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KUWAIT INVESTMENT AUTHORITY,
KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT &
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COVID-19 IMPACT AND IMPLICATIONS FOR CFOS



INTRODUCTION

COVID-19 has had a profound impact on countries around the world, including Kuwait. The health pandemic and subsequent Government measures have caused widespread disruption and negative financial implications for businesses. Businesses in Kuwait have been particularly affected following an early and decisive national lockdown.

A survey was conducted with CFOs and financial leaders in Kuwait, complemented by one-to-one interviews and external insights that were gathered to determine the extent of the impact of COVID-19 on their businesses.

EXECUTIVE SUMMARY

The COVID-19 pandemic has disrupted global economies and led to severe financial impact on businesses worldwide. This disruption was further exacerbated by Government-mandated lockdowns and border closures. The full impact of the pandemic remains unknown as the situation continues to evolve. Latest IMF projections estimate that the global economy will contract by 4.9% in 2020.¹

Chief Financial Officers (CFOs) have had to navigate their businesses through the uncertainties of the pandemic and face several challenges. These include increased uncertainty, unforeseeable risks, falling revenue, disrupted supply chains, decreased productivity, and impact to their working capital and liquidity coverage.

A survey and a set of interviews were conducted to gather perspectives and insights from local CFOs concerning the effect of COVID-19 on their businesses. The aim was to better understand the current environment and the extent of the economic impact of the pandemic on businesses in Kuwait. The survey and interviews highlighted the major concerns of CFOs and the response measures they've taken so far.

CFOs have felt an impact on their business operations in Kuwait and across the GCC. Various concerns have been elevated, including the suppression of their businesses' future valuation, declining consumer demand, and challenges in raising funds. The vast majority of survey respondents (88%) are expecting a decline in their businesses' revenue for FY2020. The severity of the expected decline varies, with 13% of respondents expecting declines greater than 75% of total revenue, and 60% expecting declines up to 50%.

Many CFOs have already taken actions to address their concerns such as assessing their liquidity positions and revising their cost structures. Of the survey respondents, 83% have already reduced their costs and 49% have reduced their capital expenditure. Furthermore, CFOs are optimistic that they can achieve new revenue through organic opportunities and identify new revenue streams. CFOs expect to return to full operational capacity after August 2021.

During this unprecedented time, CFOs will play a critical central role in their organizations – both in steering and managing the finance function as well as supporting all other business functions. CFOs are responsible for preserving the vital assets of the company, increasing the efficiency and effectiveness of finance operations, aligning the overall business and financial strategies, and embedding a financial approach within the organization. Along with other C-suite executives, they must co-lead their businesses through the pandemic ensuring short term resiliency and position the organization for long term recovery and growth.

CFOs can take critical actions to strengthen their businesses in four key areas – strategic planning, financial management, operating model, and technology and innovation. To do so, they need to adopt a multi-dimensional approach. In the near-term, CFOs must focus on survival and ensure business continuity by taking actions such as implementing immediate cost control measures. In the medium-term, CFOs must effectively navigate through financial pressures and continue making operational improvements to stabilize their business. Finally, CFOs must position their companies for post-pandemic success and future growth by focusing their investments on innovative solutions and digital transformation.

¹ International Monetary Fund – World Economic Outlook Update, June 2020

1. COVID-19 CONTEXT

1.1. EFFECTS OF THE HEALTH PANDEMIC

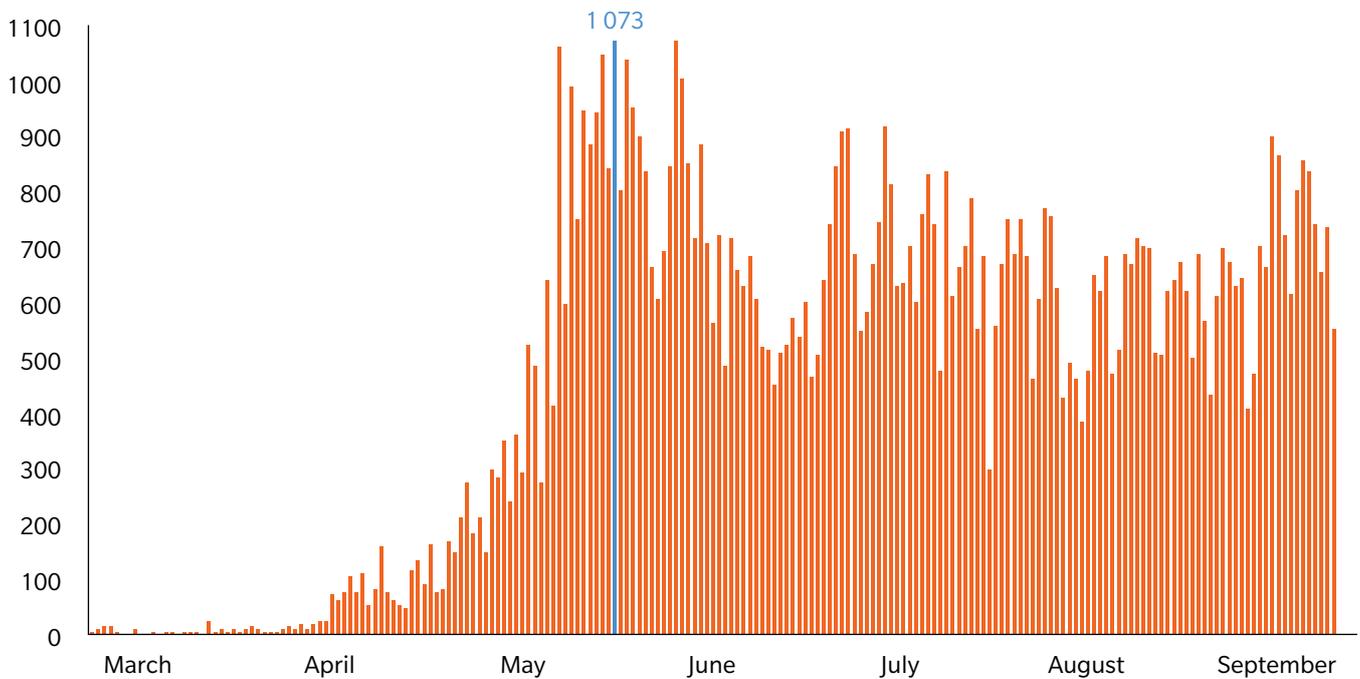
The COVID-19 virus was classified as a pandemic on March 11th. Countries worldwide began restricting movement and setting up border controls to manage the spread of the virus. Still, the pandemic continues to spread, and cases have been reported in more than 188 countries. Globally, there have been more than 29 million reported cases and the virus has resulted in over 900,000 deaths.¹

flights were banned. Partial movement bans were implemented in late-March, as the country prepared large-scale repatriation efforts to return over 40,000 nationals from abroad. The Government imposed a country-wide total lockdown during the month of May, with some areas being locked down until July. On May 31st, Kuwait began its 5-phase reopening plan to gradually return to normalcy.

Following Kuwait's first reported case on February 24th, the Government imposed extensive response measures to curb the spread of the virus. In mid-March, international borders were closed, and commercial

Government-imposed curfews and lockdown measures highly impacted local businesses, forcing them to reduce operating hours and, in some instances, completely shut down. Some businesses operated

FIGURE 1: DAILY CASES IN KUWAIT



1 Johns Hopkins University

at reduced capacity due to staff residing in areas undergoing total lockdown for extended periods. Businesses with a physical footprint faced operational

and supply chain challenges. The situation forced many businesses to innovate and adapt, encouraging a shift to digitally oriented business models where possible.

1.2. KUWAIT ECONOMIC PERSPECTIVE

Lockdowns and subsequent economic downturn due to the pandemic have had a profound impact, which was also felt by Governments and local businesses.

As part of the Government’s response to the pandemic, partial and full lockdowns were implemented during different stages. This has had a direct and indirect impact on businesses. The direct effect was observed through Government-mandated shutdowns and restriction of certain business activities. The indirect effect can be attributed to movement bans and lockdowns which limited consumer access to businesses and incurred losses.

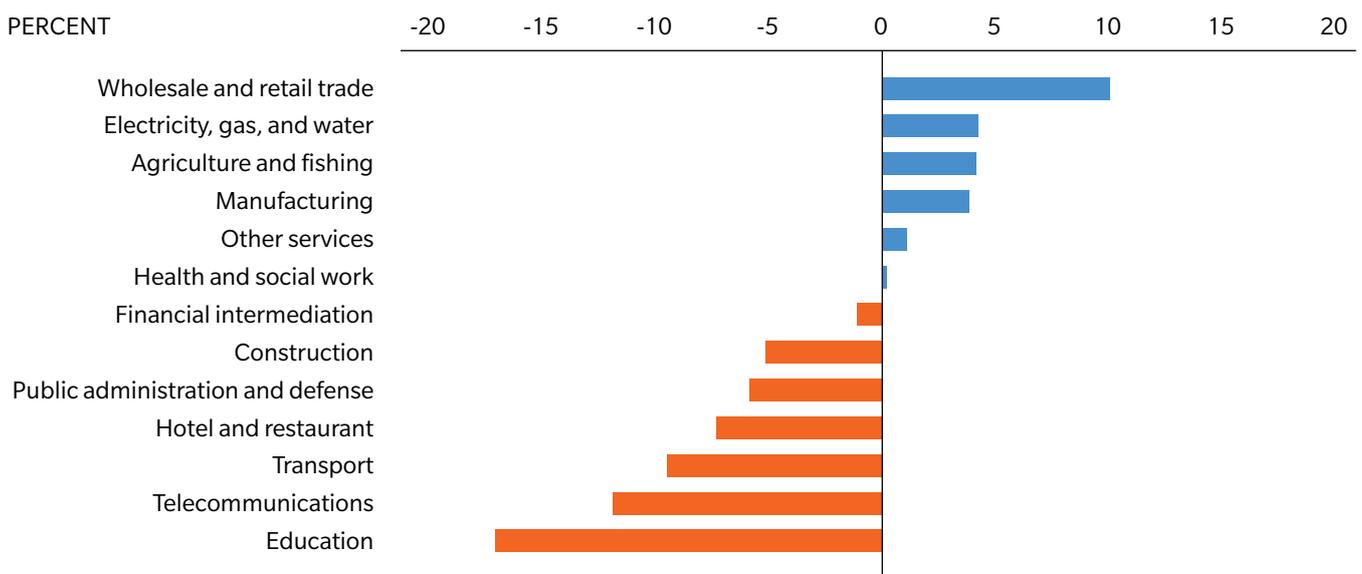
The pandemic has had an effect on consumer attitudes and spending behavior. Certain trends are observed such as a shift away from non-essential spend and a move towards e-commerce and digital services. This

and other changes to consumer behavior will have a varying effect on different sectors.

There has also been a decline in Kuwait’s project market, as the value of Government awarded projects fell to a historic low in Q2 2020.² Many businesses rely on Government projects as a main source of revenue and will be directly affected by this decline in activity. CFOs in the retail, construction, and oil and gas sectors have expressed concerns surrounding this and expect a negative impact on their long-term revenues.

Kuwait has taken fiscal and monetary measures to reduce the impact of the pandemic.³ The Government allocated KD500 MN to support COVID-19 prevention efforts. However, as a % of GDP, Kuwait’s fiscal support package remains low compared to other oil exporters in the GCC and the MENA region. Kuwait’s relatively

FIGURE 2: Q1 2020 REAL NON-OIL GDP GROWTH RATES BY SUB-SECTOR
(% Y/Y, AT CONSTANT PRICES)

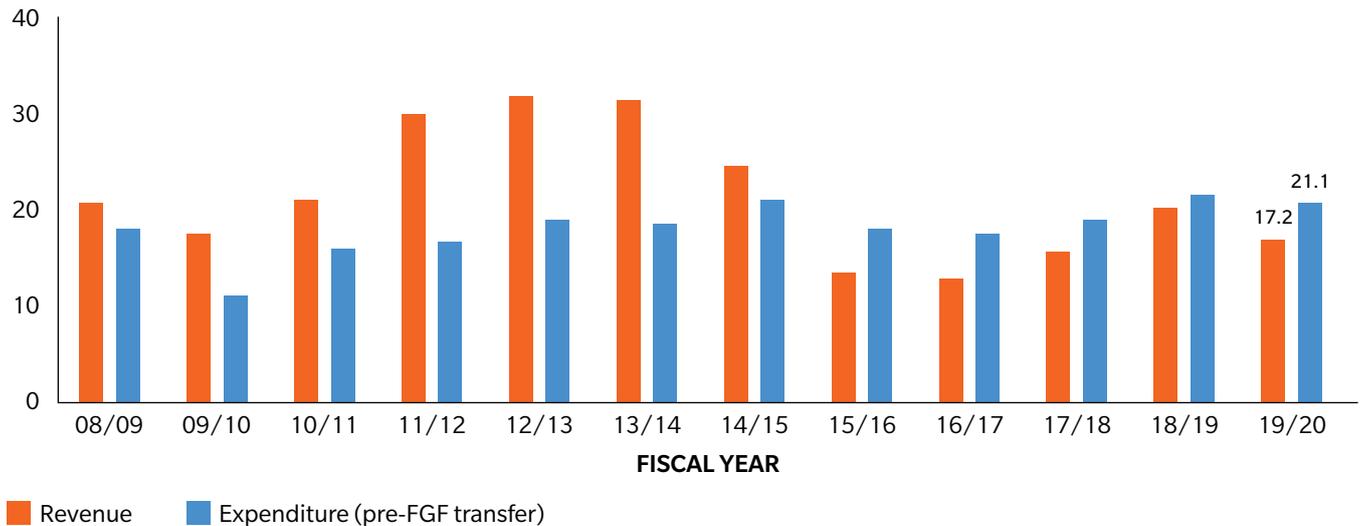


Source: Kuwait Central Statistical Bureau

² National Bank of Kuwait Economic Research Department

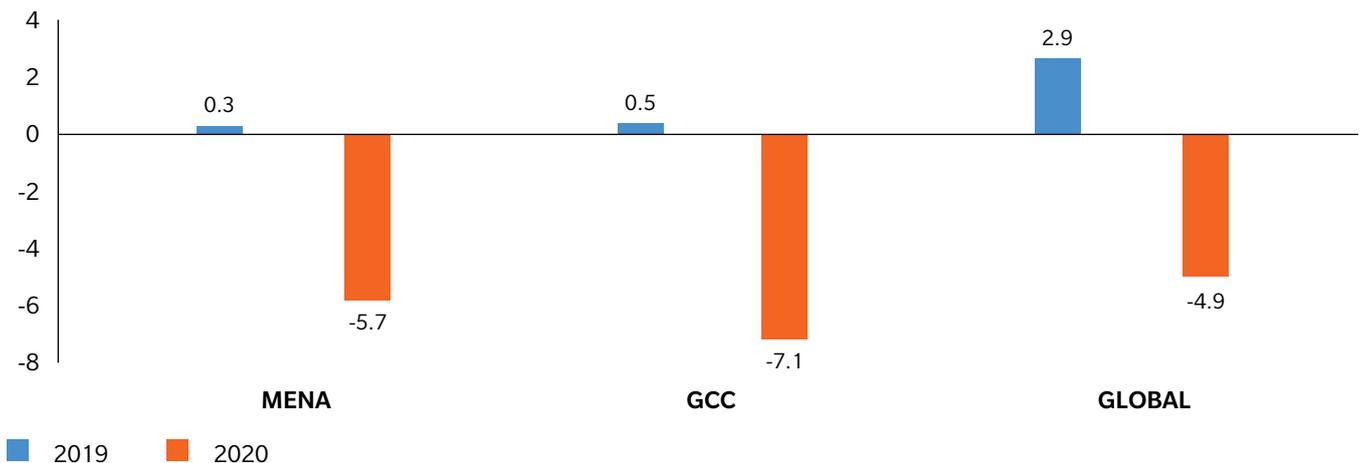
³ International Monetary Fund – Policy Responses to COVID-19

FIGURE 3: KUWAIT'S PUBLIC FINANCES
(KDBN)



Source: Kuwait Ministry of Finance

FIGURE 4: PROJECTED ANNUAL GROWTH IN GLOBAL, MENA, AND GCC REAL GDP
(PERCENT)



Source: International Monetary Fund – Regional Economic Outlook Update: Middle East and Central Africa, July 2020

modest fiscal support could be attributed to its limited fiscal space in light of a quickly depleting GRF and an inability to issue public debt. Limited fiscal support greatly reduces the ability of businesses to overcome the current economic situation.

