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Embracing sharing

Managing the disruption of the sharing economy in the GCC

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About the Ideation Center

The Ideation Center is the leading think tank for Strategy& Middle East, part of the PwC network. We aim to promote sustainable growth in the region by helping leaders across sectors translate socioeconomic trends into actions and better business decisions. Combining innovative research, analysis, and dialogue with hands-on expertise from the professional community in the private and public sectors, the Ideation Center delivers impactful ideas through our publications, website, and forums. The end result is one that inspires, enriches, and rewards. The Ideation Center upholds Strategy&'s mission to develop practical strategies and turn ideas into action. At the Ideation Center, we enjoy the full support of all practices in the Middle East. Together we bring unsurpassed commitment to the goal of advancing the interests of the Middle East region. Find out more by visiting www.ideationcenter.com.

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Executive summary

Gulf Cooperation Council (GCC) countries[1] can unlock significant benefits from the sharing economy and address specific socioeconomic needs if they can harness its powerful effects. The sharing economy is based on the exchange of goods and services directly between individuals through online platforms. It can alleviate the problem of underexploited human resources and assets, thereby enhancing related industries. However, this digital age transactional system is barely beyond its infancy and poses challenges related to regulations, trust, resistance from incumbents, labor policies, and culture.

The sharing economy is growing as it efficiently helps supply meet demand. Consumers enjoy more control and flexibility when purchasing products or services directly from verified providers and conducting transactions through secure online gateways. According to the Strategy& GCC 2016 sharing economy survey, GCC consumers spent US$10.7 billion on sharing economy platforms in five key sectors: accommodation, transportation, household services, business services, and financial services. Spending is expected to increase as nationals in particular develop more demand for sharing economy services.

To make the most of the sharing economy, each GCC country needs a differentiated framework tailored to its market specificities. This can balance key trade-offs to promote economic benefits like job creation and innovation, while mitigating risks to consumers. The framework has five pillars. First, the relevant ministries or authorities need a governance model to oversee sharing economy activities in their respective sectors and address the implications of a system that crosses sectoral lines. Second, fit-for-purpose regulations should address market access requirements, legal liability, and consumer protection. Third, updated labor policies should include part-time employment for nationals and expatriates to participate in the sharing economy. Fourth, GCC countries should ensure that any new taxes cover the sharing economy. Fifth, GCC governments should promote localization of sharing economy platforms to identify truly local solutions to local problems.

The disruptive impact of the sharing economy has reached the GCC

The impact of the sharing economy on economic sectors has been felt across GCC countries in different ways and with varying levels of intensity. Already in 2016, GCC consumers spent at least $10.7 billion on GCC sharing economy platforms, which generated an estimated $1.7 billion in revenues for these platforms.[2]

On the demand side, it has improved the access to, and increased the use of, underutilized assets through online or mobile-based platforms. Sharing economy platforms facilitate the "sharing" (such as renting or purchasing) of goods, services, time, capital, experiences, and space, directly between individuals, and often at a reduced cost. These platforms are "always on" and are open to virtually any user. Many platforms also have a two-way rating system designed to help users know the other party in a transaction and make informed decisions before dealing with each other.

On the supply side, the sharing economy has presented GCC countries with a means to create additional job opportunities for nationals or help expatriates supplement their income, as well as to increase capacity. Given the flexible nature of work arrangements in the sharing economy, nationals — particularly women and young people — can work on a part-time basis or remotely. Expatriates can work around their full-time jobs to earn additional income where labor laws permit it. The sharing economy can also make additional transportation and accommodation capacity available when needed. On the margin, and in the context of tourism sector development, this can help absorb visitor influxes during holidays or major events such as the upcoming Expo 2020 in Dubai and the FIFA 2022 World Cup in Qatar.

The sharing economy has presented GCC countries with a means to create additional job opportunities for nationals.

A majority of respondents in Strategy&'s 2016 sharing economy survey of GCC residents (nationals and expatriates) said the reduced cost of services was the main benefit of the sharing economy (*see Strategy& GCC 2016 sharing economy survey methodology, page 28*). This was followed by benefits to producers and consumers and increased flexibility (*see Exhibit 1*). By comparison, U.S. sharing economy users in a 2015 survey by PwC had listed improved trust between providers and consumers as the top benefit (89 percent of respondents), followed by price reduction (86 percent) and convenience and efficiency (83 percent).[3] Among GCC residents, there is a difference of opinion between expatriates and nationals. The survey found that expatriates were more engaged than nationals with the sharing economy. One reason is that nationals in GCC countries traditionally enjoy high income levels and can afford to hire labor from a large pool of expatriate workers. However, GCC nationals are starting to recognize the advantages of the sharing economy in terms of flexibility. For example, sharing economy transportation platforms in Saudi Arabia allow women, who cannot legally drive, to move around more freely and pursue a career.

Exhibit 1

Users in the GCC consider reduced costs and mutual benefits as the top two advantages of the sharing economy

Percentage of respondents for each country

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
Price reduction	**64%**	**66%**	**72%**	**65%**	**57%**	**62%**
Mutual benefits to producers and consumers	**33%**	**31%**	**36%**	**30%**	**30%**	**37%**
Increased flexibility	**25%**	**26%**	**25%**	23%	28%	**32%**
Modernity, trendiness	23%	23%	**25%**	**27%**	**30%**	15%
Convenience	19%	21%	20%	21%	24%	28%
Better resource management	19%	15%	24%	12%	15%	22%
Increased independence and self-reliance	15%	18%	22%	18%	17%	13%

Top 3 benefits

Note: Data correct as at October 2016.

Source: Strategy& GCC 2016 sharing economy survey

The sharing economy is ripe for growth in the GCC

The sharing economy is having an impact in the GCC and it is expected to develop further. There are already sharing economy companies in all GCC countries, and in 2016 the region had its first "unicorn" (a startup with a valuation in excess of $1 billion; *see "Careem: The GCC sharing economy unicorn," page 12*). This growth is driven by favorable conditions, including: a ready labor force, high levels of urbanization, high technology adoption rates, national digitization plans, and available investment capital.

A ready pool of sharing economy workers is available in the GCC, especially in countries with high rates of economic inactivity and unemployment. The sharing economy's flexible employment arrangements, for example, are better aligned with the lifestyle of youth and women. A Booz & Company survey in 2010 showed that 62 percent of GCC youth favored self-employment and wanted their governments to promote entrepreneurship,[4] which current labor market regulations do not allow for. Worldwide, self-employment opportunities are growing rapidly and driving employment levels up. In fact, 67 percent of job growth in the U.K. since 2008 was driven by self-employment.[5] Sharing economy platforms could provide similar opportunities in the region and create additional jobs for nationals. This would reduce the demand for government jobs in countries like Saudi Arabia, for example, where one-quarter of youth between 15 and 29 years old are not in education, employment, or training, and 78 percent of women do not participate in the workforce.[6] Notably, Saudi Arabia signed an agreement in 2016 with the international ride-hailing service Uber to create 100,000 driver jobs and hire Saudi men over five years.[7]

High levels of urbanization create a concentration of available products, services, assets, and connectivity. Based on World Bank figures from 2015, Strategy& calculated that around 85 percent of the total GCC population lives in cities.[8] This concentration generates the large volumes of data essential to drive sharing economy platforms by matching consumers with providers.

