THE STATE OF SMALL & MEDIUM ENTERPRISES (SMEs) IN DUBAI

A report by Dubai SME
An agency of the Department of Economic Development
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FOREWORD BY HIS EXCELLENCY, ABDUL BASET AL JANAH
Chief Executive Officer, Dubai SME

It is acknowledged that the SME sector is the bedrock of any economy. It adds significantly to new economic growth, and is a major source of innovation and entrepreneurial talent. Knowing its size and characteristics are fundamental to understanding the business dynamics of the city, and the economy at large. To this end, and following the mandate of Dubai SME to oversee the development of the SME sector, a comprehensive report has been produced to understand better the state of this critical sector in Dubai, and the various industries where small businesses predominate.

This first-ever report provides both the macro and micro picture of SMEs operating in the overall SME economy as well as in the sub-sectors of trading, services and manufacturing. It is hoped that the report will serve as a reference point for all key stakeholders in economic development at the emirate and federal levels.

From the findings in the report, we learn that Dubai’s SME Economy is healthy and extremely dynamic in supporting the UAE economy as a whole. Driven by high levels of business opportunities particularly in the trading and services sector, the Dubai SME sector continues to grow the economy. While there are many strengths, for the Dubai SME sector as a whole, and at the individual SME level – particularly with regard to growth-oriented SMEs, there are still areas for improvement.

First of all, the overall productivity of SMEs, and by extension, their competitiveness is comparatively lower than their counterparts in Singapore and South Korea. Secondly, adoption of technologies in improving efficiencies, processes and services among Dubai’s SMEs is still lacking. Thirdly, our SMEs also need to improve their overall corporate governance, especially financial governance and transparency, if it seeks to operate in global markets and attract investors and seek business collaborations. Fourthly, our SMEs need to improve their HR capabilities by hiring and rewarding the right talent, and making their organisations a great place to work. Finally, our SMEs also need to invest in innovation, and create a culture of innovation in their firms to ensure new markets, products and services.

The findings in the report will provide the inputs to the Dubai SME 5-year Strategic Plan to be released in early 2014. A key component of the plan is to enhance the SME ecosystem for the life cycle development of SMEs from cradle to global, and to make Dubai the best place to start, grow, invest in and expand SMEs to be global enterprises. I hope all stakeholders will come forward to support Dubai SME in this strategic effort.

FOREWORD BY HIS EXCELLENCY, SAMI DHAEN AL QAMZI
Director General, Department of Economic Development – Dubai.

Small and Medium Enterprises (SMEs) are the anchors of any economy as they are primarily responsible for driving job creation, innovation, exports and new business models. They are also the prototypes of tomorrow’s global companies. SMEs account for 95% of the enterprise population in Dubai and are responsible for 43% of the total workforce and 40% of the total value added in the emirate. This is based on the official definition of SMEs unveiled by Dubai SME in 2009, which serves as a reliable metric to estimate and ascertain the size and state of the Dubai SME sector and compare it with other economies. I am therefore pleased that Dubai SME has taken up the commendable task of producing a comprehensive and authoritative report of the Dubai SME economy based on the official definition of SMEs in Dubai.

From the findings of the report, Dubai SME will formulate appropriate strategies and initiatives over the coming years to improve the SME sector as a whole and hopefully, increase their value add to the Dubai economy, in tandem with the growth of the Dubai economy.

To build and enhance the environment for SME development, all stakeholders in the economic and business development of the country should work with the Department of Economic Development and Dubai SME in making the city the number one place in the world to start, grow and expand their SMEs into global enterprises.

It is with great pleasure that I present the first-ever State of the Dubai SME report and I welcome any feedback that readers may have.
INTRODUCTION TO THE REPORT

Small and Medium Enterprises (SMEs) are the backbone of Dubai’s economy, representing 95% of all establishments in the Emirate. These SME businesses account for 42% of the workforce and contribute around 40% to the total value added generated in Dubai’s economy. The Government has a high focus on enhancing the contribution and performance of the SME sector to make these businesses comparable to their counterparts in other developed and high-income nations. Against this backdrop, the initiatives aimed at the development of SMEs and enhancing support for them have to be formulated on detailed research on their current state and development needs.

This publication is the first comprehensive report on the SME sector in Dubai and aims to provide a multi-dimensional overview of Dubai’s small and medium enterprises. The report starts with a statistical snapshot of the structure of Dubai’s SME sector, followed by a detailed analysis of the economic and business performance of the sector. Forming a core component of the report is a comprehensive assessment of the state and characteristics of SMEs operating in the Emirate of Dubai.

In addition to facilitating and formulating the development plans for SMEs and plans directed at facilitating the improvement of the overall business environment, this report will be of paramount significance to a number of public and private entities catering to the needs of SMEs in Dubai. These include banks, financial institutions, human resource consulting and training firms, firms engaged in offering IT solutions and services, auditing firms and industry associations, amongst others. Thus, the key objective of the report is to act as a reference for SME businesses and SME Stakeholders in Dubai and international stakeholders by highlighting the performance and characteristics of the SME sector (based on certain high-level indicators that can be tracked annually).

SMEs in Dubai are defined and classified as per the prescribed definition of Dubai SME, an agency under the Department of Economic Development (DED), which is mandated to develop Dubai’s SME sector. The definition of SMEs in Dubai has been detailed within the next section on ‘SME Definition for Dubai’.
SME DEFINITION FOR DUBAI

Small and medium enterprises (SMEs) are viewed as the ‘engine’ for economic growth and a vital contributor to the economy’s GDP. They are a primary source of entrepreneurship, innovation and employment creation.

Dubai SME acknowledged the importance of the SME community and its critical role in developing and diversifying the economy by formulating and advocating a clear and comprehensive definition of SMEs in Dubai in 2009. This definition was a first of its kind in the UAE.

With a common language to define SMEs (based on turnover and employment size), Dubai SME is in a better position to drive the growth and development of the SME sector through its core initiatives and other targeted programs. These programs and initiatives are crucial for supporting the larger economic mandate of the Emirate in collaboration with other key stakeholders in the public and private sectors.

Rationale and Purpose of the SME Definition

The SME definition serves as a ‘common language’ that leads to convergence of multiple stakeholders engaged in various SME development roles and activities. It enables efficient co-ordination and collaboration amongst these stakeholders. Additionally, it serves as a baseline and framework for implementing multiple initiatives directed towards the development of SMEs.

Apart from creating a framework for determining the eligibility of establishments for various SME development programs, the definition ensures a reliable basis for monitoring the impact of these initiatives. Furthermore, the definition has become the basis of compiling relevant quantitative statistics related to the sector and is already being deployed as the framework for the Dubai Statistics Center’s National Income Accounting surveys.
Benefits of the SME Definition

The SME definition serves as the base criterion for targeting as well as measuring the impact of various SME policies and programs. These programs are primarily focused on enabling market expansion, increasing exports, facilitating access to finance and providing networking opportunities to entrepreneurs.

