

# Microfinance South of the Mediterranean – The Arab Region’s Perspective

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The Arab region consists of 22 countries with a population of over 300 million. It is estimated that over 60 million Arabs live on less than US \$2 per day. While most Arab countries are considered middle-income, there are large pockets of poverty that exist in most countries including those with large oil revenues.

Experience throughout the world has proven that microfinance helps the poor to increase income, build their businesses, and secure their future by reducing their vulnerability to external shocks. Furthermore, microfinance is often a powerful tool for empowering the poor, especially women, to take charge of their economic well-being and those of their families.

The Arab microfinance industry is young with high growth potential. Currently, it is estimated that there are over 75 microfinance institutions (MFIs) providing credit to poor microentrepreneurs. The majority of these programmes are south of the Mediterranean (Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia and Syria). Programmes also exist in Yemen, Algeria, Iraq, Bahrain, Sudan and Saudi Arabia. The region’s top MFIs are openly committed to best practice microfinance, however there are many challenges decreasing the rate of the industry’s progress. In this article we will outline the recent achievements of the Arab microfinance sector and also explore the main challenges and prospects for the sector with references to various events that

took place in 2005 – the UN Year of Microcredit.

## The Progress of the Arab Microfinance Sector

In just eight years, Arab microfinance institutions have gone from providing an estimated 90,000 poor entrepreneurs with access to financial services in 1997 to reaching over 1.3 million microentrepreneurs according to the latest regional survey conducted by Sanabel, the Microfinance Network of Arab Countries for September 2005. Also the outstanding loan portfolio increased from \$40 million in 1997 to \$350 million in September 2005.

In terms of depth of outreach, the sector has generally moved towards serving more and more of the poorer clients. The number of women clients served has increased from 30% in 1997 to over 60% in 2005, an indication that the

sector as a whole is reaching more of the marginalized in the society.

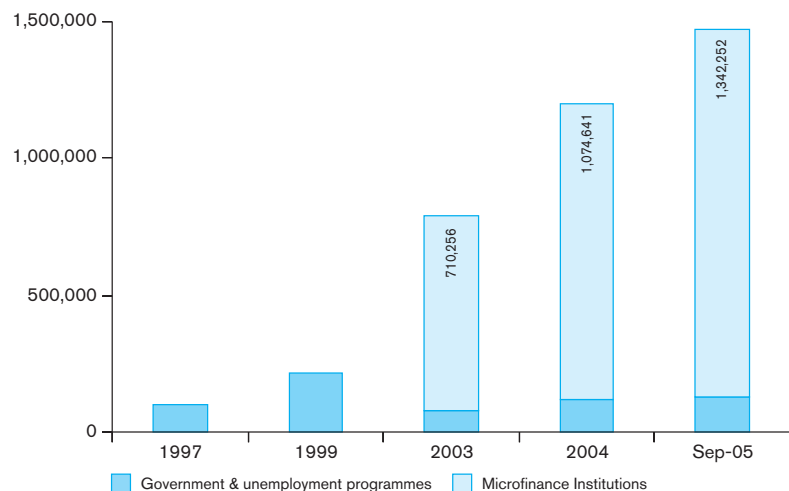
According to the Microfinance Information Exchange (MIX) benchmarks, Arab MFIs record the lowest average loan balance per borrower as a percentage of the Gross National Income (GNI) per capita.

