

Kuwait SME's

Accelerating Economic Diversification

May 2018

The Kuwaiti SME space
is evolving rapidly.
This report captures the
latest trends and insights.

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ECONOMIC RESEARCH REPORT

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Executive Summary

Recent research by the World Bank uncovered that small and medium enterprises (SME's) account for over 50% of GDP in high income countries; whereas the figure is much lower in middle and low income nations¹. Though a high income nation, Kuwait's SME's scenario reflects that of middle and low income countries. The country has been a late comer in unlocking the potential role that SME's can play in its economy. Kuwaiti private sector and SME contribution to employment lacks luster, whereby approximately 85% of the Kuwaiti workforce is currently employed by the government. Historically, the private sector, although growing, has been unable to create enough jobs for nationals. This scenario is clearly unsustainable; with a growing population, the public sector will inevitably be limited in its ability to offer employment to all. It is therefore imperative that the SME segment in Kuwait be developed to play an important role in employment creation over the coming years.

Kuwait is in the process of diversifying its economy away from oil and has the ambitious intent of transforming itself into a commercial and finance hub by 2035. For the government of Kuwait, creating employment opportunities for the youth is a strategic priority, as the unemployment rate in the country in the strategic 15 – 24 years age group range is already close to 25%². Despite concerted efforts

to move towards economic diversification, Kuwaiti external balances remain strongly tied to hydrocarbons trade surplus, which contribute to over 90% of the nation's total exports. For Kuwait, it is estimated that oil as a percentage of GDP (at market prices) will likely touch close to 54% in 2014. The extent of Kuwaiti economic structural imbalance has not gone unnoticed by the nation's policy makers.

For Kuwait, the need to push for SME's that are focused on the technological sector is also of paramount importance, in terms of strengthening the nation's innovation capabilities. Like its neighbor, Saudi Arabia, Kuwait can start to build SME's around key strategic industrial sectors, such as automotive and materials technology. An early start will not only strengthen innovation, but allow manufacturing SME's to tap into regional markets faster, before other countries begin the catch up race. The subject of SME's touches upon many aspects of a nation's economic network. By its very nature, SME's can sprout up anywhere along the output value chain of a country, ranging from small shops to cutting edge research teams. Whatever the final product or services output of a SME, the key policy objective of Kuwait should be to ease the process of setting up business for entrepreneurs who show promise and follow the rules.

¹Times of Oman
²Arab Human Development, UN

2 SME's: An Overview

"SME" means small and medium-sized enterprise⁵. There is no one single universally accepted definition of SME⁶. Usually, countries define SME's according to the number of personnel or turnover or both. At times, the asset levels can also be used. Moreover, various nations and regions may have their

own specific definitions. For instance, the European Union (EU) applies the following criteria to identify a SME.

Also, global and regional institutions and bodies can have their own identifying parameters for SME's (**Table: 2.2**).

Table 2.1:EU SME Definition

Company category	Employees	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: European Commission

Table 2. 2: SME Definitions Used by Multilateral Institutions

Institution	Maximum # of Employees	Max. Revenues or Turnover (\$)	Maximum Assets (\$)
World Bank	300	15,000,000	15,000,000
Multilateral Investment Fund/ Inter-American Development Bank	100	3,000,000	(none)
African Development Bank	50	(none)	(none)
United Nations Development Programme (UNDP)	200	(none)	(none)

Source: The Brookings Institution⁷

⁵European Comission
⁶World intellectual Property Organization
⁷Brookings

Table 2.3 summarizes the SME's definition existing in GCC countries.

State-led initiative to improve and strengthen the SME's sector in the GCC mainly by bridging

the financial gap may have key implications. GCC countries have taken strategic steps to advance SME's sector and have designed target specific intervention program into the SME's Sector (**Table 2.4**).

Table 2.3: GCC SME Definitions

Country	Employees	Turnover
Bahrain	≤ 150*	100,000-5 million BD
Kuwait	(none)	(none)
Oman	≤ 100 ⁸	100,000-3,000,000 RO
Saudi Arabia	≤ 100	(none)
Qatar	≤ 250	(none)
UAE	5-200	3-200 Million AED

**Note: Exception exists for the labor-intensive textiles and garment sector, with leeway till 300 employees.*

Table 2.4: GCC Main State Sponsored Initiatives in the GCC

Country	Bahrain	Kuwait	Oman	Qatar	KSA	UAE
Name	Tamkeen	National Fund for SME Development and Industrial Bank of Kuwait	Oman Development Bank, Riyadh	Qatar Development Bank	KAFALAH	Khalifa Fund, Dubai SME
Type	Islamic	Conventional	Conventional	Conventional	Islamic	Conventional
Direct Funding	Between 5,000-250,000 BHD	Yes, up to 80% of project value and 500,000 KD max	Yes up to 1 Million OMR per loan	N/A	N/A	Yes
Credit Guarantee Scheme	Up to 50% of the principal	N/A	Up to 50% of the principal	80% of the principal	80% of the principal	Yes
Participation Requiements	Open, but mostly partners BDB	Currently Few Banks	Selected bank only, currently 2	All Active banks	All Active Banks	Selected Banks

Source: World Bank, Competition in the GCC SME Lending Markets: An Initial Assessment

⁸ This is according to the Omani Ministry of National Economy. The Ministry of Commerce and Industry has an upper limit of 50

Many state-sponsored initiatives have been launched across GCC countries. Some of them focus on startups and early stage finance, a segment of the market that banks do not typically serve due to its inherent riskiness. Many initiatives, however, are open to established businesses. Direct loans at subsidized rates, either through specialized institutions or through commercial banks, and credit guarantee schemes are among the most adopted measures to address the under-provision of credit to SME's

Bahrain's semi-government organization Tamkeen and the Bahrain Development Bank also put together the Bahraini Women Development Portfolio Fund in 2016 with a

total investment of USD 100 million.¹² Oman's SME Development Fund has already financed about 160 projects having successfully released about OMR 15.8 million (USD 41 million). The Fund is targeting to provide up to OMR 100 million (USD 259.7 million) for SME's in the country.¹³ Meanwhile, Qatar Development Bank has set up the USD 100-million SME Equity Fund in 2015 for start-ups

The SME sector in GCC sector makes up to 34% of the MENA SME sector, and according to estimates, it employs about 17 million people in the GCC countries but ironically banks allocated just 2% of their loans to the sector compared to 13% in the rest of the MENA region.

Table 2.5: GCC SME's Statistics

Country	Number of SME's	% of SME's to total companies
Bahrain	90,887*	99%
Kuwait	25000	95%
Oman	23,221**	90%
Saudi Arabia	~700,000	90%
Qatar	~30,000**	75%
UAE	350,000^*	94%

Source: KFAS Cluster of Innovation 2017 Business Intelligence Middle East, *Imperial Collage London, **Annual London Business Research Conference, ^*Bloovo Research 2017.

