

The Impact of COVID-19 on SME in Saudi Arabia: A Large-Scale Survey

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Table of Content

Executive Summary.....	1
SME Survey: An Introduction.....	2
Overview of Saudi Economy.....	3
Survey Results.....	4
Operations and Management	4
Finance and Market.....	11
E-Business Model	23
Government Support and Initiatives	26
Conclusions and Policy Implications.....	28

Executive Summary

For the purpose of understanding the magnitude of the impact of the Coronavirus pandemic (COVID-19) on Small and Medium Enterprises (SMEs) and to support policymakers, the General Authority for Small and Medium Enterprises (SMEs) launched the survey on the impact of COVID-19 on SME. The initiative is in cooperation with the Global SME Policy Network (GSPN), Prince Sultan University. The GSPN aims to provide data driven policies for government and international organizations for SMEs from G20 countries and across the globe to cope with the challenges facing during the COVID-19.

A total of 918 MSME (Micro, Small and Medium Enterprises) from 13 administrative regions (Riyadh, Makkah, Madinah, Qassim, Eastern Region, Asir, Tabouk, Hail, Northern Border, Jazan, Najran, Al-Baaha, and Al-Jowf) participated in this survey. The survey was conducted from 16 to 22 April, 2020.

Key findings emerge from this survey analysis are:

Operations and Management

99.5% of the sample MSMEs of the study were negatively affected by the result of the Coronavirus pandemic (COVID-19). The "pessimistic view"¹ is the likely scenario for more than **66%** of the business owners if the Corona crisis continues in the coming month. Importantly, **65.2%** of MSME were affected on its operations in a "very high" manner. **14.7%** of the SME temporarily laid off more than 10 employees.

Finance and Market

Similar to the global markets, **46%** of the business indicated that their average sales/revenue were affected by **100%**, and **17%** indicated that average sales/revenue were affected by **90%**. Under the current circumstances, **73%** of the MSME see the duration of their continuation between **3 to 6 months**. **52%** of business will be unable to fulfil the salary obligations to employees.

E-Business Model

26% of the MSME provided training the workforce on the newly developed business model. **30%** of the SME benefited from the electronic services and working from home model.

Government Support and Initiatives

The stimulus package of the government of Saudi Arabia to support MSME aims to overcome the COVID-19 pandemic crisis. Many MSMEs are getting the benefits of this support.

1 SME Survey: An Introduction

The Coronavirus (COVID-19) pandemic crisis disrupted the global economies and the business world. The General Authority for Small and Medium Enterprises (Monshaat) in Saudi Arabia has conducted a survey on Small and Medium Enterprises (SMEs) through its social media channels, website and e-mails of SMEs owners.

The survey representing business across three dimensions:

1. **Geographical location:** The survey covers the participation of business owners from different regions of the Kingdom.
2. **Economic activity:** The survey contains participants from various sectors.
3. **Size:** The survey includes micro, small and medium sized business.

“The virus spread to all continents in a few short months, creating a shockwave of disruption that left little time for preventative or remedial action by local economies and societies”

(World Economic Forum, 2020)

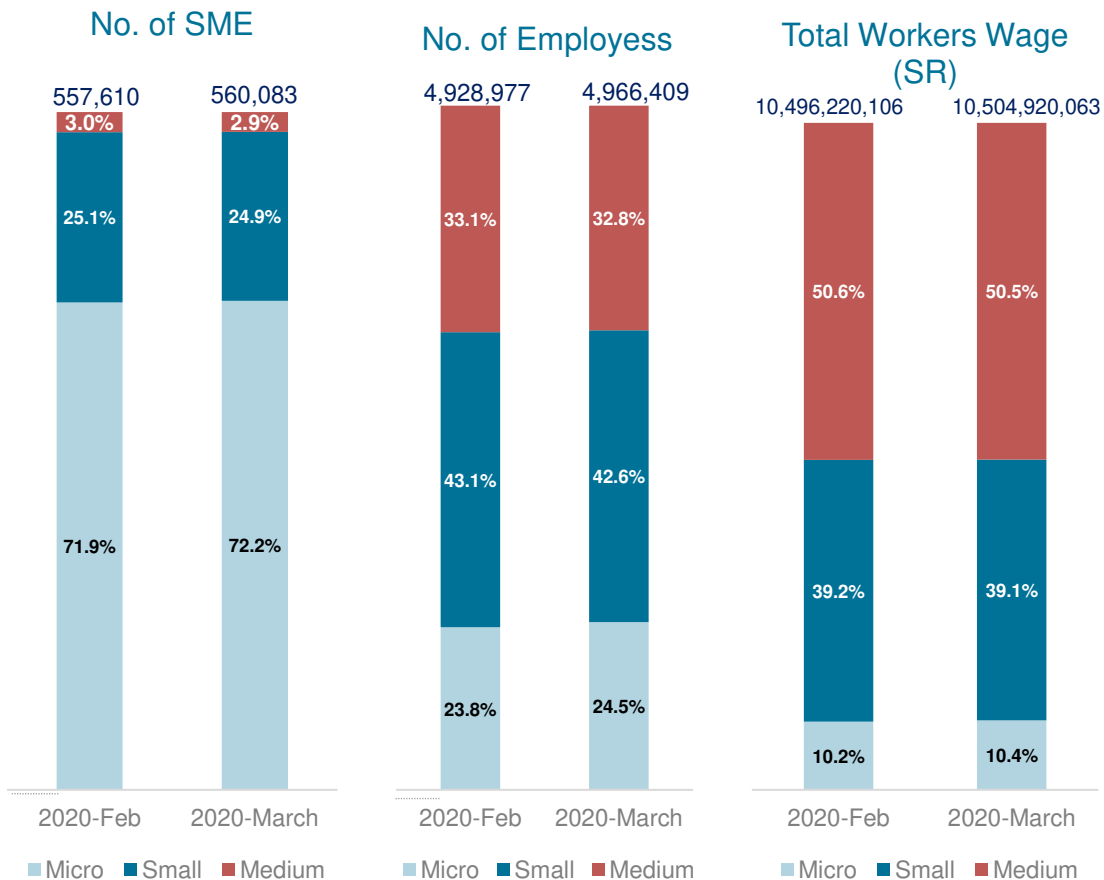
The survey questionnaire included questions about how COVID-19 pandemic affects business and their financial performance, as well as the impact on MSME activity. The questionnaire also included questions about the procedures followed by the owner of the business and the extent to which these measures were implemented in reducing the negative impact of the COVID-19 pandemic on business activity.

+900
MSME

The survey results are based on the responses of 918 MSMEs in Saudi Arabia. The largest proportion of responses were from residential and food service activities (34%), followed by wholesale and retail (22%), manufacturing (11%); and construction (9%). Respondents represent from micro (47%), small (47%), and medium-sized business (6%).

2 Overview of SME in Saudi Arabia

The Coronavirus (COVID-19) pandemic crisis disrupted the global economies and the business world.



SMEs contribute to promoting growth, creating job opportunities and encouraging innovation, accounting for 99.41% of the private sector in Saudi Arabia, while their contribution to GDP is 28.7% in 2018 and is one of the most important drivers of economic growth. The Kingdom seeks to support the SME sector by improving the economic environment and looking for possible ways to increase its contribution to GDP, diversifying sources of income and expanding the kingdom's production base in order to achieve the goals that the Kingdom seeks to achieve and the role of SMEs in economic transformation and **Vision 2030**. The Kingdom is working to increase the contribution of SMEs to GDP from 20% to 35%.

3 Survey Results

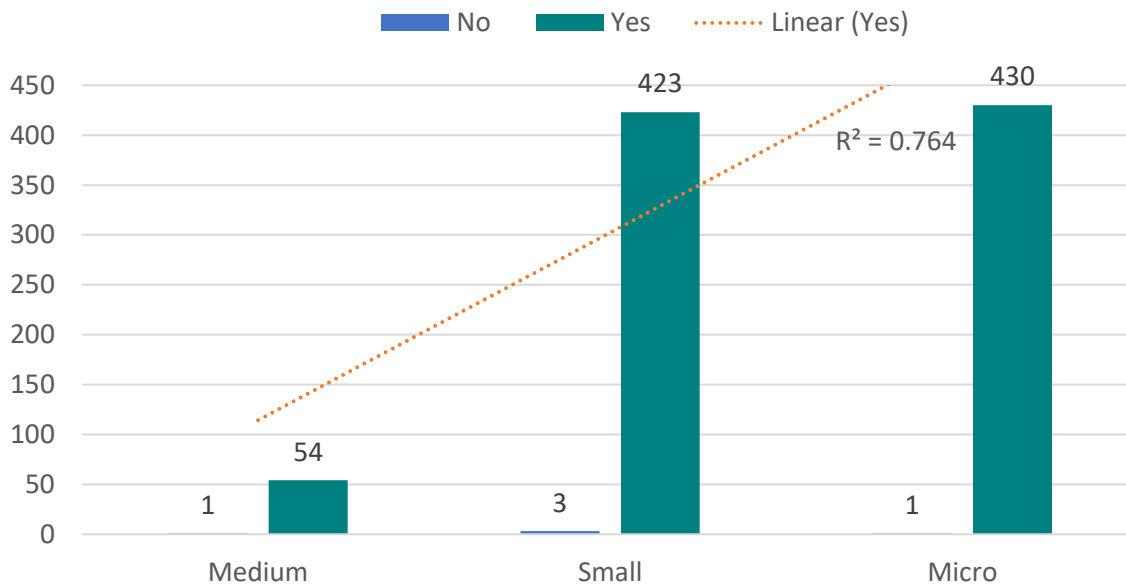
Operations and Management

Question:

Has the Corona crisis negatively affected your business?

99.5%

Respondents agree that business of all sizes were adversely affected by the Coronavirus pandemic. This resulted the reduced revenue and to meet their obligations and fixed expenses of salaries, rents, etc.



