ACCESS TO MICROFINANCE AND IMPROVED IMPLEMENTATION OF POLICY REFORM
AMIR PROGRAM

FUNDED BY U.S AGENCY FOR INTERNATIONAL DEVELOPMENT

NGO Assessment And Assessment Of Bank Interest

Final Report

Deliverable for Sustainable Microfinance Initiative Component
Milestone # 4 under contract No 278-C-00-98-0029-00

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Contents

I INTRODUCTION AND EXECUTIVE SUMMARY

Non-governmental organizations (NGOs) and banks in Jordan are potential recipients of grants and other assistance for the establishment of a sustainable microfinance industry in Jordan. This support will be provided by USAID through the recently inaugurated AMIR Program, and will be based on, among other things; the willingness of recipients to seriously pursue sustainability based on internationally accepted best practice in microfinance.

This report presents the findings of two surveys:

1. An assessment of the microfinance programs through targeted NGOs in Jordan.
2. An assessment of Jordanian commercial banks' initial interest in providing sustainable microfinance programs.

NGO Assessment

Only two organizations under study were judged to possess the necessary ingredients to implement a sustainable microfinance program consistent with the AMIR Program's objectives. These NGOs, the Jordanian Women's Development Society and the planned microfinance unit of the Noor Al Hussein Foundation, were assessed in greater depth. In addition, the Small Business Development Unit of the Queen Alia Foundation was also assessed because, although no clear policies were delineated by the organization regarding sustainable microfinance, a recent restructuring indicates that this unit may be moving towards the organizational and financial autonomy which could render it a candidate for AMIR Program assistance.

Bank Interest

The Housing Bank appears the most ready to enter into an agreement at this point in time. The Arab Bank has also shown initial willingness to offer sustainable microfinance services. Other potential partners may emerge as a result of the Banker's Workshop planned for late July 1998, along with individual consultations with banks that will occur during the course of AMIR's regular interface over the next few months.

II NGO ASSESSMENT

A) Background

During the second quarter of 1998, the AMIR Program conducted assessments of a number of NGOs to determine their potential for implementing sustainable microfinance programs. The objectives of this assessment were to:

1. Establish a baseline from which to judge improvements in organizational and financial performance of the microfinance programs of the selected NGOs over the 4-year duration of the AMIR Program.

2. Identify the areas and types of assistance that might be provided to the selected NGOs to ensure the establishment and expansion of sustainable microfinance services.

3. Refine criteria for the objective selection of NGO grant recipients, which are most likely to make a significant contribution toward achieving the AMIR Program's sustainable microfinance objective of 25,000 active borrowers by the first quarter of 2002.

B) Methodology

After preliminary discussions of the programs of the eleven major organizations involved in microfinance in Jordan, six NGOs were considered appropriate for further study: The Jordanian Women's Development Society, Noor Al Hussein Foundation, Queen Alia Foundation, the General Union of Voluntary Services, CARE, and the Small Business Development Unit of the Queen Alia Foundation.

In order to simultaneously accommodate the needs of the Ministry of Planning and the World Bank, a questionnaire developed by the World Bank's Economic Development Institute based on the CGAP format, with additions from the AMIR Program, was used to provide the initial framework for the study. It was refined to take into account of the fact that most NGOs in Jordan do not focus on microfinance, and with the exception of the JWDS none have financial or organizational autonomous units devoted to microfinance. Each of the six NGOs completed the modified questionnaire.

The questionnaire was followed by several interviews with senior and mid level executives to deepen the understanding of each organization, and to enable scoring of each organization against the following microfinance best practices criteria. Is the NGO willing to establish:

1. An autonomous unit dedicated solely to microfinance.

2. A centralized cost accounting system for the sole use of the unit, which would monitor all of financial activities, related to the microfinance activities.

4. A documented operating ethos within the unit which is dedicated to the application of best practices in sustainable microfinance;

5. Microfinance loan portfolio targets that are consistent with the achievement of the life-of-project objectives of the AMIR Program, that is, 25,000 active borrowers using short-term, high rollover credit facilities and saving services.

Based on the above criteria, only two of the organizations under study were judged to possess the necessary ingredients to implement a sustainable microfinance program consistent with the AMIR Program's objectives. These NGOs, the Jordanian Women's Development Society and the planned microfinance unit of the Noor Al Hussein Foundation, were assessed in greater depth. In addition, the Small Business Development Unit of the Queen Alia Foundation was also assessed because, although no clear policies were delineated by the organization regarding sustainable microfinance, a recent restructuring indicates that this unit may be moving towards the organizational and financial autonomy which could render it a candidate for AMIR Program assistance.

Institutional and financial assessments of these three NGOs; the JWDS, NHF's planned microfinance unit and the SBDC of the Queen Alia Fund, form the main body of this report. These assessments includes our recommendations on progress indicators and target achievements which should be met by each NGO during the four year effort to ensure a long term, viable and sustainable microfinance enterprise. The report also includes an overview of the dynamics of Jordan's microfinance[1] sector as it currently stands and commentary on the two other NGOs under review, CARE and the General Union of Voluntary Services.

[1] Definitions of micro and small loans and enterprises differ widely, however, throughout this report the following definitions apply:

a. A micro loan is one whose average size is JD 3000 or less.
b. A small loan is one whose average size is JD 3000 or more.
c. A microenterprise is an enterprise employing up to 10 people.
d. A small enterprise is an enterprise employing over 10 people.

C) Overview Of Jordanian Microfinance Providers

1) NGOs Focus

Most Jordanian NGOs have developed as a result of the need to provide socio-economic assistance to rural and urban communities. Programs include health, education and donor funded income generating activities, with microfinance as an additional rather than the main institutional focus. The exception is the JWDS who is focused s on providing microfinance to women through their group-lending scheme.

2) Little emphasis on sustainability

With the exception of the JWDS, most NGOs have a developmental rather than a business approach to credit. Consequently, none of their programs are sustainable and they rely ongoing donor support to fund their programs

3) Market sementation

For the purposes of this study, we have segmented the overall microfinance market into two components. Small loans, which we have defined as an average loan of JD 3000 ($4230) or more and micro loans whose average size is JD 3000 or less.

4) The small and micro finance market (Average loan size JD 100-7000)

The leading players are ten government and non-government institutions who service 11, 147 borrowers with a total portfolio worth JD 25M ($35 M). The government owned Development and Employment Fund is the dominant organization accounting for 62% of the total market portfolio and servicing 27% of all borrowers. The JWDS is the dominant NGO accounting for 33% of active borrowers, but because of its lower average loan size accounts for 1% of total portfolio value.

	Ave Loan	No.Active Borrowers	Portfolio Size	% active Borrowers	% Portfolio
CARE International/Jordan(CARE)	162	47	7,614	0	0
Development and Employment Fund(DEF)	4,340	3,545	15,385,300	32	62
Housing Urban Development Corporation(HUDC)	700	64	44,800	1	0
Industrial development Bank	7,000	620	4,340,000	6	17
Jordan Women Society(JWDS)	95	3,734	354,730	33	1
Ministry of Social Development(MSD)	850	465	395,250	4	2
Noor Al Hussein Foundation(NHF)	100	852	85,200	8	0
Queen Alia Fund(QAF)	3,050	1,077	3,284,850	10	13
The General Union Voluntary Societies(GUVS)	600	597	358,200	5	1
UNRWA	4,630	146	675,980	1	3
TOTALS	**1,957**	**11,147**	**24,931,924**	**100**	**100**

NOTE.

1. Ave loan size and number of active borrowers as reported by institutions that completed the EDI questionnaire.
2. Portfolio size is defined as ave loan size X active borrowers.

5) The Micro finance market (Average loan size JD 3000 or less)

In the micro finance sector, there are five organizations that account for the bulk of the market. (CARE and the HUDC are not significant players.) The Jordan Women's Development Society is the dominant organization in terms of number of active borrowers accounting for 55% of active borrowers but because of low average loans, accounts for only 8% of total portfolio value.

	Ave Loan	No.Active Borrowers	Portfolio Size	% active Borrowers	% Portfolio
CARE International/Jordan(CARE)	162	47	7,614	1	0
Housing Urban Development Corporation(HUDC)	700	64	44,800	1	1
Jordan Women Society(JWDS)	95	3,734	354,730	55	8
Ministry of Social Development(MSD)	850	465	395,250	7	9
Noor Al Hussein Foundation(NHF)	100	852	85,200	12	2
The General Union Voluntary Societies(GUVS)	600	597	358,200	9	8
Queen Alia Fund(QAF)	3,050	1,077	3,284,850	16	73
TOTAL	**794**	**6,836**	**4,530,644**	**100**	**100**

NOTE.

