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CHALLENGES ISLAMIC MICROFINANCE INSTITUTIONS FACED IN SAUDI ARABIA

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ABSTRACT:

In the recent years, the popularity of Islamic finance has enhanced due to its the remarkable advancement. However, one of its subsectors, Islamic microfinance, requires further improvement in implementation, particularly in Saudi Arabia. This is because, at the moment, Islamic microfinance is facing enormous challenges and needs to be identified for future development purposes. Therefore, this study was done to analyze challenges facing Islamic micro-finance in Saudi Arabia. This study was executed using quantitative research method. The sample populations of this work were employees in Islamic Development Bank (IDB) and the sample size were 20 employees. Data collection was done using survey questionnaire. The findings of this work have shown that Saudi Arabia is applying IMF projects effectively and the financial institutions are putting effort to develop IMF projects in Saudi Arabia. Nevertheless, the findings of this work have shown that IMF projects are hard to be applied in Saudi Arabia. This is due to lack of knowledge and background of microloans for those who take the loans. Furthermore, the findings have shown that government policies and lack of awareness of micro-loans in Saudi Arabia is presenting as a challenge. Thus, the respondents have recommended in having special workshops for micro loaners.

INTRODUCTION:

Islamic finance has improved its enormous strength as a result of impressive developments in recent years. Islamic finance, as it is known, has different aspects from conventional finance, although both are widely used worldwide [1]. Microfinance is one of the much-needed financial sectors to improve.

Microfinance has been highly developed over the last 30 years, which can be seen as sustainable solutions to poverty [2].

In the simplest terms, microfinance is: providing loans to poor people. It is considered to be a solution for non-credit worthy people. MF is concerned with financial services for poor people, which aim to increase their incomes [3]. The term microcredit refers to the making of small loans to poor people in underdeveloped countries. Sometimes the sums are only in minimal amount. The borrowers are small farmers, shopkeepers, craftsmen and other small business companies. Conventional microfinance is interest-based; it helps to increase income and, in the same way, it works as a very good way to raise money from interest [4]. Various studies have discussed microfinance projects as a "poor portfolio" in the world, while other studies have shown negative aspects of microfinance and microcredit as such interest-based financing [5].

According to Khalid and Kamaruddin [6], Islamic microfinance is a Sharia (interest-free) financial system. Islamic financing systems have moral and ethical characteristics that can efficiently motivate micro-entrepreneurs to flourish [6]. Furthermore, the Islamic Microfinance Institution can obtain funding from religious institutions such as Waqf, Zakat, and Anfal, which prevail in most Islamic countries [7]. According to the work of Ali [8], Islamic micro-finance is recognized as the best alternative for micro-entrepreneurs who are mostly non-bankable and therefore cannot have bank loans. In Muslim countries, Islamic microfinance is the alternative to microfinance, as it prohibits 'Riba' [8].

The Islamic Development Bank has set up its own program, the IDB-Microfinance Development Program, which focuses on poverty reduction through the development of microfinance industries in member countries and the institutional development of Islamic microfinance institutions [9]. The work of Alonso [10] finds that microfinance concerns people or entrepreneurs with low incomes and those without bank access. This system Islamic microfinance is similar to microfinance but has some differences in term of interest. According to the work of Rahman et al. [11], Islamic microfinance accounts for less than 1% of global microfinance programmes, but 25-40% of Muslims do not use interest-based microfinance for fear of violating their religious beliefs, which shows the growing demand for Islamic microfinance [11].

Islamic microfinance provides money as an alternative to micro-loans to poor people who have no bankability to borrow [12]. The point is that Islamic microfinance provides financial services, but does not solve the problem of poverty. One of the main challenges is that Islamic micro-credit lenders take a very long time to maximize their profits, in other words, Islamic micro-finance projects take a long time to achieve their goal [12]. According to Shinkafi et al. [13], another challenge is that loans to the destitute may, in fact, make the poor poorer if they lack the opportunity to make the cash flow necessary to repay the loans. It is always difficult and hectic for the Islamic microfinance to ensure the effectiveness of the Islamic micro-loans [13]. This problem will not

only make life worse for the credit holder, but will also make the granting institution lose its financing costs [14]. According to Suzuki and Miah [15], one more issue is the growth of Islamic MF, not all countries share the same banking policies [15]. The process and chairman of the implementation of Islamic MF projects therefore differs from one country to another, especially in the case of a country with a Muslim minority, or countries with no Islamic banking system policies at all [15]. This causes enormous legal problems in implementation, which means that IMF projects have been delayed for more than a few years. Due to high inflation and economic problems in recent years, the Arab world in general and the Saudi Arabia in particular are facing low income problems [16]. Saudi Arabia is currently implementing Islamic microfinance programs to improve the economy and reduce poverty [16]. However, as an Islamic country, Islamic microfinance would work very well, but this does not mean that it will work smoothly. This is because Islamic microfinance faces a number of challenges in achieving its objectives. Therefore, this work was done to analyze the challenges facing Islamic microfinance in Saudi Arabia

