

***Suggested Financing Methods and
Tools for Kuwait Fund
for Development & Promotion of
Small and Medium Businesses***

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Abstract :

This research aims to identify the extent to which the Kuwait Fund for Development & Promotion of Small and Medium Businesses is able to resolve the funding of SME projects and the challenges that accompanied the previous experiment that did not last. Consequently, the success of this national fund highly depends on how it is managed in relation to the guidelines and requirements for funding and the process that the fund will implement in financing these projects to their advancement through appropriate investment climate for growth.

This research is significant through the provision of perceptions to develop sources of funding to meet all the requirements and the needs of those SME projects in order to achieve effective contribution to national employment in work directed towards private rather than government workers, which has become a huge financial burden on the state budget. Also, this research looks for specialized methods and financing solutions that are supposed to be adopted by the National fund for the care and development of SMEs. A number of methods and recommendations have been presented through this research to ease the process of funding.

Part I

Methodology

Preamble:

Interest in small and medium businesses is based on the leading developmental initiative launched by his highness Sheikh Sabah Al Ahmad Al Jaber Al Sabah, The Amir of the State of Kuwait in the opening session of Arabian Economic Summit that was held in Kuwait when he launched his kind initiative to create special account to support and finance small and medium businesses in the Arab countries. The initiative of his highness comes within the framework of his interest in the role played by the youth and his support of all issues that may ensure and activate this role, including small businesses that promote individual initiatives of youth, the capabilities and skills that reinforce their role in the development. Further, it is based on comprehensive developmental prospective that it is designed to modify the economic role of the government and reinforce the role played by private sector in the development. This prospective has been included within the strategic objectives of development till 2035 and it has been expressed in the developmental plan (2010/2011-2013/2014) of the State of Kuwait and it has resulted in economic approach that designs to strategic economic diversification and revival of the essential role of the Kuwait private sector to lead developmental process.

First: Introduction

Small and medium businesses occupy great importance with decision makers worldwide due to its vital role in the economic and social development in these countries. The importance of these small and medium businesses is essentially shaped in their ability to create job opportunities at major rates and less cost. Consequently, it contributes to tackling unemployment problem that is suffered by many countries, including the State of Kuwait. In this regard small and medium businesses enjoy strong front and background links and contribute to the increase and diversification of income. Further, it increases local added value and efficiency of capital due to direct connection between the ownership and management of the project and the interest of the owner to make his/her business and management successful.

Despite these businesses have the interest and care of the State of Kuwait, yet the logic and reason of interest are different in the developed countries compared with other countries. In this regard, developed countries are aware of the importance of small and medium businesses, i.e. it feeds major projects with intermediate products. In other countries the interest in the Small and medium businesses is based on economic reform procedures and reducing the role of the government in the investment, inability of these countries to create job opportunities for the increasing number of youth, both boys and girls. With the encouragement and support of Gulf countries they have created a Fund to support small and medium businesses.

The research deals with the most important impediments that restrict the contribution of these businesses in the State of Kuwait and the most important points of weakness using SWOT system. Furthermore, the research explores the most important suggested mechanisms that guarantee the success of small and medium businesses via creating positive environment to activate the role of the National Fund for the Development and

Promotion of Small & Medium Businesses that has been recently established. Further, it designs to operate this Fund using generally accepted scientific methods and techniques, either with regard to management, excepted methods and forms of finance of this fund in the manner that may achieve the cherished objectives.

Therefore, not only does the National Fund for the Development and Promotion of Small & Medium Businesses in the State of Kuwait deigns to solve finance problem, but also to look for a mechanism to manage the same and to look for alternatives for finance in order to ideally use the available resources. This requires fundamental reforms in the financial and legislative systems of small and medium businesses to contribute to reinforcement, development and diversification of sources of finance. This research attempts to discuss this issue via set of sub-research that mainly focuses on disclosing the challenges that face such essential sector, the actual finance and its different sources. Further, it endeavors to explore the most important modern methods and techniques that support the development of this experiment.

