

ESTABLISHMENT AND EXPANSION OF ISLAMIC MICROFINANCE INSTITUTIONS (MFIs) IN AFRICA BY FARZ FOUNDATION

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INTRODUCTION

The Farz Foundation is a microfinance institute operating on the principles of the Muslim faith. The foundation operates in Pakistan, currently has approximately 100 active clients, and is seeking to expand microfinance operations using the Farz methodology into other Muslim countries. The project undertaken by the OMI team carried out a preliminary study to evaluate the feasibility of Farz Foundation's expansion throughout Muslim countries. On basis of consultation with the Farz Foundation, it was decided that North and West Africa would be ideal starting points for expanding Farz's operations overseas. We offer research-based suggestions on the feasibility of expanding into select African countries, modalities of expansion and a model-based 10-year strategic plan for entry into Egypt and Mali.

One of the biggest challenges of Islamic microfinance is the presence of conflicting versions of what may or may not comprise as Islamic microfinance. Hence, from the onset it is vital to take note of what would be an acceptable version of Islamic microfinance under the Farz methodology. The basis of Farz Foundation's methodology is that based on Sharia, all must be free from certain forbidden elements. The relevant out of these are: (a) Freedom from *Riba* (interest) (b) Freedom from *Gharar* (Uncertainty and deceit). The latter is a broad concept and may refer to settlement risk, lack of knowledge etc. These principles also form the basis of Farz Foundations guiding principle, "Twist Up Economics". This economic philosophy has been conceived by and forms an integral part of Farz Foundation's working. The basic premise of this is that interest is one of the major reasons for keeping the world's poor trapped in a vicious cycle of debt and poverty. Further, this philosophy views the world's poor having the potential to be grass level entrepreneurs who can achieve economic security rather than being just passive recipients of financial aid. Farz Foundation works on the theory of 'Twist Up Economics' or grassroots level economic empowerment. It seeks to empower the poor through its different products and enabling them (both through the provision of financial and non-financial resources and training) to generate income to support themselves and their families. Farz Foundations products and service provision is based on the asset delivery model which further seeks to provide education, tools, support for developing enterprise, elimination of middlemen as opposed to merely providing cash

aid. A key component of the microfinance products provided by Farz Foundation is the Islamic concept of *Bai muajjal-murabaha*. Entrepreneurs in need of a specific commodity approach the MFI, which purchases the commodity for price P and passes it to the entrepreneurs. After an agreed-upon period, the entrepreneurs pay the MFI P plus a fee. The MFI must disclose P and the fee in advance. Farz Foundation has applied Mudarba (a partnership based product in which Farz provides livestock and the poor farmer provides her or his services to nourish the livestock) to cattle and livestock rearing with significant success in both Pakistan and south Cameroon. OMI would recommend applying this model (after modifying it to suit the local conditions) to the countries it expands to. In the near future, Farz can also focus on expanding its saving product to poor communities in Africa as a way of empowering the destitute members of the community who cannot access the traditional banking services.

We begin this report with an overview of the key challenges facing the Farz Foundation as an institution unto itself, including the potentially aggravating effects of expansion on the current business model. Also discussed are the different sources of funding that Farz may consider to fund their expansion program. Finally, this report provides an overview of the feasibility of expanding into Egypt, Ghana, Mali, Morocco, and Sudan. The country-specific difficulties discussed in this report are intended to provide Farz with a rough understanding of the challenges posed by expansion into these five countries, with particular emphasis on Egypt and Mali, the two countries that are felt to be best targets for expansion. The team carried out initial feasibility tests for a number of other countries not mentioned in this report, including Chad, Mauritania and Libya. These countries were deemed to be infertile ground for expansion, and the team felt that further study of them would bear little in the way of insight. Nonetheless, it is intended that the lessons from these five case studies will be applicable to other countries that Farz may wish to expand into in the future. Exhaustive analysis about the feasibility of different countries for expansion of Islamic microfinance has been provided in power point slides. Power point slides have been sent along with the report.

Minerva Singh, Project Leader
Anne-Marie Grunig
Anisa Kassamali

Sarah Ridout
Cameron Willard
Sophie Willson

PLANNING OVERSEAS EXPANSION

SOURCING THE FINANCIAL AND LOGISTICAL RESOURCES

On the basis of information obtained from Farz Foundation and qualitative research done on the various countries, it may be argued that the Farz methodology of Islamic microfinance has a great potential to contribute to grassroots entrepreneurial revitalization in poor countries. But in order to expand outside of Pakistan, Farz Foundation needs consistent and stable access to financial and logistical resources. It then needs to streamline these resources with stable, employment-generating business opportunities and an environment that is compatible with Islamic microfinance.

Logistic Partnerships with Like-Minded Organisations

Farz Foundation should actively seek to collaborate with existing NGOs and grassroots level organisations in the countries where it is seeking to expand. These host organisations could benefit from the Farz methodology, while Farz could benefit from their pre-existing infrastructure and local business acumen. Microfinance organisations are already prolific across sub-Saharan Africa, giving Farz considerable opportunity for collaboration. For instance, the American NGO Counterpart International (<http://www.counterpart.org/our-work/geographies/mauritania>) is already active in some parts of Mauritania—Gorgol, Assaba etc. These regions have the highest rates of malnourishment in the country. It is not a faith-based NGO, but given the shared goal of poverty alleviation, collaboration would be conducive to the kind of work that Farz seeks to do. An alternate paradigm of collaboration

can come from working with social organisations. The NGO SOS Enclaves provides vocational training to rescued women slaves. Such a partnership could provide local know-how and an initial client base. Through two-way collaborations like these, Farz can expedite its engagement with new countries as it seeks to expand.

Possible Sources of Funding

While collaborations with NGOs and other MFIs might provide logistical support with some amount of financial funding, it is important for the Farz Foundation to gain financial security by seeking funding from larger development focussed NGOs. Possible sources of developmental funding include:

- World Bank
- African Development Bank
- Ford Foundation
- Islamic Development Bank
- Arab Gulf Programme for Development
- Agha Khan foundation
- Social Fund for Development
- Kuwait Fund for Arabic Development
- Oikocredit
- Terrafina

The development and grant facility in the World Bank is interested in ‘encouraging innovation through provision of seed money and support for cutting edge approaches.’ Projects should increase client access to World Bank funds and increase the effectiveness of World Bank projects already active in the country and region (<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTFININSTRUMENTS/EXTTRUSTFUNDSANDGRANTS/EXTDGF/0,,menuPK:64161791~pagePK:64161828~piPK:64161823~theSitePK:458461,00.html>).

The Ford Foundation too seeks to make grants to small organisations that focus on poverty reduction and rural empowerment (<http://www.fordfoundation.org/Grants>). The foundation gives the grantee autonomy over management of funds up to \$5000. Grants are

made for the purpose of general/core support, planning, individual support, endowment or program related investment.

The Ford Foundation further recommends seeking funding from other sources enumerated in <http://www.fordfoundation.org/grants/other-philanthropic-resources>. The enumerated organisations seek to encourage small organisations at both global and regional levels. For instance, an organisation, East Africa Association of Grant makers or EAAG seeks to strengthen the culture of local philanthropy in countries of East Africa, namely Uganda, Kenya or Tanzania (<http://www.eaag.org/index.php/about-eaag>). Should Farz wish to expand into these areas, they could provide vital assistance in terms of finance and making local contacts.

African Development Bank (ADB) too is very active in making loans and grants for various developmental projects around Africa. However, the focus of ADB's loans and grants is on natural resource management such as providing funding for reforestation in Rwanda or provision of funding for small and medium enterprises (SMEs) in Mauritania or private equity projects in West Africa (<http://www.afdb.org/en/news-events/loans-grants/3/>). Hence, Farz may not be eligible for direct funding from ADB. However, the possibility of seeking funding in connection to an SME or a natural resource management project could always be explored.

In addition to the non-faith based funding sources discussed above, Farz should actively seek funding from faith based organisations. For instance, the Islamic Development Bank (IDB, <http://www.isdb.org>) is a development fund based in Jeddah, Saudi Arabia and founded on Islamic principles. The 56 member countries of the bank include Pakistan, Mali, Egypt and others being considered by the OMI team. It has taken recently invested \$5 million to take a 25% stake in Sudan's Al-Ebda'a Microfinance Institution, and has also invested \$10 million in Sudan's IRADA Microfinance Institution.

The Riyadh-based Arab Gulf Program for Development (AGFUND, <http://www.agfund.org/>) works with the UN to target civil society development. The fund has an on-going focus on food security, and awards an annual \$500,000 prize to an institution deemed to further the cause of food security. It funnels money to MFIs through its APEX fund. Its subsidiary MFIs have over 200,000 clients in six countries.

Organisations such as Islamic Relief have been very active in countries such as India where they provide vocational training for women, alternative education centres and carry out emergency relief operations. Collaboration with a faith based organisation such as Islamic relief or even Christian Aid could provide both a steady source of funding and logistical support.

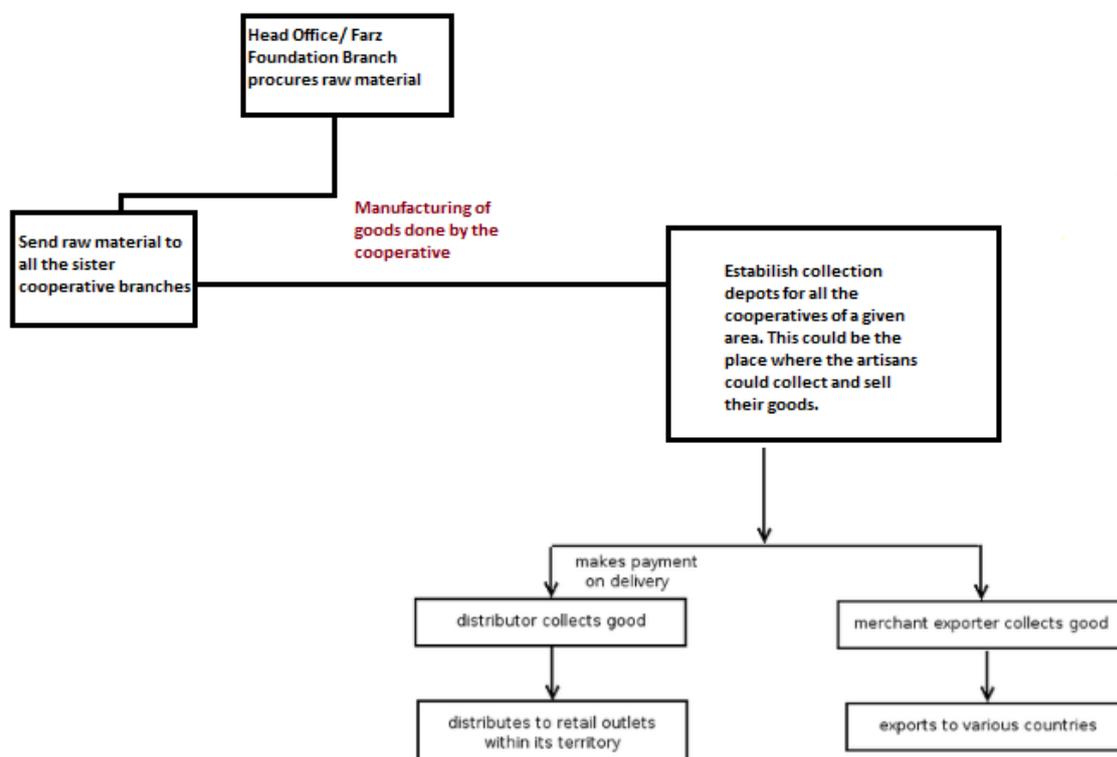
A Profit-Generating Business Model

In all potential countries where Farz seeks to operate, it must develop profit-generating self-sustaining business models. The ultimate aim of Farz over a 10 year period should be to eliminate or drastically reduce dependency on external funding sources. Farz's livestock methodology or Mudarba may provide the basis for a sustainable business model in African countries where livestock is an important part of livelihood. In addition to providing loans for investment in livestock, there may be scope for expanding in the dairy sector via investment in refrigerators and other equipment. Possible clientele could include: (a) small scale farmers (b) women - especially those who head households and those freed from slavery (c) pastoralists (d) socially marginalized groups.