METHODOLOGY

This work was performed based on quantitative method. The sample populations for this work were the management employees in Islamic Development Bank (IDB). The sample size was 20 employees. For this work, questionnaire was utilized for data collection. The questionnaire comprised of questions related to the implementation of Islamic microfinance in Saudi Arabia. The collected data were examined based of basic statistic method and were presented accordingly.

RESULT AND DISCUSSION

Questionnaire Analysis

The respondents were asked “Have you worked before in Islamic microfinance (IMF) projects in Saudi Arabia?”. Based on Figure 1, 75 % of the respondents have worked in project related to Islamic microfinance and 25 % of the respondents have not worked.

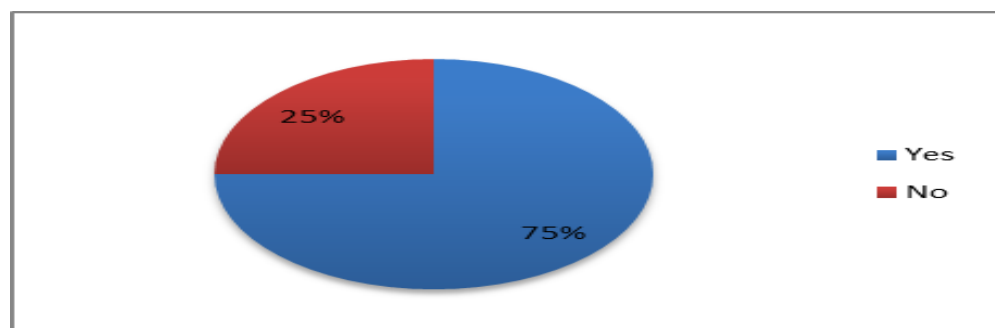


Figure 1: Worked in IMF projects in Saudi Arabia

The respondents were asked “Do you believe that Saudi Arabia is applying IMF projects effectively?”. Based on Figure 2, 80% of the respondents stated yes and 20 % of the respondents stated no .

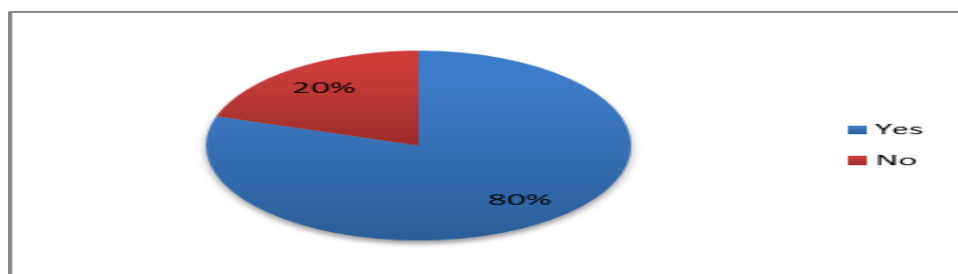


Figure 2: Saudi Arabia is applying IMF projects effectively

The respondents were asked “Is your institution, spending the required effort to develop IMF projects in Saudi Arabia?”. Based on Figure 3, 90% of the respondents stated yes and 10 % of the respondents stated no.