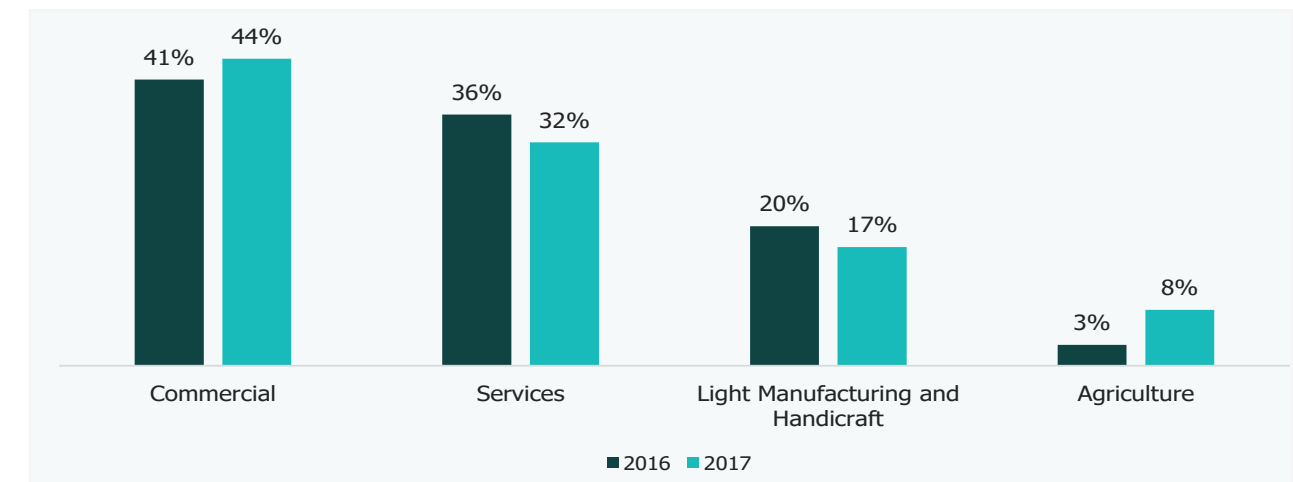
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SME's and Kuwait - The Current state of Play

In Kuwait, government and large corporations dominate overall economy and employment. It has estimated 60,000 registered companies and approximately 25,000 SME's, but however, Kuwait seriously suffers from lack of statistical data and industrial atlas, leading to serious difficulties in measuring the accurate size of the SME's and their contribution to the economy. The number of Small-to-Medium enterprises (SME's) in Kuwait is high, particularly in retail and non-financial services, but overall contribution to the national economy is marginal—just 3% of GDP. This paradox is troubling when compared to high income and emerging economies, where SME's comprise and contribute to 50% and 40% of GDP (respectively). SME's have been largely left out of Kuwait's economic growth story, but that perhaps seems to be changing. This previously unattended segment of Kuwait's economy is gaining momentum in policy and business circles.

About 90% of all the companies are SME's in Kuwait, employing about 23% of total workforce, which is just half of SME employment compared to emerging and advanced countries. Kuwait has demonstrated its commitment towards country's growing SME sector, by pledging a further KD2bn (\$6.6bn) towards its National Fund for SME Development, established in 2013 as the first single entity for SME's in the Gulf region. The fund contributes to economic development, help diversify the economy, and generate job opportunities for nationals by supporting SME's. Its mandate is to finance up to 80 percent of establishment costs, up to a ceiling of KD500, 000 excluding land value and other assets, and to finance a maximum amount of about KD500, 000 to a feasible SME or project repayable over a 15year period at a maximum fee of 2 percent of the amount financed.

Figure 3.1: Fund Channelization by Sector-The National Fund



Source: IIF

The above figure shows funding to different sectors by the National Fund during 2016 and 2017. During both years, major chunk of funds were channeled towards commercial sector and remained relatively similar for other 3 sector on Y-o-Y basis. SME's play an important role in jobs creation, providing about two thirds of all formal jobs in developing countries, with the figure being close to 80% in low income nations. The strategic importance of SME's is apparent in some GCC states, as well as in the UAE, where SME's account for 30% of the national GDP and 86% of the employment.

4

Profiling: The National Fund

National Fund has prioritized 4 sub-sectors to maintain relationship between start-ups and SME's throughout the course of National Fund support mechanism. The fund has identified below listed sectors as high value-adding and high growth sectors with exclusive focus over the last 4 years.

Light Manufacturing with focus on oil and Gas

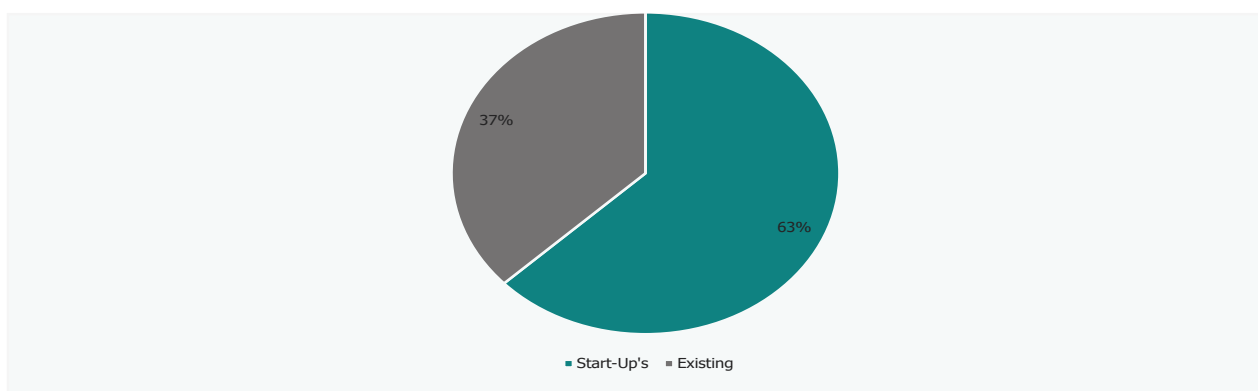
1. Creative Industries of Media and Design Services
2. Information and Communications technology
3. Generic SME's diverse portfolio of potential businesses

Kuwait is in the process of diversifying its economy away from oil and has the ambitious intent of transforming itself into a commercial and finance hub by 2035. For the government of Kuwait, creating employment opportunities for the youth is a strategic priority, as the unemployment rate in the Middle East and

North Africa (MENA) region is expected to reach 27%, based on current trends. SME's play an important role in jobs creation, providing about two thirds of all formal jobs in developing countries, with the figure being close to 80% in low income nations. The strategic importance of SME's is apparent in some GCC states, as well, with the UAE relying on SME's for 30% of the national GDP and 86% of the employment.

In 2015, SME's accounted for about 50% of licenses granted to new businesses in Kuwait. In the next 2 decades, privates sectors is expected to play a leading role in the development of SME ecosystem in Kuwait. Ironically, SME's in Kuwait remains to be grossly underbanked in comparison with total bank lending in Kuwait towards SME's and in the world. Below graph represents proportion of loans extended towards the SME's Sector in Developed and developing world in comparison with Kuwait for 2017.

