Seibel, Hans Dieter; Lubbock, Annina; Dommel, Henri

Working Paper

Women and Men in Rural Finance in the Syrian Arab Republic: State-Owned Banking vs. Self-Managed Microfinance

Working paper / University of Cologne, Development Research Center, No. 2002,3

University of Cologne
Development Research Center
Universität zu Köln
Arbeitsstelle für Entwicklungsländerforschung

WOMEN AND MEN IN RURAL FINANCE IN THE SYRIAN ARAB REPUBLIC: STATE-OWNED BANKING VS. SELF-MANAGED MICROFINANCE

by

Hans Dieter Seibel[1]
in cooperation with Annina Lubbock & Henri Dommel

15 trips to the bank for a loan:
In July 2001, Samirah applied to the Agricultural Cooperative Bank for a loan of SP 50,000 ($1,000), repayable over 5 years, though one year would have been appropriate. She benefited from a women's training and credit component of an IFAD-supported project in Jabal al-Hoss, one of the poorest areas in Syria. According to social etiquette, it is up to the husband to travel to the bank branch for loan negotiations. It took Samirah's husband Barjas 15 visits to the bank branch, plus one visit by the wife to sign the papers. Each visit took 9 hours; together with travel expenses, total borrower transaction costs were SP 6,400, paid up-front – compared to subsidized interest payments of only SP 2,750 during the first year. Disbursement was expected a week after our visit in September; but if the loan officer of the ACB branch happens to be absent, yet another trip is due. Project staff hopes to bring down the number of trips to three or four.

Having 10 children and opening a store:
Aminah is 40 years old and has 10 children. She and her husband own 2 ha of farmland in Bnan, Jabal al-Hoss. Her husband has a general merchandise store; but according to Aminah, "you find nothing in it." In January 2001, Aminah joined the new sanduq, a member-owned MFI, and received a loan of SP 25,000 ($500). Without any other resources, she opened a store for household electrical equipment. From the income, she bought additional stock, took out some money for the family, and repaid the loan after six months. She expects that future loans from the sanduq will finance the expansion of her business and generate additional income for the family.

[1] I gratefully acknowledge support of the study by the International Fund for Agricultural Development, Rome. Responsibility for the contents and any errors lies with the author.

Contents

Summary

Social equality vs. economic disparities between women and men: Policymakers in Syria are seriously concerned (a) about social equality and equal opportunities for women and men; and (b) about the effectiveness of financial institutions in providing adequate services to men, women and youth to fight poverty and reduce unemployment. Considerable social progress has been achieved in terms of social indicators; but wide gaps persist in terms of economic opportunities for women and men. A private banking law, presently before parliament, is expected to lead to thourough reforms of state-controlled banks

Institutional viability and outreach – ACB vs. sanadiq: The state-owned Agricultural Cooperative Bank (ACB), a partner institution of IFAD, and the sanadiq (*sg:* sanduq), a small network of self-managed local financial institutions supported by UNDP in Jabal al-Hoss, differ widely in viability and outreach. Both have their limitations, but might play important roles in rural development and poverty alleviation and, in particular, in a large-scale program against unemployment among men, women and youth which is under preparation. This raises several questions: (a) Do financial institutions that differ in viability also differ in outreach to women and men? (b) How can they expand and deepen their financial services? (c) Should they develop differential financial strategies and products for women and men?

ACB, an unreformed agricultural development bank: ACB is more an input trading company than a bank. State control over interest rates and loan purposes has made banking unviable. Its operations are inefficient, its financial services inadequate. With 106 branches nationwide and no sub-branches or agencies, ACB is unable to properly cover 1.3 million rural households in 5,500 villages. With its emphasis on credit in kind for inputs and its collateral requirements, two important market segments remain largely out of its reach: women and youth. Despite low interest rates, overall borrower transaction costs are exorbitant, barring most of the rural poor from access to microloans as well as microdepositing. ACB is aware of its shortcomings in terms of viability and outreach. It has participated in dialogues organized by NENARACA on the reform of agricultural banks, geared to generating the political will for reform

Sanadiq, community-based MFIs owned and managed by the poor: In contrast, a small network of sanadiq (sg.: sanduq) has recently emerged in Jabal al-Hoss, one of the poorest areas of Syria. These are owned by their members as shareholders and self-managed: an important institutional innovation in a hitherto centrally planned economy. Profit rates charged on credit (the Islamic-banking equivalent to interest rates) are high; but borrower transaction costs are negligible, and net profits belong to the members. Sanadiq are viable local financial institutions which effectively provide equal access to both men and women as owners and users. Women have decided to form self-managed subunits within the sanadiq, rather than establishing their own institutions. Youth are among the members, but do not yet form self-managed subunits. The repayment rate, at the end of the first year of operation, reached 100%. As a prerequisite of sustainability, a sanadiq apex fund was established for liquidity exchange and refinancing in October 2001. Work on a microfinance law may start once the private banking law is passed.

Targeting women with inappropriate financial services? ACB, through exorbitant borrower transaction costs, inappropriate loan terms and inadequate savings deposit services, has largely barred women from effective financial services. If, as in the case of the IFAD project in Jabal al-Hoss, women are selected as a special target group, they may not benefit: rigidly applied microenterprise training requirements may lure women into IGA without a market; big start-up loans may lead to big start-up failures; inappropriately long loan periods prevent experimentation and growth. Bad practices may do more harm than good to borrowers! Only when these fundamental problems have been solved should financial services be widely extended to women. As long as ACB is not viable, it cannot expand its outreach, nor is it advisable to do so.

