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Deutsches Institut für  
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German Development  
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## **MSMEs in the Arab Region in 2020: structural vulnerabilities at a time of multiple shocks: The Case of Kuwait**

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**THE GCC ECONOMIES IN THE WAKE OF COVID19: CHARTING THE ROAD TO  
RECOVERY & RESILIENCE, ERF, MARCH 9-10, 2021**

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- Kuwait and its MSMEs
- Results of the Bensirri Public Relations Kuwait COVID19 Business Impact Survey
  - Firm closures/suspensions & revenue loss by size
  - Transmission mechanisms & operational challenges
  - Firm behavioural responses:
    - layoffs, wage cuts & working hours
    - Coping strategies & mode of operation
  - Perceptions of government stimulus package and SME policy and future outlook
  - Future Transitions: sustaining behavioral changes?
  - Policy priorities in a pre- & post-COVID-19 world
- Reflections on the Kuwait case study
- Suggested Reforms

# Kuwait and its MSMEs

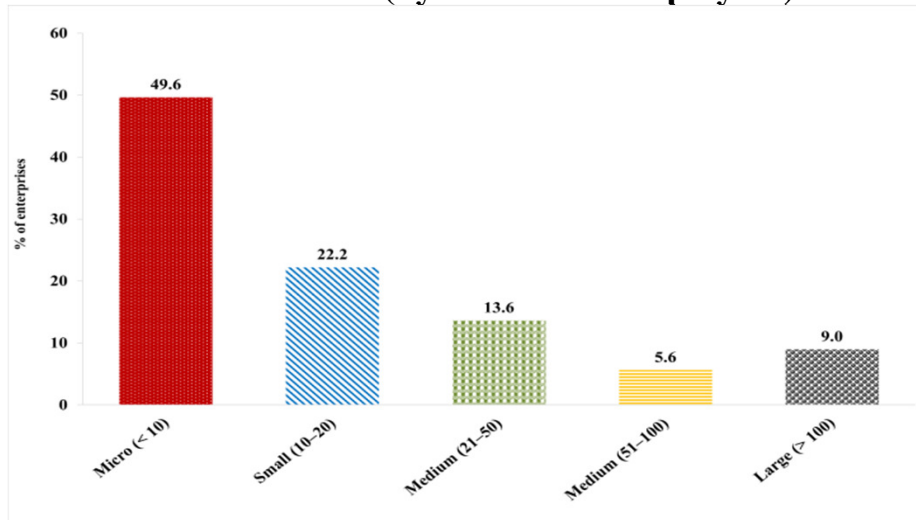


- small high-income country
- over 4 mil ppl
- 3<sup>rd</sup> richest OEC
- economy almost entirely dependent on oil & gas (90% merch. exp., 37% GDP)
- Services dominate the economy (74% empl., industry 24%; agri 2%).
- Substantial gov sector (2/3 economy) → tiny private sector (36%)
- 1 of the lowest MSME densities in the Arab region (12 enter. per 1,000 ppl)
- Contribute just 3% of GDP (avg of 50 % in high-income countries)
- 23% of the workforce (1/2 avg in high-income & emerging)
- Total entrepreneurial activity (TEA) of 2 per 100 ppl (20% of world avg of 11)
- An exception to relation btw TEA & GDP per capita

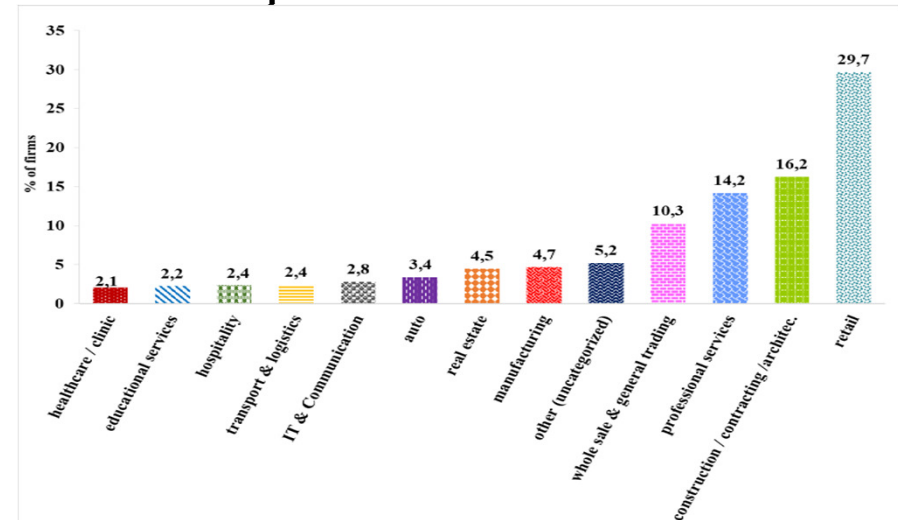
# Bensirri Public Relations Kuwait COVID-19 Business Impact survey

## Kuwait's main sample characteristics: size, sector & age

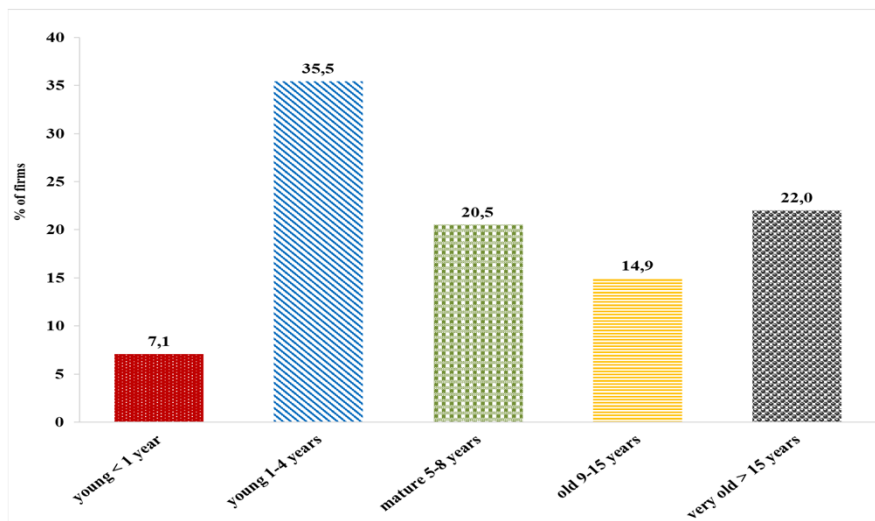
Size distribution (by number of employees)



