

Breeding Ground for SMEs–The Success Story of the KAFALAH Program

ABSTRACT

One of the primary strategic objectives of Saudi Arabia’s Vision 2030 is to transform its oil-dependent economy into a knowledge-based economy. This multifaceted effort encompasses an extensive web of interconnected projects, programs and funds geared toward accomplishing this important goal. Vision 2030 has recognized the proliferation and success of small and medium enterprises (SMEs) as a key component of Saudi Arabia’s core economic objectives: job creation, technological innovation and expanding exports. SMEs are a central pillar of the global economy and are the main drivers of employment and economic expansion. To be successful, governments must take a holistic approach to cultivating an atmosphere conducive to SMEs, and in Saudi Arabia this will require swift and decisive measures in regulation, funding, training and modernization, and internationalization. To support these aspirations, much needed regulatory, procedural and practical reforms have occurred at an exceptional rate. One keystone in the Saudi Arabian government’s efforts to support SMEs is the SME Loan Guarantee Program known as the KAFALAH program, which was introduced in 2006. This paper sheds light on the features of, and efforts made by the KAFALAH program that have played a significant role in SMEs’ development and success in the country.

Keywords; KAFALAH Program, Small and Medium Enterprises (SME), Loan guarantee, Saudi Arabian Monetary Authority (SAMA), Saudi Arabia’s Vision 2030.

1.0 BACKGROUND

1.1 History of SMEs in Saudi Arabia

Saudi Arabia’s heavy reliance on oil as its most important source of income exposes the Kingdom to instability in oil prices, which can interfere with economic as well as social stability. Substantial oil process fluctuations occurred during the late 1970s, mid-1980s, mid-1990s, and most recently in 2020, when oil went from \$60 to \$30 per barrel (Ebrahim et al. 2014). After 1995, small and medium enterprises emerged in Saudi Arabia after the Shura Council suggested moving the Saudi Credit Bank, which had existed since 1971, to the Saudi Bank for Credit and Savings. The literature on SMEs reveals that there was no single, comprehensive definition for the concept in the Kingdom until December 2016, when the Ministry of Commerce introduced a standard definition of micro, small and medium-sized enterprises: “Micro-enterprises are those that have one to five employees or sales of no more than USD 800K. Small enterprises have from six to 49 employees or sales greater than USD 800K up to USD 10.6 million. Medium-sized enterprises have 50 to 249 employees or sales greater than USD 10.6 million up to USD 53.3 million” (OECD 2005).

1.2 Contributions of SMEs to the Saudi Economy

SMEs are an important part of most countries' efforts to generate jobs, improve the standard of living, increase domestic production, and generally add value to the economy (Subhan et al. 2014; Sadi & Henderson 2011). Hence, most countries encourage SMEs by providing a positive environment for growth by supporting essential resources for start-ups and other structures such as favorable social and financial conditions, human resource development regions, expansion into non-oil segments (such as trade, mining, and farming), and restructuring to encourage pro-growth procedures and processes that support sustainable development and reinforce growth (Kabuoh, 2017).

Influential factors include the globalization of economic activities, opening up new markets, and promoting competition (OECD 2000). This is certainly the case in Saudi Arabia where SMEs not only play an important role in these areas, but are also considered to be an important alternative to the oil industry (Radwan 2019; Ramady 2010; Shalaby 2004). According to International Monetary Fund report (2019) indicated that as oil prices decline, the contribution of the private sector to GDP is becoming more evident, and that the best way to achieve this is to promote SMEs. The importance of having diverse income sources has long been recognized by most countries as an important element of stability for the domestic economy (Al-Ghamdi 2019; Ramady 2010). Dependence on a single source of income, such as oil, can subject a nation to great risk, especially when that income source experiences substantial price volatility. For oil-dependent economies, a sudden decline in oil prices can negatively affect a country's entire budget and GDP. Therefore, as a result of fluctuations in oil revenues, the government of Saudi Arabia's five-year development plan focuses on diversifying the economy's productive base (Kayed and Hassan 2011). Saudi Arabia's development process has promoted a supportive entrepreneurial business environment to help address the challenges facing the national economy. According to the Central Department of Statistics and Information (CDSI), SMEs are considered the backbone of the Saudi national economy. Additional points about the importance of SMEs to the Saudi economy are highlighted below (CDSI 2010):

- By the end of 2014, the total number of SMEs licensed by the Ministry of Commerce and Industry (MCI) exceeded 946,000, and approximately 85 percent of them were sole proprietorships. These SMEs employ over 5.6 million workers and represent a financial investment estimated at approximately USD 65 billion (SAR 250 billion). SMEs encompass 82 percent of the total workforce in Saudi Arabia (CDSI 2014).
- At the end of 2014, there were 128,193 SMEs licensed by the MCI that had six to 49 employees, a 15 percent increase from 2003. This represents about 13.4 percent of all business enterprises in the Saudi market, (CDSI 2014).
- The number of micro-sized enterprises, meaning those with one to five employees, licensed by the MCI at the end of 2014 was 791,938. This represents an increase of 36 percent from 2003, and accounts for 84 percent of all businesses in the Saudi market (CDSI 2014).

- The number of large enterprises with 50 or more employees licensed by the MCI at the end of 2014 was about 26,740. This is a 24 percent increase versus 2003, and represents 2.6 percent of the total number of business enterprises in the Saudi market (CDSI 2014).
- As shown in Fig 1.0, SMEs are distributed across various sectors: trade, retail, manufacturing, agriculture, construction and real estate, and services. The commercial and services sectors dominate SME activities; together, they account for about two-thirds of SMEs. In contrast, SMEs have a minor presence in the health, education, and mining and quarrying sectors, with less than one percent of SMEs in each (CDSI 2014).
- Total employment in Saudi Arabia consists of about 5,625,540 workers who are engaged in all types of activities. However, the workforce employed in SMEs in Saudi Arabia reveals an employment problem among the country's citizens. Despite the fact that 98 percent of SMEs in the country are owned by Saudis, only about nine percent of the total SME workforce is Saudi citizens (CDSI, 2014). The SME workforce is distributed across SMEs of different sizes as follows: 84 percent work in enterprises with one-to-four workers, 13 percent work in SMEs with five to nineteen workers, and the remaining three percent are employed by firms with more than 20 workers.

