



# Small and Medium-sized Enterprises under the Transformative Vision 2030 of Saudi Arabia

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## ABSTRACT

Small and medium-sized enterprises (SMEs) play a very crucial role in driving economic growth, innovation, and job creation. Under Vision 2030, Saudi Arabia aims to position Riyadh as a strategic hub for SMEs, attracting both domestic and international entrepreneurs, investors, and the skilled labors. Riyadh's geographic location also makes it accessible to the various regions within Saudi Arabia, creating a central node from which SMEs can reach wider markets both domestically and internationally. The Saudi government is investing in different infrastructure and urban development projects to support Riyadh as SMEs hub. For instance, the recently completed Riyadh Metro project worth 25 billion USD intends to foster a greater level of connectivity within the city and ease the access to essential services not only for the common masses but also for the businesses. Previously, SMEs in Saudi Arabia were confronted with the challenges, such as lack of access to financing, regulatory hurdles, and shortage of labor. Often, these barriers kept them from growing to the extent that they could potentially compete with the well-capitalized state enterprises and the multinational corporations. To address these challenges the Saudi Government introduced General Authority for SMEs "Monsha'at" with the aim of increasing SME's contribution to the GDP by 35% by 2030. In this article we have thoroughly discussed the strategic importance of Riyadh as SMEs hub along with the different challenges that SMEs are facing. Finally, the article contributes on the possible policy routes for supporting and promoting the SMEs in Saudi Arabia.

**Keywords:** SMEs, Riyadh, Vision 2030

**JEL Classifications:** M13, M38, M19

## 1. INTRODUCTION

Small and medium-sized enterprises (SMEs) are essential for the economic growth of any country as they contribute significantly to job creation, innovation, and economic diversification worldwide (Gherghina et al., 2020). In Saudi Arabia, SMEs are playing a crucial role in the Kingdom's transformative Vision 2030, which aims to reduce the country's dependency on oil, diversify the economy, and foster sustainable growth. Recognizing the potential of SMEs to drive these objectives, Saudi Arabia has set ambitious targets to boost SME contributions to the national Gross Domestic Product (GDP) from 20% to 35% by 2030. These targets underscore the country's commitment to building a dynamic, resilient economy, in which SMEs are positioned as a

major force in creating a diversified and competitive marketplace (Khan and Iqbal, 2020). Previously, SMEs in Saudi Arabia were confronted with the challenges, such as lack of access to financing, regulatory hurdles, and shortage of labor. Often, these barriers kept them from growing to the extent that they could potentially compete in a market dominated by well-capitalized state enterprises and multinational corporations. To address these issues the Government has introduced General Authority for SMEs Monsha'at, which has helped in simplifying the procedures, and increased financing opportunities through loan guarantee programs and funds.

Moreover, digital transformation initiatives and the privatization of key sectors have opened new avenues for SMEs to innovate,

## 2. LITERATURE REVIEW AND SMEs UNDER VISION 2030

expand, and contribute to the Kingdom's economic diversification goals (Khan and Iqbal, 2020; Rawindaran et al., 2023). The novelty of this study lies in its focused examination of the evolving SME landscape in Saudi Arabia within the framework of Vision 2030, highlighting how targeted reforms and strategic initiatives are uniquely transforming the sector. Unlike prior studies that have largely addressed Saudi Arabia's economic diversification at the macro level, this study delves specifically into the SME ecosystem, identifying the pivotal role SMEs play in creating a sustainable and resilient economy. By investigating newly established policies, financial support mechanisms, and digital transformation initiatives, this study provides fresh insights into the country's unprecedented shift towards a diversified economic model that actively incorporates SMEs as its core contributors. Additionally, this study explores how recent regulatory and infrastructural changes in key cities such as Riyadh are setting precedents for regional SME hubs, marking Saudi Arabia as a leader in fostering an SME-friendly environment in the Middle East.

