

# The State of Small & Medium Enterprises (SMEs) in Qatar

# 2020





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A healthy and prosperous sector of SMEs is crucial for any economy as these companies represent a key pillar in the creation of employment opportunities, in the development of innovative technologies and in the acceleration of GDP growth. Globally, SMEs make up roughly 90% of all private sector companies and are the source of over 50% of all jobs – contributing to approximately 40% of the global GDP. According to the Ministry of Commerce and Industry, 98% of all private companies registered in Qatar fall under the definition of SMEs and thus represent an important sector in the national economy.

It is the mission of Qatar Development Bank (QDB) to support the development of this essential component of the economy. Doing so, QDB's purpose is driven by the State's ambition to develop a sustainable economy according to the Qatar National Vision 2030. As part of the State's vision, economic diversification and private sector growth are two key pillars of the current agenda – which is where QDB comes into play. QDB is equipped with the task to promote entrepreneurship in selected priority sectors and to drive SME sector growth and competitiveness.

To do so, QDB already offers a comprehensive portfolio of important initiatives to support SMEs – ranging from business idea development (e.g., feasibility studies services, business plans development), to business launch support (e.g., Ithmar seed funding), to business strength and growth initiatives (e.g., business nationalization and providing local commercial opportunities), to export business development (e.g., Tasdeer Development).

To further promote the Qatari SMEs, it is essential to build a comprehensive and up-to-date understanding of the characteristics and trends shaping the national SME landscape. Aiming to create consensus in the SME environment among policy makers and regulators, investment vehicles and SMEs themselves, QDB launched the inaugural report on The State of Small and Medium Enterprises in Qatar in 2016. The publication offers valuable insights and key statistics on the SME sector. The current report represents the second iteration of the study and allows to update the state of knowledge on the SME landscape and to compare the current findings with those of 2016.

In light of the challenges posed by the COVID-19 pandemic on our economy and our SMEs in particular, initiatives to support the national SME landscape are of utmost relevance. While our SMEs are negatively impacted by the economic turmoil caused by the crisis, we are determined, now more than ever, to help them

regain their strength and momentum. Of course, the health of the staff employed by Qatari SMEs and their customers is our highest priority in this endeavor on the path to the 'new normal'.

The report includes a survey with a sample size of 510 SMEs. However, this survey - as per the report plan at the time - was conducted in full prior to the outbreak of the COVID-19 pandemic. Thus, a dedicated section shedding light on the effect of the pandemic on SMEs was added which included an additional survey with a sample of 179 companies.

The report shows - according to the 2019 survey - that the SME sector is flourishing and exhibiting powerful momentum since 2016, with over 80% of SMEs expecting positive annual revenue growth and positive net profit margin development in the coming years (pre-COVID-19). Indeed, despite the negative effect imposed by the pandemic on the performance of the companies this year, it is explore new opportunities.

Also, based on the report findings, innovation has become increasingly important with 31% of (sample) respondents utilizing some form of innovation. While there is still room to grow, the report highlights a tremendous increase in innovation appetite across Qatari SMEs compared to 2016 (8%). Moreover, the SME support ecosystem made significant progress since 2016 – in terms of varied level of the service portfolio as well as regarding the number of active participants among sponsors. On a global perspective, the Qatari SME support ecosystem is already in an advanced state as it outperforms most of its regional peers and other developing nations. Yet, there is still room for improvement to be drawn from selected best practices – while maintaining the uniqueness of Qatar's ecosystem. Thus, it is crucial to remain focused on intensifying the collaboration between SMEs and the support ecosystem as well as to continue improving existing programs and introducing new initiatives that strengthen the SME sector. Moreover, we need to ensure that all SMEs have access to the support ecosystem, especially post COVID-19.

Finally, we would like to sincerely thank His Excellency Ali bin Ahmed Al-Kuwari, Minister of Commerce and Industry, and the dedicated staff of the Ministry of Commerce and Industry as well as the Qatari SMEs and all stakeholders from the SME ecosystem for their continuous efforts to help develop the State's private sector. We are especially thankful to all those involved in the production of this report.



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# EXECUTIVE SUMMARY

Small- and medium-sized enterprises make up a large share of Qatari enterprises and are a key pillar of the State's ambitions to diversify the economy. In light of the National Development Strategy (NDS) for Qatar (2018-2022), the SME sector represents a target area for future development. This report by Qatar Development Bank (QDB) is the second edition of a comprehensive review of the state of the SME landscape in Qatar and evaluates the characteristics and dynamics of the SME sector across multiple dimensions – with direct comparisons to the findings of the inaugural 2016 edition. The study also performs an assessment of the COVID-19 impact on Qatari SMEs as well as a comparative SME support ecosystem maturity evaluation to investigate Qatar's approach to SME support from a global perspective.

The main study is based on insights from an extensive survey with a carefully selected sample of 510 SMEs. Also, the COVID-19 impact assessment is based on a separate survey conducted - subsequent to the main survey - with another 179 Qatari SMEs.

Qatari SMEs experience significant distress as a result of the COVID-19 pandemic. Almost all SMEs have had to at least partially scale down operations and face significant drops in demand. Subsequently, the working capital reserves are gradually decreasing for a majority of SMEs, downsizing becomes an essential part of the SMEs' short-term strategy to address the pandemic repercussions, and the risk of insolvency rises. Consequently, many SMEs express the need for financial support from the government.

When comparing the Qatari SME support ecosystem – built around QDB as the implementing agent playing a major part in its development as outlined in NDS 2018-2022 – on an international scale, the results indicate that Qatar is often outperforming peers from neighboring countries and developing economies. The leading position of Qatari ecosystem is particularly evident in specific dimensions, namely: Regulatory and Business Set-up and Financing. In these dimensions, the Qatari ecosystem rank ahead of highly advanced ecosystems such as the ones from the Netherlands, Germany or Japan. Areas for development on the other hand, can be found regarding the dimensions Business Operations and Market Development (especially in export topics) and Knowledge (especially in R&D topics). These are two themes where a gap is evident between Qatar and the global best practices from nations such as Singapore and the US.

In the survey, the Qatari SME sector is assessed based on topics related to performance perception, SME landscape characteristics (regulatory and business set-up, business operations and market development, access to finance and knowledge, SME support) and future challenges.

The survey depicts a healthy SME sector with strong past financial performance and very optimistic views on future financial performance. 58% of the SMEs experienced positive annual growth of revenues over the last three years and another 55% of the SMEs increased their net profit margin over the same period. Looking forward, 84% expect positive annual growth rates in the next three



to five years and 82% expect to further increase their net profit margins (pre-COVID-19).

In terms of business set-up, the opportunity to serve local market demand clearly remains the top reason to establish an SME business in Qatar, which is facilitated by the high ease of establishing and running a business in the State. On the other hand, the complex and costly procedures, recruitment of experienced people and low access to cheap facilities represent key challenges expressed by the SMEs when setting up a business in Qatar.

Regarding business operations, the SMEs showcase a significant increase in productivity levels (the share of SMEs with asset utilization rates of 50% and higher increased from 41% in 2016 to 86% 2020) as well as in the tendency to outsource selected activities (from 22% to 62%) compared to 2016. On the other side, the degree of internationalization of the SMEs saw a significant drop (from 37% to 7%) and most SMEs now generate their sales almost exclusively in the domestic market – which is largely attributable to the restricted opportunities for international and regional business caused by the blockade and the consequently higher logistics costs.

In terms of financing, personal savings and reinvested profits remain to be the most important sources of finance in the Qatari SME sector. With most SMEs seeking to raise financing to expand existing businesses or to finance working capital requirements, only few do so through bank loans. This is largely because the SMEs themselves do not express the need for bank financing or due to interest rates that are perceived as too high.

The survey also points to a healthy state of the SME sector regarding access to knowledge. 59% of SMEs have dedicated HR personnel, 34% regularly perform manpower planning, 65% of SMEs offer at least some form of employee training to develop their workforce and over 85% of the SMEs have code of conduct policies in place. Moreover, the results further highlight a growing relevance of IT adoption with approximately 60% of SMEs having dedicated IT personnel, 83% using some form of technology and almost half of the SMEs having an online presence. Similarly, findings show that innovation is becoming more important as SMEs increasingly use innovation in the development of new products and improvement of internal processes to achieve a competitive advantage and improve the quality of their products and services.

The report further points to a high level of awareness of institutions and initiatives that support the SME sector with 81% of SMEs being aware of at least one such institution or initiative. This awareness is predominantly focused on Government and support agencies (incl. Ministries and QDB), as well as commercial, retail and Islamic banks.

Looking forward, SMEs identify issues related to business development and expansion, sales and marketing as well as market related issues as the main challenges to operate a business successfully in the future – all areas that are extensively covered in the growing SME support ecosystem.









An aerial photograph of a city skyline, likely Dubai, featuring several prominent skyscrapers and a large body of water. The image is used as a background for a presentation slide.

1.

# Introduction

## 1. Introduction

SMEs are the backbone of any advanced economy, and an important driver of innovation. According to the World Bank, SMEs represent 90% of enterprises and employ more than 50% of the total workforce globally. Moreover, the World Bank estimates that in typical emerging economies, SMEs account for up to 40% of the national GDP. A similar picture can be drawn for developed economies. For example, SMEs make up 99% of all companies in Singapore and contribute to roughly half of the economy's output in 2018. As reported by the European Commission, SMEs contribute 56% to the total value added in the EU economy. Moreover, in the entire OECD region, approximately 70% of all jobs are created in the SME sector – representing the main source of employment in the economies.

Thus, entrepreneurship, as it is lived in the SME sector, helps to create new job and business opportunities, promote social inclusion, develop new technologies and accelerate GDP growth. To facilitate the growth of the SME sector in the nation, Qatar has intensified its efforts to develop a supportive business environment in the recent years. The State recognizes the economic potential of a flourishing SME sector and therefore took initiative to build a supportive ecosystem for entrepreneurs.

The State of SMEs in Qatar Report is the second edition of a publication that thoroughly screens the SME landscape in Qatar along several dimensions. The previous study, published in 2016, evaluated the financial and non-financial characteristics of local SMEs to derive a well-founded view on the trends and movements in the sector. The second edition of the report allows to not only update the picture on the SME landscape but to also apply a comparative narrative and depict changes over time.

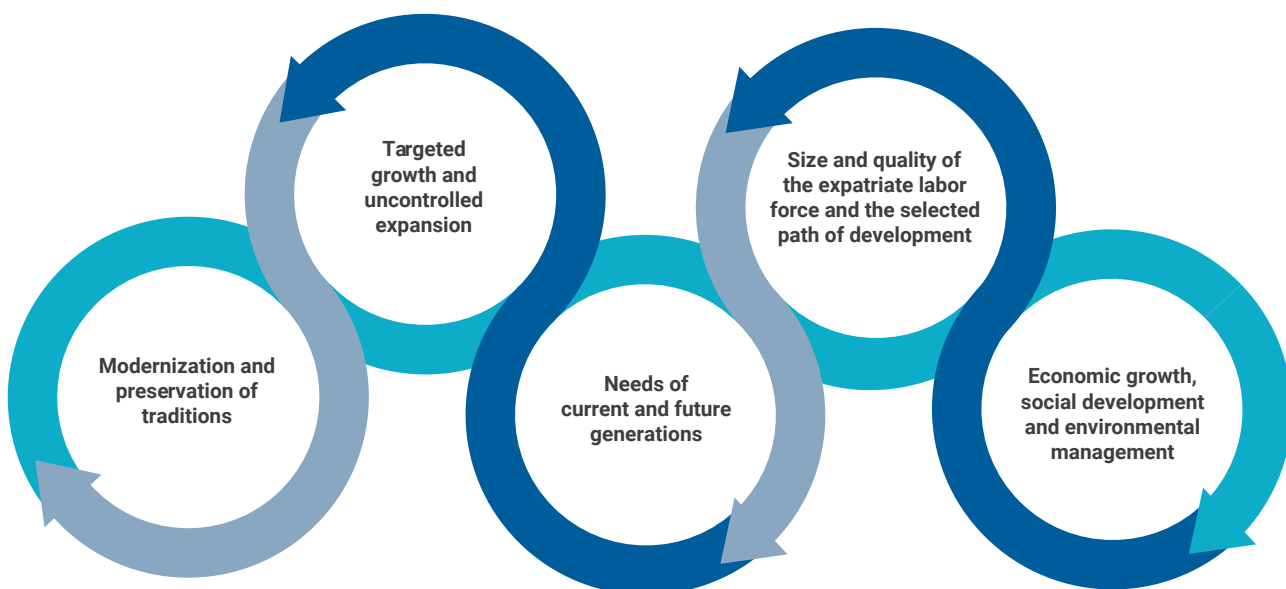
The purpose of the report is to highlight the development of the SME sector in Qatar since 2016, to provide a comprehensive overview of the SME landscape and to identify commonly observed pain-points as well as improvement potential of the Qatari SME sector. To do so, Chapter 1 aims to provide an overview of the State's ambitions regarding SMEs, the macro-economic situation and a definition of SMEs in the context of Qatar. Chapter 2 provides an assessment of the SME ecosystem in Qatar. Chapter 3 presents the comprehensive analysis of the state of SMEs in Qatar, targetting financial and non-financial characteristics. Chapter 4 offers an excursus on the impact of the COVID-19 pandemic on Qatari SMEs while chapter 5 provides concluding remarks.

### 1.1. Qatar National Vision 2030 (QNV 2030)

The QNV 2030, published by the General Secretariat for Development Planning in 2008, aims to transform the State into an advanced society capable of achieving sustainable development by 2030 as well as to provide high living standards for future generations.

The State identified five key challenges to tackle to ensure the society remains true to its values as the nation advances:

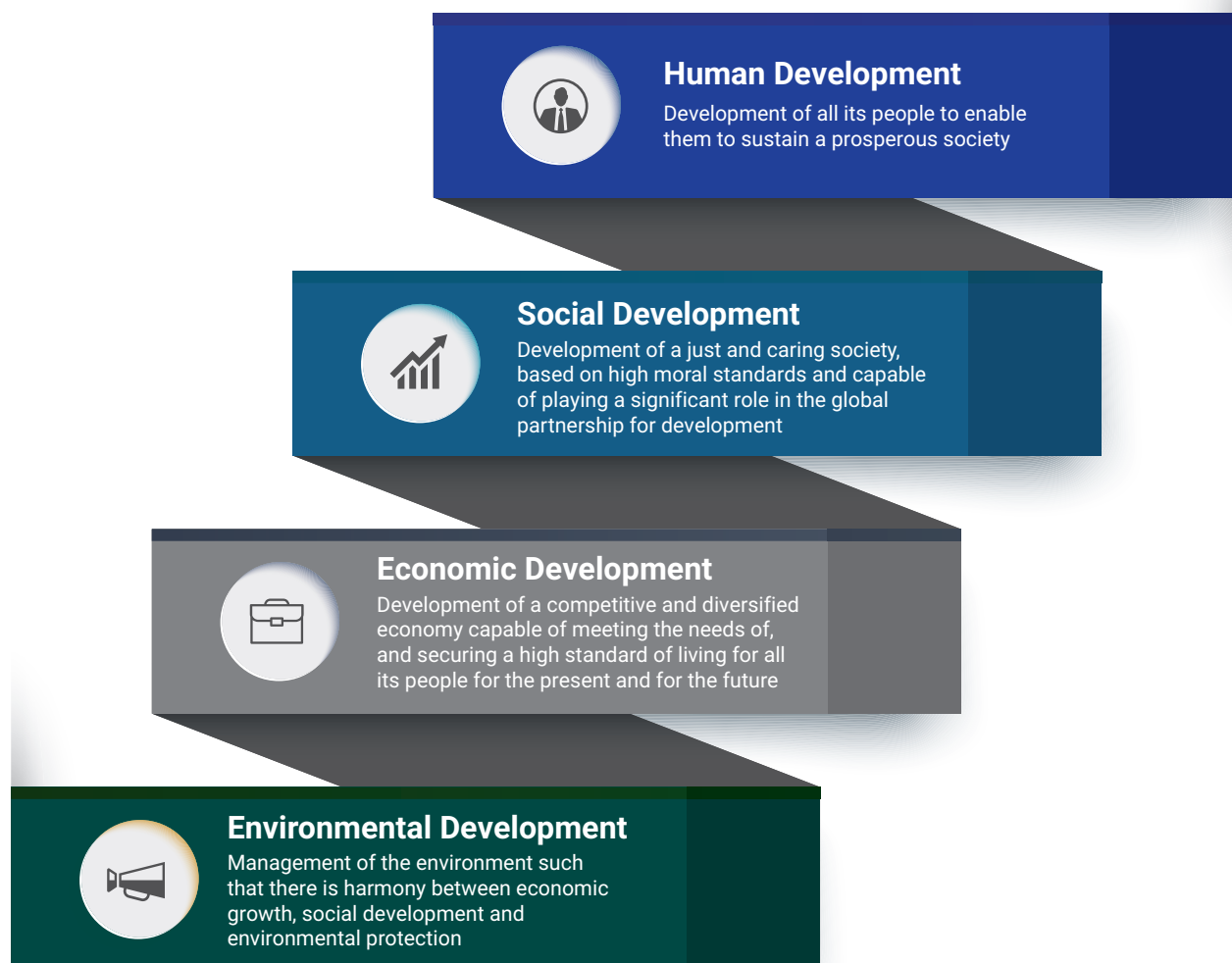
Figure 1: Key future challenges





The vision is structured along four pillars, each supporting the cause of achieving better living standards for all people in the State:

Figure 2: Pillars of QNV 2030



Source: Qatar National Vision 2030

The QNV 2030 is centered around the Guiding Principles of the Permanent Constitution and the directions of Their Highnesses the Father Emir, the Emir and Sheikha Mozah, as well as on extensive consultation with government institutions and local and international experts.

The QNV 2030 builds on a society that facilitates justice, benevolence and equality. The vision embodies the principles of the Permanent Constitution which:

- Protects public and personal freedoms
- Promotes moral and religious values and traditions
- Guarantees security, stability and equal opportunities

The presence of a strong SME landscape primarily supports the pillar of Economic Development by increasing the economic diversity in Qatar. However, the SME landscape development also benefits other pillars of the QNV 2030 such as Human Development (e.g., through an increase in the number of business owners and entrepreneurs) or Environmental Development (e.g., through the development of innovations and business models that benefit the environment). Thus, the SME landscape represents an important facilitator on the path to achieving the objectives of QNV 2030.



## 1.2. National Development Strategy for Qatar (2018-2022)

Qatar's National Development Strategy 2018-2022 is the second iteration of a framework that outlines a strategic roadmap to achieving the objectives of QNV 2030. The purpose of the NDS is to make the aspirations of Qatar stated in the QNV 2030 more tangible and to guide activities and resources towards the defined national priorities with shorter term action plans.

The NDS 2011-2016 was the first comprehensive development strategy formulated to support the State's path to the QNV 2030. Being the first tangible action plan, the NDS 2011-2016 initiated a national culture of development planning across all government entities and other development stakeholders. Like the NDS 2011-2016, the NDS 2018-2022 addresses the aspirations of sustaining economic prosperity, promoting human development, facilitating social development and achieving a sustainable development that preserves the environment. In addition, the NDS 2018-2022 also offers guidance on international cooperation and performance management to support smooth and efficient planning and implementation paths as well as a reflection on the key lessons learned from the NDS 2011-2016.

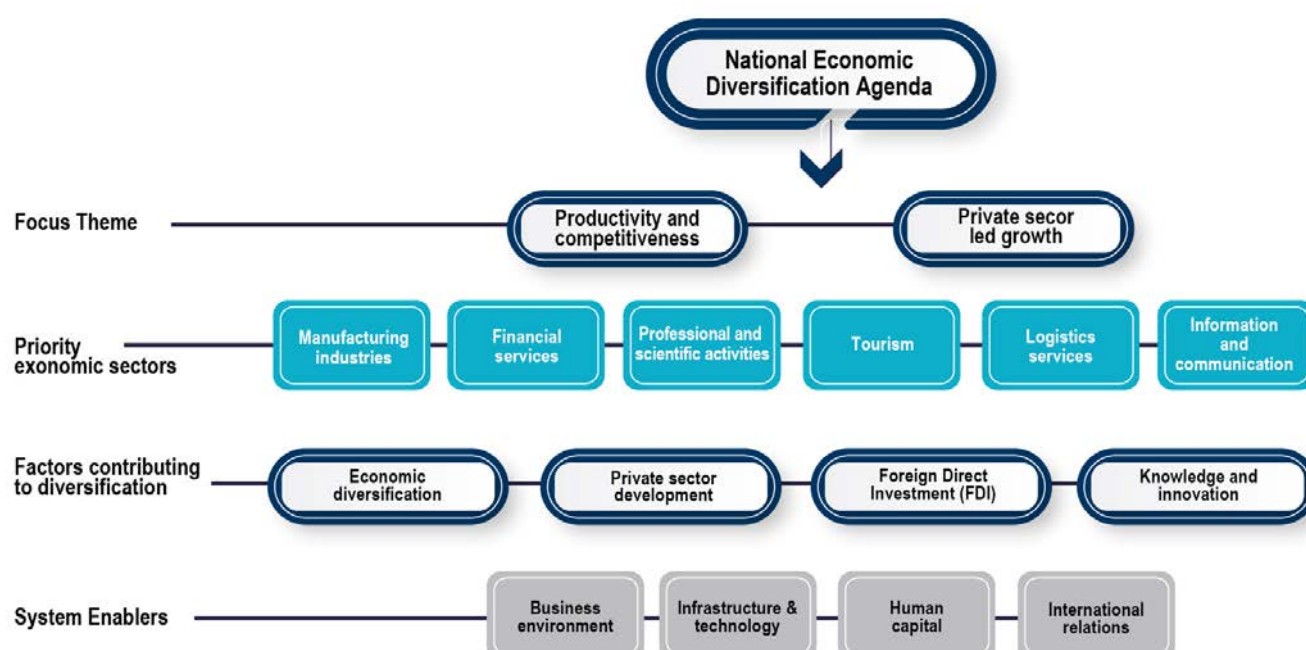
As part of the Economic Development pillar, Economic Diversification and Private Sector Development (EDPSD) are identified as two of the key drivers of Qatar's mission to develop into a more stable, sustainable and independent economy. In light of the economy's reliance on natural resources and the high volatility of oil and gas prices, diversifying the nation's economy and developing a strong, independent private sector that is built on nonhydrocarbon businesses is of great importance for Qatar.

Looking at what has been achieved since NDS 2011-2016, the overall outlook of Qatar's economy shows an increase in diversification. However, the process of diversification is still "unsustainable and at risk" (as described in the NDS 2018-2022), given that the drivers of the expansion of the nonhydrocarbon sector are expected to slow down in the period from 2018 to 2022.

Given the call for economic diversification may take various forms and result in interlinked relationships, the EDPSD framework serves to establish a clear strategy and derive a precise definition of the scope, objectives, interventions and resource allocation.

The EDPSD framework is built around two focus themes and six priority economic sectors as presented in Figure 3.

Figure 3: EDPSD Framework



## The EDPSP is designed to work towards one main outcome:

*A more competitive, productive and diversified economy and a more dynamic private sector with greater contribution to the national economy.*

To accomplish the main outcome, the EDPSP framework lists six intermediate outcomes, of which Intermediate Outcome 5 directly addresses the SME landscape, as listed in Table 1. It is also Target 5.1 that directly aims to encourage and promote entrepreneurship in the priority sectors as well as to further grow the local SME sector. Thus, Intermediate Outcome 5 and Target 5.1 of NDS 2018-2022 represent the formal cornerstones of the way forward to establish a best-in-class SME support ecosystem in Qatar. With QDB commissioned as the agent responsible for the implementation of the target, the State of SME in Qatar Report symbolizes an important milestone on the path to achieving the target.

Table 1: EDPSP Intermediate Outcomes and Targets

	Intermediate Outcome	Targets
1	Increase share of Non-hydrocarbon sectors contribution to GDP driven by key priority sectors	1.1. Develop and coordinate priority sectors strategies (manufacturing, professional and scientific activities, logistics, financial services, tourism and ICT) in 2018 1.2. Direct and enable the workforce required for the growth of priority sectors during the period 2018-2022
2	Enhance productivity levels across priority sectors	2.1. Nurture workforce capabilities to achieve labor productivity improvement during 2018-2020 2.2. Identify, encourage and facilitate optimization opportunities to achieve operational competitiveness in priority sectors over 2018-2022
3	Increase size and share of exports of nonhydrocarbon goods and services	3.1. Develop a robust, high-standard end to end supply chain that enhances Qatar's export competitiveness during the period 2018-2022 3.2. Cultivate Qatar's market positioning in the regional and global context to promote export competitiveness during the period 2018-2022
4	Increase private sector contribution to GDP	4.1. Establish an enabling cross-sector ecosystem that facilitates business establishment and operational success over the period 2018-2020 4.2. Establish mechanisms to effectively leverage private sector efficiency in driving Qatar's economic development over 2018-2019 4.3. Promote Qatar as a haven for investors during 2018-2022
5	Promote vibrant entrepreneurship and innovation culture, especially among Qatari nationals	5.1. Promote entrepreneurship in priority sectors and enable the SME sector to grow and compete during the period 2018-2022 5.2. Foster innovation development, adoption, and localization within priority sectors over the period 2018-2019
6	Strengthen positioning of Qatar as a regional hub for priority sectors	6.1. Establish state of the art infrastructure that enables Qatar to become a focal point for select economic and research activities over the period 2018-2019 6.2. Focus and coordinate national efforts to achieve excellence in research during the period 2018-2022 6.3. Build international recognition and strengthen partnerships relevant to Qatar's research and priority sectors over the period 2018-2022

## 1.3 Macro-Economic Assessment

### 1.3.1. Economy of Qatar

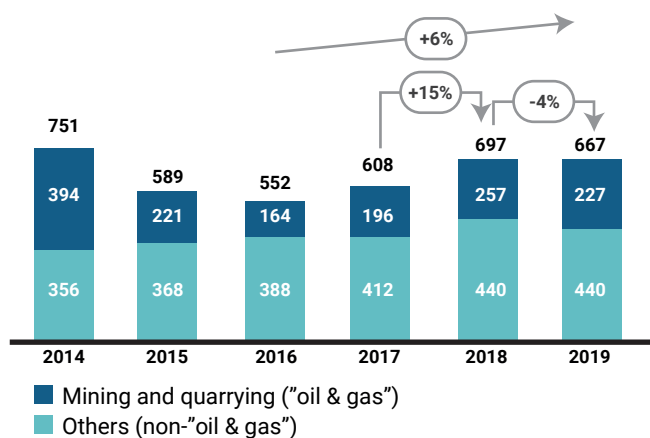
Since the last report on The State of SMEs in Qatar, Qatar was able to recover its economy and successfully overcome the negative shocks caused by drastically dropping hydrocarbon prices in 2014 and geopolitical tensions in the GCC region since 2017. With the rebound of the oil and gas prices in 2018, the national economy regained momentum and improved its output by 15%, reaching a nominal GDP of almost QAR 700 billion in 2018. Over the past years, Qatar was capable of maintaining its share in global liquefied natural gas trade as it retained existing and sourced new export relationships.

Moreover, the State further reinforced its focus on expanding the national natural gas production capacity as it stepped down from OPEC in early 2019. Qatar's economy continues to be dependent on output of the hydrocarbon sector, although the output of the non-hydrocarbon industries is gaining weight rapidly. In 2019 however, nominal GDP saw a slight decrease of 4 percentage point compared to 2018.

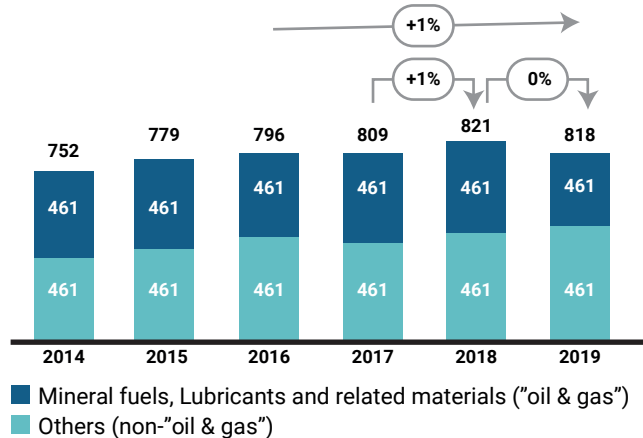
While the volatile share of the nominal GDP stemming from the oil and gas business exhibits a CAGR of slightly minus 10%, the non-hydrocarbon share grew by a CAGR of over 4 percent between across the period under analysis. This results in a CAGR of about minus 2.3% for the overall nominal GDP from 2014 to 2019. At the same time, it is important to shed light on GDP development at constant prices (in 2013 prices) to depict the severe fluctuations in oil and gas prices. In this case, the CAGR of the real GDP during 2014-2019 amounts to almost 1.7 percent and is characterized by steady growth – both in terms of the hydrocarbon and non-hydrocarbon output. This points to a positive long-term development of the economy as the productivity level increased steadily.

Figure 4: GDP Development 2014-2019<sup>1)</sup>

#### Nominal GDP (2014-2019, QAR bn)



#### Real GDP (2014-2019, QAR bn in 2013 prices)



Source: Planning and Statistics Authority

1) As no 2019 full-year report were available during time of analysis, 2019 figures have been accumulated from 2019 quarterly results to provide most recent GDP indications.



Overall, the current composition of Qatar's GDP reflects the intended shift away from the oil and gas industry towards a more diversified economy. While the oil and gas activities still represent the single largest component of the GDP with 32.6% in the fourth quarter of 2019 (vs. 52.5% in 2014), the remaining activities gained more weight in the economy.

For instance, the GDP contribution from the construction sector increased from 6.7% in 2014 to over 14% in Q4 2019 – reflecting the significant investments in infrastructure projects related to the 2022 FIFA World Cup. Similarly, further sectors also experienced a relative increase in relevance from 2014 to 2019 (e.g., financial services sector from 5.9% to 8.8%, public administration and social security services from 5.4% to 7.6% or the wholesale and retail business from 6.4% to almost 8%). Aside from the oil and gas sector, only the manufacturing industry experienced a decline in the relative share of GDP output – mainly due to lower growth rates of the manufacturing industry compared to the other sectors.



Table 2: Top 10 Economic Activities Contributing to GDP

Economic Activity	2014	2019 (Q4)
Mining and quarrying	52.5%	32.6%
Construction	6.7%	14.2%
Financial and insurance activities	5.9%	8.8%
Manufacturing	10.1%	8.4%
Public administration; compulsory social security	5.4%	8.0%
Trading; repair of motor vehicles and motorcycles	6.4%	7.9%
Real estate activities	4.6%	6.2%
Transportation and storage	2.1%	4.4%
Professional scientific and technical activities; Administrative and support service activities	2.3%	3.3%
Education	1.4%	2.3%

Source: Planning and Statistics Authority

The government is making progress in planning and undertaking major initiatives to continuously support the nation's economy. A continuation of large-scale infrastructure projects related to the 2022 FIFA World Cup as well as state-run programs to promote economic diversification are the key drivers of growth in the non-hydrocarbon sector. Moreover, the economy is benefitting from a strong policy environment, covering aspects such as fiscal and macro-prudential policy, financial regulation and supervision. Qatar's financial sector is developing positively and is characterized by improved liquidity conditions and increasing private sector credit. In addition, private sector growth – a declared national priority and therefore reflected in NDS 2018-2022 – is accelerating further based on the government's efforts to promote the local SME landscape. Moreover, the tourism industry is projected to regain momentum from the visa-free entry program as a reaction to fewer tourist arrivals.

In general, the macro-economic outlook for the near future looks positive with further growth in both the hydrocarbon and the non-hydrocarbon sectors. For instance, the high level of activity in the private sector as well as a planned increase in the LNG production capacity will drive future growth of the economy. However, the reliance on hydrocarbon activities remains the nation's main macro-economic risk going forward. Moreover, a drop in the oil and gas prices would also impact the non-hydrocarbon sector through macro-financial linkages. This reinforces the importance of building a sustainable and well-diversified economy in Qatar.

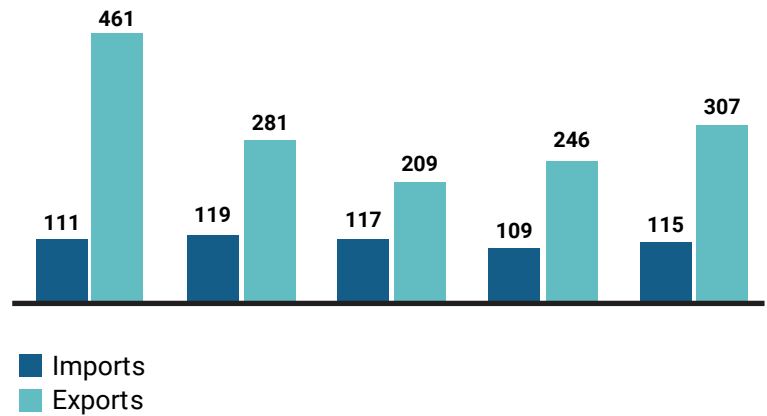
### 1.3.2. Foreign Trade in Qatar

During the composition of the study, no consolidated 2019 data on foreign trade activities was available. Hence, the below analysis focuses on the foreign trade performance between 2014 and 2018.

The economy of Qatar is largely driven by the export of LNG as the nation is producing approximately one third of the globally traded LNG volume. These hydrocarbon exports expose Qatar's trade balance to significant price volatility risks, where the total value of exported goods and services was affected by the fall in hydrocarbon prices. And despite the blockade imposed in 2017, an upward trend is observable from 2016 onwards. On the other side, after a period of growth leading up to 2014 (over 35% from 2011 to 2014), the value of the imports stagnated and remained at a similarly high level throughout the period of 2014-2018. Eventually, in 2018, the total exports amounted to QAR 307bn (increase of 47% since 2016) and the imports were QAR 115bn (decrease of 1% since 2016).

Figure 5: Foreign Trade Balance (2014-2018)

#### Foreign trade (2014-2018, QAR bn)



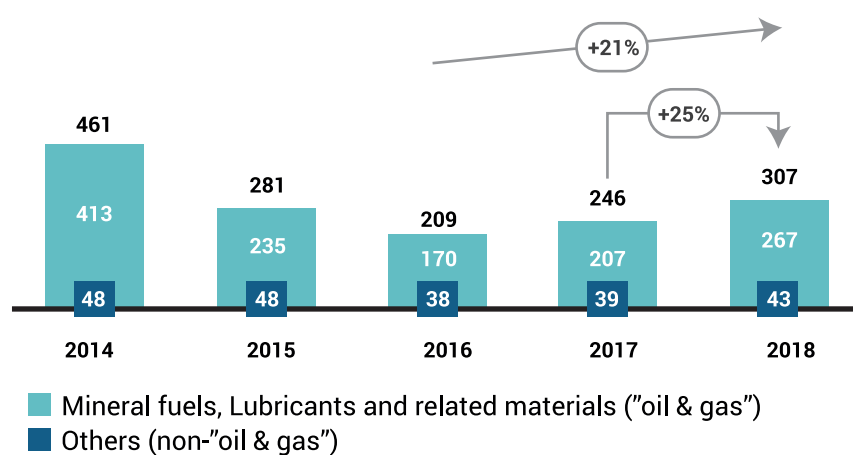
Source: Planning and Statistics Authority



When taking a closer look at the exported commodity groups, as illustrated in Figure 6, it is evident that the oil and gas sector remains the dominant driver of Qatar's exports. For a large part, the exports from the oil and gas industry target the Asian market, i.e. Japan, South Korea, China, India and Singapore. Over the period of 2014 to 2018, the share of hydrocarbons in the total exported commodities fluctuated between 94% in 2014 and 90% in 2016 and had reached 92% in 2018. These hydrocarbon exports provide significant funds and therefore enable the State to invest in initiatives to further advance the diversification of the economy and move closer to achieving the objectives of QNV 2030.

Figure 6: Exported Commodity Groups (2014-2018)

### Total exported commodity groups (2014-2018, QAR bn)



Source: Planning and Statistics Authority



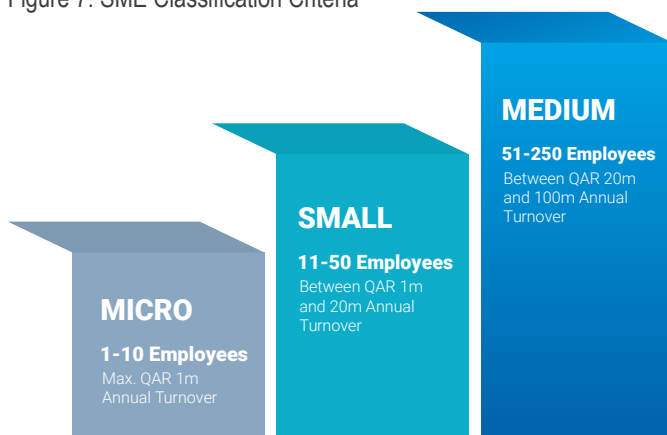


## 1.4 Unified Definition of SMEs in Qatar

Ministerial Resolution No. 250 of 2018 regarding the unified definition of small and medium-sized companies lays an important basis for the development of this sector by providing a greater understanding of the current reality of SMEs. As this definition achieves several objectives, including: Achieving equal treatment of SMEs at the national level, designing effective programs to target specific groups of SMEs, according to their size, nature of activity and/or any other qualifying criteria, in light of national development trends, as well as drawing a clear map of the structure of business enterprises. Working in the country, with its different categories (micro, small, medium and large), which helps to analyze the reality of economic activity and formulate future scenarios, as well as monitor the temporal development of the enterprises' performance in terms of growth, viability and gradation from one category to another, where the dynamics of movement can be identified between its various categories.

For the above reasons, many governments and regulators (such as the United States, the European Commission) as well as international organizations (such as the World Trade Organization) around the world have articulated a definition of the term "Small and Medium Enterprise" and its legal limits - thus enabling international comparisons of the reality of SMEs. The definition applicable in Qatar follows an approach that is similar to many other definitions issued across the globe. First, it requires SMEs to be registered according to the laws of the State of Qatar as a for-profit organization and second, it relies on two criteria to classify companies as SMEs: Number of Employees and Annual Turnover. In general, according to those standards, for a company to be considered an SME, employees must not exceed 250 and the annual turnover should not be more than QAR 100 million. As shown in Figure 7, a company is considered if its employees do not exceed 10 and its annual turnover does not exceed QAR one million. Enterprises that are classified as small employ between 11 and 50 people and generate between QAR 1m and QAR 20m of annual turnover. To be classified as a medium-sized company, the total number of employees must be between 51 and 250 and the annual turnover must be between QAR 20m and QAR 100m.

Figure 7: SME Classification Criteria



Source: Ministry of Commerce and Industry: Ministerial Decision No (250)







The annual turnover represents the income generated by a company over the course of one year. It excludes "Indirect Income" from the sale of assets, interest, dividends, royalties, and deducts of rebates and taxes paid by the enterprise.

