



**CHF INTERNATIONAL
JORDAN ACCESS TO CREDIT PROJECT (JACP)
FINAL REPORT
September 30, 2003**

Cooperative Agreement Number: 278-A-00-98-00002-00

BACKGROUND

The Jordan Access To Credit Project (JACP) was a collaborative effort by CHF, Jordan River Foundation (JRF) (non-financial services), the Cairo-Amman Bank, Bank of Jordan, the Housing Bank for Trade and Finance and the Jordan National Bank. The project was designed to provide microfinance services to low and middle income Jordanians, especially micro, small and medium enterprises, and to create a permanent institution to continue providing these services beyond the life of the project. The JACP received US\$4 million in loan capital through the USAID Cooperative Agreement, and operated over a five-and-a half-year period in the Karak, Tafila, Ma'an, Madaba, Aqaba, Jerash, Amman, Irbid and Zarka Governorates. The USAID capital fund was augmented by a minimum 20% capital contribution by all participating financial institutions except for the Housing Bank for Trade and Finance. In addition, CHF obtained capital funding (line of credit) from the Development and Employment Fund (DEF) of up to \$200,000 for start-up loans. CHF also obtained a \$700,000 loan from Citibank as part of the Wholesale Funding Facility (WFF). In addition, CHF obtained a 1,000,000 JD line of credit from DEF for larger loans (up to 25,000 JD) to small and medium size businesses.

During the life of the Cooperative Agreement, CHF International achieved the following results:

- **14,174** loans disbursed, with a total value of **10,541,212 JD (US\$14,888,718)**.
- **1,227,140 JD (US\$1,730,804)** in additional loan capital leveraged from three banks.
- Overall repayment rate of approximately **96%**.
- Approximately **28,500** jobs created through loans to business clients.
- Over **55%** of loans to female clients, and **80%** of loans to low-income clients.
- Establishing of the **Middle East Micro Credit Company (MEMCC)**, a local microfinance institution which continues to serve low and middle income clients throughout Jordan, and has maintained the operational sustainability achieved by the JACP.

CHF's JACP initially offered both group-based and individual loans. The group based micro-credit portion targeted micro, formal, and informal home based production cooperatives as well as individuals involved in micro-credit enterprises, and targeted women both individually and through cooperatives. Credit was used to increase current production through working capital loans or small fixed asset purchases. Group based micro loans ranged from 100 JD to 500 JD. The term of these loans was 6 or 9 months. Group loans were offered from program inception until September 30, 2002, when they were discontinued due to lack of commitment among group members to guarantee each other.

A graduated lending approach was used for individual loans to small and medium size enterprises, in which most clients were small businesses with an interest to expand their current operations. Individual loans ranged from 100 JD to 14,000 JD. The term of these loans was from six to thirty-six months. On August 1, 2002, the JACP also began offering loans ranging from 10,000 JD to 25,000 JD utilizing DEF/MOP funding.

CHF held a Business Planning Seminar from July 29-30, 1998. During this seminar, the data from the demand survey was used to determine the precise mix of capital to be allocated between these two distinct components (Group & Individual). Based on an in-depth analysis of the demand and project operating costs, the interest rate(s) were established to achieve, at a minimum, operational sustainability within four years and financial sustainability within seven years.

CHF held its second Business Planning Seminar from February 8-10, 2000 in Wadi Musa, Jordan. The purpose of the meeting was to review the past year's achievements and lessons learned in order to develop a strategy for the following two years of program implementation. The result of this meeting was a revised business plan that was submitted to USAID-Jordan in April 2000. On October 3, 2000 CHF submitted to USAID a Project Extension proposal, which was based on the main components of the second Business Plan. The Project Extension Proposal was approved by USAID in December 2000 and the modification (number 8) was executed by USAID and CHF in February 2001. This modification extended the Cooperative Agreement through December 31, 2002. Modification 10 extended the Cooperative Agreement to June 30, 2003, in order to allow CHF sufficient time to build the capacity of the local microfinance institution founded as the key element of the exit strategy for the JACP.

