

Qatar SME Sector

Sector Analysis

January 2019

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1. Importance of the SME sector

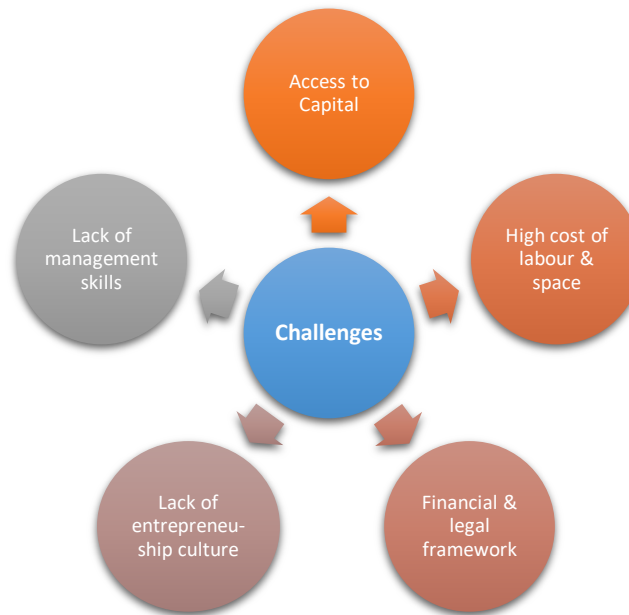
SMEs play an essential role in the economic development of a country. Their role in terms of employment generation and contribution to GDP is hugely critical. According to International Finance Corporation, SMEs contribute to nearly 64% of GDP and 62% to employment in developed countries. (Saleem, n.d.)

Qatar's economy is primarily dependent upon natural gas and oil industry, and as a result, lesser attention was paid towards the development of the SME sector in the past. However, a shift in government orientation from development to self-sustainability has led to a renewed focus on the development of the SME sector. Moreover, formulation of long term economic strategy (e.g. Qatar National Vision 2030) has led to a realization on part of the government, that the long-term consequence of overreliance on oil & gas sector will lead to unemployment and lack of economic diversification. Unemployment is a consequence of overreliance on oil & gas sector as it can lead to restriction of employment opportunities in the country to just one sector. Therefore, the development of SME's has become a priority for two fundamental reasons, i.e. it leads to economic diversification and sustainable development. Economy diversification is essential especially for a country like Qatar that is heavily dependent upon oil & gas industry. Moreover, the development of SME sector results in sustainable development as the economy is not dependent on a single major industry for its economic growth. Qatari government intends to move towards a sustainable & diversified economy, and Qatar National Vision 2030 is a visible manifestation of this intention.

2. Major Challenges faced by SMEs in Qatar

The domination of the Oil & Gas sector of Qatar is a major challenge for the development of the SME sector of the country as a few large corporations dominate the economy, thereby crowding out smaller enterprises. There are several key challenges faced by the SME sector in Qatar and some of these challenges are common across most of the global economics. This report highlights five

major challenges faced by SMEs in Qatar and these are as follows:



2.1. Access to Capital

Access to capital is the key constraint to SME growth, and many SMEs stagnate due to lack of funds. According to the World Bank, approximately 70% of all micro, small and medium-sized enterprises in emerging markets lack access to capital. Since SMEs are startups with limited cash flows and collateral, therefore, obtaining financing based on cash flows or collateral is not viable for them. On the other hand, Financial Institutions (FIs) require adequate collateral to safeguard their interests. As a result, SMEs are vulnerable to credit rejections by Financial Institutions, thereby making access to capital extremely challenging. According to a survey conducted in 2013, collateral requirements of FIs and interest on credit facilities were mentioned as the biggest challenge faced by entrepreneurs in Qatar. Collateral requirements and interest rate are interlinked as weak collateral increase credit risk for the FIs, leading to higher pricing being charged by FIs. Despite risks involved in SME financing due to lack of cash flows and inadequate collateral, massive potential for growth exists for FIs in this sector. The capital requirement of SMEs, and a total financing gap for Micro & SMEs in the Middle East & North Africa (MENA) is estimated to be in the range of US\$210 to \$240 Billion. Moreover, the World Bank survey of over 130 MENA banks shows that only 8% of lending goes to SMEs across MENA, and the percentage is even less in GCC countries at 2%. This is substantially lower when compared to developed countries average of 22%. (IFC).

