Benchmarking SME Policies in the GCC: a survey of challenges and opportunities

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A research report for the EU-GCC Chamber Forum project

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Benchmarking SME Policies in the GCC

*a survey of challenges and opportunities*

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Introduction

Both in the European Union and the Gulf region, small and medium-sized enterprises (SMEs) are the main drivers of job creation, growth and economic diversification. They have local roots and provide local jobs, but can also exploit the opportunities from globalisation.

SMEs therefore deserve an adequate public policy to help them get their ideas off the ground and grow, as well as tailor-made services provided by specialised support organisations.

Chambers of Commerce are at the core of SME development. Building on their expertise in providing business support services and their daily direct contact with their member enterprises, they are in the best position to put forward specific policy recommendations to national and regional governments.

Against this background, EUROCHAMBRES and FGCCC launched the EU-GCC Chamber Forum project in 2008, to create a platform for a structured exchange of best practices and policy views connected to strengthening SMEs and economic diversification between chamber managers from Europe and the Gulf.

After several seminars in the GCC and visits to the European institutions and chambers which triggered targeted discussions on the crucial topic of SME development, we are now delighted to share the present study on SME policies in the six GCC states with you.

The study highlights that a broad range of SME support programmes have been developed in the different states, but that those often are not streamlined and thus efforts are duplicated. A lead agency coordinating all SME related programmes in one country – e.g. a chamber of commerce – and a continuous exchange between all stakeholders involved would assure a pooling of resources and a more efficient development of SME services.

Moreover, the business support policies developed in the European Union along with accompanying services could serve as a source of inspiration for the GCC states, although they will have to be adapted to the local situation.

The findings of all activities of the EU-GCC Chamber Forum hence confirm the necessity for a continued dialogue between the two regions to increase mutual understanding, and intensify our economic relations. The chambers of commerce from both regions remain committed to deepen their existing friendship and cooperation to enable the full potential of SMEs to be reached and call upon decision makers to do the same.

Alessandro Barberis
President EUROCHAMBRES

Sheikh Salah Abdullah Kamal
President FGCCC
EXECUTIVE SUMMARY

It is generally agreed that small and medium enterprises are an important driver of growth, development and diversification for countries in all stages of development. Despite the GCC region’s strong entrepreneurial traditions and the large size of the Gulf SME sectors, they have not yet fully lived up to their potential of sustainable diversification and job creation, as they often focus on low-margin activities and employ a disproportionate share of expatriate labour.

Many SME development issues in the Gulf resemble those of the developing and developed world more generally; others are more particular to the Gulf. In almost all cases, the policy solutions need, to some extent, to be specific to the region. The assumption of the present report is that SME growth is not desired at all cost, but only makes sense if it leads to diversification, innovation and the creation of employment for Gulf nationals.

Main findings and recommendations of the report include:

- The sectoral structure of Gulf SMEs is skewed towards simple contracting and trading operations, other sectors tend to be under-represented
- Micro-enterprises in particular offer very little employment to Gulf citizens
- Existing SME support programs are diverse and often innovative, but also very fragmented and have not seen a systematic evaluation of their results
- SME support programs in the future should be more oriented towards providing an enabling environment for SME growth and less towards subsidized credit and free business support services
- The fostering of cooperative structures among SMEs, which currently operate in an atomized environment, should be one main focus of support programs
- Lead agencies should be designated to coordinate and benchmark SME support policies, consolidate available information, and make it publicly available.

The different sections of the report build on each other, but can also be read separately.
SMEs in the Gulf Cooperation Council
Small and medium enterprises (SMEs) have become the talk of the town in the Gulf region. Barely a month passes without a workshop, conference or major public event on SME development. It is generally agreed that economic diversification and job creation for Gulf nationals will not succeed if SMEs do not play a substantial role in the process. Yet, only limited research has been done about the challenges that Gulf SMEs face; policy prescriptions are often quite generic; and no systematic, Gulf-wide benchmarking of SME policies has been undertaken so far. It is not even clear how exactly an SME is defined. The present report intends to address some of these lacunae, by

- compiling existing definitions of SMEs in the GCC,
- presenting and analyzing the available economic data on Gulf SMEs,
- identifying the main development challenges Gulf SMEs face,
- comparing and evaluating existing SME support programs in the region, and
- proposing a list of key policies that should be considered across the region to further SME development.

The report will do so in an explicitly comparative framework, comparing SME policies within the Gulf and between the Gulf and other world regions, notably Europe. Benchmarking with European SME development and support policies is undertaken with a view to identifying approaches which, if adjusted to the local context, could be usefully applied in the Gulf.

Definitions: what is a Gulf SME
There are three main criteria used to define when a company is considered a small or medium enterprise: the number of employees, the annual turnover and the assets of a company. Due to the scarcity of financial company data in the Gulf, most public and private bodies dealing with SMEs base their definitions merely on the first criterion, the number of employees. Even then, however, there is no consistent definition of the thresholds which define whether a company is considered small, medium or large – neither between nor, often, within countries.

The issue of definition is important, as only a generally agreed categorization of companies allows for collecting comparable data across sectors and countries. Such data are essential for coherent and coordinated policy and resource planning. As important, the needs and capacities of medium-size companies are often quite different from those of small or micro-enterprises. For tailor-made support programs, the target groups need to be exactly identified and measured. This requires a consistently applied definition.

Bahrain
In Bahrain, the Ministry of Commerce and Industry (MOCI) considers micro-enterprises to have up to 10 employees, small enterprises up to 50, and medium-size ones up to 150 employees. An exception is made for the labour-intensive textiles and garment sector, where companies are still considered medium-size with up to 300 employees. The MOCI also differentiates companies by investment levels, with the thresholds being 20,000, 500,000 and 2 million Dinars for micro, small and medium-size enterprises respectively (corresponding to 53,000, 1.3 million, and 5.3 million $). It is doubtful, however, that the MOCI has reliable data on invested capital for all local companies.
**Kuwait**
The Kuwait Small Projects Development Company, a state-financed fund that takes equity shares in small and medium projects, considers projects with capital up to 150,000 Kuwaiti Dinar (520,000 $) as small and those with less than 500,000 Dinar (1.7 million $) as medium-size. The number of employees does not appear to be used as size criterion.

**Oman**
According to the Omani Ministry of National Economy, companies with up to 5 employees are micro-enterprises, companies with up to 20 are considered small, while those with up to 100 are medium. According to the Ministry of Commerce and Industry, however, companies with up to 10 workers are small, while those with up to 50 are considered medium size.

Banks in Oman have yet different definitions, sometimes based on company turnover – data which private financial institutions can more easily obtain from their clients than state agencies can.

**Qatar**
There seems to be no consensual definition of small and medium enterprises in Qatar, where SME support policies are still in their infancy and the sector is relatively undifferentiated. Recent SME support initiatives (see below) are likely to change this.

**Saudi Arabia**
In Saudi Arabia, there are again several institutions using different definitions. The Saudi Arabian General Investment Authority has in the past classified small enterprises as having less than 60 employees and medium-size companies as having less than 100; according to other bodies, small companies are those with less than 5 million Saudi Riyals (1.3 million $) of capital, while medium-size ones have capital between 5 and 20 million SR (5.3 million $) – similar to the capital criteria of Bahrain’s MOCI.

The Small and Medium Enterprises Development Center at the Eastern Province Chamber of Commerce and Industry defines small enterprises as those employing not more than 20 workers, while medium-size enterprises employ 21-100 workers. According to the “Kafala” SME support program attached to the Saudi Industrial Development Fund, SMEs are companies with up to 20 million Saudi Riyals (5.3 million $) in exports or sales. Again, different criteria and, within the same criterion, different threshold values are used by different institutions.

**UAE**
In the UAE, different definitions have been used by government and by banks. Until recently, the Dubai Chamber of Commerce considered companies with less than 10 employees micro, those with less than 20 or 25 small, and those with less than 100 medium-size, provided turnover is less than 100 million Dirham/year. UAE banks usually consider companies small if their turnover is below 10 million $/year (37 million Dirham) and medium-size if it is under 25 million $ (90 million Dirham). In late 2009, the Dubai government set a general definition for SMEs, which is differentiated by sector and takes both turnover and workforce size into account. A UAE-wide SME definition is currently under preparation by the federal government.
Definitions outside of the Gulf
The SME definition that is the most widely shared in the developing world – adopted among others by UNIDO – is based on the headcount of the workforce using the following thresholds:

- Micro enterprises: employment level below 10,
- Small enterprises: employment level from 10 to 49,
- Medium enterprises: employment level from 50 to 249.

The European Commission uses the same thresholds for the number of employees, but complements it with figures on annual sales and total assets – data which are much easier to obtain in Europe than in the Gulf thanks to the more developed taxation capacities of in EU bureaucracies.

Table 1: The EC Enterprise SME definitions

<table>
<thead>
<tr>
<th></th>
<th>headcount</th>
<th>annual sales</th>
<th>total assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>micro</td>
<td>&lt;10</td>
<td>&lt;3 million $</td>
<td>&lt;3 million $</td>
</tr>
<tr>
<td>small</td>
<td>&lt;50</td>
<td>&lt;13 million $</td>
<td>&lt;13 million $</td>
</tr>
<tr>
<td>medium-sized</td>
<td>&lt;250</td>
<td>&lt;67 million $</td>
<td>&lt;56 million $</td>
</tr>
</tbody>
</table>

*(based on 1 Euro=1.34 $)

With the partial exception of Bahrain, all GCC countries use smaller cut-off points for defining medium enterprises than either EU or UNIDO. This is surprising: GCC economies are more developed than most non-OECD economies, meaning that companies tend to be larger on average, which would in principle allow for a more generous definition of “medium-size”.

It is essentially a political decision whether companies above 100 employees are deserving of special attention. The larger companies are, the more specific their needs and hence required support services tend to be, which is why starting with a focus on relatively smaller companies might be easier.
Whatever the long-term GCC SME definition might look like, in benchmarking international support policies, the different sizes of companies targeted in such programs need to be taken into account. Some of the more demanding generic support policies for medium-sized companies in other countries – such as those oriented towards internationalization and research and development – are not suitable for many of the smaller players in the Gulf.

Some available statistics on Gulf SMEs
Although the general provision of economic statistics in the GCC has improved over the years, specific figures on SMEs are still few and far between, and are often collected through one-off surveys instead of systematically over time. In the preparation of this report, a comprehensive effort has been made to collect all regionally available data, but due to the fragmentation of institutions and programs in charge of SMEs, specific sources might have been overlooked. The following data are by necessity patchy and not always comparable across countries.

Bahrain
According to official sources, there were some 40,000 SMEs in Bahrain in 2007, indicating a high density of business: one company for about 25 inhabitants of the country (or for about 12 Bahrainis).

A 2006 establishment survey based on registrations with the social security administration however has resulted in an estimate of only about 19,000 companies employing a total of about 240,000 workers, broken down by company size as follows:

Figure 2: Bahraini private establishments’ distribution by workforce size

A full 98.6% of companies have less than 100 employees, hence qualifying as SMEs by most standards. 49.5% are micro-enterprises with less than 5 workers; 77.2% have less than 10 workers. The proportion of smaller companies is probably underestimated, as these are more likely not have their staff registered with social security (which probably explains some of the discrepancy with the above-cited estimate of 40,000 companies, and the low total estimate of 240,000 employees).