Client-oriented financial services – separately for women and men: The sanduq is a financial institution of the people, which has demonstrated (a) that poor men and women can save, invest small short-term loans profitably and repay their loans on time; (b) that the poor can manage their own financial institutions with prudence and provide appropriate financial services; and (c) that a culturally appropriate way has been found of empowering women through joint ownership of the MFI, but separate appraisal of loan applications by the women themselves. As viable financial institutions, the sanadiq have expanded their outreach, though still on a very limited scale; the participation of women has increased substantially; and both outreach and women's participation are expected to continue to increase. Learning from experience, the sanduq women's committees are free to develop their own gender-sensitive products and strategies in the future.

Future strategies - transformation, expansion, and institutional linkages: To effectively reach men, women and youth with sustainable financial services in the fight against unemployment and poverty throughout Syria, the following recommendations are presented:

(1) transforming the Agricultural Cooperative Bank into a viable and sustainable financial intermediary with full autonomy to decide over the terms of financial contracts, loan purposes, collateral requirements and client selection;

(2) expanding sanadiq as self-managed village funds with equal access for men, women and youth all over Jabal al-Hoss and throughout Syria;

(3) combining ACB's access to financial resources with the sanadiq's access to the local people by converting ACB's retail microlending into wholesale lending to, & investing into, the Sanduq Apex Fund.

Donor cooperation: IFAD and UNDP, the two principal donors involved, may cooperate in:

(a) supporting a policy dialogue with government agencies to transform ACB and expand the operations of the sanadiq as instruments in the fight against unemployment and poverty;

(b) coordinating their support for microenterprise training and financial institution building with outreach to women and the poor.

First steps towards cooperation have been taken in the inception report for the proposed Idleb Agricultural Development Project.

I

Access of men and women to rural finance under conditions of social equality and economic disparities[2]

Social equality…
The Syrian Arab Republic, a middle-income country in the Near East, has vigorously pursued a socialist policy of equality between women and men, grounded in the constitution of 1973. Social progress has been remarkable. For example, in terms of two of the most powerful indicators, there is no difference in the nutritional standards of boys and girls; and average life expectancy has moved up to 70 years for both women and men. Adult literacy rates are high: 93% among men and 73% among women. More information on the social and economic framework is given in ***Annex 1***.

… but continued economic disparities between women and men
Yet, in economic terms, wide disparities persist. In terms of gainful employment, women are deprived of equal opportunities: The rate of women's labor force participation (12%) is very low compared to men (49%); and working women earn little more than one-quarter of the income of men. These differentials are greatly exacerbated by rural-urban disparities. In some of the poorest areas of Syria, like Jabal al-Hoss where both IFAD and UNDP are fighting poverty, the vast majority of women are illiterate and have no access to paid or self-employment.

Do financial institutions that differ in viability…
What characterizes Syria is thus a contradiction between social equality and economic inequality. In this framework, two types of financial institutions are being presented:

- a century-old state-owned agricultural bank, which provides inputs and financial services for purposes and at interest rates determined by the state;
- a new network of local financial institutions owned and managed by their members, referred to as sanadiq (*sg.:* sanduq = fund, village fund), which are flexible with regard to loan terms and loan purposes and operate on profit-sharing principles.

The two types of institutions differ widely in their ability to cover their costs and have their loans repaid. They also differ widely in terms of monitoring and information processing. For example, in the agricultural bank, as in all other commercial banks in Syria, information processing is slow and inadequate; and no information is available on male and female customers. In contrast, detailed and timely information is available on men and women as owners and borrowers of sanadiq.

… also differ in outreach to women and men?
It is evident that the two types of institutions differ substantially in terms of viability. But do they also differ in terms of outreach to women and men? A serious concern among development agencies is the relationship between institutional viability (or sustainability) and outreach. It is feared that a strong emphasis on viability will curtail outreach to the poor including women – but is this the case among the sanadiq? Conversely, an institution guided by a policy emphasis on equality may be expected to maximize outreach to the poor and to women – is this indeed the case of the agricultural bank? We will first look at these questions from the perspectives of the clients of these two types of institutions.

---

[2] References to the IFAD project *Jebel Al Hoss Agricultural Development Project*, appraised in 1994 (# 0523-SY) are included in the two chapters on ACB and the sanadiq. Between 1996 and August 2001, 1609 women had received training in income-generating activities; but it was only in mid-2001 that the first loan applications to finance women's projects were submitted to ACB. At the same of the study, September 2001, no loans had been granted yet.

Is there a potential for institutional reform and expansion of outreach?
Yet, client experience, indicatively presented below, points to the opposite: the sanadiq, viable institutions operating to date only in Jabal al-Hoss, serve women together with men as owner-users; while the bank, which operates nationally on state subsidies, largely fails to reach women. At the same time, the effective outreach of both types of institutions is very limited, curtailed in the case of the agricultural bank by portfolio rescheduling across the board. Our crucial question, dealt with in part II and III, is then: Is there a potential for reform by which the quantity and quality of financial services to women and men and perhaps youth can be substantially increased? This poses several questions:

- Can the agricultural bank with its national branch network be transformed into a viable financial institution with either wholesale or retail services to all segments of the rural population including women and the poor?
- Should the small network of self-managed sanadiq be expanded to cover all of Jabal al-Hoss; and should additional networks of sanadiq be created with outreach to men, women and youth throughout Syria – a country hitherto dominated by state banking and central planning?
- Can the two types of institutions be linked in some way, to maximize their comparative advantages for the benefit of rural women and men in Syria?
- How can donors like IFAD and UNDP cooperate to expand and deepen financial services to poor women and men in a sustainable way – eg, in the newly proposed *Idleb Agricultural Development Project*?[3]

[3] Inception Report, October 2001, IFAD doc # 218744, ¶ 92, page 20.

