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Financing interventions in emerging economies: Evaluating the role of the Kafalahprogramme on developing finance accessibility of SMEs in Saudi Arabia

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ABSTRACT

Kafalahis a government-backed development programme for financing SMEs, in Saudi Arabia. We evaluate this policy interventionin terms of increased loan access, particularly for start-ups and service SMEs and collateral requests. Employing semi-structured interviews, we confirm that Kafalah has achieved success for some SMEs, but has notmet all of its objectives regarding start-ups, services and collateral requirements. We recommend that government-backed loan programmes should be developed in conjunction with all stakeholders to ensure interests are aligned, to minimise information asymmetry and to enable SME growth in a vibrant eco-system, within an integrated suite of entrepreneurial policies and supports.

Keywords: Kafalah, SME, Stakeholders, Financing, Collateral, Entrepreneurship.

1. INTRODUCTION

Small and medium-sized enterprises (SMEs) have been recognized as the foremost drivers of economic growth and development of any nation as they facilitate job creation and economic diversification (Wangmo, 2015). The influence of SMEs on the growth and development of both the European Union (EU) and the Gulf region has been extremely critical in recent times (Steffen, 2017).

SMEs have been found to possess the capability to benefit immensely from globalization and, as such, deserve adequate and sustainable public policy support to help them grow without limitation. This need has motivated the introduction of various government-sponsored intervention programmes by different countries, both from the EU and the Gulf regions to promote the sustainable development of SMEs (Steffen, 2017; European Commission, 2017).

In the Kingdom of Saudi Arabia (KSA), Waked (2016) noted that the SME sector has significant economic potential and this SME potential could enable the Saudi government to reduce its reliance on the oil industry, which is an unsustainable and depletable source of income that will deteriorate within a few decades (Sivakumar and Sarkar, 2012). However, despite the promising potential of SMEs in the economy, these enterprises still struggle to obtain finance in the KSA and remain either un-served or under-served by commercial banks (Rocha et al., 2011; Waked, 2016). Given the nature and size of these businesses, banks and other financial institutions are often reluctant to lend them money (Coleman, 2004). Indeed, there is evidence of a lending bias against SMEs, due to the characteristics of their businesses and the inexperience of their owners and/or managers (Debo, 2006; Sarapaivanich, 2006; Waked, 2016). It is within this context that the Saudi government, similar to other governments in the Gulf region, have introduced a financing intervention programme to support SMEs who wish to obtain external finance. This is known as the Kafalahprogramme and it is a bank loan guarantee scheme. This SME loan guarantee programme was established in 2006, and it has recently been re-validated under Saudi Arabia's Vision for 2030.

The need for public policy interventions in the SME sector is evident (Waked, 2016). Indeed, according to Shalaby (2004) the lack of funds, information, SME policy structures, regulations, and incentives are among the major problems that confront SMEs in Saudi Arabia. These problems are mainly attributed to the non-existence of government support authority (Shalaby, 2004). These problems motivated the introduction of Kafalahprogramme by the government in addition to the need for economic diversification and the over-reliance on oil revenue (Alribi et al., 2022). In relation to financing SMEs, banks in the KSA were found to be generally hesitant to offer loans to SMEs, mainly due to the risk (adverse selection) and transaction costs involved (Abalkhail, 1999). In fact, the debt capital of SMEs forms less than 2 per cent of Saudi banks' total lending (Global Competitiveness Form, 2015; AlMaimani and Johari, 2015). Accordingly, the government has chosen a strategic direction for achieving social and economic development by giving the SME sector dedicated financial support in order to create a flourishing entrepreneurial eco-system.

1.1 The KafalahProgramme

The Saudi Arabian government has recognized access to finance as a key barrier to the development of SMEs in that ecosystem; hence, the introduction of the SME finance intervention fund. The Kafalahprogramme was developed as a policy response to the unsustainable reliance on oil revenue in the KSA. It was also introduced to facilitate the access by Saudi SMEs to finance at various stages of their life-cycle, particularly in the start-up stage. Through the Kafalahprogramme, the KSA government aims to bridge the gap between the funding requirements of SMEs and the loan requirements of banks by reducing the loan risk borne by banks. This, thereby, encourages banks to consider SME loan applications that they previously would have rejected.

The key objective of the Kafalahprogramme is to encourage Saudi banks to lend to the SME sector by guaranteeing up to 80 per cent of a loan. Specifically, this guarantee aims to reduce the need for SME collateral, to minimise the perceived default risks, and to focus on assisting start-up businesses, services firms, and SMEs with a limited financial track record (Altokhais, 2016; Jafori and Al Mamun, 2017). Under this loan guarantee scheme, the Saudi government has pledged to repay any defaulted loans made by banks to Saudi SMEs (Hasbani and Kingsley, 2011) with the intention of reducing adverse selection for banks when making SME lending decisions. The introduction of the Kafalahprogramme reflects a similar call from researchers for governments in less developed countries to introduce government-backed loan guarantee schemes to increase funds to SMEs, where their credit information and collateral is deficient (Mullineux and Murinde, 2014).

The introduction of the Kafalah guarantee programme with a central government support authority (the Kafalah office), has demonstrated the commitment of the Saudi government to the SME sector. Indeed, Jafori and Al Mamun (2017) applauded the existence of the initiative but did not examine the effectiveness of the programme.

Altokhais (2016) suggested that the implementation of the Kafalahprogramme is the panacea to the problem of banks' lending to SMEs, and it is also the solution to problems experienced by SMEs when it comes to accessing finance. The early evidence revealed that SMEs have limited access to finance and this hinders their growth, especially in developing economies where the major source of finance to SMEs is bank lending; as such, the efficient and effective performance of their businesses has been negatively affected (Altokhais, 2016). This study, however, did not present the extent to which the government financing intervention programme could facilitate increased SME access to credit facilities. While the Kafalah office produces reports on the global outcomes of the Kafalahprogramme (Saudi Industrial Development Fund, 2019), little is known about the implementation of the Kafalahprogramme from the perspective of key stakeholder, the financial intermediaries and the Kafalah office.

This paper aims to address that knowledge gap by independently examining the efficacy of the programme from the perspective of financial intermediaries and the Kafalah office in relation to its key objectives (SME access to external funding, a reduction in collateral requirements, and specification supports for start-ups and service SMEs), through an institutional theory lens. The remainder of this paper is organized as follows; Section 2 describes the literature on similar government loan guarantee schemes and introduces the theoretical foundations of the institutional theories that influence bank financing to SMEs. Section 3 explains the methodology employed in this research, section 4 presents the findings of this study, and section 5 presents the conclusions and recommendations.

2. LITERATURE REVIEW

Solid evidence suggests that SMEs have faced considerable challenges in accessing funds from traditional commercial banks, in particular in less developed countries (Beck et al., 2007; Allen, et al., 2016; Jafori and Al Mamun, 2017;Otchere, et al., (2017);Waked, 2018). These difficulties encountered by SMEs have propelled governments of both developed and developing economies to introduce various government-sponsored financial interventions programmes to enhance the ease of flow of credit facilities to SMEs, which was not available to these businesses previously (Cowling, 2010; Cowling and Siepel, 2013; Martí and Quas, 2016). However, the success of these interventions in facilitating SMEs' access to finance with minimised collateral requirements, reduced default rates, and enhanced accessibility of credit for start-up businesses, has produced mixed results for SMEs in the literature (Zia, 2008; Cowan et al., 2015; Quartey et al., 2017) and positive results for banks (Liang et al., 2017).

In the Gulf region, the Bahraini government has introduced a World Bank entrepreneurial support programme, called the "Tamkeen programme". The Tamkeen programme was introduced in 2007 with the support of the World Bank and was designed to train and provide financial support to SMEs in the Bahraini. The finance for the programme was derived from fees imposed on foreign employees working in Bahrain. Various banks and financial institutions have key access to the programme to provide both financial and material resources needed for the sustainability of the programme.

