Microfinance in the Arab States

Building inclusive financial sectors

United Nations Capital Development Fund

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Chapter 1: Introduction

This survey is the third in a series of publications documenting the state of microfinance in the Arab States Region and tracking the development of this young industry over time. It attempts to map out the major suppliers of microfinance in the region and highlight the challenges and opportunities present for developing a mature industry. The first two surveys were undertaken by the Private Sector Development Group of the Middle East and North Africa Region of the World Bank. The Sanabel Microfinance Network was the key force behind the third survey, having decided to institutionalize the regular update of MFI data as part of its core regional initiatives.

1.1 Sanabel: the Microfinance Network of the Arab Countries

Sanabel is a membership-driven regional network for microfinance institutions in the Arab world. Today the network has 27 institutional members distributed as follows:

Egypt: 11
Jordan: 4
Lebanon: 2
Morocco: 5
OPT: 1
Tunisia: 1
Yemen: 3

The boundries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

These 27 MFIs together are estimated to serve 70% of the number of active borrowers in the region.

Sanabel was founded in September 2002 by 17 representatives from seven countries (Egypt, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Tunisia, and Yemen). The founding members—14 institutions and three individuals—formulated the by-laws and membership criteria, vision, and mission and objectives of the organization, and elected an Executive Committee for the network. The start-up of Sanabel and the first few years of its operations have been supported by the Rockdale Foundation.[1]

Criteria for membership in Sanabel include (a) a focus on lending to microentrepreneurs; (b) an operational presence in one or more Arab countries; (c) a minimum of three years of operations; (d) a minimum of 5,000 active clients, with special consideration for some countries; (e) the goal of achieving full operational and financial sustainability; and (f) a commitment to transparency, evidenced by the annual submission of financial information to external auditors, the Micro Banking Bulletin (MBB), and the Microfinance Information eXchange (MIX). Affiliate members that may not yet meet the above requirements but are expected to do so over time are also allowed. Affiliate members cannot vote in general assembly meetings of the network.

1.2 Data Collection

In the spring of 2003, Sanabel sent out a comprehensive 19-page questionnaire through its local country representatives to all the known MFIs in the Arab States asking year-end 2002 data on loan portfolios and key performance indicators. The questionnaire also asked for information on governance, legal issues, management issues, and products and services.

The initial feedback was disappointing, with a small minority of institutions responding. This poor response was most likely caused by the fact that the questionnaire was too long and very technical in nature.[2] Furthermore, Sanabel was still quite young and as such not fully established as a representative network in the region. At the same time, the use of local MFI focal points operating in the same sector may have made MFIs reluctant to reply because of competition issues. Finally, the fact that in some countries, such as Lebanon, many MFIs did not meet the Sanabel eligibility criteria for becoming a member further reduced MFI receptivity to the initiative.

However, after substantial time and effort was dedicated to follow-up with respondents, a relatively complete and reliable 2002 year-end dataset was established for 51 MFIs. A mini-questionnaire covering year-end 2003 data (where available) was collected during the Conference on Microfinance in the Arab

Box 1: Sanabel's Vision, Mission, and Objectives

Vision: Microfinance institutions, people, resources, and ideas are connected across Arab countries.

Mission: To maximize outreach to Arab microentrepreneurs by providing microfinance service providers with a forum for mutual learning and exchange, capacity building services, and advocacy for best practice microfinance; and by serving as a catalyst for the industry's ongoing growth and development.

Objectives:

- Enhance the capacity of microfinance service providers by providing support in areas such as training and the translation and distribution of microfinance literature into Arabic.
- Promote and facilitate the exchange of information across the industry using an annual conference, the Sanabel website and newsletter, and the Arab Microfinance Gateway, and work for the development of best practice microfinance in countries where it is not prevalent.
- Improve transparency and standards of best practice by encouraging participation in the Microfinance Information eXchange, and the utilization of external audits and standard reporting and ratings services.
- Promote an enabling environment for best practice microfinance through public awareness and regulatory education.

World in December 2003, closing many of the gaps and providing further basis for analysis.

Annex 1 provides a list of the programmes that participated in the 2002 survey and that provided year-end 2003 data. It also indicates those MFIs that did not fill in the questionnaire but were considered important for the total picture in a country, and for which secondary data were used where available. When key players did not respond to either survey the authors relied on secondary sources.

The report uses year-end 2003 data for the most important indicators such as active clients, loan portfolio outstanding, and gender outreach. For more detailed analysis on issues such as governance, client characteristics, and business activity, the 2002 dataset is used.

Whenever historical data are used, the data provided by the MFIs in the 2002 survey are updated with the 2003 mini-questionnaire. Thus the 2002 dataset is more complete than the datasets used in the 1997 and 1999 surveys. A comparison with these two surveys was therefore not done or recommended.

The sources for the tables and figures in the report are the Sanabel surveys unless otherwise noted.

1.3 Scope of Survey: Countries and Content

The Arab world is made up of more countries than those included in this survey. Countries such as Sudan, Somalia, and Djibouti are not covered because they either have no microfinance industry or only a few very small programmes on the ground. Other countries, such as Bahrain, while possessing small-scale experiments on the ground, have a very different set of experiences owing to the higher per capita income levels of the Gulf States, which make it difficult to compare them with other lower- and even middle-income countries in the region.

Although some initial data from Iraq are becoming available, the quality is highly questionable. Once security is fully restored and basic infrastructure fully rehabilitated, microfinance could be an important development tool in this country of more than 24 million inhabitants. It is hoped that the vast sums of money being invested for microfinance in Iraq will lead to positive developments that can be included in the next survey.

The authors are pleased that Syria is included for the first time. Only year-end 2003 data were available but no historical data. Syria's microfinance industry is the youngest in the region and, as a result, the lack of historical data does not much affect the historical regional picture.

The initial intent for the survey was to include a complete treatment on the legal and regulatory environments in these countries and its impact on the growth of the microfinance sector, including issues related to interest rate policies, legislative requirements, access to and regulations governing commercial funding, and access to capital markets. However, because of unanticipated funding constraints, the separate enabling environment review was not undertaken, forcing the authors to rely on the institutionally focused survey data. Wherever possible the authors have drawn from their first-hand knowledge of the countries to comment on known bottlenecks to a financial systems approach to development; however, a more comprehensive cross-regional analysis of these issues was not possible.

Finally, it should be noted that the survey covers all programmes that provided data, and not simply those adhering to good practices. Because an important characteristic of the region is the presence of several very large government-sponsored programmes that do not follow good practices and that distort the market, the inclusion of their data was essential.[3] Such programmes are present in Tunisia, Jordan, Egypt, and Syria, where the following programmes were included: Development Employment Fund in Jordan, Agency for Combating Unemployment in Syria, and the Banque Tunisienne de la Solidarité (BTS) in Tunisia. The Social Fund for Development in Egypt was excluded because no reliable data were available.

Chapter 2: Microfinance as Part of the Financial Sector

2.1 What is Microfinance?

Microfinance is the provision of financial services such as credit, savings, cash transfers, and insurance to poor and low-income people. These services are generally characterized by:

- Focus on the entrepreneurial poor—provision of services to low-income clients, women and men, lacking access to other financial institutions.
- Client-appropriate lending—simple and convenient access to small, short-term, and repeat loans, with the use of collateral substitutes (for example, group guarantees or compulsory savings) to motivate repayment. Informal appraisal of borrowers and investments (often character based), with simple cash flow and project appraisal for larger and longer-term loans.
- Provision of secure, voluntary savings services, which facilitate small deposits, convenient collections, and ready access to funds, either independently or with another institution.

Microfinance is a powerful poverty alleviation tool. The provision of financial services to the poor helps to increase household income and economic security, build assets and reduce vulnerability, create demand for other goods and services (especially nutrition, education, and health care), and stimulate local economies. When possibilities for asset management are limited, the role of microfinance in risk management or protective strategies may be as or more important than income generation in preserving a household's standard of living.

However, it is estimated that only 10% of the estimated one billion of the world's economically active poor have access to basic financial services. In most developing countries this lower segment of the market remains largely unserved because the financial sector prefers to focus on the wealthiest segments of the market, which are perceived to be less risky and more profitable.

2.2 A Financial Systems Approach

There is consensus within the development community that to bridge this supply gap and help governments reach their commitments to achieve the Millennium Development Goals (MDGs), including cutting absolute poverty in half by 2015, microfinance should be provided in a sustainable manner. The demand for these services is simply too great to be filled by government and donor funds and will need to be met by commercial capital. Thus, increased emphasis has been placed on microfinance institutions operating on a commercial basis and being able to mobilize resources locally, either through taking savings or deposits or borrowing from local banks for onlending or through bond issues. This commercial approach also entails the application of sound business practices, commitment to operational and financial sustainability, and adherence to good governance and clear and transparent reporting.

A financial systems approach that strives to build durable, local microfinance institutions as an integral part of the formal financial sector will be essential to meet these objectives. In addition, it is only through the development of the financial sector as a whole that sustainability of financial services for the lower segments in the market can be ensured and sustainable access to financial services by poor and low-income people guaranteed.

2.3 When is Microfinance an Appropriate Development Tool?

Under a financial systems approach, microfinance programmes should have the development of financial systems for the poor as an overarching objective, not as an end in itself but as a critical means for achieving poverty alleviation objectives. As such, microcredit programmes should focus on building local institutions and markets at macro (policy), meso (industry infrastructure), and micro (retail institutions) levels. Key to these programmes should be support to local financial intermediaries in accessing commercial capital and mobilizing local deposits to promote independence from donor and government funding and the engagement of the private sector. Microcredit programmes that do not support this goal or undermine its development should be avoided in favor of more relevant interventions.

Therefore, in line with this approach, the use of government-subsidized microfinance programmes designed to meet other development goals, such as job creation or unemployment reduction, are no longer appropriate. These programmes, characterized by low interest and poor repayment rates, have proven not only to be the wrong tool for job creation, as discussed further in chapter 3, but also are unsustainable and distort the market for other commercially minded operators. Therefore, if governments want to be engaged in microfinance, they should focus their support on macroeconomic stability and the promotion of an enabling policy environment for the development of a vibrant financial sector that includes the poor.

The Consultative Group to Assist the Poor (CGAP) has developed a set of Key Principles essential for building financial systems for the poor, which is presented in Box 2 below.[4]

Box 2: Key Principles of Microfinance

1. Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services.
2. Microfinance is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
3. Microfinance means building financial systems that serve the poor. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.
4. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.
5. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services.
6. Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.
7. Interest rate ceilings hurt poor people by making it harder for them to get credit. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people.
8. The job of government is to enable others to develop financial services, not to provide them directly. Governments can almost never do a good job of lending, but they can establish a supportive policy environment.
9. Donor funds should complement private capital, not compete with it. Donor subsides should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.
10. The key bottleneck is the shortage of strong institutions and managers. Donors should focus their support on building capacity.
11. Microfinance works best when it measures—and discloses—its performance. Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. Microfinance institutions (MFIs) need to produce accurate and comparable data on financial performance (for example, loan repayment and cost recovery) as well as social performance (for example, number and poverty level of clients being served).

2.4 The Development of the Lower Segments of the Financial Sector

Although each country has its own unique characteristics, by and large microfinance sectors develop through distinct phases, namely start-up, expansion, consolidation, and integration.

Start-up Phase

In the start-up phase, semiformal microfinance activities are introduced as experimental pilot projects. In this phase initial products are developed and tested in the market. The emphasis is on building a human resource base capable of delivering credit products that ensure good repayment. Also in this phase, awareness is built that micro- and small-business entrepreneurs can be creditworthy. Some pilot projects have failed because of low repayment; they have not discovered techniques applicable to the local context that help ensure repayment. In environments where microfinance is, initially, legally prohibited, successful pilots often convince local authorities to condone the activities because of the perceived benefits for the livelihoods of poor households, employment generation, and economic development.

Expansion Phase

In the expansion phase, successful MFIs mostly concentrate on expanding the scale of their existing operations. The success of their business model allows them to expand their activities and to capture a large share of the potential market. Their success leads to replication by other microfinance operators. The emphasis in this stage is on expansion of existing activities and on resource mobilization to finance the expansion. The expansion leads to economies of scale and higher efficiencies with the result that successful MFIs are increasingly able to finance their operations through income generated from interest and fees. At this stage, MFIs are still subsidized by grants and soft loans to finance the expansion. The increased scale of operations requires further institutional strengthening, particularly in the areas of management systems and procedures. At the end of this phase MFIs have captured a large part of the market with their existing products.

Consolidation Phase

In the consolidation phase successful MFIs start to focus on their overall sustainability. The emphasis in the consolidation stage is on strengthening the institution as a whole and on organizational formalization. Management oversight and organizational policies, procedures, and systems are handled in a more formal manner. The microfinance sector also becomes more formal by gradually establishing generally accepted industry norms. Donor subsidies in the sector diminish in order to avoid continuous subsidization of institutional development. As a consequence, MFIs are required to further increase their productivity, to further expand in scale and scope, and to adjust their pricing policies to ensure profitability and growth.

At this stage, the penetration rate of the existing target markets has become high. Increased competition requires that products are made more flexible and oriented to customer demand. New products such as insurance, consumer lending, or house-improvement finance are introduced. In addition, some MFIs start venturing into markets for microfinance that have been neglected. One important market is the small business sector that has no or limited access to the formal banking sector.[5]

In order for the sector to enter into the integration phase, it is important that by the end of the consolidation phase a special regulatory framework be in place that is conducive to the development of the microfinance sector and allows for effective prudential regulation by the Central Bank or another relevant agency. The development of such regulations normally takes place before the end of this phase when a critical mass of MFIs is ready to integrate into the formal financial system.

Integration Phase

In the integration phase, leading MFIs have become an integral part of the formal financial sector, regulated by the Central Bank or other relevant agency, and offering a range of demand-oriented products for the lower segments in the market. This integration is required for the sector to be able to further finance its growth by attracting capital from commercial sources (savings deposits, loans, and equity). Instead of drawing on government, donor funds, and subsidies, these MFIs contribute to public funds by paying taxes common to the financial sector. The integration phase is characterized by transformation of MFIs into regulated financial institutions; the disappearance of subsidies for the microfinance sector; and the upscaling of microfinance institutions and the downscaling of commercial banks that, due to an unsubsidized microfinance sector, are now able to operate on a level playing field. Licensed MFIs continue efforts to downscale their services, especially with respect to offering savings services to the very poor.

Formal financial institutions will become increasingly engaged in microfinance by establishing subsidiaries, separate banking units, or other modalities to provide financial services to poor and low-income people. Unregulated microfinance operators move toward formalization and commercialization in order to be able to finance their growth by attracting capital from the private capital markets and deposit taking from the public.

There is a general consensus among key players in the field that the trend toward integrating microfinance into the formal financial system will continue and eventually prove dominant. It is expected that the number of commercial and regulated financial institutions that provide microfinance services will increase.[6]

2.5 Institutional Development

Like the sectors in which they work, microfinance institutions develop according to phases of growth. Below is a description of a typical development of an MFI, from loan programme into a full-fledged professional financial intermediary.

Start-up Phase

The MFI usually starts out as a loan programme, whether as a stand-alone project or as part of an existing nongovernmental organization (NGO). A limited number of loan officers are recruited and trained in a certain lending methodology. A manager is recruited as well as a minimum support staff such as an accountant and/or cashier. A simple computerized or manual loan tracking system is installed. The premises are simple and office equipment is limited to the absolute minimum needed. Overhead costs are low.

The learning curve of the programme is fast and steep. Growth—moving from no clients at all—is very high. The manager of the programme is the typical "spider in the center of the web": she or he knows virtually all the clients, and is actively involved in supervision and monitoring. The manager also actively chases "bad" borrowers. Loan tracking in principle can still be done manually. Accounting is simple and limited to noting down cash transactions, loan disbursement, and repayments. A rudimentary loan officer performance-based reward system is in place.

Expansion Phase

The start of the expansion phase sometimes coincides with the first organizational crisis. Demand is high and the programme is not yet ready to cope with the increased demand in a sustainable and prudent manner. More loan officers need to be recruited and trained. Initially their productivity is low and only improves over time.

By now, the loan tracking system has to be automated (because manual tracking becomes virtually impossible due to the sheer number of clients). The loan extension officer and the supervisor must be able to monitor the portfolio through a tracking system. An assistant accountant may have to be recruited (again because of the increase in number of transactions) as well as a financial manager, who is responsible for portfolio planning, cash flow planning, and the production of balance sheets and profit and loss accounts.

An internal auditor may have to be recruited who will report directly to the manager (or Board of Directors) and who will be responsible for checking the reliability and strength of the back-up office systems. She or he will do random spot checks of loans outstanding, new loans made, and procedures for disbursement and repayments. This is a critical function to avoid fraud.

The manager cannot be the spider in the web anymore. By now, she or he will not be able to know all the clients and will have to depend on supervisors, the accountant, and the financial manager, backed up by appropriate back-office systems and procedures. The manager has to learn to delegate, which is psychologically often very difficult for an entrepreneur. In some cases, the manager/entrepreneur may have to go: she or he may be very good at and motivated by creating a programme or organization but not necessarily good at managing an organization. The manager will have to develop a strategic vision for the organization while managing and inspiring staff.

Consolidation Phase

During the consolidation phase, the growth in demand may slow down because of increased competition. This is typically the phase in which the MFI will start piloting and introducing new loan products tailored to specific needs. The MFI may also start targeting different target groups. Product development, therefore, becomes an important function.

Accounting, loan portfolio planning, cash flow management, and budgeting need to be linked to the loan tracking system. Only then can programme managers start speaking of a Management Information System (MIS). More investment in office equipment and other assets will be needed. The strategic planning function becomes more important as well as annual planning, budgeting, and control.

The strengthening of the management team becomes critical. In general, governance of the MFI becomes more important. It needs a reliable and accountable Board of Directors, which will approve the strategic plan of the MFI as well as its annual plans and budgets. An external auditor will report directly to the Board of Directors. The board can hold the manager accountable for achieving objectives. At the same time, the board will protect the manager from outside (government) interference (which undoubtedly will happen with increased success), and enable her or him to do an effective job. Because the board is accountable for the performance of the MFI, it will also ensure management continuity. If the manager of the MFI, for one reason or another, goes, the board has to find adequate replacement. The MFI's governance structure has to be transparent and supported by a clear legal framework. Ideally, board members themselves should be legally liable for conduct (or misconduct) of the MFI.

A continued supply of funds becomes critical for the continued growth of the MFI. Donors other than the original donor that initiated the loan programme may become interested in funding the MFI. One consequence of this is that different donors may attach different conditionalities to their funding and require different reports.

Integration Phase

In many countries donor funding is not unlimited and is often unreliable. Commercial funding, either from savings and deposits or from local commercial banks or international commercially oriented donors, becomes increasingly important. If local money markets exist, over time, an MFI could issue bonds.

Local or international commercial financiers will obviously assess the credit risk of lending to an MFI. The credit risk of many MFIs is not its loan portfolio quality, which is usually much better than the loan portfolio quality of the average bank in developing countries. However, the governance structure of many MFIs does constitute a major credit risk for a commercial lender. Many MFIs are set up as NGOs, which usually have nontransparent governance structures and which are prone to (government) interference. Moreover, if an NGO defaults on a commercial bank loan, the bank cannot sue the NGO because its board or management is not legally liable. Also, an NGO cannot attract equity as another means to raise funds. Hence, legal transformation of the MFI may become a necessity to ensure continued growth.

CHAPTER 3: REGIONAL OVERVIEW

3.1 Key Summary Findings

Table 3.1: Key Data (year-end 2003)

Country	# of active borrowers	Estimated market penetration*	Loan portfolio outstanding (U.S. dollars)	Ave. out-standing balance as% of GDP per capita	% female clients	% rural clients	# fully sustain-able MFIs	All MFIs and other credit programmes in 2003 sample
Egypt	256,159	16	56,067,894	19	46	13	7	20
Jordan	24,348	26	22,304,834	54	77	24	3	5
Lebanon	13,429	18	10,718,808	20	35	22	1	6
Morocco	297,148	45	61,188,860	14	75	23	5	7
OPT	13,394	10	12,102,008	41	41	21	0	7
Syria	32,170	8	43,410,214	112	—	—	0	6
Tunisia	63,736	41	36,263,648	31	46	57	1	2
Yemen	9,872	2	1,284,191	26	83	6	0	15
Total	710,256	19	243,340,457		60	22	17	68

— Data not available.

*as % of potential market currently served based on national poverty line +20%.

Summary of Results

Since 1999 when the first survey was undertaken in the region, microfinance in the Arab States has evolved from a nascent sector to a fledgling industry. Over the past four years we have seen some significant changes as well as areas in need of further development. Overall the sector's performance can be characterized by:

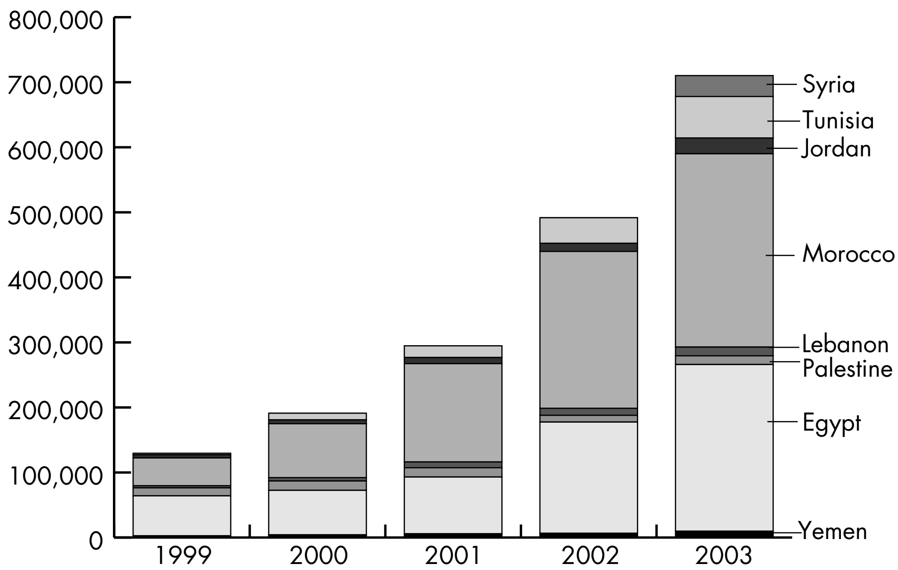
- **Significant growth in outreach.** The number of active borrowers has more than quintupled from 129,000 with an outstanding loan portfolio of $40 million to over 710,000 active borrowers with an outstanding loan portfolio of almost $240 million.[7] Growth rates (in numbers of clients) between the countries differ dramatically.

- **Limited market penetration.** Significant progress has been made in increasing market coverage, going from roughly 3% of the market served to almost 20% of those needing and wanting credit. However, this still leaves an estimated 3 million entrepreneurial poor who lack access to finance. In addition, microfinance serves only 22% of rural populations, estimated to be approximately half of the population of the surveyed countries.[8]
- **Lack of product diversification.** Microfinance services in the region remain credit oriented. Aside from limited experimentation in some countries with housing finance, most loans are for business purposes. Voluntary savings, deposits services, and insurance are generally not offered. The notable exception is Yemen where the number of voluntary savers is growing rapidly.
- **Entry of new market leader.** Traditionally, Egypt has been the market leader in the region in terms of active clients. However, in 2001 Morocco assumed this position and today holds 42% market share.
- **Increased focus on women.** The region has seen a significant improvement in terms of outreach to women borrowers. From approximately 36% of borrowers in 1997, women currently make up 60% of all clients in the region. Given that women also make up the majority of the world's poor, it is not surprising that this has been accompanied by an overall increase in the depth of outreach.
- **Dominance of group-lending methodology.** Group lending continues to be the predominant lending scheme, particularly in Morocco, Jordan, and, increasingly, Egypt, where it is seen as an effective tool for reaching women. In all other countries individual loans are more prevalent.
- **Broad-based application of industry norms and procedures.** Almost 90% of all active borrowers in the respective countries are served by good practice MFIs defined as MFIs that adhere to good practice standards and that have sustainability as an explicit objective. The notable exceptions are Tunisia and Syria, where government-sponsored programmes that do not adhere to good practices dominate. Seventeen MFIs in the region of the 68 known MFIs and other credit programmes (or 25%) were fully financially sustainable, together serving 73% of all active clients in the region.
- **Dominance of the NGO as the legal model.** Apart from a few notable cases of successful bank engagement and MFI transformation, the majority of MFIs in the region are NGOs, which continue to be dependent on abundantly available donor (grant) funds for their growth.

