



SME FUNDS AS VEHICLES OF ECONOMIC REFORM IN KUWAIT AND THE GCC

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Introduction

Over the past decade, Kuwait's economy has been plagued by stagnation and the political interference of parliamentarians, merchant family businesses, and ruling elites, as well as by a wage bill for citizens who depend on the state for their most basic needs, including the provision of jobs. In 2010, the Supreme Council for Planning and Development presented the government's development goals in the Strategic Vision of Kuwait 2035. This plan aimed to grow Kuwait into a regional financial and commercial center, mirroring the ambitions of other Gulf Cooperation Council (GCC) states. To achieve this goal, the private sector would play a leading role in the economy; the government would play the main role as the overseer of healthy competition, promoting efficiency through new legislation and the establishment of competent institutions.

Like the other energy-rich Arabian Gulf states, the private sector in Kuwait is closely linked with oil rents that are distributed by the government, which are then recycled mainly through construction, services, and trade imports.¹ This means that the private sector is as vulnerable as the government to the cyclical effects of oil booms and troughs. The concentration of private sector wealth in non-tradables has also fueled asset price inflation (such as land prices) and made it even more difficult for smaller players to gain entry and to compete fairly within the existing system.

In an attempt to create a more independent private sector able to provide investment and employment opportunities to nationals, many GCC states have turned to small- and medium –sized enterprises (SMEs) supported by government vehicles and initiatives intended to ease legal and financial barriers to entry. Over the past two decades, several initiatives to drive economic growth through SMEs have been promoted in Kuwait. An increasing number of specialized bodies have been formed, such as The Handicraft and Small Enterprises Financing Portfolio, managed by The Industrial Bank of Kuwait on behalf of the Government of Kuwait, which was established in 1998, and Expo al Mubarakiya, which has been described as an effort to boost youth talent and promote small Kuwaiti businesses. The expo had its inaugural opening on Feb. 19, 2017, under the patronage of H.E. the Emir of Kuwait.

The aim of these initiatives—along with new financial compliance bodies established in response to international pressure, such as the Competition Protection Authority, mandated by the World Trade Organization)—was to enable economic growth and maneuver around the many obstacles to creating job growth and economic prosperity in Kuwait. A technical team reviewing the government's fiscal performance found that increased public sector spending and the entwinement and replication of institutional responsibilities (including the various entities dealing with SMEs in Kuwait: the National

¹ Khalid al Khater, "The Challenges of the Oil Prices Collapse and Economic Diversification in the GCC Countries," in *Cooperation Council for the Arab States of the Gulf: Socio-Economic Challenges*, Arab Center for Research and Policy Studies, 2016, 464-534.

Fund for SME Development, the Industrial Bank, and the Kuwait Small Projects Development Company) were symptomatic of the problems the government sought to address.²

The Kuwait Small Projects Development Company, established in 1996, was Kuwait's first attempt to boost private sector growth; it was a special purpose vehicle supported by 100 million Kuwaiti dinars from Kuwait's Investment Authority to provide equity capital to small- and medium-sized projects. For various reasons, administrators of the fund failed to successfully choose, monitor, and keep track of how the young entrepreneurs managed their fledgling businesses, and many defaulted on their loans—so many, in fact, that the Small Projects Development Company abandoned the SME equity model in late 2010 and restructured itself as a venture capital firm.

In 2010, Kuwait's National Assembly approved a four-year development plan (covering the years from 2010 to 2014), which, among other objectives, focused on government actions to enable the private sector to grow and improve the country's economy. Because of the role they were expected to play in enriching the private sector, "SME development implicitly became a major concern for the development of the country's economy."³ This resulted in another attempt to establish a government body overseeing SME development in Kuwait; many of the lessons from the failure of the Kuwait Small Projects Development Company were taken into account in setting up the new entity.

The need for economic alternatives took on greater urgency after the mass protests in Kuwait in autumn 2012. The unprecedented levels of youth violence⁴ led the government to actively examine ways to contain the fury of a generation that is more demanding of inclusion, transparency, and reform. As structural changes in political leadership were not an option, the government instead focused on creating jobs in the private sector and a favorable environment for SMEs; this was considered a less complicated reform process than the political changes many were demanding.

