

## **FINANCING FOR SMEs IN THE KSA: A CRITICAL EVALUATION OF THEIR JUSTIFICATION TO AND FULFILMENT OF THE PURPOSE**

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***Abstract:** Small and medium enterprises (SMEs) are immensely beneficial in developing diversified production as well service sectors in an economy. The Kingdom of Saudi Arabia (KSA) has witnessed a strong foothold of family run businesses in its society, though the sector remained deprived of economic attention for long. Currently, the Kingdom doesn't only seem to be recognising the importance of the SMEs, but also taking the initiatives needed to bolster their performance and growth in the economy. It has also made the development of SMEs as an integral goal of its 2010-2014 development plan. The step is also expected to diversify the nation's economy widely. Consequently, there is an increased upsurge in the credit schemes introduced by government specialized credit institutions as well as banks and other financial institutions, making it a formidable system of SMEs funding. Despite this, SMEs lending remains substantially low as a proportion of total lending in the Kingdom and the sector faces intimidating adversities limiting its capability to be competitive and hindering its sustained growth. This research project aims to analyse the effectiveness of SMEs financing in the Kingdom and evaluate its strengths and weaknesses in terms of meeting its targets. The researchers have identified that a sizable percentage of the SMEs have a short life span due to the lack of access to capital relevant to their particular stage of development and though the SMEs funding in the KSA seems to be well designed, it is falling short of serving the purpose. The research paper has also given suggestions for the improvement in the overall SMEs funding system in the KSA on the basis of the survey conducted among the senior executives, and loan managers of relevant organisations.*

***Key Words:** Financing, Kafalah, Banks, Guarantee, Kingdom, Expenditure.*

### **INTRODUCTORY BACKGROUND**

Small and medium enterprises (SMEs) are deliberated as one of the strongest propelling factors to ensure the socio-economic wellbeing of people in a country. They are channels for training, developing and providing jobs to indigenous population. Not only this,

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but also the SMEs give impetus to inventions, innovations, investments, thereby creating an environment for overall growth of the economy. In today's highly business oriented environment, the government of each country has to play the most prominent and formidable role in providing this sector a respectable growth potential as well as the assistance (in terms of both, development of skills and arrangement of funds) necessary to ensure competitiveness among them. Saudi Arabian government seems to understand this need well. As a result, it has encouraged a lot of funding programs and initiatives for this sector across the Kingdom to be implemented in a competitive environment. At the same time, the financing sector of the Kingdom has also started giving due recognition to the SMEs potential and has begun providing for the need of the SMEs for debt as well as equity capital. Even the Ninth Development Plan (2010-2014) tried to increase SMEs support by snowballing the capability of funds and financial institutions financing the SMEs. "The Tenth Development Plan (2015-2019) takes the objective further and encourages the establishment of specialized investment banks and capital companies along with encouraging local banks and financial institutions operating in the Kingdom to expand finance of SMEs. Despite the high significance of the topic, comparatively diminutive research is done on whether SMEs in Saudi Arabia have an adequate access to funds or not. This study contributes to the lately emergent literature on SMEs finance (Tenth Plan)".

The research paper discusses SMEs financing framework through an in depth analysis of the achievements and weaknesses of SMEs support programme in the KSA. It also provides suitable recommendations on the basis of observations made by the researchers during the course of survey.

## LITERATURE REVIEW

Literature on economic change and development proliferates on issues challenging SMEs in access to finance. Reynolds *et al.* (2001) observed that the necessary condition to successfully develop SMEs is the Government. Ayyagari *et al.* (2007) felt that small and medium enterprises generate a sizeable proportion of the jobs in an economy's production industry. Access to finance, particularly bank financing, is considered to be a vital factor in the progress of the small and medium enterprises. Ed Vos *et al.* (2007) concluded in their paper that lending in developing countries, specifically lending to SMEs is largely influenced by borrower - lender information symmetries. Alfaadhel (2010) in his doctoral thesis studied the quality of the product and service, customer satisfaction, and business planning as the Critical Success Factors for owners/managers and support providers of SMEs in Saudi Arabia. The findings also indicated that there were many 'support gaps' which needed to be addressed in order to improve and develop.

Sahar and Douglas (2012) investigated that SMEs contribute significantly to GDP and employment in the MENA, yet usually lack access to the type of investment and financial services that they need to start-up, operate and grow. Longenecker *et al.* (2012) identified commercial banks as the most significant lenders to the organisations. Now

because commercial banks like to lend to the companies with higher accomplishment but the SMEs fall short at this point, so availing loans becomes difficult for them. Apart from this, World Bank analysis cites that availability of finance is considered amongst the predominant hindrances for the success of SMEs. In the same year, Pietro et al concluded that SME segment is a strategic priority for the banks in four east African countries, namely, Kenya, Uganda, Zambia and Tanzania where the banks face a number of obstacles in SMEs lending due to large SMEs lending market. Chowdhury (2013) *et al.* analysed that the SMEs have assumed special significance for poverty reduction programmes and potential contribution to the overall industrial and economic growth of Bangladesh. Abdesamed and Wahab (2014) observed no significant relationship between the firm's tendency to apply for a bank loan and experience of its owner.

The present research perhaps has made an attempt to add to the very little research literature on SMEs finance in Saudi Arabia. It has the objective to investigate into current trends in the SMEs financing among various lending institutions in the KSA and takes into course the size and growth of the KSA economy and its current attention on economic diversification.

## **OBJECTIVES**

The main objectives under which the researchers perform their analysis are as under:

- (a) To evaluate if the SMEs financing schemes are working effectively to help the Saudi Arabian government to achieve its goal;
- (b) To assess if the SMEs financing initiatives by various credit institutions deliver up to the expectations of the target sector;
- (c) To analyse the impact of various factors in Availing Funds in SMEs; and
- (d) To provide suggestions to the SMEs lending sector to improve the efficacy in order to fulfil policy objectives.

