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# MICROCREDIT IN TUNISIA: ENDA INTER-ARABE

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## Abstract

Tunisia is a country with little activity in the microfinance area. There has been strong state investment in the development of this sector, but it has been limited due to restrictive regulations. Some of the major obstacles for the development of the microfinance sector are: not allowing the entities to apply interest above 5%, prohibiting the collection of commissions, and preventing the capture of deposits and private savings. Created in 1990, ENDA Inter-Arabe is the only MFI in Tunisia with microfinance best practices. In a strict sense, ENDA is the only in Tunisia dedicated to activities related to the grant of microcredits. The ENDA Inter-Arabe mission is poverty-alleviation through credit and support to micro-enterprise, with a clear vision: a loan, a job, and a chance for a better life. The methodology that they used is based on rapid and flexible procedures, with the guarantee of the solidarity groups or from an existing client. Clients have access to a progressive line of credit.

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**Keywords:** Microfinance, development, microcredit.

# MICROCREDIT IN TUNISIA: ENDA INTER-ARABE<sup>1</sup>

## 1. General Information and Economic Situation<sup>2</sup>

Tunisia has a surface area of 162.155 Km<sup>2</sup> and a population close to 9.5 million inhabitants, mainly in the northwest and on the coast. The country is advanced in the diversification of its economy, which is resistant to external oscillations. The most important sector that contributes to the GDP is the services sector that constitutes more than 60% of the GDP. Following it in importance is the industrial sector, generating 30% of the GDP, and the agricultural, at 14% of the GDP.

The tourism sector is being considered increasingly important, contributing 6% to GDP and generating 15% of the currency inflow. Tunisia has reserves of oil, natural gas and some minerals. Within this general framework, it is estimated that the size of the informal sector in the economy is not lower than 20% of the GDP.

In 1986 a program of structural adjustment was started from which the country initiated a process of transformation. The economy has passed from a strongly protected one, where the state was the principal investor, to an economy based on market forces, where the private sector, as much national as foreign, has become the principal driving factor in its development. In 2001 a process of liberalization and exterior opening was initiated in the production, commercial and financial areas, considering the company as the fundamental nucleus for the creation of wealth. There was a reduction of commercial barriers and of investment restrictions, followed by the introduction of reforms in the bank sector, the privatization of some state-owned companies, and the deregulation of prices.

According to official sources, inflation runs at around 3% - although the real rate reaches 6% - and the foreign debt is around 50% of the GDP. The active population is approximately 3,300,000, of which 820,000 are women. The strike rate according to official information is 15.6%. Additionally it is estimated that more than 9% of the unemployed are not registered.

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<sup>1</sup> This paper was made possible by the kind collaboration of ENDA Inter-Arabe, who furnished us with all the information contained in this document.

<sup>2</sup> A large amount of the information relating to the general aspects of the case has been extracted from the book: The Microcredit in the North of Africa and Middle East (Agustín de Asís Orta (coord.) "Promotion of the Culture" Social Foundation.

The most recent population statistics indicate that nearly 15% live below the national poverty line.

### Principal Indicators

Total population (million)	9.5
GDP per capita (PPA in dollars, as at 2000)	6.363
Index of human development	0.722
Life expectancy at birth	70.2
Rate of adult literacy (15-year-old and older %)	71
Rate of primary, secondary and tertiary matriculation combined (%)	74
Urban population (% of the whole)	65.5
Import of goods and services (% of the GDP)	48
Exports of goods and services (% of the GDP)	44
Official assistance for development received (clear disbursement) in % of the GDP	1.1
Service of the debt	9.8

Source: Report of Human Development.

## 2. Financial Sector

The financial sector in Tunisia is composed of more than thirty institutions that possess a net of approximately 800 branches of diverse nature: Fourteen commercial banks, eight development banks, eight non-resident (offshore) banks, and two business banks, plus various other financial institutions. The banking sector continues to be inefficient though, as it is dominated by the state that controls the principal entities. The sector is regulated by the Banque Centrale de Tunisie (BCT). Among the principal commercial banks is Banque Nationale Agricole, which develops activities related to commercial banking combined with those of a development bank specialized in funding the agricultural sector. Another significant bank operating in Tunisia is Banque's Société Tunisienne (STB) which played an important role in Tunisian state independence. Recently the Tunisian authorities approved the merger of STB with the Banque de Développement Touristique (BNDT). The resultant entity of the merger has become the country's leading bank. Another bank that operates in the industrial sector is Lâmen Bank.

## 3. Informal Sector and Microenterprise

According to available information, the informal sector generates around 20% of the GDP (Charmes, 2000b), centering specially in the periphery of Tunisia and Sfx, which are the principal economic centers of the country, and in activities related to services and trade. The informal sector in Tunisia supposes 50% of the non-agricultural employment, and accounts for an estimated 39% of female employment.

According to information from the National Institute of Statistics and from the National Box of Social Security, 82% of Tunisian companies comprise less than 6 people, which means that there are approximately 340,000 micro companies in Tunisia. For this business type it proves

very difficult to improve competitiveness because of the difficulties of the financial system and of hiring qualified personnel, among other reasons.