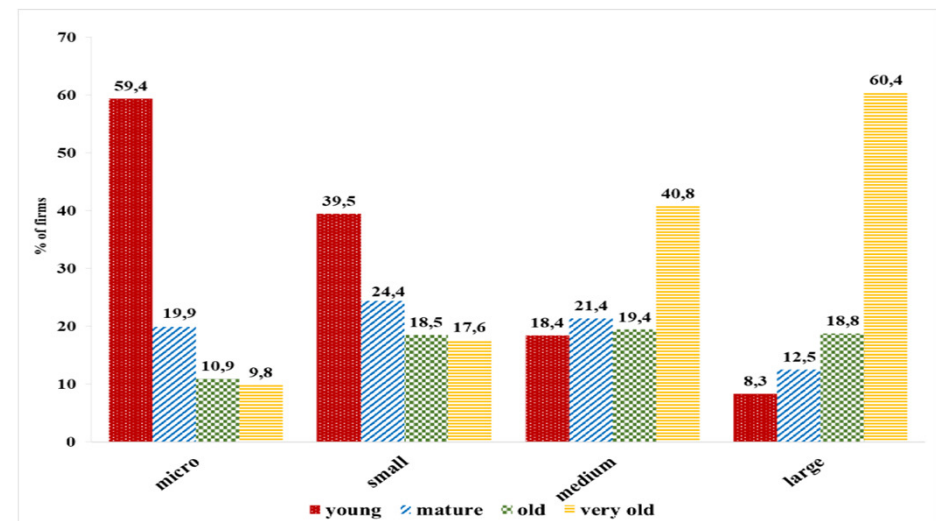
Sample sectoral distribution



Age distribution



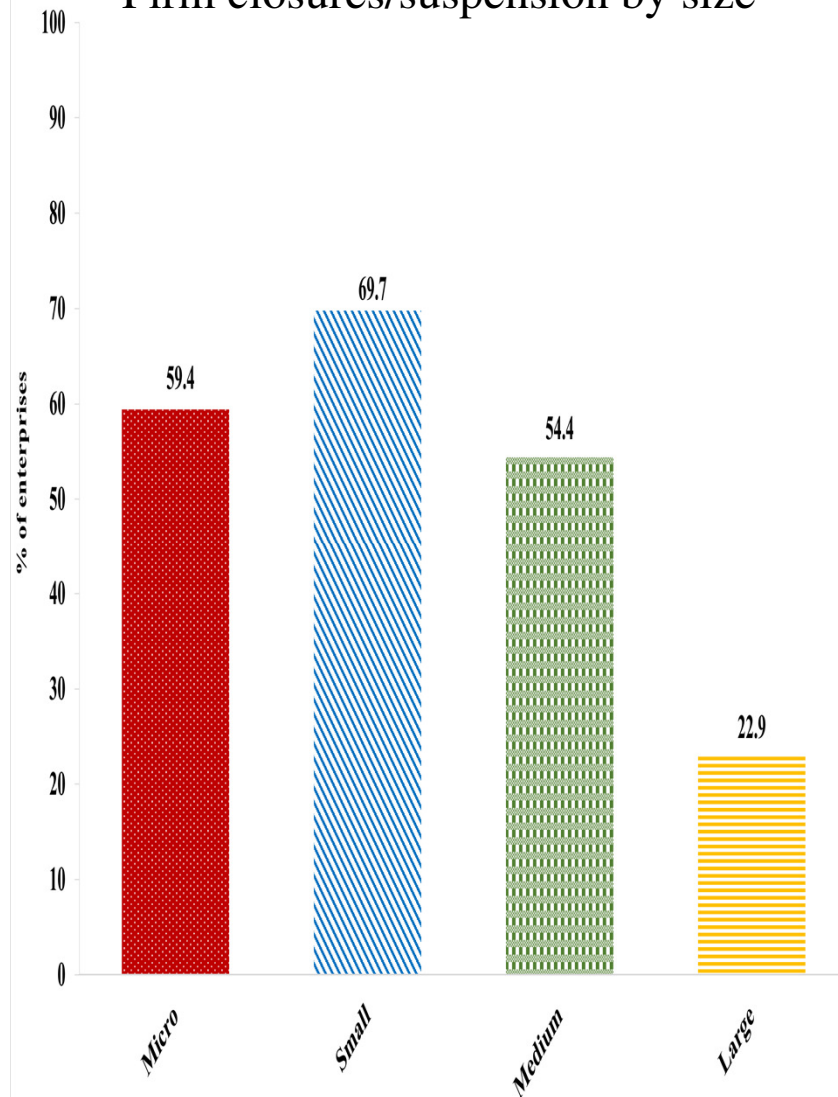
Age of enter by size



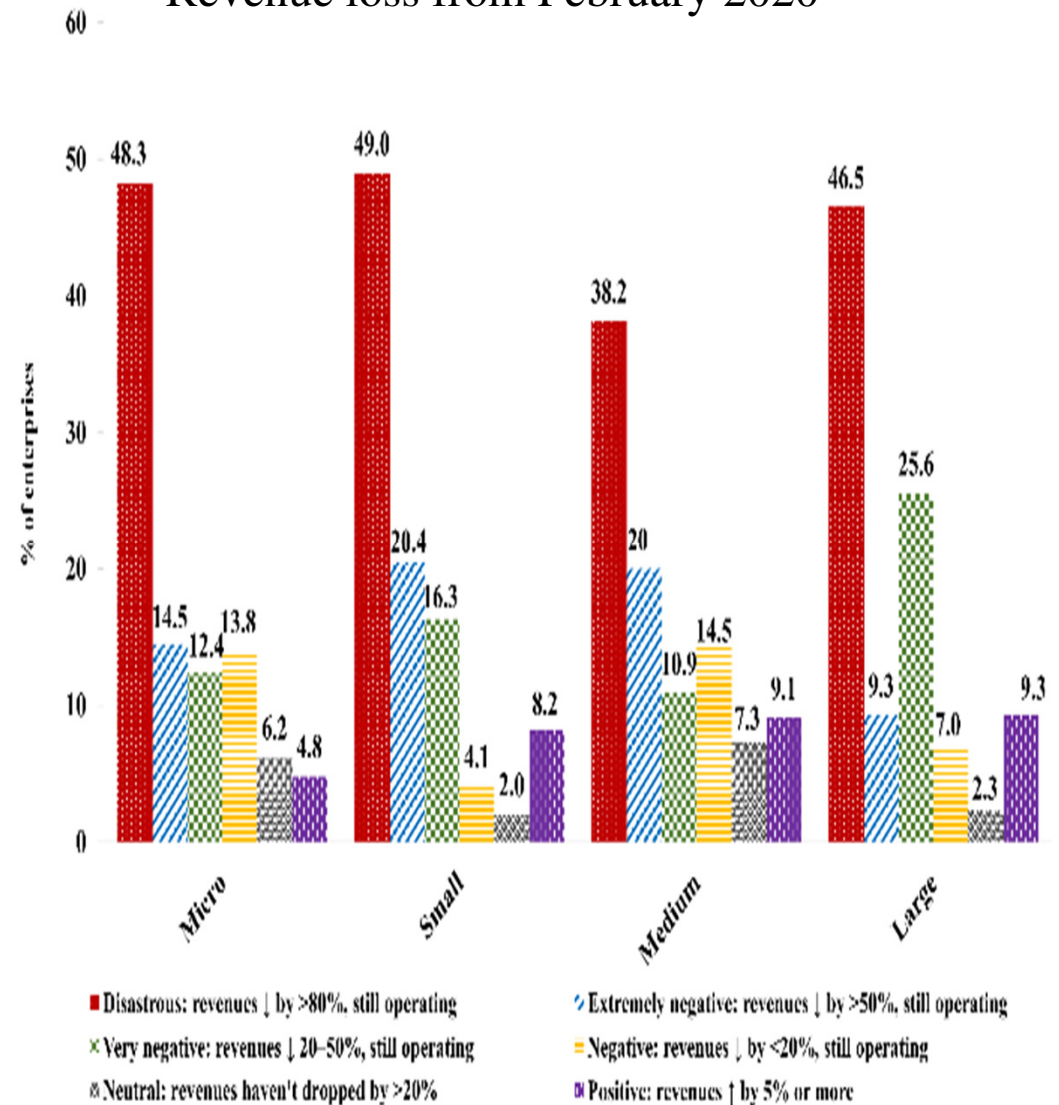
# Firm closures/suspensions and revenue loss by size



