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Youth Microfinance Services in MENA

Tarek Coury and Qazi Rashid

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The Report Team

This Report is the product of a joint research effort by the Consultative Group to Assist the Poor (CGAP) and Silatech with support from Sanabel. The lead authors on this Report are Tarek Coury and Qazi Rashid, both with the Policy and Research Unit (P&R) at Silatech. The report, and underlying MFI survey, benefited from the input and support of Nadine Chehade and Mayada El-Zoghbi of CGAP; Sahar Tieby and Lamia Said of Sanabel; and Justin Sykes, Nader Kabbani, and Mohammad Farran of Silatech.

About Silatech

Silatech is a dynamic social initiative that works to create jobs and expand economic opportunities for young people throughout the Arab world. We promote large-scale job creation, entrepreneurship, access to capital and markets, and the participation and engagement of young people in economic and social development. Founded in 2008 by Her Highness Sheikha Moza bint Nasser, we find innovative solutions to challenging problems, working with a wide spectrum of NGOs, governments and the private sector to foster sustainable, positive change for Arab youth. For more information, please visit www.silatech.com.

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Abstract

While recent reports illustrate the severity of youth economic and financial exclusion in the MENA region, little is known about the financial and non-financial services specifically provided by MENA financial intermediaries – such as microfinance institutions (MFIs) – to Arab youth. Analyzing the responses of 43 microfinance institutions surveyed in 10 countries across the Arab world, this report provides a description of MFIs' level and type of provision of youth financial and non-financial services, attitudes toward youth, and assistance required to increase youth outreach. The key findings of the survey center on how MFIs view youth in terms of market prioritization, serve the market segment, and assess the performance of their youth loan portfolios against those of older adults.

Introduction

In the wake of social unrest in the Arab world, the ability of youth across the Middle East and North Africa (MENA) region to access financial services has come into focus, be it as a source of financing to help start or grow a business, save for future life needs or insure themselves against unforeseen events. Analyzing the Global Findex Database, a recent World Bank report finds that only 13 percent of young people (aged 15-24) in the MENA region had accounts at a formal financial institution, as compared to a world average of 37 percent. Sub-Saharan Africa was the second lowest after MENA with 17 percent.[1] Moreover, the findings show that only 2 percent of young people in the MENA region saved at a formal financial institution compared to a world average of 15 percent. Aggregate data from a recent IFC/McKinsey report further illustrate the lack of financial inclusion of micro, small and medium-size enterprises (MSMEs) in MENA relative to all other parts of the world. In particular, the report finds that the proportion of MSMEs with loans or credit facilities in MENA is about 7.1 percent, lower than for OECD countries (43.5%), Latin America (59.6%), or Sub-Saharan Africa (20%).[2] These data illustrate the severity of economic and financial exclusion for both youth and owners of micro-enterprises in the MENA region.

While these findings shed light on both demand and supply-side aspects of financial inclusion in MENA, little is known about the financial and non-financial services specifically provided by financial institutions – such as microfinance institutions (MFIs) – to Arab youth. The lack of appropriate data on the supply side of financial inclusion in the region motivated Silatech, a social initiative dedicated to creating jobs and economic opportunities for Arab youth, and CGAP, a policy and research center dedicated to advancing financial access for the world's poor, to conduct a survey of MFIs in the MENA region in cooperation with Sanabel, the Microfinance Network of Arab Countries. The objectives of the survey are to identify (a) the level and type of provision of financial and non-financial products and services to youth in the region, (b) the difficulties faced by MFIs in providing products and services for youth, and (c) technical and financial assistance that MFIs need in order to expand their products and services to youth.[3]

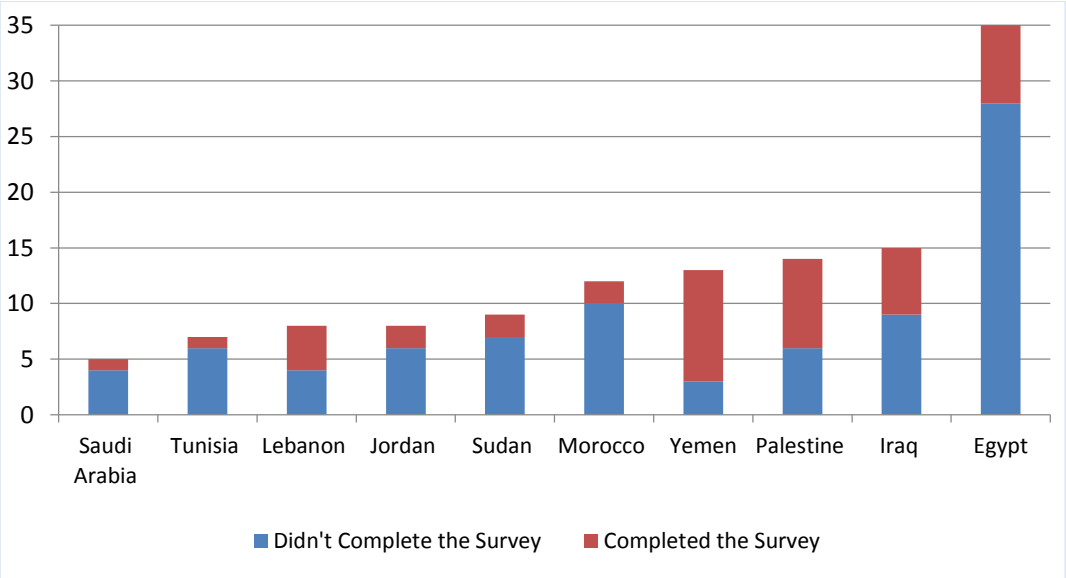
This report provides an overview and analysis of 43 microfinance institutions surveyed across 10 Arab countries and is organized as follows: the first section explains the methodology used for sampling MFIs and conducting the survey. The second section provides a description of the MFI participants focusing on key indicators, such as total active clients, active portfolio, and average disbursed loan amount. The third section is dedicated to the level and type of provision of youth financial and non-financial services provided by MFIs. The fourth section describes MFIs' attitudes

toward young clients and provides an assessment of how these perceptions compare to reality. The fifth section concludes. Appendix A provides additional information regarding the surveyed MFIs, appendix B includes additional graphs and tables, and appendix C includes the survey instrument used for this report.

Survey Methodology

In January 2013, an online survey was distributed by Sanabel to 132 MFIs across 13 MENA countries. Of these, 84 were Sanabel members. A total of 3 reminders were sent to the MFIs to complete the survey. The final response to be included in the analysis was received on July 2013. A total of 43 MFIs (33% of 132 MFIs reached) completed the survey; 34 of these MFIs were Sanabel members, covering 10 countries in MENA. Out of these 10 countries, five had at least four MFIs participating in the survey: Yemen, Palestine, Egypt, Iraq, and Lebanon. Only one MFI each participated in the study for Saudi Arabia and Tunisia: to our knowledge, these are the largest registered MFIs operating in those countries.[4] Questions regarding youth, youth services, and technical questions (such as non-performing loan rates) received a lower than a 100% response rate.

Figure 1: Number of MFIs contacted and number responded by country of operation

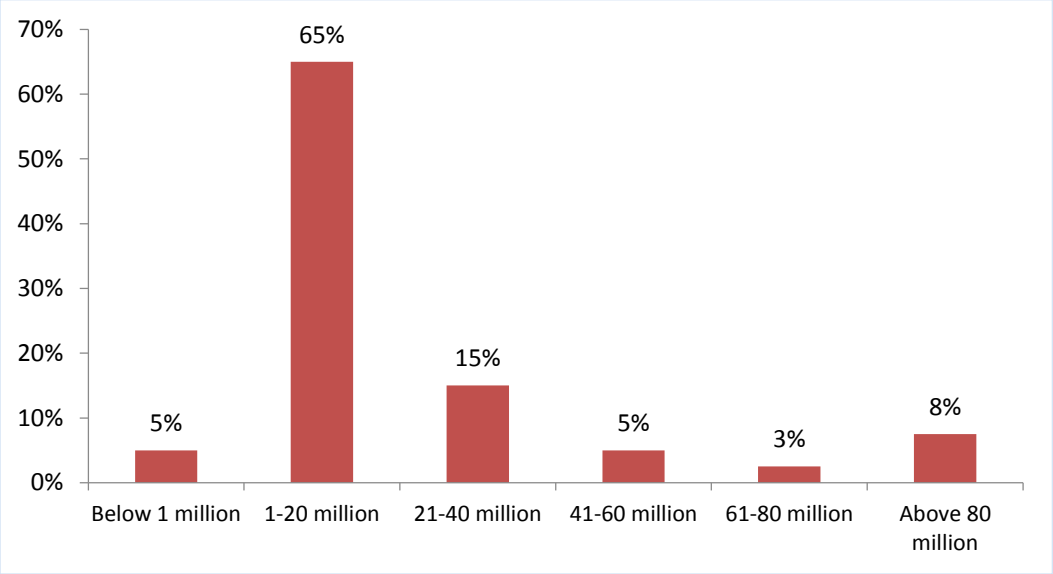


Profiles of Surveyed MFIs

The majority of respondent MFIs are relatively new with around 58 percent established between 2000 and 2011 whereas only 7 percent of the MFIs were established prior to 1990 (Figure B1 in Appendix B).

Sixty five percent of MFIs have a total active portfolio in the range of USD 1-20 Million (Mn). Approximately 15 percent of MFIs have an active portfolio between USD 21-40 Mn. The largest MFIs have an active portfolio in the billions of US dollars while the smallest MFI has an active portfolio of only half a million US dollars.

Figure 2: Distribution of total active portfolio

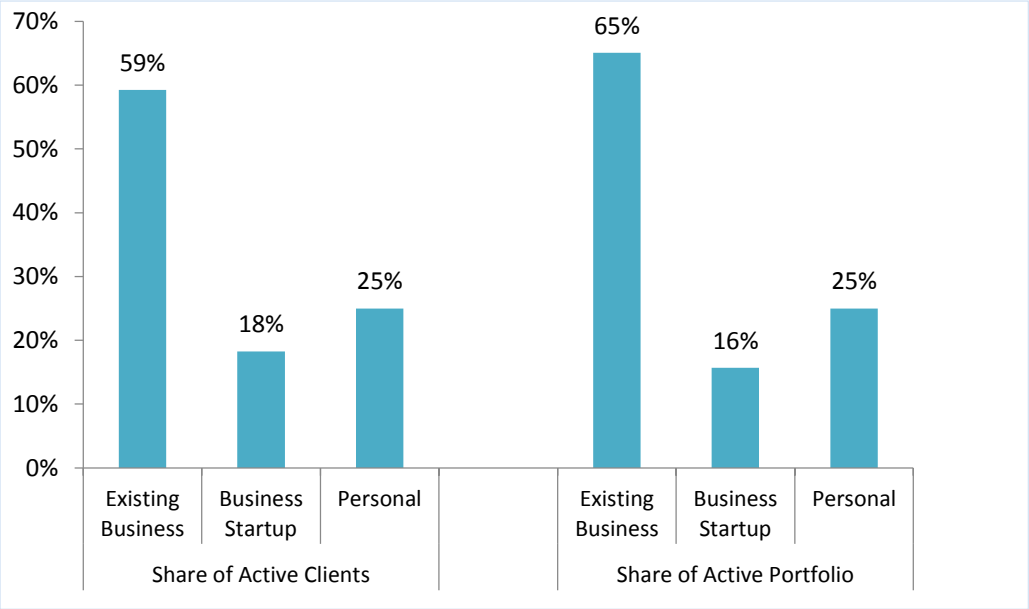


Note: 40 MFIs responded.

Granting loans is the most common service provided by MFIs (100% of respondents). The second and third most common services are personal insurance and personal savings: 28 and 21 percent of MFIs, respectively. Business insurance, such as crop or livestock insurance, is the least common service reported with only 7 percent of the MFIs offering this service to their clients (Figure B2).

A total of 59 percent of MFI respondents indicated that their clients applied for expansion loans for their existing businesses. This type of loan represents the lion's share (65%) of MFIs' total active portfolios. Expansion loans allow existing businesses to expand their operations. Personal loans, such as vehicle loan, marriage loan, etc., were the second most common financial service obtained through MFIs, covering 25 percent of total active clients and capturing 25 percent of MFIs' total active portfolio. Business startup loans represented the lowest share of both active clients that have loan products and the share of those products in MFIs' overall loan portfolio: 18 percent and 16 percent, respectively.

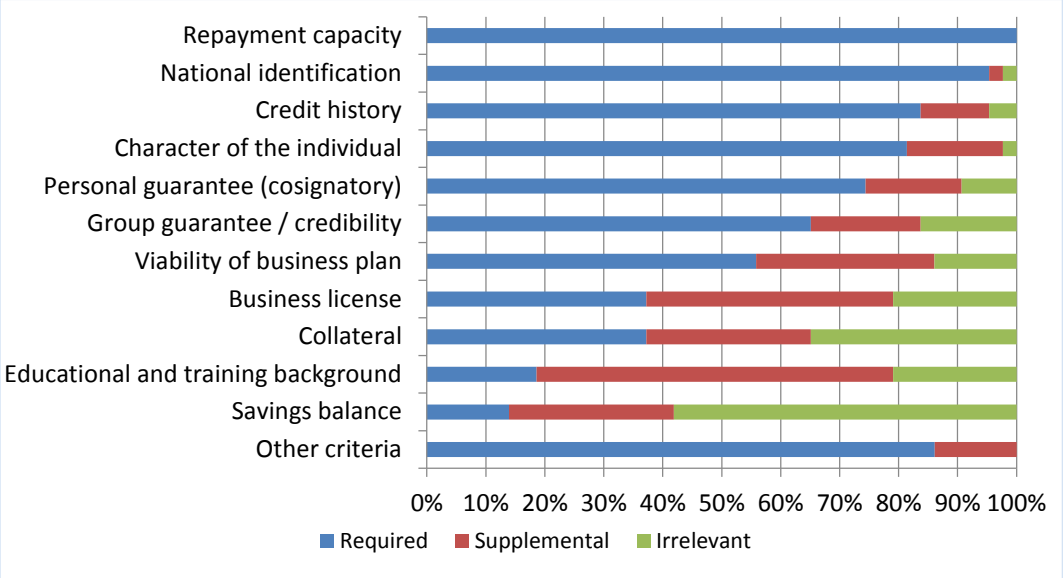
Figure 3: Share of client/portfolio type in loans



Notes: 1. Out of 43 MFIs, 37 MFIs filled the information about the percent of clients who received expansion loans to existing business among their total active clients. 32 MFIs shared the information about the share of expansion loans to existing business portfolio in their total loan portfolio. 2. 33 MFIs filled the information about the percent of clients who received business startup loans among their total active clients. 30 MFIs shared the information about the share of business startup loans portfolio in their total loan portfolio. 3. 26 MFIs filled the information about the percent of clients who received loans for personal reasons among their total active clients. 22 MFIs shared the information about the share of personal loan portfolio in their total loan portfolio.

