ISLAMIC MICROFINANCE AND MSMES DEVELOPMENT IN SAUDI ARABIA: A QUALITATIVE INQUIRY

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ABSTRACT

Saudi Arabia, while many would think is a rich country, ironically has high-undeclared poverty issue. Such poverty could be linked to low level of entrepreneurial activity and its archetypal mismatch in terms of financial support. As presently being promoted globally, a thriving Small and Medium Enterprises (SMEs) have huge potentials to help alleviate poverty. In Saudi Arabia, the SME sector currently contributes less than 40% of the GDP with financing penetration rate of only 2%. To enhance their performance, these enterprises could benefit from using microfinance products. The main aim of this research is to elicit the opinion of SME proprietors about Islamic Microfinance in Saudi Arabia, and explore its prospects towards promoting entrepreneurial activity and hence poverty reduction. Data were obtained from semi-structured interviews conducted with four CEOs or top management personnel of different categories of MSMEs in Saudi Arabia. Based on a qualitative analysis, this study found that low access to finance is due to unfair requirements, and that the interviewees are aware of Islamic finance but not Islamic microfinance. The study suggests better relationship between banks and MSMEs to enrich the industries and increase productivity.

Keywords: Microfinance, Islamic Microfinance, SMEs, Saudi Arabia

1) INTRODUCTION

Saudi Arabia, while many would think is a rich country, ironically has high-undeclared poverty issue. An unofficial study by Tawfik El Seif (2013) highlighted that almost 10 million Saudis are under the poverty line. Moreover, Small and Medium Enterprises (SMEs) has potential growth in Saudi Arabia. The sector currently contributes less than 40 percent of the GDP. To enhance their performance, these enterprises could benefit from microfinance products offered.

The successful case of Grameen Bank in Bangladesh has brought global attention to the idea of microfinance in alleviating poverty and empowering women. This opened up the opportunity for the unbankable segment of the population to benefit from the banking products and services. Microfinance as described in the Microcredit summit in 1997 is a

> "programme that extends small loans to very poor people for self-employment projects that generate income in allowing them to take care of themselves and their families".

The World Bank is actively encouraging the microfinance products in a way to eradicate poverty and raise the standard living for developing countries. While Grameen Bank is in a Muslim country, this Nobel Prize winning bank offers products that are interest-based, which is prohibited in Islam, as such it may be stated that Islamic Microfinance is a good measure for alleviating poverty in Muslim countries. These concerns and present condition of poverty in Saudi Arabia and microfinance suggest the need to explore the perception of the proprietors of the Saudi SMEs on how effectiveness of microfinance for entrepreneurial growth and development in Saudi Arabia can be enhanced.

The need for this study is imminent as the penetration rate of financing to SMEs in Saudi Arabia according to International Finance Group from World Bank Group is only 2 percent. This corresponds to the lack of studies on KSA finance in general and in MSMEs in specific. Furthermore, Microfinance has always been a controversial topic in terms of its practicality to alleviate poverty in its current form. As such, this study explores the practices in funding for MSMEs in Riyadh, Saudi Arabia which is the center of business and the capital city of Saudi Arabia.

1.1) ISLAMIC MICROFINANCE

Microfinance has been looked on as an economic development instrument to build entrepreneurs and alleviate poverty to build up small and medium enterprises (SMEs) Robinson (2001). From the successful experiment shared by Grameen Bank that was established in 1976 by Dr. Muhammad Yunus the nobel prizewinner in 2006, microfinance started attracting attention of the financial world.

In Grameen bank, the main principle was that the loan is better for the poor than charity, those poor have certain underutilized skills and with those loans, they could utilize their skills to alleviate poverty and possibly raise the living standard in the country. Another principle in Grameen Bank noted by Abdul Rahman (2007) is based on trust with no collateral or guarantor and that borrower needs to join a group to receive loans together.

Furthermore, Abdul Rahman (2007) discussed the model of Grameen Bank in details, explaining what De Aghion and Morduch marked as "twist" of the model (as cited in Abdul Rahman, 2007). He stated that to minimize the risk of the bank, should a borrower be unable to repay the loan, the whole group members will have to quit the membership of the bank. This will help the bank to manage the risk in groups as no one wants to be grouped with a risky member that might not be able to repay the loan.