3.2 Outreach and Potential Demand for Credit

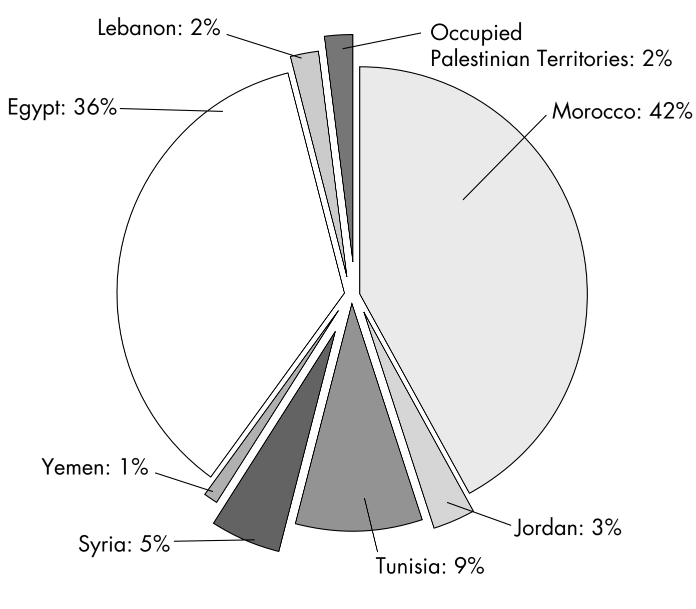
Outreach of the microfinance industry in the Arab world has almost quintupled in size since 1999, going from over 129,000 active borrowers at year-end 1999 to over 710,000 at year-end 2003, as shown in figure 3.1 below.[9]

Figure 3.1. Active Borrowers (1999–2003)



The portfolio outstanding grew from over $40 million at the end of 1999 to almost $240 million at the end of 2003. Measured in number of active borrowers, Egypt—with the "oldest" industry in the region—was the market leader in 1999 and 2000, but has since been overtaken by Morocco, which has kept this position as market leader since 2001. As of year-end 2003 Morocco had 42% of all active clients.

Figure 3.2. Market Share



3.3 Market Penetration

By frequently used international standards, poverty numbers in the Arab world are low. Only 2.3% of the population lived on less than $1 per day in 1999.[10] But at $2 per day, a more realistic number for a largely middle-income region, 29.9% of the population lived in poverty. Although this is still relatively low compared with some other developing countries, it is still a significant proportion of the population. If we would use nationally defined poverty standards, the percentage of poor people is slightly lower, as shown below.[11]

A rough estimate of the potential market for credit in the region can be calculated based on the national poverty headcount percentages. It is common practice in the microfinance industry to assume that not more than one member per household should have a loan (because with an increasing number of household members borrowing, the household risks becoming permanently indebted). If we assume that the average size of a poor household is seven, we can compute the number of poor households per country. Not every poor person is a good entrepreneur or has a good project to finance. If we assume that 40% of all poor households would be eligible for a loan, we can calculate the potential market for credit (in terms of number of potential borrowers).

Table 3.2: Market Penetration Based on National Poverty Lines

Country	Population	Poverty headcount (national definitions) (%)	Number of poor people	Number of poor households	Potential market (40%)	Active borrowers	Market penetration (%)
Egypt	66,372,000	23	15,265,560	2,180,794	872,318	256,159	29
Jordan	5,171,000	12	620,520	88,646	35,458	24,348	69
Lebanon	4,441,000	10	444,100	63,443	25,377	13,429	53
Morocco	29,641,000	19	5,631,790	804,541	321,817	297,148	92
Palestine	3,231,000	50	1,615,500	230,786	92,314	13,394	15
Syria	16,986,000	20	3,397,200	485,314	194,126	32,170	17
Tunisia	9,781,000	8	782,480	111,783	44,713	63,736	143
Yemen	18,601,000	33	6,138,330	876,904	350,762	9,872	3
Total	154,224,000	22	33,895,480	4,842,211	1,936,885	710,256	37

Based on these calculations we can also show the market penetration for the region, or the percentage of potential clients who currently have access to microfinance. We see then that Yemen, one of the youngest and more challenging markets in the region, is underserved with only 3% having access to financial services. At the other extreme, a country such as Morocco, which has the largest number of active borrowers, appears to have very good coverage given its population size, while Tunisia is close to market saturation. It should be noted for Tunisia that the majority of active clients are not covered by good practice programmes and, therefore, in reality there is quite a bit of room for expansion of client-oriented, sustainable services. Overall, about 36% of the potential market is served. This still leaves approximately 1.2 million people needing access but not having it.

The potential market, however, could be substantially higher than that indicated in the table. A poverty characteristic of the Arab world is that a significant proportion of the population lives just above the nationally defined poverty lines. This is particularly problematic given the region's volatility. For instance, in Egypt, in addition to the 23% poor, an additional 37% of the population lives at income levels that are not more than 30% higher than the poverty line. External shock could throw these people back into poverty overnight.

If we would conservatively assume that another 20% of the population lives above but close to the poverty line, we get the following market penetration data:

Table 3.3: Market Penetration Based on National Poverty Lines plus 20%

Country	Population	Poverty headcount (national definitions) plus 20%	Number of poor people	Number of poor households	Potential market (40%)	Active borrowers	Market Penetration (%)
Egypt	66,372,000	43	28,539,960	4,077,137	1,630,855	256,159	16
Jordan	5,171,000	32	1,654,720	236,389	94,555	24,348	26
Lebanon	4,441,000	30	1,332,300	190,329	76,131	13,429	18
Morocco	29,641,000	39	11,559,990	1,651,427	660,571	297,148	45
Palestine	3,231,000	70	2,261,700	323,100	129,240	13,394	10
Syria	16,986,000	40	6,794,400	970,629	388,251	32,170	8
Tunisia	9,781,000	28	2,738,680	391,240	156,496	63,736	41
Yemen	18,601,000	53	9,858,530	1,408,361	563,345	9,872	2
Total	154,224,000	42	64,740,280	9,248,611	3,699,445	710,256	19

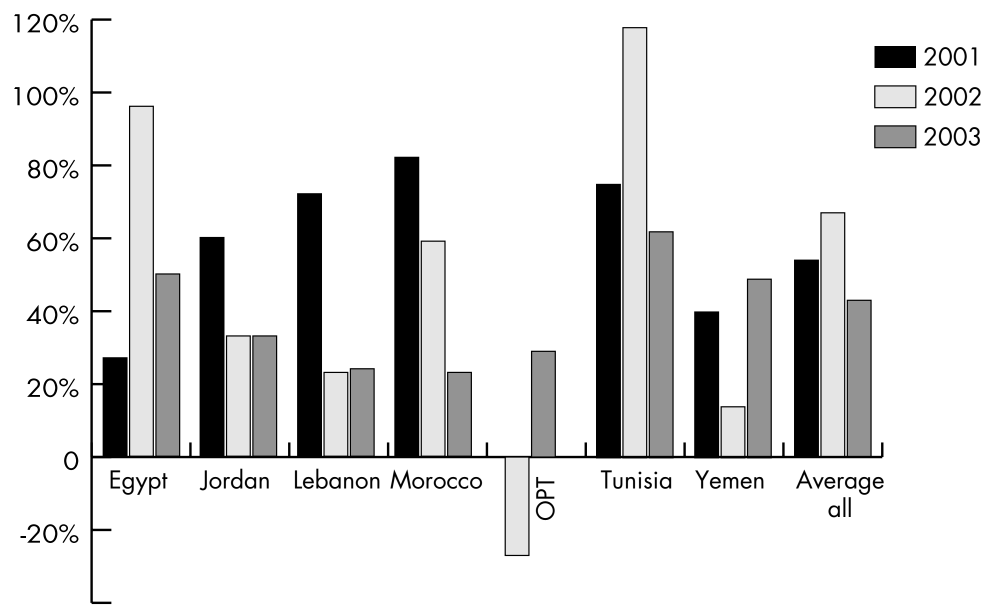
Because national governments tend to underestimate the number of poor people in their countries because of political and social sensitivities, this table may give a more realistic estimate of the potential market and the current market penetration. Nineteen per cent of the market is served while another three million households need access to credit.

3.4 Growth Rates

Overall growth in the region (measured in terms of active clients) has been positive, with large differences across countries. For example, growth in Jordan and Lebanon has been among the lowest while growth in Egypt and Morocco has been significant.

Growth in Egypt took off after the successful introduction of group lending for women in the Foundations funded by the U.S. agency for International Development (USAID).[12] Another contributor to Egypt's growth was the USAID-funded downscaling programme with Banque du Caire, currently serving over 47,000 active clients. As was noted in the previous survey, the Foundations seem to have hit a "natural" limit in terms of clients they can reach because of their regional focus and institutional limitations. Product diversification in terms of the introduction of group lending in the Foundations in addition to the individual lending has extended this limit; however, the achievement of any real scale still appears to be limited.

Figure 3.3: Annual Growth Rates in Active Borrowers



Growth in Jordan has also been slow after a period of relative consolidation: four microfinance companies were set up (with one being a former NGO) in the last few years and much attention has been paid to the development of appropriate systems and procedures, enabling the industry to capitalize on expected growth. The Micro Fund for Women is the largest programme and has over 40% market share.

In Lebanon growth has been slow with many of the MFIs lacking ambition to grow beyond the comfortable and sustainable levels they have. Governance issues could also be contributing to this, because Lebanon has experienced significant management turnover in recent years. The limited growth in Lebanon can be attributed to one programme—AMEEN or Access to Microfinance and Enhanced Enterprise Niches.

Growth in Morocco has been remarkable and is mainly due to two key players: Al Amana and Zakoura, with the latter being the largest, measured in terms of number of clients. This is even more remarkable given that, compared with Al Amana, Zakoura has received little donor funding for onlending and only minimal technical assistance, financing the bulk of its operations from the private sector. Although in the previous survey the authors had indicated that the growth estimates of Morocco were unrealistic, the Moroccans proved the authors wrong and actually surpassed their own estimates.

Microfinance in the Occupied Palestinian Territories has been hit hard by the second Intifada. Initially "hanging in there" in 2001—while programmes tried to keep their client base— substantial losses were seen in 2002 when many clients just could not afford to borrow anymore. A remarkable recovery took place in 2003 under the continuation of the Intifada. This is mainly because of the significant growth of the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) programme, which is currently by far the largest MFI in the country.

Syria is included for the first time in the survey and immediately surpassed several other countries measured in terms of active clients, mainly because of the programmes of the Agency for Combating Unemployment (ACU). As with Tunisia, the majority of Syria's clients are served by government-sponsored agencies.

The main reason for growth in Tunisia is the rapid increase in lending of the Banque Tunisienne de la Solidarité (the Tunisian Solidarity Bank), a wholesale organization, which provides funds for onlending to local NGOs capping the final interest rate at 5%. Thus, while in most other countries the majority of borrowers are served by good practice programmes, in Tunisia this is not the case.

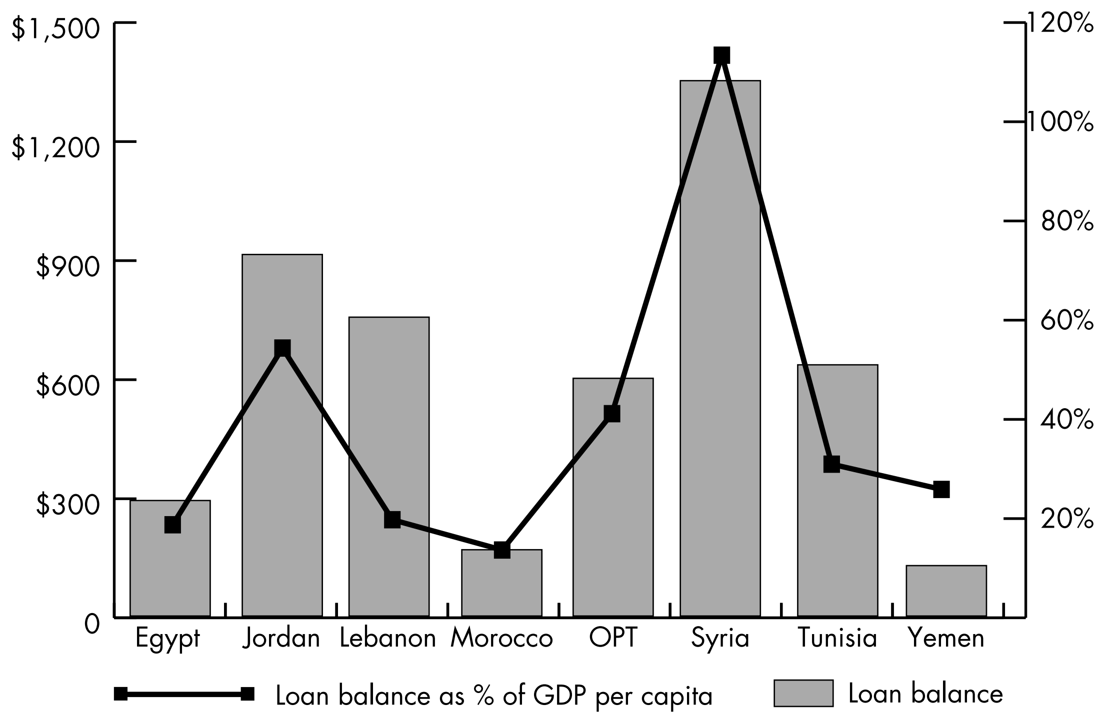
Yemen has seen positive growth following a year of consolidation in 2002, when projects were evolving into full-fledged programmes and efforts were concentrated on strategic planning and legalization. It must be noted that these figures do not reflect voluntary savers because microfinance in the Arab States is very credit oriented—with no other MFIs providing savings services. If we were to add Yemen's savers to the number of active clients, Yemen, which is one of the younger markets in the region, would be significantly larger than several of its neighbouring countries.

3.5 Depth of Outreach

The average outstanding loan balance as a percentage of GNP per capita is commonly used as a proxy for the poverty level of the client: the lower the loan balance, the poorer the client. The 2002 and 2003 survey data show that there are large differences in the depth of targeting among the different countries, varying widely in the region, from 14% in Morocco, 54% in Jordan, to 113% in Syria.

Morocco stands apart from the other countries in reaching the greatest number of poor people. This can be explained by the fact that the majority of programmes in Morocco mainly target women (who are traditionally poorer than their male counterparts) using the group-lending methodology. Given that Morocco serves almost half of all clients in the region, its achievements make the region as a whole look like it is doing quite well in terms of depth.

Figure 3.4: Average Outstanding Balance (amount and as percentage of GNP per capita; 2002 data[13])



Syria has the least depth of outreach followed by Jordan. Although the Occupied Palestinian Territories used to target the poor (together with Morocco) by working mainly with women, this has changed for the following reasons: (a) the sharp decline in GNP and therefore in GNP per capita as a result of the Intifada was not immediately followed by a decline in loan sizes;[14] and (b) the sharp increase in individual lending (loans up to $5,000) of the major MFI, UNRWA.

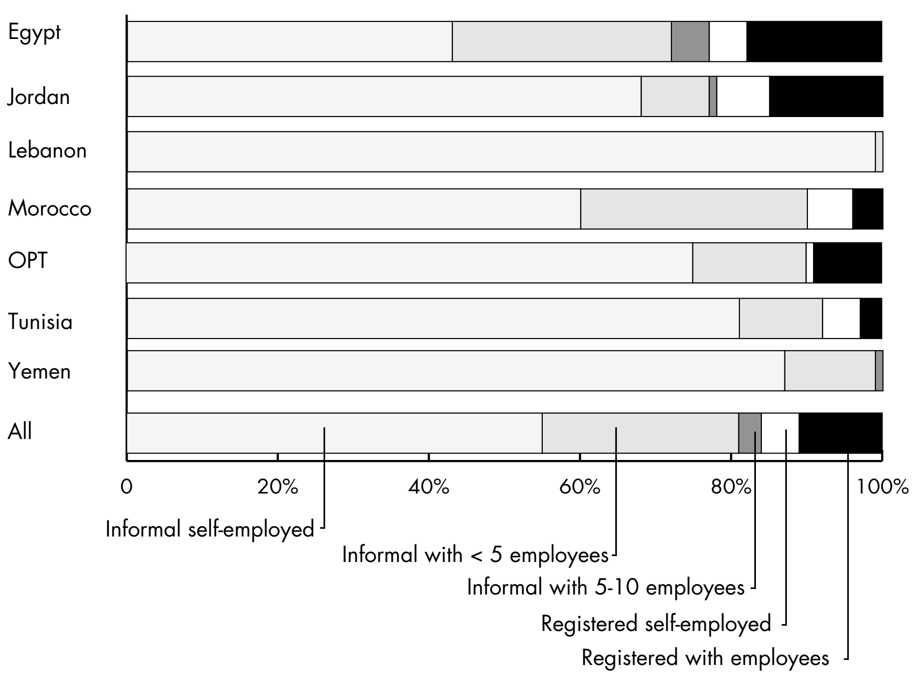
Tunisia's high outstanding balance is due mainly to the programme of the Banque Tunisienne de la Solidarité. It should be noted that the one best practice MFI in this country reaches substantially poorer people than the BTS.

Another explanation for these variances could be linked with the overall level of development of the financial sectors in each country. In countries such as Morocco where the financial sector is one of the most developed in the region, a larger part of the population has access to finance and therefore microfinance services are concentrated on the poorer segments of the population that still lack access. Whereas in contrast a country such as Syria, where the financial system is one of the least developed and therefore offers less financing options across the board, microfinance is attractive to a range of businesses lacking access to formal finance.

3.6 Clients Served

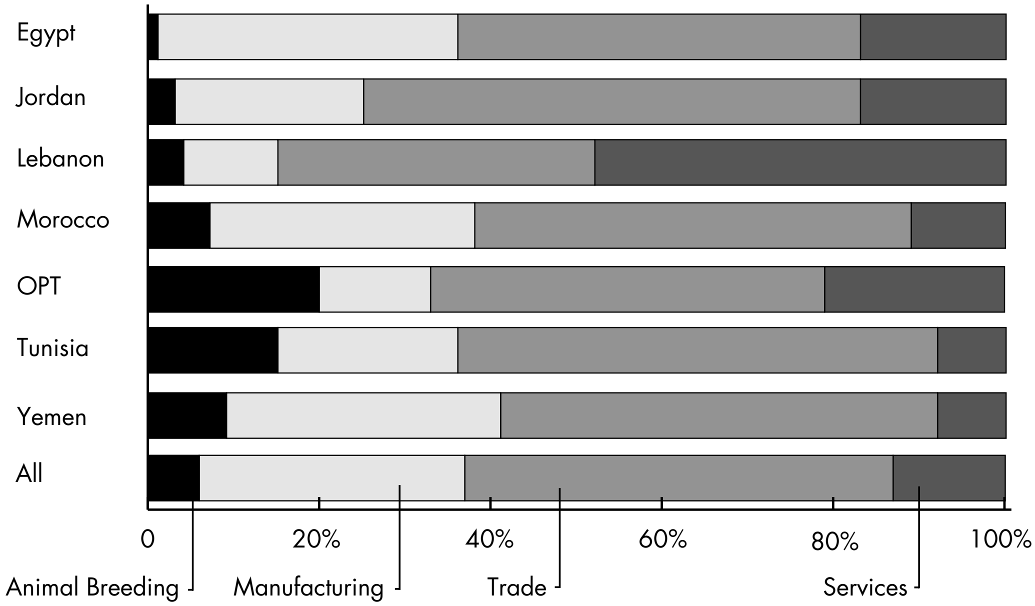
As is the case around the world, the majority of clients are self-employed and work in the informal sector.

Figure 3.5: Business Classification of Clients (2002 data)



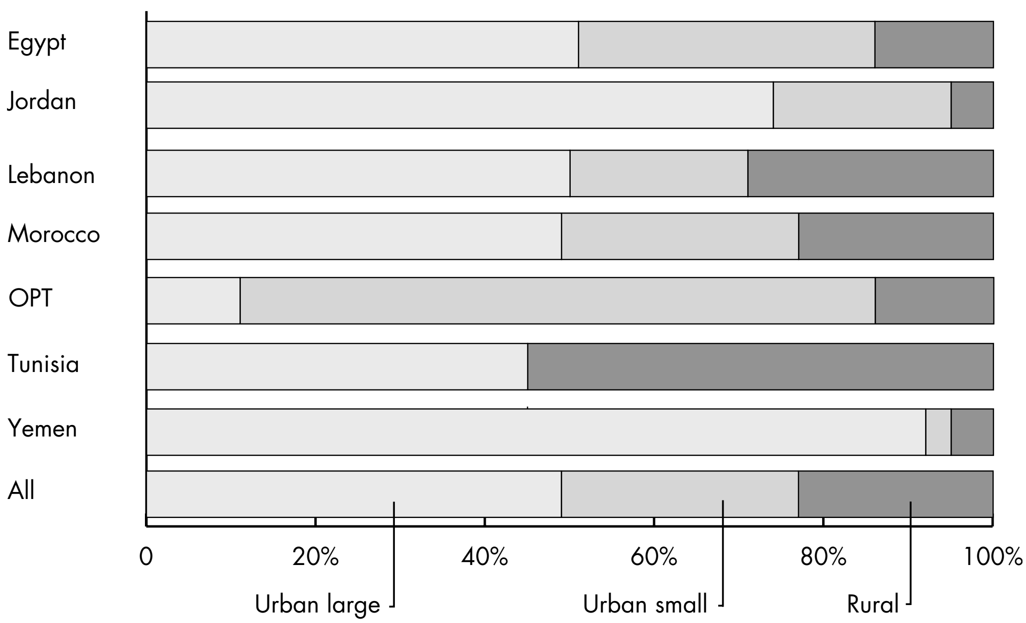
Out of all the countries, Egypt has a relatively low share of clients who are self-employed in the informal sector. This can be explained by the fact that the Foundations, which together are the dominant providers, have always had job creation and "formalizing" borrowers during successive loan cycles as a primary objective of their programmes. As a result, the share of registered clients in Egypt is relatively high, supporting the assessment that the Foundations have succeeded in achieving this development objective.

Figure 3.6: Business Activity of the Borrowers (2002 data)



As is the case around the world, the majority of borrowers are active in trade (such as groceries and garments). However, unlike in the rest of the world, the next big concentration is in manufacturing and not in services.

Figure 3.7: Location of Borrowers (2002 data)



The majority of borrowers live in urban areas: large and smaller towns. If we assume that demand for microfinance is evenly distributed between people living in rural areas and in urban areas, and if we then compare the percentage of the population living in rural areas with the percentage of rural clients, we see that rural finance remains a challenge.

Table 3.4: Outreach in Rural Areas

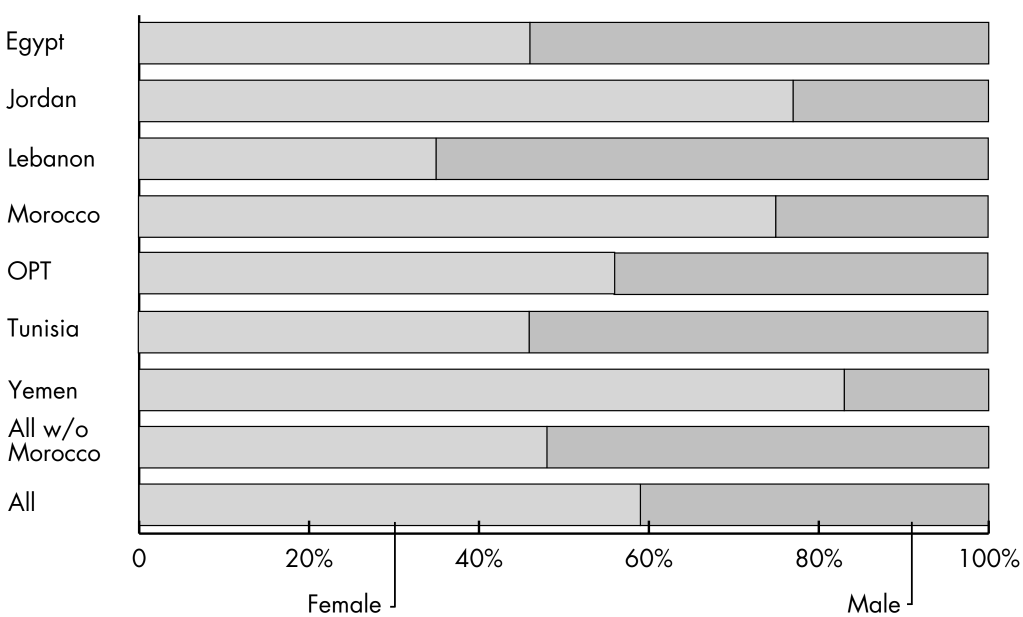
Country	Rural population (%)	Rural outreach (%)
Egypt	56	14
Jordan	33	5
Lebanon	8	29
Morocco	42	23
OPT	20	14
Syria	43	—
Tunisia	34	55
Yemen	71	5
Average	50	22

— Data not available.

