TOWARD ESTABLISHING A COMPREHENSIVE SME INSTIUTIONAL SUPPORT SYSTEM: THE CASE OF THE UAE

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Preamble

The United Arab Emirates (UAE) is one of the six oil producing and exporting countries that constitute the Gulf Cooperation Council (GCC); others are Bahrain, Kuwait, Oman, Saudi Arabia and Qatar. The six countries share many similarities in their economic, social, political, demographic and cultural structures. As a result of colossal incomes derived from exportation of oil and gas, the GCC governments embarked on executing huge modern infrastructural projects, and developing vast health and education facilities and other services in the last four decades. The enormous government investments pushed the level of economic activities to new unprecedented heights (see among others- Beblawi and Lunciani, 1987, and Abdelkarim, 1999).

The huge development projects called for importation of foreign labour, whose influx has been progressing at unparalleled level, and has led to a complete transformation of demographic structures in all countries of the GCC. Expatriates have become majority in population and labour force of the GCC region. While the GCC countries' stock of immigrant workers has been growing, their own local labour force has been facing increasing difficulties in finding jobs. Due to competition with the expatriates, locals have opted to seek jobs t in the public sector that is offering priority of relatively more-rewarding employment to them. "Concern of the governments is that public sector jobs are not expanding at a rate commensurate with that of an increasingly educated national labour force, and the private sector employment has become the unchallenged domain of foreign workers" (Abdelkarim, 2001/a: 2). Nationalisation polices aiming at expanding employment opportunities for the citizens have been developed in all GCC countries.

Introduction and Background to the Research Problem

Before signing the union between the emirates in 1971 (Abu Dhabi, Ajman, Dubai, Fujairah, Sharjah and Umm Al-Quwain; Ras Al-Khaimah emirate joined in 1972), their political umbrella was The Trucial States Development Council. The Council organised the first population census in 1968. By then, the local population formed majority (Table1). The 1970's witnessed significant transformations: the establishment of the UAE, production and exportation of oil and the start of massive infrastructural and social service projects and extensive economic activities. By 1975, non-citizens became majority in the population and labour force of the country, and ever since their proportion has been augmenting. The citizens formed 20.1% of the total population in the last census in 2005, and 11.5% only according to (the Government's latest) official estimates in 2010. Expatriates dominated the labour force by 90.9% in the latest census, making the UAE the world's extreme case of dependency on foreign labour.

UAE is classified by the World Bank as a High Income Country. According to the World Bank Country Data (World Bank, 2015), UAE GDP at current USD in 1980 was estimated at 43.6 billion; 1990: 50.7; 2000: 104.3; 2010: 286.1; and in 2014 at 401.6 billion. In 2014, GDP per capita at current USD was estimated at 42,522; and on the basis of international dollar (PPP) at 63,497- making the UAE to stand as the world's 7th highest.

Table 1- UAE Population and Labour Force - 1968-2010

Year	Population	Citizens %	Non-Citizens %	Total Labour Force	Citizens %	Non-Citizens %
1968	180,425	63.5	63.5	–	–	–
1975	557,887	36.1	63.9	293,788	15.2	84.8
1985	1,042,099	27.9	72.1	683,825	10.0	90.0
1995	2,411,041	24.4	75.6	1,335,894	9.1	90.9
2005	3,280,932	20.1	79.9	2,478,619	7.5	92.5
2010	8,264,070	11.5	88.5	–	–	–

Source: 1968-2005 Census Data (Ministry of Planning); 2010 estimates by National Bureau of Statistics, website accessed 22/7/2015.

While oil has been playing a paramount role in GDP formation in the UAE, growth of non-oil sectors has been substantial. Table 2 shows percentage contribution of the non-oil sectors to the GDP, and the annual compound real growth rate of these sectors in selected years- with 5-year intervals- in the period 1975-2014. Non-oil sectors contributed no less than 62% of the GDP from 1985. If we disregard the years of massive growth in the period 1975-1980, the annual compound real rate of growth of the non-oil sectors was minimally at 2.8% and maximally at 7.8% in the period 1980 and 2014 (with the 15 years preceding the world economic recession at 7.5% to 7.8%).

Table 2- UAE Non-Oil Sectors' Contribution to GDP and Annual Real Growth Rate: 1975 -2014

Year	Non - Oil as % of GDP	Non – Oil Annual Compound Real Rates of Increase
1975	41.6	–
1980	42.9	17.6
1985	62.1	5.2
1990	62.7	2.8
1995	65.0	7.8
2000	70.4	7.5
2005	62.9	7.7
2010	69.5	4.5
2014*	65.7	3.9

* 2014 GDP estimated by the source.

Source: Compiled from various tables from National Bureau of Statistics (2015) – website accessed 27/7/2015.

Together with significant increase in the population and the GDP, the UAE witnessed a large rise in the number of business enterprises. In the UAE, the population census includes count of (non-governmental) enterprises (see Table 3). Unlike the figures received from Economic Departments of the various emirates, which record all registered enterprises (regardless of being active or inactive), census figures tally only the active ones.

During the period 1980-2005, the number of active enterprises grew by 513% (6.76% compound annual growth rate). In the same period, UAE's population rose by 394% (at 5.64% annually) [(1)]. Among the seven emirates, Dubai accommodated the highest number of enterprises in 2005; 37% (up from 30% in 1980), and Ajman recorded the fastest, and Abu Dhabi the slowest growth rate.

Table 3- Number of Active Enterprises by Emirates and Census Year (1980 – 2005)

Emirate	1980	1985	1995	2005
Abu Dhabi	13207	17321	26970	50425
Dubai	10952	14864	29900	70152
Sharjah	6625	9918	18895	36584
Ajman	1671	2353	6095	11427
Umm Al Quwain	388	680	1373	2238
Ras Al- Khaimah	2944	4034	6683	12016
Fujairah	1060	1815	3347	6263
Total	36847	50985	93263	189105

Source: Ministry of Planning – Census 1980, 1985, 1995, 2005.

The majority of the enterprises are effectively owned by expatriates. However, the laws stipulate that enterprises should either by wholly or majority-owned by a UAE citizen. Exceptions to this are micro enterprises operating in certain crafts and all enterprises in the free-zones. To satisfy/go round the legal requirement, enterprises fully or majority-owned by expatriates are registered under the name of a local person (as owner or as majority shares holder), who receives a fee for this service as sponsor (locally called 'keel').