This suspicion is further strengthened by the fact that in the EU more than 90% of companies have up to 10 workers; the 77.2% estimate for Bahrain hence looks very low. More generally, the distribution of company sizes looks similar to Europe, where
1.08% of all companies have between 50 and 250 employees and are hence considered medium-size, while 0.21% of European companies have more than 250 employees.

There are no dedicated statistics on the sectoral distribution of SMEs in Bahrain. Given that they dominate total commercial registrations, however, a look at the general sectoral distribution of business gives us a good idea of the sectors SMEs are most active in:

**Figure 3: Bahraini private establishments’ distribution by economic activity**

“Trade and repairs” is the dominant sector, with almost 43% of companies active there. It is followed by manufacturing (14%) and construction (12%). Even though non-SMEs are likely to have a larger share in the latter two sectors, the tiny absolute number of larger companies (only 260 in the whole Bahraini economy) means that there is considerable SME activity in more capital- and, in many cases, technology-intensive fields outside of trade, reflecting a relatively diversified and mature SME sector.

At the same time, large companies with more than 100 workers employ two fifths of the registered workforce, while micro-enterprises with less than 10 workers have only 22.2% of the workforce on their payroll. Although the latter is likely an underestimate of actual employment for reasons mentioned above, the relatively small share of small enterprises in *formal* employment is noteworthy – especially when one considers that the share of nationals employed in smaller companies tends to be smaller than in bigger enterprises.
Kuwait

In Kuwait, the number of SMEs was estimated at 33,000 companies in 2007, representing about 90% of the total of registered companies.¹

The reported sectoral distribution of SMEs is similar to that in Bahrain: Enterprises with around 10 employees are highly concentrated in two sectors: wholesale/retail trade and hotels and restaurants (40% of SMEs), and construction and industry (33% of SMEs). The remaining 27% of SMEs are distributed in finance, industry, and services. Again, trade and smaller-scale services constitute the largest share, but there is also considerable SME activity in somewhat more demanding sectors.

Qatar

Qatari statistics about private sector activity are broken down by size of company for some sectors, but only dividing companies into those with less than 10 and those with 10 and more employees.

Table 2: Qatari private sector structure in 2006

<table>
<thead>
<tr>
<th>Sector</th>
<th>number of companies</th>
<th>number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;10 workers</td>
<td>10+ workers</td>
</tr>
<tr>
<td>trade</td>
<td>6521</td>
<td>1044</td>
</tr>
<tr>
<td>restaurants and hotels</td>
<td>1560</td>
<td>1344</td>
</tr>
<tr>
<td>industry</td>
<td>1950</td>
<td>826</td>
</tr>
<tr>
<td>construction</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>transport</td>
<td>182</td>
<td>149</td>
</tr>
<tr>
<td>finance and business services</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>agriculture</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Total</td>
<td>17115</td>
<td></td>
</tr>
</tbody>
</table>

We see again a dominant share of small companies in total commercial registrations: In the sectors where a breakdown is available, they constitute 75% of all companies. Their contribution to job creation, however, is more modest. In the sectors where data are

¹ It is unclear on which SME definition this official estimate is based; but none of the generally used definitions would change the numbers drastically.
differentiated by size, companies with less than 10 employees contribute less than a fifth of overall employment – although probably these are already the sectors where small companies have the strongest presence. Moreover, as mentioned above, experience has shown that they are less likely to employ nationals than larger companies.

In sectoral terms, Qatari micro-enterprises seem somewhat less diversified than those in neighboring countries: About 55% of them are active in trade, which in the GCC context is often the lowest-tech and lowest-margin sector. Industry constitutes about 16%, while restaurants and hotels have a share of about 13%.

**Oman**

According to 2008 figures, SMEs constitute over 90% of Oman’s 48950 companies. A sectoral breakdown is not available, but we have figures about the number of companies by capital and on their contribution to employment according to the number of national employees.

The statistics about national employees include only individuals who are registered with the national social security system, hence significantly understating the contribution of SMEs relative to larger companies, as the share of informal employment and self-employment among SMEs is considerably higher. In addition to creating self-employment, however, our main policy interest is arguably to create formal national employment with full social security. The numbers therefore, although incomplete, reflect the types of jobs we are most interested in.

### Table 3: Employees registered with Public Authority for Social Insurance, 2007

<table>
<thead>
<tr>
<th>Number of insured</th>
<th>employees</th>
<th>registered establishments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>number</td>
</tr>
<tr>
<td>1</td>
<td>3.4</td>
<td>4,501</td>
</tr>
<tr>
<td>2 to 5</td>
<td>8.4</td>
<td>11,080</td>
</tr>
<tr>
<td>6 to 10</td>
<td>4.4</td>
<td>5,832</td>
</tr>
<tr>
<td>11 to 20</td>
<td>5.8</td>
<td>7,585</td>
</tr>
<tr>
<td>21 to 100</td>
<td>20.8</td>
<td>27,344</td>
</tr>
<tr>
<td>100 +</td>
<td>57.2</td>
<td>75,433</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>131,775</td>
</tr>
</tbody>
</table>

We see that companies with up to 10 workers constitute 87% of all companies, but employ only about 16% of total Omani private sector employees with social insurance – a modest contribution. About 43% of total employees work in companies with up to 100 insured workers. About 2% of companies employ more than 100 workers, and their share in total employment provision is 57% – both higher shares than in Europe.
<table>
<thead>
<tr>
<th>Number</th>
<th>Capital (&lt;000 OR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>39,366</td>
<td>Under 5</td>
</tr>
<tr>
<td>24,385</td>
<td>5 to 10</td>
</tr>
<tr>
<td>46,055</td>
<td>10 to 25</td>
</tr>
<tr>
<td>8,878</td>
<td>25 to 50</td>
</tr>
<tr>
<td>9,382</td>
<td>50 to 100</td>
</tr>
<tr>
<td>9,366</td>
<td>100 to 250</td>
</tr>
<tr>
<td>1,061</td>
<td>250 to 500</td>
</tr>
<tr>
<td>539</td>
<td>500 to 1000</td>
</tr>
<tr>
<td>205</td>
<td>1000 to 2000</td>
</tr>
<tr>
<td>85</td>
<td>2000 to 3000</td>
</tr>
<tr>
<td>49</td>
<td>3000 to 4000</td>
</tr>
<tr>
<td>18</td>
<td>4000 to 5000</td>
</tr>
<tr>
<td>156</td>
<td>Over 5000</td>
</tr>
</tbody>
</table>

(one Omani Riyal is 2.6 $)

If we apply the above-mentioned Saudi and Bahraini criteria for classifying SMEs by capital, then 99.2% of registered companies in Oman can be considered as small, i.e. the have capital of less than 1.3 million $. 0.5% would be counted as medium-size, i.e. endowed with more than 1.3 and less than 5.3 million $ capital. According to Bahraini criteria, moreover, about 75% of companies would be considered micro-enterprises with less than 53,000 $ capital. Large companies with more than 5.3 million $ in capital constitute only 0.2% of the total. It is noteworthy that the second table (about capital) includes many more companies than the first one (about employment). This reflects the fact that the dominant share of micro-enterprises, perhaps 90%, does not employ nationals as formal workers with social insurance, and hence does not figure in national employment statistics.

**Saudi Arabia**

According to the Riyadh Chamber of Commerce and Industry, 96% of Saudi enterprises employ less than 100 workers. Data from the Jeddah Chamber of Commerce and Industry show that 95% of commercial registrations in Saudi Arabia are held by SMEs, and 71% of industrial establishments are small and medium size. SMEs contribute 28% of total national economic activity.

In 2008, a total of 785,000 establishments were registered in Saudi Arabia, of which 764,000 were sole proprietorships. This means that there are more than 700,000 SMEs active in the kingdom, or about one SME per 25 Saudi nationals. The sectoral breakdown is similar to that of its GCC neighbours: 47% of SMEs are engaged in commercial and hotel businesses, 27% in construction, 12% in industry, 6% in social services and 8% in sundry other sectors.
For Saudi Arabia, we have more detailed data about the distribution of company sizes by sector, reported in the table on the next page. Again, the figures only concern employees who are enrolled in the national social security system (both nationals and expatriates).

**Table 5: Number of employees by sector and company size in Saudi Arabia**

<table>
<thead>
<tr>
<th>Size of company (empl.)</th>
<th>finance &amp; realty</th>
<th>electricity, gas and water</th>
<th>industry</th>
<th>agriculture</th>
<th>social services</th>
<th>mining</th>
<th>contracting and building</th>
<th>trade</th>
<th>PTT</th>
<th>other</th>
<th>% in total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 4</td>
<td>7931</td>
<td>229</td>
<td>19188</td>
<td>523</td>
<td>14141</td>
<td>751</td>
<td>29288</td>
<td>58785</td>
<td>2235</td>
<td>5</td>
<td>4</td>
<td>133076</td>
</tr>
<tr>
<td>5 to 9</td>
<td>8626</td>
<td>423</td>
<td>20972</td>
<td>595</td>
<td>14042</td>
<td>789</td>
<td>70218</td>
<td>87319</td>
<td>2550</td>
<td>18</td>
<td>6.1</td>
<td>205152</td>
</tr>
<tr>
<td>10 to 19</td>
<td>9004</td>
<td>792</td>
<td>28485</td>
<td>1455</td>
<td>19817</td>
<td>1183</td>
<td>119695</td>
<td>140862</td>
<td>3285</td>
<td>32</td>
<td>9.7</td>
<td>324860</td>
</tr>
<tr>
<td>20 to 39</td>
<td>8960</td>
<td>859</td>
<td>27286</td>
<td>2183</td>
<td>24398</td>
<td>1235</td>
<td>103454</td>
<td>130836</td>
<td>6172</td>
<td>48</td>
<td>9.1</td>
<td>305431</td>
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<tr>
<td>40 to 59</td>
<td>5930</td>
<td>958</td>
<td>19082</td>
<td>1856</td>
<td>16503</td>
<td>1242</td>
<td>46482</td>
<td>69911</td>
<td>3985</td>
<td>NA</td>
<td>4.9</td>
<td>165949</td>
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<tr>
<td>60 to 79</td>
<td>2788</td>
<td>770</td>
<td>13637</td>
<td>1228</td>
<td>18347</td>
<td>818</td>
<td>34217</td>
<td>51389</td>
<td>3698</td>
<td>NA</td>
<td>3.8</td>
<td>126892</td>
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<tr>
<td>80 to 99</td>
<td>2145</td>
<td>802</td>
<td>12142</td>
<td>681</td>
<td>13566</td>
<td>915</td>
<td>21831</td>
<td>3215</td>
<td>3206</td>
<td>NA</td>
<td>2.6</td>
<td>87503</td>
</tr>
<tr>
<td>100 to 199</td>
<td>8719</td>
<td>3614</td>
<td>40572</td>
<td>3341</td>
<td>48182</td>
<td>2804</td>
<td>71394</td>
<td>100044</td>
<td>13677</td>
<td>NA</td>
<td>8.7</td>
<td>292347</td>
</tr>
<tr>
<td>200 to 299</td>
<td>5002</td>
<td>1665</td>
<td>25572</td>
<td>2965</td>
<td>31081</td>
<td>3645</td>
<td>47211</td>
<td>52984</td>
<td>6393</td>
<td>NA</td>
<td>5.3</td>
<td>176518</td>
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<td>300 to 399</td>
<td>3463</td>
<td>3015</td>
<td>24896</td>
<td>974</td>
<td>22132</td>
<td>1142</td>
<td>41705</td>
<td>43338</td>
<td>5067</td>
<td>NA</td>
<td>4.3</td>
<td>145732</td>
</tr>
<tr>
<td>400 to 499</td>
<td>3504</td>
<td>2724</td>
<td>18148</td>
<td>849</td>
<td>24172</td>
<td>904</td>
<td>32781</td>
<td>34294</td>
<td>3914</td>
<td>NA</td>
<td>3.6</td>
<td>121290</td>
</tr>
<tr>
<td>500 and more</td>
<td>56357</td>
<td>42796</td>
<td>115957</td>
<td>27342</td>
<td>172780</td>
<td>69588</td>
<td>437220</td>
<td>316887</td>
<td>34555</td>
<td>1334</td>
<td>37.9</td>
<td>1274816</td>
</tr>
<tr>
<td>122429</td>
<td>58647</td>
<td>365837</td>
<td>43922</td>
<td>419161</td>
<td>85016</td>
<td>1055496</td>
<td>1118664</td>
<td>88619</td>
<td>1405</td>
<td>100</td>
<td>100</td>
<td>3359566</td>
</tr>
</tbody>
</table>

