

# Client Alert

Financial Services

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## The Evolving Face of Finance: Private Credit's Role in the Middle East – Market Recap and 2025 Outlook

### INTRODUCTION

The Gulf Cooperation Council region (the **GCC**) is becoming an ever-more important destination for the global private credit market. In this client briefing we explore the region's rising prominence as a key destination for private credit fund raising, deal origination and deployment, and discuss several of the latest trends shaping the region's financial landscape.

### NEW ENTRANTS TO THE GCC MARKET: THE RISE OF PRIVATE CREDIT

Historically, the corporate lending landscape in the United Arab Emirates (the **UAE**), the Kingdom of Saudi Arabia (the **KSA**) and the broader GCC region was dominated by traditional bank lenders, which provided the lion's share of financings across all the major asset classes. But, like the rest of the world, the corporate lending landscape in the GCC has changed dramatically over the last five or so years in response to shifting market demands, fierce competition amongst a wide variety of debt sources, and in response to regulatory and economic challenges.

A key driver behind the shifting landscape and declining volume in direct loans by banks in the region has been the increased pressure from banking regulation since the global financial crisis in 2008, predominately relating to bank capital adequacy requirements and liquidity coverage thresholds.

Whilst this development is certainly not unique to the region (and indeed, has been an invariable feature across all key global financial markets), this regulatory pressure combined with tighter internal bank lending policies (including around maximum leverage, sector overexposure, and

stricter compliance hurdles and requirements) has led to a tangible “liquidity gap”, which alternative sources of capital (including credit focused asset managers and non-bank direct lenders) have been enthusiastically trying to fill.

The impact of this liquidity gap, however, has not been uniformly felt throughout the market. For example, certain sectors (such as mega and giga projects in the KSA) have continued to benefit from continued bank liquidity and support. In contrast, other sectors have experienced significant credit tightening and reticence. Most notably, real estate (particularly last mile financings), SMEs and venture/growth financing, as well as cash intensive businesses lacking tangible assets such as property and/or a financial track record, continue to struggle to secure financings from banks. The decline of bank liquidity in these sectors has been a prime driver of demand for alternative funding sources.

Interest base rates have also played an important role in the evolution of the financing market in the region. GCC based private investors and asset managers - hungry for yield – have increasingly embraced private credit and direct lending as a key investment strategy and a key source of investor returns. Significantly for the region, investors are increasingly pushing for capital to be actively deployed within the GCC itself (as opposed to merely serving as a fundraising source for foreign asset managers).

Similarly, we are seeing capital aggregated outside of the GCC is increasingly being invested into the region whether directly or as is more often the case, through direct lending. In turn, this reversal of capital flows has paved the way for major international financial institutions to enter into the GCC market as direct lenders.

#### THE TYPES OF TRANSACTIONS BEING PURSUED

With the ongoing evolution of the financing landscape in the GCC, in particular new lending structures and products being introduced into the market, and the emergence of new market players and sources of capital focused on the region, the demand for certain types of transactions is also shifting.

Historically, alternative finance and private credit was primarily focused on real estate investments, most notably, in connection with last mile financings for real estate developments, sale and lease back transactions as well as senior financings secured against real estate. However, in recent years, the credit investors and direct lenders in the GCC are pursuing new areas of interest and markets beyond real estate. For example, there is sustained and growing appeal for credit investors in participating in receivables financings, as well as senior secured financings to certain SMEs and growth companies (given the potential for higher yields). These have also been attractive to direct lenders, including both lenders lending by applying proceeds of funds raised in the region and those from the outside of the region.

As the GCC is a relatively new market for private credit, each successful transaction closing is paving the way for new creditor investor entrants to have the necessary confidence to enter, originate and participate in the market. These new entrants are considering an array of private credit investment strategies, including:

- Senior secured loans, mezzanine facilities as well as bridge debt;
- Venture debt, raising local and international money to lend to high growth start-ups;
- Distressed debt, involved in buying non-performing loans or lending to distressed businesses;
- Buy now pay later; and
- Crowd funding platforms.

## CHANGES IN THE REGULATORY LANDSCAPE

Over the past five years, the regulatory and legal environment in the GCC has evolved significantly, making it more attractive for alternative finance and private credit. Previously, private credit was rarely considered by investors or borrowers alike. Today, the market is abuzz with participants both scrutinising and investing into alternative lending structures in the region. This fundamental shift is reshaping the financial landscape in the GCC and redefining its future trajectory.

