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### MICROFINANCE IN THE MIDDLE EAST AND NORTH AFRICA

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#### **ABSTRACT:**

The main purpose of the study is to identify the positive impacts of microfinance in Africa's developing countries and the Middle East. In the third world countries and the Middle East, Microfinance has provided essential funds. This study also outlines the state of microfinance in Middle East and Northern Africa (MENA). This study identifies the barriers of microfinance in order to understand the state of microfinance in Middle East and Northern Africa these countries. This study covers the state and benefits of microfinance in MENA as to venture in these economies so as to build up ways to increase revenue in these countries. This study used descriptive methodology based on the literature from previous recent studies. The data sources of this study are from data banks such as the World Bank data and the administrative bureau of statistics within these regions. Result shows that growing population in MENA region and prompt establishment of small and medium enterprises rapid, also the recognition of governments regarding the contribution of microfinance result growth and transformations in the microfinance industry.

#### **INTRODUCTION:**

Microfinance is a banking/financial process that is provided to low-income persons and the unemployed who have no other financial services access in order to ensure that their financial needs are catered for and is aimed at creating income generating activities [1, 2]. These services are quick, reliable and affordable thus is effective to the third world countries and the middle income economies. The ultimate goal of microfinance is to give the low-income persons a sustainable plan on being self-sufficient with a saving,

borrowing and insurance activities [3]. These financial products provided by microfinance are a great way of ensuring peoples living standards are proper and that they can access the basic needs. It also assist in giving them a chance to business opportunities as with the saving and credit plan available people can now manage to venture into businesses thus build them financially. Microfinance is also a good choice of economy build up as it generates a lot of revenue through the companies providing these services as they manage to get many clients [4-6]. This is simply because in most middle income economies and the third world countries there is a large population living below the expected 1.9 dollar a day thus the microfinance services is effective and thus the provision of these services generate revenue to the country [7]. With many companies venturing in the microfinance business it is effective and easily accessible and has helped many people to pull out of poverty lane by managing their financial activities effectively. There are many ways of accessing this fund with the forming of self-help groups the most common way which is always effective as it allows the members to pay partially with each other's contribution. This also allows the groups to venture into business with capital provision as the microfinance companies always encourage such plans. The other way of accessing this fund is by personal application. The money is granted to you personally and the payment plan is normally given to you. It is also a good choice of accessing this fund as you are liable to payment and penalty in case of payment default alone. The Middle East and the Africa both are characterized with low income economy with people living below a dollar per day [8]. With this there is need for micro financial companies to venture in as it is ideal in offering a stepping stone to the people as well as generating revenue for the country [9]. The micro finance also plays a role in ensuring people live in harmony and do not turn on each other as there is chances that people will look for survival antics when there is a crisis [10]. This comes handy as the given plans of taking these small funds gives them a sense of working harder and being responsible of their actions. There is need for microfinance in every economy as it contributes largely on revenue collection and improving of living standards of the people and with every small development it counts. Due to the struggling economies and crisis that comes handy with this there is a need to finding a solution to this. The people facing the effect of these economic tussles are the common people thus there is need for Microfinance to come in to the rescue of the people and the economy of the country [7]. These problem is common in the Middle East countries and Africa thus is important for micro finance to come in and give the people as chance as the people in these economies are characterized with potential and their lands have natural resources that needs exploiting but not with the ailing state of people both their mind-set and health. The microfinance can turn this around by financing these people so they can get a reason and concentrate on working hard to improve themselves. The revenue redeemed from such countries are high as the population is big enough and with the microfinance playing it part well the interests collected gives a good figure that improve the economy within a short period of time. The problem associated with microfinance is the default of payment by the members yet still with the right measure in place these can be minimized and everyone held

accountable [11]. This can be done by involving the communities directly and disintegration of the services and ensure that their centers reaches all the towns and centers.

### **METHODOLOGY**

The descriptive methodology will comprise on the use of literature from previous recent studies. The essential relationship will be examined whereby a portion of the variables that are accepted to impact the examination subject will be controlled. This will be brought out through the media review. Strikingly, the subjective information will be utilized to quantify and clarify the significance of the qualitative data introduced from the exploration work. Some of the advantages of the descriptive approach are that it will enhance regular addressing of the research questions of this study. However, this method will only help in getting more information about microfinance. Description of the state of microfinance in this region will be achieved by archiving all the necessary data about the state of microfinance among the local communities. Applying qualitative information ensures that few intelligent decisions are tended to. Since, there are predefined classes for the respondents to investigate [12].