Second: Problem of the research:

The problem of the research is embodied in the ability of National Fund for the Development and Promotion of Small & Medium Businesses to solve the problem of finance of these businesses and the challenges that have accompanied the previous unsuccessful experiment. Consequently, the success of the National Fund depends on the management of the fund including the bases of finance that will be adopted by the fund to finance these businesses to promote the same and reform the related laws and tackle lack of marketing skills.

Third: Importance of the research:

The importance of this research stems from the endeavor to promote the role played by small and medium businesses in the development via launching clear cut prospective to develop the sources of finance to provide for all requirements and needs of these businesses to step forward towards growth and competition on the regional level and to tackle the issue of employment of citizens in the government sector that threatens the national economy. Further, this research is considered as extension of number of studies that deal with the issue of small and medium businesses in the State of Kuwait, yet this research is concerned with financing formula that are supposed to be adopted by National Fund for the Development and Promotion of Small & Medium Businesses. In this way policies and procedures related to the success of the National Fund may be adopted.

Fourth: Objectives of the research:

Based on the problem and importance of the research, its objectives may be determined as follows:

- 1- To identify the philosophy of the National Fund for the Development and Promotion of Small & Medium Businesses.
- 2- To record the acts and challenges faced by Small & Medium Businesses.
- 3- To highlight the means of promoting Small & Medium Businesses.
- 4- To explain the possible methods and techniques to develop the means of finance of National Fund for the Development and Promotion of Small & Medium Businesses.
- 5- To propose some suggestions and recommendations to reinforce and develop the experiment of the National Fund

for the Development and Promotion of Small & Medium Businesses.

Fifth: Methodology

The research depends on the descriptive analytical approach of the statistical studies and data that guarantees the promotion of the methods and forms of finance in the National Fund for the Development and Promotion of Small & Medium Businesses so that it may effectively contribute to achieve its objectives and to play leading role in the Kuwaiti economy.

Sixth: Research general framework:

The research work has been organized in five main parts as follows:

Part I: Methodology of the research that includes introduction, problem, importance, objectives and methodology of the research.

Part II: Philosophy of the National Fund for the Development and Promotion of Small & Medium Businesses.

Part III: The facts and challenges of the Small & Medium Businesses in the State of Kuwait.

Part IV: Means of promoting small and medium businesses in the State of Kuwait.

Part V: Suggested methods of financing the National Fund for the Development and Promotion of Small & Medium Businesses.

Part VI: Recommendations and suggestions.

Part II

Philosophy of the National Fund for the Development and Promotion of Small & Medium Businesses

Before discussing the philosophy of the National Fund for the Development and Promotion of Small & Medium Businesses we will explore the importance of the small businesses in the national economy on one hand and the initiatives adopted in this regard on the other hand. This importance stems in the following¹:

- 1- To create job opportunities:** The increase of small businesses will contribute in the diversification of sources of income via creating job opportunities to the citizens and decreasing unemployment. In this way the Kuwaiti citizens will be able to continue work, production and achieve great achievements on all levels that will have positive impacts on the growth of the State economy.
- 2- To promote personal relations:** The increase of small businesses contributes in the reinforcement of social communication skills, i.e. it increases your acquaintance via creating new clients and maintaining and cementing relationships with them and in this way you will have power and your chance of success in the commercial market will increase.
- 3- Flexibility of solving problems and facing challenges:** If you manage small businesses you will have the flexibility and ability to solve and tackle challenges within the filed of business leadership. Further, you will be able to gain the ability of decision making with respect to the decisions that

¹ <http://www.al-tahadi.org>

are required as soon as possible due to unavailability of the organizational structure and administrative hierarchy that hinders quick decision making, contrary to major commercial companies that require lengthy procedures and complicated issues to decide commercial dealings and sale contracts related issues.

