

SME contributions for diversification and stability in emerging economies – An empirical study of the SME segment in the Qatar economy

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ABSTRACT

Diversity has a significant influence on economic output, productivity and growth' (Marra, Carlei & Crociata 2011). A healthy SME sector is vital to the sustainability and growth of an economy, especially in emerging economies as their business composition is mostly dominated by the SME segment. Similar to most economies in the MENA (Middle Eastern and North Africa) region, Qatar's economy predominantly depends on the gas and oil industry. This paper discusses the challenges faced by SME's in Qatar and financial institutions' and the perception of barriers to SMEs in terms of lending and support. The research involved a qualitative and quantitative analysis of the research data. A preliminary assessment of secondary data was conducted to establish the current standing of Qatar's SMEs and compare this with similar emerging markets and more developed economies. Data was obtained for the qualitative element of the study through structured interviews with banking professionals and questionnaires completed by SME entrepreneurs in Qatar. The paper also revealed that there are differences between stakeholders of the SME segment which present further challenges and recommends solutions to these challenges.

Introduction and background

Diversity has a significant influence on economic output, productivity and growth (Marra, Carlei & Crociata, 2011). The contribution of a healthy SME segment to the economy is vital for its sustainability and growth, especially in emerging economies as their business composition is mostly dominated by the SME segment. Similar to most economies in the MENA (Middle Eastern North and Africa) region, Qatar’s economy predominantly depends on the natural gas and oil industry. This discourages small and medium entrepreneurs who are the lifeline of the economy in terms of economic diversity, innovation, employment and leadership.

Qatar has the highest GDP income per capita in the world, which was estimated to be \$172.9bn in 2012 (QDB, 2013). However, the non-oil SME contribution to the GDP was less than 0.5%, whereas more than 50% of the GDP was provided by the oil and gas industry (QDB, 2013). Qatar’s GDP growth over the years is shown in Figure 1 and the upward trend (except for the year 2010 due to global economic downturn) suggests stable overall economic growth.



Figure 1: Qatar GDP comparison

Source: www.tradingeconomics.com – 2013

There are about 11,000 SMEs in Qatar and approximately 50% of them do not have an active bank borrowing relationship (QDB, 2013). Qatar is a tax free economy, but the regulatory framework of the economy is not sufficiently flexible and transparent. Similar to other GCC economies, Qatar has identified the long term consequences of over reliance on the oil and gas segments which include unemployment, lack of innovation, lack of diversification, high capital orientation, etc. In addition, the labour distribution of the economy restricts diversification in the labour force and confines employment opportunities. Consequently, Qatar is utilising economic policies designed to develop a more diversified economy.

Table 1 provides an overview of Qatar’s GDP as well as evidence of the concentration on oil and gas segment and the weak contributions of other segments.

Table 1: GDP composition of Qatar

COUNTRY	SEGMENT	INDUSTRY SEGMENT COMPOSITION	GDP BY SEGMENT
QATAR	Agriculture	Liquefied natural gas, crude oil production and refining, ammonia, fertilizers, petrochemicals, etc...	0.10%
	Industry		73.60%
	Services		26.30%

Source: <https://www.cia.gov/library/publications/the-world-factbook>

Qatar’s economic diversification is low compared to other developed and leading emerging markets and similar trends can be observed in other GCC economies which are also dependent on natural gas and oil. Promoting SMEs in segments such as services, trading and manufacturing would ensure a healthy diversified economy as well as economic sustainability and stable growth.

The primary intention of the research is to identify the economic and social contributions of the SME segment to the Qatar economy and what challenges curtail these contributions. The key role financial institutions play in the SME segment is also investigated in order to develop some solutions to challenges faced by SME entrepreneurs. The existing research/theory and published data is reviewed and analyzed to establish the significance of economic diversification to economic growth and sustainability and ensure the relevance and consistency of the research.

Overall, the aims and objectives of the research can be summarised as follows:

- Determine SME composition and sectoral diversification in the economy
- Understand the contributions each identified segment makes to GDP
- To investigate the barriers (Especially financial barriers) to SMEs with a particular emphasis on the Qatar market
- To understand and explain the available resources for SMEs (Tangible and intangible assets) in the Qatar market
- Outline the risk and economic consequences of SME failures
- To assess the contribution of financial institutions to the sector
- To understand what government initiatives are in place to promote innovation and efficient management practices in SMEs to support the general economic expectations.

