Broader MENA Initiative - Microfinance
Update from CGAP on G8 Plan– March 29, 2005

Launch a microfinance initiative to expand sustainable microfinance in the region

Before the G8 Summit at Sea Island in June 2004, the Consultative Group to Assist the Poorest, (CGAP), a consortium of 28 donors to promote microfinance hosted in the World Bank, has been requested to informally provide its thoughts on creating a specialized, multi-donor facility for promoting and improving microfinance in the Middle East/North Africa region.

On June 10, 2005, the G8 endorsed the microfinance BMENA initiative in its Plan of Support for Reform and committed to "establishing a Microfinance Consultative Group, managed by […] CGAP […]" and "working with CGAP to establish in the region a Best Practices Training Center […]".

Since June 2004, CGAP has been in contact with practitioners, donors and other experts active in the region for counsel on the project and has been coordinating with the World Bank MENA vice-Presidency and the IFC on planned project activities.

1. CGAP has established the Microfinance Consultative Group (MCG), composed of leading donors (WB, USAID, KfW, and UN), practitioners and policy makers from the region. The MCG held its first meeting in Cairo in December. The role of the MCG is to provide strategic advice and serve as a forum for the exchange of best practices in microfinance. CGAP is also establishing an **Executive Council** composed of ministers and other high-level officials from the MENA region to champion the initiative's goal of building pro-poor financial sectors. Queen Rania of Jordan has accepted to serve as the head of the Executive Council and several ministers from Morocco, Yemen and Jordan have indicated their interest in participating.

2. CGAP also agreed with the government of **Jordan** to establish its **regional technical hub** in the World Bank office in Amman to implement and manage project activities. The hub is expected to be **fully operational by the end of May 2005**.

3. CGAP is building a consortium to scale up microfinance in the Middle East and North Africa by focusing on five components: (i) capacity building of retail institutions; (ii) policy and regulatory reform; (iii) aid effectiveness through improved donor coordination; (iv) funding new Microfinance Institutions (MFIs) in frontier markets and linking MFIs with local capital markets; and (v) building awareness of best practices.

A number of activities such as the training partnerships, the legal framework diagnostics and the survey of regional and national donors, are already underway.

(i) Retail Institution Capacity Building

Through the technical hub and in partnership with regional or national organizations, the initiative is focusing on training for microfinance institution (MFI) managers, translation and dissemination of best practice documents, launching of the Arabic version of the website, the Microfinance Gateway, promoting the diversification of microfinance products, and assisting commercial banks to launch microfinance services.

► As of March 2005, three training of trainers workshops have been organized through the Sanabel MFI network, the Arabic version of the Microfinance Gateway was unveiled at the annual Sanabel conference in December and key documents are being translated into Arabic.

(ii) Policy and Regulatory Reform

CGAP legal experts are carrying out diagnostics of legal and regulatory frameworks in several countries to provide recommendations to policy makers, donors and practitioners on how to improve the business climate for microfinance. Workshops to engage government officials in relevant discussions and a specialized helpdesk manned by legal experts to help policy makers are also planned.

► Policy diagnostic missions have been carried out in Jordan, Morocco, Tunisia and Egypt and another multi-donor diagnostic mission involving the WBG, USAID, GTZ and UNCDF was conducted in Yemen in early March. Following up on the Jordanian mission, CGAP is helping the government create a national microfinance strategy. In Morocco, CGAP is working with the Central Bank to put in place an exemplary transparency-based supervision system for microfinance institutions.

(iii) Aid Effectiveness

The initiative is tasked with donor coordination activities such as setting up in-country donor working groups, conducting donor training and carrying surveys on regional and national donors.

► After an initial regional donor coordination meeting in December, CGAP is now undertaking a mapping exercise of donor activity in the region as a first step towards other donor coordination activities. A donor training course is planned in the region for early November 2005.

