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Micro-Finance in the Dry Areas: a Case Study in Syria

Lack of finance is often the key barrier to technology adoption by small-scale farmers. This is particularly true in dry areas, where many poor households, lacking income, assets or access to credit, are unable to invest in improved farming technologies or alternative livelihood options. Micro-finance, or the provision of small loans without collateral, provides these households the initial support they need to adopt new options to improve crop/livestock productivity and incomes.

This study examines a UNDP-funded micro-finance project in the Jabel al Hoss in Syria, a drought-prone area with high levels of poverty and illiteracy. The study was conducted jointly by ICARDA, UNDP, and the Syrian Ministry of Agriculture and Agrarian Reform, with funding from the Swiss Development Agency.

The *sanadiq* system

The *sanadiq* system was introduced by the UNDP in 2000, in the Jabel al Hoss and Khanasser Valley areas. *Sanadiq* (singular *sanduq*) are village-level micro-credit institutions, owned and managed by the *sanduq* members themselves. They disburse small loans (typically US$500-700) to tide over seasonal shortages of cash, or as start-up funds for small-scale enterprises. Over 30 *sanadiq* now operate in the study area.

To establish a village *sanduq*, at least 50 members are needed, each contributing 1000 Syrian Pounds (about US$20). The pooled capital is administered by an elected three-member committee (including at least one woman). The *sanduq* receives no external financial support at first. If it operates successfully for 3 months, the UNDP provides additional money to expand operations.

Loans are approved by the committee, under project supervision. No collateral is needed, but every borrower must be 'guaranteed' by two members. Interest rates are either 1% per month (monthly payback) or 1.5% per month (payback at the end of the loan period). Transactions are based on *murabaha* principles.[1]

Livestock are a key investment target, because they improve both nutrition and household income.

Targeting of beneficiaries

Micro-finance has clearly benefited the poor. But the larger beneficiaries appeared to be the less-poor households, rather than the poorest. Over 60% of *sanadiq* members were from the less-poor. Only 17% were from the poorest households (Fig. 1).

This reflects the criteria for selecting villages for the micro-credit program: at least 300 inhabitants, and year-round accessibility by road. This excluded smaller and more remote villages – and hence many of the poorest households in the valley.

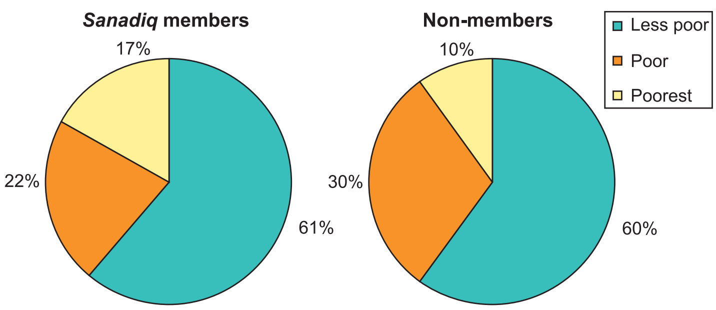

Figure 1. Composition of sanadiq groups indicates a bias towards less-poor households.

1. *Murabaha* (profit sharing): the borrower receives not a cash loan, but the goods or animals purchased with the loan. Instead of interest, borrowers repay the purchase price of the goods plus a certain percentage as service charge.

Credit and technology adoption

There is substantial demand for capital, but little is available, except to the wealthier households. Interest rates in the formal sector are only 5-6% per year (as a result of government subsidies), but few farmers qualify, because they lack the necessary collateral and/or guarantors. Informal borrowing, from friends, relatives or money-lenders, involves interest rates of at least 50% and frequently 75% per year. In contrast, *sanadiq* loans are easier to obtain, and the interest is only 12-18% per year.

Surprisingly, the survey showed (Fig. 2) that many households used informal sources even when a *sanduq* existed, because informal lenders are more flexible, provide money immediately (*sanadiq* loans involve a waiting period of up to 6 months), lend larger amounts, and do not ask for guarantors.

The study demonstrated that improved access to capital, through well managed village *sanadiq*, enables the poor to invest in productive assets that increase their income. These investments are mostly related to agriculture, particularly sheep production – an enterprise which is suited to dry and marginal areas, and where even poor households have considerable experience.

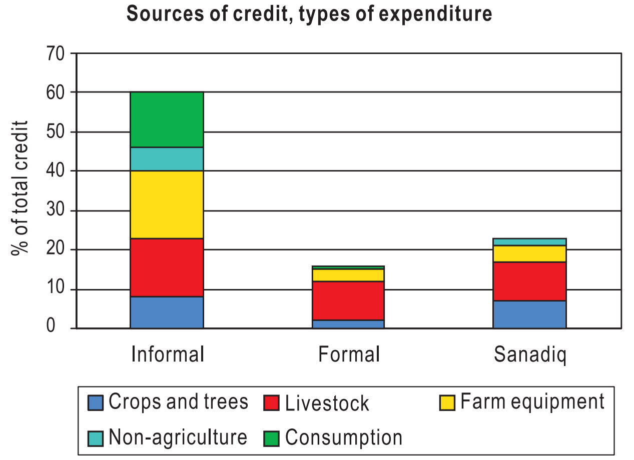

Figure 2. Loans were mainly used for crop or livestock. Sanadiq loans in particular were used for investment, not consumption

This creates the opportunity to use micro-credit groups as a vehicle for testing and disseminating agricultural technologies. This will help increase productivity and returns to farmer investment; and also create employment for laborers who work for the owners of small-scale enterprises established with *sanadiq* loans.

Recommendations

The *sanadiq* system could potentially be replicated in other dry marginal areas in Syria and neighboring countries. It can provide financial services to households which are unable to use either formal or informal sources of credit, because of strict borrower requirements or high interest rates. However, a UNDP review (Burjorjee and Brandsma 2004, Syria microfinance review, published by UNDP, New York) noted the need for a clear regulatory framework and better coordination between different micro-finance projects.

Shortage of funds is another major weakness. The available resources should be concentrated on the 30 existing *sanadiq* – not further dispersed by creating 10 new *sanadiq* as proposed in the project plan. Creating additional *sanadiq* would give more people access to cheap credit, but at this stage it is more important to make the existing *sanadiq* self-sustaining, and build trust in the system. Once this trust is established, donor agencies can be approached for funds to expand the program to more villages.

For a future expansion, we make two recommendations:

- Village selection criteria need to be less stringent, so that the poorer, more remote villages can benefit.
- Capacity of village and local government institutions needs to be strengthened for good governance of micro-finance institutions.

- There is a substantial demand for rural credit, which traditional systems (formal and informal) are unable to meet. More flexible, innovative methods are needed.
- The *sanadiq* experience has shown that households are investing borrowed funds to build assets, e.g. new agricultural technologies to enhance productivity.
- Wider availability of credit could bring about an agricultural revolution in the dry areas, if properly designed and sustainably managed.

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