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MFI New Product Development Strategies

As the supply of traditional microfinance products approaches the demand for such products in Jordan, MFIs will need to become more innovative in their product and service offerings to continue to attract additional clients, expand their markets and improve profitability. Table 1 below presents the MFI partners' portfolios and terms for the loan products they offer. There is debate as to whether the market for microfinance loans in Jordan is becoming saturated. Already the MFIs have begun to experience reduced demand for group loans, as more individual loan alternatives become available in the market, which is an indication that the market is indeed maturing.[1] However, there remains potential for expansion in the individual loan market. As of the end of November 2001, the four partner MFIs were collectively providing loans to 13,427 active clients, which represents less than nine percent of the total demand for microfinance.[2] Responding to changes in market demand, the MFIs are increasingly moving away from group lending and toward individual lending, which tends to be more profitable. In the long-run, however, as competition increases in microfinance, MFIs in Jordan will need to develop more specialized strategies to distinguish themselves from the other microfinance providers.

Table 1: Loan Terms and Portfolios for USAID/Jordan Partner MFIs

As of Nov.30, 2001	**AMC**	**JMCC**	**JACP/CHF**	**MFW**
Maturity	6-24 months	7-12 months	6-36 months	6-12 months
Payment frequency	monthly	weekly and bi-monthly	monthly	weekly and bi-monthly
Annual flat int. rate	12%	13-15%	16% DB*	19.2-24%
Effective int. rate	25%	30-45%	16-40%	34-44%
Fees	10-140 JD	3-10 JD	0 JD	5 JD
Min. loan size	1,000 JD	700 JD	500 JD	200 JD
Max. loan size	10,000 JD	6,000 JD	14,000 JD	2,500 JD
No. active loans	1,135	1,337	4,208	6,567
Outstanding portfolio	1.2 mil. JD	841,587 JD	3.1 mil JD	1.2 mil. JD
Operational sustainability	90.7%	89.0%	82%	105.4%

*DB = declining balance

Fortunately, discussions with the Chairs and Executive Directors of the four MFI partners revealed that they were already thinking of innovative ways to remain competitive in the marketplace and have four distinct approaches to expanding their markets, improving productivity and profits. As the four MFIs put their new product development strategies into effect, if successfully implemented, collectively they will yield the following results:

[1] In the late 1990s, when the Bolivian microfinance market became oversupplied, many clients shifted from group to individual lending when given the option.

[2] According to the AMIR "Microfinance/Microenterprise Strategic Assessment" of April 2001, the market demand for microfinance in 2001 was approximately 154,000 potential clients.

- greater market outreach, with more individuals and entrepreneurs having access to reasonably priced loans;
- increased product offerings, allowing current and potential clients a greater variety of product choices that are based on their specific situations and needs;
- a heightened awareness of the benefits of monitoring customer satisfaction and product preferences; and
- more solid microfinance institutions that will be able to sustain changing market and economic conditions over the long-term.

This section describes the new product development strategies that each of the four MFI partners interested in researching and how these approaches fit into their overall market strategy. This information was collected through a series of interviews with the MFIs with the promise to respect their concerns for privacy by not sharing their new product ideas and strategies with the other MFIs. Each MFI Chair and Executive Director was asked questions regarding how they viewed their MFI's competitive position, level of customer satisfaction, current and future target market niches, as well as product adaptation and new product strategies for improving their market positions in the future.

Ahli Microfinancing Company (AMC)

AMC began operations in November 1999 as a for-profit limited liability company, which is a wholly owned subsidiary of Jordan National Bank (JNB). In just two years, AMC grew to 1,135 active loan clients with a total outstanding portfolio of 1,237,467 JD (approximately US$883,905).[3] It has a high repayment rate of 97.8 percent as of November 30, 2001. Dr. Jack Kattan, AMC's Chairman, views AMC's strength as its solid balance between its social mission and profit objectives. As of February 2002, AMC has a strong liquidity position, with 900,000 JD in cash and the ability to borrow up to 750,000 JD at 9% annual interest at any time. This access to funds will allow AMC the freedom to experiment with new products and new markets in the next year.

Current Target Market. AMC currently targets mostly formal microenteprise and small business clients interested in larger loans sizes, ranging from 1,000 to 10,000 JD in the greater Amman area. AMC offers individual loans for working capital or fixed asset investments. While it originally planned to serve 50 percent female clients, the majority of its clients are men. Given its focus on formally registered businesses, AMC is likely to serve primarily male clients.[4]

Competition. AMC views itself as competitive vis-à-vis other MFIs as well as traditional financial institutions. AMC targets larger, higher income enterprises than most of the MFIs and offers better effective interest rates for this niche market. While AMC's interest rates run approximately five percent higher than traditional bank rates, banks require collateral, but AMC does not.