Research questions

The research objectives were achieved through the development of a research design employed to address the primary research questions. The primary research questions, research objectives and the type of analysis used to address each is outlined below:

- **R1:** What are the SMEs' views on Qatar and the contributions of the segment to the overall economic portfolio? – Identify and understand the SME segment's definition of Qatar to categorically define the segment within the overall economy and analyse the present economic composition of the defined SME segment. The definition of SME is not universal and differs from country to country/economy to economy and understanding this distinction enables us to develop comparisons which are relevant to a particular economy. This research question was explored primarily using secondary data analysis
- **R2:** What is the Qatar's total GDP and what is the SME contribution to its GDP? – Analysis of GDP based on sectoral contributions and SME participation in identified segments.
- **R3:** What are the major challenges faced by the SME sector in Qatar – Analysis of barriers to the SME segment from a regulatory, capital and infrastructure perspective with a particular emphasis on financial constraints.
- **R4:** How appropriate are the present economic, political and international conditions for the encouragement of growth in the SME segment in Qatar? – Regulatory framework, political conditions and internationalization of the market with regards to SME's is identified and discussed. The policymaker's directives and financial institutions' participation within the SME segment are studied using primary and secondary data.
- **R5:** What would be the economic consequences of SME segment failure? – The short term and long term economic and social repercussions of SME segment failure are investigated.
- **R6:** How do financial institutions support the SME segment to overcome the identified challenges? – The financing and financial advisory function of financial institutions in Qatar. What improvements are required as per entrepreneur's perspectives? This was investigated mainly through the analysis of primary data obtained via questionnaires.
- **R7:** How can we address entrepreneurs' objectives, government/regulators and financial market objectives?

Conflict of interest

Table 2 below illustrates the divergence in expectations between the major stakeholders in the segment and the government's role in minimising conflict.

Table 2: SME conflict of interest

CHALLENGE	FINANCING		
	ENTREPRENEURS	INSTITUTIONS	REGULATORS
Capital and Funding	Capital is a major constraint	Imposes higher interest rates and strict Facility Conditions.	Government guaranteed facilities from Third Party Institutions.
Regulation	Appreciate flexible regulation and concessions	Strict credit assessment rules, including Basel 111 rating requirements.	Tax free trading opportunities and grace periods for borrowings.
Management Skills and Competencies	Lack of management skills and competency due to cost and size.	Borrowing dependency and increase in cost of capital if management is incompetent.	Training and introduction of SME tool kit.
Tangible Resources	Lack of tangible resources due to size and especially in the case of 'start-ups'	Collateral requirements and net worth calculations for borrowings.	Development programs and infrastructure facilities.
Market and Globalisation	Penetrating the market and intense global competition from establishments with economies of scale.	Promotes large establishments and risk averse policies.	Local product promotion and government sponsored International trade opportunities.

Source: Authors 2013

The conflict of interest between the three major stakeholders in the segment exacerbates the challenges the industry faces. Furthermore, it signifies the importance of government intervention to balance the conflicting interests of stakeholders to ensure the sustainability of the SME segment. The research aims to identify the major challenges to the segment and provide recommendations to overcome the identified challenges and promote growth of the SME segment.

Literature review

Qatar is an emerging economy in the GCC and there are significant differences in the economic conditions in Qatar due to its cultural background and the composition of the work force (Welsh and Raven, 2006). A consistently applied definition of SME's is important in terms of policy implications, resource allocation and comparisons (Hertog, 2010, p 10). The variation in SME definitions and the distinct economic objectives of different countries makes it a unique segment in each economy.

Qatar's Dependence on key segments such as the hydrocarbon industry was highlighted by Kubursi (2013) who stated that 'were oil supplies everlasting, and the demand for oil strong and continuous, economic diversification would be pointless and the governments of the region would instead need only to ensure the distribution of oil revenues' (Kubursi 1984 cited in Martin, 2013, p 1). However, in reality, no resource is everlasting and over reliance on a single resource causes volatility. Economic diversification mitigates the risk of over reliance on particular resources by spreading risk among different segments and promoting innovation and employment opportunities by transferring knowledge between industries and individuals (Marra, Carlei & Crociata, 2011). Research on SMEs suggests that in the majority of economies around the world, they represent 95-99% of businesses (OECD, 2006 cited in González-Loureiro & Pita-Castelo, 2012, p.3). This is a clear indication of the importance of this segment to diversification, stability and growth.

Recent research conducted by Varghese (2011) on SME's in the GCC suggested that economic sustainability, diversification and growth primarily depend on the SME segment. The importance of diversification was further highlighted by Siddiqui and Al Athmay (2012) in their research on the Brunei economy, which is highly dependent on the oil industry. They observed that Brunei's current unemployment rate was 12% and that this was largely due to a lack of private sector engagement in industries other than oil and gas. Sharma, Garg and Sharma (2011) conducted research, post-recession, to identify the importance of the SME segment to the economy and strategies for survival under volatile economic conditions. They suggested lean guidelines – raw materials to output, reduced obsolescence, vendor support and quality, customer loyalty and communication, information sharing and move to higher value added products as strategies for SME's to survive under volatile economic conditions. The dominance of the natural gas and oil industry has created an adverse lending pattern in Qatar's financial institutions and most of the banks are under lending. Reliance on high capital intensive, less risky segments keeps a steady profit line for the banks and the bottom lines are achieved without much effort and risk diversification. However, this has a negative impact on the long term economic and social expectations or objectives of the country.

