

# SAUDI ARABIAN ENTREPRENEURSHIP ECOSYSTEM AND MICROFINANCE

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## Abstract

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Microfinance is an important component of the entrepreneurship ecosystem (Iansiti & Levien, 2004). This research explores prominent microfinance models and introduces leading microfinance institutions, in a certain format, practicing these models across the globe. Using primarily qualitative methods of investigation, it then identifies the use of microfinance by different organizations in Saudi Arabia. The study contributes a model of microfinance in Saudi Arabia upon the contemporary conventions, procedures, and practices (Saudi Arabian microfinance model, SAMFIN). It would assist the microfinance landscape and practices of leading institutions. Eventually, the study would ascertain and pinpoint the challenges and opportunities for the Saudi Arabian entrepreneurship ecosystem stakeholders to introduce the changes and additions required to make the Saudi microfinance landscape more dynamic, and vibrant, and contribute to and satisfy the community needs. Also provided is a brief impact of the Saudi Vision 2030. This work would offer guidance and learning for practitioners, lenders, borrowers, and academics alike both in and outside the country. It can be concluded that the loan limit in Saudi Arabia is substantially high and equals \$2666; the microfinance in Saudi Arabia is evolving and the differences identified and discussed above imply that the SAMFIN and global models are quite different in approach and modalities.

**Keywords:** Entrepreneurship Ecosystem, Microfinancing, Saudi Arabia, Microfinance Institutions, Microfinance Models

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## 1. INTRODUCTION

An ecosystem in a business context is a set of interdependent, interconnected, and interacting coevolving stakeholders including agents and channels, sellers of complementary products and services, suppliers, and the firm itself (Kandiah & Gossain, 1998; Moore, 1996; Rahatullah, 2013). Microfinance plays an important role in bringing sustainability to the livelihoods of millions of households across the globe. This study identifies the microfinance landscape of the Kingdom of Saudi Arabia (KSA) in its entrepreneurship ecosystem.

The paper discusses microfinance in several ways that are linked to the main topic starting with

the history of microfinance and the big impact that Dr. Muhammad Younus made when innovating the small loan that help a lot of poor to improve their way of living and to reach financial sustainability.

This resulted in observing how microfinance works in Saudi Arabia and how it was beneficial to improve small and medium-sized enterprises (SMEs) by providing these loans, showing its effect on society and economic growth. The problems faced by SMEs were discussed and three problems as enumerated by Naidu and Chand (2012) were financing, operational, and administrative problems; and sales and debtor problems. Provided in the end is a view on the impact of SMEs on job creation and its benefits for the community.

The literature below shows prominent models of microfinancing in practice providing a tailor-made recipe in a particular country or a community. The models cater to specific needs and geographic regions and their replication is difficult because of the diversity of culture, traditions, norms, and business practices.

This provides a need to identify current microfinance lending practices in Middle Eastern settings and amalgamate these into one common lending model. Saudi Arabia is one the largest economies of the Middle East and normally the practices are alike as in the region.

However, we can identify that the information is scarce and, in most cases, unavailable. Therefore, in this study, we will endeavor to explore the micro-funding available, bring these into perspective, and enumerate their characteristics to the available models discussed above. This will provide a thorough understanding of the status quo of micro-funding in the Kingdom in particular and in the Middle East in general.

Therefore, we will answer the following research questions:

*RQ1: Which institutions are providing micro-funding in Saudi Arabia? And what are the characteristics of these institutions?*

*RQ2: Is there a microfinance lending model in Saudi Arabia? And if does exist what are its characteristics?*

*RQ3: What are the similarities and differences in the money lending and recovery models of Saudi and international institutions?*

Answering these research questions is pertinent both time and need. It will also provide an understanding of the shortfalls, make recommendations for KSA model adaptability to the already available models and help the government realize its coveted vision 2030.

The rest of the paper is structured as follows. Section 2 reviews the literature and examines the main models of microfinance. Section 3 is devoted to methodology, which discusses the research methods used to answer the research questions. Section 4 discusses the results. Section 5 contains the conclusions.

## 2. LITERATURE REVIEW

This section discusses the literature on microfinance institutions, models, and benefits of this lending process.

