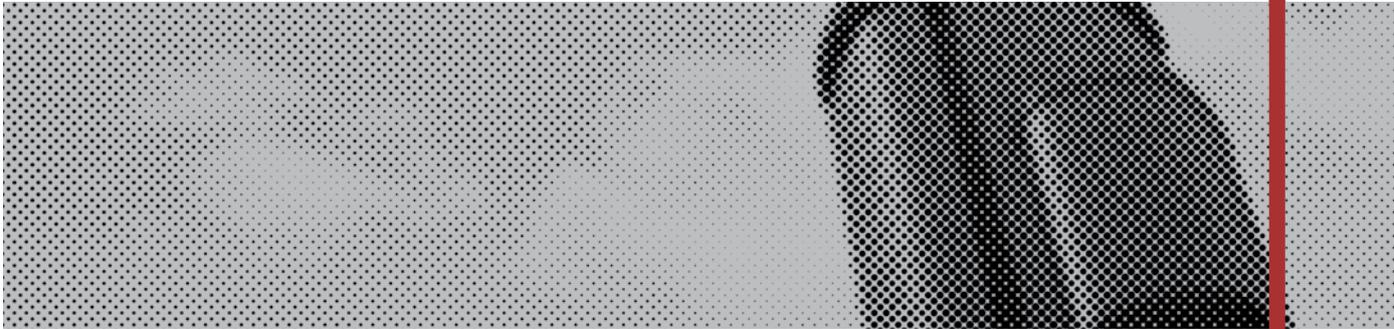
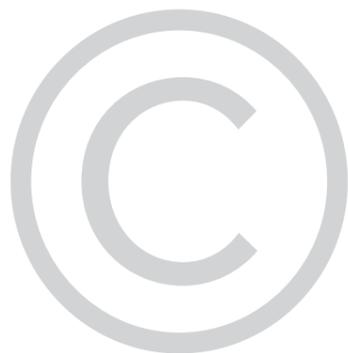




The State of Small & Medium Enterprises (SMEs) in Dubai



2019



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Dubai owes much of its success as a diversified and developing economy to the overwhelming number of small and medium enterprises in the emirate. Currently, %99.2 of the establishments in Dubai are classified as SMEs and together, they account for %51 of the workforce while also contributing around %46 of the emirate's GDP.

Traditionally, SMEs have served as an efficient medium for the entrepreneurial talent in the UAE to translate their ideas into viable projects and grow them into globally competitive businesses. Many of the most outstanding brands associated with Dubai today trace their origins to modest startups.

A visionary leadership and extraordinary efforts are behind this exceptional SME journey in Dubai. As an agile and efficient form of doing business, SMEs have always been accorded top priority in strategic plans aimed to empower citizens and attract investment into Dubai. Meanwhile, Dubai also evolved into one of the most competitive SME ecosystems through government-led and multi-stakeholder initiatives.

With innovation and sustainability taking centerstage in Dubai, SMEs have a new role and goals to achieve. Their inherent ability to innovate and presence across vital sectors, chiefly in the fast-growing services and technology sectors, position SMEs as the chief engines that can propel Dubai to the next level of economic diversification and the sustainable growth aspired.

Enabling SMEs to navigate the increasingly competitive business landscape while nurturing their innovations requires a deep understanding of the business model itself, in addition to identifying the challenges they have to overcome and the support systems they need.

As the SME development agency of Dubai Economy and a pioneering SME initiative in the region, Dubai SME has accumulated a wealth of experience since 2002 by accompanying startups and entrepreneurs throughout their journey. The insights thus gathered are hence valuable to SMEs, government entities, banks, financial institutions, academia, and new and existing categories of investors worldwide. I congratulate Dubai SME for this authoritative report on 'The State of Small and Medium Enterprises (SMEs) in Dubai' report and thanks all our partners, including SMEs as well as public and private sector stakeholders, for their contributions towards this endeavor.



His Excellency Sami Al Qamzi

Director General
Dubai Economy

Dubai SME is launching its second report on 'The State of Small and Medium Enterprises (SMEs) in Dubai' to provide an overview of the Micro, Small and Medium enterprises Dubai, especially with regard to their characteristics, performance and aspirations. The first such report was published in 2014, and the current report is revealing of the substantial changes in the SME environment and priorities that has occurred over the last five years.

Dubai SME has embarked on path-breaking initiatives in recent years, including in rating and enhancing SME competencies, regulating business incubators and accelerators, and introducing innovative alternative financing models. While economic diversification and government-led initiatives have created more opportunities and support systems for SMEs, the field is getting more competitive too. The emerging SME environment and challenges call for faster analysis and response.

The current state and characteristics of SMEs in Dubai have been assessed on the basis of a survey conducted on a random sample of 518 SMEs. The findings of the study highlight great progress for our SME sector in terms of innovation focus, digital readiness and corporate governance. For example, the total proportion of SMEs implementing innovation activities has increased 2.3 times, vis-à-vis the last survey. In addition, the proportion of businesses with a provisioned IT budget has almost tripled – from %27 to %73.

On the other hand, labor productivity continues to be challenging for the sector. SMEs should focus more on investing in employees' development in order to make them future-ready. In addition, SME owners should reconsider their existing business models and work on re-inventing themselves to be fit for future.

The other area that still requires support and collaboration from all stakeholders is access to finance. The lack of tailored, affordable financing solutions, is the most prominent challenge impacting SMEs that need external funding to sustain and grow. Interest rates charged by banks are extremely high (range between %14 and %24). In addition, rejection rates, particularly on short term debt, range between %60 to %65. This is 5 times higher than the median rate of OECD countries.

Moving forward, Dubai SME will continue to adopt a multi-stakeholder approach in promoting and developing SMEs. We engage government entities, public and private sector institutions and SMEs and the knowledge shared helps us to identify gaps and prospects, and propose the best strategies to address them. Data and analytics is a vital component in this mutual engagement.

'The State of Small and Medium Enterprises' report forms part of our efforts to analyze where our SMEs stand in relation to the most important dimensions of future-readiness. Accordingly, the report evaluates SMEs for their innovation focus, IT adoption, human capital development, corporate social responsibility, corporate governance, access to finance and sustainability. As an authoritative study on the characteristics, performance and contribution of SMEs in Dubai, this report is a valuable resource for all SME stakeholders across the region.



His Excellency Abdul Baset Al Janahi

CEO
Dubai SME

Background & Rationale of the Report

Small and medium enterprises are the backbone of Dubai's economy, representing 99.2% of the number of establishments in the Emirate. These businesses play a pivotal economic role, accounting for 51% of the workforce and contributing around 46% of Dubai's GDP.

The Government has a high focus on enhancing the contribution, productivity, and performance of the SME sector, thus enabling it to become the engine of Dubai's sustainable economic growth. Against this backdrop, the initiatives aimed at the development of SMEs and the enhancement of the Government support ecosystem for SMEs has to be premised on a detailed understanding of their 'current state' and developmental needs.

In this regard, Dubai SME, the pivotal economic agency mandated for the development of Dubai's SME sector and fostering Dubai's entrepreneurship ecosystem, has recently completed the 'State and Characteristics of SMEs in Dubai' Survey. This is the second edition of the study, originally published in 2014 and aims to provide a multi-dimensional overview of Dubai's Micro, Small and Medium enterprises. In terms of content and coverage, the study builds further on the first cycle edition and includes several enhancements, particularly within the input framework of the 'State and Characteristics of SMEs in Dubai Survey', the output of which, forms the core of the report.

The publication is an authoritative study on the characteristics, performance and contribution of SMEs in Dubai, based on the measurement of a combination of economic, financial and business-related indicators, derived from key macroeconomic data, company financials as well as a comprehensive assessment of the state and characteristics of SMEs, operating in the Emirate of Dubai.

The report is targeted to a broad audience, including Governmental entities, banks, and financial institutions, business advisors, consultants, training firms, professional service providers, industry associations as well as business enterprises.

This document is a summarized version of the report, covering the key findings, observations, and inferences, across the various dimensions covered in the report.



SME Economy Assessment

Evaluation of key macroeconomic data across a 2 year historical time frame (2015 to 2017), sourced from the Dubai Statistics Center – entailing an evaluation of the economic contribution (Value add, Employment), economic composition and the economic performance (Productivity, Capital Formation) of SMEs in Dubai

SME State & Characteristics Survey

Assessment of the state, orientation and characteristics of SMEs in Dubai, covering 7 dimensions, based on inferences and observations, captured through in-depth face to face interviews on 518 SMEs, stratified by sector and size



Financial Performance Analysis

Assessment of the financial health and performance of SME enterprises based on aggregate financial indicators related to Growth, Margins, Profitability, Solvency and Cash flows, covering 412 SMEs and 189 GPP (Dubai SME members), analyzed over a time frame of 2017 to 2018

Business Growth Analysis

Evaluation of key trends related to the business growth, over the historical 3 year time frame i.e. 2015 to 2018, based on assessment of license issuance and renewal data, sourced from Dubai Economy (DED-BRL)



International Benchmarking

Benchmark study covering global SME aggregates on specific business and economic indicators to make comparative assessments vis-vis the performance of SMEs in Dubai

1.

The Business Landscape & Economic Contribution of SMEs in Dubai

Small and Medium Enterprises (SMEs) across global economies are regarded as engines for economic growth and development. The Dubai SME sector plays a critical role in employment generation, production, facilitating equitable distribution of income, fostering entrepreneurship development, innovation and promoting export growth.



The UAE Definition of SMEs

An SME in the UAE is defined as any enterprise which meets the thresholds of 'Employee Headcount' AND 'Turnover', as applicable to the Segment it belongs to (i.e. Trading, Manufacturing or Services). The classification of Enterprise Size (Micro, Small and Medium), is based on unique thresholds for each Segment.

For the purpose of the SME definition, an enterprise is defined as an entity engaged in 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 or industrial zone authority.

	 TRADING		 MANUFACTURING		 SERVICES	
	EMPLOYEES	TURNOVER	EMPLOYEES	TURNOVER	EMPLOYEES	TURNOVER
MICRO	≤ 5	≤ 3 Mn	≤ 9	≤ 3 Mn	≤ 5	≤ 2 Mn
SMALL	6 - 50	≤ 50 Mn	10 - 100	≤ 50 Mn	6 - 50	≤ 20 Mn
MEDIUM	51 - 200	≤ 250 Mn	101 - 250	≤ 250 Mn	51 - 200	≤ 200 Mn

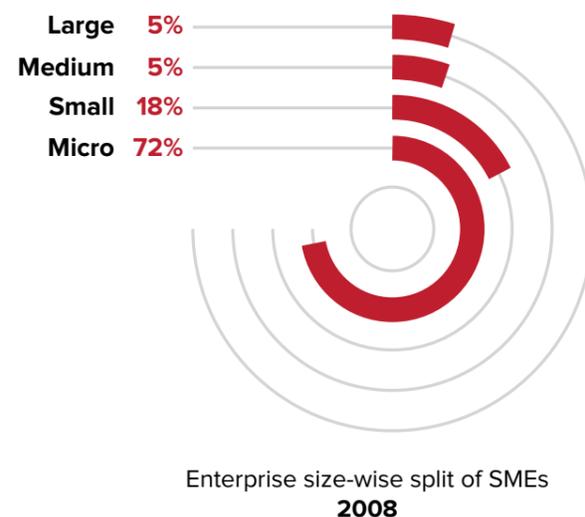
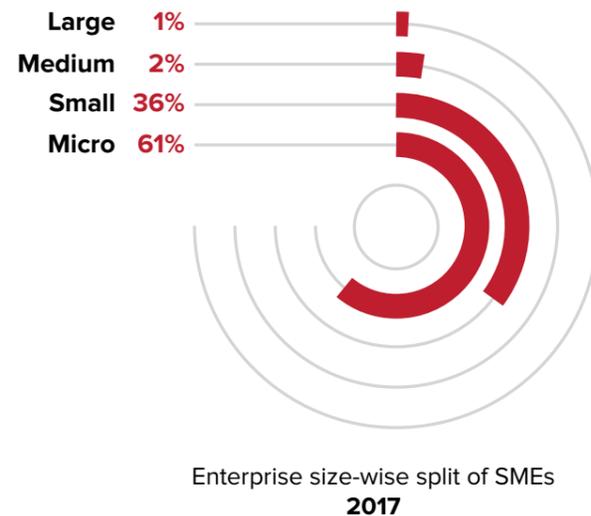


Segment Landscape

The total number of SME establishments in Dubai is estimated at 151,875 and has registered a 9% CAGR since 2008 when the SME business count was estimated at 72,695. Micro firms account for 61% of the total business count in Dubai, followed by Small and Medium firms, that account for 36% and 2% of the total number of enterprises in Dubai, respectively. Notably, the proportion of Small businesses has doubled from 18% in 2008 to 36% in 2017. In terms of the Segment-wise split, Services account for a majority of SMEs (48%), followed by Trading (47%) and Manufacturing (5%). Notably, in comparison to the historical economic period of reference (2008), the proportion of Service based enterprises has gone up considerably (48% in 2017 from 35% in 2008). This is in line with the UAE's strategic focus to transition from a primarily Trading oriented economy to a 'knowledge-based' Services economy.

Segment Growth Trends

The trend in aggregate new business licenses issued reflects a flat growth trajectory between 2015 and 2018. After a continuous period of decline between 2015 and 2017, new licenses issued have grown sharply at Y-o-Y growth rate of 6.5% between 2017 and 2018. The business license renewal rate has grown at a moderate 3-year CAGR of 2.2% between 2015 and 2018.



The key growth trends pertinent to each Segment are as follows:

Manufacturing ⁽¹⁾

Outperforming the aggregate trend, new licenses issued to Manufacturing enterprises, grew at a CAGR of 5.9% between 2015 and 2018. After an initial Y-o-Y decline of 1.9% between 2015 and 2016, there has been a spate of successive annual growth, witnessed between 2016 and 2018 (Y-o-Y growths of 10.2% and 9.7% in 2017 and 2018, respectively). In terms of new licenses issued amongst the Manufacturing Activity Groups, was in the 'Structural Steel Products' (66.3%), followed by 'Wood, Wood Products and Furniture' (61.8%), 'Paper and Paper Products' (41.5%), 'Pipes and Wire Products' (37.5%) and 'Machinery, Electronics and Electrical Equipment' (32.6%).

Services ⁽²⁾

Outperforming the aggregate trend, new licenses issued to Service enterprises grew at a sharp CAGR of 12.4%, between 2015 and 2018. Between 2017 and 2018, the number of new licenses issued in Services posted a Y-o-Y growth of 17.5%; the highest relative growth observed across all the Segments (Manufacturing, Trading, Services). In terms of new licenses issued between 2015 and 2018, the highest growth witnessed amongst the Services Activity Groups, was in the 'Restaurants, Coffee Shops and Food Industries' (41.3%), followed by 'Consultancy' (38.8%), 'Tourism' (33.1%), and 'Education' (31.2%).

Trading ⁽³⁾

Underperforming the aggregate trend, licenses issued to Trading enterprises declined at a CAGR of 5.2%, between 2015 and 2018. In terms of new licenses issued between 2015 and 2018, the highest growth witnessed amongst Trading Activity Groups, was in 'Read Made Garments' (40.5%), followed by 'Machinery, Engineering Equipment' (40.0%) and 'Electronics and Electrical Equipment' (37.5%).

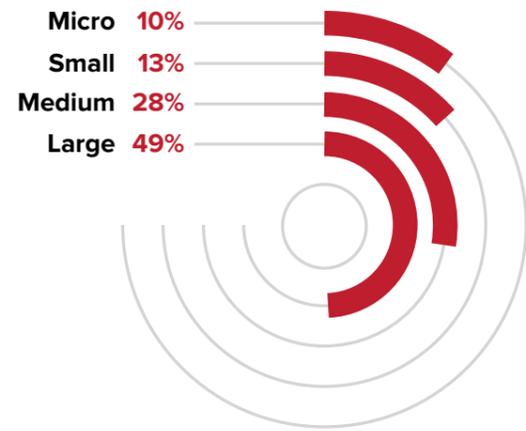
⁽¹⁾ The data on 'Industrial Licenses' issued by the Department of Economic Development (Dubai Economy) has been taken as a proxy to underpin growth trends in the Manufacturing Segment.

⁽²⁾ The combination of the data on 'Professional Licenses' and 'Tourism Licenses' issued by the Department of Economic Development (Dubai Economy) has been taken as a proxy to underpin growth trends in the Services Segment.

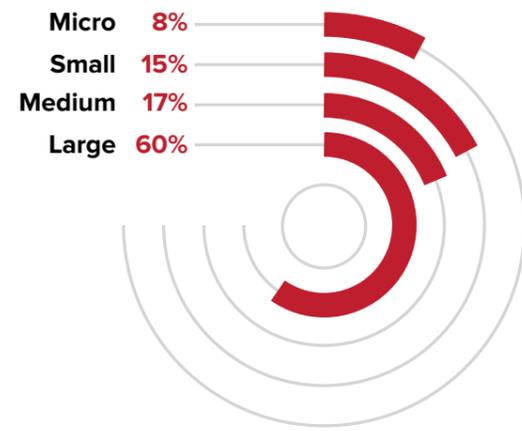
⁽³⁾ The data on 'Commercial Licenses' issued by the Department of Economic Development (Dubai Economy) has been taken as a proxy to underpin growth trends in the Trading Segment.

SME Economic Contribution

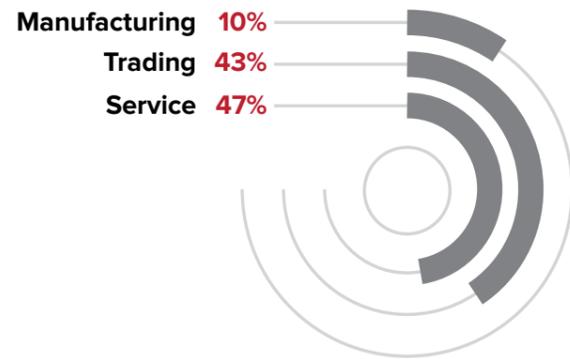
SME Gross Value Add Contribution



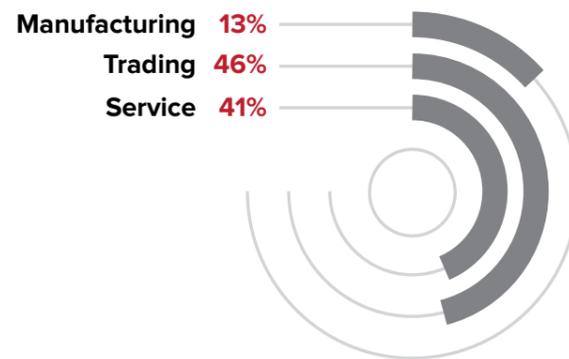
Gross Value-add by Enterprise-size of SMEs
2017



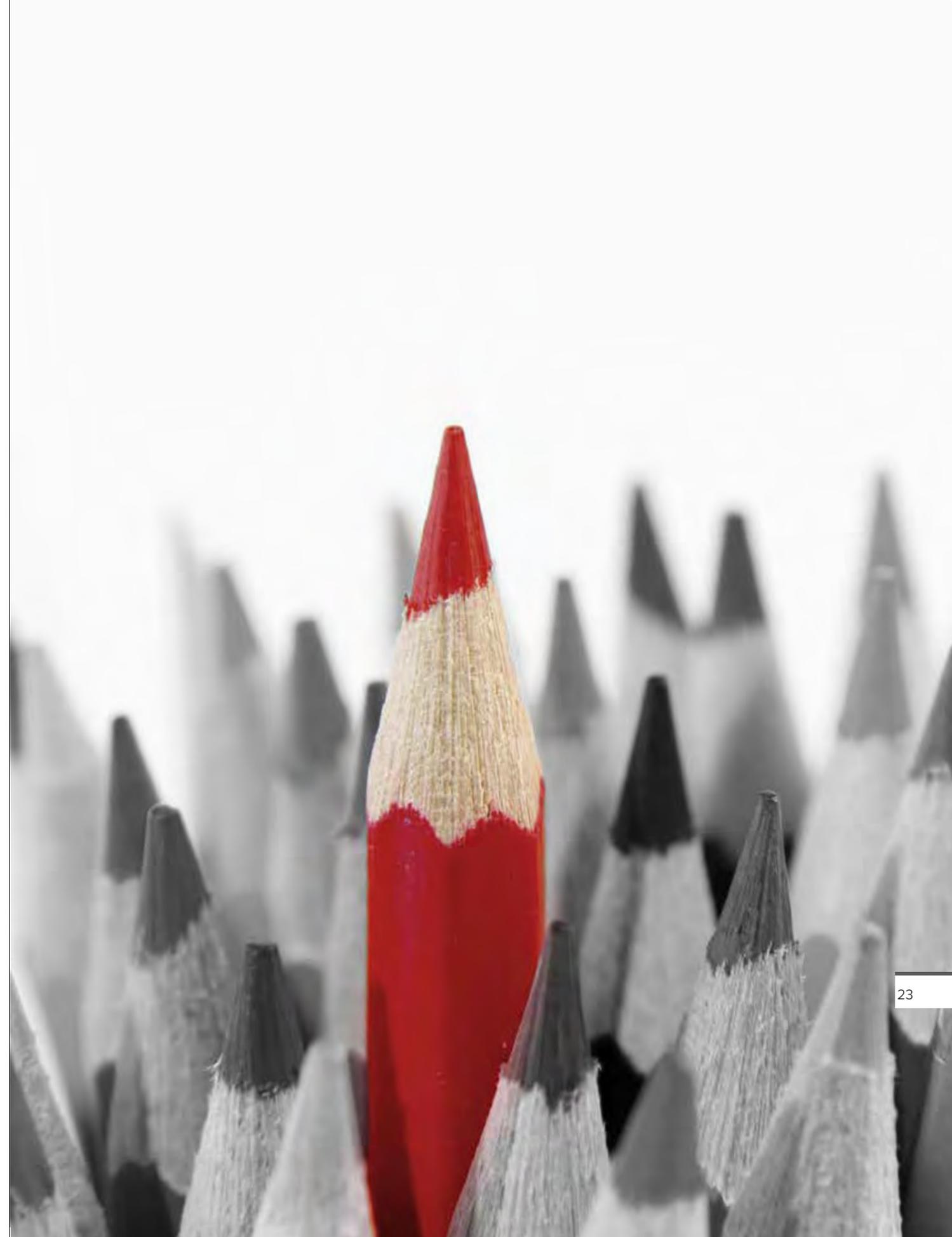
Gross Value-add by Enterprise-size of SMEs
2008



Segment-wise of SME GVA Contribution
2017



Segment-wise of SME GVA Contribution
2008



SME Economic Contribution

SME Gross Value Add Contribution

The Dubai SME sector contributes an estimated AED 198.6 Billion to the total Gross Value-add (GVA) of the Dubai economy. This translates to a contribution of 51%⁽¹⁾ of the aggregate GVA of Dubai and around 46% towards Dubai's aggregate GDP. The GVA of the sector has grown by a CAGR of 5.7% between 2008 and 2017.

The most pronounced change in terms of Segment contribution is in terms of Medium enterprises whose GVA contribution has gone up from 17% in 2008 to 28% in 2017.

The Services Segment is the highest contributor (47% contribution) to the aggregate Dubai SME sector GVA aggregate. The Segment's GVA contribution has gone up from 41% in 2008 to 47% in 2017. On the other hand, the proportionate GVA contribution of Trading and Manufacturing SMEs has reduced by 3% each over the same period.



