

The Significant Demand for Microfinance in Syria

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Traditionally, banks did not provide financial services to clients without resources, meaning with the word resources little or no cash. Banks work for a profit and if a client does not guarantee them with an asset it would be a very risky business for the banks to incur in some cost without a sort of insurance on their activity. Microfinance can be defined as the provision of financial services to clients with very low income, including in this category also consumers and self-employed that normally do not have access to financial resources.

In the past centuries, different movements tried to provide low-income people with financial services. Between them it is worth to remember the Franciscan monks that in the fifteenth century founded the community-oriented pawnshops, then the members of the European credit union movement in the nineteenth century and last the founders of the microcredit movement in the 1970s. One of the founders of the microcredit movement is the today well-known Muhammad Yunus (2006 Nobel Prize for Peace), a Bangladeshi economist turned into a banker that developed the concept of microcredit. In 1976, in Bangladesh Dr. Yunus founded the Grameen Bank that is a microfinance institution and community development bank that makes small loans to poor people without requiring collateral. With no doubt in the last thirty years relevant progresses have been implemented in the field of microfinance but still the big problem is how to help those who earn less than \$1 per day, especially those living in remote rural areas.

It is a matter of fact that in the Syrian Arab Republic there is a huge demand for microfinance but that this demand is only partially satisfied. According to a 2008 report (http://www.cgap.org/gm/document-1.9.2923/Syria_Policy-Reg-Framework.pdf) by the Consultative Group to Assist the Poor (CGAP), a policy and research center based in Washington DC, just 41,500 out 1,000,000 of potential estimated microfinance clients in Syria are obtaining today microfinance services.

In February 2007 the Syrian government introduced the General Microfinance Decree (Syrian Legislative Decree no. 15) which is the first of this kind in the MENA region (Middle East & North Africa). This legislation is important because it is the mirror of an important opening of the financial markets. The aim of this legislation regarding microfinance is to help the big chunk of the population that is poor and probably also part of the Syrian middle class to have greater access to financial services (in other words to give financial access to low-income and unbanked people). The Decree

authorizes the Credit and Monetary Council (CMC) of the Central Bank of Syria to license Social Financial Banking Institutions (SFBI)s with the target of providing microfinance services like micro-lending, deposit-taking, and micro-insurance to the poor people. In particular, the Decree would like to regulate all the microfinance actors like banks, SFBI)s and NGOs and all the different models of action like charities, relief-oriented microfinance and SME lending in order to get a very inclusive approach, capable of really helping the unbanked population of Syria. Decree no. 15 is the first and unique Syrian law related only to microfinance. Previous laws were not specifically linked to the issue of microfinance. All this said, it should be understood that Private Banking Law (no. 28 for the year 2001) and Islamic Banking Law (no. 35 for the year 2005) permit to private and Islamic banks to implement all the kinds of banking activity including also microfinance. The SFBI)s are all registered as commercial companies. And for this reason, article 13 of the Microfinance Decree requires that all the SFBI)s have to be governed by Commerce Law no. 149 for the year 1949. In fact, in the eventuality of a law conflict between the Microfinance Decree and Commerce Law the first shall prevail. The SFBI)s should follow reporting requirements very similar to those set for normal banks. In fact, an audited balance sheet and a profit and loss statement have to be submitted to the Central Bank of Syria following the International Accounting Standards.

Until now the most important actors in the field of microfinance in Syria have been both the state and the NGOs. But it should be noted that the Aga Khan Development Network (AKDN) is the only real provider of microfinance in Syria and the only one big player. In addition to this, there are very limited microcredit lines thanks to the United Nations Development Program (UNDP) and the United Nations Relief and Works Agency (UNRWA), both obtain funds through their parent institutions. The latter is serving Palestinian refugees in the cities of Damascus and Aleppo. Two local non-governmental organizations the Fund for Integrated Rural Development of Syria (FIRDOS) and Boosting and Inspiring Dynamic Youth Achievement (BIDAYA) are also developing microcredit facilities. FIRDOS gets 60% of its funding from the European Union and the United Nations, while the remaining 40% from local corporate social responsibility of Syrian institutions. Previously, the most important public microfinance provider was the Agency for Combating Unemployment (ACU) but thanks to the Legislative Degree no. 39 of 2006 it has been transformed into the Development and Employment Commission (DEC) and will no longer provide credit. It will just service the agreed loans while its main task will be to provide job skills training and employment opportunities. As it will be explained below, on the public side today in the field of microfinance the basic public institution is and will be always more the Savings Bank.

With reference to the most important player the AKDN, it started its operation in Syria in 2002 under a framework of cooperation agreement with the Syrian government. In fact, in 2003 the Aga Khan Agency for Microfinance (AKAM) - the specific agency within

the AKDN that works with microcredit - began to grant the first loans. Now this agency has been denominated The First MicroFinance Institution (FMFI) and has seven branches in the country (located in: Damascus, Tartous, Lattakia, Aleppo, Hama, Suweida and Maysaf). This agency has been capable to hand out more than 60,000 loans for a total value of SYP 3.76bn (USD 80m). Since 2007 this is the most important microfinance operator in Syria and it is willing to broad its actions implementing up to 20 branch offices. The maximum amount of loan that the agency may offer is SYP 141,000 (USD 3,000) charging a flat rate of 1% a month. By the end of 2010 the AKAM would like to have a lending portfolio of US\$43 million and to cover all the 14 provinces of Syria with more than one office in the two big cities of Damascus and Aleppo.

