

Interview with KIPCO Vice Chairman (Executive), Mr Faisal Al Ayyar Al Jareeda Newspaper – April 27, 2020

- **To begin with, what is your view on the current crisis?**

The crisis we are facing in Kuwait and the world at large is one that no one can define the scope of, nor can we predict the consequences of should circumstances continue for much longer. What we are facing right now might be much less than what is coming to us in the future; we are living in the unknown, and it is an experience that we are going through for the first time. This is a crisis that is affecting people's lives, and this makes it more dangerous than anything we've experienced in the past.

While countries and people are busy finding ways to counter the direct impact of the virus on the healthcare system, humanity and the economy, the most crucial question remains: what will the world look like after corona? Will systems remain as they are, or are we headed towards something that is multi-dimensional?

There are concerns and uncertainty over the outcomes – the gains and losses – resulting from this crisis. Everything is on the table right now, but the consequences of any decisions taken to today will only become apparent in the future. As such, it is critical that we be diligent and accurate in order to the minimize the impact of our decisions.

Every crisis has a positive side, and in this case for example there has been a reduction in environmental pollution. However, the current crisis is of a special nature because it is a health crisis that could create further crises on other levels.

- **How would you evaluate the measures announced by the government last week? Are they enough to counter the repercussions of the crisis?**

We support all the decisions that the government has taken, under the direction of His Highness the Amir, in order to counter the corona virus crisis. The decisions of the Ministry of Health are decisive and strong, despite being difficult. I salute them. As for the cost the government will incur as a result of these decisions, that is a different matter.

With regards to the economic measures that were announced, I believe they came late to some extent. Many countries announced early on the measures that would enable them to minimize the impact of the current crisis, and the question that remains to be answered is whether or not they will be enough. Also, have they taken into account the fact that the cost might be larger than anticipated if conditions worsen? All of these are matters that need to be taken into account.

There are countries, like the US, that has always been known for its free economy and strong business sectors, and has taken strong steps and announced a plan worth US\$ 3-4 trillion to support and stimulate the economy and help it cope with the impact of the corona virus. This came at a time when most analysts did not expect a stimulus package of this size to be allocated by a country. Crises of this magnitude require that the decisions taken to counter them are larger than expected. I am not talking here about the amount allocated, but the way in which the matter is tackled at all levels.

- **In your opinion, what measures do we lack in Kuwait in this regard?**

Firstly, we were delayed in taking measures. With banks, for instance, we have capital adequacy in Kuwait that surpasses international levels, at 2-3%; what do we need it for right now? Why do we insist on it given the circumstances? The current crisis requires facilitations and flexibility to allow banks to be better able to perform their role. The Central Bank of Kuwait put in place a series of measures to support local banks with a flexible stimulus package that allows them greater borrowing margins, but it came late and I don't think it will have a great impact because many of the companies have already halted their production activities.

Kuwaiti banks will have a leading role to play, and will shoulder the responsibility of giving loans, credit facilitations and reduced mortgages for all sectors if it comes to that, and as such the cost that comes with this must be taken into account. For instance, US banks were granted an administrative fee in return for the services they are providing, especially as they will incur a cost when supporting government sectors and may have to even provide support to bad operations.

All countries have allocated large sums to counter the crisis, both in the region and across the world, because the circumstances are grave and if we do not put measures in place quickly the consequences will be much greater than we imagine.

All institutions and government agencies – such as the Central Bank of Kuwait, Kuwait Investment Authority, the Ministry of Finance and the Ministry of Commerce – must present the numbers and projections based on an accurate database that covers the economic sectors and how they are being impacted by the crisis. We must seek the aid of consultants who can provide the information based on which we can evaluate where we currently stand. How can we suggest solutions when we don't have enough information?

