

# Update

## CGAP MENA

We are pleased to report on the activities of our partners and on the progress of the microfinance industry in the MENA region during April–September 2010.

This issue of the MENA Update features an interview with Nasser Al-Kahtani, the director of the Arab Gulf Fund for Development (AGFUND), who sheds new light on AGFUND's microfinance banks in the Arab world. This issue also includes a list of the latest CGAP publications and research related to microfinance across our region.

CGAP thanks all consortium partners for their contributions to this newsletter. We look forward to continuing our joint work to advance financial inclusion in the Arab world.

Mohammed Khaled,  
CGAP MENA Regional Representative

**New CEO takes the helm at CGAP; Littlefield appointed to OPIC.** CGAP recently announced the appointment of Tilman Ehrbeck as chief executive officer (CEO). Ehrbeck was previously a partner at the global management consulting firm McKinsey & Company. He succeeds Elizabeth Littlefield, who now heads the Overseas Private Investment Corporation (OPIC), a U.S. government development organization. Ehrbeck has 20 years of experience in banking, management, and the public sector. He has held various leadership positions at McKinsey & Company. During the past 10 years, Ehrbeck has advised microfinance networks, private foundations, governments, and commercial entities on strategies to improve financial access. He holds a bachelor's degree from the University of Hamburg and a PhD in economics from the European University Institute.

## Events

**European Microfinance Week 2010 in Luxembourg.** The European Microfinance Platform hosted the European Microfinance Week 2010 in Luxembourg 30 November through 1 December, 2010. The Third European Microfinance Award, which highlights initiatives in value-chain finance, will be presented during

the event. The award of EUR 100,000 from the Luxembourg Ministry of Foreign Affairs - Development Cooperation Was given to Harbu Microfinance Institution, Ethiopia.

**Sanabel annual conference draws more than 600.** Sanabel held its seventh annual conference, "Responsible Growth: Learning from Global Trends and Regional Experiences," at the Omayyad Convention Palace in Damascus, Syria, 1–3 June 2010. The Minister of State Planning Commission Amer Lotfi, representing Her Excellency the First Lady of Syria, Asma al-Assad, inaugurated the conference.

The Sanabel annual conference continues to be the largest microfinance event in the region. This year's conference was attended by more than 600 participants and featured 70 speakers from the region and around the globe.

## Regional Updates

**Schwab Foundation recognizes Essma Ben Hamida with award.** On 26 October 2010, the Schwab Foundation recognized Essma Ben Hamida, executive director of enda inter-arabe, as the Social Entrepreneur for 2010 for the MENA region. The award was made at the opening ceremony of the MENA session of the World Economic Forum, which was founded by Karl Schwab.

Ben Hamida co-founded enda inter-arabe in her home country, Tunisia, with her husband Michael Cracknell. Their work began with a community center in a poor suburb of Tunis in 1990 providing vocational training and other services to school dropouts. The center began working in microfinance in 1995, essentially offering microloans to the mothers of children it was already helping. Today, enda has 60 branches throughout the country, serving 150,000 active clients with a portfolio of US\$55 million and a staff of 750. Ben Hamida is a founding member of the Arab network and former chairperson of Sanabel.

**SEEP recognizes Sanabel with network award.** The Microfinance Network of Arab Countries, Sanabel, has been awarded the "Network of the

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Year Award” at The Small Enterprise Education and Promotion (SEEP) Network 2010 Annual Conference, which was held in the US in November. Sanabel has been selected from among 57 regional and national microfinance networks that are currently members with SEEP. This year, SEEP recognized networks that have achieved distinguished success in the area of human resources and leadership, as well as overall achievements over the past year.

**Sanabel elects new board of directors, adds new member MFIs.** Sanabel elected new directors during the General Assembly Meeting on 3 June 2010 in Damascus, Syria. The new Board of Directors comprises the following:

- **Hassan Faried**, Dakhleya Businessmen Association for Community Development, Egypt, chairperson
- **Ziad El Refai**, Tamweelcom, Jordan, vice-chairperson
- **Ziad Halaby**, Ameen, Lebanon, treasurer
- **Karim Fanous**, Lead Foundation, Egypt
- **Reem Abboushi**, ASALA, Palestine
- **Ali Kayyali**, UNDP Rural Community Development Program at Jabal Al Hoss, Syria
- **Mohammed Al Lai**, Al Amal Bank, Yemen

Four new MFIs joined Sanabel between April and June 2010 to bring total membership to 80 members. The new members are Relief International and Al-Tadhamun Economic Development Center from Iraq, Abyan Credits and Savings Program from Yemen, and Fédération Nationale des Associations de Microcredit from Morocco.

