



مؤسسة الكويت للتقدم العلمي
Kuwait Foundation for the Advancement of Sciences

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Consulting



Developing the SME Segment in Kuwait

Executive Summary

This report was commissioned by the Kuwait Foundation for the Advancement of the Sciences, whereby, comparison of international and regional countries was done on an effort basis. That is, all information in this report was based on electronically available data, as was mandated in the TOR.

In terms of Phase 1 Report, all areas of improvement and reforms as well as perceptions were based on the Market Survey, conducted for the purpose of this study. Phase 2 research consisted of effort-based desktop research.

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Comprehensive Study of Kuwait's SME Segment

Executive Summary

A two-part study was undertaken by AlShall Consulting Company (“AlShall”) at the request of Kuwait Foundation for the Advancement of the Sciences (KFAS). The aim of the study was a comprehensive account of Small and Medium Enterprises (SMEs), their status in Kuwait, an international comparison with regional and international countries and recommendations on how Kuwait's SME ecosystem can be improved. Phase 1 comprised of a market research analysis, with survey of financial institutions and entrepreneurs in Kuwait. Phase 2 comprised of international and regional benchmarking and consisted solely of desktop research.

Both phases attested to one key national necessity missing in the local environment: a national entrepreneurial policy to complete Kuwait's SME policy as formulated with the establishment of the National Fund for SME Development. In addition, a missing gap is the data available on SMEs in Kuwait, which has the potential to guide both public and private stakeholders in the SME-entrepreneurial ecosystem. Filling this gap would contribute to guiding linkages between all ecosystem actors, and allow for incorporating academia and educational institutions in contributing to Kuwait's innovation landscape by enhancing Research and Development (R&D) in the country.

Phase 1: The Status of SMEs in Kuwait: A Market Research

Phase 1 consisted of a Market Research to ascertain SME segment characteristics and defining features from financiers and entrepreneurs. The main focus was the NFSD, the SME financial landscape, and entrepreneurs' in Kuwait. The Market Research adopted a qualitative research method, the Strengths, Weaknesses, Opportunities, and Threats (SWOT) framework to capture financiers and entrepreneurs' perceptions of the NFSD, and the SME segment in Kuwait.

Phase 2: National Strategies to Promotes SME Segments: Kuwait in International Context

Phase 2 consisted of international benchmarking of the international and regional countries, to assess levels and types of public involvement in the following areas: size and scope of SMEs based on their

economic performance and sector, business, legal and regulatory environments, SME financial landscape as well SME capability-building.

Phase 1: The Status of SMEs in Kuwait: A Market Study Executive Summary

Phase 1 – Market Research Study: Objective & Methodology

This report (“Phase 1 report”) presents findings from a comprehensive qualitative survey undertaken by AlShall covering a sample of all stakeholders in Kuwait’s SME space. These included SME financiers (the NFSD, banks and financial institutions) and SME entrepreneurs. Particularly, as part of the survey, AlShall personnel held interviews and surveys with the NFSD, 10 Banks, 3 financial institutions and 10 entrepreneurs. The entrepreneurs surveyed comprised of five entrepreneurs whose NFSD funding application was approved, and five whose applications were not. The survey was designed to capture financiers and entrepreneurs’ perceptions of the NFSD, the opportunities, needs and challenges in relation to the NFSD and the SME segment. AlShall analyzed the survey results through the SWOT framework (Strengths, Weaknesses, Opportunities and Threats). This framework serves well in analyzing the responses of the various SME market participants.

Section 1: Kuwait’s SME Segment

The first section of the report provides an overview of the country’s SME segment along with providing a SWOT analysis for the segment based on the market study.

Kuwait’s SME segment constitutes 3% of GDP and contributes to 23% of formal employment according to World Bank (2016). This is much lower compared to both developed and developing economies where GDP contribution of the SME segment varies between 35% to 50% and its employment contribution lies closer to 50%. Currently, there is no clear unified definition of an SME being adhered to by all the stakeholders in Kuwait’s SME segment. The definitional discrepancy is illustrated in the table below:

NFSD Definition	Banks Definition
<ul style="list-style-type: none"> • Small : >4 employees and >KD 250k capital • Medium: 5-50 employees and >KD 500k capital 	<ul style="list-style-type: none"> • Varying definition (eg. turnover between KD 2-5 million; paid up capital < KD 500k; loan size KD 250k – KD 1 Mn)

Resolving such definitional discrepancies with a unified definition applicable to the SME segment was described as a pressing issue by all survey participants.

SMEs are broadly classified into Lifestyle, Modest and High Growth Competitive SMEs. Lifestyle SMEs are driven by the entrepreneur’s desire for self-employment. Modest SMEs provide an existing product to an existing market and are characterized by low profitability and exhibit little to no growth. High Growth Competitive SMEs are innovation drivers and are highly competitive, demonstrated by high revenue and employee growth (greater than 10% per annum) and include start-ups. The third type of SME is critical for successful economic diversification and growth. In Kuwait, Lifestyle and Modest SMEs predominate the SME space. This is evident in the fact that despite employing an estimated 23% of the workforce, the SME segment only contributes 3% to gross value added (GVA) to Kuwait’s economy. That being said, there is a rise of entrepreneurial and innovation focused initiatives on part of private stakeholders targeting the SME segment, aimed at spurring high growth competitive startups focused on digitization in Kuwait.