## **RESEARCH METHODOLOGY**

Data collection involved two types of instruments i.e. primary and secondary. The primary data collection has been done from the personnel working in the industry in order to analyse the performance of various programmes and schemes. The approach used for the collection of primary data was based on a questionnaire given to banks' senior managers. The questionnaire was designed keeping in mind the busy schedules of the professionals working in highly competitive environment. The data processing was kept confidential to make it easy for the respondents to share their information, with the assurance that their identities would be kept confidential. The questionnaire included 19 questions in all out of which 15 required objective type questions including six heads: Location of SMEs, New SMEs Setup, Past Work Experience of the Owner of SMEs, Wealth of the Owner of SMEs, Gender of the Owner of SMEs and Age of the

Owner of SMEs as Independent Variables and Availing Funds as Dependent Variable responses but 4 required subjective responses under which the respondents had to present their opinion on the basis of their experience and understanding of the programmes/ schemes/ products they are associated with. To conduct the study, a questionnaire was administered to 150 managers in the cities of Riyadh and Al Kharj. Only 147 of the total respondents completed the questionnaire provided, though in some cases some respondents left some questions unanswered.

The secondary data was collected from the financial statements and annual reports of 5-10 years for analysing the performance of relevant schemes and organisations. Alongside the collection of data, analysis of the 10 years' Annual Reports of Ministry of Finance, each commercial bank and other significant organisations was made and collated with the information provided in financial reports.

### **HYPOTHESES**

The following hypotheses were formulated to check the impact of various factors on the basis of the data collected and analysed from the survey results:

1. H<sub>0</sub>1: There is no significant relationship between "Location of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.
2. H<sub>0</sub>2: There is no significant relationship between "New SMEs Setup" (Independent variable) and Availing Funds (Dependent variable) in KSA.
3. H<sub>0</sub>3: There is no significant relationship between "Past Work Experience of the Owner of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.
4. H<sub>0</sub>4: There is no significant relationship between "Wealth of the Owner of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.
5. H<sub>0</sub>5: There is no significant relationship between "Gender of the Owner of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.
6. H<sub>0</sub>6: There is no significant relationship between "Age of the Owner of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.

### **SMEs FINANCING FRAMEWORK IN IN THE KSA**

The Kingdom of Saudi Arabia has always kept the benefit of its people as one of its central policy objectives. It encourages the long lived tradition of having small and medium enterprises to be an integral part of the economy. But over the years, difficulty in having access to suitable funds has been one of the vital impediments to the growth of small and medium sector of Saudi Arabia. Notwithstanding, there is quite a substantially sound framework for SMEs financing in Saudi Arabia.

### **OFFICIAL DEFINITION OF SMEs IN KSA**

There are numerous definitions for SMEs, each of which is used by some or the other institution and is equally accepted by the other. The definition used by Riyadh Chamber of Commerce (RCC) and Saudi Chamber of Commerce (SCC) consider a firm as an SMEs if it has less than 100 employees. The Saudi Industrial Development Fund (SIDF) considers SMEs as any profitable activity with fewer than 125 workers, with annual sales not exceeding 30 million SR. (Alfaadhel: 2010).

### **PROGRAMMES FUNDING AND SUPPORTING SMEs IN KSA**

There are numerous programs and schemes run by government and other financing institutions in Saudi Arabia to support the SMEs. Kafalah established by Saudi Industrial Development Bank in 2006 is the most prominent loan guarantee programme for SMEs finance in the Kingdom. Kafalah programme fills the gap between the finances needed by the SMEs and the funds available to them by facilitating suitable financing for the industry primarily by decreasing the credit risk rate. This program is braced by the Finance Ministry of the Kingdom and the banks operative in Saudi Arabia.

Kafalah Programme is developed in such a manner that it guarantees the Bank a proportion of the loan provided to SMEs after analyzing their economic feasibility. The programme works for an objective to buy fixed assets and/or finance working capital. The minimum limit for Kafalah is SAR 80,000, while the maximum limit is up to SAR 1.6 million for the new and existing enterprises. The value of qualifying finance ranges from SAR 100,000 to SAR 2 million. The banks issue the guarantee in tandem with the finance term, which can be up to maximum of 7 years but can be stretched at the request of the bank issuing the guarantee. Kafalah covers the entire economic activities of the Kingdom, which are owned by Saudi investors, shared with foreign investors or even owned by foreign investors (Al Rajhi Bank).

### **EVALUATION OF FUNDING PROGRAMMES**

In the midst of various initiatives taken by the government, schemes and programmes undertaken by private funds, and products offered by banking system, it becomes imperative to analyse the achievements of various programs and compare them with the overall challenges faced by the Saudi Arabian SMEs. The economy of Saudi Arabia has depended on its small and medium enterprises for long time. Even more recent is the establishment of robust and capable financing system for these SMEs. Yet in a relatively very less time, the Kingdom has made remarkable achievements in SMEs financing.

According to International Finance Corporation, the contribution of SMEs to the Kingdom's gross domestic product rose to 37 per cent by the end of 2015 when growth in the number of licensed SMEs reached to 2.5 million by the end of 2015 from 1.97 million as of January 2014 (Arab News: 2016).