An entrepreneurship ecosystem is defined as “loose networks of suppliers, distributors, outsourcing firms, incubators, accelerators, financial institutions, coaches, consultants, research institutions, related governmental bodies, makers of related products or services, technology providers, and a host of other organizations affecting and affected by, the creation and delivery of a company’s offerings” (Wiklund et al., 2003, p. 5; Peltoniemi & Vuori, 2008). Microfinancing is a major activity in an entrepreneurial ecosystem and contributes to the development of businesses like franchising (Rahatullah, 2014; Wu et al., 2009).

**Table 1.** Literature summary on operational models of selected microfinance institutions (Part 1)

<i>Institution/NGO</i>	<i>Country</i>	<i>Summary</i>
MC2	Cameroon	MC2 is a micro-bank owned and managed by the members incorporating socio-cultural, traditions, and religious habits of the community. It functions on the principle of one man, one vote. In other words, building from the bottom
Grameen	Bangladesh	Centrally managed dedicated microfinance institution, groups of five, highly disciplined organizational structure. The focus is primarily on lending, but every group member must save a certain amount.
Palli Karma		It is an autonomous microcredit fund facilitating the channeling of funds to microcredit institutions from both government and non-government sources.
SKS	India	Investors-driven centrally managed credit company, with resources from lenders and investors. A megastructure that recruits and trains loan officers in charge of disbursing loans to villages. Scheduled banks and investors provide loans to SKS institutions. The microfinance institution gives out money through loan officers to beneficiaries at a very high interest rate. Focus primarily on credit and investors' profit maximization objectives.
NABRAD		Savings led, the self-help group program of the National Bank for Agriculture and Rural Development (NABRAD). It operates with more than 17,000 rural and semi-urban branches, 750 non-governmental organizations (NGOs), and 462,000 self-help groups (SHGs) with an average of 17 members each. NABRAD works with more than 7.8 million borrowers with 85% women. It has lent more than \$94 million. The on-time repayment rate is 95% and it is a public-private-SHG strategy successful.
WEP	Nepal	WEP operates with two groups 'Savings' and 'Credit' categorize and organize the clients with an average size of 20 members) with no access to external loan funds. 45,000 group members benefitted and loans for various purposes.
CBDIBA	Benin	For destitute women, less than 10 members in a group, small loans, motivation created for savings, and weekly deposits of 10 cents, members meeting savings plan get loans, and after one year of successful savings and loan repayment behavior, members are then graduated into the normal village banking system.
MATA MASU DUBARA	Niger	Women-centered 6,000 self-help groups (SHGs). Around a million dollars are generated each year in savings and 3 million in aggregate lending. Self-managed individual groups in 8 months with the help of the technical assistance provided. More than 85% of the groups assisted are able to function autonomously. A remote outreach approach is used.
Pro Mujer	Bolivia	It is a women's development organization serving more than a quarter of a million poor women in Latin America. It provides financial services, life-saving preventative healthcare, education, and business training.

**Table 1.** Literature summary on operational models of selected microfinance institutions (Part 2)

<i>Institution/NGO</i>	<i>Country</i>	<i>Summary</i>
Akhuwat	Pakistan	Akhuwat derives its name from 'mwakhaat' or brotherhood, taken from the example seen in the fraternity formed by citizens of Medina and the immigrants of Makkah who had migrated to Medina to escape religious persecution. It charges no interest rates and operates on the principle of Qarz-e-Hassn (an Islamic tradition to help someone in need with interest-free loans). With initial success, the Akhuwat model began to feature in the curriculum of renowned international and national universities.
FINCA	Nigeria/Pakistan	FINCA works with groups of 30–60 members, usually all women. As soon as the village bank is inaugurated, it receives its first loan from the implementing agency (the local headquarters of FINCA or its affiliate) for lending to the individual members of the village bank.
UNRWA	United Nations	The UNRWA microfinance department provides sustainable income-generation opportunities for Palestine refugees, as well as other poor or marginalized groups who live and work near them. It extends credit and complementary financial services to households, entrepreneurs, and small-business owners. These investments create and sustain jobs, reduce poverty, and empower our clients, particularly women. Many of the microfinance program's clients operate small, often informal businesses on the margins of the economy. They include anglers and garage owners, at-home tailors, and vegetable stall owners.
WEEC	Kenya	Women Economic Empowerment Consort (WEEC) is a non-governmental organization targeting grassroots women providing financial service that empowers economically active women in Kenya through savings mobilization and training with credit and information, dissemination to enable women to meet their social and economic.
SEND-Ghana	Ghana	The organization identifies the need for the poor, especially, women to have a strong and consistent voice informed by evidence during policy discussions. The budgetary decision-making at national and district levels is its primary agenda.

