

SME's in Kuwait: Data, Prospects and Challenges



Analysing the SME landscape across the Kuwait economy.

About Marmore

Marmore MENA Intelligence is a fully-owned research subsidiary of Kuwait Financial Center 'Markaz'. Since 2006, Markaz Research has been at the forefront in disseminating thought-provoking, hard-data backed research reports. Marmore continues that legacy with a focused approach to providing actionable solutions for business leaders and policymakers.

Since its inception, Marmore has published over 700 research reports and covered more than 25 varied industries and infrastructure segments; all focused primarily on the GCC economies. (To view our Research Library, please [click here](#))

With over 30 policy and regulatory research studies published, Marmore has partnered with renowned regional think-tanks and opinion-leaders to publish some of these intellectually provoking policy research papers. These research studies aim to initiate dialogue and propose better solutions to existing economic conundrums. (To view our Policy & Regulatory research report, [click here](#))


Marmore provides research-based consulting solutions to help understand current market conditions, identify growth opportunities, assess supply/demand dynamics, and make informed business decisions.

Almost on a weekly basis, Marmore publishes thematic economic, industry, policy and capital market reports. Marmore has been recently conferred **"Research Provider of the Year - 2018"** award by Global Investor, a Euromoney Group company. To learn more, visit www.marmoremna.com

OUR JOURNEY SO FAR

- Over **700** reports/insights published
- Over **63** Client projects executed
- Frequent media citations and conference participation
- Active social media presence



 /marmoremna

 @marmoremna

 marmore-mena

 marmoreMENA

Table of Contents

- 05 | CHAPTER 1
Key highlights
- 06 | CHAPTER 2
SMEs: An Overview
- 10 | CHAPTER 3
Kuwait SMEs landscape
- 15 | CHAPTER 4
Government's SME initiatives so far
- 18 | CHAPTER 5
Challenges to SMEs advancement in Kuwait
- 21 | CHAPTER 6
Economic impact of COVID-19 on Kuwait SMEs
- 22 | CHAPTER 7
Ways to alleviate the fallout and support SMEs growth
- 27 | Appendix

List of Tables

Table 2.1	EU SME Definition
Table 2.2	SME Definitions Used by Multilateral Institutions
Table 2.3	GCC SMEs definitions
Table 2.4	GCC Main State Sponsored Initiatives
Table 3.1	Estimates on Size of the SMEs in Kuwait
Table 3.2	Sector wise share of SMEs of the total enterprises
Table 3.3	World Bank Ranking (Among MENA Region)
Table 4.1	Financing by Al Senai portfolio for Small Enterprises (2015- 2018)

List of Figures

Figure 2.1	Employment Potential of SMEs in GCC (in millions)
Figure 3.1	SMEs contribution to GDP
Figure 3.2	Rank of GCC countries in the Global Entrepreneurship Index (among 137 nations)
Figure 3.3	Rank of GCC Countries in the World Bank Ease of Doing Business Index (among 190 nations)
Figure 4.1	Fund Channelization by sector: 2016-2019 (in million KD)
Figure 5.1	Challenges faced by SMEs in Kuwait
Figure 7.1	Saudi Arabian Fund of Funds Working Structure

Chapter 1

Key highlights

- SMEs are the strategic drivers for global economic growth and development.
Globally, MSMEs constitute over 90% of all enterprises and account for 70% of total employment and 50% of GDP. Across the developed economies like the EU and OECD countries, SMEs account for 99% of all enterprises.
- SMEs in Kuwait are yet to play a central role in the country’s development.
SMEs contribution to the Kuwait GDP is minimal (12%). The sector accounts for around 89% of the total enterprises and constitutes around 38.5% of the total employment. In Kuwait SMEs typically operate in the wholesale, retail trade, non-financial business services and construction.
- Entrepreneurial and business ecosystem are developing faster
The entrepreneurial and business ecosystem has transformed significantly over the last few years; though lags behind its GCC peers the country’s recent regulatory reforms is expected to stimulate the business development.
- Challenges for SMEs remain.
Access to credit is one of the major challenges faced by SMEs. Other challenges include access to skills and training, lack of information and dependence on expatriate’s talent.
- Government’s holistic support could help trigger SMEs growth and innovation.
Considering alternate financing instruments to facilitate SMEs’ access to finance, increasing the business opportunities through public procurement, and in international business activities are crucial. Furthermore, encouraging technological adoption and digitalization will be vital.



Chapter 2

SMEs: An Overview

Small-to-Medium Enterprises (SMEs) are vital to the economic development of the country as they foster innovation, entrepreneurship and create large-scale employment opportunities. The subject of SMEs touches upon many aspects of a nation’s economic network. By its very nature, SMEs can sprout up anywhere along the output value chain of a country, ranging from small shops to cutting edge research teams. Globally MSMEs constitute over 90% of all firms and account for 70% of total employment and 50% of GDP¹. Across the EU and OECD countries, SMEs account for 99% of all businesses. The value added by the SMEs are 50%- 60% in the OECD countries where two out of three people are employed in SME². Similarly, in the EU countries, SMEs generate 56.4% of value added and constitute two-thirds of the total private sector employment³. Hence supporting the growth of SMEs and entrepreneurship can ensure economic growth, increased employment creation, high value add and increased competition. With more young people entering the labour market, SMEs can drive job creation enabling the growth of the private sector.

While there is no one single universally accepted definition of SMEs⁴, countries define SMEs 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.

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

¹ International Council for Small Business (ICSB)

² OECD SME Outlook 2019

³ Annual Report on European SMEs- 2019

⁴ World Intellectual Property Organization

Also, global and regional institutions and bodies can have their own identifying parameters for SMEs.

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 Institution

The following table summarises the SMEs definition existing in GCC countries.

