Challenges of Financing Small and Medium Enterprises in Saudi Arabia: Impacts and Solutions

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Abstract: The challenges and poor access to financial loans for small and medium-sized enterprises (SMEs) in the Kingdom of Saudi Arabia (KSA) were investigated in this study. The researcher employed the qualitative research method by reviewing 40 relevant news/scholarly articles and books to answer the research questions. The thematic content analysis results revealed the different factors that limit the access of SMEs to capital and the corresponding effects on their formation, growth, and evolution. Some of those factors included strenuous regulations, guarantees, and exorbitant interest rates required from banks. The study also provided new financing avenues that the SMEs in KSA can explore for their operations and growth. This study also highlighted the different financial avenues through which SMEs can exploit financial resources and increase their contribution to the economy of KSA. Moreover, some recommendations that could alleviate SMEs' financial challenges were presented. One of those was that the government has to avail subsidized loans for SMEs, and conventional lending institutions need to offer loans to SMEs at subsidized costs and relax collateral conditions while reducing procedural complications. Finally, the researcher presented a simple legal framework that policymakers can apply to facilitate the access of SMEs to capital.

Keywords: Small and medium-sized enterprise (SME); Financial access; SMEs' Finance; Financial challenges.

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تحديات تمويل المشاريع الصغيرة والمتوسطة في المملكة العربية السعودية: الآثار والحلول

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ملخص: تطرقت الدراسة إلى التحديات التي تعيق وصول الشركات الصغيرة والمتوسطة (SMEs) في المملكة العربية السعودية إلى التمويل المطلوب. وقد استخدم الباحث أسلوب البحث النوعي من خلال مراجعة أكثر من ٤٠ مقالاً علمياً وكتاباً للإجابة عن أسئلة البحث. وتوصلت الدراسة إلى أن العوامل الأكثر تأثيراً على مقدرة تلك الشركات للوصول إلى التمويل اللازم تتمثل في اللوائح والقوانين الصارمة والضمانات وأسعار الفائدة الكبيرة التي يتم طلبها من البنوك ولا تستطيع تلك المنشآت تلبيتها. وعلى ضوء ذلك قدمت الدراسة مجموعة من التوصيات التي يمكن أن تخفف من التحديات المالية للشركات الصغيرة والمتوسطة. كان من ضمن تلك التوصيات حث الشركات الصغيرة والمتوسطة على الاستفادة من القروض المدعومة حكومياً مع ضرورة دعم الحكومة لذلك. كما أن على مؤسسات الإقراض التقليدية تقديم قروض للشركات الصغيرة والمتوسطة بتكاليف مدعومة، وتخفيف شروط الضمانات مع تقليل التعقيدات الإجرائية. أخيرًا ، قدم الباحث إطارًا قانونيًا بسيطاً يمكن لواضعي السياسات تطبيقه لتسهيل وصول الشركات الصغيرة والمتوسطة إلى رأس المال.

كلمات مفتاحية: الشركات الصغيرة والمتوسطة؛ التمويل، تمويل الشركات الصغيرة والمتوسطة؛ التحديات التمويلية.

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Introduction

Small and medium-sized enterprises (SMEs) are considered the drivers of economic growth and a means of achieving political and economic stability because of their immense contribution to production, general employment, and economic diversification (Giaoutzi et al., 2016). For example, SMEs account for approximately 50% of the total gross domestic product (GDP) of the United States and employ approximately 60% of the total labor force across different industries (Kapur, 2021; Collins, 2018). Similarly, almost 99% of the total firms in Europe are categorized as SMEs, and they employ approximately 85% of the total labor force across the different sectors of the economy (EUROPA, 2021). In comparison, the SMEs in the Kingdom of Saudi Arabia (KSA) only account for 20% of the total GDP and employ approximately 50% of the total labor force (Elhassan, 2019). Therefore, the SMEs in the KSA do not contribute significantly to the economy, which is of concern because it weakens its economy. However, on the other hand, SMEs in a country contribute significantly to the diversification of its economy, thus stabilizing it and increasing its predictability.

