

Improving the Competitiveness of Qatar's Manufacturing Companies

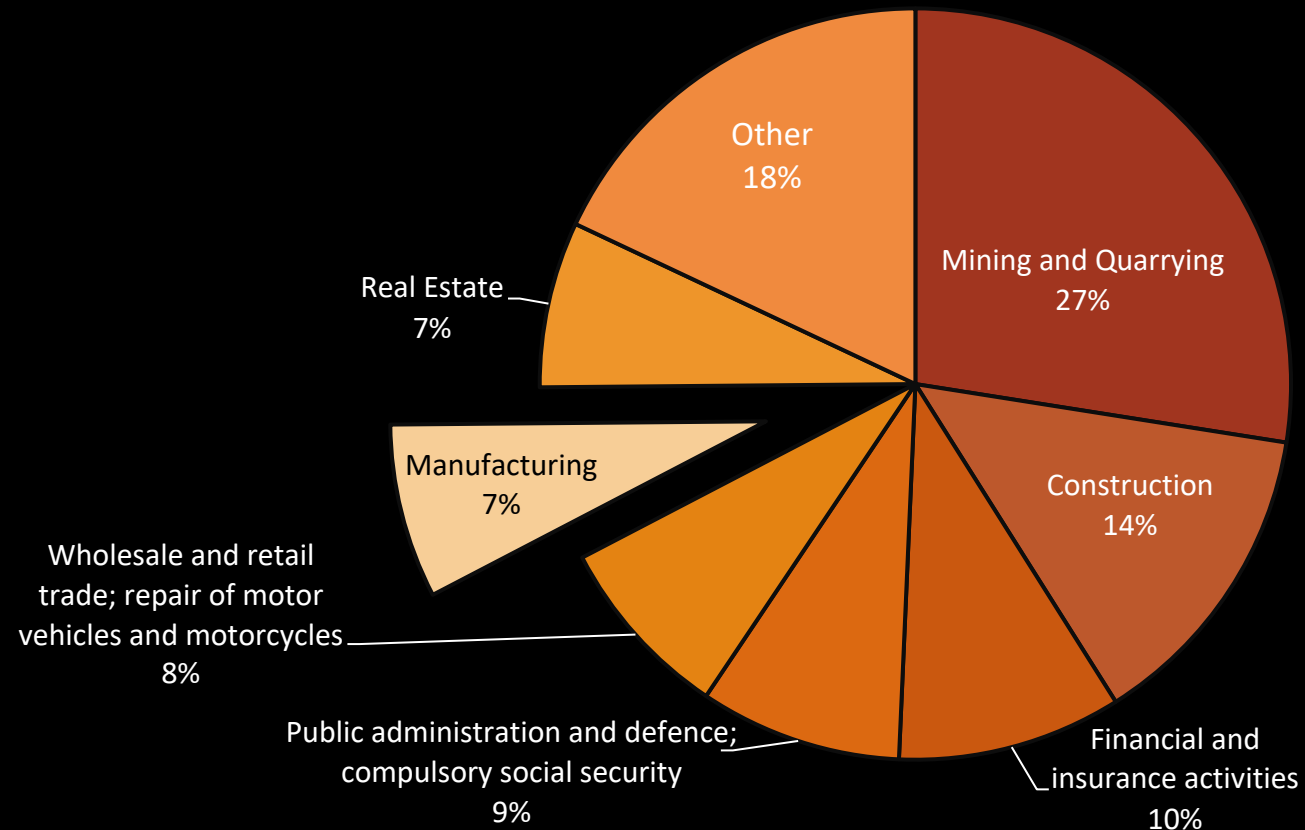
March 2022

Table of Contents

- Manufacturing in Qatar
- Challenges for manufacturing SMEs
- Improving the competitiveness of manufacturing companies

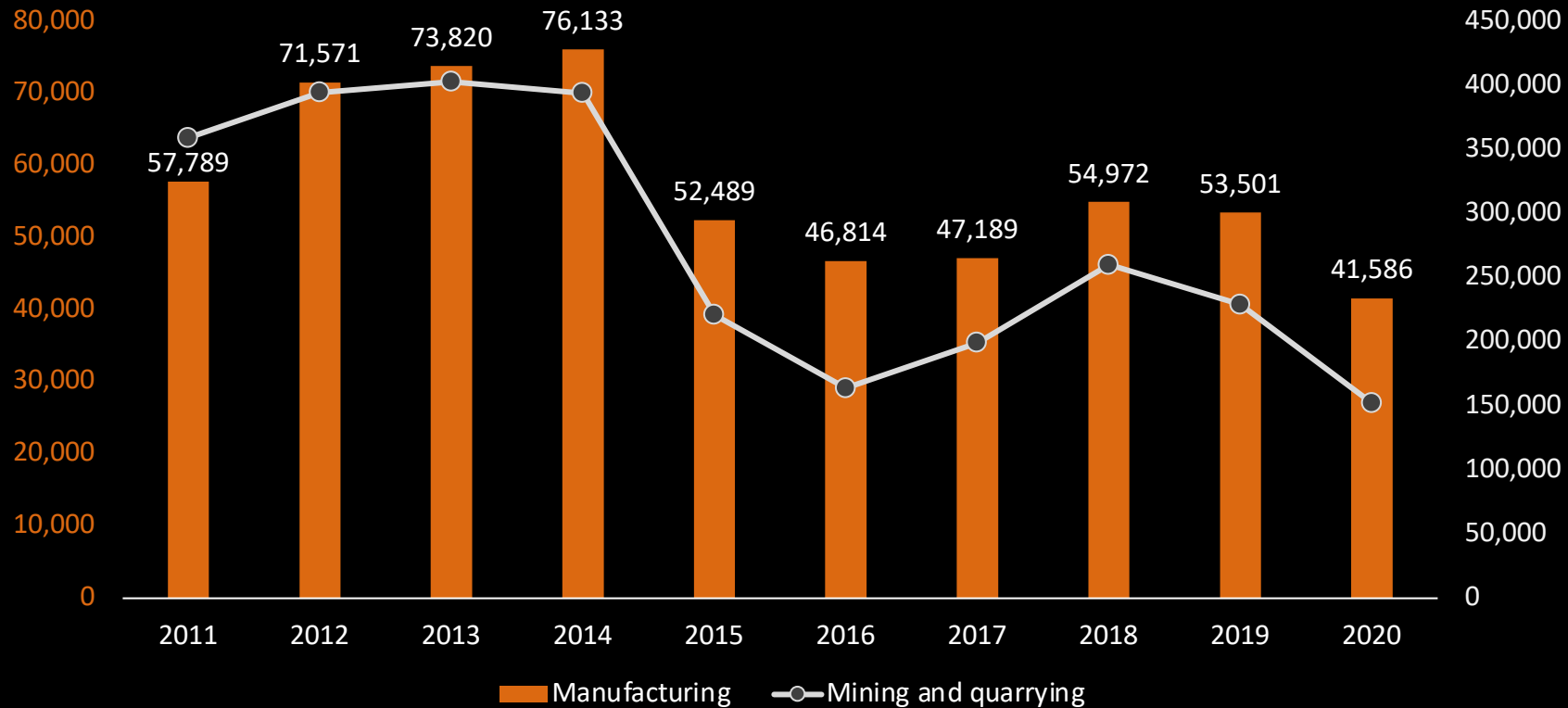
Manufacturing represents 7% of the total GDP in Qatar

