ZCG Arabia Insights

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Closing the Gap: Sharia-Compliant Private Credit and the Next Phase of SME Finance in Saudi Arabia

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Saudi Arabia's small and medium-sized enterprises ("SMEs") have become a central pillar of the Kingdom's economic transformation. Under Vision 2030, SMEs contribute approximately 23% of GDP, with a national target of 35% by 2030.[1] Financing has expanded alongside this growth, with outstanding SME credit reaching approximately SAR 468 billion (US$125 billion) by the end of 2025, supported by commercial banks, government initiatives, and programs such as Kafalah.[2]

This progress is significant, but it also highlights the next stage of market evolution. The opportunity is no longer simply increasing the availability of capital; it is providing financing solutions that are more flexible, tailored, and aligned with the evolving needs of growing businesses. As the Saudi economy matures, private credit is increasingly positioned to complement traditional bank lending by providing secured, relationship-driven capital to high-quality SMEs.

Key Takeaways – A Financing Ecosystem for the Next Phase

1 SMEs are central to Vision 2030—and remain structurally underfinanced

SMEs contribute approximately 23% of Saudi Arabia's GDP, with a national target of 35% by 2030.[1] Despite meaningful progress, SME lending represents just 11.3% of total bank credit, well below the Kingdom's 20% target,[3] leaving an estimated financing gap of more than SAR 300 billion (US$80 billion).[4]

2 Private credit complements the banks—it does not compete with them

Private credit provides flexible financing for fundamentally strong businesses whose capital needs extend beyond traditional bank lending. Through disciplined, senior secured structures, it broadens access to capital while maintaining a strong focus on downside protection and attractive risk-adjusted returns.

3 **Shariah-compliant private credit sits at the intersection of two structural trends**

Demand for Shariah-compliant investment solutions continues to grow, while the supply of institutional-quality private credit remains limited.[5] ZCG Arabia's direct financing platform was established to address this opportunity through a CMA-licensed solution with Shariah compliance embedded in its investment framework from inception.

The Financing Gap

Saudi Arabia has made significant progress in expanding access to finance for small and medium-sized enterprises (SMEs). Yet despite this momentum, SME lending still represents only 11.3% of total bank credit, well below the Kingdom's Vision 2030 target of 20%.[3] Various industry studies estimate the resulting financing gap to exceed SAR 300 billion ($80 billion), reflecting the unmet financing needs of viable businesses across Saudi Arabia.[4]

Importantly, this financing gap is not driven by distressed companies. It is increasingly concentrated among established, fundamentally strong SMEs seeking capital to fund expansion, acquisitions, capital expenditure, supply chain investment, and working capital optimization. As the Saudi economy continues to diversify, many established SMEs require financing solutions that extend beyond conventional bank lending.

Beyond Business as Usual

Closing a financing gap of this scale will require a broader financing ecosystem. Saudi Arabia's banking sector will continue to play a central role in supporting economic growth, and its strength remains one of the Kingdom's competitive advantages. However, as businesses evolve, financing solutions must evolve alongside them.

Private credit is designed to complement, not replace, the banking sector by providing flexible financing solutions where conventional lending reaches its natural limits. Together, banks and private credit can broaden the range of financing solutions available to high-quality businesses while strengthening the resilience of the broader financial system.

The Role of Private Credit

Private credit has become an increasingly important source of institutional capital in developed markets and is well positioned to play a similar role in Saudi Arabia's evolving financial landscape.

At ZCG, we understand attractive long-term returns are generated through disciplined underwriting, senior secured lending, conservative portfolio construction, and rigorous risk management—not by reaching for yield. By emphasizing downside protection and capital preservation, private credit can provide flexible financing to fundamentally strong businesses while delivering attractive risk-adjusted returns for investors.

The Islamic Finance Dimension

Shariah compliance is fundamental to ZCG Arabia's direct financing strategy. Saudi Arabia is one of the world's largest Islamic finance markets, where demand for institutional-quality Shariah-compliant investment opportunities continue to grow across institutional investors, family offices, and private wealth. [5] Yet the supply of institutional-grade Shariah-compliant private credit remains limited. ZCG Arabia's direct finance platform was established with the aim to address this structural market opportunity by combining disciplined private credit investing with a Shariah-compliant investment framework embedded from inception.

The Convergence Opportunity

Together, these market dynamics create a compelling long-term opportunity. On one side is a growing population of high-quality Saudi SMEs seeking flexible financing beyond conventional bank lending. On the other is increasing investor demand for institutional-quality Shariah-compliant private market investments.

