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Overview of the SME Sector in Saudi Arabia

- With a count of 1.97 million, SMEs constitute to almost 90% of all the business enterprises
- Nearly, 85% of these SMEs are single proprietor companies
- Almost, 74% of SMEs are in trade and construction businesses, followed by the industrial sector
- The contribution of SMEs to GDP stands at 33%, which is lower compared to other developing economies, but higher compared to many GCC countries
- SMEs comprise nearly 25% of the Saudi Arabia’s labor force
  - Saudi nationals account for not more than 10% of the total employed labor by SMEs

Government Initiatives to Bolster SME Growth

- The Tenth Development Plan (2015–2019)
  - Accelerate the establishment of a specialized institutional entity to be responsible for the growth of the SMEs through each of their development stages
  - Ensure the reliance of SMEs on Saudi nationals, so as to contribute to Saudization
- Kafalah, the Loan Guarantee Program, has issued a total of 10,892 guarantees
  - In 2014, the construction/contracting sector received the maximum guarantees, constituting to 60% of the total number of guarantees
  - In 2014, Riyadh ranked first with 49% of the total guarantees awarded
  - In 2014, the participating banks tightened their loan lending rules as a result of obscure financial statements, provided by the SMEs
- Taqeeem – the latest project, launched by the government, helps to mitigate the financial risk associated with SME lending by providing the banks with PD of a SME
- SAGIA has promoted FDI in the SME sector
  - SAGIA has planned a strategic alliance with Japan to bolster high-growth, innovative SME sector
- The Centennial Fund has partnered with Microsoft to nurture a knowledge-based growth in economy with a sustainable model of development
  - The partnership would help to expedite the go-to market capability of SMEs and promote IT entrepreneurship
- Saudi Hollandi Bank, recipient of the best SME bank award in 2014 (MENA Region Award), has launched a customized training program to enable the SMEs to better use its services

Comparison of the SME Sector in Saudi Arabia with Other Economies

- Saudi Arabia is the home to almost 20% of the total SMEs in the MENA region
- Saudi Arabia is the largest economy in the GCC:
  - After the UAE, Saudi Arabia has the most developed SME sector in the GCC
  - The average share of SME lending of total loans is 3% for Saudi Arabia, which is higher than the GCC’s average of 2%
  - Saudi Arabia has the largest number of the public and private sector SME support programs within the GCC region
- The cost of setting up a business in Saudi Arabia is one-third compared to the average of G20 countries, thus making it a lucrative platform for budding SMEs

Future Outlook

- Within the MENA region, Saudi Arabia ranked second, after the UAE in the World Bank’s Ease of Doing Business Report – 2015
  - Saudi Arabia has been ranked the highest for getting credit information among all the economies within the MENA region
- EY held the EOY 2014 award in Saudi Arabia, which has encouraged the SME sector
  - Building on the immense success of the program, held in 2014, EY has announced the launch of the EOY 2015 award in Saudi Arabia for the second time
- The youth of Saudi Arabia has proved its entrepreneurial prowess, but the average age of SMEs is only seven years
  - This is chiefly due to the absence of targeted and customized support from the banks
  - Lengthy bureaucratic procedure is the key obstacle, faced by SMEs
- By the end of 2015, the investment in SMEs is estimated to have grown to reach more than USD 70 billion
- By the end of 2015, SME sector’s contribution to GDP is estimated to have risen to 35%
Introduction to the SME Sector

In the dynamic ecosystem, the government and the enterprises work in tandem, to facilitate accelerated economic growth rate. While the government sets the rules, which establish and clarify property rights to keep inequality within bounds and makes policies, including trade and investment areas, it is enterprises that trade and invest. The enterprise sector is predominantly private and spans through a gamut of economic activity in agriculture, manufacturing, and services, including trade and social services. Within the private sector, there are different types of market players, namely the self-employed, micro, small, medium, large enterprises, and multinational companies.

An economy with an efficient bureaucracy that facilitates entrepreneurship by means of setting up SMEs and provides an enabling atmosphere for people to realize their full potential can enhance the living standards and promote growth and shared prosperity. The criteria defining SMEs differ by country and are usually based on the number of employees and value of assets. The SME sector had been perceived as a synthetic construction, targeting mainly social and political development until the late 1990s, when its contribution to the GDP and total employment rose to more than 50% in high-income countries.

Benefits of the SME Sector

Currently, accounting to 90% of all the businesses in Saudi Arabia, SMEs provide valuable opportunities to improve productivity and diversify the economy. SME contribution to GDP is 33%, which is higher than many of the other GCC economies. As a result of the increasing importance of SMEs in the economy, the government of Custodian of the Two Holy Mosques, King Salman Bin Abdulaziz, is taking initiatives to promote and develop SMEs. The financial initiative by the government purposes to consider the ways of supporting SMEs in the numerous fiscal and social variables that focus toward the imperative role of SMEs in stimulating and developing economies throughout the world.