High technology adoption rates enhance the uptake of sharing economy platforms. This is driven by high penetration and usage rates for mobile technology (smartphones, tablets, laptops, and the applications designed for them) among GCC users. In 2016, 42 percent of the GCC population, which includes a large portion of young and tech-savvy people, used mobile Internet and applications.[9]

National transformation plans provide a supportive environment for the digital economy more broadly as GCC governments seek to promote digitization and innovation, such as by establishing smart cities. These plans include the Smart Dubai initiative in the United Arab Emirates (UAE), Saudi Arabia's Vision 2030 and National Transformation Plan 2020, Qatar's Connect 2020 ICT Policy, and the e-Oman digital strategy.

Investment capital is increasingly available to digital startups, including sharing economy platforms. As GCC governments and corporates realize the potential of such businesses, they are investing in them either directly or through incubators and accelerators. Government-backed funds, which can allocate assets to sharing economy ventures, include the $7 billion Kuwait National Fund for SME Development and the Oman Technology Fund, which has an initial capital of $200 million. Corporate venture capital funds are mainly based in the UAE and Saudi Arabia. Telecom operators such as Etisalat, Saudi Telecom Company (STC), Zain, and Ooredoo contribute most of the capital. Incubators and accelerators in the region include Taqadam, run by the King Abdallah University of Science and Technology in collaboration with the Saudi British Bank (in Saudi Arabia), Turn8 (in the UAE), and

The sharing economy's flexible employment arrangements, for example, are better aligned with the lifestyle of youth and women.

Flat6Labs in both markets.

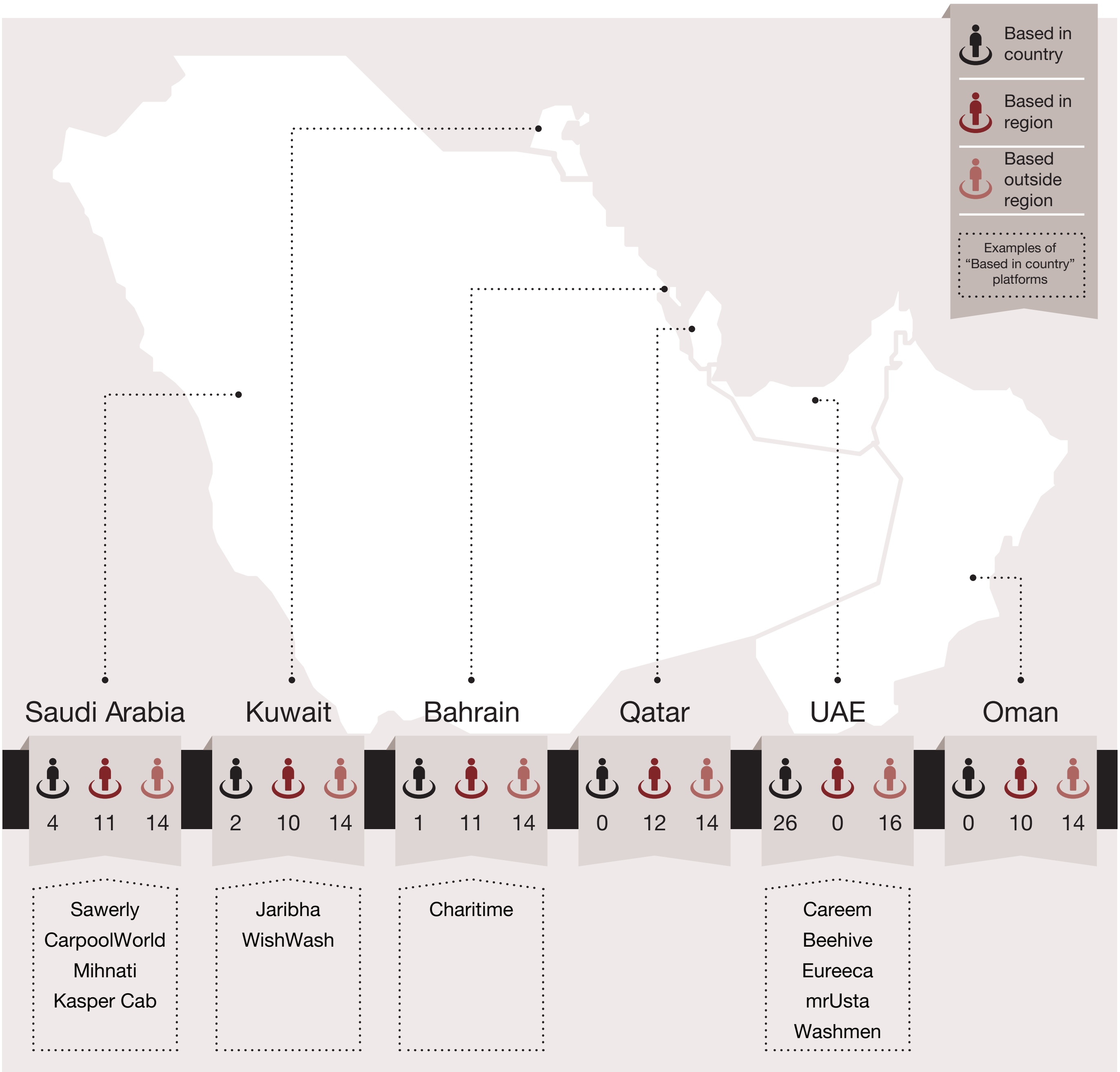
The importance of these factors varies by country; they determine the type and number of sharing economy players active in each market, as well as how these players operate. In this report, Strategy& focuses on five emerging sharing economy sectors with the greatest potential: accommodation, business services, financial services, home services, and transportation.

Although there are several sharing economy players active in retail, the report does not address this sector as it is relatively well developed in the region. GCC-based retail platforms include the online peer-to-peer marketplaces Souq.com (acquired by Amazon in March 2017 for $800 million) and dubizzle (rebranded as OLX outside Dubai). As an indication of how entrepreneurs in the GCC shape digital platforms to suit their needs, some people — especially women — use social media platforms like Facebook or Instagram to sell goods. This has created the "Instapreneur" (instant entrepreneur) phenomenon, which turns social media into e-commerce or sharing economy platforms.

Platforms in the five aforementioned sectors include international players as well as GCC-based ones that operate either solely in their home market or regionally. International players outnumber their national peers except in the UAE, which has the region's best-developed entrepreneurial ecosystem. It is also worth noting that around half of UAE-based sharing economy players operate in at least one other country in the region, where they compete with international players (*see Exhibit 2, page 10*).

