Framework for Microfinance Sector in the Arab Countries

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Abstract

In the last two decades, the market for microfinance in the Arab countries has grown strongly, although it still suffers from limitations due to the inadequate regulations and undeveloped structures. This study provides a plan for increasing the efficiency and effectiveness of the region's governments financial sector, non-governmental organizations, and donors' efforts to advance the evolution of microfinance in the intended Arab countries. The suggested plan aims to increase the depth and breadth of outreach, as well as the diversity of microfinance products offered. It proposes the implementation of the suggested plan over a time span of 6 years. The proposed plan identifies the areas of involvement required in the short, medium and long terms. Recommendations are made on how to introduce the issues and challenges on these three levels, indentifying the measures to be enacted in the short term (1 -2 years), medium term (2 – 4 years) and long term (4 – 6 years).

Keyword: microfinance, outreach, Arab countries, governments, regulations, micro financial institutions, suggested plan

Introduction

In the last two decades, the market for microfinance in the Arab countries has grown strongly, although it still suffers from limitations due to the lack of adequate regulations and inefficient arrangement. It has so far not been possible to initiate an enabling legal, regulatory and institutional environment tailored to the microfinance industry. This would make microfinance institutions (MFIs) able to attract more customers and to protect their interests. The microfinance sector in the Arab countries lacks direction and coordination- with institutions that face judicial and regulatory obstacles, and underserved market that is not being offered a full range of demand-driven microfinance products. Sustainable access to microfinance helps alleviate poverty by creating jobs, generating income, and empowering poor people to make the choices that best serve their needs.

Microfinance institutions (MFIs) are the organizations that provide poor people with micro-finance services and products. There are many different types of MFIs working in the market: savings and credit cooperatives, NGOs, international organizations programs, legally- established micro-finance institutions, and microfinance banks. As well as offering basic financial services such as products loan, savings accounts, and insurance. Many MFIs also offer non-financial services such as training, or other special programmes. The types of micro-finance institutions vary almost as widely as the types of microfinance clients they take on. MFI's were dominated by grant-funded NGOs and charities, microfinance institutions have become increasingly sophisticated, and now a day they attract investment form commercial banks.

According to the 2010 Arab Micro Finance report conducted by MIX, although the MENA region is the second youngest microfinance sector in the world, it has shown signs of increased diversity of financial service providers (commercial banks, microfinance banks, non-bank financial institutions, service companies, and NGOs) and higher and deeper penetration levels in addition to a widening pool of experienced human resources, improved credit risk systems and supportive infrastructure with greater level of commercialization and less reliance on donor funding. The micro finance sector in the region is in different stages of development with Morocco, Egypt, and Jordan showing higher levels of maturity when compared to younger markets in Yemen, Iraq, Sudan, and Syria. Microfinance institutions need support measures of a high standard. Furthermore, in the different countries in the region they are subject to different parameters in terms of supervision, taxations and regulation. The range of service offered to MFIs is often inadequate.

Most Arab region MFIs are not licensed as financial intermediaries in their respective countries, and are therefore limited in the products they can offer. In recent years, however, MFIs began to offer a variety of additional loan products including consumer loans, housing loans, education loans, seasonal loans and Islamic loans, to meet the demand of the targeted populations. The study also addressed the concept of the “critical triangle of microfinance” with its three objectives: financial sustainability (meeting operating and financial costs over the long term), and outreach (reaching the poor both in terms of numbers and depth of poverty), and impact (having discernible effect upon clients’ quality of life). MFIs can usefully employ the concept of the triangle of outreach, financial sustainability, and impact as they choose their target clients and create the products they will offer, the loan conditions they will set, and the application procedures they will require.

In spite of the considerable achievements, the field of micro finance lacks a number of necessary components. The suggested plan is intended to bridge these gaps and to present a comprehensive microfinance plan to increase the depth and breadth of outreach as well as the diversity of microfinance products provided. It proposesd the implementation of the plan over a time horizon of 6 years period that will be needed for increasing the efficiency and effectiveness of concerted governmental, financial sector, non-governmental and donor efforts to promote the development of microfinance in the Arab countries.