Table 1 identifies the major microfinance institutions with service delivery models, summarizing their activities.

Countries across the world practice a number of microfinancing models including associations/bank credits, including green credits when banks consider both economic benefit and environmental factors in the credit issuance process, to arrive at appropriate loan decisions (Zhou et al., 2022; Yao, et al., 2023). These include Cooperatives, Group, Individual, Peer Pressure, Rotating Saving and Credit Associations (ROSCAs), Village Banking, and Philanthropic (Hoda & Gupta, 2015). Hoda and Gupta (2015) compared different microfinance models. All the models aim to provide sustainability to financially deserving and offer financial and accounting services to borrowers and productive families except the SKS. SKS's main objective is to maximize profits for the investors in a short time through increased outreach and serving more customers.

The modalities of programs offered are different among almost all but with a focus on alleviating poverty through financial assistance (Backer et al., 2006; Misbah et al., 2022). MC2 is a rural micro development bank, Grameen is a micro-credit institution, and FINCA and SKS are village banks and microcredit institutions. FINCA targets villagers of both genders (Eriksson et al., 2009) with a preference for women (van Hulten, 2012). SKS targets economically active poor with tangible collateral to support the loan request. MC2, Grammen, and FINCA models offer similar financial services by providing savings accounts, micro-insurance, and credits.

SKS performs door-to-door loan collection services. The average loan size varies from organization to organization. MC2's average loan size is \$150 with 10–15% interest. Grameen Model allows less than \$100 with above 30% interest. FINCA lends \$75 with above 46% interest. Whereas, SKS provides \$160 with above 45% interest. This shows that the interest charged is very high for loan terms of six months to one year, except MC2 where

the borrower is given 18 months to repay and FINCA asks for money back in 16 to 24 weeks. The Grameen borrower would pay \$130 in one year; however, the FINCA loan would pay back \$110 in a year for \$75 borrowed. This shows that the business models of all these organizations allow reasonable profits. The loan repayment guarantee at different organizations varies from social to asset collaterals. MC2 depends on culture and tradition and in order to ensure loan repayment, the organizations have developed a number of models of operations to ensure timely repayments. The loan is lent to a small community and not an individual and the group takes the loan and allows a certain person to pay back to MC2, Grameen, and FINCA through peer pressure.

## 2.1. Microfinance and its benefits

Access to financial services has become an important element of the social fund and community-driven development projects because the poor must have continuous and permanent access to strong, stable financial systems in order to build their family's economic security. Grameen Bank was established in 1976 and a couple of decades later its microfinance started attracting the attention of the financial world (Shane, 2003). The guiding principle of Grameen Bank is that a loan is better for the poor than charity and recognizes that the 'poor' have specific skills to utilize with loans and would alleviate poverty (Nghiem, 2002; Syuhailah & Aziz, 2021).

Parker and Pearce (2002), Frisncho (2012), and Njatrijani et al. (2022) regard microfinance as one of the best interventions for income generation. Between 1997 and 2002, the total number of microfinance institutions grew from 618 to 2,572 (Tripathi, 2014). Khan et al. (2019) argue that microfinance assists the needy to find new opportunities; whereas, Hertog (2010) suggests that micro scale businesses in the market earn income through investments in both farm and nonfarm activities. The evolution of microfinance in the 1970s provided access to capital by low-income

individuals. Microfinance is the provision of financial services for low-income, poor, and very poor self-employed people (Otero, 1999). Berger and Udell (1998) suggest that SMEs are an important engine for economic growth. Iansiti and Levien (2004) argue that women enterprises control about \$20 trillion in global consumer spending and earn about \$18 trillion extending their circle of economic influence. Van Hulten (2012) suggests that women have an impact on sustainable economic growth, e.g., in Sub-Saharan Africa women comprise 50% of the population and produce more than 80% of the food for the continent.