In Yemen 71% of the population lives scattered over 120,000 hamlets and tiny villages, often on top of rugged mountains. It is very difficult to gain access to these areas and it can take five to seven hours on a dirt road (and/or donkey) to move from village A to village B. In Tunisia, more rural clients have access to credit than what the geographic distribution of clients would justify. This may have to do with the fact that the largest credit programme, BTS, has—apart from an employment creation objective—a specific rural development objective.

The majority of the clients in the region are female (60%). However, if we exclude Morocco, with 75% of its borrowers being women, the majority of clients are still men (54%).

Figure 3.8: Gender of Clients (year-end 2003)



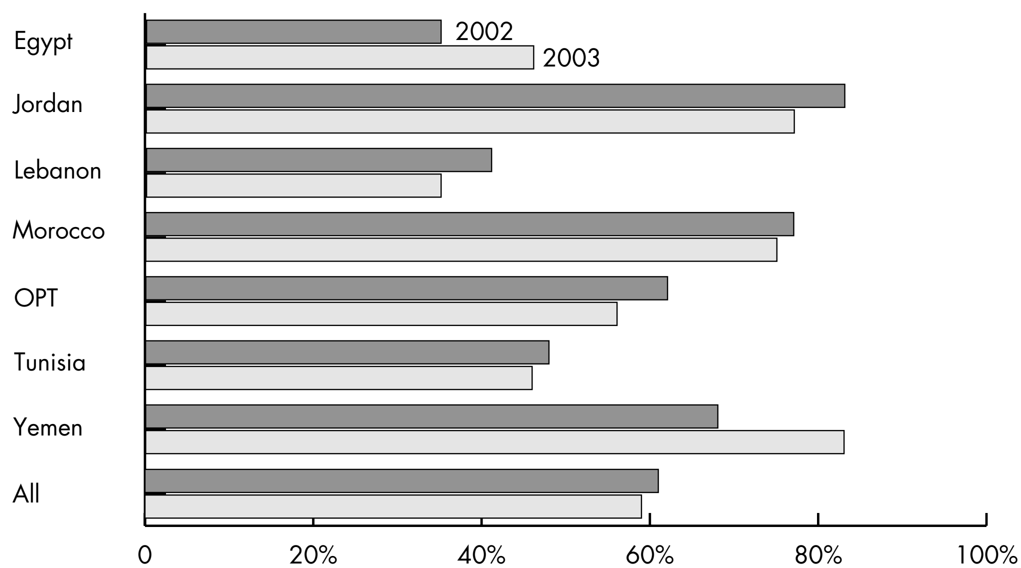
Overall we saw an improvement in terms of outreach to female clients in the region from previous surveys (1997: 36% and 1999: 46%). However, it seems that many countries in the region are "slipping"; the percentage of female clients in 2003 actually decreased compared with 2002 (see figure 3.9).

The sharp decrease in the Occupied Palestinian Territories can possibly be explained by the fact that some MFIs lost many female clients who were already among the poorest before the start of the Intifada. One can argue that some of those clients should never have gotten a loan in the first place. As a result of the Intifada, many of these borrowers became even more vulnerable and credit became debt, increasing their vulnerability. Thus borrowers defaulted or dropped out.

The decrease in Jordan and Lebanon can be explained by the fact that, initially, the group-guarantee lending model for women was the dominant methodology used. Over time other models have emerged, which has resulted in increased access to men.

Where the percentage of female clients did increase, for example in Egypt and Yemen, this is due to the presence of more programmes and products that exclusively target women.

Figure 3.9: Percentage of Female Clients per Country (2002 and 2003)

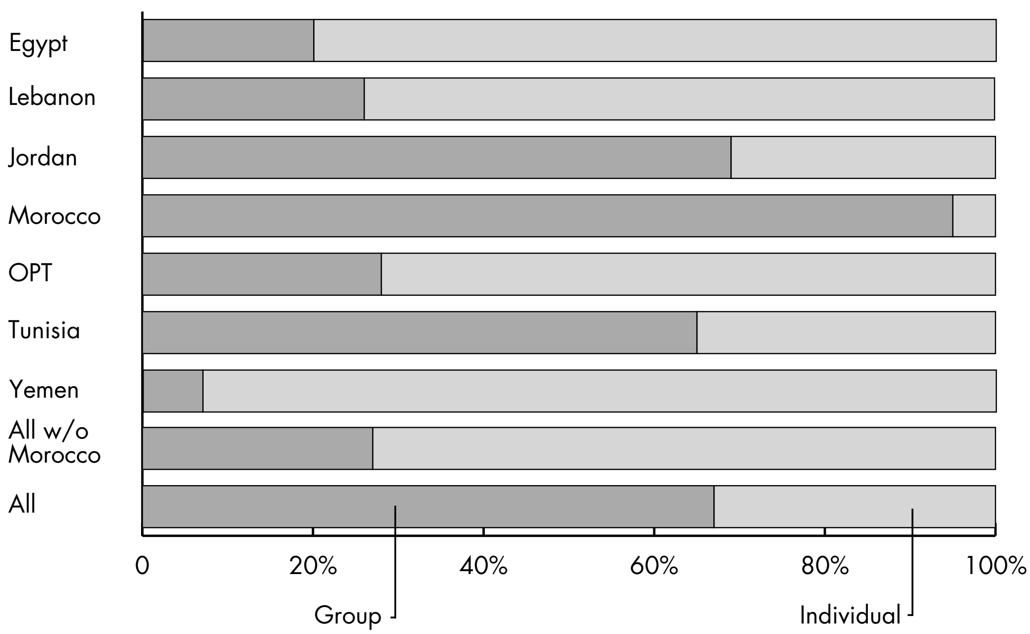


3.7 Lending Methodologies Used

The dominant lending methodology used is solidarity group lending: figure 3.10 shows that almost 70% of all borrowers are members of groups that guarantee each others' repayment. Morocco has the highest percentage of group-borrowers, but this is expected to change because of the introduction of individual loans by some leading MFIs. If we were to exclude Morocco from the regional average, the dominant lending methodology is individual lending.

The low group-lending percentage in Yemen appears counter intuitive, because the majority of the programmes in this country use groups. However, groups in the Yemen model are merely a transaction mechanism for the MFI in order to reduce costs: instead of the loan officer having to visit 20 borrowers and collect repayments, he/she visits a group meeting of 20 borrowers to collect the repayments in one shot. Group members, however, do not guarantee each other's repayment. They may exert some social pressure but they do not co-sign each other's loan contract.

Figure 3.10: Lending Methodology Used (2002 data)



3.8 Financial Products

The provision of microfinance services in the region is marked by a general lack of diversification. Financing mainly takes the form of credit, with little access to much-needed services such as savings and deposits, microinsurance, wire-transfers, or remittances. This is because the majority of MFIs are not legally allowed to take savings and deposits, which only banks can do. The need for a legal environment that allows a range of financial intermediaries, including specialized MFIs, to collect savings becomes more pressing as the industry matures over time.

Not only is the range of financial services limited, but also the type of credit is also narrowly defined: credit is primarily for enterprise (productive) purposes. Little effort has been made to create new products that meet the diversity of poor people's credit needs, such as consumer credit.[15] While consumer credit is often viewed as people buying television-sets or cars, it can also be used to pay extremely important school fees or uniforms or the medical bill. Housing microfinance is also very much needed, especially house-improvement loans. Most MFIs in the region are allowed to offer a range of credit-products and such product diversification will not only contribute to increased scale but also a better competitive position.

In Syria and Yemen, some programmes offer loans based on Islamic finance principles, in order to meet the demand of borrowers who reject conventional interest rates that they consider to be usury (*riba*). The abolishment of interest rates, however, does not mean that no remuneration is paid on capital. To the contrary, profit-making is built into this model based on principles of equity and risk and reward-sharing.

The most commonly used Islamic financial method is Murabaha: the MFI buys the goods for the borrower and re-sells them to the borrower for a fee to cover administrative costs. Repayments are in installments.

There is one programme in the region that takes the Islamic financial concept of risk and profit-sharing one step further: the UNDP-funded village-bank-like programme in Jabal Al Hoss, Syria. Here, villagers buy shares and become owners of the programme. Loans are made using the Murabaha methodology and dividends are distributed annually to the shareholders if profits are sufficient.

3.9 MFI Performance

As of year-end 2003, 17 of the 68 MFIs in the region that participated in the updated questionnaire were fully financially sustainable: one in Lebanon, one in Tunisia, three in Jordan, five in Morocco, and seven in Egypt.[16]

Sustainability often goes hand-in-hand with increased scale. This can also be observed in the Arab world. During the last three years, the sustainable institutions served more and more of all active borrowers in the region, as is shown below:

Item	2001	2002	2003
Number of fully sustainable MFIs	7	11	17
Percentage of all active clients served by the sustainable MFIs	27%	68%	73%

The large jump in percentage of clients being served by sustainable MFIs between the year 2002 and 2001 can mainly be explained by the three largest Moroccan MFIs becoming fully sustainable. Together these three served over 40% of all active clients at year-end 2002.

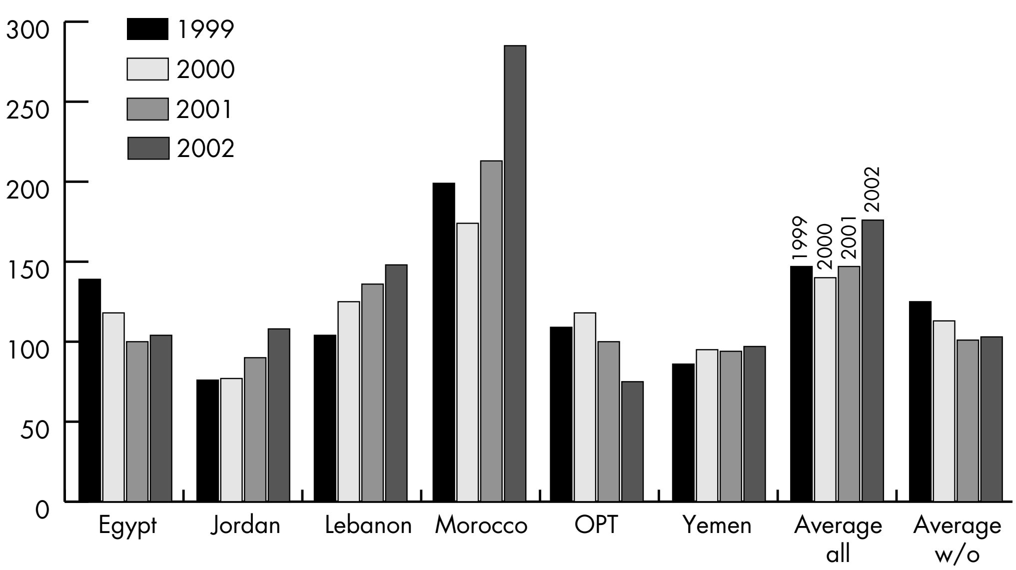
As of year-end 2003, 17 fully sustainable MFIs served almost 73% of all active clients. In many countries the sustainable MFIs are the dominant players: in Egypt, seven sustainable MFIs serve 82% of the market, and in Morocco five sustainable MFIs serve 94% of the market.

It is interesting to note that among the sustainable MFIs there are three companies and three banks or bank-like institutions. These organizations, through their legal setup, already have an explicit commercial outlook.

Loan officer productivity (measured as number of active clients per loan officer) contributes not only to cost efficiency but also revenue. The loan officer productivity varies widely among the countries.

Morocco is the most productive with 285 clients per loan officer, followed by Lebanon. Given its disproportionate share of the market, Morocco skews the figures for the region as a whole: over 175 active clients per loan officer. However, if we exclude Morocco, the loan officer productivity drops substantially to a little more than 100.

Figure 3.11: Loan Officer Productivity in Arab World Countries (2002 data)[17]



3.10 Governance

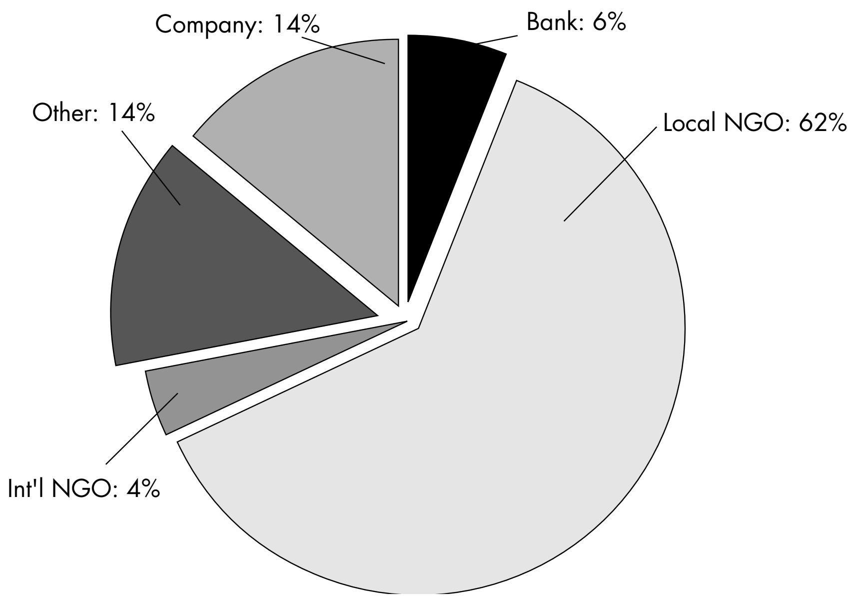
Legal Set-up, Registration, and Supervision

The year-end 2002 questionnaire had a detailed section on legal setup, ease of registration, governance, and management. Forty-nine MFIs answered these questions and the results are reviewed below.

The majority of MFIs are set up as local NGOs (Foundations and Associations included). However, the trend in the region has been for MFIs to register or re-register under the company law in their country, as a preferred institutional option. Year-end 2003, there were already seven companies: two in the Occupied Palestinian Territories (one a for-profit company and the other a not-for-profit company), one in Lebanon (for-profit), and four in Jordan including one re-registered former NGO.

The three banks are Banque du Caire and National Development Bank in Egypt, which are regularly licensed commercial banks, and one special development bank in Tunisia, the Solidarity Bank or BTS.

Figure 3.12: Legal Setup (2002 data)



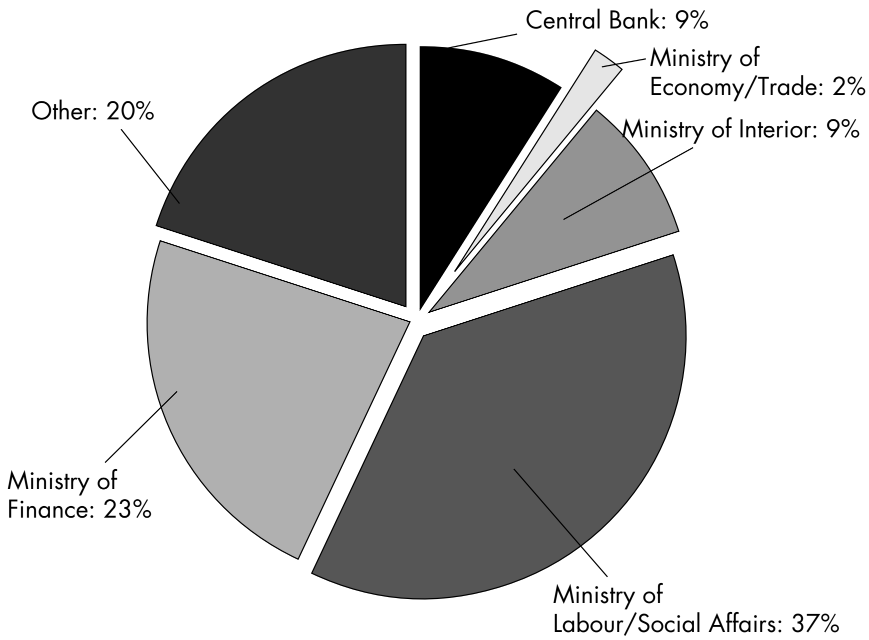
The "other" category includes one cooperative (in Yemen), three MFIs operating under the UN/UNRWA umbrella (in Jordan, Lebanon, and the Occupied Palestinian Territories), and two projects in Yemen that had no legal form at all. One of these two, in the meantime, has become a company while the other has become a Foundation.

While almost 80% of the MFIs answered that they were not-for-profit (owing to the phrasing of the question), most NGOs are allowed to *make* profit but not to *take* profits—in other words, to distribute some sort of monetary dividend. Syria has the only example of a membership-based model in the region, which pays dividends to its shareholders using a profit-sharing scheme.

The majority of MFIs did not face difficulties with registration. The notable exception was in the Occupied Palestinian Territories where three of the five participating MFIs had faced difficulties.

More than 70% of MFIs do not take savings—the majority because it is not legally allowed. A few, however, say that they *do not want* to take savings because they consider it is a too-expensive source of funds.

Figure 3.13: Supervisory Agency (2002 data)



Given that the majority of MFIs are NGOs, most MFIs are supervised—in one way or another—by the equivalent of the countries' Ministries of Labor or Ministries of Social Affairs. Not all NGO MFIs, however, are supervised by such ministries: two NGOs in the Occupied Palestinian Territories are supervised by the Ministry of Interior, which begs the question whether registration with and supervision by such a ministry is the reason for Palestinian MFIs having faced difficulties with registration.

Central Banks obviously supervise the banks that participated in the survey because they fall under the banking laws. In addition the Central Bank in Morocco supervises one Agricultural Lending Fund, and the Central Bank in Jordan supervises one microcredit company, which is a company owned by a bank. The Central Bank in Egypt is the lead agency for the development of Egypt's national microfinance strategy and is planning to establish a dedicated Unit for Microfinance in the future. The Ministry of Finance in Morocco supervises most of the other Moroccan MFIs because they are licensed by law.

Governance and Management

The majority of MFIs have a Board of Directors; those that do not have one are either projects or U.N. organizations. Boards of Directors come together frequently: almost 50% come together more than six times per year while another 36% three to five times per year.

The boards are involved in all key decision-making areas such as: (a) hiring/firing the general manager; (b) approving strategy and business plans; (c) approving budgets; (d) approving an external auditor, if any; (e) approving branch expansion; (f) approving major obligations to donors and banks; and (g) approving capital increases. All boards monitor loan portfolio quality and performance but not profitability: 30% do not.

The data give the impression that boards are active and involved in many decision-making areas. Given the wide variety in the quality of performance of the MFIs, one can ask the question whether *active also means effective.*

Box 3: Characteristics of a Good Board

Because more and more MFIs in the region are choosing the company form as the optimal legal option available to them (in terms of accessing commercial capital and securing their loan portfolio), significant attention needs to be paid to board selection and development. Not only must these individuals understand and support the objectives of sustainable microfinance delivery, they should also possess a mix of skills and qualifications to help guide and support the organization's growth. The Ta'iz MicroStart Program in Yemen recently completed this exercise as it prepared to register as the first single-purpose MFI in the country—Awa'el. The following are characteristics that were seen to be critical for the founding board members. Individuals who:

- Understand their basic roles as the board members to:
    - ✓ Establish and defend the mission, aims, and values of the organization.
    - ✓ Recruit, employ, and supervise the executive.
    - ✓ Provide support and supervision to the executive, and review the performance of the executive.
    - ✓ Engage in planning to build a strong organization.
    - ✓ Engage in fund-raising and the development of sustainable resources.
    - ✓ Ensure financial control and planning.
    - ✓ Determine and monitor the organization's performance.
    - ✓ Promote and enhance the organization's image.
    - ✓ Serve as a court of appeal.
    - ✓ Review overall board performance.
- Are committed to the mission and vision of the organization.
- Can bring added value to the organization.
- Are well established in their fields/have strong connections.

More than 50% of the MFIs had seen major management changes over the period because key managers such as the CEO or CFO left or were asked to leave (25% of the cases, notably in Yemen). Although it is difficult to establish a causal relationship, it is interesting to note that in the majority of cases, the departure of these managers resulted in improved performance (whether measured in terms of loan portfolio quality or in terms of self-sufficiency).

3.11 Government-Sponsored Lending Programmes

Government-subsidized lending programmes continue to provide cheap micro-credit to a vast number of people in the region. Many of the institutions that do so are very small and do not affect the healthy development of the microfinance industry. However, some of them are very large and have a negative impact on the industry as whole. The major ones are: the Banque Tunisienne de la Solidarité, the Development Employment Fund in Jordan, the Social Fund for Development in Egypt, and the Agency for Combating Unemployment in Syria. The specific country chapters will describe these agencies in more detail.[18]

All these agencies are directly or indirectly owned or controlled by the government. Their main development objective is to create jobs (or reduce unemployment) and/or to alleviate poverty. Because their objective is not to provide financial services to the entrepreneurial poor on a sustainable basis it comes as no surprise that they do not apply internationally accepted good practices across their programming. Thus, they do not customarily charge sustainable interest rates or measure key performance indicators such as number of active clients, portfolio at risk (PAR), efficiency, or profitability.

Job Creation Programmes

The major problem facing governments in the Arab world is unemployment, *not* poverty alleviation. The number of new labor market entrants is estimated to be 4.2 million annually for the next 10 years.[19] With the current unemployment rate of about 15%, the goal to absorb unemployed workers in addition to the new entrants implies the need to create close to a 100 million jobs by 2020, a doubling of the current level of employment in the region.

Governments have responded by setting up mechanisms to create jobs. This is specifically the case in Jordan and Syria. For instance, the Agency for Combating Unemployment in Syria was established with the objective of creating 400,000 jobs in the next five years. The Social Fund for Development in Egypt has been set up to create jobs and to alleviate poverty stemming from temporary imbalances resulting from the macroeconomic structural reform programme. The Social Fund's small business lending programme (SEDU) claims to create 500,000 jobs annually.

All of these agencies have chosen to provide microcredit (and in some cases small business credit) as a means to achieve their development objective. However, clearly the provision of subsidized loans is not the most effective ways to promote permanent job creation as it often goes to supporting less than optimal start-up business ventures with limited chances for success. It is generally recognized that not every unemployed person has the latent potential to become a good entrepreneur and many are better off working for somebody else. The appropriate solutions to unemployment are very complex, but macroeconomic reform, sector-reform including privatization, and the provision of vocational training programmes that are more responsive to market needs may be more sustainable solutions.

Not only is the provision of subsidized credit an inappropriate tool for meeting job creation goals; it also jeopardizes the microfinance sector as a whole. By sending the borrowers mixed signals as to the true cost of financing and the seriousness of repayment obligations (government programmes are often seen by beneficiaries as social welfare schemes that do not need to be repaid), these programmes undermine other good practice programmes striving to be sustainable.

Poverty Alleviation Programmes

Some government agencies such as the Social Fund for Development in Egypt also target credit to the poorest in their countries, whether they are entrepreneurial or not. This can be dangerous because credit can increase the vulnerability of the poorest if they do not have adequate repayment capacity and can easily turn into debt in the event of an external shock. The poorest often benefit more from savings and deposit services or microinsurance, which support economic smoothing and risk mitigation strategies.