Creation of the National Fund for SME Development in Kuwait

Partly as a reaction to youth anger, the National Fund for SME Development ("the Fund") was launched in April 2013, under law 98/2013, as an independent public corporation with 2 billion Kuwaiti dinars (US\$7 billion) in capital. Its main remit was threefold: to support small- and medium-enterprises, diversify the economy, and create more jobs for Kuwaiti nationals. The Fund came with an ambitious five-year strategy, a partnership with the

² "Recommendations to Dissolve the Ministries of Youth Affairs, Public Affairs and Transportation," *alRai*, March 25, 2017, <http://www.alraimedia.com/ar/article/omma/2017/03/25/754485/nr/kuwait>.

³ Ernest Koch, *Challenges to SME Development in Kuwait*, UNDP Kuwait, November 2011, https://info.undp.org/docs/pdc/Documents/KWT/SME_Challenges_Final_Report_KUWAIT_Nov_11.pdf.

⁴ Alanoud Al-Sharekh, "Unprecedented protest in Kuwait", *IISS Voices*, October 25, 2012, <http://www.iiss.org/en/iiss-voices/blogsections/2012-6d11/october-2012-9f2f/protest-in-kuwait-e38c>.

World Bank (since November 2013),⁵ and a board composed of accomplished yet relatively young professionals with a diverse track record in academia, business, and finance. Since the Fund was marketed as a solution to a youth problem, expectations from the political and public spheres were high; there was significant pressure to deliver fast results.

According to Abdulaziz al Loghani, the first vice chairman and executive director of the Kuwait National Fund for SME Development, the initiative's success hinged on four main components, many of which were outside the immediate control of those working within the institution:

- Government support for start-up capital and assistance in restructuring regulations and processes to facilitate the establishment of businesses; this included granting access to land and giving National Fund SMEs priority in government procurements.
- Educational support, or early student interventions “on how to embrace an entrepreneurial mindset through extracurricular and curricular activities” because “even the top graduating students do not necessarily know how to run a business.”⁶
- A “venture friendly” legal framework, as Kuwait ranks low in regard to its insolvency laws⁷ and has additional issues related to contract implementation and other legal impediments to business growth.
- “Changing mind-sets,” which is considered “the most challenging building block.”⁸ Al Loghani—who had previously bought and built up the Kuwait-based food delivery platform, Talabat.com, eventually selling it for \$170 million to the German e-commerce group Rocket Internet in 2010⁹—is aware that policymakers, entrepreneurs, investors, and most stakeholders are “still limited to the traditional mind-set that merchants should buy low and sell high. They need to understand that a merchant in our day and age also tackles problems in the community and makes people's lives more efficient.”¹⁰

The strategy for implementing this four-fold plan included evaluating the resources available in Kuwait in terms of graduate degrees, skills in the professional labor market, subsidies, etc., and then targeting industries to compete regionally instead of just locally. This national strategy identified technology, light industries in the oil and gas sector,

⁵ *Building Kuwait's Future, One Small Enterprise at a Time*, World Bank, March 1, 2016, <http://www.worldbank.org/en/news/feature/2016/03/01/building-kuwait-future-one-small-enterprise-at-a-time>.

⁶ Sushmitha Pidatala, “Backstage with the Kuwait National Fund for SME Development,” *Arabnet*, May 5, 2015, <http://news.arabnet.me/backstage-with-the-kuwait-national-fund-for-sme-development/>.

⁷ *Doing Business 2017: Equal Opportunity for All Kuwait Report*, World Bank 2017, Washington, DC: World Bank. DOI: 10.1596/978-1-4648-0948-4, <http://www.doingbusiness.org/reports/global-reports/-/media/WBG/DoingBusiness/documents/profiles/country/KWT.pdf>.

⁸ Pidatala, “Backstage with the Kuwait National Fund.”

