

Interview with Mr Faisal Al Ayyar, KIPCO's Vice Chairman (Executive)

Al Rai Newspaper – April 25, 2021

Kuwait and its economic standing

- **Compared to Saudi Arabia, UAE and Qatar, what would be your ranking of Kuwait in terms of economy and vision?**

In decision-making, we fall at the end. In terms of vision, Saudi Arabia takes the lead, followed by the UAE and Qatar, then Kuwait. As for supporting the economy, they are a million times better than us. However, if you look at the depth of the private sector experience, institutions and infrastructure, Kuwait is in the lead. Our private sector has greater depth than similar sectors in the region, and Kuwait it the lead when it comes to legislations, despite being in the back in implementation.

- **Until a substitute for oil is found, and that will take a long time, what are our economic priorities?**

These are clear and well-known. The priority goes to reducing spending, increasing revenue, incentivizing the private sector, and for the government to not get involved in any new project.

To simplify matters, Kuwait has many resources, and revenue from State property can be increased and can bring billions of dinars to the State treasury. These include the State's property in Industrial Shuwaikh, the chalets, farms and others. This will provide high levels of liquidity to the budget, and later on taxes can be imposed.

The private sector must be allowed to make a greater contribution to recruitment and fee payment. The State has many land plots in the downtown area that the private sector can develop, and this will result in dual benefit; the returns on these land plots will increase, and more people will be hired by the private sector and thus the government will pay less in terms of salaries.

I believe our real problem lies in that we are a rentier state that spends more than it produces and depends on one source of income. The solutions to amend this imbalance are clear but lack implementation.

- **Why hasn't it been implemented?**

I believe that has a lot to do with the executive branch's oversimplified approach. Their first solutions were to implement taxes and increase electricity costs, even though there are many other ways to free up government funds, most importantly ending corruption and putting an end to the excessive waste of government funds. This not only gives the government more money to work with but also sends a message to the public that its serious about reform and deserves the public's support and trust, which in

turn allows it to implement less popular but necessary reform policies. In the current circumstances, it is very difficult for the government to make any decision.

- **What would the government have to do to implement these reforms?**

Everywhere in the world, the executive branch needs to be ready to take decisions without fearing their repercussions. Governments in developed countries like Malaysia and Singapore present a clear vision and plan, and the Prime Minister implements it and always defends it in front of the general public, transparently explaining what he is doing to the people.

Every Kuwaiti knows the country's going through a financial crisis, but the government's message isn't clear and doesn't connect with the public. The government needs to do a better job of marketing its vision and defending it in front of the naysayers. There is much talk that hinders the government's work.

- **Don't you believe that it is difficult from an accounting perspective to reduce spending when 71% of the government's budget goes toward salaries which are untouchable?**

Although that might be true in theory, the reality of the situation demands the government takes a more serious approach towards reducing spending and other parallel actions that would improve the situation of salaries and subsidies. We might not need to decrease the amount of existing government employees or decrease their salaries, but looking forward, we need to make sure those costs don't increase either.

This demands putting an end to the unnecessary and excessive hiring in the government sector, and instead redirecting those job seekers to the private sector, which should receive support for employing them. The government should also end its current public subsidy programs and replace them with programs that target those who really need it and pay them in cash. Through these two methods, we can put an end to the yearly increasing costs of salaries and public subsidies. We also need to reduce the costs of new government buildings and other unnecessary costs of an ever-expanding government sector.

- **If we decrease government spending, how will the private sector survive when it is dependent on the government's projects?**

We need to find new solutions, including expanding to the neighboring countries that are witnessing a very large investment boom, and we must do it in a rational and selective manner. The private sector's dependence on government projects is a huge problem for the economy. And although that might be true for some sectors of the private sector, like contracting firms, it's not true for all of them. Retail, for example, isn't.

- **When diagnosing the State's financial status, why isn't there a common language between the people, MPs, government and business community given that the crisis is one and the same?**

I think we all agree that the country is in a financial crisis, but our solutions for it differ depending on who you ask, and then there are those who will defend the continuation of the welfare state even when it is obvious that it's not a sustainable method.

More importantly, the public needs see action by those in charge. We are consistently hearing stories about people misappropriating government funds, and that naturally leads the public to distrust the government. What we are currently going through is due to the lack of action on the part of several former governments, and it is impossible for the current government to bear on its own.

- **What do you believe has made the public more hostile towards the business community?**

I believe that's always been any public's view of their local business community. Even in a capitalist country like the United States, all you hear is that laws and taxes only exist to benefit the rich, and similar baseless claims.