- 4- **Creation and Innovation:** Small business environment is considered as rich environment for innovative ideas and new solutions that contribute to the elevation of your business value before the consumer via providing distinguished services and offers that suit era prospective that polarizes the greatest number possible of clients to conclude commercial dealings and sale contracts. Consequently, your opportunity will be great and you will have more profits and money.
- 5- **Reduction of public expenditure:** Due to small size of your potential business, you can flexibly establish your business without considering any huge financial costs and expenses. In this respect you can determine business cost and allocate simple budget to provide for all required costs proportionate with the size of the available financial resources that suit business size.

Within the context of analyzing the philosophy of the National Fund for Development & Promotion of Small & Medium Businesses in the State of Kuwait we will point out to the resolution of the National Assembly that is recently passed concerning the law establishing the National Fund for Development & Promotion of Small & Medium Businesses at a capital amounting to Kuwaiti Dinars one billion. This law comes in response to the instructions of his Highness the Amir of the State of Kuwait and his Crown Prince that design to give the Kuwaiti youth the opportunity for preparation, pre-

qualification and training in the technical, professional and service fields, etc. and to provide the opportunity to them to exploit their capabilities and their potentialities within projects that have personal and national returns.

There is no doubt that the finance of small businesses is steadily increasing day after another and most countries have adopted new path in this regard and placed this project at their priorities due to its importance of supporting the economies of these countries. State of Kuwait is not far away from these developments, simply because many concerned authorities play essential role to provide financial and technical support to small investors in the field of vocational small businesses.

Due to the fact that Kuwaiti heavy industry faces several challenges that prevent State of Kuwait from occupying a leading role in the region due to lack of many incentives, so it is acceptable to adopt small businesses in order to cement the industrial and vocational thinking with the majority of the Kuwaiti youth who desire to start with small businesses and go on to medium businesses, then major and heavy industries with the support of financing authorities.

1-1 The most important privileges of the National Fund for Development & Promotion of Small & Medium Businesses.

The law establishing the National Fund for Development & Promotion of Small & Medium Businesses has many positive aspects that design to serve the Kuwaiti youth via

inciting them to join small and medium businesses. The most important of these positive aspects² are as follows:

- 1) Should he/she is an employee he/she will be granted a dedication leave for his/her business of not more than 3 years.
- 2) The costs of the business (without calculating the cost of land) must not exceed Kuwaiti Dinars five hundred thousands.
- 3) The State shall allocate not less than 5 million square meters of land in favor of the National Fund. This area may be increased and shall be supplied with necessary infrastructure, divided and planned for utilization in such projects.
- 4) A percentage of not less than 10% must be allocated for the commercial shops of the cooperative societies and related branches in favor of businesses to be supervised by the National Fund.
- 5) Rules must be enacted to protect the ideas of those who has the initiatives and the owners of the businesses and to ensure their intellectual property rights in these initiatives.
- 6) Permanent Committee must be established to consider the comments that may be filed by the owners of the initiatives and businesses.
- 7) Special Department affiliated to the National Fund must be established to undertake the duties of establishing or approving the businesses that follow international specifications. In this regard, one part of the Fund budget must be allocated, either for internal or external promotion. Furthermore, necessary technical support and training must be provided by specialist authorities.

² - Law of the National Fund for Development & Promotion of Small & Medium Businesses, State of Kuwait, 2013.

