



Advancing financial access for the world's poor

Policy Forum for the Arab World

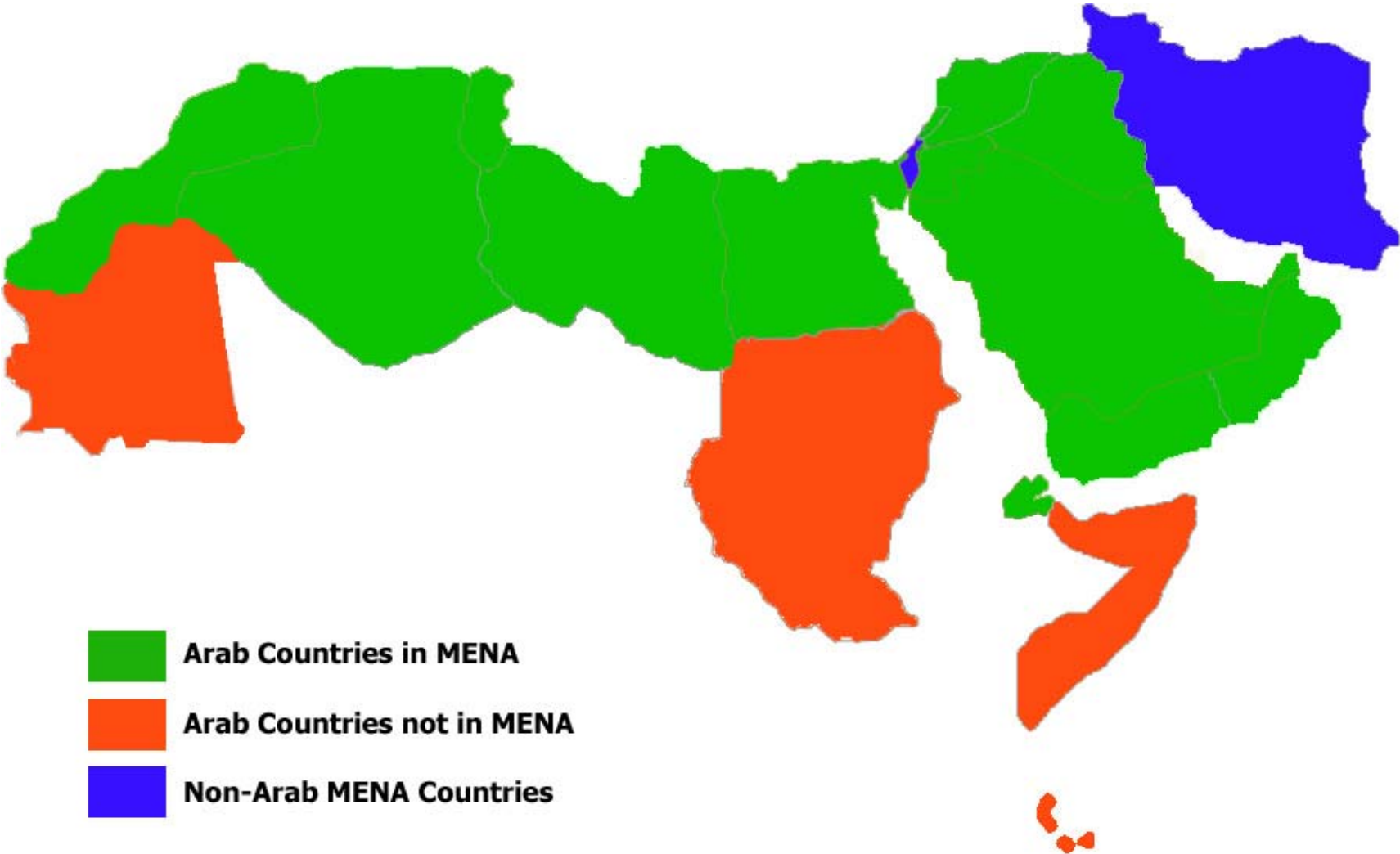
Beirut

May 11, 2009

Outline

- **MFIs**
- **Policy**
- **Market Infrastructure**
- **Donors & Investors**
- **Discussion**

Arab World vs. MENA





Advancing financial access for the world's poor

MFIs

- **Characteristics of the Region**
- **Trends Analysis**
- **Major Issues**

Sector Overview

- Young institutions (8 yrs, on average)
- Preponderance of NGO & government programs
- Countries without microfinance
- Few MFIs (MIX:48, total < 100)
- Most are credit-only & product diversification is very recent
- High concentration: most clients served by few MFIs and in Morocco and Egypt
- Low market penetration (15%)

Few MFIs

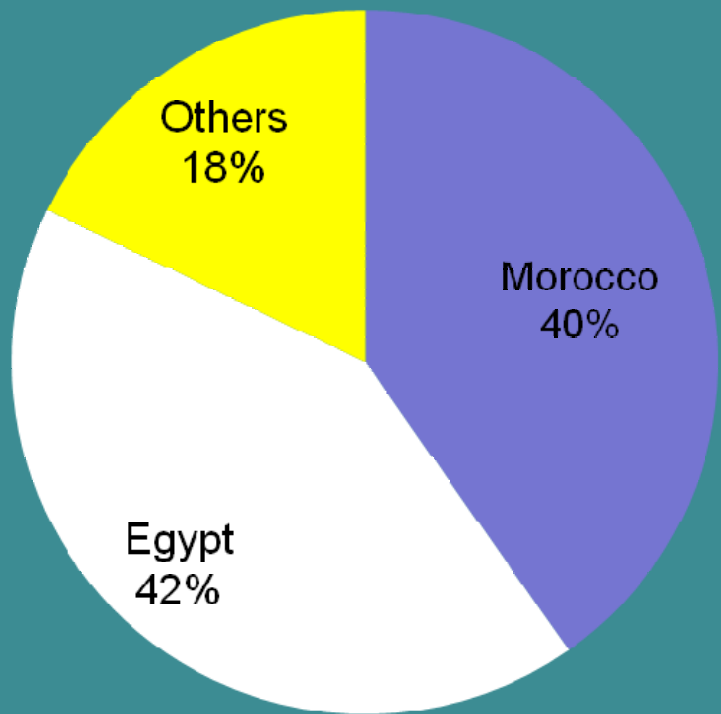
Region	# of MFIs reporting to MBB 2007
Africa	159
Asia	244
ECA	158
LAC	283
MENA	46

High MFI concentration (2008)

Largest MFIs	% Active Borrowers	% GLP
Al Amana	15%	22%
2 MFIs	25%	31%
5 MFIs	43%	48%
10 MFIs	59%	60%
15 MFIs	70%	67%
20 MFIs	74%	72%
Based on SANABEL data for 330+ MFIs		

