Governance and Strategic Leadership of Microfinance Institutions in the MENA Region: Key Insights from a Regional Assessment

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Attribution:
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In partnership with Calmeadow and the Sanabel Network
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Introduction
Over the past few years, the financial inclusion landscape in the Middle East and North Africa (MENA) region has rapidly evolved with new market entrants, changing regulations and increased financial risks. As a result, the stakes are getting higher, and microfinance institutions (MFIs) working in the region need to reconsider their strategies to be able to expand formal financial services to clients at the base of the economic pyramid.

The ability of MFIs to manage market and financial risks in an unstable economic environment will depend on the strength of their risk strategies, corporate governance structures and board dynamics. The Center for Financial Inclusion at Accion, Calmeadow, and the Sanabel Network, with support from the Dutch Development Bank (FMO), sought to understand the key governance challenges facing MFIs in the MENA region by conducting a technical needs and demand assessment (TNDA). This assessment examined the challenges as perceived by board members and CEOs of regional MFIs, with an emphasis on whether boards are well-equipped to deliver stability and growth for their organizations.

MFIs in MENA are currently reaching approximately 3 million borrowers, with a loan portfolio of over $2 billion—far below the market potential estimated at 56 million borrowers. The microfinance sector, as well as the broader financial inclusion ecosystem in MENA have been slow to adapt, and have experienced slower growth over the last ten years, compared to their peers in other parts of the developing world. Nearly 86 percent of adults in the region report no formal account ownership, particularly among low-income populations and women. Moreover, an estimated 92 million people borrow through informal channels. There is a limited supply of financial services for low-income customers and micro and small enterprises. MFIs, comprised mostly of non-deposit taking, non-bank financial institutions and non-governmental organizations (NGOs), are the primary formal providers of financial services to low-income populations (mainly microcredit).

For the assessment, we surveyed and interviewed 140 CEOs and board members about the governance challenges and opportunities their institutions face and how effectively their boards operate. We also assessed board strengths and weaknesses and key governance challenges in the MENA region. This report explores some of these areas, as well as the opportunities for MFIs to improve governance practices, reach a larger client base and stay ahead of the evolving microfinance industry.

Respondent Characteristics
Below is a summary of the composition and board characteristics of MFIs in the region that participated in the TNDA.

- The majority of institutions surveyed are from Egypt, Morocco, Sudan, Jordan and Palestine
- 70% indicated less than 50,000 active clients
- 47% of respondents hold CEO or Managing Director positions on the board
- 23% of respondents surveyed were female; 77% were male
**Figure 1.** Question: In what country are you based?

Country

- Bahrain: 21%
- Egypt: 17%
- Iraq: 14%
- Jordan: 10%
- Lebanon: 17%
- Morocco: 7%
- Palestine: 1%
- Sudan: 2%
- Syria: 1%
- Tunisia: 4%
- United Arab Emirates: 2%
- Yemen: 1%
- Afghanistan: 1%

**Figure 2.** Question: How many active clients does your institution serve?

Active Clients

- Less than 10,000: 35%
- 10,001 - 50,000: 35%
- 50,001 - 100,000: 13%
- 100,001 - 250,000: 9%
- More than 250,000: 8%
Figure 3. Question: Which description best describes your institution type?

![Institution Type Chart]

Figure 4. Question: What is your current role with the organization?

![Role Chart]

Summary of TNDA Results
In the assessment, CEOs and board members were asked to indicate technical areas where their boards are most and least effective (Figure 5). Respondents felt their boards were most effective in:

- Monitoring financial performance
- Monitoring social performance
- Promoting mission alignment

Mission alignment and social performance in particular were noted as strengths and areas of interest. Many institutions evaluate both social and financial performance indicators and are increasingly creating formal positions that oversee social performance. For example, the Microfund for Women in Jordan created the position of Social Performance Manager, and Al Amana in Morocco established a Social Performance Committee that reports to the board.

