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### AWARENESS OF MICROFINANCES IN KINGDOM OF SAUDI ARABIA

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#### ABSTRACT

Saudi Arabia, as many might believe, has paradoxically raised the implicit poverty problem of a rich nation. Such poverty could also be linked to a small degree of commercial interest by its conventional variance in the phrases in the monetary guide. These organizations should benefit from the use of microfinance inventions in order to improve the financial status. This work was therefore done to analyze the view on the microfinance system in Saudi Arabia and to determine whether the concept of microfinance is beneficial to the poor community in Saudi Arabia. This work was carried out on the basis of a quantitative method. The study used the method of the questionnaire to collect data. The sample of this work consisted of 150 individuals from different levels of education. The results of this work showed that a significant portion of the sample population (37.33 %) was neutral to the question whether micro financing helps to reduce poverty. Furthermore, the majority of respondents were found to be neutral on issues related to the benefits of micro-financing in terms of raising income levels, raising social status and enhancing recognition. It is therefore concluded that microfinance awareness is not high among the people in Saudi Arabia.

#### INTRODUCTION

Microfinance is a source of financial services for entrepreneurs and small businesses that lack access to banking and related services [1]. The term includes three things, namely micro-loans, micro-savings and micro-insurance. The basic objective of microfinance is to reduce poverty by eliminating this financial exclusion, creating more jobs and developing self-reliance among the population of the lower strata of the economy [2].

Islamic finance is dictated by Sharia law, which originates from the *Quran*, the Holy Book of Islam, and the *Hadith*, a compilation of prophet *Mohammad's*

sayings which are not present in the *Quran* [3]. Despite the significant expansion of Islamic banking worldwide, the concept of microfinance has not been well developed in Islamic countries [4]. Furthermore, Islamic finance and banking expanded in many countries who wished to operate under these rules. The Islamic finance is based on an alternative of Riba, which is profit and loss sharing (PLS) arrangement. This arrangement is believed to be more equitable and egalitarian compared to interest-based approach [4].

Microfinance is an interest-based concept that leaves most Islamic countries out of their realm as Islam does not support the charging of interest on loans [5]. The work of Murshid et al. [6] showed that Bangladesh was able to witness the establishment of the micro finance and not strictly complying with Sharia law. The country's legal system is based on British Common Law rather than Sharia law [6]. Furthermore, Abdullah et al. [7] found that there is no fundamental difference or inconsistency between microfinance models and Islamic values. The only difference between the two is the concept of *Riba* involved in conventional micro-financing. In addition, there is an opportunity to find alternative micro-financing models that will make it possible to implement the concept in a Sharia-compliant manner [7].

Saudi Arabia is known as a rich country but has undeclared poverty which is very high. Aarts and Roelants [8] reported that there are estimated almost 10 million Saudis living below the poverty line. There is a serious mismatch in financial support to encourage the entrepreneurial activities of people who lack financial strength but are eager to do so [8]. It has been proven worldwide that small and medium-sized enterprises (SMEs) have the greatest potential to support poverty alleviation [9]. However, in Saudi Arabia, small and medium-sized enterprises contribute only less than 40% of GDP, with a financing penetration rate of just 2% [10].

Wilson and Graham [11] discussed the challenges and prospects of the microfinance institutions in Saudi Arabia. They believe that the main challenges facing Saudi Arabia's microfinance institutions are lack of governance, professional governance, internal transparency, high cost and poor targeting of low-income groups. In addition, the lack of proper regulation, supervision and assistance of the apex bank also adds to the problem of microfinance institutions in Saudi Arabia [11].

Thus, there is scope for inclusion of poor people in the mainstream of the Saudi Arabian economy using concepts like microfinance. But Saudi Arabia is a country driven by Sharia law, which forbids interest on loans [12]. In this context it is important to study whether there can be an effective counterpart of the practices of microfinance which is interest-based, in Islamic finance which is Sharia-based. This study therefore investigated the view on microfinance system in Saudi Arabia and determined whether the concept of microfinance is helpful to the poor community in Saudi Arabia.

