



ALKHIZANAH CAPITAL

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The Safe Path Forward for Private Credit Funds in Saudi Arabia

Year-End 2025 | Outlook 2026

1. Executive Summary: The SME Funding Gap

As of Q4 2025, the Saudi Arabian SME sector faces a persistent structural financing gap estimated at over **SAR 300 billion (\$80 billion)**. Despite lending to MSMEs reaching **SAR 383.2 billion** in early 2025 (a 31% YoY increase), traditional banks still allocate only **~9.6%** of their total credit to SMEs—far below the **Vision 2030 target of 20%**.

Private Credit has emerged as the "missing link," providing essential liquidity to unbanked or underbanked SMEs. The market is projected to grow at a **25–30% CAGR**, reaching **SAR 40 billion by 2030**. Saudi Arabia represents a **SAR375 billion (\$100 billion) opportunity** over the coming decade.

2. Strategic Framework: The Prudence of Indirect On-Balance sheet Lending via Funds to NBFIs

The 2025 study confirms that **Indirect On-Balance Sheet Lending via funds to NBFIs** (funding established NBFIs) is the superior entry model for Saudi Private Credit funds. This approach leverages NBFIs' origination platforms, risk-scoring systems, and high recovery rates (90%+ average) while minimizing deployment friction.

KPI (End-2025)	Direct Lending	Indirect On-Balance sheet Lending via Funds to NBFIs
Target IRR	10–12%	9–11% (Stable)
Risk Profile	High (10–15% NPL potential)	Lower (4–6% Diversified)
Deployment	3–4 Months (High friction)	1–2 Months (Automated)
Scale	Handful of large companies	Tense of SMEs
Efficiency	Limited origination (4 borrowers) of Large tickets	Mass origination platform for smaller tickets



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3. Risk Assessment Matrix: Top 5 NBFIs (End-2025)

NBFIs are the primary engines of SME liquidity, currently providing nearly **19%** of their total lending to MSMEs.

NBFI Name	Specialization	Risk Rating	2025 Risk Drivers
Nayifat Finance	Consumer & SME Tawarruq	Low-Mod	Concentration in retail; managed via SIMAH-linked scoring.
Al Yusr Leasing	SME Equipment Finance	Moderate	Sensitivity to logistics cycles; 85% recovery efficiency.
Quara Finance	Digital SME Lending	Mod-High	Rapid deployment risks; mitigated by 100% digital data rails.
Tasheel Finance	POS / Installment Finance	Moderate	POS volatility; secured by direct cash-flow links.
AlRaedah Finance	Micro-Business Cash Flow	Moderate	Small ticket exposure; daily repayment models reduce NPLs.

4. Key Enablers: Regulatory & Liquidity Impact

- **CMA 2025 Amendments (July 21, 2025):** Streamlined fund setups and enabled **Digital Distribution** via Fintech platforms. Most critically, public funds can now invest in **privately placed debt**, broadening the investor base for private credit.
- **The Liquidity Multiplier:** Private credit funds provide non-dilutive capital that bridges the gap between startup funding and traditional bank financing. In 2025, debt financing accounted for **44%** of MENA startup funding, led by Saudi Arabia.





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5. Strategic Recommendation

Indirect on-balance sheet lending to NBFIs via professionally managed funds remains the safest and most scalable structure. It mitigates operational and credit risk by leveraging NBFIs' decades of local expertise, automated origination, and proven recovery systems while directly addressing the massive demand for Shariah-compliant SME liquidity.

The absence of sufficient track record among newer non-bank lenders could slow broader private credit adoption; partnering with established NBFIs eliminates this barrier. Despite mild turbulence in global (particularly US) private credit markets in 2025–2026 — driven by AI disruption concerns and selective credit deterioration — Saudi Arabia's regulated NBFi ecosystem, Vision 2030 tailwinds, and strong regulatory support provide structural resilience and attractive risk-adjusted returns.

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(License #21234-02)
Riyadh, Saudi Arabia

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