Special Report

Bridging the Gap: The Future of SME Lending in the GCC

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SMEs: Powering Economic Diversification in the GCC

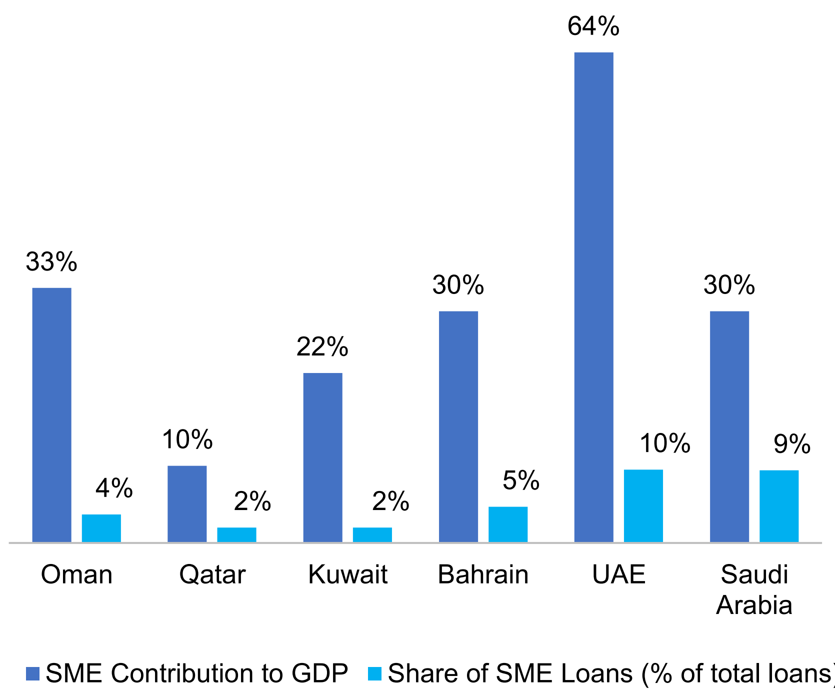
Driving growth, innovation, and employment—but still underserved by the region's financial system.

SMEs form the economic backbone of the GCC—accounting for most businesses and jobs—yet remaining critically underfinanced. Bridging this credit gap could unlock over USD 250 billion in additional GDP and accelerate progress toward national diversification targets.

Key Factors Defining the SME Financing Opportunity in the GCC

- **Structural importance:** SMEs account for over 90% of registered businesses across GCC economies and are central to private-sector job creation, particularly in non-oil segments.
- **Persistent under-penetration of credit:** SMEs across **GCC receive only ~8% of total bank credit**, compared with **~22% in high-income economies**, highlighting a structural financing gap relative to global benchmarks.
- **Large unmet financing demand:** The SME financing shortfall in the GCC is estimated at **~USD 250 billion**, reflecting constraints around collateral requirements, credit assessment, and balance-sheet capacity.
- **Collateral and underwriting barriers:** SME lending is constrained by **high collateral requirements (often 200–250%)** and traditional balance-sheet-based credit models, limiting access for asset-light and early-growth businesses.
- **Institutional lending bias:** Bank lending remains heavily skewed toward **government-related entities and large corporates**, given their perceived stability and sovereign linkage, limiting credit allocation to SMEs.
- **Strong policy tailwinds:** Expanding SME access to finance is a core pillar of **Saudi Vision 2030** and the **UAE's Operation 300bn**, supporting entrepreneurship, non-oil growth, and long-term economic resilience.

SME GDP Contribution and Loan Share



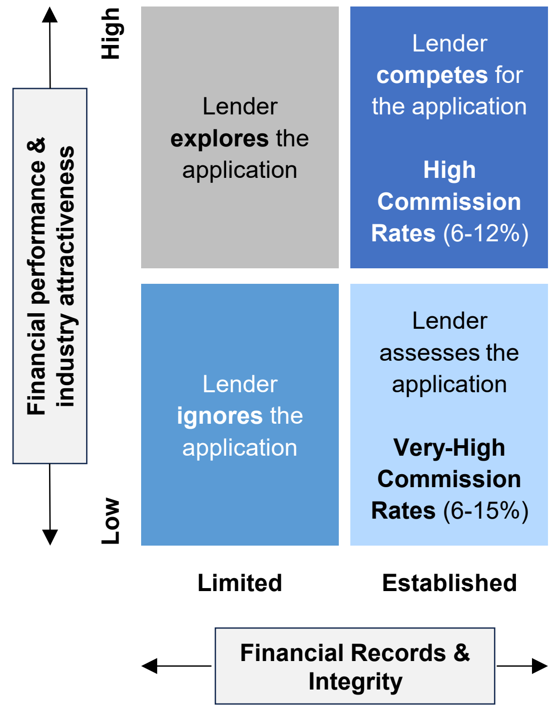
Source: Channel, International Banker, Abwab, Zawya

SME Funding Needs & Structural Lending Gaps

Despite their economic importance, SMEs face structural financing gaps driven by rigid underwriting, high collateral requirements, and gaps in financial and operational readiness.

