DIFC Economic Activity Survey 2011

Economic Note No. 20

DIFC Dubai International Financial Centre

Authors

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Disclaimer:

The figures have been compiled and aggregated from responses to our online questionnaire, using DIFCSTAT, our web-based application.
While every effort was made to verify submission, we are not responsible for any remaining errors, inaccuracy or omissions.

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[1]The authors would like to thank Fahad Ali for his invaluable assistance.

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Foreword

The Economics Department of the DIFC Authority is pleased to present the Economic Activity Survey report for the year 2011, which contains data and statistics on activity, income generated, assets and liabilities, labour force characteristics, and ownership structure of its registered entities. In this fifth edition of the economic survey undertaken by the DIFCA, additional sections were included to capture the demographic characteristics and earnings of DIFC clients, and the reporting forms were enhanced to better capture the economic activity of the respondents. The survey is conducted on an annual basis in line with the best international standards and practices in national income accounting.

The economic activity survey aims to measure output, intermediate consumption and ultimately the gross value added generated within the DIFC district both by the banking and financial sector and by the non-bank business sector. The total value added produced by the DIFC entities feeds into the calculation of the gross domestic product (GDP) for Dubai and the UAE.

We believe that the presented information caters to the needs of DIFC companies, the DIFC authorities, private sector analysts, academic researchers, and policy makers in Dubai and the UAE as well as the international community. We take this opportunity to extend our sincere thanks to all companies within the DIFC for their cooperation in providing the data necessary for the completion of the report. I want to especially thank my team for their dedicated efforts and professionalism: Beknazar Amanov, Aathira Prasad, Nadine Chaar (DIFCSTAT) and Cristina Attanasi (our intern). Without their dedication this survey would not have been possible.

A caveat is in order. While every effort was made to verify and ensure that the DIFC Economic Activity Survey results are accurate and reflect underlying conditions, the Economics Department does not have the authority or mandate to undertake on-site visits or otherwise audit or request confirmatory documents for information supplied by respondents to the survey. We remain open to any suggestions that could help improve the contents of this report.

Dr. Nasser Saidi
Chief Economist
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Terms and Definitions

Operating surplus:

Equals to total product on the basis of product value less intermediate consumption (Intermediate goods and services) on the basis of purchaser cost, compensation of employees, fixed capital depreciation and net indirect taxes (indirect taxes less production subsidies).

Intermediate Consumption:

Value of goods and services consumed as inputs by a process of production.

Compensation of employees:

Total remuneration, in cash or in kind, payable by enterprises to employees in return for work done by the latter during accounting period.

Depreciation:

Decrement (during accounting period) in value of fixed assets owned and used by a producer as a result of participation in production operation, wear and tear resulting from ordinary usage.

Indirect taxes:

Compulsory cash or in-kind amounts paid by the establishment to the government.

Establishment:

Institution or part of an institution or enterprise with known premises, performing one or more economic activities under one administration and has or could have regular accounts. Owner could be a natural or moral person.

Main economic activity:

The activity practiced by the establishment that constitutes the largest share of total production value of the establishment or is the activity so-specified by establishment’s owner or manager.

Employees:

All individuals (citizens or non-citizens) who have a documented work relation with the establishment in exchange for wage that they receive at the end of a payment period.

Executive Summary

While advanced economies of the world are trying to return to a sustainable path in the aftermath of the global financial crisis, magnified by fiscal and debt uncertainties in the Eurozone area, the GCC countries, and the UAE in particular, have recovered. Their growth is buoyed by higher crude oil prices, stimulatory government spending, and growing links with emerging economies, predominantly from Asia. During 2011, despite the upheavals associated with the Arab Spring, oil producers renewed their record levels of export earnings and international reserves, allowing for expansionary fiscal policy that boosted economic activity and led to an acceleration of economic growth, at least in the short term.

During 2011 the DIFC has benefitted from the economic activity revival in the UAE and the region as a whole, as evidenced by the findings presented in this report, and strengthened its position as a growing financial hub of the region.

This report is based on the survey responses from **533 DIFC entities** (8.6% higher than the number of entities that participated in the survey in the previous year – 479) that represent **65.2% of the DIFC's 817 companies**[1] that were active during 2011. The response ratio for the current survey slightly improved from the 63.5% response rate in 2010.

As Table 1 below shows, the growth in number of establishments at the DIFC in 2011 was driven entirely by the non-bank Business sector, while the number of companies in the Financial sector remained stable. At the same time we note that a growing number of firms are joining the DIFC from the emerging market economies.

Table 1: No. of Companies By Type of Economic Activity

ISIC Code	Economic Activities	2007	2008	2009	2010	2011
K	Financial Intermediation	257	366	354	383	382
G,H,I,J,L,M,N,P,R,S	Business services	243	346	348	386	431
O	Public administration	5	3	4	4	4
	Total	**505**	**715**	**706**	**773**	**817**

Source: DIFC Economics.
Note: Total number of registered entities with "active" status was 848 as of end of 2011.

We estimate that total value added (the equivalent of GDP) of the DIFC reached **USD 3.13bn in 2011 with an acceleration of the growth rate to 7% from 5.5% in the previous year** (see Table 2).

Table 2: GDP By Type of Economic Activity in DIFC for 2011
(in US$ million, current prices)

ISIC Code	Economic Activities	2007	2008	2009	2010	2011
K	Financial Intermediation	1,514.7	2,224.6	2,029.6	2,105.6	2,199.7
G,H,I,J,L,M,N,P,R,S	Business services	295.2	550.7	687.5	774.8	876.3
O	Public administration	28.8	64.2	54.5	43.5	51.4
	Total	**1,838.7**	**2,839.6**	**2,771.7**	**2,923.8**	**3,127.4**

Source: DIFC Economics.

[1]This estimated total number of companies represents those that contributed to the DIFC's value added, and excludes those "active" entities that were in the process of obtaining licenses and pending dissolution or liquidation. Total number of registered entities with "active" status was 848 as of end of 2011.

The performance of economic sectors and activities of the DIFC entities at current prices in 2011 can be broken down as follows: **Financial intermediation sector recorded a value added of USD 2.2bn**, while its contribution to the total value added of the DIFC **was 70.3%**. The balance of **29.7%, amounting to USD 0.9 bn, was generated by Business sector entities** (e.g. accounting and audit services, management consultants, law firms, restaurants, retailers, and other service providers) and the public sector.

While the contribution of companies to the value added of DIFC can be estimated as above, the indirect contribution of the DIFC to the economies of Dubai and the UAE cannot be so accurately accounted for. As residents in the Emirate, the DIFC workforce contribute to the economy as consumers who invest, rent housing, travel, shop, eat, have relatives visit from abroad (who also shop, eat, travel within the UAE), consult doctors, drive cars, buy real estate all causing an increase in demand for key goods and services in the Emirate – leading to what is called a multiplier effect. This value is more difficult to estimate, but given that the average DIFC workforce compensation falls in the higher end, it is a safe assumption to make that the stimulus to the economy from their spending is substantial.