2.2. High cost of labour & space

Expense management is extremely important for SMEs given limited availability of capital and non-existence of cash flows at the start of business. Therefore, the high cost of labour and space adds further constraints on SME activities.

2.3. Financial & Legal Framework

SMEs require enabling financial and legal framework to prosper. SMEs in Qatar face lack of enabling requirement due to insufficient regulations and inadequate financial infrastructure. Regulations are generic in nature, resultantly no specific regulations for SMEs. Moreover, financial infrastructure is inadequate as a comprehensive credit reporting system needs to be put into place. The benefit of a credit reporting system is that it can lead to increased financing for SMEs by providing reliable data to FIs, enable them to judge credit worthiness of SMEs.

2.4. Lack of Entrepreneurship culture

Entrepreneurship activity has a direct bearing on the growth of the SME sector. In Qatar, preference is accorded to government employment over business formation. Therefore, lack of motivation to establish business leads to lack of entrepreneurship. This lack of motivation is in part driven by a lack of entrepreneurial education in the country. Moreover, local ownership laws requiring 51% of an SME to be owned by Qatari, further limits entrepreneurial activity in the country as Qataris prefer government jobs and foreigners are unable to participate in entrepreneurial activities due to local ownership laws. (Fernandez and Ali, 2013)

2.5. Lack of Management Skills

Poor management skills, especially entrepreneurial & leadership skills are a concern and adversely impact the growth and sustainability of SMEs. Of all of the dimensions measured, the most important predictor of positive performance is entrepreneurship skills. There is a strong argument that entrepreneurship skills are positively associated with good strategic management practices, good HRM practice, and ultimately firm performance (Hayton, 2015).

3. Challenges faced by Financial Institutions in Qatar

Financial Institutions (FI) are integral to the development of the SME sector in any country. The role is that of an enabler which encourages and finances entrepreneurial activity in the country and

provides access to capital for development and growth of SMEs. Research conducted by Keasey and McGuinness regarding best approaches to financing small and medium-sized companies suggested that the efficiency of small and medium businesses increases if banks finance them due to their control and monitoring procedures. They concluded that the cost of funds in external financing is high; however, the rate of return is equally high, particularly if they are financed by banks (Fernandez and Ali, 2013).

Following are some of the challenges faced by FIs operating in Qatar and addressing these challenges will assist in the development of the SME sector. The major challenges faced by FIs in Qatar are as follows:

1. Elaborate documentation requirements.
2. High Turn-around-time in processing credit proposals.
3. High admin costs.
4. Thin margins leading to low returns in the SME sector.
5. Management incompetence of the company being financed.
6. Inability of FIs to offer profitable SME banking products.

The dominance of natural gas and oil industry has created an adverse lending pattern in Qatar Financial Institutions, and most of the banks are under lending. Reliance on high capital intensive, less risky segment keeps a steady profit line for banks and profitability is achieved without much effort and risk diversification. The overall financing of SMEs in Qatar also remains at a significantly low level. Moreover, major financial institutions do not recognize the SME segment as a distinctive business segment within their financial statements, e.g. financials of QNB (Qatar National Bank) shows a total of 5% against total bank's lending to SME segment. (Fernandez and Ali, 2013).

According to a survey conducted in 2013, entrepreneurs suggested that the following changes be made to the lending policies of banks or financial institutions (Fernandez and Ali, 2013):

1. Offer flexibility in collateral requirements (tangible and intangible collaterals).
2. Provide guidance and support in obtaining financing.
3. Improve TAT (Turn-around time) in deciding loan applications.
4. Provide concessionary interest rates.
5. Relax documentation.

- Finance future operations rather than current operations (growth aspect) and provide loans for start-ups without banking history.

4. Initiatives undertaken for the development of SMEs in Qatar

SMEs account for more than 80% of all companies registered in Qatar. The government in Qatar has taken numerous initiatives to promote the SME sector and these have been fruitful as Qatar was ranked first in the Arab region and 22nd globally on the entrepreneurship index for 2018, as per Global Entrepreneurship Development Institute (GEDI) - (Gulf-Times, 2018).