The last population census (2005) makes available the total number of employers and self-employed (business owners), but the number is not segregated by nationality group (citizens and non-citizens). The 2009 Labour Force Survey (National Bureau of Statistics, 2015) provides this classification as a percentage of all employed in the two respective groups. Using the two pieces of data, we can estimate the number of expatriate business owners at 77,969 and the number of local business owners at 4,820 (5.8 % of all business owners) in the last population census [(2)].

Research Problem/Objective

That only 6% of business owners in any country are citizens and the rest are foreigners poses enormous political and economic challenges to that country. In the UAE, major concerns raised were employment opportunities for the citizens and issues of economic sovereignty.

The UAE citizens (Emiratis) operating in the SME sector face fierce competition with the expatriates. Expatriates are more experienced and utilise own (same citizenship) networks within the UAE and in the country of origin. It is often the case that small entrepreneurs from a certain nationality or ethnic background control a certain line of activity within a certain locality making it difficult for outsides (citizens and non-citizens) to enter or to stay in the business (Abdelkarim,2001/b; Haan, 2003/a). Lucrative government and public sector jobs citizens enjoy, which means a high transitional cost to move to the business sector, lack of business experience of, and of 'role model' for, young citizens, fee derived as 'kafeel' of businesses (without taking risk of the business) and lack of institutional support system to Emirati-owned SMEs were cited among as main factors hindering Emiratis to enter (and succeed in) small business (Haan, 2002, 2003/a).

Since the early (and the first) works of the Ministry of Labour and TANMIA on Emirati SMEs-see section (1) below- discussions at various levels in the country have been going on on the need to enhance presence of citizens in the SME sector. In the last 10 years, a number of organisations in all emirates have been established to support Emirati SMEs. These, and a few other earlier programmes, have been engaged (or intend to engage) in some aspects of support to Emirati SMEs (see section 2 below).

The main objective of this paper is to contribute to laying down of (various aspects of) the institutional support system required for Emirati-owned SME development, and in doing so, the paper will be tapping on lessons learned from the Singaporean and other Asian experiences(3).

Framework, Methodology and Organisation

On the basis of international experience and literature, main pillars of the institutional support system for the development of SMEs are taken in this paper to include the following:

- Legislations, enabling environment and policy advocacy;

- Finance and financial Services;

- Business Development Services (BDS);

- Organisation and networking.

These will be used as a guiding framework for outlining what the paper considers as necessary interventions for the development of Emirati SMEs and of Emirati entrepreneurship.

What is considered as ‘necessary interventions’ will be expounded on the basis of benchmarking approach. Benchmarking and identification and transfer of best practices have been widely used in policy development (see, among others, Arrowsmith et al, 2004). Policy benchmarking is about assessing current situation/policies against selected (relevant) best practices.

Assessing current situation will be based on the following:

1- Brief literature review of works resting on interviews with Emirati entrepreneurs and on the GEM report on entrepreneurship in the UAE.

This will elucidate (part of) the present situation of the Emirati SMEs, characteristics of Emirati entrepreneurs and shed light on some of the issues that SME-engaged citizens perceive as enablers or inhibitors of the development of their own enterprises and of Emirati SMEs in general.

2- Description of the initiatives and programmes of the main organisations providing support to Emirati SMEs.

The UAE SME support organisations do not publish (annual) reports on their performance in the designated areas of activity. Information on the areas of support currently provided (and/or intended), regardless of the scale of operations and impacts (which we have no adequate knowledge about), can lead to identification of current gaps in the structure of the support system.

It is to be noted at the start that there is no unified definition for what makes micro, small, medium and the large enterprise in the UAE.

- For benchmarking purpose various aspects of Singapore's SME institutional support system is selected; with reference to some other Asian experiences. Singapore is a prominent case of successful government intervention in the economy, and its SME institutional support system, only 30 years old, is regarded as one of the world's most comprehensive systems, from which other countries have been learning.

1. EMIRATI ENTREPRENEURS: a Brief Situational Analysis Based on Findings of Past Research

The first published works on SMEs in the UAE were carried out within a project for the Ministry of Labour in 1999 to develop a strategy for the development and employment of the Emirati labour force. These works are: 1- Rettab (2001); based on a sample survey of small enterprises owned by expatriates or Emiratis (it still remains to date as the only SME study based on proper sampling covering all the emirates) and 2- Baud and Mahgoub (2001); in relation to Emirati women's employment opportunities. The Ministry's project resulted in the establishment of TANMIA-the National Human Resource Development and Employment Authority (see Abdelkarim, 2001/b for details). It is within TANMIA's Centre for Labour Market Research and Information that the first studies focusing on Emirati entrepreneurs- based on small surveys and in-depth interviews providing quantitative and qualitative insights- were concluded (see below). These studies stand out to date as the most informative on the subject, and they served as advocacy for the need to intervene in support of Emirati SMEs. Following these studies, works based on interviews with Emiratis are scarce, and include reports of GEM (Global Entrepreneurship Monitor). These reports target both Emiratis and expatriates, but opportunity is provided for data separation.

Emirati women's achievement in higher education (exceeding men by far in numbers) coupled with having higher unemployment rate than men (see website of UAE National Bureau of Statistics), in addition to advocacy by The National Strategy for the Advancement of Women, Businesswomen Associations and TANMIA, have generated increased interest in supporting Emirati women's entrepreneurship (see Gulf News, 2002; UAE Year Book 2005, 235-240). A few papers focusing on Emirati women entrepreneurs came out in the last 7-8 years. Notwithstanding that they were based on very limited number of interviews and/or limited scope of investigation, they derived unsupported generalisations. They will not be reviewed here.

TANMIA's Earlier Works

This section reviews the main finding of TANMIA's studies pertinent to the foci of this paper (Haan, 2002, 2003/a, 2003/b, 2004)[(4)].

- Maximising earning was the motive for the majority (63%) of the Emirati entrepreneurs interviewed. Continuing the family business and the desire to be independent were also cited (12% each).