Ledgerwood et al. (2013), state that women small farm holders drive less than 12% of agribusiness investments. According to Emine (2012) and Heino (2006), microfinancing has a greater effect on profitability, productivity, growth and expansion of women-owned enterprises when it comes in sufficient quantities. The study would be important in reformulating women's business, and credit policies, for improving financial services to entrepreneurs. The women entrepreneurs lack training, especially in developing countries. However, Nassuna et al. (2022) postulate that micro, small, and medium enterprises (MSMEs) are a vital source of developing human capital by learning and finding opportunities that improve their skills, attitudes, and abilities (Maru & Chemjor, 2013; Nghiem, 2002; Shane, 2003). The institutional intervention provides a number of benefits other than financing as shown by a study of Grameen Bank, i.e., women are more aware of their rights, able

to resolve conflicts, and able to be decision-makers at the household and community levels after they participate in credit programs (Chen, 1996). Ekpe et al. (2010) and Bamata and Phiri (2022) suggest that independent income gives them more bargaining power in their relationship with male family members.

## 2.2. The prominent microfinancing models

Table 2 provides a comparative look at the models adapted from the studies of Frisancho (2012), Sharma (2010), Wahid (1999), Fatima (2013), Hoda and Gupta (2015), Zada and Saba (2013), Basharahil (2008), Piot-Lepetit and Nzongang (2014), and Iballi et al. (2022) reveal that most of the microfinance institutions deal with individuals; however, Association/Credit Union and Self-Help Group are also commonly microfinancing frameworks.

However, it seems that these organizations utilize peer pressure (Evans & Jovanovic, 1989), self-help groups (Rahatullah & Raeside, 2008) village banking, and other models owing to geographic dynamics. Most of these organizations operate in more than one country or geographic location.

Table 2 also identifies salient features of the identified microfinance models practiced across the globe. It compares and contrasts MC2, Grameen, FINCA, and SKS models. It also identifies the objectives, targets, and services each model provides whether financial or non-financial.

**Table 2.** Mapping the leading microfinance models

Association/ Credit Union	Cooperative	Group	Individual	Peer Pressure	ROSCAs	Village Banking	Self-Help Group	Philanthropic
Grammen		WEEC	MATA MASU DUBARA	FINCA	MATA MASU DUBARA	FINCA	Grammen	Bab Rizk Jameel
SKS		WEP	Pro Mujer	MC2	WEEC	Grammen		Nafisa Shams
SEND-Ghana	MATA MASU DUBARA		Bab Rizk Jameel	MATA MASU DUBARA	NABARD	SKS		Majid Society
CBDIBA			Nafisa Shams		WEP		MATA MASU	
MATA MASU			Majid Society	CBDIBA (when an individual asks for a loan more than his/her savings)			NABARD	
WEP			Riyadah				FINCA	
			UNRWA					
			Akhuwat					

The models have some similarities such as targeting poor people. Another similarity is that they only provide financial services.

## 3. RESEARCH METHODOLOGY

Saudi Arabia is fast growing economically and has made strides in academia. However, challenges remain in exploring and securing research/survey responses. As Dimmock and Walker (2005) and Hamdan (2015) assert in some countries and territories respondents do not feel confident of the anonymity of the responses and fear that their information might be utilized for unwanted purposes. In Saudi Arabia, it is a challenge to reach respondents, especially senior executives. We tried to find information on the websites of the government, chambers of commerce, and other

institutions like banks to know about the microfinance practices and procedures but it was extremely difficult.

As regards sampling according to Ledgerwood et al. (2013), innumerable microfinance NGOs and institutions are working in the field and mostly provide more than one service. However, few have gained a huge reputation owing to their excellent work performance and results achieved in poverty (Toindepi, 2016) reduction and skill enhancement of the microfinance target market. Therefore, the following countries and the operational microfinance models are added. Accordingly, 14 models were selected from 11 countries. The selected models and countries list were realized keeping in view the studies of Rahatullah (2013, 2014), Dimmock and Walker (2005), Toindepi (2016), and Njtrijani et al. (2022).