MFIs place a number of requirements for extending loans to prospective clients. All MFIs consider repayment capacity to be a requirement for analyzing clients' creditworthiness. Approximately 95 percent of MFIs require national identification for credit analysis. The third most important criterion is the credit history of potential clients: over 80 percent of MFIs require it. The least relevant factor is clients' savings balance with approximately 60 percent of MFIs considering this to be irrelevant in the process of analyzing creditworthiness.

Figure 4: Criteria for credit analysis

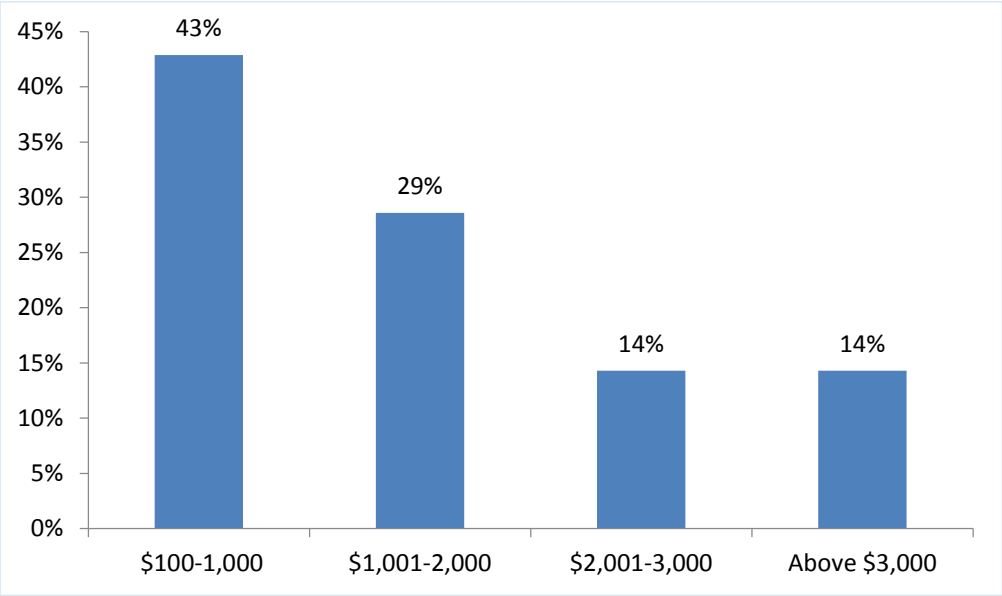


Note: 43 MFIs responded.

The majority of MFIs lend to both individuals and groups (59%). Over a third of MFIs lend only to individuals and a small share lend only to groups. Group lending is sometimes favored by MFIs in the absence of collateral or guarantor (Figure B3).

The average disbursed loan amount for 43 percent of the respondent MFIs fell between USD 100-1,000. A roughly similar share had average loan disbursements of between USD 1,000-3,000. Only a small share of MFIs (12%) had average loan disbursements of above USD 3,000 in loans to their clients.

Figure 5: Average disbursed loan amount



Notes: 1. 42 MFIs responded. 2. Average disbursed loan amount is on the x-axis. For example, 43% of MFIs have an average disbursed loan amount between USD 100 and 1,000.

The maximum disbursed loan amount for over half of MFIs was lower than USD 10,000. Disbursed loan amounts of USD 30,000 or more were reported by only 9 percent of respondents (Figure B4).

Around 90 percent of MFIs claim that they currently provide non-financial services along with financial services for their clients. The services are heavily focused on training, with over 50 percent of these MFIs providing business management and financial literacy training to their clients. This is followed by skills training (49 percent) and mentoring / coaching (44 percent). Only one third of MFIs surveyed indicated that they provide support in linking clients to markets (Figure B5).

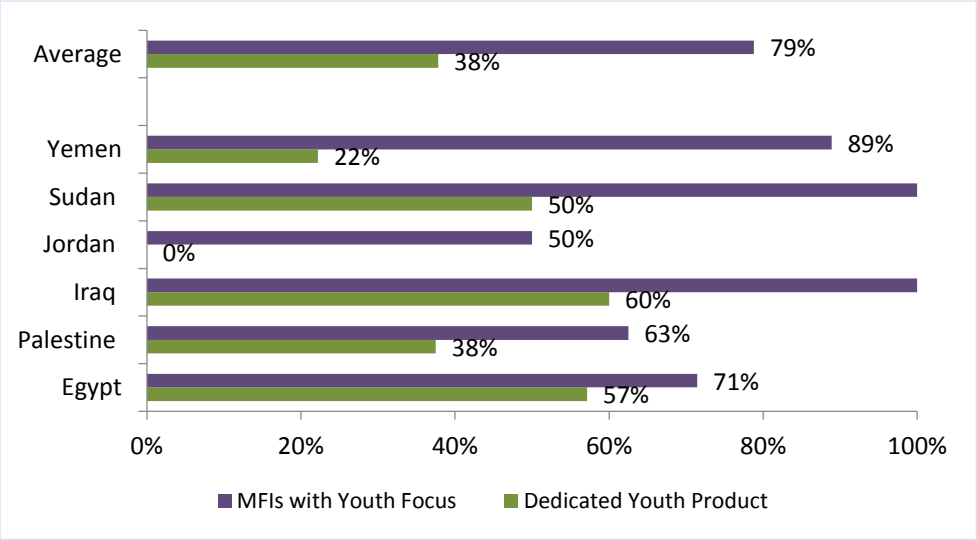
Youth Financial and Non-Financial Services

MFIs were asked to define whether they had an intentional youth focus as well as whether they had developed a dedicated youth product. For the purpose of this report, these two approaches are defined as follows: An intentional youth focus is where a financial institution makes the decision to actively and intentionally target the youth segment, but does nothing to change its products to meet the needs of this sector (either through tweaking an existing product or developing a new product). MFI engagement modalities in this scenario will be typically limited to marketing existing products more effectively to youth or training and incentivizing staff to better target youth as potential clients. In some cases, standard products will be coupled with specialized non-financial training provided to youth either pre or post financing.

A dedicated youth product is where an MFI commits to develop a specialized product through a structured process (youth product development cycle) involving market research, prototyping, and piloting. MFI engagement modalities in this scenario may involve designing a product with special terms and conditions favorable to youth; providing staff dedicated to provisioning the product; and setting aside loan capital that is only available for use through these products.

The difference between MFIs providing dedicated products to youth and MFIs with an intentional youth focus remains large in the region with over 40 percent of MFIs not offering dedicated youth products in six countries surveyed. The highest difference is in Yemen, where out of 89 percent of the MFIs that claim to have an intentional youth focus, only 22 percent provided dedicated youth products.

Figure 6: MFIs with an intentional youth focus vs. dedicated products

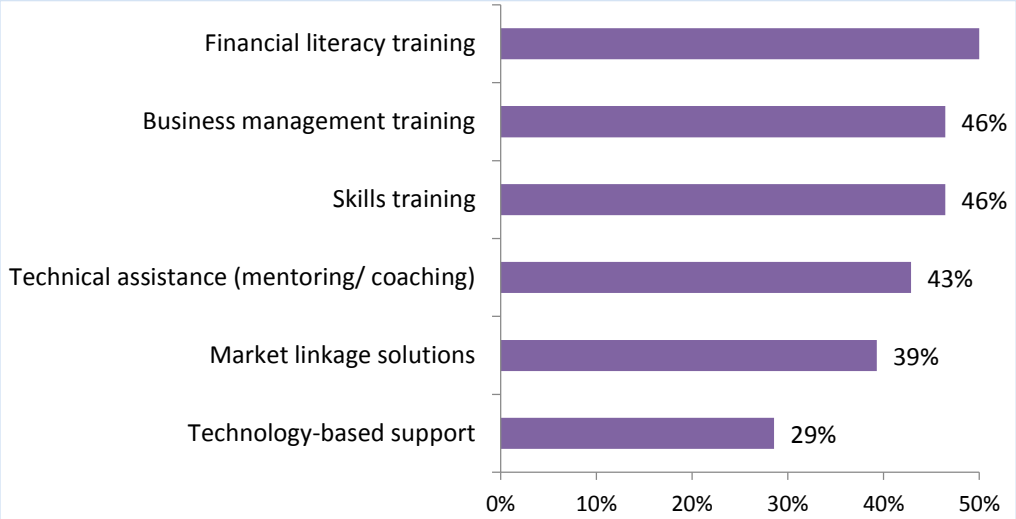


Notes: 1. In total, 42 MFIs responded. 2. 29 MFIs responded to the question regarding youth focus. 3. 15 MFIs responded to the question regarding dedicated youth product.

A total of 28 percent of the MFIs surveyed cited market differentiation as their primary reason for focusing on youth while 24 percent of the MFIs reported both donor interest in providing assistance and the existence of a large untapped growth market (Figure B6).

Among the MFIs that offer non-financial services along with financial services for youth, half of them offer financial literacy training, while 46 percent provide both business management training and skills training to youth (only 28 MFIs responded).

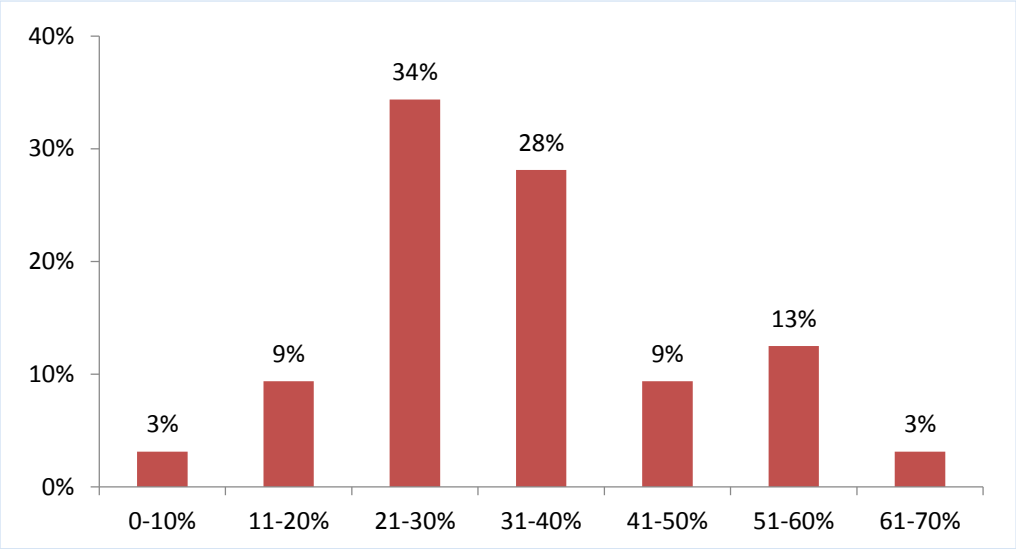
Figure 7: MFIs providing non-financial services along with financial services for youth



Notes: 1. This considers the sub-sample of MFIs that offer both financial and non-financial services. For example, 46% of MFIs that offer financial services for youth, offer business management training. 2. 28 MFIs responded.

Out of 43 MFIs, only 74 percent reported their youth (aged 18-29) clients as a share of total active clients. No survey respondent reported over 70 percent of youth clients. The majority of MFIs' active share of youth client lies between 21 and 40 percent of active clients (62% of MFIs).

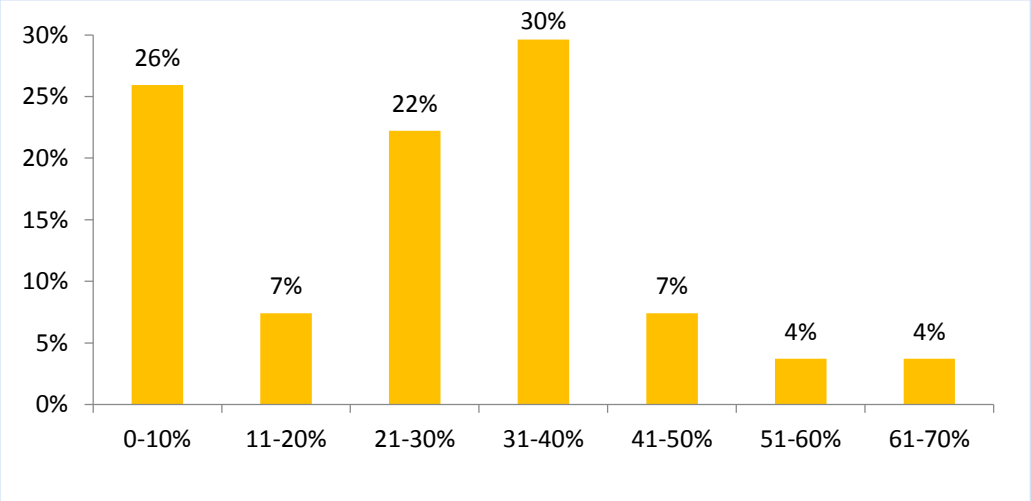
Figure 8: Share of youth clients



Notes: 1. 32 MFIs responded. 2. Share of youth clients among total clients is on the x-axis. For example, 9% of MFIs have between 11 and 20 percent of youth in their total client base.

The majority (74 percent) of MFIs surveyed have 40 percent or less youth clients (with only 27 MFIs reporting). In addition, 26 percent indicated that a very small share (10 percent or less) of their active portfolio is allocated to young clients.

