

# Fintech Model With Special Reference to SME in UAE

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**Abstract:** *Small and medium enterprises (SME) lending is completely forbidden and considered as high-risk segment in UAE. A new conceptual working model is developed with the existing complexities. This model requires government and industry support, if the support is denied, then this model will not work. This proposed model will overcome the risk of banks and make them to look at the profiles of SME and offer merit-based finance. This Model will open up 50bn dollar market and if this happens UAE will grow rapidly.*

**Key Words:** *SME, UAE, Non-oil GDP, SME finance, Risk Management, FOGAPE.*

**1.Introduction:** With more than 300,000 business units in UAE, listed companies are just 67 in ADX and 59 in DFM, put together 126 (0.042%) which is not a good sign for the country which aims to improve their non-oil GDP growth by 40% in 2016. In UAE, 90% of the business is with SMEs which gives work to 60% of the labor force and add to 70% of UAE's Gross domestic product (Emine, 2012). Banks in UAE are reluctant to back SMEs and the dismissal rates (Khalifa Asset SME Financing White Paper, 2013) were 50-70% in SME loaning. In developing business sectors, SMEs assume a critical function in making work and they are significant supporters of Gross domestic product; (Abdulla and Bin Bakar, 2000); (Kutllovci and Shala, 2013), (John, 2014). The government of UAE and other GCC countries have created major policies for SMEs and a rapid growth is anticipated over the next decade; (Emine, 2012); UAE Ministry of Economy, 2011; (Diaa,2014); (Everington, 2014); (Gutcher, 2014). Troubles on admittance to Back hinders the development of SMEs and economy of the nation (Beck, 2007) (Beck & DemirgucKunt, 2006); (Klonowski, 2012); (Petersen & Rajan, 2002); (Wagenvoort, 2003); (Woldie, Mwitta, & Saidimu, 2012); (Ayyagari et al., 2008); (Wu, Song, & Zeng, 2008). SMEs are the key drivers of growth in developed countries (Ayyagari et al.,2011); (Beck, DemirgucKunt, & Levine, 2005).

Abu Dhabi is the government capital of the Unified Bedouin Emirates and the biggest of the seven emirates having a populace of 2.784 million and having a Gross domestic product of AED 960,146 million. Significant

contribution (50.9%) to the Gross domestic product was from Oil Area and the oil and gas sends out remained at AED 185.2 million. Abu Dhabi's Gross domestic product per capita pay contacted the \$70,000 mark which is higher than the normal pay of the Unified Bedouin Emirates and it positions third on the planet after Luxembourg and Norway. Notwithstanding Oil emergency, Abu Dhabi is as yet in a solid financial situation as it has not caused any immediate obligation in longer than 10 years. The emirate keeps on being the most elevated supporter of the UAE'S all out Gross domestic product and continues giving liberal monetary dies down to the more modest emirates in the nation.

By Gross domestic product structure per area in 2013, development area involves the primary spot among non-oil areas with 9% commitment followed by assembling with 5.7%, monetary exercises, protection and property exercises imparted the third spot to 4.8% each, though open administration and guard were at 4.6% followed by transportation and putting away with 3.7% and discount and retail with 3.6%. The volume of non-oil unfamiliar exchange of the Emirate of Abu Dhabi in 2013 assessed with AED 623 billion including AED 100 billion of imports. All out fares arrived at AED 523 billion including AED 16 billion as non-oil trades. All out volume of re-sends outstretched around AED 16 billion.

Within excess of 300000 business in UAE, however the recorded organizations are 67 in ADX and 59 in DFM, set up 126 (0.042%) which is certainly not a decent sign for the nation which expects to improve their non-oil Gross domestic product development by 40% in 2016. The principal issues with the SME'S was not brought into spotlight despite the fact that there where parcel of discussions and investigates in this field.

About 94% of the 300,000 business undertakings are SMEs. Out of these 300,000 SMEs just 100,000 are bankable. The current Market Size is 100bn and the SME market is relied upon to develop at 30%. Be that as it may, the significant issue is 200,000 SMEs are not offered advances. In excess of 40 Banks in UAE

are having SME money item yet neglect to offer the credit to them because of different reasons. There were 0-70% of dismissal rates (Khalifa Asset SME Financing White Paper, 2013) in SME loaning. This dismissed SMEs are given credit by private monetary foundations and some of the time business banks at a high rate, which prompts default. Concerning Dubai SME Credit frames over 40% of the Gross domestic product and the Gross domestic product 's fundamental donors are Administrations and exchanging. The significant commitment (42%) to Dubai's work is from SMEs and in that 30.6% comes from Little and Miniature SME Fragments (Eissa Al Zaabi 2014). From the Graph Above we can see that the Genuine SME advances to add up to Advances is just 4% in UAE, yet when contrasted with other Islamic Talking nations Morocco stands first with 34% followed by Turkey. Additionally, we can derive that, about 77% of Dubai SMEs have no admittance to bank loaning and 80% of Dubai new businesses are self-financed.