- Before establishing own business, 7 in 10 worked in the government sector (majority continued to do so), 1 in 10 in the private sector (for wage or as owner), and 2 in 10 did not answer or did not work.

- As expected, trade was the main activity of small businesses (38%), followed by transport (18%), business services (15%), and industry (13%).

- Legal entity of most of the enterprises was sole ownership, with a few limited liability companies.

- Based on Haan's classification, micro-enterprises (5 workers and less) accounted for 40% of the total, 43% were small (6-20), and only 17% were medium (21-50) enterprises.

- Respondents stated that they were actively seeking information related to their businesses prior to starting up by talking to family members and friends. Some of them used a feasibility study (not necessarily in every sense of the word). Others relied on their own idea about market opportunities, (to a lesser extent) obtained information from partners or through training.

- During the start-up phase, small business owners received counselling from the family, friends and other Emirati business owners. Business owners raised the initial capital for their new business mainly through personal sources (59%), through family (12%) or through banks (22%).

- Main Problems associated with starting a business were 1- finding suitable location for the business, 2- hiring and 3- information.

- The major problems small businesses faced after establishment were 1- competition with other owners, especially expatriates who get support through their networks, 2- finance, 3- marketing and 4-lack of institutional support.

- Production inputs or traded final goods are acquired from importing companies or large local wholesale/retail companies (about half of the cases), imported directly by the business (about 1 out of 4), and in few cases, local procurement or importation was organised in cooperation with other small businesses.

- About one third of enterprises conducted their businesses through sub-contracts. Two out of every five of them did so jointly with other enterprises owned by citizens or expatriates.

- Emirati small businesses mainly sold their products or services to individual customers. Sales to other businesses or to government were considered far less important. A very small segment of owners conducted marketing promotion campaigns (1 in 10). In their sale strategy, most of the enterprises focused on provision of quality services and products and offering competitive prices.

- Emirati small entrepreneurs believed that their success chances were low or very low (55%) or fair or good (45%). In a larger survey of small entrepreneurs, with expatriates as majority (Rettab, 2001: 226), response on the same was a bit different: 40% 'low/very low' and 58% 'fair or good'.

- To the question why UAE citizens are reluctant to enter into private business in larger numbers, the answers were as follows: "not used to this kind of experience with unknown outcome"; "lack of capital to start the project"; "lack of institutional support to Emirati SMEs", and "low rate of return to investment".

- The study conducted on Emirati small enterprises in the Northern Emirates (Sharjah, Ajman, Umm Al-Quwain, Ras Al-Khaimah and Fujairah), revealed that most of them were smaller in size (by average number of employees per enterprise) compared to Abu Dhabi and Dubai. Some were established as continuation of a family business or as branches of enterprises in other (bigger) emirates.

- Emirati businesswomen are confronted with the same problems as men, but more especially with 1-securing institutional funding, 2- lack of previous experience in business, 3-handling government procedures, and 4- in some cases, lack of support of husbands and/or family.

It should be noted that Emirati small business support organisations now established almost in every emirate, were not available (except for Mohammed bin Rashid Foundation in Dubai, which was just starting) at the time the surveys by Haan (TANMIA) were conducted.

UAE GEM Reports

Globally, GEM reports started to be published in 1999. They aim at measuring and interpreting country differences in entrepreneurial tendencies and attitudes. In addition to global and specialist reports, GEM country reports were produced in over 100 countries in 2014 (GEM, website, accessed August 2015). The first GEM report for the UAE was prepared in 2006, and the last in 2011.

The following points draw on GEM 2011 UAE report (published in 2013).

- In 2011, 2.7% of the adult population (citizens and non-citizens) of 18-64 ages were reported as established entrepreneurs (defined as those who are currently owners/managers of established business for a period more than 42 months). With this, the UAE ranked second lowest among the group of innovation-driven countries (of which UAE was classified as one in the GEM reports); whose average was 7.2%. It is to be noted that percentage of established entrepreneurs in 2011 retreated from its 2009 record- which was 5.7%.

- In 2011, 2.2% of the surveyed population sample discontinued business in the last 12 months preceding the survey. Corresponding rate in 2009 and 2007 were 3.7% and 4.7%, respectively.

- Rate of Emirati entrepreneurs who discontinued business in 2011 was more than double the average for the country (which means also more than double the rate for non-Emiratis). Main stated reasons were 'personal reasons' (35.8%) and business 'non-profitable' (32.3%). By gender, the reasons varied considerably: 50.7% of Emirati men attributed closing business for 'business not profitable' (against only 14.3% of women), and 66.7% of the women stated 'for personal reasons' (with only 12.4% of men). The report commented that cultural pressures (familial commitments) could be the reason for the high incidence of 'personal reasons' among women.

- The 2011 report confirmed Haan's finding (see above) that majority of Emirati business owners were in full-time (government) employment when and after they started their business (80% in the GEM report). Explanation given was that lucrative government jobs are difficult to leave in order to take up (insecurities of) private business. (With the relative ease of importation of labour, it can also be added that Emirati entrepreneurs can easily find experienced, low cost expatriates as full-time operation or general managers of their businesses).

- The report confirmed another finding by Haan that Emiratis seeking business advice rely more on social (family and friends) than on external advisory (professional and market) networks.

2. SUPPORT ORGANISATIONS AND PROGRAMMES FOR EMIRATI-OWNED SMES

The first project focusing on supporting citizens in starting/developing their SMEs was Al-Tomooh Scheme in 1998. TANMIA's research, referred to in (1) above, played a pivotal role in raising awareness about the issue, and in pinpointing areas of support needed. Following Al- Tomooh and other limited initiatives, Dubai Government initiated an organisation dedicated to supporting Dubai-based Emirati SMEs. This was followed by similar initiatives in Abu Dhabi and other emirates. In addition to some early starts, this section focuses on the support organisations in Dubai and Abu Dhabi (the largest two Emirates; which are inhabited by the majority of the population and produce the bulk of the country's GDP).

Al-Tomooh Scheme

Unless otherwise mentioned, this section draws on Haan (2002) and Al-Tomooh website (Al-Tomooh, 2015).