1. Ave loan size and number of active borrowers as reported by institutions that completed the EDI questionnaire.
2. Portfolio size is defined as ave loan size X active borrowers.

In contrast, QAF accounts for only 16% of borrowers but due to a high average loan size of JD 3050, it dominates the overall micro credit portfolio accounting for 73% of value.

D) Jordan Women's Development Society (JWDS *)*

1) Summary

This NGO is the only one operating a sustainable microfinance program in Jordan. Started under the stewardship of SAVE, it has developed into a fully autonomous organization. After a period of management turmoil it has appointed a new executive director and, subject to further technical assistance is well positioned to expand its microfinance customer base.

One of the immediate needs of JWDS is to put its future plans into a form that can be openly discussed and improved upon. Financial plans show great detail over the next 20 months, but in order to reach its target of 15,000 borrowers in the next four years, JWDS needs to begin its planning now of what the implications of staffing and required loan capital will be in order to reach that target. AMIR staff could work with JWDS staff to assist them with their long term planning.

Although it is a separate effort under this component, AMIR staff might be able to assist JWDS in resolving its problems with Housing Bank. This may well help JWDS reach its stated objectives.

From an organizational standpoint, the JWDS management structure is sound. It now needs to formalize near and mid term strategic and business objectives as well as policies and procedures aimed at achieving them. AMIR can assist the JWDS by reviewing in greater their objectives, current policies and procedures and refine them with its management.

2) Institutional Background and Profile

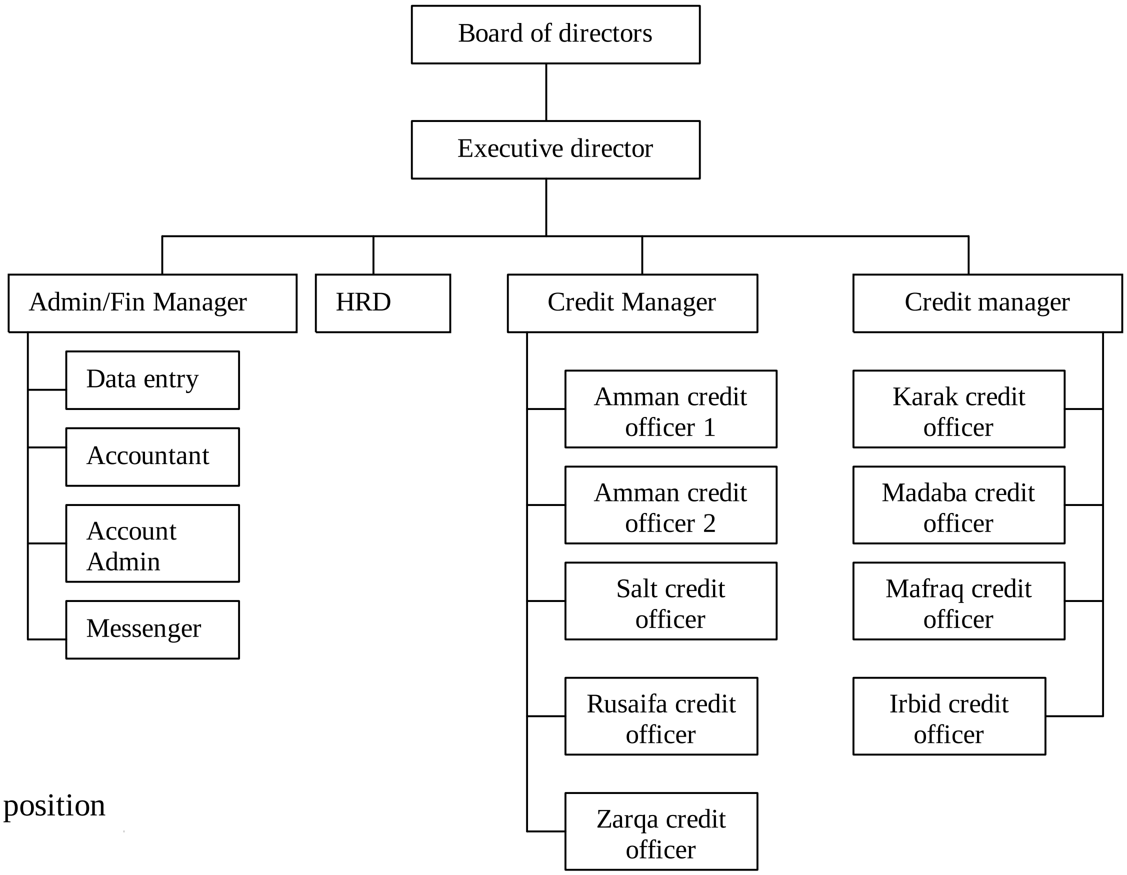
Address:	P.O. Box 9363 Al Weibdeh-11191
Telephone	(9626) 569 - 9608
Fax	Fax_(9626) 461-2902 (9626) 461 - 2902
Date Started:	1997 as NGO
	1994 as Micro Program at Save the Children

Honorary Chairperson: Her Highness Princess Dina Merid
Chairperson Dr. Taghrid Tubbeh
Executive Director: Niveen Abboushi
Legal Structure: Local NGO under Ministry of Social Development

Board.	Dr. Taghrid Tubbeh (Chair) Management Consultant.
	Ms. Niveen Abboushi. Executive Director.
	Dr. Khalid Saratawi. Executive Manager. Jordan Kuwait Bank.
	Mr. Alaaden Deek. Business development consultant. Coca Cola.
	Ms. Natasha Shawareb. Manager. Bani Hamida.
	Hala Ghosheh. M.E. Project Manager Save the Children.
	Ms. Sameera Qadoura. Consultant. Chemonics International.

Staff: 43

3) Organizational Structure:



New position

4) Mission Statement And Goals:

Mission: To serve medium and small entrepreneurs in a sustainable manner.

Goals: a) To provide access to credit for women in order to become active participants in the economic sector.
b) To become a sustainable Microfinance Institution.

5) Microfinance Portfolio Profile

The JWDS operates a group guarantee lending (GGLS) scheme that targets poor women. Women come in groups of 10-15, decide on individual activities and guarantee each other's loans. The scheme runs on a 4.5 month cycle and all members must borrow in a given cycle or leave the group. Groups meet bi-weekly to discuss their progress and make loan repayments.

The GGLS lends at 8% with an additional mandatory 2 JD per payment for savings. The initial loan size is 75 JD and the bi-weekly payments are 11 JD (9JD loan repayment and 2 JD savings.) This results in an effective annual interest of over 24%.With each lending cycle, members have the option of borrowing the same amount or increasing their loan. All group members must borrow in each cycle or drop out of the group.

Since its inception, 12,484 clients have been served across nine regions. A total of 1,775,238 JD

($2,485,333) has been disbursed and JWDS has 3743 active borrowers with an average loan size of 95 JD.

Profile of Microfinance Clients: "Poor women entrepreneurs"

Client selection criteria

1. Women over 18 yrs. old
2. Have existing business
3. Have a photo I.D.
4. Live within target area (one block)

Number of active loans: 3,734

Gender of borrowers: 100% female

	1997	1996	1995	1994
Urban/rural borrowers:	118/4013	102/108	93/251	0/40

Collateral requirements: None

Household income
pre- and post- MF program: JD 210.5 / JD 223.9

Loan Portfolio Profile

Total Outstanding Loan Portfolio: JD 226,567 / US$ 319,235

Number of loans outside Amman : 2,364 end of March 1998 No other yrs.

Number of repeat loans: 1,467 end of March 1998

Average initial loan size: JD 95 US $ 134

Loan amount range: JD75 to 400 US$ 106 to 563

Loan interest rate: 8%

Loan repayment rate: Average = 94%

Repayment period: 18 weeks

Grace period: None

Default policy: Becomes default after 4-6 months delinquent

Other factors:

Cultural pressures to repay: Effective: Threat of no future loans; pressure from extended family; shame

Legal collection procedures: Sometimes effective ("unsupportive legal system")

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Delays excessive; costs prohibitive; threats made; fear counter law suits.