Research conducted by Keasey and McGuinness (1990) regarding best approaches to financing small and medium sized companies suggested that the efficiency of small and medium businesses increases if they are financed by banks 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 (Keasey & McGuinness, 1990, pp 220). Their findings are particularly relevant to this research and were used as a platform to examine Qatar's economy, SME's and financial institutions' involvement. According to Oludele and Kinack (2012) 'unfavourable foreign rules and regulations, high tariff barriers, inadequate property rights protection, customs administration and restrictive health, safety and technical standards' are major barriers to the internationalization of SMEs. They highlighted the adverse impact of rigid regulation on the SME segment through a survey that explored issues relating to Cameroon's SME segment. The study holds relevance to Qatar's economy to some extent as there are weaknesses in laws on property rights and high standard requirements for health and safety

without concessions or government subsidies for start-ups, which increases capital requirements. The study provides empirical evidence that economic policies have a direct impact on this segment and the policy changes implemented after Cameroon gained independence indicate that economic growth was sustainable after the government shifted its focus towards SME's (Oludele & Kinack, 2012).

The general regulatory issue with GCC countries is the absence of specific segment law. The policies and regulation in the GCC are generic and, therefore, do not provide a specific segment orientation. (Varghese, 2011). Varghese (2011) argued that regulatory or government support for the SME segment should empower or enable entrepreneurs rather than provide subsidies or free business support. This would ensure sustainability and competitiveness and growth Across the SME segment Nawi et al. (2012) argued that government funding for SMEs will go to waste if the segment is not monitored by the government to ensure that the funds are put to good use. Lack of access to funds or limited access to institutional borrowings prevents SME's from reaching their full potential (Leone & Vento, 2012, pp. 11-12). Credit guarantee schemes are a common way of promoting SME access to capital all over the world and research by Leone and Vento (2012) suggests that establishing credit guarantee schemes would encourage banks to engage in SME segment lending because it would enable them to lend to SME's with limited information and collateral with less administrative expenses. Nasr and Rostom's (2013) conducted research that showed that SMEs could potentially make significant contribution to GCC economies by creating dynamic employment opportunities and promoting competitiveness, which contributes to the sustainable growth of the economy. Pollard and Simberova (2009) conducted research on the ASEAN (Association of Southeast Asian Nations) region to gain an understanding of the influence of technology on SMEs and how it can be used to enhance the performance of this segment. They identified a number of challenges to the segment, some of which were related to industrialization 'such as infrastructure bottlenecks, lack of development of supporting industries and an absence of relevant institutions and policies'. Furthermore, a major barrier to economic expansion is a lack of human resource development and skills shortfalls (Yamazawa, 1994 cited Pollard & Simberova, 2009). In conclusion, they recommended that government aid be used to promote efficient and competitive SMEs rather than pure price base competition.

Methodology

A triangular approach was employed for this investigation through interviews, questionnaires and secondary data analysis. An initial quantitative analysis of existing secondary data obtained from World Bank statistics and several government institutions such as QDB (Qatar Development Bank) on SMEs was conducted to establish the groundwork for the research. The secondary data was analysed to determine the importance of SME's in an emerging economy and where Qatar stands as far as the SME segment's contributions are concerned. Subsequently, a qualitative analysis of questionnaires and structured interviews with two of the most important stakeholders (Entrepreneurs and Financial Institutions) in the SME segment of Qatar was conducted.

A questionnaire containing 28 questions under 4 sections was distributed to 75 selected SME's from different segments and 44 completed questionnaires were returned to the researchers. SME's were selected for the research based on the following criteria:

- Legal Constitution/Type
- Business Segment
- No. of years in service
- Capital
- Annual Turnover
- No. of Employees
- Location
- Sector
- Competency of Management

Several participants were reluctant to disclose personal information as regulatory barriers exist in the segment, which is common in this part of the world as Welsh and Raven (2006) state.

The interview was segregated into five different dimensions with a particular emphasis on finding solutions to major research questions:

- Opinion on contributions of the SME segment to Qatar economy
- Benefits and barriers to the segment
- Role of financial institutions in the segment
- Role of regulation/government
- General opinion on the present and growth of the segment

Interviews were conducted with nine financial institution representatives in Qatar with an average industry experience of 15-20 years. Their profiles are summarised below:

Table 3: Details of Interviewees

CODE	SPECIALIZATION	YEARS OF EXPERIENCE	NATIONALITY	DESIGNATION
FIR 1	Credit & Lending	30	American	Chief Credit Officer
FIR 2	Banking operations	10	Indian	Head of Credit Admin.
FIR 3	Credit	10	Canadian	Relationship Manager
FIR 4	Credit	9	Sri Lankan	Relationship Manager
FIR 5	Credit	10	Sri Lankan	AVP- Credit
FIR 6	Credit	8	Sri Lankan	Credit Analyst
FIR 7	Credit Risk	30	American	AGM-Risk Management
FIR 8	Credit	13	Indian	Credit Administration Manager
FIR 9	Credit	13	Sri Lankan	Credit Analyst
FIR 10	Credit	15	Sri Lankan	Senior Credit analyst

*FIR – Financial Institution Representative

Source: Authors (2013)

Interviewees were selected based on the following criteria:

- Relevance of specialization
- Experience
- Willingness to disclose information

Triangulation enabled the researchers to concurrently seek answers to research questions from an explanatory and confirmatory perspective, which was the prime research objective. Confirmation of theory and the investigation of new realities can also be achieved through a triangular, mixed methodology. Triangulation increased the validity of the research as it allowed the researchers to converge observations and findings in a more practical way. This approach is common in this type of investigation and Coppa and Sriramesh (2013) argue that triangulation allows us to enhance the validity of the findings by seeking the convergence of multiple sources of empirical evidence (Lindolf & Taylor, 2002 as cited in Coppa & Sriramesh 2013). The secondary data analysis was key part of the qualitative element of this research and this was implemented to find solutions to the following key research question:

- How appropriate are the present economic, political and international conditions for the SME segment in Qatar?