There are three exceptions from the definition stated above.

1. First Exception: To ensure fair competition among enterprises that constitute the SMEs Sector, and to guarantee the effectiveness of efforts aiming at the development of SMEs. Only the Private and profit-seeking enterprises are eligible to join the SMEs Sector. Accordingly, following establishments are excluded:

- Government departments and diplomatic/international entities.
- Government Establishments/Companies.
- Mixed establishments/companies, which totally or partially owned by any government department/establishment/company.
- Non-profit establishments.

2. Second Exception: In order to promote interventions related to provide seed capital to small and medium enterprises, a commercial enterprise still be ranked as autonomous, and thus as not having any partner enterprises, even if this 20% threshold is exceeded to (50%) by any of the following investors:

- Public investment corporations, venture capital companies and business angels.
- Universities and non-profit research centers.
- Institutional investors, including regional development funds.

They are usually known as investors, which trade large volumes of securities on behalf of a great number of individual small investors and which have no direct involvement in the management of the enterprises they invest in. Mutual funds and pension funds are examples for institutional investors.

3. Third Exception: Due to the nature of QE Venture Market, being a Capital Market with a mandate to enable companies that issue securities for trading in the market (constituting the demand side) by getting their financial needs. Therefore, the market commodity is the "Capital". QE Venture Market is excluded to apply the National Definition of SMEs. The reason behind is that the requirements for companies to be listed in a capital market is significantly different. However, QE Venture Market may decide to use it as a guiding definition. This exception is aligned with related international experiences. 1 of 16 supporting agencies are assigned



A photograph of a desert landscape featuring sand dunes in the foreground and a clear sky. The text is overlaid on the image.

2.

# SME Ecosystem in Qatar



## 2. SME Ecosystem in Qatar

The SME ecosystem in Qatar is characterized by a growing number of facilitators, which can be categorized into three main categories based on their relevance for the SME support ecosystem:

1. As stated in NDS 2018-2022 with regard to Target 5.1 of the EDPSP framework, the Qatar Development Bank is commissioned with the role of the implementing agent and therefore represents the driving force behind the SME support ecosystem.
2. In addition, a total of 16 supporting agencies are assigned with supporting the mission to create a flourishing SME sector. The NDS 2018-2022 assigns these agents to support the ecosystem by:
  - (A) Promoting entrepreneurship among locals and empowering startups
  - (B) Supporting SMEs beyond early entrepreneurial stages towards long-term sustainability
  - (C) Supporting the internationalization of SME products and services to enable them to compete in the regional and global economy

These supporting agents are:

- Ministry of Commerce and Industry (MOCI)<sup>A, B, C</sup>
- Ministry of Administrative Development, Labor and Social Affairs (MADLSA)<sup>A</sup>
- Ministry of Energy Affairs (MOE)<sup>B</sup>
- General Authority of Customs (GAC)<sup>C</sup>
- Ministry of Education and Higher Education (MEHE)<sup>A</sup>
- Ministry of Transport and Communication (MOTC)<sup>B</sup>
- Ministry of Justice (MOJ)<sup>B</sup>
- Qatar Tourism Council<sup>B</sup>
- Qatar Foundation<sup>A, B</sup>
- Qatar Financial Center (QFC)<sup>C</sup>
- Qatar Business Incubation Center (QBIC)<sup>A</sup>
- Manateq<sup>B</sup>
- Social Development Center – Nama<sup>A, B</sup>
- Hamad International Airport<sup>C</sup>
- Mwan Qatar<sup>C</sup>
- Qatar Central Bank<sup>B</sup>

3. Further assistance and services are provided through additional key players in the SME support ecosystem such as commercial banks, Qatar university, dedicated initiatives to support SMEs (e.g., Bedaya, Center, Silatech, Qatar Chamber, Qatar Science and Technology Park, Ministry of Interior, Ministry of Finance, Ministry of Public Health ...) or networks (e.g., Qatari Businessmen and Businesswomen Association, Qatar Petroleum, Injaz ...).

The SME support ecosystem is an important factor determining the success story of an SME sector. Such ecosystems are usually comprised of a broad range of players such as government-related agencies, regulators, private companies, research organizations, universities, investors or business angel networks. These agents facilitate SME sector development and provide support to SMEs to achieve the objectives of the NDS 2018-2022. This chapter introduces the key players in the Qatari SME ecosystem and provides an overview of the services provided by them.





These additional ecosystem participants complement the service portfolio of the main supporting agencies and complement the key categories of facilitating agents.

While the QDB and other government-related entities take on a crucial role in the SME landscape, an increasing number of participants stem from the private as well as the education sector and support local SME businesses in the form of partnerships and collaboration.

Figure 8: Agents in Qatari SME Environment



Additional ministries: Ministry of Endowments and Islamic Affairs, Ministry of Public Health, Planning and Statistics Authority, Ministry of Municipality & Environment, Ministry of Culture and Sports, Ministry of Finance, Ministry of Interior and Ministry of Foreign Affairs

Figure 9: Overview of Service Dimensions in SME Support Ecosystem



Participants of the ecosystem support the SME sector by providing a broad array of services to facilitate growth. The services can be split into four dimensions and a total of 14 sub-dimensions, as displayed in Figure 9.

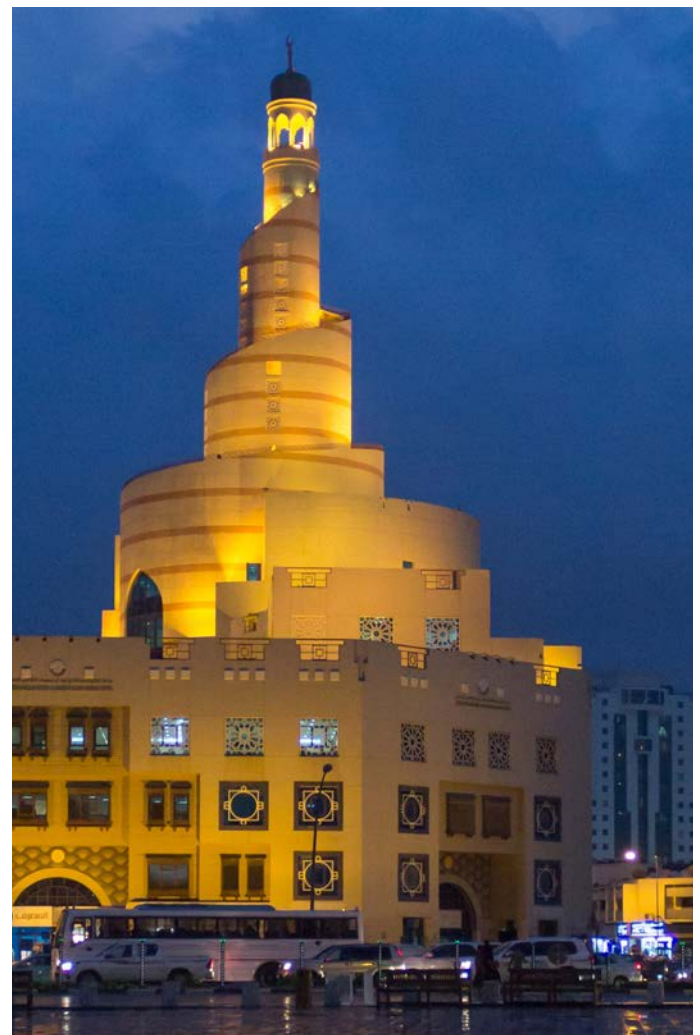
These four dimensions are the key themes that reappear in all angles of the SME landscape and therefore are used as a thematic structure throughout the report.

Source: SME survey team analysis

The dimension “Regulatory and business set-up” covers all services related to the legal and regulatory issues that arise when starting a new business. Specifically, this covers support services for legal framework, regulations and policies for SMEs (subdimension “Regulatory advisory”); the representation of SME needs in a political context (“Policy advocacy”); the provision of (subsidized) office space (“Business infrastructure”); and the provision of company registrations, licenses and certifications (“Registration and licensing”). Examples for these services are the OQOOD program by QDB to provide SMEs with a broad package of legal advisory services and the office space and manufacturing facilities offered by the Qatar Business Incubation Center.

The dimension “Business operations and market development” encompasses the services related to developing, initiating and running business models. This includes support services for business planning, marketing, advertising, networking, matchmaking, etc. (“business consulting”); Supportive services for market reports, etc. (“Market Information”); Supportive services for market access and exports (excluding trade finance) etc. (“trade support”). Exemplary services are the “Tasdeer” Development initiative by QDB which consults SMEs regarding exports, or the Startup Track offered by the Digital Incubation Center (by MOTC) which advises entrepreneurs on how to scale business ideas into successful business models.

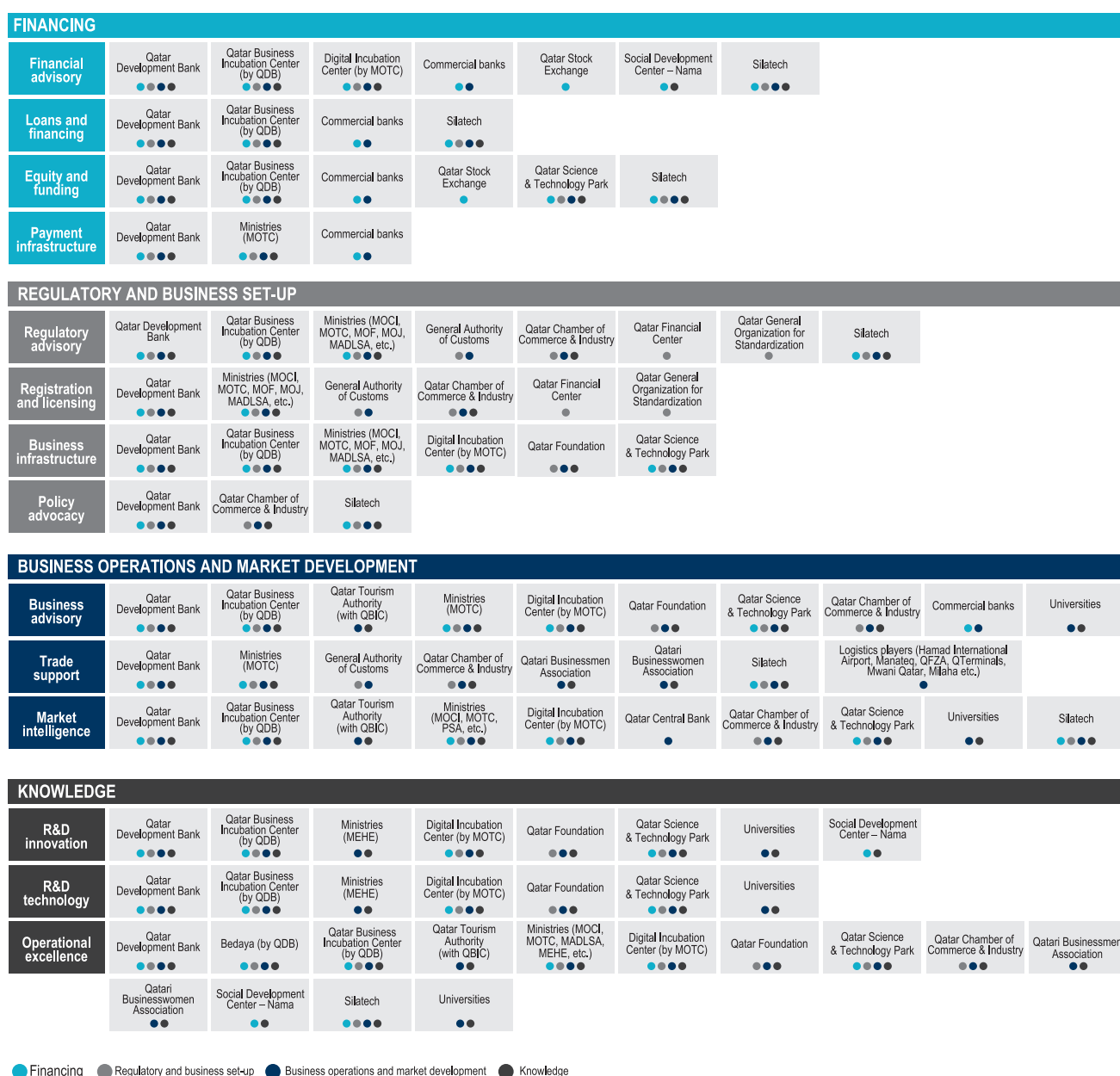
The dimension of “Financing” is comprised of all services that are related to debt and equity financing, financial management and payments. This covers support services for accounting, auditing, business planning, bookkeeping, etc. (“Financial advisory”); the provision of loans and credits or other financing (“Loans and financing”); the provision of equity, investments or other funding (“Equity and funding”); and support services for payments (online banking, cashless payments), etc. (“Payment infrastructure”). While SME financing is mainly provided by commercial banks, other players such as Silatech or Namaa provide means of financial support to Qatari entrepreneurs.



“Finally, the fourth dimension “Knowledge” addresses issues regarding the build-up of critical knowhow required to start and run a business successfully. This includes innovation support services (“innovation in research and development”); Services for new technologies, information technology infrastructure, etc. (“technology research and development”); And services such as workshops, seminars, educational programs, etc. (“operational excellence”). Examples for these services are the Learning & Development initiative by QDB to provide entrepreneurs with training opportunities and the Research to Startup Program by the Qatar Science & Technology Park to guide aspiring entrepreneurs on their research path to develop innovative technologies.

Many of the facilitators in the SME ecosystem provide a multitude of services across these four dimensions. Figure 10 provides an overview of the various services – structured along the four dimensions and 14 subdimensions – provided by the main stakeholders, i.e. the implementing agent, the supporting agencies and the additional key players. The border colors surrounding the players indicate which of the four dimensions (Regulatory and business set-up, Business operations and market development, Financing, Knowledge) are covered by the service portfolio of the respective player.

Figure 10: Overview of SME Support Ecosystem



Source: Qatar Development Bank



Compared with the ecosystem depicted in the 2016 report, an increase in both the number of services and programs available, and in the number of non-governmental facilitators active in the SME support ecosystems has been recorded. The increase in the activity level within the ecosystem reflects the growing awareness for the need of having a strong and independent private sector that is built on SMEs. For instance, notable additions to the group of SME ecosystem facilitators are Manateq, Qatar Ports Management Company (Mwani), Qatar Foundation or Hamad International Airport (HIA). With new payers such as Mwani or HIA, it becomes evident that the internationalization of the national SME sector is a key pillar of NDS 2018-2022.

Moreover, up to 2019, several new areas of services have been added to the SME ecosystem service portfolio sector. For instance, the subdimensions “Financial advisory” (e.g., accounting & bookkeeping services by QDB’s Tadqeeq program), “payments infrastructure” (e.g., Digital Payment Solutions by Doha Bank through DTSME initiative of MoTC), “Policy advocacy” (e.g., QDB supporting the Government on National Agenda), “Trade support” (e.g., Export Insurance by QDB), “Market intelligence” (e.g., Tasdeer initiative to provide global market intelligence to export-oriented SMEs), “R&D innovation” (e.g., Research to Startup Program by the Qatar Science & Technology Park) and “R&D technology” (e.g., high-tech focus employed by Digital Incubation Center) are additions to the now extended and more comprehensively structured services portfolio. Also, as illustrated in Figure 10, many of the support areas are covered by numerous ecosystem facilitators, thus providing additional depth to the services portfolio when comparing it with the landscape in 2016.

In 2019 alone, a broad variety of initiatives and programs have been announced or run in the Qatari SME support ecosystem. Some of them are initiated by the implementing agent - QDB, some by supporting agencies (e.g., MoTC, Qatar Foundation) and some by other key players (e.g., Microsoft).

For instance, in early 2019, QDB held the 4th edition of ‘Moushtarayat’, the Government Procurement and Contracting Conference and Exhibition, to provide SMEs with a platform to initiate business with government agencies and to facilitate the cooperation between the government and the private sector. In another example, Qatar Foundation launched a new funding initiative labeled ‘Innovation Coupon’ with the mission to finance Qatar-based SMEs and startups that develop new high-tech products and services, regardless of their industry focus.

In addition, the Ministry of Transport and Communications (MoTC) announced the addition of a digital accelerator focused on innovative digital technologies (Artificial Intelligence, Internet of Things, Virtual Reality, etc.) to their already existing Digital Transformation for Small and Medium Business Enterprises (DTSME) program. Another new initiative is the Lean Fashion Program launched by QBIC, which targets entrepreneurs from the fashion and design sectors to provide them with the knowledge to transform ideas into large-scale Qatari fashion brands.

Finally, also Microsoft Qatar announced to increase its SME support by helping SMEs to better leverage Microsoft technology to grow their businesses. Overall, a quick assessment of media publications and official reports points to a highly active SME support ecosystem.





Internationally, SME ecosystems with similar structures and players can be found in many economies. For instance, as a development bank, the German KfW takes on a similar role in the German ecosystem as QDB does in Qatar. The state-owned entity represents the driving force behind the government's efforts to advance Germany's SME sector and offers extensive financing and selected advisory services and regularly publishes studies on the SME sector in Germany. In other examples, the government takes a more active role in shaping the SME landscape.

For instance, the role of the implementing agent to advance the SME sector in Singapore is carried out by Enterprise Singapore, a statutory board under the Ministry of Trade and Industry. The entity offers a broad range of financial and non-financial services along the lifecycle of SMEs to the domestic market and has dedicated teams to advise on issues related to exports and international trade. Other governments go further and have ministries dedicated to the SME sector. For example, the SME sector in South Korea is supported by the Ministry of SMEs and Startups.

The ministry itself is less focused on providing direct financial support to the SME sector but rather on developing, implementing and promoting government policies that benefit the Korean enterprises and is particularly focusing on export topics. Similarly, the Indian Ministry of Micro, Small and Medium Enterprises is a dedicated government body that in the center of the local SME support ecosystem. In addition to policymaking, it provides SMEs with various development programs that can help them to grow their businesses. While these governments all follow different strategies, they all focus on the same objective - strengthening their national SME sector.



### **Moushtarayat 2019 to provide SMEs greater access to tenders**

28/01/2019 – Gulf-Times

### **QF launches new funding initiative to support private sector**

19/06/2019 – Gulf-Times

### **MoTC announces next phase of digital transformation programme**

06/11/2019 – Gulf Times

### **QBIC launches the first wave of Lean Fashion Programme**

27/08/2019 – Gulf Times

### **Microsoft to help accelerate Qatar's SME, startup business growth**

31/07/2019 – Peninsula Qatar







An aerial photograph of a modern city skyline, likely Dubai, featuring numerous skyscrapers and a prominent waterfront. The text "3. Survey on State of SMEs" is overlaid in white, with a horizontal line passing through the word "Survey".

### 3. Survey on State of SMEs





### 3. Survey Results

The main objectives of the report are to comprehensively review the current state of the Qatari SME sector and to highlight the trends since the last publication in 2016. SMEs were asked questions covering key issues within the SME landscape. This chapter presents the results from this survey with 510 Qatari SMEs (conducted pre-COVID-19). First, this chapter provides an introductory overview of the sample characteristics as well as a snapshot of the perceived (financial) performance of SMEs. Then, the results focus on the characteristics of the SME landscape as presented in this Chapter along the same previously mentioned four dimensions and further include a section on the support ecosystem from the perspective of the SMEs. The chapter concludes with presenting the most important SME perceived future challenges.

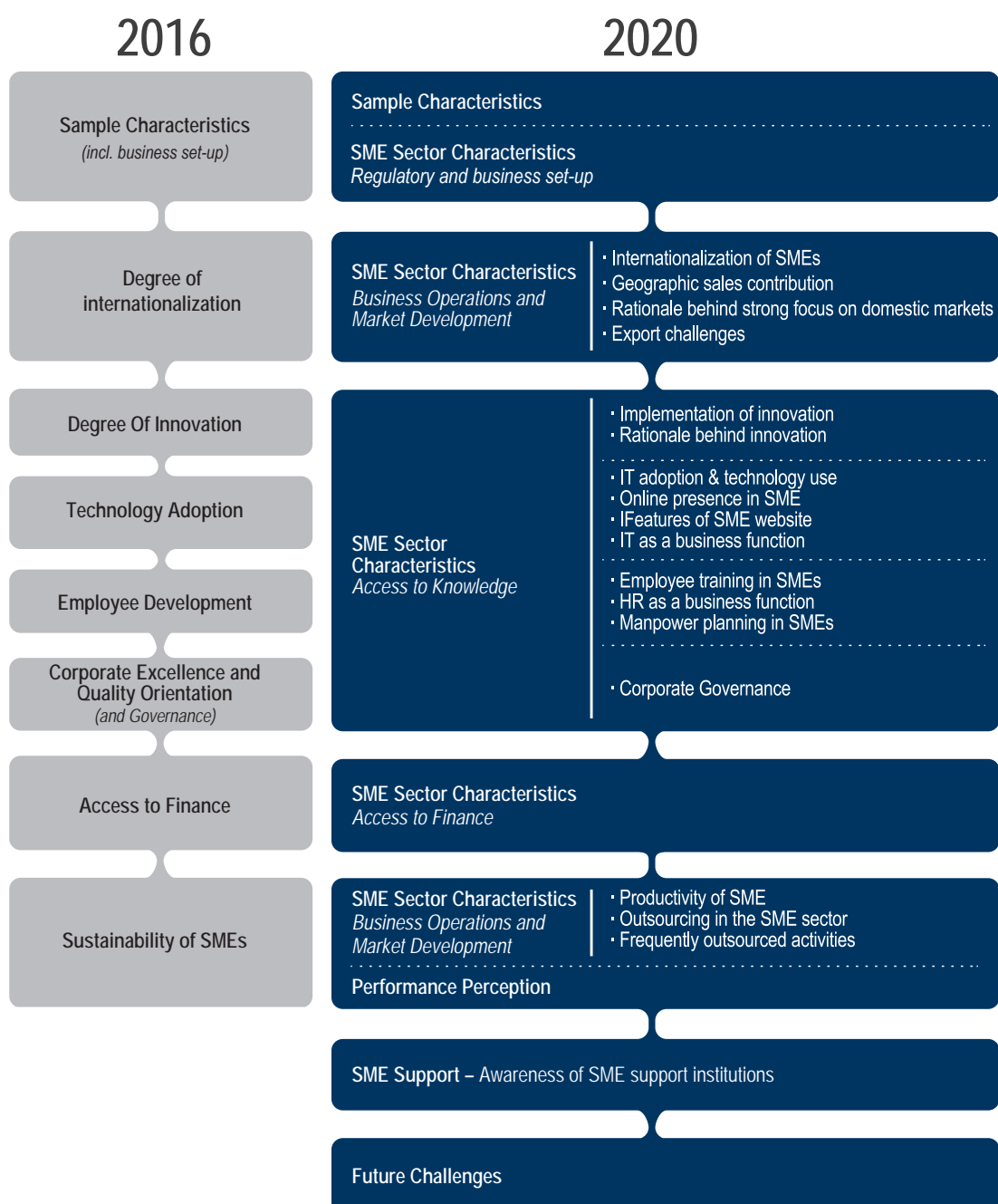
Topics addressed in this Chapter can be summarized as follows:

- Sample Characteristics
- SME Performance
- SME Sector Characteristics
- Regulatory and Startups
- Business operations and market development
- Access to Finance
- Access to Knowledge
- SME Support
- Future Challenges

One main objective of the study is to highlight the trends since the last publication in 2016. Thus, all key topics covered in 2016 have been also included in 2020 for comparison reasons. The structure of topics has been revised and updated. For instance, the topic of 'degree of internationalization' (2016) is now part of the 'Business Operations and Market Development' section providing insights regarding SMEs' internationalization strategies, export challenges, or geographic distribution of sales. Figure 11 shows how key topics are covered and structured in the 2016 report and 2020 report respectively.



Figure 11: Structure of topics covered in 2016 and 2020 reports, by 2016-chapter sequence



### 3.1. Methodology Sample selection process

The analysis is based on insights gathered from a survey with over 500 companies classified as SMEs. Moreover, the sample of the study has been chosen to best reflect a selection of characteristics of the SME landscape. This allows for a portrayal of the SME sector that is representative of its actual attributes and therefore enables to better reflect on the current opportunities and challenges faced by Qatar's entrepreneurs. Specifically, the sampling process aims at reflecting the split by industry sectors and company size in terms of number of employees (based on employment distribution data for SMEs from Census 2015).

The classification for the split by industry sector (according to ISIC) is as follows:

- Agriculture, forestry and fishing
- Construction
- Manufacturing
- Services (incl. Accommodation and food services, and others )
- Trading (incl. Wholesale and retail trade)

The industry sector distribution of the SMEs represents one of the main sample selection criteria in the data collection process. This allows accurate mirroring of the actual industry split across the Qatari private sector and therefore forming a representative sample.

For selected questions, not all respondents were able to provide answers due to confidentiality. The number of responses for these questions will be indicated with 'n' and will act as baseline. No indication represents responses of the full sample size of 510 for the 2020 State of SME's Report in Qatar.

Figure 12 displays the split by industry sector achieved in the sample and the corresponding target split. The data shows that the sample represents an approximation of the actual industry split observed in Qatar's SME landscape. The SME sector is characterized by a strong presence of companies from the Trading segment. Accordingly, approximately 39% respondents of the 510 companies from the survey sample are primarily engaged in trade activities. Further important and therefore well represented sectors are Agriculture, forestry and fishing (12%), Construction (10%), Manufacturing (7%) and Services (32%).

Accommodation and food services, as well as other enterprises from other smaller services sectors such as Transportation and storage or Admin and support services are included in the Services segment. Considering the ongoing preparations for the 2022 FIFA World Cup as well as other large-scale infrastructure projects, the construction sector experienced strong growth in recent years. Moreover,

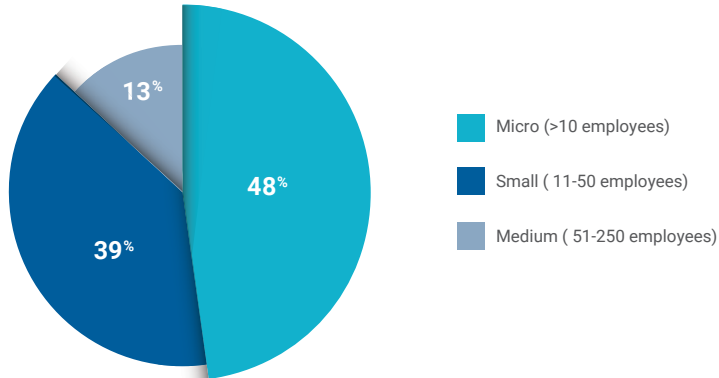
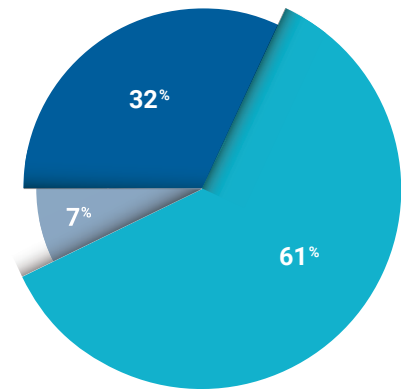
compared to the 2016 report, where the Agriculture, forestry and fishing sector only accounted for 2% of the sample, the industry is better represented in the new sample as the current methodology focuses on achieving a more accurate and realistic representation of all industry sectors.

The "Others" classification includes the following sectors: Transportation and storage; Administrative and support services; Professional, scientific and technical services; Other services; Education; Financial and insurance activities; Real estate; Human health and social work; Information and communication; Arts, entertainment and recreation; Water supply, Sewage, Waste management, etc.; Mining and quarrying.





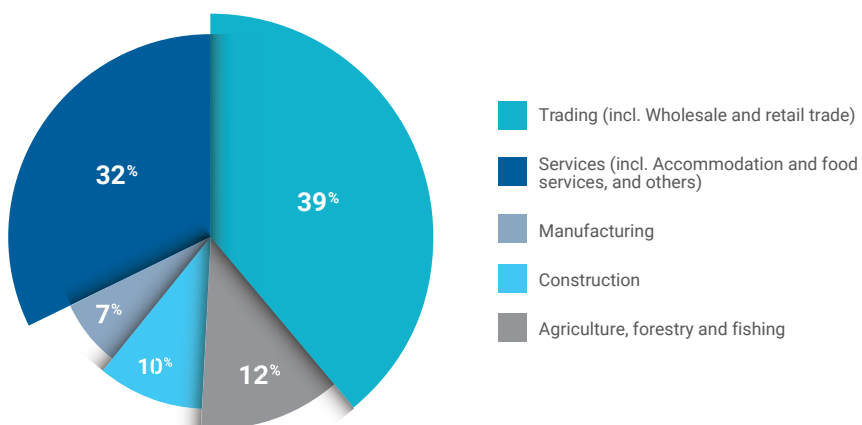
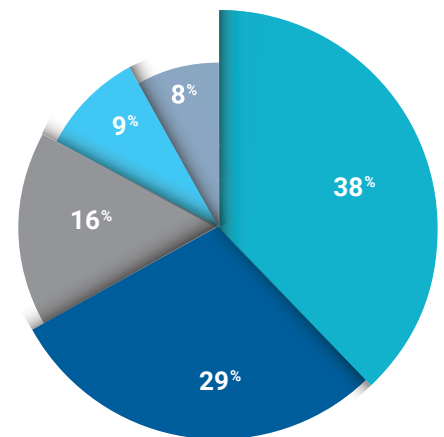
Figure 12: Sample split by industry sector

**Size split in State of SME Report 2020****Size split as per Ministry of Commerce and Industry**

To establish an even more comparable sample size, the SME classification of companies into micro, small and medium, has been limited to the companies' number of employees. This enables a comparison with data received from the Ministry of Commerce and Industry (MOCI).

98.5% of companies in Qatar are classified as SMEs, with a dominance of micro and small enterprises. As can be seen in Figure 12, micro, small, and medium enterprises hold 61%, 32% and 7%, respectively. The SME Report 2020 sample size shows a similar picture. Small sized companies dominate the sample landscape with a representation of 48%. micro and medium sized organizations make up for 39% and 13%, respectively.

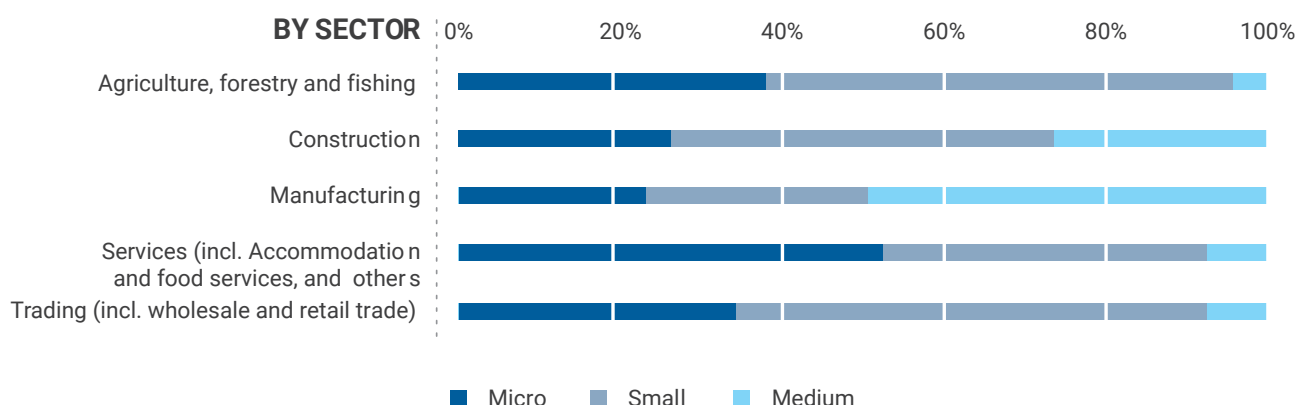
Figure 13: Sample split by size

**Industry split in State of SME Report 2020****Industry split as per Census 2015**

When splitting the data according to the industry classification and size clusters as shown in Figure 14, it is observable that the Micro companies are particularly well represented in the Services classification.

The Agriculture, forestry and fishing sector, the Trading, and Construction sector, are all dominated by Small companies. In the Manufacturing industry sample, Medium enterprises make up the largest group, although only marginally.

Figure 14: Sample split by industry sector and size



## Interview process

The interview process was initiated with an interview pilot phase, allowing to incorporate initial feedback and adjust the structure and focus of the survey accordingly, and was finalized prior to the global outbreak of COVID-19. Overall, the structured sampling process combined with the guiding principles in the interview planning itself represent the foundation of a sound methodology that ensures a highly representative and insightful analysis.

The actual process of conducting the survey is characterized by three guiding principles. First, to capture the perspective of the entrepreneur by interviewing the actual owner of the SME. This target was met in 88% of the conducted interviews. In the remaining 12% of the cases, the direct representative of the owner was interviewed – thereby still allowing to capture the perspective of the person responsible for managing the operative business.

Second, to ensure the highest possible level of accuracy and quality of the data gathered, as many interviews as possible were to be conducted face-to-face instead of relying on other more indirect forms of communication. In total, 75% of all interviews have been conducted via face-to-face. In case this preferred interview method was not possible, the interviews were operated via a series of telephone conversations. This was the case in the remaining 25% of the interviews.

Third, as it is the objective of the report to reflect on the mindset of domestic entrepreneurs, interviews were to be led with Qatari nationals whenever possible (60% of all interviews). This allows to capture a long-term perspective on the local SME landscape.

## Focus themes

From a content perspective, the survey focuses on a variety of themes. After six initial questions regarding the SME categorization (e.g., primary activity, annual turnover, number of employees, etc.), the previously identified four key dimensions of the SME environment (see Chapters 2) as well as selected additional topics are addressed:



The focus themes allow for a comprehensive and holistic review of the entrepreneurs' perspectives on the SME landscape as well as to identify and evaluate potential opportunities and threats. Section 4 of the report is dedicated to the evaluation of the topics covered and provides further elaboration on the insights derived from the survey.



## 3.2 Sample Characteristics

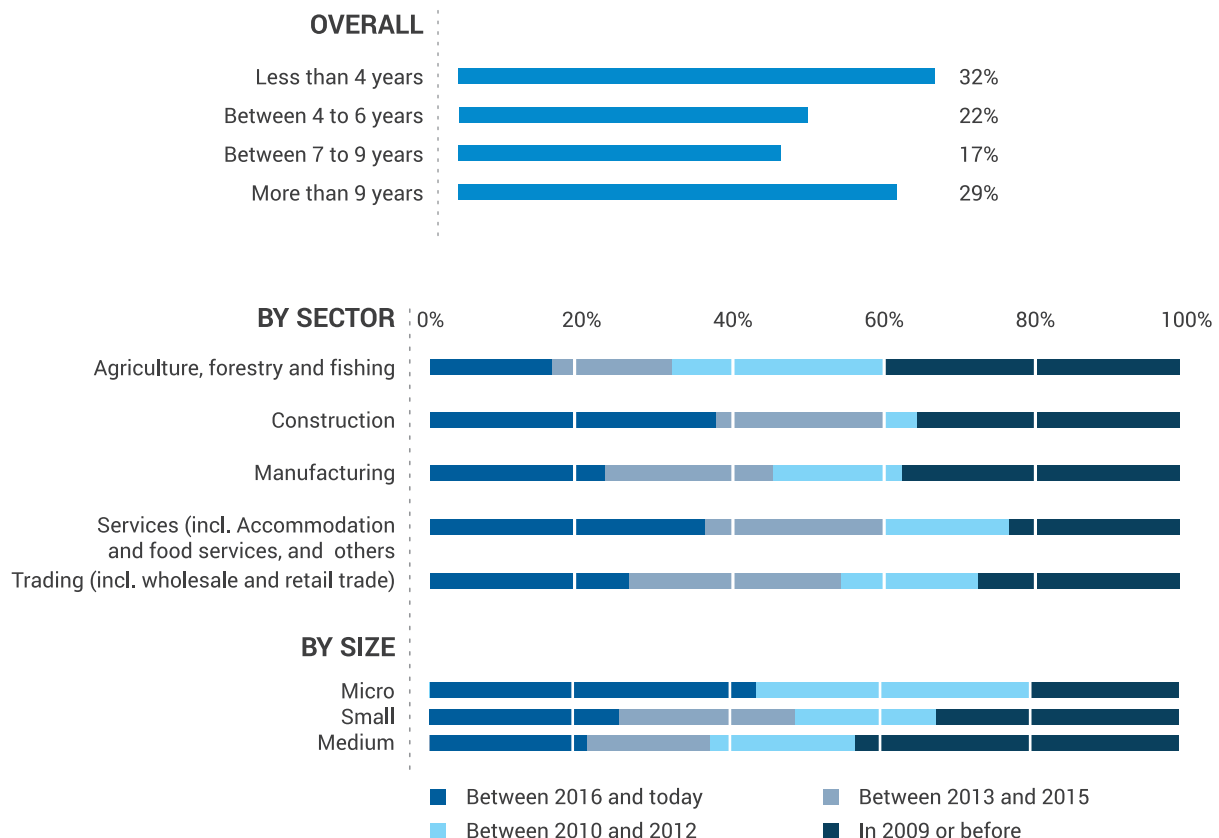
### *Industry and size classification*

The industry sector and company size distribution of the SMEs represent two of the main sample selection criteria in the data collection process. Doing so allows to accurately mirror the actual split of the Qatari private sector and therefore form a representative sample. As outlined in Chapter “3.1 Methodology Sample Selection process,” the sample of SMEs is characterized by a strong presence of companies from the Trading segment (39%) as well as Small Enterprises (48%). Please see Chapter 3.1. for further statistics on the industry and size classification of the sample.

#### *Company age*

In terms of company age, the sample also accounts for growing relevance of the SME sector as it incorporates a large share of young companies with registration date in 2016 or after. More specifically, Figure 15 shows that the 32% of the enterprises in the sample are less than 4 years, 22% between 4 and 6 years, 17% between 7 to 9 years and 29% at least 10 years old. Taking a closer look at the sample split by sector, it becomes evident that the Construction sector is especially booming in terms of newly arising SMEs (45% are younger than 4 years) which is also attributable to the 2022 FIFA World Cup preparations and its positive effects on the Qatari economy. Moreover, also the Trading, Manufacturing, and Services industry exhibit a particularly strong presence of younger enterprises. On the other hand, the share of companies with at least 10 years of operations has a strong base in the Manufacturing (38%) and Agriculture, forestry and fishing (40%) sectors. In terms of the size split, the sample of micro companies is particularly young with over 40% of enterprises being younger than 4 years. Compared to 2016, this points to a growing number of younger enterprises entering the Qatari SME ecosystem.