**Table 1**  
**Guarantees Approved during 2006 to 2014 under Kafalah Programme**

Year	National Commercial Bank (NCB)	Riyadh Bank	Arab National Bank (ANB)	Al- Rajhi Bank	Al- Jazira Bank	Saudi Hollandi Bank	SAMBA Financial Group	Al- Bilad Bank	Saudi Investment Bank	Saudi Francisi Bank	Saudi British Bank (SABB)	Total
2006	15	9	7	7	2	0	0	0	0	3	8	51
2007	123	55	23	42	4	0	12	0	0	9	47	315
2008	190	127	93	77	4	0	13	0	0	22	81	607
2009	176	201	80	13	0	0	11	0	0	17	6	504
2010	223	242	97	129	6	15	36	6	0	12	11	777
2011	270	357	185	224	11	39	64	23	8	17	10	1208
2012	521	388	258	190	64	55	68	58	42	13	13	1670
2013	1,048	473	278	225	162	135	76	65	24	20	9	2515
2014	1840	500	256	389	128	156	160	76	46	21	40	3612

Source: Annual Reports, Saudi Industrial and Development Fund (SIDF)

## KAFALAH PROGRAMME

Kafalah programme is not only improving the participation of SMEs in the economic growth of KSA but also opening employment avenues for country's youth. Since the Program's launch in 2006 up to the fiscal year-end 2014, the Kafalah Management has issued a total of 7,280 guarantees to 4,082 SMEs, totaling SAR 3,590 million (Annual Reports, SIDF). Table 1 depicts guarantees approved during 2006 to 2014 under Kafalah Programme.

**Table 2**  
Mean Guarantees Approved during 2006 to 2014 under Kafalah

Particulars	2006-2014	Minimum	Maximum	Mean	Std. Deviation
Riyadh Bank	9 Years	15	1840	489.56	591.969
National Commercial Bank (NCB)	9 Years	1	1840	373.22	571.013
Arab National Bank (ANB)	9 Years	9	500	261.33	178.629
Al-Jazira Bank	9 Years	7	389	144.00	125.574
Al-Rajhi Bank	9 Years	7	278	141.89	104.554
Al-Bilad Bank	9 Years	0	160	48.89	50.392
SAMBA Financial Group	9 Years	0	156	44.44	60.781
Saudi Hollandi Bank	9 Years	0	162	42.33	62.036
Saudi Investment Bank	9 Years	0	76	25.33	31.926
Saudi Francisi Bank	9 Years	0	46	13.33	19.105
Saudi British Bank (SABB)	9 Years	3	22	14.89	6.234

Source: Annual Reports, Saudi Industrial and Development Fund (SIDF)

In spite of limited financing sources, Kafalah has surpassed all expectations since its inception ten years ago. The number of Guarantees issued by Kafalah exceeded expectations by 31 per cent and the value of guarantees and loans increased by 110 per cent and 218 per cent respectively. Actual rate of default accounted is only 1 per cent, compared to the projected rate of 18 per cent.

The sectors benefitted under the programme have also exhibited a massive robustness due to the timely and adequate financing guaranteed by the programme. A year by year growth of various sectors is as follows:

**Table 3**  
Guarantees Issued under Kafalah (according to sector) during 2006-14

Sector	2006	2007	2008	2009	2010	2011	2012	2013	2014
Industrial sector	53	35	29	23	20	18	13	10	09
Services/ Commercial	22	36	30	25	23	21	13	15	14
Contracting/Construction	12	20	30	41	45	48	55	58	60
Others (Finance, Medical, Education, Agriculture, Entertainment)	08	09	11	11	12	13	19	17	17

Source: Annual Reports, Saudi Industrial and Development Fund (SIDF)

Table 3 shows that contracting or construction sector has grown most in terms of the percentage of guarantees issued under Kafalah. A similar study was performed on year-wise guarantees issued to various regions. While on the second position industrial sector and service sector has shown a stable growth. At last sectors including Finance, Medical, Education, Agriculture, and Entertainment are growing at a very slow rate in terms of guarantees issued to them in nine consecutive years.

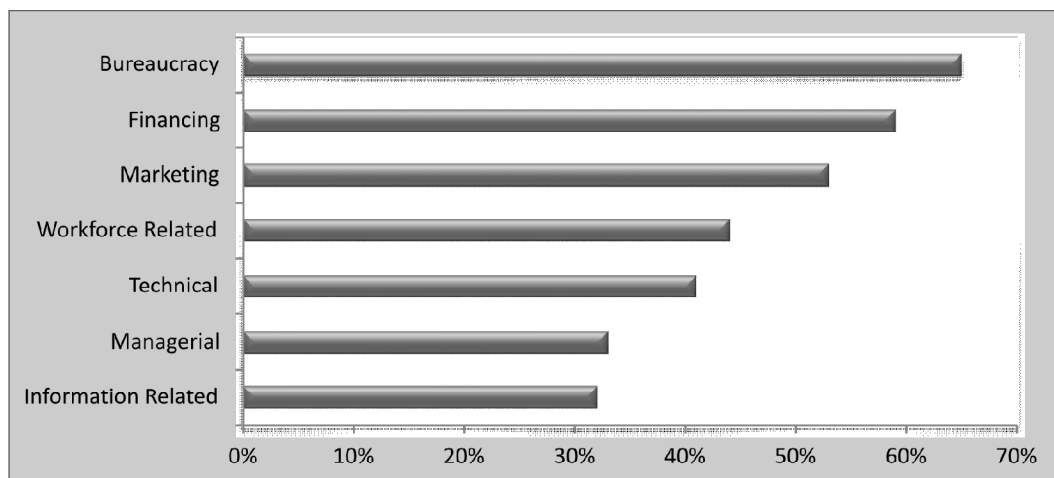
**Table 4**  
**Mean Guarantees issued in Kafalah (according to sector) during 2006-14**  
**Descriptive Statistics**

Sector	2006-2014	Minimum	Maximum	Mean	Std. Deviation
Industrial sector	9 Years	9.00	53.00	23.3333	14.04457
Services/ Commercial	9 Years	13.00	36.00	22.1111	7.62306
Contracting/ Construction	9 Years	12.00	60.00	41.0000	17.00735
Others (Finance, Medical, Education, Agriculture, Entertainment)	9 Years	8.00	19.00	13.0000	3.84057

Source: Annual Reports, Saudi Industrial and Development Fund (SIDF)