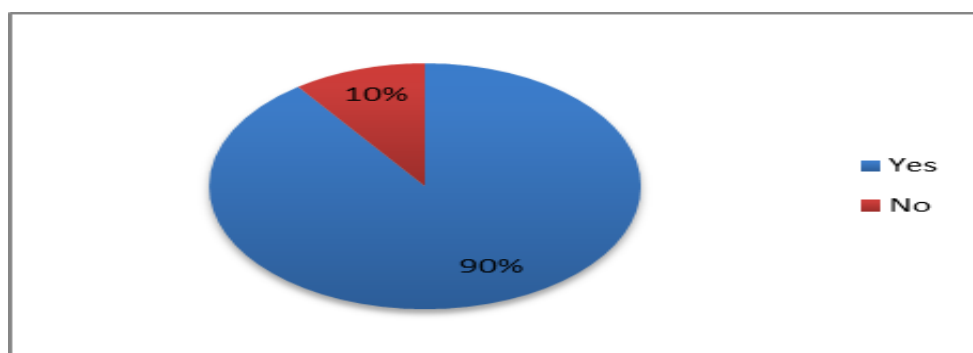


Figure 3: Institution putting effort to develop IMF projects in Saudi Arabia

The respondents were asked “Do you think that IMF projects are hard to be applied in Saudi Arabia?”. Based on Figure 4, 55% of the respondents stated yes and 45 % of the respondents stated no.

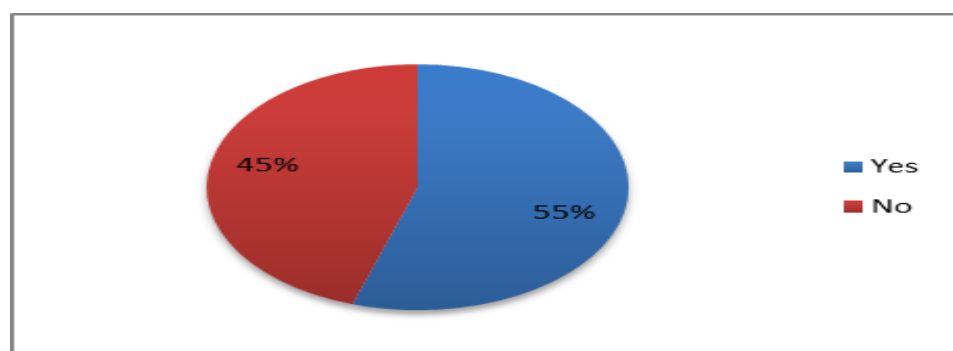


Figure 4: IMF projects are hard to be applied in Saudi Arabia

The respondents were asked “Do you think that Islamic microfinance is more effective than conventional microfinance? ”. Based on Figure 5, 60% of the respondents strongly agreed, 30 % of the respondents agree and 10 % of the respondents were neutral.

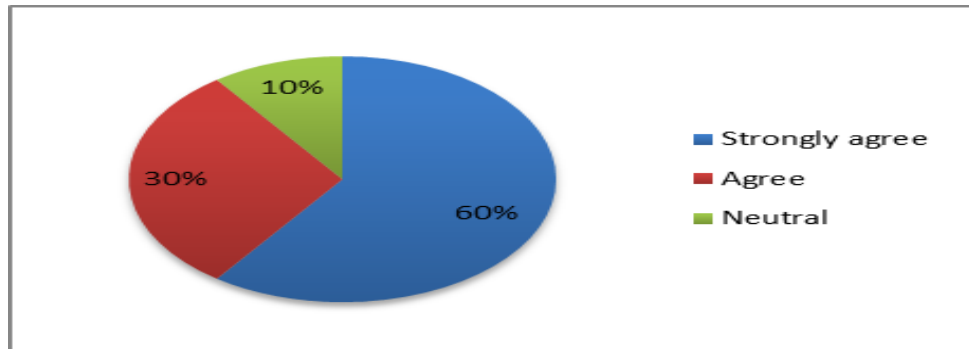


Figure 5: Islamic microfinance is more effective than conventional microfinance

The respondents were asked “Do you think that IMF can be used as an effective tool to increase economy?”. Based on Figure 6, 55% of the respondents strongly agreed, 30 % of the respondents agree and 15 % of the respondents were neutral.

