

Support for Credit Demand Survey, Insurance Research, and Client Referral System

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Support for Credit Demand Survey, Insurance Research, and Client Referral System

TABLE OF CONTENTS

1.0 Introduction and Background

2.0 Support to Borrower Demand Survey

3.0 Support to Insurance Survey

4.0 Support to MSME Referral System

5.0 Conclusion

ANNEX A	Selection criteria for borrower demand assessment
ANNEX B	Modified borrower demand survey for SIYAHA one-on-one interviews
ANNEX C	Outline for insurance report
ANNEX D	List of resources for further insurance research
ANNEX E	Options for introducing new tourism insurance products to Jordan
ANNEX F	Template for referral system one-pager
ANNEX G	Agenda for introduction of referral system to SIYAHA partners
ANNEX H	Contact sheet templates for referral system partners
ANNEX I	Borrower information sheet for referral system
ANNEX J	Template for schedule of SIYAHA-funded subsidies for business services referrals

ACRONYMS

BSP	Business Services Provider
IATA	International Air Transport Association
ITAA	Irish Travel Agents Association
JLGC	Jordan Loan Guarantee Corporation
MSME	Micro, Small and Medium Enterprises
SME	Small and Medium Enterprises
TAANZ	Travel Agents Association of New Zealand
TGIC	Travel & General Insurance Company
USAID	United States Agency for International Development

1.0 Introduction and Background

As part of its effort to boost the competitiveness of enterprises in the tourism industry, including tour operators, hotels, restaurants, and related businesses, USAID's Jordan Tourism Development Project (SIYAHA) is working to improve access to capital for tourism related micro, small, and medium-sized enterprises (MSMEs). Lenders in Jordan—especially banks—are hesitant to extend credit to MSMEs, including tourism enterprises, at market rates and with appropriate collateral requirements. Since MSMEs constitute the vast majority of tourism enterprises and Jordanian enterprises generally (as many as 98 percent of all businesses in Jordan are MSMEs by some estimates), lack of credit access for MSMEs hinders growth of the entire tourism sector, as businesses cannot expand or upgrade their facilities and services. The result is an underperforming tourism sector that “has shown a lackluster performance over the past 10 years as compared to other tourism industries within the region.”¹

In February 2006, SIYAHA funded a credit access assessment to determine the availability of credit for MSMEs. The assessment found that one reason lenders do not extend credit more readily is the information asymmetry that exists between lenders and MSMEs. Many enterprises in Jordan are family operations that are not professionally managed, with business plans and financial statements that are opaque or lacking altogether. Moreover, there is no credit reference information system in Jordan to provide lenders with a borrower's credit history. As a result, lenders may have little information about a prospective MSME borrower when making a decision about whether or not to extend a loan to them.²

The credit access assessment also recognized the lack of insurance products targeting tourism related enterprises as a constraint to doing business for MSMEs. In addition to standard liability and property insurance, tour operators and hotels interviewed as part of the assessment mentioned the need for protection from lost revenues due to booking cancellations over security concerns or other reasons. Additionally, the assessment found that the current bonding requirements for travel agencies are burdensome. Travel agencies in Jordan, as in most countries, must be bonded in order to protect customer prepayments in the event of financial failure of the travel agency. The amount of such bonds is often JD 50,000 or more. Without such bonding, a Jordanian travel agency cannot book tickets through the International Air Transport Association (IATA), which is virtually a requirement for a travel agency business to be competitive. In many countries, travel agency bonding is obtained through insurance products, but in Jordan it is secured through Letters of Guarantee from commercial banks. These letters come with high fees and collateral requirements and are either expensive or wholly inaccessible to MSME travel agencies.

Among the recommendations provided by the credit access assessment team were that: 1) A more intensive demand assessment be conducted to determine tourism MSMEs' demand for credit and financial services products; 2) A survey be conducted of tourism insurance products available in other countries as a first step to determining whether such products could be replicated in Jordan; 3) A referral system be designed whereby business services providers (BSPs) can refer

¹ Keating, Benjamin and Averch, Caroline. “Analysis of Jordanian Tourism MSME Borrower Cohort.” SIYAHA Program, USAID/Jordan, 2006.

² Ibid.

Support for Credit Demand Survey, Insurance Research, and Client Referral System

creditworthy enterprises to lenders, and lenders, in turn, can refer prospective borrowers in need of technical assistance to BSPs. When such technical assistance can make MSMEs creditworthy under a lender's minimum credit criteria, this reduces the degree of information asymmetry between borrowers and lenders and improves credit access.

The purpose of this five-day assignment was to provide advice and assistance to local financial services professional Reem Goussous in designing a more intensive credit demand assessment, outlining research on insurance products and services for the tourism industry, and structuring a client referral system for lenders and BSPs. The primary outputs of this assignment are included here as annexes, with brief descriptions below detailing the purpose of each annex and recommendations for further action.

2.0 Support to Borrower Demand Survey

The credit access assessment included a survey instrument to assess borrower demand, which was sent out to tourism MSMEs. However, the low return rate for this survey indicated the need for a more participatory, if qualitative rather than quantitative, method of information gathering. The project considered using focus groups, but decided one-on-one interviews would be a more appropriate first step, in part because business owners may not wish to discuss such topics as their financial history and their expansion plans in front of their competitors.

