



Impact of COVID-19 On Kuwait's Manufacturing Sector

May 14, 2020

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Approach to Developing this Report

The report is a collaboration between Kuwait Foundation for Advancement of Sciences (“KFAS”), Kuwait University Center of Excellence in Management (“CEM”) and Protiviti Member Firm Kuwait WLL (“Protiviti”) to provide a detailed insight into the impact of COVID-19 pandemic on the Kuwait economy with a primary focus on exploring the impact on the manufacturing sector in Kuwait.

This report was prepared based on primary (interviews and surveys) and supported by secondary (desktop) research with data sources including central banks/monetary authorities, credit rating agencies, research entities and news organizations. Through a survey and series of interviews conducted with leading manufacturing companies and regulatory authorities, this report aims to capture a complete picture of the impact COVID-19 is having on the manufacturing sector in Kuwait, the sentiments of the companies in this sector and the measures they have taken in response to this crisis.

Outcomes of this report:

- Providing a snapshot of Kuwait’s manufacturing sector and its contribution to the overall economy, including its GDP contribution, key subsectors and the key areas of impact.
- Providing a context of the impact COVID-19 has had so far on the manufacturing sector and how companies in the sector have responded.
- Government measures taken in Kuwait to support the overall economy and specifically the manufacturing sector.
- Recommendations on additional measures the government can take to provide long-term support and help recovery of the manufacturing sector.
- Recommendations on practical steps to be undertaken by manufacturing companies for responding to the COVID-19 crisis.

Introduction: Global Economic Impact of COVID-19

The evolution of the Coronavirus Disease (COVID-19) from a local healthcare emergency into a global pandemic affecting over 200 countries and territories has led governments to take measures to prevent transmission of the disease, including suspension of educational institutions, travel bans and the implementation of social distancing measures, quarantines and curfews.

As rising infections and mortality counts lead to the implementation of lockdowns worldwide, there has been a deterioration in the global economic climate that has impacted the supply and demand for manufacturing and services. Sectors including aviation, tourism, hospitality and retail that are dependent on the unrestricted movement of people and goods are more vulnerable than others and will continue to face revenue challenges for the duration of the crisis.

Some of the key impacts on global economies being observed include:

Challenges to the supply chain and manufacturing activity: Reliance on undiversified supply chains for raw materials and intermediate goods has led to manufacturing disruptions worldwide, as lockdowns and production halts expose structural weaknesses in the global manufacturing industry.

Reduced economic activity: Global output has contracted at the sharpest rate since the Great Recession with the US, Japan, Eurozone and UK seeing accelerating rates of decline in manufacturing output and services.

Liquidity crunch: Small and medium sized businesses that are typically unable to tap into capital markets in the same manner as larger businesses are likely to face liquidity issues that could cascade to purchasers and suppliers worldwide.

Impact on GCC economies:

The GCC economies are expected to face challenges through reduced demand from measures undertaken to reduce social mobility including the closure of non-essential businesses, and a fall in oil prices resulting from an oversupplied market, global travel restrictions and reduced manufacturing activity. Regional governments are attempting to mitigate the economic damage through stimulus packages, with central banks also cutting policy rates and announcing plans to provide liquidity to financial institutions, particularly those lending to small and medium enterprises.

4.1m+

Global coronavirus cases
(May 10, 2020)

25m+

Jobs could be lost worldwide
as a result of COVID-19

450m+

People at risk of income
and job losses in the
global supply chain

17.5%

Decrease in MSCI World
Index (global) from January
1 to March 18, 2020

3%

Projected decrease in
world output in 2020

15-25%

Fiscal deficits as a
percentage of 2020 GDP
for most GCC sovereigns

Kuwait: Impact of the Pandemic and Measures Undertaken

Kuwait announced its first case COVID-19 on 24th February 2020, making the country the 3rd in the GCC to be impacted by the disease. From the onset of the crisis, Kuwait initiated stringent measures to combat the pandemic, including the closure of government and private schools & colleges, suspension of commercial aviation and declaration of public holiday for employees.

The pandemic is expected to have a significant impact on Kuwait's economy, constraining growth in non-oil sectors as the current shut down of businesses crosses the eight week mark, impacting local sectors including aviation, hospitality and real estate. The economy is also vulnerable due to the fall in oil prices along with reduced oil demand from Asia, the target market for ~80% of oil exports, as several countries in the region have been substantially impacted by COVID-19.

These factors have resulted in a projected Real GDP decrease of 1.1% in 2020, and a downgrade by the S&P of Kuwait's Sovereign Ratings to AA-. The government has withdrawn from the General Reserve Fund to cover deficits in the past, with the current value of the fund estimated at KWD 14 Billion.

Select measures to reduce the spread of COVID-19

- Suspension of all commercial flights with the exception of Cargo.
- Ongoing public holiday since March 12th for employees.
- Closure of all schools and non-essential public and private sector companies.
- Shutdown of non-essential commercial activities.
- Implementation of countrywide curfew.

Select measures to support the local economy

- Cabinet approval of KWD 500 Million in additional funding to ministries and state agencies to support their fight against COVID-19.
- Raising banks' lending capacity by KWD 5 Billion through a stimulus package.
- Postponing loan repayments and credit card facilitations for local companies and individuals for a period of six months.
- Increasing the maximum lending limit to 100% from 90% to provide liquidity for small and medium sized enterprise.
- Providing a directive to government agencies to expedite their payment obligations to private sector companies.

10,000+

*COVID-19 infections
May 12, 2020*

1%

*Reduction in Discount
Rate by CBK to historic
low of 1.5%
March 16, 2020*

75

*COVID-19 fatalities
May 12, 2020*

0

*charges and commissions on
POS, ATM and online banking
transactions for 3 months
March 12, 2020*

KWD 50M+

*Donated by Organizations
and Individuals to the fund
to fight COVID-19*

50%

*Easing in risk weighting for
small and medium enterprises
from 75% to 25%
April 2, 2020*