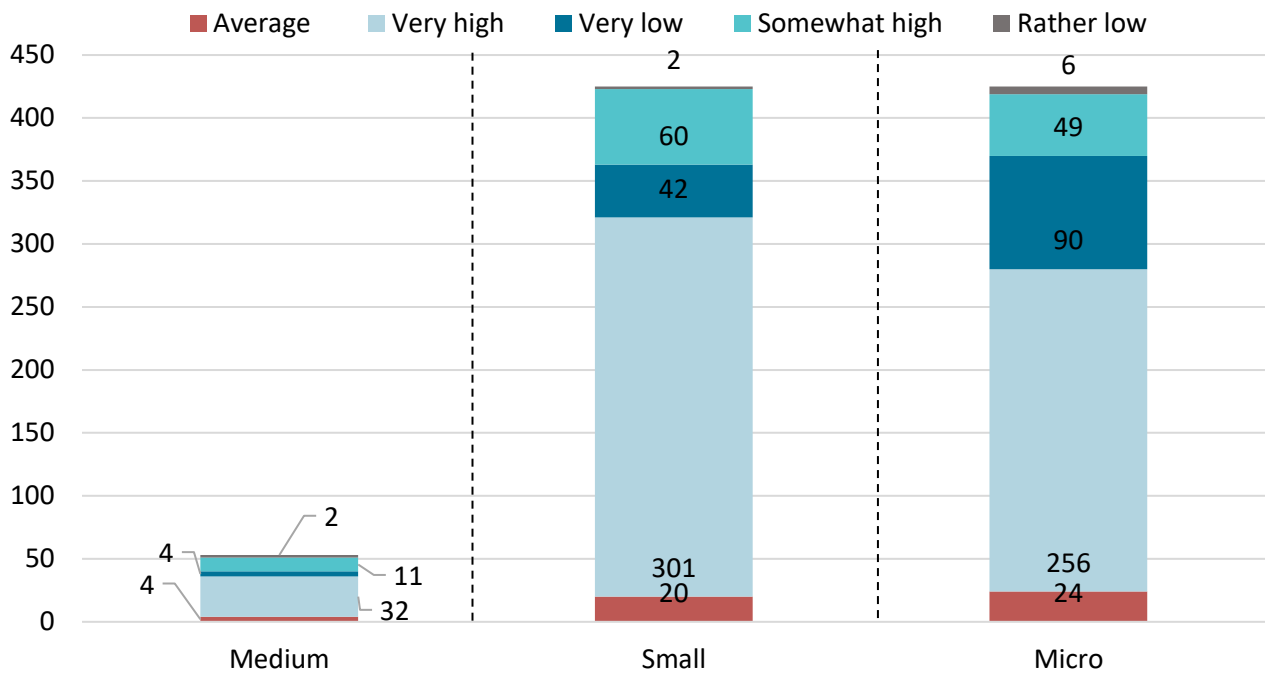
Source: Monshaat (2020)

Question:

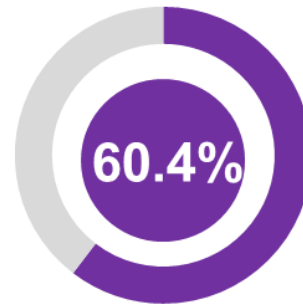
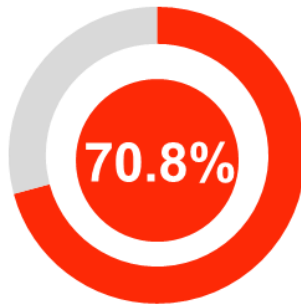
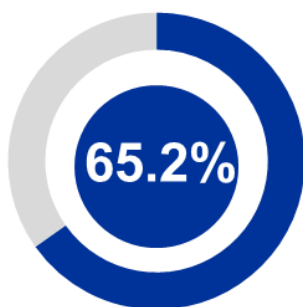
Has the Corona crisis negatively affected your business?

If your answer is yes, how much impact does it have on your business during the Corona virus crisis?

Most of the SMEs affected “significantly” by the Covid-19 pandemic. In particular, over 65% of Small and Micro business were highly affected.



Source: Monshaat (2020)



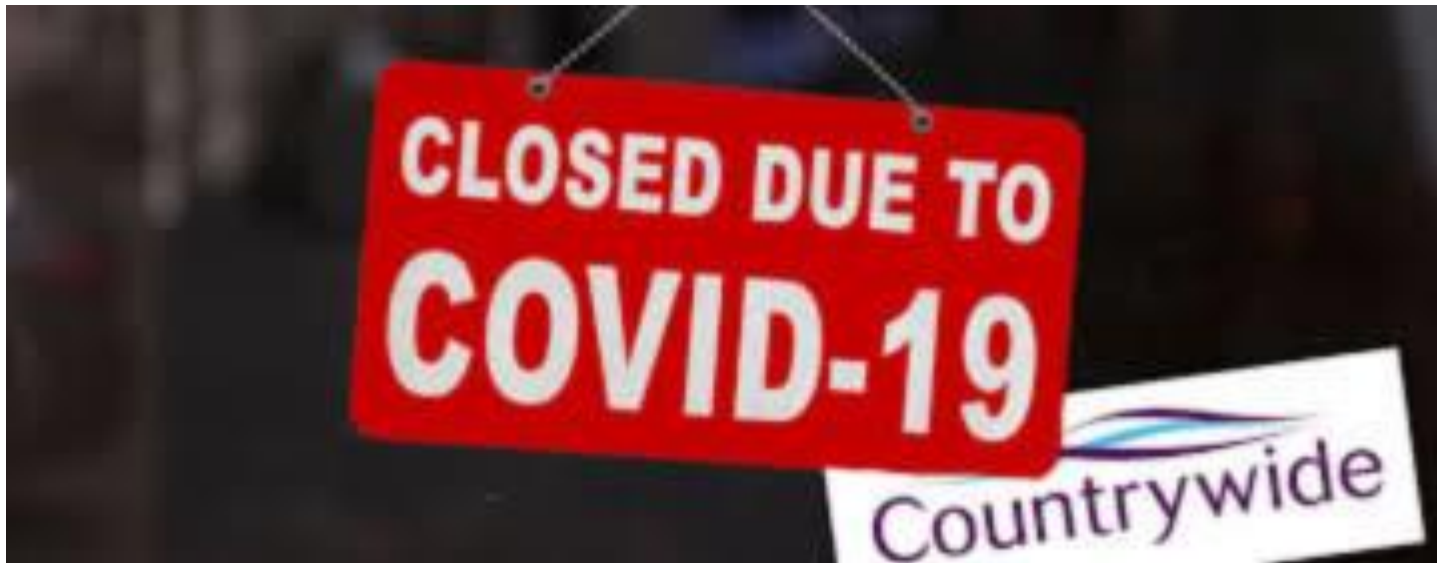
SIGNIFICANT IMPACT

Question:

How many branches do you have? Where are your branches located?

If you have more than one branch, how many branches are closed today?

The results show that the companies' closures of the number of "at least one branch", which constitutes a high percentage of 46.7% in the micro, 30% in the small and 30.6% in the medium enterprises.



Micro

14%

Small

19.8%

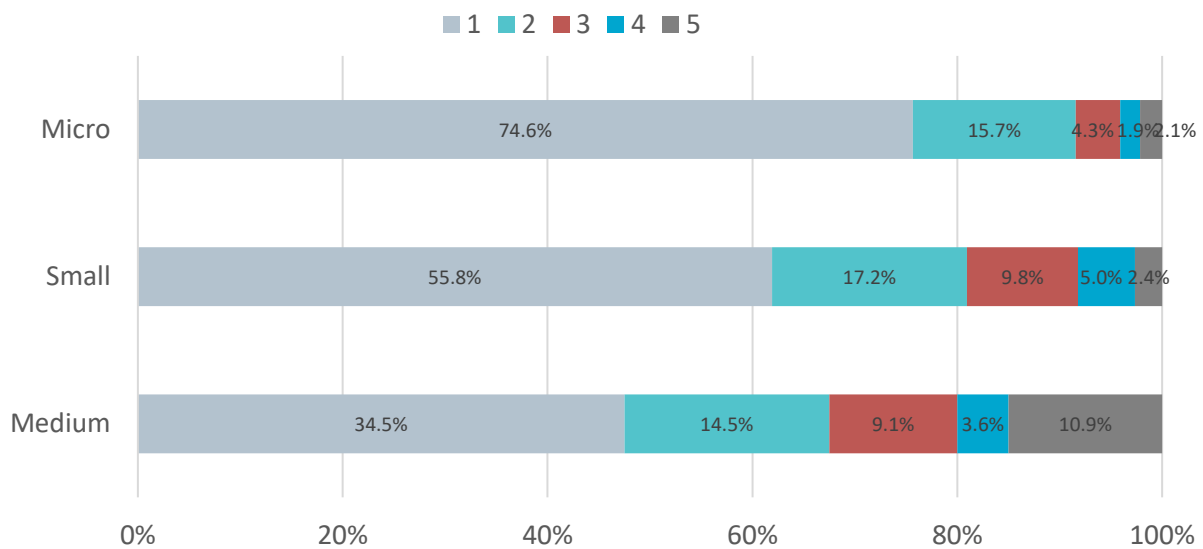
Medium

34.7%



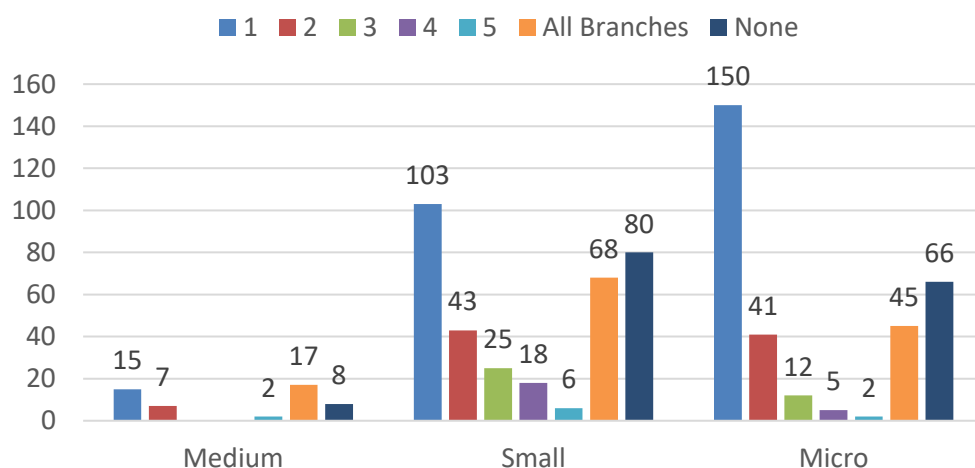
63.4%

MSME has only one branch. 16.3% of the MSME has two branches and 6.9% has more than five branches.



Source: Monshaat (2020)

In terms of the distribution of locations of the branches, 47.9% of the MSME are located in independent places, 21.3% in several places, 14.1% of them are in an open commercial complex, 10.2% in other places and 6.5% in a closed complex.

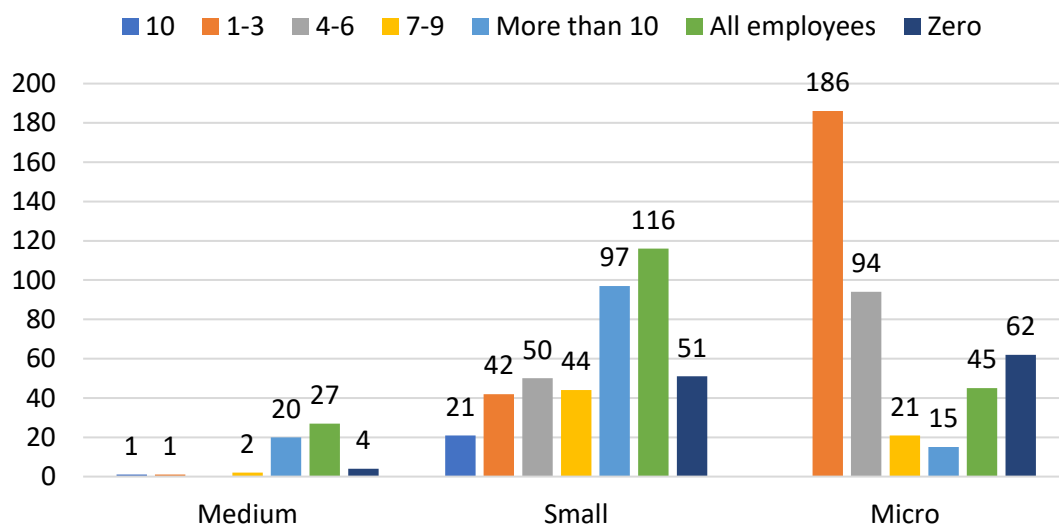


Source: Monshaat (2020)

Question:

How many employees have been temporarily laid off due to the Covid-19?