(iv) Funding in Frontier Markets and Linking to Capital Markets

If necessary, the initiative could fund start-ups in countries where little microfinance exists and innovations that can greatly expand the delivery of financial services, such as ATMs, POSs, etc. By promoting greater transparency and consistent reporting standards, the initiative will also help link MFIs to domestic capital markets.

► As of January 2005, CGAP has already begun to provide its technical expertise to a Jordanian commercial bank interested in offering microfinance products. It is in active discussion with the World Bank MENA Department to collaborate on the country surveys on access to financial services – these surveys will be a first step towards funding any start-ups or innovations.

(v) Awareness Building

An important objective of the initiative is to promote microfinance best practices to governments, opinion-makers and the population at large through media messages and high-level meetings.

► CGAP has already had the opportunity to promote best practices through events covered in the regional media, such as the launch of the hub in Jordan with the Ministry of Planning and the opening session of the Sanabel Conference with Mrs. Suzanne Mubarak, First Lady of Egypt. The Executive Council will also provide high-level visibility of the importance of appropriate policies to the development of thriving microfinance sectors. The first meeting of the Executive Council chaired by HM Queen Rania is scheduled to take place during the World Economic Forum at the Dead Sea at the end of May.

4. Budget

The total budget for five years is approximately US$ 20 million. The budget for the first two years is estimated at $5.8 million, of which the U.S State Department has committed $2 million and CGAP donor members $1.5 million. Other donors such as the German KfW or the French AFD may be interested in contributing funding. Arab donors such as the Agfund are also considering funding the initiative.

Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA)

Report on Activities for the period October 1, 2004 – March 30, 2005

Introduction

1. The IFC's Board of Directors approved the Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA) on September 28, 2004. This note provides an update on PEP-MENA's activities and progress after the first six months of operation.

2. PEP-MENA has focused on quickly achieving wide geographical coverage by leveraging IFC's experience in other technical assistance facilities. In addition, PEP-MENA established a solid strategic and organizational foundation to support rapid, controlled expansion of demand-driven project activities. Simultaneously, it completed the merger of the North Africa Enterprise Development facility (NAED) and PEP-Middle East.

Scaling-up: Staffing, Infrastructure, Funding, Controls

3. In the first six months, the identification and hiring of core staff has been essential to ensure continued implementation of existing activities, and to develop a solid pipeline of new projects. Most of PEP-MENA's staff growth to date has occurred in the regional headquarters, Cairo. PEP-MENA now has 48 employees located in 8 countries,[1] representing 13 nationalities. Seventy five percent of current staff is from the MENA region itself with 35% of the total represented by women. Key positions such as Regional Financial Controller and Monitoring & Evaluation Officer have been filled.

4. Although recruitment is continuing at a rapid pace, PEP-MENA faces challenges in hiring, especially for senior positions. This is primarily due to the unique skill sets required, an effective mix of technical expertise and regional experience. This has required extensive outreach and careful selection. The relatively short-term nature of PEP-MENA activities coupled with perceptions of security situations in certain MENA countries have, at times, dampened interest by candidates.

5. Augmenting IFC's contribution of $20 million, PEP-MENA has obtained commitments of a further $44.5 million. Donors include the USA ($15 million), Japan ($10 million), Great Britain ($5.4 million), France ($2.6 million), Canada ($2.5 million), and Netherlands ($2 million). Significantly, the Islamic Development Bank ($5 million) and Kuwait ($2 million) have confirmed their contributions, representing the first donor contributions from the MENA region itself. Fundraising efforts continue.

6. Systems, procedures and policies have been established to ensure effective control and reporting as PEP-MENA expands. A new IFC-wide project management system[2] is in use,

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[1] PEP-MENA is co-located with existing IFC or World Bank offices in Algeria, Egypt, Jordan, Morocco, Pakistan, United Arab Emirates, West Bank/Gaza, and Yemen. By May 1, the facility will also have staff on the ground in Afghanistan.

