

THE IMPACT OF FALL IN OIL PRICE ON SME'S PERFORMANCE

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ABSTRACT: *After fall in oil prices a lot of sectors are affected in Oman. Oman is one of the country's which fully was depending on income from petroleum products also the people were receiving subsidy from the government for many things. Suddenly, after the fall in oil prices government affected very badly and like the other GCC countries, they decided to remove the subsidy from the oil price also to cover the loss, the government increased the rates of a lot of services. SME's are affected very badly by these decisions. A lot of SME's started in delaying in the payment and not performing well. In my research, I will cover the challenges which they are facing it, the reasons of the low performance and suggestions which will help them to perform better.*

KEYWORDS: Small & Medium Enterprises (SMEs), Oil price, Challenges, Impact

INTRODUCTION

(SME) Small and Medium Enterprises are play an important role in the development and growth of the economy. Although, they are an important sector for the government and create 90% of the corporate sector, still their contribution to the GDP of Oman is lower than the contribution on SMEs in other developed countries. It is the main contributor in the economic development as they help in creating employment opportunities, increasing the competition as well as increasing the wealth in the country and they also enable the younger generation to start their own business. SME (Small medium enterprises) has been defined by many. According to (Preston,1986) the SME is independently owned, operated and not determinate in field of process.

Quantitative and Qualitative measurement of SME: According to (Gupta, 1988), the SME is quantitatively measured by the number of employees or sectional differences among the industries. According to (Scott & Brace, 1987), SME is qualitatively measured by indicating that there are independent managers or held by small or individual groups or operating locally. SMEs are now facing a lot of challenges and barriers due to numerous reasons, the most important being falling oil prices.

Oman economic and social development started with discovery of oil in 1964. The real growth started in 1970 when the infrastructure like roads, hospitals and schools were built and developed a lot of other basic services like water and electricity were improved. People in Oman received subsidy in a lot of services including in oil prices. However, by the end of 2015, the oil prices started to fall sharply which affected all the oil producing countries, especially the GCC countries. Oil prices have fallen due to many reasons such as: the US oil boom by shale oil production, Libya solved the disturbance and increased the production and OPEC (Organization of the Petroleum Exporting Countries) raised the output. All the GCC countries, including Oman, depend mainly on oil for revenues. This led to the removal of subsidy from oil and other services like energy by some of the GCC countries. In the beginning of 2016, Oman also decided to remove the subsidy from the oil and one of the important sectors in Oman which was affected by this change are the small and medium Enterprises (SME)

Table 1: Recent classification of SMEs in Oman

Enterprise	Workers	Annual Sales(OMR)
Micro enterprise	1-5	Less than 100K
Small enterprise	6-25	Between 100K and Less than 500K
Medium enterprise	26-99	Between 500K and Less than 3Million

Source: Central Bank of Oman-Circular BM1141, dated 12 January 2016

Effect of the falling oil price on SME:

-The Government increased the charges on many services. All the SMEs have to renew the OCCI certificate (Oman Chamber of Commerce and Industry certificate) every year and renew the Commercial register every 5 years. Ministry of Commerce and Industry increased the charges on adding new activities in the CR .

-Banks and financial institutions increased the interest rates on many services. One of the important sources of the fund for SMEs is the financial institutions. The interest rate is now being charged at a higher rate and the approval for the finance facility received has reduced.

-Banks and financial institutions give priority to government projects. The government projects are always more secured as they are related to the government.

-Due to fall in oil prices a lot of Government projects which were handled by contractors are receiving delayed payments and thus the overdue for such contractors are increasing. For example Simplex company.

-Ministry of Manpower increased the job visa fees for the non-Omani's by 50 %(before it was RO 201/- and now increased to RO301/-.

All of the above mentioned reasons have been affecting the SMEs and their performance in Oman.

Problem statement:

SMEs are one of the important sectors in Oman which help in creating jobs, wealth and developing the country. However, due to fall in oil price they are now facing many challenges and difficulties. This research aims to highlight the Impact of oil price on SMEs, especially those

that take financial support from the financial companies, and also to find the solution so as to reduce the impact and to improve their performance.

THEORETICAL CONCEPT AND FRAMEWORK:

SME: According to (Preston,1986) the SME is independently owned, operated and not determinate in field of process. According to (Gupta,1988), the SME is quantitatively measured by the number of employees or sectional differences among the industries. According to Scott &Brace (1987), SME is qualitatively measured by indicating independent managers or those held by small or individual groups or operating locally.

Interest Rate: Interest rate is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets typically on an annual basis, known as the annual percentage rate (APR). The assets borrowed may include, cash, consumer goods, large assets, such as a vehicle or building. Interest is basically a rental, or leasing charge to the borrower, for the asset's use. In the case of a large asset, like a vehicle or building, the interest rate is sometimes known as the "lease rate". If the risk is low, the firm will be charged a lower interest rate otherwise a higher interest rate will be charged.

Finance company: Finance is an organization, group or institute that provides loans for both businesses and consumers, much like a bank. Finance company may draw funding from banks and various other market resources. A finance company provides credit to individuals as well as to corporations for commercial use. A finance company may also specialize in providing financing for a variety of installment plan sales. A finance company may also be affiliated with a manufacturing firm or a holding company.