SMEs as usually defined in the Gulf – with up to 100 employees – employ about 40% of all workers in Saudi Arabia. Companies with up to 9 workers represent 72% of all companies which have officially registered their employees with social security, similar to the share in Bahrain, but their contribution to total employment is only about 10%. As in the other cases, this leaves out a great deal of informal employment and self-employment, involving hundreds of thousands of micro-companies not registered with the social security system. The bottom line is, however, that the contribution of micro-enterprises to *formal* employment is modest.
Companies with between 10 and 59 workers employ about 24% of the total formal workforce, while companies with between 60 and 299 account for 20.3%. Large companies with 300 and more employees account for 46% of total employment. This share is higher than in Europe.

As expected, and as illustrated in the below graph, there is a disproportionate representation of SME employment in trading as well as building and contracting, while other sectors, such as industry, tend to operate with larger numbers of workers per company.

**Figure 6: Distribution of employment within sectors by size of company**

![Graph showing distribution of employment within sectors by size of company.](image)

* The graph leaves out the category for “500 and more” employees

Trade and building/contracting provide the bulk of formal SME employment in the kingdom, which in total amounts to about 1.3 million workers.

**Table 6: Contributions of different sectors to total SME employment (companies with up to 100 employees)**

<table>
<thead>
<tr>
<th>sector</th>
<th>finance &amp; realty</th>
<th>electricity, gas and water</th>
<th>industry</th>
<th>agriculture</th>
<th>social services</th>
<th>mining</th>
<th>contracting and building</th>
<th>trade</th>
<th>PTT</th>
</tr>
</thead>
</table>
| SMEs in Saudi Arabia are estimated to account for only about 14% of total industrial production and 8% of the value of industrial goods exported.

**UAE**

In the UAE, SMEs also constitute at least 90% of all businesses. As the most recent available establishment survey stems from 1995, some extrapolation is necessary to
estimate their role today. In 1995, a total of 93,263 companies were registered as active in the UAE, of which 1020 had more than 100 employees. The share of SMEs hence was about 99%, and the share of micro-companies with up to 9 employees almost 80%. At the same time, micro-companies contributed about a third to total employment, which is higher than in either Saudi Arabia or Bahrain. The total employment by SMEs, i.e. companies with less than 100 workers, amounted to 63% of the overall workforce (which is in line with the 61% figure for Dubai cited by the Mohammed Bin Rashid Establishment for SME Development in its more recent reports).

Table 7: Breakdown of UAE companies by establishment size

<table>
<thead>
<tr>
<th>Size of company</th>
<th>Number of companies</th>
<th>%</th>
<th>Total employees</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-9</td>
<td>73204</td>
<td>78.49%</td>
<td>257,615</td>
<td>33.02%</td>
</tr>
<tr>
<td>10-49</td>
<td>8283</td>
<td>8.88%</td>
<td>161,341</td>
<td>20.68%</td>
</tr>
<tr>
<td>50-99</td>
<td>1039</td>
<td>1.11%</td>
<td>69,502</td>
<td>8.91%</td>
</tr>
<tr>
<td>100+</td>
<td>1020</td>
<td>1.09%</td>
<td>291,681</td>
<td>37.39%</td>
</tr>
<tr>
<td>Total</td>
<td>93,263</td>
<td>100%</td>
<td>780,139</td>
<td>100%</td>
</tr>
</tbody>
</table>

No sectoral or size-wise breakdown of companies is available from the 2005 census. We know however that the total number of establishments has increased from 93,000 to about 157,000 by 2005, a growth of almost 70%. We also know that in 2007, there were about 85,000 SMEs registered with the Dubai Chamber of Commerce and Industry alone in 2008 – more than in Bahrain, Qatar or Kuwait.

If we assume that the average sizes and the share of SMEs in the total economy remained constant, we would have a total UAE-wide employment by SMEs of more than 800,000 individuals by 2005, including employment by micro-enterprises of more than 400,000 individuals.

The sectoral breakdown of SMEs in the UAE seems even less differentiated than in Qatar, with three fifths of companies active in the trading sector, and a mere 5% in manufacturing. This probably has to do with the large expatriate-run economy in the Emirates that is supported by small retail outlets.
Summary
We need to conclude that the data on SMEs’ economic contribution in the GCC are incomplete and only partially comparable across cases. Some basic facts about their economic role can be established, however: SMEs constitute more than 90% of businesses in every country of the region. A large share of SMEs is active in the trade sector; other important sectors include small-scale workshops, hotels and restaurants as well as contracting. They are less important in industry and other capital-intensive sectors. The UAE and Qatar appear somewhat less diversified than the other countries.

In some, but not all cases, the data allow us to distinguish micro, small and medium enterprises. Where we can, it is clear that despite their numerical dominance, the contribution of micro-enterprises with up to 10 employees to formal employment is rather modest – especially when it comes to employment of nationals. SMEs more generally, i.e. companies with up to 100 employees, tend to employ between 40 and 63% of the insured private labour force; a very substantial share, but below the high estimates of up to 85% sometimes cited in the press.

We have little data about SMEs’ contribution to the national economy GDP. We know however that SMEs on average pay lower wages and run less capital-intensive and lower-margin operations than larger companies. We can hence assume that their share in private economic activity is lower than their shares in private employment cited above. As the above employment figures usually exclude self-employment and informal employment, however, this has to remain a guesstimate.

Comparison with Europe
It is useful to compare the structure of SME sectors in the GCC with the situation in
Europe, both to get a sense of how typical the GCC is and to enable a discussion about which policy approaches might “travel” well from the EU to the GCC. The table below gives statistics on the sectoral distribution of 21 million SMEs in Europe in 2007.

Table 8: Number of SMEs, large enterprises by sector, EU-27, 2007

<table>
<thead>
<tr>
<th>Sector</th>
<th>SMEs</th>
<th>large enterprises</th>
<th>TOTAL</th>
<th>occupied persons per enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>mining and quarrying</td>
<td>22000</td>
<td>300</td>
<td>22300</td>
<td>37</td>
</tr>
<tr>
<td>manufacturing</td>
<td>2357000</td>
<td>19000</td>
<td>2376000</td>
<td>15</td>
</tr>
<tr>
<td>electricity, gas and water supply</td>
<td>29000</td>
<td>1100</td>
<td>30100</td>
<td>56</td>
</tr>
<tr>
<td>construction</td>
<td>2914000</td>
<td>2500</td>
<td>2916500</td>
<td>5</td>
</tr>
<tr>
<td>trade, consumer repair services</td>
<td>6491000</td>
<td>6600</td>
<td>6497600</td>
<td>5</td>
</tr>
<tr>
<td>hotels and restaurants</td>
<td>1729000</td>
<td>1300</td>
<td>1730300</td>
<td>5</td>
</tr>
<tr>
<td>transport, storage and communication</td>
<td>1243000</td>
<td>3500</td>
<td>1246500</td>
<td>10</td>
</tr>
<tr>
<td>real estate, renting and business activities</td>
<td>5625000</td>
<td>8500</td>
<td>5633500</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>20409000</td>
<td>43000</td>
<td>20452000</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: EIM Business and Policy Research, based on Eurostat data

The sectoral distribution is fairly similar to that in the Gulf, but somewhat more evenly distributed: Trade, while the most important sector, is less dominant; construction tends to be less important, while real estate and other business activities constitute a larger share. Based on this comparison, we might presume that the commercial sector in the Gulf is quite saturated with small firms and will offer little opportunities for growth unless new business models are developed. Once the current building boom is over, SMEs in the contracting sector could also come under pressure. These two sectors have been the most quickly developed since the 1970s and have reached a point of saturation earlier on.

Figure 8: Distribution of SMEs in Europe over main sectors
In the EU, there is about one SME per 25 EU citizens, a rate comparable to the GCC. This, again, seems to show that structures are broadly similar and that there are not, generally speaking, “too many” small companies in the Gulf as some economists have argued.

In terms of the employment contribution, European micro-enterprises seem to play a more substantial role, accounting for almost one third of all private sector jobs. The difference with the GCC quite likely has to do with the large size of non-registered employment in Gulf SMEs; the fact remains, however, that the contribution to formal employment is smaller in the Gulf. Changing this state of affairs will have to be one main challenge of Gulf SME policies.

European enterprises with up to 50 employees account for slightly more than half of total employment, and all companies with up to 250 employees for 67% of the total. This appears roughly comparable to the GCC, although in some cases in the Gulf the share of larger companies both in the total number of companies and in total formal employment seems to be higher – an interesting fact, given that we often think of Europe’s economies as more “mature” and hence would expect a larger role for big companies.

Table 9: Employment indicators of non-primary private enterprise, EU-27, 2007

<table>
<thead>
<tr>
<th></th>
<th>micro</th>
<th>small</th>
<th>medium-sized</th>
<th>SME</th>
<th>large</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>number of enterprises</td>
<td>18,788,000</td>
<td>1,402,000</td>
<td>220,000</td>
<td>20,409,000</td>
<td>43,000</td>
<td>20,452,000</td>
</tr>
<tr>
<td>number of employed</td>
<td>38,890,000</td>
<td>27,062,000</td>
<td>21,957,000</td>
<td>87,909,000</td>
<td>42,895,000</td>
<td>130,805,000</td>
</tr>
<tr>
<td>average number of occupied</td>
<td>2</td>
<td>19</td>
<td>100</td>
<td>4</td>
<td>1,003</td>
<td>6</td>
</tr>
<tr>
<td>labour costs (million €)</td>
<td>562,000</td>
<td>751,000</td>
<td>680,000</td>
<td>1,992,000</td>
<td>1,612,000</td>
<td>3,604,000</td>
</tr>
<tr>
<td>labour costs per employee (&lt;000 €)</td>
<td>25</td>
<td>29</td>
<td>31</td>
<td>28</td>
<td>38</td>
<td>32</td>
</tr>
<tr>
<td>% distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>number of enterprises</td>
<td>92</td>
<td>7</td>
<td>1</td>
<td>100</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>number of employed</td>
<td>30</td>
<td>21</td>
<td>17</td>
<td>67</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>labour costs</td>
<td>16</td>
<td>21</td>
<td>19</td>
<td>55</td>
<td>45</td>
<td>100</td>
</tr>
</tbody>
</table>

Another interesting fact is that European companies with up to 250 workers contributed a full 85% to employment growth from 2002-07, indicating a disproportionate importance of SMEs for job market development in recent times. Given the skewed employment structures in the GCC, SMEs there will also have to increase their relative contribution to national job creation.