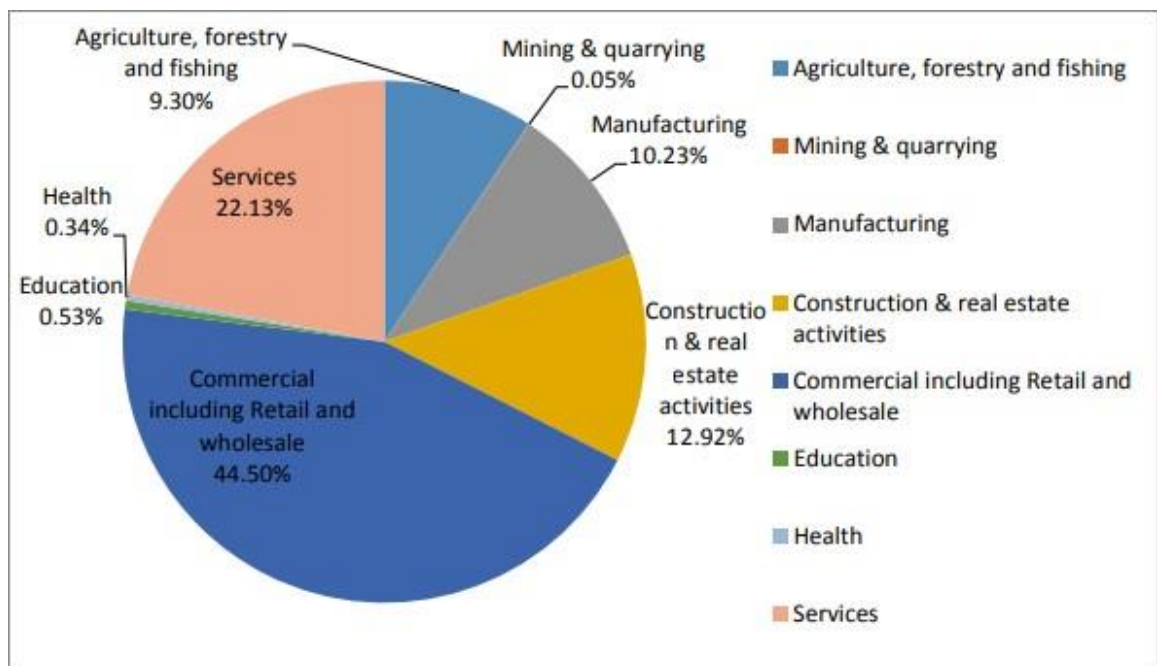


Fig 1.0 Sector breakdown of Saudi SMEs (CDSI 2010)

2.0 PROBLEM STATEMENT

Previous studies by Abalkhail (1999), Otsuki (2002), and Shalaby (2004) OECD (2008),

noted that the SME sector is capable of converting the Saudi economy from an oil-based economy to a more diversified and sustainable economy (<https://sustainabledevelopment.un.org>). These researchers stressed the need for dedicated institutional support by the government and recommended promoting highly innovative SMEs with highest growth potential. This sector has the capacity to expand the economic base, diversify sources of income, and provide job opportunities. The Saudi government realizes the need to overcome the main obstacles that face the majority of SMEs in terms of obtaining concessions to help finance their projects. Hence, as previously mentioned, the Saudi Ministry of Finance has undertaken a number of initiatives to provide funds through government lending banks to support SMEs, including specific packages for each sector, as has adopted ambitious development policies for the national economy (Al-Ghamdi 2019).

3.0 KAFALAH – Hope for SMEs

Most recently, in connection with the “Vision 2030” transformation plan, the Saudi Council of Economic Affairs and Development forecasted that SMEs would contribute 35 percent of GDP by 2030 (Vision 2030, 2016b). To support this, the main tool adopted by the Saudi Arabia government is the SME Loan Guarantee Program, known as the KAFALAH program that was introduced in 2006 by the Ministry of Finance in collaboration with local banks. The government has also encouraged Saudi banks to finance SMEs by establishing a KAFALAH “loan guarantee program” to provide the guarantees required by banks and other licensed financial organizations for SMEs to receive their financial support (Hasbani and Kingsley 2011). KAFALAH is a sponsorship program supported by the Saudi Arabian Monetary Authority (SAMA) to promote economic growth by encouraging local banks to finance SMEs (SIDF 2012). The program’s funding range is between SAR 80,000 and SAR 1.6 million (USD 20,000 to USD 450,000), for terms of up to seven years, and it guarantees up to 80 percent of the loan amount (Taha, 2013). However, despite the government’s efforts to encourage Saudi banks to support SMEs, some banks remain reluctant to finance SME projects due to risks that could lead some of these enterprises to fail (Viñals and Ahmed 2012). The aim of the KAFALAH program is to encourage financing bodies to finance Saudi SMEs that are not able to provide the necessary guarantees or financial records that would make them eligible for funding independently. The program provides banks with a financial guarantee for establishing, developing, or enhancing productive SMEs. The program does not provide funds directly; it guarantees up to 80 percent repayment of funds to Saudi financial institutions should a SME borrower go bankrupt (SIDF 2013). The program was established by a joined effort between the Ministry of Finance and Saudi banks, both contributing SAR 100 million with the banks’ capital considered as a onetime support to the SME business. Essentially, the program provides a third-party risk coverage mechanism with which to achieve the following (<https://kafalah.gov.sa>):

1. Help SMEs obtain the necessary Islamic funds to develop and expand their activities.
2. Encourage financial institutions to improve their business relations with SMEs.
3. Attract new SMEs that are not accustomed to dealing with financial institutions.