### Challenges faced by SMEs in KSA

Under the existing business environment in Saudi Arabia, SMEs are faced with intimidating challenges that restrict their capacity to become globally competitive and enhance growth. Figure 1 shows the result of a report of Riyadh Chamber of Commerce and Industry, according to which SMEs financing is the second biggest obstacle faced by Saudi Arabian SMEs. The sector faces a substantial credit gap in the Kingdom despite the presence of numerous programmes. The challenges faced by SMEs financing in Saudi Arabia are as under:



**Figure 1: Most Important Obstacles faced by SMEs in the KSA**

Source: Riyadh Chamber of Commerce and Industry Survey



### Low Share in Overall Budgetary Allocation

This challenge becomes even more daunting in wake of the annual growth rates of the prime indicators of the Saudi Arabian economy. As can be seen in Figure 2, government expenditure has witnessed an overall decrease over past four years, and so has non-oil GDP. The development SMEs can give a boost to increase the growth rate of non-oil GDP without increasing government expenditure.

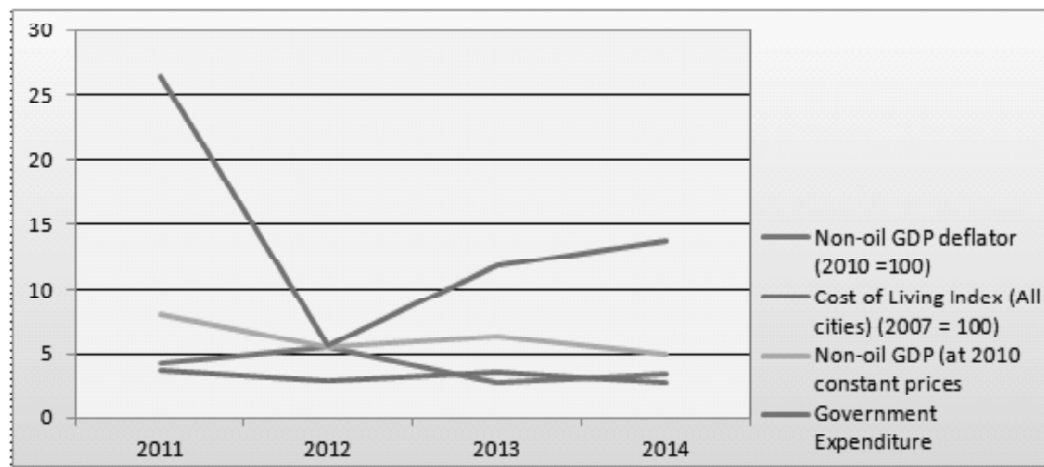


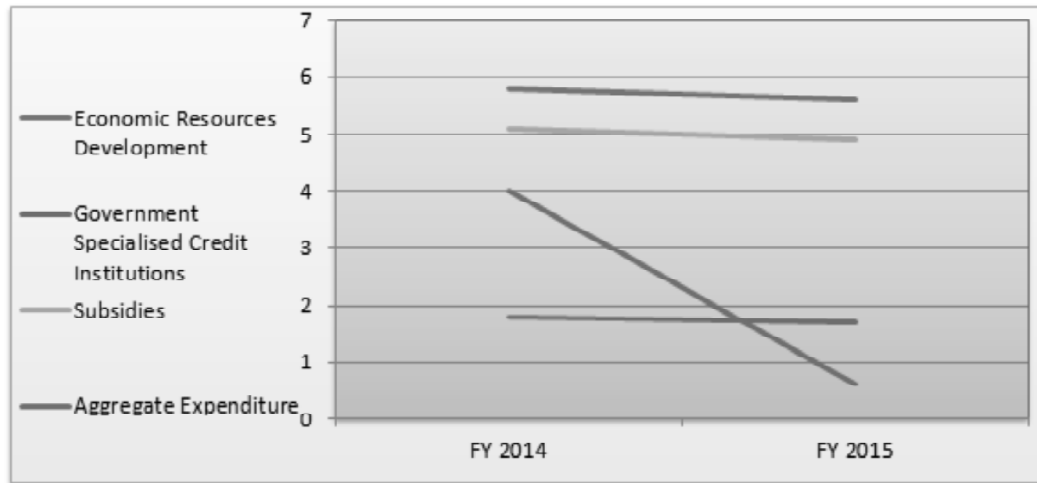
Figure 2: Annual Growth rate of selected indicators

Source: Annual Reports, Saudi Arabian Monetary Agency (SAMA) 2015

The overall expenditure of Saudi Government has only increased by 0.6 per cent from 2014 to 2015, which can be said to be approximately constant, while the overall revenue has shown the decline of 16.4 per cent. The alarm can also be felt by the fact that the growth in the total expenditure from 2013 to 2014 was 4 per cent. Moreover, while the budget of 2014 was balanced, 2015 budget project was to incur a categorical deficit of SAR 145 billion. As a result, the government expenditure on Economic Resources Development, Government Specialized Credit Institutions and Subsidies has decreased from an overall share of 5.8 per cent, 1.8 per cent and 5.1 per cent respectively to 5.6 per cent, 1.7 per cent and 4.9 per cent respectively. The SMEs financing sector derives capital primarily from the three categories, namely, Economic Resources Development, Government Specialized Credit Institutions and Subsidies, but the real challenge is that not only is the individual share of these categories in the budgetary allocation is substantially low (as can be seen in Figure 3), but also it has in fact decreased from the previous budgetary allocation.