The conventional microfinance is mainly focused on alleviating poverty by supporting the poor and micro-entrepreneurs. In Islamic Microfinance, however, the focus is on the family (Ahmed, 2002), and can be used for micro entrepreneurs and SMEs (Jamal and Azhar, 2013). There are many differences that were highlighted by Ahmad (2002) as shown in Table 2.1 below.

Table 2.1: Differences between Conventional and Islamic Microfinance

Items	**Conventional MFI**	**Islamic MFI**
Liabilities (Source of Fund)	External Funds, Saving of Clients	External Funds, Saving of Clients, Islamic Charitable Sources (Cash Waqf)
Asset (Mode of Financing)	Interest-Based	Islamic Financial Instrument
Financing the Poorest	Poorest are left out	Poorest can be included by integrating with microfinance
Deduction at Inception of Contract	Part of the Funds Deducted at inception	No deduction at inception
Work Incentive of Employees	Monetary	Monetary and Religious
Dealing with Default	Group/Center pressure and threat	Group/Center/Spouse Guarantee, and Islamic Ethic

Source: [Ahmed 2002]

Although the Islamic microfinance institutions, or microfinance institution that offer Islamic products have increased in numbers throughout the years, their reach has quadrupled but still small; only 1 million out of 650 million living on less than two dollars a day (Pleming, 2013). That is because the focus is in offering Murabaha product (Mark-up sale) that incurs cost more than the conventional products in microfinance. This perhaps is the main reason why the Islamic microfinance institutions have only been able to offer their products to fewer clients (Khaled, 2011).

Islamic microfinance is not limited to poor people; the microfinance institutions could offer their products to MSMEs for further development and finance their needs such as utilities and small projects. Jamal and Azhar (2013) endorses the model of Islamic Microfinance in its framework for developing SMEs financially and socially.

Helping one another is an Islamic good deed, and should be aligned with Islamic banking purposes broader goals. Chapra (1992) have marked that:

> "While there may be nothing basically wrong in large enterprises if they are more efficient and do not lead to concentration of wealth and power. It seems that the adoption of a policy of discouraging large enterprises except when they are inevitable, and of encouraging SMEs, as much as possible, would be more conducive to the realization of the Maqasid. This would have a number of advantages besides that of reducing concentration of wealth and power. It would be more conducive to social health because ownership of business tends to increase the owners' sense of independence, dignity and self-respect."

In the light of *Maqasid Al-Shariah*, Adewale and Hassan (2014) discussed mainly the purposes of law on the perspective of Islamic Microfinance. *Maqasid Al-Shariah* are essentially three categories that were discussed by various scholars, they are Necessities (*Daruriyyat*), Needs (*Hajiyyat*), Embelishment (*Tahsiniyyat*). The necessities, the very first category, is the preservation of five elements: Religion, Life, Lineage, Intellect, and Property. Adewale and Hassan (2014) touched on those elements and discussed thoroughly the relevance of each element to microfinance. For instance, ensuring the safety of the borrowers in case of inability to pay back the loan. The authors accentuated on the relative indispensability of the Islamic microfinance for entrepreneurial development, wealth redistribution and equality of outcomes especially because it focuses on both the mechanics and spirit of financing the underbanked.

1.2) SMALL AND MEDIUM ENTERPRISES (SMES) IN SAUDI ARABIA

SMEs is described and used by global financial and governing agencies such as the World Bank, the World Trade Organization and United Nations. SMEs are specified according to each country level of economic development based on their relevant jurisdiction. In Europe, the definition of SMEs is by the European Commission and was introduced in 2010 having two defining factors, the number of employees and turnover. In United States of America, the standard is based on industry, revenue and number of employees set by an authority named Small Business Administration.

There is no specific institution in Saudi Arabia that define the SMEs. MENA defines the Small enterprises based on the employees from 3-49 and Medium from 50-200. The Saudi Arabian General Investment defines the small enterprise as below 60 employees and medium enterprise below 100. According to the Kafalah program which is a program to support SMEs attached to the Saudi Industrial Development fund defines SMEs as companies with up to 20 million Saudi Riyals (roughly USD 5.3 million) in sales or exports (Hertog, 2010).

It is generally accepted that SMEs drive growth in the economy. Ayyagari et al. (2011) who used a country-level study further proved this. They indicated that on average, high-income countries have higher GDP contribution from SMEs that would reach 50 percent on average and assumed a uniform definition of 250 employees for any SMEs while in middle-income countries the percentage drops to 40 percent. This shows that developed countries have higher GDP contribution from SMEs. The Figure below shows Ayyagari et al. (2011) findings.

