

The role of the Small and Medium Enterprises Financing Guarantee Program (Kafala) in the Islamic economy in the Kingdom of Saudi Arabia.

- About the program and its role: "Financial guarantee, which means the guarantor's commitment to pay a debt or financial claim owed by the guarantor in the event of default."
- Linking Islamic financing and the value of the guarantee to achieve the objectives.

What is Kafalah ?

Definition of Kafalah inguistic definition:

Al-Kafil and Al-Kafeel mean “the guarantor.” Allah Almighty says:

“So her Lord accepted her with good acceptance and caused her to grow in a good manner and entrusted her to Zakariya.” (Āl ‘Imrān: 37) — meaning He entrusted her to him so that he would take care of her upbringing.

“Kafala al-māl” means “he guaranteed the money.” The term kafalah is also used to mean joining, supporting and taking care of someone else’s affairs, and committing oneself to something and obligating it upon oneself.

Technical definition:

The majority of Islamic jurists define kafalah as joining one liability to another concerning the guaranteed debt, so that the guarantor becomes jointly liable for that debt while the original debtor remains liable as well. As a result, the creditor has the right to demand repayment from either the guarantor or the debtor, whichever he chooses.

The Hanbali jurists define it as: “joining the guarantor’s liability to that of the person on whose behalf he guarantees, in respect of fulfilling the obligation.” According to them, this definition applies to “Daman” (guarantee of debt), as they differentiate between kafalah (guaranteeing the person’s presence) and “Daman” (guaranteeing the debt).

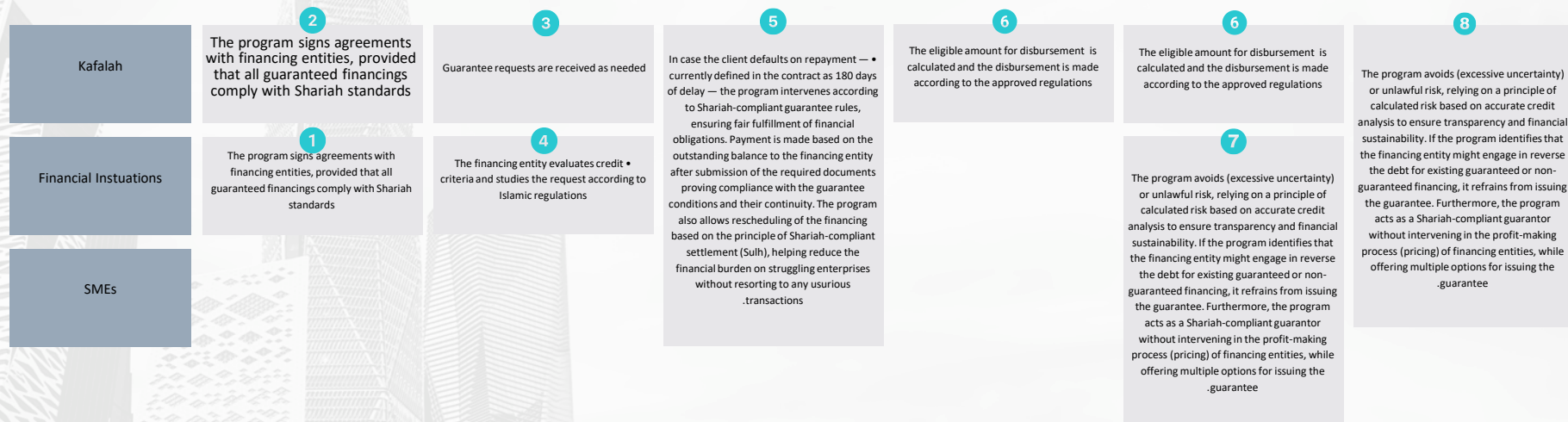
In the Civil Transactions Law, Article (578) defines kafalah as:

“Kafalah is a contract by which the guarantor undertakes towards the creditor to fulfill the obligation of the debtor if the debtor himself fails to fulfill it.”

The legislator’s definition differs from the Hanbali view, as the Hanbalis distinguish between kafalah and dhaman, while the legislator does not differentiate between them — thus the obligation may relate to money or to the person.



