

SMEs in GCC need more support

Small and medium enterprises are in the spotlight as governments across the GCC try to help them in their hour of need. **Ritwika Chaudhuri** reports.

A.T. Kearney estimates that the GCC's small and medium enterprise (SME) segment is likely to contribute an additional US\$100 billion to the region's GDP and create up to two million jobs in the coming years. But for that scenario to happen, the sector would also require government support and nurturing.

The recent global meltdown has been a lesson for policymakers on the importance of this segment in the economy. Although SMEs are more resilient to economic downturns than large corporates, they have this time been hurt by a squeeze in margins and the liquidity crunch.

The good news is that some of the GCC governments, particularly in the UAE, have been timely in recognising the need to back this business segment, not merely as a corrective measure but also in a more proactive manner.

Challenges and solutions

The bad news is that in spite of their significant contribution to global and regional economies, SMEs continue to face numerous challenges, both near home and overseas. At our

own local markets, start-up costs continue to remain high, including registration fees and rentals. Access to capital is extremely difficult and operational expenses remain high. In fact, understanding the requirements of banks and developing the required expertise to fulfil those requirements is a big challenge for the SMEs in this market.

Chris De Bruin, head of consumer banking for the UAE at Standard Chartered, adds that the immature infrastructure, weak track record of the enterprises, lack of best practices in terms of SME stimulus and inadequate government guarantees make it even more difficult to do business.

A Dun & Bradstreet survey estimated the loan rejection rates in the UAE for SMEs in the range of 50-70 per cent. More than 50 per cent of SMEs have difficulty accessing credit, said the survey.

Vikas Thapar, general manager of consumer finance and head of SME business at Emirates NBD, says

that the economic meltdown had a negative impact on the segment, as these enterprises found it even more difficult to borrow. This also resulted in most enterprises having to hold back expansion plans, with the troubled ones nearly winding up, he adds.

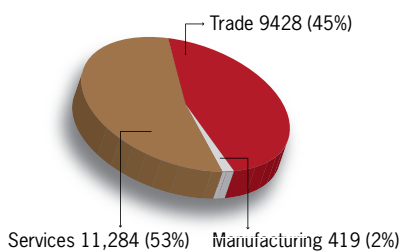
Loan defaults have also been on the rise among these enterprises. But as the overall ticket size of loans to SMEs is small, the relative impact on the bank portfolio is low, Thapar notes.

Challenges faced by SMEs in the UAE are varied, depending on the sector. But across the board, the weakening of consumer demand in the UAE and across the region is posing a new challenge. For SMEs in the construction and contracting business, the fall in real estate demand and consequent slowdown in projects have been a major challenge. It is the same for businesses involved in the retail and wholesale trade sector, where slowdown in global trade and weak domestic demand are leading to a reduction in margins and an increase in



Chris De Bruin

Sales turnover of more than AED15 million in UAE excluding Abu Dhabi (2008-2009)



Source: Emirates NBD SME Banking Division

Key banks focusing on SMEs in the UAE

HSBC	One of the world's largest banks, worldwide SME strategy
Standard Chartered Bank	Large international bank, in SME business for a long time
RAKBANK	Rapidly growing, widely regarded as a leading innovator, aggressive in marketing to SMEs
Mashreq	Especially popular with retailers
National Bank of Fujairah	Especially popular in the northern emirates
ADCB	One of the UAE's largest banks
Citibank	Small SME division, but regarded as innovative by other bankers

Source: Dun & Bradstreet (SME finance in the UAE 2008)



Sultan Bin Saeed Al Mansouri, UAE minister of economy, has said that the ministry will be the federal authority responsible for developing the country's SMEs following an official request from the cabinet.

Nicholas Levitt, regional head of business banking at HSBC, says that government support for SMEs is increasing throughout the Gulf and not just in the UAE, with nearly every country highlighting the business segment as a priority sector.

"We have seen substantial liquidity injection, government stimulus and aid, as well as deposit guarantees, all of which will have a positive impact on the SME sector," he adds.

Levitt especially underscores the swift and decisive steps taken by the UAE government to bolster trade in this challenging environment.

"Recent action by the UAE government to reduce the cost of setting up and conducting business in the UAE is a clear indicator of its commitment to maintain a business-friendly environment," he notes.

Individually, Abu Dhabi and Dubai are developing laws on frameworks for the recognition and regulation of SME business. Abu Dhabi, for instance, is working on a package of policies aimed at making the economy even more innovative by paying special attention to knowledge-based small businesses. Some of the major steps include abolition of the minimum capital requirement of AED150,000 for setting up a limited

inventories. SMEs are more vulnerable to reducing margins, since they have fewer financial buffers than their larger counterparts. SMEs in the services sector have also been hit, especially those related to discretionary spending, such as marketing, advertising and recruitment agencies.

But Pawan Bindal, associate director at Dun & Bradstreet, argues that the economic meltdown is a chance for SMEs to get their act together by recasting their business models and looking for new opportunities. He adds that most problems for SMEs stem from structural issues, which they have to correct.

