

# ISSUE BRIEF **08.31.18**

## The National Fund for SME Development as a Vehicle of Economic Reform in Kuwait

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Kuwait's economy has been stagnant over the past decade due to a combination of political instability, fluctuating oil prices, and endemic corruption. To combat this situation, the parliament, ruling elites, and mercantile class have attempted to develop a robust business sector through fundamental policy shifts away from monopolies and toward the creation of small- and medium-sized enterprises (SMEs). However, the three groups disagree on how to accomplish their goals and frequently work at cross-purposes. Kuwait's economic problems are exacerbated by increases in public spending—which crowd out the private sector and have ensured a continuing reliance on the state as the employer of first resort—as well as interwoven and redundant institutional responsibilities, the newspaper *alRai* has written.<sup>1</sup>

Efforts to focus on SME growth date to at least 2010, when the Supreme Council for Planning and Development presented the government's goals in the Strategic Vision of Kuwait 2035. This plan encouraged private sector success independent of government oil rents,<sup>2</sup> and diversified private sector wealth away from the nontradables fueling asset inflation. The creation of SMEs was seen as a way to create an independent private sector by allowing smaller players into the market.

In a separate initiative introduced in 2010, the National Assembly approved a midterm development plan intended to improve government efforts to promote

a prosperous private sector; this plan also showed that "SME development [was] implicitly a major concern for the development of the country's economy."<sup>3</sup> Unfortunately, the plan failed to significantly affect SME growth, though the need for change and greater economic opportunities became more urgent after the 2012 protests and youth violence in Kuwait.<sup>4</sup>

In 2013, the National Fund for SME Development was launched as an independent public corporation with 2 billion Kuwaiti dinars (US\$7 billion) in capital and an execution partnership with the World Bank.<sup>5</sup>

The National Fund for SMEs has four components, according to Abdulaziz al Loghani, the organization's first vice chairman and executive director:

1. Government assistance through start-up capital and restructured regulations.
2. Educational interventions designed to help students "embrace an entrepreneurial mindset through extracurricular and curricular activities."<sup>6</sup>
3. A venture-friendly legal framework that seeks to remove impediments to SME growth.<sup>7</sup>
4. An attitude shift toward an understanding that "a merchant in our day and age also tackles problems in the community and makes people's lives more efficient." The Fund sought to spur public awareness and embrace of the concept of entrepreneurship.<sup>8</sup>



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# 3%

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This national strategy identified areas of initial government interest for SME investment and key performance indicators to monitor and evaluate business growth.<sup>9</sup> Applicants were required to be over 21 years of age and employed by Kuwaiti-owned SMEs “directly contributing to the development and diversification of the national economy [...] and creating job opportunities for Kuwaiti nationals.”<sup>10</sup> The subsequent three-year wait for a loan from the fund highlighted the ongoing legislative and executive stalemate rooted in the conflicting political and reform agendas of the mercantile and ruling elites and parliament factions.

The first annual report for the National Fund for SME Development concluded that a lack of technical and financial support and mentorship were the main obstacles to success.<sup>11</sup> The organization could not provide such support due to its hasty launch and the conflicting agendas of decision-makers. Structural issues such as delays in guiding SME-related matters through the Ministry of Commerce and Industry also presented problems. A general atmosphere of public mistrust in the organization exacerbated the situation,<sup>12</sup> which the treasurer of Kuwait's Economic Society Muhannad al Sanea<sup>13</sup> and Al Loghani<sup>14</sup> himself observed.

As a result, the original board was replaced in 2016 and a slew of new entrepreneurship development programs were implemented with General Electric and other partners.<sup>15</sup> However, political conflicts underlying the board appointments emerged as Kuwait's governing bodies disagreed on the best ways to utilize the program to include the least privileged Kuwaitis. This conflict represented what the deputy minister for youth affairs described as a lack of “coordination, unification, combination of efforts, or accountability.”<sup>16</sup> Young MPs seeking to explain why the National Fund for SME Development had failed to yield significant financial support for SMEs uncovered major difficulties in securing administrative support<sup>17</sup> from government bodies<sup>18</sup>; attempts were made to tackle these problems through a National

Assembly committee that aimed to improve business conditions conducive to SME development and entrepreneurial growth in Kuwait.

## IMPLEMENTATION ISSUES

Despite efforts to boost their growth, SMEs account for only 3% of Kuwait's GDP and employ 23% of the workforce.<sup>19</sup> A 2017 World Bank report ranked Kuwait 102nd globally for ease of doing business (the lowest in the GCC), down from 98th in 2016, and 173rd (down from 149th in 2016) for ease of starting a business.<sup>20</sup> Starting a business in Kuwait takes approximately 12 separate procedures and 62 days, costs 2.8% of income per capita, and requires a mandatory paid-in minimum capital of 10.2% of income per capita.