The great majority of the formal banks do not intervene in the agricultural and rural development (farmers' small business) due to the high costs of transaction of these small operations. Except for some support programs in the periphery of Tunisia, other programs are not available to the urban microenterprise. Similarly, the majority of the NGOs (non government organizations) are more active in rural areas than in urban.

## 4. Microfinance in Tunisia

Tunisia is a country with little activity in the microfinance area. There has been strong state investment in the development of this sector, but it has been limited due to restrictive regulations.

In 1999, three events of particular importance took place for the development of microcredit in Tunisia:

- The decision made by the President of the Republic to promote microcredit.
- The promulgation in July of this year of the Law n ° 99-67 that establishes the legal terms of microcredit by the associations.
- The creation inside the Department of Women and Family of a support mechanism for micro companies managed by women.

The juridical frame of the microfinance in Tunisia has special characteristics, reflected in the above-mentioned law, that are different to what might reasonably be expected. Some of the major obstacles for the development of the microfinance sector include not allowing the entities to apply an interest superior to 5%; prohibiting the collection of commissions; and preventing the capture of deposits and private savings. This Law also regulates other aspects such as the maximum amount of the loans, which cannot exceed 1,100 USD, or the maximum period of return, which is 3 years. Likewise it is found that in order for an NGO to grant microcredits, it must have the authorization of the Department of Finance, after passing through an excessively bureaucratic process of authorization.

The department in charge of the management of the microcredits in the country is Solidarité's Banque Tunisienne (BTS), created in 1977 by a presidential order. The BTS is a bank of deposit by which access to the microcredit is facilitated to projects that generate income and that create employment in the different sectors of the economy in all national territories (rural and urban areas). The available investment for the microcredit program is 29 million dollars.

The BTS has established a mechanism of funding that includes the grant of small credits directly to the client (as the first level) and microcredits with the mediation of a nonprofit entity as the second level. In this second case the BTS remains associated with the association by an agreement and by an annual program. The BTS grants a fund at 0% interest and each one offers the disbursement of the quantity given in four payments of 25%. To receive the consecutive payments, the entity must certify a rate of return of at least 80%. The entities must also go to the more disadvantaged groups of the population, usually excluded from the conventional system of credits.

The law forces the Tunisian entities that develop programs of microcredits to apply the stipulated conditions, independently of the origin of funding. The entities that want to be part of the microcredit system must be authorized by the Department of Finance, and its activity endorsed by the National Fund of Guarantee, that covers 90% of the unpaid credits, with the entity assuming the remaining 10%.

Microfinance entities are in disagreement with all the impediments that the above-mentioned regulation supposes. The object of our case study, ENDA Inter-Arabe, is exempt from that regulation, since it is an NGO with international statute.

## **5. Environment & Developpement dans le Monde Arabe (ENDA Inter-Arabe)**

ENDA Inter-Arabe is an international NGO, and a member of the ENDA Third World family (based in Dakar, Senegal) which is active in 21 countries world-wide. Created in 1990, ENDA Inter-Arabe is the only MFI in Tunisia with microfinance best practices. ENDA Inter-Arabe is a founder member of the network on microfinance in the Arab Countries, Sanabel, and an affiliate of Planet Finance.

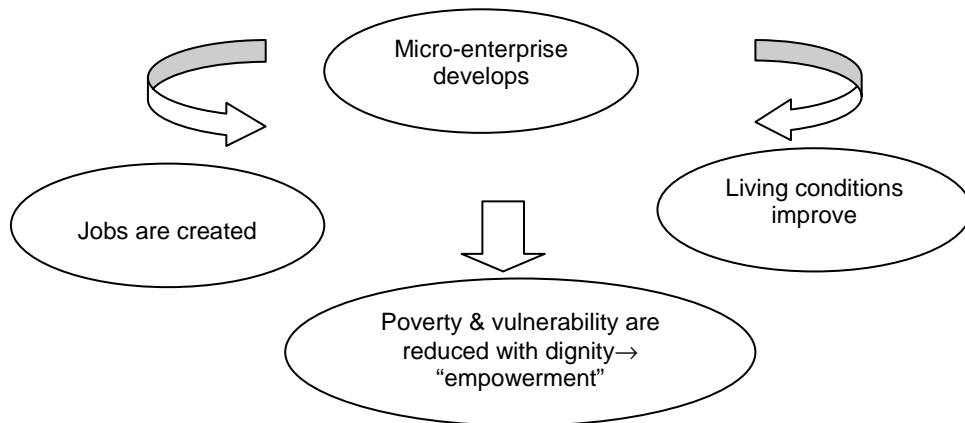
In a strict sense, it is possible to think of ENDA as the only microfinance institution in Tunisia dedicated to activities related to the grant of microcredits. Due to the fact that it is an international company, it does not suffer from the limitations established by the Law of 1999, and has freedom to apply real interest rates. Although it was recently developing other types of program, at present it has remained specialized in microfinance.

