

# Chapter 10

## A Study of Two Microfinance Models and Their Suitability for Egypt

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### ABSTRACT

*Developing countries around the world strive to implement one of the several current models of microfinance. This study focuses on two models: Grameen Bank, which is considered the change factor for the microfinance field, and Kiva.org, an organization that understood the importance of the Internet and crowdfunding to create a different model of microfinance. The purpose of the study is to analyze these two models and determine which would be more suitable for application in Egypt. This study provides a strengths, weaknesses, opportunities, and threats (SWOT analysis), a financial analysis, and a structural analysis, as well as historical background for both organizations along with a scan for the political, economic, social, and technological infrastructure in Egypt to determine the most suitable microfinance model.*

### INTRODUCTION

Currently, poverty and unemployment are the two main obstacles facing developing countries. According to Giugale and Mubarak (1996), more than 23% of Egyptians live below the poverty line, and unemployment is almost 30%. The country is trying to get through the bottleneck of the political situation that has existed since the 2011 revolution, and efforts are ongoing to solve the problem of employment.

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One of the most effective solutions other countries have undertaken to deal with employment issues is implementing microfinance.

Microfinance institutions around the world and specifically in developing countries have helped thousands of people to cross the poverty line. These institutions help the poor through different financial services including microloans, microinsurance, and microsaving. Given the current economic conditions and the number of microenterprises that exist in Egypt that might need support, the country should view microfinance as a major economic tool. Many African countries and others in similar situations have tried different microfinance solutions.

## **Statement of the Problem**

Poverty and unemployment in Egypt are among the main issues facing the country after the revolution in 2011 (Giugale & Mubarak, 1996). Microfinance institutions are one of the solutions for these issues, yet in Egypt, microfinance institutions are still underdeveloped and have dependency on external fund sources which has led to a very slight impact on the society. Small projects that help the poor and unemployed segment of the society usually require limited amount of fund that can be supplied through microfinance institutions.

## **Purpose of the Study and Thesis Questions**

Microfinance has become a solution in several countries in the help of elevating poverty and decrease unemployment. The purpose of this study is to analyze two microfinance models that were implemented successfully in other locations. Study the current environment in Egypt based on four aspects; political, economic, social and technological, and recommend one of these two models to be implemented in Egypt.

**RQ1:** “How did Grameen Bank achieve success in Bangladesh?”

**RQ2:** “How did Kiva.org manage to use online microfinance and crowdfunding concepts so successfully?”

**RQ3:** “Which microfinance model out of Grameen Bank and Kiva would be more successful in Egypt?”

## **Significance of the Study**

The results of this research would help social entrepreneurs in Egypt identifying the most appropriate model of microfinance between the two models studied to be implemented in Egypt. The study would also help researchers and students that are willing to investigate more in microfinance and crowdfunding. Arab spring revolutions have given hope to all young generations that they could make their countries a better place and they can elevate poverty and fight unemployment. This study could be a base for starting these battles with a national project.

## **Methodology**

The method followed in this paper to answer the research questions is based on the findings from scholarly references, dissertations, academic research and articles. The conceptual framework of the study is explained on the first section of the paper in order to engage the audience on the main concepts behind

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