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AMIR Program
Access to Microfinance & Improved Implementation of Policy Reform

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Market Specifics Survey #1 East Amman

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INTRODUCTION

In Jordan, microfinance using universally accepted best practices is not well developed. The Access to Microfinance and Improved Implementation of Policy Reform (AMIR) initiative is focused on redressing this development shortcoming and launching sustainable microfinance programs through selected Non-Government Organizations (NGOs) and commercial banks, collectively known as Microfinance Institutions, MFIs.

The AMIR Program commissioned the joint venture of CDG/Al Jidara to conduct a survey of businesses in East Amman as a first step to assessing potential demand for credit and determining the risk in lending. The implementation of this work is based on having each participating MFI set up an autonomous private shareholding subsidiary company focused on providing sustainable microfinance lending services in keeping with recognized technologies referred to as "best practices". Three organizations have now been identified for this role. With regard to the target market, each subsidiary will be targeting business from formal (registered) and informal (non-registered) micro-enterprises defined as:

i) Enterprises employing 10 people or less; and
ii) Enterprises having credit requirements between JD 200 – JD 7,000.

The three MFI's are identified in the box below and are described as follows:

- The Jordan Micro Credit Company (JMCC) is a private shareholding non-profit company which is a subsidiary of Noor Al-Hussein Foundation. The loan size that JMCC is considering initially is between JD 200 and JD 650.

Participating Institutions and Respective Loan Sizes

JMCC	200 – 650 JD
JWDS	600 – 2,500 JD
AMC	2,000 – 7,000 JD

- The Jordan Woman Development Society/Micro Fund for Women (MFW) is a private shareholding, non-profit company. This entity has considered offering loans ranging between JD 600 and JD 2,500.

- Al-Ahli Microfinancing Company (AMC) is a subsidiary of the Al Ahli Bank. The loan size considered for offering by AMC is between JD 2,000 and JD 7,000.

1.1 Purpose of the Study

The overall goal of this survey is to provide useful and accurate information to assist the MFIs in developing demand driven loan products by achieving the following objectives:

1. Defining the market for the MFIs by profiling the small and micro enterprises (SME) in ten selected areas in East Amman.

2. Defining the loan product for the MFIs by determining the specific socioeconomic situation of micro-entrepreneurs, credit needs, alternative loan sources and conditions, and preferred potential loan conditions in these areas.

3. Establishing a baseline methodology for future surveys and development of new loan products.

The objectives were addressed through a two-stage approach. In the first Stage, the overriding objective was to determine for East Amman

- The overall specifics of its microfinance (MF) market in terms of Existing businesses and their characteristics;
- The extent of the potential demand for individual loans;
- Borrower typologies expressed in terms of two indicators: credit risk and potential for loan demand.

In the second Stage, the overriding objective was to determine the detailed characteristics of the targeted borrower typologies as revealed in Stage I, in terms of their:

- Socio-economics and credit needs;
- Borrowing alternatives and financing sources;
- Business transactions and characteristics;
- Cash flow, disposable income, and repayment capacity;
- Characteristics of their potential demand for loans; and
- Loan conditions most appropriate for the market.

1.2 Background

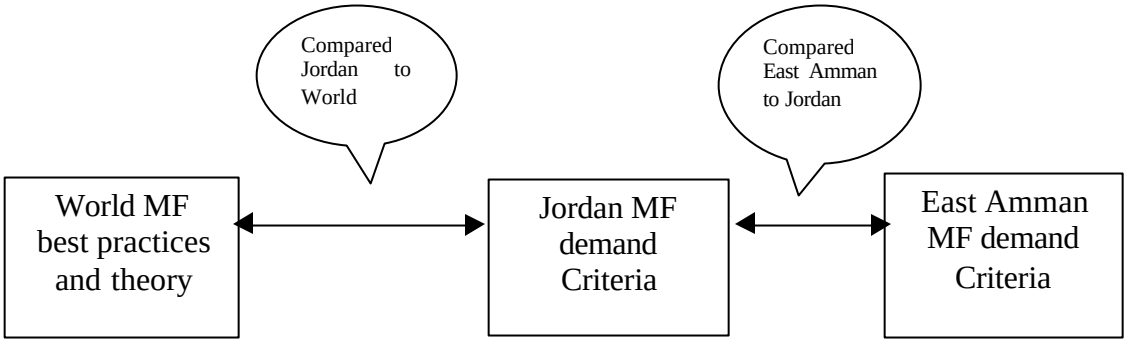
The rationale for determining the borrower typologies was drawn primarily from the results of (i) *The Demand for Microfinancial Services in the Micro and Small-Scaled Enterprises Sector in Jordan* conducted in 1998; and (ii) *Women's Economic Activities in Jordan (Women in development Technical Assistance Project – WIDTECH)* conducted in 1999.

The scope and purpose of the first study was to generate economic, financial, and social profiles for micro and small scale entrepreneurs in the three most populated areas of Jordan; Irbid, Zarqa, and Amman. The study revealed that there exists an unsatisfied demand for loans in the microfinance market, and that this demand is affected by size of operation, sector of operation, location, and gender of the micro and small entrepreneurs. The Study defined national demand for microcredit that resulted in approximately JD 168 million effective demand for credit and outlined the characteristics of risk and potential demand. The study also compared Jordan's microfinance situation to the theories and world best practices of microfinance, resulting in the specification of certain factors that define the behavior of the Jordanian micro entrepreneur regarding potential demand for loans.

The second study (WIDTECH) reported on research findings on women's participation in micro-enterprise, agriculture, and the formal sector. The study's key findings were divided into 5 main areas: (i) rates of economic participation in microenterprises (1.5% of the total population of Jordanian women are involved in microenterprises); (ii) marital status of currently working women (64% of women currently active in microenterprise were married); (iii) age distribution (2/3 of the women were between 20 and 39, with a mean of 35 years); (iv) educational levels (16% of women active in microenterprises have no schooling); and (v)

regional and rural/urban distribution (majority are located in urban settlements, primarily in the Middle region of the country.

This survey and subsequent analysis attempted to further examine these results and factors and divide them into identifiers of credit risk and potential demand for loans. These identifiers were then applied in Stage I of the Survey as criteria to determine the typology of the East Amman potential borrower. The Figure below illustrates this transition from world best practices (theory and applications) to Jordan as a whole, and subsequently to suburbs of East Amman.



1.3 Organization of the Report

Following this introductory chapter, the report is organized as follows:

Chapter 2 presents (i) the methodological approach for Stage I and Stage II surveys; (ii) the pre-testing and survey procedures followed to conduct each particular element of the work; and (iii) a description of the statistical tools used in analyzing the data.

Chapter 3 presents the results obtained from analyzing the data collected from Stage I field questionnaires, and reports on the general findings measured during the survey implementation.

Chapter 4 presents findings and results obtained from analyzing the data collected in Stage II.

Chapter 5 presents an overall summary of results and interpretations, concluding the report with implications and recommendations for MFIs.

The **Annexes** contain the original AMIR scope of work and sample questionnaires for Stages I and II.

2
METHODOLOGY OF MICROFINANCE MARKET SPECIFICS SURVEY

2.1 Survey Design

To accomplish the project objectives, a two-stage survey was designed. Stage I was designed to determine, for East Amman (a) overall market characteristics and potential loan demand; and (b) borrower typologies in terms of risk and potential loan demand. Seven of these typologies were developed (see Box). From the background research that the team has conducted, fourteen criteria were developed to identify the seven typologies of microentrepreneurs in terms of credit risk level and potential for credit as shown in the box to the right. To group the respondents into these typologies, specific scores were assigned for each criterion. The total score for risk criteria and potential loan demand criteria determined the inclusion of the entrepreneur within the low, moderate or high level of risk or potential demand. The scoring and quantification was developed through an objective rationale leading to in-depth questions as part of the surveys.

Typologies of Risk and Demand for Loans

Type LR/HP	- Low Risk, High Potential demand
Type LR/MP	- Low Risk, Moderate Potential
Type LR/LP	- Low Risk, Low Potential
Type MR/HP	- Moderate Risk, High Potential
Type MR/MP	- Moderate Risk, Moderate Potential
Type MR/LP	- Moderate Risk, Low Potential
Type HR	- High Risk

Stage II focused only on those entrepreneurs that were determined in Stage I as having low and moderate risk, thereby developing the specific characteristics related to the micro-entrepreneur market.

The adopted methodology was based upon a number of important factors that were instrumental in the final design of the questionnaire, subsequent statistical analysis and inference, and conclusions about the population of East Amman micro-businesses. The methodology allowed for maximum involvement of AMIR MF consultants and stakeholders (MFIs) at the preliminary design phases, and provided the CDG/Al Jidara Consulting team with valuable input into the recognition of important issues to be emphasized in the questionnaires.

The rationale and survey design for each of the two successive stages of the market specifics for microfinancing operations in East Amman are presented separately below.

2.2 Stage I Rationale and Questionnaire Design

Rationale

The rationale behind the design of Stage I Survey to determine the Typologies of the SME borrower in East Amman was developed in terms of two major indicators: *potential demand for credit and credit risk*. Fourteen criteria for these two indicators were identified and translated into specific questions. For both indicators, a method of scoring points (1 for low

attainment and 2 for high attainment) for each question was used. These scores were summed up for each respondent one question at a time. The scoring was then clustered into one total score for potential demand and another for credit risk.

With direct reference to the results of the national survey *"The Demand for Microfinancial Services in the Micro and Small-Scaled Enterprises Sector in Jordan"* of 1998, the rationale that was used in specifying each question of Stage I questionnaire is presented below for Potential Demand and Risk Indicators (Table 2-1). As additional indicators of the efficacy of the rationale, statistical validations were made from the initial results of Stage I on the criteria that ran contrary to the principles of MF, and accordingly, the scoring was revised when needed. The results were reviewed by AMIR consultants.