Overall, the presence of the large subsidized credit schemes skews the country data and leads to the following country characteristics: (a) a lower percentage of female clients; (b) higher average outstanding loan balances indicating that not the poorest are reached; (c) lower efficiency measured in number of active clients per loan officer; (d) lower repayment rates, although it is usually impossible to get accurate repayment data from the government-sponsored programmes; and (e) (often) a higher percentage of rural clients, because one of the development objectives of such programmes is to stem rural migration through job creation in rural areas.

Banks for the Poor

A final category of government-supported credit schemes that could be potentially damaging to the microfinance industry is the Banks for the Poor, initiated by the Arab Gulf Programme for United Nations Development Organizations (AGFUND). These banks target the poorest of the poor who are excluded from the financial sector. They provide subsidized credit to both individual and group start-up businesses without any collateral or guarantee requirements. The banks also provide programmes to promote social development and encourage savings of the poor.

AGFUND has already set up a Bank for the Poor (called Bank of Hope) in Yemen and is in the process of establishing one in Jordan. In Lebanon the Al Rajaa microcredit bank is being licensed and discussions are under way in Sudan, Morocco, Syria, Mauritania, and Libya. While AGFUND should be commended for recognizing the need for microfinance in the Arab world and creating awareness of this need among the highest level of policy makers to whom it has easy access, key aspects of its approach give cause for concern.

In considering its target group and methodology:

- The poorest of the poor, or neediest, the target group of the Banks for the Poor, often do not benefit from credit: in fact credit may put them in debt and increase their vulnerability.
- Experience in microfinance has shown that financing start-ups is a risky business and if done should be limited to a certain percentage of the outstanding loan portfolio.
- Collateral is good. While it should, however, not be the primary loan application evaluation criteria, when dealing with larger individual loans an MFI should try to get whatever it can, whether goats, a refrigerator, movable assets, or jewelry.
- Replication of the Grameen bank methodology is very much part of this approach. Experience has shown that there is no one methodology that should be advocated, but rather there is room for a range of approaches. And while the Grameen methodology has been successfully replicated around the world, it remains to be seen whether it is appropriate in all Arab countries.

In considering the institutional and legal setup of AGFUND:

- The institutional form advocated—bank—has hardly been replicated and in the few cases that this was done it was done so without success. Grameen Bank itself evolved bottom-up from a small NGO that, after 10 years of operations, transformed into a bank. This is not the same as top-down replication.
- Although the avoidance of government interference is quoted as one of the success factors, in practice in Yemen and Jordan the government is a shareholder and has voting rights. Moreover, shareholders are not allowed to sell

their shares so there is no exit strategy. Experience around the world shows that government-owned banks (whether partially or fully) are prone to interference in areas such as interest rates and target groups.

- In principle a microfinance bank does not need favorable or special treatment, particularly when there are no prohibitive minimum capital requirements. A good microfinance bank can also be a good corporate citizen and there is in principle nothing wrong with paying taxes or other fees. Should certain exemptions from taxes and other regulations be sought, then these exemptions should be extended to the microfinance industry *as a whole* in a country in order to ensure a level playing field. Therefore, the special laws being written to create these banks and exempt them from taxes are not conducive to the healthy development of the financial system.

While bank engagement is critical to the future growth of the sector, any attempt to create a specialized bank should follow internationally accepted good practices for the industry and as such strive to be customer centered, commercially oriented, and professionally managed. Proper due diligence should be followed when establishing new microfinance banks, including a feasibility study using microfinance bank modeling and sensitivity analysis to assess the viability of such a venture. Anecdotal evidence from the region would suggest that this is not always the case.

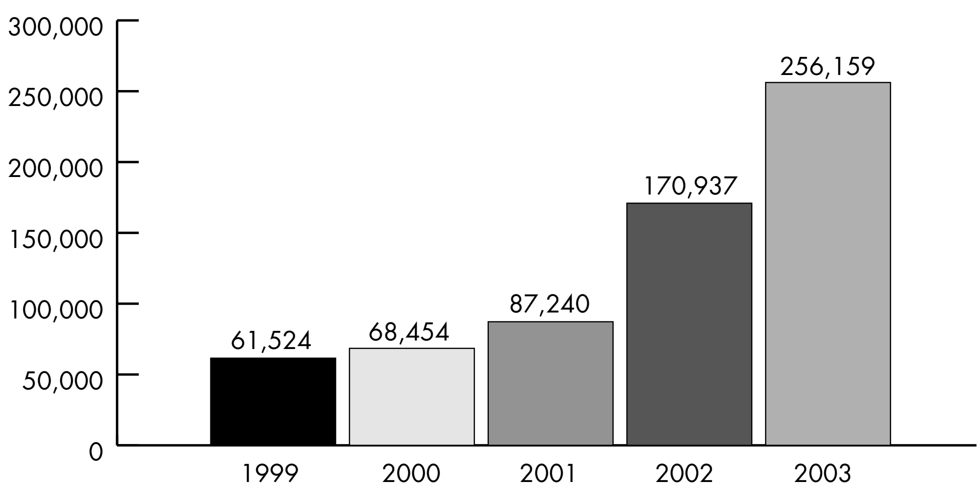
Chapter 4: Country Profiles

4.1 Egypt

Total population	66,372,000
Estimated number of people below the poverty line plus 20%	28,540,000
Estimated number of households below the poverty line plus 20%	4,077,137
Estimated number of households needing access to credit - market potential	1,630,855
Number of active borrowers	256,159
Percentage of people currently having access as percentage of market potential	16%
Market gap in numbers	1,374,696
Market gap in percentage	84%

Egypt for many years has been the leader of microfinance in the region in numbers of active clients. However, in the previous survey, we saw that the growth of the sector appeared to be leveling off followed by a remarkable sprint that occurred after 2001, as shown in the figure below:

Figure 4.1: Active Clients in Egypt (1999–2003)



At year-end 2003, Egypt had over 250,000 active clients, of whom more than 80% were served by seven fully sustainable MFIs (out of the 20 included in the 2003 mini-survey).[20] Over $55 million was outstanding in microloans. Egypt also increased lending to women: while at the end of 1999 only 25% of the clients were women, this proportion had increased to 35% by year-end 2002 and 46% by year-end 2003. We will see below that this can be attributed to the introduction of group lending for women by the USAID-supported Foundations, which together with the Banque du Caire and the National Bank for Development dominate the market.

The remarkable growth in Egypt can be attributed to two key factors: loan product diversification through the introduction of group lending (for women); and revitalization of downscaling programmes through banks, notably through the Banque du Caire, both initiatives sponsored by the major donor in the sector, USAID.

4.1.1 Characteristics and Experience

Product Diversification—The Introduction of Group Loans

The microfinance industry in Egypt as in many countries in the region has been characterized by a general lack of product diversification. This has been the case up until very recently when USAID began putting a renewed emphasis on its poverty lending projects, which it defines as loans of less than $300.

In an effort to reach more poor people and improve its gender balance, EQI— Environmental Quality International, USAID's Technical Assistance Provider in Egypt—designed and implemented a new group-lending product for women in all seven of USAID's partner Foundations.[21] Before this time, the Foundations had focused on individual lending. Although women were not excluded, the majority of borrowers were men.

The box on the next page describes the Blossom-programme of the ABA as an illustrative example of the group-lending methodology used.

By year-end 2003, the seven Foundations together had 63,000 active blossom clients benefiting from solidarity group loans, with the Assiut Foundation being the most successful with 24,000 active women borrowers by the end of 2003. This represents 40% of the Foundations' active clients, achieved in only three years. When compared with the 15 years it took to reach the remaining 90,000 clients, one can see the large potential for growth presented by group-lending models.

Recent developments show that the introduction of new loan products can dramatically contribute to expansion. However, in spite of the latest growth, the Foundations' legal structure as NGOs as well as their regional focus (a psychological rather than legal impediment) will make it very difficult for them to reach massive scale. One answer has been to set up more Foundations: four more were established in recent years, to make a total of 11 Foundations. However, this requires a substantial investment of resources to build up institutional capacity and branch networks, which arguably is not the most cost efficient way of increasing outreach to Egypt's vastly underserved market.

Revitalization of Downscaling in Egypt

Downscaling refers to setting up microfinance programmes in existing banks. The word downscaling is used to express the reduction in the loan size a normal commercial bank would make to reach the microbusinesses, because these businesses need much smaller loans than high-net-worth individuals or companies.

In downscaling programmes, banks use best practice techniques from mi-

Box 4: ABA's Blossoms of Micro Enterprise Programme

The Blossoms of Micro Enterprise Programme targets the poorest of the poor, especially female-headed households (FHH). The programme focuses on both urban and rural low-income communities. The programme objective is to assist women in initiating and/or expanding income generating activities to improve their living standards. The programme also aims at improving the social, cultural, and health standards of the participating FFHs and their family members.

The programme uses the solidarity group methodology. Five women from the same neighbourhood form a group. While the loans are individual, the women guarantee each other's repayment. Loan sizes range from $25 to $125 and are repaid in weekly installments. The maturity of the loan ranges from 10 to 40 weeks.

Given the specific nature and needs of poor FHHs, the programme blends financial with nonfinancial services in the same package. Every month, a Friends Meeting is held for three to five groups from the same neighbourhood. Before the meeting a topic is selected by the participants such as family hygiene, pollution prevention, solid waste handling, obtaining identity cards, and illiteracy. Where possible, ABA recruits individuals or organizations specialized in these areas to provide insight and practical solutions at the Friends Meeting.

In addition to the Blossom programme, ABA has introduced microgrants! The Towards Self Employment Programme (TSEP) targets the most vulnerable, especially women and unemployed young people, and is built on the belief that development must begin with people's own ideas and experience and build on their skills and time. Microgrants (seed capital) are disbursed in two equal installments. The first installment is disbursed on the following conditions: the recipient should (1) plan and manage a business activity, (2) work a minimum of eight hours a day for three months, and (3) plan and continue to expand the business. The second installment is only disbursed if the business is still active after three months and if the recipient works at least eight hours per day. Successful recipients could, after having received the second installment, graduate to the group-lending programme. The TSEP programme is funded by donations from members of ABA and the business community at large. It is managed on a volunteer basis by ABA staff and ABA microcredit clients.

crofinance and apply these to banking operations. The application of these techniques helps banks to reduce transaction costs and risks. These techniques include:

- Decentralization of loan decision making;
- Using evaluation criteria that are cash-flow and character based rather than asset and document-based;
- Developing ongoing client relationships combined with the implementation of loan screening and monitoring systems as well as client-tracking systems;
- Having dedicated loan-officers, often newly recruited from the target areas;
- Making loan officers responsible for both loan granting as well as collection of repayments, remunerating them on the basis of their performance in these areas; and
- Setting interest rates and fees that reflect the costs and risks appropriately.

Often banks are reluctant to engage in a downscaling programme, especially if they put their own money at risk. One can understand this reluctance, because banks perceive microbusinesses as being too risky and the costs as being too high. A downscaling programme often demonstrates to a bank that lending to this target group can be profitable. In order to get the bank to put aside its reluctance while building up a large-enough loan portfolio to break even and start making profits, some subsidies to the bank can be justified. These could include, depending on the local circumstances, (a) initial coverage of part of the operational costs (such as loan officer salaries and bonuses) until the break-even point is reached, (b) initial risk sharing, and (c) the provision of loan funds to the bank in cases of liquidity shortages.

Technical assistance is essential to bank engagement and should be readily accepted by banks. The most important condition for success, however, is top management commitment to the programme. Making loans to microbusinesses is a strategic choice and not every bank should make that choice. Only when the bank sees a strategic fit between its objectives and this target group should it engage in microfinance.

4.1.2 Challenges for the Future: An Enabling Legal and Institutional Environment

In spite of the impressive results among a few leading microfinance providers, the industry as a whole remains relatively underdeveloped, with the huge potential demand for microfinance in Egypt largely unmet. Rough estimates show that the industry could potentially have between 2 and 3 million clients, while only an estimated 250,000 currently have access to financial services. Egypt's market penetration rate as a result is among the lowest in the region.

Other characteristics, confirmed by a joint Kreditanstalt fuer Wiederaufbau (KfW)/UNDP/UNCDF sectoral review undertaken in 2003, indicate an immature microfinance industry at several levels.

Government Policy

There is a lack of clarity in government policies regarding microfinance, with the persistence of distortionary practices (both by the government and donors) such as subsidized credit schemes and client targeting. The newly passed Small Enterprise Development Law is an attempt by government to increase clarity of and conformity to policies governing the sector. However, the ambiguous lan-

Box 5: A Case of Bank Engagement: Banque du Caire

Banque du Caire's successful venture into microfinance might not have occurred if there had not been a high-level political commitment to improve the health of Egypt's banking sector. Top-management of the four state-owned banks, including that of Banque du Caire, was replaced by high-caliber banking professionals who often had gained substantial experience abroad. These managers were given a clear mandate: improve the financial position of the bank. Moreover, government pressure on these banks to make loans to bad-performing state-owned enterprises also substantially decreased.

Banque du Caire had to make money in order to fulfill its new mandate. First of all this meant cutting costs, re-engineering the bank's internal operations, and making better use of its substantially underemployed staff. Making money also meant increasing revenue and lending to ill-performing state-owned enterprises would not do that job. New target groups were sought.

With the financial support of USAID and the technical assistance of the well-known consulting firm EQI, Banque du Caire engaged in microfinance. The formula was straightforward: training, incentives and marketing. Underemployed staff working in the 97 branches were invited to join the microlending programme as loan officers. They were trained extensively and received substantial performance bonuses as high as one-third of base salary.

Many staff volunteered for this career option: more than 660 by year-end 2003. They feel a sense of accomplishment having shifted from being nonproductive employees to being highly productive persons who are also appreciated, notably by top management who have shown clear commitment to and keen interest in the programme. The criteria for evaluation and appraisal of loan officers are highly transparent, which is quite a departure from the past.

In two and a half years, Banque du Caire has reached over 45,000 active clients and a portfolio outstanding of over $14 million. The portfolio at risk (over 30 days) is under half a%. The client retention rate is low but improving, indicating better responsiveness to client needs. Banque du Caire confirms that the profitability of its microloan portfolio is more than double that of a normal performing loan portfolio in the best-performing banks.

The bank used its own funds for onlending and no external guarantees were used. The bank also pays the loan officers' salaries and bonuses. The technical assistance package cost a bit more than $1.1 million, or two cents per dollar disbursed, which is very much in line with other downscaling programmes observed in the world.

guage of the law itself poses concerns for the sector as a whole.

Although the law deals mainly with small enterprises and not microfinance, it does explicitly name the SFD as the *de facto* ministry for small enterprise development responsible for the overall coordination and planning of the sector. Given its history of subsidized credit schemes and highly politicized lending programmes, this makes many operators in the industry quite nervous. For, in spite of its efforts to adopt internationally accepted good practices through pilot projects, the SFD has yet to fully mainstream these practices in all of its programming.

Fortunately the law does not go as far as making the Social Fund a regulator or licensor of SME finance. However, it does give the fund the leeway to develop the executive regulations for the sector (within the confines of the law) and to implement its provisions through the participation and coordination of all parties. This could conceivably include interest rate ceilings in an attempt to "standardize" pricing in the market, which would have the dangerous effect of discouraging further growth as well as private sector participation. Therefore, there is an urgent need to define this coordination role and ensure that the resulting guidelines are facilitating and not restrictive in nature.

Finally, the law proposes that Small Business Development Funds be established in each of its Governorates. A parallel small-business financing structure separate from the private sector but providing subsidized credit to the same market (i.e. small and microentrepreneurs) is far from optimal, and may jeopardize the future microfinance sector.

Legal/Regulatory Level

The microfinance sector lacks a legal structure for supporting the formation of non-deposit-taking banks, deposit-taking specialized banks, or microfinance companies. There are basically two models of microfinance: the NGO model and the downscaling model—in other words, provision of microfinance through banks.

The sector also lacks any supportive infrastructure such as credit bureaus, rating agencies, accounting or auditing services, or self-regulatory frameworks to promote the commercialization of the sector.

Finally, it appears that the sector itself lacks a vision to be independent from donor support, relying heavily on donor grants and concessional funding for financing without a clear strategy for the commercialization of the sector.

Institutional Level

The sector is characterized by a limited capital and institutional base among microfinance providers. While the majority of Egyptian MFIs adhere to internationally accepted good practices, many others still suffer from weak management capacity and ownership structures, lack of transparency, and inability to transform into formal financial institutions.

The banking sector in general lacks institutional capacity and willingness to serve the microenterprise target group, although this seems to be changing with the recent entrance of Banque du Caire and the exploration of other banks interested in entering this market.

The sector lacks product diversification. Credit is the primary financial product offered by MFIs and is offered mainly to men (with the exception of the new group-lending product discussed above). Moreover, credit is provided predominantly for enterprise activities. Credit for consumption (such as paying school fees or medical bills), payment services, money transfers, or insurance services is lacking. While depository services for microclients are available nationally through the postal offices and their wide distributional channels, they are offered in isolation from a broader range of financial services.

Clearly, although advances have been made in Egypt toward the wholesale application of good practices at the retail level, microfinance as a whole is far from being a mature industry capable of meeting the challenges of commer-

Box 6: An Egyptian National Microfinance Strategy

On February 23, 2004 UNDP Cairo and the Egyptian Banking Institute (EBI) of the Central Bank of Egypt signed a project document for the first joint national microfinance policy initiative with UNCDF, KfW, and USAID: Building a National Strategy for Microfinance in Egypt.

This project aims to marshal government efforts to date as the basis for a more coordinated dialogue among stakeholders toward the development of a mature microfinance industry. This is based on the belief that permanent access to financial services of poor and low-income households and their microenterprises will only be ensured through the development and gradual integration of the microfinance sector into the formal financial sector. By focusing efforts on developing a strategy for the development of the industry as a whole, the project intends to define a framework for increasing the efficiency and effectiveness of concerted governmental, nongovernmental, and donor actions in this sector. This will be accomplished through the:

1. Development of a shared vision for the promotion of a self-sustaining commercial microfinance sector;
2. Articulation of a national policy and strategy to support necessary policy reforms, legal and regulatory changes, and the development of the critical financial infrastructure; *and*
3. Development of an action plan in coordination with the Egyptian Authorities, which will provide a menu of priority activities for the Government of Egypt. Donors might indicate their support based on their interest, mandate, and available resources.

cialization and of reaching massive scale. The bulk of support to the industry continues to be financed by donors and the government through direct institutional investments rather than support to the sector as a whole. This support will neither be adequate to satisfy the full demand nor to ensure sustainability of access to poor and low-income households. In order to bridge the outreach gap and ensure sustained access to financing, there is a need for gradual integration of the microfinance industry into the formal financial sector, thereby offering microenterprises a diversified range of financial services. Integration, of course, only makes sense in parallel with reform of the banking sector as a whole where product diversification beyond simple credit continues to be a challenge.

4.2 Jordan

Total population	5,171,000
Estimated number of people below the poverty line plus 20%	1,654,700
Estimated number of households below the poverty line plus 20%	236,398
Estimated number of households needing access to credit - market potential	94,555
Number of active borrowers	24,348
Percentage of people currently having access as percentage of market potential	26%
Market gap in numbers	70,207
Market gap in percentage	74%

Jordan holds a unique position in the region with all four best practice MFIs established as companies, one for-profit company and three not-for-profit companies.[22] One of these companies, the Micro Fund for Women (MFW), is the oldest and currently largest best-practice MFI in the country. It started in 1996 as a project under the Save the Children programme; it was then spun off into a locally managed NGO and later transformed into a company. The other three companies were newly established in 1999/2000 under a USAID-funded project.

The legal form of a company was chosen to overcome difficulties associated with the NGO law under the Ministry of Social Development (MOSD), which prohibited NGOs from providing financial assistance to micro- and small enterprises. Because there was no other enabling legislation for MFIs in Jordan, the company law falling under the Ministry of Industry and Trade was seen to be the most appropriate.

Year-end 2003, the four best practice MFIs together had almost 17,000 clients and an outstanding loan portfolio of over $12 million. Seventy-seven per cent of the clients are women and 18% live in rural areas. Jordan has a very shallow depth of outreach: the average loan balance of the clients of the Jordanian MFIs is $728, which is 54% of GDP per capita. It must be noted however that depth among the four MFIs varies widely, with MFW targeting the poorest and one of the companies owned by a bank targeting the not so poor. In effect the four MFIs target the whole range of clients from poor to low-income to perhaps even middle-income clients. In terms of active clients, MFW is the market leader, having a market share of over 40%.

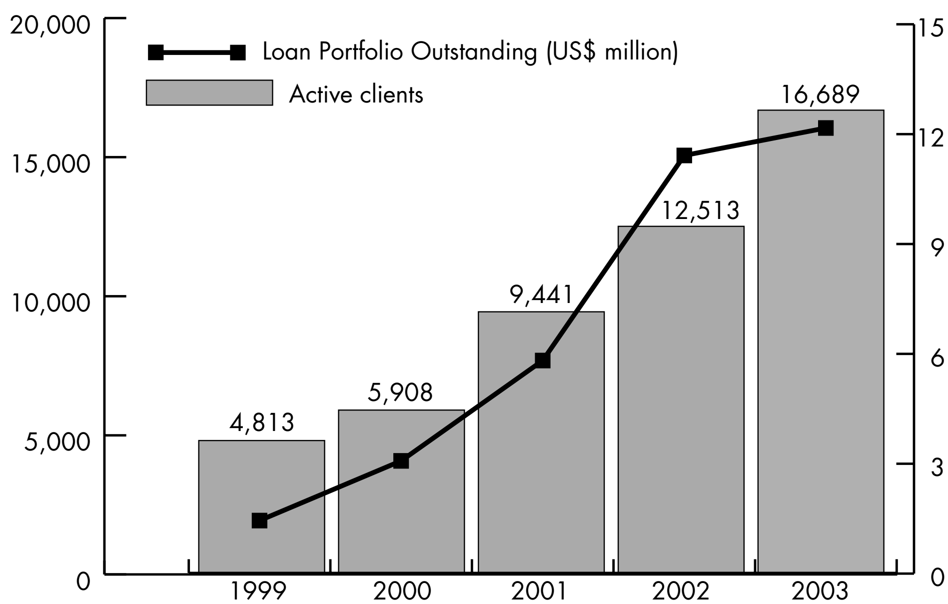
4.2.1 Characteristics of the Market

Government-Sponsored Programmes

Despite the presence of four best practice MFIs, the microfinance industry in Jordan remains vulnerable to the threat of large subsidized credit programmes, the major one being the Development Employment Fund (DEF). Other such programmes include the Industrial Development Bank (IDB) and the National Assistance Fund (NAF) that provide very soft loans to poor households, which in effect are grants. A review conducted in 2001 indicated that the nonsustainable lenders in Jordan had reached an outstanding portfolio of $90 million (JD 64 million) in comparison with the outstanding portfolio of the best practice MFIs of approximately $6 million at that time and almost $13 million year-end 2003.[23]

The four best practice MFIs note the vast supply of subsidized credit as a major obstacle constraining their growth.[24] Figure 4.7 shows that while initially growth of the four companies was steep, it leveled off in 2003. *Decreasing* demand is also seen as an obstacle, with more and more Jordanians preferring to work for somebody else rather than engaging in their own business activity. The constraints are reviewed in more detail below.

Figure 4.2: Number of Active Clients and Loan Portfolio Outstanding of the Best Practice MFIs, Jordan (1999 to 2003)



4.2.2 Constraints to Sustainable Growth

Under the auspices of the USAID-funded AMIR programme (Achievements of Market-Friendly Initiatives and Results Programme), the 10 most urgent policy constraints were identified in July 1998. This study was updated in June 2003 and the most important findings are reviewed below and comments given.

Subsidized credit

The AMIR study argues that it is unrealistic to request the government to close down institutions that provide cheap loans. It does, however, recommend that these institutions either move toward providing credit using market rates for their costs of funds in their pricing policies, at a minimum, or become wholesale providers to other institutions in the industry.

Sales tax law

MFIs have to pay 13% sales tax on their interest income. This will affect sustainability and pricing. Two MFIs succeeded in getting a document from the tax authorities exempting them from the sales tax for the time being. Two other MFIs did not succeed in obtaining this exemption. This phenomenon demonstrates the lack of uniformity in dealing with all MFIs on the same grounds, which further highlights the lack of standardization and transparency in the industry's governing systems and procedures.

