

SMEs DEVELOPMENT IN SAUDI ARABIA

By

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Overview

The Saudi Government in the seventh national development plan (2000-2004) adopts several measures to support small and medium scale enterprises while complying with the Kingdom's commitments under WTO, the most important of these measures and initiatives are:

- Streamline the procedure for establishing small and medium scale enterprises to eliminate associated routine constraints and enhance technical and administrative support for these firms.
- Study the possibility of establishing special fund with Government and Private sectors participation to facilitate access to loans by small and medium scale enterprises to develop Islamic financing instruments such as Musharakah, Murabaha and Mudarabah to future broaden finance opportunities available to these enterprises.
- Expand the lending activities of the Saudi Credit bank.

Among the policies extended for the Industrial sector in the seventh development plan, is to develop the regulation and rules necessary for encouraging small industries.

The priority mentioned in the seventh development plan, is to enhance job creation and increase the role of the private sector in the economic activity.

As the Council of Ministers decision in the privatization objectives and policies, to ensure a continued increase in the share of the private sector to expand its participation in the national economy, by adopting the best available modality including transferring certain types of economic activity to the private sector, enhancing the participation of the private sector in economic development , and enabling it to carry out its investment and financing role in accordance with the national development plan. The Government has listed 20 activities and services to be privatized, the most important sectors among the listed activities which are competent for the development of small and medium enterprises are: **Industrial cities services, Banks, Municipality's services, Educational services, and Social services**

Under the supervision of Ministry of Finance, Saudi Industrial Development Fund (SIDF) has recently established special fund for SMEs (Credit Guarantee scheme) with capital of SR 200 Million (US\$ 53 million), 50% funded by the Government and the other 50% was funded by the Saudi local banks, which will give a lot of supports to facilitate funds to SMEs.

The Saudi Credit Bank (SCB), which currently the main activity is to give social loans to Saudis who have low income. A part of the social loans, SCB gives loans to some specific sectors to a limit up to SR 200,000 (US\$ 53,000), they also have created new loan program for SMEs (giving loans to Limousine Drivers) to encourage Saudis to do their own business, but it seems that this program faces a lot of obstacles.

SMEs in Saudi Arabia face some Major problems as follows:

- Absence of unified operational definition for SMEs.
- Lack of Skilled Saudi human resources in many fields i.e. Management, accounting, marketing, technical, technology and other basic skills.
- Lack of fund
- Lack of information
- Lack of policy structure, regulation and lack of incentives.
- Weak bonds between SMEs and large enterprises

the Gov. has approved two years ago, the formation of National committee, which is responsible to prepare comprehensive programs to support and develop the SMEs by the coordination of high official members of several competent Government and private authorities; however the progress of the committee is very slow because of the challenges tasks in the nature of the work of the committee.

All SMEs problems are caused mainly, by the non-existence of Government support authority, so the Government must create SME authority, to establish a legal frame work and support programs for SMEs, This Authority may be created **under the Umbrella of Ministry of Trade and Industry.**

SMEs must be supported through a specific law and regulations, and this can be possible only through this authority.

Effort of Eastern Province (EPCCI) in SMEs Development

EPCCI has launched the 1st SMEs development center in the Kingdom (SMEDEC), which started its operations on 22.12.1421 H - 17 March 2001.

The SMEDEC **Mission** endeavors to foster entrepreneurship in Saudi Arabia, extend consultation services and technical, technological, legal and information assistance to the Chamber's Members. It also aims to train SME administrative and technical cadres to help enhance the competitiveness and capacity of this sector, which accounts for the bulk of the Chamber's members.

By its existing expertise, SMEDEC is going to launch the 1st business incubator in the Kingdom.

Activities

- Extend advisory in technical, management and legal assistance in the areas of industry, trade, services, etc.
- Provides information through the Internet or the SMEDEC library and publications.
- Provides scientific diagnosis of production problems, where all the processes involved (such as production, handling, storage, quality, marketing, sales, distribution, financial and accounting system, environment, maintenance, manpower, information system, strategic planning) are carefully considered, and appropriate solutions are developed.
- Coordinates with the export development center for upgrading the export output of SMEs after they rehabilitated by the center.
- Examines and provides solutions for marketing problems encountered by SMEs.
- Help the SMEs to find technology sources to transfer, nationalization and develop it.
- Consolidates enterprises involved in the same activity to enhance their competitiveness.
- Assesses SMEs training needs and develops appropriate training programs for them.
- Develops informative brochures for SMEs entrepreneurs.
- Organizes seminars, workshops and conferences to help develop and promote SMEs sector.

Specialized Training

SMEDEC organizes specialized training courses run by experts; to meet the true needs of SMEs, Start your business, Improve your business, Entrepreneurship development program and others.

Feasibility Studies and Investment Opportunities

SMEDEC has over 1500 preliminary feasibility studies in various sectors, and over 1000 trading and industrial investment opportunities around the world. The center is associated with many local and international organizations involved in studies, research and investment opportunities.