In 1992 it launched a program of integrated urban development, in the biggest suburb of Tunisia, Hay Ettadhamen, which has 250,000 inhabitants. Among its activities are the support of microcompanies by means of the microcredit grant, professional training and work-orientation, as well as activities of literacy, education and creativity. In 1995 a specific project of Microcredits was created, known as CRENDA, destined especially to women in microbusinesses. It was deployed with a capital of 20,000 USD from international Emmaus (France).

### **5.1. ENDA Mission**

The ENDA Inter-Arabe mission is poverty-alleviation through credit and support to micro-enterprise, with a clear vision: a loan, a job, and a chance for a better life.

## The ENDA Philosophy of Microcredit



### 5.2. Microcredit Program

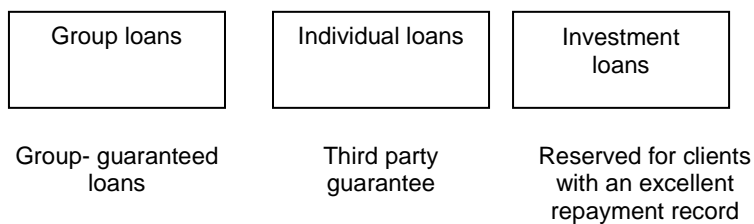
The program was launched in 1995; ENDA is currently serving 17,124 active clients (with a current loan) in 28 delegations and seven head offices, served by a staff of 138.

During this 10-year period:

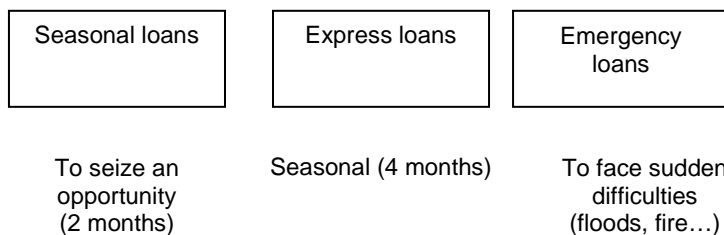
- ❑ 82,000 loans had been granted
- ❑ 28,000 micro-entrepreneurs (93% women) received at least one loan
- ❑ The cumulative value of loans granted reached 33 million DT
- ❑ A 99% repayment rate was achieved

ENDA offers three types of financial services:

- ❑ Basic Loan



- ❑ Parallel loans



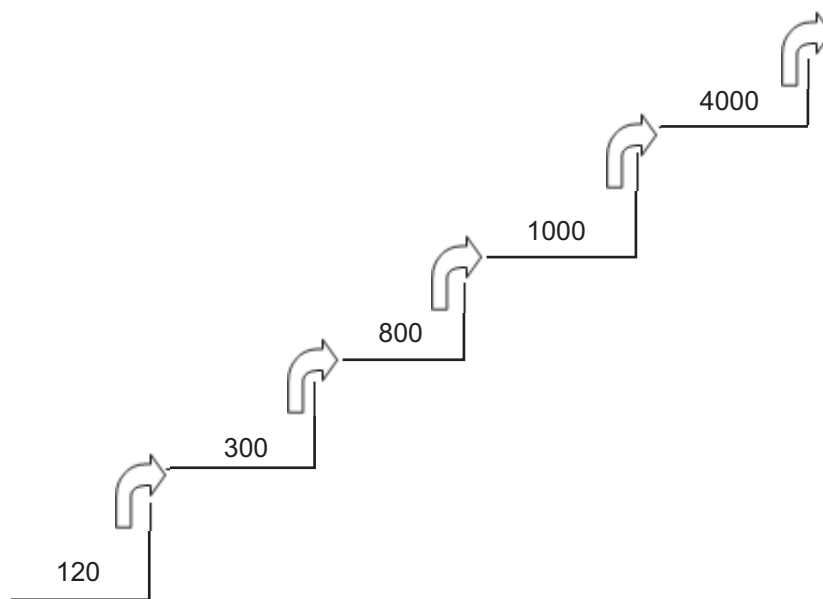
- ❑ Social fund

The loans are written-off in case of death or permanent disability (and a cash remittance given to the deceased's family).

