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## Assessment of Small and Medium Enterprises Insolvency to Banks in Qatar

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### ABSTRACT

This research aimed to examine and identify different factors influencing Small and Medium Size Enterprises (SMEs') failure to meet financial obligations to banks in Qatar. Based on the obtained results, the development of recommendations for regulators. As the contributions of SMEs are significant in the maintenance of economic development in the country. Nevertheless, SMEs have been struggling to finance the projects as they often lack the required funds and thus have to source from financial institutions. The authors selected Qatar Development Bank as the case study. A systematic literature review was made and a questionnaire with closed-ended questions was designed to explore the Small and Medium Size Enterprises' causes of non-payments of loans. Authors have approached SMEs with loan default by phone, as this was the only possible way to collect data due to the social distancing during the Covid-19 pandemic. A complete list of 142 Small and Medium Size Enterprises with non-payments of loans was taken from the Qatar Development Bank and approached for data collection, and received 85 responses. Simple descriptive statistics for the analysis were used. The findings showed that SMEs encounter challenges in the repayment of loans. Moreover, the highly competitive market affects negatively the implementation of obligations and insolvency of SMEs. The findings have a number of implications for the policy measures and mechanisms aimed at solving problems of insolvency of SMEs and their further development in the country.

**KEYWORDS:** Economy, Entrepreneurship, Insolvency, Financing, Bank, Qatar

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## Қатардағы шағын-орта кәсіпорындардың банк алдындағы төлем қабілетсіздігін бағалау

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### ТҮЙІН

Мақаланың мақсаты – шағын және орта кәсіпкерлік субъектілерінің Катардағы банктер алдындағы қаржылық міндеттемелерін орындамауына әсер ететін факторларды зерттеу және анықтау, сондай-ақ алынған нәтижелер негізінде реттеуші үшін ұсыныстар әзірлеу. Себебі, шағын және орта кәсіпорындардың (ШОК) дамуы елдегі экономикалық өсуді қолдаудағы рөлі маңызды болып табылады. Экономикаға елеулі үлес қосатынына қарамастан, шағын және орта кәсіпкерлік жобаларын қаржыландыру мәселелерінде қиындықтар кездеседі, қаражат қоры жиі жеткіліксіз болып келеді, нәтижесінде ресурстарды тарту үшін қаржы институттарына жүгіну қажеттілігі туындайды.

Авторлар Катардың Даму банкі деректерін зерделеді. Шағын және орта кәсіпорындардың жұмыс істемейтін кредиттерінің төленбеу себептерін анықтау мақсатында жүйелі әдеби шолу жүргізіліп, жабық сұрақтары бар сауалнама әзірленді. Авторлар телефон арқылы несиені қайтармау мәселесі бар шағын және орта бизнеске жүгінді, өйткені бұл Covid-19 пандемиясы кезінде әлеуметтік қашықтыққа байланысты деректерді жинаудың жалғыз мүмкін жолы болды. Қатар Даму банкі деректерінен кредиттері жұмыс істемейтін 142 шағын және орта кәсіпорын анықталып, осы кәсіпорындармен байланысқаннан кейін 85 жауап алынды. Талдау үшін сипаттамалық статистика қолданылды және алынған нәтижелер шағын және орта кәсіпорындардың банктер алдындағы міндеттемелерді орындау кезінде бірқатар қиындықтарға тап болғанын көрсетті. Оған қоса, жоғары бәсекеге қабілетті нарық шағын және орта кәсіпорындардың міндеттемелері мен төлемдерін орындауға кері әсерін тигізуде. Зерттеу нәтижелерінің негізінде шағын және орта кәсіпорындардың төлем қабілетсіздігі мәселесін шешу және елдегі шағын және орта кәсіпкерлікті одан әрі дамытудың шаралары мен тетіктері бойынша ұсыныстар әзірленді.

**ТҮЙІН СӨЗДЕР:** экономика, кәсіпкерлік, төлем қабілетсіздігі, қаржыландыру, банк, Қатар

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## Оценка неплатежеспособности малых и средних предприятий перед банками в Катаре

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### АННОТАЦИЯ

Целью данной статьи является изучение и выявление факторов, влияющих на неисполнение малыми и средними предприятиями финансовых обязательств перед банками в Катаре, и разработка рекомендаций на основе полученных результатов для регуляторов. Поскольку, развитие малых и средних предприятий (МСП) имеет важное значение для поддержки экономического роста в стране. Несмотря на значительный вклад в экономику, малый и средний бизнес испытывает трудности в вопросах финансирования проектов, зачастую недостаточно необходимых средств для фондирования, и как следствие, возникает необходимость обращения в финансовые институты для привлечения ресурсов. Авторами были изучены данные Банка развития Катара. Был проведен системный литературный обзор и разработана анкета с закрытыми вопросами для выявления причин неплатежей по кредитам малых и средних предприятий. Авторы обратились к малым и средним предприятиям с проблемой невозврата кредита по телефону, поскольку это был единственно возможный способ сбора данных из-за социальной дистанции во время пандемии Covid-19. По базе данных Банка развития Катара было выявлено 142 малых и средних предприятий с просроченными кредитами, после обращения в данные предприятия для сбора данных, было получено 85 ответов. Для анализа была использована описательная статистика и полученные результаты показали, что малые и средние предприятия сталкиваются с рядом проблем при выполнении обязательств перед банками. Более того, высоко конкурентный рынок оказывает негативное влияние на исполнение обязательств и неплатежей малых и средних предприятий. На основе полученных результатов исследования, были разработаны меры и механизмы для решения проблемы неплатежеспособности малых и средних предприятий и дальнейшего развития малого и среднего бизнеса в стране.