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[3] Based on exchange rate of 1JD = US$1.4, November 2001.

[4] According to the Assessment of the "Demand for Microfinancial Services in the Micro and Small Scale Enterprise Sector in Jordan" in July 1998, the majority of women's businesses operate informally.

Customer Satisfaction. Of the four partner MFIs, AMC's methodology most closely resembles a traditional financial institution. This distinction has been a source of strength as well as a weakness to AMC. AMC's methodology requires its clients to produce a significant level of documentation to apply for a loan, which is its most common cause for customer complaints. Specifically, each client must provide recent bank statements, official registrations and expense, sales and cash flow figures. If the client doesn't have a checking account, then AMC checks the black lists of the Central Bank of Jordan, JNB and the internal black list AMC maintains to ensure that the customer does not have a bad prior repayment history. Even second-time borrowers must provide updates of this all this information. This can cause the loan application and disbursal process to be delayed by up to one month, while the client works to collect all the necessary documentation or AMC waits for the results of the external black list checks. Other than a sometimes slow loan application process, AMC offers its clients many conveniences, including rapid loan disbursal (within 48 hours on average), convenient locations (requiring clients 15 minutes travel time to branches) and extensive branch locations and hours (branches open Sunday through Thursday from 8:30AM – 5PM).

New product/market strategies. AMC plans to continue to target primarily formally registered businesses in greater Amman, as well as Zarqa, Ruseifa and Irbid, the most densely populated areas of Jordan. In addition to its current products, AMC is considering the following new products:

- **Larger, Longer Term Loans To Small Businesses**. AMC plans to gradually increase its loan sizes from a maximum of 10,000 JD to 20,000 JD over the next few years. In addition, it is considering increasing its loan maturities from a maximum of 2 years to a maximum of 3 to 5 years. AMC would like assistance in assessing the potential for this market and whether higher interest rates or more collateral should be required to cover the additional risk.

- **Islamic Lending**. AMC is interested in exploring the potential for Islamic lending and would like to know how best to offer a non-interest bearing loan product and whether it would require special licensing. AMC would be more interested in a product that allowed it to share in the profits of a client's purchase and resell than in becoming a temporary owner of the item purchased or becoming a formal business partner with its clients. Before such a product could be launched, however, research would need to be done to assure that it could be offered by a non-Islamic bank.

- **Leasing To Target Sectors**. AMC would consider engaging in offering its clients leasing or rent-to-own alternatives to loans. AMC believes that there is potential for the following items: computers, cars/vehicles, sewing machines and other capital investment purchases. AMC would have an advantage in these markets because it could build on the relationships Jordan National Bank has developed with certain supplier companies. There are possible tax consequences to leasing that would have to be considered before launching this product, such as who would get to claim depreciation on the leased item.

In the long-term, AMC would also be interested in considering the use of personal digital assistants (such as PalmPilots) and credit scoring to facilitate the loan decision process. However, AMC does not yet have the volume of loan clients or the management information system that would be required to take advantage of these technologies.

Jordan Micro Credit Company (JMCC)

JMCC was registered in June 1999 as a non-profit limited liability company, but its roots date back to the Noor al Hussein Foundation's income generating projects of the 1980s. Despite the fact that it has received far less donor support than the other partner MFIs, JMCC has managed to achieve almost 90 percent operational self-sufficiency in just two years. As of November 30, 2001, JMCC had 1,337 active loan clients with a total outstanding loan portfolio of 841,587 JD (approximately $601,134) with a high repayment rate of 99.7 percent. Nonetheless, JMCC's lack of access to capital has limited its growth. JMCC plans to borrow from the Wholesale Lending Facility to continue its market expansion, but is seeking additional support to fund its new product development efforts.

Current Target Market. JMCC offers individual loans ranging in size from 700 to 6,000 JD in the greater Amman area. It follows a step-lending methodology in which all clients enter the first of four loan cycles with a seven-month loan of 700 to 900 JD. In the following cycles, clients are offered incrementally larger loans (up to a maximum of 6,000 JD) and longer maturities (10 and then 12 months) at increasingly better interest rates. JMCC uses a credit scoring system with 100 points total – those clients who score lower than 60 points must secure their loan with collateral. JMCC's strategy is to build and retain a base of credit-worthy clients. JMCC began with an objective of reaching 50 percent female clients, but given its target of larger loans, the majority of its clients are men.

