Cluster of Innovation Framework Study: Kuwait

Commissioned by the Kuwait Foundation for the Advancement of Sciences and KAMCO Investment Company

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This report was conducted with the assistance and input of many individuals, two of whom tragically passed away during the course of our work. This report is dedicated to the memory of Khaled Jassem AlShamali and Ahmed AlGharabally for their tireless efforts for Kuwait and Kuwaiti entrepreneurs, and their valuable contributions to this study.
Cluster of Innovation Framework Study: Kuwait

BRG interviewed a representative sample of 35 Kuwaiti entrepreneurs that we categorized into five archetypes:

- **Home-bound for Now Looking Around**: Born in Kuwait, focused on Kuwait
- **Springboard**: Born in Kuwait, split operations to grow
- **Moving Out**: Born in Kuwait, relocated headquarters
- **Born Abroad**: Born outside of Kuwait

**Target Market**
- Kuwait
- GCC
- Global

The Kuwait-based entrepreneurs interviewed for this study are primarily focused on local and, to a lesser extent, regional markets while internationally-based Kuwaiti startups are more oriented towards regional and global markets.

**Location Factors**
- **67% Market**
- **33% Talent**
- **3% Entrepreneurial Environment**
- **52% Lifestyle**
- **6% Access to Capital**
- **3% Logistics**
- **42% Government Regulation**
- **6% Strategic Collaborations**
- **3% Service Providers**

**Total Scores**

Kuwaiti entrepreneurs ranked the entrepreneurial ecosystems for Dubai and the United States significantly higher than for Kuwait. Kuwait ranked highest for ease of access to capital and lowest for accessibility of technology and research.
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Introduction to This Study

The Government of the State of Kuwait has stated a firm commitment to realizing His Highness The Emir Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah’s vision that Kuwait be established as a global commercial and financial hub. A pillar of this vision is supporting Kuwaiti entrepreneurs in starting their own businesses. This aligns with the strategy of diversifying Kuwait’s sources of national income and decreasing the burden on the state budget. The below graphic, released in late 2016 as part of Kuwait’s National Development Plan, indicates a goal of creating 3,500 new small businesses by 2035.¹

The challenge facing Kuwait in its quest to diversify the economy and reduce dependency on oil exports is clear. Currently, over 90% of the state’s income is from oil revenue and, according to the latest official data from Kuwait’s Central Statistical Bureau, 83% of Kuwaitis work for the public sector while 17% work in the private sector.² 4.7% of Kuwaitis were unemployed in 2015 and youth represent over 40% of the total population of Kuwait.³

According to the World Bank, “building a vibrant ecosystem for SME development is seen as critical to promoting long-term economic diversification in Kuwait. In the next 20 years or so, the private sector is expected to play a leading role in creating jobs for the next generation of

Kuwaitis. Its success will hinge largely on whether Kuwait creates an enabling environment in the form of an ecosystem for entrepreneurship.\(^4\)

A quick glance at the statistics for SMEs in Kuwait illustrates the obstacles facing the Kuwaiti economy. Although there are conflicting definitions of an SME in Kuwait, according to World Bank data, Kuwait SMEs only employ around 23% of the country’s total workforce, which is less than half of SME employment figures for both high income and emerging economies.\(^5\) This is despite the fact that 94% of Kuwaiti firms are categorized as SMEs.\(^6\) Overall contribution to Kuwait’s GDP is just 3%, whereas in high income and emerging economies SMEs comprise most of the economic activity in the private sector and contribute 50% and 40% of GDP respectively.\(^7\)

In 2014, the World Bank and National SME Fund surveyed nearly 70 entrepreneurs and stakeholders to identify the main challenges facing small businesses in Kuwait.\(^8\) The following obstacles were highlighted:

- Excessive regulations that hinder business activities from startup to growth to exiting
- Lack of access to developed land and to commercial and industrial premises
- Challenges recruiting and retaining skilled Kuwaitis in the private sector as remuneration and benefits offered in the public sector are more generous
- A small domestic market dominated by government and large corporations
- Lack of access to finance for SMEs
- Limited capacity of programs meant to support SMEs — incubation services, matching grant schemes, management training, etc.
- Perception and culture: SMEs said a majority of workers prefer government jobs because of the lower risk and perceived low social status of entrepreneurs

There are currently many government and private sector entities that are actively working to improve Kuwait’s business environment, attract foreign investment and know-how and turn Kuwait into a knowledge economy as well as other stakeholders looking to build the entrepreneurial ecosystem to support Kuwaiti startups. These include the Kuwait Direct Investment Promotion Authority (KDIPA), the National Fund for the Development of Small and Medium Enterprises (the National SME Fund), the Ministry of State for Youth Affairs, Kuwait University and many others. Their efforts are increasingly visible: in the last five years alone, Kuwait saw the establishment of over 100 startups and 15 support organizations.\(^9\) There have

\(^5\) Ibid.
been several cases of high-profile, high-value acquisitions of Kuwaiti startups in recent years including Talabat, Masbagti and Carriage, among the region’s largest exits to date. The prospect of selling startups to large corporations for huge financial returns to founders and investors is inspiring a new generation of potential Kuwaiti entrepreneurs.

Still, there is clearly a long way to go and there remain major obstacles to creating value for the Kuwaiti economy through entrepreneurship. A significant threat is a scenario in which Kuwaiti startup and SMEs, faced with difficulties starting and growing their companies from Kuwait, relocate to and/or start their companies in other locations. In one newspaper article several Kuwaiti entrepreneurs are quoted as saying Dubai is considered to be an easier place to establish a company while Kuwait’s business environment, despite recent improvements, is still hobbled by red tape and an inability to attract top talent, along with opportunities limited by the size of the local market. Another challenge is a scenario in which Kuwaiti SMEs only focus on the Kuwaiti market, taking advantage of the macroeconomic environment stemming from the high purchasing power of Kuwaiti nationals working for the oil-revenue-fueled public sector but fail to scale, expand and grow regionally and globally.

The risk to the efforts to nurture entrepreneurship and more generally to the Kuwaiti economy is substantial. In today’s networked world, it is necessary for a country to actively position itself in the global value chain. Lack of alignment to the global competitive environment can impair any incentives or promotions for the targeted businesses and industries. Without mitigating the challenges facing Kuwaiti entrepreneurs, the significant Kuwaiti government and private sector efforts to foster an innovation ecosystem risk delayed development. An inability to encourage entrepreneurs would hinder the government’s vision to foster a knowledge economy and diversify Kuwait’s economy away from oil.

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Objective of this Study and Methodology

Berkeley Research Group (BRG) has been commissioned by the Kuwait Foundation for the Advancement of Sciences (KFAS) and KAMCO Investment Company to investigate the business and strategic considerations facing Kuwaiti entrepreneurs as they decide where to found, grow and/or relocate their companies. The objective of this study is to identify the key barriers facing Kuwaiti entrepreneurs, analyze gaps in Kuwait’s entrepreneurial ecosystem on an objective basis as well as in comparison to the locations that these entrepreneurs are considering or have already relocated to, and finally to make recommendations as to how the government’s efforts to support entrepreneurship as a means to diversifying the economy can be better aligned with the needs and aspirations of Kuwaiti entrepreneurs.

We have followed a qualitative research approach for this study. First, we reviewed publicly available information including existing studies and research on entrepreneurship in Kuwait, international benchmarks and statistics regarding entrepreneurial ecosystems, newspaper articles and other data available through governmental and private sector entities on Kuwaiti entrepreneurs and SMEs. We also reviewed academic studies and news articles on the significance of place for entrepreneurs. We then held a focus group in Dubai with nine Kuwaiti entrepreneurs and professionals that either started their companies in Dubai or had relocated to Dubai from Kuwait. We subsequently interviewed 15 stakeholders in Kuwait’s SME ecosystem to understand the strengths and weaknesses of Kuwait’s entrepreneurial ecosystem and to ask for introductions to potential interview targets. These 15 stakeholders included members of the Kuwaiti Venture Capital community, a University official, government officials, owners of several co-working spaces and other individuals active in Kuwait’s entrepreneurship community.

The data for this study was collected from a representative sample of 35 Kuwaiti entrepreneurs. It was our plan to coordinate with Kuwaiti embassies in various locales to locate interview targets abroad but as of June 2017, following the exchange of formal letters between KFAS and the Ministry of Foreign Affairs (MOFA) in January 2017 and subsequent follow-up through bureaucratic channels, we had not received any contact information for the appropriate embassy contacts from MOFA. We identified our sample of 35 companies through the 15 stakeholders interviewed, the National SME Fund, the Kuwait Business Council of Dubai & Northern Emirates, our own network and referrals from interview targets.

Innovation strategy calls for understanding the customer and markets that entrepreneurs intend to target, and deriving meaning from that understanding. The entrepreneurs we interviewed have been categorized into five “archetypes,” which represents a framework for understanding how Kuwaiti entrepreneurs understand their target markets, the type of business environment in which they operate and/or need to operate in, and their growth strategy. These archetypes are:

1. “Home-Bound for Now” – born in Kuwait, focused on Kuwait
2. “Looking Around” – born in Kuwait, considering relocation
3. “Springboard” – born in Kuwait, split operations to grow
4. “Moving Out” – born in Kuwait, relocated headquarters
5. “Born Abroad” – founded outside of Kuwait
The below graphic shows the number of companies/entrepreneurs we interviewed for each category.

In our one-on-one interviews, we asked open-ended questions to each of these 35 entrepreneurs on the following topics:

- Personal, educational and business background
- Business model, staffing and growth plans
- Strategic factors behind where the company was founded and where it has expanded or relocated to
- Advantages and disadvantages in the ecosystem[s] in which the company is operational

Our interviews also included a quantitative component in which the target was asked to rank the adequacy, suitability and quality of 12 components/behaviors of the ecosystems on a scale of 1 to 10.

This study was conducted by Mr. Jared Willis, General Manager of the BRG Kuwait City office & Associate Director and Mr. Khaled Bahrami, Consultant in BRG’s Kuwait City office. The work was supervised by Mr. Jerry Engel, BRG Managing Director and founding executive director emeritus of the Lester Center for Entrepreneurship at the University of California, Berkeley.
Executive Summary

The Cluster of Innovation Framework

This study utilizes the Cluster of Innovation (COI) Framework for understanding entrepreneurial ecosystems. The framework was developed by Jerry Engel and various collaborators to identify the components and behaviors that appear to varying degrees across 13 Global COIs. A Cluster of Innovation is oriented towards adapting new technologies and creating markets for new products and services, and has regional and/or global markets rather than local markets as a target. The following are the 13 key components and behaviors of a COI:

- **Entrepreneurs** – Focused on creating big companies or to sell to large corporations and must raise venture capital to scale and give an appropriate return to investors.
- **Mature Corporations** – Collaborative partners with startups through win-win interactions.
- **Universities** – Support commercialization of research by reinforcing local strengths.
- **Industrial Research Centers** – Source of engineers and scientists that pursue entrepreneurial opportunities.
- **Venture Capital** – Provide resources and know-how beyond the control of the entrepreneur.
- **Service Providers** – Adapt a flexible business model to match the needs of entrepreneurs.
- **Management** – COIs have a group of professional managers experienced in entrepreneurial ventures.
- **Government** – Provides a safe, stable society shielded from bribery and corruption.
- **Mobility of Resources** – Structures and practices are in place to facilitate the recycling of people and money.
- **Entrepreneurial Process** – Recognition that a startup is a temporary structure in search of a scalable business model, that failure is accepted and rapid acknowledgment of failure is encouraged.
- **Global Strategic Perspective** – Need to provide risk-adjusted return to investors requires focus on global market opportunities and creation of new products and business models.
- **Alignment of Interests, Incentives and Goals** – Compensation methodologies align the interests of all parties.
- **Global Ties and Bonds** – Emigration and mobility play a significant role in spreading entrepreneurship and innovation practices.

Lessons Learned from Other Global Clusters of Innovation

The following are key takeaways from the comparative study of 13 Global COIs:

- Local adaptation is essential and COIs should be built on strengths, not concepts.
- Government has to play its role smartly.
- Isolated economies benefit from building strong COI characteristics.
- Universities and multi-national corporations play an important role.
- COIs can be the basis for urban renewal.
The following four COIs have particular relevance to Kuwait:

- **Belgium** – has programs to support startups to “go global” from inception while remaining rooted at home.
- **Taiwan** – the local government played a key role in incentivizing Taiwanese expats to return to and remain in Taiwan.
- **China** – the downsizing of the public sector galvanized the private sector but protectionism hinders maximizing the full potential of entrepreneurs.
- **Brazil** – regional COIs have developed despite major national challenges due to public-private partnerships and leveraging local context and strengths.

Startups and the Significance of Location

We reviewed several studies on the importance of place and the causes behind relocation, particularly in the MENA region. A study of 11 highly-successful startups from unconventional ecosystems revealed that the main driver for choice of location is personal preference of the entrepreneur and most often they prefer to remain at home. Entrepreneurs offset any disadvantages and obstacles in their home country by expanding to other locations. Governments either hinder local entrepreneurship with an oversized social safety net or help by providing global networking and mentoring opportunities.

Another study of Middle East startups categorized Middle Eastern startups as either “Improvisers” that Arabize successful concepts, “Problem Solvers” that take on problems which used to be the responsibility of the government or “Global Players” that from inception know they have developed a unique product or service that can have an impact in any market. A key takeaway is that if governments do not remove the obstacles for local startups, then in today’s networked world they will relocate to more suitable locations.

A third study we reviewed highlighted migration trends among Jordan’s homegrown business community. This survey of 125 Jordanian enterprises found that 72% are considering locating their headquarters or operations abroad and 60% of the companies, if starting over today, would have started abroad. The top reason for staying in Jordan is “this is home,” while the top reason to relocate is “access to larger markets.” The UAE is a clear preference for Jordanian businesses looking to relocate.

**Dubai as a Hub for Kuwaiti Businesses**

Our review of newspapers and discussions with stakeholders in Kuwait’s ecosystem revealed that Dubai is considered a hub for companies looking to operate in the MENA and GCC regions, and that Kuwaitis are moving to Dubai to launch their companies. Our discussions with several Kuwaiti government entities revealed an attitude that minimizes the phenomenon, or that they are simply not focused on the issue of expansion or relocation out of Kuwait.

In March 2017, we hosted a Focus Group in Dubai with a group of nine Kuwaiti entrepreneurs and business owners, organized by the Kuwait Business Council of Dubai & Northern Emirates, and learned that the main reasons for Kuwaitis moving to the UAE are a larger market size, easier business regulations and access to talent. UAE Government and Chamber of Commerce statistics reveal a vibrant pattern of Kuwaiti
business activity, real estate ownership, expatriate residency and tourism in and to the UAE.

Data on the UAE’s Entrepreneurial Ecosystem

A review of regional and global indices and statistics reveals that the UAE scores well for ease of doing business, competitiveness and entrepreneurship, and ranks the highest in the MENA and GCC across most categories. The World Bank ranks the UAE 26th for Ease of Doing Business and the Global Entrepreneurship Monitor rates the UAE highly for the government’s role in creating the proper legislative environment to support SMEs. The UAE also ranks 1st in the MENA region in the Quality of Living Worldwide City Rankings, and in the 2016-2017 Global Competitiveness Index by the World Economic Forum ranks 3rd worldwide for its capacity to retain talent.

