

# The Integrated Livestock Development Project



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## Sanadiq in Syria

Agro Microfinance

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*reducing poverty and empowering poor rural  
households*

*Prepared by*



AlHuda Center of Islamic  
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# Table of Contents

Executive Summary .....	1
Key Outcomes of the Review .....	1
Introduction .....	1
Elements of the successful ILDP Sanadiq model .....	1
Observations .....	1
A. Sustainability .....	1
Funding model.....	1
Service and support expansion .....	2
B. Governance and management .....	2
Administration, policy, and governance.....	2
Regulatory oversight .....	2
Challenges .....	3
A. Sustainability .....	3
Financial model .....	3
User relevance and financial inclusion .....	3
B. Governance and Management.....	3
Institutional sustainability .....	3
Relevant data and financial inclusion.....	4
Legal capacity and financial sector regulatory oversight .....	4
Recommendations .....	4
A. Overview .....	4
B. Sustainability .....	4
Financial model .....	4
User relevance.....	5
C. Governance and Management.....	5
D. The next steps for Sanadiq .....	5
Introduction .....	6
Integrated Livestock Development Project .....	6
Overview.....	6
Microfinance component of ILDP .....	6
A. Overview .....	6
B. Importance for poor and rural communities .....	6
C. Challenges in Syria.....	7
The critical role of Sanadiq Microfinance .....	7
A. Design .....	7
B. Objective .....	7
C. Challenges and opportunities .....	8
D. Sustainability .....	8
Methodology and Approach .....	9
Approach .....	9
Methodology .....	9
Analyze and describe Syria's current financial framework and ecosystem .....	9
A. Banking and non-banking environment.....	9
B. Laws and Prudential Regulations on Microfinance .....	10
Analyze the performance of the current Sanadiq model.....	10
Develop a future sustainable model for the Sanadiq.....	10
A. The potential future sustainable model .....	10
B. Partnering and linking opportunities for Sanadiq.....	10
C. Roadmap for implementation.....	10

Financial Framework and Ecosystem.....	11
Background.....	11
History.....	11
Syrian crisis.....	11
Banking and non-banking environment.....	12
Banking sector.....	12
Microfinance banks.....	12
First Microfinance Institution Syria.....	13
Ibdaa Bank.....	13
Al-Wataniya Microfinance Bank.....	14
Banque BEMO Saudi Fransi Microfinance.....	15
Non-Banking Sector.....	15
A. Overview.....	15
B. Current non-bank financial organizations.....	16
Laws and Prudential Regulations on Microfinance.....	17
Previous laws and regulations pre-2021.....	17
A. General requirements.....	17
B. Liquidity and capital requirements.....	17
C. Provisioning requirements.....	17
Laws and Regulations 2021 onwards.....	18
A. Microfinance Laws and Regulations.....	18
B. Applicability of Microfinance Laws and Regulations to Sanadiq.....	19
Applicability of financial sector legal and regulatory framework on Sanadiq.....	19
The status quo is currently the optimum.....	19
Analysis of the Performance of Sanadiq.....	20
Introduction.....	20
Community-based microfinance models.....	20
A. Characteristics.....	20
B. The benefit of community-based microfinance models.....	20
C. Measurement of success.....	21
The Sanadiq microfinance model.....	21
Objective.....	21
Impact of the Crisis.....	21
Advantages.....	21
Regulatory and legal environment.....	22
Membership and ownership.....	22
A. Sanadiq eligibility.....	22
B. Member eligibility.....	22
C. Size of the Loans.....	23
Roles and responsibilities.....	23
A. Application and eligibility process.....	23
Applicant Eligibility.....	23
Individual creditworthiness check.....	23
Adherence to funding policies.....	23
B. Approval and grants process.....	23
Financial analysis.....	24
Tartous governorate.....	24
A. Funding categories and loans.....	24
B. Analysis of the top loan-funding categories.....	25

C. Growth in beneficiaries and loans.....	25
D. Sustainability and appropriateness of growth in lending .....	25
Homs governorate .....	26
A. Funding categories and loans.....	26
B. Analysis of top loan-funding categories .....	26
C. Growth in beneficiaries and loans.....	26
D. Sustainability and appropriateness of growth in lending .....	27
Latakia governorate .....	27
A. Funding categories and loans.....	27
B. Analysis of top loan-funding categories .....	27
C. Growth in beneficiaries and loans.....	27
Total Sanadiq Governorates .....	28
A. Total number of loans and loan amounts .....	28
B. Analysis of top loan-funding categories .....	28
C. Loan grants per governorate.....	28
D. Sustainability and appropriateness of growth in lending .....	29
E. Purpose of loans.....	29
F. Loan risks .....	30
Broken value chain – milk production.....	30
Non-financial Analysis .....	30
Beneficiary analysis.....	30
A. Gender of Borrowers .....	30
The current composition of women borrowers .....	30
Gender representation rates across governorates .....	30
Progress in Women's representation in borrowing .....	31
Positive benefits arising from women's representation in Sanadiq borrowers .....	31
B. Age of borrowers .....	31
A sustainable model for the Sanadiq.....	32
Background.....	32
Current Sanadiq model .....	32
Challenges .....	32
A. Sustainability.....	32
Mitigate risk through social contract among members .....	32
Reduce external reliance.....	32
B. Governance and Management.....	33
C. Legal capacity and regulation framework .....	33
Financial Sustainability .....	33
A. Financial model .....	33
Current situation .....	33
Proposed change to the funding model to self-funding sustainability .....	34
B. User relevance and financial inclusion.....	35
Support for financial inclusion.....	35
Delayed implementation.....	35
Issues to consider .....	35
Governance and Management: Operational Sustainability.....	36
A. Institutional sustainability .....	36
Support during the Syrian Crisis .....	36
Retain and strengthen management and governance support .....	36
Train and strengthen management and governance over the medium to long-term .....	36
B. Legal capacity and financial sector regulatory oversight .....	36
References .....	37

# Table of Figures

Figure 1: Assets of Private Banks in USD Billion.....	12
Figure 2: Loan Application and Eligibility Process.....	<b>Error! Bookmark not defined.</b>
Figure 3: Loan Approval and Grants Process .....	<b>Error! Bookmark not defined.</b>
Figure 4: Loan Types by Amount (Tartous) .....	24
Figure 5: Growth in Loan Amount (Tartous) .....	25
Figure 6: Loan Types by Amount (Homs) .....	26
Figure 7: Growth in Loan Amount (Homs) .....	26
Figure 8: Loan Types by Amount (Latakia) .....	27
Figure 9: Growth in Loan Amount (Latakia) .....	27
Figure 10: Growth in Loan Amount (ALL).....	28
Figure 11: Total Loans per Governorate 2013-2021 .....	29
Figure 12: Bar Graph of Borrowers' Gender .....	30
Figure 13: Age of Borrowers by Gender (2013-2019) .....	31

# Table of Tables

Table 1: Sanadiq Microfinance - Challenges and Opportunities.....	8
Table 2: Laws and Regulations for the Banking Sector in Syria .....	11
Table 3: Private Banks in Syria .....	12
Table 4: Distribution of loans by branches .....	13
Table 5: Size and number of loans granted FMFI.....	13
Table 6: IBDAA Distribution of Loans by Branches (2017 to 2020).....	14
Table 7: Social banking financial institutions' Requirements .....	17
Table 8: Debt Provisions - Social banking financial institutions.....	18
Table 9: Loan Type with Total Loans and the Loan Amount (Tartous) .....	24
Table 10: Annual Number of Loans and Loan Amount Growth (Tartous) .....	25
Table 11: Loan Type with Total Loans and the Loan Amount (Homs) .....	26
Table 12: Annual Number of Loans and Loan Amount Growth (Homs) .....	26
Table 13: Loan Type with Total Loans and the Loan Amount (Latakia) .....	27
Table 14: Annual Number of Loans and Loan Amount Growth (Latakia) .....	27
Table 15: Annual Number of Loans and Loan Amount Growth (ALL) .....	28
Table 16: Breakdown of Total Loans per Governorate 2013-2021.....	28
Table 17: Purpose of loans 2013-2021 by number of loans made .....	29
Table 18: Analysis of Borrowers' Gender across Governorates (2013-2021) .....	30
Table 19: Sanadiq Operational Sustainability Calculation .....	34

# Abbreviations

Abbreviation	Term
AAOIFI	Accounting & Auditing Organization of Islamic Financial Institutions
ACB	Agricultural Cooperative Bank
ACU	The Agency for Combating Unemployment
AGFUND	Arab Gulf Programme for Development
BIDAYA	Boosting and Inspiring Dynamic Youth Achievement
BSMF	Banque BEMO Saudi Fransi Microfinance
CDC	Community Development Committee
CIBE	Center of Islamic Banking & Economics
CBoS	Central Bank of Syria ( <a href="https://www.banquecentrale.gov.sy">https://www.banquecentrale.gov.sy</a> )
DEC	The Development and Employment Commission
DSE	Damascus Securities Exchange, <a href="http://www.dse.sy">http://www.dse.sy</a>
EC	Existing Clients
FDI	Foreign Direct Investment
FGDs	Focus Group Discussions
FIRDOS	Fund for Integrated Rural Development of Syria
FMFI	First Microfinance Institution Syria
HR	Human Resource
IFAD	International Fund for Agricultural Development
ICT	Information and Communication Technology
IF	Islamic Finance
IFSB	Islamic Financial Services Board
ILDLP	Integrated Livestock Development Project
MAAR	Ministry of Agriculture and Agrarian Reforms
MMD	Microenterprise and Microfinance Department
PC	Potential Clients
PCEED	Public Commission for Employment and Enterprise Development
RCDP	Rural Community Development Projects
SES	Social-Ecological Systems
SMEs	Small and Medium-Sized Enterprises
SOPs	Standard Operating Procedures
SCFMS	Syrian Commission on Financial Markets and Securities ( <a href="http://www.scfms.sy">http://www.scfms.sy</a> )
TOR	Terms of References
UNDP	United Nations Development Programme

# Executive Summary

## Key Outcomes of the Review

### Introduction

This report focuses on the village Sanadiq (microfinance) within the broader community-based associations introduced by the Integrated Livestock Development Project (ILDP) 2011. The ILDP is an innovative and highly successful program funded by the International Fund for Agricultural Development (IFAD), supported and implemented by the Government of the Syrian Arab Republic (Government). The Sanadiq are community-based microfinance associations owned and managed by its members to finance income-generating activities and mobilize local resources, a core element of the ILDP.

### Elements of the successful ILDP Sanadiq model

Our detailed review reveals a **highly successful Sanadiq program** with the following elements:

- An **increasing and vital role in Syria**, especially in the reconstruction of post-conflict communities,
- It is crucial in **reducing vulnerability and promoting microenterprises** for those people experiencing poverty,
- Supports entrepreneurship, alleviates poverty, empowers women, and uplifts entire communities,
- A community-based microfinance model centered around **placing trust in people and empowering them**,
- It involves a **social contract among its members**, ensuring each borrower fulfills their obligations and duties to the collective. As a result, it delivers a unique aspect lacking in most lending models - **minimization of loan risk with close to 100% loan repayment** that lowers risk and increases the effectiveness of outcomes,
- Can develop **flexible solutions** matching the needs of those who generally fall outside the formal banking system, even within the constricted economic conditions during the Syrian crisis and the elevated lack of access to finance.

The Sanadiq reach remote or insecure areas effectively and at an appropriate scale, and their track record since inception is delivering results quickly and in an inclusive manner. Beneficiaries, Sanadiq committee members, and ILDP staff noted that the model's simplicity has been integral to its success<sup>1</sup>.

### Observations

Critical observations from this report analysis are as follows.

#### A. Sustainability

##### *Funding model*

The robust funding model and **ongoing sustainability of the Sanadiq** program come from the following:

- The **community-focused structure** is owned and managed by the members.
- The **strong government commitment** and administrative support from the ILDP within the **Ministry of Agriculture** also contribute to its strength.

Both of these strengths mean **minimization of loan risk** with close to 100% loan repayment, lowering risk, and increasing the effectiveness of outcomes. This risk minimization and loan repayment is essential as a global problem for any microfinance institution reaching financial sustainability (Dunford, 2003). It is challenging for

<sup>1</sup> Senadiq Assessment Report (2020), Morwenna Sullivan

many community lending groups in developing countries to sustain their operations without continued donor-supported funding and technical assistance.

*There is recognition from all stakeholders of how community ownership and Management (forming a social contract among its members), coupled with robust and focused Government administrative support and ongoing commitment, have been critical for community lending groups to be financially sustainable.*

### *Service and support expansion*

In the medium term, Sanadiq can explore **digital solutions** that will improve Sanadiq's product offerings, **maintain relevance, and enhance long-term sustainability**. The current situation in Syria poses severe challenges for adopting digital solutions soon. The ongoing conflict, the weak and isolated banking system, and the loss of skilled workers in the Financial Sector are significant obstacles to overcome. Until these two issues resolve themselves, digital solutions tied to Sanadiq will not be feasible or practical.

## **B. Governance and management**

### *Administration, policy, and governance*

The ILDP project and IFAD have provided valuable support and resources to the community-based funding model that targets people experiencing poverty. The ILDP staff in the Ministry of Agriculture have been instrumental in this process, assisting the Sanadiq committees in their essential community development functions.

The Ministry of Agriculture's substantial support through its ILDP department has been vital for the efficient operation of the village Sanadiq within the community-based associations.