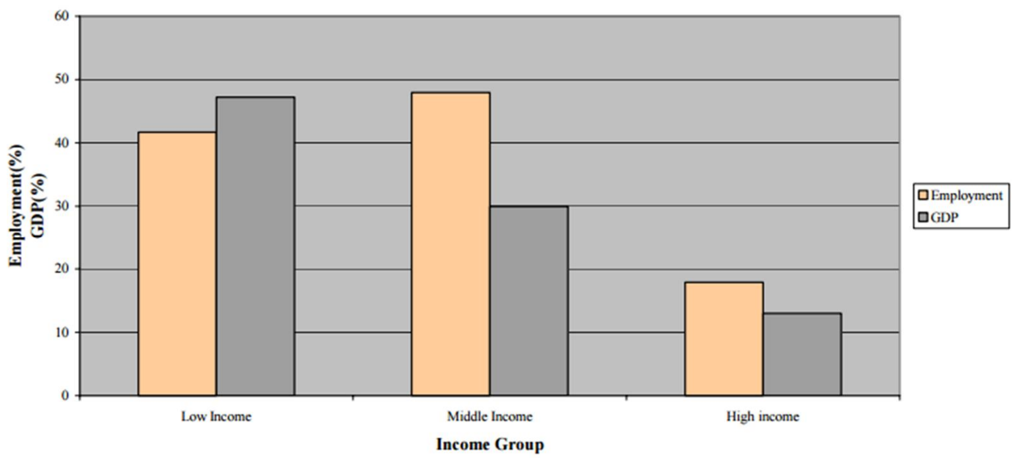

Figure 2.1 SME Sector's Contribution to Employment and GDP (Median Values) Source: Ayyagari et al. (2011)

In Saudi Arabian Monetary Agency governor's speech in 2010, Dr. Mohammad Al-Jasser have acknowledged SMEs as the economy backbone as well. Saying in his speech: "small and medium enterprises (SMEs) play an important role in the economic activity in both advanced and developing countries through their massive absorption capacity to employ labor force". (Al-Jasser, 2010)

It is estimated by industry data compiled by Zawya in 2013 that there will be 2.5 million SMEs contributing to 37 percent of Saudi Arabia's GDP by the end of 2015. In 2008, 785,000 establishments in Saudi Arabia were registered. The sectorial breakdown is: 47 percent of these are in commercial and hotel businesses, 27 percent in construction, 12 percent in industry, 6 percent in social services and 8 percent in sundry other sectors. (Hertog, 2010). Nonetheless, these projections may just amount to some feel good statistics if adequate financing platform such as microfinance is not provided.

1.3) SAUDI ARABIA'S MICROFINANCE

The Kafalah program which was initiated in 2006 through Saudi Industrial Development Fund (SIDF), a program that act as guarantor to banks for providing credit for SMEs, and have managed to guarantee almost 3.59 billion Saudi Riyals (Approx. 950 million US dollars) in 2013. Despite the success of such program, according to Abdullah Marei Bin Mahfouz, a board member in Jeddah Chamber of Commerce and Industry, in an interview with Zawya, have said that the banks are reluctant to lend due to the lack of sufficient guarantees such as market and feasibility studies.

MSMEs need finance for growth and testing business models on a larger scale. However, banks and financial institutions are usually reluctant to lend to the SMEs due to the higher risk and the reach is still low. Less than 2 percent of Saudi banks' total financing is funding SMEs compared to over 14 percent in non-gulf countries (Capitas group international, n.d.). Mouayed Makhlouf the director for MENA at International Finance Corporation (IFC) in an interview with Zawya in 2014 suggested a framework for risk management to handle the SMEs, as he said the case-by-case method could not work on a large scale financing for SMEs and it will be highly costly on banks.

Integrating Islamic microfinance models in banks could help on the growth of SMEs as well as the economy altogether (Hassan et al., 2013).

The Kafalah program in Saudi Arabia which has support from banks and government is a good measure to be used in Risk Mitigating and incorporating Islamic microfinance with it. Some of the banks involved are The National Commercial Bank (NCB), Riyadh Bank, Rajhi Bank, Saudi Hollandi Bank and Samba Financial Group.