These examinations won't give the clever bits of appreciation on the focuses of exploratory research would. However, it ensures gathering the contributions to the decisions that will give substantial inferable information. In this way, enable the specialists to gage the essentialness of their outcomes. This ensures that the intended theories are tested and expressed regarding respondents perceptions. The analysis will be done to asses on the need for microfinance activities within the MENA region.

### ***Sampling technique***

For the data, sampling will be systematic such that the authenticity of the literature materials will be considered. Additionally the scope of the data collected will be mainly about the microfinance in MENA region. Generally, the qualitative data gathered will be utilized to give more information as well as a measure of qualitative information presented from the study. Whereby, correlation will be fundamentally studied by assumingly manipulating and tabulating some factors.

### ***Sources and type of data***

The study will mainly depend on both primary and secondary sources of data. The primary data are the raw facts that will be collected from various similar literatures that had the study about the microfinance in MENA region. Other sources of data will be the secondary sources that include materials such as, previous research analysis, online journals, books and publications related to micro financial sector especially within the MENA region, data banks such as the World Bank data as well as the administrative bureau of statistics within these regions. Notably, to avoid application of out-dated information, new journals and research data will be utilized. Statistical analysis from relevant bodies will also be used as studying references. Advantages of using secondary sources of data are that in most cases the secondary data is used to

define the population, therefore, easier for sampling process. For example, government agencies have carried out the similar research work. Secondary data can yield more precise information than that acquired through necessary research. This is not genuine but rather where a legislature or universal office has embraced an extensive scale study as it is probably going to yield much more precise outcomes than specially crafted and executed studies that utilize small sample size. Particularly in this study on microfinance within the MENA region comprises of a larger scope therefore making secondary sources of data essential. Additionally, secondary data ought not to be overlooked that optional information can assume a significant part in the exploratory period of the examination when the job needing to be done to characterize the examination issue and to create theories.

### ***Data collection techniques***

Data will be collected mainly from the secondary sources. Therefore various techniques will be employed to ensure successful data acquisition process. For instance, there will be revisiting the existing statistical literature related to Microfinances in the MENA regions.

### ***Analysis and presentation of data***

Information from the exploration infers the kind of assurances, estimations and additionally the general recordings. The Facts may be visual, numeric or unambiguous. Also, the accumulated data may join bits of knowledge about people, situation or responsiveness. Hence information gathering amid the review helps with the end goal that the investigator won't have any issue getting information about the subject in future. Data gathering and presentation are one of the significant walks in the entire research work. Quite, the presentation is the heart of the investigation record. It justifies the whole research objective. Diverse procedures will be associated to examine the data assembled. This analysis will in this way grasp study of the associated data whereby the data amassed be separated about the assessed past research composition. Furthermore, the broken down data will be presented utilizing different techniques. For instance, by the use of pie diagrams to express various parts of the analysis, the recurrence circulation of results will likewise be done and in conclusion evaluation of the suppositions and observations from different reactions.

## **RESULT AND DISCUSSION**

### ***State of the microfinance sector in the MENA region***

As the World Bank MENA financial report calls attention to, the microfinance sector in the area is still slight. Microcredit outreach by selected MENA nations represents in Table 1 shows only 0.2 percent of the district's Gross Domestic Product. Loaning by microfinance suppliers achieves just 1.8 percent of the grown-up populace. Indeed, even in Morocco, the nation that has gained the most ground in building up the business, microcredit advances

scarcely surpass 1% of the aggregate bank credit. The area has the most reduced rates of grown-ups with bank accounts 18%, and of needy individuals with formal access to related financial administrations at 9%. Additionally, just 13% of women in this region have a bank account compared to 23% of men. Furthermore, only 2% of the youths aged between 18 to 24 years had savings in any microfinance enterprise. Therefore it comes with no a shock that although there is more than six million household in this region that are eligible for microfinance credits services, microfinance market underdevelopment translates that there are around three million possible customers for this services, and translating to almost 3.5 billion US dollars in Gross Loan Portfolio. And from the study, the situation is unlikely to have a significant change shortly. Microcredit performance in MENA countries is relatively poor compared to other regions. However, in regard to individual countries within the MENA region, Morocco outstandingly is the overall performance having the highest number of microfinance outreach. 70% of microfinance institutions are available in Morocco.