Lack of appropriate legal entity for MFIs

Although as companies the MFIs have a legal entity, they are not recognized as special "lending" institutions nor are they supervised. The microfinance industry in Jordan clearly states it wants to be regulated in order to exploit the full potential of the industry. It is, however, unclear why they should seek regulation, especially if they do not take savings and deposits.

Lack of credit bureau

A credit bureau enables an MFI or a bank to determine whether a loan applicant already has a loan outstanding with another financial provider. In many countries credit bureaus also have blacklists of borrowers with dismal repayment records and in some cases they can also provide information on a borrower's credit history. AMIR was instrumental in establishing a credit bureau and drafting the Credit Reporting Law. Although a law on Credit Bureaus was passed on July 2003, the Central Bank of Jordan has yet to issue licensing instructions.

Islamic banking

Banks and MFIs in Jordan are not allowed to engage in both commercial lending and in Islamic finance. It is an either/or situation. As a result banks and MFIs cannot exploit the full market potential.

Investment law

The Encouragement of Investment Law creates an investment-friendly environment for large enterprises. However, incentives for micro- and small enterprises are lacking. The MFIs argue that this limits their market and that special laws governing the establishment and legislation of micro- and small enterprises are needed. Again, one can wonder why this is needed because MFIs lend to registered as well as informal businesses.

Promissory notes and enforcement of claims

Currently promissory notes, which are attached to a loan document, do not have the same legal weight as post-dated checks, which would make them more legally binding and acknowledged by clients. In addition, although promissory notes do have some legal weight, the processing of such notes through the court is a very time-consuming and costly process. The general weakness in the court system constitutes a constraint not only to the microfinance industry but also to all other industries.

4.2.3 Future Prospects

AGFUND has prepared a draft law creating a Bank of the Poor, which would be a national bank for financing small projects. Although the microfinance industry does not oppose the establishment of this bank in itself, many of the above-mentioned constraints come together in the draft law. In the draft law, the Bank will be exempted from all taxes, stamps, and fees while the MFIs are not. Moreover, MFIs are concerned that the bank will become yet another provider of subsidized credit. The bank, which will be owned by the government and the AGFUND, will be set up as a special legal entity supported by its own Statutes of Incorporation, and will be allowed to engage in commercial lending as well as Islamic finance, something which is currently not allowed in either banks or MFIs.

The USAID-funded AMIR programme lobbied the Government of Jordan for equal treatment of all microfinance organizations operating in the country. Specifically, the government was requested to extend the tax and fee exemptions as well as other special permissions granted to the envisaged National Bank for Financing Small Projects to all MFIs in the country. It succeeded in doing so in April 2004 when the Council of Ministers approved the request.

4.3 Lebanon

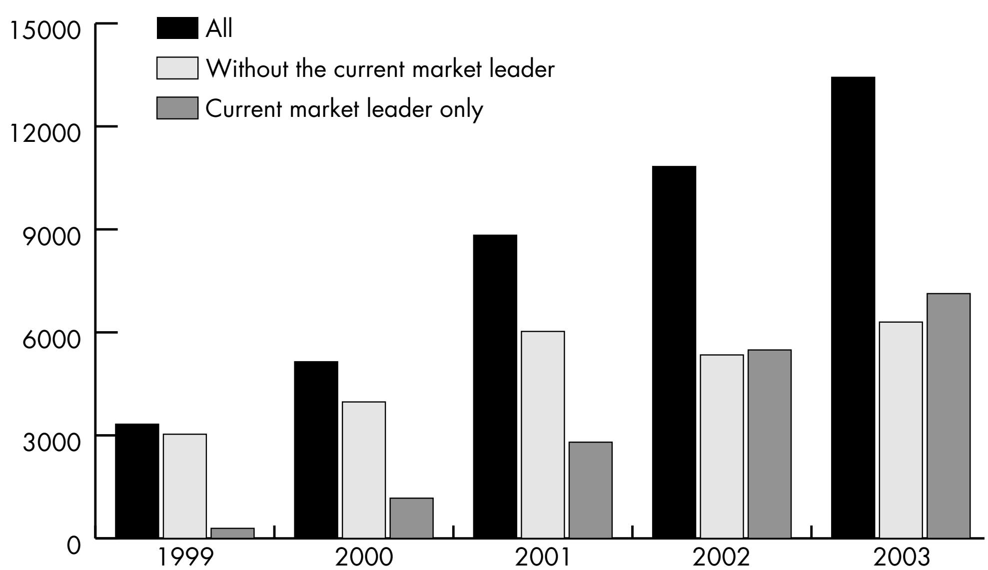
Total population	4,441,000
Estimated number of people below the poverty line plus 20%	1,332,300
Estimated number of households below the poverty line plus 20%	190,329
Estimated number of households needing access to credit - market potential	76,131
Number of active borrowers	13,429
Percentage of people currently having access as percentage of market potential	18%
Market gap in numbers	62,702
Market gap in percentage	82%

4.3.1 Limited Growth

Growth of the microfinance industry in Lebanon has been slow in comparison with the other countries in the region. As of year-end 2003, Lebanon had some 13,500 active clients, or less than its better-off neighbour, Jordan. Thirty-five per cent of the clients are women and 22% of the clients live in rural areas.

The limited growth that was seen in the country can be attributed mainly to a new entrant into the sector, Access to Microfinance and Enhanced Enterprise Niches (AMEEN). Although in previous years, the market was dominated by one of the first programmes in the country (Al Majmoua), AMEEN has now taken its place as the industry leader. If we exclude this new entrant from the totals—as is shown below—the market grew little in the last three years, and even contracted in 2002.

Figure 4.3: Active clients with and without the Market Leader, Lebanon (1999–2003)



Box 7: A Financial Services Company for Microfinance; the Case of AMEEN, Lebanon

AMEEN started as a project funded by Cooperative Housing Foundation (CHF) under a USAID grant, and was later transformed into a for-profit company in May 2003. AMEEN services the microloan portfolios of commercial banks on a fee-for-service basis. By the end of 2003, AMEEN was working with two banks (through 40 branches). The banks together had over 7,100 active clients and a loan portfolio outstanding of over $5 million. In early 2004 a third bank joined the programme. AMEEN expects to service 20,000 active clients within the next five years. Recently two other banks also joined the programme.

AMEEN loan officers are typically assigned to one bank branch. The loan officers promote the programme, help borrowers with applications, screen applications, and monitor the loans after disbursement including follow-up in case of default. The banks are responsible for processing the loan contracts, disbursing the loans, and collecting repayments. The banks use (part of) their own liquid funds for the loans and take the credit risk.

In order to initially create a comfort zone for the banks to participate in the programme and gain confidence in this type of lending, AMEEN shared the risk of default with the banks. The specific risk-sharing arrangements differed per bank: in some cases, the risk share is up front, with AMEEN/CHF putting in part of the funds for onlending. Each repayment (of interest and principal) is shared with AMEEN according to the share of AMEEN's funding of the sub-loan. In case of default AMEEN immediately loses its share of the financed sub-loan.

In other cases, the bank puts in 100% liquidity with AMEEN paying out the principal of the sub-loan after default up to a certain agreed-upon percentage of the total outstanding portfolio (first-loss). Arrears however have been very low (PAR over 30 days is 1%) and hence the actual use of the risk-sharing mechanisms is limited. In all cases, it is AMEEN's objective to phase out the risk-sharing mechanisms to the point where the banks put in all the funds for onlending.

Year-end 2003, AMEEN was close to sustainability and covering all its operational costs from the received fee-income (and when co-financing sub-loans, also interest income). The fact that the banks are willing to pay AMEEN a fee for its services and continue working with AMEEN must indicate that they make money on microlending. Moreover, through cross-selling, microentrepreneurs generate other income for the banks in addition to interest income on loans.

The key question obviously is how sustainable is the model. On the one hand, one could argue that a bank that is strategically committed to microlending would, over time, cut out AMEEN and thus increase its margin. On the other hand, AMEEN offers a specialized service and skills, especially in terms of efficient loan origination and monitoring, so that banks may not be interested in developing these skills and services in-house.

Most banks are not strategically committed to engage deeply in microfinance. For those banks, the AMEEN model works: AMEEN uses its staff and the banks' infrastructure to reach out to many microentrepreneurs and achieve rapid scale, while the banks earn money on a service that they otherwise would not offer.

Not only has the new player in the sector helped to fuel growth, it has also introduced a new model of microfinance in the region: a financial services company, which services microloan portfolios for commercial banks on a fee-for-service basis (see Box 7).

4.3.2 Recent European Union Initiative

Until recently, Lebanon was the only country in the region where lack of (donor) funds for onlending was cited as a constraint to growth. This has changed with the introduction of an EU-funded agency, the Economic and Social Fund for Development (ESFD), which was set up to contribute to employment creation and poverty alleviation in the country. Unlike many other Social Funds globally, this fund has resisted the temptation to promote subsidized lending to meet job creation and poverty reduction goals and has tried a very different approach to stimulate outreach among Lebanese MFIs.

ESFD had reason to believe that some of the MFIs working in the sector were quite inefficient and were passing on these inefficiencies in the form of high operating costs and therefore high interest rates for the final borrower. Annual percentage rates (APR) of some MFIs in Lebanon were above 40%, which seemed to have become the accepted standard. ESFD invited eligible MFIs to bid for a substantial amount of funds for onlending (∈1.2 million). Those MFIs that bid with the lowest interest rate to the final borrower—while showing at the same time that the rate would cover all operational and financial costs—would win access to the EU funds to be used for onlending in certain parts of Lebanon (notably the North and the South).

ESFD expected that many MFIs would offer an interest rate below the 40% APR, but was taken by surprise when one institution offered an interest rate that was less than half the going rate.

The bidding story described above raises some interesting questions:

- Were interest rates too high to begin with and if so what was driving this: profit maximization or programme inefficiency?
- Is the winning bid truly based on a sustainable cost structure or will the desire to have access to a new source of funds lead to losses in the future?
- How will the “winner” explain the substantially lower interest rates to its current borrowers, who are clients in the regions where the new lower rates will be offered?
- What impact will the provision of microcredit at substantially lower interest rates have on the industry as a whole?

It is hoped that the next survey on microfinance in the region will shed some light on the answers to these questions.

4.3.3 Challenges to Growth in the Future

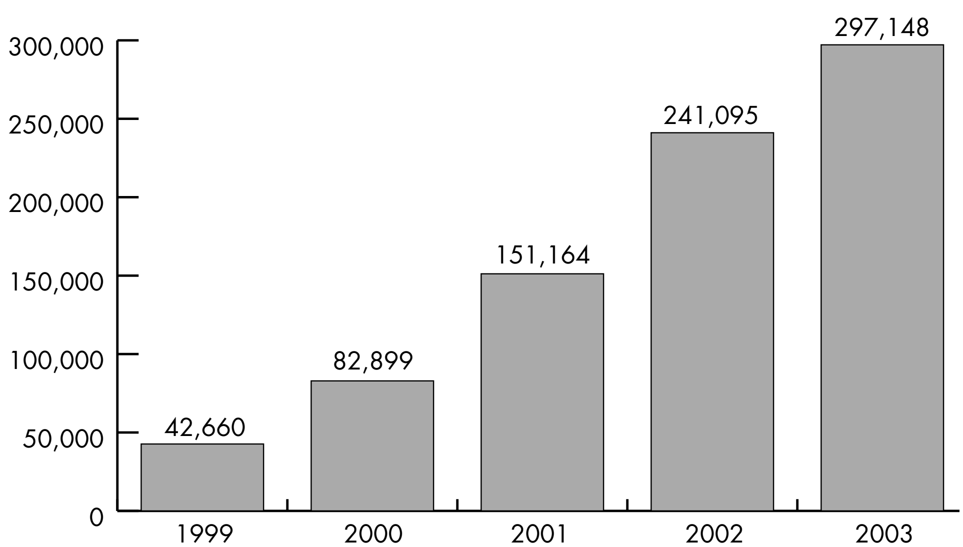
Two factors appear to continue to limit Lebanon's growth. First, the market itself is limited, although poverty is clearly increasing. Second, the sector itself, with some exceptions, appears to lack the drive to grow and actively pursue new clients with new products. Many programmes are very small, making only a few hundred loans a year, and they lack funding, institutional capacity, and vision to jump-start their development from programmes into institutions. The sector may become dominated by one or two major players, which would not contribute to a healthy competition resulting in efficiency improvement and product innovation.

4.4 Morocco

Total population	29,641,000
Estimated number of people below the poverty line plus 20%	11,559,990
Estimated number of households below the poverty line plus 20%	1,651,427
Estimated number of households needing access to credit - market potential	660,571
Number of active borrowers	297,148
Percentage of people currently having access as percentage of market potential	45%
Market gap in numbers	363,423
Market gap in percentage	55%

Morocco is among the better performers of the countries included in the survey. The country has 13 registered MFIs, two of them being subsidiaries of public banks. Morocco is the region's market leader with almost 300,000 active clients with an outstanding loan portfolio of over $61 million. The growth in active clients in Morocco has been tremendous (figure 4.6). Notably, two MFIs, Al Amana and Zakoura, have been responsible for this growth. At year-end 2003 these two MFIs served 73% of the active clients. If we add the third major player, Fondation Banque Populaire, more than 90% of all clients are served by these three institutions.

Figure 4.4: Morocco's Growth in Active Clients (1999–2003)



Because Morocco has the highest number of active clients, it heavily influences regional statistics and notably regional averages. Table 4.1 shows regional statistics with Morocco and without Morocco data.

Table 4.1: Key Regional Indicators with and without Morocco

Item	Morocco proper	Region w/ Morocco	Region w/o Morocco
Percentage of female clients (Syria excluded)	77%	60%	48%
Average loan balance as percentage of GDP per capita (Syria included)	14%	24%	31%
Clients per loan officer (loan officer productivity) (Syria excluded)	285	176	103
Percentage of clients served by fully sustainable MFIs (Syria included)	100%	73%	34%

4.4.1 Characteristics and Experience

Depth of Outreach

The Moroccan microfinance sector is unique in the region because of its particular orientation to female clients. The two major MFIs, Zakoura and Al Amana, which as noted earlier together serve 73% of the market, both have as an express objective providing financial services to poor women. Given the fact that women globally are among the poorest in society, it makes sense that Morocco's depth of outreach (measured by average outstanding loan balance as a percentage of GDP per capita) is also the lowest.

Moreover, the dominant lending methodology used in Morocco is group lending, and programmes with that methodology tend to have substantially lower loan sizes than programmes with individual lending methodologies. In the group-lending methodology, poor people form a group. Group members get individual loans but guarantee each other's repayments. Such a mechanism works only when the individual loan sizes of the group members are relatively small; otherwise group members would not be willing and able to guarantee each other.

Group loans usually increase with successful repayments. The group-lending methodology is often used for the poorest entrepreneurs. Some MFIs offer individual loans after a borrower has successfully completed a certain number of group "cycles." This enables the borrower to gain access to larger loans than would be prudent under the group-lending methodology. Once an individual loan is offered, other guarantees are sought such as assets or salaries of employees.

The dominance of the group-lending methodology also explains Morocco's high loan officer productivity. Group lending decreases the transaction costs to the MFI because the MFI deals with one group instead of a handful of individuals. Disbursements and repayments are usually done in group meetings, which also increases the productivity of the loan officer.

It is convenient to cite the mantra that women are poorer and that therefore they take smaller loans. However, the issue is much more complex and the reasons for taking smaller loans are often socially and culturally determined. This is elaborated on in the box below.[25]

Scale of Outreach

The massive increase in scale in Morocco is due mainly to the vision, drive, and commitment of the managers and boards of the three leading MFIs. However,

Box 8: The Glass Ceiling in Morocco: Challenges to Growth for Female Entrepreneurs

Market research undertaken in 2001 by one of Morocco's leading MFIs, Al Amana, to better understand its clients' needs revealed a significant gender asymmetry by business size—specifically, that women tended to have much smaller businesses as measured by net monthly business profit and value of assets than their male counterparts. Subsequent analysis of Al Amana's entire borrower database reveals that this pattern holds and is even more pronounced than previously thought.

The research revealed many barriers to women growing their businesses, most of which are rooted in dominant socio-cultural attitudes toward women that place a premium on women staying at home. Those women who find themselves "forced" into the informal economy due to high male unemployment and increasing costs of living are found to be further disadvantaged in terms of:

- Type of business: most were crowded into two subsectors—embroidery/sewing and trading, often logical extensions of their household work with much competition and limited potential for growth.
- Location of business: many had to locate their businesses at home to balance their businesses with other household responsibilities; this limits the types and volume of businesses they can engage in.
- Time allocated to business: all had to work their paid labor around other household responsibilities, limiting the amount of time they could spend on their business.
- Skill set: most had little prior business experience and were illiterate.
- Limited reinvestment in the business: one of the most critical obstacles facing women was the constant pressure to decapitalize businesses for household expenses, given the value placed on women's work as supplemental to the household income. Unemployed sons proved particularly expensive for mothers.

Women concluded that it was easier to be successful in business if one were older (the children had grown) or divorced (less housework and greater decision-making power); were good at managing time, and had access to capital.

Source: Women's World Banking

reaching massive scale also means having access to substantial sources of funds, whether donor funds (such as USAID grant funding), (quasi-) governmental funds (such as the grant funding from the Hassan II Fund), and commercial funds (such as bank-loans).

All MFIs have relied on their own equity and retained earnings as a major source of funds. Although some MFIs have built up their initial equity base with donor grants (for instance, by year-end 2002 Al Amana had received $5.7 million from USAID), other MFIs (Zakoura) have built their equity base with investments from the local business community, including donations from banks. In addition, the Hassan II Fund, a quasi-"Social Fund," has been instrumental in the further growth of the capital base of the two leading MFIs: Al Amana received $5 million and Zakoura received $4 million from this fund.

The Moroccan Law on Microfinance (see box) may also have been instrumental in enabling MFIs to gain access to commercial bank finance, as it calls for the licensing of MFIs, giving them a specific legal status under the Ministry of Finance. Undoubtedly this clear legal status and supervisory arrangement led to increased confidence by the banks to lend to MFIs. This is evidenced by the success of both Zakoura and Al Amana in negotiating bank loans and their plans to borrow much more in order to continue to finance their growth.

In spite of its size, the Moroccan microfinance sector as a whole is still very much in the market expansion phase. This is evidenced primarily by the lack of product diversification and the widespread application of one lending methodology (solidarity group lending). The relatively high drop-out rates reported by most MFIs indicate that the loan products offered are not responsive to market needs. The majority of MFIs rely solely on donor funding as the source of funds for onlending.

There are, however, as noted above, industry leaders who are moving into the tentative stages of market consolidation. For instance, Al Amana and Fondation Banque Populaire have both begun making adjustments in their solidarity lending methodology to better meet client needs, and introducing more flexible repayment plans and group formation policies. In addition both Al Amana and Zakoura have launched individual loan products. At least one MFI has invested in research and development capacity in order to learn more from clients. Other MFIs have invested in upgrading their MIS and some market leaders are relying more and more on commercial funds as sources of funds for onlending.

To face future challenges Moroccan MFIs need to become multiproduct institutions, shifting from a supply-driven culture to a demand-driven culture. MFIs need to develop new products based on client needs. Research capability is needed not only to assess client needs but also to develop new products.

Moreover, given the expected higher financial costs for MFIs (caused by increased commercial borrowing) and potentially lower interest rates on final loans (caused by increased competition), MFIs need to become even more efficient in order to maintain an acceptable margin. The pressure to reduce interest rates to the final borrower can be partially eliminated through product diversification.

The MFIs are becoming (relatively) large financial institutions and need to upgrade their MIS and financial management functions. Most important, also, is the need to upgrade their human resources: to maintain loyal, committed staff—the backbone of any MFI—human resources need to be carefully managed and rewarded.

Table 4.2: Forces Shaping Moroccan Microfinance Today[26]

Forces	Description
Suppliers of funds for onlending	Concessional funders are going away: • Traditional grant money is drying up. What is left is increasingly focused on smaller MFIs and rural areas. • International donors (especially USAID) are focusing on sectorwide infrastructure such as the National Federation of Microfinance Associations. • Commercial and quasi-commercial funding is available to the larger players. Taking savings and deposits is legally not allowed.
Threat of new entrants	• It is not likely that more "traditional" MFIs (associations) will be established because of the lack of start-up capital (seed funds). • However, other nontraditional players such as banks that can set up subsidiaries may enter. A recent example is Crédit Agricole.
Threat of substitute products and services	This threat is relatively limited: • Most banks lend only to registered businesses with sufficient and continuous cash flow through bank accounts. • Despite the proliferation of consumer lending companies, consumer lending will remain confined to salaried employees only. However, consumer finance can increase the debt burden of a household comprising, for instance, one salaried employee and one microentrepreneur. • Informal savings groups are strong but savings amounts small. • Moneylenders do not have a strong presence.
Bargaining power of the buyers	Buyers of financial services are becoming more demanding: • Overall market potential is substantial. • Retention rates appear low, which indicates that clients are not satisfied with services offered. • Solidarity group lending can be inappropriate for some clients. • Clients are becoming more aware of competitors.
Competition among existing players	Expected to heat up, especially in urban areas: • Although the market is still in early stage of development, it is far from the saturation point; the major competitors do offer somewhat overlapping products. • Lack of product diversification can contribute to increased competition, which will be based on price. • However, it is the access to funding that will be the key determinant of each association's survival

4.4.2 Challenges for the Future

The Law on Microfinance has been instrumental in creating a framework for best practice microfinance in Morocco. By now 13 Microfinance Associations have been established. While some microfinance practitioners have been concerned that the cap on the nominal interest rate could pose a constraint, in reality this has not been the case because the cap was on the nominal rate and not the annual effective rate.

However, with the industry reaching a more mature phase, some articles in the Law are becoming constraints:

- Credit can be provided only for productive purposes (widely defined as economic activity). A more mature sector needs to provide a range of credit products including housing (improvement) finance and consumer credit.
- Because the microentrepreneurs develop and grow their business over time, the loan ceiling may limit their growth. The fortunate ones (with good collateral) may move away to the banks or the growing number of consumer financing companies, but many may not be able to gain access to the larger loan sizes, constraining their growth. It is in the interest of the MFI to stay with their good clients because this enhances loan portfolio diversification, reduces risk, and increases profitability.
- Some of the better MFIs may wish to start collecting savings (not only as a source of funds but also as a financial service) while others may wish to provide microinsurance. However, not all MFIs should be allowed to take savings: only those that meet certain well-specified performance criteria should be able to do so.

A more developed legal environment will go hand-in-hand with a more developed institutional environment. For instance, with the expected increase in commercial bank borrowing, the need for a (MFI) rating agency or capability arises. With increased competition, the need also arises to set up a credit bureau where MFIs can check whether a loan applicant already has a loan elsewhere and where MFIs can share information on blacklisted borrowers. Steps are being undertaken by the Federation of Microfinance Associations to set up a credit bureau.

Box 9: The Moroccan Law on Microfinance

In 1996 the Minister of Finance held a meeting with the Moroccan microfinance institutions to discuss options for the government to support the emerging sector. Two issues were highlighted. First, the MFIs expressed the desire to become eligible for the Statut d'Association Utilité Publique: this statute allows NGOs that provide any public economic and social service to receive donor donations without the donor having to pay taxes on the donation. Second, MFIs providing financial services officially had to comply with the banking laws in Morocco, and had to assume the high minimum capital requirements and other financial regulations that made it extremely difficult for them to function.

To remove these onerous requirements, the minister decided to create a special microfinance law (Law 18–97), which would both regulate nonbank microfinance activities (microfinance associations) and allow them to take full advantage of the Statut D'Association Utilité Publique. Highlights of the Law are described below:

- The Law defines microfinance as the provision of credit for productive purposes to the poor and sets the loan ceiling at 50,000 dirhams ($5,000). The ministry sets the maximum nominal interest rate. The Law forbids MFIs to collect savings.
- MFIs have to register with the Ministry of Finance and receive a license. They have to report to the ministry regularly according to a standardized chart of accounts.
- The Law specifically supports the objective of the MFIs to become financially sustainable, and MFIs that apply for the license must submit a business plan outlining how they are going to achieve sustainability in five years.
- During these five years MFIs are exempted from paying taxes on any profits made. The exception is the value added tax. Any donations received from individuals or other institutions are tax deductible for the donor to encourage (local) donations. Goods imported (such as cars or computers) are exempt from income tax.
- MFIs have to clearly publish and post procedures on how people can obtain a loan.
- MFIs must have a steering committee that monitors activities and they have to undergo an annual external audit.
- MFIs have to become a member of the National Federation of Microfinance Associations.