A GDP composition analysis of Qatar was conducted using the available statistics to determine the present composition of economic transactions. This analysis would form a base for the research that would be used to develop a comparison between Qatar and other developed and emerging economies. Thus, the analysis provided

the researchers with a comprehensive understanding of Qatar’s economic diversification status, which could then be used to determine recommendations for the future growth of the segment.

Table 4: Sectoral Distribution of GDP in Qatar 2012

INDUSTRY	GDP	% of GDP
Agriculture and fishing	477	0%
Mining and Quarrying (Include Oil & Gas)	148,417	44%
Manufacturing	31,487	9%
Electricity and Water	2,749	1%
Building and Construction	37,930	11%
Trade, Restaurants& Hotels	26,397	8%
Transport and Communications	22,690	7%
Finance, Insurance, Real Estate & Business Services	36,593	11%
Social Services	3,898	1%
Government Services	36,481	11%
Household Services	1,571	0%
GDP	341,120	

Source: World fact book (www.cia.gov)

Economic diversification and sustainable growth has a direct relationship with the SME segment of an economy. This research was conducted to examine this relationship and to categorically identify key challenges and strengths of the SME segment in Qatar. The research questions were established to recognize the contribution the segment makes to the overall economy and challenges mitigating these contributions.

Results

This section analyses and discusses the findings from the questionnaires and interviews conducted with entrepreneurs and financial institutions’ representatives. Through a comparison, contrast and analysis of the data, the researchers identified the benefits, barriers and conflict of interest between entrepreneurs and financial institutions.

Secondary data analysis

One of the major challenges for this research was the absence of a clear definition of the SME segment in Qatar. This is a common issue for the GCC countries and according to Varghese (2011), the SME segment was neglected in this region due to the over reliance on the natural gas and oil segment. A GDP composition analysis of Qatar forms the basis of the research and the research findings are predicated on the theory that Economic diversification

promotes sustainable growth of an economy and reduces overall failure of an economy due to a failure of one segment. The GDP composition of GCC countries is dominated by the Natural oil and gas segment with an average percentage of 65%, while the major contributor to the developed and emerging economies is the services segment-72% (CIA, 2012). The services industry in developed countries consists of various sub-sectors and this expands the services segment. Nasr and Rostom's (2013) research based on World Bank survey data suggested that the lack of diversification in the GCC region is the main constraint on sustainable growth in their economies.

According to World Bank statistics, as of 2012, the SME segment contributes 39% to total GDP and 30% to 55% of employment on average in developing countries (El-Gohary 2012). This suggests that the present economic conditions in Qatar do not necessarily prioritise or support the SME segment as the focus is entirely on the hydro carbon industry. However, the future for SMEs in Qatar looks bright and the Qatar government's vision 2030 emphasises 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. Indeed, the report outlines the government's intention to establish 'a diversified economy that gradually reduces its dependence on hydrocarbon industries, enhances the role of the private sector and maintains its competitiveness' (General Secretaries for Development and Planning, 2013, p.1). The government has implemented directives to promote the SME segment through the Al-dhameen program (Credit guarantee program of Qatar Development Bank), infrastructure development through new proposed industrial areas and providing education to young Qatari entrepreneurs. However, further research is required to identify strategies to address the underlying issues of the SME segment and the reluctance of the Qatari young generation to get into business in order to realize the government objectives. Based on an analysis of key financial institutions in Qatar, it is evident that despite government initiatives to promote lending to the SME segment, the overall financing of SMEs in Qatar remains at a significantly low level. The analysis further suggests that the major financial institutions do not recognize the SME segment as a distinctive business segment within their financial statements. The financials of QNB (Qatar National Bank) shows a total of 5% against total bank's lending to SME segment which is significantly low compared to a market where SME's comprises of 90% of the total businesses.

The above findings suggest that the present economic conditions in Qatar are not conducive to growth in the SME segment, however, it is encouraging that the government has identified the importance of the SME segment with regards to diversification and growth of the economy. The regulatory framework presently does not identify SMEs specifically, but several government initiatives are in place to change the existing unfavourable conditions.

Survey findings

Benefits and barriers

The questionnaire findings were tabulated based on responses to different sections to observe entrepreneurs' opinions regarding the benefits and barriers to SMEs operating in Qatar. The major benefits and barriers identified by the respondents are shown in the table below.

