

**Interview with KIPCO Vice Chairman (Executive), Mr Faisal Al Ayyar  
Al Qabas newspaper, Sunday, September 13, 2015**

- **What is your opinion on government-issued bonds to cover state budget deficit?**

Issuing bonds at this time is a good opportunity for the Kuwaiti government for the following reasons:

1 – The low interest rates and Kuwait’s credit rating mean that the government can issue the bonds at a very low cost.

2 – If the numbers about return from our foreign investments are accurate, this means that it is best for us to benefit from bonds at this time.

3 – Having Kuwaiti government bonds will help institutions issue their own, and the government’s bonds will act as the benchmark.

- **Is the budget deficit real, in your opinion?**

Unfortunately, Kuwait has been living a state of chaos for 40 years. The state budget has been made to bear in excess of its capacity, and there has been a great dependency on oil revenues with no diversification of revenue. We cannot remedy these accumulated mistakes overnight, and we cannot calibrate the budget at the current oil prices overnight. What is required is a sustainable solution, even if the recovery process takes a long time. Kuwait is able to withstand budget deficits for years to come, if the general reserve numbers released by the Ministry of Finance are accurate.

I believe that the government can cut down its budget spending by 10-15% without any noticeable impact on essential spending and without having to resort to imposing taxes on people or lifting subsidies. The answer is to combat corruption, heighten supervision on public finances, as well as to cut down on incentives allocated to leaders and employees in ministries, oil companies and other government institutions, including travel, cars and needless committees.

In addition to this, why doesn’t the government privatize its health and education facilities? The cost of educating a student in the government sector exceeds that in the private sector, and the cost of treating a patient in a government hospital exceeds that in a private hospitals, while the government’s spending on treatment of nationals abroad is in the millions of dinars.

The same concept applies to housing; why isn’t a Kuwaiti allowed to hold an ownership deed to his father’s house whereby the government grants him a license to build an upper storey and grant him a housing loan under specific guidelines and regulations? This will reduce the number of housing applicants that have become a huge burden on the government and will reduce demand on land.

In Kuwait, we have many good laws, and it is unfortunate that there are those who manipulate these laws and drain the government’s financial resources in this manner. One example is the

law for people with special needs, a law that is of great humanitarian value that has been manipulated to the extent that half the Kuwaitis are now registered as disabled! People of weak character are benefitting from financial incentives and other facilitations that the government has put in place to improve the living conditions of this segment of the society. What we need to do is increase the non-financial incentives for these people, including education, health and job opportunities.

What we need is bold decision-making and trimming the budget through simple decisions that will have a great impact on the people and the state.

### **Reform models**

- **Are there any models that Kuwait could benefit from to reform its budget?**

We don't necessarily have to follow a model. Why can't we have our own unique experience? Kuwait has financial capabilities and great experiences and can easily find solutions.

There are experiences of countries that are economically much weaker than Kuwait and are less financially capable, such as Jordan, where salaries were raised and in return subsidies on bread were lifted. In Egypt, the government gave its employees financial incentives and in return lifted the subsidies on petroleum and gas. This was despite the harsh circumstances in both countries and the low incomes of their people.

Our government had an opportune chance when it raised salaries and approved incentives. That was the right time to pass a bundle of reforms that would improve the general state budget, in terms of "take and give in return". Give employees financial incentives and take away the subsidies. However, the chance has passed us now, for we lack forethought in these matters.

- **Wouldn't you agree that the public's refusal to accept lifting subsidies is due to the government's excessive spending they are witnessing?**

Kuwaitis are critical of lifting subsidies and are uncomfortable with the matter for two reasons: the first group criticizes the quality of services, while the second group is unaware of the amount of spending the government is allocating for these services and this is because our government does not know how to highlight its services and most of the ministers do not market the activities and achievements of their ministries.

No doubt, the government needs to start with itself and "tighten the belt" before asking citizens to pay taxes or bear the lifting of subsidies on petroleum, electricity and other services.