GDP by economic activity, 2020, 100%=554.2 QAR billions¹

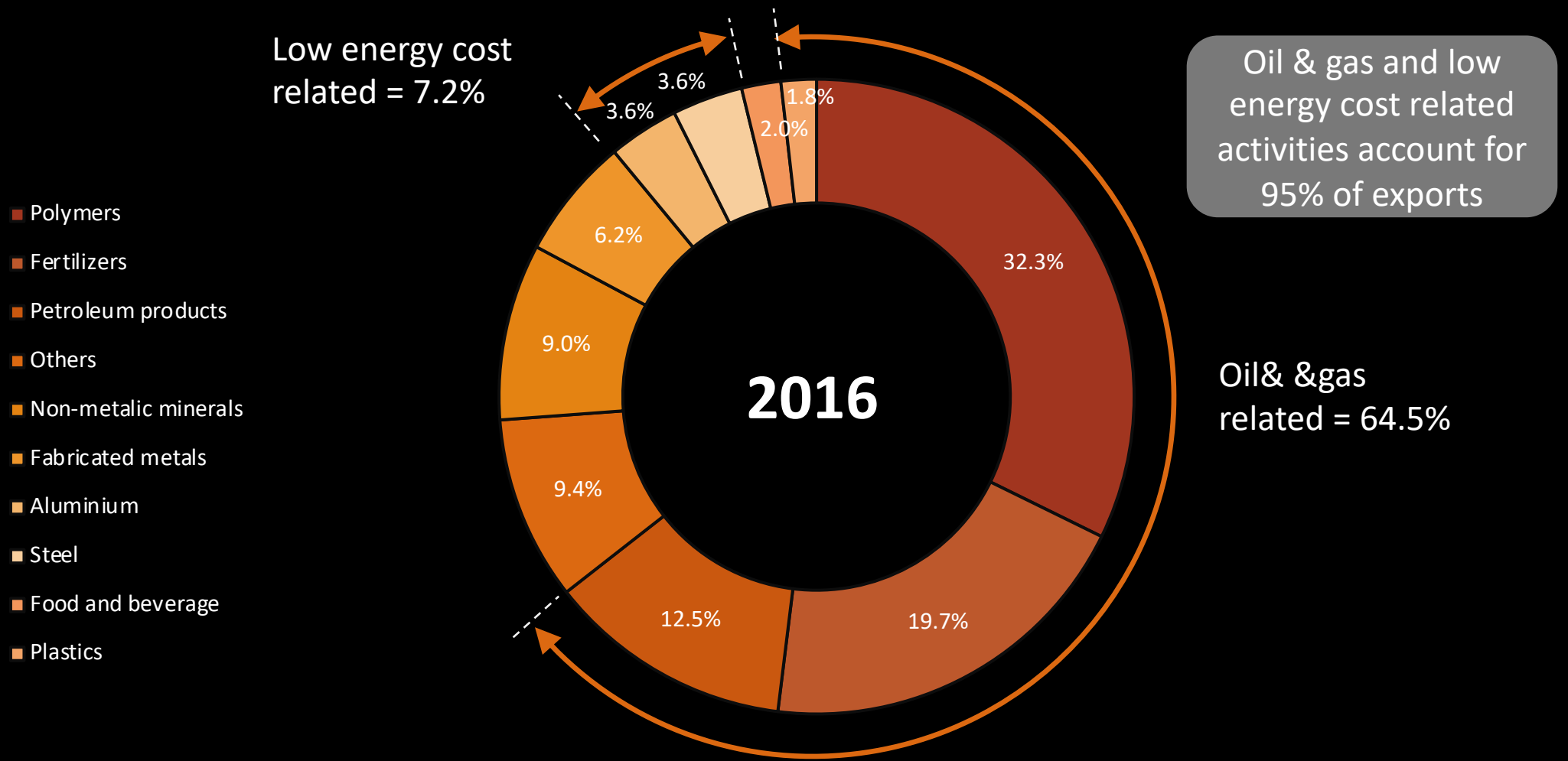


Manufacturing GDP is highly correlated to the oil & gas GDP...

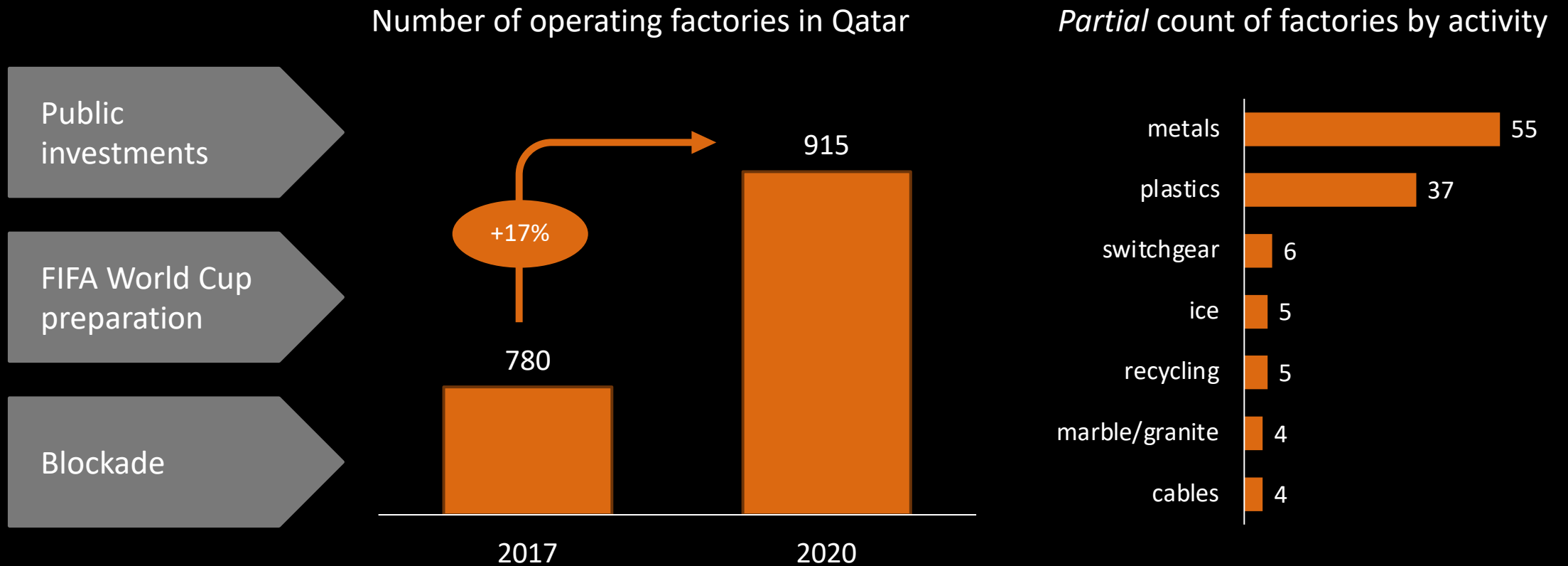
GDP by economic activity, QAR millions



...as most manufacturing activities derive directly from oil & gas and low energy prices



The number of factories in Qatar has substantially increased in the last few years



Survey question 1 – Post World Cup plans

Which of these statements best describes your company's current situation regarding its 2023 plans and beyond?

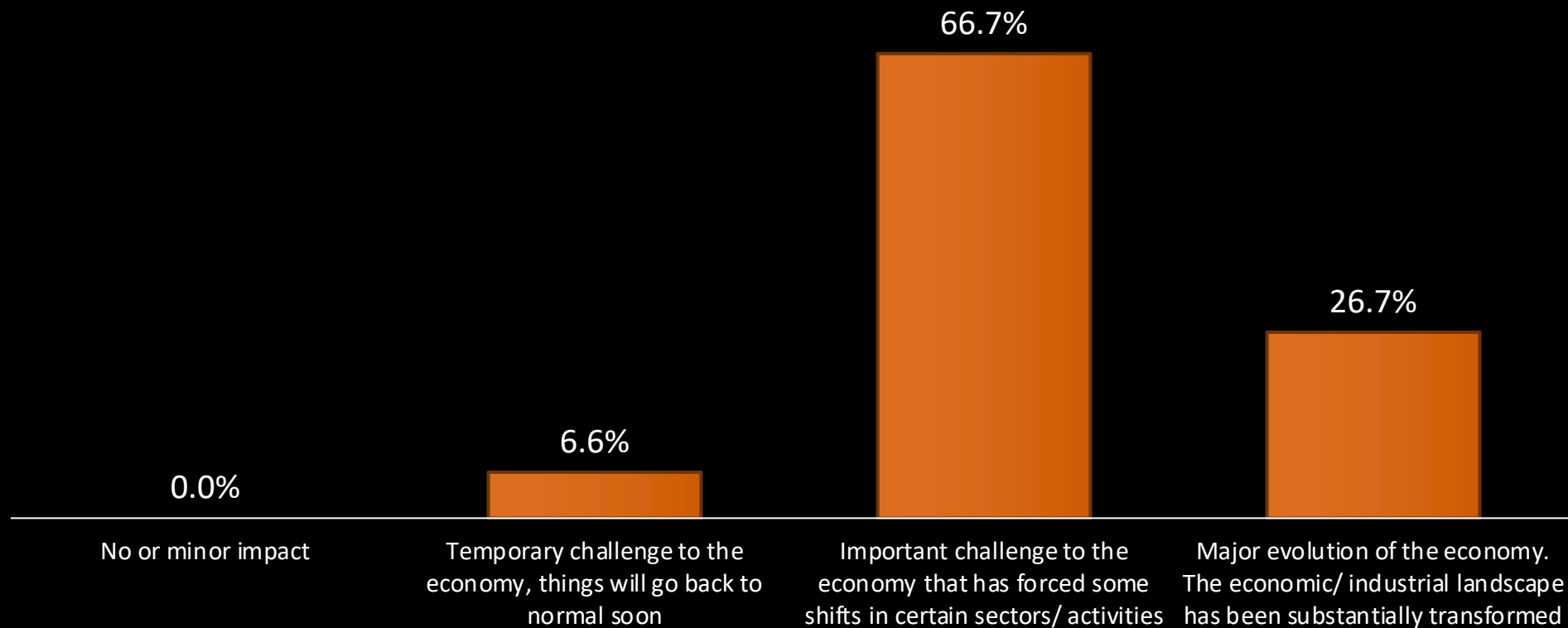
1. We consider the Post-World Cup future a challenge (i.e., a threat to the current business level or profitability) and we DO NOT currently have clear plans to address this challenge
2. We consider the Post-World Cup future a challenge and we DO currently have a robust plan to address this challenge
3. We consider the Post-World Cup future an opportunity (i.e., a chance to increase business volumes and profitability compared to today) but we DO NOT have clear plans to capture this opportunity
4. We consider the Post-World Cup future an opportunity and we DO have a robust plan to address this opportunity