Aquaculture is an important aspect of rural livelihoods and food security. It is possible to start establishing an aquaculture cooperative farm by giving a credit of approximately £4/head (as seen here: <http://www.pnas.org/content/104/43/16781.full>). Initial focus could be on providing small loans to market traders, especially women. Alongside this, Farz can make micro-equity investments in small enterprises that employ the members of the poorest section of the society; loans in the cooperative can be cross-guaranteed to prevent default. This business model is similar to the cooperatives that Farz is already involved with in Pakistan, which increases the likelihood that Farz can successfully replicate it elsewhere.

A very effective way of establishing women-centric profit generating small business is to set up handicraft cooperatives. A notable example of this is the Lijjat Poppadum of India, which is a women's cooperative that focuses on employing women to make fast-moving consumer goods including poppadums). In a model like this, Farz can take a predetermined percentage of the profit. It is estimated that setting up small cooperative units might require an initial investment of approximately \$100,000, for which the Rockefeller Foundation's Program

Related Investments is a possible source of funding. Women-focused crafts include leather, basket making and fabrics (including batik fabrics). Other crafts that may have untapped market potential in the countries below include carpets/prayer mats, jewelry and hand crafted shoes. Farz could focus on providing raw materials and marketing support to encourage consumption in urban areas, surrounding countries, or even overseas. A possible delivery model could be:



Adapted from the Lijjat Popadum delivery model (see:

http://en.wikipedia.org/wiki/Shri_Mahila_Griha_Udyog_Lijjat_Papad)

For overseas markets this could target the ethical/organic/ fair trade segment; fair trade sales are worth €3.4 billion annually and handicrafts from sub-Saharan Africa could find a niche in this sector. However, this would require collaboration with overseas clients such as Body Shop to promote hand items like woven baskets.

CHALLENGES TO EXPANSION

General Challenges

The biggest issues encountered in the course of expansion into Africa are: red tape related delays, a lack of formal institutions and a weak governance framework. For instance, all MFIs in Mauritania have to be registered with the Central Bank and this process is subject to delays and bureaucracy. Similarly to start an MFI in Ghana, the organisation needs to ensure a certain percentage of their board is comprised of Ghanaian residents. Farz would need to apply for a business visa in order to operate in most sub-Saharan countries. This visa is subject to a number of requirements (including presentation of a business plan and bank statements). Hence, it would be advisable Farz has a well-defined business plan along with cost details before applying for business visas. Finally, many countries are known to have significant law and order problems, especially kidnapping. Hence, it may be worthwhile to invest in proper security. Lastly, political instability, including coupes, has to be accounted for as a part of risk assessment.

Project-Related Challenges

For every particular project initiated overseas it will be necessary to send people who are familiar with the Farz methodology to lay the groundwork for operational development. Over a period of 12 months there local staff must be trained in order to build social capacity. Capacity building may also include investing in heavy vehicles and electric generators while operating in remote areas. It is advised to look into the possibility of opening doors to foreign volunteers as a way of raising the profile of the microfinance setup.

FINANCIAL ESTIMATES FOR ENTRY INTO EGYPT AND MALI

Farz will have to account for operational costs on country by country basis while expanding into Africa. It is advised that inasmuch as it is possible, Farz should include cost estimates relating to office establishments, security infrastructure in the funding proposal it sends to the donor organisations. To this end, we have built a model estimating possible costs and revenues to be had when starting activity in a new country. Of the five countries we studied, Egypt and Mali were the two with sufficient data and predictability to make a model worthwhile. The results of the model are as follows:

MALI

Rent:

\$20/month, \$240 per annum (pa)

Staff:

1 accountant

2 secretaries

2 unskilled till year 5: Costs \$8064 pa

3 unskilled year 5: Costs \$8928 pa

4 unskilled year 7: Costs \$9792 pa

Visas:

At least 5, procedures: 570\$ (rounded)

Operational from Year 2. Year 2-7: growth (linear 40 borrowers/staff-> 200 in year 7 ie +32/yr)

Borrowers/staff member (accountant, secretaries, 2 unskilled): 200 based on mixmarkets.com info

Avg Loan size: \$200 (relatively small, but requires less working capital)

Avg cost per borrower: \$30

Recovery ratio: 100%

Revenue/loan: 25%

k[year]	Investment	Working Capital (does not depreciate)	Offices	Total Loans Cost	Salaries	Borrowers	Revenue
0	\$ -	\$	\$	\$	\$	0	\$

	2,000.00	-	-300.00	-	-8,064.00		-
1		\$ -	\$ -300.00	\$ -	\$ -8,064.00	0	\$ -
2			\$ -300.00	\$ -24,000.00	\$ -8,064.00	120	\$ -
3			\$ -300.00	\$ -43,200.00	\$ -8,064.00	216	\$ 29,700.00
4			\$ -300.00	\$ -62,400.00	\$ -8,064.00	312	\$ 54,000.00
5			\$ -300.00	\$ 108,800.00	\$ -8,928.00	544	\$ 78,000.00
6			\$ -300.00	\$ 134,400.00	\$ -8,928.00	672	\$ 136,000.00
7			\$ -300.00	\$ 134,400.00	\$ -9,792.00	672	\$ 168,000.00
8			\$ -300.00	\$ 134,400.00	\$ -9,792.00	672	\$ 168,000.00
9			\$ -300.00	\$ 134,400.00	\$ -9,792.00	672	\$ 168,000.00
10			\$ -300.00	\$ 134,400.00	\$ -9,792.00	672	\$ 168,000.00

K[Year]	After Tax (say 0,2)	Undiscounted Cash Flow	Discount Rate	Discounted Cash Flow	Cumulative Cash Flow
0	\$ -	\$ - 10,364.00	\$ 1.00	\$ - 10,364.00	\$ - 10,364.00
1	\$ -	\$ - 8,364.00	\$ 0.95	\$ - 7,965.71	\$ - 18,329.71
2	\$ -	\$ - 32,364.00	\$ 0.91	\$ - 29,355.10	\$ - 47,684.82
3	\$ 29,700.00	\$ - 21,864.00	\$ 0.86	\$ - 18,886.95	\$ - 66,571.76
4	\$ 54,000.00	\$ - 16,764.00	\$ 0.82	\$ - 13,791.78	\$ - 80,363.55
5	\$	\$ -	\$	\$ -	\$ -

		depreciate)					
0	\$ - 2,000.00	\$ -	\$ -9,360.00	\$ -	\$ -15,708.00	0	\$ -
1		\$ -	\$ -9,360.00	\$ -	\$ -15,708.00	0	\$ -
2			\$ -9,360.00	\$ -27,600.00	\$ -15,708.00	120	\$ -
3			\$ -9,360.00	\$ -49,680.00	\$ -15,708.00	216	\$ 28,500.00
4			\$ -9,360.00	\$ -71,760.00	\$ -15,708.00	312	\$ 51,300.00
5			\$ -9,360.00	\$ - 125,120.00	\$ -18,564.00	544	\$ 74,100.00
6			\$ -9,360.00	\$ - 154,560.00	\$ -18,564.00	672	\$ 129,200.00
7			\$ -9,360.00	\$ - 154,560.00	\$ -21,420.00	672	\$ 159,600.00
8			\$ -9,360.00	\$ - 154,560.00	\$ -21,420.00	672	\$ 159,600.00
9			\$ -9,360.00	\$ - 154,560.00	\$ -21,420.00	672	\$ 159,600.00
10			\$ -9,360.00	\$ - 154,560.00	\$ -21,420.00	672	\$ 159,600.00

K[Year]	After Tax (say 0,2)	Undiscounted Cash Flow	Discount Rate	Discounted Cash Flow	Cumulative Cash Flow
0	\$ - -	\$ - 27,068.00	\$ 1.00	\$ - 27,068.00	\$ - 27,068.00
1	\$ - -	\$ - 25,068.00	\$ 0.95	\$ - 23,874.29	\$ - 50,942.29
2	\$ - -	\$ - 52,668.00	\$ 0.91	\$ - 47,771.43	\$ - 98,713.71
3	\$ 22,800.00	\$ - 51,948.00	\$ 0.86	\$ - 44,874.64	\$ - 143,588.35
4	\$ 41,040.00	\$ - 55,788.00	\$ 0.82	\$ - 45,896.93	\$ - 189,485.28

5	\$ 59,280.00	\$ - 93,764.00	\$ 0.78	\$ - 73,466.55	\$ - 262,951.82
6	\$ 103,360.00	\$ - 79,124.00	\$ 0.75	\$ - 59,043.55	\$ - 321,995.37
7	\$ 127,680.00	\$ - 57,660.00	\$ 0.71	\$ - 40,977.89	\$ - 362,973.26
8	\$ 127,680.00	\$ - 57,660.00	\$ 0.68	\$ - 39,026.56	\$ - 401,999.81
9	\$ 127,680.00	\$ - 57,660.00	\$ 0.64	\$ - 37,168.15	\$ - 439,167.96
10	\$ 127,680.00	\$ - 57,660.00	\$ 0.61	\$ - 35,398.24	\$ - 474,566.20

*Note that any negative values represent the absolute value of the number.

COUNTRY PROFILES

EGYPT

Country Overview

DEMOGRAPHICS

- Ethnic groups (2006 census): Egyptian 99.6%, other 0.4%.
- Refugees: Iraq (60,000 - 80,000), 70,000 (Palestinian Territories), 12,000 (Sudan)

POPULATION

- 82m (2011 estimate)
- Annual population growth: 2%
- Density in Cairo and Alexandria, the banks of the Nile, the Nile delta and the Suez Canal (where nearly all of the population is concentrated): 3,820 persons per sq. km.
- Small communities spread throughout the desert regions
- Annual rate of urbanization (2010-15 estimate): 2.1%

RELIGIOUS AFFILIATIONS

- Muslim (mostly Sunni) 90%, Coptic Christian 9%, other Christian 1%

OTHER

- Capital: Cairo (pop. estimated at 16 million)
- Other major cities: Alexandria (6 million), Aswan, Asyut, Port Said, Suez, Ismailia
- Languages: Arabic (official), English, French
- Health: infant mortality rate (2011 estimate) of 2.5%; life expectancy of 73 years
- Well-maintained road network along Nile Valley and Delta, Mediterranean and Red Sea coasts, the Sinai, and the Western oases
- Railway network runs from Alexandria to Aswan and the Suez Canal

EDUCATION

- Compulsory from age 6-15
- Only 93% of children actually enter primary school
- Total adult literacy: 71% (83% male; 59% female)
- Major universities include Cairo University, Alexandria University, and Al-Azhar University (a centre of Islamic learning)

Economic Overview

SITUATION OF THE ECONOMY

- GDP (Official Exchange Rate) (FY 2010 estimate): \$218.5 billion
- GDP (Purchasing Power Parity) (FY 2010 estimate): \$497.8 billion
- Annual growth rate (projected FY 2011 estimate): 1.2%
 - Around 5% between 2005 and 2008; dropped during the global crisis
- Per capita GDP (Purchasing Power Parity) (FY 2010 estimate): \$6,200

