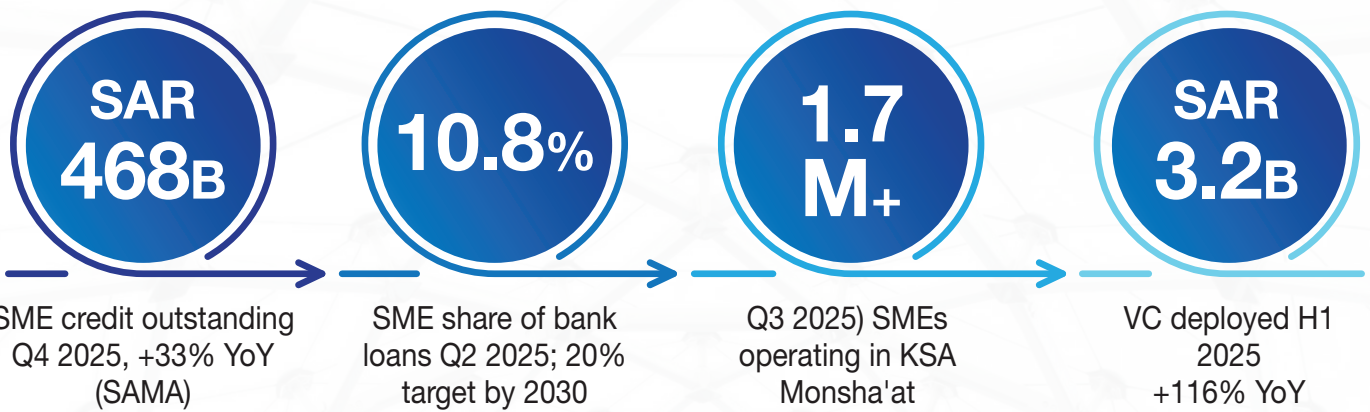


# 5 Reasons Saudi Business Plans Fail to Secure Financing

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What Lenders and Investors Actually Look For Insights | 2026



## Executive Summary

Saudi Arabia offers the most developed SME and startup financing environment in the GCC. Credit outstanding to SMEs reached SAR 468 billion in Q1 2026, up 33% year on year, supported by commercial banks, government programs (Kafalah, SIDF, SME Bank), venture capital (Sanabil, SVC, Wa'ed), and a rapidly growing fintech and crowdlending segment. Yet financing rejections remain common, and the constraint is rarely capital availability. It is the quality of business plans submitted.

Based on our review of financing applications and lender underwriting practice in the Kingdom, five failures account for most rejections:

#	Failure	What Lenders and Investors Need Instead
1	Projections that cannot be stress tested	Driver based model, three scenarios, monthly cash flow, DSCR $\geq$ 1.25x
2	Ignoring regulatory and compliance costs	Zakat 2.5%, CIT 20% (foreign share), GOSI, VAT 15%, Nitaqat, expat levy modelled
3	Weak or absent market analysis	TAM to SAM to SOM build up, named competitors, CAC and LTV economics
4	Management narrative as an afterthought	Sector track record, founder equity skin in the game, clean SIMAH history
5	Funding ask poorly structured	Use of proceeds, draw down schedule, debt vs equity split, repayment or exit plan

## Key takeaways for business owners and finance teams

- Match the financing instrument to the business stage and cash flow profile. Banks want debt service capacity; VCs want scalable growth; SIDF wants industrial development alignment.
- Treat regulatory cost modelling as a core discipline, not an afterthought. A plan that omits Zakat, CIT on foreign ownership, GOSI, or VAT timing signals inexperience.
- Build projections bottom up from unit economics. Top down market share claims carry no weight with credit committees or investment analysts.
- The management story is an underwriting factor, not a formality. Personal SIMAH credit, sector track record, and founder capital commitment all matter.
- Structure the funding ask with precision: use of proceeds, draw down timing, equity to debt split, and a credible repayment or exit path.

### The Fundability Principle

- A business plan is not a document describing the business. It is a financial and strategic case that must meet the specific evaluation framework of the chosen financier.
- Plans that succeed treat lenders and investors as the primary audience from the first draft, not as reviewers of a document prepared for internal strategy purposes.
- In a market where SME credit grew 33% in the past year, well prepared businesses will find the financing environment increasingly receptive. The onus is on preparation quality.

The remainder of this article examines each of the five failures in detail, identifies the key financing bodies in the Saudi ecosystem, and provides a self assessment checklist for business owners and their advisors.



