BOOSTING THE ECONOMY ON A LOW BUDGET

Athar Management Consultancy L.L.C.

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IN THIS ISSUE WE WILL DISCUSS

CHAPTER 1

HOW'S THE WORLD DOING?

Current climate and future expectations

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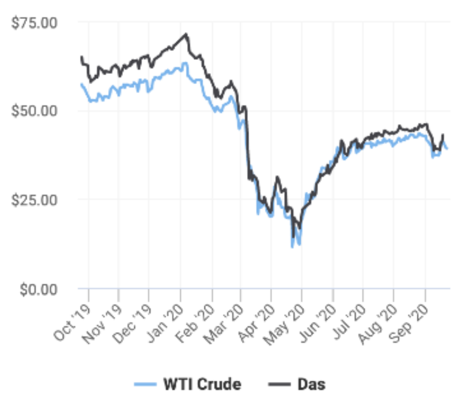
Even though we've had significant slowdown in the first half of the year globally due to lockdowns slowing demand and uncertainty driving a temporary spike in unemployment, we are now seeing recoveries and by above many expectations, a faster recovery in economic outlook.

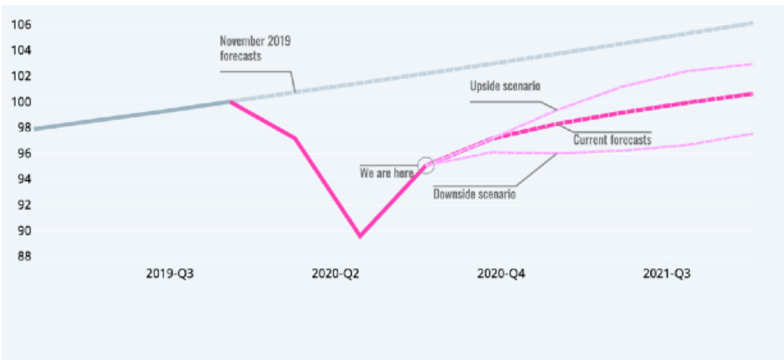
We don't yet have a widely available vaccine, macro economic indicators, energy and retail in general are on a positive trajectory and where we don't yet see economic recovery in the market, we see recovery in investment and production.

Oil prices YoY - 2020



OECD outlook for 2020 is currently better than previously anticipated. Many countries not depending on tourism or the movement of people have fared better than expectations as seen below. The trend in pink is the current economic situation.

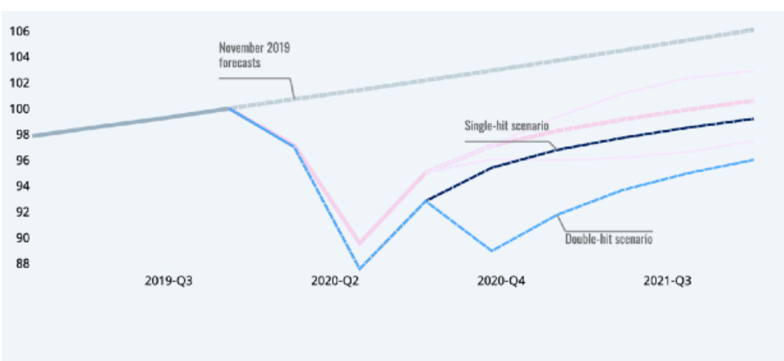
OECD GDP forecast



Source: OECD (2020), "OECD Economic Outlook, Interim Report September 2020", OECD Economic Outlook: Statistics and Projections (database).

Below is the previous estimate for global economic outlook, under a couple of scenarios. We are currently doing better than previously expected.

OECD GDP previous estimates



Source: OECD (2020), "OECD Economic Outlook, Interim Report September 2020", OECD Economic Outlook: Statistics and Projections (database).

It is correct that some countries are doing better than others and not everything is well. Many of the UAE's trading partners are under economic contraction, if not as bad as previously forecasted. But here are some indicators of reality on the ground.

The next section will be focused on UAE's situation economically. A short summary of other countries with different strategies to both health and economic policy and how they are currently fairing are compiled at the end of this issue under *"Appendix I - Other countries current state and fiscal strategies"* title.