49.1% of medium, 27.6% of small and 10.6% of micro business have decided to stop all of their employees to work due to the current crisis. Also, 36.4% of medium, 23% of small and 3.5% of micro business temporarily laid off more than 10 employees since the beginning of the crisis. Stops were more concentrated in the micro business in the number of 1-3 employees by 44% and the number of 4-6 employees by 22.2%, whilst the stops of small business to the number of employees between 1-6 employees accounted for 22%.



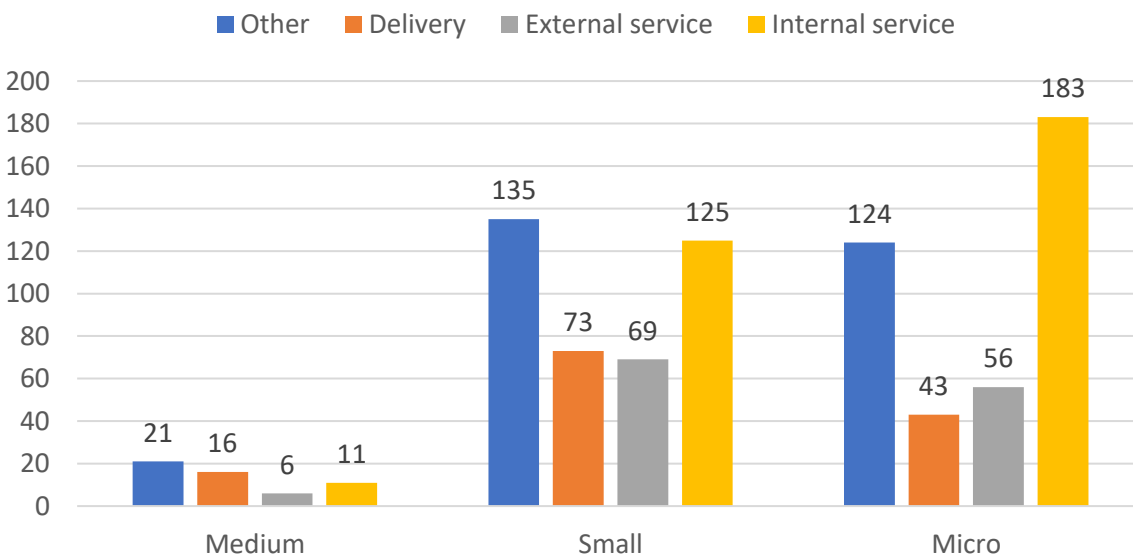
Source: Monshaat (2020)

Question:

How do you serve your customers?

There are many ways to provide customer services and sell goods according to the business model. 20.4% of medium-sized enterprises, 31.1% of small enterprises and 45.1% of micro-enterprises stated that their services were provided internally.

Customer service is provided through external services by 11% of medium business, 17% of small business and 14% of micro business. Also, 30% of medium business, 18% of small business and 11% of micro business are serving their customers by delivering orders.



Source: Monshaat (2020)



Question:

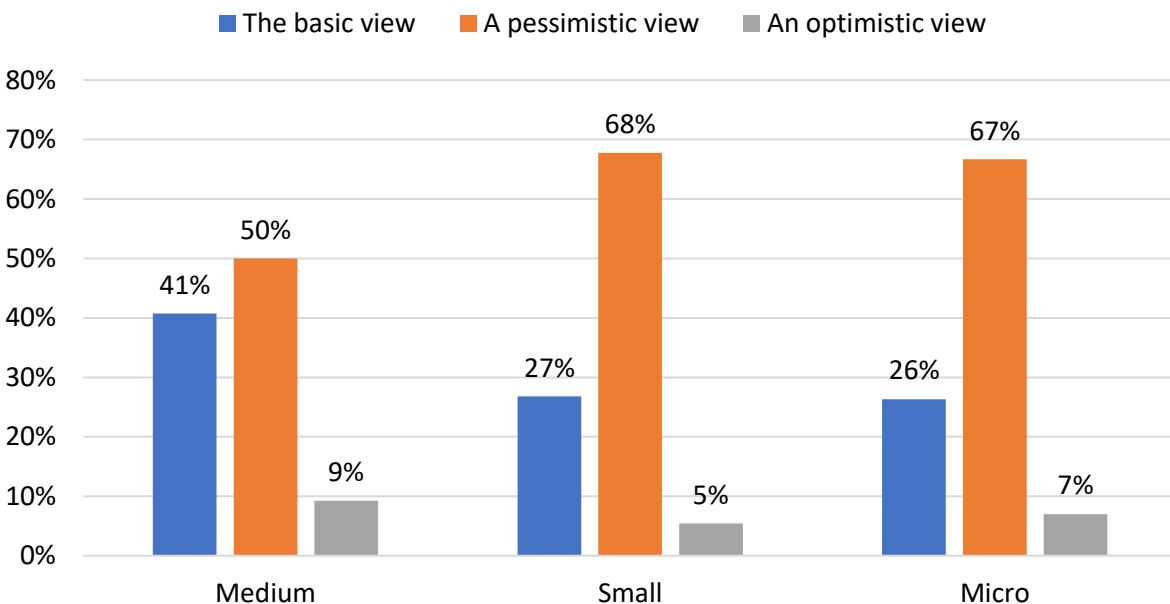
What is the possible scenario to follow if the Corona crisis continues in the coming months?

An optimistic view: lower average sales and higher costs, which reduces operating costs (hiring workers to other entities, electricity, etc.) and reduces working hours.

The basic view: a higher decrease in sales and a higher cost increases, thus focusing on achieving sales rather than maximizing profits and trying to postpone and reduce obligations by taking advantage of government measures.

A pessimistic view: loss in sales, which leads to the inability of the owners of the business to pay financial obligations and thus layoffs and the closure of the business.

With Corona's crisis and uncertainty over how long things are expected to return to normal, business owners provided a number of possible survival scenarios. The responses of the participants indicate that the basic and pessimistic view are the two possible approaches, as 50% of medium-sized enterprises, 67% of small enterprises and 67% of micro-enterprises believe that the pessimistic view scenario is the possible scenario. 41% of medium-sized enterprises, 27% of small enterprises and 26% of micro-enterprises see that the basic view is likely to be followed.



Source: Monshaat (2020)

Finance and Market

Question:

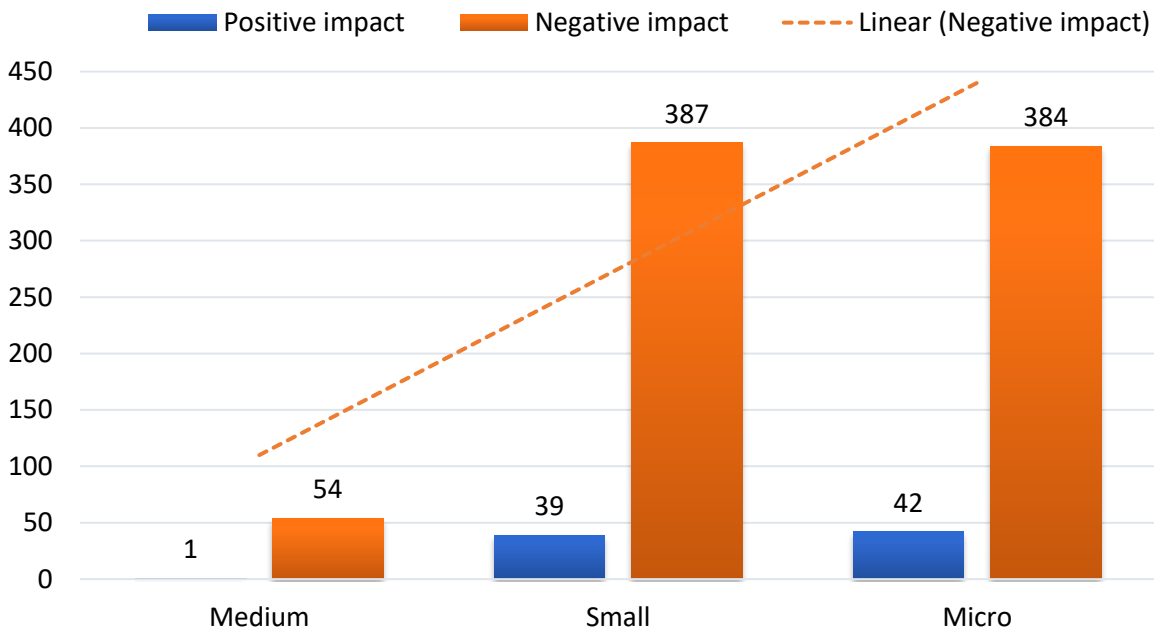
What is the effect of preventive measures (such as curfew and lockdown) on your business?

91%

MSMEs face a negative impact due to the preventive measures to combat the spread of the Corona virus.

43% **Micro** business were negatively affected, followed by small business with 42%.

Most of the business located in **Riyadh**, were negatively affected (27%), followed by the Eastern region (23%), and Makkah (20%). The remaining 30% were negatively affected in the rest of the Kingdom.