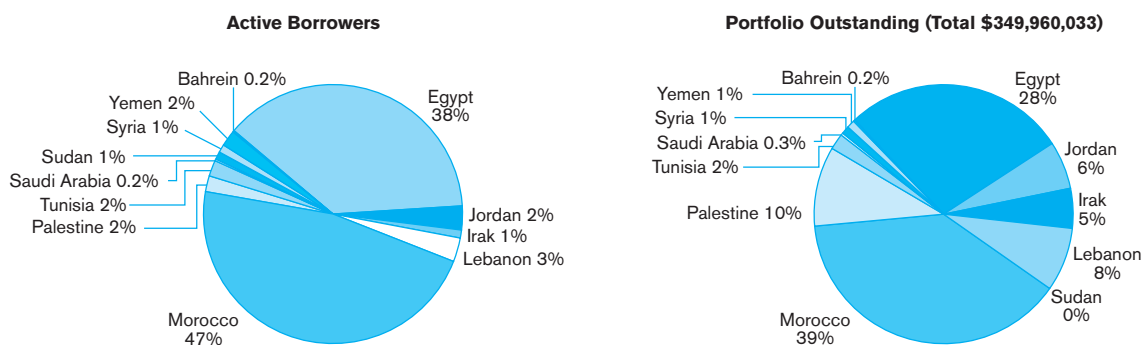
The region’s top MFIs have proven to have excellent leadership abilities, impressive outreach and growth, as well as a commitment to best practice microfinance. Furthermore, it is estimated that around 85% of the region’s active clients are served by sustainable microfinance institutions.

## Challenges and Opportunities for Arab Microfinance

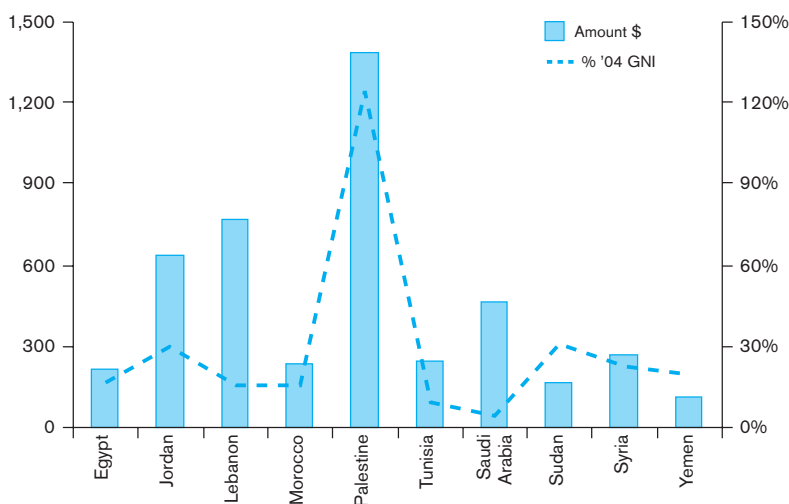
Despite the above-mentioned progress and the sector’s development there are challenges facing the industry in the region including the fact that the sec-

GRAPHIC 10 Active Borrowers





GRAPHIC 12 Average loan balance as % of GNI Per Capita



tor is serving only 15% to 20% of the estimated 8 million plus microentrepreneurs with no access to financial services. Expanding the coverage also means reaching countries where there is no or limited best-practice microfinance and increasing the coverage to rural areas where poverty is prevalent. This section of the article will outline the major challenges facing microfinance practitioners as they seek to meet the demonstrated demand for financial services as well as highlight some of the major events that took place during 2005 to reduce the effect of these challenges.

*Underdeveloped Microfinance Infrastructure*

Despite the efforts made by governments, donors, MFIs and Sanabel, there are still on-going challenges regard-

ing the limited availability of Arabic microfinance literature and research, few regional qualified technical assistance providers and consultants, limited regional coordination as well as insufficient capacity building services. 2005 saw the launch of several important initiatives in an attempt to address the issue of building a strong microfinance infrastructure for the future. This year, Sanabel organized four new Training of Trainer courses in the region providing around 30 training opportunities for Arab trainers and consultants. The network also organized more than 15 training courses and workshops in Arabic and French for microfinance managers in seven Arab countries where around 250 managers participated. These courses deigned as an integral part of the region's capacity building initiatives were organized in partnerships with various or-

ganizations like the Consultative Group to Assist the Poor (CGAP), the Microfinance Centre (MFC) in Eastern Europe and the International Labour Organization (ILO). 2005 also saw the launch of the first phase of preparation for the Training Academy for Arab Microfinance Leaders (TAcAML), an intensive training programme expected to open its doors in early 2007. In September 2005, Sanabel in partnership with CGAP and the Grameen-Abdul Latif Jameel Initiative launched the Arabic Microfinance Gateway ([www.arabic.microfinancegateway.org](http://www.arabic.microfinancegateway.org)). This unique website serves as a neutral public forum for microfinance stakeholders to facilitate the exchange of experiences, perspectives, viewpoints as well as microfinance information and research in Arabic.