These studies map the entrepreneurship ecosystem and its evolution in Saudi Arabia. Since there are five organizations in Saudi Arabia providing microfinance to start-ups, these formed the sample size. Requests to conduct interviews from these organizations resulted in an affirmative response. It was decided that a limit on our questions be imposed on the elements of existing models available in the literature. Interview time was from March to April 2021. Organizations including Bab Rizq Jameel, Riyadh, Nafisa Shams, and Majid Society obliged for an interview and these meetings helped us understand that these institutions support people who have a good idea but lack finance or might need training to improve their business skills. Nafisa Shams provides different types of support not by money but by providing training in crafts. Majid Society provides help either financially or by providing training.

Interview transcription is the process of converting an audio or video interview to a verbatim written document (McMullin, 2023). Hence, interview transcription was carried out. The following benefits and features of such transcription were kept in mind. According to Blaxter et al. (2001), this process is crucial in qualitative research as it ensures that every detail of the interview is captured and can be analyzed later.

Bryman (2016) suggests various methods for transcription, including manual and automated. Since manual transcription is considered to be more accurate than automated transcription, it is also time-consuming and can be expensive. Therefore, careful consideration of our resources and needs was given before deciding on this transcription method.

Special attention was laid to the fact that after transcription, it is important to review the transcript for accuracy and completeness (Dodds & Hess, 2020). A standardized format for the transcript was also established manually. It included labeling speakers and noting non-verbal cues.

After conducting the interviews, the answers' recording on the elements commenced for the identified and researched renowned models. Mapping of similarities in the lending process of each of the lenders helped create an Excel sheet record.

After the information from all lenders was recorded on the elements and style of the models identified in the literature, a cautious and meticulous approach was adopted to place the summarized common information of each lender in one element in one table. Upon completion of this step, the Saudi Arabian microfinance model takes its shape. The discussion regarding the comparison to other models is carried out by comparing and contrasting all the models.

An extensive literature review assisted in identifying the methodologies employed by different microfinance models, trade presses, and magazines. In completing this study, the company's websites, and company's reviews were quite useful. Thus,

the project used a wide range of academic literature that incorporates the institutional design, operations, successes, and failures of different microfinance models in the world. Drawing from existing comprehensive literature, the author was able to form the core of the research methodology that yielded relevant data. In addition, the methodological design of this research project tapped into the wealth of practical experience that exists in the MC2 micro-bank model, the Credit Union, and followers of the Grameen Bank philosophy in Cameroon. This includes a wide range of providers that vary in their legal structure, mission, methodology, and sustainability but share the common characteristic of providing financial services to a clientele poorer and more vulnerable than bank clients provide. An organization-credit union, downscaled commercial bank, or financial cooperative that provides financial services to the poor is another way of defining it. This section examines popular models of microfinance.

We will use the mixed method approach to investigate the role of microfinance in achieving sustainable growth and investigate how this mode of financing can help develop entrepreneurs. The secondary sources assisted in gathering data and were used as primary quantitative methods to secure information from microfinance lenders and micro and small entrepreneurs. Senior academics and experts verified findings and conclusions.

Since the number of organizations providing microfinance in Saudi Arabia is only five, therefore, conducting data through interviews was considered best as for most of the other sources the sample size has to be large. Hence, alternative sources were not considered.

#### 4. RESULTS AND DISCUSSION

The research showed six institutions actively performing in the Saudi Arabian microfinance landscape. These include the following: Bab Rizk Jameel (Male), Bab Rizk Jameel (Female), Riyadh, Nafisa Shams Academy, Majid Society (Kick-off), Majid Society (Skills).

The Bab Rizk Jameel has two sections, i.e., male and female sections where its men section offers to young people who have good ideas but lack of finance. It aims to support individuals who want to start their own business and have a financial problem. The female side assists productive families lacking finance to start their businesses.

Similarly, Riyadh is a nonprofit organization and an initiative of the Ministry of Petroleum and Mineral Resources and the General Organization for Technical and Vocational Training under the name of (leadership of the National Business Institute). Its objective is to develop and implement a program for start-ups and small/micro-enterprises.

Table 3 provides details on several attributes of these organizations, which are discussed below for each organization.