Figure 9: Share of youth in active portfolio

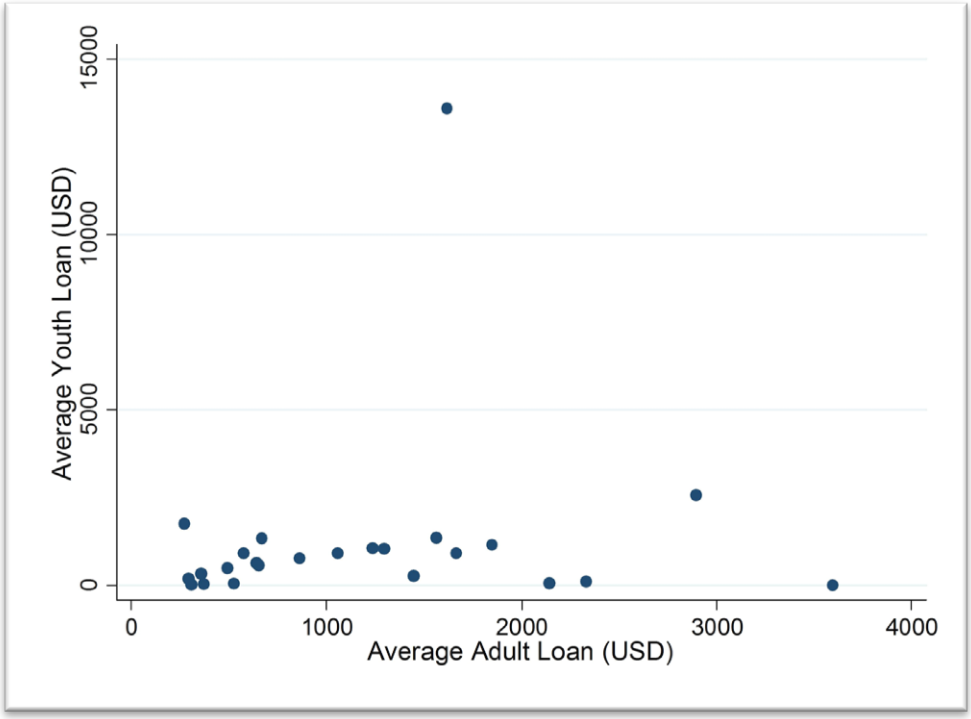


Note: 1. 27 MFIs responded. 2. Share of youth portfolio in total active portfolio is on x-axis. For example, 7% of MFIs have dedicated between 11 and 20 percent of their total portfolio toward youth.

Youth Credit Risk: Perceptions and Reality

MFIs tend to allocate a comparatively smaller share of their portfolio to typical youth clients. The weighted average youth loan is 74 percent of weighted average adult loan, indicating that youth clients are receiving smaller loan amounts on average as compared to adults.[5] Average adult loans are USD 648 while average youth loans are USD 484. Differences in loan size may be a matter of MFI policy or may reflect the bias of loan officers or branch managers. It may also suggest however that additional returns associated with increasing the size of loans extended to youth would cause default rates to rise. Additional research is needed to shed light on this issue.

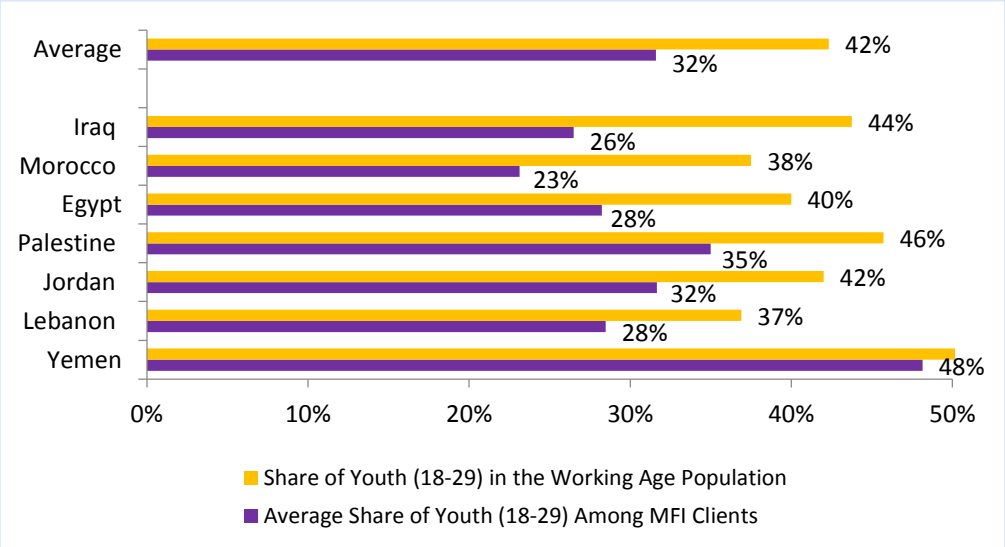
Figure 10: Average Adult vs. Youth Loans



Note: 24 MFIs responded.

Youth are not only undervalued, but also underserved by MFIs. The average share of youth (18-29 years old) in the working age population in Egypt, Morocco, Palestine, Jordan, Iraq, Yemen, and Lebanon is 42 percent whereas the share of youth among MFI clients in these countries is 32 percent (only 30 MFIs reported).[6] The difference between the share of youth in the working age population and youth among total client base in MFIs is the highest in Iraq (18%) with Morocco second (15%) and Egypt third (12%). The lowest gap was found in Yemen (2%). Underserving and undervaluing of youth translates into a potential market opportunity for MFIs.

Figure 11: Share of youth clients vs. working age population in MENA



Notes: 1. 30 MFIs responded. 2. Average was calculated from only the MFIs that answered two questions: total number of clients and total number of youth clients. 3. Working age population data from 2010 UN Population Statistics. 4. Average share of youth computed using listed countries only.

Perceptions by MFIs of a potential added risk associated with youth may explain this outcome: Over 50 percent of MFI respondents agreed with the statement that youth have a poor understanding of how to run a business and nearly half of respondents consider youth to be more risky than adults, agreeing with the statement "youth have a higher default rate than adults" (Figure B7). The majority of MFIs believe that a lack of a credit history or collateral remains a key challenge in increasing their youth portfolio size (Figure B8).

Only 35 percent of MFIs believe that overcoming perceptions of the riskiness of youth lending stands as a challenge to providing dedicated youth products. In addition, 70 percent of MFIs reported that they need financial assistance (debt, equity, guarantees, etc.) in order to increase lending to youth. Nearly 50 percent of MFIs believe that assistance in technical, diagnostic and analytical support, market outreach and communication will help increase their youth portfolio size (Figure B9).

Perception of riskiness, however, is not borne out of data: The difference in weighted means of adult and youth NPL rates is statistically significant at the 1% significance level and is higher for adults.[7] The difference in un-weighted means of adult and youth NPL rates however yields the opposite result at 5% significance level with youth NPL rates higher. This ambiguity suggests that the commonly-held view among MFIs that youth have a higher risk of default relative to adults may not be justified. Note however that more stringent criteria may have been used to provision loans for youth that have likely resulted in a selection bias.

Table 1: Are Youth NPLs lower than adult NPLs?

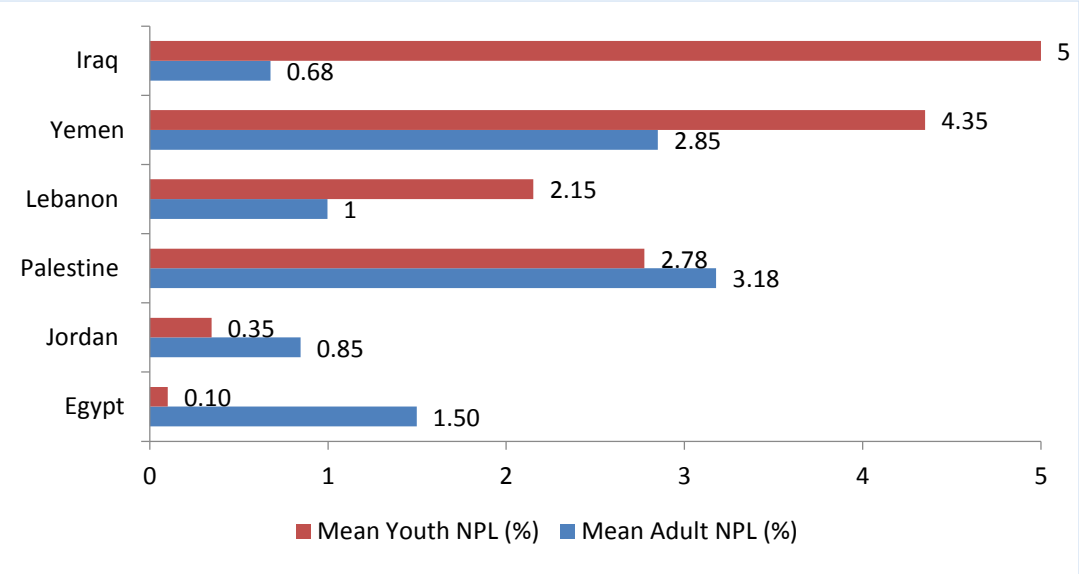
Weighted Mean Adult NPL (%)	Weighted Mean Youth NPL (%)
2.07***	1.79***

Un-weighted Mean Adult NPL (%)	Un-weighted Mean Youth NPL (%)
2.58**	2.75**

Notes: 1. ***Difference in weighted means of adult and youth NPL is statistically significant at the 1% significance level using a t-test. Weights correspond to total portfolio size of MFIs. Un-weighted t-test and means give opposite result at 5% significance level. 2. All NPL observations reported as 0% (for youth or adults) have been excluded. 3. One observation has not been included because its portfolio size is an outlier and a very low reported youth NPL rate.

On a country basis, the commonly held view that NPL rates are lower for older adult clients is not confirmed by the survey data provided by these MFIs: Average youth NPL rates are higher than adult NPL rates in Iraq, Yemen, and Lebanon. In contrast, Palestine, Jordan, and Egypt's average youth NPL rates are lower than average adult NPL rates.

Figure 12: Youth vs. adult NPLs across countries



Notes: 1. Means for adult and youth NPLs weighted by adult and youth portfolio size, respectively. 2. All NPL observations reported as 0% (for youth or adults) have been excluded.

Average youth NPL rates are broadly similar across loan type (individual or group/both). Average adult NPL rates are higher for MFIs that favor individual lending over group/both lending. Group/both lending refers to MFIs that lend to groups or individuals.

Table 2: Total NPLs similar across loan type

	Group/Both Lending	Individual Lending
Mean Total NPL (%)	2.68	2.62
Mean Adult NPL (%)	1.77	2.73
Mean Youth NPL (%)	1.23	1.21

Notes: 1. Group/both lending refers to MFIs that lend to groups and/or individuals. Individual lending refers to MFIs that lend to individuals exclusively. 2. Means for Total NPL weighted by total portfolio size. 4. Means for adult and youth NPLs weighted by adult and youth portfolio size, respectively.

Average total, adult, and youth NPL rates are lower for MFIs that offer non-financial services along with financial services when compared to MFIs that offer financial services alone, underlining the importance of non-financial services in reducing the risk of non-performance. Youth appear to benefit from the provision of non-financial services by MFIs as NPL rates for young clients receiving non-financial services is lower than NPL rates for young clients not receiving them.

Table 3: NPLs lower for MFIs offering non-financial services

	Only Financial Services	Financial and Non-Financial Services
Mean Total NPL (%)	2.6	.14
Mean Adult NPL (%)	1.9	1.51
Mean Youth NPL (%)	3.33	.14

Notes: 1. Means for Total NPL weighted by total portfolio size. 2. Means for adult and youth NPLs weighted by adult and youth portfolio size, respectively. 3. Un-weighted median total NPL is .95% for MFIs offering non-financial services (vs. 2.84 for financial services only). 4. We obtain similar results using overall portfolio size when computing weighted adult and youth NPL.

Conclusion

This report provides an analysis of 43 microfinance institutions surveyed in 10 countries across the Arab world on their lending activities toward youth. While most MFIs actively and intentionally target younger clients, most of them do not provide dedicated products to youth. Analyzing the differences between weighted average youth loan and adult loan, the report finds that youth clients are receiving smaller loan amounts on average as compared to adults. The gap between the share of youth in the working age population and share of youth clients in MFIs indicates that youth are underserved by financial institutions in MENA. Given the large youth demographic in the MENA region and the challenges that youth continue to face in obtaining sustainable employment and economic opportunities, there is a potential market opportunity for forward thinking MFIs to target this segment.

The data suggest that nearly half of respondents consider youth to be more risky than adults, agreeing with the statement "youth have higher default rates than adults." Additional research aimed at understanding MFIs' perceptions of youth, and exploring the reasons behind underserving and undervaluing youth is needed. Such research may result in alternative lending mechanisms for MFIs to mobilize capital toward youth that take into consideration youth-specific circumstances. These include intergenerational lending based on the credit history of older family members, the linking of lending to training or educational attainment, and determining creditworthiness and potential nonperformance through psychometric evaluations or proxy data, such as utility bills or mobile telephone airtime payments. A majority of MFIs reported needing financial assistance (debt, equity, guarantees, etc.) in order to increase lending to youth.

Survey results suggest that MFIs' perception of additional credit risk associated with lending to younger clients is not borne out of the data. We find that NPL rates are lower for youth in some countries, but higher in others, suggesting that the commonly-held view among MFIs that youth have a higher risk of default relative to adults may not be justified. Note however that more stringent criteria may have been used to provision loans for youth, likely resulting in a selection bias. While our analysis suggests that NPL rates for youth are not different than NPL rates for adults, further research is required to see whether this result would still hold if loans extended to youth were increased in size.

Youth NPL rates as well as adult NPL rates are lower for MFIs that also offer non-financial services when compared to MFIs that offer financial services only, underlining the importance of non-financial services in reducing the risk of non-performance. In particular, youth appear to benefit from the provision of non-financial services by MFIs as NPL rates for young clients receiving non-financial services is lower than NPL rates for young clients not receiving them. Gaining a better understanding of the types of non-financial services that materially reduce NPL rates is therefore an important avenue for future research.

