

THE INA'ASH SME FUND PROPOSAL

A policy paper by the **Kuwait Economic Society** that advocates for the establishment of a COVID-19 relief fund for small and medium enterprises in Kuwait

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الاسم الكامل: *Small & Medium Enterprises*

العدد: 3 0 0 0 0

الجنسية: كويتي غير كويتي

Full Name: *Small & Medium Enterprises*

Number:

Nationality: Not Kuwaiti Kuwaiti

الجمعية الاقتصادية الكويتية
K.E.S.

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Forward

Over the past year, the Kuwaiti economy has experienced devastating setbacks due to the spread of the coronavirus disease (COVID-19) that brought the demand for oil to a halt and induce a collapse in oil prices.

Although these economic shocks are not unique to the country, what rattled Kuwait's economy the most was the introduction of the world's longest curfew, which lasted over the first five months of the pandemic. Economic activity across sectors came to an abrupt halt leading to permanent closures, an increase in unemployment, and possible bankruptcy.

Despite the government's promises of a stimulus plan and alleged support, many small and medium enterprises (SMEs) still suffer from the economic cycle's downturn. In compliance with Ministry of Health, businesses either operated partially or shutdown completely, whilst continuing to pay for fixed costs such as rent and wages.

Even as the government assembled multiple economic roundtables, seminars, and task forces, real action has yet to materialize. Political quibbles and quarrels eventually drowned out the voices of entrepreneurs who spoke at these roundtables and seminars.

The government's failure to mobilize timely resources motivated us to put forth an initiative that will help SMEs sustain operations during this troubling time. This policy paper proposes setting up an economic relief fund to support business owners in overcoming the challenges brought forth

by the pandemic, while advocating the growth of SME culture and ecosystem development.

The notion of creating a fund to support small and medium enterprises is not new; many entrepreneurs have put forth such solutions in the past. However, this policy paper aims to achieve a comprehensive approach with a suggested framework and financing structure. This proposal does not take away from past initiatives but rather compliments and builds on them.

As Kuwait stands at the dawn of a new era, we are hopeful that this proposal is taken into serious consideration by the legislative and executive branches alike. Ultimately, we aim to aid Kuwait's economic development, enable the private sector to contribute more to Kuwait's non-oil GDP, and help incentivize Kuwaitis to consider employment in the private sector as a viable and attractive alternative to the public sector.

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Policy Author

Problem

The COVID-19 Pandemic has had an unpredictable impact on the economy due to the prolonged lockdown on all activities- social and economic. SMEs, by definition, do not enjoy ample cash reserves to mitigate such crises. Moreover, the restriction on movement and the closing off of labor extensive areas for months meant that business owners could not get operate during the crisis.

There are between 27,000 to 30,000 small and medium enterprises (SMEs) in Kuwait, representing about 90% of all companies, yet only contributing 3% to the country’s Gross Domestic Product (GDP).¹

In May 2020, a Covid-19 Business Impact Survey conducted by Bensirri Public Relations, found that in the first three months of the pandemic, 45% of all companies suspended their operations or were forced to close while 26% saw their revenue drop by more than 80%.

Another study conducted by Tasaweeq Marketing Consultancy in March 2020, warned that a 50% closure rate of SMEs could lead to a loss of 100,000 jobs lost, with the rate of Kuwaiti nationals