### Lack of Long-term Resources in Banking Sector

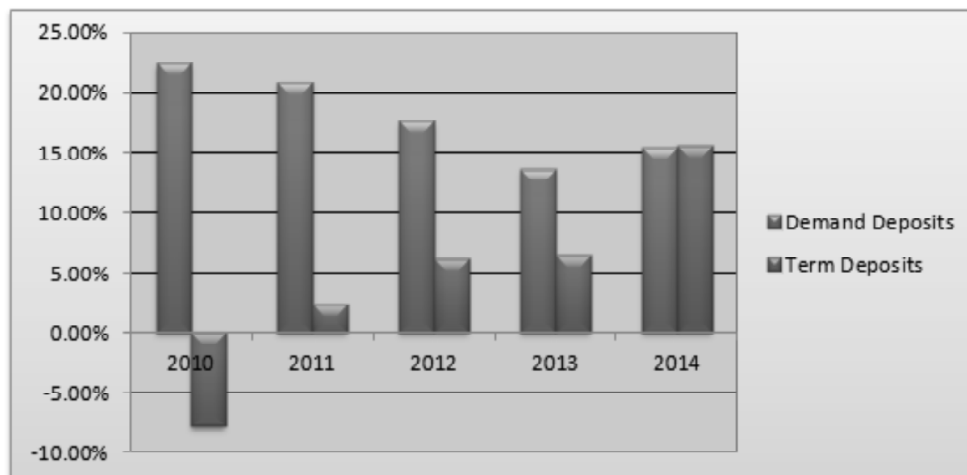
Traditionally, the Saudi Arabian population has shown a lot of interest in keeping their money with the banks and that too, for long term. A five year comparison shown



**Figure 3: Sector wise percentage share in aggregate budgetary allocations**

Source: Annual Reports, Ministry of Finance, Kingdom of Saudi Arabia

in Figure 4 shows that the overall deposits have increased in the banking sector, especially the term deposits, as needed by the financiers, yet the current percentage is substantially low at 15.6 per cent. There has been a huge difference between the amount of Demand Deposits and the Term Deposits in the Saudi Arabian economy. Banking sector had to maintain a high amount of liquidity to fulfil the withdrawal needs of the customers having demand deposits. Due to this reason, financing SMEs for both short and long term has traditionally not been promising for the banks.



**Figure 4: Growth Rate of Deposits in Banking Sector in Saudi Arabia**

Source: Annual Reports, Saudi Arabian Monetary Agency (SAMA) 2015

### **Highly Personalized Structure of SMEs**

Most often, small businesses are highly personalized in nature due to actively managed by its proprietors since the owners themselves are managers. They have first-hand knowledge of every move in the business at all levels. Due to this fact, it is easy for the credit organisation to lend money to such a business.

### **Poor Financial Management**

Due to the inherent nature of the Saudi Arabian economy of having small and medium enterprises at level of individuals or family, the financial management of the business, in most of the cases, is not as good as the banking sector wants to provide funds.

### **Absence of or Inadequate Collateral**

One of the major reasons for banks/financial institutions being unable to provide enough funds to SMEs is the perceived credit risk involved in financing small enterprises. This is primarily on account of non-availability of valid bills, proper accounting systems and lack of known buyers. To mitigate such credit risk, banks typically look for enhanced collateral or traditional equity, both of which cannot be brought in by most entrepreneurs. This becomes more peculiar in case of enterprise owners in agricultural domain. All agriculture has seasonal ebbs and flows, with irregular cash flows (Business Line).

### **Lack of Equity Capital**

Banks in Saudi Arabia don't generally lend to new businesses without furnishing duly audited final accounts. This brings a huge dearth of equity capital among the startups. For SMEs which might be just one year old, arranging yearly financial statements, even if they can afford wouldn't be possible.

### **Delay in establishing the SMEs Authority**

Small and Medium Enterprises Authority functions as the leading organisation that has a function of not only defining but also addressing small and medium enterprises needs and supervises the implementation of programs and schemes directed for SMEs. In Saudi Arabia, a public authority has only been decided to be established. It has still to be named, leave aside being established and start full-fledged work and deliver results.

### **Negative attitude towards Outside Investors**

Quite often, the owners of these enterprises are not willing to hand over the financial control over their own firm/ company to an outsider so they don't look for bank finance.

## ANALYSIS AND INTERPRETATION

On the basis of the analysis done of the achievements of various programmes, schemes and financial market products, it is quite evident that though the government is set to make SMEs in the Kingdom a mark in the economy, yet there is a lot to be done and a long road to be traversed in terms of providing adequate finance to the SMEs culture itself.

1. The first question asked to the respondents was "How long have you been associated with fund management for SMEs?" This was done in order to assess his/ her level of understanding about the financing programmes. Eleven per cent of the respondents had less than 2 years of experience about the various programmes. As a result, they didn't know much about the weaknesses or the strengths of the programmes. Eighty nine per cent of respondents had experience ranging from 3 to 10 years. Of the total respondents only 10 per cent of the people had more than 10 years of experience and hence, had detailed knowledge of the evolution and the performance of programmes. Figure 5 shows this in the form of a pie chart.

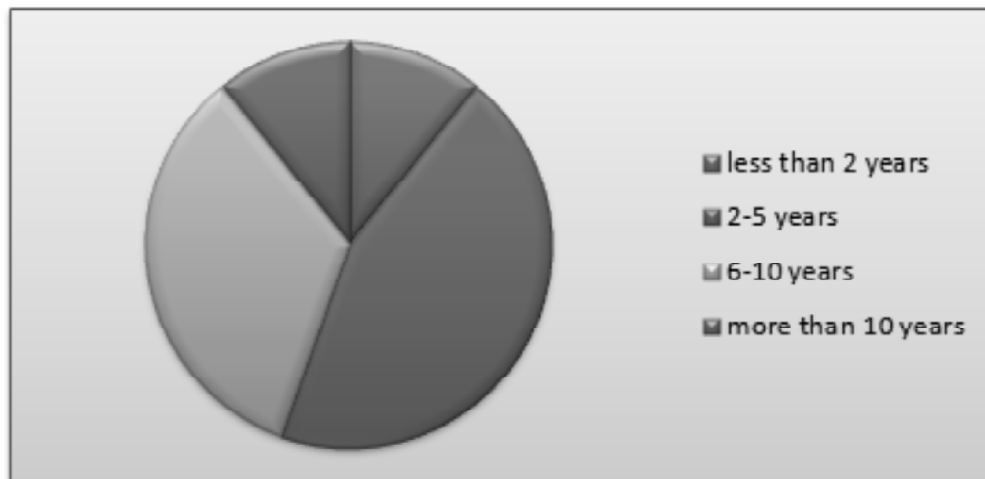


Figure 5: Working Experience of the professionals

2. The second question asked to the respondents was "How many SMEs loans does your branch grant last year?" The result clearly shows that most of the branches of the lending banks extended more than 75 loans in the accounting year 2014-2015. It is interesting to notice that 16 per cent of the branches lent less than 25 loans in the accounting year. At the same time, 61 per cent of the branches of banks disbursed more than 75 loans in the year. Figure 6 exhibits the data in graphical form.