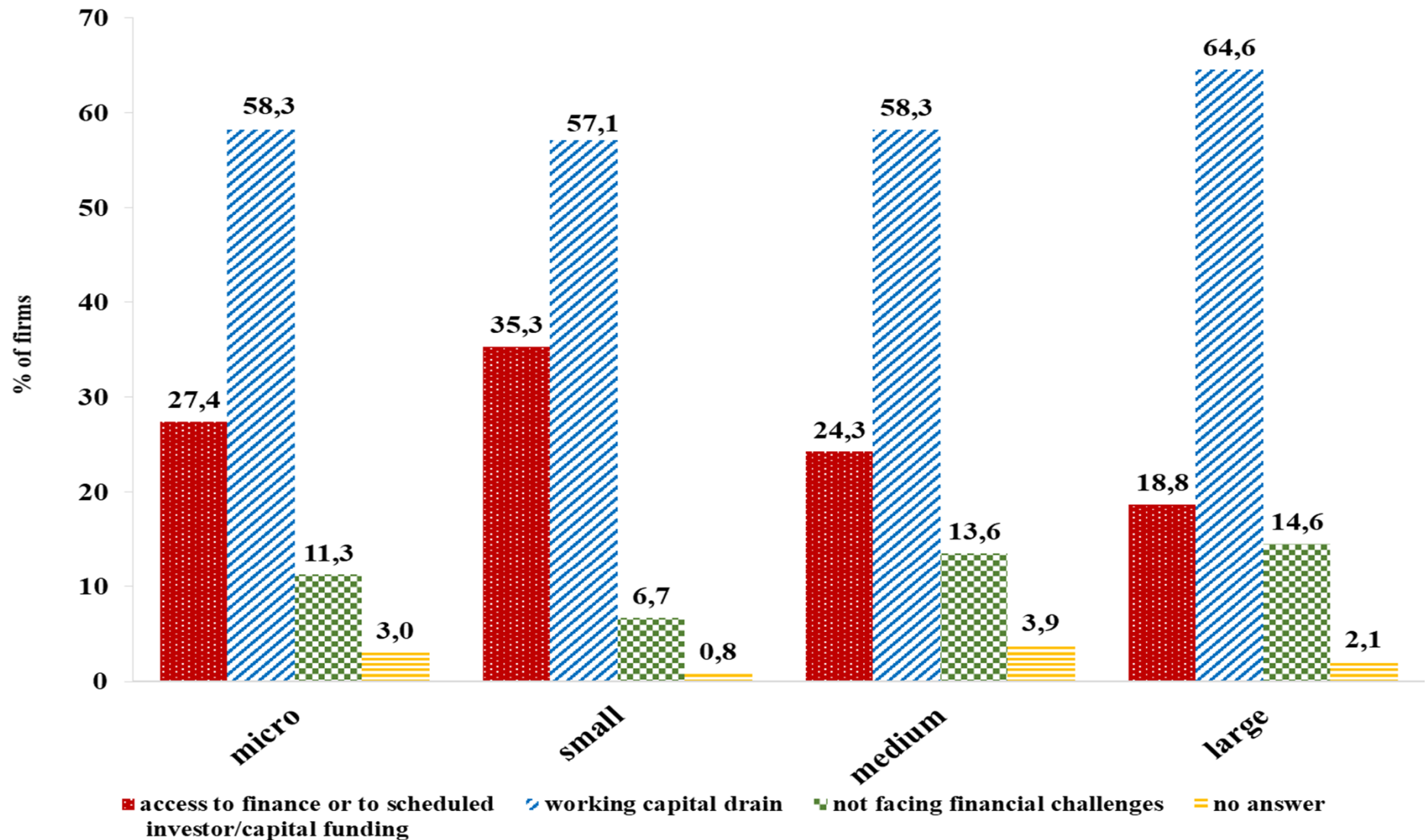
## Firm closures/suspension by size



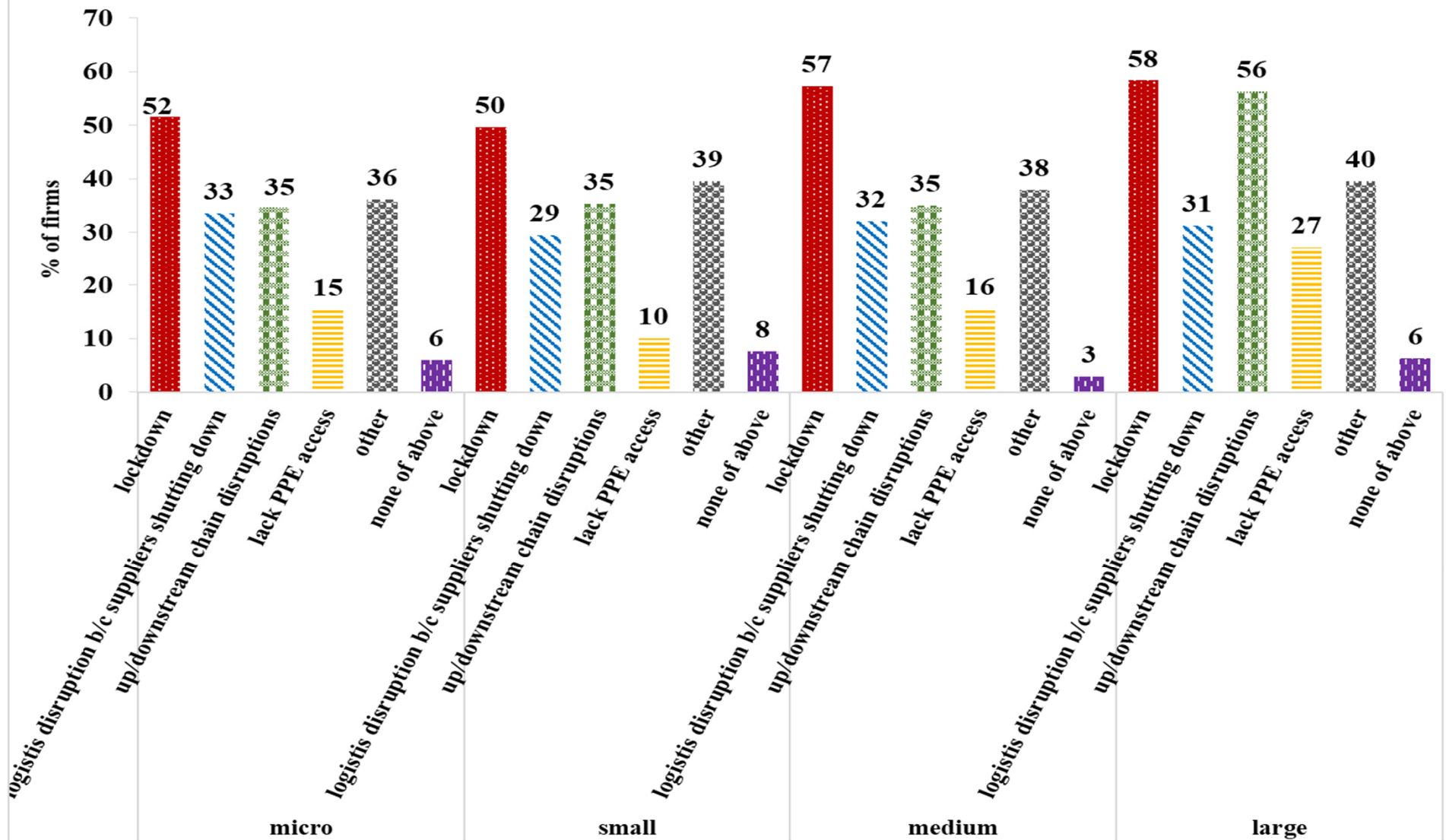
## Revenue loss from February 2020



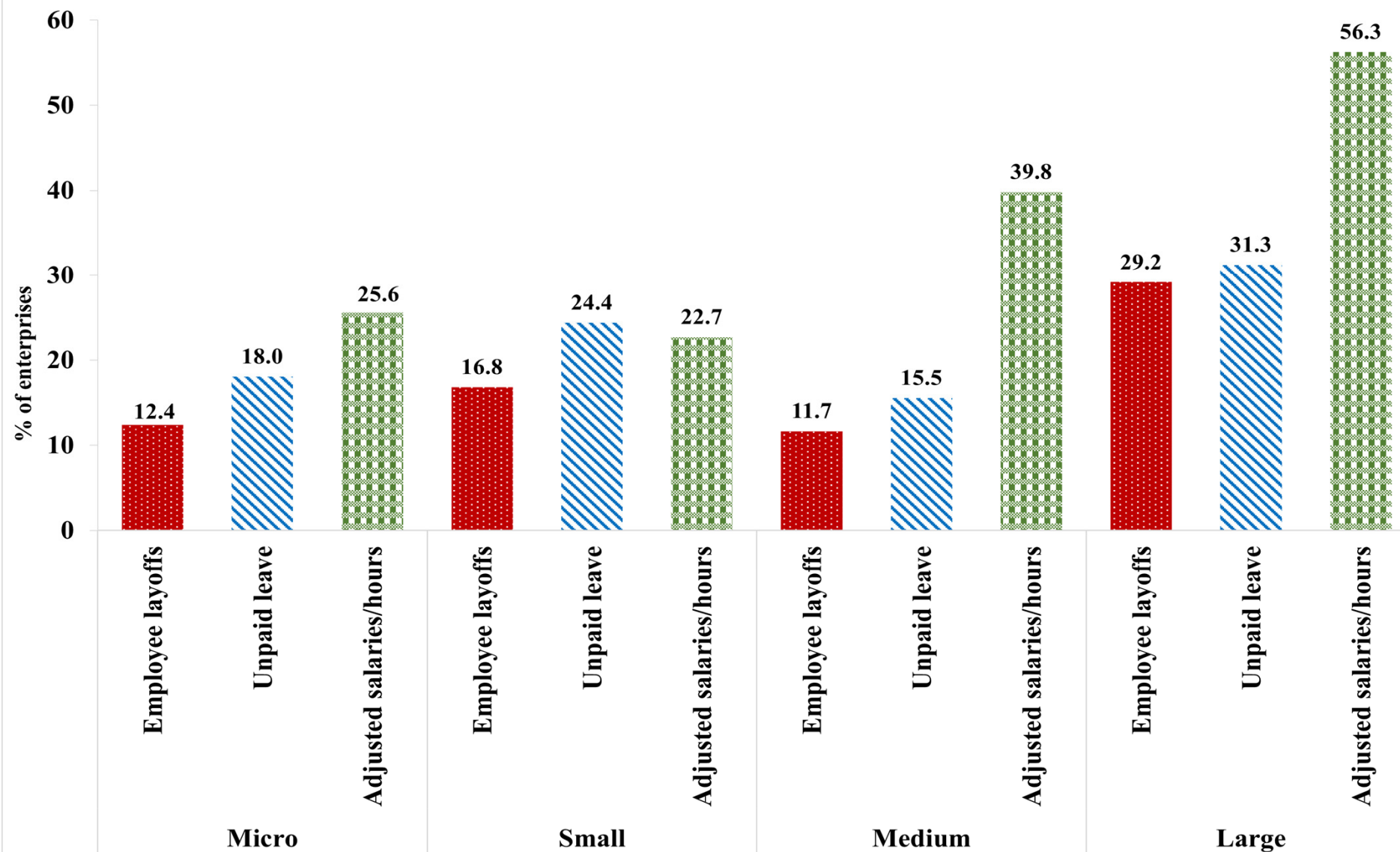
# Transmission mechanisms and operational challenges in times of COVID19: Finance and cash flow challenges



