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AWARENESS OF MICRO-FINANCE IN DEVELOPING ECONOMIES AND ITS IMPACT

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ABSTRACT

The growth in micro finance segment is mainly grounded on the hypothesis that the deprived possess the ability to achieve returns generating financial actions but are inadequate due to the deficiency of access and insufficient endowment of credit, savings and insurance conveniences. In this paper we will look into the aspect of micro-financing in Saudi Arabia and try and understand what role it can play in the overall development of the economy there. The research paper will focus mainly on the SMEs of Saudi Arabia. Mainly new companies will be considered to identify the financial challenges faced by the entrepreneur in KSA. According to the survey it is observed, microfinance plays a crucial role in creating a diversified and flexible economy with effective participation of private sector in the economic development of the nation.

INTRODUCTION

The growth in micro finance segment is mainly grounded on the hypothesis that the deprived possess the ability to achieve returns generating financial actions but are inadequate due to the deficiency of access and insufficient endowment of credit, savings and insurance conveniences. The micro financial facilities takeover the several financial requirements of the deprived, and presently microfinance is the foremost constituent in reduction of poverty and financial reinforcement policies [1]. As a conception, microfinance focuses more on the inducements that initiate effective enactment in the situation of minor dealings and with enormous numbers of consumers. Furthermost, the organisations in microfinance are mainly based on group-based imparting methodologies and hence decrease the organisational costs of collecting info, and execution of credit dealings, agreement design, including loan reclamation [2].

Since the last more than 30 years, the concept of microfinance has been put out as an important policy and intervention programme aimed at poverty reduction and implementing the 'bottomup' economic and social development. The operational concept of microfinance is underlined by providing provisions for tiny loans, offered to the poor, with the aim of helping them to establish or in expanding one or more income-generating activity. In this way they the poor are expected to get out of poverty [3].

The work of Dr Muhammad Yunus in Bangladesh was the pioneer for making the microfinance movement a global one and initiated the movement in Bangladesh during the late 1970s [4]. However, during the early stages of formation of microfinance institutions (MFIs), these institutions majorly depended on government funding and donations from large institutions [1].

The major thrust came in the 1980s when a change in the environment of political and ideological world that microfinance model expanded [5]. At this time the focus of microfinance institutions was driven by rising market principles and there was a growing emphasis for financial sustainability and requirement to take away microfinance programmes away from the long-term donor support [5]. Instead of imposing an extra tax burden on the others, the concept was that the poor should be able to pay the complete cost for any support they received. Hence private ownership incentives for profit and by enhanced commercialization drove the push for MFIs to try and cover for their own costs. Eh interest rates were also market bed. The assumption was that self-sustainability would be achieved by market forces and profit generation [2].

One the other hand, microfinance is often viewed as a means for fighting poverty particularly in developing economies, as well as a tool to fight post-conflict reconciliation. Suitable conditions had been created in many countries and implemented them to bring out microfinance as an asset and as a form of additional capital to reduce poverty [6]. However, this smaller branch of global finance made its mark on the world after Yunus and his organization, the Grameen Bank, won Nobel Peace Prize in 2006 [4]. This one incident ensured that microfinance was being regarded as a means for poverty alleviation and employed to sooth economies from post conflict impacts [7]. Hence microfinance was incorporated into many of the smaller and growing economies with these two major aims [8].

However, there is another aspect of microfinance that is often neglected or is not brought forward to an adequate extent. The growing importance being accorded to small and medium enterprises (SMEs) in many economies around the world has however brought out one serious problem that is hampering their growth, especially in aspiring but growing economies. SMEs face the challenge of financing or even of refinancing because of the nature of their birth and because it is difficult for them to obtain loans and credit from the conventional commercial banks. Therefore, in such countries, there is always a credit crunch for SMEs [9].

The introduction and the further development of microfinance is one of the responses to this challenge of credit and lack of options for financing for the SME sector [10]. In any economies here the institutions of microfinance have grown and prospered, they are referred to as financial services that are made available for the people belonging to the middle and the low-income groups who cannot obtain a credit from traditional banks. Researchers say that microfinance and the concept of loans to SME sector, has the potential to strengthen that sector and encourage induction of best practices amidst owners and operators of SMEs [10].

And there is another problem also. Despite the fact that the channels of microfinance have diversified and many supply channels now have come up, in most countries where they are operational, the volume of supply of credit is limited. Some are even in their experimental stages of financing the SME sector [11].