Key SME Enablers in Saudi Arabia

Strong Regulatory Environment
Political Stability
Solid Infrastructure

Definition of SME

SMEs are a heterogeneous group. These firms are of varying sizes, nature, and may operate in different markets, such as urban, rural, local, national or international markets. SMEs operate in a gamut of business activities, ranging from the single artisan to a small engineering or software firm. They embody different levels of skills, capital, sophistication, and growth orientation, depending upon the size and markets they serve. The statistical definition of SMEs varies by country and is based on the number of employees and value of sales or assets. However, the most commonly used parameter is the number of employees. Saudi Arabia has followed more than one definition of SME. However, the most adopted definition of SME in Saudi Arabia is:

<table>
<thead>
<tr>
<th>Enterprise Category</th>
<th>No. of Employees</th>
<th>Annual Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>1–2</td>
<td>Less than USD 27,000</td>
</tr>
<tr>
<td>Small</td>
<td>3–49</td>
<td>USD 27,000–1.3 million</td>
</tr>
<tr>
<td>Medium</td>
<td>50–200</td>
<td>USD 1.3–13.3 million</td>
</tr>
</tbody>
</table>

Source: SIDF

However, there is a need to have a clear Kingdom-wide strategy for SMEs, with only one institution and one definition.

SME Business Environment in Saudi Arabia

SMEs are the backbone of any successful and sustainable economy. Their roots are local; however, with increasing globalization and trade across the world, they can exploit global opportunities. SMEs have a strong footing in Saudi Arabia, as a result of the region’s overall economic strategy to diversify away from the oil sector. With a count of 1.97 million, SMEs constitute almost 90% of registered businesses and 60% of the total employment in Saudi Arabia. Nearly, 85% of these SMEs are single proprietor companies. These SMEs are the key to unlock the vast potential of the Saudi Arabian economy.

SME Distribution by Sector

- Commercial and Hotel: 47%
- Construction: 27%
- Industrial: 12%
- Social Services: 8%
- Others: 6%

Source: Arab news
SMEs are widely present in the private sector. Within the private sector, SMEs represent one of the fundamental pillars in the trade field. 74% of SMEs are in trade and construction businesses, followed by 12% in the industrial sector.

Despite being one of the fastest growing economies in the world, Saudi Arabia has shown a relatively low contribution from the SME sector, in terms of GDP and employment rate. The contribution of SMEs to GDP stands at 33%, which is low compared to the most developed economies. Spain and the US SMEs contribute to 64.3% and 50% of GDP, respectively. However, it is higher compared to most of the GCC countries. Oman and Bahrain SMEs contribute to only 14% and 28% of GDP, respectively.

SMEs in KSA have benefited from various initiatives by the government and the number of those benefited rose by 28% to 1,497 enterprises during 2014, against 1,173 enterprises in the previous year. The total value grew by 31% to SR 1,688 million compared to SR 1,286 million in the previous year.

Sources: Union of Arab Bank, SIDF

With over 4.5 million employees, SMEs comprise nearly 25% of the labor force, but since 74% are in the commercial and construction sectors, they employ mainly migrant labor. Saudi nationals account for not more than 10% of the total employed labor by SMEs.
The government has realized the importance of the SME sector to boost the diversification of its economy and its role as a catalyst to promote these enterprises. The government in association with the banks has established various funds and programs to promote the entrepreneurial culture and expedite the growth of these local ventures. Amidst its efforts to promote the growth of SME, the government has also taken necessary steps in the direction of mitigating the lending risks faced by the banks. The banks need to consider SME banking as a genuine business and if done right, it not only benefits the SMEs and the country’s economy, but it also provides them with a profitable and sustainable business.

To achieve these objectives, the government has taken the following initiatives:

**A. Tenth Development Plan (2015–2019)**

Saudi Arabia first introduced the objectives pertaining to the SME sector in its Ninth Development Plan. Since then, the SME sector has witnessed an improvement in its growth, both in terms of the number of new SMEs and its contribution to the GDP. Continuing with its agenda, to diversify the economy by strengthening the SME sector, the government has announced the Tenth Development Plan, which has the following objectives with respect to SMEs:

1. Accelerate the establishment of a specialized institutional entity to be responsible for the growth of the SMEs, right from organizing their activities to following up their performance
2. Ensure their reliance on national labor, thus contributing to the Saudization
3. Enhance the level of co-ordination between specialized credit funds and the various initiatives related to supporting SMEs
4. Facilitate education and training for the SMEs
5. Encourage the SMEs to merge in order to increase their efficiency and competitiveness at both internal and external levels

**B. Saudi Industrial Development Fund**

Saudi Industrial Development Fund plays a vital role in the fulfillment of the objectives and policies of programs devised for industrial development. SIDF works in partnership with a coherent group of government agencies directly related to the industry. It provides financial support, in the form of medium and long-term soft loans.

