

FINAL REPORT

**STATUS OF SMEs IN THE GCC: POLICIES,
INSTITUTIONS AND THE WAY FORWARD**

**SMALL AND MEDIUM ENTERPRISES IN KUWAIT:
THEIR IMPACT AND THE WAY FORWARD**

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ABSTRACT (SUMMARY OF NOT MORE THAN 300 WORDS) (ملخص لا يزيد عن 300 كلمة)

This report aims to examine the following: i) the present status of Small and Medium Enterprises (SMEs) in five Gulf Cooperation Council (GCC) countries, namely, Kingdom of Saudi Arabia, United Arab Emirates, Oman, Bahrain, and Qatar, ii) review past and existing public policies regarding the establishment, promotion, and development of SMEs in Kuwait, and iii) suggest forward strategies that integrate reforms with support policies that are contained in the SMEs Law No. 98/201.

The analysis of SMEs' status in the GCC highlighted the differences within the members in terms of the latest SMEs' definitions, the existing or the lack of SMEs' law, SMEs' business environment, and important initiatives and programs taken in each country to support SMEs' growth. Moreover, the recent SMEs' support programs in the GCC have shifted significantly from the traditional approach of distributing loans and to more emphasis on providing business services and infrastructure for SMEs. The existence of most of the SMEs' support programs within the public sector induced limited coordination and exchange of information between different institutions.

The review of policies and institutions related to the development of SMEs in Kuwait over the last few decades showed that these attempts have lacked coordination, unity of objective, effectiveness, and adequacy. Finally, suggested policies, programs, and initiatives emphasized the need to address the following: employment of nationals within SMEs, definition of SMEs, SMEs database, venture capital, loan guarantee program, and credit bureau.

KEY WORDS: أهم المصطلحات:

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ABSTRACT (SUMMARY OF NOT MORE THAN 300 WORDS)

المستخلص (ملخص لا يزيد عن 300 كلمة)

يهدف هذا التقرير إلى مراجعة: (1) الوضع الحالي للمشاريع الصغيرة والمتوسطة (SMEs) في خمس من دول مجلس التعاون الخليجي وهي: المملكة العربية السعودية، الإمارات العربية المتحدة، سلطنة عمان، مملكة البحرين، دولة قطر. (2) مراجعة السياسات والبرامج والمؤسسات السابقة والحالية المتعلقة بتطوير المشاريع الصغيرة والمتوسطة في دولة الكويت. (3) السياسات والبرامج المطلوبة لتطوير المشاريع الصغيرة والمتوسطة في دولة الكويت.

وقد أبرز تحليل وضع المشاريع الصغيرة والمتوسطة في دول المجلس إلى وجود اختلافات بين الأعضاء من حيث تعريف المشاريع الصغيرة والمتوسطة، القوانين ذات العلاقة، أداء المشاريع المتوسطة والصغيرة، البرامج والمؤسسات والمبادرات المتعلقة بتطوير الأداء. كما اتضح من المراجعة إلى أن معظم برامج الدعم الحكومي انتقلت من مرحلة التمويل التقليدي المباشر للمشاريع إلى لعب دور أكبر في توفير الخدمات المساندة والبنى التحتية والتنظيمية المطلوبة لنمو هذه المشاريع. وتبين أيضاً أن وجود معظم المؤسسات والبرامج الداعمة في القطاع الحكومي ساهم في محدودية التنسيق وتبادل المعلومات بين هذه المؤسسات.

واتضح من مراجعة السياسات والمؤسسات المتعلقة بتطوير المشاريع الصغيرة والمتوسطة في الكويت خلال العقود الماضية إلى محدودية هذه المبادرات وافتقادها إلى التنسيق وعدم وضوح الأهداف وقصور فاعلية التنفيذ. وأخيراً قدم التقرير توصيات متعلقة بالسياسات والبرامج المطلوبة لتفعيل دور المشاريع الصغيرة والمتوسطة في دولة الكويت وتشمل: توظيف العمالة الوطنية، التعريف المناسب، قاعدة بيانات متخصصة، مشاريع رأسمالية ذات مخاطر، ضمان القروض، إدارة الائتمان.

KEY WORDS:
أهم المصطلحات:

مجلس التعاون الخليجي، التعريف، القوانين، قاعدة بيانات متخصصة، مشاريع رأسمالية ذات مخاطر، ضمان القروض، إدارة الائتمان.

Executive Summary

This report aims to achieve the following: i) examine the present status of Small and Medium Enterprises (SMEs) in the five Gulf Cooperation Council (GCC) countries, namely Kingdom of Saudi Arabia, United Arab Emirates, Oman, Bahrain, and Qatar; ii) review past and existing public policies regarding the establishment, promotion, and development of SMEs in Kuwait; and iii) suggest forward strategies that integrate reforms with support policies that are contained in the SMEs Law No. 98/2013 by putting forth a list of policies and institutions that are currently absent.

Globally, SMEs vary in sizes, nature, and may operate in different markets and in a variety of business activities. They embody different levels of skills, capital, sophistication, and growth orientation, depending upon the size and markets they serve. Within the GCC, little is known about SMEs' structure and their contribution to the economies. Hence, one of the main objectives of this report is to examine the status of SMEs in the five members of GCC and assess Kuwait's SMEs with respect to the GCC. For each member, the focus will be on identifying their respective latest SMEs' definitions, the existing or the lack there of an SMEs' law, SMEs' business environment, SMEs' structure and indicators, and the important initiatives and programs taken in each country to support SMEs' growth. In the case of Kuwait, these issues are elaborated extensively in the previous two reports. The available data on SMEs' structure, profile, and economic contribution in the GCC are incomplete and only partially comparable across cases. This limitation affects the ability of a complete and thorough comparison among all the indicators. Considering this limitation, the main findings of the assessment of SMEs' status in the GCC can be summarized as follows:

1. All GCC members have enacted some form of law(s) to encourage the development of a vibrant SMEs sector. The only exceptions are KSA and Qatar.
2. All members have selected an appropriate definition for SMEs, and these definitions were not stated in the SMEs' laws. Kuwait is the only exception where the law (98/2013) clearly defines small and medium enterprises.

3. All members used three segments enterprises (micro-small-medium), except for Kuwait that uses, as stated in the law, two segments only (small and medium).
4. All members categorized the three segments according to two criteria: number of employees and annual sales or revenues. Again, Kuwait is the only exception where the two segments (small and medium) are categorized according to number of Kuwaiti employees (nationals) and capital.
5. UAE and Qatar are the only two countries that further categorize the three segments (micro-small-medium) according to economic sectors (three sectors in UAE and five sectors in Qatar).
6. Kuwait and Oman are the only two members that have an overarching government institution that is wholly and singularly responsible for the development and protection of SMEs: the National Fund for the Promotion and Development of SMEs in Kuwait and the Public Authority for Development of SMEs in Oman. UAE has a unique situation where at the federal level, the Council for Projects and SMEs is responsible for the formulation of SMEs' policies and strategic plans, rules and coordination between all concerned governmental bodies, and monitoring of SMEs' performance indicators. The National Program for Projects and SMEs' will be responsible for the effective execution for all required mechanisms of the SMEs development. However, each emirate has its main authority such as Mohammed Bin Rashid DUBAI SMEs in Dubai and Khalifa Fund in Abu Dhabi.
7. The lack of a single SMEs authority in KSA, Qatar, and Bahrain has induced a multi-structure of SMEs-related agencies and programs. The extent of conflict or competition between these programs is beyond the scope of this study.
8. All GCC members lack a detailed database for SMEs to support quantitative analysis that can enhance proper assessment and decision making process. Data such as number of firms, employment (nationals vs expats), output, value added, profitability, etc., distributed according to segments (micro-small-medium) and economic sectors is very limited. While few variables can be found for some members for different years, the

lack of detailed time series data over a period of years is hindering both the appropriate profiling of SMEs and the scientific assessment of their contribution to the overall economy. The Kuwait SMEs' database developed by the Techno-Economics Division (TED) at Kuwait Institute for Scientific Research (KISR) TED/KISR and presented in this study for the period 2003-2012 is by far the most advanced and pioneer initiative toward an effective SMEs' database.

9. The available limited data on the SMEs' sector within the GCC show that, on average, SMEs constitute more than 90% of private businesses in all GCC members. SMEs are largely active in the trade sector; other important sectors include small-scale workshops, hotels, restaurants, and constructions. They are less important in industry and other capital-intensive sectors.
10. In terms of contribution to total employment in the private sector, despite micro and small (with up to 10 employees) firms' dominant numbers, their contribution to formal employment is rather modest.
11. The data related to SMEs' contribution to the domestic economy Gross Domestic Product (GDP) or non-oil GDP is very limited.
12. In most developed economies official data on micro-small-medium enterprises (MSMEs) include many important variables which are not covered by GCC statistical sources, such as profitability, survival rate, turnover etc. These indicators are essential for informed policy-making and monitoring of SMEs sector.

Overall, the recent SMEs support programs in the GCC have shifted significantly from the traditional approach of distributing loans and grants indiscriminately without appropriate follow-up to targeting eligible beneficiaries, with more emphasis on providing business services and infrastructure for SMEs to thrive in a sustainable process and environment. However, at least in some countries there seem to be issues of scale and overlapping redundancy, with too many mid-size programs operating in parallel. The existence of most of the SMEs support programs within the public sector induced limited coordination and exchange of information between different institutions. Clearly, there is a lack of systematic evaluation of program successes and identification of recurrent problems.

The review of policies and institutions related to the development of SMEs in Kuwait over the last three decades showed that the government has introduced different initiatives, programs, and policies to promote the role of SMEs. The first major effort was the establishment of the National Investment Fund Portfolio (NIFP) in 1997, by the Kuwait Investment Authority (KIA), with a capital of KD100 million for the purpose of increasing investment opportunities and promoting SMEs. The portfolios aimed at attracting talented and motivated young Kuwaitis to develop their entrepreneurial skills and enhance their ability to succeed. To achieve the NIFP objectives, few institutions and programs were established both by public and private initiatives such as the following:

1. **The Kuwait Small Projects Development Company (KSPDC):** Established in 1997, with a government paid up capital of KD1 million. Its major mission was to provide access to finance (up to KD500,000) for young Kuwaitis seeking to establish small local businesses. Only 209 projects were accepted during the period (1998-2013). In anticipation of being absorbed by the 2013 National SMEs Fund, KSPDC suspended its operations in December 2013.
2. **Al-Raeda Enterprises Company:** Established in 2006 with a capital of KD3 million as a subsidiary of the Industrial Investment Company. The company is specialized in venture capital and private equity, and in restructuring existing under-performing companies. Al-Raeda was dissolved in October 2013.
3. **KAMCO:** Was appointed by KIA to manage a fund with a capital of KD15 million, allocated from the NIFP fund, for the purpose of financing SMEs. Administratively, it reported to the Kuwait Projects Company (KIPCO). In 2014, KIA requested KAMCO to end its operations capital.
4. **Industrial Bank of Kuwait (IBK):** To extend its role in supporting SMEs, IBK created Al-Senai (Industrial) Portfolio for Small Enterprises. The portfolio, which was established in 1998 by the Law No. 10/1998, had a capital of KD50 million and was mandated to last for a period of 20 y. Its major mission is to provide financial assistance in compliance with Islamic Sharia'a to encourage young Kuwaitis to have their own projects with an investment not exceeding KD500,000. Over the period 2000 to 2012, the portfolio provided financing in the amount of KD44.5 million representing or 68.7% of the total capital

(KD64.7 million) for 593 projects. Al-Senai portfolio operations and financing as per its original Law No.10/1998 ends in 2018.

5. **National Fund for the Promotion and Development of SMEs:** The National Fund for the Promotion and Development of SMEs (SMEs Fund) is the most recent public SMEs institution in Kuwait. It was established in April 2013 (Law No. 98/2013) as a specialized institutional entity to consolidate all SMEs' activities, with a capital of KD2 billion (about USD7 billion). Unlike its predecessor, it will provide access to finance for promising projects; does not exclude investments in specific sectors; does not interfere in the management of the financed projects; will provide land; it is mandated to provide incubators in several districts within Kuwait; and will assist the infant project's dealings with government approvals and licenses within pre-assigned time limits. The SMEs Fund's priorities are set in the law: the first priority goes to projects that maximize value added, diversify the economy, and create jobs for nationals, followed by projects that inspire innovations, promotion of self-employment spirit, usage of locally produced goods, and employing environment-friendly technologies. The SMEs Fund program was officially launched in March 2016. It has approved 245 projects in the financial year 2016/2017. The approved projects are expected to provide more than 850 jobs for Kuwaitis. The approved projects were distributed according to the following sectors: commercial (107), services (78), light manufacturing & handicraft (41), agriculture (19) (Figure 3). With regard to the training program, as of March 2017, the total number of trainees for all programs reached more than 1,833 trainees. The total number of graduates from the training programs reached 1,282.

A significant feature in SMEs Law 98/2013 is its intended plan to make the SMEs Fund as the 'central focus' of government support to SMEs at the national level, as evidenced by its directives to dissolve KSPDC, the IBK activities (in 2018), and all other SMEs institutions and merge them into the SMEs Fund. As such, the Fund is decreed to coordinate, customize, and institute a sustained model of support for all SMEs, especially startups without the multiplicities, conflicts, and wasted efforts and resources observed in other MENA countries in the presence of a multitude of SMEs support schemes and organizations, local and international. However, a closer look at the law reveals some internal

inconsistencies that will require future amendments such as the present definition of SMEs as stated in the law and the complete overlooking of micro enterprises all together. Additionally, while the law intends to rid SMEs of existing red tape by mandating the Fund to complete all required licensing and registration procedures for the firm within 30 days, the law does not give the Fund the legal authority to implement them. All things considered, the several attempts made during the last four decades, as briefly outlined earlier, have lacked coordination, unity of objective, effectiveness, and adequacy. More importantly, lack of information and actual data on these entities activities precluded the possibility of providing a thorough evaluation of government SMEs' public support policies.

The recent National Fund for the Promotion and Development of SMEs (SMEs Fund) was established as a specialized institutional entity to presumably consolidate all SMEs' activities. However, the SMEs Fund faces many challenges and obstacles that will hinder its ability to achieve the objectives of SMEs' development as stated in the law. For SMEs to provide more quality jobs and for genuine entrepreneurship to spread more widely, a number of important challenges need to be addressed. Based on this project's main findings, the following issues and concerns must be addressed by the SMEs Fund as well as key policy makers in the country:

1. **Employment of Nationals:** One of the main goals of the SME law is to promote and ensure the employment of nationals in the private sector both as entrepreneurs and laborers. SMEs' projects that would achieve the highest rate of Kuwaitization must receive the highest priority and preference. Therefore, preferential financial and non-financial schemes must be developed and adopted to achieve this goal. The proposed MSMEs definitions and eligibility conditions suggested in this study should provide the guiding principles towards promoting employment of nationals in MSMEs. SMEs' policies should target firms that contribute more to national development in qualitative terms such as technological modernization, training, provision of attractive job opportunities for nationals, diversification, etc. Effective public policies in this regard will lead to diversification, technological upgrading, and spread of capable business models and processes that so far have often been limited to larger companies.