II

Agricultural Cooperative Bank (ACB): The challenge of transforming an unviable bank into a sustainable financial intermediary with outreach to low-income men and women

1. The client perspective: Clients of ACB and the IFAD project in Jabal al-Hoss

Challenges to a government-owned agricultural bank: At 5.5% interest p.a., loans from the Agricultural Cooperative Bank (ACB) are cheap. Given the existence of sanadiq as local financial institutions at the village level, there are now two questions: are ACB loans accessible to everyone in the villages of Jabal al-Hoss; and at what costs to the borrowers? IFAD has provided liquidity to ACB for on-lending to beneficiaries of its derocking project and to women who underwent training in income-generating activities. Is ACB a suitable intermediary?

A sewing machine lasts forever…:
Leila Mohammed in Bnan received an industrial sewing machine as a loan-in-kind, amounting to SP 40,000 in August 2000. This was the first loan ever received by a member of her family. Installments of principal and interest are due annually; the first interest payment was deducted upon disbursement. She met her first payment of SP 9,800 on time in August 2001. Leila sews dresses with materials supplied by customers in the village. Her gross income is SP 2,000 per month. After deducting expenditures for materials and for the repayment of the loan, she says she is currently left with a monthly net income of SP 200. Yet she considers this a reasonably good investment. According to Leila, s*heep may die, a sewing machine lasts forever*. However, she could do better if she were able to buy cloth and sew dresses for sale to traders in Aleppo. She doubts that she will be able to do that before having repaid her loan, which will be due in 2005.

… and sewing does not depend on the weather:
Leila's husband was planning to take a loan from ACB to raise cows. However, she argued against it because of the risk involved. Instead, she advised him to become a member of the sanduq in September 2000. In January 2001, he received a loan of SP 4,000 for six months from the sanduq, took SP 16,000 from his own funds and planted cumin on rented land, at a net profit of SP 9,400. His profit could have been higher, he explained, had he done the planting earlier. In the coming season, he will take a loan from the sanduq in December and do the planting one month earlier than last year. In this family, investment decisions are taken jointly; and the wife seems to be playing a strong role in them. One of her concerns is risk management: *Sewing dresses does not depend on the weather*, she says.

Opting for convenient financial services - from the sanduq, rather than the bank:
Halouf Mohammed, 34 years old, and married, with 7 children aged 3 months to 14 years, is a former ACB client in the village of Maktal Al-Zeidy. In November 1999, he took a seasonal loan-in-kind from ACB of SP 55,000 for planting barley, which he repaid upon maturity after 10 months. Since he has become a member of the local sanduq, he does not plan to take another loan from the ACB branch in Aleppo; nor do any of the other four villagers present, who are also sanduq members. They find bank procedures in Aleppo too cumbersome. In the fall of 2001, Halouf will again plant barley, without need for a loan from either ACB or the sanduq. In early 2002, he intends to go into sheep fattening, presumably with a loan of SP 30-50,000 from the sanduq.

Is training in sheep raising useful to women?
S*amirah Mohammad* is 40 years old and has 7 children between the ages of 6 and 20. She and her husband Barjas, 46 years old, are landless and, lacking collateral, are not eligible for regular ACB loans. In order to qualify for a loan from the ACB branch in Safirah, Samirah took an IFAD-sponsored 6-day course in sheep breeding, offered by a male veterinarian and a female agricultural engineer and attended by 20 women. Even though she had experience in sheep breeding, she found the course useful: she learned about animal health care and fodder mix; and from a video, she learned how to improve her milking skills and passed this on to her daughters.

15 trips to the bank for a loan:
Two month ago, in July 2001, Samirah Mohammad applied to ACB for a loan of SP 50,000, repayable over 5 years. Only women are eligible to apply; but according to social etiquette, it is up to the husband to travel to the bank branch for loan negotiations. It took Samirah's husband Barjas 15 visits to the bank branch, plus one visit by the wife to sign the papers. Travel expenses amounted to 16 x 200 = SP 3,200. Each visit took 9 hours. At a rural wage of SP 200, opportunity costs amounted to another 16 x 200 = SP 3,200. Interest payments during the first year are only SP 2,750; but total borrower transaction costs were SP 6,400 – payable up-front! Samirah and her husband Barjas expected disbursement a week after our visit; but if the loan officer of ACB happens to be sick that day, yet another trip might be due. This was briefly before the staff of the IFAD project started to facilitate loan applications of training participants from ACB. Project staff is confident that in the future, it will take only 3-4 trips to the bank branch to obtain a loan.

From excessive to appropriate loan periods:
Samirah's husband Barjas is a member of the local sanduq. In April 2001, he took a loan of SP 50,000 from the sanduq. In contrast to the corresponding ACB loans for 5 years, the maturity of the sanduq loan was 6 months. Adding SP 5,000 of his own funds, he bought one male and 12 female sheep. A six-months loan for sheep fattening would have been o.k.. But as he took the loan for sheep breeding, his main benefit was the milk and dairy products; and he now has to sell the sheep to repay the loan. Barjas suggests to extend the maturity of first loans for sheep breeding to 12 months; and to take a second loan for raising the lambs and then fattening them. ACB loans of 5 years are unduly long; and current sanduq loans of 6 months unduly short. Discussants agreed that one year would be the right loan period. But this requires a local financial institution, like the sanduq, with fast and convenient services; and a bank like ACB, with sufficient funds to refinance the sanadiq.