- **Government agencies have said that since we are going through these circumstances for the first time, it is difficult to make predictions.**

In Kuwait we have only heard global numbers, and we have not tackled the size of the issue at the local level. Likening the impact of the crisis to that of the Second World War has no relation to our local situation, and government institutions must have information in order to take the right decisions. Some countries may have taken exaggerated measures and the volume of funds allocated to counter the matter, but in Kuwait it is difficult to evaluate the measures in light of the lack of accurate information. What I am talking about here are facts about the current status of the companies and data about their actual ability to sustain themselves. Some companies may have been suffering from before the crisis and may use the current circumstances to request support; so, on what basis are we going to know who deserves assistance?

- **Based on this, how would you evaluate the support directed to SMEs?**

The important question we should be asking is, what is the extend of these companies' contribution to the Kuwaiti economy? Some of these companies were suffering from problems before the crisis, and there was talk of a bailout and ways to assist even before all of this. I do not mean that these companies shouldn't be assisted, but assistance should be provided to those which have proven to be sustainable. As such, assistance should be allocated based on facts and figures.

There is an urgent need to pinpoint the scope of the current crisis; should we consider it as a liquidity crisis and work on resolving it from that perspective? Or is it a different type of crisis that requires different solutions.

- **In your opinion, what would be the advice you give to the people managing the crisis and the decision-makers?**

It is imperative that we fix the structural imbalance of the national economy, such that implementation is mapped out across different timelines, allowing us to feel the impact in a shorter time. There are effective measures that must be implemented such as putting an end to overspending, after which we can move on to other measures. It is also important to have a government vision that supports partnerships with the private sector, whether in supporting their expansion or offering them opportunities and projects that are of benefit to the local economy.

We have been making plan after plan since the 1980s, but we still fail when it comes to implementation. All the plans and visions that the successive governments announce say that they will put an end to overspending and will find non-oil revenue sources, but we have seen nothing tangible.

- **Do you believe that there is a need for a public debt law, given the current circumstances?**

Public debt is one of the financial tools used to cover the expected deficit in the State budget. However, the decision-makers must look at all solutions and suggestions, such as issuing bonds or borrowing from the Future Generations Fund or from State Reserves, and before all of that the decision-maker has to have the technical ability to weigh these options. I believe that the State's sovereign rating makes a greater case for borrowing, because the cost of borrowing will be less when compared to borrowing from the Future Generations Fund.

What is also important to note is that borrowing while we continue to overspend as we are now would be a crime against the nation, and we must stop the wasteful spending of government funds.

Talk about reducing the salaries of high-ranking government officials and similar proposed solutions are pointless. The government has one option and it is to fully reform the State budget; it must outline how much will be spent while taking into account the worse case scenario in terms of oil prices. This will require curbing overspending and encourage other revenue channels.

- **What do you believe are the means that the government has to increase non-oil revenues?**

It can benefit from State property, establish industrial cities, restructure Industrial Shuwaikh Area, impose taxes, as well as benefiting from Kuwait's geographic position between three countries. We missed a historic opportunity to become the gateway to Iraq and benefit from its oil-rich South, through setting up a logistical state by building bridges with countries in the region. This is besides increasing revenue from ports and benefitting from vital service sectors such as health and education.

All these suggestions can be implemented immediately, especially as we have the required infrastructure and legal frameworks. I believe that there are some suggestions made to limit the impact of the current crisis that will not contribute to balancing the economy's structure, given that they are individual ideas whereas what is required are measures based on technical understanding that will help us overcome the current circumstances.

- **What is your response to those who say that the private sector is not productive, and that it is the government-owned companies that are offering support during this crisis?**

Talking about the private sector in this manner is inaccurate and not true. What are the opportunities given to the private sector through which it can prove its capabilities? It is important to give the private sector the opportunity, and then talk about whether or not it has succeeded or failed. When the government owns an aviation company and uses it to fly people home from abroad, this does not mean that the company is successful, because we must look at the feasibility of this company and whether or not it brings in revenue to the country. We must also ask ourselves whether the overall cost of flying citizens back would have been lower if we had leased other planes. The role of the private sector must be to execute and manage the government's projects, and then we can judge its success and failure.