Exhibit 2
The UAE hosts 80 percent of the GCC-based sharing economy players

Data as at January 2017



Note: Data correct as at January 2017. The sectors covered are: accommodation, business services, household services, financial services, and transportation.

Source: Strategy& analysis

Accommodation platforms based in the GCC list properties for sale or long-term rental, as opposed to typical sharing economy platforms in developed countries that propose affordable short stays in rooms or private residences. The U.S.-based Airbnb alone in the region offers short-term rentals, but its usage is still limited to a few GCC cities. Dubai has the highest accommodation availability among GCC cities, exceeding 4,500 postings on the service's platform in May 2017, compared to an average of around 130 postings in other GCC cities.

Business services platforms are primarily GCC-based and, like their global peers, they aim at contracting local or regional professionals and freelancers exclusively on a project basis. GCC platforms include Laimoon, which uses online forms to help professionals apply for appropriate jobs, and Nabbesh, which matches the most suitable freelancers with openings. Some international platforms, including the U.S.-based Upwork, also operate in the GCC but are mostly used to hire freelancers with skills or tools not available in the region.

Household services platforms are abundant in the GCC but employ only professionals who already have a trade license or are registered with labor ministries, whereas their global counterparts often include freelancers. Most platforms in the region focus on laundry services, with additional ones specializing in cleaning, cooking, plumbing, electrical repairs, etc. Platforms for home maintenance services include the local ServiceMarket (formerly Movesouq) and mrUsta in Dubai, as well as international players like Helpling, headquartered in Berlin.

Household services platforms are abundant in the GCC.

Financial services platforms in the GCC are similar to their global counterparts because they revolve around peer-to-peer financing via crowdfunding (donation or reward-based), peer-to-peer lending, or crowd-investing (crowdfunding in exchange for equity). In 2015, the Dubai-based Beehive became the world's first peer-to-peer lending platform to be officially certified to comply with sharia (*Islamic law*). Eureeca, also based in Dubai, is the region's most established crowd-investing platform, with licenses from Dubai, the Netherlands, Malaysia, and the U.K. Regional players such as liwwa (Jordan), Zoomaal (Lebanon), and several Egyptian platforms also serve the GCC, alongside the international Indiegogo and Kickstarter (U.S.), as well as KissKissBankBank (France).

Transportation platforms have also developed differently, acting as aggregators of licensed transportation services rather than the peer-to-peer model of ride-hailing services that any private individual can offer. Some GCC countries have forced platforms to hire only licensed taxi drivers. In the GCC, this is meant to prevent what is seen as unfair competition from services like the Dubai-based Careem for national taxi companies, most of which are government-owned or -backed, such as the Dubai Taxi Corporation, a subsidiary of Dubai's Roads and Transport Authority (RTA Dubai). Other platforms in this sector replicate their international counterparts' offering, such as carpooling, shipping, or parking services, without necessarily competing with traditional players. Carpool Arabia, Sharekni, and Darb (UAE), as well as CarpoolWorld (Saudi Arabia), have reported increasing usage of their carpooling services. Carpool Arabia, for example, claims its number of users has increased by 21 percent month-on-month since the service's launch in 2014, driven in part by the platform's corporate offering.[12] Additional platforms include the Dubai-based LoadMe, a shipping platform that connects truck owners with cargo owners, and Park Key, where users can rent out their parking space.

Careem: The GCC sharing economy unicorn

Founded in 2012, Careem is a regional private ride-hailing service based in Dubai. According to the platform's website, Careem is present in 47 cities across the Middle East, Africa, and Asia, and has 150,000 drivers serving around six million active registered users, by December 2016.[13]

Careem has received investments worth $421.7 million to date. It became the GCC's first unicorn at the end of 2016 after STC acquired a 10 percent stake in the service for $100 million, raising its valuation to $1 billion.

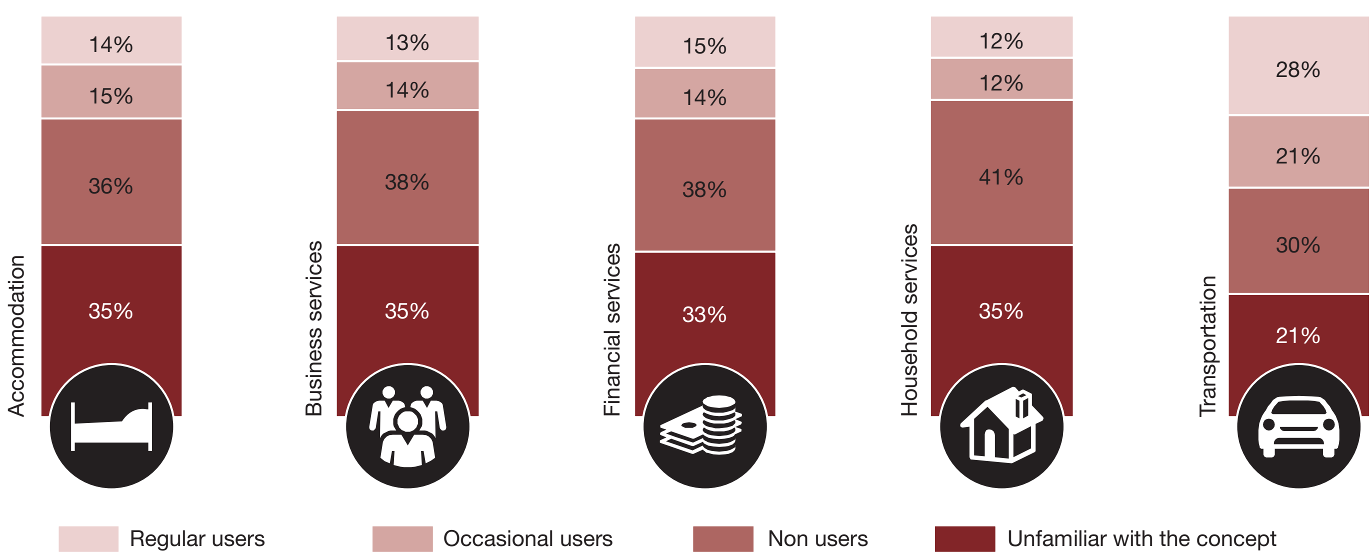
Careem has enhanced its capabilities through acquisitions and partnerships. In 2015, it acquired the delivery platform Enwani, which has a data-rich mapping system. Integrating this into Careem's app added a proprietary mapping system that facilitates navigation through cities as well as passenger pickup. Recently, Careem partnered with NEXT Future Transportation (California) to introduce modular, electric, and driverless cars in the future. It has also partnered with Emirates, on frequent flyer programs, allowing the airline's customers to earn miles when using the ride-hailing service.