ACHIEVED RESULTS

CHF's JACP contributed extensively to the USAID's objectives of increasing access to financial services, and developing local capacity within Jordan for microfinance service delivery. JACP loans had broad economic impact, including among underserved populations (including women and low-income clients).

- Expected Result: Increase access to financial services (USAID S.O. 5, and I.R. 5.1) for small and micro-businesses especially women owned and operated businesses (5.1.1).

As of June 30, 2003 JACP had made 14,174 loans amounting to 10,541,212 JD (\$14,888,718). The average loan size for the program period was \$1,050 or 743 JD, in keeping with the targeted criterion of borrowers in terms of business size and repayment capacity, and spread over all economic sectors: Agriculture (16.5%), tourism and services (15.3%), Manufacturing (7.3%), and Commercial (60.9%). As of June 30, 2003 JACP had an outstanding loan portfolio of 2,528 loans totaling 3,436,380 JD or \$4,853,644.

99% of JACP loans were disbursed outside Amman, mainly in the southern area of Jordan, and 55.77% of loans were made to women, a total of 7,905 loans. During its life, JACP loans to small and medium enterprises created roughly 28,500 jobs. Eighty percent of the disbursed loans (11,340) were made to the active poor, i.e. average monthly income per household is approximately \$300 and below.

- Expected Result: Develop the capability within a local bank or finance organization to manage a sustainable micro-credit and small business-lending program. A component of the local organization's institutional capacity building will focus on the necessary skills to interact with the formal financial institutions. This expansion of the retail credit sector will meet USAID I.R. 5.1.3.

CHF successfully established the Middle East Micro Credit Company (MEMCC) on June 1, 2003. CHF/JACP staff and assets were transferred to MEMCC, which retained the overall management and operational structure implemented under the JACP. Since its founding, MEMCC has operated independently and is managing a loan portfolio of around five millions US dollars. In July and August, MEMCC disbursed a total of 393 loans with an average loan size of 1,309 JD and maintained a repayment ratio of approximately 96%.

During the life of the JACP, CHF succeeded in leveraging the amount of 1,227,140 JD or \$1,730,804 from three banks in loan capital. This translated to 11,721 loans disbursed in partnership with Bank of Jordan, Cairo Amman Bank and Jordan National Bank.

- Reach operational sustainability within a four-year period and full financial sustainability within seven years. (USAID I.R. 5.1.2)

The JACP reached operational sustainability in the 9th quarter of the project. Over the last 12 months of the Cooperative Agreement, JACP maintained operational sustainability on a monthly basis; as of June 30, 2003 operational sustainability was 138%, calculated on accrual basis.

Success Story 1

Client: Mahmoud Omran
Loan Amount: 2,000 JD
Loan Term: 36 months
Project: Tailoring Workshop

The story of Mahmoud Omran started in Lebanon, where he first pursued his career by launching a project for designing and manufacturing clothes. Despite the successful start, Omran's business did not survive the economic fluctuations of the Lebanese market.

However, with hope still at his heart, Omran relocated to Iraq in order to benefit from the open market policies and larger number of customers. Though his project was booming, Omran was again faced with difficulties in the Iraqi market due to country's unstable conditions.

By that time, Omran almost gave up his dream of owning his clothing workshop and opted for a less risky environment. Thus, he started working as a workshop manger with the Jordanian Hashemite Fund, where he supervised and implemented training programs that helped produce manpower capable of surviving today's market. He remained in this position for 10 years until the Fund shut down the project for financial reasons.

This Fund's demise energized Omran and revived his entrepreneurial dreams. The problem was that he only had enough money to rent a small shop and, based on his collateral, no bank would agree to lend him the required capital. Fortunately for Omran, a CHF branch was newly founded in Jordan and a loan officer visited and reviewed his project. After careful consideration, appropriate funding was determined at JOD 2000.