The initiatives undertaken for the development of SMEs include the following:



The table below summarizes the challenges faced by SMEs in Qatar and Government response. It must be noted that the Qatari government is cognizant of these challenges and is taking pro-active measures to address these challenges.

Sr. #	Challenge	Initiatives undertaken
1	Access to Capital	<ul style="list-style-type: none"> Al-Dhameen, credit guarantee programme SME shares listing on Qatar Stock Exchange
2	High Cost of Labour & Space	<ul style="list-style-type: none"> Qatar Business Incubation Center
3	Lack of entrepreneurship culture	<ul style="list-style-type: none"> Qatar Sportstech Accelerator
4	Financial & Legal framework	<ul style="list-style-type: none"> Legislation governing public-private partnership
5	Lack of management skills	<ul style="list-style-type: none"> Introduction of SME toolkit

4.1. Establishment of Qatar Development Bank

Qatar Development Bank was created in 1997 in order to diversify Qatar's economy by promoting development projects. The objective of Qatar Development Bank (QDB) is to develop and empower Qatari entrepreneurs and innovators to contribute to the diversification of Qatari economy, through successful SMEs that are able to compete in global markets (Qdb.qa, 2017). QDB has played an important role in empowering entrepreneurs. It launched a package of initiatives to support operations of SMEs including a specialized credit guarantee programme (Al-Dhameen), SME Excellence List and Entrepreneurship awards & Conference.

Qatar Development Bank launched a specialized credit guarantee program under their indirect lending program, called 'Al-Dhameen', which encourages commercial banks in Qatar to provide financial support to SMEs by guaranteeing 75%-85% of the principal outstanding to new as well as existing entities. This program has helped SMEs overcome the obstacles usually faced by startups such as lack of capital, lack of collateral security and absence of a financial history (Doha Bank Qatar, 2016). According to data released by Qatar Development Bank (QDB), the bank granted 417 services to Qatari entrepreneurs and small and medium-sized enterprises (SMEs) in 2017. The QDB successfully qualified more than 1,000 entrepreneurs and launched more than 500 local companies to reach international markets. The value of the approved guarantees through Al Dhameen programme amounted to QR 303 million in 2017, an increase of 17.4% as compared to last year (Gulf-Times, 2018).

QDB helps entrepreneurs in accelerating the growth of their activities in the SME sector, and such initiatives include SME Excellence List which highlights the successes of companies. It provides a platform to honour 50 companies for its efforts in pushing development and contributing to building a diverse and sustainable economy. Another initiative of QDB is Entrepreneurship Awards & Conference for owners of SMEs and Qatari entrepreneurs who have innovative ideas. Qatar Entrepreneurship Conference is a channel for launching small companies on the basis of just a small idea. The companies launched through these channels are now contributing to the Qatari economy, some of which have reached the stage of foreign exportation, which reflects the support and services provided by the concerned bodies in this sector to facilitate the work of entrepreneurs in an environment encouraging further production (Gulf-Times, 2018). Moreover, QDB SME Toolkit provides support to entrepreneurs by providing relevant procedures and requirements during all

stages of the business lifecycle, e.g. method for recruitment etc. It's an online tool to find relevant procedures and entities that an entrepreneur needs to deal with to take their business forward.

4.2. Qatar Sportstech Accelerator

Qatar Sportstech Accelerator is a platform for startups to scale up their business and demonstrate their product to leading corporations, sporting events and sports community (Qatar Sportstech, 2018). It is a centre that offers many events under the supervision of professional coaches with the aim of moving towards a solid foundation that launches new companies. It is the first of its kind in the MENA region and is expected to diversify its fields, especially in light of providing an ideal environment to promote business (Gulf-Times, 2018).

4.3. Qatar Business Incubation Center

Qatar Business Incubation Center (QBIC) was launched in 2014. The purpose of QBIC is to develop companies by offering space, support, technical workshops for light manufacture, smart financing, mentoring and coaching. Start-ups are offered space at QBIC free of charge, equity financing up to QR 300,000. These type of government initiatives has proven to be boon for entrepreneurship culture. According to a survey conducted in 2013, a number of entrepreneurs who stated that the motivation behind their establishment of a new business was opportunity is about seven times (82%) that of the ones who said that the motivation for establishing their businesses was necessity (12%).