Appendix A

This section centers on key indicators of surveyed MFIs. These include portfolio characteristics for women and rural clients; the differences in annual percentage rates (APRs) offered on loans across various MFI tiers; and the proportion of non-performing loans (NPLs) between youth and older adult clients.

There were significant differences in the gender mix of clients across MFIs, with roughly one fifth serving mostly women (i.e. 81-100% of their clients were women) and one fifth serving mostly men (i.e. 81-100% of their clients were men). The majority of MFIs (60%) fell into the middle range, serving both men and women (i.e. at least 20% of their clients were men and 20% were women). Overall, nearly half of MFIs had a majority female clientele and half had a majority male clientele (Figure B10). That said, the total loan portfolios of MFIs tilted toward men, with over half of all MFIs surveyed indicating that over 60% of their loan portfolio was held by men (Figure B11).

Half of all MFIs reported that between 10 and 40 percent of their loan portfolio was going toward clients living in rural areas (outside of major towns and cities). In comparison, the weighted share of the rural population in Arab countries where these MFIs were surveyed was 47 percent.[8] Only 11 percent of the MFIs allocated over 80 percent of their active portfolio toward rural clients (Figure B12).

52 percent of MFIs stated that their lowest annual percentage rate (APR) was between 11 and 20 percent. About 12 percent of MFIs reported APRs of 20 percent or more (Figure B13). Nearly half of all participants stated that their highest APR is between 11 and 20 percent. 10 percent of the MFIs reported that their highest APR rate lies above 30 percent (Figure B14). Among countries that provided both lowest and highest APR, the highest difference was in Jordan at 19 percent. Morocco and Iraq reported the lowest difference at 2 percent. The average reported difference between the highest and lowest APR is 8 percent (Figure B15).

APRs and NPL rates are scattered across MFI tiers. We define tiers based on the portfolio size of the MFIs: Tier 1 refers to MFIs with active portfolio above USD 8 Mn; Tier 2 refers to MFIs with active portfolio between USD 2-8 Mn; and Tier 3 refers to MFIs with active portfolio below USD 2 Mn.[9] We find that tier 1 MFIs have higher average rates of NPL when compared to tier 3 MFIs, and tier 2 MFIs have higher APRs than either tier 1 or 3 (Table B1). The lack of a pattern suggests that larger MFIs may not be necessarily better at assessing risk when compared to smaller MFIs.

APRs for MFIs that lend to individuals (as opposed to groups) are higher than for MFIs that lend to groups or MFIs that lend to either groups or individuals, suggesting that individuals are perceived as a higher risk (Table B2).

More than half of surveyed MFIs reported that they do not partner with other organizations to provide loans to their clients (Figure B16). Partnership may comprise technical and/or financial assistance. Forty five percent of respondents partner with other organizations, such as international organizations, local commercial banks, social funds for development, and international banks that support MFIs in loan provision.

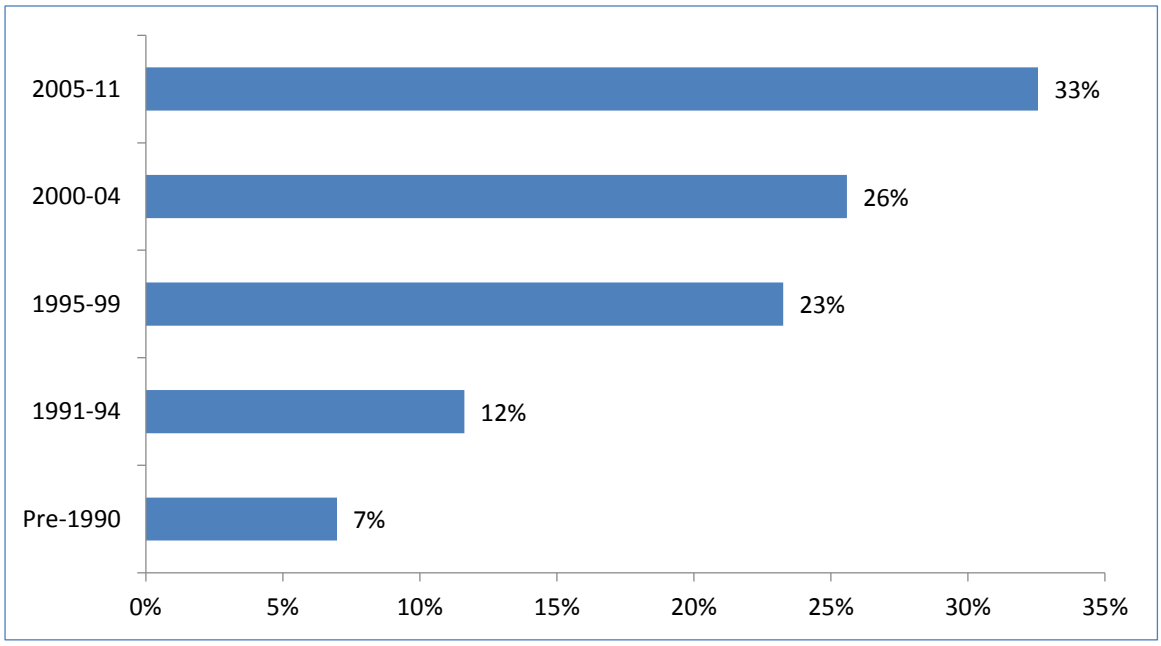
Both lowest and highest APRs are higher for non-partnered MFIs than partnered MFIs (Table B3). This finding suggests that partnering may bring MFIs non-financial benefits in the form of technical assistance or capacity building from partner institutions that allow them to lower their APRs. Alternatively, partner institutions may be selecting MFIs on the basis of performance metrics, such as low APRs.

Average youth NPL rates are higher for non-partnered MFIs than partnered MFIs. Average adult NPL rates, on the other hand, are similar for both partnered and non-partnered MFIs (Table B4). As with APRs, lower NPL rates among partnered MFIs either reflect a value-add in credit risk assessment by partners, or a self-selection bias.

MFIs mentioned other criteria used in credit analysis, with business owner experience and business cash flow being the two most common criteria cited (Figure B17). The average total NPL rates across different lending criteria (credit history, collateral, savings, etc.) show no discernible pattern. For example, NPLs are higher for MFIs that require collateral or a savings account while they are lower for MFIs that require a business plan or a credit history (Table B5). This suggests that other criteria may be more important in determining creditworthiness and non-performance (such as psychometric evaluations). These findings remain however inconclusive in the absence of a counterfactual exercise: for example, while NPL rates are higher for MFIs requiring collateral relative to those that didn't, the requirement may have still been useful in weeding out clients with bad credit risk for these particular MFIs thereby reducing their NPL rates.

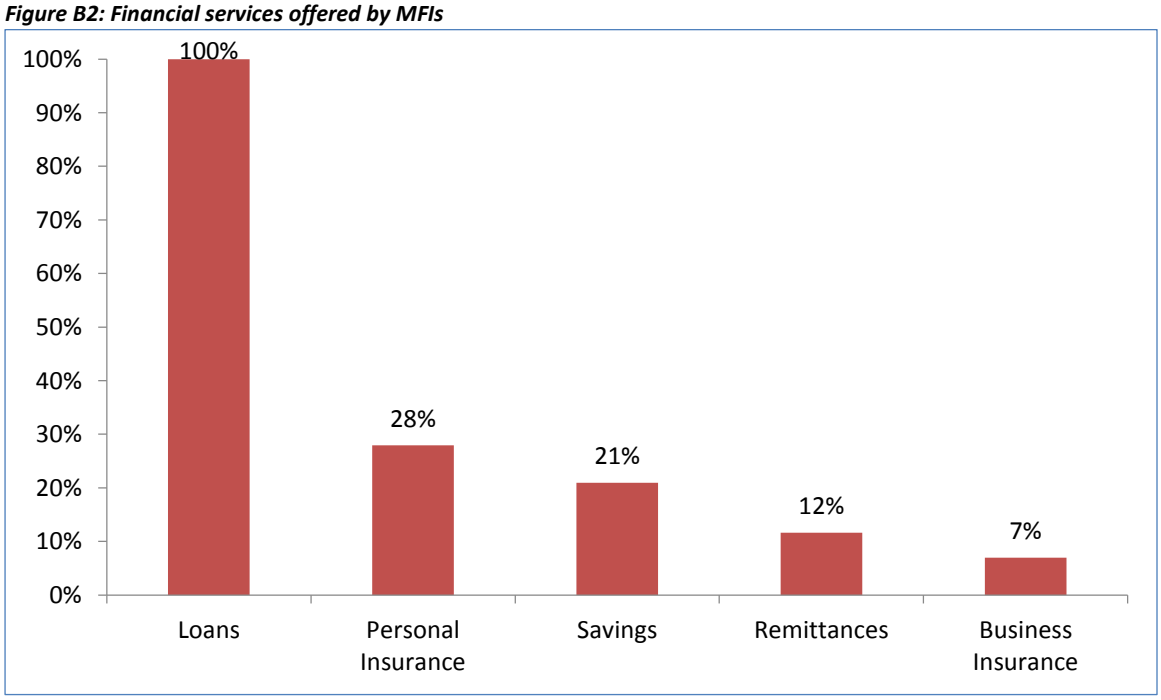
Appendix B

Figure B1: Year MFI was established



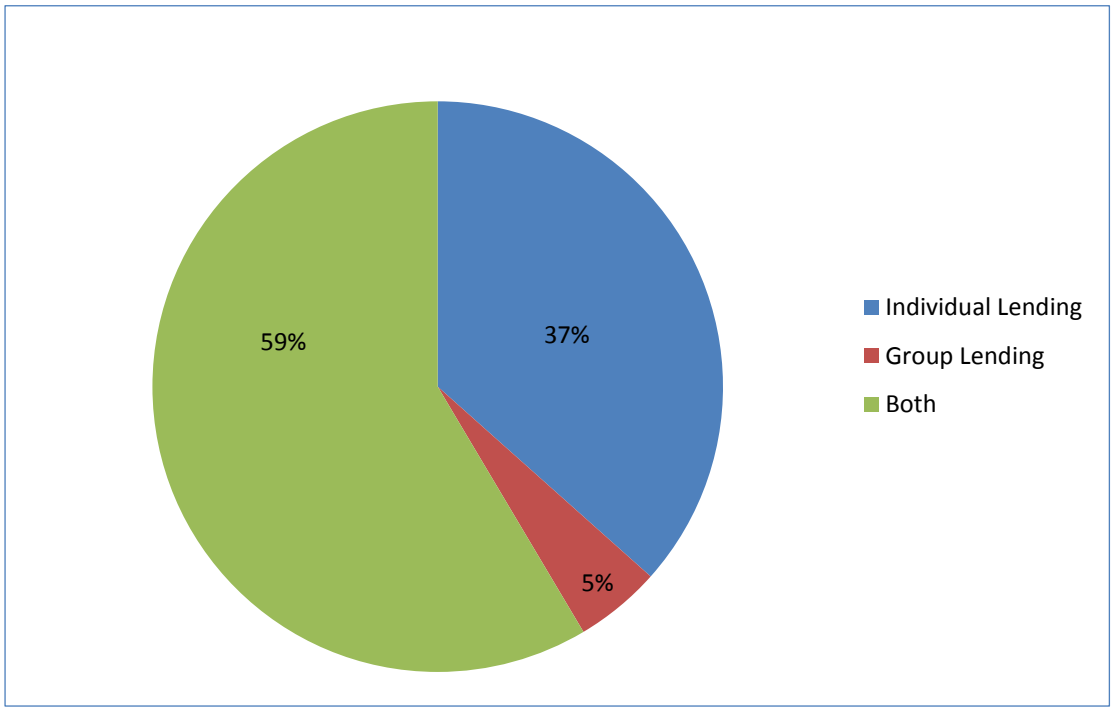
Note: 43 MFIs responded.

Figure B2: Financial services offered by MFIs



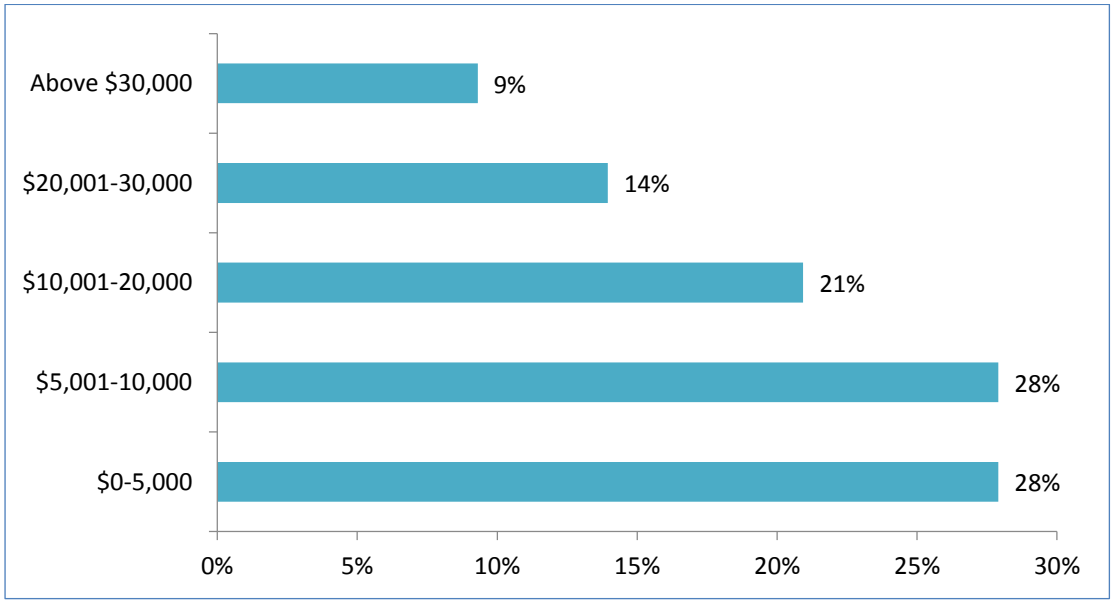
Note: 43 MFIs responded.