Table 2-1
Microfinance Rationale for Stage I Survey

Variable	Rationale	Questions
Risk	In general, the person who can have his/her supplier support as character reference indicates that s/he has a good credit reputation and business ethics.	Who could attest to your good character? (Q3)
	Those with other sources of income are less of a risk and may be more able to pay back the loan.	Other sources Of income? (Q4)
	This implies that older entrepreneurs would be a lower risk for the MFIs than younger entrepreneurs, since they are socio-economically more stable and have been running the same business successfully for long periods, and have acquired more financial information and insightful decision-making regarding formal loans. The median age of the respondents in the demand survey was 35, while the average was 36 years.	Age? (Q7)
	In general, a person who has his/her dependents in school has more of a stake in succeeding at his/her business and repaying the loan.	Dependents in school? (Q8)
	Ownership of assets and/or real estate indicates ability to provide collateral.	Own Assets and/or Real Estate? (Q9)
	Entrepreneurs who have been in business longer are more experienced in running their business and making more sound financial decisions.	Years operating business? (Q12)
	If enough sales returns are generated to cover the loan amount in total or partially, then the borrower is more able to payback the loan any time.	Loan Size? (Q17) Average Sales? (Q26)

Table 2-1. Continued

Variable	Rationale	Questions
Potential Demand	The Demand Survey of Jordan indicated that, in general, the size of the enterprise influences the financial behavior of the entrepreneur since larger scale affects the costs and bargaining power of accessing external financial services. On the other hand micro and small-scale entrepreneurs have a higher demand for formal loans than their counterpart.	Number of employees? (Q6)
	The Demand Survey of Jordan indicated 'that among the significant relationships, profitability of the enterprise has a positive effect on the entrepreneur's use of informal holdings and negative effect on the entrepreneurs' use of formal loans.	Monthly sales and costs? (Q26, 27, and 28)
	The Demand Survey of Jordan indicated that the value of the physical assets of the enterprise has a negative effect on the entrepreneurs' potential demand for formal individual loans. This implies that enterprises with a high value of physical capital do not have a high potential demand for formal loans.	Estimated market value of the micro-enterprise, physical assets? (Q14)
	Those who are willing to apply for a loan are better to target for selling the product of the MFI than those who are not interested in loans at all.	Would you ask for a loan if made available? (Q15)
	Whoever goes to moneylenders for loans is willing to go to banks for loans.	Access to Loans from moneylenders to cover new investment? (Q20)
	The Demand Survey indicated that half of the entrepreneurs never requested a loan because other sources were available. The source of informal loans over the past year was largely from family and friends. Interestingly, the primary reason provided by about half of the entrepreneurs (45 percent) for never requesting a formal loan was availability of other sources. Therefore, the use of informal loans implies a lower potential demand for formal individual loans.	Access to enough informal loans to cover new investment? (Q21)
	The Demand Survey for Jordan indicated that the use of trade loans has a positive effect on the use of formal loans. This result implies a complementary effect between formal and trade loans, where entrepreneurs using trade loans use more formal loans and vice-versa.	Access to Trade Loans from suppliers or customers? (Q22)
	The sources of finance may be characterized in ranking order starting with the most frequently utilized. First, internal sources is the overwhelming source; second, customer advances and supplier credit; third, formal loans from commercial banks; and fourth informal loans from family and friends. This ranking falls in line with the pecking order theory of finance, which suggests that "safety first," i.e., not losing ownership control of the firm, is the principle used to rank firm's preferred financing.	Self-funding of any new investment wished to be undertaken? (Q23)
	Entrepreneurs who have a higher effective demand for formal loans have a lower potential demand for individual formal loans, (as shown from results of preliminary testing of concept).	Ever used/applied for a formal loan? (Q24)

Design of Stage I Research Tool

After developing the rationale, the research tool for Stage I was designed and included (i) questions whose responses were translated into indicators that determined typologies of the SME entrepreneur in the survey areas; (ii) questions that determine use and potential loan-size demand; and (iii) questions that specify the market characteristics. The questionnaire (in Arabic and English) appears in the Annex to this report.

2.3 Stage II Rationale and Questionnaire Design

Transition from Stage I to Stage II and Design of Stage II Research Tool

While the first stage helped to determine the profile of the microenterprise sector in the selected areas, the second stage helped to determine the sector's detailed credit requirements in those areas. The Box below identifies the highlights of the transition.

Rationale

The rationale behind Stage II is to study the detailed credit requirements, the business relations, and the socioeconomic situation of the market based upon the identified typology segmentation of the SME entrepreneurs. Therefore, Stage II was designed to yield insight and specifics of potential credit requirements per typology market segment, which will help in the design of the various MF programs in accordance with the needs and perceptions of the different typologies.

Transition from Stage I to Stage II

The first stage of the study identified the 7 typologies and their percentages in the population. The typology MR/MP was the most prevalent and significant at 67% of the market.

Accordingly, Stage II targeted the lower risk typologies (LR/LP at 1%, LR/MP at 3%, and LR/HP at 1%, as well as MR/HP (12%) and MR/MP (67%).

Design of Stage II Research Tool

Stage II used a more in-depth survey instrument that is more elaborate and actually took a minimum of 50 minutes to conduct. The questions were phrased carefully in a non-intimidating way to alleviate, on the part of the respondent, any wariness to release information. The questions of the instrument targeted topics that are outlined in the Box below and related to the entrepreneur situation in East Amman.

Factors of Analysis in Stage II

1. Potential demand, broken down by loan size, loan term, and preferred loan conditions.
2. Cash flow generation of these enterprises and amount of disposable income;
3. Sources of Finance/Borrowing alternatives in terms of trade loans, informal loans, and formal loans that they do borrow from and at what terms and conditions;
4. Other sources of income aside from the business, regular or permanent;
5. Socio-economic profile of the potential borrower, number of dependents, age gender, living conditions, and years in residence, personal assets;
6. Amount of credit productively used and repaid and if there is still a perceived demand for SMEs products or services assuming they add more capital.
7. Previous formal-credit experience, if any - Amount of loans taken, terms and conditions and repayment problems.
8. Business relations and SME characteristics.

2.4 Stage I Sampling

The sample used in this survey was directed to the three MFIs target market of formal and informal micro-enterprises operating in the areas from which they aim to get business, namely Wehdat, Hussein Camp, Al-Ashrafiyyah, Jabal Al-Taj, Sakf Al-Sail, Sahab, Khraibet Al-Souk, Ras Al-Ain, Jabal Al-Zuhur, and Nazzal. The sampling was based upon obtaining the total number of registered enterprises (formal) in those areas. This formed the sample frame of the study.

Formal SME Sampling

The formal enterprise sample was obtained through the number of Business Licenses within the areas; obtained from Greater Amman Municipality (GAM) and other Municipalities not part of GAM. The number list of each area was categorized by the adopted business classification used by each organization, with this business classification further categorized to the higher level used as the industry sector categorization of this survey. The weighted average of the formal enterprise population of each area was calculated and applied to the sample size to obtain a guiding, but not limiting, number for the formal enterprises to be surveyed in each area under study. The total formal enterprise population obtained for all areas under study was approximately 21,400 formal enterprises (Table 2-2).

Table 2-2
Formal Population of SMEs In East Amman

Population of Formal Enterprises	
Area	Total registered SME's under study
Sakf Al-Sail	4,019
Jabal Al-Taj	737
Wehdat and Ashrafiyyah	3,754
Hussein Camp	3,343
Ras Al-Ain	3,950
Khraibet Al-Souk	2,074
Jabal Al-Zuhur	988
Nazzal	1,228
Sahab	1,319
Total Population	**21,412**
Sample (6%)	**1,285**

Informal SME Sampling

Lacking the statistics and the information about the informal sector in Jordan as a whole, and for East Amman, in particular, a sample frame had to be assumed based on common knowledge of the Jordanian Society. The assumption was to consider the sectors of food related businesses, garment manufacturing, general services, handicrafts, retail trade, and hairdressing, as those that will most likely have entrepreneurs working informally and especially women entrepreneurs. This was followed by assuming 50% of the formal enterprises total of above businesses in the surveyed areas to be the sampling frame for the informal sector in the same areas. Accordingly, the total informal population was assumed to be around 8,152 enterprises from the above-mentioned industry sectors.

Table 2-3
Informal Population of SMEs In East Amman

Population of Informal Enterprises	
Industry Sector	No. of SMEs
Food Related Business (50% of formal SMEs)	999
Garments Manufacturing (50% of formal SMEs)	315
Handicrafts & Manual Industries (50% of formal SMEs - adjusted)	28
Retail Trade (50% of formal SMEs - adjusted)	6,537
Hairdressing	274
Total Population	**8,152**
Sample (5%)	**408**

The 50% assumption of the size of the informal market relative to the formal market in the above shown industry sectors was debated and justified in comparison with other developing countries by considering Jordan's GDP/capita, socio-economic status, the presence of institutions in Jordan, and other factors. This percentage was validated through the fieldwork of Stage I by actually succeeding in reaching the suggested sample size. (The team felt that if time and budget had allowed, much more informal enterprises would have been reached). Sample sizes of 5% of the informal population and 6% of the formal population were subsequently used in Sage I. With the combination of the formal and informal samples, the total targeted sample size for Stage I was 1,700 enterprises. The actual sample reached was 1,790 enterprises that were employing 10 people or less operating in the 10 surveyed areas. Table 2-4 presents the distribution of the sample.

Table 2-4
Distribution of Sample by Areas of Survey

Area	Percent of Sample
Wehdat	17.7%
Hussein Camp	15.4%
Al-Ashrafiyyah	5.4%
Jabal Al-Taj	8.2%
Sakf Al-Sail	15.4%
Sahab	5.2%
Khraibet Al-Souk	9.3%
Ras Al-Ain	12%
Jabal Al-Zuhur	2.8%
Nazzal	8.7%

Table 2-5 presents the distribution of the sample by industry sector.

Table 2-5
Distribution of Sample by Industry Sector

Industry Sector	Percent of Sample
Garment Manufacturing	5.1%
Handicraft Production	5.1%
Food Processing	4.7%
Hairdresser	5.1%
Wood Furniture Manufacturing	1.6%
Metal Workshops	1.0%
Retail Trade	58.0%
Restaurant	4.0%
General Services	14.2%
Leather, Light Industry, and Gold	1.2%

The sample was not stratified by industry sector prior to fieldwork, however, the fieldwork was based on the prior knowledge of the existing industry sectors within each of the surveyed area and so consequently was guided by the concentration of the industry sectors within each of these areas. Every effort was spent to reach each industry sector type per area.