The Strategy& GCC 2016 sharing economy survey indicated potential for growth of the GCC sharing economy in the five sectors. Around a third of respondents said they were still unfamiliar with the concept of the sharing economy or did not use it, representing a large untapped pool of consumers. However, usage varied across sectors and countries, depending on users' gender, age, and nationality. The sector with the highest usage frequency was transportation, with 28 percent of respondents using it regularly (*see Exhibit 3*). Usage frequency in the UAE was the highest by far across all sectors — except for transportation, where it was on a par with Qatar and Saudi Arabia. Several factors contributed to this high usage: the fact that 80 percent of sharing economy platforms are local, high levels of technological advancement, and a large population of expatriates. These expatriates are more familiar with the sharing economy concept and use it more regularly than nationals. Men had the highest usage rates for accommodation, business services, and finance, whereas women use household services and transportation most frequently. Unsurprisingly, the younger generation (18 to 29 years old) recorded the highest usage frequency, as these are the largest consumers of technology.

Exhibit 3

Transportation services record the highest usage in the GCC's sharing economy

Percentage of users



Note: Data correct as at December 2016. The sectors covered are: accommodation, business services, household services, financial services, and transportation.

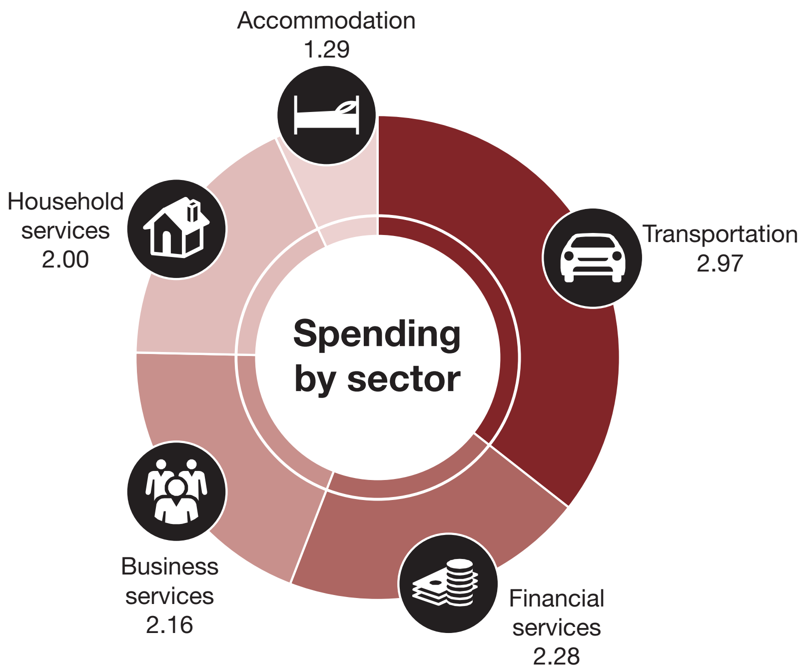
Source: Strategy& GCC 2016 sharing economy survey

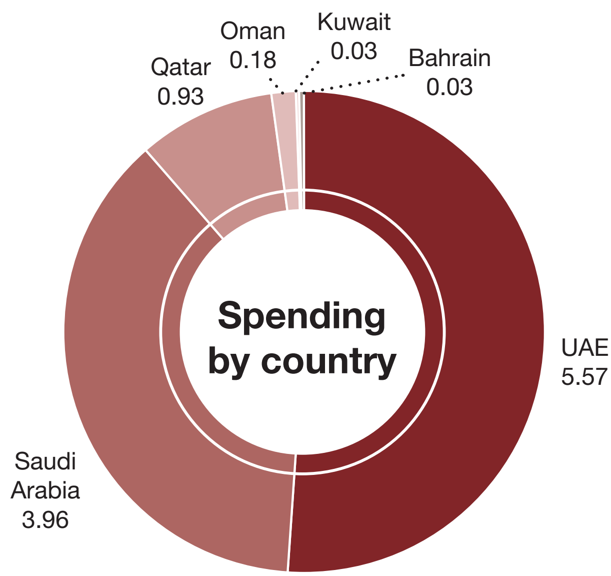
In 2016, GCC users spent an estimated $10.7 billion on GCC sharing economy platforms in the aforementioned five sectors alone, according to the Strategy& GCC 2016 sharing economy survey. This generated $1.7 billion in revenues for these platforms based on the average commission percentage of these platforms by transaction and by sector. Users in the UAE and Saudi Arabia accounted for 89 percent of this total, based on declared spending by respondents (*see Exhibit 4*).

Exhibit 4

Annual GCC sharing economy spending for five sectors is estimated at $10.7 billion

Sharing economy sector spending (in US$ billions[1])





[1] Numbers exclude respondents with a monthly income below $266, as well as respondents who claim they spend more than 30 percent of their monthly income on sharing economy services.

Note: Data correct as at end-2016.

Source: Strategy& GCC 2016 sharing economy survey

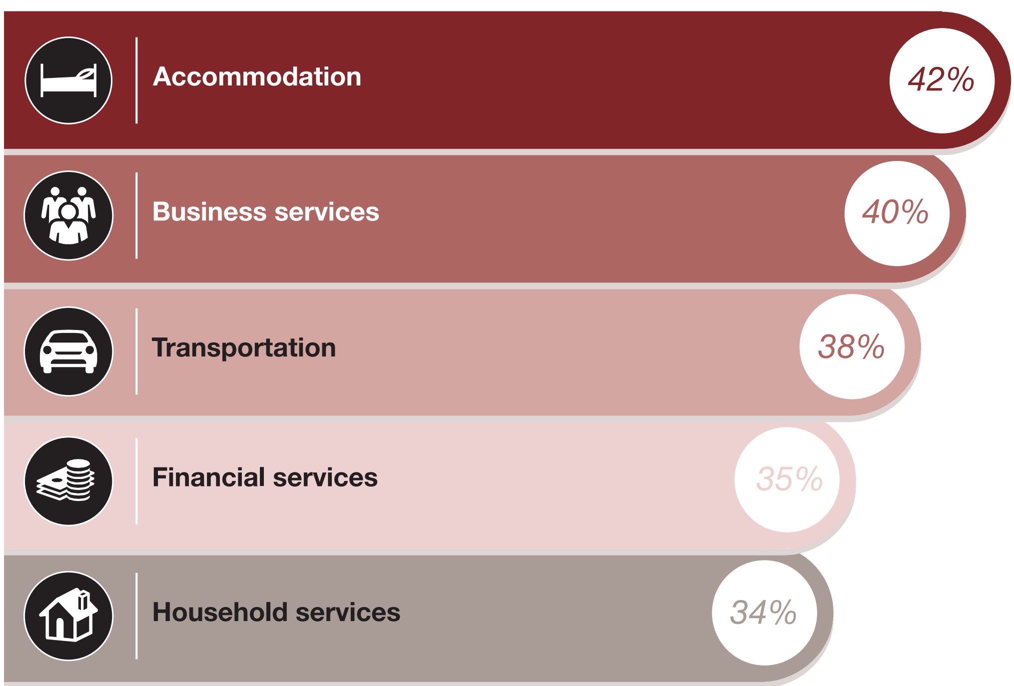
As well as the highest usage, transportation had the largest share of spending. Although accommodation had the lowest overall spending, it had the highest average spending by user per month across all countries.

