

THE ROLE OF MSMEs: THE SCENARIO OF ITS SUSTAINABILITY, GROWTH, AND DEVELOPMENT IN SAUDI ARABIA

Nisar Ahamad Nalband, King Saud University
Abdullah Alfaqieh, King Saud University

ABSTRACT

The Kingdom of Saudi Arabia is one of the richest countries in the world. It is the world's largest oil producer and exporter and has the world's second-largest oil reserves and sixth-largest gas reserves. In 2016, the Saudi Arabia leadership approved the Saudi Transformation Vision 2030 as a roadmap to accomplish the country's long-term goals and objectives. The main aim of this vision is to transform the kingdom from an oil-based economy to a knowledge-based economy. One of the three pillars of vision 2030 is strengthening the economy. To this end, the government has launched different initiatives and programs, such as The Financial Sector Development Program, Quality of life Program, Housing Program, and The National Industrial Development and Logistics Program. The Financial Sector Development Program aims to support the economy by providing different sources of income. Entrepreneurship plays an important role in economic growth, and the Saudi government has demonstrated its commitment to supporting entrepreneurship programs and improving young generations' entrepreneurial mind-sets.

The Vision 2030 covers finance and economic diversification and also addresses social issues. The Kingdom has already taken some steps toward progress on social issues, such as permitting women to drive and opening entertainment outlets and movie theatres. It has also introduced value-added tax on goods and services, has opened the market to foreign investors, and has privatized public companies. The present paper aims to study the role of MSMEs and its sustainability, growth, and development in Saudi Arabia

Keywords: small business, Quality of life Program, Financial Sector Development Program, economic diversification, foreign investors, entrepreneurship

INTRODUCTION

It has been witnessed that “A big business starts small.”-Richard Branson. There are umpteen number of cases wherein many big businesses started small and marked success in the society.

According to the World Bank (2019) report, “Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included.”

Small and medium sized enterprises (SMEs) are perceived as economic escalators because they generate jobs and contribute to economic growth. Among the member countries of the Organization for Economic Co-operation and Development (OECD, It's a group of 38 countries committed to market economy), SMEs represent 99% of all companies and account for 70% of jobs (Khan & Alsharif, 2019) Further, the World Bank (2019) report “estimates that 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs.”

Now the SME sector is well recognized worldwide because of its substantial contribution to various

socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. The vital role of SMEs is reflected in adapt/adopt the changing conditions of competition and innovation with the globalization process. SMEs, in many studies, are seen as key actors in innovation systems and are important in increasing the competitive and innovative capacity of the countries and regions (Hidayet KESKÖN ... et al; 2010).

According to D'Souza (2001), SMEs are producing more productivity of capital than large capital firms do, and they help in reducing the concentration of economic growth by spreading in different industries. "Job creation through SMEs will often directly benefit the poor and vulnerable, particularly women and youth, thereby directly reducing poverty, increasing income and positively impacting on household investments in education and health over time. SME development has the potential for wide reaching impacts on the SDGs globally, including SDG 1 (end poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (promote inclusive and sustainable economic growth, employment and decent work), and SDG 9 (improve sustainable industrialization and fostering innovation)"(Patrycja Jurkowska, 2021)

MSMEs are going to play a significant role in developing countries, and their significance is understood by the respective governments across the globe, including the Saudi Arabian government, due to their immaculate contributions to society in many ways.