EMPLOYMENT

- Minimum wage: EGP 700 (\$116) per month
- Unemployment: 12.2% (2011 estimate)
 - Has risen from 9% in 2010
 - Youth unemployment (ages 15-24): 25% (17% male; 48% female)
- A third of the labour force is directly engaged in farming; other common occupations involve processing or trading agricultural products
 - Government is attempting to develop some desert lands for agriculture (see Toshka project)
 - Traditional farms (1 acre each) along the banks of the Nile are more common than large modern farms; farmers also raise cattle, water buffaloes, and chickens
- Half of the labour force is in the service industry
- Micro and small enterprises represent 39.5% of the total Egyptian workforce (Egypt Labour Market Panel Survey 2006)

CHALLENGES

- Inflation rate (consumer prices) (2011 estimate): 13.3%
 - Rose by 2 percentage points since 2010; likely to remain variable
- Tourism, which accounts for 6% of GDP, has dropped as a result of the Arab Spring revolution
 - Economic recovery depends on foreign perceptions
- Economy is also dependent on oil and gas exports (12% of GDP) and Suez Canal revenues
 - Vulnerable to outside shocks
- Proliferation of labour unions (a result of the new government's commitment to freedom of association) has led to strikes and factory closures

POVERTY

- Population below poverty line (2005 estimate): 20%
- Lowest 10% accounts for 3.9% of household income

Political Overview

TYPE OF GOVT

- Provisional constitution in operation since March of 2011
 - Islamic Bloc has a majority in both houses of the legislature
 - New Wafd Party and Egyptian Bloc are the largest minority groups; remainder of seats are divided among various small parties
 - Judicial review by Supreme Court and Council of State
- Mixed legal system based on Napoleonic civil law and Islamic religious law
- Land divided into 27 governorates
- Suffrage: universal and compulsory from age 18

SITUATION OF GOVT

<http://www.bbc.co.uk/news/world-middle-east-18416329>: BBC News

At the time of writing, the political situation in Egypt is highly unstable. The first round of the presidential elections has narrowed the race to two candidates, Ahmed Shafiq and Mohamed Morsi of the Muslim Brotherhood. Since the former served as Prime Minister under Mubarak, the legality of his candidacy is uncertain. There exists a law banning senior officials from the previous regime from standing for office, but the electoral commission has referred it to the Supreme Constitutional Court. If the Court upholds the law, Shafiq will be disqualified and the commission will have to decide whether to permit Morsi to stand on his own or to redo the election.

The Supreme Constitutional Court must deliver another important ruling at the same time (expected June 14). The second case will determine whether last year's parliamentary elections, which produced a two-thirds majority for the Islamists, were unconstitutional. The Islamists did particularly well due to the unconventional electoral system, a mix of PR lists and first-past-the-post. If the Court rules against them, Parliament will have to be dissolved and the elections will have to be re-run—but the current constitutional arrangement does not designate any person or body with the power to do this. While the relevant authorities worked out a solution, Parliament would be unable to pass any laws.

Constitutional uncertainty will not cease after a new government comes to power because Egypt is still operating under a temporary constitution. Drafting and ratifying a permanent document will be the incoming government's first priority. However, the process is likely to proceed slowly: after a year and a half, there exists no consensus on the proper composition of a constitutional commission. Starting a business in Egypt will entail a significant level of risk until these legal questions have been resolved. At a minimum, Farz will need to determine the receptiveness of the new administration to foreign NGOs and its plans for regulating and taxing financial services.

Status of Egyptian Microfinance

http://admin.planetfinancegroup.org/upload/medias/fr/mf_impact_report_egypt_2008.pdf

: PlaNet Finance

<http://www.caribcapmicrofinance.com/downloads/22.pdf>: United States Agency for International Development

<http://www.mixmarket.org/mfi/country/Egypt>: MIX Market

OUTREACH

- 7 institutions provide 65% of loans
- Number of active borrowers increased by 47% annually from 2005-2008, reaching 1.3 million
- Current penetration rate estimates from 19-47%
 - Potential client pool of 2.8-6.9 million
 - Penetration rate may be lower for those in poverty

TYPES AND CHARACTERISTICS OF COMPETITORS

- Three public and two private banks (about 22% of market)
- Specialized NGOs: business associations (about 50% of market)
 - Act as intermediaries between individual borrowers and lending banks
 - Usually work with USAID; loan funds are maintained in an interest-earning deposit account
 - Have 200-400 borrowers per loan officer
 - Profit margin of about 30-50%
 - Repayment rates very high (around 99%), but retention rates range from 35-75%
 - Effective annual interest rates of 25-50% and above
- Other MFIs
 - Community Development NGOs: provide micro-credit alongside other social development services
 - Community Development Associations (CDAs): local volunteer organizations that serve as “credit retailers” for NGOs
- RoSCAs and cooperatives are not currently associated with microfinance, but they may take deposits and offer interest-free loans to members

LEGAL FRAMEWORK

- National Strategy for Microfinance (launched in 2006)
 - Shows government’s support to microfinance and commitment to developing an appropriate regulatory environment
 - Supposed to promote a *diverse* range of sustainable MFIs

- Regulations for NGOs
 - Regulated by the Ministry of Social Solidarity (must register before providing services and submit copies of Board minutes)
 - Foreign NGOs must obtain permission from the Foreign Affairs Ministry
 - Subject to the same supervision as NGOs working in charity and community support, so policies are not yet tailored to their needs
 - Not permitted to capture savings or provide official insurance
 - Tax exempt, including customs duties
 - Founders are prohibited from accepting any compensation for their activities

IMPACT OF MICROFINANCE

- PlaNet Finance took a representative sample of almost 2,500 microfinance clients (and ex-clients) from 6 governorates
- Median loan size received was 2,000 EGP; median loan size demanded was 4,750 EGP
- Economic activities
 - 65% of microenterprises covered were not registered, so they could not obtain social security or engage in transactions with formal companies
 - 62% of respondents were in the trade sector, which includes grocery, vegetables/fruits, and stationary
 - 14% were in services, which includes plumbing, car maintenance, electrical appliances and repairs
 - 10% were in small industry and handicraft, including metal welding, tailoring, leather and woodwork
 - 5% were in animal husbandry
- Financial habits
 - Only 72% of respondents used their loans primarily for business purposes
 - 11% used their loans to start new businesses
 - 31% saved every month, and 12% of savings went to RoSCAs (a promising tool for Farz)
- Existing microfinance activities have had a positive impact on enterprise development
 - Clients who had been in a programme for >3 years earned 25% more in monthly profits than clients who had just joined
 - Had also been able to invest more than twice as much in their businesses over the last 3 years
 - Had contributed 20% more to the household budget
- A majority of respondents declared a positive impact on their sense of autonomy, and almost half declared a positive impact on their health, quality or quantity of food, and children's education

- Unfortunately, microfinance programmes rarely provide organized training; only 6% of respondents received this service
- Clients' complaints
 - 19% considered the interest rates "bad" and 8% very bad
 - 25% considered the loan amount bad and 9% very bad
 - 25% considered the grace period system bad and 12% very bad

ISLAMIC MICROFINANCE

- NGOs provide almost exclusively conventional services
- Some banks have Sharia compliant branches, but the poorest of the poor and members of the informal sector do not have access to banks
- Only 13% of *current* microfinance clients prefer Islamic products to conventional ones, but the proportion of potential clients who would prefer Islamic products is unknown

<http://www.ruf.rice.edu/~elgamal/files/EMF-05-11.pdf>: El-Gamal (Rice University), El-Komi (Durham University), Karlan and Osman (Yale)

This study, conducted in 2009, tested a rotating savings and credit association (RoSCA) model in poor Egyptian villages (specifically, Disya, Feesha and Aryamon). Loan officers recruited subjects who would be "interested in and eligible for a microloan" up to EGP 1000. They did not provide said loans but conducted organized "games", with small monetary rewards and penalties, to see how subjects would behave. Moreover, they assumed that investments would generate a positive return. The RoSCA "generated significantly higher takeup and repayment rates than the Grameen model".

The tested RoSCA had one unusual feature: bank insurance to solve coordination problems typically associated with group lending. When all members paid on time, the bank charged only a small fee. In the case of non-repayment, however, the bank took the member's place and treated the defaulting member as a debtor (responsible to pay both principle and interest). Any member who defaulted on debt to the bank received the same penalties as in the Grameen model, including temporary exclusion, a reduced credit ceiling, etc.

Entering the Market

<http://www.doingbusiness.org/data/exploreeconomies/egypt#starting-a-business>: World Bank Group

STARTING A BUSINESS

- Procedure takes about 7 days

Procedural steps

1. Obtain certificate from authorized bank (EGP 200-500)
2. Submit documents to the Department of Companies and obtain invoice for fees
 - a. Notary public fee: 0.25% of capital (minimum EGP 10; maximum EGP 1,000)
 - b. Establishment fees: 0.1% of capital (minimum EGP 100; maximum EGP 1,000)
 - c. Commercial Syndicate fee: EGP 125
 - d. Publication fee: EGP 150
 - e. Chamber of Commerce fees: 0.2% of capital (minimum EGP 24; maximum EGP 2,000)
 - f. Commercial registration: EGP 51
 - g. Issuance of operation certificate: EGP 29
3. Notarize company's contract (required documents below)
 - a. Certificate of non-confusion
 - b. Certificate of an authorized bank
 - c. Original copy of the powers of attorney from the founders to the representative
 - d. Copy of founders' ID cards or passports
 - e. Security clearances for foreign partners
 - f. Preliminary consent from the General Authority of Manufacture
 - g. Certificate indicating that the company's auditor is listed at the Registry of accountants and auditors
 - h. Original copy of the articles of association
4. Obtain the notification of incorporation
5. Register for taxes
6. Register employees with the National Authority of Social Insurance (required documents below)
 - a. Employer's lease agreement for company premises
 - b. Employer's tax card
 - c. Employees ID card and birth certificate (copy)
 - d. Employee's and employer's graduation certificate

STARTING A FOREIGN BUSINESS

- Opening a branch office (simplest option)

- Following approval of the registration application, all foreign companies must register their office in the Commercial Register
- Must also be registered with the Commercial Companies Department
- Required to distribute at least 10% of net profits to employees
- Establishing a permanent legal presence in a Limited Liability Corporation
 - Minimum of two shareholders (both of whom may be foreign)
 - Must be registered in the Commercial Register
 - Minimum share capital of EGP 50,000
 - At least one manager must be Egyptian

REGISTERING PROPERTY

- Procedure takes 72 days
- Costs about 0.8% of property value

Procedural steps

1. Present a request for registration to the real estate registry
2. Egyptian Surveying Authority inspects the site (completed in 15 days)
3. Real estate registry issues final approval (maqbul) (completed in 21 days)
4. Sale agreement (mashrua) drafted by the parties at the Lawyers' Syndicate (completed in 26 days) (0.5% property value with maximum EGP 5000)
5. Buyer obtains the contract from the real estate registry (2000 EGP)
6. Seller and purchaser sign the contract before the real estate registrar
7. Buyer picks up the new contract/title at the Registry