Table 5: Summary of Questionnaire Section 2 (Barriers & Benefits according to Entrepreneurs)

Question	Selection 1	No of participants	Selection 2	No of participants
What are the main advantages of operating in Qatar? (Top 2 selections)	Taxation	32	Taxation	8
	Labour	1	Labour	12
	Regulation	1	Regulation	3
	Business opportunities	10	Business opportunities	20
	Access to Capital	0	Access to Capital	1
Availability of professional advice and support from government and other representative bodies	High	3	-	-
	Moderate	27	-	-
	Low	14	-	-
What is the average cost of information on business?	Expensive	25	-	-
	Reasonable	19	-	-
What are the main challenges faced by your company (Top 2 challenge)	Taxation & Regulatory Challenges	0	Taxation & Regulatory Challenges	3
	Skilled Labour	9	Skilled Labour	3
	Competition from Large Companies	25	Competition from Large Companies	7
	Business opportunities	0	Business opportunities	2
	Access to Capital	9	Access to Capital	18
	Infrastructure	1	Infrastructure	11
What level of impact do the above barriers have on your business?	High	31	-	-
	Moderate	12	-	-
	Low	1	-	-

Source: Authors 2013

Section 2 of the questionnaire explored the opportunities/benefits and challenges of operating in Qatar as a SME. Significantly, 95% (32 participants) of the entrepreneurs who were surveyed asserted that taxation was the greatest advantage of operating in Qatar and 45% (20 participants) felt that business opportunities as the second greatest advantage operating in Qatar. By contrast, 27% (12 participants) of the participants indicated that availability of labour was the second biggest benefit of operating in Qatar. Availability of government support and regulation was identified as a benefit by only 2% of the participants. In addition, capital availability was identified by the fewest participants as a benefit of operating in Qatar. Questions relating to information availability and the cost of information were also included in the questionnaire and 68% of the participants suggested that the level of information availability is from Moderate to high levels and 100% of participants (25 participants – High and 19 participants – Reasonable) suggested the cost of information is reasonable to high in the Qatari market. Most entrepreneurs were reluctant to provide details on other benefits. However, some suggested that good supply chains, demand for innovative and high technology products, clients with high purchasing power, relaxed labour rules and manageable and established relationships with customers are further opportunities advantages available to SMEs in Qatar.

Respondents also identified a number of challenges faced by SMEs operating in Qatar. For example, 57% of the entrepreneurs indicated that competition from large companies is the greatest challenge for SMEs, while 20% of the entrepreneur's felt that access to capital/availability of finance is the second greatest they face. Almost all of the entrepreneurs (98%) agreed that these challenges have a medium to high impact on their operations. The most interesting finding of the questionnaire was that 60% of SME entrepreneurs either did not know or were not utilising the government initiatives to overcome these constraints. Some entrepreneurs identified logistical barriers, socio-cultural barriers and lack of government incentives for trading segment as further challenges faced by SME's in Qatar.

Financing and financial institutions

Access to capital and the credit conditions applied by financial institutions appears to be a significant constraint to the growth of the SME segment. Indeed, 79% of SME owners declared that they have an active relationship with a financial institution, however, the relationship was generally based on the individuals name instead of the company name. Out of the sample of 44 entrepreneurs, 9 (21%) responded that they do not have an active relationship with a bank. Moreover, 54% of the respondents indicated that the products and services offered by the financial services are good to excellent whilst 34% stated that it needs improvement.

Based on the findings, the biggest challenges identified by entrepreneurs were collateral requirements of the banks and interest rates on facilities. Other challenges of significance include lack of data on businesses and repayment structures. Some entrepreneurs suggested that the following changes be made to the lending policies of banks or financial institutions: promote borrow based lending policies; offer flexibility in collateral requirements

(tangible and intangible collaterals); provide guidance and support in financing; improve TAT (Turn Around Time); provide concessionary interest rates; increase product range (availability of trade finance products); relax documentation; finance future operations rather than current operations (growth aspect) and provide loans for start-ups without banking history. Due to the uniqueness of companies and the exclusive nature of the segment, a large number of participants suggested that bank lending should be personalized to suit their working capital requirements and receivable structures.

General

The expected business growth and entrepreneurs' views on strategies that can be used to facilitate further growth was also explored. The survey data showed 66% of the entrepreneurs expected a growth of 6% or above for the coming two years. However, 93% of the entrepreneurs felt that the most critical elements required to facilitate this growth are financing and support and advice from Financial Institutions (FI's) and the government. Interestingly, 55% of survey participants expected an average growth of 5% for their business operations within the next 2 years and an average 5% rise in employees. The findings show that the top two expectations of the entrepreneurs are documentation (Security structure, process and documents) and interest rates.