Figure 4.1: Capital Disbursement-Start-Up Vs Existing Firms 2016-17



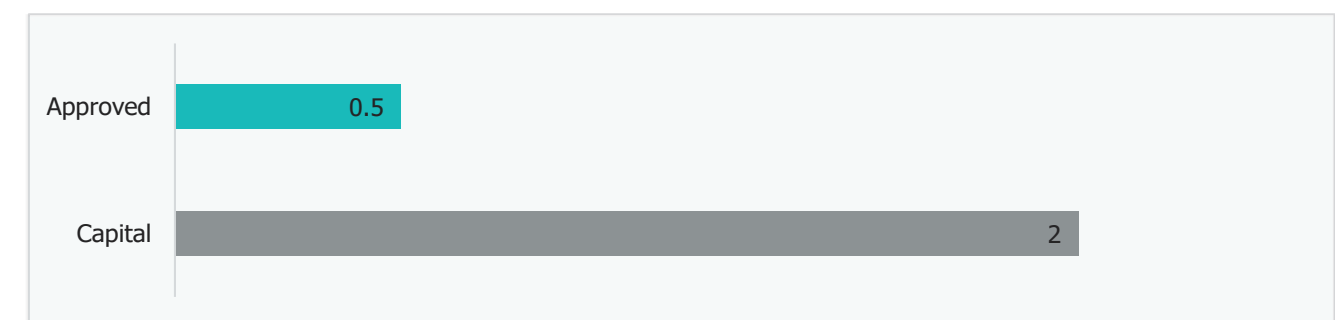
Source: Annual Reports 2015 & 2016 National Fund, Kuwait

Start-Up Vs Existing

Start-ups have received almost 2/3 of the total funds being allocated in Kuwait by the National Fund since its launch in 2013—below chart shows the metrics for the year 2017. There's been lot of controversy in operations of the National Fund with particular issues raised frequently was related to scope of activities of the fund and its role and strategic importance. However from 2018-19, fund aims to expand its footprint and support ecosystem in business consultancy and mentorship that will be delivered by mix-up of institutional and financial support. Furthermore, it has also been voiced based on fact that disbursement of funds is limited-in relation to capital available with the fund; coupled with extensive focus on limited industry and business activities. Below chart shows, one fourth of the capital has been so far disbursed in relation with a huge capital amount of 2 Billion.

In a bid to revitalize the SME sector, Kuwaiti parliament in February 2018, approved chain of reforms to overhaul the identity and purpose of the National Fund for SME development in the country. The reform aims to make the National Fund more involved and more proactive in managing projects, a clear drift from pervious role it had played so far since establishment. It's one of the largest makeover at the helm of organization; addressing changing times and demands of SME sector in Kuwait. Minister for Commerce and Industry and State Minister for Youth Affairs raised concerns over the functional aspect of the Fund where he believed earlier regulatory structure had damaging impact on entrepreneurial spirit and business environment, because earlier National fund was entirely leveraged at "monitoring and funding" projects but now with the amendments, the Fund is expected to focus more towards "liasioning and mentoring" projects, a departure from as a mere funding body.

Figure 4.2: Approved Capital Vs Available, Since Inception in KD



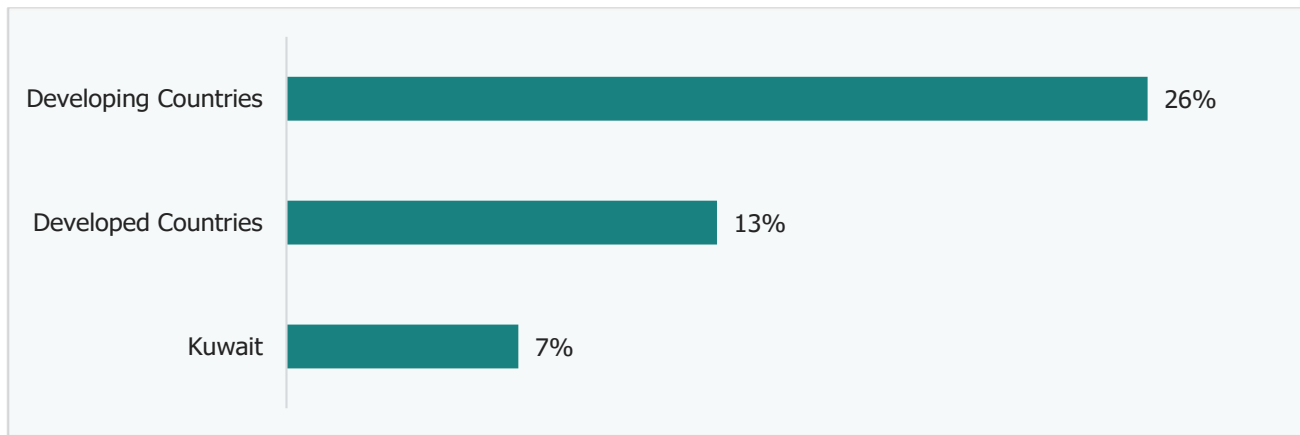
Source: Annual Reports 2015 & 2016 National Fund, Kuwait

Figure 4.3: The National Fund is Reorienting Itself



Source: Marmore

Figure 4.4: Comparison of SME's sector Loans Developed and Developing World Vs Kuwait 2017



Source: Cluster of Innovation Framework Study 2017, Kuwait Foundation for Advancement of Science

The National Fund serves as the key launch pad in Kuwait, helping start-ups propel, by offering technical support and creating business-friendly environment. The Fund approved a total of 245 projects disbursing almost 8.9 million KD for 2017 with an estimate of 850 new jobs being created for 2016-17. Overall SME lending in Kuwait has largely been blunt over the years, and comparative statistics below reveals true extent of credit reach to the sector.

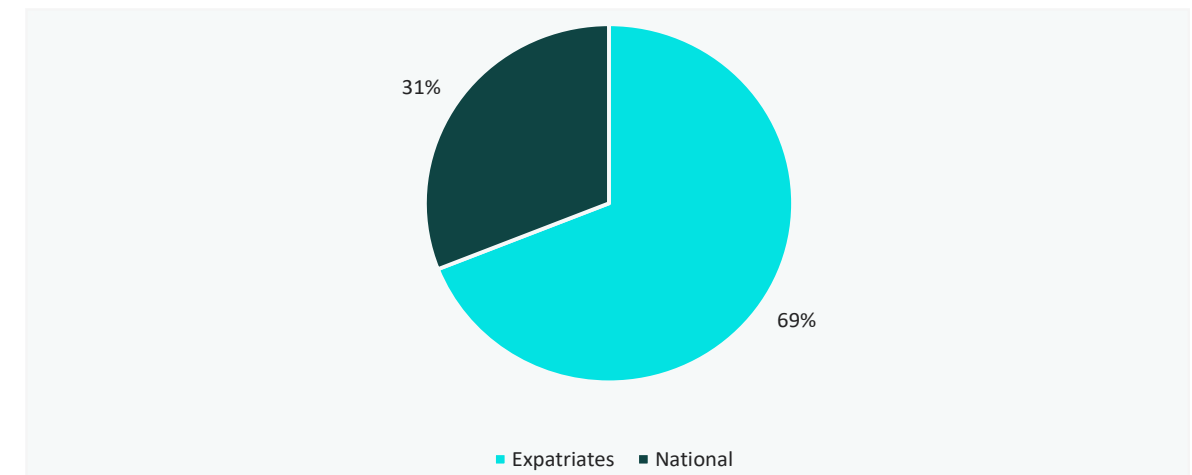
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SME's & the Labor Market

Furthermore, development of strong SME sector in Kuwait is critically hampered the labor market structure and lack of adequate skilled labor force. **Figure 3.6** highlights the extent of expat labor dependence in Kuwait and concentration in terms of sectors and industries. Major chunk of labor immigrated; was in low-skilled less-technical and less-paid sectors and has reached the height of labor dependence in terms of total employment where the domestic population is completely overtaken by foreign labor. This is alarming situation for Kuwait which reveals the extent of labor dependence, and essentially a two-front war, where creation of strong skilled domestic labor force is quintessential and sequentially reduction of expat labor dependence without hurting the labor demand in the country.

Categorical articulation of labor market problem also further reveals that large fraction of total foreign labor demand was intrinsically tied to less-skill non-technological orientation given the fact that almost 40% of influx of expat labor had just basic education and below, and beyond this what is more grave in nature is the fact that university graduates were just 13% of total demand for labor and especially foreign. **Figure 3.7** shows the classified share of foreign labor influx by education level for 2016.