[2] Technical Assistance and Advisory Services – Project Data Sheet (TAAS-PDS)

and a conflicts of interest policy has been adopted. In addition, PEP-MENA is contributing to the development of Anti-Money Laundering and Combating Financing of Terrorism policies related to technical assistance and advisory services activities that will, over time, serve to strengthening IFC's worldwide policy in this area.

Project Activities

7. Since inception, PEP-MENA has extended or launched 7 major TA programs with signed initiatives in 13 target countries across all of its thematic pillars: Financial Markets, SME Development, Business Enabling Environment and Privatization/Public-Private Partnerships.

Financial Markets

- Building on NAED's success in assisting corporate banks in Egypt and Morocco to downscale to the SME market, PEP-MENA launched its **Bank Advisory** Program, with new mandates in Algeria, Egypt, Saudi Arabia and Tunisia.
- The **Leasing** Program recently concluded an agreement to build capacity of a USAID-sponsored leasing company in Afghanistan. Specifically, PEP-MENA will help standardize underwriting procedures and strengthen internal controls. In Yemen, the facility has agreed with the Central Bank of Yemen to organize a conference on leasing and to undertake a leasing law review.
- A program for **Bank Corporate Governance** was launched in November, and is as a first step conducting – in collaboration with the Association of Banks – a survey of bank corporate governance practices in Lebanon. Also, a mandate to provide advisory services to a specific bank has been signed.

SME Development

- IFC's SME management development program, **Business Edge**, is rolling out training activities in Jordan, West Bank/Gaza, Yemen, Saudi Arabia and Oman. The program will support local training organizations in meeting SME management training needs by providing IFC's Business Edge products/tools, which consists of management workbooks, workshops and trainer manuals.
- By working through sector-specific **Business Membership Organizations**, PEP-MENA is assisting Pakistani SMEs involved in key sectors of the economy such as auto parts and accessories manufacturing, and ready-made garments to enhance managerial skills, upgrade technology and improve competitiveness.

Business Enabling Environment

- Cooperating closely with FIAS and World Bank staff, PEP-MENA conducted an **Administrative Barrier Study** at the request of the Egyptian Minister of Investment, which was presented in March 2005. This successful collaboration resulted in the project being nominated as *A Good Practice Model* by the World Bank. The study will serve as the basis for additional technical assistance initiatives in Egypt. PEP-MENA is now considering further similar collaboration with FIAS and the World Bank in Tunisia and Yemen.

Privatization/PPPs

- PEP-MENA is providing valuation advice to the Lebanese Central Bank to facilitate the privatization of a government-owned bank.
- PEP-MENA is currently in negotiations with the Government of Lebanon to assist in the corporization of *Electricite de Liban* and the preparation of a private management contract, an important first step in privatization, which is carried out in collaboration with the World Bank.

8. In addition, PEP-MENA has developed a pipeline of new projects scheduled to be launched by the end of the fiscal year, including: Microfinance in selected countries in collaboration with CGAP, Alternative Dispute Resolution and Housing Finance, amongst others.

9. PEP-MENA, following IFC's direction of making gender a fundamental pillar of its activities, has established a Gender Entrepreneurship Markets (GEM) program for the MENA region.

Longer-Term Development

10. While executing for the present, PEP-MENA has also been planning for the future. With the assistance of a team from Accenture Development Partnership, PEP-MENA has finalized a comprehensive strategic plan to guide its activities and to establish a solid framework for growth. The plan was developed following extensive input from regional investment staff, Washington-based MENA experts, sector specialists and PEP-MENA staff. Specifically, the plan will help PEP-MENA to:

    - Conduct prudent selection and prioritization of activities based on a systematic analysis of country needs, potential impact and PEP-MENA's ability to implement effectively within its resource and time limitations.
    - Ensure broad coverage of program activities across both country and thematic lines.
    - Balance short-term, opportunistic project activities against longer-term, more strategic programs.
    - Allocate resources more efficiently.