- **There are those who believe that the number of Kuwaitis employed by the private sector are low, and thus it is of no use. What's your opinion?**

Hiring Kuwaitis in the private sector witnessed a growth in the 1990s, and then the government started giving incentives and there was a reverse migration. I believe that if this crisis continues and no plausible solutions are put forward, there will be an even greater influx of Kuwaitis to the public sector, and the government will bear the large cost of this. What we sow today, we reap tomorrow, and any delay will have dire consequences in the future.

What I say may not be well-received by everyone, but the government will not be able to provide a house for every citizen in the future. It can provide support in the form of loans and facilitations, but it will not be able to lay the required infrastructure for what will only be a dream in the future.

- **What is stopping the private sector from taking the lead?**

One of the government's biggest mistakes is the marginalization of the private sector while it continues to control most of the country's vital sectors. There is corruption in some of the public sectors, as well as bureaucracy. Despite the millions allocated for the mechanization of the public sector and activating e-government services that can curb these problems, this is much delayed. For instance, private schools are able to provide e-learning but there were attempts to stop them from doing so.

His Highness the Amir believes in the abilities of the private sector and also emphasizes the important and vital role it plays, which is why the private sector must be allowed to play its role and be allowed to manage the government's projects in order to bring the Kuwaiti economy to safe shores.

- **There are concerns of a financial crisis like that of 2008. What do you believe?**

The crisis we are witnessing is different from the 2008 financial crisis, which was one of lack of liquidity and poisoned assets. In 2008, matters were so uncertain that heads of local banks would say to me that they didn't know whether or not their banks would exist the next day. The current crisis, however, is a health crisis that has had an impact on the economy due to the paralysis of many sectors. It will have a long-lasting impact, but I believe it will be easier than the 2008 crisis, even if it may take longer to deal with. Companies that can adapt to the current circumstances and make the right decisions will be able to come out of this.

- **Will we be seeing bankruptcies?**

It is expected that some companies and institutions will be hurt, and others may suffer greatly and go bankrupt, especially if they were not stable prior to the crisis.

- **Do you believe we need a modern bankruptcy law?**

We must quickly pass a bankruptcy law because there will be companies that will go bankrupt. Any advanced economy must provide all legislations and laws that govern its operations. The current crisis will no doubt lead to a debt crisis, and thus such a law is needed to allow companies to organize their operations.

- **Do you see opportunities arising from these circumstances?**

There is a big difference between us and foreign institutions when it comes to investments. Foreign investors may choose to exit their investment in the Gulf region, especially in light of the plummet in oil prices and forecasts of a recession in the economies of their countries. On the contrary, local investors hold on to their investments in these circumstances, and this offers new opportunities. Those who have cash and a good eye for investment will benefit from this crisis.

- **KIPCO Group is known for being innovative. Are there any opportunities you currently looking at?**

At KIPCO, we are in the lead when it comes to new ideas and grabbing opportunities that can bring good returns to our shareholders. We have the liquidity and cash needed to take advantage of opportunities that may avail themselves during this crisis. We are looking for opportunities in the region, and all of our experiences have proven to be successful despite the circumstances that the region has gone through in the past. SADAFCO in Saudi Arabia and our banks across the region were investments made on the basis of good technical analysis, which meant that they are able to adapt to the changes that have taken place in these countries.

- **Are you concerned about the banking sector right now, given that it will shoulder the greater part of the solutions, as you mentioned?**

This depends on the size of the damage incurred because of this crisis. For instance, the crisis of NMC Health has affected some Kuwaiti institutions and banks but was easily absorbed given that the banking sector is strong and solid. What if this scenario were ten-fold? The impact would definitely be greater.

- **Will Burgan Bank play a leading role in this crisis?**

It is only natural that it will play a role like all local banks, but its greatest role will be commercial rather than retail.

- **Did you meet with the Economic Stimulus Committee? Where you asked for your suggestions with regards to this crisis?**

I did not meet with the Economic Stimulus Committee and was not asked to submit any suggestions with regards to the current crisis. The problem isn't making suggestions and putting forward ideas; in Kuwait we are the "masters" of headlines, but we get lost in the details and implementation.