Data on SME Business and Activity in Kuwait

There is missing and conflicting data regarding the size of the SME economy in Kuwait due to inconsistent definitions of an SME. In 2013, 36% of the workforce in in Kuwait was with businesses having less than 200 employees, compared with 57% in the rest of the world.

Data on Funding of SMEs in Kuwait

The Industrial Bank of Kuwait (IBK) and the National Fund for the Development of Small and Medium Enterprises (the Fund) are two key government entities providing financing to SMEs in Kuwait. According to the latest data provided by the Fund, 245 total projects have received financing as of March 2017. IBK funded 232 projects in 2015. Banking data indicates that SMEs in Kuwait receive a lower proportion of bank financing than their counterparts in the rest of the world.

Global Rankings of Kuwait’s Entrepreneurial Ecosystem

Kuwait scores poorly on global rankings and benchmarking of its entrepreneurial ecosystem and business environment. In 2017, the World Bank ranked Kuwait 173rd out of 190 countries for starting a business, and 102nd for ease of doing business – the lowest score among the GCC countries. In the World Economic Forum’s Global Competitiveness Report for 2016-2017, Kuwait ranks ahead of the MENA region for its macroeconomic environment, but is below average for labor market efficiency, innovation, and higher education and training. According to the Global Competitiveness Report 2016/2017, the most problematic factors for doing business include: 1) inefficient government bureaucracy, 2) restrictive labor regulations, 3) corruption and 4) poor work ethic in the national labor force. The Heritage Foundation’s 2017 Index of Economic Freedom ranks Kuwait 61st out of 186 countries and sixth in the MENA region. It states that progress on improving the efficiency of business regulations and the regulatory framework has been mixed and slow. Recent press reports state that Kuwait is exerting extensive efforts to improve its business environment rating and has enacted several reforms, including eliminating the requirement for startup capital, creating the “single counter” Kuwait Business Center and allowing licenses for home-based businesses.
Review of Articles and Research on Entrepreneurs in Kuwait

We scanned publicly available news articles and research on entrepreneurs and startups in Kuwait and interviewed 15 stakeholders in Kuwait’s entrepreneurial ecosystem to understand Kuwait’s strengths and weaknesses for the key components and behaviors in the COI framework.

- **Access to Capital** – There are many avenues for Kuwaiti nationals to raise money for new ventures, although several legal and structural obstacles remain.
- **Service Providers** – There is a lack of proficient advisors and consultants in Kuwait.
- **Mentors, Incubators and Accelerators** – There are several co-working spaces in Kuwait that, although they are not technically incubators or accelerators, provide mentoring services that are viewed both positively and negatively.
- **Market** – Kuwait’s strong purchasing power is a strong advantage and there are opportunities that leverage Kuwait’s high mobile usage and penetration.
- **High-caliber talent** – Kuwaiti nationals are known for their creativity, entrepreneurial spirit and strong education. The role of government and the strong safety net is an obstacle to productivity and developing a strong entrepreneurial culture.
- **Access to Technology and Research** – Kuwait’s universities do not play a role in facilitating a research and development infrastructure, although there are recent strategic initiatives to change this.
- **Strategic Collaborations with Major Corporations** – Startups in large part do not spin off from major corporations and there is minimal collaboration, a major weakness in Kuwait’s entrepreneurial ecosystem.
- **Mobility of Resources** – The labor laws are seen as too controlling and immigration regulations make it difficult to recruit foreign nationals to Kuwait.
- **Government Regulation** – The bureaucracy for registering and operating a business is considered as a major barrier for startups.
- **Globally-oriented, entrepreneurial culture** – Kuwait has long been known for entrepreneurship, yet the existence of a strong social safety net and the fact that many startups have local rather than global aspirations are major weaknesses that inhibit growth on a regional and global scale.

Archetypes of Kuwaiti Startups

We asked the entrepreneurs we interviewed to rank the 12 Cluster of Innovation components and behaviors for each ecosystem in which they operate. The Kuwaiti ecosystem received the lowest average score of 4.5/10, followed by Dubai at 7.5/10 and the United States at 8.7/10. An examination of the average scores by archetype reveals that Kuwaiti entrepreneurs operating in Dubai rated Dubai higher and Kuwait lower than those operating solely in Kuwait. The Kuwait-based entrepreneurs that we interviewed are more focused on local and regional markets while internationally-based Kuwaiti startups are more oriented towards regional and global markets. The market opportunities and lifestyle in Kuwait, along with the “workforce support” supplement are key factors for companies located in Kuwait while access to regional markets, lifestyle and the role of government in setting favorable regulations are key factors for Kuwaiti entrepreneurs operating in Dubai.
12 Cluster of Innovation Components and Behaviors for Kuwait and Dubai

Dubai outranks Kuwait in every individual COI component and behavior ranked by the entrepreneurs we interviewed. The scores given to the components and behaviors by the entrepreneurs we interviewed reinforces and validates the public data and international benchmarks for the Kuwaiti and UAE entrepreneurial ecosystems and business environments. The largest gap between rankings is for the role of government regulation followed by access to high-caliber talent. The smallest gap between rankings is for access to capital. Kuwait received the highest ranking for access to capital while Dubai received the highest score for logistics. Kuwait’s lowest ranking was for technology and research while Dubai’s lowest score was for intellectual property protection.

Key Findings and Recommendations

1. Kuwait-centric businesses that leverage local purchasing power are not sustainable in a post-oil era and will not diversify Kuwait’s economy unless they expand globally or attract tourist spending to Kuwait.
2. Kuwaiti startups targeting external markets plan to “go global” from birth and many find Dubai a more suitable base of operations than Kuwait. Rather than compete with Dubai to be the GCC hub for international business, Kuwait has an opportunity to leverage its homegrown talent and find a unique niche as a hotspot of locally-based but globally-oriented entrepreneurship.
3. Kuwait has the opportunity to create high-impact, global startups, but in order to retain them in Kuwait certain weak elements of the local entrepreneurial ecosystem need to be nurtured or improved.
4. Government programs and initiatives to encourage entrepreneurship and develop the ecosystem should better align with the needs of startups and adapt “lessons learned” from other Global Clusters of Innovation to fit a cohesive “smart specialization” strategy that encourages Kuwaiti entrepreneurs to “go global” while remaining rooted in Kuwait.

Areas for Further Study

This research offers the Cluster of Innovation framework as a benchmark to further investigate and validate the 12 components and behaviors individually to determine, using a SWOT analysis, which policies and incentives are required to make the entrepreneurial ecosystem more robust. A value chain analysis will identify Kuwait’s core competencies and local problems with global relevance to set a “smart specialization” strategy for Kuwait and determine opportunities for import substitution and allow individual clusters of competing firms can be enhanced for the benefit of all.
Literature Review

The “Cluster of Innovation” Framework

Globally there is increasing focus on the process of innovation and how it feeds the development of dynamic and competitive ecosystems. The right combination of policies and characteristics are believed to unlock the entrepreneurial capacity of society, encourage individual initiative and create collective prosperity.\(^\text{11}\)

In this study, we will examine Kuwait’s entrepreneurial ecosystem using the Cluster of Innovation (COI) framework and benchmark it to the ecosystems to which Kuwaiti entrepreneurs consider relocating to. This framework was developed by 20 entrepreneurship educators, civic leaders and practitioners “in an effort to capture the lessons of effective innovation clusters and challenges of those still emerging, and to allow comparison between the two.”\(^\text{12}\)

The Cluster of Innovation framework is the subject of several academic articles by Jerry Engel and various collaborators, as well as the book “Global Clusters of Innovation: Entrepreneurial Engines of Economic Growth around the World,” published in 2014.\(^\text{12}\) The authors hypothesized that the same components and behaviors would appear to some degree in all but that different combinations might be present, with some components being more prominent than others in various clusters and with different trajectories in the development (or re-development) of key behaviors.\(^\text{13}\) The main target of the work was to pinpoint “the impact of interventions that governments and other institutions take to stimulate the evolution of innovation clusters. We also hypothesized that the lessons learned from innovation clusters and initiatives and experiences in different regions would provide valuable insights and strategies for actors in emerging innovation economies.”\(^\text{14}\) 13 Global COIs were chosen as case studies for this research.

The below graphic depicts the interactions between the various components of a Global Cluster of Innovation.

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\(^{12}\) Ibid. Page 37.

\(^{13}\) Ibid. Page 38.

\(^{14}\) Ibid. Pages 38-39.
A Cluster of Innovation, as opposed to a traditional industrial cluster, is oriented towards the adaptation of new technologies, the creation of markets for new products and services and oriented towards regional and/or global markets. The following are the key components and behaviors of a Cluster of Innovation:

<table>
<thead>
<tr>
<th>Component/Behavior</th>
<th>Characteristics Unique to a COI</th>
</tr>
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</table>
| Entrepreneurs            | • Focused on creating big corporations or being sold to big corporations.  
                           | • Must raise venture capital to scale and sell the business to give a return to their investors.  
                           | • Often recycle quickly into multiple startups. |
| Mature Corporations      | • Just a decade or two removed from their own entrepreneurial beginnings, making them more inclined and adept at collaborating with startups to achieve innovation goals.  
                           | • Seek win-win interactions through simple contractual arrangements, equity investments and/or partnerships. |
| Universities             | • Directly support commercialization of research in addition to a traditional role of supporting local economic strengths and reinforcing core competencies. |
| Industrial Research Centers | • Provide impetus for new ventures as their scientists and engineers leave to pursue entrepreneurial opportunities stemming from their research. |
| Venture Capital          | • Entrepreneurship by definition is the pursuit of opportunities beyond the resources available to the entrepreneur.  
<pre><code>                       | • A vibrant venture capital community, particularly early stage, is key to the success of many entrepreneurial clusters. |
</code></pre>
<p>| Service Providers        | • Adapt their operating principles to match the entrepreneurial methods of their clients. |</p>
<table>
<thead>
<tr>
<th>Management</th>
<th>• This includes adapting flexible approaches to payment and tying their economic compensation to the eventual success of their clients.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation arrangements align incentives between management, entrepreneurs and investors.</td>
<td>• Compensations have a &quot;professional class&quot; of entrepreneurial managers with diverse experience and a willingness to take on risky and high-potential opportunities.</td>
</tr>
<tr>
<td>Government</td>
<td>• The most profound contribution is to provide a safe, stable society where the rule of law is protected.</td>
</tr>
<tr>
<td></td>
<td>• Bribery and corruption can drain an economy's ability to incentivize entrepreneurs and their potential investors.</td>
</tr>
<tr>
<td>Mobility of Resources</td>
<td>• Money, people and know-how/technology rapidly recycle.</td>
</tr>
<tr>
<td></td>
<td>• Structures are designed to facilitate the flow of capital (entering and exiting) and people (hiring and firing).</td>
</tr>
<tr>
<td>Entrepreneurial Process</td>
<td>• Recognition that a startup is a temporary organization in pursuit of a repeatable and scalable business model.</td>
</tr>
<tr>
<td></td>
<td>• The entrepreneur is not a salesperson but a visionary trying to create value and share that vision with others.</td>
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<tr>
<td></td>
<td>• Possible and probable failure is accepted and rapid acknowledgement is encouraged.</td>
</tr>
<tr>
<td>Global Perspective</td>
<td>• The need to provide risk-adjusted returns to investors requires focus on large markets.</td>
</tr>
<tr>
<td></td>
<td>• The search for global market opportunities, as well as resources and technology without regard for national boundaries, enables rapid scaling of innovative companies and creation of new products and business models.</td>
</tr>
<tr>
<td>Alignment of Interests, Incentives and Goals</td>
<td>• Compensation methodologies break down the traditional barrier between owners and employees.</td>
</tr>
<tr>
<td></td>
<td>• Shared ownership arrangements align the interests of founders, managers, employees, advisors and investors.</td>
</tr>
<tr>
<td></td>
<td>• This creates a culture in which one’s worth is measured not just in terms of individual financial success but by the extent to which one contributes to the success of one’s peers and the ecosystem at large.</td>
</tr>
<tr>
<td>Global Ties and Bonds</td>
<td>• Mobility of the modern age facilitates diffusion of entrepreneurship and innovation practices.</td>
</tr>
<tr>
<td></td>
<td>• Emigration for education and career development followed by return to one’s country of origin has played a significant role in the development of many Global Clusters of Innovation.</td>
</tr>
</tbody>
</table>

“Lessons Learned” from Other Global Clusters of Innovation

The following are key takeaways from the comparative study of 13 Global Clusters of Innovation:15

- Local adaptation is essential and Clusters of Innovation should be built on strengths, not concepts – Top-down strategies that attempt to engineer a new

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cluster are of limited value; the vision must come from the ground-up, building on local capabilities, strengths and competitive advantages.

- **Government has to play its role smartly** – The role of government can be beneficial by establishing a favorable environment or contradictory (supporting entrepreneurship while encouraging favoritism). Ideally, government shouldn’t be relied upon to provide the answer but must act as facilitators and stand back to allow the right activities to emerge.

- **Isolated economies benefit from building strong Clusters of Innovation characteristics** – Export-dependent clusters successfully integrate into the global value chain when they take advantage of local conditions and leverage key Cluster of Innovation behaviors such as entrepreneurial processes, mobility, an affinity to collaborate, international strategies and recycling of capital, people and ideas.

- **Universities and multi-national corporations play an important role** – Both have important roles in fostering innovation and supporting and commercializing R&D.

- **Clusters of Innovation can be the basis for urban renewal** – Innovation clusters can power commercial activity in an area of eroding infrastructure even without overt government planning.