## **METHODOLOGY**

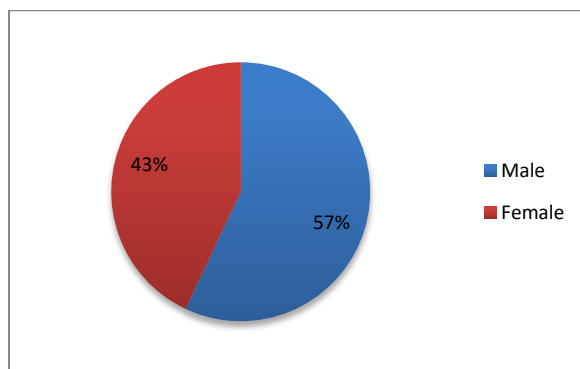
This work was carried out based on a quantitative method. The study used the questionnaire method to collect primary data. A questionnaire containing

demographic information and a set of questions on microfinance, its effects and awareness was prepared. The surveys were distributed to 150 individuals who were selected at random. For the collection of secondary data, caution was maintained concerning the reliability of the information and sources. Authentic sources such as online database like EBSCO Host, Emerald, Science Direct and Social Science Research Networks (SSRN) were extensively used to gather published articles on the subject of microfinance. Besides books related to banking and finance were also consulted to collect authentic and relevant data. The collected data were analyzed using basic statistic and are presented in graphical form.

**Result And Discussion**

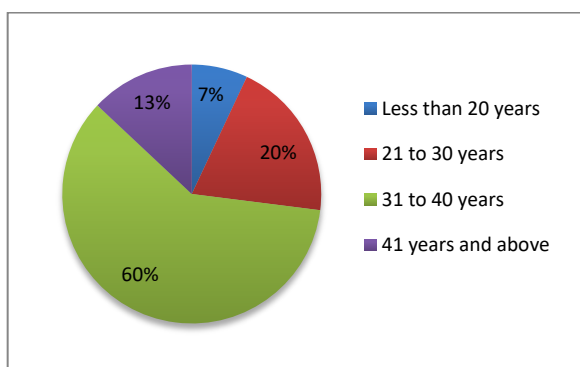
**Demographic Characteristic**

Based on Figure 1, in terms of gender, 57 % of the respondents were male and 43 % were female.

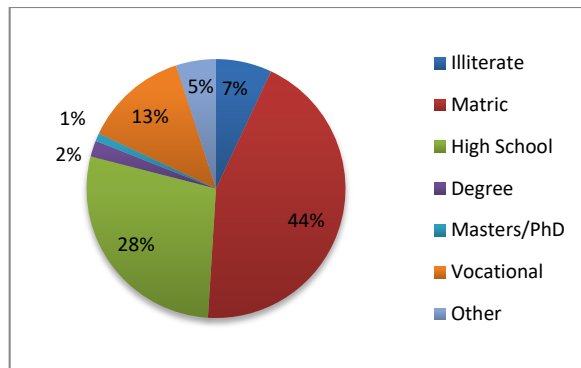


**Figure 1. Gender**

Based on Figure 2, in terms of age, 7 % of the respondents were below than 20 years, 20 % were between 21 to 30 years, 60 % were between 31 to 40 years and 13 % were 41 years and above. Based on Figure 3, in terms of level of education, 7 % were illiterate, 44 % completed Matric, 28 % completed high school, 2 % completed degree, 1 % completed Masters/ PhD, 13 % vocational and 5 % others.