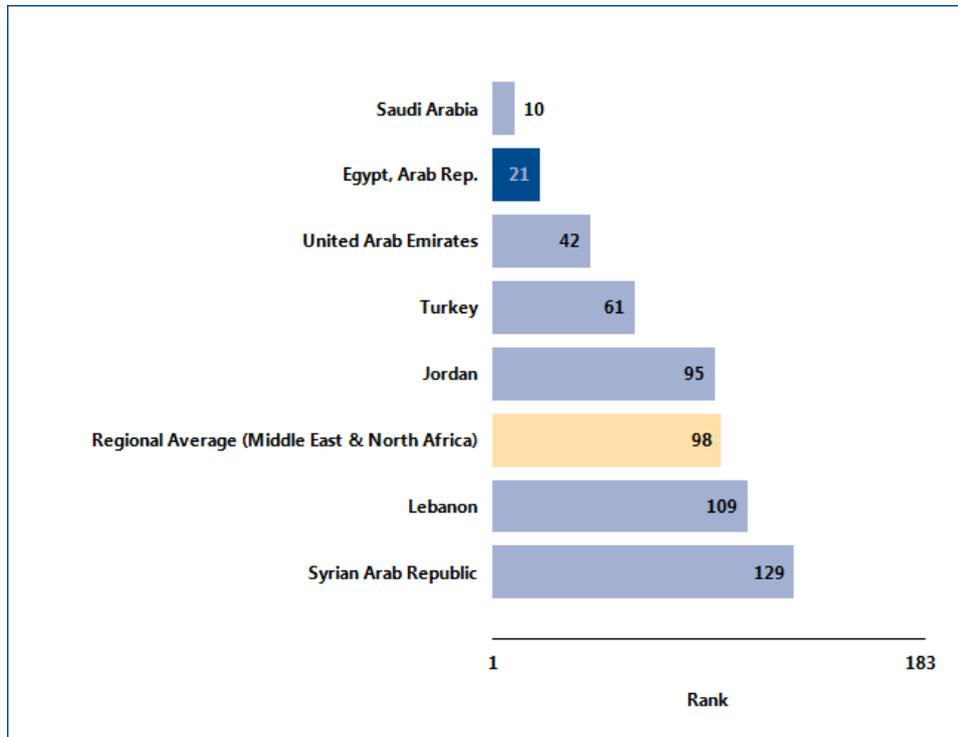
TAXES

- Social insurance contribution: 26% on basic salary, 24% on variable salary
- Corporate income tax: 20%
- Stamp duty on advertisements: 15%
- Property tax: monthly rental value
- Tax on insurance contracts: 1% and 10%
- VAT: 10%

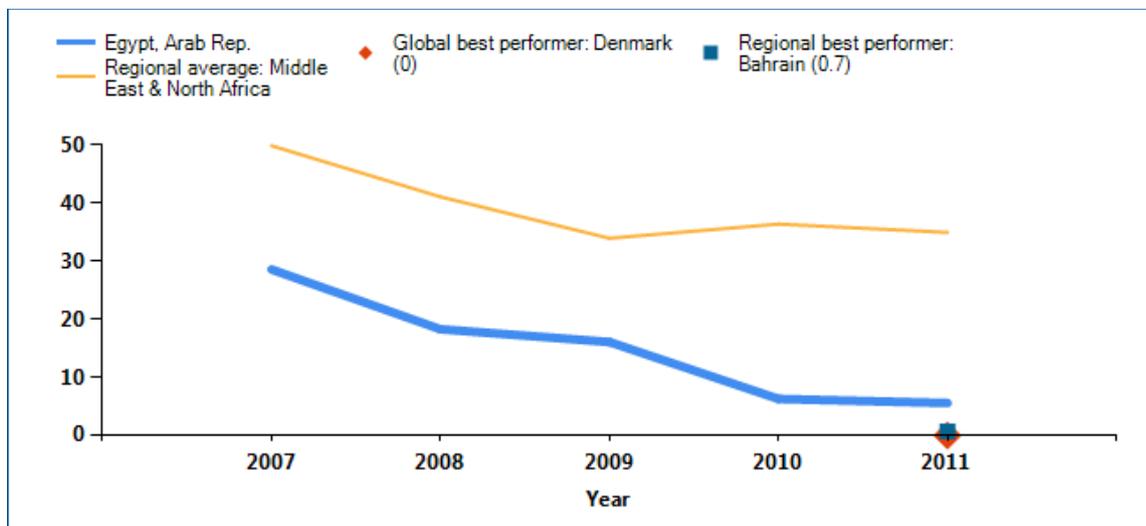
Ease of Doing Business – Key Data

(Data is from the World Bank)

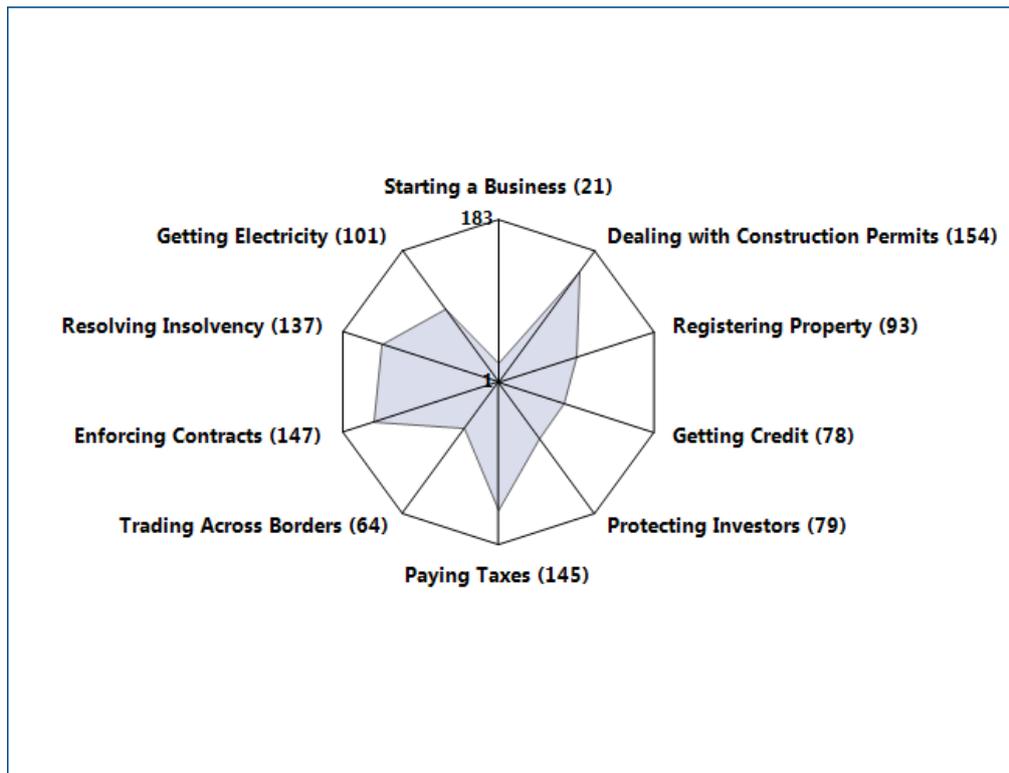
EGYPT RELATIVE TO ITS PEERS:



COST OF STARTING A BUSINESS (% OF INCOME PER CAPITA):



RANKING ON SPECIFIC INDICATORS RELATIVE TO OTHER COUNTRIES:



GHANA

Country Overview

DEMOGRAPHICS

- Ethnic Groups: Akan 45.3%, Mole Dagbon 15.2%, Ewe 11.7%, Ga-Dangme 7.3%, other groups 20.4%.

POPULATION

- 24 million (2011 estimate)
- Density: 88/square Km
- Pop growth: 1.8%
- Concentrated along the coast and in principal cities of Accra and Kumasi

RELIGIOUS AFFILIATIONS

- Christian 68.8%, Muslim 15.9%, traditional 8.5%, other 0.7%, none 6.1%.

OTHER

- Official name: Republic of Ghana

- Capital: Accra (3 million pop est)
- Other cities: Kumasi (1 million population estimate) Tema (500,000 estimate), Sekondi-Takoradi (370,000 estimate)
- Languages: official – English, Akan (which includes Asante Twi, Akwapim Twi, Akyem, and Fanti) 49%, Mole-Dagbani 16%, Ewe 13%, Ga-Adangbe 8%, Guan 4%, others 10%.
- Literacy: 58.9%
- Infant Mortality rate (2011 estimate): 48.55/1,000

EDUCATION

- Primary and junior secondary education is tuition free and mandatory
- One of the most ambitious pre-tertiary education programs in West Africa
- Since early 1980s govt of Ghana expenditures on education have risen from 1.5% to nearly 3.5% of GDP
- In 2006 there were approximately 5.1 million students attending schools at these three levels: 68% at the primary level, 23% at the junior secondary level, and 10% at the senior secondary level
- About 99.1% of junior secondary school graduates are able to gain admission to senior secondary schools, and only about 34.4% of senior secondary school graduates are able to gain admission to universities and polytechnics

Economics Overview

STATUS OF THE ECONOMY

- GDP (2010): \$18.06 billion
- Real GDP growth rate (2010): 4.7%
- Per Capita GDP (2010): \$1,600
- relatively diverse and rich natural resource base - exports
- A major oil discovery off the coast of Ghana in 2007, the Jubilee Field, began production of oil and gas in December 2010, and is now producing approximately 85,000 barrels per day.
 - Some experts are predicting that within 5 years Ghana is likely to be the 3rd largest producer of oil in West Africa
- Agriculture still dominant - Accounts for 1/3 GDP and 55% formal employment
 - Cocoa – 1/3 of all export revenues
 - Timber, coconuts, palm products, shea nuts and coffee
 - Cassava, yams, plantains, corn, rice, peanuts, millet, and sorghum are basic foodstuffs grown for local consumption.

- Industrial base is relatively advanced compared to many other African countries – industry accounts for 30% of GDP
- Ghana is on track to meet several of the Millennium Development goals, including halving extreme poverty by 2015.

EMPLOYMENT

- 11.1m workforce
- Employment %: Agriculture and fishing--47.9%; industry and transport--16.2%; sales and clerical--19.3%; services--5.9%; professional--8.9%; other--1.8%.
- Agriculture
 - Cocoa, wood manufactures, pineapples, cashews, spices, rubber, other food crops
 - Land: 70% arable and forested
- Business and industry: Types--mining, lumber, light manufacturing, fishing, aluminium, tourism.
- Trade (2010): Exports--\$7.33 billion: gold, cocoa, timber, industrial diamonds, manganese ore, tuna. Imports--\$10.18 billion: petroleum, food, industrial raw materials, machinery, equipment

POVERTY

- 2006: 28.5% of population at national poverty line (1992: 51.7%)

CORRUPTION

- Transparency Index (2010) ranks Ghana 4.1/10 with 0 = highly corrupt
- 62/178 countries acc. Corruption perception

Governance Overview

TYPE OF GOVT IN POWER

- Democracy
- Branches:
 - Executive—president popularly elected for a maximum of two 4-year terms; Council of State, a presidential appointed consultative body of 25 members required by the constitution.
 - Legislative—unicameral Parliament popularly elected for 4-year terms.
 - Judicial—-independent Supreme Court justices nominated by president with approval of Parliament.
Subdivisions: Ten regions.
- Universal suffrage: age 18

INTERNAL STABILITY

- Country divided into 10 regions, which are currently subdivided into 138 districts
- Dec 2000 witnessed the first democratic presidential change of power in Ghana's history (littered with coups)
- Political parties banned between 1981 -1992
- 1993 constitution still held after failed 1957, 1960, 1969 and 1979 constitutions following regime changes

Status of Islamic Microfinance

OVERVIEW OF MICROFINANCE IN GHANA

- Total loans: \$92.2 million (2010)
- Total deposits: \$95.3 million (2010)

TRENDS IN GHANIAN MICROFINANCE SINCE 2010

- Ghanaian MFI market strengthened throughout 2010 as inflation rates returned to manageable levels after performance inhibiting inflation spikes of 2009
- Smaller MFIs saw better results than larger in 2010
- Sector very diverse and fragmented in terms of types of MFI actors and services offered
- New guidelines and regulation issued by Bank of Ghana 2011 will increase supervisory and regulatory role of the Country's Central Bank
- Improving macroeconomic conditions in 2010 have contributed to a rise in demand for microfinance services across the five general MFI types.
- Customer deposits represent the primary source of lending capital throughout the sector, with the exception of 'Financial NGOs' that are not permitted to take voluntary customer deposits. MFI borrowing is extremely concentrated, with one FNGO accounting for about 40% all borrowing in the sector
- The quality of loan portfolios improved across the sector in 2010 with PAR > 30 indicators decreasing due to improved macroeconomic conditions. Financial performance trends varied in 2010 with smaller MFIs seeing better results than larger MFIs.