Table of Contents

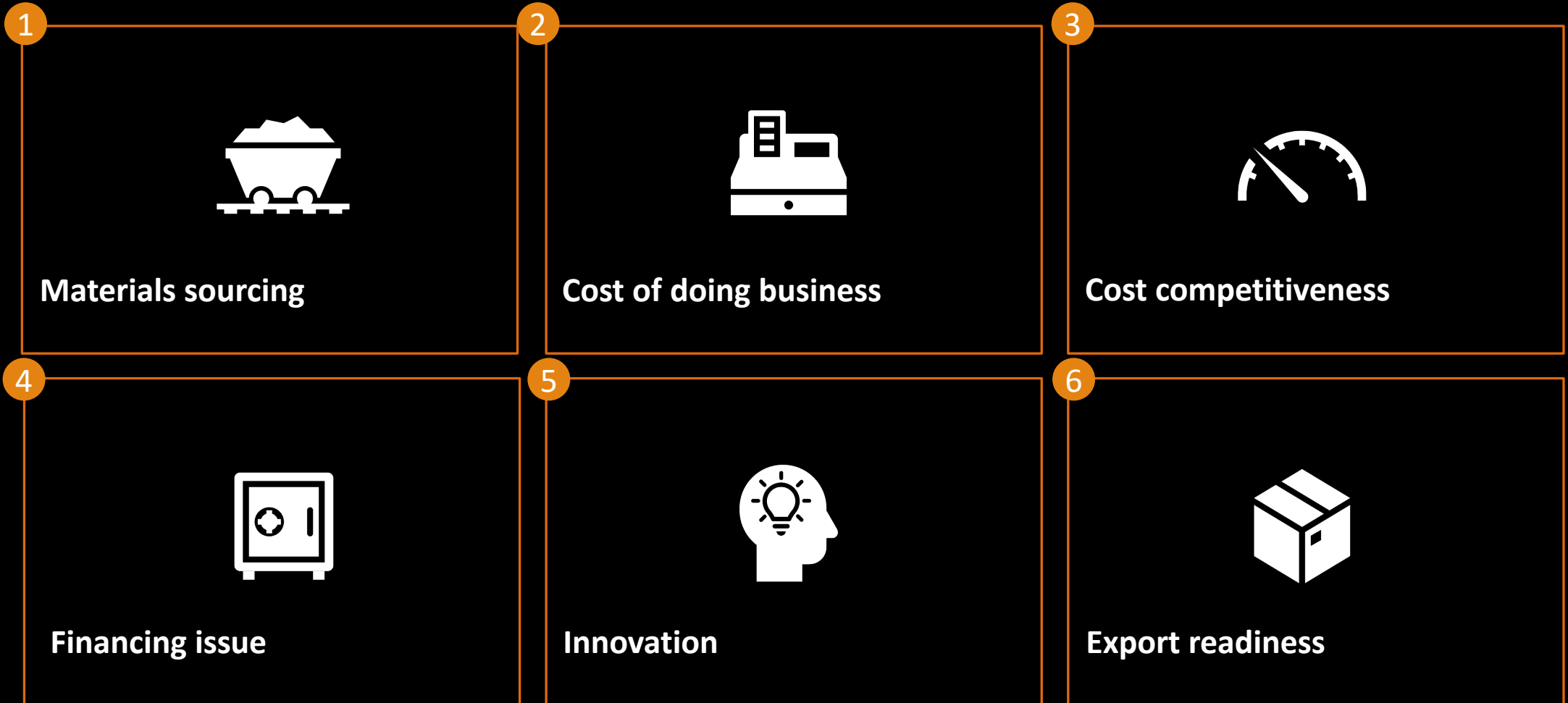
- Manufacturing in Qatar
- **Challenges for manufacturing SMEs**
- Improving the competitiveness of manufacturing companies

The Qatari economy has been substantially impacted by recent events

“How much do you think the Qatar economy has been impacted by the recent events?”



The manufacturing sector in Qatar is facing major challenges





Manufacturing companies have had to adapt their materials sourcing approach



Following the blockade, import for materials/ components from UAE/KSA suppliers were blocked



Manufacturing companies had to look for other suppliers away from GCC



The news sources of supply created challenges for existing supply chains:

- Limited ability to source small orders
- More complex logistics



Compounding the already high cost of supply due to the import duties regulations:

- 5% on general cargo
- 20% on steel
- 30% on ammonia and urea
- 100% on some restricted goods

Despite the lifting of the blockade, Qatar maintains a defensive strategy and limits imports from UAE and Saudi Arabia



The cost of doing business for manufacturing companies in Qatar can be high

Cost of industrial land is high

- Lease on industrial properties are high given market size and potential

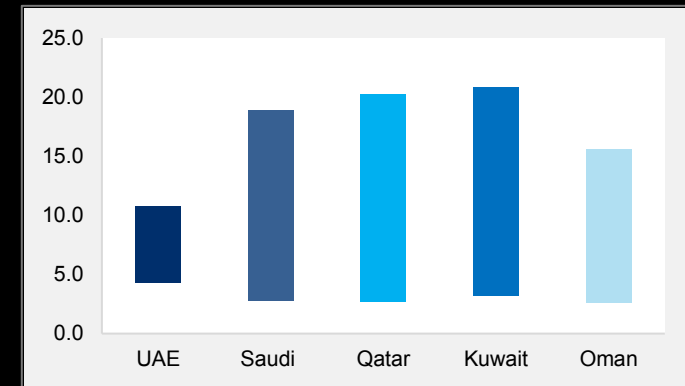
Access to staff/ talent is restricted

- Restrictions on number and origins of foreign staff/ labour restrict access to talent and create staffing challenges

Charges levied by various public bodies are high

- Various charges levied by official bodies (MOCI, QCC, QFC, etc.) are viewed as too high
- Increase of tax burden (from a low starting point)

GCC industrial warehousing rent (USD/sqm/month)



Survey question 2 – Cost Management

What statement best describes your current approach to cost accounting and management?

1. We are struggling to have a consistent view of our cost structure from one accounting period to the next
2. We conduct basic cost accounting (mainly for financial reporting purposes), we do not have a systematic approach to cost optimization in place, we do not use detailed cost information to price our products/ services
3. We look at our cost structure with attention and have a systematic approach to overall cost optimization in place, we do not have a detailed view of costs on a per product/ per service/ per project basis
4. We have the beginning of an analytical cost accounting in place helping us have a crude view of our costs per product/ project/ service. We have a systematic approach to cost management and optimization
5. We consider ourselves to be best practice in cost management: we have a detailed and precise view on our costs structure on a per product/ project/ service basis, we proactively use this information to optimize our costs and to price our products/ services and projects



Manufacturing companies in Qatar lack cost competitiveness

Sub-scale operations

- Focus on small domestic market
- Many companies operate sub-scale given the machinery available

Lack of visibility on costs

- Generally poor cost accounting
- Limited visibility on unit costs leading to unprofitable pricing

Limited domestic competition

- Relatively limited competition in local market as few directly competing companies
- Recent economic boom has not forced companies to compete

Limited efforts to control cost base

- Poor understanding of cost optimisation levers
- Cost reductions generally synonymous of staff cuts

Protected local market

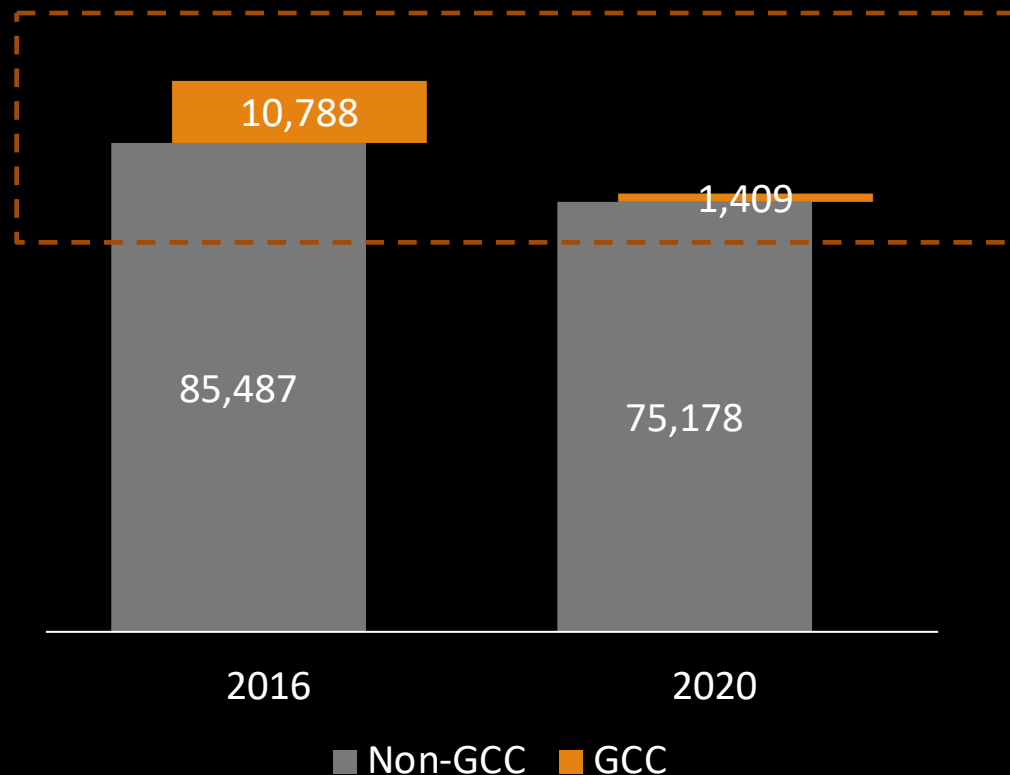
- Start of domestic production to substitute imports in the wake of blockade
- Support to “Made in Qatar” products

- Understanding of detailed cost structure and unit cost is critical for pricing strategy
- Reaching a level where positive margins are generated on most of the *domestic* production (reaching breakeven) is critical to remain in business and start exporting