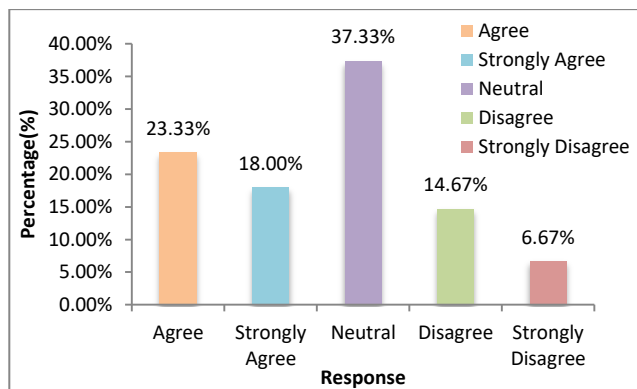
**Figure 2. Age**



**Figure 3.** Level of education

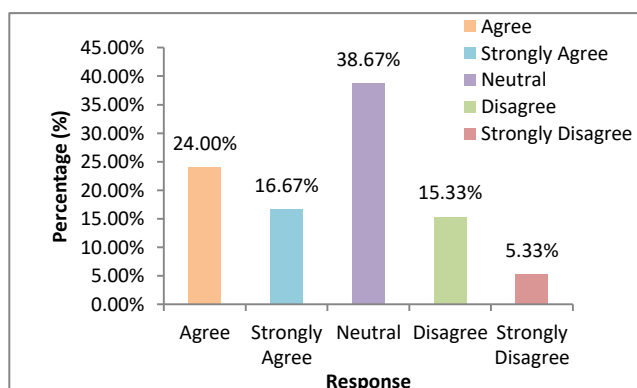
*Questionnaire Analysis*

In this section, the feedback on the question statements is presented. The respondents were asked ‘Does micro financing helps in poverty reduction?’. Based on Figure 4, 23.33 % of the respondents agreed, 18.00 % strongly agreed, 37.33% were neutral, 14.67 % disagreed and 6.67 % strongly disagreed.

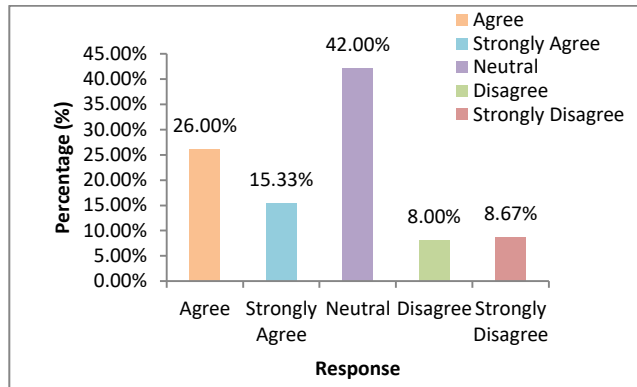


**Figure 4** Micro financing helps in poverty reduction

The respondents were asked ‘Does micro financing contribute to the improvement of income level?’. Based on Figure 5, 24.00 % of the respondents agreed, 16.67 % strongly agreed, 38.67% were neutral, 15.33 % disagreed and 5.33 % strongly disagreed.

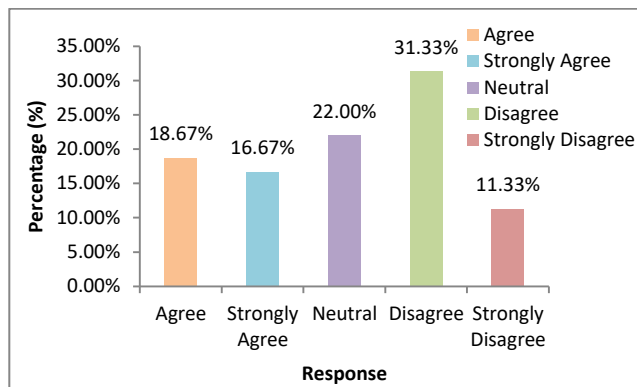


**Figure 5** Micro financing contributes to the improvement of income level  
 The respondents were asked ‘Does micro financing uplifts social status?’  
 Based on Figure 6, 26.00 % of the respondents agreed, 15.33 % strongly agreed, 42.00% were neutral, 8.00 % disagreed and 8.67 % strongly disagreed.