On experimental bases in mid-1998, Al-Tomooh Financial Scheme was established by the then Emirates International Bank (now Emirates National Bank of Dubai), with additional grant by Shaikh Mohammed bin Rashid (by then crown prince of Dubai) and support by Dubai Economic Department and Dubai Chamber of Commerce and Industry. It is a "financial scheme designed to stimulate creativity and encourage the entrepreneurial spirit amongst UAE Nationals". The Scheme provides loan up to a maximum of two million UAE dirhams-AED (3.65 AED to 1 USD), with no interest for 3 years, re-payment starts from second year and loan duration may extend up to 8 years. Projects are selected on strict bases. Dubai Chamber and Economic Development Department may participate in evaluation. Graduates are preferred and the proportion of women applicants is low. Projects approved were mainly in Dubai. Up to 2013, 130 projects had been financed for a total of million dirhams 60. Al-Tomooh does not provide any other support (AMEinfo.com, 2013).

Intilaq Project

Intilaq was initiated by Dubai Economic Department in 1999. It licences home-based businesses. The license is issued at a discounted fee. Each person is entitled for one license without restriction on activities, but hiring of workers is not allowed. Women are the major beneficiaries of this Project (Haan, 2002:42). Similar projects were established in Sharjah emirate (I'timad) and in Abu Dhabi emirate (Mobdi'a- for women only). Intilaq has become part of the programmes of Dubai SME (see below). No data is available on the number of active enterprises under these projects, but it could reach several hundred in each.

Dubai SME (Mohammed bin Rashid Establishment for SME Development)

Unless mentioned separately, this section relies on Dubai SME (2011) and Dubai SME website (Dubai SME, 2015).

Mohammed bin Rashid Establishment for Young Business Leaders was established in 2002. In 2009, it was re-named Mohammed bin Rashid Establishment for SME Development, commonly known as Dubai SME.

According to SME Dubai estimates, SMEs count for 95% of all enterprises, employ 42% of work force and contribute 40% of Dubai value added. Majority of them operate in trade and service sectors.

It is to be noted at the start that Dubai SME does not publish periodic reports on its annual plans and record of achievements. We could only gather bits of that from newspapers.

<u>Programmes and Initiatives</u>

Programmes and services provided by Dubai SME for Emiratis establishing their business in Dubai include:

- *Funding*: criteria used for selection include commitment of the entrepreneur and financial feasibility/viability. It is for both starting and existing enterprises. The website does not provide information on magnitude of funding. However, in a press conference, the CEO of Dubai SME announced launching of Mohammed bin Rashid Fund for SMEs with assets totalling AED 600 million. The Fund offers innovative enterprises two types of loans; 1-Seed Capital loan- offered directly to start-ups in the range of AED 50,000 to 500,000, and 2- Credit Scheme Loan for both start-ups and existing enterprises requiring a fund of AED 500,00 to 5 Million. There are procedures for applying to avail of funding, and SME Dubai provides support in fulfilling some of these by assisting in developing business plan and feasibility study and by providing necessary training. Repayment is within 7 years, with a grace period of 2 years (Emirates News agency, 12/4/2015- WAM, 2015).

- *Advisory Services*: help in developing business plan, obtain license and apply for funding.

- *Intilaq Programme*: as mentioned above, Intilaq now comes under the umbrella of Dubai SME. Intialq applicants may be provided with start-up support including licensing, training, consultancy service and incubation.

- *Business Incubation Centre*: is for selected early stage enterprises with high growth potential. On 12th of September, 2014, Dubai SME announced the establishment of 'Hamdan Innovation Incubator', planned to spread over 20,000 sq. feet. The hub is anticipated to be the largest in the region (Khaleej Times, 2014).

- *Dubai Entrepreneurship Academy*: its mission is to "provide aspiring entrepreneurs with the skill and knowledge they need to become future business leader".

- *SMEconnect*: a networking platform for exchange of knowledge among Emirati entrepreneurs and business professionals.

- *Government Procurement Programme (GPP)*: under this programme, and on the basis of a directive from Dubai Government, all Dubai Government departments allocate 5% of their procurement to Emirati SMEs. Since its inception in 2002, the programme has helped Emirati enterprises to sell over AED 1 billion.

- *Young Entrepreneur's Competition*: is meant to encourage entrepreneurial spirit among school and college students.

- *Dubai SME 100*: launched in 2011, the initiative ranks the best performing SMEs in Dubai on the basis of financial and non-financial criteria ("human resource development, innovation, corporate governance and international orientation").

As indicated above, Dubai SME does not publish data on the number of beneficiaries of its programmes. However, in September 2015, the CEO announced that over the preceding 11 years, Dubai SME served about 13, 000 Emirati entrepreneur (Gulf News, 2015/1). Majority of these would be expected to be marginal beneficiaries.

Khalifa Fund for Enterprise Development

Khalifa Fund was established in 2007 to help develop Emirati SMES, especially in Abu Dhabi emirate. Currently, capital available to it is AED 2 billion. The Fund started mainly as a financing institution, and then moved into provision of (more) non-financial support: entrepreneurial training (mainly), consultancy service and information.

This section draws on the Fund website (Khalifa Fund, 2015), unless separately mentioned. As in the case of Dubai SME, Khalifa Fund does not provide information on number beneficiaries of its various services, nor does it, like other UAE SME support organisations, provide analysis of impacts of funding and other support provided.

<u>Programmes and Initiatives</u>

Funding: this is the major strength of Khalifa Fund. Various financing programmes are offered.

1- *Khutwa* (microfinance): directed primarily at home-based businesses and is social in nature; targeting special groups (divorced women, widows, etc.). Loan is up to AED 250,000.

2- *Bedaya*: offers to start-up loans up to AED 3 million.

3- Zeyada: under this programme existing enterprises may receive up to AED 5 million for expansion.

4- *Tasneea*: earmarked for industrial enterprises: up to AED 10 million

5- *Zaria*: enhances technology use and non-traditional farming methods in agricultural enterprises. The programme is organised in collaboration with two local organisations. Another Programme, Al Hasela targets fishing enterprises.

In addition, the Fund finances 'social outreach' programmes like *Al Rada* (a programme for inmates, in collaboration with Abu Dhabi Police); *Ishraq* (helps former drug addicts to re-integrate through developing own enterprises); *Amal* (for Emiratis with special needs). In addition to financing, beneficiaries receive entrepreneurial training and consultancy support.