Implications for ACB, IFAD and UNDP -How to coordinate and coooperate: ACB, the IFAD project and the sanadiq face a variety of problems that could be solved through coordination and cooperation. Sanduq funds are not sufficient to satisfy the effective demand for loans and for longer loan periods up to one year. ACB branches, with their distance from the villages and their very restricted number of loan officers, lack the effective outreach to rural households. At the same time, the rural people are burdened with high borrower transaction costs resulting from their many trips to a branch to obtain a loan. Over recent years large numbers of women have been trained in IGA, but very few have obtained loans to finance their IGA. It appears advisable:

- To cooperate with ACB to refinance the sanadiq through a regional fund (sanduq markazi), with ACB acting as a wholesale agency and the sanadiq as retailers
- To cooperate with the IFAD project to train members of the sanduq women's committees as IGA advisers
- To provide IFAD's IGA training in cooperation with the sanadiq and adjust training contents and periods in the process.

2. The institutional perspective

A state-controlled bank facing an era of liberalization

ACB, a century-old agricultural bank, operates within a macro-economically stable, but tightly controlled system. Interest rates are regulated, with deposit rates higher than many lending rates; agricultural prices are fixed; the exchange rate is fixed; banks are nationalized; and directed credit is rationed through state budgetary allocations. The expected enactment of a private banking law in 2001 is one of several signs for the gradual opening of the economy, together with the expected reform of the banking sector. To expand growth and well-being to the rural areas where half the population lives, Syria needs a differentiated rural financial system with a full range of financial services to all segments of the rural population. As banks mostly require land as collateral, access of women, youth and the poor to financial services has been severely restricted. A more detailed assessment is given in ***Annex 2***.

Potential strengths

ACB might have an important role to play in the growth of rural finance. In 1999, ACB had 266,000 clients on its books, equivalent to 20% of rural households and 7% of rural adults, with a portfolio of US$ 461m of loans outstanding. However, this portfolio was fully rescheduled in 2000, which severely restricts loan turnover and financial deepening. Among its assets are its national branch network (albeit without sub-branches); its focus on private farmers and cooperatives (rather than state-owned enterprises); its provision of both credit and deposit services; and its access to judicial process in case of defaulting.

Lack of viability and effective outreach

Among the Bank's weaknesses are its lack of autonomy resulting in governance problems and a lack of performance orientation in banking; the mixing up of profitable commercial operations (accounting for 85% of gross income; profit margin of 3%) with loss-making banking operations (loss margin of 9%); an inverted interest structure which undermines both deposit-taking and lending; a lack of portfolio diversification and of attractive loan products for various market segments and loan purposes; absence of prudential norms under central bank supervision; limited outreach; negligible (but quantitatively unknown) outreach to women (due to requirements of land as collateral) possibly as low as 2% of total clients; a weakening credit morale due to recent loan rescheduling and interest exemptions *across the board*; and a lack of management information on portfolio quality. From a sound banking perspective, the vast majority of clients are defaulters. With insistence on repayment on the due date, the bank would be technically bankrupt.

Clients of ACB and the IFAD project in Jabal al-Hoss – costly access

Loans from ACB are cheap compared to sanduq loans; and IFAD-supported training in IGA is appreciated by many women. As one woman put it, *a sewing machine lasts forever; and sewing does not depend on the weather*. However, ACB does not have a delivery system reaching down to the village level. As a result, borrower transaction costs are exorbitant, requiring up to 15 visits to a branch; loan periods are excessive; terms and purposes of loans are subject to administrative control rather than entrepreneurial autonomy; and the number of beneficiaries is limited. Despite years of IGA training for women, lending to them is only just about to start and not well-adjusted to felt needs. Through cooperation between ACB, IFAD and MoA/UNDP, the quality of training and access to appropriate terms of credit could be vastly improved for low-income men and women in Jabal al-Hoss.

Transforming ACB in into a viable bank with wide outreach

Outreach and viability of ACB can only be strengthened together. Therefore, given its importance in rural finance and its potential outreach to vast numbers of small farmers and the rural poor, ACB as bank should be:

(1) separated from its input trading wing;

(2) transformed into a financially sound and growing rural bank, which mobilizes its own resources, covers its costs, has its loans repaid, and finances its expansion from its profits;
(3) converted, with regard to its small loan operations, into a wholesale agency refinancing sustainable local financial institutions (such as sanadiq) through their apex regional fund and thereby substantially increasing its effective outreach to the poorer segments of the rural population, including women and youth.

Transforming ACB into a healthy demand-oriented bank requires:

- separation of banking and input commerce
- bank autonomy under central bank supervision and prudential norms
- rationalization of interest rates, substituting market rates of interest on loans and deposit for directed rates
- vigorous deposit mobilization as a source of funds and as a service to farmers and rural microentrepreneurs to strengthen their self-financing capacity
- demand-oriented financial products
- timely repayment encouraged by incentives and the offer of repeat loans
- transforming branches into profit centers and offering performance incentives to staff
- increasing outreach substantially, especially to small farmers and male or female microentrepreneurs
- maintaining a high level of portfolio quality, with separate balance sheets for banking and commercial operations
- staff (re) training in commercial rural banking operations.