2.5 Stage II Sampling

The targeted sample size of Stage II was determined to be around one-third of the sample size of Stage I, i.e. 560 SME entrepreneurs (constrained by time and budget). The actual SME entrepreneur to be interviewed depended upon the analysis results of Stage I, specifically on the Typology definition of each interviewed entrepreneur. As mentioned previously, the typologies resulting from Stage I analysis indicated that the most prevalent typology was MR/MP at 67% of the population. Based on these results, it was decided that the 560 SMEs of Stage II include all respondents who scored within the low risk types in addition to the MR/HP and MR/MP types. A statistical list identifying the questionnaire numbers and their corresponding scoring of potential credit risk and typology was generated.

Selection of Stage II Sample
Using the list, all Stage I questionnaires containing the Low Risk and the MR/MP Typologies were pulled out for inclusion in Stage II sampling, since the questionnaires with MR/MP Typology were randomly accessed and pulled out for inclusion in Stage II sampling. All selected questionnaires were then scanned to exclude those not demanding a loan.

The actual sample of revisited SMEs entrepreneurs reached 581 cases. It should be noted that only 560 cases were included in the statistical analysis, however, since 21 cases were excluded for inconsistent and illogical responses and extremely skewed values of disposable income and cash flow.

2.6 Survey Implementation Methodology

The implementation of both stages followed the same general approach consisting of three steps: first, training and pre-testing of the research tool; second, actual field implementation; and third, data coding, checking, and tabulating.

Training and Field Pre-Testing

All field supervisors, enumerators, and office researchers attended 4 training sessions that included training sessions within the office held to become familiar with the questionnaire and the best method of asking the questions and the expected answers. Training sessions in the field were held for enumerators to face the diverse socio-cultural aspects expected. After the training, a formal field pretest was undertaken to ascertain a number of important factors:

- the overall quality of the research tool;
- the interviewer's and interviewees' level of ease with the tool;
- the interviewer's and interviewees' level of comprehension for the tool;
- the socio-cultural sensitivity of the research tool;
- the type and quality of the responses to the questions.

The questionnaire was pre-tested with a sub-sample for two areas. Pre-testing was conducted by the field logistics coordinator, AMIR microfinance consultant, and the research assistants and moderator, since those individuals would be closely involved in undertaking the surveys.

The pre-tests for both Stages were conducted in Sweileh and Al-Bayader (8^{th} Circle area). After pre-testing, feedback was obtained. Based upon the feedback, the questionnaires were finalized for application.

Upon finalizing the training and revision for the questionnaires based on pretest feedback, the CDG/Al-Jidara team launched the field surveys. As specified by AMIR's terms of reference, personal interviews were arranged with decision-makers in the sampled businesses. During the interview, researchers asked the questions in succession, probing the respondent's knowledge when necessary to make sure that the respondent had not misunderstood a question. All relevant comments were taken note of for analysis. Every completed questionnaire was reviewed for missing responses, incorrect cross-checking of responses, and illogical responses. The unacceptable questionnaires were either sent back to the surveyor for correction with the original respondent or for obtaining a replacement. Every answer was coded and the responses tabulated.

Stage I questionnaires were completed in the ten areas of East Amman in the form of a random walk, face-to-face interview approach. Each questionnaire included the exact name and address of respondents and best time for revisiting in preparation for Stage II. Survey data was meticulously collected, coded, checked, and entered into the project database. The analysis resulted in a number of important tables and pie charts.

Stage II questionnaires were conducted with the selected respondents as mentioned above. Surveyors were guided by the written addresses on Stage I questionnaires, where they visited at the specified times or called to set appointments prior to visiting.

Tremendous checking and validation of given information was performed. Numbers pertaining to profit margins, sales, cost and purchases were even checked against stage I numbers for the same entrepreneur. It should be noted that since the survey was done in two

stages, added credibility was noticed among the revisited entrepreneurs. This combined with the fact that they were informed that their names would be listed out and given to the MFIs, led to them be more honest with the information they gave out.

Implementation Anecdotes

During implementation of the surveys, a number of interesting events occurred as explained in the box below.

Survey Implementation Anecdotes

- For the "informal sector", interviewers spent a long time trying to locate the businesses and then explaining to them the survey purpose. Most were female who were not willing to fill in a questionnaire because they did not want to expand their operation further and were satisfied with their situation.
- In the "formal sector", many registered businesses were found not to be managed by the Jordanian owners, but run by Egyptian managers on commission; other times, the decision maker/owner was not present. This resulted in time and effort being wasted especially in Khraibet Al-Souk.
- Many interviewees thought that the surveyors were from the tax department; several refused to answer any questions relating to sales, purchasing, or cost.
- JMC was working in the field at the same time as this survey which caused confusion for some respondents thinking that the surveyor was the loan officer, and some even complained about being over interrogated.
- Once the word was out that some MFIs would be working in the area, informal entrepreneurs began calling the offices to be included in the survey and thus be known to the MFIs. This revealed that there are many entrepreneurs working informally but the problem remains in accessing them.

2.7 Data Analysis

Along with the design of the two questionnaires for the two stages, the preliminary analysis plans were also devised in coordination with AMIR consultant. Data was analyzed using SPSS PC+, a statistical software package that provides frequency tables and cross-tabulations. In the **first step** of the analysis, general frequency tables were generated through SPSS for all the responses in the questionnaires. This process helped in data checking and logical crosschecking and discovering extreme outlying data that might dramatically affect results. The frequency tables helped identify the market specifics emanating from the survey questions. Based on the results, the analysis team generated two-dimensional cross tabulations and crosschecked variables to reveal any relations that may exist among the variables and to serve as an essential tool in interpreting the final results.

The **second step** of the analysis included building the SPSS syntax for the analysis plan, running the program, and producing statistical tables and cross tabulation. The **third step** included accumulating the results into meaningful tables and information in line with the analysis plan.

3
RESULTS AND ANALYSIS FOR STAGE I

Based on the viable assumption that the 1,791 case sample is statistically significant, all results presented herein extrapolate to the population. A number of facts emerged that characterize the sample, and are mentioned in the Box below prior to a presentation of the analysis so the reader can keep them in mind.

Preliminary Facts Characterizing SMEs

- Approximately 76% of all microenterprises indicated that they would want an individual loan amounting to a potential market demand size of nearly JD102 million.
- Of the resulting typologies of SMEs, the medium risk/medium potential (MR/MP) typology proved to be the most prevalent.

The analysis of data collected was conducted after a day-by-day coding, meticulous checking and accurate data entry of results for Stage I. The analysis includes frequencies and cross tabulations of the variables investigated, providing the information and the base necessary for the transition to Stage II. Accordingly, this section presents the results of the analyses as:

(i) demand analysis and loan sizes;
(ii) overall microfinance market specifics; and
(iii) typology analysis by risk and potential demand;

3.1 Analysis of Demand for Individual Loans in East Amman

Analysis of Potential Demand for Individual Loans

There is a high potential demand for individual loans in East Amman. The survey indicates that over three-quarters of the sample reported "wanting" a loan if made available with favorable conditions. It also indicates a higher demand among the informal vs. the formal sector and among female vs. male entrepreneurs (see Boxes below). As reported further on in the report, the fact that female entrepreneurs mostly operate informal businesses to augment the family's income and accordingly they demand extraneous financing to expand or setup their operation may be one reason towards explaining this higher demand for loans among females and informal enterprises. Table 3-1 and the Boxes below present the distribution of the sample by individual loan demand.

Table 3-1
Distribution of Sample by Loan Demand

Demand For Loans	Percent of Sample
Want a Loan	76.2%
Do Not Want a Loan	23.8%

Distribution of Loan Demand by Gender

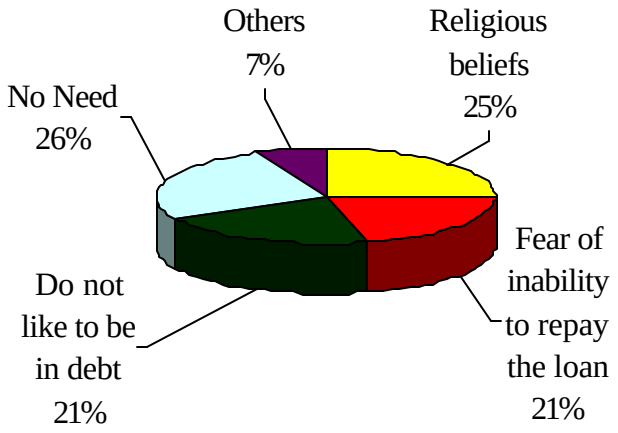
Male	Female
73 %	90%

Distribution of Loan Demand by Registration

Formal	Informal
71 %	91%

The remaining 27% of the sample who did not want a loan were asked for the reason that is mainly preventing them from wanting to borrow doing. The following pie chart (Figure 3-1) shows the reported reasons. They included "no need for loans" and "religious beliefs" with 25% each. This was followed by "fear of inability to pay" (21%) and "do not like the "feeling" of being in debt" (21%).

Figure 3-1
Distribution of Sample by Reasons for Not Borrowing



Analysis of Loan Demand by Loan Size

For those entrepreneurs wanting a formal individual loan, over half the sample indicated that they would ask for a loan size under JD 3,000. The remainder would ask for loans up to JD 10,000 with a few (5%) requesting even higher loans.

The mean value of loan size requested was approximately ***JD 4,500***.

Total Sample Loan Size

Mean JD 4,500
Median JD 3,000

The Box to the right identifies the median loan size requested by male and female entrepreneurs as well as by formally and informally operating SMEs.

Loan Sizes (JD)

	Median	Mean
Female Entrepreneurs	1,500	2,258
Male Entrepreneurs	4,000	5,178
Formal Businesses	4,000	5,573
Informal Businesses	2,000	2,255

Size of Potential Market Demand for Individual Loans in East Amman

The numbers and statistics obtained from Greater Amman Municipality (GAM) resulted in the calculation of the population of the formal/registered businesses within the 10 surveyed areas to be around 21,400 establishments. The informal sector was assumed to be 50% of the formal sector operating in the food, garments, handicraft, retail trade and hairdressing, and thus amounting to around 8,200 establishments.

Based on the above population and the survey statistics and with highlighting the fact that the reported loan size by the surveyed entrepreneurs is the loan amount that they perceive to need and would request if made available, the potential market demand for individual loans in the surveyed areas could be estimated through extrapolating to the small and micro enterprise population under study. The results indicate that an impressive potential demand of nearly JD 101.8 million is estimated to exist in East Amman for formal and informal enterprises. Details of the estimated market size based on the mean loan sizes and demand percentage are shown in Table 3-2 below for the formal and informal SMEs.