The Kuwait Ministry of Finance reported a KD3.9 BN deficit for the 2019/20 fiscal year.⁴ High expenditure

and falling oil prices have resulted in State revenues declining and the General Reserve Fund (GRF) depleting at an alarming rate. Oil prices fell to multi-year lows, stabilizing between US\$ 40-50,⁵ however for Kuwait to post no budget deficit for the 2020/21 fiscal year, oil prices need to reach US\$ 80. As part of the Government's response to the pandemic, partial and full lockdowns were implemented during different

4 Kuwait Ministry of Finance closing accounts for fiscal year 2019/20. The 3.9 BN deficit does not account for the 10% revenue transfer to the Future Generations Fund (FGF)

5 Bloomberg

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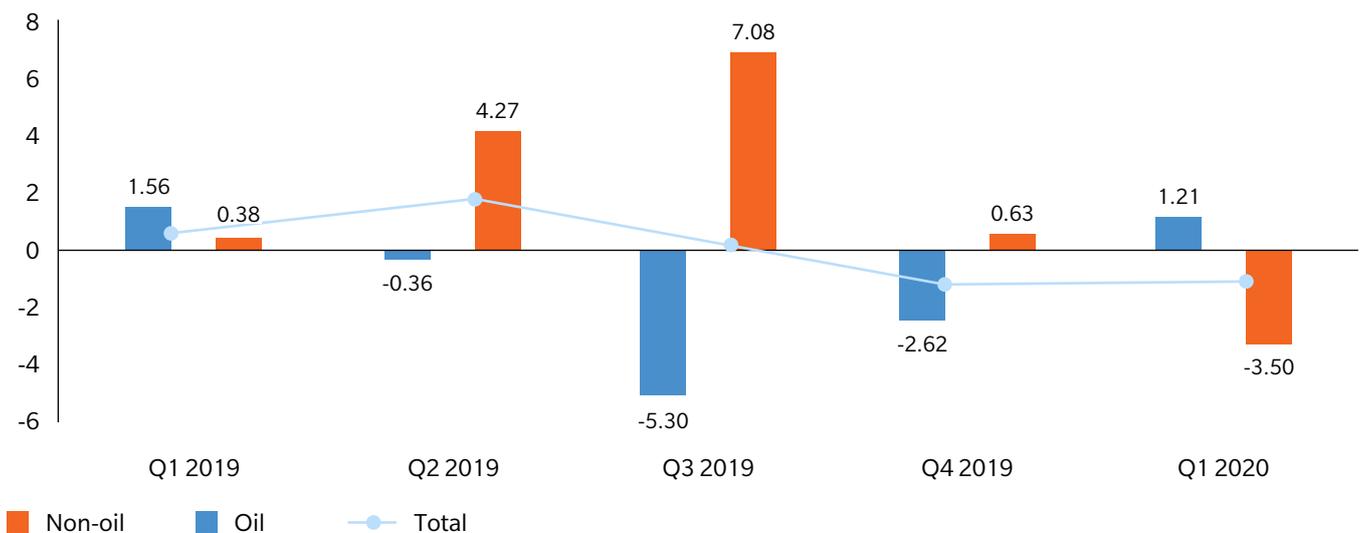
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According to IMF’s latest projections, the global economy is expected to significantly contract in 2020, but gradually recover by 2021.⁶ Kuwait is no different, as the IMF has projected a 1.1% decline of Kuwait’s real GDP in 2020, and a gradual recovery with 3.4% growth in 2021.⁷

FIGURE 5: ACTUAL GROWTH OF KUWAIT’S REAL GDP
(% Y/Y, CONSTANT PRICES)



Source: Kuwait Central Statistical Bureau

6 International Monetary Fund – World Economic Outlook Update, June 2020

7 International Monetary Fund – World Economic Outlook, April 2020

2. KUWAIT CFO PERSPECTIVE

The impact of COVID-19 on businesses can be well captured through the perspective of CFOs. Through their participation in the survey and interviews, CFOs expressed their key short- and long-term concerns and risks as a result of the pandemic and shared their proposed responses and planned actions.

2.1. IMPACT OF COVID-19 ON CFOS

CFOs face major challenges as they navigate their businesses through the COVID-19 pandemic. Increased uncertainty, unforeseeable risks, falling revenue, disrupted supply chains, decreased productivity, and impact to working capital and liquidity coverage are all threatening the viability of businesses. The vast majority (88%) of survey respondents say their businesses have been negatively impacted by COVID-19 and that they are expecting a drastic revenue decline in FY2020. Interview findings show that the effect has been

worse on certain sectors, as CFOs from the aviation, hospitality, tourism, and food and beverage sectors have claimed that lockdown restrictions in Kuwait have constrained operations and led to near-zero revenues for months.

CFOs of businesses that operate in Kuwait and the GCC have ranked Kuwait and Saudi Arabia as the countries where their business operations have been most severely impacted by COVID-19. They have also ranked

FIGURE 6: DUE TO THE IMPACT OF COVID-19 ON YOUR BUSINESS, HOW MUCH DO YOU EXPECT YOUR COMPANY'S 2020 REVENUES TO DECLINE? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)



FIGURE 7: UNDER YOUR ASSUMPTION OF THE DURATION OF COVID-19, HOW LONG DO YOU BELIEVE YOUR COMPANY CAN SUSTAIN AN ADEQUATE LIQUIDITY POSITION? [N=48]
 (PERCENT OF TOTAL SURVEY RESPONDENTS)



Kuwait among the least prepared countries in the GCC to enable businesses to return to full capacity.

Larger companies that reported high revenues for the 2019 fiscal year could sustain an adequate liquidity position for longer and may have built up enough reserves to maintain the health of their balance sheet. Based on survey results, 64% of companies that

reported under KD2 MN in 2019 revenues could only sustain their liquidity for less than 6 months. Of the companies that can sustain a healthy liquidity position for more than 18 months, 57% have operations outside of Kuwait, and all report FY2019 revenues greater than KD2 MN (57% reported revenue of KD10 MN – KD50 MN and 21% reported revenue > KD250 MN).

2.2. KEY CFO CONCERNS AND RISKS

Within the next 6 months, CFOs are most concerned about having insufficient cash reserves, declining consumer demand, challenges in raising funds, and significant changes in enterprise value as risks affecting their businesses, as evident in Figure 7. The same risks are critical in the medium- to long-term with the addition of increased pressures on fixed and variable costs.

INSUFFICIENT CASH RESERVES

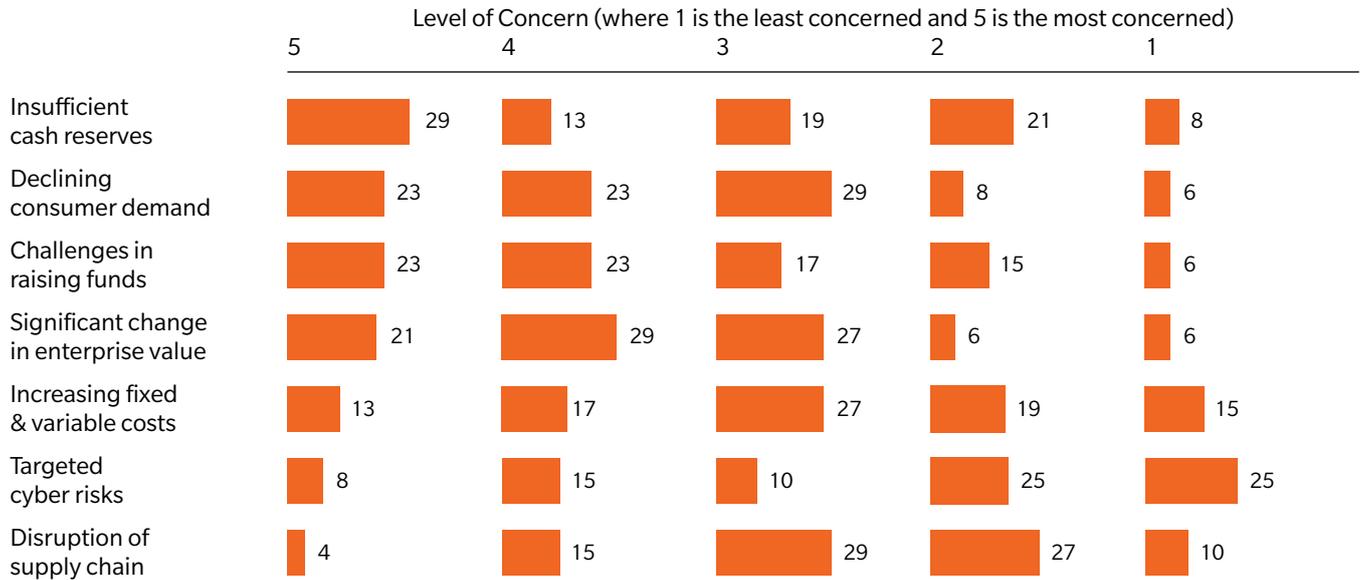
Businesses with insufficient cash reserves or unstable cash flows are especially vulnerable to the impacts of the pandemic, and the situation will only become more difficult as the situation persists. In the hospitality sector for example, CFOs have expressed that while

they have managed to contain the situation so far, their business will not be able to withstand more than 6 additional months with their current cash reserves before facing lasting damage.

DECLINING CONSUMER DEMAND

Fear of economic consequences, job security, and expectations of declining household income have led to a change in consumer behavior and reduced spending on non-essential goods and services. This was the case for a CFO in the construction sector, where the company had to offer reduced pricing in order to maintain customers and had to cancel upcoming supply shipments in anticipation of declining demand.

FIGURE 8: WHAT DO YOU FORESEE AS THE BIGGEST RISKS TO YOUR BUSINESS IN THE NEXT SIX MONTHS [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)



CHALLENGES IN RAISING FUNDS

Raising funding during a time of economic difficulty is extremely challenging. Banks in Kuwait are offering lowered interest rates as well as dedicated funding for SMEs affected by the pandemic. While some CFOs have not seen the lowered interest rates as an attractive solution, others expressed that they are considering them as a last resort if the pandemic persists.

SIGNIFICANT CHANGES IN ENTERPRISE VALUE

Amidst higher uncertainty and a volatile macroeconomic and market environment, CFOs will face the risk of significant changes in enterprise value. In the real estate sector for example, CFOs have experienced difficulties in assessing the value of their assets as they expect a drop of unknown magnitude in the value of their investment properties.

2.3. CFO RESPONSES TO COVID-19

CFOs have a cautious outlook as they respond to the effects of the pandemic, with 42% of respondents expecting a return to full operational capacity after 12 months, and 31% expecting a return within 6 - 12 months. Over the first few months of the outbreak, CFOs had to make difficult decisions and act to preserve the resilience of their businesses.

The main actions that CFOs have taken include assessing their company's liquidity position, developing contingency plans, optimizing their company's working capital, and reallocating their workforce. All surveyed

CFOs have already undertaken initiatives within their business in response to COVID-19, with 83% building internal COVID-19 response teams to follow up on those initiatives.

ASSESSMENT OF COMPANY'S LIQUIDITY POSITION

CFOs understand the importance of assessing liquidity positions. It is the most observed response action with 81% of survey respondents having already assessed their

company's liquidity position under potential COVID-19 scenarios. CFOs highlighted that cash visibility as a key element of the cash management and financial decision-making framework and will play a critical role in guiding the organizations ability to respond to the pandemic.

Some companies have resorted to reserving a percentage of their yearly revenues to maintain liquidity. Larger companies, particularly holding companies with diversified portfolios, were more likely to focus on increasing value from their least affected businesses or areas of strength. Interviewed CFOs of companies which are part of a larger corporate group have resorted to their group resources to ensure adequate cash flow and maintain healthy cash positions.

DEVELOPMENT OF CONTINGENCY PLANS

Contingency plans allow organizations to respond effectively to changing conditions and sustain operations. Without a thorough contingency plan, potential risks arising from COVID-19 are accelerated. Surveyed CFOs recognize this, as 77% of respondents have already developed and implemented contingency

plans. Amongst the scenarios companies must plan against is the emergence of a second wave of the virus, which can result in further economic damage and a return to stricter measures. The CFO of a food and beverage company noted the advantage of having contingency plans and increased inventory in order to mitigate effects of the pandemic on their supply chain.

OPTIMIZATION OF WORKING CAPITAL

73% of CFOs have identified the optimization of working capital as critical to ensuring business continuity and long-term financial health. Key response measures included optimizing the collection of receivables to mitigate delay risks, aligning procurement cycles with new supply and demand conditions, and negotiating payment terms with suppliers while maintaining lower supply chain costs.

REALLOCATION OF WORKFORCE

Workforce reallocation initiatives were identified by 73% of CFOs as important levers to enhance labor

FIGURE 9: WHAT TYPES OF INITIATIVES HAVE YOU UNDERTAKEN IN YOUR RESPONSE TO COVID-19? (PERCENT OF TOTAL SURVEY RESPONDENTS)

Assessment of company's liquidity position



Development of contingency plans



Optimization of working capital



Reallocation of workforce



Reassessment of all key risks



Model multiple COVID-19 scenarios



Re-evaluation of investment portfolio



productivity and drive down costs. A good example of such a response is a Kuwaiti financial services company that is focusing on reskilling and supporting cross-functional initiatives, to move more staff from specialized roles to non-fixed roles to increase the agility of the organization and enable quicker response to change.