Source: Monshaat (2020)

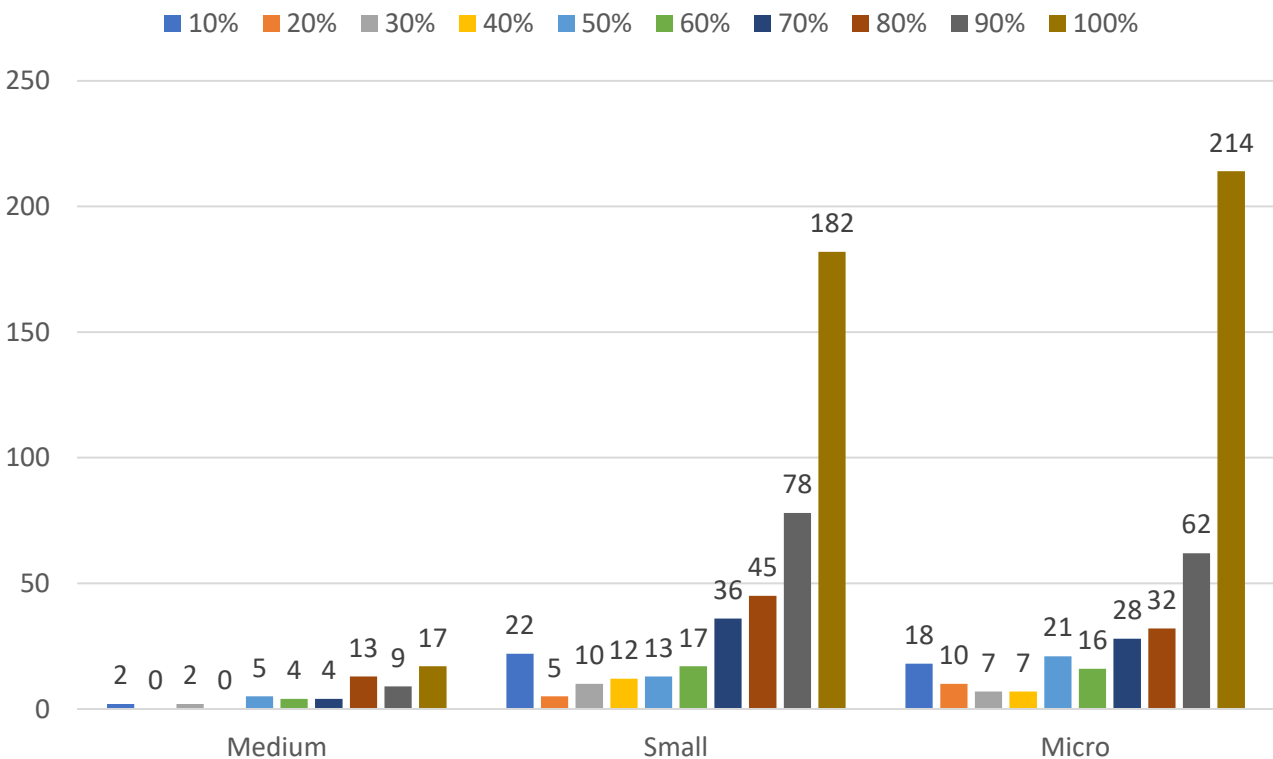
Question:

With preventive measures (such as curfew), how big is its impact on the average sales rate of your business today compared to the last quarter of 2019?

46%

MSME indicated that their average sales were affected by **100%** (micro - 24%, small - 20% and medium - 2%). 34% of them located in Riyadh, Eastern Region, and Makkah

This effect was concentrated in accommodation and food services, wholesale and retail trade. These two sectors accounted for 25% and indicated that their average sales were affected by 100%.



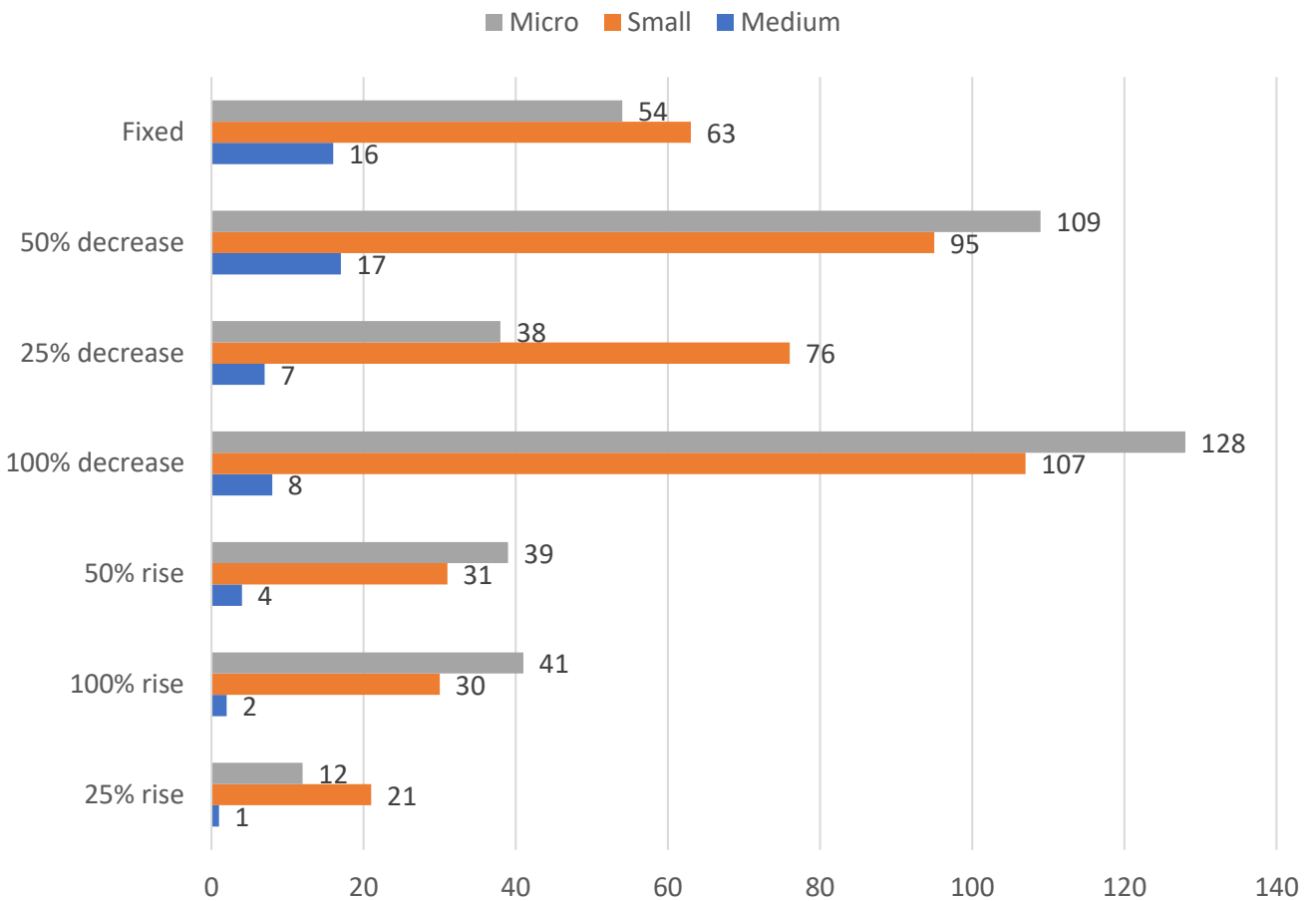
Source: Monshaat (2020)

Question:

How has the weekly operating spending on your business changed since the start of the crises?

27%

MSME decreased their weekly operating spending by **100%**; 25% MSME decreased operating spending by 50%, and 13% MSME decreased operating spending by 25%. 56% of the responses were from accommodation and food services; wholesale and retail.



Source: Monshaat (2020)

Question:

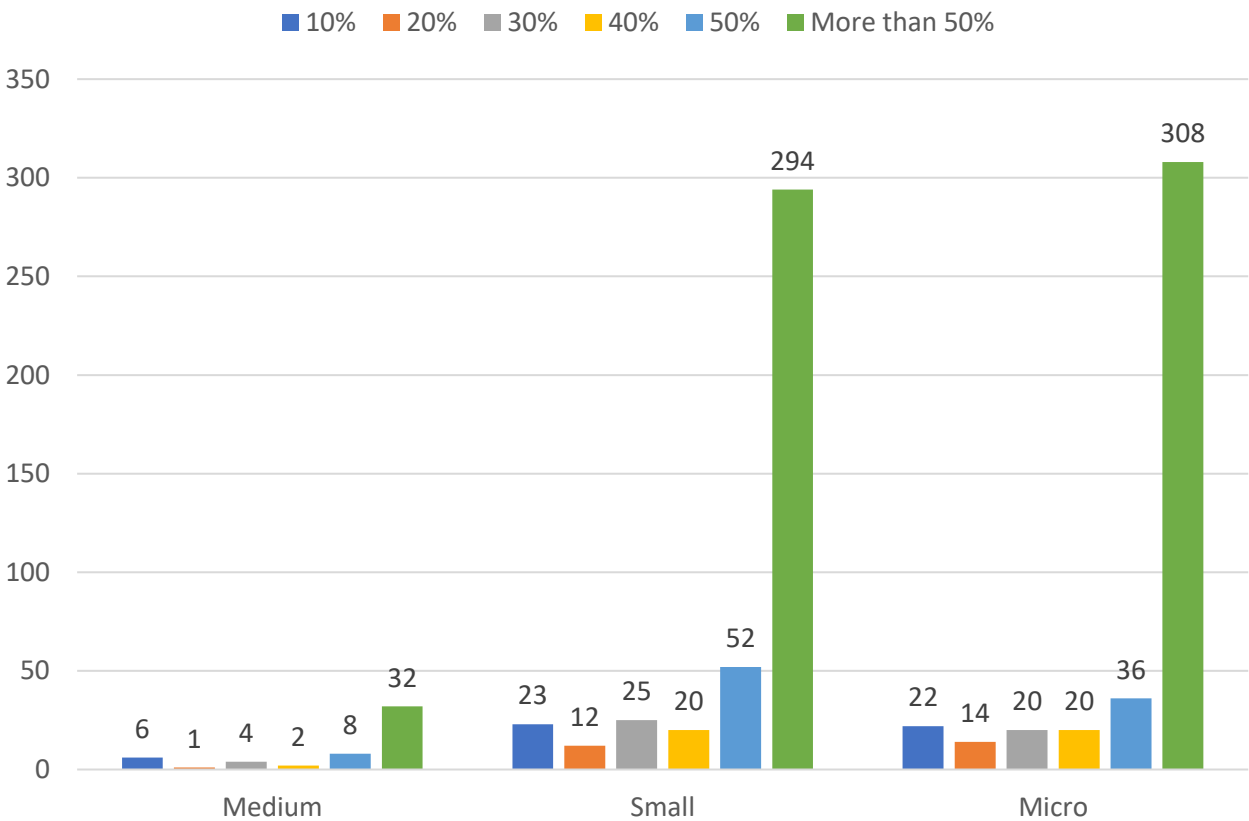
What is the expected impact on the revenue/sales of your business in the long run (by the end of 2020)?

71%

MSME (34% Small and 33% Micro) in all regions from various sectors expect that their revenues to be affected by more than **50%** by the end of 2020.

48%

MSMEs, expected their revenues to be affected by more than 50%, are from **Riyadh, Eastern Region, and Makkah**.