SITUATION OF ISLAMIC MICROFINANCE – ONE ESTABLISHED IN GHANA SO FAR

- Ghana Islamic Microfinance established 2010: <http://ghanaislamicmicrofinance.org/>
- Mission aim: provide innovative microfinance services whilst discouraging predatory loan practices in Ghana
- First of its kind in Ghana to provide Shari'ah compliant microfinance services in Ghana
- Operates in key commercial areas with high Muslim populations

- Accra, Kumasi, Tamale
- Plans to expand into other areas such as Saltpond, Techiman, WA, Nkawkaw and others
- Provides ethical micro-financing to the Muslim and Zongo communities in Ghana
- Provides support for underprivileged of society as part of Corporate Social Policy
- Branch offices in Tamale, Kumasi and Massachusetts, USA.
- The Ghana Islamic Microfinance has enlisted four renowned Muslim scholars on matters of Sharia and Islamic Jurisprudence to guide its operations. These scholars who will form the Sharia Supervisory board chaired by the National Chief Imam of the Ahlussunna Wal Jama Sheikh Umar Ibrahim Imam
- Ghana Islamic Microfinance is not yet reporting to MIX Market so difficult to gauge its success

Entry into Ghana

STARTING A BUSINESS IN GHANA

<http://www.doingbusiness.org/data/exploreeconomies/ghana/starting-a-business>

<http://www.primeattorneysgh.com/requirements.php>

REQUIREMENTS TO START A BUSINESS IN GHANA

- Minimum 1 shareholder
- Minimum 2 directors
- 1 auditor
- 1 company secretary
- Submission of proposed regulations
 - Name of company
 - Nature of business of company
 - Names of first directors of company
 - Powers of directors limited in accordance with the law
 - Number of shares company is registered
 - Stated capital
 - Registered office
- Joint venture with Ghanian participation: min capital investment: \$10,000
- 100% foreign ownership: \$50,000
- Company engaging in trading activities: \$300,000
- Immigrant Quota
 - Under GIPC Act, enterprises benefit from the grant of an automatic maximum immigrant quota, depending on the enterprises' paid-up capital as follows:

- US \$10,000.00 but less than US \$100,000.00 or its equivalent in cedis, shall be entitled to an initial automatic maximum immigrant quota of one person.
- US \$100,000.00 but less than US \$500,000.00 or its equivalent in cedis shall be entitled to an initial automatic maximum immigrant quota of two persons.
- US \$500,000.00 or more or its equivalent in cedis shall be entitled to an initial automatic maximum immigrant quota of four persons.

PROCEDURE FOR STARTING A FOREIGN BUSINESS IN GHANA:

- Takes 10 procedures and 72 days to establish a foreign owned limited liability company (LLC) that wants to engage in international trade in Accra, Ghana
- Foreign investors must obtain a certificate of capital importation – can take 14 days
- Local authorised dealer must confirm the import of capital with Bank of Ghana, which will then confirm the transaction to the Ghana Investment Promotion Centre (GIPC) for investment registration purposes (legal requirement)
- Registration with GIPC takes 11 days to complete
- E-copies of Ghana's commercial laws and regulations can be obtained for a fee from a private firm that has computerized all the laws.
- At least 1 member of the board of directors must be a Ghanaian resident
- Minimum capital required for a wholly foreign owned LLC is GHs 74,500 (USD 52,000)
 - This requirement does not apply to local companies

ACCESS TO INDUSTRIAL LAND

- Process of leasing land in Accra lengthy and unpredictable
- Foreign company cannot publicly or privately hold land
 - Poss to lease publicly or privately held land
 - Commercial leases restricted to max duration of 50 years
- Not all privately held land is registered in the land registry, making it difficult to ascertain who the landowner is
- Any disposal of publicly held land requires consent of the Lands Commission
- No restrictions on amount of land that can be leased
- Land Administration Project underway in Ghana which will make land related info easier to obtain

FOREIGN OWNERSHIP ISSUES

- All major sectors with exception of primary sectors such as mining, oil, gas, petroleum, are fully open to foreign capital participation
- Electricity transmission and distribution sectors are dominated by publicly owned companies
- Minimum investment for foreign companies – \$50,000 or the equivalent in goods

- Portfolio investments and businesses set up solely for export are exempt from this regulation

COMMERCIAL DISPUTE ARBITRATION

- Arbitration Act (1961) governs arbitration in Ghana
- Legislation not readily available online
- Commercial disputes are generally arbitral in Ghana, although disputes relating to property interests are not
- On average, it takes around 62 weeks to enforce an arbitration award rendered in Ghana or in a foreign country

VISA APPLICATIONS

- Required for process
 - Valid passports with expiry date at least 6 months from date of application for visa
 - Submit one set of application forms – completed in English
 - Four recent passport sized pictures
 - International certificate for yellow fever
 - A return ticket
 - Copy of a valid Resident permit with expiry date of at least 6 months from date of application for visa
- For Business visas:
 - Application submitted in English
 - Letter in English from application's business establishment guaranteeing applicant's stay in Ghana and stating the reasons for visit
 - 2 references are required
 - Names and detailed contact addresses of Business Associations and their Companies, inc their telephone numbers as references in Ghana
 - Hotel may be used only as a second reference
 - May also demand a letter of guarantee from applicant's business associates in Ghana

REGULATION OF MFIs IN GHANA

Source: <http://www.cgap.org/p/site/c/template.rc/1.11.135549/?pagination=ALL>

- Rural and community banks regulated under Banking Act 2004
- Savings and Loans Companies currently regulated under the Non-Bank Financial Institutions (NBFi) Law 1993
- New regulations aimed at improving regulation of MFIs intro by Ghana Central Bank 2011
- Extended categorisation of non-banking financial institutions

- Added another tier to inc money lenders, susu companies, susu collectors and financial non-governmental organisations
- Savings and loans companies and other non-bank financial institutions, previously subject to the Non-Bank Financial Institutions Act No. 774 of 1993, have migrated to the banking regime and are regulated under the Banking Act No. 673 of 2004, amended through 2007
- July 2011: Bank of Ghana issued new Operating Rules and Guidelines for MFIs that cover the entire microfinance sector, including semi-formal and informal institutions that were previously unregulated.
- A new set of regulations are expected to follow that will also bring credit unions under the Bank of Ghana's supervision rather than that of the Department of Cooperatives and the Credit Union Association.
- In 2008, the Bank of Ghana issued the Guidelines for Branchless Banking authorizing deposit-taking institutions to offer financial services through non-bank agents.
- A National Strategy for Financial Literacy and Consumer Education in the Microfinance Sector was launched in January 2009 and hosted by Microfinance Unit at the Ministry of Finance and Economic Planning.

2011 LEGISLATION

- Taking of deposits and granting of credit – requires a license issued by Bank of Ghana before can commence
- Deposit taking Institutions
 - deposit taking financial non-governmental orgs must be limited by shares
 - must include word 'microfinance' in their company names
 - initial min paid up capital not less than GHc 100,000.00 for one unit office
 - opening of branches subject to higher capital requirements
 - must maintain in addition to min capital requirement, also a min capital adequacy ratio of 10%
 - branch expansion requires approval of Bank of Ghana
 - accept deposits from public: shall not exceed 5% of Company's paid up capital
 - make loans to customers
 - ceiling of 5% of company's net worth for unsecured exposures
 - ceiling of 20% of company's net worth for secured exposures
 - ceiling of 1% of Company's net worth per member of the group for group loans
 - undertake other services only by prior written authorisation of Bank of Ghana
 - not permitted to engage in trading activities or hold any stocks of goods for sale to their clients

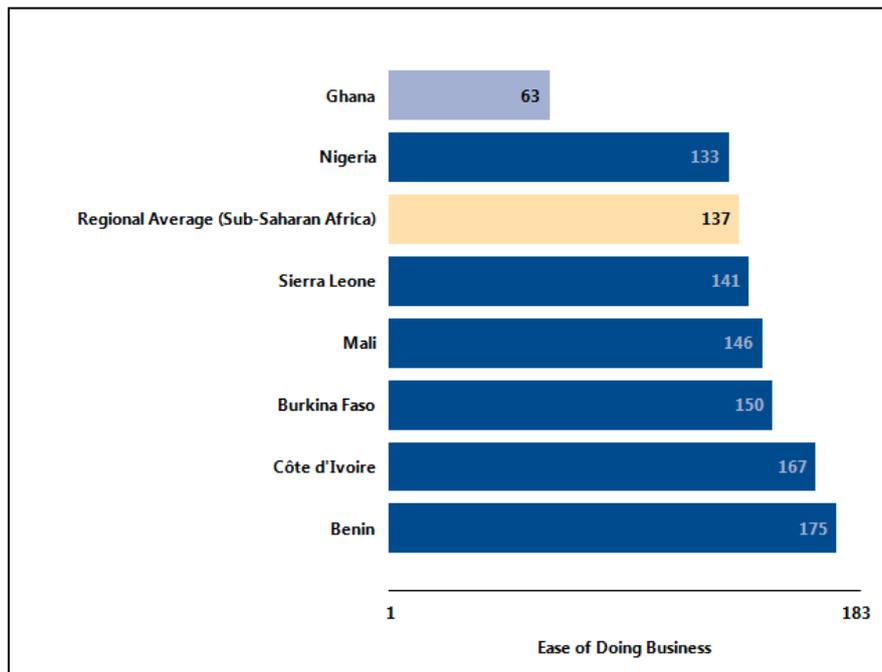
COSTING

Item	Cost
Check for availability of company name and submit company documents to obtain an incorporation certificate	200 GHC (\$110)
Apply for business licenses	GHS 91.5 (varies acc. Nature of business) (\$50)
Hire registered electrical contractor	GHS 400 (\$220)
ECG conducts external connection works, meter installation and electricity by the utility	GHS 21,649.7 (\$11,900)
Assessment of property value and payment of Stamp duty	GHC 55 + 0.5% of property value (stamp duty)
Corporate Income tax	17.7% of profit
Social security contributions	14.7% of profit
Capital gains tax	0.8% of profit
Fuel tax	0.3% of profit
Tax on interest	0.2% of profit
Apply for building permit with Planning Department	USD 1,909

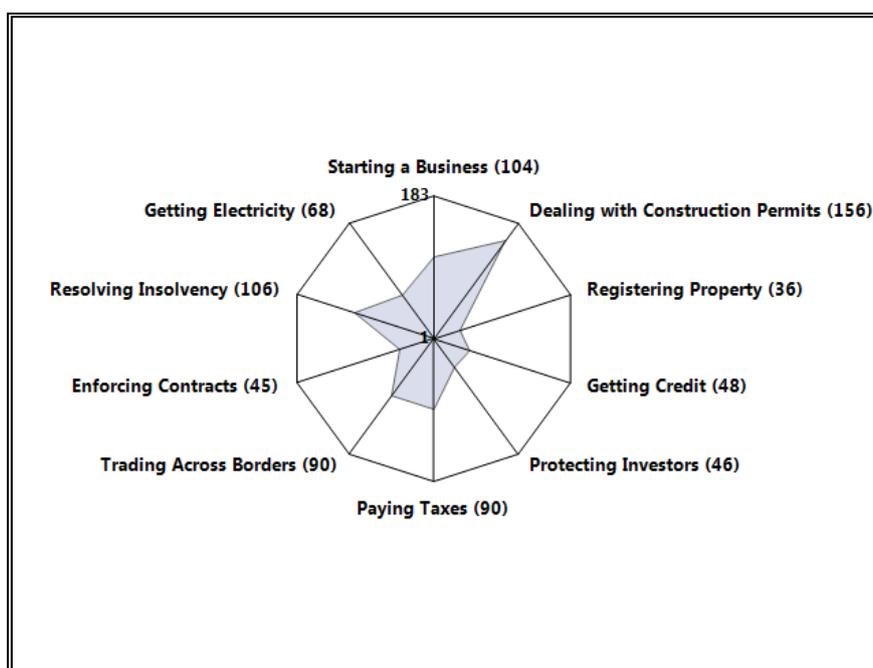
WORLD BANK EASE OF DOING BUSINESS REPORT ON GHANA – KEY DATA

- World Bank ‘Doing Business’ assessment – rankings for ease out of 183 countries
 - Ghana – 63/183