**Figure 5.** Question: Please rate your board's effectiveness in the following technical areas

<table>
<thead>
<tr>
<th>Effectiveness in Technical Areas</th>
<th>1 Least Effective</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 Most Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promoting mission alignment</td>
<td>24%</td>
<td>28%</td>
<td>35%</td>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>Understanding the microfinance industry</td>
<td>24%</td>
<td>43%</td>
<td>37%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Assessing technologies/new business models</td>
<td>9%</td>
<td>29%</td>
<td>18%</td>
<td>40%</td>
<td>4%</td>
</tr>
<tr>
<td>Monitoring social performance</td>
<td>9%</td>
<td>17%</td>
<td>28%</td>
<td>19%</td>
<td>28%</td>
</tr>
<tr>
<td>Monitoring financial performance</td>
<td>24%</td>
<td>20%</td>
<td>30%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Managing market/financial risk</td>
<td>11%</td>
<td>13%</td>
<td>33%</td>
<td>37%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Areas where respondents felt their boards were least effective include:

- Board dynamics
- Assessing technologies and new business models
- Managing market and financial risks
Figure 6. Question: What are the big governance issues that currently concern you the most?

As shown in Figure 6, half of the respondents expressed concern about board dynamics—including the role of the board, the board’s collective knowledge base and the on-boarding of new board members (Figure 6). This finding suggests that boards are struggling simply to operate effectively. If this is the case, boards may not be prepared to focus on the major challenges facing the organization. One respondent indicated, “There are no clear internal regulations or policies on governance, and the board doesn’t have sufficient background on the necessities of its role in stabilizing management within the institution.”

Board Dynamics: Skills, Term Limits and Committees

Board Skills
A majority of respondents to the TNDA felt that their boards lacked the diversity, skills and microfinance knowledge needed to effectively govern their institutions. Most board members have similar skillsets, with backgrounds in business and the public sector. Additionally, 70 percent of MFIs that participated in this assessment are NGOs (Figure 3), and as such, they have largely volunteer board members, which can contribute to limited effectiveness.

The majority of respondents acknowledged that their boards did not receive any specialized training about microfinance or financial inclusion. Board dynamics and skills emerged as the biggest governance concern for half of all respondents, indicating a need for training board members and preparing them to meet their responsibilities.

External options for board training are limited and usually offered either in English or as part of a longer program, constituting two major challenges for board members: language barriers and time constraints.
Only a handful of institutions in the region have board members that actively participate in external training events.

**Board Term Limits**
Another key governance concern is the infrequent rotation of MFI board members. Most boards have an average three-year term that is often renewed. As a result, most board members have seats on their boards for a decade or more, and in some cases, since the founding of the institution. While this ensures continuity in leadership, it can also stagnate the board, leaving no room for new skills or fresh perspectives to effectively advise the MFI.

Many board members and CEOs interviewed noted that it is challenging to recruit new board members—particularly those with the right caliber and skills. In some cases, social dynamic considerations supersede process, for example, some institutions reserve board leadership for the founder, the head of a family business or a political figure. Some CEOs also pointed out that they prefer to maintain the same board for stability purposes, as it takes a while to build the trust and communication required for effective relationships. Nevertheless, one of the senior managers interviewed pointed out, “New regulation and new market conditions will force MFIs to bring on board new people and new blood.” New expertise is needed in the areas of commercialization of financial services, digital financial services, and for specific and critical market segments in the region, including youth, women, and refugees.

**Board Committees**
Governance practices within a board are affected by the composition of the board, as well as by operating committees that function within the board. New microfinance regulations in some countries in the region mandate criteria for board structure, skills, and base level of professionalism. For example, the Egyptian Financial Supervisory Authority now requires MFIs seeking licenses to undergo specific board reforms. All boards must have at least one person with a financial/commercial background, and boards of larger MFIs must have a risk and internal control (audit) committee. Other countries, including Jordan and Palestine, are still drafting specific governance rules for MFIs.