Donor Relations and World Bank Group Coordination

11. PEP-MENA participated in December 2004 in the *Forum for the Future* in Rabat. On March 22, a follow-up to that meeting was held in Cairo, during which PEP-MENA updated regional representatives on its activities and progress as well as solicited their input.

12. Also, PEP-MENA is actively collaborating with a number of relevant stakeholders. PEP-MENA has worked with FIAS, the World Bank and with other Deparments of the IFC. Recent discussions with MIGA have highlighted several areas of potential future collaboration, as well as a close relationship with OECD's MENA initiative has been established. Close coordination with other stakeholders will remain a high priority for PEP-MENA as it expands.

World Bank Group
Investment Climate work in the Broader Middle East and North Africa region

Challenges

The growth challenge to address unemployment

The region's economies need to create 80 to 100 millions jobs by 2020, in a context where unemployment is already high. This would call for an average GDP growth of 6 to 7 % per year.

The current situation highlights the challenges ahead:

- Average GDP growth in the late nineties was 3.4 % per year, against 4 % for emerging markets and developing countries as a whole
- Trade grew at 3 % per year in the nineties, to be compared with a global growth of 8 %
- The FDI inflows represent only 1 % of GDP (and 2 % of all developing countries' inflows)
- Public banks dominate the banking sector and favor state enterprises, large industrial enterprises and off-shore companies at the expense of smaller and new emerging private sector firms
- Private investment in infrastructure in the nineties was only 3 % of global investment

Yet there is a great potential for rapid growth

- Non-oil exports are estimated to only represent one third of potential – and manufacturing ones half their potential
- FDI is less than one fifth of what is possible
- BMENA is strategically located, opening up the possibility of rapid growth in trade, particularly with the EU, and of enhanced links with global production chains.

Investment climate diagnosis

The Investment Climate Assessments undertaken thus far highlight that the weak investment climate has in practice suppressed private entrepreneurship (in particular domestic) and diverted it into rent seeking. Improving governance is therefore key. The following constraints are commonly met in the region (see attached charts comparing the region / specific countries in the region with global competitors)

- Weak property rights, with problems particularly in land rights and contract enforcement
- Weak capital markets and financial intermediation
- Poor delivery of public services, with high cost and unreliable quality
- Weak economic governance, evidenced by over-regulation, lack of predictability and red-tape. The excessive level of engagement of the states in markets, through direct ownership and active interventions, impede private entry and competition.
- Political instability and geopolitical conflict.

The resource-rich GCC countries face two main challenges. The first is accelerating non-oil growth to generate adequate employment opportunities for the young job seekers, who constitute nearly a quarter of the population. The second is reducing vulnerability to oil price fluctuations. In addition to reforms on the investment climate, the need for diversification of exports and the development of regional and international agreements (Gulf States, EU accession, WTO, expiration of the multi-fiber agreement, etc.) will be exposing local firms to increased competition in domestic markets as they open new opportunities and challenges abroad. Against this backdrop, challenges in trade lie mainly in four interlinked areas:

- labor markets suffer from wage rigidities, skills mismatches, and institutional factors
- the government wage bill, defense and security spending, and subsidies and entitlements are seriously straining government budgets – in particular when implicit subsidies (low energy prices and long-term loans) are taken into account. The recent evolution of oil prices currently reduces this constraint – or reduces the incentives for reform.
- structural policies to diversify economies will need continued attention, especially privatization since most of the larger, non-oil industries remain in public hands
- making the GCC customs union work will require establishing common customs rules and procedures, harmonizing technical and regulatory procedures (standards, security, inspection, and licensing), increasing transparency, and minimizing administrative barriers.

The GCC countries have engaged discussions on the creation of a monetary union, which would call for even more ambitious structural reforms.