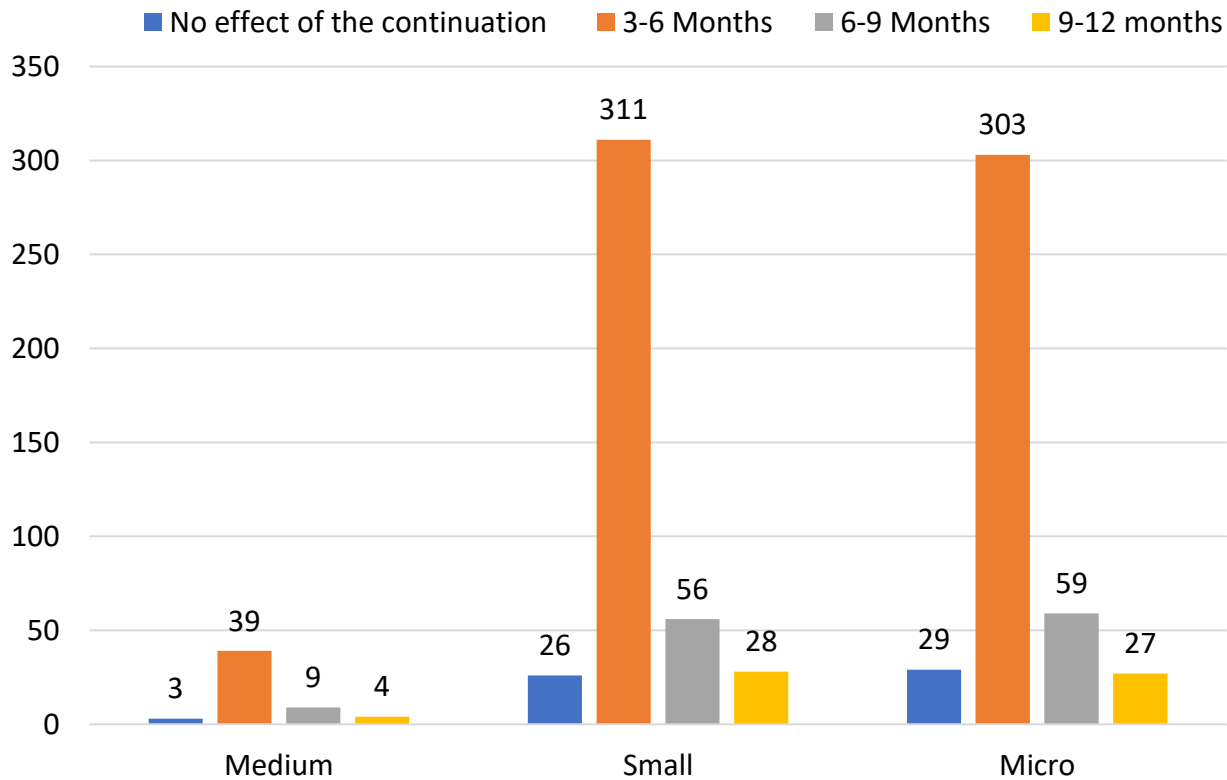
Source: Monshaat (2020)

Question:

In your opinion, under these circumstances to what extent your business can continue to operate?

73%

MSME (Small 35% and Micro 34%) see the possibility of their continuation to operate from 3 to 6 months. However, only 6% believe that the current conditions will not affect their business to operate.



Source: Monshaat (2020)

Question:

If things got better and start getting back to normal, how long do you need to recover and start your activity normally?

NORMAL SCENARIO

32%

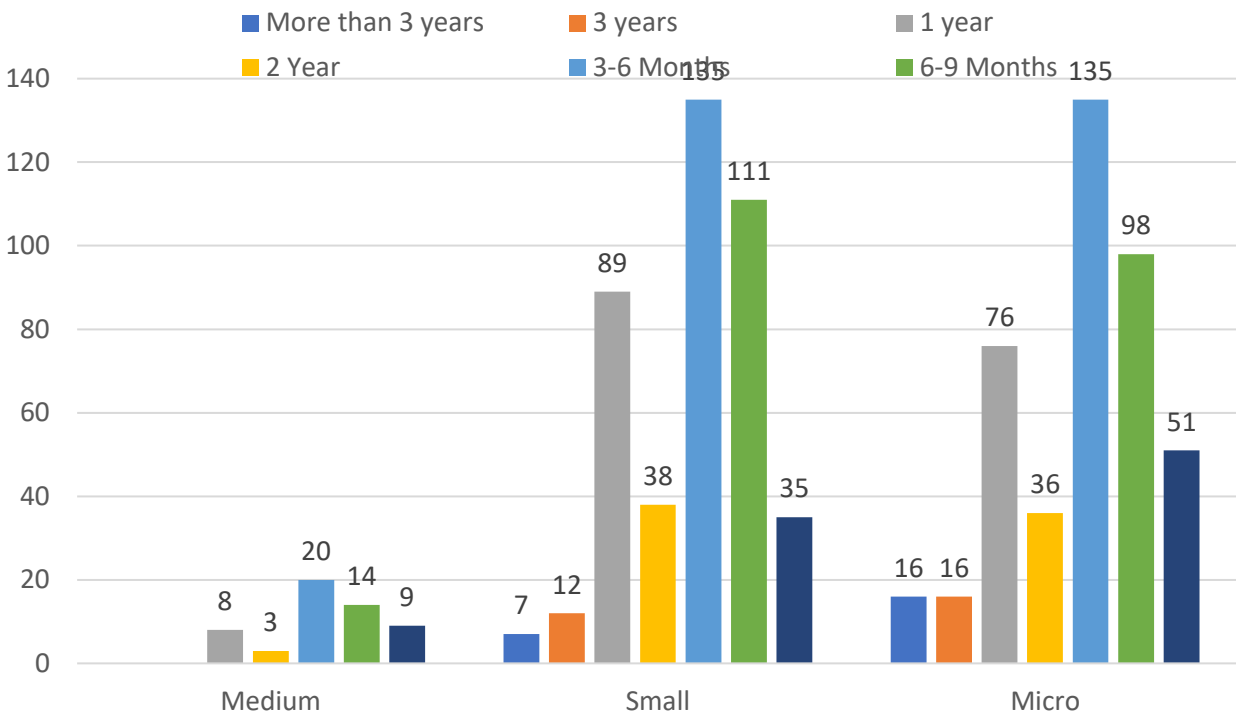
MSME need 3 to 6 months to recover.

25%

MSME need 6 to 9 months.

3%

MSME need more than three years.



Source: Monshaat (2020)

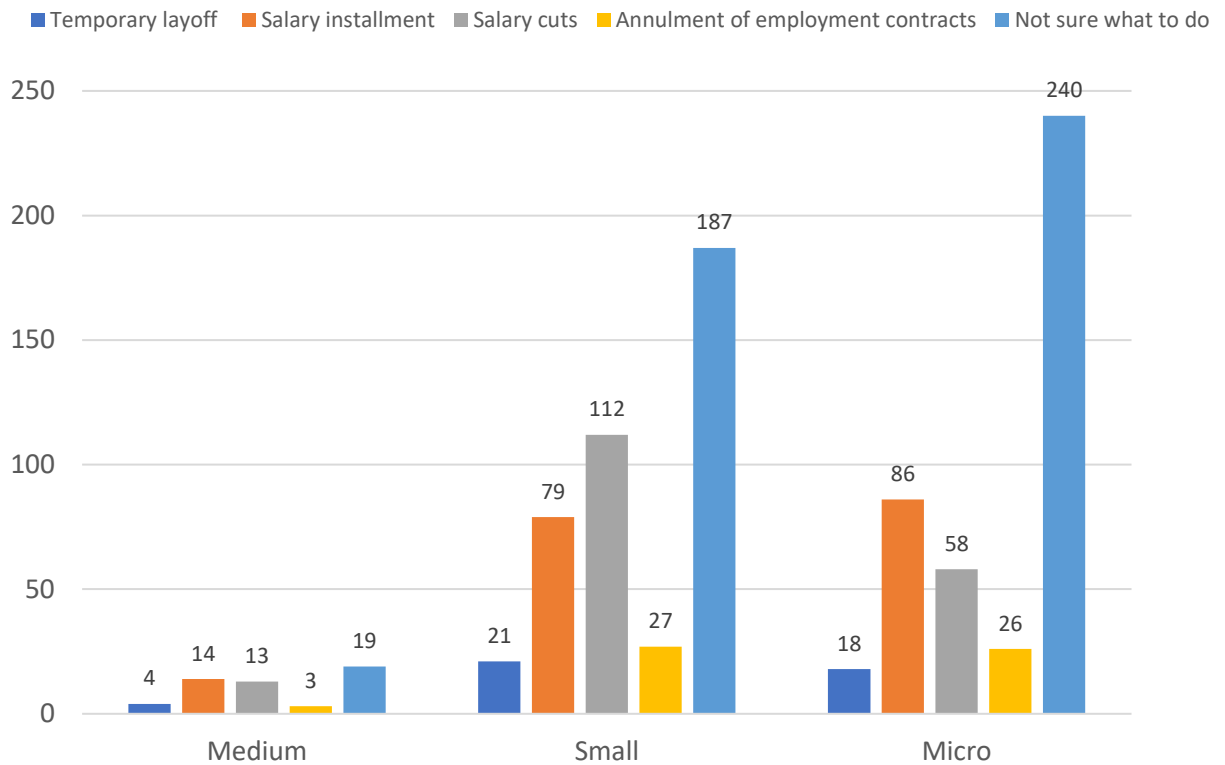
Question:

What measures have you taken to ease the financial burden during this crisis?

49%

MSME do not know what to do with regard to financial burdens, especially micro (26%) and small (21%).

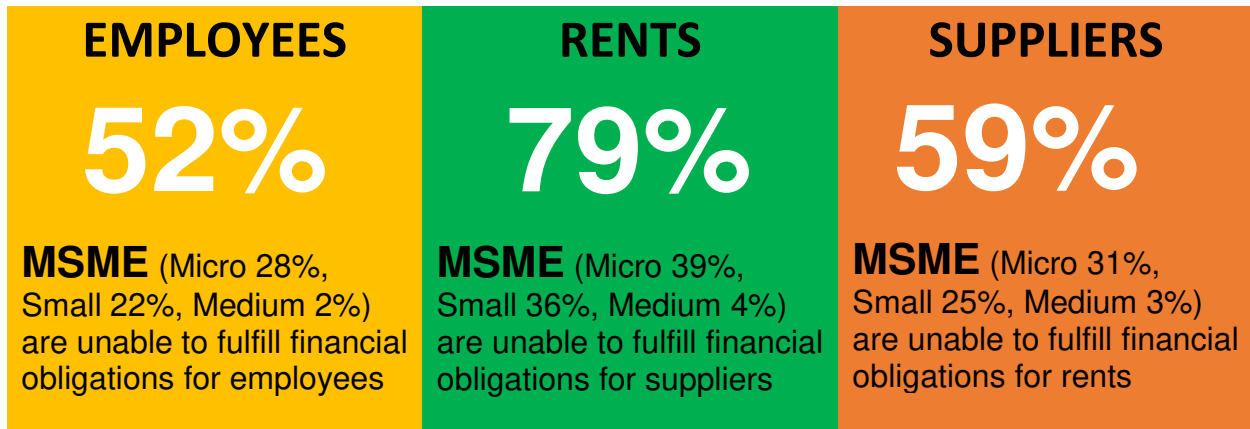
Also, 20% of the owners of establishments deducted salaries to ease financial burdens, and 20% others paid installments. Only 6% of those who terminated employee contracts and 5% stopped employment.