The ILDP department should continue strengthening this support for Sanadiq in the short-to-medium term.

Improving long-term sustainability will require enhancing Sanadiq's governance, management, and administration capacity at the village Sanadiq level.

### *Regulatory oversight*

The Sanadiq community-based microfinance associations are Non-bank financial organizations with no formal legal registration process apart from recognition under the Ministry of Agriculture. The current microfinance law does not apply to the Sanadiq, and the success of similar non-deposit-taking schemes is their simplicity. The Sanadiq model should continue to recognize the importance of community-based-microfinance **being outside the formal licensed banking and microfinance sector**.

International evidence suggests that the economic environment and competition, rather than the regulatory burden, strengthen similar schemes' performance elsewhere.

*While intended to increase institution soundness and better protect consumers, regulations and supervision can also have effects that Congress or regulators may not have intended.<sup>2</sup>*

The **Ministry of Agriculture** can provide **quasi-regulatory oversight** through its continuing support via the ILDP group within the Ministry. The financial and statutory regulations set out by the Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012<sup>3</sup> apply and should continue to do so in the short to medium term until further studies are in.

<sup>2</sup> (US Government Accountability Office, 2018)

<sup>3</sup> The Sanadiq are governed by financial and statutory regulations set out by the Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012



## Challenges

The challenges facing microfinance schemes are the interlinking requirements of:

- **Sustainability**
  - Mitigate risk through the social contract between its members,
  - Reduce external reliance by focusing on a self-funding financial model
- **Governance and Management:**
  - Institutional sustainability with reliance on ILDP governance and management,
  - Relevant data and capable human resources to manage the necessary systems and processes,
  - Strengthen performance through the economic environment and competition rather than an uneconomic regulatory burden
- **Legal capacity and regulation framework**
  - A potential challenge is the apparent lack of legal capacity and financial sector regulatory oversight

### A. Sustainability

The sustainability of the Sanadiq model depends on two critical elements:

- A robust **financial model** underpinning it, and
- Ongoing **user relevance and financial inclusion**.

#### *Financial model*

A robust financial model must support Sanadiq's operations beyond the duration of the ILDP project. Sustainability implies that there should be sufficient funds to cover the expenses of both the Microfinance Unit and the Sanadiq committees. The flat interest rate the borrowers pay on their loans must cover the operational costs of the Microfinance Unit and the Sanadiq committees.

#### *User relevance and financial inclusion*

In neighboring countries, one of the approaches to adapting community-based microfinance models **toward sustainability** is simple yet effective. It is to keep the community-based microfinance model **relevant to its users** by continuously reviewing and updating its services.

**Digital solutions to drive financial inclusion** are critical to capturing and maintaining user relevance. However, there are significant challenges in Syria to implement “digital solutions to drive financial inclusion” in the short term until the Syrian Crisis ceases, the isolated and undercapitalized banking system recovers, and Syria’s ‘brain drain,’ especially in the Financial Sector, reverses.

### B. Governance and Management

#### *Institutional sustainability*

The support from the ILDP project and the intellectual and funding investment from the International Fund for Agricultural Development (IFAD) has **developed a robust platform for the success of the community-based funding model** addressing those at risk of poverty.

The ILDP staff within the Ministry of Agriculture have been instrumental in this process, including developing a detailed operational manual for the Sanadiq and providing significant support to the Sanadiq committees in their essential community development roles. The considerable support from the Ministry of Agriculture through its ILDP department has been a critical factor in the successful operation of the village Sanadiq within

the community-based associations. This support from the ILDP department has provided institutional sustainability.

The **retention and strengthening** of this support are critical for institutional sustainability for Sanadiq in the short-to-medium term. Strengthening to enhance long-term sustainability requires capacity development that reinforces good governance, management, and administration at the village Sanadiq level.

#### *Relevant data and financial inclusion*

Sanadiq has the potential to leverage digital solutions to enhance its products, stay competitive, and secure its future viability. However, the current situation in Syria creates significant obstacles to implementing digital solutions soon.

#### *Legal capacity and financial sector regulatory oversight*

Sanadiq are non-bank financial organizations operating under and governed by the financial and statutory regulations set out by the Ministry of Agriculture<sup>4</sup>, without the requirement for any formal legal entity registration.

As such, they are not subject to the current microfinance law, an advantage for similar schemes that do not take deposits.

The Sanadiq model should preserve the simplicity of community-based microfinance and avoid being regulated by the formal banking and microfinance sector.

## Recommendations

### **A. Overview**

The recommendations in this report to meet the challenges identified above recognize two necessary premises of sustainability and sound governance and management.

Sustainability is crucial for any organization that aims to create long-term value and impact. To achieve sustainability, an organization must mitigate risk through the social contract between its members, which ensures mutual trust, accountability, and cooperation. Additionally, an organization must reduce external reliance by focusing on a self-funding financial model that generates sufficient income to cover operational costs and invest in growth. An organization can enhance its resilience, autonomy, and innovation potential.

Governance and management are essential functions that enable an organization to execute its strategy and deliver its mission. To ensure effective governance and management, an organization must have access to relevant data and capable human resources to manage the necessary systems and processes. Moreover, an organization must strengthen its performance through the economic environment and competition rather than an uneconomic regulatory burden. An organization can improve its efficiency, quality, and reputation.

### **B. Sustainability**

#### *Financial model*

To ensure sufficient funds to cover the expenses of both the Microfinance Unit and the Sanadiq committees, **we recommend that** the following agreed actions be adopted:

- **Increase the flat loan interest rate** from 9.6% to 12%. (Instead of paying SYP 96,000 for every SYP 1 million borrowed, the beneficiary will pay SYP 120,000);

<sup>4</sup> Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012

- **Increase the Microfinance Unit retention by three times** to compensate for the economic hardship and to ensure continuous active engagement after project closure;
- **Increase the Sanadiq committees' retention of interest income by 56%** to compensate for the economic hardship and ensure continuous active engagement after project closure. The increased interest rate (9.6% to 15%) coupled with the increased levy paid to the Sanadiq (1.92% to 3%) based on the loans in 2022 would mean the Sanadiq levy would increase from SYP 33,004,800 to SYP 51,570,000, an increase of 56.3%.

#### *User relevance*

Upon recovery of the formal banking sector, **we recommend that** “digital solutions to drive financial inclusion” should be implemented, including: -

- An examination of optimum linkages for financial wallet services and the development of a road map for linking community-based digital financial services with financial wallets appropriate to the Sanadiq,
- Development of digital solutions to serve low-income households and SMEs, and
- The developers of the digital solutions consider how their work is affected by the specific context of Syria, such as its economy, laws, politics, and culture.

### **C. Governance and Management**

To retain and strengthen the critical support for Sanadiq in the short to medium term, we **recommend that** the Ministry of Agriculture should provide the following:

- **Administration, policy, and governance:** Using the increased Microfinance Unit retention funds from lending within the Sanadiq towards the ongoing administrative, policy, and governance support. This support links into the Sanadiq's operational and financial sustainability. International experience in developing countries shows that when given clear and transparent rules, access to information, and appropriate technical and financial support, communities can effectively organize to identify community priorities, address local development challenges, and enhance livelihoods.<sup>5</sup>
- **Policy and regulatory oversight:** Maintenance of sole policy and regulatory oversight from the Ministry of Agriculture is likewise critical. Experience shows that community-based microfinance schemes cannot sustain regulatory oversight costs from central banks and similar.

### **D. The next steps for Sanadiq**

Progress in embedding and providing ongoing success for the Sanadiq model will come from the following:

- **Ongoing sustainability:** Maintaining financial sustainability upon the cessation of the ILDP project by building on the current, highly successful program supported by the Ministry of Agriculture, including:
  - Revising the operational model to increase internally generated funding to the Sanadiq committees and the ILDP staff within the Ministry of Agriculture
  - The existing ILDP staff within the Ministry of Agriculture will provide their current Management and support for the Sanadiq committees and, where possible, expand support into skill knowledge transfer,
  - The Ministry of Agriculture will consider providing enhanced regulatory oversight of the Sanadiq, recognizing that burdening them with legal registration and expensive regulation is not sustainable.
- **Digital financial inclusion initiatives:** develop a roadmap for digital financial inclusion for the Sanadiq,
- The development of more robust governance, management, and administrative procedures from the village Sanadiq (microfinance) committees upward

<sup>5</sup> <https://www.worldbank.org/en/topic/communitydrivendevelopment>

# Introduction

## Integrated Livestock Development Project

### Overview

The Integrated Livestock Development Project (ILDP) is an innovative program developed by the International Fund for Agricultural Development (IFAD) and supported by the Government of the Syrian Arab Republic (Government). The program empowers people experiencing poverty in Syria by ensuring access to productive resources, participation in the development process, and decisions that affect their lives. These aspects of the program are interrelated and the foundation of sustainable empowerment.

The Government recognized that empowering people experiencing poverty is crucial for a sustainable and durable solution to poverty and hunger across the country. As a result, with the support of IFAD, the ILDP was launched on 2 December 2011.<sup>6</sup>

The ILDP involved poor rural households forming community-based associations. These associations implement project activities by:

- Identifying and prioritizing village development needs,
- Facilitating market linkages and supply chain analysis,
- Sourcing appropriate technical advisory services,
- Undertaking joint or individual investment in micro- and small enterprises,
- Disseminating marketing information and
- Enabling combined procurement of inputs.

The objective of the project is to:

*Achieve a sustainable increase in the incomes of poor rural people (pastoral nomads<sup>7</sup>, small livestock holders, small farmers, rural women, and unemployed youth) whose livelihoods depend on livestock activities in low-potential areas.<sup>8</sup>*

### Microfinance component of ILDP

#### A. Overview

The village Sanadiq (microfinance) committees are a component of the ILDP. The village Sanadiq committees fall under the financial and statutory regulations set out by the Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012. Article 5 sets out the Objectives of the Fund.<sup>9</sup>

#### B. Importance for poor and rural communities

Microfinance is not a new concept. It emerged 50 years ago to reduce vulnerability and promote microenterprises for those experiencing poverty. However, the importance of microfinance in rural areas has

<sup>6</sup> In June 2015, the ILDP was suspended due to force majeure. In December 2018, following a request from the Government to resume operations, a Country Strategy Note (CSN) enabled a partial lifting of the suspension, including limited operations in Homs, Lattakia, and Tartous.

<sup>7</sup> Pastoral nomads describe those who depend on domesticated livestock and migrate to an established territory to find pasturage for their animals.

<sup>8</sup> <https://www.ifad.org/en/web/operations/-/project/1100001542>

<sup>9</sup> See MAAR Decision No 8626 for further detail on the governance of micro loans

become more apparent, primarily through community group lending methodologies (such as the Sanadiq model). Studies show that this microfinance model makes access to finance easier, increases the number of male and female savers, increases community savings, and reduces interest rates.<sup>10</sup>

In 2011, the Government and its partners incorporated village Sanadiq within the ILDP. The benefit of this decision became more apparent as the Syrian crisis emerged shortly after.

### **C. Challenges in Syria**

Finding a durable solution to poverty and food insecurity across the country is a prime goal of the Government. A nation historically self-sufficient in food production now ranks among the six countries with the highest food insecurity in the world, with over half the population facing food insecurity.

Record highs in food prices, a fuel crisis, ongoing inflation, continuing conflict in some parts of the country, adverse weather, and the war in Ukraine in early 2022 have taken a devastating toll on Syria's most vulnerable.<sup>11</sup>

The Government and IFAD see the current Sanadiq model within the ILDP as capable of meeting this challenge given the appropriate framework moving forward.

## **The critical role of Sanadiq Microfinance**

### **A. Design**

The village Sanadiq (microfinance) committees within the community-based associations are a critical component of the ILDP and central to providing the financial and economic engine and, ultimately, a sustainable outcome for the communities and their people.

Meaning "savings boxes," the Sanadiq are community-based microfinance associations owned and managed by its members to finance income-generating activities and mobilize local resources through share capital. The start capital for the Sanadiq is self-financed through member share capital and seed capital provided by the project.<sup>12</sup>

Mandatory membership for borrowers allows access to microfinance loans provided that the applicants fully pay up membership shares. In return, all members receive annual dividends based on their contributions to the Sanadiq resources.

### **B. Objective**

The microfinance from Sanadiq provides small loans to its members who would otherwise be unable to secure credit or loans from traditional banks and other financial institutions, primarily because of poverty. Adequately designed, it supports entrepreneurship, alleviates poverty across the country, empowers women, and uplifts entire communities.

The model centers around placing trust in people and, by empowering them, can show them the way out of poverty. It also involves a social contract among its members to ensure that each borrower fulfills their obligations and duties to the collective.

<sup>10</sup> (Khan, et al., 2020, p. 4724)

<sup>11</sup> <https://www.wfp.org/emergencies/syria-emergency>

<sup>12</sup> Each Sanadiq receives funding capital during the first two to three years, which is paid back to the government without interest.

As such, Sanadiq fulfills a vital role within the ILDP. Initially established to provide access to small loans for borrowers to buy livestock, feed/fodder, or small-scale processing machinery,<sup>13</sup> the Sanadiq has adapted to the recent challenges of the Syrian crisis.

With the devaluation of the Syrian Pound (SYP), the dramatic increase in livestock prices, and the negative impact on livestock farming — the Sanadiq have diversified microfinance lending into other agricultural-related activities, including beekeeping and fodder production.

### C. Challenges and opportunities

There are several challenges and opportunities facing the Sanadiq (microfinance) model.