The lifting of the blockade will force domestic companies to be more competitive

Imports by region¹, millions QAR

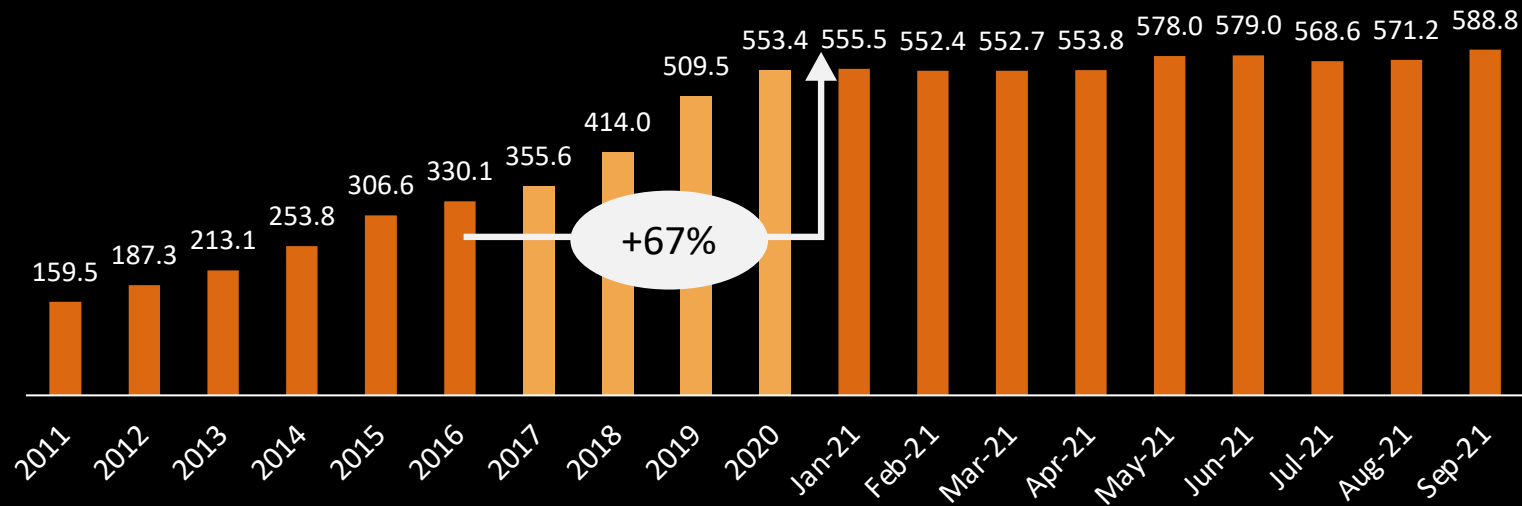


- Drop of GCC imports to Qatar due to Blockade
- Drop in GCC imports not compensated by imports from other countries: likely compensation through local manufacturing
- Risk of seeing imports come back:
 - Price competition
 - Possible dumping?
- As a protective measure: establishment of *National Products Competitiveness Support Department*

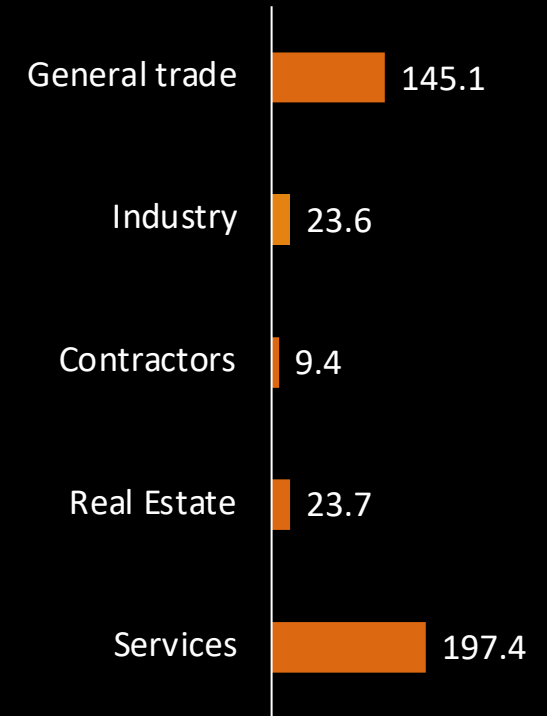


Levels of indebtedness have substantially increased with the blockade

Bank credit facilities to private sector (excl. consumption), QAR Billions



Outstanding debt increase by segment 2016-09/2021, percent





Manufacturing companies find it difficult and costly to finance their growing Working Capital Requirements

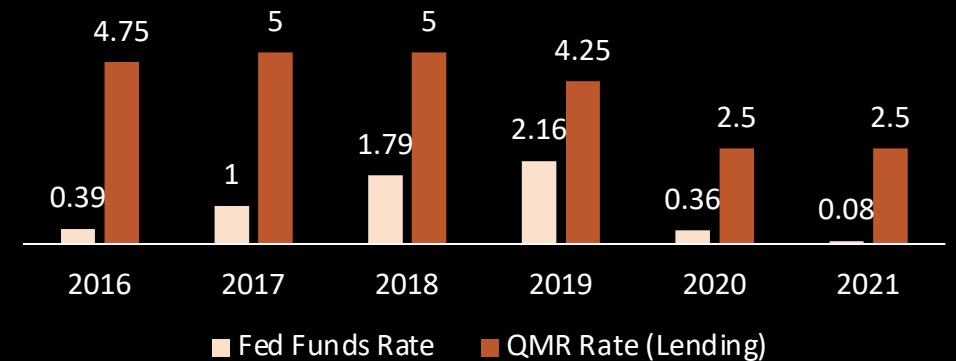
Growing Working Capital Requirements

- Delays in payments locally, less for imports
- Financing of advance payments and performance bonds
- Increasing cost structure, including for imported materials
- Potentially increased inventories due to import challenges
- Increasing cost of labour

Additional debt difficult to obtain

- High levels of borrowing by some companies
- QDB lending requiring mortgage of company
- Stringent commercial banks requirements on collaterals
- Industrial Real Estate assets can rarely be collateralized

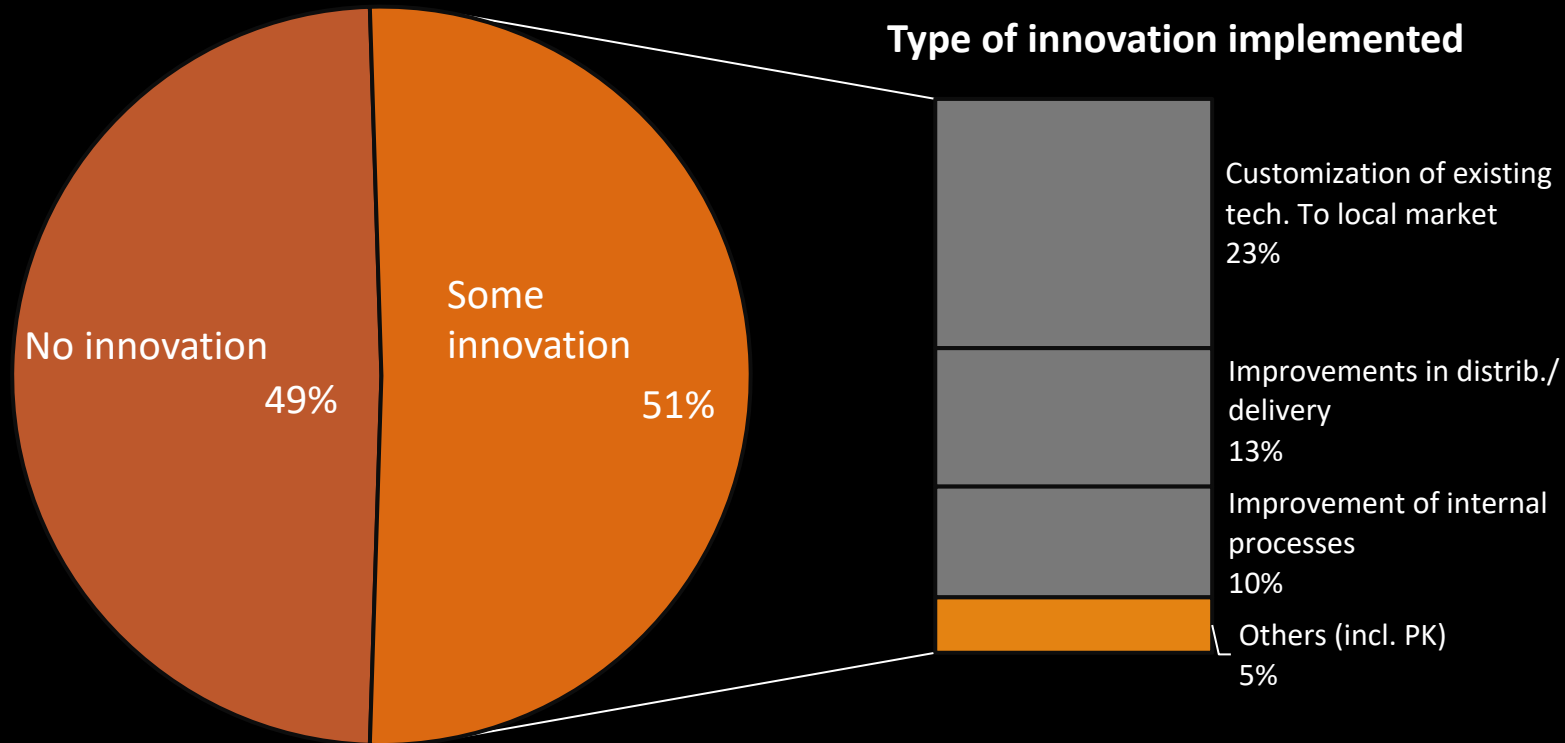
QAR debt is costly
(Central bank overnight rates USD, QAR, %)