In order to prepare Ms. Goussous for these interviews, I prepared selection criteria for interviewees, attached here as Annex A, and interview questions adapted from the original borrower demand survey, included here as Annex B. Five businesses each from the hotel, restaurant, souvenir shop, and tour operators industries will be interviewed in depth, with additional interviews or focus groups possible as a follow-up action if the initial interviews do not yield the desired information.

3.0 Support to Insurance Survey

The insurance survey will review the availability of insurance products designed for or appropriate to tourism related enterprises in countries with competitive tourism industries. Countries discussed with SIYAHA staff that were of interest included Ireland, Australia, Turkey, Thailand, Mexico, Croatia, South Africa, and Tunisia. Most of these countries are on the World Travel and Tourism Council's list of top 25 world tourism destinations, despite the fact that six of the eight are, like Jordan, considered to be developing countries. Additionally, there is wide interest in the donor community and the Government of Jordan in benchmarking the country's overall competitiveness against that of Ireland due to the radical transformation of that country's economy in recent decades.

My role was to prepare an outline for Ms. Goussous' report (included here as Annex C), as well as a list of resources for follow-up research (Annex D). Unfortunately, there is sparse information on the availability of specialty insurance products for tourism enterprises in some of the above countries, and I ultimately focused more on locating products that could potentially be replicated in Jordan, regardless of their

Support for Credit Demand Survey, Insurance Research, and Client Referral System

country of origin. Accordingly, while the resource list in Annex D includes some sources from the above-mentioned countries, it also includes relevant information from other countries about such products of interest as the services offered by the Travel & General Insurance Company (TGIC) to UK-based travel agents. TGIC offers a bonding by insurance plan that, if replicated, could substitute for the expensive bank guarantees currently required from Jordanian travel agents to protect customer prepayments. In addition, TGIC has an innovative bonding solution for MSME travel agents called TOPP, which allows MSMEs to pay for insurance on an actual turnover, per passenger basis rather than on projected turnover, thus reducing the cost of the insurance premium. See the Web links in Annex D for more details.

However, new and customized insurance products can be difficult to introduce in an emerging market such as Jordan, where MSME insurance in general is a relatively new phenomenon. To the extent that the insurance needs of tourism related enterprises can be met with general liability and property insurance products, the challenges of introducing new products need not apply. For example, a fire in a souvenir shop does not pose different risks than a fire in a grocery shop, and thus the souvenir shop will not need a fire insurance policy that is distinct from the type of product sold to other establishments. Where new products must be introduced to fulfill an unmet need, such as the travel agency bonding by insurance products described above, several options exist to establish such products in the market. There are also alternative risk management strategies for coping with those risks that are unlikely to be covered by affordable insurance, such as the risk of lost income in Jordan due to a terrorist attack in the United States. Annex E gives an overview of possible avenues for introducing new insurance products or alternative risk management mechanisms, and is intended both to provide a context for the insurance study being prepared by Ms. Goussous and to stimulate discussion among SIYAHA staff about follow-on actions to implement any recommendations that may arise from that study.

4.0 Support to MSME Referral System

The basic framework of the referral system has not yet been determined. SIYAHA must decide whether a project employee will be hired to oversee the system, with all referrals from lenders and BSPs channeled through the project, or whether lenders and BSPs will establish relationships and make referrals freely. Regardless of which mechanism is chosen, SIYAHA will need to establish minimum eligibility criteria for enterprises to receive subsidized technical assistance from BSPs and to communicate these criteria to all partners, since the project intends to partially fund the cost of BSP services for selected enterprises through its grant funds. Additionally, if referrals are not channeled through SIYAHA, the project will need to determine a system for lenders to refer businesses to BSPs on a competitive basis in order to promote transparency and price competitiveness, as well as to avoid possible conflicts with applicable USAID regulations in the use of its grant funds.

However, regardless of the implementation structure SIYAHA chooses, the project and Ms. Goussous will require a means of introducing the system to lenders and BSPs and giving them the necessary tools to keep in contact with each other and/or the project. Annexes F through J are intended to provide these tools. Annex F contains a

Support for Credit Demand Survey, Insurance Research, and Client Referral System

template for a “one-pager” marketing document that can be used to communicate the basic purpose of the referral system to project partners. Annex G consists of an agenda that can be used to conduct an introductory meeting to explain the system to all interested lenders and BSPs after SIYAHA determines its basic framework. Annex H contains templates for contact sheets with lender and BSP information. It should be noted that the contact sheet with the names of the lenders, once completed, will contain proprietary information about the terms each lender offers its MSME borrowers, and as such it should be given only to the BSPs and *not* to the lenders. Similarly, the contact sheet labeled as “for use by lenders” and intended to contain BSP information should only be given to the lenders and *not* the BSPs.