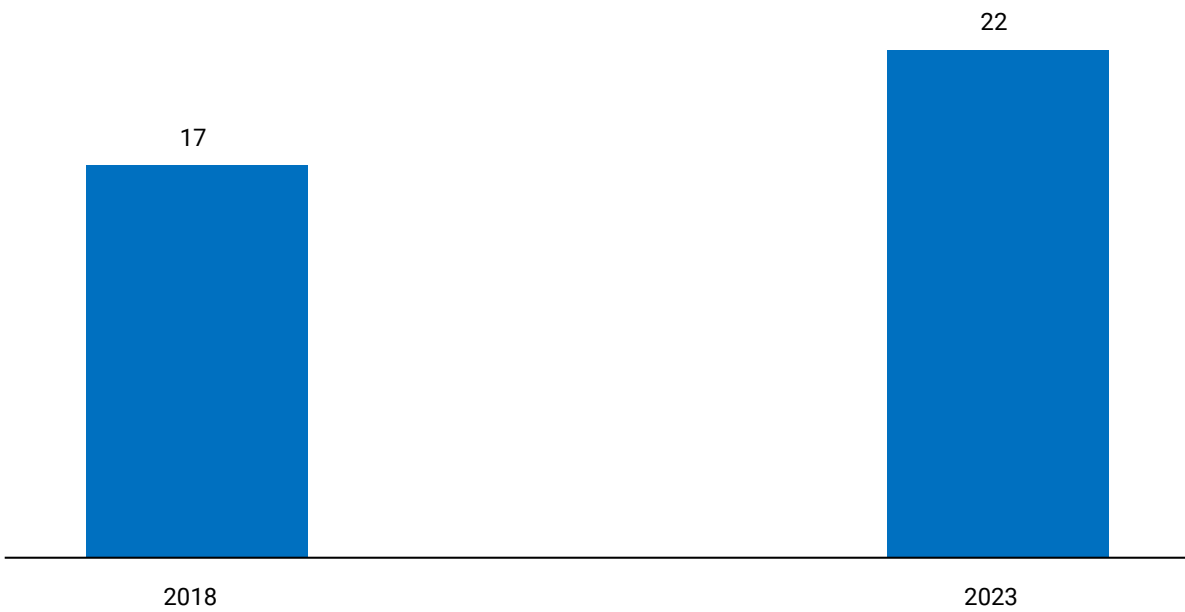
Table 2.3: GCC SMEs definitions

Country	Number of employees			Turnover(in national currency)		
	Micro	Small	Medium	Micro	Small	Medium
Bahrain	<11	11-100 Construction; 11-50 Other	101-400 Construction; 51-250 Other	<100,000	100,001- 1,000,000	1,000,001- 5,000,000
Kuwait		1-4	5-50		<250,000 (by capital)	250,000 - 500,000 (by capital)
Oman	1-5	6-25	26-99	<100000	100,000- 499,999	500,000 - 2,999,999
Qatar	1-10	11-50	51-250	<1,000,000	1,000,000- 19,999,999	20,000,000- 99,000,000
Saudi Arabia	1-5	6-49	50-249	<3,000,000	3,000,000- 40,000,000	40,000,000- 200,000,000
UAE	≤5 Trade; ≤9 Manufacturing; ≤5 Services	6-50 Trade; 10- 100 Manufacturing; 6-50 Services	51-200 Trade; 101-250 Manufacturing; 51-200 Services	≤3,000,000 Trade, Manufacturing; ≤2,000,000 Services	≤50,000,000 Trade, Manufacturing; ≤20,000,000 Services	≤250,000,000 Trade, Manufacturing; ≤200,000,000 Services

Source:Qatar government portal, Kuwait National Fund, Bahrain Ministry of Commerce, Industry and Tourism, Clyde&Co

In the GCC, SMEs constitute close to 90% of the total companies' base. The sector has the potential to generate 22 million employment opportunities by 2022 in the region⁵. The strategic importance of SMEs is apparent in some GCC states, with the UAE relying on SMEs for 53% of the national GDP and 60% of the employment⁶. The UAE government's aim to increase the share of SME contribution to the GDP by 60% in 2021 underlines the significance of SMEs in supporting economic development. GCC governments have established a number of government policies and institutions that benefits the SMEs on various aspects including financing, marketing, training and other administrative and technical support, for instance, the GCC countries have established SME specific funds (Khalifa fund, UAE; Jada fund of funds, Saudi Arabia; Sanad Programme, Oman) and training programs (Qotuf, Saudi Arabia; Rowad, Bahrain).

Figure 2.1: Employment Potential of SMEs in GCC (in millions)



Source: Crowe

GCC countries have taken strategic steps to advance SME's sector and have designed target specific intervention program. 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 SMEs.

⁵ Crowe
⁶ Federal Competitiveness and Statistics Authority,2019

Table 2.4: GCC Main State Sponsored Initiatives

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	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 BHD 5,000-250,000	Yes, up to 80% of project value and KD 500,000 max	Yes, up to OMR 1 Million 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 requirements	Open, but mostly partners with Bahrain Development Bank	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

Kuwait SMEs landscape

a) Kuwait SME contribution to the economy

Based on the Central Statistics Bureau (CSB)’s establishments survey⁷, the share of employees working in the sector and the proportion of small business enterprises present in Kuwait are estimated. According to the Kuwait National Fund for SME Development, SMEs are defined as those which employs less than 200 employees or has a paid-up capital of less than KD 500,000. The Central Bank of Kuwait also defines SMEs according to the legal status as an unlisted company or an unincorporated enterprise such as a partnership or sole proprietorship. With these three definitions (number of personnel, asset level and legal status) different estimates on the size of the SMEs operating in Kuwait are arrived. Table 3.1 represents the estimated share of the employees and enterprises in the SME sector. Approximating them to the average, it is expected that the share of employees in SMEs to be around 38.5% of the total employment. And the share of SMEs operating in the country is estimated to be around 89.3% of the total enterprises.

Table 3.1: Estimates on Size of the SMEs in Kuwait

Definition	Share of employees working in SMEs	Share of SMEs
No of Personnel: < 200 employees	34.0%	98.7%
Paid up capital:<KD 500,000	25.7%	71.3%
Legal status: Sole trader, partnership or limited liability	55.6%	97.8%
Average	38.5%	89.3%

Source: Marmore

In addition, by distinguishing on the sector, it appears that a large share of the SMEs operate in the wholesale and retail sector followed by non-financial business services and manufacturing sector⁸. Table 3.2 represents the sector wise share of SMEs among the total enterprises in the country.

⁷ Annual Establishment Survey, 2017, latest available from authorities

⁸ Includes hotels, restaurants, transport, telecommunication, real estate and other business services

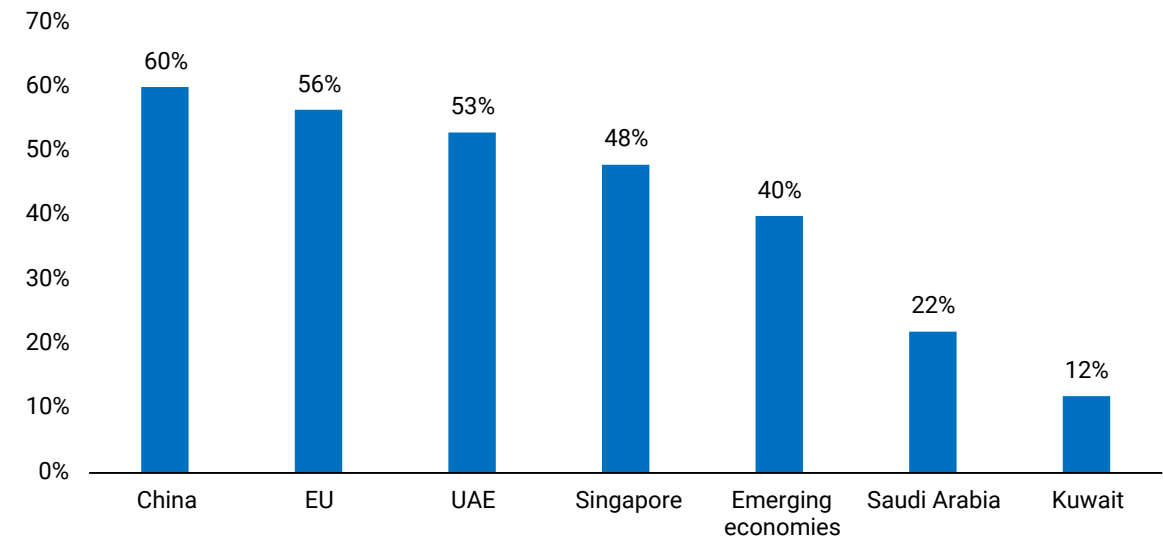
Table 3.2: Sector wise share of SMEs of the total enterprises