UAE

Being especially sensitive to the flow of goods and human capital, the UAE is expected to be more exposed to economic contraction. That said, with current policies in place, 8 months of time to adapt to the new scenario and cautious and proactive management from the government, the internal workforce has been steadily recovering its efficiency and productivity and just as importantly, internal consumer demand has remained unaffected in proportion to the impact of unemployment. People have shifted their consuming habits online and as physical locations have opened, consumers have started to return to them, eager to get back to their normal lives.
Tourism has certainly taken a hit, especially in tourism oriented emirates and recovery will be slower than in other sectors, which will mount more debt, but that has been counter balanced to an extent by a surge in internal market

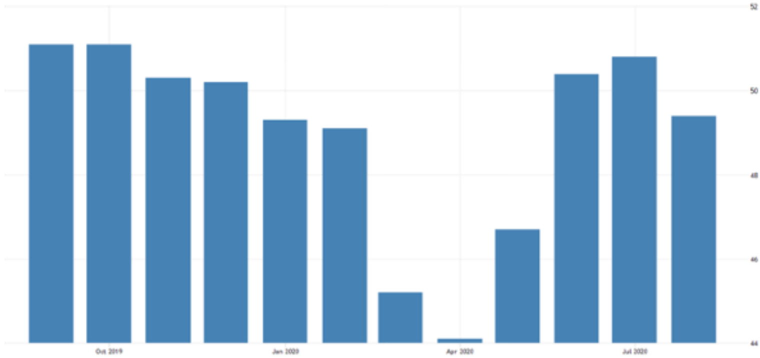
demand caused by the inability and unwillingness of local residents to travel abroad, which we've seen recently in over booked tourism facilities in the past few months, another strong indicator that households maintain spending power as they had before, due in part to slower inflation in 2019 and current deflation levels.

The country's deficit increase is still a concern, but it is not as high as it was during low oil prices earlier in the year. While oil prices have not reached their ideal acceptable price of 60 to 70 USD per barrel, current 40 USD prices are far from worrying given current policies and I wouldn't expect them to fall again due to geopolitics or the pandemic even if Europe is looking towards a difficult winter while facing their second wave. With GDP, energy commodities and current inventories working together with the effort to reintroduce consumer and market demand internally, while international demand recovering, we can drive economic growth and acceleration towards and throughout 2021.

UAE 2020, year to date

Overview	Actual	Q3	Q4	Q1	Q2	2021
GDP Annual Growth Rate (%)	1.60	-4	-1	1.1	5.3	1.8
Unemployment Rate (%)	2.64	3	3	2.8	2.8	2.8
Inflation Rate (%)	-2.14	-0.5	0.5	1	1.3	1.6
Interest Rate (%)	1.50	1.5	1.5	1.5	1.5	1.5
Balance of Trade (AED Million)	274600.00	150000	150000	200000	200000	200000
Current Account (AED Million)	108900.00	35000	35000	90000	90000	90000
Current Account to GDP (%)	7.40	1.5	1.5	4.3	4.3	4.3

UAE PMI 2020

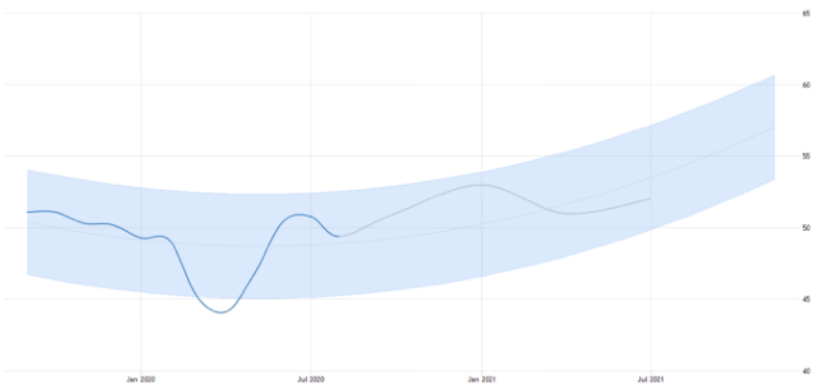


The above graph shows non oil private sector purchasing managers' index (PMI), which has largely recovered since the end of the lockdown. This is an indicator of demand and GDP early on the supply chain stream and is used to extrapolate economic growth.

I'm not trying to sugar coat our current situation. Even though I believe the worst has passed, a lot of damage has been done and we have to deal with the consequences. The point I want to make is that, we should take a proactive approach in dealing with the rest of 2020, while preparing for 2021 recovery, even if there is still no vaccine to heal all our problems away. This is our current reality and we can't keep waiting for things to get better. It's up to us to make it better and turn what we have into opportunity.