4. Develop the Saudi SME sector, as it plays an important role in the national economy.

There are 12 local lenders, of whom 10 have opted to participate in the KAFALAH program. The major KAFALAH-backed lenders are National Commercial Bank, Riyadh Bank, Arab National Bank, and Al Rajhi Bank. These four banks together account for around 80 percent of total SME lending so far.

The KAFALAH program can be used to finance a SME project where the total value of the guarantee does not exceed SAR 1.6 million. The program defines a SME in Saudi Arabia as “any profitable activity, whether small or medium, that is established under the applicable regulations of Saudi Arabia (Kingdom of Saudi Arabia), with yearly sales that do not exceed SAR 30,000,000” (<https://kafalah.gov.sa>). The KAFALAH program has been highly successful since its inception, providing over 4,200 guarantees for more than 2,600 SMEs valued at SAR 2.02 billion (USD 540 million), with banks and other financing institutions providing funding of SAR 4.34 billion (USD 1.1 billion) (<https://kafalah.gov.sa>; SIDF 2013). Banking setbacks caused by the 2008 global economic crisis have forced banks to seek alternative opportunities and SMEs have emerged as a promising sector. Commercial banks now have SME departments that are dedicated to providing financial services for SMEs. Some banks have separate SME units while others have SME divisions within their corporate offices. Instead of downscaling corporate lending instruments for SMEs, banks are developing separate financial products that are specific to SMEs, (SIDF 2013).

Under the “December 2019 order by royal decree” the KAFALAH program has moved under the Small and Medium Enterprise Authority (SMEA) to assure integrity and synergy between SME enablers. The KAFALAH loan guarantee program supports SMEs Kingdom-wide that cannot provide the guarantees required to obtain funds from banks and other licensed institutions. The recent decision will assure that KAFALAH will use its funds effectively as it will integrate its strategy with the SMEA.

3.1 KAFALAH Portfolio

3.1.1 The KAFALAH program:

The aim of KAFALAH program is to guarantee financing for small and medium-sized enterprises. The program was established according to His Excellency the Minister of Finance No. (1166) on 05/04/1425 AH (2004 CE) with the objective of overcoming the obstacles to providing financing to SMEs that do not have the ability to provide the required guarantees to the financing authorities.

One of the program’s intentions is to assist SMEs in obtaining the necessary funding under Islamic finance to develop and expand their activities, and to encourage financial institutions to deal with the SME sector. It also aims to attract a new segment of SME owners who are not accustomed to dealing with financing agencies, to help SMEs to fulfill their important role in Saudi Arabia’s national economy by providing new job opportunities and developing the sectors targeted by the government that are less economically active.

KAFALAH also pursues fulfilling the ambitious vision of the Kingdom 2030 and targets sectors by setting strategic goals for all of the guarantee program products that it develops

with the funding agencies, working along with the relevant authorities so that the program can effectively participate in developing SMEs to serve the Kingdom's economy.

Vision:

To effectively guarantee and support financing of small and medium enterprises as an essential source of the national economy

The vision's approaches: pivotal community - thriving economy - ambitious homeland

Mission:

To provide financial guarantees to enhance opportunities for small and medium enterprises to obtain necessary financing through strategic partnerships, national cadres and innovative technical tools backed by our knowledge base.

The CEO of KAFALAH (KAFALAH's Director and General manager): Mr. Homam Abdulaziz Hashem

Mr. Hahsem obtained a Bachelor's degree of Information Systems from the King Fahd University of Petroleum and Minerals in 1990, and worked for several Saudi banks and financial companies for 24 years. During that time, he attended many advanced training courses in the field of finance, risk management and financial consulting, and worked as an international risk advisor for Visa Global, and a representative of the Middle East and North Africa. Mr. Hashem held many leadership positions in the field of finance prior to joining the KAFALAH program in 2017.

Strategic Goals

1. Motivating financial institutions to lend to small and medium-sized enterprises.
2. Developing strategic partnerships
3. Strengthening knowledge bases in the SME sector
4. Developing specialized products and services that meet customer requirements
5. Raising awareness of the program and its products

Duties and responsibilities of the SME Financing Guarantee Program: The Small and Medium-sized Enterprises Financing Guarantee Program seeks to develop services provided through an electronic portal to maximize the benefit of the portal and its components, to increase the services provided through the portal, and to develop the portal's readiness.

The strategic goals of the sponsorship program's portal are to develop the portal's current content and provide new services to the visitors of the portal to maximize the benefit they derive from the sponsorship program, including bailout services, default services, bail exchange services, expense guarantee collection service, bail rescheduling service, debt

rescheduling service.

Objectives:

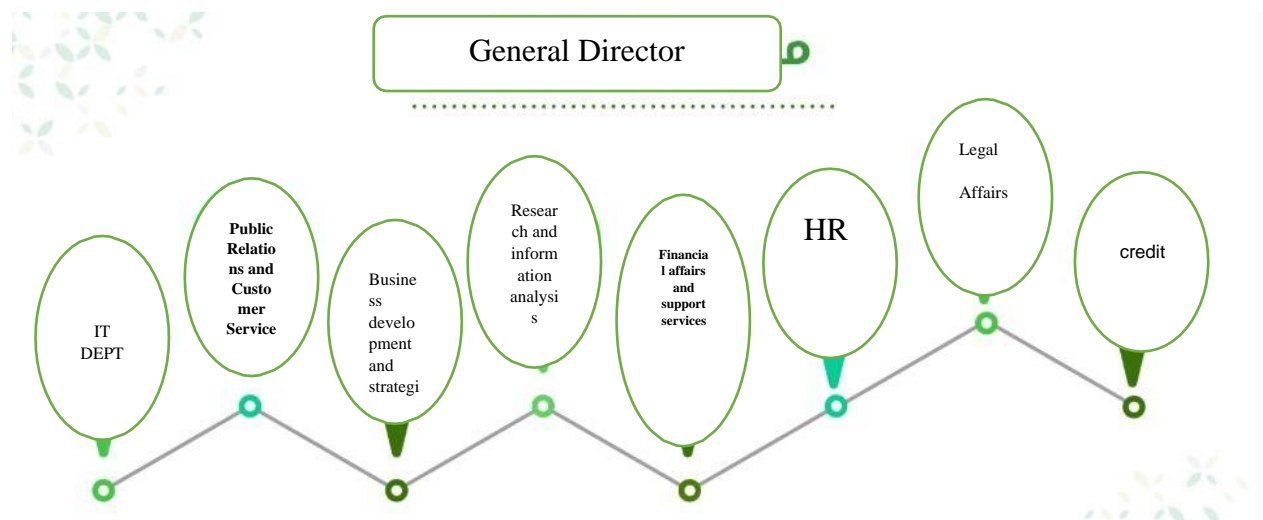
KAFALAH intends to work with the SMEA to provide an online portal where the SMEs can submit lending requests. The SMEA will collect all governmental credential information including credit bureau reports (SIMAH and Bayan) and will share this information with KAFALAH. The program will conduct 360 electronic evaluations and will provide a pre-approved guarantee through the portal.

The electronic portal should be comprehensive so that users can obtain all of the services and information that a visitor to Small and Medium-sized Enterprises Financing Guarantee Program's portal may need. Users must adhere to the program's website policies with respect to privacy, terms of use, and non-abuse of the portal, and must commit to providing correct information. The SMEA will provide adequate training to SME owners to present their files correctly.

The portal will be offered to all banks and financing organizations as an auction platform for SME loans, to provide the minimum price and the best lending terms and conditions. This will increase financial access for, and lending to SMEs.

Fig. 1.1

Organizational Structure:



Main Duties of each department:

Credit: Responsible for credit analyses of sponsorship requests received, and for verifying the applicants' financial adequacy.

Legal Affairs: Responsible for examining and finalizing the legal requirements for guarantees; provides legal input on facilities, collections, rescheduling and agreements.

HR: All standard human resource activities regarding the organization’s workforce.

Financial affairs and support services: Manages all financial activities, including investments.

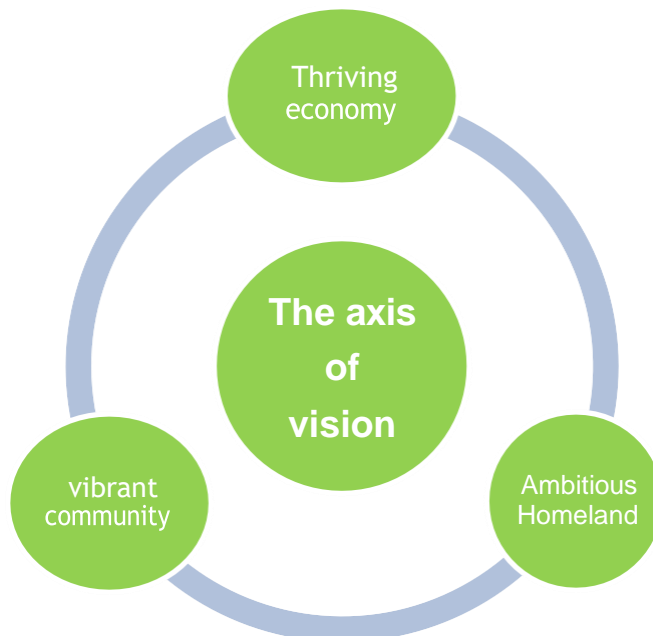
Research and information analysis: Records, tabulates and archives information, issues analytical descriptions and prepares research associated with SMEs

Business development and strategic planning: Responsible for developing new products and establishes strategic relationships with other stakeholders.

Public Relations and Customer Service: Interacts with electronic and print media to build KALAFAH’s media image, communicates with the relevant authorities, participates in events and activities, and responds to inquiries from the public regarding the program's services.

Information technology (IT): Responsible for IT support and assistance; develops applications and services including hosting the system in the national information system.

Fig. 1.2 The vision is enveloped under three key terms that describe Vision 2030: Thriving economy, Vibrant community and Ambitious homeland



Current and future plans of the program:

Some of the program’s strategic plans are focused on increasing the upper threshold of the

total values of guarantees for a single activity, for an individual financial institution and for firms. It also focuses on granting women-owned enterprises and other emerging areas favorable treatment. The program plans to provide guarantee privileges for tourism businesses at competitive terms and other advantages, with high coverage rates. Moreover, it aims to ensure that start-ups that collaborate with the Public Authority for SMEs have competitive advantages compared to those currently in market.

The Program intends to cooperate with foreign banks, finance companies and credit information companies operating in the Kingdom. It is currently working on designing an electronic platform in cooperation with the general authority for SMEs, and is planning to adopt a pricing mechanism for remunerations and a risk coverage ratio that is adaptable, based on the performance of the financing agency and program objectives.

To better understand the KAFALAH organization, its strengths and weaknesses are shown below using a SWOT grid.

SWOT Analysis

The external and internal environment analysis has been done to provide an overview of the factors that contribute to the program's success and to understand its external environment. All the information in the table was obtained through interviews with KALAFAH's HR department and CEO.