In the same vein, Kuwait has operated an SME support programme for a long period, and this programme is similar to the Kafalahprogramme in Saudi Arabia. In 1996, Kuwait introduced a finance guarantee programme through the Kuwait Investment Authority, to the tune of 100 million Kuwait Dinar (328.7 million USD), as financial support to SMEs in the country. It was initially in the form of loans to SMEs, but due to the high rate of loan defaults, the programme has now been re-designed to take an equity stake in SMEs that are considered promising to the economy rather than merely granting loans (Steffen, 2017).

In Qatar, there has been considerable government involvement in SME development through government agencies. For instance, since 1997 the Qatar Development Bank has offered a concessionary loan of 5 per cent with a maturity period of 8 years to SMEs. When Bosma and Levie (2009) examined the nature of the SME sector, they found that the SME sector is underdeveloped as it has not attracted sufficient attention from policy makers, due to the relatively small population of the country. Another influencing factor is the fact that most of the active population are considered for public sector employment immediately after graduation from secondary/high schools. Given the considerable impact of SMEs in developing other countries' economies, however, the Qatari government has arranged for the introduction of other SME support policies and programmes with assistance from the World Bank and the United Nations Development Programme (UNDP).

The intention behind this was to encourage the innovation and development of new businesses across the country. In particular, the Qatar Industrial Manufacturing Company was established to support the training and finance needs of medium scale firms (Steffen, 2017; European Commission, 2017).The increasing rate of government-sponsored loan guarantee programmes in many countries as a way of promoting SME lending may be based on the implicit assumption of the presence of market failure in the provision of credit facilities by banks. Thus, by changing the risk-return payoff for commercial banks, there should be an increase in the willingness of banks to lend to informationally opaque and/or asset-poor SMEs with viable funding proposals (Honohan, 2010; Cowling, 2010; Cowling and Siepel, 2013). Despite the popularity of intervention programmes, there is still an intense debate among scholars and practitioners about their potential effects on SMEs' loan accessibility; especially in relation to start-up businesses, collateral requirements, rates of default, and the overall success of the intervention programmes.

Research on the effectiveness of government-sponsored finance interventions has produced two broad positions. Advocates for government-sponsored finance interventions, according to Cowan et al. (2015), argue that the interventions facilitate a reduction in collateral needs and enhance access to finance by weak capital-based SMEs; which are profitable ventures, although they are constrained by financial capacity.Opponents of government-sponsored financing interventions argue that such programmesdistort the financial performance of firms. Zia (2008) suggests that SMEs believed that since the loan has a public guarantee, its repayment is not compulsory; thus resulting in increasing default rates. This argument is based on the increased incidences of risky loans advanced to poorly performing firms under loan guarantee programmes in Africa, Latin America, Malaysia, and Indonesia; programmes which all culminated in higher default rates (Cowan et al., 2015). Though these high default rates exist, however, they are not sufficient proof that guarantee schemes are associated with economic distortions. Furthermore, a firm's repayment behaviour may not necessarily be influenced by the presence of a guarantee scheme.

It has been reported in the literature that numerous successful government loan guarantee schemes have existed in many developed and developing countries (Beck et al., 2010; Boschiet al., 2014; Honaghan, 2008). Such programmes enable partial coverage of potential losses so that the government shares the risk with the bank (adverse selection or moral hazard) that the guaranteed loans may default, which is enabled by the government covering a predetermined percentage of the outstanding loan (Beck et al., 2010; Honohan, 2010). This also describes the Kafalahprogramme in Saudi Arabia; albeit other programmes do not cover 80 per cent of the loan, as is the case with the Kafalahprogramme.

Research conducted by Uesugi et al. (2010) focused on a government guarantee programme in Japan. These researchers concluded that though credit guarantees increase the availability of credit in the short term, most participants in the guaranteeprogrammes experience deterioration in their long-term performance on the loans. Cowling (2010) investigated a government credit guarantee programme in the U.K. He found that the programme achieved its primary objective of increasing the availability of credit; however, the effect of the programme on economic incentives is unclear.

A review of a guarantee scheme in Malaysia (as one of the developing countries) by Boocock and Shariff (2005), failed to produce conclusive evidence about the effectiveness of the programme. Their study also suggests significant losses borne by lenders. Research was undertaken by Cowan et al. (2015) on the effect of credit guarantees on credit availability and delinquency rates based on the operations of the Chilean Credit Guarantee Programme (FOGAPE) between January 2003 and September 2006. They have found that firms that have both guaranteed and non-guaranteed loans are 1.67 per cent more likely to miss payments on their guaranteed loans, but are not more likely to default on total loans. These findings suggest that guarantees affect firms' incentives to repay loans but not their long-term performance. They equally found that firms selected into the guaranteeprogrammes are 1.17 per cent more likely to default on their loans compared with similar firms that borrow without guarantees. Overall, while there are a lot of government-sponsored programmes, the impact of these government loan guarantee schemes are diverse and some have unintended negative consequences. In a more recent study on the Kafalahprogramme in the KSA, the authors found that the Kafalahprogramme as implemented by the financial institutions was biased against start-up businesses, as they have the lowest capacity to provide collateral from the perspective of SMEs (Alribi et al., 2022). This study, however, did not examine the Kafalahprogramme from the other stakeholders' (government and banks) perspectives.

2.1 Research Questions

Given the mixed results about the effectiveness of government-sponsored guarantee programmes, particularly, with respect to credit accessibility to firms, this study aims to evaluate the performance of the Saudi Arabian Kafalahprogramme from the perspective of some key players in the SME funding arena. This research focuses specifically on loan accessibility to start-up businesses, collateral requirements, repayment defaults, and the overall performance of the scheme in the KSA. This paper aims to provide more evidence on the effectiveness of the Kafalahprogramme from the perspective of key stakeholders. Hence, this study will address the following research questions:

- *Has the Kafalahprogramme increased access to loan facilities for SMEs in the KSA?*
- *How has the Kafalahprogramme facilitated support for start-up businesses and the SME service sectors?*
- *How has the Kafalahprogramme addressed or resolved the demand for collateral from SMEs by banks?*

This paper addresses these issues within the stakeholdertheoretical framework that influences bank financing to SMEs in Saudi Arabia.SME bank financing is explored from the perspective of the three main stakeholders: the borrower (SME), the Kafalah office (government), and the lenders (banks). Agency theory is an aspect of stakeholder theory that is concerned with resolving problems of moral hazard and adverse selection that arise from the relationship between the principal (banks) and agent (SMEs), and also between the Kafalah office/government (Principal) and the banks (Agent). The banksact as an intermediary between the Kafalah office and the borrower (SMEs). The Kafalah office does not directly contactthe SMEs. SMEs apply for a bank loan from commercial banks, the banks send the loan applications to the Kafalah office requesting a loan guarantee, and the Kafalah office issues the guarantee; then the bank funds the SMEs under the Kafalah guarantee.

2.2 Agency Theory

Agency theory is an aspect of stakeholder theory that is concerned with resolving the problem that arises from the conflicting desires or goals of the principal and the agent. The theory explains the relationship that exists when one agent determines the work and another undertakes it (Mole, 2002). In this arrangement, two problems may arise; adverse selection and moral hazard. According to Mole (2002), adverse selection occurs when the principal is unable to verify that the agent is as qualified as he/she may represent. Moral hazard falls within the realm of agency theory and, in this case, it arises from loan transactions between banks and SMEs. This occurs when the conduct of an SME exposes a bank to a potential default risk, where often the financial provider is unaware of this information (Holmes et al., 2003). When SMEs' actions are contrary to the loan terms and conditions, this raises the issue of moral hazard; however, this risk is somewhat opaque due to information asymmetry between the banks and SMEs (Deakins and Hussain, 1994). The probability of moral hazard increases when a firm has a tendency to exercise less caution in the loan transaction contract, resulting in inevitable loan defaults (Mac an Bhaird and Lucey, 2010).