**КЛЮЧЕВЫЕ СЛОВА:** экономика, предпринимательство, неплатежеспособность, финансирование, банк, Катар

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### Introduction

SMEs are the crucial drivers behind regional and national development in various countries. Many studies are available regarding SMEs' importance in the country's economy (Musa & Chinniah, 2016; Zafar & Mustafa, 2017). The significance of SMEs is globally recognized due to their significant contribution to rewarding different socio-economic goals, such as fostering entrepreneurship, export promotion, and high employment growth (Brown et al., 2014; Olusegun, 2012). For instance, in the EU, approximately 25 million SMEs comprise more than 90% of all businesses, employing 95 million people and giving 50% of total jobs in the private sector. Nevertheless, the actual significance of SMEs rises to acclimate to the altering conditions of innovation and competition with globalization (Keskgñ et al., 2010).

According to Madanchian (Madanchian et al., 2015), SMEs are defined differently from country to country based on industry categories, annual turnover, and full-time employees. SMEs in Agro-based industries and manufacturing-related services are enterprises having full-time employees not surpassing 250 people. The significance of SMEs is because of their capability to solve economic aspects linked to public activity. SMEs help increase competition, respond to increasingly changing demand, and provide jobs in challenging financial crises. They also contribute to developing and applying innovation and help attract investment (Laurențiu, 2016). Additionally, SMEs contributed to improving business activities and led to economic diversity in several countries.

Precisely, developing countries have successfully diversified their export structures and economies. The most significant change is the shift toward industries, and this has been observed in rich oil and natural resources countries. However, the question remains about what factor influences them to diversify their economy. Gelb argued that the shift toward manufacturing allowed dynamic learning that increased income and productivity (Gelb, 2010). Additionally, diversification help producers to have more knowledge and information about foreign markets and to discover innovations and changes. Over the past decades, the GCC states have taken significant steps toward economic diversification, from the oil and gas sector to infrastructure development, health, education system, and several manufacturing industries.

The issue of NPLs has gained importance in a few decades, considering the level of bad loans increasing in underdeveloped and developing countries and Western countries. The empirical research on NPLs and their impact have presented diverse findings. Akhter and Roy analyzed the effect of NPL on profitability (Akhter & Roy, 2017). They noted that GDP is negatively linked with NPL, implying that economic improvement leads to low NPL. Furthermore, banks with high-interest rates lend more and probably suffer more NPLs. Similarly, Adebisi and Matthew investigated NPL in South-Eastern and Central Europe from 1998-2011 (Adebisi & Matthew, 2015). They found that NPLs respond to macroeconomic conditions, like inflation, unemployment, and GDP growth.

However, there are limited studies on the issue under investigation in the case of SMEs in Qatar. Therefore, the study investigates the key factors influencing SMEs' failure to meet their financial obligations in the QDB case.

### Literature review

#### *Determinants of SMEs Barriers and Non-Performing Loans:*

SMEs are essential for economic development and growth as they are important in job creation. Financing is vital in helping SMEs set up and expand their operations, invest in production facilities, and develop new products (Ćinjurević et al., 2021). The financial crisis back in 2009 caused the institutions to be careful, and credit processing since then has become complex, as SMEs find it challenging to assess the decisions and processes primarily related to loan processing (Haron et al., 2013). Access to finance is a vital element influencing SMEs' success and growth; hence, access to financing is crucial to allow SMEs to add to the economic development and diversification of economies (Bongomin et al., 2017). The link between bank losses and NPLs has been discussed by researchers globally and is viewed as a significant chapter in banking studies. Increasing NPLs are usually considered a bank's failure to manage credit policies (Hada et al., 2020). Several studies have analyzed different factors influencing NPLs, and the following section presents the factors significantly influencing SMEs.

#### *Cost of Finance*

Cost of finance (COF), also termed financing cost (FC), is the interest, cost, and other charges connected to borrowing to purchase or build

assets. Lending interest rate involves intrinsic hidden costs on the credits that banks issue with implications on loan defaults. High-level NPLs may reduce economic growth because financial institutions refuse to lend (Balgova et al., 2016). It was found that NPLs and interest rates have an asymmetric link in the short run, while it has an asymmetric one in the long run.