Table 1: Sanadiq Microfinance - Challenges and Opportunities

Challenges	Opportunities
– Legal capacity	– Enact legislation tailored for Sanadiq.
– Regulator and regulatory framework	– Develop an appropriate regulatory and policy framework and licensing model.
– Loan levels: Typical loan levels that microfinance institutions provide borrowers are inconsequential for financing working capital to entrepreneurs <sup>14</sup>	– Develop relationships with other and larger financial providers and provide pathways, confidence, financial literacy training, and support for Sanadiq members to access further capital and funds.
– Financial inclusion: financial innovation for the Sanadiq (microfinance) model	– Investigate digital solutions to serve low-income households and microenterprises through Sanadiq in the medium to long term.
– Ongoing institutional and financial sustainability <sup>15</sup>	– Engage with donors and the Government to explore options that include increasing the number of borrowers (breadth) and loan levels (depth).

### D. Sustainability

A problem for microfinance institutions is reaching financial sustainability (Dunford, 2003). It has been difficult for Sanadiq to sustain their operations without continued donor-supported funding and technical assistance during the turmoil of the crisis in Syria. The Sanadiq have coped with the pausing of donor support, but help to ensure longer-term sustainability may be required.

Developing a roadmap as we advance involves an analysis of the influencing factors and the unique financial, regulatory, legal, political, and cultural environment within Syria.

<sup>13</sup> People's livelihoods in low-potential areas in Syria depend on livestock activities, and enhancing livestock productivity along the value chain of livestock production is an ILDP outcome.

<sup>14</sup> (Osman, 2021, p. 276)

<sup>15</sup> Unsustainable MFIs might help the poor now, but they will not help the poor in the future because the MFIs will be gone" (Schreiner, 2000, p. 425)

# Methodology and Approach

## Approach

The approach adopted to develop a roadmap to the sustainability of the Sanadiq microfinance model is contained in the Consultant's Terms of Reference (ToR) and includes the following:

- Assess the performance of the current Sanadiq model under the ILDP, including undertaking financial and non-financial analysis,<sup>16</sup>
- Analyze and describe Syria's current financial framework and ecosystem, including:
  - Outline the banking system, micro-finance institutions, and non-banking financial institutions (credit unions, financial cooperatives, and similar),
  - Survey the possibility for Sanadiq to link, partner, or seek support from the formal financial sector participants,
- Develop a future sustainable model for the Sanadiq, including:
  - Examine the options for umbrella organizational structure (e.g., under Apex organization, financial cooperative, linked to a microfinance institution or a bank, and similar.),
  - Governance and operational options,
  - Self-financing or external financing options,
  - Risk assessment and mitigation measures and processes,
  - Digital innovation appropriateness and options.
- Review the current Syrian laws and prudential regulations on microfinance and the required modifications to include the Sanadiq model, including:
  - appropriate line Ministry(s) to register under,
  - likely regulator,
  - appropriate registration processes/requirements, and
  - outline of the proposed legal responsibilities of the Sanadiq upon registration.

## Methodology

### Analyze and describe Syria's current financial framework and ecosystem

#### A. Banking and non-banking environment

Developing an outline of the banking system, micro-finance institutions, and non-banking financial institutions (credit unions, financial cooperatives, and similar) within Syria requires a two-stage approach:

- Undertake a desktop review of available material on Syria's banking and non-banking sector.
- Published information from the banking and non-banking participants, international agency reports (e.g., World Bank), financial sector commentators, and previous reports
- Confirm the desktop review findings through an on-the-ground visit and meetings with key stakeholders.<sup>17</sup>

<sup>16</sup> Non-Financial analysis includes an analysis of outreach (gender disaggregated, membership/shareholders), paid-up share capital, seed capital, loans disbursed, lending terms, active borrowers, repeat loans, loan portfolio by economic activity, and the main issues faced

<sup>17</sup> Key stakeholders include Financial Sector participants, central and local Government officials, Sanadiq members



This dual process is essential given that the Syrian crisis has severely impacted the ownership, governance, Management, operational capability, operations, and even the presence of the country's various banking and non-banking institutions. Much of this information is not available online.

### ***B. Laws and Prudential Regulations on Microfinance***

Review the laws and regulations applicable to the Microfinance Sector and the recent changes in 2021. The recent changes may indicate the appropriate model to be adopted by the Sanadiq, if any.

## **Analyze the performance of the current Sanadiq model**

Assess the performance of the current Sanadiq model under the ILDP, including undertaking financial and non-financial analysis.

Within the financial and non-financial analysis, the report will:

- Consider the financial framework and ecosystem within Syria when the Sanadiq model started,
- What has occurred since then, including the Syrian crisis and its economic and social effects,
- How the Sanadiq model has coped with these changes,
- What does the future hold for the Sanadiq model?

## **Develop a future sustainable model for the Sanadiq**

### ***A. The potential future sustainable model***

Draw from the assessment and analysis from the prior stages, and develop a potential sustainable model and what would be required to achieve that model.

### ***B. Partnering and linking opportunities for Sanadiq***

Investigating potential options for Sanadiq to link, partner, or seek support from the formal financial sector participants involves discussions with stakeholders from the banking and microfinance sectors.

### ***C. Roadmap for implementation***

Develop an implementation plan to achieve the model developed.



# Financial Framework and Ecosystem

## Background

### History

Following Syria's independence in 1946, European banks were the dominant operators in the country. The year 1956 was a significant inflection point for the Financial Sector, including:

- The European bank hegemony ended with the confiscation of the French and British banks as enemy assets as a result of the Suez Crisis,
- The Government requires foreign banks to have a minimum of 70% Arab ownership and
- The Central Bank of Syria (CBoS) established and gave control of the money supply and the commercial and credit banks.

While some reforms occurred in the early 1990s, the tangible development of the private banking sector eventually arrived in 2000. Private banks grew and attracted 75% of new deposits, of which 50% were in foreign currencies. Significant legal and regulatory advances occurred over this period post-2000, with the expansion of the banking sector. The limit on foreign ownership of banks increased to 60% under the Government's 2010 economic development plan to attract over USD 55 billion in foreign direct investment (FDI).<sup>18</sup>

Table 2: Laws and Regulations for the Banking Sector in Syria

<ul style="list-style-type: none"> <li>• Microfinance banks <ul style="list-style-type: none"> <li>- Decree No. (15) of 2007</li> <li>- Cash and Credit Council Resolution No. 363/Mn/B4 of 2008</li> <li>- Law No. (9) of 2010, Law No. 8 of 2021 Licensed to create Microfinance banks</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Private banks - Decree No. (28) of 2001</li> <li>• Islamic banks - Decree No. (35) of 2005</li> <li>• Investment banks - Decree No. (56) of 2010</li> </ul>
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*Syria's favorable economic and financial situation at the inception of ILDP and later Sanadiq microfinance is noteworthy.*

## Syrian crisis

However, the advent of the Syrian crisis in March 2011 devastated Syria's Financial Sector and the broader economy. The ongoing crisis and a weakening economy have **halted the Financial Sector's growth story**, significantly impacted banking operations throughout the country, and pressured the banks' liquidity levels. These effects include displacing over half the pre-crisis population of almost 21 million people, destroying its physical and economic capital, and breaking up its financial and economic networks. Syria's **GDP shrank by more than 50% between 2010 and 2020**, leading to Syria being reclassified as a **low-income country** in 2018 by the World Bank.<sup>19</sup>

In the Financial Sector, the private banking sector reduced activities due to the Syrian crisis and international sanctions, which isolated the Syrian banking system and led to the real value of private bank assets and deposits falling significantly since 2011. Qualified financial sector management employees have moved outside the country to seek better opportunities, relocating with their families and starting new careers. Even more significant for people experiencing poverty is that the Syrian currency has officially dropped more than 98 percent of its value since the start of the Syrian crisis in 2011, with today's value being around SYP2,500 to the USD. The brain drain effect is an unquantifiable effect of the crisis and one of the most significant damaging impacts on the financial sector and the country.

<sup>18</sup> (Daher, 2021)

<sup>19</sup> (Syria overview, 2022)

# Banking and non-banking environment

## Banking sector

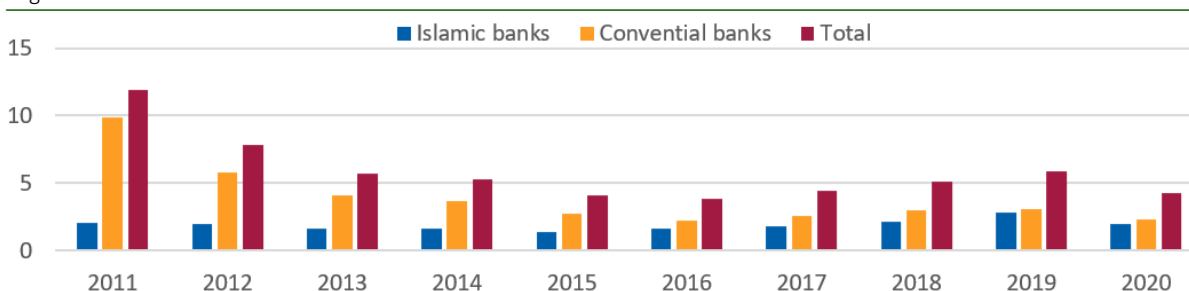
Following over forty years of the Public Sector's monopoly by six state-owned banks, the first private sector bank started in early 2004. The current composition of the bank sector is in the table below.

Table 3: Private Banks in Syria

Public	Private and Investment	Microfinance	Islamic
<ul style="list-style-type: none"> <li>Commercial Bank of Syria</li> <li>Industrial Bank of Syria</li> <li>Agricultural Cooperative Bank</li> <li>Popular Credit Bank</li> <li>Real Estate Bank</li> <li>Savings Bank</li> </ul>	<ul style="list-style-type: none"> <li>Bank BEMO Saudi Fransi</li> <li>Bank of Syria &amp; Overseas</li> <li>International Bank for Trade &amp; Finance</li> <li>Arab Bank (Syria)</li> <li>Audi Bank (Syria)</li> <li>Bank Byblos (Syria)</li> <li>Syria Gulf Bank</li> <li>Bank of Jordan (Syria)</li> <li>Fransa Bank (Syria)</li> <li>Bank Al-Sharq</li> <li>Qatar National Bank (Syria)</li> </ul>	<ul style="list-style-type: none"> <li>First Microfinance Institution Syria (FMFI)<sup>20</sup></li> <li>Ibdaa Bank (Ibdaa Bank for Micro and Small Finance)</li> <li>Al-Wataniya Microfinance Institute (Al-Wataniya Microfinance Bank)</li> <li>BEMO Saudi France Microfinance Bank</li> <li>Aga Khan Agency for Microfinance<sup>21</sup></li> </ul>	<ul style="list-style-type: none"> <li>Syria International Islamic Bank</li> <li>Cham Bank</li> <li>Al-Baraka Bank</li> </ul>

The Syrian crisis has severely impacted the asset base of the private banking sector, including microfinance. Although there was a slight uplift between 2016 and 2020, the advent of the COVID-19 pandemic saw the banks' total assets fall. These effects are in the table below.<sup>22</sup>

Figure 1: Assets of Private Banks in USD Billion



### Microfinance banks

Microfinance is a crucial element of the strategy to reduce vulnerability and promote microenterprises for those people experiencing poverty, aligned with the Sanadiq model. It has an increasing and vital role in Syria, especially in the reconstruction of post-conflict communities in the country. Activity and progress still occur.<sup>23</sup> Data is complex to obtain online, and the Consultant received all information about the microfinance entities during the field visit. Table 3 shows five entities registered as microfinance banks under Table 2: Laws and Regulations for the Banking Sector in Syria.

<sup>20</sup> <https://www.eib.org/en/projects/pipelines/all/20080401>

<sup>21</sup> <https://the.akdn/en/where-we-work/middle-east/syria>

<sup>22</sup> The rate used is at 31 December in each year as currency fluctuations during the year can be significant.

<sup>23</sup> (Osman, 2021).

## First Microfinance Institution Syria

First Microfinance Institution Syria (FMFI)<sup>24</sup> is the first and largest bank for microfinance in Syria. It provides microfinance services targeting specific population segments to alleviate poverty and improve its clients' quality of life. Services include (i) Deposit-taking in Syrian pounds, (ii) Small loans, and (iii) Microinsurance related to its loans and reinsurance with one of the Syrian licensed insurance businesses.

The bank was registered<sup>25</sup> in 2008 as a joint stock business and obtained a license to engage in microfinance. FMFI has eight branches outside of Homs in Salamiyah, Tartous, Masyaf, Latakia, Aleppo, As-Suwayda, Damascus, and Safita. As of 31 December 2020, the Aga Khan Agency for Microfinance (AKAM) owned 71.35% of FMFI's capital<sup>26</sup> and was a key strategic partner of FMFI.