Few Manufacturing SMEs have a technological edge

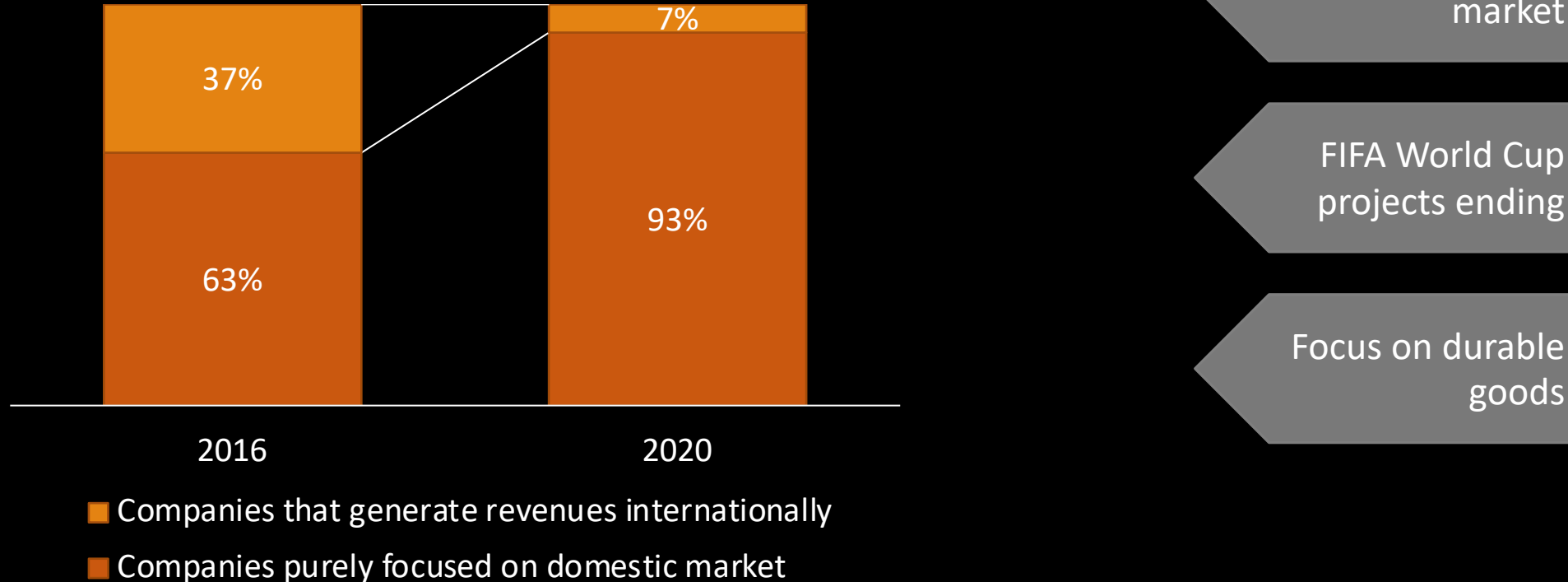
Prevalence of innovation among Manufacturing SMEs in Qatar, 2020





SMEs in Qatar have recently focused on the local market

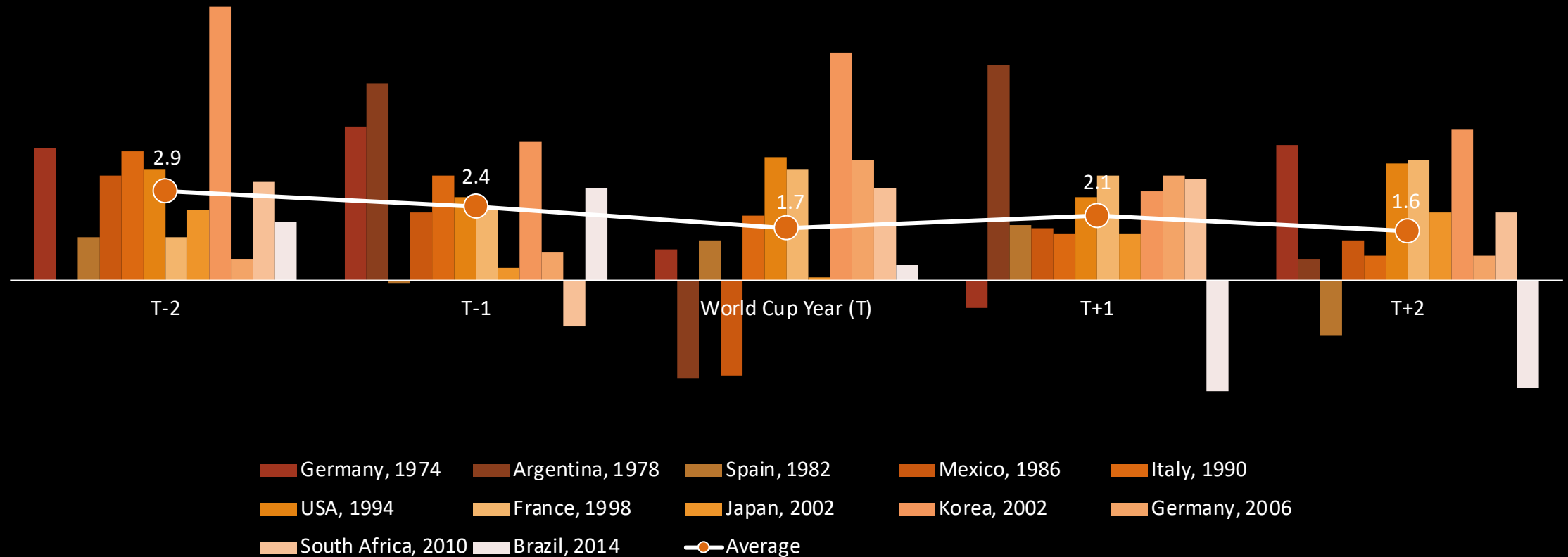
Survey of SMEs in Qatar (all sectors)





As World Cup 2022 investments come to an end, Qatar's GDP may struggle to pick up again

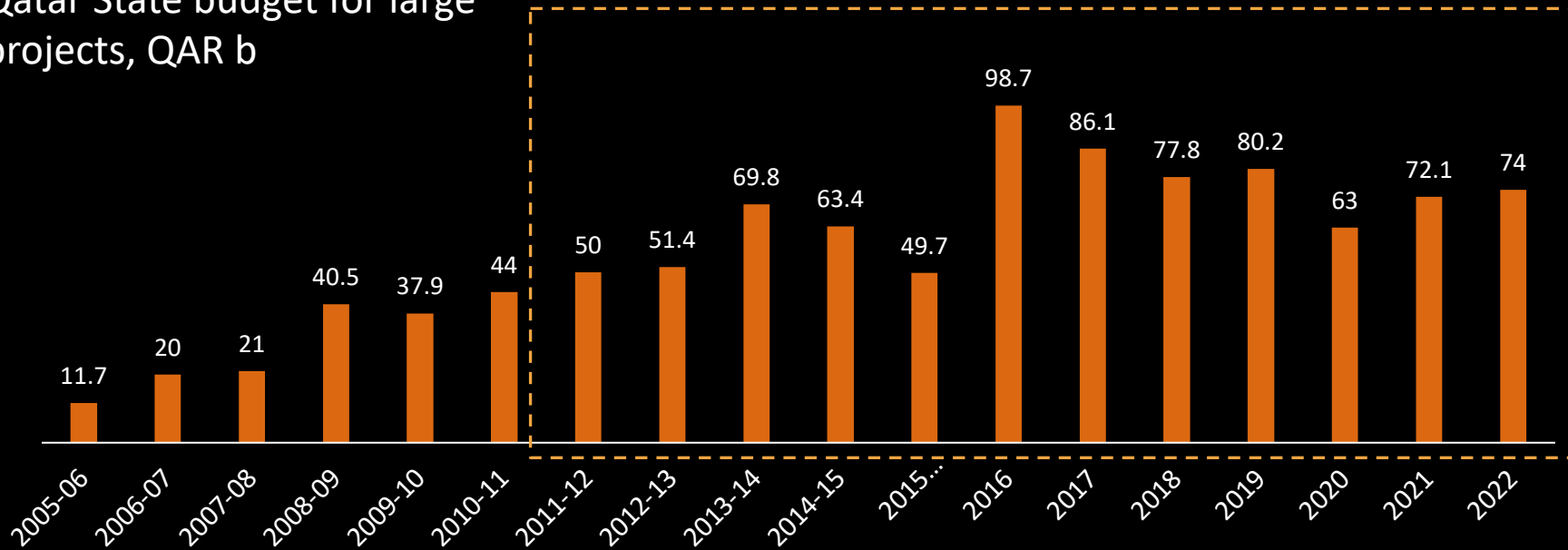
GDP YoY change in years surrounding World Cup hosting, percent





Budgets for major project may be reduced as WC2022 end and public debt increases

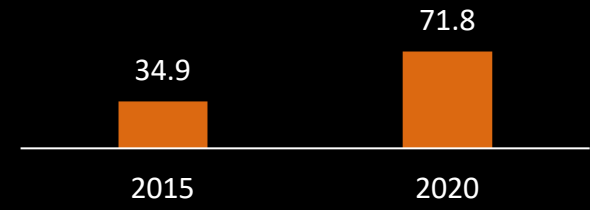
Qatar State budget for large projects, QAR b