Literature Review

Modern microfinance could be said to have originated in Bangladesh, as Mohammad Yunus built upon earlier models of small-scale lending to create a network of lending that was eventually formalized in Grameen Bank in 1983. However, the not-for-profit orientation of the form of microfinance provision, was gradually phased out during the 1990s, to be replaced by a model that emphasized ‘full-cost recovery’ and thereby paved the way for a more market-oriented approach that would accommodate and even encourage for-profit microfinance. Bateman (2010) stated that international donors such as the World Bank and USAID pushed for such a shift, which was ostensibly about greater efficiency and spread of microfinance.

Microfinance, according to Otero (1999) is “The provision of financial services to low – income poor and very poor self-employed people “. These financial services according to ledgerwood (1999) generally include saving and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as “The attempt to improve access to small deposits and small loans for poor households neglected by banks “. Therefore, microfinance involves the provision of financial services such as savings, loan and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Several microfinance institutions have been established to resolve poor people problems in accessing loans and capital required for engaging in small businesses. (Befkadu, 2007). The microfinance industry consists of two types of actor-MFIs and funds-whose interest is usually to lend or invest money at the highest possible rate of return. For the MFIs, the only source of revenue comes from clients who pay interest on their loans. Along with the growth in microfinance institutions, attention changed from just the provision of credit to the poor, to provision of other financial services such as savings and pensions when it became clear that the poor had a demand for those other services (Mix, 2005).During the past decades, the field of micro-lending for the poor has expanded from microcredit operations to include a broader range of financial services, including micro-saving, leasing, mortgage finance, payment transfers and insurance. Mix defines an MIF as “an organization that offers financial services to the very poor”. (Mix, 2005).

Microfinance has a very important role to play in development according to its proponents. UNCDF (2004) stated that microfinance plays three key roles in development, it helps very poor households meet basic needs, protects against strikes, is associated with improvements in household economic welfare, and finally helps to empower women by supporting women’s economic participation. Otero (1999) illustrated the various ways in which “microfinance, at its core combats poverty “. She stated that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty. By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society. The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level.

It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. The middle of the previous decade showed the high watermark of national and international support for microfinance. There was an explosion of not just interest but of actual microfinance institutions (MFIs) across the developing countries. The global surge in enthusiasm for the concept soon also extended to the active promotion of microfinance as a viable commercial activity to be engaged in for profit. The recent commercialization in the microfinance industry has added a new challenge for existing non-profit MFIs since these new for-profit MFIs concentrate on lending to the less poor as opposed to lending to the very poor as it augments their profit objective. Accordingly, Aubert et al.(2009), Hisako (2009) and Weiss and Montgomery (2005) argued that MFIs were committed to lending to the very poor have had to gradually decrease their depth of outreach and increase the share of large loans in response to competition from new profit oriented MFIs. Using a global survey of MFIs, Mckim and Hughart (2005) reported that a majority (70%) of the MFIs in this survey acknowledge reducing their primary focus on the target population of poor people.

However, not all commentators are as enthusiastic about the role of microfinance in development. It is important to realize that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they should be”. They stated that microfinance is not a panacea for poverty-alleviation and that in some cases the poor people situation has worsen-off by microfinance.

Wright (2000) stated that much of the skepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have limited effect on income”. In addition, Wright says that many development practitioners not only find microfinance inadequate, but that it actually diverts funding from “more pressing or important interventions such as health and education. As argued by Navajas et.al, (2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They stated that governments and donors should know whether the poor gain more from microfinance, than from more health care or food aid for example. Therefore, there is a need for all to be involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty. International experience over the last three decade, however, has demonstrated that poor clients are bankable, that investments in microfinance lead to poverty alleviation and economic growth , and that in order for microfinance to be truly sustainable, governments and donors need to see its development as an integral part of a nation’s formal financial system. The success of microfinance has challenged commonly held assumptions regarding lending to the poor, demonstrating that it is indeed possible to collect loans and cover the costs associated with lending to poor clients.