NIS, adopted by the Saudi Council of Ministers, aims to diversify the industrial and economic base, so as to protect the economy from the global fluctuations in oil prices, and ultimately to ensure stability and balanced growth for all the economic indicators. In its aim to upgrade the Saudi Arabia’s status to rank among the best performing 30 industrial countries by 2020, the NIS has outlined a number of principal axes. One of these axes aims at the growth of SMEs. Especially, when 90% of the businesses running are SMEs, it is imperative to devote more attention to the sector’s growth particularly at this transitional stage of the economy. The Saudi Council of Ministers have chalked out a plan to achieve the objectives of this axis – industrial SME’s support and incubation, a business resource center, a competitiveness development, industrial modernization center, and an industrial financing mechanism program.

**C. Kafalah – The Loan Guarantee Program**

SME financing by the banks, has been on a rise since 2009, as a result of Shariah-compliant financing (Islamic financing), backed by the Kafalah program. The SME financing guarantee program ‘Kafalah’ is a joint Saudi development initiative between the Ministry of Finance and Saudi Banks. Since its launch in 2006 until the fiscal year-end of 2014, the management has issued a total of 10,892 guarantees to 5,579 SMEs, valuing SR 5,278 million against a total approved financing of SR 10,648 million. The program recorded an excellent performance in 2014, registering an increase in the number of guarantees issued to 3,612, totaling SR 1.688 billion, thus guaranteeing finance of SR 3,462 million by local banks to 1,497 SMEs.

The program’s activities are not limited to the issuing of guarantees for SMEs, but they also embrace training, education, development of SME owners and related parties in collaboration with the International Finance Corporation, a member of the World Bank Group, the Institute of Banking established by SAMA, the participation of the Saudi banks, and Chambers of Commerce and Industry.
Number of Kafalah Guarantees Distribution by Sector – 2014

Construction 60%
Commerical 14%
Industrial 9%
Finance 9%
Others 8%

Source: SIDF

The commercial sector came second with 501 guarantees for SR 214 million. The industrial sector ranked third with 332 guarantees, valued at SR 219 million. The finance and business sectors came fourth with 308 guarantees, valued at SR 147 million. The remaining 286 guarantees were distributed among the following sectors, namely public and individual social services: 100 guarantees; tourism and entertainment: 95; transportation, storage, and cooling: 69; agriculture and fisheries: 9 guarantees; electricity, gas, and water: 7 guarantees; and mining and petroleum: 6 guarantees.

Number of Kafalah Guarantees Distribution by Region – 2014

Riyadh 49%
The Eastern Region 22%
Makkah Al-Mukarrama 16%
Najran & Asir 3%
Qassim 3%
Others 7%

Source: SIDF

The construction/contracting sector led all the other sectors with a total of 2,185 guarantees, amounting to SR 931 million, issued by the program in 2014.
The Eastern region came second with 769 guarantees, valued at SR 384 million, followed by Makkah Al-Mukarramah region with 576 guarantees, totaling SR 257 million. Qassim ranked fourth with 106 guarantees, valued at SR 58 million, followed by Najran and Asir regions with 97 guarantees, totaling SR 46 and 59 million, respectively. The remaining regions received 233 guarantees, amounting to SR 99 million.

<table>
<thead>
<tr>
<th>Participating Bank</th>
<th>No. of Guarantees Approved by the Program in 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCB</td>
<td>1,840</td>
</tr>
<tr>
<td>Riyad Bank</td>
<td>500</td>
</tr>
<tr>
<td>Al-Rajhi Bank</td>
<td>389</td>
</tr>
<tr>
<td>Arab National Bank</td>
<td>256</td>
</tr>
<tr>
<td>SAMBA Financial Group</td>
<td>160</td>
</tr>
<tr>
<td>Others</td>
<td>467</td>
</tr>
</tbody>
</table>

Source: SIDF

NCB led all the other participating banks with a total of 1,840 guarantees, representing 51% of the total guarantees issued in 2014. The number of guarantees liquidated between the launch of the Program and the fiscal year 2014 accounted for 0.94% of the total number of approved guarantees.

However, in 2014, the participating banks tightened their loan lending rules, as a result of obscure financial statements, provided by these SMEs. In 2014, SAMA took steps to solve the problem of lack of sufficient funding sources to support the growth of private businesses.

