

GCC encourages robust SME ecosystem amidst challenges

IN SAUDI ARABIA, small and medium enterprises, or SMEs, contribute around 33 per cent to gross domestic product and comprise nearly 25 per cent of the labour force. The Saudi Arabian General Investment Authority is supporting SMEs with incubator programmes, which will focus on innovation. SMEs can offer large enterprises complementary services and absorb the fluctuation of a modern economy. The access to financing is a major challenge for SMEs; however, the lack of reliable financial information, specifically audited financial accounts, are creating challenges for banks to lend in Saudi Arabia. Lending under the nation's SME Loan Guarantee Programme, known as *Kafalah*, plunged 76 per cent to \$153 million in 2014 as banks tightened rules. There is a need to educate prospective SME owners on basic accounting, management and marketing skills, thereby bringing more discipline in financing planning as well.

In the UAE, SMEs contribute to over 60 per cent of GDP and provide around 86 per cent of employment in the private sector. The government has given thrust to the SME sector through the Khalifa Fund in Abu Dhabi and Dubai's SME programmes, which are aimed at developing small businesses. In 2014 a federal law was passed for SMEs, in which 10 per cent of contracts by government entities will be awarded to them, exempted them from certain customs taxes and also



DATELINE DOHA
Dr R. Seetharaman

offered other incentives. SMEs that have business models that are export-oriented were more resilient to the financial crisis as they had the opportunity to divert their business into other markets when the UAE market had slowed down.

The challenges mainly arise in credit assessment and risk management for such SMEs, which have their activities spread across various geographies as banks need to understand the risks emanating from such activities. The UAE's Al Etihad Credit Bureau has begun issuing credit reports on commercial organisations in the UAE since March 2015, which can improve the lending rate to SMEs.

Qatar Development Bank, or QDB, is committed to advance the economic ambitions of Qatar's National Vision 2030, ensuring Qatari SMEs are partners in and beneficiaries of Qatar's remarkable eco-

nomie journey and growth. Recently, QDB and Doha Bank signed the Al Dhameen Indirect Lending Credit Guarantee Programme — Portfolio Product, under which Doha Bank would be free to extend financing either once or as revolving limits, by applying their own credit criteria whilst ensuring that Doha Bank follows QDB's Minimum Risk Assessment Criteria in approving finance applications without referring them to the guarantor (QDB) for approvals. This programme will cover sectors such as manufacturing, healthcare, education and tourism, which are important sectors in contributing to Qatar's diversification story.

QDB's credit rating model is a hybrid model that rates a project on the basis of its financial and non-financial parameters. The portfolio product offering will help to reduce the turnaround time by trimming down the processing cycle and thereby enable to provide a quick financing solution to new and existing SME customers.

SMEs make up 65 per cent of businesses in Oman, but they only contribute 15 per cent to the country's GDP. The Central Bank of Oman has identified four key sectors as the paradigms of SME opportunity — transport and infra-

65%

of businesses in
Oman are SMEs



In the UAE, SMEs contribute to over 60 per cent of GDP and provide around 86 per cent of employment in the private sector. — Reuters

structure, manufacturing, healthcare and tourism. The central bank has given banks until December 2015 to comply with a stipulation to provide a minimum of five per cent of their total commercial loan to SMEs.

In April 2015, Kuwait's SME fund inked a cooperation agreement with the World Bank on the second phase of its programme to support the SME sector. It will fo-

cus on areas such as creating a supportive environment for SMEs, developing SMEs, promoting entrepreneurship and setting a monitoring and assessment system. Young Kuwaitis who work in the public sector can tap into the fund to start a small business.

SME lending penetration is very low in GCC countries, with the UAE providing only four per cent of SME loans; Saudi Arabia, Kuwait

and Oman two per cent, Bahrain one per cent and Qatar only 0.5 per cent. However, the GCC economies continue to take various initiatives to improve the SME ecosystem amidst various challenges in the sector.

The writer is the group chief executive officer of Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.