

SMES IN SAUDI ARABIA-AN INNOVATIVE TOOL FOR COUNTRY'S ECONOMIC GROWTH

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ABSTRACT: SMEs are considered as the key partners in the national development, and described as a key pillar for the national economy and GDP. This paper investigates the benefits and challenges of SMEs in Saudi Arabia followed by suggestions to improve SMEs. Secondary information obtained from publishes sources from the basis for a summary of conditions in Saudi Arabia. It would be suggested that the government should take corrective action for the improvement and growth of SMEs because country economic growth directly related to SMEs growth.

Keywords: SMEs, GDP, Economy, Export, Import, Balance of Payment, Employment.

INTRODUCTION

SMEs are the backbone for any countries which helps in creating jobs, wealth and contribute to the growth and diversity of the economy. According to the World Bank [1], formal SMEs contribute up to 60 percent of total employment and up to 40 percent of national income (GDP) in emerging economies, it will become higher if they consider informal sector. In addition to this, the World Bank also estimates that in the next 15 years, 600 million workforces will be required especially in Asia and Sub-Saharan Africa. SMEs now provide a substantial share of current employment and future growth prospects in many countries worldwide.

Most of the Gulf countries whose revenue highly dependent on petroleum products have to search for the alternatives for sustain and growth of their economy. Most of developed and fastest growing developing countries such as Germany, Norway, Paris, United Kingdom and many more are moving towards clean energy campaign [2] which creates hurdles to those countries whose economy are oil-reliant. Thus there is a need to search for a plethora of other alternatives which helps to boost the country economy.

AN OVERVIEW OF SMEs IN SAUDI ARABIA

The Saudi Arabian Small and Medium Enterprises Authority [3] define SMEs as “Any enterprise with an independent commercial registration that has less than 249 employees and less than SAR 200 million as revenue”.

According to the Ministry of Labor and Social Development, Saudi Arabia SMEs contribute about 22 percent to the kingdom's GDP as compared to 70 percent of some economies. The contribution of SMEs to export is only 5 percent in Saudi Arabia. About 34 percent of Saudi workers were employed in small and medium enterprises (SMEs) last year, local Arabic daily Al-Watan reported on Tuesday quoting the Ministry of Labor and Social Development [4].

- 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 with many GCC countries.

RESEARCH PROBLEMS AND CONCEPTUAL FRAMEWORK

The research problem of this paper is to investigate the benefits and challenges of Saudi Arabia SMEs followed by suggestions to improve SMEs. Secondary information obtained from published sources from the basis for a summary of conditions in Saudi Arabia.

CHALLENGES FACED BY SMEs IN SAUDI ARABIA.

1. Since the implementation of VAT (Value Added Tax), SMEs have been impacted the most, largely owing to the relatively high cost of compliance.
2. The number of non-Saudi employees in the country declined by 6.2 percent in 2018, as compared to 2017, reaching 9.98 million expats in 2018. The main reason for the decline in expats is high living costs and strict restrictions imposed by the government.
3. It has also been seen that most of the SMEs shutdown due to Saudization. There is a mismatch in the wage levels and required skills in the corporate sector. In addition to this, there is a regulatory burden which is also one of the major obstacles for SMEs.
4. It has been noticed that most of the aspiring SMEs are prepare economic feasibility studies are conducted in a haphazard manner to obtain loans and support which is another major issue that has contributed to the failure of many projects [5].
5. There is complexity of regularity and administrative procedures, poor capacity to attract talents, and difficulty in obtaining funds.
6. Another major challenge SMEs are facing is lack of innovation, poor coordination and followed a strict quality standard with a large organization. Moreover, sometimes they also face issues in terms of late payments, pressure from low cost, procurement, audit procedures, compliance from larger organization which hampers SMEs growth.
7. Most SMEs does 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.
8. There is no proven legal environment that allows for collateral registry and legal environment in case of default.
9. According to Riyadh Chamber of commerce (2016), the most occurring obstacles to the SMEs are 32 percent information related, 33percent managerial, 53percent marketing and 65percent bureaucracy.