4.4. SME shares listing on Qatar Stock exchange

Qatar Stock Exchange has launched new investment incentives to create the enabling environment for attracting local and international investments for SMEs. Listing of shares on Qatar stock exchange will provide an alternative option for financing for SMEs in terms of funding business operations with low cost and flexible terms & conditions (Qe.com.qa, 2018).

4.5. Encouraging collaboration between sectors

The economy of Qatar is dominated by large corporations in the oil & gas sector. Therefore, Qatari government intends to offer incentives to large corporations to collaborate with SMEs on various projects by sourcing supply chain e.g. QDB and Qatar Shell announced that 26 local SMEs were shortlisted for a tender in six business opportunities in the supply chain for Pearl GTL (Gas to liquid) in November 2016, the world's largest gas-to-liquids plant (Oxford Business Group, 2019).

Moreover, local SMEs were presented with a series of potential business opportunities at the third annual Government Procurement and Contracting Conference & Exhibition (Moushtarayat), held in Doha from April 23-25, 2018. The event brought together small companies, large firms and government agencies, allowing the public and private sectors to interact while also providing a platform for state entities to showcase projects open for tender or direct assignment. Moushtarayat saw more than 2,000 business opportunities with a combined value of around QR6.5 billion (\$1.8 billion) presented to SMEs, while 57 different state agencies were represented, covering most areas of public sector activity. Among the state agencies taking part was the Supreme Committee for Delivery & Legacy (SC), the authority tasked with delivering infrastructure requirements for the 2022 FIFA World Cup (The Peninsula Qatar, 2018).

In an effort to boost involvement of SMEs in the World Cup, the Supreme Committee announced it was making available QR700 million (\$192.3 million) worth of opportunities for local companies to provide services in preparing the main stadiums and training facilities for the event. While only a fraction of the estimated QR60 billion (\$16.5 billion) total value of projects showcased at the event were dedicated to SMEs, with most being directed to large entities, the SME-focused component represents a significant increase in terms of value when compared to previous years. In 2017 SMEs secured QR700 million (\$192.3 million) in public procurement contracts out of a total of QR2.5 billion (\$686.8m), more than double the QR300 million (\$82.4 million) posted in 2016. Expanding the segment & providing greater opportunities for smaller firms to take part in state-backed projects is seen as a significant source of employment & growth for local businesses (The Peninsula Qatar, 2018).

4.6. Improving the regulatory environment

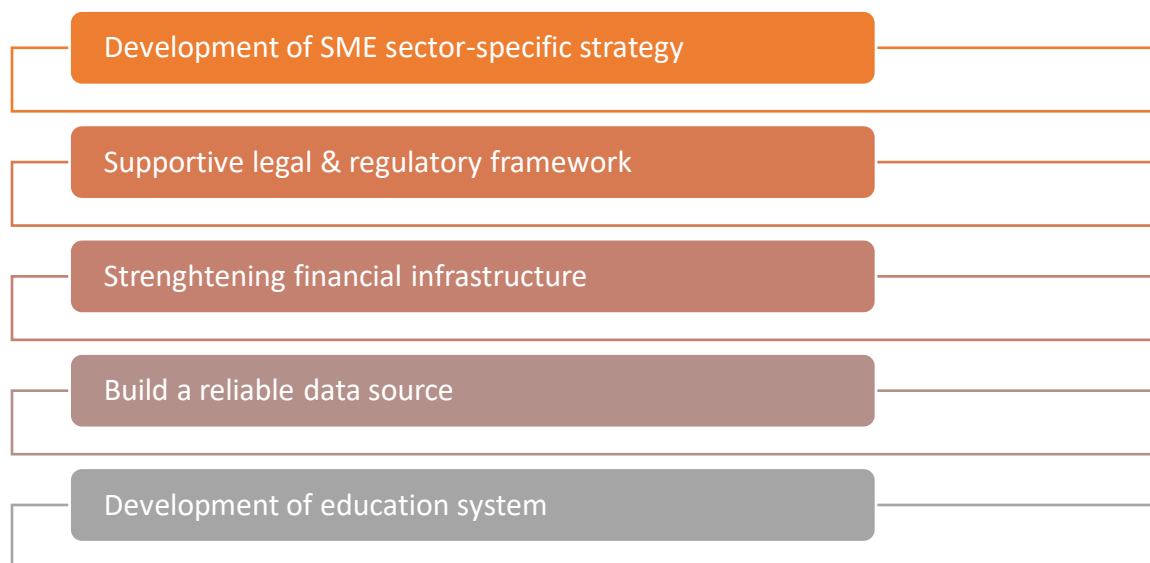
To encourage private sector development, the government has sought to improve the regulatory environment by outlining new legislation governing public-private partnerships (PPPs). The new legislation, currently in the draft stage, will outline the terms and conditions for those taking part in PPPs, with regulatory certainty expected to encourage both local and foreign companies to take part in major projects (The Peninsula Qatar, 2018).