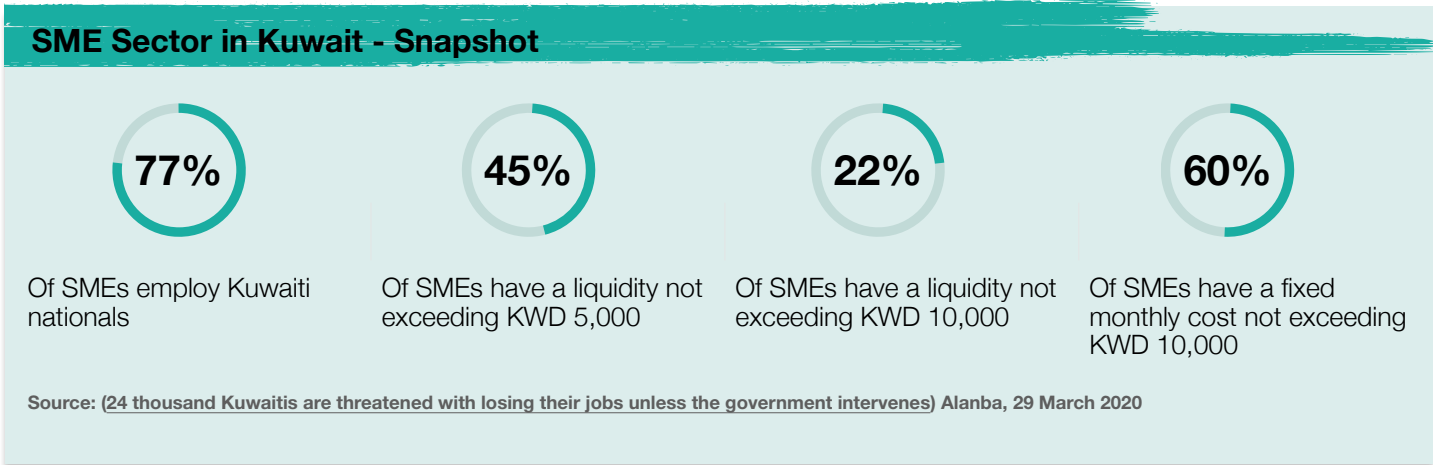
at SME, taken into consideration is 3 per business.²

It is difficult to define the criteria for small and medium enterprises, as different countries use different terms according to asset size, revenue, and the number of employees. For this policy paper's purpose, we will categorize them as businesses whose owners are registered under Chapter Five at the Public Institute For Social Security (PIFSS).

Government Response

Since its inception in 2016, the National SME Development Fund has undoubtedly played a notable role in developing and building the SME culture and ecosystem. However, in times of crisis, such as the current pandemic, the fund faces multiple roadblocks that have prevented it from being able to interject effectively.

The fund is designed to finance growth and expansion, not disaster relief. In its efforts to support SMEs during the pandemic, the Council of Ministers issued decision 455/2020 as a stimulus package for negatively impacted businesses. Clauses 6 and 7 of the stimulus package stated that “Kuwaiti banks shall extend concessional



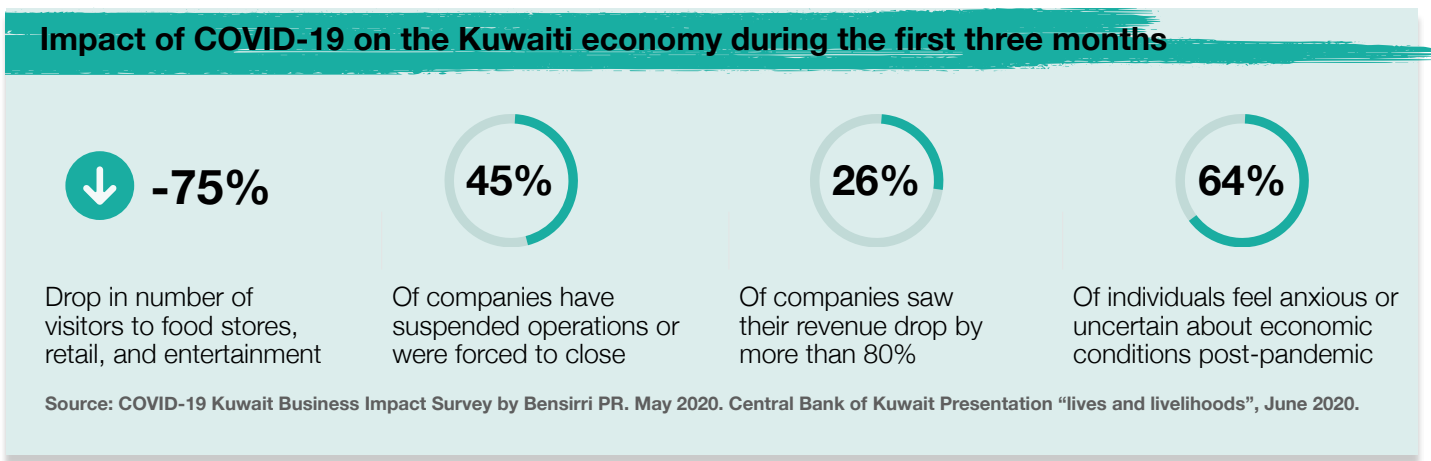
loans/finance to those sectors to cover the deficit in their cash flows...”³

The Central Bank of Kuwait (CBK) set regulations to adhere to decision 455/2020. They defined those sectors, mentioned in Clauses 6 and 7, who are eligible for a loan as “efficiently operating with an added value to the national economy and have the ability to create job opportunities for nationals, and whose activity was partially or wholly impacted by the COVID-19 crisis.” This decision calls on the banks to assume the entirety of credit risk, dispersing loans only to cover periodic contractual expenditures such as rent, payroll, and outstanding obligations.