SAMA has revised the credit worth and business viability assessment process, in addition to reinstating the “National Development for Financial Education” program, to educate Saudi Arabian citizens about the importance of maintaining credible finance documents.

D. Saudi Credit and Saving Bank Loans to Entrepreneurs and SMEs

Saudi Credit and Savings Bank was established by the government to provide interest-free loans to citizens of Saudi Arabia and financing SMEs became its critical attribute. It initiated a new lending program in 2012, especially targeting the growth of the SME sector. As a part of the proposal, the bank offers loans, ranging from USD 80,000 to USD 2 million.

<table>
<thead>
<tr>
<th>Project Cost</th>
<th>Percentage of Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD 80,000</td>
<td>100</td>
</tr>
<tr>
<td>USD 0.27–0.53 million</td>
<td>90</td>
</tr>
<tr>
<td>USD 0.53–0.8 million</td>
<td>80</td>
</tr>
<tr>
<td>USD 0.8–1.07 million</td>
<td>70</td>
</tr>
<tr>
<td>USD 1.07–1.33 million</td>
<td>60</td>
</tr>
<tr>
<td>USD 2 million</td>
<td>50</td>
</tr>
</tbody>
</table>

The program follows a preferential financing scheme: with creative and non-traditional projects, projects in remote & underdeveloped areas, and projects that achieve the highest rate of Saudization, receiving the highest preference. The loan applicants need to be Saudi nationals with enough experience to prove their credibility at managing the venture. Nearly, 415 Saudi SMEs benefited from the Saudi Credit and Saving Bank’s funding worth USD 23 million in 2013.

E. Saudi Authority for Accredited Valuers (Taqeem)

Taqeem is a project launched by Saudi Credit Bureau (SIMAH) to assess the financial capability of the SMEs in Saudi Arabia. It is a methodological tool that encourages the banks to finance SMEs. It takes into account financial risks of these enterprises, which help the banks to offer SME loans and diversify their products, so as to add a new value to Saudi finance. It assigns an easy to understand score that represents the Probability of Default, PD of an SME. The PD model is a mix of quantitative and qualitative data. Quantitative data covers size of manpower and capital, project’s market share, while qualitative data focuses on descriptive criteria, IT levels, and independence. This procedural assessment of SMEs makes Taqeem a promising communication tool between the banks and SMEs.

Objectives:
1. Reducing the apprehension of banks, when lending to SMEs and increasing transparency among other small enterprises, seeking capital from financial sources
2. Generating a common definition of SMEs, so as to maintain uniformity and ease out the funding protocol
3. Providing financial institutions with objective financial information about the SME, which can speed up the process
4. Allowing SMEs access to the capital necessary to expand their business

F. SAGIA

SAGIA, established under the Council of Ministers in 2000, is a governmental body, reporting to the President of the Supreme Economic Council, with its headquarter in Riyadh. It was setup to oversee investment affairs, including foreign investment. It has created a network of business centers throughout the nation. Each center provides a highly responsive and effective resource to help in setting up companies and run quickly and efficiently. It offers a gamut of support services ranging from advice, license requirements, and after license services by providing representatives of all the related government departments (Ministry of labor, General directorate of passports, Ministry of commerce and industry, Zakat and income taxation department, and notary public). In 2011, it urged the SMEs to participate in its ‘Saudi Fast Growth 100’ (SFG 100) initiative. The program awards and highlights the fast-growing Saudi companies that have a promising future. SFG 100 list measures the fastest growing Saudi Arabian companies in two categories: companies over five years and startups.
The top 10 success stories are:

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brains – MCE Gulf Contracting</td>
<td>Construction/engineering</td>
</tr>
<tr>
<td>Midrar</td>
<td>Development management</td>
</tr>
<tr>
<td>Bayan School</td>
<td>Education</td>
</tr>
<tr>
<td>Lomar</td>
<td>Fashion and textiles</td>
</tr>
<tr>
<td>Amwal Financial</td>
<td>Financial services</td>
</tr>
<tr>
<td>Hodema</td>
<td>Hospitality consulting services</td>
</tr>
<tr>
<td>ALMARWA.net</td>
<td>IT/e-commerce/technology provider</td>
</tr>
<tr>
<td>Al Yaqoub Attorneys</td>
<td>Legal services</td>
</tr>
<tr>
<td>3eesho</td>
<td>Lifestyle services</td>
</tr>
<tr>
<td>Beyond Holding Group</td>
<td>Marketing</td>
</tr>
</tbody>
</table>

Saudi Arabia aims to foster growth in healthcare, transportation, petrochemicals, and smart manufacturing, involving hi-tech and bio-products. Also, SMEs with an incubator program focused on innovation and supported by SAGIA are in their growth phase. The recently announced track service of SAGIA should benefit the foreign SMEs aiming to build business ties with Saudi Arabia.