⁹ Romeo Chalfoun, “Rocket Internet Buys Talabat.com for 170 Million USD,” *Arabnet*, February 11, 2015, <http://news.arabnet.me/rocket-internet-buys-talabatcom-for-170-million-usd/>.

¹⁰ Pidatala, “Backstage with the Kuwait National Fund.”

media, and design as areas of initial interest for SME investment, with key performance indicators (KPIs) based on the number of companies funded and supported, the number of jobs created by the companies for Kuwaiti nationals, and revenues, including the net value-added to the economy, as minimal as it may be. The National Fund for SME Development was meant to monitor and evaluate these businesses through a trifold structure: Fund Central, Hubs, and Incubators.¹¹

SMEs eligible for funding had to be wholly owned by Kuwaitis, employ 1 to 50 Kuwaiti workers, and have financing needs that did not exceed 500,000 Kuwaiti dinars. Applicants had to be over 21 years of age and have good reputations and full-time jobs at an SME. They could not be employed by the government and were expected to commit to “directly contributing to the development and diversification of the national economy ... and creating job opportunities for Kuwaiti nationals.”¹² Interested Kuwaitis could complete an online application or be selected from among the graduates of the Kaufman FASTTRAC training program.¹³ After screening and an evaluation process, a committee reviewed SME applicants before the Fund’s board of directors decided whether to provide financing for the project. The Fund partnered with the Gulf Bank to provide initial financing to approved entrepreneurs, who were required to finance 20% of the total themselves and have plans to obtain future financing through other banks.

It would be almost three years before the Fund issued the first of its loans to Kuwaiti entrepreneurs; this eroded a lot of the good will and promise that the project initially generated. Some of the delay was related to setting up the Fund’s processes and the time it took to collect data to ensure best practices; other inevitable delays were caused by continued political instability between Kuwait’s legislative and executive branches and by the conflicting interests of the reform agenda and the country’s merchant and political elites. Much of the resentment and frustration related to the slow provision of loans was directed toward the Fund’s board of directors. Many parliamentarians and political candidates, such as MP Safaa al Hashem, derided the high salaries and wasteful expenditures of the Fund’s executives, who failed “to deliver any loans to Kuwaiti youth.”¹⁴ Even before it could deliver any results, the Fund and its board of directors were tainted by the same lack of trust that had been directed toward Kuwait’s government and economy in the previous decade.

¹¹ *Annual Report for the Financial Year 2014/2015 (First Report Since Inception)*, National Fund for SME Development, Kuwait.

¹² *Annual Report for the Financial Year 2014/2015*, Kuwait.

¹³ The Kaufman FASTTRAC program focuses on developing the entrepreneurial skills of Fund applicants.

¹⁴ Comments made by MP Safaa al Hashem during her re-election campaign at a female candidates forum hosted by Dalal al Nusef on November 8, 2016.

The “trust crisis” and its sociopolitical impact on the economic situation in Kuwait

The first annual report for the National Fund for SME Development included the results of interviews with around 70 Kuwaiti entrepreneurs to determine why SME initiatives were not achieving greater success. This survey found that the main obstacles included a lack of technical support and mentorship; lengthy and complicated application procedures; a lack of business experience within the evaluation committees; KPIs that were not impact-oriented; the low value-added of projects that received funding; and limited support within the SME community itself.¹⁵ For the Fund to succeed, these issues had to be addressed within the institution itself and through its programs. What the Fund could not resolve—particularly since its fate was tied to the Ministry of Commerce and Industry despite its independent status—was Kuwait’s deeply embedded political confusion and the lack of clarity in the government’s priorities.

In an April 2017 article, the *alQabas* newspaper listed the reasons why economic reforms—including the introduction of taxes and the withdrawal of subsidies—work in other Gulf states but not Kuwait. A survey of 71 experts,¹⁶ business owners, bankers, and C-suite executives suggested that Kuwait’s economic reforms—including a taxation schedule and budget cuts that GCC member states had discussed at council meetings since 2015—faltered primarily because of a lack of public trust in the government; the public did not see the government as a role model for economic behavior because of rampant corruption and excessive spending. Citizens also doubted the existence of a deficit since the country continued to give millions in economic support to other states.