A.T. Kearney, which has vast experience working with governments and SMEs across the world, is of the view that the GCC can learn from the European experience to create a successful SME sector. Governments can support this segment by creating systematic business development opportunities and supporting product and service innovation via SMEs.

"Developing the competitive skills required for growing an entire new industry can take years to achieve and typically demands large capital injections. Tactically, supporting the SME sector is less capital intensive, quicker to execute and generates added value faster," says Matthieu de Clercq, senior manager of A.T. Kearney Middle East.



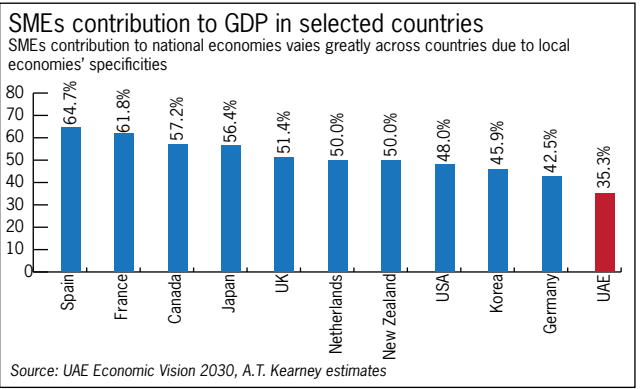
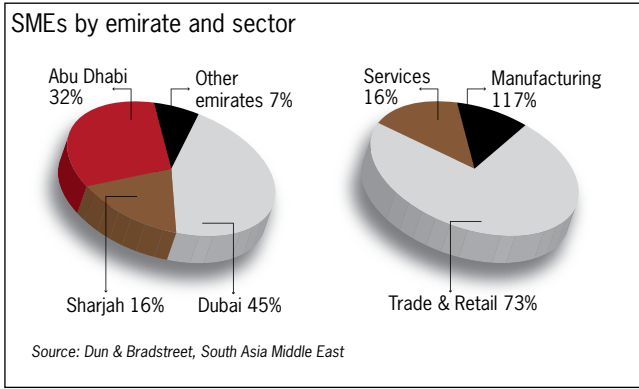
Nicholas Levitt

Government initiatives

Doing its part to support the business segment, the UAE ministry of economy is encouraging banks to lend to SMEs. Also recognising the importance of this sector, the UAE government has taken a number of important initiatives over the past couple of years and has announced a national plan to drive economic development by enhancing the role of SMEs as a major supporter of the national economy.



Vikas Thapar



SMEs control 95 per cent of businesses worldwide

SMEs control 95 per cent of the business sector worldwide, contributing between 35-45 per cent of the global GDP and 85 per cent of the world's labour force, according to A.T. Kearney estimates. This segment also represents an estimated 40-60 per cent of global employment.

A.T. Kearney research in emerging markets shows that successful SMEs create jobs at a rate that is four times faster than the rate of larger corporations, as well as revenues and GDP at a rate that is six times faster than the rate of larger corporations. This is largely due to the fact that successful

SMEs tend to grow more exponentially than large blue chips and established businesses.

In the GCC, the contribution of SMEs to employment generation, national income and business sectors are vital. Around 230,000 SMEs in the UAE contribute anywhere between 85-95 per cent of the country's total business sector, one-third of the UAE's GDP, and are one of the fastest growing sectors (20-25 per cent during 2008) in the country. UAE-based auditing and consulting firm Morison Menon estimates the SME segment's contribution to the UAE's GDP at around 30 per cent, including the contribution

from the oil sector. The contribution is in the range of the world average of 70-80 per cent if the country's non-oil GDP is considered.

In Abu Dhabi, as per 2005 data (Abu Dhabi Vision 2030), SMEs constitute about 58 per cent of all private sector employment. They contribute about 46 per cent to non-oil GDP and about 24 per cent to the overall GDP of the emirate. As per data from the Dubai Statistical Centre, 98.5 per cent of registered enterprises in Dubai are small and medium businesses, employing about 61 per cent of the total workforce.

liability company in the SME segment, a decision highly acclaimed by industry experts.

Bindal says that this move boosts entrepreneurs to set up new businesses in the UAE without having to arrange funds for minimum capital requirements.

"It will encourage new business formation in sectors like trading and services, where business models may not necessitate high capital investments. Moreover, the new decree could encourage informal micro businesses to join the formal sector and further enhance the UAE's position as a business-friendly regulatory environment," he adds.

This move should also improve the UAE's ranking in the World Bank Survey on Doing Business, which currently ranks the UAE 113th globally and 12th in the MENA region on the parameter of "ease of starting a business".

Another large initiative aimed at supporting SMEs is the Mohammed Bin Rashid Establishment for SME Development (MBRE), formally known as the Mohammad Bin Rashid Establishment for Young Business Leaders, launched in 2002 to encourage the entrepreneurial

spirit in Dubai and foster growth of the emirate with SMEs as a key sector of the economy.