Holmes et al. (2003) indicate adverse selection happens where information relating to the borrower's credit capacity, risk, and benefit is not well known by the lender (financial institution), or that more information is not available to the lender as it is to the borrower. Hence, financial institutions, in a relatively deprived situation, are only able to leverage on collateral security and raised lending rates to reduce the potential risk of credit losses (Cheng Ya and Zhifei, 2014). Banks may not have all of the information that will assist the loan decision-making process, and this excludes many SMEs from obtaining the required funds from the banks. Adverse selection is a very destructive issue as it limits SMEs' ability to raise debt finances from external sources, such as banks (Hernández-Cánovas and Martínez-Solano, 2007).However, issues like information opacity, a lack of trading history, and the risk of failure have been underestimated by policymakers as factors that influence the decision to offer SMEs finance through the Kafalahprogramme (Alribi et al., 2022).

It is clear that SMEs in Saudi Arabia face challenges when making financing decisions (Waked, 2016), which can be attributed to banks' adverse selection problems; this, in turn, has implications for accessing finance. The introduction of the Kafalahprogramme was expected to guarantee the financial institutions of their loans and make up for the possible inadequate information available to them, in regard to the credit worthiness of the SMEs in the kingdom.

In this regard, the extent at which the Kafalahprogramme has realized its goals and objectives from the stakeholders' perspective is worthy of investigation, and this recognition has prompted this research project.

2.3 Stakeholder Theory

This paper explores the success or otherwise of the Kafalahprogramme from the perspective of banks and the government (the Kafalah office), not limited to Stakeholder theory explains how managers and stakeholders relate together, behave, and view their roles and actions about the firm (Friedman and Miles, 2006). For instance, the stakeholders in relation to the Kafalahprogramme include the government (through the Kafalah office), banks, and the SME operators. Their actions and inactions are capable of influencing the operational activities and financial mobilisations by the firm(Donaldson & Preston, 2003).The stakeholders can influence businesses' success or failure and can play an important role in salvaging business failure, in addition to enhancing the economic survival of the firm. In fact, some authors, such as Altman et al. (2010), have proposed that SMEs have the tendency to experience high financial risk compared to the large firms. An SME's survival informing (relaying) of its effort of gaining cognitive and moral legitimacy is determinedby the institutional environment where such an SME exist (Bruton et al., 2010; Gibson, 2012). Institutional theory presupposes that the activities of firms are influenced and fostered by institutions (Bruton et al., 2010). For instance, entrepreneurial opportunities are restricted by the institutional environment which equally influences theirsize, access to finance, and the rate of new firms' entrance into the market.

The conduct of stakeholders in processes associated with business finance can play a significant role on firms' accessibility to finance, in addition to bearing a considerable influence on an SME's ability to overcome financial distress and ensure firms' survival, and growth (Altman et al., 2010; Perini, 2006). From a financial point of view, SMEs are more heavily dependent stakeholders' conduct and this is because they have low capitalization compared to large firms. This makes them depend heavily on creditors, which is noteworthy considering that these businesses generally have lower or low credit ratings, thereby making it more difficult for them to access credit (Whinger, 2014). Thus, in explaining SMEs' accessibility to finance, especially, within the context of financial interventions such as Kafalahprogramme, the conduct and views of stakeholders (which in the case of Kafalahprogramme include the bank, governmental Kafalah officers, and the SMEs) are very germane. It is on this basis that this study evaluates the success of Kafalahprogramme from the stakeholders' point of view.

3. METHODOLOGY

In order to address the research questions of this study, a qualitative study involving semi-structured interviews was conducted. We interviewed Kafalahprogramme stakeholders that are central to the operational activities of the programme in KSA; comprising the director of the Kafalahprogramme administration and six leading banks participating in the operation of Kafalah in the KSA,[1]totalling seven (7) respondents purposively selected for the study. The reason for selecting these respondents was based upon the fact that they are advantage leaders and are in a good position to give detailed and reliable information about the programme. The banks selected for this study are based on the Saudi Industrial Development Fund ranking (2016) of the leading banks that support the Kafalahprogramme. These 6 banks dominate 90 per cent of Kafalahprogramme support.

Among these six selected banks,the interviewees include a manager of a commercial bank who also had contemporaneous roles as a member of the Chamber of Commerce, a founding member of the Business Entrepreneurship Council, a member of the General Authority for Small and Medium Size Enterprises, and also a management member of the Kafalahprogramme committee. Also, among these six interviewees, we interviewed a regional bank director who has a regional understanding of the banking industry. This demonstrates that the interviewees for this study are individuals with strong network positions and extensive banking experience, they are also highly responsible and influential, and are at a vantage position to express their opinions about the Kafalahprogramme in a reliable fashion. We also interviewed two managers of the SME departments at two commercial banks, in addition to two lending officers from the commercial banks selected.

The banks have been purposively selected and the managers of these banks have been interviewed based on a snowballing sample. The Kafalahprogramme manager was first interviewed, who then recommended the

1 The banks' managers interviewed pledged anonymity

manager in each of the six leading banks for further interview. This further shows the robustness and the authenticity of the responses to this study's research questions. The interviews took place in the respondents' offices at a pre-planned allocated time. The respondents provided written consent that they had been informed that the interview would be recorded. They were also informed that the information would be confidently, anonymously, and securely stored. They were clearly informed concerning the objectives of the study, together with clear information concerning any risks and precautions associated with the interview procedures. The interviews were recorded with the permission of the interviewees. These were first recorded in Arabic and were then translated into English. These interviews were organised based on the themes of this study using content analysis.

The research paradigm for this study was based on the outcomes of a previous related study by Alribi et al. (2022), who suggested that future research could examine the Kafalahprogramme from the perspective of stakeholders other than SMEs (the banking sector and the KSA government), to provide a deeper understanding of the efficacy of a government loan guarantee scheme for SMEs. The research aims and questions for the study were adequately captured and incorporated into the interview guide. The interview guides were organised into two sets of questions; the first set for the director of the Kafalahprogramme and the second set for the managers of the selected Banks. Each of these guides contained questions bordering on the extent at which the Kafalahprogramme facilitated access to loan facilities for SMEs in the KSA, enhanced support for start-up businesses, and the SME service sectors. Questions were also present concerning how the programmehas addressed or resolved the reliancefor collateral from SMEs by banks.

4. DISCUSSION OF FINDINGS

By thematically analysing the transcription of the interviews, we have attempted to make sense of the Kafalahprogramme initiative from the perspective of the stakeholders. We have also generated findings to support/reject the research questions within an institutional theory framework. The major areas of evaluation of the effectiveness and the success of the programme have come from the double aspects that clearly stood out in the findings, mainly; (i) defaults in repayment, (ii) start-up business support, (iii) business sector preference, and (iv) the collateral requested by banks when lending to SMEs.

4.1 Evaluation of the KafalahProgramme

As stated by Friedman and Miles (2006), the stakeholder's theory postulates that the success or otherwise of an entity and/or any programme requires the coordinated cooperation and commitment of the various stakeholders. In relation to the subject of this study, the various stakeholders include the government by means of the Kafalah officers, the banks, and the SME operators. The success of the Kafalahprogramme, therefore, is hinged on these coordinated efforts; thus, this section of this research evaluates the success of the Kafalahprogramme from the stakeholders' perspective and theory.