Kuwait’s SME Segment - SWOT

Strengths, Weaknesses, Opportunities and Threats (SWOT) of Kuwait’s SME segment have been gleaned by the consultant after the thorough market research survey. These are summarized in the table below:

Kuwait SME Segment SWOT:

Strengths
<ol style="list-style-type: none"> 1. NFSD: Establishment of NFSD is viewed by stakeholders as a positive initiative to support SMEs and to increase awareness of the high value added nature of the SME segment in the country’s general population 2. Nationals: Marked increase over recent years of Kuwaiti nationals running SMEs
Weaknesses / Challenges
<ol style="list-style-type: none"> 1. Contribution: economic contribution to GDP is minimal at an estimated 3% 2. Government / Institution-related Weaknesses: <ul style="list-style-type: none"> • Absence of SME-specific laws/regulations • Government’s national SME vision and strategy is unclear to financiers & entrepreneurs • Government’s SME-related procedures are long, burdensome and complicated as per entrepreneurs (eg cumbersome process to receive ministerial certifications and work permits) 3. Financial Weakness: <ul style="list-style-type: none"> • Banks & financial institutions do not finance start-ups • Perception that there are no business incubators for SMEs in Kuwait; SME personnel are generally viewed by financiers as lacking financial and marketing skills as well as experience
Opportunities
<ol style="list-style-type: none"> 1. Positive Perception of SME ecosystem: Attitudes of young Kuwaitis have been positively affected as a result of the reforms and recent growth in the SME segment – the prevailing view is that young Kuwaitis represent a “wealth of potential entrepreneurs,” 2. Technology: General perception is that several opportunities exist in the SME space for Kuwaitis and that growth can be accelerated through the adoption of technology
Threats
<ol style="list-style-type: none"> 1. Perception of Public Mismanagement: Perception prevails among entrepreneurs that the current allocation of funds is mismanaged 2. Unorganized nature of SME ecosystem: Sporadic nature of the SME ecosystem carries a threat that increased competition will drive out SMEs which require support and a teething period 3. SME Loan Defaults: The fear that a sharp increase in SME bank loan defaults will pose a threat to not only the SME space but the Kuwaiti economy as a whole

Section 2: The National Fund for SME Development (NFSD)

The second section of the report provides a history of the NFSD and then reviews the feedback about the Fund provided by both banks and entrepreneurs as part of the market study.

With an allocated capital of KD 2 billion, the National Fund for SME Development (NFSD) was established in 2013 as per Law no. 98 (2013) (later amended - Law no. 14 (2018)). It was established to act as Kuwait’s SME one-stop shop to coordinate and promote the activities of SME-related initiatives in the country. These included providing SMEs with information, training and finance. Specifically, it was envisaged that NFSD would serve to plug a significant gap in SME financing, evident in the fact

that 50% of all business licenses were granted to new businesses who received only 2.3% of total corporate loans.¹

The NFSD lends to startups and SMEs based on an 80/20 percent framework. Eighty percent of the funding is provided by the NFSD at two percent interest rate, and there is an expectation that banks will lend NFSD-approved SMEs the remaining 20% at a market interest rate. As per the NFSD 2016-2017 Annual Report, the Fund approved 245 applications with a total financing amount of KD 50.1 million. Seventy percent of the approved applications were for start-ups in the commercial, services, handicraft and agriculture sectors. As part of the survey with the banks, their relationship, perception and challenges in dealing with NFSD were analyzed. These were then reviewed through the SWOT framework summarized in the table below:

Banks on NFSD:

Strengths
<ol style="list-style-type: none"> 1. Diversification: The NFSD has diversified finance by offering a “great product” – which may enable growth for the Kuwaiti economy that only the NFSD can offer; the majority of banks surveyed viewed the NFSD as a funding source that positively complements their reach 2. Start-up support: The NFSD caters to a SME segment that banks can’t cater to: start-ups.
Weaknesses / Challenges
<ol style="list-style-type: none"> 1. Weak communication: Banks, generally, perceive that the communication with NFSD is weak citing instances of: <ul style="list-style-type: none"> • Misinformation or wrong information provided by NFSD • Unclear guidelines on SME loan application approval and rejection standards • Unclear principles of engagement in place that delineates standard practices between the banks and the NFSD. • Absence of agreed upon SME definition outlined to unify all actors in the ecosystem 2. Unclear goals: The NFSD’s vision and goals are unclear and they feel that the NFSD has delayed publishing SME success stories which would help clarify the NFSD’s goals further 3. Operational barriers: Banks, generally, perceive that the NFSD: <ul style="list-style-type: none"> • Maintains out of date laws, procedures and mechanisms that don’t capture needs of all parties • loan applications challenges which pose time and cost constraints on financial institutions • Lacks a unified leadership due to an unstable / frequently changing board 4. Skill Barriers: Banks are of the view that there is a skills deficit at NFSD. This is evident in three areas: <ul style="list-style-type: none"> • Weak financial and risk management expertise • Low to no tracking of loans provided in terms of progress and success • lack of SME-related research being published by the NFSD

¹ International Monetary Fund, 2014

<p>5. Environmental Barriers: Banks highlighted two key barriers to NFSD’s environment:</p> <ul style="list-style-type: none"> • No specific SME-related laws/regulations • Perception of external pressure on the NFSD; namely political interference and corruption, which is perceived to affect the operation and efficiency of the NFSD • Types of incentives the NFSD uses with banks are not sufficient for financiers <p>6. Incentive Framework: The current shared-lending scheme whereby NFSD funds 80% of an entrepreneur’s project and banks lend the remaining 20% is not profitable for banks; further the banks emphasize that the scheme should include all banks rather than just some banks as this results in lack of competition in the space (as highlighted by the IMF as well)</p> <p>7. Perception of Margin of Authority: A series of banks stated that they perceived the NFSD to have given them a margin of authority. Rather, the banks would prefer a standardized engagement and communication framework to guide the relationship between the two parties.</p>
Opportunities
<p>1. SME Credit Bureau: Banks see potential in establishing platforms for the exchange of credit and financial information on SMEs to improve the segment’s access to funds</p> <p>2. Collaboration: Banks highlighted the strong potential for more collaboration among the numerous stakeholders that could be further facilitated by better and more NFSD-led financial institution’s engagement and communication</p>
Threats
<p>1. Lack of clarity: Banks highlighted that not understanding what legal enforcements are in place on SME loan defaults serves as a strong threat/disincentive for banks from participating in the NFSD schemes and/or engaging in SME lending</p>