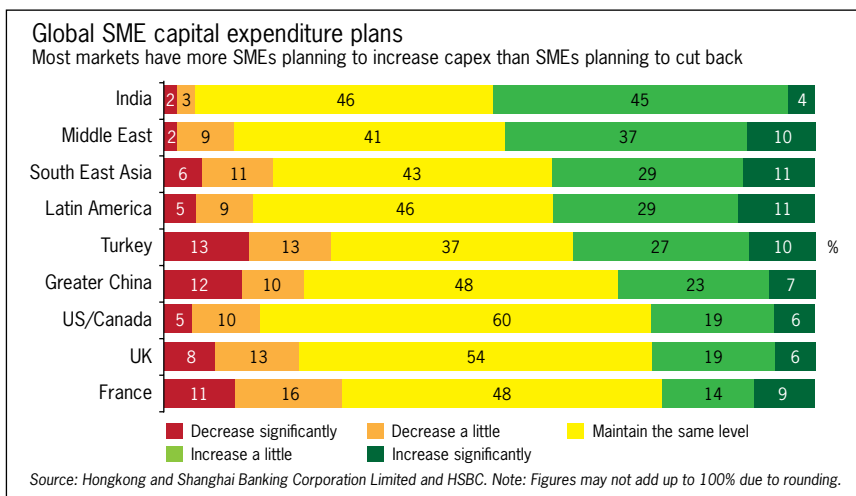
During December 2009, MBRE announced the first official definition for SMEs in Dubai, aiming towards arriving at a common language that integrates the perspectives of all stakeholders and sectors that support SMEs. The definition is now used as an initial standard to identify the categories of SMEs and measure the effectiveness of policies and programs related to the sector.



Pawan Bindal

Abdul Baset Al Janahi, CEO of MBRE, says that MBRE will be rolling out several initiatives this year to further support this business segment. These will include setting up a Dubai SME Council, launching the SME 500 programme, formulating the SME five-year plan and conducting the Annual SME Development Needs Survey.

It is also worth mentioning that the UAE government has taken major steps to encourage entrepreneurship among nationals through various programmes, including creating provisions of seed funding for SME projects. The Khalifa Fund for Enterprise Development has been set up to empower and diversify local organisations consisting of Emirati



businessmen and businesswomen alike. The UAE government has also recently approved the creation of Emirates Development Bank, aimed at providing finance to this business segment.

Another important initiative has been the signing of an MoU between the UAE ministry of economy and Tanmia, the national human resource development and employment authority, for strengthening awareness of SMEs and developing the skills of UAE nationals to be effectively involved in this vital sector.

The role of banks

It was anticipated towards the end of 2007 that 15 banks in the UAE would be providing comprehensive solutions to SMEs, up from eight banks providing full-fledged services at that time. This was mainly due to the high growth rate recorded by SMEs at 30-35 per cent per annum at that time.

Experts were also expecting the SME banking revenue pool to grow at a rate of 20-22 per cent from US\$1 billion to US\$1.2 billion in late 2007. Things did not exactly go in that direction, as the global meltdown impacted the market. With minimum government guarantee and a slowdown in sectoral growth, cash strapped banks have become cautious lenders.

Banks cite various other reasons why they are conservative lenders to the SME segment today, including uncertainty and market volatility. In the UAE, some of the top SME lenders include HSBC, Standard Chartered, Citibank, Mashreq, Emirates NBD, RAKBANK, Union National Bank and National Bank of Fujairah.

Although data is not available, sources say that HSBC is the leader in SME business in the UAE. The bank set up its SME specialised unit in 2003. Last January, HSBC and the UAE ministry of economy signed an MoU to support the international expansion of the country's SME businesses. HSBC has launched a US\$100 million fund specifically for UAE companies with a turnover of US\$30 million or less to support them in cross-border business. Lending from



Matthieu de Clercq

the fund will be made to SMEs that need working capital finance for international expansion. Emirati-owned businesses will be given priority.

There are a number of other initiatives in this segment from other banks. In 2008, Dubai First launched a business credit card in association with Visa International to cater to the region's SME sector. In 2009, Abu Dhabi Islamic Bank launched a new Shariah-compliant covered card for SMEs, while Noor Islamic Bank offered a profiling and rating service to give credibility to customers who did not have credit profiles or balance sheets. The bank also claims to offer competitive financing rates of about 300-400 base points, which is lower by

three to four per cent compared to what its peers offer in the market.

But there is still much more to be done for the segment in the region. Apart from setting up a dedicated institution for SMEs to help them with training, marketing and risk management skills, as well as with accessing capital, there is a need for exchanging credit information among different banks to help increase lending to this segment. It would also not be a bad idea for governments to encourage SME lending by giving various incentives to banks, suggest experts.

Government support will be necessary in a number of other areas, especially those that will help reduce the cost of doing business in the UAE and in the rest of the GCC. SMEs need this help badly to do well for all stakeholders in the years ahead.