A literature review exposes some of the factors that prevent the start-up and growth of the SMEs sector in the KSA (Bouazza et al., 2015). For instance, the literature suggests that factors such as strict regulations, limited or highly structured access to financial loans, inadequate policies to govern SME industries, and credit facilities could prevent the start-up, growth, and evolution of SMEs (Erdogan, 2018; Waked, 2016; Afraz et al., 2014).

Among other factors, the contributions of SMEs to the KSA's economy are adversely affected by strict management, a lack of funding, and administrative procedures. The shortage of capital was also found to be the most significant challenge to the development of SMEs. In addition, banking and other lending institutions also limit the growth of SMEs through strict regulations and conditions on the provision of loans. Therefore, this study aims to elucidate how SMEs' limited access to capital and finance affects their operations and the economy in general. It also reveals some alternative financing models that can promote the existence and growth of potential and existing SMEs.

Research Questions

This study explores the effects of limited access to capital and finance on potential and existing SMEs in Saudi Arabia. Additionally, this study aimed to determine how the poor growth of SMEs in the KSA affects the economy. Furthermore, the researcher sought to identify alternative financial institutions, sources of finance, and avenues that could ensure the start-up and growth of potential and existing SMEs. More specifically, this study attempted to answer the following research questions:

(1) **What are the effects of limited access to capital and finance on potential and existing SMEs in Saudi Arabia?**
(2) **How does the poor growth of SMEs in KSA affect the Saudi economy?**
(3) **What are the alternative financing models that could be used for the start-up and growth of potential and existing SMEs?**
(4) **How does the limited access to capital affect SMEs in the KSA and the economy?**
(5) **What alternative financial avenues can SMEs in KSA explore to obtain capital resources?**

Methodology

A qualitative research method was employed to answer the research questions in this study. This design was selected because most of the data required to answer the research questions were non-numeric.

Data Collection Method

The study data were collected from scholarly papers, news articles, reports, and books through a literature review. For instance, the relevant literature was methodically and meticulously reviewed to gather the evidence that contributed to answering the research questions. Bengtsson (2016) and Berg and Lune (2012) argue that this method of collecting germane data or evidence is commonly employed because it is ubiquitous and reliable. Further, most qualitative studies rely on extensive and meticulous literature reviews to obtain relevant information (Billups, 2019). Therefore, the researcher adopted a literature review as the data collection instrument in this study.

Pan (2016) asserts that the authenticity of the inquiry increases with the size of the data in a qualitative study; therefore, the researcher preferred an extensive review. Subsequently, 40 articles and books were used to gather relevant data and evidence for the study.

Text mining techniques were utilized to access the relevant articles and books and collect the data. For example, terms and phrases such as SMEs, Saudi Arabia, Saudi SMEs, and SMEs financing in Saudi Arabia were used to extract the relevant evidence. This highly tested and promising strategy is expected to produce the desired outcome. Further, the keyword or phrase strategy is result-oriented and straightforward.

The reliability and validity of the obtained data were tested by examining the scholarly sources in the report by Billups (2019). Furthermore, to establish data validity, the literature was scrutinized based on the year of publication. Thus, more recent evidence was considered more valid.

Data Analysis Method

Thematic content analysis was accomplished to analyze the data based on a systematic analysis of the retrieved contents from the selected articles and books. This method is best suited for examining the evidence obtained based on a systematic analysis of the retrieved contents from the selected articles and books. This method is best suited for examining the evidence obtained. Therefore, the study mainly analyzed phrases in the conclusions and inferences of the selected literature.

Literature Review

The literature review section investigates why potential and existing SMEs struggle to acquire start-up and growth loans. The subsequent section explores the effect of limited access to finance on SMEs, the economy, and the economic objectives of the KSA, such as VISION 2030 (KSA.gov., 2020; Amirat and Zaidi, 2020; Nurunnabi, 2017). The final section discusses financing alternatives for start-up and expansion that potential and existing SMEs in the KSA can access.