Overview of Kuwait's Manufacturing Sector

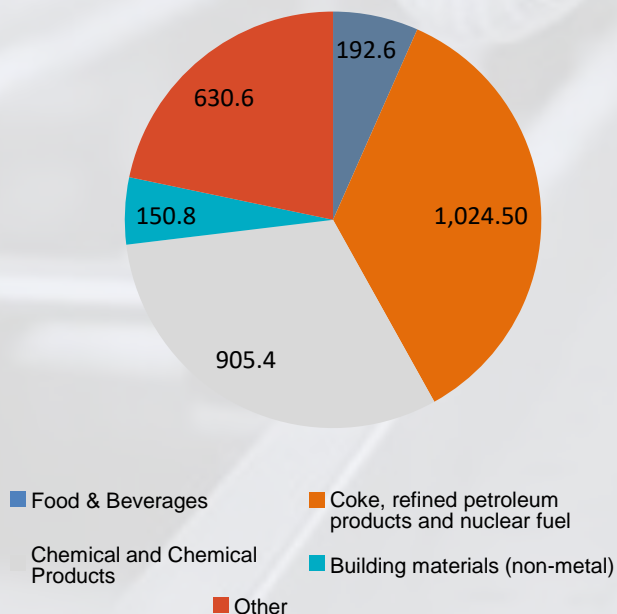
The manufacturing sector contributed KWD 2.9 Billion to GDP in 2018, accounting for 10.7% of total non-oil sector contributions to GDP and 6.8% of total GDP. Of the KWD 2.9 Billion contributed by manufacturing activities, KWD 1.9 Billion (64.7%) was provided by non-oil manufacturing sub segments, and KWD 1.0 Billion (35.3%) by refined petroleum products manufacturing sub segments.

The manufacturing sector is a crucial element in Kuwait's non-oil sector, with real non-oil GDP expected to grow at 3% in 2020 (prior to the developments related to COVID-19). Key activities within the sector include manufacture of refined petroleum products (KWD 1,024.5 Million, 35.3%) chemical products (KWD 905.4 Million, 31.2%), food and beverages (KWD 192.6 Million, 6.6%), and manufacture of building materials (non-metal) (KWD 150.8 Million, 5.2%).

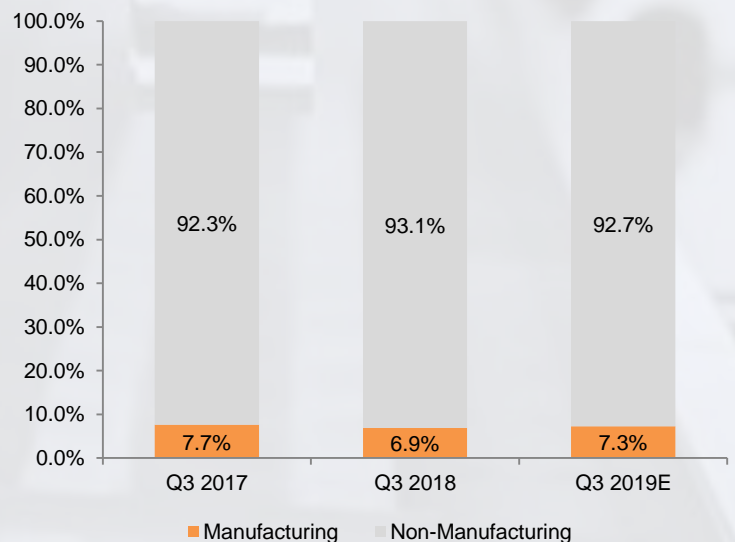
The total capital investment of the manufacturing sector is KWD 3.3 Billion, with the chemicals subsector having the highest capital investment at 47%, followed by building materials (non-metals) at 20% and building materials (metals) at 11%. The largest number of companies operate within the building materials (non-metals) subsector at 26% of the total number of players, followed by building materials (metals) at 22% and chemicals at 16%. A handful of subsectors account for the majority of the labor pool, with building materials (metals) at 43%, building materials (non-metals) at 14%, and F&B at 12%.

As part of the Vision 2035 objective of transforming Kuwait into a world class financial and commercial centre and to enable diversification of the economy, the government and private sector have emphasized the importance of developing the manufacturing sector and facilitating industrial growth. This has contributed to over 40% of current manufacturing sector companies being established in the span of the last 10 years, with 50% of companies established in the chemicals and building materials subsectors. Pharmaceuticals, petrochemicals, plastics and foodstuffs have been identified as areas with significant production and export growth potential under the New Kuwait 2035 development strategy.

**2018 GDP by Manufacturing Activity
(KWD Million)**



Manufacturing as % of GDP at Current Prices



Impact of COVID-19 on Kuwait's Manufacturing Sector – Survey Results

With the ongoing lockdowns and suspension of business activities, the manufacturing sector in Kuwait has been impacted by disruptions in production and supply chains. The sector is expected to face the long-term impact of these disruptions as a result of decline in demand and limited pipeline of new projects.

In order to fully assess the impact of COVID-19 on Kuwait's manufacturing sector a survey was conducted among manufacturing sector companies. The primary survey was supplemented with interviews with key management personnel of leading manufacturing companies.

Survey Background:

The survey was circulated to over 600 companies in Kuwait's manufacturing sector with a broad coverage across all subsectors. Based on the Public Authority for Industry directory, companies across diverse subsectors were approached, including F&B, chemicals, building material (metals and non-metals), wood products, paper products, textiles and refined petroleum products, among others.

Profile of Survey Respondents:

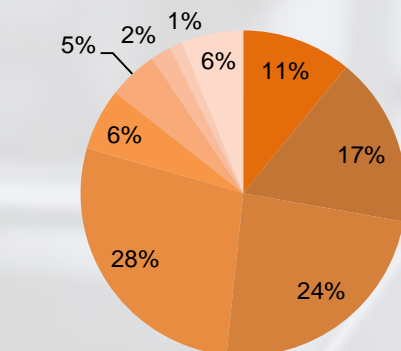
Responses from over 45 companies were received, of which 30% represented the building materials (metals) subsector and 23% accounted for building materials (non-metals). Remaining respondents included manufacturing companies across paper & paper products (14%), chemicals (10%) and Food & Beverages ("F&B") (7%) subsectors.

Survey Outcomes:

This survey provided an assessment of the current state of the manufacturing sector. Below are some of the key outcomes from conducting this survey:

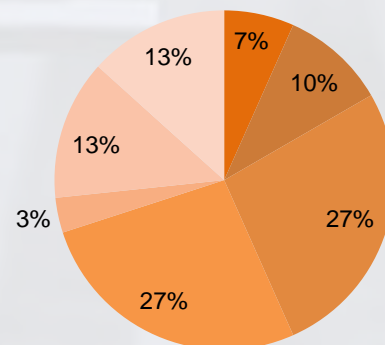
- Provided an insight into the levels of impact felt by manufacturing companies across various subsectors
- Reflected the areas of operations and key subsectors that were most affected by COVID-19
- Highlighted various measures undertaken by companies to sustain their businesses during this crisis along with contingency plans in place for long-run sustainability
- Provided an insight into the expectations of private sector companies for the support they require from policy makers during this time of uncertainty.

