

**Syrian Arab Republic, Ministry of Agriculture  
United Nations Development Programme-  
Rural Community Development  
AL Jabal Al-Hoss, Aleppo, Syria  
SYR/97/004**

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## **Project overview**

The project, a rural microfinance project, has been launched in one of the most disadvantaged areas in Syria, the area of Jabal Al Hoss in the Aleppo Mohafaza.

The project aims to establish rural savings and loans systems to assist entrepreneurs in the area.

The selected area is inhabited by approximately 23,000 families representing about 200,000 inhabitants. These are grouped in small villages of about 2,000 people each.

A study undertaken by the project at the beginning of this year has established the poverty line at 50 Syrian Pounds per day, and has estimated that 45% of the population live under the poverty line.

The principle economic activity of inhabitants of the area is animal husbandry with a clear focus on the rearing of sheep. The profitability of this activity is limited and there is little diversification of income generating activities. Most residents are therefore forced to work as wage laborers, either in Syria where they pick cotton and olives depending on the season, or in Lebanon and Jordan where they work on construction sites or undertake menial work. Those who work in Syria only find employment during specific periods of the year, and remain without employment for a large part of the year living off the money accumulated during the cotton or olive seasons.

## **Present project status**

### **The team**

The team responsible for the project was put together in July of the year. The core staff is comprised of seven UN Volunteers and one Project Manager. All staff are extremely well educated, with a minimum of a university degree. Each of the UNVs has an educational specialty (Economist, agricultural engineer, lawyer, veterinarian, Media, Sociology) and the project Manager has extensive experience in agricultural research, having worked for many years in research at the Ministry of Agriculture.

The team is extremely unified, motivated and well managed. All key ingredients to success.

### **Project activity**

## **Start-up**

A short-list of 20 villages was selected by the project staff to undertake the pilot project, from which 10 villages were finally chosen. The final selection was primarily based on the villager's willingness to participate in the project.

In August of this year, the first Sanadiq were established in the 10 villages.

Each Sandouk was supplied by the project with a safe, a desk, a filing cabinet and three chairs.

Preliminary accounting training was undertaken for the accountants of each Sandouk, and a tentative accounting system was designed by the project staff for use by each Sandouk. Elections have been held in order to establish committees in each Sandouk. The committees include a Management Committee comprised of the sandouq President accountant and secretary, as well as a Woman's Committee and an Advisory Committee. Even though most Sandouq members with whom we met seemed to have some idea of what the roles of each committee were, these roles were not formally established or documented.

## **Project Goals**

As stated in the document detailing the design of the project, the project purpose is to "facilitate access to savings and credit services by community-based sandouq microfinance institutions among all men and women....to contribute...to a self-sustained process of rural production, employment and income in the area".

This serves a purpose as an overall project objective, but does not give much guidance for the day-to-day management decisions that must be taken by field staff. What is needed is a clear and solid vision of what a typical Sandouq should look like. In effect, when the project staff were asked to define what they perceived to be "a successful Sandouq", the following responses were given;

- A positive response from the community
- A large number of members
- A large number of shares
- A good understanding of the Sandouq concept
- A positive energy from the Sandouq members
- A strong community solidarity

It is interesting to note that there is no mention of the profitability of the projects financed, of the gender ratio, of the loan repayment rate, of the loan size etc. All key elements of a successful microfinance operation.

## **Loans**

These activities have allowed the Sandouk participants to start saving money, and in most cases to start financing projects. It seems that without exception all projects financed are related to the rearing of sheep. Only one Sandouq has financed a project involving the trading of sheep as opposed to their rearing.

The Sanadiq have financed at most two projects each through the profit sharing mechanism, with the majority having financed only one project. It was explained that

the reason for this was a lack of funds present for project finance. Having said that, it must be noted that most projects financed are by “microfinance” standards considered to be very large. Projects financed in one of the larger Sanadiq were in the 2-300,000 SP range, while some of the smaller Sanadiq were financing projects worth between 60-150,000 SP.

Note that some Sanadiq have financed small loans in the region of 10-20,000 SP for members who were in short need of cash over a small period of time. These loans were repaid within a two-week period with no profit-sharing participation from the borrower. The Sanadiq managers deemed these loans too small to request a share of the profits.

