



Microfinance is the need of the hour

Sultan Sooud Al-Qassemi on why microfinance is so essential for entrepreneurship and job creation in the Arab economies.

Last month, I was part of a team that travelled to Washington, D.C. and met with officials from the US administration. I learnt that President Barack Obama is holding an 'entrepreneurship in Muslim communities summit' next March in the US capital about an emerging phenomenon known as social entrepreneurship. A social entrepreneur is, according to Wikipedia, a person who recognises a social problem and uses entrepreneurial principles to organise, create and manage a venture to make social change. I had never heard of this concept prior to that visit, or so I thought. It turns out that the founder of one of the most popular forms of social entrepreneurship is the Nobel Laureate Mohammed Yunis, who developed the practice of microfinance in 1976.

Microfinance allows low income individuals, who were previously outside the traditional banking and finance sector radar screens, to have access not only to small amounts of funding, but also to insurance, transfer and savings.¹ These funds can be as low as a few score dollars and are usually requested by individuals who do not want charity but need funding to start a business and get a head start in life. By the time Yunis won the Nobel Prize in 2006, Grameen bank had almost seven million borrowers – 97 per cent of whom were women.²

Yunis's work has lifted microfinance into the limelight the world over. Similar concepts are now used in Asia, Africa and Latin America. But I wondered if such an idea could work in the oil-rich Gulf states.

First, it may be unfair to place all the Gulf States in the same basket with regards to the need for microfinance. After all, there are glaring differences between a demographically rich country like Saudi Arabia and a small but extremely wealthy

state like Qatar. Although Saudi Arabia is much wealthier than Qatar overall, the latter enjoys the second highest GDP income per capita in the world and its citizens may not be in dire need for three- and four-dollar digit loads.

The Gulf States can be roughly split into two groups. The first contains the three wealthier states in terms of GDP income per capita: Kuwait, Qatar and the UAE.

The second group comprises the three relatively less wealthy states in terms of GDP per capita: Bahrain, Oman and Saudi Arabia. These states have a significant lower income portion of the population that might benefit from this growing industry.

In fact, microfinance is very much alive and kicking in the Gulf today. In 2007, the Gulf's first dedicated microfinance firm was established when Abdul Latif Jameel Group's subsidiary, Bab Riq Jameel, teamed up with Yunis's Grameen Foundation to create Grameen-Jameel. The institution's mandate was wider than its home base of Saudi Arabia and extended to North Africa, the Levant and Yemen.³ By April 2009, Grameen-Jameel reported that it had already brokered more than US\$44 million through a Guarantee Fund in micro financing transactions in Egypt, Syria, Jordan and Tunisia.⁴

Egypt, the most populated Arab country, saw the establishment by the Egyptian Gulf Bank of a US\$8 million [EGP46 million] microfinance firm that is envisioned to provide about EGP400 million credit facilities by offering loans from EGP4000 to EGP35,000 via its planned 300 country-wide network.⁵

The truth is that in order for this industry to flourish in the Gulf and the Arab world, the regional economic regulators must reform their laws to make it possible for small businesses to be established from

homes and bring down licensing costs. It will not make sense to encourage micro financing that involves extending a few hundred or thousand dollars to aspiring youth and then burden them with a series of debilitating fees, charges and hidden costs.

According to the United Nations Development Programme, the Arab world needs to create 50 million new jobs by 2020 to accommodate its young and growing population.⁶ The government sector, which is a major employer in the region, will not be able to accommodate all the new job market entrants and it is time for the regional governments, including those in the Gulf, to think outside the box. Even wealthier states like Kuwait and Qatar can chip in and create microfinance funds for other Arab states' citizens. The private sector in the region can also start extending loans either directly or by creating microfinance websites and portals.

Creative, widespread and pragmatic entrepreneurship is the only way for Arab countries to be able to provide work for tens of millions of young Arabs. Microfinance must be utilised as part of a spectrum of tools, including economic reform and reduce startup cost reduction. Only then will the region be able to provide jobs to our youth.

Footnotes

- 1 http://en.wikipedia.org/wiki/Microfinance#cite_note-0
- 2 http://www.usatoday.com/money/smallbusiness/columnist/abrams/2006-12-14-microcredit_x.htm
- 3 <http://gulfnws.com/business/general/first-arab-microfinance-investment-symposium-in-dubai-1.142461>
- 4 <http://zawya.com/story.cfm/sidZAWYA20090414051547/?query=grameen>
- 5 <http://www.syminvest.com/market/news/microfinance/egyptian-gulf-bk-to-launch-microfinance-mortgage-lending-firms/2009/4/26/1809>
- 6 <http://www.tradingmarkets.com/site/news/Stock%20News/2625058/>

Sultan Sooud Al-Qassemi is a non-resident fellow at the Dubai School of Government and founder of Barjeel Securities in Dubai. He can be reached at www.sultans.ae. Opinions expressed in this article are those of the author and do not necessarily represent those of the MONEYworks group of magazines. This article should not be misconstrued as financial advice.