Private credit provides the natural connection between these two trends. Institutional capital can be deployed directly into high-quality businesses that support economic diversification while offering investors access to secured, income-generating private market investments aligned with Islamic finance principles.

Beyond generating attractive investment outcomes, this approach contributes to the continued development of Saudi Arabia's private capital markets by expanding financing options for businesses and broadening the pool of institutional capital supporting the real economy.

As Saudi Arabia's financing ecosystem continues to evolve, private credit has the potential to play an increasingly important role alongside banks, government-backed institutions, and other providers of capital. A broader, more diversified financing market can help meet the needs of growing businesses while supporting the Kingdom's long-term economic objectives.

ZCG Arabia's Approach

ZCG Arabia's direct financing strategy was established to address this structural market opportunity through a CMA-licensed investment solution that combines ZCG's global private credit expertise with a Shariah-compliant investment framework. Our strategy seeks to provide disciplined, senior secured financing to high-quality Saudi SMEs that require flexible capital to support growth, while maintaining a strong emphasis on capital preservation, downside protection, and rigorous credit underwriting. Shariah compliance has been embedded into the investment framework from inception, ensuring alignment with the requirements of investors seeking Islamic investment solutions.

Conclusion

Saudi Arabia's economic transformation is creating significant opportunities for businesses and investors alike. As the private sector expands, private credit can play an increasingly important role by complementing the banking sector and providing disciplined, relationship-driven financing to high-quality SMEs. Through its CMA-licensed, Shariah-compliant platform, ZCG Arabia seeks to mobilize capital in support of economic development while delivering attractive risk-adjusted returns for investors.

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ZCG is a leading, privately held global firm comprising private markets asset management, business consulting services, and technology development and solutions.

ZCG's investors are some of the largest and most sophisticated global institutional investors including pension funds, endowments, foundations, sovereign wealth funds, central banks, and insurance companies.

For almost 30 years, ZCG Principals have invested tens of billions of dollars of capital. ZCG has a global team comprising approximately 250 professionals. ZCG is headquartered in New York, with seven affiliated offices, across five countries. For more information on ZCG, please visit www.zcg.com.

You can also learn more about ZCG, the business consulting services platform of ZCG, at www.zcgc.com, and explore ZCG's technology affiliate, Haptiq, at www.haptiq.com.

About ZCG Arabia

ZCG Arabia is the Riyadh-based platform of ZCG (Z Capital Group), a leading privately held global firm comprising private markets asset management, business consulting services, and technology development and solutions. ZCG Arabia supports the firm's activities across the Kingdom of Saudi Arabia ("KSA") and the broader GCC region.

For nearly 30 years, ZCG Principals have invested tens of billions of dollars of capital across private equity and credit-related strategies through multiple economic cycles. ZCG has approximately 250 professionals across six countries and is headquartered in New York. For more information, visit www.zcg.com.

Sources

[1] Kingdom of Saudi Arabia, *Vision 2030 Annual Report*; General Authority for Small and Medium Enterprises (Monsha'at), *SME Monitor* (latest available edition). Data regarding SMEs' contribution to Saudi GDP (approximately 23%) and the Vision 2030 target of 35%.

[2] Saudi Central Bank (SAMA), *Monthly Statistical Bulletin* (end-2025). SME credit facilities of approximately SAR 467.7 billion (approximately US$124.5 billion), representing approximately 33% year-over-year growth.

[3] Saudi Central Bank (SAMA); Kingdom of Saudi Arabia, *Vision 2030 Annual Report*. SME lending represents approximately 11.3% of total bank lending. The objective of increasing SME lending to 20% is a national Vision 2030 target supported through multiple government initiatives.

[4] ZCG Arabia analysis. Directional estimate of the financing gap based on the difference between current SME lending levels (approximately 11–12% of total bank lending) and the Vision 2030 objective of 20%. This estimate is internally derived and has not been published by a third party.

[5] LSEG, *Islamic Finance Development Report*; S&P Global Ratings, *Islamic Finance Outlook*; Moody's Ratings, Islamic finance sector research; Islamic Financial Services Board (IFSB), *Islamic Financial Services Industry Stability Report*; International Monetary Fund (IMF), selected working papers on Islamic finance. Sources regarding the size of Saudi Arabia's Islamic finance market and the development of institutional-quality Shariah-compliant private credit strategies.

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