COST REDUCTION

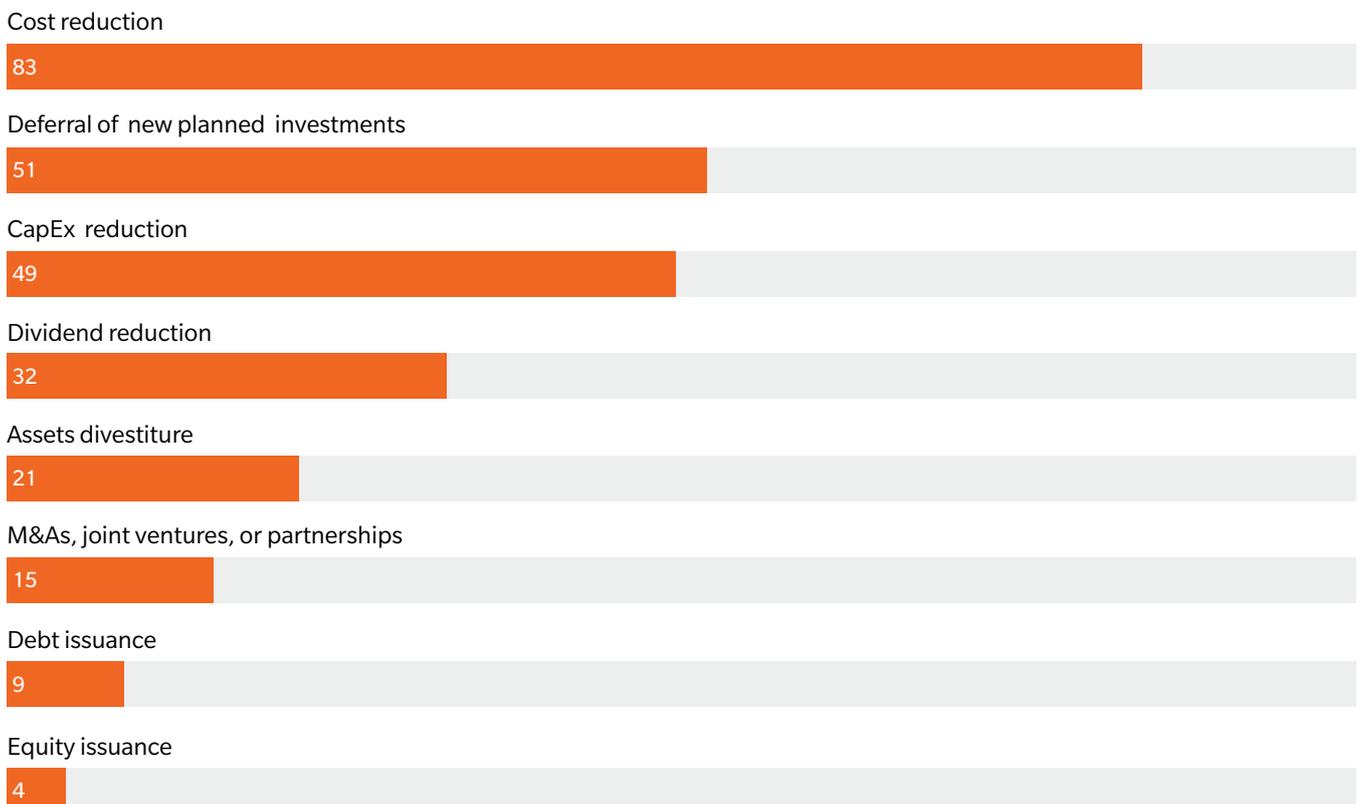
Of the CFOs that have already taken financial actions due to COVID-19, 83% have reduced costs and 49% have reduced capital expenditure. Based on responses from the survey, CFOs are more likely to reduce costs for external services, advertising and marketing, people, and administration. Expenditure on information systems and technology is less likely to be reduced, indicating the importance of digital investments for companies.

CFOs in Kuwait have taken differing approaches towards cost reduction. An example is seen in a large company which implemented heavy staff cost reduction measures including furlough of a high percentage of staff and business-wide salary reduction amounting to 50% of total salary. Similarly, a food and beverage company reduced staff salaries but opted not to let go of any staff members in fear of a negative impact on the brand identity. They had not prioritized cost-cutting but instead focused on increasing cash-flow through growth opportunities.

CAPEX REDUCTION

When executed well, reduction in capital expenditure can be a high-impact measure to support the freeing up of cash and help to stabilize cash-flows. However, it must be done within a structured process to achieve the desired results without long-term damage. For example, a company in the tourism industry has

FIGURE 10: WHICH OF THE FOLLOWING FINANCIAL ACTIONS HAS YOUR COMPANY ALREADY TAKEN DUE TO COVID-19? [N=47]
(PERCENT OF TOTAL SURVEY RESPONDENTS)



re-evaluated its capital expenditure plans considering COVID-19 and potential scenarios under which the pandemic could evolve.

DEFERRAL OF PLANNED INVESTMENTS

Deferral of planned investments is a high priority amongst CFOs as they re-prioritize projects to maximize value and free up cash. They must do so while considering spending, costs of stopping or deferral, and the perceived impact of such decisions. Of surveyed CFOs, 51% have deferred planned investments.

NEW REVENUE OPPORTUNITIES

Looking forward, almost half of surveyed CFOs anticipate new revenue opportunities to be achieved by maintaining or transforming their current business model. A quarter of CFOs anticipate the need to move into adjacent business models to stimulate revenue growth whilst 38% anticipate a need to establish new business models. For example, a CFO in the facilities management industry and another in the oil services industry have started to develop plans to diversify revenue through inorganic growth opportunities such as mergers and acquisitions (M&A), joint ventures (JVs), or partnerships.

3. THE WAY FORWARD

CFOs will continue to play a critical role to support their business’ efforts in navigating the COVID-19 pandemic. They have the dual role of ensuring an effective finance function and supporting all other functions within the business in fulfilling their objectives. As the pandemic unfolds CFOs will help across multiple dimensions, organizing the immediate response, building resilience to navigate through the medium-term, and steering the company towards recovery and future growth.

There are four key areas where CFOs can take critical action to strengthen their business and mitigate challenges emerging from the pandemic – strategic planning, financial management, the operating model, and technology and innovation.

FIGURE 11: CFO CRITICAL ACTIONS ROADMAP

Start of crisis	0-3 months	3-12 months	12+ months
Actions	IMMEDIATE RESPONSE	MEDIUM-TERM PLAN	LONG-TERM RECOVERY
STRATEGIC PLANNING	Conduct COVID-19 business impact assessment	Review and update corporate business strategy	
	Conduct financial risk assessment	Upgrade financial planning and forecasting	
		Update financial risk strategy	
		Manage key financial stakeholders	
FINANCIAL MANAGEMENT	Execute non-staff cost control measures	Optimize liquidity and cash management	
		Re-evaluate CapEx investment portfolio	
	Review compensation framework		
	Evaluate govt. stimulus resources	Re-evaluate investment portfolio and physical assets	
	Identify tax relief oppurtunities		
Ensure compliance to new regulations			
OPERATING MODEL	Setup COVID-19 response team		Support future workforce planning
	Enable a remote work setup		
	Establish remote finance function governance	Design future operating model	
	Mitigate critical supply chain disruption	Diversify and strengthen supply chain	
	Prioritize health and wellbeing funding		
TECH. & INNOVATION	Invest in priority cybersecurity measures	Build a cyber-proof organization	
	Support critical digital capabilities for continuity	Accelerate business model digitization	
		Build digital finance function of the future	

3.1. STRATEGIC PLANNING

As the COVID-19 pandemic evolves and large-scale developments continue to emerge, CFOs will face challenges in strategic planning. The first challenge is the uncertainty surrounding the pandemic due to changing economic assumptions and continuous disruptions. The second challenge is the increased complexity of enterprise risks as risks transfer from certain sectors into others through supply chains and demand linkages. The third challenge is the increased scrutiny of stakeholders, as lack of long-term economic, market, and business visibility increase stress and uncertainty.

CFOs should tackle these challenges by identifying and evaluating the operational and financial implications of different COVID-19 scenarios and the emerging financial risks. Subsequently, they should provide key input and data to support the update of both the corporate business strategy and the financial risk strategy. CFOs should also manage stakeholder expectations throughout the pandemic by establishing clear and frequent communications with key stakeholders.

CHANGING SCENARIOS AND LONG-TERM UNCERTAINTY

The dynamic spread of the COVID-19 virus, coupled with the large-scale developments both in health and economic aspects and the lack of historic data, led to uncertainty in the long-term outlook. Organizations are struggling as they try to comprehend the full implications. One CFO expressed a concern that the pandemic could last upwards of a year, and that there is no clear estimate to when it will end. To identify and evaluate the implications, CFOs should conduct immediate scenario analysis, liquidity stress tests, and assess the impact on business functions and processes,

focusing on financial implications (cost structure and revenue streams). Insights from the survey show 60% of CFOs have already modelled multiple COVID-19 scenarios.

COMPLEXITY OF ENTERPRISE RISKS

Risk assessment and management is made increasingly difficult due to health and economic risks emerging from certain sectors into others, by supply chains and demand linkages. The corporate business strategy and the financial risk strategy must be updated, considering impact of these risks on different business segments, units, and markets, and the impact on the overall risk profile of the company. CFOs can assist in updating these strategies by providing key financial input and data. Most survey respondents are aware of the importance of updating strategies, as 73% have already conducted a reassessment of all key risks. A company in the tourism industry has conducted a full review of their recently formulated business strategy and suspended a transformation initiative with several projects, which was initially scheduled to start in Q3 of this year.

STAKEHOLDER MANAGEMENT

Throughout the multiple dimensions, expectations of key stakeholders including the Board of Directors, investors, equity analysts, auditors, and others must be managed. To do so, CFOs should establish clear and frequent communications and provide key insights, such as current and planned responses to COVID-19. Several CFOs have stated that one of their first actions was to establish regular meetings with the Board and key stakeholders to discuss matters related to the pandemic.

3.2. FINANCIAL MANAGEMENT

Companies have suffered negative impacts on financial management and cash-flow resulting from the social

and economic consequences of the pandemic. There are five main financial challenges that CFOs

must overcome. Firstly, the changes to consumer behavior and decline in spend driven by the current economic turmoil. Secondly, the loss of revenue in organizations across industries due to the direct or indirect effects of the pandemic. Thirdly, the loss or delay of payments due to client insolvencies, affecting the organization's cash inflow and balance sheet. Fourthly, changes in enterprise value resulting from the volatile macroeconomic and market environment. Lastly, increased risk of compliance as regulations and requirements continue to change.

Actions to optimize financial management should start by establishing cash visibility, targeting near term cost control, and increasing cash-inflow. This is achieved through executing non-staff cost control measures, reviewing compensation frameworks, evaluating Government stimulus resources, and identifying tax relief opportunities. Over the medium- and long-term, CFOs can optimize liquidity and cash management. Actions such as re-evaluating CapEx investments portfolios, investment portfolios, and physical assets to maximize value and free-up cash should be taken within a clear cash management and decision-making framework which considers both the current situation (cash levels and liquidity thresholds) and future outlook (scenario definition and cash forecasting).

CONSUMER BEHAVIOR

The pandemic has driven fear of economic consequences, job insecurity, and expectations of declining household incomes. These fears may drive a change in consumer behavior and reduce spending on non-essential products. Declining consumer demand was amongst the top three long-term concerns of survey respondents, with 42% of CFOs scoring it as a level 4 or level 5 concern on a 5-level scale (where 5 is the most concerned). Businesses can explore the adoption of different sales channels, offer reduced pricing, or enhanced payment terms to customers.

LOSS OF REVENUE

There are several direct and indirect factors resulting from the pandemic that can lead to the loss of revenue in organizations including reduced demand, decline

in consumer spending, and limitations caused by lockdown. Of survey respondents, 88% said they are expecting a loss of revenue due to the pandemic. Certain sectors were more affected, as several CFOs of companies in the aviation, real estate, financial services, entertainment, and consumer goods and services industries expected revenue loss of 51% or more for FY2020. Looking forward, 73% of survey respondents felt confident that they could find new revenue opportunities. More CFOs anticipated new revenue opportunities will be achieved organically (52%), than through inorganic opportunities such as M&As, JVs, or partnerships (23%), while some believed it would be through a combination of both organic and inorganic opportunities (23%).

PAYMENT DELAYS

As many clients suffer financial difficulties, their ability to make timely payments is impeded, posing a threat to the organizations' cashflow position in the form of delayed or missed payments. CFOs must identify potential opportunities for improvement in their cash collection process and mediate payment through new arrangements. The challenge is to improve cash collection without inflicting long-term damage to client relationships. A CFO in the construction materials industry has emphasized the need for organizations to be flexible in collections when possible to maintain healthy customer relationships. To do so, they have offered credit to customers and re-negotiated payment terms. A state-owned enterprise followed the Government's mandate and offered relief and support to investors and tenants in their facilities by waiving rent and offering flexible payment methods.

CHANGES IN ENTERPRISE VALUE

CFOs face possible changes in valuation of balance sheet, as assets, liabilities, and shareholder equity are challenged with volatile macroeconomic and market conditions. CFOs responding to the survey were highly concerned with this risk particularly during the next six months, where 50% scored in the highest two concern levels. The concern is reduced in the long-term as only 32% have scored in the highest two concern levels for the period after the next six months. To mitigate

this risk, CFOs can continue to review investment forecasts, portfolio models, and assumptions based on evolving market conditions to re-evaluate assets and subsequently implement changes in strategy and shift priorities.

COMPLIANCE RISKS

CFOs should ensure compliance with latest regulations and requirements. To do so, they should continuously

3.3. OPERATING MODEL

There are five main operating model challenges that CFOs will face due to the implications of the pandemic. First is the challenge of reduced workforce capacity, which can be caused by several factors including restricted mobility, illness, unsuitable work environments, or a lack of digital capabilities. Second is the restriction to travel and transport caused by lockdowns and border closures around the world that were put place to curb the spread of the virus. Third is supply chain disruptions, affected by the transport restrictions, muted demand, and closure of key global supply hubs. Fourth are the increased physical and mental health risks to employees as the virus spreads. Last is the issue of skill gaps surfacing as a result of changing operations and increasing requirements.

To tackle operating model challenges, the CFO must conduct a set of priority actions. These actions include setting up a COVID-19 response team to coordinate the organization's responses across finance functions, facilitating and enabling a remote work framework, and establishing governance for a remote finance function. CFOs must also provide management information systems (MIS) information and aid in designing a future operating model, support workforce planning, and prioritize funding for employee health, wellbeing, and future professional development.

WORKFORCE CAPACITY

Reduced workforce capacity is a challenge for all business sectors but is particularly evident in labor-

intensive industries. During earlier phases of Kuwait's pandemic response plan, and especially during the full lockdown period, certain areas with high concentration of labor were quarantined, disturbing and even completely halting operations for some companies. A construction material supplier managed to overcome this challenge by moving their workforce to safe housing in a low-risk area before lockdown was imposed. Survey responses show organizations suffered the most in terms of operating capacity in earlier stages of the lockdown and have gradually began to resume operations. Most respondents operated at 21-40% of their full capacity in Phase 2 of Kuwait's reopening plan, rising to 41-60% in Phase 3, and to 61-80% in Phases 4 and 5.

monitor the changing regulations relating to their sector of operation, conduct regulation impact assessments, and manage the implementation of regulatory requirements. Failing to understand and comply with changing regulations and requirements could lead to investigations, public scrutiny, fines, and both civil and criminal penalties.

TRAVEL AND TRANSPORT

The restrictions to travel and transport implemented by the Government led to varying degrees of adoption of remote work across industries in Kuwait. Even labor-intensive sectors implemented remote work for their support staff where possible to ensure some degree of business remained operational. The consensus regarding the productivity of remote work varied across industries, as factors such as labor requirements and availability of digital setups played key roles. Creating a COVID-19 response team can aid in coordinating the organization's efforts across finance functions and increasing productivity during the pandemic. When asked whether they had created a dedicated COVID-19 response team within their companies, 83% of CFOs answered yes.

SUPPLY CHAIN

Supply chain disruptions affected several industries dependent on import of materials. Businesses which rely on cross-border providers expect increased complexity in the future. However, companies with excess levels of inventory before the start of the pandemic managed to mitigate that risk. The CFO of an oil services company with excess inventory explained that contrary to others in the industry, his organization was able to benefit from the disruption and managed to increase its market share. To do so, the company took advantage of readily available resources, such as excess materials, and mobilized staff to expand operations while their competitors struggled to operate.

Supply chain disruption needs to be tackled with an immediate response which includes mapping links, refining inventory strategy, and exploring alternative materials and sources. This must be followed by a medium- to long-term strengthening and diversification of the supply chain, which the CFO must support through providing MIS information and a strategic perspective. The supply chain recovery approach

follows four key steps: developing and assessing demand scenarios, creating a recovery production plan, identifying available suppliers, and securing access to critical supplies until fully recovery.

STAFF HEALTH

The pandemic has increased physical and mental health risks to employees as fear of infection and the prolonged period of lockdown can have detrimental effects on their wellbeing. Organizations must prioritize the health and wellbeing of their employees and ensure that proper health and safety measures are put in place. CFOs can assist by providing funding and resources and prioritizing spend on measures such as hotlines and wellness campaigns, as well as necessary health materials such as disinfectants and protective equipment. A food and beverage company made commendable efforts in ensuring the safety and mental wellbeing of their staff by providing mass COVID-19 testing to employees and setting-up mental health awareness campaigns within their organization.