Kafalah Operation Mechanism



12 Banks



23 incubators, accelerators, and supporting entities



10 International partners



32 Supportive partner



27 Finance company



10 FinTech



Success partner

The standard products of the financing guarantee program



Standard Kafala product

Overview

A product that serves all sectors and is not covered by any of the other initiatives

Targeted Sector

All establishments across various sectors and commercial activities.

80%

1.5%



Guarantee Value
45,575,547,497

كفالة
Kafalah

برنامج ضمان التمويل للصغيرة والمتوسطة
Small & Medium Enterprises Loan Guarantee Program

Initiative Products of "Monsha'at"



Working Capital Product

Overview

A product to support financing for working capital purposes.

Targeted Sector

All establishments applying for financing for the purpose of working capital.

90%

1%



Guarantee Value

29,153,489,471

منشآت
monsha'at
الهيئة العامة للمنشآت الصغيرة والمتوسطة
Small & Medium Enterprises General Authority

Products of Initiative Owners (Supporting Entities)



Technical Product

Overview

SME Financing Guarantee Product for the Information Technology Sector

Targeted Sector

Information Technology Sector According to the Classifications Set by the Second Party Based on (ISIC) – The National Guide for Economic Activities – and/or Enterprises Licensed by the Communications and Information Technology Commission (tech platform).

90%

1%



Guarantee Value

1,818,133,565

ntdp

البرنامج الوطني
لتنمية تقنية المعلومات
National Technology Development Program

Initiative Products of "Monsha'at"



Start Up Product

Overview

A product designed specifically for businesses in the early years of operations.

Targeted Sector

All establishments that are no more than three years old from the date of the commercial registration issuance to practice the activity

90%

1%



Guarantee Value

1,521,447,769

منشآت
monsha'at
الهيئة العامة للمنشآت الصغيرة والمتوسطة
Small & Medium Enterprises General Authority

Products of Initiative Owners (Supporting Entities)



Guarantee Product for Financing the Local Consulting Sector

Overview

The product guarantees financing for the local consulting sector for small and medium-sized enterprises.

Targeted Sector

Various local consulting sectors according to the classifications established by the Local Content and Government Procurement Authority according to (ISIC) – the National Guide for Economic Activities

90%

1.25%



Guarantee Value

806,245,616

SME Bank

بنك المنشآت الصغيرة والمتوسطة
Small & Medium Enterprises Bank

Products of Initiative Owners (Supporting Entities)



Dental sector product

Overview

Guarantee Product for Financing Small and Medium Enterprises in the Dental Sector

Targeted Sector

Dental sectors according to the classifications set by the Ministry of Health according to (ISIC) – the National Guide for Economic Activities

80%

1.5%



Guarantee Value
120,765,168

SME Bank

بنك المنشآت الصغيرة والمتوسطة
Small & Medium Enterprises Bank

Products of Initiative Owners (Supporting Entities)



Culture Sector Product

Overview

SME Financing Guarantee Product for the Culture Sector and Its Supporting Industries

Targeted Sector

Various Cultural Sectors According to the Classifications Set by the Cultural Development Fund Based on (ISIC) – The National Guide for Economic Activities – and/or Enterprises Licensed by the Ministry of Culture.

90%

1%



Guarantee Value
218,148,896

الصندوق الثقافى
CULTURAL DEVELOPMENT FUND



Products of Initiative Owners (Supporting Entities)



Entertainment Product

Overview

SME Financing Guarantee Product for the Entertainment Sector and Its Supporting Industries

Targeted Sector

Various Entertainment Sectors According to the Classifications Set by the General Entertainment Authority Based on (ISIC) – The National Guide for Economic Activities – and/or Enterprises Licensed by the General Entertainment Authority.