# Introduction

Saudi Arabia has never offered more financing pathways for businesses. Bank debt, government backed programs, venture capital, crowdlending, and development finance all coexist in a rapidly maturing ecosystem. The government has set an ambitious target for banks to allocate 20% of their loan portfolios to SMEs by 2030, a figure that stood at 10.8% in Q2 2025, up from 9.0% a year earlier, despite strong double digit annual growth in absolute SME credit.

Yet funding rejections remain common. The gap between available capital and successfully financed businesses is not primarily a supply problem. It is a quality of preparation problem. Lenders and investors consistently reject business plans not because the underlying business is unviable, but because the plan fails to speak their language.

This article identifies the five most common and consequential mistakes in Saudi business plans, the ones that routinely kill financing applications before they reach credit committees, and explains what a fundable plan must contain instead.



# Executive Summary

Based on our review of financing applications and lender underwriting practice in the Kingdom, five failures account for most rejections:

Body	Type	Ticket Size	Stage Focus	Key Requirement
SME Bank (NDF)	Debt (micro to term)	Up to SAR 15M	Stage Focus All SME stages	Audited financials, GOSI and ZATCA clean
Kafalah (SME Bank)	Loan guarantee	Varies by participating bank; up to 80% coverage	Collateral light SMEs	Track record, clean SIMAH
SDIF	Industrial and capex debt	Project-dependent	Industrial expansion	Feasibility study, capex plan
SVC (SME Bank, NDF)	VC co investment	Pre seed to pre IPO	High growth startups	Scalable model, market size
Sanabil (PIF)	VC and PE	Seed to Series C	Seed, growth and buyouts	Revenue traction, regional ambition
Wa'ed Ventures (Aramco)	VC	Seed to Series C	Tech startups; Aramco strategic fit	Vision 2030 alignment, IP
Commercial banks (SNB, Al Rajhi, Riyad, ANB, SAB)	Working capital and term debt	SAR 0.5M to 1.75B+	Established businesses	3 year audited accounts, SIMAH, ZATCA certificate
Fintech (Lendo, Raqamyah, Erad, Forus)	Revenue and invoice based	SAR 100K to SAR 7.5M (typical)	SMEs with cash flow data	POS or e commerce data, short track record
Monsha'at (grants and Esterdad)	Fee reimbursement (Esterdad) and advisory	Variable	Early stage and compliance	Registration, Vision 2030 sector fit

The Kafalah program alone issued SAR 13.9 billion in loan guarantees in 2024, facilitating over SAR 18 billion in financing to 5,346 SMEs, up 17% from 2023. The program targets SAR 20 to 22 billion in guarantees over 2025 and 2026. Despite this breadth of options, all financiers share one common requirement: a credible, financially rigorous business plan. The five failures below apply across virtually every channel.



# The 5 Critical Failures



## Financial Projections That Cannot Be Stress Tested

This is the single most common reason for rejection. Business plans routinely present revenue forecasts that grow at implausible rates, often 40% to 80% year on year for three to five years, with no driver level logic, no sensitivity tables, and no break even analysis. Credit committees and VC analysts see hundreds of plans annually. They know what realistic sector growth looks like, and they will immediately discount projections that appear aspirational rather than analytical.

### What lenders actually see

- A revenue hockey stick with no unit economics supporting it
- Gross margin assumptions that ignore COGS structure, including Saudization cost, import duties, and VAT
- EBITDA positive by Year 1 or 2 with no justification
- No working capital modelling, with receivables, payables, and inventory cycles absent
- No debt service coverage ratio (DSCR) calculation, which banks require at 1.25x minimum

### What a fundable plan must include

- Driver based model building revenue from units, price, and conversion rate, not a top down market share percentage
- Three scenarios (base, upside, downside) with clearly stated assumption changes
- Monthly cash flow for Year 1, quarterly for Years 2 and 3. Lenders want to see liquidity timing
- Break even analysis covering units, revenue, and timeline
- DSCR calculation for debt financed plans and MOIC and IRR for equity or VC
- Capex schedule with depreciation, critical for SIDF and industrial applicants

## Key Financial Benchmarks Lenders Reference

- DSCR  $\geq$  1.25x (most Saudi commercial banks). Income must comfortably cover debt service.
- Gross margin benchmarked against sector comparables. Unexplained deviation triggers scrutiny.
- Current ratio  $\geq$  1.0x at all projected periods. Negative working capital kills bank applications.
- Equity contribution: banks typically require 20% to 30% owner equity injection for new projects.
- Revenue concentration: more than 40% revenue from one customer is a red flag for most lenders.