According to Coleman (2004), approachable and rich people have greater access to micro finance as compared to the poor. Access to micro finance and age had a negative but significant relationship. Qualified and highly educated people could easily understand the procedures for obtaining the micro finance. Information relating to borrowing of micro finance had significant relationship between literacy status and micro credit determination.
Morduch (1995), Zeller (2000), Robinson (2001), Coleman (2002), Khandker (2003), and others, illustrate that easy access to MFIs helped the poor people to produce self employment opportunities, managerial skills, productivity, and positive cash inflow and reduce the consumption cost etc. which in turn enabled them to increase their income level and other socio economic benefits like education and health care. Sichanthongthip (2004) study showed that microfinance has positive impact on a borrower’s higher monthly income level after the member accessed to credit. Shaw (2004) studied two MFIs in Srilanka and showed that the less poor clients’ micro business that accessed loans from micro finance programs could earn more income than those of the poor do. Considerable debate remains about the effectiveness of microfinance as a tool for reducing poverty, and about the characteristics of the people it benefits (Chowdhury, Mosley and Simanowitz, 2004). Sinha (1998) argued that it is notoriously difficult to measure the impact of microfinance programs on poverty. She added, money is fungible and therefore it is difficult to isolate credit impact, but also because the definition of “poverty”, how it is measured and who constitute the “poor” “are fiercely contested issues”.

The State of Microfinance in the Arab Countries

The Arab region, is composed of 22 countries and territories with a combined population of 350 million people. The region is diverse both in terms of human and natural endowments. The economic growth and distribution of wealth also varied widely from contry to country.

20 percent of the population live on less than US $ 2 per day as per 2009 Global Economic Prospect Report. The 10 countries included in the study represent a population of nearly 250 million (67% of the region population) and a total estimated demand for microfinance conservatively estimated at 56 million borrowers. Table (1) illustrates some of macroeconomic indicators for these countries. The majority of Arab countries fell under the middle-and lower-income brackets, with the exeption of the oil-Gulf countries.

Table (1): Macroeconomic Indicators

Country	*Population*	*Population below*	*GDP per capita*	*GDP Growth*
Iraq	31	NA	NA	NA
Lebanon	4	NA	$ 6,135	2.8 %
Jordan	6	% 14.20	$ 2,570	2.1%
Palestine	4	NA	$ 2,100	1 %
Tunisia	10	% 7.60	$ 2,860	3,3 %
Egypt	83	%16.70	$1,543	2.4%
Yemen	24	% 41.80	$ 1,360	2,8 %
Syria	21	NA	$ 1,382	2.8 %
Morocco	32	NA	$ 1,711	1.5 %
Sudan	42	NA	$ 960	3.5 %

Source: -United Nations Development Program (UNDP) Regional Bureau for Arab state (RBAS), “Development Challenges for the Arab Region: “A Human Development Approach” vol.1, 2009

According to SANABEL (The Microfinance Network of Arab Countries) December 2010 report, that 40% of the region’s GDP comes from the informal sector, micro and small enterprises operating outside of the tax code and registration regimes. Of the small enterprises that are registered, the vast majority relies on their own resources or private borrowings to establish and grow their business, as the banks focus on large companies and corporations. Data indicate that a very limited number of individuals or firms in the region have access to formal credit, as little as less than 1 percent of the population in Yemen. The rest rely on internal sources of financing to support their business. Microfinance always existed in the Arab countries and developed in different stages across the region, albeit informally, revolving credit associations, “tontines” were the first form of Microfinance; credit unions rapidly expanded, and today the panorama is quite diverse, with individual lenders, self-managed groups, cooperatives, NGOs, regulated MFIs, and lately private banks, providing a wide range of financial services.

An overview on the state of the microfinance sector in the Arab region as the Sanabel report presented indicated the following:-

1. Total outreach for all MFIs operating in the region was 3 million with a total Gross Loan Portfolio of US $ 1.6 billion. Arab countries continue to be the smallest market in terms of both borrower outreach and loan portfolio.
2. Demand remains high in the Arab region with a conservative estimated outreach gap of 19 million borrowers who are seek and are eligible for accessing microfinance.
3. The average regional median ROA of 3.4% is highest compared to other regions.
4. Portfolio quality remains high.
5. Outreach is concentrated in Egypt and Morocco. The region has the 2^{nd} lowest level of outreach to rural clients. However, most of the region saw growth in outreach.
6. Product offering remains limited in the Arab region, with more than 90% of microfinance comprised of enterprise (business) microcredit.
7. NGOs continue to represent the majority of MFIs in the region (73%) operating outside of the formal financial sector, while non-banking financial intuitions, constitute around (18%). Few commercial banks in the region have entered into the microfinance sector.
8. Local banks provide almost 70% of the region’s funding, and that funding for portfolio expansion continues to be an obstacle to growth.

