Entrepreneurship in the UAE dynamic market – financing, challenges and obstacles

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Abstract
The entrepreneurship starts to play a crucial role in economic development across the globe. The research aims to present the challenges faced by entrepreneurs in the UAE, especially when it comes to banking interactions and financing provided by banks. The research methodology is structured based on interview and questionnaires, applied on a large number of potentials, new or barely new entrepreneurs. Analysis revealed that there is a confusion, lack of information and challenges of the required amount and documents needed with banks. In the same time there is a similar or quite the same approach with large businesses, when it comes to banks account or bank financing. The article analyzed the challenges faced by the UAE entrepreneurs and banking financing, concluding with possible solutions to help and support start-ups, young entrepreneurs and SMEs.

Introduction
Regardless of the way businesses are conducted, entrepreneurship is a behavioral characteristic that relies on intuition of an entrepreneur; that being said it does not mean the economic intuition rather it is a behavioral approach associated with the thinking of an entrepreneur (Drucker, 2014). This leads us to realize that not every business can be categorized as entrepreneurship nor every business owner can be called as an entrepreneur. There are certain attributes and skills an entrepreneur can possess that can be a representation of his entrepreneurship activities such as growth mentality, flexible attitude and thinking, and innovation skills (Birch, 1987; Drucker, 1985). These are some of the traits of behaving entrepreneurially that can be associated to an entrepreneur and entrepreneurship.

The topic on entrepreneurship is on the rise in the United Arab Emirates. The Ministry of Education are now offering optional courses on entrepreneurship on a federal level in three government schools and twelve private universities (The National, 2016). There are only four accredited universities by the Ministry of Education in the UAE offering entrepreneurship degree (3 bachelor and 1 master) according to the recent published list of accredited universities in the UAE by the commission for Academic Accreditation (CAA) of the Ministry of Higher Education and Scientific Research (MOHESR) (Ministry of Education, 2018).

Entrepreneurs are faced with challenges across the world, the Middle East and the Gulf Cooperation Council (GCC). There are twenty two countries in the Middle East and there are twenty two factors, however, might affect entrepreneurship and entrepreneurs across the Middle East in general: access to finance, access to land, anticompetitive practices, awareness of business support, business licensing, cost of finance, equality rights, information & telecommunications, labor regulations, lack of role model, lack of structured framework, lack of support providers, networking, non-representation at policy development level, policy restrictions, social rights, social trade regulations, tax administration, tax rates, technology, transportation, and unavailability of skilled workers (Mathew, 2010). Among the most important factors to mention that might affect entrepreneurship in the UAE are: financial accessibility, difficulties in opening a business account for
startups, lack of business support, policy restrictions on expats versus citizens of the country, lack of role models interaction with new startups, high competition and the recent value added tax (VAT). Not forgetting the fact that women entrepreneurship in the Middle East and North Africa (MENA), based on the Global Gender Gap Index (2012), still on the lower rates of participation due to similar challenges faced (Mcloughlin, 2013).

However, the landscape of the nature of conducting business in the UAE is changing for men and women entrepreneurs. The new rule of 10-years resident visa for new entrepreneurs with 100 percent ownership would facilitate the process of owning a business for both genders (Khaleej Times, 2018). Adding to the fact that small and medium enterprises (SMEs) in the UAE has contributed significantly to the field of entrepreneurship. It viewed as the primary source of entrepreneurship and accounts for more than 94 percent of the total number of companies across the UAE (Dubai SME, 2009; United Arab Emirates Government, 2017). SMEs in Dubai alone reaching approximately 95 percent of the whole businesses employing 42 percent of the workforce and contribute approximately to 40 percent of Dubai’s total GDP.

Literature review

The entrepreneurship topic covered widely across the globe. There are plethora of literature talking about entrepreneurship from different angles. However, there are limited sources in the literature of entrepreneurship in the UAE. The definition of an entrepreneur in the USA is defined as the one who starts his or her own business whether it is a small or a brand-new business (Drucker, 2014). Hence, entrepreneurship can be defined as a process that carries along a new flavor combining new products, market, and sources (Sharma & Chrisman, 2007).

While entrepreneurship and SMEs play an important role in the UAE economy, it has its own unique challenges, especially funding by banks. Banks in the UAE have an important responsibility to fund entrepreneurship and SME sector which is the real backbone of the economy (Baby & Joseph, 2016). The fact that the lack of clarity and accessibility to opening a business account still nearly impossible or a hard mission to accomplish nowadays in the UAE market. The opening of a new business account is crucial for any new start-up businesses. That is given the fact that the increasing significance and visible impact of entrepreneurship in wealth-creation and business development in the country would require education programs designed for rapid development and growth of young entrepreneurs (Kargwell, S. and Inguva, I., 2012).