Official European data on SMEs include many other variables which are not covered by GCC statistical sources, such as profitability, survival rate, turnover etc., all of which are essential for informed policy-making. One useful parameter to study is European SMEs’ contribution to national economic activity, which might give us a sense of the same variable in the Gulf: European SMEs’ contribution to total value added and turnover both amount to 58% of the total, 9 percentage points less than the contribution to employment. The discrepancy is largely explained with micro-enterprises’ lower turnover per worker: While they employ 30% of workers, they only contribute 19 and 21% to turnover and value-added respectively. Given their usually low-tech nature, we can presume that in the GCC too, micro-enterprises produce less value-added per employee, and the total contribution of SMEs to GDP is smaller than that to total employment. This underlines, again, that SMEs’ greatest contribution tends to lie in national job creation – which is precisely where Gulf SMEs seem to have the largest unrealized potential.
Generic challenges for Gulf SMEs

The primary role that Gulf SMEs are expected to play in national development in the coming years is arguably that of employment creation: While GCC populations still grow at a rather fast clip of about 2% per year, public sectors have reached their absorptive limits as employers of last resort. Business, although growing, is not creating enough jobs attractive enough for nationals, and the latter often lack the entrepreneurial skills, incentives and resources to start their own companies. SMEs will have to play a leading role in job creation and, almost by definition, in national entrepreneurship. The GCC nations have a long and deep tradition of trading and business activity; the challenge is to unlock this tradition in the post-boom era to spread the benefits of economic development to wider social strata.

In this context, it should be pointed out that the aim of the present study is not to propose policies that expand SME sectors just for the sake of expansion. There is no need for more low-margin, low-value-added enterprises in the Gulf. The presence of SMEs is no virtue per se: They often contribute less to national development than larger companies in terms of technological modernization, training and provision of attractive work opportunities, diversification etc. The share of SMEs in national economies tends to be larger in poorer countries, and econometric studies have shown that simply having more SMEs does not contribute to growth. What the present study instead is looking for are ways to encourage SME development in qualitative terms, leading to genuine diversification, technological upgrading and growth of promising business models – processes that so far have often been limited to larger companies, which are not able by themselves to create enough sustainable jobs for nationals.

For SMEs to provide more quality jobs and for genuine entrepreneurship to spread more widely, a number of important challenges need to be tackled. These include both generic problems that SMEs everywhere in the world have to struggle with, and a number of issues that are more specific to the GCC. Some of the issues – such as problems of bookkeeping and collateral for loans – are particularly acute for micro-enterprises, while others are relevant for SMEs of all sizes. Before we engage with specific development challenges, however, a few general observations on the nature of GCC economies are in order.

The economies of the Gulf monarchies combine features of advanced and emerging market economies in a rather unique way: On the one hand, income levels are high, the private sector is capital-rich, infrastructure is well developed, national populations are fairly well educated and large companies are often quite professionally run. On the other hand, however, private sector wage levels for medium- to low-skill jobs are very low, and companies below the top tier are frequently run by developing country nationals, often according to management practices imported from their countries of origin. This leads to a large sector of small and micro-enterprises that is often beyond the regulatory reach of the state (resulting in, among other things, the non-registration of employees discussed above). This hybrid situation means that neither the SME policy “recipes” from OECD countries nor those from the developing world can be applied one-to-one. The Gulf economies offer a rather unique combination of challenges and opportunities that requires tailor-made policy approaches.
Financing
Finance is a key challenge for SMEs worldwide, but it tends to be particularly stifling in emerging markets. Due to their often rather informal organization, many Gulf SMEs encounter problems that are typical of non-Western markets more broadly.

Banks in the Gulf are generally reluctant to lend to SMEs. According to a study by Dun and Bradstreet, banks in the UAE in 2008 rejected 50-70% of credit applications from SMEs due to the higher risk and due to applicants’ failure to meet loan conditions. 55% of SMEs were unable to get the credit they required. Banks are wary of start-ups in particular: Few companies which have not been in business for at least two to three years receive any finance.

In the EU, by contrast, despite the recent economic crisis and widespread concern about access to credit among SMEs, over 70% of companies got all or part of the bank loan they wanted, and only about 15% were fully rejected according to a 2009 EU-wide survey. Roughly 60% of companies had used at least one source of debt financing in the past six months.

There are several factors that complicate SME lending in the GCC. Issues of enforcement and collateral are particularly prominent: Company assets are often not valuable enough to be used as collateral for larger loans. Banks typically demand 150% of the loan value as collateral, which is high in international comparison.

**Figure 9: Collateral requirements in MENA**

![Collateral requirements in MENA](image)

Source: World Bank Investment Climate Assessments, various years.

Much SME lending in the region is through personal loans, and most GCC nationals have much of their wealth tied up in their personal property. Real estate however is often unsuitable for use as collateral, as GCC courts are reluctant to evict debtors from their dwellings, which is seen as morally (and Islamically) unacceptable. Small entrepreneurs tend to pledge their cars as collateral, as vehicles – although mobile assets – are more
easily repossessed. In the UAE, this has created a flourishing secondary market in expensive cars that are only purchased for the sake of being recorded as collateral and then immediately resold.

When a loan is issued, interest rates are often 10 percentage points and more above Central Bank rates. This compensates for perceived risk, but requires high returns on the invested capital and undermines companies’ growth. Most lending is short-term, which further increases the pressure on business owners and undermines the long-term business planning needed for technology-intensive diversification. Many owners rely exclusively on cash flows or “love money” from relatives to finance their operations, which inherently limits their growth prospects. Non-payment of debt can lead to imprisonment in several countries, making credit-based business planning even less attractive.

Beyond banks, there are practically no formal sources of finance. The burgeoning private equity industry in the region largely neglects smaller players: very few projects with a capital investment of less than 2 million $ are supported, excluding all small and many medium-size companies. Moreover, outside of some state-controlled support programs, very little venture capital is available.

**Case study: SME finance in the Emirates**
Several UAE banks have dedicated SME programs, and several are studying an expansion into the sector. SME loan default rates are close to emerging market standards at about 5-7% - which, in principle, should be amply compensated by the interest premium that banks demand. Even before the recent credit crunch, however, more than half of companies however were not successful with their loan applications. With the international financial crisis, trust has almost completely evaporated and banks are mostly focusing on large clients.

The absence of a real credit bureau makes due diligence very difficult and costly. Many companies have 3, 4 or 5 bank accounts; banks have separate client pools and do not share information sufficiently to allow cross-checks; not even a shared black list seems to exist between banks. The state-supported EMＣREDIT information service created in 2006 appears to have very limited data as it is based on voluntary disclosure and is not sufficiently supported by the Central Bank. Loans above 50,000 Dirham are supposed to be registered with the latter, but implementation of this rule appears to be patchy. It remains to be seen how forcefully current plans for a formal credit bureau will be implemented.

In Dubai, cars are the most desirable collateral, as they are registered with the Road and Transport Authority, which is a relatively well trusted regulator. Property deeds of houses, by contrast, are often unclear, further complicating the process of repossession.
Accounting
One might blame GCC banks for being too “spoiled” to engage in the resource-intensive business of SME lending. There is some truth to this: Not enough is invested in the required systems and skills, and little effort is made to cooperate on credit bureaus that could limit risk; information sharing between banks remains limited. In national banking markets that are still partially protected against competition, large customers remain more lucrative.

The more important limiting factor to SME lending, however, are arguably the accounting practices of most small companies in the region. 95% or more of enterprises in the GCC are single proprietor companies, and the distinction between company and private assets is often hazy. Owners frequently have no clear idea of their balance sheets and lack proper accountancy training. As far as they employ accountants, these usually rank fairly low in the company hierarchy.

The attitude that the freedom to run one’s business takes precedence over reporting to lenders is widespread among GCC SME owners. In Europe, more than two thirds of SMEs share their balance sheets with their banks, while in the Middle East region, the share is less than half. Company books are seen as a private affair, and hence remain difficult to inspect. Banks and government support programs have a significant problem with establishing the value of existing companies. Although in some cases auditors are used, many of the latter just write down whatever they receive from owners without independent checks.

SMEs need finance to grow and to test new business models. This will not be forthcoming on a sufficient scale, however, unless the accountancy culture in the region changes. The fact that many companies are formally owned by nationals but informally run (and sometimes financed) by expatriates does not make bookkeeping more transparent.

Innovation, business planning and management issues
The delegation of daily operations to expatriate managers – especially in the smaller and richer Gulf countries – also limits innovation and the acquisition of skills among SME owners. As long as a regular stream of income can be created with low-margin activities and very low effort from the owner’s side, reluctance to innovate and take risks will remain widespread among small companies. The “copycat” behavior observed in many quarters of big Gulf cities, where dozens of very similar repair shops and retail outlets are set up next to each other, might lead to efficient markets but stifles innovation. Simple buying and selling of goods and standard services tends to be the main focus of the majority of SMEs. The resulting low margins undermine growth and the accumulation of sufficient resources to implement new business models. They also tend to prevent the creation of better-paid, higher-quality jobs.

SME diversification and specialization also suffer from a distinct lack of market, technological and managerial information. The business culture in the Gulf is largely oral and access to good market studies is limited: Although many retail and service markets are well-researched by private consultancies, the studies are often too expensive for micro- and small businesses. Business planning more generally is often rudimentary: A 2002 study by
the Riyadh Chamber of Commerce and Industry showed that 61% of SMEs in Saudi Arabia executed their projects without conducting appropriate feasibility studies.

Saudi SMEs on average are only 7 years old, which could be an indicator of insufficient long-term planning and adaptability: They tend to go out of business as soon as conditions in the market change.

Business behaviour in the Gulf also tends to be fairly individualistic, with limited cooperation on purchasing, supply chains and marketing by SMEs of all sizes. The cooperative structures that exist in other emerging and developed markets, whether privately provided or government-assisted, hardly exist in the GCC. Involvement in business clusters and shared infrastructure – quite important in larger-scale industry in the region – is limited among SMEs, although synergies in certain service and manufacturing sectors would be considerable. All this means that operational costs are high and many markets with significant logistical economies of scale remain closed to SMEs. Business service providers focusing on SMEs – for consulting, training, business and resource planning etc. – are underdeveloped.