SMEDEC Achievements

I. DEVELOPMENT OF SMEs (At last three years)

1. Promotion of the financial & accounting, Inventory, and payroll software which was subsidized to 212 enterprises.
2. Development of a mechanism for helping out faltering SMEs by offering them as investment opportunities (for sale or partnership).
3. Extension of 1975 free consultations to SMEDEC clients distributed as follows:
Finance 262 – Marketing 550 – Administrative 442– Start ups 527 – Bidding 127 – Legal 21– Innovators 18 – Faltering 17– Others 11
4. Offering of 1636 economic feasibility studies for the Center's clients, distributed as follows: Chemicals 402 – Foodstuff 259 – Engineering 348 – Services 141 – Metals 235 – Plastic 132 – Textiles 49 – Construction Materials 52 – Recycling 18
5. Compilation of an updated version of the Feasibility studies Directory, which includes over 1,500 studies for SMEs potential projects.
6. Compilation of the Government Procedures Directory, covering 12 Government Institutions and Departments and the procedures as a reference for both the start-up entrepreneurs and existing enterprises.
7. Development of a link to the EPCCI web site. It features some basic information about the Center, its services, activities and news, as well as guidance to SME entrepreneurs. It also highlights investment opportunities, bids, feasibility studies, selected articles and information about other web sites of interest to SMEs. The web site also seeks to provide its clients with valuable consultation opportunities, facilitate technology transfer through the Internet, build a database for the Chamber's members and establish Internet linkage.

II. STUDIES, SEMINARS, CONFERENCES

8. The 1st forum on SMEs Development, at 7 May 2002. (Accommodates an exhibition of 161 inventions as new business ideas, and offers ambitious individuals, innovators, consultative offices and SME entrepreneurs a unique forum for promoting their ideas among investors.
9. The 2nd forum on SMEs Development, at 21 January 2004 (Introduce 12 working papers from experts from USA, Canada, Egypt, Jordan, Qatar, Bahrain and Saudi Arabia)
10. The second seminar on the new version of the financial software was attended by over 100 SMEs.
11. The Center organized two lectures and arranged for SMEs operating in the water field to meet with a Japanese delegation representing 11 Japanese SMEs and explore potentials of joint ventures and technology transfer.
12. A study on SMEs in the Eastern Province was compiled for presentation at a symposium on SMEs: Status, Problems, and Means of support, which was held at Riyadh Chamber of Commerce .

III. INFORMATION AND PROMOTION

13. The Center was extensively promoted worldwide as a SME sponsoring organization. SMEDEC data at UNIDO/Exchange was updated. The requirements of certain segments of SMEs (glass, paper, recycling, and chemical industries) were promoted worldwide.
14. An article was published in *Saudi Commerce Magazine* about the findings and recommendations of the study on SMEs in the Eastern Province.
15. An article was published in *Saudi Commerce* highlighting the Chamber's support of SMEs.
16. An extensive article was published in *Saudi Commerce* about SME Incubators and Technology Parks.
17. An article was published in the London-based *Saudi Review*, which entitled "Small is beautiful" highlighting the Chamber's and SMEDEC's support of local SMEs.
18. An article was published in "The Top 100 Saudi Companies", an annual publication issued by *Al Ektisadiyah* and *Arab News*. The Article highlighted a

proposal for establishment of an information and telecommunication technology body for the benefit of SMEs.

19. Under the permanent section reserved for SMEs in *Al-Ektisad* Arabic monthly Magazine published by the Chamber, numerous articles were published such as: importance of SMEs, Internet for SMEs, a web site for your SME, how to evaluate the effectiveness of your web site, the role of SMEs in curbing unemployment, How to price your products, Tips for maximizing your sales, Pricing your products and services, Time management for SMEs, SMEs financing funds, SMEs loan financing funds, a reportage on a SMEDEC-sponsored symposium on the role of banks in financing SMEs, how to begin your own project? "3 parts", "start Now, do not hesitate": a 6-part article designed to spread the entrepreneurship culture, technology incubators and internet for SMEs, among others.

IV. SMEDEC's LINKS

20. Cooperation with Japanese External Trade Organization (JETRO) in boosting mutual investment.
21. The Commercial Service at the US Consulate in Dhahran provided SMEDEC with 200 US business opportunities.
22. The Commercial Attaché at the Turkish Embassy provided SMEDEC with 400 trade opportunities, and a CD containing details of Turkish firms interested in investing in the Kingdom.
23. The Commercial Attaché at the Korean Embassy provided SMEDEC with 200 business opportunities.
24. The Commercial Attaché at the British Embassy provided SMEDEC with a CD featuring 50,000 firms offering export, investment or joint venture opportunities.
25. The General investment Authority provided SMEDEC with preliminary feasibility studies of projects proposed for investment.
26. SMEDEC contributed to the establishment of the first Technology development and Transfer Society in the Kingdom. The Center is now liaising with the private sector in this respect.