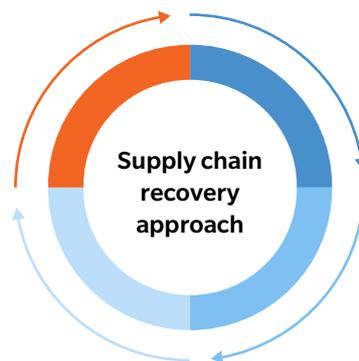
FIGURE 12: SUPPLY CHAIN RECOVERY APPROACH

1. DEVELOP AND ASSESS DEMAND SCENARIOS

Establish response team to develop and assess multiple demand scenarios
Identify expected demand and evaluate available production capacity

2. CREATE RECOVERY PRODUCTION PLAN

Plan capacity considering the ramp-up period where production has not yet fully normalized
Identify pragmatic solutions to enable local production



4. SECURE ACCESS TO CRITICAL SUPPLIES UNTIL FULLY RECOVERY

Secure strategic supply chain control by acquiring critical access to secure sufficient supply
Create recovery plans and update as situation evolves

3. IDENTIFY AVAILABLE SUPPLIERS

Determine available supply options in geography
Qualify new suppliers or consider spot buys

PROFESSIONAL DEVELOPMENT

The pandemic has seen organizations transition to digital work and an increase in demand for health and safety knowledge. These two trends led to the surfacing of skill gaps within staff in areas such as infection prevention and control, digitization skills, as well as key

commercial skills such as team management, cross-market leadership, or sales in a virtual environment. CFOs can mitigate the risk of skill gaps and improve performance of the workforce by analyzing critical financial skills required for the future, identifying gaps, and funding professional development and upskilling programs.

3.4. TECHNOLOGY AND INNOVATION

With regards to technology and innovation, CFOs have faced three core challenges as a result of COVID-19. Firstly, there has been a heightened risk of cybersecurity breaches due to the creation of additional external access points to their systems as organizations continue to virtualize and shift towards remote work. Secondly, there is increased need for finance functions to be digitized and meet demands of remote operations. Finally, organizations have had to either accelerate existing or introduce new digital transformation plans to adapt to the increasing demand of digital technologies and shift business models to be more digitally-oriented.

In the near-term CFOs can provide funding and resources to both deliver the necessary cybersecurity investments and to develop the digital capabilities for remote work and digital finance operations. In the longer-term CFOs should focus on building a cyber-proof organization, supporting the shift towards digital business models, and transforming the finance function through the latest digital trends and technologies.

CYBER-RISK AND CYBERSECURITY

CFO responses to the survey show a higher concern of targeted cybersecurity attacks within the next 6 months. Attacks including data theft, ransomware, and others could have a damaging effect on the organization in a time of increased vulnerability. It is therefore crucial that CFOs work closely with IT to assess cybersecurity risks, align cybersecurity strategy and provide the necessary measures quickly. CFOs can look towards collaborating with IT to understand operations and infrastructures and strengthen

the organization's cybersecurity capabilities in the long-term.

DIGITIZATION OF FINANCE FUNCTIONS

The digitization of finance functions will enable CFOs to meet increasing demand to perform finance function operations with higher efficiency and accuracy, and on a remote basis. Taking advantage of the latest digital finance tools and trends will optimize key finance processes including planning, procurement, expenses, reporting, and payroll. Key potential actions to enable digital finance tools include implementing:

- Cloud solutions which offer a higher amount of data storage and reduce the cost of IT infrastructure
- Robotic process automation which perform large volumes of manual activities, including data entry and reports, with higher efficiency
- Advanced data and analytics which offer richer insights to support management decisions and forecasting of future scenarios

In the financial services sector, one respondent highlighted the importance of building out data and analytics capabilities, improving frequency and accuracy of reporting and reconciliation, and being able to conduct day-to-day transactions on a remote basis. More than 40% of survey respondents stated they are more likely to not reduce or optimize spending on IT in their organizations, indicating the importance of digitization to their firms.

DIGITAL TRANSFORMATION PLANS

CFOs across industries have emphasized the need to transform their business models to be more digitally-oriented in order to successfully navigate the pandemic, and a consensus was found on the need to further develop capabilities and accelerate existing digital transformation plans. CFOs can support transformation initiatives by allocating the resources and funding for automation and virtualizing of capabilities across the entire value chain from operations to customer proposition and service delivery. All CFOs interviewed utilized digital capabilities during the pandemic to

enable remote work to varying extents. An example seen across the food and beverage and retail industries was the quick shift to e-commerce. One food and beverage company focused on ramping up their electronic deliveries, resulting in a significant increase in its share of total company revenue – where delivery orders made up 30% of their total revenue pre-COVID, deliveries rose to 90% of their total revenue during the pandemic.

4. CONCLUDING REMARKS

This whitepaper has confirmed that COVID-19 has had a significant impact on businesses in Kuwait and that the CFO role is critical in maintaining the resilience of businesses during the pandemic. CFOs are playing a central role in not only driving the immediate response of companies but also in taking decisive actions to navigate the uncertain medium- to long-term horizon. In addition, CFOs are playing the dual complex role of managing their finance function whilst supporting all other business units and functions within a company.

Going forward CFOs will need to continue to take key measures and support their businesses across strategic planning, financial management, operating model, and technology and innovation. Measures

will need to be taken against a backdrop of further uncertainty on when the operating environment will return to pre-pandemic levels. Finally, CFOs recognize that the effective recovery of Kuwait's economy is a multi-stakeholder effort and that continuous dialogue between the private sector, Government, and industry bodies will be important to limit the lasting damage of the pandemic.

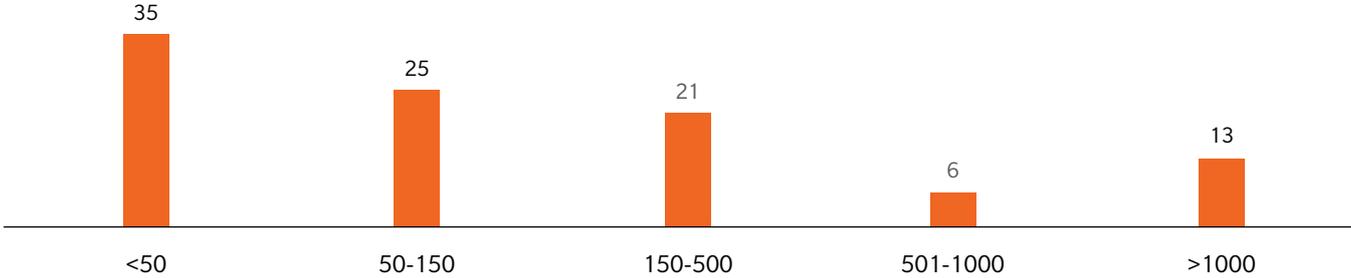
APPENDIX A

SURVEY RESPONSE INSIGHTS

A.1. SAMPLE PROFILE

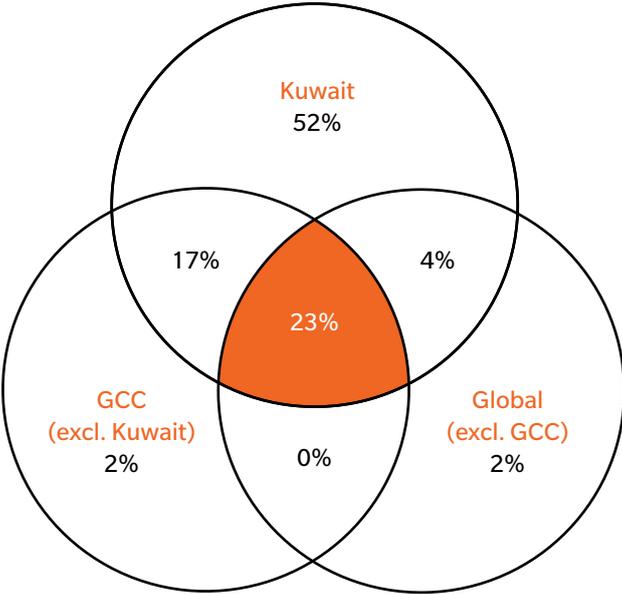
QUESTION 1. WHAT IS THE TOTAL NUMBER OF EMPLOYEES IN YOUR FIRM? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Number of employees per firm



QUESTION 2. WHAT REGION(S) DOES YOUR COMPANY OPERATE IN? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

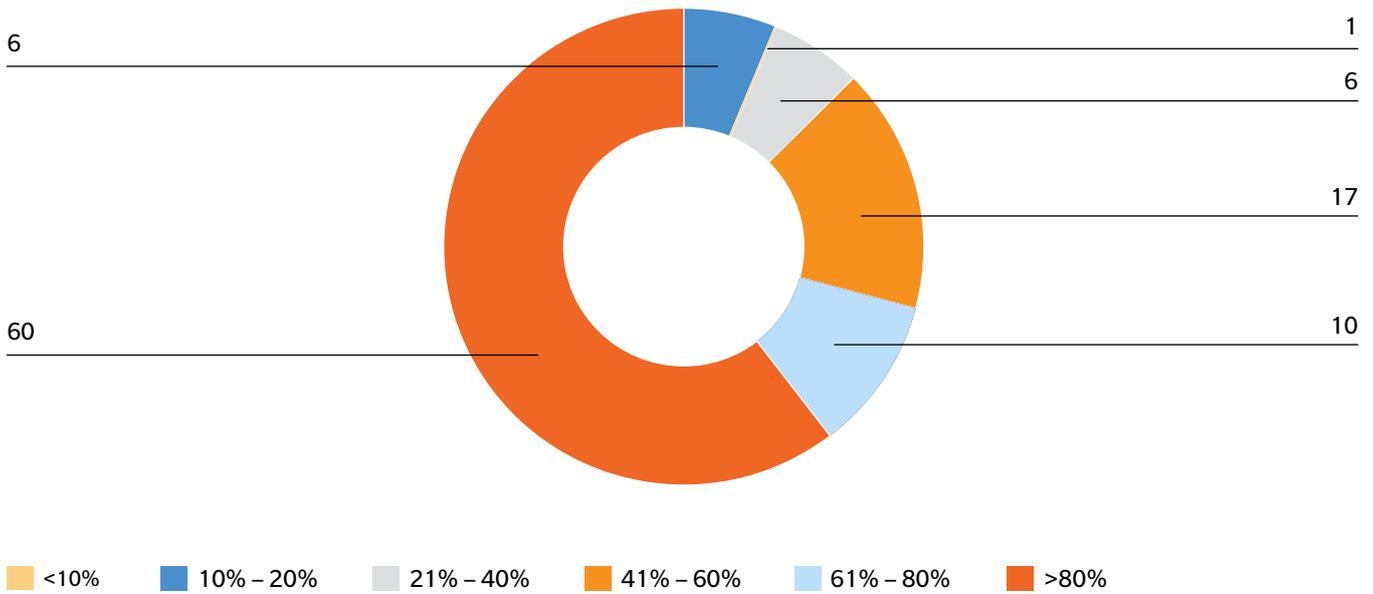
Regions of operation



QUESTION 3. WHAT PERCENTAGE OF REVENUE COMES FROM YOUR BUSINESS OPERATIONS IN KUWAIT? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

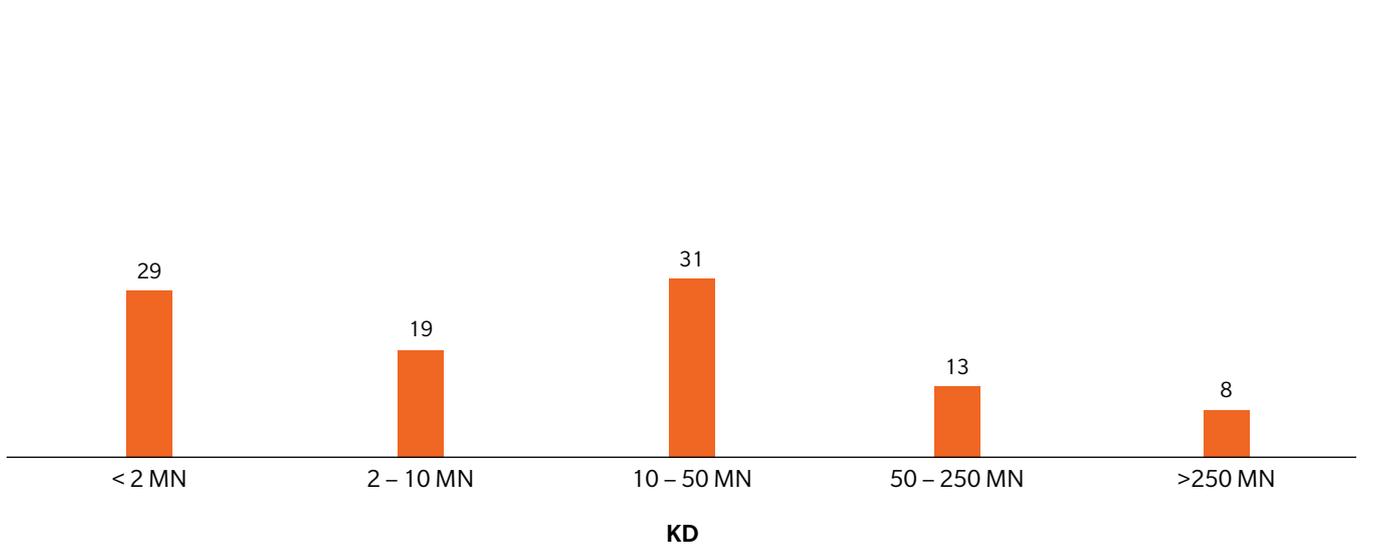
Percent of revenue from Kuwait operations



QUESTION 4. WHAT WAS YOUR COMPANY’S TOTAL REVENUE FOR THE 2019 FISCAL YEAR? [N=48]

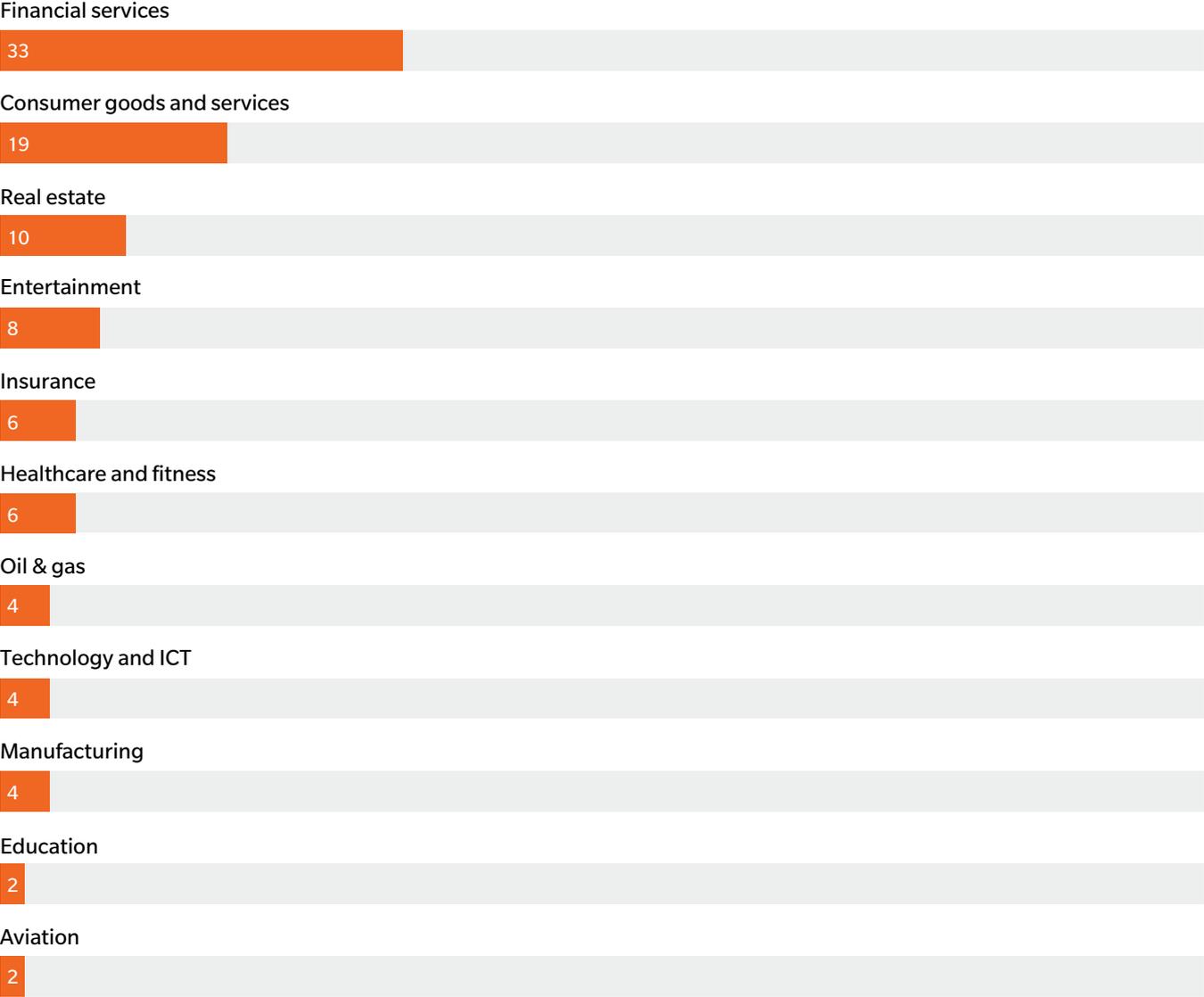
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Total revenue for FY2019