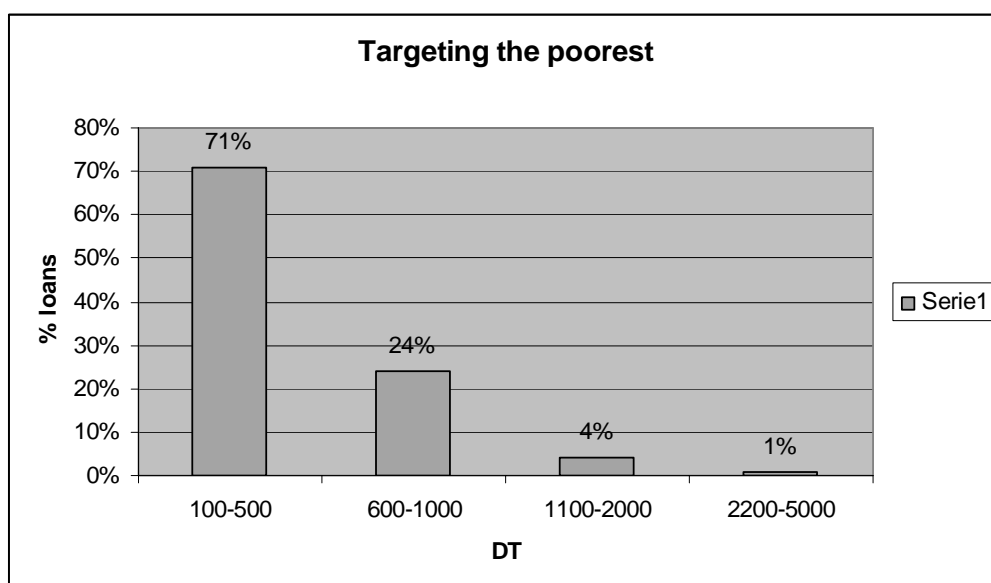
The methodology that they used is based on rapid and flexible procedures, with the guarantee of the solidarity groups or from an existing client. The clients have access to a progressive line of credit:

The average term of return is seven months. The interest is calculated to cover the operating costs and be able to guarantee the viability of the institution. The type of interest that ENDA has been obtaining until recently was 24% per year (2% monthly), but this was recently reduced to 12% thanks to economies of scale. It also offers a varied scale of microfinancial services adjusted to the needs of the clients.

The credits are progressive as it appears in the graph, from \$120 up to maximum of \$4000. The interest is paid monthly, repayment delays are penalized, and incentives are offered to the best clients.

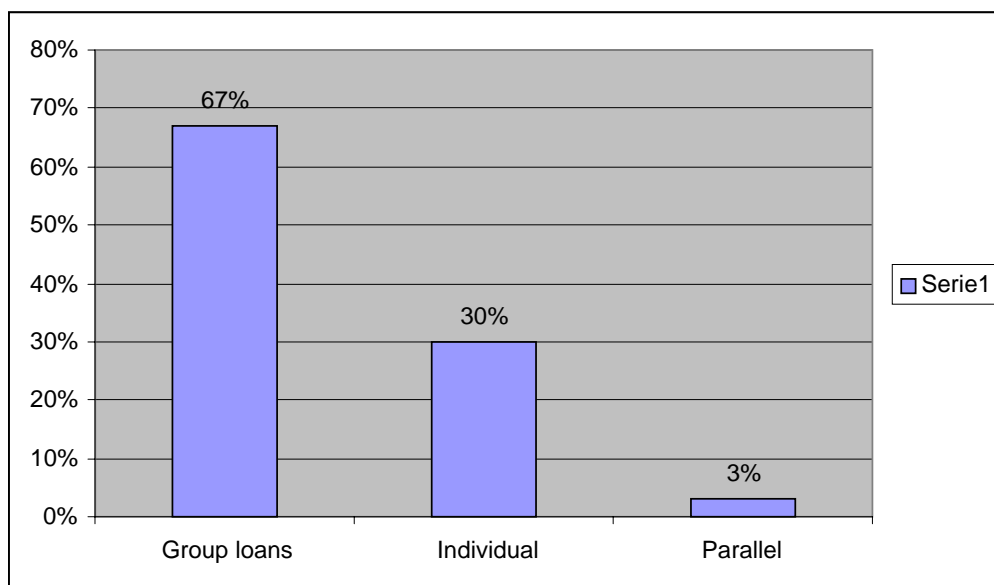


71% of the loans are \$500 or less, as shown:





The active loans per loan type are shown in the next table.



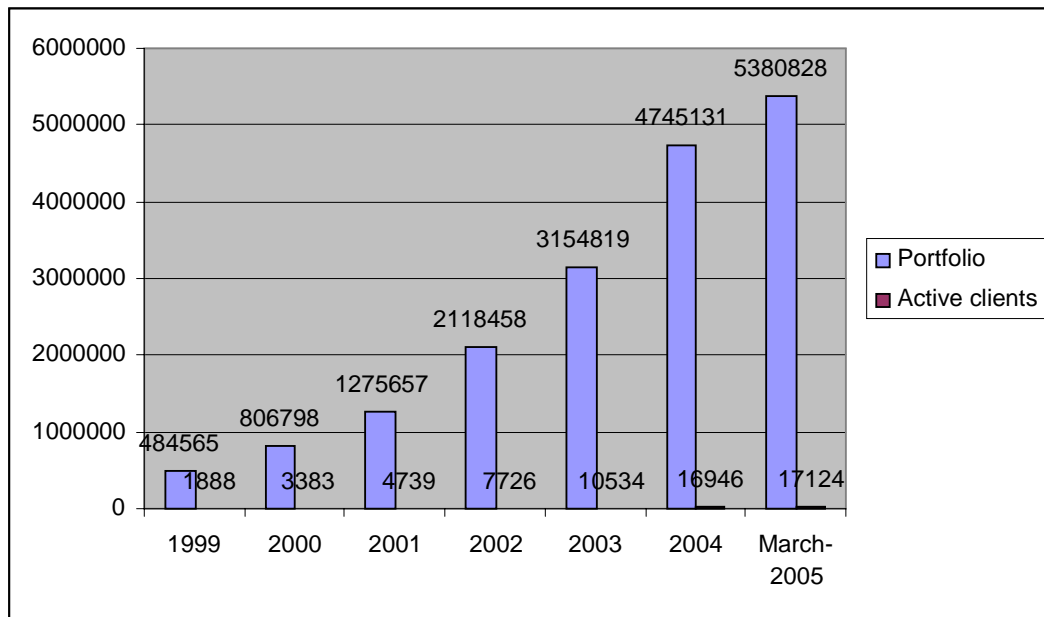
#### ENDA's Performance Indicators (DT)

