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Laws on the way to help medium, small firms grow

By Manoj Nair, Associate Editor Published: 00:00 November 3, 2010

Dubai: Small and mid-sized enterprises are emerging as the flavour of the season in the Gulf, with Qatar and the UAE taking the lead in attempting to create the right environment for these businesses to flourish.

The former has just confirmed that Capitas Group International, in Saudi, will advise on the formation of Enterprise Qatar, an agency to be dedicated to furthering the interests of SMEs. Enterprise Qatar is to assume the responsibility of helping SME owners gain access to capital, and take on policy initiatives on their behalf.

In the UAE, senior government figures have in recent weeks confirmed that a new law to regulate the SME sector was expected to be in place early next year. The best practices from other jurisdictions are to be incorporated into the law, which is currently in the draft stage.

So why all this sudden activity in relation to SMEs, and to create a separate regulatory environment for them?

Dr Ashraf Mahate, head of export intelligence, Dubai Export Development Corporation said existing the regulation "safeguards the interests of stakeholders on the one hand, while on the other it imposes a cost". "Larger firms are more able to bear the cost of regulation, but for SMEs with their limited financial and human capital these costs can become a burden leading to the failure of the firm," he said.

More leeway

"A lighter regulatory regime for SMEs and especially micro-firms is the right way forward as long as it does not hinder consumer safety.

In many countries the start-up process and taxation regime is very different for SMEs."

Governments in the Gulf have said they are now working on creating that fine line which can provide SMEs with much more leeway. It's not difficult to see why. In terms of their sheer numbers, estimated at more than 70 per cent of businesses, SMEs have a decisive say in the local economy.

Unofficial estimates say this sector accounts for 30 per cent of GDP and about 71 per cent of employment. With a more supportive regulatory regime to back them up, local and regional authorities hope these SMEs can be prompted to seek out new growth levels for themselves.

Innovation

A recent report by Standard Chartered Bank bears this out.

"When small firms form clusters, either supplying large firms or competing for final consumers, the concentration of people usually drives innovation and productivity," the SMEs in Asia report said.

Enterprise Qatar said it would take its cue from global trends.

"It is vital that we establish a platform that addresses the needs of the SME sector in a measurable and meaningful way," said Shaikh Mohammad Abdul Rahman Al Thani, director of Enterprise Qatar.

Mentoring

Capitas Group International has been contracted to advise in the formation of Enterprise Qatar.

This is the government authority to be exclusively responsible for the small and medium business sector in Qatar.

The former is a joint venture between the Islamic Corporation for the Development of the Private Sector (ICD) and Capitas Group, a Sharia-compliant holding company in the US.

Big contributors

"One study found that, on average, the SME sector accounted for only 16 per cent of GDP in low-income economies, 39 per cent in medium income economies and 51 per cent in high income economies."