In an interview, the current chairman of Kuwait’s Economic Society, Muhannad al Sanea, stated that one of the biggest problems facing reform in Kuwait is “governance in independent government organizations, especially in the transparency of hiring employees and executives.”¹⁷ Al Loghani, the former vice chairman and executive director of the Fund, agrees with this assessment and believes that accountability in governance is very poor in Kuwait. He thinks that the laws in Kuwait give too much autonomy to the head of the organization. The result: too much centralization in the decision-making process and not enough autonomy for other executives, who are held responsible for outcomes they “have no authority to control.”¹⁸

On May 2, 2017, at a town hall meeting at the National Assembly in Kuwait City intended to address the issue of the perceived lack of business opportunities for youth, a number of issues emerged from the discussion with government stakeholders. Minister of Public Affairs Hind al Subeeh stated that her ministry was in the process of opening spaces in

¹⁵ *Annual Report for the Financial Year 2014/2015*, Kuwait.

¹⁶ “Khaleeji citizens accept fees and taxes while Kuwaitis refuses them,” *alQabas*, April 5, 2017, <https://alqabas.com/378966/>.

¹⁷ Interview with Muhannad al Sanea at Al-Reyada Investment Offices, May 4, 2017.

¹⁸ Interview with Abdulaziz al Loghani, National Fund for SME Development headquarters, April 13, 2017.

public parks for the businesses of young entrepreneurs (an initiative that had already started with AlShaheed Park). Minister of Commerce and Industry Khaled al Rawdhan assured the audience that his ministry was working with the World Bank to ease the process of doing business in Kuwait, and that he had a schedule of improvements to resolve the current situation in the next 15 months.

The most interesting comment came from Deputy Minister for Youth Affairs Sheikha AlZain Al Sabah, who expressed her frustration, one echoed by many of the young people present, with the lack of “coordination, unification, or combining of efforts or accountability” in Kuwait. The young MPs on the panel described the problem from their perspectives, with District 2 MP Rakan al Nusif stressing the only way forward is to persuade young people that their future lies in the private sector, and in making land, which is prohibitively expensive, more accessible to young entrepreneurs. MP Ahmad al Fadhel asserted that the “Improving the Business Ecosystem” committee was the only productive committee in the National Assembly; he also said that to achieve more with a smaller budget, government entities had to provide better data on the number of future graduates and jobs that had to be created. MP Yousef al Fadhala said the temporary committee on “Improving the Business Ecosystem” aimed to introduce a new cooperative model: the executive and legislative branches would work together to find mutually acceptable legislation to improve the situation because “a big problem is coming.” In many ways, the meeting showed that the issues facing the Fund were not due to a lack of awareness or initiative—they were more a question of momentum and political will.

These comments were echoed at another town hall meeting organized by a civil society initiative called *Sawtana Nissae* (“Our Votes/Voices are Female”) at a private home in Surrah on May 8, 2017. Four young MPs at the meeting—District 3 MPs Abdulwahab al Babtain, Ahmad al Fadhel, and Yousef al Fadhala and District 2 MP Omar al Tabtabae—who were all involved in the temporary “Committee to Improve the Business Ecosystem” in the National Assembly, stated that the biggest problems facing all sectors in Kuwait were endemic corruption, lack of accountability, and a political system that encourages both. These MPs fought these issues in the National Assembly by acting as a block, they said. They also interacted directly with voters through town hall meetings and by publishing records of their accomplishments on social media. In this way, Kuwaiti citizens could follow-up on the MPs’ achievements. Some of the MPs saw an elected government and political parties as the only way forward to produce concrete reforms.

A mixed result: The National Fund for SME Development shifts between success and failure

Though several initiatives have aimed to boost the number of SMEs in Kuwait over the past 20 years, the SME sector has remained significantly smaller than in other developed and developing countries. In Kuwait, SMEs contribute 3% to the country’s GDP compared to between 40–50% in high-income and emerging economies where SMEs dominate private sector economic activity. Kuwait’s SMEs employ 23% of the total workforce, with

the majority in the retail sector;¹⁹ this represents half the percentage found in developed and emerging countries.