Survey coverage by subsectors



- F&B
- Building materials (non-metals)
- Textiles

Survey responses by subsectors



- Building materials (metals)
- Paper products
- Others

Impact of COVID-19 on Kuwait's Manufacturing Sector – Survey Results

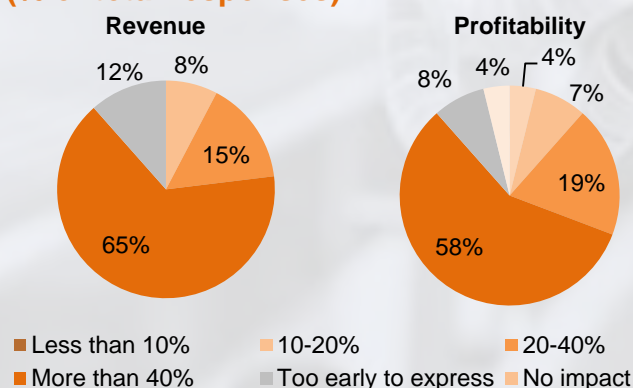
Key areas of impact:

Based on the survey responses, 85% of the respondents believe that the COVID-19 has significantly impacted their businesses.

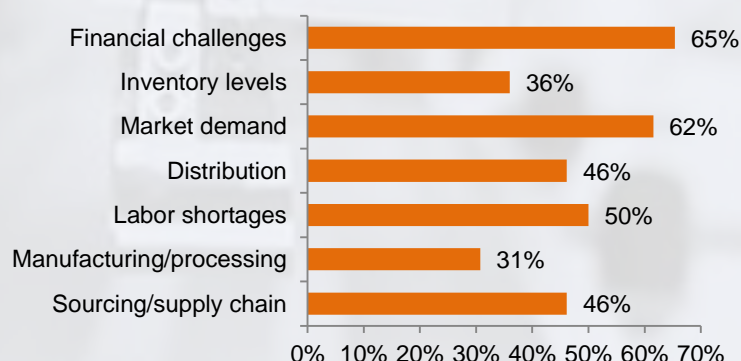
- **Impact on revenue and profitability:** Majority of the respondents indicated a decline of more than 40% in their revenue and profitability.
- **Financial challenges:** All the survey responses indicated that one of the pain point for their companies were the financial challenges they were facing, especially to meet their short term obligations. 65% of the respondents believed that this area of operation was the most severely impacted. Companies in the chemicals sector felt the highest level of financial challenges.
- **Market demand:** Fluctuations in market demand was another major impact felt by majority of the companies with 62% of the respondents indicating a severe impact in this area. As a result of closure of almost all commercial activities and the stalling of major projects due to uncertainties, demand for manufacturing subsectors including chemicals and building materials have been impacted.
- **Distribution of final products:** More than 90% of the companies were facing issues with distribution of final product as a result of regional border lockdown and higher costs associated with other means of transports.

The impact of COVID-19 has been the most significant on the chemicals manufacturing subsector as a result of labor shortages, reduced demand and decline in inventory levels. The majority of the building materials and F&B manufacturing subsectors have been affected by raw material sourcing caused by supply chain disruption, decline in demand and labor shortages.

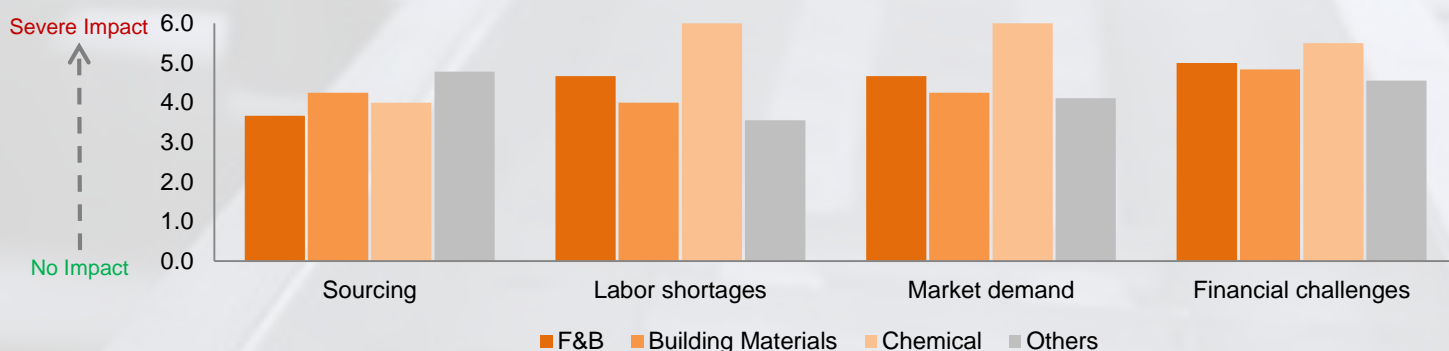
Decline in revenue and profitability (% of total responses)



Key areas severely impacted by COVID-19 (% of total responses)

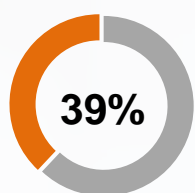


Key areas of impact by type of manufacturing company

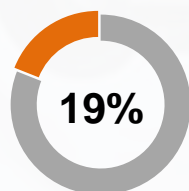


Measures Undertaken by Kuwait's Manufacturing Sector – Survey Results

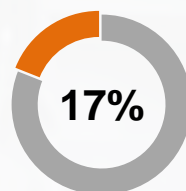
As per our survey results, various manufacturing companies have taken immediate measures in response to the COVID-19 crisis. Following are the key measures:



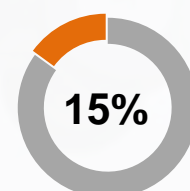
have **reduced working hours** for employees by cutting down number of shifts and reducing number of workers per shift



have resorted to **downsizing their staff** by terminating employees or asking them to go on indefinite unpaid leave



have **closed their non-performing plants / production lines** in order to increase efficiency in line with lower levels of demand



have **reduced the levels of operations** and eliminated non-essential departments

In addition to these measures, companies have put contingency plans in place to be able to mitigate the long-term impact of COVID-19. These measures include:

- Shifting manufacturing towards strategic products with higher demand and products that are essential during the crisis;
- Changing the supply chain strategy by re-evaluating the flow of raw materials and assessing the levels of demand;
- Expanding the distribution network;
- Renegotiating and rescheduling payment obligations with suppliers; and
- Seeking industrial alternatives to reduce costs and cooperating with other industry players.