In a 2014 World Bank survey, 502 Kuwait-based SMEs cited business licensing and permit requirements as the main hindrance to growth while “labor regulations, regulatory uncertainty, and administrative corruption” were among the other major obstacles. Twenty-four percent of respondents felt that the lack of an “adequately” educated workforce with the required skill set and training was another barrier to growth.<sup>21</sup>

To address some of these issues, the government formed a Business Reform Committee in 2015 to improve and facilitate business conditions in Kuwait; 11 public entities participated. The committee successfully ushered in some improvements and new legislation. One particular area of success involved funding for new projects. According to the National Fund's 2015–2016 annual report,<sup>22</sup> only 59 projects had received funding since 2013; by comparison, the 2016–2017 annual report shows that an additional 245 programs have been approved, bringing the total to 304.<sup>23</sup>

However, there are greater structural impediments to SME growth that may not be resolved by a committee memorandum or new legislation alone. In 2016, Kuwait issued an economic reform bill that focused on increasing the number of privately owned businesses and public-private partnerships

as the best ways to deal with a growing budget deficit and falling oil prices. Out of six goals listed,<sup>24</sup> the bill identified three key changes to improve Kuwait's economy: privatization of government services to further partnerships with the private sector, robust anti-monopoly legislation to allow competition, and the creation of a business-friendly environment. However, the economic bill was frozen less than a year after its introduction due to disagreements between political factions; as a result, the minister of finance was asked to review the bill.<sup>25</sup>

The fate of the National Fund for SME Development is similarly tied to shifting economic visions for Kuwait. So far, the Fund has been overhauled twice and its governing body is to be completely restructured as ordered by Kuwait's Cabinet in May 2018. The fate of the National Fund for SME Development is similarly tied to shifting economic visions for Kuwait. So far, the Fund has been overhauled twice and its governing body is to be completely restructured as ordered by Kuwait's Cabinet in May 2018.<sup>26</sup> While the National Fund and other initiatives described here offered plans and executable frameworks designed to inject new life into Kuwait's economy, it is clear that at present no single body or political or economic group involved has the ability to effectively implement them. In order to surmount the conflicts between political agendas and economic interests, the Fund must have much more autonomy. Unfortunately, it seems that it has become further entwined with government figureheads through the latest reshuffling of the board.

## POLICY IMPLICATIONS

The World Bank has partnered with the National Fund for SME Development during three of the initial implementation phases. It has also collaborated on five main issue areas. The most challenging of these areas has been “developing a culture of entrepreneurship” in Kuwait.<sup>27</sup> In order to meet the goal of establishing a private sector that “[plays] a leading role in creating jobs for the next generation of Kuwaitis” in the

next two decades,<sup>28</sup> there clearly needs to be a major shift in Kuwait's private sector away from monopolies controlled by elites and toward greater competition. The creation of independent wealth in a largely state-controlled system requires a fundamental shift in fiscal policy.<sup>29</sup>

There is also a wider issue that underpins Kuwait's economic stagnation. Despite enormous wealth in the GCC private sector that surpasses \$2 trillion, it is predominantly concentrated in a small group of powerful family businesses.<sup>30</sup> As a result, the reforms in Kuwait directly conflict with elite family interests. Political power in Kuwait, as in the rest of the GCC, is “a balancing act of keeping citizens acquiescent while catering to the economic demands of powerful families whose continued support is critical to regime survival.”<sup>31</sup>

Familial relationships continue to underpin sensitive political positions. For example, National Assembly Speaker Marzouq al Ghanim's father has headed the country's Chamber of Commerce for the past 20 years, and this is not an isolated case. The situation suggests that maintaining a familial and economic advantage takes priority over reforms with real impact. Reform efforts usually turn into “politically backed glamour projects and cosmetic initiatives that are passed off as sweeping changes.”<sup>32</sup> For instance, when the current minister of commerce and industry decided to replace the National Fund for SME Development board in 2016, he installed what one observer described as “members of one social gathering (*diwaniya*)”<sup>33</sup> without using a transparent hiring process.

It is clear that when the government is involved with entrepreneurial organizations and the attempted growth of SMEs, there is a lack of consensus regarding funding and operations. There are also the persistent problems of weak educational systems that fail to adequately equip students with the skills needed to thrive in a modern labor market and an overreliance on government jobs. Such issues cannot be remedied by Kuwait's many start-up and entrepreneurial development programs.<sup>34</sup>

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In sum, to implement meaningful reforms and the creation of a climate hospitable to SME growth, Kuwait must institute policy changes that address the legislative and educational impediments to growth.

The National Fund for SME Development aims to help create productive jobs for Kuwaiti professionals, increase private participation in the economy, and diversify sources of economic growth. To reach these goals, the country must move away from an oil-centered, nepotistic environment and toward a profitable economic environment driven by real market conditions. The lessons learned from creating SMEs in Kuwait must be applied by a single, cohesive body capable of practicing transparent decision-making, financial management, and regulation. This must be coupled with methods to ensure that an inclusive and creative pool of applicants can access funding and are empowered to overturn the status quo and enable true economic diversification. Such a scenario will only become feasible if the country overhauls its education system to better align job skills with the needs of a modern labor market, and removes the structural obstacles to market entry for young entrepreneurs. Kuwait is capable of producing successful SMEs. For instance, Boutiqaat,<sup>35</sup> an online retailer run by a young Kuwaiti company, claims to be the largest site for cosmetics, skin care products, and perfumes in the Middle East.<sup>36</sup>

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**This issue brief is part of a two-year research project on pluralism in the Middle East after the Arab uprisings. The project is generously supported by a grant from the Carnegie Corporation of New York.**

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Cite as:

**Al Sharekh, Alanoud. 2018. *The National Fund for SME Development as a Vehicle of Economic Reform in Kuwait*. Issue brief no. 08.31.18. Rice University's Baker Institute for Public Policy, Houston, Texas.**