Although the Kafalahprogramme was initiated in 2006 in Saudi Arabia, notable successes have been recorded. The appreciable success of the programme can be measured by the number of guarantees that have been offered by the programme, the extent at which the collateral need of borrowers has been minimised, the flow of funds to SMEs in all sectors, as well as the level of awareness and understanding of the people with regard to the programme. Analysing the success level of the Kafalahprogramme using those measures reveals that while the programme was outstandingly successful in some aspects, it has not recorded substantial success in some other aspects. Considering the extent of the flow of funds to SMEs being guaranteed by the Kafalahprogramme, the director of the Kafalahprogramme noted that:

There is an improvement in the total financing by one billion Saudi riyals in 2018 compared to the same period last year.

Director, Kafalahprogramme

Considering the capital base of the programme, which determines its level of expansion, it was found that *the programme started with a capital of 200 million riyals (53.3 million USD), which is now round 1,000,300,000 riyals (266.75 million USD), and has recorded wide expansion in scope and coverage* considering the level of awareness of the programme by the SME operator which ordinarily would determine the level of their patronage of the programme. It was noted that:

In the beginning, the programme was not fully understood, but today all of the banks hope to use the Kafalahprogramme. In the beginning, the applicationwas minimal, but now there is competition between banks to become part of the programme, as they have realized that the Kafalahprogramme exerts an important role inmitigating risks. They now deal with the Kafalahprogramme more frequently than before.

(Bank A)

Given the above quotes, it can be deduced that there is a new coordinated commitment among the stakeholders: the banks central totheprogramme; the government who have reaffirmedits commitment to Kafalahthrough the increased capital base for the programme;and the SME operator equally showed increased interest in borrowing through the programme. Regarding the extent at which the loan facilities are now provided by the banks to the SMEs operators, following the guarantee offered by the Kafalahprogramme; it was noted that, with the presence of the Kafalah guarantee, the banks now extend more loan facilities to the SMEs.

In fact, the Kafalahprogramme greatly encouraged the banks to lend to the firms, noting that they do not lend to anyone unless they have been investigated from all sides, but some aspects may be ignored because of the coverage of the Kafalahprogramme.

(Bank B)

The Kafalahprogramme could be said to have recorded appreciable success by facilitating access to loan facilities by the SMEs, as observed by the interviewees. This is notable in the admission by Abu Hasnat and Shahedin (2017), who noted that this programme contributes to the development of Saudi society in the all regions of the KSA. The beneficiaries from loans have invested in different fields, construction, property, and trade, or even in inventories,whichhave all reflected a positive impact on the Saudieconomy.This all indicates considerable success and this addresses the first question in relation to the increased access to loan facilitates for SMEs in the KSA.

The Kafalahprogramme, however, still has some progress to make as there are still some grey areas yet unachieved, especially when judging from the adverse selection and moral hazard perspective of agency theory. For instance, as revealed in the literature, the coverage level of the Kafalahprogramme is still below average, suggesting the adverse selection challenges (indicating the borrower's credit capacity information, risk, and benefit) are not adequately available to the lenders and, as such, the banks are sceptical at lending to many SMEs based on the unavailability of their financial information. This is consistent with the opinion of Hassan (2018), who has noted that since its inception, the Kafalahprogramme has given 18,289 guarantees to 8,933 SMEs, of the value SR[2] 8,925 million (2,380 million USD), and total approved financing of SR17,929 million (4,781.5 million USD), representing an approval rate of 49.8 per cent since inception. This could be linked with the low patronage of SME operators and could also possibly be linked with the inappreciable level of awareness of the people about the programme. The banks may not have all of the information that would assist the loan decision-making process, and this excludes many SMEs from obtaining the required funds from the banks. Adverse selection is a very destructive issue as it limits SMEs' ability to raise debt finances from external sources, such as banks (Hernández-Cánovas and Martínez-Solano, 2007).

The problem of the low accessibility of SMEs to finance is, however, also to be found in other countries. The King Abdullah Economic City report conducted by Osama et al. (cited in the Wamda Research Report, 2017: p.29), noted that the top three challenges present in SME development (policies and regulations, access to finance, and talent) are not unique to Saudi Arabia. These three challenges are universal and entrepreneurs in developed economies, such as the USA, often face these same obstacles. The difference is the scale, the context maturity, and the nature of the business (Osama et al., cited in Wamda Research Report, 2017).

4.2. Start-up Firms

2 Saudi riyals

The Kafalahprogramme policy is intended, among other things, to increase lending to start-up businesses, so that the financial challenge will not hinder their growth and development. It was found that the start-up businesses were usually confronted with credit accessibility and that the banks were not lending to them. So, to encourage banks to lend to the start-up businesses, the policy of Kafalah was initiated. However, it was discovered that even with the Kafalah guarantee, the banks still do not grant credit to the start-up businesses. This is well documented in all the interviewees' submissions concerning the start-up phase of a business. While the claim of the Kafalahprogramme, through its director, is that start-up businesses are supported in the guaranteeprogramme, commercial bank directors interviewed claimed otherwise. The director of the Kafalahprogramme illuminated the important of the intervention programme concerning this subject. This is a special product which has been set up for start-up businesses and it runs during the first year of the enterprise. It may start with financing from SR 1 million (266.60 million USD) with a 70 per cent guarantee, and in the second year SR 2 million (533.30 million USD) with a 75 per cent guarantee. In the third year, this amount rises to SR 2.5 million (6666.60 million USD) with an 80 per cent guarantee.

However, it appears that despite the encouragement of the government to ensure the development of start-up businesses, these firms are still yet to be considered favourably by the banks. This is contained in the responses of the bank officers as follows:

Banks still do not want to lend to start-up businesses […] *in general, banks have no desire to serve the start-up phase of a business and, to be honest, start-ups are not attractive businesses for banks and commercial banks are not the right place for them for finance* [...] *Despite all of these inducements (the Kafalahprogramme), commercial banks still do not lend to start-up businesses. They pay attention to the existing customers in the main and, of course, the banks' conditions regarding the acceptance of a customer vary from one bank to another.*

(Bank A)

Another interviewee's remark was:

We generally do not say that we do not grant loans to start-ups but we are very conservative when granting financial facilities to start-up enterprises because they lack the experience and management practice on which werely.

(Bank B)

Probing further on the minimum number of years which the bank can consider before granting a loan to the firm, one of the bank directors interviewed responded that: "we require that the age of the enterprise be a minimum of 3 years, but it is possible to take exception. Of course, that is the rule but the exception is very limited"(Bank B). The view of the interviewees on the restriction of loan advancement to the start-up business is, however, not surprising; and, in fact, this is consistent with previous studies. Most small business start-ups have no monetary benefits motive and are usually the owner is the boss, they have a flexible schedule, or they have controlled working hours (Hurst and Pugsley, 2011; Babandi, 2017).

Another interviewee, while giving the reasons for not supporting start-up business, remarked that:

For the start-up business, the bank is naturally cautious. Start-ups appear to donothing; they only ask the bank for money. We do not need to explain why we don't fund start-ups as it is illogical to fund businesses that cannot demonstrate their ability to pay back the loan.

(Bank C)

The Kafalahprogramme did not contribute much to SME financial accessibility, as banks do not fund the start-up firms because they are considered as lacking the experience and management practice on which the banks can rely.

(Bank A)

The above submissions corroborate the OECD report (2018) where it was shown that while countries have introduced financing interventions to ensure that credit becomes more easily available for some SMEs, other segments of the SME population still face substantial difficulties in accessing debt finance.

The report further established that transaction costs are particularly high in relative terms for micro-enterprises, start-ups, young SMEs, innovative firms, and businesses located in remote and/or rural areas; potentially excluding these enterprises from any sources of formal external financing.