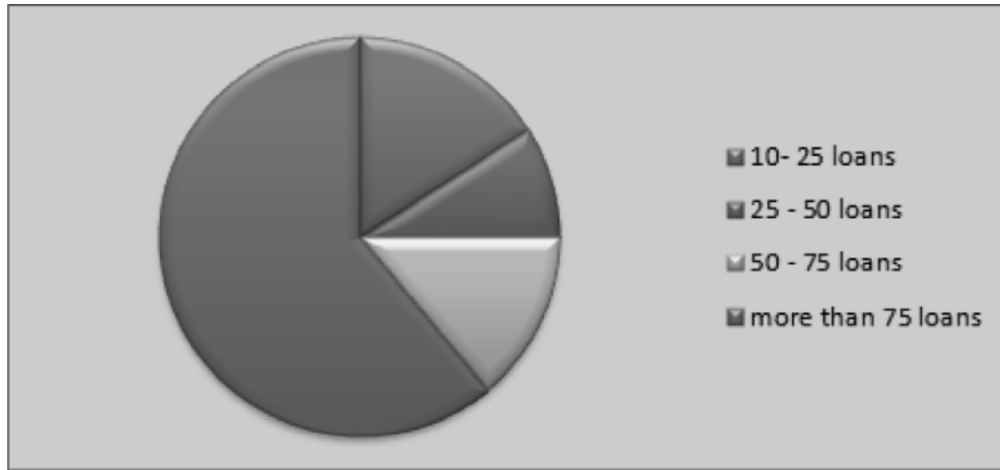


Figure 6: Number of Loans granted in 2014-2015

- The third question was an enquiry into the trend of loans granted in their branch. Figure 7 depicts that a majority of 64 per cent of them said that the number of the loans has significantly increased, while in 11 per cent of the branches, loans granted actually showed a decline. However, in 25 per cent of the branches, the number of the loans granted was either same as the previous year or similar to it.

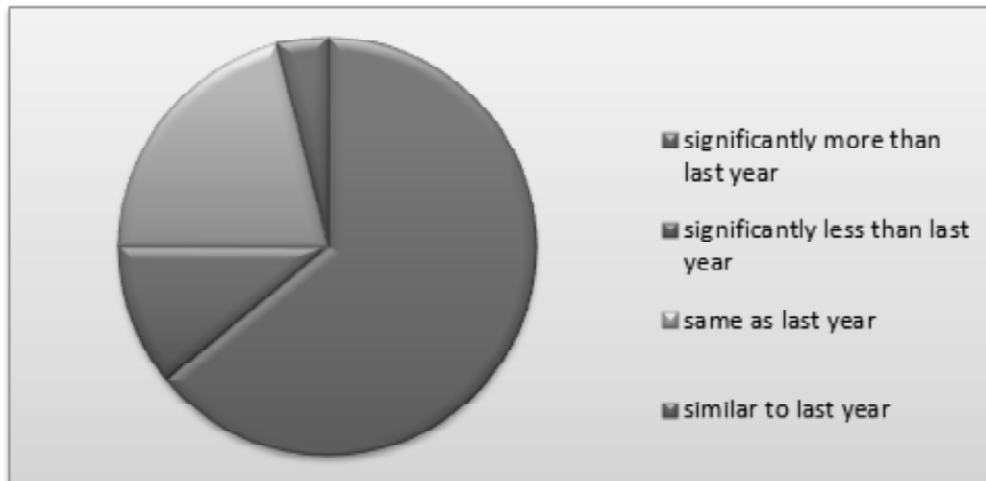


Figure 7: Trend of Loans granted

- Question four was asked about the amount most of the SMEs owners look for. Figure 8 shows the result in the form of a pie chart which can be translated in words as approximately 72.3 per cent of braches get SMEs owners looking for a loan which ranges between SAR1,00,000 - 6,00,000. Of the total respondents 27.7

per cent opined that most of the loan seekers from SMEs sector sought for a loan ranging between SAR 6,00,001- 1,500,000. But nobody said that most of the SMEs loan seekers ask for a loan of more than SAR1,500,000. So people asking for a high amount of loan under the SMEs financing schemes only make a significant minority in the Kingdom.