The definition provides the framework to converge the benefits of these programs and policies for Dubai’s SME community entailing the development of competitive advantage, growth in business sophistication, higher penetration of technology, enablement of greater access to finance and access to market opportunities.

Further, these benefits translate into enhancement in international standing of Dubai’s SME sector, increase in potential for attraction of foreign investment and creation of high value-add jobs within the economy. Overall, the launch of the definition was Dubai SME’s first step towards the development of the SME sector in line with the Emirate’s and UAE’s Economic Development plan.

Formulation of the SME Definition

The SME definition was systematically derived through a comprehensive process combining the following building blocks (Figure 3).

- **Macroeconomic data** on GDP, GDP contribution, employment and trade flows was evaluated to ensure that the definition is in line with the economic reality of Dubai.
- An inventory of **international and regional definitions** was studied to determine the typical incidence of key indicators and parameters adopted for these definitions.
- An **assessment of the philosophy, perspectives and application of the SME definition across key stakeholders** including free zones, banks and relevant government entities was conducted.
- The thresholds for the definition were developed by assessing the typical SME landscape / structures across various countries; this helped to determine the typical composition and structure of distribution of businesses across the SME and large enterprise category, as well as indicative breakdowns for classification into the Micro, Small and Medium categories.
In addition, a survey was conducted on a sample of 1,200 SMEs in Dubai across the core sectors, namely Manufacturing, Trading, Construction, Real Estate and Services, to determine the dispersion of businesses in terms of various parameters, such as value-add, degree of business sophistication, PC usage, etc.

- An inventory of potential indicators (employee headcount, turnover, net profits, registered capital, total assets, net worth and value add) were assessed in terms of quality of fit, collection feasibility, predictive potential and durability.

- Detailed SME-related data, sourced from the Dubai Statistics Centre, Dubai Chamber of Commerce & Industry and Department of Economic Development, was analyzed across various SME-specific data sets to establish causal relationships between the parameters (business counts, employee headcount, turnover, etc).

Figure 3

**Definition for SMEs in Dubai**

As an outcome of the development process, a comprehensive and authoritative definition for SMEs in Dubai was developed.

An SME in Dubai is defined as any enterprise which meets the thresholds of Employee Headcount AND Turnover, as applicable to the sector it belongs to [Trading / Manufacturing / Services]. Further, the classification of enterprise size [Micro, Small and Medium], is based on unique thresholds for each sector.

For the purpose of the SME definition, an enterprise is defined as ‘an entity engaged in an economic activity, with a legal form i.e. registered as a business either with a Commercial Registry (e.g. DED) or with a free zone / industrial zone authority. As the SME definition is a combination of the Employees Headcount\(^1\) AND Turnover\(^2\), it is compulsory for a business to qualify on both the parameters for qualification. The SME definition is a 3 x 3 matrix, with thresholds for a cross section of each enterprise size [Micro, Small, Medium] and industry (Manufacturing, Services, Trading). In addition, the definition also incorporates certain guidelines for testing the ‘independence’ and ‘autonomy’ of business enterprises (this is explained within the subsequent section on independence criteria).

Figure 4 illustrates the SME definition for Dubai classified according to the sectors and size of businesses.

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\(^1\) An employee is one who is engaged in economic activity pertinent and relevant to the business, within the realms of running / operating, maintaining and administering the business and receives salary / wages as reward for the service rendered to the business.

\(^2\) Turnover is defined as the 'top line' component of the business’s Profit & Loss account and takes into consideration the value of income earned by the business by engaging in activities within the course of its normal business operations.
Note on Independence Criteria

The ‘independence’ criteria which is an integral part of the SME definition, provides guidelines to determine qualification of enterprises for SME status as well as to ascertain the actual enterprise size classification (Micro / Small / Medium) of an enterprise, based on an assessment of its shareholding in another enterprise, if applicable.

The International Financial Reporting Standards (IFRS) on the ‘Accounting for Investments’ was adopted as the basis and rationale for developing the criteria for business independence.

Based on the independence criteria three classes of enterprise can be defined:

- Autonomous Enterprise
- Partner Enterprise
- Linked Enterprise

Autonomous Enterprise – An applicant enterprise is considered ‘autonomous’, if it is completely independent or if it has minority partnerships with other enterprises (each less than or equal to 20%). In such a case, the business will only use the number of employees and turnover data from its own (unconsolidated financial statements) to check if it meets the applicable thresholds within the SME definition.

Partner Enterprise – An enterprise which has partnerships with other enterprises involving participation greater than 20% and less than or equal to 50% are classified as ‘partner’ enterprises. If the applicant business is deemed to be a partner enterprise, a proportion of the other enterprise’s employee headcount and financial details must be added to the applicant’s own data to determine its eligibility for SME status. For example, if a business has a 30% controlling stake in another enterprise, it must add 30% of the other enterprise’s headcount and turnover to its own figures.

Linked Enterprise – An enterprise is considered to be ‘linked’ if it holds more than 50% controlling stake in another enterprise or the other enterprise holds greater than 50% controlling stake in the applicant enterprise. In this case, the employee head count and turnover of the applicant enterprise would be 100% consolidated with the corresponding numbers of the other enterprise.
STRUCTURE OF THE REPORT AND STUDY METHODOLOGY

The report has been structured into four key sections. The compositions of these sections and the relevant methodology and corresponding sources have been discussed/cited as follows:

SECTION I. ECONOMIC ASSESSMENT

• The Dubai Economy
  This section provides an overview of Dubai’s economy in terms of GDP growth indicators and share of the key economic activities in the GDP. The section also comprises a brief snapshot of the key foreign trade indicators depicting growth in foreign trade, key product categories and key markets for foreign trade. These indicators are based on data supplied by the Dubai Statistics Center, as well as other sources including the International Monetary Fund (IMF) and other research reports.

• Business and SME Landscape
  The section also provides an overview of the SME landscape in Dubai in terms of the number of SMEs and value-add by businesses, broken down by sector and size of firms.
  The section concludes with an analysis of the licenses issued and renewed by the Department of Economic Development, Dubai, in order to derive relevant trends in the business activity that has taken place in Dubai over the last five years (2007-2012).

SECTION II. PERFORMANCE OF DUBAI’S SME SECTOR

This section presents an overview of the performance of the SME sector in Dubai at two levels:

• Economic Performance of SMEs: Economic performance is assessed based on contribution of SMEs by size and sector to value-add and employment in Dubai’s economy. These indicators have been analyzed based on data captured and supplied by the Dubai Statistics Center.

• Business Performance of SMEs: Business performance is assessed taking into cognizance the productivity of SMEs in Dubai, typical Return on Capital Employed (ROCE) experienced by SME businesses across three sectors (Manufacturing, Trading and Services) as well as the level of capital formation by these businesses.
  Labor Productivity of SMEs is assessed based on data captured and provided by Dubai Statistics Center. ROCE and capital formation by SMEs is assessed based on the financial analysis of a sample of 307 SMEs in Dubai (as detailed in the subsequent section).
SECTION III. FINANCIAL HEALTH OF DUBAI’S SMES

This section provides a detailed analysis of the financial health of SMEs in Dubai based on an analysis of key financial ratios for a sample of SMEs across the Manufacturing, Trading and Services sectors. A sample of 307 SMEs is analyzed with the following sector-wise split:

- 120 Trading SMEs
- 157 Services SMEs
- 30 Manufacturing SMEs

Further, key insights reflecting differences in the financial health of SMEs across select segments within these sectors have also been highlighted within this chapter.