- *Capacity building:* provides the Fund members with the necessary skill and knowledge to start, operate and expand their enterprises.

For- start-up: programmes include General Entrepreneurship; Business Plan Preparation, Soft Skills (presentation, communication and negotiation); Basic Finance; Introduction to Industrial Projects (for those interested in industry). Coaching workshops are customised according to needs .

For Growth (existing enterprises): programmes include: Advance Sales and Marketing; Management and Human Recourse Development; Tenders and Bidding, Advance Finance; Technology Sourcing and Adoption; Franchising; Legal Agreements.

SME Toolkit: this is a project by the International finance Corporation (World Bank) which offers free business management information and training for SMEs in various aspects. It includes business management software, on-line training, business self-assessment exercise and other resources. It has been translated into 15 languages, and the Fund makes it available to all enterprises in the UAE.

- The Fund also makes available support for its member-enterprises to find location for their businesses and receive approvals and fee-waivers from government departments.

- The Enterprise Monitoring and Advisory Unit assess business performance and recommend solutions to mitigate failure and enhance growth.

- A *Knowledge Management Platform* has been created to avail businesses with industry data and studies.

- *Incubation:* so far not provided, but the CEO of the Fund announced on 11 February, 2015 that they are considering launching a unique incubator for innovation (The National, 2015).

Recently, Khalifa Fund has extended its services to four other emirates: Sharjah, Ras Al- Khaimah, Ajman and Fujairah. No information is provided on programmes offered.

A Conclusion

The past years witnessed the emergence of SMEs support institutions and programmes in almost all the emirates. The extent and impact of this support may vary between emirates, and is not reported by these institutions. These institutions have been functioning in the absence of an integrated strategy and without coordinating mechanisms in place. Financial opportunities seem to be more available in the Emirate of Abu Dhabi, and recently increasing in Dubai, but there is no evidence of the same in other emirates. Limited BDS and networking venues seem to be provided by the support organisations themselves.

3. SME DEVELOPMENT STRATEGIES AND SUPPORT ORGANISATIONS AND PROGRAMMES IN SINGAPORE

Singapore has undergone major economic structural transformations. Upon independence in 1965, it was a country with no natural resource, confronted with high level of illiteracy and wide-spread unemployment. At the beginning of the Millennium, Singapore has transformed into one of the world's fastest growing economies, a leading financial hub and one of the top 10 innovation countries (PRO INNO EUROPE, 2012:8).

SMEs in Singapore (180,000 in number) make up 99% of all enterprises, contribute to nearly half of the GDP and employ 70% of the workforce (SPRING Singapore, no date: 1).

SME Strategies

Liang (2007:202) summarises the evolution of Singapore SME strategies as follows:

-1965-85: The economic policy (spearheaded by the Economic Development Board-EDB) was focusing on industrialisation through attracting MNCs. SME development was not specifically targeted.

-1986: The new economic policy document entitled “Singapore Economy: New Directions” highlighted the need for developing SME policies and interventions. The EDB established a special SME unit.

-1989: First SME Master Plan was launched.

-2000: Second SME Master Plan (SME 21) was released.

The 1989 SME Master Plan came as result of recognition, incited by the 1985 recession, that local SMEs’ role cannot be relegated to providing support functions to the MNCs; they are a paramount constituent of Singapore’s future economic development (Soon, 1994: 38-39).

The 1989 Plan was a comprehensive and a detailed document of programmes and actions to make the SME sector a capable player in facilitating economic growth and transformation of Singapore into a newly industrialised economy. It signalled the beginning of Singapore’s systematic emphasis on SME development. The Plan focused on: 1- promoting domestic entrepreneurship, technology adoption and innovation, 2- enhancing information exchange on new methods and opportunities, including finance, business planning and human resource management, 3- facilitating access to training and consultancy services and promoting and transferring best business practices to enhance growth and improve productivity, and 4-encouraging SMEs to grow internationally through collaboration (Teng, 2011: 12 and Liang, 2007: 202).

Building on the First SME Master Plan, SME 21 ‘Positioning Singapore for the 21st Century’ envisions the creation of a SME sector which is “a source of entrepreneurship and innovation; a base of strong supporting industries and strategic partner for foreign SMEs and MNCs; manufacturer of high-value added products, global provider of professional services; robust domestic service sector enhancing the quality of life in Singapore” (cited in Wei-Yen and Nee, 2004: 183).

SME 21 identified three strategic goals, each associated with a different level of strategic actions: 1- groom innovative high growth SMEs (enterprise-level strategies), 2- Developing productive SME sectors (sector-level strategies), and 3- creating a knowledge-based pro-enterprise environment (broad-based strategies). It identified a detailed structure of strategies, together with the supporting programmes at each level (for an overview of the earlier programmes, see Liang, 2007: 2002-2006, and Wei-Yen and Nee, 2004: 183-191).

Periodic reviews characterise the Singaporean SME strategies’ and policies’ scene. The latest started in 2012 and was completed in 2013, and involved the Ministry of Trade and Industry(MTI), Spring Singapore, International Enterprise Singapore and some other SME stakeholders (see below for a brief on these organisations). The Review called for more support in the areas of productivity, innovation, capability building, business growth opportunities, including in external markets, and for the creation of integrated, one-stop-centres to simplify access to assistance programmes (Ministry of Trade and Industry, 2015).

In Singapore SME support system, the two most prominent organisations are MTI (at the level of strategies and policies) and SPRING (at the level of programmes).

Major Support Organisation and Programmes- SPRING SINGAPORE

SPRING Singapore started as the National Productivity Board (under the Ministry of Trade and Industry) with a mandate not focusing only on SMEs. In 1996, it merged with related functions of EDB (including SME Unit) to form the 'Productivity and Standards Board'(PSB). Then, after SME 21 was released, which focused on growth and innovation, PSB was renamed as SPRING 'Standards, Productivity, Innovation and Growth' (Liang, 2004: 202).

The list of programmes given below draws on the website of SPRING Singapore (Spring Singapore, 2015), which was updated on the 25th of January, 2015.