All loans disbursed are planned to be repaid in one lump-sum payment at the end of the project. Even though this payment method suites the cash-flow of the projects financed it is a very high risk method of repayment. There is no consideration of alternative sources of income to suggest an installment method of repayment. As previously mentioned many families in the area receive remittances from people working as wage laborers; a source of revenue that could be used to repay loans in installments- if the loans were small enough.

This loan management clearly shows the lack of understanding of the basic tenets of microfinance and of risk management on the part of the Sanadiq members. They believe that larger sized loans are more productive, a belief that is contrary to microfinance best practice. This stems from their premise that the only possible business activity in the area is the rearing of sheep, an investment that has a low profitability and therefore requires volume in order to ensure adequate returns.

Project staff are largely in agreement with the Sanadiq members. This is essentially due to their lack of exposure to basic concepts of microfinance and because they feel the constraint by the local economic environment and by the time limits available for launching lending operations.

Resolving this issue is of primary importance to the future development of the project. The definition of loan size is the key determinant in the control of the risk and in the development of a “business growth” culture as opposed to a hand-out culture that promotes instant and large scale disbursement of funds to projects with low productivity.

## **Gender**

Most of the meetings held with the Sanadiq members were with men, and even though one sanduq visited had nearly 50% female participation it was not clear exactly what role women played in the Sanadiq. One meeting was held with women members of a Sanduq, and they voiced their interest in playing an active role in the project.

It must here be noted that most successful microfinance programs have a substantial role allocated to women within their operations. This is seen as a way of reducing risk

and increases the developmental impact of operations. Such programs give special attention to this issue in their programme design.

### **Overall project recommendations**

The project has got off to an impressive start. The dynamism of the team and their willingness to succeed with the project have been the main driving force to achieve the aforementioned results.

Notwithstanding this, the project requires significant “systemization” if it is to continue to evolve past this preliminary stage. In effect, the project must first clearly define its purpose and its developmental objectives, it must then define its internal “by-laws” before working with the Sanadiq to define their by-laws. This work must be undertaken in a systematic and methodological manner and in the specific order previously mentioned.

#### **Mission:**

Microfinance is a balancing act. For example one must always balance the wishes of the beneficiaries with those of the programme, the loan size with the risk, the repayment period with the cash-flow, the project profitability with the possibility of failure, the extent of staff implication in the Sanduq and the creation of dependency or education, and last but not least the role of women with the development objectives and the traditions.

Where to strike a balance depends largely on the project’s objectives. In order to get things right, the project staff must clearly define the Mission of the project. For example, they must decide which if any of the following they are seeking to achieve with the project:

- Short-term job creation for Sanadiq members
- Education of Sanadiq members in saving and loans
- Creation of a motor for long-term economic development of the area
- Creation of a model that involves a large portion of the area’s populations
- Creation of a model that involves only a select, dynamic part of the population.
- Creation of community driven development initiatives
- Promotion of the role of women in the local economy
- Diversification of income generating activities

If the mission is more than one of the above, objectives must be prioritized, and must be given a clear time frame, keeping in mind that some of the above points may be incompatible with each other.

It is important to define how the project will help achieve the chosen objectives. One must also ensure that the road chosen by the project staff is compatible with the broad project objectives defined by UNDP and the Ministry of Agriculture.

All this will help the project staff in taking programmatic decisions as they define the necessary by-laws. Some of issues addressed by the project's programmatic by-laws include:

- how much of the decisions will be left to the sanduq members,
- what is the role of women in the Sanadiq,
- how will loan size be balanced with outreach,
- will the programme promote new income-generating activities
- will control over loan size be used as a tool to promote creativity in terms of business activities

### Project by-laws

Once the Mission has been clearly defined, the project must establish its operating procedures. Examples of some of the issues to be addressed are:

- What conditions will the project attach to the Sanadiq who will receive funds from the project. (E.g.: At least one woman on each committee, projects financed by Sanduq to have a profitability of more than x%, average loan size given by sanduq to be less than Y SP, community to offer a "neutral" space for the meeting of the sanduq etc).
- What form will the funds given by UNDP to the Sanadiq take? (e.g.: grant, free loan, conditional grant etc.)
- What is the role of the UNV. How much of a hands-on approach do they want to take to the management of the Sanadiq (Dr. Seibel recommends a hands-off approach, but it is recommended that this be reviewed in terms of the reality on the ground and the project's developmental objectives). In effect, detail job descriptions need to be written for the UNVs.
- How will the programme promote the role of women in the Sanadiq?
- How will the programme continue after the end of the present project with the Ministry of Agriculture? Note that this is an important issue that must be resolved as soon as possible. Adequate clarification will allow the project staff to focus on the long term sustainability of their operations; something of fundamental importance to any successful microfinance project.