Discussion

The questionnaire findings suggest that SMEs operating in Qatar are concentrated in a few key segments such as trading and contracting and this lack of diversity limits opportunities for employment and innovation in the economy, which has a direct impact on the sustainability of the economy. Marra, Carlei and Crociata's (2011) study showed that diversification mitigates the risk of economic failure by reducing the reliance on a single or a few key industries. Developing the SME segment would enable the government to create jobs and, as a result, encourage sustainability and economic growth. According to Elasmag (cited in Pedrosa-Garcia 2013), the SME segment provides 40% to 80% of job opportunities in an economy. Out of the sample of entrepreneurs in this study, 73% of their businesses are operating in the Qatar Metropolitan area and businesses operating in remote areas are almost negligible. Thus, there is limited geographical diversification within the SME segment and this is a critical issue that needs to be addressed in the future. The spread of business across all regions is important as Marra, Carlei and Crociata's (2011) research on Italian SMEs demonstrated that geographical distributions of SMEs is vital for cities to evolve and develop.

The entrepreneurs highlighted several benefits for SMEs operating in Qatar. Taxation was seen as a key benefit of operating in Qatar and 73% of the sample responded that it was the most significant benefit available to SMEs. However, this could also be a major constraint in terms of obtaining finance. Indeed, because there is no taxation, the accounting and financial reports of SMEs are not prepared in proper formats, which discourages financial institutions from lending to this segment because the reliability of their financials information is questionable. It

should be noted, however, that there is a government institution dedicated to SMEs, which focuses on the issues facing SMEs in Qatar in terms of financing and support services. Furthermore, key government initiatives have been implemented to provide support to SMEs such as a dedicated SME bank (Qatar Development Bank). However, further discussion on QDB operations will be provided in the latter part of this article.

Two critical challenges, according to respondents, are access to capital and competition from large businesses. Access to capital was seen as the greatest challenge for SMEs, which was not surprising given that Pedrosa-Garcia (2013) had previously shown that the MENA (Middle Eastern & North Africa) region has the highest rate of credit proposal rejections and ranks lowest in maintaining banking relationships. Research conducted by Keasey and McGuinness in 1990 suggested that deploying personal funds would reduce the rate of return compared to external financing (especially banks) due to a lack of control and monitoring. Hence, the critical constraint of access to capital should be mitigated by encouraging the banking sector to actively participate in the SME lending process. The survey suggested that entrepreneurs in Qatar see the provision of financial assistance and advisory services as critical to meeting their growth projections. Previous research conducted by Pedrosa-Garcia (2013) illustrated that lack of finance, business strategies and HR capital are the main constraints against economic growth in the MENA region. This supports the present research outcomes on Qatar as the majority of entrepreneurs and interviewees identified the same major constraints as well as some unique factors relevant to Qatar.

The critical findings of the questionnaire could be summarised as follows:

- Taxation and business potential are major benefits of operating in Qatar
- Some major barriers to the segment (Access to finance, Regulation, HR capital & competition from large companies)
- SMEs operating in Qatar are concentrated in the city area
- The SMEs are locally oriented and internationalization is an issue
- The government initiatives lack practicality (documentation and procedures) and reach
- The financial institutions are distant from the segment and loans are mostly under personal names meaning internal financing and business does not have a relationship with the institution.
- Inefficiencies in finance management due to lack of control and monitoring from external experts such as banks
- The focus of government regarding SMEs restricted to natives and this hinders innovation and competition in the market
- Infrastructure needs development

Interview findings

Interviews were conducted with 9 financial representatives in the SME segment of Qatar. The interview consisted of 5 key sections: Contributions of the SME segment to Qatar's economy; Benefits and Barriers to the segment; Role of Financial Institutions; Role of Regulation/Government; General opinion on the segment.

Contributions of SME segment to Qatar's economy

All of the interviewees confirmed the importance of the SME segment to Qatar's economy, particularly in terms of diversification and growth. According to the FIRs (Financial Institutions Representatives) the contribution of the SME segment is currently low given the size of the economy and has been restricted to a few key segments such as trading, sub-contracting and retail outlets. However, the FIRs were confident that SMEs present position could be improved through development in the IT segment, Education and government intervention. FIRs advised that improvements in the education, tourism, and manufacturing segments are required in order to diversify the economy to promote sustainable growth.

Benefits and barriers to the segment

As part of the interviews, the researchers asked FIRs for their views on the barriers and benefits for SMEs operating in Qatar to reconcile the conflict of interest between entrepreneurs and financial institutions in financing. Identifying benefits and barriers from both perspectives enabled the researchers to develop recommendations that take a range of views into account and have practical implications. The remarks made by the interviewees are tabulated below (Table 6) for easy reference. FIR's highlighted business opportunities, government support and taxation as major benefits to operating in Qatar. Restricted access to finance, competition from large companies, lack of knowhow and lack of entrepreneurial skills were denoted as the major barriers to SME segment.