Saudi Arabia and MSMEs

Since its ancient days Saudi Arabia is known for its trade activities and is one of the oldest trade center of the world. In 1932 the present new Saudi Arabia was formed by King Abdulaziz Al-Saud. Since then with its leaders vision and hard work the country striding into top list (Saudi Arabia Embassy, 2022) "The country has the second-largest proven petroleum reserves, and sixth-largest proven natural gas reserves. Saudi Arabia is currently the largest exporter of petroleum in the world. The Kingdom of Saudi Arabia ranks in the top 20 nations on the globe in terms of annual gross domestic product. Saudi Arabia produces most of its wealth through the sale and export of petroleum products, of which it is the world's second-largest producer" (Market Insider, 2022) and it is becoming one of the attractive country for global investment. As per Argaam, a financial news portal of Saudi Arabia (2022), "The Small & Medium Enterprises General Authority (Monsha'at) announced that the number of small and medium-sized enterprises (SMEs) in Saudi Arabia reached 663,190 by the end of Q3 2021, an increase of 48% from 2016. Credit facilities extended to micro, small, and medium enterprises (MSMEs) rose by 14% to SAR 200.4 billion in Q3 2021, from SAR 175.7 billion in Q3 2020, according to data available with Argaam (2022). Saleh Al-Rasheed, Governor of Monsha'at, announced in March 2021 that SMEs contribution to the Kingdom's gross domestic product (GDP) grew to 28.7% Argaam (2022). The government of Saudi Arabia is very keen on MSMEs and paid considerable attention. "Saudi Arabia's Vision 2030" (it is a National Transformation Programme) has given support and encouragement with its measurable facts and figures; it aims to raise SMEs' contribution to GDP from 20% to 35% by 2030 (Monsha'at, 2021) and to decrease the unemployment rate from 11.3% to 7% by 2030 (Tripathi, 2019), mostly by generating employment through MSMEs.

The government of Saudi Arabia has been steadfastly improving its support to MSMEs by establishing different programs and institutions from time to time. A few measures in this regard are discussed below.

The Small and Medium Enterprises General Authority (Monsha'at) "was established in 2016 with the aim of regulating, supporting, developing and sponsoring the SME sector in the Kingdom in accordance with global best practices, in order to increase the productivity of SMEs and their contribution to GDP from 20% to 35% by 2030" (Monsha'at, 2022)" The main purpose of this body is to help/guide/ support the MSMEs so as to archive the Saudi Vision 2030.

Tenth Development Plan (2015-2019)

The main focus is to boost the MSMEs in the country from its establishment to guide and monitor the

performance” (Arab National Development Planning Portal 2021)

The Saudi Industrial Development Fund (SIDF)

SIDF was established in 1974 as a government financial institution to realize the objectives, policies, and programs of industrial development in Saudi Arabia. Such objectives are aimed at supporting the private sector in various industrial fields, financing and developing the industrial sector in conjunction with government entities. SIDF paves the way for the private sector to engage in constituting and

sustaining a national industrial base effectively and adequately”. This institution lending both long term and short term soft loans to entrepreneurs (Jeddah Chamber, 2016).

Kafalah Program” Kafalah Program is a program launched by the Saudi Industrial Development Fund (SIDF) and Saudi banks, the program aims to promote financing to Small and Medium Enterprises (SMEs) within the Kingdom of Saudi Arabia. It involves mostly in providing and guaranteeing the interest free loans (Jeddah Chamber, 2016).

Taqeem, “which is a Saudi Authority for Accredited Values It implements the international standard assessment in order to raise awareness and educate the community about the profession” (Jeddah Chamber, 2016). Which imparts educating in respective profession and its standards.

Tayseer “which is a government committee aims to help in Improving the business environment in the kingdom, Communicating with the private sector to overcome challenges and positioning the kingdom among the most competitive economies the private sector to thrive (Tayseer, 2022)

Tomoh a program under Monshaat to support SMEs through education and training to Saudis (Monshaat, 2022) Further, The Business and Industry Advisory Committee (BIAC), a subsidiary of the Saudi Technology Development and Investment Company (TAQNIA), owned by the Public Investment Fund (PIF), has many initiatives for SMEs.

BADAIR “is a comprehensive national program seeking to activate and develop technical business incubators, promote the concept of entrepreneurship, and transform technical projects and research into successful business opportunities through supporting and nurturing entrepreneurship, innovation and technology incubators and providing the appropriate environment for the growth of technology start-ups” (BIAC,2022).

KAMIN “Program, which aims to improve the capability of existing SMEs by supporting the business with specialized consultancy and training services” (BIAC, 2022)

Thus, the government of Saudi Arabia has already devoted considerable efforts and an incentive platform to sustain stable employment and foster SMEs' resilience (Nurunnabi, 2020). According to Tripathi (2019), the Kingdom of Saudi Arabia has launched several programs and devoted millions of riyals to SMEs sector prosperity to achieve Saudi Vision 2030. Despite of several measures by the government of Saudi Arabian government, NGO and CSR programs of the corporates to boost the MSMEs, reality can be judged with actual facts and figures.