5. Recommendations

The future for SMEs in Qatar looks bright, and the Qatar government's vision 2030 emphasizes the importance of SME contributions to the economy. The government's strategy for economic development under the Qatar vision 2030, is to promote private sector involvement in economic diversification to reduce the dependency on the hydrocarbon industry. (Fernandez and Ali, 2013). The SME sector is expected to see growth in the coming years, especially with the FIFA World Cup Qatar 2022 nearing. This will give emerging companies and entrepreneurs the chance to participate in this global event (Gulf-Times, 2018).

The Qatari government have rolled out plenty of initiatives geared towards providing a conducive environment for the growth of SMEs and is also committed towards the development of entrepreneurial culture in the country. However, room for further improvement exists.

Therefore, recommendations for further development of the SME sector are as follows:



5.1. Development of SME sector-specific strategy

The development of an effective SME finance strategy should be based on Qatar's SME finance gap and the quality of its SME finance architecture. The first step in the development of SME sector-specific strategy has been undertaken as QDB launched the National Definition of SMEs in Qatar, an initiative aimed at clearly identifying SMEs. However, regulations specific to SME sectors needs to be drafted, and entrepreneur's reservations such as elaborate documentation requirements and

collateral requirements need to be addressed. Moreover, incentives should be provided to Financial Institutions to encourage lending in the SME sector.

5.2. Supportive legal and regulatory framework:

An effective legal & regulatory framework promotes competition by avoiding overly restrictive licensing requirements and allows international and regional banks with better SME lending tools to enter the market. Competition among financial sector players can be promoted further by introducing technological platforms in key areas & facilitating a variety of financial products (Saleem, n.d.).

5.3. Strengthening financial infrastructure

Establishing a robust financial infrastructure should be a priority in financial development. Financial infrastructure includes auditing & accounting standards, credit reporting systems, insolvency and collateral regimes etc. The benefit of a comprehensive credit reporting system that help lenders better manage credit risk and the advantage of the existence of insolvency regime is that it can help restructure viable businesses while also promoting the effective exit of economically inefficient firms. Moreover, a well-functioning collateral regime characterized by a wide range of allowable collaterals (immovable and movables), establishment of clear priority rankings of claims over collateral, efficient collateral registries making priority interests publicly known, and effective enforcement of collateral in the case of default can further enhance risk acceptability of SME customers for financial institutions (Saleem, n.d.).

5.4. Build a reliable data source for SME finance

An effective data collection framework should include efforts to standardise the definition of SMEs, centralise the collection of supply-side data by the central bank/banking supervisors and other financial supervisors, and survey SMEs to identify and quantify underserved SME segments. Demographic data on SMEs by the number of employees, turnover, and asset size should be available. Annual business and financial reports can provide essential measures over time on the size and trends of the SME sector (Saleem, n.d.).

5.5. Development of education system

The Qatari Government needs to develop its education system by introducing courses and degrees related to entrepreneurship. Such an initiative would have a positive impact in promoting a culture of entrepreneurship and would also lead to an improvement in management quality of SMEs. It must be noted that the quality and competency of management is one of the critical parameters considered by financial institutions while providing financing to SMEs. Therefore, improving the management quality would lead to better access to finance for SMEs and less likelihood of rejections by FIs.

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