Amongst market participants in the GCC, the consensus is that the business of advancing loans to borrowers incorporated in the UAE and the KSA constitutes a regulated activity. Therefore, if an institution (such as a direct lender or credit fund) wishes to enter into the lending business in the region, a relevant local central bank license will be required. On the other hand, market participants generally consider cross border, “one-off” lending transactions to be a “tolerated practice” – not necessarily requiring a local lending license.

For those credit funds and direct lenders wishing to lend directly under the regional regulatory framework, Saudi Arabia, the DIFC and the ADGM have each approved regulatory regimes that allow asset managers to establish private credit funds. This has driven tremendous growth in the establishment of private credit funds in the region, as well as creating a significant new debt source for borrowers and sponsors.

## MORE LEGAL PROTECTIONS

In the recent past the UAE and the KSA have both introduced new laws aimed at providing greater certainty with respect to the granting and enforcement of security, in particular with respect to movable assets. For instance, the UAE Federal Law No 4 of 2020 on Securing Rights over Moveable Assets provides for the granting of security over movable assets including receivables, bank accounts, insurances and inventory. Such security is capable of being registered in a publicly searchable register and enforced (including through self-help remedies).

The introduction and implementation of such laws significantly enhance creditor protections in the region and are fundamental to the growth of private credit. This is particularly the case for major international financial institutions which are heavily reliant on enforcement regimes when considering lending opportunities in an emerging market jurisdiction.

## COMPARISON OF THE TERMS: THE GCC AND THE WEST

The documentary terms found in private credit transactions executed in the GCC region remain to a large extent distinct from the (mostly more borrower friendly) documentary terms found in many European or US private credit deals.

Private credit lenders in the region are likely to benefit from an extensive financial covenant package, a “belt and braces” security package (including guarantees) and relatively restrictive business undertakings. This is in stark contrast to the covenant-lite and covenant-loose nature of private credit transaction terms often seen in European deals.

On the other hand, certain structural features of European private credit deals are being increasingly seen in the GCC. For example, intercreditor agreements – which are common in Europe and routinely entered into where a deal involves different creditor tranches - have historically been implemented by way of exception, rather than rule, in the GCC.

A unique consideration in the GCC is whether a financing is structured on a *Shari’ah* compliant or a conventional basis. While in the KSA all financings must comply with *Shari’ah* principles, in the UAE financings are structured on

both a *Shari'ah* and conventional basis. Typically, if a borrower or a sponsor is a Shari'ah compliant entity, then any borrowing it enters into must be on a *Shari'ah* compliant basis.

Generally, structuring a transaction in accordance with the principles of *Shari'ah* is not typically an obstacle to securing finance. Such transactions often use murabaha agreements, which can be drafted and structured to achieve a lender's commercial objective whilst adhering to the principals of *Shari'ah*. Such arrangements are established in accordance with settled market practice and convention, without any significant time or cost implications for the transaction parties.

The Tamara/Goldman Sachs and Shorooq Partners transaction is an excellent illustration of the seamless integration of *Shari'ah* and conventional lending, whereby the non-bank mezzanine facility was advanced under a compliant murabaha agreement with the senior facility being advanced under a conventional facility agreement, and an intercreditor arrangement regulating the relationship between the two instruments. For further insight, please see our [January 2024](#) client briefing *The Evolving Face of Finance: Private Credit's Role in the GCC - insights from the \$400m Tamara financing and beyond*.

### OUTLOOK FOR 2025: THE FUTURE LOOKS BRIGHT

The general outlook for fund raising and deployment of private credit in the GCC is promising, with the market set to grow in 2025 and beyond. The influx of international money from high profile international direct lenders and the continued development of local security and insolvency laws has all served to reassure market participants and facilitate this growth.

As an asset class private credit is now an established and permanent feature of the European lending market, and the same trend is set to occur in the GCC. Like in Europe, borrowers and sponsors in the GCC will no doubt consider multi-product debt processes and explore their options across both private credit and bank loan offerings. And although private credit options might come at a higher cost than bank debt, it remains compelling for borrowers given the benefits of a higher degree of execution certainty and obtainable leverage.

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