	2003	2004	First quarter 2005	Cumulative
<b>Outreach summary</b>				
Active clients	10.534	15.946	17.124	
Outstanding portfolio	3.154.819	4.745.131	5.380.828	
Value loans granted	7.184.350	10.959.250	3.413.200	33.583.568
Number of loans granted	17.600	26.086	7.383	82.088
Average loan size	327	420	463	
New borrowers	5.402	8.260	1.999	28.447
Number of loan officers	35	48	65	
Total staff	84	109	138	
Field staff	55	72	96	
Number of branches	10	15	16	
<b>Portfolio quality</b>				
Portfolio at risk $\geq$ 30 days (%)	0,65%	0,34%	0,34%	
On-time repayment rate	93,3%	93,47%	94,03%	
<b>Sustainability/Profitability</b>				
Operational self-sufficiency	128%	147%		
Financial self-sufficiency	117%	125%		
Donations to loan capital	1.4111.072	1.606.570	0	

\$1 = 1.26 DT.

€1 = 1.62 DT.

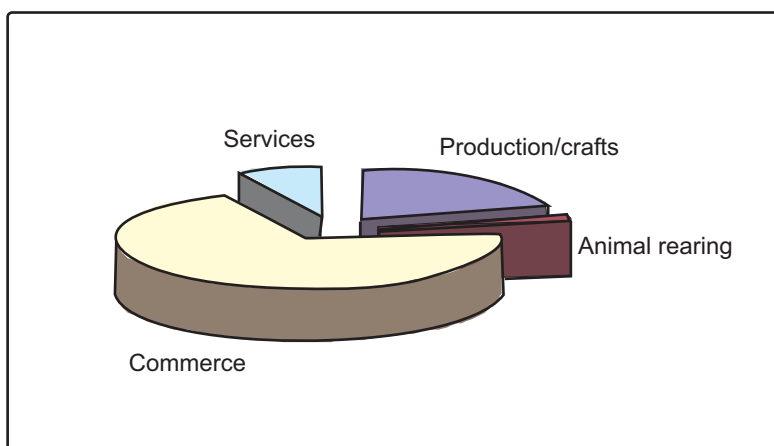
## Outstanding Portfolio & Active Clients 1999-March 2005



## Evolution (1995-2005)

	December 1995	December 2001	May 31, 2005
Outstanding portfolio	20000	1.3 million	5.56 million
Donated lending capital (cumulative in DT)	20000	1 million	2 million
Value of loans granted (cumulative in DT)	22000	3.2 million	36 million
Active clients	22	4700	18391
Loans granted (cumulative)	28	18255	87944
Staff	6	44	134
Branches	1	7	17 (28 delegations 7 head offices)