2. **The Definition of SMEs:** The SMEs definition as stated in Law No. 98/2013 is inadequate and limited. The SMEs Fund will face the challenge of generating a common and intuitive definition of SMEs that address all the segments (MSMEs) with clear criteria that is in line with global and regional definitions. The applicable MSMEs definition will emphasize uniformity, and eligibility for funding, and facilitate entitlement for non-financial programs. In sum, new definitions must be introduced to redress the many drawbacks associated with current definitions stated in the SMEs law.
3. **SMEs Database:** Kuwait at the present time is seriously lacking a detailed database that addresses MSMEs within divergent size-class definitions and sector classifications that can enable useful policy analysis. CSB in Kuwait is the central, official authority responsible for data collection in the country. The collection and dissemination of MSMEs' data is similar in nature to CSB's current Annual Establishment's Surveys. Because the objectives of producing MSMEs' dataset are different than those of the Establishment Surveys, a newly developed questionnaire is required to serve the specific purpose of promoting MSMEs. Data such as number of firms, employment (nationals versus expats), output, value added, profitability, longevity, managerial skills, and so on, classified according to definitions (micro-small-medium) and economic sectors is urgently needed. Hence, either the CSB should expand its MSMEs' data collection and expedite publication of data or the SMEs Fund should, preferably in cooperation with and in pursuit of exploiting relevant experiences of CSB and KISR, design a new framework and present new targeted methodologies for sampling, data collection, data entry, data verification, and the eventual timely publication of the structure and characteristics of the SMEs sector in Kuwait. The SMEs database prepared by TED and presented in this study for the period 2003–2012, is by far the most advanced and pioneering initiative toward an effective SMEs database. It can be used as a starting point for establishing a complete MSMEs dataset.
4. **Provision of Loans:** The SMEs Fund should avoid being the sole provider of loans to new SMEs. It must enhance the level of co-ordination and involvement between commercial banks and the various SMEs' support

initiatives. As is the case in other countries, the Fund ought not to administer the lending process. Rather, it should delegate and regulate this function to local commercial banks. Instead of having only one bank, selecting more than one bank is preferred to promote competition among them. Banks would be responsible to judge the feasibility of the proposed projects.

5. **Venture Capital:** The main role of the public SMEs institutions in supporting venture capital and other types of risk financing should be to reduce the risk and cost of private equity finance. The government should complement and encourage the development of the private-capital industry, including enhancing the skills of the people involved in undertaking this assignment. Direct government measures and policies to encourage and support the provision of risk capital include: development banks, loan guarantee schemes, fiscal incentives, regulations regarding the treatment of innovations, rules regulating investment by insurance companies, the provision of loans at preferential rates. Indirect measures (structural and supportive policies) include market support and regulation; training; communication; and support for R&D.
6. **Loan Guarantee Schemes:** To overcome problems associated with borrowing, many countries have introduced loan guarantee schemes. A percentage of the SMEs' loan or all of it is guaranteed by the insurance company whose revenues are collected from borrowers. Here, the extra charge paid by the borrower on such loans would be higher than that under normal arrangements since an additional premium is paid to cover expected losses. In addition, in the event of default and the subsequent loss to financial institution, the state may provide protection to the involved bank up to a certain percentage of the loan. This is particularly suitable if the central bank requires that commercial banks channel a certain percentage of their loans to MSMEs. The loan guarantee schemes will allow the new SME firm to access funds from a financial institution without the need to provide verifiable collaterals. The loan guarantee schemes should have guidelines and criteria to ensure that its funds are not used by banks as a substitute for their own loans.

7. **Credit Bureau:** Banks in Kuwait are generally reluctant to lend to SMEs due to the associated credit higher risk. Reluctance to provide finance will hinder SMEs' ability to grow and test new business models. An important limiting factor to SME lending is the assumed accounting practices of most small companies in the region. Another important factor that complicates SME lending is the issue of enforcement and collateral. Most companies do not possess enough valuable assets that can be used as a as collateral for significant loans. Banks usually require 150% of the loan value to be in the form of collateral assets. This percentage is extremely high in comparison to international required rates. Hence, Kuwait needs a *comprehensive credit reporting system* that allows credit providers to access all aspects of a consumer's credit worthiness, from positive payment and bills that were paid on time to whether a credit application was approved or not.
8. **Qualifications of Loan Applicants:** Loan applicants must exhibit enough experience to prove their capacity to manage their new companies adequately. As shown in Vol. II, most MSMEs lack the rudimentary managerial skills required to sustain and grow. In this respect, the Fund can assist them through training, providing appropriate software packages to manage finances, quality control, sales, and marketing. The Fund may assist them in enhancing labor productivity levels, streamlining their production, inventory, and managerial skills by providing and facilitating effective education and training programs.
9. **Operational Dependency on Expatriate Managers:** Kuwaiti owners of SMEs mostly depend on expatriate managers to run the daily operation with minimal participation of national labor. Such dependency limits innovation and the acquisition of skills among SME owners. Most of the SMEs' initiatives and programs target and encourage nationals (entrepreneurs) to be owners. Hence, new policies with proper incentives are required to encourage firms that employ nationals in top managerial positions.
10. **Limitations of Kuwait's Economy:** Kuwait's economy suffers from many structural imbalances such as the dominance of the public sector and the dichotomy in the labor market. This economy offers a rather unique

combination of challenges and opportunities that requires tailor-made policy approaches. Hence, a dynamic planning model and policies are required to remedy the imbalances and the dichotomy in the labor market. Policies should aim to strengthen the quality of human resources in the labor market (both nationals and expats) and reinforce attributes required for the introduction of innovation and enhanced productivity.

In conclusion, growing and sustaining a private sector that is robust, competitive, and efficient in the context of rapidly changing global forces is a challenging task for Kuwait. SMEs must participate effectively and be an integral part of the transformation process, along with government institutions searching for ways to increase efficiency, productivity, and global competitiveness. This will require interconnected enterprises along value chains that are more complex but will yield better results. Public sector agencies should improve their service standards to assist SMEs, and means of enabling environment have to be put in place.

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List of Abbreviations

| | |
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| AED | United Arab Emirates Dirham |
| BBIC | Bahrain Business Incubator Centre |
| BD | Bahraini Dinar |
| DED | Department of Economic Development |
| EQ | Enterprise Qatar |
| GCC | Gulf Co-operation Council |
| GDP | Gross Domestic Product |
| GEDI | Global Entrepreneurship Development Institute |
| GPP | Government Procurement Program |
| IBK | Industrial Bank of Kuwait |
| IMF | International Monetary Fund |
| KAMCO | KIPCO Assets Management Co |
| KCCI | Kuwait Chamber for Commerce and Industries |
| KD | Kuwaiti Dinar |
| KIA | Kuwait Investment Authority |
| KIPCO | Kuwait Projects Company |
| KSA | Kingdome of Saudi Arabia |
| KSPDC | Kuwait Small Projects Development Company |
| LMRA | Labor Market Regulatory Authority |
| LPO | Local Purchase Order |
| MCI | Ministry of Commerce and Industry |
| MEF | Micro-Enterprise Finance |
| MENA | Middle East and North Africa |
| MOCI | Ministry of Commerce and Industry |
| MOICT | Ministry of Industry, Commerce and Tourism |
| MoU | Memorandum of Understanding |
| MSMEs | Micro-Small-Medium Enterprises |
| NBC | National Business Center |
| NIFP | National Investment Fund Portfolio |
| OCCI | Oman Chamber of Commerce and Industry |
| ODB | Oman Development Bank |
| OMR | Omani Riyal |
| PD | Probability of Default |
| PEIE | Public Establishment for Industrial Estates |
| QAR | Qatari Riyals |
| QDB | Qatar Development Bank |
| SAMA | Saudi Arabia Monetary Authority |
| SCSB | Saudi Credit and Savings Bank |
| SHB | Saudi Holland Bank |
| SIDF | Saudi Industrial Development Fund |
| SMEs | Small and Medium Enterprises |
| SR | Saudi Riyal |
| UAE | United Arab Emirates |
| WB | World Bank |

Review of SMEs Sector within the GCC

Globally, Small and Medium Enterprises (SMEs) are the driving force for bolstering economic growth, job creation, innovation, and introduction of new business models. SMEs differ in sizes in terms of labor, capital, and most importantly market competitiveness (local versus international markets). SMEs scope of business activities varies from a craft worker to a complex engineering firm. The fact that SMEs differ in sizes and market needs will induce different requirements of skills, capital, and management styles.

Within the GCC little is known about SMEs' structure and their contribution to member's economies. However, knowing its size and characteristics are fundamental to understanding the business dynamics of each member and their impact on the economy at large (Hertog, 2010). Having quantitatively described SMEs in Kuwait, this report aims to assess the SMEs' structure in the other five members of the GCC: Kingdom of Saudi Arabia, United Arab Emirates, Oman, Bahrain, and Qatar. For each member, the focus will be on identifying their respective latest SMEs' definitions, the existing or the lack there of an SMEs' law, SMEs' business environment, SMEs' structure and indicators, and the important initiatives and programs taken in each country to support SMEs' growth. In the case of Kuwait, these issues are elaborated extensively in the previous two reports.

Rationale and Purpose of the SME Definition

The proper SME definition is essential to separate firms according to size and economic activity. This will facilitate the appropriate allocation of guidance and support to be provided by the different stakeholders engaged in SME development. Moreover, the definition should enable efficient coordination and collaboration amongst the different SMEs programs and stakeholders. Additionally, it serves as a framework for implementing multiple initiatives towards the development of SMEs and provides guidelines for monitoring and assessing these initiatives.

Kingdom of Saudi Arabia

Definition of SME

Saudi Arabia has kept more than one SMEs definition. However, the most adopted is shown in Table 1:

Table 1. Definition of SMEs in Saudi Arabia

| Enterprise Category | No. of Employees | Annual Revenue |
|---------------------|------------------|-------------------------|
| Micro | 1-2 | Less than US\$ 27,000* |
| Small | 3-49 | US\$ 27,000-1.3 million |
| Medium | 50-200 | US\$ 1.3-13.3 million |

Source: Small-Medium Enterprises in Saudi Arabia Report, Jeddah Economic Gateway, April 2016. Web Site: <http://www.jeg.org.sa/data/modules/contents/uploads/infopdf/2866.pdf>

* US\$ 27,000 = SR 100K based on September 15, 2017 exchange rate: 1 Saudi Riyal = US\$ 0.2663.

SME Business Environment in Saudi Arabia

Most SMEs are established to serve local economies; however, with increased global trade SMEs can capitalize on regional and global trade opportunities. Recently, Saudi Arabia had adopted an aggressive economic vision and development plan to diversify away from the oil sector. Among the major strategic thrusts in this vision is to promote the role of SMEs in the transformation of Saudi economy. Presently, SMEs are well established in Saudi Arabia with an estimated total of 1.97 million firms. SMEs constitute almost 90% of registered businesses and employ almost 60% of the total labor. Single proprietor companies constitute almost 85% of SMEs in S.A. In addition, 74% of SMEs are active in trade and construction sectors, followed by 12% in the industrial sector (see Table 2).

Table 2. SME Distribution by Economic Sector in KSA

| Sector | Distribution (%) |
|-----------------|------------------|
| Commercial | 47% |
| Construction | 27% |
| Industrial | 12% |
| Social Services | 8% |
| Others | 6% |

Source: Small-Medium Enterprises in Saudi Arabia Report, Jeddah Economic Gateway, April 2016. Web Site:

<http://www.jeg.org.sa/data/modules/contents/uploads/infopdf/2866.pdf>

Government Initiatives to Support SME Growth

The government of KSA has realized the importance of the SME sector to enhance the diversification of SA economy. The government in collaboration with financial institutions has established various funds and programs to promote the entrepreneurial culture and expedite the growth of SMEs. It has also taken necessary steps in the direction of mitigating the lending risks faced by the banks. This will encourage banks to consider SME banking as a rewarding business opportunity that will have an impact on the economy. To achieve these objectives, the government has taken the following initiatives:

Tenth Development Plan (2015–2019)

The objective of bolstering the SME sector was first introduced in the Ninth Development Plan. Indeed, the SME sector has witnessed an improvement both in terms of the number of new SMEs and its contribution to the GDP. To advance the objective of diversifying the economy by strengthening the SME sector, the government has announced the Tenth Development Plan that constituted the following SMEs' objectives:

- Accelerate the establishment of a specialized institutional entity to be responsible for the growth of the SMEs.
- Ensure the employment of national labor (Saudization).

- Enhance the level of co-ordination between specialized credit funds and the various SMEs' support initiatives.
- Facilitate education and training for the SMEs.
- Encourage the SMEs to merge in order to increase their efficiency and competitiveness at both internal and external levels.

Saudi Industrial Development Fund

Saudi Industrial Development Fund (SIDF) plays a vital role in the fulfillment of the objectives and policies of programs devised for industrial development. SIDF works in partnership with a coherent group of government agencies directly related to the industry. It provides financial support in the form of medium and long-term soft loans. Because 90% of the businesses in SA are SMEs, it is very important to devote more attention to the SMEs' growth at this transitional stage of the economy. The Saudi Council of Ministers through SIDF has formulated a plan to achieve SMEs' growth, which includes industrial SMEs' support and incubation, a business resource center, a competitiveness development, an industrial modernization center, and an industrial financing mechanism program.

***Kafalah* – The Loan Guarantee Program**

The SME financing guarantee program *Kafalah* is a joint Saudi development initiative between the Ministry of Finance, represented by SIDF and Saudi Banks. *Kafalah* aims to promote financing to SMEs within KSA. Through this program, the bank will offer credit facilities, and simultaneously *Kafala* will issue a guarantee to the bank, covering up to SR1.6 million. Since its launch in 2006 until the end of fiscal year 2014, the *Kafalah* has issued a total of 10,892 guarantees to 5,579 SMEs, valued at SR5.28 billion, against total approved loans of SR10.65 billion by Saudi banks. The program recorded an excellent performance in 2014, registering an increase in the number of guarantees issued to 3,612, totaling SR1.69 billion, thus guaranteeing approved loans of SR3.46 billion by Saudi banks to 1,497 SMEs. The program's activities are not limited to the issuing of guarantees for SMEs, but they also embrace training, education, development of SME

owners and related parties in collaboration with the International Finance Corporation, a member of the World Bank Group, the Institute of Banking established by SAMA, the participation of the Saudi banks, and Chambers of Commerce and Industry.