836b QAR spent on major projects of which ~800b QAR on WC2022 infrastructure

Only 11.5b QAR new projects committed for 2023 and 27.4 for 2024 and beyond so far
(source: State budget 2021)

Government debt as % of GDP



Survey question 3 – Export Readiness

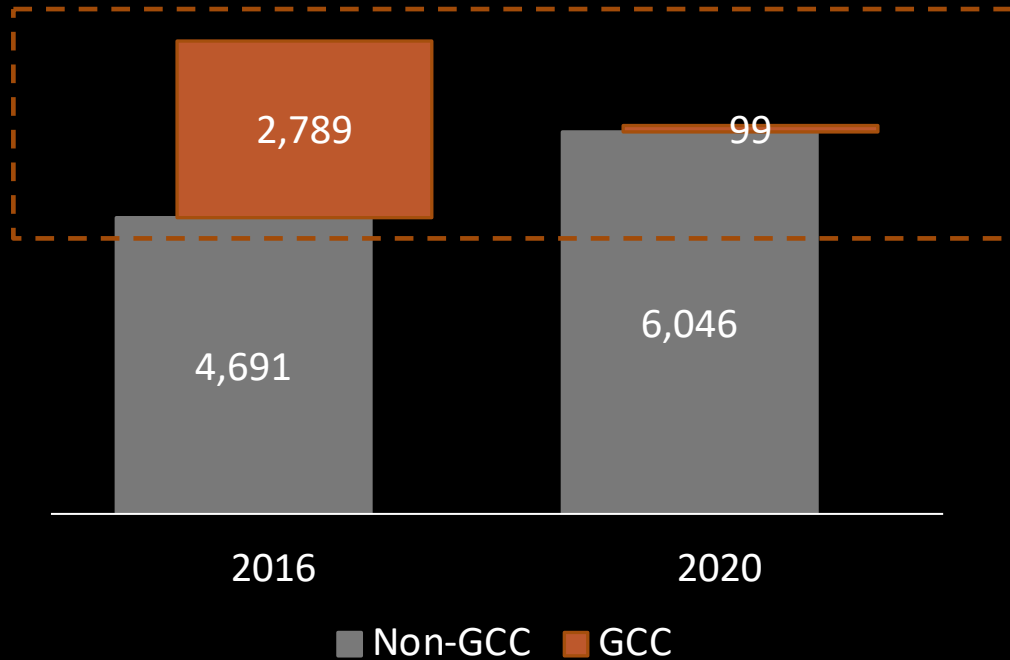
How would you rate your company's current readiness to export?

1. We do not consider exporting a priority, we are fully focused on the local market
2. We believe there are opportunities for exports, we are currently NOT exporting, and we do NOT currently have an export strategy in place
3. We believe there are opportunities for exports, we are currently NOT exporting, but we have an action plan in place to start exporting in the near future
4. We believe there are opportunities for exports, we are currently exporting a small portion (<30%) of our production, and we have an action plan in place to export more in the near future
5. We are already major exporters (>30% of production), we have an action plan in place to export more in the near future

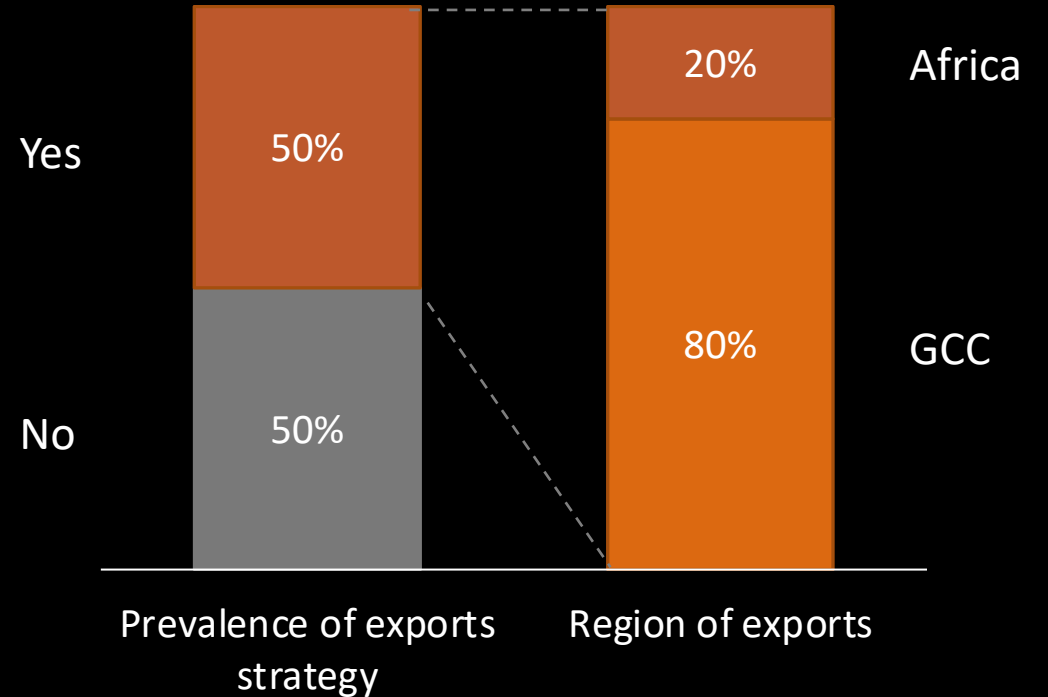
6 Export readiness

The lifting of the blockade may create renewed export opportunities

Exports by region¹, millions QAR

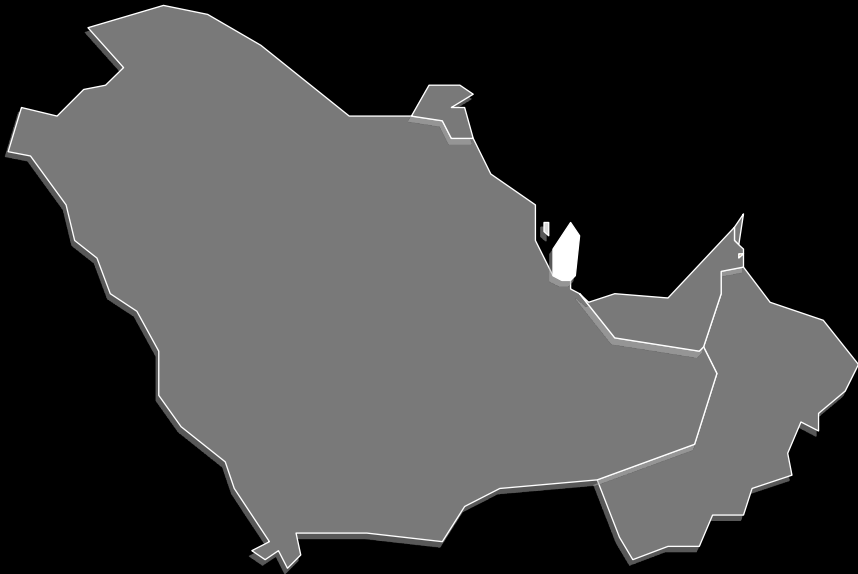


Export approach for local manufacturing SMEs



¹ STIC R-3 SECTIONS: (5) CHEMICALS AND RELATED PRODUCTS [EXCL. (51-52) (IN-)ORGANIC CHEMICALS, (56) FERTILIZERS AND (57) PLASTICS IN PRIMARY FORMS], (6) MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIALS, (7) MACHINERY AND TRANSPORT EQUIPMENT, (8) MISCELLANEOUS MANUFACTURED GOODS, EXCLUDING RE-EXPORTS

An opportunity for Qatari manufacturing companies lies in the Saudi market



Substantial
opportunity

- Large domestic market
- Substantial drive for investment in construction and infrastructure
- Saudi accelerated development 2030 is an opportunity for manufacturing companies established in Qatar since 2010 to build the infrastructure for WC 2022

Market entry
approach to
be defined

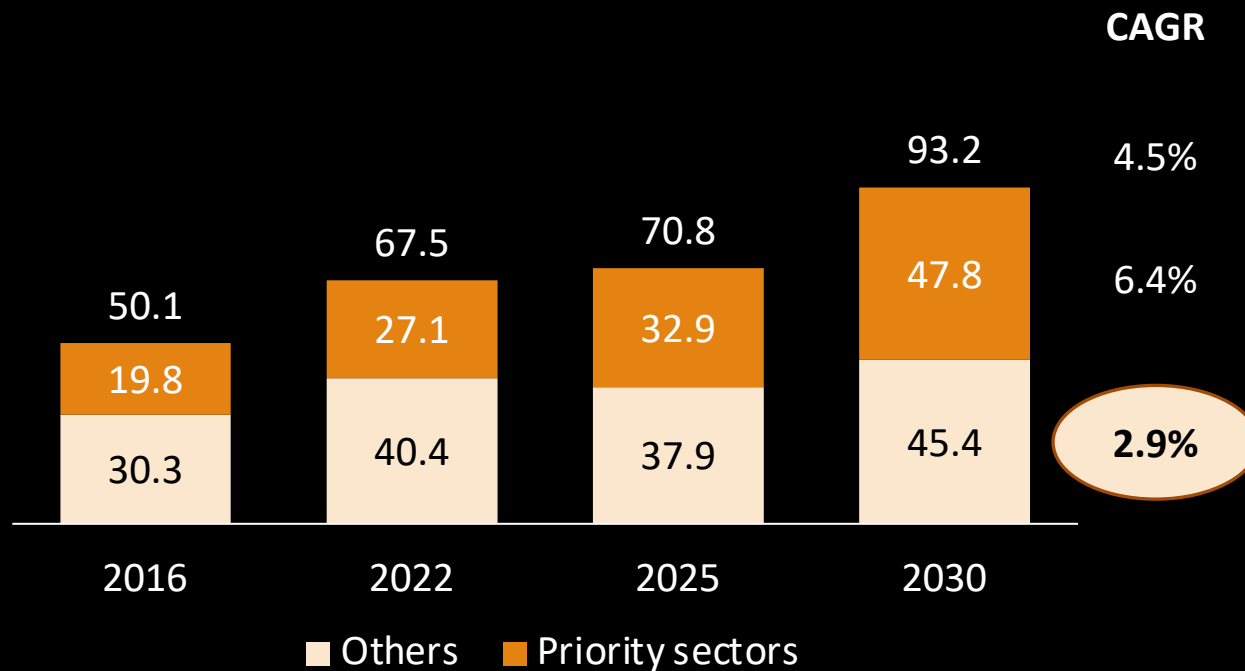
- Reciprocal approach (opening Qatar market to Saudi necessary and vice versa)
- Potential need to create Qatari-Saudi JVs