Table 3-2
Estimated Size of Potential Market Demand

Sample Statistics	Estimated Population	Estimated Size of Demand Market
76.2% of total sample had willingness to request a loan	22,631 formal and informal enterprises	Nearly JD101.8 Million (@ JD 4,500 mean loan size)
71% had willingness to request a loan within the formal enterprises	15,265 formal enterprises	Nearly JD85 Million (@ JD 5,573 mean loan size)
91% had willingness to request a loan within the informal enterprises	7,462 informal establishments	Nearly JD16.8 Million (@ JD 2,255 mean loan size)

The detailed distribution by loan size of the sample of enterprises that demonstrated positive demand (wanting a loan) is shown below in Table 3-3. Based on the average loan size (central point) within each category, the population number, and the statistics of the survey, the market demand size of each category of the requested loan amount maybe estimated.

The table indicates two major aggregates of requested loan categories, with 30% of the sample wanting a loan of JD 1,500 – JD 3,000, amounting to an estimated market size of nearly JD 14.9 million, followed by 24.5% requesting a loan of JD 4500 - JD 7000, amounting to an estimated market size of JD 31.8 million.

Table 3-3
Distribution of Sample by Loan Size and Corresponding Market Size Categorization

Demanded Loan Size Category (JD)	Estimated Mean Loan Size of Category (JD)	Percent in Sample	Estimated Population of SMEs	Estimated Market Size of Demand Category (JD)
<200	100	0.7	160	16000
200 – 650	425	8.1	1830	777,750
651 –1,000	825	12.3	2785	2,297,625
1,001 – 1,500	1250	4.7	1065	1,331,250
1,501 – 2,000	1750	15.0	3395	5,941,250
2,001- 3,000	2500	15.8	3575	8,937,500
3,001 – 4,500	3750	6.3	1425	5,343,750
4,501- 7,000	5750	24.5	5545	31,883,750
7,001-10,000	8500	7.8	1765	15,002,500
Above 10,000	10,000	4.8	1086	10,860,000

Table 3-4 shows the percentage of the microfinance market for each of the three microfinance institutions of the study. It is noted that JWDS offers loan sizes that overlap with JMCC and AMC and thus competes in their markets. This was determined through the range of the considered loan sizes of each MFI (which may have already changed as of the last writing of this report). When extrapolating to the population the population can be estimated based on a population of 22,631 SMEs (Only cases with willingness to demand loans were considered, around 76% of the sample).

Table 3-4
Distribution of Sample by Microfinance Institution

MFI	Estimated Loan Size	Percent of Sample
JMCC	JD 250 – JD 600	8.0%
JWDS/JMCC (overlap)	JD 601 – JD 650	0.8%
JWDS	JD 651 – JD 2,000	17.9%
JWDS/AMC (overlap)	JD 2,001 – JD 2,500	14.3%
AMC	JD 2,501 – JD 7,000	59.1%

Loan Size Analysis According to Business Registration

Table 3-5 presents the distribution of loan size by registration. A close examination of the table reveals that the smaller loan size up to JD 650 is requested mainly by the informal SMEs, while loan sizes above JD 1,500 are requested predominantly by the formal sector. As for the loan size ranging from JD 650 – JD 1,500, formal and informal SMEs have nearly equal demand.

Table 3-5
Distribution of Loan Size by Registration (%)

Loan Size (JD)	Formal	Informal
<200	0.0	100.0
200 – 650	18.2	81.8
651 –1,000	58.9	41.1
1,001 – 1,500	45.3	54.7
1,501 – 2,000	61.0	39.0
2,001 – 3,000	66.0	34.0
3,001 – 4,500	81.4	18.6
4,501 – 7,000	84.4	15.6
7,001 –10,000	97.2	2.8
Above 10,000	93.8	6.2

A closer examination of the difference in loan size range requested by the formal and informal businesses as shown in the Box below reveals two groups of demanded ranges, below JD 2,000 and above. Note that the informal sector is divided into two main categories, one that demands small size loans (24% of the informal sector) and the other requests larger loans (76% of the informal sector) above JD 2,000.

Loan Size by Business Operation

Loan Size (JD)	% of Formal Sample	% of Informal Sample
<200 – 2000	**2.5**	**24.0**
> 2,000	**97.5**	**76.0**

Table 3-6 presents the distribution of the use of requested loan in the formal and informal sectors; the three main uses being a loan for working capital, fixed assets loan, and a consumer loan. Among the formal and informal sectors, around 90% of respondents indicated that they need loans to support their business. Combined with the previous discussion of 76% informal SMEs requesting larger loans exceeding JD 2,000, it would seem that such large loans are needed mainly to expand informal businesses as shown in the Table below. This may be an indication that informal businesses would want to be registered businesses in the future.

Table 3-6
Type of Loan Requested by the Formal and Informal Sectors

Type of Loan	Formal Percent	Informal Percent
Working Capital	55.4	54.0
Fixed Assets Loan	34.9	32.9
Consumer Loan	9.7	13.1

Demand and Loan Size Analysis within the Surveyed Areas

When considering the potential demand for formal individual loans in each area, the positive demand was nearly similar across all surveyed areas, ranging from 67.4% to 87% of the SMEs with Al-Taj and Sahab having the highest demand percentage at 87%, and Ras Al-Ain

the lowest at 67.4% (Table 3-7). A slight increase in demand was exhibited for the informal sector in all areas.

Table 3-7
Distribution of Demand for Loans within Survey Areas

Area	Positive Demand (%)	No Demand (%)
Wehdat	75.7	24.3
Hussein Camp	70.5	29.5
Al-Ashrafiyyah	75	25
Jabal Al-Taj	87.1	12.9
Sakf Al-Sail	73.1	26.9
Sahab	87.1	12.9
Khraibet Al-Souk	83.7	16.3
Ras Al-Ain	67.4	32.6
Jabal Al-Zuhur	72.5	27.5
Nazzal	82.1	17.9

The Box below indicates the distribution of loan size requested in each of the surveyed areas. It shows that Wehdat area is the main contributor to the demand for most of the loan sizes.

Requested Loan Size (JD)	Areas of Main Demand Source
< 200	Wehdat (@40% of demand for this loan size range)
200-650	Wehdat (@24% of demand for this size range)
650-1,000	Wehdat, Hussein Camp (each @19% of demand)
1,000-1,500	Khraibet Al-Souk (@ 23.4% of demand for this size)
1,500-2,000	Wehdat (@ 18.5% of demand for this size range)
2,000-3,000	Wehdat (@ 14 % of demand for this loan size range)
3,000-4,500	Sakf Al-Sail (@15% of demand for this size range)
4,500-7,000	Sakf Al-Sail (@21% of demand for this size range)
above 7,000	Wehdat (@ 24% of demand for this size range)

Specifically, the major demand for loan sizes "< JD 200" and "JD 200 – JD 650" came from Al-Wehdat area constituting 40% and 24% of the total demand for those sizes of loan, respectively.

For the loan size of JD 650 – JD 1,000, Hussein Camp and Wehdat contributed both around 19% of the total demand for that loan size. As for the JD 1,000 – JD 1,500 loan size, Khraibet Al-Souk was the major source of demand at 23.4% of the market.

For the loan sizes of JD 1,500 – JD 2,000 and JD 2,000 – JD 3,000 Wehdat was again the major market at 18.5% and 14.4%, respectively. For the loan size of JD 3,000 – JD 4,500 and JD 4,500 – JD 7,000, Sakf Al-Sail was the area contributing mainly at 15% and 21.3% of the demand, respectively. Lastly, loan sizes above JD 7,000 were mainly from Wehdat area at 23.6%.

Upon closer examination of the reasons behind entrepreneurs self-selecting themselves from the loan demand in the various areas, it is noted that the most prevalent reason was "religious beliefs" for Sahab, Khraibet Al-Souk, and *Nazza*l. The "fear of inability to repay the loans" scored as the predominant reason for Jabal Al-Taj, Ras Al-Ain, and also *Nazzal*.

For Wehdat and Jabal Al-Zuhur, and Al-Ashrafiyyah, a third of the entrepreneurs did not ask for loans.

Demand and Loan Size Analysis within the Industry Sectors

Similarly, the positive potential demand for formal individual loans was high across all industry sectors within the surveyed areas, ranging from 73% to 85% of the SMEs as shown in the Box to the right.

Distribution of Demand for Loans by Industry Sectors

Manufacturing	84.5% positive demand
Services/Restaurants	76.1% positive demand
Retail Trade	73.2% positive demand

A slightly higher willingness to demand loans is noted for industry sectors involved in manufacturing (such as food processing, wood and metal workshops, garment manufacturing, and handicrafts) vs. services/restaurants and retail trade.

Also, the manufacturing sectors tended to request, on the average, smaller loan sizes than retail trade, services, and restaurants sectors.

Loan Sizes (JD) by Industry Sectors

	Median	Mean
Manufacturing Sector	2,000	3,537
Services/restaurants	3,000	4,891
Retail Trade	3,000	4,731

Table 3-8 presents the distribution of loan size within industry sectors. A close examination of the loan sizes requested per industry sector reveals that most Garment Manufacturing SMEs, Handicrafts and Food Processing SMEs require small loans up to JD 650 and loans within JD 1,500–JD 3,000 category. This coincides with the fact that the majority of the entrepreneurs within these sectors are females running informal businesses. The remaining industry sectors are dominated by male entrepreneurs operating formally and requesting a loan size of JD 4,000 or higher.

Table 3-8
Distribution of Loan Size within Industry Sectors (%)

Sector	<200 JD	200-650	651-1,000	1,001-1,500	1,501-2,000	2,001-3,000	3,001-4,500	4,501-7,000	>7,000
Garment Manufacturing	3.8	18.8	12.5	7.5	18.8	18.8	3.8	12.5	3.8
Handicraft Production	5	27.5	13.8	8.8	20	8.8	5	6.3	5
Food Processing	7.6	16.7	9.1	3	15.2	13.6	10.6	13.6	10.6
Hairdresser	-	5.5	11	2.7	23.3	21.9	8.2	17.8	9.6
Wood Furniture Manufacturing	-	-	8.7		26.1	8.7	4.3	39.1	13
Metal Workshops	-	7.1			7.1			35.7	50
Retail Trade	0.3	6.6	13.5	3.6	13.2	16.9	6.2	25.6	14.2
Restaurant	-	-	26.3	5.3	10.5	15.8	5.3	26.3	10.5
General Services	-	2.1	7.8	5.2	18.2	13	6.3	27.6	19.8
Leather, Light Industry, Gold	-	5.0	-	-	15.0	25.0	10.0	30.0	15.0

Loan Size Analysis According to Previous Credit Experience

In general, 75% of the population do not have previous experience with formal loans, but among the 25% of entrepreneurs who have acquired experience, around 47% of them request loans of sizes above JD 4,500. Further analysis from Stage II of the survey revealed that from those entrepreneurs who were included in Stage II, nearly 70% of them reported that they were satisfied with their conditions, which was of the average size of JD 3,600 (median JD 2,000), indicating their willingness to accept similar loan conditions. (please refer to Previous Credit Experience, section 4.6)

Having presented the data on demand and loan sizes, Table 3-19 at the end of this chapter, presents the portfolio of loan sizes in terms of detailed information that was ultimately used in Stage II.