There are many committees and teams that have been formed to diagnose and find solutions. His Highness the Amir headed a committee to find economic solutions in 2011. These suggestions and

solutions usually repeat themselves, but implementation seems to be postponed. What we need is for decision-makers to make the right decisions regardless of the political and social implications.

- **Are you in favor of private sector taxation in the coming period?**

I am not against taxation, and it is part of the proposed solutions. However, this must come with quality services that the private sector gets in return. There are those who believe that overspending in the State budget must be stopped before reform is implemented. I believe that this must happen in parallel, and when it does no one will object to the decisions made by the government. We must also take into account the need for transparency in announcing the advantages and disadvantages of all decisions made.

- **Do you see an impact of Boursa Kuwait's NSMC upgrade?**

The stock market is not a casino, and reflects the country's economic situation, including that of the private sector. The private sector has halted its operations or has been paralyzed to some extent due to lack of investment opportunities and projects from which to make gains, and this in turn reflects on the type of investors and the volume of liquidity and transactions. Despite being upgraded by three international agencies, individuals remain the greatest dealers and this is mostly on the basis of speculations. The institutional investor, on the other hand, looks at the size of the projects and contracts that the listed company has and how much cash they bring in to the company, thus indicating the company's ability to compete and stand on solid ground in times of crises. As for the investment tools that are being launched by the stock market, they support the attractiveness of investment and the options of trading.

- **Do you believe that the listed companies are the ones that really deserve to be on Boursa Kuwait? And is there a shortage of investment tools?**

There are conditions that the regulatory authorities have put in place for listing. Companies that are unable to abide by them will not be among those listed. Time will tell which companies should be listed and which shouldn't, and the investor bears the consequences of their decision.

As for the investment tools available, they are not enough and do not accommodate the needs of investors. Investors always want more, and it is important to keep up with what is current. There are tools that were approved but were not well-received in the market, and this is an issue that the CMA has to deal with as the agency responsible for issuing legislations and laws and launching them in the market.

- **What sets KIPCO Group apart from other investment groups?**

One of KIPCO's strengths is its focus on operational activities that bring in healthy returns. This is in addition to its ability to manage and read financial and investment indicators in advance, and its excellent management of debts. We have always been on the right path, and all of our companies have been able to make it through successive crises thanks to its long-term strategies. One example of this is our announcement last week that we will be paying back our US\$ 500 million bond, which matures in July, from our existing resources. This reflects our strong financial position and that of our companies.

Over the past ten years we distributed close to KD 300 million to our investors. Had we not, we could have made even more profits for our shareholders.

- **What is your opinion on the plummet in oil prices to an unprecedented low?**

The drop is due to several reasons, one being that the storage facilities in the US are at 90% capacity and will not be able to store more. Buying more oil creates a problem in how to dispose of it, which has brought prices to these lows. The good thing is that the cost of production in the Gulf is the lowest in the world, and prices will not reach zero because coal is still being used.

- **Is there a need to establish a Supreme Economic Council?**

This is a matter that will depend on the decision-makers. All finance ministers in previous Cabinets announce that they will cut down spending, which always raises concerns with people. These plans subside as soon as a crisis ends and oil prices go up. In Kuwait, we have the financial capability to sugar-coat harsh decisions to help them pass, and I believe that there is still time to make the right decisions in service of the national economy.

- **Do you support the privatization of the oil sector?**

I am for the privatization of everything above the ground. There are projects that have been established in partnership with the private sector, such as the coastal front projects via BOT. The matter will require regulations when privatizing the oil, health and educational sectors, such that conditions are put in place to regulate the process. This will open up competition to all and will serve to reward successful companies and hold those that fail accountable. The private sector may not have the necessary liquidity to execute mega-projects, but it does have the technical expertise to oversee implementation and management.