The Gross Value Add split contribution within each Segment is as follows:

Manufacturing

'Other Manufacturing'⁽¹⁾ is the biggest contributor to the Manufacturing SME Segment GVA (39% contribution), followed by 'Manufacturing of Fabricated Metal Products' and 'Manufacturing of Basic Metals' (13% contribution each). At the other end, the lowest sub-segment GVA contributor is 'Manufacturing of Other Transport Equipment'.

Service

'Other Services'⁽²⁾ is the largest contributor to the Services Segment GVA (49% contribution), followed by 'Transport and Storage' (20% contribution). Relative to 2008, the sub-segment pattern of contribution to the Services Segment GVA, has changed fundamentally. While 'Real Estate, Renting & Business Services' was the topmost contributor to the Services GVA (33% contribution) in 2008, the sub-segment is now the lowest contributor (4% contribution). Notably, the varying pattern of GVA contribution is attributed in part, to the changes in the SME definition thresholds⁽³⁾.

⁽¹⁾ 'Other Manufacturing' sub-Segment comprises various sub-Segments including 'Tobacco and Tobacco Products', 'Paper and paper Products', 'Coke and Refined Petroleum Products', 'Chemicals and Chemical Products', 'Rubber and Plastics', 'Radio, TV and Communication Equipment', 'Medical Precision and Optical Instruments', 'Watches and Clocks' and 'Recycling'.

⁽²⁾ 'Other Service' sub-Segment comprises diversified business activities, encompassing - 'Professional, Technical and Scientific Services', 'Education', 'Healthcare Services', 'Community and Social Services' as well as 'Personal Services'.

⁽³⁾ The change in sectoral split of enterprises, is most pronounced for Services as a result of the changes in the criteria of the SME definition and changes in classification applied within the Dubai Economic Survey data collection frame (the total proportion of Services based businesses has gone up from 35% in 2008 to 48% in 2017).

⁽¹⁾ The net Gross Value Add contribution by Dubai SMEs does not include the contribution of the Primary and Public Administration sector activities.

SME Employment Contribution

The Dubai SME Sector accounts for 1.41 million workers in Dubai, translating to a net employment contribution of 56% to the Dubai economy. The total number of employees in the sector has grown by a CAGR of 6.4% between 2008 and 2017, with proportionate employment contribution increasing by 14% over the same period ⁽¹⁾.

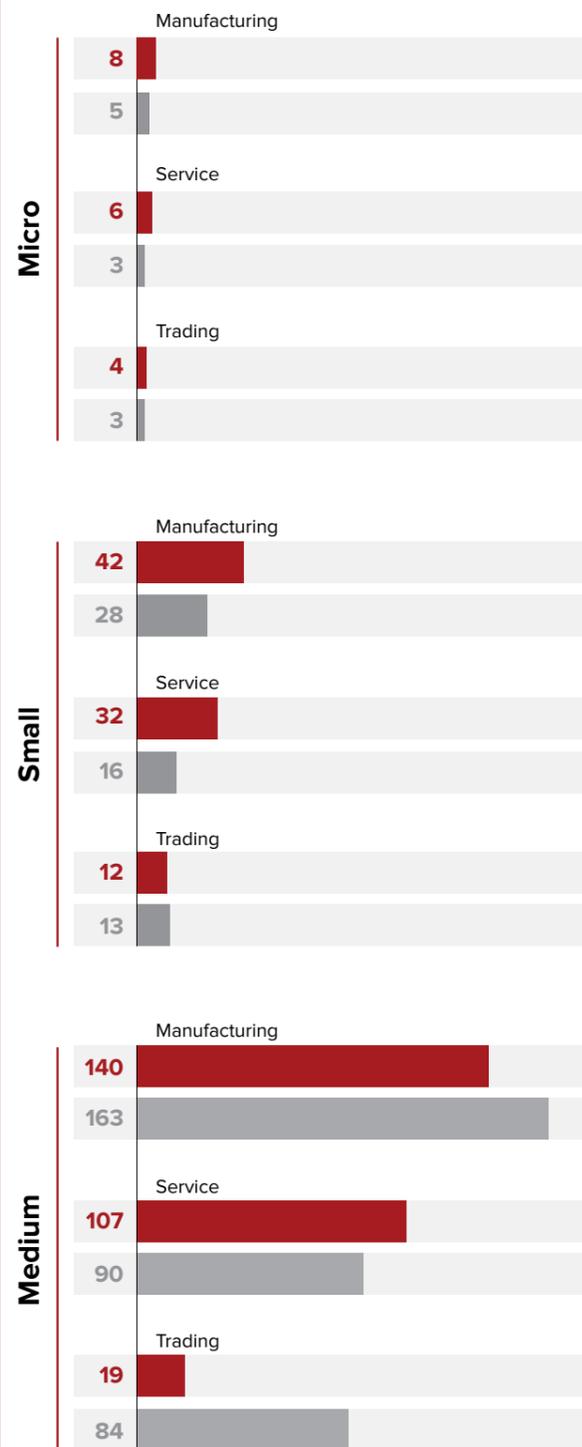
Small businesses have the largest contribution to employment generated by SMEs (33% of total employment in Dubai).

Relative to 2008, the proportionate employment contribution of firms across each of the Enterprise Size categories (Micro, Small and Medium) has gone up and is most pronounced in the case of Small firms, whose contribution has gone up from 15% in 2008 to 33% in 2017. The Services Segment accounts for 58% of the total employment in the SME sector (up from 51% in 2008).

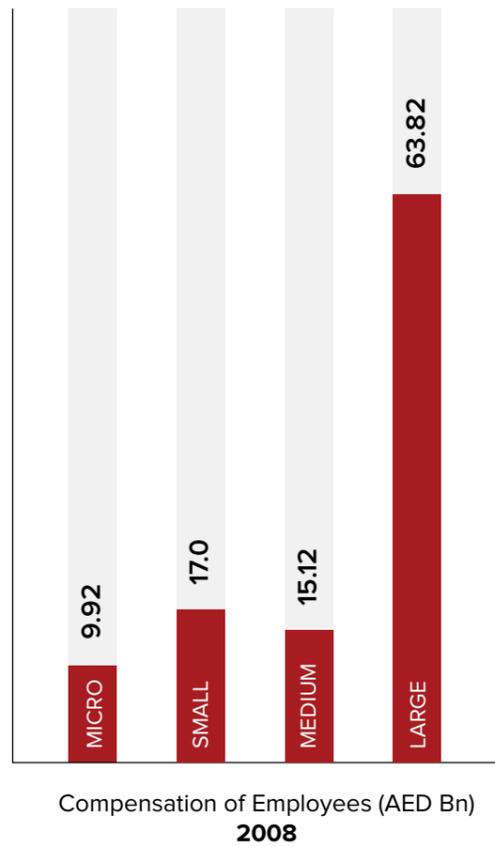
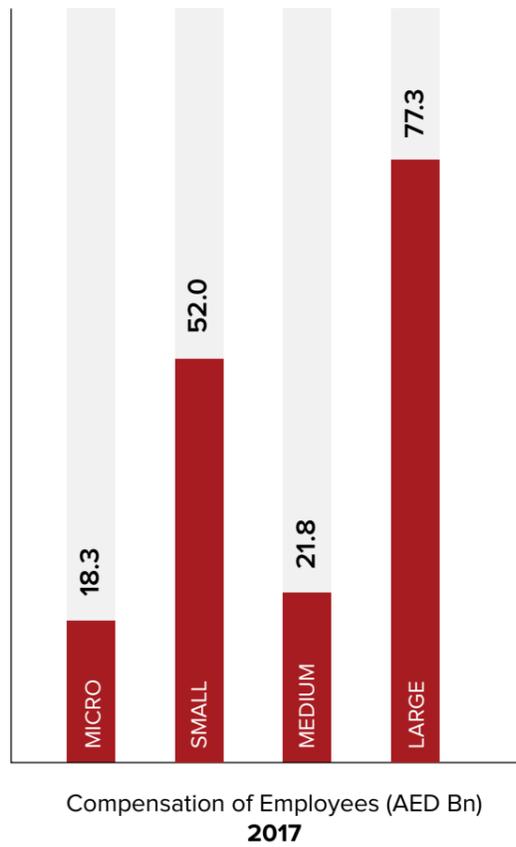
While the overall SME employment contribution has gone up, the average employee headcount per firm has actually declined across the entire cross-sectional spectrum of 'Segment' and 'Enterprise Size', between 2008 and 2017. This is attributed to the fact the growth in the business count of SME enterprises (9-year CAGR of 9%) has outpaced the growth in employee headcount (9-year CAGR of 6.4%) during the same period. Medium Manufacturing and Medium Trading enterprises are an exception, wherein average headcounts in 2017 have increased 1.2 times and 4.4 times, respectively.

⁽¹⁾ The changes in employment contribution patterns at an aggregate level as well as in terms of Segment-wise and enterprise size-wise splits (vis-à-vis historical levels), are in part attributed to the implied effect of the changes in the SME definitional criteria and resultant classifications applied in the Dubai Economic Survey Data Collection Frame.

Average Number of Employees

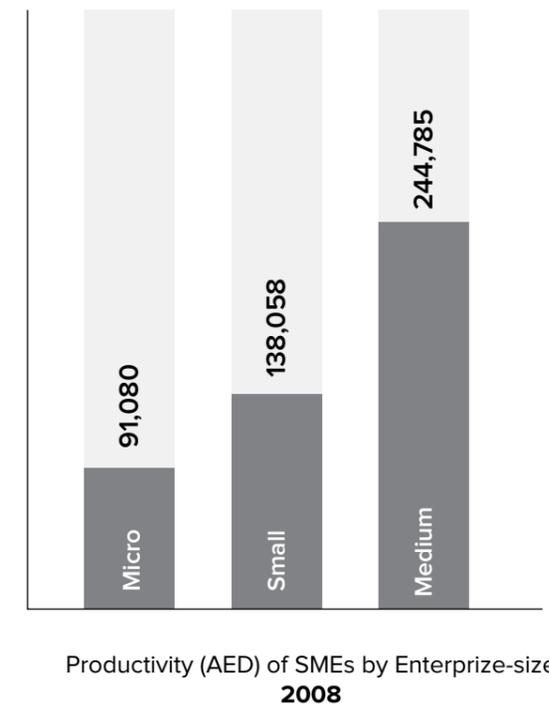
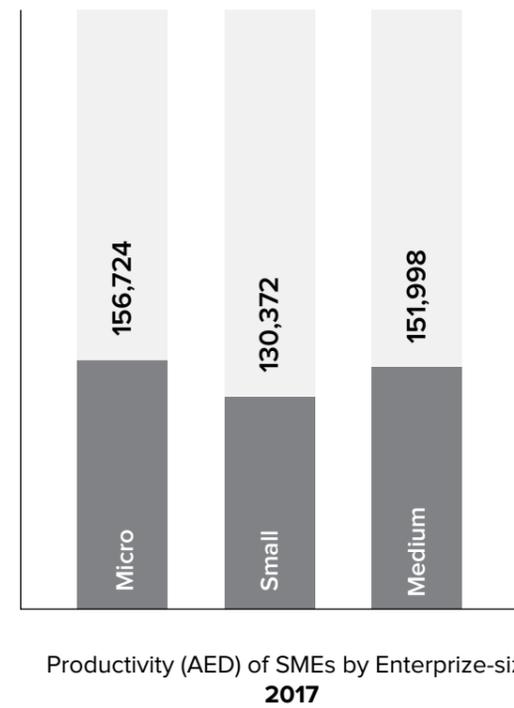
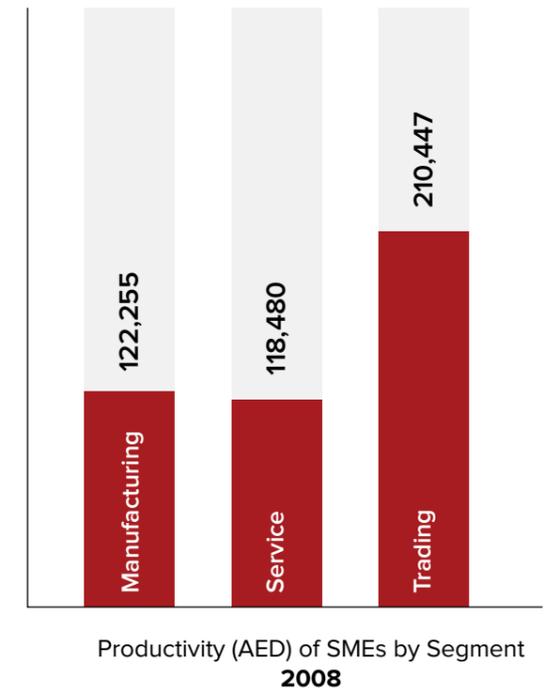
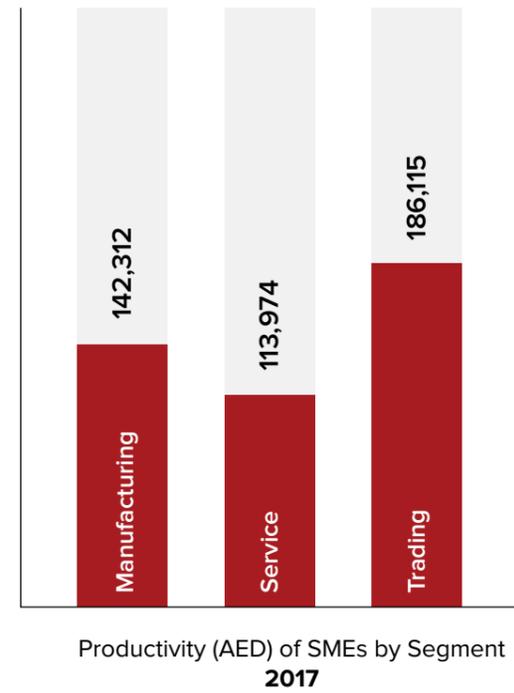


SME Compensation Contribution



In total, SMEs in Dubai generate AED 92.1 billion of compensation paid to workers, as compared to AED 77.3 billion paid by Large enterprises. The aggregate compensation paid by SMEs has grown by a CAGR of 9.1% from AED 42 billion in 2008 to AED 92.1 billion in 2017. In contrast, the compensation to employees paid by Large enterprises grew only moderately, registering a 2.2% CAGR during the same period.

Productivity



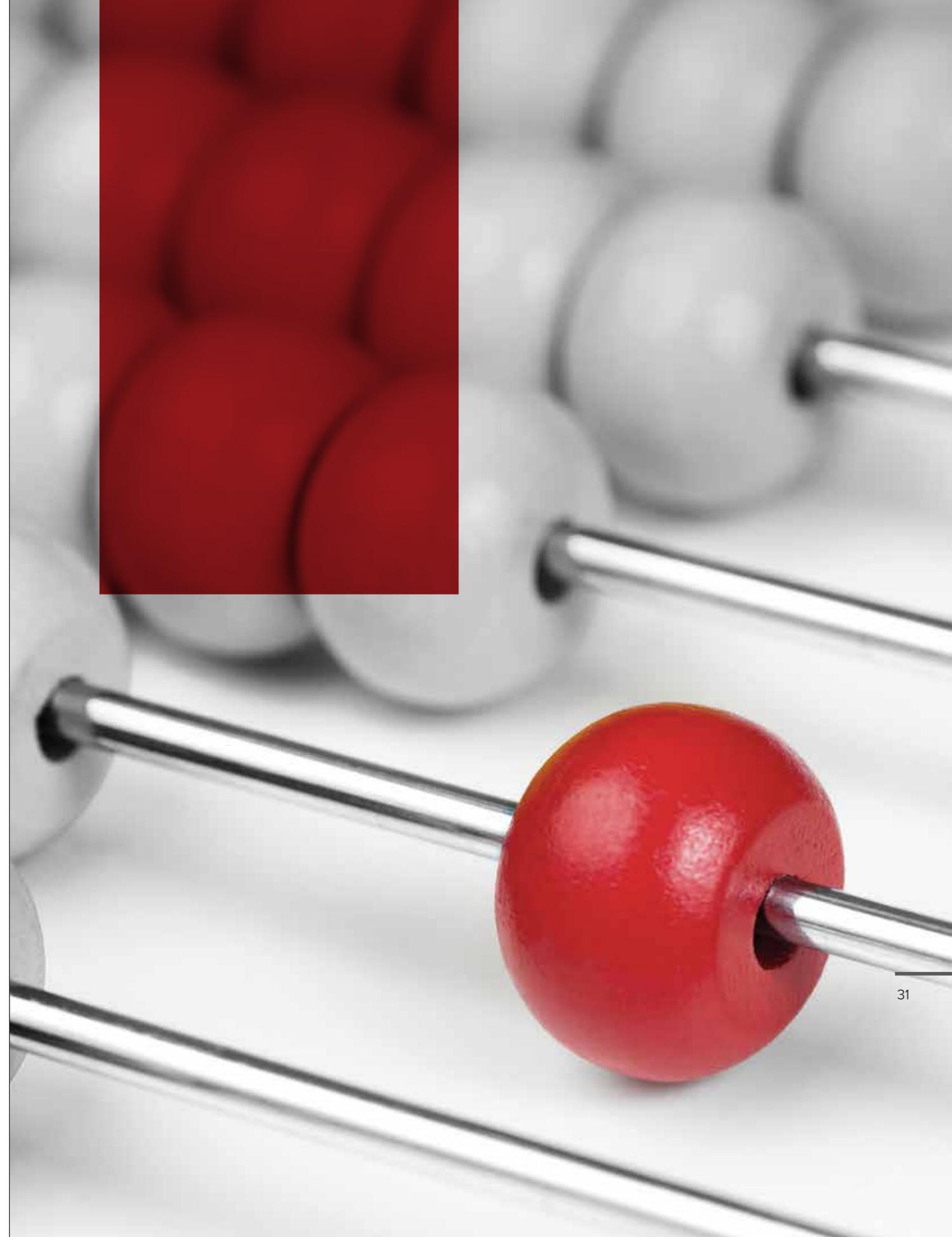
Labor Productivity is calculated as an economic aggregate based on the estimation of Gross Value Add per employee. The productivity of the Dubai SME sector is estimated at AED 147,467; around 0.9 times the average productivity of Large enterprises.

In comparison with global benchmarks, the productivity of Dubai's SME sector is 2.7 times that of Malaysia and 0.8 times of the EU-28 group. Singapore, which is globally 'best in class' in terms of productivity has around 219,000 SMEs, which, on average employ, 10 workers, contributing AED 239,501 each, of Value Add to the economy.

In comparison, Dubai's SMEs employ an average of 9.3 workers, who contribute AED 146,365 of value add. Effectively Singaporean SME workers generate 1.6 times the value added by the Dubai SME workforce. Micro SMEs have the highest per-unit labor productivity (at AED 156,724), relative to Small enterprises (AED 130,372) and Medium enterprises (AED 151,998). While the productivity of Small firms has virtually remained intact vis-à-vis 2008 levels, the productivity of Medium-sized firms has dipped (9-year CAGR of -5.2%) and that of Micro-sized SMEs has registered a sharp rise (9-year CAGR of 6.2%).

Trading has the highest per-unit labor productivity (AED 186,115), relative to Manufacturing (AED 142,312) and Services (AED 113,974) Segments. This corresponds to the fact that Trading SMEs have a higher proportional contribution to Gross Value Add, relative to their proportionate headcount, vis-a-vis Manufacturing and Service based SMEs.

Certain parameters assessed through the 'State and Characteristics of SMEs in Dubai Survey, 2019' have a potential causal or 'driver' relationship with productivity. Table 1 presents these parameters, related observations and the direction of the aggregate Dimension-wise trends between 2013 and 2019, as well as the interpretative contribution to Productivity.



Key Observations Across Dimensions & Direction of Overall Trend

Dimension	Factor	Observation	Direction of Trend (2013 to 2019)
Degree of Innovation	The proportion of SMEs investing in one or more innovation projects	The total proportion of SMEs implementing innovation activities has increased 2.3 times, vis-à-vis the last survey cycle in 2013. The proportion of Manufacturing SMEs implementing innovation activities has increased almost 2 times, from 29% in 2013 to 54% in 2019.	Upward, with positive contribution to Productivity
	Proportional split of the type of innovation activities implemented by SMEs	As per the survey, the total proportion of SMEs investing in 'Product-based Innovation' (PBI) has increased by 14% vis-à-vis 2013.	
	The proportion of SMEs with a defined budget for innovation and R&D activities	SMEs in Dubai project a growing financial commitment towards innovation. The proportion of SMEs with a defined budget for innovation activities has increased 2.6 times, relative to 2013. It is most prominent in the case of Manufacturing SMEs (46% of Manufacturing SMEs in 2019 have a defined innovation budget, vis-à-vis 17% in 2013)	
Level of Digital Readiness	The proportion of SMEs with a defined periodic budget for IT	In 2019, the proportion of businesses with a provisioned IT expense budget of between 0.5% and 5% of sales, has almost tripled – from 27% in 2013 to 73% in 2019. On the other end, the proportion of businesses with no budgetary provision for IT has reduced 2.6 times over the same period i.e. 25% in 2019 from 65% in 2013.	Upward, with positive contribution to Productivity

Dimension	Factor	Observation	Direction of Trend (2013 to 2019)
Level of Digital Readiness	Level of IT adoption amongst SMEs for basic use, computing and enterprise back-end functionality	The level of IT adoption amongst Dubai SMEs is either inline or slightly underperforms global benchmarks related to ICT adoption amongst global SMEs.	Upward, with positive contribution to Productivity
		<p>Around 98% and 74% of Dubai SMEs, use computing devices and smart phones, respectively, for basic business use and connectivity. Comparatively, in Malaysia, around 87% of SMEs use desktops, laptops and computing devices and around 91% of SMEs use smartphones for business purposes.</p> <p>Around 17% of Dubai SMEs deploy Intranet, as part of their IT environments, vis-à-vis 19% Malaysian SMEs.</p> <p>Around 45% of Dubai SMEs deploy cloud-based ERP and CRM solutions on SaaS platforms, while around 74% use cloud-based storage solutions. This proportion is in line with Malaysia, where around 45% of SMEs deploy cloud-based solutions and slightly below Switzerland, where around 53% of Swiss SMEs deploy cloud solutions.</p>	
Orientation towards HCD	The proportion of SMEs investing in training for their organizational employees	The proportion of SMEs in Dubai that does not invest in any form of training for their organizational employees in 2019 has increased almost 2 times, relative to 2013. There is also a marginal decline in the proportion of businesses offering comprehensive training, covering the entire spectrum of their organizational employees, during the same period.	Downward, with a negative contribution towards Productivity

2.