If the demand side of micro-financing is considered, there are varied profile of people who are in need of such mini finance and often include laid-off workers in the urban areas, rural households, and small and micro-entrepreneurs. On the other hand, the range of services expected and demanded from microfinance is also large and varied and range from microcredit, to micro savings to micro insurance, and even investment in small projects [12]. In this paper we will look into the aspect of micro-financing in Saudi Arabia and try and understand what role it can play in the overall development of the economy there.

METHODOLOGY

In this work, the examination requires legitimate apparatuses and procedures which investigation the gathered information. For this situation quantitative research technique is utilized to pick up proof to help the destinations of the investigation. In this exploration, an investigative methodology is utilized to accumulate data about the set destinations. The interpretative procedure of research philosophy will accomplish the goals in regards to the job of microfinance in the financial improvement of KSA. The exploratory research plan in this setting gives setting up of concordance between the examination question and goal of the investigation. The essential information is gathered from poll overview managed are picked utilizing the irregular testing procedure to choose SME administrator. The information utilized for examination are gathered from the reactions of SME administrators and nearby government record

Research Approach

A combination of interpretive and positivism approach is employed in this case to gain productive outcome from the data analysis. The structured questionnaire survey with interpretive and positivism approach helps to explore the study in order to find out what happening in a particular situation. The feedback from the respondents is recorded in order to gain statistical overview of the responses. In order to conduct quantitative research method, questionnaire survey tool is used in this research process. To identify and

understand the influence of microfinance in developing countries and its important impact on the employees, a proper questionnaire is needed [13]. In addition, for the secondary source of information, relevant text and academic literature is reviewed to make the research article successful. The scope of the research is mainly restricted to new companies to identify the financial challenges faced by the entrepreneur in KSA. In the questionnaire, questions are designed according to the objectives of the research which are helpful to solve the research problems.

Research Philosophy

Research theory makes a noteworthy effect on the general research venture. The theory choice is a noteworthy advance to arrange the examination. The specialist gathers a few sorts of data and essential information from different respondents. Research logic organize the entire hypothesis and distinctive data exhaustively. Three sorts of rationalities are distinguished, for example, positivism, interpretive and authenticity. As positivism reasoning is compacted with fresh out of the box new information that will be taken from helpful sources. Be that as it may, the positivism reasoning will be less handy is relative with interpretive and authenticity for making additional data and delineation of the authenticity of the subject correspondingly [14]

Population and Sampling

In any economies here the institutions of microfinance have grown and prospered, they are referred to as financial services that are made available for the people belonging to the middle and the low-income groups who cannot obtain a credit from traditional banks. Researchers say that microfinance and the concept of loans to SME sector, has the potential to strengthen that sector and encourage induction of best practices amidst owners and operators of SMEs. Therefore, in this case a sample population size is taken 100 which includes employees and managers of the SMEs of KSA. The sample population is selected using random selection procedure considering the interpretive nature of the study.

Data Collection Method

Data collection is a systematic and all around assessed strategy with the end goal to assemble the required information from a decent variety of causes to get a complete and legitimate picture of the learning. There are two kinds of information gathering techniques are utilized in the essential and auxiliary information accumulation, for example, Qualitative information gathering and Quantitative information gathering [15]. The subjective sort of information accumulation technique is for the most part includes social part of the respondent. This kind of strategy primary accentuations on meetings, sentiment, shadowing and concentrate bunches on obtaining the helpful information in order to create the arrangement of the given research issue. Moreover, subjective information gathering strategies more often than not enhance the nature of quantitative information; therefore, the data which is gathered through this strategy incorporates more important data. Therefore, subjective information accumulation strategy is exceedingly founded on the

expected of deductive methodology [16]. Quantitative information accumulation technique contains the utilization of logical and factual figure to dissect the gained information. This kind of information accumulation is for the most part utilized in the essential information gathering strategy. This sort of strategies for the most part led on the overview instruments with the end goal to gather the helpful which will resolve the given research issue. Be that as it may, this information gathering technique is incredibly founded on estimating of an inductive methodology. The Quantitative information gathering strategy will be more suitable for this specific research destinations which centers. on impact of microfinance in creating nations and difficulties looked by the associations or SMEs to make continue improvement [17].

