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Perceived Structural and Operational Challenges Facing Economic Diversification in Qatar

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This brief presents a thematic analysis of qualitative interviews conducted with a sample of 23 firms through Key Informant Interviews (KIIs), with support from the Qatar Chamber.[1] Informants were selected using a convenience sampling approach, guided by the proportional representation of firms across eight targeted sectors to ensure a balanced sample. The interviews engaged key private sector actors from each cluster to capture a comprehensive view of the business landscape. The analysis explores both the structural and operational challenges faced by firms, while also identifying perceived opportunities and proposed reforms. The findings are categorized into five thematic domains: operating costs, marketing constraints, financial barriers, government regulations and support, and the impact of external shocks. Additionally, insights are disaggregated by diversification cluster to highlight sector-specific trends and patterns.

One of the central pillars of Qatar National Vision 2030[2] is the development of a private sector capable of creating jobs, exporting high-value goods and services, and catalyzing productivity growth. A competitive and diversified private sector is essential not only for reducing reliance on hydrocarbons but also for fostering innovation, attracting investment, and enhancing Qatar's resilience to global economic shifts.

Firm-level perceptions are crucial for economic diversification policy as they offer valuable insights into the market risks, regulatory conditions, and investment challenges faced by businesses. This information helps policymakers develop more effective and adaptive diversification strategies.

In this connection, a research project was conducted at Qatar University to identify the structural and operational challenges facing private sector enterprises in Qatar. The study adopted Key Informant Interviews (KIIs) with enterprise managers across a range of sectors. As shown in Figure 1, the majority of surveyed firms are small enterprises employing between 5 to 19 workers, consistent with the World Bank Enterprise Survey (WBES) classification[3].

Although less represented medium-sized firms also constitute a significant share of the sample, whereas large firms with 100 or more employees are the least represented. For analytical clarity, private sector firms were categorized into three clusters: Growth, which included firms in the manufacturing, logistics, and tourism; Enabling, which included firms in IT and digital services, financial services, and education; and Resilience, which included firms in the food and agriculture, and health sectors, Together, these clusters accounted for nearly two-thirds of the sample (see Figure 2).

Figure 1. Distribution of Firms by Size (%)

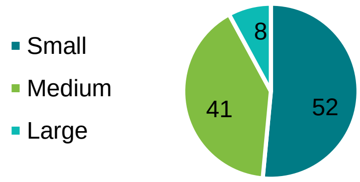
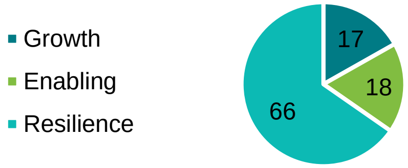


Figure 2. Distribution of Firms by Diversification Cluster (%)



Operational Cost Challenges

A persistent and cross-cutting challenge reported by firms across all sectors is the high cost of operating in Qatar's private sector environment. Rising expenses, especially for rent, labor, and raw materials, have directly affected profitability, forcing many businesses to adopt cost-cutting measures that could potentially undermine service quality or long-term growth. Numerous business owners reported downsizing their workforce, reducing salaries, and even closing branches in response to escalating costs.

The challenge of managing operating costs affected all three diversification clusters- Growth, Enabling, and Resilience. Firms are increasingly forced to navigate a cost-intensive environment through strategies that involve branch consolidation, resource rationalization, technological innovation, and financial restructuring.

Market Access Challenges

Marketing emerged as a critical barrier for many firms, particularly small and medium-sized enterprises (SMEs) operating in Qatar's saturated and highly competitive market. Across sectors, respondents consistently noted that competition is not only intense but also often unfair, especially in segments where government-backed or unlicensed competitors distort pricing and visibility.

Marketing challenges in Qatar's private sector are rooted in structural, regulatory, and behavioral factors. While digital transformation has expanded outreach opportunities, many firms, especially SMEs, still struggle with high costs, limited market reach, restrictive regulations, and unfair competition. These challenges cut across all three diversification clusters indicating a need for more supportive and transparent marketing ecosystems that level the playing field for all business types.

Access to Finance Challenges

Access to finance remains one of the most persistent and systemic challenges facing the private sector in Qatar. Although a few respondents from the finance sector reported that obtaining loans was relatively easy, the overwhelming majority painted a contrasting picture marked by procedural complexity, high collateral requirements, and limited options for tailored financial products.

These challenges point to deep structural limitations within Qatar's credit environment, particularly for SMEs. Regulatory rigidity, excessive collateral requirements, procedural complexity, and inadequate product diversification significantly constrain entrepreneurial activity and limit firms' ability to expand. SMEs financial challenges include limited access to bank financing; collateral requirements; high financing costs and interest rates and short repayment periods.

Government Regulations & Support

Regulatory frameworks and government support emerged as a complex theme in the interviews, with respondents offering a range of perspectives shaped by sector, company size, and prior engagement with regulatory agencies. While some interviewees acknowledged improvements in business services and government facilities, especially during special events or within high-priority sectors, many cited burdensome regulations and perceived inequities in access to state-supported initiatives.