Limited Access to Capital as a Major Impediment to the Growth of SMEs

Several studies have revealed that SMEs worldwide struggle to access the desired financial resources. The limited access to the required capital affects their growth and survival. For instance, Bouazza, Ardjouman, and Abada (2015) confirmed that limited access to finance, particularly external finance, hampers the growth of SMEs and accounts for the high rate of crises in the sector. Similarly, Aruna (2015) observed that the undercapitalization of SMEs due to limited access to finance is the major cause of liquidation in the short and medium term. Studies on SMEs' access to finance also revealed that capital has become more structural and complex in most developing countries than in developed countries since the Great Recession (CESLD, 2009).

A study by Veiga and McCahery (2019) on the financing gap in Brazil revealed that conventional banks have slightly reduced their lending rates to SMEs since the financial crisis of 2007–2008. For instance, the lending rates in Brazil declined from 17.5% in 2014 to 15.95% and 14.4% in 2015 and 2016, respectively. They predicted that lending rates to SMEs would further decrease in the event of another financial crisis in Brazil or a global one (Veiga and McCahery, 2019). Although all SMEs have faced limited access to capital in recent years, the main victims are the nascent ones. A study on first loans to SMEs by the OECD, published in 2018, revealed that the rates of issuing loan facilities have decreased considerably in most developed and developing countries recently due to the volatility of the global economy (OECD, 2018).

The literature on the availability of financial resources reveals factors other than economic volatility that prevent traditional lending institutions from issuing loans to embryonic and existing SMEs. Most of these factors are longstanding and not novel. For example, Wonglimpiyarat (2015) reported that traditional lending institutions hesitate to offer loans to the SME sector regardless of their importance owing to the 1) risk involved in the early stage of the venture, 2) inadequate collateral, 3) unestablished financial track record, 4) low capital, and 5) lackluster returns. Other researchers have drawn similar inferences (Fredriksson and Moro, 2014; Menkhoff, Neuberger, and Rungruxsirivorn, 2012; Wonglimpiyarat, 2007; Berger and Udell, 2006; Berger and Udell, 1998; and Black and Gilson, 1998). Most of these factors also relate to Saudi SMEs, although other factors adversely affect access to external finance or capital (Rafiki 2020). These other factors that complicate access to capital and financial resources for SMEs in the KSA are discussed below.

Factors Complicating the Availability of Capital and Financial Resources to the Saudi SMEs

The KSA's Approach and Policies Regarding SMEs

The KSA government mainly focused on the oil industry, which accounts for a significant fraction of the Kingdom's wealth. It is estimated that the oil industry accounts for 87% of the total budget revenue and 42% of GDP (OPEC 2020). Since the primary focus is the oil industry, which accrues enormous wealth for the Kingdom, the KSA government only recently devised a comprehensive and effective policy for SMEs. Thus, traditional banks and lending institutions had no input, consequently limiting access to capital for SMEs (Farhan and Tayachi, 2021).

It is noteworthy to recognize the government's strong influence on how local banks and lending institutions perceive different industries (Chen, He, and Liu, 2020). For instance, local banks and financial institutions will support a particular industry if the government aims to promote it, which can ease financial access.

Preference for Big and Well-Established Clients

Local banks and lending organizations are risk-averse, which accounts for their reluctance to finance embryonic or nascent SMEs (Al-Maskari et al., 2019). In the KSA, traditional banks and lending institutions are reluctant to lend loans to embryonic SMEs because of insufficient collateral or a credible financial history (Siddiqui, 2021). In addition, the preference of lending institutions for big and well-established clients complicates access to capital for Saudi SMEs. Conventional banks and lending organizations prefer to issue loans to large and well-established corporations because of their confidence in the security and profitability of the loan.

Limited Frameworks for Financing

Studies on the Saudi banking system and its lending operations reveal that conventional Saudi banks have very limited lending instruments or frameworks, which manifest more when SMEs are involved (Ahmad, 2012). For instance, the framework or instrument conventional Saudi banks predominantly employ to lend finance to Saudi embryonic and existing SMEs is Kafalah. Moreover, since developing a framework for availing financial assistance to small, medium, and large enterprises through traditional banks by the Saudi Industrial Development Fund (SIDF), the implementation by the banks has been largely inadequate and ineffective (Altokhais, 2017). Studies have demonstrated that the rate of issuing loans to SMEs would have increased significantly and directly if conventional Saudi banks and lending institutions had developed their frameworks for lending money to SMEs. For example, under the Kafalah program, SMEs can acquire loans of up to two million Saudi riyals. However, this requirement indicates that traditional banks have insignificant frameworks for lending money to SMEs, leading to limited capital disbursements to the sector.