GCC: Gulf Cooperation Council is a political and economic association of six Middle Eastern countries—Saudi Arabia, Kuwait, the Emirates, Qatar, Bahrain, and Oman. It was established in Riyadh, Saudi Arabia, in May 1981. The reason of establishing GCC is to get unity among its members based on their similar objectives and political and cultural identities, which are rooted in Islamic beliefs. Presidency of the council rotates annually.

Subsidy: A subsidy is a help given by the government to groups or individuals, usually in the form of a cash payment or a tax reduction. The subsidy is given to remove some type of burden, and it is often considered to be in the overall interest of the public.

OPEC: The Organization of the Petroleum Exporting Countries (OPEC).OPEC aims to coordinate and unify petroleum rules and regulations among participant countries, in order to secure fair and unchanged prices for petroleum producers; an efficient, economic and consistent supply of petroleum to consuming nations; and reasonable return on investment to those investing in the industry.

CR: Commercial register is the register which is issued by ministry of Commerce and Industry and it include the owners' names, share percentages, legal form of the business and the activities which registered under this register.

Gross domestic product (GDP): It is a measurement of the market value of all the final goods and services in monetary terms which are produced in a particular period of time. It signifies how the country or region is performing economically and also facilitates in making contrasts internationally.

LITERATURE REVIEW

According to articles of Times of Oman, 07th Nov 2016, about employment visa fees to rise by 50%, “Ministry of Manpower has declared to increase the visa fees for non-Omani’s by 50 percentage”. And also there was another article about Oman exports decline by 28 percentage from last year levels, “Oil and gas exports products declined by 37.5% to OR 2.14 billion and non-oil exports declined by 24.9% to 985.3 million.

According to article of Times of Oman, 20 Oct, 2016, Oman needs to slash spending by 35%. According to International Monetary Fund, Oman needs to reduce the spending by 35 percent to balance the economic budget. The industrial sectors that depend on government contracts are facing contract ‘dry up’ which seems to be continuing in 2017. Also a lot of other sectors like financial institutions will be affected.

According to an article of Times of Oman, 23 Oct, 2016, Oman’s transport costs have further increased the inflation. “Increasing the transportation cost after eliminating the subsidy from oil led to increase the inflation. The trucks used the diesel for transportation and after increase in prices; it led to increase in the cost of moving goods, furniture, household equipment’s and other products from one place to another”.

According to an article of Times of Oman, 5th Sep, 2016, corporate earning in GCC declined 8%.”Within the non-oil sector; real estate and construction sector increasingly felt due to fall in the oil price”

According to a research by Maria Carmen Iordacheon “The role of SME in the context of a country's economic development”, the SMEs are playing an important role in the development of a country and also contributing to the growth of GDP.

According to the research by Ludovica Loana and Nicoleta Ralucaon The role of SMEs in Modern Economy, "SMEs are playing an important role and their role is recognized everywhere for their contribution in the country as well as Industrial growth"

According to Muscat Daily, December 2013, about SMEs, the engine of economic growth, "SME’s are the backbone of the non-government sector, where they are offering good number of job opportunities".

MENA Economic Monitor Report, 2016 forecasts that the growth in the countries of GCC in 2016 will be lower than growth in 2015.

According to an article by (Elias Aaraj, May 2016), “How low oil prices changed the GCC’s spending pattern”, reduction in oil prices forced to find new ways of funding their growth and infrastructure (road, transportations, etc.).

According to (Peter Buxbaum, Sep, 2015)in “How GCC countered dealing with falling oil prices”, countries which have diversified are less affected than those which have not diversified their business.

According to an article by AartiNagraj on “GCC: Falling oil price impacts on growth”, drop in the oil price is weakening the revenue of GCC governments, but the effect varied between the GCC countries as Oman & Bahrain have been affected higher than others.

Significance of the study

The topic has a wide scope for study as Oman being an oil dependent nation, has been badly affected by falling oil prices, which has further weakened the SMEs. Finding solutions to their problems will help them to reduce the effect and improve and perform better because they have been playing a very important role in the growth of the economy and has been generating more employment. The following is the significance of the present study:

- 1- Help to identify the factors which have affected the SMEs the most.
- 2- Help to identify the solutions which help in reducing the effect.
- 3- Help to identify the challenges which the SMEs are facing.
- 4- Help to identify the opportunities which will help them to improve their performance.

Objective of the study

In light of the significance of the study stated above, the following are the objectives of the study:

- 1- To measure the relation between the fall in oil price and SME performance.
- 2- To identify which sector is affected the most with the present situation.
- 3- To identify the factors that affects the performance of SMEs due to fall in oil price.
- 4- To suggest solutions that will help the SMEs to increase their performance.