This study has major practical implications for policymakers, entrepreneurs, and investors within and outside of Saudi Arabia. To the government and policymakers, this study provides insights into strategies that can be useful in support of the growth of SMEs. These include the simplification of the legal environment that hinders the growth of SMEs, funding, and innovative business solutions based on technological advancements. This will prove useful to entrepreneurs and SME owners to obtain a better perspective on opportunities under Vision 2030, besides getting to know how to position themselves to gain out of these reforms, given the changing regulatory and business environment. This study re-emphasizes the increased access to investment opportunities within the Saudi SME sector, especially now that other sectors and markets are opening for private participation. In conclusion, this study provides useful recommendations that may be helpful in the continuous endeavors to enhance SME status within Saudi Arabia, as well as in other emergent economies humbly seeking to foster economic diversification and sustainable development consequential to the development of SMEs.

This study aims to analyze the strategic importance of SMEs within the Vision 2030 framework, highlighting how SMEs are positioned as key drivers of economic diversification, job creation, and sustainable growth in the Kingdom. Moreover, through this analysis, the study strives to show how Saudi Arabia transforms its economy by developing its SME sector and setting an example for other countries in the Middle East and North Africa region. Furthermore, the study aims to investigate the specific policies, financial support mechanisms, regulatory reforms, and digital transformation initiatives introduced by the Saudi government to foster a supportive ecosystem for SMEs. The unique role of Riyadh as the Kingdom's primary SMEs hub, assessing the infrastructural developments, talent pools, and investment opportunities that make it a central node for SMEs growth in Saudi Arabia will be explored. The study offers actionable insights for policymakers, entrepreneurs, and investors in navigating the evolving SME landscape in Saudi Arabia. This includes identifying strategies for optimizing growth, investment, and sustainable development within the SME sector.

SMEs are widely viewed as the backbone of developing economies, principally playing a role in the creation of jobs, economic growth, and innovation. SMEs use scarce resources compared to large corporations, making it easier for them to adapt to market changes and prove agile in responding to market demands (Epede and Wang, 2022). Much depends on the definition of SMEs in different countries. For instance, in the European Union, companies that count less than 250 employees and sell up to €50 million annually are called SMEs. In the United States, SMEs are defined as firms with fewer than 500 employees; however, this definition is affected by inter-industry sector differences (Khan and Iqbal, 2020). SMEs serve as drivers of economic inclusion by offering accessible opportunities for entrepreneurship and employment, especially in underserved or rural areas. They play a crucial role in empowering local communities by creating jobs, providing livelihood, and fostering skill development at the grassroots level. According to a study by Lähdesmäki and Suutari (2020), SMEs are more labor-intensive than large enterprises, which means that they create more jobs relative to their size, making them crucial for economies with large working-age populations.

However, the growth prospects of SMEs are constrained by significant challenges unique to these businesses. The issue of external financing is a prime concern because most formal sources of finance exhibit deteriorated bargaining terms for SMEs and, therefore, deny credit to firms (Koura et al., 2024). Moreover, they face restrictions from regulations, market entrants, and lack of infrastructure required for growth and competition with large firms. Indeed, it is through favorable government policies as well as support from international organizations that SMEs can have favorable conditions in terms of eliminating entry barriers and enhancing access to finance and business development. Recently, the digital economy has provided new opportunities for SMEs to reach broader markets and improve their operational efficiency. However, the digital divide remains, as smaller enterprises in many countries struggle with ICT adoption and integration. While digital platforms offer SMEs as a cost-effective way to engage with consumers, limited technological resources and skills can prevent SMEs from fully capitalizing on these benefits (Brandy, 2023). In emerging economies where digital infrastructure may be less developed, this divide is more pronounced.

SMEs also bear significant importance in propelling economic diversification and helping the developing countries to achieve economic development by promoting self-employment (Kayani and Alzaid, 2024; Kayani and Gan, 2022; Suleman et al., 2024; Kayani, 2021; Kayani, 2022; Nawaz et al., 2024 & Kayani, 2024). Oil exports have long been the main source of revenue for the Kingdom, and recently the government's move to reduce dependency on oil exports has intensified the need for a viable SME sector. According to Alharbi (2023), a substantial share of Saudi Arabian private sector jobs is represented by SMEs; however, they face impediments such as bureaucratic hurdles, limited access to financing, and reliance on foreign labor. SMEs have been placed at the heart of the country's future by Vision

2030, which is meant to encourage growth and enable their potential to contribute to the country's economic transformation and job creation.