Table 6: Benefits & Barriers

Question	FIR 1	FIR 2	FIR 3	FIR 4	FIR 5	FIR 6	FIR 7	FIR 8	FIR 9
Major benefits of operating in Qatar	New lending programs	Opportunities for innovation and support of various government institutions	Credit guarantee systems through QDB	Not many. Setting up costs are high and access to finance is limited	Dedicated government funding institutions (QDB) and tax free operations	Financial assistance through QDB	Strong government support albeit with the usual bureaucracy.	Very minimum but some financial benefits and advisory services are provided.	Taxation and dedicated lending authority (QDB)
Compare these benefits other GCC	Lending is restrictive and rates should be lowered and consistent for the SME industry	Infrastructure projects are not sufficient but 2030 football cup gives hope for growth in major projects	UAE supports SME segment better	Cannot comment	Qatar has recognized the importance of the segment and dedicated government institutions are setup.	Satisfactory but government funds instead of credit guarantees should be these similar to UAE	No information to comment	It is at par with other GCC countries	It is similar to other GCC countries
How these benefits motivate entrepreneurs	Not much. Rates should be lowered and access to finance should be improved	Some young entrepreneurs are motivated by government support and importance of self-employment	The motivation should be through countries economy.	Cannot comment	It is welcoming for start-ups and has direct impact on SME existence	This encourages entrepreneurs to get in to business or continue	The government support may help motivate people to start businesses	It is supporting as there is an increase in SME segment yearly	QDB credit guarantee system is admirable however more reach and procedure should be business oriented
Are they aware of these	Not really. FIs do not focus this industry due to high default rates and cost of funds	QDB and Enterprise Qatar are creating the awareness	Yes to a certain extend	Not much. Needs to create awareness and work closely.	Yes. SMEs are most discussed subject.	To a certain extend	Should be promoted more	Yes	Reach is an issue also language, nationality and literacy levels matters

Major challenges/constraints	Lack of finance, Opportunities and economic diversification	Reaching for government institutions for projects and labour laws	Lack of financing and high rejection rates in credit guarantee program	Restricted access to finance	The competition from large companies as the market is diminutive	Finance, Information and trade knowhow	Lack of capital. Lack of banking infrastructure to service SMEs.	Access to finance	Financing and literacy of entrepreneurs
How critical are these challenges	Very critical	Very critical. Government should intervene	Very critical. Curtail growth as they cannot project without financing.	Very critical. Government support to Qatari nationals are provided	Very critical. Government initiatives are welcoming	Critical	Very critical and recognized by stakeholders	Critical and government has taken initiative to resolve	Very critical. Failure will impact the economic expectations of the government.
How government and FI's address these challenges	Still working on collaborative solutions	Good thought process and experts are employed to address these	Creating awareness and financing options through QDB	The intervention of government and Fis increased but the issues are not successfully addressed	QDB spearhead the operations. Educational programs and transfer of necessary knowledge motivate entrepreneurs	Policies are in place but difficulties in enforcing due to administrative weaknesses	Resistance or ennui on the part of the financial system to support QDB's efforts. QDB should streamline the lending process	Lots of efforts from government and FIs. The 2030 vision to diversify through SMEs helps	Government intervention and also QDB should work together with FI's and FI's should actively participate
Role of FI's & SMEs in resolving these constraints	Major role. Needs to work together with Central bank, Development bank and ministry of finance	Deploy think tanks with experts and entrepreneurs to resolve the issues	Customization of product line at fixed rates	Separate units to handle SMEs	FIs active lending through the credit guarantee program and SMEs should exchange knowledge	Contributions are very low.	SMEs to raise the issues with relevant regulatory authorities and FIS to actively participate in the sector	Credit guarantee programs encourage start-ups and existing SMEs	Currently participation of Fis minimal. Needs to work closely with the business to grow together
Does these curtail the SME contributions	Yes	Yes	Yes but no major impact on the economy as it is currently focused on few key industries	Yes	Yes but can be mitigated by working together	Yes	Yes	No. In the long run it will be ok	Yes.

Role of financial institutions

The existing research on SMEs around the world confirms that the most critical challenge SMEs face at the start-up stage is access to finance. Debt capital extraction through the financial system continues to be the major barrier for this segment in the Qatari economy as well. Collaborative contributions of FI's, active participation in credit guarantee schemes and working closely with entrepreneurs are identified in the literature as major areas where FI's can assist the development of the SME segment.

Role of regulation/government

Regulation and governments play a vital role in developing the SME segment. The heavy risk associated with this segment makes it vulnerable to credit rejections by FIs. The direct involvement of the government is required to mitigate credit risks for SMEs by compensating FIs for a greater economic cause. As commented on by FI's, transparency in regulation and distinct SME regulation was expected by stakeholders and the general role of SME regulation should be guidance oriented than a pure regulatory role.

Discussion

The interviewees agreed that Qatar has a healthy economic and social environment for SMEs to grow, however, they were not satisfied with the present conditions and they felt that resources are underutilised. FIRs commended the Qatar government for its implementation of initiatives such as setting up dedicated institutions to manage equity financing of SMEs. However, their general view was that financial institutions who participate in this lending program are not motivated enough to actively participate in the program. The heavy documentation needed, extended lead times, higher administrative costs and the thin margins offered are a major turn off for the banks. Despite government efforts in the MENA and GCC, SMEs lending remains at a very low level. According to a study conducted by Roberto et al. (2011), total SME lending from banks in the MENA region is at 8% and GCC lending is even lower at 2%. The Al-dhameen credit guarantee scheme may not be the only answer to the financing issues of SMEs. In fact this may have an adverse impact on the economy. Credit guarantee schemes may create artificial interest reductions in the segment and they may ensure the survival of unprofitable or unwanted businesses or industries (Hallberg, 1999 cited in Leone & Vento, 2012).