- **Will calls for lifting subsidies stop once oil prices go up again?**

Yes, of course. What we hear now is not new. Government statements about lifting subsidies or reducing them, or calls for rationing every time oil prices drop, are nothing more than test

balloons. They say, we will increase the price of this commodity or lift subsidies from that service. The government soon backs out, which proves that those who make such political decisions do not want to bear the consequences, and so they form committees to stall and then kill the project.

For instance, when the government wanted to reduce the subsidy on diesel – despite the fact that the impact of this on the lives of people in Kuwait is much smaller than that of petroleum and electricity – it segmented the society into people who are eligible for subsidies and others who are not, then increased the number of eligible segments, until the whole process saved no more than a few million dinars, which is nothing to the budget.

### **What needs to be done?**

- **What then, is required from the government?**

The government needs to have a clear plan and explain it clearly to people. The government needs to say, we will be lifting or reducing subsidies from this service or commodity and we will save this much, which we will invest in this particular manner, which will result in revenue of this amount in this sector. This needs to be clear and transparent, but our government unfortunately does not operate in this manner.

We are used to hearing or reading incomplete reports about government projects. For instance, the government wants to increase traffic related fees on expatriates, but we are not told what revenue the government will make from this decision.

Another example is the Mubarak Al Kabeer Port Project. Will this be a substitute for Shuwaikh Port? What is its role and how will it be of service to Kuwait? What is the environmental benefit from it? Are we in need of such a project or is it in excess of our requirements? If one of its roles is to be of benefit to the Kuwait market and those around it, like Iraq and Iran, are there cooperation agreements in place? Unfortunately, the government has not disclosed any of this information.

- **What is your evaluation of the ministers holding the economic and development portfolios?**

They are minister of “good intent” but we have yet to see actual achievements. What is required is for them to understand that given the low oil prices, they bear an importance responsibility that impacts Kuwait’s future. They must not seek to keep people satisfied today at the expense of committing a crime against the future generations.

- **With every financial problem we find the government seeking the assistance of the World Bank to place studies and recommend solutions. What, in this case, is the role of leaders and consultants in state institutions?**

Conducting studies is important and health, but the devil is in the details. Kuwait is the GCC country with the greatest number of conducted studies, but they are all sitting in drawers and haven't been implemented.

I remember when KIPCO and Kuwait Investment Company won a tender 10 years ago for the development of Abdullah Al Ahmad Road. At the time, we commissioned the best French architects to completely plan and design the road and develop it to modern standards. The parliament forced the government to cancel the tender for no rational reason, and the road has not been developed.

In turn, we say to the government, do not let these studies and development plans that we presented go to waste and use them so that the state and the people may benefit.

### **KSE delisting**

- **KIPCO Group was the first to delist some of its companies from KSE, and you were followed by others. Is there coordination between you and other delisted companies outside the Group?**

There is no coordination on this matter. Every company has its reasons for withdrawing from KSE. When a company's listing does not reflect its true value and does not provide liquidity, what is the point of being listed?

To clarify, some companies that announced they would delist are in a situation similar to ours. This is especially the case with the Securities Group, which has a limited number of investors with large holdings and finds that KSE does not reflect the company's true value. On the other hand, there are other companies that have delisted because they feel constricted by the CMA's regulations.

In our case, we delisted Manafae when our investment strategy changed and we found that the company's business model was not successful. We sought to protect the money of the investors and returned it to them.

- **How would you evaluate the performance of the CMA's Board of Commissioners since Nayef Al Hajraf came to head it?**

There is no doubt that the Board of Commissioners under Al Hajraf is more flexible than the previous one, and they give and take with companies. However, we are waiting for the CMA's bylaws and decisions so that we can better evaluate the situation.

- **Then why has KSE delisting increased with the new Board of Commissioners, despite its flexibility?**

No matter how flexible the CMA is, if KSE does not evaluate my company in a suitable matter and does not offer enough liquidity, I am not obliged to stay on KSE where I have to disclose every detail or every thought that crosses my mind.

- **What about UIC and UGB? Why were they delisted?**

We hold a big stake in UIC and its value on KSE was only at 40% of its book value, so we chose to delist since listing was of no benefit to the company.

In the case of UGB, we own 94% of its capital and the same delisting reasons of UIC apply.