Sector	No of Personnel: < 200 employees	Paid up capital- <KD 500,000	Legal status- Sole trader, partnership or limited liability
Whole sale and retail trade	57.2%	41.2%	41.2%
Non-financial business services	23.9%	16.4%	16.4%
Manufacturing	13.2%	10.8%	10.8%

Source: Marmore

Similarly, the contribution of SMEs to the Kuwait GDP is estimated to be around 12%⁹ with wholesale & retail trade (4.1%) accounting for a large share followed by the hotel and restaurant, communications and business services (3.7%) and construction (2.4%). The share of SMEs in manufacturing sector tends to be lower (1.6%), although it employs around 38% of the total manufacturing employees. More technological adoption and increasing their access to market will be a key for their growth. Also, on a global comparison Kuwait SMEs contribution to overall GDP is minimal, SMEs in advanced economies like the EU contribute around 56.4% to the GDP, in emerging economies the contribution is around 40%.

Figure 3.1: SMEs contribution to GDP



Source: Government authorities, World Bank, Statista, National Transformation Program (Saudi), Marmore

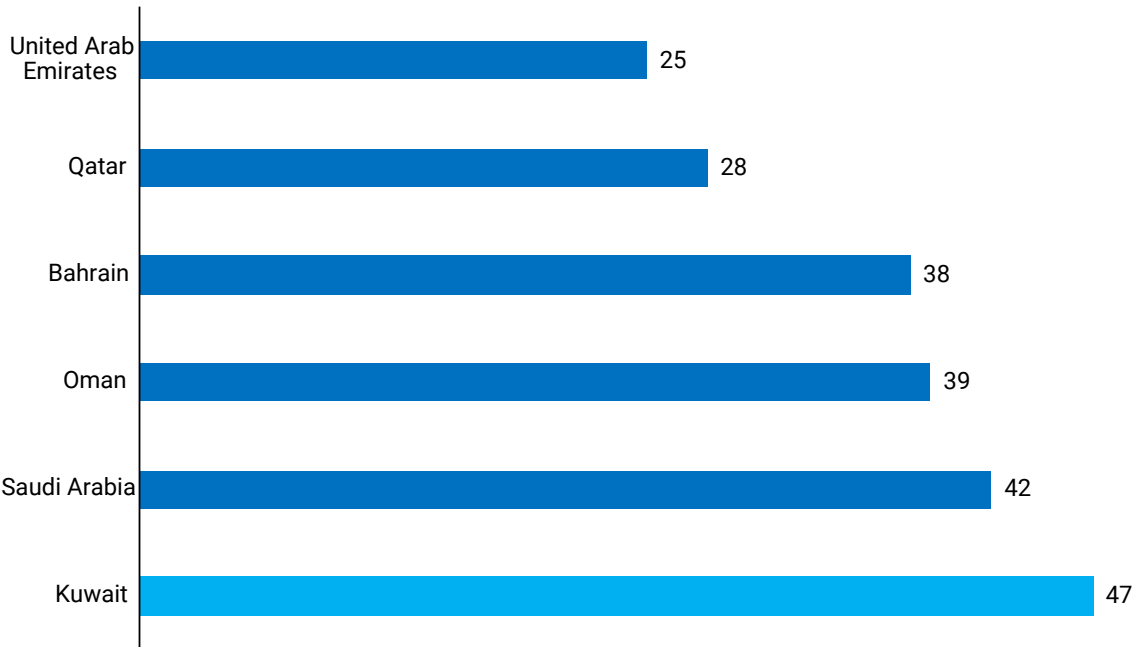
⁹ Estimation based on legal status definition

Over the last few years, growth and development of the private sector has been a strategic priority for the government of Kuwait, the second mid-range economic development plan (2015/2016-2019/2020) targets to increase the share of the private sector from 26.40% to 41.90% of GDP. With around 99 thousand Kuwaiti nationals (21 percent of the current Kuwaiti labor force) expected to enter the labour market in the next five years¹⁰, it is important that Kuwait undertake structural reforms that promote entrepreneurship and SME development which can contribute to private sector employment.

b) Entrepreneurial and business ecosystem

The entrepreneurial ecosystem has involved significant transformation in the recent years, there are growing number of entrepreneurs led established businesses in the country. Startups like Talabat, Carriage have demonstrated successful business models. For instance, Talabat is the region's largest food delivery application, valued at USD 1 billion and operating in seven countries. The entrepreneurial ecosystem gained momentum with the acquisitions of Talabat by German Rocket Internet for USD 170 million, Carriage, by Delivery Hero for around USD 100 million. The opportunities for new entrants in food and beverage, finance and ecommerce have increased considerably. The Kuwait beauty e-commerce platform Boutiqaat is well positioned in the region, the company was valued at USD 500 million last year and is now looking to raise capital up to USD 1 billion. While there is a conducive culture, the entrepreneurial ecosystem has been weak in terms of enabling policies, availability of finance, quality human capital, and lack a range of institutional supports. The country ranks below other GCC economies in the Global Entrepreneurship Index (measures the health of the entrepreneurship ecosystems in terms of entrepreneurial attitudes, abilities and aspirations of the local population).