Developing Critical Manufacturing Subsectors

The impact of the pandemic in prompting the worldwide lockdown of trade and movement has highlighted the need for supporting critical industries and the importance of self-sustainability. Within the local context, certain sub-sectors of the manufacturing industry including food & beverages (0.5% of 2018 GDP) and fabricated metal products (0.2% of 2018 GDP) have supported the national response through the provision of food products for medical examination centers and materials for quarantine facilities. However, the need for support from other manufacturing subsectors including medical has become more apparent as the crisis continues and key global manufacturers of critical products such as pharmaceuticals face restrictions in exports imposed by their host countries.

Furthermore, the need to ensure food security for a rising population largely dependent on imports would require the support of various stakeholders in developing the infrastructure for long-term warehousing and logistics support. Equipping companies with the tools to adapt to a rapid change in market conditions could also be considered as part of the response in developing critical subsectors. Assisting with the provision of the latest technologies would enable non-critical manufacturers to participate in the national relief effort from an early stage and reduce dependence on external third parties.

To mitigate the impact of another pandemic and improve local preparedness, identification of critical manufacturing sub-sectors and supporting their development is a challenge that would require the collaboration of key stakeholders in the public/private sectors to resolve.

Kuwait Manufacturing Sector Interview Results

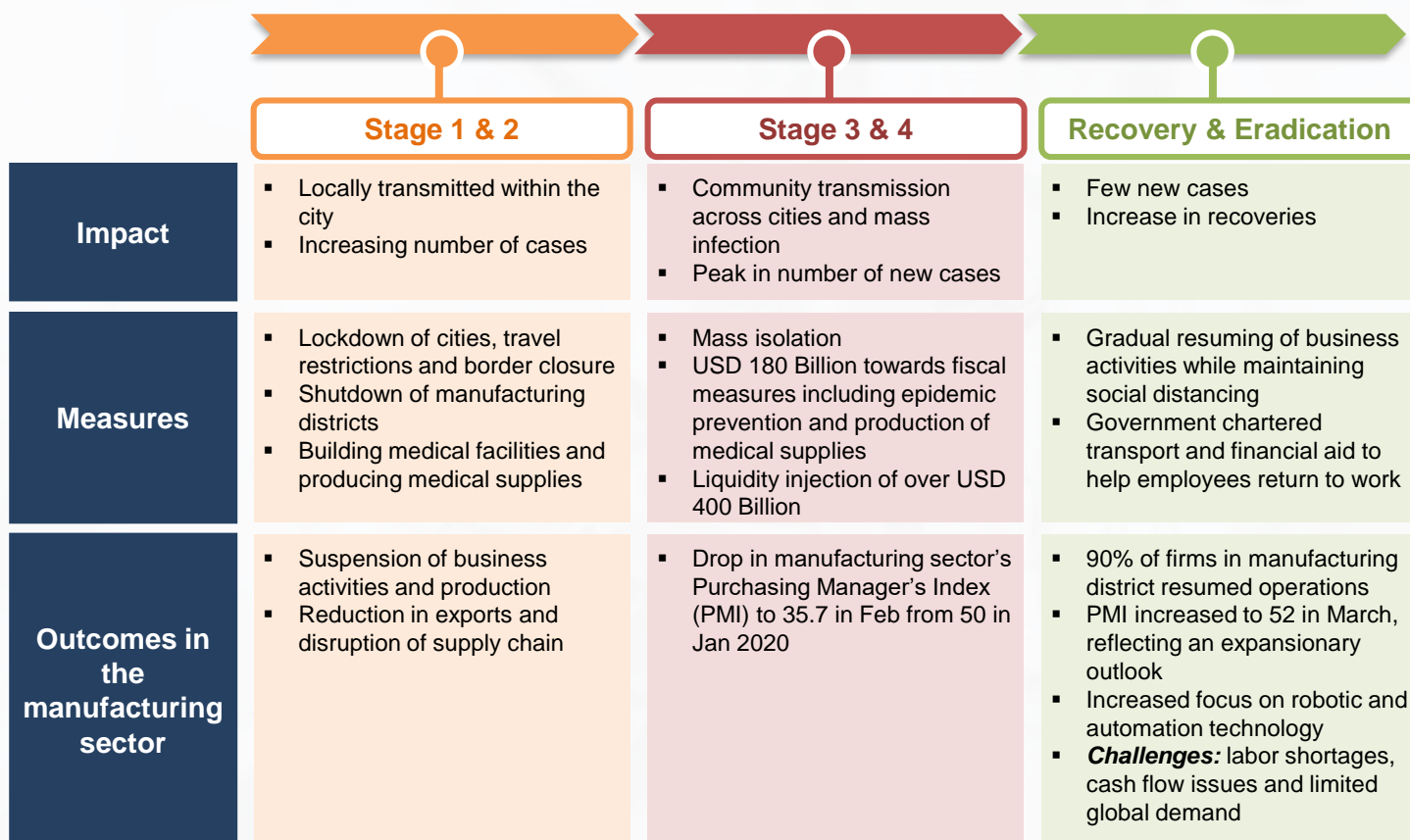
Detailed interviews were conducted with senior executives in the manufacturing sector in order to understand the challenges faced due to the impact of COVID-19, the measures undertaken to ensure continuity of operations, and the support required to prevent adverse consequences to business activity. A key takeaway was that if current circumstances do not improve, companies will find it increasingly difficult to sustain operations at pre-pandemic levels for more than 1-2 months.