6) Financial And Microfinance Analysis

1. General Financial Management

A Financial Plans and Projections

The attached spreadsheet shows considerable detail on both the past year's history, as well as a forecast for the next 20 months. (This is written as of May 1998.) Portfolio performance is reviewed formally week, previous to the weekly meeting with the loan officers. Financial performance is reviewed formally on a monthly basis, at which time performance is measured against projections, and corrections are made to the overall forecast. JWDS has been encouraged to make its projections, at least in terms of portfolio growth, for the next four years, but at present is still concentrating on the rest of CY 98 through CY 99.

B. Frequency of use of available financial reports

The Financial Reports are generated at the end of each operational month. The JWDS is "new" in the sense of handling its own finances, so at this point they have not yet produced a year-end financial statement. Previous to initiation of cooperation between AMIR and JWDS, JWDS should be in a position to issue at least a provisional profit and loss statement as well as a balance sheet. They have not yet been required to do this, but it appears that their financial data is on hand, if not summarized at this point in time.

C. Cash Control

Cash Control rests with the Financial Manager. Both the Financial Manager and at least one member of the Board of Directors sign all checks issued. To this point in time, loanable funds are still controlled by SAVE. Those funds are controlled by issuing a check (loan release) to the borrower; repayments are made through a local branch (into a single account) of the Housing Bank and reports are then sent back to headquarters for entry into the centralized MIS. The only cash handled by JWDS is for petty cash.

D. Sources and Uses of Funds

All funds are currently provided to JWDS by SAVE. SAVE, as an international organization, receives funds from throughout the world from private and corporate sources. JWDS lists its sources of funds as 99% from SAVE and 1% from a private source.

The real income to JWDS will become after they obtain control of the loan portfolio; the current planned time for turnover of the loan portfolio and savings to JWDS directly is December 1998. At that point, JWDS will have considerable income from interest generated from the funds borrowed by the clients. Note the cash inflow on the attached spreadsheet.

2. Cost of Making Loans

A. Loan Pricing

Loans are currently being extended over a relatively short term, 18 weeks, with 18 repayments. A "flat" interest rate of 8% is applied to the original principal, which yields an effective rate of about 36% annual percentage rate. This rate appears to be highly marketable, and little resistance has been felt in the market to this pricing. When reviewing the issues of self-sustainability, JWDS might have to either raise this rate slightly or reduce some of their overhead costs. However, the rate currently charged has been established by the program and probably does not merit changing at this time.

B. Default Rates

JWDS has made a loan loss provision that can withstand a default rate of up to 3% of its total portfolio. They have not yet had a significant default in its portfolio, but rather concentrate on delinquency to prevent default. There is an ongoing discussion about sanctions for defaulters; post-dated checks appear to have the best chance of winning in a court case.

C. Delinquency Rates

JWDS has a current delinquency rate (greater than 30 days) of 8% (May 1998) although historically the rate has been nearer 6%. JWDS projections show that amount lowering to 2% over the next 20 months. JWDS has a structured approach to dealing with delinquency.

Delinquency Period	Action
1-7 Days	Field Officer Follow-up
7th Day	Institutional Letter Issued
8-14 Days	Field Officer Follow-up
14th Day	Lawyer Sends Notice to Borrower
17th Day	Court Case Filed

To date, only one court case was pursued, which the judge ruled in favor of JWDS. However,

enforcement is costly, and is generally not pursued because the amount recovered is less than the recovery cost

D. Cost Recovery or Break Even

JWDS reports that it is currently (overall project) recovering about 32% of its costs, although the projections submitted during the course of this consultancy do show an increase of up to 61% over the following 20 months. JWDS is committed to reaching cost recovery, although as a new organization, they have incurred some short terms costs of establishing and equipping their new headquarters than can only be recovered over the next couple of years. The attached spreadsheet details both their historical and projected cost recovery. The table below (derived from the spreadsheet) shows both the historical and projected cost recovery.

Cost Recovery from JWDS Operations
Historical and Projected

Apr. 97	Jun. 97	Aug. 97	Oct. 97	Dec. 97	Feb. 98	Apr. 98	Jun. 98	Aug. 98	Oct. 98	Dec. 98
91%	45%	66%	72%	78%	41%	44%	48%	53%	54%	61%

E. Financial Self-Sufficiency Ratio

JWDS has not yet defined at what point in time they will reach financial self-sufficiency, although during the course of this consultancy, they are being encouraged to do so. They have a stated objective of reaching break-even and self sufficiency, and monitor their costs and income very closely. As JWDS gets its corporate feet on the ground, they will have to closely monitor their costs and returns to help them reach their objective. With the assistance of AMIR, they should be able to reach this target within the next 2-3 years.

The client to staff ratio may still be a little low, generally hovering both historically and projected at about 100 clients per staff member. One of the theories behind the Group Guarantee Loan Scheme (GGLS) is that a single staff member can serve a larger number of clients. Even though the "group" approach may be working fairly well, albeit with some identified problems, JWDS might want to experiment with individual lending as well to allow the more growth oriented individuals to expand more rapidly rather than waiting for the rest of the group. The GGLS method has already come to realize the issue that although the group can be largely counted on to help reinforce the need for repayment, the entire group can also "go bad" if a single member decides not to repay. This will be an issue for JWDS to carefully monitor as it expands its program.

4. Portfolio Management

JWDS's Credit Manager takes portfolio management very seriously and has a number of methods of carrying this out. The MIS (computerized) generates reports on a daily basis regarding delinquency, and a summary report of overall portfolio performance is generated every two weeks. Weekly targets for loan extension and supervision are posted prominently within the office, broken down by area and loan officer. The targets and actual performance are discussed weekly with the loan officers, and the variances reviewed by the group as a whole. A cursory review of this information indicates that the targets are generally being achieved, with minor variances. Overall, it appears that the portfolio is being managed very well.

5. Linkages with Banks

The linkage with Housing Bank has been one of the sticking points in JWDS's progress. On the surface, Housing Bank seems to be a logical partner in the program. They have a widespread network of branches, approximately 110, including branch offices in the more economically depressed areas of Jordan, but appear to be more, rather than less difficult to deal with as JWDS expands. Housing Bank handles not only the borrowers' accounts, but handles the operational accounts of JWDS, including salaries of the employees. Housing Bank has recently raised its savings deposit minimum from JD 50 to JD 100; JD 100 is more than most of the groups under JWDS's group savings plan requires. Additionally, many of the JWDS "promoters", who help organize local groups for review of the loan officers, receive a monthly stipend of around JD 60. These promoters often face check encashment and other fee charges of up to JD 4 per transaction, which reduces their effective pay by 7%. JWDS has yet to identify another bank that will work with them, but the linkage with the bank is still problematical.

7) Institutional Analysis

The Jordanian Women's Development Society (JWDS) was officially formed in December 1997. Its seven member board constitutes the leadership of the organization, and represents a broad array of banking, marketing, and business development interests that are Jordanian, but are linked to international businesses.

JWDS is a unique organization. Although it is "new" in most senses of the word, has taken on experienced borrowers and staff following a largely successful microfinance program developed by SAVE. The formation of JWDS is a logical outgrowth of SAVE's approach to developing a successful program and then having it institutionalized by a local organization. JWDS is still closely linked with SAVE/Jordan, in that its staff (and existing loan portfolio) comes from the existing program, and SAVE will maintain control of the loan funds until at least the end of CY 1998.

From an organizational standpoint JWDS has suffered from the turmoil of inefficient management and fraud. The executive director was released and the board took over as a management committee responsible for both day to day management and long term planning. JWDS has now established its own headquarters office in Amman, has its own office equipment, and now has control of the accounts for operations. One full-time expatriate advisor who is assisting JWDS establish their business plans, monitoring of finances, and staff development is currently assisting them. A full-time Executive Director has been appointed (May 1998), and the staff, currently all former SAVE employees, clearly identify with their new organization.

The organization now needs to develop formal near to mid term strategic objectives and business plans. These should include expansion and income goals, how they will be achieved and at what cost. Management policies and review procedures also need to be formalized to ensure that operational and financial goals are met.

JWDS has received technical assistance (see Jennifer Harold report March 1998) which has started this process and is due to receiving additional support to complete it. This together with the arrival of the new executive director should place JWDS on a firmer organizational footing.

8) Assessment And Recommendations

The JWDS is the only organization in Jordan dedicated to providing sustainable microfinance services and has the track record, structure and know how to deliver them. AMIR could engage with the JWDS and assist them in expanding their enterprise in two areas.