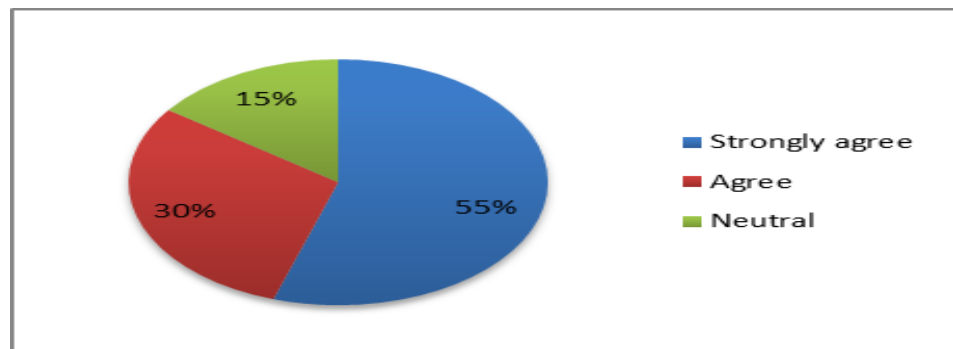


Figure 6: IMF can be used as an effective tool to increase economy

The respondents were asked “Do you think that IMF is developing in a good rate? ”. Based on Figure 7, 25% of the respondents strongly agreed, 25 % of the respondents agree and 15 % of the respondents were neutral, 15 % disagree and 20 % strongly disagree.

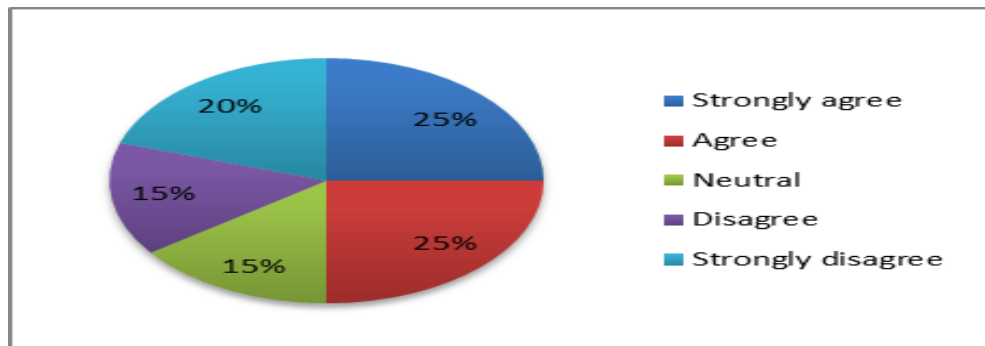


Figure 7: IMF is developing in a good rate

The respondents were asked “Do you think that microloans can help in increasing people’s income?”. Based on Figure 8, 15% of the respondents

strongly agreed, 50 % of the respondents agree and 30 % of the respondents were neutral and 5 % disagree

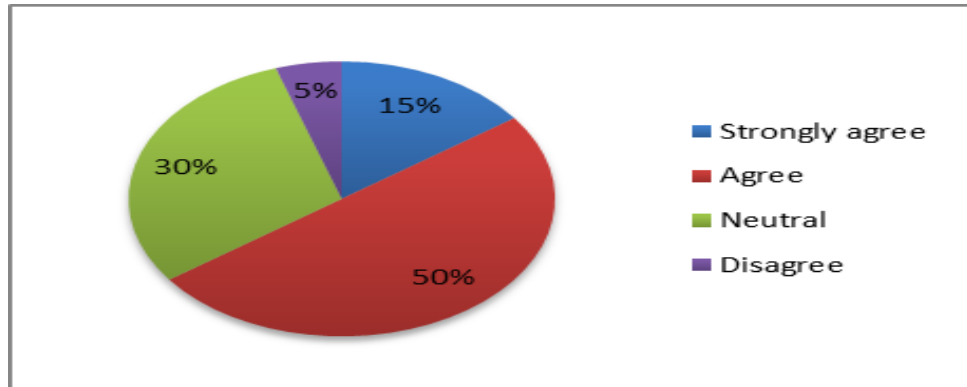


Figure 8: Microloans can help in increasing people’s income

The respondents were asked “Is it challenging for microfinance institutions to apply their projects in Saudi Arabia? ”. Based on Figure 9, 30% of the respondents strongly agreed, 50 % of the respondents agree and 20 % of the respondents were neutral.