RESULT AND DISCUSSION

The microfinance gives emphases on the inducements that initiate effective enactment in the situation of minor dealings and with enormous numbers of consumers. The microfinance involves varied and range of services such as microcredit, micro savings, micro insurance, and investment in small projects. There multiple channels of microfinance in KSA which are operational however the volume of supply of credit is limited. In order to reboot the economy of KSA, the government needs to transform their economic activity by extending the opportunity through effective micro financing. The main objective of this research paper is to understand the influence of microfinance on the SMEs of KSA. The analysis of the responses of the survey will also help in understanding the challenges and issues faced by the microfinance in sustaining development. The analysis of the responses of the sample population is described as follow.

According to demographic background of the respondents participated in the survey process as shown in Figure 1, 35.71 % of the sample population are undergraduate, 50 % of the respondents are graduate and 14.29 % of the sample population are post graduate. The intention of analysing the educational qualification is to understand the ability of reasoning the question asked in the process survey. In this case, more than 60 % respondent are graduate or post graduate which show the information gained is based on quality reasoning and perception. The micro finance involves complex methodologies and activities which needs to understand effectively to answer the questions of the survey questionnaires.

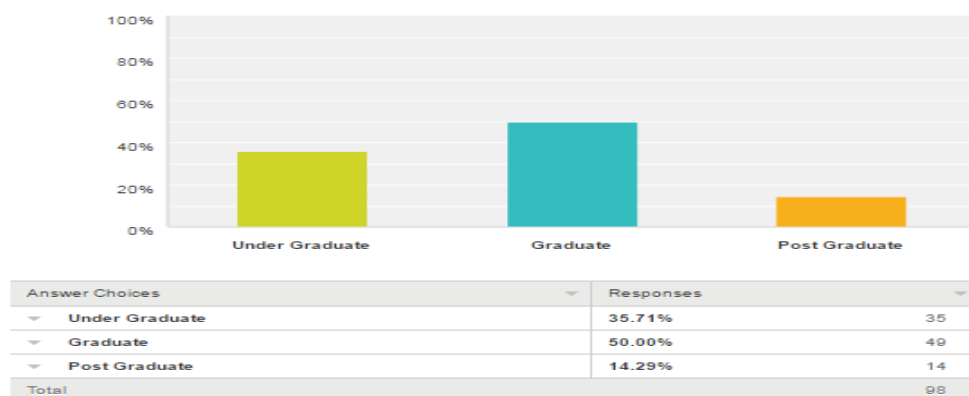


Figure 1. Educational Qualification Of The Respondents

In order to understand the influence of microfinance in process of development of SMEs in KSA, primarily is essential to understand the business process of SMEs and the integrated approach of microfinance for all round development of the organization and their employees. Here, question was asked about the facilitations of training and education for professional development, based on Figure 2, 44.33 % respondents said their organization provides training and education on regular basis. 31% of the sample population said training and educational provisions are rarely arranged for their professional development. Only 12.37 % of the population said it is provided most frequently and 11.34 % said their organization arranges no such training and educational facilitations. Therefore, from the survey, it is clear that the employees of SMEs in KSA are lacking of effective microfinance support for their professional development. One of the objectives of microfinance is to provide social intermediation services like self-confidence development, and training members, financial literacy and business management. The graphical presentation of this particular criteria will help in understanding the current scenario of training and education for professional development in SMEs in KSA.

