

# International MENA Guarantee Conference

## Financing small and medium enterprises



## What is Kafalah

The Small and Medium Enterprises Loan Guarantee Program “Kafalah” is a governmental development program that aim to support SME through sustainable financing and sustainability in providing its services.



## Kafalah’s purpose

Overcoming obstacles to financing small and medium enterprises, by guaranteeing a percentage of the risks of the financier, to facilitate the opportunity for the entity to obtain the necessary financing from the financial Institutions cooperating with the program.



## Kafalah’s rule

The program issues a guarantee to the financing entity under which it guarantees a percentage of the financing risks granted to the entity to facilitate the opportunity for the entity to obtain the necessary financing from the financial Institutions cooperating with the program.



## Our Mission

"Providing financial guarantees to enhance access by SMEs to necessary financing through strategic partnerships, national cadres and innovative technological tools supported by our knowledge bases"

## Our Vision

"Effective guarantees to stimulate the financing and support of SMEs that contribute to strengthening the national economy"

The Small and Medium Enterprises Financing Guarantee Program “Kafalah” will contribute to achieving the aspirations and goals of the Kingdom's Vision 2030 by increasing the contribution of small and medium enterprises to the GDP from 20% to 35% in 2030 by providing the added value provided to each of the beneficiaries.

## Overview of the program performance Until Q2 2023

Since Establishment of the program

Total SME's  
Beneficiaries

**19,683**  
Beneficiaries



Total Issued  
Guarantees

**57.9**  
Billion



Total Funded Credit

**83.6**  
Billion



Outstanding

Total Active  
Beneficiaries

**13,259**  
Beneficiaries



Total Active  
Guarantees

**25.4**  
Billion

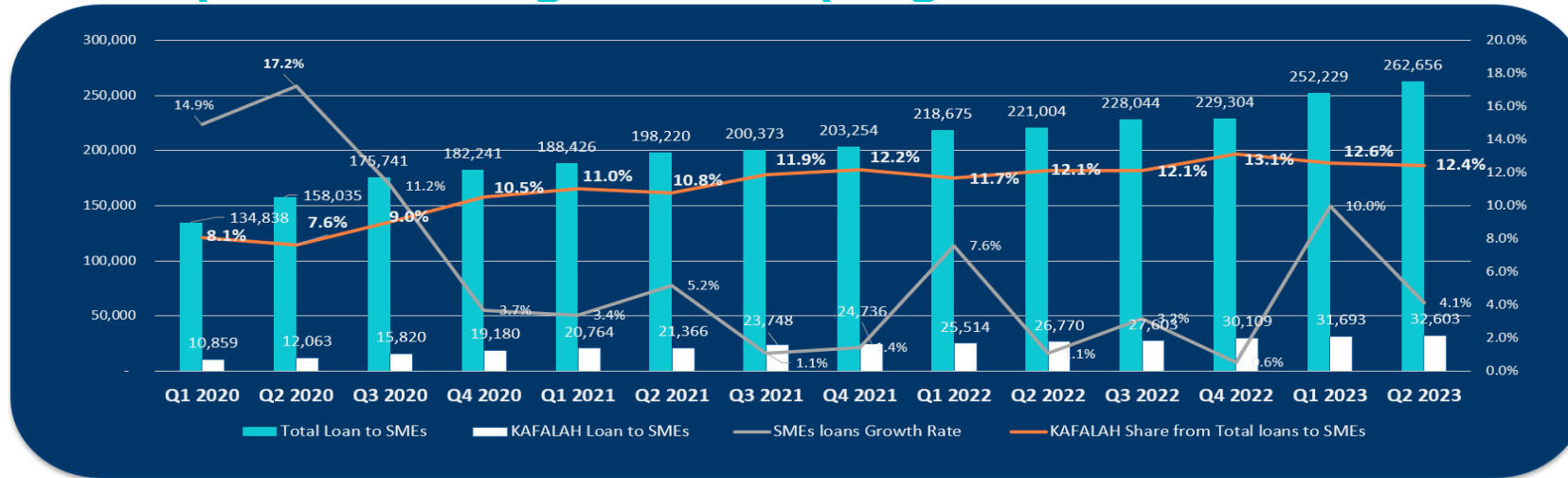


Total Active Funded  
Credit

**32.6**  
Billion

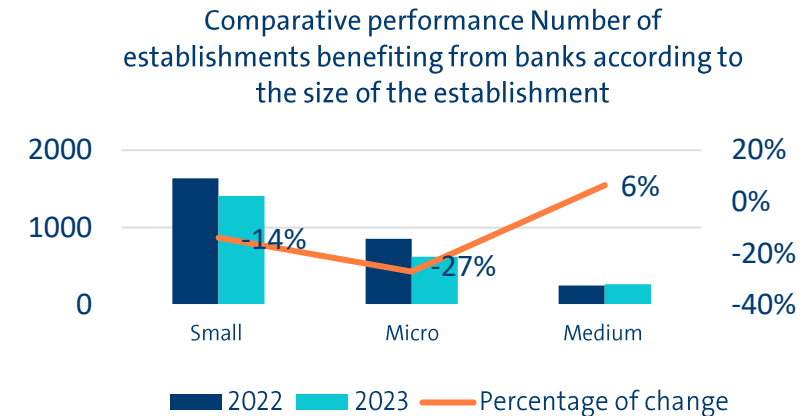
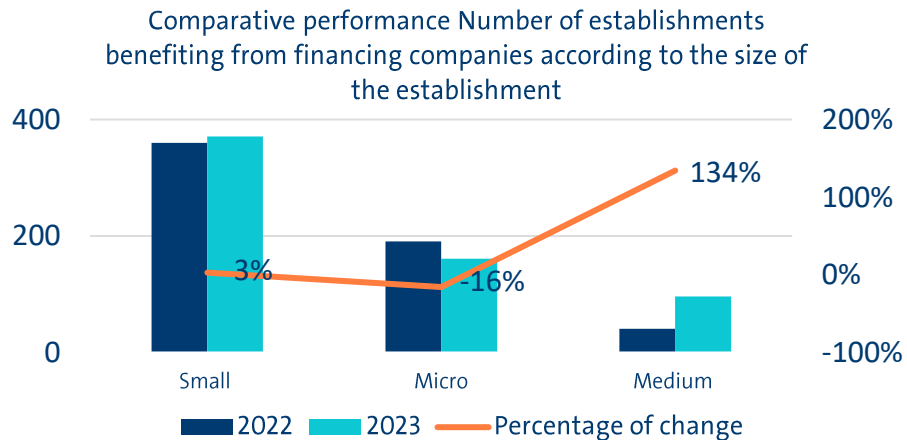


# The size of the facilities provided to small and medium-sized enterprises by financing Institutions, compared to the guarantee program



The above table shows a comparison of the performance of the Kafalah program with the size of the facilities provided to small and medium enterprises by the financing agencies in value according to the data issued by the Central Bank of Saudi Arabia. We seek to obtain the number of enterprises supported by the financing agencies to measure the performance of the guarantee at the level of the small and medium enterprises sector.

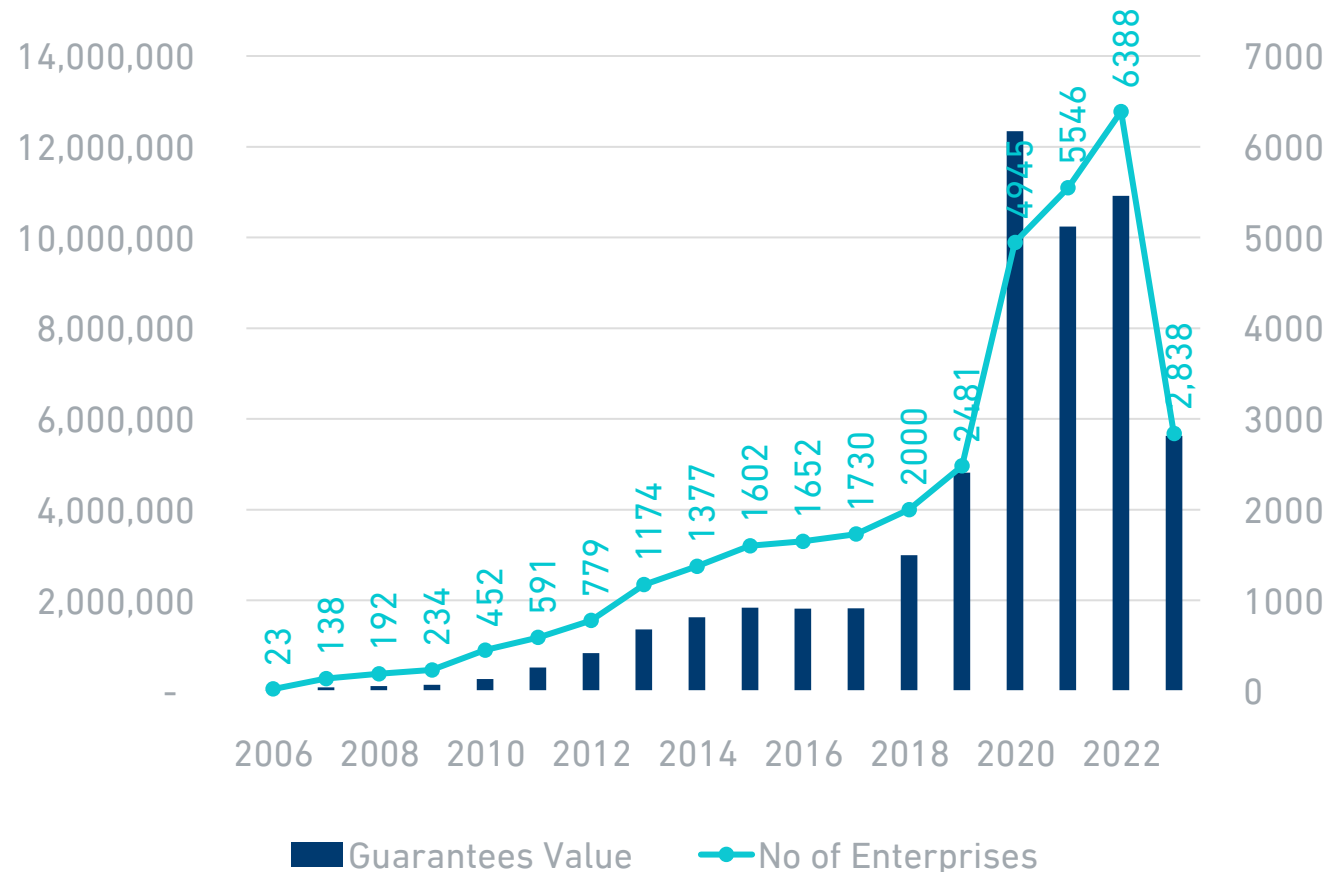
\*The comparison was made according to the latest monthly report issued by the Central Bank of Saudi Arabia for the month of November on 11/30/2022.