According to the CBK's report published in July 2020, banks only approved 199 requests for financing, at a total value of KWD 110.6 million.⁴

Intended to encourage banks to provide loans, decision 455/2020 was not welcomed by either the SME community or the banks. SMEs had to prove they were “efficiently operating with an added value” pre-pandemic as well as obliged to achieve labor localization quotas for 2021. On the other hand, uncertainty and the possibility of a liquidity crisis did not motivate the banks’ appetite for granting financial lending.

Another proposal to guarantee 80% of loans by the government failed to pass through parliament in October, which left the SME sector facing their fate alone.



1. “Kuwait SMEs post COVID-19: Current Situation” - MARKAZ 16 July 2020
2. “24 thousand Kuwaitis are threatened with losing their jobs unless the government intervenes” - Alanba 29 March 2020
3. REGULATIONS FOR FINANCE EXTENDED TO INDIVIDUALS, SMALL AND MEDIUM ENTERPRISES (SMES) AND BUSINESSES NEGATIVELY IMPACTED BY COVID-19 - CBK 21 April 2020
4. “110.6 million dinars in soft loans to 199 customers” Alrai Newspaper 15 September 2020

Solution

A solution must be put forth that appeals to the private sector and does not turn them away, one that nurtures and enhances the entrepreneurial ecosystem for businesses to grow and flourish.

Thus, this paper proposes creating the **INA'ASH SME FUND**, a grant-based program offering relief to small and medium enterprises through strengthening the SME ecosystem. The **INA'ASH SME FUND** would be established as a Special Purpose Vehicle (SPV) for a period not exceeding two years and a capital of KWD 125 million disbursed in the form of grants.

Given the nature of SMEs and the difficulty in defining this sector, we propose eligibility for funds to be for business owners registered under the Chapter Five Clause at the Public Institution for Social Security, not to be exclusionary of any potential beneficiary.

The **INA'ASH SME FUND**'s purpose is to disburse assistance in the form of grants to businesses entering the fund voluntarily, working to ensure that businesses comply with requirements aimed at promoting business to business (B2B)

transactions that contribute to economic growth in the future.

Management of the fund would be allocated to its Board Of Directors appointed by the Council of Ministers. It comprises nine representatives from agencies and bodies related to the fund's initial purpose including: Ministry of Finance, Ministry of Commerce and Industry, Ministry of Economic Affairs, Economic Society of Kuwait, Kuwait Bar Association, Kuwaiti Association of Accountants and Auditors, and the National Fund for SME Development. The board's tenure expires with the conclusion of the fund's purpose, no longer than two years.

The Board of Directors must work to ensure the sustenance of an entrepreneurial ecosystem. The board will work with the cabinet and legislators to amend laws aimed at improving the business environment amending Articles 28 and 49 of the Private Sector Law (No. 6 of 2010) and ensuring the issuance of the bylaws to law No. 74 of 2019, which pertain to government tenders.

CBK outlook for the economy post-pandemic

30% - 42%

Expected decrease in the revenues of SMEs and affected companies

KWD 3 billion

Companies face a liquidity shortage of KWD 3 billion

8 - 10x

The default rate increases

Source: Central Bank of Kuwait, "Lives and Livelihoods" presentation, June 2020.

Entrants to the fund will receive the following benefits:



25% of annual rental value reimbursement for companies within a specified criteria.



One year PIFSS subscription waiver, to be covered by the fund for Chapter Five registrants.



Waived utilities fees for one year.



Waiver of commercial vehicle registration fees for one year.



Waived fees on employee transfer and renewal for one year (Ministry of Social Affairs and Labor).



One year exemption on all government fees including renewal of licenses, customs duties and clearances.



Recommendation to settle dues from government and cooperative societies to businesses within 30 days.



Streamline SME loans from local banks by establishing a committee to review and facilitate loan options.

In return for their access to benefits, companies joining the initiative have the following obligations:



Eligibility: Businesses must be paying PIFSS subscriptions up until March 1, 2020.



Commitment to buying 60% of the company's operational needs from other businesses in the fund, with the aim of increasing capital resource mobilization and interaction among business owners; creating an initial ecosystem.