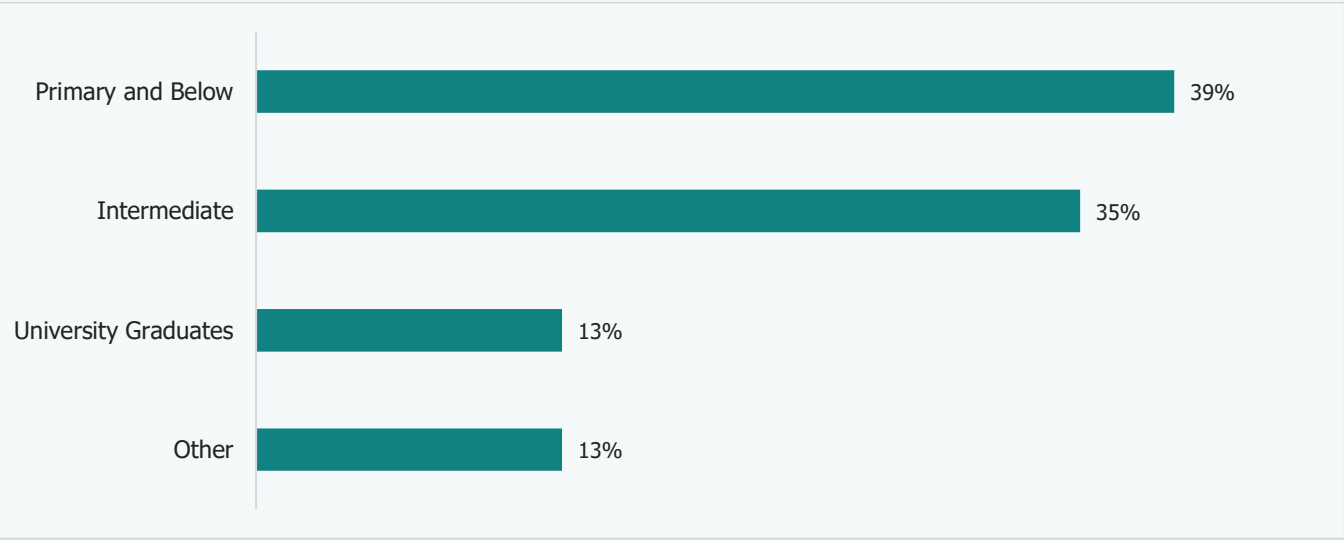
Figure 5.1: Spread of Private Sector Expatriate GCC Workers among GCC Countries, 2016



Source: BQ Magazine 2015

Third most striking feature in Kuwaiti labor market is, nationals show an inclination towards the public sector due to opportunities for generous pay and retirement benefits. This has resulted in general aversion towards taking up employment opportunities in the private sector, though the government has embarked upon efforts to offer allowances. Any discussion of the SME's and the private sector in Kuwait, and in fact the GCC, cannot proceed without referring to the area's unique demographic character, i.e., a smaller national population in juxtaposition with a larger non-national population or the expatriates . In a bid to streamline the labor market and adjust to the changing needs of the industry, Kuwait cabinet in 2017 approved merging of Manpower and Government Restructuring Program into the Public Authority for Manpower, which aims for improve private sector employment of nationals. The program, has so far merged with many organizations and institutions and has launched numerous measures to encourage youth to take up employment in the private sector. The programs so far played instrumental role in achieving national goals of reducing reliance on private sector employment and their total share in Kuwait workforce.

Figure 5.2: Statistics on Influx of Expat Labour in Kuwait 2016



Source: [Kuwait Times](#)

Box-1

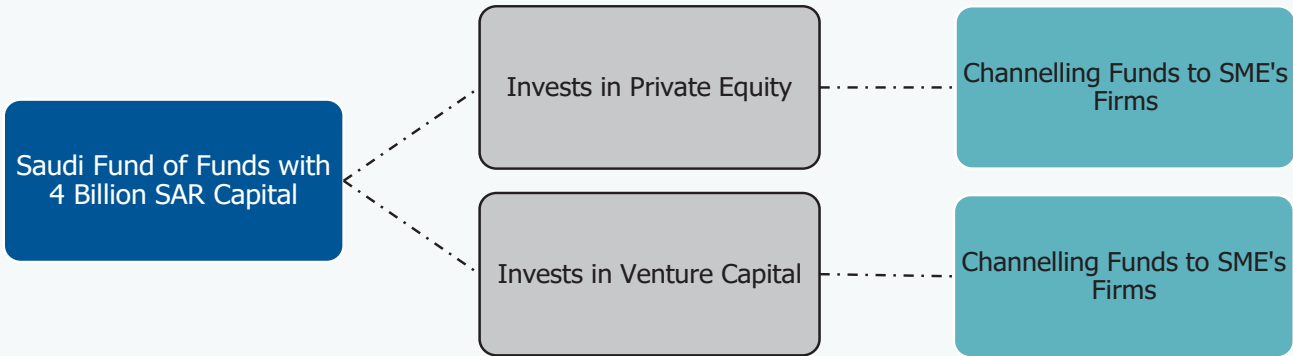
Potential Inputs from Saudi Arabia?

SME's contribute around 21% to the GDP and comprises nearly 53% of labour force or employment, where trading, manufacturing, construction, real estate, and services industries dominate the sector. Research indicates that financing is the perennial issue SME's in Saudi Arabia are facing today and the sector needs dedicated institutional and financial support. In line with growing concern and fate of the SME sector, Saudi Arabia in 2017 heralded a new era for SME's by launching first of kind special investment vehicle dedicated to fill the financing gap in emerging SME sector by establishing a \$1.07 Billion fund of funds to support the growth of SME's sector. The fund aims to serve as the catalyst for SME investment in the country seeking to achieve.

- Orderly Financial Returns and
- Support KSA's major economic priorities

The fund of funds is expected to achieve significant economic benefits and impact quickly, providing more than 2,600 jobs and contributing SAR 400 million to the non-oil GDP by 2020. The initiative is also expected to develop the private equity and venture capital sectors in Saudi Arabia, to diversify the economy by supporting SME's and increasing their share of GDP, and to engage and enable the private sector to invest in SME's. Globally, private equity and venture capital funds play an important role in enabling the growth of SME's. Companies supported by private equity and venture capital firms tend to grow faster, and provide more jobs. It is notable that SME sector in Kuwait and Saudi Arabia shares many commonalities and on top of it, macroeconomic framework for the countries is very similar. Kuwait could pick some policy cues from the KSA in terms of further reforming the funding architecture for SME's in Kuwait.