**Strong response to Islamic Microfinance Challenge 2010.** CGAP has joined forces with Deutsche Bank, Islamic Development Bank, and Grameen Jameel to launch “Islamic Microfinance Challenge 2010: Innovating Sustainable, Scalable, and Market-Driven Models,” a global initiative to promote the design of Shariah-compliant products for Islamic microfinance clients.

The secretariat received more than 130 applications from 46 countries for the first phase of the competition. Over the summer, the judges’ panel—comprising experts in microfinance practice, investment, advisory services, and Shariah-compliant finance—invited short-listed

applicants to apply to the second phase of the competition.

The finalist will be announced in December 2010 and will be awarded US\$100,000 in grant funds as well as needs-based technical support to launch a pilot project of its proposed business ideas. Additional information is available at <http://www.cgap.org/islamicmfchallenge>.

**PlaNNet Finance to expand micro-insurance effort across region after Egyptian venture.**

PlaNNet Finance Group plans to expand its micro-insurance schemes throughout MENA, following the implementation of a micro-insurance program in Egypt with First Microfinance Foundation and global insurance company Allianz Group. PlaNNet is planning to expand its micro-insurance facilities in several MENA countries through PlaNNet Guarantee, PlaNNet Finance’s micro-insurance subsidiary. PlaNNet Guarantee aims to provide technical assistance to MFIs, banks, insurance, and reinsurance companies to develop micro-insurance and micro-guarantee products.

**Middle East Lags in CGAP 2010 Social Performance Reporting Awards.**

Some 350 MFIs submitted reports on their social performance to MIX this year for the CGAP 2010 Social Performance Reporting Awards, easily surpassing the 200 submissions that were received in 2009. Of these, 173 MFIs received awards or certificates to recognize their efforts to report on the social dimensions of their work. The Awards are an initiative by CGAP, with its partners the Michael & Susan Dell Foundation, the Ford Foundation, and the Social Performance Task Force, and are administered by MIX. The surge in interest in the Social Performance Reporting Awards was driven by MFIs in Latin America and Asia. The MENA region saw little change, with 18 MFIs reporting.

**Islamic Solidarity Fund for Development issues first annual report.**

The Islamic Solidarity Fund for Development (ISFD), a program of the Islamic Development Bank (IDB), has released its first annual report. The report describes the program’s first year as being spent setting the basic foundations for ISFD, including establishing procedures and developing guidelines. The original target of the fund was US\$10 billion, with contributions to be made by IDB and IDB member countries. As of the end of 2008, pledges totaled US\$2.61 billion, comprising US\$1.61 billion from 36 member countries and US\$1 billion from IDB.

**2010 Arab Microfinance Analysis and Benchmarking Report will be published in**

**December 2010.** The Microfinance Information Exchange (MIX) and Sanabel completed data collection for the upcoming benchmarking report. The report will be available by the end of this year in English and early next year in French. The Arabic version of the 2009 Arab Microfinance Analysis and Benchmarking Report was recently published.

## Country Updates

### *Abu Dhabi*

**Aabar Investments of Abu Dhabi invests US\$54 million in BlueOrchard and Oasis Fund.** Aabar Investments PJSC has announced investments of US\$34.5 million in the BlueOrchard Private Equity Fund and US\$19.8 million in the Oasis Fund. Aabar Investments, an investment company listed on the Abu Dhabi Securities Exchange, invests in various sectors, including energy, infrastructure, real estate, and automotive and financial services companies. Its largest stakeholder is the International Petroleum Investment Company, which in turn is wholly owned by the Government of the Emirate of Abu Dhabi. The BlueOrchard Private Equity Fund is a Swiss investment fund that seeks to forge long-term partnerships with microfinance organizations. The Oasis Fund is a Swiss investment fund that invests in innovative, commercially viable enterprises that directly benefit low-income communities by providing access to healthcare, energy, clean water, housing, and education.

### *Egypt*

**World Bank provides US\$300 million to foster micro and small enterprises.** Egypt has obtained a US\$300 million loan facility from the World Bank to make it easier for micro and small enterprises to gain access to credit. The first phase of the project comprises lines of credit for the two categories of businesses that will be provided through banks, nongovernmental organizations (NGOs), and potentially, MFIs. The second phase will channel support through bank branches and potential small enterprise finance companies established under new microfinance regulations.

**Egypt issues new laws governing nonbank institutions, including MFIs.** The Ministry of Investment in Egypt has prepared a set of new laws and amendments to develop and modernize nonbanking financial services with a focus on serving small and medium-sized enterprises (SMEs). The new laws will establish rules and conditions for licensing microfinance companies, as well as companies working in financial leasing. According to the ministry, the new laws and

amendments aim to integrate the informal economy into the formal economy.