Conditions and Requirements

The loan-related conditions and requirements of conventional banks are the other impediments to the nurturing and growth of SMEs. Several studies on the Saudi SME industry have revealed that Saudi banks and lending organizations issue loans to SMEs under austere conditions. Therefore, most SMEs seek loans from alternative financing institutions. The bank loan conditions for SMEs are tough and cumbersome. For instance, a traditional bank imposes 11 conditions for a standard SME loan. Some of these conditions include 1) a financial statement for three years, 2) collateral that is 80% of the required loan, 3) a good credit score, and 4) a burrowing rate of 6%–8% (Elhassan 2019).

Procedural Complications

The procedure-related complications associated with loans to SMEs are another factor that renders the access of SMEs to finance or capital highly structural and challenging. Generally, a typical SME undergoes various processes, such as vetting and guaranteeing, to secure a loan of up to two million Saudi riyals (533,193.70 USD) (Ahmad, 2012). Most of these processes discourage potential SME clients from applying for loans because they are extremely rigorous and time-consuming. Most embryonic and existing SMEs avoid borrowing capital or finance from conventional banks because of other rigorous procedures such as interviews, investigations, and guarantees.

Unavailability of Medium and Long-Term Loans

Another hurdle to acquiring loans from conventional banks and lending institutions is the nature of the loans (Khan 2013). Sufficient evidence indicates that traditional lending firms do not offer medium- or long-term finance to embryonic and existing SMEs at a low interest rate. Instead, most conventional lending firms offer short- or immediate-term loans to emerging and existing SMEs at extraordinarily high rates for their start-up and expansion. SMEs avoid these loans because of their attractiveness and high risk.

SMEs' Presence in the KSA and Their Contribution to National Economy

Saudi SMEs are inferior to those of most developed and developing economies. For example, SMEs represent approximately 98.64% of the total enterprises in China. In the European Union, predominantly a group of developed economies, SMEs represent 99% of all enterprises (European Commission, August 2021). In comparison, the SMEs in the KSA represent approximately 85% of all enterprises. Approximately 85% of them are registered as either small or medium-sized. The total contribution of Saudi SMEs to the economy is only approximately 20%, whereas those of other developed and developing economies are approximately 70% of GDP. Therefore, the economic contributions of most small business enterprises in the KSA are relatively insignificant. Saudi SMEs accounted for only 20% of the total GDP in 2020, a notable decline from 22% in 2016 (Statista, 2016; Ali, 2020). The figure below shows the contribution of SMEs in the Gulf Cooperation Council to GDP.