- 8) Monthly salary must be allocated to the dedicated owners of businesses equivalent to the salary obtained by their peers who have the same qualification and experience and who are appointed in government posts in addition to completion incentive to be deducted from the profits of the business for a period of not more than 3 years from the start date of the project.
- 9) The project must be financed by not more than 80% of its total cost, provided that repayment must not exceed 15 years.
- 10) Finance may be made by reduced contribution system or in the form of finance at 2% fees maximum of finance size to provide for the expenses of the Fund.
- 11) The business must be granted 1-3 years grace period.
- 12) The owner of the initiative may have mutual withdrawal with the fund during the year and at the percentage he/she selects. In this regard, evaluation must be made on the principles acceptable by both parties.
- 13) Operation room must be allocated to the National Fund. This room must include offices representing each respective government authorities related to establishment of the project, licensing the labor, completion of other transactions, in accordance with economic feasibility study of the project within a period of not more than 2 weeks.
- 14) 5% at least must be allocated to ministerial contracts and government department contracts related to the products and services of the Fund.
- 15) The projects must be granted facilities and exemption in the field of taxation, customs, subsidy of exports and raw materials.

It is evident from the above-mentioned that the National Fund is interested in supporting the owners

of small and medium businesses. Consequently, it may be stated that the idea of establishing the national Fund is considered as good national opportunity and initiative from the government of the State of Kuwait to their promising youth. However, we still have the issue of management, serious work, and clear vision by the youth that are considered the most essential issue for the success of the objectives of the National Fund.

1-2 Challenges facing the projects of the National Fund

Many beliefs that dealing with small businesses is one of the pending solutions to tackle the issue of increasing number of unemployed youth in the State of Kuwait who are graduated for different stages of higher and intermediate education that may not provide the appropriate approach to tackle such issue, yet the main approach must focus on creating a generation who is willing to practice private business and who have foresight and adamant will in addition to sincere desire of independence and self-reliance. This represents the suitable environment for creation of small businesses and successful employers who can practice this experiment and who can educate themselves from practice and exercises. In this way, they will gain the ability to resist failure and depression which they may face at the first impediment they may have. These are the points of success and continuity that must be understood by those who are willing to have small businesses in order to enjoy the success resulting from their endeavor and hard labor³.

³ - The experiment of small businesses in the State of Kuwait, Kuwait Chamber of Commerce & Industry, 2011.

There is another very important issue for official and non-official efforts of different approaches, but it is ignored by many of those interested in supporting and promoting small businesses, i.e. there are more than 750,000 expatriates who are employed by 100,000 small businesses and they constitute more than 60% of total expatriate labor in the private sector. While these small businesses are not subject to the resolution determining the percentage of national labor in non-government authorities, and it is not expected that they will be subject to this resolution in the near future due to the small size and number of workers in each business, yet this great number of businesses is the same small businesses we are talking about and it represents rich and spacious environment that can be exploited to serve several objectives, including economic and social development issue, unemployment controlling issue, either via subsidy of the small businesses facing problems on one hand or encouraging and activating small businesses on the other hand with the participation of Kuwaiti trained youth who are willing to join these businesses as a partner or person in-charge instead of restricting our thinking in the creation of new small businesses highly expensive and with small outcome and un-guaranteed success.

In this time when the country witnesses a huge developmental approach via ambitious plan that includes huge main projects totaling 884 projects out of which 743 are actually working, it is natural that each of these main projects requires number of supporting small businesses to provide front and rear services required by major projects. This means that there are thousands of small businesses that can result from the developmental plan already started by the government. In this regard, the concerned authorities must be prepared via studying the

projects of the plan and relevant requirements of the small businesses and they must start establishing the same and training Kuwaiti pre-qualified cadres to shoulder the responsibility under the supervision and direction of specialist entity.

It goes beyond doubt that the provision of necessary finance at facilitated conditions and providing facilities and simplifying governmental procedures are considered as one of the most important principles of success of small and medium businesses. However, the provision of these privileges alone shall not guarantee the success of any business unless there are other important elements, such as management, continuous work and clear prospective from the owners of the initiatives regarding their projects. It is to be noted that market and competition challenges, the provision of best offers, including products and services are the main pillars that must be concentrated upon and developed in the manner that suit variable market requirements.