Some Programmes for Start-up Enterprises*:*

- *SPRING Start-up Enterprise Development Scheme* (SPRING SEED): SPRING SEED is the investment arm of SPRING Singapore. SEED runs the equity-based co-financing option for innovative start-ups that have strong international growth potential.

- *Business Angel Scheme*: Start-ups that are able to attract investment interest from any of the business angel investors can apply for similar investment from SPRING SEEDS. Both the angel investor and SEEDs then become equity holders in the company.

-*Technology Enterprise Commercialisation Scheme* (TECS): Start-ups with strong technology intellectual property and growth potential benefit from this programme which helps them to commercialise their projects.

- *The Incubator Development Programme* (IDP): IDP supports incubators by offering them up to 70% grant to upgrade their capabilities to assist start-ups.

- *YES! Schools* : offers funding for selected projects by students of junior colleges and schools.

Some Programmes for Established Enterprises:

These programmes aim at building and enhancing business capabilities.

- *Toolkits for Success*: provide enterprises with self-help methods to analyse their strengths and weakness and develop solutions: They include: Customer Service Toolkit, Financial Management Toolkit, Financial Management Toolkit Marketing Toolkit, and Productivity Toolkit.

- *Productivity and Innovation Credit* (PIC) : PIC grants tax deductions for companies investing in stepping-up productivity and innovation.

- *Innovation & Capability Voucher* (ICV): ICV, of $5,000 value, is given encourage SMEs taking first steps in developing their capability.

- *Capability Development Grant* (CDG): CDG covers up to 70 percent of cost of capability enhancing and equipment that aim at productivity improvement , product development and market expansion.

- *Local Enterprise Finance Scheme* (LEFS**):** offers credit of up to S$15 million for SMEs owned by Singaporeans. The *Micro Loan Programme* (MLP) provides credit of up to S$100,000 for micro enterprises (10 or less workers) owned by Singaporeans.

- *Loans Insurance scheme* (LIS): insures loans against default risks; premium is paid by the government and the SME.

- *Over-the-counter capital* (OTC): a trading platform for unlisted companies to raise capital through selling shares (see the website of MAS- Monetary Authority of Singapore).

Collaborative Partnerships and Other Support Organisations

- It is to be noted that while SPRING Singapore' website provides a comprehensive list of programmes to support SMEs, these programmes are not necessarily administered by SPRING itself or alone. Many other organisations may be involved in these and other programmes. For example, SPRING enters in partnerships with industry associations to develop specialised clusters and to enhance industry and enterprises competitiveness. One of such programmes is LEAD (Local Enterprise and Association Development). Activities under LEAD include: technology and infrastructure, management competencies , research and consultancy.

- Other notable SME support organisations include:

Association of Small and Medium Enterprises (ASME): established in 1986 as a not-for-profit organisation of SMEs with the aim of promoting 'a more conducive business environment which facilitates the start-up, growth and development of a larger pool of SMEs' (ASME, 2015). It is the voice of the SMEs in Singapore.

Enterprise International Singapore (I.E): I.E. furthers international presence of SMEs through provision of capability programmes (market readiness and capability upgrading) and finance (gain access to finance and financing of participation in trade fairs). It also set a permanent office in China, Singapore Enterprise Centre, to help SMEs venturing into the Chinese market (IE Singapore, 2015).

- *Infocomm Development Authority* (ADA) is a statutory body under the Ministry of Information and Communication. It is regarded as the Government Chief Information Officer. Its mission is to identify and facilitate adoption of ICT generally. In 2010, iSPRINT programme was established to boost SME adoption of ICT technology to enhance productivity and growth (ADA,2015).

4. TOWARD A COMPREHENSIVE INSTITUTIONAL SUPPORT SYSTEM FOR EMIRATI SME DEVELOPMENT

Introduction: The need for Such a System

Supporting the development of the SME sector at large is vital to growth and diversification of the UAE economy. However, our concern here is the development of a system for institutional support to Emirati national SMEs, in order to diversify opportunities for economic participation of Emiratis, and to enable them to actively engage in formulating the future of their national economy. The need for such a system is justified by the following:

- Citizens entered many business activities relatively late (historically trade constituted the main area of activity of Emirati businesses).

- They represent a minority engaged in a sector mostly dominated by expatriates They are faced with fierce and inequitable competition. This competition often causes higher percentage rate of business discontinuation among Emirati SMEs (double the expatriates' rate, see section 1 above).

- Expatriates gain their competitive position not only because of their early entry into business, but also by using strong networks along ethnic/nationality lines, which enables them to cooperate with each other and with larger enterprises within the same network inside the UAE and in the countries of origin (section 1). In this way they get support not only in accessing markets and finance, but also by benefiting from the experience of older and/or larger enterprises.

- Developing a special institutional support system for Emiratis in the SME sector does not constitute a unique UAE or GCC policy. Many countries have established such a system to support minorities. Perhaps the best example of this is Malaysia, where an integrated system of intervention has been developed to support indigenous Malaysian (BUMIPUTERA communities) entrepreneurs - (see among others, National SME Development Council- Malaysia, 2012)).

Enabling Environment, Legislation and Policy Advocacy

The SME legislative scene in the UAE witnessed a major development. In April 2014, a federal SME Law was signed, objective of which is to encourage Emiratis to run SMEs. The law identified the Emirates Development Bank, established in 2011 (with a capital of AED 10 billion to help boost economic development) to provide government funding to local SMEs. The Law called for the formation of SME council. It also stated that government entities and companies in which the government owns more than 25% of the total capital, are to contract with Emirati SMEs by at least 5% of the total value of their contracts. Listed companies are called upon to follow suit (The National, 2014).

It should be noted that in their pursue of creating enabling environment for SME development, countries may either use laws and acts as legislative tools or develop strategies and policies and ensure presence of empowered institutions to grant their implementation. In Japan, and after the World War II, the Small And Medium Enterprises Basic Law was issued in 1954, then followed by other subsidiary legislations, such as the Financial Assistance Act, in addition to developing a large number of implementing policies and regulations to promote SME development (Ituh and Urata, 1994).

