Summary

Manama, Bahrain 8-10 May 2018

Workshop: Support for Innovation and SMEs **9 May**

Key points

- As engines of job creation and innovation, SMEs must be encouraged so GCC countries can successfully transition to diversified, 21st century economies.
- Governments must provide conducive legislative and regulatory cues on a range of issues, including labour, bankruptcy and the establishment and exiting of businesses.
- Many challenges facing SMEs are cultural – the stigma around failure, for instance – but policy can pave the way towards changing cultural mindsets.
- Some issues, such as upskilling and capacity building, are generational; with early steps already taken, they will begin to show results in a few years.
- GCC countries could do more in terms of providing ownership and citizenship rights to attract talent from other countries.

Synopsis

Creating jobs and fostering innovation are imperative for the GCC countries to diversify their economies and become competitive in the 21st century. Governments are paving the way for SMEs with policy, regulatory and legislative cues, and the pace of change has picked up in recent years thanks to a range of factors. In addition to low oil prices and rising environmental concerns, the key factor here is the young leadership of most GCC countries, which plans for longer time frames and has higher aspirations that readily seep across society.

GCC countries must reform regulation that is making things difficult for SMEs, such as removing minimum capital requirements, improving the ease of doing business and fostering cultural change to view risk-taking and failure favourably, Tala Fakhro, Executive Director, Market and Strategy Intelligence, Bahrain Economic Development Board, said. Countries must open up and cooperate more, since economic growth is not a zero-sum game. Such events as Dubai-based ride-hailing business Careem going for an IPO soon and souk.com being bought by Amazon provide external validation that will make GCC countries more attractive for investors, she said. However, governments must make exiting a business more feasible, and make their equity markets more vibrant.

Governments have typically responded to market requirements, but it is important to listen to entrepreneurs' problems and find solutions, H.E. Shaikh Mohamed bin Isa Al-Khalifa, Chairman, Tamkeen, Bahrain, said. "Access to finance is the easy part," he commented, adding that it is the non-financial aspects that require more work, such as providing mentorship and coaching to young entrepreneurs, at scale. "The mojo is to have people with the right ambition," he said, explaining that while businesses that offer "cakes and restaurants" need support, it is also important to have companies that are scalable. "[The] risks in the region are bureaucracy and complications and obstacles to a single market," he said, making a case for GCC countries to work together instead of trying to build their individual competitive advantage.

For a region with a long tradition of risk-taking, from where traders have ventured into the unknown since the second millennium BC, the culture of risk-taking has been snuffed out by a legal framework that has made starting a business difficult, said Rami Alturki, President and Chief Executive Officer, Alturki Holding, Saudi Arabia. "It has to be easy to start and shut a business," he said, adding that if laws made shutting down a business easier, "the culture will follow". Similarly, bankruptcy laws could be changed to encourage risk-taking and destigmatise failure, Abdulla Janahi, General Partner, TCM and Co-Founder, Orelias, United States, said.

At the same time, governments must make it easier for start-ups to raise capital locally or within the GCC, which is difficult at present because public markets are focused on established companies, and financial markets are neither deep nor diverse. “Optimistically speaking, we not so far away from an ecosystem to make regionwide financial markets for entrepreneurs,” said Nichola Eliovits, Managing Partner, Olive Tree Capital, United States. He said GCC countries, due to their small size, have smaller pools of labour and ideas, which is one more reason for them to work together. “There is lots of capital but not enough labour and talent,” he commented, adding, nevertheless, that in another five years or so when venture capital exits businesses, the rewards will become visible, making the region attractive for more entrepreneurs and investors.

GCC countries are short of technical talent, although there is enough talent in Egypt, Jordan and other countries, Janahi said, making a case for greater extra-regional integration. Pointing out that attracting top talent globally depends on making people feel welcome, Douglas Hansen-Luke, Executive Chairman, Future Planet Capital, United Kingdom, said the GCC region could gain competitive strength in openness and friendliness. For instance, GCC countries would do well to relax their restrictive rules on ownership and citizenship for foreigners, a participant from the audience suggested.

Session panellists
H.E. Shaikh Mohamed bin Isa Al-Khalifa, Chairman, Tamkeen, Bahrain
Rami Alturki, President and Chief Executive Officer, Alturki Holding, Saudi Arabia
Nichola Eliovits, Managing Partner, Olive Tree Capital, United States
Douglas Hansen-Luke, Executive Chairman, Future Planet Capital, United Kingdom
Abdulla Janahi, General Partner, TCM and Co-Founder, Orelias, United States
Tala Fakhro, Executive Director, Market and Strategy Intelligence, Bahrain Economic Development Board

Moderator: **Walid Faza**, Partner and Investment Principal, Wamda Capital, United Arab Emirates

Disclosures
This summary was produced by the Bahrain Economic Development Board. The views expressed are those of certain participants in the discussion and do not necessarily reflect the views of all participants or of the Gateway Gulf Investor Forum.