Research methodology

Our research in the market of the United Arab Emirates revolved around six main questionnaires. We gathered our data through face-to-face interview using pen and pencil approach, phone calls and written correspondence via emails. Questionnaires focused on the followings: 1. Requirements to open a bank account; 2. Minimum balance required for opening the account; 3. Minimum balance required monthly to maintain the account minimum balance; 4. Monthly service fees; 5. How long does it take to open an account? and 6. What is the required minimum turnover of the business? Interviews and questionnaires were conducted on (100) of potential, new entrepreneurs and existing businesses as well as with banks in the UAE market.

Research analysis and findings

After conducting our interviews, and collecting the questionnaires, the research revealed that, in most cases, entrepreneurs approach the banks for finance based on market opportunities, which need an immediate action, to get advantage being the first or one of the first running respective business. Here they start to face the reality: opening a bank account, sometimes being a start-up, so no profit history behind. The analysis of the interviews/questionnaires came up with the following results:
Requirements to open an account (documents and others)

The required documents to open a business account in the UAE are somehow similar for all different banks without specifying a one. These documents are considered general standards documents. Most banks require trade license, chamber of commerce, memorandum of association, tenancy contract, passport copy and original, emirates ID copy and original, visa page copy and original, and previous bank statement of three months from another bank of the existing business account of another bank or personal account if business account is not available for new businesses.

Minimum balance required for opening the account.

The minimum balance required to open a business account in the UAE varied from one bank to another. Each bank has a set of different requirements that are completely different from the other. The figures range from AED 15,000.00 till 50,000.00. This is equivalent in US Dollar, based on the exchange rate of USD 1 = AED 3.65 (exchange rate between USD and AED is pegged by law), subsequently from USD 4,110.00 till 14,859.00. This is not forgetting the fact that some banks cannot accept to open an account unless otherwise you have a minimum balance of AED 250,000.00 or 500,000.00. This is equivalent in US Dollar, subsequently from USD 68,494.00 to 136,986.00.

Figure no.1: Minimum and maximum balance to open business account in the UAE

Minimum balance required monthly to maintain the balance account

In the UAE, there is what’s called minimum balance imposed on business accounts when not maintaining the minimum balance required by the bank to open a bank account. This applies on thriving existing businesses: local, international, and new aspiring entrepreneurs. The minimum balance required to maintain your account without getting charged what’s called minimum balance fees varied from one bank to another. It ranged from AED 15,000.00 to 50,000.00. This is equivalent in US Dollar, subsequently from USD 4,110.00 to 14,859.00.

Figure no.2: Minimum balance required monthly to maintain the balance account in the UAE

This is another obstacle, in our opinion as researchers in the field, faces talented entrepreneurs who wants to open their new business. This minimum balance maintained can be utilized in investing in their businesses. The amount is not small as a matter of fact considering that this is all money brought out of their personal pockets and none of it given as loans or subsidies for...
new entrepreneurs. This, once again, applies to all businesses regardless of the length and wealth of it and regardless whether the business is newly national, existing national, or international.

**Monthly service fees and their destination**

Over analyzing data collected from various banks randomly, we found out that there are minimum monthly balance required by an investor or an entrepreneur to pay if the minimum required balance is not fulfilled or maintained.

Figure no.3: Minimum balance required to be paid if the balance account not maintained

![Minimum balance chart](image)

The minimum balance required to be paid to banks if minimum balance is not maintained varies from one bank to another. It ranged from AED 150.00-300.00 and all the way up to 1500.00. This is equivalent in US Dollar, subsequently from USD 42.00-82.00 till USD 411.00. Not forgetting the fact that certain banks require monthly fee balance deducted from the account with the amount of AED 200.00 equivalent to USD 54.79. It is labelled as a standard monthly fee on the account.

This means that regardless of the existing rules and regulations of the Central Bank, obviously there are no set rules in place that regulates the minimum, average and maximum imposed on entrepreneurs whether existing or new start-ups. That leads to the realization that each bank acts independently as a separate entity of its own. That leads to a reality of the fact that entrepreneurs are victims of the set rules of each bank. It is in fact a paradox. This, in turn, contradicts to the policy of the UAE set by its leaders which entails encouraging entrepreneurship and entrepreneurs of all level. One of the fundamental issues’ worth investigating further.

**How long does it take to open a bank account?**

Some banks can open the business account faster than others. Every entrepreneur goes into a process of two stages. The first stage is called obtaining an approval. This takes approximately 5 – 10 working days depends on so many factors without getting the details of it.