Figure 15: Company registration date



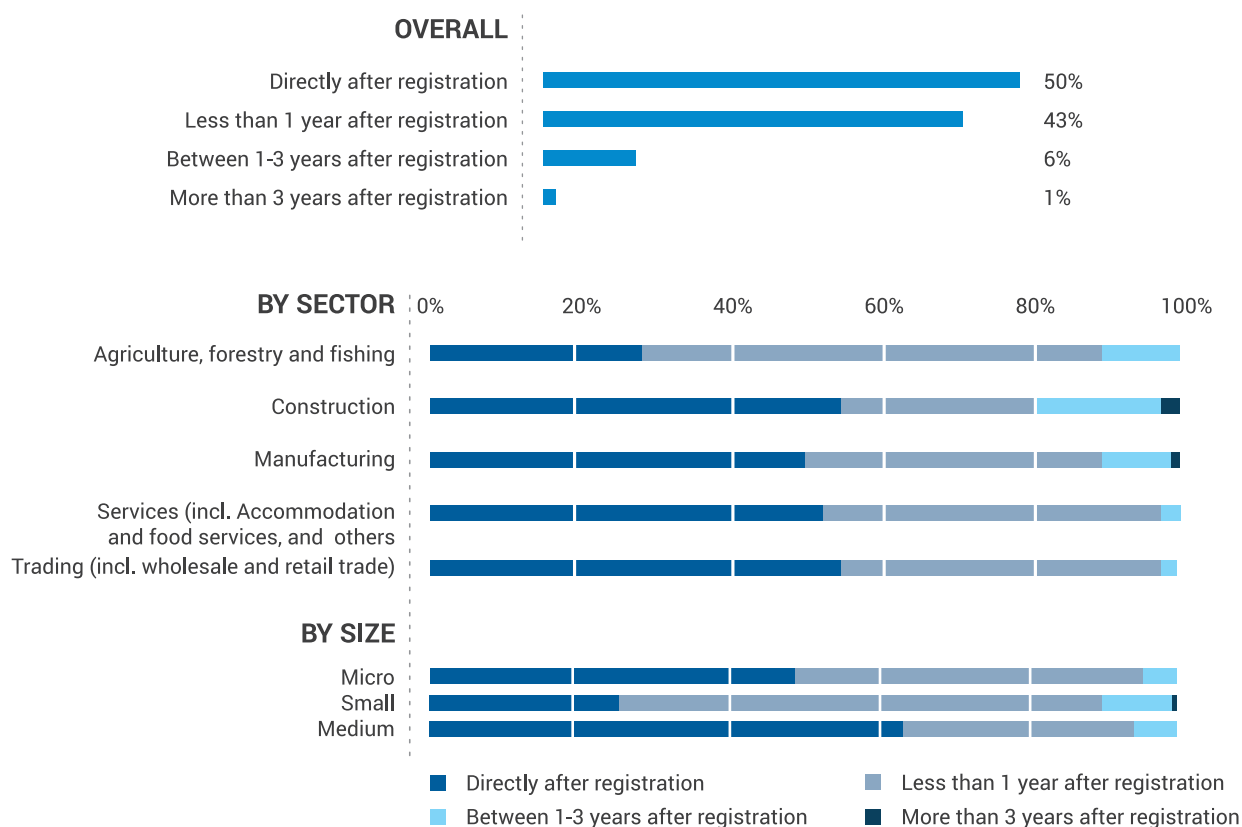


### Initiation of business operations

Figure 16 indicates that the large majority of Qatari SMEs (93%) initiate their operations within the first year after registration – 50% do so directly after their registration. This is particularly apparent when looking at businesses operating in the Construction, Manufacturing and Accommodation and food services sectors as well as when considering medium-sized companies.

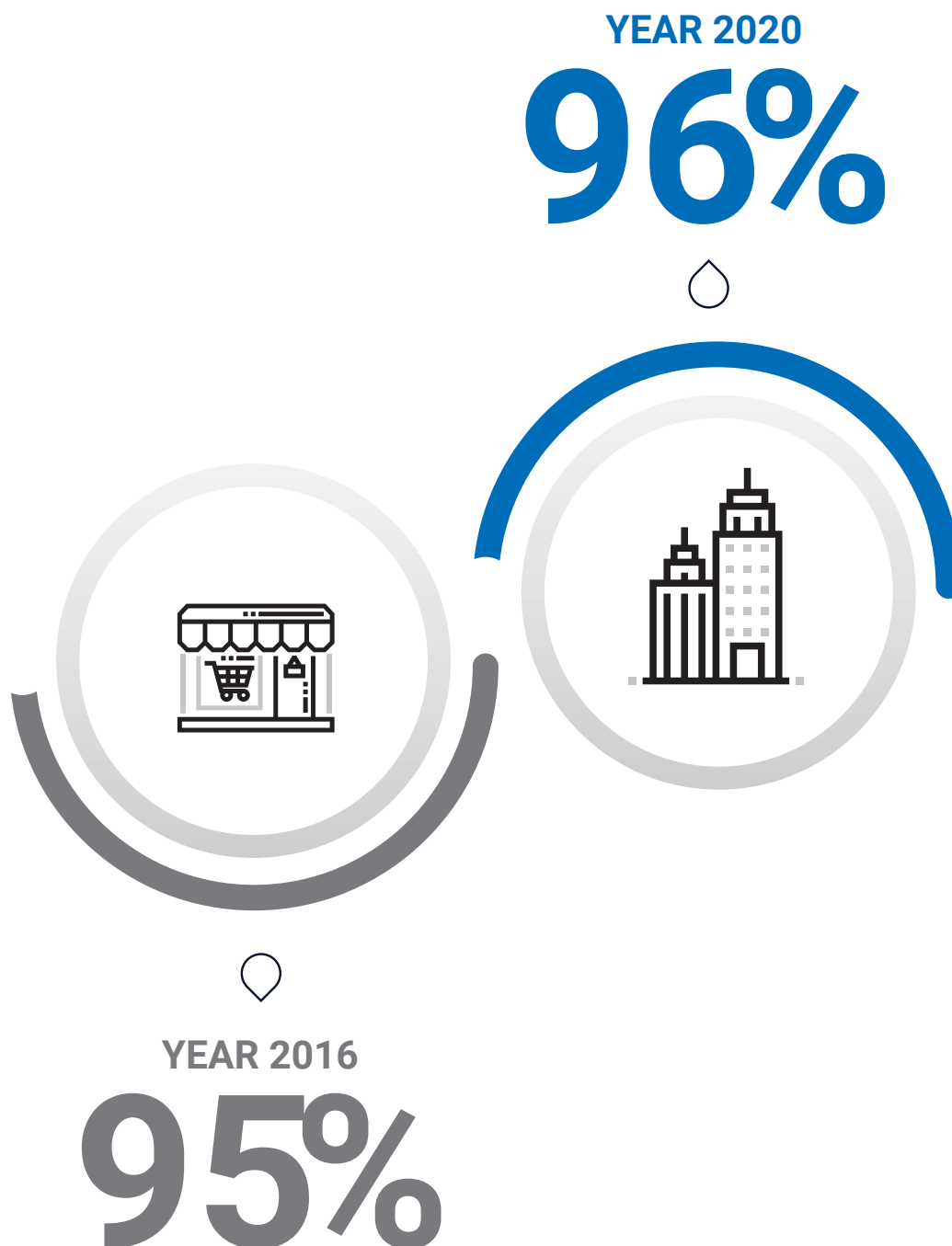
Only 7% started to operate one or more years after registering the firm with most of these companies coming from the Construction, Manufacturing, and Trading industries. Overall, this exemplifies the determination and readiness of entrepreneurs in the Qatari SME landscape when it comes to transforming a business idea into an operating company.

Figure 16: Start of company operation



*Location of company registration*

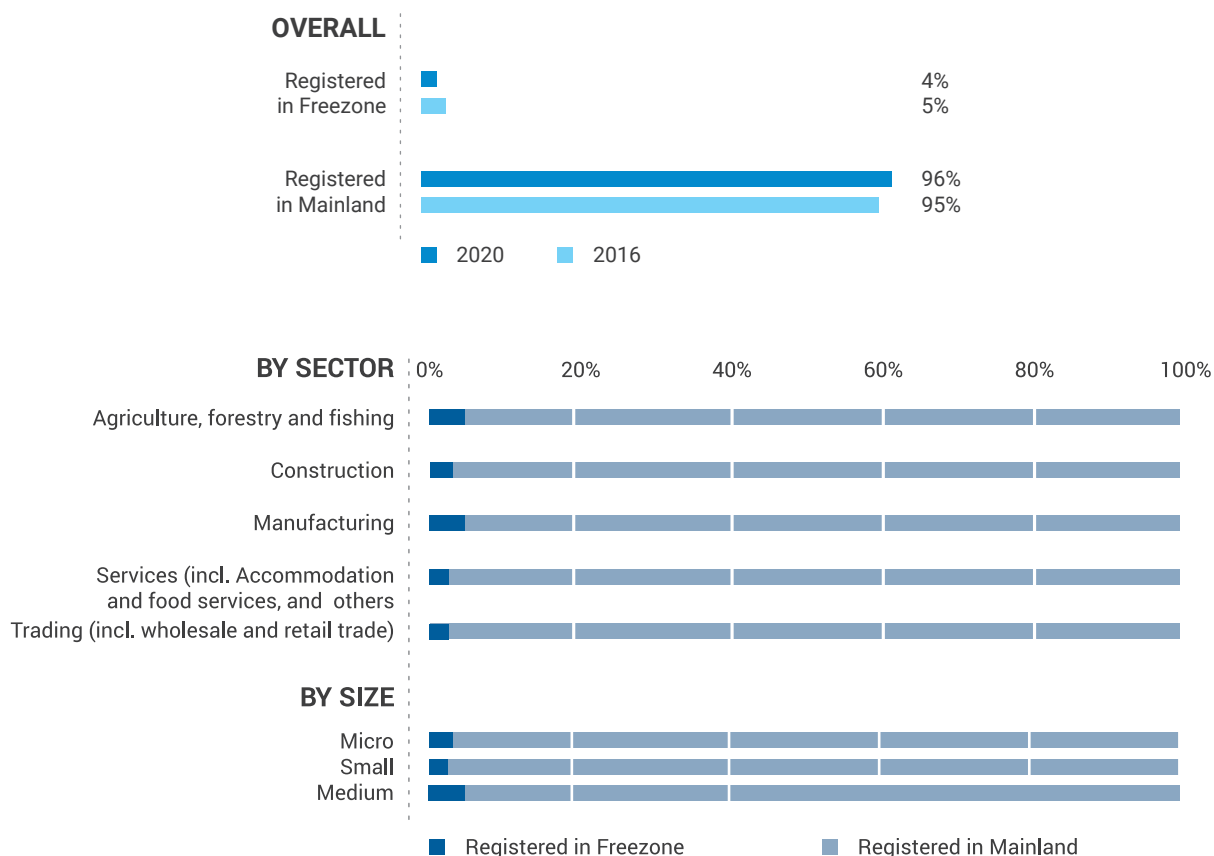
Like in 2016, SMEs continue to register their company location in the mainland of Qatar – 96% in 2020 vs. 95% in 2016





As depicted in Figure 17, of the 510 SMEs analyzed, the large majority (96%) is based and registered in the mainland while 4% established their operations in the freezone. This unilateral picture confirms what has already been observed in the 2016 report where 95% of respondents were based on the mainland and 5% in free zones. It further holds true when comparing the two sample sets according to industry sectors and company size.

Figure 17: Place of registration



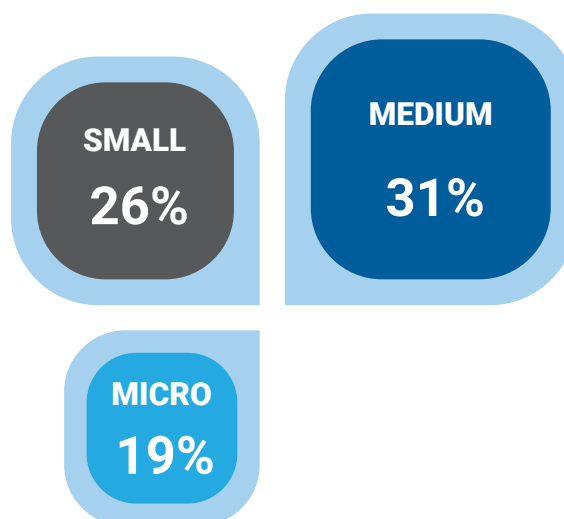
### 3.3 Performance Perception

This section presents a snapshot of the SME sector's backward-looking performance perception as well as an outlook on the future performance anticipation. This report does not conduct a detailed evaluation of SME financials, but it focuses on the performance perception of the SMEs – representing a difference from the 2016 report.

#### *Past revenue development*

Strong past performance of SME sector with 24% reporting strong positive annual growth rates (+5%)  
– micro (19%) small (26%), medium (31%)

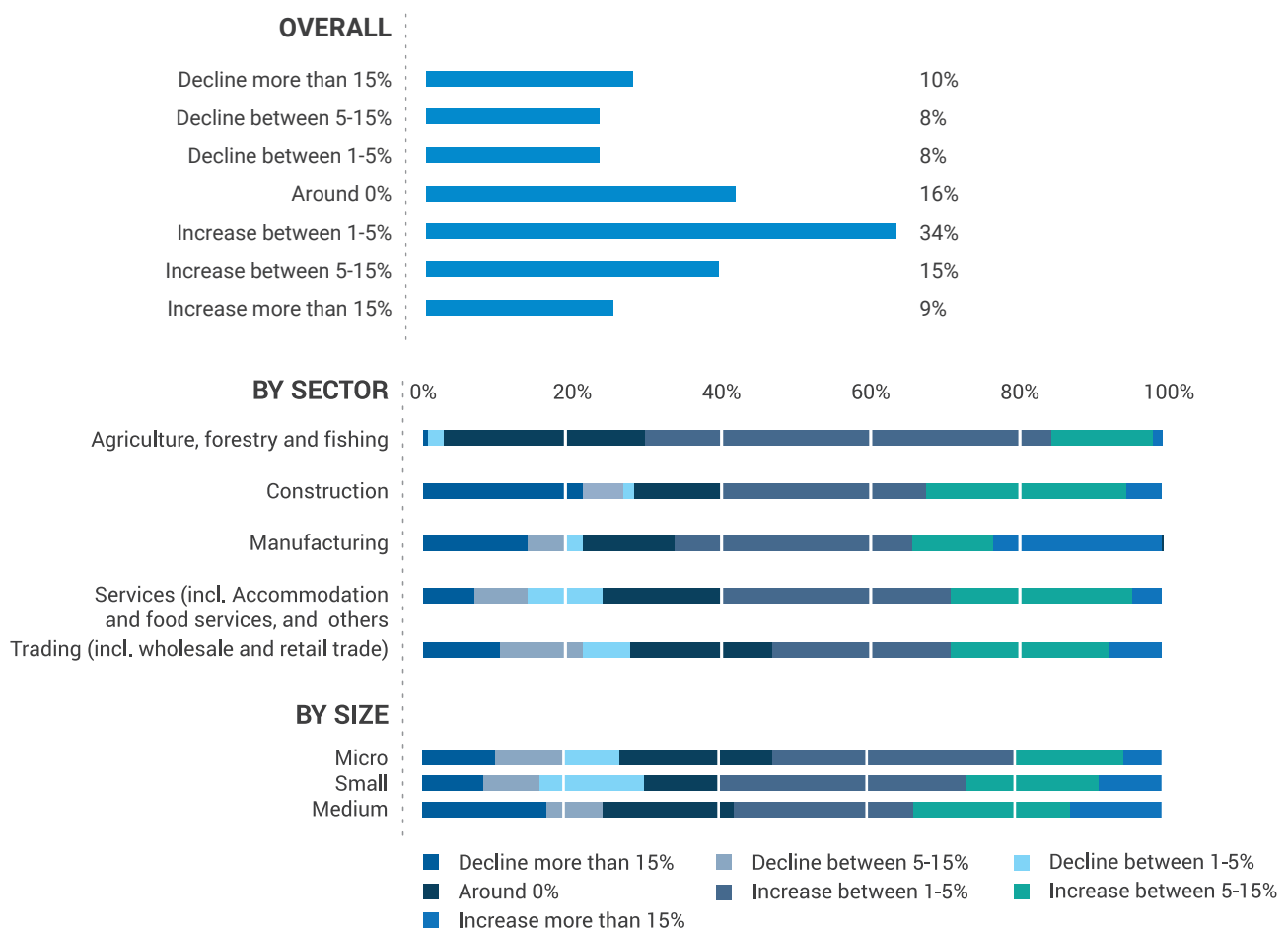
Figure 18: Performance Perception





The data gathered in the data collection process (interviews) points to a healthy state of revenues in the Qatari SME sector as depicted in Figure 19. 74% of the SMEs experienced non-negative annual revenue growth over the past three years. More specifically, almost 60% of the enterprises showcased positive annual growth rates. Whereas a moderate growth profile of 1-5% is most commonly observed (34%), enterprises showcase strong annual growth above 5% accounts for almost one third (24%). This reflects the overall positive economic outlook of Qatar as the nation was able to recover from recent economic setbacks such as the fall of hydrocarbon prices in 2014. At the sectoral level, varying percentages of companies have suffered from a decline in their revenues, while other companies have witnessed growth at different rates. However, it can be said that the least percentages of companies that faced a downturn were in the agriculture, forestry and fishing sector (5%) and the manufacturing sector (22%). The results also point to improved negative annual growth rates when moving from micro (28%) to medium (23%) companies. Yet, the medium (31%), as well as the small (26%) companies exhibit strong growth (above 5% p.a.) more frequently than the micro companies (19%). In general, extreme values, both positive and negative, are more frequently observable among the larger company size clusters.

Figure 19: Annual revenue growth rate over the last three years

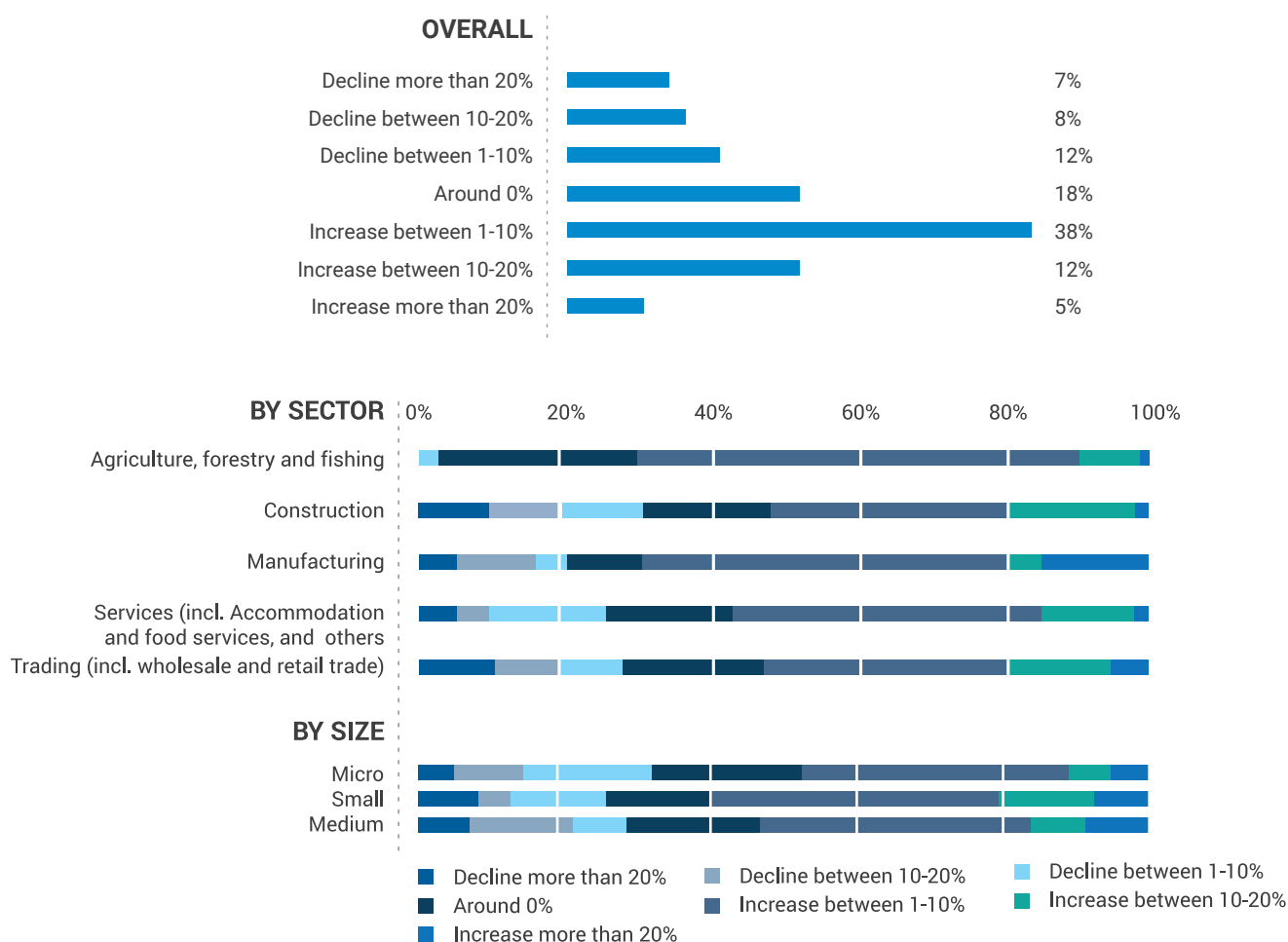




### Past net profit margin development

A similarly healthy picture can be drawn of the net profit margin development over the past three years. Figure 20 shows that a large share (73%) of the SMEs exhibit non-negative annual growth rates and the majority (56%) of SMEs was able to expand its net profit margin in recent years. 17% of the SMEs even achieved annual growth rates of over 10%. The comparison of the different industry groups yields similar results as with revenue growth rates. Again, the Agriculture, forestry and fishing (3%) and the Manufacturing (22%) sectors exhibit the lowest shares of negative annual growth figures. Meanwhile, the Trading sector companies achieved the highest negative annual growth rates at (34%). Again, when comparing at the level of company size, medium and small enterprises fared better than micro enterprises, achieving fewer cases with negative net profit margin development.

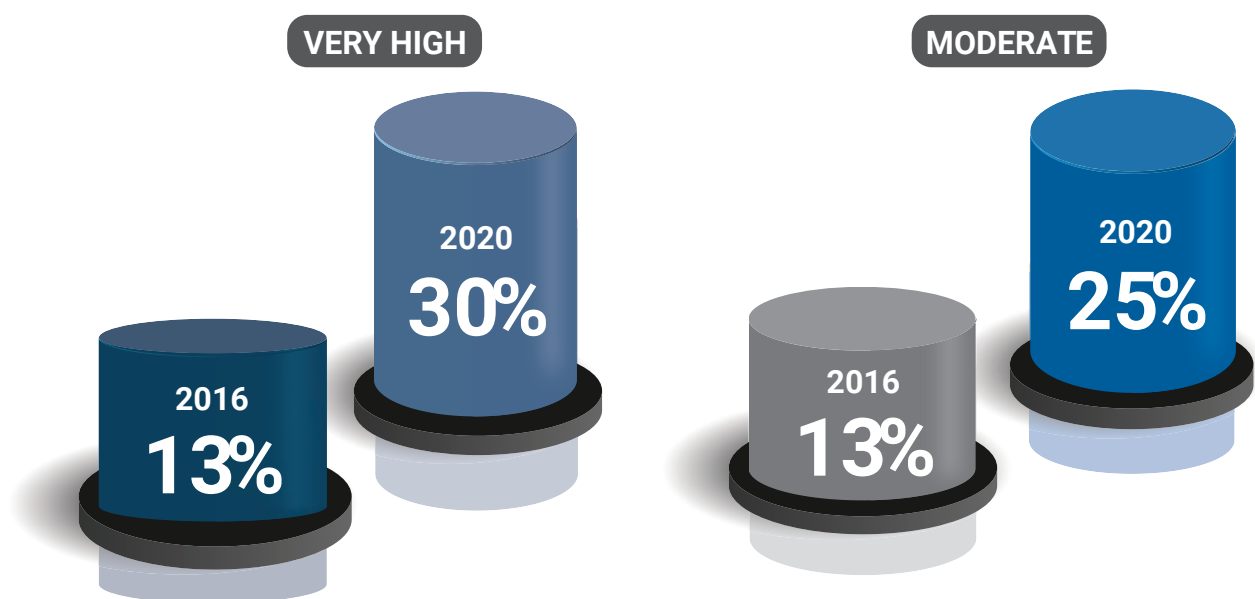
Figure 20: Annual change in net profit margin over the last three years







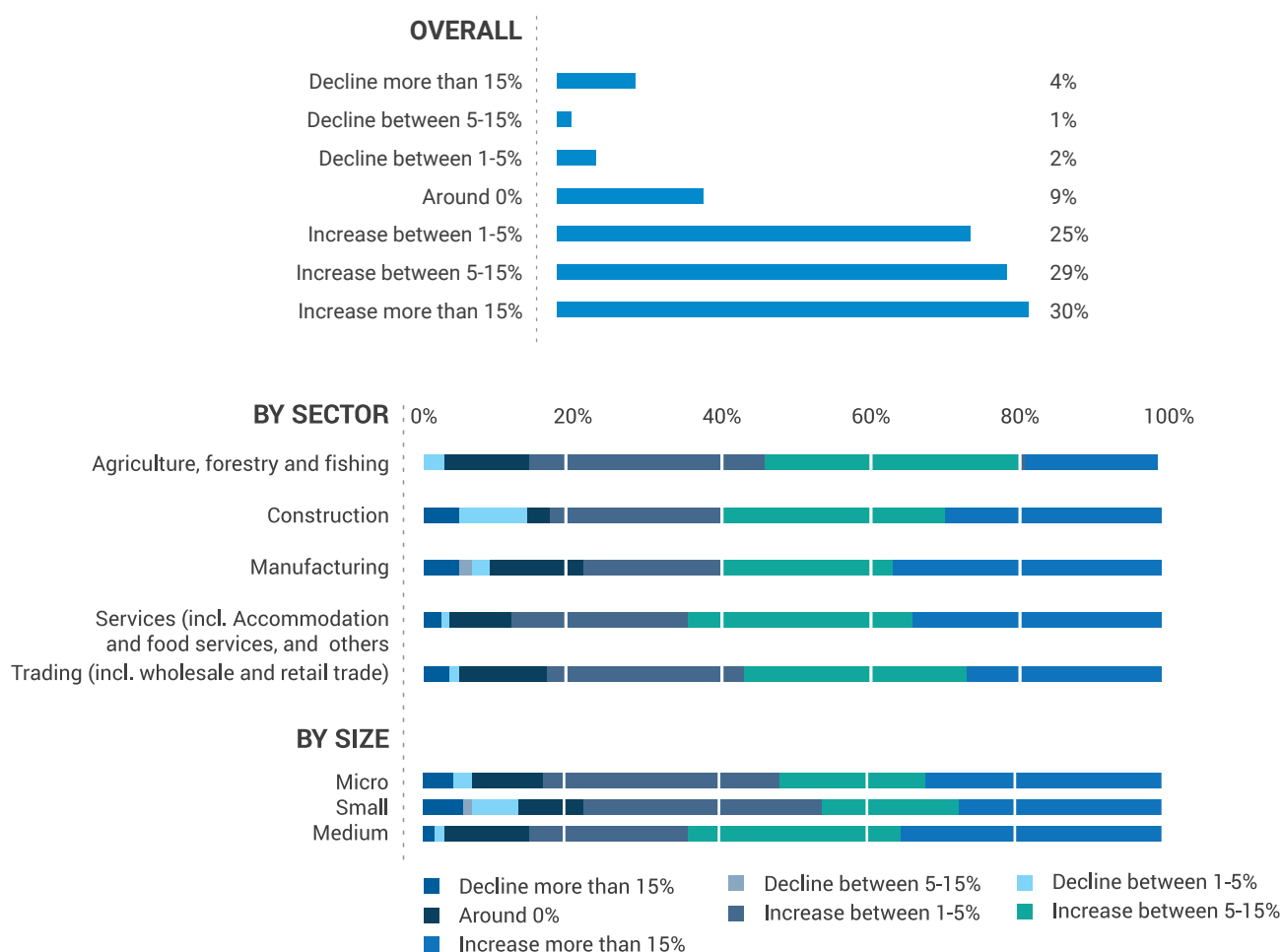
*Expected future revenue development*  
In comparison to 2016, SMEs expect considerably higher annual revenue growth rates over the next three to five years (very high – 13% in 2016 v. 30% in 2020; moderate – 13% in 2016 v. 25% in 2020)





Looking forward, the SME sector exhibits strong business optimism regarding future market development. Figure 21 indicates that 84% expect positive annual revenue growth rates in the next three to five years. A big portion of the SME owners and managers expect double digit annual growth rates – of which many see very high growth potential (over 15% growth p.a.). Another significant share of the SME population is expressing high (5-15% growth p.a.) as well as more moderate (1-5% growth p.a.) business optimism. On the other hand, there are a few SMEs with pessimistic views on future market development. Generally, when dividing the sample according to industry sectors and company size, no major discrepancies become evident when assessing the algebraic sign of expectations. However, very high growth expectations tend to be marginally more present among medium sized companies (34%) as well as in the Manufacturing (38%) and Services (35%) sectors. Moreover, unfavorable perspectives with negative expectations are also frequently expected among Manufacturing (11%) and Construction (10%) industries, as well as among micro (6%) and small (8%) enterprises. Overall, the survey depicts a very positive perception on the market for the Qatari SME sector across all industries and size classes. Thus, the outlook is in line with the private sector growth ambitions of the State of Qatar. Compared to the growth expectations stated in 2016, in which 64% of the SMEs expressed positive opinions about future business and 5% expected declining markets growth, the current report generally yields a more optimistic perspective. Specifically, more SMEs communicate very high (30% in 2020 vs. 13% in 2016) and moderate (25% in 2020 vs. 13% in 2016) annual revenue growth potential. This is in line with the general economic development in Qatar as the falling hydrocarbon prices induced economic turbulences and uncertainty in the years after 2014 – thus limiting the growth expectations of SMEs. Yet, Qatar's recovery from the economic crisis in more recent years represents a turning point and serves as a driving force behind the business optimism observable in the SME sector.

Figure 21: Expected annual growth of revenues in the next 3-5 years



### Expected future net profit margin development

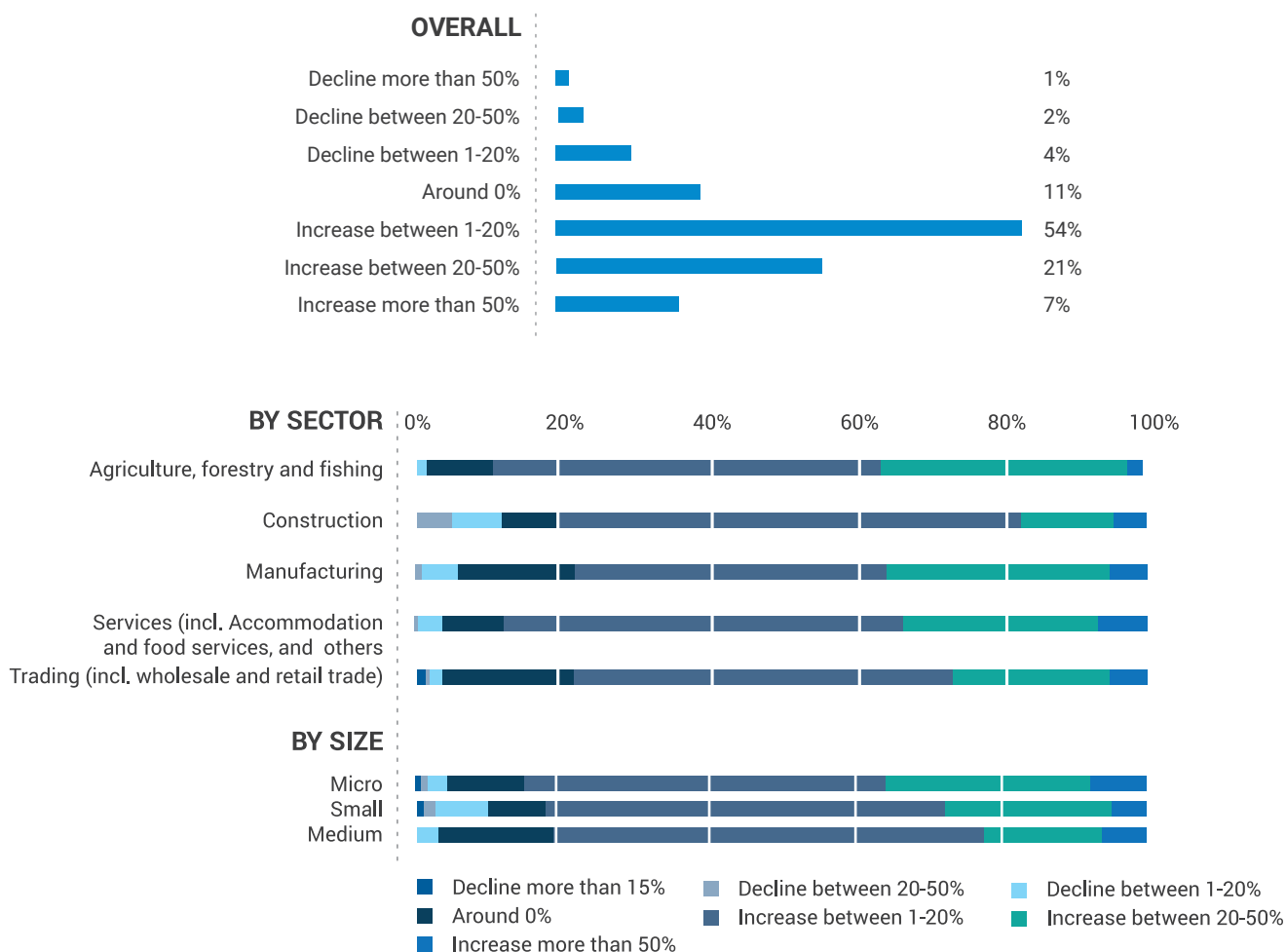
While negative future growth in terms of net profit margin predominantly exists in Manufacturing and Construction companies, over 80% of SMEs across industries expect future profitability to increase continuously

Similar to the perceived revenue growth potential, the outlook for net profit margin growth is also optimistic, as shown in Figure 22. The 2020 survey indicates that 82% of the SMEs expect their net profit margin to grow annually in the next three to five years. Most of the SMEs (54%) anticipate an increase between 1-20%. Further SMEs expect even stronger growth between 20-50% (21%) or above 50% (7%). Across all industry sectors and company size clusters, the share of SMEs expecting an increase between 1-20% represents the largest group.

Negative views on net profit margin development is predominantly observable among in the Construction (12%) and Manufacturing (11%) industries – indicating that after years of significant growth, mainly attributable to the 2022 FIFA World Cup preparations, some SMEs expect the market to slow down again. When looking at the differences between the micro, small and medium enterprises, it becomes clear that extreme optimism among the larger company size groups decreases. However, all size clusters showcase high optimism with only a few pessimistic outliers.



Figure 22: Expected annual change of net profit margin in the next 3-5 years





*Rationale behind positive performance expectations*

Performance optimism largely due to expected increase in domestic sales (49%). Agricultural, forestry and fishing companies even expect 65% of their net profit margin to be generated domestically





When asked about the reasoning behind the different opinions on future net profit margin development, a selection of arguments stand out. In the case of business optimism, three specific reasons emerge as the most important ones. First, as Figure 23 suggests, there is a consensus (with 49% of all votes) that growing sales in local markets are the main driver of the optimistic perspective.

This is largely similar across all individual industry sectors and company size classifications. Second, SMEs generally see sales growth potential in the development of new products and services with a relative weight of 15% across all votes. Finally, improved sales efficiency represents the third major driver of business optimism (14%), especially in the Agriculture, forestry and fishing sector (27%) and amongst small-sized companies (16%). In the Manufacturing industry (13%) as well as among medium companies (11%), the possibility to improve production efficiency acts as a further driver of business optimism.

For the below criteria, respondents were able to select multiple answers.

Figure 23: Rationale for optimistic expectation on net profit margin development



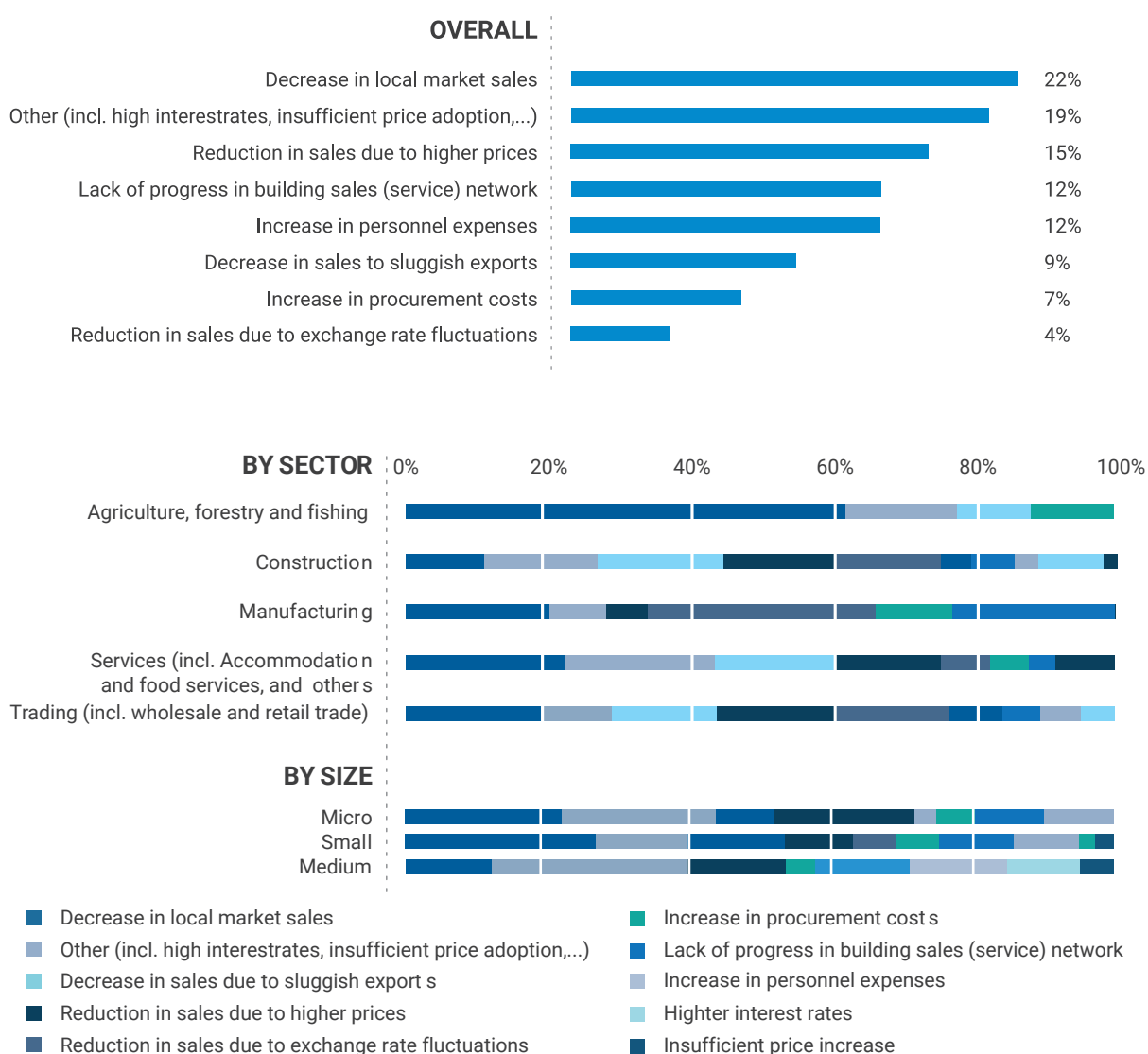
### *Rationale behind negative performance expectations*

Similar to the optimistic views, the most prominent driver behind pessimistic opinions on the future net profits lies in the local market as Figure 24 shows that, with a relative weight of 22%, declining sales in the local market represent an important concern for many SMEs. An increasing price level represents another reason for limiting sales and profit development with significant relevance (15%). Further rationales behind restrained business outlooks are the lack of success in developing and expanding a sales network (12%) and a perceived increase in personnel expenses (12%).