**Dutch microfinance investor provides loan to Al Tadamun.** Triple Jump, a Dutch microfinance investment manager, has provided a local currency loan of an unspecified amount to Al Tadamun, an Egyptian MFI with total assets of US\$8.6 million in 2008. The loan will be funded by Oxfam Novib Microfinance Fund, which is a microfinance investment vehicle (MIV)—managed by Triple Jump Fund Management—with total investments of EUR 31 million (US\$40 million) for fiscal year 2009. According to Triple Jump, this loan is the first local currency direct loan to an MFI in Egypt made by an international MIV.

**IFC aiding Egyptian Microfinance Network and I-Score.** IFC will support the integration of MFIs into the credit bureau in Egypt. Phase I facilitates commercial arrangements between MFIs, under the newly established Egyptian Microfinance Network, and I-Score. Phase II will provide direct technical assistance to I-Score in developing and implementing a microfinance credit reporting product.

**First Microfinance Foundation (FMF) services center reaching out in Cairo; FMF nominated for Africa Bankers Award.** For several months now, the Business Development Services Center in Darb Al Ahmar, one of the poorest and most densely populated areas in Cairo, has successfully offered training, registration, and linkage services as part of the Cairo Economic Livelihoods Program, funded by the Canadian International Development Agency. To date, the Center has provided training and registration services to 2,451 clients, of which 57 percent were women, and has offered market linkages to clients through six exhibition sites around Cairo. FMF also was nominated Microfinance Institution of the Year at the 2010 African Banker Awards held in Washington, D.C.

### *Iraq*

**Iraqi MFIs form industry network, agree to code of conduct and ethics.** A group of 14 Iraqi MFIs formed the Microfinance Industry Network in August, to help Iraqi microfinance practitioners mobilize support and standardize practices. As of 2009 the members of the Iraqi Microfinance Industry Network, reportedly representing all MFIs operating in Iraq, had a total outstanding loan portfolio of US\$88.2 million and approximately 64,000 clients.

At the Network's inaugural meeting in Baghdad, representatives of all 14 MFIs agreed to a Code of Conduct and Ethics that mandates ethical behavior and a commitment to serving low-income Iraqis. The Code obligates the MFIs to uphold values such as high-quality financial services, transparency, respect for religion, fair lending and collection practices, privacy of client information, and integration of social values into business decision making.

**USAID-Tijara aims to help young Iraqis create work opportunities.** The U.S. Agency for International Development (USAID)-Tijara, an initiative to promote private sector growth and employment in Iraq, has announced the commencement of its Provincial Economic Growth Program, intended to offer young Iraqis living in underserved or impoverished areas essential business skills, entrepreneurial opportunities, and the chance to qualify for loans to start their own businesses. The program has received US\$12 million from the U.S. Ambassador's Targeted Development Program and is expected to reach 5,000 people between the ages of 18 and 35. Approximately US\$4.5 million of this grant will be used for lending to these youths.

Meanwhile in Anbar province, USAID-Tijara opened its first Iraqi Youth Initiative office, which is also part of the Provincial Economic Growth Program. Implemented in partnership with USAID-Tijara's network of MFIs, the Youth Initiative has several components, including apprenticeship programs, job recruiting, job and entrepreneurship training, and microfinance loan opportunities.

**Tal'afar Economic Development Center offers new agricultural loan product.** The Tal'afar Economic Development Center (TEDC), an MFI funded by USAID-Tijara in Iraq, has launched a new agricultural loan product in the Iraqi province of Ninawa. The repayment terms are based on the seasonal output of the farmers, and the loan can be guaranteed by anyone with financial means. TEDC provides loan products to small-business manufacturers, traders, and service providers. TEDC was founded in 2007 and reported total assets of US\$4.8 million and a loan portfolio of US\$3.4 million as of 2008, according to MIX.

**USAID report reviews evolution and current state of Iraq's microfinance sector.** According to USAID, Iraq's microfinance industry had disbursed approximately US\$453 million, had

an outstanding loan portfolio of approximately US\$86 million, and served 63,000 active borrowers as of April 2010. Loans were made at an interest rate of 12–18 percent, and 15 percent of loans had been made to women. The repayment rate on these loans is reportedly 99 percent. According to the report, recent legal changes that have helped Iraq's microfinance industry include the issuance of a new NGO law that enables MFIs to continue as quality financial service providers for low-income people in Iraq because of the "Central Bank of Iraq's recognition of microfinance as an effective intermediary for small and medium-scale enterprises." The report is available at [http://www.imfi.org/files/StateOfIMFI\\_USAID\\_en.pdf](http://www.imfi.org/files/StateOfIMFI_USAID_en.pdf)