Table of Contents

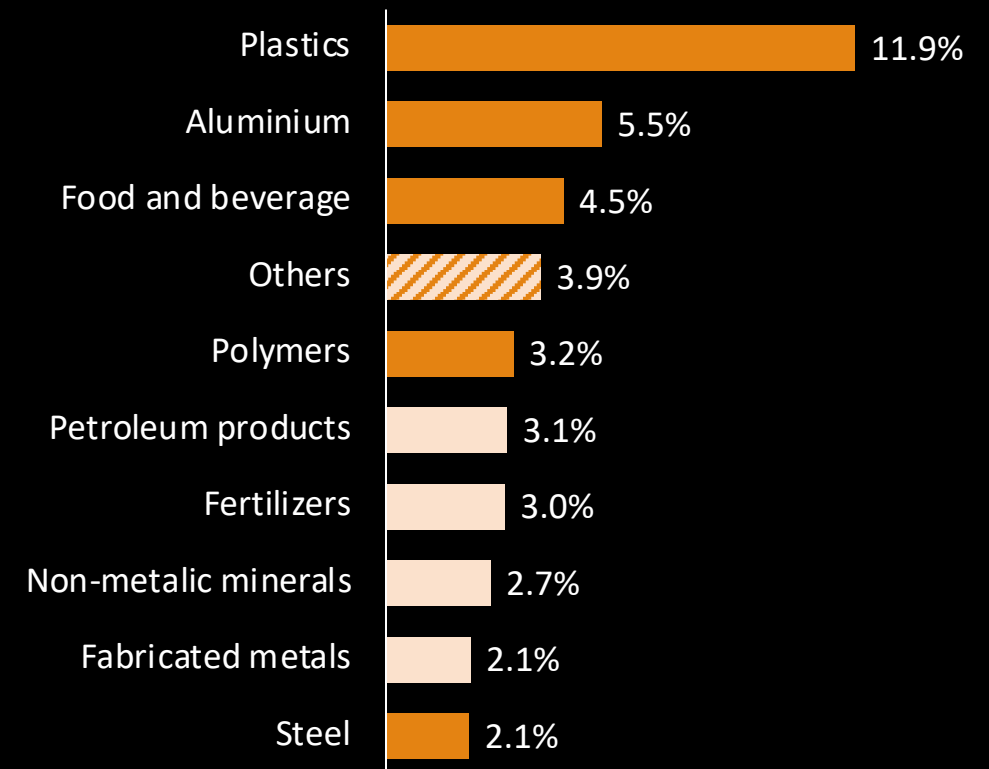
- Manufacturing in Qatar
- Challenges for manufacturing SMEs
- **Improving the competitiveness of manufacturing companies**

The MOCI's manufacturing sector growth targets vary strongly by sub-sector

Manufacturing sector GDP
Billion QAR



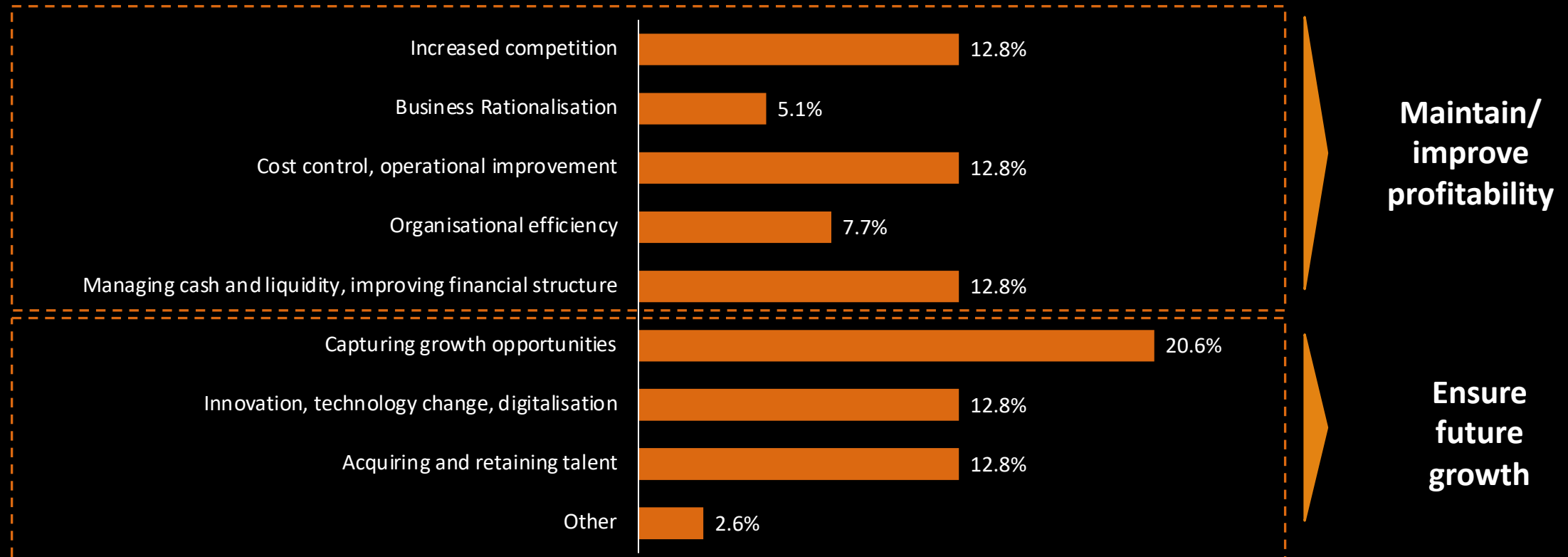
Annual Growth Rate 2016-2030





Companies in Qatar need to address a broad range of priorities

“When you think about your business, what are the top 3 things that keep you up at night?”



