

# Workshop on SME development in the Gulf Region

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On the 20<sup>th</sup> of October 2011 representatives from the Chambers of Commerce from the member states of the Cooperation Council for the Arab States of The Gulf (GCC) met to discuss the conditions for SMEs in the region. The meeting was hosted by the Bahrain Chamber of Commerce and Industry (BCCI) in cooperation with the Federation of GCC Chambers (FGCCC). The meeting was facilitated by the Confederation of Danish Industry (DI) as part of the ARAB-EU Business Facilitation Network which is funded by the Danish Ministry of Foreign Affairs.

The aim of the meeting was to initiate a dialogue on conditions for Small and Medium Sized Enterprises in the Gulf Region and in the European Union. The work shop identified a series of key challenges that SMEs are facing in the region and by using inspiration from SME policy in the European Union it was discussed, how the Chambers of Commerce can contribute to improve the conditions for SMEs.

The workshop gathered both staff and member companies from the Chambers. The full list of attendants can be seen below.

This report gathers the findings of the day and provides and outlines a plan for the continuation of the Network's efforts to improve the conditions for SMEs in the Gulf region.

## **Background for the workshop**

The workshop consisted of three presentations which outlined the objective of the workshop and the current conditions for SMEs in the Gulf region and in the European Union. The presentations were followed by a discussion with the objective of determining the main obstacles for SMEs in the region and work on developing recommendations for improvement.

The meeting was opened by Mr. Abdulrahim Hasan Naqi Secretary General of the Federation of GCC Chambers who welcomed the opportunity to address the obstacles SMEs are facing in the region. He saw the work shop as a forum where the Chambers of the FGCCC could meet to learn from each other and from best practices of the European Union. In relation to the last point he welcomed the participation of Mr. Jesper Friis and Mr. Sune Jensen from the Confederation of Danish Industry.

Afterwards, Mr. Friis gave a short presentation of DI and the purpose of the workshop. The workshop is part of the ARAB-EU Network which aims to forge closer ties between the business organisations of the two regions. This will lead to better understanding of the business conditions and allow the involved organisations to profit from each others' experiences. The workshop was the first in a series of three. The topic of this working session was SME development and the objective was to identify the main obstacles SMEs are facing in the region and jointly develop suggestions for improvement using the local knowledge from the Chambers and the international experiences presented by DI. The final output of the three

workshops will be a position paper with specific proposals to improve the business conditions for SMEs in the region.

## **Current conditions for SMEs**

Two presentations were held to outline challenges and responses. Dr. Haitham Al Qahtani presented the findings of a study on SMEs in Bahrain. The study compared the structure of SMEs in the Gulf region with the structure in Europe and South Korea. His main conclusion was that while the proportion of SMEs is similar in the three regions (about 99 %) the value of SMEs to the total economy is quite different. The value addition of SMEs is much lower in the Gulf region than in respectively Europe and South Korea. In addition, SMEs employed fewer of citizens of their countries than in the two other regions. Finally, SMEs were less integrated in the rest of the economy than in the other regions. In his opinion there was a need to transform the economies in the region to a knowledge based economy to improve the performance of SMEs.

Mr. Sune Jensen described the current situation for SMEs in Europe and what the European Union does to support the development of SMEs. SMEs are an important factor in the European economy as they provide two thirds of the total private employment and around 80% of new jobs created over the past five years. The European Union works hard to improve the conditions for SMEs and in June 2008, the EU adopted the Small Business Act for Europe (SBA). The SBA serves as a framework that through ten priorities describes what should be done both on a national and European level to improve the conditions for SMEs. The ten priorities are:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the "Think Small First" principle
4. Make public administrations responsive to SMEs' needs
5. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

Mr. Jensen then gave a more in-depth description of some of the major policy areas with particular relevance for SMEs like better regulation; entrepreneurship; finance; business support; and innovation.