- **Can delisting include Burgan Bank and URC?**

Of course not. Burgan Bank will remain on KSE and will not be delisted. The same applies for URC, which we are not thinking about delisting because we look to engage in BOT projects which require that the company is listed on KSE.

- **Are you optimistic about the CMA bylaw amends, expected to be issued in November?**

I am not optimistic about the bylaw amendments. The private sector in all countries of the world is the key to economic development. In Kuwait, it is not being granted even the smallest of roles, such as being consulted on the laws and bylaws that will be imposed on it.

## **The KSE**

- **What is your evaluation of KSE at this time?**

The circumstances of the KSE are miserable, and this reflects the reality of the private sector in Kuwait.

If I were to announce today that we will be constructing a certain project and that we would be making a certain amount of profit from it, and other companies were to make similar announcements, you would see movement in the stock market. This is unfortunately not happening due to the limited role of the private sector in Kuwait.

I remember when we announced to our shareholders in March that we would be doubling our profits in the next four years. It was a strong statement, and the stock market reacted to it for some time.

- **What impact does the KSE's downward trend have on banks?**

Banks in Kuwait are healthy and I believe they have put their matters in order and have the necessary provisions. I believe most of their debts are owed by operational companies, which

are doing well compared to paper companies, whose stocks go up and down on LSE for no apparent reason.

- **What about your relationship with the Central Bank, as owners of Burgan Bank?**

We are in good contact with the Central Bank, and we have never had tensions with the Governor. We give and take with Central Bank officials just like other banks. All we hope for is that the Central Bank takes into account the fact that the health of the Kuwaiti economy is measured against the results of banks. If the Central Bank continues to deal with banks as if we are still in the 2008 crisis, this will have a negative impact on the country's general economic status. I believe that the Central Bank is aware of this and its method of dealing with banks have changed over the past two years, and bank profits are improving.

- **How do you view the future of the real estate market?**

Some real estate sectors have become stagnant. However, the anticipated increase in bank interest rates, the KSE drop and low liquidity and people's concern over investing in the stock market, coupled with the expected delays in launching development project, and problems in international markets, all mean that the haven for investors in Kuwait will be real estate. If the value of real estate has dropped slightly right now, it will go back to being solid due to these factors.

### **Supreme Economic Council**

- **Sheikh Salem Al Sabah is calling for the establishment of a Supreme Economic Council. What, in your opinion, is the feasibility of such a council, especially with the existence of other institutions dedicated to economic matters?**

Companies, including KIPCO, suffer from the multiple institutions that they have to deal with. We deal with the CMA, Central Bank and Ministry of Commerce and Industry, and they are not inter-linked. In Bahrain, for instance, the Central Bank is the sole supervisory entity overlooking the CMA, banks and insurance.

We believe that forming a council does not give it weight. What gives it weight is the empowerment of the entity and providing it with the necessary resources and capabilities and allowing it to operate without influence. If we take the Supreme Planning Council as an example, with its large number of members; if each member were to talk for 5 minutes at any given meeting, how long would the meeting last?!

### **Mega project**

- **Are there any new deals in KIPCO Group?**

We have never stopping grasping opportunities and we constant seek them out.

- **What are the projects that the KIPCO Group is working on right now?**

We are working on a mega project in the area of Daiya, located strategically alongside the Embassy Zone. We will be presenting the plans to the authorities in the coming few days.

- **Is it that the land plot that was acquired in an auction a few years back? Would you explain elements of the project?**

Yes. This will be Kuwait's largest and most important project in the real estate sector. It is estimated to cost US\$ five billion, built over an area of 380,000 sq.m. with multi-use developments ranging from commercial, investment, apartments and others.

URC will be the main executor of the project, alongside other owners from within the Group and outside it. What makes this project special is that we will be putting down the infrastructure, including streets, parks, electrical wiring and others.

- **When will construction begin?**

We expect to begin before the end of the year, and the project will last for 5-7 years.

- **Are you worried that government bureaucracy will hinder the speed at which you execute this project?**

Bureaucracy, no doubt, is worse for some companies than wars are on some countries. However, we are hoping that officials will facilitate procedures for this project, which we believe will be a touristic attraction in Kuwait.