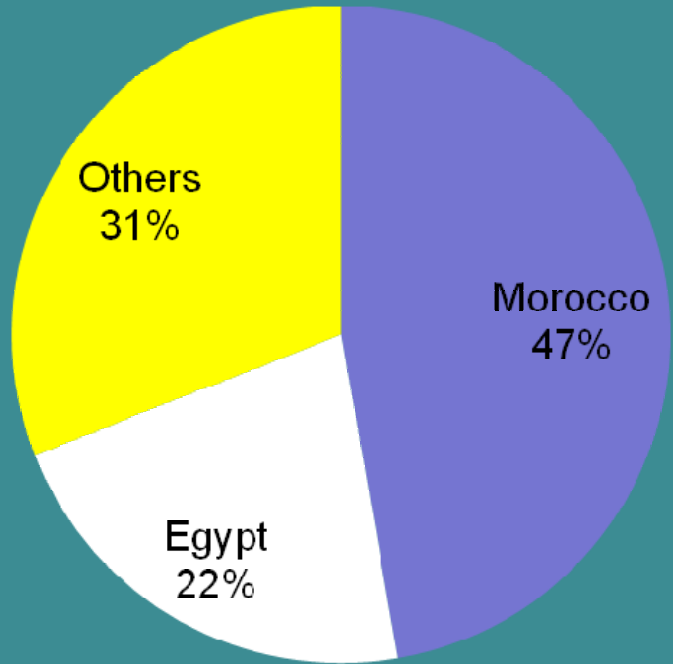
Outreach (2008)

Active Borrowers



Gross Loan Portfolio US\$

GLP US\$



A dynamic sector

- High growth until 2007
- Low PAR
- Low leverage

Socially oriented

- Low average loan balance/GNI
- Focus on women

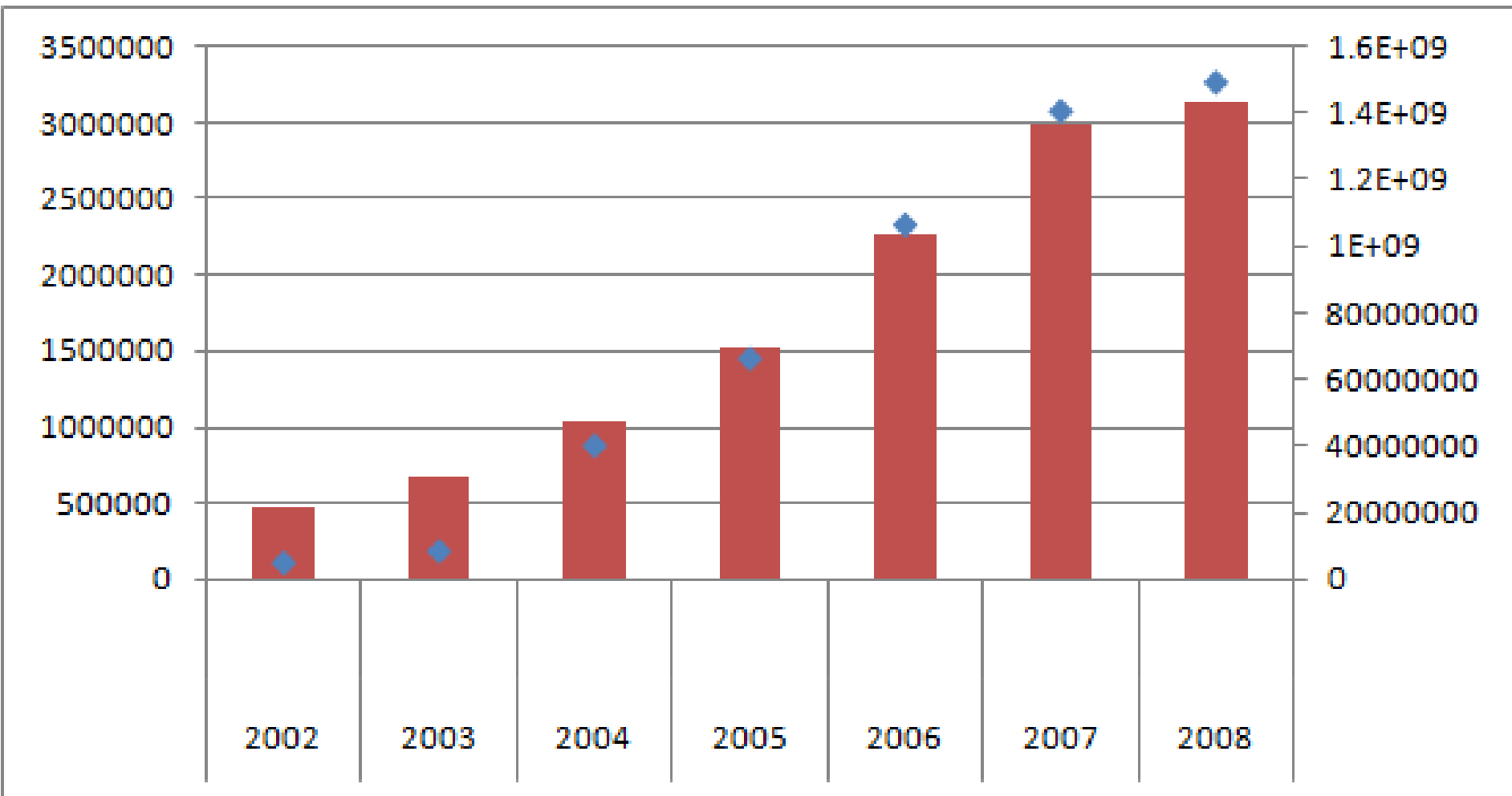
Arab Region Total Outreach : by Country

		2005	%	2006	%	2007	%	2008
1	Bahrain	2,175	0%	2,175	0%	2,175	0%	2,175
2	Egypt	549,699	37%	751,529	49%	1,119,553	17%	1,310,802
3	Iraq	14,690	4%	15,234	61%	24,597	47%	36,216
4	Jordan	50,873	53%	77,778	46%	113,734	27%	144,232
5	Lebanon	46,070	-9%	42,109	12%	47,288	14%	53,759
6	Mauritania	4,210	79%	7,540	209%	23,281	22%	28,464
7	Morocco	632,310	78%	1,123,321	22%	1,370,555	-8%	1,262,255
8	Palestine	27,484	-7%	25,592	-11%	22,863	39%	31,685
9	Saudi Arabia	2,000	250%	7,000	0%	7,012	1%	7,064
10	Sudan	7,233	47%	10,620	102%	21,439	44%	30,830
11	Syria	45,175	12%	50,611	8%	54,617	-58%	22,861
12	Tunisia	109,332	13%	123,504	18%	146,308	21%	177,124
13	Yemen	23,674	43%	33,934	-8%	31,215	7%	33,551
	TOTAL	1,514,684	45%	2,189,529	36%	2,984,637	5%	3,141,018
	Total w/out Morocco	882,374	21%	1,066,208	51%	1,614,082	16%	1,878,763