## Working session

After reviewing the current conditions for SMEs the participants had an open discussion on the main obstacles SMEs are facing in the region. It was clear that there were some structural issues to address but also that a major problem was the culture of the population which does not engage in entrepreneurial activities often enough. One of the participant told of an incubator to support entrepreneurs in the region which received very low interest. This perception is supported by the latest Global Entrepreneurship Monitor (GEM) report. Saudi Arabia is the only country from the region which is included in the report. The data here show that even though the population has a very favourable perception of the conditions for entrepreneurship in their country only 1 p.c. has intentions of becoming an entrepreneur which is in fact the lowest number among the surveyed countries<sup>1</sup>.

Several structural issues were discussed but there was agreement that the three main obstacles were:

1. Access to finance
2. Internal capacity in SMEs
3. Innovation

It is the responsibility of both the governments and the private sector to work together to solve these issues. In this process it should be recalled that there is not uniform solution to these obstacles. The obstacles themselves can vary between the countries and solutions have to be adapted to local circumstances. Below the three issues are treated individually.

### *1. Access to finance*

Like in many other countries access to finance poses an obstacle for SMEs which limits their possibilities to expand their business. This limits growth and job creation among SMEs. There was some discussion on how big the problem is in the region as some of the participants were of the opinion that there was adequate capital in the region. After discussing the issue it became clear that even though the financial sector disposes of substantial funds it is difficult for SMEs to access them. Currently the banking sector is the only possible source of financing but they often require high collateral and information that SMEs are not able to provide. There are therefore two sides of the problem:

1. The banks requirements of information and collateral are difficult to meet for SMEs.
2. SMEs lack the skills to provide the information in form of accounts and business plans that the bank requires.

The participants at the workshop agreed that government institutions should work to create access points for SMEs to apply for capital that would be more risk willing than the banking sector. In addition, information and training should be provided to SMEs in an effort to upgrade their capacity to construct business plans.

The discussion resulted in the following recommendations for overcoming this obstacle:

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<sup>1</sup> Global Entrepreneurship Monitor 2010 Global Report, p. 17. It should be noted that the figures are quite volatile from year to year.

- Shorter processes for start-up loans
- Training should be provided for SMEs
- Make incentives for larger companies to make contracts with SMEs
- A contract should be able to serve as collateral when applying for a loan
- Trading with SMEs should be part of larger companies CSR

Access to finance is also a major obstacle for SME growth in the EU and the consultants from DI provided the following examples for solutions from their region:

*Guarantees:* Both the European Investment bank and the Danish government provides guarantees for banks that provide loans to SMEs. By guaranteeing a large part of the loan, the public sector minimizes the risk for the banks which leads to increased flow of capital. Using the banking sector has the advantage of using an existing system which is a natural contact point for SMEs looking for loans. The disadvantage is that there is a tendency for some banks to evaluate loan applications along the same lines as they would do without the guarantee scheme which decrease the effectiveness of the scheme.

*Investment funds:* Both the EIB and the Danish "Vækstfonden" provides Capital for venture investments and mezzanine capital for SMEs, either via direct investment or via investments in other funds. For "Vækstfonden" the capital will often be linked with advisory services on the business plan of the company.

*Information and training:* The public sector in Denmark provides a range of training opportunities for entrepreneurs through the regional "Growth houses". In addition, DI and the banking sector have jointly developed a guide for enterprises on how to prepare for applying for loans at the bank.

## **2. Up gradation of skills among SMEs**

SMEs in the region lack adequate skills to achieve growth; competitiveness and exports. There is a need to support SMEs with training courses and information on how to run and expand their business. There is a need to improve the public business support infrastructure in order to assist SMEs to achieve growth. This can be in terms of support to development of business plans; productivity courses; leadership; accounting etc.