**Table 3.** Microfinance institutions in Saudi Arabia

Institution attributes	Bab Rizq Jameel — Men	Bab Rizq Jameel — Women	Riyadah	Nafisa Shams	Majid Society	Majid Society
					Kick-off	Skills
Program type	Credit institution, microbusiness development	Credit institution, microbusiness development	Microbusiness development	Microbusiness development	Credit institution, microbusiness development	Microbusiness development
Target clients	Productive family and individuals	Productive family	Saudi women	Saudi women	Saudi men and women	Saudi women
Financial service	Microfinance	Microfinance	Microfinance	No financial services	Microfinance	No financial services
Average loan size	3,000-10,000 SAR	For productive family 3,000-10,000 SAR	Iradah program 300,000 SAR	No loan	30,000 SAR for home based	No loan
		Home based 20,000-50,000 SAR	Graduated 500,000 SAR			
		Business 200,000				
Non-financial service	Training and skills development	Training and skills development	Training	Training for crafts sector, business, management and under "Majid society" (MGT)	Training and skills development	Training for crafts sector
			Counseling			
			Incubation			
Eligibility criteria	Saudi citizen	Have a feasibility study	Saudi citizen	Saudi citizen	Saudi citizen	Saudi citizen
		Sponsor	Age between 21-60			
		Experience in the business				
Funding type	The sponsors provide the funding	The sponsors provide the funding	The sponsors provide the funding	The sponsors provide the funding	The sponsors provide the funding	The sponsors provide the funding
Cost of loans interest rate	Interest-free	Interest-free	Interest-free	Not applicable	Interest-free	Not applicable
Loan terms	2 years	Depend on the loan between 2-5 years	8 years	Not applicable	Depend on the loan	Not applicable
Loan repayment schedule	Monthly	Monthly	Monthly payment after 18 months from signing of the contract	Not applicable	Monthly	Not applicable
Ownership	Abdulatif Jameel group	Abdulatif Jameel group	Saudi credit and saving bank	Abdul Lateef Jameel (BRJ)	Prince Mishaal bin Majed bin Abdulaziz	Prince Mishaal bin Majed bin Abdulaziz
	Islamic bank		Technical and vocational training corporation		Investors	Investors
Loan guarantee	Collaborative group	Sponsor	Should have sponsor	Not applicable	Should have sponsor	Not applicable
Training	Basic training — Nafisa Shams, mentorship	Soft skills like marketing and sales	Feasibility study	Beauty and skin care	Feasibility study, business MGT, training, follow systematically with the business	Sewing
				Digital photography		
				Prayer mat production		
				Other crafts courses		
						Gifts: crochet accessories, Aldikubaj, design and product development

The Nafisa Shams is also a part of Bab Rizq Jameel aiming to qualify Saudi women through training leading to an increase in their job opportunities in arts and crafts. It aids in the form of raw materials and training to develop the skills of artisan women. The Majid Society also has two main programs, i.e., 'Kick-off' and 'Skills'. Through its 'Kick-off' program individuals are supported to start their own small — micro-enterprises and attain self-sufficiency through different programs. Whereas, the 'Skills' program contributes to raising the crafts sector and professional level through intensive developer training curriculum to suit the character

and requirements of the market needs. It supports Saudi women by delivering crafts training and bringing sustainability.

#### 4.1. Contrasting the major international models and Saudi microfinance institutions

Microfinance is relatively new to the Kingdom; comparing and contrasting it with famous models practiced around the world would provide an opportunity for the 'strategic stakeholders' in the Saudi entrepreneurship ecosystem to

understand and develop policies and laws for further effectiveness of microfinancing and help thousands of families to be more productive and sustainable. It would reduce the pressure of financial assistance provided by the government.

Four microfinance models practiced internationally provide a source of comparison. MC2, Grameen, SKS-Microcredit, and FINCA are widely used and famous for their effectiveness. MC2 is a micro-credit bank owned and managed by the members incorporating socio-cultural, traditions, and religious habits of the community. It aims to bring economic and financial sustainability to the individuals and group members. Its work also has a social dimension and involves targeting the poor, micro, and small-scale activities and consequently restoring dignity to target beneficiaries to see the importance of being masters of their destiny. It emphasizes savings and credits. Grameen on the other hand operates on a centrally managed formula. It is a dedicated microfinance institution functioning with a highly disciplined organizational structure. The focus is primarily on lending, but every group member must save a certain amount. The bank's aim is to assist economically active but poor people who cannot benefit from official lending sources due to various reasons including non-availability of collateral.