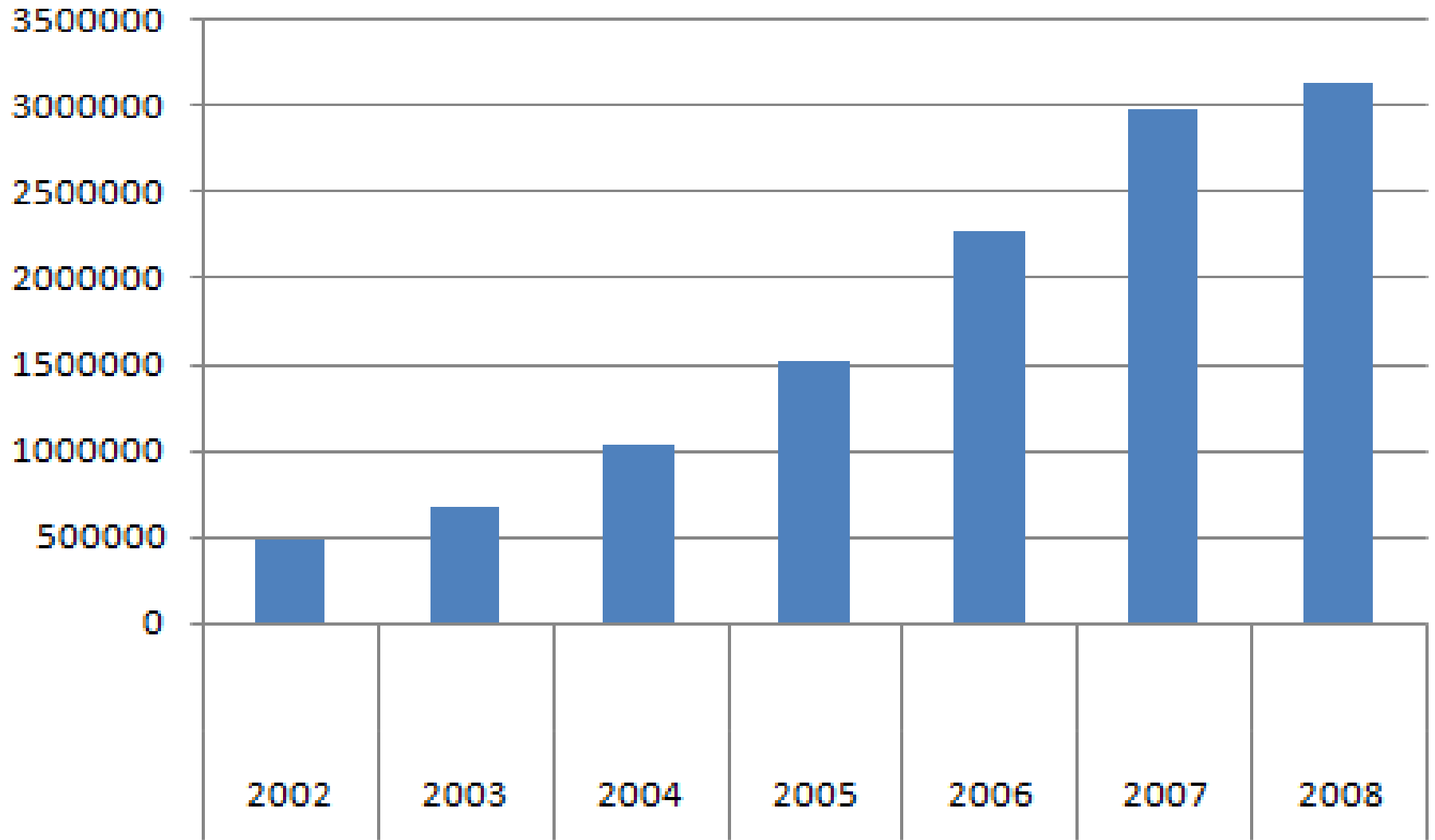
Arab Region Outstanding GLP (USD): by Country

		2005	%	2006	%	2007	%	2008
1	Bahrain	775,193	0%	775,193	0%	775,193	0%	775,193
2	Egypt	190,335,538	29%	245,407,712	7%	262,103,817	24%	324,834,455
3	Iraq	18,602,228	1%	18,867,831	71%	32,232,442	62%	52,121,307
4	Jordan	65,848,733	27%	83,431,699	21%	100,844,317	26%	127,187,081
5	Lebanon	38,486,265	-1%	37,974,542	17%	44,292,603	13%	49,890,193
6	Mauritania	No Data	?	4,548,586	131%	10,485,805	1%	10,610,499
7	Morocco	163,683,452	158%	422,546,383	71%	721,917,026	-2%	704,868,088
8	Palestine	36,414,494	10%	40,040,235	33%	53,153,067	49%	79,246,823
9	Saudi Arabia	No Data	?	5,866,041	5%	6,158,388	28%	7,861,888
10	Sudan	1,214,527	60%	1,949,194	127%	4,429,464	33%	5,873,409
11	Syria	65,556,153	4%	68,151,129	5%	71,534,010	-74%	18,272,638
12	Tunisia	78,262,116	7%	83,614,008	12%	93,436,674	12%	105,012,790
13	Yemen	4,747,602	21%	5,747,540	-29%	4,109,260	31%	5,396,931
	TOTAL	663,926,301	53%	1,018,920,092	38%	1,405,472,066	6%	1,491,951,295
	Total w/out Morocco	500,242,848	19%	596,373,709	15%	683,555,040	15%	787,083,207