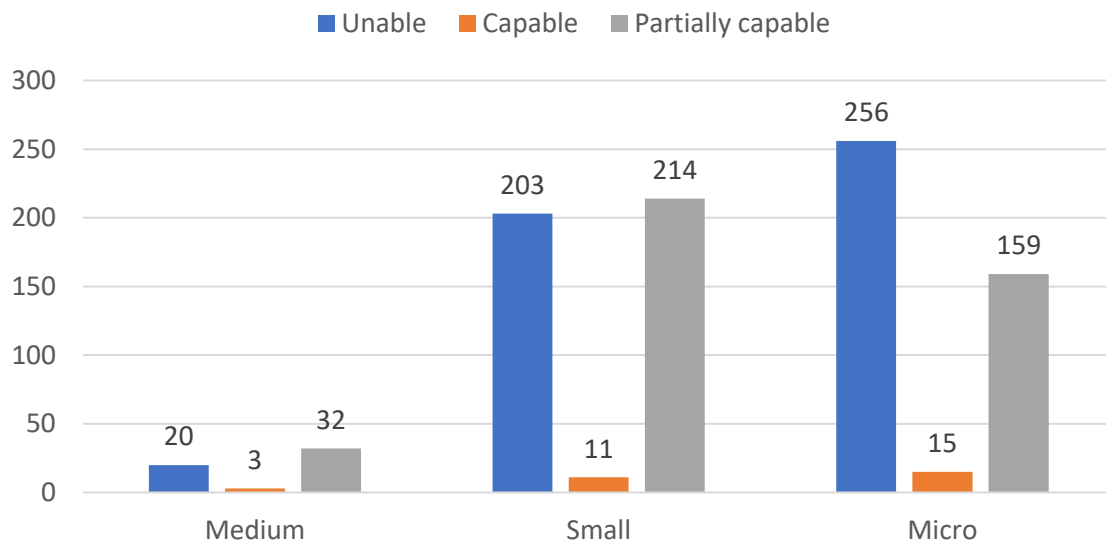
Source: Monshaat (2020)

Question:

How well do you meet your financial obligations for each of the following categories: employees? Suppliers? Rents?

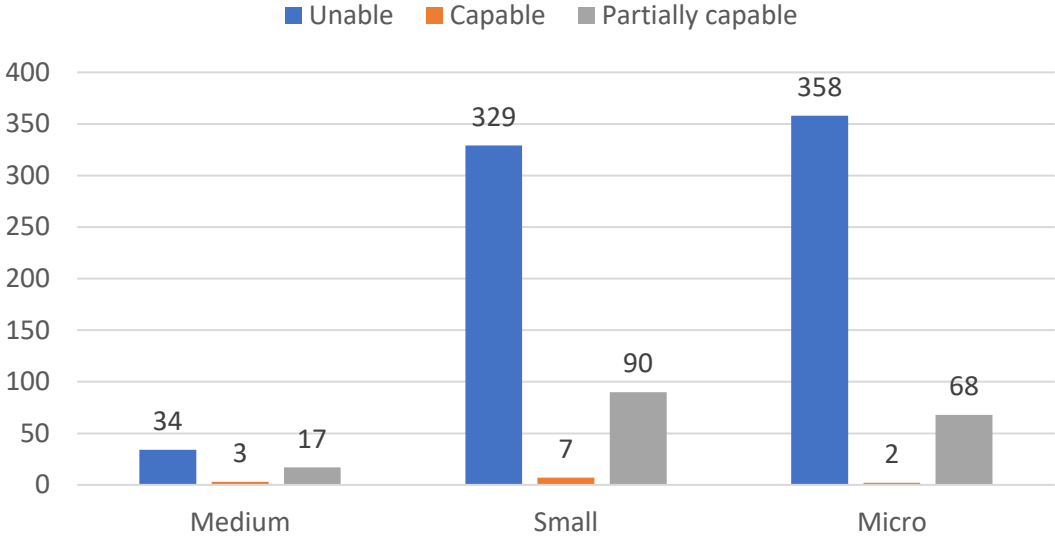


Financial Obligations for Employees



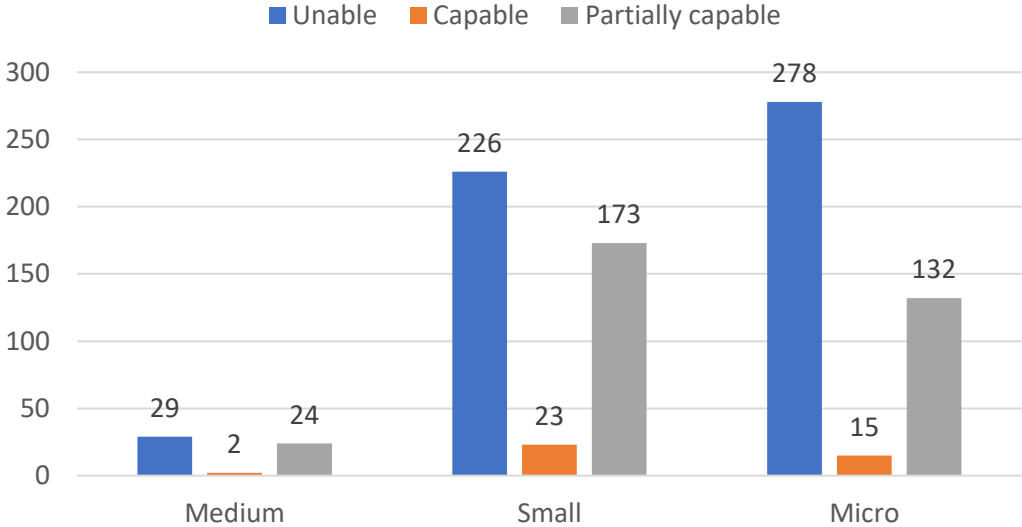
Source: Monshaat (2020)

Financial Obligations for Rents



Source: Monshaat (2020)

Financial Obligations for Suppliers



Source: Monshaat (2020)

Question:

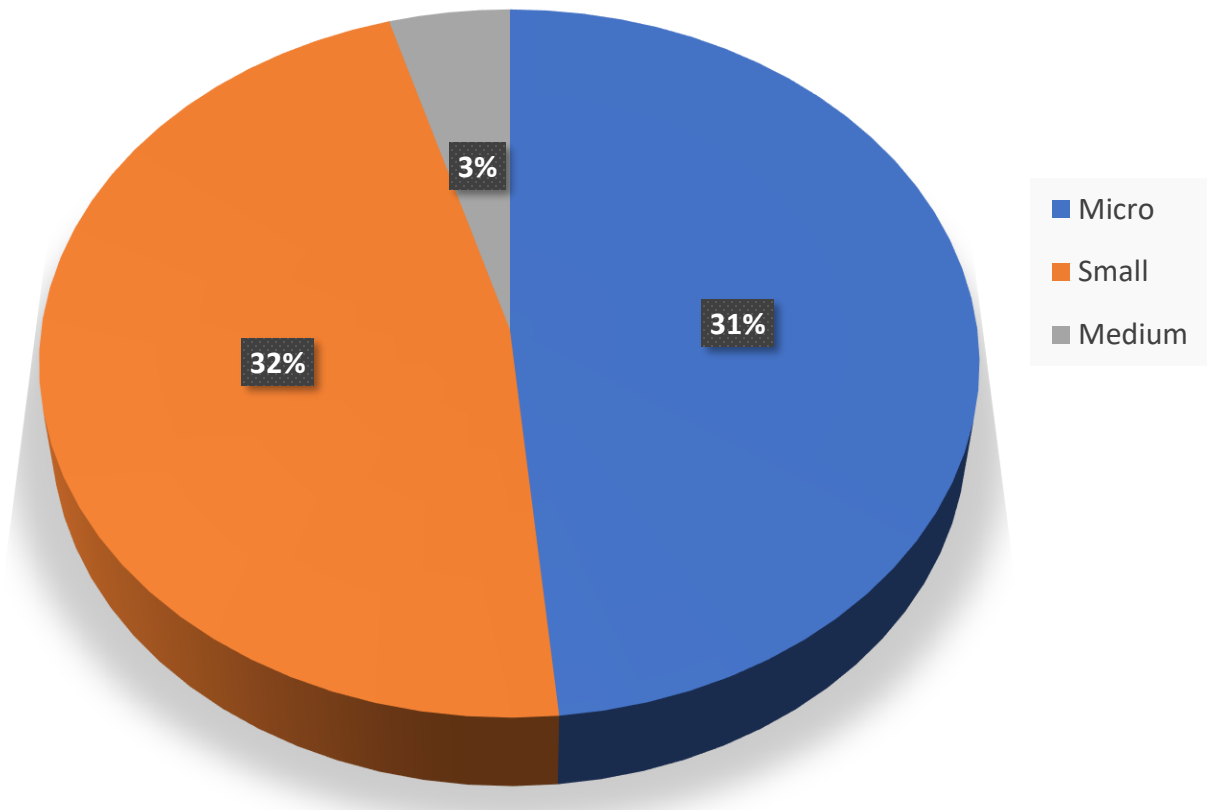
Have you tried to apply for funding from any financial institution?

If yes, has your application been approved?

70%

MSME did not submit a request for financing from financial institutions, (Micro 34%, Small 32% and Medium 4%).