Lending interest rates and NPLs have a significant relationship (Pullicino, 2016). The empirical study on the relationship between NPLs and interest rate is ample and has been studied over the years (Louzis et al., 2012; Beck et al., 2013). These studies also offered ample evidence focusing on the significance of the NPL recovery mechanism in restricting NPLs levels to accomplish financial stability and avert financial problems.

Researchers noted that interest rate has a positive and direct link with NPLs (Farhan et al., 2012; Khemraj & Pasha, 2009). The increase in interest rate is observed to increase the level of NPLs. Likewise, the researchers like Asari noted a significantly positive link between NPLs and interest rates (Asari et al., 2011). Similarly, Beck reported a positive association between NPLs and interest rates (Beck et al., 2013). NPLs were influenced by increasing debt price servicing between the variable rate of contracts and a borrower.

#### Overhead Cost

Overhead cost is yet another factor that has become a significant concern for the non-performance of the firms. Mat-Nor, Said, and Hisham have studied it in detail (Mat-Nor et al., 200). Significant primary reason behind the increase in overhead costs is increased competition in the market. Multiple sellers of the same product have an extensive distribution network. It has resulted in fierce competition, making a firm's life difficult. As a result, firms have to invest more and more to appeal to consumers. A significant investment also is made to make the product or service available. In doing so, the company loses its profitability index in the long run. It affects their financial capability to pay off the loans.

Noor mentions overhead costs, including rent, salaries, wages, etc. (Noor, 2020). These are fixed-cost accounts, and a business has to pay, leaving a business with little liquid cash. Wezel, Canta, and Lu's study also question the profit projection and cost estimation that a company exaggerates to attract investors (Wezel et al., 2014). It may benefit the company, but it can be

disastrous in the long run. The main reason is that if the company cannot make profits or scale its product, then it cannot pay back. These reasons contribute when it comes to NPLs.

The report by OECD (2021) also states the cost of rising interest rates and other costs (expenses related to management), which makes the interest payment bigger. Because of the failure of the government to keep interest rates in check, the company's overhead cost becomes greater. The company has no profit as all its capital covers the overhead cost. This then eventually leads the company to bankruptcy. It has become even more prominent in the post-COVID world; the pandemic has seen a rise in operating costs with a shortfall in demand. It has made companies unable to meet their profit benchmarks, and as a result, many companies are in a state where they have defaulted. It is also the reason why companies all over the world are downsizing and hence reducing the overhead cost. Coupled with the disruption in both supply and demand curves, companies have nowhere to go, causing an increase in NPLs.

#### Access to Public Procurement

According to Harland, Telgen, and Callender, public procurement refers to the purchase by state-owned enterprises and governments of services and goods (Harland et al., 2013). A public sector firm obtains services and goods from a third party through a contract. Cabras argued that an increasing pool of evidence shows a lack of international and local access to public procurement for SMEs in developing and developed economies (Cabras, 2011). Specific barriers linked with the public procurement process can be high-priced for businesses affecting slow payment. Flynn and Davis highlighted that SMEs find the problem in access to procurement, and thus government takes corrective action by introducing SME-friendly procurement policies (Flynn & Davis, 2016).

Furthermore, Perry asserts that SMEs encounter several barriers, such as awareness opportunities, lack of knowledge, capacity issues, and procurement process, which negatively influences their financial obligations (Perry, 2011). In the context of the developed countries, Kidalov and Snider argued that access to public procurement by SMEs rely on different paperwork and regulation, which is an obstacle to SMEs in public procurement (Kidalov & Snider, 2011). However, SMEs require more information on procurement opportunities and the need

to use e-procurement facilities. Overall, lack of access to procurement may lead to barriers in financial obligations for SMEs like loan repayment.

#### High Competition

Market competition is crucial for growth and development and business innovation. However, it may also challenge companies and hinder entrepreneurs from repaying their debts successfully. For example, Makri found that high competition is an obstacle for firms to remain competitive and fulfill their commitments toward debt repayment (Makri et al., 2014). Khemraj and Pasha assert that competitiveness in the market, including local and international economics, links to high NPLs (Khemraj & Pasha, 2009). Scoreboard mentioned that increased market competition affects SMEs' profitability and productivity, thus negatively affecting their ability to repay bank loans (Scoreboard, 2013). McIntosh, De Janvry, and Sadoulet found that increasing competition includes a drop in the repayment performance of SMEs (McIntosh et al., 2005). SMEs lack different financial options to capitalize on opportunities to perform efficiently in stiff market competition, negatively impacting their NPL and influencing their loan repaying mechanism.