We asked board members and CEOs about the type of committees their boards have and why these committees are important (Figure 7). The majority of respondents have audit committees (62 percent) and risk committees (58 percent). There was mixed feedback about the effectiveness of the committees. One respondent indicated, “The board requires more effective and more powerful committees and a better understanding by the members of their roles within the committee, so we can work towards achieving objectives.”
Managing Market and Financial Risks

In addition to board dynamics, board members and CEOs felt that their boards lacked effectiveness in monitoring market and financial risks. The turmoil that has afflicted the region in recent years has had severe implications for financial service providers. Some have faced widespread defaults as their clients’ economic lives were disrupted. Others have faced liquidity challenges. In countries directly affected by conflict, such as Palestine, Yemen, Syria and Iraq, as well as those indirectly affected through the influx of refugees in places like Jordan and Lebanon, MFIs have realized how important their role as financial services providers is during crises. More than half of respondents indicated that the board has discussed or acted to support the financial needs of refugees, including the approval of customized products or specific outreach strategies. For example, Al Majmoua in Lebanon had to develop a strategy for the inclusion of Syrian refugees that everyone (both internally and externally) could buy into. Al Majmoua management decided to start with group loans only, and to launch ‘mixed groups’ of self-selected Lebanese and Syrian women in order to reduce both the perceived competitive tensions and flight risk among refugees. In Jordan, MFW and Vitas are still testing approaches for including refugee clients in their portfolio. UNRWA’s Microfinance Programme continues to provide services to over 5 million Palestinian refugees in Jordan, Syria, West Bank and Gaza, where many of their clients are internally displaced.

As political and economic crises afflict the MENA region, MFIs will need the support of a strong board. According to the joint International Finance Corporation and Sanabel regional report Voices: An Assessment of Perceived Risks Facing Microfinance Sector in Arab World, external risks, security concerns and over-indebtedness are perceived as the most serious challenges facing the microfinance sector. Weak corporate governance structures were the seventh most severe risk, and are perceived to be rising. While governance may not stand out as a top risk, it is clear that sound governance is necessary if an institution is to navigate its most salient challenges effectively.

Figure 7. Question: Which committees does your board have?

Types of Committees on Boards

<table>
<thead>
<tr>
<th>Committee Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other committees</td>
<td>26%</td>
</tr>
<tr>
<td>Governance committee</td>
<td>15%</td>
</tr>
<tr>
<td>HR committee</td>
<td>34%</td>
</tr>
<tr>
<td>Social Performance Committee</td>
<td>15%</td>
</tr>
<tr>
<td>ALCO (Asset-Liability)/Finance committee</td>
<td>37%</td>
</tr>
<tr>
<td>Executive committee</td>
<td>34%</td>
</tr>
<tr>
<td>Audit committee</td>
<td>62%</td>
</tr>
<tr>
<td>Risk committee</td>
<td>58%</td>
</tr>
<tr>
<td>None</td>
<td>11%</td>
</tr>
</tbody>
</table>
As recent evidence shows, weak governance at a leading MFI in Morocco was a significant contributor to the 2008 Moroccan repayment crisis, where rapid growth led to unsustainable stress for many MFIs. The crisis ended when the top three MFIs in the country started making efforts to improve long-term institutional development, like implementing new training methodologies, assessing risk management and governance practices and improving the overdue recovery process. These lessons are important for boards to consider as they continue to face instability in their countries.

Assessing Technology and New Business Models
Digital financial services offer great potential for MFIs to expand their delivery channels and increase access to financial services for excluded populations. The number of fintech companies in the MENA region offering financial services has more than doubled from 46 to 105 in the past three years. Half of the fintech companies offer payment solutions, and one-third offer lending and financing services. Although many participants see these new market entrants as competition, only 4 percent indicated that their boards were effective in assessing technology and new business models (Figure 5).