Table 3 presents the distribution of *Kafalah* guarantees by economic sector in 2014. The construction or contracting sector led all the other sectors with a total of 2,185 guarantees, amounting to SR931 million in 2014. The commercial sector came second with 501 guarantees for SR214 million. The industrial sector ranked third with 332 guarantees, valued at SR219 million. The finance and business sectors came fourth with 308 guarantees, valued at SR147 million. The remaining 286 guarantees were distributed among the following sectors, namely, public and individual social services: 100 guarantees; tourism and entertainment: 95; transportation, storage, and cooling: 69; agriculture and fisheries: 9 guarantees; electricity, gas, and water: 7 guarantees; and mining and petroleum: 6 guarantees.

Table 3. Number of *Kafalah* Guarantees Distribution by Sector – 2014

| Sector | Distribution (%) | Number of Guarantees | Amount of Guarantees (SR) |
|---------------|-------------------------|-----------------------------|----------------------------------|
| Construction | 60% | 2,185 | 931 million |
| Commercial | 14% | 501 | 214 million |
| Industrial | 9% | 332 | 219 million |
| Finance | 9% | 308 | 147 million |
| Others | 8% | 286 | NA |

Source: *Small-Medium Enterprises in Saudi Arabia Report, Jeddah Economic Gateway*, April 2016. Web Site: <http://www.jeq.org.sa/data/modules/contents/uploads/infopdf/2866.pdf>

Saudi Credit and Saving Bank Loans to Entrepreneurs and SMEs

Saudi Credit and Savings Bank (SCSB) was established by the government to provide interest-free loans to citizens of Saudi Arabia, and financing SMEs became its critical attribute. To target the growth of the SME sector, a new lending program was initiated in 2012. Based on the proposed lending scheme, SCSB offers loans, ranging from USD80,000 to USD2 million. The program follows a preferential financing scheme, with creative and non-traditional projects, projects in remote and underdeveloped areas, and projects

that achieve the highest rate of Saudization, receiving the highest preference. The loan applicants need to be Saudi nationals with enough experience to prove their credibility at managing the venture. Nearly, 415 Saudi SMEs benefited from the SCSB's funding worth USD23 million in 2013 (Table 4). The total value and number of guarantees by *Kafalah* program in 2014, show that it is preferred by SMEs over the interest-free loans.

Table 4. Financing SMEs by Saudi Credit and Savings Bank-2013

| Project Cost | Percentage of Financing |
|------------------------|--------------------------------|
| US\$ 80,000 | 100 |
| US\$ 0.27–0.53 million | 90 |
| US\$ 0.53–0.8 million | 80 |
| US\$ 0.8–1.07 million | 70 |
| US\$ 1.07–1.33 million | 60 |
| US\$ 2 million | 50 |

Source: *Small-Medium Enterprises in Saudi Arabia Report, Jeddah Economic Gateway, April 2016.* Web Site: <http://www.jeq.org.sa/data/modules/contents/uploads/infopdf/2866.pdf>

Saudi Authority for Accredited Valuers (*Taqeem*)

Taqeem is an authorized program implemented by Saudi Credit Bureau (SIMAH) to assess the financial capability of SMEs in Saudi Arabia. The objective is to encourage banks to provide finance for SMEs. *Taqeem* aims to assess the financial risks of these enterprises in order to aid the banks to offer SME loans and diversify their products. It assigns a simple score that represents the probability of default (PD) of an SME. The PD model is a mix of quantitative and qualitative data. Quantitative data covers size of manpower and capital and project's market share, while qualitative data focuses on descriptive criteria, IT levels, and independence. This methodological assessment of SMEs makes *Taqeem* an effective interaction tool between the banks and SMEs.

SAGIA

SAGIA, is a governmental body established under the Council of Ministers in 2000. It reports directly to the President of the Supreme Economic Council, with its headquarters in Riyadh. SAGIA was structured to oversee local and foreign investment affairs. It has created a network of business centers throughout SA. Each center provides the required effective resources to help set up companies that can run smoothly and efficiently. It offers support services ranging from business consultation and licensing requirements. The setup includes services of representatives of all the related government departments (Ministry of labor, General Directorate of Passports, Ministry of commerce and industry, Zakat and Income Taxation Department, and Public Notary). In 2011, it urged the SMEs to participate in its 'Saudi Fast Growth 100' (SFG 100) initiative. The program awards and highlights the fast-growing Saudi companies that have a promising future. SFG 100 list measures the fastest growing Saudi Arabian companies in two categories: companies over five years and startups.

Centennial Fund

The Centennial Fund is a Saudi Arabian charity that was established in 2004, with the objective to help young Saudi men and women to achieve financial independence by aiding them start their own commercial ventures. It serves as a specialized economic tool for the employment of Saudi youth and bolstering SMEs. In 2014, the Centennial Fund and Microsoft signed Memorandum of Understanding (MoU) to co-ordinate synergies that will benefit SMEs. This partnership will help SMEs to take advantage of the latest software and programs offered by Microsoft, such as Office 365 and BizSpark, in order to enhance their IT capabilities through website development and collaboration activities.

Saudi Hollandi Bank

Saudi Hollandi Bank (SHB) is specialized in providing loans to the retail sector, especially in financing SMEs. Their active engagement with SMEs in the retail sector has enabled them to identify the specific requirements of this sector. The retail sector SMEs requirements are different from large corporates and retail customers. SHB has successfully equipped itself with the necessary tools

and skills to ensure that it has the right mix of services. A specialized website named *The Business Owner Toolkit* has been designed to serve targeted SMEs. The inaugural of SME business centers has expanded SME coverage and facilitated direct interaction SMEs. SHP has also established a specialized risk acceptance framework in order to assess SME credit worthiness.

In comparison to Kuwait 2013 SMEs law, KSA lacks a law that regulates the scattered programs and institutions involved in supporting and promoting SMEs. However, the Kingdom has unofficial SMEs definition that is similar to the same size classification categorization adopted in most other countries in that it consists of three different classifications and it specifies two joint conditions: employment and turnover. The assigned employment size of the micro enterprises, though, is excessively small. Also, the maximum employment size specified for small and medium enterprises are identical to those suggested for Kuwait. Most importantly, the Saudi definitions do not distinguish between national workers and expatriate workers. Contrary to Kuwait, which has assimilated all the SMEs programs and initiatives in the newly established SMEs Fund, KSA's SMEs programs are allocated in separate specialized entities under the supervision of the Supreme Economic Council or Council of Ministers. Accelerating the establishment of a specialized institutional entity to be responsible for the growth of the SMEs in KSA is one of the main objectives included the Tenth Development Plan (2015-2019). (Small-Medium Enterprises in Saudi Arabia, 2016).

United Arab Emirates

In the UAE, different SMEs' definitions have been used by the government and by banks. Until recently, the Dubai Chamber of Commerce considered companies with less than 10 employees as micro, those with less than 20 as small, and those with less than 100 as medium-size, provided that the turnover is less than 100 million AED/year. UAE banks usually consider companies small if their turnover is below \$10 million /year (37 million AED), and medium-size if it is under \$25 million (90 million AED). Furthermore, in 2014 the Federal law (No. 2/2014) for SMEs' projects was finalized and declared. The law

states the general objectives and the establishment of the Council for Projects and SMEs and the National Program for Projects and SMEs. The council will be responsible for the formulation of SMEs' policies and strategic plans, rules and coordination between all concerned governmental bodies, and monitoring of SMEs' performance indicators. On the other hand, the National Program for Projects and SMEs' will be responsible for the effective execution for all required mechanisms of the SMEs development. The law did not define SMEs at the federal level, and it was left for each emirate to adopt the appropriate definition. Moreover, the concerned SMEs' authority at the emirate level has the freedom to implement the SMEs' financial support and incentives structure within the broad guidelines of the federal law.

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. To the extent that over the years Dubai has developed a robust structure to support the development of SMEs, compared to all the other six emirates, much of the UAE's review will focus on Dubai. Abu Dhabi's financial support program is mentioned at the end of this section.

SMEs' Sector in Dubai

SMEs are the backbone of Dubai's economy, and the government is highly focused on enhancing the contribution and performance of the SME sector to make these businesses comparable to their counterparts in other developed, high income economies. Guided by the vision of the emirate's head of state to promote SMEs' entrepreneurship in order to diversify Dubai economy and make it a hub for global entrepreneurship, the Department of Economic Development (DED) established in 2002 the SME's program known as DUBAI SME. To achieve this objective, the government of Dubai and DED designed and assembled an infrastructure of governmental associations to support the SMEs' development.

Established in 2002, Mohammed Bin Rashid Establishment for SMEs' development known as DUBAI SME was created as an integrated division of the DED. It was developed as a resource for support, information, and outreach for the growing small and medium enterprise sector. One of the major goals of

DUBAI SME is to promote innovation and leadership across all segments of the small and medium enterprise sector and to support entrepreneurs in all phases of their development. DUBAI SME is tasked with providing UAE Nationals with support in everything from financial planning, simplifying official procedures, and establishing business from start to finish. In terms of employment of nationals, DUBAI SME does not stipulate for any entrepreneurs to employ nationals.

Definition for SMEs in Dubai

It should be noted that the Federal Law (No. 2/2014) did not define SMEs directly, and it opted to defer the appropriate definition to the Council for Projects and SMEs as it sees fit. Based on the recommendation of DED and DUBAI SME, SMEs were defined and categorized into three segments (micro-small-medium) within three different economic classifications (trading-manufacturing-services) (Table 5). A comprehensive and authoritative definition for SMEs in Dubai was developed based on Dubai's steady economic development. Dubai defines a SME enterprise according to the number of employed labor and annual turnover, and in accordance with the three specified sectors (Trading / Manufacturing / Services). The classification of enterprise size (Micro, Small and Medium), is based on distinctive characteristics of each sector.

Table 5. Definition of SMEs in Dubai

| | Trading | | Manufacturing | | Services | |
|---------------|-----------|---------------|---------------|---------------|-----------|---------------|
| | Employees | Turnover | Employees | Turnover | Employees | Turnover |
| Micro | <= 9 | <=AED 9m | <= 20 | <=AED 10m | <= 20 | <=AED 3m |
| Small | <=35 | <=AED 50m | <= 100 | <=AED 100m | <= 100 | <=AED 25m |
| Medium | <= 75 | <=AED 250m | <= 250 | <=AED 250m | <= 250 | <=AED 150m |

Source: The State of Small and Medium Enterprises (SMEs) in Dubai (2016). A report by Dubai SME - http://sme.ae/StudiesAndResearchDocument/SME_Report_English.pdf

Entrepreneurial Ecosystem in Dubai

As the main authority responsible for promoting SMEs, DUBAI SME is well positioned to guide the growth SME through its primary initiatives and

specialized programs. These initiatives and programs are vital for supporting the overall economic vision of the Emirate in alliances and cooperation with key stakeholders in public and private sectors. The initiatives aimed at the development of SMEs and enhancing support for them have to be formulated based on detailed research on their current state and development needs. Within this context, under the policy advocacy and marketing and outreach programs, the government of Dubai established a package of six services. These services promote growth and future opportunities for SMEs' establishments:

- **Development Advisory:** Provides the support of a business plan and a startup advisory.
- **Dubai Entrepreneurship Academy:** Provides training and diploma in entrepreneurship, *Intilaq*, and specialization.
- **Hamdan Innovation Incubator:** provides idea lab, pre-incubation, and incubation.
- **Business Startup:** Provides trade license subsidies, labor exemption, and implementing all the MoUs with the concerned government's entities.
- **The FUND:** Provides financial advisory, credit guarantee scheme, and local purchase order (LPO) financing.
- **Market Access to Government Procurement Program (GPP):** A decree by Dubai's ruler has determined that 5% of every government department purchasing budget should go to businesses registered with the DUBAI SMEs.

Since the establishment of the aforementioned services, 23,000 SMEs were assisted and AED3.3 billion in government contracts were facilitated. In addition, 6,950 entrepreneurs were trained, 4,000 additional SMEs' establishments were launched, AED280 million of government subsidies were provided to emirates entrepreneurs, and 500 innovation incubators were started. Furthermore, the government of Dubai established an entrepreneurial ecosystem supporting the following four different SMEs' stages:

- **Young Entrepreneurs:** In 2005 they supported more than 4,000 projects and 1,100 students from 15 to 25 y old.

- **Entrepreneurs:** Advising support from Dubai entrepreneurship Academy.
- **Start Ups:** Providing startup subsidies from the Fund and Hamdan Innovation Incubator organizations.
- **Established SME's:** Providing government procurement programs from established and successful firms.

SME Business Environment in Dubai

Overall, DUBAI SMEs mission is to provide vital support services SMEs such as; business incubator infrastructure, consultancy, business models, and facilitate cooperation with prominent local companies. Recently, it has been advancing the concept of supply chain management, and it has initiated a specialized program for SME exports in alliance with Dubai Export Development Corporation. DUBAI SMEs has also implemented The Government Procurement Program (GPP), which aims to assist local companies in competing for government contracts.

In terms of SMEs financing, DUBAI SMEs provides loans between 100,000 and 3,000,000 AED per project at low cost (AED1 = USD0.2722 as of September 15, 2017). Financial administration of loans is delineated to local banks, while the due diligence is undertaken by DUBAI SMEs. To qualify for a loan, the enterprise must be fully owned and managed by a UAE citizens (joint-ventures are not eligible). In addition, DUBAI SMEs is planning to construct a Business Village in a central location in Dubai, in order to provide affordable business offices, retail space, and extensive incubator facilities. In February 2009, DUBAI SMEs consisted of 40 staff members and 700 registered entrepreneurs. It had received and reviewed 5000 project proposals. According to DUBAI SME, only 1 to 2 applications are selected for financial support per 100 applicants. The unwillingness to provide financial loans validates the fact that DUBAI SMEs objective is to provide support and monitoring rather than startup loans. Moreover, using profitability after 5 years as an indicator of success, almost 70-80% of approved financial loans were successful. The estimate for the default rate was about 1 in 10 approved projects.

The combined efforts of Dubai government in supporting SMEs with required services, programs, and subsidies have accelerated the contribution of

SMEs' sector to Dubai/UAE economy, leading to growth in employment and turnover (Table 6). Over the period (2011-2015), the number of SMEs registered with DUBAI SME increased from 1092 establishments in 2011 to reach 4532 establishments in 2015 (315% growth rate). Additionally, employment in SMEs increased from 28,000 in 2011 to reach 144,000 in 2015 (414% growth rate). Moreover, the total turnovers in 2011 were around AED14 billion and in 2015 increased significantly to around AED69 billion. The results substantiate clearly the growth of SMEs over the last few years. Based on the official definition of SMEs unveiled by DUBAI SME in 2009, which serves as a reliable measure to estimate the size and contribution of the Dubai SME sector, the results demonstrate that SMEs constitute 95% of total enterprises in Dubai, contribute to 43% of total workforce, and generate 40% of total value added.