Despite Kuwait's ambitions and the intentions behind them, it has been difficult to make the economic environment in the country more business friendly—or more inclusive of the young nationals the funds are meant to help shape into "world class"²⁰ entrepreneurs. When we examine the business environment data in present-day Kuwait, some challenges become immediately clear (beyond the overreliance on the oil and gas sector and the lack of economic diversification). A report by the World Bank currently ranks Kuwait 102nd in the "ease of doing business" category, down four places from its 2016 ranking of 98, making it the lowest-ranked GCC country in this category. In the "ease of starting a business" category, Kuwait has slipped from 149 in 2016 to a very low 173.²¹ According to data collected for this report, starting a business in Kuwait requires between 12 and 13 steps, takes between 61 and 62 days, costs 2.8% of income per capita, and requires a minimum mandatory paid-in contribution of 10.2% of income per capita. The World Bank report also found that between 2014 and 2017, Kuwait introduced at least three different pieces of legislation that made it more difficult to start a business; the new difficulties included an increase in the commercial license fee and the time it took to register online and in person. Much of the rankings decline happened after the Fund was created, which does not reflect well on the immediate impact of the program on Kuwait's economy.

The aim of the Fund was to "to help create productive jobs for Kuwaiti professionals, increasing private participation in the economy and the amount of income diversification."²² We can assess the Fund's success by examining its 2015-2016 annual report:²³ only 59 projects were funded since the initiative's inception in 2013. However, in an April 2017 interview, board of directors member Hadeel al Sahmmari stated that by January 2017, 141 projects were approved for funding.²⁴

One of the main achievements of the Fund seems to be an overhaul of the registration process for new businesses; the Fund developed a one-stop system within the Ministry of Commerce and Industry. Other important achievements included the passage of a law that allows public sector employees to take a three-year leave of absence to focus on their (approved) SME project, and the launching of a platform for online registration, which includes a unified application form and a call center for inquiries. The Fund also distributed legal, advocacy, and reform suggestions to government entities and completed nine memorandums of understanding with various governmental bodies to facilitate business registration services for applicants.

¹⁹ *Building Kuwait's Future*, World Bank.

²⁰ Paraphrased from the vision statement of the National Fund for SME Development website, <https://www.nationalfund.gov.kw/en/about-us/vision-and-mission/>.

²¹ *Doing Business 2017*, World Bank, 2017.

²² *Building Kuwait's Future*, World Bank.

²³ *Annual Report for the Financial Year 2015/2016*, National Fund for SME Development, Kuwait.

²⁴ Interview with Hadeel al Shammari at the headquarters of the National Fund for SME Development. April 6, 2017.

The annual report also noted the establishment of two training programs (Kaufman FASTTRAC and Exploring Entrepreneurship), which focus on developing the entrepreneurial skills of applicants; the former program had a much higher graduation rate than the latter. It also described a host of digital services—such as an SME toolkit developed with the International Finance Corporation, the *Nuwait* platform developed with WAMDA Capital to highlight Kuwaiti start-up successes, and the Fund website and social media accounts—as well as three SME conferences between October 2015 and March 2016.

One of the main reasons the Fund failed to have the expected impact on Kuwait’s business environment, according to a volunteer group of young entrepreneurs that has followed-up closely on implementation, relates to administrative issues that many hope the newly installed Fund administration will be able to avoid.²⁵ Al-Rashidi listed several issues related to incompetence within the Fund itself, such as losing papers because it did not have a reliable electronic tracking system for submissions, taking so long to process paperwork that it had to be renewed, and staff members too inexperienced to effectively deal with entrepreneurs. Noha al Mansour, the only female board member of Kuwait’s Economic Society, echoes Al-Rashidi’s concerns and says that a big problem with the one-stop system is the breakdown in communication if any paperwork is missing or if the process stalls at the Ministry of Interior or another government entity.²⁶