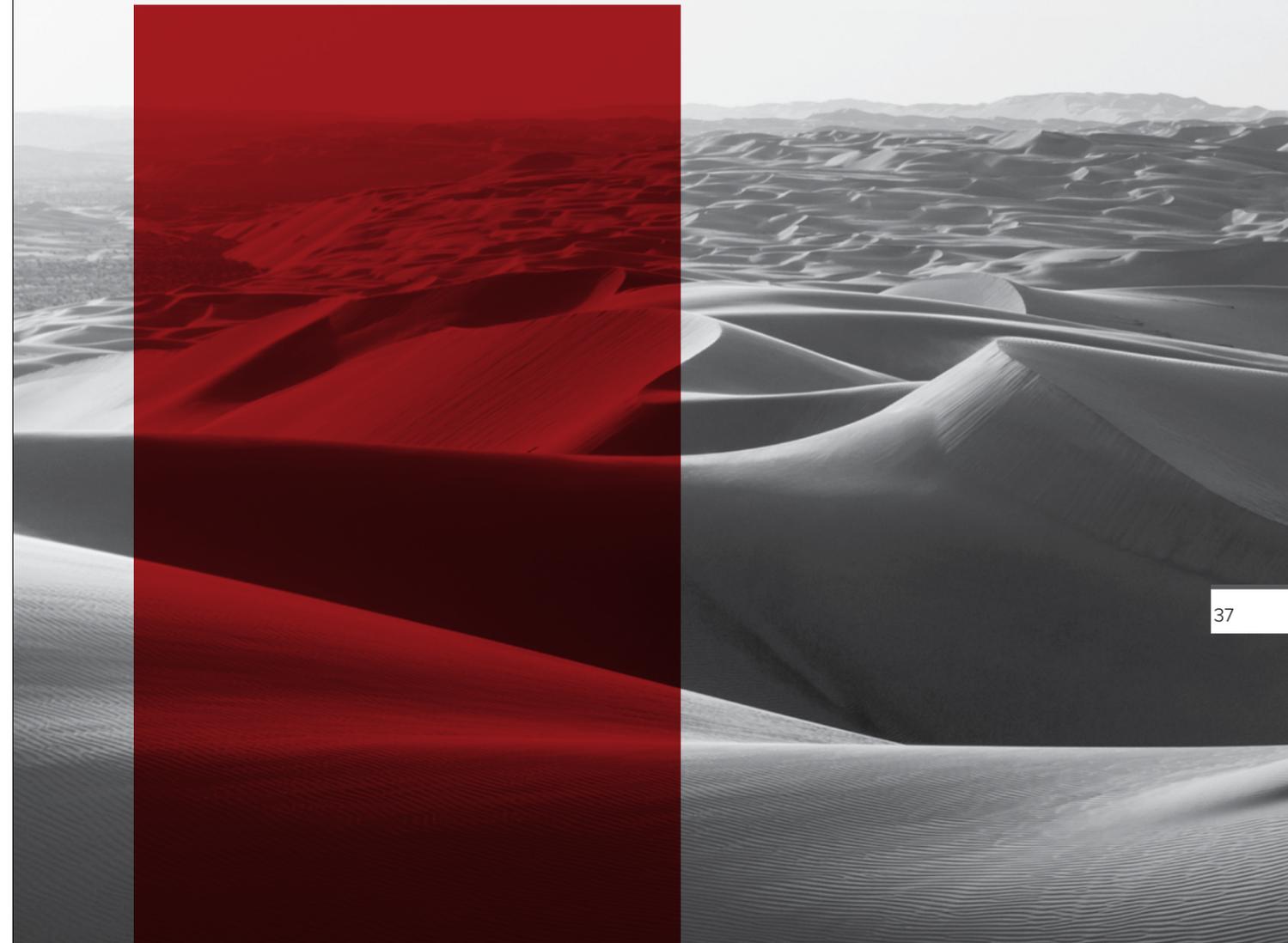
State & Characteristics *of SMEs in Dubai*

The current state and characteristics of SMEs in Dubai have been assessed on the basis of a survey conducted on a random sample⁽¹⁾ of 518 SMEs. The sample comprised enterprises belonging to a diversified cross-section of industries, under the 3 Segments – Trading, Manufacturing, and Services.



The survey was based on a thematic assessment covering specific qualitative and quantitative indicators, to measure the ‘degree of prevalence’, ‘current state’ and the ‘orientation’ of SMEs in Dubai on several aspects underlying 7 Dimensions;

1. International Orientation
2. Degree of Innovation
3. Level of Digital Readiness
4. Orientation to Human Capital Development
5. Degree of Corporate Governance
6. Orientation towards Sustainable Practices
7. Access to Finance



⁽¹⁾ A scientific sampling approach was followed to ensure that the number of businesses across each stratum i.e. ‘Enterprise Size’ and ‘Segment’, met the minimum defined critical threshold criteria of a 90% confidence level and a 10% margin of error, applied to each Universe cohort (i.e. number of SMEs in Dubai in each cohort).



Dimension 1:

International Orientation

'International Orientation' measures the propensity of Dubai's SMEs to export; their functional capabilities to internationalize and their overall focus and preparedness on building and enhancing their international footprint.

The key parameters assessed to evaluate this Dimension included:

1. The prevalence of internationalization through exports and cross-border supply amongst Dubai SMEs
2. The typical proportion of revenues earned by Dubai SMEs through international sales
3. The various modes of internationalization adopted by SMEs in Dubai
4. 5. The key export markets targeted by SMEs in Dubai
5. The capabilities and preparedness to internationalize operations, based on the allocation of functional resources as well as the formulation of defined export plans by SMEs in Dubai
6. The key challenges and issues faced by Dubai SMEs in exporting

Key Findings

Overall Degree of Orientation:

High

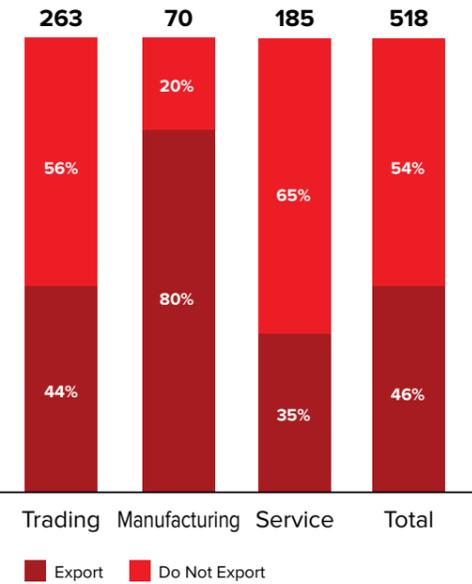
Segment with Highest Orientation:

Manufacturing

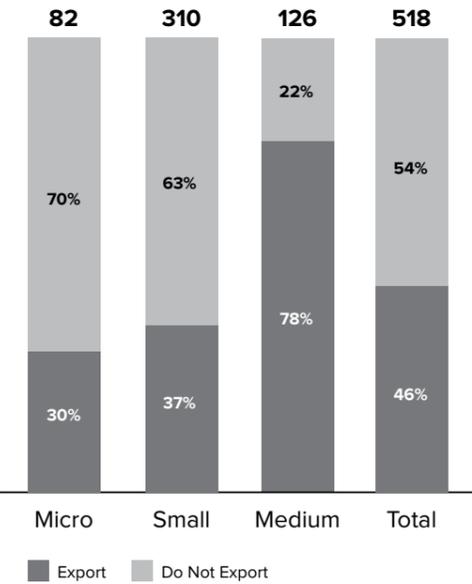


The overall density of SME exporters in Dubai remains high, despite a downward trend vis-à-vis historical levels

Segment-wise distribution: SMEs with Export Orientation

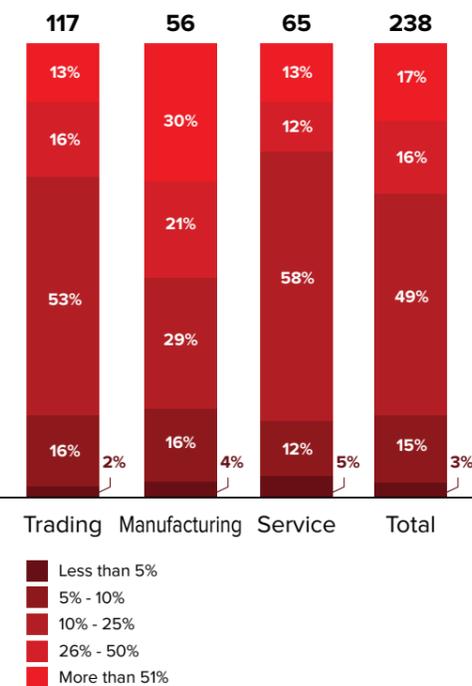


Enterprise size-wise distribution: SMEs with Export Orientation

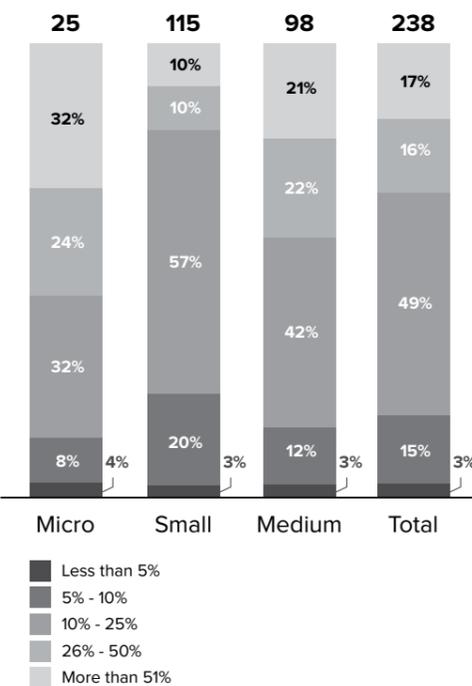


- Around 46% of SMEs engage in the export of goods and/or cross-border supply of services. Of these, 17% are principal exporters, with more than 50% of their revenues coming from international markets.
- Manufacturing SMEs have the highest propensity to export, vis-à-vis Trading and Service enterprises. The proportion of Manufacturing exporter SMEs (80%) is virtually double the corresponding proportion of Trading and Service exporters (44% and 35% enterprises, respectively).
- The trend in the propensity to export, however, shows a marginal decline vis-à-vis historical levels, with the proportion of Dubai SME exporters dropping from 51% in 2013 to 46% in 2019. In contrast to the aggregate trend, the proportion of Manufacturing SME exporters has gone up 1.5 times over the same period.

Segment-wise distribution: Revenues from International Markets for SME Exporters



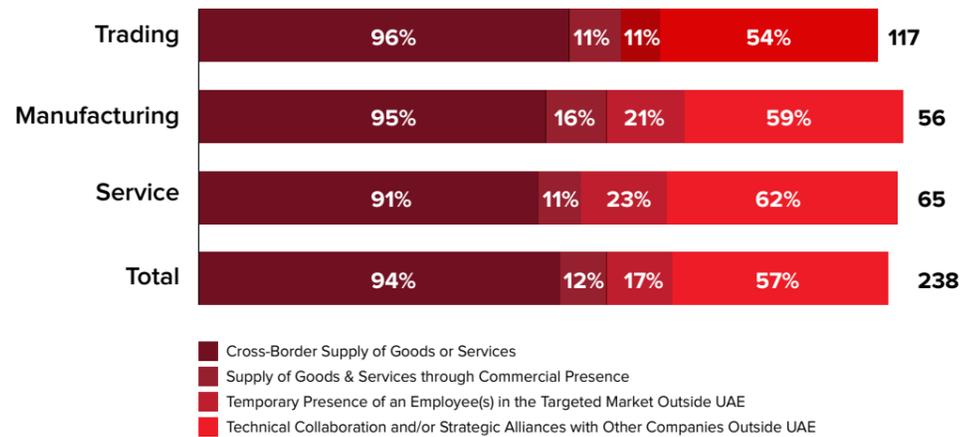
Enterprise size-wise distribution: Revenues from International Markets for SME Exporters



SMEs in Dubai adopt a well-diversified and multi-pronged outreach strategy, encompassing multiple modes for chartering their international expansion plans.

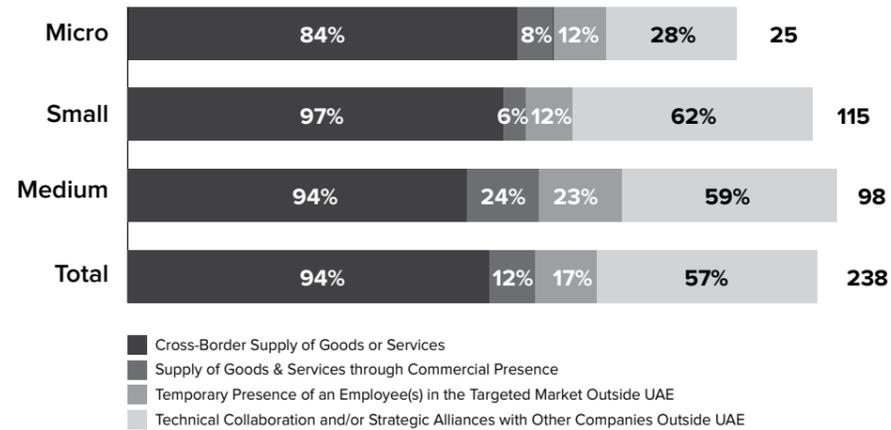
Segment-wise distribution:

Mode of Internationalization for SMEs



Enterprise size-wise distribution:

Mode of Internationalization for SMEs



- While the traditional cross border exports of goods and supply of services are the primary mode for internationalization, Dubai SMEs tend to adopt a combination of modes to bolster their international expansion. These include the establishment of commercial offices abroad, conducting market visits as well as technical and sales collaborations with international partners.
- In particular, a significant proportion of businesses (57% exporters) have established technical collaborations and strategic partnerships outside the UAE. These primarily comprise of commission-based agency agreements with local partners in the territory of export, set up for distribution, sales promotion and/or representation to local buyers.

The export revenues of Dubai SMEs are visibly disproportionate to their international outreach efforts.

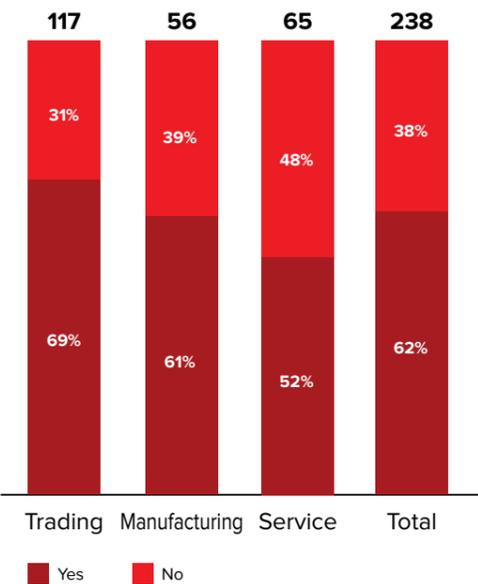
- While the density of SME exporters in Dubai is almost 3 times higher than that of global export hubs like Italy and the UK, the aggregate value of exports from Dubai is around 3 times lower than these countries. This contrast is indicative of the fact, that SMEs in Dubai are yet not being able to harness higher export revenue potential, despite their prominent efforts to internationalize.

There is an apparent need for targeted programmatic support to enable SME exporters in Dubai to capitalize on market opportunities in underpenetrated export markets, outside the GCC.

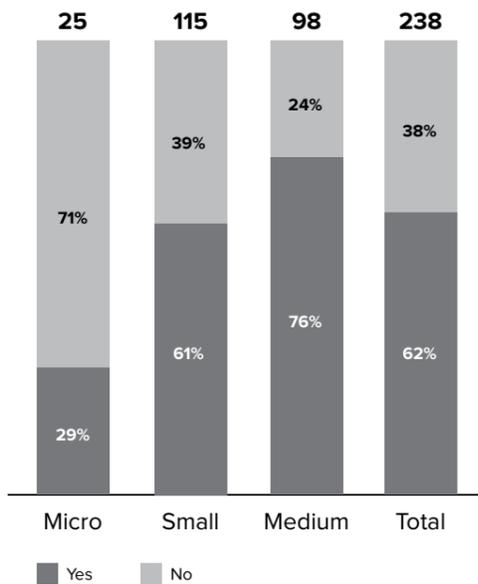
- SME exports are typically concentrated in the GCC, with around 82% SMEs exporting within the region. Contrastingly, high potential markets in Africa, Middle East, and Eastern Europe, remain relatively underpenetrated - Only around 12%, 21% and 11% SME exporters, respectively, have export contracts in these markets.

Complementing their outreach efforts, SME exporters have been investing in building their internal capabilities to internationalize.

Segment-wise distribution: SME Exporters with a Dedicated Employee/Business Function for Exports



Enterprise size-wise distribution: SME Exporters with a Dedicated Employee/Business Function for Exports



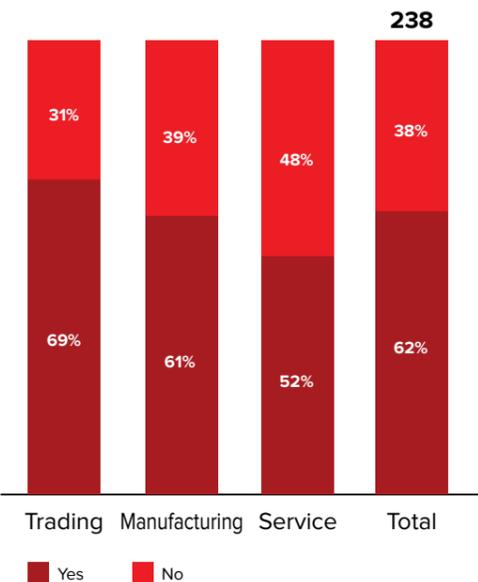
- A majority of SME exporters (62%) have either a dedicated person or a formalized function for exports, additionally complemented with a defined export plan.
- Furthermore, there is a positive trend endorsing the growing commitment of enterprises towards building their capabilities to internationalize – In 2019, the total proportion of businesses with either a dedicated personnel or a formalized business function for exports, has gone up nearly 1.5 times; while, the proportion of SME exporters with a defined export strategy or business plan has grown 1.2 times, vis-à-vis 2013.
- Intrinsically, Trading and Manufacturing SMEs have higher propensities to invest in resources and capabilities for international markets and/or export operations, vis-à-vis Service enterprises – Around 69% Trading and 61% Manufacturing enterprises have a dedicated employee or formalized function for exports, vis-à-vis 52% Service enterprises.

Inadequate access to market information and high costs of documentation and compliance are the topmost reasons restricting SMEs in Dubai to build and/or enhance their export footprint

- The topmost challenges constraining Dubai SMEs to build and/or to bolster their international export footprint include:
 1. *The lack of information on export procedures and opportunities in key markets (as cited by 40% SMEs)*
 2. *High costs related to export (as cited by 30% respondents) – Correspondingly, as per the World Bank’s Doing Business Report 2020, the costs of ‘Export Documentation’ and ‘Border Compliance for Exports’ in the UAE, are respectively, 5.1 times and 3.3 times higher than the respective ‘OECD High Income Country’ averages.*

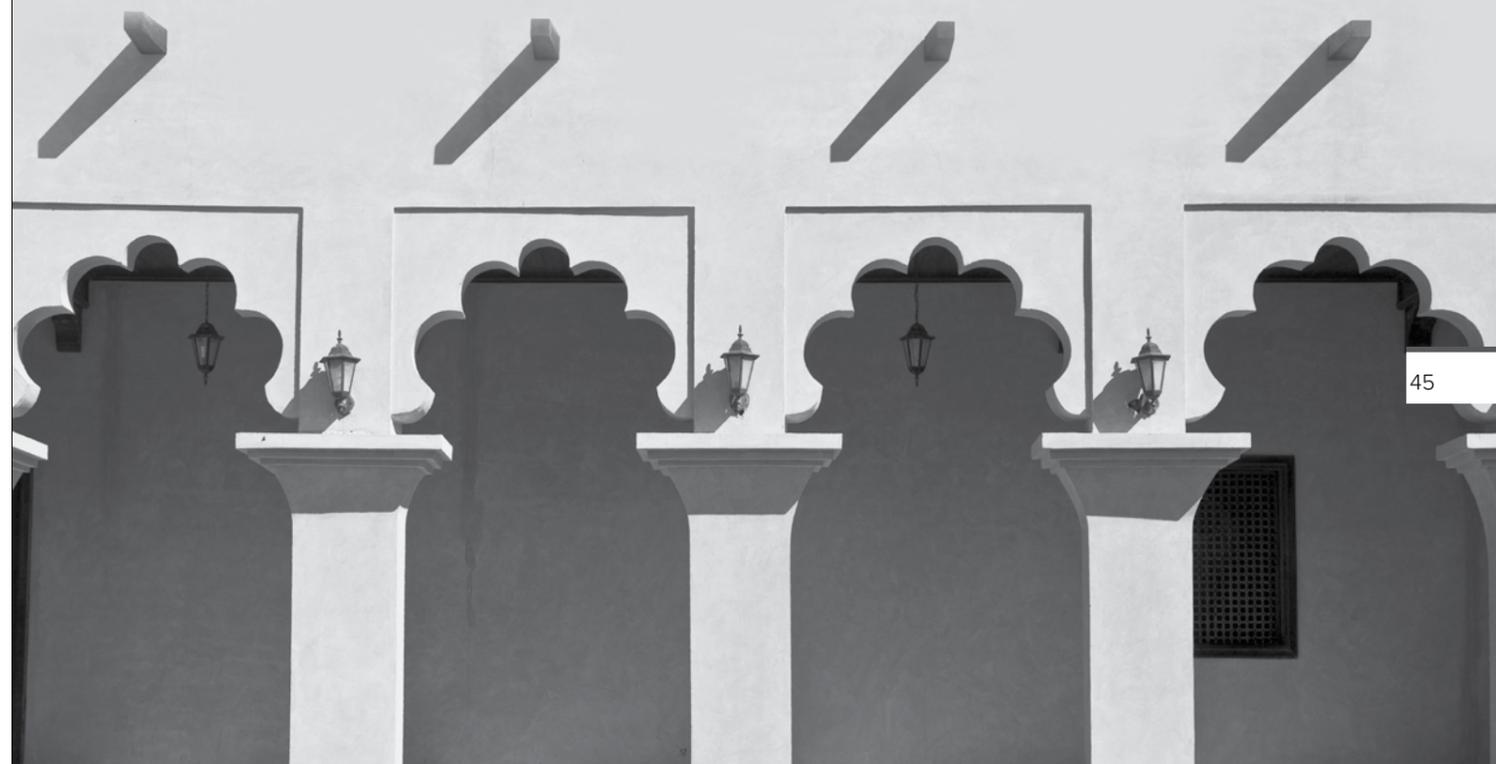
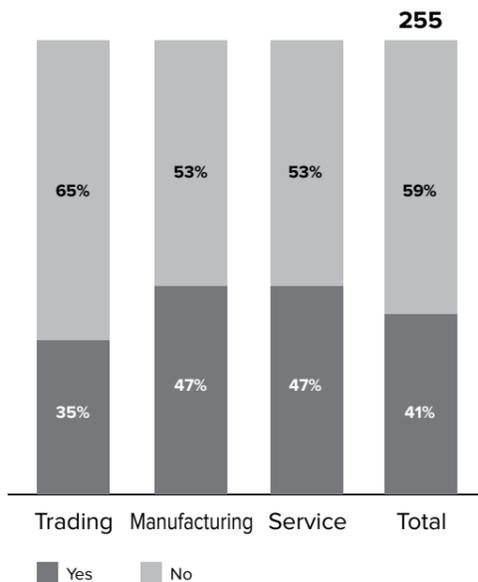
Segment-wise distribution: SME Exporters with a Dedicated Employee/Business Function for International Business

2019 Survy Cycle (n = 238)



Enterprise size-wise distribution: SME Exporters with a Dedicated Employee/Business Function for International Business

2013 Survy Cycle (n = 255)





Dimension 2:

Degree of Innovation

'Degree of Innovation' measures the propensity of Dubai's SMEs to engage in innovation, their functional capabilities for innovation and their overall focus on and preparedness for implementing innovation in line with their business objectives.