Figure B3: Lending methodology



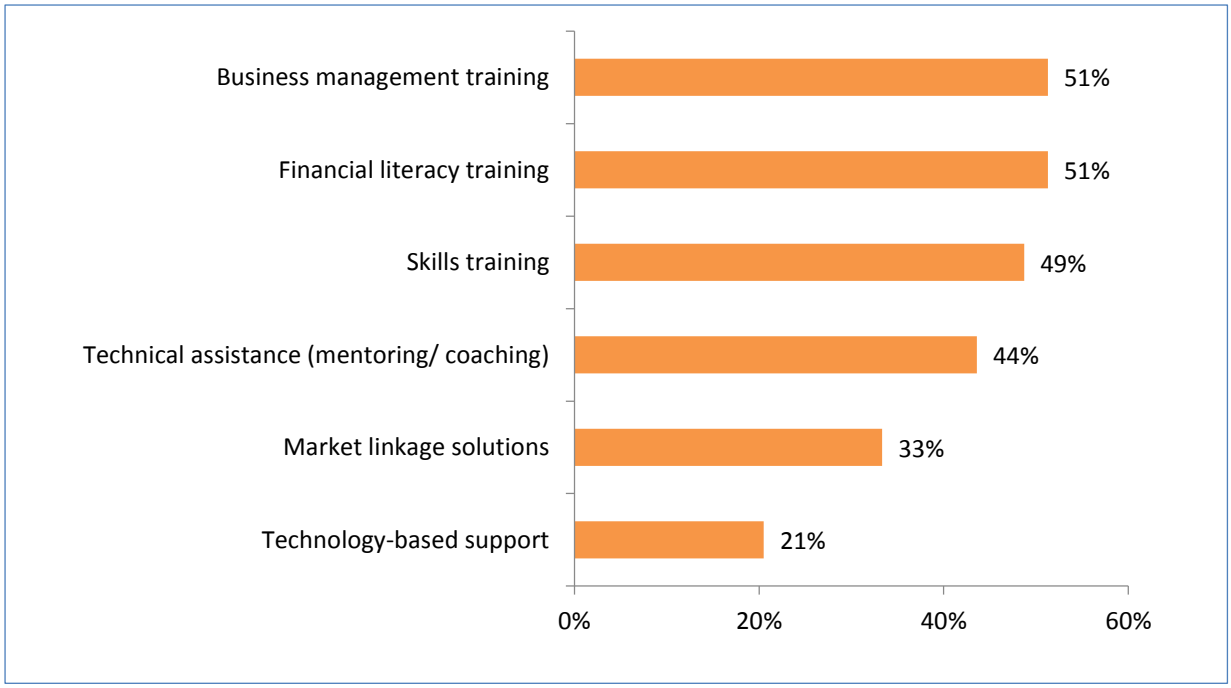
Note: 41 MFIs responded.

Figure B4: Maximum disbursed loan amount



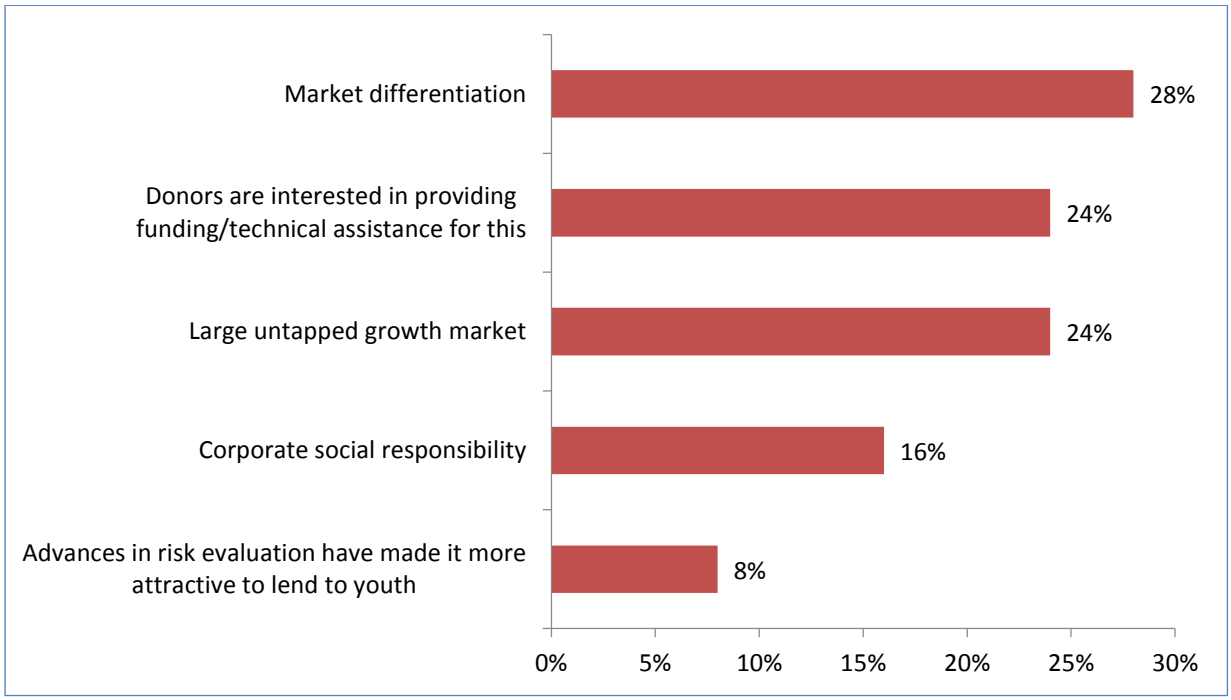
Notes: 1. 43 MFIs responded. 2. Maximum disbursed loan amount is on the y-axis. For example, 9% of MFIs have a maximum disbursed loan amount above USD 30,000.

Figure B5: MFIs providing non-financial services



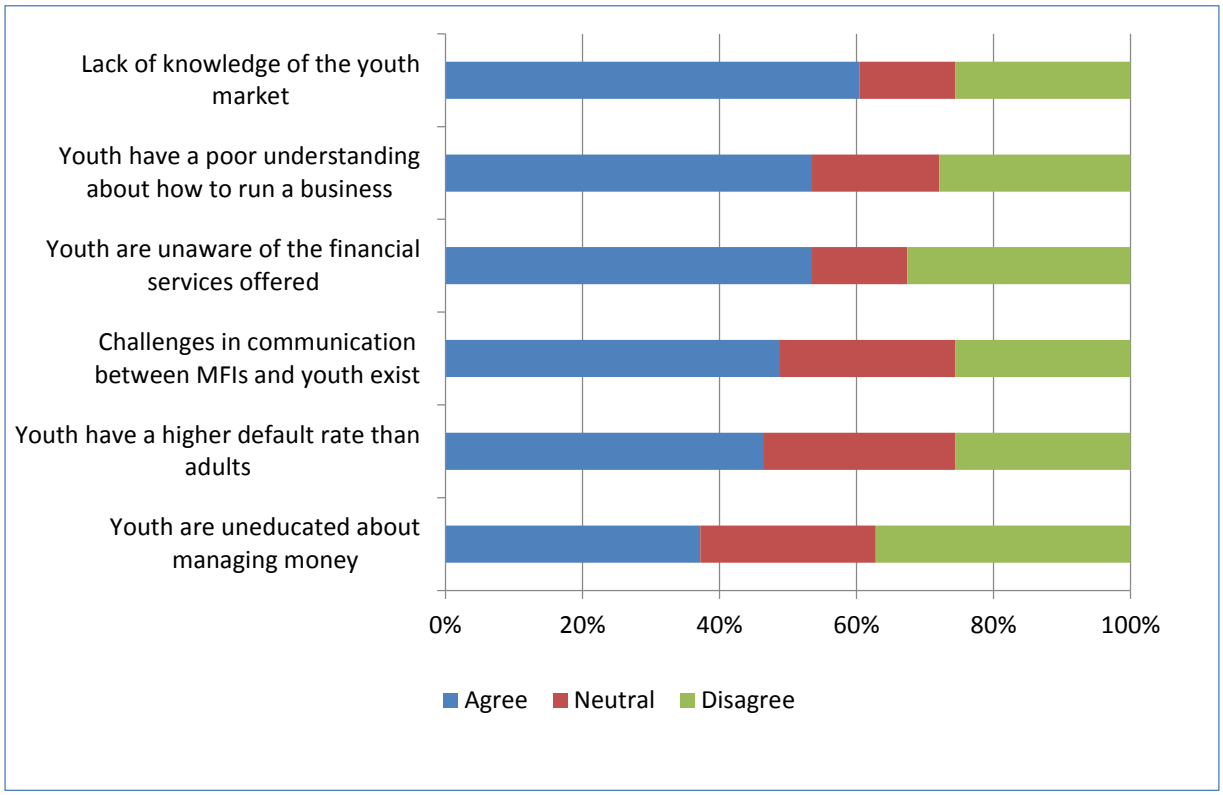
Note: 39 MFIs responded.

Figure B6: Reasons for focusing on youth



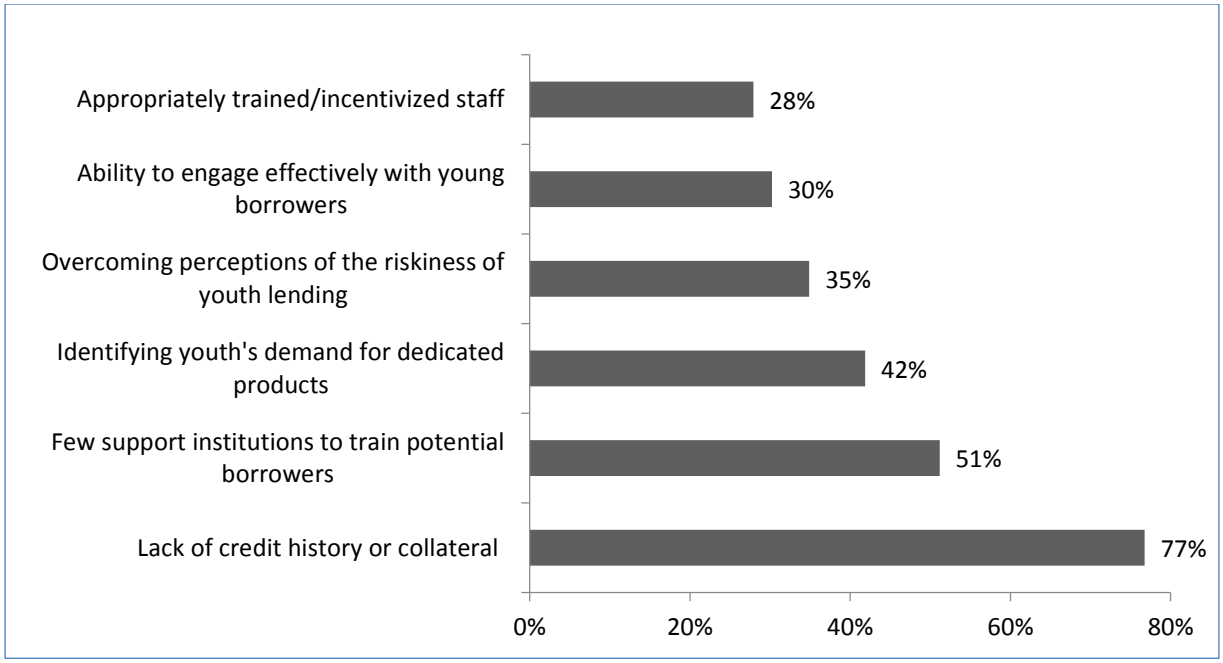
Note: 25 MFIs responded.

Figure B7: MFIs' attitudes toward youth



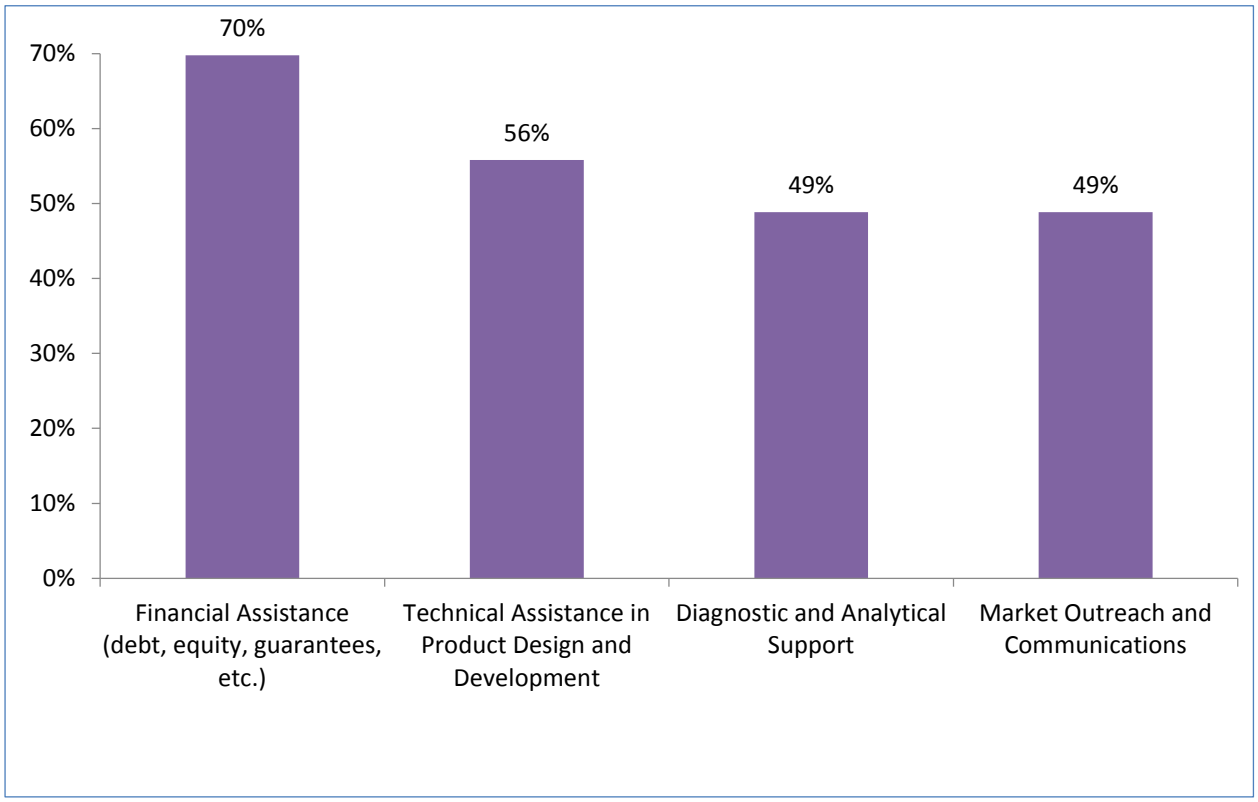
Note: 43 MFIs responded.