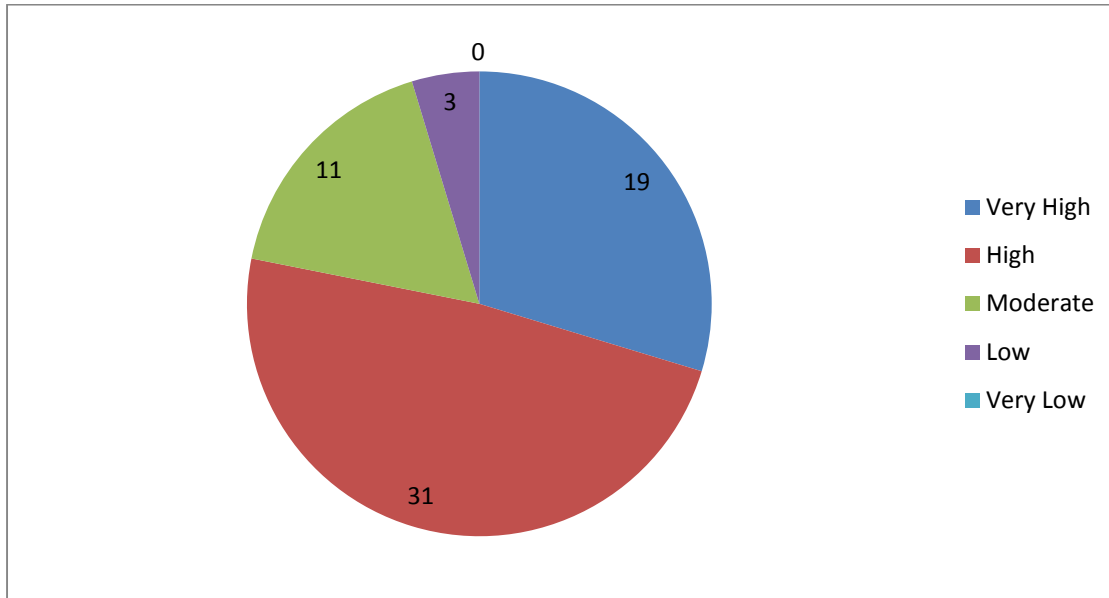
METHODOLOGY

I used the descriptive research because in this research we will describe the effect of the fall in oil price on the performance of the small and medium enterprises and I used convenience sampling which is one of the non-probability sampling methods and based on the choosing the unit from the population based on easy of being available and accessible. My sample was 100 SME's owner which owning different sectors like(sales, tourism, building and construction, hiring of equipment's). For the data collection I used for conducting this research primary research and secondary research; for primary sources I used the interview and survey methods. For secondary sources I used Internet, E-book, and newspapers. I analyzed the data by using the pie and bar chart.

RESULTS/FINDINGS

Chart 1

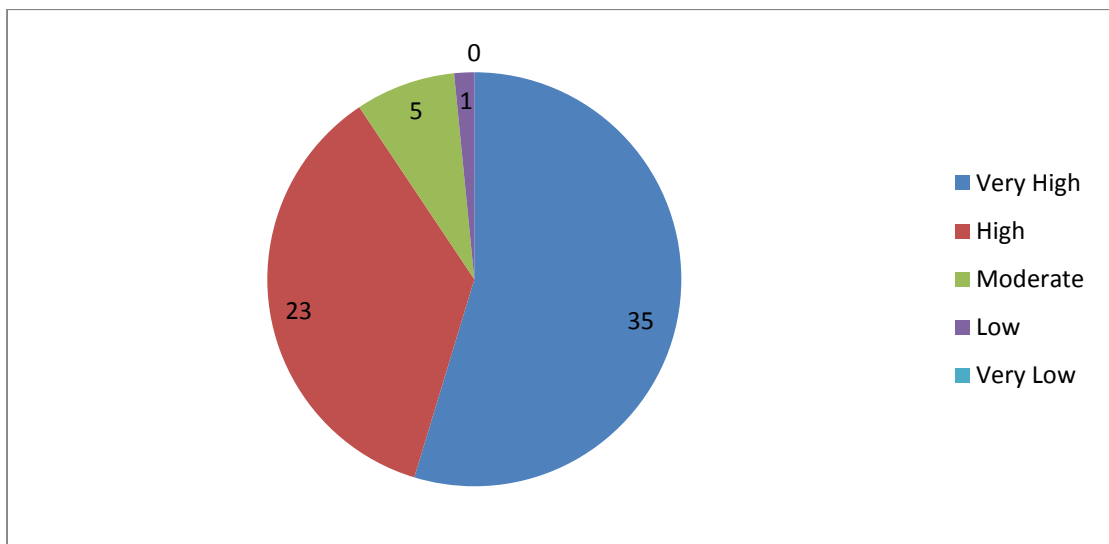
- 1- Interest rate which the financial companies charging it after fall in oil price.



The above chart shows that 31 of the respondents responded that interest rate which the financial companies are charging after fall in oil price is high, 19 responded that it's very high and 11 responded that it's medium.