Human resource issues
Access to talented manpower for Gulf SMEs is limited. This has to do with the better salaries that larger companies can often afford to provide, but also with the lack of career plans and long-term prospects for SME employees. Very few companies have a clearly structured human resources policy. Loyalty of workers hence is often limited. Turnover of national employees unrelated to the owners tends to be particularly high and a source of frustration for management.

SMEs generally employ considerably lower shares of nationals than larger companies: Only about 2% of the employees of Saudi SMEs in 2002 were Saudis, while the general private sector Saudization rate was about 10%. SMEs on average employ less qualified workers; although small companies are generally labour intensive, the type of labour currently demanded is often the “wrong” one: few jobs attractive for nationals are created. It is important to realize that certain types of SME growth in trade, basic services and contracting will contribute very little to national employment, and will instead create potentially undesired additional demand for foreign labour.

The resources available for upgrading SMEs’ human resources are currently limited: Although every GCC country has a plethora of private training institutes, these are often expensive, charging up to 3000 $ for a few days of training in accounting or business planning. Most courses moreover are very generic and the quality often mediocre. There is a distinct need for certification and classification or ranking mechanisms for private training institutes.

Bureaucracy
According to a study conducted by the SME Center at the Riyadh Chamber of Commerce and Industry, 44% of SME managers see workforce issues as an important obstacle to their development (see the graph below). The most important obstacle identified by the study, however, is bureaucracy, named by 65% of respondents.
In most international surveys, Gulf countries receive middling scores on the quality of their bureaucracy: better than most of the Middle Eastern peers, but worse than most OECD countries. They rank between place 42 (UAE) and 97 (Saudi Arabia) in the World Bank’s global evaluation of “government effectiveness” for 181 countries.

While larger companies might find it relatively easy to deal with national administrations that at times are opaque and slow-moving, smaller players often have to expend considerable time and resources in their interaction with the bureaucracy – either because they lack the connections to cut short cumbersome bureaucratic procedures, or because they do not have dedicated staff specializing in administrative issues. Licensing, registration, certification and documentation requirements in the GCC are by no means as cumbersome as in many other emerging markets, but neither is their impact on business negligible, especially if an entrepreneur wants to operate a business that does not strictly fit an existing mould.

The phenomenon is not specific to the GCC: SMEs in emerging markets worldwide report more problems with access to governmental information, predictability of the judiciary, bureaucratic discretion and the like than large companies do. All other things being equal, the regions with higher administrative costs to doing business are also those with the lower shares of SMEs in overall business.

There have been attempts to create dedicated SME windows at government agencies, for example at the Ministry of Commerce in Kuwait. Implementation and follow-up has often been weak, however. SMEs often have to resort to a mu’aqqib, a paid “paper pusher”, to take care of bureaucratic paperwork in specific agencies. The recent introduction of e-government procedures in several GCC countries holds significant promise for SMEs, as it potentially reduces bureaucratic discretion and leads to equal treatment of all clients.
Challenges and opportunities of internationalization
Globalization and international trade integration are often perceived as a threat to small business, not only in the Gulf, but everywhere in the world. As a matter of fact, however, the sectors and activities that are likely to be most affected by bilateral trade and investment agreements or WTO rules are mostly populated by larger companies, most notably finance, commercial representation and agencies, as well as certain parts of industry. This also means that the EU-GCC free trade negotiations will have a limited impact on SMEs.

Smaller-scale local trade and service activities are often protected through caps on foreign ownership – and would in most cases not make attractive targets for foreign acquisition even if they were not. The limited amounts of smaller-scale FDI that enter the Gulf region mostly come from the rest of the Arab world and South Asia, not from OECD economies – and in many cases they only represent the legalization of existing informal ownership structures of long-term expatriate residents who have been running the businesses all along.

It is true that smaller restaurants and retailers can be threatened by competition through larger chains of global brands. But even if the latter operate under foreign franchises, the owners of the companies are usually large local business families. The issue is hence one of domestic rather than international competition – and to the extent that some low-margin, expatriate-run cornershops are driven out of the market in the process, this will not do lasting damage to the national economic fabric.

Internationalisation of the service sector might in fact offer some chances for SME diversification through the import of new business models, for example through franchising mechanisms. While many franchises require economies of scale that might disqualify smaller companies as direct franchisees, mundane service operations like dry cleaning or shoe repair, as well as more niche-oriented retailers and restaurants, can also be run as franchises by smaller investors.

Manufacturing is, in principle, more exposed to international competition. But structures of protection in the Gulf have always been limited and tariffs rather low; domestic industry is therefore used to international pressure. As we have seen, moreover, SMEs play a limited role in manufacturing. That being said, more could be done for export promotion in the SME sector: International trade is traditionally a field in which smaller players struggle the most due to their limited access to information, marketing networks and finance, even more so than in a domestic context.

Existing trade promotion programs in the GCC are fairly recent and have no dedicated focus on smaller companies; more could be done to market Gulf products at least in the wider MENA region. Even then, however, most SMEs will remain domestically oriented: Even in highly integrated Europe, only 8% of SMEs export and only 12% of the inputs of an average SME are purchased abroad, due to lack of finance but most of all skills and human resources.
GCC-specific challenges

Although the weighting of issues might be different, many of the above problems are also faced by SMEs in other parts of the world. There are at least two challenges, however, which are specific to the GCC context and which any support policy will have to take into account to avoid producing unintended outcomes.

“Cover-up businesses”
One administrative and managerial challenge that is unique to the Gulf – at least in terms of scale – is that of “cover-up businesses”, tasattur in Arabic. These are companies which are registered under the name of a national, but are in fact financed and run by an expatriate. The role of the national is usually limited to collecting a monthly fee. The tasattur phenomenon is particularly widespread among SMEs than among large companies (although not unknown among the latter), and is encountered more frequently in the higher-income GCC countries with smaller population. They have come into being because specific sectors are officially barred to foreign investors, or at least require minimum investment levels that smaller expatriate entrepreneurs cannot afford.

As the practice is illegal, there are no official statistics about it, but extrapolating from country-level informal estimates, the total number of tasattur businesses could amount to 250,000 or more in the region, i.e. perhaps a third of total Gulf SMEs. They generate significant “fee” income for the national frontmen. There are laws and inspections regimes against the phenomenon, but it is too large-scale to be repressed effectively in the absence of a major national campaign. In some cases, cover-up businesses have even fraudulently applied for, and received, state support from official SME development programs whose mandate is to support national entrepreneurship.

Tasattur is not an unmitigated evil: It allows GCC economies to overcome managerial bottlenecks and allows widespread small-scale investment by foreigners who are, by and large, hard-working and law-abiding. It does however create a significant problem for targeted support policies, as these usually aim – with some justification – at national entrepreneurs. It also undermines incentives for nationals to engage in hands-on management. Cover-up businesses also tend to make it harder for real national entrepreneurs to compete in markets that are dominated by the practice, and in which tightly knit expatriate networks sometimes prevent market entry. The tasattur phenomenon underlines the need to augment the regulatory and information-gathering capacity of national bureaucracies and to design SME support policies in a way that only higher value-added projects actually run by nationals are supported.

Labour market challenges
To the extent that SME support policies aim at employment generation for nationals, they need to take into account the unique features of GCC labour markets, which are highly segmented in several dimensions: First, according to both surveys and labour market statistics, the majority of young job seekers continues to prefer a government post to private sector employment. Job security, benefits and – on most levels of qualification – wages tend to be better, while work tends to be less demanding.
Private employment therefore continues to be dominated by expatriates, as the below statistics for Saudi Arabia show. It appears that for every job created for a Saudi, more than six jobs are created for foreigners. This segmentation is even more pronounced in the richer GCC states.

The Saudi labour market in 2007

This makes private job generation for nationals difficult enough. In the SME sector, there is the compounding factor that wages on average are even lower than with large companies, work conditions often less attractive, and employment even less secure. This is why the contribution of micro-enterprises to (formal) national employment appears far smaller in the GCC than in Europe, and why in the past SME job generation in most sectors has almost exclusively benefited expatriates.

This means that national employment in SMEs in the mid-term only appears realistic in rather specific, high value-added service sectors and activities. Many jobs in the trade, repair and construction sectors will remain unattractive to nationals. Especially in richer states, the policy challenge in these sectors seems to be most of all to incentivise more nationals to play a more active part in managing the businesses as entrepreneurs, rather than trying to get them employed there.
Existing SME support programs in the Gulf

While existing SME support programs in the Gulf attempt to address some of the issues outlined above, others seem to not yet have been taken into account systematically. Considerable resources have gone into various SME-focused support organizations, which in a number of cases have produced impressive success stories. Experiences and performance data have not been systematically documented and shared, however, and coordination between different support organizations is often lacking, even within the same country. The following section will give a brief, non-exhaustive overview of some of the most important programs and plans. A select few will be discussed in more depth as mini-case studies.

Bahrain

In recent years, the Bahraini government has been fairly active in the field of SME promotion, but many of the programs are so young that they are still difficult to evaluate. The Ministry of Commerce and Industry produced a generic policy statement on SMEs in December 2007, containing the above-mentioned definition of SMEs and the announcement of new business incubators and a World-Bank supported entrepreneurship centre.

The most important body to support SMEs in Bahrain is probably the Tamkeen program, which has been created in the course of recent Bahraini labour market reforms and aims to train and financially support small-scale entrepreneurs. It is financed through a fee levied on foreign labour in Bahrain. It has partnered with various training institutes and banks – such as Shamil Bank and the Bahrain Development Bank – to provide courses on entrepreneurship and smaller-scale loans, as well as business development grants. Tamkeen seems to be focused mostly on micro- and small enterprises and provides a number of fairly specific training courses in a variety of sectors, as well as business planning support. Although its approach seems comprehensive and oriented towards genuine diversification, it has been contentious among Bahraini business, as it is fee-financed; as there is no real market mechanism in providing its services, it is not clear how precisely they correspond to small entrepreneurs’ needs.

The Bahrain Chamber of Commerce and Industry announced as new SME strategy in summer 2009, in line with the Vision 2030 for national development, envisaging among other things two new SME service centers at the Chamber, focused on training and export promotion respectively.

Kuwait

Kuwait has a longer track record of SME support, though one that has not been free of problems. The Kuwait Small Projects Development Company was set up in 1996 with capital provided by the Kuwait investment Authority, which pledged 100 million Kuwaiti Dinar for SME support policies. It originally provided loans, but had to contend with very high default rates by its borrowers. Three years ago, the company has switched to taking equity stakes in projects it deems worthy of support – functioning as a venture capital provider rather than a traditional grant- or loan-giving institution. Its participation ranges from 20 and 80%, and projects up to 500,000 Dinar (1.7 million $) are financed. The Company exits over a maximum period of 8 years through a gradual, profit-financed buyout by their private partner. Projects are abandoned if losses exceed 50% of the paid-up capital.
Although based on an innovative approach, the Company has had trouble identifying projects worthy of support, and has not been able to allocate the full 40 million Dinar so far received from KIA. It also does not have sectorally specialized staff to evaluate the feasibility studies of applicants. It also appears that cover-up businesses have applied for support, and reportedly there have been external attempts to influence the allocation policies. A more generic problem that other support institutions are also facing is that job creation has mostly benefited foreigners: According to official figures, by 2003 out of 819 jobs created, were 761 held by non-Kuwaitis. The very fact that such follow-up data are available, however, is a very good sign for the transparency of the institution, putting it ahead of most of its peers in the region.