## Ignoring Regulatory and Compliance Costs

Saudi Arabia has a distinctive cost structure that many business plans, particularly those prepared without local expertise, systematically understate or ignore entirely. Zakat, Corporate Income Tax on foreign ownership, Nitaqat (Saudization), GOSI contributions, VAT, and licensing fees are not peripheral items. They materially affect cash flow, profitability, and working capital. A plan that omits them signals to any Saudi lender that the founders have not engaged seriously with operating reality.

### The compliance cost layer most plans miss

Cost Item	Rate / Requirement	Financial Plan Impact
Zakat	2.5% on Zakat base (Saudi and GCC owned share only); applied to adjusted net worth, not income	Annual cash outflow; must model net income after Zakat, not just before
Corporate Income Tax	20% on net adjusted profits (foreign ownership share only)	In mixed ownership entities, foreign partner's share is taxed at 20%; affects post tax cash flow and DSCR
GOSI: Saudi employees	Combined 21.5% on basic + housing allowance. Legacy scheme: 11.75% employer + 9.75% employee. New scheme (post July 2024 hires): rates stepping up annually, reaching 12.75% employer + 10.75% employee in 2026	Material payroll cost uplift; typically adds 18% to 22% to Saudi employee cost to employer
GOSI: Expatriate employees	2% employer contribution (occupational hazards only); no employee share	Lower direct cost than Saudi headcount; offset by Nitaqat constraints and expat levy
Nitaqat (Saudization)	Sector specific quotas. Non compliance can result in license or visa restrictions	Forces higher salary costs for Saudi hires; affects headcount planning and scalability
VAT	15% on most supplies; quarterly filing	Working capital impact: VAT timing mismatch between input and output VAT can create material cash lag in B2B
Expat Levy	SAR 400 to SAR 800 per expat per month (varies by sector and Nitaqat band)	For labor intensive businesses this is a significant fixed cost item, often underestimated
CR, MISA, Municipal Fees	Annual renewal. Sector specific licensing can be significant (healthcare, education, financial services)	Must be included in pre revenue opex. Frequently overlooked by startups

Banks also require a valid ZATCA certificate (Zakat and tax compliance), a clean SIMAH credit report for both the business and its owners, and a valid GOSI certificate as part of the application package. A plan may be financially compelling, but an outstanding Zakat liability discovered in due diligence will terminate a transaction.



## A Weak or Absent Market Analysis

Many Saudi business plans lead with a large addressable market figure, often citing national GDP, Vision 2030 targets, or global industry reports, and then project capturing 1% to 3% of that market as justification for their revenue forecast. This top down approach tells a lender or investor nothing meaningful. It does not explain why customers will buy, at what price, through which channel, or against what competition.

### The five questions a fundable market section must answer

- Who exactly is the target customer, and what is their willingness to pay?
- What is the realistic serviceable obtainable market (SOM), not just the total addressable market (TAM)?
- Who are the direct and indirect competitors, and how does pricing, quality, and distribution compare?
- What are the customer acquisition economics: cost per acquisition (CPA), lifetime value (LTV), and payback period?
- What are the regulatory barriers to market entry in this sector (CMA, SAMA, MOH, MOMRA, etc.)?

### Vision 2030 Alignment: Opportunity and Overuse

- Every second business plan in Saudi Arabia references Vision 2030. This is both appropriate and, when done superficially, counterproductive.
- What works: linking your business to a specific NTP target, a privatization pipeline opportunity, or a sector with quantified government spend (tourism sector target of 150 million visitors by 2030, healthcare privatization, renewable energy 50% by 2030).
- What does not work: generic statements that 'our business aligns with Vision 2030 goals of economic diversification' without specificity. Lenders and investors have read this thousands of times and it carries zero analytical weight.



## The Management Narrative Is an Afterthought

For Saudi banks assessing SME applications, the owner and management track record is often a primary underwriting factor, particularly for first time borrowers, pre revenue ventures, and businesses in their early years. For VC investors, the founding team is frequently the single most weighted criterion at early stage. Yet business plans consistently treat the management section as a formality: a brief biography listing educational credentials and job titles.