90%

1%



Guarantee Value
227,205,350

الهيئة العامة للترفيه
General Entertainment Authority **GEA**

Products of Initiative Owners (Supporting Entities)



Export Sector Product

Overview

SME Financing Guarantee Product in the Export Sector

Targeted Sector

All Sectors Targeted by the Saudi Export and Import Bank According to (ISIC) – The National Guide for Economic Activities, provided that the purpose of the financing is to support exports. This is to be verified through supporting documents, which include :Customs clearances for the products External purchase order Valid contract for providing external services

90%

1%



Guarantee Value
129,222,240

SAUDI EXIM
بنك التصدير والاستيراد السعودي

Requirements



Products of Initiative Owners (Supporting Entities)



Awqaf & non-profit product

Overview

SME Financing Guarantee Product for the Non-Profit Sectors

Targeted Sector

Empowering Non-Profit Sectors, Cooperative Societies, Licensed Charitable Institutions and Associations by the National Center, and Endowment Entities Licensed by the General Authority of Awqaf.

95%

1%



Guarantee Value
10,500,000

أوقاف
AWQAF

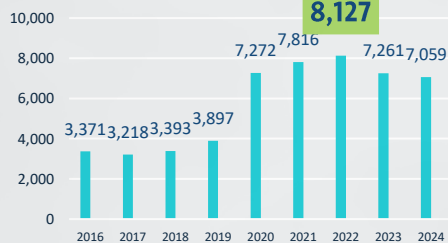


Requirements



Kafalah has developed the operating model to achieve the highest level of efficiency in issuing guarantees, accomplishing this in less than 49 Hours

The number of guaranteed requests issued from 2016 to 2024

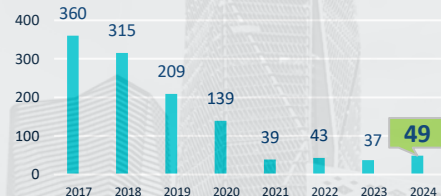


Employees Num. from 2016 to 2024



It aims to make an immediate decision to issue a pre-approved guarantee for small, medium, and micro enterprises to increase the number of financeable businesses

Credit and operational efforts, in hours.



Employee productivity increased by 100% from the beginning of the vision until 2024, with the decision-making process accelerating tenfold while maintaining the same workforce without any significant increase.

It should be noted:

- 1- The program is keen to avoid unlawful risk, as it relies on the principle of calculated risk based on precise credit analysis that ensures transparency and financial sustainability. If the program finds that the financing entity might engage in reverse debt for existing guaranteed or non-guaranteed financing, it refrains from issuing the guarantee. Additionally, the program acts as a Shariah-compliant guarantor without any intervention in the profit-making process (pricing) of financing entities, while providing multiple options for issuing the guarantee.
- 2- The program charges fees only to financing entities as issuance fees; these are not paid by the end beneficiary but by the financing entities in return for obtaining the guarantee.
- 3- In case the client defaults on repayment – currently defined in the contract as 180 days of delay – the program intervenes according to Shariah-compliant guarantee rules that ensure fair fulfillment of financial obligations in a manner consistent with Islamic principles. Payment is made based on the outstanding balance to the financing entity after the required documents proving compliance with the guarantee conditions and their continuity are submitted. The program also allows for rescheduling of the financing based on the principle of Shariah-compliant settlement (Sulh), helping reduce the financial burden on struggling enterprises without resorting to any usurious transactions.
- 4- The program's funds are considered government funds designated for supporting and guaranteeing financing. These funds are reimbursable, not grants, and are not waived by the debtor, which reinforces the principle of financial sustainability and ensures the program's continuity in supporting more enterprises in the future.
- 5- Kafalah does not impose any penalty fees or interest in case of liquidation and the transfer of the loan from the FI to Kafalah. Instead, it focuses on rescheduling the loan for up to 36 months without any additions or penalties.



An overview of the program's performance from its inception until the end of September 2025

Outstanding

41.3 B

The total value of the existing financing.

31.1 B

The total value of the existing guarantees.

14,919

The total number of existing establishments.

26,544

The total number of benefiting establishments.

89.5 B

The total guarantees issued.

%1.28

The percentage of defaulted guarantees.

71,382

The total number of guarantees.

125.3 B

The total value of the granted financing.

170.8 M

The value of the refunded amounts.

Since beginning

3.1 B

The total capital of the program and initiatives.