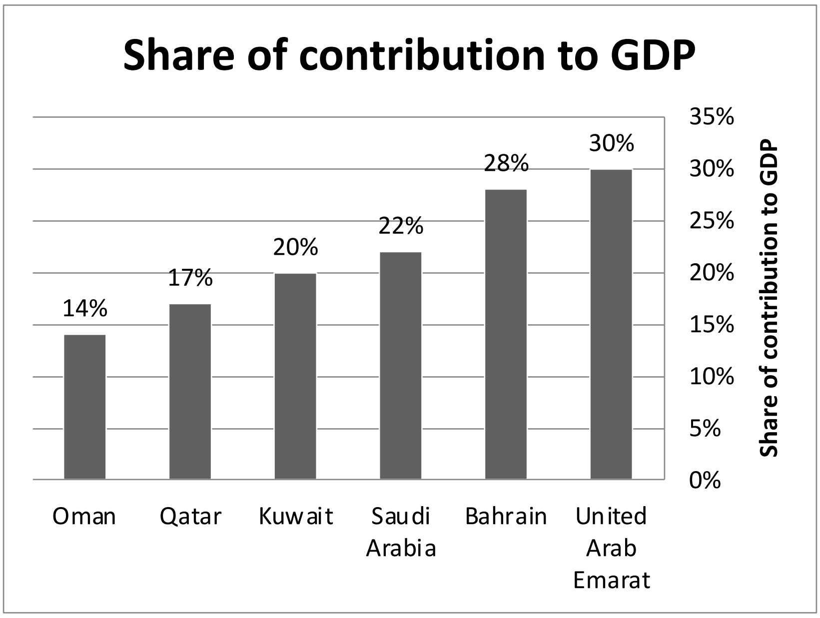

Figure 1: Contribution of SMEs to GDP in Gulf Cooperation Council in 2016
Source: Statista, modified by the Author.

Growth Opportunities for SMEs in Saudi Arabia
According to the economic reports published in 2020, the Saudi economy, which is the 17th largest globally, is worth 701.47 billion US dollars (World Bank, 2021). Another aspect of the Saudi economy is constant aggregate consumption, which provides more economic opportunities for nascent and existing SMEs. In addition, the KSA economy is highly conducive to nascent and existing SMEs because it is diversified. The Kingdom has decided to reduce its oil reliance by 2030 by emphasizing non-conventional sectors of its economy and increasing the number of SMEs (KSA.gov. 2020). The framework, which the KSA has devised, implements its economic diversification plan based on the growth of SMEs, is referred to as Vision 2030 (KSA.gov., 2020). This framework is comprehensive, comprising policies that can avail financial avenues to facilitate the start-up and growth of nascent and existing SMEs.

Alternative Financing Avenues for SMEs
Different studies on the financing avenues for the Saudi SMEs revealed that most small and medium enterprises, especially those in their embryonic or budding state, obtain the necessary capital from alternative financial sources (Ali et al., 2020; Tripathi, 2019; Abbasi et al., 2017). For instance, studies have revealed that approximately 80% of the Saudi micro, small, and medium enterprises acquire loans from unconventional financing sources due to the complications accompanying the SME loan application from conventional lending institutions. These alternative avenues are presented in the following subsections:

Savings
Most KSA SMEs rely on their savings to finance their endeavors because **personal savings** are free from associated costs. For instance, SMEs do not have to pay additional interest rates and service charges for using their capital. However, since the individual savings of SMEs are small, they are insignificant for the primary and secondary objectives of start-up, survival, and expansion. An emerging issue from utilizing personal savings during different business-cycle phases includes the rigidity of the capital structure. Studies have revealed that the capital structure of SMEs will become more rigid with increasing utilization of savings to fund their operations or expansions, which complicates the business operations. In addition, the bold utilization of personal capital or savings increases the volatility and

insecurity of SMEs because it reduces their ability to manage crises efficiently. Existing SMEs employ internal equity to fund their working capital or facilitate capital investment, whereas nascent ones employ personal savings or assets.

Families

In addition to personal savings, owners of SMEs can rely on their families for funding. According to some reports, some SMEs secure funding from their relatives in different phases of their business cycles (Kraemer-Eis and Lang, 2014; OCED, 2015; Taiwo and Benson, 2016). In most cases, the funds are secured under soft conditions. For instance, families or relatives lend money to enterprises (micro, small, medium, and large) at minimum interest rates and on very flexible terms, making it easy for SMEs to reschedule their debt-payment plans. However, this type of financing is limited in terms of the size of the loan. It is also affected by the indiscipline of SMEs. Families and relatives have no methods or instruments to enforce regular repayment of the debt, either as promised profit or according to the schedule.

Partners in the Vertical Supply Chain

SMEs can also depend on their partners in the supply chain for funding. For instance, micro, small, and medium enterprises request funds from companies in their supply chain for effective functioning or expansion. Companies in the vertical supply chain mainly issue the required funds under moderately strict conditions. For instance, companies in the supply chain make funds available to SMEs at lower interest rates than traditional banks and lending institutions. Additionally, such funds are usually available for existing SMEs rather than nascent or embryonic ones. This limitation implies that funding is available only to SMEs with substantial recognition-related capital.