4.5 The Occupied Palestinian Territories

Total population	3,231,000
Estimated number of people below the poverty line plus 20%	2,261,700
Estimated number of households below the poverty line plus 20%	323,100
Estimated number of households needing access to credit - market potential	129,240
Number of active borrowers	13,394
Percentage of people currently having access as percentage of market potential	10%
Market gap in numbers	115,846
Market gap in percentage	90%

The developments in the microfinance industry in the Occupied Palestinian Territories can only be evaluated in the context of the second Intifada, which began on September 28, 2000. The following period has been characterized by intermittent clashes, invasions, closures, and curfews, resulting in the widespread restriction of movement, massive destruction of personal property, lack of access to markets, and severe curtailment of economic activity.

Box 10: Microfinance under Conflict

Conflicts erupt for many reasons and have a broad and deep impact on society; the human cost of suffering from conflicts is immeasurable and the economic costs extremely high. Conflict gives rise to operational challenges for MFIs and, often, to delays in their ability to attain scale and financial sustainability.

MFIs have to adjust their strategies and operational procedures to manage the following common effects of conflicts on their programmes and financial performance indicators:

- Increased security risk to staff, clients, and assets;
- Human resource constraints brought about by loss of efficiency and know-how when management, staff, or members of supporting groups flee the country or community, are called to support war efforts, have been killed, or leave for better job or educational opportunities;
- Increase in operational risk resulting from parallel relief-oriented programmes, microfinance programmes not motivated by long-term development goals, or political and self-interested motivations of local officials;
- Increase in administrative and operational costs brought about by increased monitoring expenses incurred to maintain a high-quality portfolio, additional security precautions, higher labor costs, additional investments in advocacy work, and training and re-training efforts; and
- Overall increase in risk to an MFI’s balance sheet and lower returns on investments, given the effects of weakened repayment performance as clients are displaced and their productive and operational capacity is reduced, loan funds are decreased as deposits or lending resources are reduced or frozen, and equity values decline because of inflation and currency devaluations.

Source: Manalo 2003.

The damaging effect of the continued occupation on local economic activity as well as human life and physical capital has resulted in a drop of GDP at year-end 2003 to $1,110 per capita (from $1,540 year-end 2002), a decrease of 59%. In certain areas, notably in Gaza, the poverty rate has reached almost 100%.

4.5.1 Experience of a Key Player: FATEN

Despite the difficult “situation,” as the Palestinians label their own circumstances, the microfinance industry as a whole proved to be resilient and actually managed to increase its outreach. Before the start of the Intifada, the two key players, Palestine for Credit and Development (FATEN) and UNRWA, together had more than 15,000 active clients (September 1, 2000) with a loan portfolio outstanding of $10.9 million. One of the two programmes—UNRWA—at that time was fully sustainable while FATEN was well on the way to sustainability. Both programmes lost a substantial number of clients because of the Intifada.

FATEN, discussed in more detail below, has not yet managed to get back to the old level of clients, while UNRWA, after an initial drop in number of clients, currently has almost 8,200 clients and is almost back at the pre-Intifada level. All programmes taken together—including some smaller programmes—as of year-end 2003 had over 18,394 active clients and an outstanding portfolio of $7 million. This is a remarkable achievement.

No detailed case study has been done yet on the differences in performance of UNRWA and FATEN operating under a situation of conflict, but differences in target groups may have been a contributing factor. FATEN, although it had begun introducing group lending just before the Intifada, was still targeting mainly poor women with the group-lending methodology. UNRWA, however, was already very active in individual lending.

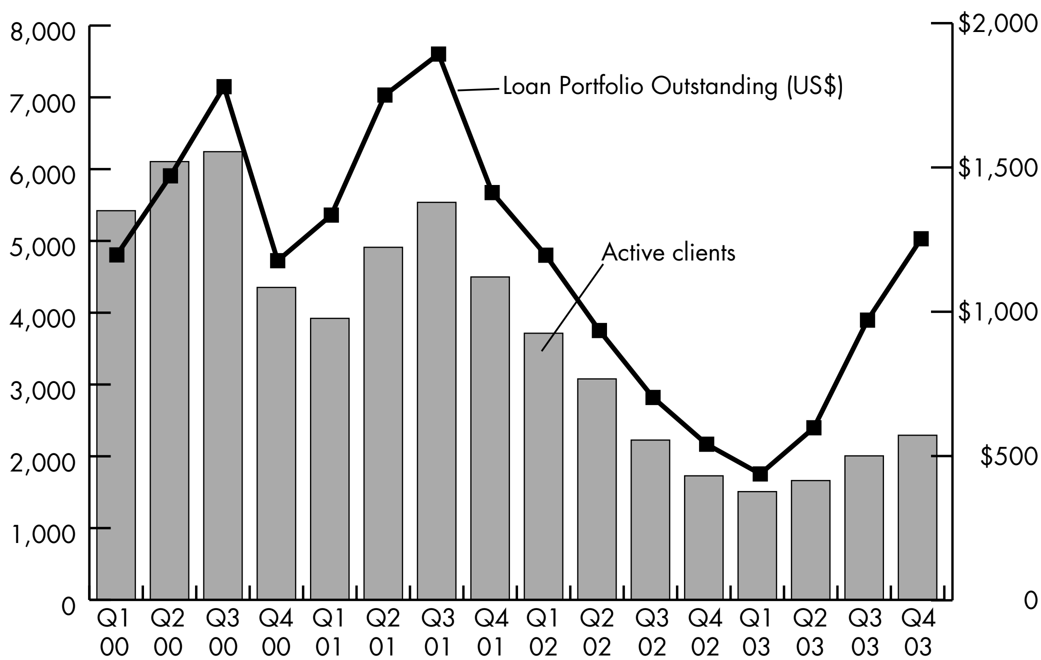
Because the poorest are hit hardest under a situation of external shock and the percentage of very poor female clients was much higher for FATEN than for UNRWA, it should come as no surprise that FATEN was hit harder. FATEN also needed more time to recover and “clean up” its deteriorating portfolio. UNRWA, hit less hard, needed less time to recover and consequently grew very fast through individual lending, having already more experience in this methodology than FATEN.

The immediate impact of the closures and violence that accompanied the start of the second Intifada was a virtual cessation of FATEN’s operations. FATEN staff, especially those living in villages, could not get to their offices or clients to make new loans and clients could not get to the banks to repay their loans. As a result, FATEN experienced a dramatic drop in number of active clients and outstanding portfolio.

Within three months, the number of active clients decreased by almost 2,000, from 6,243 to 4,352, and the outstanding portfolio decreased by over $600,000, from $1.8 million to less than $1.2 million. Before the start of the Intifada, FATEN disbursed almost 1,100 loans per month; this number dropped to 79 in October 2000.

FATEN managed to recover, however, and within a year it was almost back to the old level of active clients, mainly through increased outreach in the West Bank. In Gaza, where FATEN engaged mainly in group lending to very poor women in the refugee camps and very poor areas such as Rafah and Khan Yunis, the loss of clients in many cases was permanent. Already, before the start of the Intifada, these women were among the poorest and the most vulnerable to external shock. With poverty levels and unemployment levels in these areas having increased to virtually 100%, there was no longer any demand for the women's microbusiness products and services. The events leading to the April 2002 invasion as well as the invasion itself resulted in another steep decline in number of clients.

Figure 4.5: Evolution of the Number of FATEN's Active Clients and Loan Portfolio, Occupied Palestinian Territories (2000-2003)



The portfolio at risk was also affected by the Intifada and the erratic pattern of sudden steep increases is a reflection of the timeline of curfews and violence.

Figure 4.6: Evolution of FATEN's Portfolio at Risk, Occupied Palestinian Territories (2000–2003)

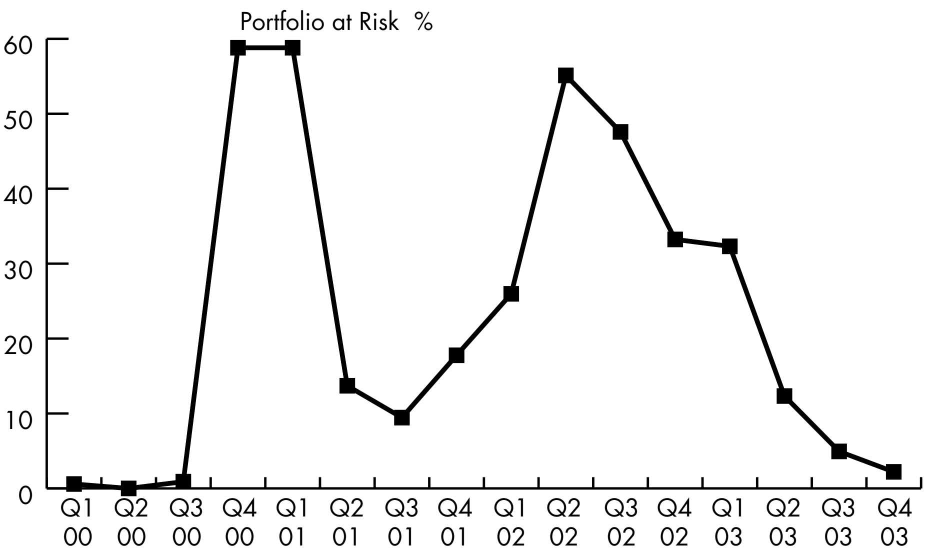
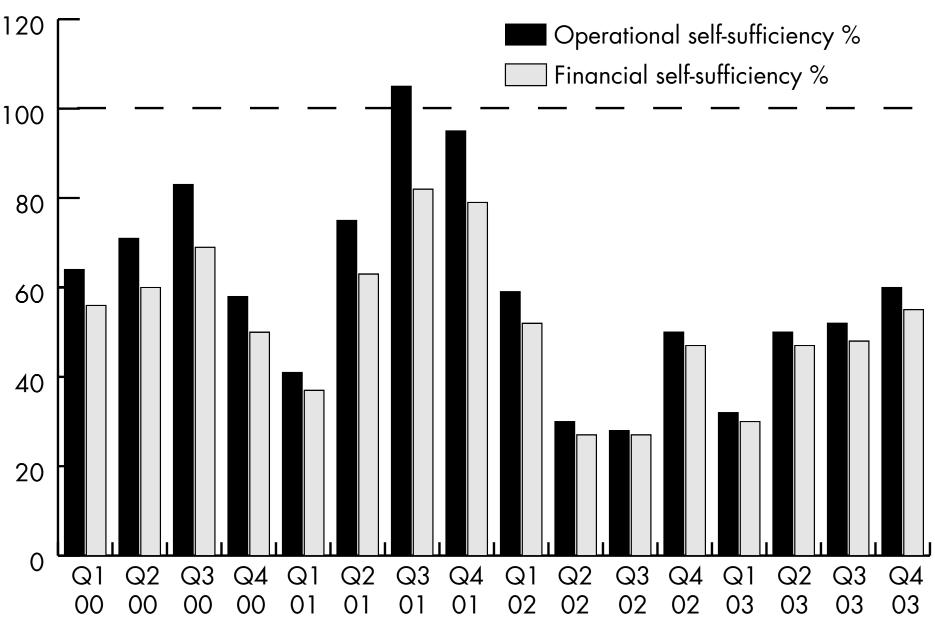


Figure 4.7: Evolution of FATEN's Sustainability Indicators, Occupied Palestinian Territories (2000-2003)



FATEN staff emphasized repayment and collection and were very tough on clients who had the money to repay. There were, however, many clients who could not repay because either their businesses had stopped operating or they had been literally destroyed. The loans of these clients were rescheduled and many of the clients who were dependent on Israel for either inputs and/or outputs dropped out once they fully repaid the last installment of their loan. Those who returned were able to reorient their businesses toward local markets.

Box 11: Conflict and Post-Conflict Environments: When is Microfinance an Appropriate Response?

MFIs, NGOs, governments, donors, and development agencies face countless daunting effects of conflicts as they attempt to play a critical role in conflict and postconflict environments. Below are the key points to consider:

1) Microcredit is an appropriate response to assist poor and low-income households when they are already engaged in an ongoing economic activity, are entrepreneurial, and possess managerial skills.
2) Lack of infrastructure, services, and markets may inhibit the sustainable presence of ongoing economic activities during and after conflict situations or in areas facing severe difficulties.
3) In spite of the existence of sufficient economic activities, markets, and entrepreneurial capacity, the sustainability of MFIs can still be threatened by high operational costs to regularly reach widely dispersed clients; covariant risk when the institution finances a single economic activity; the inability to transact business using cash; populations that are highly mobile or face instability; future crises such as civil violence or hyperinflation; absence of law and order; serious depletion of social capital or social cohesion undermining the ability to use noncollateral credit methodologies; and the presence of laws and regulations or monitoring and enforcement requirements that significantly limit microenterprise and microfinance activities.
4) In operating under these precarious conditions, MFIs have had to experiment with modifications to their products and procedures, which can significantly increase their risk and costs.
5) When conditions for microfinance are conducive, it is best to select an existing institution or to develop a new one that is driven by a long-term commitment to the sustainable provision of financial services to a large number of poor clients.
6) Microcredit support is not the ideal instrument to assist high-risk, unenterprising groups with minimal experience; these groups would be best helped through other financial instruments such as savings and insurance, termination payments, or even micro grants.
7) Other instruments should also be explored to assist the poor to benefit from financial services; these include food-for-work, other public work programmes, capacity building efforts, and business development services to prepare the poor and the marginal groups to take advantage of economic opportunity.

Source: CGAP Focus Note 20

FATEN was forced to move away from clients dependent on Israel for their businesses to those geared more toward the local economy. To help clients cope with the growing poverty in the Occupied Palestinian Territories, FATEN discouraged many of its existing clients from taking larger loans and encouraged them to diversify their businesses, so as to be less dependent on one economic activity. FATEN also accelerated the introduction of a new loan product, an individual loan product geared to the very small and sometimes growing businesses that were emerging.

The initial decrease in outstanding loan portfolio also resulted in lower revenues and higher costs, which adversely affected FATEN's operational and financial self-sufficiency ratios, as is shown below. After the initial shock, when the OSS and FSS bottomed out during the first quarter of 2001 at 41 and 37%, respectively, FATEN was back on the path of recovery. As of December 2001 FATEN had reached an OSS of 81% and FSS of 65%, bringing it almost back to pre-Intifada rates (83 and 69%). However, the achievements in improving sustainability in the first year of the Intifada were almost fully wiped out in the April 2002 invasion. Again, FATEN proved its resilience, recovering again after this period.

4.5.2 Challenges for the Future

Although in other countries in the region the key challenges for the sector revolve around institutionally and legally enabling environments, the key challenge for the Palestinian MFIs is how to survive and grow in an environment lacking peace and stability. If peace is not forthcoming in the near future, MFIs may wish to consider whether credit is still the appropriate response (as described in Box 11).

4.6 Syria

Total population	16,986,000
Estimated number of people below the poverty line plus 20%	6,794,400
Estimated number of households below the poverty line plus 20%	970,629
Estimated number of households needing access to credit - market potential	388,251
Number of active borrowers	31,170
Percentage of people currently having access as percentage of market potential	8%
Market gap in numbers	357,081
Market gap in percentage	92%

4.6.1 Characteristics of the Market

Syria's microfinance industry is the youngest in the Arab States, with UNDP's pilot programme in Jabal Al Hoss being a little more than three years old. Despite its youth, the sector has grown rapidly, serving over 33,000 active clients by year-end 2003. Unfortunately, the majority of active clients are served by government-subsidized programmes that could endanger the continued healthy growth of the industry. However, there is hope for the sector because the remaining MFIs are all committed to providing financial services to the poor on a sustainable basis, reflected by their strategic outlook and practice of charging fees and interest rates that cover all costs.

The sector has four other characteristic that make Syria different from other countries in the region: a low percentage of female clients, a high average outstanding loan balance indicating that the poorest are not being reached, a high percentage of rural clients, and possible high systemic risk because microcredit in rural areas appears to be used mainly for cattle-breeding and crop-finance.

Table 4.3: Key Indicators of the Microfinance Industry in Syria

Programme	Active clients	Loan portfolio outstanding (US$)	Average outstanding balance (US$)	Outstanding balance as % of GDP per capita	% female clients	% rural clients
Good practice programmes	3,620	2,468,214	682	57	19	71
Government sponsored programmes	28,550	40,942,000	1,434	120	—	—
Total	32,170	43,410,214	1,349	112	—	—

— Data not available.

Low Percentage of Female Clients

Although data is available only for the good practice programmes, it appears that Syria has a very low percentage of female clients. Syria's average is an estimated 19% while the regional average is 60%. It must be noted, though, that other countries in the region also began with a low percentage of female clients, most notably Yemen and Egypt, and is was only after these countries started focusing on women-only programmes that more women were reached. Although the introduction of group-lending methodologies has been very successful in increasing outreach to women clients, it is not the only avenue to increase access for women. Rather, the essential component is an institutional commitment on the part of MFIs to serve this target group with specific strategies to adapt products and services to meet the special constraints and coping strategies that arise from women's multiple roles.[27]

Depth of Outreach

Using average loan balance as a percentage of GDP per capita, it would appear that Syria's microfinance is not only concentrated among poor entrepreneurs but is also servicing a range of informal businesses excluded from the formal financial sector. These figures are further affected by the existence of a very large government-sponsored subsidized credit programme, the Agency for Combating Unemployment, that currently dominates the market. These types of programmes commonly have larger average loan sizes, because their objective is not poverty alleviation but employment creation, as is seen in Jordan (Development Employment Fund), Egypt (Social Fund for Development), and Tunisia (Banque Tunisienne de la Solidarité) However, even if we exclude the ACU, the loan balance as a percentage of GDP per capita is still the highest in the region at 69%.

The ACU was set up by Law No. 71 (December 2001) as a multisector agency to combat unemployment and to create job opportunities. It plans to create 440,000 jobs in the coming five years and intends to mobilize SP 50 billion ($1 billion) from national and international sources to do so. At present, the main source of finance of the agency has been the Government of Syria. The main two programmes are credit for microenterprises and credit for small and medium enterprises. The first loan was disbursed in July 2002. The agency was modeled after the Egyptian Social Fund for Development and received technical assistance in the design phase from the former director of the SFD.

Microenterprise loans are called "family-loans" and have a ceiling of $2,000. The loan term is four years with six months grace. Interest is 4%, which is slightly above inflation.[28] Repayments are done in installments either every three months or every six months. All of the loans are for start-up activities, because the ACU

Box 12: Increasing Access to Women

In an attempt to address women's particular circumstances, a set of best practices designed to attract more female clients and better serve their need for credit has been developed. Many of these are standard best practices that apply to both men and women, and can be key determinants of their access to financial services:

- Match loan terms with women's economic activities.
- Make credit accessible to semiliterate and illiterate women.
- Accept nontraditional collateral.
- Allow women to sign for loans.
- Eliminate loan use restrictions.

Effective Outreach and Service Delivery Mechanisms

Even the best-designed financial services will not produce the desired benefits for women if they cannot access them. An MFI's choice of delivery mechanisms plays a crucial role in determining the numbers of women who gain access to its products. Whatever their core product, the following methods can be used by MFIs to ensure that product availability translates into accessibility and benefits for women:

- Design products to meet client preferences.
- Actively seek out women clients.
- Provide convenient location and suitable hours.
- Advertise and communicate via accessible channels.
- Encourage gender sensitization.
- Consider separate programmes for both genders.

argues that start-ups create more jobs than existing businesses. The ACU lends the loan funds to public sector banks (at 2%) while these banks onlend at 4%. The banks take the credit risk and review loan applications received through the Agency's branches.

As of now 25,000 microloans have been disbursed with a total value of $37.5 million.[29] Because most of the loans are still in the grace period, not much can be said yet about the loan portfolio quality and repayments. Given the high risk of start-ups, however, and given the fact that an unemployed person is not necessarily a good entrepreneur, one can be fairly sure that the 2% margin for the banks will not be sufficient to cover future loan losses (not to mention the bank's operational costs). It remains to be seen whether the banks will continue to participate in the ACU's programmes after they have incurred (substantial) loan losses.

High Percentage of Rural Clients

Unlike in other countries in the region, microfinance in Syria is primarily a rural phenomenon. Most of the microfinance providers have a specific development mandate to work in rural areas, to increase rural development and discourage

Creating Successful Savings Services for Women

Some poor women judge the risk involved in taking loans from MFIs to be too high and place more value on the ability to prepare for economic shocks in advance. Savings mobilization is one of the most effective ways of providing access to such protection. Well-conceived savings services can also present substantial advantages over loans in terms of the accessibility, security, return, and divisibility of funds that they offer. Building the following features into the design of the MFIs' savings facilities can help ensure that they will deliver maximum benefits to the greatest number of women possible:

- Provide safe, private, accessible savings.
- Enable clients to save small amounts.
- Delink savings from loans.
- Consider illiquidity or compulsory savings preferences.
- Use a demand-driven approach and tailor products to needs.
- If expertise is available, consider insurance and emergency assistance loans.

Nonfinancial Services

Many MFIs offer a range of nonfinancial services, often in partnership with specialized NGOs. Social intermediation, business development services, and training are three types of nonfinancial services most commonly offered in conjunction with microfinance. However, virtually all microfinance programmes with the goal of financial viability have found it necessary to separate their main business of financial intermediation from nonfinancial services, due to the social orientation of the latter. In addition, concerted efforts should be made to ensure that nonfinancial services are demand-driven and tailored to meet the time, mobility, and education constraints of women clients.

Source: Burjorjee, Deshpande, Weideman, 2002

urban migration, both government priorities. In the Arab region, rural clients average 21% of total clients, with Tunisia having the largest percentage of rural clients: 55%. Syria is well above the regional average. Since most of these loans are extended for cattle-breeding, which requires a larger initial loan size than, for instance, a grocery shop or a bread-maker, we see a high average loan balance.

Possible Systemic Risk from Narrow Focus

Although detailed statistics are not available, it appears that a large portion of the loan funds of the good practice programmes is used to finance either animal husbandry or agricultural production, resulting in a high systemic risk. Rural finance can include much more than finance for crops or cattle: rural finance can target any business activity in rural areas including services, transportation, storage, and warehousing. The problem is that this portfolio focus on crops and animal husbandry is dangerous for the sustainability of the microfinance programmes. One bad harvest or the outbreak of one cattle-disease can wipe out the microfinance portfolio and hence the institution.

While in other countries many non-farm-related economic activities are financed in rural areas, a striking observation in Syria—at least in the Jabal Al Hoss area—is that those activities simply do not exist.

The only urban-based microfinance provider is UNRWA's, which began in June 2003 in Yarmouk under a Prime-Ministerial approval to lend to refugees as well as nonrefugees. The programme also received special permission to use salaries of government employees as guarantee (where in case of default the installment due is automatically deducted from the salary of the guarantor). The programme is modeled after and received technical assistance from the successful MEP programme in the Occupied Palestinian Territories (OPT), which is currently the largest provider of microfinance in that area.

4.6.2 Future Challenges

The microfinance sector in Syria is still in a nascent stage of development, with the first intervention launched by UNDP less than three years ago. This poses both opportunities and challenges as new operators enter the market and different models are tested to assess their appropriateness and national replicability. While there seems to be a strong desire to identify "the" model for microfinance in Syria to be rolled out nationally, the reality is that there is often not one single option and that a range of institutional types may be preferable to meet varying development objectives.