Figure 3.2: Rank of GCC countries in the Global Entrepreneurship Index (among 137 nations)

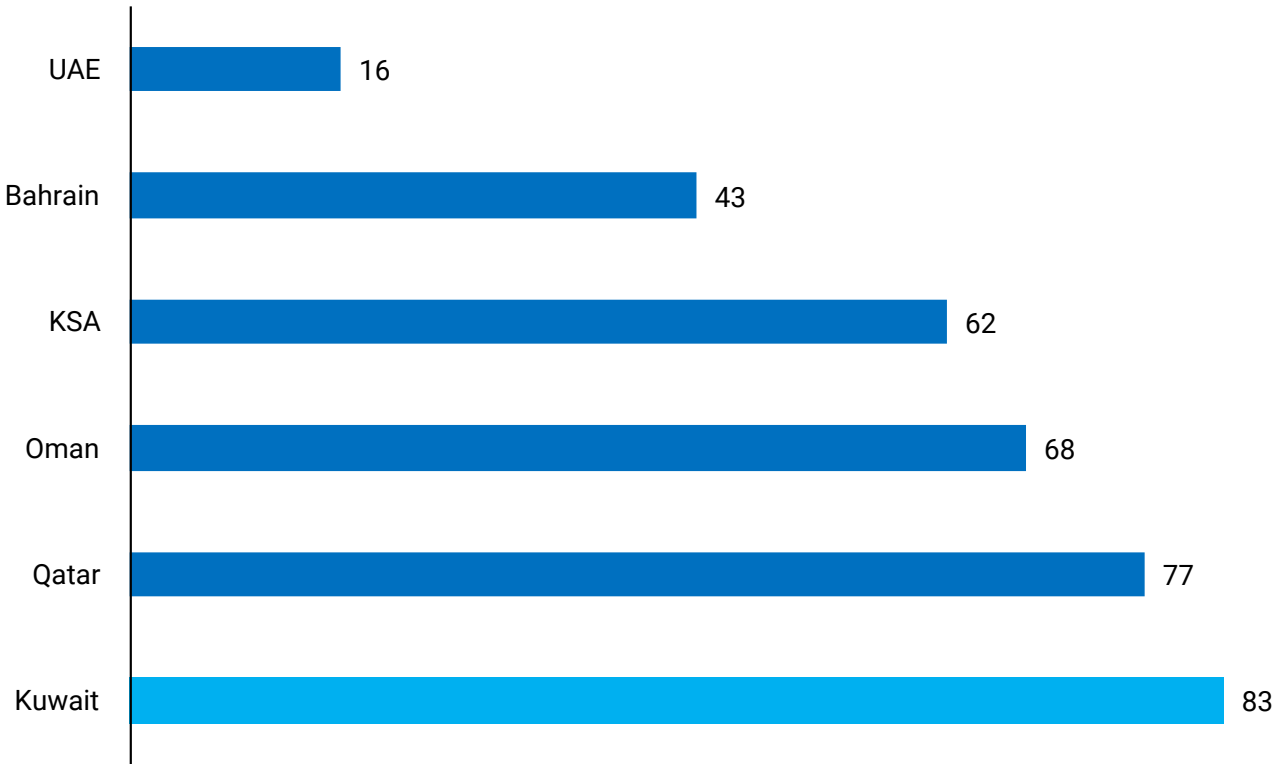


Source: Global Entrepreneurship and Development Institute, 2019

¹⁰ IMF, 2019

There is clearly little doubt to the topical theme that more reforms are needed to facilitate an effective SMEs environment in Kuwait. Another key dimension associated with SMEs development is the country's business landscape, aspects such as regulatory approvals, compliance and licensing plays a critical role. Kuwait falls behind its GCC peers in the World bank Global Ease of Doing Business Ranking. However, in 2020 index Kuwait was one of the countries in the list of 10 most improved economies. The new reforms across the business regulatory environment are expected to boost the private sector participation.

Figure 3.3: Rank of GCC Countries in the World Bank Ease of Doing Business Index (among 190 nations)



Source: World Bank doing business report, 2020

In terms of the sub-indices, Kuwait has fared well compared to some of its GCC peers across vital indicators.

Table 3.3: World Bank Ranking (Among MENA Region)

Indicators (Ranking among 20 countries)	Kuwait	UAE	Bahrain	KSA	Oman	Qatar
Starting a Business	7	1	6	4	3	10
Dealing with Construction Permits	9	1	4	5	7	2
Getting Electricity	7	1	9	2	4	5
Registering Property	5	2	3	4	6	1
Getting Credit	9	3	6	5	14	9
Protecting Minority Investors	4	2	4	1	9	17
Paying Taxes	3	6	1	7	4	2
Trading across Borders	15	9	6	7	4	10
Enforcing Contracts	7	1	4	3	6	12
Resolving Insolvency	10	5	2	17	7	12

Source: World Bank doing business report, 2020

Kuwait has taken a strategic approach in identifying and implementing policies that support innovation, creativity and stimulate business development and growth. Developing a conducive business environment can increase the incentives for enterprises to innovate. The recent legal, regulatory developments appear to be responding coherently to the needs of businesses and to adapt to the changing economic circumstances.

Chapter 4

Government’s SME initiatives so far

The Kuwaiti government has instigated a number of policies and programs over the years to support SMEs. In 1997, the Kuwait Investment Authority established National Investment Fund Portfolio (NIFP) with a capital of KD100 million to promote SME development¹¹. Few other public and private institutions that supported SMEs development before the establishment of National Fund were Kuwait Small Projects Development Company (KSPDC) Al-Raeda Enterprises Company, KAMCO and Industrial Bank of Kuwait. The Industrial Bank of Kuwait (IBK) created the Al-Senai (Industrial) Portfolio for Small Enterprises in 1998 with a capital of KD 50 million¹². The portfolio was established to provide financial assistance in compliance with the Sharia and to encourage entrepreneurship among young Kuwaitis. The Portfolio continued financing along the new National Fund for SMEs. Since its start through the end of 2018, the cumulative amount of loans provided was around KD 153 million, financing 1704 projects. In 2018, the portfolio financed 206 projects with a finance of KD 17.5 million representing 77 % of the total cost of projects¹³.

Table 4.1: Financing by Al Senai portfolio for Small Enterprises (2015- 2018)

	No of projects	Project cost (in KD)	IBK’s financing (in KD)	Portfolio finance as a % of total investment cost
2018	206	22,725,548	17,517,775	77.1%
2017	199	24,976,869	19,443,257	77.8%
2016	300	38,380,308	30,242,028	78.8%
2015	232	29,772,223	23,126,782	77.7%

Source: Industrial Bank of Kuwait (IBK)

In 2013, Kuwait established an independent government entity, the National Fund for SME Enterprise Development (Kuwait National Fund), to promote and develop SMEs in the country. Established under the law no 98 of 2013, the entity was set up with a total capital of KD 2 billion (USD 7 billion). The National Fund for SME Development is said to be the first single entity for SMEs as it covers all the financial, regulatory, and commercial processes. The major objectives of the fund are to accelerate economic growth, by increasing the role of SMEs in the economy and support the creation of jobs for Kuwaitis in the private sector. The fund also encourages entrepreneurship among government employees; government employees with a potential business idea can obtain a three-year paid leave to start their business¹⁴. KNF has been restructured twice to accommodate to the changing realities.