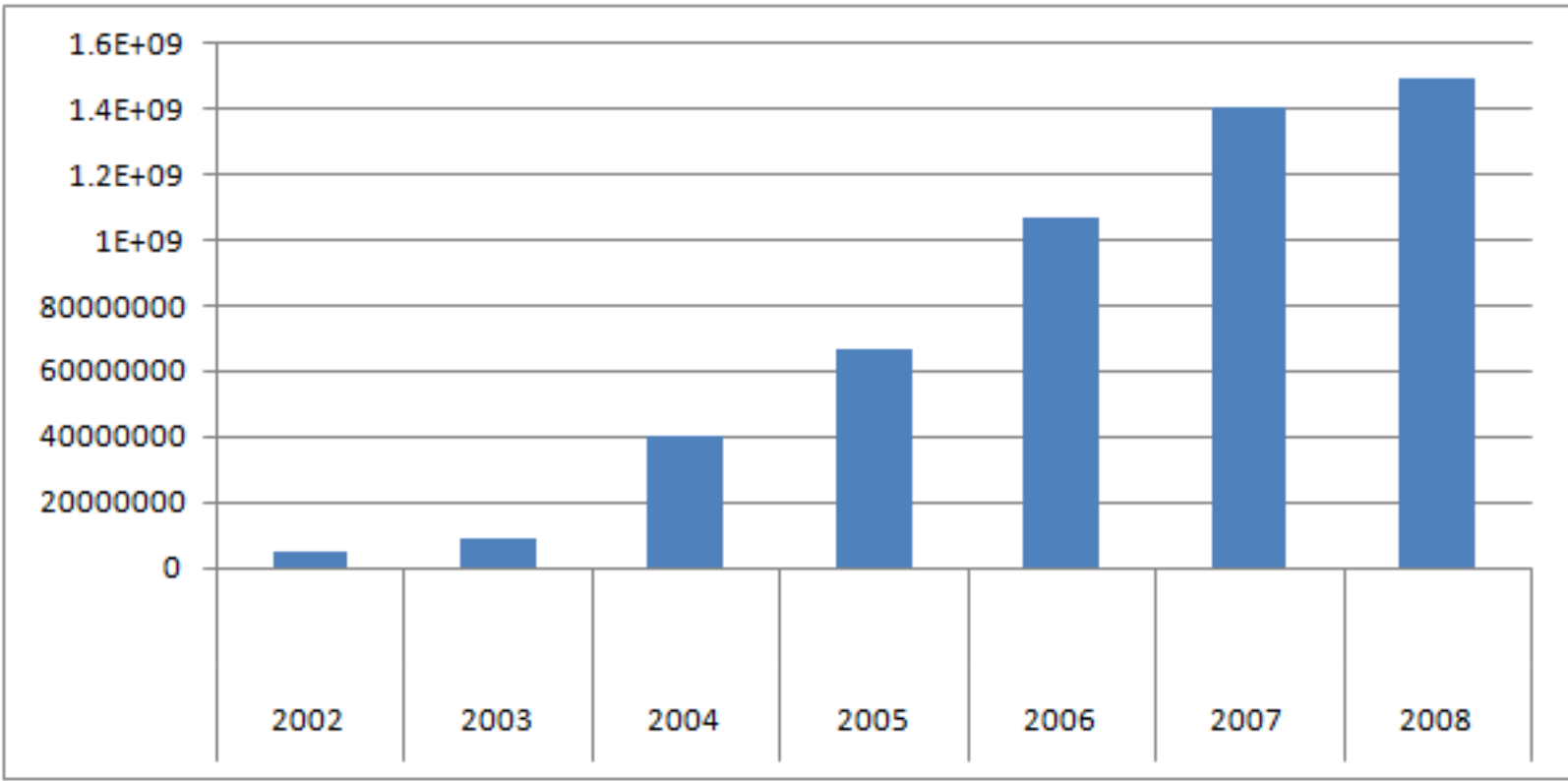
Growth in Outreach and GLP



Growth in Outreach

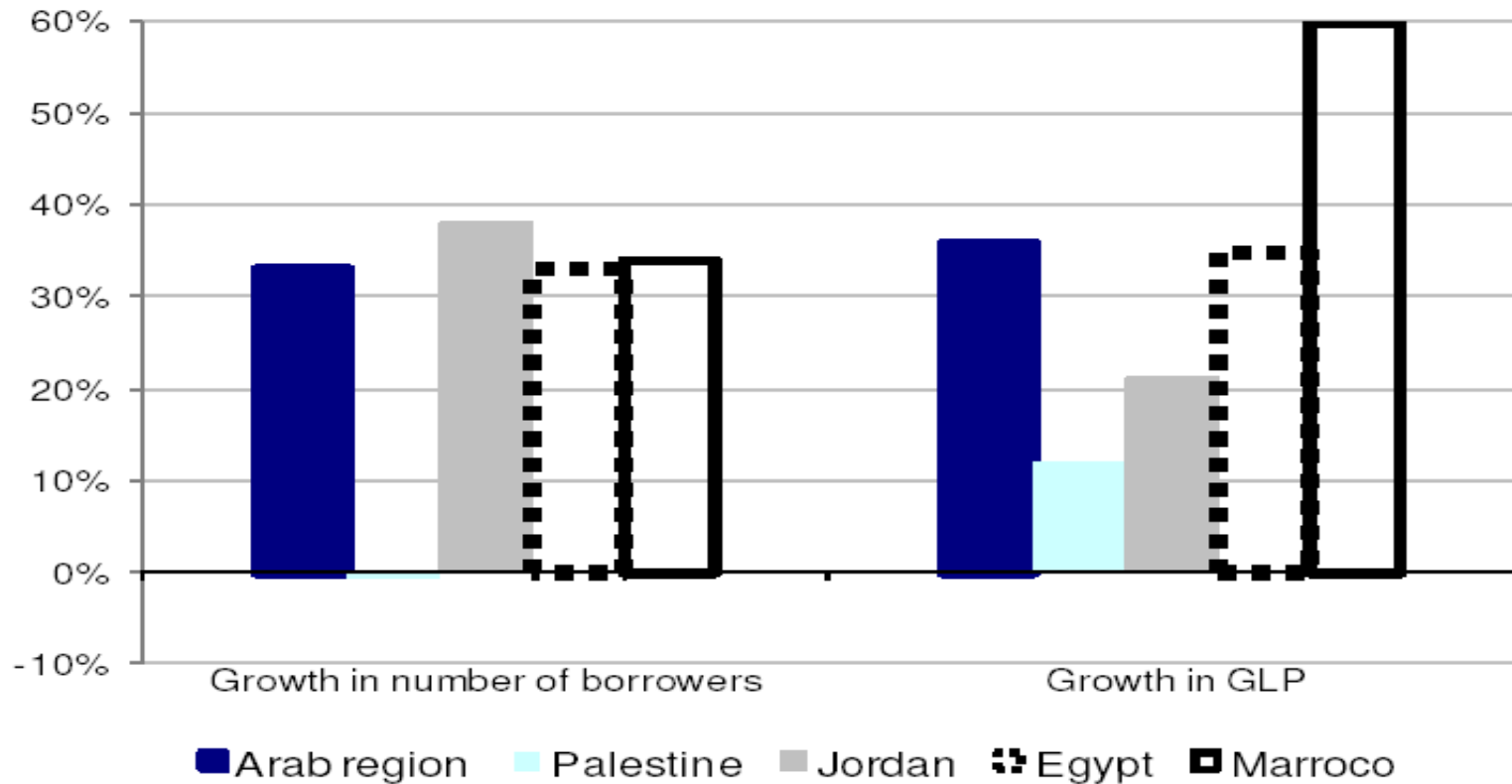


Growth in Gross Loan Portfolio (US\$)