In reality, the private sector and the business community's situation is much worse here than it is in the US. Their private sector plays a huge role through paying taxes, as opposed to our private sector which was never asked to contribute.

After the liberation of Kuwait, the Kuwaiti private sector went through a golden era, which allowed government to start considering privatizing some of its sectors and leasing more land to the private sector. Unfortunately, they then stifled the private sector and before you knew it, there was a massive exodus of private sector employees going for government jobs because they paid better and offered better benefits.

In time, the public started perceiving government jobs as being more secure and just as, if not more, rewarding than private sector jobs.

- **In your opinion, is the government competing with the private sector for employees?**

Of course, they are. Lately, government jobs offer benefits the private sector can't keep up with, especially regarding bonuses, yearly increments and vacation days.

- **Has the local banking sector overcome the COVID crisis?**

The Kuwaiti banking sector is doing very well.

- **How will the Kuwaiti banking industry make up for the recently withdrawn government deposits?**

I don't believe those withdrawals will lead to a cashflow crisis. Banks can make up for that through increasing interest rates, therefore making deposits more appealing and putting the cost on the banks.

- **Since the liberation of Kuwait, what has changed economically, politically and socially?**

The Kuwaiti economy was paralyzed from the 'Souq Al Manakh' stock market crash up until the invasion. After the liberation, the Kuwaiti private sector saw its biggest economic boom, and we saw it hire many Kuwaitis and undertake countless projects, which also led to healthy competition over government tenders. For those reasons, the period after the liberation is commonly referred to as the private sector's golden era, which had been recently given debt relief and compensated for its losses during the invasion. Something changed after that and the private sector began regressing.

From a political standpoint, nothing appears to be clear anymore and no one seems to have their cards in order. There is no clear distinction between the different branches of government, and the scariest part is even the judicial branch's decisions are being questioned.

Socially, I believe the time Kuwaitis spent abroad since then has significantly affected their beliefs and how they view the world.

- **How long was the golden era?**

Around 10 years.

Comparison to 2008 crisis

- **What do you say to people saying that the current financial crisis will have much bigger ramifications than the 2008 crisis?**

I disagree with them. 2008 was a global economic crisis, and the problems local companies faced then were due to those companies taking on short term debts for long term projects.

But today, Kuwait's financial standing is excellent. Our cashflow problem is due to our inability to go in debt as a country, like the rest of the world does when facing these problems, and is another indicator of the government's noncommitment to ending corruption and the misuse of government funds.

A survey

- **Are you in support of public debt, and why?**

Yes.

It is one of the tools needed to provide cash and cover the reported deficit in the State's budget. It is important to note here that any money raised through public debt must be spent through proper and deserving channels, and with no squandering.

- **Are you in support of Silk City, and why?**

Yes.

I am in support of the project in idea and principle. Having said that, the details are unclear, and specifics of the projects will need to be made public in order for us to say 'yes' with confidence.

- **Are you in support of withdrawing from the Future Generations' Fund, and why?**

No.

I am against withdrawing from the Future Generations' Fund if the return on its investments is greater than the cost of public debt. I believe that the return from the Future Generations' Fund is greater than the cost of debt right now, and I believe it is an opportune time for Kuwait to seek public debt because interest rates are low and the State's rating is very high. Look at Saudi Arabia, for instance, and how much it has raised. However, we must not seek to raise money if we continue as we do now, and in all cases, any money raised from any source must be used wisely.

- **Are you in support of privatization, and why?**

Yes.

I am in favor of privatization, because the private sector has proven its success through its many institutions, and has shown that it is better than the government in project management, whether in efficiency, cost effectiveness and productivity.

- **Could Kuwait go bankrupt, and why?**

Yes.

Kuwait could go bankrupt, but not anytime soon. The matter depends on the price of oil, the volume of spending and the size of the deficit. We are not subject to this in the next few years; this is a catastrophe that will require long years to unfold if our economic circumstances remain as they are, and no reform is enforced.

- **Are you in support of imposing taxes on companies and individuals, and raising fees, and why?**

This is conditional.

Companies are already paying taxes in the form of fees to support national labor, their annual contribution to the Kuwait Foundation for the Advancement of Sciences, Zakat (alms) and others.

As for individuals, imposing taxes must come with quality services, rationalizing public spending and stopping the hemorrhage of money.