Chart 2

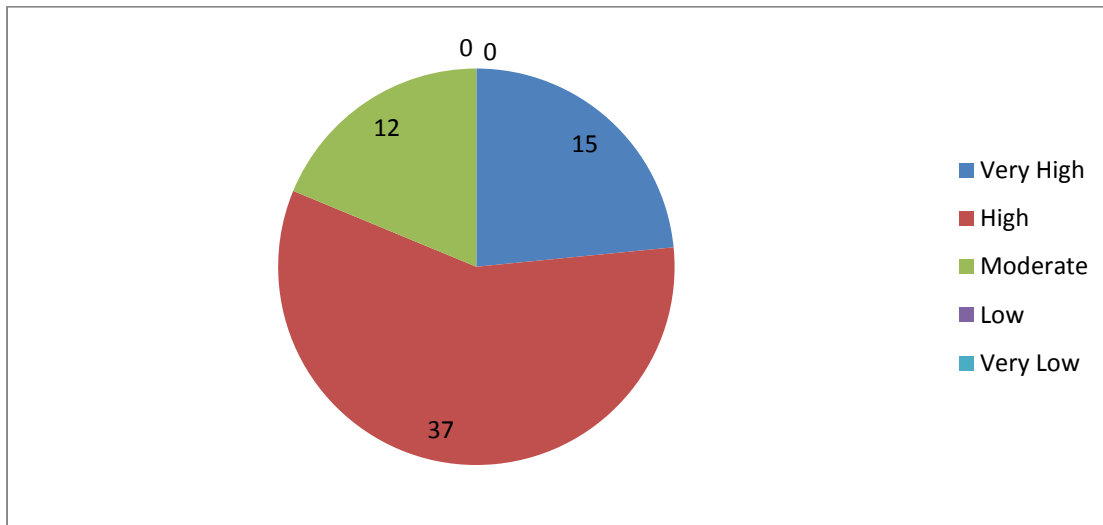
2- Government service charges which they charging it after fall in oil price.



The above chart shows that 35 of the respondent's responded that government service charges which they are charging after fall in oil price are very high, 23 responded that it's high and 5 responded that is moderate

Chart 3

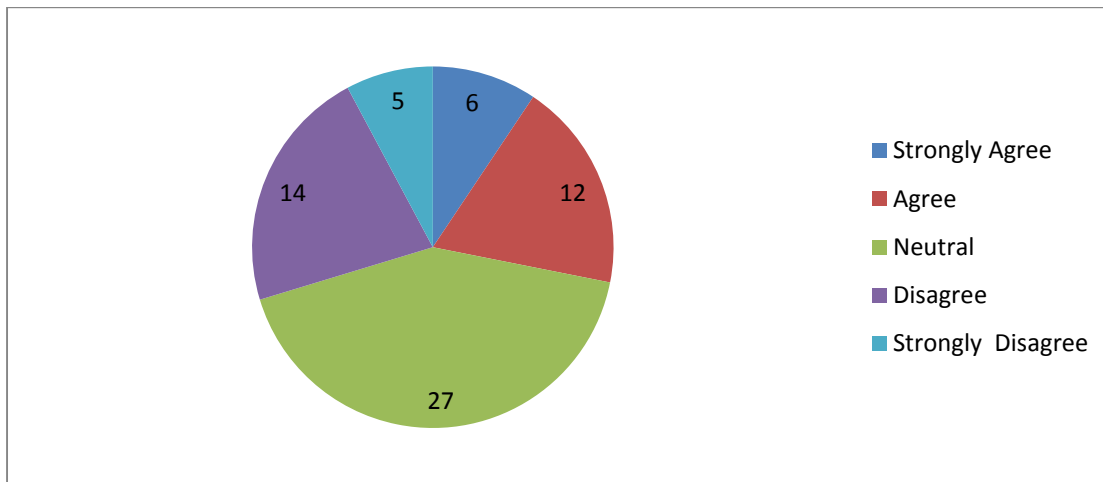
3- The change in the Insurance companies' rate.



The above chart shows that 37 of the respondents responded that government service charges which they are charging after fall in oil price is high, where 15 responded that it's very high and 12 of the respondents responded that is medium.

Chart 4

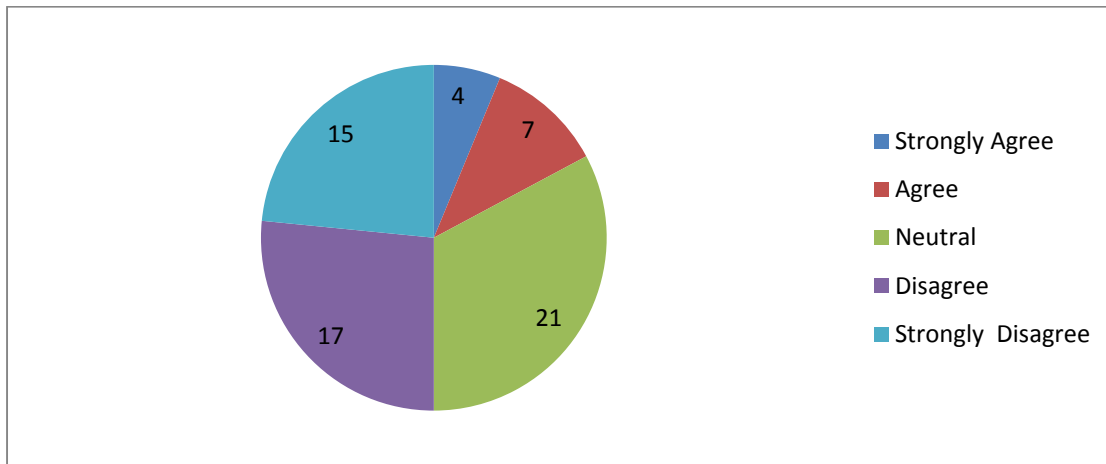
4-Financial companies flexibility in providing the loan.