FINCA on the other hand works with groups of 30-60 members, usually all women. Soon after the village bank commences functioning from a particular village it disburses the first loan instalment to the individual members of the village bank. It grants credit to rural communities to improve their livelihood through entrepreneurial activities. SKS-Microcredit is an investors-driven,

centrally managed credit model with resources from lenders and investors. It recruits and trains loan officers in charge of disbursing loans to villages. Scheduled banks and investors provide loans to SKS model institutions. The beneficiary microfinance institution gives out the money through loan officers to recipients at a very high interest rate. The focus is primarily on credit and investors profit maximization objective. The SKS microfinance model optimizes profit in a short time through increased outreach.

#### 4.2. Charting Saudi Arabian microfinance model (SAMFIN)

An effort to bring together features of all the microfinance and development institutions in Saudi Arabia to construct a model of microfinance provides interesting findings. The reason for combining the features of all the organizations is that their number is less (four and six programs) and the phenomenon is relatively new to the kingdom. Putting them all together, comparing, and contrasting these features with models will offer insight into future needs.

SAMFIN is a combination of microcredit institutions supported by investors to help the Saudi community with finance, develop skills, and start a business. The highlighting feature is lending and business development to achieve financial sustainability.

Its aims and objectives are similar to other models. Table 4 below provides further insight and contrasting data among SAMFIN and other identified models.

**Table 4.** Comparing and contrasting SAMFIN and leading models (Part 1)

<i>Institution attributes</i>	<i>MC2</i>	<i>Grameen</i>	<i>FINCA</i>	<i>SKS-Microcredit</i>	<i>SAMFIN</i>
Program type	Rural micro development bank	Microcredit Institution	Village Bank	Credit institution	Credit institution, microbusiness development
Target clients	The entire community, the under privilege and the poor	Poor rural women involved in an economic activity	Villagers of both sexes with preference to women	Economic active poor with tangible collateral to support the loan request	Saudi citizen with a lack of finance
Financial service	Savings accounts	Savings	Credits	Door to door loan collection services are provides	Microfinance
	Term deposits	Credits	Little emphasis on savings		
	Micro insurance	Micro insurance	Micro insurance		
Average loan size	\$150	Less than \$100	\$75	\$160	10,000 SAR
Non-financial services	Financial training and workshops	Social mobilization seminars group meetings	Social mobilization seminars and group meetings	Enables group meeting and social mobilization when there is an MFI involved.	Business MGT
					Feasibility study
Savings method	Savings is key to wealth creation. Flexible but must be able to save at least FCFA 1500 quarterly. Depends on the community potentials	Compulsory weekly savings, door to door loan reimbursement collection peer pressure	Peer pressure and compulsory weekly savings	It does not take deposits as institution	No saving methods
Eligibility criteria	Registration FCFA 2500	Compulsory weekly savings, door to door loan reimbursement collection Peer pressure	Peer pressure and compulsory weekly savings	Be a member of an SKS	Saudi citizen
	Shares >= 10 1000 = 10000				Age between 21-65
	Savings >= FCFA 1500 quarterly.				Have a sponsor to guarantee loans
				Be able and willing to pay the fees	

**Table 4.** Comparing and contrasting SAMFIN and leading models (Part 2)

<i>Institution attributes</i>	<i>MC2</i>	<i>Grameen</i>	<i>FINCA</i>	<i>SKS-Microcredit</i>	<i>SAMFIN</i>
Funding type	Equity shares subscribed by members. Savings from local population Savings from other men and women from the area living in other places Loans from refinancing Programs from the link bank Grants for capacity building from the local NGO. Grants from international donors' agencies	External funds from donor agencies are disbursed. Savings and internally generated funds	Funds and credits obtained from donor agencies	Members contribution. Credit from MFIs	Microfinance and non-financial services including training to develop skills
Cost of loans interest rates	10-15%	Above 30%	Above 46%	Above 45%	Interest-free
Loan terms	Negotiable, depends on members' cycle of activity and business in question. Some situations it runs up to 18 months. Local and cultural securities	It has compulsory weekly reimbursement and savings Maximum periods is 1 year 5% of any amount granted is set aside as savings	16-24 compulsory weekly reimbursement	Maximum of equal 50 weekly	Depend on the loan between 2-5 years
Loan repayment schedule	Monthly, with possibility of period of grace	Weekly period of payment with compulsory weekly savings	Weekly period of loan repayment	Weekly	Monthly
Ownership	The community	Investors of Grameen bank	Community members	Investors/ shareholders	Investors
Loan guarantee	Depends on culture and tradition, in some villages in Cameroon valuable items such as Panther skin serve as security	Peer pressure and social collaterals Credit is for groups	Peer pressure and accumulated group savings	Peer pressure, personal properties and assets	Should have a sponsor
Training	Research on developmental issues and entrepreneurship is carried out by an NGO-ADAF	Customers are train on basic book keeping, development and empowerment techniques by the project officer from the bank	No training but sensitization	No training, loan officers carry out just community sensitization and group formation	Provide training on basic skills of entrepreneur and business management