Table 1

Strengths	Weaknesses
<ul style="list-style-type: none">▪ Management support of the overall institutional transformation process▪ Strong financial support in the transformative stage by ensuring the financial flows that strengthen and support development▪ Experts in the field (issuance of guarantees)▪ Big data for all SMEs in the KSA▪ Strong understanding of financial institutions guidelines, well versed in ways to handle the program▪ Highly committed, young competent workforce▪ Strength and diversity of the program's board members and ability to use them to support the program's organizational environment.	<ul style="list-style-type: none">▪ Inability to attract and retain important competencies and the high level of job turnover rates due to several reasons, including: salaries and benefits that do not match the labor market and that negatively impact employee motivation; lack of a clear performance appraisal process; inadequate mechanisms for career development and succession planning▪ Lack of job descriptions and links between them and individual performance indicators; the need to develop an objective methodology for accountability and assessing institutional performance▪ Inefficient work procedures as a result of frequent tasks and limited documentation of work policies and procedures, and mechanisms and

	<p>protocols for interdepartmental communication</p> <ul style="list-style-type: none"> ▪ Need to develop the process of managing and accessing risks optimally, and developing related plans ▪ Need to update existing regulations and reduce centralization of powers
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> ▪ Form partnerships with government and non-governmental organizations and financial institutions, focusing on those that support new, promising sectors (for example: entertainment, sports and information technology) to contribute to the support of Vision 2030 ▪ Open areas of joint cooperation and building relationships with experienced external and global organizations to meet the financing needs of small and medium-sized enterprises (e.g., US SBA, SME Administration) ▪ Enable effective decision-making and quick responses by providing performance reports internally and externally. ▪ Create the role of Research Administration to proactively conduct research studies that support the development of the program's products ▪ Outsource collections to increase effectiveness ▪ Transfer experiences of similar global programs to the local market by sharing international practices and publications serving the SME finance sector. 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> ▪ A scarcity of specialized human resources in the labor market, and the inability to offer them competitive incentives. ▪ Limited studies on small and medium-sized enterprises and details of the local market in the Kingdom, which are necessary to support planning and business analysis activities. ▪ Adopting change management activities, increasing program staff confidence in the new transformational phase and increasing team spirit to make it work.

<ul style="list-style-type: none"> ▪ Move to portfolio (bulk) application handling to expedite application processing. ▪ Delegate part of the centralized decision-making to speed up decisions and transfer knowledge. 	
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Key achievements by KAFALAH

To provide a brief overview of the success of the KAFALAH program, some of its main achievements are highlighted in this section. As a SME financing guarantee program, KAFALAH has issued SAR 18.2 billion in guarantees from its inception in early 2006 through the end of 2019, and contributing banks have provided funding facilities valued at SAR 33 billion for the benefit of 7,635 SMEs disseminated across a wide range of economic sectors. Table 2 below shows that in just one year the total value of the financing provided increased by 49%

Table 2

Source: KAFALAH, 2019

Indicators	Percentage change	Change in value	2018	2019
Number of requests for issuance received	29%	744	2,529	3,273
Net number of beneficiary enterprises	24%	481	2,000	2,481
Number of guarantees issued	14%	491	3,395	3,886
Value of guarantees issued in SAR thousands	61%	1,819,681	2,996,551	4,816,232
Value of financing issued in SAR thousands	49%	2,441,350	4,934,556	7,375,906
Value of guarantees paid in SAR thousands	36%	15,218	42,624	57,842
Net value of guarantees issued as a percent of total value of guarantees issued since the beginning of the program	-	-	1.14%	1.10%
Average coverage ratio	-	-	61%	65%
Average warranty period in months	11%	1.9	17.5	19.4

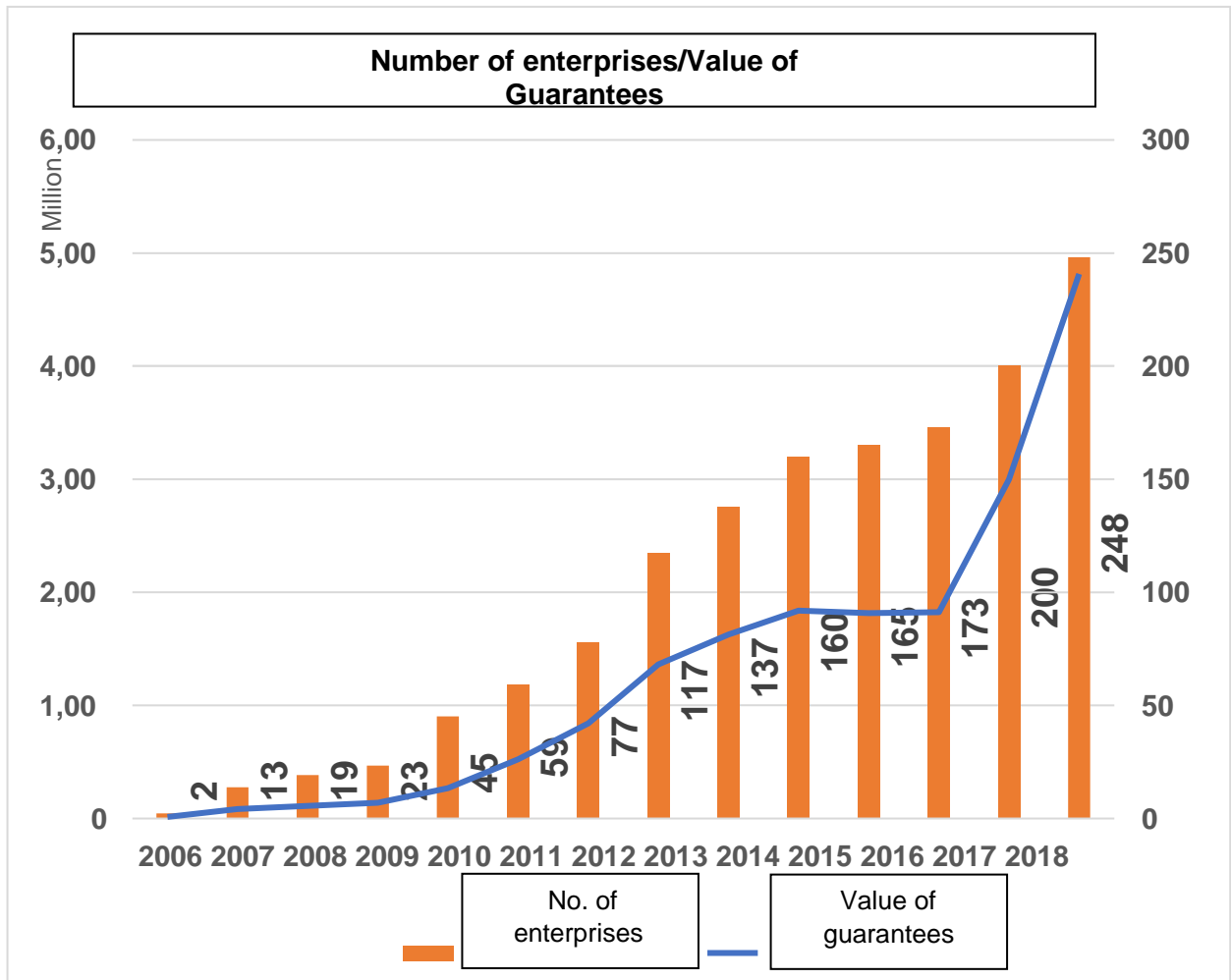
Table 3 below provides information about the trends and performance of the program over 15 years and shows that the value of guarantees rose from SAR 14 to 4816 million over this time. The number of companies served in 2006 was only 23 while in 2019 the number was 2481. This enormous increase is evidence of KAFALAH's success.