The key parameters assessed to evaluate this Dimension included:

1. The prevalence of innovation initiatives and projects implemented by Dubai's SMEs
2. The type of innovation initiatives implemented by Dubai's SMEs as well as the strategic objectives and desired outcomes underpinning the investments made by these businesses
3. The commitment of Dubai SMEs towards innovation, based on their propensity to provision for periodic innovation expenditures as well as to form strategic collaborations for innovation and R&D
4. The modes of finance resorted to, by Dubai's SMEs for funding innovation and R&D expenditures
5. The degree of 'Innovation Output' (IP) generated by SMEs in Dubai
6. The impact of innovation on enhancing the international orientation of the SMEs in Dubai

Key Findings

Overall Degree of Orientation:

Moderate

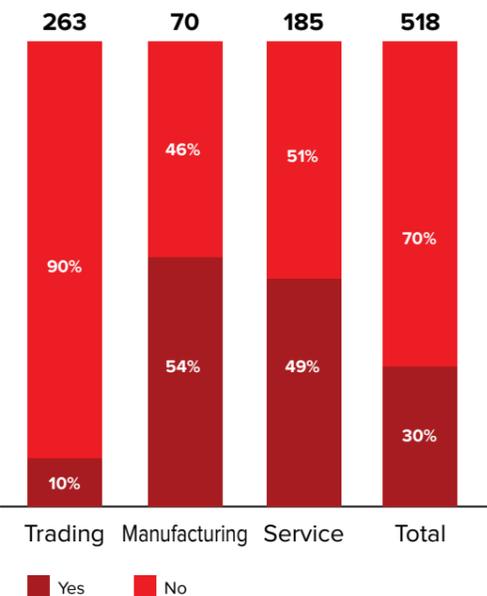
Segment with Highest Orientation:

Manufacturing

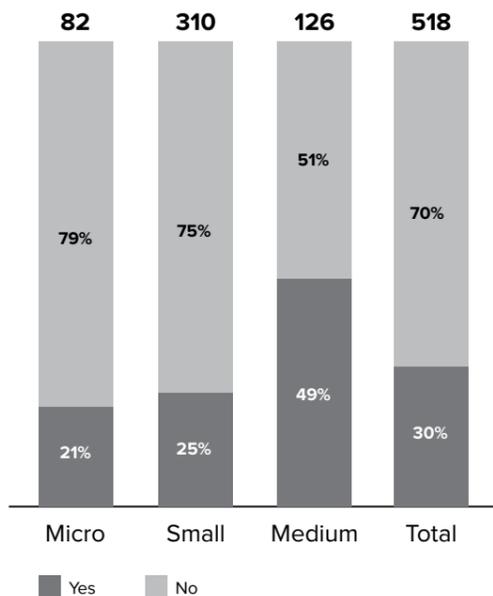


Dubai SMEs have become more innovative over the years, keeping in sync with the pace of industry trends and technological changes impacting the industries they operate in

Segment-wise distribution: Implementation of Innovation Activities



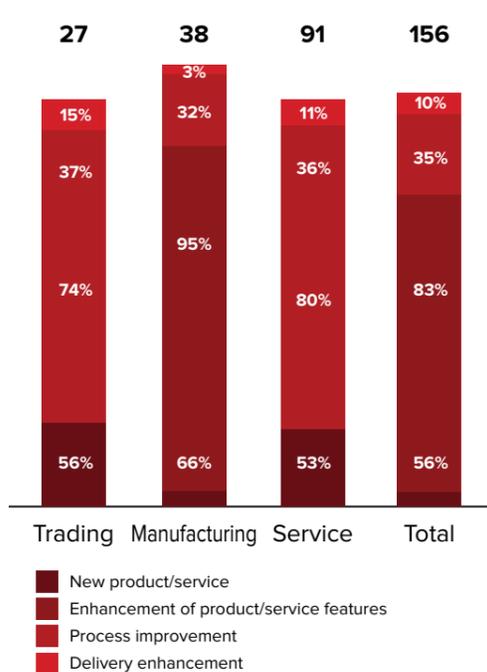
Enterprise size-wise distribution: Implementation of Innovation Activities



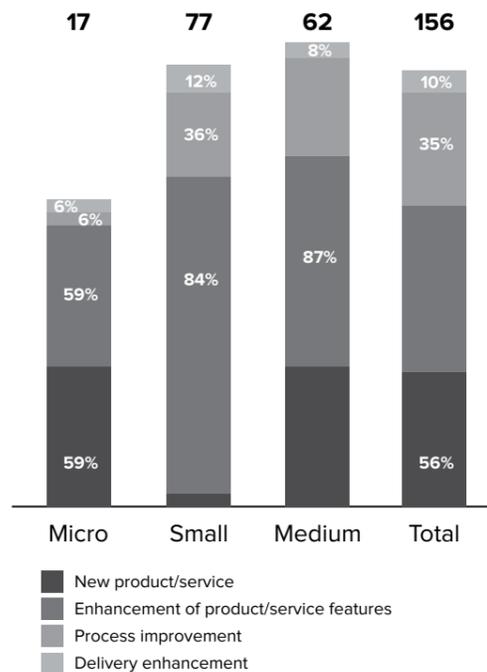
- Around 30% of SMEs have implemented one or more innovation initiatives, an increase of 2.3 times over the corresponding proportion in 2013.
- The proportion of Medium enterprises that have implemented one or more innovation initiatives (49% enterprises), is 2.3 times the corresponding proportion of Micro SMEs (21%).
- The proportion of SMEs in Dubai investing in innovation activities is close to the EU average (33% SMEs), but lower than top performers, including Switzerland, Germany, and Belgium, where 48% SMEs (each) partake in innovation activities as a strategic objective.

SMEs in Dubai are predominantly focusing on 'Product Based Innovation' (PBI) activities, targeted towards introducing new or improved products for deeper market penetration and revenue diversification

Segment-wise distribution: Type of Innovation Activity



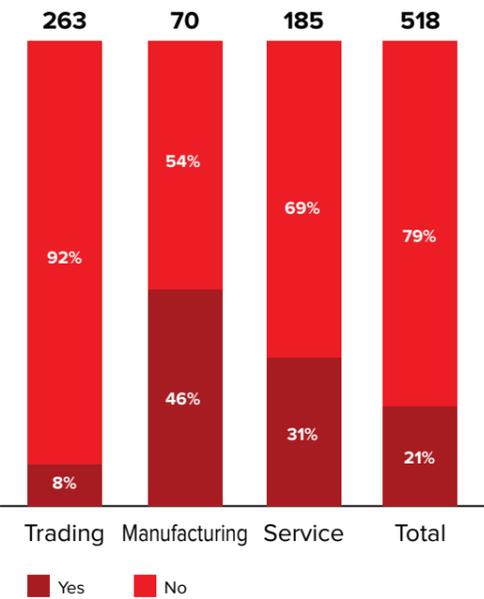
Enterprise size-wise Distribution: Type of Innovation Activity



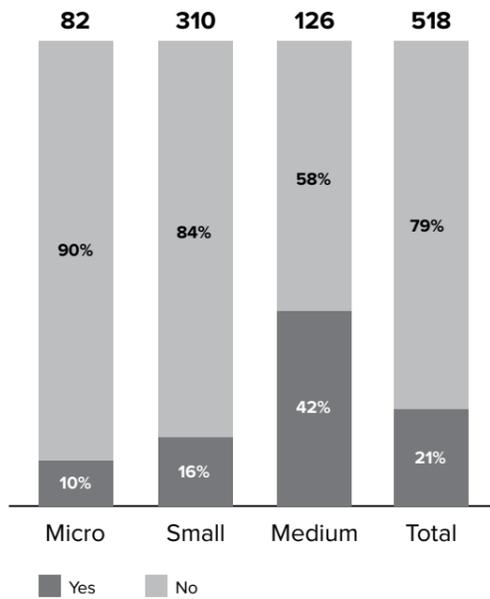
- Around 83% of businesses that invested in innovation (30% of the sample), focused their innovation efforts towards enhancing their existing product/service features, while around 56% were focused on new product development (NPD).
- Around 35% of these businesses, also invested in innovation activities specifically geared towards enhancing or optimizing their internal business processes. As compared to the previous survey cycle in 2013, the total proportion of SMEs implementing NPD projects has increased by 14%.
- The topmost objectives driving innovation amongst businesses, included 'product/service differentiation' (cited by 72% business) and 'productivity improvement' (cited by around 76% of businesses)
- Of the SMEs that invested in product-based innovation (PBI) activities (i.e. 28% of the overall sample), a majority (82% SMEs) targeted domestic market opportunities, while 44% SMEs targeted international market expansion.
- Investment in PBI by Manufacturing SMEs has visibly translated into a higher international footprint. This is reflected in the fact that the proportion of Manufacturing SMEs exporting has increased 1.5x from 53% in 2013 to 80% in 2019.

A higher commitment towards innovation amongst Dubai SMEs is reflected in their increased budgetary provisions for innovation; although, they primarily rely on internal accruals for financing these initiatives

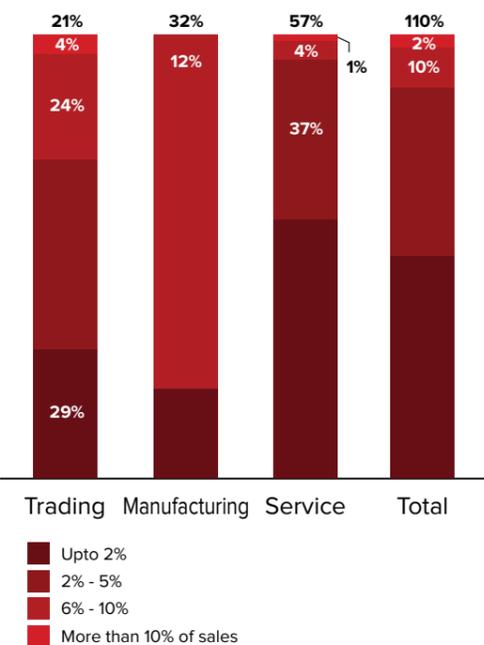
Segment-wise distribution: SMEs with Defined Periodic Budget for Innovation and R&D



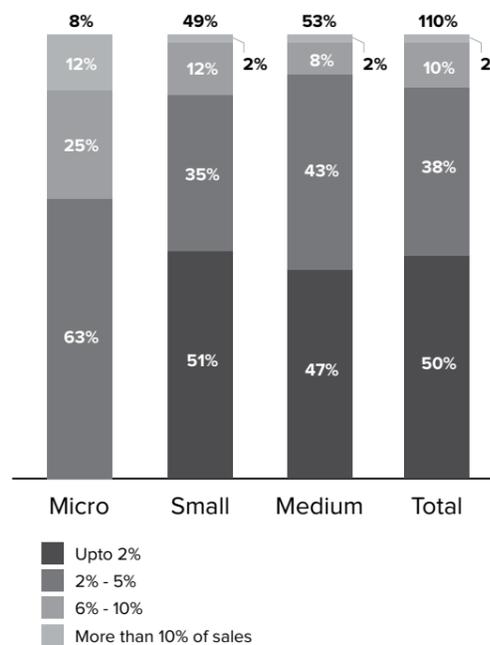
Enterprise size-wise distribution: SMEs with Defined Periodic Budget for Innovation and R&D



Segment-wise distribution: Budget for R&D as a % of Sales



Enterprise size-wise distribution: Budget for R&D as a % of Sales



- Around 21% of SMEs in Dubai have a defined budget for innovation, typically ranging between 1% and 5% of their annual revenues.
- While Trading firms have the lowest propensity to define a budget for innovation; conversely, Trading enterprises that do actually formalize budgets for innovation, tend to have higher budgetary provisions, vis-a-vis Services and Manufacturing firms.
- The growing commitment of Dubai's SMEs towards innovation is reflected in the fact, that the proportion of SMEs with a defined budget has increased 2.6 times relative to 2013. Despite this, the aggregate 'Gross Expenditure on R&D' (GERD) performed by business enterprises in the UAE accounts for only 0.8% of total GDP; 4.5 times and 24 places below the 'best in class' performer (Israel).
- A majority of SMEs (94%) that have invested in innovation projects over the last 3 years have deployed their own internal accruals. With only 8% SMEs (primarily Manufacturing SMEs) having availed bank loans to finance innovation expenditure, it is apparent that external funding for R&D and innovation activities is severely constrained.



Dubai SMEs show inclination to collaborate for innovation and R&D activities, signaling the need for Government programmatic intervention to bolster and stimulate ecosystem-level linkages

- Of the SMEs investing in innovation (30% of the total sample), around 33% have structured collaborations and/or consulting relationships focused on ongoing innovation projects.
- Of these businesses, around 8% have formulated project-based agreements with Universities and academic partners, while around 79% (primarily Trading SMEs) have technical collaborations with master distributors, principal manufacturers, and technology suppliers, who advise them on digitization, supply chain innovation, and process optimization.
- UAE ranks 11th amongst 129 ranked economies on the 'Global Innovation Linkages' indicator of INSEAD's 'Global Innovation Index (2018)', and is around 28 percentage points below the top performer (Israel). On an underlying sub-indicator, 'University/Industry Research Collaboration', UAE ranks 24th and is around 22 percentage points below the best performer (Switzerland). This endorses the need for direct Government intervention in enhancing innovation-focused collaborative linkages within the larger UAE innovation ecosystem, particularly within the confluence of SMEs and the Academia.

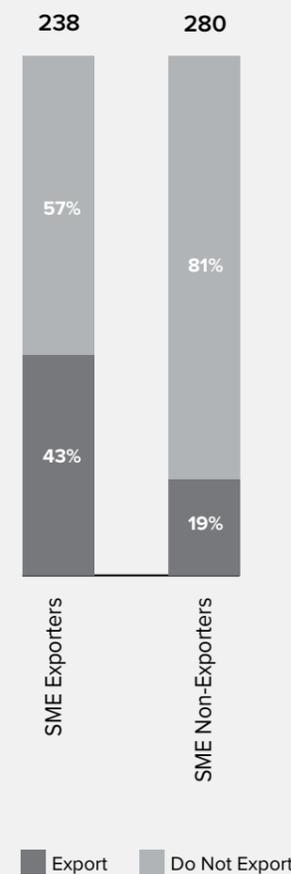
The 'innovation 'output' of Dubai SMEs is visibly disproportionate to their efforts and investment in innovation

- Innovation output may be measured by Intellectual Property (IP) registered on designs, products, and knowhow, generated as an outcome of innovation and R&D activities. There is a clear mismatch between innovation 'input' and 'output' - While 30% of all SMEs have implemented one or more innovation-centric projects, only 6% have registered an IP. Further endorsing this, the UAE ranks 93rd amongst 129 ranked countries, on the 'Knowledge Creation'⁽¹⁾ indicator of INSEAD's 'Global Innovation Index (2018)' and is around 85 percentage points below the top performer (Switzerland).
- The innovation 'input-output mismatch' is attributed to the low degree of awareness amongst SMEs about the potential benefits they can derive from registering IP created as an outcome of key innovation projects. Evidently, 71% of those SMEs that have implemented innovation, did not express any immediate future plans of registering their IP.
- Of the Manufacturing firms that have invested in innovation, 45% have a registered IP, 4.5 times the proportion of Services SMEs (10%) and 2.4 times that of Trading SMEs (19%). In the near term, around 22% Trading SMEs plan to register their IP, which is 3.1 times the corresponding proportion of Services SMEs (7%) and 4.4 times the corresponding proportion of Manufacturing SMEs (5%).

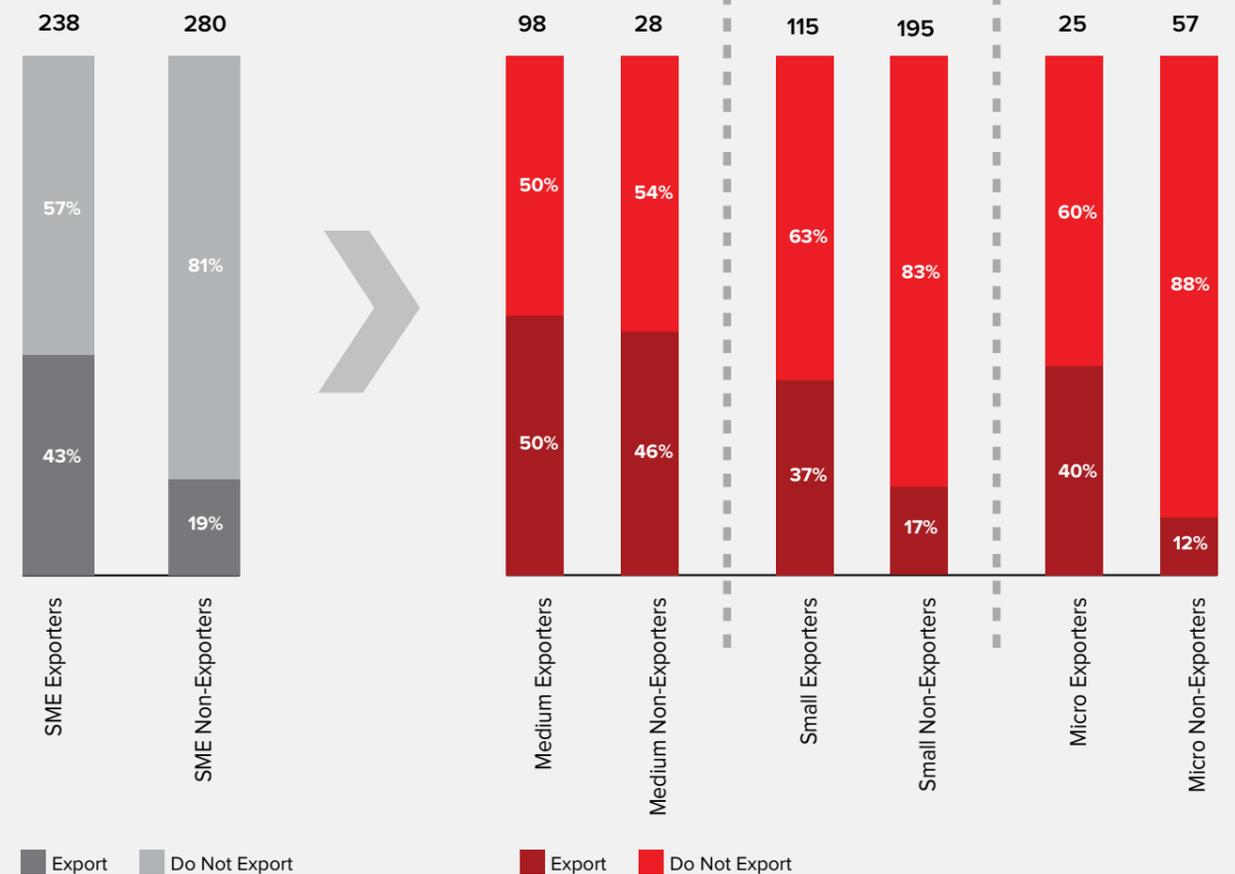
⁽¹⁾ The 'Knowledge Creation Index' is an aggregate score which measures quantifiable IP output generated across countries. It encompasses: Patent applications; Utility model applications; Scientific and technical publications as well as Citable documents H index.

There is a clear causal relationship between investment in innovation by Dubai SMEs and their ability to enhance their international footprint, via exports

Prevalence of Innovation in Exporting vs. Non-Exporting SMEs



Enterprise size-wise split: Prevalence of Innovation in Exporting vs. Non-exporting SMEs



- The proportion of exporter SMEs that invest in innovation is 2.3 times higher than the proportion of non-exporter SMEs that have implemented innovation. This is most pronounced in the case of Micro businesses, vis-à-vis Small and Medium-sized SMEs (i.e. 3.3 times versus 2.2 times and 1.1 times, respectively).



Dimension 3:

Level of Digital Readiness

The 'Level of Digital Readiness' measures the adoption and uptake of IT applications amongst SMEs; their usage of digital tools, solutions, and platforms to conduct business; their enterprise-level functional capabilities to manage internal applications and their commitment to further enhance their digital capabilities.

The key parameters assessed to evaluate this dimension included:

1. The level of ICT usage amongst Dubai SMEs for various business applications – connectivity, front-end, and back-end processes
2. The online presence of Dubai SMEs and the use of digital platforms and tools to conduct business
3. The internal capabilities, commitment and preparedness of SMEs in Dubai towards ICT adoption, based on the dedication of manpower and financial resources
4. The general levels of awareness of SMEs in Dubai on key trends in digitization, contemporary technologies and their applicability in business operations

Key Findings

Overall Degree of Orientation:
Moderate to High

Segment with Highest Orientation:
Manufacturing and Services

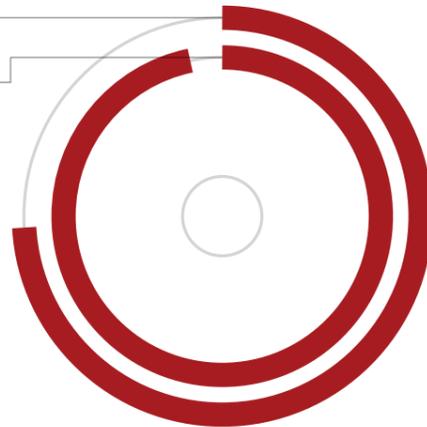


While SMEs in Dubai have high digitization adoption levels for basic use, document management, and customer engagement; the uptake of enterprise solutions and e-commerce remains comparatively weak

ICT Application Across Business Operations

Usage of Smartphones/Tablets for daily business operations **74%**

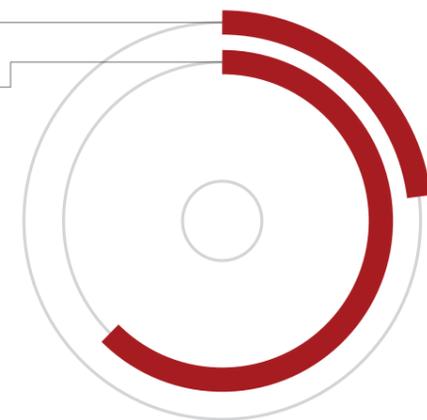
Usage of Computers/Laptops for daily business operations **98%**



Computing Devices + Connectivity

Usage of e-commerce platforms **23%**

Usage of social media **62%**



Front-End Business Process

POS **11%**

Intranet **17%**

ERP **45%**

CRM System **45%**

Cloud Storage (Dropbox, Google drive, etc.) **74%**



Back-End Business Process

- ICT Adoption for Basic Use and Connectivity:
 - Around 98% of SMEs cited the use of standard computing devices (PCs, laptops), while around 74% cited the use of tablets and mobile phones for everyday operational use and connectivity.
- ICT Adoption in Front-end Business Applications:
 - Around 62% of all respondents cited the use of social media, integrated into their front-end functional processes, including marketing and customer engagement, with highest adoption levels noted amongst Services (71% enterprises) and Medium-sized enterprises (72%).
 - Around 23% SMEs cited the use of e-commerce platforms, evidently noted to be higher amongst Manufacturing and Services SMEs (i.e. 30% and 28% enterprises, respectively) vis-à-vis Trading enterprises (18% enterprises).
- ICT Adoption for Back-end Processes:
 - Around 74% of SMEs use cloud-based storage solutions for their business needs, showcasing a high propensity towards digitizing their documentation filing and storage needs to enable higher knowledge sharing.
 - Around 45% of respondents (each) also cited the adoption of cloud-based ERP and CRM platforms. A key stimulus for the uptake of modular ERP solutions has been the implementation of VAT, which has led businesses to deploy cloud-based versions of accounting and financial management modules on subscription-based SaaS platforms.
- Around 11% of SMEs deploy POS software solutions and around 17% of SMEs, particularly Medium enterprises use their own proprietary intranet systems, for higher control and security.
- While SMEs in Dubai are at par with 'best in class' global benchmark countries in terms of the adoption of digital solutions for basic use, connectivity and customer engagement; the deployment of enterprise IT applications and the use of e-commerce platforms for B to C outreach, remains significantly weak.