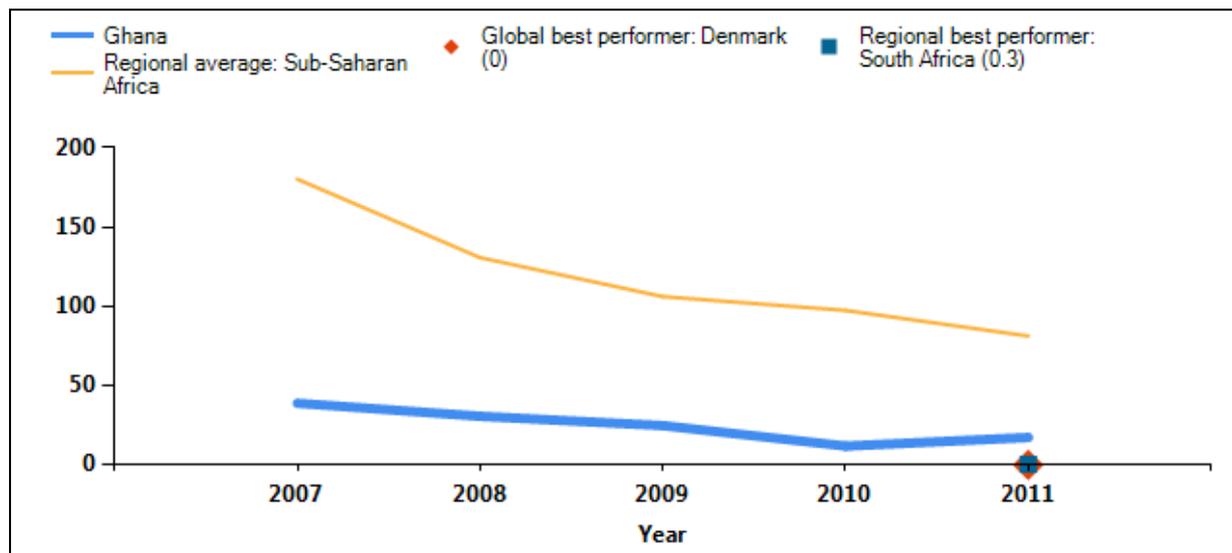
HOW GHANA AND COMPARATOR ECONOMIES RANK ON THE EASE OF STARTING A BUSINESS



HOW GHANA RANKS ON DOING BUSINESS INDICATORS



COST (% OF INCOME PER CAPITA) OF STARTING A BUSINESS



MALI

Country Overview

DEMOGRAPHICS

- Ethnic Groups: Manding (Bambara or Bamana, Malinke) 52%, Fulani 11%, Saracole 7%, Mianka 4%, Songhai 7%, Tuareg and Maur 5%, other 14%

POPULATION

- 14.1m (2011 estimate)
- Density: 7.9 per square Km
- Population growth: 2.61%
- Predominantly rural population: 68% in 2001
- More than 90% of the population lives in the Southern part of the country

RELIGIOUS AFFILIATIONS

- Islam 90%, indigenous 6%, Christian 4%

OTHER

- Capital: Bamako (1.8 million population estimate)
- Other cities: Segou (200,000), Sikasso (192,000), Mopti (103,428), Gao (65,000), Kayes (65,000), Timbuktu (38,000)
- Languages: official – French (over 40 African languages used) (80% of the population can speak Bambara)
- Infant Mortality rate: 106 deaths per 1,000 live births (2009 estimate)
- 65% of the land is desert or semi-desert

EDUCATION

- Enrolment: 91% (primary, 2008)
- Literacy: 26%

Economics Overview

SITUATION OF THE ECONOMY

- GDP: \$9 billion (2010 estimate) (32.9% agriculture, livestock and fishery, 21.3% industry, 45.8% services)
- Real GDP growth rate: 4.5% (2010 estimate)
- Per Capita GDP: \$1,251 (2010 estimate)
- Annual skilled worker's salary: \$1,560.
- Average consumer price inflation rate: 5%

EMPLOYMENT

- Workforce 4 million: Agriculture 70%; services 15%; industry and commerce 15%.
- Cotton is the largest crop export – Mali also produces rice, millet, corn, vegetables, tobacco and tree crops
- Agriculture produces 33% of GDP
- Agriculture dominated largely by subsistence farming (mostly of cereals) - 90% of land under cultivation for subsistence farming
- Cattle farming:
 - Approximately 40% of Mali's herds were lost during the great drought in 1972-74
 - herds were again decimated in the 1983-85 drought
 - overall size of Mali's herds is not expected to reach pre-drought levels in the north of the country

- Encroachment of the desert has forced many nomadic herders to abandon pastoral activities and turn instead to farming.
- Largest concentrations of cattle are in the areas north of Bamako and Segou extending into the Niger delta, but herding activity is gradually shifting southward, due to the effects of previous drought
- Mali also has a the 3rd highest gold production in Africa
- Textiles are generated by ITEMA – Industry Textile du Mali
- Half of Mali's electric power = hydroelectric

POVERTY

- 50% of population at national poverty line

CORRUPTION

- Transparency Index (2010) ranks Mali 2.7/10 with 0 = highly corrupt
- 116/178 countries according to the Corruption perception

Governance Overview

TYPE OF GOVT IN POWER

- Constitution is a democratic republic and provides for a separation of power among the executive, legislature and judiciary
- The system can be described as semi-presidential
 - President – 5 year term – Commander in Chief and Chief of State
 - Prime Minister – appointed by President – head of govt
 - Council of Ministers – appointed by Prime Minister
 - National Assembly – holds 2 regular sessions each year

INTERNAL STABILITY

- Country divided into 8 regions - each region has a governor and is again subdivided into 49 cercles and 703 communes



- Landlocked country – economy vulnerable to external shocks – including political crisis in neighbouring countries
 - For example, recent political crisis in Cote d’Ivoire increased transportation costs and put pressure on fragile Malian economy
- Previous governmental instability
 - After long period of one party rule, 1991 coup led to writing of new constitution and establishment of Mali as a democratic, multi-party state
- Current governmental instability
 - 22 March 2012 group of junior soldiers seized control of country’s presidential palace and declared government dissolved and constitution suspended
 - 6 April 2012, rebels from the National Movement for the Liberation of Azawad (MNLA) declared the secession of a new state, Azawad, from Mali
 - Since March 2012 Malian govt had not exercised control over Gao, Kidal, Tombouctou and parts of northern Mopti

Status of Islamic Microfinance

OVERVIEW OF MICROFINANCE IN MALI

- Total loans: \$59.1 million (2010)
- Total deposits: \$41.7 million (2010)
- Total number of MFIs in Mali: 19 (registered with MIX Markets)
- General patterns in MFI provision
 - Many rurally focused with products aimed at helping farmers
 - E.g. Largest MFI in Mali, Kafo Jiginew, a central credit union operating in the South of Mali provides services to cotton producers and has a

high repayment rate due to its partnership with Compagnie Malienne de Développement et de Textiles (CMDT), Mali's quasi-governmental cotton manufacturer.

- Many focus on helping women entrepreneurs
 - E.g. Miselini is a MFI which offers a credit product to groups of 6 women carrying out an economic activity

SITUATION OF ISLAMIC MICROFINANCE – ONE ESTABLISHED IN MALI SO FAR

- Azaouad Finances plc. Bank selected to run program that was established by GTZ (German development agency)
 - Established in the North of Mali with a population of 12,000 inhabitants and with 600 clients
- Local acceptance of the products the most important thing – Muslim religion what connected a wide range of ethnic groups
 - The local Kadi (the Judge) acts as notary of each financing contract
 - Profit sharing products most profitable
- Successes
 - Programme to help women entrepreneurs
 - Business relations of local merchants extended to Abidjan and Arabian peninsula
 - Repayment rate of 99%
- Bank entered into co-operation with the BNDA in order to link up with the SWIFT international payments system

Entry into Mali

STARTING A BUSINESS IN MALI

<http://mali.eregulations.org/show-list.asp?l=en&mid=1#menu23>

<http://www.doingbusiness.org/data/exploreeconomies/mali/>

PROCEDURE FOR STARTING A BUSINESS IN MALI:

- Through one stop shop branch creation procedure is the same as the one for the start-up of a local company
- 8 +2 optional steps
- Estimated cost: CFA 56,800
- Estimated time: 6-10 days
- 4 different agencies
- Will obtain necessary documents
 - Fiscal identification card
 - Registration certification to the national identification number
 - Certification of registration in Trade and Mortgage

- Required documents to begin process
 - Personal identification document
 - Identity Card
 - Company issued instructions attesting the establishment of the branch
 - Request to create individual branch made with the Minister of Industry
 - Application for registration in the Commercial Register to the Registrar

Procedural steps

1. Obtain residency certificate
2. Optional: Request for criminal record and certificate of nationality copy
3. Optional: Withdrawal of criminal record and certificate of nationality copy
4. Obtain clearance letter for opening account copy
5. Purchase a tax stamp
6. Submission of the copy
7. Payment for enterprise
8. Withdrawal of the deposit slip. Copy the file
9. Remove RCCM and gain certificate NINA
10. Newspaper containing announcement

REQUIRED STEPS FOR STARTING A FOREIGN BUSINESS IN MALI

- Formalities same as those for start-up of local company but less expensive
- In addition to procedures required of domestic company a foreign company must declare its investment with the Ministry of Finance.
- Company registration done at the one-stop shop – govt decree guarantees turnaround of max of 3 days
- Companies are not allowed to open bank accounts in foreign currency unless get approval from Mali Ministry of Finance and Central Bank of West Africa
 - Approval must be renewed yearly
- Minimum capital requirement: XOF 1,000,000 = \$2000

ACCESS TO INDUSTRIAL LAND

- Foreign companies can either lease or buy land from private or public owners
- Process of leasing can be unpredictable and lengthy
- Publicly held land is leased through public auction
- Length of auction not definite: can take from 1 month to 1 year to lease publicly held land
- Max duration of contract unlimited
- No restrictions on amount of land that may be leased
- Most land related information can be acquired from the registry
 - No land information system in place that centralised relevant info at single pt of access

VISA APPLICATIONS

- Must apply for a visa to Mali in person at the nearest Mali consulate in Pakistan

- Applicants required to submit their application to
 - The Visa Section,
Honorary consulate of Republic of Mali,
9 Garrison golf & country club road,
Lahore cantt
- *Required for Visa Application*
 - *Passport – valid until at least 3 months after completion of the intended journey, plus photocopy of every page (bar blank pages)*
 - *1 fully correctly and clearly completed application form – duly dated and signed*
 - *Downloaded from www.maliconsulate.com*
 - Sponsorship letter from Mali is mandatory for any type of Visa and should be submitted with application
 - 2 recent passport photos
 - Original letter from employer or company stating purpose of your visit
 - Invitation from the inviting company/ reference with complete contact detail mentioning duration and period of intended stay
 - Recent bank statement from your company and/ or private bank account, plus a photocopy
 - Processing fee: Rs 4500.00
 - Processing time: 4-7 days
 - Application sent to authorities in Republic of Mali for final decision