3.2 General Characteristics of Potential Microfinance Market

The following tables describe the salient features discovered in the sample of entrepreneurs with respect to education, gender, age, median length of time in operating current business, other sources of income, character references, dependents in school, ownership of fixed assets, location of premises, sources available for financing, and the current value of the business.

Selected Characteristics of the Entrepreneurs in Surveyed Areas

For the surveyed sample of 1,791 entrepreneurs, approximately 80% were males. Around half the respondents had completed secondary or higher education while around 35% has basic education only. As for the female respondents, 63% of them have not achieved the secondary education. Table 3-10 below details the education level of the entrepreneurs.

In Sample	
Males	**80%**
Females	**20%**

Table 3-10
Characteristics of Entrepreneurs in Surveyed Areas
Education

Education	Percent
Illiterate	6.4
Numerate	2.3
Read & Write	6.8
Basic Education	34.7
Secondary School	29.2
Technical Education	14.5
University Graduate/ Post Graduate	6.0

The average age of entrepreneurs in the sample was 39 years (median 37), have been operating business for an average of 9 years (median 6 years) and have been working/living in the area for an average 15 years (median 10).

In Sample	
Mean Age	39 years
Mean years operating business	9 years
Mean years living in area	14.7 years

When asked about other sources of income, just under a quarter of the sample replied positively, indicating that they receive support from sources other than their businesses. A closer examination reveals that 57% of female entrepreneurs receive external income versus 14% of the males. This falls in line with the assumption that female entrepreneurs of East Amman are mainly in the business to help out in family expenses and not as the major breadwinner in the family.

In Sample	
Have other sources of income	22%
No other sources of income	78%

When asked who would be a good character reference, over half the respondents indicated that their supplier would be (Table 3-11). In comparison, 84% of the females tended to name relatives as their reference while 60% of the males indicated a supplier as their main reference.

Table 3-11
Characteristics of Entrepreneurs in Surveyed Areas
Character Reference

Character Reference	Total Sample (%)	Male Sample (%)	Female Sample (%)
Supplier	51.3	59.7	16.0
Relative	48.1	39.6	84.0
Other	0.6	10.0	0.0

Approximately 70% reported having dependents in school (Table 3-12). The two parameters of character reference and dependents in school both play an important role in determination of risk potential.

Table 3-12
Characteristics of Entrepreneurs in Surveyed Areas
Dependents in School

Dependents in School	Percent
YES	69.5
NO	30.5

Over half the sample surveyed owned some kind of fixed asset, e.g., building, land, or vehicle. Table 3-13 shows the relevant distribution.

Table 3-13
Characteristics of Entrepreneurs in Surveyed Areas
Owning Fixed Assets

Fixed Assets Owned	Percent
No Assets	46.0
Land	27.5
Car	19.9
Building	6.6

Selected Characteristics of the Firms in Surveyed Areas

Of the total sample, 73% of the entrepreneurs (i.e. around 1,307 businesses) were formally registered, while 27% (i.e. around 483 businesses) operated informally. The formal sector is dominated by males at 97% of the sample, while the informal sector by females at 63%. Moreover, three quarters

In Sample

Formal SMEs **73%**
97% of which are operated by males

Informal SMEs **27%**
63% of which are operated by females

of the respondents worked out of a store front in East Amman, compared to 17.5% operating out of their homes (Table 3-14), and as expected, around 84% of the female entrepreneurs work out of their homes while 88% of the males work out of their stores. Only 2% of males operate from home.

Table 3-14
Characteristics of SMEs in Surveyed Areas
Location of Business Premises

Location of Business Premises	Percent
Store	74.0
Home	17.5
Street	6.8
Ambulant	1.7

As Table 3-15 indicates, of the 1,791 individuals interviewed, 37% reported that they finance themselves from their own internal sources such as their profits, savings and/or through sale of jewelry or asset.

Table 3-15
Characteristics of SMEs in Surveyed Areas
Sources of Financing

Current Sources of Financing	Percent
Internal sources (Profits/Cash/Savings)	37.1
Bank Loan	15.9
Family/Friends loans	15.0
Supplier loan	14.6
NGO Special Program Loan	7.1
No Sources	6.2
ROSCAs	4.1

The above is true for 27.5% of female entrepreneurs and 39% of male entrepreneurs. On the other hand, more female entrepreneurs tend to approach NGOs/PVOs for financing than they do for Banks, while it is the opposite for male entrepreneurs. Also noted is that the female entrepreneurs depend more on informal loans (22.4%) for financing than male entrepreneurs (13.3%).

Sources of Financing

	Males	Females
Internal Sources	39%	27.5%
Informal loans	13.3%	22.4%
Bank loans	18.7%	3.4%
NGOs	5.6%	14%

For the total sample, the median market value of businesses was approximately JD 1,500 and the mode was JD 1,000. The mean is not reported since there were 3 to 4 businesses reporting in excess of JD 100,000 imparting undue skewness to the mean value. The median values for the sample are shown in the Box to the right.

Median Market Value of Business

Median for Total Sample	= JD 1,500
Mean for Total Sample	= JD 4,328
Median for Informal Businesses	= JD 100
Median for Formal Businesses	= JD 2,500
Median for Female Entrepreneurs	= JD 60
Median for Male Entrepreneurs	= JD 2,000

Table 3-16 below shows the estimated business market value by industry sector for the three prevalent sectors: manufacturing, services and restaurants, and trade. The manufacturing sector covered wood and metal workshops, handicrafts and food processing SMEs in addition to other light industries. These SMEs are characterized by being micro enterprises, using older/used tools or operating from home and mainly producing for a middleman or manufacturing for others and so not even stocking input materials. Therefore, they have the lowest value of business. On the other hand, restaurants, services (such as nurseries/kindergartens, car mechanics, repair shops, teaching centers, fitness centers, packaging, etc..), hairdressing, and retail trade SMEs are characterized by having equipment, input material and merchandise and interior décor that vary but add to the value of the business. Therefore, they have higher market value of business.

Table 3-16
Current Market Value of Business by Industry Sector

Sector	Current Market Value of Business (median JD)
Manufacturing	200
Services/Restaurants	1,500
Trade	2,000

Table 3-17 displays the concentration of the industries within the different surveyed areas. As indicated, retail trade is the most prevalent in all areas followed by services (except for Sahab, where it is followed by garment manufacturing).

Table 3-17
Concentration of Industry Sectors in Survey Areas (%)

Areas	Garment Manufac.	Handicraft	Food Processing	Hairdresser	Wood / Furniture Manufac.	Metal Workshops	Retail Trade	Restaurants	Services	Leather, Light Industries, Goldsmith
Wehdat	6.6	6.3	8.2	4.7	0.9	3.2	46.1	5.4	18.0	0.6
Hussein Camp	5.5	0.7	1.8	6.5	2.5	-	66.2	2.5	12.7	1.5
Al-Ashrafiyyah	3.1	-	2.1	6.3	3.1	-	55.2	3.1	18.8	8.3
Jabal Al-Taj	6.1	2.0	5.4	2.7	0.7	-	66.7	3.4	12.2	0.7
Sakf Al-Sail	0.4	0.7	2.9	0.7	1.1	0.4	76.0	3.3	13.1	1.5
Sahab	12.9	2.2	-	8.6	2.2	1.1	60.2	2.2	10.8	-
Khraibet Souk	3.6	8.4	3.0	7.2	4.2	1.8	57.2	3.6	10.2	0.6
Ras Al-Ain	3.3	10.2	7.0	5.1	0.5	0.9	53.5	6.5	12.6	0.5
Jabal Zuhur	3.9	-	5.9	7.8	-	-	58.8	3.9	19.6	-
Nazzal	10.3	16.7	7.7	7.1	1.3	0.6	34.6	4.5	16.7	0.6

Female entrepreneurs in the surveyed areas are mainly running retail trade business (28% of female respondents) and handicraft production (24% of females) while approximately 19% of them are in garment manufacturing, 14% in food processing, and 18% in services and hairdressing. In contrast, 65% of male entrepreneurs in the surveyed areas run retail trade businesses.

Table 3-18 presents the size of businesses in the sample according to the number of employees. Most of the sample was of SMEs operated solely by owner and of micro scale (less than 4 employees).

Table 3-18
Distribution of Sample by Size of Business Operation

Business Operation Type	Percent of Sample
Sole (operated by owner, no employees)	67.1%
Micro (1-4 employees)	31.5%
Small (5-10 employees)	1.4%

This was also true for the SME size according to industry sectors (Table 3-19). As expected, the wood and metal workshops as well as restaurants employed at least one employee and are more of the micro size category.

Table 3-19
Distribution of Size of Operation within Industry Sector (%)

Sector	Sole	Micro	Small
Garment Manufacturing	83.7	13	3.3
Handicraft Production	90.1	7.7	2.2
Food Processing	77.4	17.9	4.8
Hairdresser	68.1	31.9	0.0
Wood /Furniture Manufacturing	24.1	72.4	3.4
Metal Workshops	22.2	72.2	5.6
Retail Trade	70.0	29.6	0.4
Restaurant	43.1	52.8	4.2
General Service	52.8	45.7	1.6
Leather, Light, Goldsmith	54.5	31.8	13.6

The survey revealed that 92% of women entrepreneurs tend to work on their own in comparison to 61% of male entrepreneurs.