There are other institutions involved in SME support policies in Kuwait, but not usually with a dedicated SME mandate: The Industrial Bank of Kuwait funds mid-size projects, but it does not seem to have a particular SME program. Similarly, the Kuwait Chamber of Commerce and Industry provides training courses relevant to SMEs, but does not seem to have a dedicated SME program. A fully private Kuwaiti company, Retaj, was originally conceived as an SME support provider, but it is not clear whether it is still pursuing this mandate.

**Oman**

Oman’s Ministry of Commerce and Industry has established a dedicated directorate for SMEs, but it appears that its activities are only just being rolled out. The Oman Development Bank provides loans in various sectors up to a limit of 1 million Riyals, with slightly different conditions according to the sector at hand, but generally with a low interest rate of 3%. It also has a dedicated micro-business program providing loans up to 5,000 Riyal at zero interest. It also provides a number of managerial training courses for SMEs. The bank’s capital was augmented to 40 million Riyals (104 million $) in 2006 and loans worth 30 million Riyals were approved in 2007, a more than tenfold increase since 2004. Non-performing loans have decreased over time, but still amounted to about a third of the total in 2007, indicating lingering problems with the choice of creditors and with loan enforcement. The financial information in the publicly available reports of the Banks are detailed, which is a sign of good governance.

Oman also has a Fund for Development of Youth Projects, renamed “Sharakah” in 2008 after a strategy review, which provides start-ups with funding (loans and equity participation up to 200,000 Riyals) and training. There is, moreover, a “Sanad” fund for supporting micro-projects involving self-employment. Limited public information seems to be available on the volume and output of these programs, and there seems to be no national coordinating mechanism between the different programs.

**Qatar**

Qatar is a country with a small population, many of whom have traditionally been absorbed by the public sector after finishing school or graduating. Therefore, SMEs have only recently drawn the attention of policy-makers. An official SME program is currently under preparation at the General Secretariat for Development Planning with the help of UNDP and World Bank.

A number of institutions have already been involved in SME support, however: The Qatar Development Bank (formerly the Qatar Industrial Development Bank), with paid-up capital
of more than 1 billion $, has been providing loans since 1997 at concessionary rates of up to 5% and maturities up to 8 years in the case of new projects. The Bank’s activities still appear to be limited to industry, however, and there appears to be no deliberate targeting of SMEs.

The Qatar Industrial Manufacturing Company (QIMC) to promote medium-scale enterprises and downstream industries has been in existence for 20 years already – but again, the focus is on industry and on mostly medium-size projects, and most of the projects are wholly owned by QIMC or QIMC and public sector partners. The Social Development Center at the Qatar Foundation has also started a dedicated, ILO-supported SME program, providing non-financial business services to Qatari SMEs, with a generic focus on training young Qatars in how to run and start a business. Some of the training is provided in cooperation with multinational energy companies active in Qatar. Again, publicly available data on volume and output of this program is limited, but it appears to be relatively small in scale.

**Saudi Arabia**

Saudi Arabia is the country with the largest gamut of SME support program, some private, some public. There is no lead agency responsible for SME matters; instead, an inter-ministerial committee is responsible for the issue, which reportedly has been making only slow progress. In the absence of centralized coordination, a plethora of initiatives have spawned up.

**Saudi Industrial Development Fund (SIDF)**

Under the supervision of the Ministry of Finance, the Saudi Industrial Development Fund (SIDF) has established a special “Kafala” fund for SMEs with a capital of 200 million Riyals (53 million $), which is 50% funded by the Government and 50% by the Saudi local banks. Kafala works essentially as a loan guarantee scheme. In 2006 the total loans made available to 36 different companies amounted to 49 million Riyals. Although involving private banks is a good step away from the sometimes untargeted distribution of purely public money, the presence of an interest rate cap might bias banks’ selection of debtors, leading them away from riskier but more promising projects. It is also not clear whether SIDF, traditionally focused on larger industrial loans, possesses the specialized skills for a tailor-made SME loan guarantee scheme.

**Saudi Credit Bank**

The Saudi Credit Bank (SCB) has the distribution of social loans to low-income Saudis as main task, with 200,000 Riyals (53,000 $) as upper limit. It has created a new loan program for SMEs, making credit available for, among others, limousine drivers, to encourage Saudis to start their own business. Self-employment of Saudis through micro-projects appears as a promising avenue for job creation in a populous society that values independence and entrepreneurship. At least until recently, however, SCB program has been reported to face significant obstacles in terms of identifying its beneficiaries and enforcing repayment.
Centennial Fund
The Centennial Fund is a special vehicle created by King Abdallah in 2004 to support micro-enterprises of young entrepreneurs between 25 and 35 years of age in the kingdom. It offers loans up to 200,000 Riyals to approved projects in which repayment does not start until after the first six months. Repayment happens within five years, and the Fund provides mentoring services as well as training and administrative support in the course of the project. Total ongoing projects of the Fund in 2008 reached 1,040, bringing the total number of projects since the inception of the Fund to 1,520 with a total investment of 264.7 million Riyals. Performance data were not available.

Chambers of Commerce and Industry
The larger regional chambers of commerce and industry in Saudi Arabia all have dedicated SME departments which undertake smaller-scale finance, training, and marketing programs, export promotion as well as, to some extent, research on SME issues. Most of the business services extended by chambers de facto aim at small and medium enterprises, as large companies have their own resources for research, training, marketing etc. Although valuable, the activities sometimes lack scale and, according to some of the chambers’ own research papers, are not sufficiently coordinated with the official development funds.

Case study: Abdullateef Jameel Community Services Program/Bab Rizq Jameel
Although exclusively focused on micro-enterprises, Bab Rizq Jameel is perhaps the most interesting SME program in Saudi Arabia: Drawing on the retail networks and existing client pool of Abdullateef Jameel (ALJ), Saudi Arabia’s Toyota dealer, it provides interest-free micro-loans to small entrepreneurs, among them many women. It had initially started by making Toyota cars available as quasi-loans which would be repaid through the entrepreneurial activities the vehicle made possible.

Bab Rizq Jameel also assists young Saudis with identifying job opportunities. Until late 2008, some 58,000 Saudis profited from the various employment and self-employment programs provided by Abdullateef Jameel Community Services, 60% of which were females. 6500 small projects have been supported with loans up to 150,000 Riyals that are usually repaid within four years.

Bab Rizq Jameel employs 400 individuals in the field to follow up with clients’ entrepreneurial activities and to collect the loans – representing probably a more systematic follow-up effort than in any other Gulf SME program. In an information-scarce environment as the Saudi one, the client information that a large consumer durables retailer has at its disposal can be of great value for SME support policies.

Bab Rizq Jameel has been cooperating with various consultancies to study small project opportunities in the kingdom. ALJ research has found that a significant share of small businesses drop out of the market after 3-7 years; it therefore seeks to introduce and promote successful business models that are more durable. It is cooperating with various international franchising associations to look into business models in sectors such as food and restaurants, car services, cosmetics, printing and copying or real estate. Bab Rizq Jameel also provides a bazaar-like infrastructure in several cities in which retail booths are rented out to owners of the various small projects supported by the program.

Although ALJ’s approach is innovative and generally perceived as successful, for a real benchmarking exercise, it would be imperative to have data on loan repayment and success rates of the various support schemes, ideally broken down by sector. These are not currently available.
UAE
The UAE also has considerable experience with SME support programs, some of which have introduced new operational models far removed from the mechanical and indiscriminate grant giving that used to dominate government-supported development funds. The biggest programs are operated on the emirate level.

Abu Dhabi
The most important SME support scheme in Abu Dhabi is the Khalifa Fund, which was established in 2007 with a paid-up capital that has grown from an initial 300 million Dirham to now one billion Dirham (270 million $). By summer 2009, it had provided more than 320 million Dirham to about 200 existing and start-up businesses, more than half of which are active in industry, and 30% of which are run by women. Loans below one million Dirham are interest-free, and larger loans are provided at low interest rates. The largest possible loans are 3 million for start-ups and 5 million for existing businesses; the repayment schedule tends to be flexible. The Khalifa Fund also provides micro-loans up to 250,000 Dirham. Loans are administered by local banks on a fee basis.

Projects supported by the Khalifa Fund are exempted from administrative fees at the Abu Dhabi Department of Planning and Economy. The Fund also plans to create business “incubators” providing young entrepreneurs with the infrastructure and technical assistance required to start a company.

Going beyond the mere provision of finance by providing business services could enhance the Fund’s efficacy, not least as it could give it enhanced capacity to monitor the projects it supports. At the same time, exempting supported projects from the costs and procedures that other SMEs have to face in Abu Dhabi seems a selective policy that is likely to tilt the playing field further against companies who are not beneficiaries of the Fund. General fee reductions and streamlining of licensing procedures for all SMEs might have been a more effective and less distortionary policy.

Dubai
The Khalifa Fund seems to some extent modelled on the Mohammad bin Rashid Establishment for Young Business Leaders (MBRE), which was launched in 2002 in Dubai and remained Mohammed Bin Rashid Establishment for SME Development in 2009. MBRE aims to provide comprehensive business and development services for small projects. Different from most other governmental programs, it charges fees for its services and works on a cost-recovery basis (see box).
Case study: Mohammad bin Rashid Establishment for SME Development

The Establishment operates on several levels: Its entrepreneurship center provides business incubator infrastructure, (generic) consultancy services, and arranges partnerships with leading local companies. It is now working on SMEs supply chain management issues and has started to cooperate with the Dubai Export Development Corporation, which has a dedicated program for SME exports.

MBRE arranges training courses and events to match businesses with partners and franchise providers. Through its Government Procurement Program (GPP), it assists local companies in competing in the market for government contracts, as a decree by Dubai’s ruler Mohammed bin Rashid has determined that 5% of every government department purchasing budget should go to businesses registered with the Establishment. It also acts as administrative one-stop-shop for its members, allowing them to conduct their government relations and licensing business through MBRE.

The Establishment provides low cost loans between 100,000 and 3,000,000 Dirhams (800,000 $) per project. The loans are administered by local banks, but the due diligence is undertaken by the Establishment itself. Companies need to be 100% UAE-owned and managed to qualify, ruling out joint-ventures.

The Establishment is also responsible for the construction of a “Business Village” in a central location in Dubai (next to the clock tower) which offers one million square feet of office and retail space and more extensive incubator facilities.

In February 2009, the Establishment had 40 team members, 700 entrepreneurs as members and had received altogether 5000 project proposals. According to MBRE staff, per 100 applicants only 1 to 2 are selected for bank support, and follow-up after the giving of the loan is tight. The success rate of financed projects was estimated at about 70-80%, defined as profitability after 5 years. The estimate for the default rate was about 1 in 10. The total of loans given was estimated at about 15-20, indicating the modest scale of the rather resource-intensive program. Some of the entrepreneurs supported by MBRE have become minor local celebrities, such as Mohammed Saeed Harib, creator of the Freej animation series on Dubai TV.