The below table highlights some key takeaways from Global Clusters of Innovation with relevance to Kuwait:

<table>
<thead>
<tr>
<th>Cluster of Innovation</th>
<th>Relevant Traits</th>
<th>Key Takeaways</th>
</tr>
</thead>
</table>
| Belgium               | The government supports startups to “go global” from inception while encouraging them to remain anchored at home through:  
  - Tax incentives and mechanisms that facilitate access of startups to foreign markets  
  - Supporting mobility between incubators internationally  
  - Providing global contacts and coaching support  
  - These services also include logistics, access to the local business network, specialized support with expert advice on legal, financial or cultural matters. | Companies move where investment money and talent are available. Startups, particularly tech firms, can operate around the world without many obstacles. It is obvious that they quickly need to establish operations or resellers in large markets such as the US, but their headquarters will typically remain where they receive original funding and support if a sufficient ecosystem is available in which they can find partners and talent. |
| Taiwan               | Taiwanese immigrants working in Silicon Valley assisted the Taiwanese government in formulating its technology development policies, setting Taiwan on the right path from the start to develop a semiconductor industry.  
  - Private enterprises were the key players in adapting to the computer | The biggest obstacle was to ensure that Taiwanese talent remained in Taiwan and did not take their talents back to the US or other markets. While patriotism and a drive to contribute back to Taiwan is clearly one motivation, another factor is that the majority of Taiwanese IT companies have a stock dividend profit-sharing system. This is a good example of |
<table>
<thead>
<tr>
<th>Country</th>
<th>Development Trends</th>
<th>Alignment of Interests and Incentives</th>
</tr>
</thead>
</table>
| China   | Before 1992, the private economy was a very minor supplement to the state-owned economy and entrepreneurs faced many obstacles including a stigma against private enterprise and political obstacles to growing a large business. The restructuring of the state-owned sector under the principle of "keeping the big and freeing the small" led to the firing of millions of workers who had no other option but to dive into the private sector and seek opportunities left open by the restructuring of state-owned enterprises. | Faced with the challenge of becoming self-reliant and freed from ideological baggage, Chinese entrepreneurs quickly took advantage of various opportunities to create a vibrant private sector. Currently, the government signals strong support for private enterprises but there is weak implementation in eliminating protectionist practices that is hindering further development of SMEs. These include:  
- Discrimination against private enterprise in financing.  
- Overt and disguised barriers to entry in the finance, telecommunications, railway, infrastructure construction and oil sectors.  
- Lack of management expertise, lack of scientific and technological personnel, insufficient funding and lack of legal protection. |
| Brazil  | Several Clusters of Innovation have developed in Brazil despite major national gaps and challenges related to finance, infrastructure, human capital, innovation systems and the regulatory environment as well as cultural barriers to entrepreneurship. These clusters have been key to developing a dynamic and diversified regional economy. | These clusters share 3 characteristics:  
- Working to promote a regional innovation ecosystem rather than focusing too narrowly on specific gaps or too broadly on national reforms.  
- Supporting public-private partnerships and allowing the private sector to take the lead role.  
- Customizing their approach to local context and strength rather than importing templates from Silicon Valley or other countries. |

**Literature Review – Startups and the Significance of Location**

Alongside the studies on entrepreneurship and Clusters of Innovation, we reviewed a sample of recent research and studies on the significance of place and the phenomenon of relocation, specifically for the Middle East, to frame our own study on Kuwaiti entrepreneurs. Dr. Sami Mahroum in his book, “Black Swan Start-Ups: Understanding the Rise of Successful
Technology Business in Unlikely Places,” profiles 11 cases of highly-successful startups from unconventional ecosystems including a company from the UAE and another from Jordan. According to Dr. Mahroum, the main driver of choice of location is personal preference of the entrepreneur and more often than not, entrepreneurs prefer to stay at home.16 This preference can represent an advantage if the founder’s familiarity with a difficult environment enables them leverage from the attributes (or mitigate any obstacles) of the location, such as low cost of talent or a unique market. At the same time, such shortcomings surrounding an ecosystem can serve to discourage outsiders from trying to compete and serve to isolate and incubate local startups.17

Dr. Mahroum argues that the comparative advantage of a location is achieved only through a strategy which seeks to leverage the “surplus” of a particular location. Furthermore, in determining growth strategies, “[The companies] assess the local conditions in terms of (1) their needs, (2) how much value can be leveraged locally and (3) how much value can be leveraged globally.” To make up for critical resources that were unavailable in their home locations, each of the 11 companies studied opened offices in other countries.

In assessing the role of government, Dr. Mahroum found that, “sometimes the presence of government support was viewed negatively. In Norway, an informant observed that ‘governmental funding has become a “sleeping pillow” to many aspiring entrepreneurs. Instead of hunting customers, too many founders put their efforts and existence in chasing governmental grants.’ In Austria, one informant said that ‘If entrepreneurs fail in Austria the social welfare system will catch them. This tends to make entrepreneurs less aggressive as they don’t have so much to lose.’”

Finally, Dr. Mahroum has the following advice for governments looking to support local entrepreneurship:

What emerges as an important tool for leveraging a place surplus and overcoming a place deficit is networking. The opportunity and the ability to reach out, connect, showcase and raise interest in one’s venture through conferences, expos, festivals, competitions and other platforms emerge as critical factors in making a place work for an entrepreneur. This is an important lesson for governments and other players interested in supporting technological entrepreneurship in their regions. Creating the opportunities and providing the means to enable local entrepreneurs to connect with potential investors, partners, markets and their peers in other regions and countries is more important than providing seed capital and office space. What entrepreneurs need most is the opportunity to tap into supporting business networks where relationships are driven by mutual interest and the shared objective of creating new value.

In this respect, peers and profit-centered networks can be more effective than networks centered on government support, where goals are not as aligned and the strings and conditions attached create incentives for firms to help the region rather than the other way around. A prime example here is seed capital made available by local or national governments for start-ups with the condition of recruiting locally. The goal of the government here is to create jobs locally through the start-up rather than to support the growth strategy of the start-up. Thus, governments, business associations, chambers of commerce and other players keen on creating successful global start-ups would do well to support networking and match platforms and opportunities where local entrepreneurs can find the needed seed capital, the

talent and the market rather than having these delivered to them by a government or other supporting agency. The government’s role as an enabler is ultimately superior in delivering the government’s own goals in terms of creating jobs and economic growth.18

Key Takeaway – Dynamic startups are able to grow from unlikely ecosystems when entrepreneurs harness the advantages of a particular place and offset any obstacles by expanding to other locations. Governments can either hinder this with a social safety net that kills the entrepreneurial drive or enhance it by providing networking and mentoring with partners and peers in other countries.

In his book “Startup Rising: The Entrepreneurial Revolution Remaking the Middle East,” Christopher Schroeder writes that “rapid and inexpensive access to its innovations in software and devices will create new, multiple ‘hubs’ of innovation in every corner of the globe.” He categorizes startup concepts into three categories: 1) Improvisers, which Arabize successful models from English-speaking markets, 2) Problem Solvers, that take advantage of the business opportunities to solve problems that in the past were the government’s role to solve, and 3) Global Players, “which know from the beginning that they are developing unique companies that can reach and have impact in any market.”19

Mr. Schroeder sees two phenomena, “both at odds with each other but also coexisting: the top-down entrenched powers’ desire to control their societies’ agendas; and the bottom-up, often tech-enabled problem solving and opportunity building that is happening regardless.”20

[Governments] have survived for decades by allowing a select few to aggregate wealth and impeding others’ access to capital. “Oil has obviously compounded this,” one regional investor told me, “What incentive was there ever to diversify beyond oil and trade? And for those few who made their fortunes here, what incentive was there to share the wealth?”

If anything marks the rise of startups in the Middle East and around the globe, it is that entrepreneurs build, bottom-up, around obstacles and succeed despite them. At the same time, however, while there is no going back, governments have a distinct ability to slow this talent in ever faster-moving, globally competitive markets. In fact with progressively universal access and adoption of technology worldwide, anything slowing an ecosystem can have significant, even generational, consequences.

As Mr. Schroeder sees it, governments should understand that “while these innovators are passionate about their homes and culture, they have never been more mobile. If pushed, they can seek out other countries that embrace their talent.”

Key Takeaway – Entrepreneurs in the Middle East are creating vibrant startups despite government hurdles but if governments do not remove these barriers, there are minimal obstacles in today’s networked world to them relocating to more suitable locations.

In March 2017, the Jordanian chapter of the global entrepreneurship support organization Endeavor, published a study highlighting migration trends among Jordan’s homegrown

20 Ibid. Page 112.
businesses. Endeavor Jordan surveyed 125 Jordanian enterprises of different sizes and a variety of sectors and found that 72% were currently considering moving their business out of Jordan. If starting their business over today, 60% would start abroad. Furthermore, 72% of businesses surveyed are considering locating their headquarters/operations abroad and of those that would consider relocating, 55% would relocate only their headquarters/legal entity while 45% would relocate their headquarters and operations.

The below graphic highlights the reasons for staying in Jordan and those for relocating. The top reason for staying in Jordan is that “this is home,” while the top reason to relocate is “access to larger markets.”

![Reasons to stay and Reasons to relocate](image)

“On its part, Endeavor Jordan admits that while it is understandable for founders and business development personnel to be based out of the larger markets in the region, [our] concern lies with the ventures [such as the 45% of the surveyed respondents] that wish to relocate their operations entirely.” Of the locations the companies would consider moving to, the UAE is a clear preference.

![Destinations](image)

Key Takeaway – A majority of Jordanian businesses surveyed are considering relocating abroad, primarily to the UAE.

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The Entrepreneurial Ecosystem in the UAE

The role of Dubai as a hub for Kuwaiti businesses

The United Arab Emirates (UAE) has achieved an international reputation as the singular hub for businesses looking for a base of operations in the MENA and GCC regions. As a result, the UAE is benefitting from a “brain drain” out of neighboring countries looking for opportunities to work and/or start businesses there. This activity is filling a gap left by Emiratis who, despite various government initiatives to support local entrepreneurship, remain mostly employed by the government (over 90%) and have an unemployment rate of 14%.23

A review of newspaper articles on Kuwaiti entrepreneurs and our interviews with stakeholders shows that the phenomenon of startups relocating to the UAE extends to Kuwaiti entrepreneurs as well. One stakeholder with a local co-working space told us that they deal with a lot of concept stage entrepreneurs and that “those who launch tend to flit off to Dubai.”24 According to an article in the Kuwait Times newspaper, Ghinwa, a Kuwaiti startup, was accepted to Dubai’s In5 incubator and the majority of the team moved to Dubai to build their app. According to one of the founders, the advantages to being in Dubai included, “...no social commitments to drain our time, partner companies [such as music distributors] have offices in Dubai, it’s easier to find talent, there are many business incubators we can consult, and the legal structure is very startup-friendly.” 25 A stakeholder told us that Kuwaiti entrepreneurs are moving to Dubai and Bahrain because “it is so much easier to set up there than here [Kuwait].”26

In contrast, one government official we interviewed as a stakeholder told us the “focus” of our study was mistaken and that not many Kuwaitis are leaving Kuwait, “maybe two or three.” Kuwait is a “critical market” to do business because purchasing power is very high and recently the Ministry of Commerce has issued many new steps to improve the ease of doing business.27

To cross-reference this perspective, our team also spoke to the National Fund to understand their view on the phenomenon of Kuwaiti entrepreneurs looking to expand or relocate out of Kuwait. We requested a list of companies that receive financing from the National Fund that might be expanding or relocating regionally or globally. Although there is a question on the application for funding regarding the entrepreneur’s target market (locally, regionally, globally), the Fund did not have data on the responses of applicants or funded entrepreneurs. We were given a list of 10 companies that the monitoring team determined “have potential to expand regionally...based on performance.” Of these companies, two are high-technology

24 Stakeholder Interview, January 30, 2017.
26 Stakeholder Interview, January 30, 2017.
27 Stakeholder Interview, April 23, 2017.
firms, one is food & beverage, five are retail or e-commerce, one is a gaming firm and the other is a services firm.

Key Takeaway – Government entities in Kuwait don’t have a global perspective on the entrepreneurship opportunity for Kuwait.

In an article for the Kuwait portal, a storytelling platform launched by the Kuwait National SME Fund to highlight stories of small and medium enterprises (SMEs) in Kuwait,28 Dr. Mussaad Al-Razouki states that Kuwait has advantages for Kuwaiti nationals and is clearly a cheaper place to start a company as a Kuwaiti national “just as Riyadh would be a cheaper place to start a business for Saudi citizens...”29 Another stakeholder told us that startups have a better chance of surviving outside of Dubai rather than in it due to the high burn rate in Dubai.30 Furthermore, for the creative industries in particular, the base of operations can be anywhere, “and they can continue to be based in the office in Kuwait and just coordinate internationally while remaining here.”31 If so, what explains the phenomenon of Kuwaiti startups relocating to Dubai rather than scaling and growing from a base of operations or headquarters in Kuwait?

On March 7th, 2017, our team hosted a Focus Group in Dubai with a group of nine Kuwaiti entrepreneurs, established business owners and professionals living and working in Dubai to better understand the business environment and investigate the phenomenon of Kuwaitis moving to the UAE. The Focus Group was coordinated with the Kuwait Business Council of Dubai & Northern Emirates (http://kuwaitbc.ae/?lang=en), which selected and recruited the invitees. We learned that Kuwaitis have a long history of operating successful businesses in Dubai and that Kuwait and Kuwaitis are “special and well-regarded”32 from a business perspective in the UAE. As such, “one of the fastest licenses given in Dubai are for Kuwaitis, as they recognize that they are business-minded and talented individuals who will probably yield higher success rates compared to other nationalities.” We also learned that there are various incentive programs and recruitment campaigns specifically targeting Kuwaiti entrepreneurs to start and/or relocate their business to incubators and the free trade zones in Dubai.33

The Kuwait Business Council gave us the following statistics regarding Kuwaitis living and working in the UAE:

- In 1995, according to the Kuwaiti Consulate there were 2,000 Kuwaiti families living in Dubai
- Currently, there are 590 Kuwaiti-owned companies registered with the Dubai Chamber of Commerce, although this number does not reflect companies registered in the Free Zones.

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28 About Kuwait. Retrieved from https://www.nuwait.net.kw/page/about-kuwait
30 Stakeholder Interview, January 30, 2017.
31 Stakeholder Interview, January 30, 2017.
32 Dubai Focus Group, March 7, 2017.
33 One entrepreneur told us that Kuwaitis living in Dubai can have their licensing fees waived for up to five years. We were unable to confirm this incentive on-the-record with any UAE authorities.
- There are 11,000 trade licenses registered for Kuwaitis either as partners or owners in the UAE although we were told this number reflects the fact that, for example, each franchise shop for a Kuwaiti company such as Alshaya has a separate license, perhaps inflating the number.
- There are 5,200 Kuwaiti landlords in Dubai.
- There are 175 trips between Kuwait and the UAE a week [Emirati airlines alone, not including Kuwaiti or other airlines], and 419,000 Kuwaiti tourist entries into Dubai alone in 2016.