**2. Major Challenges:** As indicated by the insights given by the Dubai Office of Business and Industry, SMEs contribute 86% of occupations in the private area and 60% to the nation's Gross domestic product. Around 50% of the SMEs imploded during their initial five years of tasks; (Khalique et al, 2011). There are numerous purposes behind their disappointment, yet the most widely recognized reasons are examined beneath:

**2.1 Financing Issue:** The greatest test for the advancement of SMEs in UAE is the accessibility of account. We realize that working capital is the blood of business and the accessibility of working capital credits is an essential which guarantees the development of SMEs. Bank Finance is the most widely recognized and often utilized was another significant issue looked by SMEs in UAE.

**2.2 Ineffective Business Links:** SMEs go about as columns and establishments for the developing nation. In any case, the test which UAE faces in setting this base is helpless availability and systems administration. The organizations are not firmly weaved and associated which could offer the help to the new and forthcoming. type of getting finance for SMEs; (Norton,

2003). An overview led by Abu Dhabi Gathering of Financial Advancement indicated that 67% of the business people said that inaccessibility of advances and credit from the banks was the significant issue looked by them.

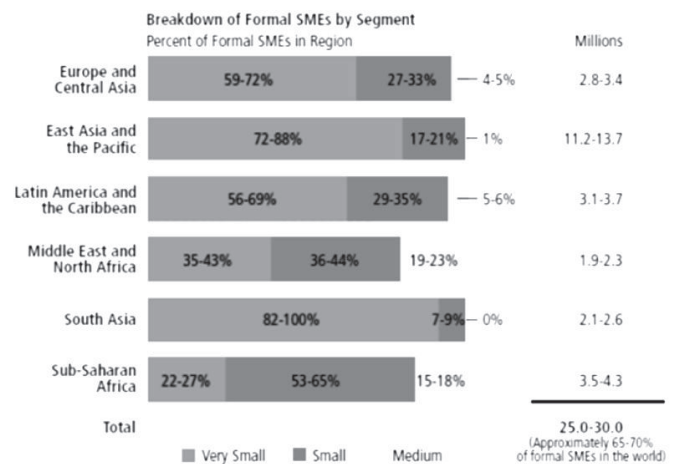
**2.3 Lack of Management Skills:** Another factor which goes about as a hindrance to the development of the SMEs is the absence of the executives’ abilities of the business visionaries. As the organizations develop, wide abilities set are needed to deal with the activities and to hold/deal with the representatives. Absence of abilities in the entrepreneurs and the absence of aptitudes and mastery among individuals holding the administration position has caused the disappointment of the most SMEs; (Silva and Majluf, 2008). Business visionaries for the most part don’t have such administration ability to handle issues of different sorts and to concoct creative methodologies to additionally develop the business and increment authoritative execution.

**3. Research Methodology:** The serious issue looked by SMEs in UAE was acquiring money; (Norton, 2003). The scientist built up Another SME Account Model for banks to conquer the money issue. This model follows up on defeating the different monetary danger looked by the monetary foundations.

**4. SME Fintech Model:** UAE business credit market was 300billion, however banks offered advance to tune of 100billion in the year 2021 which records to 33% of the complete market. The significant issue for the banks for non-contribution of advances was credit hazard. This has been to a great extent because of three elements: (i) instructive imbalances identified with SMEs that make chances, for example banks are generally unfit to check the reliability of SMEs and hence request higher charges and security prerequisites; (ii) low income per customer; and (iii) the requirement for nearby presence, and along these lines for an enormous branch organization, which may not really be ideal from a cost point of view, particularly in an agricultural nation setting; (Beck et al., 2008).

In view of IFC study (given underneath), In creating economies the all-out interest for credit by all formal and casual MSMEs in 2011 was assessed to be \$2.1 to \$2.6 trillion \$3.2 to \$3.9 trillion universally, which is identical to 30 to 36 percent of current exceptional SME credit. The absolute number of formal and casual MSMEs is assessed to be 360 to 440 million in creating economies.