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i) Microfinance

One of the immediate needs of JWDS is to put its future microfinance plans into a form that can be openly discussed and improved upon. The financial plans we reviewed show great detail over the next 20 months, but in order to reach its target of 15,000 borrowers in the next four years, JWDS needs to begin its planning now of what the implications of staffing and required loan capital will be in order to reach that target. AMIR staff could work with JWDS to assist them with their long term planning.

AMIR could also engage in resolving the problems JWDS has with Housing Bank regarding fees and minimum savings amounts.

ii) Organizational Development.

JWDS has started the process of improving the management and marketing of its microfinance service. Jennifer Harold has outlined a detailed action plan[2] of what needs to be achieved in this regard and the JWDS is acting on the recommendations made in that report.

What also needs to be developed is a formal organizational framework aimed at supporting and enhancing the organization's microfinance service. Such a framework should include but not be limited to:-

a) Clear organizational policies and procedures, which are in line with microfinance, best practices.
b) Enhancements to the JWDS MIS which would improve operational oversight and control.
c) A comprehensive human resource development plan which would include manpower planning for organizational growth, job descriptions, remuneration and incentive schemes.
d) Projections of the cost of implementing the action plan already recommended and the impact this will have on JWDS's current budget.

These issues could be addressed by the proposed follow up TA Ms Harold would be providing. The

[2] JWDS Operational Standardization May 1998

organization has also determined the following training needs and subject to a detailed review of training needs and priorities, AMIR could consider providing for them :

Basic Level:	1.	Strategic business planning
	2.	Human resource management
	3.	Evaluation of programs
Moderate Level:	1.	Governance
	2.	Finance and accounting
	3.	Legal and regulatory issues
	4.	Fraud management
	5.	Product development
	6.	Accounting, budgeting and control for microfinance
	7.	Targeting and outreach
	8.	Loan officers incentive system
Advanced Level:	1.	Loan portfolio management
	2.	Management information systems
	3.	Delinquency management

E) NOOR AL HUSSEIN FOUNDATION / NEW MICROFINANCE UNIT

1) Summary

This leading NGO is committed to creating a separate and autonomous entity devoted to providing a sustainable microfinance service. It has developed plans to do so and the AMIR project could engage the leadership and staff of NHF MU help make their plans a reality.

Their goals are clear, but perhaps too modest. Conservatism should be lauded in initial planning, but borrower growth, according to projections, could be considerably enhanced beginning in Year 3 of the plan. The total goal of 200 borrowers per loan officer is reasonable, but program borrower growth during year 3-4 could be accelerated.

The second issue that AMIR could assist in would be the role of the bank(s). Housing Bank seems like the logical choice at present, but other institutions should be considered if Housing Bank continues to be such a reluctant partner in the program.

AMIR could also assist in the development of an organizational structure including operating policies and procedures based on best practice principles**.**

2) Institutional Background And Profile.

Address:	P.O. Box 926687 Amman - 11110
Telephone	(9626) 560 - 6992
Fax	(9626) 560 - 6994 Fax (9626) 560 - 6994
Date Started:	1985 as NGO Sustainable Microfinance operation planned to start 3rd Q 1998
Chairperson	Her Majesty Queen Noor Al Hussein
Executive Director:	Dr. Sima Bahous
Micro Finance Director.	Mr. Qais Katamine
Legal structure	Local NGO under special Law
Executive Committee	Her Majesty Queen Noor (Chair Person) H.E. Mrs. In'am Mufti, Ex-Senator Advisor to Her Majesty, Director of Task Force for children H.E. Dr. Rima Khalaf, Minister of Planning H.E. Dr. Mamdouh Abbadi, Mayor of Amman H.E. Dr. Bassam Al-Saket, H.E. Mr. Sami Gammouh, Minister of Transportation H.E. Sameeh Darwazeh, President and owner of Al-Hikma Pharmaceuticals H.E. Mrs. Subhieh Ma'ani, Senator, President and Owner of the Arab Company for Medical and Agricultural Products H.E. Mrs. Salwa Masri, Ex-Minister of Social Development H.E. Mr. Mahmoud Al-Sharif, Editor in Chief of Al-Dustour Newspaper H.E. Mr. Anis Mouasher, President of Mouasher Company H.E. Mr. Ali Abu Ragheb, Member of Parliament, Ex- Minister of Trade and Industry H.E. Dr. Ahmad mango, Advisor for H.R.H Prince Hassan, Owner of Arab Resources Company and Jordan Automotive & Equipment Co. H.E. Mr. Khaled Shoman, Deputy General Manager and Deputy Member of the Board of Directors of the Arab Bank H.E. Mrs. Nawzat Shaker,
Staff	288 for all programs 1 for Microfinance Program

Legal Structure:	Local NGO under special law.
Organizational structure of Microfinance unit.	To be established:

3) Mission statement / values statement:

To increase access to economic opportunities for people near or below poverty line and increase overall family income through the establishment or expansion micro businesses.
Objectives

1. Increase access to financial Services.
2. Savings mobilization to provide increased financial security to borrowers
3. Strengthened microenterprise support and training activity

All the above mentioned objectives will be accomplished within the context of the microfinance program which will reach financial sustainability with six years.

4) Microfinance Portfolio Profile

NHF does not operate microfinance programs but makes donor funded loans to income generating projects. It has established a rural lending program in 1990 and its "Quality of Life" credit program began in 1997, reaching 852 borrowers with $84,750 in loans, with initial loan size of $150.

NHF is currently planning to launch a sustainable microfinance enterprise, initially making loans of JD 100 for 16-22 weeks with weekly installments. The intent of the program is to draw heavily on worldwide experience, but apply it within the context of Jordan, with product launch in Amman and Zarqa. The projections attached to this section refer to that new program. For clarity, this program is referred to in this report as Noor Al Hussein Foundation Microfinance Unit (NHF MU).

NHF MU will screen loan applications and monitor loan activity. It is planned that several bank branches will be used as cash windows for credit release and collection, as well as to feed back loan performance to NHF MU.

5) Financial And Microfinance Analysis

1. General Financial Management

A. Financial plans and projections

The plans for the next six years are attached to this Annex. It remains to be seen whether the organization can adhere to plan of action, but the forward projections appear reasonable in light of having approximately 7,000 active borrowers by the end of a six-year period. That plan also shows reaching break even by the end of four years of operation.

B. Frequency of use of available financial reports

This would have to be determined.

C. Cash Control

Cash Control should not largely be an issue except for petty cash, salary, transportation expenses, and office expenses. All loan transactions, both extending of the cash and amortization

repayments are to be made through the cooperating bank.

D. Sources and Uses of Funds

The NHF foundation has received approximately $40 million in funding over the last thirteen years. Approximately 10% of the funds have come from the Government, 10% from private sources, and 80% from international donors. Although microenterprise development and credit has been included in the NHF activities, it is also involved in family and community development, women in development, children's welfare, promotion off culture and heritage, advance of education, and export sales of locally produced rugs, embroidery, ceramics, and handicrafts. Up until this point in time, the NHF has worked largely in charitable activities. If the proposed program is funded, it would be financially self-sustaining in slightly less than six years.

This proposal will call for a grant of something in excess of JD 2,000,000; the proposal calls for a mixed grant from the NHF and USAID. The primary use of the funds will be for credit, although up front operational costs would have to be borne by the grant(s) until the loan operation generates sufficient income for operations. It is recommended that the Microfinance Unit be encouraged to press for break even on its operations as soon as possible so that remaining grant funds would be used solely for additional loan capital.

2. Cost of Making Loans

A. Loan Pricing

The NHF is still considering the best way of marketing its loans, but at this point has set an effective interest rate of 36% per annum. To arrive at this rate, NHF MU assumed a commercial bank charge of 14%, loan loss provision at 3%, and inflation at 8% (totaling 25%). They then marked up the loans to reach a profitable status by year 4, and have arrived at 36% per annum. They have also accepted the fact that they might have to change their loan pricing as a condition to change. However, there are some differentials in how to correctly calculate the interest payment. One of their thoughts is to deduct 9% of the loan up front, but then to have the full principal repaid over a six-month period. This will only give them an effective interest yield off 18% rather than the projected 36%.

Most effective rates charged by successful credit NGOs world-wide fall between about 30-50 percent, which is still about half of what the informal market receives in Jordan. Well-secured, large loans from commercial banks in Jordan are effectively priced at about 14-17%.