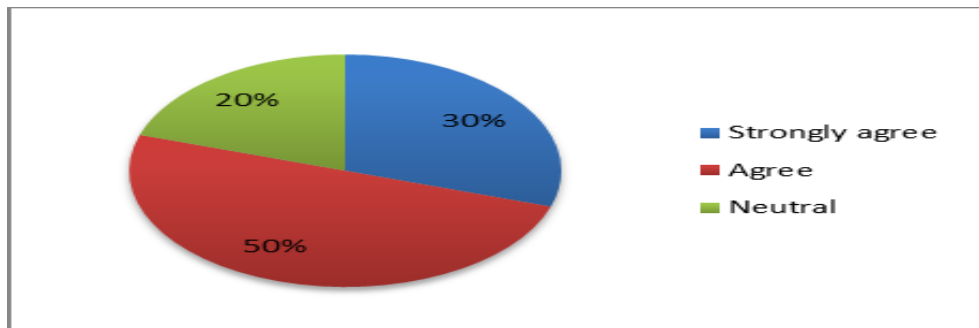


Figure 9: Challenging for microfinance institutions to apply their projects in Saudi Arabia

The respondents were asked “Are you aware of the challenges facing Islamic microfinance?” Based on Figure 10, 70% of the respondents strongly agreed, 20 % of the respondents agree and 10 % of the respondents were neutral.

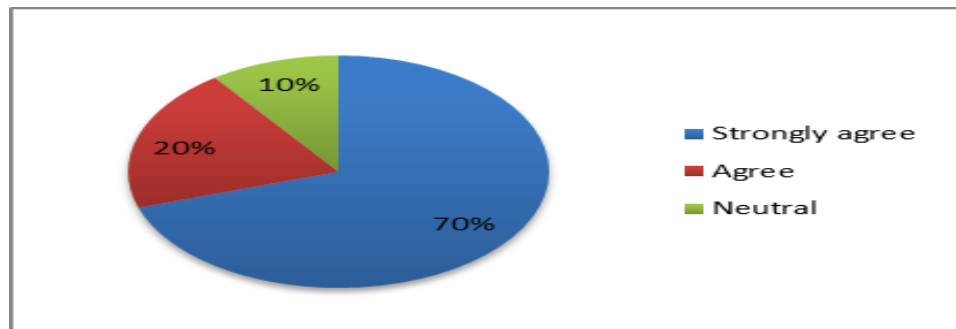


Figure 10: Aware of the challenges facing Islamic microfinance

The respondents were asked “Do you think that: microfinance projects can decrease the income instead of increasing it?” Based on Figure 11, 25% of the respondents strongly agreed, 25 % of the respondents agree, 30 % of the respondents were neutral, 10 % of the respondents disagree, and 10 % of the respondents strongly disagree.

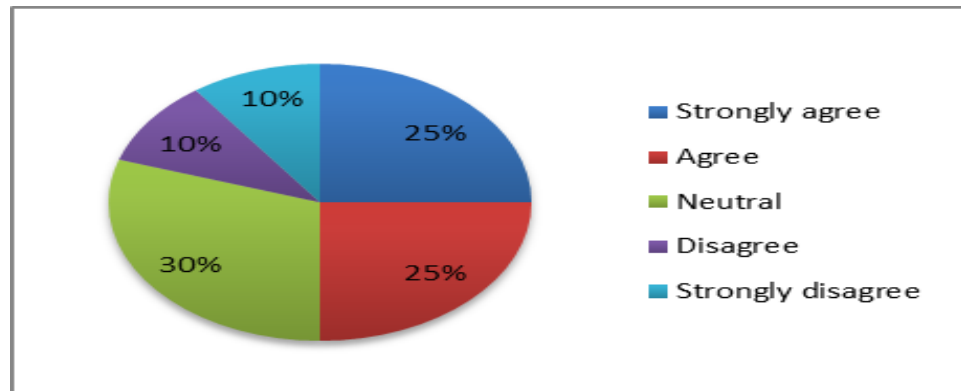


Figure 11: Microfinance projects can decrease the income instead of increasing it

The respondents were asked “Do you think that ‘government’ can be very challenging in applying microfinance in Saudi Arabia?” Based on Figure 12, 10% of the respondents strongly agreed, 10 % of the respondents agree, 60 % of the respondents were neutral, and 20 % of the respondents disagree.