As a part of its future course of action, SAGIA plans to emulate the successful SME model of Japan. Mutually benefitting from the increasing balance of trade between Saudi Arabia and Japan, the two countries are focused on building strategic alliances.

G. Centennial Fund
The Centennial Fund is a Saudi Arabian charity, established in July 2004, with the objective to help young Saudi men and women to achieve financial independence by helping them to start their own commercial ventures. It serves as a professional economic tool for the employment of Saudi youth, while also helping the Saudi Arabian economy to diversify into small businesses. In 2014, the Centennial Fund and Microsoft signed MoU to co-ordinate synergies, which would benefit the SMEs. This would help SMEs not only to take advantage of the latest software and programs offered by Microsoft, such as Office 365 and BizSpark, but also to equip them to use the software to enhance their business through website development and collaboration activities. The Centennial Fund is keen to capitalize on promoting IT enablement within start-ups to expedite their go-to-market capability, as well as to promote IT entrepreneurship within its members.

H. Saudi Hollandi Bank
Saudi Hollandi Bank has a strong presence in retail loans sector, especially in financing SMEs. Their engagement, over the years, with SMEs shows that their requirements are very specific, different from those of large corporates and retail customers. This bank has successfully equipped itself with the necessary skill set to ensure that its service offering is right. It also has a specialized website dedicated to SMEs called The Business Owner Toolkit. It has promoted face-to-face meetings with its SME customers and has broadened their outreach by opening SME business centers right in the center of SME ‘clusters’. It has developed a specialized risk acceptance framework for assessing SME credit, which helps it to better serve these customers in a prudent yet progressive way. It received the Best SME Bank Award in 2014 in the MENA region. It also has received the Best SME Account and the Best SME Banking Customer Service award from The Banker Middle East in 2012.

I. Saudi Business Incubator Network
Public institutions of the Kingdom have launched incubation programs, with a vision to leverage upon international experience. BADIR, a technology incubator program, launched by KACST in 2007, aims at accelerating the growth of emerging technology-based businesses in Saudi Arabia. BADIR established SBIN in 2009 to facilitate its objective of setting up the world’s best practice incubator industry in the Kingdom. It is considered as a national network to develop and support the growth of technology incubators and to stimulate the economy by boosting new businesses, which would be, in turn, to contribute to the diversification of the national economy.

J. WITC
WITC was setup by IKED in partnership with the Institute of International Education Consortium. The WITC is a business incubator, supporting women’s entrepreneurship in Saudi Arabia, providing supporting services and capacity development to Saudi Arabian Women. It focuses on the development of innovation and entrepreneurship strategies.
A. Comparison of Saudi Arabia with Other Economies in the MENA Region

The economies in the MENA region face socio-economic challenges. A burgeoning youth population, high unemployment rates, and uneven rates of economic development within MENA countries have led to a decline in the economic growth, making the need to create jobs and raise living standards a top priority. As a result, there is a growing interest of the regional government to invest in the development of SMEs, which can be instrumental in combating the challenges faced by the region. Investment in SME sector has been widely recognized as an effective and successful strategy in the developed markets, where they are responsible for the growth in new jobs and contribute to over 60–70% of employment and more than 50% of GDP. MENA region needs to create employment opportunities, especially for its youth within the age of 15–30 years.

However, in spite of the awareness about the critical importance of the SME sector to economic development, the MENA region remains relatively less effective at cultivating a business environment that is conducive to sustain SME growth. Many SMEs continue to face substantial barriers to growth and sustainability ranging from limited access to finance to the lack of business management skills and market linkages needed to grow and succeed. The average share of SME lending of total loans is 8.19% for the MENA region, and it is nearly 3% for Saudi Arabia. Nearly, 63% of SMEs in the region have no access to finance. The total financing gap for SMEs in MENA is estimated about USD 240 billion.

Currently, the majority of enterprises are SMEs, estimated between 9 and 11 million in number and comprising 80–90% of total businesses in most of its member countries. Saudi Arabia is the home to almost 20% of these SMEs in the MENA region.

Sources: Union of Arab Bank, World Bank

Almost four out of five Saudi SME owners point to a rigorous bureaucratic procedure as the key barrier, while owners in Jordan are mostly concerned with high interest rates upward of 10–14%, compared to 4–8% for large businesses.