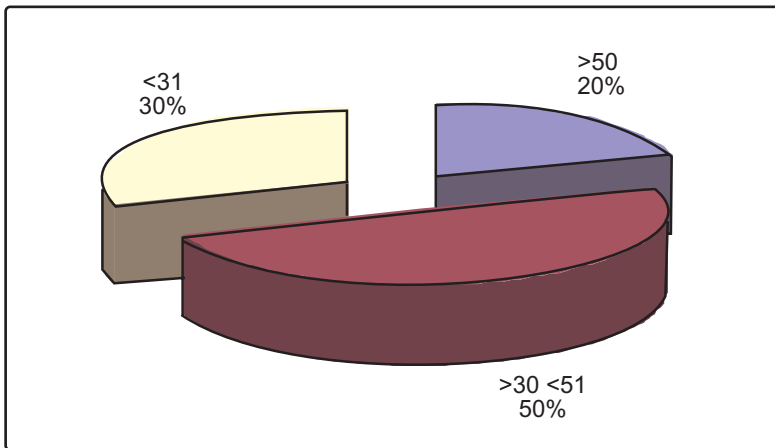
## Type of Business



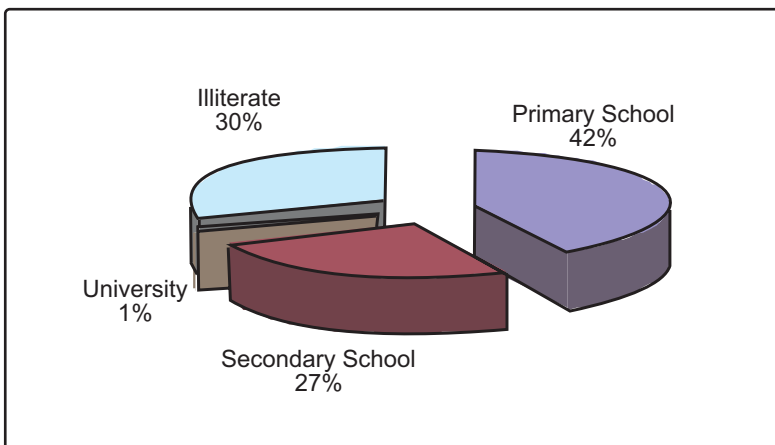
## Characteristics of the Clients (Borrowers)

In ENDA 93% of their clients are women

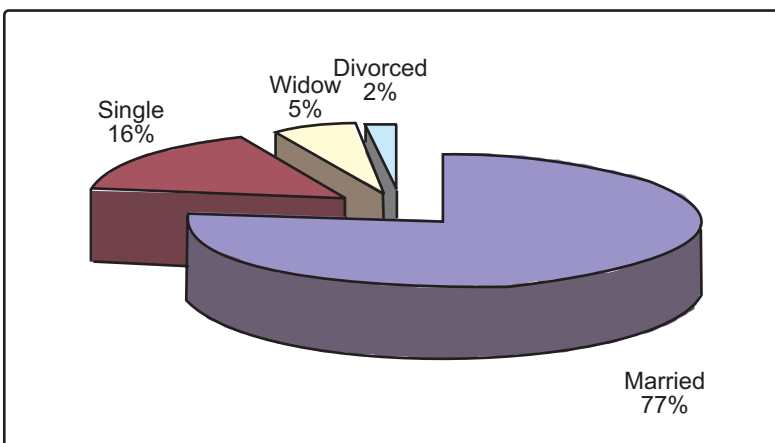
### Average Age



### Education Level



### Marital Status

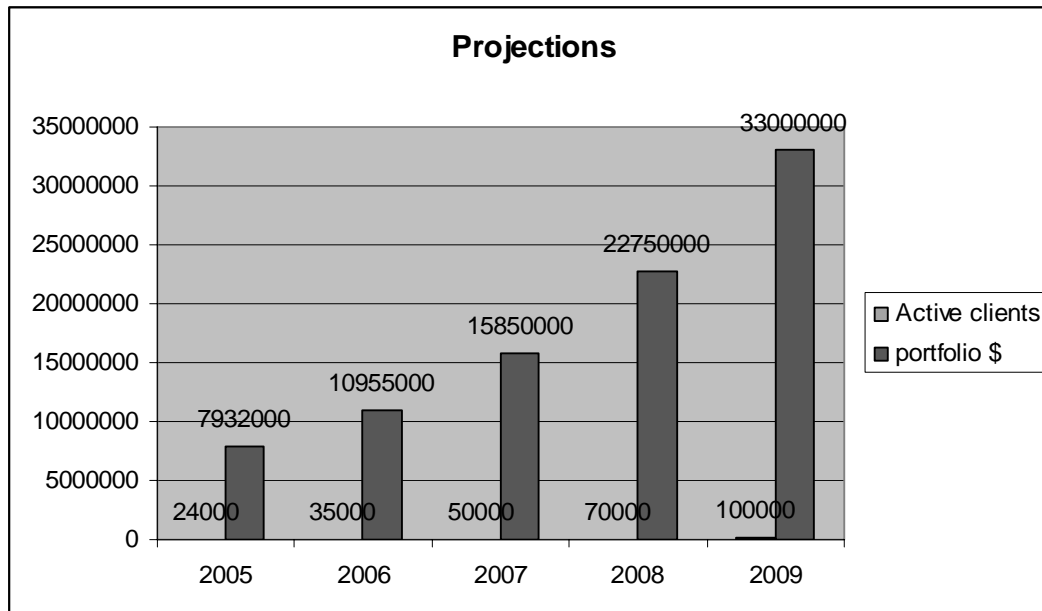


## Non Financial Services

ENDA tries to strengthen micro-entrepreneur capacities by offering:

- ❑ Training in simple accounting and management marketing
- ❑ Counseling (legal, health, regulations)
- ❑ Marketing (trade fairs, small sales outlets)
- ❑ Supplies (excursions to low-cost supply areas)
- ❑ Networking (discussion groups, excursions, parties, trade fairs, get-togethers, etc.)
- ❑ Technical support (most clients are self-taught)

## Projections for the Future



ENDA is a very active NGO. They made a film called "Mères Courage" (that is attached to the case) showing the work of the institution and its effects. In addition they take an active part in meetings, seminars and conferences related to microcredits world-wide and have published numerous articles about women and the viability of the NGO (they are attached as annexes). It was in a seminar organized by this institution in March of 1999 where the development of a microfinance network in the Arabic world was started; a network that now includes representatives of 14 microfinance institutions from Arabic countries.