Across all industry sectors and company size clusters, the risk of losing market share in the local market represents one of the key risks for the ability to generate positive net profits in the future, particularly in the Agriculture, forestry and fishing industry (63%) and among micro (23%) and small (25%) companies.

Business risk stemming from increasing price levels is particularly relevant in the Construction (17%), Manufacturing (15%) and Trading (15%) sectors. Moreover, as personnel costs tend to be more relevant among companies with larger employee bases, a potential increase in these expenses is particularly relevant for medium sized companies (19%). The same holds true for interest rates as the larger companies are more directly exposed to the interest rate environment when compared with smaller companies who use fewer interest rate-driven forms of financing themselves. This explains the absence of perceived interest rate risk as a negative force in the business outlook of micro and small companies when compared with medium enterprises.

Figure 24: Rationale for pessimistic expectation on net profit margin development





## 3.4 SME Landscape Characteristics

### 3.4.1 Regulatory and Business Set-up *Reasons for setting up a business in Qatar*

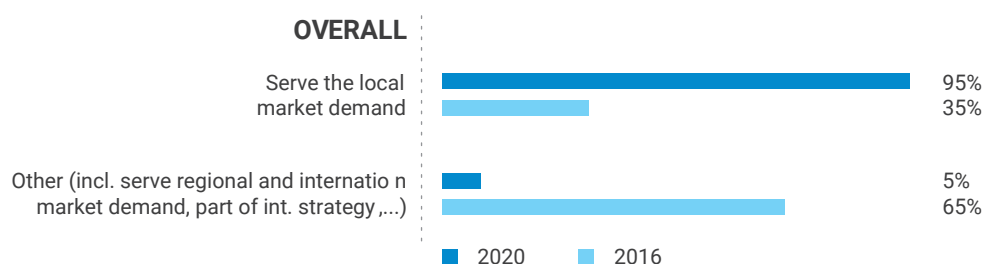
Since 2016, the share of SMEs indicating opportunities to serve local demands as key rationale when setting up a business in Qatar has almost tripled (from 35% to 94%)

Considering the large share of young companies that entered the Qatari SME sector within the last four years, as outlined in Chapter 3.2 Sample Characteristics, understanding the drivers of the decision to start a business in Qatar becomes essential to further promote entrepreneurship in the nation.

As illustrated in Figure 25, when asked about the main reasons to set up business operations in Qatar, the vast majority of SMEs (95%) part of the 2020 study, referred to the perceived opportunity to serve local market demands as the key reason to start business operations in Qatar. This holds true across all industry sectors and company sizes. On the other hand, the opportunity to serve regional or international market demand appears to be of lower relevance in the decision process of setting up a business in Qatar.

While in 2016, meeting local market demand also represented the main rationale for starting business activities, with 35% of votes, it did so in a considerably lower fashion than in 2020. In addition, in 2016, business establishment drivers were more balanced across respondents, with other opportunities such as the desire to serve the regional (33%) or international market (18%) reaching a similar share of votes. The relative shift towards the local market demand in 2020 can at least partially be explained by the ongoing blockade which limits import and export opportunities within the GCC region, which represented the main destination for many exports and imports from and to Qatar.

Figure 25: Initial reason to start business operations



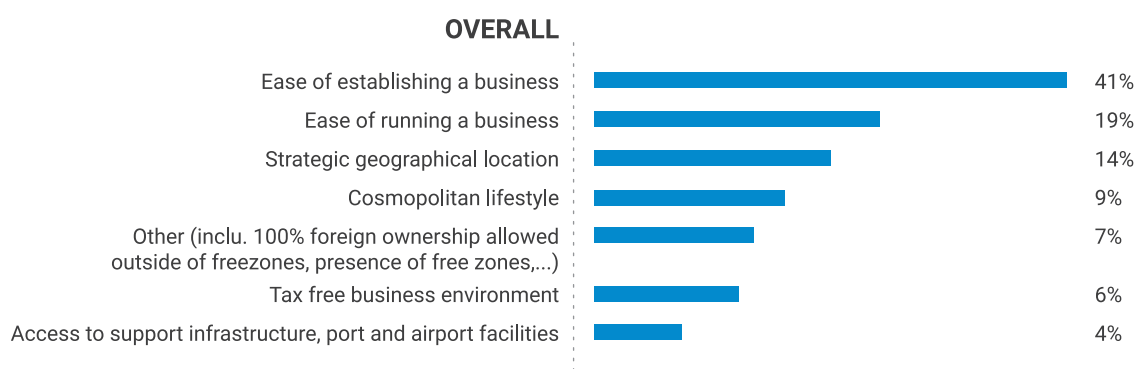
### *Advantages of setting up a business in Qatar*

Compared to 2016, gaining access to infrastructure, port and airport facilities has dropped out of the top three key advantages of setting up a business in Qatar 2016: 15%, 2020: 5%)

To further evaluate the ability of Qatar to attract new businesses, the key advantages of setting up a company in Qatar are outlined in Figure 26. As stated by the SMEs, the ease of establishing a business in Qatar is clearly advantage with the highest relative weight (41% of all votes). This is a result of the State's continuous efforts to attract new businesses by providing a supportive regulatory framework and high accessibility to finance and knowledge. The dominance of this advantage prevails when splitting the sample into the industry sectors or company size – which further highlights the importance of ensuring simplicity in the business set-up processes to attract entrepreneurs.

Similarly, however mentioned by fewer SMEs, the ease of running a business is also consistently labeled as an important driver of the attractiveness of Qatar's SME sector with 19% of the answers reporting so. Moreover, further aspects of the Qatari business environment that are particularly relevant to SMEs are the economy's strategic geographic location in the GCC region (14%) as well as the appealing cosmopolitan lifestyle in Qatar (9%). Again, the comparison with the picture drawn in 2016 signifies that the top advantages remained the same between 2016 and 2020. Of the top three advantages identified in 2016, only the access to support infrastructure lost relative weight.

Figure 26: Advantages of setting up a business in Qatar



### Challenges of setting up a business in Qatar

Despite the many factors that contribute positively to the ease of setting up a business in Qatar, the SMEs face challenges in selected areas while establishing a company. Figure 27 highlights these identified topics. First and foremost, the most frequently reported issues with 18% of all challenges identified refer to the large number of complex, costly and time-intensive processes that newly established businesses must complete in order to start their operations (e.g., registering the firm, applying for required permits and licenses, organizing visas for the workforce). Other equally relevant areas for improvement are the availability of skilled workforce (14%) and the access to land, facilities and infrastructure at low costs (17%).

Many young firms find it hard to recruit employees with the desired experiences and are struggling with high rents for their facilities. Moreover, many SMEs also point to challenges with financing their establishment, especially with regards to bank loans. Further topics addressed are relate to sales and marketing (6%) as well as to the market in general (6%). This is due to some of the firms facing difficulties in entering the often highly competitive markets and acquiring initial shares of the market. The Other (15%) group is comprised of topics such as issues related to business development, expansion & internationalization as well as product and service offerings, climate-related issues, high personnel costs, political, economic & event-driven issues (e.g., blockade), organizational and structural challenges and the identified lack of ecosystem support. While micro and medium enterprises find the lengthy and complex processes most challenging, it is getting access to appropriate land with small companies find the most difficult.

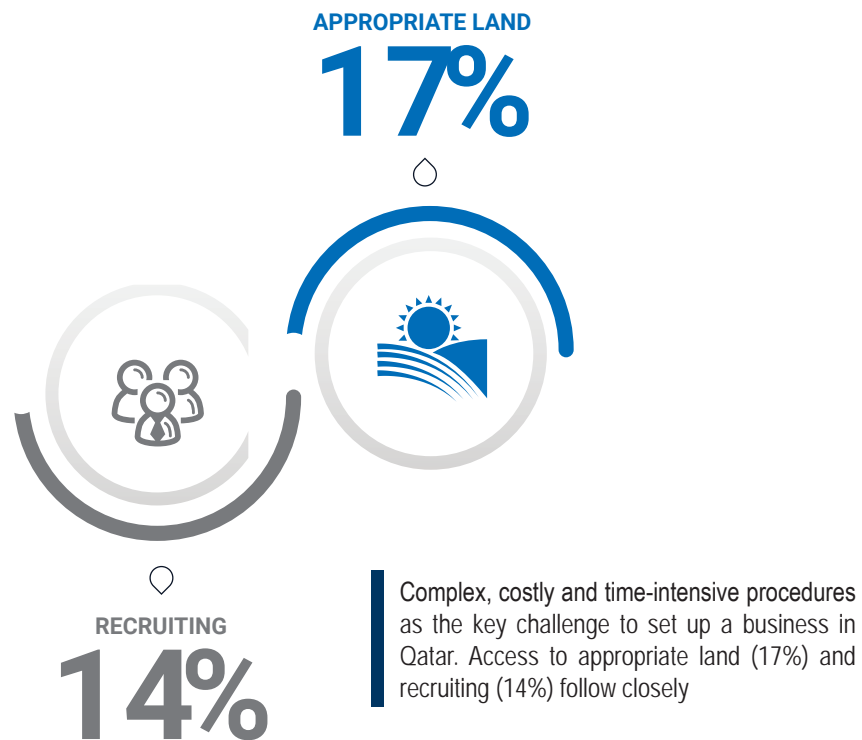
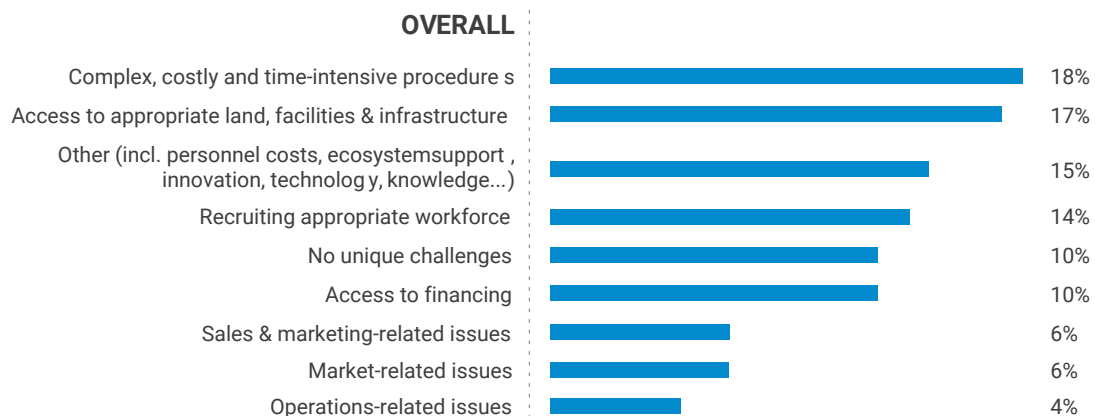


Figure 27: Challenges of setting up a business in Qatar





### 3.4.2 Business Operations and Market Development

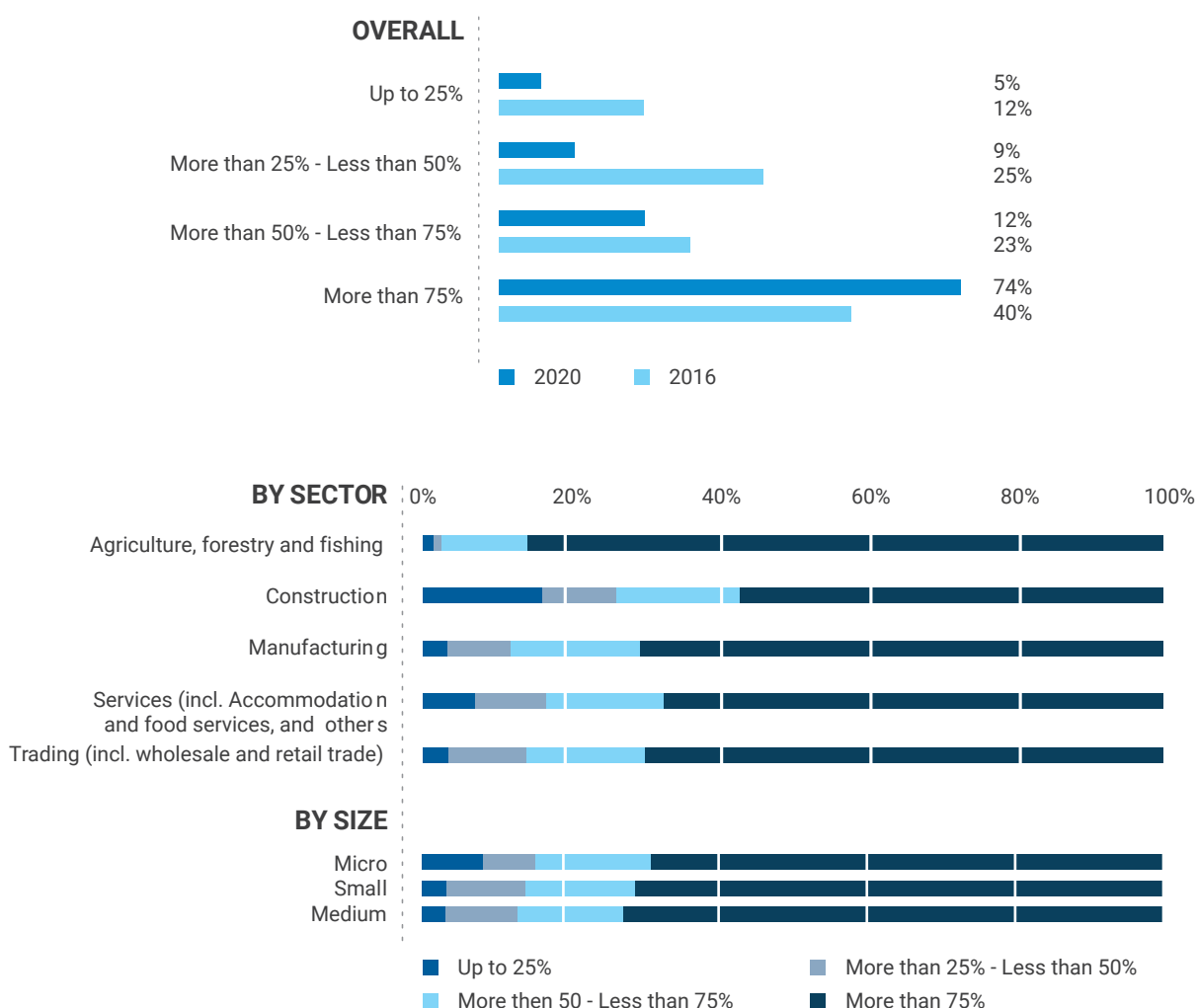
#### Productivity of SMEs

Since 2016, Qatari SMEs' achieving asset utilization rates of >75% have almost doubled.

To gain insights on the productivity levels of the Qatari SME sector, the report examines the asset utilization rate of the SMEs. Overall, the results, as presented in Figure 28, indicate that the SME sector in Qatar is driven by high productivity levels. In 2020, 74% of SMEs showcase asset utilization rates of over 75% - with particularly strong results in the Agriculture, forestry and fishing (90% above 75% utilization rate), Trading (75% above 75%), Manufacturing (73% above 75%) and Services (71% above 75%) sectors. In terms of company size, the small and medium enterprises stand out with particularly healthy asset utilization levels above 75% (74% and 77%, respectively).

On the other hand, only a small share of SMEs (14%) exhibits levels below 50%. Such examples are predominantly found in micro-sized companies (16%) as well as in the Construction (23%) and Services industries (17%). In comparison to the results from 2016, the findings demonstrate that the Qatari SME sector is not only growing in terms of size but also improving in terms of productivity. In 2016, 63% of all SMEs were operating with asset utilization rates above 50% whereas in the current study, 86% achieved this threshold. Again, this is in line with the State's ambitions to advance the SME sector in Qatar and is, at least partially, also attributable to the general upswing of the national economy after some years with economic tensions.

Figure 28: Utilization rate of business assets



### Outsourcing in the SME sector

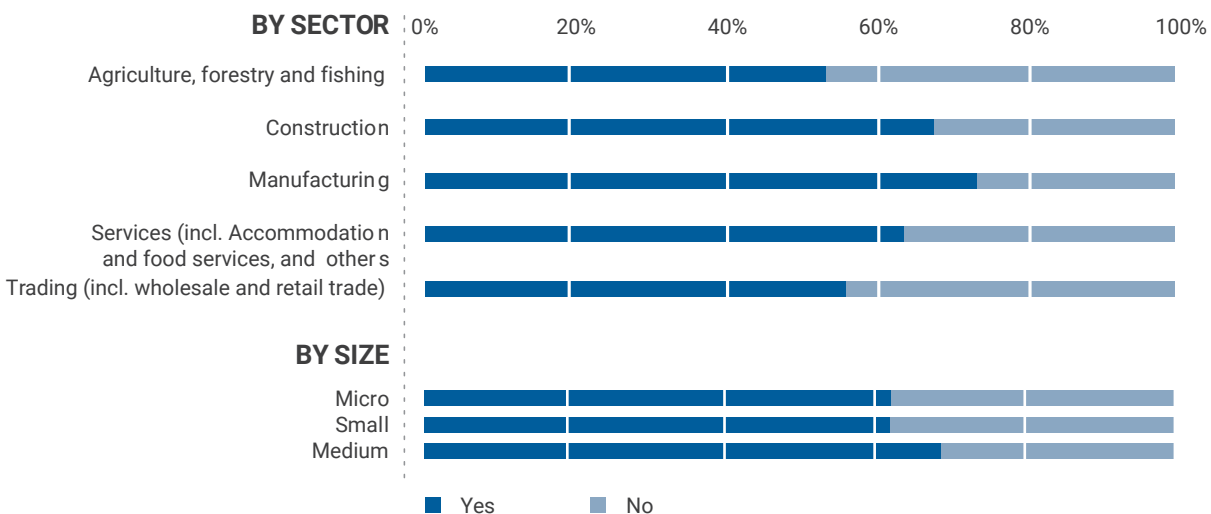
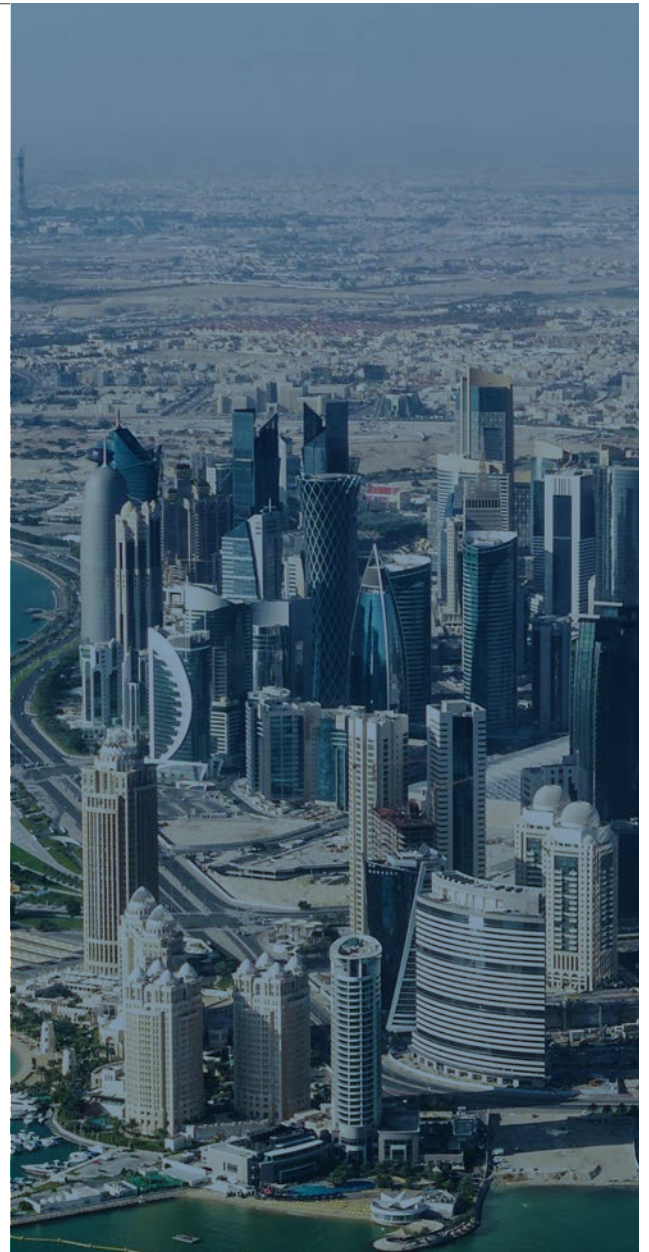
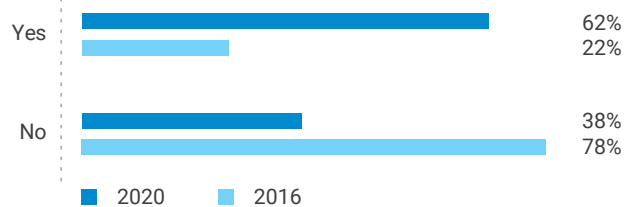
62% of Qatari SMEs focus on maximizing their core capabilities and outsource support functions in 2020, compared to only 22% four years ago

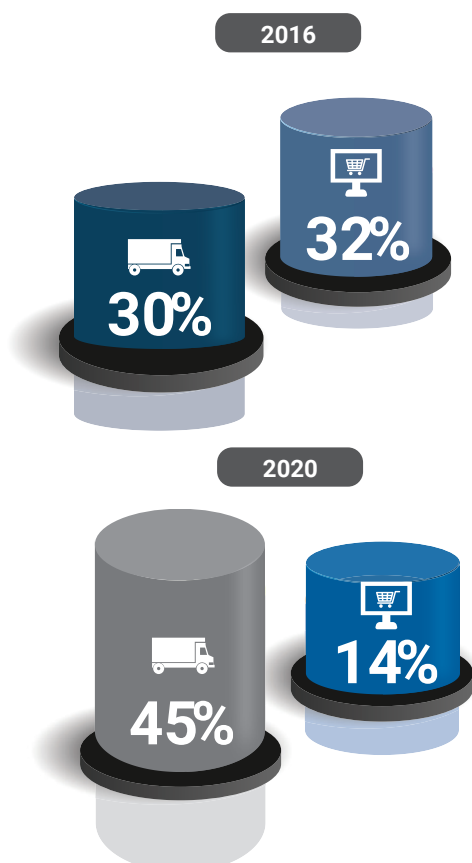
To build further knowledge on the business operations of SMEs in Qatar, the report also examines the tendency to outsource selected business functions. Using external parties to perform certain activities allows companies to target their efforts at their main value proposition and thereby grow their business. As shown in Figure 29, most SMEs (62%) outsource services regularly while 38% do not outsource at all.

Whereas outsourcing is similarly popular across all industries and company sizes at an outsourcing rate of ca. 60%, it is particularly widespread in the Manufacturing (78%) and Construction (69%) industries as well as among medium-sized companies (68%). In contrast to the current findings, the SME sector was less inclined to regularly incorporate outsourcing into their business model in 2016 with 78% of the survey respondents managing all services in-house. This points to an increase in the companies' open-mindedness to

Figure 29: Prevalence of business function outsourcing

#### OVERALL





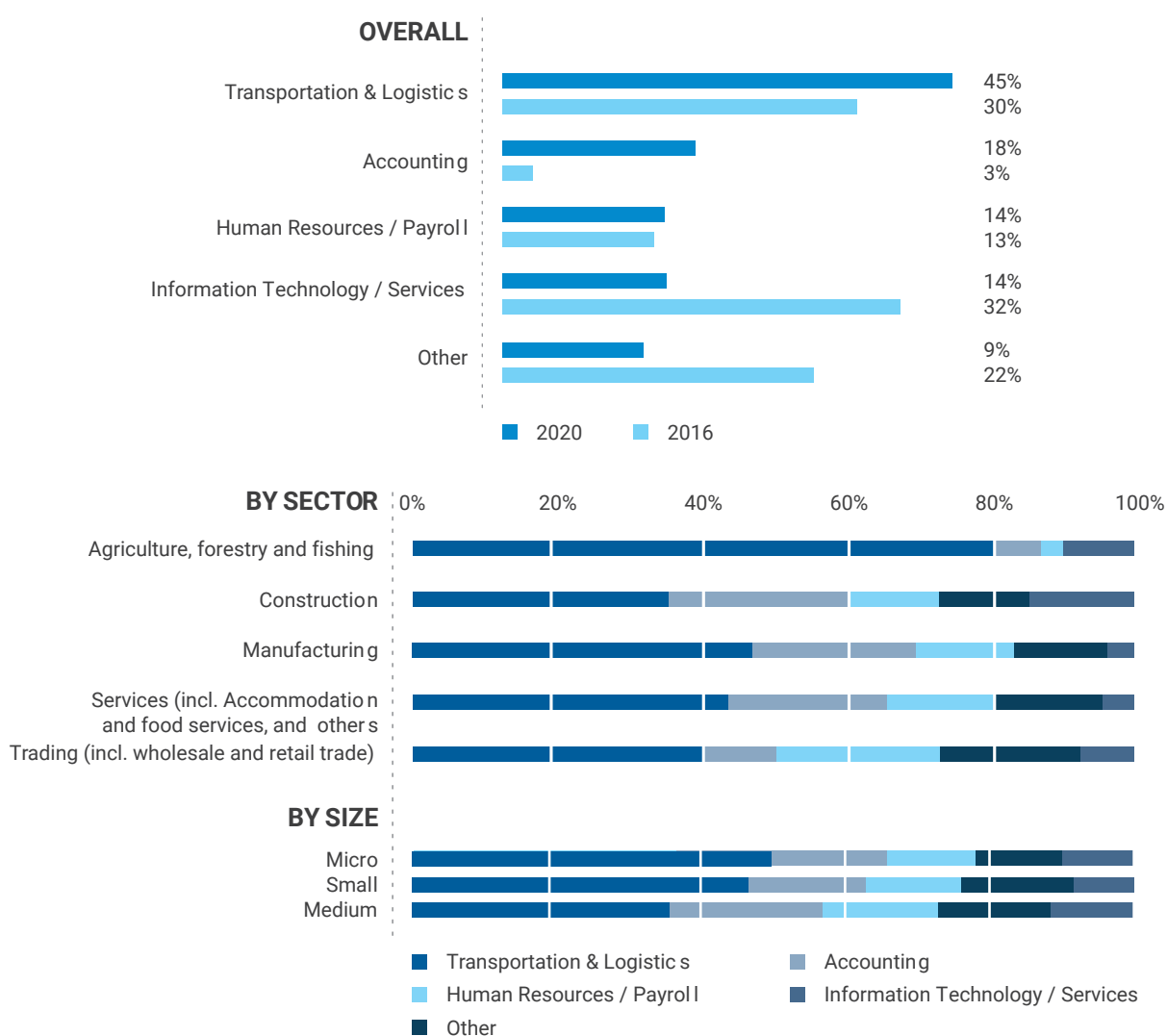
#### Frequently outsourced activities

Since 2016, transportation and logistics services have replaced IT services as the number one outsourced business activity across Qatari SMEs (2016 – Transportation: 30% v. IT 32%; 2020 – Transportation: 45% v. IT 14%)

As reported in Figure 30, transportation and logistics represents the most outsourced activity in the Qatari SME landscape with 45% share. Other frequently outsourced services with high relative weights are accounting (18%) as well as activities in the field of IT (14%) and HR and payroll tasks (14%). The prevalence of outsourcing transportation and logistics services is relatively similar across all industries and SME subcategories.

However, the Agriculture, forestry and fishing sector is particularly focusing on outsourcing this activity with 79% of the respondents in this cluster reporting so. Also, it is evident that smaller firms are more inclined to use third party transportation and logistics service providers while putting lower weight on using external parties to perform accounting activities when compared to larger companies. Moreover, in 2016, IT services were the activities with the highest relative weight (32%), closely followed by transportation and logistics (30%). The comparison of the current findings with the insights from 2016 points to a relative increase in knowhow related to IT among Qatari SMEs as a larger share of companies decides to keep those tasks in-house.

Figure 30: Frequently outsourced business activities





### *Internationalization of SMEs*

In 2020, SMEs tend to focus their business opportunities on local markets and compared to 2016, 45% less SMEs plan for internationalization (2016: 70% v. 2020: 25%)

# 25%

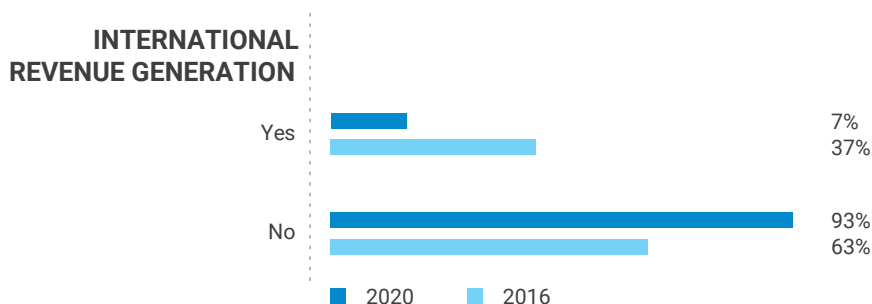


YEAR 2016

# 70%

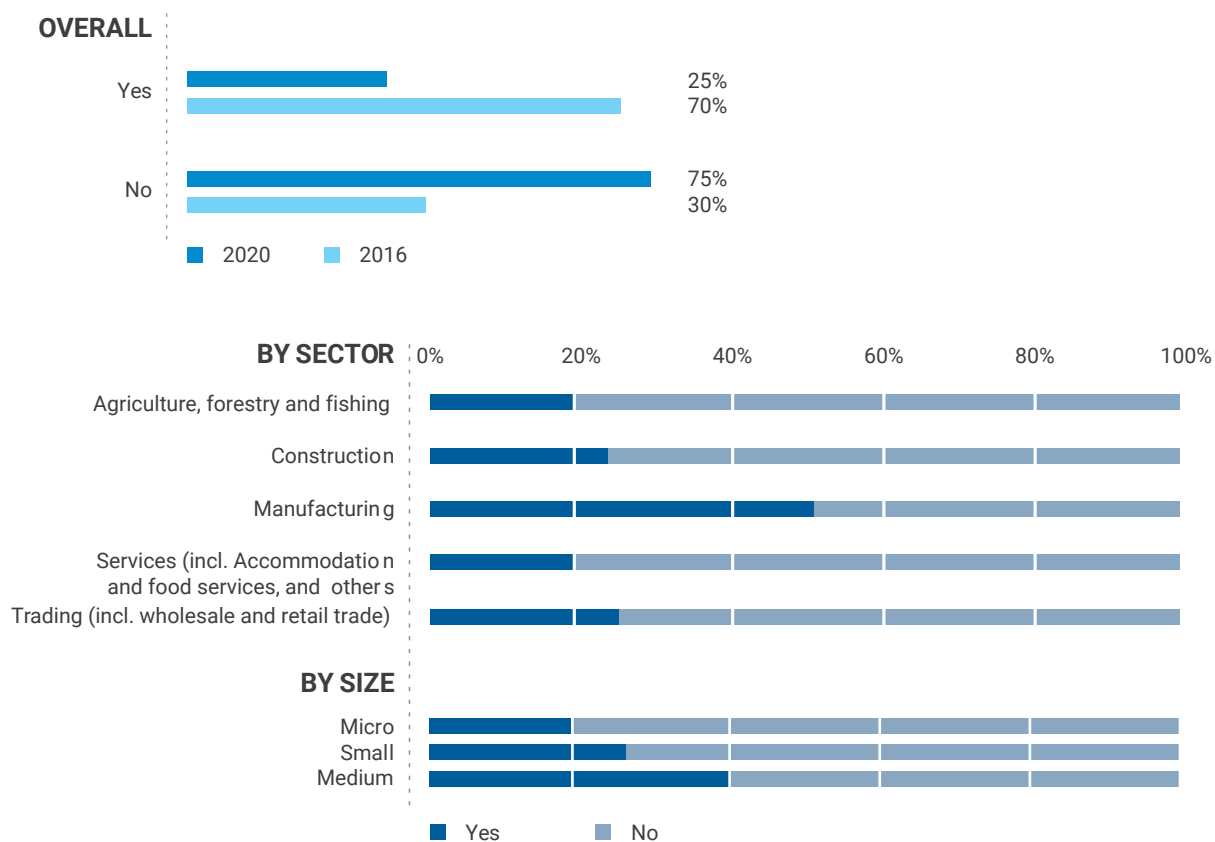
To get a better understanding of the internationalization of Qatari SMEs, several questions addressed the companies' stance towards export business. Compared to 2016, the degree of internationalization has decreased tremendously. While in 2016 about 37% of SMEs have operated internationally, in 2020 only just above 7% report to generate revenues from outside Qatar (Figure 31).

Figure 31: Degree of Internationalization

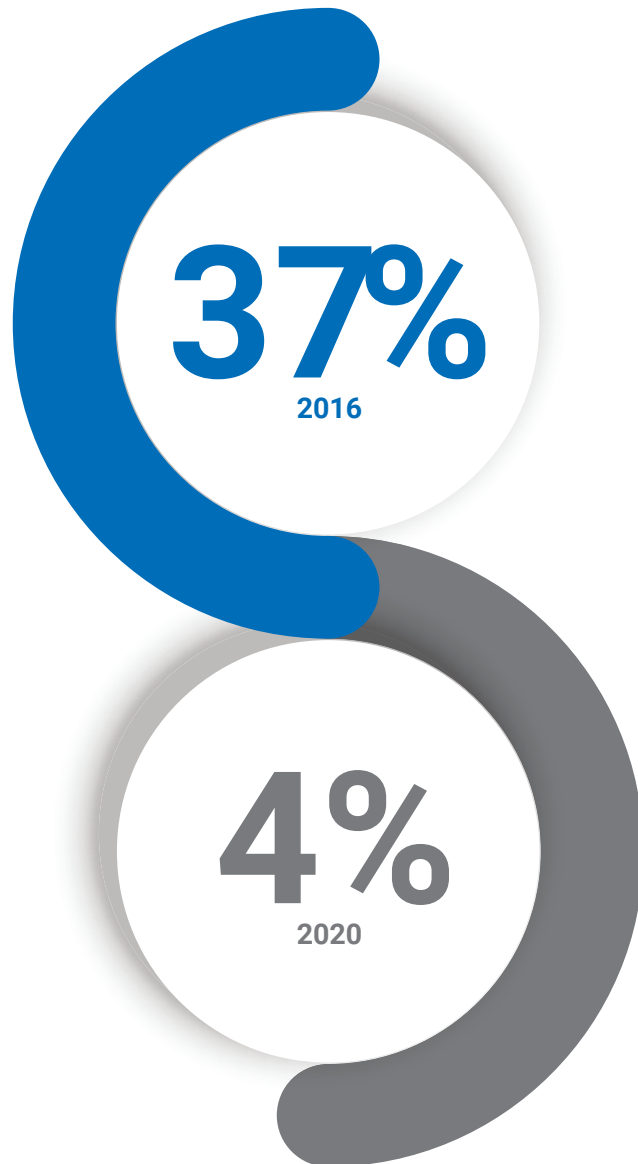


The weak international performance is most likely attributable to the recent geopolitical tensions in the GCC region. Furthermore, as illustrated in Figure 32, only 25% of SMEs have a defined strategy for international business operations. While the picture is relatively similar across all industries, companies in the Manufacturing (51%), Construction (30%) and Trading (29%) sector are somewhat more explicit in their ambitions for international business than their peers from the Agriculture forestry and fishing (18%) industries. Similarly, the export orientation is more pronounced among medium-sized businesses (39%) than among micro (20%) and small (27%) companies. In comparison to the findings from 2016, which indicate that 70% of the SMEs have defined export strategies, this represents a significant drop in the share of companies with an explicit strategy for international business.