The political will to reform ADB, fight unemployment and eradicate poverty
The crucial issue is the political will to transform ACB into a viable and sustainable rural bank. This may involve the Council of Ministers, the leadership of the Baath Party, the Peasants Union, and the Workers Union. Donors like IFAD and UNDP may lend their support to a policy dialogue on the reform of the bank, its cooperation with local microfinance institutions like sanadiq, and its role in fighting rural poverty and unemployment.

III

Sanduq: A Microfinance Innovation in Syria

1. The client perspective

1.1 Women as sanduq owners and users

The sanduq of Bnan – rapid growth of women's participation: When the sanduq of Bnan was established in September 2000, 2 out of 70 members were women. In September 2001, membership had grown to 170, and the number of women to 54. The rapid growth of women membership from 3% to 32% within one year was due to initiatives by the Women's Committee and its chairwoman, Rajah Mohammad. With 9 years of education, she is one of very few women with adequate literacy. The committee meets every Saturday in Rajah's house to discuss membership and loan applications and income-generating opportunities.

Easy access to loans: During the first round, 13 women, all with existing businesses, applied for, and received, a loan. This has encouraged other women to apply for a loan, eg, for sheep fattening. They feel that access to loans is easy; and the sanduq, unlike ACB, does not require physical collateral, and unlike IFAD, does not require participation in training, which is considered superfluous in some cases. During the initial phase, there was no evidence that special attention is given to young and adolescent women who need IGA to escape early marriage. (*Fotos of borrowing women members: S7/16-18, 20*)

A young woman going into business:
Rajah Mohammad, a founding member of the sanduq and the chairwoman of the women's committee, is 23 years old, literate, and married with two children, one and three years of age. In May 2001, she sold gold worth SP 10,000 from her dowry and took a loan of SP 6,000 repayable over six months. With a total capital of SP 16,000, she bought a fridge and goods, fixed up an existing construction adjacent to their house, and opened a grocery store in May 2001. At the beginning of September, her husband, who works for the military, also took a loan from the sanduq, SP 10,000 to be repaid in six monthly installments, to increase the stock. Daily gross profit is estimated at SP 100-150, from which monthly installments of SP 1,150 have to be met. Rajah shares the income with her husband. "*It is the same pocket*," she said. *(Fotos: S7/5-6)*

The risk of loss-making…
Fakriah Ahmad Tlas is 39 years old, illiterate and married with 5 children, 6-18 years of age. She is one of the two female founding members of the sanduq and one of three women's committee members. Her husband, also a sanduq member, is a driver in the project. In December 2000, she took a loan of SP 20,000, which she repaid fully after 6 months upon maturity, and planted lentils. Had she owned the land and used her own labor, she would have made a profit. But with expenses of SP10,000 to rent the land, SP 4,000 for seeds, SP 6,000 for inputs and laborers, and SP 2,000 for credit costs – totaling SP 22,000 -, she incurred a substantial loss. Due to oversupply on the market, she only made SP 12,500 on lentil sales and expects another SP 5,000 from the sale of 2 tons of lentil hay. Frakriah hopes that the losses will be offset by the profit made from a loan of SP 50,000 by the sanduq to her husband for olive oil trading. Inspired by Halimeh's success (see below) and by a niece who borrowed SP 8,000 from the sanduq and made a net profit of SP 62,000 from cumin on 2.5 ha of land, using her own land and labor, Fakriah will soon apply for another loan and plant cumin, hoping that this time prices will not drop. (Foto: S7/7)

… and the chance of profit-making:

Halimeh Muhammed, 30 years old, married, with 4 children 1-6 years of age, made the right decision. With her first loan ever, SP 4,000 from the sanduq, she planted cumin on 0.5 ha of land and made a net profit of SP 15,000.

Having 10 children and opening a store:
Aminah Ibrahim Hammadeh is 40 years old and has 10 children. She and her husband own 2 ha of farmland. Her husband also has a general merchandise store, "but you find nothing in it," Aminah says. He is not a sanduq member because he cannot afford the payment of SP 1,000 for a share. Aminah however did become a member and received a loan of SP 25,000 in January 2001. Without any other resources, she opened a store for household electrical equipment. From the income, she bought additional stock, took out some money for the family, and repaid the loan after six months. She expects that future loans from the sanduq will finance the expansion of her business and generate additional income for the family.

Investment opportunities for women are ubiquitous: Most women participating in the meeting of the women's committee have investment plans, most of them in tune with existing skills and the financial resources of a sanduq:
Fatimah Rejab: SP 50,000 for one year for trading in cereals and olive oil

- *Salua Abdulfatah:* SP 30,000 for one year for an embroidery machine
- *Horiah Mohammed:* SP 75,000 for one year to open a store for grinding coffee
- *Rabah Mohammed:* SP 50,000 for one year to open a shop to sell bottled gas
- *Aminah Mohammed:* SP 40,000 for one year for sheep breeding
- *Seham Alramleh Ouayed:* SP 40,000 for cow fattening (two cows and fodder)
- *Halimah:* SP 50,000 for cereal trading (warehousing)
- *Rejah:* SP 50,000 for a clothing store
- *Fakriah:* SP 150-400,000 for a tractor (not available from ACB because of lack of collateral).

During an initial phase, loan periods are short, not exceeding six months. In the future, the women prefer longer loan periods, mostly one year.

Women's participation may be further strengthened by including women representatives in the sanduq management committee; training women's committee members in IGA advisory services in cooperation with the IFAD project; and offering loan products with different repayment schedules and flat-rate profit margins.

Promoting opportunities for young and adolescent women: Young and adolescent women, who face early marriage and childbirth without adequate IGA, seem to be underrepresented. There are challenging opportunities: promoting membership of young women and providing special training to IGA advisers in cooperation with the IFAD project.