As indicated above, in terms of number of establishments, SMEs in 2009 account for 95% of total firms in Dubai. Micro firms account for 72% of total SMEs, followed by Small and Medium firms at 18% and 5%, respectively. In terms of SMEs distribution over economic sectors, the trading sector absorbed a good percentage of SMEs (57%), followed by the services sector (35%), and then followed by the Manufacturing sector (8%). Total business licenses issued in Dubai in 2008 peaked at 15,203. However, total licenses declined significantly to 11,743 in 2009 due to the effect of the global financial crisis. The number of licenses issued recovered slowly and increased to 14,406 in 2010 and reached the highest in 2012 at 16,688. During the period 2009 – 2012, commercial licenses accounted for the majority of licenses issued in Dubai (75%), followed by Professional licenses (23%).

Table 6. SMEs Growth in Dubai (2011-2015)

| Application Estimation | 2011 | 2013 | 2015 |
|---------------------------|--------|--------|---------|
| Total Applications | 1,092 | 3,041 | 4,532 |
| Total Employment | 28,298 | 93,575 | 144,083 |
| Total Turn Over (billion) | 14.73 | 53.28 | 69.55 |

Source: The State of Small and Medium Enterprises (SMEs) in Dubai (2016). A report by Dubai SME - http://sme.ae/StudiesAndResearchDocument/SME_Report_English.pdf

Outlook for SMEs in Dubai

The findings of the report (The State of Small & Medium Enterprises in Dubai, 2016) prepared by DUBAI SME, shows that the SME economy is healthy and extremely dynamic in supporting the UAE economy. Driven by high levels of business opportunities particularly in the trading and services sector, the Dubai SME sector continues to fuel the economy's growth. The Dubai SME sector as a whole and at the individual SME level has many strong attributes, particularly with regard to growth-oriented SMEs, yet there are still areas for improvement. Based on 'unscientific observations', the report contends that the sector still faces structural obstacles, some of which are:

1. The overall productivity of SMEs, and by extension, their competitiveness is comparatively lower than their counterparts in Singapore and South Korea.
2. Adoption of technologies in improving efficiencies, processes, and services is still lacking.
3. SMEs need to improve their overall corporate governance, especially financial governance and transparency, if it seeks to operate in global markets and attract investors and seek business collaborations.
4. SMEs need to improve their HR capabilities by hiring and rewarding the right talent, and making their organizations an ideal place to work.
5. Finally, SMEs also need to invest in innovation, and create a culture of innovation in their firms to ensure new markets, products, and services.

Abu Dhabi

Khalifa Fund established in 2007, with a paid-up capital of AED1 billion (\$270 million), is the most important single SME authority in Abu Dhabi. By 2009, it had provided more than 320 million AED to 200 existing and start-up businesses. Half of these companies are active in the industrial sector. Interestingly, 30% of are run by women. Loans below AED1 million interest-free and larger loans are provided at low interest rates. The maximum possible loans are 3 million AED for start-ups and 5 million AED for existing businesses with

flexible repayment schedule. The Khalifa Fund also provides micro-loans up to AED 250,000. To avoid the difficulties with loans administration, Khalifa fund delegates this task to local banks on 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 (KFED, 2017).

In comparison with Kuwait, the federal law (No. 2/2014) for SMEs’ projects asserts the general objectives for SMEs development in UAE. The law also establishes the Council for Projects and SMEs (responsible for the formulation of SMEs policies and strategic plans, rules and coordination between all concerned governmental bodies, and monitoring of SMEs performance indicators) and the National Program for Projects and SMEs (responsible for the effective execution for all required mechanisms of the SMEs development). The law does not define SMEs at the federal level. Each emirate is allowed to select the proper definition and institutional setup (DUBAI SMEs in Dubai and Khalifa Fund in Abu Dhabi). To the contrary, the SMEs law in Kuwait defines SMEs differently than Dubai and assimilated all the SMEs’ programs and initiatives in the newly established SMEs Fund.

The Sultanate of Oman

Oman SMEs law

The importance of the SME sector in the development of Oman economy was manifested in the Royal Decree No 19/2007, which established the Directorate General of the Development of Small and Medium Enterprises, at the Ministry of Commerce and Industry (MCI). According to the Directorate, the mission of MCI is “to create and enhance a private sector that would positively contribute to the development of the Omani economy by availing of favorable environment”. Acknowledging the role of SMEs in the development of the Sultanate and establishing an institution to support this sector was a significant

step in the right direction. In effect, the Royal Decree 36/2013 to establish the Public Authority for Development of SMEs in Oman further indicated the growing importance attached to SMEs (Public Authority for SME Development, 2013). The Public Authority for Development of SMEs aims to gradually help the sector become a major contributor to the national economy. Specifically, the Authority aims to:

- Develop, plan, coordinate, and promote the enterprises, in addition to helping them secure the necessary financing and services in coordination with the concerned public and private bodies.
- Disseminate the culture of entrepreneurship and self-employment among young people.
- Boost the role of institutions in offering multiple and renewable job opportunities to the Omani young people.
- Help male and female entrepreneurs establish and carry out their projects, as well as manage and develop them.
- Enhance competitiveness among existing institutions.
- Boost the institutions' abilities to achieve an added value to the national economy, contribute to the economic diversification, support innovation, and use the modern technologies.

Definition of SMEs

The definition of small and medium-sized enterprises is derived from the relevant definition by Oman Chamber of Commerce and Industry according to two criteria, the number of employees and annual sales of the enterprises. The enterprise's gross sales are calculated according to the latest audit results of annual sales, and the number of employees is defined according to the records of the Ministry of Manpower. The definitions are shown in the Table 7.

Table 7. Definition of SMEs in Oman

| Enterprise Category | No. of Employees | Annual Revenue |
|----------------------------|-------------------------|----------------------------|
| Micro | 1-5 | Less than OMR 100,000 |
| Small | 6-25 | OMR 100,000 - OMR 500,000 |
| Medium | 26-99 | OMR 500,000 - OMR3,000,000 |

Source: Oman Chamber of Commerce and Industry (OCCI).
[https://chamberoman.om/economic-information/knowledge-center/industry/sme/\(2016\)](https://chamberoman.om/economic-information/knowledge-center/industry/sme/(2016))
[OMR1 = USD2.6 as of 9/15/2017].

Initiatives and Financing Sources for SMEs in Oman

First: Government Financing. A. Sanad Financing: The Sanad program aims to provide a source of income to a large number of Omani job seekers through encouraging and supporting self-employment and developing small-sized enterprises.

B. Al Rafd Fund. As a personal initiative, His Majesty Sultan Qaboos bin Said issued a Royal Decree (6/2013), to establish Al Rafd Fund to enable young Omanis to establish their special projects. The fund's target groups include nationals who are subject to the Social Security Act: young national job seekers, professionals, and artisans in the field of craft industries, and rural women. Al Rafd offers the following financial programs:

- Mawred: Targeting Omanis who are subject to the Social Security Act with loans up OMR10,000. [OMR1 = USD2.6 as of 9/15/2017].
- Tasees: Targeting job seekers wishing to establish new projects with loans up OMR20,000.
- Riyada: With loans up to OMR100,000. Riyada targets professionals wishing to develop and expand their existing projects in different economic sectors, craftsmen, rural women, beneficiaries of incubators services. In addition, the Fund targets employees in the government sector who plan to devote themselves to create and manage their own businesses.

C. Oman Development Bank. The Oman Development Bank (ODB) is a development bank that engages in financing small, medium, and large-sized enterprises and crafts. The bank strives to promote development in the country through participating in the efforts exerted by the government to boost the social and economic development. ODB is the main financier of small and medium-sized enterprises as it offers medium-term financing services and finances the working capital of the private enterprises. ODB also provides long-term loans of up to OMR1 million, to finance large capital expenses such as the construction of buildings and purchase of machinery, equipment, and necessary vehicles for the

establishment of initial construction projects, or the expansion of projects in certain economic sectors whenever a feasibility study proves the possibility of establishment. The appropriate repayment schedules take into account certain factors to set the loan duration such as the ratio of debt service coverage, cash flow, and ability to repay the loan. The endorsed loan installments are paid off on periodic payments, with appropriate grace periods to cover the project implementation period. The required loan guarantees are determined, taking into account the lending policy of the bank and the risks associated with projects and clients (Oman Development Bank, 2015).

Loan Guarantee Program within ODB

The ODB also encourages small and medium-sized enterprises to benefit from the loan guarantee program that aims to finance small and medium-sized enterprises as the lender offers guarantees of nearly 50% of the loans offered by commercial banks to small and medium-sized enterprises. This is part of the government's efforts to create programs aiming to boost the investment opportunities and encourage individual entrepreneurs to create investment opportunities and overcome the challenges facing them in securing the suitable financing to implement and operate their projects, in addition to contributing effectively to the development of small and medium-sized enterprises. The program insures or guarantees small and medium-sized projects with total cost of no more than OMR500,000, while the maximum loan value does not exceed OMR250,000. The bank guarantees 50% of the loan or a maximum of OMR 125,000. The bank's indicators showed that this product witnessed a growing demand over the last period (yet no data were available to verify the indicators). The lender seeks to provide all capabilities that ensure the success of this product so that Omani young people wishing to start implementing or expanding their projects can benefit from it (Oman Development Bank, 2015).

D. Industrial Innovation Support Program – The Research Council.

The Industrial Innovation Support Program was designed to build the research and innovation capabilities in the academic and the industrial sectors, to address the problems and industrial challenges facing some small and medium-sized enterprises. The program aims to:

- Stimulate medium and small-sized enterprises to adopt research and innovation methods and develop their scope of work.
- Offer researchers in the academic sector opportunities to address the problems as well as industrial and commercial challenges, as well as find solutions based on a scientific methodology consistent with the prominent goals of the concerned institutions.
- Activate the network of research and innovation community to exchange views and find a fertile ground for investors to communicate with the owners of innovative projects in the private sector.

Second: Bank Financing. The banks offer the service of financing small and medium-sized enterprises and entrepreneurs as the central bank's new policies have established a mechanism for most banks in the Sultanate to allocate at least 5% of their lending portfolios to small and medium-sized enterprises compared to nearly 3% previously.

Third: Corporate Institutional Financing. Fund for Development of Youth Projects (Sharakah). Sharakah was formed under the Royal Decree Law No. (98/76) to reflect the Sultanate's continued commitment to support entrepreneurs. It is a public joint stock company aiming to develop small and medium-sized enterprises and provide financial and administrative support services, as well as raising awareness of the entrepreneurship in the Sultanate. Sharakah provides customized financial solutions to fulfill the needs of commercial projects, as follows:

1. Sharakah:

- Participating in the projects of high-growth sectors
- Investment amount between OMR10,000 and OMR200,000
- The contribution of 25% to 49% is based on the amount contributed by the customer
- The customer's minimum contribution should be 51% and the legal status shall be a "limited liability company"
- The existence of a clear strategy for the purchase of stakes over six years
- Exemption from income tax for a renewable period of five years

2. Loans.

- Financing working capital and fixed assets
- The loan ranges between OMR10,000 to OMR200,000
- The minimum contribution limit of the client: for the new projects (33%) and the existing projects (20%)
- Management fees 5%
- The risk ratio of up to 2% is based on the project's profitability, customers' capabilities and skills, as well as the project owner's commitment and other factors
- The loan period is a maximum of six years, including the grace period

Fourth: Non-cash Support. The National Business Center (NBC) was established in 2012 under the umbrella of the Public Establishment for Industrial Estates (PEIE) to provide aspiring Omani entrepreneurs with a suitable platform to proceed with their commercial ideas and develop them into large projects. NBC aims to become the main platform for Omani entrepreneurs through offering entrepreneurs support, guidance, training, and follow-up to develop their projects. It also aim to provide them with the opportunity of meeting with experts of markets and industries, in addition to providing them with modern offices equipped with the necessary supplies, such as meeting rooms and presentations services.

Contribution of the SME Sector to the Omani Economy. Table 8 presents the distribution of firms in Oman according to economic activities. The firms are listed without disaggregation into micro, small, or medium. However, the data gives a general picture regarding the distribution over economic activities. The whole and retail sales has the most number of firms (51,738 firms, 39% of total), followed by the manufacturing industry with 29,279 firms (22.1% of total). These two economic activities constitute almost 61.0% of total registered firms. Available statistics on SMEs in Oman point to a sector that has yet to grow and realize its potential contribution to the national economy. According to a report by Oxford Business Group, the SME sector in Oman accounts for 16% of GDP and 90% of economic activities (Oxford Business Group Report, 2012). These figures are indicative of a sector with limited contribution to the overall economy of the country.

Table 8. Distribution of Firms by Economic Activities in Oman in 2013

| Activity | Number of firms | % |
|--|------------------------|---------------|
| Agriculture, forestry, fishing | 500 | 0.4 |
| Mining, quarrying | 423 | 0.3 |
| Manufacturing industry | 29,279 | 22.1 |
| Electricity, gas, water supply | 140 | 0.1 |
| Water supply, sewage, waste management | 1,635 | 1.2 |
| Construction | 3,824 | 2.9 |
| Whole and retail sale, car and motor cycle maintenance | 51,738 | 39.0 |
| Transport and warehousing | 3,379 | 2.5 |
| Accommodation and food services | 10,020 | 7.5 |
| Information and communications | 471 | 0.4 |
| Financial and insurance services | 1,472 | 1.1 |
| Real estate business | 800 | 0.6 |
| Professional, scientific and technical activities | 3,302 | 2.5 |
| Administrative and support activities | 4,755 | 3.6 |
| Education | 974 | 0.7 |
| Human health and social work | 927 | 0.7 |
| Arts, fun and recreation | 394 | 0.3 |
| Other services | 14,529 | 10.9 |
| Unidentified | 4,173 | 3.1 |
| Total | 132,735 | 100.0% |

Source: Public Authority for SME Development, National Center for Statistics and Information Third Publication – 2013.

While a sectoral breakdown is not available, Table 9 presents the number of registered companies and their contribution to employment of national employees. The percentages measure the share of each firm group in total Omani employment in the private sector. The statistics about national employees include only individuals who are registered with the national social security system. Companies with up to 10 national workers constitute 87.2 % of all companies (9,222 firms in total), but employ only about 37.9 % of total Omani private sector employees with social insurance, a very modest contribution. About 62.0% of total

employees work in companies with 11-100 insured workers. Specifically, about 2% of companies (212 firms) employ 48.5% of national workers (21-100 insured workers).