Figure B8: Key challenges in increasing youth portfolio size



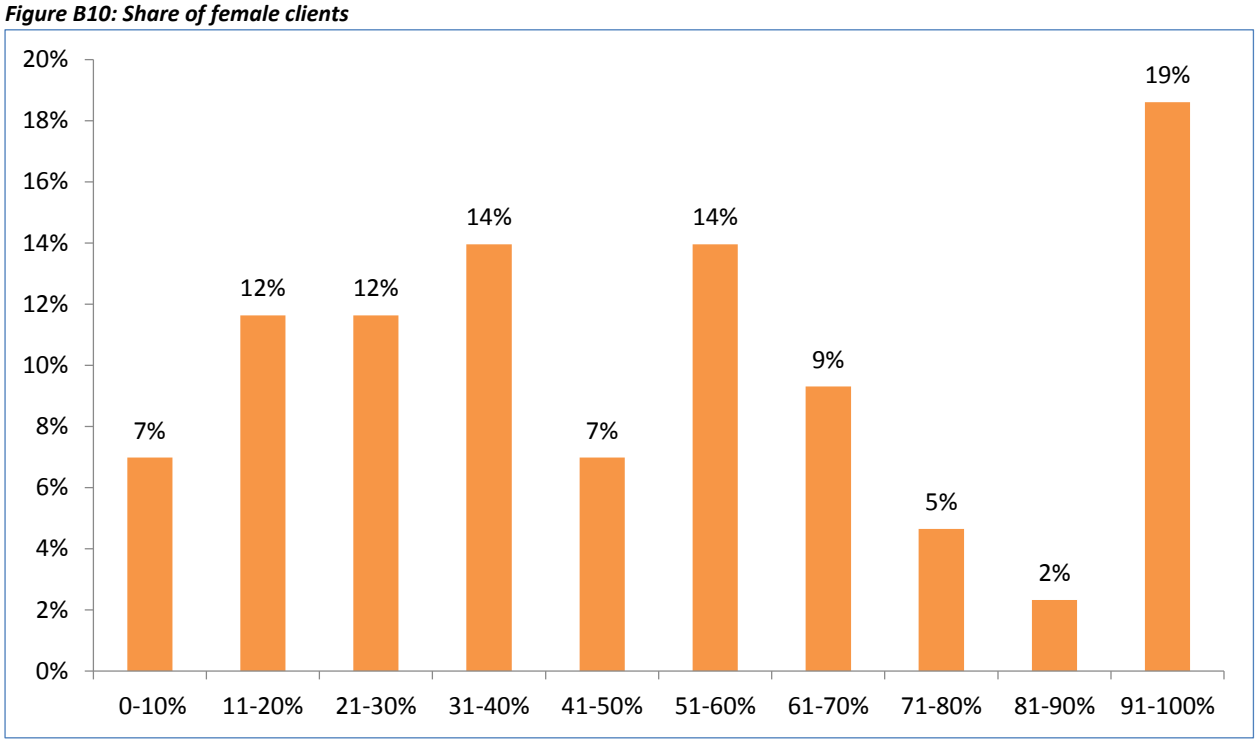
Note: 43 MFIs responded.

Figure B9: Assistance required by MFIs to increase youth portfolio size



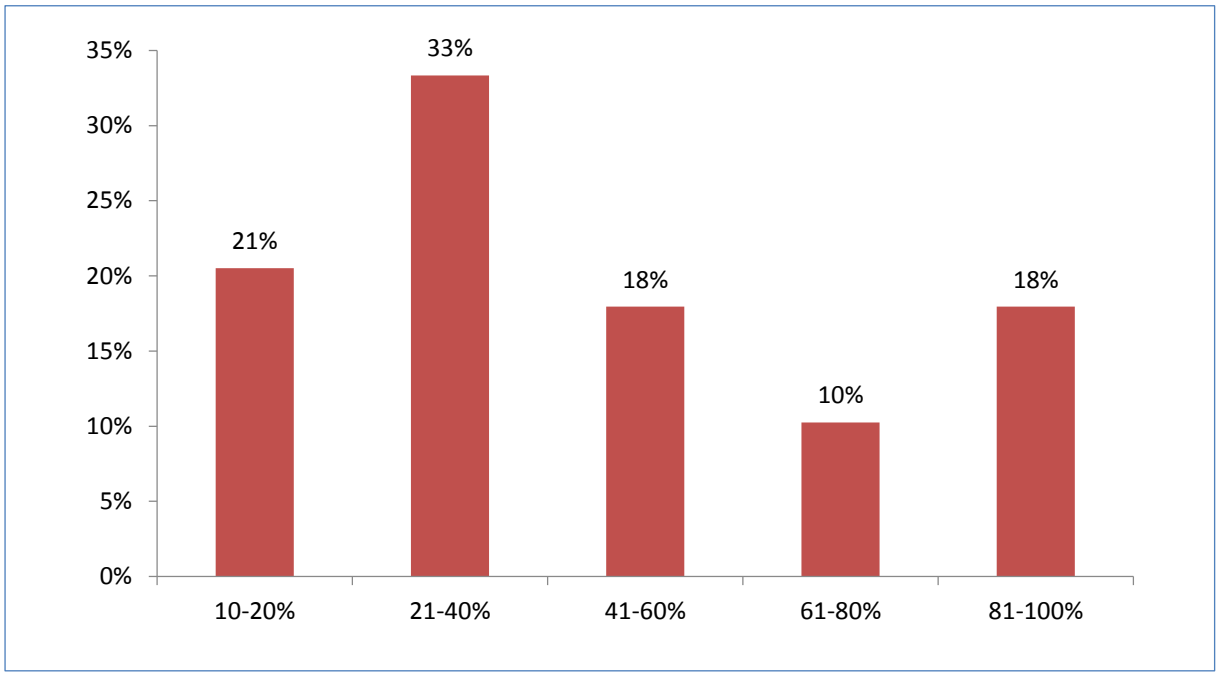
Note: 43 MFIs responded.

Figure B10: Share of female clients



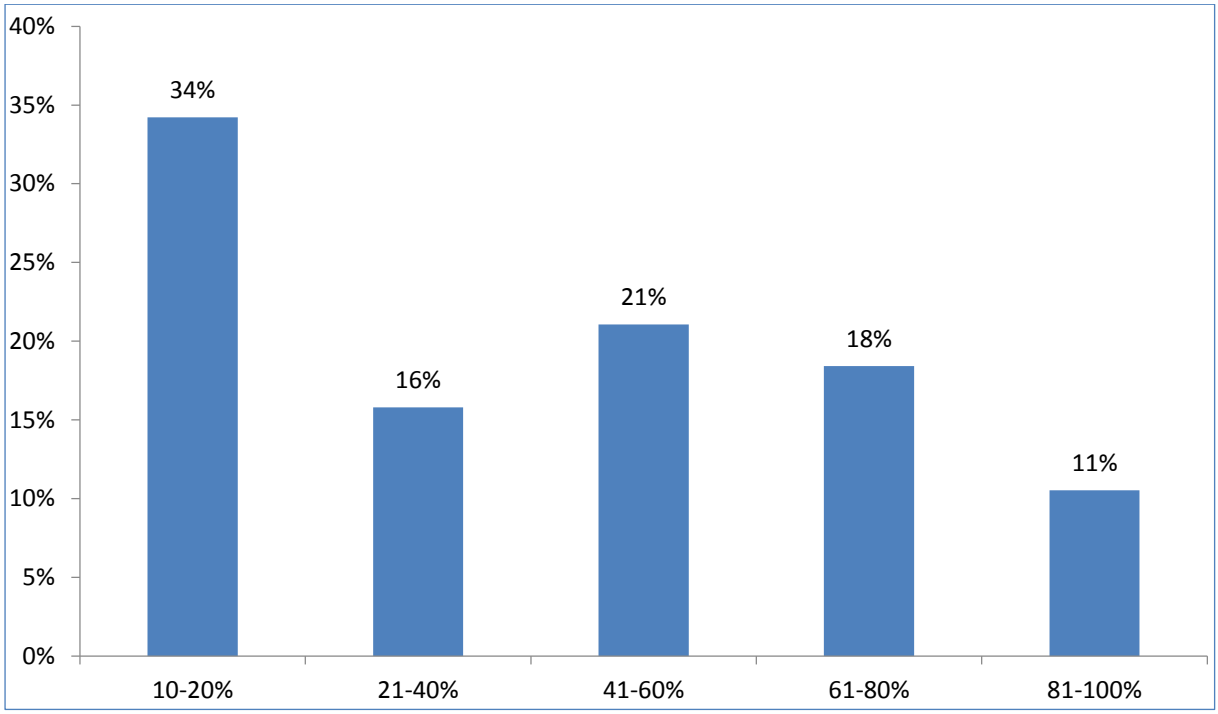
Notes: 1. 43 MFIs responded. 2. Share of Female clients is on the x-axis. For example, 7% of MFIs have a share of female clients between 0 and 10 percent.

Figure B11: Female share of total portfolio



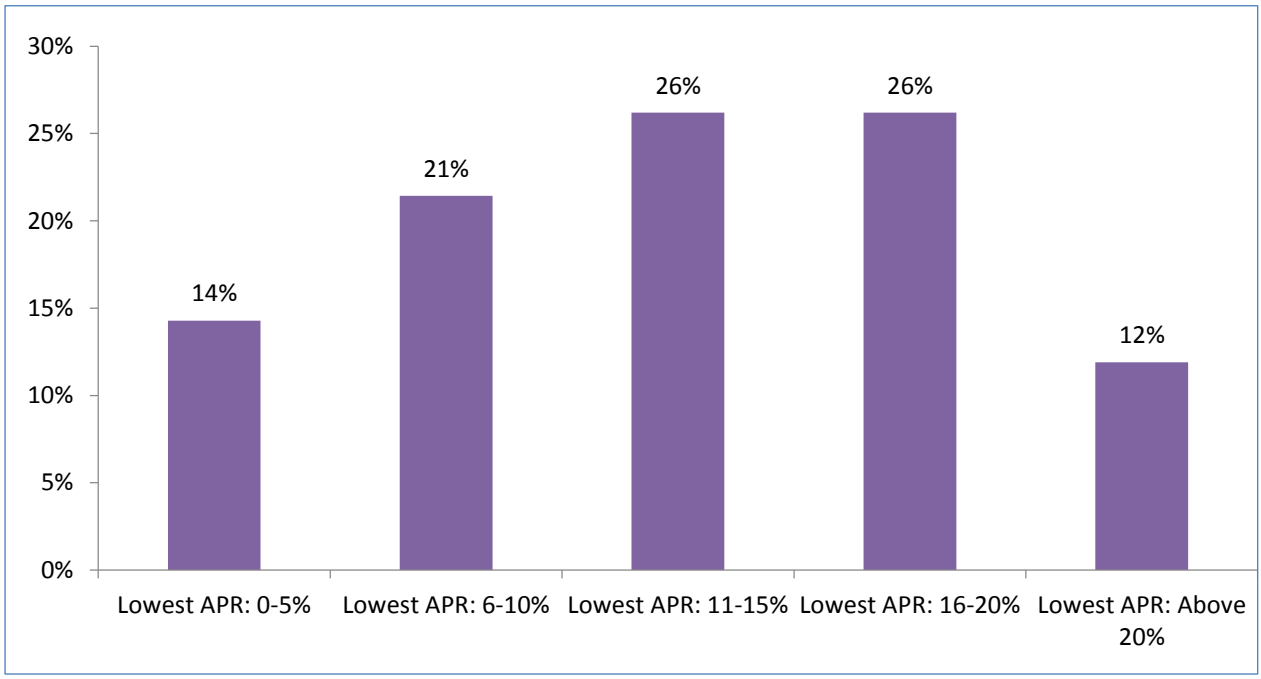
Notes: 1. 39 MFIs responded. 2. Share of portfolio toward women is on the x-axis. For example, 21% of MFIs have dedicated between 10 and 20 percent of their portfolio toward female clients.