Figure 32: Prevalence of defined strategy for international business/exports



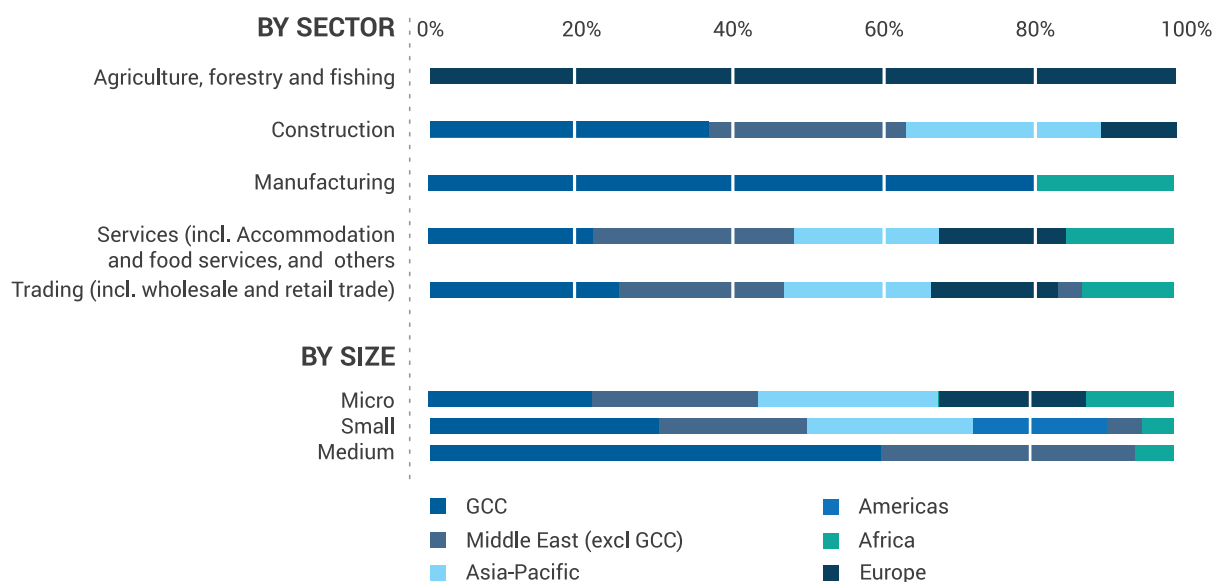
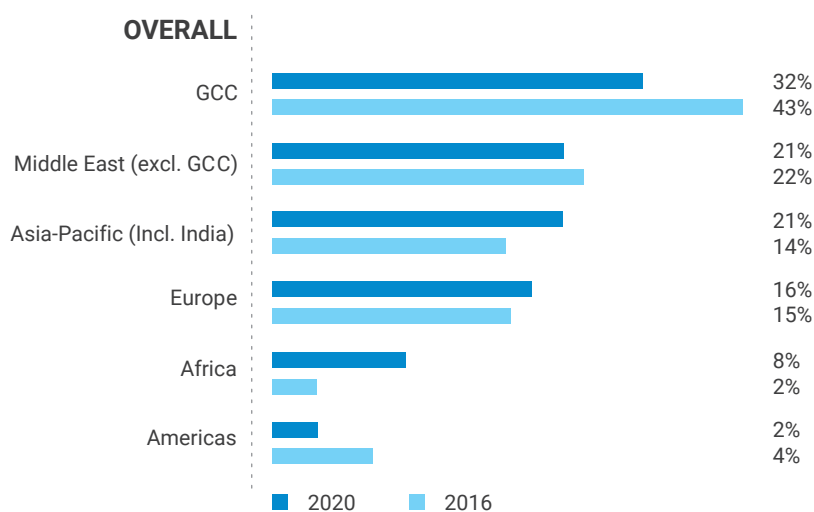
*Geographic sales contributions*  
SME sales revenues generated from international markets drop to four percent, from reasonable export activities in 2016(2016: 37% v. 2020: 4%)





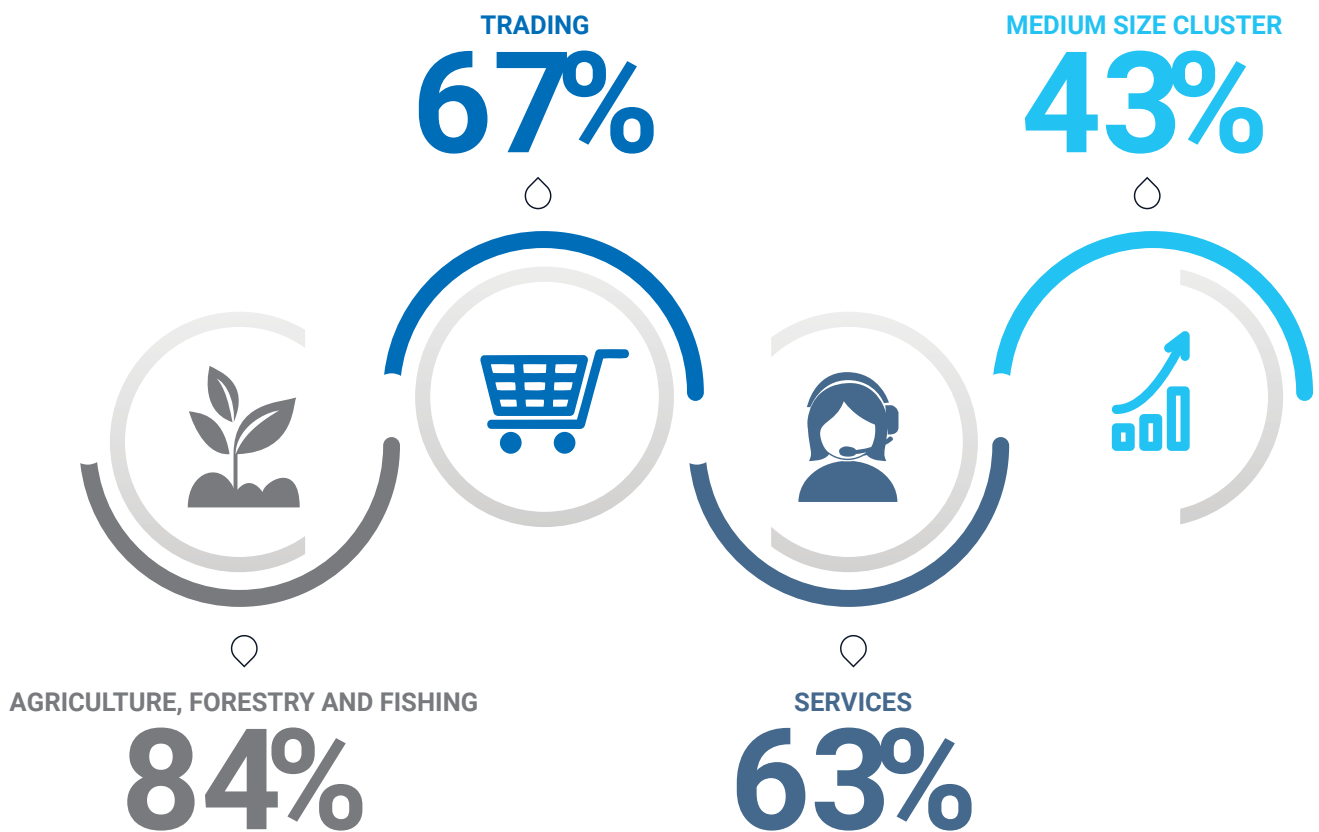
Correspondingly, the SME sector is found to be strongly focused on the domestic market. The Qatari economy on average accounts for 96% of total sales of SMEs. This is similar across all industries and size categories. These insights stand in contrast to the findings from the previous report. In 2016, 37% of all SMEs operated internationally with 46% incurring at least 20% of their sales abroad. As per Figure 33, most international sales in 2016 were based in the GCC region (43%), the SME export business is particularly affected by the current blockade. In addition, trade with the Americas dropped, while international business activities in the Asia-Pacific region as well as Africa experienced a significant boost compared to 2016.

Figure 33: International sales generation by geography (in % of total international sales)



#### *Rationale behind strong focus on domestic markets*

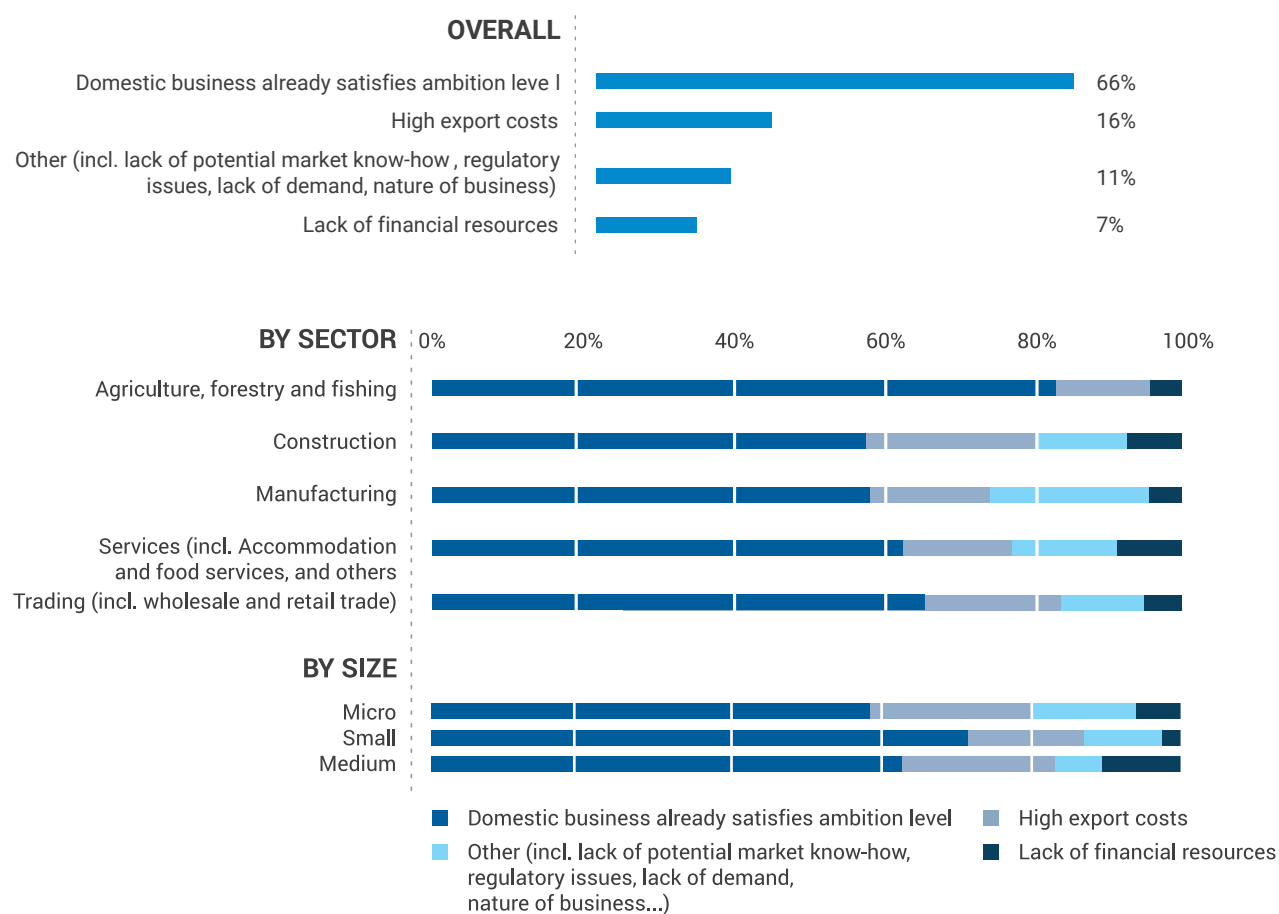
Figure 34 provides further insights into the reasoning behind SMEs who do not export their products and services. Almost half of respondents indicated that their product and service portfolio is not intended for export (e.g., schools or local services) and thus, international strategies are not applicable. Moreover, with a relative weight of 66% of SMEs are already satisfied with their domestic business and therefore have no intentions to expand internationally. This reason is dominating the Agriculture, forestry and fishing (84%), Trading (67%), and Services (63%) industry as well as the medium size cluster (43%).



In addition, the study indicates that high export costs especially affect the SME sector in the Construction industry (10%), as well as the Micro- (20%) and Medium-sized (18%) companies. Overall, it can be inferred that Qatari SMEs generally prefer to do business in their growing home market and seek to maximize their potential domestically.



Figure 34: Reasons for not exporting products and services



To shed more light on issues potentially hindering export strategies, Figure 35 provides insights as to how many SMEs face challenges when exporting goods and services. 70% of the SMEs that generate part of their revenues in international markets face challenges that hinder the success of the export business whereas 30% are not affected by any challenges.

**Export challenges**  
High logistics costs as key obstacle for Qatari exports (45%)

Figure 35: Prevalence of export challenges

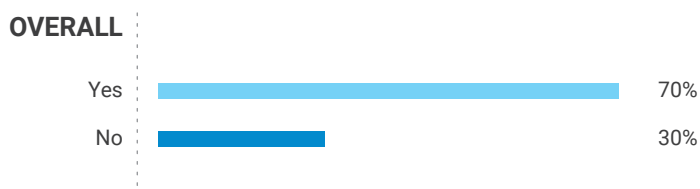
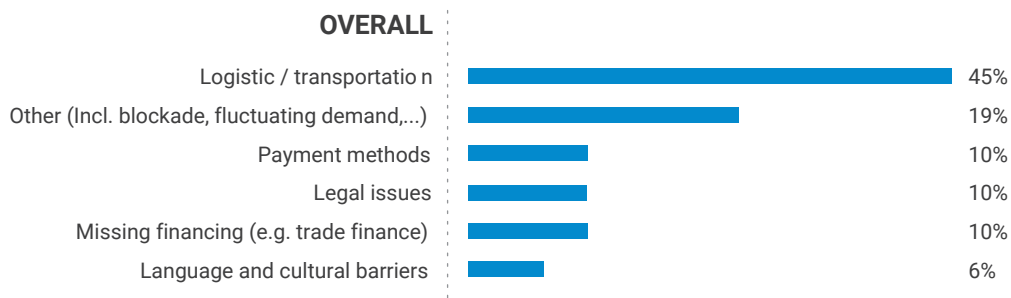




Figure 36 outlines the most frequently mentioned export challenges. With the majority of votes of those SMEs that face challenges when exporting, issues related to logistics and transportation (45%) represent the most relevant hurdles when it comes to selling products to international markets. In addition, the bucket Other (19%) such as Latency, uncertain and varying international demand or the regional blockade further hinder export businesses.

Figure 36: Frequently encountered export challenges



### 3.4.3

#### Access to Finance

*Sources of finance to start a business*

In 2020, personal savings continue to be the main source of financing for starting a business in Qatar, further growing its relevance from 2016 (2016: 62% v. 2020: 76%)

**62%**  
2016

**76%**  
2020



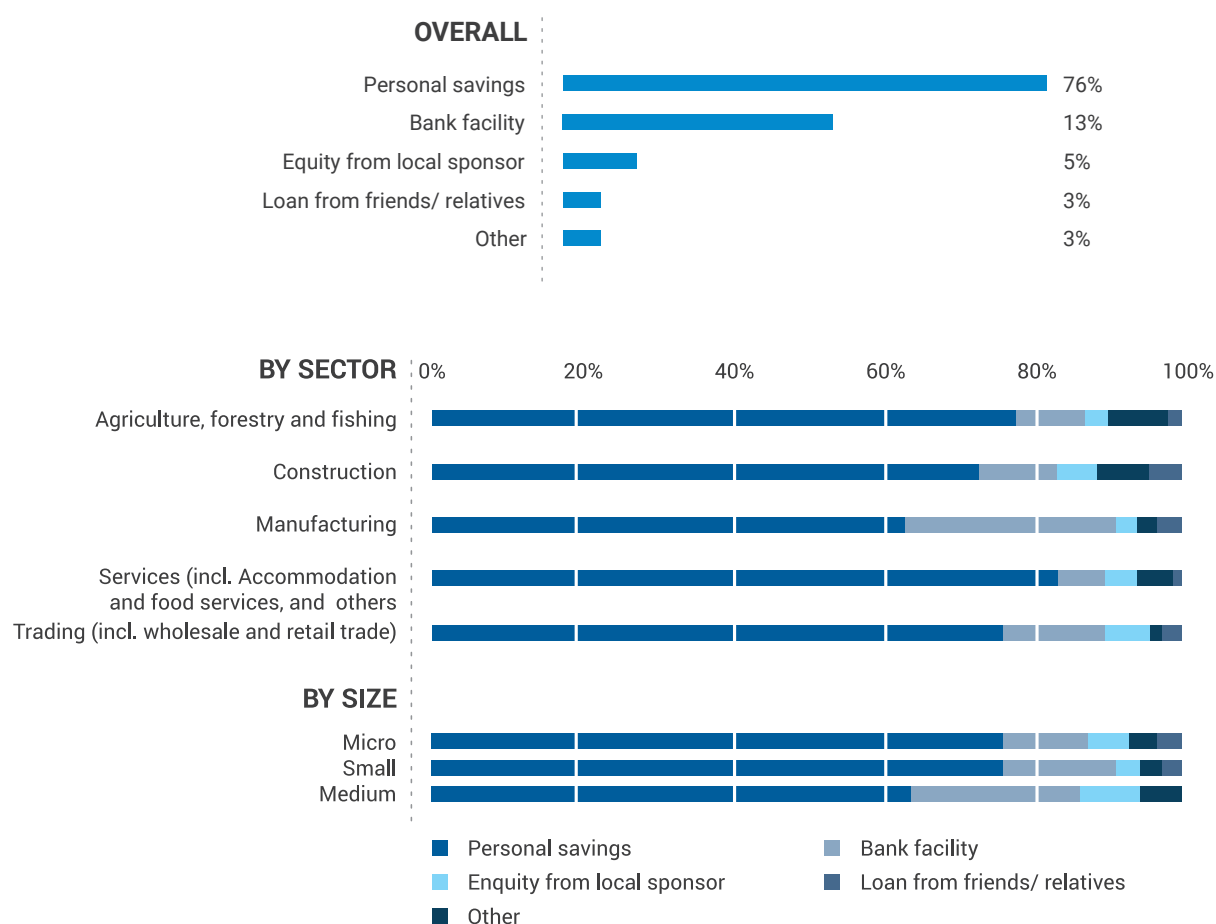


Access to finance represents one of the most important drivers of success in the SME landscape. Figure 37 shows that personal savings are by far most relevant to SMEs with a relative weight of 76%. Across all industries and size clusters, personal money represents the most important source of finance for entrepreneurs. Bank loans (13%) as well as equity investments from local sponsors (5%) are further important sources of finance when starting a business. It is also evident, that medium (27%) as well as small (12%) companies use bank facilities more frequently to start their operations than micro companies (10%) which can be linked to their ability to better satisfy the stricter requirements for bank loans. On the other hand, financing in the form of equity from local sponsors is

almost equally relevant across sectors, irrespective of company size, whereas Trading companies (7%) appear to rely the most on this form of financing. The insights do not differ at large from the 2016 study as both reports find a significant weight attached to personal savings as the key source for SMEs to finance the start of their business ideas with 62% of the

SMEs reporting so in 2016. Loans from friends and relatives (used by 25% of the SMEs) as well as from commercial banks (used by 24% of the SMEs) are other major sources identified in the 2016 report. In contrast to 2016, financing through friends and family dropped in relevance – likely due to the improved access to other more professional types of financing for business initiation.

Figure 37: Key sources of finance for starting a business



### Sources of finance to operate a business

Key source of financing for business operations remain largely unchanged yet they experience shifts in importance.

Re-invested business profits 2016: 48% v. 2020: 43%; personal savings 2016: 47% v. 2020: 21%; bank facilities 2016: 27% v. 2020: 11%; Loan from friends/relatives 2016: 19% v. 2020: 1%

As reported in Figure 39, personal money remains an important source of finance for SMEs to finance their operations with a relative weight of 21%. However, re-invested business profits represent the central source of finance for business operations and expansions with 43% of the votes and make up the single largest source of finance across all industries and size clusters. In 2020 bank facilities (11%) and local sponsors (20%) represent additional important sources of money to operate an SME business in Qatar. For instance, bank loans have been used particularly often over the past five years in Manufacturing (22%) businesses and Trading (13%) industries as well as among medium (24%) and small (11%) enterprises. Moreover, finance from local sponsors is specifically relevant in the Agriculture, forestry and fishing (32%) sector as well as in the small (21%) and micro (22%) firm size group.

Figure 38: Comparison of financing sources between 2016 and 2020

#### RE-INVESTED BUSINESS PROFITS



#### PERSONAL SAVINGS



#### BANK FACILITIES

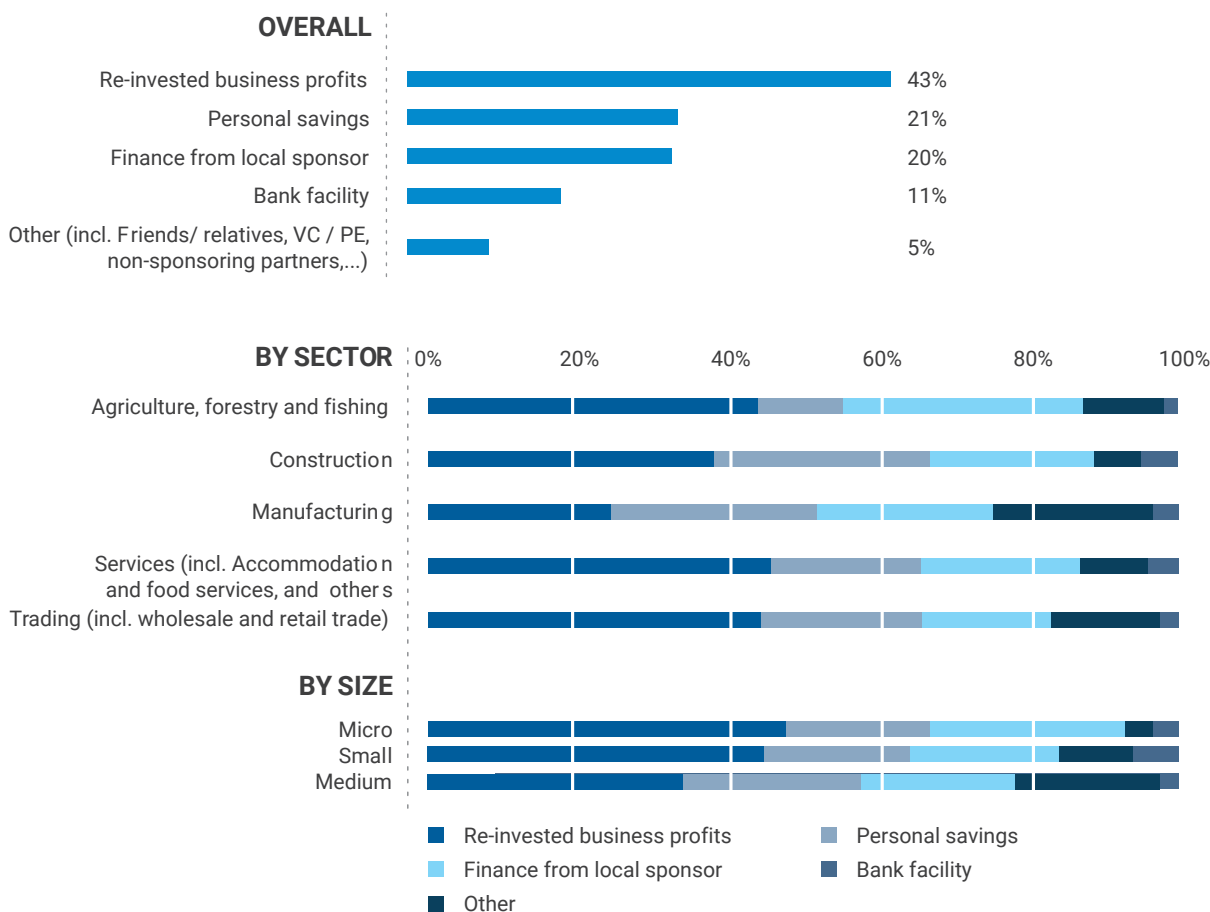


#### LOAN FROM FRIENDS/RELATIVES



Overall, these findings are largely indifferent to the insights from the 2016 study as the top three sources of finance remained the same. Yet, again the current study indicates that loans from family and friends are experiencing a significant decline in relevance. As 19% of SMEs still relied on such financing in 2016, the same form of financing received less about 1% of all votes in 2020.

Figure 39: Key sources of finance for business operations and/or expansion in last 5 years





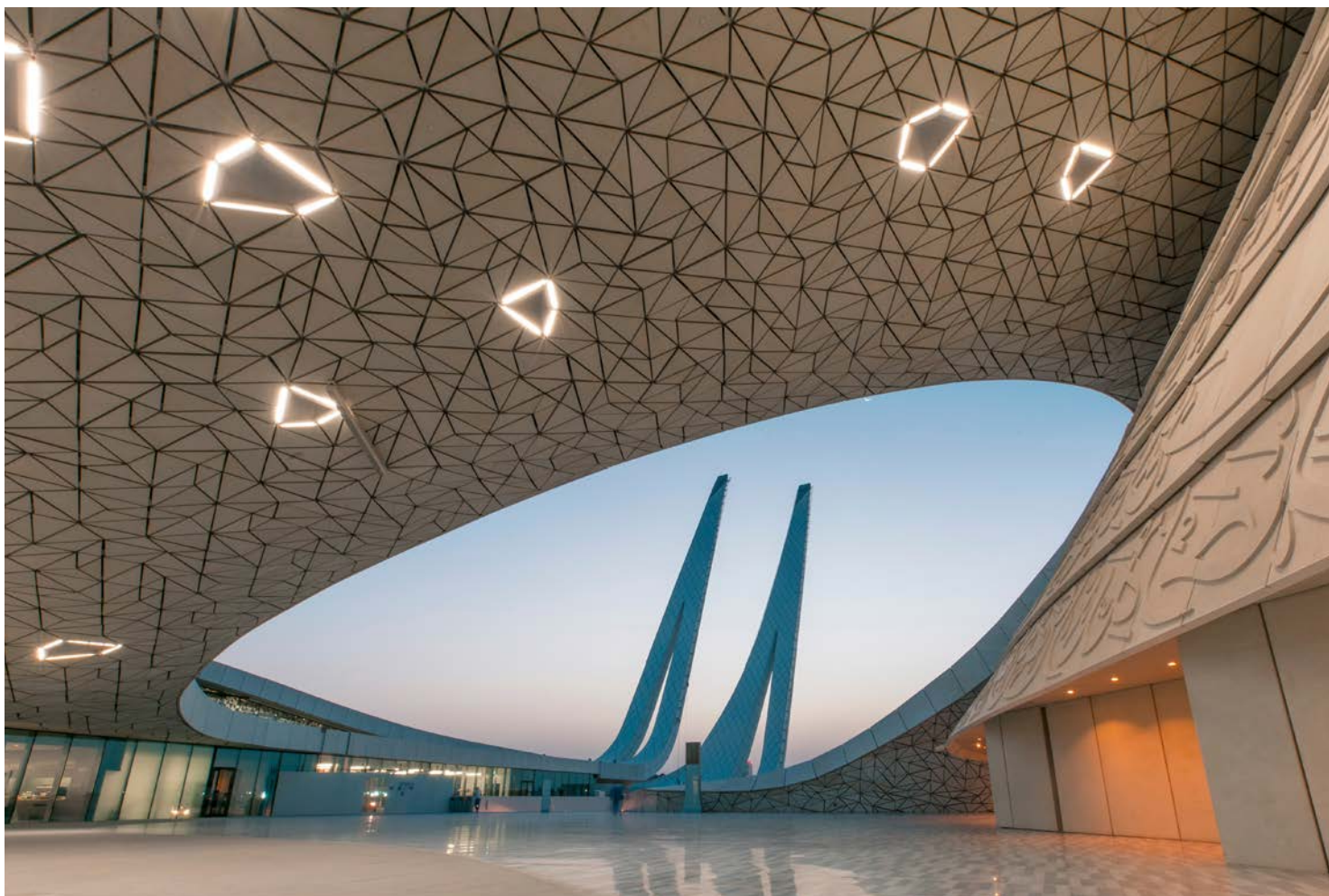
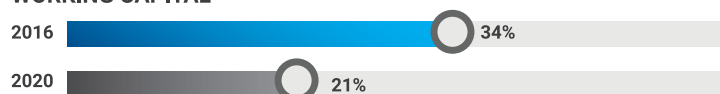


Figure 40: Comparison of financing rationale between 2016 and 2020

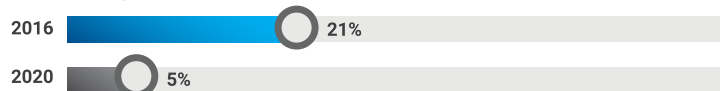
#### WORKING CAPITAL



#### ACQUIRING BUSINESS ASSETS



#### INVESTMENT IN IT



#### INTRODUCE NEW PRODUCTS



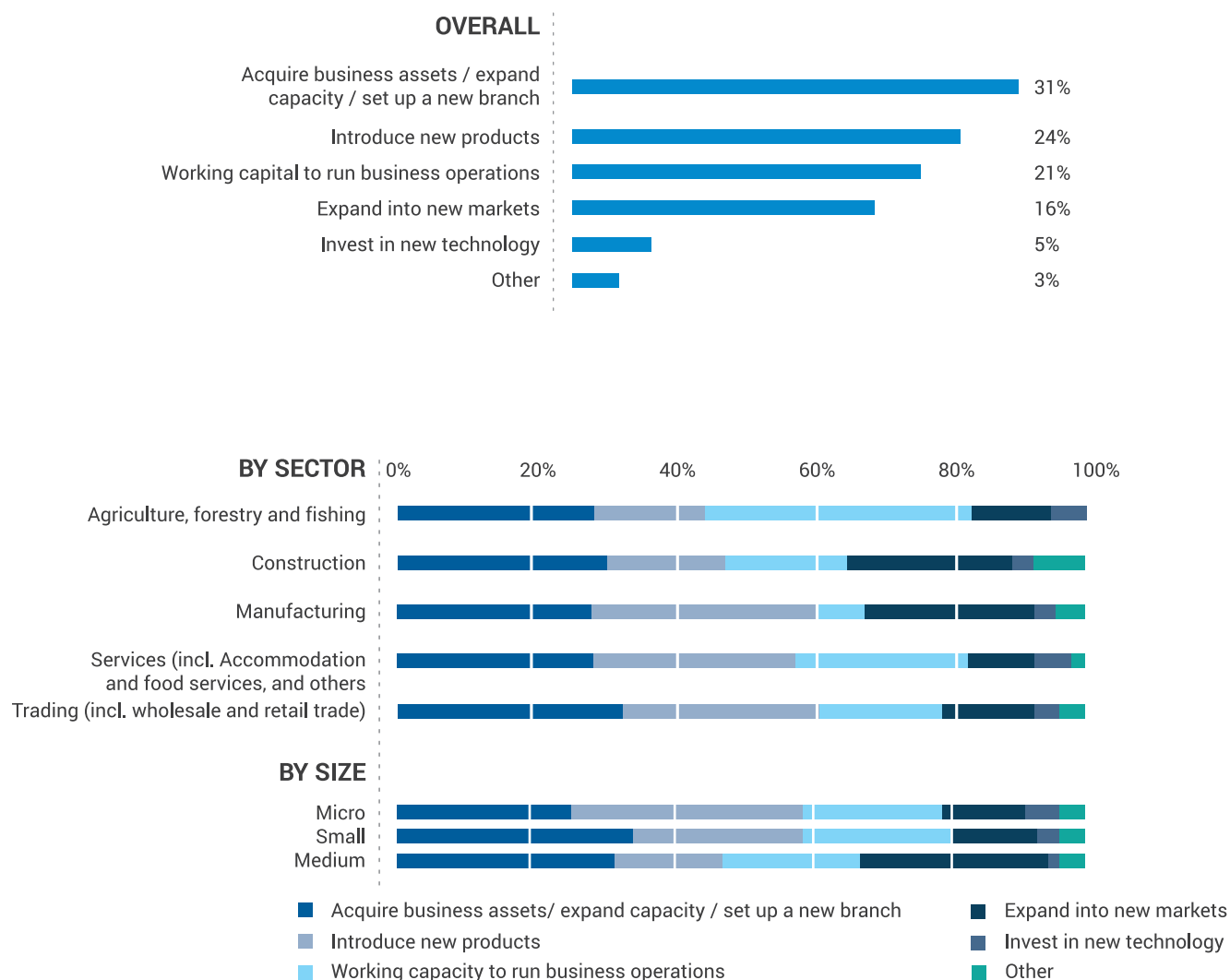
#### Rationales for SMEs to seek financing

In 2020, investments in new technology rank fifth in rationales for seeking finance opportunities, compared to holding a top three position in 2016. Working capital 2016: 34% v. 2020: 21%; acquiring business assets 2016: 31% v. 2020: 31%; investment in IT 2016: 21% v. 2020: 5%; introduce new products 2016: 15% v. 2020: 0%.

In terms of the key rationale behind raising financing in the last five years, the results indicate that the SMEs predominantly used financing to acquire new business assets, expand their capacity, set up new branches or expand their existing business in some other forms. As seen in Figure 41, this purpose is mentioned particularly often by SMEs in the Trading (34%) and Construction (32%) industries. The introduction of new products as a purpose for financing ranks second with a relative weight of 24%. This is particularly relevant for SMEs in the Manufacturing space (30%), as well as for micro enterprises (33%).

Finance working capital requirements are another important rationale of SMEs to seek sources of funds. This is apparent for the Agriculture, forestry and fishing (39%) industry as well as the Services segment (26%), and among small sized companies (23%). Financing the expansion into new markets represents the fourth key purpose communicated by SMEs in the survey with 16% mentions overall. This was reported particularly by SMEs in the Manufacturing (25%) and Construction (24%) industries as well as by medium enterprises (29%). Overall, the 2016 report yielded a similar picture except for investments in new technology being one of the top three rationales.

Figure 41: Key purposes for raising financing in the last five years



### *View of SMEs on bank financing*

The Agricultural, forestry and fishing industry are least confident to speak to banks (29%), while companies from the Trading sector tend to avoid bank financing due to high interest rates (21%)

# 29%



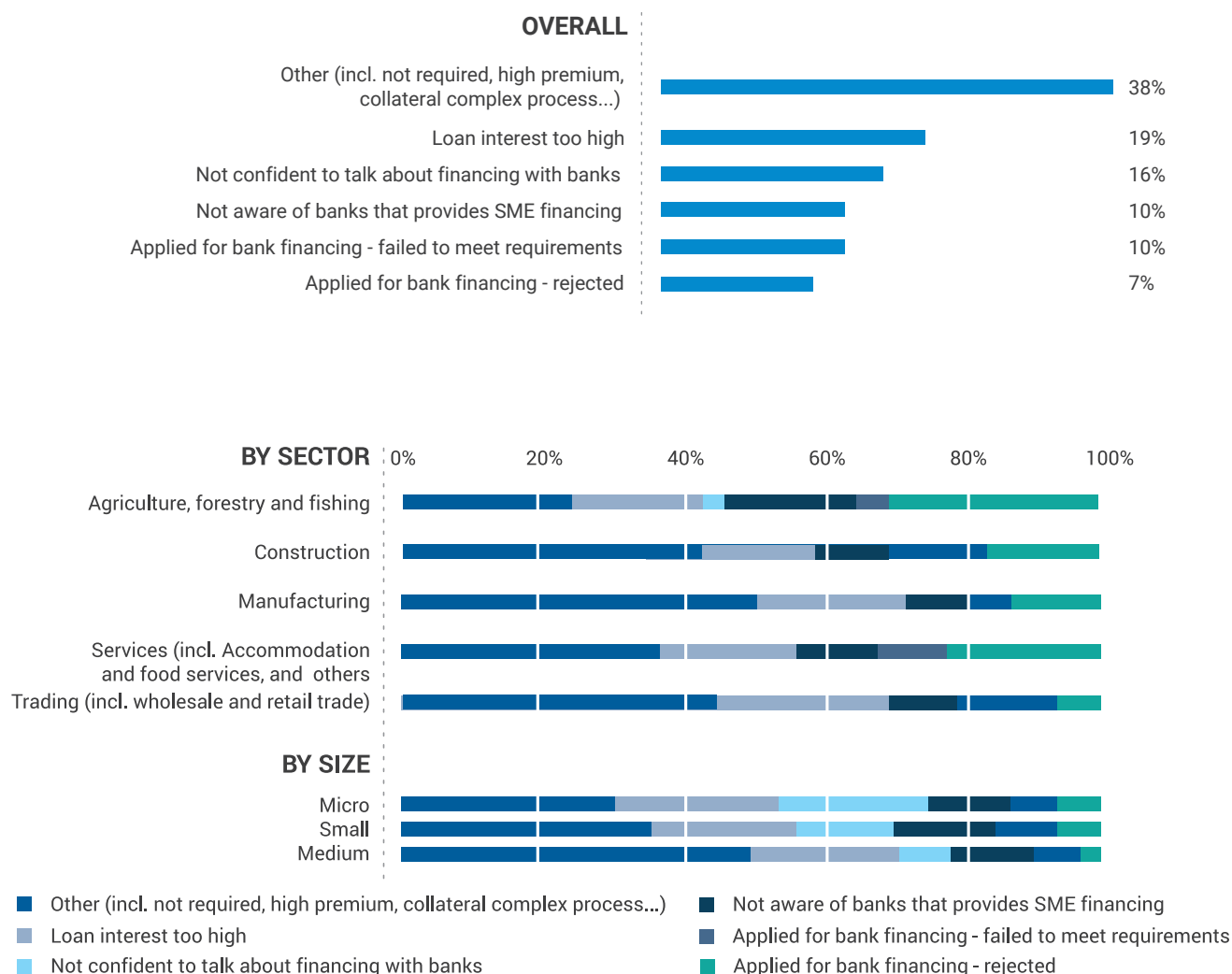
# 21%



To reflect on the large share of SMEs that have not previously used financing in the form of bank loans, Figure 42 provides an overview of the key factors responsible for the low utilization rate of such bank financing. The main factor, weighted at 19%, which is the rise in loan interest rates. There are two other main reasons, which are the low level of confidence among small and medium-sized companies in going to banks regarding financing (16%), as well as the lack of awareness of banks that provide financing to small and medium companies (10%). There are other reasons including various elements such as SMEs do not need bank loans because they have other options to finance their businesses. This is particularly

observable among Trading companies (21%), and SMEs from the Services sector (20%). In addition, a large share of respondents from the Agriculture, forestry and fishing (29%), as well as the Services industry (22%) do not feel confident to participate in discussions with banks on SME financing. This holds also true for micro-sized firms (21%). In general, though, credit application rejection rates are relatively low (7%), which is in line with results presented in the comprehensive 2018 SME lending report by QDB, in which rejected credit applications represented approximately (8%) of total credit applications.