## Kafalah program is the main supporter in the process of financing small and medium enterprises until the end of June 2023

Year	Guarantees Value	Funding Value	enterprises	Avg Guarantee tenure	Avg Coverage %
2006	14	32	23	30.84	45%
2007	84	186	138	33.40	45%
2008	113	260	192	26.47	43%
2009	141	365	234	20.30	39%
2010	268	710	452	20.70	38%
2011	525	1,108	591	17.80	47%
2012	841	1,573	779	18.76	53%
2013	1,363	2,487	1174	18.11	55%
2014	1,628	3,332	1377	17.79	49%
2015	1,838	3,771	1602	17.39	49%
2016	1,816	3,539	1652	17.75	51%
2017	1,823	3,352	1730	17.01	54%
2018	2,997	4,935	2000	17.51	61%
2019	4,816	7,376	2481	19.40	65%
2020	12,343	15,233	4,945	23.73	81%
2021	10,237	12,968	5,546	25.23	80%
2022	10,890	14,127	6,360	32.32	77%
2023	5,625	7,097	2,838	34.15	79%
Total	57,945	83,554	19,683	23.63	69%



# Analytical Study

## On the Economic Impact Of Kafalah

### Program

Prepared by the Interdisciplinary Research Center for Finance and Digital Economy  
King Fahd University of Petroleum and Minerals



## Pillars

### Introduction



Pillars of the Study



Applied Methodology



Work Team



Timeline of the Project







## The Role of the Program in Supporting the Sector

By comparing the beneficiary establishments with the total establishments in the sector.

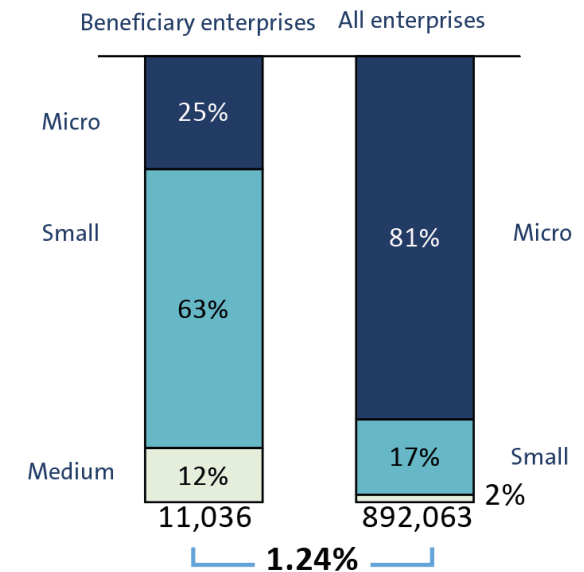
It turns out that at the end of the second quarter of 2022, the beneficiary enterprises that have existing guarantees (1) constituted 1.24 percent of the medium, small and micro enterprises. However, it is noticeable that the distribution of these enterprises varies according to size.

Medium and small enterprises represent much more in the program than in the sector.

While micro-enterprises represent much less in the program than in the sector.