Below is a forecast trend for the PMI over the next few months, giving an indication of overall economic demand for goods in the internal market as well as exports. From here you can extrapolate demand for construction materials, manufacturing of goods recovery and when coupled with energy consumption and freight volume, it gives an indicator of economic recovery a quarter ahead of time when compared to direct measures for consumption, so an equal trend should be clearly established in market demand by the end of 2020.

UAE PMI forecast towards 2021



The important thought in my mind now is; How are we acting the rest of the year and more importantly, preparing for 2021? How do we make constraints into opportunities?

CHAPTER 2

BUDGET FREEZES BUDGET CUTS

How to grow while making difficult choices for the rest of 2020

It's never easy being handed a budget freeze, and quite harder dealing with an unplanned budget cut. But here they are and we have to make the best of what we can.

The most intuitive approach that may be suggested to you is the traditional "cut costs" by where we can compromise. Where can we stop doing something that will have the least impact on business as usual? While cutting costs is a valid approach and easier on the short term, there is a reason why those costs exist in the first place. Direct cost optimizations can be achieved through reductions without significant quality, productivity or availability losses, but these cost optimizations are usually no more than 5%, before they start seriously constraining and damaging one or more of the 3 above factors.

Now I don't know about you, but I don't like this kind of compromise. So I don't look at this problem as where can I cut cost and compromise, risking past efforts to be wasted. I look at this problem and think, how can we get better?

Where can we work smarter to create better value through our organization to increase our quality, output and reliability while reducing costs? Is it even possible? Absolutely! It is always possible to do more and better with fewer resources. The only reason we didn't do it until now is because we are usually more concerned about expansion of capabilities rather than efficiency. This is a matter of priority, not ability in any organization.

Let's look at a simple example. remote working, a current necessity. The main draw back is a large bottle neck created in communication latency. Face to face interactions give you immediate feedback, while remote working by nature can't overcome this problem. But studying the problem, how often (as a percent of work hours) in a day's work does a body of employees need that interaction? Depending on the nature of the work and the organization, this may vary between 15% and 30% of work hours. That leaves at least 60% of work hours available for remote work to be done without impact in productivity for the average employee. How much could you save in office space, if you could have 60% of your work force time working from home? They still need to come to the company for face to face meetings and to handle work tasks better suited to the office space, but you get my point. With proper planning you don't need as much office space and equipment. There is no loss in productivity, and it can result in significant cost savings. This is actually an old practice in companies like Microsoft for many years, but also for factories in Germany since the late 80's. But this is still only addressing costs, not really improving performance. So what else can we do to reduce costs while improving performance and quality in your daily operations?

Start by mapping how well your operations are working. This is not just a process map. You need to have a map that shows time, labor, work in progress and work inventories of services and value created (for example, a pending invoice waiting for approval is work in process inventory), a list of inputs and outputs of value. All of these tied up under a process map that follows the flow of value created, from planned demand, through placed orders, to delivery of value to the customer. Everyone has customers. If you're a government organization, whomever you are doing the work for, are your customers and the government pays you to serve those customers. A model with plenty of use throughout the world for this type of map is a value stream map (VSM). With this tool and a methodology as simple and reliable as a plan, do, check, act (PDCA) for process improvement, together with a good VSM design, you can drastically improve internal performance in a short amount of time (2 to 3 weeks) while reducing work inventories and improving quality (quality improvement as a function of designed and measured processes, where work and output are standardized with known metrics and variability). I have never worked on a project where these two simple tools working together haven't delivered 20% or more in cost savings and efficiency improvements. Often much greater improvements for the first few implementations. So some investigation on your part can easily produce satisfactory results even without expert support from specialized organizations. Organizations like Athar can help speed the implementation and bring greater efficiency improvements derived from its experience and expertise in the field, but by any means, an organization who's committed to overcoming the learning curve can achieve great results, given enough time. In fact, our main objective is to create this type of knowledge transfer so you can continually create efficiency and performance improvements long after we finish our projects and training with you. You can refer to our profile for some examples on performance improvement using these very tools mentioned above.

This strategy of improving performance can derive significant cost savings in a short period, especially during the first two implementation layers due to one time savings originating from work in process inventory reductions. Further reductions can usually be directly attributed to either higher effective production capacity per unit of work, lower total man hours and equipment hours required, lower rework due to increased quality on first pass through a process (error free work), lower need for space and equipment and lower utility costs. Normally we use this opportunity to increase output and expand the organization's capacity to create better goods or services, but it can be equally used to meet sudden budget constraints. It is in fact very effectively used during turnarounds in for profit organizations.