A large portion of respondents said they expected to increase their spending on sharing economy services in the future (*see Exhibit 5*), particularly on accommodation platforms (42 percent of respondents). This mirrors global spending trends in the sharing economy. For example, a PwC study of the sharing economy in Europe found that transportation was also the leading sector, followed directly by accommodation.[14]

Exhibit 5

Sharing economy users in the GCC expect to increase their spending, mainly on accommodation services

Percentage of respondents expecting to spend more (by sector)



Source: Strategy& GCC 2016 sharing economy survey

The sharing economy still faces barriers in the GCC

Although participation in the sharing economy is poised to grow in the GCC, certain challenges need to be addressed.

1. Inadequate or unclear regulatory frameworks
Due to uncertainty concerning their operating, licensing, and tax requirements, sharing economy platforms and providers often operate in legal gray areas. Sometimes, companies and customers alike are unclear about which body is their regulator, and this can lead to confusion, for instance when complaints have to be made. In the UAE, for example, Carpool Arabia is licensed with the Dubai Technology and Media Free Zone Authority but is not affiliated with, or regulated by, RTA Dubai, which oversees national taxi companies, among other enterprises. Crowdfunding platforms in the UAE also face vague regulations concerning marketing and distribution, fund setup and operation, and lending and securities offerings.

Inadequate regulation can increase operational risk and limit demand and supply. Lack of regulation in Brazil, for example, has led to ongoing legal disputes with international ride-hailing platforms and attempts by taxi drivers' unions to ban these services. Conversely, heavy regulation in some European countries has forced ride-hailing platforms to discontinue their low-cost options or employ only licensed taxi drivers, cancelling out the flexibility and affordability of these services.

Moreover, the profit shift from traditional business models to digital ones can lead to tax erosion. In some cases, a sharing economy player may not be taxed if it has no physical presence in a territory, even if it records substantial economic activity there. As for self-employed or freelance providers, they often do not pay taxes due to the lack of clear regulations on the subject. Governments are missing the opportunity to widen the tax net on such sharing economy transactions as accommodation lettings.

2. Limited trust in sharing economy platforms
Trust issues for users of the sharing economy concern both their data protection and quality assurances for the goods or services they purchase.

As with any digital-based business, users have concerns about website security and payment authentication. According to a 2012 survey by Booz & Company, 56 percent of GCC credit cardholders had never conducted an online purchase with their card. Personal or credit card data on sharing economy platforms may be at risk from breaches or undesired sharing with a third party. In 2014, for example, the Australia-based crowdfunding and online fund-raising organization MyCause was hacked, compromising up to 12,000 credit cards, some of which were used to conduct fraudulent transactions in Europe, the UAE, and the United States.

Additionally, GCC users put considerable emphasis on trust and transparency when dealing with online providers, two factors that can influence their purchasing decisions. In the sharing economy, users need to be able to trust platforms' screening process for providers before they deal with them. For example, whereas regular taxi companies hire only licensed drivers who have passed a road safety test, this does not apply to private drivers on ride-hailing platforms who only have to verify their identity and insurance, but not their road skills. Trust issues also extend to quality concerns regarding products and services advertised on sharing economy platforms. For example, accommodation providers or secondhand resellers may resort to false advertising or reviews to promote their offering.

GCC users put considerable emphasis on trust and transparency when dealing with online providers.

3. Incumbents with large investments
GCC firms, particularly in the transportation and hospitality industries, have invested heavily in acquiring operating licenses and so oppose the intrusion of the sharing economy. These incumbents fear they might lose market share and jobs.

4. Strict or undefined labor policies
GCC countries do not have flexible labor markets that can accommodate significant numbers of freelancers or part-time employees, the vital pool of human resources needed for the sharing economy. Current work arrangements still entail many processes and fees typically associated with full-time employment. Moreover, the current *kafala* (sponsorship) system for the employment of expatriates in the GCC prevents those individuals from working as freelancers or seeking part-time employment, whether in the sharing economy or elsewhere. Expatriates are present in large numbers in the GCC and many have lower income levels than nationals, making them prime candidates for sharing economy providers. However, they are not allowed to work for any employer other than their sponsor. For example, household services platforms like mrUsta are not allowed to employ expatriates under someone else's sponsorship, and can only deal with licensed local businesses. However, Dubai does make exceptions by allowing secondary employment arrangements if they are approved by the sponsor, the new employer, and the Ministry of Labor.

Additionally, although the sharing economy could create jobs for nationals in some GCC countries, current part-time work arrangements may not provide sufficient employment motivation for these nationals. Unlike full-time employment contracts, part-time work arrangements do not confer benefits like steady income or health insurance, for example.

5. Lack of sharing culture and need

With the exception of Oman, GCC nationals, who are the most important untapped pool of sharing economy consumers, lag behind expatriates in terms of usage. Nationals typically limit their social interactions to their inner family circles and have easy access to cheap labor including maids, chauffeurs, handymen, and other workers for small jobs. This obviates their need for sharing economy goods and services, and constitutes the stiffest barrier to the sharing economy (*see Exhibit 6, page 19*). However, the mainstreaming of the sharing economy concept, coupled with slowed income growth, is starting to shift mind-sets. Because of this, GCC nationals will be drawn to the convenience of sharing economy platforms. They will opt for readily available ride-sharing services instead of hiring a driver or driving their own car. They may also begin to take advantage of accommodation platforms to book short stays (e.g., one weekend or one week) from a wider range of options and locations instead of limiting themselves to hotels or long-term property rentals.

Exhibit 6
The highest barriers to a flourishing sharing economy are limited need and a non-conducive culture

Percentage of respondents for each country

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	UAE
No need to use it	**60%**	**55%**	**49%**	**61%**	**54%**	**53%**
Lack of sharing culture	**19%**	**17%**	13%	**18%**	**19%**	**21%**
Lack of sharing economy options in a specific area	18%	**21%**	**32%**	**16%**	**18%**	**16%**
Lack of trust in sharing economy players (such as Uber or Airbnb)	**19%**	7%	**14%**	14%	16%	13%
Lack of trust in service providers (such as drivers or other freelancers)	16%	6%	10%	3%	9%	13%
Poor quality of goods and services	12%	9%	9%	4%	10%	12%
Job losses for traditional services or businesses	5%	6%	5%	7%	6%	6%
Illegal in the country	6%	9%	10%	9%	6%	9%

Top 3 challenges

Note: Data correct as at October 2016.