As of year end 2011, there were 502 microfinance providers in the region with a total outreach of 3,100,000 borrowers. This figure represents a broad sampling of microfinance providers such as: large established MFIs, commercial banks downscaling into the sector, and government sponsored microfinance lending programs. Few commercial banks in the region have entered into the microfinance sector. However, the legal and regulatory environment has done little to help in creating an enabling environment for the microfinance sector to thrive.

Table (2) illustrates some microfinance indicators for the region's countries.

Table (2): Microfinance Indicators

Indicator	Value
Number of Countries	13
Number of Microfinance Institutions Surveyed	502
Total Number of Borrowers, Million	3.1
Gross Ioan Portfolio, USD Billion	1.9
Average Loan Balance, USD	602
Number of Offices	<1,600
Number of Employees	<13,500
Legal Structure	<95%are NGOs

Source: * Sanabel 2011 Annual Industry Survey

MFIs in the 10 largest countries in the region have been experiencing healthy growth in terms of outreach and portfolio, with an increase of 10% in outreach and 12% in portfolio between 2009 and 2011. The growth rates in outreach and scale were variant from one country to another in the region. The majority remain small with an average number of borrowers of 44.500. However in Egypt, Morocco and Tunisia, MFIs are having more success in breaking the outreach barrier, with an average active client base of 89,140.

Several recent market studies supported the conclusion that there is a huge unmet demand for financing in the region, finding that the vast majority of MSEs in the region are self-financed. The biggest constraints to credit cited are lack of collateral and guarantees required by formal financial intuitions, high interest rates, and religious concerns about borrowing with interest. The range of products and services available in the market are still quite limited. Financing mainly takes the form of microenterprise credit (more than 90% of all credit extended), with little access to much-needed services such as savings, micro-insurance, wire-transfers, or remittances. This is primarily due to the legal and regulatory environment that restricts the types of activities than can be undertaken by NGOs. However, there has been some progress made towards products. The majority of funding sources for the Arab region come from financial institutions (around 70%), and is mostly directed to Morocco. The microfinance law in Morocco has given Local banks greater comfort in lending the NGO sector, which has resulted in a marked increase in the use of debt financing. Local funders are playing a significant role in the microfinance sector, providing 75% in funding. The majority of this funding is concentrated in a small number of relatively mature MFIs in Morocco and Egypt. While external funding sources in general have had limited engagement in the funding of the microfinance sector in the region, constituting only 25% of total funding. However, this ratio varies widely from country to country within the region.

The Suggested Plan

The main objective of the proposed plan is to develop a framework to increase the efficiency and the effectiveness of concerted governmental, non-governmental and donor efforts to promote the development of microfinance in the Arab region, in which sustainable financial services for the poor in the market are integrated in the overall development of a broad, inclusive, and diverse financial sector. It targets the economically active poor and microenterprises and is based on the premise that the commercialization of the microfinance industry promotes competitiveness and continued innovation, thus redirecting the trajectory of this sector form a subsidy–based to a market induced approach. Accordingly, the way to ensure the development of effective, large scale, outreach, sustainable access to microfinance is to build inclusive financial systems that integrate the financial services needed by the poor, and the institution that provide and support them into the overall formal financial sector, thereby empowering the poor to make critical decisions about their work, their life and the welfare of their households.

Gender equality, independence from donor support, and industry coordination are guiding principles for the plan. The plan is built upon four core beliefs. The first being that economically active poor and microenterprises will be best served when they have access to a wide range of services for the best possible price, a choice between different financial services and multiple providers, and access to accurate information on which to base their choices. The second core belief is that the achievement of the objectives is most likely to occur when there is a free market for microfinance with multiple competing providers that are able to develop and deliver services that respond to client needs. Therefore, the private sector should play a dominant role. The third core is that the governments of the region countries must foster an enabling environment, which encourages private sector engagement and will pursue market-oriented financial policies and will work with the various stakeholders to pass the necessary legislation to promote a more enabling environment for an inclusive financial sectors in their countries. Governments which have been working to develop the sector or to promote a specific segment of it, will continue doing so, coordinating with other stakeholders in order to make sure that their efforts are consistent with the direction of this plan. In addition, governments will continue to be engaged in direct lending to micro and small enterprises, supporting segments of the market still not served by mainstream MFIs.