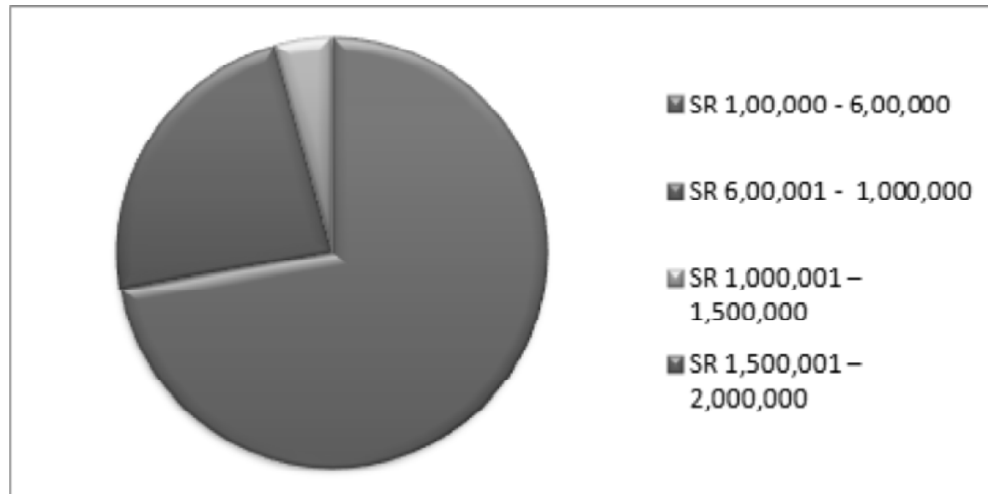


Figure 8: Amount usually sought under SMEs financing schemes

- Question five comprised of 10 sub questions wherein the respondents were asked to grade the financing schemes of their respective organisations on the basis of various characteristics. Table 6 shows how the respondents rated the financing schemes on a scale of "A" to "D" where "A" meant "very less", "B" signified "average/ok", "C" expressed "good" and "D" meant "very good".

The data set out in Table 5 clearly provides following evidences for the purpose of long range strategies to be adopted for boosting SMEs financing in the Kingdom:

- The financing programs are friendlier to the established/ successful SMEs in comparison to new start-ups/ SMEs with low success record.
- SMEs owner with substantial wealth and work experience is much more likely to avail a loan than an entrepreneur who doesn't have money and experience.
- A business to be started or established in categorical locations is more likely to procure funds than the ones in remote areas.
- The business plan plays the role of the most important determinant of procurement of funds in most of the cases. The more formidable the plan, the higher are the chances of the loan being granted. However, other factors such

**Table 5**  
**Respondents opinion on SMEs Financing Schemes**

S. No.	Questions	Number of Respondents				
		A	B	C	D	Total
i.	How friendly is your financing program to the new start-ups/ SMEs with low success record?	53 (36)	85 (58)	09 (06)	00 (00)	147 100
ii.	How friendly is your financing program to the established/ successful SMEs?	06 (04)	28 (19)	88 (60)	25 (17)	147 100
iii.	How friendly is your financing program for a person who has no funds but wants to start a business?	69 (46)	66 (45)	09 (06)	03 (02)	147 100
iv.	What is the impact of location of SMEs in availing funds?	09 (07)	50 (34)	81 (55)	07 (04)	147 100
v.	How much importance is given to the past work experience of the owner of the SMEs while granting loans?	03 (02)	06 (04)	100 (68)	38 (26)	147 100
vi.	How much importance is given to the gender (male) of the owner of the SMEs while granting loans?	101 (69)	28 (19)	09 (06)	09 (06)	147 100
vii.	How much importance is given to the wealth of the owner of the SMEs while granting loans?	00 (00)	50 (34)	88 (60)	09 (06)	147 100
viii.	How much importance is given to the education/ qualification of the owner of the SMEs while granting loans?	09 (06)	113 (77)	19 (13)	06 (04)	147 100
ix.	How much importance is given to the age of the owner of the SMEs while granting loans?	03 (02)	50 (34)	82 (56)	12 (08)	147 100
x.	How much importance is given to the business planning of the owner of the SMEs while granting loans?	00 (00)	12 (08)	38 (26)	97 (66)	147 100

Note: Figures within brackets give percentage to total

Source: Compiled and computed on the basis of Questionnaire

as gender, education, age, etc. also play a significant role in disbursement of loans to SMEs.

### SIMPLE LINEAR REGRESSION

Simple Linear Regression was carried out for testing of formulated hypotheses in the research. The following are the results showing impact of various factors in Availing Funds in SMEs.

- H<sub>0</sub> 1 (Null Hypothesis):** There is no significant relationship between "Location of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables given below exhibit relationship between "Location of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA. In this case, the relationship between "Location of SMEs" (Independent variable) and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.859 which is a positive and comparatively good degree of correlation. The  $r^2$  value is 0.738 signifying that **73 per cent of variability explained in availing funds**. The Intercept value is 0.256 indicating a good role of other factors. The t- value is 4.929 and the p- value is 0.000 which is less than 0.05,

which shows that there is significant relationship between “Location of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 6**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.859 <sup>a</sup>	.738	.738	.43379

a. Predictors: (Constant), Location of SMEs

Source: Compiled and calculated through questionnaire

**Table 7**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.256	.062		4.136	.000
	Location of SMEs	.994	.020	.859	4.929	.000

a. Dependent Variable: Availing Funds

Source: Compiled and calculated through questionnaire

2. **H<sub>0</sub> 2 (Null Hypothesis):** There is no significant relationship between “New SMEs Set Up” (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables below exhibit the relationship between “New SMEs Set Up” (Independent variable) and Availing Funds (Dependent variable) in KSA. In this case, the relationship between “New SMEs Set Up” (Independent variable) and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.664 which is a positive and comparatively good degree of correlation. The r<sup>2</sup> value is 0.441 signifying that **44 per cent of variability explained in availing funds**. The Intercept value is 0.961 indicating the role of other factors. The t- value is 5.845 and the p- value is 0.000 which is less than 0.05, which leads to significant statistically relation, hence there is significant relationship between “New SMEs Set Up” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 8**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.664 <sup>a</sup>	.441	.440	.63437

a. Predictors: (Constant), New SMEs Set Up

Source: Compiled and calculated through questionnaire



**Table 9**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.961	.089		10.787	.000
	New SMEs Set Up	.725	.028	.664	5.845	.000