1,223 M

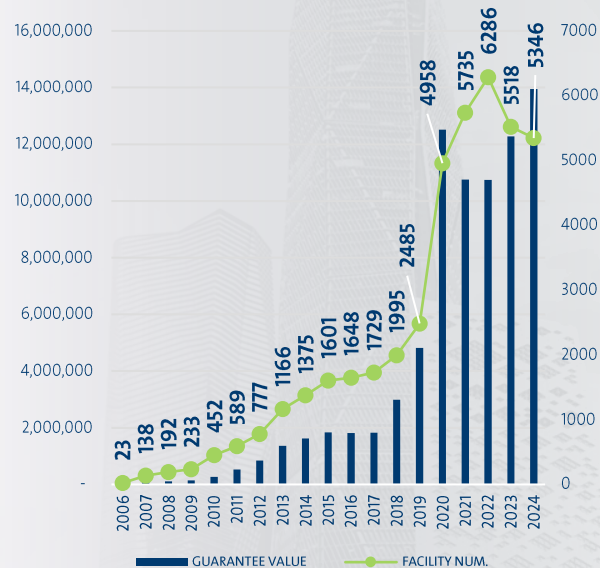
The value of the liquidated amounts.



Funding guarantee The primary sponsor's support in the journey of financing small and medium enterprises.

Until the end of September 2025

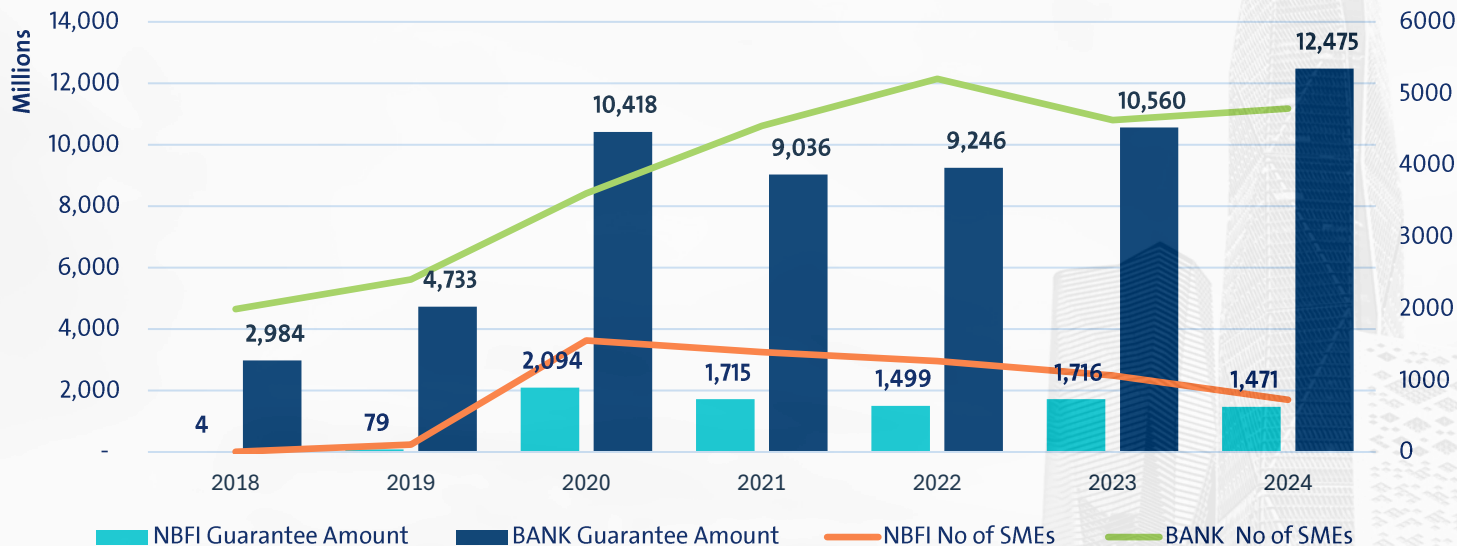
Average coverage rate	Average duration of guarantee	Facility no.	Financing value	Guarantee value	Years
45%	30.84	23	32	14	2006
45%	33.40	138	186	84	2007
43%	26.47	192	260	113	2008
39%	20.32	233	364	141	2009
38%	20.66	452	709	268	2010
47%	17.81	589	1,106	524	2011
53%	18.72	777	1,571	839	2012
55%	18.10	1166	2,479	1,358	2013
49%	17.79	1375	3,331	1,626	2014
49%	17.39	1601	3,770	1,837	2015
51%	17.76	1648	3,529	1,811	2016
54%	17.08	1729	3,351	1,823	2017
61%	17.54	1995	4,925	2,988	2018
65%	19.46	2485	7,368	4,812	2019
81%	23.71	4958	15,462	12,512	2020
79%	25.39	5735	13,680	10,751	2021
77%	32.52	6286	13,958	10,745	2022
78%	32.82	5518	15,677	12,276	2023
76%	31.75	5346	18,330	13,946	2024
78%	36	4,386	14,664	10,655	2025 SEP
73%	25	26,544	125,325	89,537	Total