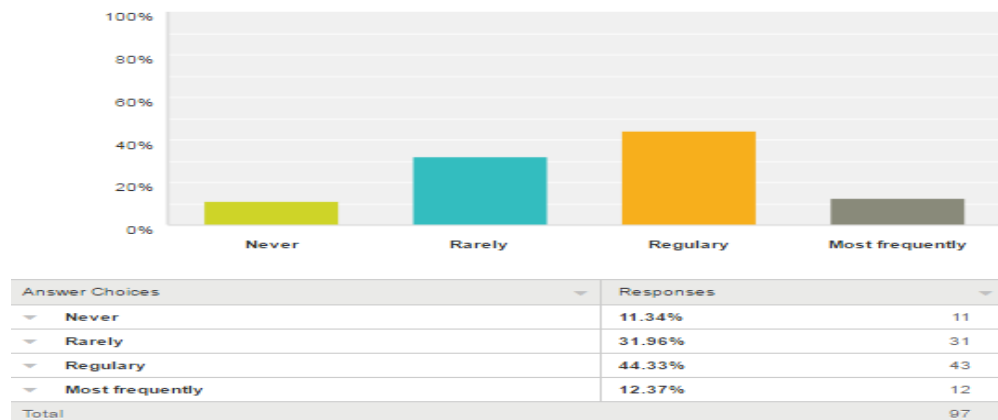


Figure 2. Training And Education For Professional Development

According to the survey, it is observed that SMEs of KSA is not getting effective micro financial support for their overall development process. Based on Figure 3, around 47 % of the respondents said their organization receives microfinance on request, 29% respondent said rarely and 6.32 % of the sample population said they receives microfinance support most frequent. On the other hand, 16.84 % of the respondent said their organization never received any support from microfinance institutions. And it is difficult for them to obtain loans and credit from the conventional commercial banks. Therefore, in order to gain sustainable development and profitable business, SMEs of KSA requires effective support of micro-finance. However, the dynamics that determine entrepreneurial success are varied even though it might seem that credit is the primary determinant for success of entrepreneurial activity.

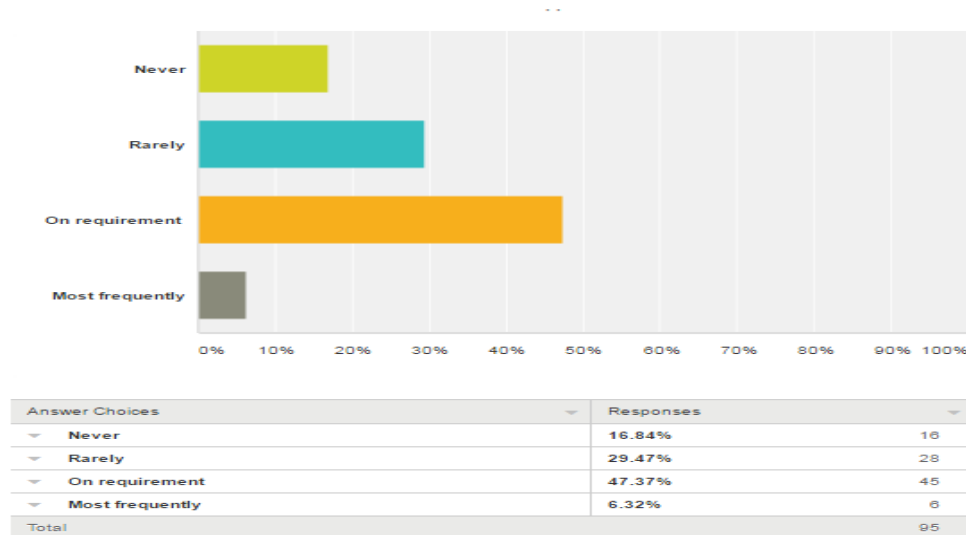


Figure 3. Receives Micro-Finance According To Requirement

Advanced technology in the operational process is one of the major requirements for effective business development and sustaining growth in this intense competitive and globalized situation. The start-ups and SMEs in KSA are finding extensive problems in securing their profitability and therefore searching for innovative approaches to withstand the pressure of the market. The adoption of advanced technology helps in making use of situations, skills or contact some other push factors, is entrepreneurial people manage to find ways and means to generate income. According to the survey as shown in Figure 4, 71.13 % of the sample population said their organization have adopted new technology and rest 28.87 % of the respondents said their organization have not adopted any new technology in their business process. The SMEs of KSA requires effective micro-financial help to enhance their technological aspect. The graph above will help in understanding the existing situations of the start-ups and SMEs of KSA.

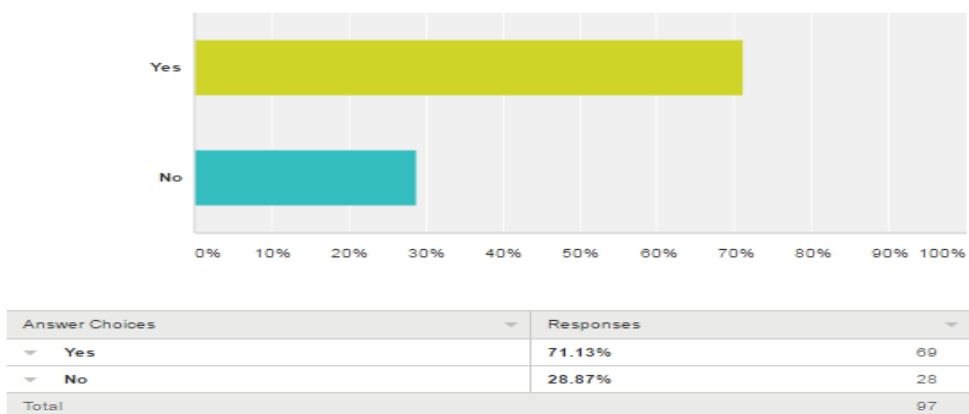


Figure 4. Receives Micro-Finance According To Requirement

The extending business process is essential to gain competitive advantage and to sustain development. The microfinance helps in extending business process of SMEs and start-up for the long-term development process. According to