It is my opinion that there is a step that must be taken before imposing taxes, and that is fighting corruption and increasing State's revenue away from taking from the pockets of citizens. After fulfilling these urgent demands, citizens may be asked to pay taxes.

- **Are you in support of the deferral of loans, and why?**

No.

Deferring loans for everyone incurs great financial losses. Government employees have been receiving their salaries in full throughout the crisis, so why the need to defer their loans? By doing this, the government is accumulating loan installments on citizens, who will have to pay them later. Needless to say, people's demands may rise based on previous experiences, and they may demand that their loans be scrapped. Bear in mind that this squandering of funds comes while there are people whose businesses have been severely affected by the COVID-19 crisis and actually need to have their loans deferred.

- **Do you believe that the current formation of MPs and ministers will be able to achieve reform?**

No.

At the beginning I was optimistic with the election of younger MPs to the parliament, but soon after their sole issue became (Parliament Speaker) Marzouq Al Ghanim, and they lost their North Star. If the parliament and the government were to stand hand in hand and utilize Kuwait's financial capabilities, then this country would be one of the strongest. Look at the economic, social and political revolution happening in Saudi Arabia, while in Kuwait we still see hesitation in decision-making despite the immense capabilities through which we can make Kuwait flourish in a short time. All we need are small steps to encourage the private sector and innovators.

- **Do you believe that SMEs deserve to be saved, and why?**

Yes.

We must note that some SMEs deserve to be assisted and others don't. There were some who were suffering before the crisis, and thus their business continuity was unlikely and as such, aiding them will not be of benefit. Meanwhile, there are companies that suffered directly due to the crisis and are facing challenges given the continuing circumstances, and these deserve to be assisted.

Perhaps the question we should be asking here is, what fault is it of the SMEs if the company decided to impose an economic shutdown, thereby closing restaurants and cafes and hindering entrepreneurs from doing businesses. How are these business owners supposed to pay their dues?

In the US, SMES are among the largest employers in the private sector, but in Kuwait this is not the case. Here, SMEs depend greatly on foreign employees and as such, they do not play a great role in Kuwaitization. However, it remains that the entrepreneurs have suffered as a consequence of the government's decisions and must be supported.

- **Are you in favor of the government's policy of hiring citizens?**

No.

The government is the private sector's greatest competitor when it comes to hiring Kuwaitis, and its institutions have become saturated. It is economically best to grant the private sector a greater role in recruiting Kuwaitis with government support, and for the government to stop competing for Kuwaiti employees.

- **What is your opinion on the government's plan to amend the demography? Do you believe its implementation falls in line with the Development Plan?**

I'm not aware of the details.

I am unaware of the government's policy with regards to amending the demography. We heard of targeted numbers but saw no study on how the reduction of population would have an impact on the State's budget and the services it provides. There is also a segment that is almost a taboo, and that is of house servants, and these are in the range of 750 thousand.

- **Do you believe the government's economic stimulus decisions were sufficient?**

No.

There was no stimulus or support. For instance, Kuwaiti banks deferred loans with no interest or fees based on the government's request, and paid millions of dinars as a price out of the pockets of its shareholders.

Realistically, the government gave no economic incentives to counter the repercussions of the COVID-19 pandemic, unlike other countries in the region. It is my opinion that the government should now focus on SMEs, which have suffered greatly, despite some being weak even before the pandemic.

In the interest of objectivity, we can say that the government tried to provide economic stimulus to counter the impact of the pandemic, but it was making decisions whilst looking behind to see who was watching – whether social media, the parliament or parties of relevance to these decisions.

- **If you were responsible for the economic dossier at the beginning of the crisis, what would have been the stimulus package you would have proposed?**

We don't need to reinvent the wheel; the whole world has issued stimulus packages. For instance, in Bahrain, a small country with small resources, contacted organizations to determine how many Bahrainis were employed and put in place a plan to pay their salaries for four months, to ensure that none lost their jobs.

If I were in charge, I would say we must allocate some money to assist those who have suffered under the impact in order to alleviate some of their financial burden. Bear in mind that the faster the procedures are put in place, the more successful and less costly they would be.

There are stimulus decisions taken in all neighboring economies, but this was not the case here despite the similar circumstances. We must take note that the government leaned on real estate owners to reduce rent, but at the same time did not defer their loans taken against guarantee of lease. A bank's evaluation when financing real estate is based on return on asset, and if this later drops then so does the evaluation. This then drives the loaning bank to ask its client to raise its guarantee. This actually happened to real estate owners due to a circumstance that is out of their hands.