Figure 5.3: Saudi Arabian Fund of Funds Working Structure



Source: Marmore

6

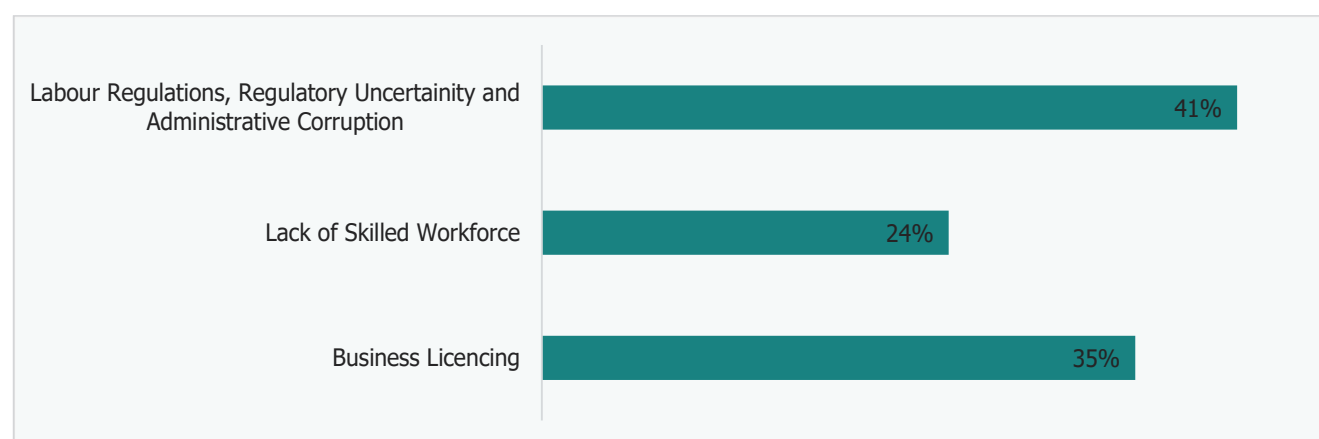
Problems faced by SME's in Kuwait

Despite all the efforts in ramping up governance issues and administrative obstacles for promotion of economic diversification and towards achievement of national plan called Vision 2035, recent survey into the business community produced dismal results in relation to thematic and most pressing problems faced by the business community. Although it's too early to benchmark the skilled labour factor and notice the difference, but even on issues which require less time, there's little progress and in fact that's regressive. The survey reveals that majority of the problems faced by the SME sector are related to administrative aspect, and almost equal respondents voiced their concern for licensing aspect and surprisingly 24% of the

respondents remained embarrassed by shortage of skilled labor.

Since UAE in the GCC region is touted as a success story in terms of GCC, distribution of SME's in that country would be a useful indicator, as well. Despite the push for SME's by the authorities, there are still several structural problems that are likely to impede the uptake of SME's in Kuwait. For instance, in Kuwait, the percentage of total bank loans given to SME's is a low 2%, only. SME's suffer a lack of credit lines, with banks in the GCC unwilling to lend to smaller businesses at a time of squeezed liquidity. Finance rejection rates run as high as 75% for most GCC countries.

Figure 6.1: Statistics on Pressing Problems for SME's in Kuwait 2016



Source: World Bank 2016

Table 6.1: Distribution of SME's in Kuwait by Industry Cluster Type

SME Type	Percentage Value
Wholesale/Retail trade, Hotels and Restaurants	40
Construction and Industry	33
Finance and Services Industry	27

Source: Research report for the EU-GCC Chamber Forum project⁹

Table 6.2: Distribution of SME's in the UAE by Industry Cluster Type SME Type Percentage Value

SME Type	Percentage Value
Trading	60
Services	35
Manufacturing	5

Source: Confederation of Danish Industry

Table 6.4 elaborates and share of total loans floated towards the SME sector in Kuwait during 2016. Construction and Manufacturing constitutes the lowest percentage share in the overall lending equation which reveals banks are apparently skeptical, further the gird reveals shocking details of loan disbursement structure in Kuwait where primary focus of lending institutions remains towards minuscule business domains and mostly leaning towards service of the economy.

Table 6.3: Low financing support for SME's in the region

Sectors	Percentage of the SME loan Book	Percentage of SME Businesses
Manufacturing	9.3%	20.7%
Construction	5.8%	9.9%
Trade and Commerce	41.4%	38.6%
Real Estate, renting and Business Activities	38.7%	27.3%
Other	4.9%	3.5%

Source: Institute of Banking Studies Research: Taking Stock of SME Banking in Kuwait 2016

⁹ Steffen Hertog (http://www.europoitique.info/pdf/gratuit_fr/270047-fr.pdf)

During 2015 and 2016, share of lending to SME sector decreased by 5.3 respectively. Funding being the fundamental obstacle, however even in recently improved lending framework for the SME's by the government, ceiling set by the Central Bank for loans less than 12 month, emerges as the most significant factor influencing SME's sector lending in Kuwait. This is considered as negative and unintended consequence of Central Bank policy of creating large and flowing credit facilities for Kuwait business but however, this move has adversely impacted funding mechanism For loans less than 1 year duration.

Also, fewer options in terms of Shariah compliant products, which usually SME's prefer, means that many SME's find themselves excluded from the banking sector¹⁰. The International Finance Corporation (IFC) reported recently that unavailability of suitable Shariah compliant products is causing around 35% of SME's in the MENA region to be excluded from the formal banking sector¹¹. The IFC study was conducted in nine¹² countries and the results revealed that of the 36% of banks in the MENA (sample) area that offer SME products, just 17% offer Islamic options. However, there is internal regional variance in terms of demand, with KSA experiencing customer demand as high as 90% for Islamic banking, while it is just 4% in Lebanon.

Innovative financing solutions are the need of the hour, for which Kuwait may have to pick upon a number of trends from around

the world. An emerging concept in terms of SME's funding is the growing phenomenon of crowdfunding or peer-to-peer lending in Europe. Crowdfunding is a form of alternative finance for SME's, which helps in bringing together individual savers or lenders on common online platforms with borrowers¹³. Those SME's that want to borrow are matched on an optimum profile basis with interested lenders. It is notable that conventional banks and credit companies are kept out of the equation, which helps in driving down the cost of the lending transactions¹⁴. Thus, wary banks that charge higher premiums from SME's are not part of the problem. This form of financing also allows lenders who are unhappy with lower bank interest rates on savings to profit from relatively better lend out rates with cash hungry SME's¹⁵. However, the government may have to step in as a regulator of the space in order to prevent abuse of the system by poorly initiated and run SME's that may end up costing money for unwary investors.

On conventional lines, in Kuwait, there are steps being taken by the government to create a robust SME's framework¹⁶. Since banks in the GCC, including those of Kuwait, consider SME funding as higher risk lending than those associated with traditional bank lending to customers, the flow of government funding to SME's may help rejig banks' lending policies to SME's. Banks may feel that SME's have the additional cover of government funding in case of dire needs for capital, which will help safeguard the capital that banks lend out.

In other words, banks should be assured that there is the recourse to government guarantees on unsecured borrowing by SME's. This is of course still in the realm of speculation and there has to be a wait and watch attitude adopted as to how the lending fund will impact banks' attitude towards funding SME's in Kuwait.

The underlying discomfort that banks face in lending to SME's should be addressed, either through alternative lending schemes or through effective new regulations. Banks are not happy about the fact that there is a cap on interest rates, which they feel does not adequately address the underlying concern of SME financing being more risky than other forms. The following points summarize the challenges that impede lending by banks to SME's in Kuwait and the wider region –

- Opacity in terms of the SME's situation in the region. Mostly, no centralized database available that keeps track of SME's.
- Little or no availability of information on SME's' creditworthiness. Also, credit histories are not recorded well. Where recorded, the quality of information is usually not very reliable.
- No dependable collateral registry. Lack of modern, electronic, and easy to access centralized collateral registries. No visibility of SME's inventories or receivables.
- No credit scores available. Coupled with the cost and general difficulty in enforcing collateral for SME's, small ticket lending is highly dis-incentivized for banks.
- SME's typically approach banks for working capital. Since they are light on fixed

assets, the collateral used are inventories. However, absence of a mechanism to register such current assets as collateral limits SME's lending.

An alternative means of overcoming difficulties in obtaining funds from traditional banks is for the government to probably set up banks or financial institutions that specialize in financing SME ventures. Also, the government should consider encouraging new SME lending trends such as peer-to-peer lending or what is sometimes called as debt crowdfunding¹⁷. Examples of government led banks spurring alternative schemes of financing for SME's are evident. An example is the British Business Bank (BBK) in the U.K., which began operations in 2014 with the intent of closing the financing gap in terms of mainstream banks not willing to lend to SME's¹⁸. BBK is following a strategy of leveraging the alternative finance industry, particularly peer-to-peer platforms.