The chapter also provides an analysis of the financial health of the members of Dubai SME’s Government Procurement Program. The Government Procurement Program (GPP) is one of the most significant initiatives launched by the Dubai SME. As per the program, all government and semi-government entities (where the Dubai government owns more than 50% of the entity) are required to allocate at least 5% of their annual purchasing budget to the program’s participants.

The analysis is based on a comparison of financial performance of GPP members vis-à-vis the sector benchmarks.

SECTION IV. STATE AND CHARACTERISTICS OF DUBAI’S SMES

This section highlights the state and key characteristics of SMEs in Dubai. A comprehensive survey of 500 SMEs in Dubai was conducted in order to assess their state on the following themes:

- Degree of International Orientation
- Prevalence of Innovation
- Level of IT Adoption
- Degree of Human Capital Development Orientation
- Degree of Corporate Governance
- Level of Access to Finance
- Scalability Potential
The sample included a mix of Micro, Small and Medium-sized enterprises drawn as per the structure of Dubai’s SME definition. The sampling process ensured a representation of businesses across the three sectors of Manufacturing, Trading and Services, as a proportion of their respective contribution to Dubai’s GDP (after excluding contribution of non-SME oriented sectors, such as financial services, mining and quarrying, etc.). The sampling process also ensured an adequate representation of various segments within each sector.

**SECTION V. BUSINESS OUTLOOK OF DUBAI’S SMES**

This section highlights the key strategic objectives of SMEs in the medium-term (3-5 years), based on a survey conducted on a sample size of 500 SMEs. It further highlights the business outlook of SMEs based on the Business Confidence Index for SMEs from Q1 2012 to Q3 2013. These indices are sourced from the quarterly business survey reports published by the Department of Economic Development, Dubai.

**SECTION VI. GOVERNMENT SUPPORT ECOSYSTEM FOR SMES**

This section provides a snapshot of the government support ecosystem for SMEs in Dubai. Dubai SME plays the central role in the promotion and development of SMEs in Dubai. The chapter details the key initiatives implemented by Dubai SME independently or in collaboration with other entities towards the agenda of supporting, developing and nourishing SMEs in Dubai. In addition, the chapter briefly highlights the key gaps in the ecosystem for SME support in Dubai (based on World Economic Forum’s framework for Entrepreneurship Ecosystem).

**EXECUTIVE SUMMARY**

The report aims to provide a multi-dimensional overview of Dubai’s small and medium enterprises. The report starts with a statistical snapshot of the structure of Dubai’s SME sector, followed by a detailed analysis of the economic and business performance of the sector. Forming a core component of the report is a comprehensive assessment of the state and characteristics of SMEs in Dubai.

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<td align="left">Section VI. Government Support Ecosystem for SMEs</td>
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Dubai’s economic landscape has undergone substantial transformation in the last 10 years. Dubai’s GDP has increased at an annual growth rate of more than 10% during 2000-2012. During these years, the Government’s focus has been on the creation of a diversified economy along with the development of state-of-the-art infrastructure. The expansion of Dubai’s economy has led to significant improvements in the standards of living of its national as well as expatriate population through creation of multitude job opportunities. However, it is notable that the economy’s growth over the years has been driven by the accumulation of capital and labor rather than improvement in labor productivity levels.

Moreover, Dubai’s economic output was adversely impacted by the global financial crisis in 2009, which led to the postponement of a number of large scale real estate projects in Dubai. Consequently, the GDP shrank by 2.4% in 2009. Post crisis, Dubai’s economy reflected resilience and returned to a positive growth rate of 2.8% in 2010. A growth in the Trade and Tourism sectors enabled the economy to recover from the contraction it experienced in 2009. In 2011, Dubai’s GDP growth rate improved further to 3.3%, as the core sectors, namely Construction and Real Estate, rebounded. Thereafter, the economy is estimated to have grown at a rate of 4% year-on-year during the 2012, which is the Emirate’s biggest increase in GDP since 2008.

The economy is expected to grow by more than 4% in 2013. This is mainly attributed to the revival of the Real Estate sector supported by a sustained growth in the Trade, Tourism and Transportation & Logistics sectors.

**Foreign Trade is a key driver for Dubai’s economic growth.**

A strong foreign trade performance has been one of the key drivers for Dubai’s rapid economic growth and its transformation into a modern economy. The Emirate’s strategic location, the government’s efforts in establishing state-of-the-art infrastructure and implementation of conducive foreign trade policies have enabled Dubai to become the major port of entry and exit for the region.

Estimated at around AED 753 billion (74% of the UAE’s overall trade in 2011), Dubai registered its highest foreign trade earnings till date in 2011. Thereafter, Dubai’s total foreign trade earnings reached a record AED 600 billion during the first half of 2012, a 12% rise from AED 537 billion during the same period in 2008.

**Trade and Services sectors are the key pillars of Dubai’s economy.**

Dubai’s economic structure has not been impacted significantly by the financial crisis of 2008-09. The contribution of the Trade sector to Dubai’s GDP has remained consistent at approximately 30% of Dubai’s GDP [both pre- and post-crisis]. The contribution of the Manufacturing sector has increased from an average of 12% during 2006-08 to an average of 14% during 2009-12. The Services sector continues to contribute the highest to Dubai’s GDP; although its share has declined from 59% during 2006-08 to 57% during 2009-12. Moreover, there have been variations in the contribution of segments within the Services sector. Notably, the share of the Construction industry has dropped from 12% during 2006-08 to 9% during 2009-12 and the share of the Real Estate industry has dropped from 17% to 14%, during the same period. Conversely, the share of the Transport, Storage and Communications sector increased from 12% during 2006-08 to 14% during 2009-12. Moreover, the share of the Hotels and Restaurants sector in Dubai’s GDP increased from 3.5% during 2006-08 to 3.9% during 2009-2012.

**Business & SME Landscape in Dubai**

**Number of Establishments and Growth in Business Licenses**

In terms of number of establishments, SMEs account for 95% of the establishments in Dubai. Micro firms account for 72% of the overall business count in Dubai, followed by Small and Medium firms accounting for 18% and 5% of the business count, respectively. In terms of a sector-wise split of the number of establishments, the Trading sector accounts for a majority (57%) of SMEs in Dubai, followed by the Services sector (35%), and subsequently followed by the Manufacturing sector (8%).

Business licenses issued in Dubai reached 15,203 in 2008; however the number fell significantly to 11,743 in 2009, at the peak of the global financial crisis. As recovery set in 2010, the number of licenses issued increased to 14,406 and reached 16,688 in 2012. Commercial licenses account for the majority of licenses issued in Dubai (75% of licenses issued from 2009 to 2012), followed by Professional licenses (23% of licenses issued during the same period).