Annex I, the borrower information sheet, is the actual information about the enterprise that should accompany each referral. It is written in such a way that it can be used for referrals originating with either lenders or BSPs. While SIYAHA could consider investing in an online database accessible to its partners that would contain referral information, it would also suffice for referring lenders or BSPs to send a completed borrower information sheet as an e-mail attachment to accompany each referral.

Finally, Annex J contains a template for the schedule of SIYAHA-funded subsidies, indicating the percentage of BSP services for which the project will pay when qualifying enterprises are referred. The numbers in this annex are notional and the project needs to determine the actual schedule of subsidies based on its available funds and development goals. The indicated maximum for subsidized technical assistance of 30 percent of the cost, up to US\$25,000, is based on the maximum cost listed in the draft Memorandum of Understanding between SIYAHA and Cairo Amman Bank.

ANNEX A Selection criteria for borrower demand assessment

The SIYAHA project's borrower demand assessment is intended to elicit credit demand information from micro, small and medium enterprises (MSMEs) in tourism related industries in order to identify loan products appropriate for creditworthy tourism MSMEs that can be developed through technical assistance to SIYAHA partner lenders. This information will be gathered through one-on-one interviews with at least five businesses in the hotel, restaurant, souvenir shop, and tour operator industries.

Enterprises identified for one-on-one interviews under the SIYAHA project's borrower demand assessment should meet the following criteria, segregated by industry. This list is an ideal; however, in the event that it is impossible to identify five businesses that meet all of these criteria and are willing to be interviewed, the criteria are listed in decreasing order of importance, with the most important criterion listed as #1.

Hotels:

- 1) Single establishment—not part of a domestic or international hotel chain
- 2) Must have legal status under Jordanian law, or be in the process of obtaining such status through formal registration
- 3) No more than 150 employees, with at least one hotel from each of the following categories:
 - a. Microenterprise (1-5 employees)
 - b. Small enterprise (6-25 employees)
 - c. Medium enterprise (26-150 employees)
- 4) Located outside Amman, preferably in a tourism cluster targeted for SIYAHA assistance
- 5) 100% Jordanian³-owned
- 6) At least three interviewees must have less than 100 beds
- 7) Must include at least one start-up hotel, but no more than two

Restaurants:

- 1) While it may not cater specifically to tourists, the restaurant is not a place tourists would avoid.
- 2) Located outside Amman, preferably in a tourism cluster targeted for SIYAHA assistance
- 3) 100% Jordanian-owned
- 4) No more than 40 employees. At least three interviewees must have 15 employees or less.
- 5) Must include at least one start-up, but no more than two
- 6) Single establishment—not part of a chain
- 7) If rated, must be rated 3 stars or less.
- 8) Must have legal status under Jordanian law, or be in the process of obtaining such status through formal registration

³ "Jordanian", as used here, means a person who is a citizen of Jordan and resides in Jordan. Foreign investors of Jordanian origin do not qualify.

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex A**

Souvenir Shops:

- 1) Can sell items other than souvenirs, but sales of souvenirs and other tourism related merchandise should account for at least 51% of the store's business. At least one interviewee should sell 90% or more tourism related merchandise.
- 2) Single establishment—not part of a chain or owned by a hotel
- 3) Not located inside an international chain hotel
- 4) 100% Jordanian-owned
- 5) Must have legal status under Jordanian law, or be in the process of obtaining such status through formal registration
- 6) No more than 5 employees.
- 7) Must include at least one start-up, but no more than two

Tour operators:

- 1) Located in Jordan.
- 2) At least one interviewee should focus on adventure tourism or eco-tourism.
- 3) Must not sell *only* tours to Petra. Preferably sells some tour products for visits to a cluster targeted for SIYAHA assistance.
- 4) 100% Jordanian-owned
- 5) Must have legal status under Jordanian law, or be in the process of obtaining such status through formal registration
- 6) Must include at least one start-up, but no more than two
- 7) No more than 25 regular employees. This does not include persons hired on an as-needed short-term basis, such as guides or drivers (unless they are counted as regular employees).
- 8) At least one interviewee should focus on religious tourism.

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex B**

ANNEX B Modified borrower demand survey for SIYAHA one-on-one interviews

Interviewer instructions: Try to speak with the owner or manager of the business. Give out your business card and introduce yourself in accordance with the guidelines below, then proceed to the questions. Please note the underlined instructions below, which are designed to help you in case the answers do not naturally lead into the next question. Note in your report on the interview if the owner is male or female.

Introduction: I work for a project funded by the U.S. Agency for International Development that is trying to help attract more tourists to Jordan. One of the issues we are examining is the availability of finance for small and medium-sized businesses. The goal is to give banks an idea of what a business like yours might be able to do with a loan so that they can design loan products that fit your needs.

Would it be possible to ask you a few general questions about your business? Your name and the name of your business will not be used in connection with your answers.

I. Business Data (warm-up questions)

- 1) What does your business do? (If it's obvious, i.e., a hotel, can ask what types of clients they cater to).
- 2) Are you the owner? Are there any co-owners? Do you also manage the business?
- 3) How long has your business been operating?
- 4) Do you own any other [hotels, restaurants, souvenir shops, tour businesses]?
- 5) How many employees do you have?
- 6) Is your business seasonal? What I mean is, do you have a busy time of year when you make most of your revenue, and a slow time of year when there are not as many customers?