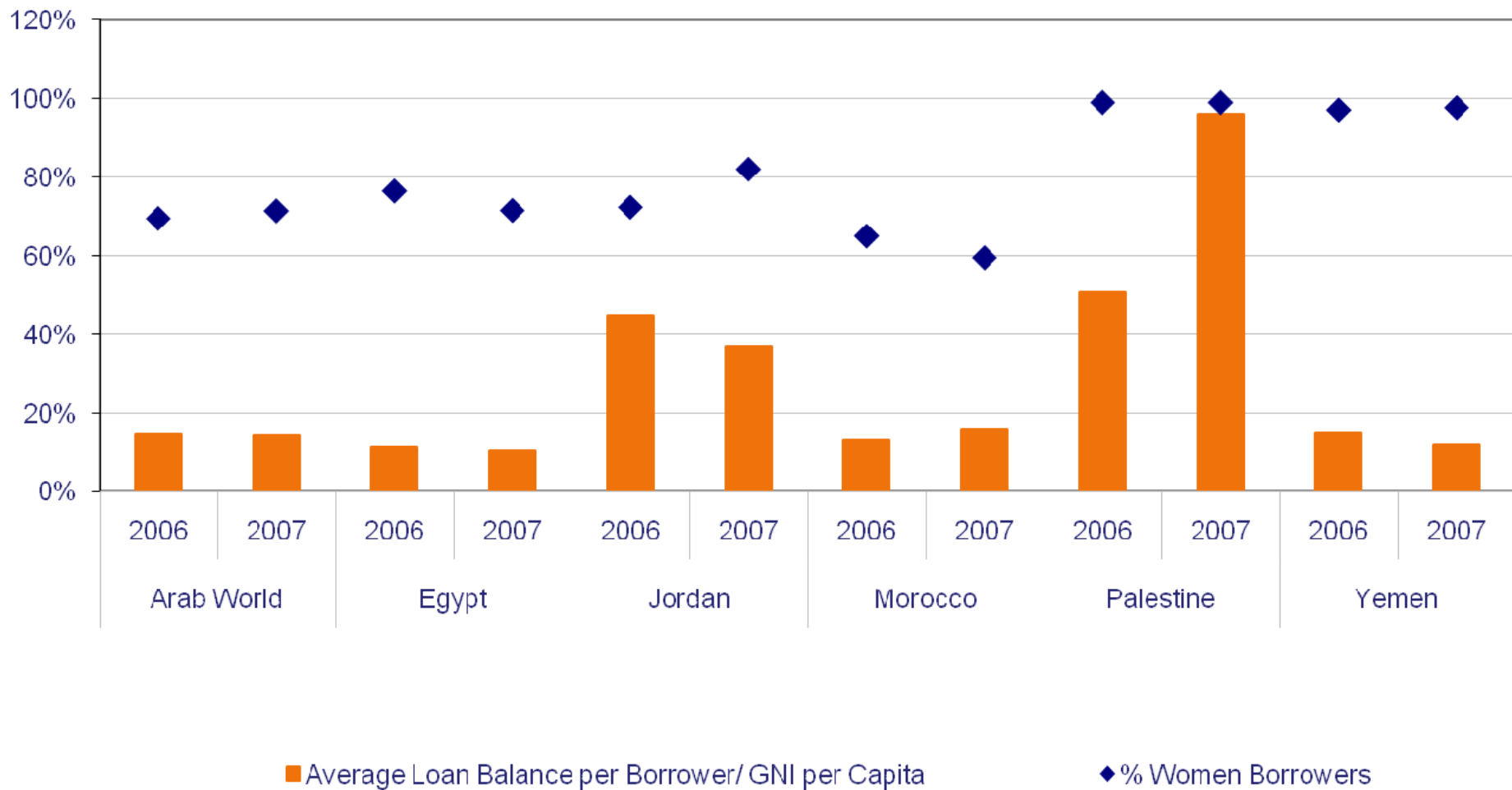
High Growth

Figure 1 Change in Number of Borrowers and Loan Portfolio (GLP): 2006 - 2007



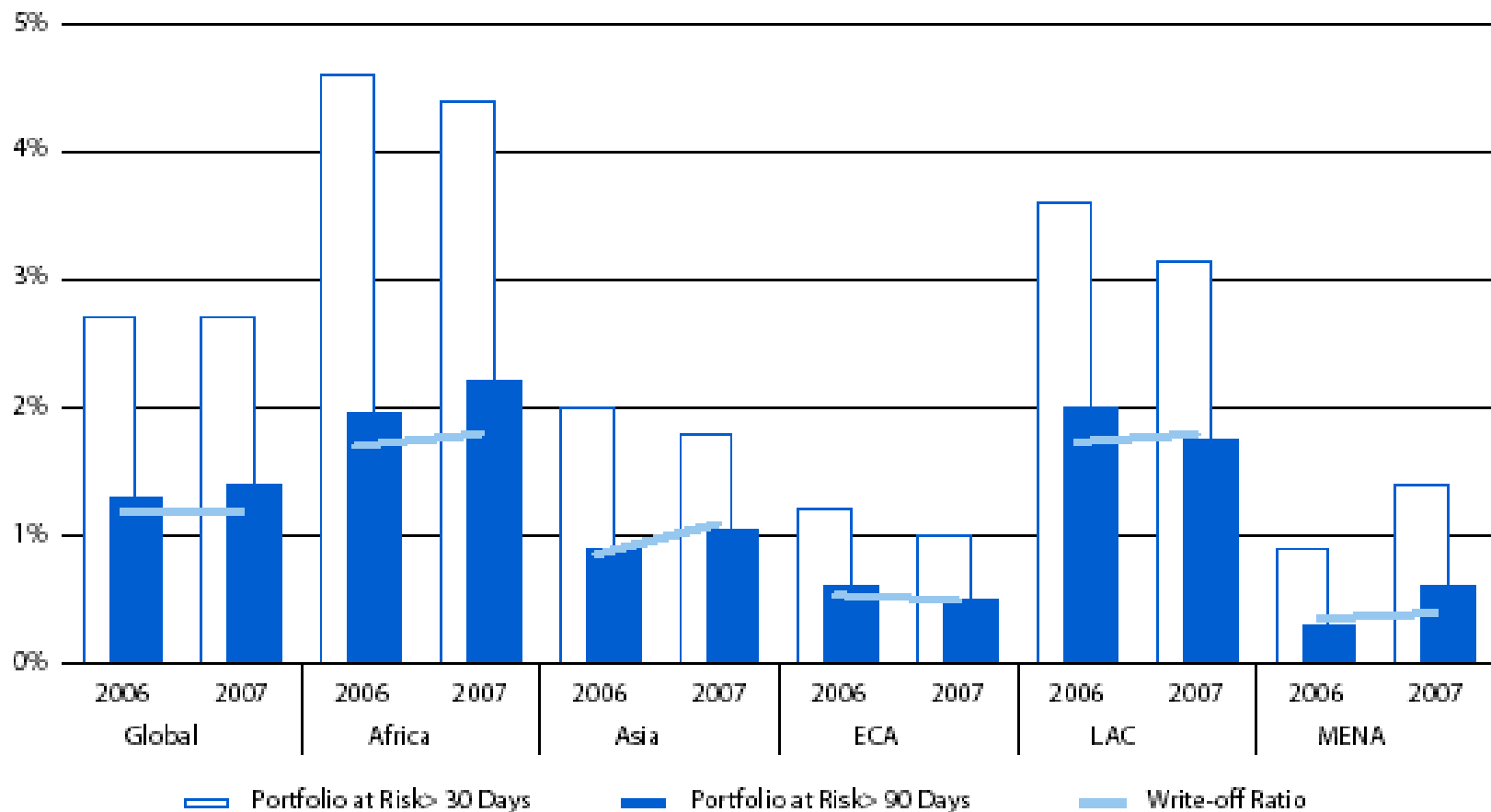
Note: These trends were made in local currency to avoid variations in exchange rate between 2006 and 2007.
Source: Microfinance Information Exchange, Inc., 2007 Benchmarks