Box 13: Jabal Al Hoss Village Bank

The Jabal Al Hoss "Sanduq" (village-bank) is the only membership-based model in the region paying dividends to its shareholders using a profit-sharing scheme. Dividends are distributed and loans are made based on Islamic finance principles. Initial feasibility studies showed that a village needs at least 300 inhabitants in order to sustain a village fund. A village fund needs a minimum of 100 shareholders who each buy at least one share with a nominal value of 1,000 Syrian Pounds ($20). At least 50% of the shareholders have to be older than 18. Villagers elect a village fund committee comprising an accountant and two loan officers (one male and one female). Voting in general shareholder meetings is in accord with the number of shares owned (up to a maximum). A project management team responsible for creating awareness of microfinance practices, training of committee members, and the overall financial management of the funds (including final credit decisions) has developed standardized by-laws and statutes for each of the village funds. The minimum share capital of a village fund (SP 100,000) is matched by a UNDP grant to be used as loan fund.

By the end of 2003, 30 village Sanduqs had been established: with a total of 6,468 shareholders, and 1,724 active borrowers. Since the start of the programme in 2000, over 5,600 loans have been disbursed using the Murabaha pricing mechanism. A recent appraisal of the programme using CGAP standards showed that the operational self-sufficiency of the programme is 85% and the financial self-sufficiency 67%. The challenges for the future include the need to consolidate the existing structure of 30 village funds and one "central" fund; transformation of this project into an institution with its own legal entity; and accessing more funds for onlending—possibly from local banks—to ensure growth and full sustainability.

Supporting Access to Microfinance Services

Currently about 32,000 households have access to financial services—albeit credit-only. The potential is at least 10 times greater: at least 300,000 poor households are estimated to need microcredit while tens of thousands more households may require access to microsavings, insurance, and deposit services.[30]

To meet this demand, a variety of microfinance providers are needed ranging from NGOs and cooperatives to banks and nonbank financial intermediaries. As indicated in the box above, the Sanduq community-based village fund model has proven quite successful in reaching remote rural populations with no other access to financing. However, the restricted financing available to reach scale as well as ambiguous legal status in at least the pilot stage limit the possibilities of replication on any large scale. When viewing microfinance as an integral component of financial sector development and reform, there is a need to look beyond projects and NGOs to commercially minded providers capable of reaching massive numbers of low-income people on a sustainable basis.

Promoting an Enabling Policy Environment

Currently all of the microfinance providers in Syria are in an early learning and experimentation stage, each trying to understand the market in order to properly position their programmes. In spite of a widespread understanding of microfinance good practice principles among both practitioners and donors, a large supply of subsidized credit continues to pose a major challenge to the industry. In particular the credit for microenterprise provided by the ACU could potentially jeopardize the healthy development of Syria's microfinance sector by both the provision of low interest rates that create market distortions as well as nonoptimal targeting and loan purposes: loans for start-ups by unemployed (and poor) people.[31]

Support Appropriate Legal/Regulatory Framework

Although a microfinance law is seen to be premature during this stage of experimentation, more coordinated action is needed by the various stakeholders in coming up with the appropriate legal framework. Efforts to date have been project specific and have taken the form of bilateral negotiations with the Government of Syria resulting in special agreements on a case-by-case basis. To avoid a plethora of legal entities, none of which is particularly suited for the delivery of microfinance, it is best to come together to agree on and identify the optimal legal form or develop one if need be.

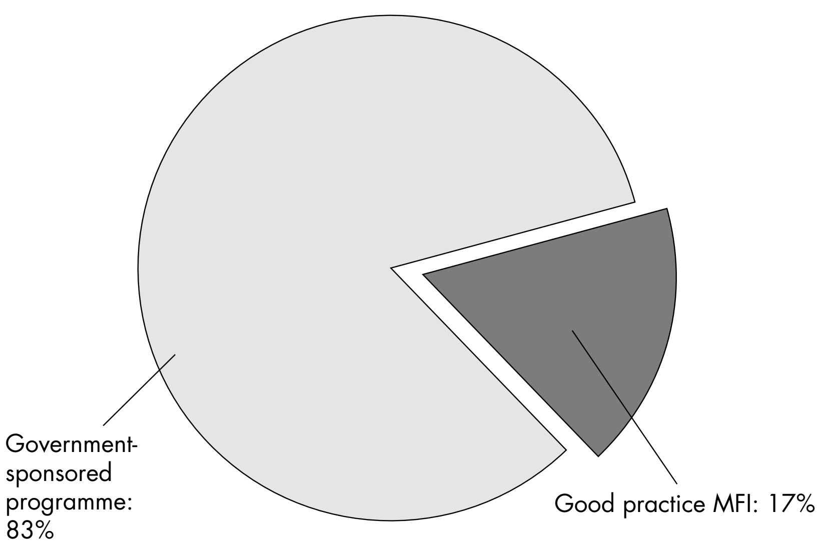
Banks may be the only institutions that will be able to reach *massive* scale in a cost efficient and effective manner. While a microfinance NGO or company needs to invest substantial resources to build up a branch network and human resource base, this is already available in banks and can be used without much additional investment. The main bottleneck, however, to successful downscaling in Syria is the interest ceiling imposed on public banks by the Monetary and Banking Committee. This is currently 8.5% and is definitely not sufficient to cover costs of funds, operational costs and loan losses.

4.7 Tunisia

Total population	9,781,000
Estimated number of people below the poverty line plus 20%	2,738,680
Estimated number of households below the poverty line plus 20%	391,240
Estimated number of households needing access to credit - market potential	156,496
Number of active borrowers	63,736
Percentage of people currently having access as percentage of market potential	41%
Market gap in numbers	92,760
Market gap in percentage	59%

The number of active clients in Tunisia has grown fast, from just over 2,000 borrowers in 1999 to over 63,000 year-end 2003. The outstanding loan portfolio is more than $36 million. Less than 50% of the clients are women, while the majority of active borrowers live in rural areas. Most of the programmes in Tunisia are government-sponsored programmes, which tend not to adhere to microfinance good practices (see figure 4.8).

Figure 4.8: Market share of Good Practice Programmes versus Government-Sponsored Programmes, Tunisia



4.7.1 Characteristics of the Market

The supply of microfinance in the country is dominated by the Banque Tunisienne de Solidarité, a government-sponsored microfinance wholesaler providing cheap loan funds to eligible microfinance associations that agree to onlend at subsidized rates (5%.[32]) There is one good practice programme operated under the *Environnement et Développement dans le monde Arabe* (ENDA) an international NGO providing financial and non-financial support to entrepreneurs. Enda's programme for Micorcredit (CRENDA)—against an overwhelming supply of subsidized credit—continues to grow and aims to have 100,000 active clients within the next five years. This MFI is fully sustainable.

The presence of a large government-sponsored credit programme skews the country data, as is shown in Table 4.4. As we have seen in other countries with similar experiences, the presence of these suppliers leads to the following country characteristics: (a) a lower percentage of female clients; (b) higher average outstanding loan balances indicating that the poorest are not reached; (c) lower efficiency measured in number of active clients per loan officer; (d) lower repayment rates, although it is usually impossible to get accurate repayment data from the not-so-good practice agencies; and, (e) often, a higher percentage of rural clients, because one of the development objectives of such not-so-good practice agencies is to stem rural migration through job creation in rural areas.

Table 4.4: Tunisia Country Data with and without the Government-Sponsored Programme

Indicator	Without the government-sponsored programme	With the government-sponsored programme
Average outstanding loan balance (in US$)	235	569
Average outstanding balance as percentage of GDP per capita	12%	27%
Percentage female clients	92%	46%
Percentage rural clients	0%	57%
Portfolio at risk (> 30 days)	2%	19%[33]
Clients per loan officer	300	Unknown

4.7.2 The Banque Tunisienne de la Solidarité

The Law on Microcredit and Microcredit Associations (July 1999) describes the conditions under which so-called microfinance associations (a local form of NGO) can provide credit. The law authorizes the Ministry of Finance to set loan ceilings, terms and conditions, interest rates, as well as repayment schedules: the interest rate is fixed at 5% per year (declining) and the ceiling is currently set at

2,000 Tunisian dinars (DT) ($1,600). This was $800 in the past. The maximum repayment period is three years and associations are not allowed to charge fees or commissions.

The Tunisian Government requires that an association be established in each of its 257 districts (subprefectures). By the end of 2003, 85 such associations were established.

BTS is designated as the microfinance associations' main source of funds for onlending and partial coverage of start-up costs and operational costs: BTS provides a microcredit association with a start-up subsidy of DT 15,000 ($12,000). Moreover microfinance associations can benefit from a general rule enabling organizations to receive subsidies for the salaries of young graduates; BTS also provides a subsidy of DT 20 ($16) for every loan "dossier" in order to compensate MFIs for not being allowed to charge commissions and fees. BTS claims that by year-end 2003 it had over 53,000 active clients.[34]

An association is not allowed to make more than 750 loans each year. Associations are free to offer loans with a shorter maturity than three months but repayments should not exceed DT 50 per month ($40).

Given the restrictive policy environment for microfinance in Tunisia, several of the older and more well-established associations have pulled out of the BTS system. However, the MFI discussed above, CRENDA, has managed to survive and thrive.

4.7.3 Challenges for the Future

The current legal environment is not conducive to the development of a healthy and competitive microfinance sector in the country. There is one best practice MFI which can only operate beyond the scope of the Law on Microcredit—which stipulates behavior of local NGOs—because it is registered as an international NGO. Some of the better local NGOs halted their microfinance activities as they realized that sustainability was a non-option under the current law.

A healthy future for the sector depends on its ability to become independent of donor and government funding. A major overhaul of the law is needed to enable the sector to do so. The government, which is the major source of funding in Tunisia today, would—through an overhaul of the law—be able to reallocate its scare budget resources toward activities that need government support.

4.8 Yemen

Total population	18,601,000
Estimated number of people below the poverty line plus 20%	9,585,000
Estimated number of households below the poverty line plus 20%	1,408,286
Estimated number of households needing access to credit - market potential	563,000
Number of active borrowers	9,872
Percentage of people currently having access as percentage of market potential	2%
Market gap in numbers	553,128
Market gap in percentage	98%

Yemen has among the youngest microfinance sectors in the region; the majority of programmes started only during the period 1998–2000. The emerging microfinance industry has gone through a tremendous learning curve. As of year-end 2003, Yemen had almost 10,000 active borrowers, of whom 83% were female. This is a major shift compared with the early years when the percentage of female borrowers was only 35%. As we will see later, this success is due to the introduction of women-only programmes in Yemen, something that was considered "unthinkable" in the early years. Because of the shifted focus from men to women, the average loan balance also decreased, because women are usually poorer than men.

In addition, Yemen is the only country in the region that takes voluntary savings on a large scale: year-end 2003 there were almost 5,000 voluntary savers, again mainly women. Below we will review the short history of the Yemen microfinance industry and the key lessons learned.

4.8.1 Characteristics and Experience

Until early 2000, the Social Fund for Development (SFD) was the main umbrella under which microfinance programmes were established. The SFD did so by selecting eligible intermediaries—usually NGOs or cooperatives—and providing them with technical assistance and (soft) loan funds for onlending. In 2000 the UNCDF MicroStart programme was introduced by UNDP, providing technical assistance and grant funding to four start-up NGOs, achieving impressive results in a short period of time. In the summer of 2003, SFD and UNDP joined forces for a second phase of the MicroStart project, which is implemented through the Social Fund.

The SFD and later UNDP and UNCDF through MicroStart can be credited for laying the foundation of an emerging microfinance industry by testing different models and creating awareness among policy makers on issues such as interest rates, sustainability, and sound microfinance practices. Before they began

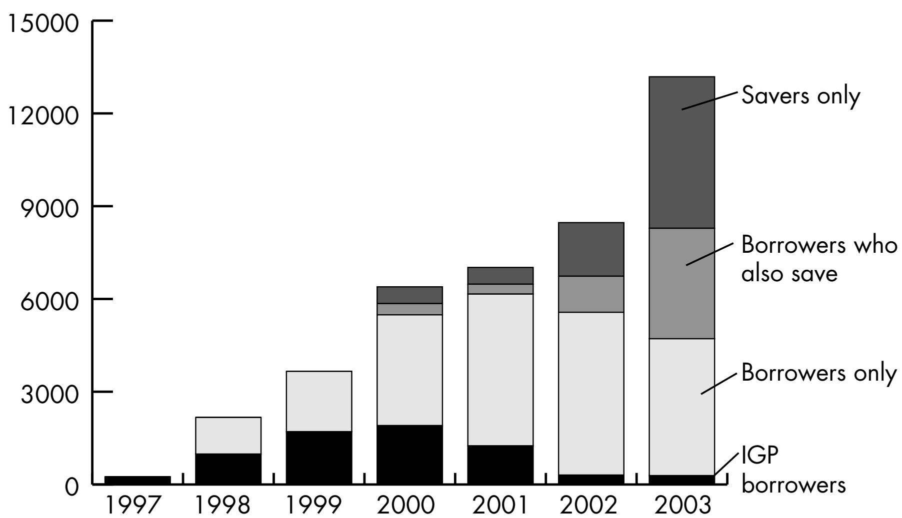
Box 14: Yemen Social Fund

The Yemen SFD is a very-well-performing multisector project aimed at poverty alleviation through the provision of basic infrastructure, community development projects (schools, clinics, feeder roads), special projects (for instance, the deaf and blind, women in prison), and through the provision of microcredit. Implementing business-oriented credit projects through larger multisectoral poverty alleviation projects like Social Funds is prone to problems, especially if the other projects are grant based. The Small and Micro Enterprise Development (SMED) team in the SFD, however, followed most of CGAP's guidelines for implementing microcredit projects in such circumstances.

their programmes there was no formal microfinance sector in Yemen. Informal microfinance was limited to supplier credit. Moneylenders were and are virtually nonexistent, for religious reasons. Thus a credit-culture was and to a certain extent remains limited.

An analysis of the type of microfinance clients over time illustrates the learning curve of the SFD during the last seven years, and a shift from Income Generating Programmes (IGPs) and credit-only programmes in the early years to savings-and credit-oriented programmes in the later years.

Figure 4.9: Yemen's Diversification of Clients (1997–2003)



Increasing Outreach to Women

The introduction of MicroStart in 2000 also showed that women can be successfully targeted by credit-only programmes. Implemented through four NGOs—one also working with men—the programme reached almost 3,500 clients by the end of 2002. Experience in the region has shown that programmes targeting both women and men do not succeed in reaching a substantial number of female clients. Women clients in these programmes tend to become marginalized,

Box 15: When Should a Microfinance Institution Mobilize Savings from the Public? [36]

As a source of commercial finance for microcredit institutions, voluntary savings and deposits have generated a lot of interest in recent years. Locally mobilized voluntary savings are potentially the largest and most immediately available source of finance for microcredit institutions. Mobilizing such savings also helps meet the vast unmet demand for local savings services.

Three conditions should be met before a microcredit institution starts mobilizing savings. First, profitable mobilization requires an enabling macroeconomy, an appropriate legal and regulatory environment, political stability, and suitable demographics.

The second consideration concerns the supervision of institutions providing microfinance. To protect their clients, especially depositors, financial institutions that mobilize savings should be under government supervision. This, of course, requires a government that is willing to modify its banking supervision system so that the rules for microcredit institutions are appropriate for their activities, and to ensure that the supervisory body is able to monitor these institutions effectively.

The third consideration concerns the history, capability, and performance of the microcredit institution. Before mobilizing voluntary public savings, a microcredit institution should have demonstrated consistently good management of its own funds. It should be financially solvent, maintain a high rate of loan recovery, and earn attractive returns. A good track record is important because in many countries low-income people have entrusted their savings to small, unsupervised financial institutions, only to lose their life savings.

Once these three conditions have been met, the microcredit institution should carefully consider how to mobilize voluntary savings.

as they do in their societies. Therefore they need a tailor-made approach and tailor-made loan products, which they may not get from the so-called “mixed” programmes.

Because women are usually poorer than men they generally need smaller loans. An MFI’s key income-earning asset is its loan portfolio and an MFI’s outstanding loan portfolio at any moment in time is a key determinant of operational and financial sustainability indicators. An MFI that targets women only, with small loans, will have a lower outstanding loan portfolio than an MFI that targets men. Hence, those MFIs that target only women may need more time to become sustainable because they need to reach many more clients to achieve the so-called “break-even” point where all financial and operational costs are covered.

Savings and Credit Programmes—The Emergence of Voluntary Savers

Another key lesson learned in this period was that an effective mechanism for attracting more female clients was to introduce savings services. These were essential, because many women only wanted to save (to literally put their money away from qat-chewing husbands).

The SFD team currently implements two types of savings-and credit programmes, both very promising for future growth and sustainability. The first type, which is implemented by several NGOs in the Aden area, has developed from the bottom up. Women who had participated in an "old" and later closed-down savings and credit pilot programme formed their own NGOs and continued forming groups for credit and savings without SFD support. After they had done so with success for more than a year, SFD started supporting these newly created NGOs.

The second type of savings-and credit programme uses the ASA methodology. ASA (Hope in Bengali) is a well-known microfinance intermediary in Bangladesh.[35] As of year-end 2003, the umbrella organization, the National Microfinance Foundation (MFN), which was established to consolidate the activities of the existing (and future branches), had five branches, almost 5,000 savers, and over 1,500 borrowers, all women.

The voluntary savers were discovered almost by accident, because the savings component was introduced in both the Aden and ASA programmes as a prerequisite before getting a loan (compulsory savings). However, programme staff quickly found that many savers *did not want to get a loan and were in fact voluntary savers.* Initially this was discouraged as it increased the costs of the programme. However, today it is recognized that the women get a financial service, which they value. The programmes expect that at least 40% of the savers will never take a loan. It is important to note that compulsory savings are kept in the bank in the name of the client and not used by the programmes for onlending.

Access to Commercial Financing

What is notable in Yemen given the relative youth of the sector is the existence of early signs of diversification of funding among some of the programmes. With the support of Alexandria Business Association—the Egyptian Technical Service Provided under MicroStart I—four of the programmes have successfully brokered agreements with the financial sector receiving funding from a local commercial bank. Using the Alexandria Business Association (ABA) model, the Micro Capital Grants received under the project were deposited in a dollar commercial bank account, against which the four NGOs are able to borrow in local currency for onlending to the microentrepreneurs.

While the programmes have yet to successfully negotiate increased leverage with the banks—the ratio remains at 1:1—this experience has helped to introduce a sense of financial discipline among the NGOs, and instilled the concept of cost of funds from the start. At the same time, some NGOs have been able to renegotiate their interest rate terms after demonstrating a good track record. This has helped to make the commercial banks more familiar with good practice microfinance and, it is hoped, will lead to an increase in the NGOs' leverage over time.

Islamic Finance

In Yemen microcredit is provided using both conventional and Islamic finance principles. The latter is feasible but does increase transaction costs, because the MFI has to appoint special purchasing agents to procure the goods. Some people, however, are willing to pay a premium to get access to a type of finance that is in line with their religious beliefs. The SFD has invested substantially in the development of appropriate administrative and MIS systems for this type of lending. Nevertheless, considerable work still needs to be done to overcome some of the constraints inherent in this methodology to promote efficient, sustainable programmes capable of achieving significant outreach.

4.8.2 Challenges for the Future: Transforming Projects into Organizations

All microfinance programmes in Yemen, whether savings and credit or credit only, are still in the start-up phases of development. Most still have a rudimentary organizational structure, often comprising one manager, a few loan officers, and an accountant and a cashier. They are very good at collecting savings and making loans and getting the money back, but they are a far cry from being sustainable institutions. Some of the current programmes are covering all of their costs but this break-even point can be rather elusive, as it is often based on the break-even point of a project and not that of an institution. In order to reach scale capacity, institution building is a key requirement.

Growth needs to be accompanied by appropriate development of a back-office system, more professional management, and the introduction of organizational functions that in the early stages were not necessary. Moreover, Yemen has many small programmes, some operating in the same city or Governorate. Several of these small programmes are too small to ever become sustainable and consolidation through, for instance, merger is of key importance for some of them.

Appropriate governance will also become essential to ensure sustainability and growth for the breakthrough organizations, not only in terms of accountability and transparency but also in terms of management continuity and access to commercial funds. In Yemen, it is unlikely that an MFI operating under the legal rubric of an NGO will be able to provide sustainable access to the poor.

For these MFIs to achieve sustainability and growth, legal transformation will become a necessity. One of the main objectives of the MicroStart II project is to support the establishment of three single-purpose microfinance institutions in Yemen capable of providing financial services on a sustainable basis. By supporting the establishment of the first private microfinance companies in the country capable of accessing commercial capital and attracting institutional and individual investors, the project will contribute to the development of a model to guide the sustainable development of the microfinance sector and the broadening and deepening of the financial sector.

Even with this new microfinance company in Yemen, banks remain the only institution allowed to take savings from the public. The SFD, with the support of the World Bank, UNCDF, and KfW, is undertaking an effort to develop the necessary legal and regulatory framework to facilitate broad-based MFI savings mobilization.

Box 16: Ta'iz Transformation

In January 2002 UNDP undertook an extensive review of the legal regulatory framework in Yemen to make recommendations for the transformation of one of its supported projects into a legal, single-purpose microfinance institution. Based on the review findings and meetings with relevant stakeholders it was agreed to use the Joint Stock Company option.

With the support of UNDP and UNCDF, a series of activities were undertaken to prepare for this transformation. Extensive discussions with individuals from the Ta'iz community were held to introduce the microfinance project, and explain its basic principles, the rationale for creating a new company, the envisioned governance and management structure. Several workshops were organized to discuss the specific business of an MFI and the responsibilities of the board in the new company, as well as the specific legal implications for the founding members.

A group of founding members was identified. Each pledged $500 as their initial contribution of paid-in capital. A local lawyer was hired to draw up a Memorandum of Understanding and Articles of Association, following the requirements of company law. The final draft was reviewed to ensure full agreement by all founding members and that all remaining legal issues were clarified prior to finalization and registration. Awa'el was registered as the first privately owned MFI in Yemen in the fall of 2003.

Transformation is a lengthy process that involves more than legal registration. Finding founding shareholders who will be supportive of the goals of sustainable microfinance, particularly in a country with limited private sector exposure to microfinance, is a major challenge. In addition, transitioning staff from a project or NGO service delivery orientation to a private sector approach with a clear ownership and governance structure separate from the management team is a sensitive process that must be handled delicately due to the inevitable power shifts involved. Furthermore, weaknesses in the areas of financial and human capital, corruption, and the need for legal reform and strengthening of the rule of law often require short term legal solutions that slow down the development of more commercially structured endeavors. This is evidenced by the decision to register the new company as a civil not for profit company in order to protect the donated equity until such a time when the shareholder base can be broadened and the for profit status reconsidered.

Chapter 5: State of Development in the Arab States Region

5.1 Achievements

The Microfinance industry in the Arab States region as a whole can be said to be in the expansion phase. Tremendous progress has been made since the first survey was undertaken in 1997. The microfinance providers have increased their market penetration considerably, growing fivefold the number of active clients in the last five years. The sector is characterized by good exposure to and understanding of industry good practices, norms, and procedures, which are applied widely across the region. A significant number of MFIs in the region are fully sustainable financially and are servicing the majority of the market.

Initial signs of product diversification are being seen as MFIs struggle to be more client oriented in increasingly competitive markets. A number of commercial banks have successfully entered the market, and MFIs are beginning to transform into single purpose MFIs under their countries' existing legal frameworks, which are seen to be more conducive to their growth and expansion. A number of initiatives have also been undertaken to discuss the need for special microfinance laws and/or regulatory frameworks conducive to the development of the microfinance sector, including the effective prudential regulation by the Central Bank. A regional network dedicated to advocacy and capacity building for good practice microfinance is helping to facilitate further learning and exchange in the region.

5.2 Challenges

Although impressive gains have been made in the region, considerable work still needs to be done to move to the consolidation phase. Having tackled many of the challenges noted in 1999 (for example, inefficient systems and procedures, excessive donor and reporting requirements, lack of management information systems), new ones exist such as the need for product diversification: introducing savings, leasing, insurance, and other financial services sorely lacking in the region. Considerable capacity building is needed as MFIs become more service oriented, offering a range of products, and other MFIs increasingly look to transformation to overcome the legal constraints posed by the NGO laws in their respective countries.

Donor dependency continues to be an issue: few MFIs have been successful in gaining access to commercial capital. At the same time, government-subsidized programmes continue to provide cheap credit to vast numbers of people in the region with distortionary effects on the industry as a whole. And while the legal regulatory environments in most countries do not pose major constraints to local operators, gradual reform will be needed to allow for the eventual integration of the microfinance sector in the formal financial system.