Figure B12: Share of portfolio for rural clients



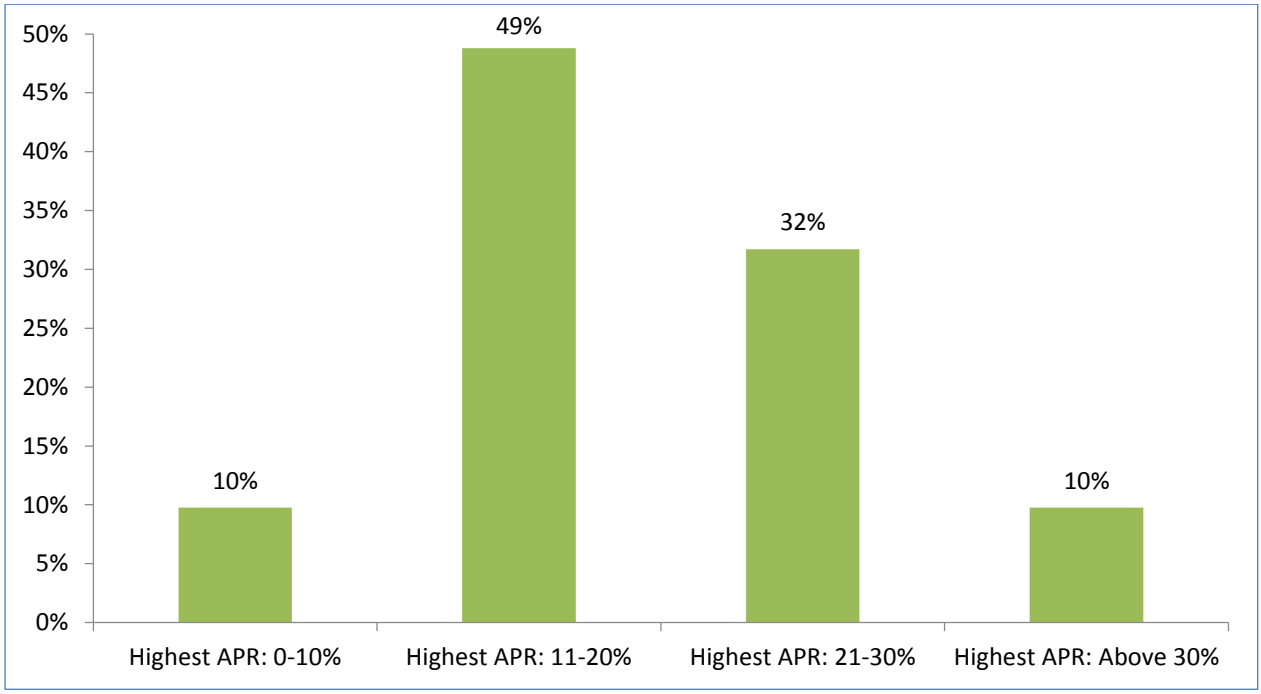
Notes: 1. 38 MFIs responded. 2. Share of portfolio going toward clients in rural areas is on the x-axis. For example, 34% of MFIs have dedicated between 10 and 20 percent of their portfolio toward clients residing in rural areas.

Figure B13: Lowest Annual Percentage Rate



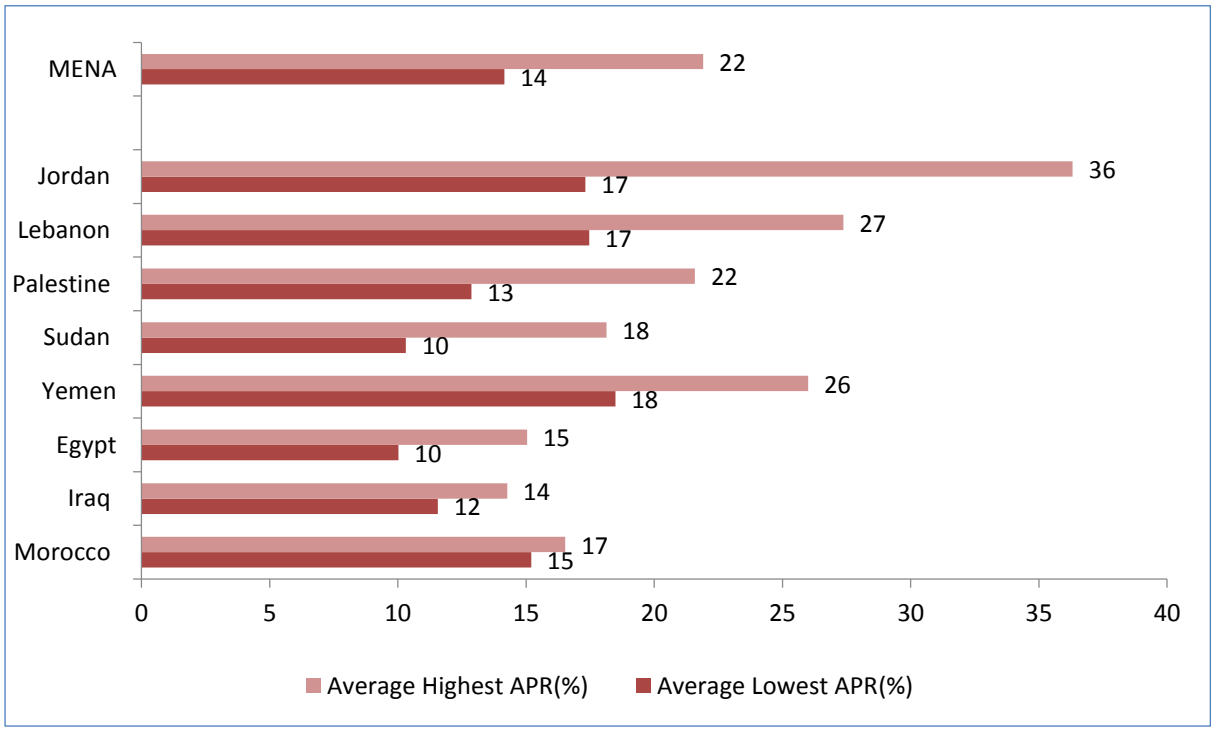
Notes: 1. 42 MFIs responded. 2. Lowest annual percentage rate is on the x-axis. For example, 21% of MFIs' lowest annual percentage rate falls between 6 and 10 percent.

Figure B14: Highest Annual Percentage Rate



Notes: 1. 41 MFIs responded. 2. Highest annual percentage rate is on the x-axis. For example, 49% of MFIs' highest annual percentage rate falls between 11 and 20 percent.

Figure B15: Range of APRs in MENA



Note: Mean APRs are weighted by portfolio size.

Table B1: APRs and NPLs across MFI tiers

	Tier 1	Tier 2	Tier 3
Mean Lowest APR (%)	10.67	15.99	10.09
Mean Highest APR (%)	17.42	20.72	15.15
Mean Total NPL (%)	2.73	2.43	.13
Mean Adult NPL (%)	.67	2.38	1.51
Mean Youth NPL (%)	.99	3.09	.11

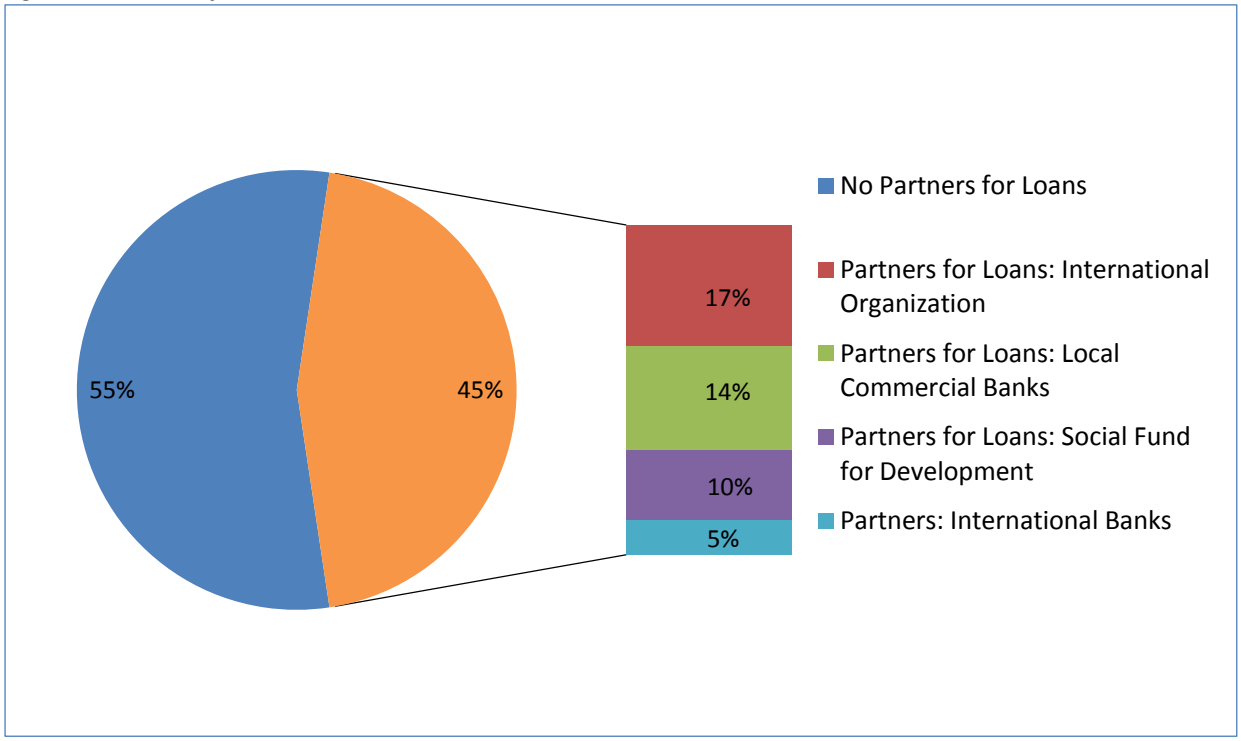
Notes: 1. For the purpose of this study, we use Mix market's MENA-specific tier definition for MFIs: Tier 1 refers to MFIs with active portfolio above USD8 Mn; Tier 2 refers to MFIs with active portfolio between USD2-8 Mn; Tier 3 refers to MFIs with active portfolio below USD2 Mn. 2. All calculations were done using total portfolio as weight.

Table B2: APRs lower for group loans

	Group/Both Lending	Individual Lending
Mean Lowest APR (%)	13.94	15.13
Mean Highest APR (%)	19.57	27.09

Notes: 1. Group/both lending refers to MFIs that lend to groups and/or individuals. Individual lending refers to MFIs that lend to individuals exclusively. 2. APRs are weighted by total portfolio size.

Figure B16: Partners for loans



Note: 42 MFIs responded.

Table B3: APRs higher for non-partnered MFIs

	Partnered MFIs (loans)	Non-Partnered MFIs (loans)
Mean Lowest APR (%)	10.08	13.29
Mean Highest APR (%)	15.14	19.62

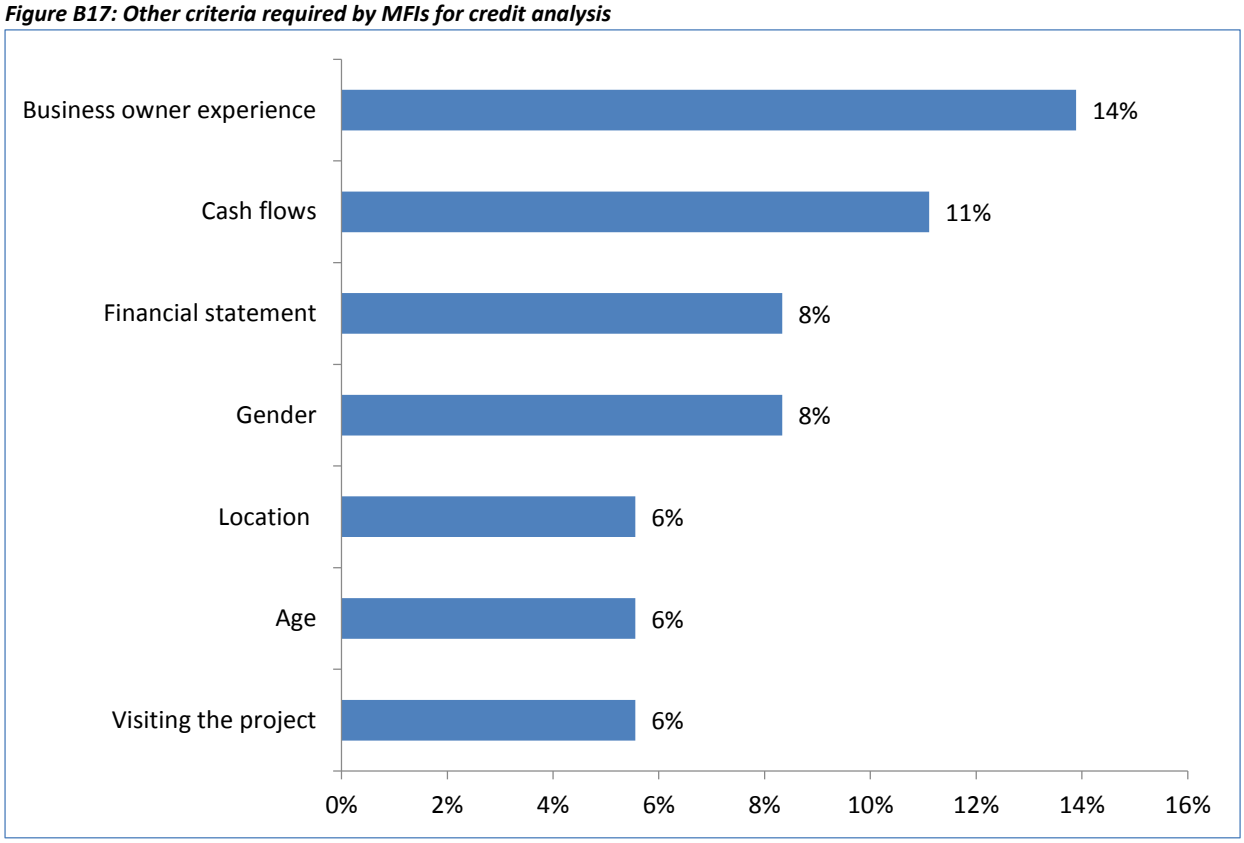
Notes: 1. Means for APRs weighted by total portfolio size. 2. Partnered MFI refers to an MFI with a partner that co-funds loans. Non-partnered MFI refers to an MFI that does not have a partner, or has a partner that does not co-fund loans.

Table B4: Overall NPLs higher for non-partnered MFIs

	Partnered MFIs (loans)	Non-Partnered MFIs (loans)
Mean Total NPL (%)	.15	2.17
Mean Adult NPL (%)	1.51	1.50
Mean Youth NPL (%)	.12	.58

Notes: 1. Means for Total NPL weighted by total portfolio size. 2. Means for adult and youth NPLs weighted by adult and youth portfolio size, respectively. 3. Partnered MFI refers to an MFI with a partner that co-funds loans. Non-partnered MFI refers to an MFI that does not have a partner, or has a partner that does not co-fund loans.

Figure B17: Other criteria required by MFIs for credit analysis



Note: 36 MFIs responded.

Table B5: Lending criteria vs. NPL rates

	NPL (%) for Required	NPL (%) for Not Required
Collateral	3.54	.14
Savings	4.44	.17
Cosignatory	2.66	.12
Business Plan	.15	3.22
Business License	.15	2.25
Group Guarantee	2.63	.14
Credit History	.18	3.55

Note: Means for NPL weighted by total portfolio size.