Of all the licenses issued (post economic crisis in 2009), Tourism licenses have witnessed the highest growth rate between 2009 and 2012 (CAGR of 24%), followed by Professional licenses (CAGR of 17%).

**Composition of Key Sectors**

**Manufacturing Sector**

Manufacturers of wearing apparel constitute a majority (33%) of the Manufacturing establishments in Dubai, followed by manufacturers of fabricated metal products (except machinery and equipment) accounting for another 16% of the total manufacturing enterprises. In terms of the employee count, 54% of the Manufacturing firms in Dubai have between 1 and 10 employees, while another 20% have between 11 and 25 employees. Segments with the highest contribution to the Manufacturing sector’s gross value-add include Manufacturing of Fabricated Metal products, except machinery and equipment (17%), Manufacturing of Basic Metals (15%), and Manufacturing of other Non-metallic Mineral products (9%).

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3 Source: Department of Economic Development, Dubai
4 Source: Dubai Statistics Center
5 Source: Dubai Statistics Center
6 Includes licenses issued for travel agencies, tour operators, and hotels & other accommodation
7 Source: Dubai Statistics Center
In terms of new licenses issued from 2009 to 2012, Manufacturing of Food & Beverages has been a key category for industrial licenses in Dubai. It accounted for a majority (24%) of the new industrial licenses issued, closely followed by Manufacturing of Basic Metals and Fabricated Metal products (accounting for 21% of the issued industrial licenses). In terms of growth in new industrial licenses issued during the same period, Manufacturing of Food & Beverages witnessed an annual growth rate of 12%, only preceded by Manufacturing of Wood & Wood Products that witnessed the highest growth of 14% amongst all the key segments within the Manufacturing sector.

Services Sector
Firms providing Real Estate, Renting and Business Services account for a majority (33%) of the Service firms in Dubai, followed by Construction & Contracting firms (at 27%). Another 17% of the establishments in the Services sector are Transportation and Telecommunications firms and around 10% belong to the Hotels and Restaurants sector. Further, 63% of the Service firms in Dubai have between 1 and 10 employees, while another 19% firms have between 11 and 25 employees.

Real Estate, Renting and Business Services account for 34% of the gross value-add by the Service sector, followed by another 28% of gross value-add contributed by the Construction & Contracting industry.

From 2009 to 2012, Real Estate, Renting & Business Services accounted for a majority (38%) of the new licenses issued within the Services sector followed by Construction & Contracting industry (accounting for 31% of the issued licenses). During the same period, the Tourism segment (excluding hotels) witnessed the highest growth (CAGR of 32%) amongst all the key segments within the Services sector.

Trading Sector
The key segments of the Trading sector in Dubai are Consumer Goods Trading, Textiles & Garments Trading, IT and Telecom Products Trading and General Trading.

89% of the Trading firms in Dubai have between 1 and 10 employees, while another 9% employ between 11 and 25 workers.

From 2009 to 2012, Consumer Goods Trading accounted for a majority (25%) of the licenses issued within the Trading sector, followed by Textiles and Garments Trading (accounting for 16% of the issued licenses). During the same period, licenses issued for Food & Beverage Trading witnessed the highest growth (CAGR of 30%), followed by licenses issued for General Trading (CAGR of 25%).
Net margins are the highest in the case of Business Services (net margin ratio ranges between 10-22%), closely followed by Professional Services (net margin ratio ranges between 8-20%). Tour operators and travel agents have the lowest margins amongst all the segments (net margin ranges between 2-8%). Thus, there is a higher focus amongst travel agencies and tour operators to increase their volumes (through online reservation systems and by targeting the corporate travel segment) and/or offer higher value-added services (specialized package tours such as medical tours, sports tours, etc.).

Although Restaurants & Catering businesses have high gross margins (gross margin ratio ranges between 50-60%), their margins erode significantly at an operating level due to a high proportion of indirect costs within their total cost structures (operating margin ratio ranges between 12-18% and net margin ratio ranges between 10-15%). Consequently, restaurants that are able to manage their operating costs efficiently can potentially have higher net margins as compared to the industry benchmark of 10-15%.

Trading Sector
The margin ratios vary across various trading sub-segments, classified by product categories (as summarized in Table 3).

Table 3: Margin Ratios across Key Segments within the Trading Sector

<table>
<thead>
<tr>
<th>Segment</th>
<th>Gross Margin Ratio</th>
<th>Operating Margin Ratio</th>
<th>Net Margin Ratio</th>
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<tr>
<td>Building Materials</td>
<td>15-25%</td>
<td>10-15%</td>
<td>10-14%</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>30-40%</td>
<td>10-15%</td>
<td>6-12%</td>
</tr>
<tr>
<td>IT/ Telecom/ Electronics</td>
<td>10-20%</td>
<td>8-12%</td>
<td>6-12%</td>
</tr>
<tr>
<td>Food &amp; Beverages</td>
<td>13-20%</td>
<td>8-12%</td>
<td>6-12%</td>
</tr>
<tr>
<td>Non-precious Metals</td>
<td>7-10%</td>
<td>6-8%</td>
<td>4-6%</td>
</tr>
<tr>
<td>Jewelry &amp; Precious Stones - Wholesalers</td>
<td>5-9%</td>
<td>3-8%</td>
<td>2-7%</td>
</tr>
</tbody>
</table>

Net margins are the highest in the case of SMEs engaged in the trading of building materials (net margin ratio ranges between 10-14%). Conversely, SMEs engaged in the wholesale of jewelry and precious metals have the lowest margins (net margin ratio between 2-7%).

Although businesses trading in machinery and equipment have the highest gross margins (gross margin ratio ranges between 30-40%), their margins erode significantly at an operating level due to a high salary expense structure of these businesses (operating margin ratio ranges between 10-15% and net margin ratio ranges between 6-12%).

Return Ratio
An analysis of returns reflects that the Service and Manufacturing SME sectors project higher returns on total capital invested (ROCE), as compared to Trading firms (ROCE is in the range of 20-40% for Service enterprises and between 25-35% for Manufacturing enterprises, whereas in the case of Trading, ROCE typically ranges between 18-30%).

Moreover, SMEs in the Manufacturing sector have average Return on Fixed Assets (ROFA) in the range of 30-55%.
Liquidity, Solvency and Leverage Analysis

The following table summarizes the key liquidity, solvency and leverage ratios for SMEs across sectors.