### **Foreign investments**

- **Some of KIPCO's projects are in politically turbulent countries like Egypt, Syria and Iraq. How are your investments there?**

We are very cautious in our foreign investments, and profit increases the more calculated risks you take. Most of KIPCO's foreign investments are profitable.

Even in Iraq, where circumstances are very turbulent, our companies are profitable. Although some of our investments in Arab countries came at difficult times, they are all on the right track.

- **How does the drop in Turkish Lira affect Burgan Bank's operations there?**

To date, there has been no negative impact on Burgan's performance in Turkey despite the elections and the drop in Lira. In Turkey, we achieved good profit in the first half. There may be some negative reflections of the current circumstances in Turkey, but on the other hand the drop in Lira may encourage exports. I believe that Burgan Bank Turkey is headed in the right direction and we have no concerns over its future performance.

- **What is the percentage of KIPCO's revenue from foreign investments against local ones?**

Our foreign investments represent around 50% of our revenue, while our local investments account for the other 50% at varying percentages depending on the sectors.

- **KIPCO's consolidated balance sheet shows debt exceeding KD 20 billion.**

Many shareholders have questions about this. The truth is that for accounting purposes, all deposits under Burgan Bank are placed under debt in the balance sheet.

- **What is the true volume of KIPCO's debt?**

KD 400 million, and we have KD 200 million in cash.

## **Performance**

- **What about Burgan Bank's revenue?**

In the next five years we expect revenue from Burgan Bank to account for 30-35% of the Group's overall revenue.

- **What about OSN? Do you have any intention of exiting?**

Everything looks promising for OSN, and all indications point to double digit growth in revenue and profit. OSN currently holds second place after Burgan in terms of Group revenue, bearing in mind that most of its revenue is from outside Kuwait. Our focus is currently on OSN's operational side, although we continue to have calls from investors looking to buy in. At present, selling OSN is not on the agenda, but this may change if we receive an offer that we cannot refuse, as was the case with Wataniya Telecom.

- **Let's talk about other Group companies, like KAMCO, Gulf Insurance, TAKAUD and QPIC.**



KAMCO is making profit, but like other asset management companies, its performance is affected by stock market activities. Even Kuwait Clearing Company's profits receded in market tradings. Also, IPOs are very rare and the only recent one was the listing of Meezan.

Gulf Insurance is performing excellently, and is acquiring a new company almost every year. We expect its subscriptions to reach one billion dollars in the next three years.

As for TAKAUD, it is doing very well and its future is promising. It is currently operating in three markets; Bahrain, Kuwait and Egypt. Its AUM will reach US\$ 70 million by the end of this year, which is an excellent beginning and in line with company plans. We expect AUM to reach US\$ one billion in four years.

For SADAFCO, profits have been growing in the double digits, while the performance of QPIC has been very good.

### **A project that will change the way Jordanians live**

Faisal Al Ayyar spoke about Abdali Mall in Jordan, in which KIPCO holds a large stake through URC. He said that sales and leasing of project units was excellent.

He added that the project would change the way Jordanians lived, and would be an iconic destination. The project will create 12,000 jobs.

### **Legislators do not understand the role of the private sector**

Regarding the stereotypical image that the public has of merchants and their cautiousness when dealing with them, Al Ayyar said, "This image is not unique to Kuwait, but is common across the world. In the US, for instance, the public hate lawyers, bankers and people on Wall Street."

He added, "There is, however, a different in how legislators deal with the private sector in the West. In Kuwait, legislators fail to understand the role of the private sector and do not give it its dues."

Al Ayyar said that the current parliament is a productive one, and has passed many important and quality-oriented legislations. He said, however, that what is needed is to enforce these legislations because the goal is to implement the laws, not just pass them.

### **We won't see the oil barrel at US\$100 in 10 years**

Regarding his expectations for oil prices, Al Ayyar said, "We will not be seeing the price of US\$ 100 in the next ten years. However, oil prices will stabilize at US\$60-70 in the next two years."

He added, "There are those who are naïve enough to think there will be a shift in oil production methods. I do not believe that the oil production map will change in the next few years. US

companies have been able, in a short time, to reduce the cost of producing shale oil but money continues to be pumped into conventional production methods.”