*Product Diversification*

The Arab microfinance sector is still very much credit oriented, there are limited product and service diversifications where MFIs in some countries are exploring ways to include micro-insurance, micro-leasing, money transfer services and voluntary savings. More and more of the Arab MFIs need to realize that the poor and the very poor that lack access to traditional formal financial institutions require a variety of financial products. While in most cases laws and legislations may hamper this, it must be also noted that MFIs need to think creatively in their attempt to address the needs of their clients by forging strategic alliances and links with mainstream financial institutions in their countries.

## CLOSING THE DIGITAL GAP IN THE MEDITERRANEAN REGION

The year 2005 has been very important for the EUMEDIS Programme. A number of Pilot Projects came to their contractual end with satisfactory results, the first EUMEDIS International Conference was held in the Dead Sea in Jordan, the management of the programme was de-concentrated to the EC Cairo Delegation, and the project participated to the WSIS Conference in Tunis. Next year will be still more engaging as the overall programme ends and the final Conference will be held in June in Alexandria at a very significant venue for the region, the Bibliotheca Alexandrina.

### **EUMEDIS rides the wave of Mediterranean cooperation**

Since 2001, 22 Pilot Projects have been operational, involving more than 400 partner institutions from 23 countries. EUMEDIS has successfully demonstrated the advantages that ICT can offer the Euro-Mediterranean Partnership, both to improve the social and business environment and to contribute to the intercultural dialogue, as this must be built upon through mutual awareness and understanding amongst states, institutions and, most importantly, amongst societies and people. In this respect the contribution of EUMEDIS has been significant: around one thousand professionals, university researchers, doctors, experts, teachers and public officials have been working together for almost five years. More than ten years ago, the Barcelona Conference highlighted the importance of dialogue in the Mediterranean region. The event marked the start of a process with ambitious and long-term objectives: turning the Mediterranean basin into an area of exchange and cooperation, guaranteeing peace, stability and prosperity. Recognizing how crucial the upgrading of local telecommunications infrastructure was to achieving these goals, the European Commission launched the EUMEDIS initiative in 2000. EUMEDIS was designed to contribute to the expansion and improvement of the Euro-Mediterranean information society, ultimately paving the way for economic development and an EU-Mediterranean regional partnership.

An overall approximate budget of 43 million € was allocated to projects supporting and improving healthcare, e-commerce, education, industry, business and innovation for SMEs, as well as tourism and cultural heritage. The primary targets are hospitals and

other medical research institutes; chambers of commerce and industrial federations; universities, research and professional institutions; public and private research centres; museums (including NGOs promoting cultural heritage) and anyone involved in the promotion of tourism in the region. Local authorities have recognized the importance of developing information and communication facilities and have decided to invest in infrastructure.

### **The first EUMEDIS International Conference**

The Dead Sea Resort, Jordan, played host to the inaugural EUMEDIS International Conference on 17th – 18th April. Almost 300 participants from across Europe and the southern Mediterranean took part in the Conference which had as its focus the subject of "Closing the Digital Gap in the Mediterranean Region". The Conference provided the opportunity to disseminate projects' results and to exchange experiences and best practices after four years of sustained activities. All Pilot Project's were represented in Jordan, each with a stand facilitating an exposition of their projects and an opportunity to present to a larger public their results aimed to provide flexible, sustainable products open to all stakeholders and benefiting future generations

The Conference reflected on the importance of the Barcelona Process in bringing interests ever closer together. There was sincere hope that education, sustainable growth, human rights and democracy would be at the forefront of the region's initiatives over the coming years. The main speakers highlighted EUMEDIS achievements to date, the importance of inter-cultural dialogue in the region and the impact of the digital divide on women's access to the internet. The importance of benchmarking from such forums was stressed, to take stock of the EUMEDIS initiative in order to go forward together with a common purpose, asserting that the establishment of the EUMEDIS community stimulates dialogue which is the first step towards development and, ultimately, peace in the region.