Source: Strategy& GCC 2016 sharing economy survey

How GCC governments can maximize the benefits of the sharing economy

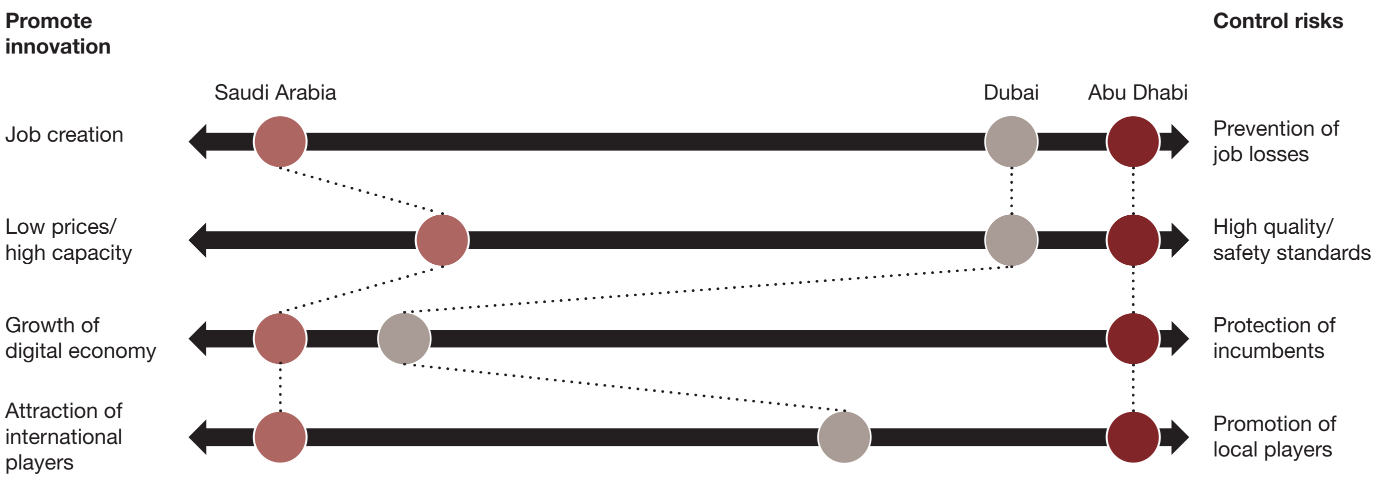
To secure the desired benefits of the sharing economy, respective sector authorities and regulators in each GCC country should begin by understanding its various implications by sector for their specific economic, demographic, and cultural contexts, and allow it to grow while mitigating its potential risks. They should develop a clear idea of the potential for job creation — or, alternatively, the risk of job loss — as well as of the need to grow their digital economy, their citizens' cultural acceptance of the concept of the sharing economy, quality standards for goods and services, and other factors.

They can then consider acceptable trade-offs in line with their national development plans. Their approach should manage the impact of the sharing economy, allowing platforms to grow where needed, while serving the interests of governments and consumers. In the transportation sector, for example, Saudi Arabia recognized the job creation potential for nationals in ride-sharing platforms, along with the convenience this service creates for women who don't drive. Conversely, Dubai attempted to mitigate the disruptive effect of these platforms by forcing them to hire only licensed taxi drivers from incumbent companies and align their pricing to official tariffs. At the same time, RTA Dubai has partnered with ride-hailing services to improve transportation offerings in the emirate, for example by having Careem include on its platform all taxis operated by the Dubai Taxi Corporation (which RTA Dubai owns) and other franchises, thereby making Dubai's entire taxi sector accessible through one convenient platform. At the other end of the spectrum, Abu Dhabi has banned ride-hailing services to protect incumbents and existing jobs in the sector (*see Exhibit 7, page 21*).

Once they have defined their priorities, GCC countries will need to put in place five key pillars: clear governance, regulation, labor reforms, taxation, and localization.

Exhibit 7

GCC government approaches to sharing economy transportation players vary widely, from promoting growth to mitigating risk



Note: Data correct as at July 2017.

Source: Strategy& analysis

1. Clear governance model

GCC countries need a more sophisticated governance model capable of managing the sharing economy's disruptive effects across sectors. Each relevant ministry or equivalent authority should oversee the activities of sharing economy platforms operating in its sector. For example, finance ministries would regulate crowdfunding platforms, and tourism ministries would regulate accommodation providers. In case the relevant ministry or equivalent authority has not yet evolved its capabilities, it would be possible to delegate the governance of sharing economy players in the first stage to the recently established centralized digitization entities present in most of the GCC countries.

The sharing economy is also blurring the lines between sectors because the same platform can be classified under multiple sectors. Transportation platforms, for example, often propose a combination of transportation services, delivery services, and financial services; all through an online platform. It is crucial to align between the municipalities, transportation authorities, ministries of finance, and ministries of telecommunications or Internet regulators. For this reason, a cross-sectoral committee would be a necessary element in governance design.

Seeking the input of different stakeholders would help GCC governments better understand the sharing economy's wider implications and ramifications. This would enable them to design a more comprehensive governance framework and address governance-related issues. They could set up a committee, bringing together non-governmental organizations, academic institutions, local authorities, Internet regulators, and consumer groups to design a holistic strategy for the sharing economy. For example, the European Economic and Social Committee (EESC) launched the European Sharing Economy Coalition (EURO-SHE) in 2013, to ensure that its sharing economy strategy is aligned with European programs and policies. EURO-SHE builds capacity in the sharing economy and develops awareness and educational material to encourage policies that emphasize its benefits.[16]

2. Fit-for-purpose regulations

Fit-for-purpose regulations are required to protect consumers and providers, as well as ensure fair competition in the market.

GCC governments should cover three key themes when setting regulations for the sharing economy:

Market access requirements are necessary to guarantee protection for providers and consumers, as well as to provide a level playing field between incumbents and sharing economy platforms. This involves the proper licensing of sharing economy platforms and providers where needed, as well as quantitative restrictions or bans on certain activities. In the U.K., for example, the Financial Conduct Authority requires peer-to-peer lending and crowd-investing platforms to obtain an operating license. This is to protect funders' money and requires that companies meet minimum capital standards before being authorized to operate, whereas donation-based crowdfunding platforms do not need such an authorization.[17] In accordance with their existing rental accommodation laws, several cities worldwide require homeowners who list their property on accommodation platforms to apply for a license and abide by certain restrictions. For example, San Francisco requires homeowners to register with the city, buy a $50 permit, and pay a 14 percent tax, just like traditional hotels. Additionally, homeowners can only rent out their primary residences for a maximum of 90 days each year and only when they are not present.[18]

Fit-for-purpose regulations are required to protect consumers and providers, as well as ensure fair competition in the market.