#### Economic Issues

Economic issues are directly associated with the financial capability of SMEs to repay their debt. The economic elements of a country can signify how well a company can repay the debt and whether the conditions are favorable (Madrid-Guijarro et al., 2016). A key aspect associated with debt repayment is the interest rate. A high-interest rate represents a company having a more challenging time repaying the debt since it would be a more significant value (Navarro-Martinez et al., 2011). Interest rates are usually decided by the government as part of the monetary policy and then are followed by the financial intermediaries. In prosperous business countries such as those in the EU region and the US, interest rates are kept low to encourage more lending of money for businesses and their enhancement (D'Erasmus, 2008). However, in 2019, the interest rate was ranging between 1.94 to 2.47%, and 0.10 to 2.01% in 2020 (Qatar Central Bank, 2020).

An average high-interest rate can be associated with SMEs' inability to repay their debts. The policy of a high-interest rate can be positive regarding currency balancing and other

similar financial obligations. However, it can lead to increased bankruptcy claims since many SMEs could not cope with the conditions (D'Erasmus, 2008). However, limited GDP growth can impact SMEs and their ability to repay the debts they have undertaken.

It can be noted that even before Covid-19, the GDP growth rate of Qatar was declining. This points out that a declining growth rate makes it hard for SMEs to operate and repay the debt they undertook under different circumstances. Moreover, occasions such as Covid-19 have also limited the growth rate by a considerable margin, yet such aspects are hard to predict. Nonetheless, appropriate planning is necessary in this regard, such as maintaining reserves to cope with difficult situations imposed by the pandemic (Razumovskaia et al., 2020). A fluctuating inflation rate is a deep concern for SMEs since

they find it hard to operate with certainty and stability. Furthermore, the lower inflation rate favors the borrowers; however, since the pandemic, it can be argued that the SMEs would have a hard time coping with the demand and market conditions which could lead to delays in repayments or potential bankruptcy claims (Önder & Sunel, 2021).

Two further economic issues impacting SMEs' debt repayment are the trade balance and the country's current account. Many SMEs depend on trade, including imports and export (González & Sorescu, 2019). Specifically, the import balance of trade is essential as it displays the country's capability to import. A highly negative trade balance may compel the government to put restrictions which can hurt the operations of the SMEs. Thus, these two economic elements are essential as they reflect the capability of SMEs to generate adequate revenue and eventually repay their debts. In terms of Qatar, the country has held a significantly positive balance of trade and current account over the previous decade. However, some fall is noted in the Covid-19 period, which can be an issue for SMEs as many companies can be impacted by the lack of trade.

#### Government Policies and Regulations

Another major factor impacting non-performing loans is government policy and regulations. A study by Ofria and Mucciardi shows that corruption and unsustainable government debt levels contribute significantly to the bankruptcy of the private sector (Ofria & Mucciardi, 2021). When there is a massive amount of corruption, the government has to

exercise austerity measures which can hurt the private sector. The private sector thrives on government subsidies and tax cuts but will tax the same private sector when it runs a deficit. Because of the increased taxation, the private sector would eventually crumble towards non-performance.

Similarly, the study of Inaba also cites the policies of the government that lead to an economic downturn (Inaba et al., 2005). In a recession, the private and public sectors are impacted, which can cause long-term issues for the companies. The recession or downturn is a policy crisis that translates to private sectors and their inability to pay off their debt. Furthermore, the study of Shih also cites the importance of the free market and transparency, which is often undermined by the public sector (Shih, 2004). The free market is undoubtedly among the favorite policy options for the private sector because it helps them to provide shareholder value and return on investment. This then facilitates the FDI, which can help the economy grow. However, with the government's intervention and rise in state-owned enterprises, the system becomes rigged and causes a disadvantage to the private sector. For instance, when the government intervenes in the economy, it can set up its own companies, provide subsidies, tax cuts, etc. As a result, there is no level playing field, and the private sector can be at a comparative disadvantage. Another factor about the government's unfair intervention in the economy cited in the study is how government prevents liberalization of the banking sector. This is politically motivated, especially in the case of China, where a political party owns the country's largest banks.

The study of Yeung also points in the same direction (Yeung, 2009). As per these authors, due to the consistent government intervention and policy of favouritism, there is no space for institution-building, and the institutions cannot be self-sustaining. It also prevents an environment of corporate governance from prevailing inside these NPL-affected companies, which further plays a part in the failure of the companies. The reasons cited by Lu, Thangavelu, and Hu are also relevant to the study (Lu et al., 2005). As per the study, biased lending or policies tend to promote biases and subjectivity in lending. This is apparent from the examples of third-world countries where politicians provide monetary favors to the financiers of the government. This prejudice in policymaking contributes massively toward unsustainability and lack of financial performance among the firms.

### Research Methodology

Based on the relevant literature, the authors have designed a questionnaire to explore the causes of NPLs in Qatar, selecting QDB as a case study. The QDB provided the complete list of SMEs with their addresses and contact numbers after the authors requested the list of SMEs with loan defaults. By using this information authors have approached SMEs with loan default by phone, as this was the only possible way to collect data due to the social distancing during the Covid-19 pandemic. The authors have approached all 142 enterprises to get information. However, only 85 enterprises agreed to participate in this study and share the required information. For the analysis, there has been used descriptive statistics which allows for description and understand the features of a specific data set by giving short summaries about the sample and measures of the collected data.

