

Saudi Arabia has dedicated significant resources to expanding the role of small and medium-sized enterprises (SMEs) in the economy in recent years, and in 2020 has offered small businesses financial aid to the tune of \$13bn to weather current crises. These moves are in line with Vision 2030's goal of increasing SMEs' contribution to GDP from 20% to 35%, and overall private sector contribution from 40% to 65%. If the kingdom is to achieve its ambition of expanding SMEs, however, it must continue – if not increase – efforts to support the sector, including by easing access to financing and developing a culture of entrepreneurship and innovation among its youth.

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SMEs in emerging and developed economies alike are widely acknowledged to play a vital role in supporting economic development and growth, through the harnessing of resources and the promotion of talent development, which in turn increases job opportunities.

In Saudi Arabia 99% of private sector companies are SMEs. While the sector lags behind regional and global peers in terms of size and value – Saudi SMEs contribute around 20% to GDP compared to 53% in the UAE and 45% on average among countries worldwide – it is expected to play an increasingly vital role in diversifying the economy away from oil, driving the development of growing and nascent industries such as [tourism and entertainment](#), manufacturing and Islamic finance. These sectors, in turn, will become an important future source of employment for Saudi's large and young population.

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Reflecting the sector's importance to Vision 2030 objectives, in March 2020 the government announced [SAR50bn \(\\$13.3bn\) in financial aid](#) for SMEs weathering a slump in business activity from the coronavirus pandemic and oil price decline.

## Money troubles

The biggest challenge facing SMEs, especially start-ups, in the kingdom is gaining access to financing. Many entrepreneurs complain about the onerous hurdles they must surmount to secure loans from banks and other institutions; a case of nationals having the ideas, but not the cash.<sup>[2]</sup>

In a country still structured to support large corporations, size is also a big disadvantage – SMEs do not benefit from economies of scale, while large petrochemical companies, for instance, are able to manufacture products in large quantities and at relatively low costs.<sup>[3]</sup> Moreover, the complexity of laws and regulations and not knowing “who to talk to,” as well as lack of access to data and finding investors pose real challenges to Saudis with innovative concepts.<sup>[4]</sup>

The extent of these challenges are reflected in the kingdom's ranking in GEDI's Global Entrepreneurship Index (GEI): in 2018 the country dropped from 31st to 45th place overall. The UAE, in comparison, ranked 26th.<sup>[5]</sup>

## Funds for new business

In recent years, the government has invested significantly in facilitating funding for SMEs through its [sovereign wealth fund PIF](#), which has introduced a range of initiatives:

Most recently, in December 2019 the fund launched Jada Investment. Intended to be “a critical component of Saudi Arabia's Vision 2030,” Jada's mission is “to provide funding to Saudi SMEs through commercially sustainable investments in private equity and venture capital funds.” PIF officials expect that Jada will generate 58,000 jobs and add approximately \$2.29bn to Saudi Arabia's GDP by 2027.<sup>[6]</sup> Prior to this, in 2017 PIF established a SAR4bn (\$1.1bn) fund – the so-called “Fund of Funds” – to provide SMEs access to capital.<sup>[7]</sup>

Additionally, that same year *Monsha'at*, the Small and Medium Enterprise Authority (SMEA) launched four new initiatives: the first reimburses businesses for government taxes paid during the first three operational years; the second involves increasing the capital of the *Kafalah* programme, which covers the risk percentage that investing parties take if an SME they invest in fails – a budget of SAR800m (\$213.3m) is dedicated to the scheme. The third provides SAR1.6bn (\$426.6m) in funding to investment institutions to offer funding to SMEs at a lower cost; and the fourth is a venture capital fund targeting start-ups, which aims to bridge the investment gap and spur more SME investment.<sup>[8]</sup>

## Start-up culture

In addition to lowering the financial risk for investors and new businesses alike, the kingdom has also set up several organisations aimed at providing incubation, acceleration, funding and “know-how” for start-ups in Saudi Arabia.

The most prominent are the Entrepreneurial Institute in Dhahran Techno Valley, Aramco's Wa'ed programme, King Abdullah University of Science and Technology's Taqadam Accelerator, King Abdulaziz City for Science and Technology's Badir Program, Flat6Labs Jeddah, the Riyadh Techno Valley hosted by King Saud University and Wadi Makkah.

There are also a small number of educational institutions and programmes promoting entrepreneurship and/or providing support for would-be entrepreneurs – The Prince Mohammed Bin Salman College for Business and Entrepreneurship, the Misk Foundation and Meras.

However, experts – including SMEA head Saleh Alrasheed – agree that more needs to be done to foster a culture of entrepreneurship and innovation among Saudi youth if SMEs are to become a major contributor to GDP. In 2018 Alrasheed noted that, as promoting SMEs constitutes a major component of Vision 2030, a culture of entrepreneurship must be nurtured in the kingdom's schools and universities to create an appropriate entrepreneurial ecosystem.<sup>[9]</sup>

It is a view that seems to be borne out by the GEI's 2018 report: in a sub-index measuring countries' attitudes to entrepreneurship, Saudi Arabia placed among the top 25 countries overall. But for entrepreneurial abilities as well as aspirations – that is the willingness/capability to introduce new products and services – the kingdom ranked outside the top 25.

## SMEs and Saudi's economic future

[Saudi Arabia's demographics are a double-edged sword](#): Vast numbers of young people are set to enter the Saudi workforce in the coming years, providing the kingdom with an unprecedented pool of talent for creativeness and innovation – but traditional business models will not be able to absorb them all.<sup>[10]</sup>

Furthermore, with the private sector and wider economy facing unprecedented pressure in 2020 due to the fallout from the coronavirus pandemic and ongoing volatility in the oil markets, the issue of how to support entrepreneurs and nurture growth of SMEs beyond initial rescue packages is likely to become even more important to the future sustainability of the kingdom's economy.

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