QUESTION 5. WHICH SECTOR DOES YOUR COMPANY PRIMARILY OPERATE IN? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

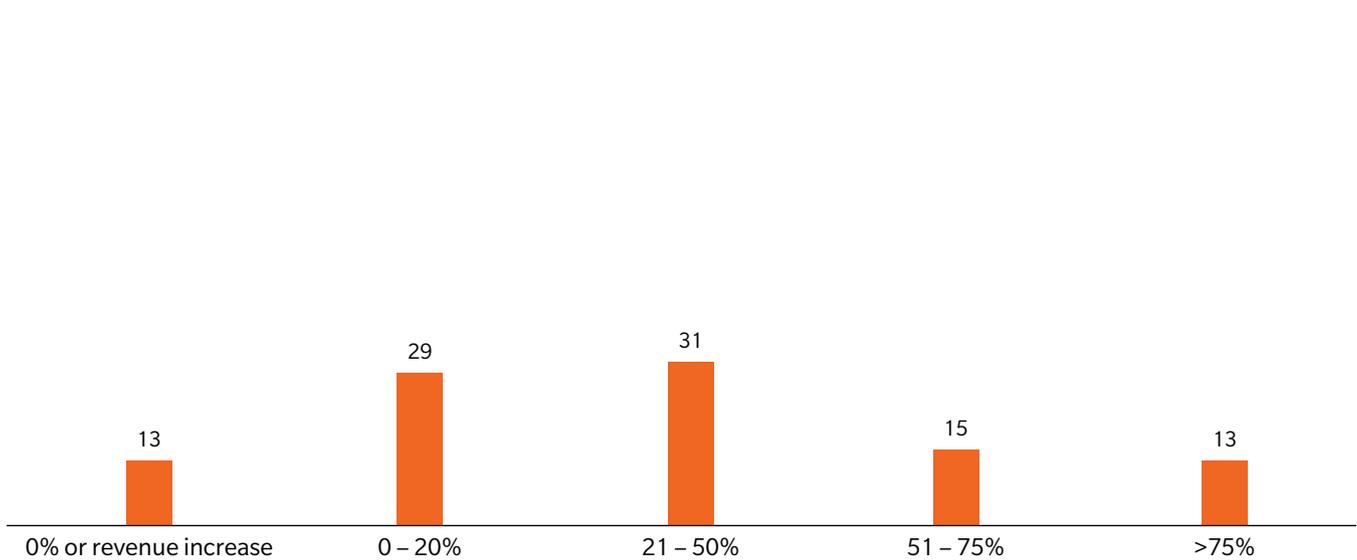
Sectors of operation



A.2. COVID-19 IMPACT

QUESTION 6. DUE TO THE IMPACT OF COVID-19 ON YOUR BUSINESS, HOW MUCH DO YOU EXPECT YOUR COMPANY'S 2020 REVENUES TO DECLINE? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

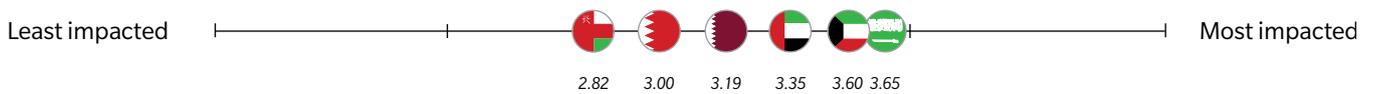
Expected revenue decline for FY2020



QUESTION 7. IF YOUR COMPANY OPERATES IN KUWAIT AND THE GCC, HOW SEVERELY HAVE BUSINESS OPERATIONS BEEN IMPACTED BY COVID-19? [N=48]

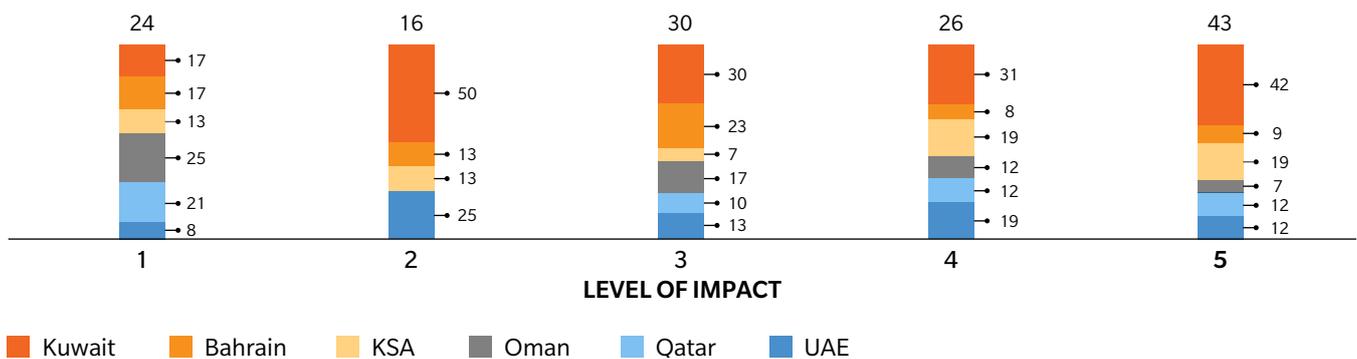
Average response per country

Based on the level of impact, where 1 is the least impacted, and 5 is the most impacted



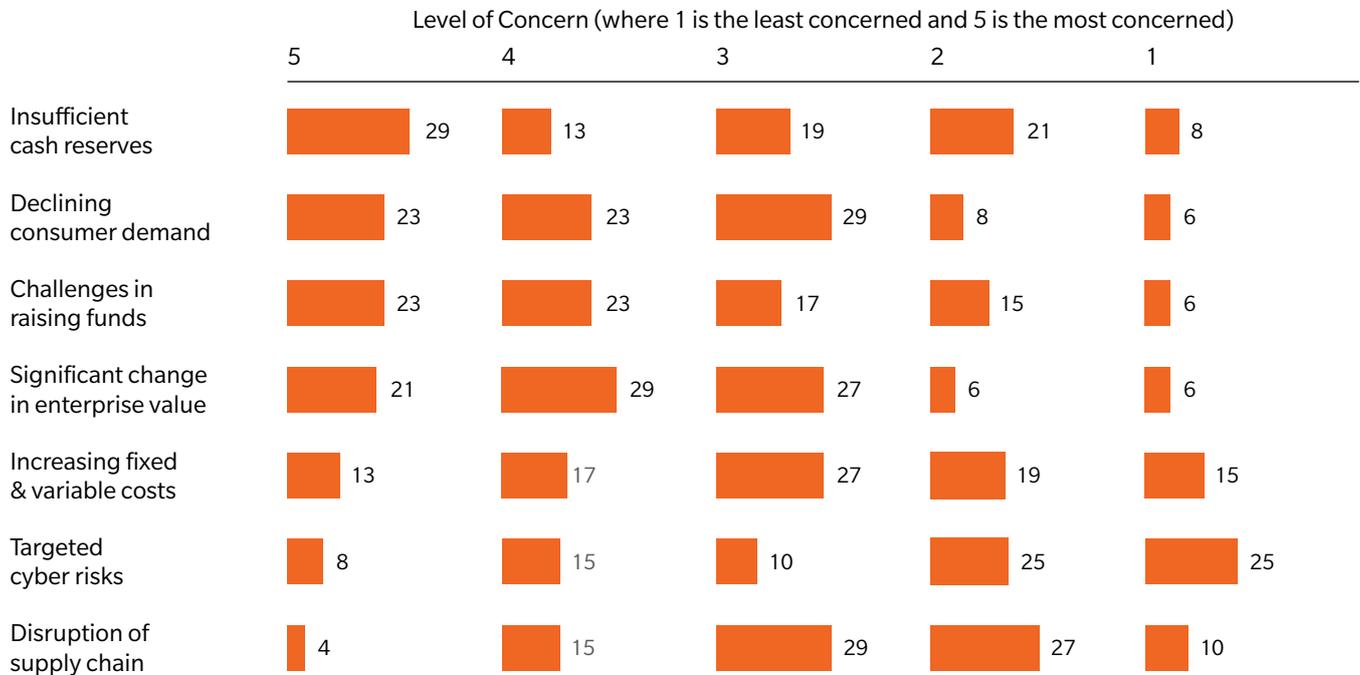
% of survey respondents per level of impact

Based on the level of impact, where 1 is the least impacted, and 5 is the most impacted



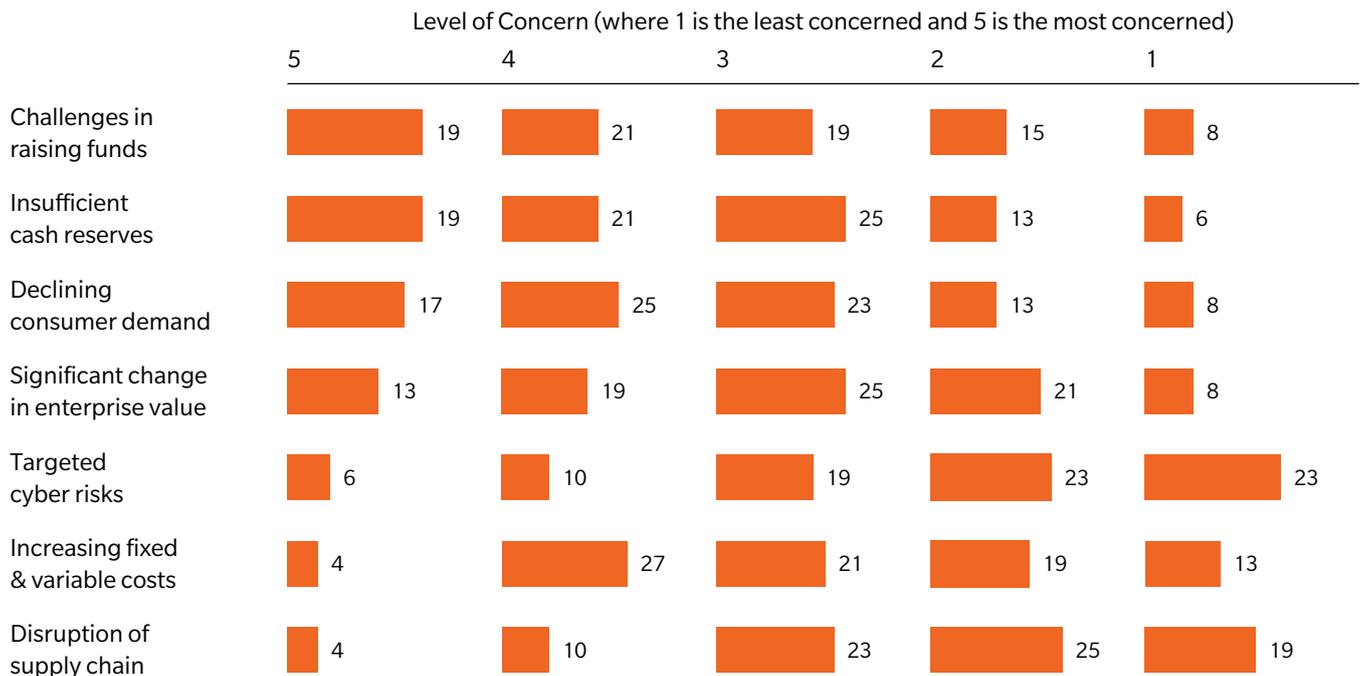
QUESTION 8. WHAT DO YOU FORESEE AS THE BIGGEST RISKS TO YOUR BUSINESS IN THE NEXT SIX MONTHS? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

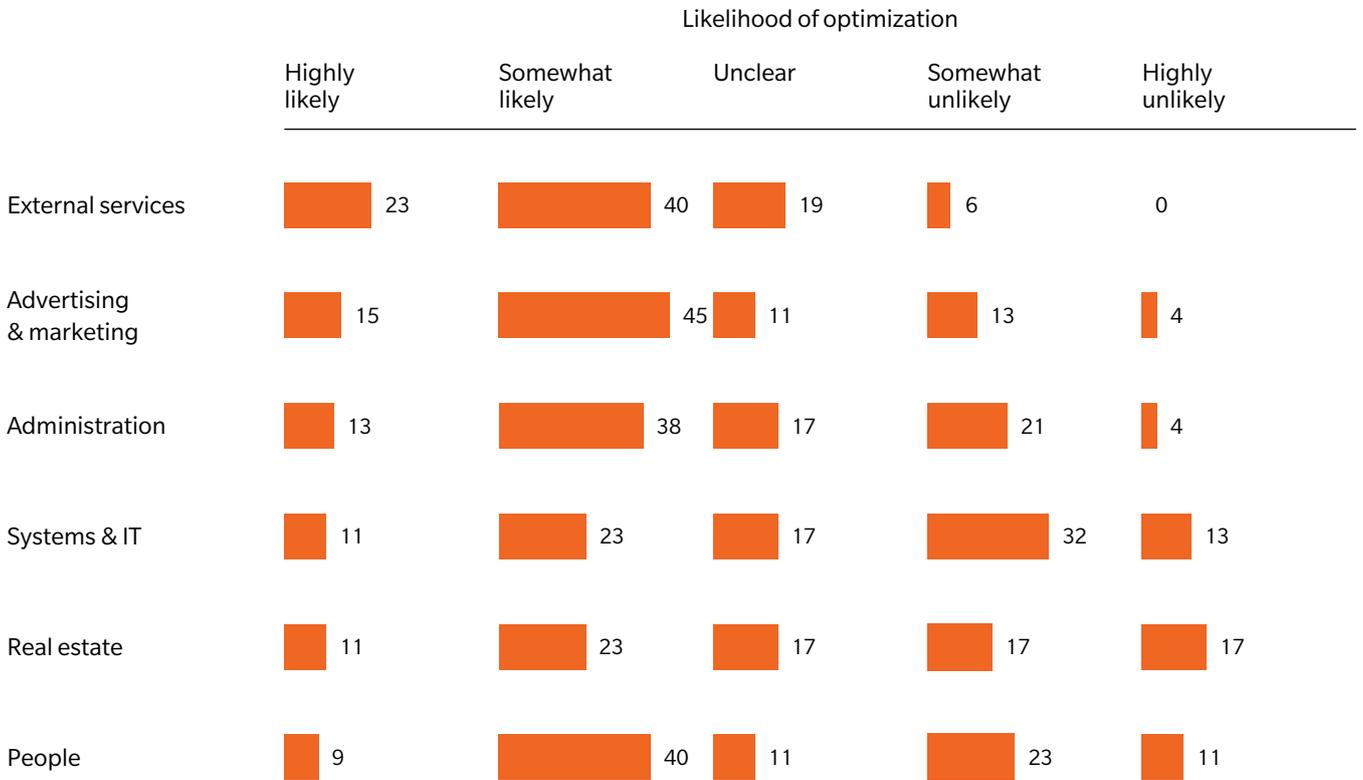


QUESTION 9. WHAT DO YOU FORESEE AS THE BIGGEST RISKS TO YOUR BUSINESS AFTER THE NEXT SIX MONTHS? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