**Chart 4.1: Formal SMEs in Developing Economies**



**Table 4.1: Existing (UAE current Loan Market Structure)**

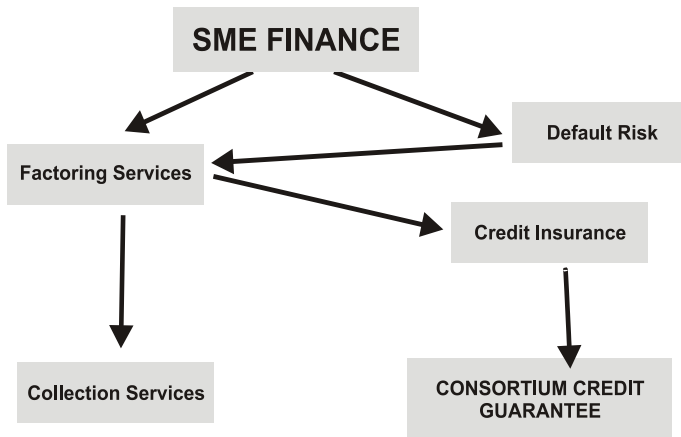
	Current Market	Volume of Business	Expected Growth 2025
No. of SMEs	300,000	300bn	400,000
No. of SMEs not bankable	200,000	200bn	250,000
No. of SMEs Offered Loan	100,000	100bn	150,000

Source: IFC Enterprise Finance Gap Database

From the above table, it is obvious that the SME current market size in 300bn including 300,000 SMEs of which just 33.33% of the SMEs are just offered credits and the market is required to develop by 400bn in 2017. Presently we can comprehend the power of the subject, where we can locate that 200bn dirhams is unexplored by monetary establishments because of

the credit default issue. This made the scientist to build up another model to fund this chaotic section.

**Chart 4.2: SME Fintech Model**



Source: From Study

**5. Methods and Concepts used:**

**Default Risk:** This is the major risk (loan will become NPA) faced by the financial institutions on issue of SME loans.

**Factor:** Factor means financing on receivables; where the receivables of business communities are financed as working capital loan.

**Credit Insurance:** This an insurance which covers the default risk by taking a small premium.

**Consortium Credit Guarantee:** Consortium means a special investment group which is formed to offer Partial Credit guarantee to Financial Institutions to cover the credit risk of business loans.

The model proposed has been gotten from an effective model called FOGAPE from the condition of Chile and the Canadian banks utilized this amazingly to beat the monetary danger. Incomplete Credit Assurance (PCGs) are additionally an effective illustration of explicit public projects to help SME admittance to back. PCGs were founded in a few created and agricultural nations, where it might add little esteem except if they are appropriately planned or assessed; (Saadani et al., 2011). Planning PCGs ideally requires dealing with the unpredictable harmony between high

effort and also, and monetary manageability; (Saadani et al., 2011). In Canada, for instance, it is assessed that 75 percent of the absolute assurances were being utilized by firms that would have confronted challenges getting an advance without the plan; (Riding et al., 2007). FOGAPE—a public asset to ensure advances to little firms in Chile—utilized inventive plan for SMEs, having a one of a kind offering technique where banks can offer for the assurances as indicated by the danger profile of the SMEs, and setting up a danger-based methodology with sensible expenses that rely upon the default rates. FOGAPE has a yearly reach of 30,000 assurances and a low total deficit proportion of 1.5 percent; (IFC, 2011).

**6. Plan of operation:** The Scientist attempted to utilize FOGAPE Model to make Another SME money Model. In UAE SME account fragment is high danger because of different reasons. In this way, in our new model, the analyst attempted to decrease the danger by financing the SME credits through a Factor. In this Model, the factor renegotiates 80% to the Credit sum quickly to the Monetary Organization by which the Default danger of the monetary Foundation was completely covered. However, the default hazard was moved to the Factor. The default danger of the factor will be covered by a Danger Protection which takes a little charge from the factor to cover the danger of the EMI. This is called as Halfway Credit Assurance, where the advance isn't covered however just the EMI is covered. Thus, every EMI the default hazard is covered by this Credit Danger Insurance agency. This Credit Danger Insurance agency is shaped by a Consortium which comprises of Government, Industry and Monetary Foundation (FOGAPE Model).

**7. Findings and Discussion:** This model has been disclosed to government and the public authority and numerous different banks. Value of this model has been investigated and the working achievability must be tried. This model has demonstrated huge reaction from banks where they truly valued the plan, yet they are powerless until the public authority consents to accompany a consortium to help this movement.

**8. Conclusion:** As talked about, SMEs are the spine for UAE development, yet a great deal of unsolved issues that are restricting the development of UAE. As a commitment to society, the scientist has built up another SME Money model which was very much tried in Canada (FOGAPE) can a potential answer for understand the long-standing issue looked by the SMEs in UAE.

**9. Scope for further work:** The theoretical SME Account Model is tried in UAE now and the equivalent can be applied in any of the GCC nations, since all the GCC nations face the comparable sort of SME issues. Expectation this model will offer an answer for the long-standing issues looked by the SMEs.

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