Table 9. Share of Omani Firms in Employment of national's in the Private Sector

| Category of Omani employees | Employees | | Registered Establishment | |
|-----------------------------|-----------|--------|--------------------------|--------|
| | % | Number | % | Number |
| 1 | 7.9 | 4,501 | 42.6 | 4,501 |
| 2 to 5 | 19.7 | 11,080 | 37.2 | 3,934 |
| 6 to 10 | 10.3 | 5,832 | 7.4 | 787 |
| 11 to 20 | 13.5 | 7,585 | 4.9 | 514 |
| 21 to 100 | 48.5 | 27,344 | 2.0 | 212 |
| Total | 100 | 56,342 | 100 | 9,948 |

Source: Oman Development Bank, Annual Report 2015.

In general, Oman is similar to Kuwait in many aspects. The Royal Decree 19/2007 established the Directorate General of the Development of Small and Medium Enterprises, and The Royal Decree 36/2013 established the Public Authority for Development of SMEs. Hence, both Oman and Kuwait have a single authority for the management of SMEs. In contrast to Kuwait, Oman defines SMEs according to three segments (micro, small, and medium) and two criteria (number of employees and annual sales). Also, Oman has created different support institutions and programs targeting diverse groups in different economic sectors. However, no detailed evidence was found to substantiate the effectiveness of these programs and initiatives.

Kingdom of Bahrain

SMEs' Definition

Bahrain SMEs' Law (No. 117/2010) was issued with the objective of promoting the share of SMEs in the local economy. The law does not define SMEs in Bahrain and the most adopted definition of SME is the one used by the Ministry of Commerce and Industry (MOCI). Currently, SMEs' definition in Bahrain is based on two components: number of employees and capital investments (Table 10). Separate categorization is also added based on the type

of economic activity. The Ministry of Industry, Commerce and Tourism considers micro, small, and medium enterprises to have up to 10, 50, and 250 employees, respectively (MICT, 2017a). The only exception is made for the clusters of labor-intensive textiles and garment sector, where companies are still considered medium-size with up to 300 employees.

Table 10. Definition of SMEs in Bahrain

| Category | Number of Employees | Capital Investment (BD) | Annual Turnover (BD) (All Sectors) |
|-----------------|--|--------------------------------|---|
| Micro | Up to 10 | Up to 20,000 | Up to 100,000 |
| Small | 11-50 (up to 100 for construction sector) | 20,001-500,000 | 100,001 - 1 million |
| Medium | 51-250 (up to 400 for construction sector) | 500,001 - 3 million | 1,000,001 - 5 million |

Source: Ministry of Industry, Commerce and Tourism (2017)

<http://www.moic.gov.bh/Ar/Main/SME%20Definition/Pages/SME%20Definition.aspx>

SME Business Environment in Bahrain

The Global Entrepreneurship Index, published by Global Entrepreneurship Development Institute (GEDI), is an annual index that measures the health of the entrepreneurship ecosystems in each of 137 countries. The index then ranks the performance of these against each other. The index measures the ability of economies to nurture and promote entrepreneurial activities through a series of indicators. This provides a picture of how each country performs in both the domestic and international context. GEDI ranked Bahrain 34th out of 137 countries and fifth in the MENA region. Bahrain performed strongly in several areas of focus in the GEDI report, including opportunity perception, networking and cultural support. The Kingdom's strongest assets were its human capital and high growth aspirations. On the negative side, entrepreneurs were viewed as being somewhat risk-averse and less adept at adopting technology than their competitors in other markets. More promisingly, the GEDI indicated that Bahrain had already established a solid institutional base to support entrepreneurial development, giving it a 59% rating in this segment, well above its overall score of 45%. In conclusion, the institute

said a 10% enhancement of conditions for entrepreneurship had the potential to add \$6bn to the economy (Global Entrepreneurship Index, 2017).

According to the definitions and guidelines for measurement, provided by the Ministry of Industry, Commerce and Tourism (MICT), most enterprises in the Kingdom of Bahrain are classified as small in size. SMEs provide a wide range of goods and services and account for a significant part of the economic activity of the citizens and the many expatriates. The relatively small-sized enterprises are a large proportion of the total number of enterprises in Bahrain. According to the Labor Market Regulatory Authority (LMRA), by the middle of 2016, more than 90% of enterprises had less than 10 employees and about 98% of the enterprises employ less than 50 persons each. There has been very little difference in this pattern since 2007 (Figure 1).

Figure 2 shows the number of enterprises in Bahrain by number of employees. According to the data provided by the LMRA, the total number of enterprises registered in Bahrain has grown to over 82,000 by the end of the first half of 2016. Based on the MOICT definition, micro enterprises are those with less than 10 employees. The smallest sized firms have increased in number faster when compared with the large-sized firms. The number of the specific micro enterprises, those with (1-4) employees has more than doubled between 2007 and 2016, while the number of enterprise with less than 10 employees grew by about 55% (about 91% of the total, or 74,400 enterprises). The number of medium and large enterprises have also grown, but at a slower pace. The proportion of enterprises with more than 10 employees in 2016 is about 9% of the total 7,600 enterprises.

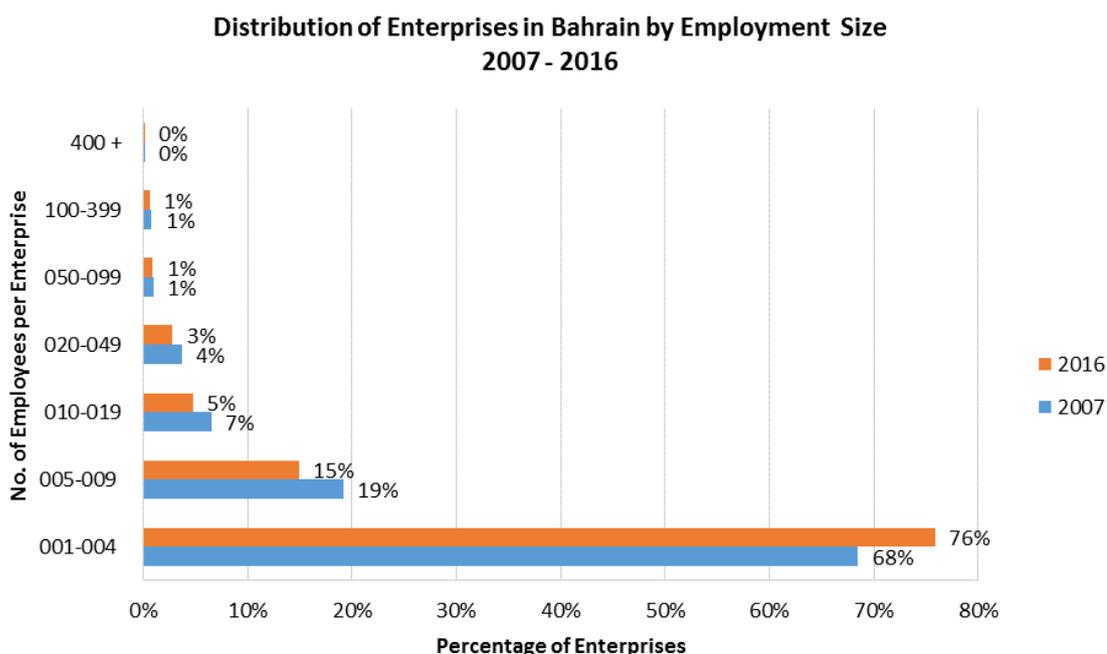


Fig. 1. Distribution of firms in Bahrain by employment size (2006-2017).

Source: Labor Market Regulatory Authority (LMRA), Kingdom of Bahrain, based on data from Bahrain Labor Market Indicators website <http://www.lmra.bh/blmi>.

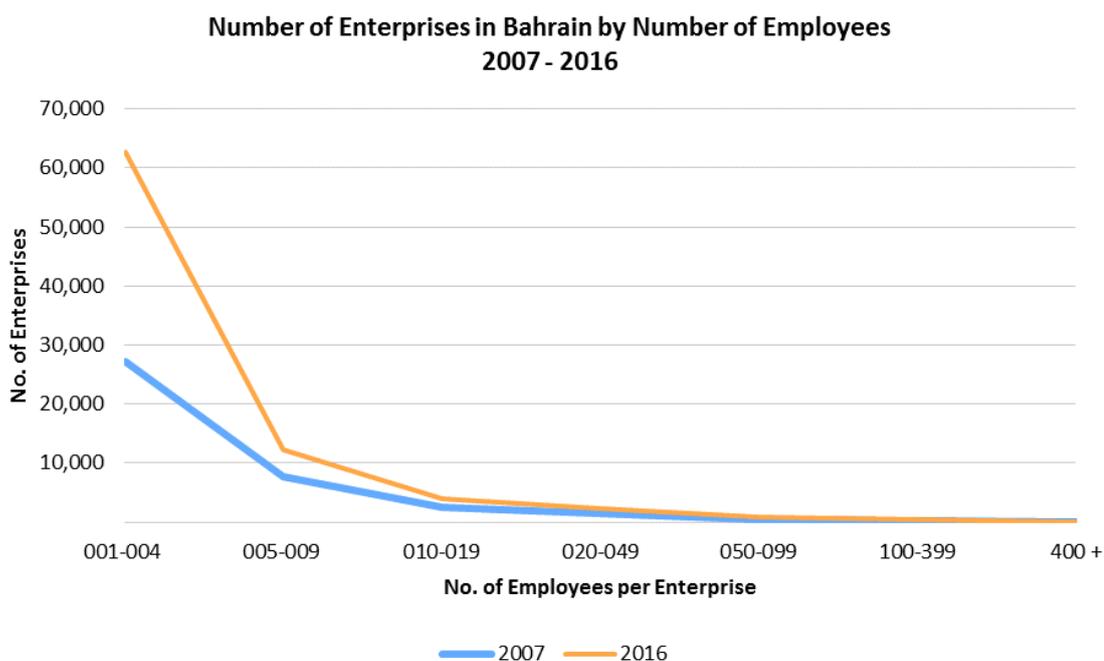


Fig. 2. Number of firms in Bahrain by employment (2006-2017).

Source: Labor Market Regulatory Authority (LMRA), Kingdom of Bahrain, based on data from Bahrain Labor Market Indicators website <http://www.lmra.bh/blmi>.

According to the LMRA, the annual number of new business registrations has been increasing and stands at over 10,000 in the current year. Clear information regarding business closure is not available publicly. However reviewing the available data, it could be assumed that nearly 6,000 enterprises closed each year during 2014 and 2015, while about 9,000 new ones registered during the same period. This is equivalent to processing a volume of almost one fifth of the business that exists in a given year, with the net annual increase of enterprises being at about 4%. In terms of employment according to economic sector, three quarters of small and large firms are engaged in one of six economic sectors: manufacturing, construction, retail and wholesale, hotels and restaurants, real estate, or personal services. Retail sector contained the largest number of enterprises, followed by construction, manufacturing, real estate, hotels and restaurants, and personal services.

The size of the total private sector workforce (expats and Bahrainis) doubled during the period between 2005 and 2016. Although employment in the smaller sized enterprises grew faster (156%) for both Bahrainis and expatriates, yet the majority of the employment remained in enterprises employing 10 or more workers. The firms employing more than 10 workers accounted for about 65% of the total private sector workforce in 2016. Enterprises with more than 10 workers employed more than eight out of every ten Bahraini Private sector employees in 2016. Out of the total private sector workforce of 581,000, 16% are Bahrainis, lower than the 23% for the smaller workforce recorded in 2005. According to the LMRA data, about 8% of the total workforce and a similar proportion of its Bahraini workforce are not specified by economic sector in 2016, known as unregistered workforce working from home. This is a significantly large part of the work force and can alter the relative importance of some of the sectors of employment if they happen to be disproportionately misclassified (Bahrain Chamber of Commerce, 2016).

SMEs' Initiatives and Financial Support Programs

1. Tamkeen Program. Tamkeen Program (established in 2006) is a semi-government organization in Bahrain as part of the country's national reform initiatives, with the task of enhancing the private sector as the key driver of sustainable economic development. Guided by three strategic goals—enhancing

quality, serving customers, and achieving results—the organization provides an integrated range of programs to create a solid foundation for a modern economy—such as SME financing, skills training, and entrepreneurship. At the same time, this program addresses key challenges facing SMEs in the private sector at various stages of their development—from start-ups to mature companies and from students to senior executives. To date, Tamkeen’s programs have served more than 130,000 Bahrainis and businesses.

In partnership with the Family Bank, Tamkeen’s program offers financial scheme to provide individuals and micro-enterprises with affordable Sharia-compliant financing. The program empowers individuals with limited income to be able to establish new micro-business activities as well as support existing businesses. Tamkeen will enable the targeted beneficiaries to benefit from more affordable financing through subsidizing up to 87.5% of the capital. Financing amount ranges from BD500 to BD10,000. Micro-finance support scheme subsidizes 50% of the capital. Financing amount ranges from BD500 to BD7,000. Besides financial support, Tamkeen will also provide valuable mentoring and advisory services (Tamkeen Program, 2017).

2. Family Bank. Family Bank was established in 2010, and is considered to be the first Islamic micro-finance bank in the Middle East with the prime objective to contribute to poverty alleviation and improving the social and economic life of the less fortunate communities through the establishment of Islamic financial services. Family Bank role is to guide and sustain programs, in collaboration with official channels, that aim to enhance the living conditions of the deprived families. Micro-Enterprise Finance (MEF) is one of the main programs within the Family Bank that aims to help and support micro-projects to improve their business, to expand in the market, and to establish a successful position in the industry. MEF extends financing to such micro-projects in various sectors that fulfill the eligibility criteria of the Bank. Under this program, financial support will provide the working capital required for expanding the business and for purchasing fixed assets (Family Bank, 2017). The MEF also provides extensive support services and resources to SMEs such as:

- Formulate a proper strategy for the client’s business if necessary.
- Help to create a business and marketing plan if required.

- Monitor the business performance on monthly basis to evaluate the performance of the business.
- Ensure that the business is maintaining a proper accounting report.
- Ensure proper utilization of the finance amount.

The terms of financing under MEF are:

- Duration: from 6 mos to 36 mos
- Financing limit: from BD3,000 to BD7,000
- Terms of repayments: monthly basis

3. Bahrain Small and Medium Enterprises Development Society.

Bahrain Small and Medium Enterprises Development Society was established in December 2012 as a nonprofit society licensed by the Ministry of Social Development to supplement Bahrain's 2030 economic vision conceived by the Crown Prince to encourage youth in pioneering businesses, developing private projects and to help its growth in a friendly business environment. The main activities assumed by the SMEs Development Society are:

- Initiate government programs that lead to the development of SMEs.
- Provide all forms of support to SMEs.
- Economy and legal advice on issues related to SMEs.
- Assist SMEs in the strategy formulation and business models.
- Enhance SMEs to penetrate new markets.