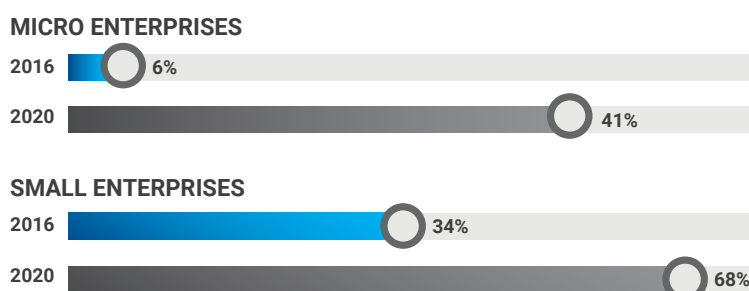
Figure 42: Reasons for not financing a business with bank loans



### 3.4.4 Access to Knowledge HR management

Since 2016, micro and small enterprises have increased their commitment to preserve knowledge by increasingly investing in dedicated HR representatives

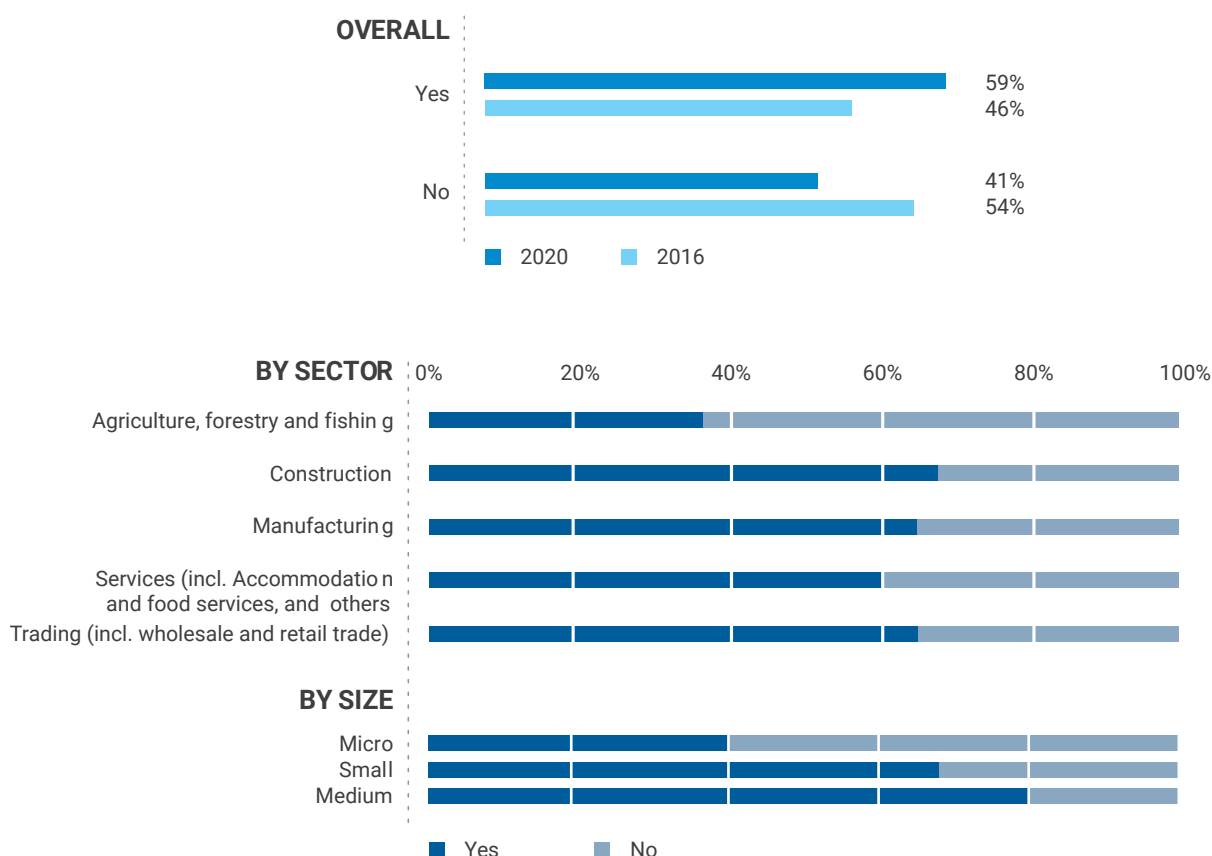
Figure 43: Comparison of commitment to Knowledge management between 2016 and 2020



Access to knowledge is another key pillar for the establishment and preservation of a thriving SME sector. Thus, topics related to human resources are particularly relevant for companies to promote access to knowledge. Figure 44 shows that 59% of the SMEs have dedicated HR employees or an entire HR department equipped with the task to address such topics. This figure is relatively similar across all industries except for the Agriculture, forestry and fishing sector, in which fewer SMEs (35%) have dedicated HR personnel. Significant differences are apparent when comparing SMEs of different size. Whereas the rate of having HR personnel is the lowest among micro companies (41%), the figure is notably higher in the medium (80%) and small (68%) size clusters.

Compared to 2016, where only 46% of all SMEs indicated the presence of dedicated HR employees, this represents a major improvement for the SME sector. In particular, the micro (6% in 2016) and small (34% in 2016) company segments showcase notable progress on the path to professionalized HR functions.

Figure 44: Prevalence of dedicated HR staff



### *Manpower planning in SMEs*

Ad-hoc hiring and resource planning increasingly drives manpower planning, increasing 2020 results by eleven percent from 2016 response (2016: 55%; 2020: 66%)

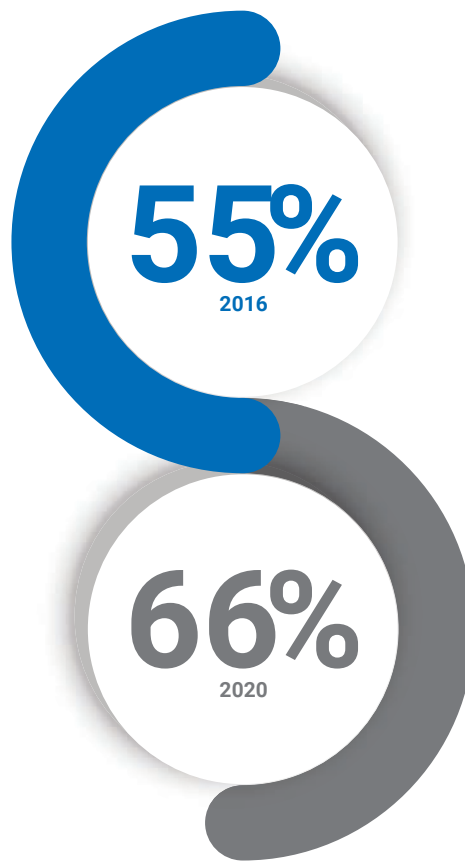
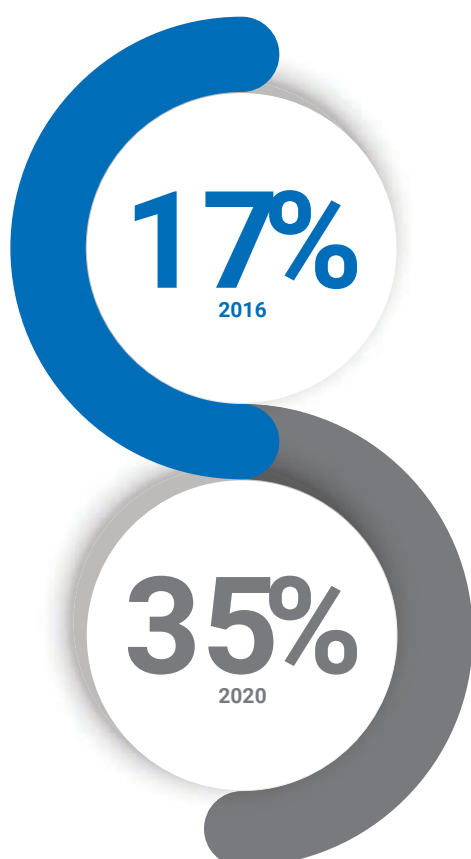
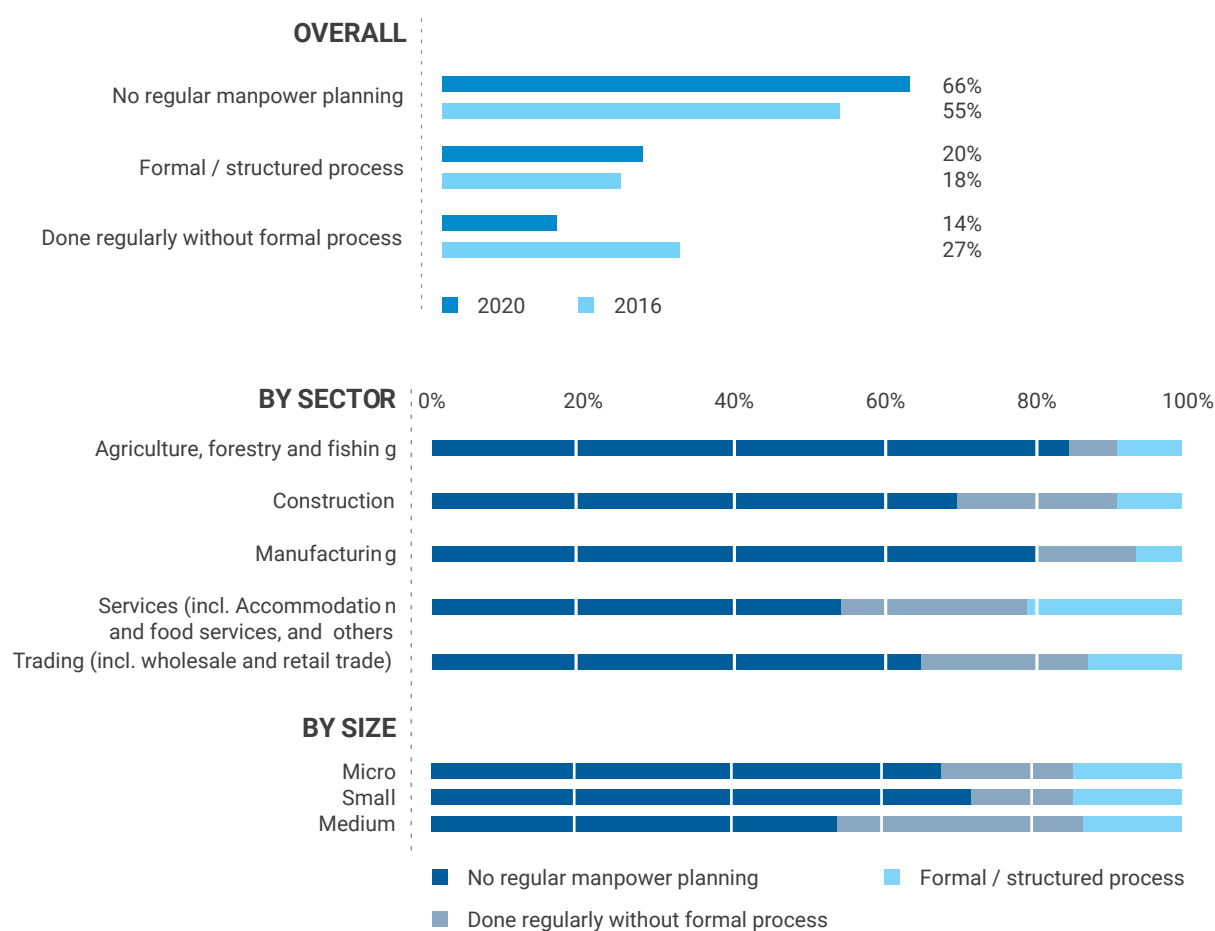


Figure 45 provides further insights into the HR activities of Qatari SMEs, specifically regarding the process behind the hiring activities. The results indicate that manpower planning is done regularly in 34% of the SMEs, with 20% employing a dedicated and structured process to do so. The majority (66%), however, does not incorporate manpower planning as part of their HR processes on a regular basis. Apart from the Services sector (44%), the Trading industry (35%) showcases the highest rate of manpower planning being done regularly (with or without formal process). On the other side, this figure is the lowest among SMEs from the Agriculture, forestry and fishing industry (15%). Moreover, enterprises from the Trading (22%), and the Construction sector (21%) tend to more regularly employ a formal process to handle manpower planning than their peers from other industries.

When splitting the sample according to company size, it becomes evident that the micro and small companies share very similar traits regarding their approach to manpower planning and that the medium enterprises generally tend to be more explicit in these activities as 45% perform such tasks regularly (32% with a formal process). In contrast to the 2016 results, the share of SMEs employing formal processes for manpower planning increased from 18% to 20%. However, the total share of companies that do not regularly perform manpower planning and instead hire employees on an ad-hoc basis also increased, from 55% to 66%. This discrepancy is largely due to the significant increase of the share of companies without regular manpower planning activities in the Agriculture, forestry and fishing industry (57% in 2016 vs. 85% in 2020).



Figure 45: Approach to manpower planning



#### Employee training in SMEs

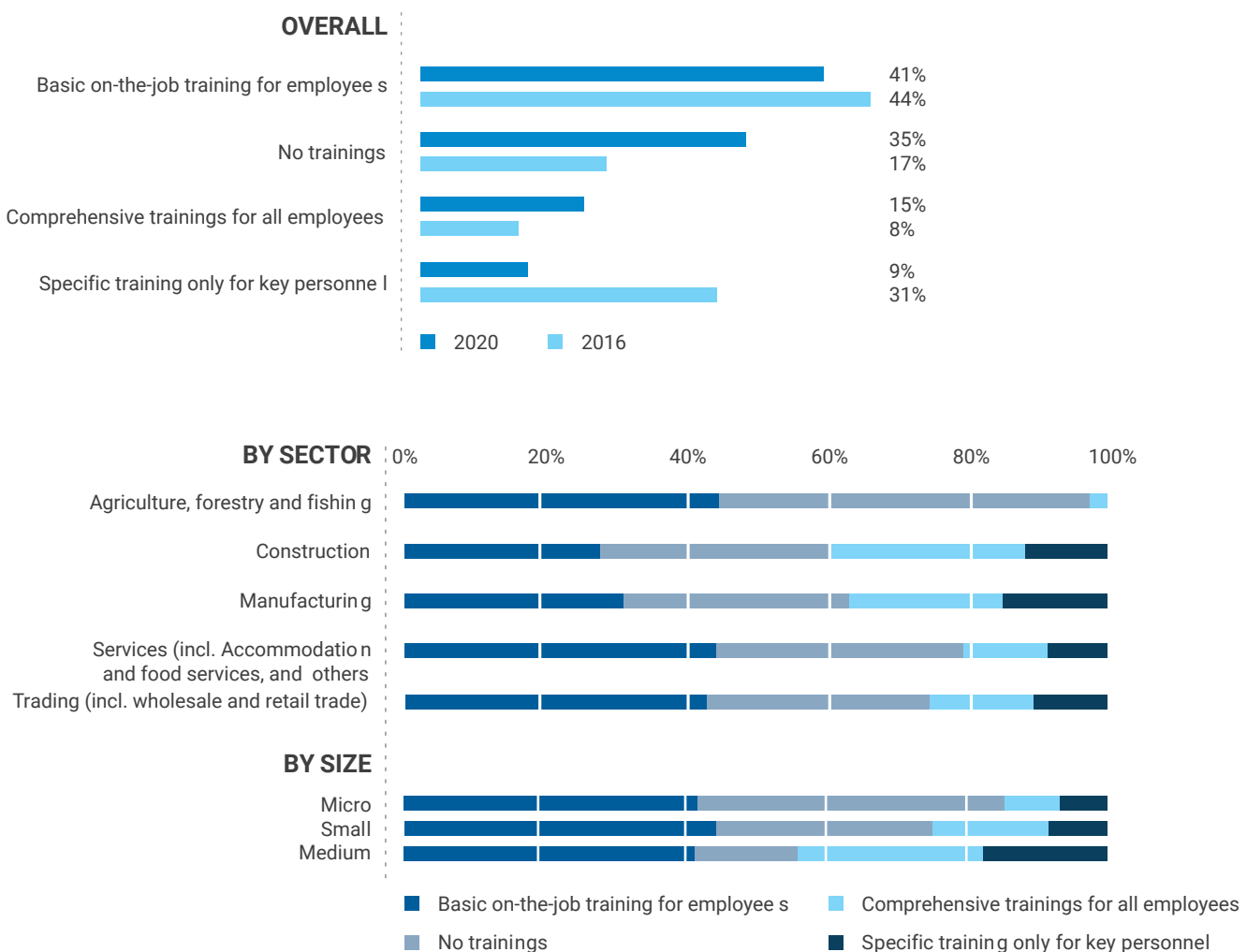
Despite a slight decrease in comparison with 2016, employee development is still predominantly done through on-the-job training. Nevertheless, more companies seem to not offer any training opportunities (2016: 17%; 2020: 35%)

Employee training is a further important factor contributing to the success of SME businesses when done properly. Figure 46 shares insights about the way employees are trained in the Qatari SME sector. Overall, 65% of all SMEs incorporate some form of employee training in their HR strategy. 9% offer specific training for key staff whereas 15% do so for all employees and 41% consider basic on-the-job training to be sufficient. The share of companies relying on basic on-the-job training is relatively similar across all industries and company sizes.

However, the portion of enterprises offering comprehensive training to all employees significantly varies between the different industry clusters. In this regard, the companies from the Construction (29%) and Manufacturing (24%) are leading whereas Agriculture, forestry and fishing enterprises show room for improvement as only about 2% offer comprehensive training to all their staff. Similarly, small (18%) and medium (24%) enterprises put more focus on offering comprehensive training to all staff than micro companies (10%). The rate of companies offering at least some form of employee trainings also varies between the industries and size clusters.

The Manufacturing (70%), Trading (68%) and Construction (69%) sectors have the highest shares of companies that offer some form of employee training. While this also holds true for medium enterprises (83%) when compared to small (67%) and micro (58%) peers, SMEs from the Agriculture, forestry and fishing sector (47%) for example, are less focused on employee training. Compared to 2016, the general tendency of offering no trainings is somewhat higher in 2020 (17% in 2016 vs. 35% in 2020). However, an upwards trend is observable in the share of companies offering comprehensive training to all employees (8% in 2016 vs. 15% in 2020) while to some degree the share of SMEs offering basic on-the-job training reduced (44% in 2016 vs. 41% in 2020).

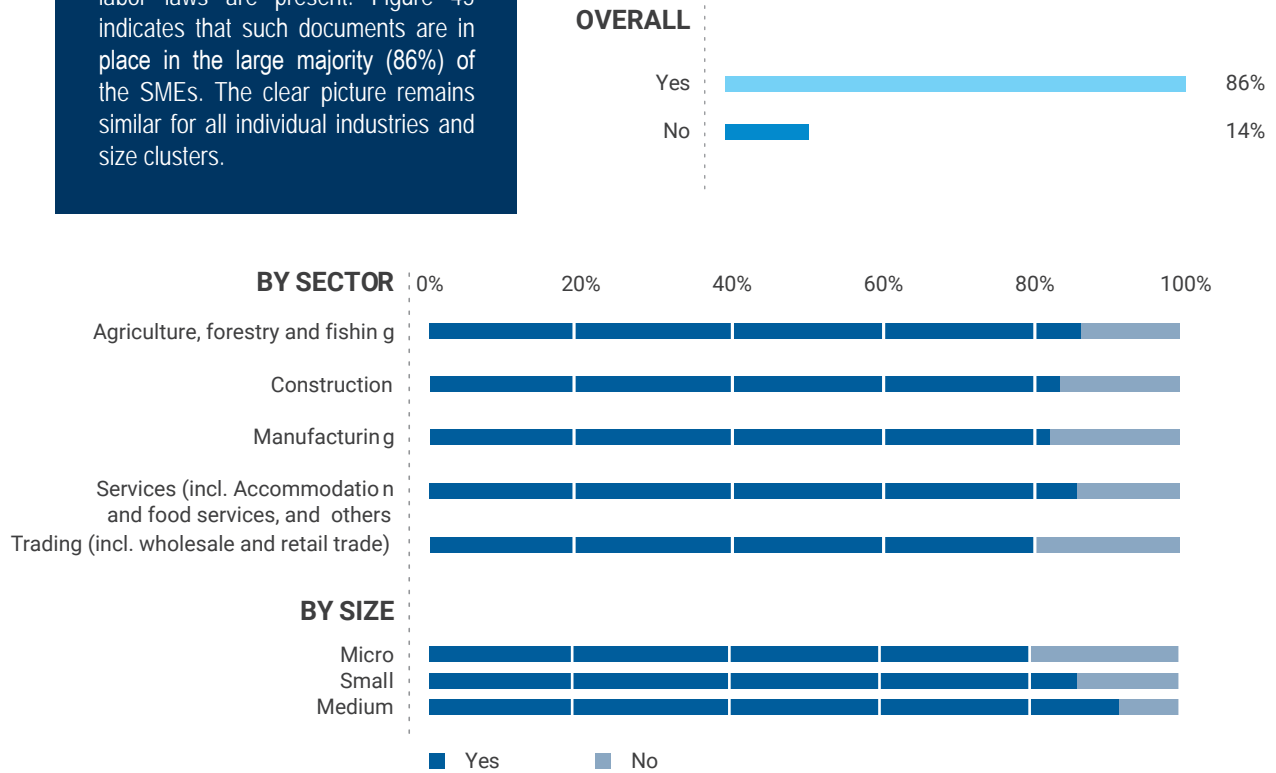
Figure 46: Approach to employee training



## Corporate Governance

To get a broad understanding of the level of corporate governance adopted in the Qatari SME sector, the SMEs were inquired about whether a code of conduct policy manual and a contractual template based on Qatar labor laws are present. Figure 45 indicates that such documents are in place in the large majority (86%) of the SMEs. The clear picture remains similar for all individual industries and size clusters.

Figure 47: Prevalence of defined code of conduct policy manual and contractual template based on Qatar labor laws







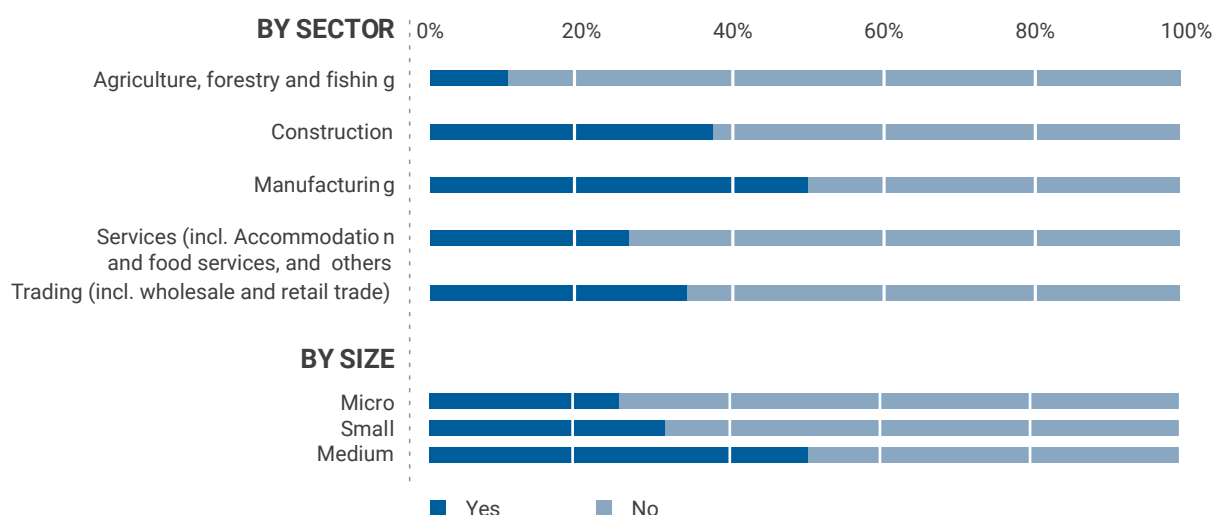
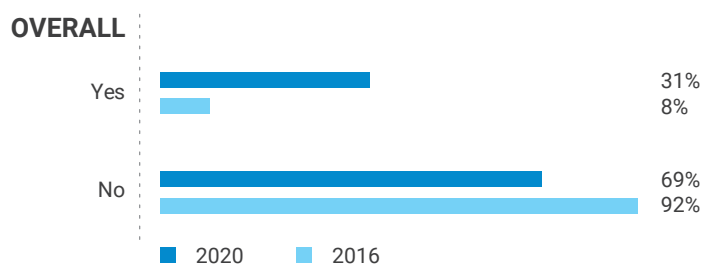
### Implementation of innovation

The observed increase in innovation investments of Qatari SMEs in 2020 (2016: 8%; 2020: 31%), was driven by efforts to optimize internal and distribution / delivery processes

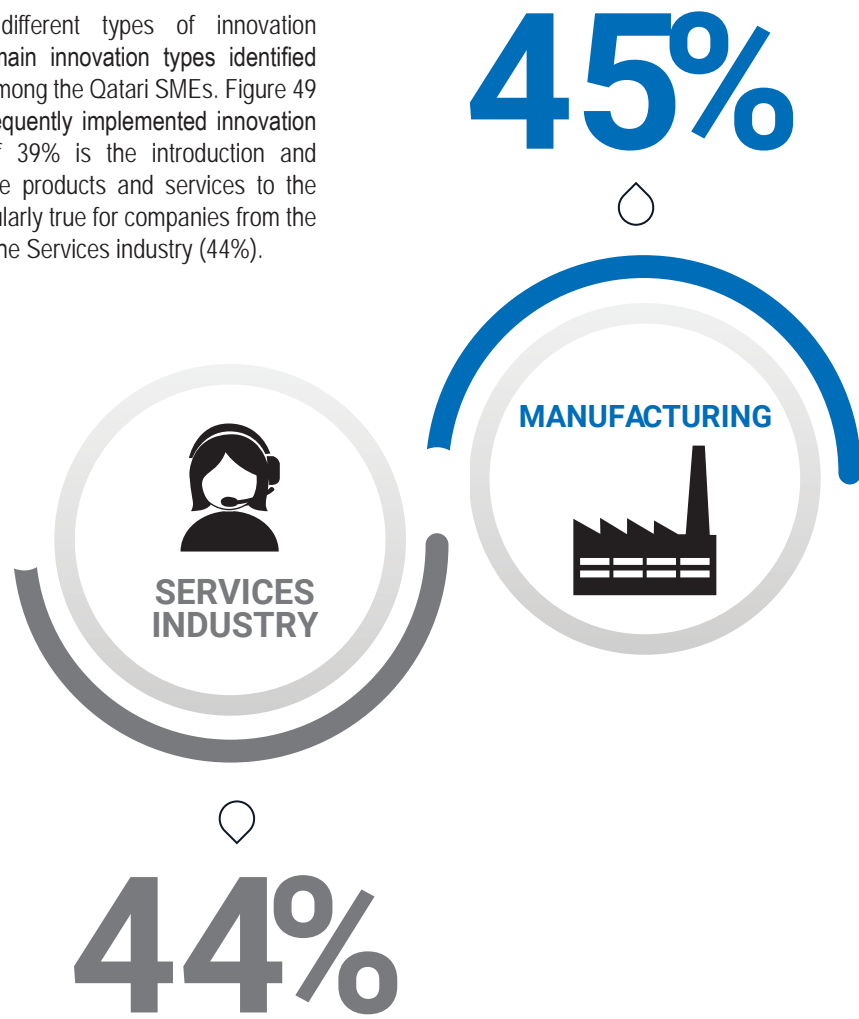
Innovation is another key driver of any thriving SME sector. While Qatari SMEs outperform most of their regional peers and developing economies, global innovation index comparison highlights additional room for improvement.

Figure 48, for example reports that most of the SMEs are less inclined to implement innovation in their business models. On the other side, 31% of the SMEs report to have implemented some form of innovation in their business, indicating a tremendous increase in innovation appetite compared to 2016 (8%). Especially firms from the Manufacturing (51%) and Construction (38%) are more open towards using innovation than their peers from other industries. The same holds true for companies in the medium size cluster (50%).

Figure 48: Prevalence of innovation implemented in business

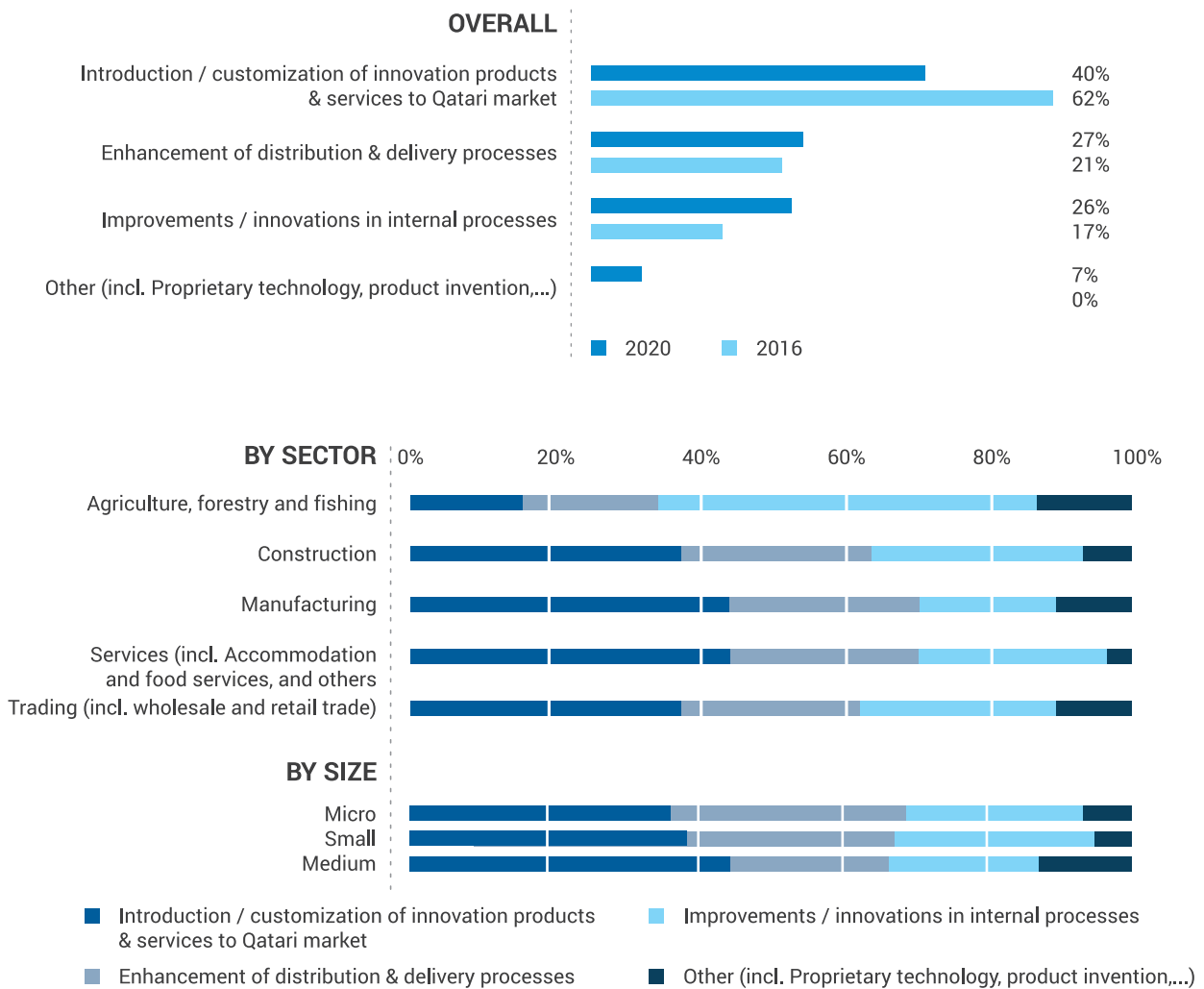


When looking at the different types of innovation implemented, the three main innovation types identified share similar importance among the Qatari SMEs. Figure 49 indicates that the most frequently implemented innovation with a relative weight of 39% is the introduction and customization of innovative products and services to the local market. This is particularly true for companies from the Manufacturing (45%) and the Services industry (44%).



Using innovation to improve distribution and delivery processes (27%) as well as internal tasks (26%) was considerably more important for this years' respondents in comparison to results generated in 2016 (21% for distribution & delivery, and 17% for internal processes).

Figure 49: Most frequently implemented innovations

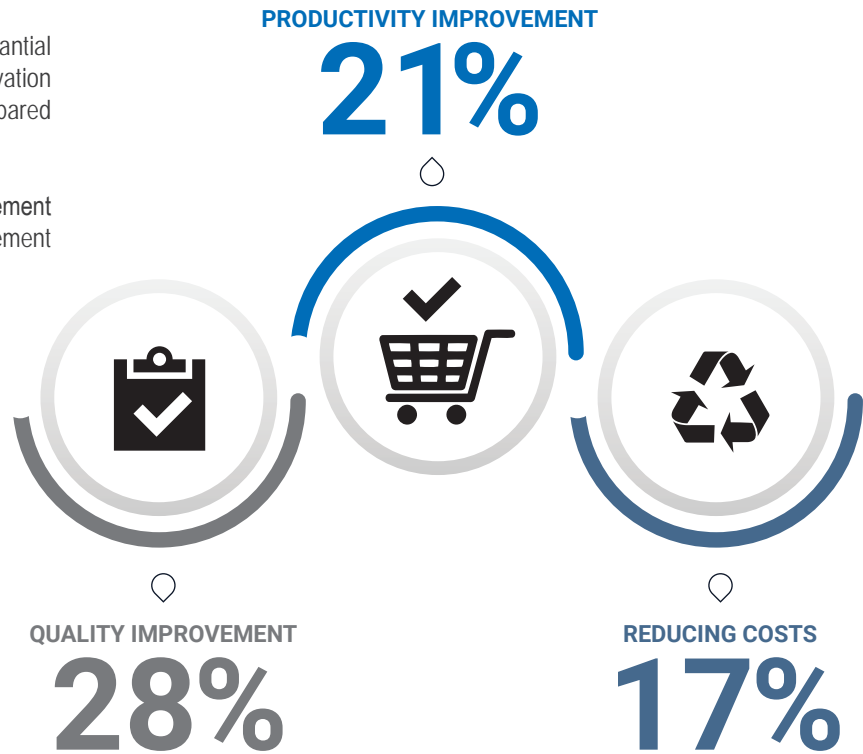




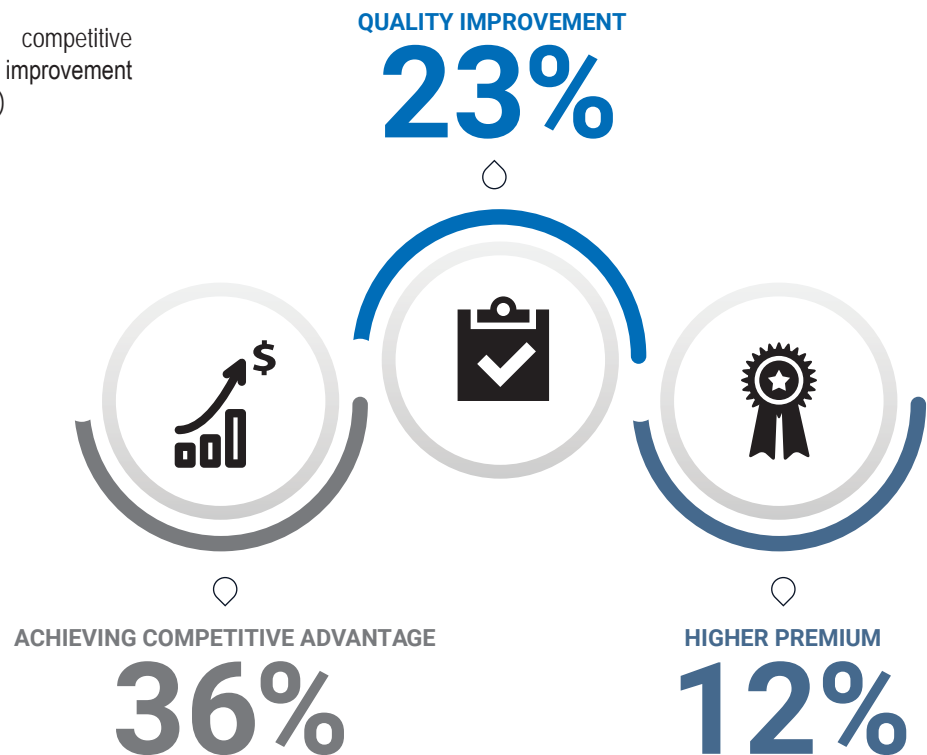
### Rationale behind attention to innovation among SMEs

2020 survey results show substantial shifts of almost all key innovation objectives for Qatari SMEs compared to 2016 responses

Top 3 2016: Quality improvement (28%); productivity improvement (21%); reducing costs (17%)



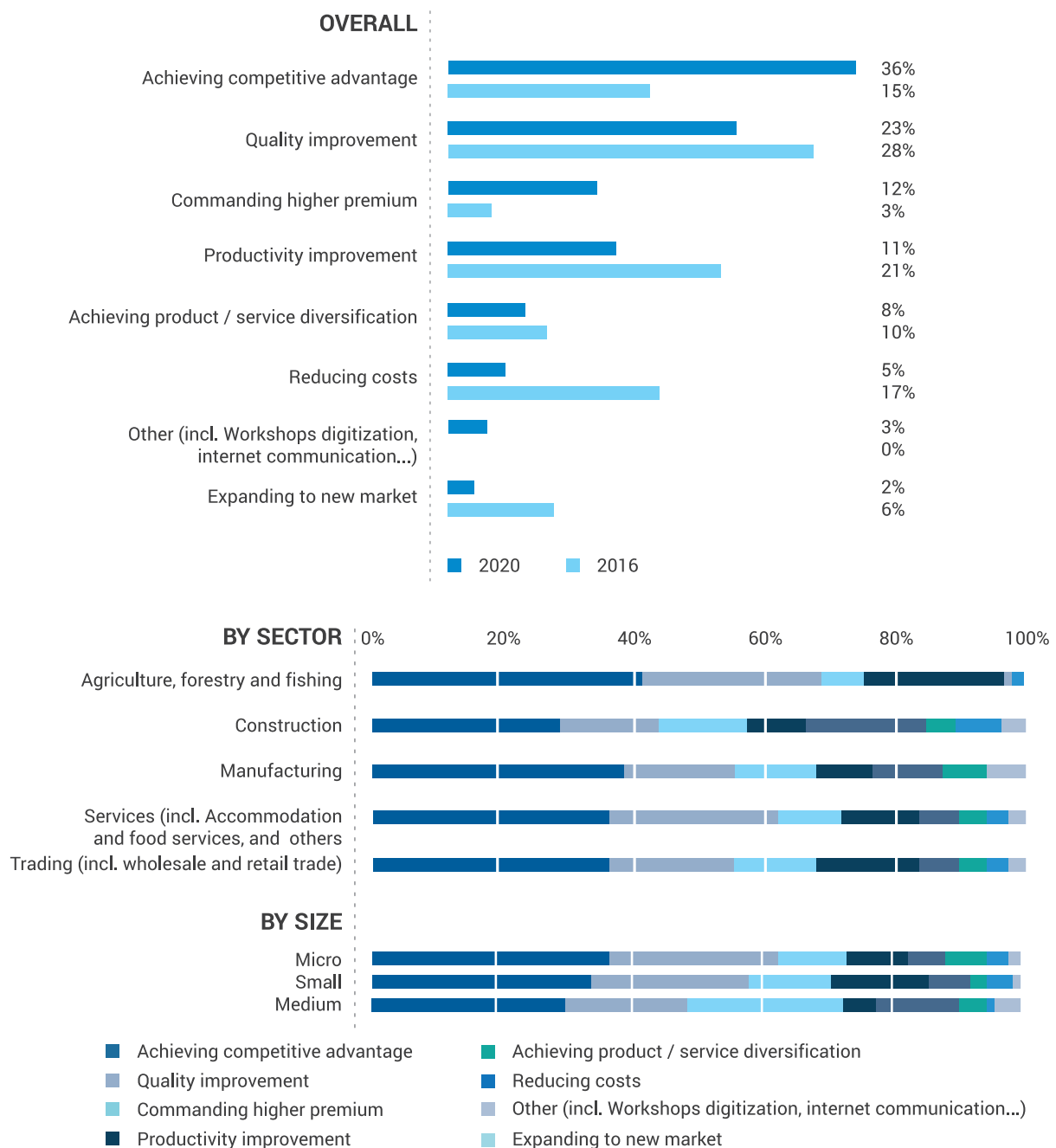
Top 3 2020: Achieving competitive advantage (36%); quality improvement (23%); higher premium (12%)



Why do the Qatari SMEs implement innovation in their business? Figure 50 provides some insights on this matter. In general, gaining a competitive advantage is the most frequently mentioned objective (36%) by SMEs, with similar relevance across all industries and company sizes. With 23% of all votes, quality improvement is another important motivation behind the implementation of innovation among SMEs, nevertheless, taking a slight decrease from 2016 results. Further important objectives pursued through innovation are the realization of higher premiums (12%), the improvement of productivity levels (10%) and the diversification of products and service offerings (8%). With few exceptions, these objectives do not differ at large in terms of their relative relevance when comparing the various industry and size clusters.