Facts and Figures of Msmes in Saudi Arabia

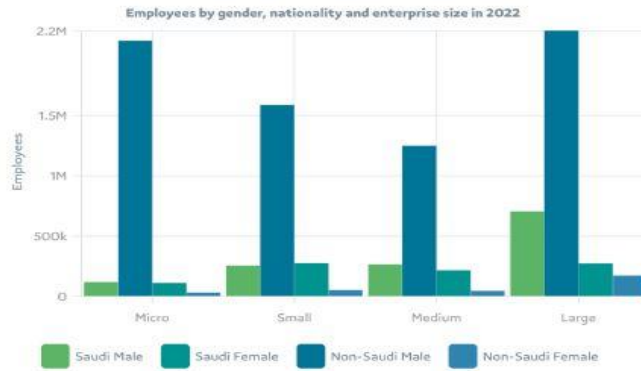


Figure 1
EMPLOYEES BY GENDER, NATIONALITY AND ENTERPRISE SIZE IN 2022

Table 1			
No	Organization Type	No. of Employees	Percentage of employees
1	Micro-enterprises registered employees.	23,70,507	24.6
2	Small enterprises registered employees.	21,57,721	22.4
3	Medium-sized enterprises registered employees	17,62,550	18.3
SUB TOTAL		62,90,778	65.3
4	Large enterprises registered employees.	33,44,170	34.7
Total		96,34,948	100

Figure 1 and Table 1 clearly show the important and significant role played by the MSMEs in Saudi Arabia, which contribute to 65.3% of employment. The facts and figures sourced from the General Organization for Social Insurance, the unregistered entities and their employees were not considered.

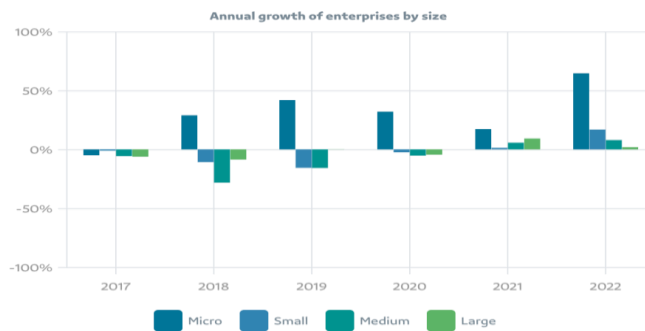


Figure 2
ANNUAL GROWTH RATE OF ENTERPRISES IN SAUDI ARABIA

Table 2
ANNUAL GROWTH RATE OF ENTERPRISES IN SAUDI ARABIA

No. of Enterprises	Type	Year	No. of Enterprises in Previous Year	Growth of enterprises
207956	Micro	2017	218951	-5.0216715
268080	Micro	2018	207956	28.9118852
380242	Micro	2019	268080	41.8390033
501931	Micro	2020	380242	32.0030402
588365	Micro	2021	501931	17.2202952
968265	Micro	2022	588365	64.5687626
181467	Small	2016		NaN
179490	Small	2017	181467	-1.0894543
160135	Small	2018	179490	-10.783331
135092	Small	2019	160135	-15.63868
131748	Small	2020	135092	-2.4753501
133462	Small	2021	131748	1.30096852
155856	Small	2022	133462	16.779308
28608	Medium	2016		NaN
26977	Medium	2017	28608	-5.7012025
19362	Medium	2018	26977	-28.22775
16310	Medium	2019	19362	-15.762834
15448	Medium	2020	16310	-5.2851012
16324	Medium	2021	15448	5.67063698
17612	Medium	2022	16324	7.89022298
4093	Large	2016		NaN
3840	Large	2017	4093	-6.1812851
3509	Large	2018	3840	-8.6197917
3514	Large	2019	3509	0.14249074
3357	Large	2020	3514	-4.4678429
3666	Large	2021	3357	9.20464701
3734	Large	2022	3666	1.85488271

Table 2 and Figure 2 depict that there was a notable increase in the registration of micro enterprises from 2021 to 2022 by 64.6%, respectively small enterprises 16.8% and medium enterprises by 7.89%.