Competition. JMCC's primary competitor is AMC, since both MFIs are targeting mostly male entrepreneurs who seek larger loans in the greater Amman area. Since AMC's interest rates are lower, JMCC will need to find ways to distinguish their products in a way that justifies the higher cost.

Customer Satisfaction. JMCC has no formal system for collecting feedback from clients on their level of satisfaction. However, JMCC views itself as family and relationship-oriented and loan officers have often informally passed along feedback from the clients to management that have helped to understand their needs. Some customers have complained about the interest rate being too high, but many are happy with the product. JMCC's loan process takes approximately 2 to 3 weeks, depending on the borrowers' preparedness. In general, a client spends 10 days preparing for the loan on average. Once the loan application is complete, JMCC takes approximately 7 to 10 days to process first loans and 3 days for second loans. Most clients travel approximately 4 km to the JMCC branch (30 to 60 minutes) and can pick up loan checks anytime between 8:30AM and 4:30PM on Tuesdays. Clients repay at the Housing Bank for Trade, which has 106 branches in Jordan, so repayment should be convenient for most clients.

New Product/Market Strategies. JMCC is getting ready to launch a new product feature that it calls "credit protection," which is really a life insurance policy with a death benefit equal to the original loan value. It will offer this to all its clients through an existing life insurance company and will cost only 2,500 JD per 1 million JD of insurance. In addition, JMCC is interested in the following ideas in this order of priority:

- **IT Business Training Loan.** JMCC is considering offering educational loans to people interested in taking certain computer or information technology courses and getting jobs to satisfy the high levels of demand for these skills in Jordan. Khalid Al-Gazawi, Acting Executive Director of JMCC, says that the estimated demand to hire people with training in Oracle, JAVA, Microsoft and other computer applications is 20,000 in Jordan. He estimates that the average cost of this type of training is 7,000 JD for seven months of part-time training. JMCC would give a 3 to 6 month grace period after the training ended to allow the client to find a job. If hired, the average starting salary is approximately 600 JD per month, from which the client could repay the loan. Recognizing that these are higher risk loans, JMCC would likely require a co-signer or collateral to secure the loan. In addition, JMCC would hire a couple loan officers to focus on this target market who could assess a potential student's ability to succeed in the program. JMCC estimates that it could make 150 IT business training loans in the first year, so would need approximately 1.5 million JD to launch the product. The Acting Director has already contacted IT training centers as well as businesses that might hire people with this type of training and has received a positive response on the potential for collaboration. One way to reduce risk would be to offer loans to people that businesses had pre-selected for the training, with a co-guarantee of the loan from the company or a salary reduction scheme to ensure repayment. JMCC is in the process of developing a survey to assess the market potential and plans to interview young people at Internet cafés in the next month.
- **Islamic Lending.** JMCC is interested in learning how it could package loans so as to avoid interest charges, without marketing them as "Islamic" or "Murabaha" loans. Particularly, JMCC is interested in knowing what sectors and suppliers would be good to target for this type of product, and what profit margin clients would be willing to offer.
- **Taxi Loans.** The Jordanian Government recently announced that it is waiving the usual taxes and customs a taxi driver would have to pay to purchase a new vehicle. Normally a new car would cost a taxi driver 10,000 JD, but with the waivers a new car would only cost 6,000 JD. So, JMCC is interested in understanding the level of interest taxi drivers have in purchasing new vehicles if they had access to a loan. JMCC would require that the car be fully insured (have property insurance) and would hold the title of the car until the loan was paid off to reduce risk.
- **Start-Up Loans To Technical College Graduates.** JMCC is also considering making loans to graduates with technical skills, such as carpenter or electrician, to start-up a business in that trade. JMCC would check with the Ministry of Labor to see what skills are most in demand and offer the colleges' top graduates 2,000 to 5,000 JD loans with a 6 to 9 month grace period to start-up a business. While the average technical college graduate earns 100 JD per month, those with their own businesses can often earn 300 JD per month, which would create the additional income needed to repay the loan. Nonetheless, lending to start-ups is a risky business as not all individuals make good entrepreneurs. JMCC should consider making these loans at higher interest rates than its traditional loans unless another guarantee was available.