The participants in our focus group shared the following insights on the ecosystem in the UAE:

<table>
<thead>
<tr>
<th>Issue</th>
<th>Quotes from Kuwaiti Focus Group Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td>“Dubai is a bigger market.”</td>
</tr>
<tr>
<td></td>
<td>“In the last 20 years, Dubai’s market began expanding while Kuwait’s stayed the same size.”</td>
</tr>
<tr>
<td></td>
<td>“Competition here is tough and expensive.”</td>
</tr>
<tr>
<td>Business Regulations</td>
<td>“Entrepreneurs have many different options for how to register their company – they don’t need a local sponsor and can register in 15 minutes, or in a multitude of trade zones, where it is also quick and easy to get up and running.”</td>
</tr>
<tr>
<td></td>
<td>“Dubai has a strong and dynamic government, they work with the entrepreneurship/business community to develop regulations and communicate these rules to business stakeholders and the public.”</td>
</tr>
<tr>
<td></td>
<td>“[Dubai’s] regulations were benchmarked against other countries, and they always look for best practices.”</td>
</tr>
<tr>
<td></td>
<td>“It took five months to set up in Kuwait and a week in Dubai.”</td>
</tr>
<tr>
<td></td>
<td>“Costs [for administrative procedures] in Dubai are very high.”</td>
</tr>
<tr>
<td>Talent</td>
<td>“Smart people are leaving Kuwait and moving to Dubai.”</td>
</tr>
<tr>
<td></td>
<td>“Quality of life for expats needs to be improved [in Kuwait].”</td>
</tr>
<tr>
<td></td>
<td>“Kuwait can compete but it needs to change its...mentality against expats.”</td>
</tr>
<tr>
<td>Opportunities for Kuwait and Kuwaitis</td>
<td>“Dubai has lots of successes but also lots of failures.”</td>
</tr>
<tr>
<td></td>
<td>“The National Fund regulations made it impossible for me to use that option to open an office in Kuwait, so I looked for other investors that are better-suited.”</td>
</tr>
<tr>
<td></td>
<td>“Kuwait is ‘beyond bureaucracy,’ and it is really frustrating to see where Kuwait is now, we have the creativity and amazing minds but the ecosystem is not supportive enough.”</td>
</tr>
<tr>
<td></td>
<td>“Kuwait can compete with Dubai on everything that they have but there is too much protectionism [in Kuwait]. Kuwait has a lot of good people and local talent that can give the UAE a run for its money.”</td>
</tr>
<tr>
<td></td>
<td>“If Kuwait opens up and allows international businesses to come in things will improve. Right now it’s the same people fighting over the pie for themselves.”</td>
</tr>
<tr>
<td></td>
<td>“Kuwait shouldn’t compete with Dubai, it should find its own thing and push it.”</td>
</tr>
</tbody>
</table>

Key Takeaway – Kuwaiti entrepreneurs are starting or relocating their businesses to Dubai due to the market, access to talent and friendlier business regulations.
Data on the UAE’s Entrepreneurial Ecosystem

We conducted a review of publicly available information on the UAE’s entrepreneurial ecosystem which revealed that the UAE has many of the components of a Global Cluster of Innovation and scores relatively well regionally and globally in global indices on ease of doing business, competitiveness and entrepreneurship. According to World Bank data, the UAE has the best environment for doing business out of the GCC countries and is ranked 26th worldwide.

<table>
<thead>
<tr>
<th>Economy</th>
<th>UAE</th>
<th>KSA</th>
<th>Qatar</th>
<th>Bahrain</th>
<th>Oman</th>
<th>Kuwait</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business Rank</td>
<td>26</td>
<td>94</td>
<td>83</td>
<td>63</td>
<td>66</td>
<td>102</td>
</tr>
</tbody>
</table>

The Global Entrepreneurship Monitor (GEM) is considered an important source of information for comparing the current levels of entrepreneurship between countries. GEM recognizes the UAE “as an innovation-driven economy...Services also play an increasingly important role and contribute significantly to the national GDP. Government support is geared towards creating the proper legislative environment that stimulates and promotes SMEs, and developing and fostering entrepreneurial mindsets.”

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The below graphic, taken from the World Economic Forum’s 2016-2017 Global Competitiveness Report compares the UAE with the rest of the MENA region and confirms that in nearly all categories, the UAE ranks far ahead of its regional peers.

As indicated by the comments of our focus group, quality of life is a key factor in attracting talent to the UAE. Dubai ranked first in the MENA region for quality of living worldwide and second in the MENA region for livability by the Economist Intelligence Unit.

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37 Who We Are – In5 innovation Centers. In5. Retrieved from https://infive.ae/who-we-are/
The 2016-2017 Global Competitiveness Index (GCI) by the World Economic Forum ranks 138 economies representing 98% of global GDP based on 114 indicators that represent institutions, policies and factors that determine the level of productivity of an economy. The GCI confirms that the UAE is a top destination for global talent. The UAE ranks 3rd worldwide in its capacity to retain talent and 2nd for its capacity to attract talent. By comparison, Kuwait ranks 83rd for its capacity to retain talent and 88th for its capacity to attract talent. Kuwait is ranked 96th for its availability of scientists and engineers and the UAE ranks 5th, an important factor for the development of the nation’s ICT industry.

A key element attracting companies and entrepreneurs is Dubai Internet City (DIC), opened in 2000 after just one year of construction, which is engineered specifically with the goal of developing the ICT sector. It hosts the regional headquarters for many of the world’s tech giants including Facebook, Alphabet’s Google, Microsoft, Cisco, IBM and others. It now boasts 1.5 million square feet of office space and houses 1,600 companies with about 17,000 workers. DIC claims to be the MENA region’s largest ICT hub, with “liberal regulations” and an “ecosystem of knowledge workers, nimble service providers and global expertise through a variety of other support services.

Several of the companies we interviewed for this study were incubated at In5 or had been approached by In5, an incubator launched in 2011 that provides office space, mentorship, company registration and exposure to potential investors. The stated aim of In5 is to promote entrepreneurship and technical innovation in the UAE by accelerating the development of new start-ups, fostering entrepreneurship, driving technology innovation, contributing to the ICT ecosystem and promoting Dubai as a location for tech start-ups.

Key Takeaway – The UAE ranks highly in many international indices for having an entrepreneurial environment and favorable business environment, with the Free Zones and In5 incubator recognized as key entities attracting Kuwaiti and other startups to the UAE. Kuwait has the potential to study the UAE for “lessons learned” from their development strategy and articulate its own strategy that will retain the value created by Kuwaiti entrepreneurs in Kuwait.

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41 A commitment towards limitless innovation – DIC. Dubai Internet City. Retrieved from http://www.dic.ae/who-we-are/about-us/#get_intouch
Entrepreneurship in Kuwait – Publicly Available Data and Research

Data on SME business activity in Kuwait

Kuwait has 60,000 registered companies of which approximately 25,000 can be considered SMEs.\textsuperscript{42} As we were told in multiple stakeholder interviews, there is incomplete data and other information that would allow a full quantification of entrepreneurial activity in Kuwait. Part of this is due to varying definitions of small and medium enterprises (SMEs) across entities in Kuwait. The National Fund Law defines SMEs as a small company with startup capital of less than 25,000 KD and 1 to 4 Kuwaiti national employees, and a medium company as a company with 25,000 – 500,000 KD in capital that employs between 5 to 50 Kuwaiti nationals.\textsuperscript{43} This definition excludes 90\% of small enterprises in the countries that do not employ Kuwaitis, and also defines firms with thousands of employees as small because they employ only one Kuwaiti. By way of comparison, Kuwaiti banks follow varying sets of criteria in defining SMEs either by using annual revenue figures (between 2 million and 5 million KD), paid-up capital (less than 500,000 KD), a combination of the two or by loan size (between 250,000 – 1,000,000 KD).

Key Takeaway – The lack of a uniform definition makes it difficult to accurately estimate the true size of the contribution of SMEs to Kuwait’s economy, and precludes comparing Kuwait’s SME sector with regional and international benchmarks.\textsuperscript{44}

According to the Kuwait Labor Market Information Systems (LMIS), managed by Kuwait’s Central Statistical Bureau, self-employed Kuwaitis represented around 2 percent of the total workforce in 1985, less than 1 percent in 2005 and had returned to an upward trend by 2011 with a little more than 1 percent. The LMIS also indicates that SMEs accounted for around 34 percent of employment in 2002, which fell to 23 percent in 2011.\textsuperscript{45} In terms of employment figures, Kuwait in 2013 had 36.2\% of its workforce employed with businesses having less than 200 employees. This compares to 57\% in the rest of the world.\textsuperscript{46}

\textsuperscript{42} In one interview, a stakeholder told us he’d heard 85,000 business licenses had been issued from multiple sources and presumed that to be a relatively accurate number.


Data on Funding of SMEs in Kuwait

The Industrial Bank of Kuwait (IBK) and the National Fund for SME Development (National SME Fund) are currently the two key public entities tasked with providing financing and support for the establishment and growth of SMEs in Kuwait. According to the latest data provided by the National SME Fund, 245 total projects have been funded since the National SME Fund began financing projects in March 2016.47 The National SME Fund categorizes its projects according to the following four categories: Commercial (44% of funded projects), General Services (32%), Industrial (17%) and Agricultural (8%). The below graphic illustrates this breakdown.48

IBK’s 2015 Annual Report provides a breakdown of the 232 projects it funded in 2015. IBK projects were funded according to the following categorization (based on investment size): Health and Social Work (25%), Hotels & Restaurants (21%), Manufacturing (19%), Other Community, Social and personal service activities (14%), Wholesale & Retail Trade (10%), Real Estate, renting and business activities (7%), Construction (2%), Education (2%) and Transport, Inventory & Communication (1%).49

In 2015, the IMF indicated that SMEs account for about 50% of licenses granted to new businesses in Kuwait but receive only about 2.3% of total corporate loans.\(^{50}\) Most recent data, according to the Kuwait Institute for Banking Studies (KIBS), confirms that SMEs are "underbanked versus the rest of the world." SME credit comprises only 7 percent of total bank financing in Kuwait compared to World Bank estimates of 13 percent in developed and 26 percent in developing countries. KIBS estimates the SME contribution to Kuwait's GDP at under 10 percent versus a world average of 40%.\(^{51}\)

The below table, extracted from the 2016 KIBS report "Taking Stock of SME Banking in Kuwait," breaks down SME loan activity according to the following categories: Manufacturing, Construction, Trade and Commerce, Real estate, renting and business activities, and Other. While the available data indicates a relative correlation between the split of SME loans and businesses by sector, there is a relative mismatch between the loans and non-oil GDP.\(^{52}\)

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**Financing by Al Senai For Small Enterprises Portfolio, 2015**

<table>
<thead>
<tr>
<th>Activity</th>
<th>No. of projects</th>
<th>Cost Of Investment (KD)</th>
<th>Portfolio Share (KD)</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>37</td>
<td>5,290,236</td>
<td>4,296,999</td>
<td>18.6</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>48</td>
<td>2,740,533</td>
<td>2,281,342</td>
<td>9.9</td>
</tr>
<tr>
<td>Hotels &amp; Restaurants</td>
<td>58</td>
<td>6,650,977</td>
<td>4,925,691</td>
<td>21.3</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>18</td>
<td>1,917,020</td>
<td>1,515,821</td>
<td>6.6</td>
</tr>
<tr>
<td>Health and Social Work</td>
<td>25</td>
<td>7,493,564</td>
<td>5,689,198</td>
<td>24.6</td>
</tr>
<tr>
<td>Other Community, Social and personal service activities</td>
<td>34</td>
<td>4,087,366</td>
<td>3,234,444</td>
<td>14.0</td>
</tr>
<tr>
<td>Education</td>
<td>5</td>
<td>677,544</td>
<td>429,964</td>
<td>1.9</td>
</tr>
<tr>
<td>Transport, Inventory &amp; Communication</td>
<td>4</td>
<td>343,203</td>
<td>282,243</td>
<td>1.2</td>
</tr>
<tr>
<td>Construction</td>
<td>3</td>
<td>571,780</td>
<td>471,380</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>232</td>
<td>29,772,223</td>
<td>23,126,782</td>
<td>100</td>
</tr>
</tbody>
</table>

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**Percentage of SMEs and Non-oil GDP**

<table>
<thead>
<tr>
<th>Percentage of SME loan book</th>
<th>Percentage of SME businesses</th>
<th>Percentage of non-oil GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>9.3%</td>
<td>20.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>5.8%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Trade and commerce</td>
<td>41.4%</td>
<td>33.6%</td>
</tr>
<tr>
<td>Real estate, renting and business activities</td>
<td>38.7%</td>
<td>27.3%</td>
</tr>
<tr>
<td>Other</td>
<td>6.6%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

Sources: Central Statistical Bureau, Central Bank of Kuwait. IBS questionnaire responses. Notes: The sectoral breakdown of the SME book is based on the average of the survey responses of five banks: the breakdown on SME businesses is based on the total number of businesses in each sector, each with less than 200 employees; the breakdown on non-oil GDP is calculated using data published by the Central Bank of Kuwait.

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**Key Takeaway** – While SMEs in Kuwait have access to financing through the National Fund and IBK, SMEs in Kuwait are significantly underrepresented in total loan activity compared to global benchmarks.

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\(^{52}\) Ibid. Page 10.
Global Rankings of Kuwait’s Entrepreneurial Ecosystem

Our review of global rankings and benchmarking of Kuwait’s entrepreneurial ecosystem and business environment revealed a mixed picture of structural weaknesses, areas of improvement and opportunities with unique potential. The below tables, from the World Bank’s Ease of Doing Business Rankings 2017, show that Kuwait is ranked 102nd out of 190 countries and is last in the rankings of GCC countries. Recent efforts to improve the business environment, to be discussed below, have yet to be reflected in the World Bank rankings as Kuwait dropped from 149th place in 2016 to 173rd in 2017 for the category of starting a business.53

<table>
<thead>
<tr>
<th>Economy</th>
<th>UAE</th>
<th>KSA</th>
<th>Qatar</th>
<th>Bahrain</th>
<th>Oman</th>
<th>Kuwait</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ease of Doing Business Rank</td>
<td>26</td>
<td>94</td>
<td>83</td>
<td>63</td>
<td>66</td>
<td>102</td>
</tr>
<tr>
<td>Starting a Business</td>
<td>53</td>
<td>147</td>
<td>91</td>
<td>73</td>
<td>32</td>
<td>173</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>4</td>
<td>15</td>
<td>21</td>
<td>19</td>
<td>52</td>
<td>144</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>4</td>
<td>28</td>
<td>44</td>
<td>72</td>
<td>69</td>
<td>115</td>
</tr>
<tr>
<td>Registering Property</td>
<td>11</td>
<td>32</td>
<td>26</td>
<td>25</td>
<td>35</td>
<td>67</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>101</td>
<td>82</td>
<td>139</td>
<td>101</td>
<td>133</td>
<td>118</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>9</td>
<td>63</td>
<td>183</td>
<td>106</td>
<td>118</td>
<td>81</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>1</td>
<td>69</td>
<td>1</td>
<td>4</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>85</td>
<td>158</td>
<td>128</td>
<td>82</td>
<td>67</td>
<td>157</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>25</td>
<td>105</td>
<td>120</td>
<td>110</td>
<td>60</td>
<td>66</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>104</td>
<td>169</td>
<td>116</td>
<td>88</td>
<td>94</td>
<td>108</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Kuwait</th>
<th>DB 2016 Rank</th>
<th>DB 2017 Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>149</td>
<td>173</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>141</td>
<td>144</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>113</td>
<td>115</td>
</tr>
<tr>
<td>Registering Property</td>
<td>66</td>
<td>67</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>109</td>
<td>118</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>78</td>
<td>81</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>159</td>
<td>157</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>65</td>
<td>66</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>108</td>
<td>108</td>
</tr>
<tr>
<td>Overall</td>
<td>98</td>
<td>102</td>
</tr>
</tbody>
</table>

The below graphic, taken from the World Economic Forum’s 2016-2017 Global Competitiveness Report, compares Kuwait with the rest of the MENA region. Kuwait’s Macroeconomic environment is a clear advantage, while Kuwait ranks behind the rest of its peers regionally in areas such as Labor market efficiency, Innovation and Higher education and training.54


The below graphic compares the World Economic Forum’s 2016-2017 Global Competitiveness Report rankings for Kuwait and the UAE. Kuwait ranks significantly higher than the UAE for Macroeconomic environment, and close to the UAE for Market size and Financial market development. Kuwait ranks significantly weaker for Innovation, Labor market efficiency, Technological readiness and Innovation.