The program is explained in SIDF as

> “To overcome the difficulties faced by economically viable Small and Medium Enterprises (SMEs) in providing the guarantees required by the lenders, SMEs Financing Guarantee Program has been established with a view to cover a percentage of lender’s risk in event of default of guaranteed enterprise to repay the loan wholly or partially, as well as to encourage local commercial banks to finance SMEs which are potentially viable but unable to provide the guarantees or accounting records required to prove their merit for finance”.

Due to the reasons above and together with the unofficial study by Tawfik El-Seif (2013) that 33 percent of Saudi nationality holders in Saudi Arabia are under the poverty line creates an opportunity for innovation and implementation of micro-financing in Saudi Arabia. ,

2) RESEARCH DESIGN

In order to grasp the perception of proprietors’ on the effectiveness of Islamic microfinance in Saudi Arabia, a qualitative study was conducted. Semi-structured interviews was used as the primary research approach. The interview was conducted throughout March 2015 with a combination of observation on Bank practices and relation to Small enterprises, and interviews with micro-entrepreneurs and financial managers of Small and Medium Enterprises.

There were four interviewees including micro-entrepreneurs, financial manager in Medium enterprise with differences in financial knowledge and the nationality in order to grasp the banks’ accommodation to both citizens and residents of Riyadh, Saudi Arabia. The reason for the sample size would be the redundancy of other similar level heads of companies or entrepreneurs, as the research attempt to find the deep connection of banks to firms and awareness of these firms to Islamic microfinance as a scheme.

Two of these interviews were conducted through face-to-face, digitally recorded and the dialogue was in Arabic. The other two interviews were through emails, one without the need to follow-up questions, the other had several other questions. The questions asked related to the main ideas in order to extract the general knowledge and experience with banks and financing in terms of access to financing, known types and preferred financial products, challenges, the sectors that need Islamic financing etc.

2.1) DATA ANALYSIS

The data obtained were subjected to an interpretive analysis to find common themes among responses provided by the interviewees. This was done in order in order to understand the perception of these interviewees on several financing methods and mainly the Islamic microfinass cnce. The small sample and wide spread of characteristics of these interviewees will limit the similarities which is what the study is aiming to achieve. Furthermore, the analysis takes note to the current bank practices and focuses on the similiarites between the actual bank approaches to the MSMEs segment in the market and the knowledge of the interviewees to the bank's practices.

3) FINDINGS

3.1) Financial Exclusion and Exorbitant Charges

Based on the interviews conducted, a number of themes emerged. For instance, the requirements for formal financing are outright unfair and are considered high for the small enterprises to acquire. The Kafalah program discussed earlier, a program that is supported by the government, is perceived by the interviewees in the light of limitations and high requirements. However, the official site for the Kafalah program indicated that it is inclusive of foreign investments that are officially registered in Saudi Arabia. This shows the lack of marketing of this program to active enterprises that are looking for official financing. Interestingly, both small and medium foreign investments interviewed showed the need for formal financing.

Ahmed Salem, a financial manager in a medium-sized construction company of Medium Size said:

> "The financing products are readily available in the Saudi banking system, but in the firm I am working in, the conditions are not met due to it being regarded as foreign investment. As for the Saudi companies, the loans are very easy. The conditions are easy."

While the local firms have several products that are tailored toward their peculiarities, the products do not offer the flexibility needed from the firm to expand. As the interviews indicated, the challenges the interviewees face ranged from illegibility to be financed formally to the complexity of the conditions and process.

Al Enezi, a Proprietor of a local small enterprise in the construction industry said that:

> "Yes I can acquire formal financing, through the Kafalah program and I can access it through the bank that I'm dealing with."
>
> "….The biggest challenges are the complicated systems with the banks, and the high interest rate for the loans."

Bloomberg in March 2015 reported that the banks have tightened the grip on SMEs lending even with the existence of the Kafalah program. Bloomberg claims that

> "The number of loans from National Commercial Bank, the kingdom's biggest lender to SMEs through the Kafalah program fell to 232 last year from 1,048 the previous year. Saudi British Bank and Banque Saudi Fransi approved only two loans each."

This is a major issue in the program itself to aid for the SME contribution in the country. This consequently affected the program as Bloomberg also reported:

> "Lending under the nation's SME Loan Guarantee Program, also known as Kafalah, plunged 76 percent to 572 million riyals ($153 million) last year as banks tightened rules, according to data from the Saudi Industrial Development Fund. That compares with a 12 percent increase for total bank credit last year to 1.25 trillion riyals, according to Saudi central bank data."