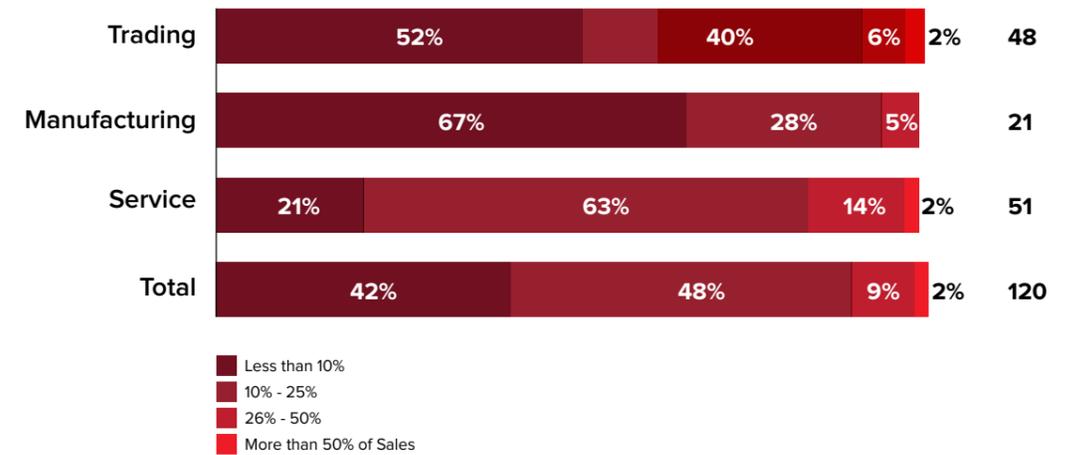
There is a visible trend reflecting the increasing 'digital footprint' of SMEs in Dubai, as evidenced by the growing prevalence of sophisticated, multi-featured business websites

- Around 71% SMEs, largely Manufacturing and Service enterprises in Dubai have business websites
- The degree of 'digital visibility' amongst businesses is clearly a function of enterprise size - The proportion of Medium enterprises (90%) with websites is 1.7 times the corresponding proportion of Micro businesses (52%).
- SMEs in Dubai have been investing in enhancing their digital footprint over the years, indicative of the proportion of businesses with websites, which has increased from 50% in 2013 to 71% in 2019. This trend is mirrored across the Segments and is most prominent amongst Service enterprises.
- It is also evident that SMEs have been investing in enhancing their websites, with several key features - Around 54% of SME websites have integrated social media capabilities; 11% have capabilities to handle real-time business inquiries (via embedded live chat features) and around 8% have online ordering capabilities.

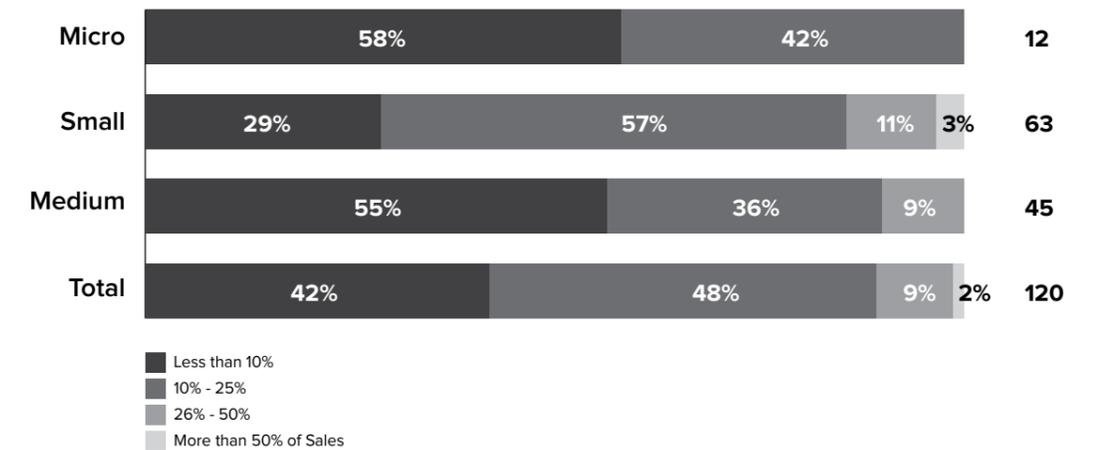


Accentuating the low usage of e-commerce platforms amongst SMEs in Dubai, the overall revenue contribution derived from e-commerce by Dubai SMEs is also much lower than global peers

Segment-wise distribution: Percentage of Total Sales Revenue from E-Commerce Activities



Enterprise size-wise distribution: Percentage of Total Sales Revenue from E-Commerce Activities

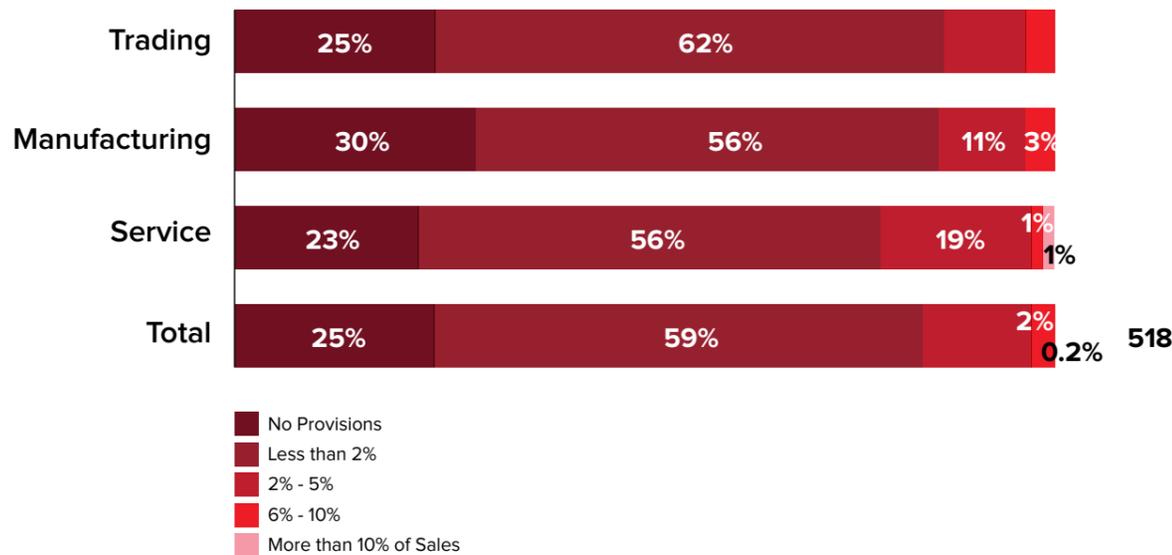


- The aggregate proportion of SMEs in Dubai using e-commerce for international sales is relatively small, vis-à-vis prominent global performers – 4 times below the UK aggregate and around 5.5 times lower than that of the Netherlands.
- Around 90% of SMEs in Dubai that deploy e-commerce for business, have a revenue contribution of between 1% and 25% stemming from e-commerce sales, which is much lower than the benchmark average of 40%, that SMEs in the APAC region are able to derive.

With the growing budgetary and resource commitment of SMEs towards IT adoption, it is evident that these enterprises are focused on becoming more 'digital ready' for the future

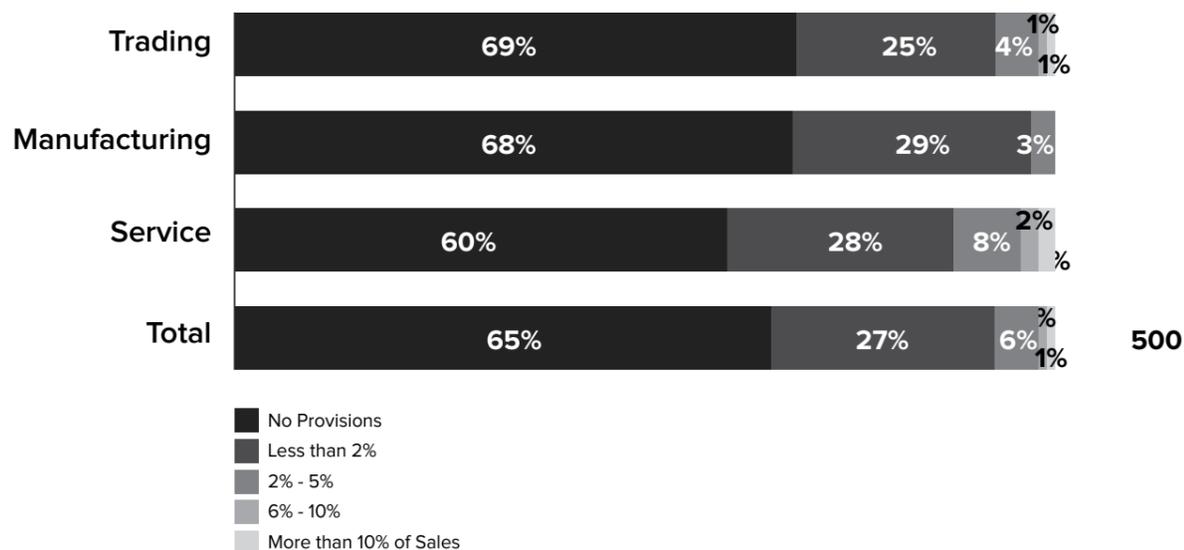
Segment-wise distribution: **IT & Technology Expenditure as a % of Sales**

2019 Survey Cycle
(Total Sample = 518)



Segment-wise distribution: **IT & Technology Expenditure as a % of Sales**

2013 Survey Cycle
(Total Sample = 500)



- Around 40% of SMEs in Dubai have at least one dedicated employee or a formalized function for IT; this proportion has grown 1.5 times since 2013.
- Manufacturing and Services SMEs reflect a higher propensity to have formalized functions for managing their IT operations (48% and 46% enterprises, respectively), vis-à-vis Trading SMEs (34% enterprises).
- There is a definitive correlative relationship between 'digital readiness' and enterprise size, as reflected from the fact, that the proportion of Medium firms with a dedicated IT employee/function (67%) is nearly 7.4 times that of Micro enterprises (9%).
- The growing commitment of SMEs in Dubai towards IT adoption is further validated by the increasing propensity of businesses to define a budget towards IT expenditures,
 - Around 75% of SMEs in Dubai have a defined periodical budget or provision for IT, which typically ranges between 0.5% and 2% of their annual sales revenues.
 - Notably, the proportion of businesses with a provisioned IT expense budget of between 0.5% and 5% of sales, has almost tripled from 2013 (73% in 2019 from 27% in 2013). At the other end, the proportion of businesses with no budgetary provision for IT has reduced 2.6 times over the same period.
- Expectantly, there is a step-up relationship between IT expenditure and enterprise size, as reflected in the fact, that the proportion of Micro enterprises with a defined periodical budget for IT is 1.8 times and 2 times lower than the corresponding proportion of Small and Medium SMEs, respectively.

SMEs in Dubai are not adequately aware of key contemporary technologies and trends, thus intrinsically reducing their preparedness for the adoption of such technologies in the near future

- In comparison, around 32% of Malaysian SMEs have a definitive understanding of these trends and the related applications, relevant to their areas of business.
- Of those Dubai SMEs that are aware of these trends and technologies, around 25% (thus translating to 3% of the total sample) have actually invested in an IR 4.0 technology solution.
- Businesses that have an understanding of these trends, but have not yet invested in an applicable solution for their business, cited 3 key underlying reasons, namely:
 - Lack of financial resources for investment
 - Limited access to subject matter experts, specialists, and consultants for guidance
 - Lack of internal organizational capabilities and skills required for effective implementation
- A higher level of awareness of these contemporary technologies could potentially stimulate more innovation activity amongst enterprises. Notably, only 30% of SMEs in Dubai invest in one or more innovation initiatives and 22% of these businesses are aware of IR 4.0 technologies. Out of the 70% who do not innovate, only 7% are aware of IR 4.0 technologies and related applications, relevant to their business operations.



Dimension 4:

Orientation to Human Capital Developments

‘Orientation towards Human Capital Development’ assesses the focus of Dubai’s SMEs on investing in developing their Human Resources (HR) as well as their related capabilities and practices for employee development, performance management, and training.

The key parameters assessed to evaluate this dimension included:

1. The propensity of SMEs in Dubai to formalize their HR functions and define employee objectives
2. The typical practice followed by Dubai SMEs for employee performance assessment and evaluation
3. The orientation and propensity of Dubai SMEs to conduct regular training need assessments and upskill and reskill their employees, through regular training
4. Type of ‘skill interventions’ desired by Dubai SMEs to enhance employee performance and productivity

Key Findings

Overall Degree of Orientation:

Low to Moderate

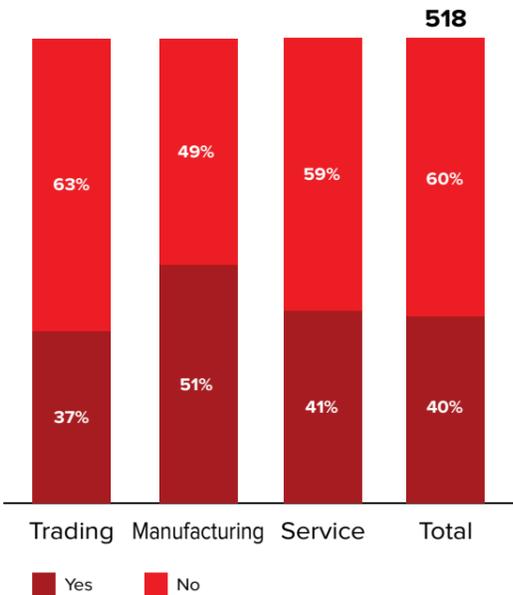
Segment with Highest Orientation:

Manufacturing

Dubai SMEs are increasingly beginning to view HR as a strategic function

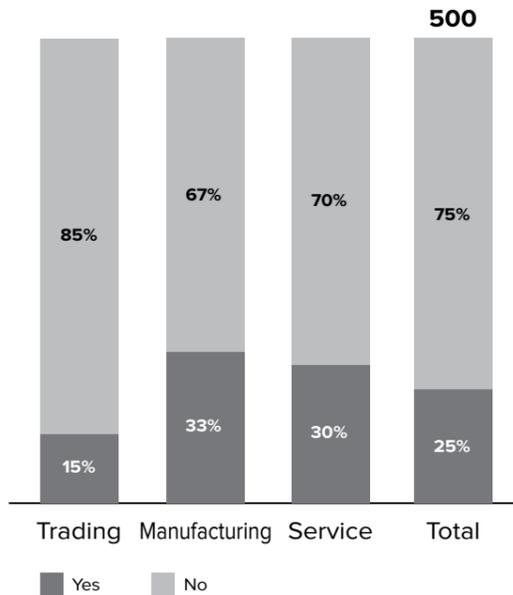
Segment-wise distribution: SMEs with a Dedicated HR Personnel or Function

2019 Survey Cycle (Total Sample = 518)



Segment-wise distribution: SMEs with a Dedicated HR Personnel or Function

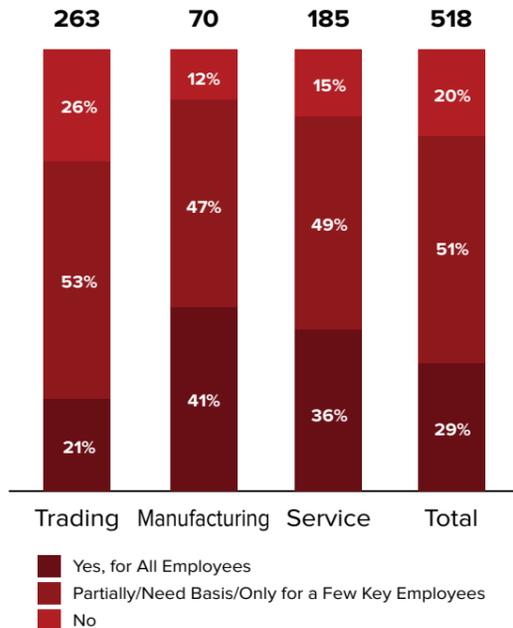
2013 Survey Cycle (Total Sample = 500)



- Around 40% of SMEs have at least one dedicated HR personnel or a formalized HR function as part of their organizational structures. This translates to a nearly 1.6 times jump over the corresponding proportion in 2013; thus, indicating a prominent improvement in the orientation of SMEs in Dubai towards viewing Human Resource Management (HRM) as a 'strategic' business requirement.
- While the corresponding proportion of enterprises has grown across each Segment, the highest growth is observed in the case of Trading SMEs – around 37% Trading enterprises in 2019 cited that they maintain a dedicated HR function, vis-à-vis a corresponding 15% enterprises in 2013.

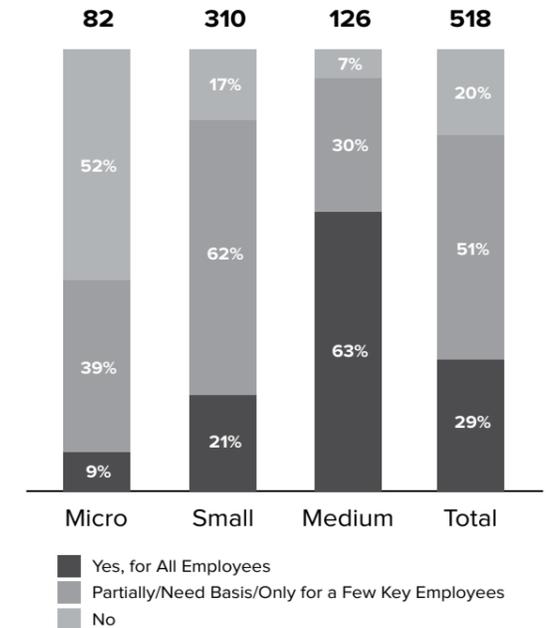
Dubai SMEs do not adequately recognize the importance of formalizing organizational roles and accountabilities, through comprehensively defined JDs

Segment-wise distribution: SMEs with Well-Defined JDs



- Around 29% of SMEs have well-defined Job Descriptions (JDs), with articulated 'Key Performance Indicators' (KPIs) and 'Key Result Areas' (KRAs) for each job role in their organizations.
- Another 51% SMEs develop JDs only for key employees driving the business, while the remaining 20% do not follow the practice of developing JDs as a basis for formalizing organizational roles.

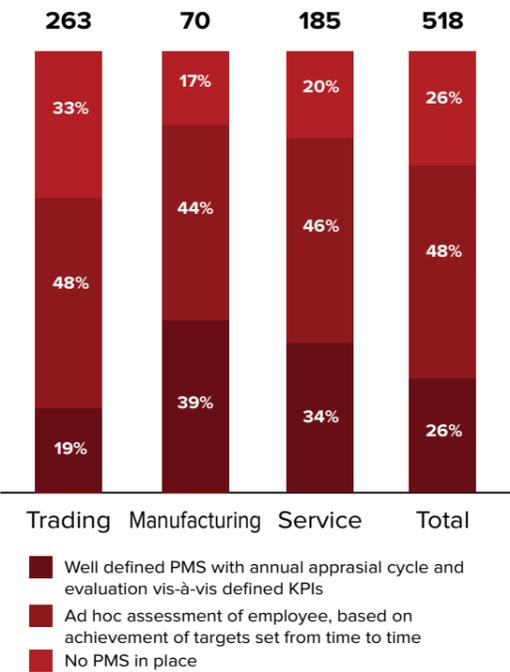
Enterprise size-wise distribution: SMEs with Well Defined JDs



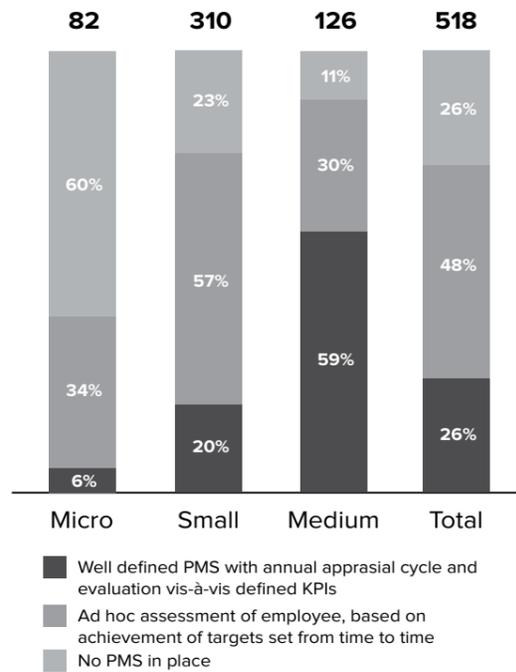
- Expectantly, the level of formalization of organizational roles and responsibilities is directly proportional to enterprise size - Around 63% Medium firms have well-defined JDs across the spectrum of their organizational roles, 3 times higher than corresponding proportion of Small firms (21%) and 7 times the corresponding proportion of Micro firms (9%).
- Amongst the Segments, around 41% Manufacturing firms and 36% Services SMEs have comprehensive JDs, across the spectrum of their job roles, vis-à-vis 21% Trading firms.

Typically, SMEs in Dubai still tend to adopt a largely ad-hoc approach towards employee performance management

Segment-wise distribution: SMEs' Performance Management Practice



Enterprise size-wise distribution: SMEs' Performance Management Practice



- In sync with the proportion of SMEs with documented JDs, a similar proportion (i.e. 26% SMEs) follow a well-defined practice for employee performance management, based on a system of periodic appraisals vis-à-vis defined employee objectives set for each employee.
- On the other hand, 48% of SMEs tend to adopt a largely ad hoc approach towards employee performance management, which is often linked to the achievement of pre-defined sales targets and a proportionate estimation of commissions payable to employees.

Dubai SMEs underperform in comparison to their global peers when it comes to investment in training and employee development

- Only 10% of SMEs in Dubai have a comprehensive approach towards identifying and assessing their employees' training needs.
- Around 37% of these businesses, indicated that they provide some form of training; of which, 29% of these firms (i.e. 11% of the total sample) provide comprehensive training, targeting all their employees.
- Notably, the proportion of SMEs in Dubai offering training to their organizational employees is 1.8 times below both the EU and Singapore averages. Furthermore, Dubai ranks 56th out of 64 ranked economies, on the 'Employee Training' indicator of the IMD's 'World Competitiveness Framework', further validating the relatively low orientation of Dubai SMEs, towards investment in employee training.
- Further compounding this, the current survey results show a visible downward trend in the proportion of SMEs investing in employee training vis-à-vis historical levels - Dubai SMEs that do not invest in any form of training for their organizational employees in 2019, has increased almost 2 times vis-a-vis 2013.

Despite their lower propensity to train, SMEs recognize the key skills and areas of the training intervention, required to make their employees more 'future-ready'

- The top 4 areas of skill development for which SME recognize a need for investment in training include:
 - Marketing & Sales (cited by 34% of respondents)
 - Industry-specific technical competencies (cited by 30% of respondents)
 - Functional managerial effectiveness, encompassing key business areas including - Finance, Strategy and Commercial Operations (cited by 23% respondents)
 - Advanced IT skills, covering training on various digital application areas in business as well as functional and daily use software and enterprise systems (cited by 15% respondents)



Dimension 5:

Degree of Corporate Governances

The 'Degree of Corporate Governance' assesses the prevalence of good governance practices amongst Dubai's SMEs, in relation to their organizational structures, operational protocols, and financial reporting standards.