# Operational challenges from February 2020



# Firm behavioural responses: layoffs, wage cuts and working hours

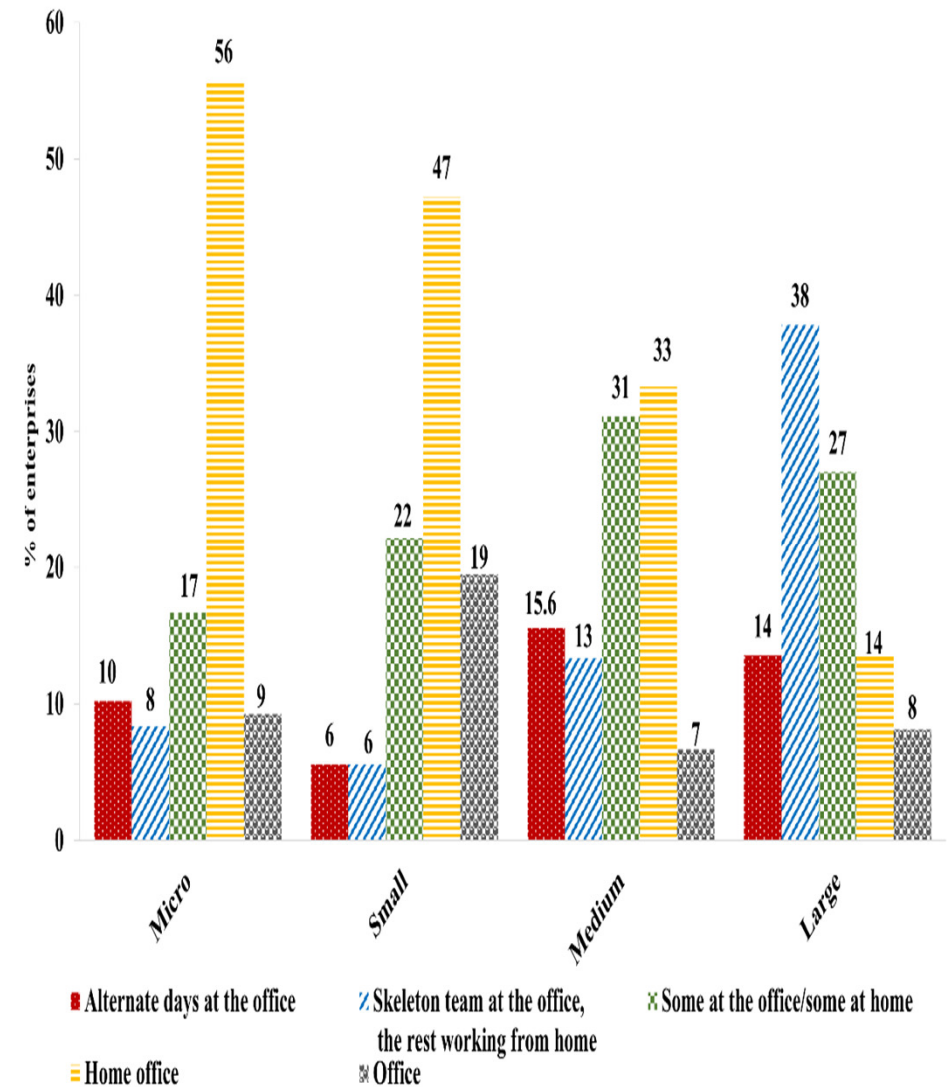
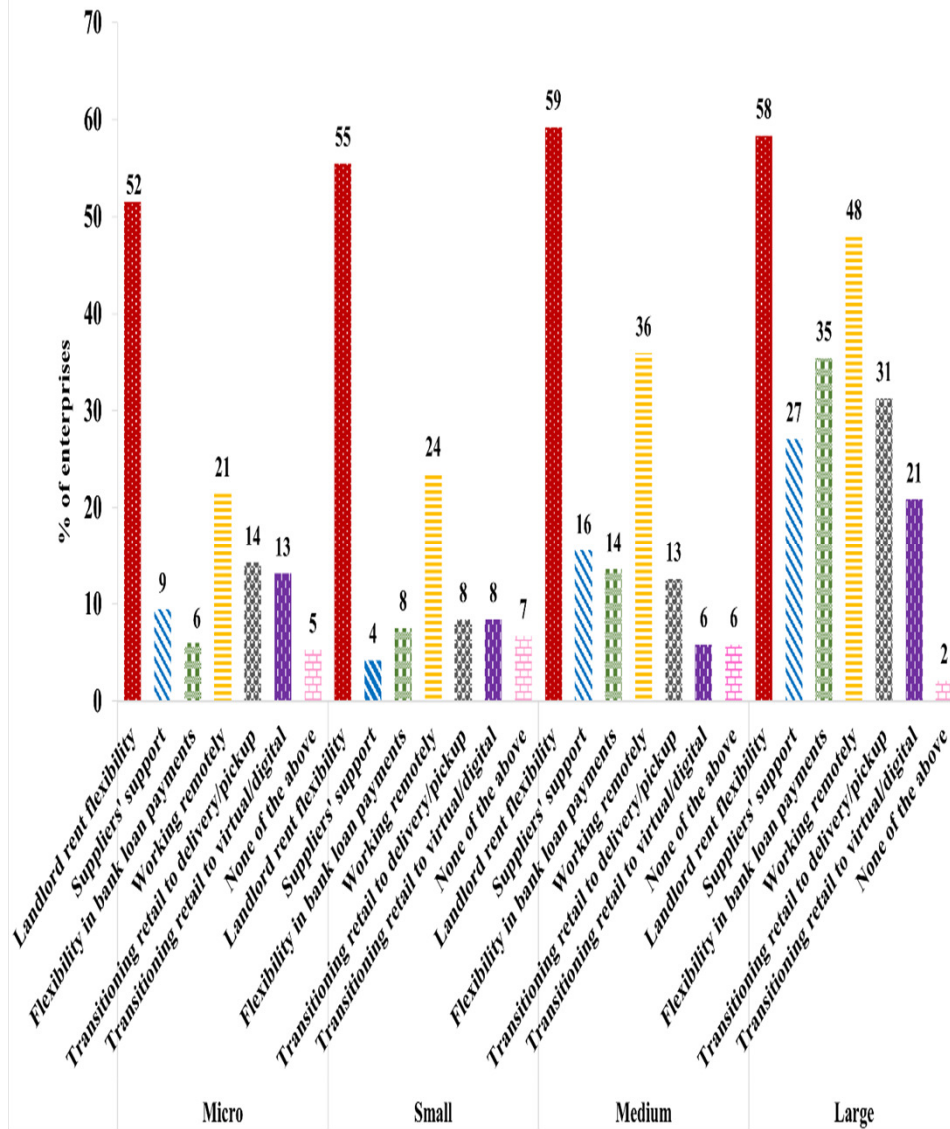




# Coping strategies and mode of operation

## Coping strategies

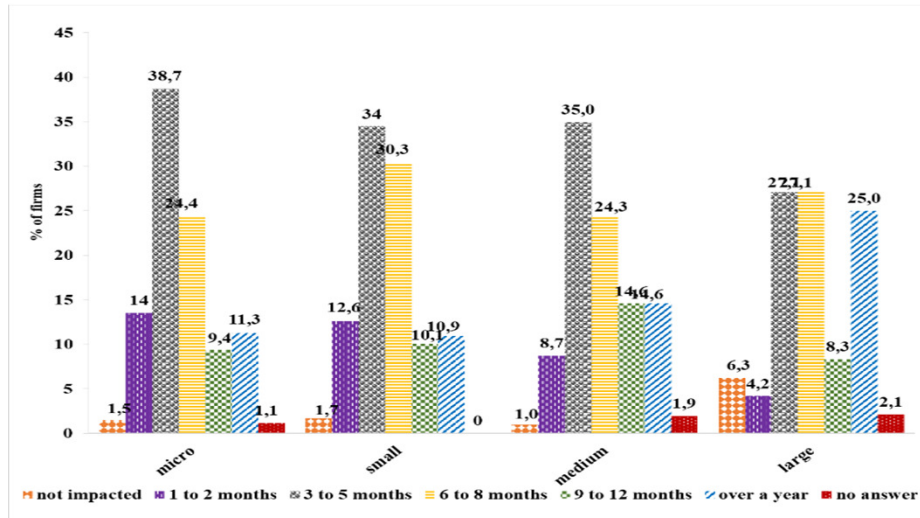
## Mode of operation



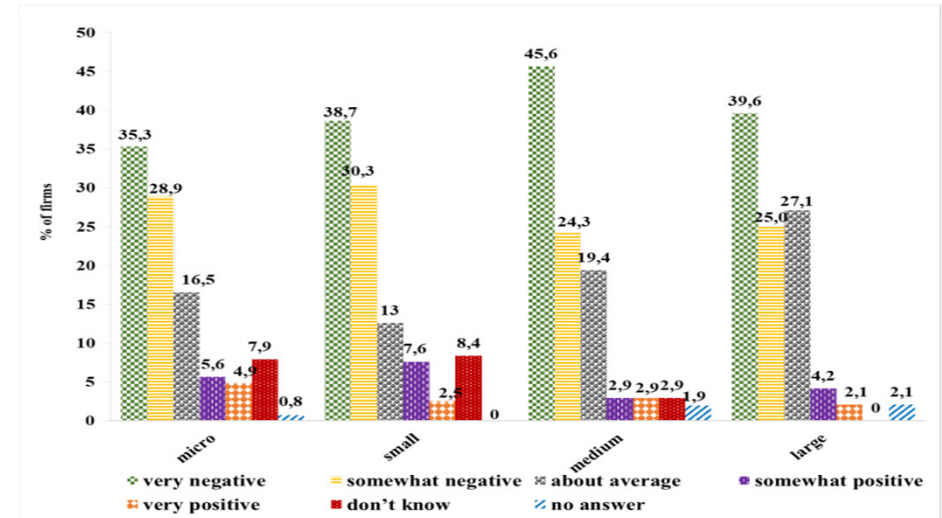
# Predictions & future outlook



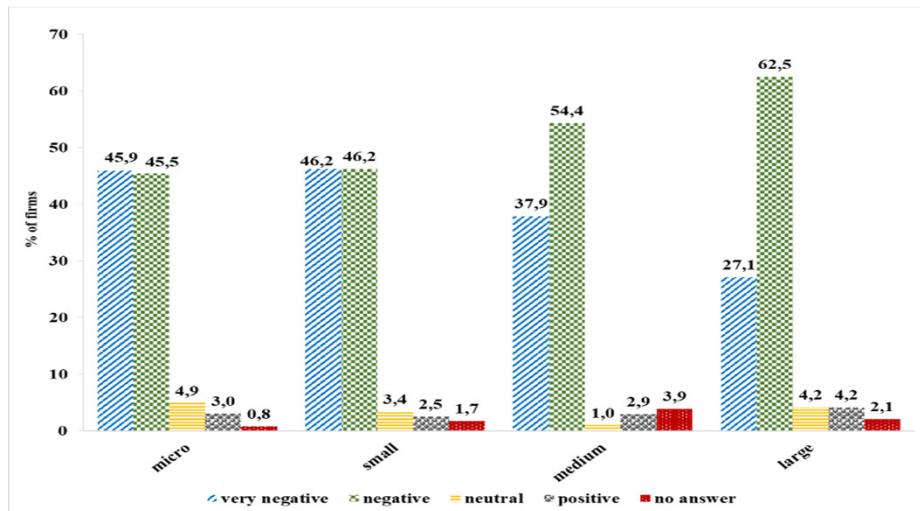
## Predictions on duration of COVID-19 impacts