	Challenges Faced	Measures Taken	Support Requested
Building Materials (non metal)	<ul style="list-style-type: none"> Customers not paying on time Curfew & lockdowns can lead to reduced availability of labor Cost of sea freight is significantly higher than land freight Sourcing raw materials is difficult for import dependent manufacturers 	<ul style="list-style-type: none"> Providing PPE to staff, promoting basic healthcare practices and splitting teams to minimize physical contact Obtaining greater quantities of raw materials and diversifying suppliers Adjusting of credit policy, emphasizing collections 	<ul style="list-style-type: none"> Resuming government projects, protection for ongoing projects Providing land for storage would facilitate business activities in the long-term Providing partial relief for business running costs and expenditures
Food and Beverages	<ul style="list-style-type: none"> Severe disruption to supply chain if status quo persists Problems with honoring contracts when certain supplies no longer available Significant reduction in demand from the private sector 	<ul style="list-style-type: none"> Tapping into self-funding, renegotiating & refinancing loans Distancing among employees Keeping higher inventories of raw materials 	<ul style="list-style-type: none"> Payment of invoices in a timely manner Low interest loans so companies can pay suppliers to obtain raw materials Coordination between relevant agencies to ensure essential workers are allowed to transit through security checkpoints
Electric Machinery	<ul style="list-style-type: none"> Decrease in demand to almost half the level prior to the crisis Interruption in supply chain due to lockdowns in international sources of raw materials Majority of staff located within areas under total lockdown 	<ul style="list-style-type: none"> Provision of masks, gloves, and sanitization measures to the labor force Institution of work from home for managerial staff if possible 	<ul style="list-style-type: none"> Support from banks through the provision of facilities against receivables for generating cash flow to pay staff Long-term loans with lower interest rates Ability to move staff out of quarantined areas
Industry Regulators/ Unions (on behalf of manufacturing sector)	<ul style="list-style-type: none"> Limited quantities & increased costs for raw materials needed for the manufacturing process Limited areas allocated to factories & lack of storage areas hindering production capacity Closure of borders in regional countries 	<ul style="list-style-type: none"> Coordinating with authorities and state institutions to facilitate factory work during curfew periods Pushing for permits allowing workers to live inside factories Requesting financial support from the government in covering the difference in cost of raw materials 	<ul style="list-style-type: none"> Providing exceptions for adding new products to help the pandemic response Giving priority for purchase of local/national products in contracts & tenders Fee exemptions for the current period until the end of the crisis including (rents, loan deferral, import fees etc.)

China's Recovery from COVID-19

As China steadily recovers from COVID-19 with lower number of new cases and decline in reported deaths, the economy is witnessing an upward trend and setting precedent for other economies that are battling the pandemic. Over 95% of China's large and medium-sized enterprises resumed operations in mid-March 2020 and the manufacturing sector is gradually resuming production.

Illustrated below is China's response to the pandemic and the outcome of these measures on the manufacturing sector:



Key learning points for other economies:

- Implementation of sanitation measures and reconfigure workspaces for safety;
- Early detection measures through proactive testing and distribution of knowledge to masses about preventive actions;
- Stringent and early measures on travel suspensions, social distancing and monitoring of movement;
- Investing in technology to be able to support continuity of business operations including work-from-home and automation solutions; and
- Improving infrastructure across the manufacturing sector to facilitate seamless switch of production towards manufacturing essential products during the pandemic such as masks, medical supplies, ventilators, etc.

UAE & KSA COVID-19 Remedial Actions

GCC countries felt a significant impact from COVID-19 in the form of an economic slowdown as a result of travel restrictions, suspension of commercial activities and restriction of movement. The manufacturing sector in these countries have been affected by raw material limitations, liquidity constraints and disruptions in the global supply chain. Illustrated below are the key initiatives taken by the governments of United Arab Emirates and Kingdom of Saudi Arabia to revive the economies and support various sectors:

	Initiative	Duration
UAE	<ul style="list-style-type: none"> Stimulus package of USD 70 Billion by Central Bank towards Targeted Economic Support Scheme (TESS) <ul style="list-style-type: none"> Includes liquidity tool of USD 50 Billion towards deferment of repayments Abu Dhabi stimulus package to benefit industrial companies and small and medium sized enterprises (SMEs). This includes: <ul style="list-style-type: none"> Continuing capital expenditure and development projects Water and electricity subsidies for manufacturing and industrial sector companies Fee exemptions and waiver of penalties on commercial and industrial activities Reduction of industrial land leasing fee by 25% for new contracts Dubai stimulus package of USD 400 Million towards enhancing liquidity and waiving fees for operations and customs activities Initiatives by free zone authorities include postponement of rent payment, refunding security deposits, waiving of fines, discounting license & visa renewal fees and easing movement of labor within the free zones 	<ul style="list-style-type: none"> 30% of TESS has been utilized by banks; expected to provide temporary relief Abu Dhabi stimulus package is expected to address short-term requirements Dubai stimulus package planned over a 3 month period
KSA	<ul style="list-style-type: none"> Introduction of Private Sector Financing Support Program worth 50 billion Riyals by the Saudi Arabian Monetary Authority (SAMA) to help small and medium-sized enterprises (SMEs) by: <ul style="list-style-type: none"> Distributing SAR 30 billion to banks and financing companies to defer payments from SMEs Providing SAR 13.2 billion in concessional financing for SMEs Depositing SAR 6 billion to relieve SME's from the finance costs of the loan guarantee program. Supporting POS and E-commerce for all stores and entities in the private sector through ~SAR 800 million Additional stimulus measures worth SAR 70 billion deployed to aid businesses, including postponement of tax payments and exemptions of various government levies and fees including, <ul style="list-style-type: none"> exemptions on expat levies by extending Iqamas for three months without charge postponing some government and municipal fees due by the private sector postponing payments of VAT, excise tax, income tax and submission of Zakat declarations by business owners postponing the collection of customs duties on imports for 30 days against submission of a bank guarantee allowing employers to extend exit and re-entry visas free of charge. Enabling government entities to extend contracts and waive penalties for coronavirus related delays. Postponing the payment of 3-month installments for all financing products without any fees. Supporting the private sector by providing monthly compensation up to 60% of Saudi employees' salaries. 	<ul style="list-style-type: none"> Six-months Three months Until June 30th, 2020 Three months (potential extension as needed) Three months (potential extension as needed) Three months Three months Three months (monthly limit of 9,000 riyals per person).

Future Outlook for Kuwait's Manufacturing Sector

As countries begin to re-open their economies under strict health & safety guidelines to support business activity and mitigate any further socio-economic impacts of the virus, understanding the short-term and long-term outlook of the manufacturing sector will be key for business leaders and policy makers in guiding decision making through the recovery process. The expectation of a lifting of the public curfew and easing of lockdown by the end of May are expected to provide a boost to the local economy as well as highlighting challenges that are likely to continue until an effective treatment/vaccine for the virus is developed.