Table 4: Liquidity, Solvency and Leverage Ratios for SMEs

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Current Ratio (Liquidity)</th>
<th>Cash Conversion Cycle (Cash flow)</th>
<th>Interest Coverage Ratio (Solvency)</th>
<th>Debt Equity Ratio (Leverage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>to 2.5 to 1.0</td>
<td>to 40 days 30</td>
<td>to 10 times 4</td>
<td>to 0.8 to 0.2</td>
</tr>
<tr>
<td>Trading</td>
<td>to 4.0 to 2.0</td>
<td>to 85 days 40</td>
<td>to 20 times 5</td>
<td>to 0.8 to 0.2</td>
</tr>
<tr>
<td>Services</td>
<td>to 4.0 to 1.5</td>
<td>to 60 days 25</td>
<td>to 20 times 10</td>
<td>to 0.5 to 0.1</td>
</tr>
</tbody>
</table>

Overall, the analysis reflects that:

- The average current ratio calculated across the consolidated sample is found to be greater than 1.5 times (acceptable threshold of current ratio for businesses), reflecting that Dubai’s SMEs tend to maintain sufficient short-term assets to cover their short-term liabilities. Manufacturing SMEs are closer to an acceptable threshold (current ratio of 1 to 1.5). However, Trading SMEs tend to have higher current ratio due to accumulation of receivables and inventory. Service SMEs also tend to have a higher current ratio due to accumulation of receivables on their books.

- Trading SMEs have the highest cash conversion cycle averaging between 40 to 85 days, as compared to Service SMEs (25 to 60 days) and the Manufacturing SMEs (30 to 60 days). A lower stock turnover ratio and a high proportion of sales on credit, coupled with lesser number of purchase outstanding days have led to a high cash conversion cycle for Trading SMEs.

- Dubai SMEs have a low degree of leverage (ranging from 0.1 to 0.8). This is primarily due to a higher reliance of Dubai’s SMEs on personal money / savings / reinvestment of business profits for capital expansion and acquisition of assets.

- A low propensity to access bank finance amongst Dubai’s SMEs, coupled with strong cash flow from operations, has led to a high interest coverage ratio for Dubai’s SMEs.

Financial Health Assessment of the Members of Dubai SME’s Government Procurement Program (GPP)

Profitability Analysis

Margin Ratios

A significant majority of the GPP members witnessed positive net margins during the financial crisis. As depicted in the figure below, 95% and 84% of the GPP members witnessed positive net margins in 2009 and 2010, respectively.

In terms of a comparison of the profitability performance of the GPP members vis-à-vis the overall SME sector, it is notable that a significant proportion of the GPP members reflect higher margins as compared to the respective benchmarks for the sectors (as presented in Table 5).

Table 5: Net Profitability Analysis of GPP Members

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector Benchmark Range</th>
<th>Lower than the Sector Benchmark</th>
<th>Within the Sector Benchmark</th>
<th>Higher than the Sector Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>7-18%</td>
<td>0%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Trading</td>
<td>5-12%</td>
<td>15%</td>
<td>52%</td>
<td>33%</td>
</tr>
<tr>
<td>Services</td>
<td>3-20%</td>
<td>6%</td>
<td>54%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Return on Capital Employed

In line with the trends observed across the margin ratio analysis, a significant proportion (30-40%) of the GPP members have a higher ROCE than the benchmark ROCE ratios across sectors (Table 6).

Table 6: ROCE Analysis of GPP Members

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector Benchmark Range</th>
<th>Lower than the Sector Benchmark</th>
<th>Within the Sector Benchmark</th>
<th>Higher than the Sector Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>25-35%</td>
<td>17%</td>
<td>50%</td>
<td>33%</td>
</tr>
<tr>
<td>Trading</td>
<td>18-30%</td>
<td>34%</td>
<td>28%</td>
<td>34%</td>
</tr>
<tr>
<td>Services</td>
<td>20-40%</td>
<td>27%</td>
<td>32%</td>
<td>41%</td>
</tr>
</tbody>
</table>
STATE AND CHARACTERISTICS OF SMES IN DUBAI

The state and characteristics of SMEs in Dubai have been assessed on the basis of a survey conducted on a sample of 500 SMEs across the Manufacturing, Trading and Services sectors. The survey focused on assessing the state and characteristics of SMEs along certain key themes presented in Figure 5:

The following summarizes the state and characteristics of SMEs in Dubai on a scale of Low to High:
- Low refers to orientation on the specific theme indicated / reflected by up to 20% of the surveyed respondents
- Moderate refers to orientation on the specific theme indicated by 20-40% of the respondents
- High refers to orientation on the specific theme indicated by more than 40% of the respondents.

**Liquidity Analysis**

**Current Ratio**
A significant proportion of GPP members from the Manufacturing (43%) and Services (36%) sectors have a current ratio within and/or higher than the sector benchmarks (Table 7).

**Table 7: Current Ratio Analysis of GPP Members**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector Benchmark Range</th>
<th>Less than the Benchmark</th>
<th>Within the Benchmark</th>
<th>More than the Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1.0-2.5</td>
<td>0%</td>
<td>57%</td>
<td>43%</td>
</tr>
<tr>
<td>Trading</td>
<td>2.0-4.0</td>
<td>0%</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>Services</td>
<td>1.5-4.0</td>
<td>8%</td>
<td>56%</td>
<td>34%</td>
</tr>
</tbody>
</table>

**Debt to Equity Ratio**
A number of GPP members are more leveraged as compared to the overall SME sector, especially in the case of Manufacturing and Services sectors (Table 8). However, the Debt to Equity ratio for these firms is up to 1.5 times in most cases, which is an acceptable threshold ratio for SMEs.

**Table 8: Debt to Equity Analysis of GPP Members**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Sector Benchmark Range</th>
<th>Less than the Benchmark</th>
<th>Within the Benchmark</th>
<th>More than the Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>0.2-0.8</td>
<td>33%</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Trading</td>
<td>0.2-0.8</td>
<td>0%</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Services</td>
<td>0.1-0.5</td>
<td>17%</td>
<td>63%</td>
<td>21%</td>
</tr>
</tbody>
</table>
1. Exports orientation of the firm (whether the business is currently exporting or not)
2. Mode of internationalization being followed (exporting without a physical presence in other markets, foreign direct investment, operating as a sub-contractor / technically collaborator for foreign enterprises)
3. Top three international markets [regions/ countries].
4. Percentage share of sales from international and regional markets in the total sales of the company
5. Presence of a dedicated employee/ department for exports
6. Presence of a defined plan/ strategy for exports

Key Findings
The survey reflects that SMEs in Dubai are highly export-oriented with 51% of the SMEs indicating that they have some part of their revenues coming from regional and international markets (as compared to 44% in EU-27 and 18% in New Zealand). Moreover, a high proportion of SMEs (60% of the SME exporters) have more than 20% of their sales revenues emanating from international markets. From a sectoral perspective, Trading SMEs are inherently more export-oriented as compared to Manufacturing and Service SMEs (68% of Trading SMEs indicated that they have revenues from international markets/customers, as compared to 53% and 37% of Manufacturing and Services SMEs, respectively).

The survey reflects that export-orientation is the highest amongst Medium-sized firms, followed by Small and Micro enterprises (66% of the Medium firms indicated that they earn revenues from international markets as compared to 55% and 39% of the Small and Micro firms, respectively).

GCC, Asia-Pacific and Africa are the key international markets / export destinations for SMEs in Dubai.

Approximately three-fourths of the SME exporters in Dubai are currently exporting to other countries without having a physical presence in these markets. Another 18% businesses have either set up offices or have entered into strategic alliances in other countries (compared with 5% of SMEs in Europe).