From this standing point it may be stated that unless there is finance in addition to that provided by the National Fund and other privileges, such as the required qualifications and complete dedication on the long term by the owners of the initiatives towards their businesses, the success of the business may be very small.

Therefore, it is proposed that more conditions and restrictions must be imposed to ensure the seriousness of the owners of the initiative and to verify their qualification and guarantee that these qualifications suit the nature of the business they desire to practice. Moreover, all terms of business related law must be implemented in the real fact, particularly with regard to simplifying and completing the proposed governmental formalities regarding these projects.

Part III

The facts and challenges of small and medium businesses in the State of Kuwait

The development of small businesses sector constitutes one link in the process of economic reform of the State. It contributes to diversification of the economic role and treatment of structural disorders suffered by Kuwaiti economy. Furthermore, it increases the added value resulting from the promotion of small business sector and it contributes in the removal of impediments faced by citizens who are looking for job opportunities. Further, it increases actual job opportunities in the Kuwaiti economy. These projects are characterized by reduced cost of creating job opportunities compared with the relative cost in the major industries. Further, it promotes employment culture in the society and reinforces the role of productive categories to maximize the benefit from the Kuwaiti national capabilities and the development of the human wealth, reinforcement of actual participation in the development process and reduction of annual amounts allocated for labor support program.

The actual environment of small and medium businesses in the State of Kuwait has faced many challenges and these challenges are not only represented in finance, but also with provision of capabilities and overwhelming control by the government on the management of projects and complicated formalities to have financial and technical support. Further, actual support of small and medium businesses is represented in assisting these businesses to face the challenges that obstruct their business topped with administrative difficulties to obtain licenses. Previously projects were financed by investment authority and the industrial bank but it was not at the prospected level. It is to be noted that the financing role of banks in granting loans to the small and medium businesses is very important and

the existence of government authority supporting small and medium sector shall remove the reservations made by some banks regarding grant of loans to such businesses.

The last edition of the annual research of the installations and companies active in the field of mining and manufacturing industries of 2009 prepared by Central Statistics Department, State of Kuwait⁴ indicates that total industrial installations is 5495 employing about 127 thousand workers and employees. Further, it produces more than Kuwaiti Dinars 26 billions (total added value). The installations which its labor force is not more than 20 workers represents about 89% of total number of the existing industries and it employs 22.5% of labor force (equivalent to 28 thousand workers and employees). However, the size of the investments of this category compared with the size of the installation represents less than 1% of total additions to fixed assets. These figures confirm that such small businesses in the State of Kuwait provide grate percentage of employments at relatively small investments.

All this confirms that current approaches for promotion and development of small and medium businesses in the State of Kuwait are not groundless simply because the importance of this sector plays an essential role in the development process. In this regard, the experiments of other countries worldwide confirm its role to create some types of establishments that practice supplementary role with the major establishments to form the essence of the economic growth. Further, this approach conforms to the current approaches of the State to activate the role of the private sector in the economic business. This sector basically concentrates on the idea of free business. However, the issue is that how to deal with this sector and what are the effective strategies to promote its role in order to create new job opportunities? The essence here is not the slogans and creating

4 - Central Statistics Department, State of Kuwait, 2009

new government administrative entities to be added to the previous ones without studying the extent of its feasibility.

Therefore, the establishment of the National Fund determines the appropriate strategy of this sector that must be active within an integrated legislative, procedural and operational system focusing upon actual strategic objectives to promote relatively distinguished sectors in the Kuwaiti economy and to elevate the competitive degree of other sectors. The challenges that restrict the promotion of this sector may be summarized as follows:

- 1) Administrative challenges represented in obtaining all necessary licenses and approvals to establish the business and initiate activity, either from the respective administrative authorities or from financing institutions, including obtaining necessary location to set up the project
- 2) Operational aspects related challenges including lack of expertise of those operating small businesses and lack of marketing expertise.
- 3) Lack of marketing expertise that negatively impacts the competitive ability of projects.
- 4) Challenges represented in granting incentives, facilities and privileges, such as customs exemption, raw materials subsidy, export subsidy and many other privileges.
- 5) Challenges related to lack of respective legislations related to small and medium businesses.