Implications for reform agenda

The region has achieved macroeconomic stability for the most part, with low inflation and stable external debt positions, but growth in the region is not reaching its potential. Prospects for growth and sustainable employment can be improved through reforms in trade regimes and a strengthened investment climate. Building on the progress already achieved in the region on trade liberalization, the next step is to include ‘behind the border’ reforms (trade facilitation, services liberalization, and improved competitiveness) designed to increase productive efficiency. Reform of the investment climate is needed to ensure sustainable employment growth, because trade reforms increase growth only when they stimulate new investment. Much of the impetus to growth in recent years in many countries has come from the public sector, and much of the FDI flowing into the region is targeted to extractive industries or parastatals that have been privatized. To capture greater benefits from trade and financial market integration, policy-makers in the region should focus on structural and microeconomic impediments to efficient resource allocation and to improve competition. Policy reforms are required to ensure a sound regulatory environment in product and factor markets. Improving governance, improving the quality of public institutions, and enforcing public accountability are necessary if a vibrant public sector is to evolve. Combating bureaucratic delays and inefficiency, improving the quality of infrastructure services, and fighting corruption are also essential elements of a better investment climate.

Strategy and On-going Work program

The World Bank strategy in the BMENA region builds on the institution’s PSD strategy, the Infrastructure Action Plan and the WDR 05 on Investment Climate, and adapts them to the specifics of the region. It focuses on two main pillars:

- Improve investment climate, especially: land policy and institutional capacity; competition and administrative barriers to investment; access to finance; strengthened trade facilitation, regulation and infrastructure
- Improve service delivery, notably through Public Private Partnerships

The instruments mobilized are diverse, and contribute to tailor World Bank group involvement to countries' specific circumstances and needs:

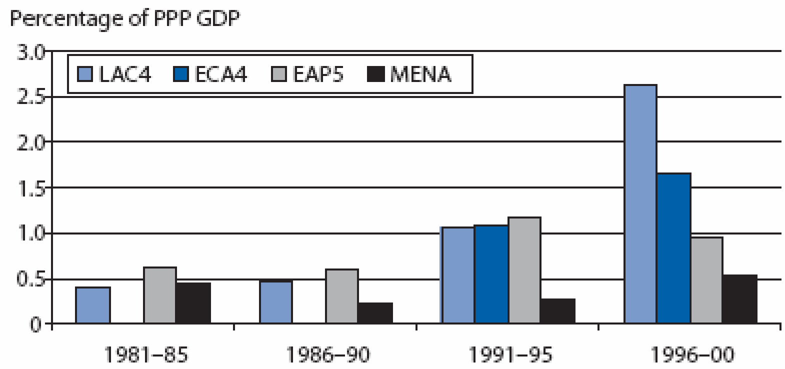
- on the diagnostic side, Investment Climate Assessments have already been undertaken or are on-going in Morocco, Algeria, Egypt, Syria, Oman, Yemen, Tunisia (Lebanon and Saudi Arabia forthcoming); an Investment climate Economic and Sector Work focused on Information Technology and Communications, State Owned Enterprises and utility services reform is on-going in Iraq; trade logistics diagnostics have been realized in Morocco, Jordan, Syria, Yemen; Financial Sector Assessment Programs have been undertaken in most of the countries in the region (Algeria, Egypt, Iran, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, UAE, Yemen) or are on-going (Bahrain)
- advice and services entail: technical assistance on privatization in Jordan, GCC and technical assistance on public private partnerships in GCC, Egypt, Iraq, Jordan, West Bank and Gaza.
- Lending activities comprise investment lending (Export Development I and II in Tunisia) and policy-based lending (Economic Competitiveness operations in Tunisia, Financial sector reform in Morocco, Tunisia and Egypt)
- Investment grants include Iraq PSD I and Gaza Trade Corridors (in the pipeline).