Saudi Arabia's Vision 2030, is an ambitious and transformative plan aimed at diversifying the kingdom's economy, reducing reliance on oil, and fostering sustainable growth. SMEs are considered an important component of Vision 2030 and are considered to serve as an important group of economic diversifications, job creation, and innovation. In terms of goals, Vision 2030 has notable ambitious goals from SMEs, raising from 20% to 35% of the national GDP by the year 2030 (Nurunnabi, 2017). It underlines the major role that SMEs are expected to play in Saudi Arabia's economic transformation. In this context, the government has initiated various strategies and reforms to boost the growth, competitiveness, and sustainability of the SME sector. Despite these efforts, however, achieving Vision 2030s goals presents numerous challenges, from regulatory constraints to financial limitations, that need to be addressed to unlock the full potential of SMEs in Saudi Arabia as reported by Elmonshid and Sayed (2024).

Regarding the promotion of SMEs, Vision 2030 has set out strategic key pillars that contain strong friendly policies and programs to SMEs. An important part of this framework is to create Monsha'at (the General Authority for SMEs) as a specific authority for developing and supervising SMEs. Some of its aims involve developing mechanisms to reduce administrative barriers to entry and the demutualization of registering business process industrialization. To facilitate these SMEs to commence and grow the smallest possible obstacles caused by excessive authority, Monsha'at aims to enhance bureaucratic unconstructiveness and rejuvenate legal encouragement (Malibari, 2020). However, in the context of Vision 2030, the issues of financial support for SMEs are highlighted, along with the reforms. Traditionally, Saudi SMEs face the major challenge of inadequate capital, as basic commercial banks' credit standards leave out most SMEs. Vision 2030 resolves this challenge as it invites financial institutions to make available larger segments of their loans to SMEs in line with Vision 2030 and targets a minimum of 20% by 2030. The government, however, has also launched several loan guarantee policies to cushion the risks entailed in lending SMEs with banking institutions. The purpose of these measures is to help SMEs obtain the financial resources needed to expand, develop, and start operating in new markets (Orlando and Bace, 2021).

A key aspect of the Vision 2030 SME strategy is the promotion of digital transformation. In an increasingly digitalized world, technological adoption is critical for SMEs to remain competitive and efficient. Vision 2030 encourages SMEs to leverage digital tools and platforms to streamline their operations, enhance productivity, and access new markets. According to Ziadlou (2021) The Saudi government has made substantial investments in the kingdom's ICT infrastructure, including high-speed internet, e-commerce platforms, and digital payment systems. By providing SMEs with digital resources and technical support, Vision 2030 aims to enable them to participate in the global digital economy, expand their reach, and compete with large companies. National

Transformation Program (NTP) conducts a digital transformation program for SMEs in the small business sector to bridge the digital divide and encourage SMEs to adopt technology. In relation to the integration of digital solutions into operations, SMEs are supported by NTP training, servicing, and incentives. According to Vision 2030, e-commerce is the focus, as it helps SME overcome geographical constraints and bring customers closer. Since SMEs have been increasing their digital capabilities to reach the market by engaging customers, being more efficient in its operations, and accessing international markets, the overall growth of the economy of Saudi Arabia has been greatly improved (Setiawan et al., 2023).

Vision 2030 also focuses on privatization as a means of creating new opportunities for SMEs in previously state-dominated sectors. Privatization involves transferring ownership or control of government-run industries to private entities, allowing for increased competition and innovation. Sectors such as healthcare, education, and municipal services, which were traditionally monopolized by the government, are now open to private-sector participation. This shift is expected to provide SMEs with numerous business opportunities as they can now compete to deliver services in these newly accessible industries, according to Khurana et al., (2022). Privatization not only helps create a more vibrant business environment but also makes a fairer one for true innovators and efficient players to compete with big guns and giants of the SME scale of business. Vision 2030 seeks to demutualize most state-dominated sectors in a bid to enhance compliance with market forces, thereby increasing the efficiency of steam and the quality of service. As has been observed, SMEs should benefit the most from the program, owing to their flexibility compared to large-scale organizations. This flexibility allows them to assess the needs of the market and provide services to address them on time, which is beneficial for service-oriented industries such as the health and education sectors. Therefore, the privatization of organizations is central to Vision the 2030s plan to increase the importance of SMEs in the Saudi economy (Moshashai et al., 2020).