The entrepreneurs that were surveyed also expressed strong opinions about the NFSD, which were analyzed within the SWOT framework. The below table summarizes the entrepreneurs’ feedback:

Entrepreneurs on NFSD:

Strengths
<ol style="list-style-type: none"> Broadened Opportunities: The NFSD provides entrepreneurs with a “great opportunity” to realize their dreams and ambitions Flexibility: The NFSD provides inclusive financing schemes; entrepreneurs aren’t burdened by bank lending practices (including high interest rates and loan payment stipulations and conditions)
Weaknesses / Challenges
<ol style="list-style-type: none"> Discrepancy: Some perceived there to be a discrepancy between the NFSD’s vision and its practice Lack of clarity: Lack of understanding which types of sectors the NFSD is willing to provision funding for and which it isn’t Communication: No unified perception by entrepreneurs on the quality of communication they receive in regards to funding requirements Advisory: Low quality of advisory services Marketing: Lack of effort made by the NFSD to publicly show their efficiency via for example, marketing or promoting success stories
Opportunities
<ol style="list-style-type: none"> Increased Entrepreneurial Trend: The NFSD has made SMEs and entrepreneurship a trend Optimism: Entrepreneurs are optimistic about SMEs contribution on the national economy
Threats (none highlighted)

Section 3: The SME Financial Landscape

The third section of the report sheds lights on the perception of financiers with respect to Kuwait’s SME segment. This includes disincentives to SME lending and reasons for application rejection and key challenges faced by the banking sector in extending SME finance.

Four key disincentives to SME lending were highlighted by the banks, as part of the market survey. These included the associated risk of lending, requirement of excessive effort in due diligence, low profitability and poor global survival rates of the SMEs. In relation to this, four key reasons were cited by the banks for rejecting applications for SME loans. These included:

- Poor and/or unavailable financial statements provided by SME applicants, citing financials with exaggerated assumptions, inaccurate financials, poor balance of sheets and inaccurate justifications of it and of the liability and audits of an SME.
- Poor quality of a feasibility studies submitted to the bank with an inadequate risk assessment
- Financers noted that some of the sectors that SMEs are looking to enter aren’t supported by the NFSD or are not clear enough for financiers to make value judgments on.

4. The applicant’s character, creditability, family history, inadequate experience and inappropriate financial behavior was also cited by banks as grounds to reject SME loan applications.

Financers expressed the view that their role in SME financing has evolved with the establishment of the NFSD. Pre-NFSD, banks were instrumental to the initial growth of the SME segment through the provision of SME loans. However, with the advent of NFSD, their role has transformed to one of distributing NFSD funding and serving as a communication medium between the SMEs and NFSD and CBK. The key challenges which the banks continue to face when engaging with SMEs and the SME ecosystem along with key recommendations made by the survey participants are summarized in the table below:

Key challenges faced by the banks with SMEs and the SME ecosystem and recommendations:

Financers challenges with SMEs

1. **SME Characteristics:** These are features of the various SMEs the financers deal with which make the relationship difficult to initiate and sustain:
 - **Business objectives and valuation:** a great majority of SMEs present business goals, objectives and organizational structures which are unclear; an entrepreneur’s valuation of their business is generally unrealistic and the size of loan demanded is excessive compared to actual capital required
 - **Profit:** entrepreneur business plans generally exhibit high profit expectations without any business or financial track records
 - **Non-reliability and Risk Aversion:** financers expressed that for a significant number of SMEs they dealt with, the documentation provided is not reliable (“entrepreneurs take their time when submitting missing bank documents, and aren’t as prepared when attending bank meetings”); entrepreneurs are also very risk averse and look to exit on first sign of low performance
2. **SME Expertise & Knowledge:** This is to do with the competency of the SMEs with which the financers generally have to deal with:
 - **Financial management:** entrepreneurs generally lack financial management expertise
 - **Commitment:** several entrepreneurs exhibit a lack of commitment in repayment of the loan requiring time consuming follow-ups
 - **Data:** business information provided by SMEs is generally incomplete (with no market study for instance)

Financers challenges with the SME ecosystem

Financers face three key challenges with the SME ecosystem. These include:

1. **Weak financial infrastructure:** The legal framework to cater to the SME space is viewed to be weak, especially with respect to financial information verification provided by SMEs (eg. lack of information sharing between banks and NFSD on a applicants)
2. **Unclear CBK guidelines:** Banks maintain that CBK guidelines on SME capital allocation remain unclear which impedes profit potential and transaction efficiency

3. **Conventional Assessment Practices:** Currently banks implement assessment procedures which are suitable for large enterprises to analyze SMEs. The need is for implementation of international best practices in SME loan assessment that accounts for the quantitative and qualitative nature of SME enterprises