Contract auditors and financial accountants accredited by the fund, who are also considered as SMEs themselves, to conduct audits on fund beneficiaries for a full year. It audits the obligations of operational business purchases from other small and medium enterprises.



Enable data sharing to promote scientific research and studies on the emerging SME sector in Kuwait.



Register with an online procurement platform designed to facilitate the complete bidding process for both bids and auctions within the private sector and across multiple sectors and industries.



Create new job opportunities for Kuwaitis.

Bases for the Fund's Capital

In order for us to set the capital required for the **INA'ASH SME FUND**, it is crucial to firstly analyze the numbers of beneficiaries. This is accomplished by allocating the current number of Chapter Five registrants at PIFSS. The most recent data provided to us by PIFSS puts the number of recipients at 16,477, as of the end of September 2020, with an average monthly subscription of KWD 231/month. These numbers are used to build the following assumption model for setting up the fund with a KWD 125 million capital:

Benefit	Approx. Cost (KWD)	Assumption
Reimburse 25% of the annual rental value for companies	66,805,997	Average rent rate ~ KWD 1,590 per month according to an internal survey conducted by policy authors
One year PIFSS subscription waiver for Chapter Five registrants	45,674,244	Assuming Chapter Five registrants pay the highest bracket of KWD 305 per month
Business waiver of electricity and water fees for one year.	4,448,790	Assuming 15% of registrants pay directly to the government
Waiver of commercial vehicle registration fees for one year.	411,925	Assuming 25% of registrants benefit from this
Waive of Ministry of Social Affairs and Labor fees on employment transfer and renewals for one year	1,318,160	Assuming registrants benefit once
One year exemption on all government fees including the renewal of licenses	3,260,000	Exemption valid for one year on all fees
One year exemption of customs duties and clearances	2,965,860	Assuming 15% of registrars benefit from this
Total	124,884,976	

Financing the INA'ASH SME FUND

We are well aware of the difficult situation facing the state's financial coffers and do not wish to strain it further. However, pioneering institutions that are financially independent of the state allow for simple financing solutions that are easy to implement. Thus, this paper suggests that financing solutions should be from the following financial parties or a combination of them:



Issue long-term bonds from the Central Bank of Kuwait to finance the stimulus and take advantage of the historic low-interest rates.



The Public Institution for Social Security is represented by long-term financing and interest that does not affect the fund's financials.



The Kuwait Fund for Arab Economic Development is represented by long-term financing and interest that does not affect the fund's financials.



The Arab Fund for Economic and Social Development is represented by long-term financing and interest that does not affect the fund's financials.



مؤسسة البترول الكويتية
Kuwait Petroleum Corporation

Kuwait Petroleum Corporation is represented by long-term financing and interest that does not affect the fund's financials.

Conclusion:

The **INA'ASH SME FUND PROPOSAL** presented in this policy paper represents the minimum level of stimulus required for the small and medium enterprises sector. It is an attempt to present simple and feasible solutions built on past models for SME development funds, to reiterate the importance of such initiatives for the national economy's growth and diversification.

Any proposed solution should understand the challenges entrepreneurs face - specifically under a variable scenario such as a global pandemic. Additionally, the depleting price of oil will make Kuwait's economic suffering indefinite.

The need to rebuild Kuwait's economy has never been more crucial than today. We have experienced recurring shocks since the 2008 financial crisis, and today the country is experiencing the largest budget deficit in history (KWD 14 billion). Central to the economic question is the government's ability to create jobs at the rate of 98,000 new jobs every five years. This means that the government must create 325,000 new jobs over the next 15 years at a consistent increase rate of 10% every five years.⁵

A long and tumultuous journey lays ahead as we attempt to build a new national economy based on innovation and entrepreneurship. However, we should not deter from the path many of us have taken in the past few years towards entrepreneurial endeavors, as the country recalibrates its compass towards a more sustainable economy.

Kuwait is entering a new phase in its history due to the world's shift from depleted hydrocarbon energies to clean and renewable energies, making the coming shocks of the national economy challenging to predict. However, it has become inevitable that the sustainability of the national economy is directly linked to the citizens' ability to establish companies, own projects, and lead the helm of the new economy based on knowledge, science, and development. As risks and high failure rates characterised the small and medium enterprises sector, it is imperative upon the state to properly develop, maintain and care for it.

5. Kuwait Public Authority for Civil Information, 2019

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