverse business groups and the most geographically diverse.

### **What do you believe is behind the collapse of the Turkish Lira and will this continue?**

There is a big problem in Turkey. No one can deny that what President Erdogan has accomplished throughout the years is nothing short of an economic miracle, but recently, unfortunately, his political stance with countries like Russia, Syria, Egypt and now the United States has worsened. The current crisis is a political one in essence.

Regarding the Turkish Lira, it is affected by the political events. It has nothing to do with the country's economic state, and therefore we shouldn't be judging its performance in the upcoming period.

### **How has Burgan Bank been affected by the Lira's devaluation?**

Regarding Burgan Bank's subsidiary in Turkey, we're not worried. Burgan Bank's investment in Burgan Bank AS – Turkey is hedged and is thus protected from currency fluctuations.

**What do you think of the sanctions the US imposed on Iran and how will this reflect of GCC States?**

Any disruption in Iran will inevitably have a negative effect on the region. For instance, when the Syria crisis first began, everyone was convinced it would remain confined within Syria's borders. Today it has reached as far as Europe through the displacement of more than 7 million Syrians. The situation in Iran is similar, and if it were to get worse, it would inevitably affect the surrounding countries. Iran's stability is essential to the stability of its surrounding nations.

**Kuwait has managed to stay neutral in the current political challenges affecting its neighbors. How long do you think it will be able to maintain this delicate balancing act?**

We all have very strong faith in the 'Amir of Humanity' and 'Master of Diplomacy', His Highness the Amir Sheikh Sabah Al Ahmad Al Jaber Al Sabah, and his ability to maintain this delicate balance and mediate between all sides involved in these regional conflicts. He was very successful in wisely steering the country away from Arab Spring.

His Highness the Amir is also considered the region's safety valve, and he is able to maintain Kuwait's neutrality when it comes to its foreign policy, as he has a lot of sway in the international community and has the respect of every nation and its leaders. About the region's current political crises, Kuwait has been pursuing a neutral agenda beneficial to all sides, whether it's regarding what's happening in Iran, Iraq, or the diplomatic crisis between Qatar and its neighbors, while also maintaining its strong relationship with Saudi Arabia and the rest of the Gulf. For what His Highness the Amir is doing to keep the country and the region safe, words can't express how thankful I am for his efforts.

**What is your view on the developments taking place in Saudi Arabia in the last two years?**

What the Saudis have accomplished in the last two years socially, economically and politically is a miracle, and now the Kingdom must ensure that it is able to financially back these reform

policies. I wish the Kuwaiti government was able to enact but 10% of the reformist policies Saudi Arabia put into law over the past two years.

**Do you believe the social reform policies enacted by the Saudi Crown Prince had to be accompanied by weakening some of the Islamic groups?**

Yes, since Prince Mohammed Bin Salman became Crown Prince, I see that the influence of some of these Islamic groups has weakened, and not just in Saudi Arabia, but in the entire Gulf.

**What about the Islamic groups in Kuwait?**

The Islamic groups in Kuwait have always had very deep roots, to a point where no one was able to criticize them in the past. Now circumstances have changed and things are much more relaxed, where we can start having conversations about the many religious interpretations and fatwas.

**Some believe that President Trump's policies are the reason for the problems we're seeing in the global economy. Would you agree?**

Since WWII onwards, the US has voluntarily bared the responsibility of being the world policeman, and now President Trump has come along asking all the countries to pay the price for those services. The President has stirred things. In the case of NATO, for instance, when the US threatened not to pay 25 of its GDP for NATO's defense budget, this resulted in NATO raising US\$ 40 billion from other member countries.

Regarding his trade wars with China and Europe, I believe he will inevitably come to an agreement with each side. I'm not a fan of President Trump's style and methods, but his voting base believe in what he's doing and achieving. Even the farmers who are currently being affected by his trade wars and protectionist policies, aren't willing to blame President Trump for it.

The global economy has been feelings the repercussions of President Trump's actions, but on the other hand the American economy hasn't, and is in fact still witnessing a strong recovery.

## **Cadres**

### **The 'Dr' title... and forged degrees**

On the issue of forged degrees, Mr Al Ayyar said: In Kuwait, we love using the 'Dr' title before our name, and whenever the government appoints a minister or a leadership figure with that title, the public believes he can solve all our problems, which in turn pushes some people to obtain these forged degrees, so that they can have their chance at these positions being given out without the proper due diligence being done.

### **Kuwaiti press is in decline**

Mr Al Ayyar believes that the Kuwaiti media, and the press specifically, is in a state of decline. Even though the amount of newspapers is increasing, they are no longer as influential as they were in the past, and that what's being printed no longer entices people to read them. He added: Lately I only read the headlines and I go through a few papers, including Al Qabas. I also read everything regarding our companies on social media and news websites, which is sent to me by my team, and I also follow issues that are important to me on Twitter.

When asked whether he felt the press's leniency and less intrusive stance towards what they were covering was the reason for its decline, Mr Al Ayyar said: I hope the press can find a balance between its aggressive nature in criticizing and its overenthusiasm in complimenting.

### **Shafafiyah conference... ongoing**

When asked if KIPCO will be canceling its annual Shafafiyah conference now that listed companies are required to hold a quarterly investors conference by regulatory authorities, Mr Al Ayyar said: Companies are now obliged to hold investors' conferences, but at KIPCO we've been voluntarily holding a these for years.

He added: I don't believe we'll be cancelling the Shafafiyah as it serves as a great opportunity for our shareholders and other interested parties to interact and meet with us face to face, as opposed to the mandatory disclosure conferences which focus more on numbers and technicalities the average shareholder wouldn't understand.

### **Burgan a pioneer in bank mergers**

When asked about the possibility of Burgan Bank merging with another bank, Mr Al Ayyar said:

There are no proposals for a Burgan merger at present.

He added: If you were to look at the past, you'd see how we were pioneers when it comes to bank mergers. We asked the government if we could merge with the Bank of Kuwait and the Middle East (BKME), which at that time was government owned. We asked for the merger to occur before the bank was privatized, so that the government could get the best return on investment once it was privatized, but unfortunately they refused the merger. There were also attempts for Burgan to merge with the Commercial Bank and Al Ahli Bank.

### **New project on the Khabari land plot**

Regarding the Khabari land plot and the projects KIPCO plans on initiating there, Mr Al Ayyar said: We envision having many projects there, but all that is dependent on acquiring the necessary government approvals from government entities like the Kuwait Municipality.

I'd like to clarify that these projects, whenever initiated, will be fully funded through a mix of loans and self-financing.

### **Investing in modern technology**

Regarding investment opportunities available, Mr Al Ayyar said: The opportunities are always there, but currently there are no bigger investment opportunities than in the technology sector.

At KIPCO, we've been investing in this developing market through private equity funds.