Expected Cost Recovery Ratio
NHF (All in Dinars)

Semester	Cost	Income from Interest	Cost Recovery Ratio
1	114,956	0	
2	64,699	9,000	-7.19
3	76,779	27,778	-2.76
4	62,297	43,829	-1.42
5	77,282	71,267	-1.08
6	74,782	89,379	+1.20
7	103,601	142,597	+1.38
8	91,601	165,319	+1.80
9	117,117	210,779	+1.8
10	111,117	234,831	+2.11
11	154,037	286,845	+1.86
12	126,037	311,990	+2.48

E. Financial Self-Sufficiency Ratio

According to the projections, financial self sufficiency will not occur until the end of Year 6, at which time no further grant funds would be required to carry on their operation. They are assuming that their operation should be able to attract commercial finance by that time. The bottom line of the attached spreadsheet shows administrative cost as a percentage of loans outstanding which declines from over 40% in Year 1 down to slightly over 7% in Year 6. Most well run NGO microfinance operations have administrative cost ratios of around 12%-20%.

4. Portfolio Management

The Microfinance Unit of the NHF is not yet established. The proposed project, however, does stress that they understand the need for a tightly run MIS system that can be responsive to both the needs of management and the loan officers. It is intended that during the first phase of operations ("Phase One"), an operations manual will be completed. Their stress is on rapid loan application review and issuance, which should drive the rest of the system. To quote from the organization, "Sound financial systems, management information systems, and governance and accountability at all levels will be established for a responsive loan system that meets the needs of micro entrepreneurs."

5. Linkages with Banks

The Microfinance Unit of NHF is currently negotiating with Housing Bank to be its cash window. Housing Bank has widespread coverage throughout the country, including the more economically depressed areas, and seems like a logical choice. However, based on other interviews carried out recently, Housing Bank has become more difficult to deal with as a partner to the NGOs. They have raised their minimum deposit to JD 100 (from JD 50), and the Microfinance Unit feels that at this time Housing Bank's transaction charges appear rather high. Prior to the program launch this point will need to be resolved.

Page for Spreadsheet

6) Institutional Analysis

As an institution, NHF is involved in a broad range of developmental programs which include, family and community development, women in development, children's welfare, promotion of culture and heritage, and advancement of education.

In February of this year, the organization was restructured by the current Executive Director to decentralize decision making by creating a middle management level consisting of five functions whose collective purpose is to assume the day to day management of the foundation and its projects. That restructure is still in progress and executive recruitment and appointments are underway

The Foundation has recognized its strength in interfacing with rural communities and is seeking to capitalize on that strength by launching a new, sustainable microfinance unit.

The foundation also recognizes the need for this unit to be managerially and financially autonomous. It envisages a separate management structure with its own board and its own financial management and reporting system. The foundation is also aware that it's image as a developmental organization may be in conflict with the new unit's business culture and intends to name the new unit in such a way that it does not suggest a direct link with the Noor Al Hussein Foundation itself.

From an organizational standpoint, a new management structure needs to be developed. Such a structure should be autonomous and separate from that of NHF management and it this stage, staffing levels estimated by the foundation include:-

Project Manager	1	
Financial Manager	1	
Operations Manager	1	
MIS Manager	1	
Accountant	2	
Admin. Asst.	1	
Messenger	1	
Secretary	1	
Data Entry	1	
Loans Supervisor	6	
Loan Officers	23	Total 39

7) Assessment And Recommendations

Noor Al Hussein's executive management is fully committed to the concept of establishing a sustainable micro finance enterprise. It is ready to embrace best practices principles and the new unit's director is currently attending the first stage of Boulder's microfinance training program.

AMIR could engage with NHF to make the new microfinance unit a reality by assisting in two areas.

i) Microfinance.

NHF goals are clear, but perhaps too modest. Conservatism should be lauded in initial planning, but borrower growth, according to projections, could be considerably enhanced beginning in Year 3 of the plan. The total goal of 200 borrowers per loan officer is reasonable, but program borrower growth during year 3-4 could be accelerated. AMIR could assist in the following.

a) Carry out an in depth review of the projected microfinance plan and make appropriate amendments.

b) Develop an immediate to mid term business plan which would include expansion, capital, expense and income goals, how they will be achieved and at what cost.

c) Establish a commercially viable link with a commercial bank that will provide a cash window for the new enterprise. Further discussions could be held with the Housing Bank and others if the Housing Bank continues to be a reluctant partner in achieving that.

ii) Organizational Development.

From an organizational standpoint, AMIR could assist in following:

a) Establish the new unit's organizational structure.
b) Develop management policies and procedures, which are consistent with sustainable, best microfinance practices.
c) Identify training needs and develop and arrange to implement training programs.

F) Queen Alia Fund (Small Business Development Center) SBDC

1) Summary

The SBDC and QAF are in the last stages of a management and financial reorganization and a view of their microfinance program and portfolio performance can only be formed once the restructure is completed (due 3Q 1998)

The AMIR project should continue to engage the SBDC. In order to be an effective partner, they would need to gain autonomy from the QAF (which is still largely viewed as a charitable organization), refine their loan product(s) offered into a short-term, high rollover microfinance loan. The key at this point (May 98) is to see whether or not the SBDC can become truly independent and cost accountable. The issue in Jordan is heightened somewhat in that organizations sponsored by the Royal Family are generally viewed as being charitable rather than profitable. The SBDC will need to make extra efforts to ensure that the borrowers see that their loans are truly loans rather than grants.

2) Institutional Background And Profile

Address:	P.O. Box 5118 Amman - 11183
Telephone	(9626) 582 - 5241
Fax	(9626) 551 – 5950 Fax (9626) 551 - 5950
Date Started:	1992
Board Chairperson:	Her Highness Princess Basma Bint Talal (Chairperson)
QAF Executive Director:	Sadeq Muhyar
SBDC Director	Amer Bakir
Legal Structure:	Local NGO under special Law
Board	H.E. Dr Awad Khleifat, Ex-Minister, Deputy of QAF Board of Trustees President H.E. Dr. Rima Khalaf, Minister of Planning H.E. Dr. Mohammed Kheir Mamsir, Minister of Social Development H.E. Mr. Walid Asfour, Royal Jordanian Chairman H.E. Dr. Hisham Khatib, Ex-Minister, Private Sector Mr. Khalil Talhouni, Private Sector Mr. Wasef Azar, General Manager Jordan National Bank Mr. Salem Ghawi, Secretary General Ministry of Planning Mr. Samih Al Madani, General Manager Phosphate Company Mr. Naser Sa'doun, General Manager Arab Potash Company Ms. Malak Al Naser, Private Sector
SBDC Staff	13 for Microfinance Program

3) Mission statement / values statement

The Small Business Development Center (SBDC) mission is to stimulate and support the development of Jordan's small & micro business sectors by providing expert business advice and financing Assistance, with the principle focus of increasing the participation of women in Entrepreneurial Activities

Objectives

1. To provide entrepreneurs with Professional Business Counseling
2. To provide entrepreneurs with Financing Services
3. To Provide entrepreneurs with Referral Services (e.g. legal, taxation, other NGO's etc.)

4) Microfinance Portfolio Profile

The SBDC provides business advice, management and entrepreneurial training, and credit extension services. Aimed at small and micro enterprises, it delivers its services through QAF's 50 centers throughout Jordan.

It services a total of 1077 active borrowers both in the informal sector (home based micro enterprises) and the formal sector (Small, registered businesses) based on the follows terms.

SBDC Micro and small loans.

