

Mapping The SME Ecosystem In Oman 2018

“Executive Summary”

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Since launched in 2013, Public Authority for Small and Medium Enterprises Development (Riyada), has been striving to develop and support an ecosystem for the SME sector as to enhance its role in creating job opportunities and adding value to the national economy.

With the rise of many public and private entities supporting this vital sector, the importance of planning and improving the SME business environment in the Sultanate is becoming a necessity, hence it was decided to establish a comprehensive SME ecosystem map to further enhance stakeholder engagement and bridge gaps in the existing SME system.

To achieve this, Riyada has appointed (The Firm) to undertake the study in order to develop an SME ecosystem map that identifies the key players and their roles.

Completion of this work would not have been possible without the concerted efforts of many key stakeholders. We would like to express our sincere gratitude and appreciation to Oman LNG Development Foundation for supporting the study through their Corporate Social Responsibility program. We also would like to thank entrepreneurs, small and medium enterprises and the supporting parties in this sector for their participation in enriching this study, finally.

SME ecosystems represent a plethora of stakeholders playing various roles in enabling entrepreneurs to establish and grow their businesses. These ecosystems are built on interconnected dynamic functions and roles that develop and change overtime depending on the maturity of entrepreneurship in the economy. Therefore, it is essential to understand these ecosystems in this dynamic context. The importance of SME ecosystems is underscored by their significant contributions towards economic activity and employment on one hand, and innovation and disruption on the other.

This study aims to map the Omani SME ecosystem by systematically identifying the key programs and enablers that play pivotal roles in the development of entrepreneurship in the country. In doing so, the study surveyed the SME landscape and found that some programs were not sustainable. Therefore, the focus of this study was on current programs that have endured or had a verifiable impact on the system.

To understand the impact of the programs and enablers, the study engaged stakeholders through a series of focus groups and surveys. The focus groups included incubators, funding organizations, training and development programs. The engagement of SMEs was another essential part of the mapping process as they are central to any ecosystem. To further validate the ecosystem map it was publicly shared online to further engage stakeholders for feedback and clarifications.

The mapping process itself focused on two main features of the SME life cycle. The first perspective relates to the four stages of SME development; Cultivate, Startup, Power up and Growth & Excel. These stages reflect Riyada's view of SME development within the local ecosystem. There is no formal definition of these stages, and thus the study identifies them as follows: Cultivate includes entrepreneurship education and training which is essential to develop a vibrant culture for would-be entrepreneurs. In the Startup stage, SMEs formally establish their enterprises. The Power up stage is where SMEs seek to grow from small to medium companies. The Growth & Excel stage is where mid-size businesses witness further growth and seek new markets. As companies develop through these stages their requirements differ which should be reflected in the ecosystem.



Cultivate



Start up



Power up



Grow & Excel

The second perspective is the functional segmentation of stakeholder roles in the ecosystem. In this regard, the study attempted to verify the primary role of each enabler. While some enablers assume multiple roles, this study asserts that each enabler should focus on a key role where they can have greater impact without over-reaching.

The functional definitions are based on internationally accepted models that were developed by leaders in the field such as **Babson College**, **OECD** and other established organisation. These functions include:



The study is divided in to three parts



● Characteristics of a Sustainable and Dynamic SME Ecosystem

It should be clearly stated from the start that no two SME ecosystems are the same. However, there are several key elements that are often present in all well-established ecosystems. These include:

- ★ conducive regulation
- ★ market opportunities for SMEs
- ★ access to funding
- ★ a culture that encourages entrepreneurship
- ★ access to talent and innovative processes

These factors are driven by an entrepreneur centric approach which appreciates the needs of SMEs. Moreover, the SME ecosystem must be collaborative where different enablers can complement each other and create synergies. This is particularly important for a small and nascent ecosystem.

Conducive policy is particularly important to catalyze the development of the ecosystem. However, policy should focus on improving the success rates of the startups and not job creation alone. The success of the startups will naturally lead to the creation of job opportunities. This potential can be realized with improved longevity and growth of SMEs.

● The Omani SME Ecosystem

Analyzing the Omani ecosystem revealed key insights about its nature and structure. The ecosystem along with the insights are discussed

★ Growth in the SME Sector

The study finds substantial growth in the number of SMEs over the past three years. The Public Authority for Small and Medium Enterprise Development (Riyada) reports that more than 30,000 companies were registered as of 2017 and these numbers continue to increase. The overwhelming majority of these businesses are micro sized businesses. Despite healthy growth rates over the past four years, the SMEs' contribution to the national economy remains modest compared to other regions around the world. One of the potential explanations for the low contribution of Omani SMEs is modest entrepreneurship activity, especially prior to 2013. Subsequently, with a clear public policy focus on SME development, the ecosystem witnessed substantial improvements including new funding programs, incubation programs and support.