Table 3-20
Portfolio of Loan Sizes (JD) within Sample (%)

Features	<200 JD	200 to 650 JD	651 to 1,000 JD	1,001 to 1,500 JD	1,501 to 2,000 JD	2,001 to 3,000 JD	3,000 to 4,500 JD	4,501 to 7,000 JD	7,001 to 10,000 JD	>10,000 JD
Size of operation (%)										
Sole (0 employees)	90.0	94.5	79.2	85.9	76.1	75.8	66.3	55.1	38.7	29.2
Micro (1-4 employees)	10.0	5.5	28.8	12.5	23.4	23.3	33.7	43.1	54.7	67.7
Small (5-10 employees)				1.6	.5	.9		0.8	6.6	3.1
Years of location in area (median)	18	10.5	10	11	10	10	10	10	13	15
Reference of character (%)										
Supplier		30	42.9	35.9	42.0	47.4	45.3	62.0	67.0	80.0
Relative	100	70	57.1	64.1	58.0	52.1	52.3	37.7	33.0	20.0
Friend										
Other						.5	2.3	.3		
Education (%)										
Illiterate/Numerate only	10	13.6	13.2	17.2	8.3	8.4	5.9	3.2	4.7	4.6
Read & write	50	50.9	47.6	37.6	44.7	45.5	37.2	33.8	30.2	38.5
Secondary school and above	40	34.5	39.2	46.2	47	45.1	56.9	63	65.1	66.9
Gender (%)										
Male		35.5	69	56.3	73.3	78.1	84.9	91.9	97.2	96.9
Female	100	64.5	31	43.7	26.7	21.9	15.1	8.1	2.8	3.1
Availability of other income sources (%)	60	50	22.6	28.1	22	25.6	25.6	17.4	17	16.9
Age (median)	38	33	35.5	34.5	35	35	32	36	38	44

Table 3-20. Continued.

Features	<200 JD	200 to 650 JD	651 to 1,000 JD	1,001 to 1,500 JD	1,501 to 2,000 JD	2,001 to 3,000 JD	3,000 to 4,500 JD	4,501 to 7,000 JD	7,001 to 10,000 JD	>10,000 JD
Dependents in school (%)										
YES	70	68.2	66.1	71.9	71.9	71.2	62.8	74.9	77.4	78.5
NO	30	31.8	33.9	28.1	28.1	28.9	37.8	25.1	22.6	21.5
Owning assets (%)										
Building	10.0	1.7	4.5	1.5	3.2	3.5	7.4	9.0	10.6	14.1
Land	20.0	27.1	23.2	19.4	27.5	24.5	18.1	26.8	27.0	34.3
Car		8.5	9.0	10.4	9.6	15.3	19.1	27.3	35.5	37.4
Nothing	70.0	62.7	63.3	68.7	59.6	56.8	55.3	37.0	27.0	14.1
Location of Premises (%)										
House	100	62.7	25.6	45.3	25.4	21.9	14.0	5.4	1.9	1.5
Street		12.7	11.3		7.8	9.3	8.1	9.6	2.8	1.5
Store		23.6	59.5	53.1	63.4	66.5	77.9	83.5	94.3	96.9
Ambulant		0.9	3.6	1.6	3.4	2.3		1.5	.9	
Business Registered (%)										
Formal		18.2	58.9	45.3	61	66	84.4	84.4	97.2	93.8
Informal	100	81.8	41.1	54.7	39	34	15	15.6	2.8	6.2
Years operating business (median)	3	5	4	3	5	5	5	7	8	10

3.3 Detailed Results by Typologies of Borrowers

As discussed previously, seven typologies were developed in terms of SME's credit risk level and potential for credit, based on the following 14 criteria of the ideal borrower type (low risk and high potential for loan demand):

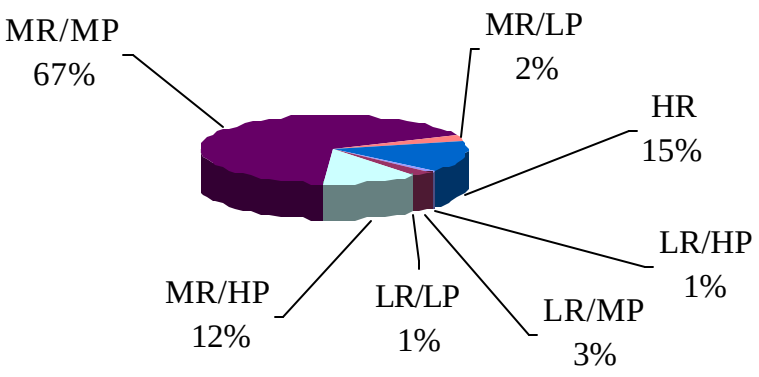
- Employs 5 to 10 employees
- Market value of business being less than JD 2,000
- A ratio of sales to cost of sales (profitability) below 1.3
- Have access to sufficient financing from moneylenders
- Have access to sufficient financing from friends and relatives
- Have access to trade loans
- Cannot finance business expansion from internal sources
- Previous formal credit experience
- Character reference being a supplier
- Have other sources of income than current business
- Entrepreneur older than 35 years
- Entrepreneur has dependents in school
- Owns real estate or fixed assets
- Has been operating the business more than 3 years.

Typologies of Risk and Demand for Loans

Type LR/HP	– Low Risk, High Potential demand
Type LR/MP	– Low Risk, Moderate Potential
Type LR/LP	– Low Risk, Low Potential
Type MR/HP	– Moderate Risk, High Potential
Type MR/MP	– Moderate Risk, Moderate Potential
Type MR/LP	– Moderate Risk, Low Potential
Type HR	– High Risk

Figure 3-2 illustrates the distribution of the typologies in East Amman. The ideal type LR/HP constitutes less than 1% of the entrepreneurs of East Amman. The most prevalent borrower profile is one with borrowers demonstrating moderate risk and moderate potential for loan demand at 67% of the population (19,832 microenterprises), followed by 12% moderate risk and high potential demand. Furthermore, if the entrepreneurs with the profile of High Risk (15%) were to be ignored in the statistics, the MR/MP percentage would rise up to almost 80% of the market.

Figure 3-2
Distribution of Sample by Borrower Typology



In conclusion, the profile that is most prevalent for the entrepreneur in East Amman can be described as follows:

- Mostly SME is solely operated by owner
- Market value of business around JD 1,500
- A ratio of sales to cost of sales (profitability) about 1.5
- Have no access to sufficient financing from moneylenders
- Mostly have no access to sufficient financing from friends and relatives
- Mostly have access to trade loans
- Mostly are unable to finance business expansion from internal sources
- Very few have previous formal credit experience
- Nearly half will have character reference being a supplier
- Nearly quarter will have other sources of income than current business
- Entrepreneur older than 35 years
- Mostly entrepreneur will have dependents in school
- More than half owns real estate or fixed assets
- Has been operating the business more than 3 years.

Please refer to Table 3-24 for a detailed profile statistics about each typology.

Participating Institutions and Respective Considered Loan Sizes

JMCC	(200 – 650 JD)
JWDS	(600 – 2,500 JD)
AMC	(2,000 – 7,000 JD)

Table 3-21 identifies the distribution of the borrower typologies with respect to the loan size requested and the MFIs loan range. Of the three MFIs, AMC and JWDS have the largest share of all typologies. 66% of the entrepreneurs that are within the typology MR/MP, requested loan sizes within the size range offered by AMC alone (>JD 3,000), while 26% requested loan sizes within the size range offered by the JWDS/AMC overlap category (JD 1,500-JD 3,000). Again, for this information, the MFIs were determined through the range of considered loan size and only cases with positive loan demand are included in the statistics.

Table 3-21
Distribution of Typology of Borrower by Loan Size (%)

Typology	**<200**	**200-650**	**651-1,000**	**1,001-1,500**	**1,501-2,000**	**2,001-3,000**	**3,001-4,500**	**4,501-7,000**	**7,001-10,000**	**Above 10,000**
MFI	*JCC*	*JCC/ JWDS*	*JWDS*	*JWDS*	*JWDS/ AMC*	*JWDS/ AMC*	*AMC*	*AMC*	*AMC*	*AMC*
LR/HP	-	-	20.00	6.67	-	20.00	6.67	33.33	13.33	-
LR/MP	-	10.00	8.00	2.00	14.00	16.00	6.00	30.00	8.00	6.00
LR/LP	-	-	-	-	-	-	-	-	-	100.0
MR/HP	-	5.91	7.39	4.43	15.76	11.82	8.87	34.98	6.40	4.43
MR/MP	0.87	8.08	14.08	4.59	14.52	15.61	4.91	23.36	8.62	5.35
MR/LP	5.88	11.76	-	5.88	11.76	23.53	5.88	23.53	5.88	5.88
HR	0.64	10.83	10.83	5.73	19.75	21.02	10.83	15.92	3.18	1.27

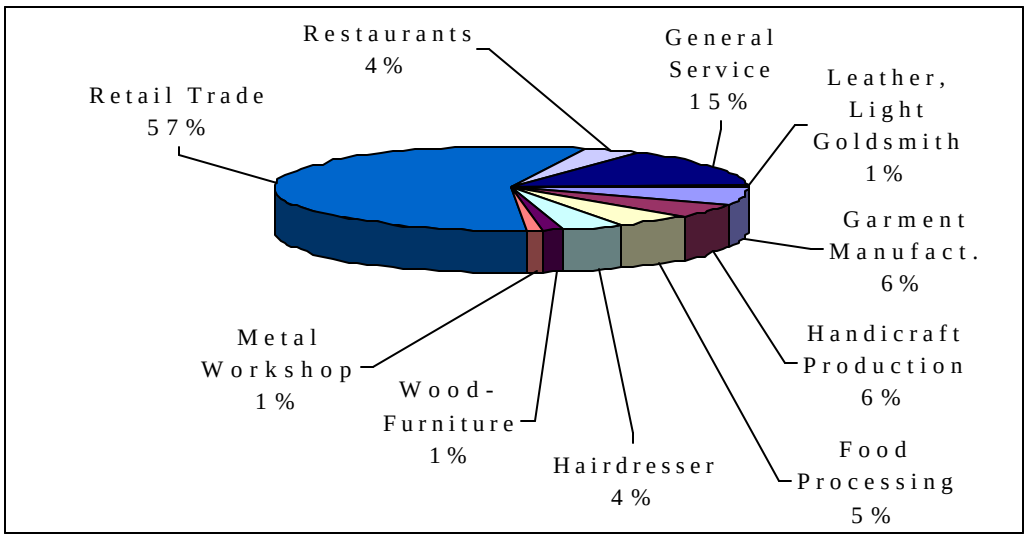
In terms of the distribution of typologies by industry sector, the MR/MP typology is the most prevalent across all sectors constituting 57% of SMEs within hairdressing to 83% of the SMEs within metal workshops (see Box below).