CHAPTER 3

STRATEGY 2021

Back to work and local economic recovery

Here are the practical implications for 2021. What we need to take into account.

- Global economic contraction and recovery
- Local economic recovery
- Budget uncertainty
- Catching up with pre 2020 strategy
- Social distancing as work policy
- Digital transformation

From Macro to Micro, we have to realize that the economy will be affected by how well the global economy fares in 2021 and there isn't much we can directly do as organizations to affect that scenario, but a large part of the overall UAE economy is the internal component. Internal creation and consumption of goods and services can be directly influenced by our own work and decision making, counterbalancing global economics influence in the UAE. The best example of that, even at the height of the first wave is South Korea, who keeps thriving due to their health and fiscal policies (more details at the end of the article).

Most of us had to adjust strategies and expectations for 2020, but that doesn't change our objectives, only their timelines. Our environment is affected, but our work is still fundamentally the same. In 2021, regardless of changes in budgets, we should focus on bringing those objectives to reality, regardless of current constraints.

With reduced budgets and a constrained workforce, it is more important than ever to focus on efficiency to maintain or increase performance while reducing effort and cost. Some of these efficiency improvements can be achieved, as demonstrated above by effectively mapping value creation and making direct adjustments to how work is currently being done. Other improvements can be achieved through technology and automation. Remote working, a subset of digital transformation, has so far not given a positive efficiency gain, due to its latency in communications and associated delays, but since it's part of our current operations requirements, if we make it by design a more integral part of our daily operations, we can leverage it to increase productivity and convenience while reducing costs. For that, remote work and digital transformation in general need to become transparent processes that are fully integrated with current workflow and that are intuitive to work with so they are tools working for us instead of us working for them.

CHAPTER 4

REMOTE WORKING & DIGITAL TRANSFORMATION

Paving the way to a post pandemic future

Athar has long been implementing metrics and SOPs that are accurate and aimed at increasing transparency in support of high performance. We know which types of work can be well executed, regardless of location and which types of work require physical presence to run without efficiency loss. Most services don't require specialized hardware or facilities to be conducted and thus, this execution can happen remotely.

Imagine the following

You layout your strategy, cascade it down all the way to the employee level through department, team and individual objectives, all aligned directly to your main organizations' objectives. Then you can assign projects and tasks to everyone and you can track their progress in real time. If you know who's doing what at any given moment, you always have the choice to reallocate and readjust resources to adapt to a changing environment. And this can also be mostly automated using AI and machine learning based on your current workflows, objectives and objectives.

If all these features are happening in the cloud, the latency caused by remote working is largely eliminated.

Because we think this is an important part of making the digital transformation and remote working more efficient and productive, Athar invested the second half of 2020 into developing an enterprise app so we could help our clients increase performance while improving their work environment and moving towards the digital transformation effort we are currently going through.

After evaluating many good candidate software platforms, we discovered that they were either not ideal to our clients, mostly government entities, or they were hosted exclusively outside the country, so we have been developing our own enterprise app in-house, tailored for the UAE and to be hosted entirely within the UAE in order to comply with the country's digital information security regulations.

We will be providing a demo of our platform soon, but we would like to hear your opinion on what features do you currently feel would help your organization move towards the digital transformation. We are adding new features to our development roadmap and we'd love to hear your ideas.

Turning constraints into opportunity

For the rest of 2020 and in 2021, despite our current reality, we can improve and move forward, making progress to achieve the objectives we set out to achieve with better quality and delivery. The world will only continue accelerating growth overtime and we have the opportunity to lead the way.

Most breakthroughs in history came from constraints that changed peoples circumstances and forced them to innovate their way out of their problems.

Today, social distancing, remote work and digital transformation are an opportunity to move towards flexible work hours which result in reduced expenditures in office space, equipment and utilities. Budget constraints are an opportunity to improve internal performance by optimizing efficiency to improve cost structures instead of making difficult cost cutting choices. Increasing productivity, while reducing workloads with better workflow and process design, aided by new technologies is not only a solution for today, but paving the way in the long run.

Though we were forced into this transition, that doesn’t mean we should be content with it. We have to make the best out of what we have and use every change in our social environment to our advantage to progress with our objectives.