survey based on Figure 5, the 67.35 % of the sample population said their organization has extended their business process in last 5 years, rest 32.65% respondent’s organization are not able to extend the business in last 5 years. The SMEs of KSA are severely influenced by the intense competition in the market. Therefore, the microfinance institution of KSA should look forward in extending business process of SMEs and start-ups.

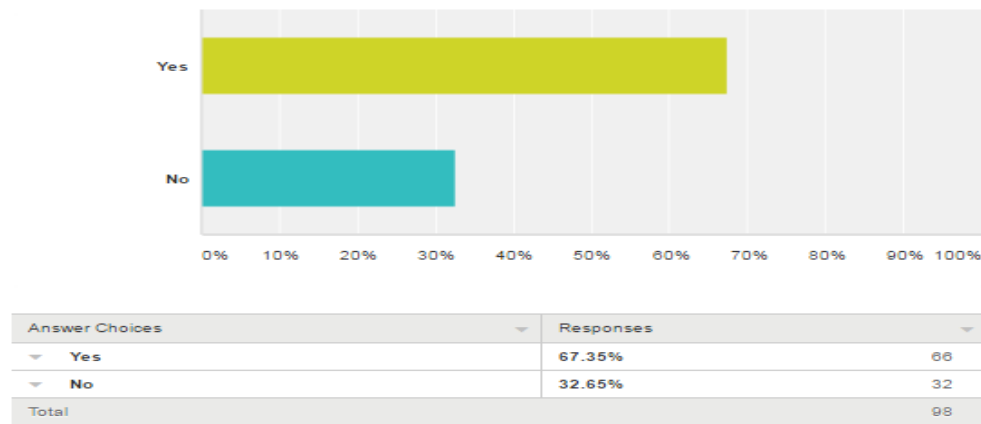


Figure 5. Extending Business Process

The intension of microfinance institutes is to develop organizations or start-up financially, technologically, professionally and socially. The working with joint venture provides effective way to extend business operation and to enhance leadership approach in this intense competitive market. Based on Figure 6 When responded asked about the joint venture approaches of their organizations, 71.43 % of the respondents replied that their firms effective working with organizations for the overall development process of the nation. On the other hand, 28.57 % of the sample populations replied that their organization never involved with any jointly operations. Therefore, it can be said that, around one third of the organization still did not engage with other organization for the developmental approaches. The government and other microfinance institutions should take initiatives to make organization to involve in joint ventures with other organization for effective sustainable development.

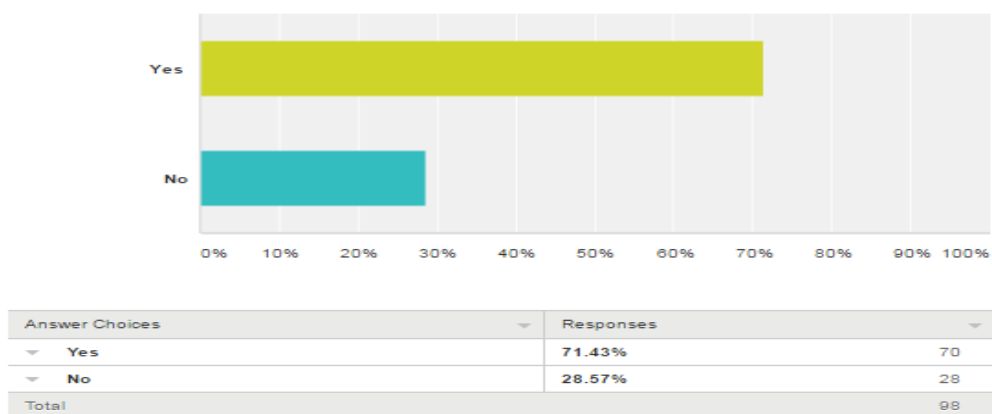


Figure 6. Firm Operate Jointly With Other Organization

According to survey it found that maximum of the respondents replied that their firms have introduced new products or services in last 5 years and adopted new business policies which influenced their efficiency and outcome. Based on Figure 7, around 60 % of the sample population showed positive attitude for their firm’s performance in last five years which show microfinance is playing effective role in the development of SMEs and startups in KSA.