The questionnaire for the current survey, which is based on the UN-OECD principles and methodology for compiling national income statistics, was expanded to include new sections to capture additional workforce characteristics, paid-up capital, assets and liabilities, and the geographical origin of DIFC entities' ultimate controlling parents. The new data show that aggregate paid-up capital of DIFC entities owned by non-UAE residents is about 2 times higher than that owned by UAE residents (based on the actual data from responding companies), and that more than half of all ultimate controlling parents of the responding DIFC companies originate from only 4 countries, with the UAE leading the list, while the total number of countries in the list exceeds 50. Also, the new data shed some light on the hierarchical structure of the DIFC labour force, revealing that in the financial sector companies, in contrast to the entities involved in business activities, the proportion of executive officers and managers in the total workforce is notably higher.

A large proportion (55.6%) of the **total DIFC's labour force, estimated at 12,945 people as of end of 2011**, was employed in the finance and banking sector. Business sector and public administration entities provided jobs to 41.7% and 2.7% of the total DIFC labour force, respectively. UAE nationals, accounting for only 2.2% of the total DIFC labour force, were mostly represented in the public administration sector (around 1/3 of all people employed by the DIFC and DFSA, on a consolidated basis), while their share in the labour force of private companies was minor at 1.4%.

DIFC human capital is of high quality, with **87.6% of all employees holding university level and post-graduate degrees**. Educational attainment features are similar among male and female populations. About 85% of both men and women are university graduates and above, underscoring the availability of an equally highly skilled workforce at the Center.

The data were collected through the interactive secure web-based online portal DIFCSTAT, which manages all official and administrative communications between the DIFC Authority and licensed companies (https://www.difcstat.ae/difcstatonline/default.aspx).

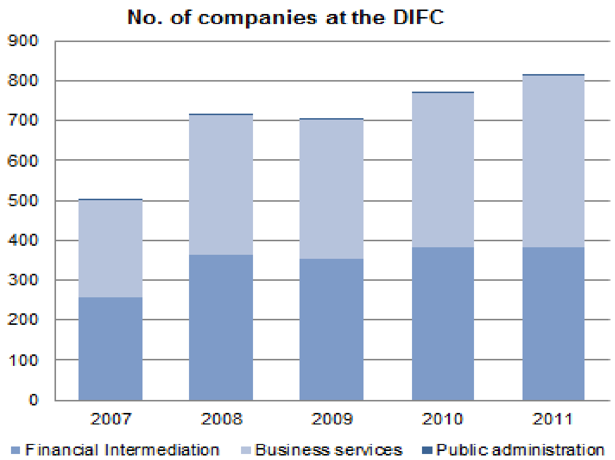
DIFC Companies and Classification of Activities

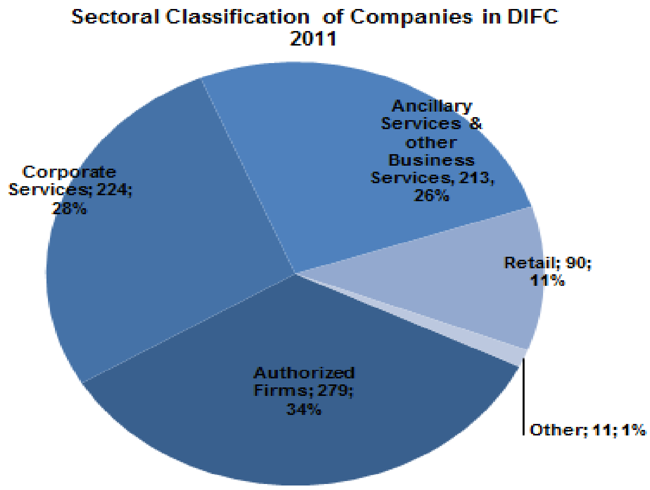
The Economic Activity Survey results are based on responses from **533 companies representing 65.2% of 817 entities** that were actively contributing to the total DIFC's value added during 2011. The number of responding entities, when compared to the previous survey (491), increased by **8.6%**, while the total number of registered active entities was up by **5.7%**. As a result response ratio increased by 1.7 percentage points (63.5% for the previous survey). According to our estimates, the responding companies generated some **80%** of the total value added, reflecting the fact that responding entities are substantially larger by size than non-respondents.

Table 3.1: No. of Companies in 2010 and 2011, by ISIC Classification

ISIC Code	Economic Activities	No. of companies		
		2010	2011	Change
K	**Financial Sector**	383	382	-1
K641	Monetary intermediation	15	15	0
K642	Holding companies	110	113	3
K643, K649	Trusts, funds and similar financial entities, Other financial service activities	69	58	-11
K650	Insurance, reinsurance and pension funding	9	12	3
K660	Activities auxiliary to financial service and insurance activities	180	184	4
G - S	**Business services activities**	386	431	45
J	Information and communication	24	27	3
H	Transportation and storage	2	2	0
L	Real estate activities	4	6	2
M69	Legal activities	50	48	-2
M701	Activities of head offices	85	117	32
M702, M71, M73	Management consultancy activities, Architecture, R&D, Advertising	88	84	-4
N	Administrative and support service activities	34	40	6
P	Education	14	11	-3
G,I,R,S	Wholesale and retail trade, Accommodation and food services, Arts, and Other	85	96	11
O	**Public administration**	4	4	0
	Total	**773**	**817**	**44**

Source: DIFC Economics.





Value Added Generated by the DIFC

This fifth cycle of the DIFC Economic Activity Survey, conducted by the DIFC Economics team for the year 2011, estimates the total value added of the DIFC sub-economy at **USD 3.13 billion**, which represents some 1.4% of the UAE's non-hydrocarbon GDP, as estimated by the IMF[2].

Table 3.2 below (inclusive of the estimates for non-respondents) summarizes the level, growth, and sectoral breakdowns of the DIFC "GDP". **Nominal value added generated by the DIFC entities in 2011 increased by 7%**, indicating an acceleration of growth compared to the year 2010, when DIFC GDP grew by 5.5%.

Table 3.2: Structure of GDP in 2010 and 2011, by ISIC Classification

ISIC Code	Economic Activities	Value Added					Breakdown of value added	
		2010	2011	Nominal Change, US$ mn	% Change	Growth share, in %	2010	2011
K	**Financial Sector**	2,105.6	2,199.7	94.1	4.5%	46.2%	72.0%	70.3%
K641	Monetary intermediation	331.4	360.2	28.8	8.7%	14.1%	11.3%	11.5%
K642	Holding companies	386.3	400.6	14.3	3.7%	7.0%	13.2%	12.8%
K643, K649	Trusts, funds & similar financial entities, Other financial service activities	395.8	386.5	-9.3	-2.3%	-4.5%	13.5%	12.4%
K650	Insurance, reinsurance & pension funding	105.1	113.8	8.7	8.2%	4.3%	3.6%	3.6%
K660	Activities auxiliary to financial service & insurance activities	887.0	938.6	51.6	5.8%	25.3%	30.3%	30.0%
G - S	**Business services activities**	774.8	876.3	101.6	13.1%	49.9%	26.5%	28.0%
J	Information and communication	40.0	54.6	14.6	36.4%	7.2%	1.4%	1.7%
H	Transportation and storage	62.2	97.6	35.4	57.0%	17.4%	2.1%	3.1%
L	Real estate activities	36.0	33.4	-2.6	-7.3%	-1.3%	1.2%	1.1%
M69	Legal activities	253.8	252.2	-1.6	-0.6%	-0.8%	8.7%	8.1%
M701	Activities of head offices	116.8	132.0	15.2	13.0%	7.5%	4.0%	4.2%
M702, M71, M73	Management consultancy activities, Architecture, R&D, Advertising	162.5	193.7	31.1	19.2%	15.3%	5.6%	6.2%
N	Administrative & support services	58.5	68.2	9.7	16.6%	4.8%	2.0%	2.2%
P	Education	16.9	12.4	-4.6	-27.0%	-2.2%	0.6%	0.4%
G,I,R,S	Wholesale & retail trade, Accommodation & food services, Arts, & Other	28.0	32.3	4.3	15.5%	2.1%	1.0%	1.0%
O	**Public administration**	43.5	51.4	8.0	18.3%	3.9%	1.5%	1.6%
	Total	**2,923.8**	**3,127.4**	**203.6**	**7.0%**	**100.0%**	**100.0%**	**100.0%**

Source: DIFC Economics.