Sector/ Loan use.	Max Loan Amount JD	Max repayment period	Guarantee Terms	Interest Rate/Admin Fees	Grace period
Informal loans					
Working capital	500	1 year	Promissory notes	1% p.m on outstanding amt +20 JD fee	No
Capital expenditure	1000	1 year	Bank checks	1% p.m on outstanding amt +30 JD fee	Up to six months with interest
Formal loans					
Working capital	2000	?	Notes/Bank checks	1% p.m on outstanding amt +20 JD fee	No
Capital expenditure	2000	6 years	Notes/Bank checks/ Feasibility study/ 20% client contribution	1% p.m on outstanding amt +30 JD fee	Up to six months with interest

Due to the reorganization of QAF's financial management and accounts departments, detailed information on the performance, recovery and delinquency rates of SBDC's loan portfolio will only be available 3Q 1998. However portfolio highlights are:-

5) Portfolio Profile

<u>Profile of Microfinance Clients:</u> Poor and unemployed females and males in Jordan

Client selection criteria

1. Very small loans/quick loans
2. Working capital/production cycle
3. Bigger loans need business plans
4. Some special schemes for females only

Gender of borrowers: 367 females; 498 male in 1996

Urban/rural borrowers: No response

<u>Microfinance Loan Portfolio Profile</u>

Total Outstanding Loan Portfolio: JD 3,024,000

Loan appraisal techniques used: Business plan analysis; cash flow analysis

Number of active loans: 1,077

Number of loans outside Amman: 668

Collateral required

1. Direct deduction
2. Deduction upon request from 2 guarantors
3. Bank guarantees
4. Legal guarantees
5. Mortgage of property
6. Checks and promissory notes
7. Personal guarantee

Average initial loan size: no response

Loan amount range: JD 100 to JD 6,000

Loan interest rate: 10% DB and planning to have 12% DB and administrative fees

Loan repayment rate: 100%

Repayment period: No data

Grace period: Only for long term loans for capital assets: 6 months

Delinquency policy & procedures: No data

Default policy: Considered default after more than one year

Other factors:

Cultural pressures to repay:	Effective: pressure from community leaders, shame
Legal collection procedures:	"Yes and no, because law is not binding"

6) Financial And Microfinance Management and Analysis

As stated earlier, QAF and the management of SBDC is being restructured. The present situation is one where accounts and payrolls are still lodged with the QAF as a whole, but planning indicates that the SBDC should become a corporate entity in and of itself by September 1998. SBDC is planning to make both working capital and investment loans to existing and emerging businesses once it becomes autonomous, but as the General Manager stated, they are still "working out on a limb". SBDC has portions of a stand-alone MIS that will allow them to manage a microfinance portfolio, and once the programming is finished they intend to pilot test the system.

7) Organizational Profile

QAF and the management of SBDC are being restructured to decentralize the management decision process and give more financial reporting autonomy to the SBDC. While using the foundation's administrative support and policies the SBDC will be financial accountability will be separated from that of the foundation. However on examination of the new structure, there are some concerns namely:-

<u>At foundation level.</u>

There is no evidence of a middle management level in the foundation's restructure to reduce the executive director's direct supervision of an extensive number of functions. This may limit the amount of direction he is able to give to SBDC management.

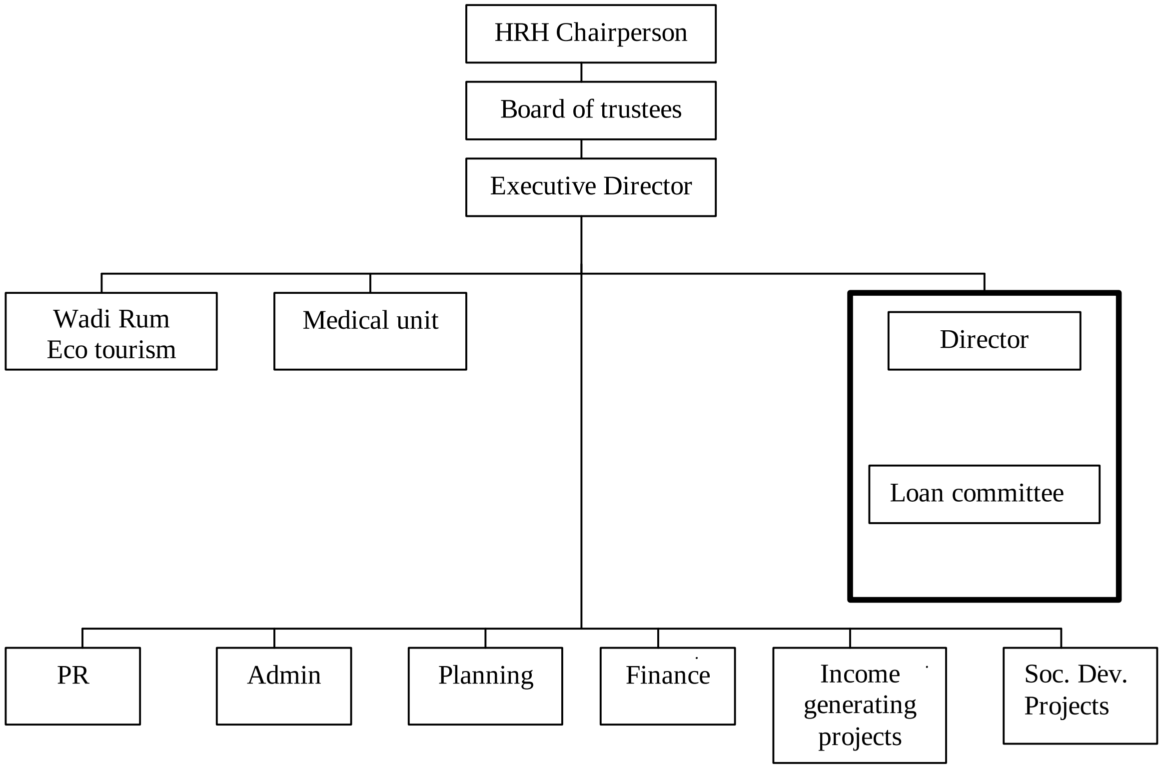
<u>At SBDC level</u>

a) The SBDC director reports to the foundation director and not a separate board. The support the director gets in terms of financial, operational and strategic planning is therefore limited. This is critical and if the SBDC is to develop into a dynamic provider of microfinance services its top management should have more depth by having its director reporting to separate board comprising senior executives from various business disciplines.

b) A loan committee consisting of financial and development staff from the foundation assess loans. It has been reported to us that this has created policy conflicts between the need to offer "clean" loans which are in line with best practices and those of the foundation's financial executives who demand collateral.

This limits SBDC effectiveness as a provider of microfinance services and encroaches on its autonomy.

(The organizational structure follows).



8) Assessment And Recommendations

The SBDC through QAFs 50 centers and its established base of 1,077 customers with a portfolio worth JD 3,284,850 merits careful consideration as a potential partner in USAID's microfinance efforts However, because of insufficient financial and organizational information, we could not form a view on the SBDC's role as a potential partner. There are indications that further structural and policy reorganization may be required to ensure that the SBDC is fully autonomous and has the management depth to face the challenges inherent in business expansion.

AMIR could continue to monitor progress and revisit this organization once the restructure is complete; estimated during 3Q 1998. AMIR could also help in the planning and implementation of QAF's further decentralization and we recommend that any future assistance to QAF or the SBDC should be contingent on the organization's commitment to decentralize its management further than is currently being planned.

G. Other NGOs

1) SAVE International

SAVE International is essentially the godmother of the emerging JWDS program. AMIR should continue contact with its leadership, particularly through the period when SAVE is still controlling the loan portfolio of JWDS, and is still providing some of the technical leadership of the program.

2) CARE International

Microfinance is not a major component of this organization's international or regional activities. However contact should be maintained with CARE to allow for their inclusion in AMIR's activities, should the organization become corporately interested in the project's activities.

3) General Union for Voluntary Societies (GUVS)

GUVS is not currently in a position to run a sustainability microfinance operation, but is keenly interested in the possible outputs of a well-run microfinance program, and has begun to understand that there might be a role for NGOs beyond welfare. AMIR should continue to make sure that the leadership of GUVS is included in broad discussions, and learn from GUVS long experience with community-based NGOs.

F) Progress Indicators and Achievement Targets

Based on initial observations, we have included progress indicators and achievement targets against which each NGOs progress could be measured.

However, as a result of our investigations it is clear that a more detailed review is required of each organization's sustainable microfinance plans and organizational procedures before committing to firm progress benchmarks. For example we will need to re-examine the NGOs target borrowers over the next four years and assess their validity. As stated earlier, NHF projections for target borrowers may be modest. A more detailed review would also determine if the NGOs could organizationally cope with or be able to improve upon the progress indicators outlined below.

Jordan Women's Development Society

PROGRESS INDICATOR	1998	1999	2000	2001
Sustainable Microfinance Plans				
Near to mid term financial plans aimed at achieving break even	Q4			
Hand over of fund control from SAVE to JWDS	Q4			
Target # borrowers (subject to further review with JWDS)	5000	7500	10,000	12,500
Establish firmer links with bank/s.		Q2		
Assess desirability of introducing new loan products e.g. individual loans		Q2		
Organizational Plans				
Develop organizational plans to account for business expansion	Q4			
Review and develop best practices operational procedures and manuals	Q4			
Finalize HRD and training needs	Q4			
Training program complete		Q4		

Noor Al Hussein Foundation/ New Microfinance Unit.