II. Possible Project Data for Business

- 7) Has the business ever taken a loan before? Was it from a bank, microfinance institution, or private individual? What was the type of collateral? What were the terms of the loan—length? interest rate? amount?
- 8) Has your business ever been turned down for a loan, and if so, what was the reason given?
- 9) Do you want to make any of the following changes to your business in the next 12 months? (Read list of possible changes; skip any that are clearly not relevant to the enterprise type).

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex B**

- a. Expand/renovate physical premises
- b. Buy new equipment
- c. Add new products
- d. Hire more workers
- e. Improve quality of product
- f. Reduce costs
- g. Sell in new markets/locations

10) Are you making these changes because you expect them to lead to an increase in revenue, or will you only make these changes after you have already had increased revenue?

11) Will the changes you want to make result in any new jobs?

12) Will you require outside financing for any of these changes? If so, which ones?

If the answer is no, it may be because they believe such financing is unavailable, in which case interviewer needs to dig deeper and ask what the owner would want to do if he/she could get financing to do it.

13) Which of the following do you think you might try to get this financing from?
(Read list and note all that apply)

- a. Family member or friend
- b. Commercial bank
- c. Microfinance institution
- d. Private money lender
- e. Credit card
- f. Foreign investor
- g. Other _____

If they are planning to take out loans, ask questions 14-16 below. If not, ask why they are not planning to approach lenders for their financing.

14) Approximately how much would you need to borrow to make the changes you want?

15) What interest rate would you be willing to pay? Please answer realistically.

16) How much collateral would you expect to have to pledge in order to receive the loan?

17) Have you ever received technical assistance from an NGO or an organization like USAID or the World Bank? If so, what was the goal of the assistance? Did it help?

18) What type of technical assistance would be helpful to you? How would you use this assistance?

19) If you had better access to technical assistance and/or financing, would it encourage you to expand your business? What would you do with your business that you are not currently planning to do?

ANNEX C Recommended outline for insurance report

I. Executive Summary

II. Introduction

(Include why insurance important for tourism MSMEs, with connection to creditworthiness.

Mention countries against which Jordan is being benchmarked for purposes of this study)

III. Background

- a. **Purpose** (include reference to the credit access assessment and the need it showed for this report)
- b. **Definition of tourism businesses** (hotels, restaurants, souvenir shops, tour operators/travel agencies)
- c. **General and unique risks faced by tourism businesses** (include only risks relevant to Jordan; mention any known risks that are specific to Jordan, such as the threat of downturn due to terrorism elsewhere)
- d. **Travel agency bonding requirements** (bonding required for registration or access to IATA airline ticket booking database in Jordan and many other countries to protect customers' prepayments on tickets and/or tour packages. Mention credit access assessment information about the burden that securing bonding through bank guarantees is placing on travel agents—i.e., they come with expensive fees and high collateral requirements)

IV. Availability of insurance products for tourism businesses in other countries

- a. **Liability insurance**
 - i. General products applicable to tourism businesses
 - ii. Special products unique to tourism businesses (for example, exclusions for adventure activities that require specialized policies)
- b. **Property insurance**
- c. **Business interruption insurance**
 - i. Interruption of income due to fire or natural disaster
 - ii. Interruption of income due to regional instability and other external shocks
- d. **Travel agency guarantees**
 - i. Bonding by insurance
 - ii. Pay-as-you-go systems
- e. **Insurance for individuals** (trip cancellation, injury or illness, medical evacuation, etc. Mention both general policies and insurance products for specific activities that are commonly excluded from general policies, such as rock climbing).

V. Availability of appropriate insurance products in Jordan

- a. **General insurance products appropriate for tourism enterprises**
- b. **General insurance products appropriate for tourism MSMEs**
- c. **Specialty products for tourism related activities**

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex C**

- VI. Alternatives for introducing appropriate insurance products to Jordan**
(include info from Annex E, if useful)

- VII. Willingness of Jordanian insurance companies to create new products for the tourism sector**
(Suggest gathering this information through interviews with Oasis and similar companies)

- VIII. Conclusions and Recommendations**

- IX. References**

ANNEX D List of resources for further insurance research

Websites:

1. Association of Bonded Travel Organisers Trust, Ltd. www.abtot.com
 - a. UK. Bonding for package tours to protect client deposits from financial failure of the enterprise. Not the same as the UK bonding requirements for air travel booking.
2. Association of Croatian Travel Agencies. http://www.croatia-travel.org/press_legal.php.
 - a. Describes insurance policies that Croatian tour operators are legally required to carry.
3. AON Australia Hospitality SME Insurance. www.aon.com.au/small_medium_business/specialisation/hospitality.asp
 - a. Australia. Insurance products specially designed for the hospitality industry (hotels, taverns, night clubs). Little info on website, but can contact for more.
4. The Berkeley Group. www.berkely.com/risk_management/products_default.jsp.
 - a. USA. Insurance products for travel agents and tour operators.
5. China travel reference. www.chinatravelreference.com/faqs/Insurance.asp.
 - a. Information about the insurance which individual travelers to China are required to purchase. An example of insurance for individuals being used in place of, or in addition to, travel agencies' business insurance.
6. EC Directive 90/314/EEC. http://www.jura.uni-augsburg.de/prof/moellers/materialien/materialdateien/010_europaeische_gesetze/eu_richtlinien/ril_1990_314_ewg_pauschalreisen_en.
 - a. European community. Can affect Jordan-bound package tours originating in Europe, as European tour operators are held liable for any incidents caused by their (Jordanian) suppliers.
 - b. For this reason, European tour operators may be hesitant to use uninsured Jordanian hotels, restaurants, etc. for their package tours, which makes it more difficult for MSMEs to compete for this market. **Highly recommended.**
7. Kindlon Insurance Group. http://www.kindlon.ie/special_schemes.htm.
 - a. Ireland. Specialty insurance products for restaurants and country house hotels.
8. New Zealand individual travel insurance. www.tourism.net.nz/travel-insurance.
 - a. Good example of policies tourists can purchase for adventure activities.
9. OAMPS Tourism & Recreation Insurance Program (TRIP). www.oamps.com.au/Products/default.asp?productID=109
 - a. Australia. Tailored insurance products and risk management consulting for tour operators. Little info on website, but can contact for more.
10. SATIB Safari & Tourism Insurance Brokers. www.satib.co.za/.
 - a. South Africa. Specialized tourism products and risk management consulting, including: tour operator liability; eco lodges made of traditional materials (difficult to insure for fire because the materials are flammable); liability for owners of private accommodation who rent short-term to tourists; and transport liability. **Highly recommended.**
11. Sports-Can Adventure Travel & Adventure Tour Operator Insurance. www.sports-can.ca/insurance/adventuretour.htm

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex D**

- a. Canada. Liability insurance products for adventure tour operators running trips. Specialized products for different kinds of activities (hiking, rock climbing, etc.)
12. Travel Agents Association of New Zealand.
www.taanz.org.nz/consumers/protection.htm.
 - a. Example of an association-based cooperative bonding scheme for travel agents. **Highly recommended.**
13. Travel and General Insurance Inc. www.travel-general.com/bonding_intro.asp and www.travel-general.com/topp_intro.asp.
 - a. UK. Bonding by insurance for travel agents as well as an innovative alternative for SMEs called TOPP, which allows them to pay as they go based on actual rather than projected turnover. **Highly recommended.**
14. Texas Wildlife Association. www.texas-wildlife.org/PDFs/TWAAPP0905.pdf.
 - a. Coverage for people leasing their land for hunting and sport purposes. Good example of an association using its bargaining power to get affordable coverage for members. **Highly recommended.**
15. VISIT FLORIDA “Cover Your Event” Insurance.
<http://media.visitflorida.org/travel/archives/?ID=288>.
 - a. USA. Insurance to cover event cancellations and rescheduling. Relevant to conference tourism, a possible growth area for Jordan.

Contacts:

- 1) AON Cork Bays & Fisher, travel industry insurance and insurance bonding specialists. www.aon.com/uk/en/industry_specialisations/travel/default.jsp (UK; contact info on right-hand side of page)
- 2) AON Middle East L.L.C. Massoud A. Shaheem, Chairman & CEO. (Dubai; covers Jordan). www.aon.com/about/office_locations/officeLocations.jsp?txtcountry=Jordan.
Phone: (971) 4 222 0760/222 6769
E-mail: Massoud_Shaheem@aon.ae.
- 3) Insurance Canada www.insurance-canada.ca/profproducts/categories/travel.php.
Brokers listed who provide specialty products to travelers or travel related businesses.
- 4) Irish Travel Agents Association. www.itaa.ie. Contact for more info about the collective bonding scheme for their member travel agents, referenced at http://www.aviationreg.ie/TTL_Notices200123_July_2001.HTML.
Highly recommended.
- 5) Alan Bickerton, albickerton@hotmail.com. Small U.S. broker who sells various types of insurance products in other countries. For example, provided insurance for donor-funded construction work in Kabul. May be able to provide insight on tourism insurance products.
- 6) Dave Burry, dave.burry@isa-canada.com. Canadian underwriter recommended by a colleague as having a lot of experience with travel insurance (for individuals). May be able to provide additional insight.