[2]IMF Country Report No. 12/116, UAE 2012 Article IV Consultation, May 2012.

Value added growth rates were quite diverse across different sectors of the DIFC economy[3]. Business services sector demonstrated relatively high growth rates at 13.1%, when compared to that of Financial sector companies that increased by 4.5%. Transportation and storage with nominal value added growth rate at 57%, Information and communications sector companies (36.4%), Managements consultancy, Architecture, R&D, and Advertising enterprises (19.2%), were among the leading sectors, supporting Business services activities expansion. As a result, the share of Business services activities in total value added increased from 26.5% in 2010 to 28% in 2011. However, when observing the structure of incremental GDP contribution of Financial sector entities (46.2%), it is comparable to that of Business services activities (49.9%).

Remaining vulnerabilities in the global financial environment alongside contagion and spillover effects from the aftermath of the Great Financial Crisis in the Western advanced economies and the Eurozone crisis explain the lower growth rate of the DIFC's Financial sector compared to the non-bank Business sector, while the latter gained from the strong growth in the Gulf region, Asia and linked economies.

[3] Nominal value added trends across different sub-sectors were broadly in line with the growth in the number of companies and level of available workforce. However, for some sub-sectors, we observed inconsistencies that may be attributed to timing and quality of reporting. Some sectors experienced decline in value added last year despite growth in number of companies. This is likely due to the fact that the starting period of most businesses is associated with high costs and low revenues leading to negative financial results, hence increase in number of companies may result in reduction of nominal value added for certain sub-sectors.

Sectoral Distribution of DIFC Value Added

Table 4 below shows number of companies and estimated nominal value added by DIFC sectoral classification. **Authorized firms** (regulated and supervised by the DFSA) generated **USD 1,373.1mn**, or 43.9% of the total DIFC's nominal GDP. Among **Corporate services** entities, Holding and Investment companies contributed USD 271.8mn (8.7% of the total nominal value added), and law firms added USD 229.4mn (7.3%) to the value added of **Ancillary Services and other Business Services sector**.

Table 4: No. of Companies and Structure of GDP in 2011, by DIFC Sectoral Classification

Economic Activities	No. of Companies	Value Added, US$ mn	% of Total Value Added
Authorized Firms	279	1,373.1	43.9%
Diversified Financials	186	702.0	22.4%
Banks & Credit Providers	32	560.2	17.9%
Insurance companies	39	76.9	2.5%
Other financial Institutions	22	2.9	0.1%
Corporate Services	224	960.0	30.7%
Holding and Investment Companies	79	271.8	8.7%
Proprietary Investments	44	215.8	6.9%
Corporate HQs & Management offices	31	160.0	5.1%
Intra-Group Corporate Services	40	258.1	8.3%
Family Offices	24	18.5	0.6%
Other Corporate Services	6	-1.9	-0.1%
Ancillary Services & other Business Services	213	583.3	18.7%
Rating Agencies	6	10.8	0.3%
Consultancy Services	46	52.4	1.7%
Legal Services	41	229.4	7.3%
Accountancy Services	8	1.9	0.1%
Compliance & Risk Management	9	7.5	0.2%
Recruitment Services Providers	30	31.2	1.0%
Education & Training Providers	12	11.8	0.4%
IT Solutions & Software/Hardware Providers	14	19.2	0.6%
Market Information & Research	9	30.8	1.0%
PR, Advertising and Marketing Services	6	3.6	0.1%
Real Estate Services	5	-8.3	-0.3%
Other Ancillary and Business Services	27	180.2	5.8%
Retail	90	25.5	0.8%
Café/Restaurants	36	19.9	0.6%
Specialized and Non-specialized Retail	46	4.3	0.1%
Other Retail	8	0.3	0.0%
Other	11	69.2	2.2%
Total	**817**	**3,127.4**	**100.0%**

Source: DIFC Economics.

It is important to note that some major contributors to the value added in the business sector and other sectors were Head Offices and Holding Companies, which often consolidate within their DIFC entity the profits from worldwide operations. Including these consolidated profits would have led to an overestimate of the value added produced within the DIFC sub-economy. Accordingly, we have excluded from the value added the dividend incomes of Holding Companies and Head Offices as also prescribed by standard national accounting practices.

Among Financial sector entities, insurance, reinsurance and pension funds contributed the least (5.2% of the sectoral value added), while the companies related to Activities auxiliary to financial services were the most active segment, adding 42.7%.

Table 5: Breakdown of Financial Sector Activities in 2011
(in US$ million, current prices)

ISIC	Economic Activities	Count	% total count	Value	% of total value
K64	**Financial service activities, except insurance & auxiliary activities**	186	48.7%	1,147.3	52.2%
K641	Monetary intermediation	15	3.9%	360.2	16.4%
K642	Holding companies	113	29.6%	400.6	18.2%
K643	Trusts, funds and similar financial entities	58	15.2%	386.5	17.6%
K65	**Insurance, reinsurance & pension funding**	12	3.1%	113.8	5.2%
K66	**Activities auxiliary to financial services & insurance**	184	48.2%	938.6	42.7%
	Total	**382**	**100.0%**	**2,199.7**	**100.0%**

Source: DIFC Economics.

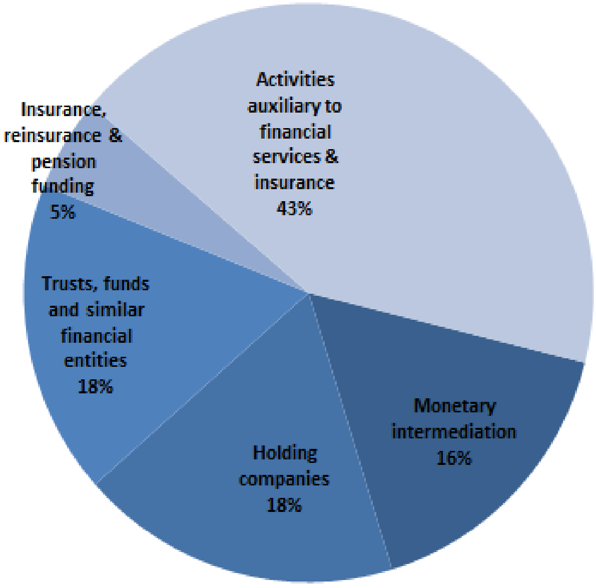
Legal and Accounting firms together with companies providing Management consultancy were among the most active entities, adding 29% and 22% respectively to the value added generated by the DIFC's Business Activities sector.