This is an indication that finance agencies, especially banks, do not favor financing micro-enterprises, even with the existence of a sponsorship program. The reservations of the evaluation committee in the program may have a role in this regard. This is an important point that needs a deeper study to understand if it is the best in terms of economic benefit.

By the end of the second quarter of 2022



(1) Existing guarantees are the ones whose status is either "valid" or "exchange request" in the guarantee data.



## The Impact on the Finance Rates

### Summary

The positive impact of the program on **the growth of the beneficiary enterprises** was clearly evident compared to their non-beneficiary counterparts (an increase of 14 percent after a year).

The positive impact was also evident on **the employment of Saudis** (with an increase of 7 percent for males and 9 percent for females after one year), and also - depending on the positive impact on growth - the positive impact on the employment of non-Saudis (11.6 percent after one year).

Likewise, the positive impact of the program on the **GDP** was clearly evident. According to the most conservative estimations, the riyals spent on operating the program in 2019 produced approximately 11 to 12 Saudi riyals in the GDP.

It was not clear to us - within the limits of the available data - that there is a clear impact of the guarantees of the program on **the cost of financing** charged by the financing agencies from the beneficiary enterprises, as the financing agencies and the beneficiary enterprises confirmed that the impact of the program appears clearly in obtaining financing and not in reducing its cost.

The results showed the positive and strong impact of **the secured financing initiative**, as the beneficiary enterprises grew more than their counterparts by 8 percent after half a year and 15 percent after a year.



## Economic performance, growth of enterprises

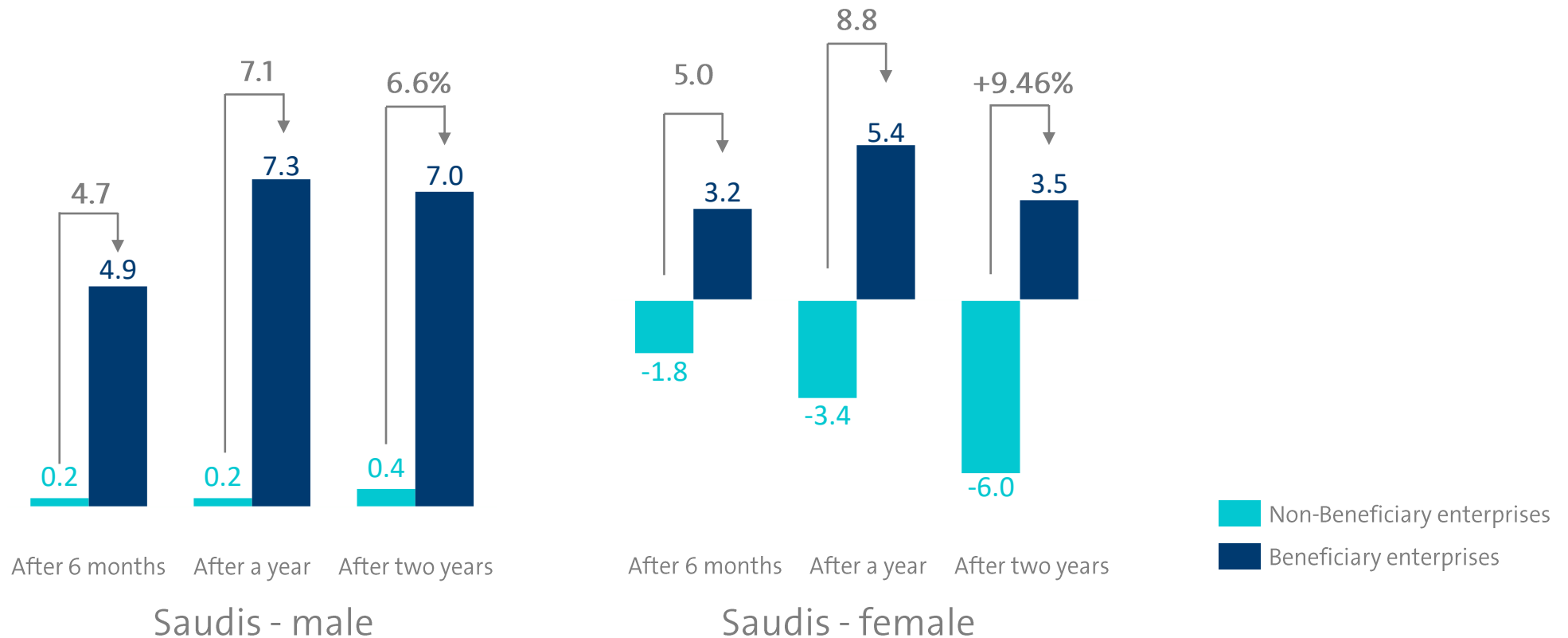
Economic performance, growth of enterprises			
Growth after six months		Growth after two years	
Enterprises with Kafalah	20%	Enterprises with Kafalah	45%
Enterprises without Kafalah	11.5%	Enterprises without Kafalah	36.60%
Economic performance, Employment Growth			
Employment growth after six months		Employment growth after two years	
Enterprises with Kafalah	17 Employees	Enterprises with Kafalah	53 Employees
Enterprises without Kafalah	11 Employees	Enterprises without Kafalah	37 Employees
Economic performance, GDP			
Impact per riyal of expenses		Estimate the impact on the GDP	
During 2019	11 riyal	During 2019	2.8B to 3.6B