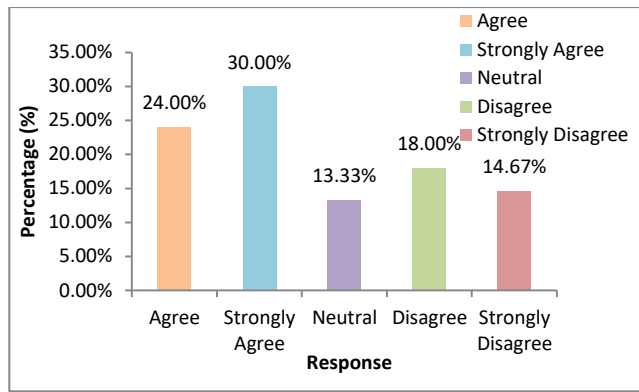
**Figure 6.**Micro financing uplifts social status

The respondents were asked ‘Does micro financing enhances recognition in the family?’  
 Based on Figure 7, 18.67 % of the respondents agreed, 16.67 % strongly agreed, 22.00% were neutral, 31.33 % disagreed and 11.33 % strongly disagreed.



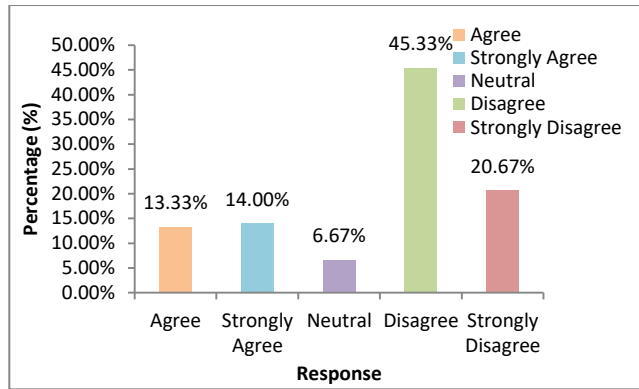
**Figure 7** Micro financing enhances recognition in the family

The respondents were asked ‘In developing countries, people are not aware of micro-financing’  
 Based on Figure 8, 24.00 % of the respondents agreed, 30.00 % strongly agreed, 13.33 % were neutral, 18.00 % disagreed and 14.67 % strongly disagreed.



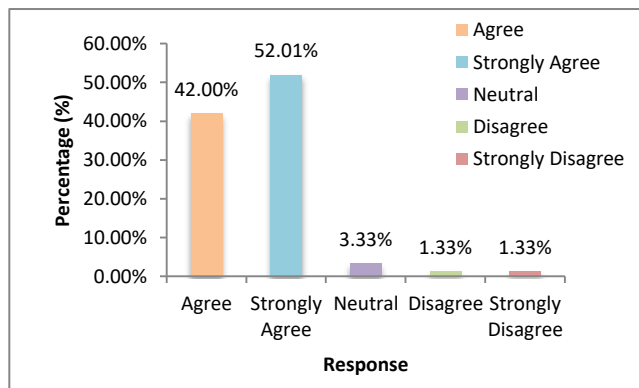
**Figure 8** People are not aware of micro-financing in developing countries.

The respondents were asked ‘Micro-financing originates from Islam and its principles’. Based on Figure 9, 13.33 % of the respondents agreed, 14.00 % strongly agreed, 6.67 % were neutral, 45.33 % disagreed and 20.67 % strongly disagreed.



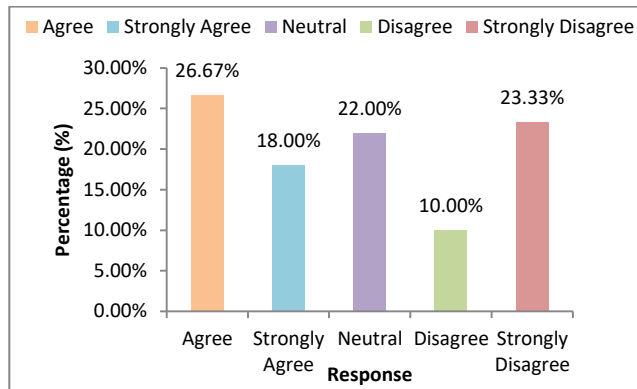
**Figure 9** Micro-financing originates from Islam and its principles

The respondents were asked ‘Micro-financing based on Sharia law is better than traditional micro-financing?’. Based on Figure 10, 42.00 % of the respondents agreed, 52.00 % strongly agreed, 3.33 % were neutral, 1.33 % disagreed and 1.33 % strongly disagreed.