Table 3

Years	Average coverage time	Average guarantee period	Number of enterprises	Value of financing	Value of guarantees
2006	45%	30.84	23	32	14
2007	45%	33.40	138	186	84
2008	43%	26.47	192	260	113
2009	39%	20.30	234	365	141
2010	38%	20.70	452	710	268
2011	47%	17.80	591	1,108	525
2012	53%	18.76	779	1,573	841
2013	55%	18.11	1174	2,487	1,363
2014	49%	17.79	1377	3,332	1,628
2015	49%	17.39	1602	3,771	1,838
2016	51%	17.75	1652	3,539	1,816
2017	54%	17.01	1730	3,352	1,823
2018	61%	17.51	2000	4,935	2,997
2019	65%	19.40	2481	7,376	4,816
Number of establishments / value of guarantees	-	-	_*	33,026	18,267

Source: KAFALAH 2019

Fig. 1.3

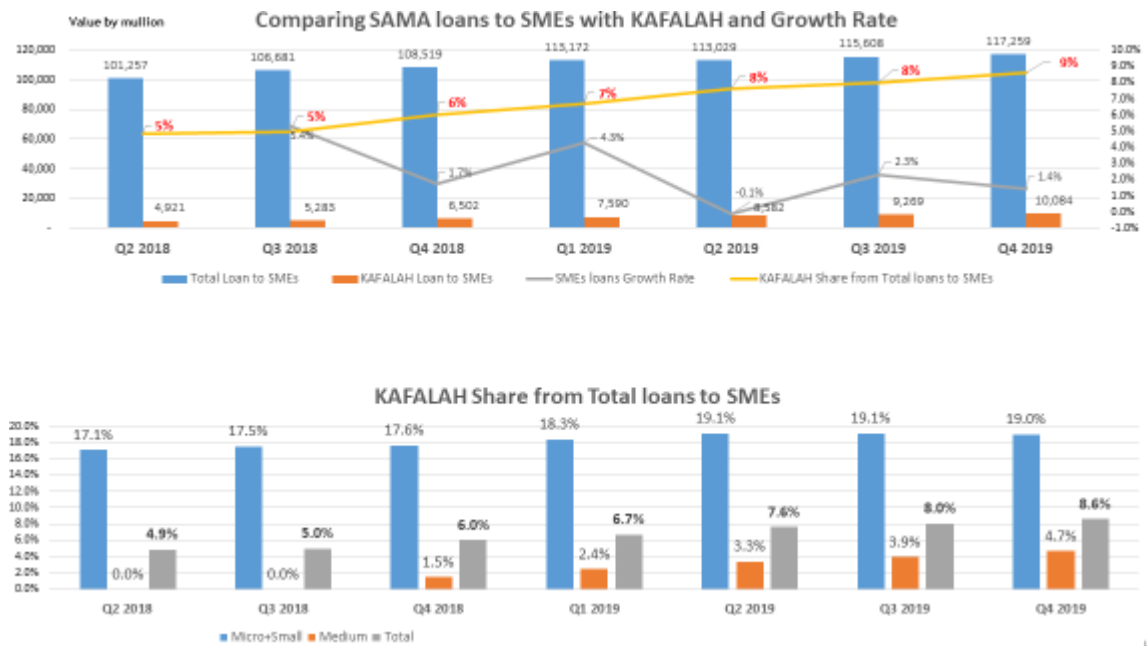


Source: KAFALAH, 2019

KAFALAH’s performance is shown in Fig. 1.3. There is a continuous upward trend in performance as measured by the number of SMEs that were given guarantees, which increased from only 23 in 2009 to 2481 ten years later.

Fig. 1.4 compares the growth in the KAFALAH program to the growth in SAMA loans to SMEs. The KAFALAH program has grown to 90% of the total loans granted to SMEs. This shows the increase in the percentage of KAFALAH’s financial support to SME, from 5% in the second quarter of 2018 to 9% at the end of fourth quarter of 2019. This indicates that KAFALAH is a key enabler for SME financing and is able to support Vision 2030.