True to Social Mission



High Quality Portfolio

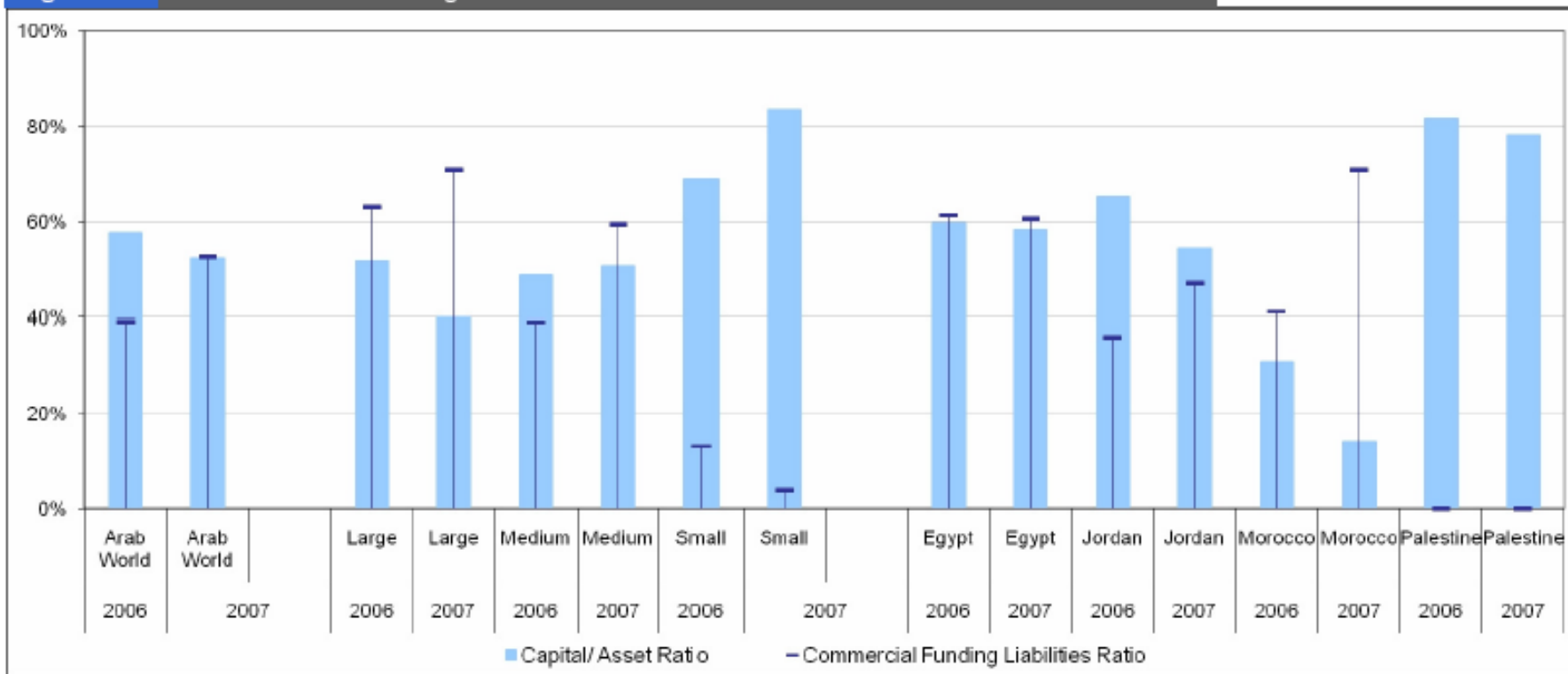
Figure 11: Portfolio Quality



Source: MIX 2006-07 MFI benchmarks. Results represent medians. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Increased Reliance on Commercial Financing

Figure 2 Evolution of Financing Procedures 2006-2007



Source: Microfinance Information Exchange, Inc., 2007 Benchmarks.

ne Food, Financial & Economic Crises



August 2008, CGAP Food Crisis Survey:

- Operational costs and PAR increasing
- Clients' food consumption down



November 2008, CGAP virtual conference on impact of Financial Crisis:

- Global liquidity contraction
- Foreign exchange risk

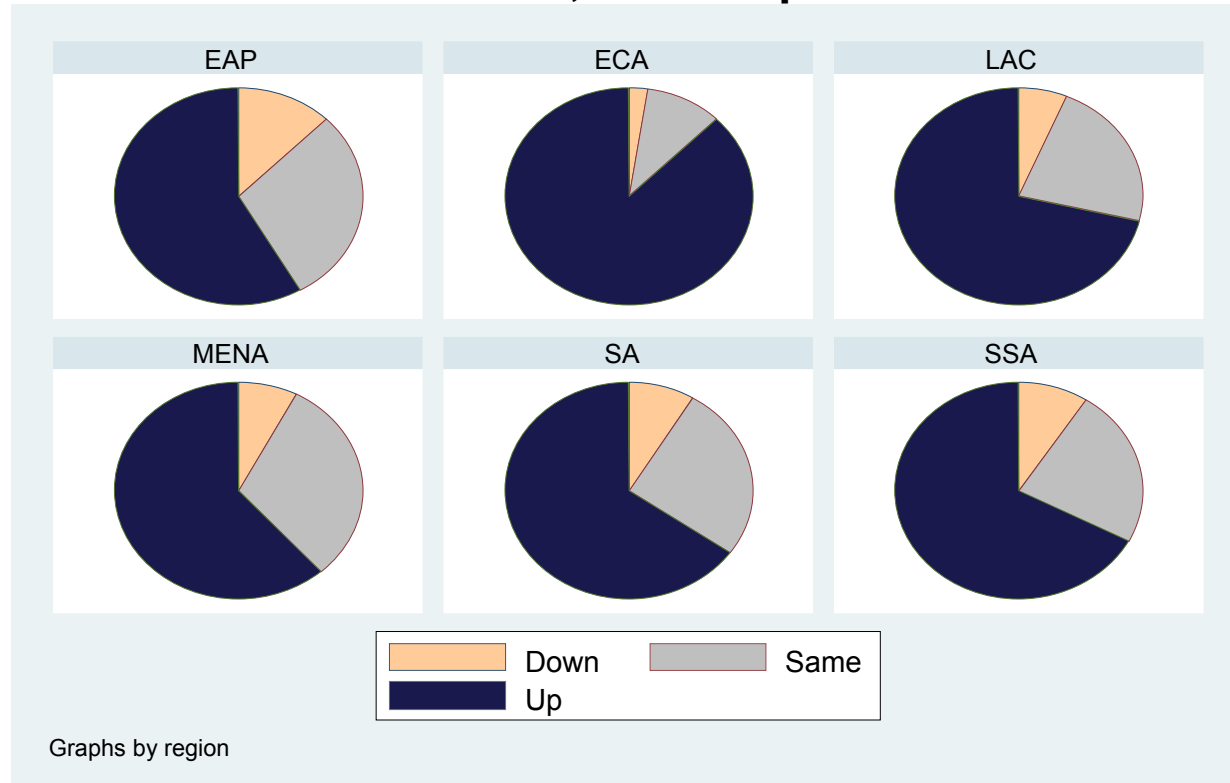


Q1 2009:

- Crisis acceleration + rapid propagation to emerging/developing econ.
- 2009 GDP growth forecast for developing countries = **1.9% in 2009**, in comparison to 5.8% in 2008 (World Bank data, March 31, 2009)

Credit Risk Is Up: Regional Differences

Portfolio at Risk, % of respondents



Credit risk is up worldwide

- **ECA most affected:** 88% of MFIs report rise in PAR
- **MENA and EAP less affected:** 62% / 58% of MFIs report rise in PAR

Views from MFI Managers in MENA

- **Liquidity problems increasing** - 55% of MFI managers expect increased liquidity pressures (75% for Tier 3 MFIs)
- **PAR improvements** - 44% of managers say that their PAR will improve (more pessimistic views in ECA and LAC)
- **Stable outlook** - 52% of managers think their financial performance will remain stable

Challenges for MFIs

- Governance issues, especially for NGOs
- Product diversification
- Lack of Islamic microfinance models
- MIS
- Risk management
- New players and models



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Policy

Regulation and supervision

- Branchless banking
- Consumer protection
- Major issues for 2009 (policy response to the crisis)

Policy and Regulatory Developments

- Over the last 2 years, new initiatives to regulate the sector
- Syria, Yemen and Egypt have approved laws/decrees/regulations
- Palestine and Iraq are working on NBFIs regulations

Branchless Banking

- BB is the use of non-bank retail agents and information technology to deliver financial services to low income people beyond traditional banking channels.
- New developments in Egypt and Morocco from private sector
- Interest in Yemen, Jordan, Palestine and Iraq

Consumer Protection

- Microfinance consumers are either not protected by laws or have very minimal protection
- Interest rates have been dropping even in markets where there is no competition (social mission)
- There is a need for some regulation taking into consideration the sound practice principles below