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The below chart from the Global Competitiveness Report ranks the most problematic factors for doing business in Kuwait taken from a survey of business executives. The Kuwait sample for 2016 was comprised of 59 respondents. The top five most problematic factors are: 1) inefficient government bureaucracy, 2) restrictive labor regulations, 3) corruption, 4) poor work ethic in the national labor force and 5) inadequately educated workforce.

The Heritage Foundation’s 2017 Index of Economic Freedom, which covers 12 freedoms from property rights to financial freedom in 186 countries, ranks Kuwait 61st in the world and 6th in the MENA region, ahead of Saudi Arabia and Oman but behind the UAE, Qatar and Bahrain. According to the report, “Kuwait is trying to modernize the structure of its economy and scores relatively well in many of the 12 economic freedoms. The economy benefits from high levels of openness to global commerce and good monetary stability. Progress on enhancing the efficiency of business regulations, however, has been mixed. The availability of high oil revenues has delayed privatization and other structural reforms that would diversify the economy; following the collapse of oil prices in 2015, Kuwait recorded a budget deficit for the first time in 15 years. Institutional deficiencies stemming from state bureaucracy and an entitlement culture stifle economic dynamism...In an effort to enhance the economy’s overall competitiveness...Kuwait has taken steps to improve its regulatory framework, but progress has been slow.”

Recent press reports quote a World Bank official as stating that Kuwait has “exerted extensive efforts at the level of ‘doing business in Kuwait.’ The goal is to improve Kuwait’s status in business environment rating...” The official stated that he had “recently sensed desire from the Kuwaiti political leaders to press ahead with reforms and take necessary measures, as well as enact legislations needed to shore up the business environment as a government priority.” These steps include establishing a committee for improving the business environment, drafting a national agenda for refurbishing the business environment and implementing the 48-recommendation agenda. These measures include initiatives to cut red tape, such as the “single counter” Kuwait Business Center, and the elimination of the

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requirement for startup capital.\textsuperscript{59} One of these key initiatives was announced by the Minister of Commerce, His Excellency Mr. Khaled Al Roudhan, on June 7th, 2017, confirming that beginning in late June 2017, Kuwaitis would be allowed to receive licenses for home-based businesses, doing away with a prior requirement that any business have a lease for office space.\textsuperscript{60}

**Key Takeaway** – Kuwait scores poorly in global rankings and benchmarks, although the government is attempting to implement reforms to the business environment.

### Review of Articles and Research on Entrepreneurs and Startups in Kuwait

We conducted a review of publicly available information on entrepreneurs and startups in Kuwait to understand the challenges, opportunities, current trends and areas of focus. The intent of this exercise was to map information in the public record to the Cluster of Innovation Framework, and to cross reference it with the findings of our interviews and provide further insight on the evolution of the entrepreneurial ecosystem in Kuwait. This review included articles published on the National SME Fund’s Kuwait portal, newspaper articles and studies on entrepreneurship and our interviews with 15 stakeholders in Kuwait’s entrepreneurial ecosystem.

Below we map our key findings into the Cluster of Innovation Framework by key components and behaviors:

**Access to Capital** – For Kuwaiti nationals, there are several options and routes to raise capital for new entrepreneurial ventures including private money (Kuwait has one of the highest savings rates in the world\textsuperscript{61}), a number of sources of government debt-financing\textsuperscript{62} and a nascent venture capital industry.\textsuperscript{63} Remaining structural barriers include:

- Difficulties in raising funds for expansion and development of SMEs\textsuperscript{64} both due to banks’ concern about management skills of SMEs and perceived high risk of default.\textsuperscript{65}
- “Most startups that are raising funds are not usually registered in Kuwait; most are registered in the British Virgin Islands or Cayman Islands for splitting of equity.”\textsuperscript{66}

\textsuperscript{59} Stakeholder Interview, April 26, 2017.
\textsuperscript{60} 2017, June 7. Minister of Commerce: Issuing of home business licenses electronically after Eid and for Kuwaitis only. Sabr. Retrieved from http://www.sabr.cc/2017/06/07/335800/
\textsuperscript{66} Stakeholder Interview, January 30, 2017.
• “The problem with the National SME Fund structure is that it is doing out debt. If you have debt and have to pay back, it crushes the entrepreneurial spirit and the desire to take risks diminishes.”

**Service Providers** – “The consultancy sector is unstructured and unregulated in Kuwait, and there is a lack of proficient advisors and consultants.”

**Mentors, Incubators and Accelerators** – Several co-working spaces have launched in Kuwait in recent years that provide coaching and mentoring services as well as foster a dynamic environment for new and potential entrepreneurs. While these are often incorrectly referred to as accelerators or incubators, they provide more impact and services than simple co-working environments yet do not necessarily provide the needed mechanisms for high-impact entrepreneurs to activate the ecosystem and multiply their impact. In several stakeholder interviews, we were told that entrepreneurs in Kuwait don’t need funding but need know-how, someone to help them shape and scale the business, and target the right clients, and that lack of proper mentoring and training is leading to many people to making “silly mistakes.” BoxIt, a startup that began in Kuwait’s Sirdab Lab co-working space before relocating to In5 in Dubai, credited Sirdab Lab with helping them “find the right mentors, hone their business plan and pitch to potential investors.”

**Market** – Kuwait is a wealthy country with a consumer society. Kuwait’s ample purchasing power represents a strong competitive advantage. This allows entrepreneurs ample opportunities for testing new services, validating a business idea and then growing it outside of Kuwait. Kuwait has had several of the most well-known success stories in the GCC to date. “If your venture can succeed in Kuwait, then you can easily replicate it throughout the GCC and MENA region.”

Areas of opportunity include: “ICT is an obvious choice to develop as a sector; another is media and creative design. We have many marketing graduates as well as architects and

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67 Stakeholder Interview, April 19, 2017.
70 Stakeholder Interview, January 25, 2017.
72 Stakeholder Interview, April 19, 2017.
73 Stakeholder Interview, January 30, 2017.
76 Stakeholder Interview, April 19, 2017.
we want to tap in to their minds. Historically, those people do not go and work for the
government. Planners have ruled out heavy industry but some light manufacturing could
make sense.”78 Telecom spending in Kuwait is some of the highest in the world, let alone
the region.79 A study by the Kuwait News Agency in 2016 revealed that 72% of Kuwaitis
spend more than 5 hours a day on social media.80 Internet penetration in Kuwait in 2015
was 3.1 million and the online payment sector reached $1.26 billion. Payfort predicts that
by 2020 the value of the sector will reach $2.8 billion. Online payments represent 26% of
all payments with 56% of those done via mobile and 48% used to pay bills.81

A negatives includes the fact that, according to entrepreneur Basil Al Salem, the market for
the food and beverage industry “is saturated.”82

High-caliber talent – Kuwaiti nationals are known for their entrepreneurial spirit, high levels
of education and creative talent. Many of these youth are currently entering the job market.83
According to Basil AlSalem, “Our competitive advantage is that Kuwait was the best educated
young population in the region. Our youth travel and they bring home their experience. Kuwait
is a huge exporter of ideas. If we can harness and capitalize on that, and the government
provides the infrastructure for their development, Kuwait can create the right ecosystem for
innovation.”84 According to a World Bank study published in 2017, 35,000 Kuwaitis work in the
creative industries, representing 24% of non-oil GDP.85

Conversely, the role of the government, a strong safety net and the high levels of public sector
employment are seen as strong obstacles to developing an entrepreneurial culture.

- “Young minds graduate and end up working in a government entity doing clerical jobs
  [which] is a huge problem that kills innovation. If the government [pays] high salaries,
  where’s the incentive for a fresh graduate to take the risk and establish their own
  company?”86
- “The right to work is enshrined in the Kuwaiti constitution...the government feels that
  it is its duty to hire people in government jobs...The pay is handsome and exceeds the
  private sector’s, the benefits plenty, the hours short and holidays long. Permanent

79 Stakeholder Interview, April 23, 2017.
employment is offered and no lay-offs are ever entertained...Again, this dampens the motivation to go into business for oneself.”

Another clear challenge to creating an environment in which startups can flourish is attracting talent into Kuwait. Kuwait suffers from a lack of technical talent, although the situation is improving as Kuwaiti nationals are beginning to train as developers and coders. Still, the “biggest obstacle” is finding the right talent, and “we need to do a better job” in encouraging talent to come and work in Kuwait. A stakeholder told us that “part of the reason for startups moving out is due to the lack of talent, perhaps a lack of cheap talent.”

Access to Technology and Research - While in the rest of the world, “top universities can create fertile ground for startups by facilitating the learning and application of new platforms, and students and researchers are well-positioned to develop real-world applications for them and start tech companies. [This] scenario largely does not apply in Kuwait.” There are several initiatives underway to change this including Startup Kuwait, run by the Global Center, a department of Kuwait University’s College of Business Administration. Startup Kuwait was launched in November 2015 to support young professionals and students as they pursue their entrepreneurial projects, and serve as a feeder to the National SME Fund.

Strategic Collaborations with Major Corporations - Kuwait lacks the phenomenon of high quality startups as spin-offs from larger companies. “There is a need to shift from corporate social responsibility (CSR) to corporate social investment (CSI). Corporations and startups must collaborate rather than compete.”

Mobility of Resources – Currently, Laws and Regulations are perceived as onerous and unnecessarily controlling. There is still a great deal of bureaucracy around labor, employment law and regulations that make it difficult to hire and fire people. Stakeholders told us:

- “[The government needs to stop being too controlling and give companies the flexibility to hire good people.”

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88 Stakeholder Interview, April 19, 2017.
91 Stakeholder Interview, January 30, 2017.
97 Stakeholder Interview, April 19, 2017.
• “The visa issues need to be resolved to attract people to Kuwait.” 98

**Government Regulation** – Government bureaucracy, in particular the length of time, opacity and number of procedures for business licensing and permits, 99 is perceived as a major barrier to growth for startups. 100

• “The problem we are facing in Kuwait is that we have a very large public sector that is very expensive...Economic freedom means laissez-faire, which facilitates and creates a friendly working environment without too many restrictions, too much bureaucracy, or too many laws. Regulations need to be limited to the protection of society against malpractice...What Kuwait requires is less government and more private sector.” 101
• “Bureaucracy is one of the biggest obstacles...When an entrepreneur spends more than half of their time concentrating on going from one ministry to another for required paperwork, this causes problems...They won’t have time to concentrate on their business.” 102
• “Kuwait is a permission-based economy. The only hope is to cut government by 70% and get a competitive environment without government intervention.” 103

**Globally-oriented, entrepreneurial culture** – Kuwait has a long and storied history of a bustling merchant culture and it is said that entrepreneurship is in Kuwait’s blood. “Since the 18th century, the country has been known for trade: whether in exchanging goods with India, boat-building, or its pearl industry.” 104 Yet in the last 20 years, the government has supported banks and traditional businesses rather than SMEs, “which has had a serious impact.” 105 Stakeholders told us that the perks and stability of the government sector, along with societal pressure, have resulted in a limited number of people that are qualified and have the risk appetite to join an entrepreneurial venture, 106 and that entrepreneurship is viewed as a hobby rather than a real job and is done for status or image rather than to create a sustainable business.” 107

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98 Stakeholder Interview, April 23, 2017.
103 Stakeholder Interview, March 5, 2017.
104 Stakeholder Interview, March 5, 2017.
107 Stakeholder Interview, March 8, 2017.
"Most startups think local instead of aiming globally. The problem with Kuwait is that it is a small market. Leaving Kuwait should be a part of a growth strategy rather than an escape plan."^{108}

"Most of our businesses and SMEs are not scalable to the extent that can benefit the country - it’s all meant to distribute the pieces of the pie. We need to have businesses that are scalable; have ambitious models that can be replicated."^{109}

The below graphic depicts Kuwait’s Cluster of Innovation components and entities.

Key Takeaway – Kuwait’s entrepreneurial ecosystem is dominated by co-working spaces and government entities.

^{109} Stakeholder Interview, March 5, 2017.
Archetypes of Kuwaiti Startups

The data and information in the below section is taken from our interviews with a representative sample of 35 Kuwaiti entrepreneurs. These entrepreneurs and their businesses have been categorized into the following five archetypes: Home-Bound for Now (12 companies), Looking Around (4 companies), Springboard (7 companies), Moving Out (3 companies) and Born Abroad (9 companies). As mentioned in the Introduction, we categorized the 35 entrepreneurs into the five archetypes according to the following criteria:

- **“Home-Bound for Now”** - Companies born in Kuwait and focused on operating in Kuwait for the time being.
- **“Looking Around”** - Companies born in Kuwait and considering relocating operations to another location.
- **“Springboard”** - Companies born in Kuwait that split operations to grow.
- **“Moving Out”** - Companies born in Kuwait that relocated their headquarters.
- **“Born Abroad”** - Companies founded outside of Kuwait.

We asked the entrepreneurs we interviewed to rank the 12 components/behaviors for each ecosystem in which they have operations. 34 companies ranked Kuwait’s ecosystem, 19 scored Dubai and six provided rankings for the United States. The below graphic presents the average scores given to the 12 Cluster of Innovation components for Kuwait, Dubai and the United States by the 35 companies interviewed for this study.
Key Takeaway – Kuwaiti entrepreneurs ranked the entrepreneurial ecosystems in Dubai and the United States significantly higher than Kuwait.

The next graphic presents the rankings for the 12 COI components and behaviors broken out by archetype. “Home-Bound for Now” and “Moving Out” gave the two lowest scores for Kuwait, reflecting their dissatisfaction and/or intention to find a more suitable environment. “Moving Out” gave the highest score to Dubai, reflecting their choice of Dubai as a more suitable headquarters and/or base of operations relative to Kuwait. “Home-Bound for Now” gave Kuwait and Dubai the closest rankings, with a differential of 0.9 points, while companies in the “Born Abroad” archetype ranked Kuwait and Dubai at a differential of 2 points.

Key Takeaway – Entrepreneurs operating in Dubai rated Dubai higher and Kuwait lower than those operating solely in Kuwait.
The graphic to the left presents the target markets for the entrepreneurs interviewed. 34% of the companies target the Kuwaiti market, 37% aim to reach the GCC market and 29% are oriented towards global markets.

The next graphic depicts a breakdown of the target markets by archetype. “Home-Bound for Now” has the highest percentage of companies focused on the Kuwaiti market at 75% while 25% target the GCC market. Similar to the “Home-Bound for Now” cohort, of the “Looking Around” companies we interviewed, 75% identified Kuwait as their target market while 25% stated that they aim to serve the GCC. For the the “Springboard” archetype, with split operations, 71% target GCC markets while 29% aim for global markets while remaining based in Kuwait. “Moving Out” and “Born Around” both indicated that 67% target global markets while 33% are focused on the GCC.
**Key Takeaway –** The Kuwait-based entrepreneurs that we interviewed are most focused on local and regional markets while internationally-based startups are more oriented towards regional and global markets.