The authors have put 25 close-ended questions to obtain the information for further research. The questions of the survey were designed according to the following order:

- first five questions were completed to obtain the personal information of the questionnaire respondents, as gender, age, marital status, nationality and education;
- following questions were directed for investigation of the distribution Entrepreneurs by Business Sectors, and business type, the distribution Entrepreneurs by legal structure and experience;
- next questions were aimed at determining the purpose and maturity of loan, interest rate of the loan and the area for using the funds;
- other questions of the questionnaire were directed for the identification of the factors of non-payments of loans by SMEs.

The obtained sample characteristics describe the primary way is categorizing Entrepreneurs members to "mutually exclusive" categories, then counting the case a number of each category. The authors have calculated proportions, percentages and ratios for summarizing the obtained data from categorical variables and have made the comparisons between groups. This methodology allows identifying that SMEs encounter challenges in the repayment of loans. We found several factors, including high-interest rates, overhead costs, lack of access to information, public procurement, economic issues, government policies and regulations, and a highly competitive market influencing the non-payment of loans.

**Results and Discussion**

The designed a questionnaire to explore the causes of NPLs in Qatar, selecting 85 SMEs, and we obtained the following results.

Gender: most (73%) of the participants are male, while 27% are female entrepreneurs.

Marital Status: Respecting marital status, around 66% of married persons are entrepreneurs in Qatar, and 20% are single. In comparison, only 4% of widows and 11% of separated or divorced people run their businesses.

Education equips entrepreneurs to understand markets, opportunities, and economic cycles, enabling them to make correct decisions. Our sample shows that most entrepreneurs had bachelor’s (61%) and master’s (20%). And few of them (7%) have a PhD or DBA. None of them were illiterate (Table 1).

**Table 1 - Percentage Distribution of Entrepreneurs by Education**

	Level of Education	Percentage
A	Illiterate	0%
B	High school or below	6%
C	Diploma	6%
D	Bachelor	61%
E	Master	20%
F	Ph.D. or DBA	7%
Total		100%
Source: based on our survey		

A large proportion (94%) of entrepreneurs are Qatari nationals, while a small percentage (6%) are from other nations. Local entrepreneurs usually have access to market information and an understanding of the market. They know the culture and consumer behavior more than non-nationals, as well as QDB is keen to give the opportunity to the young nationals. In Table 2 presents percentage distribution of entrepreneurs.

SMEs operate in a competitive environment that needs experts or experienced managers. Interestingly, the majority (73%) of them had no previous business experience, and only 27% had prior experience in the business (Table 3).

Engagement plays a vital role in a newly established business. Entrepreneurs need to look after their business operations continuously, which makes business efficient. Entrepreneurs usually engage in their business thoroughly to identify improvement areas and business problems. Strict compliance with business activities affects the performance of enterprises. Regular engagement with the business increases productivity and generates economic benefits such as revenues, profits, and growth. It was interesting to know that most (45%) manage the business monthly, which is not a good sign. Another 36% were looking after their business weekly, and only 19% were engaged daily basis (Table 4).

**Table 2 - Percentage Distribution of Entrepreneurs by Business Sectors and Reason for Being in Business**

6	While you are running your business, you are:	%	Which of the following best describes the reason for being in business?	%
a	Full-time entrepreneur	14%	I want to be my own boss / I’m not particularly eager to work for others	19%
b	Employed in the government sector	25%	I can work when and how I want	5%
c	Employed in the semi-government sector	58%	I can’t find any work	2%
d	Employed in the private sector	4%	I can’t find any work that I really like	2%
g	Full-time student	0%	I don’t have skills for other kinds of work	0%
h	Other	0%	My previous employment ended	1%
			I want to have another source of income	71%
			Other	0%
Total		100%		100%
Source: based on our survey				



**Table 3** - Percentage Distribution of Entrepreneurs by Experience

8	Do you have previous experience in the related sector?	Percentage
A	Yes	27%
B	No	73%
Total		100%

Source: based on our survey

**Table 4** - Percentage Distribution of Entrepreneurs by the level of Management/Engagement

9	To what level were you engaged and managing your business?	Percentage
A	Daily basis	19%
B	Weekly basis	36%
C	Monthly basis	45%
Total		100%

Source: based on our survey

The table below depicts the enterprise sector. 24% were in manufacturing, 29% in Food & Beverage, and 13% in agriculture. Another 29 percent were in other businesses. The majority (45%) have a small business category, 42% have a medium, and 13% have a micro business category.