With the recent economic downturn, it has been reported that SME finance has largely dried up in Dubai, and some small entrepreneurs have complained about the relatively high cost of services provided by MBRE, which are based on market rates. The principle of charging for services – at least after some point – seems sound, however, as otherwise markets for business support are distorted and private providers crowded out. Fees moreover guarantee a certain self-selection of applicants, reducing the pool to entrepreneurs who are serious about their projects.

Although operating on a modest scale compared to some of the big development funds, MBRE has rolled out a number of innovative SME support concepts. More systematic reporting on scale and outcomes of its activities would be useful, however: Given its elaborate follow-up procedures, other institutions in the region could certainly benefit from MBRE’s experiences if they were documented more systematically.
The Dubai Chamber of Commerce and Industry is also currently developing a dedicated SME support program, focusing on business support through market research and credit rating services for local companies. It also seeks to systematically promote success stories in the wider business community through its communication infrastructure. Through its database of certificates of origin that it has been issuing to Dubai businesses over the years, the Chamber has fairly detailed data about their trade activities, which it intends to make available to COFACE, its international partner for creating credit ratings.

**Federal level**

There are a few federal-level programs in the UAE relevant for SOEs. The most important is the Emirates Industrial Bank, whose mandate is similar to that of Saudi SIDF. It has been argued, however, that its loans, provided on completely non-commercial terms, have rather distorted the SME lending market. More recently, the Ministry of Economy, along with the UAE central bank, have announced plans for a dedicated SME start-up loan program. It appears that no date has been announced as yet for its launch.

**Summary**

SME support programs in the Gulf have, in some cases at least, gone significantly beyond the traditional approach indiscriminately distributing loans and grants without much follow-up: Vetting of beneficiaries is more targeted, and more emphasis is put on providing business services and infrastructure for SMEs to thrive in a sustainable fashion. A number of innovative support approaches have been tried. Competition and diversity of policies and institutions is generally a good thing, as it allows for learning and benchmarking. At the same time, however, at least in some countries there seem to be issues of scale, with too many mid-size programs operating in parallel. As important, there is quite limited coordination and exchange of information between different institutions.

This means that valuable lessons learned are lost and there is duplication of similar efforts, leading to higher costs and institutional redundancies. As important, not enough systematic evaluation of program successes and problems is undertaken – and where it is undertaken, it is not made available outside of the institution at hand. More generally, existing programs do not always sufficiently draw on private sector resources and experience, and in some cases act as de facto competitors to private finance and business support providers.
Policy proposals

The following and last section will outline a number of policy proposals on the basis of the above survey of SMEs, SME development problems and SME support policies in the Gulf. The proposals will draw on the European experience, but also on more general research on SME support policies in the developing world. The aim is not to directly copy foreign approaches one-to-one, but rather to combine our understanding of the GCC’s specific needs with broader international experience and principles. Some of the following proposals are relevant for SMEs of all sizes, while others are relevant only for larger entities with a certain level of human resources and managerial capacity.

One important general lesson that has emerged from research on SME support policies globally is that direct interventions of support can produce important unintended outcomes. SME policies in the past have often focused on subsidized loan programs or grants, free consulting services, special procurement policies and privileged market access schemes. While some of these policies can still be justified some of the time, they need to be handled with care, as they can distort markets and crowd out private providers of loans and business support services, or create partial privileges that only some SMEs have access to, hence skewing market access.

SME support policies worldwide now increasingly focus on providing a generally enabling regulatory, infrastructural and bureaucratic environment that equally benefits all small players, who tend to suffer from deficiencies in these areas disproportionately. Such policies of leveling the playing field vis-à-vis bigger players are also less prone to manipulation. More generally, support policies that aim at building private capacity for business support services tend to be more effective in the long run than direct, state-provided support policies – although in the short run, there is arguably scope for the latter.

Due to the limited financial and human resources of SMEs, part of important business development tasks – research, training, technological adaptation, supply chain management or marketing – need to be outsourced. The best SME support policies create an enabling environment in which such services are easily (but necessarily not freely) available.

The sectoral focus of the proposals.
GCC SMEs are, as we have seen, fairly similar to SMEs in the EU in a number of regards: in their number relative to the population, their contribution to employment, and their distribution across different sectors. In some other regards, however, Gulf SMEs and the environment they operate in are quite different: Gulf governments tend to have much lower regulatory power over them (micro-enterprises in particular), their contribution to employment disproportionately benefits the expatriate population, and a significant share of SMEs operates on low-margin, low-tech business models – not least due to the availability of very cheap labour. The entrepreneurial traditions of the Gulf region have to some extent been counteracted by generous state employment policies since the 1970s, making small-scale business activity relatively less attractive for nationals.
The segmented nature of Gulf labour markets arguably means that SME support policies need to be a good deal more targeted than in the OECD context. To the extent that job creation for nationals and national entrepreneurial activity are the main targets, support policies should primarily benefit sectors that are relatively more skills- and technology intensive – as otherwise wages and returns will be too low, and most activities will be undertaken by expatriates. This challenge is especially severe in the smaller and richer countries such as Qatar, Kuwait, Abu Dhabi and Dubai. Statistical studies have shown that countries with a higher share of SMEs in total economic activity have a more equitable income distribution. In the Gulf, this result will only obtain out if SMEs generate more high-quality jobs.

Against this yardstick, the national development contribution of many of the trading and contracting activities that currently dominate SME sectors is quite limited. Manufacturing pays somewhat better wages, but its overall contribution to SME employment is limited. The most promising sectors for SME development are probably higher value-added services: high-quality retail, restaurant and catering, travel, media and design, finance, and ICT, as well as business services themselves – which have a special role to play as “backbone” sector which can support SMEs more generally.

The experience of the Small Projects Development Company in Kuwait and of the Mohammad bin Rashid Establishment for Young Business Leaders in Dubai has been that innovative service companies are the easiest to develop. Competitive industry SMEs able to employ nationals are mostly at the very upper range of the SME size definition – and have historically benefited from dedicated support programs not available for non-industrial companies.

This does not mean that there is no space for lower-margin operations in trading, contracting and manufacturing, but in these sectors, the focus should for the time being be on involving more nationals as active owner-managers of such companies, rather than trying to employ significant numbers of locals in the workforce. This is particularly true for micro-enterprises and smaller SMEs in these sectors.²

Institutional framework
Existing research shows that the exploitation of functional synergies between existing SME support schemes is more effective than the establishment of new costly institutions. Given the relatively small size of most GCC markets, and the plethora of SME support programs, there is urgent need for better coordination and, possibly, consolidation.

Coordination and consolidation
Every GCC government should ideally designate a “lead agency” that has primary responsibility for SME policies and which will act as coordinator between different public and private organizations involved in the field. This institution should also function as repository of information about different programs, including characteristics of recipients, success and output rates of support policy – information which should ideally be publicly available. In the data-scarce environment of the Gulf, pooling resources, such as the valuable trade data collected by Chambers of Commerce, is particularly important.

² From a macro-perspective, a reduction or freeze in bureaucratic employment and a gradual reduction of the inflow of foreign workers would reduce labour market segmentation and make private employment and entrepreneurship relatively more attractive. Discussing such fundamental policy changes however is beyond the scope of this report.
There is still a great lack of standardized and reliable information about SMEs in the Gulf. In addition to consolidating existing information – for which the lead agency should have a powerful mandate – there is need for new surveys, and for the inclusion of SME-specific criteria and questions in the execution of existing surveys. In Europe, quite detailed information on SME employment, turnover, profitability, survival rates etc. are available. These are crucial to measure the contribution of SMEs to development in specific sectors, and to measure the impact of policies, both general and SME-specific, on small companies.

The lead agency for SME policies could be the Ministry of Commerce, but it might also be a powerful Chamber of Commerce and Industry. The merger of smaller-scale and parallel programs with similar mandates and activities should be considered. Several EU countries have made good experiences with SME lead agencies; “Enterprise Ireland” is one well-known example that has led support policies on a national level. Finland has also successfully merged its four business support service agencies.

GCC governments should also consider the issuance of a high-profile SME policy statement enunciating main policy principles, ideally issued by head of government and cabinet. Several such undertakings have been made in Europe. Generally agreed European SME policy statements detail how procurement, e-government, finance etc. should be made SME-friendly. Importantly, such lists of principles apply also to institutions which are not per se involved in SME support. The European “think small first” principle demands that any new economic regulation is vetted for its impact on small business.

Although much lip-service is paid to SME development, in daily practice governments tend to accord low priority to small business. A further way to contribute to awareness-raising would be the creation of dedicated representative bodies focusing on SME interests that could be systematically included in policy consultations. Chambers of Commerce and Industry are important, but in many cases – like in other parts of the world – their politics are dominated by big players. Even a GCC-wide representative body for SMEs might be considered.

**Bureaucratic streamlining and increasing regulatory capacity**

Bureaucratic streamlining and e-government are reforms that are relevant also outside of the SME realms and cannot be engaged with in detail here. Their impact on SMEs however is particularly pronounced because, as we have seen above, bureaucracy is a specifically large obstacle for small businesses. The reduction of administrative fees could have a strong impact on small entrepreneurs. It will allow them to engage in more complex and diversified business activities, which in the past have often been avoided as they would have involved too much “bureaucratic hassle”. Major agencies such as ministries of labour and commerce should consider the creation of SME windows.

The regulatory capacity of national bureaucracy would also be increased by formally allowing foreigners to invest on a smaller scale: This would drastically the incidence of “cover-up” businesses and hence make it much easier to regulate and collect information on small businesses, in addition to incentivizing real national entrepreneurship.

Certain steps of simplification could even be applied across the whole GCC: In Europe, a proposal for a “European Private Company”, which would give small companies the same
legal form all across the EU, is currently being debated. A similar GCC standardization of company law would greatly facilitate cross-border investment and cooperation in the SME sector. Other forms of cross-border harmonization, e.g. of consumer protection and accounting rules, would also disproportionately benefit smaller players. The European Commission has a special SME envoy; a similar institution could be created through GCC or FGCCC.

One crucial issue of standardization, both within and between GCC countries, is the setting of a unified SME definition. This would make data-sharing and coordinated policy planning significantly easier – and is a fairly low-cost project. The above survey of available data on Gulf SMEs has suffered from the absence of a shared definition, making comparisons across countries very difficult.

SME support programs using their own definitions could gradually adjust to the generally accepted one, or at least report their results and data in line with official definitions in addition to their own. The FGCCC could, again, take a lead on this issue. While operationally speaking SME support policies should continue to be based on the nation-state level or below, important parts of the regulatory framework can be tackled on the GCC level.

Finance
Finance is essential for SMEs to move beyond short-term, low-technology activities, and it has traditionally been at the center of SME support programs in the Gulf – but not always with positive consequences, as indiscriminate distribution of loans has led to high default rates, and private banks have been pushed out of the market by very favorable interest rates and loan conditions. Support programs over time have become more attuned to the need for market-oriented incentives, but still appear to create some distortions.

Governmental SME programs should arguably focus more strongly on enabling private bank lending to SMEs rather than on providing concessionary credit themselves. They can incentivize this lending though loan guarantee programs limiting – but not eliminating – the risk for banks, as is already happening in Saudi Arabia. In the process, market discipline should not be limited by interest rate caps. Partial subsidies for interest rates would be a less distortionary solution in cases where loan costs are prohibitive. Mutual loan guarantee schemes through Chambers of Commerce and SME associations could further reduce borrowing costs for SMEs. These schemes could be part-supported by the government.