### 3. RIYADH AS SMEs HUB

With Saudi Arabia currently seeking business diversification through the Vision 2030 plan with goal of reducing dependence on the oil sector, Riyadh has been administratively positioned to host most of the SMEs. According to Roomi et al., (2023), Vision 2030 acknowledges SMEs as agents of change that affect the nation's economic growth, employment opportunities, and innovation with the aim of increasing SME's contribution to the GDP from 20% to 35% by 2030. It is also important to note that Riyadh is currently the political, economic, and administrative capital of the Kingdom to which special advantages related to the development of SMEs can be linked. This city offers not only an adequate supply of infrastructure and resources, but more importantly, it is a focal platform that draws policy, talent, and capital that are conducive to entrepreneurial activities. Still, Riyadh has the potential to be a strong SME economy; the problem remains in how to unlock this potential with the right investments in infrastructure, human capital, and favorable reforms.



Riyadh's strategic importance as an SME hub is rooted in its position as the kingdom's largest city and the center of its economic and administrative activities. Vision 2030 aims to position Riyadh as a world-class economic city, attracting both domestic and international entrepreneurs, investors, and skilled labor. Riyadh's geographic location also makes it accessible to various regions within Saudi Arabia, creating a central node from which SMEs can reach wider markets both domestically and internationally. The government envisions Riyadh not only as a business hub but also as a leading city that exemplifies Saudi Arabia's economic transformation, showcasing the kingdom's commitment to modernization and diversification (Roomi et al., 2023). The Saudi government is investing in different infrastructure and urban development projects to support Riyadh as an SME hub. For instance, the Riyadh Metro project, a multi-billion-dollar public transportation endeavor, intends to foster a greater level of connectivity within the city and ease access to essential services not only for people but also for businesses. Better transportation infrastructure does not just reduce costs for SMEs but also makes the city of Riyadh more attractive, thereby enabling growth by increasing population and overall economic activity. In addition, Riyadh's international airports and logistics hubs strengthen international connectivity, making Riyadh an attractive player in global markets for SMEs' import and export activities (Qwaider et al., 2023).

Recognizing the importance of a supportive business environment for SMEs, the Saudi government has implemented various programs and policies designed to facilitate the growth of small businesses in Riyadh. The most significant move in this regard has been the creation of Monsha'at which provides legal frame replies, specific-fabricated value-added services, and monetary products designed strictly for SME. To make doing business easier, less burdensome and more appealing, Monsha'at collaborates with other ministries to facilitate business entry procedures eradication, eliminate redundancies, and implement favorable legal environments for business. In 2009, Monsha'at floated the Kafalah SME loan guarantee program, under which the government offered warranties to facilitate SMEs to access banks and other financial institutions' funds (Ali et al., 2020). In addition to Monsha'at, the Ministry of Investment introduced policies that encouraged foreign direct investment (FDI) into the SME sector, particularly in Riyadh. By offering incentives, such as tax breaks, streamlined licensing processes, and 100% foreign ownership in certain sectors, the government aims to attract international investors to Riyadh's growing SME ecosystem. These incentives make Riyadh an appealing destination for foreign entrepreneurs seeking to enter the Saudi market, thus bringing in new knowledge, technology, and investment that can benefit local SMEs (Othman, 2022).

Riyadh is home to a growing entrepreneurial ecosystem that includes incubators, accelerators, coworking spaces, and networking platforms designed to support early-stage startups and SMEs. These resources provide entrepreneurs with essential tools, mentorship, and funding opportunities that can help them establish and scale their business (Aloulou and Al-Othman, 2021). Notable incubators and accelerators such as Badir and Wa'ed offer comprehensive support programs that include training, business

development, and access to a network of investors and industry experts. By providing these resources, Riyadh's entrepreneurial ecosystem helps bridge knowledge and funding gaps that often prevent SMEs from achieving long-term growth (Aloulou, 2021). The Saudi Arabian Riyadh Chamber of Commerce and Industry plays an active role in mediating cooperation between industry, government, and SMEs. The chamber hosts occasions, working and sectoral conferences, and meetings where it acts as a platform on which business-minded people can meet with potential business associates, gain knowledge of trends in the market, and learn from successful business gurus (Rahman, 2022). This results in focused improvement of knowledge sharing and networking meant to foster a healthy SME environment and enhance innovation. This is especially important in Riyadh because many SMEs can access a group of prospects, partners, and investors depending on Cairo in the capital city (Fakieh et al., 2022).