Source: Public Authority for SME Development-Riyada

★ Concentration of Programs

The study reveals that the ecosystem is highly focused on the early stages of SME creation. There are numerous programs that focus on entrepreneurship cultivation. These programs are often supported by the social investment programs of large.

corporations. Often these programs overlap or target similar groups such as schools and university students. The sustainability of the programs is also questionable due to sources of funding.

★ Funding

The SME ecosystem offers several funding options. In some instances, access to funds is subject to strict criteria such as the entrepreneur's full-time availability to the business. In other instances, collateral can be an obstacle to obtaining required funding, which is typical for most banks. The most obvious gap in SME funding is the limited number of institutions that specifically cater to startups. This is a concern since many innovative startups require tailored funding arrangements and not traditional financing. Despite the above, the funds disbursed by various funds and agencies has been a positive contribution to the ecosystem.



★ Incubation & Acceleration Programs

In addition to funding, startups have access to various incubation and acceleration programs. Some of these programs are specialized and others multipurpose. There are far more incubators than accelerators where the former nurtures companies at the early development stage. Some incubators have existed for a number of years with multiple graduating cohorts. Accelerator programs that focus on more developed SMEs are few in the Omani ecosystem. Overall, incubators in Oman have succeeded in providing startups with the opportunity to establish viable businesses. However, the quality of these incubator programs and their outcomes needs to be monitored. One of the key challenges that incubators face is the shallow pool of applicants to their programs. The current cultivation programs do not provide the critical mass required to feed the incubators with capable entrepreneurs. Finally, post-incubation and acceleration programs are critically needed to sustain SME development into midsize and larger companies.

● The Omani SME Ecosystem

The study identifies some key challenges that the Omani SME ecosystem needs to address going forward:

★ Collaboration

Insights from the SME ecosystem map indicate that among the main issues is programs tend to overlap. Many programs, especially in the Cultivate stage, are almost identical. In addition, many of the same entrepreneurs participate in multiple programs that provide the same service. This suggests that there is little collaboration between SME ecosystem stakeholders, which ultimately results in repeated efforts and wasted resources. Riyada can play a role in creating collaborations by identifying common themes for collaboration within the ecosystem. Current examples of such models include OM.HUB and Upgrade.

★ Suitable funding

Current funding sources in the Omani SME ecosystem are limited to the conventional platforms including Oman Development Bank, Alraffd Fund and Sharakah. While these funding sources have contributed to the development of Omani SMEs, more tailored and innovative sources of funding are required to cater to different needs of unique SMEs. These may include Venture Capital, Angel Investments and Crowd Funding.

★ Pre-incubation and Scaling up Programs

Among the key observations by engaged stakeholders in the Omani SME ecosystem map is the lack of pre-incubation programs. Pre-incubation adds value by prepping prospective SMEs to venture into the business world. These pre-incubation programs can benefit from a pool of participants sourced from feeder programs such as Injaz Oman and Upgrade.

Another observation relates to the scaling up of programs beyond incubation. Currently the Omani SME ecosystem lacks programs that target companies after incubation. Such programs are valuable for accelerating a company's growth and moving them into medium sized ones.



★ Regulations

As highlighted by the SMEs engaged in this study, regulations are hindering the SME ecosystem in Oman. Regulations need to be carefully designed considering their effects on all stakeholders of an SME ecosystem. Feedback on regulations needs to be provided by stakeholders before they are put into effect. Collaboration between regulatory bodies is also important due to the nature of SME ecosystem. Road blocks from one regulatory body can cripple SME development.

Future Directions

Assessing the Performance of the SME Ecosystem

As the ecosystem is always evolving, there is a need to keep the ecosystem in check and to monitor any changes or developments. As such, the ecosystem needs to be measured to monitor its performance as a whole. Measurement should take place over all stages of SME development. For each stage, there can be selected metrics to assess the performance of SMEs in that stage. Some proposed metrics are included in Part 3 and in the Appendix. It is also crucially important for Riyadh to agree on a definition for the stages of SME development in order to assess their performance at each stage in the future.

The Omani SME ecosystem is an interconnected web of stakeholders and enablers that need to work together to ensure the best outcomes for SMEs. The current system has many strengths in supporting startups and small businesses. However, it needs further improvements to address the different needs and challenges of SMEs at their respective development stages. This can be achieved with greater collaboration and conducive regulation. Ultimately, the ecosystem needs to become a self-sustaining system that is not dependent on government support.