Qatar's economy does not suffer from tangible resource deficiencies, however, it lacks intangible resources such as talent and human capital. The majority of the FIRs interviewed asserted that education and motivation are critical barriers to the SME segment in Qatar. Thus, financial advice should be facilitated by Qatar's financial institutions rather than a single dedicated government institution. According to Yesseleva (2013), SMEs rely more on accountants and financial institutions for advice than government institutions. The government's role should be to motivate financial institutions by rewarding or incentivizing the participating institutions.

Availability of market information is another vital challenge in the Qatar market. The knowledge spillovers and discussion forums within industries are rare in the market and the government should promote this to develop the segment by creating competitiveness. This scarcity of information is considered to be one of the major barriers to lending to SMEs by several FIRs. Presently, financial institutions contributions to Qatar's SME segment are extremely low and the FIRs argued that the key reasons for this were lack of information/knowledge of the company, management incompetence, collateral, low returns, high risk and high administrative costs.

Apart from the above generic financial barriers to the segment, there are some unique conditions that must be taken into account by Qatar's SMEs such as local ownership (51% of the SME should be owned by a Qatari), lack of entrepreneurship, interest in government employment over business formation, no clear definition for the SME segment, no specific regulations for the SME segment and personal guarantees of partners (regulatory requirement) discouraging new entrants or expansion by accessing capital.

One FIR stated that regulation in Qatar does not specifically handle SMEs. Several FIRs asserted that the first and most important step to address this problem would be to define the segment and implement a separate set of regulations for the defined segment. Indeed, the literature shows that regulation is crucial in creating an environment in which SMEs can grow (Oludele & Kinfaek, 2012). Several FIRs commented that current methods of regulation in Qatar lack transparency and communication.

Casagrande and Spallone (2006) conducted research on SME development banks and suggested the setting up of SME development banks through public financial operations to mitigate the information asymmetries which curtail the lending to SMEs through conventional commercial banks. In Qatar, the QDB (Qatar Development Bank) was set up by the government to support capital financing of SMEs, but QDB operates through the conventional banking system in the country and no clear distinct requirements or procedures are taken by QDB to bridge the information asymmetries between the SMEs and participating banks.

Conclusions

There are several key challenges that the Qatar's SME segment faces and these challenges are common across most of the global economies. However, there are several unique constraints to SMEs operating in Qatar, which require careful consideration to ensure the practicality of this paper's recommendations.

- Financing is a major barrier to the SME segment for a number of reasons such as high interest rates, lack of collateral availability, no business history or proven records, non-availability of financial analysis and data on the companies, high administrative costs of funds and high risk associated with the segment due to high risk of failure.
- The young generation of Qataris lacks the enthusiasm to start businesses (lack of entrepreneurship).

- Availability of market information and clear definition of the segment to promote focus and concentration is also required to develop the segment.
- The existing dedicated SME financial institution of Qatar is QDB. However, its processes and procedures do not entirely support the SME segment of the economy.
- Most of the SMEs operating in Qatar are located in the city and suburbs. In addition, Qatar’s SMEs lack the knowledge and support required to move to international markets.

Implications and recommendations

The conclusions of the research indicate several vital practical implications for different stakeholders of the SME segment in Qatar such as access to Capital/Finance, absence of clear definition for SMEs in Qatar and regulation, lack of advisory functions by government and financial institutions and overcome competition from large companies including multinational companies. Recommendations for different stakeholders are as follows.

Table 7: Implications and recommendations

Government & regulatory authorities	Entrepreneurs	Financial institutions
Clear distinction of regulation	Promote knowledge spillovers	Grow with the business by funding future operations than just current working capital requirements
SME Funds and changes to the current credit guarantee program	Record keeping and competent knowledge	
Priority for SMEs in state sponsored projects		Improvements to Advisory function
Develop entrepreneurs by discouraging government jobs for Qatari population		
Bureaucracy is an impediment.		
Reduce the level of required capital for more investment.		
Clustering of industries needs to be revamped to allow both foreign investors and Qatari private enterprises to flourish.		
Transparency should be the core of any policy or decision making process.		
Outside city infrastructure should be upgraded to enable Qatar to acquire absorptive capabilities.		
Dependence on hydrocarbons for another decade could create serious economic issues, thus Qatar must diversify.		

Future research

This research was conducted based on a limited sample, which was gathered through purposive sampling of selected SMEs and financial institutional representatives. The purpose of the research was to observe the contribution of the SME segment to the Qatari economy and the challenges faced by the segment with a

significant emphasis on access to finance as a major barrier. Further research should be conducted on additional barriers affecting this segment such as regulation, the multi-cultural composition of the population and language. Future research should include the views of government institutions set up to manage SMEs in Qatar.

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