Table 6: Breakdown of Business Services in 2011
(in US$ million, current prices)

ISIC	Classification of Business Activities	Count	% total count	Value	% of total value
H	**Transportation and storage**	2	0.5%	97.6	11.1%
J	**Information and communication**	27	6.3%	54.6	6.2%
L	**Real Estate Activity**	6	1.4%	33.4	3.8%
M	**Professional, scientific & technical**	249	57.8%	577.9	65.9%
M69	Legal and accounting	48	11.1%	252.2	28.8%
M701	Activities of head offices	117	27.1%	132.0	15.1%
M702	Management consultancy	84	19.5%	193.7	22.1%
N	**Administrative and support service**	40	9.3%	68.2	7.8%
P	**Education**	11	2.6%	12.4	1.4%
G,I,R,S	**Retail trade & Accommodations**	96	22.3%	32.3	3.7%
	Total	**431**	**100.0%**	**876.3**	**100.0%**

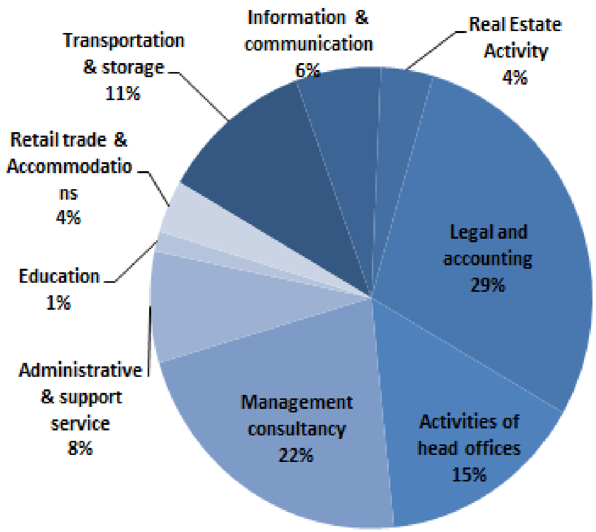
Source: DIFC Economics.

Contribution to Financial Sector Value Added, 2011



Source: DIFC Economics.

Contribution to Business Sector Value Added, 2011



Source: DIFC Economics.

Box: DIFC and International Financial Centres

After the Lehmann brothers tsunami and its continuing repercussions, 2011 saw the global financial sector affected by several factors including earthquakes, natural disasters and market turbulence originating from the euro area amidst signs of a global economic slowdown. A growing fiscal crisis led to rising financing costs affecting the balance sheets of many advanced nations, already strained with debt burdens. With many nations in advanced economies still struggling with banks' recapitalization and record-high borrowing costs, the Eurozone seems unlikely to recover from the current low-growth patch, in spite of certain policy actions (like the ECB's LTRO) implemented to ease funding strains in an election year. In addition to contagion effects form the Eurozone crisis, the emerging markets were also affected by high volatilities in capital markets and there was a significant "flight to safety". Contagion was evident also in the Middle East where European banks scaled down their operations and even retracted from project finance operations, to be replaced by major Asian counterparts.

Given that value added in the DIFC predominantly comes from the financial sector (70.3% for the year 2011), it is relevant to compare DIFC GDP with the contribution of the banking and financial sector of other financial centers and city-States with a high concentration of banking & financial activity. The above table shows that value added growth of the financial sectors in advanced economies recovering from the global financial crisis were minimal, and in some cases, negative. By contrast, and reflecting the strong economic performance of emerging economies, their financial sectors showed strong growth with, notably, Hong Kong and Singapore growing by 7.8% and 9.1% respectively. DIFC's nominal GDP growth rate in 2011 was similar to that of the peer financial centers in Asia, while noting that unlike Hong Kong and Singapore, banking & financial activities in the DIFC are wholesale in nature, without the benefit of retail activities and transactions.

Table 7: Changes in Financial Sector Value Added

Economy	2009	2010	2011
Hong Kong	-7.8%	7.3%	7.8%
Luxembourg	-6.3%	2.3%	-0.7%
UK	-4.9%	1.3%	2.1%
USA	6.8%	6.6%	-0.8%
Bahrain	-6.8%	5.8%	0.1%
Singapore	1.7%	12.4%	9.1%
DIFC	-2.4%	5.5%	7.0%

Source: Hong Kong - Census and statistics department, Luxembourg - Statistics portal, UK - Office for national statistics, USA - Bureau of Economic Analysis, Bahrain - Central Bank, Singapore - Dept of Statistics, DIFC Economics.

Aggregate Assets & Liabilities of DIFC Entities[4]

As a fast-growing financial centre, it is important to analyze the overall balance sheet, the aggregate value of assets and liabilities of its registered and active companies to obtain an overall measure of the size of the DIFC. It is important once more to note in analyzing the overall balance sheet that DIFC companies are involved mostly in wholesale and investment banking, and not retail; additionally, the transactions in the DIFC are mainly in USD, and not in local currency. These characteristics constrain the overall size of the DIFC balance sheet and limit comparability with the balance sheets of financial sectors in other countries or financial centres. **Total DIFC entities' assets** as of end of 2011 were estimated at **USD 114.6bn**. Not surprisingly, **financial assets, at USD 109.1bn**, accounted for bulk of the assets – this was mostly represented by **loans and advances** provided by Financial Sector companies, **USD 73.6bn**. Non-financial assets were meanwhile estimated to represent only 5% of total assets of DIFC entities. DIFC entities investments locally and abroad as measured by **shares and equities** in their assets portfolio, **exceeded USD 14bn** as of end of 2011.

On the liabilities side, **aggregate paid-up capital of the DIFC companies was estimated at USD 29.5bn**. Deposits and loans received reached USD 33.0bn as of end of 2011, while accumulated profits carried forward were estimated at USD 13.3bn.

Table 8.1: Total Assets of DIFC Entities
(in US$ million, current prices)

Type of Asset	End of 2011	% of Total
1.1. Lands	115.6	0.1%
1.2. Buildings	94.6	0.1%
1.3. Machinery and equipment	407.0	0.4%
1.4. Transport equipment	5.7	0.0%
1.5. Furniture and office machinery	69.7	0.1%
1.6. Inventories	69.9	0.1%
1.7. Intangible assets	1225.8	1.1%
1.8. Projects under execution	332.4	0.3%
1.9. Other non-financial assets	3185.6	2.8%
1. Total Non-Financial Assets	5506.2	4.8%
2.1. Government & non government securities	744.0	0.6%
2.2. Shares and equities	14305.2	12.5%
2.3. Other financial securities	5371.2	4.7%
2.4. Loans and Advances	73579.4	64.2%
2.5. Cash and deposits in banks	8817.4	7.7%
2.6. Debtors	4239.6	3.7%
2.7. Others financial assets	2052.9	1.8%
2. Total Financial Assets	109109.6	95.2%
Total Assets	**114615.8**	**100.0%**

Source: DIFC Economics.

[4]Based on actual data from responding companies.

Table 8.2: Total Liabilities of DIFC Entities
(in US$ million, current prices)

Type of Liability	End of 2011	% of Total
Paid up Capital	29479.4	25.7%
Reserves	3692.5	3.2%
Provisions	323.7	0.3%
Deposits	10061.4	8.8%
Creditors	5023.0	4.4%
Loans Received	22960.4	20.0%
Financial Securities	1490.7	1.3%
Insurance Technical Reserves	338.3	0.3%
Other Liabilities	3518.7	3.1%
Profits or losses carried forward	13270.3	11.6%
Statistical discrepancy	24457.3	21.3%
Total Liabilities	**114615.8**	**100.0%**

Source: DIFC Economics.