What financiers need to see is evidence that the team can execute, and specifically that they understand the Saudi market, the regulatory environment, and the operational demands of the sector. Relevant considerations include:

- Demonstrated sector experience. Have the founders actually worked in this industry in Saudi Arabia?
- Prior P&L responsibility. Has the founder managed a cost center or revenue generating unit before?
- Advisory board or strategic investors. Do they have credible names that signal market access and validation?
- Succession and key man risk. What happens operationally if the founder exits?
- Skin in the game. What equity is the founder retaining, and are they investing personal capital? Banks view this as a commitment signal.

For Kafalah and SME Bank applications specifically, personal SIMAH credit history of the business owner carries direct weight in the assessment. A business plan can be excellent, but a founder with a poor personal credit history will typically fail Kafalah eligibility.



## The Funding Ask Is Poorly Structured and Unsupported

A surprising number of business plans arrive at their funding ask either too late, with insufficient justification, or structured in a way that is fundamentally misaligned with the financing instrument being sought. The most common manifestations of this failure are:

- Asking for equity funding from a bank (or debt from a VC). Each instrument has a different structural logic and the plan must match.
- Providing a round number with no build up. 'We need SAR 5 million' is not a funding request, it is a wish.
- No use of proceeds table. Lenders need to know exactly where each riyal goes.
- Failing to specify the draw down schedule, particularly important for working capital facilities.
- Not addressing how the financing will be repaid (debt) or what the exit pathway looks like (equity or VC).
- Requesting 100% debt financing for a greenfield project. Saudi banks typically require 20% to 30% equity participation.

## A fundable funding request includes

Component	What to Include
Use of proceeds	Line by line breakdown: capex, working capital, salaries, marketing, contingency
Draw down schedule	Phased by milestone or quarter, especially for project finance
Equity vs debt split	Show owner injection, total debt, and resulting leverage ratio (Debt to EBITDA)
Repayment or exit	For debt: DSCR and repayment timeline. For equity: projected exit route (trade sale, IPO, secondary)
Collateral (if debt)	Identify available collateral or Kafalah coverage rationale if collateral light
Instrument fit	Justify why debt, equity, or hybrid based on cash flow profile and sector norms

# Summary: The Fundability Checklist

Use the following checklist to self assess a business plan before submission to any Saudi lender or investor:

	Area	Minimum Standard
✓	Revenue model	Driver based with unit economics. No top down market share assumptions
✓	Financial scenarios	Base, upside, and downside with sensitivity on 2 to 3 key variables
✓	Cash flow model	Monthly Year 1, quarterly Years 2 and 3. Working capital cycle modelled
✓	DSCR or returns metric	DSCR $\geq 1.25x$ (debt) or IRR and MOIC with clear exit assumptions (equity)
✓	Zakat and tax	Post Zakat and post tax cash flows modelled. Zakat base calculation included
✓	Nitaqat and GOSI	Saudization ratio by year. GOSI contributions in payroll model at correct rates
✓	VAT impact	VAT timing on working capital. B2B VAT receivable lag modelled
✓	Market analysis	TAM, SAM, SOM build up. Named competitors. Customer acquisition economics
✓	Regulatory compliance	Sector licensing, SAMA, CMA, or MOH approvals noted with timeline and cost
✓	Management section	Track record evidence. Personal SIMAH clean. Founder equity retention
✓	Funding ask	Use of proceeds table. Draw down schedule. Equity to debt split. Repayment plan
✓	Vision 2030 linkage	Specific program, target, or sector alignment. Not generic

# Closing: Capital Is Available, Preparation Is the Bottleneck

Saudi Arabia's financing ecosystem in 2025 is the most developed it has ever been. SME credit outstanding reached SAR 468 billion in Q1 2026, up 33% year on year. VC deployment hit a record SAR 1.34 billion in the first half of 2025, and government backed programs (Kafalah, SVC, SME Bank) have materially reduced collateral barriers for viable businesses. The constraint is no longer capital availability. It is the quality and credibility of business plans presented to access it.

The five failures outlined in this article are correctable with the right expertise. A business plan that presents driver based financials, properly accounts for Saudi regulatory costs, frames a compelling market opportunity, demonstrates management capability, and structures a coherent funding ask, in that order, will find the financing environment in Saudi Arabia increasingly receptive.

For businesses navigating this process, specialist financial advisory support covering financial modelling, plan structuring, and lender and investor engagement materially improves both approval rates and financing terms.

Sources: SAMA Monthly Bulletin and FSDP 2024 Annual Report | Monsha'at | SME Bank | Kafalah Program | ZATCA | GOSI | PwC Tax Summaries | SPA | Arab News | Asharq Al Awsat | Argaam



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