With CHF's funding and 5 sewing machines already at his disposal, Omran worked diligently to increase his market share and began entering into bids with public and private sector institutions. He also managed to engage foreign capital in his work by providing foreign investors with their manufacturing needs. In his first year, Omran increased the number of workers form 5 to 13 and in the second year, he opened another workshop bringing the total number of his employees to 24.

Omran is a family man who provides for 6 people. By employing 24 individuals, Omran is indirectly providing for the families of his employees.

CORE ACTIVITIES

During the life of the project, the Jordan Access to Credit Project focused on the following major activities: a) Lending Operations, b) Relationships with Financial Institutions and Lenders, c) Program Operations, and d) MIS.

a) Lending Operations

Lending operations were initiated in both Aqaba and Karak in December 1998. Lending began in Wadi Musa in March 1999. Operations began in Ma'an during May 1999, while Tafila operations began September 1999. In February 2000, CHF added the Madaba Governorate to the current operations. In Madaba, the CHF loan officer initially began working out of the Jordan National Bank (JNB). This model allowed CHF to considerably reduce operational costs while simultaneously demonstrating CHF's lending experience directly to the JNB staff. However, in the third quarter of 2002, the JNB senior management advised CHF that according to their lawyer, the JNB was not authorized to sub-lease space to CHF. Thus, CHF was required to depart the premises in Madaba and in Maan. However, since JNB owns the building in Irbid and Jerash, the CHF office remained in the bank. In February 2001, CHF opened the Jerash and Irbid branches. CHF operates these branches out of the Jordan National Bank. Loan officers stationed in the JNB branches in Irbid and Jerash can process loans for any of the partner financial institutions. CHF initiated individual lending in Amman in November 2001 and

initiated individual lending in Zarka in October 2002. As of October 2001, the JACP had fully disbursed all program capital funds.

Since program inception, the overall percentage of women loan clients (Group and Individual) was approximately 55.77% due to a strong demand for loans by female clients. As of June 30, 2003, 73% of all loans were group loans. However, group loans only represent 15.98% of the value of disbursed loans since program inception.

At the end of the Cooperative Agreement, the JACP had developed a mix of loan products to cater to the financing requirements of different categories of clients. These products continue to be offered by MEMCC.

-Individual loans with interest applied on declining balance. Loan amounts ranged from 500 JD to 14,000 JD with a repayment period up to 36 months.

-“Meena” individual loan. The Meena loan differs from the standard individual loan as follows:

1. Loan amounts range from 150 JD to 450 JD, repaid over periods ranging from 6 to 12 months;
2. Interest is calculated on a flat rate and deducted up-front; and,
3. All loans are underwritten and serviced through the Housing Bank.

-A “golden loan” product designed to increase the number of loans less than 1,000 JD. The product has received mixed results with the strongest demand occurring in Aqaba. CHF has only been successful in generating golden loans, if the product was marketed by a female loan officer who has a very good understanding of the societal norms and local culture. Branches continue to be encouraged to promote golden loans, and female loan officers have received training on how to market this product. Interest is calculated on a flat rate and deducted upfront. MEMCC will continue to encourage this type of loan.

-Business Loans that range from 10,000 JD to 25,000 JD funded by MOP/DEF line of credit. Interest is applied on declining balance and repayment period goes up to 36 months.

The overall program repayment rate is estimated to be around 96%. The remaining balance on group loans, as of June 30, 2003 was 29,052 JD, representing 0.8% of the total outstanding portfolio. All efforts are being exerted to collect the remaining balance on group loans.

b) Relationships with Financial Institutions and Lenders:

To enhance its lending operations and expand its outreach, JACP engaged in several borrowing relationships with Banks and Government Institutions.