APPENDIX I
OTHER COUNTRIES

How local policies are affecting different world economies

S. Korea

Economic recovery and associated health and fiscal policies have been of special note given, not only their remarkable results handling the pandemic, but especially how their fiscal policies have driven growth and economic development for the better part of the year.

S. Korea was quick to deploy a strong fiscal policy, pouring over 12.2 billion USD, still less than 1% of the country's GDP towards business and households early in the year. Even though this seems modest compared to other countries, the speed at which this stimulus was deployed and managed fed consumption growth keeping a positive spending cycle, which kept people employed and businesses running without much loss. Beyond that, Seoul supported its economy in the form of loans and guarantees, not unlike some of the measures we've seen in the UAE subsequently. The important take away here is that S. Korea kept consumption going, which is the main driver of economic output, and especially important when exports decline.

By the end of June, S. Korea had higher consumption than the same month of 2019.

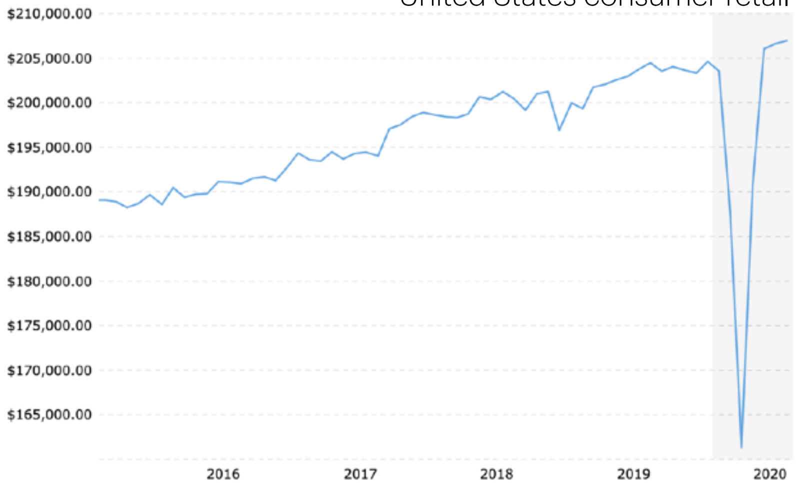
China

Performance, internal production, foreign investment 18.7% higher YoY for Aug 2020.
Banks lending up 29% from Jul to Aug.
Freight rail traffic volume is up over 7% in August compared to the same period for the 2019, indicating a strong pace in production and demand for manufactured goods.
Electricity consumption is also higher, showing demand for energy consumption in all aspects of the economy.
August, sales of construction excavators were up 51.3% from a year earlier. Sales of heavy trucks, were up 75% against 2019, showing the result of infrastructure investment and the fueling of the economy, despite global slowdown in exports.
These are positive indicators of economic inputs like raw materials into production of goods and inventory flow (freight being a mix of greater raw material input and still recovering finished goods output).

United States

Retail rebound is a major indicator of open market consumer demand. Yes, there was a sharp drop in demand, but despite a large unemployment spike, the situation has been returning to more normal values and confidence, and consumption have clearly rebound. In the UAE we didn't have as much of a drop, due to different policies implemented, but we also see a bounce back in consumption and normalization of market operations.

United States consumer retail



Even though the USD has fallen, despite economic recovery in the same period, this is due to a decrease in interest rates, which are being used to stimulate economic spending and investment, but reducing demand to hold assets in USD, compared to other currencies. The falling currency in this case is related to internal fiscal policy to stimulate internal growth and bound to bounce back, once interest rates return to a normal growth pattern as GDP returns to “normal” growth rates.

Japan

Industrial output has accelerated 8% in July, from June, the highest rate in recent memory. The strong increase is being driven by high demand in the automotive industry which rose by almost 40%, while other industrial sectors saw almost 10% gains.

Even though overall retail spending remains meager, due to the previous quarter contraction, confidence is on its way to be restored to last years levels by the end of the year.

EU

The European Union in general is very mixed, but because it’s been the region hit the hardest as far as a second wave is concerned, I expect it will struggle further in internal economic recovery and consumption. Deflation is now noticeable, but largely due to food and energy prices falling dramatically in the previous quarter. Prices which have now largely corrected themselves to more “normal” values. That being said, if we don’t account for energy and food, other core prices overall saw an inflationary increase of near 0.5% YoY. Economic stagnation is also taking its time because personal and business savings have increased, reducing demand for the time being.

On the other hand, exports seem to have a more positive outlook.

This document was published by
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