In a 2014 World Bank survey, 502 Kuwait-based SMEs cited business licensing and permits as the main hindrance to growth, while “labor regulations, regulatory uncertainty, and administrative corruption” were also major problems. The lack of an “adequately” educated workforce was another barrier to growth, according to 24% of respondents.²⁷ Fahad Mattar, a small business consultant who works with some successful Fund applicants says that many lack the experience to write a business plan or commission feasibility studies, and lack basic knowledge about rental agreements; they are ill-prepared to take on the responsibility of running a business. He worries that they “need to remember that once they run out of the SME fund money and fail, they will be in debt.”²⁸ This may mean that the problem is not simply one of training but of exposure as well, and it may prove more prudent in the long-term to introduce mandatory internship programs for young people who would like to become entrepreneurs and benefit from the SME loan program.

²⁵ Eid alRashidi, “The performance of the National Fund for SME Development disappoints entrepreneurs,” *alQabas*, June 4, 2017, <http://alqabas.com/402907/>.

²⁶ Interview with Noha al Mansour at Al-Reyada Investment Offices, May 4, 2017.

²⁷ *Building Kuwait’s Future*, World Bank.

²⁸ Interview with Fahad Mattar, Crystal Tower, March 6, 2017.

Can the SME fund in Kuwait be a vehicle for genuine economic reform?

The World Bank has been a technical assistance partner for the Fund over three of the initial implementation phases. The bank has assisted in five main areas, the most challenging of which is probably “developing a culture of entrepreneurship, which includes an online space for interaction between entrepreneurs and a list of community events.”²⁹ If the expectation is that “in the next 20 years or so, the private sector ... [will] play a leading role in creating jobs for the next generation of Kuwaitis,”³⁰ then a major overhaul in Kuwait’s private sector is needed—i.e., a shift from a monopoly controlled by merchant and political elites to a competitive space that can be a real ecosystem for entrepreneurship.

Manaf al Hajeri, CEO of Markaz and the former head of the Policies Committee at Kuwait’s Economic Society, believes that programs that enforce the hiring of Kuwaiti nationals, like the Manpower and Government Restructuring Program, harm the economy. “Subsidizing the private sector to encourage hiring Kuwaitis discourages meritocracy and the inherent capitalist agreement between employer and employee, and puts less pressure on Kuwait’s higher education system to reform,” he says.³¹ In his opinion, the way forward must be through reforms in the public sector because it is the fiscal policy driver in Kuwait. The same argument could explain why the Fund will not be the hoped-for vehicle for economic reform: it focuses on Kuwaiti entrepreneurship only and excludes the vast number of foreigners who live in Kuwait and may have considerable contributions to a knowledge-based economy.

Apart from the issue of not taking advantage of international and regional talent, other problems with private sector conditions in Kuwait may hinder the role of SME drivers. Former vice chairman and executive director of the Kuwait National Fund for SME Development Abdulaziz al Loghani believes that entrepreneurs are needed to liberalize and democratize Kuwait’s economy. He sees the Fund as a way to create independent wealth for those who embrace the process, as he did with Talabat.com. He believes that private wealth in Kuwait is not focused on promoting entrepreneurship; instead, small businesses and entrepreneurship initiatives always start with state sponsorship of incubators. The aim of the Fund is to become regulators not operators, he said, but the “lack of depth in the private sector” has forced the Fund to become the latter.³²

There is a broader issue that underpins economic stagnation and the inability or unwillingness to open markets to innovative disruptors on a local, regional or international stage: “The GCC’s private sector’s wealth has surpassed \$2 trillion, but the majority is in the

²⁹ *Building Kuwait’s Future*, World Bank.

³⁰ *Building Kuwait’s Future*, World Bank.

³¹ Interview with Manaf al Hajeri, Markaz Headquarters, April 3, 2017.