Principles for Consumer Protection – Evolving Sound Practice

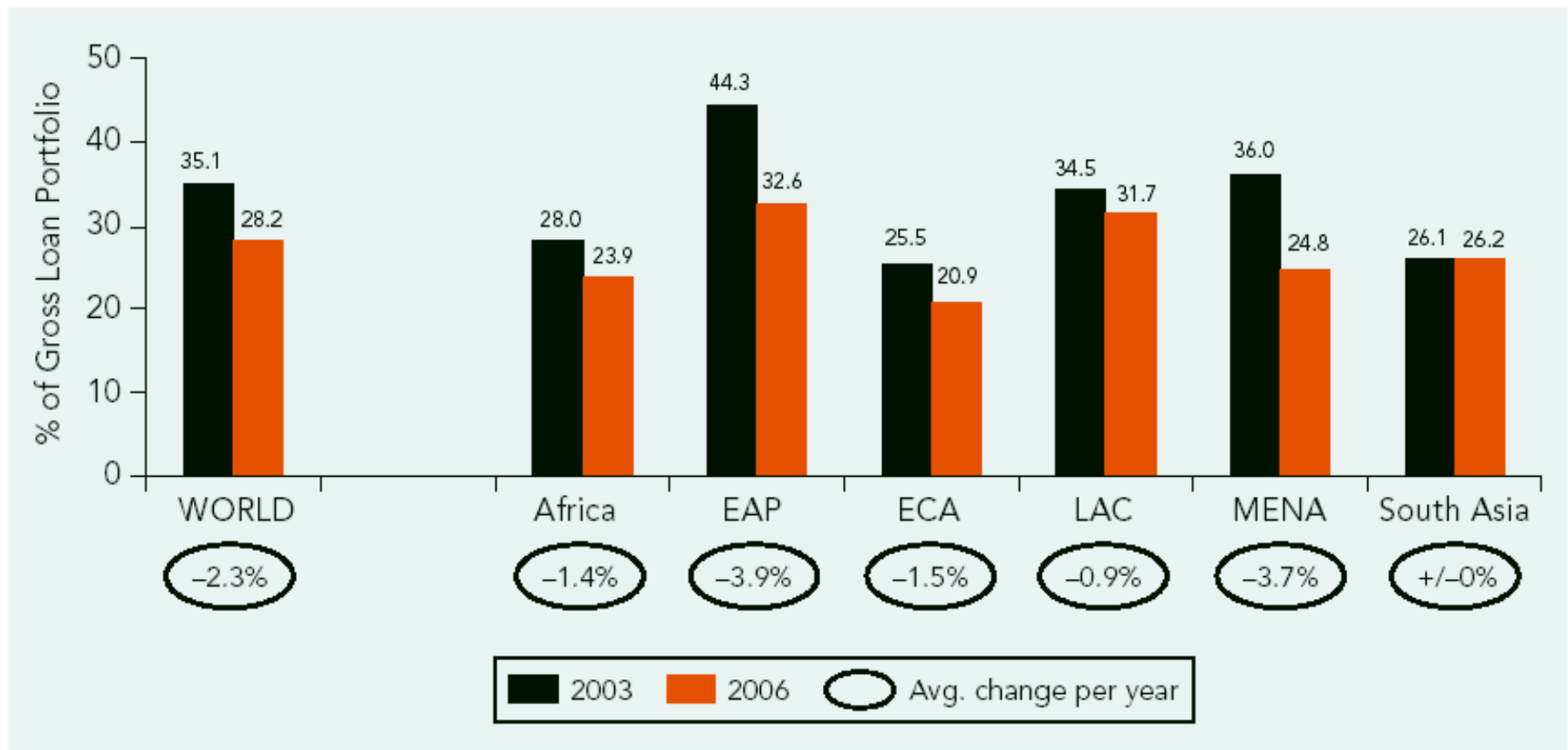
Fundamental Principle:

Treat customers with dignity & respect

- Prevent over-indebtedness
- Transparency and fair pricing
- Appropriate collections practices
- Ethical staff behavior
- Mechanisms for complaints and redress
- Privacy and security of client data

Downward Trends in Interest Rates

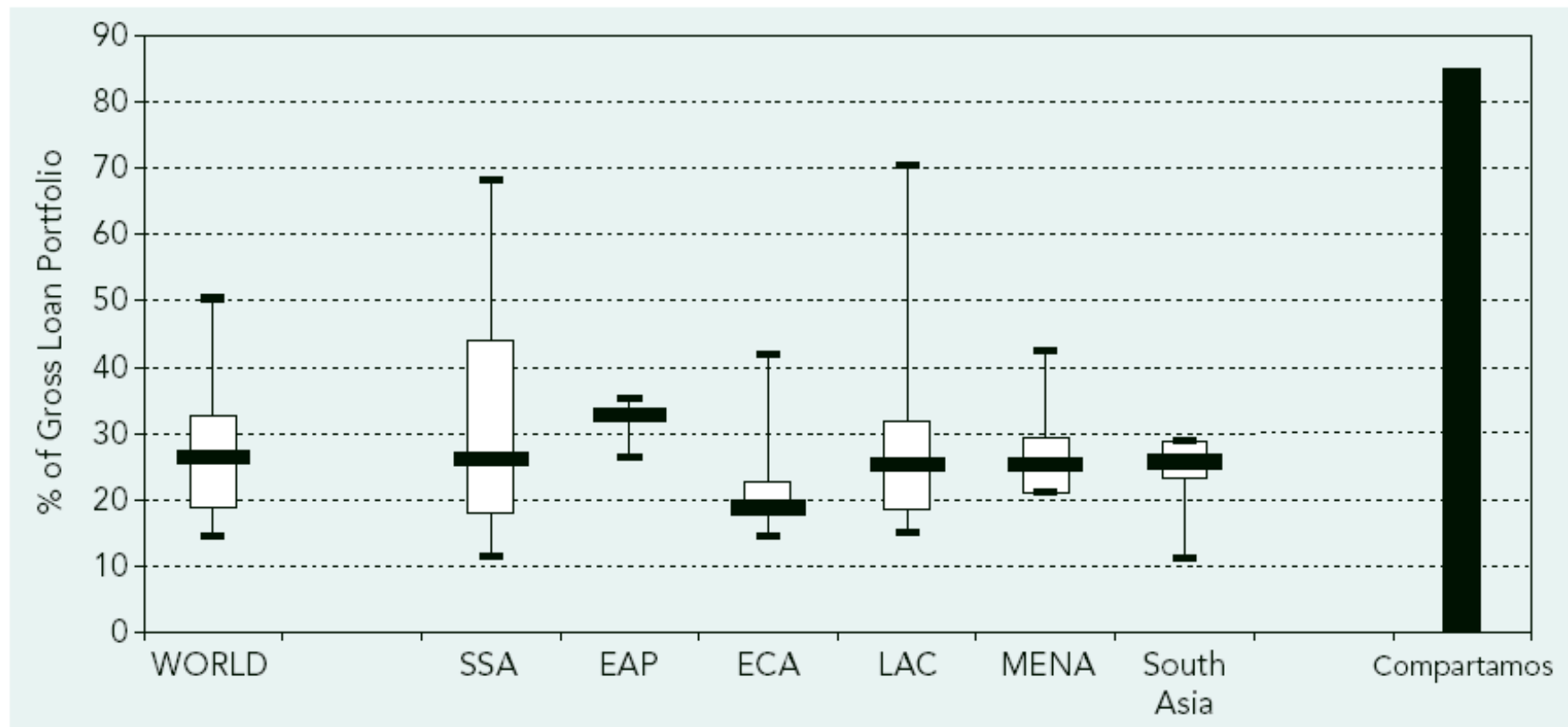
Figure 3: Interest Yield Trends, 2003–2006



Note: Total Interest and Fee Income/Average Total GLP: average of 175 sustainable MIX MFIs, weighted by loan portfolio.