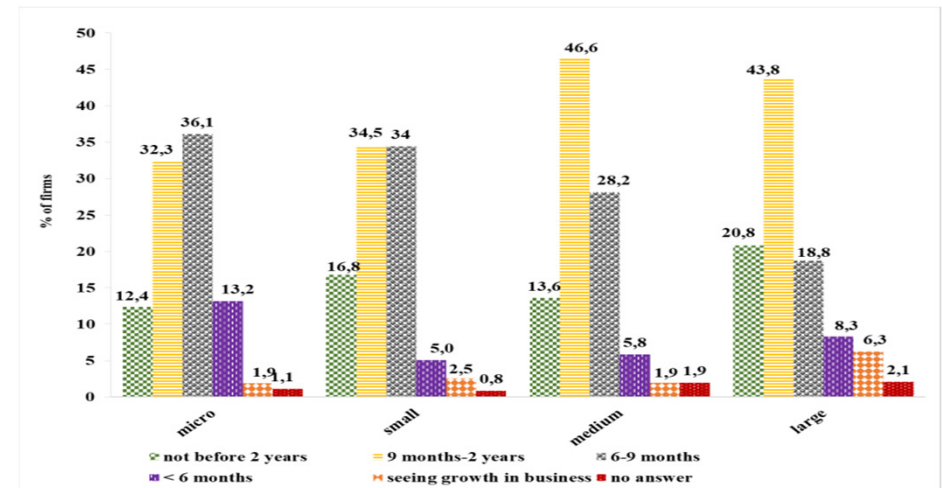
## Enterprise business outlook for 2020



## Six-month business outlook if lockdown persists



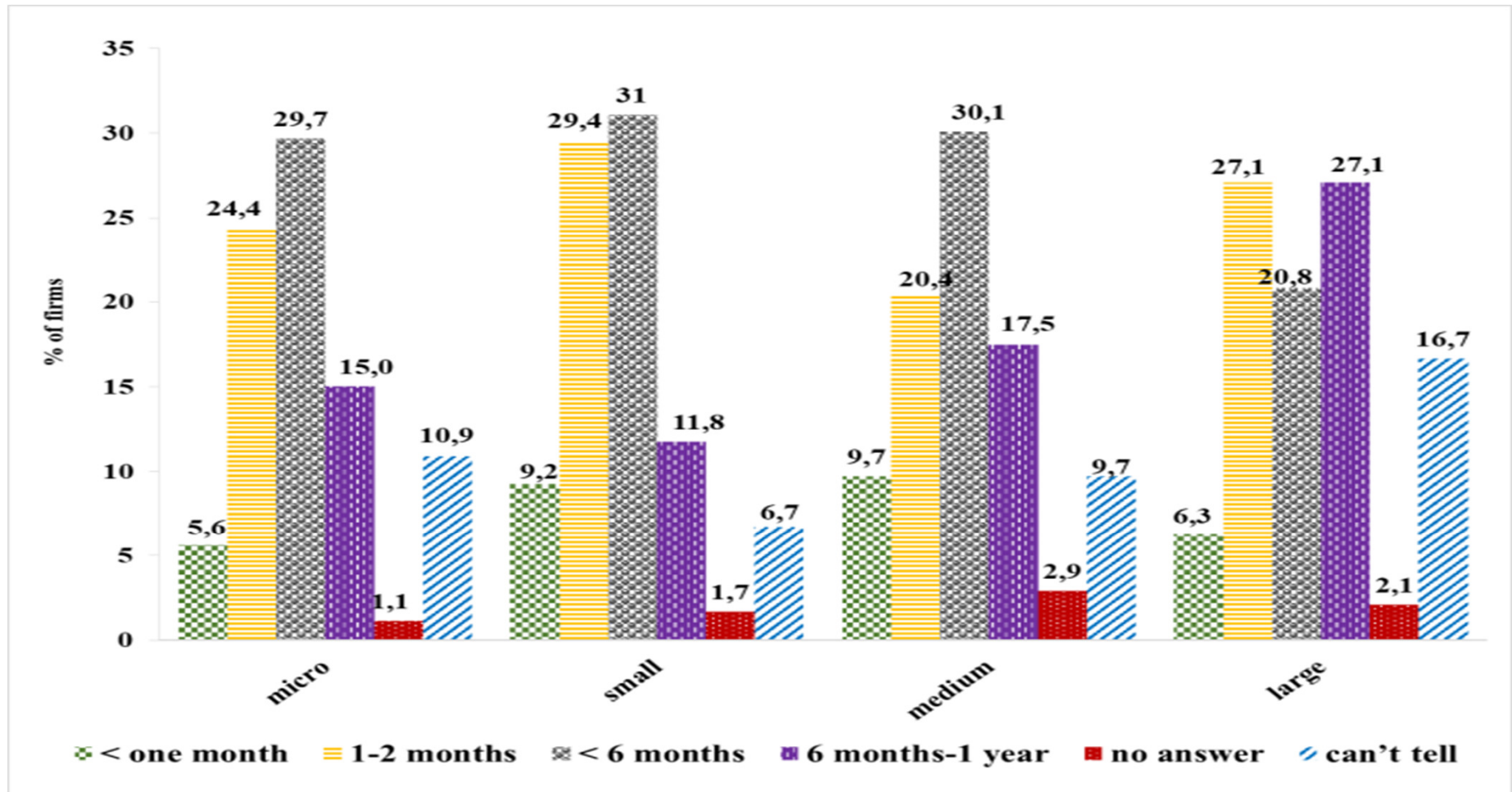
## Outlook on business recovery to 2019 revenue levels



# Predictions and future outlook



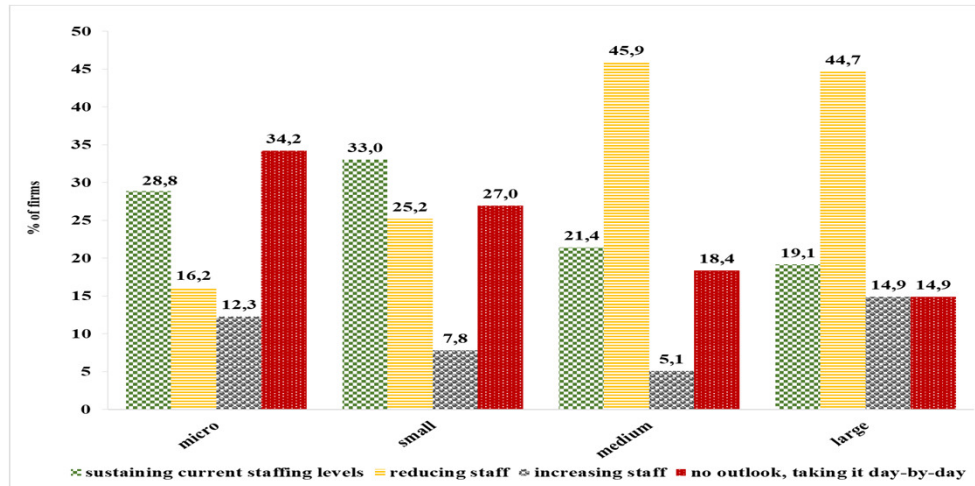
## Length of business sustainability under current conditions



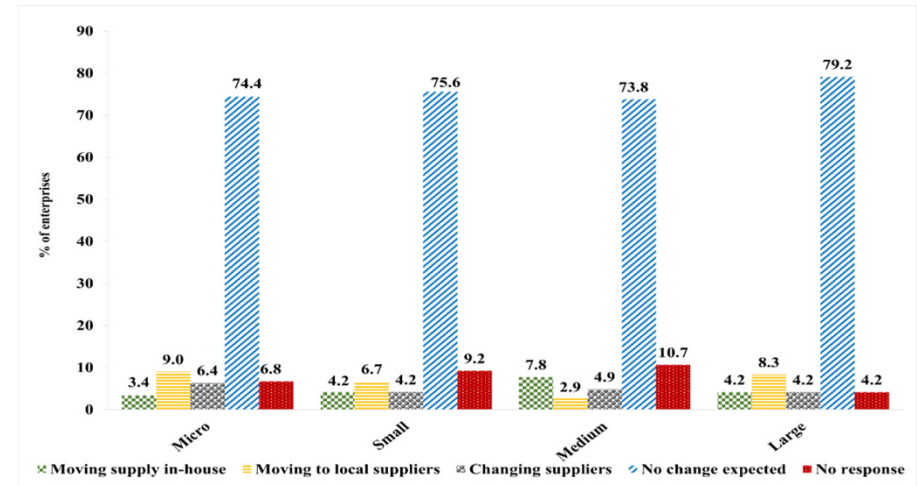
# Future Transitions: Sustaining current behavioural changes post-COVID-19