REGULATION OF MFIs IN MALI

- Mali part of the West African Economic and Monetary Union (WAEMU)
- 1993: Council of Ministers of WAEMU adopted PARMEC law to regulate mutual or cooperative savings and credit institutions
- 1996: framework convention adopted for use for intuitions that did not meet the registration criteria outlined under PARMEC law
- 2007: new law est regulations for decentralised financial systems – repealed and replaced PARMEC law and framework convention (passed in Mali 2009)
 - Provides regulations for both deposit and non-deposit taking microfinance institutions
 - Sharing of supervision between Central Bann of West African States (BCEAO), the WAEMU Banking Commission and respective Ministry of Finance for each member country

COSTING

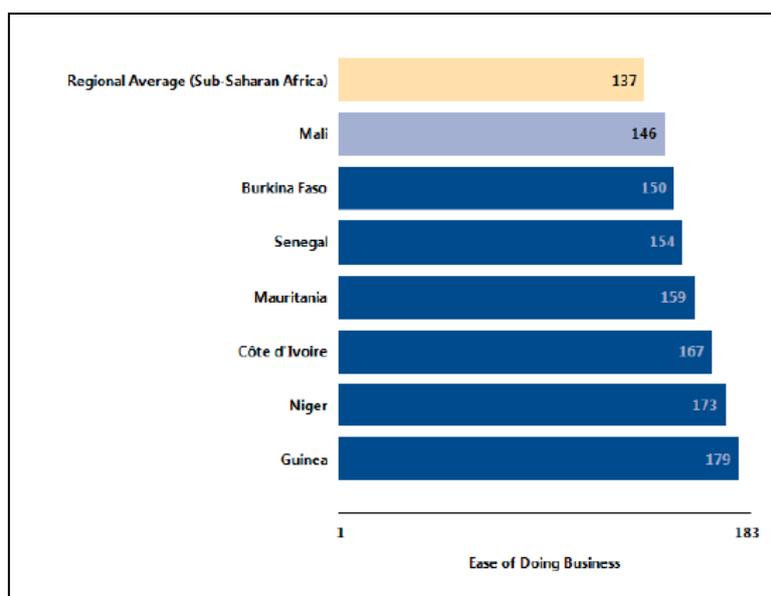
Item	Cost (\$)
Visa application	90
Start up business in one stop shop process	114
Minimal Capital Investment	2000
Total	2204

- Connect to water mains: XOF 700,000 (35 days)
- Obtain telephone connection: XOF 38,650 (20 days)
- Obtain geo-technical survey of the site: XOF 470,000 (70 days)
- Apply and obtain building permit: XOF 50,000 (19days)

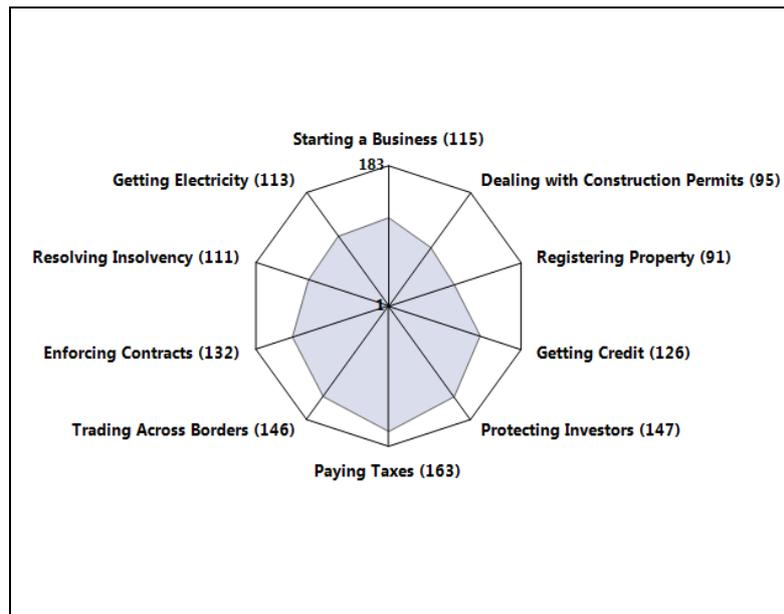
Ease of Doing Business - KEY DATA

- World Bank 'Doing Business' assessment – rankings for ease out of 183 countries
 - Mali- 156/183

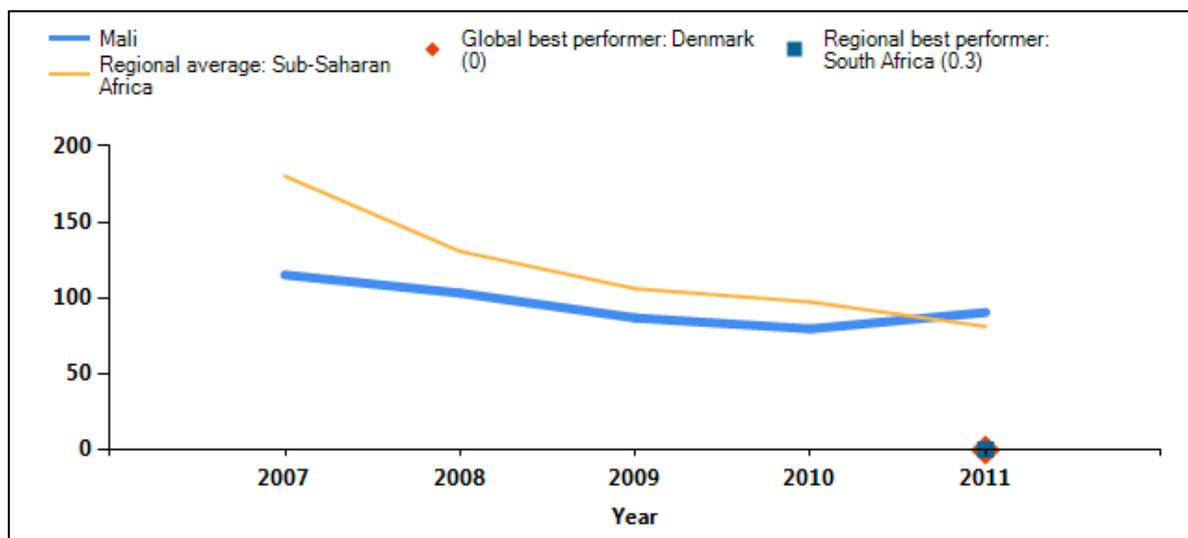
HOW MALI AND COMPARATOR ECONOMIES RANK ON THE EASE OF STARTING A BUSINESS



HOW MALI RANKS ON DOING BUSINESS INDICATORS



COST (% OF INCOME PER CAPITA) OF STARTING A BUSINESS (2012 reform has meant that starting a business costs have increased by 70%)



Funding for MFIs in Mali

1. OIKOCREDIT - involved currently in funding 6 of Mali's MFIs (listed on MIX Market)

Oikocredit is a large organisation that aims to reach individuals at the grassroots level indirectly through financing microfinance and co-operatives. They operate in a limited

number of countries, including Mali, and offer loans, equity investments and credit lines. Currently, Oikocredit funds 6/19 MFIs in Mali. They generally fund projects with a focus on creating jobs and income for disadvantaged groups in developing countries, those that support women, are environmentally sustainable, that will contribute to the social and economic advancement of the larger community in which it is located and that have suitable management in place which are, or soon will be, financially sustainable. (Other funding criteria available on Document Funding in Mali for MFIs)

- a. **WEBSITE:** <http://www.oikocredit.org/en/home>
- b. **AIM OF BODY:** reach individuals at the grassroots level indirectly through financing microfinance institutions and co-operatives
- c. **PRODUCTS OFFERED**
 - i. Loans (not grants) - Interest rates to smaller MFIs with a brief track record and a high country risk of 5-7%
 - ii. Equity investments
 - iii. Credit lines
- d. **FACTS AND FIGURES:** 878 partners with \$508million outstanding
- e. **FUNDING CRITERIA:** Projects:
 - i. That create jobs and income for disadvantaged groups in developing countries
 - ii. of cooperatives or financial institutions, and SMEs
 - iii. where women are influential in management and/or implementation
 - iv. that are environmentally sustainable and respect animal welfare
 - v. with suitable management in place, which are – or can soon become – financially sustainable
 - vi. with a clear need for foreign investment, which can be provided within terms that can secure the necessary government approvals and that are beneficial to the project partners
 - vii. widely distributed its benefits and does not result in the enrichment of only a few organizers or investors
 - viii. contributes to social and economic advancement of the larger community in which is it located
 - ix. Favours a cooperative structure as much as possible so economically disadvantaged people can participate directly in the operation and management of the business.
- f. **BREADTH OF OPERATIONS:** focus on a limited number of countries
 - i. [Africa](#): Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Mozambique, Mali, Nigeria, Rwanda, Senegal, Tanzania, Uganda
 - ii. [Asia](#): Cambodia, India, Kyrgyzstan, Philippines
 - iii. [Europe](#): Bulgaria, Romania, Russia, Ukraine, Bosnia-Herzegovina, Moldova
 - iv. [Latin America](#): Argentina, Bolivia, Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, Paraguay, Uruguay

Eligibility Questionnaire on website (Yes or No)

1. Is the income of beneficiaries of your project below the average in your country?
2. Is your enterprise new or a start-up and has a feasibility study been done by a consultant?
3. Is your enterprise owned by a larger group of people (e.g. cooperative, company with many shareholders, NGO) or does a larger group of people benefit otherwise (e.g. jobs, profit sharing etc.)?
4. Do you need credit for an income-generating enterprise?
5. Do you need at least EUR 50,000 and less than EUR 2 million?
6. Is the profit generated by your enterprise distributed to many people or ploughed back into the enterprise?
7. Has your enterprise been in existence for three years and do you have financial statements for the past three years?
8. Does your enterprise do everything possible to safeguard the environment and animal welfare?

2. Terrafina Microfinance – involved in supporting financially 6 of the MFIs in Mali listed on MIX Market

Terrafina Microfinance is a joint microfinance programme of ICCI, Oikocredit International and Rabobank Foundation. It aims to offer African MFIs access to a complete package of financial and technical support that is required to promote microfinance in rural areas. It works to strength young MFIs through co-operation with mature MFIs and banks and aims to mobilise expertise, financial resources and access to loan funds from its funding partners to African MFIs that are committed to rural outreach. Currently, Terrafina funds 6/19 MFIs in Mali. Terrafina offers expertise as well as financial products including grants (ranging from EUR5, 000 to EUR150, 00), loans and investments and guarantees. In Mali especially their focus is on linking NGO's microfinance efforts to existing MFIs, capacity building for rural CVECA networks, product development and social performance management.

- a. **WEBSITE:** <http://www.terrafinanl/en/home>
- b. A joint microfinance programme of ICCI, Oikocredit International and Rabobank Foundation – founded 2005 and started operations in 2008
- c. **AIM OF BODY:** offers African MFIs access to a complete package of financial and technical support that is required to promote microfinance in rural areas
 - v. Works to energise rural microfinance in Africa
 - vi. Strengthens young MFIs through co-operation with mature MFIs and banks, and by stimulating innovation, social resp and transparency

- vii. Mobilises expertise, financial resources and access to loan funds from its funding partners to African MFIs that are committed to rural outreach

d. PRODUCTS OFFERED

- viii. More than financial support alone
- ix. 89% of total budget spent on financial support (grants and guarantees) while 11% goes towards technical support (business planning, audits, product diversification, social performance management)
- x. Grants
 1. Capacity building, seed capital and technical assistance projects
 2. Ranges from EUR5,000 to EUR150,000
 3. Smaller grants for specific purposes like technical support, staff training or to cover operational expenditures
 4. Larger grants and seed capital grants are needed for rural outreach investments or for overall support to MFIs business plan if young MFIs are not yet eligible to obtain loans from Oikocredit or Rabobank Foundation
- xi. Loans and Investments
 1. Provided by Oikocredit and Rabobank Foundation
- xii. Guarantees (ICCO) – on loans of Oikocredit or local banks

e. FACTS AND FIGURES

- xiii. In 5 years through more than 100 financing projects to 62 MFIs, Terrafina has invested:
 1. EUR 7.4m in grants
 2. EUR 2.7m in guarantees
 3. EUR 7.4m in loans
- xiv. In Mali specifically
 1. Allocated 2005-2008 EUR 730,000 grants and EUR 2.15m guarantees
 2. Focus is on linking NGO's microfinance efforts to existing MFIs (some 2,500 clients involved)
 3. Capacity building for rural CVECA networks
 4. Product development
 5. Social performance management

g. FUNDING CRITERIA

- i. Rural involvement
- ii. Younger MFIs
- iii. Grants offered for Capacity building, seed capital and technical assistance projects

f. BREADTH OF ORGANISATION

- iv. West Africa, the Horn and the Great Lakes Region
- v. Mali, Burkina Faso, Rwanda, Ethiopia, DRC, Burundi and Senegal

Information about the collaborating bodies

ICCO: An NGO for development co-operation that provides financial support and advice to local organisations and networks across the globe that are committed to providing access to basic social services, bringing about fair economic development and promoting peace and democracy.