With or without the presence of a legislation to support SME development, emerging economies (especially of East and Southeast Asia) opted for developing long-term vision (a strategy or a plan) to help create enabling environment and a comprehensive support system for the development of their SME sector. Singapore (the first 1989 strategy and second SME 21) was one example. Malaysia is example of others. Malaysia is currently implementing its second Master Plan for SMEs (2012/2020). The Plan developed a general framework with specific targets and identified priority areas and supporting institutions for each of them (National SME Development Council- Malaysia, 2012). The targets of the Plan are:

1- Increase the number of SMEs (by 6% annually);

2- Increase the number of high-growth and innovative SMEs (by 10% annually);

3- Increase productivity (by two-fold);

4- Formalise informal enterprises (by 15% annually).

How can UAE make advantage of the above experiences?

In the UAE, the SME Law and the creation of SME Council are positive initial steps. However, it is important to emphasise that a strategy for the development of Emirati-owned SMEs, that aims to be sustainable, cannot be advanced without the presence of enabling environment for the development of the whole country's SME sector. Emirati SMEs simply cannot flourish when the business environment for SMEs in the country is not conducive and when economic conditions for growth are lacking. The specific strategy to enhance participation of Emiratis in the SME sector is to be linked to a vision for the development of the country's SME sector, and the latter to the UAE Vision 2021, specifically the requirements of economic diversification, balanced regional development and the movement towards higher skills, technology and productivity (see UAE Vision 2021). The Emirati SME- focused strategy should identify the specific areas of intervention, as well as plans for the strengthening of existing and establishment of new support institutions – as required – that can be assigned the implementation of programmes set for each intervention area / policy identified.

Finance and Financial Services

Debate and Evidence

There has been a debate in the literature regarding the role of the state in supporting SMEs, including areas and extent of this support. The roots of the debate lie in the ideological differences between economic liberalism and state interventionism.

SMEs around the world are undoubtedly facing difficult situations, compared to larger enterprises, in many areas: access to finance, information, markets, etc. There is a consensus that this unfavourable situation must be corrected, but the difference is whether the remedy should be by providing direct or indirect support. The liberalists argue that financial support leads to distortion of the market dynamics for the benefit of SMEs, which do not necessarily represent the suitable size for all activities. They also think that this could lead to reluctance of these enterprises to grow into larger enterprises (so as not to lose support), and thus compromise efficiency standards. They conclude that the role of the state can alternately be 'levelling the playing field' by removing obstacles facing SMEs, mainly lack of access to information, and by creating an enabling business environment for all enterprises (see for further discussions, Hallberg, 2000; Batra and Mahmood, 2003).

On the other hand, evidence shows that in the success of a number of East and Southeast Asian countries the state (selective) intervention in the economy, including support for enterprise development and provision of direct and/or indirect finance, has been instrumental (see among others, Pistor and Wellons , 1999 ; Page, 1994).

Singapore, as shown above, has developed a mix of financial solutions and support for SMEs: direct finance, equity finance, loan insurance Scheme, tax deduction, and subsidised capacity building programmes. South Korea, and for decades, is also a case of the state's active support to SMEs, including provision of finance. Recently, the government announced a new programme to expand financial support. The Government has allocated additional KRW 10 trillion (about USD 8.3 billion; 1USD=KRW1,200) in 2014 for SME financing through state-run banks. Korea Development Bank and Industrial Bank have assigned KRW 3 trillion for Facility Investment Fund, also to finance SMEs. Credit guarantee was increased by 1.5 trillion, trade insurance by 0.4 trillion in 2014, in addition to a reduction in tariffs in purchasing automated manufacturing facilities. This financial support for SMEs has been introduced as part of a comprehensive economic strategy to stimulate growth (G20, 2014:12).

What can be concluded from the above for the purpose of drawing-up a structure of SME financing solutions for Emirati SMEs?

The need for Government intervention to support Emirati SME growth and development has been argued for above. And indeed the Government has taken measures in this direction. Al-Tomooh started in 1998, followed by local (emirate-level) government organisations: Dubai SME in 2002, Khalifa Fund in 2007, and then similar organisations in other emirates. These organisations provide direct and indirect financial support to Emirati SMEs (with Khalifa Fund standing as the most significant contributor). Recently, the Government assigned Emirates Development Bank to provide federal financial support to Emirati SMEs.

In addition to finance provided by organisations mentioned above, there are opportunities to tap on regular banking finance and on venture capital.

- The UAE enjoys a wide network of banks, many of them with SME finance programmes. But these banks require collateral for the provision of finance, which most of SMEs cannot provide, especially the start-ups. Loan insurance programmes exist not only in Singapore but also in many other developed and developing countries. These programmes may also support loan interest and negotiate grace periods prior to repayment (for detailed account and analysis of some international experiences, see OECD, 2013).The establishment of loan guarantee programmes in the UAE can ease the burden on government / public funding. It is to be noted that Dubai SME, as mentioned above, has a beginning in such programmes. The newly established Emirates Development Bank may want to enhance its financial services in this direction.

- Private venture capital may be raised through Over-The-Counter (OTC) capital markets. OTCs raise capital for both existing and stat-up innovative companies with growth potential. In addition to Singapore, OTC capital markets exist in other countries. In Korea, for example, KONEX, part of Korea Exchange, focuses on raising venture capital for promising start-up SMEs (see website of KONEX). When the Emirati SME sector reaches a certain maturity level, private venture capital can be raised through OTC market. In addition to raising funds, venture capital may have non-financial benefit; it can contribute to strengthening the management capacity of the SMEs, as they can take advantage of the diversified knowledge of more experienced investors who may partner with them.

Business Development Services

<u>Concept and Development of Practice</u>

In addition to funding opportunities, SMEs generally suffer shortage in other areas: information, administrative and technical capabilities, professional advice (consulting), marketing, acquisition of technology, and appropriate infrastructure. All these non-financial services are included under the notion of Business Development Services (BDS).

Interest in BDS increased with the flow of financial resources from donor countries and international organisations providing support to developing countries to develop their private sectors (primarily through assistance to create and improve support systems for SMEs). A committee of donor organisations was formed to facilitate exchange of experiences: "Donor Committee for Enterprise Development - DCED " (www.enterprisedevelopment.org). It was formerly known, since its inception in 1979 until 2005, as the "Committee for Donor Agencies for the Development of Small Enterprises".