Characteristics and indicators for the five primary microfinance providers in the Syrian Arab Republic (2008)

NAME	AKAM	FIRDOS	BIDAYA	UNDP	UNRWA	ACU/DEC
TYPE	NGO	NGO	NGO	Donor	Donor	Public Organization
PRODUCTS	Individual (enterprise and consumption), Group Housing & Rural Dvlpt	Individual and Group	Individual	Housing & Sandug Village Banking	Individual Microenterprise & Solidarity Group	Individual Small and Microenterprise
ACTIVE CLIENTS	11,000	1,000	35	2,500	2,000	25,000
OUTSTANDING LOAN PORTFOLIO	\$11,000,000	2,260,103	-	\$1,750,000	1,000,000	\$37,500,000
INTEREST RATES	1% Monthly	4.5% Annual	-	5% Murabaha	2.2% Monthly	5% Annual
REPAYMENT RATE	99.4%	99%	-	95%	98%	-
DEMOGRAPHIC	Primarily Rural	Rural	-	Primarily Rural	Primarily Rural	Nationwide
OPERATIONAL SELF SUFFICIENCY	Almost 100%	-	-	95%	119%	-
FINANCIAL SELF SUFFICIENCY	-	-	-	83%	-	-

Source: CGAP, (2008), Policy and Regulatory Framework for Microfinance in Syria

In addition to external actors, there is also the microfinance action built up by the Syrian government through the state-owned Savings Bank. In 1968 Syrian banks, which had been previously nationalized after the Ba'ath Party came to power, were reorganized

into six state banks. One of them was the Savings Bank (the smallest of the state banks) that up to 1999 was just a postal savings bank (with an average deposit of US\$950). In 1999, this bank was converted into a full-fledged bank with lending operations starting the following year. The bank since then has been quite successful and has considerably expanded its reach in Syria. In particular, this bank has decided to incorporate in its services also microfinance tools. The experimental project of this bank started this year in the cities of Lattakia, Tartous and Homs with loans for a total of SYP 15m (USD 319,150). The aim of this project is to help people to be able to own a small store. In other words the people covered by this initiative are those who do not have survival problems and that can think of starting a commercial activity. According to the general manager of the Savings Bank, Haifa Younes, his bank will be in a privileged position because Syrians still prefer to deal with governmental banks. Savings Bank would like in the next four years to get around 33,000 clients with an offer of different loans ranging from SYP 9,000 (USD 190) to SYP 1.5m (USD 31,915). The bank will also have the so-called "My Lady Loan" that is specifically implemented for housewives.

Apart from the successful results of AKAM and the other agencies (at the level of SFBI, NGOs and state institutions), other operators are interested and are planning to develop additional microfinance operations in Syria. Between them it is worth to mention the Arab Gulf Program for the United Nations Development Fund (AGFUND). This is a Saudi-based non-profit organization that was established almost thirty years ago in 1980 by the Prince Talal Bin Abdul Aziz al-Saud. It is interested into developing mainly rural areas, distributing in five years up to 360,000 loans through a net of around 40 branch offices in Syria. Muhammad Yunus is also a partner in this enterprise.

With no doubt the road for Syrian microfinance is not easy. In fact, there are at least four big issues to be tackled in the near future. One of the biggest hurdles will be to convince customers looking for Islamic banking products that microfinance is sharia-compliant. At the moment sharia-compliant microfinance is almost inexistent totaling less than 1% of the global market. A possible solution could be to clearly explain what microcredit is. In this way it could be possible to point out that the microfinance institutions are not accepting interest rates but that what they take are just collective service charges in order to have additional funds to distribute later to other eventual clients. Another problem is now the fact that there are more people that want a loan than the available loans, an issue that will only be partially deflated given the additional microfinance providers that are interested into entering the microfinance market in Syria. The third issue is that in Syria exists a big black or shadow economy. This is a huge problem on both sides of a microfinance transaction, the one pertaining to the bank and the one related to the client. In fact, the bank if it does not have an official working transcript from the client cannot provide him any loan, while the latter many times does not want to produce any paperwork and in this way renounces to the possibility of obtaining a microfinance loan. Last but not least, providing microfinance

loans is a very time-consuming activity and it requires a very well trained staff. Nowadays, it is not absolutely easy to find this expertise in Syria as it is also recognized by all the most important bank managers operating in the country, both in relations to microfinance like to the other classic sectors of the banking activity.

All this said, in order to continue to develop the microfinance sector in Syria four additional activities could be implemented by the main actors:

- 1) *Training and awareness building.* Through this it could be understandable for all the actors that it exists a commercial viability for microfinance in order to help the poor people and in the same time it could be built up locally the capacity to regulate and use microfinance tools in accordance to globally accepted good practice norms.
- 2) *Networking.* Linkages between local, regional and international bodies are of paramount importance in spreading good practices and general know-how, facilitating transparency and encouraging innovation based on local realities.
- 3) *Alternative models for microfinance.* Between them it is necessary to mention at least three possibilities. The first one is to have Greenfield microfinance banks. In fact, given the potential size of the microfinance sector in Syria, there is room to grow the sector through Greenfield investments. The second possibility is bank downscaling. The rationale for this is that downscaling could permit to banks to really better interact with the local realities to which the microfinance loans are mainly addressed. The third possibility is instead the adoption of the bank servicing model as a very viable alternative to the NGO approach. The bank servicing model will enable a private sector approach of managing microfinance portfolios, while in the same time capitalizing on the strengths of both the private and public sectors of the bank activity.
- 4) *Technological innovations.* Technological innovations in the microfinance sector could be of basic importance with reference to increase operational efficiencies and to expand to very remote areas of Syria.

If well put into action these four activities will strongly help improving the results of the microfinance sector in Syria with the final target of integrating the country into the global microfinance industry.