Share of banks and finance companies in the annual issue

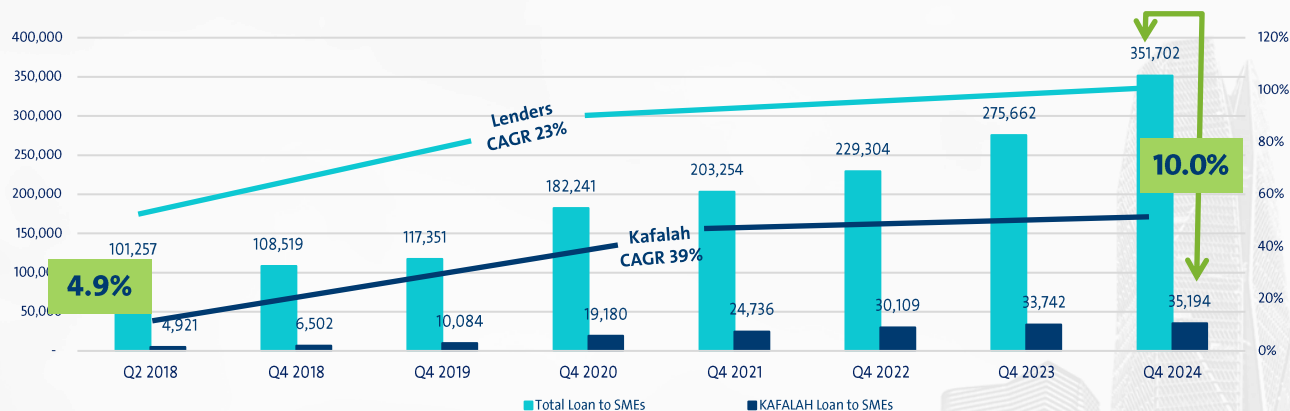
Comparison of issuance size for banks vs. finance companies:



The program began dealing with financing companies in 2018 through two financing companies.

2020-2022: The impact of COVID-19 has increased the demand for loan guarantees, as they serve as a safeguard for SME loans during economic challenges.

Compare program performance with data from the Saudi Central Bank



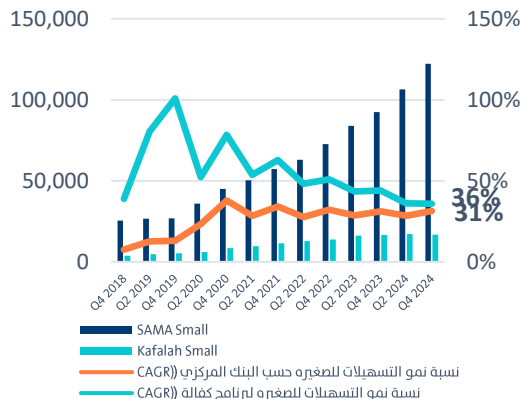
The above chart illustrates the increase in the contribution percentage of the Kafalah program in supporting the financing provided and granted to small and medium-sized enterprises compared to the financing granted by financing institutions. This is due to the increase in the contribution percentage from 4.9% to 10.0% from the beginning of the second quarter of 2018 to the end of the fourth quarter of 2024