Accordingly, the previous experiments of small and medium businesses in the State of Kuwait were not successful and it will never be successful unless contemporary methods of finance are created to benefit from the territorial and international experiments in this regard, whether with the participation of local banks and the availability of government guarantees to avoid risks or to provide government finance under clear

conditions and criteria taking into consideration maintenance and protection of public property. This issue will be discussed later.

Part IV

Means of promoting small and medium businesses in the State of Kuwait

Number of studies related to small and medium businesses in the State of Kuwait has emphasized the maximum importance of the same to national economy, particularly in the field of production diversification and increase, creating more job opportunities in addition to positive social aspect resulting from the expansion of these businesses⁵

It is evident from the previous research that the expansion of small and medium businesses in Kuwait is no more voluntary aspect, it is essential for national economy to face the challenges. To be aware of the complications of the current position to promote this vital sector, it is necessary to establish the National Fund for Development & Promotion of Small & Medium Businesses. This Fund represents a standing point for promotion of this sector so that it may contribute to the achievement of the cherished objectives.

The most important methods for promotion of small and medium businesses, in the opinion of the researcher are as follows:

- 1) Adapting the legislative and procedural environment to promote small and medium businesses in Kuwait to contribute to the removal of all obstacles and impediments that hinder small businesses sector.

⁵ Khalifa Hamad Khalifa Al-Jasim, developmental dimensions for the foundation and management of small businesses in Kuwait, 2006

- 2) To provide different types of support and finance to the businesses that has distinguished privilege to the national economy.
- 3) To coordinate between major and small businesses so that it may contribute to the productive and service integration and consequently it may expand local markets and ideally use the locally available resources.
- 4) To execute training plans that focus on development and promotion of small and medium businesses and that cement the initiative spirit within the Kuwaiti youth, develop and train potential leaders, provide technical and consultative support to ensure the feasibility of the projects and efficiency of those administering the same and conclude with establishing promising technological and service enterprises that can obtain finance during construction period via adopting business incubations.
- 5) To spread awareness and attract new graduates from universities or applied colleges who are interested in leading businesses and who have the desire or readiness to start their own business and participate in specific culture and awareness activities within set of programs in accordance with general rules, criteria and specific formalities that enable the concerned authority to select and direct the trainees to the appropriate training plan that suit their requirements.
- 6) To prepare and enable business leaders from the youth to convert their ideas into sustainable businesses via activating training plans that are characterized by stability, i.e. it conforms to business environment, administrative rules and procedures in the State of Kuwait and it must be factual, viz: it conforms to the current investment opportunities and depend on information technology to expand business options in order to obtain information and identify consumer

- attitudes and open marketing channels at the least cost possible.
- 7) To organize number of workshops during which businesses may be exhibited and discussed, if especially those which the trainees desire to select. Then promising businesses must be selected based on set of criteria in order to select the projects, determine the priorities of finance and to follow up its completion. Later, selected businesses may be formulated in the form of integrated studies highlighting the possibility of measuring the results and feasibility of the business, human and financial requirements, reasonability of the completion timetable and analyzing cost and revenues.
 - 8) Preference must be made among the proposed businesses for finance in accordance with the criteria already approved by the financing authorities, including banks, loan guarantee institutions, special funds and then such promising businesses must be presented to these authorities.
 - 9) Technical and institutional support must be provided to business leaders to enable them to complete their projects, either via incubations (technological incubations, specific sector incubations or public incubations) that may be established for this purpose within strategic partnership that can be coordinated with the scientific and research authorities inside the State of Kuwait.
 - 10) Special database must be provided for the establishments already identified for the objective of follow up and benefiting from gained expertise and experiences. Further, financed businesses follow up mechanism must be developed and assessed to guarantee realization of the related objectives and to have the expected results.