10. Difficulty in accessing appropriate domestic workers (i.e. higher dependency on expatriates).

Table 1: The Challenges Facing Industrial Establishment by Economic Activity 2017

Economic Activity	Shortage of management skills	Low quality of raw materials	Low demand
Mining of coal and lignite	22.3%	3.9%	13.3%
Extraction of crude petroleum and natural gas	6.6%	55.4%	52.9%
Mining of metal ores	29.5%	35.3%	11.9%
Other mining and quarrying activities	30.1%	3.2%	51.9%
Mining support services	17.2%	32.4%	33.7%
Manufacture of food products	20.6%	12.2%	64.2%
Manufacture of beverages	17.6%	48.5%	47.6%
Manufacture of tobacco products	22.7%	22.9%	0.6%
Manufacture of textiles	17.9%	44.1%	22.4%
Manufacture of wearing apparel	0.7%	13.2%	48.5%
Manufacture of leather products and related products	5.0%	58.5%	70.0%
Manufacture of wood and of products of wood and cork	2.8%	26.0%	4.0%
Manufacture of paper and paper products	25.6%	58.4%	9.9%
Printing and reproduction of registered media materials	13.3%	11.5%	48.6%
Manufacture of coke and refined petroleum products	28.4%	48.2%	4.2%
Manufacture of chemicals and chemical products	3.9%	25.1%	23.9%
Manufacture of pharmaceuticals and basic pharmaceutical products	29.7%	30.2%	44.5%
Manufacture of rubber products and plastics	31.6%	36.9%	65.1%
Manufacture of other non-metallic products	0.3%	48.1%	32.4%
Manufacture of basic metals	13.9%	20.1%	46.6%
Manufacture of fabricated metal products (except machinery and equipment)	6.4%	15.5%	16.8%
Manufacture of computer, electronic and optical products	2.9%	24.1%	57.4%
Manufacture of electrical equipment	3.3%	36.9%	38.8%
Manufacture of machinery and equipment not elsewhere classified	29.9%	59.9%	24.0%
Manufacture of motor vehicles	22.6%	13.5%	43.2%
Manufacture of other transport equipment	9.6%	17.3%	11.2%
Manufacture of furniture	23.6%	47.8%	11.2%
Other manufacturing industries	32.4%	27.2%	22.7%
Repair, maintenance, and installation of machinery and equipment	25.1%	26.7%	50.5%
Electricity, gas, steam and air conditioning supply	1.3%	27.5%	35.5%
Water collection, treatment, and supply	8.6%	21.1%	42.3%
Sewage	20.7%	36.2%	67.4%
Waste collection, treatment & disposal activities; materials recovery	4.5%	15.4%	43.1%
Remediation activities and other waste management services	24.5%	26.5%	34.9%
Total	16.3%	30.3%	35.2%

Source: GStat (Industrial Activity Survey 2017)

The number of non-Saudi employees in the country has also declined by 6.2 percent in 2Q18, as compared to that in 2Q17, reaching 9.98 million expats in 2Q18. This is primarily due to rising living costs in the country and strict job restrictions imposed by the government [6].

KINGDOM SUPPORT TO BOOST SAUDI SMEs

Under Saudi Vision 2030, the Kingdom plans to raise the contribution of SMEs from the current 20 percent of GDP to 35 percent by facilitating their access to funding and encouraging financial institutions to allocate up to 20 percent of overall loans to them from the current 5 percent [7]. The government has also introduced new nationalization initiatives to boost Saudi SMEs which includes King Abdulaziz City for Science and Technology's BADIR technology incubator program and Saudi credit and government bank's substantial loans to SMEs [8].

In 2018, the Kingdom of Saudi Arabia announced SR 72 billion programs to stimulate private sector growth out of which SR 2.8 billion for Small and Medium-sized Enterprises (SMEs) venture capital projects. An important initiative to the SMEs is reimbursement of government fees paid by SMEs for the first three years of the start-up with an allocated package of SR7 billion, for companies launched from 2016 onwards. The repayment also covers 80 percent of SMEs expat levies for three years, thereby helping such enterprises cope with costs in the initial years of transition under current economic reform plans. The stimulus package is a clear sign that particular effort is being made by the government to enhance competitiveness and attract investments in the private sector. The package is expected to enhance growth in the private sector through encouraging investment and providing support to the key growth enablers in the economy, such as SMEs [9].