The key parameters assessed to evaluate this dimension included:

1. The prevalence of well-documented processes and procedures by Dubai SMEs, covering the core and support functions within the gamut of their operations
2. The propensity of Dubai SMEs to formalize their organizational structures
3. The practices adopted by Dubai SMEs for financial bookkeeping and reporting
4. The governance practices adopted by Dubai SMEs for operational oversight, advisory and organizational steering

Key Findings

Overall Degree of Orientation:

Moderate

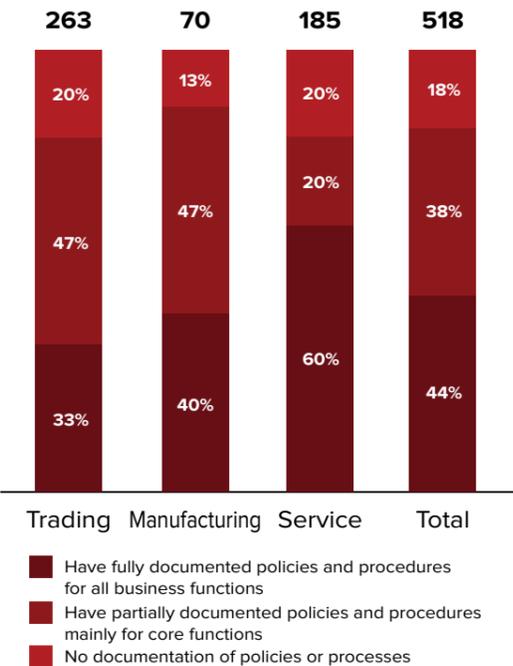
Segment with Highest Orientation:

Manufacturing

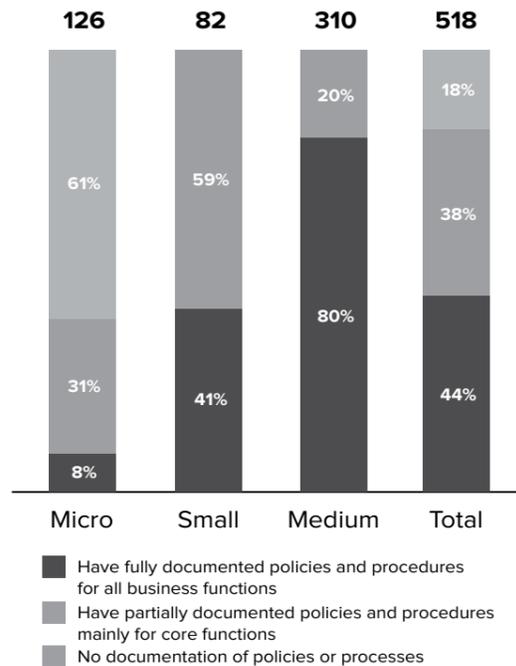


Dubai SMEs are adopting more formalized organizational structures and operating protocols, indicating growing levels of enterprise sophistication

Segment-wise distribution:
Well Defined Policy & Procedure Documentation



Enterprise-size distribution:
Well Defined Policy & Procedure Documentation

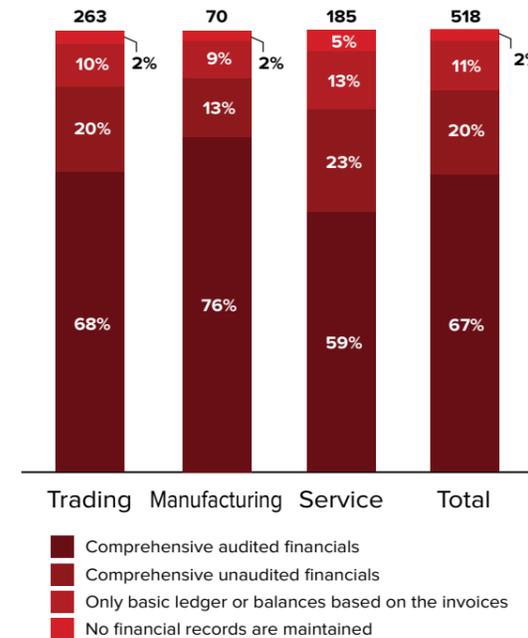


- Around 44% of SMEs in Dubai have well defined and documented policies and procedures, covering all the core and support functions encompassing their operations, while around 45% of SMEs have 'formalized' organizational structures.
- There is a direct correlative relationship between structural formalization and enterprise size - Around 80% of the total Medium enterprises have well-documented policies and procedures, almost 2 times higher than the corresponding proportion of Small enterprises (41%) and 10 times the corresponding proportion of Micro enterprises (8%).

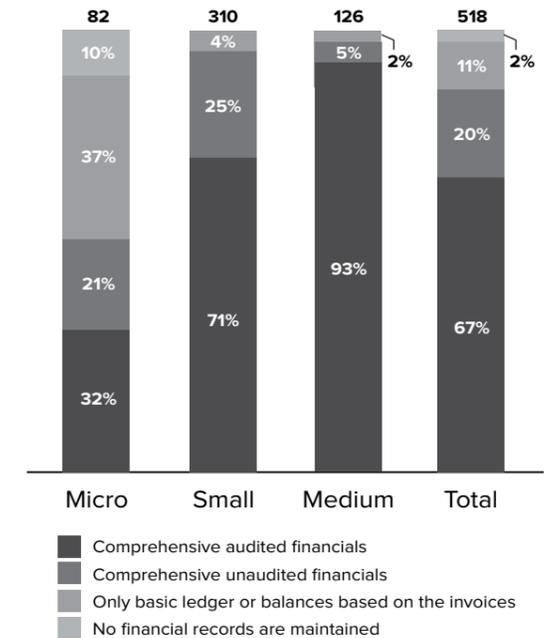
- Amongst the Segments, while Services SMEs reflect the highest propensity to develop and document policies and procedures (60% enterprises), Manufacturing SMEs have the strongest orientation towards formalizing their organizational structures (70% enterprises), commensurate with their need for high levels of operational efficiency on the factory shop floor.

There is a visible improvement in the sophistication of accounting practices adopted by SMEs in Dubai, with an increasing transition from basic ledger-based accounts to audited financial statements

Segment-wise distribution:
Practice Adopted for Financial Bookkeeping & Recording



Enterprise Size-wise distribution:
Practice Adopted for Financial Bookkeeping & Recording



- The formalization of book-keeping and reporting practices amongst Dubai SMEs has significantly improved over the years, particularly on the back of the recently introduced VAT Law in 2018. Currently, 67% of SMEs in Dubai prepare audited financial statements, an increase of 1.3 times over the corresponding proportion in 2013 (50% SMEs).
- Expectantly, there is an incremental 'step up' in the formalization of book-keeping, from basic invoice-based ledgers to formalized audited financial statements, as enterprises grow in size and operational scale. This is commensurate with the observation, that the proportion of Medium-sized businesses with audited financial statements (93% businesses) is nearly 3 times the corresponding proportion of Micro enterprises (32%).

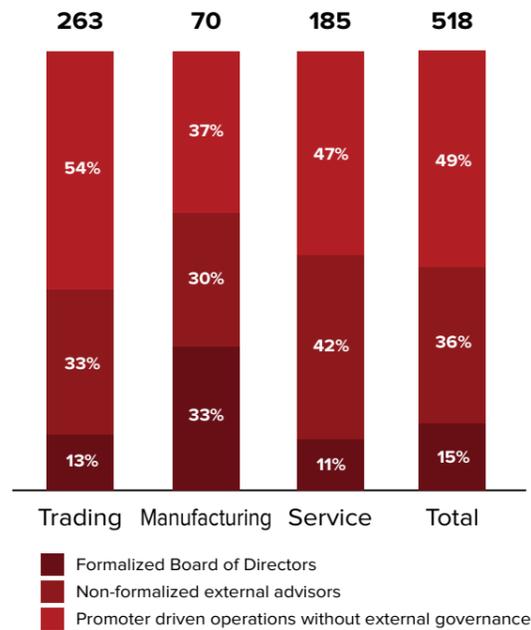
- Amongst the Segments, Manufacturing enterprises have the highest propensity to maintain audited financial statements - Around 76% Manufacturing SMEs maintain audited financial statements; 1.1 times higher than the corresponding proportion of Trading SMEs (68%) and 1.3 times the corresponding proportion of Services SMEs (59%).

Despite the growing sophistication of bookkeeping practices, Dubai SMEs underperform, in comparison to their global peers, in terms of standards adopted for accounting and reporting

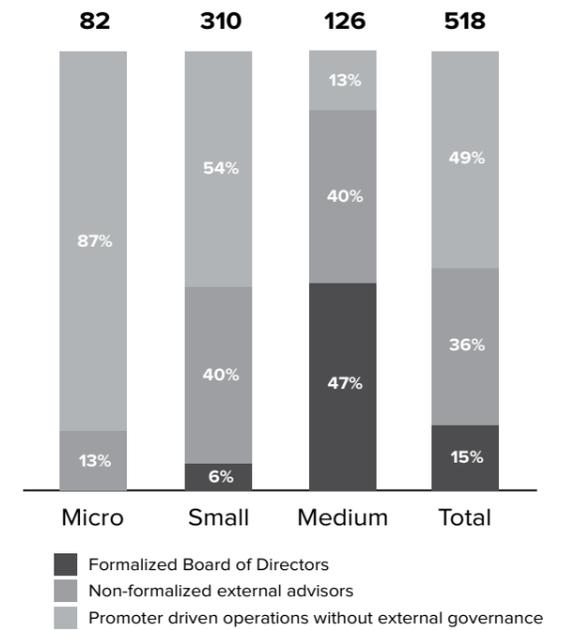
- The 'Accounting and Auditing Practices' is an indicator measured on the IMD's World Competitiveness Index, ranked on a 10-point scale and assess the accounting practices adopted by enterprises as well standards for auditing and reporting, prevalent amongst ranked countries. On the 2018 IMD World Competitiveness Report, Dubai was ranked 40th out of 64 ranked economies on the indicator, with Finland topping the league. This reflects significant scope for introducing higher Government programmatic support to incentivize SMEs, particularly micro and small enterprises, to transition to the practice of maintaining audited financial statements as well as in adopting international standards for reporting.

Typically, SMEs in Dubai are largely fully autonomous, promoter-driven enterprises, with minimal external governance and operational steering

Segment-wise distribution: Governance Structure



Enterprise size-wise distribution: Governance Structure



- Only 15% SMEs in Dubai have implemented fully formalized governance structures, with a 'Board of Directors' (BOD) structure, comprising independent experts, who advise on functional aspects and provide operational steering through critical business decisions, such as, market expansion, capital investments, fundraising, and cost optimization.
- A vast majority (49%) businesses are primarily entrepreneur-run enterprises, without any external guidance and operational steering, via instituted governance structures.

- The tendency to adopt robust governance protocols is a function of enterprise size and accordingly, the proportion of Medium enterprises with formalized structures (47%) is 7.8 times the corresponding proportion of Small firms (6%).
- Amongst the Segments, Manufacturing SMEs have the highest propensity to institute formalized BOD structures – The proportion of Manufacturing SMEs with formalized Boards (33%) is 3 times that of Services SMEs (11%) and 2.5 times that of Trading SMEs (13%).





Dimension 6:

Orientatin Towards Sustainable Practices

'Orientation towards Sustainable Practices' is an addition to the original framework of the 'SME State and Characteristics Survey' and covers the assessment of the propensity of SMEs in Dubai to invest in sustainability initiatives and to integrate and adopt eco-friendly ('green') practices within their operations.

The key parameters assessed to evaluate this dimension included:

1. The prevalence of green practices implemented by Dubai SMEs integrated as part of their business operations
2. The prevalence of green products/ solutions within the offering portfolios of Dubai SMEs
3. The application of green practices by Dubai SMEs in product packaging, delivery and/or labelling
4. The internationalization orientation of SMEs engaging in green products and solutions
5. The orientation of Dubai SMEs to train their employees on the adoption of sustainable practices
6. The future plans of Dubai SMEs to adopt green practices and/or to offer green products
7. The degree of awareness of Dubai SMEs towards 'Sustainability Development Goals' (SDGs)

Key Findings

Overall Degree of Orientation:

Low

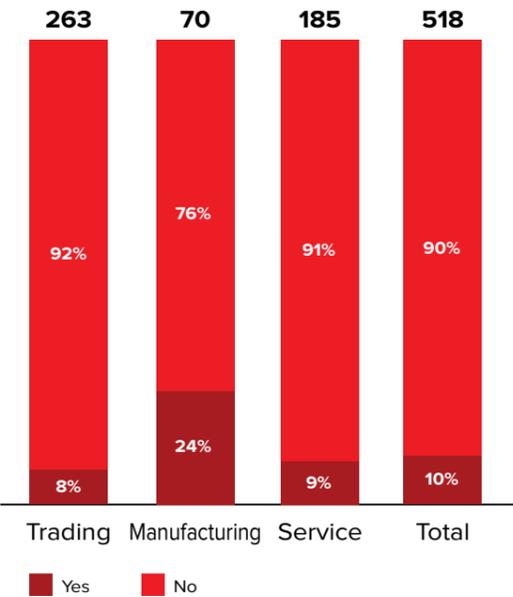
Segment with Highest Orientation:

Manufacturing

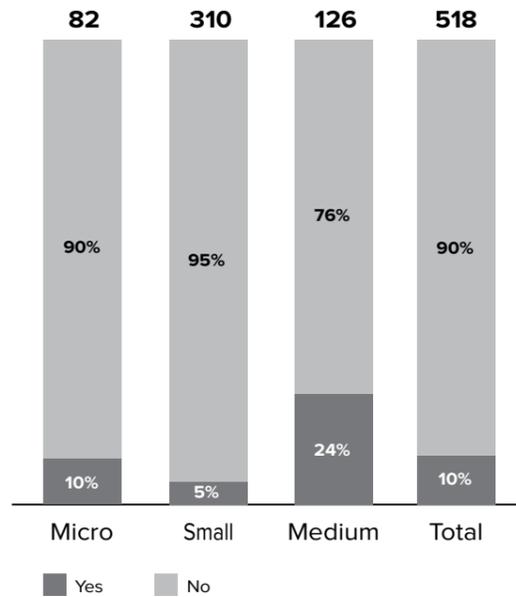


SMEs in Dubai are yet not capitalizing on the growing consumerism trends, favoring buying behavior towards green products and environmentally friendly solutions

Segment-wise distribution: SMEs Offering Green Products / Solutions



Enterprise size-wise distribution: SMEs Offering Green Products /Solutions



- Only around 10% of SMEs in Dubai, particularly Manufacturing Medium enterprises have 'green' products or solutions as part of their portfolios, despite growing global consumerism shifting demand towards ethically made and sustainable products.
- The proportion of Manufacturing SMEs with at least one green product in their portfolio (24%) is 3 times higher than the corresponding proportion of Trading SMEs (8%) and 2.7 times that of Services SMEs (9%).

- The relatively low orientation of SMEs in Dubai towards green products is further accentuated through global comparisons with 'best in class benchmarks' – The proportion of Swedish and EU SMEs that offer one or more green products as part of their portfolios is 3.1 times and 2.5 times the corresponding proportion of SMEs in Dubai.

The orientation of SMEs in Dubai towards investment in eco-friendly solutions remains limited to fulfilling specific mandatory compliance or voluntary quality accreditation requirements

- In sync with the proportion of SMEs offering green products, only 10% of the total sample have implemented one or more eco-friendly initiatives, integrated as part of their operations. Some participant SMEs, particularly in Food manufacturing, Food Services, and Healthcare Trading, have invested in relevant accreditations and systems, in compliance with regulatory requirements as well quality certifications such as the ISO 14001 Environmental Management Systems.
- Around 3% of SMEs have also invested in eco-friendly product packaging and labelling.

Commensurate with their limited focus, the SME export penetration of green products remains relatively low, despite the growing potential for such products in the regional and global market

- Of the limited proportion of SMEs offering green products (i.e. 10% of the total sample), around 6% export these products, primarily within the GCC, which typically accounts for between 5% and 30% of their total revenues.
- Out of the Manufacturing enterprises that offer green products as part of their portfolios (i.e. 24% enterprises), around 21% engage in exports - This proportion (21%) is 4.2 times the corresponding proportion of Trading SMEs (5%) and 10.5 times that of Services SMEs (2%).



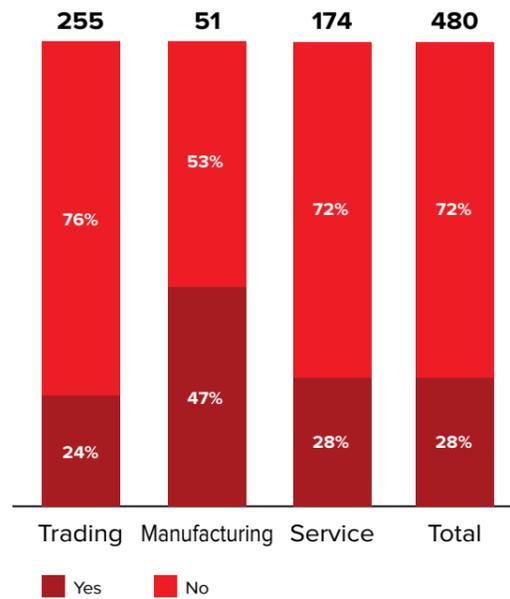
SMEs in Dubai that offer green products and solutions, also partake in offering employee training related to sustainable practices

- Of the SMEs that either offer green products or have implemented one or more green initiatives (i.e. 10% of the total sample), around 6% invest in employee training on sustainable practices. These trainings are typically either part of specific compliance and certification requirements or are linked to technologies and processes that these businesses have implemented.
- The proportion of Manufacturing SMEs that offer employee training on sustainable practices (23%) is nearly 12 times higher than the corresponding proportion of Trading SMEs (2%) and nearly 4 times the corresponding proportion of Services SMEs (6%).

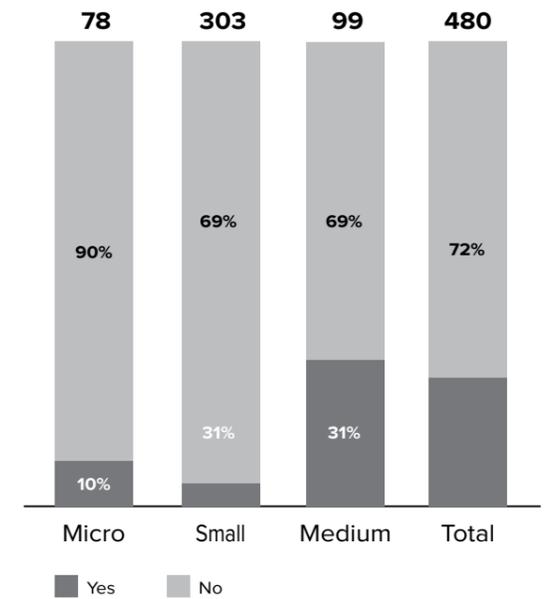


In the coming years, the total proportion of Dubai SMEs investing in green initiatives is expected to grow by around 3 times

Segment-wise distribution: SMEs Planning on Implementing a Green Initiative



Enterprise size-wise distribution: SMEs Planning on Implementing a Green Initiative



- Around 28% of SMEs plan to invest in a green initiative in the near future, primarily aligned to an accreditation or certification requirement, relevant to their line of business.
- Of these businesses, around 47% Manufacturing, 24% Trading and 28% Services enterprises, cited plans of investing in a green project and/or integrating green technology.
- An equal proportion (31% each) of Small and Medium enterprises expressed plans of investing in a near-term green initiative, almost 3 times higher than the corresponding proportion of Micro enterprises (10%).

**'Corporate Social Responsibility',
does not yet feature as a strategic
priority amongst SMEs in Dubai**

- A limited proportion (18%) of SMEs in Dubai, mainly comprising Medium Manufacturing enterprises have a defined Corporate Social Responsibility (CSR) initiative that they partake in. These initiatives primarily comprise organizing charitable community events and regular donations and endowments to foundations, working for causes related to poverty alleviation, promotion of education amongst disfranchised sections of the population, environmental preservation and women empowerment.
- Notably, the proportion of Manufacturing SMEs that have implemented a CSR initiative (26%) is 1.6 times the corresponding proportion of Trading enterprises (16%) and 1.4 times that of Service enterprises (18%).





Dimension 7:

Access to Finance

'Access to Finance' assesses the key sources of funding that SMEs in Dubai deploy to start up and expand their business operations; the typical funding requirements that businesses have in the context of the key purposes for which financing is accessed as well as the most prominent challenges that they face, in acquiring the quantum and type of financing products they need.

The key parameters assessed to evaluate this dimension included:

1. The breakdown of the key sources of start-up and growth capital that SMEs in Dubai resort to
2. The uptake of bank finance by Dubai SMEs
3. The types of bank finance (long term/short term) availed by Dubai SMEs as well as the key terms of the facilities availed
4. The key purposes for which financing is required and taken by Dubai SMEs
5. The key challenges and constraints that SMEs face in accessing external finance

Key Findings

Overall Degree of Orientation:

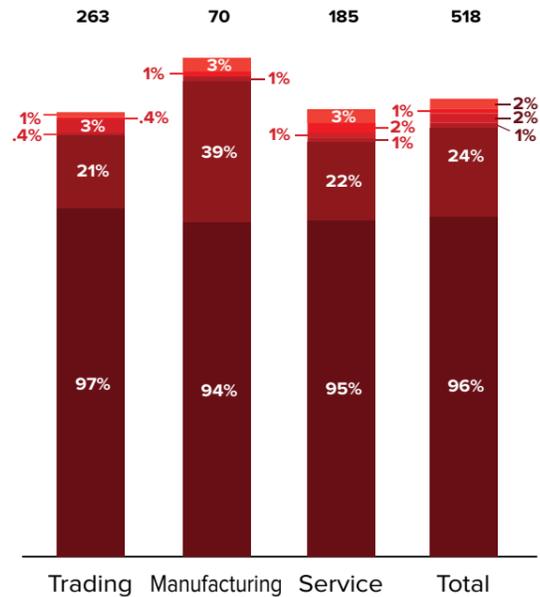
Moderate to Low

Segment with Highest Orientation:

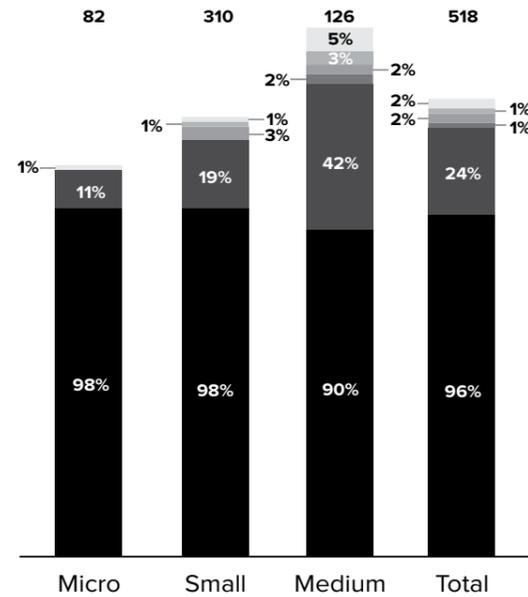
Trading

Banks in Dubai show an inclination for preferential lending to relatively larger, established and potentially more sophisticated and structured businesses, vis-à-vis smaller, riskier enterprises

Segment-wise distribution:
Key Source(s) of Funding for SMEs Growth/ Expansion



Enterprise size-wise distribution:
Key Source(s) of Funding for SMEs Growth/ Expansion

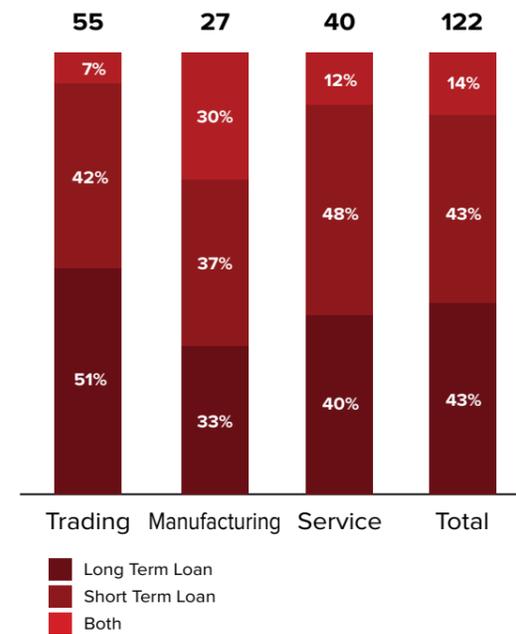


- While SMEs in Dubai tend to use a combination of sources for starting up operations, the primary dependence is on personal funds (99% SMEs) and borrowings from friends and relatives.
- Around 9% and 3% of business respondents, also cited the use of Venture Capital from angel investors and bank funding, respectively, to supplement personal equity invested during the startup phase.
- Trading firms have the highest propensity to avail bank funding for starting up operations (4% businesses), while Manufacturing firms have the highest propensity to avail bank funding for growth.

