
S
10
S/M
12
M
14

Is small more beautiful?

To some they are the catalysts of economic growth, the backbone of the private sector; to others they empower people, drive creativity and encourage specialization. They are the small and medium enterprises (SMEs).

Many governments are waking up to the importance of SMEs to the economies of their countries – in terms of GDP, growth and talent – and are setting up programs to create them, support them and enable them to succeed. Even the independent accounting standard setting body – the International Accounting Standard Board (IASB) – has acknowledged the importance of SMEs and has issued International Financial Reporting Standard (IFRS) for SMEs.

Importance of SMEs to the economy – GCC specific

SMEs are a dynamic and vibrant sector of the economy. They contribute significantly to GDP and provide jobs for the majority of private sector employees, an important asset in the GCC where most countries have employee nationalization programs. GCC governments seeking ways to diversify their economy from oil and gas have opted to boost this important sector. In Bahrain, it is estimated that SMEs contribute 25 percent of total nominal GDP and employs around 75 percent of private sector employees. SMEs also constitute around 90 percent of the private sector entities. In the United Arab Emirates, it is estimated that SMEs contributed 60 percent of GDP in 2011.

Banks in the GCC, through their cautious lending approach adopted in the wake of the financial crisis, are increasingly focusing on lending to SMEs as opposed to personal or large corporate lending because SMEs form a booming market and provide an opportunity to diversify from concentrated lending. In addition, governments in the Gulf countries encourage banks to lend to SMEs and, in some instances, partly or fully guarantee their loans.

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Challenges to SMEs

SMEs have challenges that are general with other entities within the economy and particular to their size and nature, especially in the wake of the global financial crisis whose effects are still felt to this day. SMEs, which are mostly involved in trading, services, manufacturing and construction operate in highly competitive markets, with tight regulatory environments and thin profit margins. More specific challenges to SMEs are the financial and technical restrictions in addition to technology and human resource limitations.

Role of Government

Governments recognize the importance of SMEs as key to economic growth and have established specialized bodies and developed regulations and programs to support and nourish them. This support comes from the initial creation of SMEs and expands to providing technical assistance, financial lines, development of human capital and access to local and global markets. Governments also tend to distinguish between SMEs that are established by 'first generation entrepreneurs' as compared to 2nd or 3rd generation family businesses, favoring those who create employment and provide opportunities.

To take Bahrain as an example, the Bahraini government established Tamkeen in 2006 to support the private sector and position it as the key driver of economic growth. Through the private sector support programs, Tamkeen assists SMEs in hiring well-trained local talent, obtaining sophisticated financial management systems, technological developments and with access to finance. Tamkeen works with banks, financial consultants and training institutions to fulfill its mandate.

In 2002, the Mohammed Bin Rashid Establishment for SME Development (Dubai SME) was incorporated into the Department of Economic Development (DED) as an agency with a vision to nurture business leadership through entrepreneurial spirit. This commitment to the SME sector provides the resources and expertise necessary for providing constant and consistent support. Dubai SME has also launched Dubai SME 100, a premier ranking of Dubai's 100 top performing SMEs. The Dubai SME 100 seeks to identify Dubai's top SMEs that can act as role models. More than just a ranking, the objective of Dubai SME 100 is to inspire willing and able SMEs that have the potential to be world-class enterprises, to invest in innovation and people and to sustain growth. The ranking will also serve as a tool for helping SMEs identify capability gaps for improvement and attract the attention of investors, which is its real value added.

In Qatar, the Qatar Authority for the Development of SMEs was established by an Emiri Decision in 2011, with a responsibility of encouraging the development of the SME sector in Qatar and putting a strategy in place to encourage growth for these enterprises by providing them with technical assistance and coordinating with banks and governmental institutions for the purpose of financing and marketing projects.

In June 2012, The Shoura Council in the Kingdom of Saudi Arabia unanimously approved a set of draft regulations for a separate authority for SMEs. During the discussion, the house felt that such an authority would not only improve the Saudi economy but also provide a substantial number of job opportunities for the unemployed youths in the Kingdom.

Most recently, The Public Establishment for Industrial Estates (PEIE) of Oman announced that it will set a National Business Center in the first quarter of 2013, aimed at encouraging the growth of SMEs. The center will act as a premier platform for developing and supporting Omani entrepreneurs.

Accounting Standards for SMEs

The IASB has carefully considered simplifying the IFRS to reduce compliance costs and, at the same time, increase the benefits of the information it provides to users. Consequently, it issued the IFRS for SMEs in July 2009, a self-contained standard of 230 pages, designed to meet the needs and capabilities of SMEs, which are estimated to account for over 95 percent of all companies around the world. Compared with full IFRSs, it is less complex in a number of ways:

- Topics not relevant to SMEs are omitted
- Where full IFRSs allow accounting policy choices, the IFRS for SMEs allows only the easier option
- Many of the principles for recognizing and measuring assets, liabilities, income and expenses in full IFRSs are simplified
- Significantly fewer disclosures are required
- The standard has been written in clear, easily translatable language

The IFRS for SMEs are available for any jurisdiction to adopt, whether or not it has adopted the full IFRS. It is up to each jurisdiction to determine which entities should use the standard. It is effective immediately on issue.

Conclusion

In the final analysis small is beautiful. After all, the Mini Cooper, the SMART and the VW Beetle are very successful cars. Size produces visible benefits but also hidden costs and risks. Large entities can be vulnerable to many external and internal risks whereas SMEs face lower risks because of their agility. Governments will continue to have a leading role in encouraging the creation of SMEs and pushing them forward. The SMEs' role in empowering the private sector will increase with greater vital contribution to GDP and to the development of their economies. Let us hope that SMEs could, one day, stand for "Solution to the Middle East."

by **Rushdi Kikhia**, partner, Audit, Deloitte Middle East

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Definition

SMEs are distinguished by the number of full-time employees and initial capital invested or annual turnover. The thresholds differ from one country to another. In Bahrain for instance, a micro and small entity is one that employs up to 50 employees and has a capital of up to BD 500,000 (c. USD 1.3 million) whereas a medium entity is one that employs between 50 to 150 employees, with a capital investment between BD 500,000 – BD 2 million (c. USD 5.3 million). Entities above these ranges are considered large.

As for the IASB, companies are considered small or medium if they:

- Do not have public accountability, and
- Publish general purpose financial statements for external users.

Listed companies, regardless of size, may not use IFRS for SMEs.