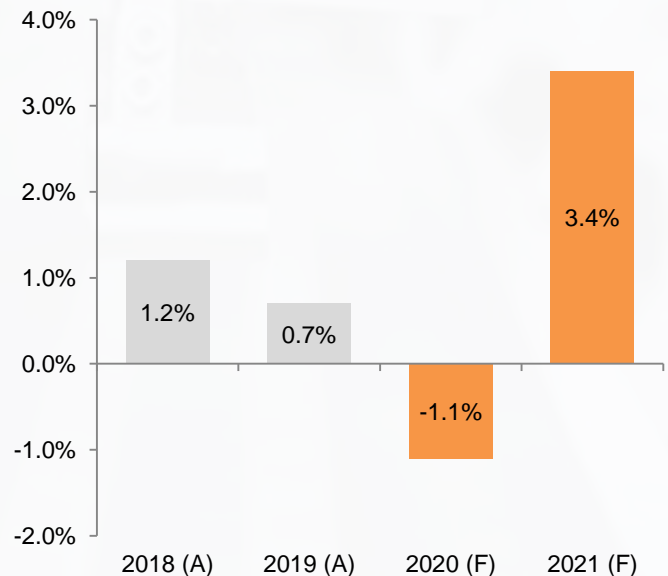
Short-term effect (within 6 months):

- Manufacturing sector companies would likely have to adapt to a new state of normality as the likely continuation of social distancing measures will lead to organizations operating at limited capacity.
- An increase in the repatriation of the expat population and limitations on inbound expat labor due to travel restrictions is likely to lead to a shortage of skilled labor.
- Demand across various manufacturing subsectors is likely to decline:
 - With a significant decline in oil prices, demand for chemicals manufacturing and refined petroleum products manufacturing subsectors is likely to decrease.
 - With the suspension or cancellation of government projects, demand for construction related manufacturing subsectors may decrease.
- Global supply chain disruptions are expected to continue over the short term and will likely impact the supply of raw materials as a result of backlog of orders and slow recovery of primary supplier markets such as China.
- Small and medium sized enterprises within the manufacturing sector may be forced to shut down operations as they may not have sufficient resources to withstand the impact of the pandemic.

Positive outlook in the long run:

- **Economic recovery:** Kuwait's economy is expected to rebound next year with a projected GDP growth of 3.4% in 2021.
- **Digitalization and automation:** Investments in digitalization and automation through remote working technologies and virtual tools will become increasingly important to ensure the continuous operation of production process with minimal requirements for on-site manpower.
- **Diversification and localization of supply chain:** There is likely to be a diversification in the manufacturing supply chain as the pandemic has highlighted the limitations in relying on a small number of global suppliers. Manufacturers may look to broaden their supplier base through local and regional sourcing to increase flexibility and resiliency and provide a foundation for attracting further investments higher up in the value chain.

Kuwait's Real GDP Growth (%) Forecast



The State of the Manufacturing Sector Pre & Post COVID-19 (Objective Analysis)

Since its modern establishment and after attaining its independence, the State of Kuwait has sought to focus on supporting the manufacturing sector and in doing so has allocated more than \$200M in 1967 for that purpose. In order to consider the economic impact of the COVID-19 pandemic on the manufacturing sector, we need to understand the current state of the sector in Kuwait.

Successive governments have launched policies to support the manufacturing sector, however the sector has faced limitations in its development process in reaching the maturity level of other sectors such as oil & gas. As Kuwait is considered a single source economy; the dependence on abundant oil revenues has been the focus while other sectors including the manufacturing sector have had limited focus. Additionally, the intensity of regional competition for manufacturing, especially from Kingdom of Saudi Arabia and the United Arab Emirates, has provided a high barrier to entry for potential investors. Furthermore, the lack of skilled labor force, limited availability of raw materials, and relatively small market size has prompted more than 20 Kuwaiti factories to move and setup operations in the Kingdom of Saudi Arabia.

With the spread of COVID-19, many countries have closed their borders and restricted manufacturing capacity which has highlighted the importance of developing local manufacturing capabilities. However, due to the prior difficulties faced by the sector, the pandemic has exacerbated the limitations of the sector to meet local needs. Despite the strong consumption capabilities in Kuwait (whether the consumer or the government sector), the manufacturing sector in Kuwait has not realized its potential in a country that enjoys a high level of consumption.

The most prominent weakness of the sector is its inability to compete with regional and global players, it is therefore crucial to provide the sector with the support it needs to develop its capabilities. Kuwait is well positioned in the region with respect to the manufacturing sector and its ability to create a competitive sector due to its inherent competitive advantages, which can be used as a foundation for its further development. These include:

- Cheaper cost of power and land which would enable the development of manufacturing and storage facilities as well as additional investments into the sector.
- Lower taxes, at the moment Kuwait has still one of the lowest taxes on all fronts (i.e. VAT, Corporate Taxes, Individual Taxes, Etc.)
- Competitive conversion costs, which are among the lowest in the region when it comes to manufacturing sector.
- Strategic geographic location allowing greater access to markets like Iraq, Iran and the Levant Countries for exporting of finished goods manufactured locally.
- Political neutrality which enables Kuwait to maneuver and develop strong trade relationships with all countries within the region.

The State of the Manufacturing Sector Pre & Post COVID-19 (Objective Analysis)

Given the nature of the manufacturing sector being one of the sectors with a medium-and long-term economic cycle, government financial policies and supporting laws need to take into account the differences between the manufacturing sector and other sectors such as Financial and Real Estate that need short-term policies and decisions to support them. The attention, care and support needed from the government is of two dimensions, the first being the assistance and support required for existing manufacturing entities and the second being the set-up of a clear plan as to what industry / industries the country would need in the long run.

As a result of the COVID-19 pandemic, the local manufacturing sector has encountered difficulties on multiple fronts, including internal pressures at the local level and external from the global disruption. We have analyzed some of these pressures and their impact on the Kuwaiti manufacturing sector.