### Loan distribution

Table 4: Distribution of loans by branches

Branch	2019	2020	2019	2018	2017
Salamiyah	3,336,545,767	2,450,001,068	3,336,545,767	2,291,485,202	1,175,276,750
Tartous	1,385,646,772	3,504,055,440	1,385,646,772	2,475,308,546	1,699,876,270
Masyaf	2,683,946,668	1,406,832,542	2,683,946,668	1,167,243,341	765,689,650
Latakia	323,436,474	2,825,209,227	323,436,474	1,602,322,151	800,276,851
Aleppo	905,177,097	392,396,462	905,177,097	243,736,698	27,850,615
Al Suwayda	627,480,134	1,063,892,234	627,480,134	1,006,312,065	775,900,027
Damascus	977,326,956	1,048,188,279	977,326,956	324,502,177	116,018,558
Safita	2,514,907,848	1,301,276,481	2,514,907,848	514,619,674	-
Total	12,754,467,716	13,991,851,733	12,754,467,716	9,625,529,854	5,360,888,721

Amounts in Syrian Pounds (SYP)

Loans range from SYP 15,000 to SYP 2,000,000, with repayment through equal monthly payments guaranteed by a third party or the borrower's assets. As of 13 July 2020, FMFI deducts an upfront fee of 3% for arranging the loan and an ongoing monthly service fee of 0.9% based on the outstanding amount.

### Loan sizes

Table 5: Size and number of loans granted FMFI

	2020	2019	2018	2017
No. of loans	19,440	30,977	33,673	27,216
Total Loans value	9,550,000	9,688,000	9,550,000	5,259,000
Average Loan Amounts	491	313	284	193

## Ibdaa Bank

The Ibdaa Bank<sup>27</sup> (Ibdaa Bank for Micro and Small Finance) is a Syrian non-profit company established on 20 December 2010<sup>28</sup>. The bank works to provide sustainable financial services to owners of income-generating projects and seeks to spread the culture of microfinance among its Syrian people. A partnership between the

<sup>24</sup> <http://www.fmfi.sy/en>

<sup>25</sup> Registered in the commercial registry in Damascus under the number 15488 on 4 September 2008 in the name of the First Microfinance Corporation Syria (Syrian joint stock business) with a capital of 400 million Syrian pounds distributed over 800,000 shares with a nominal value of 500 Syrian pounds per share. Was issued an earlier license in 2007.

<sup>26</sup> Total capital of FMFI as at 31 December 2020 was 1,081,307,500 Syrian pounds.

<sup>27</sup> ([ibdaabanksyria.com.sy](http://ibdaabanksyria.com.sy))

<sup>28</sup> The bank started with a capital of SYR 366 million and distributed over 732,000 shares with a nominal value of SYR 500 per share. The Constituent General Assembly approved the establishment of the bank after the completion of its founding legal procedures on 29 August 2010 were announced and recorded. The business was registered in the commercial registry under no. 16446 on 5 October 2010, under Law No. 9 issued on 1 February 2010.

Syrian government (represented by the Ministry of Social Affairs and Labor) and the Private Sector, the bank's strategic partner is the Arab Gulf Programme for Development (AGFUND),<sup>29</sup> which works to establish banks for people experiencing poverty in the Arab world.

IBDAA's microfinance services target specific segments of the population:

- Contributing to the reduction of unemployment and poverty in the Syrian Arab Republic,
- Alleviating their impact on the poor segments of Syrian society, especially women and youth, including:
  - It empowered self-reliance by following the policies and priorities in the state's general plan and
  - It enabled people with specific needs to support initiatives that enhance their quality of life and generate employment opportunities for themselves and others.

IBDAA provides the following microfinance services:

- Deposit-taking of all kinds (short-term deposits, current and savings accounts),
- Micro and small loans, with or without guarantees, and financial products
- Range of loan products, including group, small business, partnership, educational, home improvement, agricultural, business maintenance, and investment loans, and
- It provided for the provision of other compatible activities approved by the Monetary and Credit Council.

To achieve these objectives and services, IBDAA can, under its non-profit charter:

- Own movable and immovable funds necessary to carry out the activity of the bank and accept gifts, wills, and donations under the laws and regulations in force
- Borrow funds necessary to carry out its business by mortgaging some of its assets under a special approval issued by the Monetary and Credit Council.
- Conclude the necessary contracts to carry out its activities and implement them with public and private entities and
- Contribute or participate in institutions with the same objectives within the territory of Syria.

#### Loan distribution

Table 6: IBDAA Distribution of Loans by Branches (2017 to 2020)

Branch	2020	2019	2018	2017
Jaramana	855,234,167	434,160,891	304,135,048	3,613,111
Shahpa	778,306,182	309,130,272	226,551,514	1,752,827
Tartous	2,296,093,912	978,204,082	1,004,581,399	11,821,317
Suwayda	1,312,275,037	592,696,606	657,496,038	6,343,815
Total	5,241,909,298	2,314,191,851	2,192,763,999	23,531,070

Amounts in SYP (Syrian pounds)

#### Al-Wataniya Microfinance Bank

The Al-Wataniya Microfinance Institute (Al-Wataniya Microfinance Bank) (AMI)<sup>30</sup> was registered in 2012 and is a Syrian private joint stock business with its main center in the Damascus countryside. The bank is a joint venture between the Syria Trust for Development<sup>31</sup> and other local partners: the Syrian Informatics Association<sup>32</sup>

<sup>29</sup> Arab Gulf Programme for Development (AGFUND) is a regional organization established in 1980 by the initiative of His Royal Highness the late Prince Talal bin Abdulaziz and the support of the leaders of the Gulf Cooperation Council. AGFUND aims at the roots of human development problems, targeting all segments of society without discrimination. <https://agfund.org/>

<sup>30</sup> <https://alwataniya.sy/> - AMI was declared and registered in the Commercial Register under No. 85 on 26 January 2012. The Central Bank of Syria's management committee agreed 13 February 2012 to approve the business's registration.

<sup>31</sup> <https://www.syriatrust.sy/>

<sup>32</sup> Formerly the Syrian Computer Society

and the Operating Authority for Employment and Project Development or the Public Commission for Employment and Enterprise Development (PCEED)<sup>33</sup>. The bank was established with a capital of 330 million Syrian pounds and distributed over 3,300,000 shares with a nominal value of 100 Syrian pounds per share. The Syrian Trust for Development is the most significant contributor, at 98.75% of the capital.

AMI's microfinance services:

- Targets specific segments of the population under the provisions of Legislative Decree No. 15 of 2007 and its executive instructions,
- Provides micro and small loans, in addition to other banking and financial services

Branches: The Foundation operates in Tartous, Latakia, Aleppo, As-Suwayda, Damascus, Jableh, and Hama, and the following is a table showing the distribution of loans by branches from 31 December 2017 to 2020.

#### Loan distribution

AMI Distribution of Loans by Branches (31 December 2017 to 2020).<sup>34</sup>

Branch	2020	2019	2018	2017
Tartous	2,185,587,174	751,618,188	185,683,855	93,456,761
Latakia	3,525,376,987	1,278,126,397	307,165,847	277,477,618
Aleppo	973,161,429	14,572,450	100*	-
Suwayda	870,998,133	230,466,150	-	-
Damascus	1,285,466,687	535,545,781	149,546,228	89,245,950
Jableh	-	-	225,869,943	163,642,988
Hama	3,850,000	-	-	-
Total	8,844,440,410	2,810,328,966	868,265,973	623,823,317

Amounts in SYP (Syrian pounds)

\* While immaterial, the figure appears out of place.

#### Banque BEMO Saudi Fransi Microfinance

The newest microfinance bank, Banque BEMO Saudi Fransi Microfinance (BSMF),<sup>35</sup> launched on 25 November 2021 and is headquartered in the Damascus suburb of Qudsaya. BSMF has a capital of SYP 5 billion and a partnership with the Bemo Saudi Fransi Bank (BBSF)<sup>36</sup>. The founders of BSMF are BBSF (45%), TGHN<sup>37</sup> (40%), Al-Qadmous Trading<sup>38</sup> (10%), and MB For Development<sup>39</sup> (5%).

## Non-Banking Sector

### A. Overview

Non-bank financial organizations offer various financial services but are not required to hold a banking license and cannot accept deposits. The non-banking sector is essential in Syria, especially with the constricted economic conditions during the Syrian crisis and the lack of access to finance for people experiencing poverty

<sup>33</sup> Formely the Agency for Combating Unemployment, the PCEED was reformed in 2005 with the support of the ILO to (i) develop policy to raise the rate of economic growth and ensure stability and (ii) intervene on both the demand and supply sides to support entrepreneurship and enterprise development by (a) strengthening skill development, and (b) facilitating the task of job matching. (Goheer & Seifan, 2009).

<sup>34</sup> See the financial statements tab at <https://alwataniya.sy/>

<sup>35</sup> <https://bsfmf.com/>

<sup>36</sup> BBSF is the first private commercial bank in Syria since 2004, listed on the Damascus Securities Exchange in 2009. <https://bbsfbank.com/>

<sup>37</sup> TGHN LLC is a specialized investment company investing in Syria's service, tourism, and commercial facilities.

<sup>38</sup> Al-Qadmous Trading LLC was established on 15 December 2019 and is a specialized import and export business representing firms in Syria.

<sup>39</sup> No details available

and SMEs. The non-banking sector allows for developing flexible solutions that match the needs of those generally outside the formal banking system.

Certain donor agencies and countries continue offering Syria financial and technical assistance, while many have put their projects and involvement on hold. The government successfully utilizes the present aid working with the Private Sector, and most projects have produced positive outcomes for the targeted at-risk segments of Syrian society.

## **B. Current non-bank financial organizations**

In Syria, non-bank financial organizations include:

- Rural Community Development Projects (RCDP),<sup>40</sup>
- Microenterprise and Microfinance Department (MMD)<sup>41</sup>,
- Fund for Integrated Rural Development of Syria (FIRDOS),
- Boosting and Inspiring Dynamic Youth Achievement (BIDAYA)<sup>42</sup>,
- The Development and Employment Commission (DEC).<sup>43</sup>

These projects involve multi-donor agencies and NGOs, which significantly alleviate poverty, improve quality of life, and provide affordable and accessible finance.<sup>44</sup> Some of these initiatives are on pause due to the Syrian crisis.

While major business operations are publicly owned and operated, small private businesses, cooperatives (predominantly non-financial), and retail enterprises remain independent.<sup>45</sup>

In 2007, the Government passed a Decree allowing the issuance of licenses to individual institutions that sought to provide profit-sharing deposits and credit facilities to the public.

However, **in Syria, the private sector has a limited presence in non-banking financial organizations.** The Syrian crisis, a breakdown in law and order, and the rise of poverty have all meant that the Private Sector is reluctant to participate as a significant lender in non-banking-funded projects.

The current crisis impacts the non-banking sector with the pause or withdrawal of many donor agencies. Those non-banking sector institutions and groups still supported by donor agencies and remaining in Syria rely on the Syrian government and its agencies for ongoing implementation support.

<sup>40</sup> RCDP received most of its funding from UNDP and the Japanese Government (via MOA), with additional funding from the Government of Syria. (CGAP, 2008)

<sup>41</sup> The MMD is a United Nations Relief and Works Agency (UNRWA) program serving Palestinian refugees in the urban centers of Damascus and Aleppo. It currently operates under a general MOU between UNRWA and the Syrian Government under the auspices of the Ministry of Foreign Affairs. (UNRWA, 2015)

<sup>42</sup> In June 2006, BIDAYA became licensed as an independent NGO to provide financial support to unemployed and underemployed young people (ages 18 to 35). The current status is unknown.

<sup>43</sup> Formerly, the Agency for Combating Unemployment (ACU) was established under Law 71 through the Prime Minister's Office with the initial objective of job creation and training for Syria's unemployed. Problems saw it transformed in 2006 to become the DEC.

<sup>44</sup> (CGAP, 2008)(CGAP, 2008),

<https://documents1.worldbank.org/curated/en/126971468132270230/pdf/434330WP0Syria10box032736801PUBLIC1.pdf>

<sup>45</sup> <https://www.britannica.com/place/Syria/Economy>

# Laws and Prudential Regulations on Microfinance

## Previous laws and regulations pre-2021

### A. General requirements

Before 2021, the legal and regulatory framework for Microfinance institutions operating in Syria that applied to social banking financial institutions from 2007<sup>46</sup> was a requirement to operate:

- As joint stock companies with a social dimension to providing finance to the poor segments of the population while seeking *reasonable* profits and
- According to traditional financing methods and not engage in the Islamic Financing model.

In addition, a specific law was enacted in 2010<sup>47</sup> to establish the Ibdāa Bank (Ibdāa Bank for Micro and Small Finance). A Syrian non-profit company, the law deems it a microfinance institution and not a trading bank. Additional details on the Ibdāa Bank are on page 10 of this report. Other particular provisions included:

- No remuneration (cash or in-kind) for the chairperson and members of the board of directors,
- Provides for tax exemption,
- Allows traditional and Islamic financing methods that follow two independent programs.

### B. Liquidity and capital requirements

In 2009, the Monetary and Credit Council issued a supervisory decision.<sup>48</sup> Particular requirements under this Resolution are in Table 7 and Table 8 below.

Table 7: Social banking financial institutions' Requirements

Regulatory Area	Requirements
Capital Adequacy (Article 5)	<ul style="list-style-type: none"> <li>• Minimum capital adequacy ratio of 12% of risk-weighted credit exposures.</li> <li>• 100% microcredit risk weighting.</li> </ul>
Liquidity Ratio (Article 6)	<ul style="list-style-type: none"> <li>• liquidity ratio<sup>49</sup> must not be less than 20%.</li> </ul>
Obligatory reserve (Article 7)	<ul style="list-style-type: none"> <li>• Maintain a mandatory reserve ratio of 10% of their deposits with the Central Bank.</li> </ul>
Classification of Debt and Small Debt Provisioning (Article 11)	<ul style="list-style-type: none"> <li>• In terms of microfinance activity, classify debts and make provisions as follows: <ul style="list-style-type: none"> <li>○ Debts as (a) Productive, (b) Ordinary, and (c) Requiring Special Attention</li> <li>○ Non-Productive Debts as (a) Substandard, (b) Doubtful, and (c) Bad</li> </ul> </li> </ul>

Source: Supervisory decisions issued by the Monetary and Credit Council, Resolution No. 589/M. N/B4, 2009

### C. Provisioning requirements

The responsibility for creating sufficient provisions for the loan portfolio rests with the executive Management, and the board of directors must ensure the adequacy of the provisions according to the requirements below.