## 5. CONCLUSION

The differences between the SAMFIN and other models are following and quite significant.

The loan limit in Saudi Arabia is substantially high and equals \$2666. Whereas, among other models, the SKS-Microcredit model provides \$160 which is the highest among all (Rambaud et al., 2023).

The Saudi lending institutions have put an age limit on borrowers between 21 and 65.

The global models do not seem to have any age-related restrictions. The loan repayment period by Saudi institutions has a longer-term orientation and entrepreneurs can pay back in a maximum of five years with a minimum time of two years.

The models in practice elsewhere limit the repayment period to a maximum of one year and it could be a few weeks in some cases. The sponsors

of the Saudi microfinance organizations normally provide money as philanthropy; however, other models have investor support requiring a payback with profit for them as well.

Microfinance in Saudi Arabia is evolving and two organizations have taken the lead, i.e., Bab Rizk Jameel, the philanthropy project of Abdul Lateef Jameel company, which owns several businesses and most prominent being resellers of Toyota car manufacturers. The other prominent stakeholder is the Majid Society which is sponsored by Prince Mishaal bin Majed bin Abdulaziz.

Saudi Arabia ranks among the top 20 economies in the world and ranks 48th in population size (Statistics Times, 2021) The existence of microfinance in a country that has a per capita gross domestic product (GDP) of \$23491 and is categorized as the 18th largest is extraordinary.



Normally microfinance is attributed to relatively poorer economies. There could be several factors responsible for out including the unemployment rate and the value-added skill gap. However, the study has suggested that there might not be any more institutions taking to the market as the number of borrowers could be less.

The differences identified and discussed above also imply that the SAMFIN and global models are quite different in approach and modalities. Perhaps this explains the reason for the very existence of the microfinance.

The Small & Medium Enterprises General Authority (2022) reports that the micro-enterprise employs 1-2 people according to Saudi standards. According to the International Finance Corporation (IFC, <https://www.ifc.org/en/what-we-do>), the criteria for defining microenterprise differs from country to country; however, the number of employees and annual turnover are the main gauges. The UK's Financial Conduct Authority (FCA, n.d.) and European Commission (n.d.) define micro-enterprise as a business employing fewer than 10 persons; and has a turnover or annual balance sheet that does not exceed €2 million.

This shows that the Saudi Arabian microfinance model (SAMFIN) dynamics would be different from those of numerous countries, especially the popular models identified and discussed in this study. These models are practiced in low-income countries, hence

the criteria are different. This seems to hold because the Bab Rizk Jameel — BRJ has started functioning in another relatively high-income country, i.e., Turkey.

The study provides insight into microfinancing in Saudi Arabia and concludes that the criteria for micro-enterprises could be different in particular economies. It is drawn on certain economic factors. It is recommended that the study be used to learn the similar models being practiced in other higher-income countries and that a new dimension to microfinance be developed. This would help the poorest section of these societies to be benefitted. It is also recommended that the future study encompass the whole of the Middle East or at least Gulf Cooperation Council (GCC) countries enabling a larger sample size.

The results of this paper can contribute to the development of a more practical model of microfinance incorporating the Vision 2030 of the Kingdom and assisting the entrepreneurs needing support.

Like any other study, this work also encountered some limitations. The respondent's time had to be respected and they allowed very restricted time for the interviews. Many times during the interview, the respondents would refer to events, etc. in Arabic, which needed explanations. The overall sample size is small as microfinance is a new concept in the Kingdom.

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