The below graphic presents the components and behaviors cited by the entrepreneurs interviewed for choosing to locate their company and/or the reasons for considering or undertaking a relocation. In citing **Market Size and Ease of Access (67%)**, entrepreneurs focused on Kuwait emphasized the attraction of the high purchasing power while those aiming for regional or global markets noted the preference and ease of operating from Dubai. **Lifestyle (52%)**, although not included as one of the 12 components and behaviors of a Cluster of Innovation, was cited by 52% of the entrepreneurs as a compelling factor in choice of location. Those operating in Kuwait stressed the importance of being close to home and the appeal of life in Kuwait, while those located in Dubai mentioned the more independent and diverse lifestyle available there. In citing the role of **Government Regulation (42%)** in creating a favorable business environment, entrepreneurs in Kuwait cited the “workforce support” government salary supplement as an important factor while noting that although the bureaucracy needed to be reformed it wasn’t an obstacle preventing business entirely. The entrepreneurs operating in Dubai cited the ease of dealing with the government bureaucracy as a highly appealing factor, both in saving time and hassle, due to the design of the regulations and the attitude of the government as a welcoming and open place to do business. Entrepreneurs noted the high fees for all business and licensing activity in Dubai, with some finding it an acceptable tradeoff for the ease of dealing with the government and others viewing it as a deterring factor. The fourth most-cited reason for choosing a particular location was **access to high-caliber talent (33%)**. While Kuwaiti nationals were mentioned as desirable employees in certain industries and sectors, the role of the bloated public sector in lowering the productivity of the general workforce of nationals combined with immigration regulations and lifestyle factors that deter high-caliber foreign talent from working in Kuwait were cited as significant reasons requiring a base of operations in a global and open environment such as Dubai.

**LOCATION FACTORS**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>67%</td>
</tr>
<tr>
<td>Talent</td>
<td>33%</td>
</tr>
<tr>
<td>Entrepreneurial Environment</td>
<td>3%</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>52%</td>
</tr>
<tr>
<td>Access to Capital</td>
<td>6%</td>
</tr>
<tr>
<td>Logistics</td>
<td>3%</td>
</tr>
<tr>
<td>Government Regulation</td>
<td>42%</td>
</tr>
<tr>
<td>Strategic Collaborations</td>
<td>6%</td>
</tr>
<tr>
<td>Service Providers</td>
<td>3%</td>
</tr>
</tbody>
</table>
Key Takeaway – The market opportunities and lifestyle in Kuwait, along with the “workforce support” supplement are key factors for companies located in Kuwait, while access to regional markets, lifestyle and the role of government in setting favorable regulations are key factors for Kuwaiti entrepreneurs operating in Dubai.

Below are several quotes from entrepreneurs highlighting the key factors that differentiate between Kuwait and Dubai as locations to operate a business:

- “It’s difficult to set up in Kuwait but there’s a lot more profit here with higher margins and lower cost of operations.”
- “Dubai is more global, Kuwait focuses on Kuwaitis.”
- “Kuwait is strategically located geographically – next to Iraq, an opening market as well as Iran. Whatever the government of Dubai is doing, Kuwait can achieve double what Dubai is doing if it followed the same steps.”
- “Kuwait did not provide a venue of growth given red tape, a lack of real estate at the time made it expensive to invest where most capital gets eroded in a non-producing asset.”
- “The biggest challenge was the Kuwaiti legal structure. No one was going to invest in a Kuwaiti company.”
- “Relatively speaking, the legal system in Kuwait is better but it takes longer than Dubai.”
- “Dubai affords a better springboard to expand regionally, but you need to have a proper plan.”
- “Dubai is very expensive but systematic – everything is online and you don’t need to physically run around.”
- “Ease of doing business and talent acquisition made it easier to operate in Dubai.”
- “Policies, applications, hiring, finding talent is at a different level in Dubai whereas in Kuwait you’re always stuck between permits, getting things done and government paperwork”
- “Dubai is full of people who [fake] their way through and just want to ‘live in Dubai.’”
- “I like the experience of living on my own in Dubai. We’re so bored because we have so much free time in Kuwait; if we cleaned our own houses, got our own groceries, paid our own bills, it would be completely different.”
“Home-Bound for Now” – Headquartered in and focused on Kuwait

Of the 12 “Home-Bound for Now” entrepreneurs we interviewed, seven are self-funded and two received their funding from government initiatives to support SMEs. Of these companies, two are ICT firms, three are in the creative field, four are general services firms, one is a food and beverage enterprise and one is a light manufacturing company.

The above graphic demonstrates the local focus of these companies, with 75% citing Kuwaiti as their target market and 25% aiming at the regional GCC market. The main factors cited in choice of location are the market, mainly due to the large purchasing power and/or familiarity, lifestyle reasons (Kuwait is home) and favorable government regulation, namely the “workforce support” government supplement for Kuwaiti employees in the private sector. Noticeably absent is the importance of talent in selection of location, which was cited as a top reason by the majority of companies categorized in the remaining archetypes. The “Home-Bound for Now” cohort gave Kuwait an average score of 5.2 out of 10, which is the second-
highest of the five archetypes, and above the 4.5 average for Kuwait across all companies surveyed. Below are several quotes from entrepreneurs in the “Home-Bound for now” archetype explaining their choice of location:

- “We are from the market, understand it and are of it.”
- “Without the workforce support benefit I wouldn’t have been able to do anything.”
- “Having the business in Kuwait is amazing because of how high purchasing power is.”
- “I have the network in Kuwait so why not start here as opposed to somewhere else and starting over?”
“Looking Around” – Born in Kuwait, considering relocating abroad

Of the four “Looking Around” entrepreneurs we interviewed, one is self-funded, one is funded by an investor, one is government-funded and the other did not disclose the source of funding. Two of the companies are commercial enterprises, one is a creative services firm and the other was an ICT services company.

The above graphic shows that 75% of these companies are focused on Kuwait as their target market while 25% target the GCC. The main factors cited in choice of location and/or why they are considering relocating are the market and lifestyle, followed by talent, access to capital and government regulation. The “Looking Around” cohort gave Kuwait an average score of 4.1 out of 10, which is the second to lowest of the five archetypes, and reflects their relative discontent and the rationale for considering relocation. Below are several quotes from entrepreneurs in the “Looking Around” archetype explaining their choice of location:
- “I’m here because it’s my country. I understand the part I do well and know how to cater to my audience.”
- “My mom pushed me to open in Dubai, but I chose Kuwait because I didn’t want to live in Dubai. Now I’m investigating moving my headquarters to Dubai, they encourage private businesses to function properly.”
- “I might have to move to Dubai because there is more talent there.”
- “I’m in Kuwait because of the market potential, cheap salaries and government salary support. Dubai’s fees and taxes are deterring factors.”
"Springboard" – Born in Kuwait, split operations to grow

Of the seven “Springboard” entrepreneurs we interviewed, all but one company is self-funded and the other did not disclose the source of funding. Three of the firms are in the ICT sector, one is in the creative industries, two are general services companies and one is a food and beverage enterprise.

The above graphic shows that 71% of these companies are focused on the GCC as their target market while 29% target global markets. The main factors cited in choice of location are the market, lifestyle, talent and the role of government regulation. The “Springboard” cohort gave Kuwait an average score of 4.6 out of 10, which is above average for the companies interviewed, and reflects their circumstances targeting regional and/or global markets while trying to stay rooted in Kuwait. Below are several quotes from entrepreneurs in the “Springboard” archetype explaining the factors underlying where to locate operations:
- “To move out of Kuwait would be a betrayal to Kuwaiti entrepreneurship, I was worried that it would be seen negatively.”
- “Kuwait was a test before going further into the regional market. Finding talent is at a different level in Kuwait, whereas in Kuwait you’re always stuck between permits, getting things done and government paperwork.”
- “I can’t bring talent to Kuwait.”
- “Dubai is a bigger market and easier to set up in. There is an immense pool of talent.”
“Moving Out” – Born in Kuwait and relocated headquarters

Of the three "Moving Out" entrepreneurs we interviewed, one company is self-funded, one is funded by investors and the other did not disclose the source of funding. Two of the firms are in the ICT sector and the other is a food and beverage enterprise.

The above graphic shows that 67% of these companies are focused on the GCC as their target market while 33% target global markets. Talent is the main factor cited by these companies in the decision to relocate out of Kuwait, followed by the role of government regulation. The “Moving Out” cohort gave Kuwait its lowest average score of 4.0, while rating Dubai 7.8, which is the highest of the companies interviewed, and reflects their dissatisfaction with Kuwait and preference for Dubai as a base of operations. Below are several quotes from entrepreneurs in the "Moving Out" archetype explaining the factors underlying their decision to locate operations outside of Kuwait:
- “I moved to Dubai for the market, which is much bigger than Kuwait. But I didn’t like the lifestyle.”
- “It made sense to start in Kuwait as a Kuwaiti living and working in Kuwait, and was easier logistically. But the ease of doing business and talent acquisition made it easier to operate in Dubai.”
- “The biggest challenge was the Kuwaiti [corporate] legal structure. No one was going to invest in a Kuwaiti company.”
- “Our headquarters shifted to Dubai because it’s better-positioned to serve the GCC than Kuwait.”
“Born Abroad” – Founded outside of Kuwait

Of the nine “Born Abroad” entrepreneurs we interviewed, five are self-funded, two are funded by investors and two companies did not disclose the source of funding. Two of the firms are in the ICT sector, one is in the creative industries, five are general services firms and one is an e-commerce business. The “Born Abroad” cohort consist of Kuwaitis that had been living abroad and started their companies outside of Kuwait as well as Kuwaitis who were living in Kuwait and moved out to found their companies in more suitable locations.

The above graphic shows that 67% of companies in the “Born Abroad” cohort are focused on the GCC as their target market while 33% target global markets. The main factors cited in choice of location are the market, lifestyle, talent, and the role of government regulation. The “Born Abroad” cohort gave Kuwait an average score of 4.5 out of 10 and Dubai at 7.3 out of 10. Below are several quotes from entrepreneurs in the “Born Abroad” archetype explaining the factors underlying where to locate operations:
- “I had a choice to open in Dubai or Kuwait, but more factors pushed for Dubai.”
- “I get to own my own time [in Dubai], without wasting it on weddings, dewaniya and other family obligations.”
- “The market in Kuwait is distorted, so proving yourself doesn’t say much. Dubai is more globally-aligned.”
- “I pushed myself to make it beyond Kuwait.”
- “There was a gap in the market in Dubai because there were no GCC nationals in my industry. At first I didn’t want to move because of family pressure.”
12 Cluster of Innovation Components and Behaviors for Kuwait and Dubai

The below graphic depicts the 12 components/behaviors for the Kuwait and Dubai entrepreneurial ecosystems as scored by the entrepreneurs interviewed for this study.

Key Takeaway – Dubai outranks Kuwait in every COI component and behavior ranked by the entrepreneurs we interviewed.

The following are key takeaways from a comparison of the rankings of the 12 Cluster of Innovation components and behaviors for Kuwait and Dubai:

- **Government Regulation** – The largest gap between rankings (4.1 points) is for the role of government regulation. We heard in multiple interviews that despite the high costs and fees in Dubai, nearly every procedure is online, the government employees “go out of their way to be helpful, friendly, and welcoming,” and that “It’s ironic how easy it is to set up a business as a Kuwaiti in Dubai but that it’s hard to set up as a Kuwaiti in Kuwait.”

- **Talent** – The second largest gap between rankings (3.6 points) is for skilled labor and high-caliber talent. This reflects the difficulty attracting top talent to Kuwait, both due to visa/immigration policies and procedures as well as lifestyle issues. As one entrepreneur told us, “It’s expensive to get people to come to Kuwait, and not hard to attract people to Dubai due to the lifestyle.”
- **Access to Capital** – The smallest gap between rankings (1.2 points) is for access to capital, reflecting the entrepreneurs’ perception of the relative ease of getting funding for new projects in Kuwait, either with government or private money. While the Dubai legal structures are considered more amenable for getting venture capital investment, we were told that “Funds don’t originate in Dubai, I don’t see boatloads of entrepreneurs coming to Dubai because they smell money.”

**Key Takeaway** – The scores given to the components and behaviors by the entrepreneurs we interviewed reinforces and validates the public data and international benchmarks for the Kuwaiti and UAE entrepreneurial ecosystem and business environment.

The below graphic presents the scores given by the entrepreneurs we interviewed for each of the 12 components and behaviors of a Cluster of Innovation. The top three rankings for the Kuwait ecosystem are: 1) Access to Capital (6.3), 2) Service Providers (5.4) and 3) Entrepreneurial Environment (5.1). The lowest three rankings for Kuwait are: 1) Access to Technology and Research (2.6), Intellectual Property Protection (3.3) and Government Regulation (3.3). Dubai ranks highest in Logistics (8.0), Entrepreneurial Environment (7.9) and Market (7.7). Dubai ranks lowest in Intellectual Property Protection (5.5), Access to Technology and Research (5.6) and Mentors (7.1).

![Graph showing scores for components and behaviors](image)

**Key Takeaway** - The largest gap between rankings is for the role of government regulation, followed by access to high-caliber talent. The smallest gap between rankings is for access to capital.
Access to Capital

The highest ranking for Kuwait among the 12 components and behaviors was for access to capital at 6.3 out of 10. Interestingly, while Kuwaitis in the “Home-Bound for Now” archetype perceived Dubai extremely positively (9.5/10) in this category, the three archetypes with operations and/or headquarters in Dubai had a lower perception of Access to Capital in Dubai and scored this component only slightly higher than for Kuwait.

Below are several quotes from entrepreneurs highlighting both positive and negative elements of the access to capital component:

**Positives:**

- “In Kuwait there is plenty of money available from private sources.”
- “It’s not an issue finding money in Kuwait.”
- “It’s easier to find money in Kuwait than abroad.”
- “I chose the National Fund since it was cheap funding. I didn’t want to have to give up equity to partners.”

**Negatives:**

- “The National Fund changed its regulations and now requires personal guarantees and removed the non-recourse component. That defeats its purpose.”
- “Investors aren’t interested in Kuwaiti legal entities/licenses.”
- “The banks aren’t helpful, they lend at high interest rates and aren’t used to dealing with small businesses.”
- “Banks in Kuwait are so risk-averse it’s unhealthy.”
- "It’s hard to raise smart money in Kuwait because people here are risk-averse and want to conserve and maintain their capital."
Service Providers

The Service Providers component received the second highest score for the Kuwait ecosystem [5.4]. While the “Home-Bound for Now” companies rated Service Providers in Kuwait and Dubai within 0.7 points, “Springboard,” “Moving Out,” and “Born Abroad” each ranked Dubai at more than two points higher than Kuwait for this component (2.2, 4.0 and 2.8 points difference respectively).

Positives:

- “I’ve been surprised in a good way at the lawyer and animators I’ve worked with in Kuwait.”
- “The accountants I worked with in Kuwait are great.”