### **Projects for a digital era**

Some of the EUMEDIS Projects are already delivering their benefits to the final beneficiaries:

EMISPHER is a telemedicine, e-health and medical e-learning project built on cutting

edge technologies, which guarantees quick and easy access to key medical information. Patients, irrespective of their geographical location, benefit from the internet-satellite platform and the exchange of medical expertise it provides. The platform enables hospitals, medical institutions and universities to share their experience and it allows students to benefit from medical e-learning. The satellite network covers 10 sites (Casablanca, Tunis, Algiers, Cairo, Istanbul, Berlin, Clermont-Ferrand, Athens, Nicosia and Palermo), creating a truly cross-Mediterranean network. During the ATVN-EU-GP Conference, 1st – 3rd December 2005 in Pultusk (Poland) the EMISPHER Project was awarded the first prize in the "e-health" category of the "Good Practice Projects" contest, funded by the European Commission and called "The Best 2005". The award of the first prize for EMISPHER and its VEMH is seen as recognition of its global and integral approach to the implementation and integration of modern ICT for improved healthcare, crossing regional and programmatic borders and contributing to global healthcare improvements.

In the area of education, MED NET'U has created a network for unified distance learning. The main aim was to bring together a group of Euro-Mediterranean partners from universities, institutions for vocational training and technological associations. Classes are broadcast on two TV satellite channels and modules exist in different language versions. The modules are taught in a digital platform for the web and on the Internet by satellite. Partners from Algeria, Italy, France, Greece, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey provide and co-produce courses using these distance learning technologies. More than 600 hours of university courses are available and hundreds of students in different Mediterranean Universities are following the courses.

MEDPRIDE supports SMEs in 11 countries, focusing on innovation as a crucial factor to increase their competitiveness. This is especially crucial for countries from the southern Mediterranean region where globalisation has accelerated the need for innovation even more. The reasons underlying this situation can be different: cultural, economic or a lack of infrastructure. Very often the main obstacle to innovation is a combination of all these aspects. This project set up a network of centres of excellence. These support SMEs at national

and local level by finding the right match between research and technology on the one hand and business initiatives on the other. The service is adapted to local conditions to generate the best results and to enable SMEs to benefit from the globalisation process.

EUMEDIS supports the textile industry in the region with the E-MED TEX NET project. This project uses new information technologies to promote competitiveness in the textile and clothing sector. Visitors will find information on the different markets, laws and regulations and innovations on a multilingual web-based service portal. They will also be able to establish business contacts and trade thanks to the platform. Finally, the platform also offers training courses on e-commerce and competitiveness.

#### **EUMEDIS Participated in World Summit on Information Society, Tunis**

The World Summit on Information Society seeks to address the challenge of creating a global village that includes underdeveloped areas. In order to set realistic goals and a workable timeframe, the World Summit takes place in two phases. The second phase of the conference took place in Tunis in November 2005.

EUMEDIS is contributing to the development of an all-inclusive development-oriented Information Society. Four projects were represented in Tunis and provided information about their activities at a stand in the ICT 4 all Exhibition.

STRABON held a round-table on 15th November entitled "Euro-Mediterranean scientific cooperation: networks and information systems". The round-table gave the Tunisian, Moroccan and Egyptian partners the opportunity to report on their cooperation and other initiatives in Cultural Heritage and Sustainable Tourism. Dr. Georgi Grasczew, coordinator of the EMISPHER project, presented the Virtual

Euro-Mediterranean Hospital Initiative (VEMH) in a conference organised by the Tunisian "Centre Informatique de la Santé" on 16th November. In addition, Professor Maria Amata Garito, from MED NET'U and Uninettuno President, gave a speech entitled "From NET-TUNO to Med Net'U – the Euro-Mediterranean Distance University".

#### **Building the grid to share research and education**

EUMEDConnect is the EUMEDIS infrastructure-building project: its scope is to provide an Internet-based network in the Mediterranean region dedicated to research and education purpose. The network provides a backbone linking Mediterranean research centres and institutions with over 3,500 research and education establishments worldwide. EUMEDConnect transforms the scale and reach of the Mediterranean research network, fosters greater levels of research collaboration and helps to accelerate the rate of Internet development in the region.