Furthermore, typically SMEs in Dubai are found to have a high focus on developing business from international markets / operations (41% of the exporting SMEs indicated that they have a dedicated employee for international business and 56% of the SME exporters indicated that they have a defined strategy/ plan for international markets).

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Dubai SMEs portray a strong inherent focus towards exports and a high degree of international orientation.

Overall degree of Orientation: High
Sector with the Highest Orientation: Trading
Key Findings

From the perspective of innovation input, 8% of the survey respondents indicated that they maintain an annual budget for conducting R&D and product development.

Overall, 13% of the survey respondents indicated that they have implemented some level of innovation either in terms of product innovation or process enhancement/improvement. This prevalence is much lower as compared to other international economies (such as New Zealand, Malaysia, the UK and the overall EU-27).20

The major prevalence of innovation amongst Dubai SMEs is at the product/service level (42% of the total prevalence of innovation), as compared to innovation within internal processes (30%) and distribution & delivery formats (28%). The key objective/motive towards investing/implementing innovation in business, as elicited by the majority of the respondents, is to create a competitive advantage through product/service differentiation (38% of the SMEs indicated product/service differentiation as their key objective for implementing innovation in business).

Certain studies related to measuring innovation amongst SMEs in countries such as New Zealand, UK and Malaysia21, reflect a trend of Manufacturing SMEs being more oriented towards R&D and innovation, followed by Service firms. A similar trend is observed in Dubai, where a higher proportion of Manufacturing SMEs (at 29%) have implemented some level of innovation within their business, as compared to Services (at 16%) and Trading SMEs (at 4%).

As an expected trend, Micro firms are intrinsically less innovative as compared to Small and Medium firms. Only 6% of the Micro firms reported having implemented some form of innovation within their business operations, as compared to 19% and 16% of the Small and Medium firms, respectively.

Innovative SMEs are more internationally oriented as compared to non-innovative SMEs; higher prevalence of innovation is observed amongst exporting businesses (75%), vis-à-vis non-exporting SMEs (48%).

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20 UK Innovation Survey (conducted by Department of Business, Innovation and Skills, 2011); The Case of Innovation and R&D in New Zealand’s SMEs (conducted by New Zealand Center for SME Research, 2011); National Survey of Innovation, Malaysia (conducted by Malaysian Science & Technology Information Center – MASTIC, last available report for 2008)

21 UK Innovation Survey (conducted by Department of Business, Innovation and Skills, 2011); The Case of Innovation and R&D in New Zealand’s SMEs (conducted by New Zealand Center for SME Research, 2011); National Survey of Innovation, Malaysia (conducted by Malaysian Science & Technology Information Center – MASTIC, last available report for 2008)
Key Findings

Approximately 21% of the total survey respondents indicated use of advanced IT systems (enterprise level systems, such as ERP, CRM systems, etc.) within their business operations. Service firms deploy IT more intensively than Manufacturing and Trading firms, as reflected by the fact that the proportion of firms with advanced IT systems is the highest in the case of the Services sector (at 26%), followed by the Manufacturing sector (at 18%) and subsequently followed by the Trading sector (at 16%).

Overall, 27% of SMEs have a dedicated IT employee / department comparable to EU-27 where 20% of SMEs have in-house IT employees. The presence of dedicated IT employee / department is more prevalent in Manufacturing and Service SMEs (at 29% for both the sectors).

The survey also shows that 35% of the SMEs make a provision for IT expenses as a percentage of their sales. A majority of these SMEs (27%) indicated that they maintain an IT budget of up to 5% of their sales.

An estimated 50% of the SMEs across Dubai indicated having a website and around 6% of the total respondents, indicated that they have online ordering capabilities / e-commerce features built into their websites (compared to 12% of SMEs in EU-27 and 31% of SMEs in New Zealand having online ordering capabilities on their websites22).

Certain international studies have reflected that the international orientation of a firm is one of the most significant factors influencing the extent of IT adoption amongst SMEs.23 Thus, notably and commensurate with this trend, exporting SMEs in Dubai tend to have a higher rate of IT adoption versus non-exporters (across all enterprise size classes). For instance, 46% of the exporting Medium firms are found to deploy advanced IT systems compared to 37% businesses within the non-exporting category.

The current state of ICT adoption, albeit moderate amongst the Dubai SME community, is set to increase manifold as businesses look to enhance their level of business sophistication.

The survey aimed to assess the level of IT adoption by SMEs in Dubai based on the following factors:

1. Level of IT usage by the business (Basic / Minimal / Advanced)
2. Presence of a dedicated employee/ department for IT
3. Allocation of an annual budget for IT expenditure
4. Presence of a website and online ordering capabilities

Overall degree of Orientation: Moderate

Sector with the Highest Orientation: Services

22 Source: Eurostat data, 2009 and Ministry of Economic Development, New Zealand, 2010
23 Factors Affecting Information Technologies Adoption: A Comparative Analysis between SMEs and Large Companies, Brunel University; Framework for Adoption of ICT and Security Technologies by SMEs (paper for the Small Enterprise Association of Australia and New Zealand)
b. Basic feedback or sales incentive-based approach

c. Perception-based evaluation/ No defined approach

3. Type of training provided to employees (Comprehensive training for all employees, specific training programs/ sessions only for key personnel or basic job-related training)

Key Findings

25% of the survey respondents indicated that they have a dedicated employee or a department to manage the human resource function in their firms.

Approximately 72% businesses indicated that they evaluate and reward their employees’ performance on a regular basis.

Approximately one-fourth of these SMEs (17% of the overall sample of SMEs) have defined Key Result Areas (KRAs) for specific job roles and follow the practice of evaluating the performance of employees against pre-defined KPIs.

In terms of training offered to employees, 26% of the SMEs indicated that they provide need-based or comprehensive training to their employees (over and above basic on-the-job training).

An international comparison reflects that focus on training amongst Dubai’s SMEs is far lower as compared to countries such as New Zealand and the United Kingdom (63% and 55% of SMEs in New Zealand and the UK, respectively, have a dedicated budget for training\textsuperscript{24}).

Service SMEs are observed to be the most focused on human capital development, as compared with Manufacturing and Trading SMEs.

This is reflected in the fact that approximately 30% of Service SMEs indicated that they conduct regular performance appraisals based on defined KPIs and approximately 32% indicated that they provide comprehensive or need-based training to their employees.

A key reason for a higher focus on human capital development amongst Service firms is attributed to a higher reliance on human resources, wherein business success is primarily centered on the quality and performance of the workforce.

In addition, there is a clear trend reflected in terms of a higher focus on training and development of employees as well as on the formalization of performance evaluation procedures, as the size of the enterprise grows. However, it emerges strongly that the propensity to formalize with increase in size of the business is the highest in the case of Service firms and is the lowest in the case of Trading firms. For instance, 13% of the Micro-sized Service firms indicated that they follow a KPI-based performance appraisal approach versus 56% of the Medium-sized Service firms. The respective percentages in the case of Trading firms are 12% for the Micro Trading firms versus only 19% of the Medium-sized Trading firms.