As competition from fintechs increases, MFIs in the region will need to think strategically about establishing innovative business models and developing partnerships with fintech players. Some MFIs surveyed are already taking steps to form partnerships with telecom/fintech companies:

- Tunisia: ENDA Tamweel is providing its clients with m-dinar in partnership with Viamobile, and BIAT and e-dinar in partnership with the Tunisian Post.
- Jordan: Microfund for Women adapted Mahfazati, an e-payment solution by Umniah.
- Morocco: Al Amana partnered with Wafacash to offer its clients domestic and international cash transfer services.
- Egypt: Three MFIs (Alexandria Business Association, Al Tadamun, and CEOSS) are piloting e-wallets in partnership with two banks and the three mobile phone operators.
- Yemen: Recent legislation allows MFIs to introduce mobile money wallets for their clients, especially those in remote and conflict zones.

An enabling environment for the adoption of digital financial services is being established in the region, and MFIs are realizing the need to better formulate their digital strategies (including back office systems) in order to integrate into evolving financial markets in their countries.

Looking Ahead: Transformation and Improving Governance
NGOs in MENA face substantial challenges as financial service providers. As non-profits that lack shareholders, they have increased difficulty establishing effective boards that can provide the commitment, expertise and accountability needed to ensure sustainability. They also struggle to raise enough capital to support growth and deepen equity cushions during difficult times. In response, and as
regulation evolves, more MFIs are transforming to for-profit, non-deposit taking financial institutions, which is creating a greater need for investors and consequently a need for sound corporate governance.

About a quarter of the MFIs interviewed are considering transformation as a way to attract investment and finance growth. For many MFIs, transformation is the right next step in order to reach more clients, broaden product offerings or comply with regulatory changes. But often, external pressures, operational complications and mission alignment pose challenges for transforming MFIs. One of the interviewees noted, “Transformation will require change in the organizational culture, which will be more difficult as the mentality of [everyone]—from the senior leadership to the loan officer—will need to change.”

Enda Inter-arabe, the largest and oldest MFI in Tunisia, recently transformed into Enda Tamweel, a for-profit microfinance company that concentrates on lending while the original NGO provides and oversees non-financial services. Enda’s co-founders and directors are facing challenges in identifying the right talent for the strategic leadership of the new entity, as well as aligned investors. Essma Ben Hamida, co-founder of Enda Tamweel, likens it to arranging the marriage of a child and making sure they find the right partner. “We are so scared of leaving this beautiful institution in the hands of someone who’s not right. There’s a problem of trust. You don’t know how people will react.” The transformation of a large NGO with a special organizational culture that relies on the founder’s personality, as well as the absence of proper succession planning, are behind Enda’s current conundrum. Enda’s founders are hopeful that the board of Enda Tamweel will provide guidance during this critical period.12

Summary
As the microfinance sector in the MENA region adapts to challenging and competitive environments, strong governance structures will play a critical role to help MFIs grow and meet client demand. Risks arising from regulatory reforms, lack of board skills and commitment, increased competition, new market entrants, use of technology, and serving new unconventional market segments (e.g. refugees and internally displaced persons), are pressuring MFIs in MENA to think seriously about their future strategic direction and how to bring their governance structures to the professional level needed to achieve their strategic goals. Findings from the technical needs and demand assessment demonstrate that there is both a need and interest in governance training for MFIs in MENA. Most CEOs and board members interviewed felt that their boards would benefit from exposure to the latest microfinance and financial inclusion trends and other experiences from the region and globally. The industry as it exists today will not be able to meet the growing demand —there is a need and appetite for change.
Notes

1 For purposes of this report, the MENA region covers the low to middle-income Arab countries, unless otherwise specified. Gulf Cooperation Council countries are in the high-income bracket.


4 For the 2014 Findex Survey, the Middle East includes the following countries: Arab Republic of Egypt, Iraq, Jordan, Lebanon, West Bank and Gaza, and Republic of Yemen.


9 Ending the Microfinance Crisis in Morocco: Acting early, Acting right, IFC, 2014 (https://goo.gl/bHsl60)


The Center for Financial Inclusion at Accion (CFI) is an action-oriented think tank working toward full global financial inclusion. Constructing a financial inclusion sector that reaches everyone with quality services will require the combined efforts of many actors. CFI contributes to full inclusion by collaborating with sector participants to tackle challenges beyond the scope of any one actor, using tools that include research, convening, capacity building, and communications.

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