The above chart shows that 27 of the respondents they responded the financial companies somehow they are flexible in providing loans , 14 responded that financial companies are not flexible and 12 of the respondent they responded that the financial companies are flexible.

Chart 5

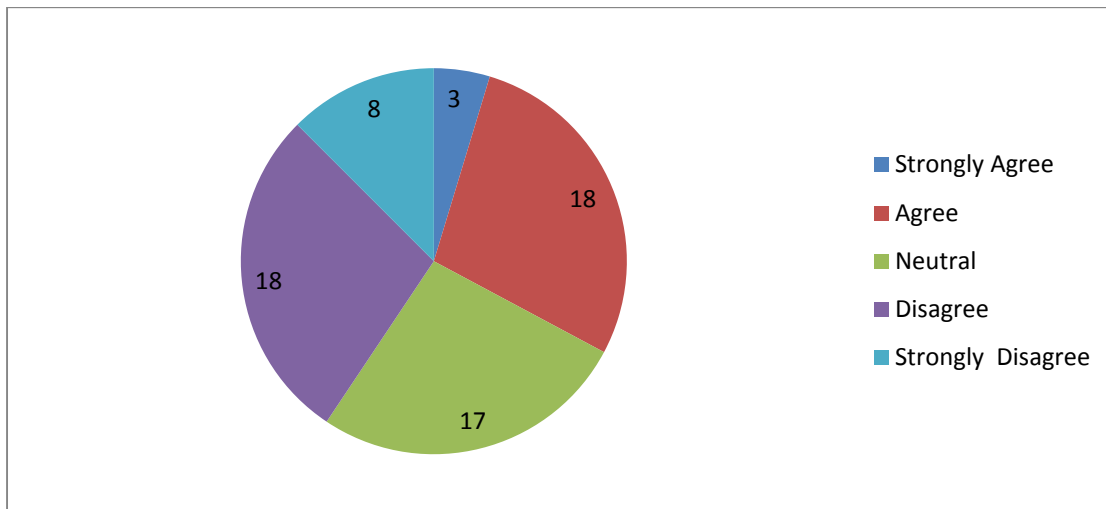
5-Governmental support to SME's by providing them training and development programs



The above chart shows that 21 of the respondents responded that the government is somehow providing support to SME's by providing them training and development, 17 of the respondent they are not agree with this statement and 15 strongly refusing this statement.

Chart 6

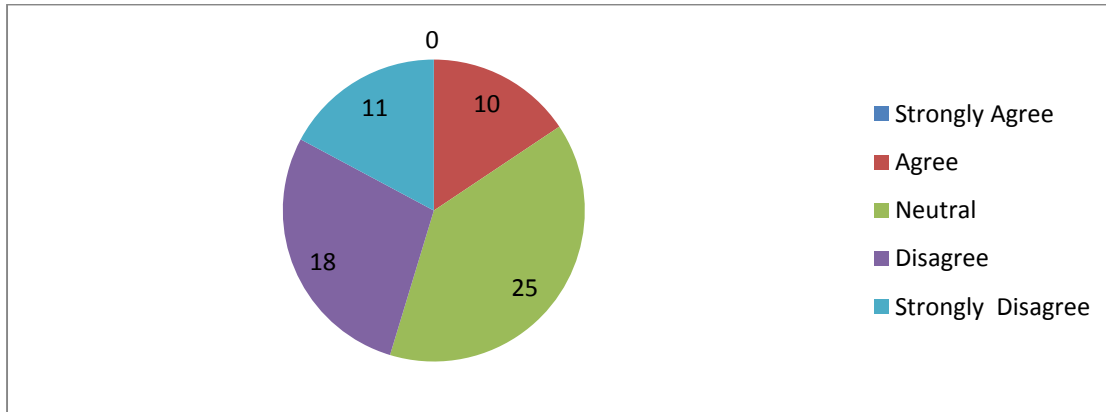
6-Receiving the payment from the debtor regularly as per the agreed terms



The above chart shows that 17 of the respondents responded with neutral (which mean they may receiving it but only sometime they the debtor delaying not always), 18 of the respondent they are receiving regularly and another 18 are not receiving the payment regularly.