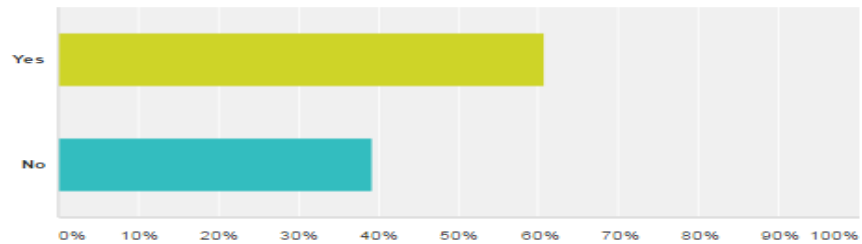


Figure 7. Firm Introduce New Product Or Service In Last 5 Years

According to the survey regarding influence of micro-finance to enhance business growth and profitability based on Figure 8, 30.61 % respondent strongly agreed and 58.16 % agreed with the given statement. Whereas 9.18 % and 2.04 % disagreed and strongly disagreed with the condition. Therefore, it can be said that operational concept of microfinance is underlined by providing provisions for tiny loans, offered to the poor, with the aim of helping them to establish or in expanding one or more income-generating activity.

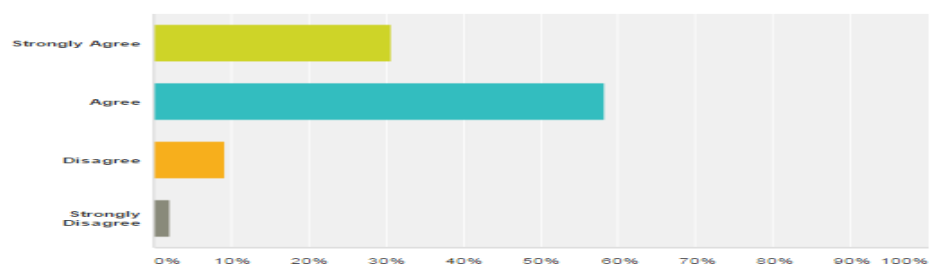


Figure 8. Micro-Finance Helps In Enhancing Business Growth And Profitability

CONCLUSION

As indicated by the overview it is watched, microfinance assumes an essential job in making a broadened and adaptable economy with successful interest of

private part in the financial advancement of the country. Unmistakably microfinance gives a dynamic methodology in making information-based economy through advancement and change as per advertise needs. As indicated by the study, the microfinance is assuming a huge job in financial development and improvement of Kingdom of Saudi Arabia. The SMEs of Kingdom of Saudi Arabia have undiscovered potential can be misused by wiping out the difficulties looked by the SMEs. As indicated by the current circumstance, the SMEs of KSA does not have enough ability or efficiency to continue monetary advancement process. The real difficulties behind the wasteful execution of SMEs in KSA are absence of capital life partner and credit. The microfinance establishments of KSA have received here and now approaches and compelling methodologies to enhance the execution of Small and medium endeavors.

Technology is one of the crucial requirements for effective business development and sustaining growth in this intense competitive and globalized situation. The start-ups and SMEs in KSA are finding extensive problems in securing their profitability and therefore searching for innovative approaches to withstand the pressure of the market. The adoption of advanced technology helps in making use of situations, skills or contact some other push factors, is entrepreneurial people manage to find ways and means to generate income. The intension of microfinance institutes is to develop organizations or start-up financially, technologically, professionally and socially. The dominant non-profitable SMEs groups are running on either government spending or on other funding which is continuously affecting the economic growth of the country.

As per an overview, the destitute individuals endeavor to improve their living and financial position through profit from their very own business. The little and medium measured business associations with strong business condition adequately help in improving the living condition with low pay and furthermore make immense work open doors for the nearby populace. Aside from this, SMEs assumes a basic job in encouraging development and wage age for the country. The economy of Kingdom of Saudi Arabia is for the most part subject to the generation of oil as it gains 25.6% of oil switches on the planet. The Small and Medium endeavors go about as a foundation in accomplishing more adjusted development considering the primary concern of the salary pyramid. Be that as it may, notwithstanding strong administration, the execution and commitment of SMEs to monetary development procedure of KSA is slacking some place.

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