Strategic Alliances with Large Firms

SMEs also develop strategic partnerships with large enterprises to mitigate their funding-related challenges. The relevant literature on this subject reveals that such partnerships are highly promising and effective. For instance, Wasiuzzaman's (2019) study on inter-firm alliances in Malaysia revealed that strategic alliances positively and significantly impact the access of SMEs to finance. The study also revealed that strategic alliances account for increased access to finance and rare or precious tangible and intangible resources, such as knowledge and experience, which are both interlinked. One of the benefits of accessing rare or precious tangible and intangible resources is increased capacity. Navas-Aleman, Pietrobelli, and Kamiya (2015) observed that increased access to tangible and intangible resources correlates with increased functional capacity, which eventually translates into improved profit (Navas-Alemán, Pietrobelli, and Kamiya, 2015).

Further, the Saudi SMEs are developing strategic alliances with large firms for funds and capacity building. However, these alliances with large firms are few and uncommon in the KSA because of the significant difference between SMEs and large enterprises. Another reason is that the KSA large firms do not rely on SMEs to function efficiently. Therefore, they are not particularly invested in developing strategic alliances with SMEs. Nevertheless, the Saudi SMEs and large firms must actively pursue strategic alliances as a link for mitigating the financial issues of SMEs via trade credit and group lending (Wasiuzzaman et al., 2020; Shang et al., 2020; Casey et al., 2014; Aktas et al., 2012). Furthermore, Soumya and Jayaprada (2018) stated that SMEs could expand into foreign markets, increase their customer base, access dispersed capacities, and leverage technologies and other resources via strategic alliances.

Venture Capital (VC)

VC is another avenue through which SMEs can acquire funding. VC is mostly available and beneficial to SMEs at their venture and start-up stages. At the same time, loans from banks and financial institutions are available and beneficial to SMEs in their growing and maturity stages. SMEs normally adopt venture capitalism annually at their formation or growth stages. However, according to Wonglimpiyarat (2015), the source of capital to support ventures at their early stages is mainly seed funds, business angels, and VC financing (Siddiqui et al., 2021).

VC is an avenue for SMEs to acquire the required loans or capital in the KSA. However, this source of finance is not large and reliable, which explains why very few Saudi SMEs have sourced funds through VC (Gazzaz, 2019). Therefore, the KSA has developed a program worth $1.07 billion to make VC attractive as a source of finance for SMEs.

Equity (conventional and alternative)

Companies worldwide *go public* by offering stocks to generate the required funds. Although equity funding is universal, it is more prevalent across economies and firms. However, in most emerging economies, SMEs do not usually offer their shares to potential investors. Therefore, such strategies would hardly benefit these firms for the required funds. Another reason for the reluctance to go public is *control*. The owners of SMEs are sensitive about ownership and control of their firms, which would be undermined when such firms go public or offer stocks to potential investors (Nurunnabi et al., 2020).

Similarly, Saudi SMEs barely select the equity option to access the required funds to implement their objectives. However, it is also evident that equity funding is acknowledged as a source of finance for Saudi SMEs. In addition to these alternative financing frameworks, the Saudi SMEs also employ profit-sharing models and crowdfunding (Gazzaz, 2019; Ali, 2017; Blace and Grubisic, 2017). Figure 2 below shows alternative financial avenues for SMEs.

Figure 2: Alternative Financial Avenues for SMEs (Progressively)
Source: Author analysis

Results

The data obtained during this qualitative inquiry to answer the research questions were insightful. This section discusses the insights from the study to draw possible inferences and propose some recommendations which may facilitate the implementation of the KSA Vision 2030, with a particular focus on the growth of SMEs.

Growth of SMEs and Access to Finance

A substantial amount of evidence indicates that the growth of Saudi SMEs is positively related to their access to finance. This evidence implies that Saudi SMEs will grow across various sectors of the economy if they have access to finance. However, their access to finance is significantly limited by different factors, among which is the fact that traditional banks do not consider SMEs lucrative or preferred clients.