# The role of Kafalah program in supporting the small and medium enterprises sector

## The economic impact of the program (employment of Saudis)

The enterprises benefiting from the Credit Guarantee Program (Kafalah) have seen increase the employment of Saudi men and women at a higher rate than their non-beneficiary counterparts, based on the economic study that the program has worked on, as the impact on the increase in employment of Saudi males and Saudi females is 7% and 9% after a year on continues pace almost two years later.

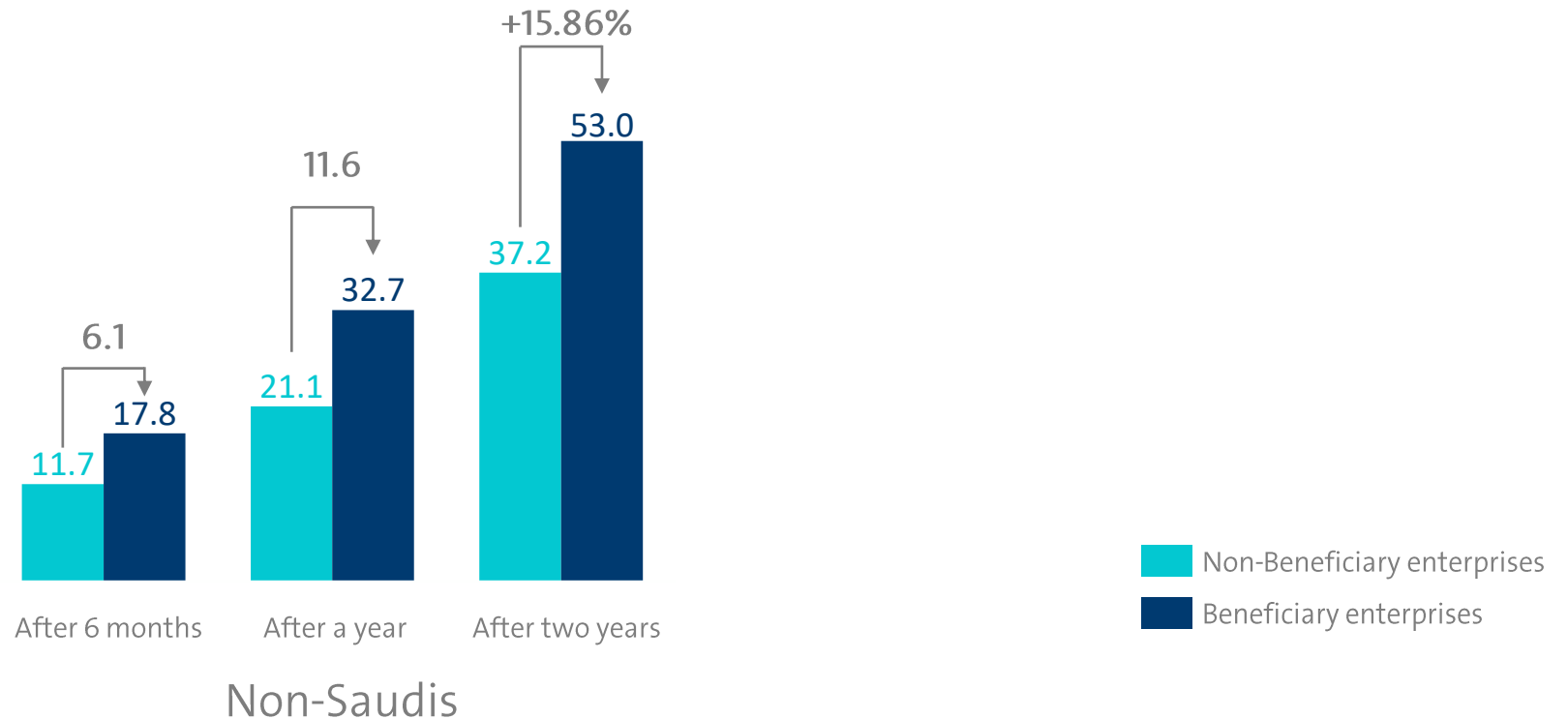




# The role of Kafalah program in supporting the small and medium enterprises sector

## The economic impact of the program (employment of Non- Saudis)

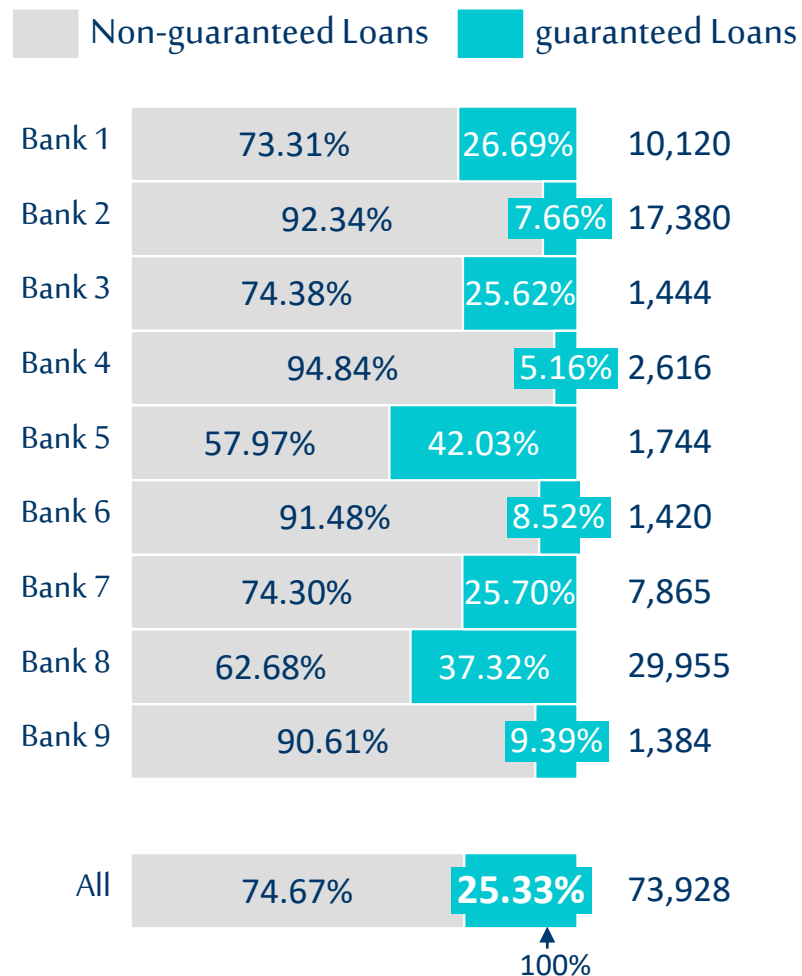
The growth in employment of non-Saudis is positive, which is expected due to the positive impact on the growth of the enterprise . It is noted that the impact on the growth of non-Saudis is greater than the impact on the growth of Saudis, and it is expected because the volume of non-Saudis in the labor market is much greater than the volume of Saudis, in addition to the fact that the most beneficiary sectors are the construction and trade sectors, which are among the sectors in which non-Saudis are most concentrated more than other sectors.





## The role of Kafalah program in supporting the small and medium enterprises sector

Listed banks disclose in their annual reports the number of their financing supported by Kafalah compared to the number of their financing for medium, small and micro enterprises. By comparing the two numbers at the end of 2021, we note that the percentage of financing supported by a guarantee is high, as approximately 25 percent of bank financing for the sector is backed by a guarantee, which is a high percentage and reflects the role of the program in supporting the sector.



### The economic impact of the program (Estimating the impact on the GDP)

The actual impact of the program is estimated between 11 and 12 riyals in the GDP for each riyal of operating expenses for the year 2019.