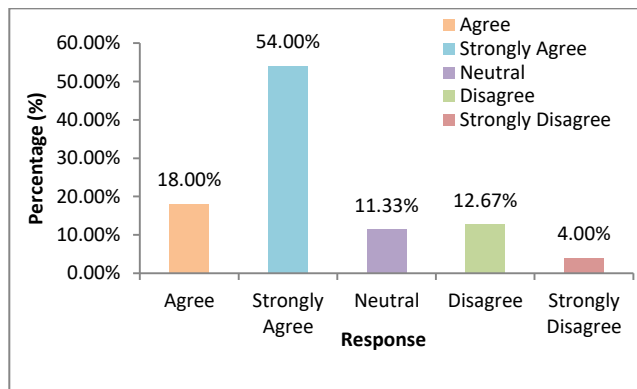
**Figure 10** Micro financing based on Sharia law is better than traditional micro financing

The respondents were asked ‘Saudi Arabia has a strong system of micro-financing based on Sharia law for its poor population?’. Based on Figure 11, 26.67% of the respondents agreed, 18.00 % strongly agreed, 22.00 % were neutral, 10.00% disagreed and 23.33 % strongly disagreed.



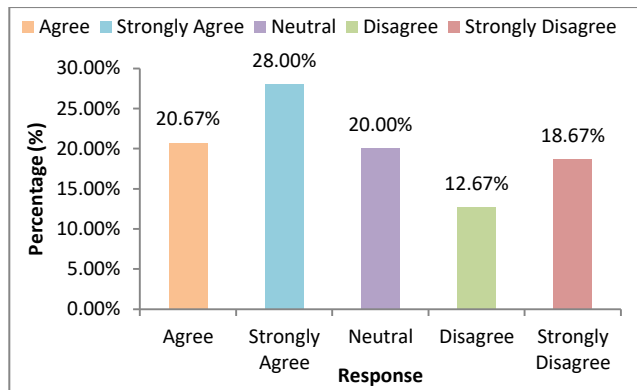
**Figure 11** Saudi Arabia has a strong system of micro financing based on Sharia law for its poor population

The respondents were asked ‘Developing countries need to spread awareness about micro-financing among its population?’. Based on Figure 12, 18.00% of the respondents agreed, 54.00 % strongly agreed, 11.33 % were neutral, 12.67 % disagreed and 4.00 % strongly disagreed.



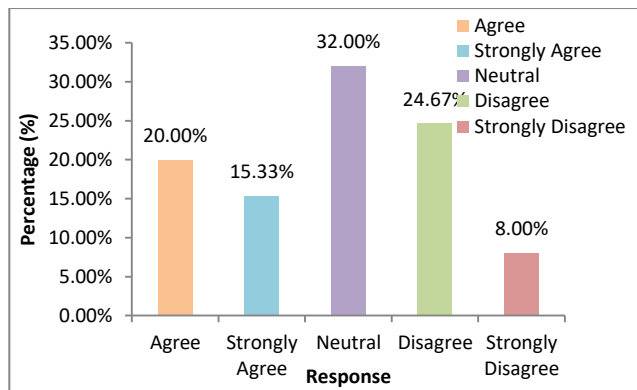
**Figure 12** Developing countries need to spread awareness about micro financing among its population

The respondents were asked ‘Micro financing can cause a higher level of indebtedness’. Based on Figure 13, 20.67 % of the respondents agreed, 28.00 % strongly agreed, 20.00 % were neutral, 12.67 % disagreed and 18.67 % strongly disagreed.