Chart 7

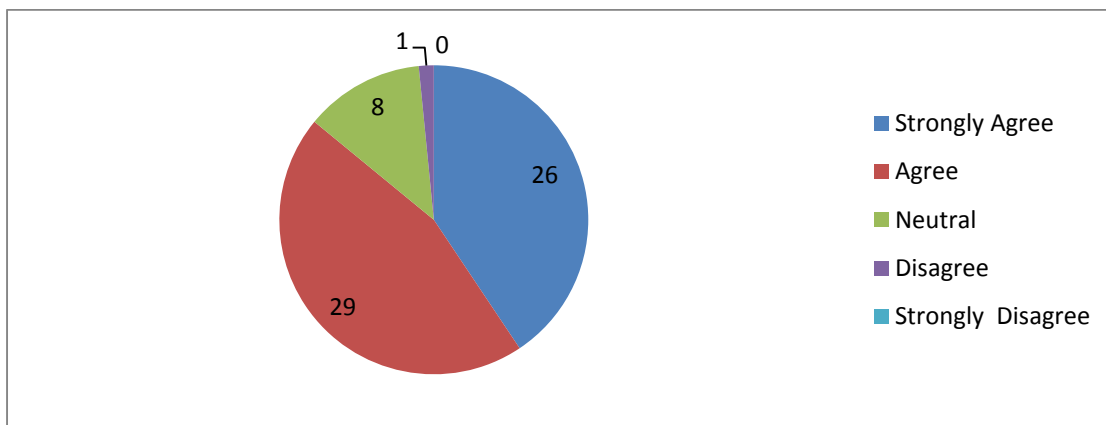
7-Financial companies understanding the economic situations and they are flexible enough to enable the SME's to pay their installments.



The above chart shows that 25 of the respondents they are responded that financial companies somehow they are understanding the economic situations and they are flexible about their payment,18 of the respondent they are disagree with this statement, 11 of the respondents are strongly disagree and 10 of the respondent are agree with this statement.

Chart 8

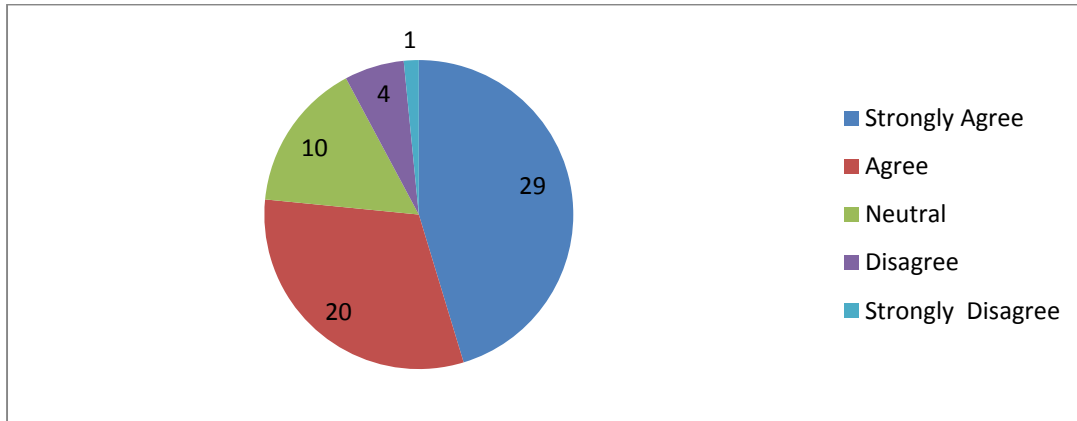
8-Removing the subsidy from the oil prices increased the pressure on SMEs



From the above chart the majority of the respondent responded that removing of the subsidy from the oil prices increased the pressure on SMEs (29 they are agree with this statement ,26 they are strongly agree with this statement.

Chart 9

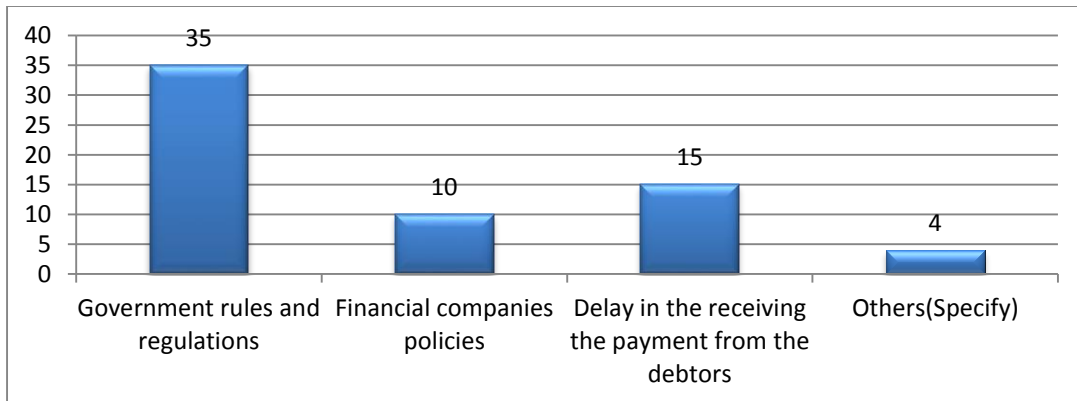
9-Increase of the visa fees for non-Omani workers will affect the SMEs performance in negative way



From the above chart, the majority of respondent they responded that increasing visa fees will affect the SME’s performance negatively (29 are strongly agree, 20 are agree) , where 10 are neutral.