Prevalence of MR/MP Typology within the Industry Sectors (%)

Garments	80.2
Handicrafts	79.1
Food	76.2
Hairdressing	57.1
Wood Furniture	64.3
Metal Workshops	83.3
Retail Trade	68.6
Restaurants	68.1
Services	68.5
Leather, Light and Gold	68.2

The distribution of the specific typology of MR/MP by industry sectors is shown in the Pie Chart below (Figure 3-3). Over 50% of the MR/MP Typology is within the Retail Trade followed by General Services (15%).

Figure 3-3
Distribution of MR/MP Typology by Industry Sectors



The process of distributing the Typologies by industry sector is repeated by survey area. Table 3-22 presents such a distribution indicating that Jabal Al-Taj contains the highest percentage of Low Risk/High Potential typology in the surveyed areas (26.6%). The LR/MP type is concentrated in Sahab and Ras Al-Ain, the MR/HP at Sakf Al-Sail, the MR/LP at Al-Hussein camp. The most prevalent typology of MR/MP is mostly concentrated in Wehdat, followed by Hussein Camp, Sakf Al-Sail, and Ras Al-Ain. The high-risk entrepreneurs are also mainly located in Wehdat and Hussein Camp.

Table 3-22
Distribution of Typology of Borrower within Survey Areas (%)

Area	LR/HP	LR/MP	LR/LP	MR/HP	MR/MP	MR/LP	HR
Wehdat	20.0	16.0		13.5	18.5	17.1	17.6
Hussein Camp	20.0	12.0		10.1	15.6	22.0	17.9
Al-Ashrafiyyah	13.3	2.0		4.3	5.3	7.3	6.2
Jabal Al-Taj	26.7	10.0		14.9	7.1	2.4	7.3
Sakf Al-Sail	20.0	18.0		23.6	14.5	9.8	13.2
Sahab		6.0		3.4	4.9	7.3	7.7
Khraibet Al-Souk		8.0	100.0	9.6	8.7	19.5	10.6
Ras Al-Ain		18.0		7.2	14.5	12.2	4.0
Jabal Al-Zuhur		4.0		3.4	2.3		5.5
Nazzal		6.0		10.1	8.6	2.4	9.9

Continuing the trend of displaying the distribution of Typologies, Table 3-23 identifies the Typologies by registration. The data does not indicate any difference between formal and informal sectors. The prevalent typology within both formal and informal businesses was the medium risk, medium potential (MR/MP) typology.

Table 3-23
Distribution of Typology of Borrower by Business Registration (%)

Registration	LR/HP	LR/MP	LR/LP	MR/HP	MR/MP	MR/LP	HR
Formal	0.7	3.0	0.1	11.6	66.6	2.7	15.3
Informal	1.3	2.3		11.8	68.4	1.1	15.2

For the whole host of typologies, the Box presents the data for the sample distribution of typology with gender as part of formal or informal sector registration. It is interesting to note that 76% of the females operating informal businesses fell within the MR/MP typology closely similar to the male entrepreneurs operating formal businesses (67%).

Having presented the data on Typologies, Table 3-24 presents the portfolio of typologies within the entire sample in terms of detailed information that was ultimately used in Stage II.

Distribution of Typology by Registration and Gender

Females / Informal	76% in MR/MP 12% in HR
Females / Formal	58.5% in MR/MP 24.2% in HR
Males / Informal	56% in MR/MP 19.5% in HR
Males / Formal	67% in MR/MP 15% in HR

Table 3-24
Portfolio of Typologies within Sample

Features	Type LR/HP (n = 15)	Type LR/MP (n =50)	Type LR/LP (n~0)	Type MR/HP (n = 208)	Type MR/MP (n=1,241)	Type MR/LP (n=41)	Type HR (n = 91)
Size of operation (%)							
Sole (0 employees)	33.3	48		43.3	70.3	90.2	72.5
Micro (1-4 employees)	53.3	52		52.9	28.6	9.8	26.7
Small(5-10 employees)	13.1			3.8	1.1		0.8
Years of location in area (median)	15	17		10	12	19	5
Reference of character (%)							
Supplier	100	90		55.3	53.7	61	26
Friend		10		44.2	45.8	39	72.9
Other				0.5	0.5		1.1
Education (%)							
Illiterate/Num. only	6.7	4		9.7	10.4	2.4	3.3
Read & write	40	48		39.6	43.2	58.5	30.9
Secondary school and above	53.3	48		50.7	46.4	39	65.8
Gender (%)							
Male	100	84		85.6	78.9	90.2	82.4
Female		16		14.4	21.1	9.8	17.6
Availability of other income sources (%)							
Available	53.3	78		16.3	24	22	5.9
Not available	46.7	22		83.7	76	78	94.1
Age (median)	42	44.5		35	39	42	27
Dependents in school (%)	100	100		76.9	76.7	80.5	23.8
Yes	0			23.1	23.3	19.5	76.2
No							
Owning assets (%)							
Building		15.8		5.4	7	10.5	1.1
Land	55.6	50		26.2	29.8	40.4	3.3
Car	44.4	34.2		25.4	21.6	20.2	2.5
Nothing				43.1	41.6	28.9	93.1
Location of Premises (%)		12		12.5	19.5	9.8	16.1
House	26.7	4		15.9	5.4		5.9
Street	73.3	82		70.2	73.6	87.8	75.5
Store		2		1.4	1.5	2.4	2.6
Ambulant							
Years operating business (median)	15	10		7	7	10	2
Financing sources (%)							
Profit/Cash	20	24.6		27.6	35.6	55	46.4
Bank loan	26.7	29.5		29.3	15.5	9	11.3
NGO loan		6.6		7.3	8.4	4	3.1
Informal Societies		3.3		3.3	4.5	3	3.8
Supplier loan	26.7	19.7		17.1	14.8	10	12.4
Family/Friend Loan	20	16.4		6.5	15.2	15	16.5
Nothing	6.7			8.9	6.1	4	6.5
Market value of SME (median)	3,000	4,000		1,000	1,500	3,000	1,000

Table 3-24. Continued.

Features	Type LR/HP (n = 15)	Type LR/MP (n =50)	Type LR/LP (n=0)	Type MR/HP (n = 208)	Type MR/MP (n=1,241)	Type MR/LP (n=41)	Type HR (n = 91)
Demand (%)							
Want a loan	100	100		98.1	76.6	41.5	57.5
Do not want a loan				1.9	23.4	58.5	42.5
Loan size (median)	3,500	3,500		4,000	3,000	3,000	2,500
Purpose of loan (%)							
Working Capital Loan	62.5	59.6		59.5	54.2	54.3	54.2
Fixed Assets loan	37.5	28.1		32.8	33.9	40	38.4
Consumer loan		12.3		7.6	11.9	5.7	7.4
Collateral (%)							
Available	100	96.5		96.9	91	80.3	80.5
Not available		3.5		3.1	9	19.7	19.5
Is willing to access to moneylender for loans that cover investment needs (%)	33.3	8		26.9	7.5	2.4	6.3
Willing	66.7	92		73.1	92.5	97.6	93.8
Not Willing							
Can have access to Informal sources for loans that cover investments need (%)	13.3	34		9.1	32.2	85.4	27.9
Yes	86.7	66		90.9	67.8	14.6	72.1
No							
Have Trade loan access (%)	93.3	76		95.2	64.9	39	62.6
Yes	6.7	24		4.8	35.1	61	37.4
No							
Able to self-fund investment (%)	20	58		10.6	36.3	75.6	29.8
Yes	80	42		89.4	63.7	24.4	70.2
No							
Previous experience with formal loan							
Yes	13.3	56		9.6	27.6	48.8	13.2
No	86.7	44		90.4	72.4	51.2	86.8
Want to be visited by loan officers	100	100		96.6	80.1	56.1	66.7
Yes				3.4	19.9	43.9	33.3
No							
Average monthly Volume of sales (median)	1,791	2,300		770.5	600	500	500
Highest (median)	2,000	2,625		900	700	600	650
Lowest (median)	1,500	1,650		500	400	300	310
Average monthly Cost of sales (median)	197	163		156.25	100	300	120
Highest (median)	200	160		160	115	310	122
Lowest (median)	197	150		150	100	300	120
Average monthly Purchases (median)	1,500	1,500		600	300	200	225
Highest (median)	1,800	1,650		600	400	200	225
Lowest (median)	800	1,000		300	200	150	100

4
RESULTS AND ANALYSIS FOR STAGE II

In the second Stage of the study, 581 cases were selected from the results of Stage I typology analysis. The process included selecting all of the individual entrepreneurs who demanded a loan and falling within Typology LR/HP (15 SMEs), LR/MP (50), LR/LP (0), MR/HP (208), and the highest ranking 308 out of 1,241 SMEs in the MR/MP. All selected Stage I questionnaires containing the Low Risk and the MR/MP Typologies were pulled out for inclusion in Stage II sampling. The actual sample of revisited SMEs entrepreneurs reached 581 cases,[1] 25% of which were females.

The analysis of data collected was conducted after a day-by-day coding, meticulous checking and accurate data entry of results for Stage II. The survey analysis was conducted with the overriding objective of determining the detailed specifics of the targeted entrepreneurs in terms of:

- Socio-economics and credit needs
- Borrowing alternatives and financing sources
- Business transactions and characteristics
- Cash flow, disposable income, and repayment capacity
- Characteristics of their potential demand for loans
- Loan conditions most appropriate for the market

Accordingly, this section presents the results of Stage II analyses under the following headings:

- Detailed characteristics of the Entrepreneurs
- Detailed characteristics of the Firms
- Sources of Investment Capital
- Entrepreneur Relations with Suppliers and Customers
- Borrowing Alternatives
- Previous Credit Experience
- Savings Channels
- Income and Expenses
- Potential Loans

[1] It should be noted that only 560 cases were included in the statistical analysis, since 21 cases were excluded for inconsistent and illogical responses and extremely skewed values of disposable income and cash flow.

4.1 Profile of the Microentrepreneurs in Surveyed Areas

This subsection provides detailed information regarding the socio-economics and microfinance-related specifics of the entrepreneurs in the Stage II survey.