4.3. Business Sector Preference

Part of the goals of the Kafalahprogramme was to support SMEs in the service, tourism, and retail sectors; especially, those just coming up in order to develop the service sector of the economy. A cursory look at the implementation of the Kafalahprogramme, however, indicates that since these firms have no adequate fixed assets to pledge as collateral, the banks do not consider them for the loan facility. This implies that even with the presence of a guaranteeprogramme, the banks still do not lend to these firms because of their inadequate fixed assets to pledge as collateral. It is, however, observed that this high insistence on collateral differs from one bank to another, and this is well expressed in one of the interviewees as follows:

As I mentioned earlier, even with the presence of the Kafalahprogramme, the construction sector is a more preferable sector for the banks to finance. Although,Kafalah does not refuse to guarantee firms from any sector once they are recommended by the commercial banks for the guarantee scheme, the banks have their own preferences. What is important is the conviction of the commercial banks that the loan will be repaid and the convictions of the banks vary from one to the other. The NCB Bank has different opinions than the Al-Gazira bank and each bank has its own targeted sectors as well.

(Bank A)

One of the interviewees, while giving reasons for banks' preference for construction firms, responded that they prefer construction firms in order to be able to include governmental documents in payments. It was also observed that business sector preference and consideration by banks can equally determine whether the bank will honour the credit request from a customer or not. In fact, regardless of whether the Kafalahguarantees a particular customer or not, if the business intention of the customer does not conform to the bank's area of interest, the loan will still not be granted. This is well expressed in the following statement from the interviews:

The most important sector is construction because this sector dominates the economy; although, today there is more diversification as commercial activities have increased recently (since 2017). Other activities emerged in the market, such as manufacturing, services, and retail; but the most preferred firms are those who have long been in existence and those that can afford collateral.

(Bank A)

It can be established, however, that the preference given to a business sector differs from one bank to another, and that the area of interest equally differs based on the city in which the firm is located. This is supported by evidence from studies conducted by Treichel and Scott (2006), Kwong et al. (2012), and Osei-Assibey et al. (2012), which have all established evidence for business sector preference in finance accessibility.Muravyev et al. (2009) also observed that the supply side of finance discriminates concerning the sector, meaning that in situations where groups have similar grounds in terms of credit worthiness and solvency, bankers' decisions about credit applications are different. With regard to the tourism sector, one of the interviewees responded that:

It is necessary to support the tourism sector. Kafalah mentions this point. Starting from 2018, we will concentrate on supporting tourism. It is obvious that there is a new impetus to support tourism.

(Bank E)

The issue of concern expressed by the interviewees is the fact that access to debt finance is still not as easy as possible, and in support of the OECD (2015) report, it is becoming more difficult for firms with a higher risk-return profile, such as innovative and growth-oriented enterprises, whose business model may rely on intangibles, and whose profit patterns are often difficult to forecast (OECD, 2015). The foregoing discussion provides evidence in relation to the second research question, that through the intermediation of Saudi banks, the Kafalahprogramme has severely failed to support start-ups and the service sector. This failure is due to their concentration on their own traditional patterns of lending in the main to established businesses with tangible assets that act as collateral, without due regard to the objectives of the Kafalahprogramme.

The role of the Kafalah Office is also called into question here as it appears the office did not exercise sufficient influence over banks to stress the requirement of meeting the objectives of the Kafalahprogramme. However, there is a growing awareness from the banks, that they need to adapt their lending practices to fully embrace the aims of the Kafalahprogramme.

4.4. Default in Repayment

On the possibility of default by the customers who have secured loans through the Kafalahprogramme, the general response was that the presence of the Kafalahprogramme does not reduce the tendency for default, and in fact, it may even contribute to its increase. One of the interviewees responded that:

In fact, the businesswho fails to repay will do the same whether the loan is under Kafalahprogramme or not. It does not matter whether the SMEis under the Kafalahprogramme or not, if the entrepreneurfaces problems with his enterprise.

(Bank D)

The default rate is related to the market. However, there was a noticeable tendency for an increase in default due to the belief that government would pay on their (the customer's) behalf. This is well expressed by one of the interviewees:

The Kafalahprogramme will repay on the SME's behalf, so the entrepreneur is incentivised to ask for a loan. That means he does not borrow to develop his business. The entrepreneuronly wants the money for himself and expects that the government will repay the loan, i.e. he intends not to pay back the loan from the beginning.

(Bank B)

Thus, it can be established that the presence of government guarantee finance interventions rather worsens the tendency for loan default. In this circumstance, therefore, financial institutions, in a relatively deprived situation, can only leverage on collateral security and raise lending rates to reduce the potential risk of credit losses (Cheng Ya and Zhifei, 2014). This is consistent with the findings of Cowan et al. (2015) who reported that these types of guarantees affect firms' incentives to repay loans but not their long-term performance, and that firms selected into the guaranteeprogrammes are 1.17 per cent more likely to default on their loans compared with similar firms that borrow without guarantees. This, however, is unexpected and goes contrary to the tenet of the Kafalahprogramme which has always sought to ensure easy accessibility to loans by SMEs, with the loan being repaid in due course, and in good faith, to the banks without hindrance; thereby strengthening the economy. This paper continues in the following section by highlighting specific areas of SME development, including the start-up phase, sector preference, and collateral.

4.5. Collateral

One of the policy objectives of the Kafalahprogramme was the reduction in the need for collateral by the banks from firms seeking credit facilities. This was informed by the high gap in access to finance by the firms in the kingdom. The Kafalahprogramme was initiated to bridge the gap and facilitate ease of access to funding by SMEs. As noted in the cross-country evidence provided in the literature, however, it is clear that small and medium enterprises are more constrained in their operation and growth than large enterprises, and access to financial services features importantly among the constraints (Ayyagari et al., 2006). Accordingly, the interviewees gave different submissions regarding the collateral needs for a loan. Contrary to the policy objective, the bank officers interviewed saw the collateral need as a way of covering for the doubtful credit worthiness of the firms requesting for credit facilities, even with the presence of the Kafalahprogramme to guarantee the fund.

Justifying the need for collateral, one of the interviewee's responded that: 'if the client history is not safe. We take collateral other than Kafalah in a few cases; it may be a property or stock portfolio' (Bank D). Banks still ask for collateral, except when the firm has a good history and position, and their credit registry is good and there is no need for Kafalah as their position is stable, especially middle-sized enterprises. Also, it may be needed in certain cases relating to small and medium firms when asset financing is required, which is not covered by Kafalah. The request for collateral by banks varies from case to case, while some banks ask for it, some do not. However, the coverage is not only the condition for granting a loan, the fundamental issue is the credit position or worthiness, the business being carried out by the customer and its good reputation. Banks consider the existence of Kafalah as only a matter of mitigating the risks and not the basis for granting the loan.

This aligns with the study conducted by Fraser (2009), who discovered that despite the financing interventions, there is much agreement in the literature that conventional screening lending criteria is still implemented by banks in the cases of loans issued under public guaranteed schemes.

Asking whether there were instances where the clients would be guaranteed by Kafalah, the banks replied that they still ask clients for additional coverage, like assets and property pledges. One of the interviewees responded that the request for collateral from their clients, even after acquiring the Kafalah guarantee, is often in favour of the Kafalah itself because the Kafalah also has fears of possible default by the client.

No, but sometimes if it is a factory, for example, and the client owns both the land and the buildings, a pledge may be required either by us or by Kafalah. Pledges are most often in favour of Kafalah, not the bank, because Kafalah also fears possible default by the client.

(Bank C)

Holmes et al. (2003) indicate adverse selection happens where information relating to the borrower's credit capacity, risk and benefit is not well known by the lender (financial institution), or that more information is not available to the lender as it is to the borrower. Hence, financial institutions, in rare situations, are only able to leverage on collateral security and raise lending rates to reduce the potential risk of credit losses (Cheng Ya and Zhifei, 2014).