³² Interview with Abdulaziz al Loghani, National Fund for SME Development headquarters, April 13, 2017.

hands of family businesses”³³ and it is not in these elites’ interest to enact real economic reforms. “Executive political power in each Gulf state is thus a balancing act of keeping citizens acquiescent while catering to the economic demands of powerful families whose continued support is critical to regime survival. ... They strike deals with political elites to prevent such an outcome.”³⁴ In Kuwait, the National Assembly speaker is Marzouq al Ghanim, whose father has headed the country’s Chamber of Commerce for the past 20 years. Many of the critical appointments at the Ministry of Commerce and Industry and the Supreme Council of Development and Planning are brokered by this elite network to ensure their economic advantages remain intact, which means that what remains of reforms are “politically backed glamour projects and cosmetic initiatives that are passed off as sweeping changes.”³⁵ When the current Minister of Commerce and Industry decided to change the board overnight, he installed what one observer described as “members of one *diwaniyya*,”³⁶ with no real explanation behind his selections.

In 2016, Kuwait issued an economic reform bill intended to deal with a growing budget deficit and falling oil prices. The bill had six key goals that focused heavily on the reactivation of the private sector, additional public private partnerships (PPPs), and increasing citizens’ engagement with the private sector;³⁷ four of these goals focused on restructuring government entities to improve the business climate and make it easy for entrepreneurs and small businesses to flourish. Goal number three broke down the necessary changes:

1. The privatization of government services, further partnerships with the private sector, and the support of SMEs through government financing.
2. Robust anti-monopoly regulations to promote a competitive business environment.
3. A business-friendly environment for both local and foreign investors, which includes citizen involvement in the ownership of infrastructure projects; easier ways to conduct business; and the release of government-owned land and the regulation of its use.

An ambitious plan that included the funding of 2,727 new SME projects was projected to create 3,500 new job opportunities for nationals. The goal to increase citizen engagement in the private sector included plans between 2016 and 2020 to redistribute 107 gas stations to young nationals.

³³ Rola Dashti, “The Private Sector and Social Divide in the GCC,” *Private Sector Development in the Gulf States*, Oxford Gulf and Arabian Peninsula Studies Forum, Summer 2017, 20.

³⁴ Mark Neal, “Private Sector Development in the Gulf States: Overview,” *Private Sector Development in the Gulf States*, Oxford Gulf and Arabian Peninsula Studies Forum, Summer 2017, 4.

³⁵ Neal, “Private Sector Development in the Gulf States,” 5.

³⁶ Comment made during interviews for this study by an NGO member who wishes to remain anonymous.

³⁷ The 2016 economic reform document can be viewed here (Arabic text): <http://alqabas.com/3416/>.

However, less than a year after it was announced, the Economic Reform Bill was frozen and Kuwait's Minister of Finance Anas al Saleh said that it would undergo a review process before a revised version was released to the public.³⁸ The fate of the Fund and its role in revamping Kuwait's economy is tied to this bill; the Fund is also impacted by the ongoing tension between the inevitable need for reform and the "ability of merchants to advance their economic goals and protest their business opportunities via the legislative policymaking"³⁹ structures, especially as more members of the ruling elite turn to commerce.

Conclusion: Lessons from Kuwait's SME venture

Over the past five years there has been renewed interest in setting up SME funds and SME incubators to help create new jobs for a younger generation, diversify income streams, and lessen the dependency on government salaries across the GCC states. These goals have become more urgent with the decline of oil prices. Even Saudi Arabia, which according to the latest report by the Arab Monetary Fund is a leading Arab country in terms of its SMEs' contribution to the economy,⁴⁰ has now launched "Monsha'at," or the Small and Medium Enterprises General Authority, to raise the sector's contribution from 20% of GDP to near 70%.⁴¹ Dubai and Bahrain have led the way in terms of encouraging entrepreneurship and building their SME culture; perhaps a lack of oil resources made this a necessity. Still, some lessons can be learned from Kuwait's SME experience.

The National Fund for SME Development can claim to be "the first single entity for SMEs in the Gulf"⁴² because it combines processes from several governmental and nongovernmental institutions (financial, regulatory, and commercial) into one. However, the streamlined processes must also include distilled implementation and follow-up procedures, instead of the current fragmented approach. The fanfare that surrounded the establishment of the Fund and the prominent media profiles of its executives before any loans were distributed possibly hurt the project and invited too much scrutiny when no material achievements had been made.