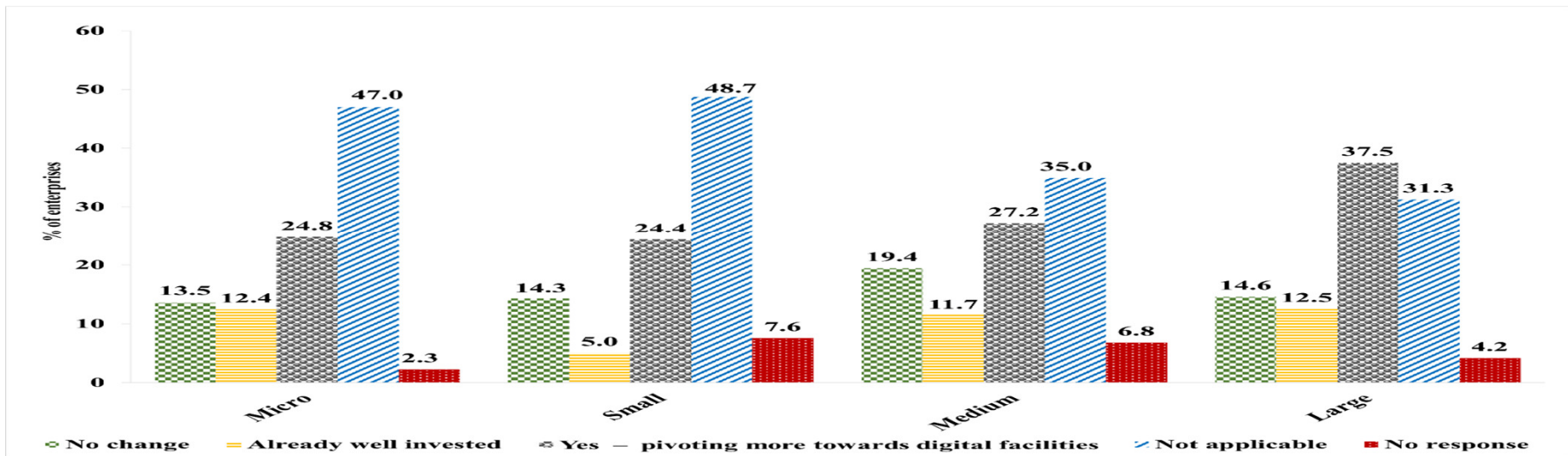
### Future plans for no. of workers (12-mon. forecast)



### Future changes in supply chains



## COVID-19-related acceleration of digital facilities

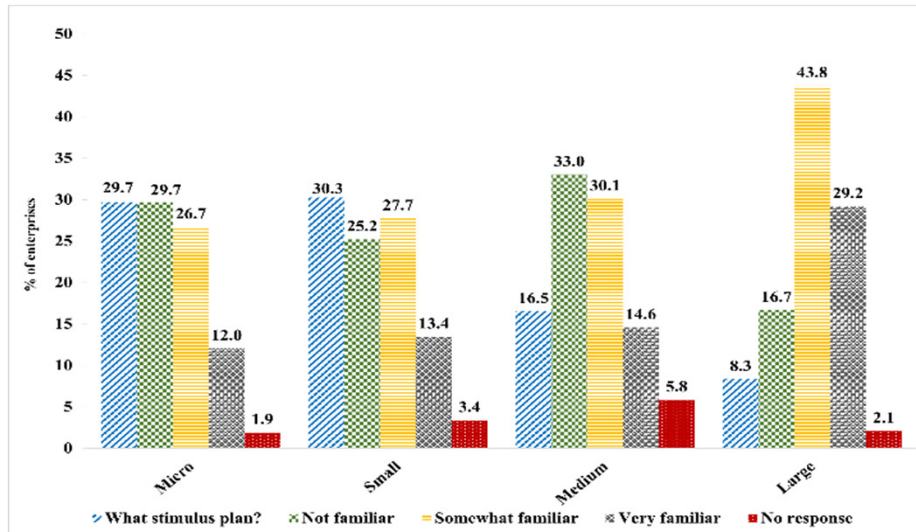


# Perceptions of government stimulus package and SME policy

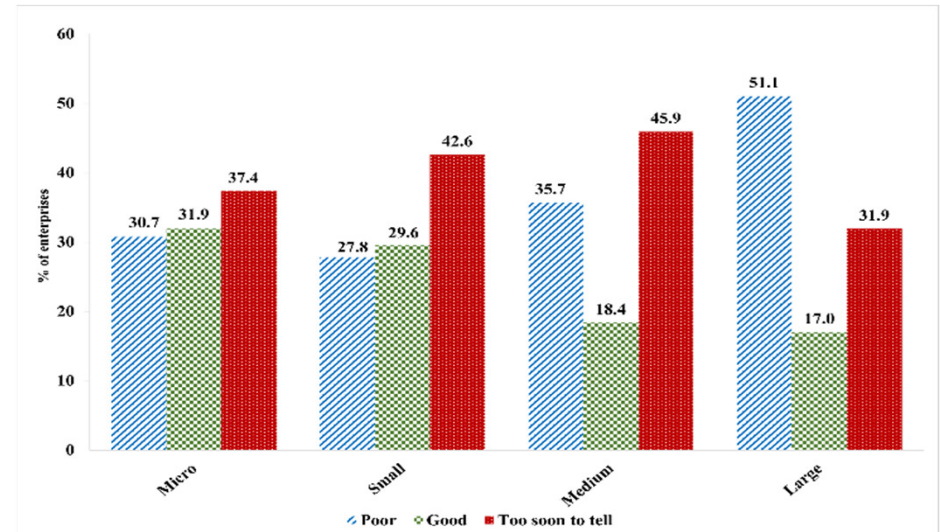
## Views on the Government stimulus package and response



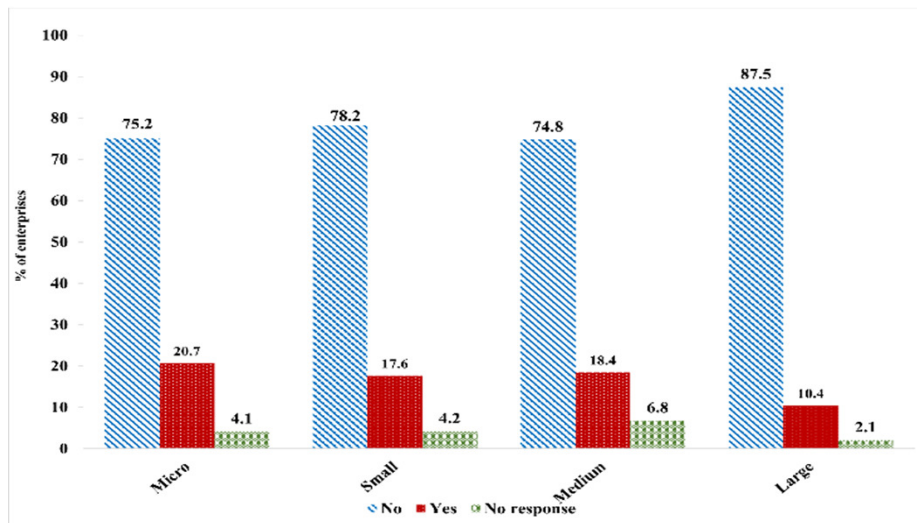
**Familiarity with the Government stimulus package**



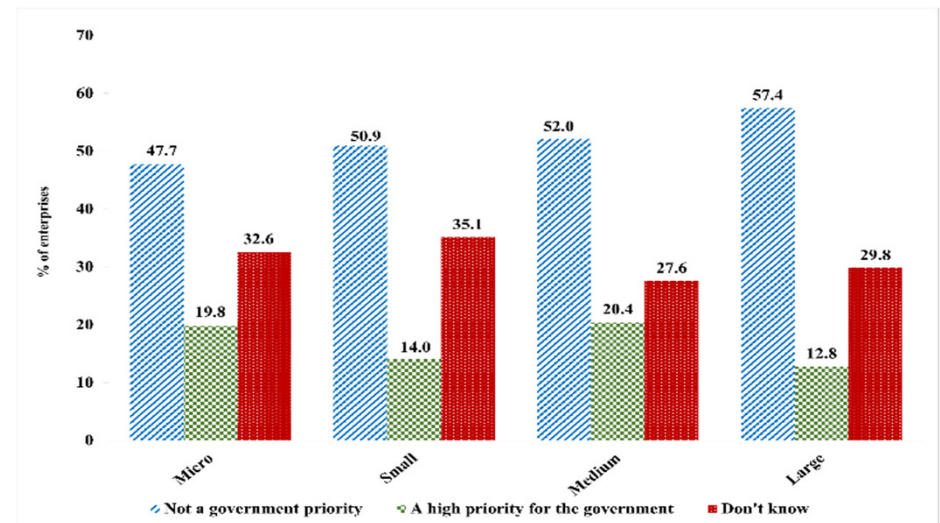
**Views on the Government's COVID-19 response**