Paid-up Capital and Ownership Structure

The DIFC has been successful in attracting companies from a large number of countries and jurisdictions, thereby increasing foreign direct investment into Dubai and the DIFC. The current Economic Activity Survey includes new data on paid-up capital and the geographical pattern of DIFC companies' ultimate controlling parents. For the purpose of analysis we distinguish between DIFC entities' direct owners/ shareholders and ultimate controlling parents[5]. Also, it is important to consider the difference between the shareholders' residency and nationality, given that a shareholder may be classified, for example, as a resident of the UAE, although not a UAE citizen. Accordingly, a UAE citizen may be the owner of an entity at the DIFC, although residing abroad.

Table 9 was compiled on the basis of the responses provided by the DIFC companies.

Table 9: Breakdown of Paid Capital, by Residency of Investor

ISIC Code	Economic Activities	UAE Residents		Non-UAE Residents		Total	
		Value, $mn	Share	Value, $mn	Share	Value, $ mn	Share
K	**Financial Sector**	9,116.8	48.6%	9,651.1	51.4%	18,767.9	63.7%
K641	Monetary intermediation	50.0	15.5%	273.6	84.5%	323.6	1.1%
K642	Activities of holding companies	4,245.8	38.4%	6,814.8	61.6%	11,060.7	37.5%
K643, K649	Trusts, funds & similar financial entities, Other finan. services	4,636.7	83.9%	887.6	16.1%	5,524.3	18.7%
K650	Insurance, reinsurance & pension funding	42.5	13.1%	282.5	86.9%	325.0	1.1%
K660	Activities auxiliary to financial service & insurance activities	141.8	9.2%	1,392.5	90.8%	1,534.3	5.2%
G - S	**Business services activities**	794.8	7.4%	9,916.7	92.6%	10,711.5	36.3%
J	Information and communication	1.6	31.1%	3.6	68.9%	5.3	0.0%
H	Transportation and storage	28.9	8.0%	331.9	92.0%	360.8	1.2%
L	Real estate activities	66.1	100.0%	0.0	0.0%	66.1	0.2%
M69	Legal activities	1.6	3.5%	43.6	96.5%	45.2	0.2%
M701	Activities of head offices	653.3	6.4%	9,495.9	93.6%	10,149.2	34.4%
M702, M71, M73	Management consultancy activities, Architecture, R&D, Advertising	35.4	55.7%	28.2	44.3%	63.6	0.2%
N	Administrative & support services	0.0	0.3%	6.4	99.7%	6.5	0.0%
P	Education	0.9	89.8%	0.1	10.2%	1.0	0.0%
G,I,R,S	Wholesale & retail trade, Accom. & food services, Arts, & Other	7.1	50.5%	6.9	49.5%	14.0	0.0%
	Total	**9,911.7**	**33.6%**	**19,567.8**	**66.4%**	**29,479.4**	**100.0%**

Source: DIFC Economics.

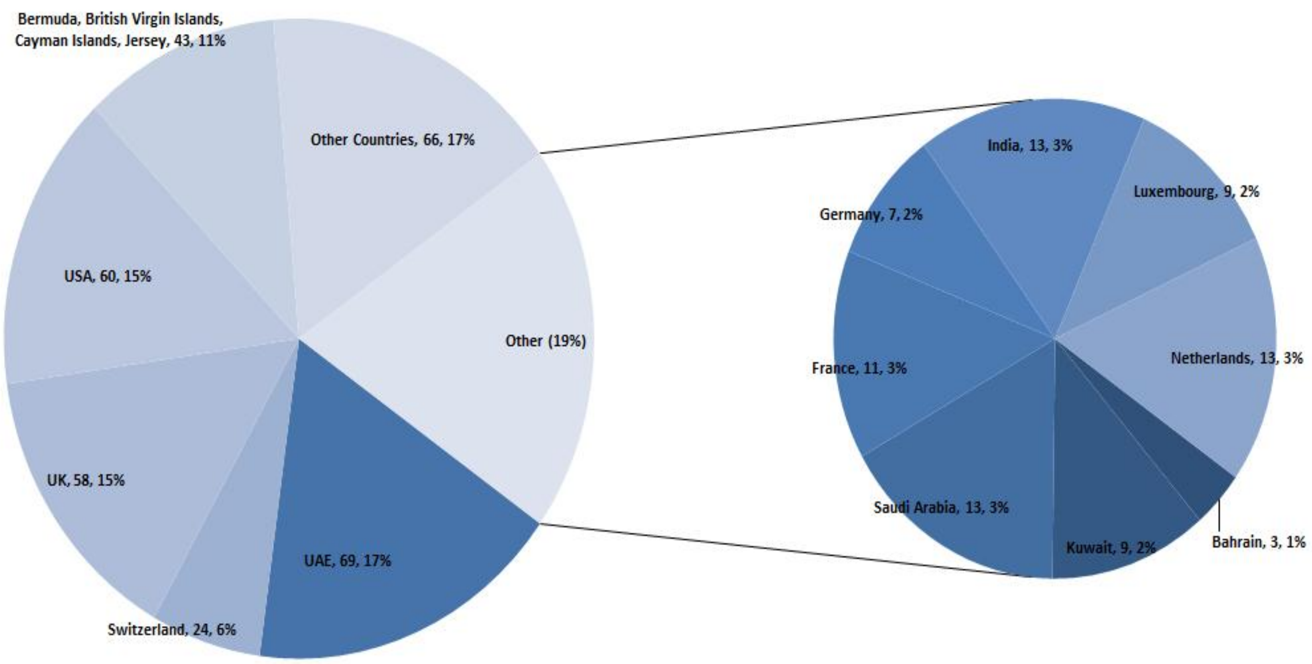
[5] The ultimate controlling parent is an enterprise that has controlling power either through immediate relationship or through a controlling chains (ownership of 50% or more) and is not controlled by any other entity.

According to the available data, about **1/3 of DIFC aggregate paid-up capital is owned by UAE residents, while the rest 2/3 – by non-UAE residents**. The paid-up capital of Financial sector entities is distributed almost equally between UAE residents (48.6%) and non-UAE residents (51.4%), while non-UAE residents account for the prevailing portion of the paid up capital of non-financial companies (92.6%).

It is noteworthy that the Monetary Intermediation sub-sector represents only 1.1% of aggregate paid-up capital of the DIFC, though it accounts for 11.5% of the total nominal value added produced in the Center in 2011. This is due to the fact that the vast majority of banks at the DIFC are branches of their mother companies, hence do not have paid up capital.

Holding companies and Head offices represent sub-sectors with the largest aggregate paid up capital, 37.5% and 34.4% respectively. The share of non-UAE residents' capital in those companies is estimated at 61.6% and 93.6% respectively. UAE residents have dominant shares in aggregate capital of Trusts and funds (83.9%), Real estate enterprises (100%), Education entities (89.8%), and Management consultancy (55.7%).

The chart below illustrates geographical breakdown of DIFC entities' ultimate controlling parents (only for reporting entities). Among 533 responding entities, 398 reported their UCPs. The concept of ultimate controlling parent is not applicable to the remaining 135 responding companies, as most of them are owned by individuals.



Source: DIFC Economics.