	Size	Total Lending	Total Secured Loans	Total Value of Guarantees	% lending by size	% Guarantee by size	% average for Guarantees
	Micro	42,319	2,600	2,150	6%	5%	83%
	Small	122,174	16,823	13,315	14%	11%	79%
	Medium	187,209	15,771	11,333	8%	6%	72%
	Total	351,702	35,194	26,799	10%	8%	76%

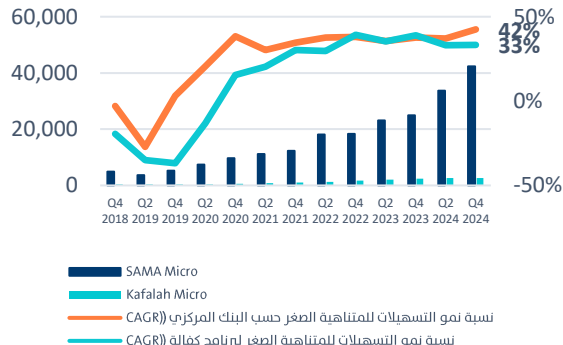
Growth rate of facilities provided by the Kafalah programme compared to the size of facilities provided to small and medium enterprises by size (CAGR)

- The compound annual growth rate (CAGR) of the Kafalah Program for small enterprises reached 36%, while the CAGR of total financing facilities provided to small enterprises by financing entities reached 31%.
- The compound annual growth rate (CAGR) of the Kafalah Program for medium enterprises reached 44%, while the CAGR of total financing facilities provided to medium enterprises by financing entities reached 17%.
- The compound annual growth rate (CAGR) of the Kafalah Program for micro enterprises reached 33%, while the CAGR of total financing facilities provided to micro enterprises by financing entities reached 42% by the end of the fourth quarter of 2024.

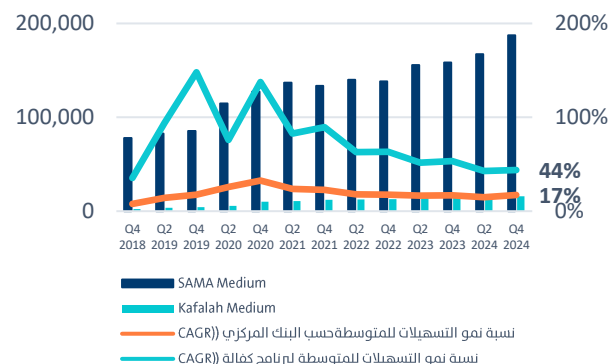
Cumulative Annual Growth Rate (CAGR) for Small Businesses:



Cumulative Annual Growth Rate (CAGR) for Micro-Enterprises:



Cumulative annual growth rate (CAGR) for medium-sized enterprises:



Growth of small and medium enterprises

	Turn to	Micro	Small	Medium	Total
Enterprises	Micro	92.0%	7.8%	0.22%	29%
	Small	2.9%	93%	3.95%	60%
	Medium	0.4%	10.7%	88.9%	11%



Growth indicators:

Some upward movements indicate growth opportunities, as 7.8% moved from micro to small, and 3.95% from small to medium.



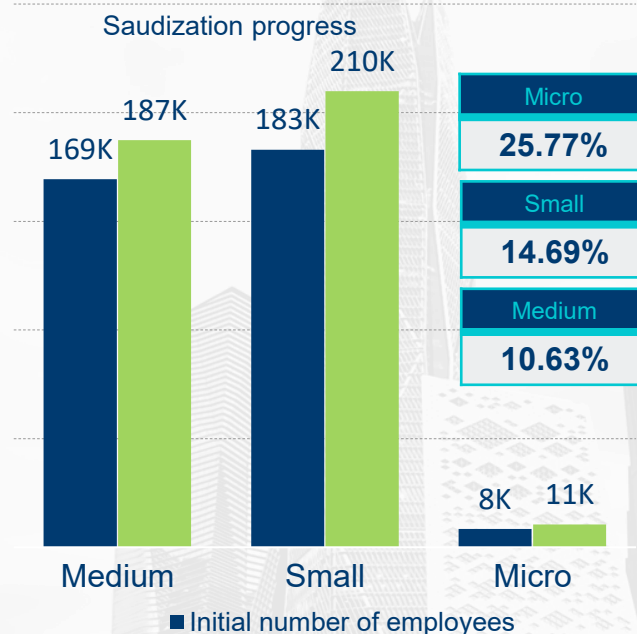
Low down transmission:

A small number of collateral are moving to a lower category, indicating continued or increasing collateral volumes.