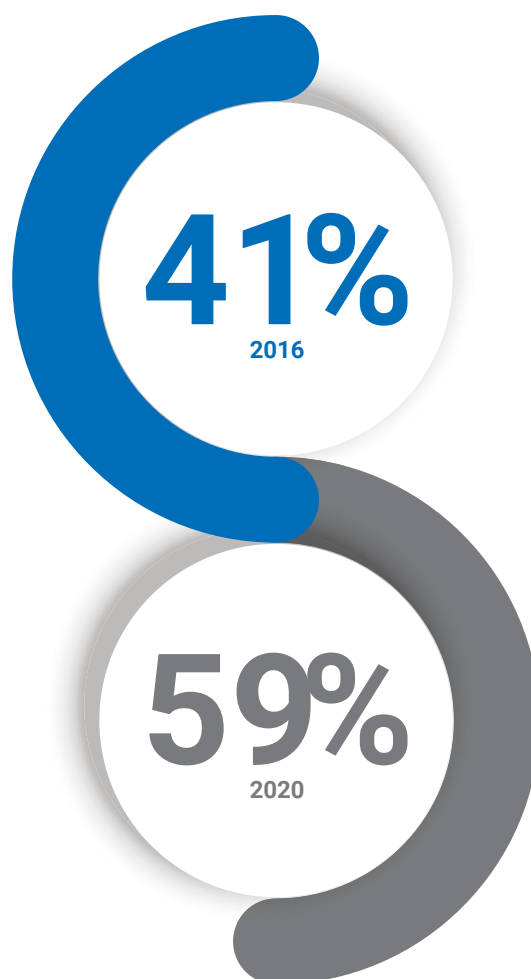
For instance, Manufacturing (14%) and Trading (12%) companies as well as medium enterprises (18%) marginally place more value on the objective of commanding higher premiums than their peers. On the other side, the Agriculture, forestry and fishing companies (21%) and the small enterprises (14%) are relatively more interested in improving their productivity levels through innovation. Moreover, the Construction sector (17%) as well as the medium size cluster (11%) also seek to use innovation to diversify their product and service offering to a larger extent than others. Compared to 2016, the objective of gaining a competitive advantage rose from the fourth-ranked argument to the top spot in terms of relevance (15% in 2016 vs. 36% in 2020). Also, statements addressing higher premiums (3% in 2016 vs. 12% in 2020) have a higher relative weight in this edition of the study. On the other hand, cost reduction issues appear to be comparatively less relevant when it comes to implementing innovation as compared to 2016 (17% in 2016 vs. 5% in 2020) and almost solely concern the Manufacturing and Trading industries.

Figure 50: Key objective for implementing innovation



### *IT as a business function*

Having IT personnel has on become the norm for SMEs irrespective of size, with almost two thirds employing dedicated IT staff in 2020, compared to forty percent in 2016 (2016: 41%; 2020: 59%)

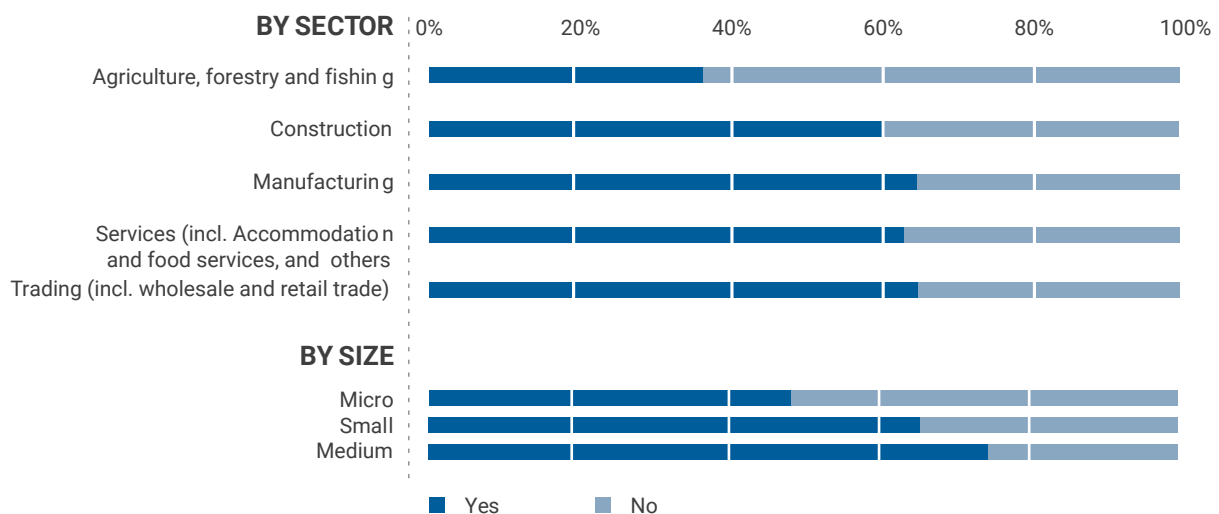
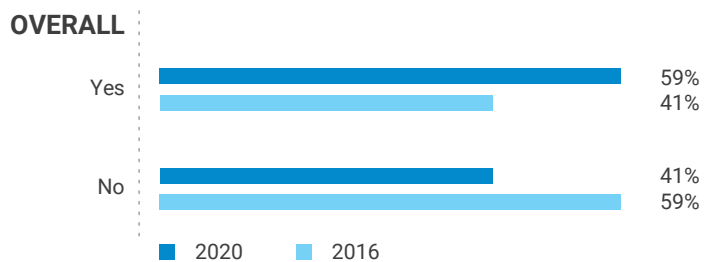




With IT being an essential part of most business models in the SME landscape, it is important to get an understanding of the general approach taken by Qatari SMEs to address IT topics. As shown in Figure 51, the majority (59%) of SMEs have dedicated IT personnel in-house. Having dedicated IT staff is particularly widespread in the Manufacturing (65%) and Trading (62%) industries as well as among medium-sized companies (74%). On the other side, the option of employing own IT personnel is to some degree less popular in the Agriculture, forestry and food services industry (35%) as well as among the micro enterprises (48%).

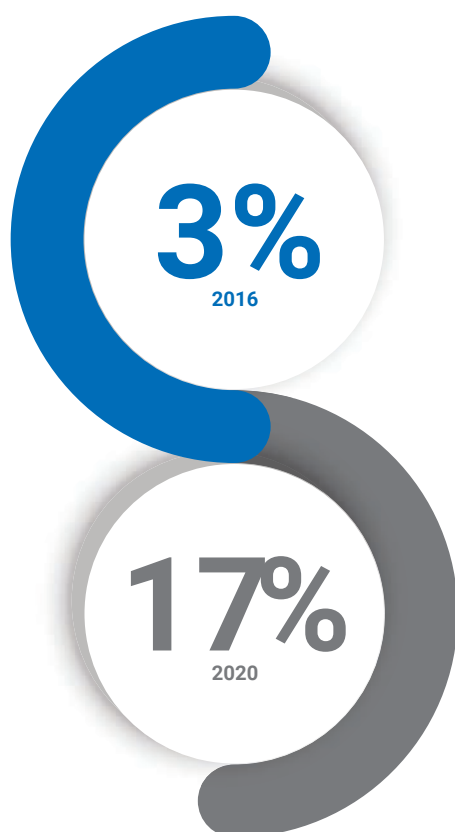
Though, the trend towards increased IT adoption through own IT capabilities is particularly evident when moving up the company size clusters as 74% of the medium-sized companies have their own IT staff. In comparison with the findings from 2016, a general increase in the share of SMEs with dedicated IT employees is observable (41% in 2016 vs. 59% in 2020), especially in the Construction (36% in 2016 vs. 60% in 2020) and the Trading (40% in 2016 vs. 62% in 2020) industries. The increase in the level of IT proficiency becomes further evident when looking at the different size clusters. For instance, the share of companies with own IT staff increased from 14% in 2016 to 48% in 2020 among micro companies, from 35% to 63% among small companies and from 50% to 74% among medium companies. This shows that the Qatari SMEs have been able to significantly expand their own IT capabilities over the past years.

Figure 51: Prevalence of dedicated IT staff



### IT adoption and technology use

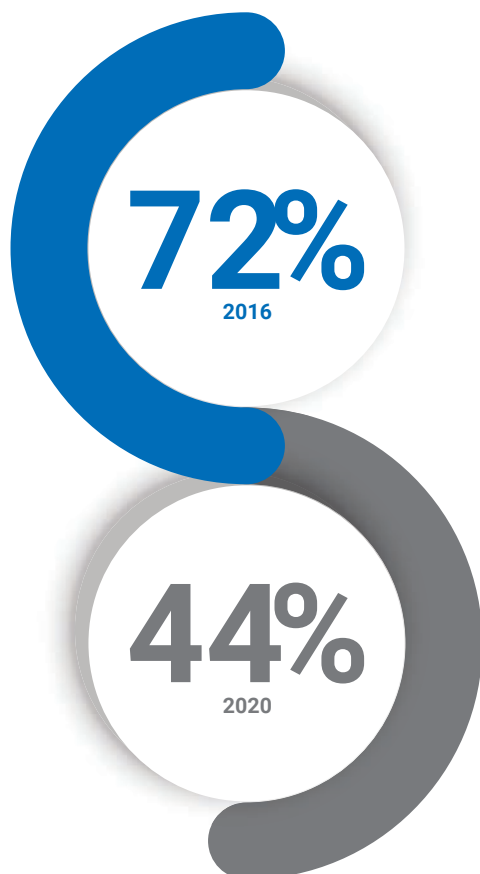
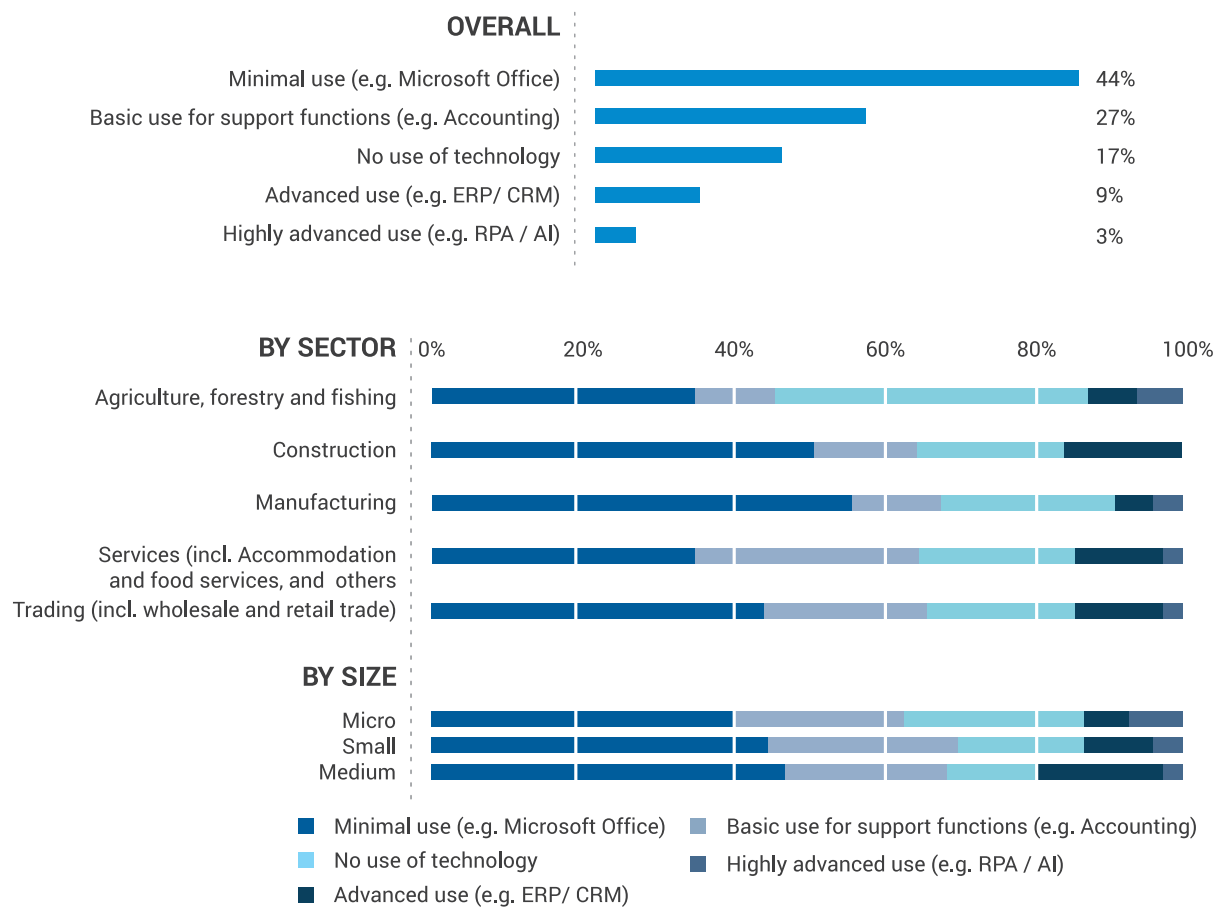
IT adoption rate and technology use has declined since 2016, with more SMEs reporting to not make use of technology in 2020 (2016: 3%; 2020: 17%)



To shed additional light on the IT proficiency, the SMEs are further asked about their usage of technology and software as part of their business operations. As illustrated in Figure 52, 83% of all SMEs use some form of technology or software. The largest group of companies (44%) indicates that technology and software is only used in a rather minimalistic way, e.g., through Microsoft Office. This is observable similarly across all industries and size clusters. Another significant group of SMEs (27%) selectively use software in support functions such as accounting. This is particularly common in the Services (36%) and Trading (29%) industry companies whereas almost no differences are discernible when evaluating the three company size groups.

Then, a smaller but still notable group of SMEs (9%) uses technology in an advanced manner to support key business functions, e.g., CRM to improve business relationships and thereby increase sales. These technology applications are particularly common in the Trading (10%) and Construction (15%) industries as well as among medium-sized companies (20%). Highly advanced use of technologies, e.g., artificial intelligence, is less rather limited (3%). Compared to 2016, a larger share of companies does not use technology (3% in 2016 vs. 17% in 2020). Also, a decline in the share of advanced technology users is observable (36% in 2016 vs. 9% in 2020). This is largely caused by the lower share in advanced technology adoptions among Manufacturing enterprises (55% in 2016 vs. 3% in 2020).

Figure 52: Level of usage of technology/software in business operations



#### Online presence of SMEs

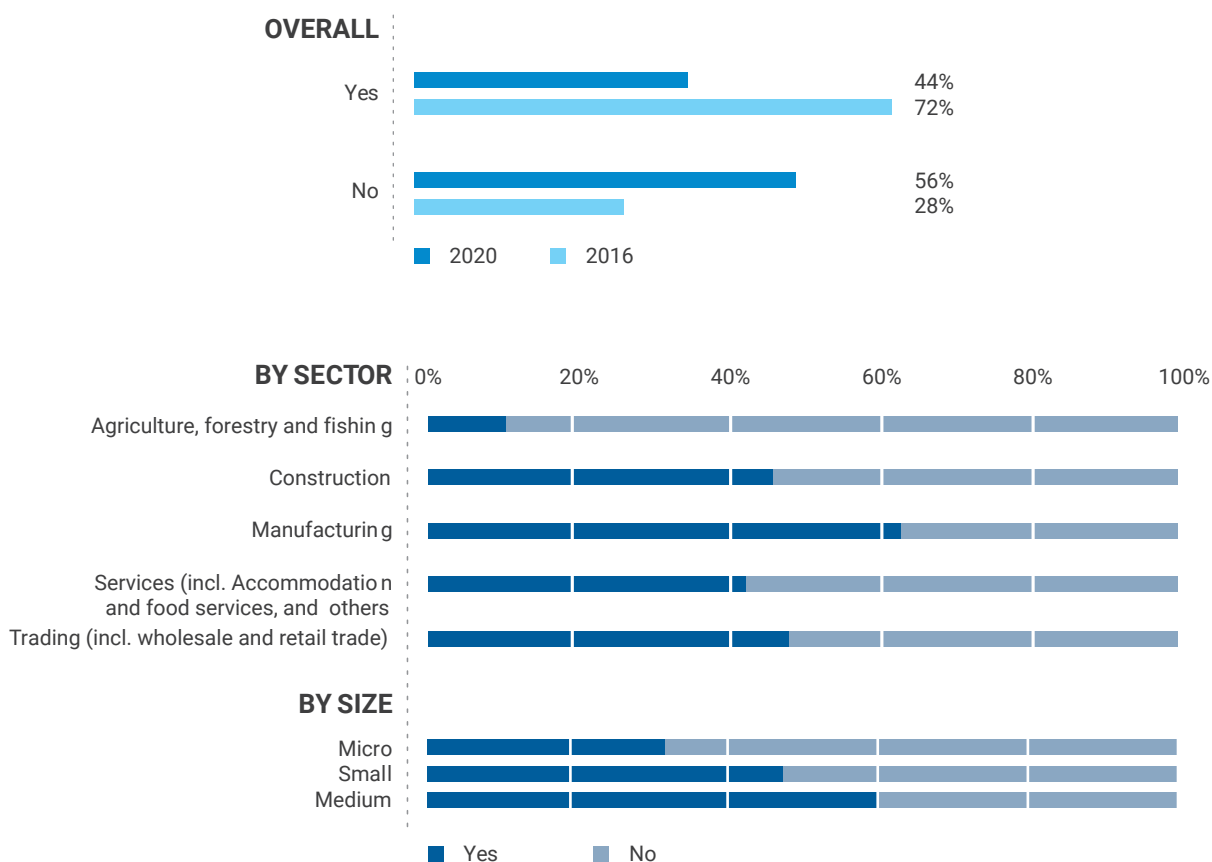
2020 results have seen a vast decrease in online presence of SMEs with percentage points dropping by almost thirty percent compared to 2016 (2016: 72%; 2020: 44%)





Another indicator for the SME sector's progress in terms of digitization is the online presence, i.e., having a company website. This serves as an important enabler to serve local and especially international market demands. Figure 53 indicates that only 44% of SMEs have a functional website whereas 56% do not. While this figure is roughly 50% or higher in the Trading, Construction and Manufacturing, online presence is particularly less widespread among Agriculture, forestry and fishing (11%) companies. Moreover, there is a general trend that websites are a more common feature among the larger size categories, i.e. medium enterprises (61%). In comparison to 2016, this reflects a decrease in the share of SMEs with a website (72% in 2016 vs. 44% in 2020). This is particularly evident when looking at the Agriculture, forestry and fishing (71% in 2016 vs. 11% in 2020) as well as among small (65% in 2016 vs. 46% in 2020) and medium (83% in 2016 vs. 61% in 2020) companies.

Figure 53: Prevalence of functional company website

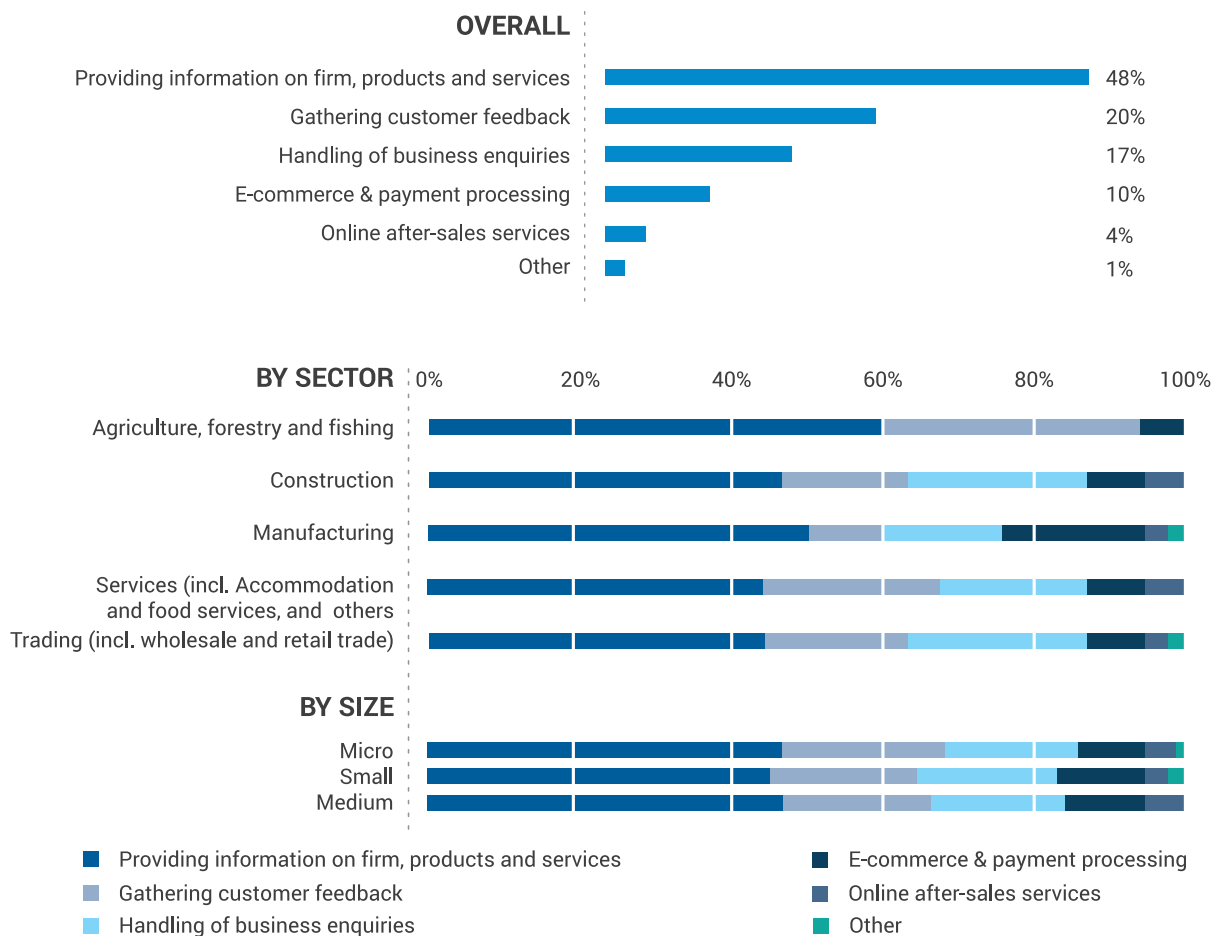


### Features of SME websites

Figure 54 provides further insights about the types of features offered by company websites. Providing information on the company, its products and services is clearly the dominant feature on company websites with a weight of 48% across all votes. Another common feature of an SME website is to gather customer feedback as reported by 20%. The handling of business enquiries (17%) and e-commerce and payment processing (10%) are further important features that are commonly offered by SMEs through their websites.

Companies from the Agriculture, forestry and fishing industries tend to not use their websites to handle business enquiries. On the other hand, while e-commerce and online payment processing are common in Manufacturing (20%), they are still only offered by a relatively small share of SMEs – indicating improvement potential for the entire SME sector and particularly for trading and services-oriented businesses.

Figure 54: Type of features offered by company websites



3.4.5  
SME Support  
*Awareness of SME support initiatives*

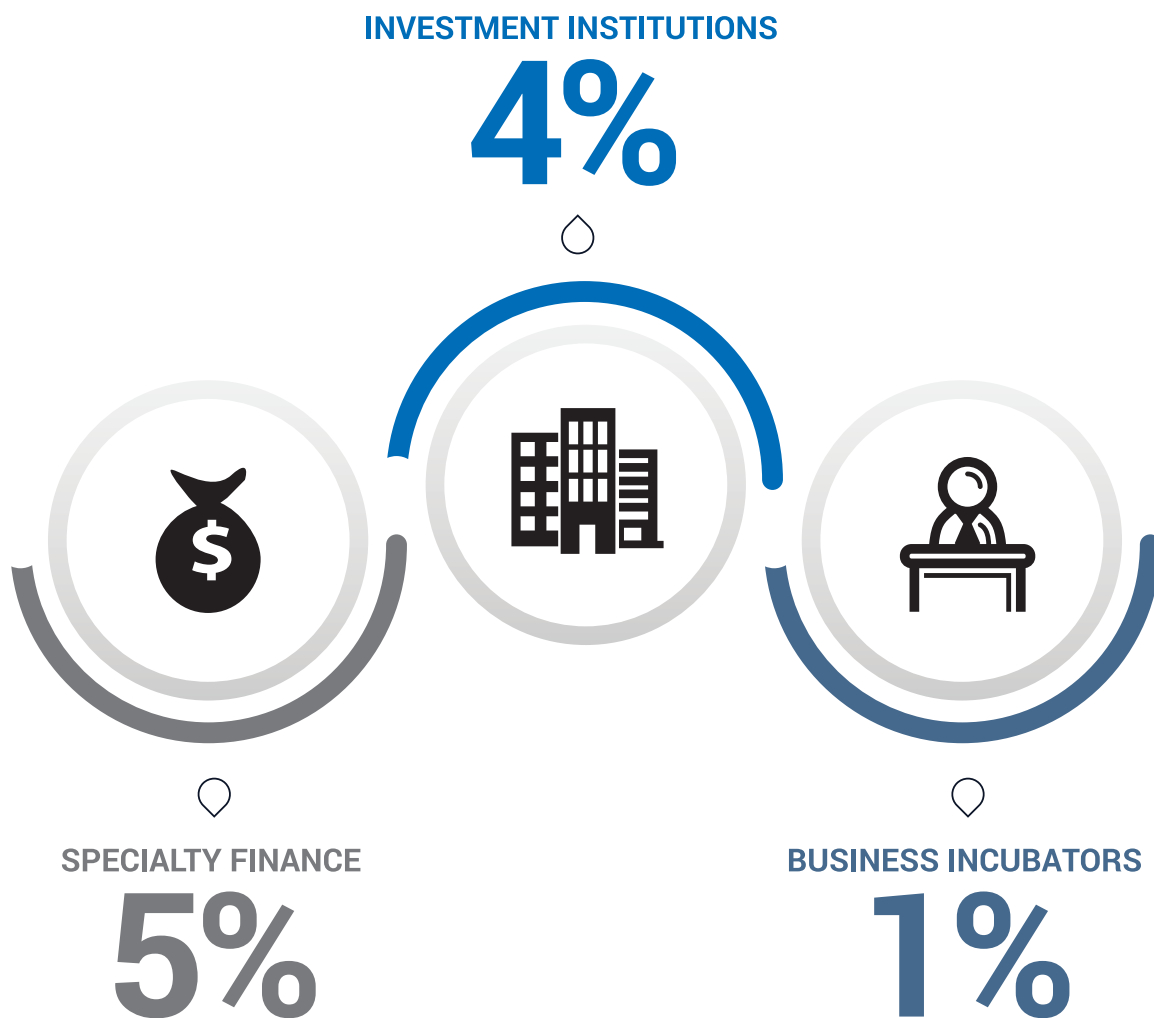
MANUFACTURING  
**65%**



MEDIUM ENTERPRISES

**68%**

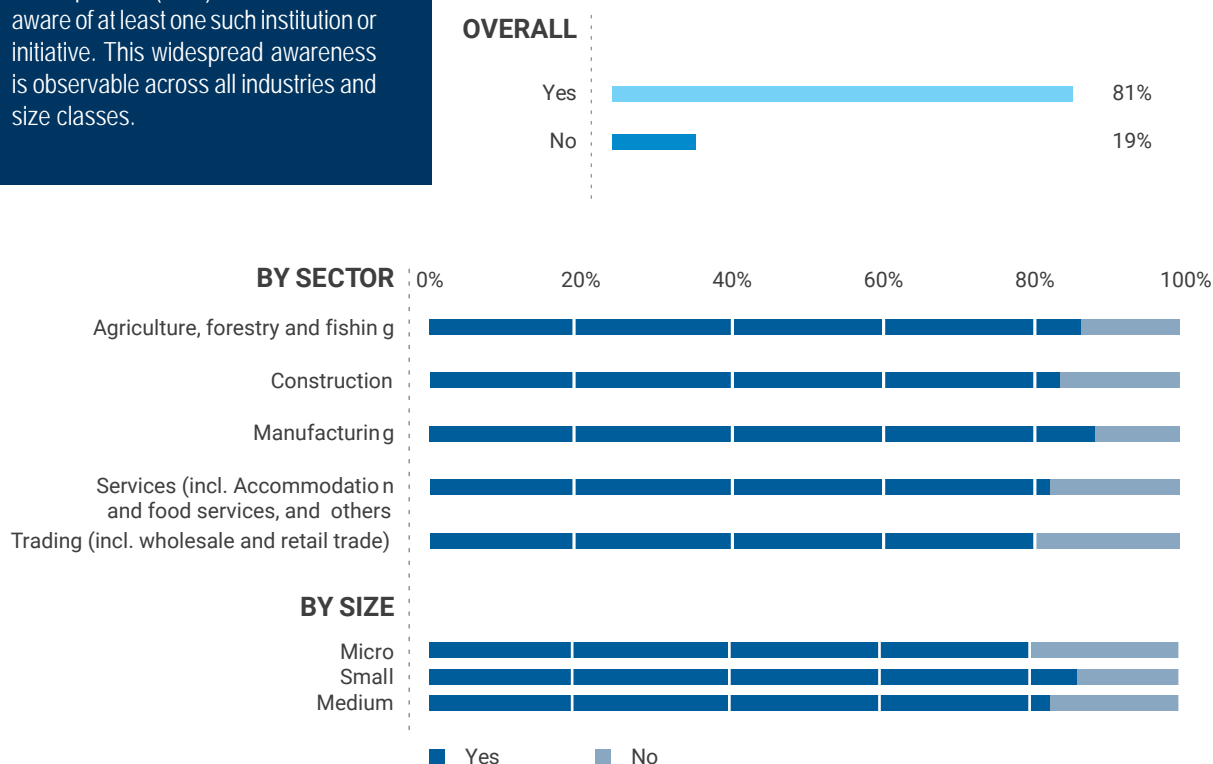
Widespread awareness for SME support initiatives across industries. With a share of 45%, Government and support agencies are best-known, while specialty finance (5%), investment institutions (4%) and business incubators (1%) lag behind.





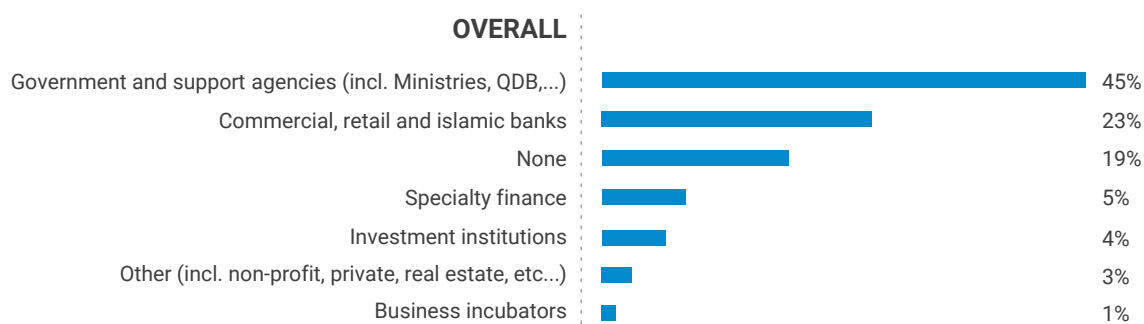
As a result of the continuously growing and highly active support ecosystem in the Qatari SME landscape, there is a high level of awareness for institutions and initiatives that support SMEs. Figure 55 illustrates that over three quarters (81%) of the SMEs are aware of at least one such institution or initiative. This widespread awareness is observable across all industries and size classes.

Figure 55: Level of awareness of institutions / initiatives that support SMEs in Qatar



Moreover, as illustrated in Figure 56, the central role of Government support agencies (incl. Ministries and QDB) in the ecosystem is reflected by the large share of SMEs who know about their portfolio of services to support the SME sector. Over 40% of all answers refer to such institutions as a known player in the ecosystem. Other prominent players are various commercial banks allocating 16% of all votes. Nevertheless, also 19% of respondents were not aware of any support institution or were not able to provide a response at that time, uncovering the need to further educate SMEs on the multifaceted support ecosystem Qatar has to offer.

Figure 56: Institutions/initiatives known to support SMEs in Qatar





### 3.4.6 Future Challenges

Business development and expansion (17%), Sales- & marketing (13%) and market changes (12%) as deciding factors for future SME success. Access to knowledge (incl. technology and innovation) is anticipated to not be a severe challenge going forward (4%)

Looking forward, the SMEs identified issues as their most relevant challenges in Qatar. As reported in Table 3, “matters related to business development, expansion and internationalization” came first with (17%) of all votes. This is similarly observable across most industries and size classes. Increasing existing revenues and reaching more customers is another frequently mentioned issue with 13% of all mentions. These two most frequently reported challenges are particularly relevant as the blockade restrains SMEs from participating in neighboring markets and thus, limits the total addressable demand for SMEs.

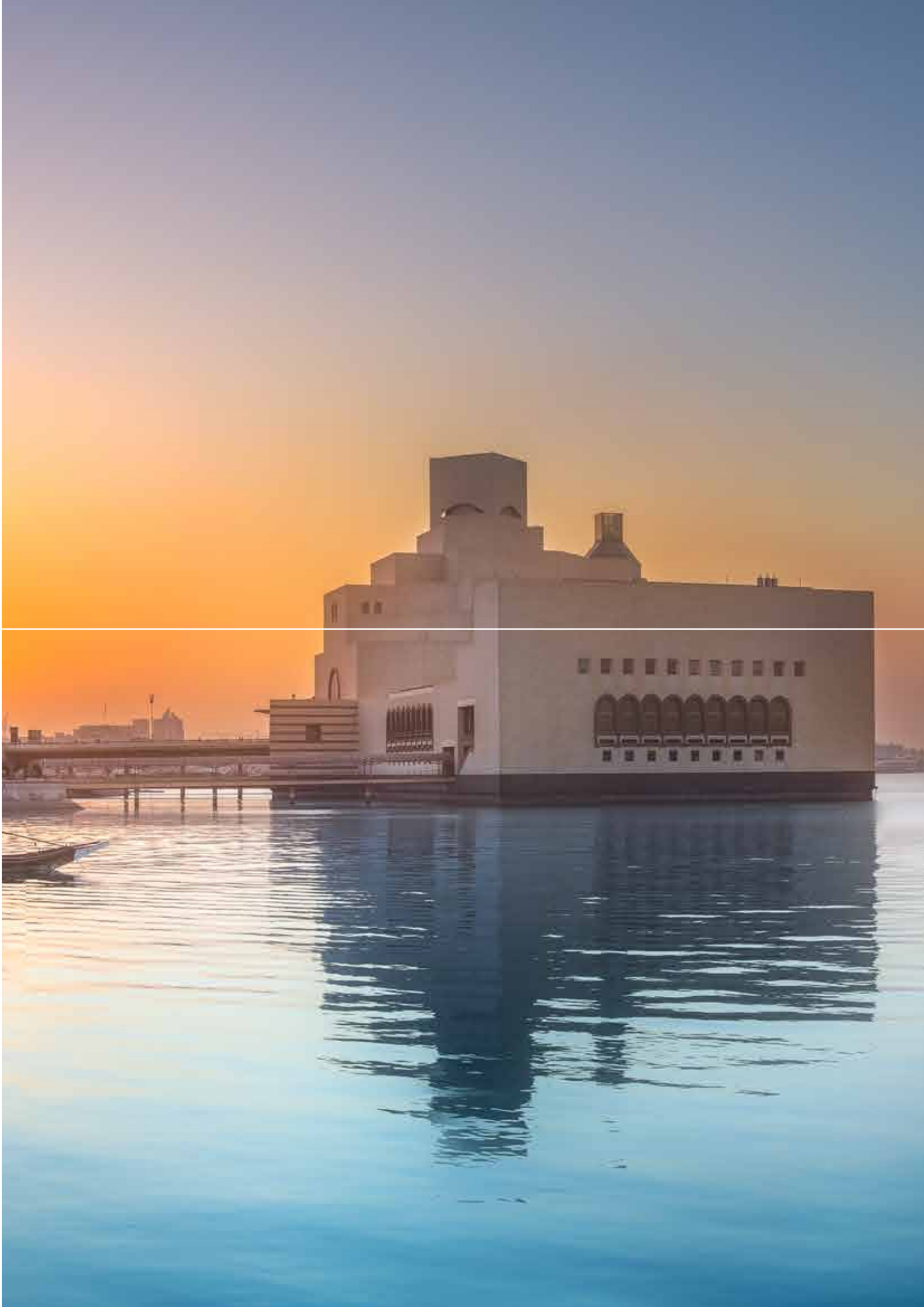
This causes most of the SMEs to target their growth ambitions at the domestic market, which in turn increases the level of competitiveness and makes domestic growth become a challenge for many SMEs. In addition, a significant number of SMEs addresses issues related to gaining access to suitable land, facilities and infrastructure (10%). Additionally, also drawing on the previously identified challenges, issues regarding operations (9%) gain more relevance when taking on the perspective of running instead of setting up a business, like the recruitment of the skilled workforce (7%).

These challenges may address company-wide topics such as reaching the desired level of productivity or explicitly focus on selected processes like procurement or logistics. Other challenges (7%) include high personnel costs, lack of support ecosystem and access to financial services and infrastructure. A selection of examples of how SMEs cope with these challenges points to the relevance of having a supportive ecosystem. The collaboration with institutions and initiatives from the ecosystem make challenges become manageable.