Financers Recommendations

1. **Collaboration:** NFSD should increase its collaboration with the banks, as they maintained that their technical and financial expertise is not taken into account by the NFSD
2. **Regulations:** Clear SME laws/regulations which help clear up the discrepancies that surrounding the SME ecosystem
3. **Data collection and sharing:** Well-defined intelligence sharing mechanism between NFSD and the banks to ensure a thorough due diligence and timely application processing
4. **Auditors:** Greater surveillance and regulation of audit firms to increase the quality of information being provided by the SMEs
5. **Incentive framework:** Reduction in the capital adequacy requirement with respect to SMEs and fee-based scheme to compensate banks for the additional ancillary services provided to SMEs
6. **Risk-sharing:** NFSD to share in the risk of lending to SMEs by guaranteeing 50% or more of the loan amount
7. **Automation:** Introduction of electronic processes to submit and review NFSD applications; automation of the regulatory process will help speed up application due diligence and processing
8. **Inclusion of all banks:** Financers insist that all banks should be given the opportunity to participate in the NFSD scheme, rather than the preferential treatment being meted out to the current four banks

Section 4: Entrepreneurs

The fourth and last section of the report covers feedback from entrepreneurs as part of the survey on their interaction with NFSD (covered earlier) and the key challenges faced by them.

The entrepreneur's feedback with respect to their dealing with NFSD is summarized above. The key challenges that the entrepreneurs expressed as part of the survey are summarized in the table below:

Challenges faced by SMEs:

Challenges faces by SMEs

1. **Resource Capacities:** Challenges faced in securing land and business locations and infrastructure expenses such as electricity and water. Additionally, the labor market has a skills deficit creating a dependency on expat labor
2. **Government-related:** Lack of support in securing resources for the SMEs (land, permits, funding, manpower approvals) and lengthy delays in application approval which adversely impact entrepreneur morale.

Phase 2: International Benchmarking of SMEs

Executive Summary

The Phase 2 Report provides an international and regional benchmarking of the SME segment, specifically with respect to size and scope of SMEs based on their economic performance and sector, business, legal and regulatory environments, SME financial landscape and capability-building.

Section 1: SMEs in the Global Economy

The first section of the report explores the definition of an SME, their economic contribution and as sectoral distribution.

Globally, SMEs have proven to be a critical segment to drive economic diversification, innovation, economic growth and sustainable employment. However, SME characteristics in each country differ qualitatively and quantitatively, due to differences of several factors such as quality of skilled labor, structure of the economy and nature of public involvement in enhancing the SME segment.

SME Definition:

There is no standard definition of an SME being adhered to globally. The common parameters used are mainly quantitative firm characteristics such as the number of employees, turnover, capital, assets and investments. The most commonly used quantitative indicators are the number of employees and annual sales volume (turnover). In the Arab region, countries with a legally enshrined definition of SMEs are Jordan, Saudi Arabia, the United Arab Emirates (UAE), Palestine, Egypt, Bahrain, Tunisia, Mauritania, and Morocco.² In terms of employee size, throughout the Arab countries, a small enterprise ranges from 4 to 50 employees. The average medium size of an enterprise ranges between 19 to 250 employees for the majority of surveyed countries. Some countries such as UAE, Bahrain and Malaysia use an SME definition that distinguishes between SMEs operating in the trade sector, the services sector, and the manufacturing sector.

² Arab Monetary Fund (2017)

SME Economic Contribution:

On average globally, SMEs contribute to about 33% of GDP and 45% to formal employment. Additionally, the number of SMEs relative to all enterprises globally is significant, ranging from 90% to 99%. Developed countries such as UK, Germany and Singapore rank high as more than 95% of enterprises are SMEs, close to 50% SME contribution to GDP and employment contribution close to 65%.

SME contribution to GDP in the Arab countries range from 23% to 80%, with Egypt being the highest at 80% followed by Tunisia at 73%, followed by Jordan at 40% and the UAE at 39%. Kuwait lags behind in terms of SME contribution to GDP with an estimated contribution of 3%. This is concerning as SME enterprises in Kuwait have been estimated to comprise of 94% of all enterprises and employment contribution at 23%. As discussed in Phase 1 Report, a key reason for this scenario is the predominance of lifestyle and modest SMEs, mostly in the food and restaurant sector, producing products are not high value-added in addition to the national economy's dependence on oil exports.

SME Sector Distribution:

SME sector distribution varies across countries. However, globally SMEs are tilted towards the trade and service sectors. In Arab countries, the trend remains the same with the exception of Tunisia and Palestine where a higher concentration lies in services and manufacturing. In UK, Germany and Malaysia more than 50% of all SMEs operate in the services sector.

For Kuwait, KIBS has estimated the percentages in manufacturing at 20.7%, construction at 9.9%, trade and commerce at 38.6%, real estate, renting and business activities at 27.3%, and other types of businesses at 3.5% in 2016. From the Market Research conducted, there is a perception of growth of SMEs as highest in the food and beverages sector segment at 20%, followed by 11% growth in small manufacturing (plastics and glass), followed by IT and e-commerce.

Section 2: Business, Legal & Regulatory Environment

The second section of the report reviews the quality of business environment, regulatory system and strategic public planning of SME segments in Arab and International countries.

The environment within which an SME operates is shaped by key factors which include legal/ regulatory frameworks and infrastructures, administrative procedures for market entry and growth including business and licensing requirements, labor and product regulations, and agencies for SME growth, development, supervision, and internationalization such as SME promotional bodies and SME one-stop shops.

Business Environment:

The World Bank's Ease of Doing Business Indicator is a key metric used by practitioners to evaluate the business environment of a country. In terms of starting a business rank, Kuwait ranks at 133 out of 190 countries and from the surveyed countries, outperforms Saudi Arabia at 141, Palestine at 171 for 2018. In terms of Ease of Doing Business, Kuwait's overall ease of doing business is 62.20 points with 100 points as the best performance, and 0 the lowest performance. In terms of Kuwait's Ease of Doing Business rank, Kuwait was ranked was 97, in contrast to its 2017 ranking of 96. The most business friendly regulations of countries surveyed in order of friendliest are Singapore at rank 2, the UK at rank 9, the UAE at rank 11, Malaysia at rank 15 and Germany at rank 24.