- **Some say that the government's failure to deal with the economic crisis stems from the same hesitation that it has towards political matters. Don't you agree that the government should have a constant economic track, away from politics?**

In the interest of objectivity, I do not place the blame on the current government alone. These are the result of accumulating faults of previous governments, when in fact the crisis and the solutions remain the same. Decisions to resolve urgent matters were delayed in previous governments.

The government is under a lot of pressure to combat corruption and stop squandering, and this throws a shadow of all the decisions it has to make. The government also lacks in transparency and needs to clarify to people and convince them of its plans and decisions, such that we all understand what it seeks to gain by these decisions. It must not leave the matter to social media and leave the floor open to rumors and ill interpretation of matters.

In this regard, the government must have clear goals to achieve on the short terms, and others that are long term, and throughout implementation the people must be able to feel the impact and not just hear promises.

About KIPCO Group

- **Considering the current business environment, what are KIPCO's plans for growth?**

We believe in expanding in all the industries we're involved in, and KIPCO will grow as a result of that. If we compare our revenue in 2019 to 2020, we went from KD 698 million to KD 753 million, and that's undeniable growth.

- **After being put up for sale, have you changed your OSN strategy and how will it affect KIPCO's budget in the future in the case it grows or is sold?**

We are considering all our options, but our main goal remains to keep OSN as an industry leader.

- **Within the Group, are there any exits?**

As investors, we're always open to good opportunities, but we're not currently in discussions over the sale of any of our assets.

- **What about your plans for acquisitions?**

One of our subsidiaries is currently in discussion with a small local company. GIG also recently acquired AXA's Gulf operations for around \$500 million.

- **Do any of your subsidiaries require a capital increase in 2021?**

GIG and KIPCO will both increase their capital this year, but the size hasn't been determined yet. In 2020, KIPCO repaid a \$500 million bond from existing resources and we have no commitments until 2023, with a bond maturity rate of 4.3 years.

- **Can you give us an update on Hessah Al Mubarak District?**

Hessah Al Mubarak District has gone from one success to another; the construction has not stopped, the demand for apartments greatly exceeds our expectations, and we recently launched the Byout Hessah in addition to Hessah Towers. We will also begin to work on our Khabari project in Fahaheel, which we've named Arzaq.

- **Among Kuwaiti banks, where would you rate Burgan?**

In some areas, Burgan exceeds the local industry standard, and in others it needs improvement.

- **What is the Group's digital financial long-term strategy? And how do you see it changing within 5 years?**

We believe in consistently strengthening and developing all our companies and of taking advantage of all the investment opportunities we believe we can grow with.

Our companies are always looking to expand their digital offerings, including Burgan and GIG, for our companies' and clients' benefit, and we're always looking to invest in companies supporting the digital transformation.

- **Do you think digitalization can bring real change to the local business environment?**

Yes, especially after considering what the private sector has invested in digitalization.

- **Will this technological transformation effect the local banking industry?**

That largely depends on which banks adopt what technologies and their willingness to do so. The global banking industry is rapidly changing and it the local banks' job to keep up with their customers' expectation.

- **As a Group, were did KIPCO profit and where did it make losses in 2020?**

Naturally, our hospitality sector was greatly affected, as were our real estate companies due to reduced rent. Our media sector was also affected by the closure of its direct sales units.

At a banking level, we were significantly affected by our clients' inability to pay their debts due to the crisis as well as the government's decision to defer loan payments. QPIC was naturally affected by the drop in oil prices.

On the other hand, our insurance businesses did very well, as did SADAFCO.

- **Are you optimistic towards KIPCO's outlook in 2021?**

The situation is difficult, but I remain optimistic, especially considering that all our companies are operational and have manageable problems. We are a service-based company and don't have any subsidiaries dependent on selling products.

- **Today, KIPCO has developed into a financial powerhouse that owns banks, investment firms and insurance companies. How does it plan to grow this financial ecosystem?**

Internally, we're consistently taking advantage of the ecosystem we've built. But for us to be able to offer our clients more comprehensive services from more than one of our subsidiaries, we require approvals from various regulatory authorities.

We're more than ready and we've prepared the necessary framework for these steps, to be able to offer new comprehensive services as a Group and market our services through the many channels available to us, but the government's strict policies in this regard prevent us from doing so. For example, we could use our banks to market our nonbanking subsidiaries' services, like investment and insurance services, to great effect, but the laws prevent us from doing so.