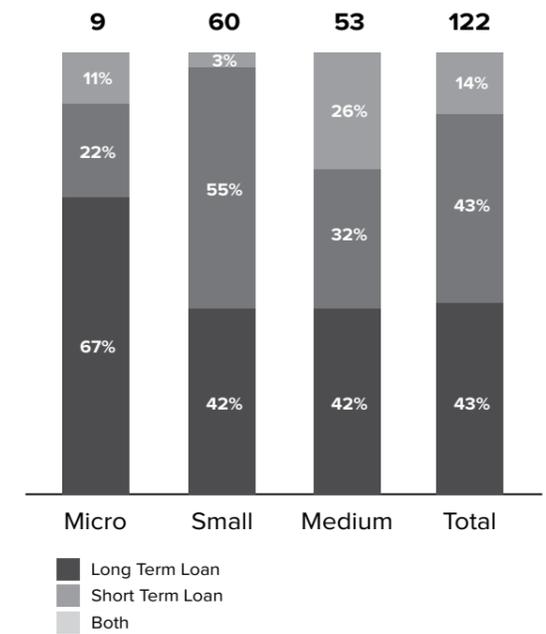
- Notably, in contrast to lending at the startup stage, there is a steep 'step up' in the proportion of Medium enterprises that are able to procure bank funding (42%), vis-à-vis Micro (11%) and Small enterprises (19%).
- Dubai ranks relatively low (44 of 64 economies) on the 'Access to Credit for SMEs' indicator of the IMD's 'World Competitiveness Framework (2018), thus warranting Government intervention to enable SMEs, gain access to startup and growth capital to 'fuel' business growth.

There is a visible trend reflecting the growing orientation of Dubai SMEs towards taking an equitable mix of long term and short-term financing to balance their capital expansion plans with operational requirements

Segment-wise distribution:
Type of Bank Finance Availed by SMEs



Enterprise Size-wise distribution:
Type of Bank Finance Availed by SMEs

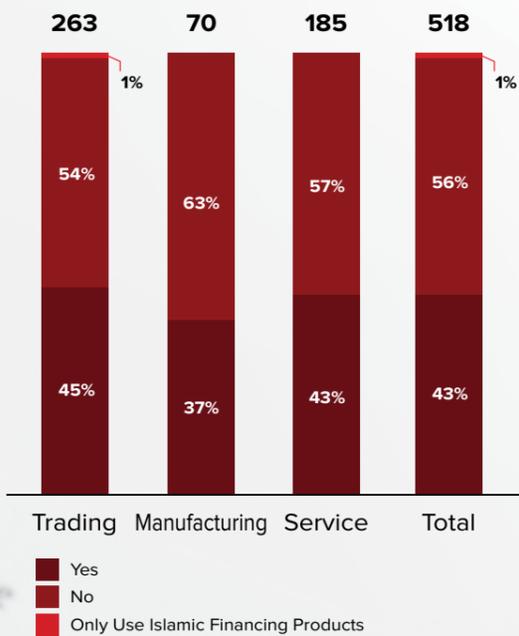


- Around 24% of sample respondents availed funding in the last 3 years. Compared to 2013, the proportion of SMEs availing long term loans has increased from 36% to 43%; those availing short term facilities have reduced from 59% to 43% and those taking a combination of short-term and long-term funding, has increased from 5% to 14% in 2019. This trend is mirrored across the 3 Segments.
- At an aggregate level, the average value of the long-term loans availed by businesses, ranged between AED 1.5 million and AED 2 million, over the last 3 years. Over the same period, around 44% Trading and 46% Manufacturing

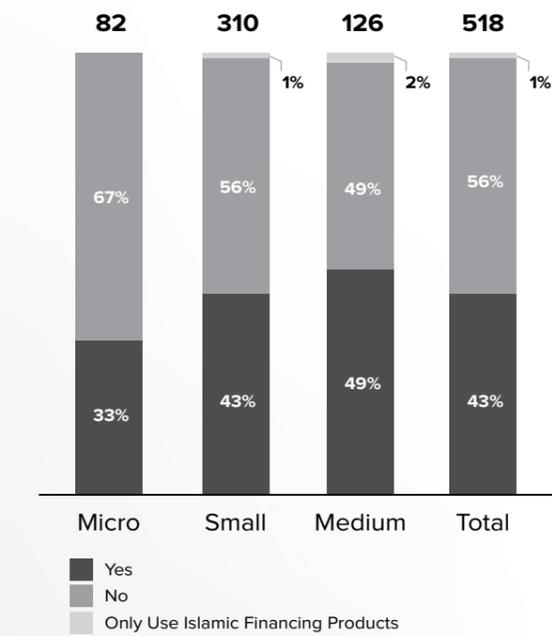
- enterprises, also availed higher value loans in excess of AED 2 million. This can be attributed to a combination of higher funding requirements and the preference of banks to lend to these Segments, against stock and machinery that serve as collateral, vis-à-vis the 'asset-light' Service enterprises.
- Around 12% of businesses availed short-term working capital facilities in the last 3 years, averaging between AED 975,000 and AED 1.1 million. Typically, Dubai SMEs tend to make drawings every 3 to 6 months to manage their cash conversion cycles and 'overhead burns'.

SMEs in Dubai have a stronger preference towards conventional financing products over Sharia-compliant Islamic products

Segment-wise distribution: Preference for Islamic Financing Products



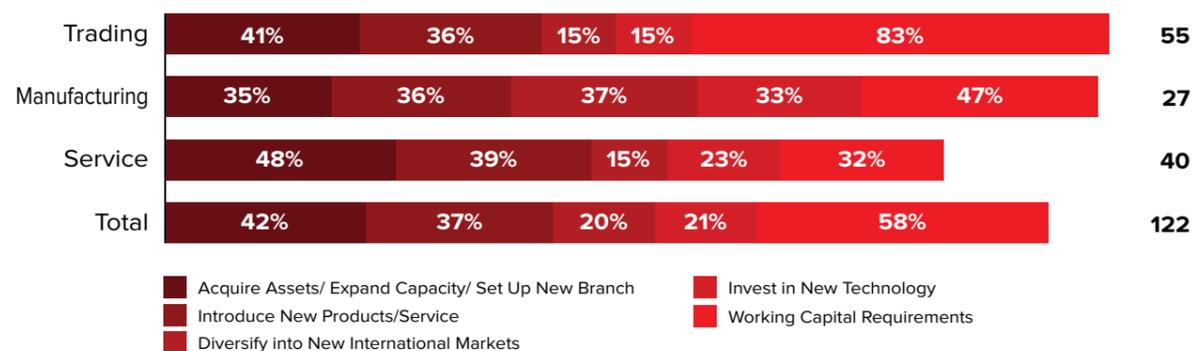
Enterprise size-wise distribution: Preference for Islamic Financing Products



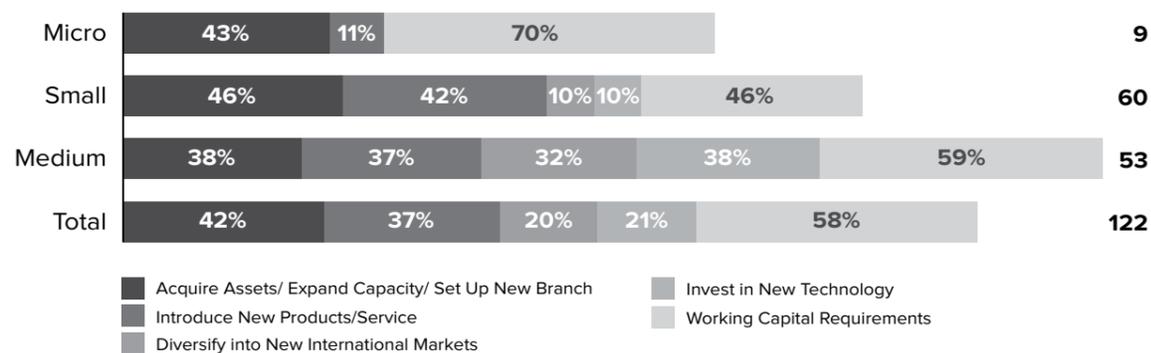
- Around 56% of the total sample respondents were found to have a preference towards conventional financing products offered by banks, over equivalent Sharia-compliant Islamic products.
- Only 1% of respondents (primarily Trading SMEs) were found to avail only Islamic financing products for their business needs.
- Medium firms show a balanced preference for both Islamic and conventional financing products (49% enterprises, each), while Micro firms reflect the least preference for Islamic financing products (67% enterprises).

Managing working capital and making capital investments, still remain the top objectives for availing finance; however, SMEs in Dubai are now adopting a more strategic focus towards the use of funds

Segment-wise distribution:
Key Purposes for Accessing Finance in the Last 3 Years



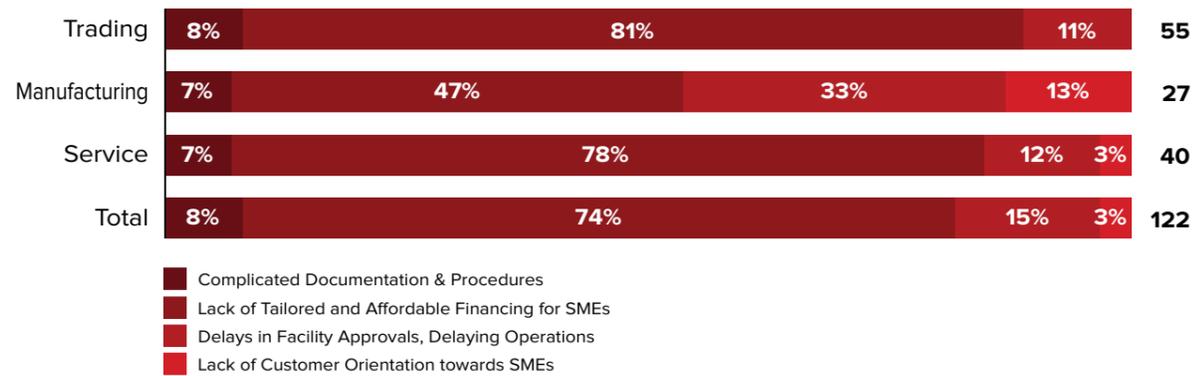
Enterprise size-wise distribution:
Key Purposes for Accessing Finance in the Last 3 Years



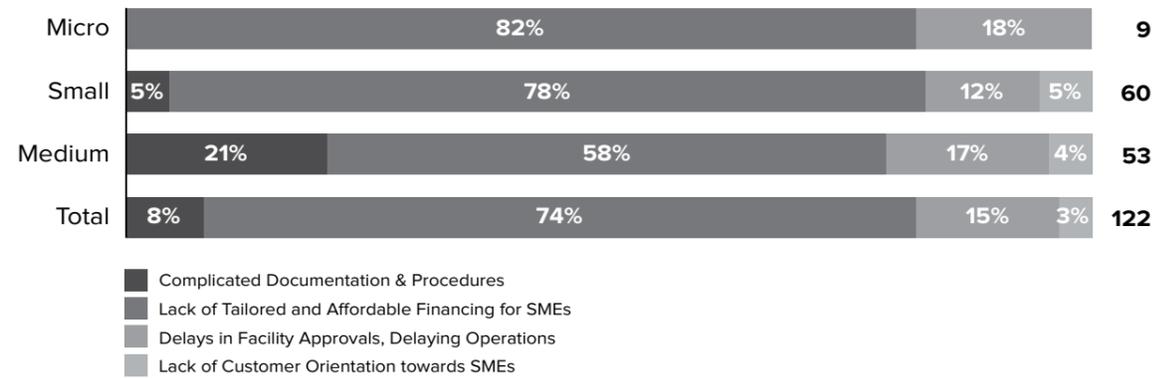
- The topmost objectives of SMEs that availed bank financing in the last 3 years (24% of the total sample), included:
 - Managing working capital requirements (cited by 58% of respondents, vis-à-vis 43% in 2013)
 - Capital acquisitions and/or capacity expansion in the form of asset acquisitions, additional recruitment or new branch expansion (cited by 42% respondents, vis-à-vis 38% in 2013)
 - Funding the launch of new products/ services in the market (cited by 37% of respondents, vis-à-vis 7% in 2013).
- Notably, around 28% of SMEs invested in product-oriented innovation activities and around 12% of these businesses were focused on achieving market expansion outside the UAE. Commensurate with this, around 5% and 9% SMEs availed financing for market diversification and launching new market products, respectively. This is indicative of a potential causal relationship between the propensity to avail long-term funding to support innovation activities, with the objective of diversifying into new international markets.
- Services SMEs have the highest propensity to avail funding for capacity expansion (48% enterprises), while Trading SMEs have a tendency to take short-term facilities for managing working capital requirements (83% enterprises). For Manufacturing SMEs, while management of working capital remains the topmost priority (47% enterprises), these enterprises seem to have the most 'balanced' focus towards the deployment of funding across various strategic objectives, including capacity expansion, market diversification, new product development and investment in technology.

The lack of tailored, affordable financing solutions, aligned to business needs is the most prominent challenge, impacting SMEs that need external funding to sustain and grow

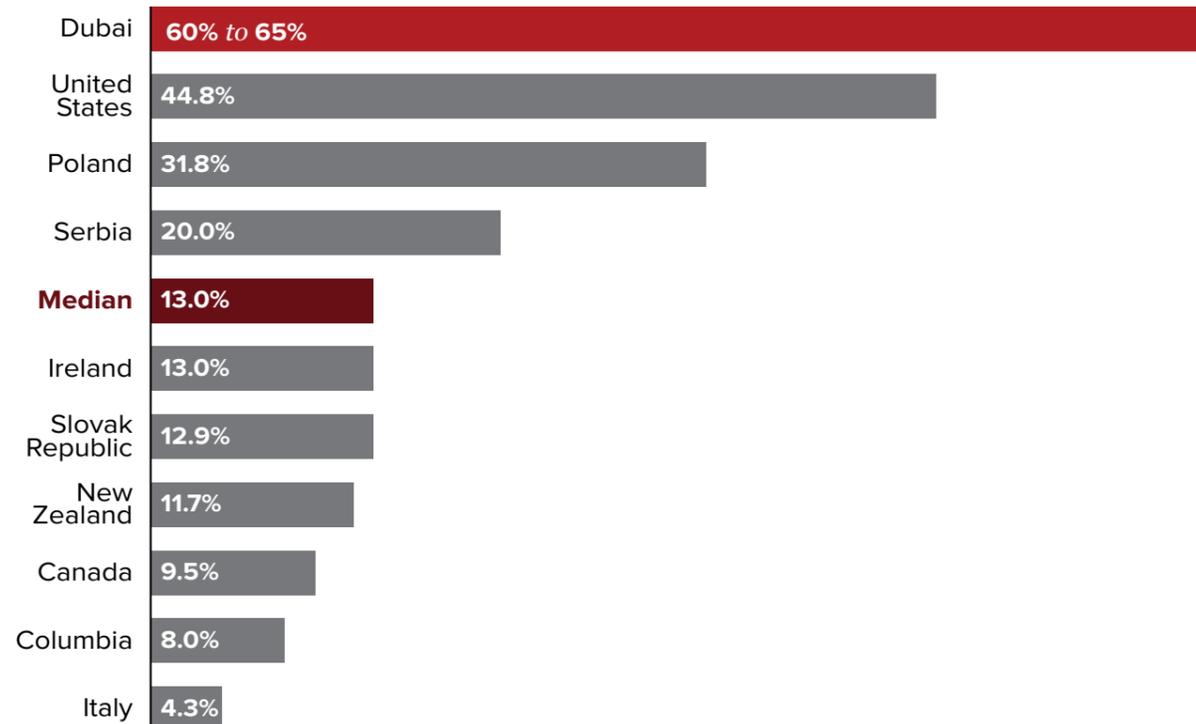
Segment-wise distribution:
Challenges Faced by SMEs in Acquiring Finance for Business



Enterprise size-wise distribution:
Challenges Faced by SMEs in Acquiring Finance for Business

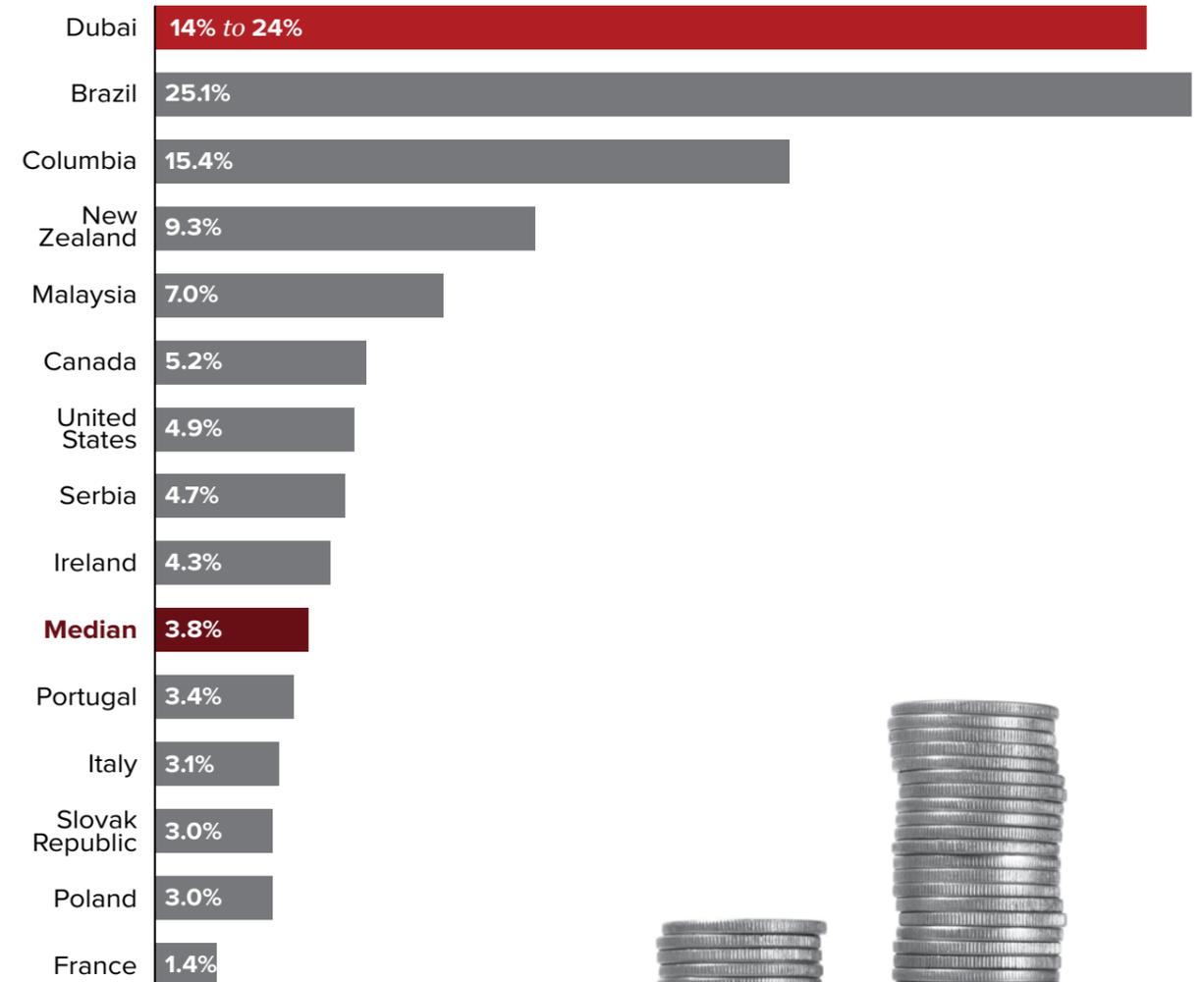


SME Rejection Rates (As a Share of Requested Loans, in %) 2017



- The predominant challenge cited by SMEs in availing finance is the lack of tailored and affordable funding solutions and products. SMEs have equivocally related this constraint to the following underlying issues:
 - High-profit rates charged by banks on non-securitized loans make it burdensome for businesses to service repayment burden (The interest rate on non-collateralized SME loans in Dubai tends to range between 14% and 24%, around 6 times higher than the OECD Median).
 - High rejection rates, particularly on short term debt, trade financing and overdraft facilities (In Dubai, rejection rates for short term facilities tend to range between 60% to 65%. This is 5 times higher than Ireland and the OECD Median and more than 15 times that of Italy).
- Disproportionate security and collateral requirements imposed as pre-conditional terms for lending (Approximately 90% to 95% of all SME loans in Dubai have collateral requirements imposed by banks; this proportion is around 1.7 times higher than the OECD Median)
- Lack of segmented products and solutions, aligned to the business lifecycle and industry
- Around 15% of businesses also cited delays in processing and approvals as a key challenge. Typically, the long gestation period from approval to disbursement is at the cost of immediate project opportunities that SMEs may be bidding for at the time they apply for financing.

SME Interest Rates 2017



Dimension Overview

Relative Degree of Importance and Intensity of Challenges in Implementation

As part of the survey, business respondents were asked to rate each Dimension at an aggregate level (on a scale of 1 to 5) on 2 parameters, namely:

1. Level of Importance Attributed: This measures the relative priority attributed to the Dimension by the SME respondent, in line with its strategic importance to the business's strategic objectives as well as its contributory impact in enhancing the competitiveness and performance of the business. In context of the parameter, 1 = Low Priority and 5 = High Priority
2. The intensity of Challenges Attributed: This measures the relative magnitude of the challenges associated with implementing specific initiatives linked to the dimension. These challenges, based on the perception of the respondent, encompass constraints related to time, costs, resource commitment, and organizational capabilities. In the context of the parameter, 1 = Minimal/no challenge to achieve and 5 = Maximum challenge to achieve

Summary of Results

Degree of Importance and Intensity of Challenges Attributed across Dimensions

	1 - Low Priority; 5 - High Priority	Interpretation	1 - Not challenging to achieve; 5 Very challenging to achieve	Interpretation
<i>International Orientation</i>	3.09	Moderate to High	2.84	High
<i>Degree of Innovation</i>	3.14	High	2.69	Moderate to High
<i>Level of Digital Readiness</i>	3.08	Moderate to High	2.64	Moderate to High
<i>Orientation to Human Capital Development</i>	3.17	High	2.60	Moderate
<i>Degree of Corporate Governance</i>	2.96	Moderate	2.45	Low to Moderate
<i>Orientation towards Sustainable Practices</i>	2.25	Low	2.29	Low
<i>Access to Finance</i>	3.13	High	2.72	Moderate to High

3.

Financial Performance & Health of SMEs in Dubai

The financial health and performance of SMEs in Dubai are assessed based on the analysis of key financial indicators on Growth, Profitability, Liquidity, Solvency, Leverage, and Cash flow health. These ratios have been estimated, taking a sample of 412 SMEs across the Segments (Manufacturing, Trading, and Services). Relevant comparisons have been drawn between the aggregate financial performance on various parameters, across the current period (average of FY' 2017 and 2018 financials) and historical period (average of FY' 2010 and 2011 financials).