Another important aspect of Riyadh's entrepreneurial ecosystem is the availability of financial support tailored to the SMEs. In addition to the Kafalah program, Riyadh hosts a range of venture capital firms, angel investors, and private equity funds that focus on supporting SMEs with high growth potential (Rahman, 2020). These investors are lured to Riyadh because of their strategic position together with the opportunities and available support for SMEs there. The Saudi Venture Capital and Private Equity Association has also played an active role in creating the financial environment of Riyadh by encouraging investments in young businesses (Mathkur, 2023). As highlighted earlier, Riyadh is a hub for SMEs; however, several issues exist. The biggest hurdle is the availability of inexpensive real estate because the offices and retail outlets in Riyadh remain expensive for young SMEs. The government has responded by establishing co-working spaces and providing subsidies to small businesses; there must be more that can be done to ensure that businesspersons get an opportunity to access cheap and affordable commercial spaces within the CBD areas as reported by Aminova et al., (2020). Furthermore, although there have been improvements in the conditions of simplification of regulations, bureaucratic barriers still have a major impact on SMEs. In many cases, the process of registering a business, getting a license, and following regulatory measures takes numerous efforts and a long period of time. The performers pointed to the need to avoid attempts at constant simplification of the rules and maintaining a legal framework conducive to enhancing the status of Riyadh as an SME platform.

According to Najafi et al., (2024) Riyadh also hosts several technology-focused events, such as the Future Investment Initiative (FII) and the Saudi ICT Forum, which attract global leaders in technology, investment, and entrepreneurship. These events provide a platform for SMEs to showcase innovations, learn about emerging trends, and connect with potential investors and partners. By positioning Riyadh as a hub for technological innovation, the government aims to create a thriving digital ecosystem in which SMEs can experiment with new business models, adopt cutting-edge technologies, and increase their competitiveness in both domestic and international markets (Aloulou, 2021). As highlighted earlier, Riyadh is a hub for SMEs; however, several issues exist. The biggest hurdle is the

availability of inexpensive real estate because the offices and retail outlets in Riyadh remain expensive for young SMEs. The government has responded by establishing coworking spaces and providing subsidies to small businesses; there must be more that can be done to ensure that businesspersons get an opportunity to access cheap and affordable commercial spaces within the CBD areas (Islam and Ali, 2024). Furthermore, although there has been improvement in the conditions of simplification of regulations, bureaucratic barriers still have a major impact on SMEs. In many cases, the process of registering for a business, getting a license, and following regulatory measures takes a lot of effort and a long period of time.

#### 4. CHALLENGES TO SMES IN SAUDI ARABIA

According to Khan and Iqbal, (2020) the ambitious target of increasing the SME sector's contribution to GDP from 20% to 35% requires substantial investment and long-term commitment. However, balancing the required financial support with existing budget constraints—especially considering Saudi Arabia's efforts to manage the growing fiscal deficit—poses a considerable obstacle (Moshashai et al., 2020). The shortage of skilled labor in Saudi Arabia, compounded by the economy's historical reliance on expatriate labor force is another problem. According to Roos and Adams, (2021), the Kingdom's dependence on foreign workers creates challenges for the development of a competitive, locally driven SME sector. Developing a skilled domestic workforce is essential for growth, particularly as they expand into industries beyond oil. However, Baqadir et al., (2011) emphasized that educational reform and vocational training are necessary to equip Saudi nationals with the skills needed for emerging sectors, highlighting a significant obstacle to workforce development. The reliance on foreign labor not only creates skill shortages, but also leads to an outflow of capital, as foreign workers often remit their earnings abroad (Ehmaidat and Jajuga, 2023). This capital outflow limits the funds available for reinvestment in the local economy, which is particularly detrimental to SME growth. Aldossari, (2020) argues that unless substantial investments are made in education and vocational training, Saudi Arabia may face ongoing challenges in building a skilled workforce capable of supporting its economic diversification goals.