Legal liability should clarify where sharing economy platforms' responsibilities lie legally so that there is accountability. For example, European Commission (EC) guidelines specify that sharing economy platforms can be exempted from liability for information supplied by providers (such as rates and descriptions of products and services). However, they can be held liable for any product or service they offer themselves as a company, such as shipping and delivery, online payments, insurance products, etc.[19]

Consumer/provider protection requires GCC governments to consider how the role of current consumer protection institutions needs to evolve. This should cover integrating the protection of sharing economy users' data within broader privacy programs, addressing traditional consumer protection issues, and having better-informed consumers.

GCC governments should take data protection beyond sharing economy platforms' existing technical security measures by introducing, publicizing, and enforcing general regulations concerning the processing of personal data. They could require sharing economy platforms to enhance their firewall, encryption, and backup measures by designing risk management tools and processes adapted to GCC markets and reviewed periodically to ensure consistent outcomes. At the same time, they should raise awareness of cybersecurity issues among citizens. In 2014, for example, the U.K. launched the "Cyber Streetwise" campaign to educate consumers on safeguarding their online data, amid a surge in consumer profiling.[20]

To improve consumer safety, governments should introduce measures to complement the existing consumer safety mechanisms built into sharing economy platforms and adapted to each sector's needs (e.g., ride-hailing services track rides, accommodation platforms check users' social media profiles). For instance, they can request that sharing economy platforms implement appropriate screening processes for providers and inform consumers about these measures.

In terms of quality assurance, certain governments may deem it necessary to reinforce sharing economy and other platforms' existing measures to guarantee the integrity of their offering. Ideally, platforms themselves monitor their two-way rating system and are wary about publishing unverified or misleading reviews, or editing and omitting negative ones, as this can damage their reputation. Governments can also encourage consumers to consult multiple reviews and check whether review sites have commercial agreements with the concerned sharing economy platforms. For example, the Australian Competition and Consumer Commission (ACCC) is looking at the policies which sharing economy platforms have for online reviews. In Australia, federal consumer law bars any business from using reviews to either directly make false or misleading representations or even to encourage others to do so. The ACCC has produced guidance for businesses regarding online reviews and has taken action against violators.

Governments should launch awareness campaigns addressing consumer rights, and introduce tools to help consumers exercise and demand these rights. For example, in 2016 the government of the Canadian province of Ontario launched a pilot program with accommodation and transportation sharing economy platforms to inform consumers and homeowners of their rights when engaging in sharing an apartment or car ride. Consumer protection tools could include helplines, digital recall platforms, and interactive online platforms. Finally, governments should encourage the development of advocacy bodies, such as Australia's CHOICE, to lobby for additional consumer protection measures within companies. With the exception of Oman and Saudi Arabia, such advocacy bodies do not exist in the GCC, and even in those countries their activities and influence are limited.[21]

3. Labor policy reforms

To cover the part-time and freelance work arrangements of providers in the sharing economy, GCC governments need to define new structures of occupations (such as self-employment jobs), develop a legislative framework, amend existing laws, review ancillary laws, create standardized employment contracts, and launch supporting initiatives to raise public awareness.

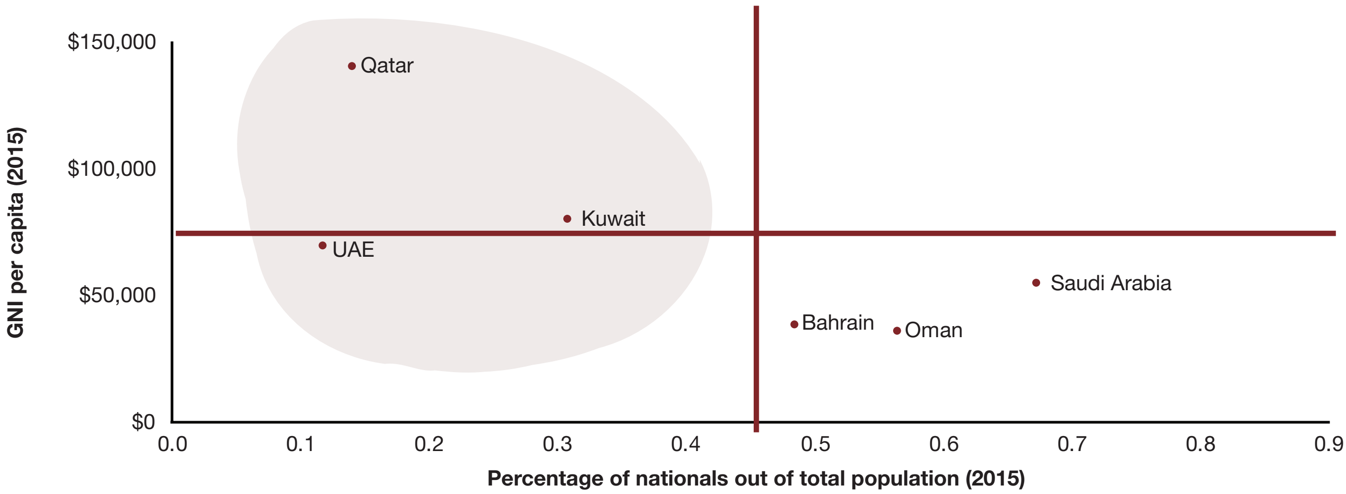
These labor market reforms are necessary for GCC governments to enable their nationals to participate in the sharing economy. In fact, governments should establish short-term, part-time, or temporary employment models for nationals based on current standards and guidelines, such as those adopted by the International Labour Organization. Governments should enforce standardized employment contracts for sharing economy platforms to give nationals access to healthcare, social security, unemployment or injured workers' compensation, and pensions. Governments should then encourage participation in the sharing economy through awareness campaigns to promote its flexible employment opportunities, especially among youth and women, as an alternative to the dominant government employment model. This is mainly relevant for Bahrain, Oman, and Saudi Arabia, as they have a higher percentage of nationals with relatively lower income levels. It would be beneficial for them to tackle their citizens' participation in the sharing economy as an alternative to regular or government employment (*see Exhibit 8, page 25*).

Labor reforms are necessary for GCC governments to enable their nationals to participate in the sharing economy.

As for Kuwait, Qatar, and the UAE, expatriates outnumber nationals and have lower income levels, which makes them better suited to working in the sharing economy. These governments will then also need to enable expatriates to take on another part-time job as sharing economy providers; and therefore should reform their *kafala* system. Expatriates should have the possibility of working for more than one employer, have more freedom to change or end their employment without losing their immigration status, and stay in the country for a set period of time after that. For example, Japan has a flexible labor policy for expatriates that does not require them to change their visa

Exhibit 8

With higher incomes, nationals in Qatar, Kuwait, and the UAE are less motivated to work as sharing economy providers



Source: Strategy& GCC 2016 sharing economy survey; Strategy& analysis

status if they change employers while in the country (as long as they still work in the same visa category). Expatriates can also renew their visas at any local office of the Immigration Bureau, without the need to leave the country and return.