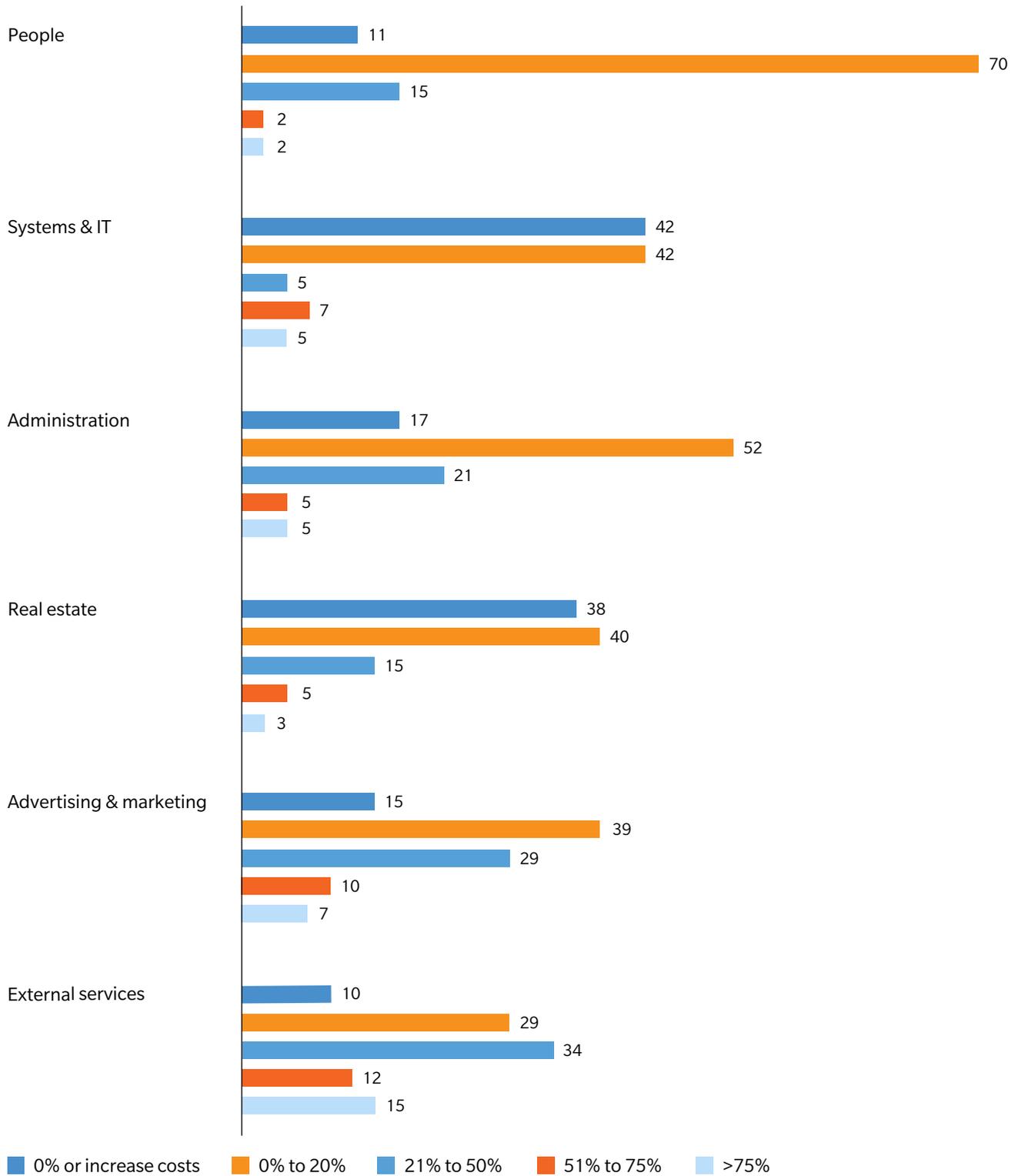


QUESTION 10. WHICH AREAS OF YOUR COST BASE ARE YOU LIKELY TO REDUCE OR OPTIMIZE? [N=47]
 (PERCENT OF TOTAL SURVEY RESPONDENTS)



QUESTION 11. HOW MUCH DO YOU EXPECT TO REDUCE YOUR COSTS? [N=47]
 (PERCENT OF TOTAL SURVEY RESPONDENTS)

Expected cost reduction per area



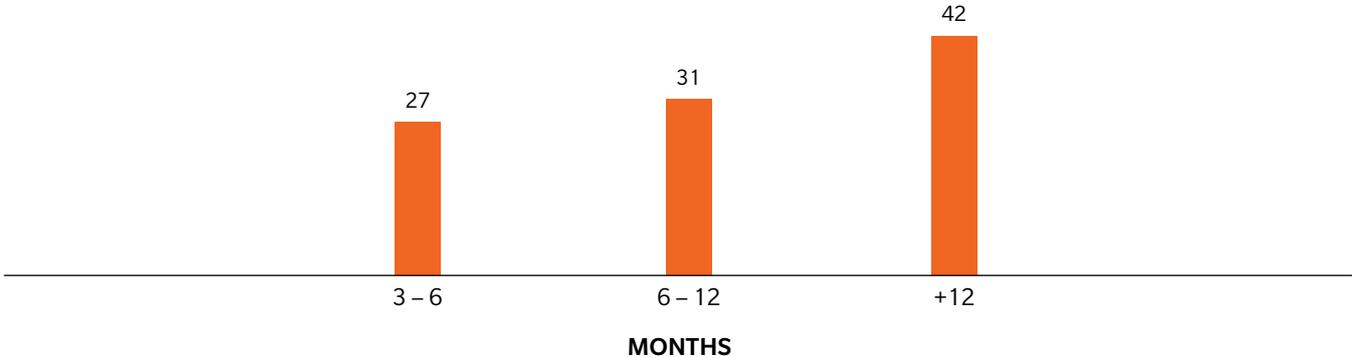
A.3. ECONOMIC OUTLOOK

QUESTION 12. WHEN DO YOU EXPECT YOUR BUSINESS TO RETURN TO FULL OPERATIONAL CAPACITY?

[N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

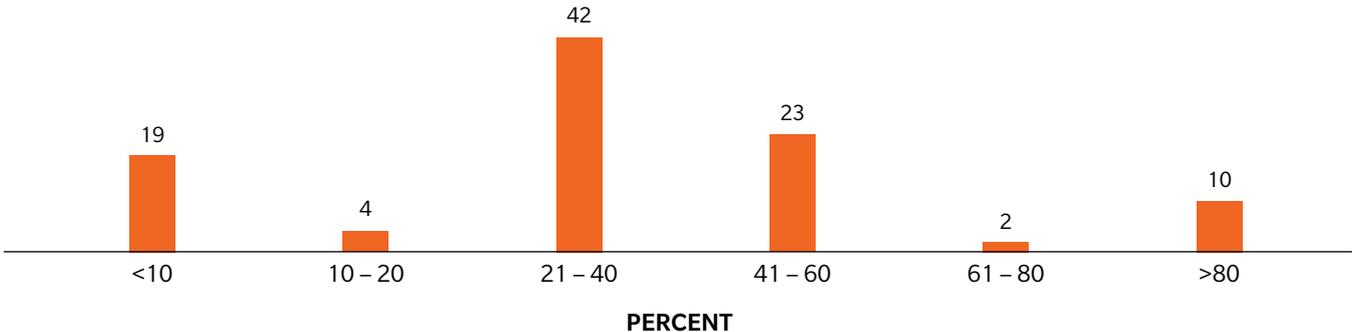
Expected timeframe to return to full operational capacity



QUESTION 13. WHAT WAS YOUR COMPANY'S OPERATING CAPACITY DURING PHASE 2 (JUNE 30 TO JULY 27) OF KUWAIT'S 5-PHASE REOPENING PLAN? [N=48]

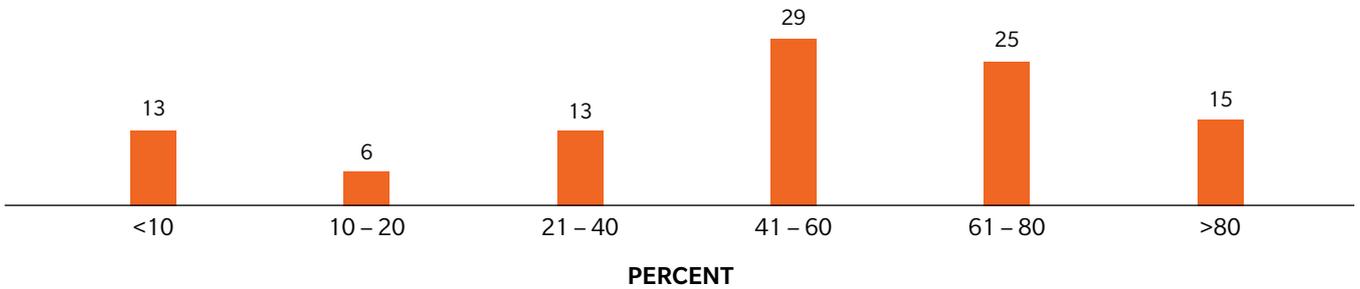
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Operating capacity during Phase 2 of Kuwait's reopening plan



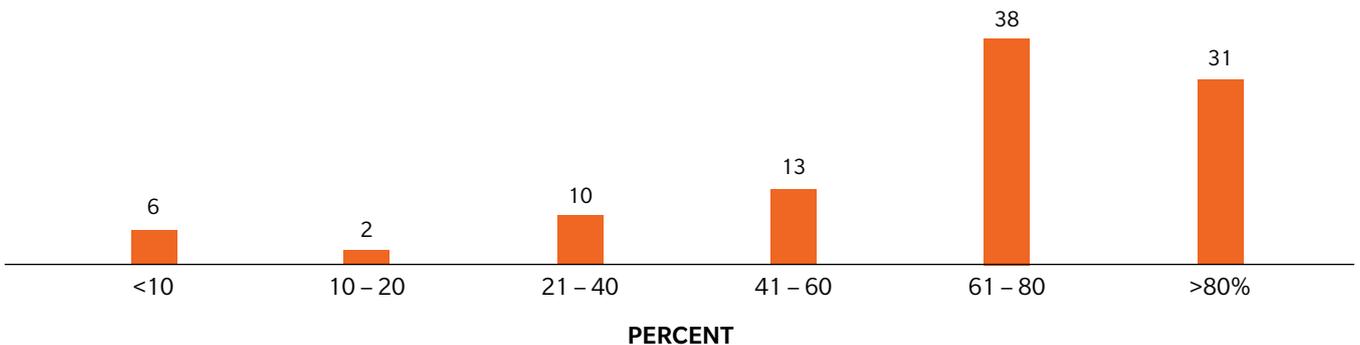
QUESTION 14. WHAT IS YOUR COMPANY'S CURRENT OPERATING CAPACITY AT PHASE 3 (SINCE JULY 28) OF KUWAIT'S 5-PHASE REOPENING PLAN? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Operating capacity during Phase 3 of Kuwait's reopening plan



QUESTION 15. WHAT DO YOU EXPECT YOUR COMPANY'S OPERATING CAPACITY TO BE DURING PHASES 4 AND 5 OF KUWAIT'S 5-PHASE REOPENING PLAN? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Operating capacity during Phase 4 and 5 of Kuwait's reopening plan



QUESTION 16. IF YOUR COMPANY OPERATES IN KUWAIT AND THE GCC, RATE THE COUNTRY IN TERMS OF PREPAREDNESS TO ENABLE BUSINESSES TO RETURN TO FULL OPERATIONAL CAPACITY [N=48]

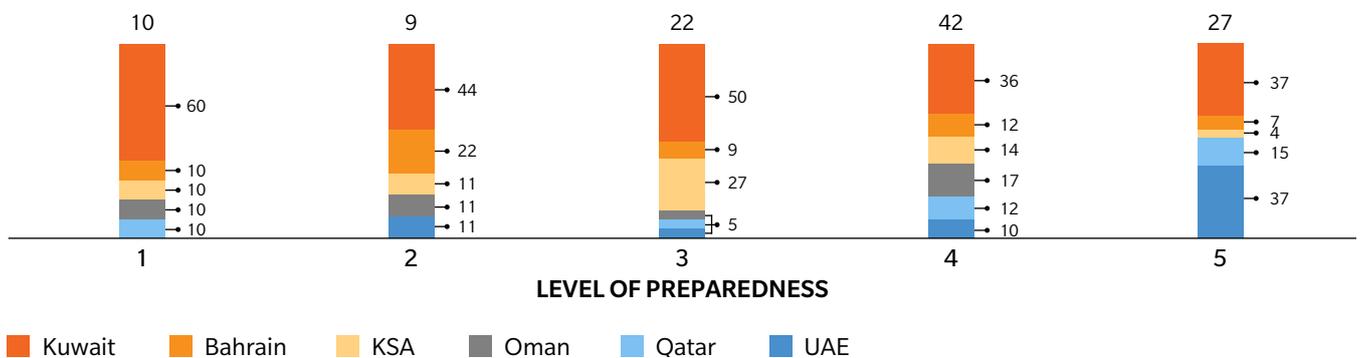
Average response per country

Based on the level of preparedness, where 1 is the least prepared, and 5 is the most prepared



% of survey respondents per level of preparedness

Based on the level of preparedness, where 1 is the least prepared, and 5 is the most prepared



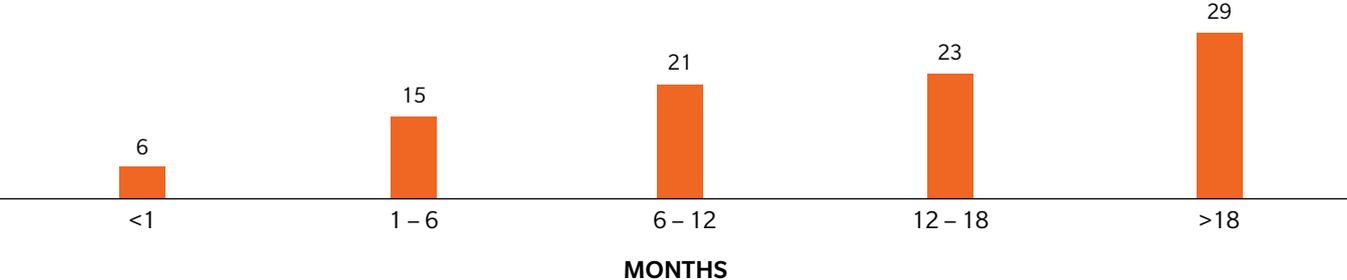
**QUESTION 17. UNDER YOUR ASSUMPTION OF THE DURATION OF COVID-19, HOW LONG DO YOU BELIEVE YOUR COMPANY CAN SUSTAIN AN ADEQUATE LIQUIDITY POSITION? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)**