Fig. 1.4



Performance Comparison of sectors supported by KAFALAH

Data source: The Monetary Agency

As of Dec 2019, construction led all other sectors with a total of 12,523 guarantees amounting to SAR 6.6 billion, representing 40% of total approved guarantees during the period (2007–2019), and a total loan amount of SAR 13.3 billion. The trading sector was the second largest, with 7,106 guarantees totaling SAR 5.3 billion or 26% of total approved guarantees and a lending value of SAR 8.6 billion. The Industrial sector was third, with SAR 1.9 billion or 9% of total approved guarantees with a lending value of SAR 3.2 billion. The remaining guarantees are distributed among other sectors, including the logistics sector (2,113), consultancies (1,367).

Table 4

Economic Activity	Cumulative program performance from 2006 through 2019 according to economic sectors						
	Requested financing			Value of guarantees	Value of Financing	# of Guarantees	# of Enterprises
	New SMEs	SMEs that previously received a KAFALAH guarantee	Total				
Construction	2,288	3,405	5,693	6,679,306	13,303,286	12,523	2,326
Wholesale and	2,453	2,060	4,513	5,314,975	8,751,160	7,106	2,471
Transformative	817	770	1,587	1,888,866	3,165,393	2,357	835
Administrative and support support services	433	615	1,048	1,265,367	2,306,217	2,113	442
Professional, scientific and technical activities	274	432	706	845,528	1,690,142	1,367	278

Accommodation and food service activities	436	152	588	680,259	1,008,970	798	438
Transport and storage	232	120	352	409,088	658,767	438	236
Human health and social work activities	205	76	281	318,715	504,340	381	207
Education	115	36	151	202,682	454,499	237	115
Other service activities	65	37	102	123,143	188,459	160	65
Information and communication	56	41	97	149,471	303,342	203	58
Arts and entertainment	48	44	92	106,558	176,453	119	48
Financial and insurance activities	30	29	59	78,169	138,876	113	32
Agriculture, forestry and fishing	24	9	33	64,762	147,237	45	24
Water supply, sanitation activities, waste management and treatment	15	15	30	52,012	85,457	62	16
Real estate	16	12	28	33,804	51,676	55	16

Electricity, gas, air conditioning	11	5	16	12,258	19,997	20	11
Mining	10	5	15	17,714	31,718	25	10
Public administration, defense and social security	7	6	13	25,299	38,043	32	7
Total	7,535	7,869	15,404	18,267,977	33,024,031	28,154	7,635

Geographical distribution: The number of approved guarantees for SMEs in Riyadh represents 44% of total of approved guarantees during the period (2007–2019). Mecca, the Eastern region, Qassim and Asir followed with shares equaling 22%, 18%, 7% and 3.7%, respectively.

Table 5

Cumulative program performance from 2006 through 2019, according to provisions							
Provision	Cumulative since the beginning of the program						
	New Enterprises	Enterprises previously received our	Total	The value of Guarantees	The value of Financing	Number of Guarantees	Number of Enterprises
Riyadh	2,866	3,355	6,221	7,741,783	14,608,800	11,978	2,908
Eastern Province	1,944	1,807	3,751	4,213,404	7,234,624	6,389	1,964
Mecca	1,547	1,460	3,007	3,585,796	6,268,794	5,287	1,572
Qassim	271	307	578	639,947	1,234,693	924	278
Assir	257	234	491	580,618	996,868	876	256
Medina	225	249	474	545,344	885,842	876	231
Najran	144	183	327	342,908	675,876	679	148
Hail	55	76	131	149,921	297,033	228	56
Baha	42	67	109	123,350	216,235	238	42
Jazan	60	39	99	113,559	187,057	203	57
Jouf	42	42	84	92,158	178,552	195	43
Tabouk	39	31	70	61,218	105,333	125	40
Northern Province	43	19	62	77,972	134,324	156	42
Total	7,535	7,869	15,404	18,267,977	33,024,031	28,154	7,635

Local Banks Operating under the KAFALAH Program: Local banks in Saudi Arabia provide private customers with a range of financial services, including loans. When they provide loans to entrepreneurs seeking to develop SMEs, they do so under the KAFALAH guarantee program that guarantees up to 80% of any loan provided by a local bank to an entrepreneur, and in some cases up to 90%. Local banks operating under the auspices of KAFALAH are the most active financiers of entrepreneurs and SMEs in Saudi Arabia. Under this program, banks provide collateralized loans to entrepreneurs of up to SAR 15 million (about USD 4 million). All such loans require approval from KAFALAH management. In addition to facilitating a higher volume of lending, the KAFALAH program is widely perceived as having had a positive impact on the evolution of lending policies and procedures among participating banks. Local institutions have begun to compete with each other for market share of SME loans, including actively marketing and promoting KAFALAH within the entrepreneurial and SME community.

Table 6

Cumulative program performance from 2006 through 2019							
year	Cumulative since the beginning of the program						
	Requested Financing			Value of Guarantees	Value of Financing	Number of Guarantees	Number of SMEs
	New SMEs	SMEs that previously received a KAFALAH guarantee	Total				
2006	23	-	23	14,279	31,770	32	23
2007	127	15	142	84,356	185,795	184	138
2008	180	13	193	112,986	259,939	273	192
2009	162	79	241	141,241	364,515	362	234
2010	292	176	468	268,394	709,993	775	452
2011	339	286	625	524,538	1,107,839	1,014	591
2012	419	393	812	840,858	1,573,025	1,455	779
2013	675	574	1,249	1,362,834	2,486,602	2,637	1,174
2014	735	712	1,474	1,627,624	3,332,057	3,509	1,377
2015	753	934	1,687	1,838,445	3,771,310	4,036	1,602
2016	809	932	1,741	1,816,326	3,538,655	3,376	1,652
2017	748	1,079	1,827	1,823,312	3,352,068	3,220	1,730
2018	945	1,239	2,184	2,996,551	4,934,556	3,395	2,000
2019	1,339	1,438	2,777	4,816,232	7,375,907	3,866	2,481
Total	7,535	7,869	15,404	18,267,977	33,024,031	28,154	-

Table 7

Development objectives (Targets for Vision 2030)	Target achieved through action plan
Raising the standard of living and quality of life for citizens	4082 approved SME guarantees from 2006-2014
Unemployment reduction	9300 Total jobs created 4500 direct job opportunities 1300 temporary job opportunities 250) indirect job opportunities
Increase Women's Participation	SMEs owned by women received 9% of total approved guarantees from the SIDF during the period 2006-2014
Achieve balance across the regions in the Kingdom, and enrich their economic and social development	22% of total SME guarantee approvals were from outside the three largest cities.