It was observed, however, that the level of insistence on collateral by banks differs from one bank to the other. While some banks insist generally on the availability of collateral, others only request for it when the credit worthiness of the clients are doubtful. This is against one of the Kafalah goals to support firms with a limited track record. This is well expressed in the statement by one of the respondents that: "we do not insist, except if the client history is not safe. We take collateral other than Kafalah in few cases; it may be a property or stock portfolio" (Bank D).

Considering the kind of collateral usually requested for an interviewee stated that properties, investment funds, and shares are among those usually demanded as collateral:

Sometimes, some people were not given loans because of lack of collateral. If the project may be included under Kafalah, we advise the entrepreneurto apply for theKafalahprogramme and exchange the opinions with them. If they decideto provide him with a loan guarantee, then we will then offerhim the loan.

(Bank E)

Contrary to some advocates in the literature who argue that SME finance guarantee programmes reduce collateral requirements, increasing the access to financing for some low-asset SMEs that have credit constraints could result in profitable investment opportunities (Kuniyoshi and Tsuruta, 2014; Gropp et al., 2017). This study established that while such claims may be true for other countries, in Saudi Arabia, the claims are not true. Thus, the findings of this study corroborate the submission of Berger and Black (2011), in that collateral has an important role in disciplining borrowers after loans are issued, and, as such, even with the Kafalahprogramme in place, banks still rely on and demand that collateral be put in place.

Whether there are instances where the bank does not ask for collateral, one of the interviewees responded that:

Sure, there are customers with a good history and position, and their credit worthiness is good. There is no need for Kafalah as their position is already economically okay, especially for middle-sized enterprises.

(Bank A)

There is no doubt that public intervention programmes such as Kafalah differ worldwide in their pricing; risk assessment and risk management practices; in the role played by government; in the lending criteria (e.g. eligible borrowers and lending terms); in the proportion of the total loan which is guaranteed; in the distribution of losses between the lender and the guarantor in case of default; and in the restrictions which typically concern the sector, type of business, or geographic area of reference (Beck et al., 2010; Honohan, 2010; Ughetto and Vezzulli, 2011). These interventions are, however, similar in terms of their main objective, which is to increase the financial accessibility of SMEs by reducing the stringent conditions and collateral demands by banks.

Thus, given the collateral demands by banks despite the guarantee provided by the government through Kafalah, the success of the Kafalahprogramme in this regard is tainted.In relation to the third research question, the Kafalahprogramme has not fully addressed or resolved the demand for collateral from SMEs by banks.

4.6. Theoretical implications of the findings

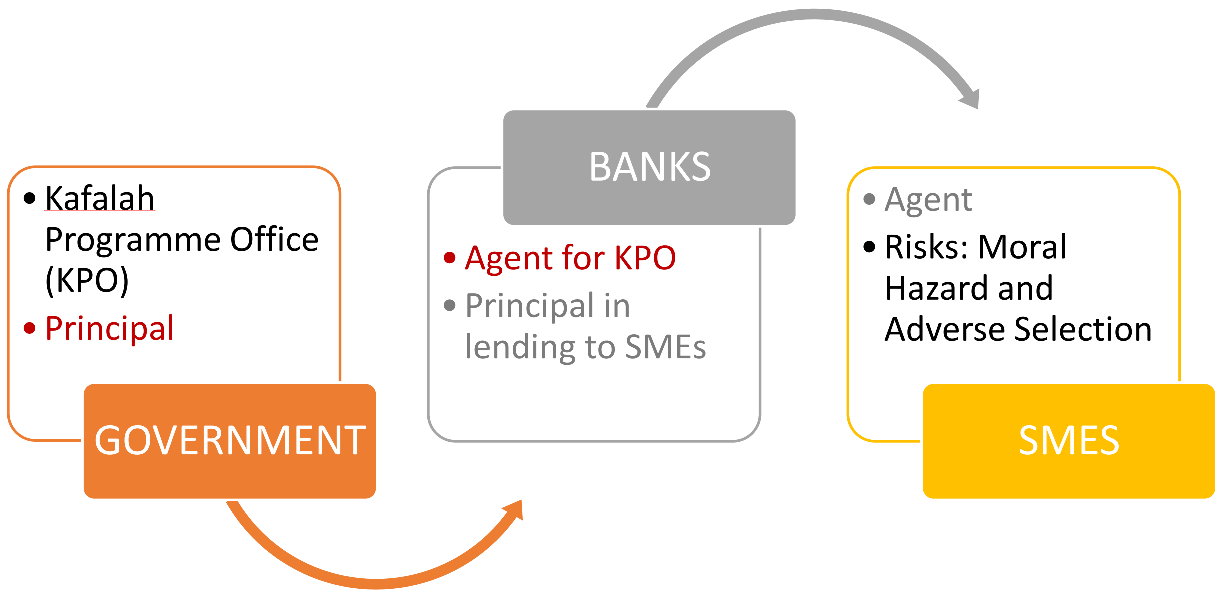
As aforementioned, this study is an evaluation of the Kafalahprogramme through the lens of agency and stakeholder theories. The overall assessment of the interviews with various stakeholders shows that, while Kafalahprogramme has achieved success in some areas, it has not yielded significant success in relation to start-up businesses, service sector development, and a reduction in collateral needs. Banks stubbornly request collateral despite the guarantee provided by Kafalah, thereby restricting the accessibility of bank loans to only those who provide that collateral.

Agency theory with its associated information asymmetry and adverse selection problems as postulated by Jensen and Meckling (1976), involves the struggles between the equity owners and the managers, and between debt holders and equity owners/managers. On one hand, the rift between the equity holders and managers arise due to the inability of managers reconcile themselves to a residual claim and, through managerial opportunistic decisions equity holders are denied their full value arising from their business activities. On the other hand, the rift between the equity holders/managers and the debt providers arises from the contractual arrangement between the two parties which could motivate the equity holders/managers to sub-optimally make decisions that inhibit the full potential of the business. As submitted by Stiglitz and Weiss (1981), agency problems, such as asymmetric information and moral hazard, can influence the accessibility of firms to loan credit and, hence, affect the capital structure of the SMEs.

The source of SMEs' financing challenges lies in the information gap between the borrower and lender of funds, causing serious information asymmetry between the two parties. The lack of relevant information will have an adverse effect on the decision of the lender to lend to the borrower. Asymmetric information, according to Cheng, Ya and Zhifei (2014), can be classified into ex ante informational asymmetry and information asymmetry. While ex ante information asymmetry leads to adverse selection, informational asymmetry leads to moral hazard. This is the foundation for explaining the financial gap between banks and SMEs, in addition to the challenges to financial accessibility faced by SMEs, even with the availability of the Kafalahprogramme in Saudi Arabia.

Specifically, this study shows that the inadequate accounting records generated by SME operators creates the information asymmetry problem for banks, and this has led to the problem of moral hazard, as predicted in agency theory. Thus, the inability of SME operators to present adequate financial record is presumed to lead to moral hazard for the banks, by exposing them to potential default risks, where often the financial provider is unaware of this information, as documented by Holmes et al. (2003). A depiction of the Kafalahprogramme through the lens of agency theory is illustrated in Figure 1.

Fig. 1. The KafalahProgramme through the lens of Agency Theory, with information asymmetry, adverse selection and moral hazard



Source: Authors compilation (2019).