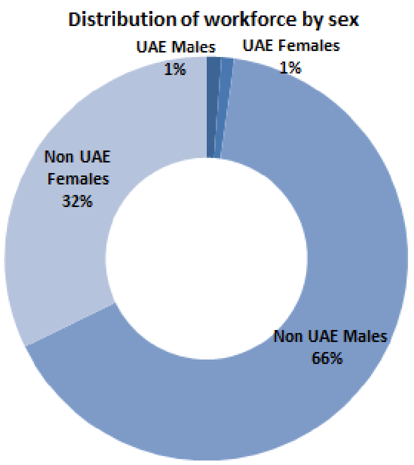
DIFC Labour Force and Characteristics

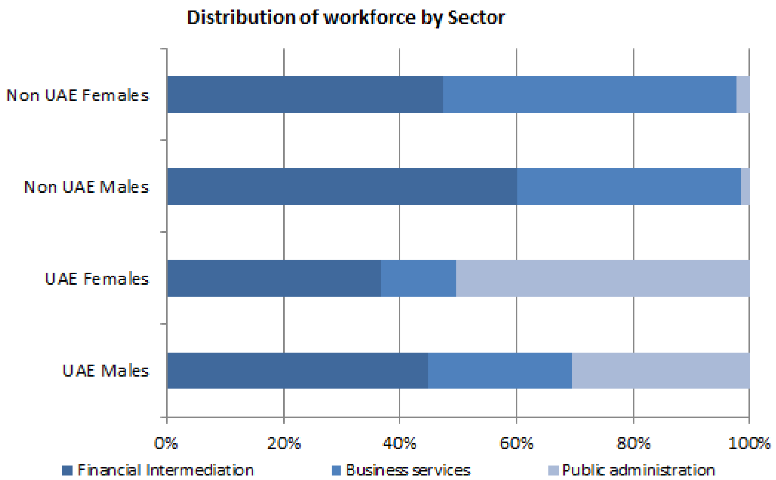
According to the survey data, validated by data on residency visas issued, the number of people employed at the DIFC entities in 2011 was estimated at **12,945** (up almost 16% from 11,162 in 2010), though this does not imply that all were working during 2011, as the data refer to employment at year end. The share of **male** population was **66.8%**, and **expatriates** accounted for **97.8%** of the total labour force at the DIFC, while **UAE nationals** represented only **2.2%**. Interestingly, the number of expatriate male employees is almost twice the number of expatriate women while among UAE nationals, the female to male ratio is closer to 1.

The largest sector in terms of labour force employed in 2011 was Financial Intermediation with 55.6% of the total labour force, followed by Business services sector with 41.7%. Table 10.1 below highlights the breakdown of the labour force at the DIFC by type of economic activity, according to the collated responses of the 533 companies and estimates based on visa data for non-respondents.

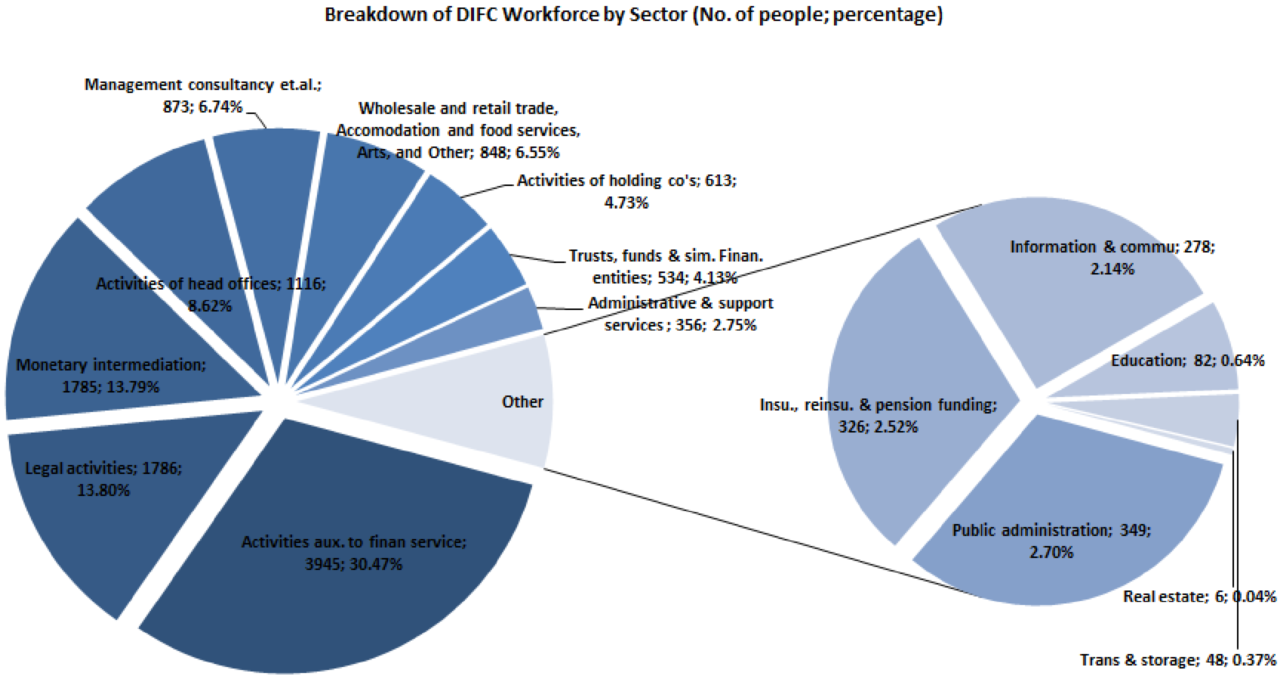
Table 10.1: Workforce in 2011, by Type of Economic Activity

Economic Activities	UAE Nationality Workers			Non UAE Nationality Workers			Total Workers		
	UAE Males	UAE Females	SubTotal	Non UAE Males	Non UAE Females	SubTotal	Males	Females	Total
Financial Intermediation	69	49	118	5111	1974	7085	5180	2023	7203
Business services	38	17	55	3246	2092	5339	3284	2109	5394
Public administration	47	67	114	137	98	235	184	165	349
Total	**154**	**133**	**287**	**8494**	**4164**	**12658**	**8648**	**4297**	**12945**





Source: DIFC Economics.



Source: DIFC Economics.

The breakdown by working status at the DIFC reveals that around 90% of the total labour force was employed as salaried, while 96.1% belongs to the age group of 25-59.

Table 10.2: Working Status of DIFC Labour Force distributed by Sex and Age in 2011

Working status	Sex		Age group			Sex		Age group			
	Male	Female	24 & below	25-59	60 & above	Male	Female	24 & below	25-59	60 & above	Total
1. Employers	751	372	24	1067	31	8.7%	8.7%	6.7%	8.6%	20.8%	8.7%
2. Self Employed	37	3	0	40	0	0.4%	0.1%	0.0%	0.3%	0.0%	0.4%
3. Salaried	7765	3907	333	11247	91	89.8%	90.9%	93.3%	90.4%	60.4%	89.8%
4. Work for no wage/ non remunerated	96	16	0	84	28	1.1%	0.4%	0.0%	0.7%	18.8%	1.1%
Total	**8648**	**4297**	**357**	**12438**	**151**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: DIFC Economics.