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex D**

Publications from the Canadian Tourism Commission:

<http://www.alberta-canada.com/tourism/tourismDevelopment/insuranceRiskManagement.cfm>

Recommended titles:

- 1) “Risk Management Guide for Tour Operators” (2003)
www.canadatourism.com/ctx/files/publication/data/en_ca/industry_relations/risk_management_guide_for_tour_operators/riskmanagementguide.pdf
- 2) “Risk Management and Insurance Guide for the Adventure, Ecotourism and Alpine Skiing Industries” (2001)
www.canadatourism.com/ctx/files/publication/data/en_ca/industry_relations/risk_management_and_insurance/CTCBooklet_eng.pdf
- 3) “Insurance Tutorials for Outdoor Tourism Businesses” (2003)
www.canadatourism.com/ctx/files/publication/data/en_ca/product_development/insurance_tutorials_for_outdoor/insurance_tutorials_ENG.pdf
- 4) “Insurance Issues and Alternatives in the Outdoor Tourism Sector in Canada” (2003)
www.canadatourism.com/ctx/files/publication/data/en_ca/product_development/insurance_issues_and_alternatives_in_the_outdoor_tourism_sector_in_canada/Insurance%20Issues%20Report%20-%20Eng.pdf.
- 5) “Risk Management Guide for Tourism Operators” (2003)
www.canadatourism.com/ctx/files/publication/data/en_ca/industry_relations/risk_management_guide_for_tour_operators/riskmanagementguide.pdf.

ANNEX E Options for introducing new tourism insurance products to Jordan

Once the assessment of tourism insurance products available in other countries is completed, the next step will be to determine how any new products that are needed in Jordan can be introduced in the local market. There are several possible avenues for this. They are listed below in descending order of preference, with the ideal option first and the more complex and less desirable options last.

Option 1: Engage existing insurance companies

The best and more straightforward scenario would be for SIYAHA to convince an existing insurance company, preferably one such as Oasis Insurance that is already exploring the MSME insurance market, to create insurance products that cater to the specific needs of tourism related enterprises. Most such enterprises, including hotels, restaurants, and souvenir shops, can be covered by standard liability/property/disaster insurance, though the liability limits may need to be higher for hotels and restaurants than for the typical MSME due to the possibility of harm to a large number of customers and/or the prospect of foreign courts attempting to claim jurisdiction.

However, while Option 1 is the simplest structure to understand, it may be the most challenging to implement for travel agents, tour operators, or eco-lodge owners, some of whom face unique risks. Moreover, the project may find itself limited by what is currently available in the local market for MSMEs, as comprehensive development of the Jordanian insurance market is beyond the manageable interest of SIYAHA.

Option 2: Use Microfinance institutions as an intermediary

Microfinance institutions (MFIs) may be able to capture the interest of insurance companies (domestic *or* foreign) for micro and small enterprises and effectively act as a broker, negotiating products that serve their clients' needs at favorable terms. (See Option 4 below for application of this model to associations and business services providers). However, while this option may be worth exploring for clients of MFIs, it will not benefit medium-sized enterprises and the larger of the "small" enterprises, which may also be in need of new insurance products.

Option 3: Travelers acquire individual insurance rather than, or in addition to, the enterprise purchasing insurance products designed for businesses.

The international market is rife with insurance products catering to individual tourists to cover them from risks incurred during travel, with specialty products catering to most forms of adventure activity (though some activities, such as skydiving, are nearly always excluded). Availability of such products for businesses appears to be limited in most countries. Rather than trying to insure their business, tour operators could seek to insure their customers as individuals. While this would not protect the tour operator from negligent acts of omission or commission, it would protect them from liability for circumstances beyond their control or circumstances that are the fault of the traveler. Two choices for tour operators to capitalize on the availability of individual insurance would be:

Support for Credit Demand Survey, Insurance Research, and Client Referral System Annex E

- a. Require as a condition of service that all clients carry individual insurance providing coverage for injury or death while on tour.
- b. Include the purchase price of any necessary personal insurance in the cost of the tour and purchase it on the clients' behalf.

Of these, (b) is by far the better choice. It facilitates compliance, ensures that the coverage purchased will fit the circumstances of the tour exactly, eliminates the need for awkward conversations with the client, and allows for the possibility that a favorable bulk rate can be negotiated. The tour operator can choose to apply any rate savings to the customer or to keep the balance as added profit.

Obviously, both solutions (a) and (b) are suitable only for tour operators and travel agencies and not for other tourism related enterprises such as hotels, restaurants, and souvenir shops, who should have conventional all-risk coverage for liability, property damage, and natural disasters.

China has taken option (b); in 2001, the China National Tourism Administration mandated that all travel agencies operating in China purchase individual Travel Agencies' Liability Insurance coverage for each client to protect the traveler and his/her property.

Option 4: Associations or business services providers provide insurance as a member/client service

As one of their member services, Tourism associations or business services providers (BSPs) could either:

- a. Negotiate group policies and make them available to their members at favorable terms, similar to option #2 for MFIs above; or
- b. Set up cooperative insurance products to cover specified losses.

Option (a), the group policy model, is essentially the formation of a risk purchasing association. One example of this model in action is the Texas Wildlife Association's low cost insurance program, offered to its members through the Independent Insurance Center, Inc., to cover landowners who lease their land for hunting and recreational purposes for liability or fire resulting from this use. Individual landowners would likely have difficulty negotiating an affordable \$2 million insurance policy, but the association's leverage gave its members access to such coverage. See <http://www.texas-wildlife.org/PDFs/TWAAPP0905.pdf>.