## *Jordan*

**New guidelines allow Jordanian banks to work with mobile phone networks.** On 9 June 2010 the Central Bank of Jordan (CBJ) issued a circular in which it allowed licensed banks to work with mobile network operators (MNOs) to provide mobile wallet and e-wallet services. CBJ announced that the bank's role should be limited to opening a "settlement account" for the MNO and to making sure that the MNO does not issue electronic money that exceeds the balance amount of that account. The circular also stated that banks should make sure that the MNO is licensed by the telecommunications regulator to provide such services, that money transfers are limited within Jordan, that all transactions should be in Jordanian dinars, and that the maximum yearly amount of funds transferred or deposited in any mobile wallet and e-wallet account should not exceed 2,500 dinars (US\$3,500).

**Microfund for Women joins with Women's World Banking to offer micro-insurance.** Jordan's Microfund for Women (MFW) has recently launched a micro-insurance product, CareGiver, with its partner, Women's World Banking. The insurance policies are being provided to MFW borrowers, who pay a monthly premium with their loan repayment. The insurance covers medical fees, lost income from business closure, childcare, and transportation for medical services. CareGiver is being provided in collaboration with the International Labor Organization, Zurich Financial Services, and Al Manara Insurance, a Jordanian insurance company.

**IFC invests in Jordan Micro Credit Company, promotes energy diversity.** IFC will provide a US\$3 million loan to Jordan Micro Credit Company (Tamweelcom) to help it grow its

microloans portfolio to low-income households in Jordan. These microloans are for the purchase and installation of solar panels to heat water, which will help cut greenhouse gas emissions and create jobs. IFC will also provide advisory services to Tamweelcom to help it increase its ability to finance efficient and renewable energy projects in Jordan.

### **Lebanon**

**EIB takes first direct step into Lebanon microfinance.** In May 2010, the European Investment Bank (EIB) granted a senior unsecured loan of slightly more than US\$2 million (EUR 1.5 million) to Almajmoua. This is the first direct microfinance initiative by EIB in Lebanon.

### **Morocco**

**Morocco's central bank announces measures to reorganize the microfinance sector.** At a recent council on monetary policy meeting, the Central Bank governor said that small and medium-sized microfinance associations will be grouped in a network affiliated with Crédit Agricole du Maroc. The reform will also establish shared governance functions, such as information systems, accounting, and internal control/risk management, within the network. The Ministry of Finance has also issued a decree that defines the conditions of a credit bureau, but the membership agreement with the microfinance network still needs to be signed. The Central Bank is further asking the microfinance sector to develop an ethics code that applies to the whole sector, not only to the microfinance network, replacing a code from 2004.

### **Oman**

**PlaNNet Finance UAE plans to launch new MFI in Oman.** PlaNNet Finance United Arab Emirates (UAE), a unit of the France-based microfinance support organization the PlaNNet Finance Group, plans to launch an MFI in the Sultanate of Oman. The MFI, a joint stock company, is also supported by the Oman-based Ajit-Khimji Group, MB Holding Company, and the private philanthropist Samir Fancy. The Omani Ministry of Social Development is also supporting the project. Once established, the MFI will offer one-year loans between US\$800 and US\$4,000.

### **Palestinian Territories**

**Palestinian Monetary Authority (PMA) and USAID create committee to review microfinance role in development.** The Palestinian Monetary Authority and USAID head a working committee to examine microfinance's role in development in Palestine. The committee

will also coordinate donor efforts in this area. The committee aims to prepare a policy framework of microfinance in Palestine, and work is under way to draft a detailed action plan that will include the roles and responsibilities for all relevant parties to develop and support this sector.

**Eight MFIs sign on for services from Office of Credit Information.** Eight financial institutions have signed memorandums of understanding with the Information Office of Credit that is designed to oversee credit risk. Work is under way to provide this service for the rest of the specialized lending institutions. PMA also has established a Development Unit in the Department of Inspection and Control to educate the public and address their complaints. This unit will help boost understanding of banking in Palestine and aims to address the grievances of those dealing with banks and other financial institutions, including MFIs.

### **Sudan**

**USAID-sponsored conference focuses on improvements in Southern Sudan microfinance.** At the recent "First Southern Sudan Microfinance Conference," microfinance practitioners discussed the need to expand the microfinance industry in Southern Sudan by focusing on two objectives: building capacity and listening to clients. The conference was billed as the first of its kind and was attended by Sudanese government officials, donors, technical experts, and microfinance practitioners with the aim of sharing best practices and discussing ways to expand the sector. The conference was sponsored by USAID's Generating Economic Development through Microfinance in Southern Sudan project.