Negatives:

- “Professionalism and punctuality is an issue. I don’t like when someone tells you something will be done in one week and it takes three.”
- “The [software] developers in Kuwait are very low quality. They have no future vision, they only want to get paid now.”
- “Kuwait needs more [software] developers to support all of the businesses doing social media and online work.”
Mentors

Although not necessarily cited as a key factor in the decision surrounding the location for founding or relocating their businesses, the entrepreneurs we spoke with all emphasized the importance of mentors for them personally and for the ecosystem at large: ”If Kuwait continues to improve its access to mentors and incubators, this is key to help shape the mindset.” According to another entrepreneur, ”It should be about giving entrepreneurs the skill set to build a business, if you build a business right you don’t need much money.” While the “Home-Bound for Now” entrepreneurs ranked Kuwait slightly higher than Dubai (5.3 vs. 5.0), each of the other archetypes ranked Dubai significantly higher than Kuwait for this component (with a range of between 1.5-5 points difference). Kuwait’s homegrown mentors were spoken of very positively while Dubai was cited for having a diverse group mentors of global caliber.

Positives:

-  “There are high quality mentors in Kuwait. We’ve made great strides in the last few years.”
-  “The Kuwaiti energy is raw and real, and stems from a very good place. There are lots of homegrown mentors who have succeeded and are giving back to the community.”
-  “This has been getting better lately as more people gain experience.”

Negatives:

-  “They call themselves advisors and incubators but that’s not the case...[they] are building something to benefit more from the government then for the startups to benefit from them.”
"We don’t have mentoring. I can name two or three people who know how to do it right but they don’t have the capacity."
Market

The third largest gap between rankings (3.1 points) is for size of market and ease of entry into the market. This reflects, on one hand, that for some entrepreneurs Kuwait was more attractive due to the fact that, as a Kuwaiti living in Kuwait, it is easy to identify local opportunities and take advantage of the high purchasing power. Conversely, one Kuwaiti entrepreneur noted that, “if the market is in Kuwait, they’ll stay here. If not, they’ll move to a hub.” Another entrepreneur told us that, “Kuwait was a test bed before going further into the regional market.” The two archetypes with headquarters in Dubai (“Moving Out” and “Born Abroad”) both rated Dubai significantly higher than Kuwait (4.3 and 4.7 points higher respectively) reflected their global orientation and recognition of Dubai as the most suitable location to reach a wider market.

![Bar Chart]

**Positives:**

- “What makes Kuwait different than Dubai is the local concepts, rather than just international franchises.”
- “It’s not a market issue – the market is there. The GCC can be served from Kuwait.”
- “Kuwait has a decent market size and people spend a lot of money, it’s one of the best places to start your business.”

**Negatives:**

- “Kuwait is not a good test market because of its size and homogeneous demographic,”
- “Kuwait doesn’t resemble any other city and it’s small. Business models in Kuwait don’t translate into other markets.”
- “Kuwait is very small, there’s a limit to how much you can grow in the market.”
Logistics

Logistics received the highest average score of the 12 components for Dubai (8.0) while the category for Kuwait was ranked just above average score for all components (a score of 4.6 against an average of 4.5). Although this component was not directly relevant for all the companies we interviewed, we heard consistently negative feedback about logistics in Kuwait whether the operation of the postal system, the cost of sending and receiving goods or the functioning of customs. One entrepreneur told us “customs regulations need to be helpful for import/export.” Dubai’s logistics scored consistently higher than Kuwait (from 2.7 to 4 points higher).

Negatives:

- “In Kuwait you have to use a courier, which is expensive. The postal service is nearly obsolete.”
- “[I face] constant interference from customs to destroy products because they don’t like the names. The process is very subjective.”
Talent

The second largest gap between scores given to Kuwait and Dubai was for Access to High Caliber Talent (3.5 points). While “Home-Bound for Now” scored Kuwait only 1.4 points lower than Dubai, “Moving Out” gave Dubai a 5.6-point higher score than Kuwait. Talent was also ranked by “Moving Out” as top reason for relocation. As reflected in the below quotes, access to high caliber talent means both the skills and productivity of Kuwaiti nationals as well as the pool of expatriate workers, either already living and working locally or those that can be recruited to work in a particular location.

**Positives:**

- “It’s easier to hire Kuwaitis when you have an office in Kuwait since it’s not in Kuwaiti culture to move away from Kuwait.”
- “Qatar is doing a phenomenal job but doesn’t have the people, while Kuwait has the talent that sprouted without the foundation being set.”
- “There is so much talent in Kuwait, so it’s important to push people to do their own thing.”

**Negatives:**

- “There are good people out there, but top-shelf talent isn’t easy to find in Kuwait.”
- “I might move my tech team to Dubai because more talent is available there. Kuwait is not attractive for developers from Europe and the US.”
- “I want to hire Kuwaitis but they are [not productive]. The country took every citizen into their comfort zone so that the foreigners do all the hard work”
- “A Kuwaiti can’t be fired despite their performance [in the government]. I can’t understand this policy, it’s a huge problem. There is wonderful talent in Kuwait, but they aren’t given a chance [to prove themselves].”
- “Kuwait needs locally-produced quality developers. Things will never work for Kuwait if they keep outsourcing key tasks.”
- “One of the major advantages of Dubai was to tap into talent, there is a struggle to recruit good talent in Kuwait. People here [in Kuwait] are talented and smart but [not productive].”
- “The talent pool in Dubai was amazing, everyone wants to move there, nobody wants to move to Kuwait. [It is] not inviting for people to come to Kuwait.”
- “Finding talent in Kuwait is very hard. Kuwaitis want to work for big organizations, prestigious place, not for smaller startups with ‘weak’ capital. No one wants to sit in a small, one-room office.”
- “Kuwait is not an attractive country for talent to come in. Cheap labor might be interested for the salary only, but as you go up the scale, people want more than just a salary, and Kuwait becomes the least attractive place to be in in the GCC.”
- “People aren’t interested in Kuwait because of the lifestyle, but it’s a great country to save money.”
- “Dubai is more attractive from a lifestyle perspective but it’s more expensive and you have to pay them more to offset that.”
Technology and Research

The entrepreneurs interviewed for this study gave the lowest ranking for Kuwait (2.6 out of 10) for the component of accessibility and availability of technology and research. One of the key components of a Global Cluster of Innovation is having research universities that help develop practices that support local economic strengths and promote the commercialization of new technologies. This is almost entirely absent from the Kuwaiti ecosystem.

- “University curriculums need to focus on producing IP, patenting it and allowing students to co-own that IP post-graduation if they want to inject it into a business they start. The R&D culture needs to change.”
Strategic Collaborations

The two archetypes with operations only in Kuwait ("Home-Bound for Now" and "Looking Around") ranked Kuwait 5.8 and 6.0 respectively, while the other cohorts of entrepreneurs ranked Kuwait an average of 2 points lower. Entrepreneurs told us that many multi-national companies have their headquarters in Dubai, while in Kuwait there is a hesitation or lack of initiative to attempt partnerships with local corporations.

- "Accessibility in Kuwait is just not there unless people jump on planes to visit."
- "Huge companies don’t partner with startups but want to compete with them, that is not the case in other countries where they partner with startups and help them grow."
- "Kuwait is a small, closed market."
Intellectual Property protection was ranked significantly below average for both Kuwait and Dubai (1.2 points lower than average for Kuwait and 2.0 points lower for Dubai). While several the entrepreneurs we interviewed had gone through the process of registering patents, trademarks and copyrights in both locations, none expressed confidence in the ability to enforce their legal rights in case of a violation or dispute.

- “The content is logged...but there is no enforcement.”
- “I haven’t heard of anyone being penalized for using someone else’s IP.”
- “People don’t respect IP to begin with, and if you sell an idea to a client and they run off with it the law doesn’t cover you sufficiently.”
- “[There is fear that] people readily steal ideas, and copy logos and designs.”
- “There is none whatsoever in Kuwait. I had a competitor that carbon-copied my ideas. The only thing in Kuwait you can copyright is your logo, you can’t copyright anything else. The lawyers couldn’t do anything because of the laws.”
Mobility of Resources

Kuwait and Dubai both were scored just below the average ranking given to all 12 components and behaviors of a Cluster of Innovation [0.1 point lower for Kuwait and 0.2 for lower Dubai]. The main elements cited by entrepreneurs were the relative difficulty in handling visa and immigration issues for expatriate nationals to work in Kuwait compared to Dubai, while the Kuwaiti labor law stipulations for a probationary period was looked at both positively and negatively.

![Bar chart showing scores for Home-Bound for Now, Looking Around, Springboard, Moving Out, and Born Abroad for Kuwait and Dubai]

Positives:

- “Hiring and firing is easy, but it can be difficult to get an employee from another company.”
- “The 100-day probation period in Kuwait is a plus.”
- “If I have to fire people out of the probation period I either give them the required notice or buy them out.”

Negatives:

- “Hiring and firing is a constant nightmare.”
- “It’s not easy for foreigners to come to Kuwait.”
- “It isn’t easy to convince the people you’d want to recruit, say, developers from India or BD personnel from Europe, to move to Kuwait.
- “A major disadvantage was getting people visas to come to Kuwait.”
- “Kuwait ‘hits hard’ with visas, this takes up a lot of my time.”
- “In Kuwait it is difficult to get visas.”
- “Hiring, getting permits is always a challenge. You have to select from the preexisting pool in Kuwait or poach from competitors. We were understaffed for a long time because the rules hurt our growth.”
- “The main issues here are procedural, the bureaucracy and the mentality of how people and manpower are managed. Hiring and firing is a constant nightmare.”
Government regulation

The role of Government Regulation was given the third lowest ranking of the 12 components for Kuwait and a score of 1.2 points below the average score of all components. Of the two archetypes with companies based in Dubai ("Moving Out" and "Born Abroad"), Dubai was ranked 8.0 and 8.2 respectively. While acknowledging recent efforts to improve the licensing and bureaucratic procedures, and pointing to the workforce support initiative and lack of high taxes or fees as a significant benefit (relative to Dubai in particular), the entrepreneurs we interviewed expressed discontent with the role of Kuwait’s government for 1) over-regulation and excessive control over economic activities, 2) working to improve the bureaucracy piecemeal instead of aiming to automate and place all activities online, 3) failure to reform basic elements of the legal framework to international standards such as a bankruptcy law and legal structures that would allow venture capital investments and 4) the impact of the welfare state on the workforce and the economy at large.

![Graph showing scores for different components]

**Positives:**

- “I don’t understand taxes, which is part of the reason for staying in Kuwait, along with living here. I also wanted the government stipend for myself.”
- “Dubai’s government employees have instructions to make it easy to do business.”

**Negatives:**

- “I’m happy to pay a little more if it means moving faster, at my pace.”
- “Kuwait needs to be more open, we cannot continue to be rigid with bureaucracy.”
- “If the ocean of paperwork is reduced, things will become more attractive.”
- “In Dubai, cost overheads exist, but if you take away the Kuwaiti subsidies, then the numbers would equal out pretty quickly.”
- “The government needs to make the process of starting and running a business easy... It needs to all be online, there is no reason to take a car trip anywhere to do administrative stuff, its 2017.”
- “Getting a license should not be an achievement.”
- “The workforce support government supplement is counterintuitive for entrepreneurship”
- “In Dubai the company was incorporated in less than 24 hours. There was no government entity interaction, no wasted time, straight from decision to execution in 72 hours.”
- “The Kuwaiti government needs to stop acting [overbearing] and get out of the way. We don’t need support, just get out of the way.”
- “In Dubai it’s easy to start a business but expensive, the government fees end up penalizing small businesses.”
- “Kuwait should just let businesses do their thing rather than support them all the way through, that’s not real business.”
- “More businesspeople are needed in government to run the processes of privatization.”
- “If Kuwait sets up a system that encourages the free spirit of going out to try new ideas with the backing of a bankruptcy law, that would inspire trust in banks to lend to businesses since they’ll be guaranteed to get something [in case of a business failure].”
- “Government’s main job is to facilitate commercial activities, reduce obstacles and intervene less. Government should embrace technology that will help speed all aspects of government services.”
- “The Ease of Doing Business World Bank ranking doesn’t reflect what’s happening in Kuwait... If an entrepreneur has to spend more than a day a month dealing with ministry work, they can’t be creative or focus on the business itself.”
- “Kuwait is not open for business.”
- “The government... has no idea what we go through, they want to control everything. The concept of time for government doesn’t exist, and things like moving things online get hindered because the government needs to keep people employed. They make things harder to do so they can continue to get paid.”
- “Entrepreneurs are forced to find workarounds for licenses when one doesn’t exist in the right category.”
Global, entrepreneurial culture

Kuwait and Dubai were both given above average scores for having an entrepreneurial environment and global strategic perspective (0.6 points higher than average for Kuwait and 0.4 higher for Dubai). Kuwait was spoken of very favorably for having a homegrown and vibrant community of Kuwaiti national entrepreneurs known for innovative ideas and motivated by recent success stories. Dubai, by contrast, has many of the enabling elements for a Cluster of Innovation but most of the entrepreneurial activity is led by expatriates, with Kuwaitis at the forefront among GCC nationals. In interviews with entrepreneurs our team was told that although Kuwaitis have the most potential, the environment in Kuwait is not globally oriented and Dubai is better suited to growing global companies that are attacking markets beyond the GCC.

**Positives:**

- “Kuwait has the foundations and is considered particularly advanced among Arab countries.”
- “There are many Kuwaiti success stories out there which inspire and motivate others.”
- “Kuwait has a vibrant force that’s getting things done. Imagine how it would look if the government got out of the way and set up an environment for them to thrive in. Governments in the region have tried to set up environments for youth to thrive in and they’re not biting, while the exact opposite exists in Kuwait.”
- “Kuwait has an amazing community. People help each other as opposed to the intense competition in Dubai.”
Negatives:

- “Kuwaitis are innovative but they don’t think big.”
- “Entrepreneurship is about a hunger to make something out of yourself, and we lack that in Kuwait.”
- “Time is not taken for granted in Dubai as it is in Kuwait. I deal with expats most of the time, people who are there just to do business. In Kuwait it’s all locals so people take time for granted and shove things off until ‘tomorrow. Both parties’ interests are aligned in Dubai so there is incentive to work and make things happen.”
- “Kuwait is more homogeneous and locally-focused, there is value in heterogeneity.”
- “People only want to take from the country, ask ‘what can Kuwait do for me? If people work from the heart, you can get things done in a week rather than in two months as they are now.”
Key Findings and Recommendations

As confirmed by the entrepreneurs and stakeholders interviewed for this study as well our review of other research and news articles on SMEs in Kuwait, there is a uniquely vibrant community of entrepreneurs in Kuwait that is impacting both the local economy and the economies of the broader GCC. There remain, however, key barriers and obstacles that, if not mitigated, have the potential to curb the long-term economic benefit to the Kuwaiti economy.

The key findings and recommendations of this study are discussed below.

1. Kuwait-centric businesses that leverage local purchasing power are not sustainable in a post-oil era and will not diversify Kuwait’s economy unless they expand globally or attract tourist spending to Kuwait.