Appendix C

Survey Instrument for MENA Microfinance Institutions

General Information

1) Name of the organization

2) Main country of operation

3) Name of respondent:

[ ] First name

[ ] Family name

[ ] E-mail

[ ] Phone number

4) Your title/ position in the organization:

5) How many years have you worked with this organization?

6) What is your organizational type?

( ) Public

( ) Private / for profit

( ) Local non-profit / NGO

( ) International NGO

( ) Local affiliate of an international NGO

7) Is your MFI registered with any of the following ministries?

( ) Ministry of Agriculture

( ) Ministry of Finance

( ) Ministry of Trade

( ) Ministry of Social Affairs

( ) Central Bank

( ) Other: _____*

8) Is your MFI regulated by any government entity/authority?

( ) Yes

( ) No

9) If yes, please state the name of the regulatory authority:

10) What year was your MFI established?

11) What year did your MFI begin offering financial services?

12) What services does your MFI offer? (check all that apply)

[ ] Loans

[ ] Savings

[ ] Remittances/ money transfer

[ ] Personal Insurance (health, life, etc.)

[ ] Business Insurance (property, crop, etc.)

[ ] Other

13) Do you partner with other organizations for loans?

( ) Yes

( ) No

14) If yes, who are your partners?

15) Do you partner with other organizations for savings?

( ) Yes

( ) No

16) If yes, who are your partners?

17) Do you partner with other organizations for non-financial services (financial literacy, skills training, etc.)?

( ) Yes

( ) No, we provide our own services

( ) No, we neither partner with other organizations nor provide our own non-financial services

18) If yes, who are your partners?

Financial Services

19) Which of the following loan products does your MFI offer? Please indicate what percent of the active clients have these loan products and the share of those products of the overall loan portfolio:

	Percent of the active clients	**Share of loan portfolio**
Business startup loans	___	___
Expansion loans to existing business	___	___
Other loans (car, marriage, etc.)	___	___

20) Is the following criteria considered in the credit analysis?

	Required	**Supplemental, but not required**	**Irrelevant**
Collateral (money gold, property, etc.)	( )	( )	( )
Savings balance	( )	( )	( )
Repayment capacity	( )	( )	( )
Character of the individual	( )	( )	( )
Credit history	( )	( )	( )
Personal guarantee (cosignatory)	( )	( )	( )
Viability of business plan	( )	( )	( )
Business license	( )	( )	( )
National identification	( )	( )	( )
Educational and training background	( )	( )	( )
Group guarantee / credibility	( )	( )	( )

21) If there are other criteria that are considered in the credit analysis, please state them below:

	Required	Supplemental, but not required	Irrelevant
1.	___	___	___
2.	___	___	___
3.	___	___	___
4.	___	___	___

22) What kind of lending methodology does your MFI use?

( ) Group lending

( ) Individual lending

( ) Both

26) What is the lowest annual percentage rate (APR) that your MFI charges?

27) What is the highest annual percentage rate (APR) that your MFI charges (including fees, etc.)?

28) What is your MFI's percentage of non-performing loans after 30 days?

29) What is your MFI's percentage of non-performing loans after 30 days for clients 30 years old or more?

30) What is the total number of active clients (loans)?

31) What is the total number of active clients (savings)?

32) What is the total number of active clients (insurance)?

33) What is the total number of active female clients (loans)?

34) What is the total number of active female clients (savings)?

35) What is the total number of active female clients (insurance)?

36) How many active youth borrowers (age 29 or younger) does your MFI have (loans)?

37) How many active youth borrowers (age 29 or younger) does your MFI have (savings)?

38) How many active youth borrowers (age 29 or younger) does your MFI have (insurance)?

39) What is the share of the total loan portfolio going towards women?

40) What is the share of the total loan portfolio going to people living in rural (outside of the major towns and cities) areas?

41) Does the MFI offer Sharia-compliant financing?

( ) Yes

( ) No (skip to next section)

42) What is the primary reason for the MFI to offer Sharia-compliant financing? (select all that apply)

[ ] Serve / meet needs of current clients

[ ] Attract new clients

[ ] Preferences of the MFI owners / stakeholders

[ ] Regulation

43) What Sharia-compliant products does the MFI offer? (select all that apply)

[ ] Murabaha Sale (cost plus markup sale contract)

[ ] Ijarah (leasing contract)

[ ] Musharaka (equity / joint venture)

[ ] Mudaraba (profit-sharing / investment)

[ ] Takaful (mutual insurance)

[ ] Other

Additional Questions on Youth Financial Services

The questions in this section refer to young people, 29 years old and younger

44) What is the minimum age you lend to?

45) What percentage of youth clients complete the first loan cycle and move on to take additional loans?

46) What is your MFI's total active portfolio for youth in US dollars?

47) What is your MFI's percentage of performing loans after 30 days for youth?

48) Does your MFI have dedicated products/ services for youth age 29 or younger?

( ) No, we don't (skip to question no. 52)

( ) Yes, we do

49) If yes, what year did you start dedicated financial services to youth?

50) What kind of dedicated services is your MFI providing for youth? (select all that apply)

[ ] Loans

[ ] Savings

[ ] Remittances/ money transfer

[ ] Personal Insurance (health, life, etc.)

[ ] Business Insurance (property, crop, etc.)

[ ] Other

51) If your MFI already has dedicated youth financial services, why did it decide to introduce them? (check appropriate box)

( ) Large untapped growth market

( ) Corporate social responsibility

( ) Being encouraged to do so by the government/policy makers

( ) Donors are interested in providing funding/technical assistance for this

( ) Advances in risk evaluation have made it more attractive to lend to youth

( ) Market differentiation

( ) Other: _____*

52) If your MFI does not have dedicated youth financial services, are you exploring the development and introduction of such services?

( ) Yes

( ) No (skip to next section)

53) If yes, why is the MFI looking to provide or increase financial services to youth? (check appropriate box)

( ) Large untapped growth market

( ) Corporate social responsibility

( ) Being encouraged to do so by the government/policy makers

( ) Donors are interested in providing funding/technical assistance for this

( ) Advances in risk evaluation have made it more attractive to lend to youth

( ) Market differentiation

( ) Other: _____*

54) What kind of services / additional services do you want to offer? (select all that apply)

[ ] Loans

[ ] Savings

[ ] Remittances/ money transfer

[ ] Personal Insurance (health, life, etc.)

[ ] Business Insurance (property, crop, etc.)

[ ] Other

55) Has your MFI done market research to identify potential youth clients?

( ) Yes

( ) No

Non-financial Services

56) Does your MFI provide non-financial services alongside financial services (directly or through partnerships)?

( ) Yes

( ) No

57) Does your MFI provide nonfinancial services dedicated to the youth segment (15-29 years)?

( ) Yes

( ) No

58) Do you currently offer or plan to offer the following non-financial services to serve standard clients?

	Currently offer directly	**Currently offer through partners**	**Plan to offer directly**	**Plan to offer through partners**
Financial literacy training	[ ]	[ ]	[ ]	[ ]
Skills training	[ ]	[ ]	[ ]	[ ]
Business management training	[ ]	[ ]	[ ]	[ ]
Market linkage solutions	[ ]	[ ]	[ ]	[ ]
Technology-based support	[ ]	[ ]	[ ]	[ ]
Technical assistance (mentoring/ coaching)	[ ]	[ ]	[ ]	[ ]

59) If you currently/ plan to offer other non-financial services (directly or through partnerships) that were not listed above, please state the services below:

	Currently offer directly	**Currently offer through partners**	**Plan to offer directly**	**Plan to offer through partners**
1.	___	___	___	___
2.	___	___	___	___
3.	___	___	___	___
4.	___	___	___	___
5	___	___	___	___

60) Do you currently offer or plan to offer the following non-financial services to serve youth clients?

	Currently offer directly	**Currently offer through partners**	**Plan to offer directly**	**Plan to offer through partners**
Financial literacy training	[ ]	[ ]	[ ]	[ ]
Skills training	[ ]	[ ]	[ ]	[ ]
Business management training	[ ]	[ ]	[ ]	[ ]
Market linkage solutions	[ ]	[ ]	[ ]	[ ]
Technology-based support	[ ]	[ ]	[ ]	[ ]
Technical assistance (mentoring/ coaching)	[ ]	[ ]	[ ]	[ ]

61) If you currently/ plan to offer other non-financial services to youth clients (directly or through partnerships) that were not listed above, please state the services below:

	Currently offer directly	**Currently offer through partners**	**Plan to offer directly**	**Plan to offer through partners**
1.	___	___	___	___
2.	___	___	___	___
3.	___	___	___	___
4.	___	___	___	___
5.	___	___	___	___

62) If your MFI is not providing non-financial services to standard clients, please mark the reasons why?

[ ] Insufficient financing
[ ] Lack of technical expertise
[ ] Lack tools (curricula, tools, etc.)
[ ] Insufficient partners in country
[ ] Cost / sustainability
[ ] Others

63) If your MFI is not providing non-financial services to the youth segment, please mark the reasons why?

[ ] Insufficient financing
[ ] Lack of technical expertise
[ ] Lack tools (curricula, tools, etc.)
[ ] Insufficient partners in country
[ ] Cost / sustainability
[ ] Others

64) Based on your knowledge of the youth segment, what are services in which you believe this segment may benefit?

[ ] Enterprise training and development
[ ] Business plan development
[ ] Skills training
[ ] Record keeping training
[ ] Financial literacy
[ ] Mentoring/ coaching
[ ] Counseling
[ ] Market linkages
[ ] Corporatization
[ ] Marketing
[ ] Technology transfer
[ ] Technical assistance
[ ] Technology improvement
[ ] Others (please specify)

65) Please indicate if you agree or disagree with these statements?

		Fully disagree	**Somewhat disagree**	**Neither agree nor disagree**	**Somewhat agree**	**Fully agree**
1.	In general, youth are not prioritized as potential clients	( )	( )	( )	( )	( )
2.	Youth are unaware of the financial services offered	( )	( )	( )	( )	( )
3.	There is a lack of knowledge of the youth market	( )	( )	( )	( )	( )
4.	Youth have a higher default rate than adults	( )	( )	( )	( )	( )
5.	Challenges in communication between MFIs and youth exist	( )	( )	( )	( )	( )
6.	Telecommunication issues make it difficult for youth to communicate with us	( )	( )	( )	( )	( )

7.	Geographic factors make it difficult for youth to reach us	( )	( )	( )	( )	( )
8.	Education level makes it difficult to communicate with youth	( )	( )	( )	( )	( )
9.	Youth are uneducated about managing money	( )	( )	( )	( )	( )
10.	Youth have a poor understanding about how to run a business	( )	( )	( )	( )	( )
11.	Increased competition with other MFIs threaten the survival of our business	( )	( )	( )	( )	( )
12.	Legislation and regulatory frameworks puts a constraint on our business	( )	( )	( )	( )	( )
13.	Low population density makes it difficult to reach clients in rural areas	( )	( )	( )	( )	( )
14.	There is lack of sufficient demand for financial products / services by youth	( )	( )	( )	( )	( )

Open-ended Questions

In addition to the questions that appear in the main body of this survey we would like your responses on a number of open-ended questions.

66) What challenges do you see in increasing the share of young people in current portfolio of financial products / services or developing dedicated youth products? (check all that apply)

[ ] Lack of credit history or collateral

[ ] Overcoming perceptions of the riskiness of lending to youth

[ ] Appropriately trained / incentivized staff

[ ] Challenges of identifying youth's demand for such products

[ ] Ability to engage / communicate effectively with potential youth borrowers

[ ] Lack of support institutions (educational intuitions, youth support institutions, etc.) to partner with on training and preparing potential youth borrowers

[ ] Other

67) What would your MFI need in order to increase the share of young people in current portfolio of financial products / services or develop dedicated youth products? (check all that apply)

[ ] Financial assistance (debt, equity, guarantees, etc.)
[ ] Technical assistance in product design and development
[ ] Staff training and awareness raising towards youth
[ ] Diagnostic and analytical support
[ ] Market outreach and communications
[ ] Other

68) What kind of policy changes would enable growth and development of the microfinance sectors (this could include changes in existing policies and/or the introduction of new policies)?

69) What policy changes (more or less) would enable growth and development of youth targeted financial services?

70) What kinds of changes (more or less) in government-led intervention(s) or programmatic support would enable your MFI to better target youth?

71) If you have competitors in the market offering youth financial services, please list them:

References

[1] Demirgüç-Kunt, Asli and Leora Klapper, Measuring Financial Inclusion: The Global Findex Database, World Bank WP6025, April 2012.

[2] Exhibit 1 of Stein, Peer, Goland Tony and Robert Schiff. Two trillion and counting: assessing the credit gap for micro, small, and medium-size enterprises in the developing world. IFC and McKinsey and Company. October 2010.

Web Link: http://www.mspartners.org/download/Twotrillion.pdf.

[3] The survey questionnaire builds on existing supply side surveys conducted in various countries across the developing world by leading organizations, such as Making Cents International, National Anti-Poverty Commission in the Philippines, and Deutsche Bank.

See Porter, Beth, Making Cents International YFS Global Survey, Making Cents, September 2009; See also the Branch Office Questionnaire by Deutsche Bank titled "Microfinance Due Diligence Questionnaire with Loan Application" and the National Anti-poverty Commission Questionnaire for MFIs for a study titled "Enhancing Access of the Poor to Microfinance Services in Frontier Areas."

[4] Internal sources.

[5] Weights for adult and youth average loan correspond to MFIs' number of adult clients and youth clients, respectively.

[6] Computed using working age population data from 2010 UN Population Statistics.

[7] Weights correspond to total portfolio size of MFIs.

[8] Computed using World Development Indicators 2013.

[9] For the purpose of this study, we use Mix market's MENA-specific tier definition for MFIs, which results in a more even distribution of MFIs across tiers. A more widely used definition (CGAP and Grameen Foundation USA) uses 5 million USD and 50 million USD as cutoffs.

Silatech
Young People...Enterprise...Employment...

P.O. Box 34111, Doha, Qatar
Tel: +974 4499 4800
E-mail: info@silatech.com
silatech.com