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# Arab world needs to create 100 million jobs by 2020

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**KUWAIT:** Small and Medium Enterprises (SMEs), according to Capitas Group International (CGI) head, will open doors for the Gulf countries to diversify their economy in addition to supply job opportunities to the large number of unemployed citizens. In an exclusive interview with Al Watan Daily, Naveed Siddiqui, Chief Executive Officer (CEO) of CGI, stated that in two years, the number of Kuwaitis working in the private sector climbed only four percent. He noted that the SME sector will help Kuwait, as well as other countries in the region, diversify their source of income, and to lighten their heavy reliance on the oil and energy sector.

## How do you evaluate the role of SMEs in the economic development of the GCC countries especially in Kuwait?

**Siddiqui:** SMEs create employment, enhance competitiveness, and contribute positively to socioeconomic indicators such as gross domestic product (GDP) growth and the number of middle-income households in an economy. In the Arab World, the World Bank estimates that by 2020, up to 100 million new jobs will need to be created in order to keep employment levels where they are today. This poses a major challenge with regards to job creation as young individuals begin to enter the workforce.

In Kuwait too, there is a large young population looking for jobs. The government sector has traditionally been the employer of choice but that sector is already saturated. This leaves the private sector to provide the jobs needed. In 2009 the percentage of Kuwaitis working in the private sector was only 20 percent. While this is up from 16 percent in 2007 there is still considerable room for growth. In addition, a thriving SME sector will help Kuwait diversify its source of income away from its heavy dependence on oil/hydrocarbons which accounts for the majority of the country's revenue and GDP.

## What about the mortgage market in the GCC countries and the potential of the market?

**Siddiqui:** The potential for the mortgage market in the Gulf Cooperation Council (GCC) is very strong. There is a growing young population across the GCC that aspires for homeownership rather than living in family homes or renting. In order to establish and maintain a stable mortgage market the industry must be focused on meeting the needs of the indigenous population. This is primarily important in countries such as Saudi Arabia.

## However in order for the mortgage market to truly expand there are key areas for improvement:

- **Market Information/Transparency:** Critical market data such as vacancy rates, rental rates, construction completions, and data on property (construction date, size/square meters), and sales transactions has to be readily available.

This will help all stakeholders (e.g. builders, financiers, homebuyers, and the government) participate fully in the market.

- **Regulation:** Defined, enforceable regulations on is-



Naveed Siddiqui, CEO of Capitas Group International

sues such as foreclosure rights or transfer of title will give lenders comfort in the case of borrower default. Without these, lenders will not subject themselves to the risk of lending to customers where their right to repossess a property is not explicitly clear.

In the GCC, governments need to address each of these issues. Therefore, a holistic approach is necessary to create mortgage markets that work for borrowers, creditors, and investors.

## What is CGI's innovative

### Build-Operate-Transfer (B.O.T.) strategy?

**Siddiqui:** CGI's Build-Operate-Transfer (B.O.T.) model was developed to differentiate our way of doing business from typical business consultants. CGI is made up of a team of practitioners. We've built and launched businesses from the ground up. So we want to offer our clients the ability to leverage our ability to execute a business plan. The standard practice for a consultant is to hand a client a set of blue prints and "how to" manuals and walk away with a hefty fee. The risk of launching and running the business is borne completely by the client.

CGI's B.O.T. model reduces the risks associated with developing new platforms by allowing our clients and partners to leverage our depth of operational experience to deliver fully functioning platforms. In each of our engagements we develop and design a customized business platform that meets market demand and adheres to local requirements. We then operate the business from launch through stabilization and work to achieve a seamless transfer of operations to a groomed and seasoned local management team.

## What do you believe are the challenges facing Sharia-compliant businesses in the region?

**Siddiqui:** While the Sharia-compliant finance industry in the region is growing at a marked pace, there are a few specific areas where they can focus. First, there has to be a continuous effort to evolve their product offerings in response to the market's demand. In this respect they are no different from any other business. Consumers should also be fully confident that these products are in

fact grounded in Sharia principles. In addition, Islamic Financial Institutions have to pay attention to developing long term liquidity management instruments that will help to match the risks of assets and liabilities. At the end it all comes down to making sure that innovation is a constant in the industry.

## What do you believe are the advantages of Sharia-compliant services in the region? And to what do you attribute the growth of this recent trend to local and regional clients?

**Siddiqui:** The essential advantage of Sharia-compliant financial services in the GCC is the market's clear preference for it. This is the source of its growth. According to studies, in the GCC over 90 percent of banks are offering or will offer Sharia-compliant finance over the next 12 months, other examples from the Middle East and North Africa (MENA) region showcase the market's demand. Most of the funds launched in the GCC region over the last five years have been Sharia-compliant structures, in line with investor preference. Some industry analysts have even gone to the point of suggesting that it is around 30 percent easier to raise institutional investments for a Sharia-compliant fund compared to a conventionally structured fund. As an example, in line with market demand and trends, all the new banks established in the United Arab Emirates (UAE) over the last five years have been purely Sharia-compliant banks. All of these factors are reasons why the growth rate of assets at Islamic banks outpaced systemic asset growth across the GCC for much of the past decade.

## What would you say the private sector in the region lacks in terms of development?

**Siddiqui:** The private sector in the region can stand to see a more robust SME sector. SMEs create employment, enhance competitiveness, contribute to GDP growth and will help diversify GCC economies and divert them away from reliance on energy.

SME growth can be focused through targeted and specialized regulations and policies. As a first step governments should consider the following as key determining factors for SME development:

- Identify key industries through which they can achieve competitive advantage. Strategies can then be put in place to provide new businesses in these sectors with the right types of funding programs as well as training and business support that address their specific needs. In addition, these programs should be sensitive to the requirements of SMEs at every stage of their life cycle - not just start ups.

- Incentivize the private sector by creating programs that encourage institutions to support local SME sector development. For example, a government financing program for SMEs in targeted sectors will focus bank lending to these industries. These programs should be coupled with training curricula which help staff at lending institutions to manage SME.

- Incentivize multinationals through government subsidies or reductions in certain taxes/costs. They will in turn contribute valuable skills and training to local SMEs to meet higher international standards and enhance their global competitiveness.