In 2005 the EUMEDConnect network has been finally completed, and 11 of the 12 Mediterranean partners are now being connected. Jordan became connected to the network in August with a 45 Mbits circuit; Syria became connected in November with 4 Mbits; and Palestine also became connected in November with a 45 Mbits circuit. An upgrade of the Moroccan connection has been contracted and this will increase capacity of this link from 34 to 155 Mbits. For the Mediterranean partners without connectivity to GEANT (Algeria, Egypt, Morocco and Tunisia), EUMEDConnect has increased international IP connectivity by 800% since 2002, similar increases are expected for other partners being connected.

Traffic is growing rapidly on the network, and it particularly provides the network infrastructure over which collaborative projects

needing high speed and reliable Internet-based data communications can run as the planned EUMEDGRID, the very large 'Grid' computing project that will use the network.

#### **What lies beyond?**

EUMEDIS has provided the incentive for the development of the information society in the Mediterranean region. It has raised awareness and achieved tangible results thanks to a range of successful projects. In 2006, EUMEDIS will organize its final conference in June in a very significant place for the region, the Bibliotheca Alexandrina, after which the projects will go their own way, continuing to bridge the digital divide between the Mediterranean region and its neighbours.

The recent de-concentration of the management of the EUMEDIS project from the European Commission in Brussels to the Delegation in Cairo has several advantages. Firstly, it makes sense in geographical terms, as it is much easier to determine what is at stake for each project and to take decisions accordingly. This also allows for a better understanding of the environment in which the projects are being set up (the MEDA region). Thanks to the Delegation, an interactive network between the region's ten delegations has been created to strengthen the "ownership" of the activities that take place in their counterpart countries. More practical tools are now in place (databases, monitoring systems) that allow for an improved follow-up of the projects and to multiply the national (bilateral) programmes that are financed by sectors similar to those covered by EUMEDIS.

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In the attempt to address the above challenge, various meetings and conferences took place in the region, specifically in Yemen, Morocco, Tunisia and Egypt, however the largest gathering directly addressing this issue was Sanabel's third Annual Conference that took place in Marrakech, Morocco between November 28th – 30th, 2005 under the Title of "From Microcredit to Microfinance in the Arab Region." The event, which also celebrated the end of the UN Year of Microcredit, attracted

more than 400 delegates from 30 countries discussing various topics related to the state of Arab microfinance with a focus on moving the sector forward to become more inclusive.

#### *Grants and Soft Loans VS Commercial Funding*

The Arab microfinance industry has to overcome its reliance on grants and soft loans and to begin building bridges and links with commercial sources. It is

a widely known fact that local governments and donors will not be able to fulfil the financial needs of MFIs not only to reach the un-served 8 million microentrepreneurs but also to provide them with diverse and inclusive financial services. In order for this to happen greater involvement of the private sector and local sources of capital is crucial. There are limited examples of this in Lebanon, Jordan, Tunisia and Morocco, however certainly not to the degree required.

### ABOUT SANABEL, THE MICROFINANCE NETWORK OF ARAB COUNTRIES

Sanabel is a membership-driven regional network for microfinance institutions in the Arab world. Its mission is to maximize the outreach to Arab microentrepreneurs by providing microfinance institutions with a forum for mutual learning and exchange, capacity building services, and advocacy for best practice microfinance. Sanabel presently has

47 members representing 11 Arab countries. These members serve more than 1,100,000 active clients in the Arab world (85% of the total clients served).

To read more about microfinance in the Arab region please visit [www.sanabelnetwork.org](http://www.sanabelnetwork.org).

There are also limited experiments of banks entering the sector in Egypt and most recently during 2005 in Yemen, Jordan and Palestine, but again not to the levels potentially possible in this sector. This requires creating awareness within the private sector about the importance of microfinance, as well as increasing the level of transparency and improving MFI reporting standards and increasing the number of MFIs subjected to rating and to neutral appraisals and evaluations.