¹¹ SMEs In Kuwait: Their Impact and the way forward, 2018

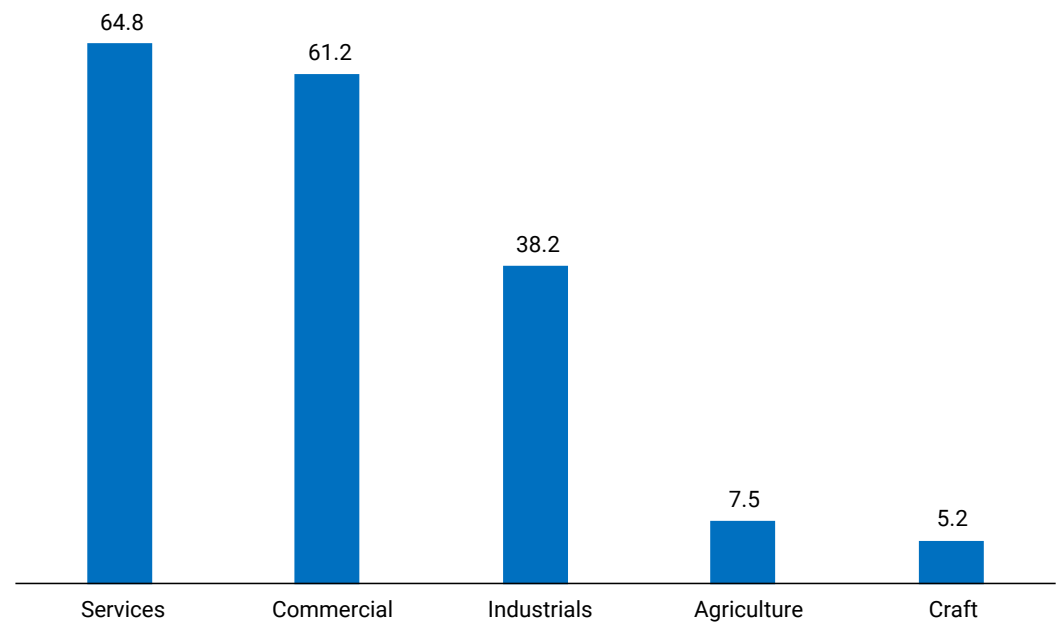
¹² Ibid

¹³ Industrial Bank of Kuwait, Annual report 2018

¹⁴ Thebusinessyear

The KNF loans for SME are co-financed with commercial banks, where KNF will finance up to 80% of capital at a fee of 2%, and commercial banks to finance up to 20% at market rate. SMEs can also self-finance 20% of the project cost; the maximum financing offered is up to KD 500,000 per company. Commercial banks are responsible for disbursement and collection of loans, and in return, the banks receive service fees from the KNF. From 2016 through approximately the end of 2019, KNF funded around 1,035 SMEs, at a cumulative cost of KD 177 million (or USD 584.4 million), according to the Public Authority for Industry (PAI). This constitutes 8.8% of the stated KD 2billion capital of KNF.

Figure 4.1: Fund Channelization by sector: 2016-2019 (in million KD)



Source: Public Authority for Industry (PAI)

KNF has accepted 245 SME project applications in 2017, of which 44% were commercial business ideas. The average loan size per borrower approved by KNF in 2016-2017 for small businesses was KD 67,800 and for medium size businesses was KD 392,920¹⁵.

There has been a lot of discord in the operations of the National Fund with particular issues raised frequently on the 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 a mix 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.

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 makeovers 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 for "monitoring and funding" projects but now with the amendments, the Fund is expected to focus more towards "lisationing and mentoring" projects, a departure from its role as a mere funding body.

The fund supports the development of entrepreneurial culture through other services such as developing SME toolkit in partnership International Finance Corporation (IFC) in order to learn and implement sustainable business management practices¹⁶. In association with WAMDA capital the fund developed the Nuwait platform to highlight stories of Kuwaiti SMEs, and share experiences from the experts. The National Fund also supports entrepreneurs through training programs in collaboration with the World Bank and other international and local institutions.

In addition, Kuwait's public entities extend support to the country's SMEs development, for instance pursuant to Kuwait Petroleum Corporation's 2040 Local Content Strategy; the company is considering the inclusion of SMEs in participating in its tenders. KPC plans to involve Kuwaiti entrepreneurs in the operation and development of 43 filling stations affiliated to them creating unique business opportunities.

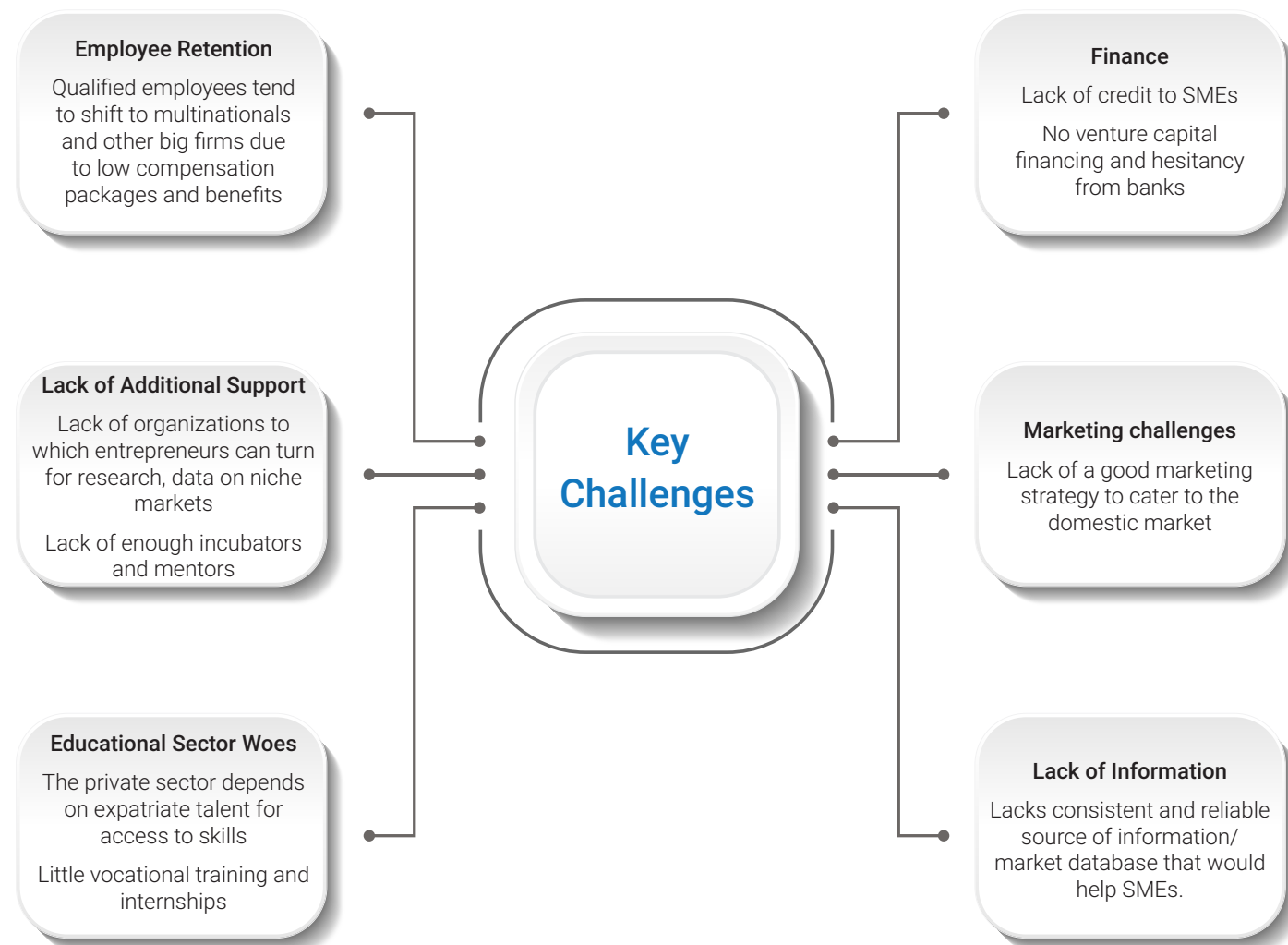
¹⁵ Derived from statistics given in KNF Annual Report for 2016-2017