1.2 Men as sanduq owners and users

The sanduq of Al-Mentar - small loans for joint family investments in a new sanduq: The sanduq of Al-Mentar **was** established in March 2001. It has 274 members, 76 of them women. As the sanduq is still young, loan sizes are small, not exceeding SP 25,000. *Abdul Karim Al-Shahwan* is a management committee member. He is 37 years old and has two wives, one with six and one with two children between the ages of 3 and 20. All three spouses are sanduq members. Both the husband and the second wife have taken loans on 1 September 2001 to finance tractor accessories: the husband took a loan of SP 25,000 for 9 months for a cultivator, the wife a loan of SP 25,000 for 4 months for a water tank, both repayable upon maturity. *(Fotos S8/1-16 Al-Mentar village)*

The sanduq of Maktal Al-Zeidy - owned by local men, women, and the young: The sanduq was established on 25 August 2000, with hopes that sanduq loans would be easier to access than those from the Agricultural Cooperative Bank. At the time of the visit, 19 September 2001, the sanduq had 100 shareholders, 60 men and 40 women, among them 8 young people below the of 18. Loanable funds, comprised of member shares and a UNDP equity contribution, amounted to SP one million. 40 members had applied for a loan. Loan applications were examined by the management committee and the women's committee in cooperation with a team of two project staff members. 27 loans were granted from the available funds: 15 to men and 12 to women; 13 members were placed on a waiting list. Loans are securitized either by any two reliable guarantors from the village; or by the members of a joint-liability group of five sanduq members, who all receive loans at the same time.

Putting moneylenders out of business:
Riad Mohammed is 27 years old and newly married. On 5 May 2001, he received a loan of SP 40,000 for the purchase of sacks for his cereal crop, which he repaid on time after two month. Without access to sanduq credit, he would have been forced to sell his crop to an outside trader-moneylender at SP 10 per kg below the market price. According to Riad, *the sanduq in Maktal Al-Zeidy has put the moneylenders out of business.*

From laborer to sheep farmer, with short-term loans:
Abdul Hakim Mohammed, previously a construction worker in Aleppo, is 37 years old, married, and has five children between the ages of 2 and 13. Thanks to the sanduq, he is now becoming a sheep farmer. On 1 April 2001 he received a first loan of SP 33,500 for three months for fattening 6 sheep and 7 lambs. He sold the sheep, repaid the loan and was left with a net profit of SP 3,000. On 15 July 2001 he received a new loan of SP 50,000 for six months for the purchase of 5 sheep and 10 lambs. He has given up his job in Aleppo, but still has to work one out of every two months as a migrant worker in Jordan to supplement the family income. With the growth of the sanduq, he hopes that eventually he will be able to get a loan of SP 150-200,000 to become a full-time sheep farmer, raising and fattening 50 sheep. In addition, he would like to raise three cows, which is more profitable but riskier. He expects that the sale of half the milk would cover all costs. The MoA/UNDP project provides veterinary services and training; but grazing might be a problem. Cattle insurance would be available from the Chamber of Agriculture at a fee of 2% during the first year and 0.8% during the second year. Without such insurance, no loans would be given for cattle.

Repeat loans for rapid microenterprise growth:
Mohammed Khaluf Naimi is a young man of 22 and single. Together with his brother, he makes fashion jewelry. Access to credit had been barred: the Agricultural Cooperative Bank gives loans only for agriculture; while the Industrial Bank and the Syria Commercial Bank give loans only to big entrepreneurs who are members of the Chamber of Industry. The establishment of a local sanduq opened new prospects of business growth for him. These materialized within the short span of half a year: On 17 January 2001 he received a loan of SP 35,000 for 1.5 months from the sanduq's own resources. When the sanduq's share capital was replenished by an equity contribution from UNDP, he received a second loan of SP 35,000 on 13 March 2001 for four months; and a third loan of SP 50,000 on 17 July 2001 for six months, with principal and interest due in a lump sum upon maturity. He used the first two loans to purchase raw material and sold the jewelry through a shop in Aleppo. The third loan allowed him a qualitative jump: moving his business to Aleppo and entering into a partnership with a shop owner. His new business partner provides the workshop together with tools and equipment; while he and his brother contribute craftsmanship and raw material. The monthly net income for the three partners is estimated at SP 15-25,000.

Adjusting loan terms: Many sanduq members complain about the profit margin of 2.5% p.m. Such complaints may be mitigated once dividends have been distributed at the end of the year. They may be further mitigated to the extent that members learn to invest these scarce resources more profitably and to finance subsistence and low-return activities from their savings. Most members repay their loans in a lump sum upon maturity. Their credit costs could be substantially lowered if they repaid their loans in monthly installments, either from the income from the debt-financed investment or from other activities.

Due to the shortage of funds, initial loan periods were short, mostly 4-6 months. This is appropriate for many IGA, indicated by the fact that many borrowers even repaid early. In other cases, eg, sheep raising, longer loan periods would be in order. However, during the experimental phase where lending experience is limited, such periods should not exceed one year.