As for the legal structure of the enterprises, 74% of them were limited liability companies, followed by 11% Sole Proprietorship companies (Table 5)

**Table 5** - Percentage Distribution of Entrepreneurs by Legal Structure

12	What type of legal structure is your business?	Percentage
a	General partnership company	6%
b	Simple partnership company	7%
c	Sole proprietorship company	11%
d	Shareholding company	0%
e	Private shareholding company	1%
f	Limited liability company	74%
g	Holding company	1%
h	Foreign company	0%
Total		100%

Source: based on our survey

The purpose of a loan can vary from firm to firm, but in the majority, it is opted for investment purposes by SMEs. Table 6 shows that 49% of entrepreneurs took a loan as startup capital. However, 32% needed the loan for working capital, and 19 % wanted it for making expansion in their business

**Table 6** - Percentage Distribution of Entrepreneurs by Purpose of Loan

13	What was the purpose of the loan?	Percentage
A	Start up capital	49%
B	Working Capital	32%
C	Expansion	19%
D	Other	0%
Total		100%

Source: based on our survey

SMEs are highly influenced by the cost of finance when they fulfill their financial promises. Many (48%) of the enterprises caused high-interest rates, and (19%) blamed high monthly repayment for failing to return their loans. 33% experienced low sales or profit generated as the main reason for non-payment

**Table 7** - Percentage Distribution of Entrepreneurs by Reasons for Default in Loan Repayment

14	What was the main concern in defaulting on loan repayment?	Percentage
A	High-interest rate/profit to the bank	48%
B	the high monthly repayment amount	19%
C	Low sales/profit generated	33%
D	Other	0%
Total		100%

Source: based on our survey

The loan's maturity period determines the firms' economic burdens in the coming financial years. As found above, most entrepreneurs obtained a loan for startup purposes from banks. Table 8 shows that in the majority (44%) of cases, loans were obtained for 3-4 years, and in 24% of cases, for two years or less. It identifies that firms had to pay higher financial obligations just as they had started their operations as the loan maturity was no longer. It means newly established

SMEs managed by Qatari entrepreneurs had to bear higher financial promises in the startup period, which could be the main reason behind the failure of such entities

**Table 8** - Percentage Distribution of Entrepreneurs by Loan Maturity Period

15	What was the maturity period of the loan?	Percentage
A	2 years or less	24%
B	3 - 4 years	44%
C	5 - 6 years	24%
D	7 years or more	9%
Total		100%
Source: based on our survey		

The loan offered by QDB is different for the SMEs; for example, most (38%) of the entrepreneurs have paid around 31-40% interest, 29% of entrepreneurs paid more than 40%, while 20 % of them paid 21-30 %. However, 13 % of the entrepreneurs paid 20% or less

**Table 9** - Percentage Distribution of Entrepreneurs by Interest Rate

17	What percentage of interest is on loan?	Percentage
A	20% or less	13%
B	21 - 30%	20%
C	31 - 40%	38%
D	More than 40%	29%
Total		100%
Source: based on our survey		

The enterprises' opinion was gathered (Table 10) regarding how they found lending rates. 65% of them found it extremely high compared to others, whereas 25% of businesspersons gave their opinion that the lending rates are high. However, only 11% revealed an acceptable lending rate.

**Table 10** - Percentage Distribution of Entrepreneurs by Lending Rates

16	How did you find the lending rates?	Percentage
A	Extremely high	65%
B	High	25%
C	Acceptable	11%
D	Low	0%
Total		100%
Source: based on our survey		

Selling products in the relevant market is essential to business strategy. It is very important to understand where you would sell your products. Many enterprises have failed to capture the market due to a lack of market understanding. Svensson (2009) indicated that enterprises, which lack market information, tend to struggle hard for customers who match their products and offerings. Access to market information is an essential element of understanding customers. Our survey shows that most (79%) SMEs sell their products or services nationally or locally. However, only 21% sell on national and international levels.

**Table 11** - Type of Market

18	Where do you sell your product or service?	Percentage
A	National	79%
B	International	0%
C	Both national and international	21%
Total		100%
Source: based on our survey		

Business today needs to make solid policies for operational activities such as procurement of raw materials or consumable inputs. The primary goal of the business should be reducing their input costs which makes them minimize production costs, thus generating higher profit margins. Perry (2011) revealed that SMEs face barriers, including lack of knowledge, procurement process, capacity issues, and awareness opportunities for identifying suppliers. Because of these barriers, their input cost rises, lowering profitability or profit margins. To understand these entrepreneurs' procurement processes, we asked questions to determine where they get. Regarding the procurement of raw materials,

some (46%) entrepreneurs buy from the local market; however, most (54%) purchase from the international marketplace.

**Table 12 - Procurement of Raw Material/Consumable Inputs**

19	Where do you get your raw materials/consumable inputs for your business?	Percentage
A	Local market	46%
B	International market	54%
Total		100%
Source: based on our survey		

The businesses take time to be settled and earn profit. The survey identified that most (58%) businesses shut down within two years of starting. It suggests the effects of higher financial obligations and dues. The newly established business takes time to grow, yet the burden of repayments could be devastating for such a business. Around 20% of businesses operated for 3 to 4 years, while 22% operated five years or more before the failure.

