

Relevance of SMEs in global economy

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IN AN economy marked with the collapse of bigwigs, the significance of small- and medium-sized enterprises (SMEs) is rapidly gaining dominance as the fastest growing economic segment. Denting economy prospects and huge cuts in job markets stresses the necessity to fund SMEs. SMEs provide a strong pillar of support to the world economy and play a critical role in innovation, advancement and sustainable development worldwide.

According to the Global Competitiveness Index constituted by the World Economic Forum, enterprise competitiveness is the ability to sustain a market position by supplying quality products on time and at competitive prices. High levels of income and employment is directly proportional to the national level competitiveness and technological development, absence of which results in the deterioration of welfare conditions of the people.

If countries are to strengthen competitiveness, they will have to strengthen their capabilities, increase export competitiveness, update technologies, detail the policies and sup-

port programmes that are necessary for strengthening productive capacity at the enterprise level, particularly that of SMEs. This is made possible by identifying such constraints through public-private sector interaction and dialogue, thus creating and fostering policy coherence. Business development services and technology should be made accessible to SMEs to overcome market imperfections and operate with greater efficiency in the international markets.

It is imperative for the central banks and the financial service regulators to play a proactive role in providing formal credit or equity. Amalgamations in the form of clustering and inter-firm cooperation amongst SMEs can help incorporate new technology and management practices.

Global trends show that there is an unprecedented growth in SMEs, contributing a significant chunk of Gross Domestic Product (GDP) to countries like India, China and US. The small structure of SMEs acts as an advantage as it is easier to bring about innovation in products and services than large firms. From the days of Great Depression, small businesses have helped countries like US to tide over tough times. Small businesses, when run effi-

ciently, can become big export engines generating huge revenues. In countries like Britain, Australia and Japan, SMEs have laid the foundation of their economies, helping them overcome difficult economic situations.

With unemployment being the most pinching concern, it is imperative for developing countries to consider promoting SMEs.

As a fast-growing sector in GCC, SMEs contributions ranges from 15 per cent to 30 per cent in each of the GCC states, highest being in UAE. The statistics of World Bank and International Finance Corporation reveal that on average 80 per cent of the region's

business and employment market is made up of SMEs.

In the UAE, the SMEs account for 95 per cent of firms. SMEs in the trading sector typically have up to 75 employees and a maximum turnover of Dh250 million (\$68 million). The major handicap faced by the SMEs in UAE is the limited finance availability as loans are awarded on a name basis to limit risk exposure. Their counterparts in countries like Saudi Arabia, Kuwait and Oman are getting more support from public sector bodies and major financial institutions to expand the true economic potential of SMEs. Financing remains the greatest challenge and it needs strategic partnership between governmental departments and the private sector to tackle this problem.

With a view to develop Dubai as an SME development hub and to enhance the focus of Government of Dubai on SMEs, an agency, Dubai SME100 has been formulated to categorically review SMEs based on their performance across a set of financial and non-financial parameters. This was launched by the Dubai Department of Economic Development to serve as an invaluable, holistic tool to identify the capability and development gaps of SMEs and address them effec-

tively. It indicates the enhanced focus of the Government of Dubai on SMEs as a generator of long term social and economic development. Outstanding review of non-financial metrics like innovation, international orientation, human capital development and corporate excellence are done effectively by Dubai SME100.

In July 2011, Department of Economic Development (DED), Government of Dubai, has signed a partnership agreement with Commercial Bank of Dubai to offer benefits to the top 100 SMEs. Similarly banks such as Abu Dhabi Commercial Bank (ADCB), Mashreq bank and Standard chartered Bank have entered into similar agreements.

Encouraging the growth of SMEs would effectively curb the monopolies of larger enterprises enabling flexibility in economies around the world. It can provide grounds for a skilled industrial base paving way for better GDPs through higher value added services. Substantive improvements need to be initiated to ensure that these excellent engines of job creation, innovation and economic growth accomplish their true potential.

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