Part V

Proposed financing formula of the National Fund for Development & Promotion of Small & Medium Businesses

Having considered the current situation of financing small and medium businesses, it will be noticed that there are several portfolios that currently exist since long period and they provide support and subsidy to these businesses, including but not limited to:

1-Vocational business and small businesses financing portfolio:

It has been established as per law no. 10/1998 at KD 50 millions and it is managed by the Industrial Bank of Kuwait as an agent for Investment Public Authority.

2-Agricultural finance portfolio:

It has been established as per law no. 48/1998 at KD 50 millions and it is administered by the Industrial Bank of Kuwait as an agent on behalf of Investment Public Authority.

3-National Investment fund portfolio:

It has been established by Investment Public Authority in 1997 at KD100 millions to establish small and medium businesses in collaboration with citizens. Investment Public Authority entrusts the management of this fund to specialist investment authorities.

The law under which National Fund for Development & Promotion of Small & Medium Businesses has been established

points out how to deal with such portfolios, even though it is financed by the government represented by Investment Public Authority. These portfolios agree that finance will be provided to the projects benefiting from the same in the form of interest free loans. The high limit of this finance is 40% of the capital of the business in accordance with the law of the Fund. However, this limit may be increased to 50% of the capital paid by the owner of the business, provided that total loans of the project from all sources of finance must not exceed the value of the paid up capital contributed by the owner of the business. This percentage will be increased in accordance with the prospective of the Board of Directors of the fund upon the recommendation of the consultative council.

On this basis, the researcher will focus on the importance of the project to the national economy and its social and economic feasibility with regard to financing businesses. Therefore, sound planning of project completion stages and marketing its products must be arranged. This does not mean focusing on the prescribed finance percentage of these business or the ideal utilization of finance allocated to the business. It is to be noticed that there are many small businesses that failed at the early stages after depletion of the allocated finance.

Therefore, developing more efficient and effective means of finance is very essential. This can be achieved not only via diversification of inputs; rather it is related to reliance upon necessary means and tools to rationalize finance. This can be achieved via the ability of the fund management to direct the initiatives and to link the available finance and the possibility of utilizing the same efficiently and effectively. This link cannot be realized unless upon adopting clear and specific principles and rules of how to dispose the finance allocated to the business. These rules include:

- Good preparation of those who have the initiative and who desire to finance their projects from the National Fund for Development & Promotion of Small & Medium Businesses. In this regard, the owner of the initiative must be subject to training programs that enable him/her to manage his/her business under the supervision of experts who will provide different aspects of technical and institutional support.
- Good preparation of the feasibility study as most studies that had been prepared for finance were not at the required level. Consequently, the outputs were not factual and it did not reflect the need for establishing the intended business.
- To maintain a link between finance and its objectives as there are many projects that are similar to each other, i.e. repeated projects. Consequently, it is essential to have clear cut vision with regard to the future of small and medium businesses on the level of the State.
- To employ finance techniques in accordance with the stages and operations of the project, i.e. the size of finance must be in accordance with the nature of inputs, its type and the stage of the project. This technique will restrict the level of risks in the invisible finance.
- Efficient planning of project cycle, i.e. the importance of following up the stages of the project by the management to guarantee its sustainability and to provide technical and institutional support that guarantee its success. The lack of planning and adopting sound finance means waste of public money and repeating unsuccessful experiments of financing previous projects.
- Reconsidering the legislations related to business sector in order to facilitate the administrative, financial and technical procedures.

Therefore, financing policy comes later and it must be preceded with sincere efforts to provide suitable environment that render the establishment of the National Fund for Development and Promotion of Small & Medium Businesses successful.