4. Bahrain Business Incubator Centre (BBIC). Established in 2003 by Bahrain Development Bank, the BBIC aims to support the growth and sustainability of SMEs in Bahrain. The BBIC is achieving this mission by providing governmentally approved physical spaces for business to start and grow, receiving tailored facilities and services designed to increase the success rate and sustainability of participants. Since its inception, the BBIC has only advanced more than 100 businesses into the market successfully, with more prospects in the pipeline. This number is unimpressive for over a decade and half of operation (BBIC, 2017).

5. SMEs Development Directorate. SMEs Development Directorate was initiated within the Ministry of Industry and Commerce with the objective of

creating a conducive policy environment for the development and growth of SMEs and handicrafts. It also aims to enhance the contribution of SMEs to the national economy, boost their added value, and promote the development of knowledge based SMEs (MICT, 2017b). Specifically, it provides the following service and functions:

- Promote handicrafts and entrepreneurial values.
- Provide training and counseling to entrepreneurs.
- Provide technical, managerial and marketing services for SMEs.
- Encourage business networking and clusters.
- Advance financial support programs and facilitate SMEs access to credit.
- Facilitate SMEs in developing subcontracting linkages and capability to supply parts, components and services to large domestic firms and other industries in GCC.
- Disseminate information on franchising opportunities.
- Encourage increased use of ICT in products and manufacturing processes as well as use of e-commerce by SMEs to access international markets and reduce transaction costs.
- Provide web-based consultancy and advisory support to SMEs.

6. Centre of Excellence for Micro-Enterprises Development. The objective of the center is to develop and provide a favorable environment for the promotion of small and micro-enterprises in the Kingdom of Bahrain. Also, it seeks to increase resources through local and international sources, in order to initiate and support the various innovative initiatives in promoting small businesses. The program also includes the provision of support for applicants in various aspects (e.g. business, legal, credit, marketing, etc.).

To summarize, astonishingly, Bahrain, which has a more vibrant private sector than most of GCC members, did not develop a full-fledge policy and institutional structure to support SMEs. Similar to Kuwait, it has a recent SMEs' Law (117/2010); however, it differs with Kuwait in respect to the SMEs definition. Bahrain has embarked different support programs and initiatives to promote SMEs (mainly in Ministry of Industry, Commerce and Tourism (MOICT)). Among other programs, it has established the first Micro-Islamic finance bank in the

Middle East (Family Bank). More importantly, the support institutions and programs are fragmented over different public entities and private sector initiatives. This fragmentation can lead to overlapping, conflict, and redundancies. Again this hypothesis cannot be verified with the available data.

State of Qatar

Definition of SMEs in State of Qatar

SMEs in the State of Qatar is defined as the companies registered in accordance with the laws of the State of Qatar, with number of employees not exceeding 250 employees, and annual turnover \leq Qatari Riyals 100 million. The only exception is for companies operating in the creative industries sector where the number of employees does not exceed 100 employees (QDB, 2017a). Beside the criteria of number of employees and annual turnover used in defining SMEs, the definition also varies according to segmentation of economic sector, as shown in Table 11.

Table 12 presents the distribution of registered firms according to economic sector. The firms are not categorized according to size (MSMEs). Hence, a general look at all firms reveals that that the commercial sector is the most dominant in terms of the number of registered firms, around 69% of total firms (trade 44%, restaurants and hotels 17%, finance and business services 8%). However, these three sectors' contribution to private sector employment is minimal at 30%. Hence, their contribution to job creation is very modest.

Table 11. Definition and Classifications of SMEs in Qatar

| Sector | Micro | | Small | | Medium | |
|---------------|-----------------|-------------------------|-----------------|-------------------------|-----------------|-------------------------|
| | No of Employees | Annual Turnover (QR Mn) | No of Employees | Annual Turnover (QR Mn) | No of Employees | Annual Turnover (QR Mn) |
| Agriculture | 1-5 | < 1 | 6-30 | 1 < 20 | 31-250 | 20-100 |
| Manufacturing | 1-5 | < 3 | 6-50 | 3 < 20 | 51-250 | 20-100 |
| Creative | 1-5 | < 1 | 6-30 | 1 < 20 | 31-100 | 20-100 |

| Industries | | | | | | |
|----------------|------|-----|-------|-------|--------|--------|
| Construction | 1-10 | < 3 | 11-50 | 3< 20 | 51-250 | 20-100 |
| Trade | 1-5 | < 3 | 6-50 | 3< 20 | 51-250 | 20-100 |
| Other Services | 1-5 | < 3 | 6-50 | 3< 20 | 51-250 | 20-100 |

Source: National Definition of SMEs in Qatar, Qatar Development Bank (2016)

On the other hand, the industrial, construction, and transport sectors constitute only 25% of total registered firms, but employs around 70% of total labor in the private sector. In a final note, it is very probable that the commercial sector is where micro and small firms have the strongest presence. Also, the industrial, construction, transport sectors are probably where medium firms can be found. However, these assumptions cannot be substantiated from the data in Table 12.

Table 12. Distribution of Registered Firms in Qatar’s Private Sector

| Sector | No. of Companies | Percentage | Employment | Percentage |
|-------------------------------|------------------|------------|------------|------------|
| Trade | 7565 | 44% | 63,042 | 17% |
| Restaurants and Hotels | 2904 | 17% | 19747 | 5% |
| Industry | 2776 | 16% | 79872 | 21% |
| Construction | 1176 | 7% | 161086 | 43% |
| Transport | 331 | 2% | 24069 | 6% |
| Finance and Business Services | 1376 | 8% | 28855 | 8% |
| Agriculture | 987 | 6% | N/A | N/A |
| Total | 17,115 | 100% | 376,671 | 100% |

Source: Ashoor. A, (2013) “The Structure of SMEs in the GCC and How are they Promoted”, Arab-EU Business Facilitation Network.

<https://di.dk/SiteCollectionDocuments/DIBD/AE->

SMEs Initiatives and Programs in Qatar

Qatar Development Bank. QDB was founded in 1997 by Emiri Decree to energize Qatar’s private sector and diversify its economy, which identified these as vital tasks in developing Qatar into a modern state. QDB have worked with thousands of Qatari entrepreneurs and enterprises with the effort to provide investment and guidance to brand new start-ups and well-established corporations. The focus is promoting the growth of SMEs in key sectors by

offering a number of services through a single window to support their expected growth. Through smart, targeted financing products and advisory support services, QDB nurtures a sound and sustainable knowledge-based economy for Qatar (QDB, 2017b). The following discusses the distinguished SMEs programs within QDB.

SME Equity Program. The SME Equity Program established by Qatar Development Bank aims to support wide economic diversification by providing required capital to Qatari entrepreneurs. The program is the first of its kind and the largest in Qatar with a budget of QAR365 million. The program will encourage investments in innovative small enterprises and high-growth potential medium enterprises to support value creation (QDB, 2017c). More specifically, the SME Equity Program aims to:

- Provide capital to SMEs actively owned and managed by Qataris across industries.
- Foster entrepreneurship culture by promoting innovation and new ventures that can contribute to a knowledge-based economy.
- Build capabilities and network to accelerate Qatari SMEs to world class standards.

The characteristics of the lending strategy can be summarized in the following:

- Target allocation: 20% of lending should target innovative SMES and 80% to can be used by overall SMES. Eligible SMEs must be Qatari owned with active Qataris in management.
- Program duration: 8-10 years.
- Industry: to support viable businesses in strategic sectors (excluding construction, contracting and trade sectors).
- Equity buy-back option: With pre-stated conditions for entrepreneur to buy back.

Enterprise Qatar. Enterprise Qatar (EQ) is a one-stop-shop that support and promote entrepreneurs capabilities to operate a successful businesses. EQ offers a wide array of service for entrepreneurs and SMEs including education, guidance, research, and financial arrangements. EQ supports projects through corporations with well-known educational institutions aiming to refine

entrepreneur's administrative skills through specialized educational programs. EQ also utilizes a detailed database for different sectors in order to identify new investment opportunities. More importantly, through its financial framework EQ offers entrepreneurs with financial services necessary to transform Qatar into a regional entrepreneurial center.

EYDA (SME Clinic). EYADA is designed to help distressed SMEs suffering from a decline in sales and/or inefficient cost structure. Its goal is to enhance the SME businesses' continuity and provide the support to avoid liquidation or bankruptcy. EYADA facilitates restructuring advisory services relevant to two phases:

- Developing the transformation and execution plans (set of corrective actions along with the framework of implementation and the respective success measures)
- Implementation of the execution plan.

QDB contributes by covering 50% of the service cost, with the applicant paying the remaining 50%. EYADA is offered to distressed business owners seeking diagnostic assessment and turnaround solutions.

Surprisingly, Qatar with its vast resources and a well-developed economy has devoted modest attention to SMEs. In comparison to Kuwait, there is no existing SMEs' law to address SMEs in Qatar, and there is no single authority for the management of SMEs. The SMEs definition set by QDB is very detailed using three segments (micro-small-Medium) within five economic classifications and according to two criteria, the number of employees and annual sales. The support programs and initiatives to promote SMEs (mainly in by QDB) are very modest in comparison to other GCC members when it comes to the provision of finance.

Status of the SMEs in the GCC

The objective of this task is to assess SMEs in Kuwait in respect to other members in the GCC. For this purpose a review of SMEs status in all GCC members was carried out. For each member, the focus was to identify the latest SMEs' definitions, the existence or the lack of a SMEs' law, the structure of SMEs' management, and the supporting institutions, initiatives, and programs

taken in each country to support SMEs' growth. Within this context, it must be acknowledged that the available data on SMEs' structure, profile, and economic contribution in the GCC are incomplete and only partially comparable across cases. Table 13 presents the framework for the assessment of SMEs' status in the GCC. The main findings of the assessment can be summarized as follows:

1. All GCC members have enacted some form of law(s) to encourage the development of a vibrant SMEs' sector. The only exception is KSA and Qatar.
2. All members have selected an appropriate definition for SMEs' and these definitions were not stated in the SMEs' laws. Kuwait is the only exception where the law (98/2013) clearly defines small and medium enterprises.
3. All members used three segments enterprises (micro-small-medium), except for Kuwait that uses, as stated in the law, two segments only (small and medium).
4. All members categorized the three segments according to two criteria, number of employees and annual sales or revenues. Again, Kuwait is the only exception where the two segments (small and medium) are categorized according to number of Kuwaiti employees (nationals) and capital.
5. UAE and Qatar are the only two countries that further categorize the three segments (micro-small-medium) according to economic sectors (three sectors in UAE and five sectors in Qatar).
6. Kuwait and Oman are the only two members that have an overarching government institution that is wholly and singularly responsible for the development and protection of SMEs: The National Fund for the Promotion and Development of SMEs in Kuwait and the Public Authority for Development of SMEs in Oman. UAE has a unique situation where at the federal level, the Council for Projects and SMEs is responsible for the formulation of SMEs' policies and strategic plans, rules, and coordination between all concerned governmental bodies, and monitoring of SMEs' performance indicators. The National Program for Projects and SMEs will be responsible for the effective

execution for all required mechanisms of the SMEs' development. However, each emirate has its main authority such as Mohammed Bin Rashid DUBAI SMEs in Dubai and Khalifa Fund in Abu Dhabi.

7. The lack of a single SMEs authority in KSA, Qatar, and Bahrain has induced a multi-structure of SMEs-related agencies and programs. The extent of conflict or competition between these programs is beyond the scope of this study.
8. All GCC members lack a detailed database for SMEs to support quantitative analysis that can enhance proper assessment and decision making process. Data such as number of firms, employment (nationals vs: expats), output, value added, profitability, etc., distributed according to segments (micro-small-medium) and economic sectors is very limited. While few variables can be found for some members for different years, the lack of detailed time series data over a period of years hinders both the appropriate profiling of SMEs and the scientific assessment of their contribution to the overall economy. The Kuwait SMEs' database presented in this study for the period (2003-2012) is by far the most advanced and pioneering initiative toward an effective SMEs' database.
9. The available limited data on the SMEs' sector within the GCC show that, on average, SMEs constitute more than 90% of private businesses in all GCC members. SMEs are largely active in the trade sector; other important sectors include small-scale workshops, hotel, restaurants, and constructions. They are less important in industry and other capital-intensive sectors.
10. In terms of contribution to total employment in the private sector, despite micro and small (with up to 10 employees) firms' dominant numbers, their contribution to formal employment is rather modest.
11. The data related to SMEs' contribution to the domestic economy GDP or non-oil GDP is very limited.
12. Vital data related to MSMEs in GCC is seriously lacking. In most developed economies official data on MSMEs include many important variables that are not covered by GCC statistical sources, such as

profitability, survival rate, turnover, etc. These indicators are essential for informed policy-making and monitoring of SMEs sector.