In Kuwait, it takes 38 days for a man to start a business, and 39 days for a woman, which confirms the Phase 1 report findings of the time-consuming nature of government procedures for entrepreneurs. The only other country surveyed that had a higher number of days to start a business is Palestine at 43 days for men and 44 days for women.

Regulatory Frameworks and Infrastructures:

Throughout the surveyed countries, the type of regulatory frameworks in place for SMEs differ. Kuwait, UAE, Palestine, Egypt and Mauritania, Malaysia, Germany and the UK all have regulatory infrastructures that distinguish between SMEs from larger enterprises. Saudi Arabia, Jordan, Lebanon, Sudan, Tunisia and Morocco, SMEs operate under company law as the legal apparatuses in those

countries as of now do not differentiate between enterprises based on size. However, Saudi Arabia and Jordan are working on amendments to realign them to be able to promote the SME space specifically.

Throughout international surveyed countries, the regulatory frameworks in place which focus on SME finance focus specifically on easing access to finance for SMEs, which may encompass the provision of public funds to SMEs. The table below benchmarks the Kuwait regulatory framework for SMEs with respect to those of other countries.

Benchmarking of Legal Framework:

		Kuwait	Jordan	KSA	Egypt	Palestine	Tunisia	Morocco	Sudan	Germany	Singapore	Malaysia	UK	UAE	Mauritania	Lebanon
Laws to strength/ boost SME segment	There is a law or ministerial decree to organize SME segment	√			√	√						√		√	√	
	Laws and regulations differ based on type of enterprise activity		√	√				√		√						√
Judicial courts and bodies to implement laws	Specialized commercial court or division			√	√			√	√	√	√	√	√	√		
	Commercial disputes fall under general judicial courts	√	√			√	√								√	√
Laws dealing with supervision bodies/process and dispute settlement bodies	There are supervisory and dispute settlement bodies	√	√	√	√	√	√		√	√	√	√	√	√	√	√
Laws promoting investment in enterprises	Investment laws which SMEs fall under	√	√	√	√	√	√	√	√	√	√	√	√	√	√	√
Strategic public planning	There are strategic plans to strength SME segment	√	√			√		√		√	√	√	√		√	√

On other measures determining the quality of judicial process, Kuwait ranks relatively lower. On the quality of judicial process index, it ranks 6.5 (max. 18) and average case time of 566 days (high), strength of legal rights index of 1 (min 0) in 2018.

International Benchmarking of SME One-Stop Shops

An SME one-stop shop is best understood as a public or quasi-public institute to streamline public support for SMEs in the differing areas: finance, capabilities, business support and advisory, and SMEs access to information.

In Kuwait, the NFSD is the public entity dedicated to boost the domestic SME segment and which is meant to act as a one-stop shop focused on SME funding, capability-building, and promotion. From the countries surveyed, Malaysia's SME Corporation (SME Corp.) serves a similar purpose in acting as the public central coordinating agency, whose aim is to coordinate and synthesize all SME-related matters across all Ministries and public bodies. Although the NFSD and SME Corp. are very similar in their scope, purpose and intention, there are stark differences. One notable gap in NFSD's role is that the scope of synthesizing and coordinating activities to develop Kuwait's SME segment is unclear. Others gaps between the two discussed in the report are in the areas of capacity-building, range of available financial products and services available to entrepreneurs and SMEs, education and training programs, and reducing access to information for SMEs and on SMEs.

SMEs and Public Procurement

Public procurement laws that outline SME access to the public procurement market are useful as they allow governments to support SMEs via their purchasing policies. Throughout the surveyed countries, the UAE, Tunisia, Egypt, Germany and the UK have laws that aim to encourage SME provision of goods and services to the public sector. In Kuwait, there are ongoing efforts on the part of the Ministry of Commerce and Industry to evaluate SMEs participation to public procurement markets, with ongoing negotiations between the NFSD and the Central Tenders Committee on size of tenders and requirements

being considered, as well as the type of appropriate guarantees, however likelihood and period of adoption and of this are unknown

Country	Public Procurement Law or Initiative
Germany	The Act to Reduce Bureaucracy and Modernization of Procurement Law
	European Commission's Public Procurement Strategy
Singapore	Government Procurement: A Best Practices Guide (2017) - is non-legally binding.
UK	The Public Contracts Regulations 2015
	Small Business, Enterprise and Employment Act
Malaysia	Green Lane Policy: Eases SME access to obtaining government procurement, fast tracks e-procurement, provides SMEs priority in procurement in the Ministry of Finance owned companies
UAE	Public Procurement: Federal authorities must contract at least 10% of their procurement budget for purchasing, servicing, and consulting to SMEs. In addition, state-owned enterprises where the federal government holds stakes of more than 25% must ensure at least 5% of their contracts for local SMEs.
Egypt	2010 Legal stipulation: cut tenders into smaller lots to enable small firms to apply for public tenders in the context of supply contracts.
	Procurement law specifically encourages setting aside SMEs provision 10% of goods to public sector, however, no indication that this is actually enforced. It should be noted that domestic firms are favored over foreign-based companies when competing for tenders. By law, domestic firms are granted priority if their bid does not exceed the lowest foreign bid by more than 15% ³
Tunisia	Decree No. 1039, (established on the 23 March 2014) is a law that reserves 20% of public procurement to SMEs annually. A new online website was established in 2013 used by ten government bodies to electronically process bids. ⁴

The Regulatory Environment

The regulatory environment impacts SMEs and entrepreneurial at every stage, from initiation, growth, and internationalization.