The government of Saudi Arabia also opens Monshaat support center in three main programs such as training, advisory, and mentorship to more than 1000 SMEs and entrepreneurs while there are many other initiatives to increase SMEs contribution. The government also plans to create a supply of talent with the skills to stimulate with Vision 2030 aiming to decrease unemployment from 11.6 percent to 7 percent and to increase female participation in the workforce from 22 percent to 30 percent. The government has also launched BIBAN opportunity for Saudis whose aim is to strengthen the relationship between the current as well as the potential small and medium enterprises and the government entities, funding and investing entities, incubators and accelerators as well as growth and development agencies [11]. These programs will help the kingdom to become an industrial and logistics platform on three continents and will create jobs for citizens [12]. It has also been noticed that female entrepreneurs in Saudi Arabia are now establishing and managing more SMEs than ever before. According to the official statistics presented for World entrepreneurship day, 2017 Saudi women account for 39 percent of the total number of the entrepreneur in the kingdom, up 35 percent over the past 10 years. The newly established SME authority has been revved up with a new strategy, an up-to-date Kafala loan guarantee program, and a law to reduce the administrative burden on smaller companies. Mick, The Prince Mohammed Bin Salman Bin Abdulaziz foundation, promotes entrepreneurship to young Saudi men and women. In cooperation with the Bill and Melinda Gates Foundation launched the Grand Challenge initiative of \$10 million for the empowerment and motivations of young Saudi to bring change for the better community [13].

BENEFITS TO BOOST SMEs SECTOR IN SAUDI ARABIA

1. Helps in improving the economy of the country.
2. SMEs create job opportunities across geographic areas and sectors, employing broad segments of the labor force, including low-skilled workers, and providing opportunities for skills development.
3. Improves balance of payment of the country by increasing exports.
4. The main advantage of small and medium-sized companies that they have the ability to react quickly. As they do not seek any approval from the Board of Directors.
5. SMEs enable entrepreneurs by building strengthened supply chain and increased competitiveness.
6. SMEs also contribute in fulfillment of societal goals through environmental practice and sound labor and good community relations.

SUGGESTIONS

There is an urgent need to provide digitization platform to SMEs, authorities should provide a platform for digital governance where budding entrepreneurs will get all the necessary documents such as registering for licensing, apply for credits and so on. Moreover, they can also able to track their application. The use of digital technologies can also ease SMEs' access to skills and talent, through better job

recruitment sites, outsourcing and online task hiring, as well as connection with knowledge partners (OECD, 2017f). Companies should consider digitization strategy to understand local and global market.

A recent report from Newzoo [14], highlights how the Middle East region leads the way when it comes to digital communications, Saudi Arabia which is not far behind at 65.2% Smartphone penetration rate in the world.

Furthermore, Big Data and data analytics provide a wide range of opportunities for SMEs, enabling a better understanding of the processes within the firm, the needs of their clients and partners, and the overall business environment. Furthermore, banks need specialized skill to cater to the SME segment, but there has been a decline in the skill set, thus affecting capability development and innovation. In addition to this, more training centers at a micro level should be open so that masses can aware of the opportunities. More schemes and benefits should be available to SMEs which motivates them to take risks. Such as lower interest rate, rebates in electricity, VAT and land so, that SMEs can able to generate economies of scale. The government should organize trade fairs where SMEs can able to interact with large corporates and involved in a partnership with them which helps them to become more established which help SMEs, in particular, to compete globally.

The government should also arrange mentor programs where large corporations mentor SMEs and create a network with them. Large businesses can be highly important for stimulating SMEs growth which helps in guarantee revenue streams enable them to develop growth strategies.

CONCLUSION

The success of SMEs in the kingdom is closely related when country imports reduce and export increase, and the Kingdom is able to produce most of the goods locally. To accomplish Saudi Vision 2030, Kingdom of Saudi Arabia already spending millions of riyals and launch various programs to boost SME sector, but its success only depends if they have good strategy and funds utilized in an effective manner.

