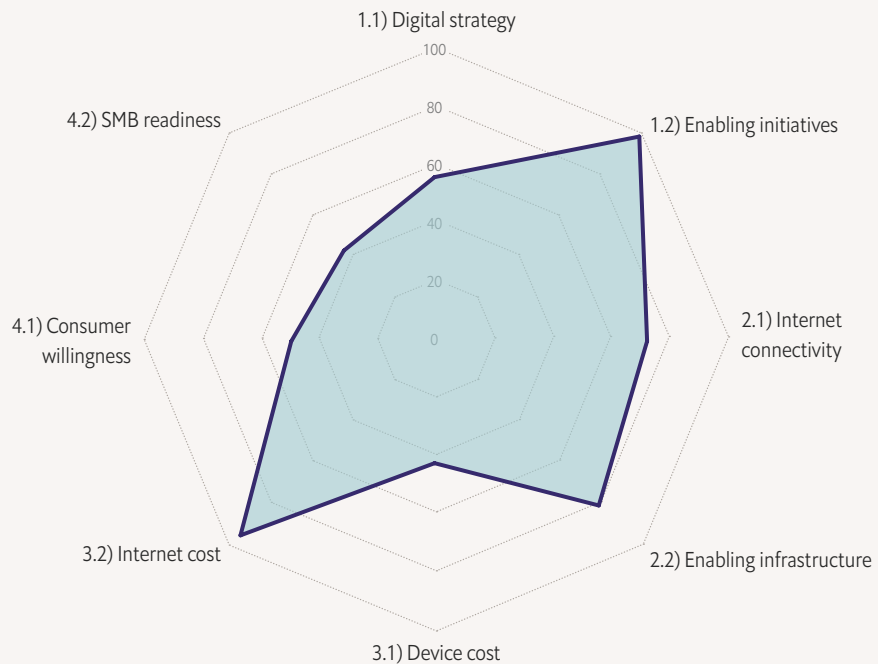


Saudi Arabia

- The Kingdom of Saudi Arabia has made great strides in establishing the policy framework needed for a digital economy, particularly enabling initiatives such as a digital ID system, open data policy and data protection laws.
- Government support can be aimed at improving SMB readiness for the digital economy, specifically by incentivising greater tech adoption and cultivating a digital-ready workforce.

Figure 1: Category-level scores for Saudi Arabia



High ambition drives growing progress

Saudi Arabia's Vision 2030 mandate is guiding the monumental transformation of the country's socioeconomic environment. From historic infrastructure projects to building a competitive

labour force, Saudi Arabia's development efforts seek to attract foreign investment.

The digital economy provides immense opportunity in the nation's pivot away from petroleum. Some estimates show that the digital

economy will contribute 19.4% to Saudi Arabia's GDP by 2025.¹ Online activity was spurred by the onset of the pandemic, which saw traffic on education portals increase by 1,000%, visits to health portals increase by 177% and mobile app downloads increase by 70%.² Fintech success stories, such as Tamara, which offers SMBs and consumers Shari'a-compliant and convenient payment options, fuel the appetite for digital solutions in the country.³ "I think we are in a market where the eagerness for digital solutions and technology is humongous", says Djamel Mohand, chief operating officer at Foodics, a tech provider specialising in restaurant management and payment systems. "It is a big revolution", he adds.

Policy and regulation is the pillar that Saudi Arabia scores highest in (78.3 out of 100), earning full marks for their performance in the enabling initiatives category and highlighting active government support for the digital economy. Despite strong scores on indicators for internet cost and connectivity, Saudi Arabia lags behind in SMB readiness, scoring 44.3 out of 100. Addressing this will be crucial for deeper engagement in the digital economy.

Policies must be targeted at boosting SMB confidence

"[Today], regulations are much smoother to start a business and the capital is there", says Mr Mohand. "This has led to a huge step [forward in] digitalising". With the establishment of a national electronic identification system, the nation makes e-Government services

accessible to residents and citizens alike. In addition, their open data policy clearly sets out the legal basis for sharing public information. Saudi Arabia is also one of the few markets to have sector-specific data privacy laws, along with a universal data protection policy that Mr Mohand equates to the General Data Protection Regulation (GDPR).