**Figure 13.**Micro financing can cause a higher level of indebtedness

The respondents were asked ‘Micro-financing institutions often support poor entrepreneurs with needed decision-making skills and managerial practices’. Based on Figure 14, 20.00 % of the respondents agreed, 15.33 % strongly agreed, 32.00 % were neutral, 24.67 % disagreed and 8 % strongly disagreed.



**Figure 14** Micro financing institutions often support poor entrepreneurs with needed decision-making skills and managerial practices

**Overall Discussion**

The demographic profile of the sample of 150 individuals consisted of 57 5 males and 43% females, making it an almost gender neutral sample. Sixty percent of the sample size belonged to the age group of 31-40 years and 20 percent to the age group of 21-30 years, which means that the majority of those surveyed are in the early stages of their youth and are in the most productive and enthralling phase of their lives. As far as the educational level of the respondents is concerned, most of them either studied until enrolment or passed high school. The study also found that 13 per cent of people who have undergone some kind of vocational education and 7 per cent are illiterate. Thus, this study has revealed the views of those who are not considered highly educated and generally aware of them.

A significant section of the sample population is neutral (37.33%) to the question whether micro-financing helps to reduce poverty, which indicates that either they have never approached any microfinance institution or are not



aware of its benefits. 23.33 % percent of the people agreed and 18 % strongly agreed. Interestingly, 14.67 % of people expressed their opinions against this statement, which is another sign that awareness of microfinance is not high among the least educated young people in Saudi Arabia. This is agreed by Albasri et al. [13] where it was stated that most people in Saudi Arabia are not aware of the benefits of micro finance and its role in reducing poverty.

With regard to questions that sought to understand the opinion of the sample population on the benefits of micro-financing in terms of raising income levels, raising social status and enhancing recognition, it was found that the majority of respondents were neutral, which again reinforces the premise that micro-finance awareness is low in the country. This is inline with the work of Hidayat and Alhur[14] where it was reported that awareness of micro finance and other financial related matters is very low among the population in Saudi Arabia.

Furthermore, almost half of those surveyed strongly agreed that people in developing countries are not aware of micro-financing and this was agreed by Donou-Adonsou and Sylwester [15]. When asked about the link between microfinance and Islamic principles, 45 per cent of respondents disagreed. They believe that microfinance is a concept based on charging interest on the sum of money lent, which is contrary to the rules of Islam. On the same line, 94 % of those surveyed believe that microfinance, or any kind of finance that is a Sharia complaint, is better than the traditional form of financing.

The view that Saudi Arabia has a robust micro-financing system based on Sharia law for its impoverished population is widely shared and this is in accordance to the report of Cattelan [16]. In addition, a large section feel that it is essential to spread awareness of micro-financing in developing countries. This is agreed by Donou-Adonsou and Sylwester [15], as it was stated that the communities in developing countries require more exposure on financial matters such as micro financing. There seems to be a negative outlook on microfinance in Saudi Arabia, as the respondents believe that micro financing can lead to higher levels of debt. When asked about the role of microfinance institutions in supporting poor entrepreneurs with the necessary decision-making skills and management practices, 32 per cent of the respondents seemed unaware. And astounding 24.67% thought they weren't playing such a role and disagreed.

## CONCLUSION

In this work, the view on microfinance system in Saudi Arabia was analyzed. The findings showed that young people in Saudi Arabia who are not educated lack knowledge and understanding of microfinance as a system that can improve their ability to lead a better life. Rather, there is a negative feeling about it as a system that is contrary to the rules of Islam. In addition, there is concern that microfinance could lead to an increase in debt. In addition, questions are also raised about the methods used by microfinance institutions to recover loans and the role that these institutions should play in providing risk management skills to small entrepreneurs. The authors recommend that seminars and lectures be organized to let people know what

microfinance is, how it relates to the principles of Islam, how Sharia microfinance works and, finally, how it can benefit.

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