¹⁶ KNF Annual report 2016/17

Challenges to SMEs advancement in Kuwait

Small and medium-sized enterprises (SMEs) traverse through several phases in their life cycles—start-up, growth, maturity, and renewal/rebirth or decline—and their business needs vary depending on those phases. Typically, SMEs face number of unique challenges ranging from funding, regulatory, information and capacity constraints.

Figure 5.1: Challenges faced by SMEs in Kuwait



Source: Marmore

a) Access to finance

Access to credit is one of the major concerns faced by SMEs. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of USD 5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. SMEs suffer a lack of credit lines, with banks unwilling to lend to smaller businesses at a time of squeezed liquidity. For instance, estimated lending in the sector being around KD 1.3billion represents a 3.6% of overall credit outstanding, compared to around 30% for the OECD countries. Most of the SMEs cite that financial support was on an adhoc basis and main focus was primarily on F&B with a minor focus on all other sectors. Finance rejection rates run as high as 75% for most of the GCC countries. The underlying discomfort that banks face in lending to SMEs 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. Even as SMEs 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. The following points summarize the challenges that impede lending by banks to SMEs in Kuwait and the wider region –

- Little or no availability of information on SMEs' 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 centralised collateral registries. No visibility of SMEs inventories or receivables.
- No credit scores available. Coupled with the cost and general difficulty in enforcing collateral for SMEs, small ticket lending is highly dis-incentivised for banks.
- SMEs 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 SMEs lending.

b) Access to skills

Kuwait will have to address the issue of SMEs development through a holistic lens. According to a study on the Kuwait's tech startups, the entrepreneurial ecosystem in Kuwait face three main challenges which includes accessing local talent (71%), navigating the regulatory framework (70%), and ease of securing funding (59%). The study based on a survey conducted on Kuwait tech startup landscape finds that over half of Kuwaiti

startups face difficulties in identifying the required skill sets (55%) and over half of Kuwaiti tech startups find that international talent is more likely to have the skills needed (54%)¹⁷. In 2019/2020, Kuwait government expenditure on education was KD 2.7 billion; the country spends around USD 14,300 on education per student per year, which is highest among the GCC economies, but the actual education attained through this expenditure is valued at USD 3,300, just 23% of the real value¹⁸. 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 hinders 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. Hence it vital that Kuwait identify policies, prepare programs and advocate practices that better meet the needs of private sector.

c) Lack of consistent and reliable source of information on SMEs

There is also opacity in terms of the SMEs situation in the region. Mostly, no centralized database available that keeps track of SMEs. There is an absence of any robust data sources that provides latest SMEs statistics there is no information available on key statistical metrics including sector wise contribution to the economy, nationals employed and so on. Also, there are no bodies or organisations in Kuwait to which entrepreneurs can turn to for extensive research, data and reports on niche markets. Similarly, the government entities should consider deploying a robust, consistent system for monitoring and assessing the progress and efficiency of the SMEs. Statistical indicators relating to creditworthiness, returns, solvency, and their adherence to the laws and regulations of the borrowers could be developed. Availability of data will be a key in enabling a comprehensive analysis and help shape further developments of the sector. Unless a concrete system to assess is developed evidence-based policy making for further improvements will be difficult to achieve in this space.

¹⁷ Arabnet, 2018

¹⁸ Entepreneur.com 2018

Chapter 6

Economic impact of COVID-19 on Kuwait SMEs

a) Factors impacting supply and demand

The COVID-19 triggered downturn is expected to have stark impact on a number of industries in the country, and particularly SMEs. Most of the small enterprises have limited cash reserves, and therefore the loss of revenue, negative demand shock and temporary business closure will have severe impact on its cash flow. The production and demand loss will essentially affect SMEs ability to resume work. Labour shortage due to restrictions on movement will have strong impact on SMEs, especially on the hotel, restaurants and retail segment that constitute majority of the total SMEs in Kuwait. Similarly, small businesses that operate for manufacturing industries have less resilience in dealing with the high costs of raw material transportation due to the global and regional supply chain disruptions that has led to the shortage of parts and other intermediate goods. SMEs in Kuwait are also strongly represented in sectors like construction, which is again significantly impacted by the lockdown measures taken to contain the outbreak. In addition, small businesses will face difficulties to adopt to a new digital working model forced by the pandemic to continue their operations. Thus, SMEs are more vulnerable to the risks posed by the COIVD-19 pandemic due to the low capital availability and limited resources.

b) Government measures taken to support SMEs through the crisis

In order to support the SMEs, the central bank of Kuwait announced measures including deferring loan instalments for a period of 6 months and lowering the credit risk from 75% to 25% to calculate the capital adequacy ratio. The government also implemented liquidity support measures like providing loans on concessional basis to SMEs, through joint financing from local banks and the Kuwait National Fund for SMEs for three years with one year of grace period. The objective of the program is to support business continuity the supporting the SME's cash flow requirements related to rent, wages and payments to suppliers. To minimise the costs on labour for those businesses affected by the COVID-19 crisis, the Kuwait government amended the Labor Law for the private sector to allow employers to reduce the salaries in agreement with the workers during the crisis period. In addition, UNDP, and the General Secretariat of the Supreme Council for Planning and Development (GSSCPD) launched a hackathon in partnership with KNF in the month of May. The hackathon encouraged Kuwaitis SMEs to explore new innovative ideas in the domain of food products to overcome supply chain vulnerability and sought innovative business ideas for health services.