The major hurdles faced by SMEs in the MENA region are:
1. SME support organizations suffer from poor co-ordination and limited execution capacity
2. The products and services provided lack the sustainability quotient
3. Lack of effective policy environment for SME formation, growth, and inadequate educational programs make entrepreneurship unattractive

Obstacles faced by SME sector in Saudi Arabia are mentioned on page 16

B. Comparison of Saudi Arabia with Other Economies in GCC

The GCC economies have traditionally relied on oil as their main source of fiscal and export revenue. However, they have evolved significantly over the past decade. SME sector growth has been one of their key strategies to promote skills and entrepreneurship. GCC governments have come up with the initiatives to help foster linkages among the state-owned enterprises, multinational companies, and SMEs to promote the development of tradable and exports.

Despite the measures undertaken by the GCC governments, the majority SMEs in the GCC continue to face barriers in their growth, chiefly owing to difficulty in their access to financial services. The average share of SME lending of total loans is only 2% and 27% in GCC and OECD countries, respectively. This low share of SME lending reflects the historical structure of oil-based economies, dominated by very large enterprises.

In the GCC, Saudi Arabia has the second largest SME sector after the UAE. Over the past few years, the SME sector growth has been remarkable in the UAE. The sector accounts for about 60% of the country’s non-oil economy. The contribution of the SME sector to its nominal GDP is around 46% and 33% in the UAE and Saudi Arabia, respectively. Both these countries are working toward easing the capital funding to promote SME. SAMA has played a proactive role in regulating and protecting the Saudi Arabian market from the current global economic turmoil and is expected to take the lead in regulatory reform in the SME sector across the GCC by 2018.

The capital lending in Saudi Arabia at 3% is higher than the GCC average of 2%.

After the UAE, Saudi Arabia has the most developed SME sector in the GCC. Saudi Arabia has the largest number of the public and private sector SME support programs within the GCC.

Almost 92% of SMEs in Saudi Arabia find it difficult to secure funding for their ventures. In the UAE, despite great contribution of the sector to the overall GDP, nearly 49% of the SMEs share the concern of securing funding for their ventures.

The major hurdles faced by SMEs in the GCC are:

1. Angel and seed investing is still in its nascent stage in GCC. Owing to the apprehension of the investors, it takes a lot of time and energy to get financial aid for SMEs

2. Banks need specialized skills to cater to the SME segment, but there has been a decline in the skill set, thus affecting capability development and innovation
A. Ease of Doing Business

The World Bank’s ‘Ease of Doing Business Report’ reflects the effectiveness of the government regulations in the private sector across 189 economies in quantitative terms. Each of these 189 economies is ranked, based on the average of the economy’s percentile rankings on the 10 areas of business regulation included in that year’s aggregate ranking. These 10 areas of business regulation used in 2015 aggregate ranking are split between two main types of indicators those that:

Broadly measure complexity and cost of regulatory processes | Measure the strength of legal institutions

### Complexity and Cost of Regulatory Processes

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a business</td>
<td>Procedures, time, cost, and paid-in minimum capital to start a limited liability company.</td>
</tr>
<tr>
<td>Dealing with construction permits</td>
<td>Procedures, time, and cost to complete all the formalities to build a warehouse.</td>
</tr>
<tr>
<td>Getting electricity connection</td>
<td>Procedures, time, and cost to get connected to the electrical grid.</td>
</tr>
<tr>
<td>Registering property</td>
<td>Procedures, time, and cost to transfer a property.</td>
</tr>
<tr>
<td>Paying taxes</td>
<td>Payments, time, and total tax rate for a firm to comply with all tax regulations.</td>
</tr>
<tr>
<td>Trading across borders</td>
<td>Documents, time, and cost to export and import by seaport.</td>
</tr>
</tbody>
</table>

### Strength of Legal Institutions

<table>
<thead>
<tr>
<th>Area</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Getting credit</td>
<td>Movable collateral laws and credit information systems.</td>
</tr>
<tr>
<td>Protecting minority investors</td>
<td>Minority shareholders’ rights in related-party transactions and in corporate governance.</td>
</tr>
<tr>
<td>Enforcing contracts</td>
<td>Procedures, time, and cost to resolve a commercial dispute.</td>
</tr>
<tr>
<td>Resolving insolvency</td>
<td>Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the insolvency legal framework</td>
</tr>
</tbody>
</table>

The rankings for all the 189 economies in the 2015 report are benchmarked to June 2014.

Based on the quantitative analysis against these 10 parameters, Saudi Arabia has ranked **49 in 2015**. Within the MENA region, Saudi Arabia is ranked **second after the UAE**. It has been ranked the highest for getting credit information among all the economies within the MENA region. However, the SME authority needs to ease out the procedures for starting a business and for trading across borders.