### Sanduq by-laws

Possible example of elements of a Sanduq's by-laws include:

- Who keeps the keys to the safe. At the moment this is not clear, and is largely left to trust between the members. As the amount of money involved increases, accountability and transparency will become increasingly important.
- Meeting schedule. Few Sanadiq have a fixed meeting schedule and rules governing who should attend meetings. Again, this is fine for now but will become increasingly important as the number of members increase and as the monitoring requirements of the UNVs increase.

- Rules for late payments of loans. None of the loans yet given by the Sanadiq have been repaid. There are no clear rules governing action in the event of late repayment. This needs to be clarified before any more loans are given.
- Granting of small loans. Some Sanadiq have issued small loans of around 20,000 SP to members with short repayment periods (it was not clear if these loans were given with the full consent of all Sanduq members). These loans have a zero cost to the borrower, even though s/he may have made a profit from the use of the money. The Sanduq members should agree together on the terms of such small loans.

## **Training recommendations**

### **Establishment of a library**

There are an increasing number of resources in Arabic on microfinance. It would be extremely beneficial to the project if a resource library could be established. Some of the material could be delivered to the project in copy form from Lebanon. Other material may have to be specially ordered from overseas. UNDP NY could possibly assist in this regard.

### **Basic microfinance training**

It is clear that the staff of the programme require training in basic microfinance. Their knowledge of the subject is largely self-taught and is influenced by either their previous experiences in rural development or the reaction and requests of the community.

They have a great willingness to learn more about the field of business they are embarking on. Such training would have as a primary objective to ground the staff's thinking in the basic tenets of microfinance as defined by some of the best practice institutions in the world. Such training would give them an overview of "best-practice elements" and will give the staff the necessary tools to create a methodology that is workable within the project's objectives and the area's constraints.

This training will also allow the project staff to understand that microfinance programs are long-term endeavors and only yield sustainable tangible results in the community over a long period of time. This understanding will place issues in perspective and allow a better management of operations and will allow staff to change their relationship with the Sanadiq members. They will be able to explain to them that they must perceive their Sanadiq as long term projects that must be nurtured and taken care of in the short-term if they are to have any real benefit in the long term. This will have an impact on the member's vision of risk and on the establishment of loan terms (loan size, repayment structure etc.)

Moreover, such training will allow the staff and the sanduq members to learn the importance of institutional building in the development of microfinance programs.

The basic training should also teach the staff how to structure loans in order to balance between Loan size, risk and loan period. This balance will form the basis of any loan by-laws that will be established either at a programme level or at a sanduq level. At the basis of this training will be an understanding of business profitability, collateral management and loan rationing.

### International exposure

It is extremely important for the project management to be exposed to similar programs in other parts of the world. By visiting well established programs, the management will be able to better articulate their own vision of their programme.

In the selection of the programme to visit, it is recommended that the following be taken into consideration:

- Well established track record with the establishment of an institution that manages the project
- Similar methodology, with the establishment of village Sanadiq,
- Easy language accessibility

In fact, some of the most prominent cases of such programs are in Africa, where the “Caisse Villageoise” concept in place is very close in methodology to the sanduq.

## **Schedule of meetings**

### *Saturday October 7*

8.00-9.30	Meeting with Project Director and JPO at Project Head-Office in Aleppo
9.03- 10.00	Meeting with representative of the Aleppo Mohafaza
11.00- 13.00	Meeting at Project office with UNVs and Project Director
13.00-15.00	Visit of two Sanadiq in the Bnan area
15.00-17.00	Question and answer session with UNVs
19.00	Dinner with Project Director and JPO

### *Sunday October 8*

8.30	Breakfast briefing with Project Director
10.00-13.00	Visit of sanduq at Burj Azawi and Rouweyhib in the southern district
13.00-14.30	De-brief with UNVs