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APPENDIX

Table 2: Number of Industrial Establishments by Size of Establishment and Administrative Region 2017

Administrative Region	1-5	6-49	50-249	250 +	Total	Total SMEs	
	Micro	Small	Medium	Large			
1	Riyadh	20199	5531	1556	209	27495	7087
2	Makkah	20914	5043	1414	156	27527	6457
3	Medina	5986	952	802	49	7789	1754
4	Qassim	5203	557	227	22	6009	784
5	Eastren Region	14043	4381	1171	155	19750	5552
6	Asir	6042	303	128	14	6487	431
7	Tabuk	2725	242	112	8	3087	354
8	Hail	2434	204	82	7	2727	286
9	Northern Borders	1088	94	45	3	1230	139
10	Jazan	3730	309	119	6	4164	428
11	Najran	2103	210	64	4	2381	274
12	Baha	2044	102	64	3	2213	166
13	Al-Jouf	1728	109	85	4	1926	194
Total		88239	18037	5869	640	112785	23906

Source: GStat (Industrial Activity Survey 2017)

Table 3: Number of Workers by Administrative Region 2017

Administrative Region	6-49	50-249	Overall SMEs	
	Small	Medium		
1	Riyadh	70768	104715	175483
2	Makkah	61661	91797	153458
3	Madinah	11706	50356	62062
4	Al-Qassim	7540	17271	24811
5	Eastern Region	63212	76319	139531
6	Asir	3839	12241	16080
7	Tabouk	3364	8544	11908
8	Hail	2360	6502	8862
9	Northern Borders	1377	3413	4790
10	Jazan	3807	11350	15157
11	Najran	3073	5937	9010
12	Al-Baha	1359	4569	5928
13	Al-Jouf	1509	6356	7865
Total	235575	399370	634945	

Table 4: Number of Industrial Establishments by Economic Activity and Administrative Region 2017

Administrative Region		Riyadh	Makkah	Medina	Qassim	Eastren Region	Asir	Tabuk	Hail	Northern Boarders	Jazan	Najran	Baha	Al-Jouf	Total
Economic Activity															
1	Mining of Coal and Lignite	6	0	0	0	0	0	0	0	1	0	0	0	0	7
2	Extraction of Crude Oil and Natural Gas	7	3	3	0	53	1	1	0	1	2	1	0	0	72
3	Mining of Metal Ores	20	15	3	1	9	0	1	0	1	1	0	0	0	51
4	Other Activities Related to Mining and Quarrying	155	95	12	11	94	9	5	4	3	5	3	1	2	399
5	Activities of Mining Support Services	17	16	10	12	62	8	5	6	4	6	4	6	4	160
6	Manufacture of Food Products	2530	2824	830	635	2006	690	436	388	130	644	283	274	225	11895
7	Manufacture of Beverages	297	329	43	64	193	43	11	9	4	13	7	3	5	1021
8	Manufacture of Tobacco	8	22	5	2	7	6	4	5	2	11	7	4	3	86
9	Manufacture of Textiles	737	693	85	85	659	12	34	31	18	9	8	7	13	2391
10	Manufacture of Clothes	8021	7887	2139	1753	5565	1806	1091	986	353	1400	794	617	548	32960
11	Manufacture of Leather Products and Other Related Products	31	31	16	14	17	7	4	3	4	7	6	3	5	148
12	Manufacture of Wood, Wood Products, and Foam	1313	1274	317	239	879	259	106	91	78	142	108	86	106	4998
13	Manufacture of Paper and Other Related Products	132	100	8	13	89	2	1	4	2	3	1	1	1	357
14	Printing and reproduction of recorded media	295	270	101	79	302	68	61	49	29	72	38	26	43	1433
15	Manufacture of coke and refined petroleum products	27	28	10	2	47	6	2	3	2	6	1	1	2	137
16	Manufacture of chemicals and chemical products	422	375	43	26	522	23	19	23	8	21	17	11	19	1529
17	Manufacture of products and preparations pharmaceutical	25	32	7	8	16	2	4	1	0	1	1	0	2	99
18	Manufacture of rubber and plastics products	233	259	19	11	237	7	4	3	2	6	5	3	4	793
19	Manufacture of other non-metallic mineral products	1170	1094	283	205	1187	252	52	29	110	140	59	63	42	4686
20	Manufacture of basic metals	180	143	13	12	159	11	14	17	8	17	7	10	18	609
21	Manufacture of fabricated metal products	3994	3836	1727	1227	3564	1673	881	767	234	1151	698	908	617	21277
22	Manufacture of computer, electronic and optical products	64	47	2	3	31	1	0	2	0	0	0	0	2	152
23	Manufacture of electrical equipment	212	137	16	15	133	21	16	13	8	16	13	9	11	620