Coverage obtained under option (b) could include various liabilities or hazards (such as client injury, trip cancellations, etc). One possible way to structure cooperative insurance would be according to the Islamic Takaful system (Wakalah model), where all policyholders (Takaful partners, in this case the participating association members) pool an amount of capital as a subscription to indemnify each other. The association managing this fund would set aside a portion for paying out policy losses and another portion for investment, allocation based on consultation with actuarial specialists. Any surplus, such as from investment income, would be paid out to the policyholders at predetermined periods, with the association/BSP deducting from this a management fee that is set annually based on the previous years' investment performance. This

Support for Credit Demand Survey, Insurance Research, and Client Referral System Annex E

service has the added benefit of fostering the association's or BSP's sustainability by giving them a fee-paying service that they can market.

Association or BSP-based cooperative insurance could be very effective as a bonding scheme for travel agents in substituting for the current practice in Jordan of protecting customers' prepayments through bank bonds, provided the legal and regulatory structure allows for this. If not, SIYAHA could suggest that the law be changed to give bonding by insurance the same treatment under Jordanian law as the bank guarantees currently in place. The Irish Travel Agents Association (ITAA) and the Travel Agents Association of New Zealand (TAANZ) have such a collective bonding scheme. TAANZ has a NZ\$250,000 (US\$155,675) underwriting capacity. However, in order to be bonded, members must have minimum paid-up capital of NZ\$40,000 (US\$24,900), pay a joining fee of NZ\$4,000 (US\$2,500), and, depending on business size, provide between NZ\$50,000 and NZ\$750,000 of collateral (US\$31,000-\$467,000) in the form of a first or second mortgage, a cash deposit, and/or a bank indemnity. Thus, the TAANZ model would not serve Jordanian MSMEs well if applied in its entirety. ITAA requirements for bonding and underwriting capacity are not posted on their website, and it is highly recommended that ITAA be contacted for further details as part of the insurance assessment. In order to join ITAA itself, a travel agency must have a minimum of € 12,700 (US\$16,280) in paid-up capital, but this is a relatively small amount in the Irish market.

One limitation of applying the cooperative model to larger contingent liability coverage is that the potential liability for injury or death resulting from the activities of a tourism related establishment is very large, and may prove more than can effectively be insured by the collective capital of the tourism business community. In this case, reinsurance would be needed. If the Takaful cooperative insurance model is chosen, the growing international Islamic reinsurance (retakaful) market is one source for reinsurance. But conventional reinsurance is also an option for Takaful and other cooperative insurance models; indeed, 80 percent of Takaful reinsurance is currently secured through conventional reinsurers.⁴

Option 5: Alternative risk management strategies.

For risks that prove impossible to cover through affordable and/or available insurance policies, tourism related enterprises will need to devise alternative mechanisms to manage and transfer risk. Section 5 of the "Canada Tourism Risk Management and Insurance Guide for the Adventure, Ecotourism and Alpine Skiing Industries", included under the "Publications" section of Annex D, outlines several alternative risk management strategies for tour operators.

For example, liability that is not due to truly negligent acts of omission or commission by the operator could be mitigated or eliminated by a well-crafted waiver form. SIYAHA could work with a local lawyer to develop a generic waiver form for tour operators.

⁴ "SALAMA established first Shariah syndicate at Lloyd's," AME Info, May 15, 2006. www.ameinfo.com/78093.html.

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex E**

Alternative risk management strategies are also needed to cover loss of income due to terrorist attacks and other external shocks, as the preliminary research conducted under this assignment indicates that such coverage would be either unavailable or prohibitively expensive to obtain. Cancellation and refund policies favorable to the tour operator (for example, a sliding scale of partial refunds as the tour date approaches, with no refunds given after a certain point) can provide some protection against such business interruption. The business would need to clearly spell out its cancellation policies in its literature. The tour operator could even act as a broker for external trip cancellation insurance, offering policies for individual travelers as an added option to customers at the time of booking.

ANNEX F Template for Referral System One-Pager



Business Development Referral System for Tourism Related MSMEs

SIYAHA Tourism Development Project



REPLACE PHOTO WITH ONE MORE APPROPRIATE; SIZE TO 2.125" WIDE

PHOTO: NAME OF PHOTOGRAPHER

[CONTACT INFORMATION]
[CONTACT INFORMATION]
[CONTACT INFORMATION]
[CONTACT INFORMATION]

OBJECTIVES

- Improve MSMEs' creditworthiness and access to credit
- Help business services providers identify suitable MSME clients in need of technical assistance
- Help lenders understand the tourism MSME market

SITUATION

USAID/Jordan's SIYAHA project is assisting micro, small and medium enterprises (MSMEs) in the tourism sector in developing their businesses and obtaining access to credit. Many tourism related MSMEs lack the business skills to present a well developed business plan and financial statements to lenders. This can cause a lender to doubt the enterprise's creditworthiness, or ability to repay the loan the business owner is seeking.

REFERRAL SYSTEM AS A SOLUTION

A referral system between lenders and business services providers will help ensure that MSMEs receive the assistance they need to become creditworthy. When a lender denies a loan to a MSME but believes the business may be able to obtain a loan after receiving technical assistance, they can refer the business to one of the SIYAHA project's partner business service providers for assistance. SIYAHA may subsidize the assistance.