The fourth core is that the stakeholders concerned with microfinance sector will provide wholesale funds and technical assistance to MFIs according to internationally established practices in order to promote and expand industry standard for the sector, and to assist the activities that lead to the broadening and deepening of microfinance services. Donors in the region will work with governments to support a more enabling policy environment building MFI capacity to enhance the performance and outreach of a diverse range of services providers, promoting successful experiences and best practices in microfinance. The time span for the implementation of this plan is 6 years. The plan describes the main challenges that need to be addressed to develop the microfinance sector in the Arab countries. Integral to the plan is an action plan and time line specifying the measures that need to be enacted in the short term, medium term, and long term.

Actions Needed

In order to realize the objectives of this plan, certain actions are needed on three levels:

First: Short Term: to promote the development of a variety of effective and efficient financial institutions (1 – 2 years) that compete to effectively service the financial needs of the poor and the microenterprises and cater to evolving market demand. Their role will be determined by the plan framework and by their comparative advantage in providing financial services that are client driven. The promotion of the development of adverse range of sustainable MFIs need an encouragement for greater engagement by banks in the sector and elimination of the perception that microfinance is simply about providing assistance to the poor, and that micro clients are by definition (high risk).

Microfinance programs have proved to bear a return on investment (ROI) that highly exceeds the retrun from other services. Only through banks' utilization of excess liquidity in extending microfinance services can they satisfy the vast demand for microfinance in the Arab countries. And by providing capacity building programs for bankers to make them understand the special characteristics of the target client group, as well as the specific business process required to be successful.

Banks must apply best microfinance practices such as providing mobile banking services, reducing cost structure, streamlining operating and application procedures and incentive systems, developing profit center approaches, and adopting appropriate marketing techniques integral to success in the sector. Programs which could be delivered to bankers and MFI credit personnel in coordination with specialized technical service providers should, focus on character-based lending approaches, outreach and client solicitation, client evaluation, cash flow analysis, delinquency management, automated loan tracking system, and explore opportunities for partnerships with other players in the market (as Postal Authorities) who have the breadth of outreach needed to fill the gap between supply and demand. A potential partner through whom private banks can distribute micro-loans to a wider scale of clients is the Postal Authority, who has an unmatched branch network. The product range currently offered by the microfinance market in the Arab countries is relatively narrow. Until recently, MFIs have not been motivated to develop their existing product offering and services in response to the evolving needs of their clients. Product development is a systematic process that MFIs should undertake to better serve their clients and to ensure the profitability of the institution.

Donors and relevant government institutions, have an added role to play in ensuring the capacity development of financial institutions to design and deliver financial products to underserved client groups. The Central Banks in the concerned countries and other relevant government agencies should re-evaluate their respective regulations and directives in view of their impact on the development and market entry of new financial services. The development, upgrading and institutionalization of appropriate monitoring and control systems and availing these systems to MFIs at affordable prices should be promoted. In addition, the adoption and implementation of a clear and unified set of financial reporting standards and key performance benchmarks among microfinance providers will enhance the transparency and professional standards in the industry and ultimately its legitimacy. To stimulate lending decisions by financial institutions, the current collateral use should be reviewed in order to facilitate the use of a broader range of mechanisms to secure credit. Such a review should include the study of potential forms of an alternative collateral, such as informal housing and properties, movable assets, commercial papers, etc…

Second: Medium Term: the development of an effective infrastructure that provides financial institutions with required human, financial, capital and information resources to provide effective services (2 – 4 years). This development needs broadening the availability of market information, such as supporting the development of market research tools, and increasing the availability of credit information to MFIs, and supporting the efficient functioning of financing mechanisms for them.

Providers of microfinance have a pressing need for up-to-date information, and mapping of the financial service needs of economically active poor and micro-entrepreneurs in relation to current market supply. The lack of information on the credit history of the client contributes to the reluctance of commercial banks to provide microcredit. Moreover, MFIs should have access to local sources of funds for on-lending. These sources are normally found in banks, insurance companies, government, quasi-government, and local donor agencies. An APEX institution (a second-tier or wholesale organization that channels funding to multiple microfinance institutions) and credit guarantee mechanisms could serve as appropriate intermediates in enhancing access to commercial capital for NGO-MFIs, or, in the short term, as a channel for donor financing of these institutions. APEX should also establish standardized financing criteria that are based on microfinance best practices. In order to make up for the limited breadth and/ or depth of outreach, banks could partner with non-bank MFIs in order to expand outreach to clients at the grass-roots level. Moreover, banks with limited experience in microfinance could benefit from the technical expertise in microcredit provision available with partner MFIs. A microfinance network forum representing all MFIs at the national level would help. This entity should support dialogue with policy maker and be support to MFIs in the delivery of microfinance services, and foster collaborative relationship among them.