Chart 10

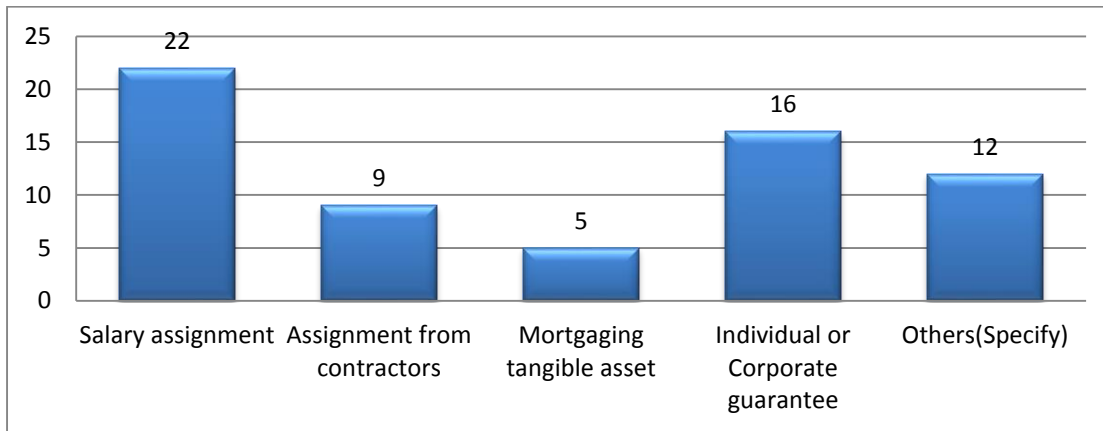
10-What are the factors which affect the SMEs performance



From the above chart the factors which most affected the financial companies is the Government rules and regulation

Chart 11

11-The conditions which financial companies are providing loans.

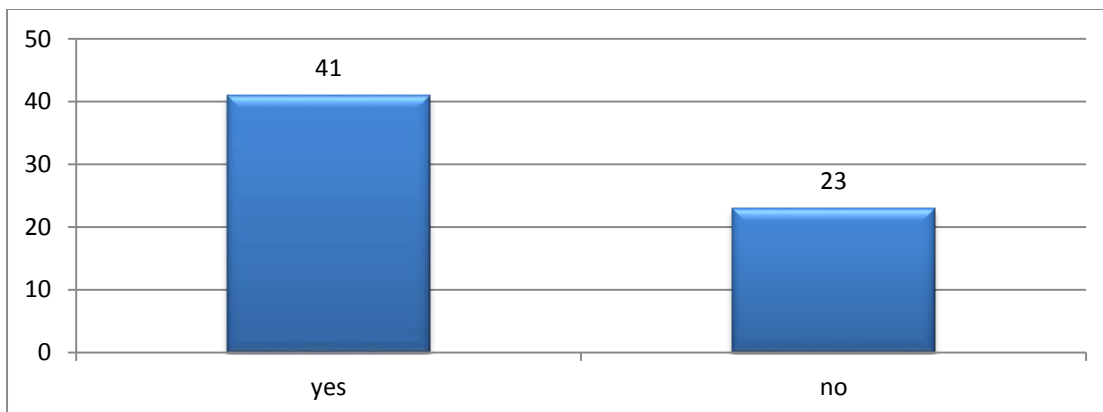


Form the above chart the financial companies they providing loans based on salary assignment. The respondent responded to this question as per the following details:

22 responded that financial companies providing loan based on salary assignment, 16 responded by Individual or corporate guarantee, 12 responded by others like cross collateral of Existing account, mortgaging of CR, 9 responded by assignment from contractor and 5 responded by mortgaging tangible asset.

Chart 12

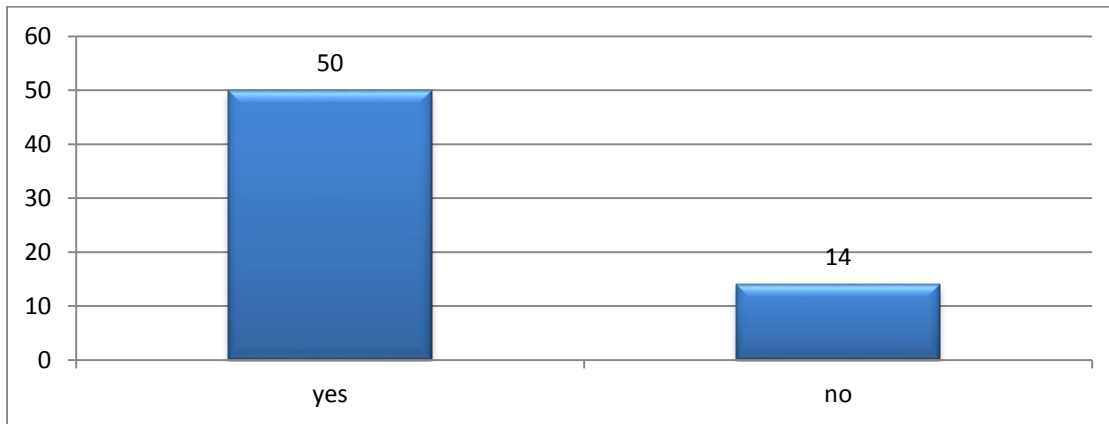
12-Conducting the feasibility study of the business before starting it



This chart is showing that 41 of the respondent they have done the feasibility study before starting the business and 23 they did not conduct any feasibility study.