After tens of years of experience in supporting SMEs directly through programmes run by governmental or by non-governmental organisations (the latter either being in cooperation with, or under supervision by government entities), the system has been judged by the Donors Committee as inefficient; reaching only a limited segment of the SMEs and marred by bureaucracy and corruption (for a detailed historical account of Donors' experiences in supporting SMEs in the developing countries and discussion on alternative routes, see Levitsky, 1996). The option that seems to come across was to consider moving to the so-called "market development model". The search for alternative routes to providing BDS support to SMES endeavoured to answer the question of '*how to develop a system for BDS operating in the private sector to serve beneficiaries who lack financial resources and knowledge of the usefulness of these services*?' Wide literature, mostly initiated by international organisations and bi-lateral donors, explored answers to the question, and came up with various alternatives to suit the varying situation of countries (In addition to Levitsky,1996,see: Committee of Donor Agencies for Small enterprise Development (2001); Hitchins (2002) for the ILO; Altenburg and Stamm (2004), for the German Development Institute).

The objective here is not to provide a literature review of these, but to use some of the findings to propose a system of provision that suits the UAE, which, together with other GCC countries, definitely face a unique situation

BDS Provision in the UAE

Developing a Market for BDS

Government SME organisations dedicated to supporting Emirati-owned SMEs provide some BDS, mainly at the start-up phase. It is not clear whether all of the services are directly provided by the organisations themselves or through sub-contracts.

Three major issues face policy makers in the UAE in the search for efficient BDS system of support to Emirati SMEs:

1- Providing BDS entirely through dedicated public institutions run the risks of inefficiency that the international literature has been warning about.

2- The market for private BDS currently seems to be weak (the cause in the first place is demand deficiency, as in an open economy like the UAE, it will not be difficult attract viable providers has sufficient demand being there). This market needs to be developed as a first step.

3- Emirati SMEs comprise a very small segment of the SME sector (in a small country). To develop a BDS market covering all fields and based on the needs of Emirati SMEs alone, will be a difficult and costly undertaking.

The task is, then, to *develop a BDS market (expanding both the demand and the supply sides) to serve all businesses, with Emirati SMEs organisations (as per their mission) providing support to Emirati citizens.* Developing a viable BDS market helps to enhance capabilities, productivity and innovation of the entire SME sector in the UAE which, as has been mentioned earlier, is a necessary condition for sustainable growth of the economy and of Emirati-owned SME enterprises themselves.

Organising BDS support to Emirati-owned enterprises

Governments in countries with SME support systems tend to be actively involved in information collection and dissemination as an important condition for creating a market for BDS. Information is provided usually by specialised information centres (public mainly, but also private). The information provider is an intermediary between enterprises and BDS providers. It provides information to service providers regarding the needs of SMEs, and to users about the available services and their benefits. It is important that a UAE government organisation (may be the new SME Council) is to assume this intermediary role (collecting information on BDS provision and on the changing BDS needs of all the SME sector; not only Emirati-owned).

Negotiating with providers and grouping of Emirati beneficiaries to avail of BDS services (as providing service to individual enterprises could be very expensive) can be undertaken by the existing emirate-level dedicated support organisation, which may also offer advice on BDS provision (and information on other matters, like government regulations, access to finance, etc.) through 'one-stop- centres' (like the ones recently introduced in Singapore).

In organising BDS support to Emirati entrepreneurs, two methods may be used. 1- SME organisations may contract private providers to deliver the services to their beneficiaries, with the beneficiaries receiving this service free of charge or in subsidised costs. 2- Introduce use of the voucher system to select providers. The voucher system is especially useful for established enterprises, which are more capable of identifying their specific needs and of selecting providers, and at the same time may offer them the opportunity, while using the service in a group, to mix/network with expatriates with different experiences.

Networking and Associations of SME Owners

Studies conducted by TANMIA based on surveys and focus group meetings and the survey of GEM Report (section 1) reveal that Emirati SMEs owners lack effective, institutional networking. They mainly depend on friends in getting business information.

Examples of temporary networks in the UAE are to be found in Khalifa Fund and Dubai SME. Member SMEs are occasionally invited to attend special events. UAE Businesswomen Council**s,** structured at UAE- and emirate-level, and include citizens and expatriates, follow the same pattern of networking (see for example the website of Emirate Businesswomen Council- (www.uaebwc.ae).

There is an urgent need to create permanent communication channels/networks among the Emirati SME owners. Global experience has shown the advantages of these networks, not only to support

SME business development through sharing of information and experience, but also to make their voices heard by relevant government and non-government organisations (see for example, Bennett and Ramsden, 2007).

Such permanent networks in the form of unions or associations can be geographic and may be further segmented by specific business activities. Initially, such organisations may be created at the level of individual emirates, and at a later stage, they can evolve into a networking relationship across emirates creating permanent networks in the form of functional associations (related to specific activities) and a general one. The SME council can contribute to the establishment of such associations in cooperation with emirate-level Chambers of Commerce and Industry and existing SME support organisations.

A Concluding Note:

The development of a detailed comprehensive institutional system for supporting Emirati SMEs goes beyond the scope of this paper, and requires a separate project. The first step in such effort is to create enabling environment for development of the country's SME sector (at large), followed by the development of institutional support system for Emirati SMEs, including specialised organisations, projects and programmes.

Endnotes

(1) In addition to the population and GDP growth, the growth in the number of establishments can be explained by the massive expansion of re-export trade in Dubai, Sharjah and Ajman (which were actually the emirates with the fastest growth in the numbers of establishments).

(2) The given estimate assumes that the percentage of business owners among the total employed in each of the two major citizenship groups (citizen and non-citizens) in 2009 remained the same as in 2005.

(3) This paper uses a section of unpublished consultancy report in Arabic that the author has been commissioned to prepare for the UAE Ministry of Economy. The paper is a predominantly revised, updated, and academically 'formatted' version.

(4) Haan (2002) represents the first, relatively wider survey; (2003/a) focused on entrepreneurs in the five Northern Emirates; (2003/b) investigated networking available to Emirati entrepreneurs and (2004) was conducted among Emirati women entrepreneurs.

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