### **Syria**

**Grameen-Jameel provides guarantee to First Microfinance Institution (FMFI) Syria.** Grameen-Jameel, a social business established in 2007 that serves the microfinance industry in the Arab world, has issued a local-currency guarantee worth US\$2.7 million to Aga Khan Agency FMFI Syria, part of the Aga Khan Agency for Microfinance. The credit facility focuses on improving the lives of 2,700 underprivileged Syrians through credit, savings, and other financial services. According to Zawya, a Middle East business information company, the Grameen-Jameel guarantee backs a commercial overdraft facility disbursed by Bank Audi Syria, the first commercial bank to lend to the microfinance sector in Syria. Zawya notes that Grameen-Jameel has closed on US\$20 million

in partial credit guarantee transactions so far. The guarantees have been leveraged 2.2 times their average value to raise US\$44 million in total commercial financing for its partner MFIs.

### **Yemen**

**IFAD to provide US\$8 million to Al-Amal Microfinance Bank.** The International Fund for Agriculture and Development (IFAD) has allocated a total of US\$8 million in equal parts equity and debt to Al-Amal Microfinance Bank. Yukiko Omura, vice-president of IFAD, said the investment and partnership between IFAD and the bank will “enable the Fund to reach the poor people in rural areas to provide loans to small farmers, fishermen, and other groups with low incomes.” In May 2010, Al-Amal reported US\$2.6 million in disbursed loans, US\$1.2 million in outstanding loans, US\$556,000 in total savings, 8,300 active borrowers, and 9,500 active savers.

**Al-Amal Microfinance Bank reaching out to Yemeni youth.** The Yemen Post reports that Al-Amal Microfinance Bank has developed a youth-targeted loan fund in partnership with Silatech, an organization founded in January 2008 by Her Highness Sheikha Mozah bint Nasser Al-Missned of Qatar. Silatech was established to help create new opportunities for young people across the Arab world. The loan fund, targeting youth aged 18–30, will provide loans to more than 800 micro-entrepreneurs during an initial 24-month pilot period. It is estimated that these loans will provide close to 1,000 employment opportunities to Yemeni youth. The program will initially target urban youth in major Yemeni cities, but loans to significant numbers of youth in rural and underserved areas of the country will be extended after the pilot. The fund will be introduced along with other youth-focused initiatives, such as entrepreneurship training, business development services, and access to markets.

**Yemen Microfinance Network celebrates official launch.** The Yemen Microfinance Network (YMN), a new network of MFIs in Yemen, recently held its official launch. YMN was created by the national government’s Social Fund for Development (SFD) and the United Nations Development Program (UNDP). YMN’s mission is to “build supportive infrastructure necessary to enhance the capacity of local institutions and provide a range of financial services and products to the entrepreneurial poor, in a cost efficient manner, thereby increasing sustainable access to finance and enhancing the scope for participation of youth and women in economic

activities.” YMN is led by His Excellency Abdul Karim I. Al-Arhabi, who is also Yemen’s deputy prime minister.

### **Interview with Nasser Al-Kahtani, executive director of AGFUND**

The Arab Gulf Fund for Development (AGFUND) initiative to create banks for the poor in the Arab world has its roots in a 1997 meeting between His Royal Highness Prince Talal Bin Abdul Aziz, president of AGFUND, and Muhammad Yunus in Cairo.

The initiative was launched in the early 2000s. A decade later, three banks are already operating in Jordan, Yemen, and Bahrain; two new banks in Syria and Sierra Leone have been licensed and plan to begin their operations soon. More banks for the poor are in the pipeline in Lebanon, Sudan, and Mauritania. CGAP MENA Update interviewed Al-Kahtani, the executive director of AGFUND, about his plans to support the growth of the microfinance sector in the Arab world.

### ***How does microfinance fit in AGFUND’s overall strategy?***

AGFUND works in the field of human development at the international level through an effective partnership with UN, international, regional, and national development organizations, public institutions, the private sector, and civil society organizations. Since its inception in 1980, AGFUND has contributed to supporting and financing 1,298 projects in 133 developing countries, of which 974 projects have already been completed, and 324 projects are being implemented.

AGFUND’s mission to support microfinance is reflected in its strategy, which focuses mainly on poverty alleviation and raising the standard of well-being for the majority of people.

### ***Your initiative to create banks for the poor in the Arab world was much debated in the region. Did your initiative benefit from that debate?***

Some of the market players criticized us at that time without really understanding our intention and without even trying to communicate with us. Most of them were concerned that AGFUND would dominate the market, leaving no place for them. This is the reason AGFUND had to slow down the process and become more cautious to ensure the initiative would succeed.