The model of peer-to-peer lending is that lenders and borrowers are come together on an online platform, in terms of linking SME's that are not able to find sources of funding and investors who are looking at getting higher returns than what conventional banks would offer in the form of interests. One of the major attractions of this method is that the platform already scrutinizes and vets SME applicants and the layers of middlemen are cut, thus decreasing the cost of doing business greatly. In other words, the role of conventional banks as middlemen is eliminated. Thus, lending to SME's is faster and the agreement on terms is more streamlined. **Table 4.4** summarizes some of the main problems in Kuwait for SME's.

¹⁰ Gulf Business

¹¹ Ibid

¹² Iraq, Jordan, Yemen, the Kingdom of Saudi Arabia, Egypt, Lebanon, Morocco, Tunisia and Pakistan

¹³ The Economist Newspaper Limited

¹⁴ Ibid

¹⁵ Telegraph Media Group Limited

¹⁶ Kuwait News Agency

¹⁷ The Information Daily, U.K.

¹⁸ The Financial Times Limited

Table 6.4: Problems Faced by SME's in Kuwait

Problem Area	Description
Finance	Though there is official support for SME's in Kuwait, the concept of successful start-up SME's is still new to the Kuwaiti business culture. Thus, rather than completely fresh start-ups, investors and banks may like to fund franchises, wherein there is a proven brand backing the investment, and there is operational support and training available for the applicant. Thus, there is little interest for banks to give credit to SME's. The harsh bankruptcy laws can also unnerve new entrepreneurs and makes rigid the stance of banks against aspiring entrepreneurs. Furthermore, it's also been found that there's a slow disbursement problem with National Fund for SME's. The fact is the fund has disbursed very little amount KD 3 Million till 2016 in comparison with total funds of 2 KD Billions. The real problem lies in understanding the role of The National Fund where it lies essentially in fostering and entrepreneurial ecosystem primarily rather than mere funding organization. Furthermore, the Fund has been immensely successful on the institutional side over the period of last 2 years. It has organized numerous forum, workshops, conferences, and orientation programs, awareness programs to accelerate the process of innovation, networking and start-ups. Also, the banking industry is not proving to be responsive to the needs of the SME's sector, as well. Even as SME's show greater interest in Islamic banking and finance, there is a void in terms of lending due to differing perceptions of Islamic finance in the region by banks, inadequate regulatory environment and lack of well-structured products.
Difficult Business Environment	The World Bank's Doing Business 2018 (DB 2018) data for 189 economies revealed a sorry state with respect to Kuwait. The country ranked 102 in terms of the overall score for doing business, roused by 6 positions compared to the previous year. With respect to the key indicators that make up the overall score, Kuwait painted a disturbing picture, as well. The country established a one-stop shop and improved online registration for starting a business. For property registration, Kuwait slashed the number of days needed to register property to 35 days from 49 days and also improved the transparency of the land administration system.
Good Strategic Reforms; but Poor Implementation due to inertia in sustainable progressive implementation	Kuwait has embarked on long journey of reforms and economic diversification under Vision 2035, which aims to totally revamp the economy by reducing oil dependence and increasing private sector share in the GDP and has recorded good success so far. Kuwait aims to have market-friendly and knowledge economy over the coming years ahead. At the demographic front, country initiated host of measures on demand and supply side targeting to balance between expat and domestic working population and by attempting to expand pool of domestic labour market. But the biggest challenge for Kuwait is Finance, since oil-price droop public revenues from oil squared-off at 60% compared to 90% early, clearly a sign of revenue compression. Amid this troubling time Kuwait aims to impose VAT in 2018 to strike a counter-balance between falling oil prices and public revenue. On the cut-back front, government announced cut in subsidies on water, energy and electricity recently. Amid all reforms and administrative manoeuvres, government regulation and bureaucracy remains the crippling problem for the country.

Problem Area	Description
Educational Sector Woes/Lack of Skilled Labour	Many critics of the Kuwaiti educational sector opine that the nation's systems depend on outmoded educational practices not conducive to modern teaching requirements and that Kuwait has lagged behind in the adoption of newer practices, such as e-learning. Not only has this created a situation of Kuwait depending on external talent for its professional requirements in the private sector, but this will adversely affect the talent pipeline that would be required to manage the technology and financial services start-ups that Kuwait urgently needs, in terms of transforming itself into a manufacturing and financial powerhouse.
Lack of research and additional support	There are no bodies or organisations in Kuwait to which entrepreneurs can turn to for extensive research, data and reports on niche markets. Also, absence of incubators and mentors creates little avenues for transfer of knowledge and motivation.
ICT Lag	Kuwait stands at 36 in Global Innovation Index followed by UAE, Qatar and Saudi Arabia for 2017, Kuwait although showed improvement in ranking compared to 2016 while it ranked at 5th spot among the six GCC countries. In 2017 Kuwait moved 11 spots in World Economic Forum's Networked Readiness Index (NRI), moving to 61st place. Kuwait is doing very well overall in terms of individual adoption—ranking overall 32nd. But in comparison with other GCC countries, ranks at 4th spot. In the rapidly evolving digital and social media age, sluggishness in the infrastructural capabilities and the usage of ICT will create extremely strong headwinds for Kuwaiti SME's, and will render them largely uncompetitive in comparison with other globalising SME's in the neighbourhood.

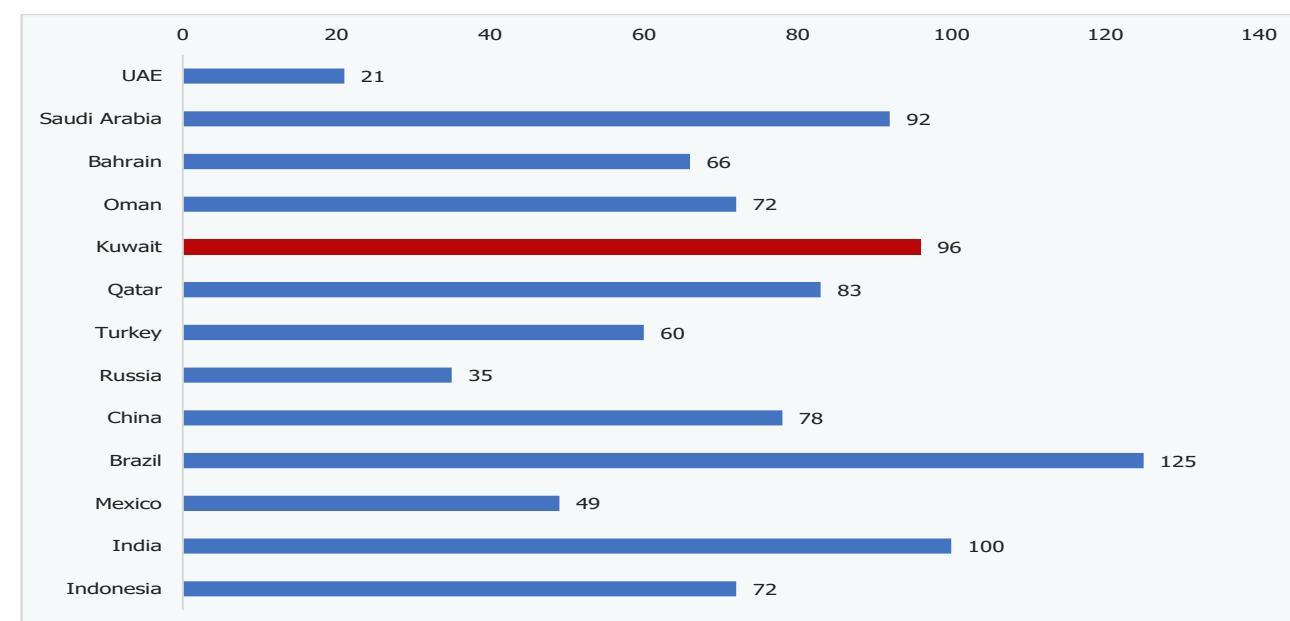
Source: Marmore

There is clearly little doubt to the topical theme that more reforms are needed to facilitate an effective SME's environment in Kuwait. Even in comparison with other GCC countries, Kuwait fares poorly in World Bank Ease of Doing Business Indicator. In fact, Kuwait falls behind

GCC peers in comparison with 'Emerging Seven' World Economies. This is depicted in **Figure 6.6**.