Interest Income as % of GLP 2006

Figure 1: Interest Income as Percentage of Gross Loan Portfolio, 2006



Note: 555 sustainable MFIs reporting to MIX, distribution weighted by gross loan portfolio. The thick horizontal bars represent medians; the top and bottom of the white boxes represent the 75th and 25th percentiles, respectively; and the high and low short bars represent the 95th and 5th percentiles, respectively.

Major Policy Issues

- Regulation favoring NGO MFIs
- Lack of microdeposit-taking institutions
- Lack of supervisory capacity
- Lack of focus on consumer protection and over-indebtedness
- Over-regulation of non-deposit taking institutions
- No clear transformational path



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Market Infrastructure

- Credit Bureaus
- Transparency
- Major issues in 2009

Credit Bureaus (CBs)

- Underdeveloped CB infrastructure but black list registry for loans above 10K.
- In **Egypt**, a fully private bureau (I-score) owned by the banks is now up and running.
- **Palestine**, supported by the IMF, zero balance loans, free online access, recently 6 MFIs were given access.
- New project to establish credit bureau in **Lebanon, Algeria, Jordan, Tunisia, Syria, Yemen** with IFC and GTZ support.
- New models include microfinance sector.

Transparency and the MIX 100

- 48 Arab MFIs reported to the 2008 MIX report, 38 with audited accounts and 19 with rating reports
- No accounting standards for MFIs, accounting chart of accounts often reflects NGO activity
- MIS & local providers are of uneven quality
- Arab MFIs constitute 4% of total MIX sample but 20% of the top 10 MFI (according to 2008 MIX ranking)

Reporting to MIX & MBB

Report to	2002	2003	2004	2005	2006	2007	2008
MIX	NA	NA	25	30	38	51	58
MBB	11	16	21	24	37	48	55

Major Issues

- Improving credit reporting
- Improving external audit
- Improving social performance reporting
- Improving financial performance reporting
(comply with IFRS norms /gov.)



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Donor and Investors

- External Funders
- Local Banks

Top Five Funders in MENA

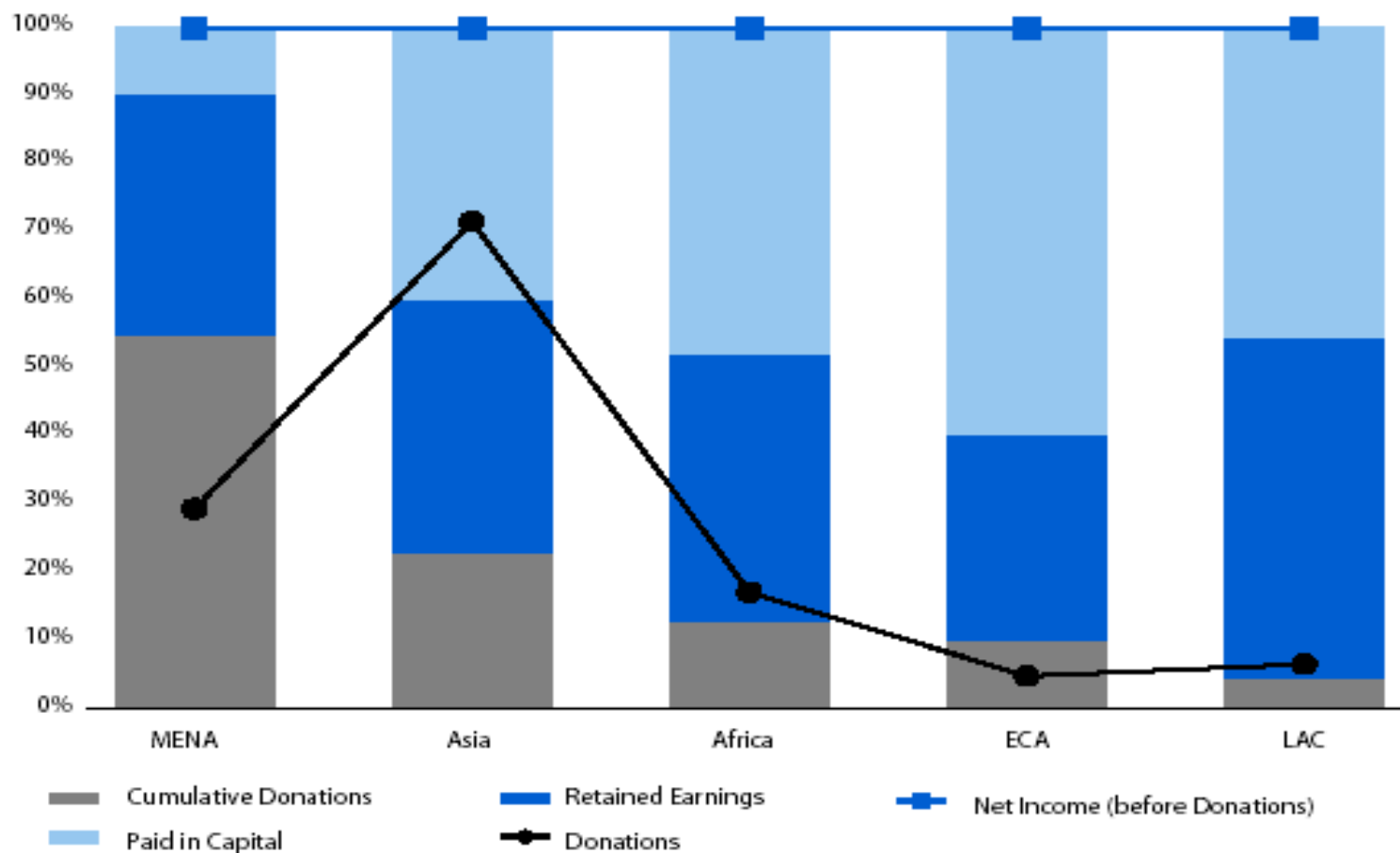
		Institutional Type	Percentage of Total Funding in MENA
1	EIB	DFI	23%
2	AfDB	Multilateral Agency	17%
3	DCA USAID	DFI	10%
4	AECI	DFI	9%
5	IFAD	Multilateral Agency	9%
		All 5	68%
+ KfW and IFC are increasing their investments			

Donors & Investors

- Relatively few players -- IFC, KfW and Arab donors most active
- Very low share of foreign private investments (2%)
- MENA has the highest % of portfolio funded by Donations + Retained Earnings compared to other regions

Funding Structure

Figure 8: MFI Capital Structure and Current Year Profits and Donations



Source: MIX 2006-07 MFI benchmarks. Results represent totals. ECA: Eastern Europe and Central Asia; LAC: Latin America and the Caribbean; MENA: Middle East and North Africa.

Commercial Banks: More & More Financing

- Increasing funding from commercial banks (Morocco, Tunisia, Jordan and recently Egypt)
- Donors like Grameen-Jameel use a guarantee facility and have leveraged > US\$ 50 million in local currency
- > US\$ 100 million of the Moroccan MFIs' liabilities come from commercial banks
- 50-75% of liabilities of Jordanian MFIs and of Enda/Tunisia comes from commercial banks

Challenges

- Strengthening capital base
- Funding diversification
- Capacity building in countries where microfinance is still young

Questions



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www.cgap.org

www.microfinancegateway.org



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