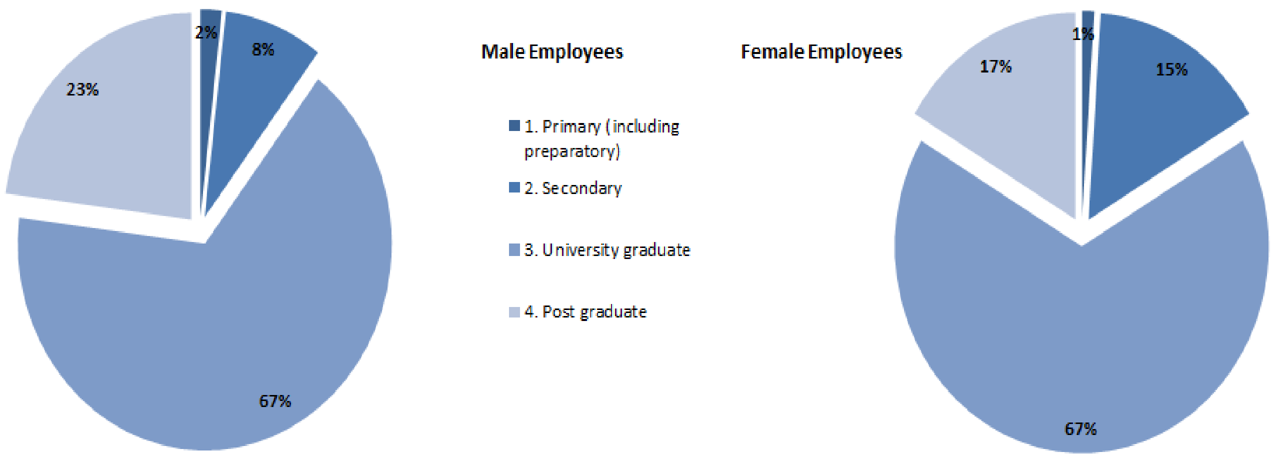
Educational Attainment of DIFC Labour Force

A Financial Centre in itself heralds the presence of a **highly educated labour force**. This is emphasized also by the survey results: by education, the DIFC labour force constitutes 66.8% university graduates, while 21% hold post-graduate degrees. The results also show that in spite of the wide disparity in number of male to female employees, similar to 2010, around 85% of both men and women are university graduates and above, underscoring the availability of an equally highly skilled workforce at the Center.

Table 10.3: Education of DIFC Labour Force Distributed by Sex, 2011

Type of Education	Male	Female	Total	Male	Female	Total
1. Primary (including preparatory)	157	44	201	1.8%	1.0%	1.6%
2. Secondary	738	663	1401	8.5%	15.4%	10.8%
3. University graduate	5766	2883	8649	66.7%	67.1%	66.8%
4. Post graduate	1987	707	2694	23.0%	16.5%	20.8%
Total	**8648**	**4297**	**12945**	**100.0%**	**100.0%**	**100.0%**

Source: DIFC Economics.



Source: DIFC Economics.

Compensation & Value-added per Employed Person in DIFC

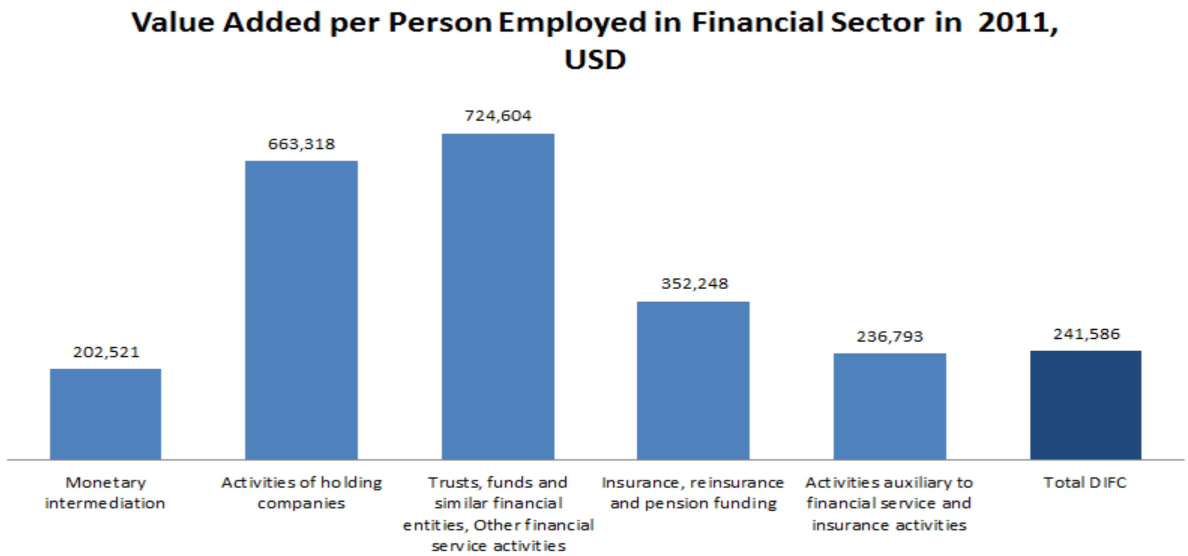
On average, labour force engaged in financial activities has higher compensations compared to remunerations in Business activities sector, as shown in the table below. However, these data may be non -representative, as they were derived for an "average" labour unit, hence deviation of compensation among different groups of labour force within sub-sectors may be quite substantial. The significant changes in average compensation for certain economic activities may be attributed to data variations arising from different samples of responding companies between 2010 and 2011.

Table 10.4: Average compensation by Sector (US$)

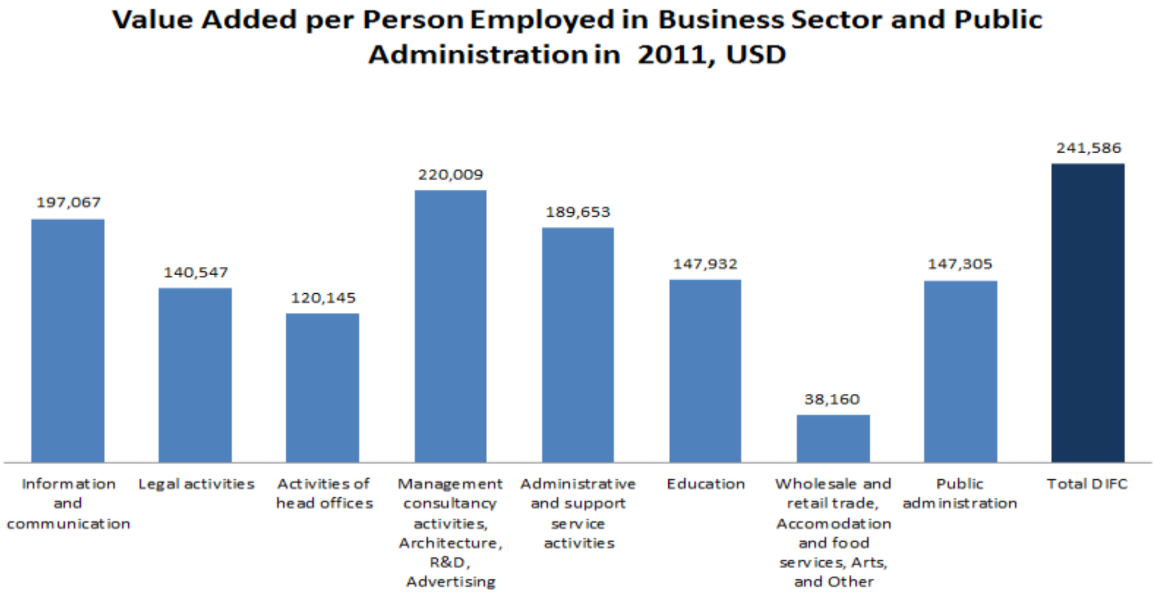
ISIC Code	Economic Activities	2010	2011
K641	Monetary intermediation	58360.4	118510.7
K642	Activities of holding companies	162942.3	141775.4
K643, K649	Trusts, funds & similar financial entities, Other finan. services	212939.8	217477.0
K650	Insurance, reinsurance & pension funding	97476.7	174160.9
K660	Activities auxiliary to financial service & insurance activities	136183.8	207809.9
J	Information and communication	142383.5	85700.3
M69	Legal activities	136008.7	169811.2
M701	Activities of head offices	147612.8	204681.7
M702	Management consultancy activities	138286.3	141227.2
N	Administrative and support service activities	109188.6	137425.9
P	Education	84723.2	110023.7
G	Wholesale and retail trade	13610.6	124739.7
O	Public administration	81395.4	55271.0