During the second and third quarters of 2002, the JACP borrowed 500,000 JD (\$706,214) from Citibank, under the Wholesale Funding Facility (WFF), and lent the entire amount during the same period. The Citibank loan is being settled via monthly installments. The

balance of the loan as of June 30, 2003 was 283,760 JD. Also during 2002, the JACP obtained a line of credit for \$200,000 from DEF and fully utilized it in lending operations in the same period. JACP repaid the DEF line of credit in full in May 2003. Also in 2002, the JACP obtained a 1 million JD line of credit from DEF/MOP as a funding for SME loans that range from 10,000 JD to 25,000 JD. The line of credit is to be settled over 3 years from each draw down date. By June 30, 2003, the JACP had utilized 839,025 JD of the MOP/DEF funds.

Until June 30th, JACP worked in partnership with four local banks – Bank of Jordan, Cairo-Amman Bank, Jordan National Bank and the Housing Bank for Trade and Finance. Although JACP stopped generating new loans through the Bank of Jordan and the Cairo-Amman Bank, both financial institutions continued to service existing JACP loans. MEMCC capitalized on the previous relationship and forged new agreements with the Jordan National Bank and the Housing Bank for Trade and Finance.

Over the life of the Cooperative Agreement, three partner banks have disbursed a cumulative total of 1,227,140 JD or \$1,730,804 of their own funds in loans to CHF clients. The Jordan National Bank has the highest share at 917,045 JD. The Bank of Jordan contributed 211,780 JD while the Cairo-Amman Bank contributed 98,315 JD. The JACP used 100% of their capital funds for loans disbursed the Housing Bank. MEMCC has since crafted similar arrangements with the Housing Bank and the Jordan National Bank.

c) Program Operations

CHF-Jordan branches in Aqaba, Karak, Wadi Musa, Maan and Tafila continued marketing their individual loans through the communities of southern Jordan. Group loans in southern Jordan were phased out on October 1, 2002.

The Jerash, Irbid, Amman, Zarka and Madaba branches offer individual loans through either the Jordan National Bank or the Housing Bank.

CHF initiated marketing operations in Zarka in September 2002. Lending commenced in November 2002. Activities are being conducted out of the MEMCC Amman office in order to reduce operational expansion expenses.

The following table provides a summary of group and individual loans from program inception through June 30, 2003. The table also indicates disbursed loans as well as loans that have been approved but not disbursed. The percentage of female clients for each loan product is also provided.

CHF International – Jordan
Lending Activities as of June 2003

	New Loans Approved June 2003	Loans Disbursed June 2003	Total Loans Disbursed To-Date	Loans Approved Pending Disbursal	Total Disbursed and Obligated
<i>Group Loans</i>					

Number	0	0	10,362	0	10,362
% Women	0%	0%	66.15%	0%	66.15%
JD Value	0	0	1,684,015	0	1,684,015
% of total portfolio	0%	0%	15.98%	0%	15.98%
<u>Individual Loans</u>					
Number	138	138	3,812	0	3,812
% Women	31.16%	31.16%	26.81%	0.00%	25.18%
JD Value	143,710	143,710	8,857,197	0	8,857,197
% of total portfolio	100.00%	100.00%	84.02%	100.00%	84.02%
<u>Total Portfolio</u>					
Number	138	138	14,174	0	14,174
Loans to Women	43	43	7,905	0	7,905
% Women	31.16%	31.16%	55.77%	0.00%	55.77%
JD Value	143,710	143,710	10,541,212	0	10,541,212

Total Disbursed through June 2003 ***\$14,888,718***

d) MIS Update:

CHF MIS Consultant: In order to solve the outstanding technical problems, MEMCC hired, in June 2003, a short-term consultant to assist with the program's MIS department. MEMCC has solved many problems with the reports generated by the new MIS system and is still working diligently with the software developer (Delta Informatics) to overcome these problems. MEMCC intends to streamline the current MIS system and continue employing it.

Success Story 2

Client: Safa Al-Ryatti
Loan Amount: 1,000JD
Loan Term: 36 months
Project: Vegetables Shop

It would be no exaggeration if we were to say that Safa Ryatti started her business from zero. She used to sell vegetables on the side of the street to by-passers when she heard of the opportunity CHF offered to low income individuals. For Safa getting a similar break was a mere dream until she was able to get a small loan from CHF. Her first endeavor to improve her work was funded by CHF's Al-Rawabi program for small loans. She was given 150 Jordanian Dinars (JD) to expand her activities.