Table 3
ENTERPRISES WHICH TRANSFORMED TO DIFFERENT TYPE FROM 2018-2022

No. of Enterprise in 2018	Enterprise Type	% of transformation by 2022
130617	Micro to Micro	91.039429
12073	Micro to Small	8.4148237
648	Micro to Medium	0.45165292

135	Micro to Large	0.09409436
65016	Small to Micro	55.3379465
49900	Small to Small	42.4720612
2442	Small to Medium	2.07849245
131	Small to Large	0.1114998
2601	Medium to Micro	15.3171191
7763	Medium to Small	45.7158
6157	Medium to Medium	36.2581709
460	Medium to Large	2.70890996

From table 3, an interesting fact is noted that in 2018 micro enterprises registered were 268,080 out of which 130,617 continued to operate as micro in the year 2022, 12,073 transformed into small, 648 changed to medium, and 135 changed to large enterprises. With regard to small enterprises' transformation from the year 2018 to 2022, out of the registered enterprises in 2018, 42.5% remained as small, 2% became medium, and 0.1% became large, but 55% of the small enterprises became micro which is noteworthy. When it comes to medium enterprises, 36% remain medium, 2.7% medium to large, shockingly 45.7% medium to small, and 15% medium to micro.

In a micro analysis it is understood that micro enterprises are doing in a good way compared to small and medium in terms of its positive progress table 4.

Type of Enterprise	Average Age
Micro	3.19
Small	6.01
Medium	8.26

From the Table 3.1, the average life spans of the different types of enterprises are as follows: micro three years, small six years, and Medium 8.2 years.

Thus, it is concluded that Saudi Arabia's MSMEs are undoubtedly progressing rapidly. However, they need some time to settle down, as the country has decided to shift from petro revenue to other revenues.

As per research, certain obstacles have shortened many Saudi SMEs' lifetimes to seven years of operation (Jeddah Chamber, 2016). Statistics of 2022 show that small is six years and medium is 8.26 years. A few scholars attributed this to the limited availability of financial resources (Alotaibi & Hana, 2015; Azyabi & Fisher, 2014; Stinchcombe, 1965) and the lack of strategic planning (Alenzy, 2018; Alotaibi & Hana, 2015; Tripathi, 2019; Zahra, Nielsen, & Bogner, 1999). In Saudi Arabia, as many are family businesses, mainly medium- and small- scale enterprise sectors, a lack of professionalism are also one of the causes.

The Sustainability of Msmes in Saudi Arabia

A business needs to be competitive to be sustainable, so entrepreneurs must adopt sustainable competitiveness. Sustainable competitiveness can be achieved by continuously adapting new technology, innovation in all fields of operation, and functional expertise.

The government of Saudi Arabia is providing numerous opportunities to its entrepreneurs to make their businesses, products, and services sustainable.

The measures taken by the Saudi government with regard to msme sustainability:

The Saudi government has implemented numerous initiatives to support MSMEs' sustainability. The

landmark shift has come with the implementation of Vision 2030, an ambitious plan to take the country to the next level. One of the key elements of this plan is the emphasis on the significant and confident role of MSMEs in achieving economic diversification and creating jobs (Vision 2030).

National Development Strategy

To accomplish the vision 2030 a National Development Strategy is formulated by the government this strategy outlines the specific programs and policies for supporting and developing the MSMEs (vision 2030)

Public Investment Fund

One of the important organs of Saudi economic development, this sovereign wealth fund invests in strategic sectors nationally and internationally and supports financially promising MSMEs (PIF).

The Saudi Industrial Development Fund

This board besides developing the policies and programs for developing the industrial sector in Saudi Arabia works with a main objective to facilitate country's industrial revolution in Saudi Arabia by providing financial help by offering loans, grants, and guarantees to MSMEs in various sectors (SIDF).

The Small And Medium Enterprises General Authority

It is a core organ in Saudi Arabia for the development of entrepreneurship and innovation. It helps in rendering professional help in its business/functional operations and also provides financial support and guidance to MSMEs through various programs (Monsha'at).

The National Development Fund

This organisation helps the country's entrepreneurs to have a sustainable development in their businesses also it offers loans and grants to MSMEs, particularly in strategic sectors as identified by the country (NDF).

Support and Training given for Owners of Enterprises.(To make their Products/Services Sustainable)

The Saudi government has adopted a comprehensive approach to promoting MSME sustainability not only by proving financial support but also providing help in strategy formulation and in becoming functional experts.

Capacity Building

The government has a beautiful program of "Capacity Building" for its entrepreneurs. The program provides the relevant training and provide with initiatives to enhance MSMEs skills and knowledge (CGC).