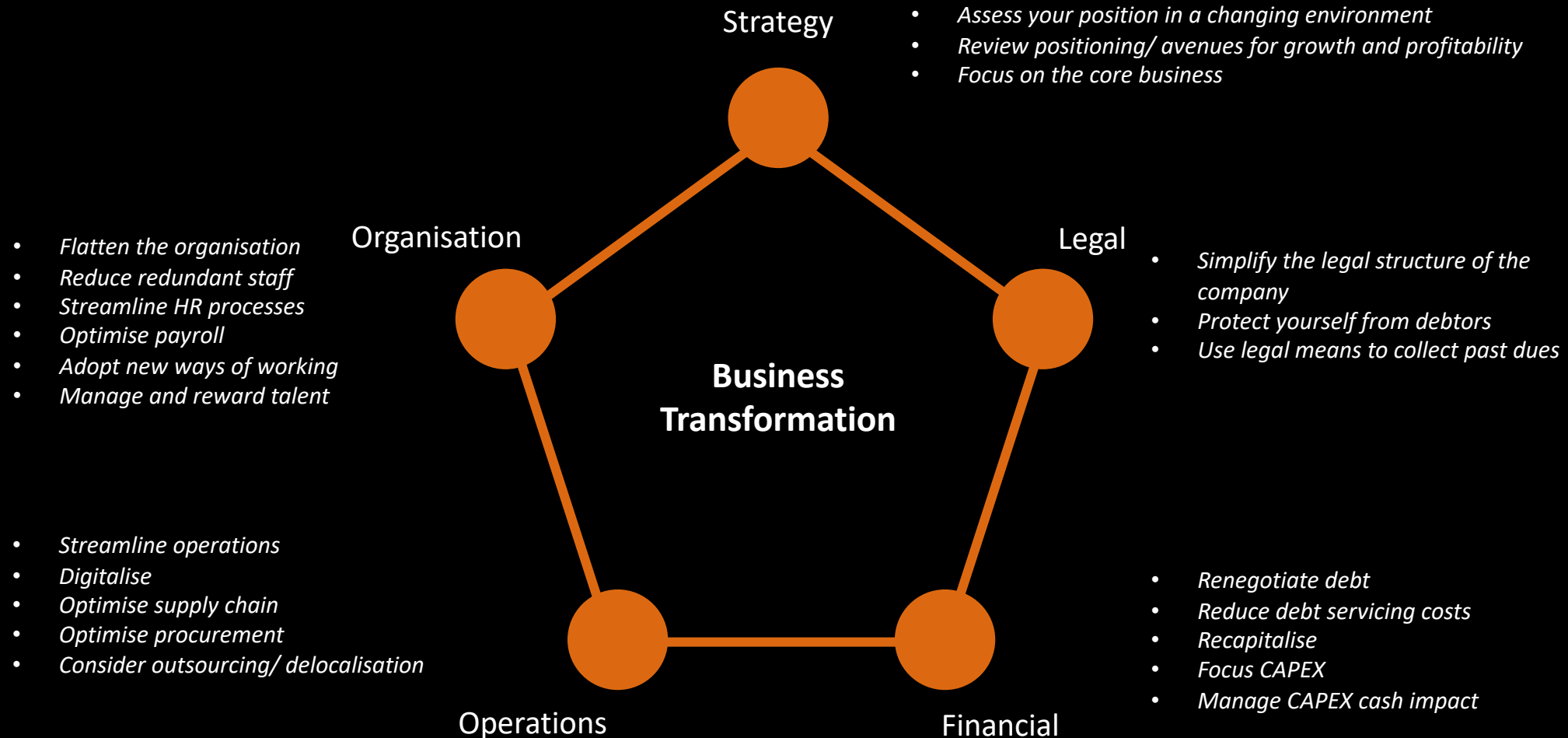


Non-oil related manufacturing companies in Qatar can be grouped in 3 categories

	Description	Specific challenges	Key improvement levers
A Historical durable goods players	<ul style="list-style-type: none">Manufacturing companies producing durable goods that were set up prior to blockade and World Cup projects	<ul style="list-style-type: none">Growth limitations due to excessive focus on local marketRenewed competition from GCC importsDrop in order book related to end of WC projects	<ul style="list-style-type: none">Cost managementFunding optimizationExport strategy
B Newly setup durable goods manufacturers	<ul style="list-style-type: none">Manufacturing companies setup as a result of the blockade to replace imports or setup specifically to serve the needs of the WC projects	<ul style="list-style-type: none">Renewed competition from GCC importsDrop in order book related to end of WC projectsVery limited local market	<ul style="list-style-type: none">Cost managementFunding optimizationCommercial strategy (incl. export)
C Consumable goods manufacturers	<ul style="list-style-type: none">Manufacturing companies producing consumable goods and mostly serving the local market	<ul style="list-style-type: none">Growth limitations due to excessive focus on local marketRenewed competition from GCC importsStrong domestic competition	<ul style="list-style-type: none">Funding optimizationM&AExport strategyProduct development



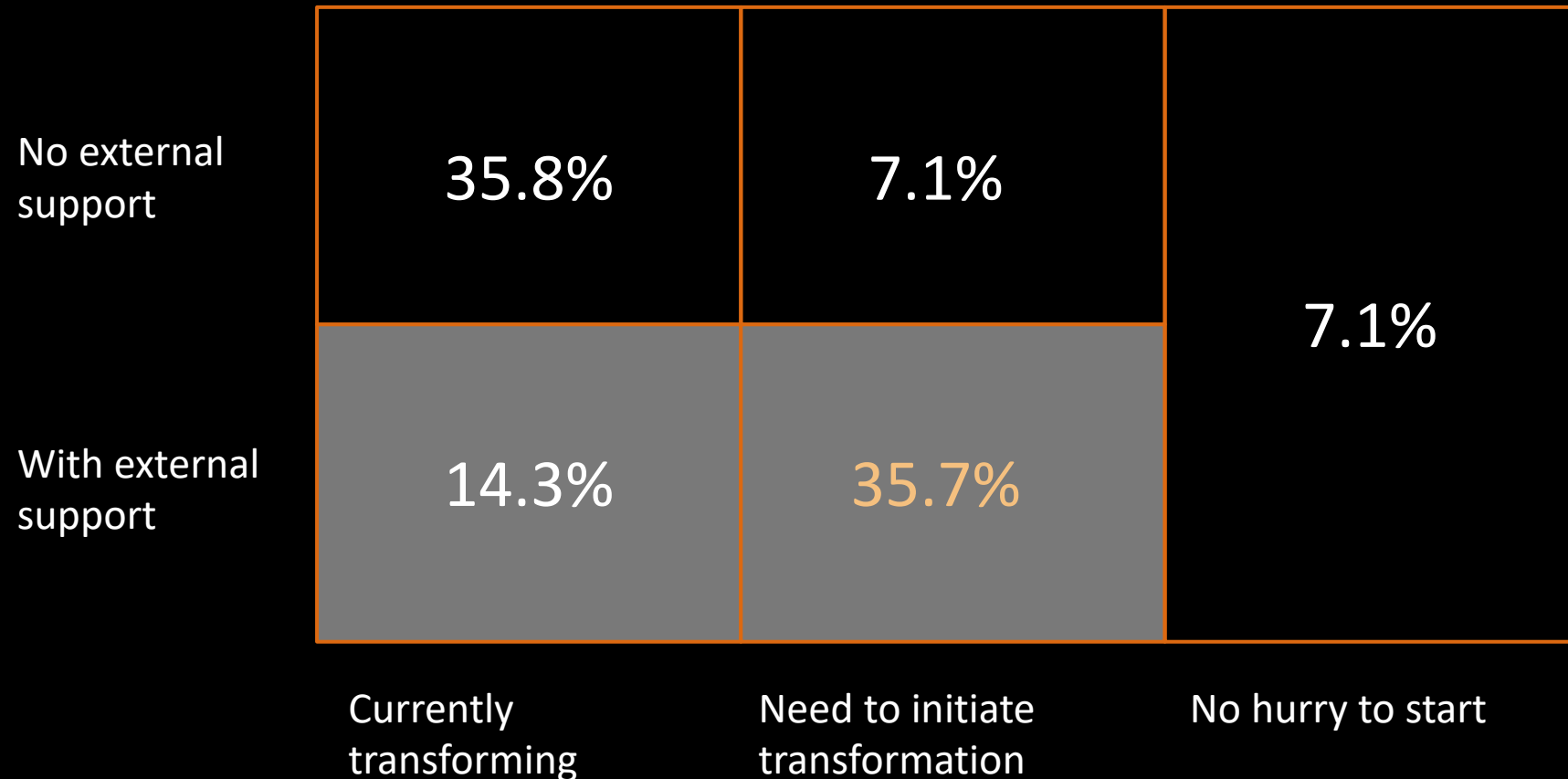
Ensuring sustainability requires acting on several transformation levers





Half of companies seek external support in their transformation

“What timeframe and how are you intending to address your current challenges?”





Today companies can seek support from a large number of programmes, many led by QDB

Funding

Financing

- QDB's pre- and post-export finance and direct lending to companies



Equity

- QDB's Ithmar (seed financing) programme, Istithmar (equity investment in companies), QSTP Tech Venture Fund



Indirect financial support

Guarantees

- QDB's AIDhameen (SME lending guarantee programme), Pre- and Post-Export insurance



Real Estate

- QDB's Jahiz (ready to operate facilities)
- QSTP's ready to use offices
- Manateeq industrial and warehousing parks



Grants/ subsidies

- QDB's Tadqeeq (outsourced accounting), support in marketing and PR, Franchise programme, ISO certification support, Oqood (legal advice), Eyada (distressed business transformation), enterprise leave programme
- QSTP's product development fund



Talent and competence development

Advisory

- QDB's Business consultancy and mentoring, Tasdeer (export support), business localisation programme
- QSTP's XLR8, ELV8, RTS programmes, incubator centre
- TASMU (Smart Qatar devt)
- Qatar Chamber of Commerce's support programmes for export



Trainings

- QDB's various training programmes: business case competition, technical trainings, FactoryOne and QBIC





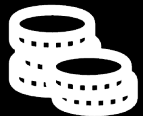
The sector can further be supported on three fronts



Strategy

Drive for domestic competitiveness and export readiness

- Push companies to strengthen their cost understanding
- Expand programmes to address cost competitiveness
- Support identification of export opportunities and development of appropriate strategies



Financial support

Support companies in their quest for competitiveness and international expansion

- Provide import/ export credit lines that are easy to access
- Create a fund to support industry consolidation in subscale sub-sectors



Advisory

Provide fully-fledged advisory services to local companies

- Expand existing advisory services into a full service to help companies:
- Strengthen their competitiveness (and explore consolidation)
 - Develop their growth (export) strategy
 - Build a compelling business case and access support programmes



Beyond financing, successful SME support programme provide substantial skills development support

Programme	Objectives	Key services
	Scale-up SG <i>(Enterprise Singapore: Government Agency championing enterprise development and National Standards Accreditation Body)</i>	Develop mid-size companies to become leaders in their field and potentially national champions
	Growth Driver programme <i>(Business Development bank of Canada)</i>	Propel high-impact (substantial economic contribution and potential) companies to their next level of development
	Mid-tier companies development programme <i>(MATRADE: Malaysia External Trade Development Corp.)</i>	Support manufacturing companies in increasing their levels of exports

Summary

The manufacturing sector in Qatar can prepare itself for the post World Cup challenges

- Sector is small but has development potential
- Sector could be an engine for diversification of the economy
- Given the small size of the local market, exporting, specifically to Saudi Arabia could be a growth lever

To materialize this opportunity, actions will be necessary



At company level

- Improve competitiveness through more transparency and active cost management
- Develop commercial and export strategy
- Optimize funding
- Consider alliances, consolidations, M&A



At institutional level

- Make competitiveness improvement a priority for the sector
- Support companies in their efforts to improve competitiveness and to export:
 - Financially
 - Through an expansion of existing SME support programmes