Despite progress on policy, only 16% of executives surveyed stated that their existing business models are completely ready for digital expansion, with 38% stating they need to completely transform their business models to participate in the digital economy. This aligns with Accenture's Innovation Maturity Index survey, which suggests three out of four Saudi Arabian companies continue to conduct their legacy business using mostly traditional approaches, with only one in 20 companies putting between 25% and 50% of their financial investments toward innovation between 2015 and 2020.⁴ Other research shows that, in 2021, software spending was only 0.4% of GDP in Saudi Arabia, highlighting that businesses are digitalising, albeit gradually.⁵ According to Mr Mohand, the entrepreneurial mindset is a key factor. "People need to realise that they need to overcome their low confidence", he says. He explains that some local entrepreneurs lack the confidence to venture into the global market.

The government could play a role here. Currently, Saudi Arabia has multiple initiatives focused on boosting digital entrepreneurship, such as its Tech Champions programme.⁶

¹ Digital KSA: Assessment and way forward for the digital economy. Available at: <https://www.adlittle.com/us-en/insights/report/digital-ksa-assessment-and-way-forward-digital-economy>

² Energizing the digital economy in the Gulf countries. Available at: <https://www.strategyand.pwc.com/m1/en/ideation-center/research/2021/energizing-the-digital-economy-in-the-gulf-countries/energizing-the-digital-economy-in-the-gulf-countries-spread.pdf>

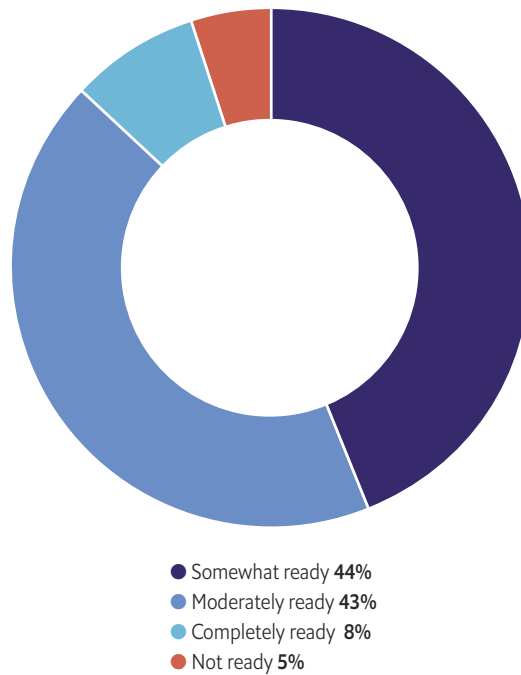
³ Ibid.

⁴ https://www.accenture.com/_acnmedia/PDF-136/Accenture-KSA-IMI-Final.pdf

⁵ <https://www.adlittle.com/at-en/insights/report/digital-ksa-assessment-and-way-forward-digital-economy>

⁶ https://www.my.gov.sa/wps/portal/snp/aboutksa/digitaltransformation!/ut/p/z0/04_Sj9CPykyssy0xPLMnMz0vMAfjjo8zivQIsTAwdDQz9LUxNnA0Cg11DXEydAowCHQ31g1Pz9AuyHRUB1eTRhg!!/#:~:text=The%20Kingdom%20of%20Saudi%20Arabia%20is%20set%20to%20become%20the,across%20public%20and%20private%20sectors

Figure 2: Executive perspectives on workforce readiness



Source: Economist Impact executive survey, July-August 2022

However, there is no evidence of a dedicated digital entrepreneurship government body in Saudi Arabia. Establishing a central body with an explicit mandate to offer entrepreneurs guidance to promote themselves on an international platform could boost confidence and help SMBs scale up.

The demand for tech talent outweighs supply

The Saudi Ministry of Human Resources and Social Development is looking to develop a skills strategy designed to improve professional standards for labour force entrants.⁷ These efforts need to be expedited as survey results

indicate gaps in workforce readiness, which impact the ability of SMBs to participate in the digital economy, earning Saudi Arabia a readiness score of 44.3 out of 100. Just over 40% of SMB respondents identify the limited local talent pool with desired digital skills as a key challenge. A similar percentage of respondents say that their workforce lacks digital transformation skills such as programming, coding and engaging with advanced emerging technologies.