The main concern was that our initiative would harm efforts to build a sustainable microfinance sector. We replied that our first bank in Jordan was operationally sustainable within the first year of its operations, a record not only for the region but also for the rest of the world. All of our other banks were launched with a five-year business plan with the aim of becoming operationally and financially sustainable. So the issues of sustainability and best practice in this industry were taken into consideration from day one, and our prices are set up accordingly. I do not think the issue of our banks' sustainability is still open to question.

***AGFUND insisted on issuing a special law for banks in each country as a prerequisite to launch, even in countries where there was already a microfinance law. What are you trying to achieve with this approach?***

In brief, our decision to issue special laws for our banks comes from our attempts to improve the microfinance regulatory environment in those countries by leveraging our good relationships with the governments. In Jordan, for example, the law to establish the National Microfinance Bank exempted the bank from all taxes and customs, etc., and a few months later those exemptions were given to all the other MFIs in Jordan. In Yemen, the Al-Amal Bank law allowed the bank to mobilize savings, even though the bank was not supervised by the Central Bank.

So, to bring Al-Amal Bank under its supervision, the Central Bank of Yemen drafted a new law for microfinance banks that allows it to license new banks and to also supervise Al-Amal Bank. It also opened the door for the transformation of some of the existing NGO MFIs and microfinance units within existing banks into microfinance banks. The law was approved by Parliament in March 2009, and a license has already been given to the largest money exchange company in Yemen to become a microfinance bank.

The latest case was in Syria, where the issue also was controversial as there was already a microfinance decree there, allowing the establishment of MFIs and not banks. First, we could not register under that decree as it requires registration as a company, and the new company's law insists that at least 40 percent of the shares must be sold through an initial public offering that we couldn't apply since our banks are solely social businesses in nature. In the social business environment, dividends are not distributed to shareholders, and the profits are added to the capital base to increase

the outreach of the bank. Second, as a social business we wanted to get tax exemptions for the bank. And third, we wanted to have a fully fledged bank, which is also not allowable under Decree 15 for nonbank financial institutions. But again, we expect that Decree 9 for 2010, which was issued specially for our bank (Al-Ibdaa), is a step forward for the regulation of microfinance in Syria.

***One of the criticisms was related to the fact that governments were involved as shareholders in the banks. How do you evaluate this experience?***

In AGFUND, we believe that the government must have a role. By bringing them in as shareholders, we facilitate the process of issuing special laws and improving the regulatory environment. In all of the banks we created, we insisted that the chairperson be from the private sector and that the board of directors be governed by policies giving a very clear delegation of authority to the CEO and senior management. This guarantees no governmental interference in the daily business of the bank as well as in recruitment and the process of providing loans to clients, as these are purely operational issues, and the board has nothing to do with them.

As a result of this policy, we believe that our banks are getting all the positive aspects of having the governments on board without having to deal with the challenges or threats that could be created by such participation.

On the other hand, and at certain times, the participation of the government is very important because the private sector, particularly the commercial banks, did not serve poor people and excluded them from the financial system. This is also why we insisted from the beginning on bringing in some representatives from the private sector, and it was not an easy task at the beginning. But over time, thanks to AGFUND's campaign to raise the awareness of private sector about this initiative, we began to see more people from the private sector who believed in both the role of microfinance in combating poverty and the social business model. And this is why we began to experience an increase in the shares of the private sector at the expense of the shares of the government.

So in Syria, when the private sector was willing to have most of the shares, the government's shares became symbolic. In Lebanon we are working toward getting a license within the

existing regulatory framework without the need for a special law or government participation in this process.

***Al-Amal Bank in Yemen, as one of the first MFIs in the Arab world, has successfully introduced voluntary savings products. What are the lessons that can be drawn for other institutions in the region wanting to introduce savings?***

There are several lessons that can be concluded from this success. The first is that there were more poor people who wanted to have a savings account than those who wanted to take loans, but these people were not served.

Accordingly, Al-Amal Bank developed three scenarios for using the pool of savings: First was the realistic one that would reach three times the number of active borrowers (300,000) by the end of 2013, and the optimistic scenario was to reach five times the number of active borrowers (500,000) by the end of 2013. Second, the meso level for savings in our region is very weak. There are no trainers, training materials, or consultants who can provide technical support for developing such products in our region, and Al-Amal Bank had to depend on itself and do things by trial and error to develop such products. Also there are no regional benchmarks in which MFIs can compare their performance. Third, you have to be a well-established and trusted MFI to provide savings services. It is easier to convince people to take your money through loans than to convince them to give you their money—their savings. Fourth, like in the microloans, the simpler and faster the procedures to open a savings account and the fewer obstacles there are—such as minimum balances or fees to open the account—the more people are attracted to opening accounts.