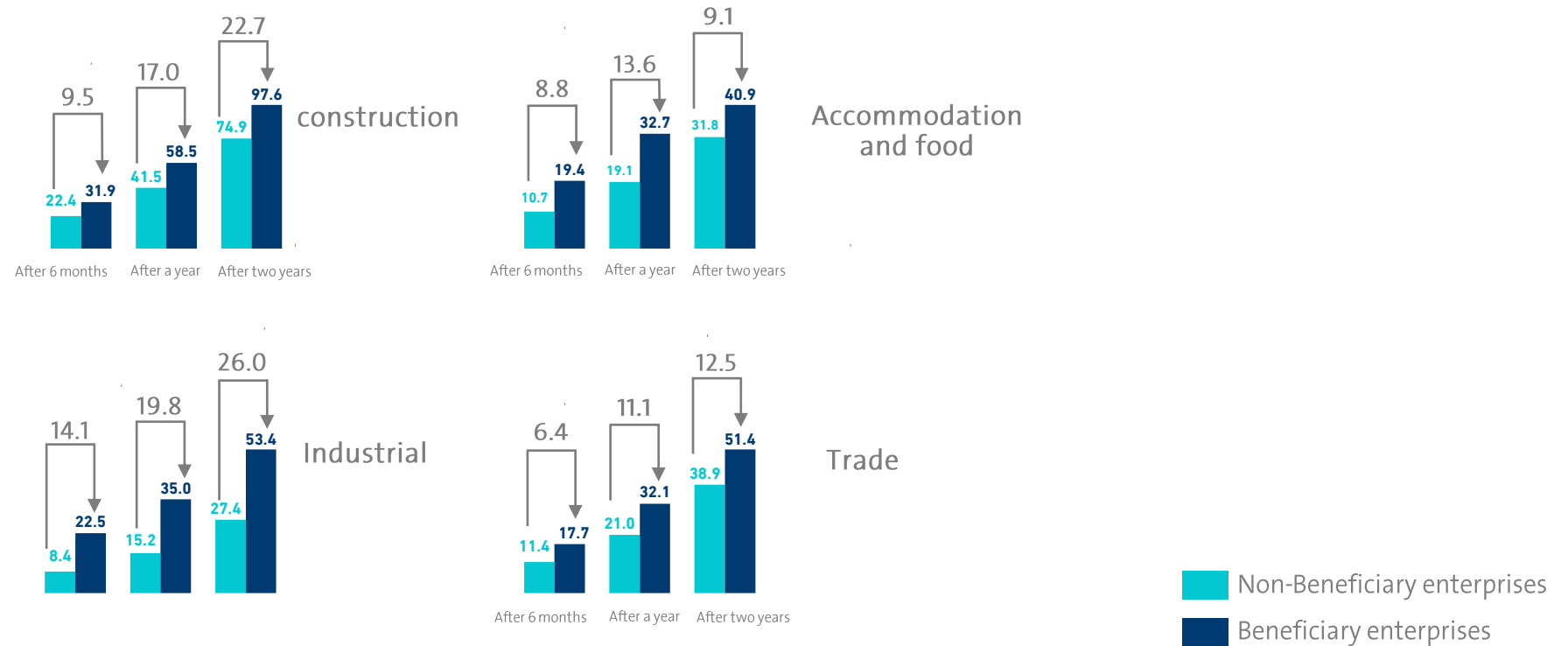
Source: 2021 Annual Report of Listed Banks



## Impact on Growth of enterprises

The impact varies according to the sector, but it is positive and strong in all sectors

In all four major sectors, we find that the impact of the program is positive. For example, after a year of taking the financing guaranteed by the program, its impact ranges from 20 percent in industry to 11 percent in trade.





## The Impact on the Employment Growth

**By comparing these figures with the operational cost of 2019, the impact was positive and strong.**

By comparing the impact with the operational cost of the program during the year, it is possible to figure out how much is the return in the national product for each riyal of the program's operating expenses.

During 2019, the operational cost of the program amounted to 63,410,810 Saudi riyals, and by dividing the impact on the national product for the year 2019 by this number, it can be said that every single riyal spent on operating the program produced between 27 to 32 riyals in the economy.

A few points should be emphasized in order for this estimate to be understood in the right way:

- This estimation assumes that the productivity of the worker in the beneficiary enterprises is identical to the productivity of the worker in the sector.
- This estimation takes into account the impact within one year (2019), and it is known that the impact of the program on the beneficiary enterprises lasts more than a year, as we have seen in the estimates of the impact on employment.
- This estimation also relies mainly on the production surveys of the General Authority for Statistics for medium and small enterprises.





## The Impact on the Employment Growth

**The actual impact of the program is estimated between 11 and 12 riyals in the GDP for every riyal of operating expenses for the year 2019.**

It should be emphasized that this estimation assumes that all the beneficiary enterprises during the year in which the estimation was made were all in need of the program guarantee and without it, they would not obtain financing. However, this assumption may not be true in all beneficiary enterprises, as there may be enterprises that obtained program support even though they will obtain funding without it.

**In order to take into account this possibility**, we used the response of the beneficiary enterprises to the question "For you, which of the following do you expect to happen if we assume that there is no Kafalah program?" **44 percent of the establishments answered: "In the absence of the program, our application will be rejected directly."**

Through this answer, we can consider that 44 percent of the previously estimated impact is the actual impact of the program.