## 6. Impact

We attach some information on the impact that this NGO is having in the economic situation of its clients and of its companies:

### Monthly Profits

<b>New Clients</b>	<b>12 to 18 months clients</b>	<b>Old clients</b>
199 DT	418 DT	777 DT

### Treasury Crisis During the Last 12 Months

	<b>New Clients</b>	<b>12 to 18 months clients</b>	<b>Old clients</b>
Clients affected by the crisis	40%	33%	18.2%
Duration of the crisis (months)	3.75	1.25	1.14

### Improvement of the Level of the Company During the last 12 Months

	<b>New clients</b>	<b>12 to 18 months clients</b>	<b>Old clients</b>
Enlargement of the place	2.9%	28.6%	8.6%
Purchase of small material	25.7%	32.4%	42.9%
Purchase of great material	5.7%	38.2%	40%
Investment in a structure of stock	0%	6.1%	14.3%
Improvement of the sales place	34%	50%	31%
Big investments in the place of sale	11.4%	21.2%	8.6%

### Income and Saving

	<b>New clients</b>	<b>12 to 18 month clients</b>	<b>Old clients</b>
Clients who have savings	40%	71%	73.5%
Increase of savings	61.5%	72%	66.7%
Increase of individual savings	68.6%	91.2%	62.9%
Increase of family income	61.8%	87.9%	19.7%

## Creation of Employment and Employment of Children

	<b>New Clients</b>	<b>12 to 18 month clients</b>	<b>Old clients</b>
Creation of new employment	2.9%	32.4%	20%
To place children as employees at the business	0%	5.8%	17.2%

## Use of the Profits of the Company During last 12 Months

	<b>New Clients</b>	<b>12 to 18 month clients</b>	<b>Old clients</b>
To cover family expenses	41.2%	5.8%	57.2%
Reinvestment in the project	44.1%	91.4%	34.4%
Saving	11.7%	2.9%	0%
Others	2.9%	0%	3%

## 7. Client Interviews

Kaother Jaouali

Client of Lamia Hmaidi

Ettadhamen Branch

Residence: Ettadhamen

Education: primary school, cashier diploma

Activity: Glazier

“My name is Kaother Jaouali and I am 42 years old, and the mother of three children. I was born in the south suburb of Tunisia, Zahara. My mother is a native of Metouia and my father is from Gabes (south Tunisia), but I was brought up in Tunisia.

“When my mother died, my father remarried and moved to Hay Ettadhamen and I moved to my grandmother’s in Medina. I was married two years later. I met my husband at his sister’s house across from my father’s house in Hay Ettadhamen. He had lived in Libya and come back to set up a shop as glazier. But when he was unable to run his own business we returned to Lybia. There he had an accident. When carrying a pane of glass it broke, slashed his wrist and severed his nerves, destroying the sense of feeling in his three major fingers.

“Following the accident we returned to Tunisia and settled in the Darjed (medina) with his sister. He was still in shock, and never actually recovered. He didn’t want to touch glass ever again. This is where my story as a glazier begins.

“At that time we had no children or money. To cover our expenses we needed to sell something. Using a piece of wood from our bed, the mirror off our wall, and the bookshelves, I succeeded in making a phone desk. My nephew wanted to sell it so I gave it to him asking only 30 dinars, though he could sell it for whatever price he could get. He managed to sell it 50 dinars in only a half an hour. With the 30 dinars I went to buy more glass, and began to work seriously.

“One day Si Cheldy, a loan officer from ENDA, came to me and urged me to participate in the Kram exhibition. After a long hesitation I accepted. I had to work hard to be ready. My essential problem was my lack of money to obtain raw materials. So I went to several people to borrow money. I already have an experience with ENDA. In fact, I used to sell peanuts, and had loan for my business. I worked on the glass in the back of the shop, but did not consider it to be a business. By chance, one of the loan officers came to me when I was gluing two panes of glass in the back. His was so surprised. The following day he arrived with Madame Essma to encourage me to transform my passion into my full-time work.

“By the second day of my first exhibition at the Kram, all my products had been sold, and I was obliged to work more to meet the demand. Now I participate in all the exhibitions that ENDA organizes. Many opportunities have come my way and many doors have been opened.

“Unfortunately my husband has never helped me and I became fed up with his negative attitude. We separated, and I raised my children on my own. He returned to Libya pretending that he couldn’t stand the Tunisian way of life while I become well-known for the quality of my products, particularly for my aquariums.”

The first credit that Kaouther received from ENDA was of 150 dinars, and the last one is of 2000 dinars. Kaouther works alone; her children help her in vacation periods. She has 4 children: two girls and two boys. They are enrolled in school and she is very demanding with their studies; at the moment they have excellent results. She learned her trade by herself. She shows her work in the fair, which attracts 200 to 300 clients happen a day. She plans to open her own shop one day.