Again, 2005 saw several activities attempting to address the issue of commercial funding and bank downscaling. Some donors active in the region like the Rockdale Foundation (USA) started developing training and awareness tools to train MFIs in dealing with banks and investors with the objective of creating strong partnerships for the long run. Other international networks and organizations like ACCION, IFC and IFAD have started investigating the possibility of expanding local bank activities in microfinance in the region. In November 2005 a "Financing Forum" was organized during Sanabel's third annual conference where MFIs from the region networked with representatives from leading investment funds and banks. In addition to this, towards the end of 2004, Sanabel in partnership with the MIX established its Transparency Unit, promoting transparency and rating among Arab MFIs with the objective of attracting more investments.

#### *Public Awareness and Regulatory Environments*

For the Arab microfinance sector to flourish two further challenges have to be addressed. Firstly, creating public awareness about the benefits of mi-

crofinance, both at the client level as well as at the investor and government levels. Secondly, a lot has to be done in the area of regulatory reform within the sector to encourage governments to create an enabling environment for microfinance. Most MFIs in the region operate within unclear and often conflicting legislation that does not support the principles of best practices and hinders MFIs from prospering and growing or even to transforming into regulated financial institutions.

On the regulatory front, 2005 witnessed a variety of promising initiatives and activities across the region. On May 21st, the first meeting of the Executive Council of the CGAP MENA Initiative was held in the Dead Sea Resort in Jordan. The Executive Council chaired by Her Majesty Queen Rania Al Abdullah of Jordan, and memberships of Ministers from Jordan, Egypt, Morocco and Yemen has been formed to guide the initiative and to highlight the importance of appropriate government policies in greatly expanding the access of poor people to the financial services. During the meeting, the Council endorsed a set of best practice principles to scale up microfinance in the region. 30 high-level government officials, opinion leaders, bankers and representatives of the microfinance industry were present at the meeting. Furthermore, the first half of 2005 has seen the development of national strategies for microfinance in Egypt, Yemen and Jordan. All three strategies have a stated objective to provide access to financial services through a broad, inclusive and diverse financial sector. The strategies were developed to serve as guides for governments and donors in the respective countries.

On the public awareness front, 2005

saw the start of a number of exciting experiments in an attempt to educate and inform the public about microfinance. As part of its celebration and promotion of the UN Year of Microcredit, Sanabel participated during 2005 in the Global Microentrepreneurship Awards (GMA) programme along with the UNDP, Citigroup Foundation, and the GMA Student Alliance in four Mediterranean countries: Lebanon, Egypt, Jordan and Morocco. The GMA programme had three main objectives, to recognize and celebrate the contributions that microentrepreneurs bring to the world economy, to raise awareness and support of microentrepreneurs by highlighting their talents and accomplishments, and to create the next generation of microfinance networks and stakeholders. In the four Arab countries that took part, more than 80 microentrepreneurs and loan officers were awarded cash prizes (amounting to more than \$70,000) in ceremonies that were held under the patronage of distinguished public figures, such as HM Queen Rania of Jordan, HE Mrs. Mubarak, Egypt's First Lady and HE Mr. Driss Jettou the Prime Minister of Morocco. In addition to the UN GMA programme, Sanabel organized its 2005 Regional Microentrepreneur Awards, recognizing the work of 11 successful microentrepreneurs from Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia, Yemen and for the first time Sudan, Syria, Saudi Arabia, and Iraq participated in the awards. Illustrating yet another innovative initiative for 2005, the Grameen – Abdul-Latif Jameel Initiative sponsored four commercials for the promotion of regional microfinance. The commercials were based on the inspiring stories of four of Sanabel's 2004 Regional Microentrepreneur Award winners. The ads portrayed four women microentrepreneurs describing their projects and how these projects have changed their lives and improved the living conditions of their families. The ads, targeting a Pan Arab audience, ran on Arab satellite channels and aimed to show the importance of microfinance as a poverty alleviation tool. The campaign targeted both potential microentrepreneurs on one-side and business and government decision makers on the other.