To expand the outreach of services, MFIs could increase their loan capital base accessing pools of funds available to wholesale venture capital funds/ companies. In this stage, it is preferable to restrict this option to MFIs that have already attained an advanced stage of maturity at the operational level, as well as a healthy financial position. MFIs also should be allowed to borrow funds against part of their outstanding portfolios (current asset) at a discounted rate would provide them with an instant leverage mechanism to access more funds (securitization of loan portfolios), that would create a secondary debt market, and would free up capital for MFIs to increase outreach. Capacity-building programs and technical assistance should be provided by private organizations in a market-oriented manner. Training and technical assistance should be viewed as an investment and not as expense.

Third: Long Term: the development of a policy and regulatory environment conducive to an inclusive financial system that encourage the growth and development of microfinance which protects and promotes the viability of the financial system and supports the growth and development of the financial sector at the bottom of the market (4 – 6 years). This means firstly, greater coordination among microfinance industry stakeholders and regular consultations among them, staving to establish consensus on a strategic vision for the growth of the industry, and the concrete measures required to achieve such growth. Also coordination is required between landing microfinance stakeholders from governmental, non-governmental, private sector, and international donors, to build consensus on an agenda and concrete measures to further the microfinance sector on the basis of this plan. This coordination must be based on an informed industry dialogue among stakeholders. Secondly, establishing a non-prudential self-regulatory mechanism (self-regulatory organization) as independent member to enhance the development of the sector by implementing a set of non-prudential regulations and ensuring MFI's self-enforcement for compliance with the specified performance standards is required.

Such an organization needs a clear mandate, as well as technical and financial support from all key industry stakeholders. The microfinance network proposed in this plan could effectively serve as a launching pad for such an organization. Moreover, rapidly maturing microlending NGOs are in need of governance structures to maintain a commitment to the target group of microenterprise client. Thirdly, developing legal and policy framework that enhance outreach and reduce barriers to market entry. Despite the success of NGO's to date, they have been constrained by certain aspects of NGO's laws in the countries of the region. The current financial management and auditing standards, financial transaction approval processes, and administrative procedures required by the current laws are not suitable for microfinance institutions, which manage and administer large volumes of financial transactions. Additionally, the existence of specialized MFIs (cooperative banks, microfinance banks or commercial credit-only institution) providers in the market could add greatly to the availability and outreach of a broad range of services. A change in legislation has to take place to allow other collateral forms to be more easily enforced by courts than is currently the case. New lending collateral that does not lead to criminal proceedings should be recognized in the law. The non-possessionary pledge, mortgage of unregistered properties, and wider use of commercial papers are more suitable to microfinance. In all cases, the target must be to improve the capacity to enforce pledges and other collateral, without the threat of criminal sanctions. Raising public awareness among various stakeholders is important to establish the basis for demand-oriented or client-driven microfinance policy. Therefore a public awareness effort targeting government officials decision makers, NGOs, banks, donors, opinion makers as to the economic and social importance of developing MFIs is required in order to promote microfinance.

Conclusion

It is widely accepted that increasing access to finance for poor people is critical for human and economic development. It has the potential to increase household income and economic security, build assets and reduce vulnerability, create demand for other goods and services, and stimulate local economies. There is a consensus about a number of issues relating to what the industry lacks and accordingly what is needed. The microfinance industry in the Arab countries lacks clear direction and coordination with institutions that face legal and regulatory obstacles, and an underserved market that is not being offered a sufficient range of demand-driven microfinance products. Accordingly, there is a need for the combined engagement of banks, non-government organizations (NGOs), and the private sector, to operate in a rational legal and regulatory environment to provide non-conventional products and services. Moreover, setting standards of performance for the industry, coordinating between the activities and resources of the governments and donors, are perceived as crucial to the sound development of the sector.

The proposed plan objective is to develop a framework for increasing the efficiency and effectiveness of concerted stakeholders. It identifies the areas of intervention required on the short, medium and long terms. Recommendations are made on how to address the issues and challenges on these three levels, specifying the measures to be enacted in the short term (1 -2 years), medium terms (2 – 4 years) and long term (4 – 6 years). Integral to the suggested framework is an action plan determining the responsibilities of the relevant stakeholder entities for implementing activities corresponding to these recommendations.