Saudization

The bar graph shows Saudization across different business sizes, with the small sector leading an increase of 26%, followed by the small and medium sectors at 15% and 11% respectively.



Economic impact of the sponsorship program



The impact of sponsorship on GDP in 2019
Estimated at SAR 2.8 billion to SAR 3.6 billion



Methodology for evaluating the impact of the program on the private sector's GDP in the Kingdom:

We use the labor productivity index according to the size of small and medium enterprises for the year 2019, then calculate the impact ratio for one year from the previous table, and finally the total number of employees in the beneficiaries of the sponsorship program.

	First Way	Second Way	Third Way
Sector worker productivity for 2019	113,396	107,231	146,010
MICRO	167,073	72,143	114,404
Small	63,981	87,707	151,841
Medium	155,122	181,687	168,997
Impact on employment in beneficiary establishments	14.0%	14.0%	14.0%
Micro	9.9%	9.9%	9.9%
Small	14.8%	14.8%	14.8%
Medium	19.6%	19.6%	19.6%
Number of employees in beneficiary establishments during 2019	174,812	174,812	86,662
Micro	2,244	2,244	2,244
Small	41,500	41,500	41,500
Medium	42,918	42,918	42,918
Estimated impact on GDP in 2019	<u>1,375,795,585</u>	<u>1,300,996,580</u>	<u>1,771,496,933</u>
MICRO	37,116,221	16,027,049	25,415,470
Small	392,971,648	538,693,437	932,604,434
Medium	1,304,878,218	1,528,337,191	1,421,589,193



Cumulative growth over 2023
43.28 to 33.67
S.R



Methodology Formula

Labor productivity in micro, small and medium enterprises

X Impact of the program on employee growth

X Beneficiary number



The impact of sponsorship on GDP since the launch of the vision until 2023 AD
Ranging from **SAR 30.69** billion to **SAR 39.37** billion



The program also primarily focuses on development and targets a set of objectives, the most prominent of which are:

- Growth in the number of employees in beneficiary enterprises.
- Growth in support for emerging enterprises.
- Growth in the volume of guarantees for women-owned enterprises.

Target	2023	2024	Growth %
Volume of guarantees for women-owned enterprises	2,086,851,682	2,301,131,396	10%
Number of benefiting emerging enterprises	39	433	1010%
Number of employees in beneficiary enterprises	237,293	248,060	%4.5

Kafalah plays an essential role in the Islamic economy, as it contributes to:

- Facilitating financial transactions: Kafalah helps individuals and companies access the necessary financing more easily.
- Reducing risks: Kafalah lowers the risks faced by creditors, encouraging them to provide financing.
- Achieving social solidarity: Kafalah promotes a spirit of cooperation and mutual support within the community.
- Enhancing financial efficiency: It increases lending capacity to nearly ten times the program's capital to support enterprises.
- Additionally, the Kafalah Program supports several government programs that back the Kingdom's development plans according to Saudi Vision 2030, thereby increasing guarantee coverage (exposure) based on these programs' contributions through Kafalah.

The Role of the Kafalah Program During the COVID-19 Pandemic

- Guarantee programs represent a lifeline for global economies, and they have been used to rescue economies by guaranteeing a large number of projects in cooperation with relevant entities. The Financing Guarantee Program Kafalah has worked with several entities to stimulate sectors and support entrepreneurs and project owners during difficult times. The Saudi Central Bank, together with the Kafalah Financing Guarantee Program, launched the Guaranteed Financing Product, which ensures that businesses obtain the necessary Islamic financing, enabling them to continue operations during challenging periods and defer repayment for six months. This allowed enterprises to maintain their activities, with total guarantees for the Guaranteed Financing Product reaching SAR 20 billion. The program also launched sector-specific products in cooperation with the National Development Fund, enabling enterprises to access financing worth SAR 18 billion.