Partnerships

This strategic will be implemented with strong cooperation with other partners:

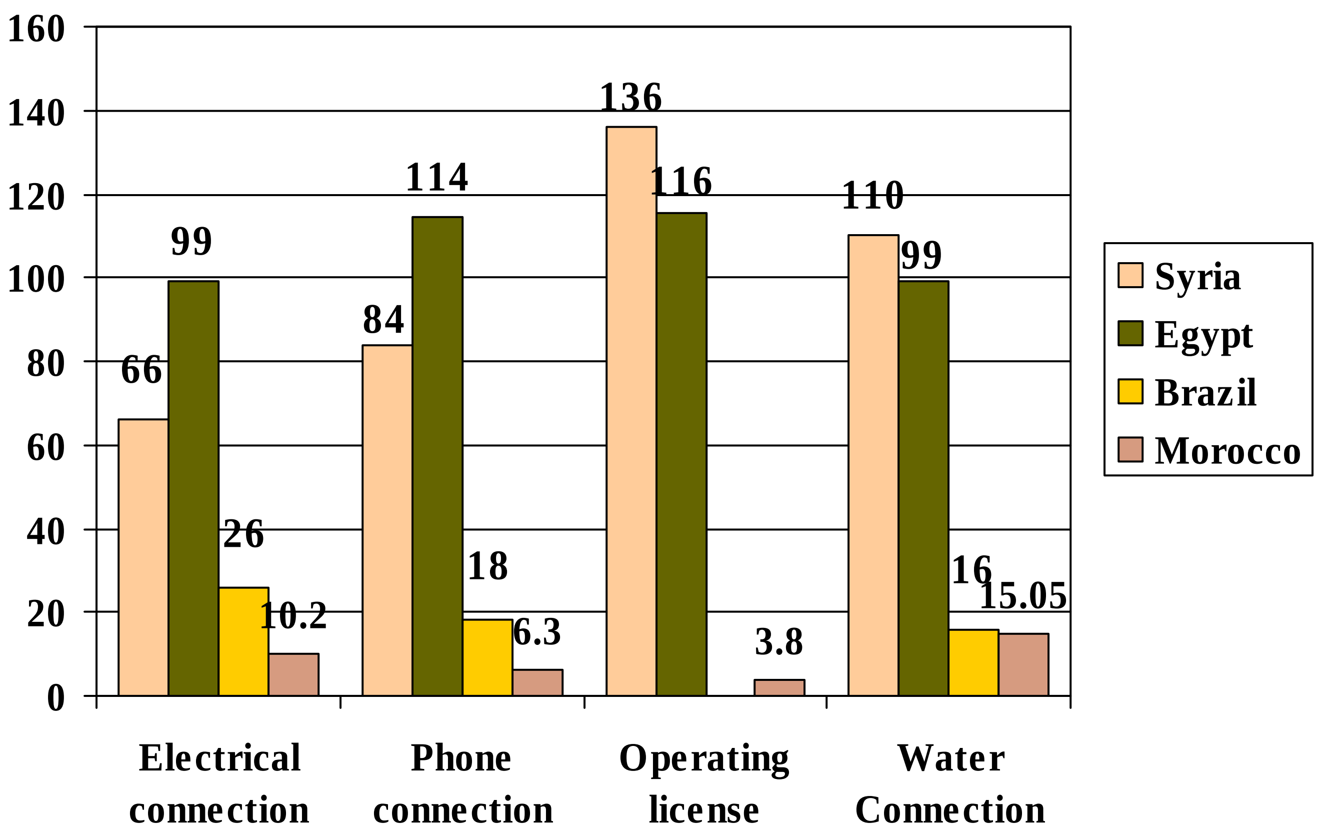
- with FIAS and PEP-MENA on administrative barriers
- with the EU on the whole agenda, as exemplified by the coordination on Investment Climate Assessments or specific operations (see Tunisia). The collaboration with the EU takes place in the context of the MoU signed last year between EU/EI and the Region
- with the OECD on the broad agenda of governance and investment, through the MENA-OECD Initiative on Governance and Investment for Development.