Figure no.4: Stages and Timeframe of opening a business account in the UAE

![Stages and Timeframe chart](image)

This time frame is applicable in case all required documents submitted on time. It can go longer than this time frame in case there is any delays from an entrepreneur. The second stage is called opening the account stage that takes approximately between 1 – 2 hours with a huge pile of paperwork that requires signature on almost every part. However, other banks it can take another 5 – 10 working days for opening the account. Another obstacle facing entrepreneurs that needs to be addressed.

**What is the required minimum turnover of the business?**

Strangely but not odd that banks are asking any entrepreneur who wants to open a business account a question of a turnover. Every bank requires minimum and maximum turnover.

Figure no.5: Minimum and maximum turnover for opening a business account in the UAE

![Minimum and maximum turnover chart](image)
They vary in their requirements based on the policy of the bank. However, the minimum required figures of turnover ranges between AED 100,000.00-500,000.00. Even some banks do not want to process your application as an entrepreneur unless you make AED 3 million and all the way to 5 million. This is equivalent in US Dollar, subsequently from USD 27,397.00, 136,986.00, USD 821,919.00 and 1,369,863.00.

**Discussion and conclusion**

Regardless of the education or preparation of any entrepreneur, there is no differentiation taken into consideration between the existing businesses that are making profits, the existing businesses that are barely making profits and the new businesses that are trying to find their way in the market. In the culture of supporting new entrepreneurship economy, a challenge like this serves as a hindrance in our opinion towards serving new aspiring entrepreneurs to be successful. In fact, it is an obstacle that serves as a suppress to innovation and entrepreneurship spirit. That’s another paradox in a developing nation that wants to develop the entrepreneurship concept in the nation. In other words, there is no place for the new. The market is paved rather to existing thriving businesses and no more.

Figure no.6: Obstacles Model of Challenges Facing Entrepreneurs in the UAE

The overall analysis to the obstacles facing entrepreneurs of the twenty first century is depicted in the diagram presented in figure no.6. Our model depicts that many entrepreneurs are still faced with challenges. New entrepreneurs are even faced with more challenges that we consider obstacles on the rise day after another. There are six challenges facing entrepreneurs of today. These obstacles are:

1. **Requirements of opening an account:** many entrepreneurs are overwhelmed with many requirements to open a business account than minimizing it. Although we are living in the age of technology, but banks in the United Arab Emirates are still requiring many papers to open an account.  
2. **Investment value:** the amount of investment required by existing and new entrepreneurs is exhaustive. This might not be as overwhelming amount to existing businesses that are thriving and
making revenues already, but indeed it is an issue for new entrepreneurs who are starting the business or in the process of wanting to start a business. (3) Minimum balance: the amount required by banks in the United Arab Emirates to maintain the minimum balance is way beyond exhaustive. This amount can be invested in many areas of their businesses. It can be an aid to cover, for example, their start-up cost, marketing cost, establishing an existence to their businesses, and design a new website. (4) Monthly service: the amount of monthly service fees imposed by banks in the UAE are beyond control. It restricts entrepreneurs especially the new start-ups to not being able to utilize the money deposited as a minimum balance for opening the account. This, in turn, would impact their innovation process towards applying whatever they wanted to create or establish represented by such a restriction. They are start-ups and they need every single penny to get their businesses up and running than worrying about the monthly charges they need to pay to banks. (5) Timeframe: the length of time associated with opening a business account is rather lengthy. Each new account would have to go through an exhaustive waiting time for approval and then another waiting time for filling the paperwork and approving the documents to open the new account. This is a critical factor especially in the age of technology where things are done faster than ever or at least supposed to be faster. But this is not the case in this situation. (6) Turnover: the amount of turnover required to open the business based on estimate can put the new entrepreneur in an unnecessary stress. Imagine the new start-up entrepreneur who does not have the proper education, knowledge and training to know what’s the turnover is all about. Many successful entrepreneurs of the world are successful because of an idea and not because of limitation of terms.

After analysis, the research concludes with possible solutions to support the entrepreneurship, start-ups, SMEs and any new businesses openings. These solutions may be the following: developing and implementing clear, harmonized and distinguished rules for opening a bank account, without a previous bank statement requirement (if there is no any); accepting tangible assets (as buildings, land, dedicated equipment and cars) as part of starting capital; lower interest rate level for commercial/business loans/start-ups, provide loans for start-ups backed with real estates and, in the same time, banks would be better to conduct awareness about terms and conditions for banking account, financial support and financial discipline, helping the start-ups and new entrepreneurs with bank management account, transactions and financial assets.

References