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DEVELOPMENT OF ALTERNATIVE FINANCE IN INVESTMENT IN SAUDI ARABIA

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ABSTRACT

Finance is expanding in terms of markets and opportunities due to rise of the globalization. Not only has it affected the places within the national boundaries but has also reached an international point where everyone is affected by the decisions and affairs of other people. Most of the companies and banks have gone public in foreign countries as well due to which any change in choices can influence individuals and stakeholders. This research will highlight the alternative finance development in the KSA. The methodology of this research involves literature survey and analysis carried out for the understanding of alternative finance. The findings showed us that Saudi Arabia is also evolving in the field of alternative finance but gradually. The research takes the different options available in the alternative finance.

INTRODUCTION

Over the years, finance has grown widely and is expected to grow even more in the future with rising markets and opportunities nearby [1]. There are numerous ways; it is setting examples by bringing in more and more areas into expansion. Finance is basically defined as, "The management, creation and study of money, banking, credit, investments, assets and liabilities that make up financial systems, as well as the study of those financial instruments" [2]. According to this definition, it is related to the management and building up of money and is the advanced level of accounting that can bring into relation the different types of banking, investing in different sections, to study about previous crises, to protect one from upcoming crises by taking preventive measures and to help people put their money in different areas by allocating it in unlike sectors [3].

Finance and accounting can be divided into four main areas – public accounting, corporate accounting, corporate finance and investment banking [4]. Public accounting is done for the public as suggested by its name like tax, auditing, fraud and IT systems. This is followed by corporate accounting which is handled by corporations for managerial accounting, auditing and taxes. The higher level is that of corporate finance where one can do managerial accounting and treasury, project management through NPV, IRR, payback period etc and lastly investment banking where private equity, merger and acquisition and venture capital [5]. More opportunities and expansion are going into the area of investment. This is relatively due to the reason that the sectors of investment are growing every time. It can be divided into three different levels based on its use and position in the markets like personal, public and corporate [6].

It also plays a tremendous role in the financial crises and in calculating and declaring companies and even countries that go bankrupt based on the equity they hold, liabilities they are due to pay and settle and the capital they have [7]. With the development of technology and globalization, finance is setting foot in the new areas like that of the alternative finance. Not only in the practice but also the researchers are developing alternative finance .

The idea of alternative finance that it is financing from other external sources rather than banks or securities [8].It is developing in many countries including the developed and developing countries. There are more established options in developed countries like in the USA, the UK and Australia and in developing countries like that of China [9].

Apart from that, alternative finance as a concept still remains somewhat amorphous [10]. It has breaks in it and there are not many research articles about this topic to familiarize the audience with it except for the online platforms that it has set up on its own. Cabral and Mata [11] have reported that the finance is itself building constraints against these sources of alternative finance.

Hsieh and Klenow [12] have identified other factors that serve as constraints in building up the finance alternatively like that of politics, credit constraints, etc. Lack of technology and monitoring system is another barrier standing in the way of development of alternative finance.

Allen et al. [13] has mentioned in their research that one needs to look for alternative sources if he/she runs out of the traditional ones or are having problems or hindrances with that of the issuing capital or getting loans from the bank. The capital of the market in the USA saw tremendous increase due to the availability of alternative finance options. Even China's financial market and economy is reaching heights of success due to their innovative methods in finance that are different than that of the traditional methods of financing.

Thus, this work evaluate the options in alternative finance options in investment that are being developed in Saudi Arabia. This research will assist us in looking into the new areas of finance that will be studied in relation to that of Saudi Arabia. It will try to analyze how the new areas of finance have set their positions in and the performance they have brought about in financial sectors in one of the GCC countries; Saudi Arabia.

METHODOLOGY

The methodology of this research will show the data collected from all across the different sources showing out the development of alternative finance in Saudi Arabia. Saudi Arabia is one of the established markets in the world. It is growing in terms of numerous opportunities and is opening up to bring about changes in the market and drive innovation in the financial world and attract different investors from different parts of the world. But it is still struggling with the development of alternative finance and its opportunities.

Sample is used to get the data of a specific source to get a clear concept of the topic of the research. It is usually done to refine the content to the necessary details so that the audience does not confuse itself while reading and trying to analyze the facts of the research. The sample of this data is reduced to studying about the alternative finance present in Saudi Arabia. This research will cover the options present under alternative finance and then link the study with that of Saudi Arabia's alternative finance.

With the globalization and the technological advancement, the financial options have become vast and wide in range. Apart from investing and other options that are direct, the financial world has come up with new ways of finance that are gaining worldwide popularity due to the volatile nature of the other sources of investment and financial options. The alternative finance has come up with many options but this research will only cover two topics that are concerned with that of the development in the alternative finance. They are reported as follows:

Crowd funding

Online marketplace lending

The two most common sources are crowd funding and online marketplace lending and hence will be discussed in this research paper. As the literature suggests, the most common form is crowd funding that takes about most of the market share in terms of finance.