34% of the companies we interviewed solely target the Kuwait market and for the companies intending to remain based in Kuwait, the local market was the top factor. The Kuwaiti market offers a unique opportunity for Kuwaiti entrepreneurs to capitalize on the strength of local purchasing power. A Kuwaiti entrepreneur told us that, “Kuwait has innovation but I don’t see it in a diversification of sectors - it’s all in food and beverage.” If the government wants to support food and beverage businesses, then it should ask how this investment can be leveraged and nurtured to grow brands and companies that are oriented towards other markets, and at the same time how Kuwait can better attract tourism spending into the country. According to one entrepreneur, “Kuwait might underestimate the value that entrepreneurs bring to the ecosystem; they’ve created a tourism strategy for Kuwait that attracts outsiders to Kuwait whether it’s through food or online businesses.” Reinforcing this will require government action to further align and incentivize the tourism industry in Kuwait. In the latest Travel and Tourism Competitiveness Report 2017, by the World Economic Forum, Kuwait ranks 100th out 136 countries for tourism and had 182,000 tourist arrivals in 2016.\textsuperscript{110}

There are risks for the government and Kuwaiti entrepreneurs in building businesses solely reliant on the strength of the local economy. As one entrepreneur told us, “Most of our businesses and SMEs are not scalable to the extent that can benefit the country - it’s all meant to distribute the pieces of the pie. We need to have businesses that are scalable and have ambitious models that can be replicated.” Another entrepreneur told us, “If Kuwait wants to diversify its income source, they need to look for entrepreneurs to add to the GDP. Doing something commercial that remains in Kuwait is just an exchange of money from pocket to pocket.” Businesses that do not scale and expand are solely reliant on local purchasing power. This macroeconomic reality is due to the fact that the vast majority of Kuwaiti nationals are employed by the public sector, which generates its income from oil revenue. Once the oil revenue decreases, the macroeconomic environment that allows these businesses to succeed will shift dramatically and they risk failure. This approach is clearly not sustainable. As one entrepreneur told us, “unless you have a protected position, you need to adapt. As we become closer to our neighbors and the world, the government will find it difficult to maintain its current position.”

2. Kuwaiti startups targeting external markets plan to “go global” from birth and many find Dubai a more suitable base of operations than Kuwait. Rather than compete with Dubai to be the GCC hub for international business, Kuwait has an opportunity to leverage its homegrown talent and find a unique niche as a hotspot of locally-based but globally-oriented entrepreneurship.

37% of the companies we interviewed target the GCC market and 29% target global markets. Of the 35 companies we surveyed, 34% have relocated their headquarters out of Kuwait or founded their companies outside the country. 11% are considering relocation and 20% split their operations while maintaining a presence in Kuwait.

The entrepreneurs we interviewed gave the following explanations for their growth, expansion and/or relocation strategy:

- “I would never open a business with the idea of trapping it in Kuwait only. I worked on my expansion plan before even starting.”
- “Entrepreneurs can roll out regionally and bring money back to the country.”
- “I used Kuwait as a test bed. It’s always easier to test an idea in your own place.”
- “You have to build your strategy in the region from the beginning, you don’t start a business thinking you’ll be international at one shot.”
- “Most startups think local instead of aiming globally. The problem with Kuwait is that it is a small market. Leaving Kuwait should be a part of a growth strategy rather than an escape plan.”
- “A global startup needs a global city.”

The companies we interviewed gave Kuwait’s ecosystem a composite score of 4.5/10 compared to 7.5/10 for Dubai. The top reasons cited for choosing a location were: 1) Market Size and Ease of Access (67% of companies), 2) Lifestyle (52%), 3) the Role of Government Regulation (42%) and 4) Access to High-Caliber Talent (33%). The largest gap in rankings between Dubai and Kuwait was for the Role of Government Regulation (a 4.1-point gap) and Access to High-Caliber Talent (a 3.6-point gap).

The UAE has clearly established itself as a hub for international business and arguably meets many of the criteria to be considered a Global Cluster of Innovation. It is convenient and quick to set up a company and the revenue generated from this convenience is a source of income for the UAE government. Yet the majority of the economic activity in the UAE comes from expatriate nationals, including Kuwaitis, and the government is having difficulty overcoming the social, cultural and education-related barriers to encourage Emirati nationals to become entrepreneurs. According to one entrepreneur, “What differentiates Kuwait from the GCC is that we have talent, entrepreneurship, ideas and creativity. A lot of institutions and businesses started in Kuwait and rolled out in the GCC, giving Kuwait a great reputation. Entrepreneurship in Dubai is either by the government or foreign nationals, not a lot by Emiratis. In Kuwait the opposite is true.”

Rather than imitate or try to overtake the UAE, which has already established itself as a hub in the region, Kuwait has the opportunity to leverage its homegrown talent and local competencies in a “smart specialization” strategy focused on finding solutions to local
problems with global relevance. According to one entrepreneur we interviewed, “Kuwait shouldn’t compete with Dubai, it should find its own thing and push it.” In other Global Clusters of Innovation, local capabilities, strengths and competitive advantages are aligned to develop solutions to these local problems leveraging proximity to customers. The government and other players in the ecosystem facilitate, incubate and provide smart mentoring and support to allow these companies to go global while retaining their headquarters locally.

3. Kuwait has the opportunity to create high-impact, global startups, but in order to retain them in Kuwait certain weak elements of the local entrepreneurial ecosystem need to be nurtured or improved.

A Kuwaiti entrepreneur told us, “Many great Kuwaitis live abroad right now because they don’t perceive Kuwait as a good place to pursue a career.” To enable a “smart specialization” strategy for Kuwait key weaknesses in Kuwait’s entrepreneurial ecosystem need to be addressed. The entrepreneurs we surveyed gave the weakest rankings to Kuwait for 1) Access to Technology and Research (2.6/10), 2) Intellectual Property Protection (3.3/10) and the Role of Government Regulation (3.3/10).

In 2013, the latest year for which World Bank data is available, Kuwait invested 0.3% of its GDP on Research and Development while countries with a similar per capita GDP invest around 2% of their GDP. According to a September 2007 Report of the Kuwait Research Review Panel to His Highness The Emir, “Kuwait University is primarily a teaching university with research currently playing a secondary role. Research funding constitutes a very small percentage [around 1.6%] of the total budget...the main challenge to increasing the quality and volume of research efforts in Kuwait University is that research is viewed as a step toward promotion rather than a goal in its own right.” While there are recent strategic initiatives by Kuwait University’s new administration to “make Kuwait University great again” and “create a pipeline that feeds into the National Fund,” there is still much groundwork that is required before Kuwait University can play an important role in fostering innovation and supporting and commercializing R&D from local economic strengths and core competencies.

The Kuwait Foundation for the Advancement of Sciences (KFAS) and Kuwait Institute for Scientific Research (KISR) can play a leading role in galvanizing the Research and Technology sector in Kuwait. The Kuwait Research Review Panel advocates for the importance of international partnerships such as technology and research parks and other collaborations with science, technology and research institutions, with KFAS and KISR playing a central role in carefully planning these relationships, vetting potential partners and ensuring that such arrangements retain value for Kuwait by building local capacity and developing expertise in sectors consistent a “smart specialization” strategy for Kuwait.

Another important element of the entrepreneurial ecosystem is intellectual property protection. Kuwait is on the United States “Priority Watch List” for countries that do not

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113 Stakeholder Interview, January 31, 2017.
adequately or effectively protect intellectual property rights due to non-deterrant penalties and Kuwait’s copyright law, which is not in compliance with international standards. Kuwait is the only GCC country on this watch list.\textsuperscript{114} In April 2017, Kuwait adopted a new copyright law but the impact of this is not yet clear.\textsuperscript{115} With protection and enforcement of intellectual property perceived very weakly by the entrepreneurs interviewed for this study, there is clear room both for improving and modernizing the IP protection laws in Kuwait. In fact, if Kuwait intends to serve as a creative hub, it needs to not just standardize but create an enlightened and forward-thinking IP protection framework that takes into account the business needs of the creative and high technology industries, and encourages monetization of IP from Kuwait.

The third weakest ranking given by entrepreneurs was for the role of government regulation in setting a favorable environment. We heard from almost every entrepreneur we interviewed that regulations are a key barrier for Kuwaiti entrepreneurs. According to one entrepreneur, “We can’t beat Dubai because of our regulations.” Another entrepreneur told us, “In the United States, the government stays out of the way. In Kuwait, there are so many processes you have to follow. The government should stay away from micromanaging businesses.” Many of the entrepreneurs we interviewed noted how in other countries you can do much of the paperwork for registering or renewing a business online within a few minutes.

4. Government programs and initiatives to encourage entrepreneurship and develop the ecosystem should better align with the needs of startups and adapt “lessons learned” from other Global Clusters of Innovation to fit a cohesive “smart specialization” strategy that encourages Kuwaiti entrepreneurs to “go global” while remaining rooted in Kuwait.

As noted in the Global Clusters of Innovation study, the government has to play its role smartly and “shouldn’t be relied upon to provide the answer, but must act as facilitators and stand back to allow the right activities to emerge.” The entrepreneurs we interviewed had the following comments on the government’s role in supporting entrepreneurship in Kuwait:

- “The safety net needs to go: as long as people have the safety net, there will never be entrepreneurs. Entrepreneurs are people who are hungry for success; no innovation comes from comfortable people.”
- “We need to return to our entrepreneurial, roots which we’ve forgotten by becoming a welfare state. Kuwaitis were historically entrepreneurs. Kuwait’s welfare state has decimated that spirit but there are bright spots among the younger crowd.”
- “We think the solution to everything is money; it’s not, it’s only one aspect.”


• “The government should remove the obstacles rather than spend money. They should focus on educational programs, teaching entrepreneurs how to build and strategically grow their businesses.”

• “Kuwait is investing in the wrong areas. They should be issuing free licenses to anything within pre-identified fields as renewable energy. If you want to start a food and beverage company, get funded from your uncle, not government money.”

• “The National Fund can jumpstart the economy, Kuwait has the runway to turn around but we need to act fast.”

Our study highlighted several specific Government policies and incentives that have the potential to remain obstacles or become engines for entrepreneurial growth. These include:

• Legal reforms – The Kuwaiti legal structures need to be reformed to be amenable to venture capital investments. Kuwait needs a bankruptcy law that allows entrepreneurs to quickly fail without devastating consequences and encourage banks to lend more to SMEs with the understanding that they recover some value in case of business failure.

• “Set aside” a portion of government contracts for SMEs – The Kuwaiti government can require a percentage set-aside of all tenders to businesses under a certain size and/or in certain sectors. According to one entrepreneur, “Let the government see what the startups are doing and actually use their services. Saudi and Dubai use startups for government entities.”

• Immigration Reform – Reform visa, residency and labor policies to make it easier for certain categories of talent to live and work in Kuwait. This should match the “smart specialization” strategy for Kuwait in which certain sectors in the global value chain are identified and targeted, manpower needs defined and immigration policies adjusted accordingly to make it easy for the individuals with specific skills to enter Kuwait, and for the businesses that need them to identify, recruit and hire them.

• The National SME Fund – The National SME Fund’s executive regulations call for the Fund to “ensure that all elements of an entrepreneurial ecosystem are present and fully functioning such that new SMEs are established and existing SMEs grow and prosper.” The regulations also call for “identifying and creating new products and services, expanding into new markets and encouraging cross-boundary collaborations.” The National SME Fund can do more to nurture Kuwaiti entrepreneurs to think globally rather than locally and incubate them for international orientation. The Fund should focus its financing for new businesses on those with regional and international outlooks rather than those with a business model relevant solely for the local market. According to one entrepreneur, “If the National Fund wants to help entrepreneurs, they need someone to make sure their companies are built in a way to expand regionally...This has to be their main goal or it won’t work.”

The Fund can develop programs that create opportunities for local entrepreneurs (those who received government money and those who did not) to connect with
potential investors, partners, markets and peers in other countries, as well as to help them with studies and research to investigate the viability of their business model in other countries, look for areas of opportunity and further hone their way of operating. The National SME Fund can take the lead in identifying and advocating for Kuwait’s “smart specialization” strategy by identifying the local capabilities, strengths and competitive advantages, and articulating opportunities for import substitution, or regional and global opportunity.

- **Workforce Support** – We heard conflicting views on the government’s “workforce support” supplement for Kuwaiti nationals in the private sector. While some entrepreneurs told us it was essential to their ability to start a company and remain in Kuwait, others told us it is “counterintuitive for entrepreneurship.” We also heard that entrepreneurs believed if the workforce support supplement were weighted to support them compared to large established companies (rather than based on educational credentials), then they would have an easier time attracting Kuwaiti national employees to their startups. We believe that the “workforce support” supplement is a powerful tool that could potentially be used to support startups and/or entrepreneurial activity on a sectoral basis, and that the economic complexities require further study prior to making any definitive recommendation.
Areas for Further Study

This study offers the Cluster of Innovation framework as a benchmark for further investigation of key findings in this study. These findings and recommendations can be further validated and expanded upon to determine which strengths in the Kuwaiti economy are likely to present the most opportunity in a global economy. Furthermore, the 12 components and behaviors can be further analyzed to determine what policies are required to make the components and behaviors more robust, and how they can be leveraged and grown as anchor points to augment the entrepreneurial ecosystem in Kuwait. This would involve a much larger sample size of companies (150-200) and the methodology can be further refined by industry and/or company size and revenue. Additional follow-up studies can include:

- **Value chain analysis** – Identify Kuwait’s core competencies and local problems with global relevance to set a “smart specialization strategy for Kuwait,” determine opportunities for import substitution and examine how clusters of competing firms can be induced to collaborate to enhance the performance of the collective whole. The benefit of this analysis will be to allow data and strategy-driven funding decisions for entities like the National Fund and present a consensus from extensive consultations with startups and established companies that can drive coordinated policy making.

- **SWOT analysis for each COI component/behavior** – An examination of the strengths, weaknesses, threats and opportunities according to each of the 12 components and behaviors would allow further elaboration of the findings of this study and analysis of particular elements to support policy decisions. For example:
  - A study of the Role of Government Regulation could include an in-depth examination of the “workforce support” supplement to understand the economic impact of the current policy and explore adjustments by industry, company size or other metrics.
  - A study of Mentoring and Incubators could look at best practices for the training and support programs that can be adapted for Kuwaiti companies to be “born global” and “become global.”
  - A study of Kuwait’s Research and Development network including an assessment of the commercialization relevance of the technology and research at Kuwaiti universities and research institutes and an analysis of their application in global markets. This study would include a determination of what resources are needed to support the process of commercialization and how to create a culture where professors and students value the commercialization of science and engineering research. It would also include a needs assessment of all major stakeholders in Kuwait’s R&D network, and a study of various options for pursuing collaborations with international partners.
  - A study of Kuwait’s Intellectual Property practices, the requirements to create an IP regime that would augment the creative industry hub and support protection and monetization of their IP. This would be benchmarked against regional and global best practices, and provide policy makers with a road map to creating and implementing an innovative and forward-looking comprehensive IP protection regime.
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