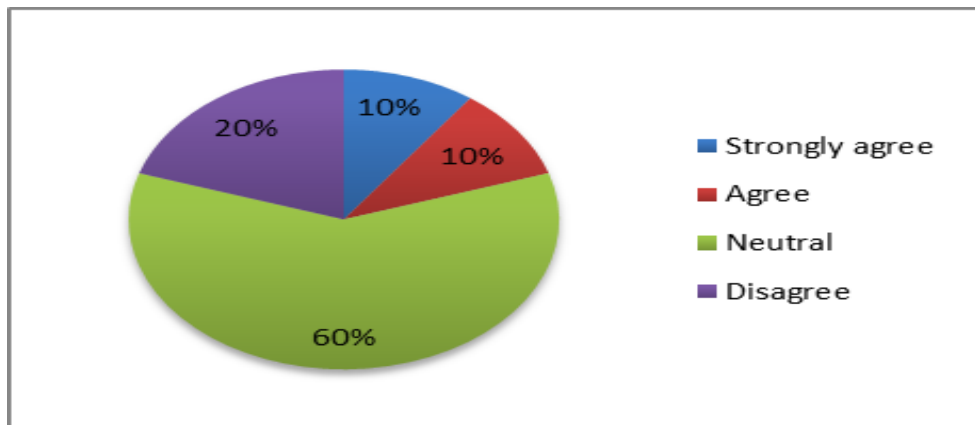


Figure 12: Government can be very challenging in applying microfinance in Saudi Arabia

The respondents were asked “Do you think that IMF should provide (after loans) services to their loaners?” Based on Figure 13, 80% of the respondents strongly agreed, 15 % of the respondents agree and 5 % of the respondents were neutral.

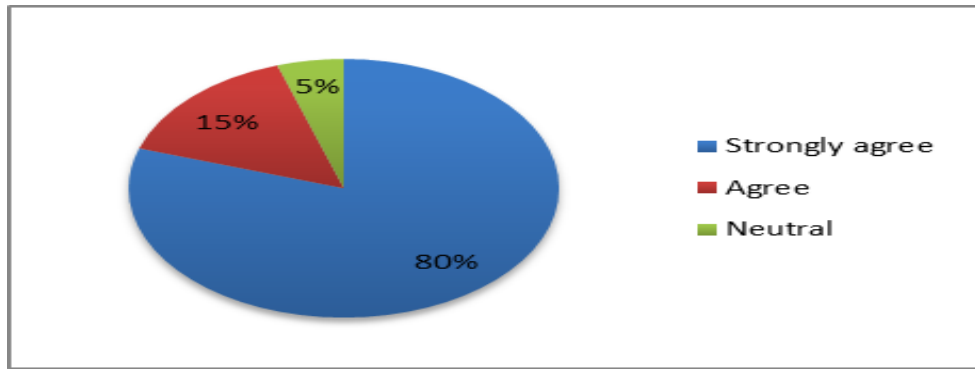


Figure 13: IMF should provide (after loans) services to their loaners

The respondents were asked “Is it true that IMF institutions are not updating their loaners with the necessary information for microloans?” Based on Figure 14, 80% of the respondents strongly agreed and 20 % of the respondents agree.

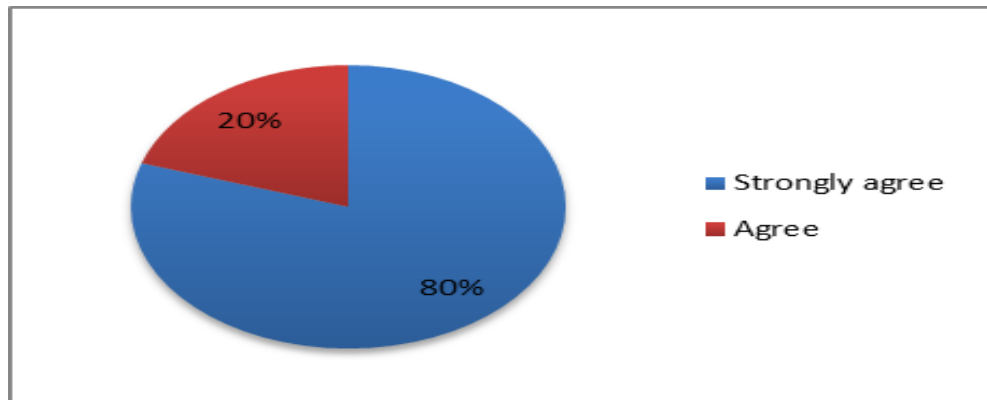


Figure 14: IMF institutions are not updating their loaners with the necessary information for microloans

The respondents were asked “Would you recommend special workshops for micro loaners?” Based on Figure 15, 90% of the respondents strongly agreed and 10 % of the respondents agree.