³ OECD, 2014

⁴ OECD, 2014

From the market research conducted, some of the regulatory burdens facing entrepreneurs in Kuwait cited were:

1. Time and cost consuming nature of starting a business in terms of government procedures to license and operate a business.
2. Slow pace of NFSD funding from acceptance and allocation of funding.
3. Low levels of flexibility when it comes to entrepreneurs presenting their business ideas to the NFSD and other financiers.
4. Lack of ‘SME channel’ to act as a bridge between financiers and entrepreneurs, which affects SMEs access to finance as well as a channel that acts as a platform for SME concerns and needs.

In terms of how international countries have dealt with reducing regulatory burdens, the table below briefly summarizes the availability of regulatory reforms for SMEs to ease SMEs information deficiencies:

Availability of SME regulatory reforms to reduce SME information deficiencies

	Kuwait	Malaysia	Germany	UK	Singapore
Business Procedures streamlined	No	Yes	Yes	Yes	Yes
Electronic platforms available to advice SMEs	Yes, on NFSD funding application. No on guidance to SMEs	Yes	Yes	Yes	Yes
SME Toolkits electronically available	No	Yes	Yes	Yes	Yes
Support networks to ease SMEs information deficiencies	No	Yes	Yes	Yes	Yes

Section 3: SME Financial Landscape

The third section of the report reviews the SME financial landscape along parameters such as size, number of financiers, lending ratio, accessibility to capital markets, guarantees / collaterals and access to credit information.

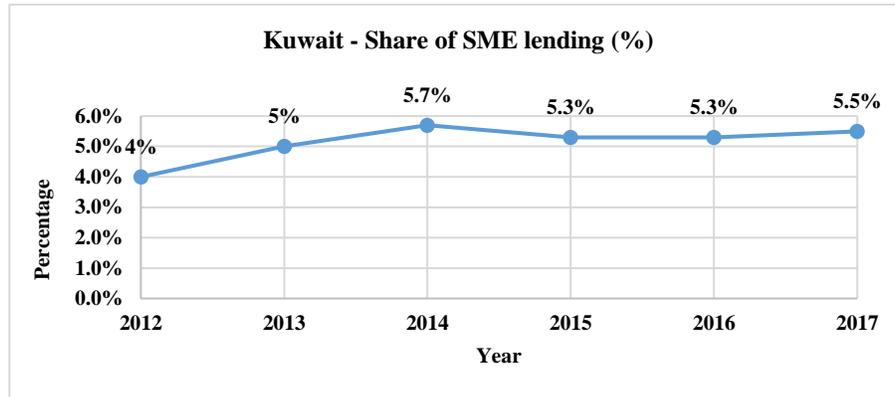
The SME financial landscape globally is marked with a financing gap, wherein in the MENA region, the International Finance Corporation estimates that the size of total financing gap of all SMEs to be \$210 to \$240 billion in 2017.⁵ The root of this financing gap is information asymmetry between suppliers of finance and demanders of finance resulting in the demand for finance on part of SMEs is high, and the supply of it, low. The gap also exists in Kuwait, where banks stressed the unprofitability and risk involved in lending to SMEs.

SME Number of Financers

In terms of the numbers of financiers in Arab and international countries, Germany has the highest number of financiers, at 1,545 credit institutes followed by Lebanon, at 66 banks as the majority of Lebanese banks lend to SMEs. Following Lebanon, Egypt has 38 conventional financiers, followed by Sudan at 36, Malaysia at 35, and Singapore at 26. International countries have higher numbers of 'other financiers,' due to higher penetration of Venture Capital and Private Equity investment firms as well as crowdfunding, crowd lending and peer to peer lending platforms. In contrast, in Arab countries micro-lending or micro-credit firms, including factoring and leasing firms form a bulk of lenders outside of the conventional bank channels. In the case of Kuwait, the NFSD is not the single SME financier. Rather, the Industrial Bank of Kuwait is a significant body for SME finance under its Handicraft and Small Enterprises Financing Portfolio, which as of 2017 consists of KD 150 million. These two bodies are complemented by Kuwaiti banks.

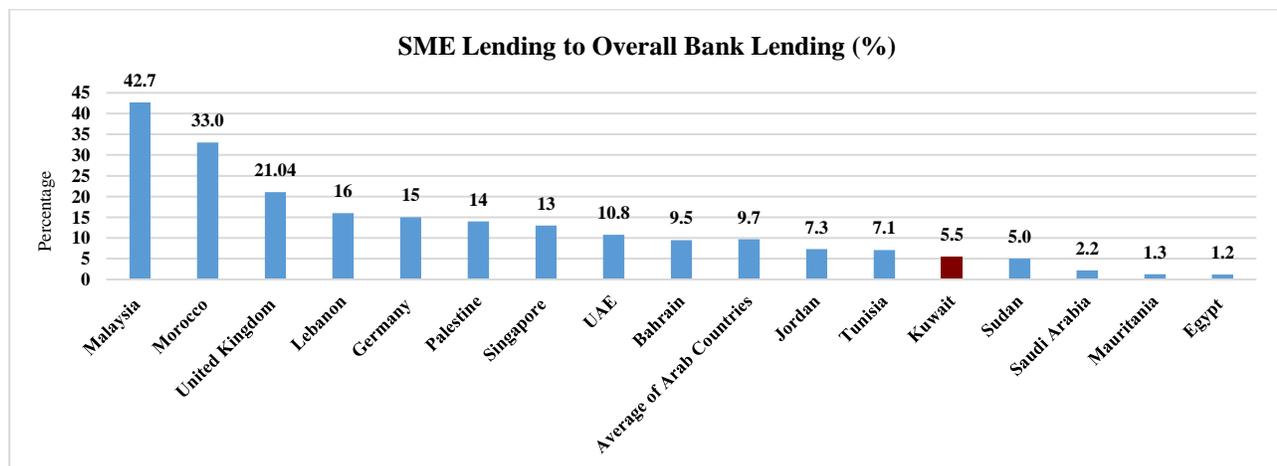
⁵ Saleem, Qamar. 2017. *Overcoming constraints to SME development in MENA countries and enhancing access to finance : IFC advisory services in the Middle East and North Africa (English)*. Washington, D.C. : World Bank Group.