<sup>46</sup> Legislative Decree No. 15 of 2007

<sup>47</sup> Law No. 9 of 2010

<sup>48</sup> Resolution No. 589/M. N/B4, 2009

<sup>49</sup> Liquidity Ratio is a measure of the ability to pay off short-term liabilities



Table 8: Debt Provisions - Social banking financial institutions

Allotments			Category		
2%	general custom	Normal	1-1	productive debt	1
5%		It requires special attention.	1-2		
20%	custom low	substandard	2-1	unproductive debt	2
50%		Doubtful	2-2		
100%		poor	2-3		

## Laws and Regulations 2021 onwards

### A. Microfinance Laws and Regulations

In 2021, the Government of Syria enacted the Microfinance Regulations 2021,<sup>50</sup> which replaces previous legislation regulating microfinance institutions provided for in Legislative Decree 15/2007. Microfinance institutions must now follow the structure of a bank and are subject to specific provisions of the Banking Law 28/2001, amended by Law 3/2010.

Key provisions for the Microfinance banks under the new law include:<sup>51</sup>

- Can provide a range of banking services to low-income individuals who are unable to obtain these services and products from conventional banks, including:
  - acceptance of deposits,
  - the opening of current and savings accounts,
  - insurance and reinsurance services for borrowers, and
  - money transfer services inside Syria.
- Incentives are available for Microfinance banks to cater to individuals with limited incomes.
- There is a five-year corporation tax holiday. Once the five-year corporation tax holiday on microfinance banks ends, public joint stock companies will attract tax at 10% and private joint stock companies tax at 14%, less than the 25% tax rate applicable to banks.
- The minimum capital requirement is raised to SYP 5 billion to account for the local currency depreciation.
- Strategic partners are encouraged to incorporate microfinance banks, but foreign shareholder participation is limited to 49%.

Key benefits to customers under the new law include:

- Better access to finance than available from conventional banks.
- Reduces the cost of borrowing from microfinance banks by exempting customers from stamp duty, mortgage fees, and other charges.
- Depositors also receive tax breaks with up to SYP 2 million deposits exempt from the applicable income tax.
- Small businesses can benefit from loans worth up to SYP 30 million with low-interest rates, insurance policies, reinsurance, and money transfer services.
- Access to business training programs opens a gateway to improving the living conditions of low-income groups by financing workshops and productive work for these groups.

Syria has experimented with microfinance since the beginning of 2001 through development institutions that have provided thousands of small loans that have resulted in successful projects. The new law will further develop this existing experience and enable the low-productive groups to own their tools of trade.

<sup>50</sup> Law No. 8/ for 2021

<sup>51</sup> (SLJ, 2021)



## **B. Applicability of Microfinance Laws and Regulations to Sanadiq**

### *Applicability of financial sector legal and regulatory framework on Sanadiq*

Successful community-based microfinance models, including the Sanadiq model, recognize the value and importance of community-based microfinance *sitting outside the formal licensed banking and microfinance sector*.

The Sanadiq community-based microfinance associations are Non-bank financial organizations. The current microfinance law does not apply to the Sanadiq, and the success of similar non-deposit-taking schemes is their simplicity.

The financial and statutory regulations set out by the Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012 apply and should continue to do so in at least the short to medium term. The Ministry of Agriculture can undertake any regulatory oversight through its continuing support via the ILDP group within the Ministry.

**The risk of applying the Central Bank regulatory framework to community-based microfinance associations is that their operations are not financially large enough to bear the legal and regulatory costs.**

### *The status quo is currently the optimum*

Therefore, maintaining the status quo with the Ministry of Agriculture through its ILPD program, providing support, and an oversight function is optimal.

Any changes now would be counterproductive to financial sustainability. In particular, at this stage:

- There is no additional benefit through legal registration under the finance sector – only additional compliance costs, which are financially unsustainable for Sanadiq.
- Likewise, regulation will bring no additional benefits as these types of community schemes are more efficiently self-regulated by their community members.

# Analysis of the Performance of Sanadiq

## Introduction

### Community-based microfinance models

#### A. Characteristics

Microfinance is not a new concept. It emerged 50 years ago to reduce the vulnerability of those experiencing poverty and to promote microenterprises. However, the importance of microfinance has become more apparent, primarily through community group lending methodologies (such as the Sanadiq model).

It recognizes the modality and importance of community-based microfinance and how such schemes provide small loans to its members who would otherwise be unable to secure credit or loans from traditional banks and other financial institutions primarily because of poverty. Studies show that this model makes access to finance easier, increases the number of female and male savers, increases community savings, and reduces interest rates.<sup>52</sup>

Therefore, understanding the role of Sanadiq is essential in analyzing the model's effectiveness to ensure the use of like comparisons. The Sanadiq and other Non-bank financial organizations (which offer various financial services but are not required to hold a banking license and cannot accept deposits) and Licensed Microfinance organizations have critical roles to play in poverty reduction.

While there is a paucity of hard data available in this study on loan repayments and loan defaulting, the final reporting numbers show repayment as very close to 100%, which aligns with other similar international community-based microfinance models. Evidence in similar models consistently shows a close to 100% repayment modality, whether repayment comes from the original borrower or through the support of other community members. Such group lending, which relies on social connections between borrowers to reinforce repayment, has shown robustness.<sup>53</sup>

#### B. The benefit of community-based microfinance models

Successful community-based microfinance models center around placing trust in people and empowering them, showing them the way out of poverty. The Sanadiq is one such model in that it:

- Involves a social contract among its members to ensure borrowers fulfill their obligations and duties to the collective and
- Minimizes loan risk with **close to 100% loan repayment**,<sup>54</sup> a unique aspect lacking in most lending models.

The **ongoing sustainability of the Sanadiq** program comes from the **strong government commitment** and administrative support from the ILDP within the **Ministry of Agriculture**. A problem for any microfinance institution worldwide is reaching financial sustainability (Dunford, 2003). It is challenging for many community lending groups in developing countries to sustain their operations without continued donor-supported funding and technical assistance. The Syrian Government shows how critical community lending groups are financially sustainable with robust and focused commitment from the Ministry of Agriculture.

<sup>52</sup> (Khan, et al., 2020, p. 4724)

<sup>53</sup> In a study on the role of information asymmetry in Columbia, (Presbitero, 2014) found that MFI owners were able to limit the adverse effects of ex-ante and ex-post moral hazards through group assortative matching or peer monitoring in group lending

<sup>54</sup> 100% loan repayment has been reported in the meetings with ILDP staff and is consistent with other similar community-based microfinance models

### C. Measurement of success

Common measurement standards are available to assess microfinance performance. Donor agencies, investors, lenders, and other relevant stakeholders use these standards to evaluate performance, ensure transparency, and improve reporting.<sup>55</sup> While there is an acceptance that codified standards are the future for microfinance, the practical realities on the ground are complex, especially with the more informal community-based schemes in remote rural areas in developing countries. In these instances, a more straightforward and high-level approach is required, clearly focusing on the transparency of processes.

## The Sanadiq microfinance model

### Objective

The Sanadiq microfinance concept is a critical component of the ILDP, an innovative program developed by IFAD and supported by the Government to empower people experiencing poverty in Syria by ensuring access to productive resources, participation in the development process, and decisions that affect their lives.

The Sanadiq model supports entrepreneurship, alleviates poverty, empowers women, and uplifts entire communities.

### Impact of the Crisis

As discussed in the analysis of Syria's financial framework and ecosystem, the Syrian crisis profoundly affected the financial sector, including Sanadiq microfinance. The Sanadiq model, initially established as part of the ILDP to provide access to small loans for borrowers to buy livestock, feed/fodder, or small-scale processing machinery, has adapted to these recent challenges in Syria.

The dilemma included record highs in food prices, a fuel crisis, ongoing inflation, continuing conflict in some parts of the country, adverse weather, and the war in Ukraine in early 2022. The Syrian crisis compounded these challenges. The IFAD Country Strategy Note concerning the ILDP summed the situation up as follows:<sup>56</sup>

"...the reality on the ground has significantly changed since approval. This is reflected in a simplified financing package focusing on microfinance and the capacity development of community institutions, rural people, and technicians supporting them. Implementation of these project activities has continued since the suspension of IFAD support in 2015 through government and beneficiary financing. It is vital now that IFAD resources re-build the scale of support possible through the project management team of MMR."

### Advantages

International experience shows that enhancing financial inclusion faces three critical barriers to effective delivery: **financial literacy**, the **administrative, procedural, and cost barriers** to the take-up of formal financial services, and the **social and behavioral interventions** that can stimulate and reinforce good financial health.

The Sanadiq model *begins to address* these barriers by:

- Encouraging **financial literacy** and **social and behavioral interventions** through its engagement via the village Sanadiq (microfinance) and

<sup>55</sup> (Barres, et al., 2005)

<sup>56</sup> (IFAD, 2018, p. 26).

- Addressing **administrative, procedural, and cost barriers** through the assistance provided by the Ministry of Agriculture from its ILDP project members.

There remains much capacity building moving forward to ensure that Sanadiq and its owners/borrowers have the skills to more effectively:

- Identify the optimum use of funds borrowed and apply those funds in the most productive economic manner (as borrowers) and
- Ensure effective management and governance of the lending and repayment of the loans within the social community compact (as owners).

## Regulatory and legal environment

The financial and statutory regulations promulgated by the Ministry of Agriculture and Agrarian Reform in its Decision No. 8626 of 26 January 2012 govern the Sanadiq structure, governance, and operation. Article 5 sets out the fund's objectives<sup>57</sup> and is the basis of the eligibility and operational criteria developed, including the sections below.

## Membership and ownership

### A. *Sanadiq eligibility*

- Only villages in the ILDP project areas are eligible to establish a Sanadiq, and at least 10% of the households in the area must sign a request to join.
- The request goes to the Community Development Committees (CDCs), the governorate-level ILDP, and ultimately the central level in Damascus.
- Initial criteria for each of the Sanadiq include:
  - A minimum of 150 members paying each at least 5,000 SYP per share with a maximum individual investment of 100,000 SYP,
  - A minimum of thirty percent of members are women, and 10% are youth (categorized as 18-40 years old),
  - Minimum capital investment by each village of 525,000 SYP,
  - The maximum capital investment by the ILDP project is 4,000,000 SYP.

### B. *Member eligibility*

Village residents who meet the necessary criteria (set out in the Financial and Statutory Regulations for Microfinance Funds in the Integrated Livestock Development Project) can join *Sanadiq* by purchasing shares. Members can purchase up to twenty shares, each valued at 1,000 SYP. To become a member, individuals must buy at least one share. One month after joining *Sanadiq*, individuals aged between eighteen and seventy may apply for funding. However, they will not be eligible to receive a loan until they have been a contributing member for at least three months.<sup>58</sup> Applicants must provide two guarantors who are shareholders or residents of a good reputation within the village. Applicants must conduct economic activities within the village or the broader project area. In addition, applicants must have completed or be exempt from military service.

<sup>57</sup> See the Ministry of Agriculture and Agrarian Reforms (MAAR) Decision No 8626 for further detail on the governance of microloans

<sup>58</sup> Financial and Statutory Regulations for Microfinance Funds in the Integrated Livestock Development Project; Article (36) Conditions for Obtaining Funding. Syrian Arab Republic Ministry of Agriculture and Agrarian Reform Decision No 8626/26-1-2012

## C. Size of the Loans

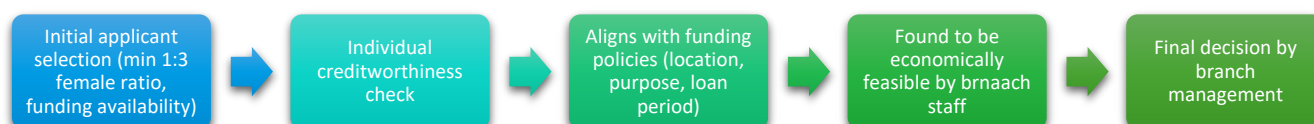
Since the start of the Syrian crisis in 2011, the Syrian currency has dropped more than 98 percent of its value, with today's value being around SYP2,500 to the USD. From the Sanadiq program's outset beginning in 2013, the average loan size was SYP 75,000. The average loan size has since doubled to SYP 150,000, but purchasing power has diminished, reducing a loan's purchasing capacity. High inflation continues and, as of January 2012, stood at 36.7%. Loans are now in addition to borrowers' capital contributions.

## Roles and responsibilities

### A. Application and eligibility process

The following process diagram shows the application and eligibility process, from the initial applicant selection process to the final decision at the branch management level.

Figure 2: Loan Application and Eligibility Process



#### Applicant Eligibility

Once applications are received, the Sanadiq committee determines the number of applicants to forward for approval. In selecting these applicants to proceed, Sanadiq must ensure that a minimum 1:3 ratio of females to males in total loans is maintained. No age criteria or ratios are applied once a member is eligible as an applicant. The present age distribution of *Sanadiq* borrowers in Homs, Tartous, and Lattakia for both men and women has the majority of borrowers within the 41-60 age group and only a few above 60 years old.