**Table 1:** Microcredit Outreach by selected MENA nations [13]

	MFI providers	Number of active borrowers	Percent of women borrowers	Gross Loan Portfolio	Active borrowers/ working age population (%)	No of clients/ No of poor (%)	GLP/ Total credit
Egypt	14	868,315	55.7	165,018,626	1.69	5.8	0.24
Iraq	4	27,708	14.7	16,122,827	0.16		0.45
Jordan	7	134,037	84.1	121,578,626	3.7	65.6	0.68
Lebanon	3	23,678	32.8	20,584,560	0.84		0.1
Morocco	9	1,241,957	46.3	695,647,381	5.96	28.1	1.08
WB/G	8	34,265	43.2	79,727,913	1.68		
Syria	2	22,149	31.4	15,682,015	0.18	7.2	0.04
Tunisia	1	94,959	76.7	33,999,508	1.32		0.14
Yemen	6	24,976	95.8	3,241,486	0.2	0.2	0.16
Note: mix database 2016 showing microcredit outreach by some selected MENA countries.							

According to Sanabel [14] development of microfinance in Gulf cooperation council is low with only Saudi Arabia and Bahrain having microfinance institutions. Morocco has the highest number of active borrowers making it the best performing country among the selected MENA nationals.

Table 2 shows comparative study on the expected growth of the microfinance sector among different regions. However, MENA region is expected to grow by 10-15%. This indicates a stunted growth, owing to the low level of microfinance institutions with the region. Given the economic and demographic trends of this region meeting 10-15% growth is worrisome due

to some factors such as high level of financial exclusion particularly between the women and the youths.

**Table 2:** 2015-18 Growth forecast of regional microfinance markets

Region	Gross Loan Portfolio Growth Rate (%)
South America	15-12
Central America	10-15
Sub-Saharan Africa	15-25
MENA	10-15
Central Asia	15-20
Eastern Europe	5-10
South, S. East and East Asia	25-35
Total	15-20
Note: sources word bank report on microfinance growth index	

### ***Barriers to Microfinance development in MENA region***

Albeit each nation in the region has its obvious difficulties, the absence of institutional and administrative support is a typical reason for the slow development of the microfinance sector in the region. This is because microcredit institutions' product that is available in the area is centered on credits. Additionally other financial related administrations, for example, fiscal exchange and savings are insignificant because of the absence of administrative and enabling institutional framework that is enabling within the microfinance department. While a couple of nations like Yemen and Syria take into consideration reserve funds mobilization, the rest of the rest of the market sector is affected by restrictive regulations from the financial sector. Therefore, this has confining the development capability of Microfinance Institutions. Therefore most of the funding is done by outer banks that charges higher rates thus discouraging more borrowers. Moreover, the absence of institutional support can be evaluated by the fact that more than 90% of financial administrations for the low-income households MENA are offered by non-legislative associations, of which majority are not experienced and have limited financial infrastructures thus hindering microfinance sector development. The empowering environment for budgetary consideration in MENA has enhanced in the previous two years. However, it is still low. Insufficiencies in the financial foundation and administrative systems make access exorbitant and dangerous for banks. Banks need to depend on insurance that is costly to enrol and may not be promptly enforceable. Although registries in credits are improving all through MENA, most microfinance organizations are yet to register to the credit bureau. MENA countries performance on access to small, medium enterprises loans is relatively low compared to the financial sector depth of the other countries having similar Gross Domestic Product.

**Table 3:** Indicators of loan access by regions [13]

Region	Banks Deposit Accounts per 1000 adults	Banks loan Account per 1000 adults	Private credit as % of GDP
Sub-Saharan Africa	315.5	87.5	23.7
South Asia	653.8	54.2	43.9
MENA	744.0	213.3	50.6
Europe and Central Asia	1,395.4	325.2	45.8
East Asia & Pacific	1,116.9	343.9	58.4
Latin America % Caribbean	1,227.5	366.8	44.7
Note: world Bank financial access report 2016.international financial statistics			

From Table 3, it is evident that MENA region is dominated by the bank financial systems. However, the banking lending clients are mostly the large corporates. Additionally, the region is characterized by relatively low deposits compared to gross domestic product. The survey found out that in MENA region majority providers of the financial services are the banks. This is because the majority of the banks offer services to low-income earners. For instance, low-income earners are agricultural development loans and other food enterprises. Additionally the majority of the banks provide their clients with payment services. Additionally, the survey indicates that low microfinance development was as a result of pressure due to the economic transitioning from social and political factors. High rates of unemployment resulted to a few people being engaged in financial services. In MENA region the rate of unemployment is 25% for the youths. This reflects little saving and borrowing culture among the community members. Small and Medium-Sized Enterprises are essential for development and profitability in the MENA area. They represent about 20-40% of all work opportunities from the private sector in MENA and contribute over half of GDP yield in the region. However, in MENA, there is a massive gap in financing of the Small and Medium-sized enterprises of about US\$ 320-390 billion. The majority of this enterprise endures from inefficiency during operation thus hampering profitability and development. They are additionally to a great extent obliged by a huge operational challenge. While change endeavors have been progressing, MENA nations are ranked 98 out of 185 nations in the World Bank indicators for doing business.