Growth Performance

A majority of businesses (61% of total) experienced Y-o-Y growth in sales in 2018, vis-à-vis 81% of businesses in 2011. While the proportion of businesses that witnessed growth rates of '0 to 20%' and 'greater than 100%' has remained level (around 25% businesses), the proportion of businesses that witnessed Y-o-Y growth rates of between '20% and 100%' has gone down in the current period (28% businesses) vis-à-vis the historical period (47% businesses).

Around 36% of businesses in the Dubai SME sector witnessed a Y-o-Y increase in net profits in 2018, vis-à-vis 68% of businesses in 2011. While the proportion of businesses that witnessed growth rates of 'greater than 100%' has remained level (11% businesses), the proportion of businesses that witnessed Y-o-Y growth rates of between '0% and 100%' has gone down in the current period (25% businesses), vis-à-vis the historical period (57% businesses).

Profitability Performance

Gross Profit Margin Performance

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	19.9%	42.5%	36.1%	16.8%
Dubai SME Sector (Average FY'17 & 18')	16.2%	32.8%	20.0%	11.7%

Indicates the profitability margins on 'Gross Income', net of 'Cost of Sales'

Source: CRIF database, Dubai SME database, Empact analysis

As noted in the above table, there is a marginal decline in the current aggregate Gross Margin ratio (19.9%) of the Dubai SME sector vis-a-vis its historical performance (16.2%). This is attributed primarily to the overall decline in turnover levels, due to a dip in sales volume as well as pricing pressures impacting SMEs in the current economic scenario.

Vis-à-vis the historical period, the current Gross Margins in the 'Machinery & Equipment' and 'Jewelry' Trading sub-segments have moderately declined; while conversely, the Gross Margin level in the 'ICT & Electronic Products' sub-segment, has gone up sharply.

Operating Profit Margin Performance

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	10.6%	16.6%	14.1%	10.8%
Dubai SME Sector (Average FY'17 & 18')	9.5%	15.8%	11.7%	6.4%

Indicates the profitability margins on 'Operating Income', net of 'Operating Expenses'

Source: CRIF database, Dubai SME database, Empact analysis

As noted in the above table, commensurate with the trend in Gross Margins, the Operating Margin ratio of the aggregate Dubai SME sector has also declined from a historical level of 10.6% to 9.5% in the current period. The decline in sales revenues has been further accentuated with a rise in operating expenses, thus, leading to an erosion in operating margins, vis-à-vis the historical period.

Notably, while the Gross Margin in 'Business Services' witnessed a sharp increase in the current period (vis-à-vis historical levels), Operating margins have moderately declined, primarily attributed to the adverse impact of rising salary overheads. Conversely, in the case of 'Professional Services', while Gross Margin levels have declined moderately in the current period, the Operating Margin witnessed a sharp rise, vis-à-vis the historical period. This is indicative of the 'right-sizing' and cost optimization initiatives undertaken by incumbent businesses.

Vis-à-vis the historical period, the current Operating Margins in the 'Food & Beverage' and 'Non-Precious Metals' sub-Segments have declined; while conversely, the Operating Margin levels in the 'ICT & Electronic Products' and 'Building Material' Segments, have gone up sharply. Notably, while the 'Machinery & Equipment' and 'Jewelry' sub-Segments' have witnessed a decline in Gross Margins vis-à-vis historical levels, Operating Margin levels have gone up moderately. This is indicative of efficiencies in the supply chain and the effective management of business operations by incumbent players.



Net Profit Margin Performance

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	10.4%	14.2%	9.9%	10.4%
Dubai SME Sector (Average FY'17 & 18')	8.0%	11.1%	8.7%	7.3%

Indicates the profitability margins on 'Net Income', net of 'Operating, Interest and Tax Expenses'

Source: CRIF database, Dubai SME database, Empact analysis

In line with the trend in Operating Margins, the aggregate Net Margin of the Dubai SME sector has also declined from 10.4% historically to 8.0% in the current period.

ROCE Performance

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	30.4%	32.3%	27.8%	30.0%
Dubai SME Sector (Average FY'17 & 18')	31.9%	25.2%	49.7%	21.2%

Indicates 'Returns' to internal & external stakeholders, based on earnings generated on 'Total Capital Employed'

Source: CRIF database, Dubai SME database, Empact analysis

In this table depicts the Return on Capital Employed (ROCE) performance of the Dubai SME sector. The aggregate ROCE for the Sector is 30.4%, implying that for every 1 AED of capital invested, Dubai SMEs are able to generate an operating profit of AED 0.30. The ROCE in the current period (31.9%) has remained level at par with historical levels (30.4%).

Liquidity and Leverage Health

Liquidity Health

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	3.7 X	2.4 X	1.7 X	3.3 X
Dubai SME Sector (Average FY'17 & 18')	1.3 X	1.9 X	1.9 X	1.6 X

Indicates the availability of 'Short-term Assets' available to the business to meet its 'Short-term Obligations'

Source: CRIF database, Dubai SME database, Empact analysis

As noted in this table, the Liquidity performance of the consolidated Dubai SME sector, as reflected by the Current Ratio, is considered relatively 'healthy' (the acceptable threshold is typically in the range of 1x to 1.5x). This implies that SMEs in Dubai have

adequate short-term assets to cover their short-term liabilities. The 'normalization' of the Current ratio, relative to the historical period, implies that SMEs are now churning and utilizing their short-term assets more efficiently.

Leverage Health

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	0.5 X	0.5 X	0.8 X	0.4 X
Dubai SME Sector (Average FY'17 & 18')	0.5 X	0.5 X	0.7 X	0.4 X

Indicates the ability of 'Shareholder Equity' to cover all outstanding 'Debt' in the event of a business downturn.

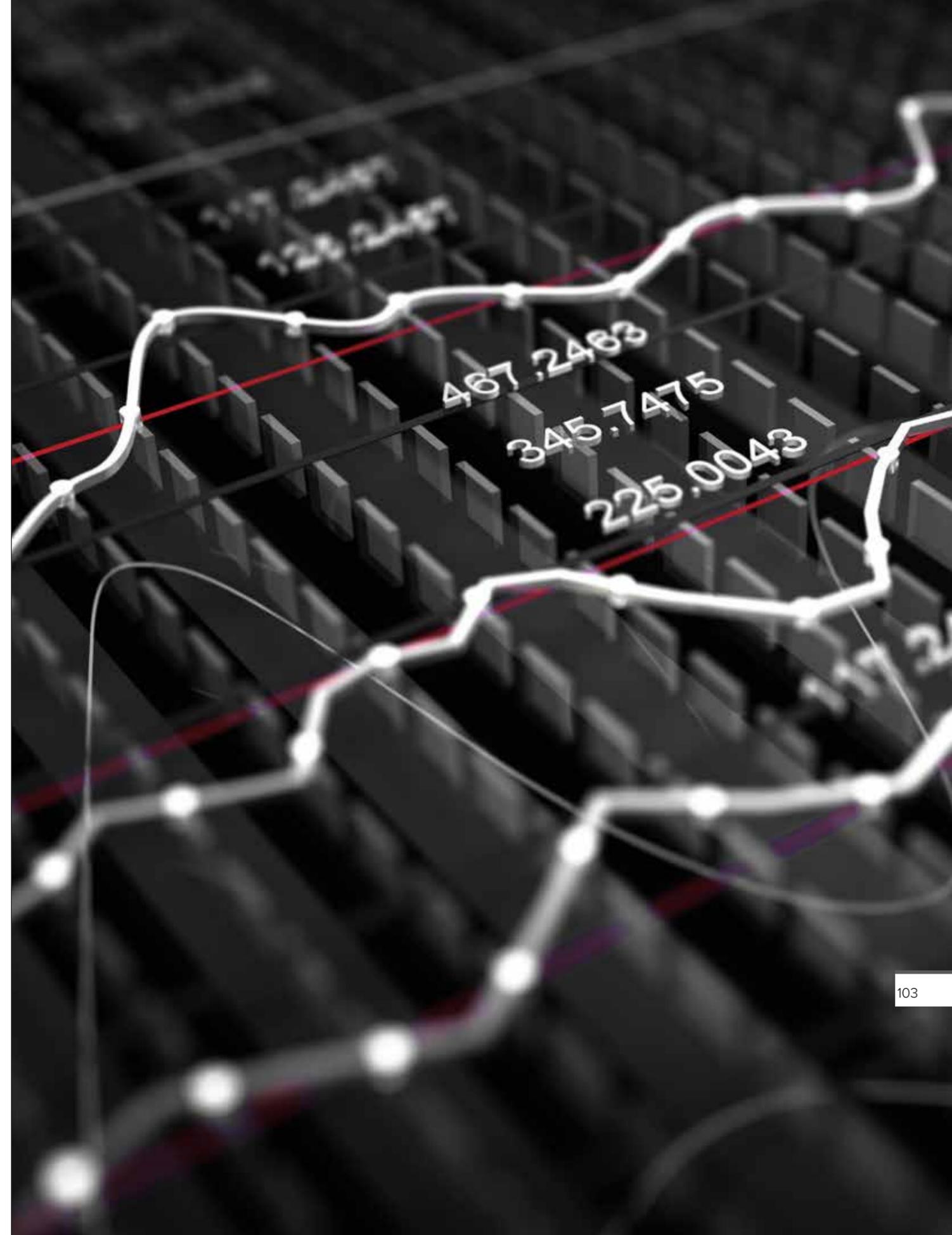
Source: CRIF database, Dubai SME database, Empact analysis

As noted in the above table, the Leverage of SMEs in Dubai, as measured by the Debt to Equity ratio (0.5x) is relatively low, particularly in comparison to SMEs in the US (the typical Debt to Equity ratio of American SMEs ranges from 1.5x to 2x).

This is primarily due to the fact that SMEs in Dubai tend to rely primarily on personal promoter equity as well as reinvestment of

business profits for capital expansion and operational working capital management. The low level of debt also indirectly reflects the low propensity of banks to extend financing to SMEs.

On a relative basis, the propensity of bank lending to the Manufacturing Segment is the highest, given the availability of 'hard assets' (Machinery, Plant and Equipment) to serve as collateral.



Cash Conversion Performance

Cash Conversion Performance

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	56.9	45.5	70.8	71.7
Dubai SME Sector (Average FY'17 & 18')	47.8	57.7	78.1	46.8

Indicates the time taken for the business to convert orders received into 'Cash flows'

Source: CRIF database, Dubai SME database, Empact analysis

As noted in Table 8, the improvement in the aggregate Cash Conversion Cycle from 57 days to 48 days, is largely attributed to the superior performance of Trading SMEs. While management of account receivables continues to be a key issue and is charac-

terized by payment delays, SMEs in Dubai have apparently become more efficient in managing stock turnover, due to increased automation as well as in managing payables, due to more effective supply chain management.

Solvency Health

Solvency Health

	Overall	Services	Manufacturing	Trading
Dubai SME Sector (Average FY'10 & 11')	13.8 X	14.1 X	8.3 X	11.7 X
Dubai SME Sector (Average FY'17 & 18')	9.1 X	7.8 X	N/A	8.3 X

Indicates the multiple of 'Cash Flows' available to the business, in relation to its 'Interest' obligations on 'Debt' taken

Source: CRIF database, Dubai SME database, Empact analysis

At the Sector aggregate level, given the low level of debt on the books, enterprises have adequate 'earnings before interest and tax' to service their interest obligation on debt. As noted in Table 9, while there

is a decline in the Interest Coverage ratio from historical levels (9.1x in 2018 from 13.8x in 2011), the Solvency position of the Sector, still remains robust.

4.

Business Outlook & Key Business Objectives

Business Outlook of SMEs

As per the results of the 'Dubai Business Survey,' conducted by the Department of Economic Development across the period between Q3, 2017 to Q3, 2019, the composite Business Confidence Index (BCI)⁽¹⁾, aggregated across all Dubai enterprises, was at its highest peak in Q3, 2019 at 129.8 points. The reported improvement in expectations is driven by higher public spending on infrastructure, policy reforms related to the ease of doing business in the Emirate and a more positive business outlook on sales and profits, amongst enterprises. The SME Business Confidence Index (BCI) rose to 121.1 points in Q3, 2019 from 109.9 points in Q2, 2019.

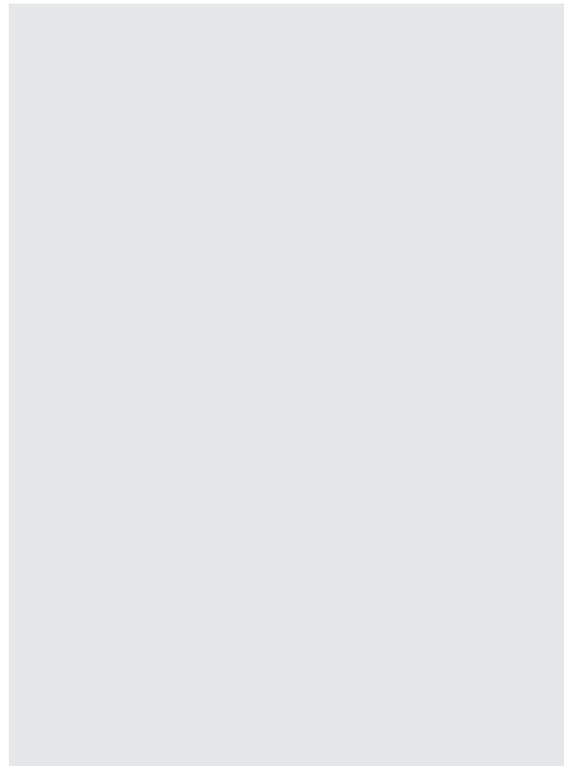
There are positive expectations for Q4, 2019. On an annual basis, businesses are more upbeat about hiring, sales revenue, and volumes on account of expectations of improvement in business conditions, new projects and optimism surrounding upcoming Expo2020. A quarterly comparison indicates an improvement in business sentiments, supported by expectations of additional customers and projects, a rise in seasonal demand and an increase in tourist footfalls. A comparison of expectations across the key economic sectors reflects that the Services Segment holds the strongest outlook for Q4, 2019, in terms of key parameters including wage levels, sales revenue, volumes, profits and hiring, followed by the Manufacturing and Trading Segments.

⁽¹⁾ 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.

SME Business Outlook

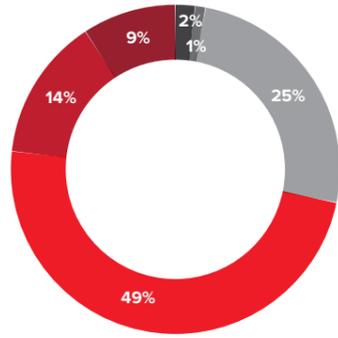
As per the results of the Dubai Business Survey (Q3,2019) the overall business outlook for Q4, 2019 is more optimistic on a Q-o-Q basis than Q3, 2019, with businesses anticipating higher profits, revenues, volumes, and new purchase orders. Around 58% of firms anticipating an improvement in the business situation in Q4, 2019, which has gone up from 46%, as per the last quarter results. Additionally, the share of firms foreseeing a deterioration in the business situation has declined to 5% for Q4, 2019 from 11% for Q3, 2019. Around 11% of business respondents, indicated plans to export to new markets during Q4, 2019. The leading new markets for export diversification are Africa and the Middle East.

The input 'State and Characteristics of Dubai SMEs' survey, also assessed the business expectations of SMEs and their outlook in terms of revenue growth over the next 2 to 3 years.

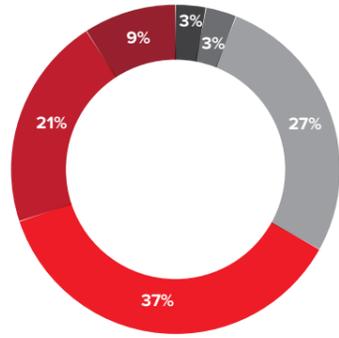


Perception of Annual Growth in Revenue for the Company (Over the next 2-3 years)

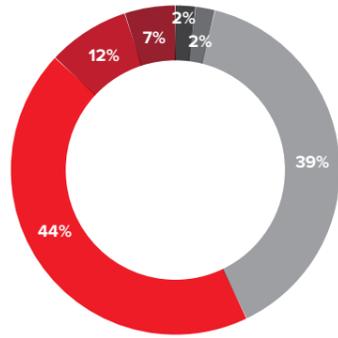
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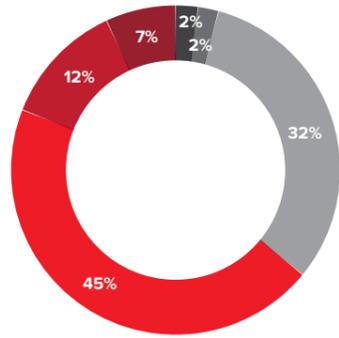
Service



Manufacturing

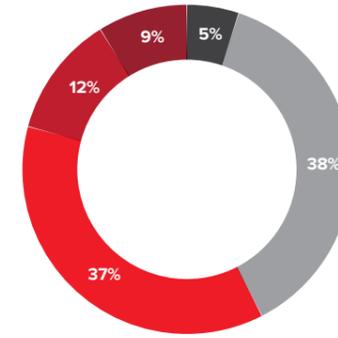


Trading

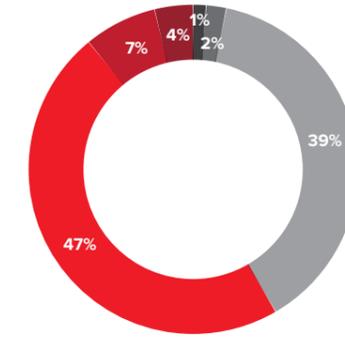


Total

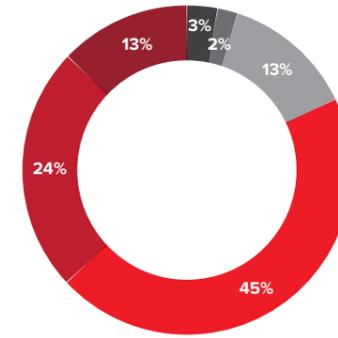
- Expected to Decline (Negative Growth)
- No Change
- Will Grow Less Than 5% P.A.
- Will Grow Between 5% - 10% P.A.
- Will Grow Between 11% - 20% P.A.
- Will Grow More Than 20% P.A.



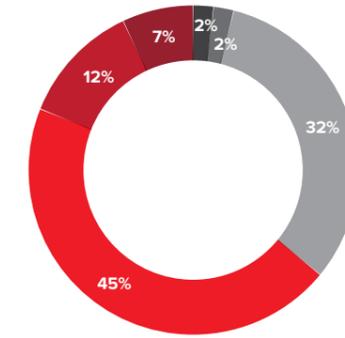
Micro



Small



Medium



Total

- Expected to Decline (Negative Growth)
- No Change
- Will Grow Less Than 5% P.A.
- Will Grow Between 5% - 10% P.A.
- Will Grow Between 11% - 20% P.A.
- Will Grow More Than 20% P.A.

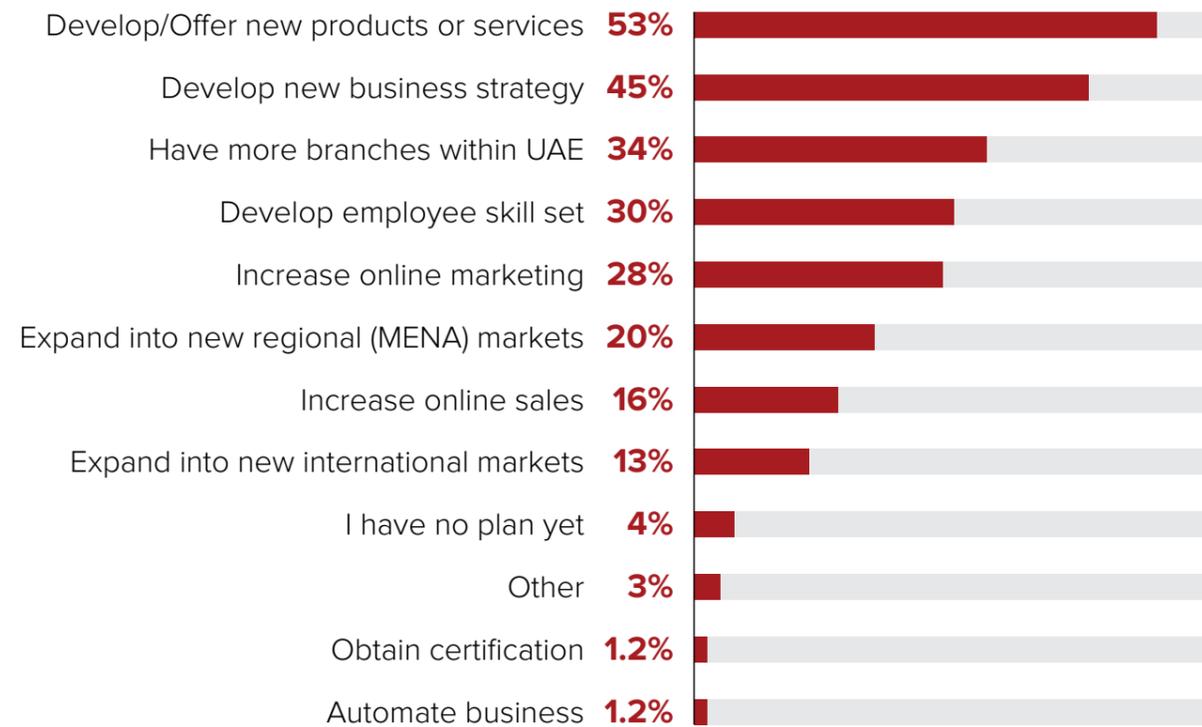
Based on the findings, around 96% of SMEs anticipate that their revenues will grow over the coming 2 to 3 years, on the back of a positive outlook for Dubai's economy. Around 45% of SMEs expect top-line growth ranging between 5% and 10%, while another 32% expect their revenues to grow at a rate of up to 5%.

On a relative basis, a higher proportion of Trading and Service businesses are optimistic about higher sales growth, vis-à-vis Manufacturing SMEs.

Key Business Objectives of the SMEs

Top Strategic Objectives for Business
(Over the next 2-3 years)
Future Business Plans

n = 518



As per the 'State and Characteristics of Dubai SMEs' survey findings, the top 3 business objectives cited by respondents include:

1. Develop / Offer new products or services (cited by 53% survey respondents) – these businesses intend to focus their efforts on product-based innovation, entailing new product development, enhancements in product/service features and inorganic acquisitions to enhance their product and market-focused penetration efforts targeted at the business expansion.
2. Develop new business strategies (cited by 45% survey respondents) – these businesses intend to have a renewed strategic focus, that could entail revenue growth through market diversification or cost reductions, through optimization of existing processes, investment in technology and implementation of robust measures for corporate governance.
3. Increase market share in UAE (cited by 34% survey respondents) – these businesses intend to bolster their penetration within the domestic market through higher marketing and promotion efforts as well as investment in capacity expansion and physical presence (branches across the UAE).

Increasing online sales is a higher priority for Service and Trading SMEs vis-à-vis Manufacturing SMEs, which are instead, aiming for international market expansion. A similar proportion of businesses across the Segments, aim to invest in employee training, to make their employees more productive and 'work ready'. Micro SMEs have the highest aspiration vis-à-vis Small and Medium firms to invest in and enhance their online sales, particularly aimed at combatting and containing rising overheads and Cost of Sales. Furthermore, Micro and Small SMEs are especially keen on developing new business strategies in order to respond to increasing competition in the market, while Medium SMEs are more focused on market share growth, via both, market diversification (geographical expansion) as well as higher market penetration (growth in domestic sales) through promotion, cross-selling and up-selling efforts.



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