4. Taxation

As they reform their tax laws, GCC governments should integrate sharing economy players — including those based overseas — and providers into their tax systems. Including sharing economy providers in the tax system would also encourage more normalized pricing and help level the playing field for all. By ensuring that sharing economy players based overseas pay tax on activities in the GCC, governments would prevent loss of revenue.

GCC countries that are planning to introduce the value added tax (VAT) on consumer goods and services will also have to make sure it includes sharing economy goods and services (in the sectors where it is applicable).[22] VAT can be added to listed prices and collected directly through the platform's payment gateway, depending on local regulations.

Once they issue their new tax laws, GCC governments will need to make sure sharing economy players and providers are aware of them and ensure continued compliance. The U.S. Internal Revenue Service, for example, has set up an online information center for taxpayers participating in the sharing economy to help them understand applicable taxes.

5. Platforms' localization

The GCC has a distinct culture. Governments should therefore incentivize and promote the emergence of local platforms that can tailor their products and services to the needs of the region. This goes beyond a simple translation of the interface to Arabic. These platforms need to bring local solutions to local problems. For instance, GCC governments can benefit from an accommodation platform that provides short-term stays for visitors of the Hajj, the annual Muslim religious pilgrimage that brings in two million or more pilgrims to Saudi Arabia. Such local platforms would add value to the economy and increase local technology development and innovation.

In order to enable the emergence of these platforms, GCC governments need to ensure local ecosystems are properly developed. GCC countries have made significant improvements on several aspects of the entrepreneurial ecosystem, such as supporting the emergence of incubators and increasing availability of funding. However, access to finance is still limited, regulatory processes are not streamlined, and entrepreneurship education remains weak. Most important, the region lacks the necessary infrastructure, particularly secured online payment platforms to incentivize users to decrease their reliance on cash payments, and cybersecurity measures to create an ecosystem of trust.

Conclusion

GCC governments will have to take a differentiated approach to the sharing economy to balance its rewards and risks, based on each country's socioeconomic priorities. Defining a clear operating, legal, and tax framework for each sharing economy sector and taking into account its cross-sectoral implications will facilitate the development of local and regional platforms within broader national digitization plans.

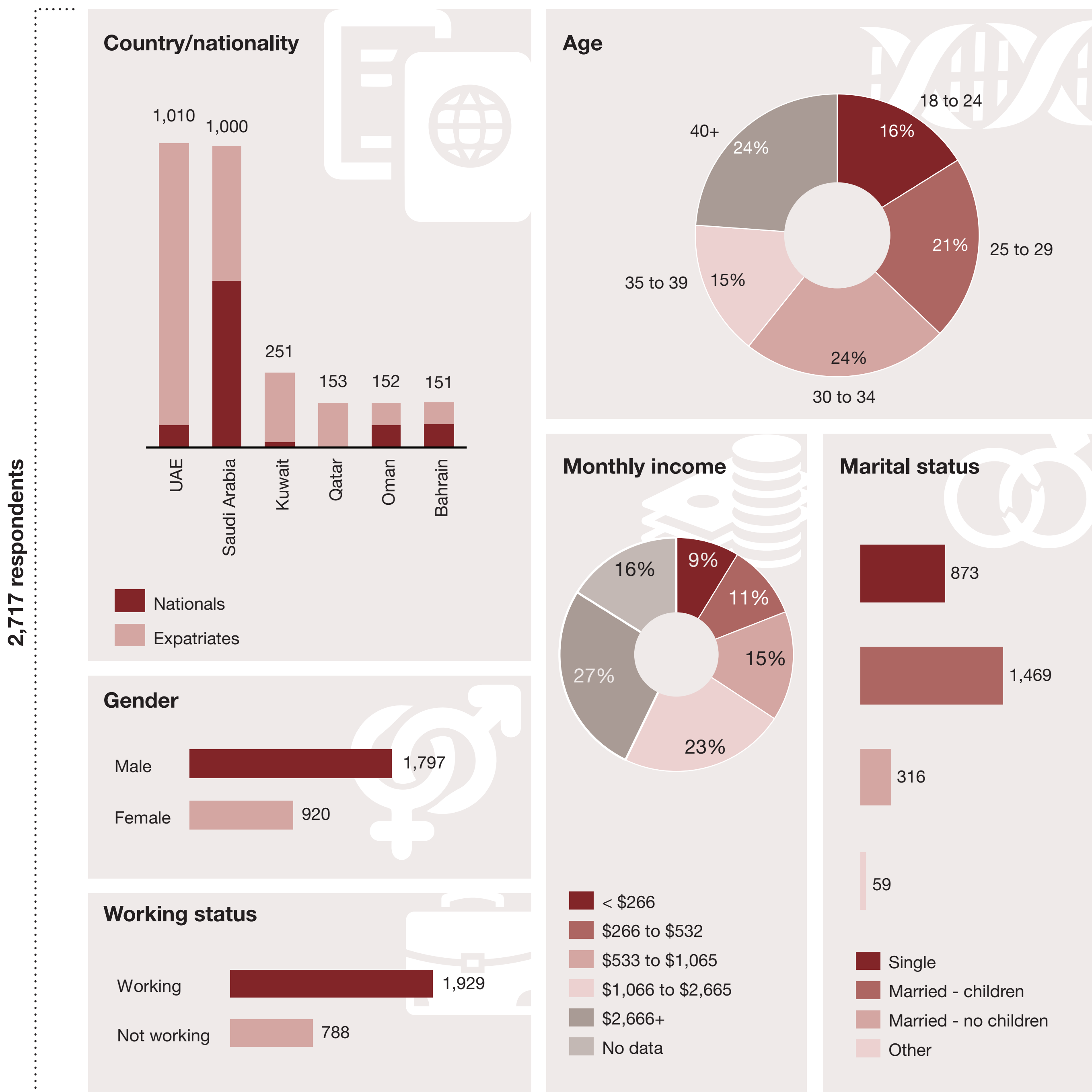
Strategy& 2016 GCC sharing economy survey methodology

In December 2016, Strategy& conducted its GCC sharing economy survey among 2,717 residents of the six GCC countries — including both nationals and expatriates — to understand their relationship with the sharing economy. Nearly three-quarters of respondents were from Saudi Arabia and the UAE. The survey analyzed the usage frequency by these respondents of sharing economy platforms in five sectors (accommodation, transportation, financial services, household services, business services), as well as their spending on these platforms. The survey also asked respondents about the benefits they perceive the sharing economy confers, barriers to its adoption, and their future expectations for it. Respondents were analyzed by gender, employment status, marital status, age, and income level (*see Exhibit 9*).

Exhibit 9

The 2016 sharing economy survey was answered by respondents across all GCC countries, yielding a cross-section of nationalities, ages, genders, income groups, and other factors

Survey demographics



Source: Strategy& GCC 2016 sharing economy survey

Endnotes

[1] The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

[2] Based on the Strategy& GCC sharing economy survey.

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