PROGRESS INDICATOR	1998	1999	2000	2001
Sustainable Microfinance Plans				
Revisit and finalize financial plans and forecasts		Q1		
Finalize link with banks	Q4			
Begin fielding loan officers		Q2		
Target # borrowers (subject to further review of financial plans and forecasts)		150	500	1,500
Organizational Plans				
Finalize organizational plans, management and operational procedures manuals based on a fully autonomous unit and in line with best practices.		Q1		
Secure office space, staff up and .		Q1		
Identify HRD and loan officer training needs		Q1		
Training program complete		Q2		

Small Business Development Unit/ Queen Alia Fund

PROGRESS INDICATOR	1998	1999	2000	2001
Sustainable Microfinance Plans				
Revisit and finalize financial plans and forecasts once current reorganization is complete	Q3			
Organizational Plans				
Revisit organization and establish commitment to decentralize further	Q3			

III) Assessment Of Bank Interest

A) Introduction and background

Traditional lending techniques appear to make it unprofitable for commercial banks to provide the financial services needed by microentrepreneurs. Passive marketing, reliance on collateral, the lack of specially trained personnel and minimal understanding of micro-borrowers are some of the factors which have made it difficult for Jordanian bankers to view microfinance as potentially profitable. In order to determine the possibility of involving Jordanian banks in microfinance, it was necessary to explore their interest in such a possibility.

The objectives of this assessment were:-

1) To determine banks' initial interest and reaction to the concept of offering sustainable microfinance loans.

2) To identify which bank/s are the likely candidates to partner USAID's initiative to establish a sustainable microfinance lending program in Jordan

3) To identify some of the key issues which the AMIR project needs to address to secure the banks' commitment to a sustainable micro finance program.

This assessment is intended as the first step in the process of assessing and promoting bank interest in providing microfinance services. This assessment will be followed by a banker's workshop in July when bankers from Egypt who have been successful at establishing sustainable microfinance programs will present their case histories. This will lead to the final stage; that of developing a concept paper which will act as the basis for final negotiations with those banks who are most likely to partner with AMIR in providing sustainable microfinance services.

B) Methodology

Interviews were held with general managers and other senior executives of six Jordanian banks that expressed initial interest in the AMIR approach to microfinance. Using a hypothetical financial forecast of a possible microfinance lending program through one branch, follow-up exchanges were held with four of the banks that appeared to be the most interested. Discussions were also held with the Jordan Loan Guarantee Corporation to obtain a Kingdom-wide perspective on the state of small and microenterprise finance.

The findings of these interviews are presented in subsequent sections of this report. While not all of the points discussed herein were brought up by all of the banks, the issues raised will be central to the discussions and negotiations preceding formal agreement with a bank or banks.

C) Overview of the Jordanian Commercial Banking Sector

There are 21 commercial banks in Jordan and as of FY 96 they held JD 5,988 million in deposits and had JD 3,705 million in deposits. They are highly liquid, very risk averse and will not lend unless loans are fully collateralized (usually by real estate). Since the Gulf War, banks have relied on the rapid expansion of their corporate clients for profit growth. Activity of this sector has recently plateaud and some banks now recognize the need to expand their retail customer base to include smaller enterprises.

The banks are under central bank of Jordan control and some of its policies will impose constraints on commercial banks' ability to expand their loan products too include microfinance. A full study of policy and legal constraints will be completed by July 28th but illustrative examples include the requirement by the central bank for commercial banks to have reserves to cover uncollateralized loans equivalent to the total loan amounts. Another is the 1% limit on fees charged by commercial banks to cover transaction costs. This may limit the banks' ability to charge sustainable interest rates on their short term high turnover microfinance loans.

D) Interviews

1) ARAB BANK

Address:	P.O. Box 950545 Amman - Jordan
Telephone:	9626 5607115
Fax:	9626 5684010
General Manager:	Abdul Majeed Shoman Amir
AMIR contact Person:	Mr. Mufleh Akel, Regional Manager
Date Established:	1870
No. of Branches:	90
Country Rank:	1

Summary of discussions

Founded in 1870, Arab Bank is the longest established bank in Jordan. Arab Bank expressed interest in being involved in a microenterprise program, based on visits both previous to and during the course of this exercise. The Regional Credit Manager, Mufleh Akel AMIR's main contact, is also president of the Jordanian Banker's Association.

The major impression from the discussions is that Arab Bank would be willing to carry out a program with productive microenterprise as a focus. The major drive of Arab Bank is that there is a social responsibility to assist the small business sector that is not yet served by the formal financial sector.

2) BANK OF JORDAN

Address:	P.O. Box 2140 Amman 11181- Jordan
Telephone:	9626 5696123
Fax:	9626 5696015
General Manager:	Mr. Mohamed Qasem
AMIR contact Person:	Mr. Mohammad Anwar, Assistant General Manager
Date Established:	1960
No. of Branches:	63
Country Rank:	6

Summary of discussions

Bank of Jordan was established in 1960, and now has 63 branches kingdom wide. As with other large banks in Jordan, their current investment ranges from industry and mining, trade, transport, construction, and tourism related industries. The bank, represented primarily by Mohammed Qasem, General Manager, Mohammed Anwar, Assistant General Manager, and Frida Atiyat, Manager, held extensive discussions with the consulting team.

While the bank did express an interest in supporting microenterprise finance, the issue of this being a new program was clearly identified as needing careful study. The computer model presented was fully discussed, but the AGM noted that most of their other loan products were expected to have a positive return "from Day 1 or Month 1". The model worked out during the course of this exercise only shows a break-even point occurring by the fourth quarter, with project profitability occurring within the sixth quarter.

3) HOUSING BANK

Address:	P.O. Box 7693 Amman 11118 Jordan
Telephone:	9626 5607315
Fax:	9626 5678121
General Manager:	Mr. Abdel Qader Al Dweik
AMIR contact Person:	Mr. Jahed Jarar, Executive Manager
Date Established:	1974
No. of Branches:	115
Country Rank:	2

Summary of discussions

Housing Bank expressed great interest in joining into a relationship with the AMIR project to support microenterprise finance. The primary contacts with the HB were with the General Manager, Assistant Executive Manager, and the Manager of the Corporate Division. It has 115 branches distributed throughout the Kingdom.

The HB was quite willing to provide capital required for the program. The Housing Bank executives also joined in detailed discussions regarding the requirements of effective microenterprise financial systems, including the need for new employees that could physically reach out to the communities to be served, building an incentive system for loan officers, and identification of a coherent expansion of the program through its branch network. Housing Bank appears to be one of the most promising potential partners in developing a microfinance program under AMIR.

4) ISLAMIC INTERNATIONAL ARAB BANK

Address:	P.O. Box 825902 Amman - Jordan
Telephone:	9626 5694901
Fax:	9626 5694914
General Manager:	Mr. Jamil Dasouki
AMIR contact Person:	Mr.Jamil Dasouki, General Manager
Date Established:	1998
No. of Branches:	7
Country Rank:	New

Summary of discussions

Islamic International Arab Bank (IIAB) is a recently established, wholly owned subsidiary of the Arab Bank. Discussions were held with the General Manager, Jamil Dasouki. IIAB was opened for operations in February 1998. While the discussions with IIAB were certainly friendly, the result of the discussions was that the IIAB is still too new to take on any programs beyond what they currently have planned.

IIAB's structure is to firmly adhere to the dictates of "marabaha". Any funds that are extended have to come from the shareholders and depositors of the IIAB, and the business result of any loan extended has to be evaluated so that the profit can be divided between the business person and the shareholders, with a management fee going to the bank if the outcome of the business venture is positive. The IIAB expressed interest in the general approach towards microfinance but at present, its strategic focus is on expanding its corporate portfolio.

5) JORDAN ISLAMIC BANK FOR FINANCE AND INVESTMENT

Address:	P.O. Box 926225 Amman - Jordan
Telephone:	9626 5677377
Fax:	9626 5666326
General Manager:	Mr. Musa Shihadeh
AMIR contact Person:	Mr. Musa Shihadeh, General Manager
Date Established:	1978
No. of Branches:	44
Country Rank:	5

Summary of discussions

Jordan Islamic Bank has 44 branches throughout the Kingdom. They provide both deposit and loan services, but strictly through the "marabaha" system. They have an oversight board within the bank to ensure that the dictates of Islam are followed throughout the JIB's operations.

JIB's General Manager, Mr. Musa Shihadeh, expressed interest in the potential program of microenterprise finance. He provided great detail with respect to the operations of the JIB, including how projects are selected and how return on investment to the shareholders occurs. The shareholders must concur on any investment (or loan) is made by the bank, and certain shareholders then have their capital extended to the borrowing client. Total profit (or loss) of the investment is made on a periodic basis, and a share of the profits are then returned to the shareholders, with the bank receiving a management fee for brokering the deal.