Jordan Access To Credit Project (JACP) With CHF

JACP began operations in December 1998, as a not-for-profit company in Jordan, affiliated with the Cooperative Housing Foundation (CHF) of Washington, D.C. Based in Aqaba in Southern Jordan, JACP operates in partnership with three commercial banks, The Bank of Jordan, Jordan National Bank and Cairo-Amman Bank (CAB). According to official agreements, JACP finances 80 percent of each loan, while the participating bank finances the remaining 20 percent. The profit or loss is then shared on an 80/20 basis between JACP and the participating bank. JACP is responsible for the marketing, loan application and approval process, as well as the loan management and follow up. At the end of November 2001, JACP had 4,208 active clients (2/3 women) representing an outstanding loan portfolio of 3,108,762 JD (approximately $2,220,544), with a repayment rate of 93 percent.

Current Target Market. JACP began by targeting southern Jordan enterprises with group and individual loans ranging in size from 50 to 14,000 JD. JACP started with an emphasis on group lending, but has gradually moved away from group lending and toward individual lending. By March 2000, 68 percent of JACP's portfolio was in individual loans and management now says that they are no longer targeting group borrowers at all. To broaden market share and move toward financial self-sufficiency, JACP has broadened its geographical focus and now covers most major urban areas in Jordan. For new product development, JACP requested the survey focus on clients in Irbid.

Competition. With JACP's broader client base, it now faces competition on many fronts. For its smaller loan clients, MFW represents JACP's greatest competition, but only for female clients. MFW offers low-end products specifically designed for informal female business owners, and usually at lower interest rates than CHF. At the higher end, AMC represents a significant competitor, as it offers lower rates for large loan sizes.

Customer Satisfaction. JACP has struggled to find its market niche outside of southern Jordan, which has low population density and recent repayment problems due to the poor economy and the south's dependency on tourism. In March 2000, JACP reported a retention rate of only 18 percent among its group clients. JACP conducted research to understand the desertion and repayment problems and found that many clients were suffering from financial hardship as a result of the recent economic downturn in Jordan and either could not repay or did not want to have to repay the loans of other group members. These factors led to JACP's decision to broaden its geographical scope and product offerings.

Normally, JACP disburses individual loans within one week of receipt of a complete application. In the past few months, however, JACP ran out of capital for on lending and as a result some clients have been waiting for over two months for a loan. JACP plans to borrow from the Wholesale Credit Facility soon to address this issue. Otherwise, JACP offers convenient services, such as several bank branches, most of which are less than 5 km away from the average customer.

New Product/Market Strategies. Recently, JACP introduced its "Golden Loan" product, which offers loans to women using gold and precious jewelry as collateral at lower interest rates than its traditional loan products. This product has been slow to take off, possibly due to negative perceptions of pawn lending. In the past, JACP has been mandated by USAID to limit its loan sizes, however, JACP is now considering increasing its maximum loan size from 14,000 to 20,000 JD. In addition to these new strategies, JACP is interested in the following potential products:

- **Home Improvement Or Real Estate Loans**. JACP is in the process of conducting market research for home improvement loans or other loans secured by real estate. While JACP is conducting its own research it may work with AMIR 2.0 to conduct follow up focus groups once it has the results of its surveys in mid-March.

- **Leasing To Target Sectors**. JACP is interested in possibly creating a product to lease buses, taxis, trucks or other large fixed assets to entrepreneurs in Jordan. JACP's executive director suggested that CHP has found it easier to repossess vehicles or other large assets than to remove an individual from his home. JACP's relationship with Cairo Amman Bank offers one potential source for partnering in this area, as CAB has extensive leasing experience.

- **Village Banking**. JACP is considering building on its lending portfolio by lending to large cooperatives through a village banking methodology. It has already had success lending to smaller coops of 10 to 15 people, but hasn't been as successful reaching large coops.

MicroFund for Women (MFW)

MFW was founded in 1996 as an affiliate of Save the Children and built on Save the Children's pre-existing Group Guaranteed Lending (GGL) scheme. In December 1999, MFW registered as a non-profit limited liability company. MFW targets only female clients and many of its clients live in Palestinian refugee camps in northern Jordan. MFW began with group lending but has gradually introduced individual loans as a result of increasing competition and to avoid client desertion. MFW's methodology requires all clients to enter through the group lending product and after two successful loan cycles, they become eligible for an individual loan. While the group loan is for short-term working capital, the individual loans can be for either short-term working capital or for longer term fixed asset investments. In addition, MFW's best clients can take out a second loan, called "seasonal loans," to meet additional needs for capital through high demand periods, such as for Ramadan or the start of the school year. MFW's strategy has been successful, as it has achieved the largest outreach of all the MFIs. By the end of November 2001, MFW had 6,567 active loan clients with an outstanding loan portfolio of 1,164,081 JD (approximately US$831,486) and a stellar repayment rate of 100 percent.