#### Individual creditworthiness check

In the community, each member is dealt with individually by checking that person's bank balance and creditworthiness.

#### Adherence to funding policies

The Sanadiq committee is responsible for ensuring the funding is in line with the project's policy regarding the amount required, the location of project implementation, the purpose of the funding, and the period for the financing.

After reviewing the project details and finding that the project is feasible and aligns with the project criteria,<sup>59</sup> the committee passes the application to the branch finance staff, who conduct the economic feasibility of the proposed project. If branch staff and the Sendiq committee are satisfied that the applicant meets the required criteria, the request goes to branch management for final approval.

### B. Approval and grants process

Figure 3: Loan Approval and Grants Process



<sup>59</sup> Financial and Statutory Regulations for Microfinance Funds in the Integrated Livestock Development Project Article (36) Conditions for Obtaining Funding; Article (38) Funding Procedures. Syrian Arab Republic Ministry of Agriculture and Agrarian Reform Decision No 8626/26-1-2012

The average time taken to consider applications for funding is one week.<sup>60</sup> If the branch approves:

- The applicant identifies the approved items<sup>61</sup> they seek to apply for the loan,
- The ILDP can provide some assistance in the composition and selection of the purchases, but it is ultimately the applicant's decision of what category of approved items they select,
- The applicant may use their funds to meet any shortfall in the total loan and the costs of the purchases,
- The applicant and *Sanadiq* branch management agree on the loan and the (*Murabaha*) interest repayment terms. Depending upon the size and purpose of the loan, repayment is usually in monthly installments over 12 or 18 months. Borrowers pay minimal interest (*Murabaha*) of 4.8%.
- The loan implementation committee visits the vendor (outside the village where *Sanadiq* is registered), reviews and assesses the item or items for the grant, and pays the money directly to the vendor,
- Borrowers can also receive technical training from the ILDP tailored to their needs.

## Financial analysis

Four metrics apply to a review of the three governorates: loan categories, ranking, beneficiary and loan growth, and sustainability. A broader review of the combined *Sanadiq* project follows this analysis, including loan risk and repayment, project sustainability, and the appropriateness of growth in lending.

### Tartous governorate

Eleven (11) *Sanadiq* in the Tartous governorate (31%) out of 35 *Sanadiq* across all three governorates.

#### A. Funding categories and loans

The project has eight funding areas for approved *Sanadiq* members: cattle, sheep, goat, fodder, poultry, apiculture, and equipment.

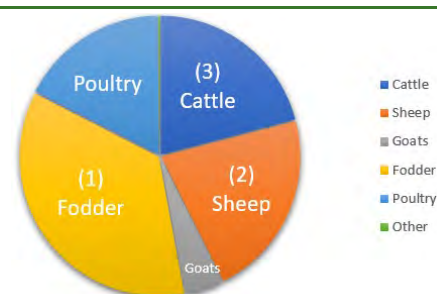
From 2013 to 2021, **SYP 490.632 million in loan financing** went to Tartous beneficiaries through the *Sanadiq*.

In Table 9: Loan Type with Total Loans and the Loan Amount (Tartous) below, the most significant loan categories for the Tartous *Sanadiq* were (1) **fodder**, followed by (2) **sheep** and (3) **cattle**, with loan amounts of approximately SYP 174 million, SYP 106 million, and SYP 102 million, respectively. The loan types are also shown graphically in Figure 4. The Apiary category was unused over these periods.

Table 9: Loan Type with Total Loans and the Loan Amount (Tartous)

Loan Type	Unit	Products (Unit)	No. of Loans	Amount of Loans (SYP)
Cattle	No.	569	568	102,430,000
Sheep	No.	393	257	106,352,000
Goats	No.	61	39	21,850,000
Fodder	Kg	341,791	789	173,760,000
Poultry	No.	9,348	265	84,765,000
Apiculture	No.	n.a	n.a	n.a
Machinery & equipment	No.	3	3	475,000
Other	No.	1	1	1,000,000
			<b>1,919</b>	<b>490,632,000</b>

Figure 4: Loan Types by Amount (Tartous)



<sup>60</sup> According to ILDP staff surveyed and a copy of email correspondence with Dr. Rami Ali, Director ILDP.

<sup>61</sup> For example, for livestock (cow, sheep, goat, chicken), livestock-related products (fodder, milk processing, meat processing), small machinery and equipment, or other items approved by the *Sanadiq*

## B. Analysis of the top loan-funding categories

The top funding category was fodder. Using microfinance loans for fodder can be positive in certain situations. Such loans alleviate the stress caused by climatic variability and uncertainty. Research indicates that this back-stopping approach can help pastoral social-ecological systems (SES). However, the long-term impacts of using loans to purchase fodder are not fully understood and require further analysis.

For example, using loans to purchase fodder in climatically standard years increases the vulnerability of the pastoral SES.<sup>62</sup> However, Syria is in a complex crisis, and microfinance funding from the Sanadiq for fodder is understandable. Further, the growth in the financing of cattle and sheep would also indicate a short-term need to fund fodder. This issue requires ongoing monitoring and an examination of policies for future funding.

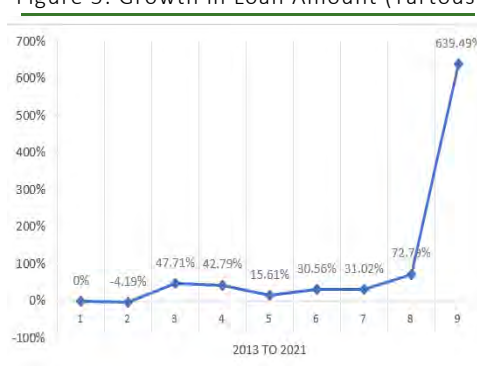
## C. Growth in beneficiaries and loans

Table 10: Annual Number of Loans and Loan Amount Growth (Tartous) shows a significant growth in beneficiaries and loan amounts between 2020 and 2021. This point is even more apparent in Figure 5: Growth in Loan Amount (Tartous).

Table 10: Annual Number of Loans and Loan Amount Growth (Tartous)

Year	No. of Beneficiaries	Growth in beneficiaries	Amount of Loans (SYP)	Growth in Loan Amount
2013	95		6,737,000	0%
2014	78	(17.89)%	6,455,000	(4.19)%
2015	108	38.46%	9,535,000	47.71%
2016	146	35.19%	13,615,000	42.79%
2017	143	(2.05)%	15,740,000	15.61%
2018	169	18.18%	20,550,000	30.56%
2019	189	11.83%	26,925,000	31.02%
2020	285	<b>50.79%</b>	46,525,000	<b>72.79%</b>
2021	708	<b>148.42%</b>	344,550,000	<b>639.49%</b>
			<b>490,632,000</b>	

Figure 5: Growth in Loan Amount (Tartous)



## D. Sustainability and appropriateness of growth in lending

Further analysis is required to determine the reasons for the significant increase in loan funding during 2020 and 2021. In particular, whether this change resulted from:

- A shift in policy within the Tartous Sanadiq assessment and approval processes,
- Improved applications from beneficiaries,
- A change in some other circumstances. For example, a significant increase in purchase costs for the primary loan categories: fodder, sheep, cattle, and goats.

Secondly, on the assumption that these loans appropriately match the criteria of the Sanadiq and have been adequately assessed and prioritized, an additional assessment needs to be undertaken to determine the following:

- Is the increase in loan amounts within the Tartous Sanadiq financially sustainable and
- If not, how can it be made sustainable?

<sup>62</sup> (Li & Li, 2021, p. 1)



## Homs governorate

Seventeen (17) Sanadiq in the Homs governorate (48.5%) out of 35 Sanadiq across all three governorates.

### A. Funding categories and loans

As with the Tartous governorate, the project has eight funding areas for approved Sanadiq members within the Homs governorate: cattle, sheep, goat, fodder, poultry, apiculture, equipment, and others.

From 2013 to 2021, **SYP 487.983 million** in loan financing went to beneficiaries in Homs through the Sanadiq.

In Table 11 below, the most significant loan categories for the Tartous Sanadiq were **(1) sheep** (the environment is better suited to sheep)<sup>63</sup>, followed by **(2) goats** (more popular since 2017), and **(3) fodder**, with loan amounts of approximately SYP 250 million, SYP 140 million, and SYP 43 million, respectively. The loan types are also shown graphically in Figure 6. The Apiary and Machinery & Equipment categories were unused over these periods.

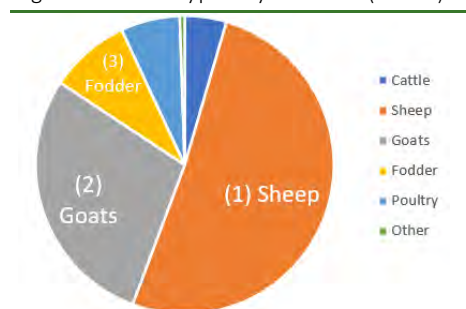
### B. Analysis of top loan-funding categories

While fodder fell in the third to the top of funding categories in Homs, using loans to purchase fodder in climatically standard years increases the vulnerability of the pastoral SES, which needs monitoring.

Table 11: Loan Type with Total Loans and the Loan Amount (Homs)

Loan Type	Unit	Products (Unit)	No. of Loans	Amount of Loans (SYP)
Cattle	No.	183	183	22,100,000
Sheep	No.	2,364	1,370	249,682,995
Goats	No.	720	543	139,580,000
Fodder	Kg	141,870	332	42,720,000
Poultry	No.	8,125	412	31,300,000
Apiculture	No.			
Machinery & equipment	No.			
Other	No.	591	28	2,600,000
			<b>2,868</b>	<b>487,982,995</b>

Figure 6: Loan Types by Amount (Homs)



### C. Growth in beneficiaries and loans

Table 12 and Figure 7 show an upswing in loans in 2014, the first full year of availability, and significant percentage growth in beneficiaries and loan amounts in 2021.

Table 12: Annual Number of Loans and Loan Amount Growth (Homs)

Year	No. of Beneficiaries	Growth in beneficiaries	Amount of Loans (SYP)	Growth in Loan Amount
2013	55	0%	2,808,995	0%
2014	123	123.64%	6,843,000	143.61%
2015	229	86.18%	13,966,000	104.09%
2016	231	0.87%	15,295,000	9.52%
2017	264	14.29%	18,985,000	24.13%
2018	374	41.67%	28,290,000	49.01%
2019	413	10.43%	34,905,000	23.38%
2020	478	15.74%	57,715,000	65.35%
2021	708	48.12%	309,175,000	435.69%
			<b>487,982,995</b>	

Figure 7: Growth in Loan Amount (Homs)



<sup>63</sup> (Sullivan, 2020, p. 9)



## D. Sustainability and appropriateness of growth in lending

Further analysis should examine the significant increase in loan funding during 2020 and 2021. For instance, Table 12 and Figure 7 show the SYP 480 million in disbursements over nine years, with 2021 as the maximum financing for the members of the Homs governorate Sanadiq. A growth rate was also noticeable before the Syrian crisis in 2014 and 2015, with 143% and 104% growth, respectively.

## Latakia governorate

Seven (7) Sanadiq in the Latakia governorate (20%) out of 35 Sanadiq across all three governorates

### A. Funding categories and loans

As with the other governorates, the project has eight funding areas for approved Sanadiq members within the Latakia governorate: cattle, sheep, goat, fodder, poultry, apiculture, equipment, and others.

The total loans in Latakia were the lowest among the three governorates, with total loans disbursed of **SYP 136.73 million**.

In Table 13 below, the most significant loan categories for the Latakia Sanadiq were (1) **cattle**, followed by (2) **fodder**, and (3) **sheep**, with loan amounts of approximately SYP 69 million, SYP 30.4 million, and SYP 24.4 million, respectively. The loan types are also shown graphically in Figure 8. The Apiary category was unused over these periods.

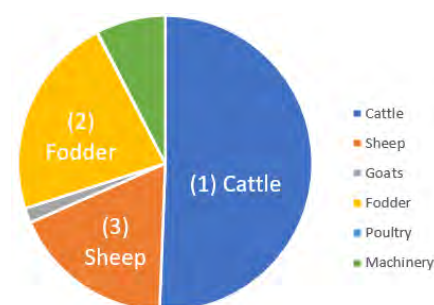
### B. Analysis of top loan-funding categories

Fodder fell in the second to the highest of funding categories in Latakia. As outlined before, using loans to purchase fodder in climatically standard years increases the vulnerability of the pastoral SES.

Table 13: Loan Type with Total Loans and the Loan Amount (Latakia)

Loan Type	Unit	Products (Unit)	No. of Loans	Amount of Loans (SYP)
Cattle	No.	335	335	69,220,000
Sheep	No.	98	40	24,365,000
Goats	No.	29	10	2,220,000
Fodder	Kg	105,600	145	30,380,000
Poultry	No.	66	2	125,000
Apiculture	No.	-	-	-
Machinery & equipment	No.	788	30	10,420,000
Other	No.	-	-	-
			<b>562</b>	<b>136,730,000</b>

Figure 8: Loan Types by Amount (Latakia)



### C. Growth in beneficiaries and loans

Table 12 and Figure 7 show an upswing in loans in 2014, the first full year of availability, and significant percentage growth in beneficiaries and loan amounts in 2021.