### ***Opportunities and Implications for microfinance development in MENA***

The positive effect of economic inclusion is extensively renowned. More prominent access to financial administrations advances commercial

development and work and expands the security of the economy. The level of financial inclusion in the Middle East and North Africa is one of the most minimal around the world. 18% of the total grown-up populace has a commercial bank account with 13% of the total 18 being the female. Microfinance is a basic method for extending the accessibility levels to finance among the low-income members of the societies. Recently in MENA, the sector has encountered high development. However put in place appropriate microfinance laws and guidelines and additionally, the productive reinforced structure would empower sector towards experience its maximum capacity. A particular administrative system would ensure that the microfinance enterprises connect with the unbanked populace. Additionally, diffusion of information as well as particular bolstering administrations would ensure that the institutions expand and reach over many individuals thus providing opportunities for human developments through financial independence. In spite of microfinance in MENA being undeveloped, there is a possibility of its growth. Governmental and social moves across MENA are setting extra pecuniary weight on firms and family units. The survey speculates that the worldwide microfinance market will develop at a Compound Annual Growth Rate of 16.61%. One of the key elements adding to this development being the expanded concentration on the untapped financial sectors such as small and medium enterprise in MENA region. In Yemen, only 7% of the adults have an account with local banks. However, the increasing demands among the populace for financial administration services would steer opportunities appear for microfinance development. The SMEs are a key foundation of the economy in high-wage nations, however, among the developing nations, this sector is lowly developed. The Organization for Economic Cooperation and Development suggests that over 95% of ventures in the majority of countries are SMEs. Thus, accounts for about 60% of job opportunities within the private business arena. Small and medium enterprises are a hub for innovations thus prompting to local development through socio-economic welfare. This result in improved gross domestic product hence improved the economic security of a country. SMEs incorporate an extensive variety of organizations, which vary in their enthusiasm as well as business mentality. A lot of these enterprises are steady in their innovation while others are all the more in fact propelled or filling urgent administration specialties. Thus resulting to researchers and specialists concur that SMEs are pivotal supporters of employment creation and monetary development in both low and high-income nations. In low-income countries majority of jobs created are by the Small and medium enterprises. Therefore provides an opportunity for development of micro financing institutions to absorb the potency for financial services among the employees.

## CONCLUSION

With the development of world financial prudence several sorts of monetary administrations have risen to help individuals manage their cash as well as other assets. The main distinction and which is the principle research question of this study is that a vast number of individuals particularly in MENA have no access to the related economic administrations. Remarkably, in MENA



region financial institutions have been constrained by the dangers of giving credits without insurances, high exchange costs required with to lend small loans as well as a failure by financial business organizations to work in the extremely remote areas where the majority of low-wage family units live. This has resulted in the majority of the total population being exempted to microcredit services. With the ever growing population especially in MENA region, need for financial support, especially among the women and youths, have prompted to the establishment of Small and Medium Enterprises. The study has indicated that due to this factor MENA countries are experiencing a rapid growth and transformations in the microfinance industry. One of the main factors that have promoted this growth is the need for financial inclusion among women and youths, the majority of this group are being engaged in small scale business. This has provided an opportunity for micro finances due to the high capped interest rates by the lending banks are a discouragement to the group. Additionally, development in innovations has seen growth in mobile banking, therefore, calling for smaller financial services opportunities. Government measures to develop policies that support low-income earners have as well prompted to the need for policymakers to provide incentives to micro financing agencies. Although there has been a massive improvement in the microfinance sector a lot need to be done especially by the developing nations so as to streamline policies and curb the inefficiencies within this sector. Governments are recognizing the higher contribution of microfinance as a key driver of economic growth. Therefore, clear that for MENA microfinance sector to grow. Just like the study has shown Morocco refreshed its Microfinance Associations Law, objectively to energize union among the microcredit affiliations. Microfinance Institutions in changing into business banks or non-governmental organizations, it ought to be the correct course to develop the microfinance division. Consequently, Jordan established a microfinance system accommodating extensive administrative changes. Where else in Egypt, a bill was acquainted with Parliament even before the Arab Spring. Additionally, a presidential pronouncement set the course for standard observing of the microfinance part by the Palestinian Monetary Authority. Thus, this study indicates that there is a need for institutional support so as to enhance microfinance growth and development. Finally, from this study, it is evident that up scaling of the traditional microfinance institutions, branchless banking, as well as mobile money, will spur a broader range of services thus soaring credits to transform the microfinance market not only within the MENA regions but also globally. Therefore translating to improved credit risk systems that will have deeper penetrations therefore widening and diversifying the experience of financial service providers.

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