**Table 13 - Operation Period before Failure**

20	Before the business failure, how many years has your business been operating?	Percentage
A	2 years or below	58%
B	3 - 4 years	20%
C	5 years or more	22%
Total		100%
Source: based on our survey		

SMEs tend to be very sensitive when established. The chances of failure may be high. The entrepreneurs' data revealed that most (49%) enterprises failed to pay financial obligations at the establishment time—however, 21%. Moreover, 25% of the business failed at the growth stage. In last, only 5% were in the declining phase, as shown in the graph given below:

**Table 14 - Life Cycle at the Time of Failure**

21	Business life cycle at the time of failure	Percentage
A	Establishment	49%
B	Growth	25%
C	Stagnation	21%
D	Decline	5%
Total		100%
Source: based on our survey		

### ***External Factors that affect the non-performance of loans in SMEs***

One factor that affects the non-performance of loans in SMEs is the cost of finance. The study shows that 64% of the people strongly agree that the cost of finance plays a major role in the late/non-payment of loans in SMEs. 22% agreed with the statement, while only 4% and 5% strongly disagreed and disagreed.

Public procurement acts as a driving force for SMEs, and their participation in such projects benefits them greatly as they already lack financing due to the size of their organization. However, limited access to such participations confines the performance area for such enterprises. SMEs lack the leverage of access to public procurement and thus have a greater ratio of NPLs. Ancarani et al. (2019) suggested that for SMEs to be more diligent in loan repayments, they need a fairground. Table 19 shows that (40%) strongly agreed that SMEs have limited or no access to public procurement. Moreover, 16% agreed with the statement, 29% remained neutral, and others disagreed or strongly disagreed.

Economic issues, such as inflation, price regulations, and availability of finances, also influence the enterprises operating in the economy. For example, Barro (1996) stated that inflation increases the cost of raw materials for SMEs, affecting enterprises' profit margins. It also affects consumer buying power. Figure 4 reveals that the majority (66%) strongly agree, and another 18% agree that economic issues are pivotal when measuring contribution to the failure of SMEs in the repayment of debts. In contrast, others remained neutral or did not agree with the statement.

**Table 15 - Economic Issues in the Country/Region**

	Economic issues in the country/region	Percentage
A	Strongly Disagree	5%
B	Disagree	7%
C	Neutral	5%
D	Agree	18%
E	Strongly Agree	66%
Total		100%
Source: based on our survey		

**Government Policies and Regulations**

According to Nyarku et al. (2018), Government policies and regulations are to be blamed for businesses' growth or collapse. It will not be wrong to say that the government's policies provide a platform for every type of business to perform in their respective segments. Usually, there are custom-made rules for every type of business that guide them to act accordingly. In the present study, 68% strongly agreed, and another 21% agreed that SMEs defaulting on loans is due to strict government policies, whereas 4% strongly disagreed, 4% disagreed, and 4% remained neutral.

**Table 16 - Government Policies and Regulations**

28	Government Policies & Regulations	Total	Percentage
A	Strongly Disagree	3	4%
B	Disagree	3	4%
C	Neutral	3	4%
D	Agree	18	21%
E	Strongly Agree	58	68%
Total		85	100%
Source: based on our survey			

The researcher explained that little cash is left when such fixed costs are paid, which, in turn, increases the chances of bankruptcy. Overhead costs are all costs of operating a business except the direct ones. In the context of SMEs, innovation is the most significant advantage a firm can take while keeping costs low and budget-friendly. However, in an economy where the overhead costs such as rentals, legal fees, transportation costs, and travel expenses are high, the margins for SMEs are even squeezed.

65% of the people in the study strongly believed that overhead costs are responsible for SMEs' default, 24% agreed, 4% strongly disagreed, 2% disagreed, and 6% did not form any opinion. Khan et al. (2017) stated that SMEs incur high transaction and borrowing costs due to a lack of business information and resources. Similarly, SMEs must outsource some of their work segments to mitigate the costs of running the department, which is highly challenging for them to handle. On the one hand, outsourcing reduces the cost of running a department but brings its share of risk. As Montaseb et al. (2018) say, outsourcing cannot ensure cost savings, and its hidden risks can cut the underlying benefits. From a broader perspective, the overhead costs are crucial, and minimizing such costs can be helpful for SMEs to repay their debts on a timely basis.

**Table 17 - Overhead Cost**

29	Overhead cost	Total	Percentage
A	Strongly Disagree	3	4%
B	Disagree	2	2%
C	Neutral	5	6%
D	Agree	20	24%
E	Strongly Agree	55	65%
Total		85	100%
Source: based on our survey			

High market competition hinders SMEs from remaining competitive, which makes them unable to pay debts back (Makri et al., 2014). Increased market competition lowers the performance of enterprises that are weak with financials; if the performance of enterprises decreases in responding to high market competition, the firms struggle to fulfil their financial promises.