Saudi Arabia's economy is highly centralized in the oil and petrochemical sectors. According to Alharbi (2023), employment of SMEs in sectors other than oil-based industries is narrowly limited in the Kingdom. The lack of employment-generating capital-intensive manufacturing sectors is deemed a major hindrance, because SMEs cannot create employment in this area. SME growth and exports provide limited prospects for capacity development and meaningful income contribution to non-oil sectors, which might be a limitation to Vision 2030 in general (Guendouz and Ouassaf, 2020). The limited development of industries outside oil has reduced Saudi Arabia's ability to create a more diversified economic structure. This lack of diversity impacts the competitiveness of SMEs, making it challenging for them to scale operations and contribute effectively to GDP growth

according to Naradda Gamage et al., (2020). There is a need for shifts towards high-value industries and greater support for non-oil sectors to create a conducive environment for SMEs, enabling them to drive economic transformation.

Infrastructure-related issues are often discussed as major barriers to SMEs' development. Alkaabi, (2024) stressed that SMEs require effective transport, logistic and digital networks on which they depend to run their business, reach new customer and grow. Since Vision 2030 outlines the enhancement of the infrastructure, the current absence of facilities prevents SMEs from advancing and firmly competing. In addition to physical infrastructure ICT adoption is another critical area in which Saudi SMEs are lagging. Krishnan, (2024) notes that ICT investments are often seen as an operational cost rather than a transformational opportunity, which prevents SMEs from fully modernizing and capitalizing on technological advancements. This perception gap hinders innovation, placing Saudi SMEs at a disadvantage compared with global competitors who have embraced digital transformation. Thus, addressing issues related to infrastructure and ICT gaps are essential for supporting SME growth and achieving Vision 2030 goals.

#### 5. CONCLUSION AND RECOMMENDATIONS

Promoting SMEs in Saudi Arabia is crucial for fostering the economic diversification, creating jobs, and encouraging innovation under the transformative Vision 2030. Historically, SMEs in Saudi Arabia were confronted with the challenges, such as lack of access to financing, regulatory hurdles, and shortage of skilled labors etc. Often, these barriers kept SMEs from growing to the extent that they could potentially compete with the well-capitalized state enterprises and the multinational corporations. Some of the recommendations to support and promote the SMEs in Saudi Arabia are shared as below.

Firstly, it is imperative to provide access to finance and capital to SMEs. The banks and financial institutions need to be encouraged to offer loans, grants, and credit lines tailored to SMEs with favorable terms, such as lower interest rates and longer repayment periods. Secondly, there is a need to streamline the regulatory environment to make it easier for SMEs to start and grow their businesses. This includes simplifying licensing processes, reducing bureaucratic red tape, and lowering the costs associated with registration. Government should offer tax incentives, grants, and subsidies to SMEs that create jobs or contribute to national development goals, particularly in key sectors like technology, manufacturing, and renewable energy. Thirdly, to encourage the inclusion of entrepreneurship programs in schools, universities, and vocational training centers to build a pipeline of future SME owners and managers. There is a need to establish mentorship programs that connect successful entrepreneurs and experts with young SMEs to provide guidance, advice, and valuable insights. Fourthly, the government needs to increase the share of contracts awarded to SMEs in public procurement, ensuring that SMEs have access to large-scale projects. SMEs could also be facilitated to

explore the international markets by organizing trade missions, expos, and offering support for export documentation, certification, and market research.

Fifthly, to facilitate SMEs in establishing platforms (physical or digital) where SMEs can connect with potential business partners, investors, and customers locally and internationally. Furthermore, to develop business incubators and accelerators that provide SMEs with affordable office space, mentorship, and access to a network of investors and experts. Invest in logistics infrastructure to reduce transportation and shipping costs for SMEs, particularly those involved in manufacturing and export. Sixthly, as part of the Vision 2030 objectives, encourage SMEs to enter the tourism, hospitality, and entertainment sectors by offering targeted incentives and infrastructure support. To provide incentives for SMEs working in renewable energy, waste management, and sustainable agriculture sectors to promote environmental sustainability. Seventhly, there is a need to run public awareness campaigns to raise the awareness of the importance of SMEs in the national economy, celebrating successful local businesses and inspiring entrepreneurs. Partner with media outlets to highlight the achievements of SMEs, creating visibility and boosting their reputation in the market.

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