A recurring concern was the lack of consistency and clarity in regulatory procedures, particularly for SMEs. Several participants described startup licensing and permitting processes as excessively bureaucratic and time-consuming. In

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some sectors, especially education, health, and tourism, regulatory overlap between ministries was flagged as a critical barrier.

When it comes to support mechanisms, the narrative was similarly divided . Several respondents commended Qatar Development Bank (QDB), the Qatar Chamber, and other government actors for providing training and opportunities, especially around the FIFA World Cup 2022. However, many felt that government support was unevenly distributed, often favoring large or connected firms.

In terms of sectoral variation, firms in the Resilience Cluster generally reported more facilitation and government support. However, entities in the Growth Cluster voiced greater frustration with licensing delays, and competition from state-linked enterprises.

The Effects of External Shocks

External shocks such as the COVID-19 pandemic and the 2017 Gulf blockade, represented a major source of disruption for private sector firms in Qatar, with nearly all interviewees reporting significant operational impacts.

COVID-19 Pandemic

Most participants described the COVID 19 pandemic as a severe negative shock, particularly during its initial phases. Respondents across sectors, especially in tourism, education, services, and hospitality, reported prolonged business suspensions, declining revenues, and continued cost obligations. In education, the forced closure of institutions and the shift to remote systems created substantial revenue gaps. However, some firms, particularly those in IT and food logistics, experienced new demand and positive momentum during the pandemic. Many respondents in the heath sector highlighted the lack of government support during COVID-19 as a critical challenge. In terms of coping strategies, respondents from the tourism sector mentioned reducing staff and experimenting with digital platforms to sustain their operations.

The 2017 Gulf Blockade

Perceptions of the 2017 blockade were more mixed than perceptions of the pandemic. This was described as a destructive turning point, particularly by firms that depended on trade and labor from neighboring GCC countries. Tourism and health operators reported steep declines in Gulf-based clientele, while firms in the education and health sectors faced difficulties securing visas for staff or importing specific goods. Despite these hardships, some sectors benefited from the blockade, especially local food producers and manufacturers, who stepped in to replace the foreign supply. From a policy response angle, the government's swift action to secure food supplies and reroute imports was praised by some interviewees as an important stabilizing intervention.

Table 1 summarizes stakeholder perceptions of the relative severity of key challenges across Qatar's three economic diversification clusters. The results reveal that operating costs and financial barriers are perceived as particularly severe within the Growth and Resilience clusters, while external shocks are perceived as most severe within the Growth cluster. In contrast, Enabling cluster appears relatively less affected by most of these challenges. Notably, marketing challenges emerge as a universally high concern across all clusters, suggesting systemic difficulties related to market access, visibility, and demand fluctuation.

Table 1. Stakeholder Perceptions of Challenge Severity across Clusters

Challenge	Cluster		
	Growth	Enabling	Resilience
Operating Costs	High	Modest	High
Marketing Challenges	High	High	High
Financial Challenges	High	Modest	High
Government Regulations	High	Modest	Modest
External Shocks	High	Modest	Modest

Firms adapted better to the 2017 blockade than to COVID-19 because the blockade primarily disrupted regional trade, allowing for alternative suppliers and local production. In contrast, the pandemic caused widespread global disruptions affecting demand, labor, and transportation. Industries tied to domestic production thrived during the blockade, while those dependent on mobility and consumer activity were more severely impacted by the pandemic.

Policy Recommendations

To overcome the barriers identified by private sector stakeholders, policy interventions must be targeted, transparent, and responsive to sector-specific needs. The following recommendations outline priority actions for addressing the major constraints:

Reduce Operational Costs

1. **Smart Subsidy Schemes:** Introduce targeted subsidies or rebates for SMEs to offset high-cost inputs such as commercial rent, utilities, and digital services.
2. **Infrastructure and Technology Support:** Improve access to logistics and digital infrastructure, and support technology adoption through financial incentives.

Improve Market Access

1. **Regional and Global Market Integration:** Utilize trade agreements and encourage private sector involvement in cross-border investments.
2. **Public Procurement Access:** Favor local businesses in government procurement while ensuring transparency and fair competition.
3. **Digital Market Expansion:** Strengthen e-commerce infrastructure and train SMEs to leverage digital platforms for wider market reach.

Ease Access to Finance

1. **SME-Focused Financial Products:** Mandate financial institutions to develop tailored lending instruments for SMEs with lower collateral requirements and flexible repayment terms.

Enhance Government Regulation & Support

1. **Regulatory Streamlining:** Simplify licensing and registration procedures, and provide centralized digital government services.
2. **Equitable Support Allocation:** Establish transparent criteria for state support programs and ensure that financial incentives and training opportunities reach smaller and newly established firms.

Mitigate the Impact of External Shocks

Crisis Response Buffer Fund: Create a rapid response fund to support strategic firms and SMEs during major external shocks, covering measures such as payroll subsidies, liquidity support, and supply chain stabilization

Acknowledgment

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