Table 14: Annual Number of Loans and Loan Amount Growth (Latakia)

Year	No. of Beneficiaries	Growth in beneficiaries	Amount of Loans (SYP)	Growth in Loan Amount
2013	21		2,020,000	
2014	28	33.33%	2,800,000	38.61%
2015	38	35.71%	3,655,000	30.54%
2016	64	68.42%	7,480,000	104.65%
2017	43	(32.81)%	7,355,000	(1.67)%
2018	66	53.49%	12,510,000	70.09%
2019	86	30.30%	16,950,000	35.49%
2020	106	23.26%	21,160,000	24.84%
2021	110	3.77%	62,800,000	196.79%
			<b>136,730,000</b>	

Figure 9: Growth in Loan Amount (Latakia)



The above Table and Figure show the SYP 136.7 million disbursements over nine years. The growth rate was also noticeable before the Syrian crisis and a 197% increase in 2021, the year of the maximum financing for the members of the Latakia governorate Sanadiq.

## Total Sanadiq Governorates

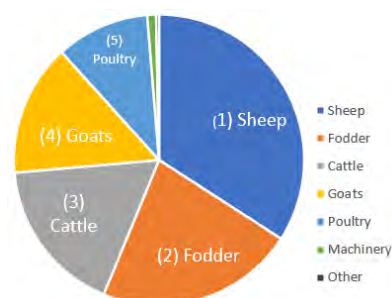
### A. Total number of loans and loan amounts

Across the three pilot governorates (totaling 35 Sanadiq), loans were SYP 1.115 billion, with sheep loans the highest, followed by fodder and cattle.

Table 15: Annual Number of Loans and Loan Amount Growth (ALL)

Loan Type	Unit	Products (Unit)	No. of Loans	Amount of Loans (SYP)
Cattle	No.	1,087	1,086	193,750,000
Sheep	No.	2,855	1,667	380,399,995
Goats	No.	810	592	163,650,000
Fodder	Kg	589,261	1,266	246,860,000
Poultry	No.	17,539	679	116,190,000
Apiculture	No.	-	-	-
Machinery & equipment	No.	791	33	10,895,000
Other	No.	592	29	3,600,000
			5,352	1,115,344,995

Figure 10: Growth in Loan Amount (ALL)



### B. Analysis of top loan-funding categories

Fodder is in the top three funding categories across all three governorates.

It is the second overall in the combined governorate microfinance funding. With accelerated climate change and infrastructural issues caused by the Syrian crisis, the cost of fodder dramatically increased at the beginning of 2021<sup>64</sup> and remains high.

Indicative research indicates that using loans to buy fodder in climatically standard years increases the vulnerability of the pastoral SES. As discussed in the category funding analysis for the Tartous governorate, the long-term impacts of using loans to purchase fodder are not fully understood and require further research.<sup>65</sup> The research should include the cost of fodder, its increasing use to sustain the sheep and cattle in Syria, and any correlation between fodder's increased use with climate change and the Syrian crisis.

### C. Loan grants per governorate

Table 16: Breakdown of Total Loans per Governorate 2013-2021

Year	Tartous	Homs	Latakia	TOTAL
2013	6,737,000	2,808,995	2,020,000	11,565,995
2014	6,455,000	6,843,000	2,800,000	16,098,000
2015	9,535,000	13,966,000	3,655,000	27,156,000
2016	13,615,000	15,295,000	7,480,000	36,390,000
2017	15,740,000	18,985,000	7,355,000	42,080,000
2018	20,550,000	28,290,000	12,510,000	61,350,000
2019	26,925,000	34,905,000	16,950,000	78,780,000
2020	46,525,000	57,715,000	21,160,000	125,400,000
2021	344,550,000	309,175,000	62,800,000	716,025,000
	490,632,000	487,982,995	136,730,000	1,115,344,995

<sup>64</sup> In January 2021, the price of Barley hit 500 SYP (0.16 USD), while it was less than 275 SYP (0.09 USD) a month before. The bran price reached 475 SYP (0.16 USD). <https://english.enabbaladi.net/archives/2021/01/high-costs-of-fodder-damaging-sheep-trade-in-syrias-raqqqa/>

<sup>65</sup> (Li & Li, 2021, p. 1)

#### D. Sustainability and appropriateness of growth in lending

Across all three governorates, **loan funding has significantly increased** since 2020 (See Figure 11 below). Further examination of the underlying reasons for this increase should occur. In particular, whether this change resulted from:

- A shift in policy within the Tartous Sanadiq assessment and approval processes,
- Improved applications from beneficiaries, or
- More likely, the impact of the **critical economic conditions**, significant **drop in the currency value**, and **rampant inflation**. *These factors increase the purchase costs* for the primary loan categories, fodder, sheep, cattle, and goats, *thereby increasing the loan required* for the same inputs needed for production. In addition, anecdotally, borrowers invest their scarce capital alongside the loans to meet the increased costs.

Assuming the loans appropriately match the criteria of the Sanadiq and have been adequately assessed and prioritized, then an assessment is needed to determine the following:

- Is the increase in loan amounts within the Sanadiq financially sustainable, and if not,
- How can it be made sustainable, if at all?
- Could it be funded alternately by loan, subsidy, or grant, and by whom?

#### E. Purpose of loans

The number of loans made over the period 2013-2021 totaled 5,352. As of 2021, the cumulative number of loans made across all categories shows the **top three categories as (1) Sheep, (2) Fodder, and (3) Cattle**.

Figure 11: Total Loans per Governorate 2013-2021

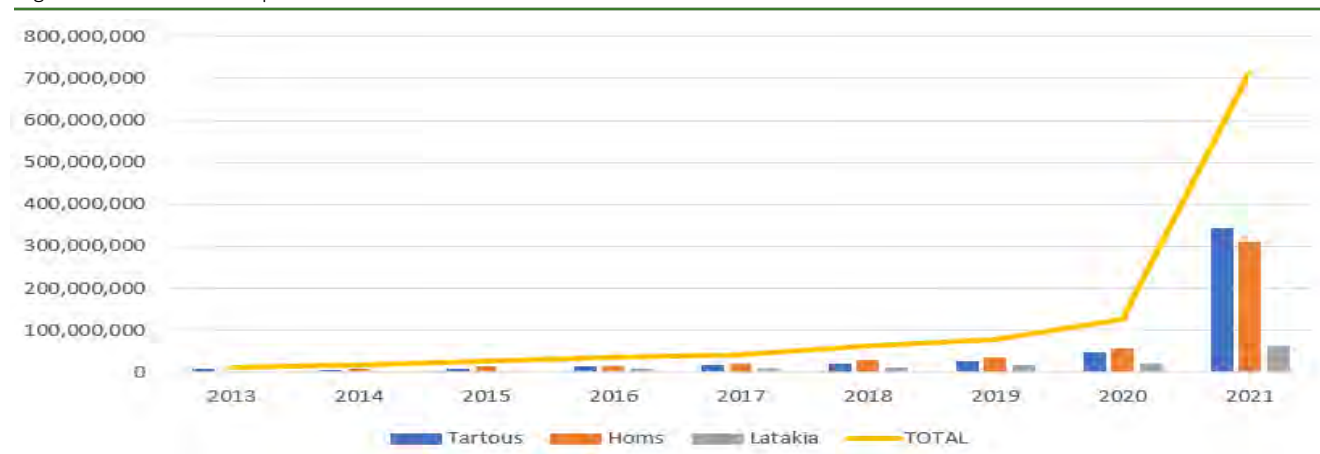


Table 17: Purpose of loans 2013-2021 by number of loans made

Loan Category	Loans numbers	
Apiculture		Sheep
Other	29	Fodder
Machinery & equipment	33	Cattle
Goats	592	Poultry
Poultry	679	Goats
Cattle	1,086	Machinery & equipment
Fodder	1,266	Other
Sheep	1,667	
Total Loans 2013-2021	5,352	

## F. Loan risks

### Broken value chain – milk production

Earlier discussions with beneficiaries' households involved in small-scale milk production are under increasing financial pressure. Borrowers are far from urban centers, rely on intermediaries to purchase and transport their milk to market, and, as a result, are cash price takers or often barter their milk for fodder.<sup>66</sup>

The value chain from the farmers to the consumer is broken and inefficient. Any surplus milk goes towards household consumption. Thus, the household benefit is nutritional rather than economic.

The increasing cost of fodder vis-à-vis the milk sales price means that “households are in a vicious cycle: they cannot afford to buy good quality fodder, which leads to a reduction in the amount of milk produced, which, in turn, means less income for the households.”<sup>67</sup>

## Non-financial Analysis

### Beneficiary analysis

#### A. Gender of Borrowers

The rules governing Sanadiq membership require a minimum of thirty percent (30%) of women and ten percent (10%) of youth members (categorized as 18-40 years old).

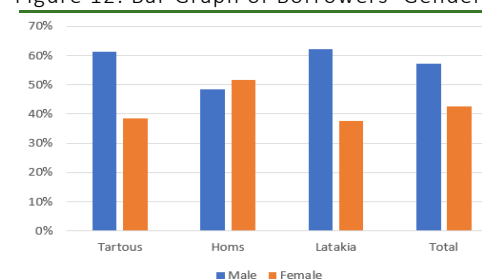
#### The current composition of women borrowers

Across the three governorates, 5,489 customers accessed loans through the Sanadiq from 2013 to 2021. The gender analysis of those borrowers over this period was as follows:

Table 18: Analysis of Borrowers' Gender across Governorates (2013-2021)

Governorate	Male Numbers	Female Numbers	TOTAL Numbers	Male Percentage	Female Percentage
Tartous	1,179	743	1,922	61%	39%
Homs	1,448	1,544	2,992	48%	52%
Latakia	358	217	575	62%	38%
	2,985	2,504	5,489	57%	43%

Figure 12: Bar Graph of Borrowers' Gender



#### Gender representation rates across governorates

##### Tartous

Female borrowing is lower in Tartous (39%) and Latakia (38%) compared to Hom (52%), and this has been a consistent pattern since the inception of the Sanadiq project. In Tartous, the proportion of loans taken by females, when compared to males, remained constant at an average of 42% between 2013 and 2019.<sup>68</sup> However, female loans for 2020-2021 dropped, bringing the average down from 2013 to 2021 to 39%.

##### Latakia

In 2013, Latakia's female borrowing percentage was similar to Tartous Hom at 43%. However, from 2015 to 2017, there was a significant decline from 43% to 15% at the end of 2017. Since this low point, Latakia's female borrowing percentage has steadily increased to 38% as of 2021, yet still below its 2013 level of 43%.

<sup>66</sup> This tends to be because fodder costs are high, and milk prices are relatively low. (Sullivan, 2020, p. 10)

<sup>67</sup> (Sullivan, 2020, pp. 10-11)

<sup>68</sup> (Sullivan, 2020, p. 5)

### Progress in Women's representation in borrowing

Women's representation among borrowers exceeds the 30% threshold (an average of 43% across all **three governorates**) and more than men at **52% in Homs**. A previous report attributes this higher-than-expected proportion to the current Syrian crisis. An average of 43% of female microfinance borrowers in Syria is not high. Globally, female borrowers comprise about 70% of all microfinance customers worldwide,<sup>69</sup> and these numbers seen in Syria are, therefore, not unusual in this global context. However, these **higher figures for women representation in borrower numbers are uncommon in Syria**, with its highly patriarchal culture and historically gender-biased laws.<sup>70</sup> These results may result from a **significant demographic shift** across the country **due to the conflict**, increasing female-headed households. Progress continues in addressing these historical issues, and the minimum women-orientated loan threshold requirement for the Sanadiq project is a positive foundational start.

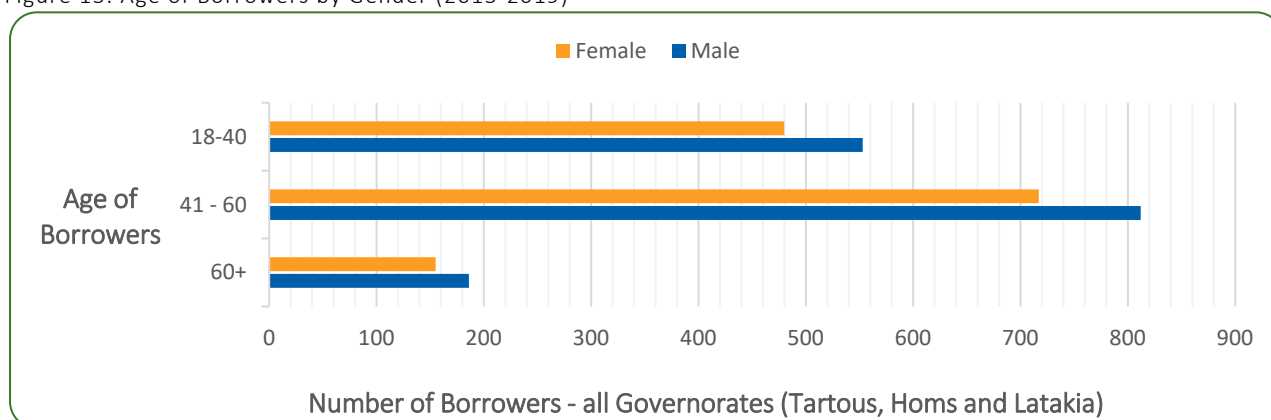
### Positive benefits arising from women's representation in Sanadiq borrowers

Female leadership within the Sanadiq and as members and borrowers positively affect the overall Sanadiq governance and financial performance. Studies indicate that women are better borrowers in microfinance, and a higher proportion of women's participation increases efficiency due to higher repayment rates among female borrowers.<sup>71</sup> Researchers in microfinance see a 'double dividend,' a social and economic dividend targeting women. An economic dividend in microfinance as women are considered a better credit risk, and a social dividend in that empowering women positively affects the community and family home.<sup>72</sup>

### B. Age of borrowers

A preliminary requirement for the Sanadiq is that a minimum of 10% of borrowers must be 18-40 (the youth), with the oldest being no more than 70 years old. Data previously collected on the borrower's ages from 2013 to 2019<sup>73</sup> indicates that most borrowers are between 41 and 60. At least 30% of borrowers are within the youth category and above the 10% category requirement.