SME Lending to All Bank Lending



Sources Central Bank of Kuwait, Financial Stability Reports (2017, 2016, 2015, 2014, 2013, 2012)

The volume of SME lending to all bank lending is not available on Arab countries including Kuwait, for international countries the data does exist, and it is important to account for it as it allows for fully grasping how involved financiers are in SME lending. In the UK, Germany and Singapore the percentage of SME loans to all business loans was 21%, 15% and 13% respectively. In Malaysia in 2016, the same percentage was high at 42.7%. For Kuwait, the volume of SME lending is not officially available, however, estimates are in the range of 4.5% to 5.5%, which is lower than ~10% average estimated for the Arab region according to the Arab Monetary Fund 2016 Report.



Sources: Kuwait: CBK (Financial Stability Report on 2017), Arab countries: AMF report, Germany (2015), UK (2016), Singapore (2015), and Malaysia (2016)

Interest Rates & SMEs

The predominant focus in Arab countries in regards to SME finance is to encourage banks and financial institutions to lend more to SMEs, as the overarching goal is to increase volume of financing to SMEs. One such measure to achieve this has been to initiate measures or establish schemes that lower the cost of lending to SMEs, with the aim being to reduce interest rates on SME loans relative to prevalent market interest rates.

SMEs Access to Capital Markets

SMEs access to capital markets is considered a useful financing avenue during the later stages of SME business growth and development, and falls under market-based long-term financing for SMEs. SMEs main barriers to accessing markets include the following: high cost of capital required, lack of or insufficient research coverage, low liquidity, high transparency requirements, regulatory frameworks, and company profiles. In the face of such barriers, some Arab countries have begun to develop alternative strategies to assist SMEs access to capital markets, such as by developing a secondary tier capital market with easier access restrictions.

Examples of reforms being undertaken to improve SME access include Egypt launching a distinctive SME listing, Nile Stock Exchange (NILEX) on the Cairo and Alexandria Stock Exchanges to better cater to SME enterprises. Similarly, Tunisia in 2007 launched an alternative market, *Marché Alternatif*. More recently, Saudi Arabia launch of *Nomu* in February of 2017. *Nomu* is an alternative equity market on the Saudi Arabian Stock Exchange which caters to all enterprises, including SMEs, to publicly list their companies. In both Malaysia and Singapore, a sponsor driven alternative investment market has been developed modeled on the UK's AIM.

SMEs and Loan Guarantees / Collateral

Loan guarantees seek to reduce the risk of financing or investing in SMEs, by spreading the risk of lending between two or more parties. Globally, government loan guarantee practices include some of

following; supporting loan and/or counter loan guarantees, and providing tax incentives for the private sector to support SME activities. This includes in some countries such as Malaysia, as a direct government intervention has been establishing a loan guarantee scheme for SMEs, and in Germany, were the KfW counter guarantees SME loans guarantees.

In the case of Kuwait, KIBS 2016 Report notes a very important dynamic underpinning the NFSD shared funding scheme of 80/20 percent framework between them and banks, which is how based on Kuwaiti commercial law, both the NFSD nor the government aren't allowed to provide guarantees for losses that banks may face. For KIBS, this means that the NFSD's funding scheme is not incentive enough for banks to lend to SMEs, which the market survey results further reflect.

In terms of collateral, Saudi Arabia, Kuwait, Palestine, Tunisia and Mauritania allow for the use moveable assets as collateral as prevailing legal stipulations allow moveable assets to act as a loan guarantee. However, in other countries it is not legally permissible to use moveable assets as collateral or loan guarantee. In Malaysia, Singapore, Germany and the UK, collateral is a determinant to financial institutions SME lending decisions and practices.

Section 4: Capability Building & SMEs

The fourth section of the report gauges Kuwait's standing in SME capability building and looks at local and global initiatives being taken to build entrepreneurial capabilities in various economies.

Kuwait's human development rank for 2017 was 56 out of 189 countries reflecting a relatively high level of human development. On this indicator, Kuwait's ranking is better than Malaysia (57), Lebanon (80), Jordan (95), Tunisia (95), Egypt (115), Palestine (119), Morocco (123), Mauritania (159), and Sudan (167). However, according to the Global Innovation Ranking, Kuwait ranked at 60 and is surpassed by UK (4), Singapore (5), Germany (9), Malaysia (35), UAE (38), Qatar (51) and Saudi Arabia (58). As per the third indicator, percentage of workforce employed in knowledge-intensive industries, which reflects differences in the knowledge economy, Kuwait ranked 79, with a score of

27.27 out of a 100. Taking these three measures together, it is evident that Kuwait lags behind in innovation and an advanced, knowledge-based economy despite having a high human development score.