Consequently, conventional banks and financial institutions engage SMEs with reluctance, affecting their access to capital and finance. Another reason for the limited access of SMEs to loans from conventional banks includes strenuous **regulations and guarantees**. In addition, conventional banks and financial institutions are risk-averse and have extensively complicated the loan-issuing process to increase the number of guarantees. These complications and guarantees regarding loan acquisition become more stringent if the loan beneficiary is an SME than another customer. The third major reason is the exorbitant interest rates, which most SMEs cannot pay back along with the installments.

Conventional Financial Institutions and SMEs Financing

The literature reveals that embryonic and existing Saudi SMEs rely primarily on alternative financial avenues to fund their existence and growth since banks hesitate to lend the required finance (Nassr and Wehinger, 2016; Sadi and Henderson, 2011). However, most financing options Saudi SMEs rely upon for funding are detrimental to growth because they are neither reliable nor ensure discipline. For instance, it is uncertain whether the alternative financing avenues would provide all the funds required for their start-up or growth. Similarly, the conditions under which Saudi SMEs acquire funds from alternative avenues are less stringent and more flexible than conventional sources. Thus, these funds do not ensure financial and operational discipline for the SMEs.

SMEs exhibit certain tendencies toward borrowing. These tendencies are explained effectively by the Pecking-order and Trade-off theories. Therefore, SME-related state institutions must consider these theories meticulously when developing policies to encourage and facilitate the access of SMEs to funds through conventional financial institutions.

Impact of the Growth of SMEs on the Saudi Economy

The evidence on the growth of SMEs and their impact on the economy indicates significant contributions across various economic sectors. Most SMEs that will start up or expand via the new policies are expected to be labor-intensive and, therefore, will address unemployment and stabilize the political and economic system. As a result of the growth of SMEs, aggregate consumption will increase and be consistent.

Besides the immediate impact on the economy, the rapid growth of SMEs will also exert medium- and long-term positive impacts. Competitive industries and markets are a major long-term benefit of the rapid growth of SMEs. Increasing SMEs in the KSA creates competitive industries and markets that lower prices. The excess demand created causes an increase in consumer surplus and increases the quality of goods and services through increased industrial innovation. Another long-term benefit of the rapid growth of SMEs is economic diversification, which Saudi Arabia's policymakers are keen to pursue. A third long-term positive impact is the substantial reduction in income inequality. SMEs are instrumental in efficiently distributing wealth throughout the economy and, in the process, reducing income inequality. However, this process is generally gradual and requires intervention by the government to achieve the desired results.

Discussion and Conclusion

This study does have its limitations. Mainly, this research focused on studying the literature and articles that dealt with the research problem during the past twenty years (1998–2021). Through this, the researcher seeks to employ these results, apply them to small and medium-sized companies in Saudi Arabia, and link this to the internal policies followed. As a result, the research comes out with recommendations that apply to the investment environment in Saudi Arabia.

Based on this qualitative inquiry, the following three inferences can be drawn:

Firstly, the limited role of SMEs in the KSA negatively affects the economy, as observed in the volatility of the Saudi economy. The SMEs' role in the Saudi economy is limited by access to loans and highly structured loan facilities from conventional lending institutions. Secondly, government policy was found to have a significant influence on the growth of the SME sector. It is believed that the SMEs sector would spring up and contribute more to the economy if financial access increased. Financial access would increase the presence of SMEs in various economic sectors of the KSA, and the rapid growth could efficiently and promptly address many of the fundamental economic challenges.

Thirdly, there are several alternative financial avenues that potential and existing SMEs can depend on for formation, growth, and survival, and they include savings, family support, partners, strategic alliances, VC, and equity.

Recommendations

Based on the findings and inferences of this study, three main recommendations are presented. Firstly, the KSA should substantially increase the number of SMEs across different industries by availing subsidized loans. The financial cost attached to a loan, also referred to as the interest rate, primarily determines its attractiveness to a firm. If short-, medium-, and long-term interest rates are low, SMEs are attracted to borrowing, confirming a negative correlation. Therefore, it is recommended that conventional lending institutions offer loans to SMEs at subsidized costs. Since banks cannot voluntarily adopt this measure owing to policy and profit-related compulsions, it will be beneficial for the government to assume the responsibility of availing subsidized loans to SMEs to facilitate capital. This step will ensure their rapid growth across various.