24	Manufacture of machinery and equipment n.e.c.	109	103	21	24	61	12	9	8	4	11	7	5	7	381
25	Manufacture of motor vehicles, trailers and semi-trailers	117	95	14	13	83	4	2	5	1	2	1	1	1	339
26	Manufacture of other transport equipment	18	11	1	1	13	1	1	2	0	2	0	0	1	51
27	Manufacture of furniture	3418	3239	412	402	1391	420	105	90	70	121	95	62	79	9904
28	Other manufacturing	147	114	21	23	93	18	14	15	9	26	15	9	17	521
29	Repair and installation of machinery and equipment	2805	3520	1416	950	1797	1009	151	119	85	258	154	75	109	12448
30	Electricity, gas, steam, and air conditioning supply	245	211	39	49	154	32	9	11	6	18	8	3	6	791
31	Water collection, processing, and supply	546	583	154	121	250	81	42	38	51	52	39	25	31	2013
32	Sanitation	54	42	12	6	18	3	0	2	0	1	1	0	1	140
33	Activities of waste collection, processing, disposal, and recycling	129	95	7	3	55	0	2	3	2	0	0	0	2	298
34	Other processing activities and waste management services	11	4	0	0	4	0	0	0	0	0	0	0	0	19
Total		27495	27527	7789	6009	19750	6487	3087	2727	1230	4164	2381	2213	1926	112785

Source: G-Stat (Industrial Activity Survey 2017)

S. No.	Table 5: Economic Activity	50-249	6-49	Total
		Medium	Small	
1	Mining of Coal and Lignite	0	0	0
2	Extraction of Crude Oil and Natural Gas	40	14	54
3	Mining of Metal Ores	23	15	38
4	Other Activities Related to Mining and Quarrying	135	229	364
5	Activities of Mining Support Services	77	50	127
6	Manufacture of Food Products	615	1610	2225
7	Manufacture of Beverages	119	245	364
8	Manufacture of Tobacco	2	10	12
9	Manufacture of Textiles	78	280	358
10	Manufacture of Clothes	99	2137	2236
11	Manufacture of Leather Products and Other Related Products	10	22	32
12	Manufacture of Wood, Wood Products, and Foam	141	1501	1642
13	Manufacture of Paper and Other Related Products	107	134	241
14	Printing and reproduction of recorded media	166	441	607
15	Manufacture of coke and refined petroleum products	19	76	95
16	Manufacture of chemicals and chemical products	519	594	1113
17	Manufacture of products and preparations pharmaceutical	45	20	65
18	Manufacture of rubber and plastics products	209	323	532
19	Manufacture of other non-metallic mineral products	1129	1708	2837

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20	Manufacture of basic metals	269	205	474
21	Manufacture of fabricated metal products	728	5321	6049
22	Manufacture of computer, electronic and optical products	15	63	78
23	Manufacture of electrical equipment	160	103	263
24	Manufacture of machinery and equipment n.e.c.	102	139	241
25	Manufacture of motor vehicles, trailers and semi-trailers	75	170	245
26	Manufacture of other transport equipment	7	14	21
27	Manufacture of furniture	286	1132	1418
28	Other manufacturing	53	90	143
29	Repair and installation of machinery and equipment	175	703	878
30	Electricity, gas, steam, and air conditioning supply	246	162	408
31	Water collection, processing, and supply	119	355	474
32	Sanitation	38	42	80
33	Activities of waste collection, processing, disposal, and recycling	54	124	178
34	Other processing activities and waste management services	9	5	14
	Total	5869	18037	23906
Source: GStat (Industrial Activity Survey 2017)				

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