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EUROCHAMBRES/FGCCC report presents obstacles to SMEs in the Gulf Region

Bureaucracy, access to finance and human resources are among the top obstacles hindering the development of small and medium enterprises (SMEs) in the Gulf Region, according a new EUROCHAMBRES/FGCCC study.

The report*, presented today in Doha (Qatar) on the occasion of the 30th anniversary of the FGCCC, indicates that despite the Gulf Cooperation Council's (GCC) strong entrepreneurial tradition and the large size of the Gulf SME sectors, small businesses do not yet fully live up to their potential of diversification and job creation. Most of the challenges identified are common to SMEs worldwide; others are GCC-specific. The main ones are listed below.

Bureaucracy

One of the most important obstacles identified by the study is bureaucracy, named as significant impediment by 65% of respondents in a Riyadh Chamber of Commerce study. While larger companies might find it relatively easy to deal with national administrations that at times are opaque and slow-moving, smaller players often have to spend considerable time and resources in their interaction with the bureaucracy. Typically, the regions with higher administrative costs to doing business are also those with the lower shares of SMEs.

Financing

Finance is a key challenge for SMEs worldwide, but tends to be particularly stifling in emerging markets. Significantly, banks in the United Arab Emirates in 2008 rejected 50-70% of credit applications from SMEs due to the higher risk and due to applicants' failure to meet loan conditions. Banks are particularly wary of start-ups ups: few companies which have not been in business for at least two to three years receive any finance. In addition, when a loan is issued, interest rates are often 10 percentage points above Central Bank rates.

The most limiting factor to SME lending, however, are the accounting practices of most small companies in the region. 95% of enterprises in the GCC are single proprietor companies and the distinction between company and private assets is often hazy. Owners frequently have only a rudimentary idea of their balance sheets and lack proper accountancy training. In Europe, more than two thirds of SMEs share their balance sheets with their banks, while in the Middle East region the share is less than half.

Human resources

Workforce issues are another main challenge for Gulf SME managers, who suffer from limited access to talented manpower. This has to do with the better salaries that larger companies can provide, but also with the lack of career plans and long-term prospects for SME employees. Very few companies have a clearly structured human resources policy. The resources available for upgrading SMEs' human resources are limited: although every GCC country has a plethora of private training institutes, these are often expensive, charging up to 3000 $ for a few days of training in accounting or business planning.

"Cover-up businesses"

One administrative and managerial challenge that is unique to the Gulf – at least in terms of scale – is that of "cover-up businesses", *tasattur* in Arabic. These are companies which are registered under the name of a national, but are in fact mostly financed and run by an expatriate. They have come into being because specific sectors are officially barred to foreign investors, or at least require minimum investment levels that smaller expatriate entrepreneurs cannot afford. As the practice is not formally recognised, there are no official statistics about it, but it is estimated that the total number of *tasattur* businesses could amount to 250,000 or more in the region (a third of total Gulf SMEs). Cover-up businesses make it harder for real national entrepreneurs to compete in markets that are dominated by the practice.

In the light of these findings, EUROCHAMBRES and the FGCCC encourage their respective political leaders to enhance cooperation and benchmarking on SME-related issues, with particular focus on follow-up measures to evaluate existing – and potentially new – SME-support programmes in how they tackle the above challenges.

"Even if the free trade negotiations between Europe and the Gulf are not completed, dialogue between EU and GCC policy-makers should continue," said Alessandro Barberis, President of EUROCHAMBRES. *"Europe has a particularly rich experience with SME-support policies. An in-depth study of different programmes in Europe – both failed and successful – could greatly enrich the policy debate in the GCC."*

"*Our region offers a broad range of opportunities for European companies. Developing our SMEs means also increasing the number of potential partners for European businesses willing to become active in our region*," added Abdulrahim Hassan Naqi, Secretary General of the FGCCC.

*** The report "Benchmarking SME Policies in the GCC: a survey of challenges and opportunities" was conducted by the German Emirati Joint Council for Industry & Commerce (AHK), in cooperation with Dr. Steffen Hertog of Sciences Po/Paris, in the framework of the EU-financed programme "EU-GCC Chamber Forum". It can be downloaded from www.eurochambres.eu/content/default.asp?PageID=1&DocID=2365**

EUROCHAMBRES – EUROCHAMBRES, the Association of European Chambers of Commerce and Industry represents over 19 million enterprises in Europe – 96% of which are SMEs – through members in 45 countries and a European network of 2000 regional and local Chambers.

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FGCCC – The Federation of GCC Chambers represents more than 700,000 companies and 36 Chambers of Commerce from the six member states of the GCC, notably Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

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