Ways to alleviate the fallout and support SMEs growth

Kuwaiti government should offer a holistic support to entrepreneurs, encompassing funding, education, training, networking, mentoring, protecting intellectual property on innovations etc. While the agenda has already been set forth, the government requires an effective implementation strategy. There also appears to be a gap between the existing policy structure and the needs of the SMEs in the country. It is important to conduct a systemic analysis of the sector, understand the challenges, the extent to which the policy and institutional support has reached the SMEs and identify the gaps in support and provide practical intervention strategies. In addition, sector specific strategies should be contemplated considering the size and the SMEs target markets.

a) Alternate financing instruments

The Kuwait government could consider alternate financing instruments facilitating SMEs' access to finance. Establishing venture capital funds targeting SMEs, indirect funding (financing channels to investment companies to provide funding with low cost) and grants are some of the tools that can better serve SMEs financing needs and expand their financial accessibility. The government could designate an expert group to offer guidance on such alternate financing.

Globally, governments intervene in SME funding and development through the following modes¹⁹

- Participate in the commercial market with investment funds that award mandates to private investments specialists.
- Direct funding to SMEs under programmes managed by public financial institutions;
- Guarantees to private institutions that offer SMEs the financial facility
- Funding of private investment companies at highly attractive terms.

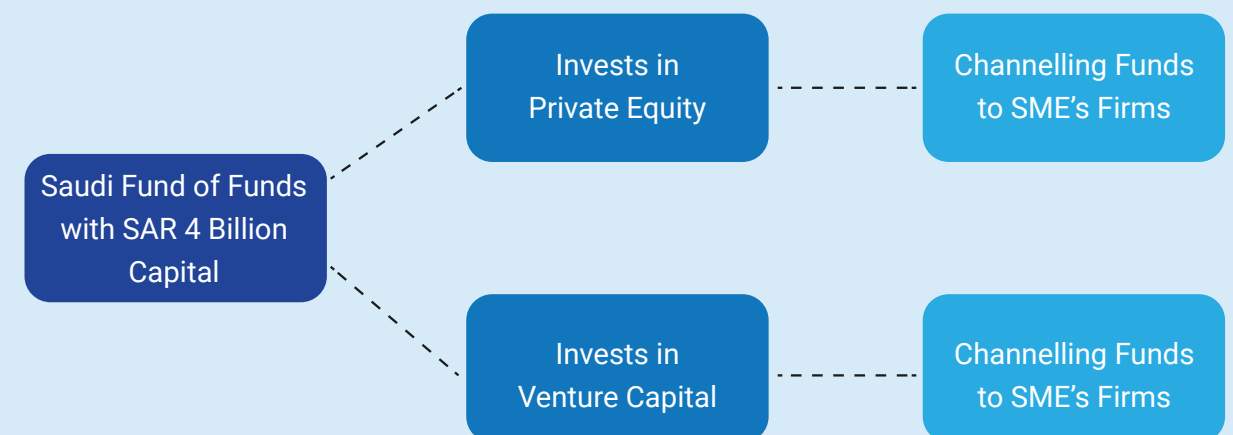
Governments and international organization thus foster SME development through a number of ways and play a key transformational role in its growth and development, for instance, the European Investment Fund (EIF) supports SMEs by means of equity (venture capital and private equity) and guarantees instruments through an array of financial institutions including commercial banks, fund managers and guarantee institutions. In the GCC, Saudi Arabia's Public Investment fund (PIF) launched Jada to provide funding to Saudi SMEs through investments in private equity and venture capital funds.

Potential Inputs from Saudi Arabia?

SMEs contribute around 22% 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 that SMEs 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 SMEs by launching first of kind special investment vehicle dedicated to fill the financing gap in the sector by establishing a USD 1.07 billion fund of funds to support the growth of SMEs 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

Figure 7.1: Saudi Arabian Fund of Funds Working Structure



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 SMEs and increasing their share of GDP, and to engage and enable the private sector to invest in SMEs. Globally, private equity and venture capital funds play an important role in enabling the growth of SMEs. 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 SMEs in Kuwait.

¹⁹ OECD

Innovative financing solutions are also 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 SMEs funding is the growing phenomenon of crowdfunding or peer-to-peer lending in Europe. Crowdfunding is a form of alternative finance for SMEs, which helps in bringing together individual savers or lenders on common online platforms with borrowers. Those SMEs 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 transactions. Thus, wary banks that charge higher premiums from SMEs 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 SMEs. 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 SMEs that may end up costing money for unwary investors.

b) Increasing business opportunities

Government could enhance SMEs access to markets through public procurements. While at present there is a price preference of 10% to the Kuwaiti businesses on public contracts there is no SME specific provisions laid down to access public contracts. Hence instigating procurement policies targeting SMEs can facilitate their access to government projects that could offer new opportunities and also aid them to encounter the unique challenges compared to large enterprises.

According to a study by the World Bank group²⁰, some of the best practices that will enable effective inclusion of SMEs in public procurement, maximizing their benefits, are

1. Coherent, comprehensive, coordinated legal and regulatory framework
2. Centralized E-procurement portals
3. Minimizing 'size' discrimination i.e. those aspects of the procurement process that inherently favor a larger company
4. Evaluating the use of public procurement as a tool for targeted socio-economic policy agendas
5. Aligning specific procurement policies with core procurement principles and other procurement objectives.

Furthermore, government could encourage and support SMEs participation in international business activities as exporters or importers. Engaging in global markets can accelerate innovation, increase opportunities, skillset and facilitate knowledge and technology spillovers. The growth of ecommerce could increase the opportunities for SMEs participation in international trade. Technological advancements including communication and transport technology advancements can boost SMEs potential to enter the global market. Governments in

this regard should aim to provide the necessary advocacy, facilitate networking, finance, bilateral trade, market intelligence, help access to understand the cultures and enhance capacity building that would support SMEs participation and also enable them to face international competition.

c) Digitalisation

A key enabler for SMEs to develop clientele beyond their national boundaries is the use of Information and Communication Technology (ICT) as a strategic arm of their businesses. Greater technological adoption provides a range of benefits including enhanced product quality, market value, productivity, market intelligence, knowledge network, innovation capability and entrepreneurial orientation and also help reduce operating costs. Thus, Kuwait should have distinct ICT policies that will pull the country up the ladder of competitiveness. Ensuring access to key digital infrastructure, technology will enhance SME capabilities and improve efficiency and productivity. Kuwait government should encourage SMEs to adopt greater automation and digitalisation in business services and production processes. With Covid-19 there is a significant increase in digital consumption; consumers have embraced digital platforms to obtain services hence greater technological adoption will increase the SMEs market opportunities. The crisis has created an opportunity to SMEs to transform existing business models and adopt new digital strategies.

d) Capacity Building Imperatives

In order to pump up the activity in the SME sector Kuwait would need to act at multiple corners as the obstacles faced by SMEs are multifaceted and stem from a number of factors. At the outset, providing impetus for young entrepreneurs through institutional support will be vital. Training and learning programmes, including workshops, can also help in disseminating key theoretical background on the matter, thus making discussion of the subject easier in public discourses. 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.