In terms of the sub-indices, too, (**Table 6.7**) Kuwait straggles behind its GCC peers across vital indicators.

Figure 6.2: Rank of GCC Countries Ease of Doing Business Index (among 189 nations)



Source: The World Bank, 2017

Table 6.5: Ease of Doing Business Ranking Kuwait Vs Other GCC countries

Indicators	Kuwait	UAE	KSA	Bahrain	Oman	Qatar
Starting a Business	149	51	135	75	31	89
Dealing with Construction Permits	129	2	38	75	60	19
Getting Electricity	97	1	59	79	61	65
Registering Property	70	10	24	25	54	26
Getting Credit	133	90	90	105	133	133
Protecting Minority Investors	81	10	10	108	124	177
Paying Taxes	6	1	76	5	11	1
Trading Across Borders	154	91	161	78	72	90
Enforcing Contracts	73	12	83	111	67	123
Resolving Insolvency	110	69	168	90	98	116

Source: The World Bank, 2018

7 Capacity Building Imperatives

A recent survey indicated a new and damaging trend among youth entrepreneurs: relocation to Dubai. Dubai has out beaten Kuwait on several parameters in terms of access to capital and access to skilled labor. Further the survey reveals that Dubai also ranked 1st in the MENA region for quality of life in 2016-17. In terms of institutional background Dubai again overrides Kuwait in incubation, mentorship and existence of good ecosystem. Basically, UAE ranks in the top out position in entrepreneurial activity, favorable business environment and Free Zones among others.

In order to pump up the activity in the SME sector Kuwait would surely need to act at multiple corners because the dull and possibly sinking environment in the SME sector is multifaceted. At the outset,

- Provided impetus for young entrepreneurship through institutional and financial support
- Strike relative balance between remuneration between private sector and public sector
- More stiff measures to curb foreign labor inflow
- More funding options for micro enterprises, creation of special purpose vehicles with finance and technical support
- More business and innovation friendly environment, with the help of research collaborations, partnerships

Also available are land grants for industrial or agricultural businesses and support for marketing at exhibitions, globally. Also, Kuwaiti oil companies can work as partners with the rest of the economic spectrum in the country to create unique business opportunities. For e.g., in Oman, Oman oil commenced business opportunities to operate car care centers. In line with Oman oil's 'In-Country Value' initiative, dedicated Oman oil teams will supervise, train and conduct facilities quality checks. The overarching goal is to spawn a new generation of entrepreneurial leaders in Oman.

Lenders to SME's and the government agencies backing SME's in Kuwait will be looking at business models and ideas that can make an impact in terms of offering higher probabilities for success. Some very good ideas for new businesses in Kuwait can come from the engineering sector. Kuwaiti engineering students have to produce graduation projects, which covers a host of areas such as energy, recycling, biotechnology, advanced manufacturing, etc. Thus, there is a good possibility that such ideas can lead to success if followed up through in an effective incubator ecosystem. This can lead to linkups between the incubators and some forms of public-private business partnerships. There are examples of government or semi-government partnerships with the private sector, in the

region, in terms of collaborating to bring to manifestation the results of new ideas. For e.g., As a committed partner, GE will continue to support the government in achieving Kuwait's Vision 2035 by offering innovative technological solutions that meet the country's vision and strategy to drive growth. With more than 200 employees based in country, GE is a dedicated partner, in Kuwait, for Kuwait. GE is building a new facility in Kuwait that will house a large generator and both steam and gas turbines. However, when the GE Kuwait Technology Center opens in 2016, it won't be lighting up homes, it will be fueling minds. In one part of this multifaceted, multi-specialty technology center, GE Power & Water will use the power plant equipment to provide advanced, hands-on training and maintenance practice to power plant engineers from Kuwait and the wider region.

Further, In 2018, Kuwait's National Fund for Small and Medium Enterprise Development (The National Fund) has signed a Memorandum of Understanding (MOU) with GE Power (NYSE: GE) to incubate small and medium enterprises (SME's) to build digital industrial applications for the power generation sector and to strengthen their economic growth and competitiveness. The initiative ties in with the National Fund's vision to build an inclusive, collaborative and innovative ecosystem for entrepreneurs to lay the foundation for economic opportunities in Kuwait. In 2012, GE signed a partnership agreement. In terms of institutional support, Kuwait in 2018 will be organizing Kuwait Expo 2018, organized by the National Knowledge Economy Center (NKEC), in partnership with the General Secretariat Supreme Council for Planning and Development (GSSCPD). It's an annual business-oriented knowledge economy flagship event targeting entrepreneurs. It is a one-stop marketplace featuring a full range of knowledge-based business opportunities and distinctive knowledge management solutions

for SME's.

The government can also partner with the private sector in terms of offering training and awareness opportunities for aspiring SME's. For instance, the government can back and sponsor workshops. In Kuwait, the government can effectively sponsor such contacts between large private and public sector companies and SME's, thus creating trade and branding opportunities for SME's. Also critical would be the role of research houses and think tanks that would focus on acting as generator of ideas for SME business models. Initially, the government may have to financially underwrite such efforts in order to demonstrate proof of viable success. Private sector partners will likely start contributing similar efforts through their own institutional bodies once they are seen as feasible and worthy of investments. Also, Kuwait along with the rest of the GCC countries can specialize in various areas of active R&D exploration through encouragement of high tech SME's. This can help in cross-border GCC technological trade in goods & services. KSA is taking strong steps in the direction of this policy. As part of its Industrial Cluster Development plan in Yanbu Industrial City, KSA has collaborated with the Japanese automotive company, Isuzu, to train 10,000 Saudi nationals for the automobile industry¹⁹. Vehicle assembling, components manufacturing, spare parts manufacturing will comprise key tasks, along with R&D. KSA is currently the biggest importer of vehicles and automobile spares parts in the Middle East region, accounting for 40% of all vehicle sales in the area. The figure is projected to touch one million vehicles per annum by 2020. Through the thrust of SME's, KSA may be successful in developing an indigenous automobile sector in Yanbu, which will likely help in tapping the \$45.4 billion automotive import market in the MENA region. There are ambitions to extend the program to tap into the world automotive market, which is \$2.7 trillion per annum.