Adapted from Abou El-Seoud, 2015

Table 7 summarizes the main objectives to be achieved and how these targets have been met. Note that the KAFALAH program has helped to raise the standard of living and quality of life for Saudi citizens by reducing unemployment and supporting SMEs owned by women.

Recent Awards and Recognitions:

The success of the KAFALAH program has been recognized globally. The program won the Mohammed Bin Rashid Award for supporting youth projects in the category of "Best Development Fund in the Arab World (2013 AD)". This award, issued by the Mohammed Bin Rashid Establishment for the Development of Small and Medium Enterprises, is a tribute to the efforts of the KAFALAH program and to its accomplishments in developing the SME sector in the Kingdom, and in engaging the Saudi banking sector and increasing its contribution to supporting and financing this important vital sector (Arab News 2018).

In March 2015, the small and medium-sized enterprises Financing Guarantee Program managed by the Saudi Industrial Development Fund (SIDF) received an invitation from the World Bank to visit its headquarters in Washington DC, to introduce the Bank's employees specializing in the small and medium enterprises sector and the Bank's advisory bodies to the program, which the bank described in the invitation letter as "a distinctive model case study". The Director General of the SIDF, Ali Al-Ayed, expressed his pride in the invitation from an international institution like the World Bank, and the value of the World Bank's description of the program "as a distinctive case study".

The SIDF's sponsorship program for financing SMEs won the Sheikh Mohammed bin Rashid Award for Best Governmental Projects in Support of Small and Medium Enterprises. In a statement to "Riyadh", the head of the sponsorship program, Engineer Osama Al Mubarak, said, "The sponsorship program won this award for the second time. The program, which was established in 2006, is one of the most prominent government initiatives in the Gulf and the Arab world."

The Small and Medium Enterprises General Authority (Monshaat) has stressed its keen interest in supporting SMEs through initiatives, programs, and activities, including consulting, follow-up, training and awareness-raising (Arab News 2019). Monshaat has adopted many initiatives worth roughly SAR12 billion (USD 3.2 billion), including venture capital, indirect loans, recovery of government fees, and the enhancement of the KAFALAH program.

KAFALAH and COVID-19

The SAMA recently introduced a loan guarantee program (LGP) worth SAR. 13.2 billion offering guarantees on loans offered by banks and financing institutions to SMEs, including micro businesses, for up to 95% of the loan amount to combat the economic impact of the COVID-19 pandemic. The interest rate is capped at 4% and no collateral is required from the applicant. KAFALAH administration fees have been waived and the loan is guaranteed for three years, with no installment amount to be collected for the first six months. This is seen as one of the best loan stimulus program for the SME sector. LGP guarantees will be offered in agreement with the KAFALAH program. SAMA also introduced a SAR 30 billion program to waive installment payments for SMEs for six months (March–September 2020) and a waiver for all KAFALAH fees for any applicant between March 2020 and March 2021.

It is worth mentioning that the LGP is essentially an extension of a financial stimulus package worth SAR 50 Billion that was announced by SAMA on 14/03/2020, to support the financial sector in helping the private sector, particularly SMEs and micro businesses, to cope with the adverse effects of COVID-19. The Minister of Finance and the national development fund also created a fund to provide KAFALAH with SAR 50 million. The fund will provide guarantees of up to 90% with a 1% administration fee and will be offered to the following sectors: supply chain, high national employment, Haj and Umrah sectors, and private education support. The LGP is designed to mitigate the financial challenges that businesses are likely to face due to the Coronavirus' impact on cash flows, making it easier for targeted establishments to help their consumers, and to support the salaries and welfare of their workforces. Importantly, another key contribution of the LGP is to deliver guarantees for different sorts of services currently provided by financing entities to SMEs and micro businesses, comprising but not limited to financing employees' salaries, enterprise bills, working capital financing, and refinancing of credit facilities. Lastly, the scheme decreed that lending agencies would charge a fixed sum not to exceed 4% of the loan's value annually. The LGP is intended to help SMEs and micro businesses to continue through the COVID-19 period which in turn will have a positive impact on the local business climate and the national economy, (Arraiz 2020).

Summary

KAFALAH was able to achieve its ten-year strategic plan in only seven years. Covid-19 is expected to be one of the important examples that prove the KAFALAH loan guarantee program is an important tool to protect Saudi Arabia's SME's in a critical situation. The credit facilities provided by local banks participating in the program since its inception through the end of last year exceeds SAR 25 billion. The number of SMEs that have benefited from banking credit facilities and guarantees reached 11,912 (Al-Ghamdi 2019). Although the KAFALAH program had been highly successful, in the long term a more proactive approach by banks is necessary for its commercial viability. The success of the KAFALAH program has created a positive attitude among commercial banks toward SMEs. It is now considered as a financially attractive segment and banks have started to compete for business in this sector.

Declarations:

Funding: The author thanks the Deanship of Scientific Research and RSSU at King Saud University for their technical support

The author declares that:

- ✓ the work described has not been published before; and is not under consideration for publication anywhere else.
- ✓ there is no Conflicts of interest nor Competing interests
- ✓ All data/information are provided by Kafalah CEO (Approval letter is available)

JEL Code:

L. Industrial Organization

L3 Nonprofit Organizations and Public Enterprise

L32 Public Enterprises • Public-Private Enterprises

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