5.3 Future Directions

Support Retail Institutions

To bridge the persistent gap between supply and demand for microfinance services in the region, increased efforts are needed to strengthen existing retail institutions and encourage the entrance of more specialized financial institutions into the market. It is only through the scaling up of existing operations and replication of successful models that we will begin to service a large share of the potential market.

Sustained technical assistance focusing on financial sustainability, increased efficiency and the introduction of innovative technology and products, particularly in the area of rural financing, will be critical in making existing services more responsive to current demand. This includes the replication of successful models of bank engagement and other demand-driven financial service delivery models.

Reporting and performance standards accepted and applied across the region will help improve transparency and standards of practice, which in turn will attract commercial capital and allow for regional data collection and benchmarking exercises. The latter will be invaluable for improving process effectiveness, product quality, and service delivery and prompting innovation through comparison with others.

Continued focus on outreach to women based on an understanding of their particular constraints, coping strategies and financing needs will be crucial in increasing family incomes and economic security, reducing vulnerability and stimulating local economies. Furthermore gender sensitivity and innovation in product design and delivery of microfinance will increase the likelihood that the link between access and impact is actually made.

Support the Development of Industry Infrastructure

As the microfinance sectors in the region move from the expansion to the consolidation phase, a full infrastructure to support this transition and eventual integration into the formal financial system will be necessary. Research and development as well as the support of regional initiatives and networks building industry support services to help mainstream the microfinance sector should be promoted.

Rating agencies that evaluate risk for potential investors and link MFIs with local and international capital markets will be critical in linking credit to the most productive uses.

Credit bureaus that decrease information asymmetries between borrowers and lenders, allowing for a more thorough assessment of client risk, will help improve MFI portfolio quality, lower the cost of credit for good borrowers, and increase credit volume available to poor clients.

Industry training programmes geared toward human capacity building at various levels of management and operations and a plan for the transfer and development of local technical support will be essential for continued growth of the industry.

Promote the Development of a Conducive Policy Environment

The final integration of the microfinance sector into the formal financial system will require the full support of national governments, which will have primary responsibility for ensuring an enabling policy environment.

Ensuring an enabling policy environment through liberalized interest rates, macroeconomic stability, and viable alternatives to subsidized credit schemes will ultimately be the most important role for governments in increasing accessibility of the poor to credit.

Developing appropriate regulations and supervision for microfinance in countries where there is an expressed demand (in other words, a critical mass of institutions ready and able to be regulated) will eventually be needed. But until such time, efforts should be focused on legal impediments (lack of specialized institutional forms for MFIs), which can be addressed through regulatory changes.

Do no harm. While the legal and regulatory frameworks in these countries for the most part have not hindered the full development of the microfinance sector, certain government policies governing the delivery of microfinance have done so. Specifically, government-sponsored credit schemes used to meet job creation or poverty alleviation goals through subsidized multisector projects have resulted in low repayment rates, decapitalization of loan funds, and poor credit culture, and have had a destabilizing effect on the microfinance market as a whole.

Most donors advocate the disengagement of governments from the delivery of microfinance; however, this is not always practical for political reasons. Therefore, CGAP has developed guidelines for the design and implementation of microfinance projects as part of larger social projects when it is not practically feasible to separate them; the guidelines are reviewed in the box below:

Box 17: Guidelines for the Implementation of Microfinance Projects in Multisector Social Projects

Microfinance components should focus on building sustainable institutions and delivery mechanisms for financial services. Many Social Funds, because of their welfare orientation, have tended to focus on rapid disbursement to poor communities rather than building sustainable institutions. The emphasis on rapid disbursement instead of loan recovery can result in poor portfolio quality and performance, which ultimately undermines the program's long-term goals.

Social Funds should not provide financial services directly but instead should work through partner microfinance institutions and support institutions that can provide such services on a sustainable basis. Because effective microfinance requires a commercial relationship between the MFI and its clients (rather than beneficiaries), social funds are not an appropriate vehicle for direct lending. MFIs should be selected as partners and funding to those should be based on good performance.

Governments should not support Social Fund programmes that subsidize credit to the final borrower. Rather, the appropriate role for government subsidies is to build MFI capacity and encourage efficiency and innovation. Targeted or long-term subsidized lines of credit to microfinance providers should be avoided because they can distort markets and encourage donor dependence. Programmes should not subsidize the onlending rate to the final borrower. MFIs should charge interest rates high enough so that, with fees and commissions, they can cover the long-term financial and operational costs of doing business. Without this standard, MFIs cannot become sustainable. Subsidized interest rates only undermine the development of the financial sector.

The autonomy of the Social Fund department that manages the microfinance programme should be maximized. It is critical that the department managing the microfinance programme within a Social Fund be independent of the rest of the Social Fund's operations. This should include separate management, staff, procedures, budget, and goals. Autonomy is required because successful microfinance depends upon an institutional environment focused on cost recovery and portfolio quality—an environment that differs substantially from many Social Funds with grant-based programmes.

Grants and loans should not be mixed up. Information and education campaigns and capacity building programmes at the community level should distinguish between grants for infrastructure projects and loans issued through microfinance programmes. The distinction is critical in order to avoid confusion about what funds must be paid back.

Rigorous criteria for selecting partner MFIs should be developed and their performance monitored closely. Eligibility criteria for selection and ongoing support should be based on performance as well as indications that the institution is moving toward financial sustainability. Partner institutions should be informed from the start that only the best institutions will continue to receive funding and support.

Source: Gross and de Silva, 2003

Notes

[1] The Rockdale Foundation, based in Atlanta, Georgia (USA), is a private family foundation funded primarily by private resources and profits from the family's private business. The Foundation has two primary focus areas in which it invests its time and resources: Microfinance in the Arab World and education reform in Atlanta public schools.

[2] Sanabel had developed the questionnaire with the hope of improving the quality of data from the region for the MicroBanking Bulletin.

[3] In the remainder of this report, these programmes are labelled government-sponsored programmes.

[4] The CGAP is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor in developing countries.

[5] Support of access to microfinance for small businesses often translates into job creation for poor people who prefer to be wage employed rather than to be self employed

[6] United Nations 2004.

[7] All dollar amounts in the report are U.S. dollars unless otherwise noted.

[8] Source: http://www.un.org/esa/population/publications/wup1999/WUP99ANNEXTABLES.pdf.

[9] Because the microfinance industry in the region is very credit oriented, the overwhelming majority of active clients are active borrowers. A note of caution is warranted here: MFIs do not customarily track active borrowers. They track active loans outstanding instead. It is, however, common practice that a borrower only gets a subsequent loan once a previous loan has been repaid. Therefore, we can assume that active loans equals active clients. However, some borrowers may have two loans and therefore the "active borrower" statistics used in this report could be slightly overstated.

[10] Source: World Bank MENA strategy paper, 2003. http://lnweb18.worldbank.org/mna/mena.nsf/Attachments/MNA+Strategy/$File/MNA+StrategyEVSH.pdf.

[11] For Lebanon and Syria, unofficial statistics were used. For Palestine, the source was the World Bank (press release June 24, 2004).

[12] The Foundations are based in, respectively: Alexandria (ABA) and Kafr El Sheigh (KES); Cairo (ESED); Assiut (ASBA); Port Said (SEDAP); Dakahleya (DBACD); and Skarkeya (SBACD).

[13] Syria data are 2003.

[14] Many MFIs around the world offer higher loans with successful repayment and Palestine is no exception. It must be noted, though, that anecdotal evidence shows that good repayers in Palestine did not want higher loans and often took a repeat loan of the same size as the previous one.

[15] In some countries, banks are aggressively moving into consumer lending. An example is Arab Bank in the Occupied Palestinian Territories.

[16] Two MFIs in Yemen also claimed to be fully sustainable. The authors decided, however, not to include these two programmes because they should be considered loan projects rather than institutions. As a small project with a rudimentary organization in place, it is quite easy to reach full cost recovery; however, these are the costs of a project and not a full-fledged organization ready to reach thousands of clients. This issue is discussed further in the section on Yemen.

[17] Tunisia is excluded because loan officer

data were available for only one programme.

[18] The exception is the Egypt Social Fund due to lack of reliable and accurate data.

[19]World Bank, April 2004 "Unlocking the Employment Potential in the Middle East and North Africa: Towards a New Social Contract."

[20] As noted in chapter 1, data of a key not-so-good practice player in the area of microfinance, the Social Fund for Development, were not available.

[21] See footnote 13 for the seven Foundations.

[22] Perrett 2001.

[23] It must be noted, though, that the estimates in this study appear on the high side: year-end 2003, the outstanding portfolio of the largest subsidized credit programme was $10 million with an estimated 7,600 loans. In addition, this MFI had approximately 3,000 small business clients with an outstanding portfolio of $21 million.

[24] These are: Micro Fund for Women (being the largest best-practice MFI), the Jordanian Micro Credit Company (JMCC), the Ahli Microfinance Company, and the Middle East Micro Credit Company (MECC).

[25] Women's World Banking with Al Amana 2003.

[26]Anna Gincherman, Women's World Banking, Presentation at Sanabel's first Annual Conference at the Dead Sea in December 2003.

[27] Burjorjee, Deshpande and Weidemann 2002.

[28] As a comparison, the Central Bank refinancing rate is 6%, and the ceiling set by the Monetary and Banking Committee on lending rates by public sector banks is 8.5%. Given the high costs of making micro- and small-business loans, one can easily argue that any lending rate should be substantially higher than this ceiling.

[29] In addition, 7,000 small and medium loans were disbursed with a value of $213 million (average loan size approximately $30,000).

[30] Obviously detailed demand studies are the best tool to estimate demand. However, microfinance practitioners often use the poverty headcount as a rough basis to estimate the potential demand for microcredit. An estimated 25% of the 17 million Syrians live below the poverty line. This is 4.25 million people. Assuming at least seven people per household (as poorer families are larger than nonpoor families), over 600,000 households can be considered poor. However, not every poor household wants a loan or should get a loan because many household members may lack entrepreneurial skills and are better off working for somebody else. Assuming that every second poor household will have at least one entrepreneurial member, the market for credit is an estimated 300,000 people. Assuming an average loan size of 40% of GDP per capita, the potential demand for loans has a value of $144 million.

[31] Start-up activities are riskier and over time create fewer jobs than existing businesses. Moreover many unemployed are not good entrepreneurs and may be better off working for somebody else.

[32] Inflation in 2002 was 2.8%.

[33] BTS claims that its "net" lending is 80%. If we assume that net means loan portfolio outstanding after deduction of the loan loss reserve and if we assume that provisioning is done based on aging of arrears, it could be likely that at least 20% of the loan portfolio outstanding is at risk.

[34] It must be noted that this number is very close to the number of cumulative disbursed loans: however given the fact that the loan maturity is three years and that the BTS lending really took off only in 2001, it is quite likely that the numbers could be equal.

[35] ASA is more sustainable and efficient than the commonly quoted best practice Grameen Bank example.

[36] Source: CGAP 1997: www.cgap.org

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Annex I: Survey Participation and Data Sources

Table A1.1 Key data analysis issues and how they were resolved in each of the countries

Country	Key data analysis issue if any
Egypt	• No data at all for Social Fund for Development • No year-end 2003 data for a few small programmes. • No year-end data for one large programme: NBD, no secondary data available. • Secondary data used for SEDAP
Lebanon	• No year-end 2003 data for a few small programmes. • No data at all for the Alqard Al Hassan programme. • Three "new" small programmes added.
Jordan	• No year-end 2003 data for a few small programmes. • Limited data on DEF and only for year-end 2003. Hence DEF data are only included in the general statistics on market share and gender.
Morocco	• No year-end 2003 data from one programme.
OPT	• One small programme added in 2003 dataset.
Tunisia	• BTS and some of the organizations funded by BTS submitted November 30, 2003 data. In order to avoid double-count, BTS data are used and the "retailers" using BTS funds are excluded. These are APEL and FTSS.
Yemen	• Two new programmes that were not operational in 2002 were added to the 2003 dataset.

The best and most complete year-end 2002 data was received from Morocco, the Occupied Palestinian Terrorities, and Yemen. Jordan, Lebanon, and Tunisia had the most incomplete datasets. In fact, only one Tunisian programme filled in the questionnaire and data from a second programme were entered using secondary sources. The key player in Tunisia, the Banque Tunisienne de la Solidarité (BTS), provided no data. As for Jordan and Lebanon, mainly small programmes with few active clients did not respond, several of which are considered to be "unemployment lending" programmes. Two key players, however, also did not respond (or responded partially): the Alqard Al-Hasan programme in Lebanon, a large programme using Islamic finance methodology, and the Development Employment Fund (DEF) in Jordan, a programme engaged in both micro- and small business lending. In Egypt many MFIs answered, but some of the major ones such as the Social Fund for Development and Banque du

Caire did not. Banque du Caire did subsequently provide its latest data. Syria was not included in the initial survey as there was no focal point in the country and very little knowledge of any existing microfinance. It was only after a field visit by the authors in the spring of 2004 that the existence of sizeable interventions on the ground was discovered.

Table A1.2. Known MFIs in Surveyed Countries, Participants and Nonparticipants

Known MFIs	Comprehensive year-end 2002 survey	Mini-survey Nov. 2003	Mini-survey Dec. 2003
Egypt			
Assiut Business Women Association	Yes		Yes
Egyptian Society for Community Initiatives and Development	Yes		No
Menia Youth Moslem Association	Yes – incomplete		Yes
Sharkia Businessmen Association for Community Development SBACD	Yes		Yes
The Regional Association to Develop Enterprises in Sohag (RADE)	Yes		Yes
Asswan Businessmen Association	Yes		Yes
Micro Start Fayoum SPDA	Yes		Yes
National Bank for Development NBD	Yes		No, Dec 2002
ESED Cairo	Yes		Yes
DBACD Dahkahlya Businessmen Ass.	Yes		Yes
Al Tadamun MFP	Yes		Yes
CEOSS	Yes		Yes
ABA Alexandria Businessmen Association	Yes		Yes
ADEW	Yes		No
Known MFIs that did not participate			
Social Fund for Development – microlending programme	No secondary sources		No
Assiut Businessmen Association ASBA	No secondary sources	Yes	Yes
Port Said Buss. Association SEDAP	No secondary sources		Secondary
Banque du Caire	Secondary sources		Secondary
MicroStart CAFD	Secondary sources		June 30 data
MicroStart SCDA	Secondary sources		June 30 data
Lead	No secondary sources		Yes
Fayoum USAID (not MicroStart	No secondary sources		Yes
Known MFIs	Comprehensive year-end 2002 survey	Mini-survey Nov. 2003	Mini-survey Dec. 2003
Sohag USAID	No secondary sources		Yes

Jordan			
JMCC	Yes	Yes	Yes
Microfund for Women	Yes	Yes	Yes
MEMC/CHF	Yes	Yes	Yes
Ahli Microfinance Company	Yes	Yes	Yes
DEF	Yes – very incomplete	Yes	N/A
N/A			
Queen Alia Fund	No secondary sources		No
UNRWA	No secondary sources	Yes	No
Industrial Development Bank	No secondary sources		No
GUVS	No secondary sources		No
Lebanon			
CHF/Ameen	Yes	Yes	Yes
Al Majmoua	Yes	Yes	Yes
UNRWA	Yes – incomplete	Yes	Yes
Known MFIs that did not participate			
CRS/Caritas Village Bank Programme	No secondary sources		
Monetary Housing Institution	No secondary sources		
AEP	No secondary sources		Yes
Ministry of Displaced	No secondary sources		Yes
Al Tamkeen	No secondary sources		Yes
Morocco			
FONDEP	Yes		Yes
Zakoura	Yes		Yes
Fondation Banque Populaire	Yes	Yes	No
Al Amana	Yes	Yes	Yes
INMAA'	Yes	Yes	Yes
The Agricultural Foundation for Small Loans	Yes – very incomplete	No	No
AMSSF	Yes	Yes	Yes
Known MFIs that did not participate			
ATIL	No secondary sources	Yes	
AMOS	No secondary sources	No	Yes

Occupied Palestinian Territories			
PDF Palestine Development Fund	Yes – incomplete	No	Yes
Gaza Women Lending programme	Yes		Yes
ACAD Arab Centre for Agricultural Development	Yes	Yes	Yes
FATEN	Yes	Yes	Yes
UNRWA MMP	Yes	Yes	No
ASALA	Yes	No	Yes
Tunisia			
CRENDA	Yes	Yes	Yes
Known MFIs that did not participate			
BTS	Secondary sources	Yes	No
APEL	Secondary sources		No
FTSS	No secondary sources	Yes	No
Yemen			
Ta'iz MicroStart programme	Yes	Yes	Yes
Aden MicroStart Programme (WASD)	Yes		Yes
SFD microprogram Ta'iz–National Microfinance Foundation	Yes	Yes	Yes
Hais savings and credit	Yes	Yes	Yes
Dar Saad savings and credit	Yes	Yes	Yes
Sana'a MicroStart programme (SOFD)	Yes	Yes	Yes
Mu'ala savings and credit	Yes	Yes	Yes
Sana'a MFP	Yes		Yes
Marawa microcredit programme	Yes		Yes
Hodeidah Women Union micro credit	Yes	Yes	Yes
Known MFIs that did not participate			
SFD Seyun microcredit programme	Secondary sources		Yes
SFD Sheigh Othman savings and credit	Secondary sources	Yes	Yes
Esslah MicroStart programme	Secondary sources		Yes
Abyan savings and credit	Not operational in 2002	Yes	Yes
Beit Al Fakeih savings and credit	Not operational in 2002		Yes

Annex II: Resources on the Web

Alexandria Business Association

www.aba-sme.com

An association with a membership of more than 350 individuals representing the leading businesspersons in Alexandria. An elected board of 15 prominent business persons directs the ABA. It also is the International Technical Service Provider for the MicroStart Programme in Bahrain and Yemen.

Arab Gulf Programme For United Nations Development Organizations

www.agfund.org

A regional development institution that focuses on the neediest, specifically women and children, in developing countries. AGFUND's membership and budget is composed of, and created by the leaders of the Arab gulf states. This membership contributes to the support and funding of health projects, educational development and capacity building of organizations active in sustainable human development.

Association Alamana

www.alamana.org

An association that promotes micro – enterprises by providing credit to those excluded from traditional financial systems. It's Board of Directors is composed of women and men from business society, academics and public and associative personalities. Alamana has a network of 126 antennas in 74 cities and 8 rural localities maintained by 311 loan officers.

The Lebanese Association for Development

www.almajmoua.com

This independent Lebanese not-for-profit association aids all that reside and work in Lebanon. Al Majmoua provides financial services to micro-entrepreneurs in order to stabilize family income and business growth. These micro-entrepreneurs are those that are most excluded from the financial sector and are seen by Al Majmoua as being the key social and economic sector for the development of the country.

AMIR Program

www.amir-jordan.org

An organization that promotes economic growth through its five initiatives: Business Management Initiatives, Financial Market Development, Informal and Communication Technology Institute, Microenterprise Initiative and the Private Sector Policy Initiative. This program is funded by the United States Agency for International Development and is implemented with the help of Jordan's private sector and government.

The Consultative Group To Assist The Poor

www.cgap.org

This consortium of 28 public and private development agencies, works to expand the access of microfinance to the poor. Their clients include development agencies, financial institutions, government policy makers, auditors and rating agencies. Services offered include training, research, development and advisory services.

CHF International

www.chfhq.org

An organization that provides basic social services to low and moderate income families in the areas of community, habitat and finance. Throughout its many years as an organization, it has served 100 countries, and currently provides services to 23 countries, where it promotes development through environmental sustainability and self sufficiency. CHF International aims at using development programs to create infrastructure that is both peaceful and democratic.

Dakahlya Business Association For Community Development

www.dbacd-eg.com

A non-government organization, aiming to improve the Dakahlya community. This organization is made up of a board of directors who hold prominent positions in the business community. They serve as presidents to the private corporation, investors and owners to large firms. This board is involved in and has financed social and economic services to micro-entrepreneurs, through financing and developing welfare projects.

CHF Cooperative Housing Foundation

www.endarabe.gnet.tn

This foundation aims at building the long term capacity of the Lebanese institutions to provide financial services to micro-entrepreneurs. AMEEN is a program directed by CHF in cooperation with two commercial banks. These two banks handle typical loan maintenance throughout their country branches of Beirut, the South and North of Lebanon.

FONDEP Microcredit

www.fondep.org

Using a microcredit system, FONDEP targets women in rural areas and unemployed youth that are living without revenue. This system integrates low income people in the production system. The strategy of FONDEP was created by the Foundations General Assembly which is made up of economists, sociologists, architects and town planning specialists.

GRAMEEN

www.grameen-info.org

An organization that works for the development of socio - economic conditions by providing credit to Bangladesh's poorest. Grameen's banking system is based not on collateral but on mutual trust, accountability, participation and creativity. Serving approximately 2.4 million borrowers, of which 95% are women this organization manages to service 41,000 villages/60% of total villages. Grameen's success has expanded to such a point that two dozen organizations now make up the umbrella of the Grameen family.

The Microfinance Gateway

www.microfinancegateway.org

The Gateway serves as an online public forum for the microfinance industry. This information exchange platform features 3,000 online documents including publications and research, 700 listings of microfinance institutions and 200 consultant curricula. In addition recourses also include discussion groups and job listings. Gateway is managed by the Consultative Group to Assist the Poor which is a consortium of 29 donors that support microfinance.

Micro Fund for Women

www.microfund.org.jo

A private not governmental organization, with 9 branches extending throughout central and northern Jordan. Micro Fund is Jordan's leading micro finance server, that helps women entrepreneurs who have the will to grow but not the way, as a result of the lack of access to capital. The ultimate goal of this company is the empowerment of women entrepreneurs, to become income-earners and decision-makers in their homes and communities leading to the improvement in the economic status of women's families.

The Micro Banking Bulletin

www.mixmbb.org

A principle product of MIX (Micro Information Exchange), a non profit organization that is working to build microfinance infrastructure. The Bulletin is the premier benchmarking source for the microfinance industry. It organizes and releases the financial and portfolio databases released by the microfinance organizations. In doing so it serves as both a facilitator of standardization and as a tool for understanding the micro sector.

National Bank For Development

www.nbdegypt.com

One of the leading banks in Egypt that pushes for economic development. The national bank has participated in the establishment and financial development of projects in various economic sectors. These economic sectors include the industrial, food security, housing, stock market and tourism services. Its prosperity as a company can be seen through its growth in assets from 2002 to 2003 and its current employment of 2474 persons.

Sanabel Microfinance Network of Arab Countries

www.sanabelnetwork.org

A regional network with a membership of 27 microfinance institutions in the Arab world. Sanabel aims to create a micro institution forum for micro–entrepreneurs through mutual learning and exchange, capacity building services and advocacy of the best practices in microfinance. In 2003 Sanabel served 500,000 clients in the Arab countries.

Microfinance Information Exchange (MIX)

www.themix.org

A nonprofit organization that provides an information service for the microfinance industry. The MIX aims at building a strong infrastructure for microfinance by standardizing financial reporting, benchmarking services, and by creating a space to facilitate the exchange of quality data. This organization was created through the partnership with the Consultative Group To Assist The Poor (CGAP), the Citigroup Foundation, The Deutsche Bank American Foundation, the Open Society Institute and other private foundations.

The United Nations Capital Development Fund (UNCDF)

www.uncdf.org

Through its two areas of concentration, local development programmes and microfinance operations, UNCDF works to alleviate poverty, primarily in Least Developed Countries. Serving as an organization under the umbrella of United Nations Development Programme (UNDP), UNCDF takes part in joint programming and logistical support with UNDP. Its resources come from voluntary contributions by member states and are often co-financed by international bi- and multi-lateral organizations and by the private sector.

The World Bank

www.worldbank.org

One of the world's largest source of development assistance. With a membership made up of 184 countries, its mission is to fight poverty and improve the living standards in the developing world. This "World Bank" refers to the International Bank for Reconstruction and Development and the International Development Association. These sub-organizations provide interest-free loans, interest-free credit and grants to developing countries. The World Bank employs 10,000 development professionals that work in its 109 country offices or at its Washington D.C. headquarters.