### Ease of Doing Business across economies in GCC

<table>
<thead>
<tr>
<th></th>
<th>Getting Credit</th>
<th>Starting a Business</th>
<th>Ease of Doing Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAE</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Qatar</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
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<tr>
<td>Bahrain</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
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<tr>
<td>Oman</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
<tr>
<td>Kuwait</td>
<td>Neutral</td>
<td>Neutral</td>
<td>Neutral</td>
</tr>
</tbody>
</table>

Source: Ease of Doing Business Report 2015
B. EY - EOY

Entrepreneurs, around the world, have stimulated innovation and created job avenues, especially during the challenging economic conditions. EY’s EOY program brings together and celebrates the creativity, vision, and dedication of the world’s most deserving entrepreneurs. The program spans more than 145 cities across 60 countries, representing more than 90% of the global economy. In 2014, the EOY program was held in two regions across the Middle East, Kingdom of Saudi Arabia and Jordan, to celebrate the achievement of their successful entrepreneurs. The program was launched for the first time in Saudi Arabia. The winner of the EOY award - Lateefa AlWaalan will get to represent Saudi Arabia at the globally renowned World EOY award ceremony in Monte Carlo in June 2015. The EOY 2014 focused especially on the SMEs and for rapid-growth economies, like Saudi Arabia, SMEs are one of the main drivers of the Kingdom’s economy. Also, Saudi Arabia is one of the most competitive countries among the G20 group of nations.

The average time it takes to start a business is one of the lowest among the G20 nations. As an industrial hub in the MENA region and with a strong and growing economy, the coming decade bodes well for the development of the SME sector in the country.

C. Challenges to the Growth of SMEs

The shortfall in SMEs’ performance is chiefly attributed to the absence of targeted and continuous support services. In Saudi Arabia, access to capital (equity and debt) is still a major challenge. Equity investment is critical for any venture’s survival in the initial phase, but in Saudi Arabia, there is a scarcity of angel investors and venture capital funds. Capital lending to SMEs, as a percentage of total loans, stands at 3% in Saudi Arabia, which is low compared to the emerging countries’ average of 20% and advanced economies’ average of 25%.

Despite the considerable size of the SME sector, financiers avoid lending to SMEs for a number of reasons:

1. There is a general lack of reliable and accessible information about these enterprises because of which the registries and bureaus cannot give credit scores
2. There is no proven legal environment that allows for collateral registry and legal enforcement in case of default
3. Most SMEs do not have audited financials. This requires financial institutions to spend greater time and resources in servicing them, which results in increased operational costs for the financiers, which when incurred, are passed on to the SMEs in the form of premium charges
4. Nearly, 85% of SMEs are single proprietor companies, and therefore the distinction between company and private assets often becomes hazy

This results in an increased risk of lending. This has necessitated the need for proper policy tools to impart more confidence to the lenders by managing their risks better. Although the number of existing policies and tools is large and some of the programs are well funded and effective, the lack of strategic co-ordination results in duplication of efforts, thus increasing cost and redundancies.
Despite reduction in the number of procedures required for setting up a new firm, the Kingdom’s government strives to make it easy for the SMEs, for whom lengthy bureaucratic procedure and licensing is the key obstacle, followed by non-availability of adequate financing.

Another area of concern is the shrinking life span of SMEs. The absence of customized and continuous support from the banks has led to the relatively short life span of these SMEs where the average SME is only seven years old. The MENA region is particularly plagued by the phenomenon - The Missing Middle: these are the SMEs that have passed the initial setup stage, but require further assistance to sustain and grow their ventures. Although there are a number of government initiatives and programs targeting SME support, they need to be more channelized and customized to meet the unique demands of SMEs throughout their lifecycle. The banks need to go beyond the provision of limited subsidized loans and pre-investment training to adequately support the Missing Middle throughout their different stages of development. Across the world, 70–80% of businesses fail after an average of only 20 months. This also reflects a strong entrepreneurial bend of the youth, particularly in Saudi Arabia, which needs to be catered to meet the ultimate motive of employment of Saudi youth and subsequent diversification of the economy.

Source: Riyadh Chamber of Commerce and Industry

D. Conclusion

Over the years, the Saudi government has undertaken constructive steps in the direction of growth of the SME sector. The focus has been more on the expansion of the number of SMEs compared to the existing ‘gazelles’, which are poised to be globally competitive and have the power to diversify the economy of Saudi Arabia. However, the government has recognized the need for a wide base of support, including capital (debt and equity), training, and business services throughout the lifespan of SMEs.