Duration of firm's adequate liquidity position



QUESTION 18. UNDER YOUR ASSUMPTION OF THE DURATION OF COVID-19, HOW LONG DO YOU BELIEVE YOUR COMPANY CAN SUSTAIN A HEALTHY BALANCE SHEET? [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Duration of firm’s healthy balance sheet position

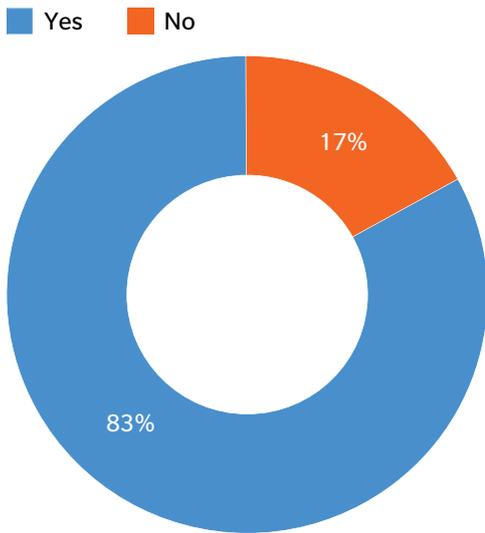


A.4. STRATEGIC ACTIONS

QUESTION 19. HAVE YOU CREATED A DEDICATED COVID-19 RESPONSE TEAM WITHIN YOUR COMPANY? [N=47]

Most firms took immediate steps in creating a COVID-19 response team...
% of total survey respondents

...which aim to increase corporate control and agility in times of uncertainty
Quotes from CFOs



Regulation

“The emergency team oversaw Government regulations and communicated the decisions to employees”

Scenario analysis

“The team has been looking at various fallback scenarios and response options to present to key stakeholders and shareholders”

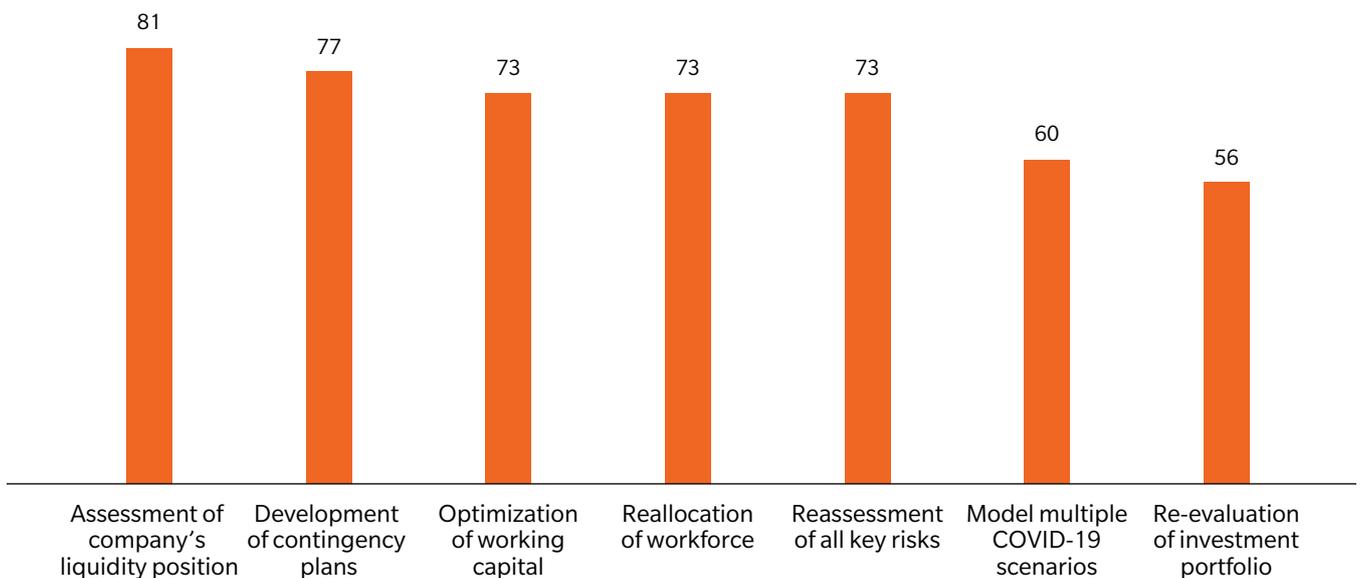
End-to-end visibility

“Our team focuses primarily on how we can optimize a healthy can buffer if the pandemic continues in this trajectory”

QUESTION 20. WHAT TYPES OF INITIATIVES HAVE YOU UNDERTAKEN IN YOUR RESPONSE TO COVID-19? [N=48]

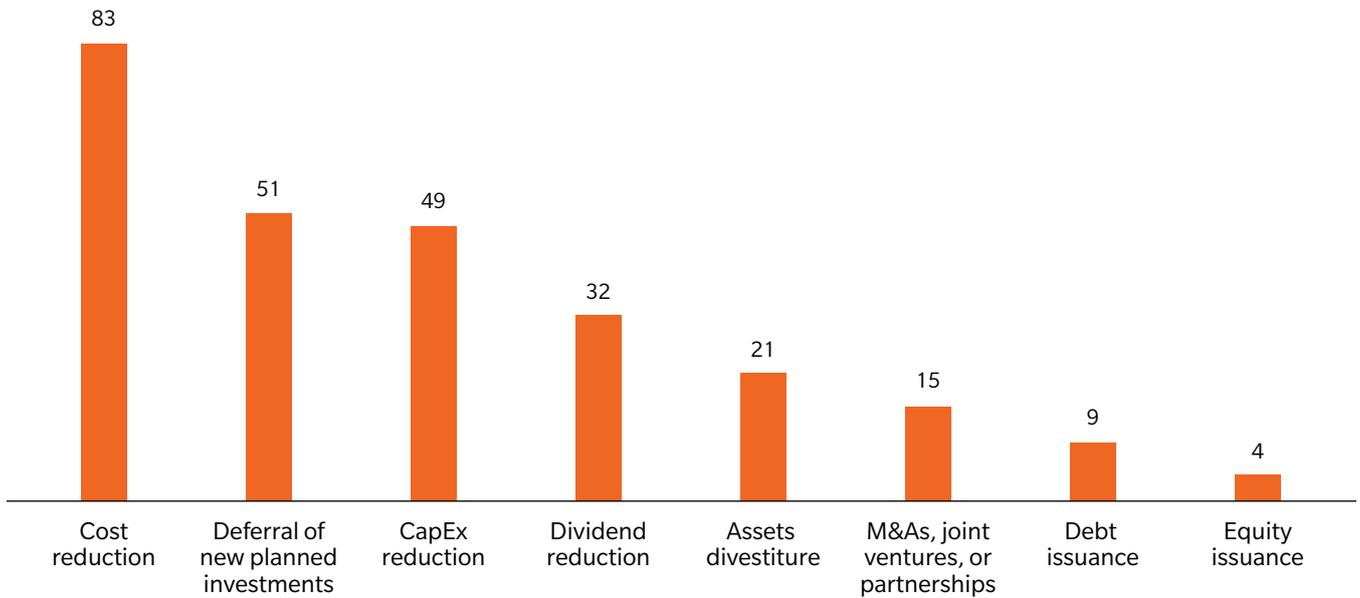
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Initiatives undertaken in response to COVID-19



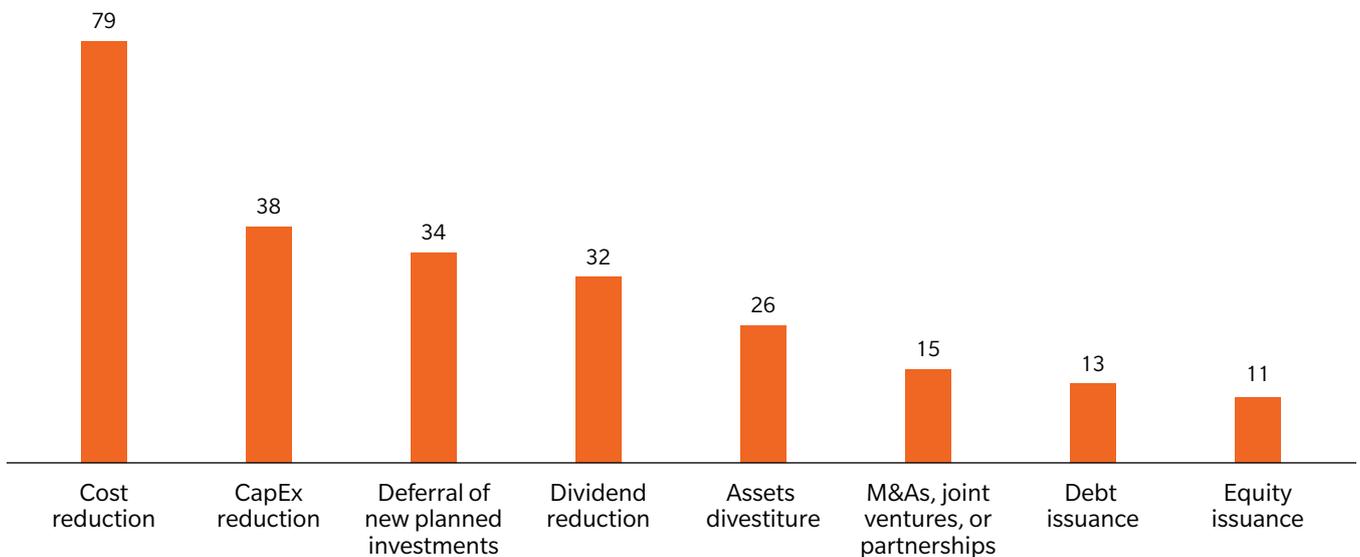
QUESTION 21. WHICH OF THE FOLLOWING FINANCIAL ACTIONS HAS YOUR COMPANY ALREADY TAKEN DUE TO COVID-19? [N=47]
 (PERCENT OF TOTAL SURVEY RESPONDENTS)

Financial actions already taken due to COVID-19



QUESTION 22. WHICH OF THE FOLLOWING FINANCIAL ACTIONS IS YOUR COMPANY LIKELY TO TAKE DUE TO COVID-19? [N=47]
 (PERCENT OF TOTAL SURVEY RESPONDENTS)

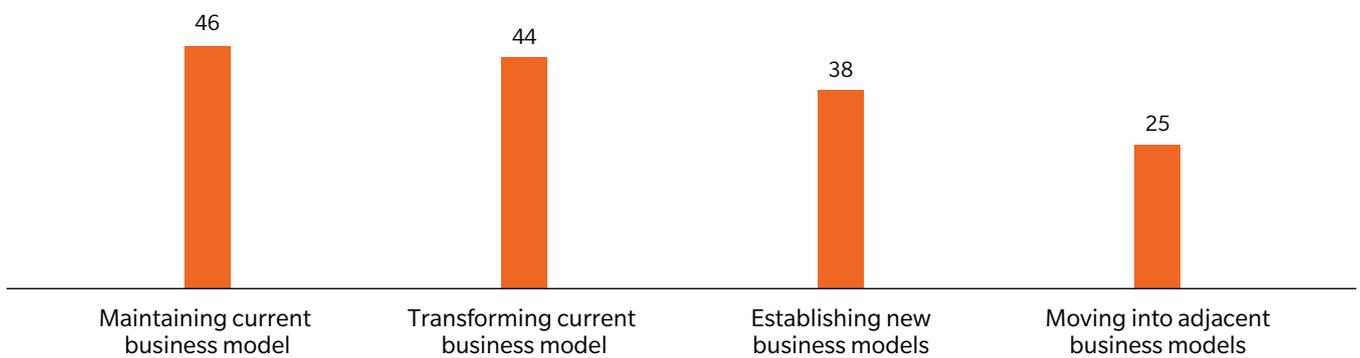
Financial actions likely to be taken due to COVID-19



QUESTION 23. WHICH OF THE FOLLOWING OPTIONS CAN BE IMPLEMENTED TO CREATE NEW REVENUE OPPORTUNITIES? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

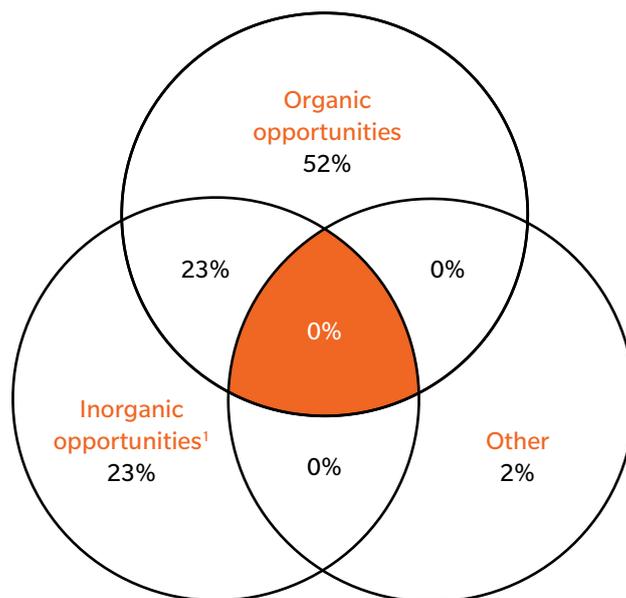
New revenue opportunities



QUESTION 24. HOW DO YOU PLAN ON ACHIEVING NEW REVENUE OPPORTUNITIES? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

Methods of achieving new revenue opportunities



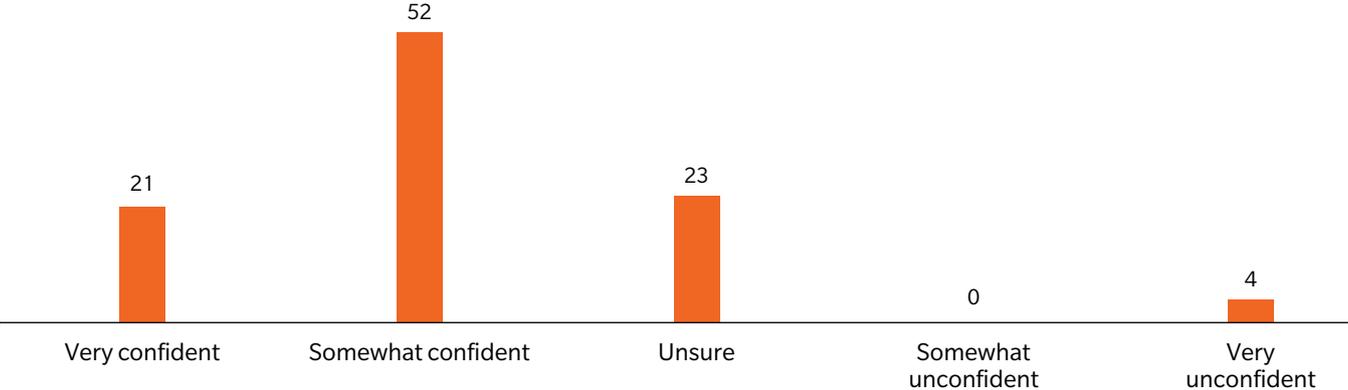
1. Inorganic opportunities include M&As, joint ventures, or partnerships

QUESTION 25.HOW CONFIDENT ARE YOU IN IDENTIFYING NEW REVENUE OPPORTUNITIES?