Externally, whereas is the case in several countries, the spread of COVID-19 has interrupted the regular functioning of most economies in the world, impacting their production of finished goods and raw materials due to the closures that occurred to limit the spread of the pandemic. The severity of the crisis was exacerbated by the lack of planning by entities to manage the supply chain process through advanced planning for crisis management, which is an essential part of an effective governance system, prompting the management of these entities to search for other sources of raw materials at a higher cost. Similarly, excess freight costs and the absence of continuous shipping lines had an impact on exports and the possibility of meeting external obligations. Furthermore, the stoppage of air traffic had a major impact on the ability of entities to bring in experts and technicians needed for periodic maintenance or sudden breakdowns. It is also important to note that another consequence of the interruption of air traffic was the inability of some executives to return from abroad.

The current crisis has shown gaps in planning for crisis management as one of the governance elements that must be developed and kept updated with any events and changes in circumstances that take place at the entity level. It is imperative to take a deep dive into the needs of the manufacturing sector as a whole in terms of the investment in developing local capabilities that are able to bridge the gap and eliminate the need for foreign experts and technicians, except when necessary. On another front, it is advisable to work with the manufacturing sector in setting up crisis management plans that would eventually be integrated into a wider national crisis management plan to fulfill specific needs in the case of a similar crisis to the COVID-19 pandemic.

Internally, the challenges are represented as follows:

Financial Distress: The COVID-19 pandemic has impacted the cash flows and potential profits of manufacturing entities due to the complete halt of activities a national level, leading to a reduction in demand and supply and the interruption of a lot of contracts under execution. As a result, many sector entities have lost the ability to meet their financial obligations such as those related to domestic or foreign loans, as well as operating expenses and salaries. Furthermore, the depletion of resources and the insolvency may have repercussions including bankruptcy and the inability to return to business after the pandemic is over.

The State of the Manufacturing Sector Pre & Post COVID-19 (Objective Analysis)

Labor Force Issues: The labor issue in Kuwait is one of the most prominent problems and has always been debated at various levels over the past few years. The issue is centered around redundant employment, overcrowded residential buildings inhabited by large numbers of blue collar labor, and the legality of a large numbers of work permits obtained from entities that do not employ these individuals but only sell work permits for a commercial profit. The labor force issue has been featured heavily during the current COVID-19 pandemic, due to the large number of infected individuals in the congested areas inhabited by the labor force, which prompted the state to impose a security cordon on some areas of their presence, such as the cordon that was imposed on the areas of Mahboula and Jeleeb Al-Shuyukh. Given that a lot of the labor working at some of the manufacturing facilities resides in these two areas, the complete closure has led to the suspension of operations in some of the manufacturing facilities that were still producing products that are consumed by the local markets or fulfilling obligations of previously awarded contracts. This stoppage has further intensified the current situation without a clear solution on the horizon. The current crisis has created an incentive for all stakeholders to develop a sustainable solution that addresses all aspects of the employment crisis and revolves around the development of labor cities that are independent of family residential areas. Furthermore, the need to organize the process of entry and exit of labor to the country with clear and legitimate controls that guarantee their rights and enable manufacturing entities as well as other sectors to operate without any interruption is imperative should the need arise during such a crisis again, and specifically if the sector is entrusted with the role of fulfilling some of the basic commodities that citizens require in such circumstances.

Manufacturing Infrastructure: The ability of the sector to overcome current and future crises requires multidimensional efforts, including those pertaining to the sector itself and the other being the extent of support provided by government authorities and regulators. As previously mentioned, the sector is in need for financial restructuring to mitigate the impact of the COVID-19 pandemic, and for that purpose the sector has to coordinate its activities with various stakeholders, banks and suppliers amongst others. Furthermore, the development of supportive infrastructure to the sector such as the allocation of land to build warehouses, independent labor cities, and means of transporting goods during crises will enable effective crisis management plans. This will allow for Kuwait to integrate sector capabilities in supporting the economy during future challenges.

Organizing Policies & Government Support: The enactment of laws that contribute to the long-term prosperity of the sector and government support for the local products may not provide relief in the current crisis. It is necessary to look beyond the COVID-19 pandemic on means of stimulating the sector, how the sector can grow to a level that elevates its ability to contribute to the national income, and to give the sector a greater role in meeting the needs of the local market while creating job opportunities for Kuwaiti youth. Additionally, the government can support growth in the sector by enacting laws that will facilitate the creation of investment opportunities and employment opportunities to expand the manufacturing base at the country level. The laws that support the sector in general and local products in particular will play a fundamental role in achieving the desired goals in the long term.

The State of the Manufacturing Sector Pre & Post COVID-19 (Objective Analysis)

The Government Role in the Current Crisis (COVID-19 Pandemic)

The economic observer must not overlook the steps and measures taken by the government to support the various sectors of the local economy during the current crisis. These measures are part of additional measures that the government may take in the event of further action being needed. The following is the economic package that the Council of Ministers approved at its session on March 30, 2020:

1. Ensure the safety of the citizens working in the sectors affected by the repercussions of the crisis.
2. Maintaining the necessary support to maintain stability in the levels and prices of food and medical commodities in local markets.
3. Establishing a mechanism to secure the minimum income that ensures facing the cost of living for workers affected by the current crisis and linked to contracts.
4. Support the salaries of those registered under Chapter 5 in social Security in the affected sectors.
5. Assist owners of small, medium, industrial and agricultural projects by postponing the installments funded by the National Fund for Small and Medium Enterprises Development and the agricultural finance portfolio in the Industrial Bank.
6. Providing loans on concessional and long terms to small and medium enterprises, through joint financing from local banks and the National Fund for Small and Medium Enterprise (SME) Development.
7. Providing soft and long-term loans on the affected companies and clients, provided by local banks.
8. Postponing the share of business owners in the private and oil sectors not fully owned by the state from the monthly contributions due to the Social Security Institution for a period of (6) months, in addition to postponing the payment of the monthly contributions due to the insured in accordance with the provisions of Chapter Five of the Social Security Law for a period of (6) months, as well Postponing the deduction of the replacement part of the retirement pension according to Article (77) of the Law for a period of (6) months.
9. Payment of the retirement pension on the assumption that what the law permits is not disbursed in advance for cases that have benefited from the provision of Article (112) bis of the Social Security Law for a period of (6) months, provided that the legal instrument necessary to implement this decision is specified.
10. Provide government exemptions to the affected economic institutions in the productive sectors and the cooperative societies from some government fees and dues if these exemptions are reflected on their clients with the same value.
11. Instruct government bodies to expedite routine work cycle to pay the obligations due to the private sector as quickly as possible.
12. The council of ministers have proposed specific amendment to labor law in the private sector No. 6/2010, allowing business owners to reduce salaries of their employees during a crisis in order for businesses to be able to sustain business continuity.