Similarly, when a business service provider believes an enterprise that has received its assistance may subsequently meet the requirements for a loan, including minimum collateral requirements, they can refer the enterprise to one of SIYAHA's partner banks or microfinance institutions, who will consider their loan application.

The referral system is expected to help MSMEs improve their management skills and access to credit, and to help SIYAHA partners develop sustainable relationships that will grow their client base and maximize their profit potential.

ANNEX G Agenda for introduction of referral system to SIYAHA partners

Introduction of the MSME referral system to SIYAHA Partners

**Location
Date**

- Introduction
 - Purpose of the referral system
 - Definition of tourism related enterprises
 - Benefits to lenders
 - Benefits to business service providers (BSPs)
 - Benefits to micro, small and medium enterprises (MSMEs)
 - Participating partners

- Roles
 - Lenders
 - Debrief client on why they were not selected for a loan and ask if they are interested in receiving technical assistance.
 - Refer loan applicants to BSPs for technical assistance. Complete borrower information form for each business referred and submit to BSP.
 - Receive referrals from BSPs of creditworthy MSMEs and review their loan applications.
 - Consider whether borrowers who do not meet minimum collateral requirements but are otherwise creditworthy can be served by a loan guarantee program (USAID, JLGC, etc.)
 - Inform referring business service provider whether a loan was placed, and if not give the general reason for denial.
 - BSPs
 - Provide technical assistance to MSMEs to enhance their creditworthiness (defined as appearing to have the ability to repay debt based on financial history, cash flow projections, collateral, etc.)
 - Refer creditworthy recipients of technical assistance to partner lenders. Complete borrower information form for each business referred and submit to lender.
 - Receive referrals from lenders of businesses who do not meet the lender's minimum credit criteria but who might potentially meet lender requirements for a loan, including collateral requirements, after receiving technical assistance.
 - Coordinate with SIYAHA and receive technical assistance and referrals from the project.
 - Receive subsidies for technical assistance cost according to SIYAHA schedule of subsidies
 - Report results to SIYAHA on a quarterly basis: 1) Businesses referred; 2) Business referrals received; 3) Businesses assisted; and 4) Loans placed

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex G**

- MSMEs
 - Prepare/improve business plan and financial statements according to BSPs' advice
 - Receive and implement other technical assistance as needed
 - Apply for loans
 - Repay loans received
- SIYAHA
 - Engage lenders through awareness events and trainings
 - Serve as central point of contact for referral system
 - Provide technical assistance to BSPs as needed
 - Subsidize BSP technical assistance according to schedule of subsidies
 - Ensure quality of technical assistance provided to firms
 - Report overall results to USAID
- Review of the borrower information form
- Open question & answer period

Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex H

ANNEX H Contact sheet templates for referral system partners



SIYAHA Tourism MSME Referral System
Contact Sheet for use by Business Services Providers

LENDERS		
Institution/Organization	Terms for MSMEs	Contact Person and Contact Information
Sample Bank	<ul style="list-style-type: none"> • 100% of loan value as collateral • Interest 4% above prime • Must be registered 	Rob Teitelbaum P.O. Box 940503 Amman 11194 Tel: 06-550-3050/1 Fax: 06-550-3069 rteitelbaum@siyaha.org



**SIYAHA Tourism MSME Referral System
Contact Sheet for use by Lenders**

BUSINESS SERVICE PROVIDERS		
Institution/Organization	Services Offered	Contact Person and Contact Information
Sample Business Service Provider	<ul style="list-style-type: none"> • Financial statements • Business plan development • Personnel management • Tax reporting 	Rob Teitelbaum P.O. Box 940503 Amman 11194 Tel: 06-550-3050/1 Fax: 06-550-3069 riteitelbaum@siyaha.org

Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex J

ANNEX I Borrower information sheet for referral system



USAID | JORDAN
FROM THE AMERICAN PEOPLE

Borrower Information Sheet - SIYAHA Project MSME Referral Program

Insert MSME name	Address and name of contact person
Overview	
Owner Name(s)	
Business Sector	
Location of Business	
Number of Employees	
Number of Years in Operation	
Financing Sources	
Total Assets	
Loan Desired	
Amount of desired loan	
Purpose of desired loan	
Term of desired loan	
Available Collateral	
(If lender): Reason loan application denied	
Technical Assistance	
Technical assistance needed (if lender) or delivered (if business services provider)	
Technical assistance previously received, currently receiving, or planning to receive	
Other Comments	

**Support for Credit Demand Survey, Insurance Research, and Client Referral System
Annex J**

ANNEX J Template for schedule of SIYAHA-funded subsidies for business services referral

Referral History	Percentage Paid by SIYAHA	Percentage Paid by Business
Businesses with 1-5 employees		
First time	30%	70%
Second time	20%	80%
Third time	10%	90%
Fourth Time	0%	100%
Businesses with 6-25 employees		
First time	25%	75%
Second time	15%	85%
Third time	0%	100%
Businesses with 26-150 employees		
First time	10%	90%
Second time	0%	100%

Note: Maximum SIYAHA subsidy is US\$25,000 regardless of business size