Table 18 shows that 67% of enterprises strongly agreed with the fact, while 20% agreed. Only 2% strongly disagreed, 6% disagreed, and 5% had no opinion about it. According to Ayandibu et al. (2017), small and medium-scale organizations are more eager to earn a share in the market than the corporate sector and thus possess a more competitive approach toward business. In its entirety, competition does affect SMEs in various areas of performance.

**Table 18 - High Competition**

31	High competition	Total	Percentage
A	Strongly Disagree	2	2%
B	Disagree	5	6%
C	Neutral	4	5%
D	Agree	17	20%
E	Strongly Agree	57	67%
Total		85	100%

Source: based on our survey

### Conclusion and Recommendations

Based on the above methodology, the findings showed that small or medium-sized businesses in Qatar are primarily owned by 60% of the entrepreneurs, with most of them belonging to educated classes and having bachelor's degrees. At the same time, there are zero illiterate people in the field of entrepreneurship. Qatar is a patriarchal society; its businesses are also dominated by males, compared to females, who have less representation. Additionally, the small business and entrepreneur field are dominated by Qatari, and a tiny percentage of businesses are owned by non-Qataris. For bank loans, it is found that a sizeable portion of Qatari entrepreneurs takes loans for business finance.

Additionally, approximately 48% of Qatari entrepreneurs found it challenging to repay their loans because of high-interest rates. In comparison, around 30% of them are found to default due to low sales and profit. Concerning lending rates, it is found that more than 60% of entrepreneurs found it very high compared to others. Similarly, overhead costs were also held responsible for SMEs' default. On the other hand, in the findings related to the factors affecting loan repayment, it is noted that more than 60% of respondents agreed that the cost of finance contributes to the non-payment of loans or late payments in SMEs.

Regarding access to public procurement, it is found that approximately 40% of the SMEs are no or limited access to public procurement and are more likely to default compared to other firms in the economy. Access to business information was also found to be a factor behind the non-repayment of loans, as 46% of respondents showed that access to relevant information is essential for SMEs in payments of debt defaults. The findings also revealed that most participants believed that political and economic factors contributed to the SMEs' non-performance of their loans. A sizable majority of the participants

agreed that these factors were important when assessing the contribution to the failure of SMEs in loan repayment. Besides, government policies and regulations are also strongly linked with SMEs defaulting on loans. High competition is also found to be one of the critical factors affecting SMEs to repay their loan, as it directly affects their profitability and business and therefore increases challenges for SMEs to repay their bank loan. Lastly, matchmaking with buyers is also identified as the key factor affecting SMEs' loan repayment. Approximately 47% of the participants agreed on SMEs' relevant matchmaking effects with buyers. The advancement of SMEs to e-commerce and approaching potential buyers are crucial with reference failure or success of SMEs.

### Policy Recommendation

The following recommendations are directed to the Qatari government, financial institutions, and Qatari Entrepreneurs/SMEs. QDB needs to facilitate SMEs in terms of providing business loans. Their SMEs program Al-Dhameen is a great initiative to support SMEs, allowing banks to extend their financial assistance to new SMEs with limited capital and market knowledge access. Hence, such initiatives by QDB should be promoted countrywide to support the existing SMEs and the upcoming new entrepreneurs who struggle to acquire loans. Additionally, private financial institutions must collaborate with QDB to facilitate SMEs' growth and expansion, thus bringing more economic diversity.

The Qatari government must take corrective measures to facilitate SMEs and other businesses by introducing SME-friendly procurement policies. It is noted that SMEs have limited access to market knowledge and public procurement and struggle to attract potential buyers. Therefore, the government should take the lead in assisting SMEs in locating export markets and facilitating their access to those markets. Additionally, the high-interest rate is viewed as a significant hurdle for SMEs' bank loan repayment. Therefore, the Qatari government must emphasize business-friendly economic policies and incentives by reducing interest rates and tax incentives to support SMEs in their business and loan repayment.

Similarly, Qatari entrepreneurs and SMEs must acquire market knowledge and information, hiring financial experts and strategies to ensure they are well-planned to manage or address finance and loan repayment challenges. Effective

planning, monitoring, and strategizing are essential for SMEs to excel in a competitive business environment.

#### *Limitations of the Study*

The study findings were based on only 85 respondents of the Qatari SMEs/entrepreneurs. The results might have been more comprehensive if the sample size was large, around 150. Another limitation is that the study focused on the opinion of entrepreneurs and SMEs; it did not involve the input of bank employees or financial experts. The results cannot be generalized based on such a limited sample group and opinions. Likewise, the participants' responses could be biased, as the questionnaire was close-ended and respondents did not express their opinions. It would have been a different result if the study had adopted an open-ended questionnaire to assess how SMEs/ entrepreneurs consider factors, as discussed above, to be challenging in their loan repayment. For future research, a comparative study would be significant from the perspective of financiers/banks to assess the critical reasons behind SMEs' failure to repay their loans.

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