²⁰ The Donor Committee for Enterprise Development, 2017

- 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 SMEs 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.

Some good ideas for new businesses can come from the students and graduates specifically in studies related to engineering which covers strategic fields like energy, recycling, biotechnology, advanced manufacturing. Incubation centers supported by government could be created in the Kuwait universities. With these there is a possibility that such ideas can lead to success if followed up through an effective incubator ecosystem. There are also examples of government or semi-government partnerships with the private sector in the region, for capacity building. As part of its Industrial Cluster Development plan in Yanbu Industrial City, Saudi Arabia has collaborated with the Japanese automotive company, Isuzu, to train 10,000 Saudi nationals for the automobile industry. Vehicle assembling, components manufacturing, spare parts manufacturing will comprise key tasks, along with R&D. Through the thrust of SMEs, Saudi may be successful in developing an indigenous automobile sector in Yanbu. In 2018, Kuwait's National Fund for Small and Medium Enterprise Development has signed a Memorandum of Understanding (MOU) with General Electric (GE) Power to incubate SMEs to build digital industrial applications for the power generation sector and to strengthen their economic growth and competitiveness.

The government can also partner with the private sector in terms of offering training and awareness programmes for aspiring SMEs. For instance, the government can back and sponsor workshops. The government can effectively sponsor contacts between large private and public sector companies and SMEs, thus creating trade and branding opportunities for SMEs. 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.

Appendix

1) Number of Employees and establishments based on the various SME definitions.

a) No. of personnel: Less than 200 employees

Sector	Employees		Number of establishments	
	<200	Total employees	<200	Total establishments
Construction	30,051	185,584	1,406	1,500
Whole sale and retail trade	114,294	193,996	23,466	23,596
Manufacturing	59,904	156,942	5,430	5,538
Financial services	10,332	36,213	413	440
Non-Financial services	82,482	299,981	9,789	9,965
Total	297,063	872,716	40,504	41,039
As a percent	34.0%		98.7%	

Source: Annual establishment survey, 2017, Central statistics Bureau (CSB), Kuwait

b) Paid up capital: Less than KD 500,000

Sector	Employees		Number of establishments	
	< KD 500,000	Total employees	< KD 500,000	Total establishments
Construction	22,505	185,584	958	1,500
Whole sale and retail trade	94,124	193,996	16,910	23,596
Manufacturing	37,473	156,942	4,442	5,538
Financial services	1,077	36,213	198	440
Non-Financial services	69,357	299,981	6,743	9,965
Total	224,536	872,716	29,251	41,039
As a percent	25.7%		71.3%	

Source: Annual establishment survey, 2017, Central statistics Bureau (CSB), Kuwait

c) Legal status: Sole trader, partnership or limited liability

Sector	Employees		Number of establishments	
	Sole trader, partnership or limited liability	Total employees	Sole trader, partnership or limited liability	Total establishments
Construction	103,309	185,584	1,417	1,500
Whole sale and retail trade	142,160	193,996	23,471	23,596
Manufacturing	71,786	156,942	5,400	5,538
Financial services	2,310	36,213	232	440
Non-Financial services	165,679	299,981	9,607	9,965
Total	485,244	872,716	40,127	41,039
As a percent	55.6%		97.8%	

Source: Annual establishment survey, 2017, Central statistics Bureau (CSB), Kuwait

2) Gross value added (GVA) by establishments defined as Sole trader, partnership or limited liability (in thousands KD)

Sector	GVA (Sole trader, partnership or limited liability)	Total GVA
Construction	t	1,181,483
Whole sale and retail trade	1,176,848	1,644,794
Manufacturing	472,913	18,123,959
Financial services	23,841	3,638,976
Non-Financial services	1,072,795	4,108,933
Total	3,421,751	28,698,145
As a Percent	11.9%	

Source: Annual establishment survey, 2017, Central statistics Bureau (CSB), Kuwait

Authors

M.R. Raghu CFA, FRM, ECMA

Head of Research

+965 2224 8280

rmandagolathur@markaz.com

Rajesh Dheenathalayan, CFA

AVP, Research

+965 2224 8000 Ext: 4608

RDheenathayalan@e-marmore.com

Brinda Vijayakumar

Policy Analyst

+965 2224 8000 Ext: 4630

BVijayakumar@e-marmore.com

Disclaimer

This report has been prepared and issued by Marmore MENA Intelligence Ltd (Marmore), a fully owned research subsidiary of Kuwait Financial Centre "Markaz" K.P.S.C. Marmore is a private limited company registered with the Registrar of Companies in India.

This Report is owned by Marmore and is privileged and proprietary and is subject to copyrights. Sale of any copies of this Report is strictly prohibited. This Report cannot be quoted without the prior written consent of Marmore. Any user after obtaining Marmore's permission to use this Report must clearly mention the source as "Marmore." The Report is intended to be circulated for general information only and should not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.

The information and statistical data herein have been obtained from sources we believe to be reliable, but no representation or warranty, expressed or implied, is made that such information and data is accurate or complete, and therefore should not be relied upon as such. Opinions, interpretations, estimates, and projections in this report constitute the current judgment of the author as of the date of this Report. They do not necessarily reflect the opinion of Markaz or Marmore or other identified parties and are subject to change without prior notice. Neither Marmore nor Markaz have an obligation to update, modify, or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast, or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn.

This Report may not consider the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors are urged to seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and to understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Investors should be able and willing to accept a total or partial loss of their investment. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily indicative of future performance.

Markaz may seek to do business, including investment banking deals, with companies covered in its research reports. Markaz may have interests in the areas covered in this research report. Markaz, Markaz managed entities, its clients, or its employees may have from time to time long or short positions in any security, derivative or other types of assets referred to in this research report. As a result, investors should be aware that Markaz may have a conflict of interest that could affect the objectivity of this report.

This report may provide the addresses of or contain hyperlinks to websites. Except to the extent to which the report refers to website material of Markaz and Marmore, Markaz has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to Markaz's or Marmore's own website material) is provided solely for your convenience and information, and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this report or Markaz's or Marmore's website shall be at your own risk.

For further information, please contact 'Markaz' at P.O. Box 23444, Safat 13095, Kuwait; **Email: enquiry@e-marmore.com**; Tel: 00965 22248280; Fax: 00965 22495741.