Table 13. Assessment of SMEs Structure in the GCC

| | KSA | UAE | Oman |
|-----------------------------|---|---|---|
| Laws | No existing law | The Federal law (No. 2/2014) for SMEs projects established the Council for Projects and SMEs and the National Program for Projects and SMEs. | The Royal Decree (19/2007) established the Directorate General of the Development of Small and Medium Enterprises. The Royal Decree (36/2013) to establish the Public Authority for Development of SMEs. |
| Definitions | Defined micro, small and medium sized enterprises according to two criteria, the number of employees and annual sales. | DUBAI SMEs definition using three segments (micro-small-medium), three economic classifications (trading-manufacturing-Services), and two criteria, the number of employees and annual sales. | Oman Chamber of Commerce and Industry definition of micro, small and medium-sized enterprises according to two criteria, the number of employees and annual sales. |
| Management of SMEs | No single authority responsible for SMEs | Federal Level: <input type="checkbox"/> The Council for Projects and SMEs <input type="checkbox"/> The National Program for Projects and SMEs Emirate Level: Independent authorities such as Mohammed Bin Rashid DUBAI SMEs in Dubai and Khalifa Fund in Abu Dhabi. | Public Authority for Development of SMEs established by Royal Decree 36/2013. |
| Support institutions | <ul style="list-style-type: none"> • Saudi Industrial Development Fund • Kafalah – The Loan Guarantee Program • Saudi Credit and Savings Bank (SCSB) • Saudi Authority for Accredited Valuers | Within DUBAI SME: Development Advisory. Dubai Entrepreneurship Academy. Intilaq Hamdan Innovation Incubator Business Startup The FUND: financial advisory, Credit Guarantee Scheme, and Local Purchase Order Financing | <ul style="list-style-type: none"> <input type="checkbox"/> Sanad Financing <input type="checkbox"/> Al-Rafad Fund (cash support) <input type="checkbox"/> Oman Development Fund (cash support) <input type="checkbox"/> Industrial Innovation Support Program <input type="checkbox"/> Fund for Development of Youth Projects(cash support) <input type="checkbox"/> Loan Guarantee Program within ODB |

| | | | |
|--|-----------|--|--|
| | (Taqeem). | (LPO). Procurement Program (GPP) | |
|--|-----------|--|--|

Table 13 (Cont'd.)

| | Bahrain | Qatar | Kuwait |
|---------------------------|---|--|--|
| Laws | SMEs law (no. 117/2010) for SMEs development | No existing law | Law no.98/2013 to establish the National Fund for the Promotion and Development of SMEs |
| Definitions | Definition of micro, small and medium-sized enterprises according to three criteria, the number of employees, capital investment, and annual sales. | Definition using three segments (micro-small-medium) within five economic classifications and according to two criteria, the number of employees and annual sales. | The Law 98/2013 defines small enterprises as having 1-4 Kuwaiti employees and a capital of less than KD250,000 and medium as having 5-50 Kuwaiti employees and a capital of less than KD500,000. |
| Management of SMEs | No single authority responsible for SMEs | No single authority responsible for SMEs | National Fund for the Promotion and Development of SMEs was established in 2013 as a specialized institutional entity to consolidate all SMEs activities. |

| | | | |
|---|---|---|--|
| <p>Support Institutions and programs</p> | <ul style="list-style-type: none"> □ Tamkeen Program (CS). □ Family Bank (CS). □ Bahrain Small and Medium Enterprises Development Society (NCS). □ Bahrain Business Incubator Centre (BBIC), (NCS). □ Centre of Excellence for Micro-Enterprises Development. □ SMEs Development Directorate aims to create a conducive environment SMEs development. | <ul style="list-style-type: none"> □ Qatar Development Bank (non-cash support) □ SMEs Equity Program (cash support) □ Enterprize Qatar is a one-stop-shop providing SMEs with the support for success (non-cash support) □ Eyada is designed to help distressed SMEs (non-cash support) | <ul style="list-style-type: none"> □ Industrial Bank of Kuwait (IBK) played an important role in the provision of loans to new industrial projects in the state of Kuwait. □ Abdulaziz Al-Sager Center/Kuwait Chamber for Commerce and Industries (KCCI) Policies. |
|---|---|---|--|

Conclusions

The recent SMEs' support programs in the GCC have shifted significantly from the traditional approach of distributing loans and grants indiscriminately without appropriate follow-up to targeting eligible beneficiaries, with more emphasis on providing business services and infrastructure for SMEs to thrive in a sustainable process and environment. A number of innovative support approaches have been cited in this report, but there is no evidence to validate the effectiveness of these measures, except in the case of DUBAI SMEs. Competition and diversity of policies and institutions are generally a good thing, as they allow for learning and benchmarking. However, at least in some countries, there seem to be issues of scale and overlapping redundancy, with too many mid-size programs operating in parallel. The existence of most of the SMEs' support programs within the public sector has induced the limited coordination and exchange of information between different institutions. More importantly, valuable lessons are not identified leading to duplication of similar

past efforts, higher costs, and institutional redundancies. There is a lack of systematic evaluation of program successes and identification of recurrent problems. 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.

Within the context of the SMEs' sector, and based on the project team's review and given GCC data scarcity and in light of the descriptive observations about SMEs in the GCC, it may be concluded that overall productivity and competitiveness of SMEs in the GCC is comparatively lower than their counterparts in comparable economies. The proper adoption of technologies in improving efficiencies, processes, and services among SMEs is still lacking. SMEs must improve their accounting practices and adopt the principles of corporate governance, especially financial governance and transparency. This will enhance their competitiveness and ability to penetrate global markets. SMEs need to improve their HR capabilities by hiring and rewarding the right talent and making their organizations an ideal place to work. SMEs also need to invest in innovation, and create a culture of innovation in their firms to ensure new markets, products, and services.

Kuwait's Past and Current SMEs' Policies and Institutions

This section of the report aims to present a brief historical background on policies and institutions related to the development of SMEs in Kuwait. Over the last three decades, the government has introduced different initiatives, programs, and policies to promote the role of SMEs. The first major effort in this regard was taken in 1997, the government of Kuwait, represented by the Kuwait Investment Authority (KIA), established the National Investment Fund Portfolio (NIFP) in 1997, with a capital of KD100 million for the purpose of expanding the national economic base by increasing investment opportunities and promoting SMEs. The portfolio's primary aim is to participate in building a human capital base in Kuwait by attracting talented and motivated young Kuwaitis, training and preparing them to succeed in their own businesses (Kamco, 2014). The portfolio's mandates included the following:

- Supporting all sectors including industrial, vocational, trade, and services.

- Participating in the equity as shareholders rather than as lenders, thereby eliminating the need for the project's owner to provide collaterals. As such, both the NIFP and KAMCO¹ would together bear the burden of losses incurred for any reasons. Equity participation also limited the portfolio managers to monitoring the results of the project through an appointed financial auditor, without actually sharing in the management of the project.

To achieve the NIFP objectives, the following institutions and programs were established both by public and private initiatives:

The Kuwait Small Projects Development Company (KSPDC). KSPDC was established in 1997, with a government paid up capital of KD1 million. KIA through the NIFP provided the company with up to KD100 million for its activities. Its major mission was to provide access to finance (up to KD500,000) for young Kuwaitis seeking to establish small local businesses. The board of directors consisted of five members (three from KIA and two from the private sector). The company struggled in the initial stage of its operation to finance and promote an acceptable number of small projects. Only 43 projects were accepted from 1998 to 2003. However, KSPDC's performance has picked up in the last few years. From 2007 till 2013, 166 projects were accepted, with a total paid up capital amounting to KD 21.1 million.

KSPDC contributed around KD15.6 million (74.2%) in equity in the approved companies. Most of the projects were in the services sector such as restaurants, education, fashion, and medicine. The age groups 20-29 and 30-39 constituted the majority of beneficiaries, with a share of 26% and 32% of total accepted projects, respectively. Moreover, projects with KD100,000 or less in paid up capital represented 40% of total accepted projects. In anticipation of being absorbed by the 2013 National SMEs Fund, KSPDC suspended its operations in December 2013.

All in all, the magnitude of the interventions and the actual support of SMEs were limited partly because of KSPDC's continued sharing and interfering in the management of the SMEs projects and partly because of its bureaucratic

¹ KAMCO Stands for KIPCO Assets Management Company, which was established in 1998 as a subsidiary of United Gulf Bank (UGB) – the investment banking subsidiary of Kuwait Projects (Holding) Company. KAMCO specializes in asset management and financial services in Kuwait and the Middle East and North Africa (MENA).

procedures. One of its major drawbacks centered on its policy of granting the Kuwaiti entrepreneurs a pre-set monthly salary, therefore turning them a paid staff, rather than giving them the freedom to manage the enterprise. The spirit of self-employment and entrepreneurship, the *raison d'être* of government support mechanisms for SMEs, was nullified. In addition, the gross amount of invested capital in the approved 209 small enterprises over 16-y period pales against the existing sum of paid up capital of all MSMEs in Kuwait in 2012, which reached KD805.3 million.

Al-Raeda Enterprises Company. A subsidiary of the Industrial Investment Company, it was established in 2006 with a capital of KD3 million as a Kuwaiti shareholding closed company for the purpose of establishing and participating in SMEs in different economic activities. Al-Raeda was a private firm aiming to benefit from SMEs joint venture profitable projects; it was not part of public initiatives to support SMEs. The company is specialized in venture capital and private equity and in restructuring existing under-performing companies. In June 2013, the Industrial Investment Company filed a request to dissolve Al-Raeda, claiming that the company has failed to achieve its objectives. The request was approved in October 2013 (Al-Raeda, 2014).

KAMCO. KAMCO was appointed by KIA to manage a fund with a capital of KD15 million for the purpose of financing SMEs. Administratively, it reported KIPCO. As mentioned earlier, the capital was allocated from the NIFP fund. Recently KIA requested KAMCO to end its operations and return the capital. This move appears to be motivated by the establishment of the National SMEs Fund (Aljarida, 2014).

In addition to the preceding institutions, other independent initiatives were undertaken over a long period of time to promote SMEs. Two major initiatives were carried out by the Industrial Bank of Kuwait and the Kuwait Chamber of Commerce and Industry, each outlined subsequently.

Industrial Bank of Kuwait (IBK). Since its inception in 1973, IBK played an important role in the provision of loans to new industrial projects. To extend its role to supporting SMEs, IBK created Al-Senai (Industrial) Portfolio for Small Enterprises, defined as handicraft small projects. The portfolio, which was established in 1998 by the Law No. 10 of 1998, had a capital of KD50 million and was mandated to last for a period of 20 y. Its major mission is to provide

financial assistance in compliance with Islamic Sharia'a to encourage young Kuwaitis to have their own projects with an investment not exceeding KD500,000. Over the period 2000 to 2012, the portfolio provided financing in the amount of KD44.5 million representing or 68.7% of the total capital (KD64.7 million) for 593 projects. Therefore, the average financial package was KD75.0K per project. Table 14 shows the number of financed projects distributed by economic activities (Al-Watan, 2013).

Al-Senai financing scheme was temporarily halted in the second quarter of 2013 till the end of the year due to the issuance of Law no. 98/2013 for the establishment of the "National Fund for the Support & Development of SMEs", on the assumption that all government financing schemes will be consolidated into the SMEs Fund. However, an amendment was issued in Law No. 2/2014 to extend Al-Senai portfolio operations and financing as per its original Law No. 10/1998, which ends in 2018. Meanwhile, IBK's agricultural finance fund (established by Law No. 48/1988 with a capital of KD50 million) has been allowed to continue its operations in parallel with the new SMEs Fund (Al-Anba Newspaper, 2014). This implies that financing agricultural SMEs will still be housed at the IBK.

Table 14. Al-Senai Portfolio Project Performance Indicators (million KD)

| Sector | No. of Projects | Total Project Cost | IBK Financing | % of Share |
|------------------------------------|------------------------|---------------------------|----------------------|-------------------|
| Manufacturing | 179 | 18.06 | 12.70 | 28.6 |
| Wholesale & Retail Trade | 70 | 4.45 | 3.39 | 7.6 |
| Hotel & Restaurants | 73 | 8.55 | 5.03 | 11.3 |
| Transport, Storage & Communication | 2 | 0.82 | 0.49 | 1.1 |

| | | | | |
|--|------------|--------------|--------------|--------------|
| Finance, Real Estate & Business Services | 110 | 4.57 | 3.40 | 7.6 |
| Education | 7 | 0.65 | 0.41 | 1.0 |
| Health | 101 | 20.70 | 14.40 | 32.4 |
| Community, Social & Personal Services | 44 | 6.40 | 4.30 | 9.7 |
| Construction | 7 | 0.29 | 0.21 | 0.5 |
| Total | 593 | 64.70 | 44.50 | 100.0 |

AbdAlziz Al-Saqer Center-Kuwait Chamber for Commerce and Industries (KCCI). During the period 1992-2001, KCCI arranged about 50 training programs for the benefit of Kuwaiti nationals in different areas of specialization. KCCI realized that there was an increased demand by young Kuwaiti entrepreneurs and inventors for such training modules to help them jumpstart their business plans. To institutionalize the initiative, the Chamber officially established the AbdAlziz Al-Saqer Center in 2002 for the sole purpose of contributing to the skill development of young Kuwaitis who are seeking to establish SMEs in Kuwait. The center has organized more than 200 training programs for around 5,000 trainees in different fields. Currently, the center has an international alliance and cooperation with leading universities and research centers around the world.

National Fund for the Promotion and Development of SMEs. National Fund for the Promotion and Development of SMEs (SMEs Fund) is the most recent public SMEs institution in Kuwait. It was established in April 2013 (Law No. 98/2013) as a specialized institutional entity to consolidate all SMEs activities with a capital of KD2 billion (about USD7 billion). Unlike its predecessor, it will provide access to finance for promising projects; it does not exclude investments in specific sectors; it does not interfere in the management of the financed projects; it will provide land, a true scarce resource for investors in Kuwait; it is mandated to provide incubators in several districts within Kuwait; it will assist the infant project's dealings with government approvals and licenses within pre-assigned time limits. Moreover, parallel with its appointed Board of Directors, the Council of Ministers will establish a Consultative Council made of nine members (five international and four local experts) to evaluate the

performance of the management of the Fund and to provide the appropriate corrective measures to realign the Fund's direction towards its stated objectives, to be submitted annually to the Council of Ministers and the Parliament.

The SMEs Fund's priorities are set in the law: the first priority goes to projects that maximize value added, diversify the economy, and create jobs for nationals, followed by stimulating innovations, promoting self-employment spirit, using locally produced goods, and employing environment-friendly technologies. The government will make available to the Fund an initial amount of 5 million square meters (m²) of land allocated in several districts (fully developed and serviced infrastructure). The SMEs Fund aims to:

- Build a culture that contributes to the entrepreneurial activity.
- Identify and seek to eliminate government's policies.
- Provide appropriate financing for new and existing SMEs.
- Create and identify new markets.
- Strengthen existing support services for SMEs.

The Executive Regulations were issued in 2014, and the SMEs fund started operation in October 2015 with the following clear objectives:

- Support the creation of new job opportunities.
- Increase SMEs' participation in the local economy.
- Help create a business-friendly environment for SMEs.

The SMEs Fund anticipates providing the eligible entrepreneurs with following services:

- SMEs' financing.
- Allocation of land and office space.
- Improving business environment.
- Facilitation of marketing linkages.
- Business development services.
- Professional management and technical training.
- Development of entrepreneurship culture.

The SMEs Fund program was officially launched in March 2016. It has approved 245 projects in the financial year 2016/2017. Approved projects are expected to provide more than 850 jobs for Kuwaitis. The approved projects were distributed according to the following sectors: commercial (107), services

(78), light manufacturing and handicraft (41), agriculture (19) (Figure 3). With regard to the training program, as of March 2017, the total number of trainees for all programs reached more than 1,833. The total number of graduates from the training programs reached 1,282.