Safa succeeded in paying off her first loan which enabled her to benefit from a series of loans starting from 150 JD over a 6-month period to 200 JD over the same period, and 250 JD over a 9 month period and finally 300 JD over another 9 months period.

With these loans Safa was gradually able to improve her business. This qualified her to get a loan for 4,000 JD with which she bought a vegetable shop in Al-Shallala area in Aqaba and laid down a payment for a small pick up truck.

After establishing her own business, Safa requested and received a loan for 10,000 JD with which she improved her standing business and bought a larger truck. With her hard work, and the help of CHF, Safa now owns three vegetable shops, two trucks, and is currently importing part of her supplies from neighboring countries in order to cover the increasing market demand.

We here at CHF Jordan are proud of Safa's success story, a live example of our role as catalysts for improving life in low income communities and our endless efforts in achieving women empowerment.

FUTURE PLANS

a) Exit Strategy

In accordance with the long-term goal of establishing a local corporate entity to assume the ownership of JACP assets and operations, as outlined in the USAID-CHF/JACP Cooperative Agreement, CHF has established the Middle East Micro Credit Company (MEMCC) as a local, limited liability, not-for-profit company. MEMCC was established as a local, private financial service company with the capacity to administer a credit portfolio funded by a variety of capital sources and offers a mix of products, to continue the current activities of CHF's JACP. Although it is registered as a local Jordanian entity, MEMCC maintains an affiliation with CHF International, allowing it to benefit from CHF's experience and established organizational relationships, while allowing CHF to support its successful performance in order to continue attracting the interest of the private sector. The By-Laws of MEMCC were submitted and approved by the Ministry of Industry and Trade on January 22, 2003.

MEMCC held its first board meeting on January 26, 2003. Key agenda items were:

1. the approval of the By-Laws
2. election of the Chairman and Vice Chairman
3. designation of account signatories
4. approval of General Manager

A critical component of this Exit Strategy was the selection of the MEMCC General Manager. In October 2002, CHF advertised for the position of the JACP Program Manager, who would be trained to become the General Manager of the local microfinance institution, and the response was very positive. Over 40 applications were received. During this reporting period, CHF short-listed 7 applicants. The position was discussed with all short-listed candidates. Three candidates were selected for an interview. Naser Darwish was selected as the new JACP Managing Director/MEMCC General Manager.

The MEMCC Board consists of five (5) members: three CHF International employees and two Jordanians. The local Board Members are Mr. Fuad Al Werr from Jordan National Bank and Ms. Suha Tleel from Societe Generale. Both are reputable bankers, with strong experience in microfinance activities, as bankers or practitioners.

MEMCC officially commenced its operations on June 8, 2003; this date comes after the

CHF Board of Directors meeting, which resulted in sanctioning the transfer of assets, liabilities and equity from CHF/JACP to MEMCC. Efforts were exerted to streamline the transition from all perspectives (staff, contracts with third parties, banks, clients, legal and financial aspects); a comprehensive transition plan was executed to this effect.

MEMCC is now fully operational as a local Microfinance institution with a distinct identity and brand name.

b) Certification as to Effective Use of Commodities

Until the expiry of the Cooperative Agreement on June 30, 2003 the JACP operated out of five (5) full lending offices in southern Jordan and two (2) offices in northern Jordan, with two employees working out of an office in Madaba and one administrative office in Amman that also services the Bayader –Wadi Seer and Zarka clients. All offices are furnished and have the necessary office equipment to function. All purchases for the offices were made using USAID funds and following USAID procurement policies. The transfer of these assets from CHF to MEMCC was approved by USAID in August 2003 as part of the final exit strategy which was submitted in June 2003.

CHF certifies that all USAID funded commodities are effectively utilized at each of the branch offices.