As it shows, the banks are moving towards bigger enterprises and shying away from the risky SMEs. While the total lending increased by 12 percent, the Kafalah program deceased by 76 percent.

Another challenge facing the SMEs is the issue of the high interest rate and charges. According to Al Enezi who acquire the financing through Kafalah program:

> "The biggest challenges are the complicated systems with the banks, and the high interest rate for the loans."

The banks justify this by the unavailability of credit history and the structure of those SMEs is inefficient. This caused the plunge of the Kafalah program as the banks found it hard to finance those SMEs without proper financial statements. As per the interviews, the interviewees did not show vast knowledge over audited financial statements.

According to IFC Saudi Arabia has the lowest penetration rate among neighboring countries, it declared the aforementioned 2 percent penetration rate of SME financing to total lending in both conventional and Islamic banking. Comparatively, Jordan has 12.5 percent in conventional and 7 percent in Islamic, Morocco has 24 percent. Even in terms of dollars, the kingdom of Saudi Arabia, even though it is one of the richest countries in the neighborhood, shell out only $1.8 billion in conventional schemes and $3.6 in Islamic products for SME lending. Morocco had $21 billion dollars lent to SME and Lebanon supported SME with more than $7 billion. This increasing issue of penetration rate shows without a doubt the reluctance of banks to lend to SMEs and forces those MSMEs to acquire their finances in informal ways.

Ahmed Salem, the financial manager of Medium enterprise attentively said:

> "We use informal financing, assuming I have a $10 million project and I reach out to certain partners for this project on a pre-agreed profit rate. This is what we use in case of a financial distress in the company."

Ahmed Saleem showed the need for a longer-term by inciting his own experience:

> "The type of informal financing are my own savings or one friend wants to get in a certain trade through "hit-and-get", where they would immediately invest and get the money. Nothing in the long-term."

The interviewees specified they acquire the financing through other informal means. Mainly using connections and networks, as well as friends' circle to finance a certain project or the whole company. These informal financing are a better alternative to high interest loans from the banks as they follow Sharia Guidelines through Qard Hassan or Musharaka financing with a promised rate of return.

3.3) Preference for and Awareness about Islamic Microfinance

One of the main selling points of the banking industry in Saudi Arabia as well as its weakness is the lack of codified legal framework. The ambiguity on how Islamic the banks actually are in comparison to other well-developed Islamic banking industry countries such as Malaysia or Bahrain is clear.

Saudi Arabia is following a more relaxed approach in the light of Shariah Compliance, and the banks invested in that relaxed regulatory framework. Unlike Malaysia, where the products must be approved by the Central Bank "Bank Negara", Saudi Arabia allows the bank to have an internal assessment of the Shariah Compliance on the products. This opens up the controversial aspect of each product on whether this specific financial product follows the objectives of Sharia' (Maqasid Al Sharia') or it only fulfills the financial objectives.

This greatly affected how the interviewees are aware of the products that are claimed to be Islamic. For example the local enterprises use Kafalah as their main connection between the bank and their projects. However, the websites do not explain even remotely what the contract is, and how it is Islamic. They would merely open a credit-line for the approved clients and briefly wrote that the Kafalah programme is Islamic financing.

Despite the ambiguity, the interviewees showed interest in acquiring an Islamic finance product. This could denote the religious aspect of Saudi Arabia in general, as the community in large are seeking a better honed and well-structured system of Islamic banking.

Ahmed Salem, who believes the firm do not need a micro-finance, suggested he would prefer Islamic financing and would actively recommend Islamic finance.

> "I do not need the Islamic micro-finance, but I would definitely advice anyone who needs persona financing to use it over the conventional financing."

In the light of micro-finance, considering the lack of knowledge about it, some interviewees showed interest outside of the actual interview to know more about Islamic micro-finance. However, the lack of information shows that the products given to these MSMEs are merely skimmed down version of the large-enterprises products. It is not specifically tailored to SMEs in the form of the contract and managing risk.