However, despite the attractive potential, the issue of financing by government backed institutions will also bring into play the role of accountability and governance. Underpinning offers of financial support to SME's will also be the wariness in terms of well-intentioned funding programmes being exploited by borrowers or the possibility of unduly risky lending being undertaken by the financial institutions. Thus, there is the need to embed accountability and governance mechanisms at both ends of the spectrum. Strong boards and transparency in high level appointments in newly created SME related financial institutions will instill discipline in terms of lending with research backed insight. On the other side, measures such as lending in tranches to SME's on the basis of some demonstrable objectives will help in curtailing incidences of mismanagement or misappropriation. For e.g., if the first tranche is released for importing manufacturing equipment, the second tranche should be released once evidence of proper and effective installation of the equipment is demonstrated.

The practice of integrity is closely associated with the theme of governance, as well. The management and disbursement of large amounts of government funds is invariably linked with the risk of malpractices, which is a phenomenon that is encountered throughout the world. Thus, ensuring that a high level of integrity is present is a continuous activity. Training and learning programmes, including workshops, can help in disseminating key theoretical background on the matter, thus making discussion of the subject more easier in public discourses. Thus, building integrity into the system is all about shift in mindsets, which brings us to the area of capacity building. According to the United Nations Institute for Training and Research (UNITAR), capacity building "is generally understood to be the process by which individuals, organizations, institutions and societies build

abilities to perform functions, solve problems and achieve objectives". The main point is that capacity building is not necessarily tied with building new capacity alone. Often times it is about strengthening, or making better usage of already extant capacity, or eliminating outdated, inappropriate capacity. In essence, it is about managing change in an effective and efficient manner.

According to UNITAR, there are different levels to capacity building. It is often divided into four levels, which are

- Individual level – This refers to the capacity or skills that individuals participating in an endeavor possess towards discharging their duties to satisfaction.
- Organizational level – At this level, capacity is either unleashed or constrained by organizational structures, processes and related management issues.
- Network/sectoral level – This level of capacity building is about drawing synergies and empowering activities through learning and exchanging with stakeholders from the same sector or network range. For e.g., a group of SME's connected with the automotive industry.
- Enabling environment level – This stage represents the framework or environment within which the various actors have to perform. The environment may either be enabling or constraining, or fluctuating in a spectrum between the two points. For example, a strong regulatory environment around bankruptcy laws for SME proprietors will excite entrepreneurs across all sectors.

In summary, it can be said that Kuwait will have to address the issue of SME's development through a holistic lens, wherein the whole is greater than the sum of the parts.

8

Policy Recommendations

Despite their high strategic importance to the GCC in the context of the unfolding economic realities, the reality is that over 50% of registered SMEs in the GCC lack access to extra funding that will support their growth plans.

The following table lays out the policy recommendations for boosting the growth of SMEs in Kuwait.

Table 8.1: Policy Recommendations

Focus Area	Policy Prescriptions
Financial Sector Alignment	<ul style="list-style-type: none"> Entrepreneurship involves risks and risks entail failures. Most entrepreneurs go on to succeed after a few failed attempts. Thus, create an awareness programme to remove the stigma around financial bankruptcy so that individuals, particularly youngsters, look at SMEs as a respectable career choice. Like their counterparts across the GCC, many aspiring entrepreneurs in Kuwait lack basic financial literacy to present their ideas in a compelling fashion to venture capitalists and angel investors. Also, lack of basic financial skills hinder key activities such as book keeping, budgetary planning, tax understanding, etc, leading to early stage burn out of an idea due to frustration and diminishing confidence in the individual aspiring to start a successful SME. Thus, financial training is a key part of the strategy to boost SMEs in Kuwait and training programmes need to be deployed towards that end. Create well-structured Islamic finance products for SMEs. The Islamic banking industry is growing at a faster pace than the conventional banking space in the MENA region. If robust regulations exist to encourage and urge banks to provide Islamic finance products for SMEs, it would prove to be an important development for the sector.

Focus Area	Policy Prescriptions
Statistics	<ul style="list-style-type: none"> Kuwait seriously lags behind in industrial and business statistics, rendering any policy or business decision mediocre and in light of lack of statistics the entire SME's sector faces existential challenges. It's Imperative for the State to develop industry database, surveys and make data available for SME's sector stakeholders.
Establishing Fund of Funds and development of More Financing Options or Changing or Switching National Fund into Fund of Funds for Better synchronization	<ul style="list-style-type: none"> Regulatory and Policy changes, in line with proposed targets and needs of the SME sector, like administrative approval for hybrid capital, Islamic Finance and newer financing ways A combination of regulatory leverage and policy mechanism would solve the funding shortfalls. Would delineate current problems faced by the National Fund
Business Friendly Environment Facilitation	<ul style="list-style-type: none"> In comparison with comparator GCC economies such as the UAE and Qatar, Kuwait lags in a number of determinants of business ease. Various SME activities, right from starting a business to getting electricity, are relatively more difficult in Kuwait, leading to a cumbersome environment for starting a business. Unless reforms targeted at easing operational procedures for SMEs are not brought in place, the condition is unlikely to improve. The authorities should consider setting up an expert panel to understand how conditions for SME related business activities can be eased.
Government as a Constructive Participant	<ul style="list-style-type: none"> A separate independent authority for SMEs is needed. Also, there should be made available a system of fast-track judicial systems for resolving SME related issues. Emphasis should also go to reducing registration hassles and providing clear tax laws.
Educational Sector Innovation	<ul style="list-style-type: none"> The spark of entrepreneurship is closely tied to a spirit of curious discovery. An educational system that encourages independent thinking in an environment that embraces technology is bound to create visionary and confident individuals who are willing to take risks based on their professional passions. The educational sector in Kuwait will have to undergo significant reforms in order to come in line with the strategic objectives for private sector led economic growth. The authorities will have to quickly embark upon updating the curricula and including studies on entrepreneurship at an early stage in the educational ladder to make a serious impact. Steps should be taken to work in conjunction with educational sector stakeholders in the country to create more opportunities for vocational training for learning business management skills in terms of new entrepreneurs

Focus Area	Policy Prescriptions
Research & Support	<ul style="list-style-type: none"> There should be steps taken to create a body with a one stop shop website to provide information and reports on various markets and sectors in Kuwait so to enable effective investments by SMEs. Setting up incubators and assigning mentors to assist new SMEs will also greatly help.
ICT Intensification	<ul style="list-style-type: none"> For Kuwait to transform itself into an exemplar of private sector led growth, the SMEs that take root in the country should over time be able to expand their wings in the wider region and further onto the rest of the world. A key enabler for SMEs to develop clientele beyond their national boundaries is the use of ICT as a strategic arm of their businesses. Thus, Kuwait should have distinct ICT policies that will pull the country up the ladder of competitiveness given the current lag it faces in the area. Kuwait is the only country in the GCC that does not yet have a separate regulatory authority for the ICT sector³. A crucial first step would be to develop an independent authority for ICT development and quicken the pace of fibre optics implementation.
Assimilation into the Stock Exchange	<ul style="list-style-type: none"> In January 2012, the Qatar Exchange launched the QE Venture Market in order to list and trade the securities of Qatari SMEs⁴. The development was a pioneering one in the region and is worthy of emulation by the Kuwaiti authorities, as well. Listing of Kuwaiti SMEs within a sequestered platform on the national stock exchange system will give the entire sector significant respectability and sense of professional acceptance, thus boosting their uptake.
Exploration of alternative financing mechanisms like Crowdfunding	<ul style="list-style-type: none"> Crowdfunding or peer-to-peer lending may be the financing mode of the future in terms of SMEs. The government can get into study of this market space early in terms of facilitating its development in Kuwait under a reliable regulatory framework that safeguards the legitimate interests of all concerned stakeholders.

Source: Marmore

About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making.

Our aim

Advocate intellectual research on MENA economies, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