The future of the manufacturing sector has become more promising with the Kuwaiti government highlighting the importance of the manufacturing sector as part of Kuwait Vision 2035 (New Kuwait) with various initiatives and policies that will enable the sector to realize its potential in the local economy and become one of the key contributors to the country's GDP.

Conclusion - Recommended Actions to Support Manufacturing Companies

The impact of COVID-19 is expected to have a long lasting effect on almost all aspects of company operations. Some of the key issues faced by manufacturing companies include liquidity constraints, financial obligations, supply chain disruptions & production challenges and labor shortages. In order to sustain these long-term impacts, measures that can be undertaken to support manufacturing companies are illustrated below:


Key Issues	Recommendations
Liquidity constraints	<p>Short term recommendations:</p> <ul style="list-style-type: none"> ▪ Easing the availability and lowering the cost of loans and providing loan guarantees and credit guarantees for small and medium sized enterprises. ▪ Reducing or waiving off land lease and allowing deferred lease payments to lower non-operating costs. ▪ Exemptions on governmental tariffs including customs fees, zakat and other fees. ▪ Expedited payment by government entities of invoices to increase cash inflows.
Financial obligations	<p>Short to medium term recommendations:</p> <ul style="list-style-type: none"> ▪ Increasing flexibility in loan restructuring and extending the 6-month grace period for loan re-payments to one year. ▪ Implementing deferred payment programs among private companies for easing payment of equipment lease, rentals and other fees.
Supply chain and production	<p>Short to medium term recommendations:</p> <ul style="list-style-type: none"> ▪ Assisting companies in identifying alternative suppliers to diversify supply chains. ▪ Continuing government spending on projects and maintaining a pipeline of projects within the country to sustain demand. <p>Medium term recommendations:</p> <ul style="list-style-type: none"> ▪ Implementing the in-country value to promote public investments and facilitate in-house production of materials to reduce dependence on exports. ▪ Localizing services provided to manufacturing companies in order to increase dependency on local service providers. <p>Long term recommendations:</p> <ul style="list-style-type: none"> ▪ Improving infrastructure for the sector including increase in land availability for production and improving technology to enhance efficiency. ▪ Encouraging investment in automation through loans and subsidies.
Labor	<p>Short term recommendation:</p> <ul style="list-style-type: none"> ▪ Easing the regulatory requirements around the employment of skilled expatriate workforce once companies resume normal levels of operations. <p>Medium to long term recommendation:</p> <ul style="list-style-type: none"> ▪ Providing land for labor camps in close proximity to industrial areas in order to reduce disruptions in production.

Conclusion - Recommended Actions to Support Manufacturing Companies

Key Issues	Recommendations
Legal & Regulatory	<p>Short term recommendations:</p> <ul style="list-style-type: none"> ▪ Expediting regulatory procedures including the processing of documents from the Chamber of Commerce. ▪ Subsidizing utilities and incentivizing exports in order to make companies more cost competitive with other regional players.

Conclusion - Recommended Actions to be Considered by the Sector

In the current economic environment, manufacturing companies may take several measures in order to emerge from the short-term issues faced and mitigate long-term issues to become resilient. These issues relate to disruptions in the supply chain, liquidity issues and fluctuating demand. Below are some of the key measures manufacturing companies may take to tackle these issues:

 <p>Capital and liquidity requirements</p>	<p>Manufacturers may face continued downward pressure on demand, production and revenues as the COVID-19 pandemic intensifies. Additionally, some manufacturers may face cash-flow liquidity challenges and difficulties in managing debt obligations. . Following are the key steps to consider to mitigate the impact:</p> <ul style="list-style-type: none"> ▪ Increase focus on going-concern: In the current economic environment, focus on evaluating balance sheet items including cash flow needs and working capital requirements in addition to income statement items and profitability. ▪ Identify cash flow needs: Evaluate the immediate short-term cash requirements over the next six months in order to assess the type of financing they would require. ▪ Alternative short-term financing options: Approach banks to access short-term facilities including receivables financing in the form of factoring receivables, revolving loans and bridge financing. ▪ Restructuring/refinancing loans: In addition to the six month grace period for loan repayments, approach banks for restructuring current loans. 	Implement in the short term
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Conclusion - Recommended Actions to be Considered by the Sector



Supply chain disruptions

Manufacturers may expect continued weakening links in their supply chain, as some vendors and suppliers will likely face operational or financial struggles of their own. Brace for continued supply chain bottlenecks both nationally and internationally, especially in those jurisdictions hardest hit by COVID-19. Following are the key steps to consider to mitigate the impact:

- **Diversified supply base:** Identify alternative suppliers from countries less impacted by the pandemic so as to prevent disruptions in supply.
- **Sound payment options:** Re-negotiate the payment terms with suppliers to avoid strain on the relationship and approach banks for providing letter of guarantee and other facility lines at lower costs.
- **Efficient inventory management:** Maintain higher levels of inventory as safety to prevent shortages and reduce finished goods held in inventory to avoid wastage on account of demand volatility.

Implement
in the
medium
term



Challenges in sustaining demand

The pandemic is causing widespread concern and economic hardship for consumers, businesses and communities across the globe. This may cause a ripple effect throughout industries, resulting in reduced demand for Kuwait's manufacturing sector. Following are the key steps to consider to mitigate the impact:

- **Customer risk mapping:** Identify financial risks associated with key customers and the financial issues they face in the current environment in order to limit exposure to these risks.
- **Diversify customer base:** Reduce the concentration risk of few larger customers and diversify its customer base to include smaller players.

Implement
in the
medium
term



Need for operational efficiency

Driven by the reduced demand, manufacturers may have unutilized production capacities, creating a heavy burden on an already stretched financial situation. Following are the key steps to consider to mitigate the impact:

- **Assess cost base:** Evaluate the key cost elements and identify opportunities to reduce certain fixed and variable costs.
- **Strategic management of efficiency based on demand:** As a result of decline in levels of demand, companies may consider taking measures to optimizing operational efficiency including reduction in working hours or number of shifts and closure of under-performing plants, where companies have more than one plant.
- **Eliminate non-core activities:** Re-evaluate the contribution of their products to the profitability and increase focus on key product lines while eliminating non-core products.

Implement
in the short,
medium and
long term