**Opinion on whether Government's policies are helpful**



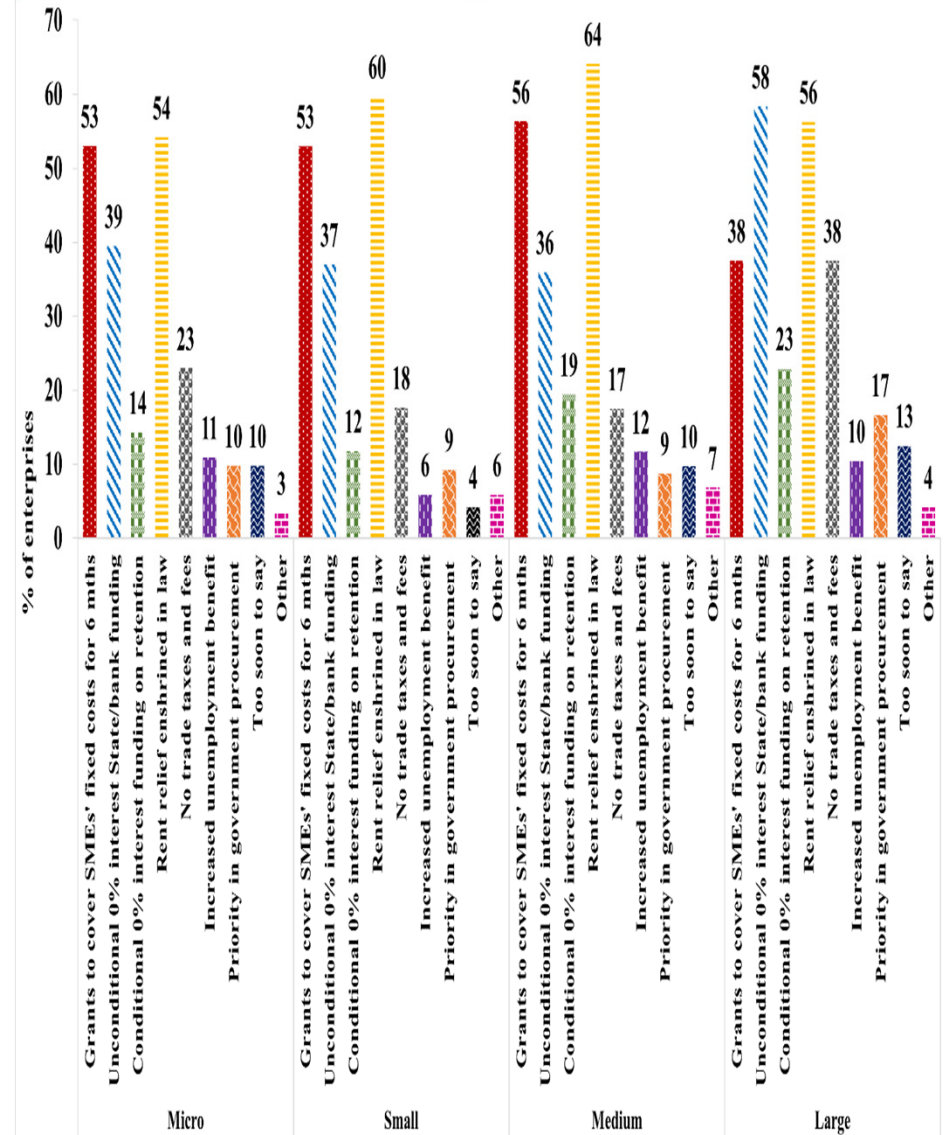
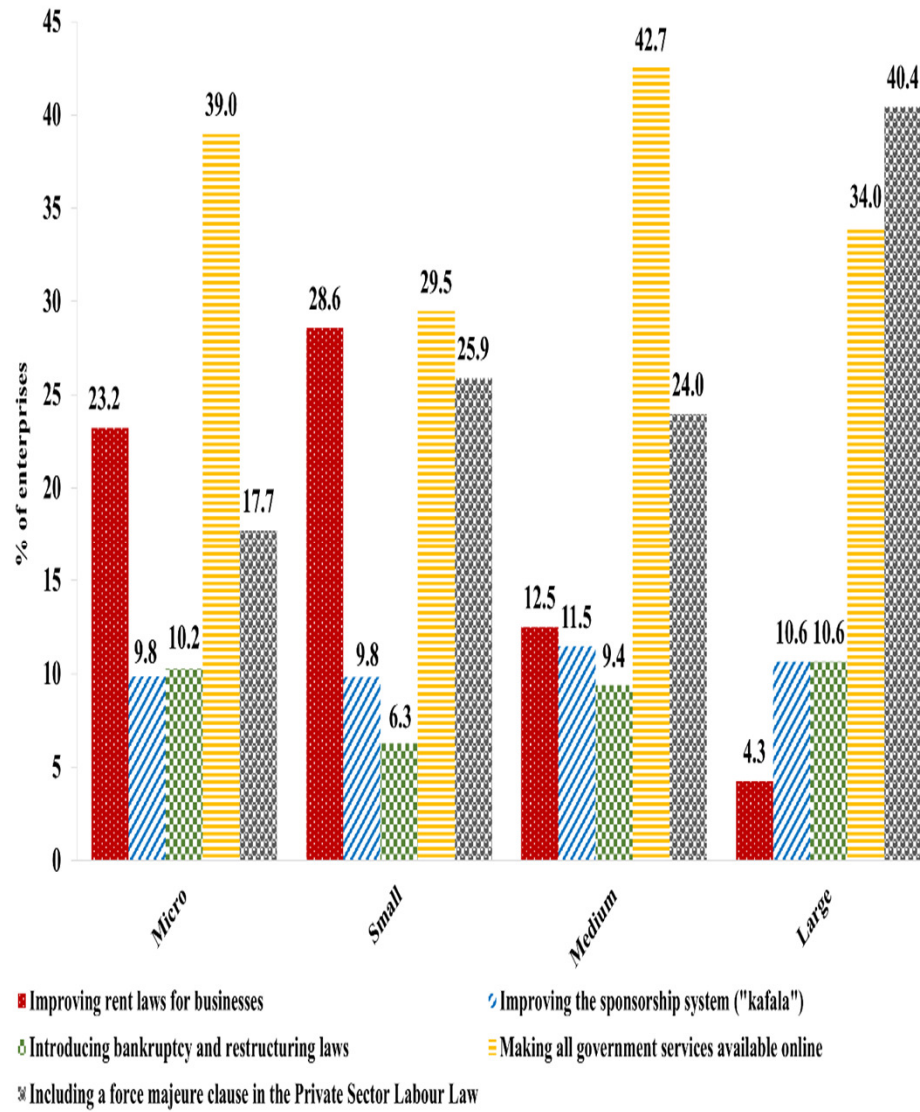
**SMEs' position on the Government's priority list**



# Policy priorities in a pre- & post-COVID-19 world

## Firms most-needed government policies post-COVID-19

## Suggested Government response to COVID-19



# Reflections on the Kuwait case study: back to the social contract



- impacts of the double crisis: larger & older enterprises have not been as severely affected as the smaller, more private sector-oriented MSMEs.
- So despite being very wealthy, Kuwait performs poorly in terms of diversification, enterprise density – especially of MSMEs – entrepreneurial activity and the size of the private sector.
- The question becomes what reasons other than Dutch disease<sub>(although sometimes also related to it)</sub> account for the structural vulnerabilities of the K economy?



# Main reasons for structural vulnerabilities



- generous availability of lifetime secure government employment for all Kuwaiti nationals
- foreigners cannot solely own companies in Kuwait (up to 2016)
- striking finding: the fewer Kuwaiti employees the more likely is the enter. to have suspended its operations or shut down in response to crisis

Kuwaiti workforce	Suspended or shut down			
	Yes	No	Total	% shut down
None	48	16	64	75%
Myself only	120	70	190	63%
< 5	119	93	212	56%
5–15	16	33	49	33%
16–30	2	7	9	22%
> 30	3	7	10	30%



## More reasons ...relevance to the Social Contract

- nature of the Kuwaiti welfare state
- Kuwaiti gov monopolizes a range of sectors
  - Not natural monopolies
  - Enable control of patronage system
- Franchising monopolized by few big franchisees
  - multiple franchises covering all of Kuwait & beyond exclusive to a single franchisee (e.g. McDonalds, Burger King, Starbucks, The Body Shop, Toyota)
  - Some powerful businesspeople own outlets not just of 1 brand name but those of more than 1 brand n.

## More reasons ...relevance to the Social Contract



All these  
government-backed  
monopolies are  
barriers to entry to  
potentially successful  
MSMEs

## The double shock for Kuwait: a blessing in disguise?



- The current double crisis shows that oil wealth is only temporary
- the Kuwaiti people shd earn their living from productive activities
- Kuwait cannot prosper in the long run without diversification
- The crises present a chance for Kuwait to adopt reforms to dynamize its economy and encourage MSME and job creation.

# Major reforms for building back better



- end the public employment guarantee scheme
- regulatory reforms to strengthen the framework of accountability
  - Competition Law 2009, 2017
  - New Public Tenders Law
  - Franchising governed by the 1980 Commerce Law
- Liberalization to lift legal monopoly restrictions
- public sector reform and better public financial management
- reforms to ensure the transparency of the use of the country's oil wealth