Regulatory Reforms

The government simplifies its regulations and streamlines processes to improve the business environment to support their business (CGC).

Ecosystem Development

The government is creating a supportive ecosystem for MSMEs, fostering collaboration and innovation in running their business successfully (MARMORE)).

CONCLUSIONS

Across the globe, the phenomenon is almost the same with regard to the sustainability of MSMEs, but in

Saudi Arabia, due to the calibrated efforts made by the government in achieving its Vision 2030, many programs have been launched to accelerate the share of the country's GDP with MSMEs participation by generating high revenue. MSMEs are also helping the country generate employment for its nationals and establish diversity in its work culture.

The government of Saudi Arabia is not only encouraging MSMEs by drafting and implementing policies but also giving teeth to its policies by providing financial support and organizing various training programs for its entrepreneurs to maintain the sustainability of their businesses, products, and services.

As per United Nations Organisation's Department of Economic and Social Affairs Report on MSMEs and their role in achieving sustainable goals, it is clearly mentioned in the report goal by goal with illustration as to how MSMEs can achieve goal one to goal seventeen of SDG's.

Since the declaration of Vision 2030 and its subsequent preparations, the country has been making significant strides towards achieving its vision, largely due to the pivotal role of MSMEs. This also means that the country is effectively contributing to the UNO's sustainable development goals through the efforts of MSMEs.

REFERENCES

- ACA, P. J. (2021). The role of smes in achieving the Sustainable Development Goals (sdgs).
- Alenzy, M. Z. (2018). Strategic Approach of Saudi Small and Medium-Sized Enterprises: More of Emergent or Deliberate? *Electronic Business*, 17(6)
- Alhawal, H., & Nurunnabi, M. (2020). Impact of COVID-19: How CEOs respond to smes.
- Alotaibi, M., & Hana, J. (2015). Strategic Planning in Saudi SMEs: Case Studies in the Private Health Insurance Sector. *International Journal of Management Science and Business Research*, 4(9), 19-25.
- Arab National Development Planning Portal (2018). Towards Saudi Arabia's Sustainable Tomorrow: First Voluntary National Review | Arab National Development Planning Portal.
- ArgaamPlus. (2021). Monsha'at says smes in Saudi Arabia increased to 663,190 by Q3.
- Azyabi, N. G., & Fisher, J. (2014). Exploration and Exploitation as Knowledge Management Strategic Approaches in Saudi Arabian SMEs.
- Badir program for technology incubators and accelerators. BIAC. (2024).
- D'Souza, C. (2001). Integrating Environmental Management in small industries of India. *Electronic Green Journal*, 1(14).
- How is Saudi Arabia helping smes? CGC. The Saudi Center for Government Communication.
- Jeddah Chamber. (2016). Small medium enterprises in Saudi Arabia report.
- John, S. (2019). 12 mind-blowing facts about Saudi Arabia's economy. *Business Insider*.
- Kafalah program. SAIB.
- Keskgn , H. (2010). The importance of smes in developing economies.
- Khan, A. (2019). Saudi Arabia's vision for smes - Smaller Units for a Larger Economy.
- Monshaat, (2023). About Monshaat.
- Small and Medium Entities Support Center Programs. Jeddah Chamber.
- Tayseer - US Saudi Business Council.
- The Royal Embassy of Saudi Arabia. Facts & Figures. The Embassy of The Kingdom of Saudi Arabia.
- Tripathi, A. (2019). SMEs in Saudi Arabia - an innovative tool for country's economic growth. *SSRN*.
- World Bank. (2015) Small and Medium Enterprises (smes) finance, improving smes' access to finance and finding innovative solutions to unlock sources of capital.
- Zahra, S. A., Nielsen, A. P., & Bogner, W. C. (1999). Corporate entrepreneurship, knowledge, and competence development. *Entrepreneurship Theory and Practice*, 23(3), 169-189.

Received: 27-May-2024, Manuscript No. AEJ-24-15132; **Editor assigned:** 29-May-2024, PreQC No. AEJ-24-15132 (PQ); **Reviewed:** 13-Jun-2024, QC No. AEJ-24-15132; **Revised:** 21-Jun-2024, Manuscript No. AEJ-24-15132 (R); **Published:** 28-Jun-2024