The major government initiatives undertaken to mitigate the challenges faced by SMEs are as follows:

<table>
<thead>
<tr>
<th>Challenges Faced by SMEs</th>
<th>Government Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rigorous bureaucratic procedures</td>
<td>It now takes nine fewer procedures to start a new business than it did in 2005. The government aims to further reduce the number of rigorous procedures.</td>
</tr>
<tr>
<td>Access to finances</td>
<td>With the help of Kafalah, Taqeem programs, and initiatives taken by SCSB, the government has increased the bank participation by mitigating their apprehensions in lending to SMEs.</td>
</tr>
<tr>
<td>Absence of financial support throughout the lifecycle of SMEs</td>
<td>Banks are bolstered to provide steady, customized, and continuous support. E.g., Saudi Hollandi Bank has invested in skilled workforce to enhance relationship banking with its SME customers.</td>
</tr>
<tr>
<td>Low mentoring support</td>
<td>Tenth Development Plan aims to extend training and mentoring support through each stage of development of SMEs.</td>
</tr>
<tr>
<td>Low awareness of support programs</td>
<td>The government is marketing its initiatives and is promoting the banks to practice the same, so as to reach out to the SMEs.</td>
</tr>
<tr>
<td>Absence of a single SME management authority</td>
<td>Tenth Development Plan aims to establish an integrated system that offers a one-stop-shop facility.</td>
</tr>
<tr>
<td>Lack of appropriate IT infrastructure</td>
<td>The Kingdom’s non-profitable organization, The Centennial Fund, has partnered with Microsoft, so as to enhance go-to-market capability of the SMEs and promote IT entrepreneurship within its members.</td>
</tr>
</tbody>
</table>

The youth of Saudi Arabia has proved its entrepreneurial bend, and the boost from the government has made it possible for the locals to compete on a global forum. To sustain its historically high growth rates and exploit its own economic resources, the government has plans to emulate the SME growth strategy of Japan. The SMEs of Saudi Arabia are striving to achieve high growth and establish themselves as competitive enterprises globally. Moreover, with the fiscal and social efforts of the government of Custodian of the Two Holy Mosques, King Salman bin Abdulaziz, this sector is expected to flourish with robust growth in the future. By the end of 2015, the SME contribution to GDP is expected to rise to 35%. This achievement can be explicated by the government’s total commitment toward the implementation of policies to reach the ultimate goals of sustainable development and dynamic progression.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>EOY</td>
<td>Entrepreneur of the Year</td>
</tr>
<tr>
<td>EY</td>
<td>Ernst &amp; Young</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>GCC</td>
<td>Gulf Cooperation Council</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IKED</td>
<td>International Organization for Knowledge Economy and Enterprise Development</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KACST</td>
<td>King Abdul Aziz City of Science and Technology</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>NCB</td>
<td>National Commercial Bank</td>
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<tr>
<td>NIS</td>
<td>National Industry Strategy</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PD</td>
<td>Probability of Default</td>
</tr>
<tr>
<td>SAGIA</td>
<td>Saudi Arabian General Investment Authority</td>
</tr>
<tr>
<td>SAMA</td>
<td>Saudi Arabian Monetary Agency</td>
</tr>
<tr>
<td>SBIN</td>
<td>Saudi Business Incubator Network</td>
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<tr>
<td>SCSB</td>
<td>Saudi Credit &amp; Saving Bank</td>
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<tr>
<td>SIDF</td>
<td>Saudi Industrial Development Fund</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>WITC</td>
<td>Women's Incubator and Training Center</td>
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</table>
About Jeddah Chamber

The Jeddah Chamber of Commerce & Industry is one of the oldest business and service organizations in the kingdom. It was established by a royal decree, dated Safar 1365 H \ January 1946 G. Since then, with the efforts of 20 sessions of the Board of Directors and experience extending more than 60 years, the chamber has been serving the national economy and business community, contributing to its development and progress.

The Jeddah Chamber has a strategic location, next to the Ministry of Trade & Industry and the Ministry of Culture & Information, overlooking the Jeddah Islamic Port. This location gives it a significant economic dimension, makes it one of the significant landmarks of the Bride of the Red.

The chamber strives to take care of its members’ interests and provide distinguished services to them to contribute to the development of the western province’s economy. A number of administrative and organizational developments have been devised to enhance the services provided to the members. Among the most, the chamber now has branches in province’s different governorates, like Al Qunfidhah, Al Lith, and Rabigh, to provide services to the business community.

From this standpoint, the chamber launched the Jeddah Economic Gateway (JEG), which is an economic online reference point that collects and classifies various economic and investment information under one roof. JEG includes more than 2,400 reports and studies, 65,000 statistical tables, in addition to more than 51,000 tenders and investment opportunities, and much more. JEG provides the business community in Jeddah in particular, and KSA in general, with the best information services and it empowers the decision-making process through the wealth of information that it provides.

For more information, please visit www.jeg.org.sa