At that time, the most accurate and actual impact of the program **will range between 11 and 12 riyals in the national income for every riyal spent covering the program's operating expenses for the year 2019.**



## The Impact on the Finance Rates

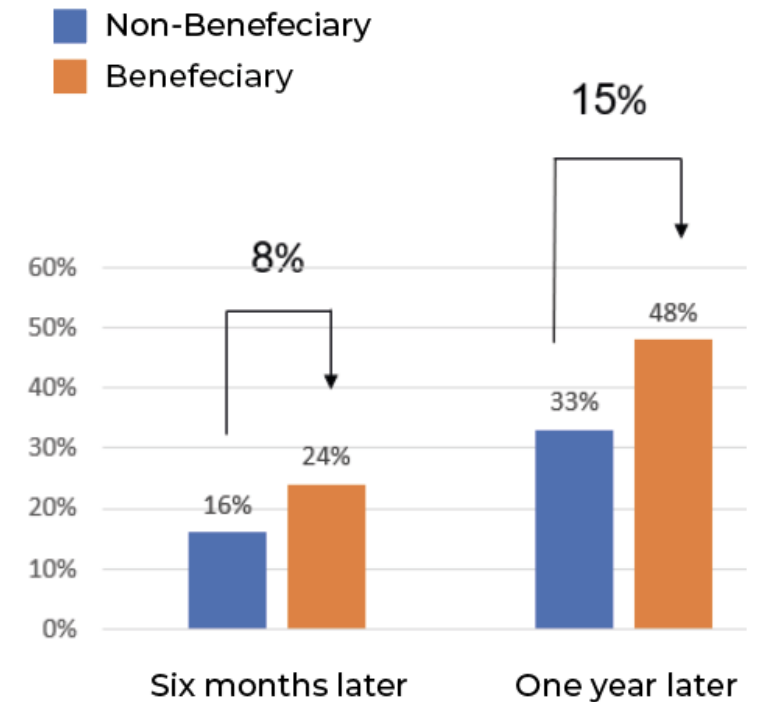
**We followed the same methodology to measure the impact of secured financing, and the impact was positive and strong**

We determined the impact of secured financing on the beneficiary enterprises by applying the same previous methodology, but on the enterprises that benefited only from the secured financing.

There are 3212 enterprises that have benefited from secured financing, of which we were able to find employment data for 1636 enterprises.

For each of these enterprises, we found a comparable one that did not benefit from secured financing.

The results showed that the beneficiary enterprises grow at a faster rate than their non-beneficiary counterparts, by 8 percent after half a year, then 15 percent after a year from the date of benefit.





## The Impact on the Employment Growth

### The methodology of evaluating the impact of the program on the domestic product of the private sector in the Kingdom.

The productivity of the worker in medium, small and micro enterprises (MSMEs)

X Impact of the Program on the Workers' Growth

X Number of the Beneficiary Enterprise' Workers

Impact of the Program on the National Product in Saudi Riyals

The productivity of the worker was measured using medium and small enterprises scanning data at the General Authority for Statistics.

The impact of the program on employment was measured upon estimating the impact of the program on the growth of enterprises as previously.

The number of workers in the beneficiaries at the time of issuing the sponsorship is calculated from the Kafalah program data.

By comparing the impact with the operational cost of the program during the year, you can know how the return on the national product of each of the operating program expenses.

The impact was measured for the year 2019 due to the lack of production data for medium, small and micro enterprises (MSMEs) other than this year.

The work team faced difficulty in obtaining data on the number of workers in medium, small and micro enterprises (MMEs), so it estimated the number of workers in three methods based on the available data, and then it calculated the worker's productivity based on these estimations (Appendix No.1 includes details of the estimation process and the sources of data used ).



## Impact on employment growth

The results showed that the impact is estimated at between 2.8 to 3.6 billion riyals during 2019

	First Approach	Second Approach	Third Approach
<b>Productivity of Employee in the sector</b>			
Micro	113,396	107,231	146,010
Small	167,073	72,143	114,404
Medium	63,981	87,707	151,841
	155,122	181,687	168,997
<b>The impact on the employment of the benefiting enterprises</b>			
Micro	14.0%	14.0%	14.0%
Small	9.9%	9.9%	9.9%
Medium	14.8%	14.8%	14.8%
	19.6%	19.6%	19.6%
<b>Number of Employees in benefiting enterprises</b>			
Micro	174,812	174,812	174,812
Small	3,746	3,746	3,746
Medium	113,678	113,678	113,678
	57,388	57,388	57,388
<b>Estimation of impact on the GDP for the year 2019</b>			
Micro	2,775,213,794	2,624,331,473	3,573,410,743
Small	61,959,610	26,754,601	42,427,072
Medium	1,076,439,302	1,475,604,638	2,554,617,033
	1,744,823,878	2,043,623,065	1,900,884,492



## The Economic Impact of the Program

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Thank you