Therefore, it is recommended that conventional lending institutions offer loans to SMEs at subsidized costs. Since banks cannot voluntarily adopt this measure owing to policy and profit-related compulsions, it will be very beneficial for the government to assume the responsibility of availing subsidized loans to SMEs to facilitate their access to capital. This step will ensure their rapid growth across various sectors. It will also be beneficial if the Saudi government addresses the issues associated with the access of SMEs to finance through direct intervention by encouraging lending institutions to reduce the interest rate and loan requirements for SMEs. It must diligently and effectively implement the Vision 2030 components regarding SMEs for that purpose. The Saudi government could execute this task by subsidizing loans for SMEs through national funds. Besides subsidizing the loans for the SMEs, the KSA could also increase the types of loans for SMEs. It is expected that embryonic and existing SMEs will grow when more subsidized capital or finance is available.

The second recommendation is to relax collateral conditions, which lending institutions seek when issuing loans to SMEs. The KSA must encourage SMEs to acquire funds from conventional lending institutions. In addition to the exorbitant interest rates, the collateral requirements can impede access to finance for SMEs. Most traditional lending institutions require extensive collaterals from SMEs for loans. In some cases, the collateral required is up to 80% of the loan value. Since most SMEs, especially those in their embryonic stage, cannot afford such collateral, they avoid applying. The Saudi government must intervene through policies or regulations to address this challenge. For instance, banks and other lending institutions could be directed to request collateral of approximately 40% of the loan value.

Another recommendation is to reduce procedural complications that accompany loan acquisition because these complications could discourage the SMEs from approaching banks for short-, mid-, and long-term loans. The KSA and its financial institutions can reduce these procedural complications by developing a simple and legally authentic framework for issuing loans.

Figure 3 highlights the implementation of these recommendations. It is a framework of regulations that policymakers can adopt for robust SMEs' access to finance. These policymakers include the Saudi government, lending institutions, and other stakeholders.

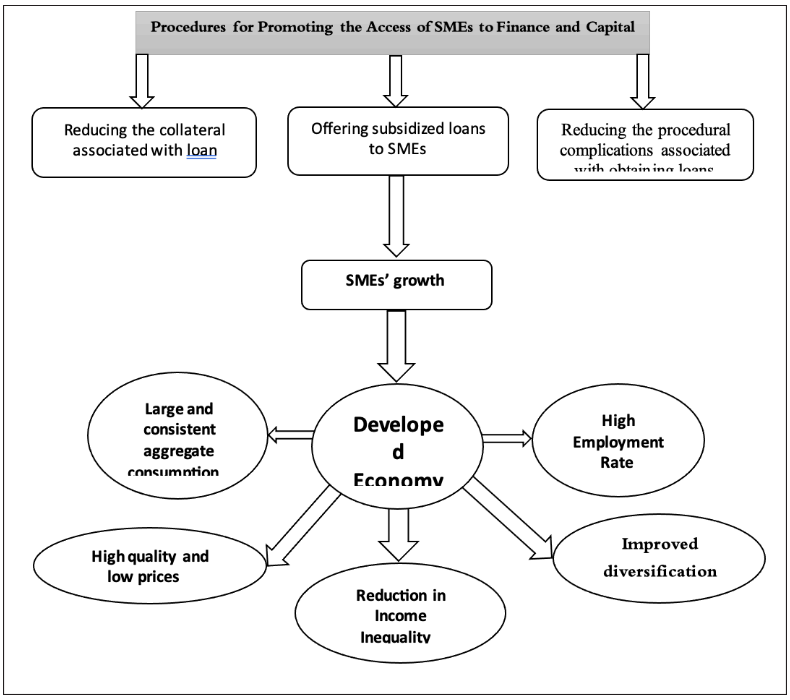

Figure 3: Proposed SMEs development framework
Source: Author

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