Application Not Approved from Financial Institutions



Source: Monshaat (2020)

Question:

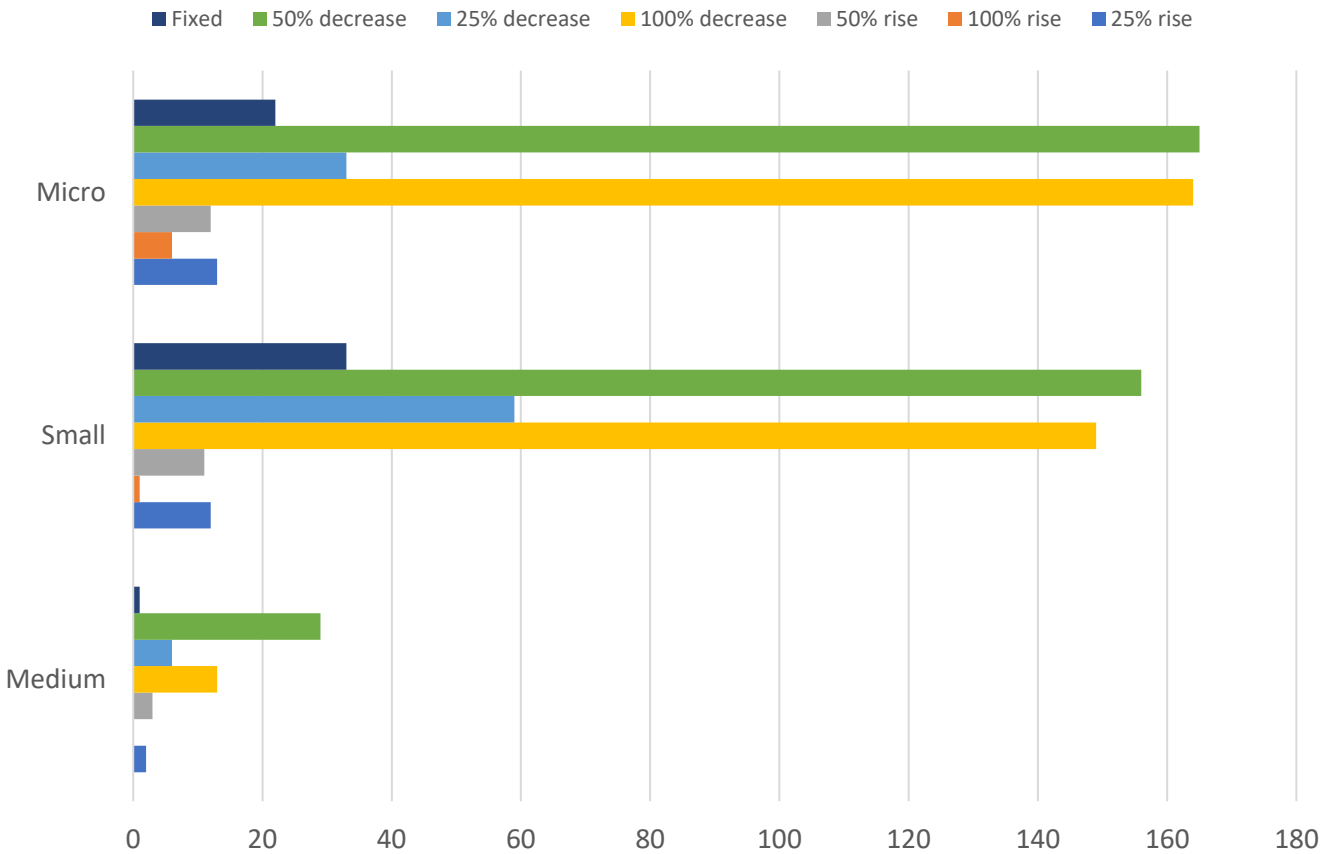
How has your company's profits changed over the past 6 months?

39%

MSME (Micro 18% and Small 17%) **decreased profits by 50%.**

37%

MSME decreased profits by 100%.



Source: Monshaat (2020)

Question:

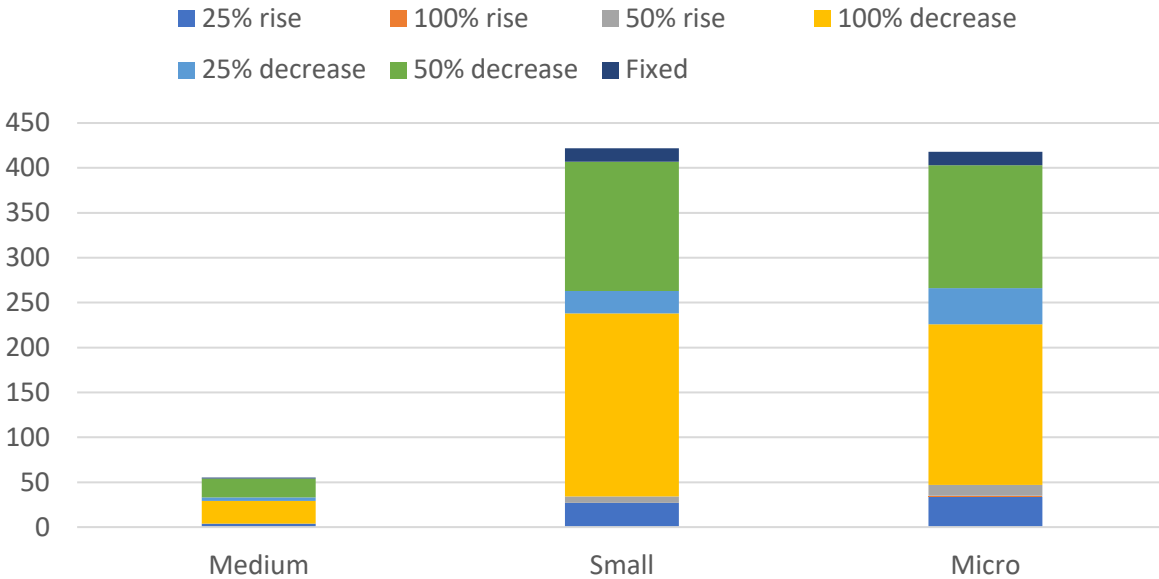
How do you expect your company's profits to change over the next 6 months?

46%

MSME (Small 23% and Micro 20%) **expect decreasing profits by 100%.**

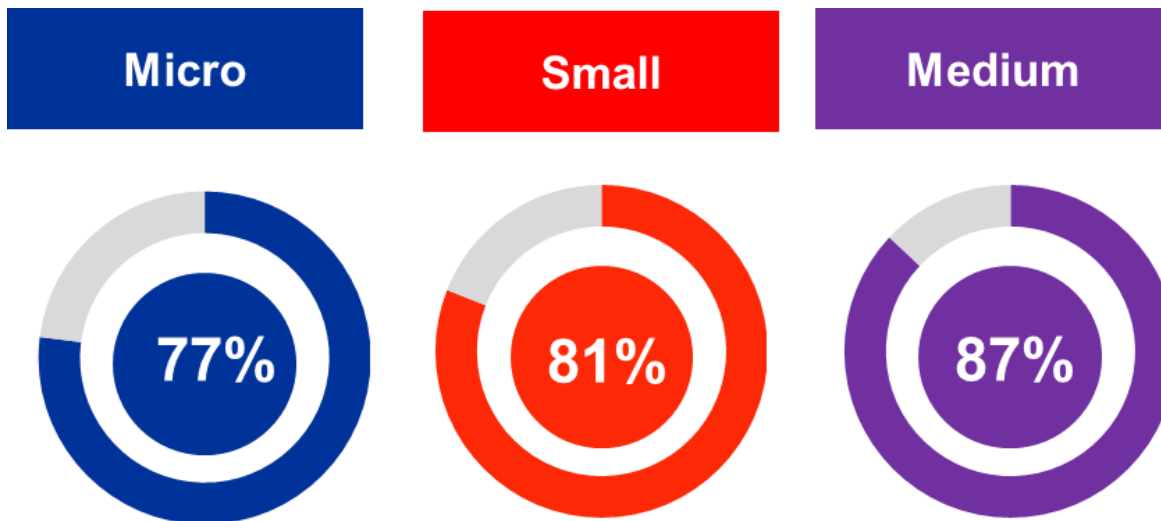
34%

MSME expect decreasing profits by 50%.



Source: Monshaat (2020)

Cancelation of Planned Investment due to Covid-19



E-Business Model

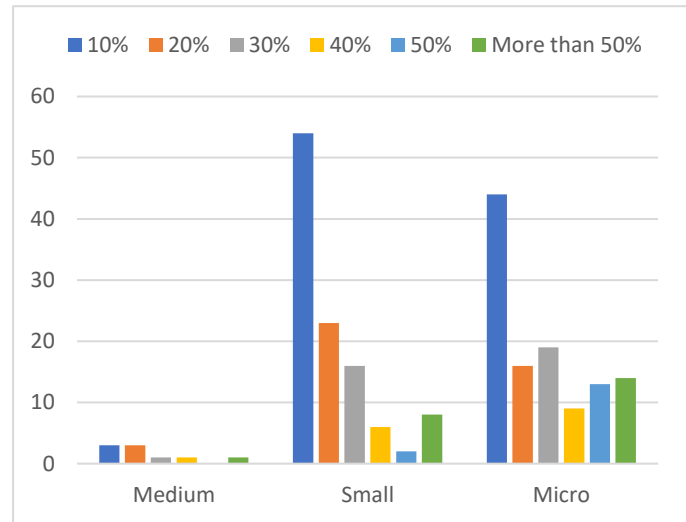
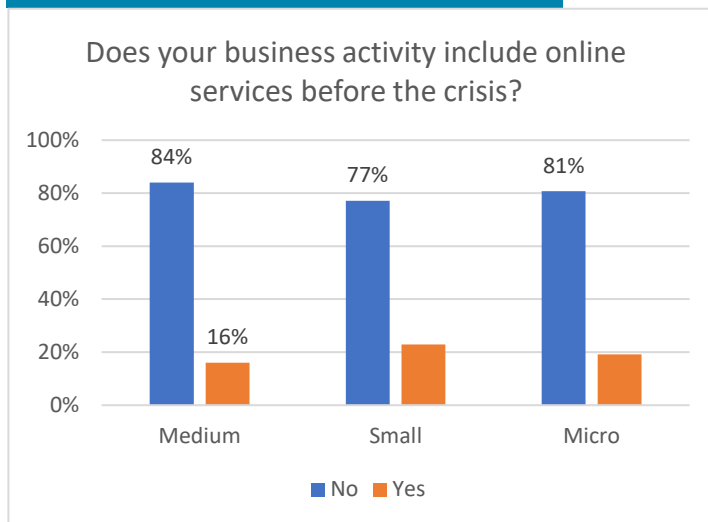
Question:

Does your business activity include online services before the crisis?

If yes, what is the percentage of digital sales in total sales in 2019?

79%

MSME did not use electronic services before the Coronavirus pandemic, while 21% of MSME who used electronic services from accommodation and food activities and wholesale and retail trade.



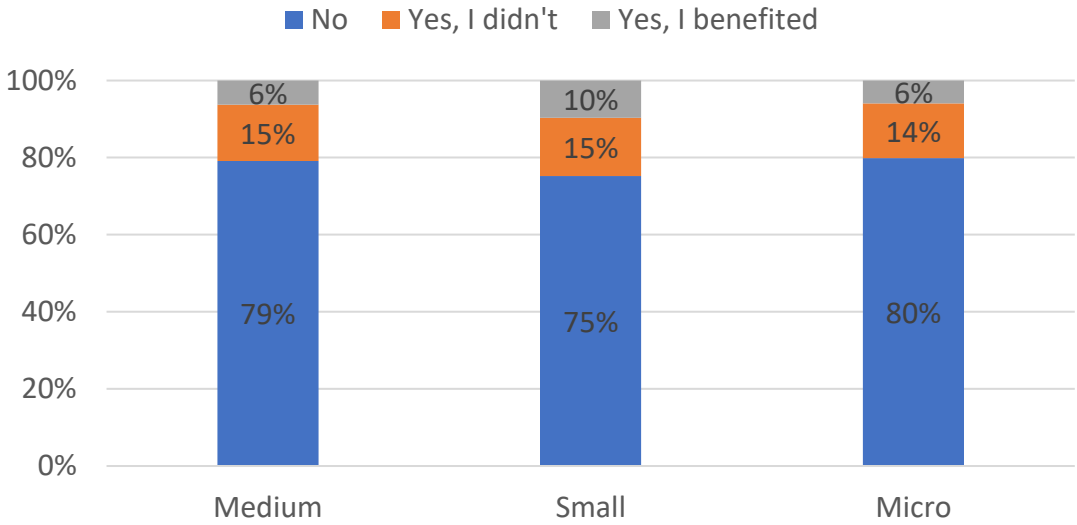
Source: Monshaat (2020)

Question:

Have you been attending to training courses to convert your business activity into an online activity? Was it benefit?