The country also has a low score for upskilling initiatives. Only 28% of executives strongly agree that their companies are actively investing in and providing programmes for employee digital training, even though 44% say that upskilling will boost worker retention. SMB readiness can be enhanced by internal training and coaching, but upskilling must take place at all levels of the organisation to build holistic preparedness.

A positive outlook for technological adoption

Surprisingly, in terms of SMB technological adoption, on average, only 24% of executives stated that they had already adopted the key technologies needed for digital transformation. Closer analysis reveals that the landscape for technological adoption is fairly mixed. According to the Network Readiness Index, Saudi Arabia performs well, ranking 35th out of 131 countries in the adoption of emerging technologies, but this reflects the views of the mainly medium to large businesses in their survey.^{8,9} Given that our assessment framework focuses on SMBs, this could indicate that digital adoption remains in its early stages within the SMB environment.¹⁰

⁷ <https://www.arabnews.com/node/2084121/saudi-arabia>

⁸ <https://networkreadinessindex.org/country/saudi-arabia/>

⁹ https://www3.weforum.org/docs/WEF_GCR_2019_Appendix_B.pdf

¹⁰ https://www.cisco.com/c/m/en_us/about/corporate-social-responsibility/research-resources/digital-readiness-index.html#/Start-Up%20Environment

“It is necessary to take these local companies and make them public. This will make them compete against the dinosaurs in the market.”

Djamel Mohand, chief operating officer at Foodics

However, despite low levels of current adoption, more SMBs are planning to adopt these technologies over the next 12 months (34% on average across all listed technologies). The top three technologies executives plan to implement are 5G-enabled solutions (52%), common enterprise/ERP software (49%), and digital payment platforms.

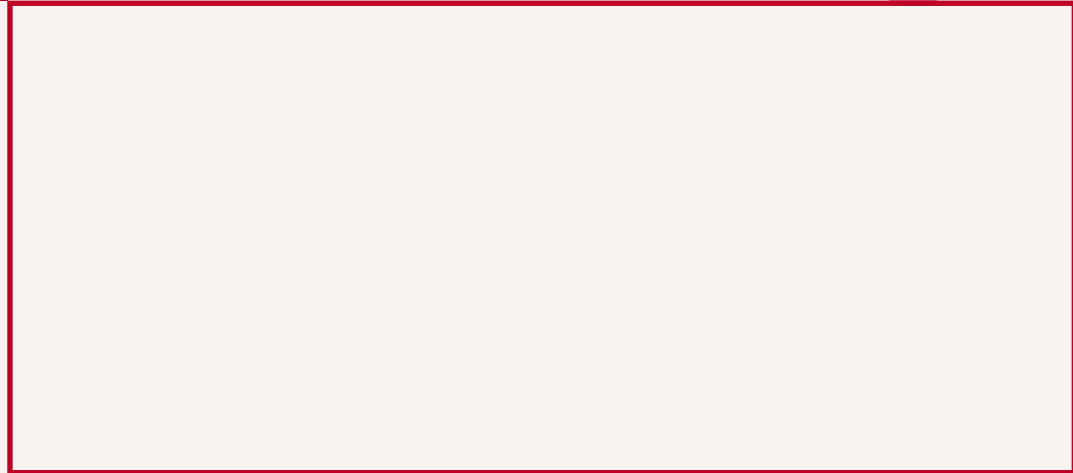
There is also a link between policy and technological readiness. Over time, we may expect to see the SMB market catching up to desirable levels of digital adoption with the aid of suitable incentives to grow and diversify the labour force.

Digital enterprises are well-positioned to bring capital and innovation into the Kingdom

While Saudi Arabia’s digital economy is mostly accessible, more needs to be done to support the state of digital SMBs. Shifting enterprise mindsets through training and upskilling is imperative to create a vibrant and thriving digital ecosystem. At the same time, Saudi Arabia must develop an SMB ecosystem that balances scaling up existing digital businesses along with fostering startups.

In some cases, successful models can be replicated and imported into the Kingdom, but achieving scale is possible only with the right talent and tools. Increasing the presence of technology companies in the national stock market can support these growth motives. Mr Mohand explains, “it is necessary to take these local companies and make them public. This will make them compete against the dinosaurs in the market”. This would provide a national and global signal that Saudi Arabia’s digital economy is dynamic and becoming more mature.

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