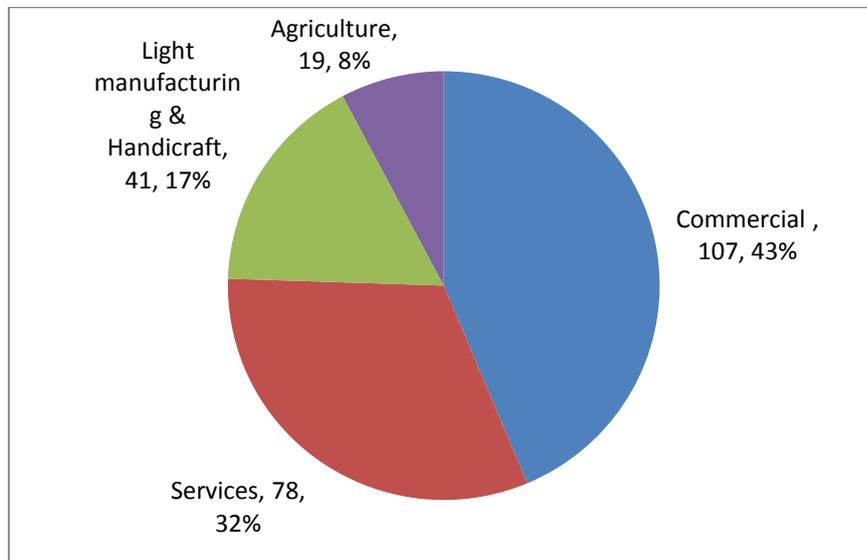


Fig. 3. Distribution of SMEs Fund's approved projects 2016/17.

The 2013 SMEs Law: A Review

A significant feature in the law is its intended plan to make the SMEs Fund as the 'central focus' of government support to SMEs at the national level, as evidenced by its directives to dissolve KSPDC, the IBK activities (in 2018), and all other SMEs institutions and merge them into the SMEs Fund. As such, the Fund is decreed to coordinate, customize, and institute a sustained model of support for all SMEs, especially startups without the multiplicities, conflicts, and wasted efforts and resources observed in other MENA countries in the presence of a multitude of SMEs' support schemes and organizations, local and international.

The analysis in the previous volumes has indicated that the SMEs Law (2013/98) suffers from clear limitation that will impact the ability of the SMEs Fund to achieve its stated objectives. A closer look at the law, however, reveals some internal inconsistencies that will require future amendments. For example,

it defines a small enterprise as having no more than four Kuwaiti workers 'and' capital investment less than KD250,000; while a medium-size establishment as having 5 to 50 Kuwaiti workers 'with' capital investment less than KD500,000. Besides the usual conceptual and statistical difficulties encountered in measuring capital investment, there are many industrial construction or trading firms that employ 300 to 500 workers with 4 Kuwaiti workers only; these would qualify to receive government support as a 'small' enterprise. This would distort the concept of 'small' firm, misdirect government's support efforts, and hinder the Fund's operation as well as its credibility within the business community. Also, the law overlooks micro enterprises all together, which have a well-documented potential role in other countries. Additionally, while the law intends to rid SMEs of existing red tape by mandating the Fund to complete all required licensing and registration procedures for the firm within 30 d, the law does not give the Fund the legal authority to implement it.

All in all, while SMEs have demonstrated dynamism and economic vitality in other countries in terms of specific targets that are most in needed in Kuwait, such as economic diversification, economic growth, job creation, and technological innovation, this sector has not received enough attention and support in Kuwait. The several attempts made during the last four decades, as briefly outlined earlier, have lacked coordination, unity of objective, effectiveness, and adequacy. More importantly, lack of information and actual data on these entities activities precluded the possibility of providing a thorough evaluation of government SMEs' public support policies. Will the newly established SMEs Fund be able to overcome the previous attempts shortcomings and limitations to achieve its stated objectives? At this stage it is difficult to assess the performance of the SMEs Fund in terms of achieving its objectives or the impact on the economy.

Policy Recommendations

After experimenting with different SMEs initiatives and programs, Kuwait has taken the right step in having a strategy for SMEs with only one institution and one definition embodied in the SMEs' Law No. 98/2013. In accordance with the law, the National Fund for the Promotion and Development of SMEs (SMEs Fund) was established in 2013 as a specialized institutional entity to presumably consolidate all SMEs' activities. However, acknowledging the limited contribution of the private sector to the GDP (around 30 %) and the dominance of expatriate labor in this vital sector, the SMEs Fund faces many challenges and obstacles that will hinder its ability to achieve the objectives of SMEs development, as stated in the law. For SMEs to provide more quality jobs and for genuine entrepreneurship to spread more widely, a number of important challenges need to be addressed. These include both generic problems that SMEs have to struggle with worldwide and specific issues that pertain to the Kuwaiti economy. Based on this project's main findings, the following issues and concerns must be addressed by the SMEs Fund as well as key policy makers in the country:

1. **Employment of Nationals:** One of the main goals of the SMEs' law is to promote the employment of nationals in the private sector, ensuring the employment of nationals as both entrepreneurs and laborers. SMEs projects that would achieve the highest rate of Kuwaitization must receive the highest priority and preference. Therefore, preferential financial and non-financial schemes must be developed and adopted to achieve this goal. The proposed MSMEs' definitions and eligibility conditions suggested in this study should provide the guiding principles towards promoting employment of nationals in MSMEs. The public sector in Kuwait is the main source of employment for Kuwaitis; however, the public sector has reached its absorptive limits as employers of last resort. By the enactment of the 2013 SMEs law, the legislators anticipate that SMEs will play a major role in job creation for nationals and hence lowering the unemployment in Kuwait. In comparison to the public sector's wage benefits, the private sector has not created enough jobs that are

attractive enough for nationals. On the other hand, nationals often lack the entrepreneurial skills, incentives, and resources to start their own projects. SMEs will have to play a leading role in job creation and, almost by definition, in harnessing national entrepreneurship. Within this context, it is not advisable to adopt policies that expand SME sectors just for the sake of expansion, or to promote low value-added enterprises. Economic studies have shown that simply having more SMEs contribute little to growth. SMEs' policies should target SMEs firms that contribute more to national development in qualitative terms such as technological modernization, training, provision of attractive job opportunities for national, diversification, etc. Effective public policies in this regard will lead to diversification, technological upgrading, and spread of capable business models and processes that so far have often been limited to larger companies.

2. **The Definition of SMEs:** The SMEs' definition as stated in Law No. 98/2013 is inadequate and limited. The SMEs Fund will face the challenge of generating a common and intuitive definition of SMEs that address all the segments (MSMEs) with clear criteria that is in line with global and regional definitions. The applicable MSMEs definition will emphasize uniformity, eligibility for funding, and facilitate entitlement for non-financial programs. In sum, new definitions must be introduced to redress the many drawbacks associated with the received SMEs' law's definitions.
3. **SMEs Database:** Reliable, relevant, and internationally comparable data on SMEs is very important for informed decision making. CSB in Kuwait is the central, official authority responsible for data collection in the country. The collection and dissemination of MSMEs' data is similar in nature to CSB's current Annual Establishment's Surveys. Because the objectives of producing MSMEs dataset are different from those of the Establishment Surveys, a newly developed questionnaire is required to serve the specific purpose of promoting MSMEs. Kuwait at present is seriously lacking a detailed database that addresses SMEs within

divergent size-class definitions and sector classifications that can enable useful policy analysis. Data such as number of firms, employment (nationals versus expats), output, value added, profitability, longevity, managerial skills, etc. classified according to definitions (micro-small-medium) and economic sectors are urgently needed. Hence, either the CSB should expand its MSMEs' data collection and expedite publication of data or the SMEs Fund should, preferably in cooperation with and in pursuit of exploiting relevant experiences of CSB and KISR, design a new framework and present newly targeted methodologies for sampling, data collection, data entry, data verification, and the eventual timely publication of the structure and characteristics of the SMEs sector in Kuwait.

The Fund needs to improve its build-up of data, without creating additional obstacles for firms through the burden of excessive paper work or burdening the Fund's administration with carrying out the task all by itself. The SMEs database prepared by KISR's TED and presented in this study for the period 2003-2012 is by far the most advanced and pioneering initiative toward an effective SMEs' database. It can be used as a starting point for the establishing a complete MSMEs dataset.

4. **Provision of Loans:** The SMEs Fund should avoid being the sole provider of loans to new SMEs. It must enhance the level of coordination and participation between commercial banks and SMEs' support initiatives. As is the case in other countries, the Fund ought not to administer the lending process. Rather, it should delegate and regulate this function to local commercial banks. Involving more than one bank is preferred to having only one bank to promote competition among them. Banks should be responsible to evaluate the feasibility of the proposed projects. However, the Fund should bring strategic alliances to help banks create specialized SMEs lending units within. The lending units with specialized trained staff should introduce new lending techniques, standards, and facilities that are relevant to SMEs. Based on the successful experiences in other countries, the Fund should find ways to reduce the

apprehension of commercial banks when lending, to increase transparency, and improve credibility of borrowers by creating a new risk mitigating entity (mentioned subsequently). Furthermore, it is suggested the Fund would do well to create the needed environment to expand the venture capital market in Kuwait, especially in light of Kuwait's surplus capital characteristic. In addition, the Fund may provide credit sources with impartial financial information about the loan applicant, which can speed up the process.

5. **Venture Capital:** Venture capital is the financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital is usually financed by wealthy investors, investment banks, and any other financial institutions. It does not always take just a monetary form; it can be provided in the form of technical or managerial expertise. Though it can be risky for the investors who put up the funds, the potential for above-average returns is an attractive payoff. For new companies or ventures that have a limited operating history (under two years), venture capital funding is increasingly becoming a popular– even essential–source for raising capital, especially if they lack access to capital markets, bank loans or other debt instruments. The main downside is that the investors usually get equity in the company, and thus a say in company decisions². Venture capital is an important financial arrangement structured to reducing financial risks associated with establishing new firm. Public programs to support SMEs should aim to reduce the cost of private equity finance and any types of risk financing. Such programs must boost the development of private capital industry through harnessing the required skills of the people involved in risk financing. Direct measures to facilitate the provision of risk capital include specialized credit banks, loan guarantee schemes, fiscal incentives, innovation culture, and the provision of loans at preferential rates. Indirect

² <http://www.investopedia.com/terms/v/venturecapital.asp#ixzz4xXSXHTI0>

measures include market analysis, regulation, applied training, and R&D support. It should be noted that advocates of financial incentives by government contend that investors, in general, are attracted to relatively risky projects which under normal conditions will not be taken. Critics argue that government incentives attract unfit participants into the private equity market which might exhibit poor performance and affect the joint venture industry negatively. Moreover, public financing support is vital for new SMEs because traditional banks are usually less equipped than venture capitalists to identify the detailed issues and risks associated with financing start-up enterprises. Banks' credit assessments usually depend on established track record, projections of future cash flows and collateral. Accordingly, banks are more equipped to assess loans to existing SMEs rather to new risky ones.

6. **Loan Guarantee Schemes:** To reduce problems associated with borrowing, many countries (such as USA, Canada, France, United Kingdom, and Egypt) have introduced loan guarantee schemes. Within the scheme, a percentage of the loan or all of it is guaranteed by an insurance company whose revenues are collected from borrowers. The extra charge paid by the borrower on such loans would be higher than under normal arrangements since an additional premium is paid to cover expected losses. In effect, successful entrepreneurs subsidize failing firms. Besides that, the state, represented by the Fund may, in the event of default and the subsequent loss to financial institution, may provide protection to the involved bank up to a certain percentage of the loan. This is particularly suitable if the central bank requires that commercial banks channel a certain percentage of their loans to SMEs. The loan guarantee schemes will allow the new SME firm to access funds from a financial institution without the need to provide verifiable collaterals. The loan guarantee schemes should have guidelines and criteria to safeguard against funds being misused by banks as a substitute for their private credits; and also that there is a clear

economic benefits associated with the scheme such as job creations.

7. **Credit Bureau:** Banks in Kuwait are hesitant to lend to SMEs due to the high risk associated credit history. Reluctance to provide finance will hinder SMEs' ability to establish new businesses. An significant limiting factor to SME lending is the assumed accounting practices exhibited by most SMEs. The fact that many of the enterprises in Kuwait or GCC are single proprietor companies is the main factor for not implementing reliable accounting practices or corporate governance. In most of the SMEs, the distinction between company and private assets is not clear. Another important factor that complicates SME lending is the issue of enforcement and collateral. Most companies do not possess enough valuable assets that can be used as a as collateral for significant loans. Banks usually require 150% of the loan value to be in the form of collateral assets. This percentage is extremely high in comparison to international required rates. Hence, Kuwait needs a *comprehensive credit reporting system* that permits credit banks to access all financial information of loan applicants for proper evaluation of credit worthiness.
8. **Qualifications of Loan Applicants:** Loan applicants must exhibit enough experience to prove their capacity to manage their new companies adequately. As shown in Vol. II, most MSMEs lack the rudimentary managerial skills required to sustain and grow. In this respect, the Fund can assist them through training, providing appropriate software packages to manage finances, quality control, sales and marketing. The Fund may also provide them with relevant experts to assist them in enhancing labor productivity levels and streamlining their production, inventory, and other similar tasks. It can enhance the managerial skills for both entrepreneurs and established SMEs by providing and facilitating effective education and training programs.
9. **Operational Dependency on Expatriate Managers:** Kuwaiti owners of SMEs mostly depend on expatriate managers to run the daily operation. Such dependency confines innovation and hinders

the prospect of enhancing managerial skills among SME owners. Also, the participation of national labor force within SMEs is minimal. Most of the SMEs' initiatives and programs target and encourage nationals (entrepreneurs) to be owners. Hence, new policies with proper incentives are required to encourage firms that employ nationals in top managerial positions. At a later stage of SMEs development, the SMEs fund must encourage SMEs to merge in order to increase their efficiency and competitiveness at both internal and external levels.

10. Limitations of Kuwait's Economy: Kuwait's economy suffers from many structural imbalances such as the dominance of the public sector and the dichotomy in the labor market. Paradoxically, the economy combines characteristics of advanced and emerging market economies in a conflicting manner: On the one hand, high per capita income, private sector is endowed with financial capital, modern infrastructure, fair educational system, and professional managerial practices in large companies. On the other hand, very low wages are paid for private sector low and medium skill jobs. The infinite supply of foreign labor and the ability of larger companies to pay higher salaries imply that micro and small firms are inclined to hire low-skill expats at the lowest wages. This amalgam situation means that neither the SME policies from developed economies nor those from the developing world can be applied as given. Kuwait's economy offers a rather unique combination of challenges and opportunities that requires tailor-made policy approaches. Hence, dynamic planning model and policies are required to remedy the imbalances and the dichotomy in the labor market. Policies should aim to strengthen the quality of human resources in the labor market (both nationals and expats) and reinforce attributes required for the introduction of innovation and enhanced productivity.

In conclusion, growing and sustaining a private sector that is robust, competitive, and efficient in the context of rapidly changing global forces is a challenging task for Kuwait. SMEs must participate effectively and be an integral part of the transformation process, along with government institutions searching

for ways to increase efficiency, productivity, and global competitiveness. This will require interconnected enterprises along value chains that are more complex but will yield better results. Public sector agencies should improve their service standards to assist SMEs, and means of enabling environment have to be put in place.

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