The majority of the MSME did not attend training courses in order to convert their business activities into electronic activity. 15% of those who answered yes and did not benefit from it concentrated among the owners of micro and small business.

8% of those who answered yes and benefited from attending these training courses, 5% of them from small business. The majority participants were from Makkah (24%), Riyadh (23%), and Eastern Region (22%).



Source: Monshaat (2020)

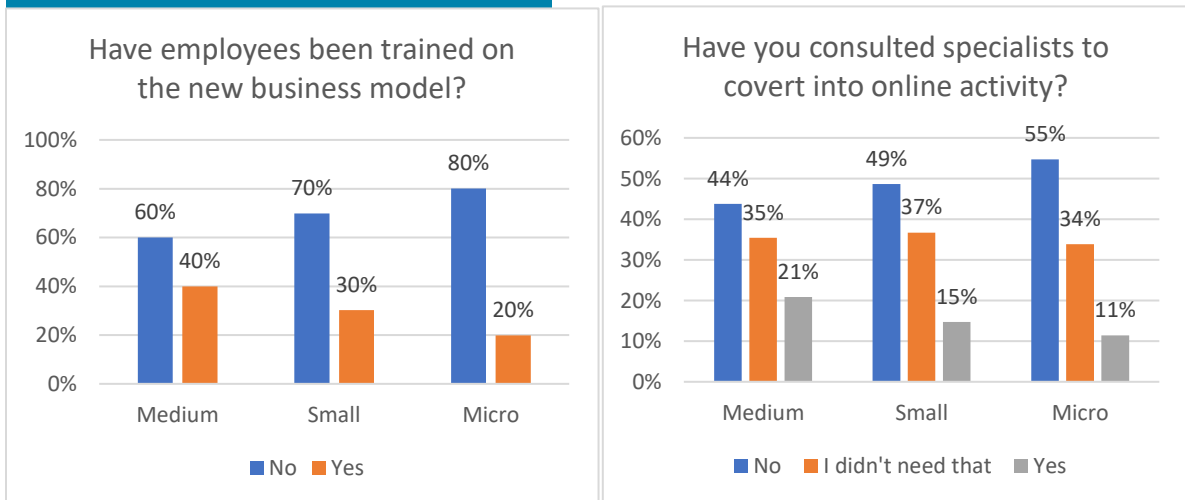
Question:

Have you consulted specialists on how to turn your activity into an online activity?

If your answer is yes to the previous question, have employees been trained on the new business model?

51%

MSME answered that specialists were not used to transfer from a traditional activity to an electronic activity. 26% of them are from micro and 23% are from small business. Only, 14% of the MSME recruited specialists.



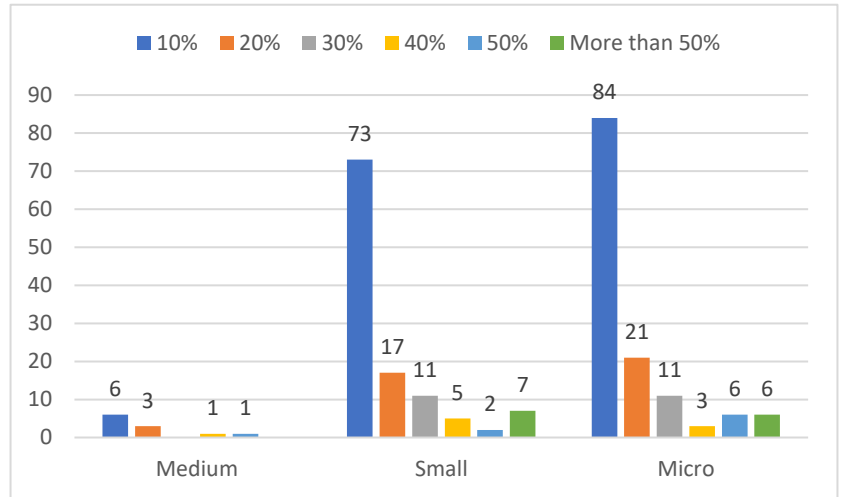
Source: Monshaat (2020)

Question:

What has been the growth rate of sales through digital channels since the beginning of the crisis?

63%

MSME achieved 10% of the digital sales since the beginning of the Corona pandemic. The majority MSME were from Riyadh and Makkah.



Source: Monshaat (2020)

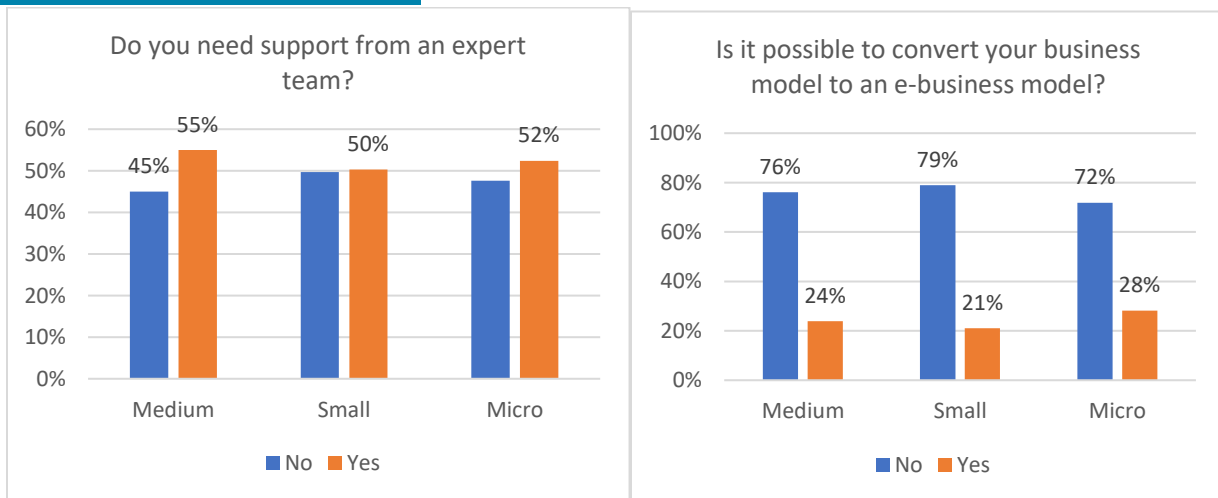
Question:

Is it possible to convert your business model to an electronic business model?

If yes, do you need support from an expert team?

75%

MSME answered that their business model could not be converted into e-business model, in particular from small (37%) and, micro (34%).



Source: Monshaat (2020)

Government Support and Initiatives

Question:

Have you benefit from government support initiatives?

Small business are the major beneficiaries from the government initiatives and support. For Small business, 24.3% benefited from the **SANID** initiative, 22% from the recovery program, and 53.7% from other initiatives. For Micro business, **SANID** initiative by 18.2% and a recovery program at 17.2%.

Beneficiaries of Government Support



Source: Monshaat (2020)

Question:

In your opinion, do you think the government support that is currently provided to SMEs sufficient to overcome this crisis? What kind of support do SMEs need to overcome this crisis?

75%

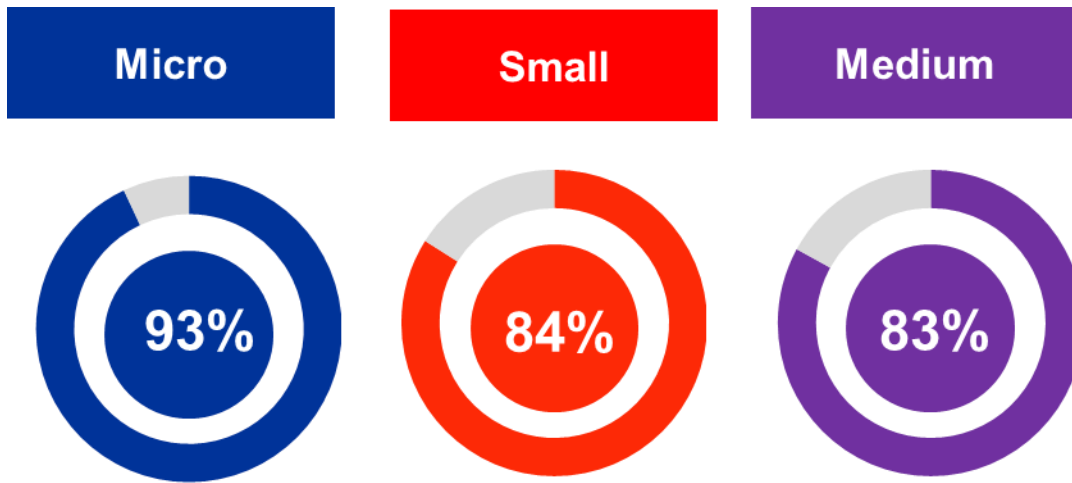
Business owners believe that they need additional support in addition to the current government support in order to overcome the crisis.

Question:

What kind of support do SMEs need to overcome this crisis?

Over 80% of all MSME indicated that they need additional financial support to overcome the crisis.

Additional Support to overcome the crisis



Source: Monshaat (2020)



4 Conclusions and Policy Implications

Small businesses contribute significantly to Saudi economic development. The results of the survey reveal that how deeply MSME are affected by the current crisis. Our results suggest that many firms are facing financial difficulties. The results also highlight several policy measures: First, regarding operations and management, like global markets, many MSME were negatively affected by the result of the Coronavirus pandemic (COVID-19). Therefore, many employees were temporarily laid off. The government of Saudi Arabia is paying 60% of the salaries of Saudi employees working in the Private sector for a period of three months. This will be strengthening the resilience of the SME sector. Second, in terms of finance and market, MSMEs face a negative impact as a result of preventive measures (lockdown). For instance, 46% of the business indicated that their average sales/revenue were affected by 100% and 79% of MSME owners have cancelled investment plans due to the COVID-19 pandemic.

Third, with regard to e-business model, 79% MSME did not use electronic services before the Coronavirus pandemic, while 21% of MSME who used electronic services from accommodation and food activities and wholesale and retail trade. 26% of the SME provided training the workforce on the newly developed business model. 30% of the SME benefited from the electronic services and working from home model. So, MSME should adopt e-business model to cope up with the current crisis. Finally, MSME need additional support from government. Many MSMEs are getting the supports of the stimulus package of the government of Saudi Arabia. Over 88% agree that additional financial support is needed. The policymakers could explore the most vulnerable or affected sectors to provide financial support.

منشآت monsha'at

الهيئة العامة للمنشآت الصغيرة والمتوسطة
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