The discussion resulted in the following recommendations for overcoming this obstacle:

- More possibilities for business incubation
- Establish national entrepreneurship centres
- Develop entrepreneurship programmes
- Training courses
- Provide market information
- Orientation on entrepreneurship at schools and colleges

### **Best practices from the EU:**

*Enterprise Europe Network:* A system of 580 information offices in the European countries that provides information about doing business in other EU member states and provides matchmaking activities. The network also has an office in china. The system is not very widely used by SMEs who are not adequately

informed of the guidance it provides. In addition, the system is not well coordinated with national initiatives.

*The Danish Business support infrastructure:* The Danish system provides support on two levels: The municipalities offer guidance on basic matters like business registration; accounting and so on. The five regional "Growth houses" provides information on business plans; training; export potential and guides enterprises to other support schemes like technology; finance and innovation. The most important rationale behind this system is to make a coordinated entrance where SMEs can find all the necessary information they are in need of and receive guidance on the different public support programmes. This ensures that SMEs receive the right guidance and that there is no duplication in the public programmes.

### **3. Innovation**

Innovation is essential for the productivity and the competitiveness of SMEs in a globalised economy. It is also important to increase the value addition in the companies and transform the economy to be more knowledge based. Presently the innovative capacity among the companies in the region is simply too low.

The discussion resulted in the following recommendations for overcoming this obstacle:

- Establish innovation centres
- Explore the role of corporate entrepreneurs in creating new projects and starting up new companies

#### **Best practices from the EU:**

*European programmes for research and development:* The European Union provides several programmes that support SMEs with funding for research and development. The most important programme is the 7<sup>th</sup> Framework programme, others are Eurostars; Competitiveness and Innovation Framework Programme; Information and Communication Technologies Policy Support Programme (ICT PSP). The problem with the European programmes are that they it is difficult for SMEs to access them. The difficulties arise from demands of cross border partnerships; lack of knowledge of the programmes; and especially from bureaucratic procedures. The conclusion it that innovation is better supported locally.

*The Danish support for innovation:* The Danish system provides support through technology institutes where SMEs and entrepreneurs have access to tech transfer and research capabilities. The institutes can solve specific tasks of companies or work together with the company on longer innovation projects. The technological institutes work closely with the "growth houses" and thereby form an integral part of the business support infrastructure. Companies pay for the services from technological institutes.

*Increasing the educational level in SMEs:* Analysis show that enterprises that employ persons with higher education degrees are more likely to experience growth. Therefore the Danish government supports SMEs by subsidising salaries for persons with higher education. Through the "knowledge pilots" a SME can get up to 2300 usd per month in up to 12 months.

#### **Other items**

In addition, to the issues described above other obstacles were discussed but due to time constraints these were not treated as thoroughly as the three main issues. These issues were:

- Bureaucracy
- Giving expats better access to the formal economy
- Foreign Direct Investments

## **Work plan and way forward**

The next step will be for the network to analyse these challenges further and then convene again to use the information to develop specific recommendations for improvement of the three main issues. It is suggested that participants from the chambers will convene again in Copenhagen on the 24<sup>th</sup> of January. The Network will meet again in March to finalise the recommendations and develop a plan for promoting the recommendations in the position paper. The Oman Chamber of Commerce and Industry (OCCI) has offered to host this meeting.

Before the next meeting it is suggested that the chambers investigate the following questions on the three issues:

### **Access to finance**

- It should be investigated if there presently are any support schemes for access to finance in the five countries.
- A survey or focus group meeting should be conducted to provide facts on how the problem is perceived among SMEs
- A meeting or seminar should be arranged with the banking sector to investigate if solutions could be jointly developed.

### **Up gradation of skills among SMEs**

- It should be investigated if there presently are any support schemes for SMEs and how well they are coordinated
- A survey or focus group meeting should be conducted to provide facts on how the problem is perceived among SMEs and what knowledge they are in need of

### **Innovation**

- Examine present possibilities for SMEs to access technological knowledge
- Examine number of persons with academic degrees employed in SMEs
- Examine number of persons obtaining an academic degree per year