This research is based upon the data collected from across the wide range of different research articles and to conduct in – depth literature survey to gather data suitable for the research. The methodology of the research is used to basically design and shape the research provided that it gives us beneficial information in relation to the given and assigned topic. As one knows that there are different types of methods and different types of data that exist in the world of research. The different methods are quantitative (statistical/numerical), qualitative (descriptive) and mixed method (a mix of

both quantitative and qualitative research). The data presented in the research are mostly primary (collected on own) and secondary (from different authors and different sites).

Result And Discussion

Over the years, Saudi Arabia developed as a country with additional investment opportunities rather than just the investment in the oil and real estate industry. We are looking at it forwards to the development and establishment of alternative finance in Saudi Arabia. Figure 1 shows the types of crowd funding in Middle East.

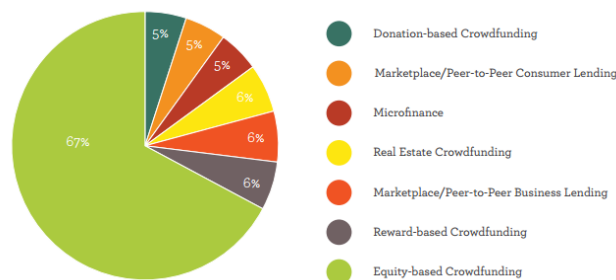


Figure 1. Types of crowd funding in Middle East

The market is divided as follows in the area in the Middle East. They have accepted the options as well and are implementing them on a large scale most of them collectively responding to equity crowd funding. They want to invest their capital in the crowd funding business. Figure 2 shows challenges faced by alternative finance. It was reported that such financial developments have a positive impact on the development of SMEs by providing alternative financing options. SME’s are taking alternative finance options to support their business [14].

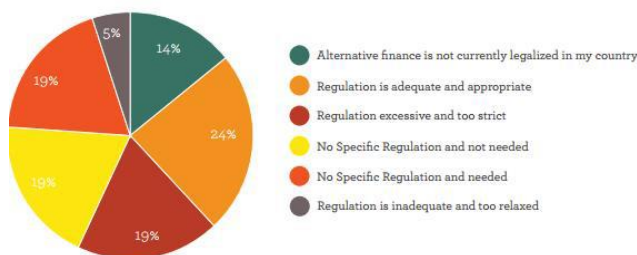


Figure 2 Challenges faced by alternative finance

Participation of females can be seen as well in the alternative finance department. The women in the Middle East are also becoming active participant in the alternative finance. Figure 3 shows participation of females in alternative finance.

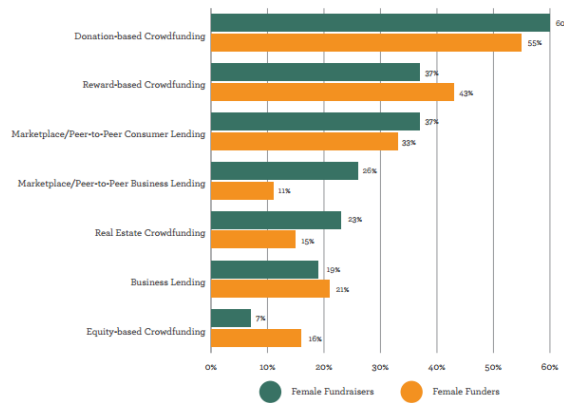


Figure 3 Participation of females in alternative finance

Saudi Arabia has also started reactivating the dormant bonds to come up with the loss of financial crisis caused by the drop in oil prices and the yields from them will be substantially high. Figure 4 shows participation of females in alternative finance.



Figure 4.Participation of females in alternative finance

CONCLUSION

Alternative finance has developed over the few years. Saudi Arabia is relatively new to the countries that are already advanced in the market. The female participation is low and the options provided are also low. This is adapted from the external sources and has been started by the different investors due to the fund raising activity on a short notice. Saudi Arabia still needs to develop alternative finance and come up with definite strategies and allow the options in alternative finance to be a part of the financial system as most of the SME’s are attracted towards the option of alternative finance as they offer more benefits and are more beneficial than the ones provided by the banks and other financial structures. The limitations to this research are lack of studies done individually in Saudi Arabia, less empirical evidence in relation to the topic assigned and moreover, there were fewer sources available in relation to the alternative finance. The authors would recommend the future researchers to therefore develop a proper study and gather collective

information and create awareness among people in association to the concept of alternative finance.

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