\textsuperscript{24} Source: Leveraging Training Skills Development in SMEs, OECD
In order to ascertain the orientation of Dubai’s SMEs towards Corporate Governance, the respondents were asked questions relating to the following aspects:

1. Level of formalization of the organizational structure.

2. Financial reporting mechanism (whether the business maintains audited financial statements or prepares basic financial records)

3. Adherence to the Corporate Governance Principles (such as, presence of a formal advisory board, independent board of directors, well defined succession planning, defined framework for management reporting, documented policies and procedures for critical processes, etc.)

**Key Findings**

- Overall, 34% of the SMEs indicated that they have a formal organization structure and 50% indicated that they maintain audited financial statements.

- The survey reveals that adherence to more sophisticated principles of corporate governance principles is quite low amongst SMEs in Dubai. Only 18% businesses indicated that they have adopted one or more key tenets of corporate governance.

- The survey also reflects that an orientation towards corporate governance is directly proportional to enterprise size; a higher proportion of Medium-sized firms indicated adherence to one or more corporate governance principles (42% businesses), as compared to 20% of the Small and only 4% of the Micro firms. From a sectoral perspective, a higher proportion of Manufacturing SMEs (at 26%) are observed to be oriented towards corporate governance, as compared to Service (at 18%) and Trading SMEs (at 14%).

- In terms of the key corporate governance principles being adhered to by SMEs, 13% businesses are observed to have a formal mechanism for financial planning and management reporting. Around 11% of the SMEs indicated that they have an independent Board of Directors (BOD) / formal Advisory Board to guide / advise on the company’s operations. An equal proportion (11% businesses) indicated that they have documented policies and procedures for key processes.

The current degree of orientation towards the sophisticated principles of corporate governance tends to remain low amongst Dubai’s SMEs, primarily due to the lack of technical knowledge for effective implementation of these principles.

**Overall degree of Orientation: Low**

**Sector with the Highest Orientation: Manufacturing**
The survey intended to assess the level of access to bank finance for SMEs in Dubai based on the following factors:

1. Source of finance for commencing the business
2. Source of finance for business operations and expansion
3. Type of bank finance accessed (long-term versus short-term finance)
4. Average value of long-term and short-term finance and frequency of accessing short-term finance
5. Key purpose for accessing bank finance

**Key Findings**

There is limited availability of externally sourced start-up financing in Dubai. This is reflected in the fact that a majority (80%) of the survey respondents indicated personal money / savings as the primary source of finance for commencing their business operations in Dubai.

The availability of bank finance for growth and operations is also limited, with only 23% of the survey respondents indicating that they have accessed bank finance in the last five years.

The key purpose indicated by businesses for accessing external debt from banks, is to meet their working capital requirements (as pointed out by 59% of the survey respondents). Another 37% of businesses indicated that they have accessed term loans for capital expansion / investment in their business, and about 4% mentioned that they have accessed a combination of long-term and short-term financing.

This reflects that at an overall level, only 10% of the SMEs (i.e. 41% of the 23% of the SMEs that had access to finance) have accessed long-term financing for capital investment in their business.

The long-term financing requirements of SMEs are typically found to be in the range of AED 1 to 5 million, while the short-term financing requirements are primarily up to AED 1 million per year. These could be in the form of short term loans, revolving credit and / or trade financing facilities.

From a sectoral perspective, access to bank finance is the highest in the case of Trading SMEs and from an enterprise size perspective, it is the most prevalent amongst Medium-sized firms.

The current state of access to finance reflects a moderate availability of affordable bank finance for Dubai’s SMEs.

**Overall state of Access to Finance: Moderate**

**Sector with the Highest Access to Finance: Trading**
Scalability potential of Dubai SMEs tends to be low due to high existing capacity utilization coupled with high fixed cost overheads.

**Overall Scalability Potential of SMEs: Low**

**Sector with the Highest Scalability Potential: Similar levels across sectors**

The survey aimed to evaluate scalability potential of Dubai's SMEs on the basis of the following three key indicators. The respondents were asked to indicate the following:

1. Current capacity utilization of the business assets and resources (including human resources)
2. Share of operating fixed cost overheads as a proportion of total costs
3. Expectation of annual growth in demand for products/services in the market, over the next 3-5 years (growth was classified as high growth (>10%), medium growth (5-10%), low growth (<5%), no change in demand and declining demand)

**Key Findings**

The survey reflects that 70% of the SMEs expect medium to high growth in demand for their goods and services over the medium-term. Around 45% businesses surveyed, indicated that their capacity utilization is higher than 75%.

Capacity utilization as well as growth expectations are observed to be the highest amongst the Manufacturing SMEs.

Trading SMEs tend to have a low fixed cost structure; 46% of such businesses indicated that the share of fixed cost overheads as a proportion of their total cost, ranges between 0-30%.

The survey reflects that 19% of the SMEs in Dubai, across sectors have high scalability potential. Further, there is only a marginal difference across sectors, with a high scalability potential reflected among 21%, 20% and 17% of Manufacturing, Trading and Service SMEs, respectively.
As can be observed:

- International orientation and access to finance is the highest amongst Trading SMEs.
- IT adoption and focus on human capital development is observed to be the highest amongst Service SMEs.
- Manufacturing SMEs are high on orientation towards innovation and corporate governance.
- Scalability potential is observed to be at a similar level across sectors.

**BUSINESS OUTLOOK AND KEY BUSINESS OBJECTIVES OF DUBAI’S SMES**

**Business Outlook of SMEs**

- As per the results of quarterly surveys conducted by the Department of Economic Development in 2011 up to Q3 2013, the Business Confidence Index (BCI) across all the firms in Dubai (including the SME community) was at its highest peak in Q3 2013. The Business Confidence Index captures the business sentiments and outlook of the SME / overall business community on a quarter-on-quarter basis and is based on a responses of the firms’ next quarter outlook on key indicators related to its business performance.

- The Business confidence index calculated for the SME segment stands at 119.5 points for the second quarter of 2013, reflecting that the overall business outlook for SMEs in Dubai is positive and rising. A comparison of BCI between large companies and SMEs shows a reversal of trend from the previous quarter as SMEs are observed to be more optimistic than large businesses in this quarter, as shown by their respective index scores of 108.9 and 119.4.

**Key Business Objectives of SMEs**

The survey reflects that the three pivotal strategic objectives for SMEs in Dubai over the medium term include:

- Expansion into new regional (MENA) markets (cited as a key strategic objective by 19% of the surveyed SMEs).
- Improvement in efficiency of existing business operations (cited as a key strategic objective by 18% of the surveyed SMEs).
- Increasing revenues from existing business (around 16% of the surveyed SMEs indicated that they primarily want to focus on increasing revenues from their existing business).
GOVERNMENT SUPPORT ECOSYSTEM FOR SMES IN DUBAI

As per the World Economic Forum, the entrepreneurship ecosystem comprises four layers of enablers – Personal Enablers, Financial Enablers, Business Enablers and Environment Enablers. The Government has a high focus on enhancing the contribution and performance of the SME sector in Dubai to enable these businesses to become comparable with their counterparts in other developed and high income nations. In this context, the Government has implemented a number of policies and programs across various levels of the ecosystem to provide support and impetus to the SME sector.