The role of the program can be summarized in two points:

- The program assisted affected enterprises by providing Shariah-compliant guaranteed financial support.
- It played a key role in mitigating economic damage and supporting project continuity

Recommendations :

- Raising community awareness about the guarantees provided by the program and their tangible impact on the Islamic economy.
- Promoting the concept of financial sustainability and ensuring Shariah compliance with sustainable objectives.
- Strengthening Shariah governance by appointing independent Shariah supervisory boards.
- Expanding the scope of Kafalah and studying the possibility of guaranteeing Islamic sukuk, portfolios, and reverse guarantees.
- The study recommends that the community invest and deposit their funds in Islamic banks, benefiting from the credit facilities they offer to beneficiaries within Shariah limits, as such transactions have become more advanced, widespread, and technologically compatible, in addition to being safe and convenient for the beneficiary.
- The study recommends increasing the proportion of credit facilities granted by Islamic banks to small and medium enterprises (SMEs), due to their direct and positive impact on achieving high economic growth rates.
- The study recommends the optimal utilization of government capital expenditure, given its positive effect on economic growth in the Kingdom of Saudi Arabia.
- The study recommends increasing the volume of credit facilities provided by Islamic banks in Saudi Arabia to SMEs, due to their positive impact on achieving low inflation rates.
- The study also recommends increasing the volume of credit facilities provided by Islamic banks in Saudi Arabia to SMEs, as they positively contribute to lowering unemployment rates and creating job opportunities.

General Recommendations :

Establish Sector-Specific Shariah Committees

Create dedicated Shariah advisory sub-committees for each SME sector (e.g., tech, culture, healthcare) to ensure financing structures are fully aligned with sector-specific Islamic contracts and avoid generalized interpretations.

Introduce Shariah-Compliant Digital Smart Contracts

Utilize blockchain-based smart contracts using Murabaha, Ijara, or Musharaka structures to automate compliance and disbursement while preserving transparency and Shariah adherence.

Develop a Shariah Compliance Rating System for SMEs

Introduce a scoring mechanism that classifies SMEs based on their level of Islamic finance compliance, encouraging financiers to prioritize high-rated enterprises and incentivize others to improve.

Launch a Takaful-Backed Guarantee Add-On

Offer an optional Takaful (Islamic insurance)-backed layer to the guarantee product for added risk mitigation, especially for sectors with high default volatility, such as startups or exports.

Expand Reverse Guarantee Models for Islamic Instruments

Implement reverse guarantees on Sukuk or pooled portfolios issued by Islamic banks or SME funds, unlocking large-scale liquidity in a Shariah-compliant manner.

Mandate ESG-Shariah Synergy Audits

Require periodic third-party audits to verify both Shariah and ESG compliance of guaranteed SMEs—especially given Vision 2030's emphasis on ethical finance and sustainability.

Launch Islamic FinTech Integration Sandbox

Build a regulatory sandbox to pilot Islamic FinTech platforms (e.g., robo-Murabaha, Musharaka crowdfunding) that reduce guarantee issuance cost, simplify access, and improve monitoring.

Embed Sulh (Shariah-Compliant Restructuring) Mechanisms

Make Sulh-based restructuring a permanent feature in contracts to proactively support distressed SMEs before reaching default thresholds.

Incentivize Islamic Bank Performance via Tiered Guarantee Support

Adjust the percentage of guarantee coverage (e.g., 80%-95%) based on Islamic banks' performance in SME outreach, Shariah innovation, and compliance audits.

Institutionalize Shariah Knowledge Transfer with Banks and SMEs

Develop certified Shariah finance training programs for bank officers and SME owners to reduce compliance misunderstandings and promote effective product uptake.

كفالة
Kafalah

برنامج ضمان التمويل للمؤسسات الصغيرة والمتوسطة
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Thank You

