

Chapter 6

Survey of Financing Options and Key Challenges Faced by SMEs in the UAE: Economic Environment, Finance, and Regulatory Landscape

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ABSTRACT

Innovation has an essential impact on SME creation, and governments are concerned with stimulating adoption of innovation by SMEs to strengthen growth and development and adapt to the ever-changing business environment. Innovation by SMEs requires operating within a generally embracing economic and financial environment. The availability of various formal and informal financing options and a growing economy encouraging consumer spending, innovation-driven investment spending and export, and a policy favoring enhancing private equity, economic diversification, and market competition are incipient factors contributing to a culture of private initiatives by entrepreneurs and SMEs.

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INTRODUCTION

Policymakers highly celebrate the role of entrepreneurship and Small and Medium Enterprises (SMEs) in the economy due to the impact on employment, innovation, and social stability. It has become essential for governments to promote an entrepreneurship culture among individuals and innovation among SMEs to seek to strengthen financial position on a global level. As a result, SMEs constitute the mainstay of most economies in the world. SMEs represent more than 95% of registered firms and 50% of employment worldwide and contribute more than 35% of GDP in many emerging markets (Alibhai et al, 2017).

In recent years, driven by the necessity of economic diversification, the UAE government has recognized the multiplier effect of SMEs, and embarked upon a program enhancing the capabilities of the SME sector, particularly in the field of innovation (Issac, 2015). The UAE vision 2021 aims to boost SMEs' contribution to GDP to reach 70%. A report on SMEs in the MENA region suggests that for every ten successful new enterprises, about \$1.5 billion in current valuations and more than 2,500 jobs creation (Alkasmi et al, 2018). This "multiplier effect" of entrepreneurship in the economy showcases the contribution of entrepreneurs and SMEs in achieving a policy's economic and social objectives such as economic stability and development. Flourishing SME ecosystem is essential for a thriving economic and social structure, characterized by better allocation of resources driven by inherent innovation, efficiency, and competitiveness. Entrepreneurship is recognized as an essential factor of innovation and employment, hence leading to economic growth and increased well-being.

SMEs generate most of the new jobs and help diversify a country's economic base through the promotion of innovation, new goods and services, and integrating women and youth into the economic mainstream. Despite all these benefits, SMEs remain significantly underserved by financial institutions. Research indicates that the credit gap that formal SMEs confront is about \$1 trillion (Alibhai et al, 2017). Over ten million of population mostly youth, and a GDP approaching half a trillion USD, the UAE has developed to become a hub of innovation and entrepreneurship in the MENA region. It is increasingly and rapidly embracing the digitisation and digitalisation with evolving institutional, infrastructure, and regulatory framework.

The United Arab Emirates (UAE) has increased its propensity for digital adoption and access to and use of technology. The whole population owns

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