a. Dependent Variable: Availing Funds

Source: Compiled and calculated through questionnaire

3. **H<sub>0</sub>3 (Null Hypothesis):** There is no significant relationship between “Past Work Experience of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables below exhibit the relationship between “Past Work Experience of the Owner of SMEs” and Availing Funds in KSA. In this case, the relationship between “Past Work Experience of the Owner of SMEs” and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.639 which is a positive and comparatively good degree of correlation. The r<sup>2</sup> value is 0.408 signifying that **40 per cent of variability explained in availing funds**. The Intercept value is 3.429 indicating the role of other factors. The t- value is 4.164 and the p- value is 0.000 which is less than 0.05, hence there is significant relationship between “Past Work Experience of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 10**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 <sup>a</sup>	.408	.407	.65272

a. Predictors: (Constant), Past Work Experience of the Owner of SMEs

Source: Compiled and calculated through questionnaire

**Table 11**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.429	.117		3.675	.000
	Past Work Experience of the Owner of SMEs	.775	.032	.639	4.164	.000

a. Dependent Variable: Availing Funds

Source: Compiled and calculated through questionnaire

4. **H<sub>0</sub> 4 (Null Hypothesis):** There is no significant relationship between “Wealth of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables below exhibit the relationship between “Wealth of the Owner of SMEs” and Availing Funds in KSA. In this case, the relationship between “Wealth of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.572 which is a positive and comparatively good degree of correlation. The  $r^2$  value is 0.327 signifying that **32 per cent of variability explained in availing funds**. The Intercept value is 0.732 indicating the role of other factors. The t- value is 2.286 and the p- value is 0.000 which is less than 0.05, which leads to significant statistically, hence there is significant relationship between “Wealth of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 12**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.572 <sup>a</sup>	.327	.326	.69596

a. Predictors: (Constant), Wealth of the Owner of SMEs  
Source: Compiled and calculated through questionnaire

**Table 13**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.732	.124		5.918	.000
	Wealth of the Owner of SMEs	.692	.034	.572	2.286	.000

a. Dependent Variable: Availing Funds  
Source: Compiled and calculated through questionnaire

5. **H<sub>0</sub> 5 (Null Hypothesis):** There is no significant relationship between “Gender of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables below exhibit the relationship between “Gender of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. In this case, the relationship between “Gender of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.360 which is a positive and comparatively less degree of correlation. The  $r^2$  value is 0.129 signifying that only **12.9 per cent of**

**variability explained in availing funds.** The Intercept value is 1.570 indicating the role of other factors. The t- value is 11.229 and the p- value is 0.000 which is less than 0.05, which leads to significant statistically, hence there is significant relationship between “Gender of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 14**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.360 <sup>a</sup>	.129	.128	.79137

a. Predictors: (Constant), Gender of the Owner of SMEs  
Source: Compiled and calculated through questionnaire

**Table 15**  
**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.570	.147		10.661	.000
	Gender of the Owner of SMEs	.406	.036	.360	11.229	.000

a. Dependent Variable: Availing Funds  
Source: Compiled and calculated through questionnaire

6. **H<sub>0</sub> 6 (Null Hypothesis):** There is no significant relationship between “Age of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA.

Tables below exhibit the relationship between “Age of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. In this case, the relationship between “Age of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA shows the correlation coefficient that is r value of 0.581 which is a positive and comparatively good degree of correlation. The r<sup>2</sup> value is 0.337 signifying that **33.7 per cent of variability explained in availing funds.** The Intercept value is 0.602 indicating the role of other factors. The t- value is 2.772 and the p- value is 0.000 which is less than 0.05, which leads to significant statistically, hence there is significant relationship between “Age of the Owner of SMEs” (Independent variable) and Availing Funds (Dependent variable) in KSA. Hence, the Null Hypothesis is rejected.

**Table 16**  
**Model Summary**

<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.581 <sup>a</sup>	.337	.336	.69051

a. Predictors: (Constant), Age of the Owner of SMEs

Source: Compiled and calculated through questionnaire

**Table 17**  
**Coefficients<sup>a</sup>**

<i>Model</i>		<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		
1	(Constant)	.602	.127		4.740	.000
	Age of the Owner of SMEs	.706	.034	.581	2.772	.000

a. Dependent Variable: Availing Funds

Source: Compiled and calculated through questionnaire

## CONCLUDING OBSERVATIONS

Keeping in view the analysis of data and survey results it may be safely deduced that the small and medium sector of Saudi Arabia has a significant growth opportunity as it comprises of approximately 90 per cent of registered businesses and 60 per cent of total employment. Even the government recognizes the fact and has been placing the development of the sector in central position in the Kingdom's development strategy. Keeping the above in mind, the government pioneered with its much publicized and successful Kafalah Programme which works in association of the commercial banks operating in the kingdom by providing guarantees and making the SMEs lending easier and safer. The performance of the program has been encouraging but in the longer term a more proactive approach by banks remains the more desirable solution to funding the gap. Yet, there is a long way, the Kingdom has to go in order to achieve success in making its SMEs sector formidable and impactful for economic growth. Though the structure of SMEs lending is robust with government taking lead in field, the overall performance of the system is clearly below the required level.

There are, however, clear signs that a change in attitude is taking place in the entire Kingdom. The banks have started taking SMEs as an increasingly attractive segment and the future seems positive. All the banks have now begun to deploy SMEs-specific products and services and, while extending credit to the sector remains problematic, some segments which can be financed on a cash-flow basis have proved fruitful. Having said that, there is clearly a considerable distance to be travelled before the nation's smaller businesses could be said to be properly served. With the beginning of product innovation among banking financiers, the SMEs financing sector though performing inadequately in present, can certainly produce desired results in future. The SMEs should not only rely on the Government programmes and banking industry or big funds to arrange

their funds, but also think out of box such as they can ask those buyers with whom they have good relations to make them payments beforehand. Similarly suppliers can be asked to provide inputs on credit. The picture that emerges suggests the possible SMEs financing structure in the Kingdom. Further, the new public authority that is being set should take necessary steps to improvise financial skills and viability.

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