Table 3: Challenges of operating an SME in Qatar

Key Challenges	Percentage (n=935)
Issues related to business development, expansion & internationalization	17%
Sales- & marketing-related issues	13%
Market-related issues	12%
Manufacturing	10%
Operations-related issues	9%
Recruiting appropriate workforce	7%
Other (incl. personnel costs, support ecosystem, ...)	7%
Access to financing	6%
Complex, costly and time-intensive procedures	5%
Political, economic & event-driven issues	4%
Issues related to product & service offering	4%
Access to knowledge (incl. technology, innovation, ...)	4%







# 4. **COVID-19** **Impact on SMEs**



#### 4. COVID-19 Impact on SMEs

Although the activities related to the preparation of this report and its main survey procedures were completed in 2019, this report was supposed to be issued at the beginning of this year. However, the effects of COVID-19 let the team to dedicate a special chapter and conduct another survey on the repercussions of this pandemic and added it to the report. Significantly, the start of 2020 witnessed the COVID-19 pandemic, also known as the Coronavirus pandemic. With the first cases identified in December 2019 in Wuhan, China, the newly emerged virus quickly spread across the globe causing major economic and social disruption in all regions of the world. In effort to slow down the spreading of the life-threatening virus that is primarily transmitted between people during via droplets (e.g., when coughing or sneezing), national authorities across the globe responded with stringent regulations to minimize close contact between people.

This includes major travel and mobility restrictions, national and regional lockdowns and business closures. While these measures have shown success in slowing the spreading of the virus, resulting demand shocks and supply shortages caused significant economic turmoil across all sectors and led the global economy into one of the worst crises since decades. Despite these regulations and restrictions being scaled back slowly upon gradually improving infection rates and recovering health systems, the global economic outlook remains uncertain. With the early epicenter of the virus being based in China, several COVID-19 hotspots emerged globally as the virus

quickly crossed borders, for example in Italy and in the USA. Starting with the severe outbreak of the virus in the Islamic Republic of Iran and the spreading of COVID-19 to other regional countries, the Middle East was affected heavily. This was no exception in Qatar as the State was hit particularly bad by the virus. Yet, the local authorities responded remarkably quickly with stringent measures to contain the virus and protect the people in Qatar while simultaneously addressing the risk of an economic downturn. While these actions slowly start to pay off as the curve of newly identified COVID-19 cases per day is gradually flattening, the outlook for the nation's strong economy sector is characterized by high uncertainty. One particularly affected pillar of Qatar's economy is the domestic SME sector. Micro, small and to some extent also medium enterprises commonly rely on very few revenue sources, which leads to many of these companies losing their entire business income due to the imposed lockdown regulations. For instance, many manufacturing companies were forced to shut down all of their operations due to COVID-19.

Moreover, SMEs are often following growth strategies and invest their capital to expand their businesses. Consequently, SMEs often do not operate with large capital buffers, unlike larger companies with more significant cash reserves. Anticipating the precarious position that SMEs may be placed in as a result of the pandemic, the government as well as private and semi-governmental institutions launched various initiatives including temporary rental and customs payment waivers and



cash-flow support to improve SME resilience during this time of crisis. Such initiatives and programs include:

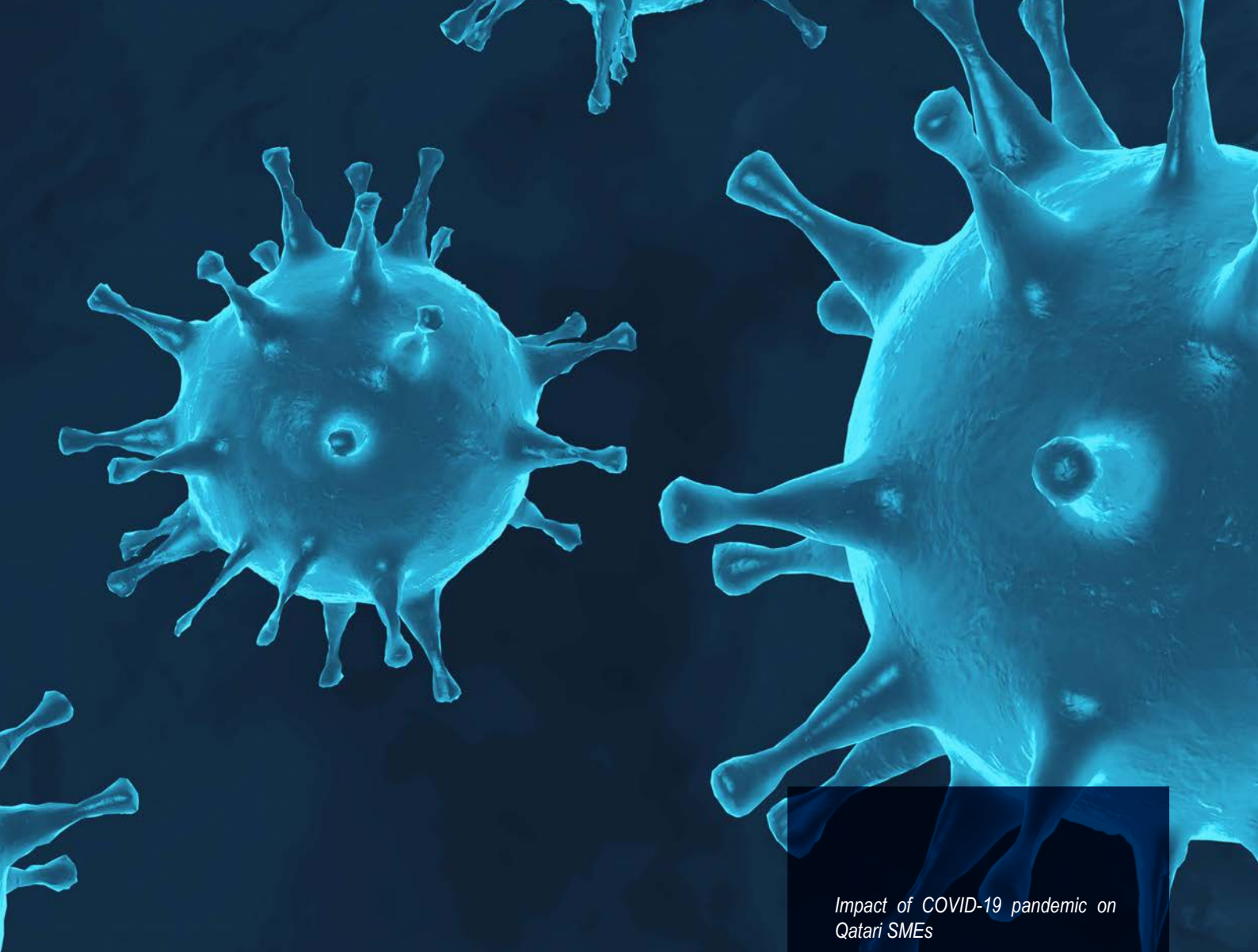
- Hack COVID-19 by the Qatar Development Bank targeted at becoming a platform upon which innovators may develop entrepreneurial ideas to tackle challenges arising from COVID-19
- Sweeping economic stimulus package of QAR 75 billion to support the private sector
- The QAR 3 billion COVID-19 National Response Guarantees Program from QDB that aims to relieve the private sector's most critical, short-term payments such as payroll and rental fees for up to three years
- Azm program by the Qatar Finance and Business Academy that provides assistance and training to entrepreneurs to reduce pandemic-associated risks in the financial sector
- Exemption of payment of water and electricity fees for six months by private, governmental, and semi-governmental corporations such as Kahramaa, Katara, and Msheireb Properties

However, despite the quick and vital support initiatives from the government, Qatar's SMEs still represent a particularly vulnerable pillar of the economy. Given these circumstances, a dedicated assessment on the impact of COVID-19 offers valuable insights for all SME ecosystem participants to reinforce Qatar's SME landscape.

Thus, to shed more light on how the Qatari SMEs are affected by the pandemic and how they aim to continue their path of success after COVID-19, QDB conducted a separate sentiment online survey with a total of 179 local SMEs. The sample of

respondents for this survey consists of randomly selected 54 micro-, 83 small- and 45 medium-sized enterprises and the corresponding results are presented in the remainder of this section. In summary, Qatari SMEs experience significant distress as a result of the COVID-19 pandemic. Almost all SMEs have had to at least partially scale down operations and face significant drops in demand. Subsequently, the working capital reserves are gradually decreasing for many SMEs and the risk of insolvency rises. In response, SMEs are implementing preventative measures and downsize their operations to cope with the crisis. Still, many SMEs express the need for additional financial support from the government.

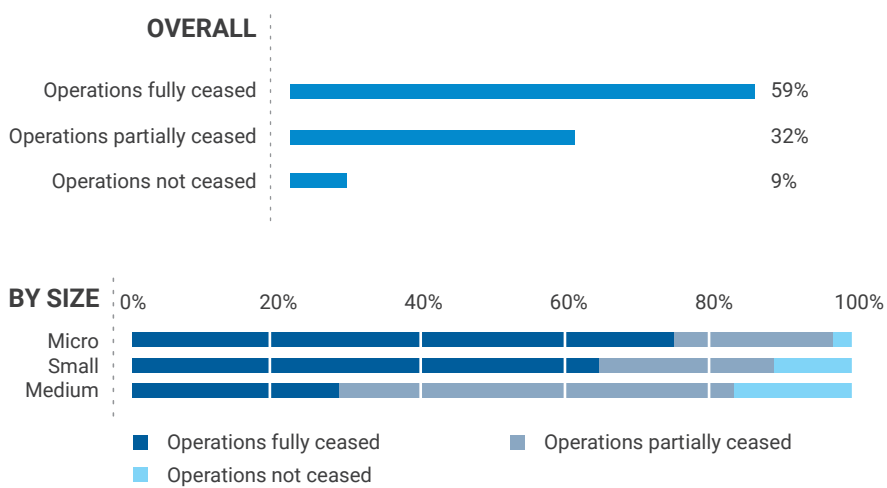




### Impact of COVID-19 pandemic on Qatari SMEs

The most significant impact of COVID-19 on SMEs is caused by the forced cease of operations due to the measures deployed by the State to contain the virus. As reported in Figure 57, over 90% of all respondents had to at least partially scale down operations, while 59% had shut down completely. Moreover, this effect was disproportionately prevalent among micro and small businesses as only very small fractions of these enterprises have been able to stay fully operational throughout the measures.

Figure 57: Cease of operations due to COVID-19 measures

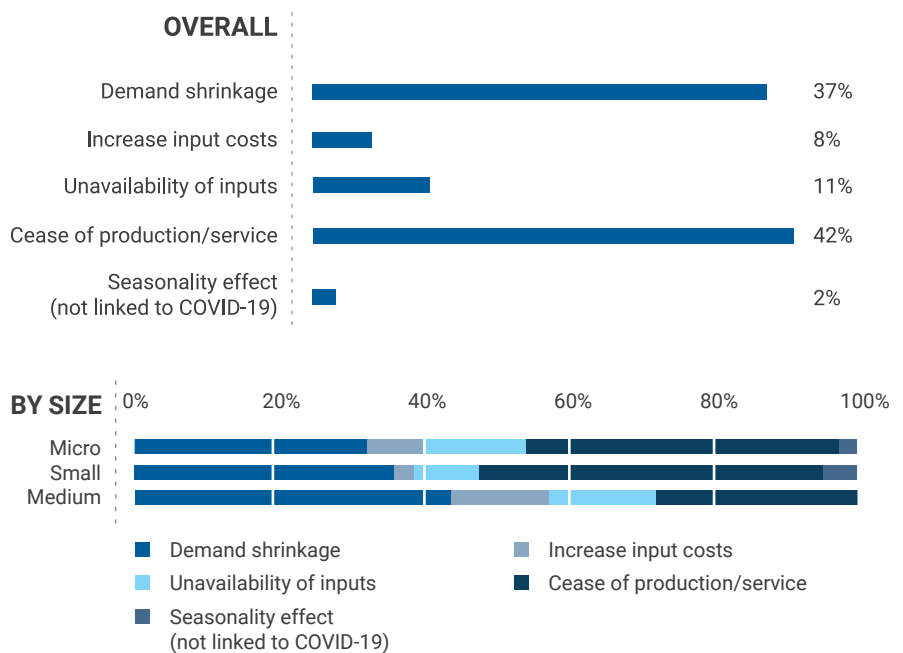




*In addition to the business shutdowns, demand shocks represent a further frequently mentioned driver of business activity loss among SMEs as shown in Figure 58. Over a third of all votes identify the shrinkage of demand due to the coronavirus crisis as a key challenge which is particularly observable among medium companies. For instance, when asking manufacturing businesses about for how long their existing orders would ensure the continuity of production, 70% of businesses expect their existing orders to sustain them at most a quarter while only 7% would be able to survive more than 6 months with their existing orders.*

*Correspondingly, almost 90% of these SMEs expect their production volume to drop by over 25% in the coming months. Moreover, the pandemic-linked shortages in the global supply chain and the corresponding rise in costs for input material represent further issues for Qatari SMEs as shown in Figure 56.*

Figure 58: Factors impacting SMEs' sales and profits



Decreasing sales also play a driving role in concerns related to working capital issues, which represent another key risk area for Qatari SMEs during the COVID-19 pandemic and its economic aftermath.

When asked why working capital might not last, the respondents argue that decreasing sales (30% of all votes), high fixed expenses (25%) and default in receivables (24%) are central factors negatively impacting working capital conditions as shown in Figure 59. This is observable in similar magnitude across the three enterprise size classifications.

Figure 59: Factors leading to working capital issues

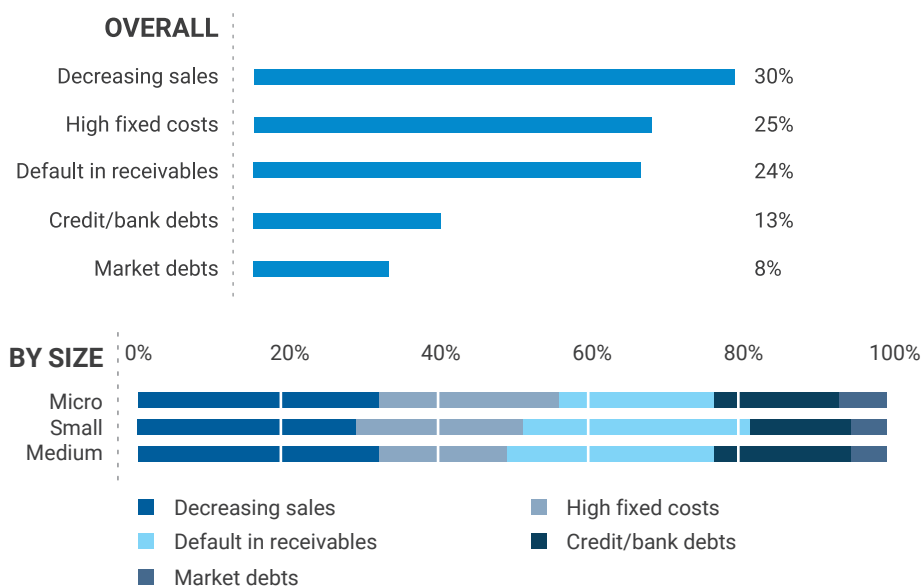
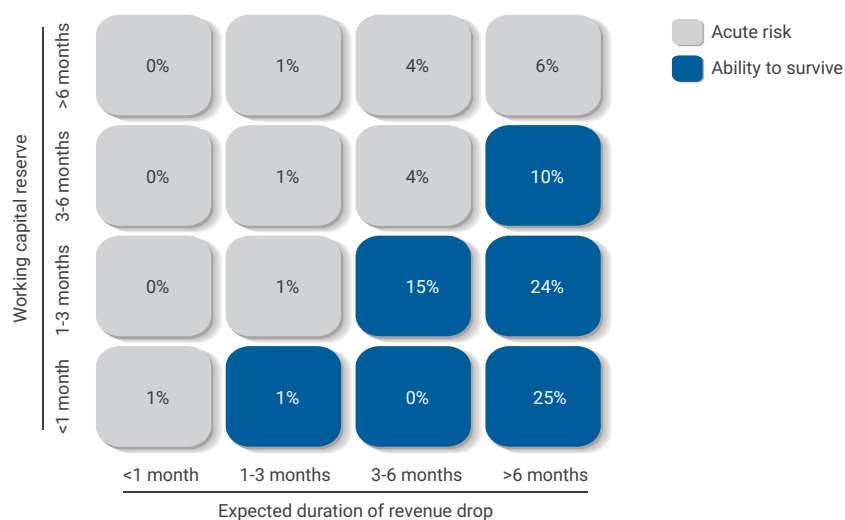


Figure 60: Working capital reserves vs. expected revenue shortfall



Contrasting the existing working capital reserves with the expected duration of the revenue decrease caused by COVID-19, as shown in Figure 60, indicates that over 80% of the SMEs do not have the required working capital to overcome the expected demand shock. Thus, a large share of the respondents is at risk and therefore dependent on external support mechanisms, such as demand stimulating measures to ensure liquidity and business continuity. In terms of working capital expenses, the participating SMEs are clearly most worried about having to pay salaries and rent costs while suffering from the crisis.

When asked about expected price movements over the next three months in the domestic market, the respondents share heterogeneous views.

As illustrated in Figure 61, 48% of the SMEs expect a price decrease whereas 42% believe prices will increase. Moreover, almost a quarter of all respondents expect a significant increase in domestic prices of over 10% in the coming months, which would result in an aggravated situation for some of the SMEs.

Figure 61: Expected price movements in next three months

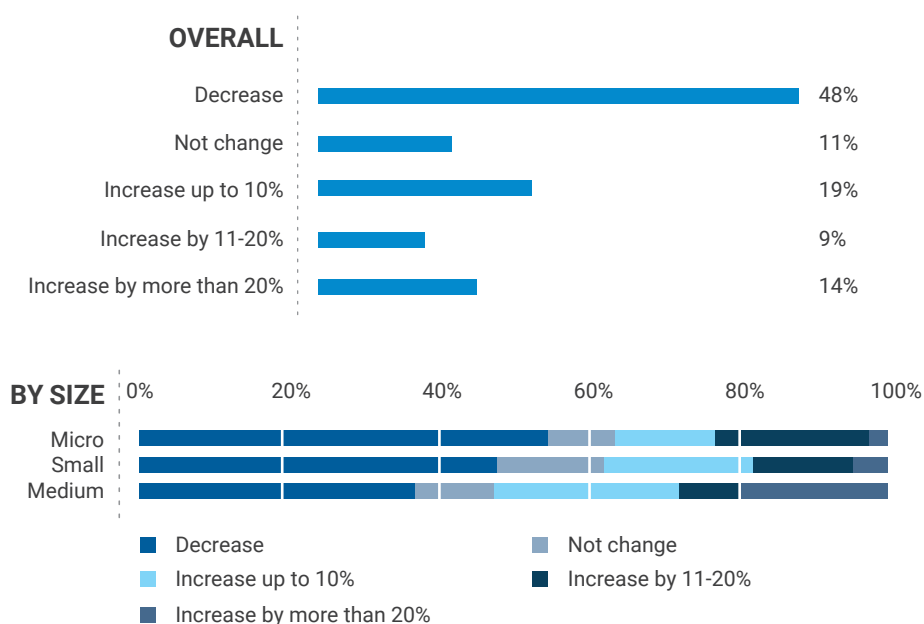
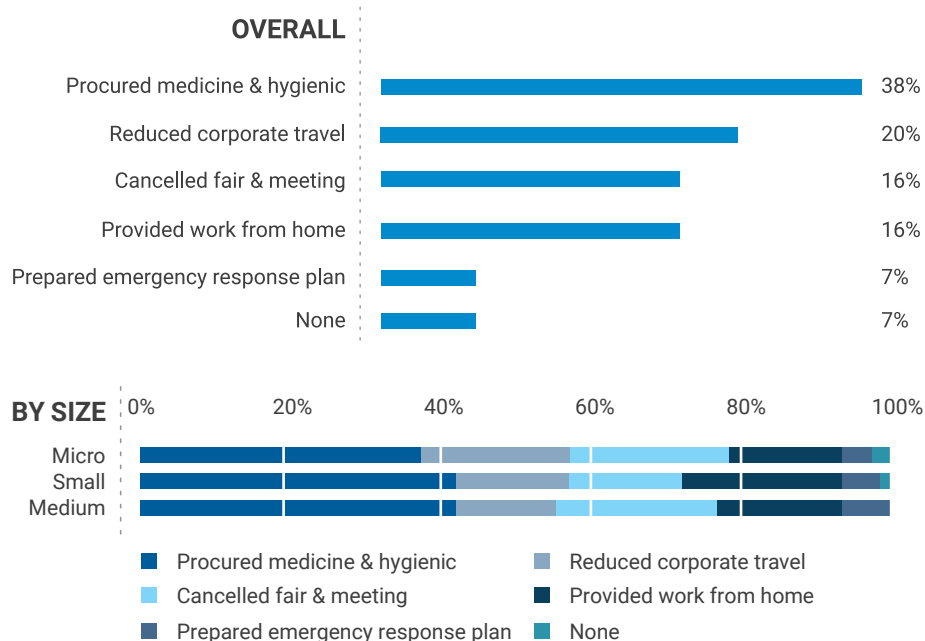


Figure 62: Preventative measures taken against COVID-19



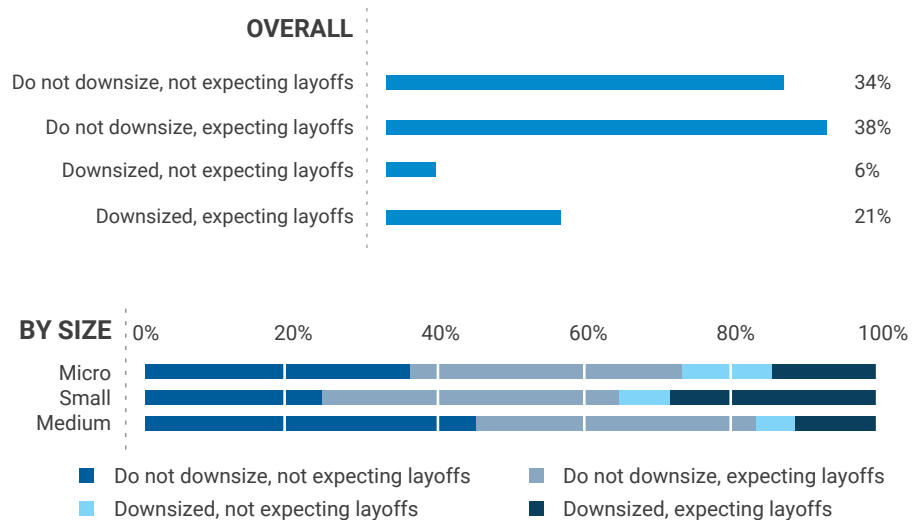
### Actions taken by SMEs

Another important purpose of this chapter is to identify what measures Qatari businesses have taken in light of the impact of COVID-19 on their people and operations. As reported in Figure 62, when asked about any preventive measures against COVID-19, very few answers (7%) state that the SMEs have not taken any such measures. The most common measure implemented is the procurement of medicines and hygienic supplies and/or disinfecting the workspaces with 38% of all votes.

This has been adopted similarly across all SME size clusters. Yet, only 16% of the responses indicate that SMEs have been able to completely or partially transition to work from home operating models and another 16% documents cancellations of fair and meeting participations. Moreover, only very few responses (7%) indicate that SMEs have prepared an emergency action plan in case of an outbreak in the workplace.

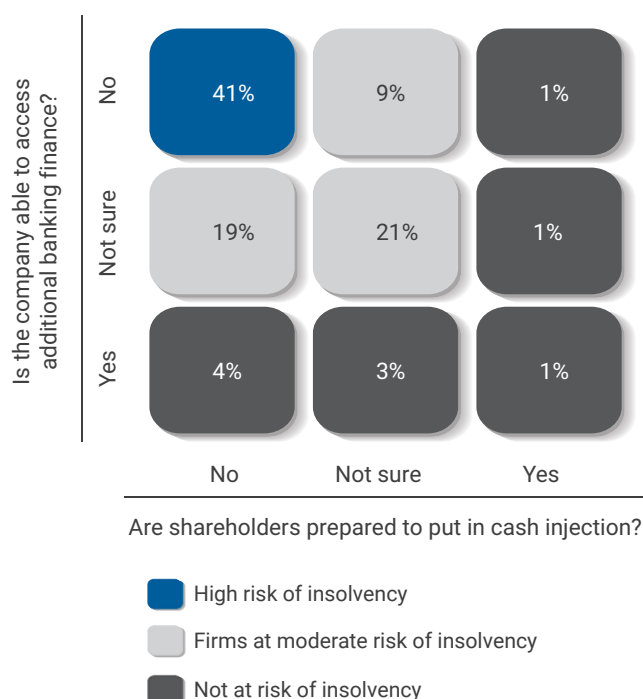
A critical measure some businesses are forced to take in order to control costs and survive the crisis is laying off employees. When asked about whether the SMEs have downsized or expect downsizing in the future due to the COVID-19 crisis, only approx. one third of the respondents expressed that they have not downsized and do not expect to do so in the near future, as illustrated in Figure 63. This observation is more prevalent among medium-sized enterprises. On the other side, 27% of the companies already laid off employees and a total 59% of the SMEs expect to reduce their staff in the coming months.

Figure 63: Prevalence of downsizing



Another measure that businesses have taken is postponing existing fixed capital investment plans to limit cash outflow and reprioritize cash for more urgent matters such as paying vital bills. Approximately 55% of the respondents had active investment plans that now are affected by the coronavirus. Of these SMEs that had investments planned in the short term, almost 90% decided to delay such investments, thereby highlighting the popularity of this action.

Figure 64: Insolvency risk



### Need for support

Finally, the third topic addressed in this survey identifies key areas of support needed by the SMEs in order to survive the crisis. Given that many of the SMEs experienced a sudden drop in cash inflow that is not matched with corresponding cost savings, remaining solvent is the major challenge for many businesses. To investigate the current insolvency risk levels in the Qatari SME landscape, Figure 64 summarizes the respondents perceived ability to access two main financing mechanisms: bank financing and additional cash injections from existing shareholders. The results indicate that over 40% of all respondents do not have access to either of those financing options and therefore are at high risk of insolvency in case of liquidity issues. Thus, these SMEs are potentially in need of external support. In addition, almost half of the businesses classify as firms with moderate risk of insolvency. On the other side, only 11% of the SMEs have access to at least one of the two financing options and therefore are not at immediate risk of insolvency.



When asked directly what type of support SMEs would seek most from the government, most businesses (87%) express interest in financial support as illustrated in Figure 65. This interest mainly entails generic financial support as well as exemptions from rent, bills and fees and delayed or reduced interest payments. Other support requests include the streamlining of governmental processes, import substitution and support for domestic firms as well as procurement support.

Figure 65: Desired support from government

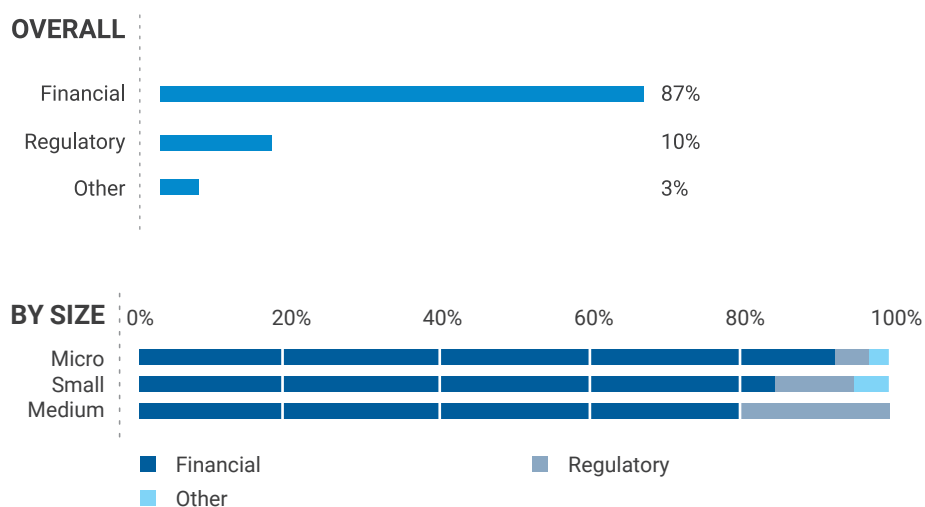
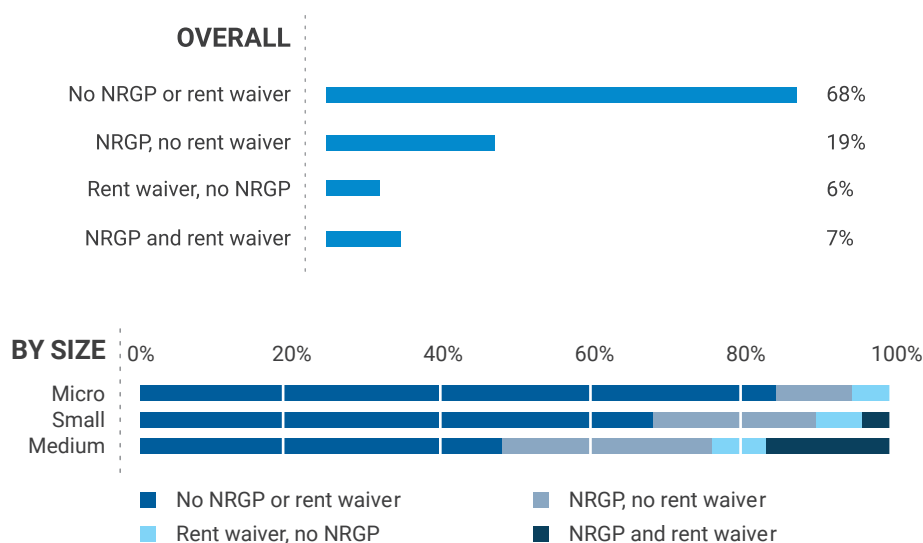


Figure 66: Support mechanisms utilized by SMEs



Despite the expressed need for financial support from the government, most SMEs were yet unable to benefit from key cost control mechanisms. Figure 66 illustrates the prevalence of two such measures: the participation in the COVID-19 National Response Guarantees Program (NRGP) to receive bank loans as well as rent waivers issued by landlords.

The data indicates that 68% of the respondents have neither applied to the NRGP or received rent waivers. Moreover, only 26% of SMEs have applied to the NRGP and even fewer businesses (13%) have received rent waivers from their landlords. It is further evident that especially the smaller size clusters struggle to obtain benefits from such measures.

As mentioned in the introduction of this chapter, in addition to the support provided by the NRGP the government as well as semi-governmental and private institutions alike have also shown their support for SMEs through the introduction of several initiatives and programs such as Azm and Hack COVID-19.



5.

# Concluding Remarks





## 5. Concluding Remarks

The SME sector represents the backbone of Qatar's aim to shape a diversified and sustainable economy and thereby achieve QNV 2030. To highlight the SME sector's cornerstones and to increase the level of awareness for the SME-perspective on the economy, this publication comprehensively reviews the SME landscape in Qatar. As the second edition of the report on The State of SMEs in Qatar, the study provides valuable insights on various characteristics of the SME sector as well as the support ecosystem and, where possible, determines the key trends observable since the 2016 report. As we mentioned in the body of the report, although the activities for preparing this report and its basic survey procedures were completed in 2019, and this report was scheduled to be issued at the beginning of this year, the emergence of the Covid-19 pandemic prompted the work team to allocate an additional chapter. A special questionnaire will be conducted to address the implications of this pandemic and add them to the report. This was clarified later in the concluding observations. An ecosystem analysis to support SMEs in Qatar was conducted by comparing it with the ecosystems of the leading countries selected from three regional groups (regional economies, developing economies and advanced economies). This comparison was made across different dimensions: (1) Regulatory and business set-up, (2) Business operations and market development, (3) Financing and (4) Knowledge. The results point to an advanced and well-developed SME support ecosystem in Qatar across all dimensions.

This performance is particularly notable in the dimensions (1) Regulatory and business set-up and (3) Financing, where Qatar outperforms most of the countries from all regional clusters. In the dimensions (2) Business operations and market development and (4) Knowledge, Qatar is on par with most other peers from the regional and developing economies. However, when compared with the developing countries, selected areas for development become apparent. These are particularly the ecosystem's role in enabling and promoting export businesses, in addition to the need to strengthen innovation issues. In these two areas, a gap yet to be filled is evident between Qatar and the global best practices from Singapore and the US. The SME landscape analysis represents the core of this study and is based on an extensive survey with a representative sample of owners and managers of 510 SMEs in Qatar. This analysis provides insights on the perspective of SMEs on a variety of topics such as company performance, SME landscape characteristics (regulatory and business set-up, business operations and market development, access to finance and knowledge, SME support) and future challenges. “

“In terms of past performance, the SMEs interviewed report healthy growth figures over the past three years that are representative of the positive development of Qatar's economy after the setbacks caused by the fall in hydrocarbon prices in 2014 and by the blockade in 2017. A large share of companies has been able to withstand these critical times and showcase positive growth figures for both revenues and profitability. Looking forward, the SMEs generally share a widespread sense of strong optimism regarding future performance and express almost no pessimistic views (pre-COVID-19). For instance, 84% of the SMEs expect positive annual growth rates for their revenues in the next 3 to 5 years. Moreover, a similar share of companies expects the annual change in net profit margin to increase in the same period. Optimism about performance is based primarily on several reasons, the most important of which are: Anticipate the growth of domestic sales, the introduction of new products, and the improvement of sales efficiency levels. When it comes to starting a business in Qatar, clearly the most prominent reason to do so for SMEs is the perceived opportunity to serve local market demand. While the main reason for establishing a business in Qatar remained the same as in 2016, the result is more distinct in 2020. This goes hand in hand with the growing relevance of the local market due to the blockade. In addition, SME founders benefit from high ease of establishing and running a business in Qatar and can leverage the economy's strategically well-positioned geographic location. Yet, the survey



respondents also report to be challenged by the complex, costly and time-intensive procedures when setting up a business. Moreover, they also encounter challenges with hiring the desired skills and finding access to land, facilities and infrastructure at adequate costs. In terms of business operations, the Qatari SME landscape is characterized by very high productivity levels that have significantly improved since in 2016. Almost three quarters of the SMEs exhibit asset utilization rates above 75%. Moreover, SMEs also exhibit a stronger inclination towards using third parties to outsource selected activities – predominantly related to transportation and logistics, accounting or IT – as compared to 2016. Considering the blockade, SMEs are predominantly focusing on the domestic market and reduced their international business activities as compared to 2016. As a result, almost all revenues of the SMEs are generated with domestic activities and only few SMEs follow export strategies. Yet, the large majority of the non-exporting SMEs either does not have products or services that are intended for export or is already satisfied with their domestic sales and thus, does not consider the option to export.

In terms of access to finance, despite the good results in the SME support ecosystem analysis, personal money represents the single largest source of finance to establish a business. Moreover, reinvested profit is the most frequently used source of finance to operate a business. These findings do not differ at large from the picture drawn in 2016. When SMEs do decide to seek financing however, the key rationales behind this decision are the aim to expand existing businesses (e.g., through the acquisition of new assets), to introduce new products or to finance working capital requirements. While the SMEs generally express a low actual need for financing in the form of bank loans, the low use of bank financing is further strengthened by perceived high interest rates.

Regarding access to knowledge, and HR as a business function, the SME sector improved significantly since 2016 as the share of SMEs with dedicated HR personnel grew substantially. Moreover, about one third of the SMEs regularly perform manpower planning, 65% of SMEs offer at least some form of employee training to develop their workforce and 86% of SMEs have code of conduct policies in place. In terms of IT, almost 60% of SMEs have dedicated IT personnel – again reflecting a substantial improvement over the last 4 years. In line with the growing relevance of in-house IT capabilities, only a small share of 17% does not use any technology in their business. While most SMEs use technology in a minimal (e.g., Microsoft Office) or basic (software for support functions such as accounting) form, roughly 12% of SMEs showcase advanced or highly advanced levels of technology adoption. In addition, almost half of the SMEs operate a website that is mostly used to provide information on the firm and on the product and service portfolio. Finally, the implementation of

innovation gained significantly more relevance in the SME sector since 2016 and is particularly relevant for the SMEs when introducing new innovative products and improving internal processes and distribution activities. Doing so, the SMEs predominantly aim at achieving a competitive advantage and improve the quality of their products and services offered. In terms of the SME sector's view on the support ecosystem, the survey shows that while there is a high level of awareness for such supporting institutions and initiatives, this awareness is mostly centralized around Government support agencies (incl. Ministries and QDB) commercial, retail and Islamic banks.

As a general outlook for challenges when operating as an SME in Qatar, many firms identify issues related to “business development and expansion”, sales and marketing as well as intensified competition or other market related issues as crucial topics. Looking forward, these represent the most critical challenges for SMEs to strengthen their competitive position and growth their business in the future. As evident from the selected examples of businesses facing such challenges, this is where the SME sector can benefit from having a strong support ecosystem with proven initiatives as it exists in Qatar that enables the SMEs to overcome these issues.

Also, this report has devoted an independent chapter to assess the impact of the Corona pandemic (COVID-19) crisis, and this evaluation is based on a separate questionnaire conducted with 179 Qatari small and medium-sized companies, the results of which clarified the depth of the crisis afflicting small and medium-sized companies in Qatar. Almost all SMEs have had to at least partially scale down operations and face significant drops in demand. Consequently, their working capital reserves have gradually decreased, making a decrease in volume an essential part of the short-term strategy of small and medium-sized businesses and a heightened risk of insolvency. As a consequence, many SMEs express the need for financial support from the government.

## List of Abbreviations

AI	Artificial intelligence
B2B	Business to business
B2C	Business to consumer
CAGR	Compound annual growth rate
CRM	Customer relationship management
DTSME	Digital Transformation for Small and Medium Business Enterprises
EDPSD	Economic Diversification and Private Sector Development
ERP	Enterprise resource planning
GAC	General Authority of Customs
GCC	Gulf Cooperation Council
GDP	Gross domestic product
HIA	Hamad International Airport
ISIC	International Standard Industrial Classification
IT	Information technology
LNG	Liquefied natural gas
MADLSA	Ministry of Administrative Development, Labor and Social Affairs
MEHE	Ministry of Education and Higher Education
MOCI	Ministry of Commerce and Industry
MOE	Ministry of Energy Affairs
MOJ	Ministry of Justice
MOTC	Ministry of Transport and Communication
NDS	National Development Strategy
NRGP	National Response Guarantees Program
PE	Private equity
PSA	Planning and Statistics Authority
QAR	Qatari Riyals
QBIC	Qatar Business Incubation Center
QCB	Qatar Central Bank
QDB	Qatar Development Bank
QF	Qatar Foundation
QFC	Qatar Financial Center
QNV	Qatar National Vision
RPA	Robotic process automation
SME	Small and medium enterprises
VC	Venture capital









# About Qatar Development Bank

Qatar Development bank (QDB) is a fully owned government development and financial entity set up by an Emiri Decree in 1997 to invest and develop local industries by supporting SMEs in Qatar. In line with Qatar's National Vision 2030, QDB aims to facilitate the development and growth of SMEs that will result in long-term socio-economic benefits.

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