[N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

New revenue opportunities



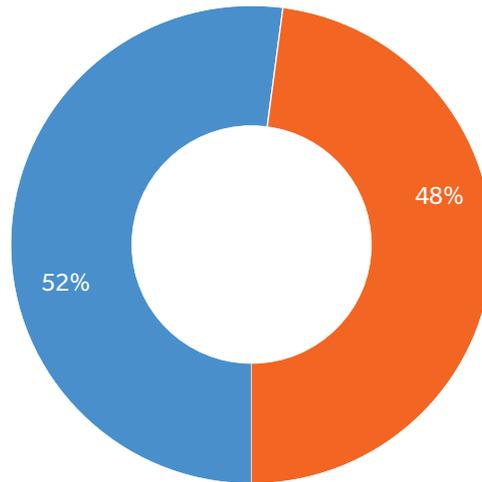
A.5. POLICY SUPPORT

QUESTION 26. ARE YOU AWARE OF GOVERNMENT ECONOMIC SUPPORT MEASURES IN OTHER GCC COUNTRIES? [N=48]

(PERCENT OF TOTAL SURVEY RESPONDENTS)

Firms with awareness of Government economic support measures in other GCC countries

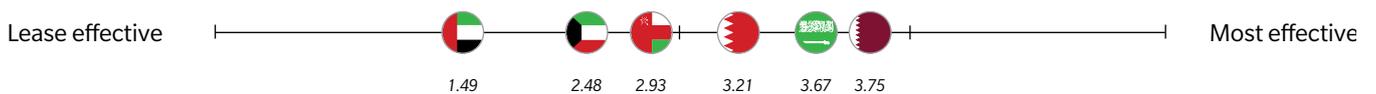
Yes No



QUESTION 27. IF YOU ANSWERED YES, WHICH COUNTRY HAS OFFERED THE MOST EFFECTIVE GOVERNMENT ECONOMIC SUPPORT PROGRAM? [N=28]

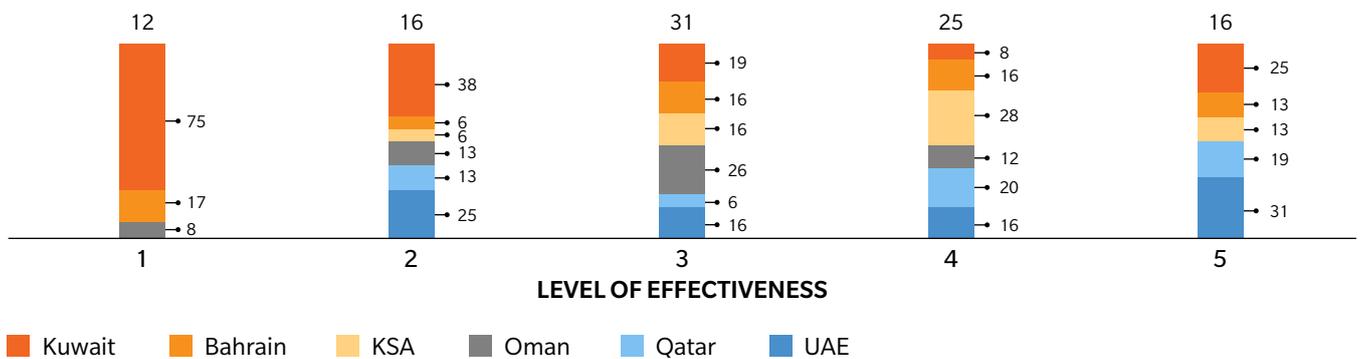
Average response per country

Based on the level of effectiveness, where 1 is the least effective, and 5 is the most effective



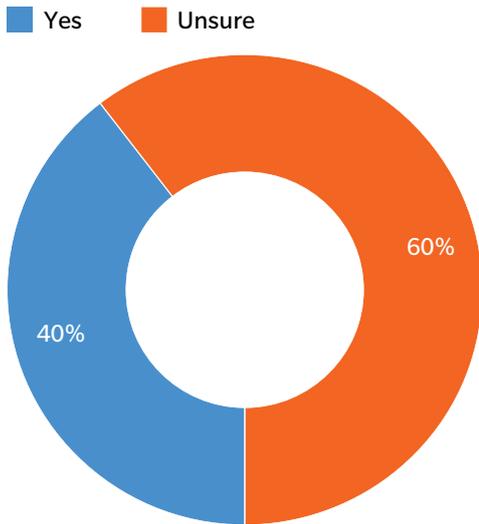
% of survey respondents per level of effectiveness

Based on the level of effectiveness, where 1 is the least effective, and 5 is the most effective

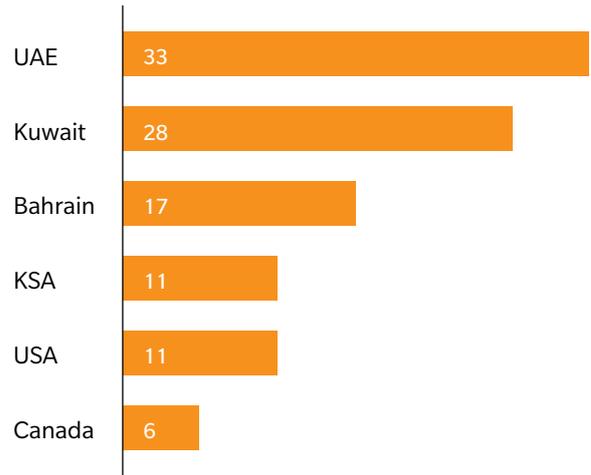


QUESTION 28. IN YOUR OPINION WHICH COUNTRY HAS PROVIDED THE MOST EFFECTIVE GOVERNMENT ECONOMIC SUPPORT PACKAGE AND WHY? [N=48]

Firms with awareness of Government economic support measures in other countries
% of total survey respondents



For firms that answered "Yes", these are the countries that provided the most effective support packages
% of total survey respondents



APPENDIX B

ABOUT

B.1. ABOUT KFAS

The Kuwait Foundation for the Advancement of Sciences (KFAS), a private non-profit organization, continues on its 40-year journey to harness science, technology and innovation in Kuwait, as well as to promote modernization, a better quality of life and a sustainable future for the Kuwaiti people. In line with the long-term vision of the late Amir Sheikh Jaber Al Ahmad Al Jaber Al Sabah and supported by leaders in the private sector, an Amiri Decree was issued in 1976 for the establishment of the Foundation, with a focus on advancing and integrating science, technology and innovation (STI) throughout the country.

B.2. ABOUT TICG

Tri International Consulting Group (TICG) is a world-class management consultancy that combines extensive industry knowledge and deep Kuwaiti market understanding with specialized expertise in strategy, operations, risk management, and organization transformation.

TICG was founded as a joint venture between the Kuwait Investment Authority (KIA), the first sovereign wealth fund in the world, the Kuwait Fund for Arab Economic Development (KFAED), the first Arab international development institution, and Oliver Wyman, a leading global management consulting firm.

B.3. ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting. With offices in 60 cities across 29 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 5,000 professionals around the world who work with clients to optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh and McLennan Companies.

APPENDIX C

METHODOLOGY AND APPROACH

To understand the impact of COVID-19 on CFOs and financial leaders in Kuwait, three sources of input were reviewed. An in-depth survey was developed and distributed to over 330 companies with operations in Kuwait, interviews were conducted with CFOs to validate survey findings and gather further insights, and external insights were collected to understand the challenges global CFOs have faced.

C.1. CFO PERSPECTIVES SURVEY

An in-depth survey was developed in order to collect insights from CFOs regarding the effect of COVID-19 on their businesses, the key challenges they face, and the current and proposed actions they intend to take. The distributed survey consisted of 28 questions structured across 5 sections:

Section 1 – “Sample Profile” confirms the sample variation of participants by defining their business’ size, region, and sector of operation.

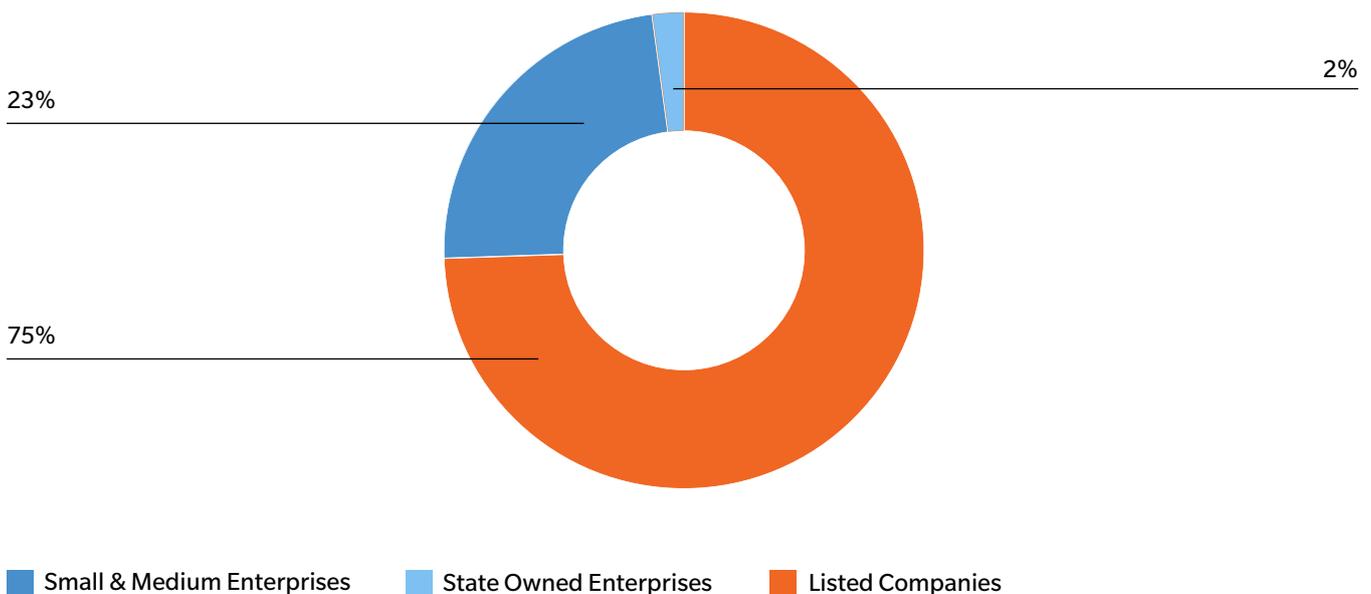
Section 2 – “COVID-19 Impact” aims to capture the impact of the pandemic on Kuwaiti businesses’ finances, operations, and outlook.

Section 3 – “Economic Outlook” aims to capture CFO sentiment on business operations and the expected rebound of their business.

Section 4 – “Strategic Actions” identifies CFOs’ short, medium and long-term financial measures and initiatives to mitigate effects of the crisis.

Section 5 – “Policy Support” aims to capture CFO views on global responses to the pandemic and derive potential implications for Kuwait’s policy response.

FIGURE 13. SURVEY RESPONDENTS PER COMPANY TYPE [N=48]



The survey was distributed to over 330 organizations, of which, 172 companies are listed on Boursa Kuwait, 10 companies are non-listed major conglomerates, 12 are state-owned enterprises (SOEs), and 141 are small to medium enterprises (SMEs).

C.2. CFO INTERVIEWS

In addition to the survey, a set of one-to-one interviews were conducted with CFOs. The objective of the interviews was to validate findings from the surveys and gather additional perspectives regarding CFO challenges and constraints. The interviews were also used to understand the critical changes that CFOs envisage for the finance function in the future. A total of 10 interviews were held with CFOs of companies in the financial services, hospitality, tourism, retail, aviation, construction materials, ICT, and food and beverage sectors.

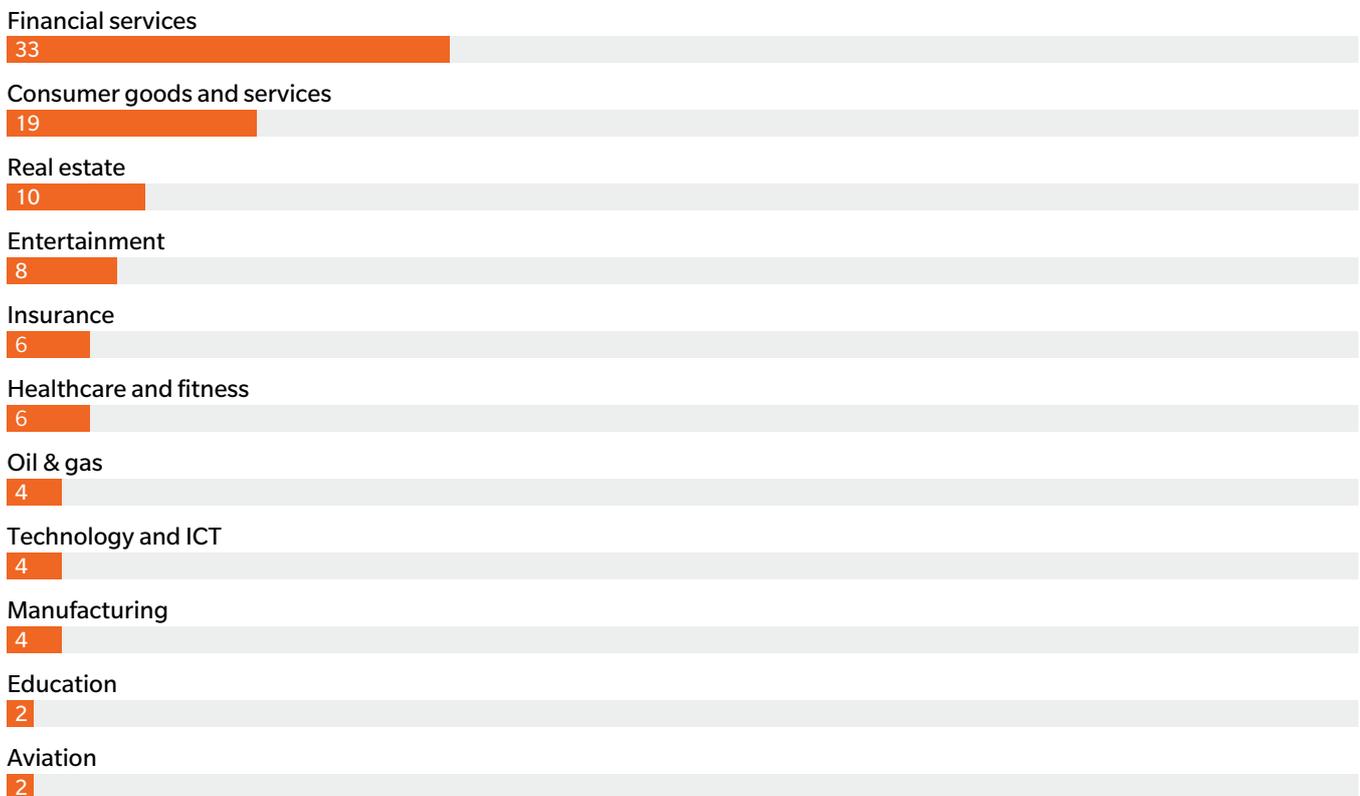
C.3. EXTERNAL INSIGHTS

To support and validate the findings of the survey and the interviews conducted, and to compare against global trends, we have utilized our Intellectual capital and research capabilities and gathered key external insights from more than 40 literary sources. The sources cover both regional and global literature including reports, surveys, and articles.

Insights extracted from these sources offer an in-depth view of key aspects relating to the topic. This includes the global and regional health and economic developments of the pandemic, the Kuwait private sector economic and financial outlook, analysis of key industries, and specific COVID-19 impacts on CFOs – including key challenges, main trends and changes to the role and responsibilities of the CFO during COVID-19.

FIGURE 14. SECTORS OF OPERATION OF SURVEY RESPONDENTS [N=48]
(PERCENT OF TOTAL SURVEY RESPONDENTS)

Sectors of operation



ACKNOWLEDGEMENTS

The Kuwait Foundation for the Advancement of Sciences (KFAS) and Tri International Consulting Group (TICG) would like to thank all CFOs and financial leaders for their contribution to the development of this white paper by providing valuable insight through completing the survey and participating in interviews.

QUALIFICATIONS, ASSUMPTIONS, AND LIMITING CONDITIONS

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**EMERGENCY
RESILIENCE
PROGRAM**

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