2. The institutional perspective

Sustainable microfinance for women in a centrally planned male-dominated economy?
Syria shares two characteristics with many countries in the NENA region: *the power of the state* over banking and directed credit; and, despite equality before the law, *the lack of power of women* in the household and the economy at large. The devolution of power over credit to local private institutions and to women and men in equality would be a microrevolution. Several issues are related to the question of women's access to investment opportunities and microcredit: the feasibility of self-managed microfinance in a centrally planned economy and in a marginal area; the existence of investment opportunities for the poor and their ability to make profitable use of credit at market terms; and the role of donors: should they support women-only programs or processes of local decisionmaking and accept whatever the outcome**?**

Sanduq, a self-managed financial institution in Syria
Rural Community Development in Jabal al-Hoss, one of the most disadvantaged areas in Syria, is a joint project of the Ministry of Agriculture & Agrarian Reform and UNDP. The project was approved in 1998, implementation became effective in 2000. Its primary objective is the establishment of self-reliant local financial institutions, referred to as sanduq (*sg.*) or sanadiq (*pl.*). Its wider objective is income and employment generation through diversified agricultural and non-agricultural income-generating activities (IGA). The start-up of the sanadiq is self-financed through share capital paid-up by members. If their initial performance as a local financial intermediary is satisfactory, UNDP provides an additional capital injection. The sanadiq are self-managed and autonomous in their decision-making, which includes the adoption of Islamic banking principles. Men, women and youth may be shareholders. A more detailed assessment is given in ***Annex 3***.

Women opting for integrated sanadiq
Women in Jabal al-Hoss opted for integrated sanadiq, in which female members manage their own affairs through separate women's committees. 38% of sanduq members are women. During the first 8 months of 2001, their share of loans outstanding grew rapidly, from 6% to 30%, mostly invested in their own IGA. Through future cooperation in IGA training with the IFAD project in Jabal al-Hoss, women might further improve their earning capacity; while girls, through IGA training and access to finance, might establish their own IGA and thereby escape unemployment and premature marriage.

Organizational development and competence building
Microfinance and private banking are new in Syria. The project has taken steps to build up microbanking competence among its staff and sanduq committee members, including exposure training for men and women in neighboring Jordan. Major training efforts are required to generate the human resources for further sanduq self-management and

organizational development and for the expansion of sanadiq in Jabal al-Hoss and possibly throughout Syria. Training women, who are mostly illiterate, for sanduq self-management remains a particular challenge. Adequate microbanking competence is crucial before lending authority can be fully transferred to male and female sanduq management.

Profit-sharing, an Islamic banking technology
The sanadiq of Jabal al-Hoss have opted for profit-sharing according to Islamic banking practices. The size of the monthly profit margin remains controversial, but should not be reconsidered before dividends have been distributed for the first time at the end of 2001. Internal resources are the basis of sanduq self-reliance. With increasing confidence in sanduq performance, additional loanable funds may be generated through voluntary savings and bank borrowings. Loan terms and purposes are flexible. There is an unmet demand for small emergency loans up to SP 10,000 for 1-2 months (perhaps at a different profit margin) and for bigger loans above SP 50,000 and loan periods up to one year. The priority accorded to full repayment must be continued: through appropriate individual loan terms, repeat loans starting small and short-term, staff and client incentives for timely repayment, and rigid insistence on timely repayment. There is a marked need for innovations in on-farm and off-farm activities, to which project staff tries to respond. However, given a main emphasis on sanduq performance and expansion, new avenues must be found for interagency cooperation in IGA and microenterprise training and consulting, eg, with the IFAD project.

Insisting on full repayment
During the first year of financial operations, September 2000 to August 2001, 16 sanadiq were established They comprise 2,611 members, a share capital of SP 2.6 million and an equity contribution by UNDP of SP 12.7 million. 906 loans amounting to SP 25 million were disbursed; loans outstanding pn 31 August 2001 amounted to SP 15.8 million. In response to training and insistence by project management, the repayment rate of loans due in June 2001 reached a spectacular 100% by September: almost a miracle given the absence of a legal basis for loan enforcement.

Impact assessment
Syria, together with other NENA countries, has started late in developing efficient local financial institutions. With full repayment of loans by the end of the first year of sanduq operations in one of the most disadvantaged areas of Syria, the confidence is now emerging for an extension of the project and its regional expansion. In fact, it may evolve into a *lighthouse project,* with financial services for both men and women, to be disseminated as a Syrian microbanking model throughout the country. This will require careful **impact monitoring** of the MoA/UNDP intervention in the future at several levels: (a) of the institutional development of sanadiq, their network, regional fund and other apex bodies; (b) of IGA, income and employment; (c) of differential empowerment of men and women as owners and managers of their own local financial institutions; (d) of women's IGA and microenterprises and (e) of IGA and employment among youth as special issues; and (f) of microbanking and rural finance policy.

Men as sanduq owners and users
New sanadiq give small loans for up to three months from their own capital. With UNDP equity injections, loan sizes may increase to SP 50,000 and loan periods to 6 months. While there are many new borrowers in sanduq villages, many members are waitlisted as long as funds are in short supply. Anecdotal evidence shows that loans permit farmers to bypass trader-moneylenders and sell their produce at a higher price; laborers turn into farmers; and microentrepreneurs use quick-turnover repeat loans for rapid business growth and marketing innovations.

Women as sanduq owners and users
Women find access to loans easy, as sanadiq do not require physical collateral, nor is IGA training compulsory. Short-term sanduq loans give young and older women the opportunity to

do business of their own, eg, renting land to plant their own crops and opening small shops. There are risks involved; but most women find their investments profitable, using the additional income for business growth and family support. It is not rare that women – among them a mother of ten - are the better entrepreneurs, ushering in a process of gradually improving family well-being.