***The National Microfinance Bank in Jordan became operationally sustainable within about one year after the disbursement of its first loan, which was a record for the region. What was the secret behind that? And why we did not see the same thing in Yemen and Bahrain later?***

As I mentioned, this proves that sustainability has been a cornerstone of our initiative since the beginning. The time it takes each bank to become sustainable depends on the accuracy of our knowledge of the market where that bank is established. It is usually discussed when we develop the business plan.

Of course in a mature market like Jordan, people are more used to taking and paying back loans, and it is easier to hire managers with long years of experience in microfinance. We were lucky there to have one of the most experienced practitioners not only in the country but also in the region. In such a

country, it is easier to achieve sustainability faster than in countries like Yemen and Bahrain, where the sector is relatively new and our banks have to change the microfinance and microcredit culture, on the one hand, and to develop the capacity of their staff and management from scratch on the other hand. In fact, our banks in Yemen and Bahrain benefited greatly from the experience of our bank in Jordan in their early days, and now the experience of our bank in Yemen is being transferred to our new banks in Syria and Sierra Leone in the same way.

***AGFUND got a license and is working to launch a microfinance bank in Sierra Leone, which is obviously not an Arab country. Should we expect more banks in countries outside the Arab world?***

Sierra Leone is one of the poorest countries in the world, and after our success in the Arab world there is a need to transfer this experience to Africa. Indeed we will expand to other African countries, and our goal is to have our bank in Sierra Leone provide the know-how to other African countries.

***We understand that AGFUND is working to get a license for a new bank in Lebanon. What are the other countries in your plan for the coming five years?***

We are currently working as well on a new license in Egypt for retail lending. This is in addition to the microfinance activities by the Al-Amal Foundation, a wholesale facility that gives loans to NGOs to in turn provide loans to micro-entrepreneurs. We also have Sudan, Mauritania, Djibouti, and Palestine in the pipeline.

Our three operational banks together currently have about 40,000 active borrowers and 16,000 active savers. We expect these numbers to increase to something like 300,000 active borrowers and 500,000 active savers by the end of 2015, served through a network of six or seven banks.

***Besides the banks for the poor, what other activities does AGFUND undertake to support access to finance in the Arab world?***

While we were preparing to launch our banks, we were supporting the efforts of some MFIs in the region. More than 100 grants were given in this regard. We also allocated the AGFUND Prize for Development several times for microfinance. We have been one of the main supporters of Sanabel (the Microfinance Network of Arab Countries) since its early years. Also, we are currently working toward launching our apex fund, which is of a social business nature, that will be dedicated to providing different financing instruments (loans, loan guarantees, quasi-equity and equity investment, etc.) not only to our banks but to all MFIs in the region.

## Research and Publications

**How much funding for microfinance in MENA?** The 2010 CGAP microfinance funder survey revealed that cross-border funders increased their commitments to MENA to US\$787 million as of December 2009. This represents an increase of 4 percent over the previous year, compared to a 17 percent increase of funding globally. Morocco and Egypt attract over 60 percent of cross-border funding to the region. Public funders (bilateral and multilateral agencies and development finance) provide almost 90 percent of cross-border funding to MENA, making MENA the region with the lowest share of private foreign funders. However, private funding grew by 80 percent in 2009. About \$128 million was committed to capacity building in MENA. Eighty percent of these funds are used to strengthen retail service providers; 20 percent are used for technical assistance at the market infrastructure and policy levels. Morocco and Iraq receive more than 40 percent of capacity building funds to MENA. Further analyses of cross-border funding will be available soon at [www.cgap.org](http://www.cgap.org) and [www.themix.org](http://www.themix.org).

**Financial Access 2010 Offers Overview of Microfinance Sector During Financial Crisis.** CGAP and the World Bank recently published Financial Access 2010, which is based on a survey of financial regulators in more than 140 countries. In MENA there are 818 deposit accounts per 1,000 adults, compared with 635 bank accounts per 1,000 adults in developing countries. There is a wide variation among countries in the region in terms of deposit account penetration, from 104 bank accounts per 1,000 adults in Yemen, to 1,751 bank accounts per 1,000 adults in the United Arab Emirates. Average deposit size per capita is much higher in MENA (at 260 percent) than in developing and high-income countries.

As regards loan accounts, there are 201 bank loans per 1,000 adults compared with 245 bank loans per 1,000 adults in developing countries. There is also a wide variation among countries in the region in terms of loan account penetration, from 926 bank loans per 1,000 adults in Israel to only eight bank loans per 1,000 adults in Yemen. Nonbank financial institutions (NBFIs) target lower income segments, but limited data do not allow for a comprehensive assessment of the role of NBFIs.