Net Foreign Direct Investment Flows to MENA and Other Regions



Source : MENA Flagship report, Trade, Investment, and Development in the Middle East and North Africa: Engaging with the World

Weak service delivery implies long delays

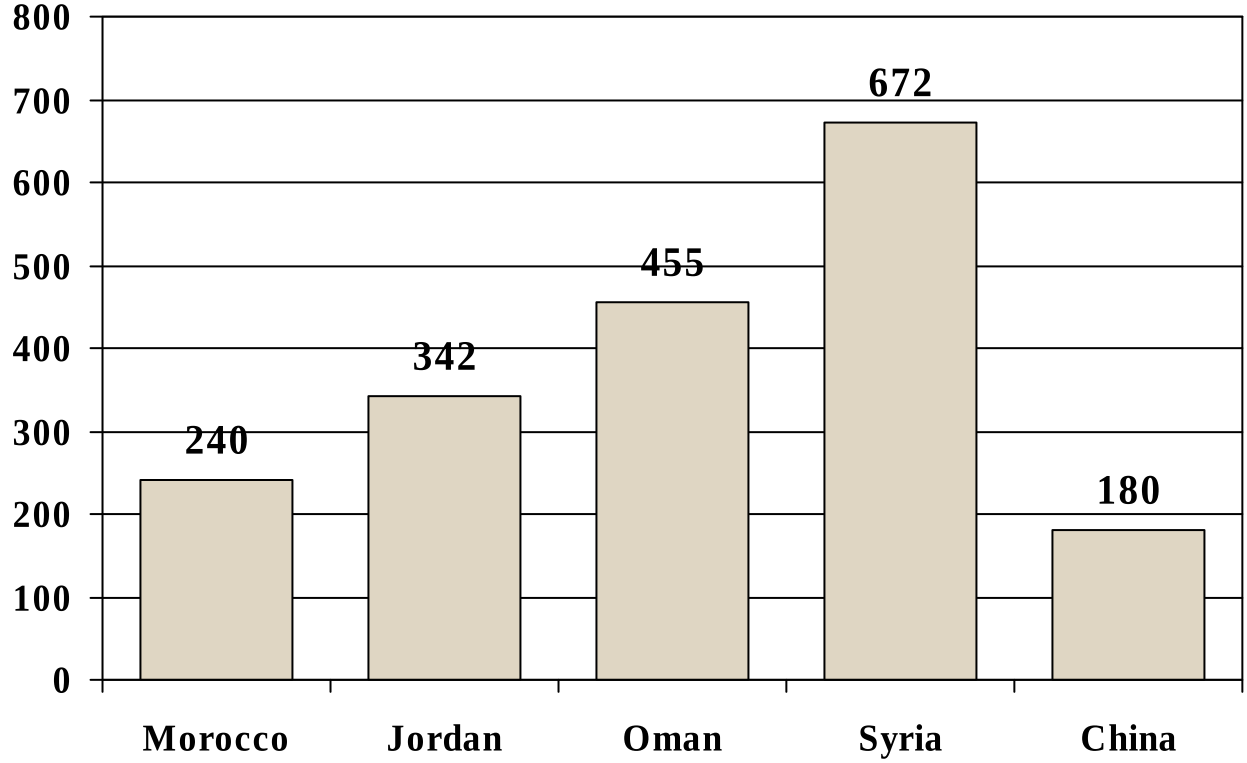


Source ; World Bank ICAs, 2004

Barriers at entry constrain competition

Region or Economy	Number of Procedures	Duration (days)	Cost (% GNI per capita)	Min. Capital (% GNI per capita)
East Asia & Pacific	8	52	47.1	100.5
Europe & Central Asia	9	42	15.5	51.8
Latin America & Caribbean	11	70	60.4	28.9
Middle East & North Africa	10	39	51.2	856.4
OECD: High income	6	25	8.0	44.1

Contracts are difficult to enforce



Source : ICAs, Doing business 2004