- **You were among the first companies to call for mergers, and we just saw the merger of KAMCO and Global. You also increased your ownership in your Group companies. Is there anything new in this respect?**

At KIPCO we never stop bringing forward new and innovative ideas. We study all opportunities on the table that have the potential to generate returns for our shareholders.

The merger between KAMCO and Global was based on a technical evaluation in order to benefit from the technical and administrative capabilities that the two companies have in the markets where they operate. The business models of the two companies complement each other.

- **Is the increase in your stake in OSN an indication of your commitment to this investment?**

Over the past period there have been attempts to exit from the investment, but we had the opportunity to increase our stake to around 80%. In light of the measures taken to reduce spending and the launch of new products, we expect OSN to continue to improve day after day. In some years, the company distributed US\$ 100 million, and it was not listed due to circumstances of the international markets.

- **What about your investment in the banking sector?**

Our presence in the Kuwaiti banking sector is represented by Burgan Bank. We are also present in Jordan, Tunis, Algeria and Iraq, as well as in Bahrain through an investment bank. We are currently studying Burgan and looking at whether its international network is posing a burden or affecting its

rating. All ideas are on the table and we are looking at them closely in order to determine where to go from here.

- **Are there concerns over your external investments, given that they represent a significant percentage of the Group's revenue?**

Our external operations represent 40% of our overall revenue, and all of our foreign banks are profitable. Despite the difficult circumstances in some of the markets that we operate in, thanks to our solid strategies.

- **What are the latest developments in Hessah Al Mubarak District?**

The project is proceeding well. Of the 88 land plots, we sold 77 and only 11 remain. We are developing some of those plots and others are being developed by third parties. The returns have been good for us and our partners.

We also have another project, Khabari, in Fahaheel and we are working with the Municipality to complete the required procedures and move on to implementation. We hope that it is not affected by the current crisis, and there is great understanding from the decision-makers at the Municipality regarding this.

- **What are your expectations on the Group's growth, given the current crisis?**

We were expecting our growth to be up to 12% by the end of the year, but it has become difficult to evaluate and we are looking to revise our numbers.

- **Will the rating downgrade affect KIPCO?**

Our standing is solid, and there has been a downgrade of several institutions and countries as well. The downgrade will affect the cost of borrowing, which will be higher, but we do not need it at this time.

Listed companies

Al Ayyar is of the view that there is a big problem in that listed companies alone bear the financial obligations imposed by the government – like the tax in support of national employees, Zakat and the KFAS contribution – while limited liability companies that are given the majority of the government's contracts do not contribute. This encourages companies to stifle themselves and transform into limited liability entities. To make them pay these fees will be an additional income for the State.

Cash flow

Al Ayyar remains against calls to support the stock market by pumping money into it. He said, "I am against any calls and ideas calling for pumping liquidity directly into the stock market, like some countries in the region have done. These are temporary solutions and are not sustainable. The greater benefit comes from projects and investment tools that reflect on the balance sheets of the companies. Investors are interested in companies with healthy cash flow and those which make returns from

projects and investments. Share prices are subject to supply and demand, and this does not benefit the company itself.”

The Egyptian model

There are countries that have been able to introduce changes to their economies, such as in Egypt, which was able to change track to a great extent despite the circumstances and hurdles that stood in the way. Strict measures were put in place and were actually implemented on the ground, such as laying the necessary infrastructure to construct projects, as well as the facilitations granted to investors. Had it not been for this crisis we would be seeing greater progress. And we must not forget Egypt’s courage in floating the currency and rescinding subsidies.

Sheikh Nasser’s project

Al Ayyar believes that Sheikh Nasser Sabah Al Ahmad’s project – the implementation of Kuwait’s vision 2035 through the development of the islands and Silk City with local and international partners – is a beacon of hope and an opportunity to restructure the national economy and create non-oil revenue streams.

Suggestions & solutions

Al Ayyar noted that all of the Group’s companies have been asked to submit their evaluation of the current circumstances and the impact of the decisions taken to combat COVID-19, and that work is underway to assess them and take the steps necessary.