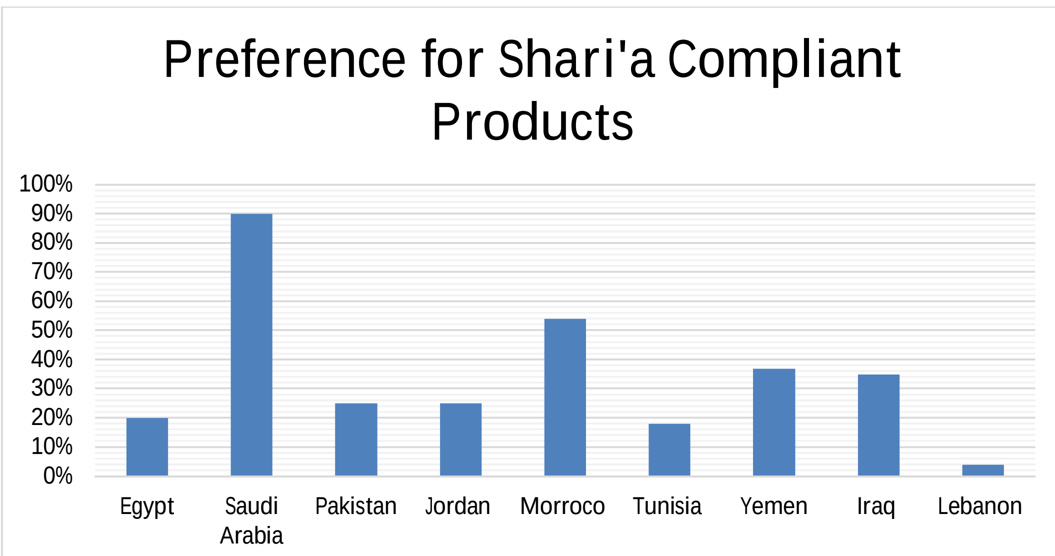

Figure 3.1: International Finance Corporation (2014), *Islamic Banking Opportunities Across Small and Medium enterprises in MENA.*

The preference for Sharia' complaint product of interviewees is greatly aligned with IFC figure above comparing the neighbor countries to Saudi Arabia. As all the interviewees, without any hesitation, decided to choose an Islamic product. IFC indicated that 90 percent of Saudi Arabia firms prefer Sharia' complaint products. The average of the surrounding countries is only 32 percent.

The increase in awareness for Islamic alternatives and the different kinds of contracts available can very well be the catalyst for the change in the Saudi banking system. The Saudi system does not satisfy the need of the consumers that are demanding a better stricter banking with lower rates and lower requirements to finance their projects.

At the very least, the banks are realizing this movement and actively pursuing offering competitive SME financing. Saudi Holandi has dedicated SME units that have won several awards in the MENA region in 2014, Abdullatif Jameel with Bab Rizq Jameel and several other banks approached the SME sector.

3.3) Lack of Awareness about Product Diversity

One common thing that was shared among the interviewees is the lack of comprehensive understanding over the financial products in the market. However, a sparking difference was that micro-entrepreneurs had a better knowledge in the financial market despite having different backgrounds and limited resources regarding financing. The interviewees lack the knowledge over the current products given by the banks to enhance their well-being or current financial status as most solely rely on Kafalah or do not know any other financial product.

IFC have helped offering different financial products tailored to MSMEs with Riyadh Bank, Al Rajhi bank, and Saudi Hollandi Bank. As reported, IFC also helped Riyadh Bank to offer the IFC training program for local SMEs to develop the skills. In regards to micro-entrepreneurs, IFC also focused on their skills through Business Edge program done by Samba Financial Group.

Despite all of those initiatives by IFC and the government initiative of Kafalah program, the banks are still struggling to gain ground in SMEs. In an interview by Oxford Business Group to Walid Al Murshed, the IFC's head of Saudi Arabia, Al Murshed claimed that the banks themselves need training of SME financing. Al Murshed said that:

> "It is important that banks offer a different product for SME customers and train their staff to work in that section".

This reflects on the lack of knowledge to the financial products, as the banks themselves are not concerned enough with promoting and managing SME financing. Al Murshed further explained his idea by preferring to have a dedicated SME department within the bank with trained staff to gain valued customers. As those in the corporate banking department will prefer to offer financing to large companies to meet the targeted loans. A feat that was accomplished by Saudi Hollandi bank and have given multiple awards for SME financing in 2014, for example.