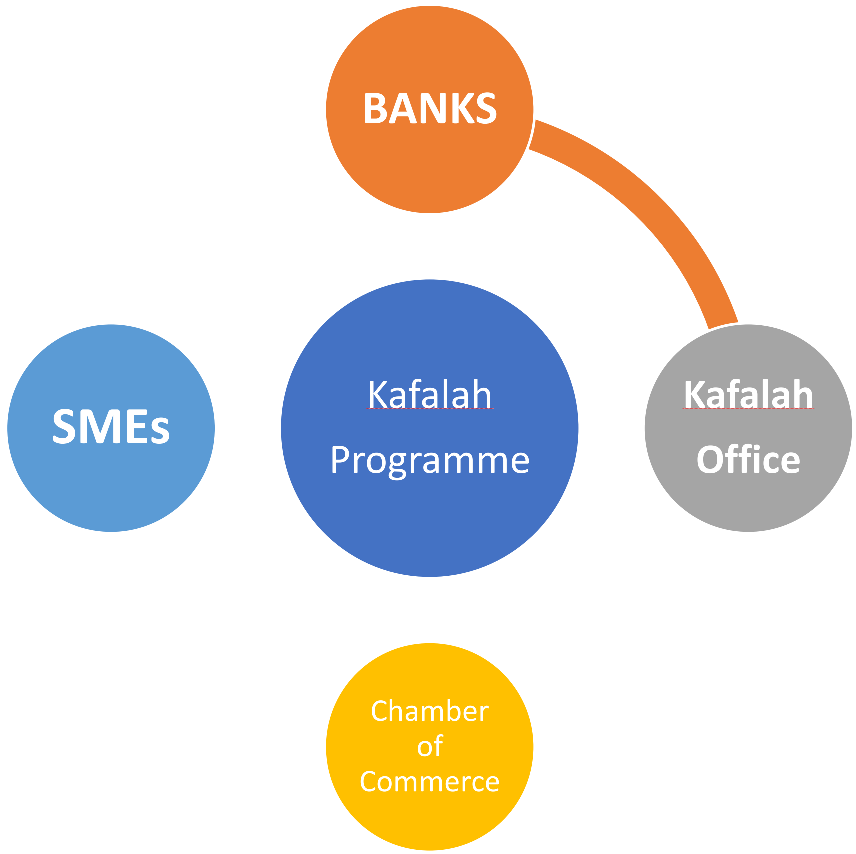
The role of the Kafalah Office as the principal in the Kafalahprogramme is also shown in Figure 1. The manifestation of the information gap between the Kafalah Office and the financial institutions (the agents of the Kafalahprogramme where the power of implementation resides) is evident in the limited success in relation to funding start-up businesses, the neglect of the service sector, and the sustained requirements for collateral from the banks. The traditional lending practices of the banks dominated their lending decisions in relation to start-ups, the service sector, and their demands for collateral, apparently without a full appreciation of the objectives of the Kafalahprogramme and their crucial role in its implementation. The banks' lending practices and their profitability requirements were not considered when the objectives and implementation of the Kafalahprogramme was originally designed.

When examining the Kafalahprogramme implementation, the actors include Kafalah officers representing the government, the credit providers, and SME operators. Rather than assess the programmeon the basis of the binary relationships between the agent and the principal, assessment is best served by examining the roles, interactions and inter-dependencies of all the parties involved. In this context, the success of the Kafalahprogramme is hinged on the operational activities of those various stakeholders. While the agency relationship which arises between the agent and principal is limited to the interactions between some of the actors, it represents a sub-group of the stakeholders involved. Firms do not act in isolation and, hence, must depend on various parties whose actions can affect their success (Mallin, 2004). Thus, the evaluation of the success of the programme is best assessed from the broader perspective of the stakeholders. This theory best provides insights into the Kafalahprogramme operation and the SMEs' accessibility to bank loans in Saudi Arabia.

Stakeholder theory postulates that the responsibility of the firm is to serve the needs of shareholders, employees, suppliers, customers, community, and government, and this implies that the firm is responsible to all the parties, whose activities could impact on firm operation (Freeman, 1984; Donaldson and Preston, 1995; Blair, 2003; Financial Times Lexicon, 2014). The implication therefore, is that, the operational activities of a firm could be influenced by the activities of the parties within the constituency. The firm must not only be able to identify the stakeholders, but also understand their characteristics, power, and position or importance (Huse, 2000). By anchoring this study in stakeholder theory, the evidence from the Kafalahprogramme should be considered within the wider economic and social environment within which it operates.

The wider environment constitutes the SME employees and the shareholders/owners, the government, credit providers, industry advocates and any other parties whose actions and inactions can influence the operation of the firm (Blair, 2003). See Figure 2 for an illustration of stakeholders as they relate to the Kafalahprogramme. The interlink ages between stakeholder theory and agency theory in explaining the Kafalahprogramme implementation in the wider SME constituency is discussed in the following section.

Fig. 2. Stakeholder theory as applied to the KafalahProgramme.



Source: Authors compilation (2019).

The interaction of stakeholder theory with agency theory in explaining the financing gap between the SMEs and banks is an important aspect to consider. As established in the literature, agency theory explores the relationship between the stakeholders of a firm, whereby individual stakeholders have different motives and incentives in regards to the financial health of the firm. In this case, the SMEs, banks, and Kafalah officers all represent the key stakeholders in Kafalah implementation. They all have different incentives, motivations, and aspirations in respect of the economic contract that they form between each other. Banks, being profit-oriented, desire profit in every transaction and, as such, require measures that will guarantee their investment and profitability. This guarantee measure, in the view of the bank, is obtained from properly drafted financial reports that showcase the potential economic buoyancy and progress of any borrower of funds. The SMEs' need for growth and continuous existence requires a constant supply of funds, which is beyond the internal source of the SMEs; hence, their need to seek bank financing.

While being aware of the inability of SMEs to provide collateral as security for the bank loan, the government introduced the Kafalahprogramme to bridge the possible financing gap without considering the banks needs for more than a guarantee to make a positive loan decision (Lean and Tucker, 2001). The inability of SMEs to present proper prepared financial reports created the information asymmetry induced by principal-agent relationship (Binks and Ennew 1997; Lean and Tucker 2001). This lack of financial sophistication on the part of SMEs was not a factor considered when setting up the Kafalahprogramme to benefit SMEs.

Other stakeholders (like the Chamber of Commerce) could have been more involved in the Kafalahprogramme in terms of identifying the training needs and scaffolding the appropriate supports within the SME sector to better avail of the programme. Given the lack of involvement of key stakeholders with the design and particularly the implementation of the Kafalahprogramme, the programme's objectives were destined to always be aspirational.

5. CONCLUSIONS AND RECOMMENDATIONS

This study has evaluated the role of the Kafalahprogramme in improving financial accessibility to SMEs using three indicators: firstly, the extent at which the Kafalahprogramme increased access to loan facilities for SMEs in the KSA; secondly, the level at which the programme facilitated support for start-up businesses and the SME service sectors; and thirdly, how the programme has addressed or resolved the demand for collateral from SMEs by banks, from the perspective of various stakeholders.

Our findings reveal that there were unintended consequences asa result of the introduction of the Kafalahprogramme. There was a noticeable tendency for an increase in loan defaults from SMEs due to the belief that the government would pay on their behalf. It was found that guarantees affect firms' incentives to repay loans. This confirms the previous literature that the behaviour and conduct of stakeholders in relation to financial accessibility could influence the performance of intervention programmes (Friedman and Miles, 2006). Also, start-up firms have not benefited from the programme because, even with the presence of Kafalah, the banks still do not lend to the start-up firms due to the fear of default in repayment. This fear is well-founded, given the evidence elucidated here. This study also uncovered the fact that the collateral request has not reduced despite the guarantee provided for the loan, confirming the presence of adverse selection challenges associatedwith agency theory. This noticeable deficiency in the intervention programme, however, is not unexpected and has been well documented in the literature (Cowan et al. 2015; Quartey et al, 2017). These findings validatethatan intervention programme usually has a lower rate of success recorded in developing countries, due to the programme's short-term objectives and mismatch with the financial needs of SMEs (Beck et al., 2008).