Figure 13: Age of Borrowers by Gender (2013-2019)



In Homs, the proportion of borrowers in the 41 – 60 age group has remained the most significant since 2013. Those in the 18-40 age group have followed a similar path. In Tartous, similar numbers of borrowers fall in the 18 to 40 and 41 to 60 age groups until 2017. Then, there is an increase in the number of borrowers in the 41-60 age group and a slight decrease in borrowers in the 18-40 age group. In Latakia, young people have a greater role in borrowing. However, what has caused this situation is unclear, and further analysis is required.

<sup>69</sup> (Strøm, D'Espallier, & Mersland, 2014)

<sup>70</sup> (WILPF, 2021)

<sup>71</sup> (Zainuddin & Yasin, 2020, p. 651)

<sup>72</sup> (Mukherjee, 2017, pp. 9-10), (Zainuddin & Yasin, 2020, pp. 651-652)

<sup>73</sup> (Sullivan, 2020)

# A sustainable model for the Sanadiq

## Background

The Sanadiq and other Non-bank financial organizations (which offer various financial services but are not required to hold a banking license and cannot accept deposits) and Licensed Microfinance organizations have critical roles to play in poverty reduction.

As already outlined, the Sanadiq model recognizes the modality and importance of community-based microfinance and how such schemes provide small loans to its members who would otherwise be unable to secure credit or loans from traditional banks and other financial institutions primarily because of poverty.

Successful community-based microfinance models center around placing trust in people and empowering them, showing them the way out of poverty. The Sanadiq is one such model. It involves a social contract among its members to ensure that each borrower fulfills their obligations and duties to the collective. Lastly, it delivers a unique aspect lacking in most lending models: minimization of loan risk with close to 100% loan repayment.

A problem for any microfinance institution worldwide is reaching financial sustainability (Dunford, 2003). It has been difficult for many community lending groups in developing countries to sustain their operations without continued donor-supported funding and technical assistance.

## Current Sanadiq model

### Challenges

The challenges facing Sanadiq are the interlinking requirements of ongoing sustainability, governance management, and compliance.

#### A. Sustainability

##### *Mitigate risk through social contract among members*

Community lending schemes face high costs in running operations, complying with regulations, and maintaining good governance. One possible solution is to leverage the social contract among the members to reduce the risk of default or delinquency. By agreeing to act in the best interest of the collective, the community lenders can ensure that each borrower honors their commitments and obligations. This way, the lending process becomes more secure and efficient, benefiting the whole group.

##### *Reduce external reliance*

One of the main challenges facing community lending schemes is the dependence on external funding sources, such as donor grants or government subsidies. These sources are often unpredictable, unreliable, and unsustainable and may impose conditions or restrictions on the design and implementation of the schemes.

Therefore, it is essential to develop a self-funding financial model that can reduce or eliminate the need for external funding and ensure the long-term viability and scalability of the schemes.

A self-funding financial model generates enough income from its operations to cover its costs and risks and reinvest in its growth and improvement.

This self-reliance comes from adopting sound financial management practices, such as setting appropriate interest rates and fees, diversifying the loan portfolio, minimizing operational expenses, maintaining adequate reserves, and leveraging local resources and partnerships. By following these practices, community lending



schemes can become more self-reliant, resilient, and responsive to their members' and clients' needs and preferences.

## **B. Governance and Management**

One of the main obstacles facing community lending schemes is achieving institutional sustainability without depending on external support for their governance and management structures. Moreover, they need access to reliable data and qualified human resources to handle the systems and processes essential for their operations.

## **C. Legal capacity and regulation framework**

Sanadiq are community-based and self-managed financial institutions and may face challenges due to the lack of legal recognition and regulatory supervision. However, imposing legal registration and compliance requirements on them may not be the best solution.

Instead, enhancing their performance may be more effective, including improving the economic environment and fostering competition, rather than imposing a costly and unrealistic regulatory burden.

# **Financial Sustainability**

The sustainability of the Sanadiq model depends on three critical elements:

- A robust **financial model** underpinning it, and
- Ongoing **user relevance and financial inclusion**,

## **A. Financial model**

A robust financial model must support Sanadiq's operations beyond the duration of the ILDP project. Sustainability implies that there should be sufficient funds to cover the expenses of both the Microfinance Unit and the Sanadiq committees. The flat interest rate the borrowers pay on their loans must cover the operational costs of the Microfinance Unit and the Sanadiq committees.

Therefore, the sustainability of the Sanadiq model depends on having a robust financial model that can support its operations beyond the duration of the ILDP project. Sustainability implies that there should be sufficient funds to *cover the expenses of both the Microfinance Unit and the Sanadiq committees*.

### *Current situation*

The ILDP finances the Microfinance Unit, and the Sanadiq committees are self-financed, keeping 20% of the interest income from their lending activities to cover operational costs.

Given the current fixed interest rate of 9.6% per annum for borrowers on their total loan amount, the income available to the Sanadiq committees for operational costs is a fixed 1.92% of borrowers' loan amounts.

To guarantee the sustainability of the Sanadiq after ILDP ends, the flat interest rate that the borrowers pay on their loans must cover the operational costs of both the Microfinance Unit and the Sanadiq committees.

Moreover, given the current economic difficulties in Syria, the percentage of interest income earned from lending and allocated towards the costs of the Microfinance Unit and the Sanadiq committees needs to be raised to ensure their ongoing involvement in the management process after ILDP finishes and closes its financial support.

### Proposed change to the funding model to self-funding sustainability

Given the circumstances above, the analysis suggests the following actions:

- **Increase the flat rate** from 9.6% to 12%. (Instead of paying SYP 96,000 for every SYP 1 million borrowed, the beneficiary will pay SYP 120,000);
- **Increase the Microfinance Unit retention by three times** to compensate for the economic hardship and to ensure continuous active engagement after project closure;
- **Increase the Sanadiq committees' retention by 56%** to compensate for the economic hardship and ensure continuous active engagement after project closure. The Sanadiq Committees will retain 3% of the total amount borrowed/repaid as an incentive).

The recommendations above are essential to make the Sanadiq more sustainable and self-managed. In addition, they will boost the morale of the Microfinance Unit and the Sanadiq committees to work harder and monitor the loan repayments.

Moreover, as Table 19 below shows, these suggested changes will increase the amount that Sanadiq can keep after paying for the incentives of the Microfinance Unit and Sanadiq Committees by about 7% compared to the current situation.

The flat interest rate charged to borrowers should be **raised from 9.6% to 15% in 2023/4** so there are enough funds to cover the monthly incentives cost right after the project ends.

Lastly, suppose the proposed tripled incentives for the Microfinance Unit go beyond the 300% salary limit set by the Syrian law. The Microfinance Unit can use any extra amount for other operational costs such as transportation fuel.

Table 19: Sanadiq Operational Sustainability Calculation

Current Position						
Governorate	No. of Loans 2022	Total Loan Amounts (SYP)	Microfinance Unit Levy	Loan Interest to Borrowers	Sanadiq Levy (20% of total loan interest income)	Remaining Balance Retained by Sanadiq for lending
		(SYP)	(SYP)	9.6%	1.92%	
Rural Damascus	72	107,200,000	576,600	10,291,200	2,058,240	7,656,360
Latakai	152	132,000,000	3,003,720	12,672,000	2,534,400	7,133,880
Hama	247	186,900,000	1,601,640	17,942,400	3,588,480	12,752,280
Homs	752	515,650,000	1,323,600	49,502,400	9,900,480	38,278,320
Tartous	835	649,050,000	2,532,360	62,308,800	12,461,760	47,314,680
Al-Ghab	148	128,200,000	576,600	12,307,200	2,461,440	9,269,160
Central Microfinance Unit			2,039,880			(2,039,880)
		1,719,000,000	11,654,400	165,024,000	33,004,800	120,364,800



## Proposed Position

Governorate	No. of Loans 2022	Total Loan Amounts (SYP)	Microfinance Unit Levy	Loan Interest to Borrowers	Sanadiq Levy	Remaining Balance Retained by Sanadiq for lending
		(SYP)	(SYP - up 300%)	15%	3%	
Rural Damascus	72	107,200,000	1,729,800	16,080,000	3,216,000	11,134,200
Latakai	152	132,000,000	9,011,160	19,800,000	3,960,000	6,828,840
Hama	247	186,900,000	4,804,920	28,035,000	5,607,000	17,623,080
Homs	752	515,650,000	3,970,800	77,347,500	15,469,500	57,907,200
Tartous	835	649,050,000	7,597,080	97,357,500	19,471,500	70,288,920
Al-Ghab	148	128,200,000	1,729,800	19,230,000	3,846,000	13,654,200
Central Microfinance Unit			6,119,640			(6,119,640)
		1,719,000,000	34,963,200	257,850,000	51,570,000	171,316,800

## B. User relevance and financial inclusion

Sanadiq has the potential to leverage digital solutions to enhance its products, stay competitive, and secure its future viability.

### Support for financial inclusion

In neighboring countries, one of the approaches to adapting community-based microfinance models **toward sustainability** is simple yet effective. It is to keep the community-based microfinance model **relevant to its users** by continuously reviewing and updating its services.

This approach is currently under investigation for adoption through the Village Savings and Loan Association (VSLA) model in occupied Palestine, which creates self-managed and self-capitalized savings groups that use members' savings to lend to each other. This community-based microfinance model is similar to the Syrian Sanadiq. Therefore, exploring digital solutions to serve low-income households and SMEs can become central to ensuring relevance for Sanadiq.

This enhanced approach could improve product offerings within the Sanadiq groups and involve examining further complimentary digital and financial services for its existing Sanadiq community-based members.

### Delayed implementation

There are significant challenges in Syria, though, to implement “digital solutions to drive financial inclusion” in the short term until:

- The Syrian Crisis ceases,
- The isolated and undercapitalized banking system recovers, and
- Syria's ‘brain drain,’ especially in the financial sector, is reversed.

### Issues to consider

Upon recovery of the formal banking sector, the approach requires an examination of optimum linkages for financial wallet services and the development of a road map for linking community-based digital financial services with financial wallets appropriate to the Sanadiq. Further, digital solutions to serve low-income households and SMEs require recognizing the influencing factors and Syria's unique economic, regulatory,

legal, political, and cultural environment. However, the current situation in Syria creates significant obstacles to implementing digital solutions soon.

## Governance and Management: Operational Sustainability

### A. Institutional sustainability

The support from the ILDP project and the intellectual and funding investment from the International Fund for Agricultural Development (IFAD) has **developed a robust platform for the success of the community-based funding model** addressing those at risk of poverty.

The ILDP staff within the Ministry of Agriculture have been instrumental in this process, including developing a detailed operational manual for the Sanadiq and providing significant support to the Sanadiq committees in their essential community development roles. The considerable support from the Ministry of Agriculture through its ILDP department has been a critical factor in the successful operation of the village Sanadiq within the community-based associations. This support from the ILDP department has provided institutional sustainability.

#### *Support during the Syrian Crisis*

The ILDP department demonstrated the ability to maintain sustainability for the Sanadiq during the Syrian Crisis. At the height of the Crisis in June 2015, IFAD suspended its involvement in the project due to force majeure. However, despite the problematic operational context, Sanadiq continued to disburse loans during IFAD's suspension, and none ceased working. Following approval of its Annual Work Plan and Budget in April 2019, IFAD partially re-engaged in Syria with limited operations in the governorates of Homs, Latakia, and Tartous, following a request from the Government of Syria to resume operations.

This course of events demonstrated that the **operational sustainability of the Sanadiq program comes from the strong government commitment** and administrative support from the ILDP within the **Ministry of Agriculture**. The robustness of the Sanadiq during the Syrian Crisis confirms that critical community lending groups are financially sustainable with robust and focused Government administrative support and ongoing commitment.

#### *Retain and strengthen management and governance support*

The **retention and strengthening** of this support, at least in the short to medium term, are critical for Sanadiq's institutional and operational sustainability.

#### *Train and strengthen management and governance over the medium to long-term*

Strengthening to enhance long-term sustainability requires capacity development that reinforces good governance, management, and administration at the village Sanadiq level.

### B. Legal capacity and financial sector regulatory oversight

Sanadiq are non-bank financial organizations operating under and governed by the financial and statutory regulations set out by the Ministry of Agriculture<sup>74</sup>, without the requirement for any formal legal entity registration. As such, they are not subject to the current microfinance law, an advantage for similar schemes that do not take deposits. The Sanadiq model should preserve the simplicity of community-based microfinance and avoid being regulated by the formal banking and microfinance sector.

<sup>74</sup> Ministry of Agriculture and Agrarian Reform's Decision No 8626 of 26 January 2012

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