Current Target Market. MFW is committed to serving only female entrepreneurs, with the majority of them working in informal businesses, many of which are operated from the home. MFW plans to stay focused on small loans and currently offers a maximum loan size of 2,500 JD. One of the limitations MFW faces in offering larger individual loans, is that few of their loan officers have the education and capacity to evaluate cash flow and financial statements. MFW plans to expand vertically rather than horizontally, focusing on its existing geographical target areas. In other words, MFW is not planning on opening new branches but will deepen outreach from its current branches. For the market research, MFW was most interested in assessing the potential for markets in Baqa'a, Zarqa, Ruseifa, and Irbid, all urban areas in northern Jordan.

Competition. At the low-end of the microfinance market, MFW faces little competition. However, as some of its most successful clients grow their businesses, MFW will likely face increasing competition from other MFIs, including AMC, JMCC and JACP, who offer larger loans at lower interest rates. MFW's competitive strength lies in its commitment to serving the needs of female entrepreneurs, many of whom begin their businesses in the informal sector. By targeting women while their businesses are still small and continually monitoring customer preferences, MFW will likely be able to form strong long-term relationships with their clients.

Customer Satisfaction. MFW regularly monitors customer satisfaction and solicits feedback from its clients through surveys, focus groups and exit interviews. MFW holds focus groups at least two times per year and recently conducted a survey on customer satisfaction. While the clients are mostly positive about their experiences, MFW has used these feedback mechanisms to develop new products, such as the seasonal loan, and learned that religious reasons and women's lack of mobility (ability to get out of the house to sell products) are common reasons for losing clients.

Marketing. By conducting targeted marketing campaigns, MFW has been successful in developing its image as the MFI for women. MFW's television advertisements, featuring a middle aged woman name Bahaya, have been very appealing to women. Nonetheless, word of mouth has been MFW's most successful marketing tool. A recent survey reflected that 55.8 percent of its clients learned about MFW from another client.
Other ways MFW attracted clients included the television ads (5.7%), flyers and brochures (4.0%) and from employees (2.5%).[5]

New Product/Market Strategies. MFW has been proactive in exploring its new product development interests and has already done some preliminary research on the following new product ideas:

- **Micro-Insurance.** MFW did an informal survey among its clients and learned that there was a lot of interest in both life and health insurance. However, MFW has not yet been able to identify a life insurance company that would offer a reasonable rate to its clients. One company said it would charge 8 JDs to offer a life insurance benefit equal to the loan value of 200 JD, requiring a four percent surcharge for each loan to simply break even. A study conducted by the German Development Institute (GDI) in April 2001 concluded that while there is significant unmet demand for health insurance among low-income people, potential micro-insurance partners "are unable to offer health insurance at an affordable premium level or on a voluntary basis."[6] In addition, the United Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), a quasi-public institution, is providing free primary health care to Palestinian refugees, MFW's primary target market.[7] Nonetheless, MFW is

[5] Interview with Mr. Bassem Khanfar, General Manager, MFW, February 13, 2002.
[6] Page VI, "Improving the Social Protection of the Urban Poor and Near-Poor in Jordan," GDI, April 2001.
[7] Ibid, p. IV.

interested in continuing to research the nature of this demand and their clients' potential to pay an insurance premium, particularly for mandatory or voluntary life insurance. MFW's volume of clients should help it find an attractive rate for a mandatory insurance product, i.e. one that is offered to all clients as part of the loan product.

- **Islamic Lending**. MFW was also interested in learning about the potential for alternatives to lending by charging interest, but prefers not to call it Islamic lending so as not to imply that there current products are against Islamic principles.

Automating Loan Decision-Making. Another concept that MFW is interested in exploring is the use of technology to reduce operational costs and improve productivity. MFW would be interested in researching the potential to use personal digital assistants, such as PalmPilots, or small computers that would facilitate their loan officers ability to make smart loan decisions quickly, to carry client information with them and to share the information with the management information system (MIS) database. The introduction of such a tool could also lay the ground work for the creation of a credit scoring system, which would further facilitate loan officers' ability to make loan decisions, especially for larger loans. MFW is currently in the process of upgrading its MIS - once installed MFW would be interested in pilot testing the concept. The General Manager, Mr. Bassem Khanfar, thought that MFW could supply one computer for each of the nine branches to start, but would need some financial assistance for the MIS integration and training.