On the other hand, and to benefit from the mechanism of finance provided with the Fund⁶ the following policies must be adopted:

- 1- The owner of the business must be Kuwaiti national of not less than 21 years of age.
- 2- He/she must be of good reputation and conduct.
- 3- He/she must be of limited or medium income in accordance with the restrictions already determined in the executive regulations.
- 4- He/she must be wholly dedicated to manage the business. In this regard there is no objection if he/she is an employee who obtained three years leave in accordance with Civil Service Commission Law and regulations, provided that the business must be handed over to the institution should he/she returns back to his/her employment.
- 5- The business must conform to the investment strategy of the institution.
- 6- The economic feasibility of the business must be established.
- 7- Total amounts invested in the small and medium business must not exceed KD500/- thousands.
- 8- Individual businesses that do not have financial capabilities may benefit from the institution for expansion, provided that its establishment must be based on initiatives that conform to Fund investment strategy.

⁶ - Kuwait Chamber of Commerce & Industry, Ibid

9- During the period of sponsorship of the business by the institution, business owner may not make any decision that may affect the destiny of the business unless the consent of the board of directors is obtained. Any contrary act shall be null and void.

In this regard reduction of capital, amalgamation with another business, liquidation or sale of business is considered as a decision affecting the destiny of the business.

As per grounded resolution, the board of directors may add other conditions that assist in realizing the objectives of the institution. Further, it may omit some of these conditions in conformity to the general objectives of the institution.

On the other hand, the program of the National Fund consists of five stages as follows⁷:

- **First stage:** The program shall spread awareness and polarize the new graduates from universities and applied faculties who are interested in leading businesses and who are desirous or ready to establish their own business to participate in specific cultural and awareness activities within set of programs in accordance with general rules, criteria and specific formalities that enable the concerned authority to select and direct the trainees to the appropriate training plan that suit their requirements.
- **Second stage:** To prepare and enable business leaders from the youth to convert their ideas into sustainable businesses via activating training plans that are characterized by stability, i.e. it conforms to business environment, administrative rules and procedures in the State of Kuwait and it must be factual, i.e. it conforms to the current

⁷ Arab Planning Institute, National Fund for Development and Promotion of Small & Medium Businesses, Kuwait, 2013

investment opportunities and depend on information technology to expand business options in order to obtain information and identify consumer attitudes and open marketing channels at the least cost possible.

- **Third stage:** Training plans will be conducted with workshops during which businesses may be exhibited and discussed, especially those which the trainees desire to select. Then promising businesses must be selected based on set of criteria in order to select the projects, determine the priorities of finance and to follow up its completion. Later, selected businesses may be formulated in the form of integrated studies highlighting the possibility of measuring the results and feasibility of the business, human and financial requirements, reasonability of the completion timetable and analyzing cost and revenues.
- **Fourth stage:** Preference must be made among the proposed businesses for finance in accordance with the criteria already approved by the financing authorities, including banks, loan guarantee institutions, special funds and then such promising businesses must be presented to these authorities.
- **Fifth and last stage:** Technical and institutional support must be provided to business leaders to enable them to complete their projects, either via incubations (technological incubations, specific sector incubations or public incubations) that may be established for this purpose within strategic partnership that can be coordinated with well known international scientific and research authorities (such as, Munich Technological University, Singapore Institute for Standard Unification and Industrial Research) or abroad. Further, the program includes providing special database of the institutions that are designated for follow up and

benefiting from the experiments and expertise as well as assessment of financed businesses to guarantee realization of special objectives and obtaining the expected results.

The proposed rules to grant loans include the following mechanism:

- 1- Finance shall be granted by reduced participation method. In this regard the initiative owner will pay the share of the Fund on annual payments till complete repayment.
- 2- The business shall be granted grace period from 1-3 years in accordance with the executive regulations of the law.
- 3- Guarantees will be calculated based on fixed and current assets of business and the potentiality of pledging the same to guarantee the debt.
- 4- The business will be liquidated once the loss of business reaches 50% of the capital.

References

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