The findings of this study have demonstrated the Saudi Arabian commitment to developing the SME sector in the kingdom, despite the limits of the Kafalahprogramme. This is consistent with Saudi Arabia beingranked 8 out 20 Middle East and North African (MENA) countries (92 out of 190 countries in the world) in terms of the ease of doing business (World Bank, 2018). It is established that the country has shown a noteworthy potential for SME development, which has in turn propelled economic growth and the development of the kingdom. However, with respect to the Kafalahsupport provided by the Saudi Arabia government, this study has revealed that the level of stakeholders' contribution is minimal. It is acknowledged that the KSA is abundant in terms of financial resources, but entrepreneurs find it difficult to access the funds from financial institutions, claiming that banks are risk-averse and look for more mature businesses to fund. This fits with a ranking of 6 out of 20 MENA countries(ranked 112 out of 190 countries in the world) for Saudi Arabia for raising credit, as classified by the World Bank (2018).

Even with the availability of loans offered to SMEs, this creates a new set of challenges for entrepreneurs if they cannot repay the loan, especially as a high percentage of start-ups fail, and as such, the start-ups are not well served. Indeed, this finding echoes the ranking by World Bank that finds Saudi Arabia in the lower quadrant (141) for starting a business, globally and ranked 13 out of 20 among MENA countries (World Bank, 2018). Due to the moral hazard experienced by banks, banks can only leverage on the basis of collateral; hence, the continuous demand for collateral by banks.

The implication of these finding, is that while the intervention programme has guaranteed the repayment of the loan in case of default, the programme has overlooked other important aspects of the implementation process that could align the needs and desires of the various stakeholders which ultimately promotes loan accessibility forSMEs. For instance, the programme does not make provision for the training of SMEs on financial management practices which can reduce information asymmetry and motivate the banks to lend to the SMEs with limited or no collateral. The programme does not emphasize the fundamental provision of both soft and hard information by SME operators seeking a loan, which may reduce the risk of moral hazard, in addition to reducing the demand for collateral. This study, therefore, concludes that the Kafalahprogramme has not effectively realized the objectives for which the programme was designed, through the lens of stakeholder theory.

The programme should, therefore, be reviewed to identify how to overcome the barriersto the realization of its objectives in light of this research. The major issue of concern, as established in this study, is the critical role of collateral in determining the accessibility to bank loans for SMEs.

5.1 Recommendations

Based on the findings of this study, the following recommendations are made for SMEs, banks, and government. Firstly, in order to enhance the Kafalahprogramme the Saudi government needs to align the financial intervention with the interests of the banks, SMEs, and any other relevant stakeholders, based on the results of the stakeholders' evaluation of this programme offered in this paper. There is need for the formulation of integrated measures and plans through the reformation and restructuring of the present Kafalah scheme. We recommend that the governmentprioritise sectors for lending based on approaches that do not solely rely on collateral lending, developed in conjunction with financial institutions.

For example, we suggest that the KSA government (possibly through the association of the Chambers of Commerce) create a comprehensive stakeholders' advisory forum, where all stakeholders can meet and discuss their developmental needs (see Figure 3 for an example). Through this forum, the government can act as both a facilitator and sponsor, and can gather feedback on the performance of the Kafalahprogramme and its economic reality, and other policy initiatives. By allowing all the stakeholders a voice and creating transparent space for discussing the programme's implementation, the government can efficiently gather diverse perspectives on the efficacy of SME policies and use that relevant information to enhance new policy development and current policy performance. This interaction could potentially also reduce information asymmetry, costs, and the risks associated with loan transactions between banks and SMEs. This suggestion is in line with Quartey et al., (2017), who stress that success in relation to increasing funding for SMEs is dependent on the transparency of these types of programmes. Also, Mullineux and Murinde (2014:71) counsel that the private sector (banks) and governments should partner in the development of guaranteeprogrammes to align incentives and maximise the spread of finance to SMEs. In short, by acknowledging the voices of the wider constituency as part of the policy development/amendment process, Saudi government policy is more likely to be objectively successful through the clear alignment of the incentives of various stakeholders to the policy objectives (see Figure 2 for an illustration of the application of stakeholder theory in this case).

Fig. 3. The KafalahProgramme Advisory Forum: an application of stakeholder theory in the financing accessibility of firms in Saudi Arabia

Source: Authors compilation (2019).

Next, we make recommendations for SME operators to improve their access to credit and grow their businesses. Among the key challenges militating against the SME accessibility to credit facility, as established in literature and supported by the findings of this study, is the information asymmetry caused by SMEs' lack of dependable financial information, which is required by banks for a full evaluation of the financial prospects and credit worthiness of the borrower. Information opacity is a feature of some SMEs which widens the information gap between them and the banks. Due to this information asymmetry caused by inadequate accounting practices, the banks are not able to assess the financial records of SMEs and their credit worthiness. The poor financial management practices of SMEs hamper the quality and quantity of financial information that they can produce. The non-disclosure of vital information renders the SME a high-risk investment, leading to a lack of bank credit. The persistence of this problem has hindered banks from granting credit to SMEs and has necessitated the insistence on collateral as security for the loan, despite the guarantee provided by Kafalah. Therefore, to resolve this, it is recommended that SMEs avail themselves of the opportunity to improve their financial management practices by seeking and attending financial management education and training. This will enhance their financial management practices and advance their economic potential. Having and maintaining good financial records will not only mitigate information asymmetry, thereby facilitating their accessibility to credit facility, but will also assist them in making timely, reliable, and informed decisions about their ventures, increase their potential for expansion and reduce the likelihood of loan default.

It is also recommended that SMEs proactively create cordial and strong economic relationships with their banks, by appropriately interacting and sharing timely information with their financial institutions, in order to build their (SMEs') credibility and reputation. It is an established fact that relationship lending has been a successful approach to create a closer and mutual understanding between the lender and the borrower. This approach decreases information asymmetry between the two parties and simultaneously facilitates credit accessibility. The timely and proper sharing of information between the lender and borrower will assist the lender to provide for the financial needs of the borrower, thereby serving as alternative approach to collateral-based lending.

Another recommendation we make is in relation to the banking sector. It is undeniable that banks have an important role in driving the economy of Saudi Arabia and facilitating the development of SMEs in the economy. Given the potential contribution of the SMEs to the growth of the economy, and especially the profitability of the bank, it is highly desirable that banks in Saudi Arabia find an alternative approach to increasing credit accessibility to SMEs, rather than the stifling approach of collateral lending. We recommend that loan officers should be trained to apply other approaches to selecting firms for loan approval, such as relationship lending practices and cash-flow based lending. This will not only improve the economic potential of SMEs but also improve the banks potential profit generated from more sophisticated lending strategies across an expanded loan book.

This study has identified information opacity and adverse selection as factors affecting the financial accessibility of small and medium sized firms, especially for start-ups. Thus, we recommend that in addition to the state-sponsored provision of financial management and financial reporting education and training (delivered directly or delegated to the Chambers of Commerce or education institutions), the government ,could mandate SMEs to maintain proper financial recordsin a manner that should not be too costly or burdensome on the SME, as a condition of qualification for any credit guarantee scheme in the kingdom. The government can also create a database into which every qualifying firm will be mandated to make an abbreviated annual submission of their financial records that will serve as medium through which the government can monitor the growth of the SMEs and changes in the SME sector. Compliance could be linked to specific sector tax breaks, to further incentivisetargeted industriesto formalise their accounting systems and simultaneously, create the financial track record that will support future loan applications.

Another government recommendation is to consider any SME finance intervention programme as a spoke within the wider wheel of SME policy interventions. A comprehensive set of policies should be developed to nurtureanSME ecosystem that will enable SME growth and, in particular, to support high-growth firms.

Government policy could be expanded to include active non-financial support for start-ups and established SMEs, including, but not limited to, e-commerce training, mentoring, and innovation incubation centres for high-potential start-ups. In summary, in order to secure the success of any financial market intervention programme, policy makers need to broaden their approach to policy development from a limited agent/principal perspective to the more comprehensive stakeholder perspective.

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