	Business Stage	Financial Requirements	Non-Financial Requirements
Early-stage SMEs are often excluded from formal lending due to limited financial history and performance records	Seed	• Early capital to validate business model and product feasibility	• Business plan support • Investment package • Financial modelling • Legal advice
	Start-up	• Capital to initiate operations and scale early activity • Guarantees or instruments to secure initial trade relationships	• Financial modelling and cash-flow planning • Supplier and payment cycle management • Basic accounting and operational controls
Growth-stage SMEs attract the most lender attention, resulting in intense competition and high pricing	Growth	• Working capital and growth loans to support expansion • Financing against invoices, contracts, or receivables	• Customer growth management and invoicing systems • Payroll optimization and inventory management
	Matured	• Access to competitively priced term loans and structured financing	• Tailored investment and financing solutions • Advanced data aggregation and performance analytics

Funding Challenges



Source: Deloitte

SME Lending: From Structural Constraint to Emerging Opportunity

Structural gaps in traditional bank lending are reshaping how SMEs access capital across the GCC

Structural Gaps in Traditional Lending

SME financing in the GCC is constrained by rigid underwriting, high collateral requirements (200–250% vs. ~140% for corporates), and balance-sheet-based credit assessment, limiting access for many viable businesses.

Persistent Demand Across the SME Lifecycle

Despite limited formal access (SMEs receive as little as 2–7% of total credit in some markets), financing demand remains strong across all stages, from early concept funding to growth and expansion in high-growth non-oil sectors.

Shift Toward Alternative & Data-Driven Models

The market is entering a transformative phase, with AI-driven underwriting and open banking enabling cash-flow-based lending from real-time data. This shift has driven ~70% of SMEs toward digital applications and lifted approval rates by ~30% for previously underserved borrowers in GCC.

Strategic Role in Economic Diversification

Improving SME access to finance is a core policy priority under Saudi Vision 2030 and the UAE's Operation 300bn. Over USD 1.5 billion has been committed across the GCC—including ~USD 600 million from the UAE—while Saudi Arabia targets raised SME GDP contribution toward ~35%.

Source: Ken Research

Structural Enablers Accelerating SME Lending in the GCC

Technology, policy reform, and alternative platforms are reshaping SME credit access beyond traditional banking models.

SME Funding Platforms	• **Alternative Credit Channel:** Across the GCC, SME funding platforms are emerging as a key non-bank credit channel, connecting SMEs with private lenders through debt-led solutions that complement traditional bank lending. • **Growing Market Scale:** Market size estimates highlight rising adoption—Saudi Arabia's SME financing platforms market is valued at **~USD 5.3 billion**, while the UAE market is valued at **~USD 30 billion**, reflecting strong demand for alternative SME credit channels.
Fintech & Digital Lenders	• **Digital Origination:** Fintech and digital lenders are expanding SME credit access through digital onboarding, faster approvals, and alternative underwriting, reducing the reliance on branch-led banking models. • **Improved Access Outcomes:** According to the **World Bank**, **~70% of SMEs now seek digital lending solutions**, while AI- and data-driven underwriting delivers **~30% higher approval rates** for SMEs previously underserved by traditional banks.
Movable Asset Pledge Registries	• **Asset Flexibility**: SMEs can now pledge inventory, equipment, and accounts receivable (invoices), bypassing the **historical 200–250% real estate collateral requirement**. • **Market Inclusion**: This shift is essential for "asset-light" technology and service firms, which represent the bulk of new-economy SMEs in the region.
Data Analytics & Cloud Infrastructure	• **Data Integration**: Standardized APIs allow lenders to pull verified, real-time transaction data directly from an SME's bank account, solving the "lack of records" problem. • **Scalable Credit Processing:** Cloud-based platforms enable lenders to process **large volumes of transactional and behavioral data** efficiently, reducing manual underwriting and operational costs.
Artificial Intelligence & Machine Learning	• **Precision Underwriting**: AI-driven vertical applications for credit scoring have reduced underwriting costs by up to **90%** and improved risk prediction accuracy by **15–25%**. • **Real-Time Decisions**: Automated credit models now deliver **real-time loan decisions**, drastically reducing the traditional 8–12-week bank approval cycle to under 24 hours.

Source: Ken Research

Private Equity & Private Credit in SME Financing– Key Deals

2025 Large & Notable SME Financing Deals (GCC)

Company Name	Deal Size	Round	Sector	Lead Investor
Lendo	**$692.2M**	Debt Facility	Sharia-compliant P2P SME Lending	J.P. Morgan
Hala	**$157.0M**	Series B	SME Financial Services / Embedded Finance	Sanabil Investments, TPG Rise
Erad	**$125.0M**	Debt Facility	Embedded B2B / Revenue-Based SME Finance	Jefferies, Channel Capital
CredibleX	**$100.0M**	Debt Facility	Embedded SME Lending	Pollen Street Capital
Flow48	**$69.0M**	Credit Facility	Revenue-Based SME Financing	Breega, 212, Speedinvest, Daphni
Forus	**$60.0M**	Debt	SME Debt Marketplace	Fasanara Capital
Lendo	**$50.0M**	Strategic / Debt	Sharia SME Financing (additional tranche)	Jadwa Investment
LDUN	**$4.8M**	Seed	Digital Factoring / Invoice Finance	Sadu Capital, Suhail Ventures, Numu Angels
Raqamyah	**$4.0M**	Debt	SME Debt Crowdfunding	Not Disclosed
Moneymoon	**$2.9M**	Pre-Series A	P2P SME Lending	Core Vision

Source: *Pitchbook, Aranca Research*

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