Paying attention to the hiring process for the Fund's executives and directors is another lesson to be learned from the Kuwaiti experience; the process should be transparent at all stages so that it is a role model for the entrepreneurs and applicants who want to be part of a knowledge economy.

³⁸ "Kuwait's Economic Reform Bill Frozen," *The New Khaleeji*, April 2, 2017, <http://www.thenewkhalij.org/node/63782>.

³⁹ Anastasia Nosova, "Business Politics and Private Sector Developments in Kuwait," *Private Sector Development in the Gulf States*, Oxford Gulf and Arabian Peninsula Studies Forum, Summer 2017, 15.

⁴⁰ "Business Environment for SMES in Arab Countries: Status and Challenges", Arab Monetary Fund Publications [Arabic], October 10, 2017, <http://amf.org.ae/ar/content/10-التحديات-الراه-الوضع-العربية-الدول-في-والمتوسطة-الصغيرة-المشروعات-أعمال-سنة>

⁴¹ Monsha'at website, <https://smea.gov.sa/en>

⁴² *Building Kuwait's Future*, World Bank.

Hadeel al Sahmmay, a former member of the board of directors for the National Fund for SME Development, thinks that the greatest achievement of the program is that it gives an equal chance to all applicants regardless of their background. She sees the Fund as a “majority risk-taking alternative to a commercial bank” and thinks it is important for young entrepreneurs to raise 20% of the seed capital so they are also invested in the project.⁴³ An important lesson from Kuwait’s experience is to provide the loan in stages, she says, and for an accounting firm to follow-up with the entrepreneurs; only after a positive report should they get the next installment. She does admit, however, that Fund recipients get some extra perks that other entrepreneurs do not, such as an immediate salary and help in accessing land and in completing the licensing permit process.

According to a study commissioned by the Kuwait Foundation for the Advancement of Science (KFAS), one of the major problems facing SMEs in Kuwait is that Kuwaiti “businesses leverage local purchasing power but are not sustainable in a post-oil era and will not diversify Kuwait’s economy unless they expand globally or attract tourist spending to Kuwait.”⁴⁴ The study also found that Dubai might be a better location for Kuwaiti start-ups that wished to scale-up their businesses on a global platform. While other cities in the region are keen to push their own SME platforms, this space will become more regionally competitive. According to a *Nuwait* interview with Sara Al Madani, a board member for Sharjah Chamber of Commerce and the UAE SME Council, “Sharjah has seen double-digit growth in GDP since SME initiatives were launched in the emirate” because “Sharjah is a growing economy that is attracting people first, businesses second.”⁴⁵ By exclusively focusing on companies owned by nationals, perhaps Kuwait has failed to foster a truly competitive space for entrepreneurship, and this will only make it more difficult for its budding SMEs to translate local success into a scalable regional and international model.

The most important takeaway from Kuwait’s SME experience is the importance of “fostering an ecosystem that would propel these potential change agents forward. ... Policy changes necessary to create such an ecosystem require strong political will and a readiness to challenge entrenched political and economic interests.”⁴⁶ This may mean that a more holistic approach to reform in both the political and economic sense is needed to open the private sector for innovation by a younger generation. Educational, social, and governmental practices must be challenged and upended because a piecemeal approach focused solely on SMEs will not be enough.

⁴³ Interview with Hadeel al Shammay at the headquarters of the National Fund for SME Development. April 6, 2017.

⁴⁴ *Cluster of Innovation Research Study-Kuwait*, Berkley Research Group, Presentation at the Chamber of Commerce and Industry, October 10, 2017.

⁴⁵ Vanessa Khalil, “Human economics: Sharjah’s homegrown approach to becoming a startup hub,” *Nuwait*, March 9, 2017, <https://www.nuwait.net.kw/article/human-economics-sharjah-homegrown-approach-startup-hub?mode=preview>.

⁴⁶ Bessma Momani, *Entrepreneurship: An Engine For Job Creation and Inclusive Growth in the Arab World*, Brookings Doha Center, March 2017, 10, https://www.brookings.edu/wp-content/uploads/2017/03/entrepreneurship_in_the_arab_world.pdf.