While the approach of Islamic banking is certainly important in Jordan, it would be very difficult to resolve the issues of shareholders approving each and every (micro) loan. A second issue that could not be resolved within the scope of this activity is that a premise of the AMIR microfinance program is that the program operate on a profit. According to JIS management, profit is only determined at some end point of the loan, and if the sub-loan is not judged profitable, the bank does not receive its management fee and the shareholders take a loss on the venture.

6) JORDAN NATIONAL BANK

Address:	P.O. Box 3103 Amman 11181 Jordan
Telephone:	9626 5823026
Fax	9626 5689518
General Manager:	Mr. Wasef Azar
AMIR contact Person:	Mr. Fuad Al Werr, Assistant General Manager
Date Established:	1955
No. of Branches:	50
Country Rank:	4

Summary of discussions.

Jordan National Bank has some fifty branch offices throughout the Kingdom, and has recently been combined with Business Bank under the name of JNB. Primary discussion were held with the Assistant General Manager, Fuad Werr

He expressed interest in microfinance, and follow-up meetings were held. However, the bank appears to have some severe constraints to joining into the AMIR program at this point in time. They are near their credit ceiling; unsecured loans under microfinance would require them to have a 100% set-aside with their already strapped reserves. A second issue constraining JNB is that their corporate approach is more upscale. Current discussions reveal that they are considering upping their minimum deposit to JD 500, which would not allow them to serve the microenterprise sector. A third but related constraint to JNB joining the program at this point is that they expect to have a capital deposit to onlend during the course of the activity. This does not fit with the approach that AMIR has taken with the other banks.

E) Discussion Highlights

1. Direct Capital Investment

There has been a precedent set under the CHF program wherein actual loanable capital has been offered to the banks. While that may suit the needs of the CHF program, the liquidity of the Jordanian banking system suggests that outside capital may not be necessary to gain bank participation. AMIR's approach seeks long-term investment by the Jordanian banks into microenterprise. This would entail cooperating banks to actually provide their own funds to create the assets (loans outstanding) under the program. Among others, Housing Bank appears willing to meet this condition, but it is a sticking point with some of the other banks. The intent of the program at this point in time is not to place loanable capital with the banks, but to share risk through other methods.

2. Identification of Branches

The AMIR program is not targeting specific areas of the Kingdom aside form avoiding overlap with the CHF program in the southern section of the Kingdom. Nevertheless, the urban areas of Amman, Zarqa and Irbid, where concentrations of population and bank branches make sustainable microfinance more likely to be successful, are probable target areas. It is recommended that the microfinance program start in specified areas, beginning with a limited number of branches rather than going Kingdom wide with an untested product. When further negotiations are carried out with the bank(s), the banks should be enjoined to delineate both their starting points (say 2-4 branches) with a growth pattern, if successful, over the next four years.

3. Development of Loan, Savings and other Products

Extensive discussions have been held among AMIR, USAID, and the banks to reach a state at this time that the most promising partner banks are identified. However, once final agreements are reached, further definition loans, savings and other products (such as insurance) will have to be carried out. The definition of which loan, savings and other products to be offered and detailed outlines of loan length, price, repayment patterns, voluntary and mandatory savings issues will be the subject of a thorough feasibility study of the program.

4. Assistance with Training of Loan Officers

Training assistance for new loan officers should be provided under the AMIR project. It is critical that the loan officers get started correctly, including not only the philosophical approaches to microfinance, but also the practical issues of identifying a serving the target market. The banks that expressed the most serious interest in entering the microfinance market understand that there would be a requirement to truly focus the loan officers on successfully delivering the microfinance product.

5. Development and Installation of Management Information Systems

In order for the participating banks to be fully effective in monitoring and supervising an effective microfinance program, they would require a MIS that can adequately monitor and report on the portfolio. Because most of the banks' systems are geared towards corporate and/or long term lending, they would require a dedicated system for this activity, as well as to be able to handle costs and returns to the activity as a profit center. The banks that appear most interested in this microfinance activity are cognizant of this need, which could be addressed under the AMIR program.

6. Initial Employment of Loan Officers

It is a bit of a truism that for new microenterprise programs, new staff is needed. It is extremely difficult to motivate an employee that has become accustomed to sitting in an office to move out to the streets (outreach) to drum up new business and to supervise active borrowers. It is generally easier to train new staff and to provide a monetary incentive system that will motivate them to carry out the objectives of the program. If the AMIR project itself provides the salaries of these new employees for the first year or so of activity, those employees will be fully beholden to the objectives and requirements of the project. This will also lessen the cost, and therefore increase the profit, of the participating bank. While this is not an absolute requirement, it does appear to be a strong negotiating point on the part of the project, and should enhance the chances of success.

7. Technical Assistance

It has been discussed that technical assistance, meaning direct interface between AMIR advisors and the participating banks, will be required. AMIR is in a position to provide this service, and should be in a position to "offer" this service during the course of negotiations. Jordanian banks have not be exposed to microfinance in any broad fashion, and it will require some very "hands-on" technical assistance to develop and deliver a microfinance product that can be successful.

8. Risk Sharing on Default

A formula for risk-sharing on default was alluded to in item 1 above, and will have to be worked out with the bank(s) that participate in this program. National statistics indicate about a 3% default rate among small and micro enterprises. Once bank funding has been estimated for this program, a conservative estimate of the total annual default costs can be made using 3% or some higher number. Actually, a set of rates, probably declining over the years of the program, might be most appropriate to reflect improvement in program operation with time. In any case, the total estimated default costs to the banks would then be measured against the free resources provided by the AMIR program (See items 4. to 7. Above) to arrive at an acceptable return for the bank(s) and to precisely determine the risk sharing formula. This would be fairly low-cost to the program, and would help convince the bank(s) to move more quickly into delivering a yet-untested product into the market.

9. Linkages with NGOs

Banks did not have an opinion when asked if they would consider linking with NGOs to use their experience in interacting with microentrepreneurs. This suggests the need to educate banks in the merits of such a strategic alliance.

F) Conclusion

The Housing Bank appears the most ready to enter into an agreement at this point in time. The Arab Bank has also shown initial willingness to offer sustainable microfinance services. Other potential partners may emerge as a result of the Banker's Workshop planned for late July 1998, along with individual consultations with banks that will occur during the course of AMIR's regular interface over the next few months.

Appendix I

Hypothetical Financial Forecast of a microfinance program through one retail bank branch

Appendix II

Database Of NGO Responses

To EDI Questionnaire

Appendix III

Meetings Held

The following organizations and executives were visited during the course of this assessment.

NGOs

CARE
Jonathan Patrick, Country Representative
Anis Tarabey, Projects Manager
Alia Al-Assad,Field Officer, Credit Program

General Union of Voluntary Societies
Mohammed Wardam, Secretary General
Noman Shaer, Accounts Manager
Jamal Rafayya, Micro Project Officer
Ribhi Qattoum, Research and Study Center

Jordan Women's Development Society
Hala Ghosha, Board Member
Niveen Abboushi, Executive Director
Arije Al-Amad, Credit Manager
Laura A. Danylin, Business Advisor

Noor Al Hussein Foundation
Dr. Simons Bahous, Executive Director
David O'Conner, Advisor
Kais Katamine, Micro finance Project Mangr

Queen Alia Fund
Sadeq Muhyar, Executive Director
Dr. Amir Bakir, General Manager of Projects
Salwa Hinni, Small Business Advisor

SAVE
Michael Austin, Director
Basem Khanfar, Finance and Admin Manager

BANKS AND FINANCIAL INSTITUTIONS

Arab Bank
Mr. Mufleh Akel, Regional Manager

Housing Bank
Mr. Abdel Qader Al Dweik,General Manager
Mr. Jahed Jarar, Assistant Executive Manager
Mr. Nabil Jebara, Manager Corporate

Bank of Jordan
Mr. Mohamed Qasem, General Manager
Mr. Mohammad Anwar Assistant General Manager
Ms. Frida Atiyat, Manager

Jordan National Bank
Mr. Fuad Werr Assistant GM

Islamic Int. Arab Bank
Mr. Jamil Dasouki, General Manager

Jordan Islamic Bank
Mr. Musa Shihadeh, General Manager

Jordan Loan Guarantee Corp
Dr. Jamal Salah, General Manager