Ahmed Saleem indicated:

> "The banks have huge liquidity but they would always prefer large enterprises"

Adding to all of that, with those SMEs tailored offerings and lack of knowledge from the CEOs, microfinance and more specifically the Islamic micro-finance is nowhere to be found in the financial system of Saudi Arabia. Some private initiatives which focus on micro financing or micro-entrepreneur training such as Bab Rizq Jameel was known to one interviewee, Ahmed Saleem a micro-entrepreneur remarked that:

> "The product Bab Rizq Jameel is something I would prefer, it is not available to me but if it is, I would definitely choose it. Because it is very close to Qard Hassan, the financed amount in which you can use for a certain period of time, and after the business enlarges it goes back to Bab Rizq Jameel."

The lack of knowledge over microfinance and Islamic microfinance opens an opportunity to promote a different and efficient micro-finance model that is beyond Murabaha contracts and actively engaged with those MSMEs in order to enlarge the businesses.

3.4) Feasibility of Islamic Microfinance in MSMEs market in Saudi Arabia

With all the above findings, a general theme is sighted, i.e., below-average promotion confused consumers who are actively pursuing Islamic finance. As such, there is ow penetration rate despite all the efforts to increase the volume of SME financing. There is a huge potential for banks and financial institutions to offer a robust Islamic microfinance product. With the Islamic Development Bank's headquarter residing in Jeddah, Saudi Arabia, it would be appropriate for IDB to offer its expertise in Islamic microfinance to the Saudi Arabia market.

IFC reported the attractive sectors for Islamic finance in Saudi Arabia to be Trade, Construction, and Manufacturing. All of these industries were interviewed in the research and the interviewees shared the same enthusiasm over Islamic finance.

Al Enezi, running a Construction company as a small business indicated that by saying:

> 'We prefer the Islamic micro-finance over the conventional financing, based on our background of course."

Jazib had a different approach, even though his company was a self-made micro-enterprise that transformed into a small-enterprise said that:

> "…The ability to be financed came later, yes."
>
> "Unfortunately for me, I am not aware of many micro-finance products in Saudi Arabia and due to this I do not see how I may need to use it."

In terms of operation and active risk profiles, Saudi Arabia has actively pursued a more transparent relationship between the banks and the customers. With a joint effort between Saudi Arabian Monetary Agency (SAMA) and the local banks that created Saudi Commercial Credit Bureau (SIMAH) that is in charge of corporate ranking. It collects economic and financial data from various entities and issues reports on these enterprises.

From collected literature and bank operations, the need for a well-oiled product is apparent. Islamic microfinance offers variety of products that can offer the ambitious entrepreneurs a chance to expand their businesses. Award-winning products can be ported to work very well in Saudi Arabia using different contracts such as Al-Salam or Musharaka based contracts.

The interviewees showed interest in acquiring products of Musharaka based, Ahmed Saleem was inclined to acquire a Musharaka product by saying:

> "If there were fair conditions for Musharaka I would definitely need it, because double the shipment means double the profit."

Lastly, the demand of Islamic microfinance will increase, and more Islamic Finance Institutions (IFI) will spawn. Thus, the reach to the niche market of micro entrepreneurs and poor families will be wider and more easily accessible to small institutions that the bank cannot cover. This will have a great effect on alleviating poverty and encouraging young local citizens or residents to innovate and increase the contribution of MSMEs in GDP as well increase the level of employment in Saudi Arabia.

4) Conclusion

There is huge potential for economic growth in Middle East, specifically oil producing countries. However, despite all the economic growth, the SMEs sector is not as developed as other well developed countries. The contribution of SMEs is only 33 percent, and that is very low considering Saudi Arabia's enterprises consist of 90 percent SMEs. The low contribution from SMEs is caused by the low financing penetration rate for SMEs, as banks would prefer to go bigger. Saudi Arabian government realizes the importance of MSMEs contribution and takes proactive measures to empower those companies and create a better financial system. Kafalah program is one of these measures which helps MSMEs have a credit-line in order to expand the business and therefore increase their GDP contribution.

These proactive measures open the door for a huge potential to Islamic financing, and Islamic micro financing in depth. There are several governmental and non-governmental efforts to create a trust between MSMEs and banks, as the main issue described based on the qualitative collection is trust between MSMEs and banks, and the lack thereof of a financial skill among MSMEs.

Based on the qualitative collection analysis, most MSMEs have a vague idea on what is Islamic microfinance is. However, as it has the Islamic attached to its name, most MSMEs would prefer having a product that emphasizes and explain how it is structured and how it follows the Shariah Guidelines. In short, Saudi Arabia has a major religious aspect to not be overlooked when it comes to introducing a well-structured Islamic micro financing.

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