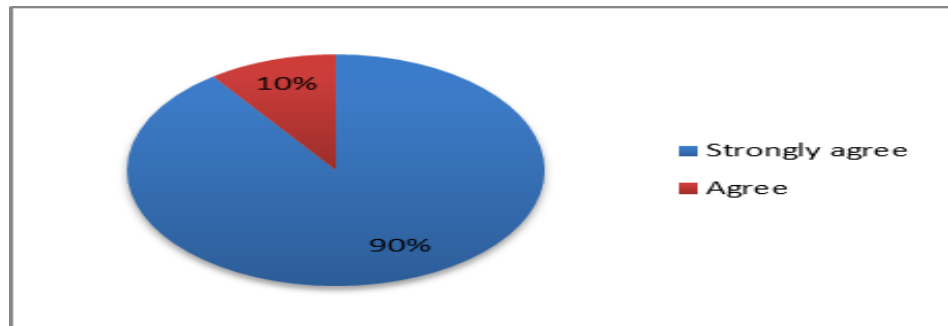


Figure 15: Recommend special workshops for micro loaners

The respondents were asked “Would you recommend special tests before giving microloans to the loaners?” Based on Figure 16, 30% of the respondents strongly agreed, 30 % of the respondents agree, 20 % of the respondents were neutral and 20 % of the respondents disagree.

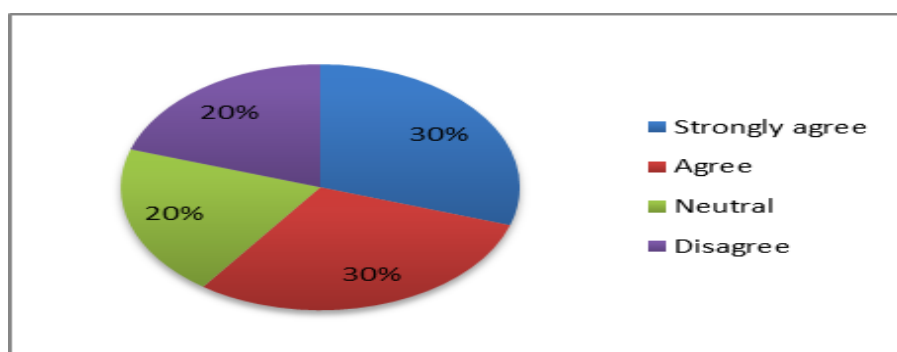


Figure 16: Recommend special tests before giving microloans to the loaners

Overall Discussion

The finding of this work have shown that majority of the respondents have agreed that Saudi Arabia is applying IMF projects effectively. In addition, it was found that banking institution is putting effort to develop IMF projects in Saudi Arabia. However, IMF projects are hard to be applied in Saudi Arabia according to the respondents. Moreover, the result have shown that Islamic microfinance is more effective than conventional microfinance, and it can be used as an effective tool to increase economy, and IMF is developing in a good rate. Furthermore, the results have shown that majority of the respondents have agreed that microloans can help in increasing people's income, and it is challenging for microfinance institutions to apply their projects in Saudi Arabia. Additionally, the respondents are aware of the challenges facing Islamic microfinance. Besides that, the respondents have agreed that microfinance projects can decrease the income instead of increasing it. In addition, majority of the respondents were neutral regarding if government can be very challenging in applying microfinance in Saudi Arabia. On the other hand, majority of the respondent believe that IMF should provide after loans services to their loaners. Furthermore, the respondents have agreed that IMF institutions are not updating their loaners with the necessary information for microloans. Hence, the respondents have recommended that special workshops for micro loaners to be held so that it will assist them during loan application. Finally, the result have shown that majority of the respondents recommend that special tests before giving microloans to the loaners. The outcome of this work is in line with the work of Kakembo and Ahmad [17] where it was confirmed that implementing microfinance is challenging especially for the poor community as they do not have the means to repay the loans. Thus, this had contributed to the financial challenges faced by the poor community. Furthermore, the work of Efendić et al. [18] has stated awareness on microfinance need to be educated among the people in need, so that they are aware of the financial assistance available for them to improve their small business venture.

CONCLUSION

This work was done to analyze the challenges facing Islamic micro-finance in Saudi Arabia. The findings of this work have confirmed that Islamic

microfinance institutions are facing real challenges in applying their projects effectively. This was due to lack of knowledge and background of microloans for those who take the loans, lack of workshops to educate loaners, government policies, lack of awareness of micro-loans in Saudi Arabia and the opposite reflection trend of micro-loans. Thus, to overcome this, the authors recommend providing Islamic microfinance initiations with specific workshops in dealing with micro loaners.

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