Chart 13

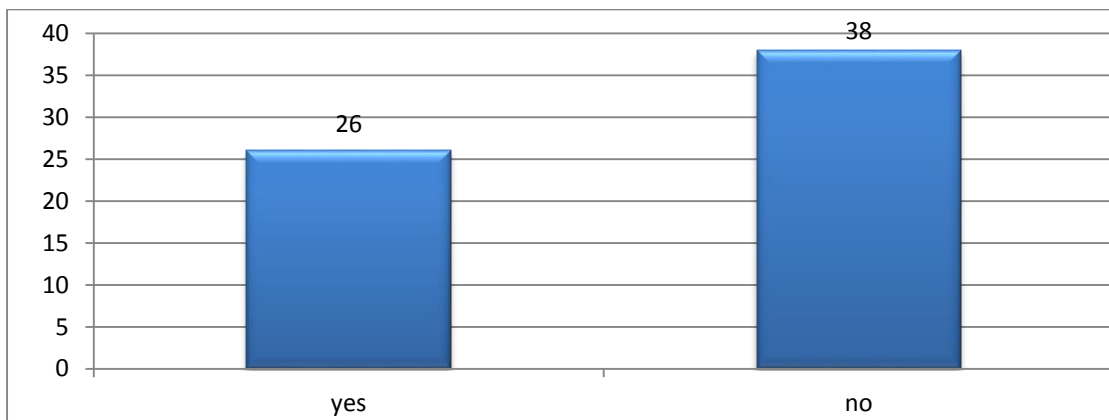
13-Are you aware about the national Business situation



From the above chart 50 of the respondent they are aware about the national business situation. And 14 they are not aware.

Chart 14

14-Another source of income



From the above chart 26 of the respondent they have another source of income and 38 they don't have another source of income.

DISCUSSION

From Q1, Q2 and Q3 we conclude that after fall in oil price the financial companies, government and the insurance companies they increased the service charges and interest which they are charging it to SME's.

From Q4 to Q9, we conclude that the financial companies which they are very important source of income for SME's they are not flexible also the government not providing enough support to them.

From Q10, we conclude that government rules have a major impact on the SME's performance.

From Q11, we conclude that the SME's owners they are getting loans based on salary assignment. New entrepreneur may don't have any source of income so he will not be able to fund his business.

From Q12, 23 respondent out of 64 are did not conducted the feasibility report before starting their business. For starting any business is very important to conduct it.,

From Q13, 14 from 64 respondent they are not aware about the current business situation in Oman. It is very important to know about the business which will enable the entrepreneur to forecast about the future and plane for present and future and to proactive.

From the direct interview with senior marketing executives and relationship managers of the financial companies, the sector which affected by current situation construction companies and hiring of equipment sectors due to delay in receiving their payment from the contractors who they have contract with the government.

From interviewing the SME's owners who they are working in construction sector and hiring of equipment's that challenges which they are facing it now is due to current situation and not receiving the payment from the contractors and these resulting their inability to pay the monthly installments of loan also delaying in the payment of employees' salaries. Generally, government new rules increasing the pressure on them. Focusing on other sector like the tourism sector as we have many beautiful places, it's a good opportunity for SME's, which help them to diversify their business.

From my study, I concluded that fall in oil price have a big effect in the SME's performance. SME's are very important source of generating employees and they are contributing in the increasing the economic growth, so they need more encouragement and training programs by the government. From interviewing the relationship managers of the financial companies (non-banking), this impact can be reduced by providing government subsidy to the SMEs. For example, if the interest rate which the financial companies 5.5% , the government will contribute by 1% so they will charge the customer 4.5% or introducing the loan insurance concept(as in the case of bankruptcy of the SME's, the loan amount of the financial companies will be covered.

From the point of SME's owners view, government was depending mostly on the income from oil products which reasoned a lot of problems after fall in the oil price, as we have beautiful places in our country, so the government need to focus on tourism sector and also encourage the producing of domestic product and to be more strict with companies which they are not paying the SME's as per the agreed terms. Also as per their view financial companies should understand the current situation and be more flexible with them.

CONCLUSIONS

SME's play important role in developing economy, generating employment and they contribute in the economic growth. Our country was depending mostly on oil income so after fall in oil price all of the sectors affected by this situation. Government need to encourage the producing of domestic products, help the SME's by diversifying their business by providing flexibility in rules and regulations. Also it has pressurize on the contractors to pay the SME's as per agreed terms. Also the financial companies need to be more flexible toward the SME's. Some of areas the New SME's require to train them like how to conduct the feasibility report, how to conduct market survey and SWOT analyses which help them to be more proactive

FUTURE RESEARCH

The future research can be by large sample size which covers all demographic area in Oman to identify the impact of fall in oil price on SME's performance. Also the future research can include the challenges and opportunities of SME's in Oman.

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