Rabobank Foundation: An international financial services provider operating on the basis of cooperative principles. Its foundation provides agricultural loans and other financial services to rural markets in Africa that are not adequately reached by established financial institutions.

Oikocredit: One of the world's largest sources of private funding to the microfinance sector, lending working capital to MFIs all over the world. In turn, these MFIs dispense life-changing loans to the poor and disadvantaged, with a special emphasis on rural areas and women.

3. Rabobank Foundation

a. Website:

http://www.rabobank.com/content/csr/rabobank_foundation/wide_world/

b. Aim of the body:

Netherland based company which primarily supports micro-financing and farmers' co-operatives outside of the Netherlands

c. Products offered:

loans, access to savings and credit co-operatives

d. Breadth of organisation:

- i. Active in 24 countries in Africa, Asia and Latin-America
- ii. In Senegal, Mali and Rwanda, where small farmers have limited access to financial services, we provide aid to savings and credit cooperatives.

Contact form:

http://www.rabobank.com/content/csr/rabobank_foundation/rf_contact_form.jsp

MOROCCO

Overview

GEOGRAPHIC LOCATION:

- Located in Maghreb in West Africa

- Bordered by Algeria, Mauritania and Spain
- Former French colony

DEMOGRAPHICS

POPULATION:

- Overall population: 32, 309, 239 (July 2012)
- Age Structure: 0-14 years: 27.8% (male 4,514,623/female 4,382,487)
- 15-64 years: 66.1% (male 10,335,931/female 10,785,380)
- 65 years and over: 6.1% (male 881,622/female 1,068,318)
- Literacy (age 15 and over can read and write): 52.3% of total population (65.7% male, 39.6% female)
- Languages: Arabic (official), Berber dialects, French (often the language of business, government, and diplomacy)
- Religion: Muslim 99% (official), Christian 1%, Jewish about 6,000

URBAN VS. RURAL:

- Urban Population: 58% of total population
- Rate of urbanisation: 2.1% annual rate of change
- Population of the major cities: Casablanca 3.245 million
RABAT (capital) 1.77 million
Fes 1.044 million

ECONOMIC INDICATORS:

- GDP per capita: \$5,100
- GDP composition per sector: Agriculture: 16.6%
Industry: 32.3%
Services: 51%
- Public Debt: 65% of GDP

SOCIO-ECONOMIC SITUATION:

- Key sectors of the economy: Agriculture, Tourism, Phosphates, Textiles, Apparel, and Subcomponents
- Agriculture products: barley, wheat, citrus fruits, grapes, vegetables, olives; livestock; wine
- Industries: Phosphate rock mining and processing, food processing, leather goods, textiles, construction, energy, tourism
- Large percentage of women headed households (owing to divorce and migration)

GOVERNANCE:

- Morocco ranks 80th in Transparency International's ranking of 178 countries by their perceived level of corruption

ARAB SPRING?

- Morocco has not had a revolution of the kind seen in Egypt, Libya or Tunisia. King Mohammed is still firmly in charge after he offered to trim his powers.
- King Mohammed VI unveiled a new constitution within weeks. This promised to transfer real (though not all) powers to a freely and fairly elected government. Within a year he accepted an electoral triumph by the Justice and Development Party (or PJD, after its French initials), a mildly Islamist group.

Current Status of Microfinance in Morocco

EXISTING MFIS IN MOROCCO:

<u>Name</u>	<u>Date</u>	<u>Diamonds</u>	<u>Gross Loan Portfolio</u>	<u>Number of active borrowers</u>
Al Amana	2011-09-30	3	261,418,269	307,000
Al Karama	2010	3	5,042,769	16,074
AMQS	2010	3	709,029	2,779
AMSSF/MC	2011	3	5,531,818	14,336
ARDI	2011-03-31	3	25,461,490	105,708
ATIL	2009	1	653,485	1,376
FBPMC	2011-06-30	3	173,521,704	201,925
FONDEP	2011-09-30	3	87,538,822	132,963
INMAA	2010	3	2,868,224	5,181
Zakoura	2010	3	171,458	455

- The first Microfinance Institution was set up in Morocco in 1993
- Four of the top fifty Microfinance Institutions by Forbes were from Morocco
- These are not based on Islamic principles

WHY DOES MOROCCO COMPARE FAVOURABLY TO OTHER NORTH AFRICAN COUNTRIES IN TERMS OF EXISTING MFIS?

- Statistical analysis indicates that the success of microfinance is linked to population density, smallness of a country's geographical size and its poverty as well as the amount of international donor funds it has received. Morocco scores well on these counts.
- Economic analysis: The availability of oil exports as revenues may lead to a delay in developing microfinance, perhaps because other options are then available to redistributing funds. Morocco does not export oil, whilst some neighbouring African countries do.

LEGAL FRAMEWORK

Microfinance Law of 1999:

- This law allows microcredit to be carried out by essentially non-profit finance companies.
- Provided financial support through a government fund.
- MFIs are not allowed to collect savings and there is a ceiling on loan sizes set at about \$3000.
- MFIs are prohibited from lending for other than productive activities. They have broad permission to innovate both in mobilising capital and in lending methodology.

ATTITUDES TO ISLAMIC BANKING IN MOROCCO

- Most Moroccans are against the concept of interest
- Most acknowledged that western type finance is necessary for Morocco's economy, a necessary evil
- Many people will take loans from banks charging interest only if absolutely necessary (i.e. to buy a home or start a business) whilst others will abstain altogether.
- Interest-free banking and similar Islamic ideals is relatively new in Morocco thus far. Popular with the populace but not the banks; they are offering them at a higher fee.

Morocco and Farz

What aspects of Farz's philosophy would be suitable for Morocco?

Farz's "Twist up Economics" philosophy can offer:

- Sustainable interest free loans for the poor
- Revitalizing the SMEs at grassroots
- Provision of loans and entrepreneurial guidance for women and other clients
- Culture of community wide cooperation (Ehsaan)

Scenario 1: Livestock profit-sharing

- Farz's livestock methodology can be applied as it in Mauritania as livestock is an important part of rural livelihood.
- In addition to providing loans for investment in livestock, examine the possibility of expanding in dairy sector (investment in equipment such as refrigeration)
- Possible clientele: (a) Small scale farmers (b) Women (especially those who head households)

TO REGISTER ANY COMPANY IN MOROCCO:

Administration process, see here:

<http://www.doingbusiness.org/data/exploreeconomies/morocco/starting-a-business>

SUDAN

Country Overview

Geographic Location

- Located in Northeast Africa
- Bordered by Egypt, Eritrea, Ethiopia, South Sudan, Central African Republic, Chad and Libya
- Coastline on the Red Sea in the northeast of the country
- Former British colony

Socio-economic situation

- Relatively better off than other countries in Northeast Africa (GDP per capita \$1,931).

- Industry and services comprises 2/3 of GDP, with agriculture accounting for the other 1/3.
- 15% of the population has access to financial services.
- Pockets of severe poverty in non-Arab parts of the country (East, South).

Demographics

- Total population: 25,964,220
- Main ethnic composition:
 - Sudanese Arabs: 70%
 - Other minorities: Fur, Beja, Nuba, Fallata
- Religion: Sunni Islam dominant, small Christian minority#

Socio-Economic Governance

- Extreme corruption (Ranked 177 out of 183 countries by Transparency Index in terms of corruption perception)
- Fragile peace after devastating wars in West and South.
- Sudanese Arabs dominate country's wealth and power. Other ethnic groups have long been marginalized by the central government.

Demographic challenge: Potential for microfinance funding?

Stability in Darfur and the independence of South Sudan has brought a degree of peace to Sudan not seen since its own independence from the British. These developments are conducive to the development of Islamic microfinance in those regions that have thus far been inaccessible because of conflict.

Current Status of Microfinance in Sudan

Environment

- Existing MFIs in Sudan operate primarily in Khartoum State, which has been largely insulated from conflict.
- The Sudanese government is encouraging the development of a robust microfinance sector and has set up a microfinance unit which has commissioned several studies on the sector.

- The states of Northern Darfur and Khartoum have both recently established microfinance councils aimed at increasing education and access.

Prominent MFIs in Sudan

- PASED is based in Port Sudan. One arm focuses on providing credit to women, the other to poor people generally. It serves over 5,000 clients.
- The Islamic MFI IRADA is being set up with \$50 million in capital with backing from the Bank of Khartoum and the Islamic Development Bank.
- Al-Edba'a Microfinance Institution has just been set up with \$5 million in capital financed by the Arab Gulf Program for Development and the Sudanese government. It seeks to serve 80,000 clients with \$23 million in credit by its fifth year.

The Workings of MFIs in Sudan

- The existing MFI sector has a strong Islamic foundation, with a focus on community enterprises and shared assets of the kind that Farz uses.
- Length of Credit: 76% of loans in Sudan are between 12 and 24 months.
- PASED claims to recoup 94% of money loaned out. Other MFIs have struggled with burdensome collateral requirements imposed on their clients.

Entering Sudan's Microfinance Sector

Regions to Target

- Khartoum State has the advantage of an existing Islamic microfinance infrastructure and a robust manufacturing and service sector the promises client stability.
- Northern Darfur State has recently established a microfinance council to encourage development. Conflict has until recently made this region off-limits for MFI but the underdeveloped agricultural sector is in need of investment.

Sectors to Target

- A government survey found that 93% of firms in the industrial sector employ 10 people or less. This is a demographic that generally does not have access to credit but which has large growth potential and can be hugely helped by microfinance.
- Marginalized regions such as Darfur still rely heavily on underdeveloped agriculture. Farz's livestock services will be very important in these areas.

Services to provide

- A survey conducted in Khartoum State found that 70% of respondent were in need of microsavings. There were similar levels of support for the provision of insurance products.
- Sudan's banking system is entirely Sharia compliant, though knowledge of Islamic banking products such as murabaha and musharaka is limited to less than half of the population. The promotion of Islamic finance would be useful in further Farz's aims in Sudan.
- Loans guaranteed by collateral are already common in Sudan.

Challenges

Setting up a foreign business in Sudan is difficult, and microfinance is no exception. The aggressive microfinance development in Sudan has been driven by state governments and state banks. There has also been collaboration with development organizations in the Middle East to establish new Islamic MFIs (IRADA and El-Ebda being two examples). The lack of microfinance legislation presents problems not found in the neighbouring CEMAC region. Because financial laws are not specific to microfinance, Sudan has relatively onerous collateral requirements. Independently operating NGOs and MFIs from foreign countries are generally viewed with suspicion. This is not to say that entering Sudan would be impossible; this study found a surprisingly vibrant microfinance culture in the country. However, it would be difficult without domestic backing, and stability concerns still make any activity outside Khartoum very dangerous.

For further information on doing business in Sudan, see here:

<http://www.doingbusiness.org/data/exploreconomies/sudan>