Proposed Action plan

(Short Term 1 – 2 years)

Objective	Action	Responsible Entities	Time Frame Years
The Development of effective and efficient MFIs financial institutions that can compete and can provide efficient financial services for micro enterprises and satisfy the poor needs and demands.	- Encourage greater engagement of banks in the sector by eliminating the currently dominant perception that microfinance is about providing assistance to the poor and that micro client are by definition "high risk".	Banks Association central Banks Private Banks MFIs Clients representative	1 – 2
	- Provide capacity building programs for bankers. (Should focus on lending approaches, outreach, client evaluation, delinquency management, etc).	Private Banks Banks Associations quasi-governmental Institutions	1 – 2
	- Find opportunities for partnership with local player, so banks can distribute micro-loans to a wider scale of clients (such as the Postal authority)	Governments Postal authority Municipalities Private Banks MFIs Donors Government institutions	1 – 2
	The development of professionally managed financially sustainable MFI through supporting product development and diversification among provider and increase their information technology capacity.	Private Banks MFIs NGOs Banks Associations Donors	1 – 2
	- Stimulate the use of alternative loan collateral pledged to MFIs, such as informal housing and properties, movable assets, commercial papers, unconventional collateral mechanisms	Banks Associations Central Banks MFIs Private Banks Client representative	1 – 2

Proposed Action plan

(Medium Term 2 – 4 years)

[	Action	Responsible Entities	Time Frame years
The Development of an effective infrastructure that provides financial institutions with the required human, financial, capital and information resources to provide effective services	- Broaden the availability of market information. Up-to-date information on, and mapping of, the financial service needs of economically active poor and micro-entrepreneurs in relation of current market supply. Support the development of market research tools.	International donors Government agencies quasi- governmental institutions	2 – 4
	- Increase the availability of credit information to MFIs. A loan register would provide information on clients to MFIs in terms of application for repayment of previous and/or current loans, and potentially other financial liabilities. Moreover an automated credit scoring system should be applied to assess the degree of risk, and compute the client's probability of default.	Private sector credit bureaus Central Banks Private Banks	2 – 4
	- Support the efficient functioning of financing mechanisms for MFIs. Establish APEX institutions and institutions for credit guarantee	Private Banks insurance companies government quasi-government Institutions local donors agencies	2 – 4

Proposal Action plan

(Long Term 4 – 6 years)

Objective	**Action**	**Responsible Entities**	**Time Frame years**
The development of a policy and regulatory environment that protects and promotes the viability of the financial system, and support the growth and development of the financial sector at the bottom of the market.	- Ensure greater coordination among microfinance industry stakeholders through regular consultation among them, striving to establish consensus on a strategic vision for the growth of the industry, and measures required to achieve such growth. And developing mechanisms through which such coordination can take place.	Government quasi-Government institutions MFIs Private Banks Donors	4 – 6
Gradually moving towards removing existing distortions in the financial market and increasing transparency	- Establish a non-prudential self – regulatory mechanism by establishing and independent member driven and supported self-regulatory organization to enhance the development of the sector by implementing a set of non-prudential regulations and ensuring MFIs self enforcement for compliance with the specified performance standards.	Self-regulatory organization MFIs Private Banks quasi-Government Institutions NGOs	4 – 6
	- Develop legal and policy frameworks that enhance outreach and reduce barriers to market entry. Changing the current financial management and audit standards, financial transaction approval processes, and administrative procedures required by the law.	Government MFIs Private Banks Donors quasi-Government Institutions Banks associations	4 – 6
	- Promote the establishment of non-banks commercial MFIs (specialized MFIs), such as cooperative banks, microfinance banks or commercial credit-only institutions.	Government Central Banks quasi-Government institutions Banks Private sector	4 – 6
	- Recognize alternative forms of collateral by changing the legislation to allow other forms of collateral to be more easily enforced by courts than is currently the case.	Government Central Banks quasi-Government Institutions Private Banks Bank Associations	4 – 6
	- Conduct public awareness raising for microfinance stakeholders to establish the basis for a demand – oriented or client-driven microfinance policy.	Government officials Decision makers NGOs Private Banks Opinion makers	4 – 6

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