Governments should consider supporting the development of special SME units at banks. Once private financial institutions have created special mechanisms and procedures for SME lending and due diligence, the administrative cost of lending will fall. Chambers of Commerce could also work to support boutique private equity and venture capital with a focus on smaller projects, mobilizing larger numbers of businessmen to contribute, either collectively or as individual “angel investors”.

As long as states remain directly involved in providing loans and capital, their financing mechanisms should be subjected to systematic, externally conducted performance measurement, benchmarking default, survival, growth and profit rates of supported projects in different sectors against those in other programs.
GCC governments, banks and business organizations also need to make more forceful efforts to systematically collect credit information about small businesses. Considering its high level of economic development, the GCC is one of the data-scarcest regions in the world, and the dearth of information is a major impediment to SME finance and development. The project that the Dubai Chamber is currently organizing with COFACE to build a credit rating data base should be closely observed and might be copied in other Gulf countries.

At the same time, central banks have to make a more dedicated push to build comprehensive credit bureaus with full debtor histories, and need to punish banks for non-disclosure of information. Banks among themselves do not seem to be able to sufficiently share such data, which is why vigorous regulatory intervention is required. International experience with building such institutions is ample and should be drawn on. A GCC-wide credit bureau should be considered.

The issue of collateral continues to hamper SME lending. This issue goes beyond the scope of this paper, but it should be noted that recent moves to introduce modern mortgage legislation, which could allow easier foreclosure procedures, appear promising. More generally, the courts in the GCC often work so slowly that repossession of collateral is a costly affair for banks. But here too, the recent property market crisis might have led to positive changes in some countries.

Other business support policies
SME support institutions in the Gulf have gradually widened their scope of operations to add various business support services to the provision of credit. This is generally a positive development, but in this field too, there is a danger that private providers could be crowded out and that publicly provided services are not subject to market discipline: increasing cost, lowering quality, not reaching the right recipients and offering services not attuned to the needs of an increasingly sophisticated market. This has arguably been the case with some of the SME training programs organized through governmental vocational training institutions, and with some of the state-provided marketing research and consulting.

The MBRE program in Dubai seems to have embarked on a promising path in this regard: It charges for its services, making sure that its customers are really in need of the goods provided, and have incentives to communicate what exactly they need. While the charges are not insubstantial, they are not so high that they would deter an individual with a serious business plan. Generally speaking, government-provided SME programs should consider charging for some of their services or at least aim to create an internal market for different services, for example through a voucher system. In a transition phase, services can remain subsidized.

At the same time, more efforts would be in order to enable privately provided business support services, possibly through temporary subsidies. State programs should increasingly farm out the execution of their support services to private providers, as is already happening in several countries. This will allow more specialized offerings catering to more sophisticated, innovative business models with higher national employment potential.
Involving private providers raises the difficult issue of the quality of private business support services. Judging by the quality of some training institutes, market forces appear to be insufficient to guarantee minimum service standards. Governments should therefore exert more concerted efforts in regulating, certifying and classifying different service providers, similar to what is already happening in the real estate market and in secondary education in some GCC countries.

Only through a diversified private market will business support services become specific and differentiated enough to cater to an increasingly sophisticated SME sector: Small entrepreneurs in ICT, media or high-class retail will often have little to learn from generic public support programs, but will be in need of highly qualified private advisory that is rooted in the local market and run by nationals. The role of government should be to foster the latter, rather than trying to provide all services itself.

**Training**
Training is one business support service of particular importance for the upgrading of Gulf SME with a view to making them attractive employers. Here again, the sectoral skills needed are increasingly specific and cannot all be publicly provided. Many of the current public programs are criticized as too general.

The one general skill which will have to be imparted more systematically is that of accounting, which has been shown to be a crucial limiting factor to SME finance. Subsidies or vouchers for accounting courses, provided on a competitive market, could be one quasi-market solution. Media and Chamber-led campaigns to promote a culture of professional accounting and governance should be considered. In this context, too, stronger certification mechanisms for private training institutes are essential.

**Information services**
Some analysts see lack of information about markets, suppliers, and technology as the main limiting factor to SME diversification in the Gulf. Although substantial market research is being done in the GCC, much of this is too expensive for small companies, and awareness of available information is often limited.

UNIDO has developed the concept of the “infomediary”, an institution whose function is to network all national and international sources of information into one focal point, a one-stop shop that ideally should have all of its information available online. In addition to free information on regulation, available support programs etc., at least more generic market studies should be made available for small charges. The infomediary should be attached to the SME lead agency, and could be combined with e-government services for businesses more broadly.

To avail themselves of the infomediary’s services, it would be important for SME managers to acquire full IT literacy, which could be another focus of subsidized, but competitively provided training courses. IT literacy will more generally be important in leveling the playing field between small and large business in fields such as business-to-business exchanges and e-government. The experience of the “Enterprise Europe Network” online gateway could be usefully studied to inform a potential project about a GCC-wide infomediary.
Cooperative sourcing and marketing
SMEs in the Gulf tend to be rather individualistic, hampering cooperation on purchasing, marketing and shared infrastructure and support services. Chambers of Commerce as well as sector-based SME associations can help to improve cooperation in areas where economies of scale are vital. Chambers in particular could work towards cooperative purchasing agreements in cooperation with bigger merchants and international companies, and could also negotiate local, SME-based sourcing of specific goods and services by larger local companies – similar to the local government procurement rules created by Mohammad bin Rashid in Dubai. Joint marketing efforts could also be enabled through Chamber-led cooperatives.

In the field of industry, existing export promotion programs often do not offer specific SME windows and services, although accessing new markets is specifically costly and risk-laden for smaller companies. Organizations tasked with export promotion in the GCC should consider the formation of SME export consortia. These would be particularly efficient if industries were organized into clusters through shared infrastructure and services, allowing economies of scale and a smoother division of labour – as is to some extent happening in the GCC’s industrial zones, but often with a focus on larger operations. Clusters allow better development of specialized product niches, sharing of information, and collective efficiency through specialization.

More generally, institutions that network buyers and sellers based on reliable market information could be further developed in the context of the above infomediary proposal; ideally on the Chamber level, and possibly also in a GCC-wide framework. This is one field of support in which public involvement does not lead to major distortions and which arguably has not seem enough investment.

Franchising and technology transfer
Franchises in the region, including some local ones, are spreading rapidly. So far, they are mostly held by big business families. This is not necessarily the case in European markets, where individual retail, service or restaurant outlets are often owned by small investors.

Many franchises are relatively capital-intensive, but the GCC has a solid stratum of reasonably capital-rich small businessmen. In addition to niche franchises, sub-franchising of larger brands through their local agents could be an efficient way of quickly transferring expertise and technology to larger strata of SMEs. The concept of franchising could be spread through information campaigns in press and by Chambers, and through a franchise association and franchise technology centers as in some European countries. A franchise is a relatively quick and comfortable way for smaller entrepreneurs to move into higher value-added sectors and get acquainted with advanced management techniques.

Promotion of model projects
The young generation in the Gulf is more educated than any of its predecessors, knows that the bureaucracy will not be able to provide jobs for all of them, and is keen for role models and inspiration. The many success stories in SME development in the Gulf are not
sufficiently advertised: With the exception of the Mohammad bin Rashid Establishment for Young Business Leaders, and a brief notice about two projects on the website of the Oman Development Bank, the existing support programs do little to spread information about successful projects.

The efficient media sector of the GCC states, as well as the outreach mechanisms of the Chambers of Commerce provide ample opportunity to inform young nationals about the ways and means of becoming an entrepreneur, and the rewards of original business ideas. As long as many small companies still operate on a copy-cat and low margin model, there is a great need to demonstrate how more productive new sectors and activities can be accessed by nationals even on a small scale. In this context, more will need to be done to further the development and protect the intellectual property of small-scale innovators – allowing them to share their business model with others without losing the fruits of their creativity.

A general principle: measure performance and follow up
The most important policy proposal of this report at the same time reflects its greatest limitation: There is pressing need for more systematic follow-up studies on existing SME support programs; the absence of publicly available information makes it very difficult to assess their efficacy. Even the most sophisticated and transparent support organizations, such as Bab Rizq Jameel or the MBRE, have not published any data on success, survival and failure rates or profit and growth outcomes – either generally or in relation to specific forms of assistance. The few pieces of information on these issues have been gleaned from personal interviews.

As long as systematic tracer studies that follow up on supported SMEs are not undertaken, the value of support policies cannot really be assessed and compared, which means that most lessons potentially learned are lost. Programs exist in parallel and cannot profit from each other’s experience; and ineffective programs are not forced to “exit” because they are not held accountable. In addition to generic follow-up statistics, the impact of support programs should ideally be measured through randomized trials in which a “treatment group” of SMEs receives as specific form of support, while a “control group” does not receive them; business results in the two groups are then compared at regular intervals. The deployment of “mystery shoppers” to gauge the performance of SME programs – both public and private – could also be considered. Greater follow-up capacity would also help to avoid fraud and abuse of programs by cover-up businesses.

A high-level political statement is required to underline the importance of performance measurement and transparency in the field of SME policies; benchmarking and tracer studies conducted by independent research institutions should be made generally available, ideally through the lead agency/infomediary institutions mentioned above. In this respect, there is another opportunity to build a GCC-wide cooperative structure. An in-depth benchmarking of existing support programs, based on more comprehensive information than was available for this report, might be a suitable first step.
Some ideas for GCC-EU cooperation

Europe has a particularly rich experience with SME support policies, as the EU consists of 27 different countries on levels of development which are significantly different, yet on average quite advanced. It is unlikely that many policy solutions from the EU could be adopted without modification in the GCC context, yet an in-depth study of different programs in Europe – both failed and successful – could greatly enrich the policy debate in the GCC.

The GCC unfortunately does not qualify for technical assistance programs from the EU. In the context of the current high-level trade negotiations, however, ad hoc arrangements for technical cooperation and joint studies on SME support could certainly be found. Technical cooperation on benchmarking and data-gathering on SME issues could prove particularly fruitful.

The EU also operates an “Erasmus for Young Entrepreneurs” exchange program where young European entrepreneurs are seconded to a different country to work with an experienced businessman. The expansion of this program to include the GCC on a trial basis could be a unique way of furthering business networking and sharing of expertise between the two regions.
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The German Emirati Joint Council for Industry & Commerce (AHK) is a German semi-governmental organization and member of the world-wide German Chambers Network (AHKs). AHK promotes and supports trade relations between Germany and the United Arab Emirates, Oman and Qatar, and in particular supports German companies in building up and extending their business in the region.

EUROCHAMBRES, the Association of European Chambers of Commerce and Industry represents over 19 million enterprises in Europe - 96% of which are SMEs - through members in 45 countries and a European network of 2000 regional and local Chambers.

FGCCC – The Federation of GCC Chambers represents more than 700,000 companies and 36 chambers of commerce from the six member states of the GCC, notably Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.
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a survey of challenges and opportunities

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A research report for the EU-GCC Chamber Forum project

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