Towards sustainability
The sustainability of sanadiq beyond the duration of external project support requires in due course: (a) a microbanking legal framework, to be worked out with the bank supervision department of the Central Bank of Syria through an interagency committee; (b) official authorization loan enforcement; (c) the transfer of lending authority to operationally autonomous sanadiq; (d) an association of sanadiq with institutionalized support functions like training, consultancy, auditing and advocacy; (e) a regional fund for liquidity exchange and refinancing (established in 12/2001) with formal status; (f) delegated supervision through an auditing apex of the association of sanadiq or the regional fund under the authority of the central bank; (g) insistence on operational and financial self-sufficiency; furthermore (h) access to ACB or other banks as refinancing institutions or equity holders of the regional fund, possibly in conjunction with (i) the transformation of the microcredit operations of ACB from retail into a wholesale agency; (j) multiplication of regional networks of sanadiq throughout Syria; (k) the establishment of a national federation of sanduq networks and of a central fund (sanduq markazi) with access to central bank rediscounting; and (i) continual dialogue on market-oriented microbanking policies and interagency cooperation, including IFAD and UNDP.

Future perspectives
Based on the crucial roles of UNDP in building self-managed sanadiq in Jabal al-Hoss and of IFAD in supporting rural development in parts of Syria, a *participatory planning process* is recommended, involving Syrian agencies and donors including UNDP and IFAD. Planning objectives may include:

- the extension of the project and its regional expansion to other villages in Jabal al-Hoss with continued support by UNDP
- close cooperation between IFAD and UNDP to coordinate their respective women's training and credit components in Jabal al-Hoss
- coordination of IFAD's support of ACB and UNDP's support of sanadiq
- establishment of an association of sanadiq with effective central services
- capitalizing a sanduq regional fund, involving sanadiq, UNDP, IFAD and ACB as investors
- refinancing the sanduq regional fund through a wholesale window of ACB
- stimulating growth and fighting unemployment by spreading networks of sanadiq throughout Syria, with the Ministry of Planning, UNDP and IFAD as partners: to finance farm and non-farm activities; to stimulate the diversification of the urban and rural microeconomy; and to finance microenterprises of male and female youth.

Sustainable microfinance for women & men in a liberalizing economy
In an environment of incipient liberalization, sanadiq are a financial innovation devolving *power over credit* from the state to local institutions and from male-dominated households to women and men in equality. Empowerment of women has implied participation in the ownership and management of sanadiq; decisions on credit and investment; and the generation and use of income of their own. Donors like IFAD and UNDP may strengthen the foundations laid in Jabal al-Hoss and help building upon them a sustainable system of microfinance institutions throughout Syria: alleviating poverty, fighting unemployment among youth, and empowering women .

First steps towards cooperation in rural finance between IFAD and UNDP
In the newly proposed *Idleb Agricultural Development Project*, IFAD proposes (a) to provide credit funds through arrangements with ACB and (b) to finance income-generating activities through sanduq, "a community-based rural finance pilot initiative similar to the on-going UNDP-financed… project in Jebel Al-Hoss." This might lead to linkages between ACB and the sanadiq or the Sanduq Central Fund.

Annex 1:
The development of sanadiq in Jabal al-Hoss, 2000-2001

	31/12/2000	30/6/2001	31/8/2001	31/12/2001
Number of sanadiq established	9	16	16	
Number of members	1025	2156	2611	
Average number of members	114	135	163	
Number of female members	355	778	985	
Percent of female members	35%	36%	38%	
Amount of share capital in SP	1,866,500	3,083,000	3,562,000	
Average share capital per sanduq	207,000	193,000	223,000	
Amount of women's share capital in SP	613,000	1,070,500	1,287,500	
Percent of women's share capital	33%	35%	36%	
Equity grant by UNDP in SP	4,300,000	8,300,000	12,700,000	
Total capital	6,166,500	11,383,000	16,262,000	
Capital self-reliance rate	30%	27%	22%	
Number of borrowers/loans outstanding	237	551	435*)	
Number of women with loans outstanding	31	165	142	
Percent of female borrowers	13%	30%	33%	
Amount of loans outstanding	4,968,631	13,756,795	15,791,008	
Lending ratio (loans/capital)	81%	121%	97%	
Average loan size	20,965	24,967	36,301*)	
Amount of women's loans outstanding	313,870	3,767,812	4,733,875	
Percent of women's loans outstanding	6.3%	27.4%	30.0%	
Average loan size of women's loans	10,125	22,835	33,337	
Repayment rate** of loans due 30/6/2001:				
17 July 2001		99%		
17 September 2001		100%		

*) In an undiversified portfolio, monthly and seasonal fluctuations tend to be large. During July and August, most loans are for sheep breeding or fattening; these loans tend to be larger-size (up to SP 50,000). Seasonal loans, which are larger in number and smaller in size (around SP 15,000), will be disbursed mostly in November. This will increase the number of loans outstanding considerably.
**) The repayment rate is defined here as the collection rate: Amount Paid/Amount Due.

Annex 2:
Women in the sanadiq of Jabal al-Hoss, 2000-2001

	31/12/2000	30/6/2001	31/8/2001	31/12/2001
Number of female members	355	778	985	
Percent of female members	35%	36%	38%	
Amount of women's share capital in SP	613,000	1,070,500	1,287,500	
Percent of women's share capital	33%	35%	36%	
Number of women with loans outstanding	31	165	142	
Percent of female borrowers	13%	30%	33%	
Amount of women's loans outstanding	313,870	3,767,812	4,733,875	
Percent of women's loans outstanding	6.3%	27.4%	30.0%	
Average size of women's loans	10,124	22,835	33,337	