

## Local

# Small businesses fight for survival

Thousands of small and medium businesses in Kuwait are in the doldrums after being pummeled by the pandemic, potentially torpedoing a private sector central to efforts to remake the oil-dependent economy. The government, which spends more than half of its annual budget on the salaries of citizens who mostly work in public sector jobs, has encouraged them to set up their own businesses over the past decade.

The aim has been to ease state finances, reduce reliance on foreign residents who make up most of the population, and also help Kuwait diversify away from oil, which brings in 90 percent of state revenues but is looking increasingly precarious as the world moves away from fossil fuels. Yet much of that decade of work to foster small and medium-sized enterprises (SMEs), which involved about \$500 million of state financing, has been undone by the COVID-19 outbreak, according to many industry experts.

According to a Reuters report, most of the 25,000 to 30,000 SMEs in Kuwait were operating with limited cash reserves even before the pandemic struck and were unable to weather a halt in operations due to lockdowns, investment management firm Markaz said. In an indication of the scale of the problem, Abdulaziz Al-Mubarak, head of the Kuwait Federation for Small and Medium Enterprises, said that about 8,600 entrepreneurs were currently switching from working in the private sector to the government.

He warned that the cash crunch could "end the whole sector". That's a major problem for Kuwait, where SMEs generate 11.9 percent of GDP by gross value added, employ tens of thousands of people and play an important role in sectors like wholesale and retail trade, food and drinks, hospitality and construction.

Take Mohammed Al-Blushi. His factory making trucks and smart homes from light steel suffered heavy losses due to COVID-19 restrictions. He has been forced to shrink his staff to just three employees from about 60. He came up with half of the KD 800,000 financ-

ing to start his business four years ago, with the rest coming from a loan from a state fund. The 36-year-old now fears he could default on the loan, and is holding out for further support from the government such as compensation for its pandemic losses or exemptions from certain debts. "I will not give up," he told Reuters. "The crisis will subside, God willing."

### Law comes too late

Expatriates, mostly from Arab and Asian nations, make up about 70 percent of the 4.6 million-strong population of Kuwait. Kuwait, like other oil exporters, was slammed by the double shock of low crude prices and the COVID-19 pandemic, leading to the economy shrinking by 8 percent last year. On March 30 this year, the National Assembly passed a law on financing for SMEs, but for some business owners it will prove too late.

The law gives those affected by the pandemic access to funding of up to KD 250,000, of which the government guarantees 80 percent. Many SME owners say banks impose onerous financing conditions under the scheme, like proving the operational efficiency of projects. The repayment period is five years with a possible additional two years of grace.

A senior government source, who declined to be named, told Reuters some SMEs were reluctant to make use of the law because it offered loans rather than compensation, the state didn't fully guarantee the financing and the limit on the repayment time. However, the official said the legislation could be amended to provide more support business owners, if necessary. "All solutions are available to the government to support owners of SMEs," he added, without elaborating.

An amendment to Kuwait's bankruptcy law, which began to be implemented last month and freed SME owners from the threat of imprisonment from debt defaults, has offered some relief. Yet entrepreneurs are still exposed to risks such as seizure of assets or insolvency if they can't settle their debts, said Fawaz Khaled Alkhateeb, an academic at the Kuwait International Law School.



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