Source: DIFC Economics.

Management Consultancy, and Information and Communication companies were among the leaders of Business sector entities in 2011 in terms of value added generated per person employed. Nominal value added per person employed in Trusts and Funds, and Holding Companies, considering the nature of their businesses, was the highest among the financial sector companies at the DIFC in 2011.



Source: DIFC Economics.



Source: DIFC Economics.

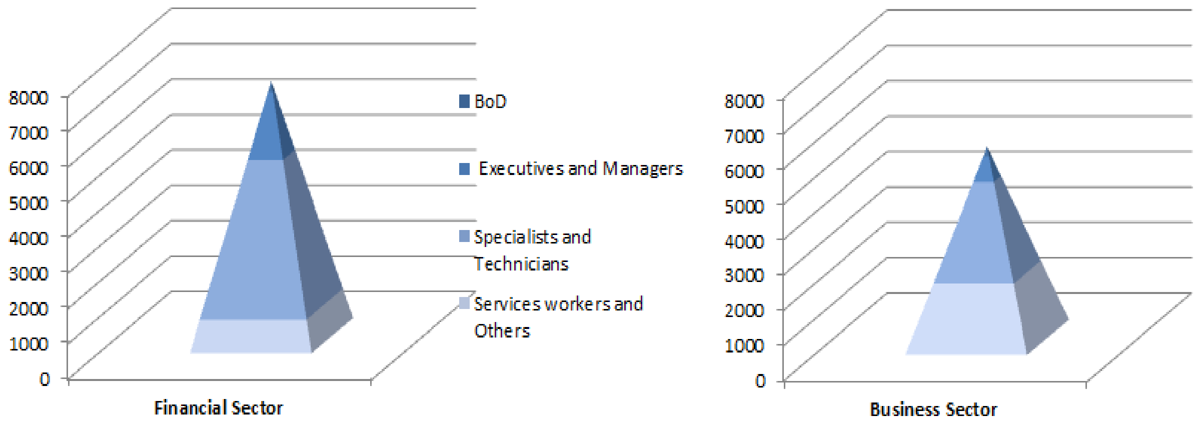
Hierarchical Distribution of the Labour Force

The hierarchical distribution of the labour force in the DIFC as between directors, executive managers, staff and specialists and workers shows substantial variance across different sub-sectors of the DIFC. Managers represent a significant proportion of the total workforce in Financial sector, while in the Business services sector service workers are a higher proportion. On average, boards of directors and managers represent around 25% of the total labour force, while specialists and service workers account for 55% and 20% respectively, as can be seen in the table below.

Table 10.5: Average Entity Size in Dubai

ISIC Code	Economic Activities	1. Managers				2. Specialists & Technicians	3. Service workers & Others	Average No. per Company
		1.1. Board of Directors	1.1.1. Independent Directors	1.2. Executives & Managers	Sub-Total			
K641	Monetary intermediation	3	3	687	690	754	341	99
K642	Activities of holding companies	60	13	116	176	347	91	6
K643, K649	Trusts, funds and similar financial entities, Other financial services	30	4	104	134	332	68	9
K650	Insurance, reinsurance & pension funding	12	1	73	85	207	34	27
K660	Activities auxiliary to financial service and insurance activities	187	62	820	1007	2578	360	19
J	Information and communication	6	0	19	25	174	79	9
H	Transportation and storage	15	0	6	21	27	0	24
L	Real estate activities	0	0	0	0	4	2	1
M69	Legal activities	111	0	126	237	1055	494	45
M701	Activities of head offices	48	2	216	264	521	331	8
M702, M71, M73	Management consultancy activities, Architecture, R&D, Advertising	56	11	132	188	536	149	13
N	Administrative & support services	13	4	46	59	121	176	11
P	Education	2	0	17	19	46	17	8
G,I,R,S	Wholesale and retail trade, Accommodation & food services, Arts, & Other	21	0	79	100	155	594	10

Source: DIFC Economics.



Source: DIFC Economics.

Concluding Remarks

Contagion effects do not always need to be seen in bad light. The Lehmann crisis and the more recent Arab turmoil and Eurozone plights have led to increased activity in the Dubai financial free zone. The benefits of a common law legal and regulatory framework, zero rated taxation of individuals and corporates, 100% foreign ownership and availability of a highly skilled labour force, supported by a state-of-the-art infrastructure and the 24x7 international connectivity offered by Dubai has only strengthened its case as an ideal location for financial entities to bridge the gap between the West and the East.

With higher rates of responses, this fifth edition of the DIFC Economic Activity survey has been successful in capturing the essence of not only the value added generated in the DIFC, but also the characteristics of the Centre's employees while providing a holistic view of the overall financial position of the survey respondents.

The total value added (equivalent of GDP) of the DIFC reached USD 3.13bn in 2011, accelerating at a pace of 7%, significantly up from 5.5% in the previous year and confirming the recovery from 2009 crisis. As DIFC continues to attract more firms from the Middle East region and Asia, it is important to note that DIFC's GDP growth rate was similar to that of the peer financial centers in Asia. Sector-wise, the significant contributor to DIFC value added remained the Financial Services sector, at 70.3%. Business services meanwhile grew at a faster pace (+13.1%) compared to that of Financial sector (+4.5%). This result is not completely surprising because DIFC has already attracted the vast majority of big players in the financial industry. It has now reached the level where there is an increased demand for support services, hence attracting companies like accounting firms, legal firms, management consultancies and the likes.

Financial assets formed the bulk of assets in the DIFC, while total paid-up capital was close to USD 30bn in 2011. An in-depth analysis of the shareholders revealed that in spite of the non-requirement for a UAE national partner, around 1/3 of DIFC's aggregate paid up capital is owned by UAE residents. Holding companies account for 37.5% of consolidated paid up capital, and head offices for another 34.4%.

The last point to note is the availability of an educated pool of employees within the Centre. Though expatriate males outweighed expat female employees 2:1, among UAE nationals the female to male ratio remained closer to 1. Does this mean that the public sector (which employs significantly higher number of UAE nationals) remains a more equal opportunity employer or that there are significantly lower opportunities for females in the private sector? Clearly however there is gender equality in educational attainment, suggesting that other factors may play a role in the lower participation rate of females. We leave that question to a future survey.

DIFC

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