This Kaouther’s miniature work of art reflects the moment when the fiancée hand is asked. That day Kaouther had received a request of all the miniatures exhibited in aquariums of the fair.

Emna Larguet

Client of Aida Ayari

Douar Hicher Branch

Residence: Douar Hicher

Education: Primary school, Tailor's diploma

Activity: Tailor

Emna Larguet was born in 1954 in BabSouika in the Medina of Tunisia (Old Town)

“My family has been living here for one generation, but we are natives of Bizerte (North Tunisia). We come from a modest background: my father was a driver in the harbor. He was very strict. We received a good education.

When I got my diploma from the professional school I bought a sewing machine which I have kept until now. From my own savings, I took several trips to France, Italy and other countries.

I married my neighbor who lived across from my family home. We rented a house in Ariana once we were married. He was a topographer but he tried to run his own business and eventually failed. When faced with unemployment he began to work with me. In fact he helped a great deal because we discovered that he was a good designer.

“The worst experience I had, which I'll never forget, was the major surgery I had on my leg after I fell down the stairs from the second floor. As if that was not bad enough, I was pregnant at that time and did not have any money. My daughter, thank God, was born in 1983 and is now twenty years old and attending University.

“After the accident I moved from Ariana to live with my parents in the Medina again. I took a while to be able to buy this piece of land (in Douar Hicher). Before I bought it, my friend recommended I rent space in Hay Ettadhamen, where the rent is cheaper.

“I had spent years working from my mother's home. In Hay Ettadhame, we began making hats bearing the mark of local football clubs and we sold them 800 for millimes each. Little by little, we expanded the business, with my husband making the hats, and me making the skirts.

“It was in 2000 that I went to the BTS to obtain a loan to buy expensive machines, which cost me 7,000 dinars. With the BTS loan I was able to buy the machine, but ENDA helped me to buy the materials to really begin my work.

“My first loan was for 200 dinars, but I was not enough. Due to my regular and problem-free repayments, I have qualified for higher loans and was able to receive 1000 dinars in loans.

“The best things at ENDA are the exhibitions, which permit me to have the opportunity to sell my stock and turn my profit. Once, in less than three days, I made 500 dinars in profit. I hope that ENDA opens new branches in Sousse of Sfax, and even in Libya and Egypt.

“The sudden death of my husband made things worse for me. His death was horrible shock. He died two days before our daughter's birthday, the pour soul, and he had been planning to buy a



computer, a present that suited her well. But unfortunately he died before he could offer it to her. I couldn't bear it. Then my father died six months later. To this day, I feel bitter.

"When I was in despair, a manager of a handicraft agency came to me and suggested I train a small number of girls and, in return, the government would give me financial support. This helped me greatly because I have no pension. And of course, I continued to work on my own. I spent half of each day training and the other half sewing.

Madame Essma, a woman whom I admire a lot for her modesty, has encouraged me to innovate. These days I am so downtrodden, the only thing that I want to do is sew on my machine."

In the interview that we had with Emna she told us that she was selling her products in five hotel shops. She has up to 8 people working with her, depending on the season, The winter is when they have a lot of work because the demand increases very much during Ramadan. Several of the workers are disabled. Her daughter who studies economics helps her in this time of the year. She has received training in modern design techniques. In ENDA she has learned accounting and business communication. She asks for loans when she needs to buy new materials. Her plans for the future are to have a bigger shop, and she wants to sell to Lybia, Europe and Egypt.

Leila Saida Argüi

Client of Nizar Toujani

Douar Hicher

Residence: Douar Hicher

Education: Primary school

Activity: Photographer

Her name means *happy night*. She was born in the night of destiny, which corresponds to the 27<sup>th</sup> of Ramadan.

“I am 41 years old, born in Tunisia and brought up in Ras Darb (“neighbor capital”). My family is from Tozeur (South of Tunisia).

My parents were blue-collar workers. My father had a grocery and my mother was a cleaner in the Post Office.

I met my husband at my sister’s wedding. He was a photographer. When we got married, we settled in this small house with his three children. He was a widower. In the same year, I gave birth to Montasser and then Tarck. I was strict with them to ensure a good education.

He had a shop at the Orient Palace hotel and I went to assist him. Finally, we found that the cost was too expensive so we closed it. At the same time, I learned from him the art of photography.

It proved very useful when my husband went to prison for beating his daughter, as I could then take his photography work to provide money for my children and pay the lawyer’s expenses. I was obliged to. I even sold my jewellery.

The fact that his daughter’s accusations were the cause of his imprisonment hurts me a lot.

During that period, I bought a new camera. The first loan that I got from ENDA was 200 dinars and little by little I reached 1000.

I want to buy a new printer before my husband is released.”

In the interview that we had with Leila she told us that from the first credit of 200 dinars she was obtaining successive credits of 400 dt, 500 dt, 600 dt, 1000 dt, and 2000 dt. And she has received ENDA training in accounting and client communication. They bought the premises in 2004, and now her idea is to invest in new technology, specifically a new camera.