Capability-Building Initiatives

Having assessed Kuwait’s indicators on capabilities, initiatives to promote entrepreneurs’ and SME capabilities are explored. In Kuwait, the NFSD’s capability-building consists of Incubation of SMEs and Business Development Program Services in four areas: Light manufacturing (with a focus on oil and gas supply chain), creative industries (of media and design services), Information and Communications Technology (ICT), and a generic hub that supports potential SMEs in line with the NFSD strategic goals. The Hubs manage the support relationship with SMEs of the NFSD, and provide the following services: working-space, coaching, mentorship, training, advisory services, networking and financing, based on four areas outlined above. Under the Hubs, there are Incubators, whose aim it is to support entrepreneurs in developing business concepts, and to promote a culture of entrepreneurship. Incubators are available for students at local universities, university graduates, and government employees who want to open a private business

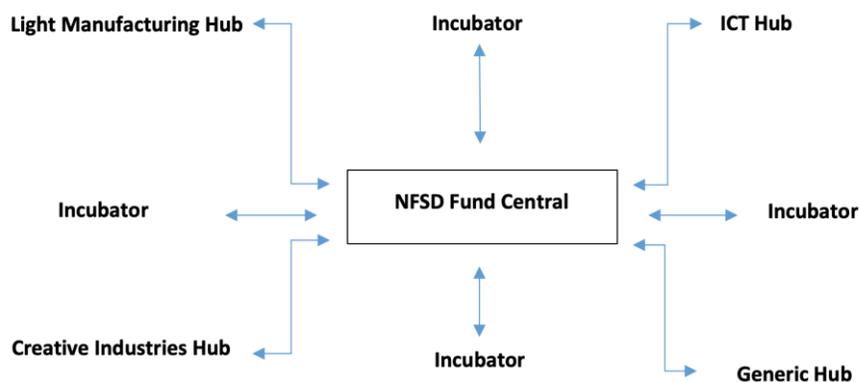


Figure: NFSD Operating Model⁶

⁶ Exact replica of Operating Model outlined in National Fund for Small and Medium Enterprises, Kuwait, *Annual Report 2015-2016*, pp.15

Internationally, SME capability-building includes private sector engagement, and/or the provision of grants to boost SME or entrepreneurial capabilities in different areas. As a matter of fact, in both Singapore and Malaysia, grants are open not simply to entrepreneurs, but additionally to engineers, scientists, young individuals, public employees, NGOs and community groups. Malaysia has the Pre-Commercialization Fund which funds research activities on potential services or goods to assess potential commercialization.

Besides directly up skilling entrepreneurs' or SMEs capability-building, capability building also requires SME promotional bodies or SME-one stop shops to establish linkages between research entities (conventional and non-conventional) and entrepreneurs, as this acts as a form of capability-building. Research linkages prove important for the transfer of knowledge and skills involved, and may give entrepreneurs' and SMEs the ability to further enhance their idea if for example, they are focused on the technology, science, environmental, or engineering sectors. In Kuwait, these types have yet to be formalized in an institutionalized and coordinated effort.

In terms of international countries, the BNM in Malaysia is the most immersive in SME segment development, as not only does it finance SMEs under its Special Funds for SMEs, but additionally the BNM runs the Small Debt Resolution Scheme which assists viable SMEs who require advisory on resolving financing accounts. This is complemented with a unique capability-building program for financial institutions on SMEs, known as the 'Train the Trainers Program on SME Financing (TTT).' TTT runs in collaboration with associations of financial institutions and trains financial institutions officers nationwide to become trainers themselves on SMEs.

Below is a summary table for various countries which illustrates whether these countries have in place a national strategy to develop SME capability, training programs for SMEs, ongoing policy reform in SME capacity building and banking sector capacity building initiatives:

Capacity-Building International Countries Benchmarking

		Kuwait	Jordan	Saudi Arabia	Egypt	Palestine	Tunisia	Morocco	Sudan	Germany	Singapore	Malaysia	UK
Capacity-building for SMEs	National strategy or plan to develop SME capacities	√	√					√		√	√	√	
	Training program to develop SME capacities				√	√	√		√				
	Ongoing policy reform to develop/strengthen an SME capacity building strategy			√									√
Capacity-building for banking sector		√	√	√	√	√	√	√	√	√	√	√	√

Section 5: Conclusion

The Phase 2 Report provided a comprehensive international benchmarking of international and regional countries, to assess levels and types of public involvement in the following areas: size and scope of SMEs based on their economic performance and sector, business, legal and regulatory environments, SME financial landscape (interest rates, collateral, SMEs access to capital markets, collateral, and credit information) and capability-building. It consisted of desktop research, whereby, the aim was to discover global best practices in regards to SME segment development.

One overarching global best standard is entrepreneurial policies, initiatives, or practices that target entrepreneurs and SMEs who have the potential for growth (high growth SMEs). In the context of Kuwait, the country's adoption of the NFSD as a public institute to streamline financial and non-financial support for SMEs proved a step in the right direction. It resulted in imbuing a sense of confidence in embarking on entrepreneurial projects among the youth, attested to by the perception of financiers and entrepreneurs' that the cultural status of the entrepreneur is high. However, further investigation on the status of entrepreneurship and innovation in Kuwait is required, as reflect by, the Global Innovation Rank of Kuwait at 60, and is regionally surpassed by UAE (38), Qatar (51) and Saudi Arabia (58).

Kuwait's SME segment development should evolve to combine and link SME segment development with national entrepreneurial development. The latter is necessary not only to strengthen the local SME segment, but as global trends attest to the relevance of entrepreneurship, innovation, critical thinking, R&D, to labor markets, financial services, education, health, environmental sustainability, and overwhelmingly, to develop healthy and competitive markets.