The new CGAP **Financial Inclusion Regulation Center** provides a broad, timely collection of laws and regulations most relevant to financial inclusion. [http://www.cgap.org/p/site/c/regulation\\_center/](http://www.cgap.org/p/site/c/regulation_center/).

**All Eyes on Asset Quality: Microfinance Global Valuation Survey 2010.** In this Occasional Paper, CGAP aims to provide the investor community with benchmarks for the valuation of microfinance assets using two datasets, one a sample of 200 private equity transactions between 2005 and 2009, the other data on eight publicly listed low-income financial institutions. <http://www.cgap.org/gm/document-1.9.42531/OP16R.pdf>

**2008 Microfinance Technology Survey.** During 2009, CGAP conducted a survey of 152 MFIs worldwide that revealed MFIs increasingly make use of computers and software to track transactions and client accounts. But many still lack well-functioning information systems and access to fundamental infrastructure needed to build robust and reliable microfinance operations. <http://www.cgap.org/p/site/c/template.rc/1.26.10622/>

**CGAP-GSMA Mobile Money Market Sizing Survey.** According to this joint study, the market for mobile financial services could increase to US\$5 billion by 2012. [http://www.gsmworld.com/documents/mmu\\_2009\\_annual\\_report.pdf](http://www.gsmworld.com/documents/mmu_2009_annual_report.pdf)

**Is There a Business Case for Small Savers?** This Occasional Paper by CGAP examines whether or not small savers contribute to or undermine the sustainability of MFIs. As many MFIs consider developing savings products, a closer look at the true costs and overall profitability of small savers is long overdue. <http://www.cgap.org/p/site/c/template.rc/1.9.47356/>

**Apexes: An Important Source of Local Funding.** Apexes are an important source of local funding for microfinance—and even more so since the global financial crisis. Well over US\$2 billion per year of public money is being disbursed globally to microfinance through apex funds or local wholesale facilities. This Brief is based on data from 76 apexes and provides a short overview on funding through apexes.

<http://www.cgap.org/p/site/c/template.rc/1.9.43025/>

**Microfinance Investors Adjust Strategy in Tougher Market Conditions.** MIVs in 2010 are confronting a challenging investment environment with a handful of debt defaults and a major slowdown in demand for capital from MFIs. This Brief presents the major trends within the MIV and highlights the growing commitment among MIVs to sound environment, social, and governance practices. <http://www.cgap.org/p/site/c/template.rc/1.9.47946/>

**Performance-Based Agreements.** This Technical Guide presents the rationale for the use of performance-based agreements and suggests ways to incorporate performance-based targets and incentives into existing loan and grant agreements. <http://www.cgap.org/p/site/c/template.rc/1.9.43934/>

**Microfinance Foreign Exchange Facilities.** Foreign capital investment in microfinance has been booming over the past four years. It can bring important benefits to MFIs, but it also comes with foreign exchange risk. This Occasional Paper takes a close look at different foreign exchange facilities, the demand for such facilities and future risk management challenges. <http://www.cgap.org/p/site/c/template.rc/1.9.43712/>

**Indian Microfinance Goes Public: The SKS Initial Public Offering.** On 28 July 2010 SKS became the first MFI in India to float its shares through an initial public offering (IPO). This Focus Note compiles facts, asks questions, and discusses the possible implications

of the IPO, especially for poor people. <http://www.cgap.org/p/site/c/template.rc/1.9.47613/>

**Microfinance and Mobile Banking: The Story So Far.** Many MFIs have experimented with alternative delivery channels to reduce costs, facilitate greater outreach to hard-to-reach areas, and increase customer convenience. This Focus Note explores the various roles that MFIs can play in m-banking and the potential benefits MFIs and their customers expect to gain from it. <http://www.cgap.org/p/site/c/template.rc/1.9.45546/>

**Regulating the Protection of Customer Funds at Nonbank E-Money Issuers.** The success of Kenya's M-PESA has raised the question of how most effectively to regulate nonbanks—most notably mobile network operators—who contract directly with customers to issue electronic value against receipt of equal funds (e-money). <http://www.cgap.org/p/site/c/template.rc/1.9.45715/>

**Protecting Branchless Banking Consumers: Policy Objectives and Regulatory Options.** Transformational branchless banking heightens the consumer-related concerns of regulators and supervisors because it combines the use of agents and technology-enabled devices to serve large numbers of less educated and inexperienced customers. Nevertheless, little has been published on consumer protection in branchless banking. This Focus Note seeks to shed light on consumer protection in branchless banking. <http://www.cgap.org/p/site/c/template.rc/1.9.47443/>