Dubai SME is the key government entity with the mandate to promote and enable growth of the SME sector in Dubai.

Dubai SME’s support for SMEs is in line with Dubai’s Economic Development Plan wherein the near term focus is on implementing improvements in the soft infrastructure (government regulations, budgetary reforms and other sector-specific reforms)\(^\text{25}\). Thus, a number of Dubai SME’s initiatives are focused on enhancing the overall business environment in order to make it more conducive for SMEs in Dubai to thrive and grow.

As depicted in Figure 7, Dubai SME’s role and support for SMEs spans across three facets, namely:

- Advocacy (advocating key policy issues, related to SMEs, to other relevant Dubai government entities).
- Seeding (promoting entrepreneurship amongst individuals as well as supporting establishment of new businesses).
- Grooming (enhancing and supporting the existing SMEs in Dubai).

\(^{25}\text{Discussed within Chapter 1: The Dubai Economy}\)
Impact of Dubai SME’s Initiatives

Over the last ten years, Dubai SME’s programs and initiatives have created a positive impact on a significant number of SMEs in Dubai. The impact of some of these initiatives has been summarized below.

Policy-level Programs

Start-up Subsidies: It is estimated that elimination of the labor security deposit and licensing fees will allow a firm to save approximately 90% of its fee costs that amounts to 10 to 20% of its capital over the first three years. Overall, this represents a fee exemption of more than AED 72 million for the 1,200 members of Dubai SME.

Government Procurement Program (GPP): Since this program was started in 2002, GPP members have provided goods and services worth approximately AED 1.5 billion to the Government of Dubai.

Support Programs and Services for SMEs

Development Advisory: Over the last 10 years, Dubai SME has provided business development and advisory services to around 12,500 entrepreneurs and has assisted launch of more than 1,200 local businesses.

Capability Development: In 2011 and 2012, Dubai SME provided training to more than 1,100 entrepreneurs and SME owners.

Business Incubation: By 2012, the Business Incubation Center had supported the launch of over 350 successful SMEs.

Entrepreneur Relations (ER): By 2012, the ER team had assisted more than 1,500 SMEs in their licensing and registration processes.

Funding Support: From 2002 to 2012 Dubai SME has funded more than 60 projects through its network of eight banks.

Outreach Initiatives

Young Entrepreneur Competition: Till 2012, around 9,000 students had participated in the Young Entrepreneur Competition of Dubai SME with the launch than 2,800 different projects.

Mohammed Bin Rashid Award for Young Business Leaders (YBL): From 2002 to 2008, around 100 entrepreneurs have been recognized through the Young Business Leaders awards.

SME Development Programs

Dubai SME100

In line with the strategy to groom promising SMEs, the Dubai SME 100 was launched to act as a platform and catalyst to identify high potential SMEs based in Dubai – to groom them to become bigger, better and sustainable enterprises; eventually graduating them to large globally-oriented companies. As a performance development ranking, the initiative is aimed at:

• Celebrating Dubai’s top performing SMEs as role models
• Creating greater awareness of the importance of continuous capability and professional development
• Marketing the capabilities of Dubai’s SME’s to regional and global investors
• Providing opportunities for SMEs to access and raise capital
• Creating a base of investable SMEs for a potential secondary listing of SMEs (IPO) that can attract equity capital for growth.
• Creating a culture of transparency, corporate governance and best practice sharing.

Unlike other rankings which are based mainly or purely on financial dimensions, the Dubai SME 100 ranking places a balanced emphasis on financial and non-financial dimensions that affect enterprise performance and development. The non-financial dimensions cover Innovation, International Orientation, Human Capital Development and Corporate Governance. The ranking will also serve as a tool for helping SMEs identify capability gaps for improvement, which is the real value add of Dubai SME 100. Post-ranking, Dubai SME works with capability development partners to further professionalise and corporatize the SMEs in five development tracks – 1) corporate governance, 2) investment development, 3) productivity & innovation, 4) international orientation & branding, 5) human capital development. Diagnostic tools, due-diligence exercises, seminars, forums and conferences are core elements of the initiative.

Since the launch of the ranking in 2011, 4,133 SMEs applied, with almost 400 SMEs shortlisted. The total applications represented a turnover of 68 billion AED and a workforce of 121,870.

For the top 100 SMEs in 2011 and 2013 combined, the total turnover is 6.7 billion; the combined profits is 653.5 million AED, and the combined workforce is 11,424.

Corporate Governance for SMEs

An initiative aimed at promoting the importance of Corporate Governance to the SME sector to start early as they grow their businesses. A Code of Corporate Governance, as well as a Guide based on 9 pillars is used to guide the SMEs as follows:

1. Adopt a formal Corporate Governance framework
2. Conduct a succession planning process
3. Establish a timely and open flow of information
4. Set up a formal board of directors
5. Develop a clear mandate for board of directors
6. Maintain a credible book of accounts
7. Set up an internal control framework
8. Recognize the needs of stakeholders
9. Formulate a family governance framework

Diagnostic tools, due-diligence exercises, seminars, forums and conferences are core elements of the initiative.

**SME Bank Friendliness Index**
To address the SME financing gaps in the market, an SME Bank Friendliness Index was launched in 2012 with the aim of identifying UAE banks that had the highest orientation towards supporting and developing the SMEs in the UAE. Based on extensive surveys of both the SMEs at different stages of growth, and in different sectors of the economy, an index was developed based on the SMEs’ experiences with their banks on all levels of interaction. The research findings and subsequent index which ranked the banks provided valuable insights on how banks in the UAE can better structure their offerings and orient their services to meet the financing needs of SMEs. At the same time, the findings revealed the capability gaps that SMEs had when applying for credit and capital. To help SMEs improve their capabilities in the area of financial management, a Be-Bankable Initiative was launched.

**Be-Bankable**
The Be-Bankable initiative aims to guide SME owners to understand issues that influence their ability access to bank finance and decide the quality of their accounting, financial reporting and auditing standards. The initiative is mainly informational resources executed through a guide book and website to be launched in 2014. The content rich guides provides SMEs with knowledge of what is required in making a good loan application with all the right credentials, audited statement of accounts and budget planning. The ultimate aim of Be Bankable is to enable the SME owner to prepare the business to be ready and fit for funding.

Overall, the Government is adopting a holistic approach to promote entrepreneurship and the growth of the SME sector in Dubai. A comprehensive range of programs and initiatives have been implemented to enhance specific aspects of the SME sector (including exports orientation, skill development, and regulatory environment, amongst others). However, certain gaps exist in the ecosystem that require a cohesive approach to be followed by the Government and the private sector to enhance the overall support ecosystem as well as to address specific aspects of the SMEs’ business operations (promote innovation, enhance IT adoption, increase focus on Human Capital Development, amongst others).
THE STATE OF SMALL & MEDIUM ENTERPRISES (SMEs) IN DUBAI