**Thanks for listening!**



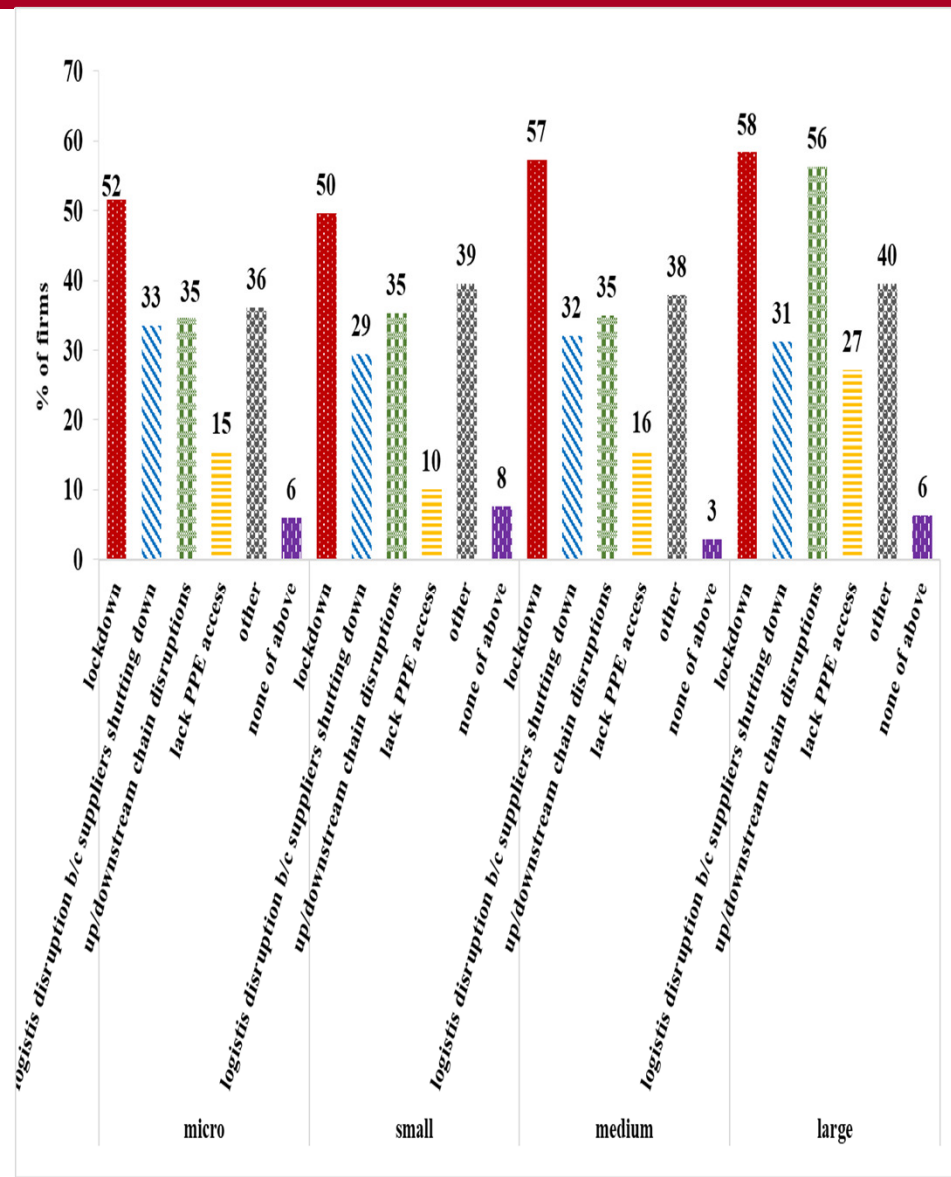
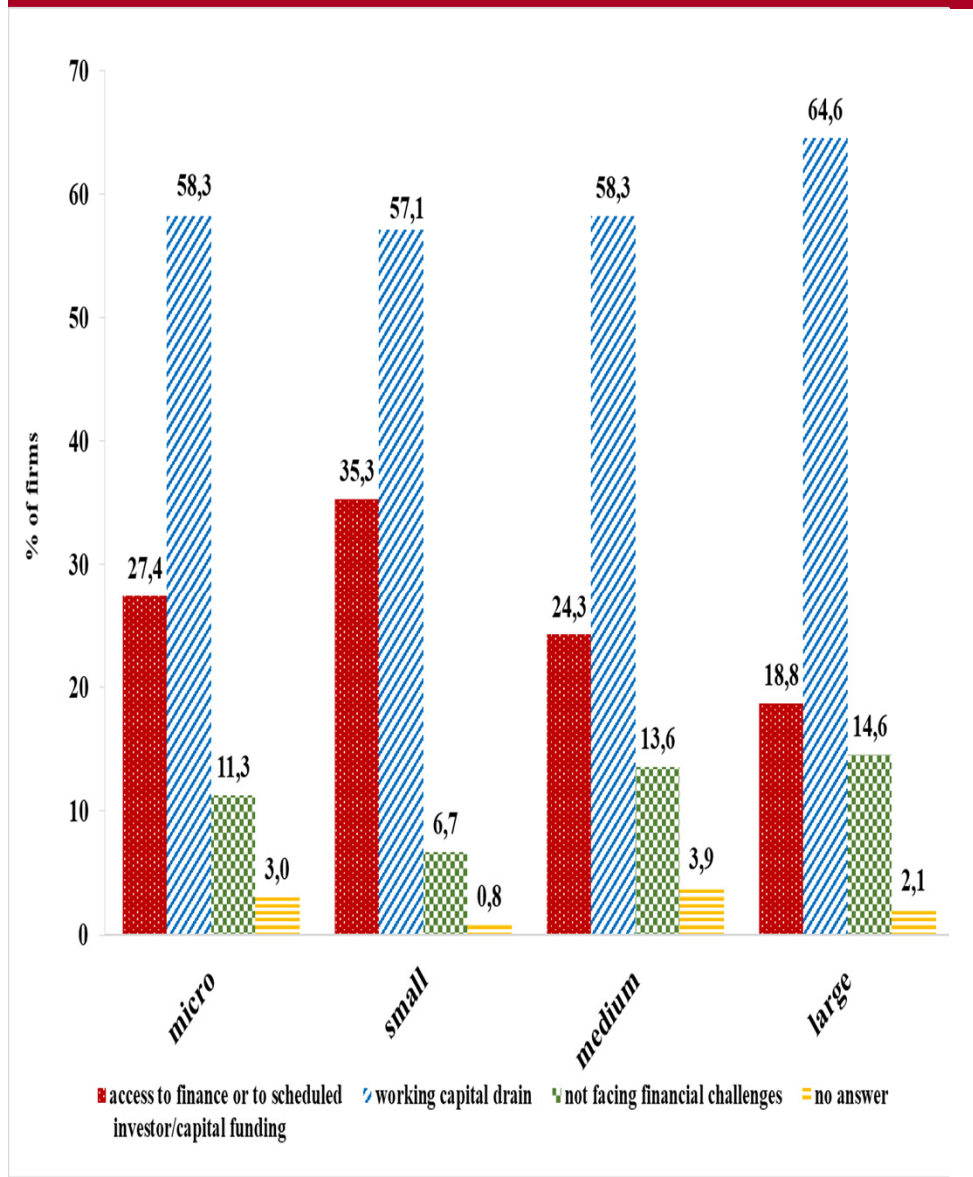
**Stay turned to UNDPs forthcoming report: Micro, Small and Medium Enterprise in the Arab Region in 2020: structural vulnerabilities at a time of multiple shocks: The Cases of Kuwait, Jordan and Morocco**

**Questions**



# Finance & cash flow challenges (q10)

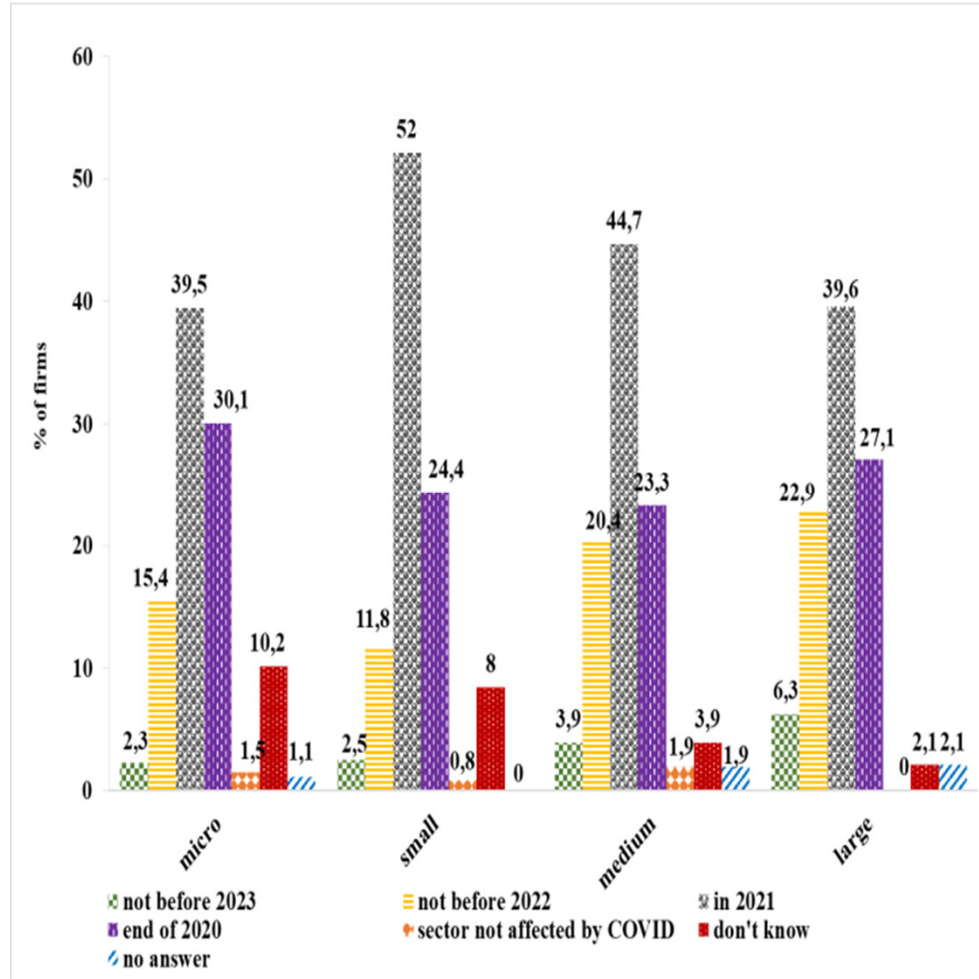
# Operational challenges from February 2020 (q9)



# Predictions & future outlook



### Outlook on sector recovery to 2019



### Length of business sustainability under current conditions