The microentrepreneurs in the surveyed areas tend to be responsible for large families (mean number of dependents being 7) and most of them have dependents in school. The average monthly living expenses of the family amounts to JD 237.

More than half of the entrepreneurs either own their own home or at least do not pay rent, while entrepreneurs (40%) renting their home pay on the average JD 65 per month.

Data in Table 4-1 examines the entrepreneurs' income and its sources. The vast majority of the entrepreneurs depend only on income from their establishments where 92% of them work full time. Very few (8%) have other businesses or are salaried employees and are only working part time in their establishments; and even then, only half of those reported that they earn more from their salaried employment.

About 65% of the entrepreneurs in the sample reported being the sole providers for the family. Only 25% indicated having one other family member earning income, coinciding with the statistics obtained in stage I where just under a quarter of the sample reported having other sources of income. The statistics also indicated that 73% of the female entrepreneurs depend on of income of other family members, whom is usually the husband. This is also supported later on in this subsection.

A minority (7%) of SMEs receives remittances from family members abroad, half of them receive up to an amount of JD 1,200 per year.

Furthermore, 30% of the entrepreneurs reported as being unable to meet their monthly family expenses (amounting to an average shortfall of JD 71). To cover this shortfall, as expected, 45% of those entrepreneurs depend on income from other family members to meet their needs. Interestingly, the mean amount of income of the family members contributing towards family expenses is JD 79, enough to cover the shortfall. Other reported sources where Loans (17%), other ventures, rents or pension fund (15%), financial help offered from family and friends (12.7%), draws from savings (3.6%).

Table 4-1
Status of Microentrepreneurs

Component	Total Sample
Total number of dependents	
Mean (Median)	7 (6)
Do you own or rent your house	
Own	56.1%
No Charge	4.6%
Rent	39.3%
Monthly rent, JD	
Mean (Median)	65.39 (60.00)
Employment or business venture elsewhere	
Yes	8.4%
Other salaried employment	
Yes	3.9%
Earn more as a salaried employee	
Yes	50.0%
Other adults of same household working outside the enterprise	
Mean (Median)	0.51 (0.00)
Percent of other family members earning income and contributing towards the expenses of the family	
Yes	81.5%
Remittances from a family member abroad	
Yes	6.8%
Amount of Remittance received over the past 12 months (JD)	
Mean (Median)	2,154.50 (1,200.00)
Monthly living expenses (food, clothing, transport, etc.) including dependents	
Mean (Median)	237.63 (200.00)
Business income adequate to pay for share of the personal/family expenses	
Yes	70.0%
Additional cash to meet your daily needs	
Income of other family members	45.5%
Financial help from family and friends	12.7%
Loans	17.0%
Draws from savings/capital	6.1%
Cuts down on living expenses	3.6%
Depends on income from other sources (other work/rents/pension funds)	15.2%

Table 4-2 examines the differences in meeting family expenses according to gender and type of business. About 54% of the female entrepreneurs reported that income from enterprise was **not** enough to cover monthly family expenses vs. 22% for males. Again, the other main source of cash that the female entrepreneur depends upon is that of other members of the family (73% vs. 22% for male entrepreneurs). Only 10.7% of the females tend to ask for loans and 1.3% draws out from their savings.

On the other hand, 24% of male entrepreneurs depend upon other sources for additional cash to meet their expenses such as provident funds, rents, and other work, 15% depend on financial help offered to them by their relatives or friends and 22% asks for loans.

Table 4-2
Status of Microentrepreneurs By Gender and Business Registration

Component	Gender		Business Registration	
	Male	Female	Formal	Informal
Business income adequate to pay for daily share of personal/family expenses				
Yes	78.0%	46.5%	77.5%	55.0%
Additional cash to meet your daily needs				
Depends on income of other family members	22.2%	73.3%	23.8%	67.9%
Financial help from family and Friends	15.6%	9.3%	15.5%	9.9%
Loans	22.2%	10.7%	20.2%	13.6%
Draws from savings/capital	10.0%	1.3%	10.7%	1.2%
Cuts down on living expenses	5.6%	1.3%	4.8%	2.5%
Depends on income from other sources (other work rents/pension funds)	24.4%	4.0%	25.0%	4.9%

Interestingly enough, a similar discussion applies for the different results based on formal and informal SMEs as in Table 4-2. When examining the differences in meeting family expenses from income earned from business, 45% of the informal SMEs reported income not enough vs. 22% of the formal SMEs.

The other main source of income that entrepreneurs operating informally depend upon is that of other members of the family (68% vs. 24% for formal). Additionally, 25% of the formal sector depends upon other sources for cash such as provident funds, rents, and other work, while only 5% of the informal sector does so. Bearing in mind the informal sector is mainly operated by females (63%), the similarity of the results between the gender and business registration categories is explained.

4.2 Structural and Financial Characteristics of Microenterprises

This subsection presents the characteristics of the enterprise in terms of **structure**, **financial information, and business growth and expansion**, and in Tables 4-3 to 4-6.

Structure of the Enterprise

The majority of SMEs in East Amman have been solely owned and run by the entrepreneur for at least 8 years, employing no other. Most male entrepreneurs run a formally registered business, while most females run informal businesses solely.

Male operated businesses are of a much higher market value of physical assets (excluding land and buildings) than female operated businesses that are usually located at home. Female operated SMEs have a mean value of JD 490 vs. JD 5660 for males.

Only 3% of entrepreneur reported that their work is seasonal and most were females. One-third of the entrepreneurs manufacture for people or for a specific middleman and buy no input materials themselves but are supplied with it from the client/middleman. Upon job completion, the entrepreneur gets paid per product unit. In particular, more than half of the females adopt this method of work. When those entrepreneurs were asked why don't they buy their own material and manufacture for themselves, 62% of them reported because they lack finances. This in turn indicates that there exists a need for capital among the entrepreneurs especially when combined with the fact that about 88% of them have expansion plan with some even indicating their wish to work independent of a middleman. (Through a simple mathematical exercise based on the estimated figure of 7,462 informal establishments wanting a loan, a very rough estimate of about 1800 female entrepreneurs who operate informal businesses, can be deduced to be part of a market in East Amman that needs capital to enhance the business).

When entrepreneurs were asked about the problems they face in their business (Table 4-4), nearly a third reported lack of finance as the most major problem while 23% reported weak market demand. Upon closer examination by gender, these two constraints were also the most significant as reported by male entrepreneurs, while lack of finance and marketing and distribution were the two most significant problems faced by female entrepreneurs.

Almost one-third of the entrepreneurs believe that they do not have any competitors in their immediate market place, more so among females. Only a quarter reported as being in a very busy and active market. In addition, more than 70% of them depend on word of mouth to attract new customers.

Table 4-3
Characteristics of the Firms in Surveyed Areas

Component	Total Sample	Male	Female
Size of operation			
Sole Operator	66.4%	56.2%	96.5%
Micro (1-4 employees)	31.8%	41.4%	3.5%
Small (5-10 employees)	1.8%	2.4%	
Ownership Structure			
Proprietorship	91.6%	90.6%	100%
Partnership	7.7%	8.7%	
Business registration			
Formal	66.6%	87.6%	4.9%
Informal	33.4%	12.4%	95.1%
Number of years operating SME			
Mean (Median)	10.48 (8.00)	11.26(9)	8.18 (6)
No. of employees at start-up			
Mean (Median)	0.71 (0)	0.92 (0)	0 (0)
Current number of unpaid family help			
Mean (Median)	0.56 (0)	0.61 (0)	0.42 (0)
Market value of fixed assets			
Mean	4,350.39	5,662.09	489.17
Median	1,500.00	2,000.00	75.00
Manufacturing products for others (without purchasing inputs)			
YES	22.9%	11.8%	55.6%
Insufficient financing to Purchase Inputs			
YES	62.1%	35.6%	77.2%
Seasonality of Work	3.0%	0.2%	11.3%
Current number of full-time employees			
Mean (Median)	**0.**65 (0)	0.85 (0)	0 (0)
Current number of part-time employees			
Mean (Median)	0.09 (0)	0.05 (0)	0.23 (0)
Average annual growth based on initial number of employees	0	0	0
Expected growth over the next year			
Mean (Median)	18.2% (10%)	25.8% (20%)	22.9% (10%)
Business growth during past year (Mean)	-4.20%	-7.11%	4.30%
Keep administrative records for business			
YES	36.4%	40.9%	23.2%
Household cash separate from business cash			
YES	37.1%	42.3%	21.8%
Last year's operating expenses (excluding labor and merchandise) - JD			
Mean (Median)	1,129 (810)	1,446 (1,122)	198 (18)

Table 4-3. Continued.

Component	Total Sample	Male	Female
Profit margin			
Mean (Median)	32.6% (20%)	25.8% (20%)	52.7% (50%)
Annual Cost of Labor (JD)			
Mean (Median)	854.3 (0)	1,101.2 (0)	127.6 (0)
Amount of significant latest investment (JD)			
Mean	2,975.91	3,816.93	506.15
Median	600.00	1,000.00	100.00
Competitors in the same market			
No competitors	32.9%	27.8%	47.9%
1-2	14.6%	14.1%	16.2%
3-5	22.7%	26.6%	11.3%
6-10	11.4%	10.3%	14.8%
11+	18.4%	21.3%	9.9%
Business activity in location of business			
Very busy	25.0%	28.5%	14.8%
Average	56.7%	55.4%	60.6%
Poor	13.4%	14.6%	9.9%
Irrelevant	4.8%	1.4%	14.8%
Business expansion plans			
YES	88.0%	88.5%	86.4%
Attraction of new customers			
Word of Mouth	73.9%	76.8%	65.1%
Advertising	14.9%	14.0%	17.4%
Others	11.3%	9.1%	17.4%

Table 4-4
Constraints Facing Firms in Surveyed Areas (%)

Most Significant Constraint Faced in the Business Now	Total Sample	Male	Female
Weak Demand	23.4	28.0	9.9
Marketing and Distribution	5.4	1.9	15.5
Labor Problems	1.6	2.2	0
Raw Materials	2.3	2.2	2.8
Infrastructure/Public utilities	1.4	1.7	0.7
Costly Financing	0.7	1.0	0
Unavailability of Financing Sources	33.5	28.0	49.3
Insufficient Collateral	0.4	0.5	0
Domestic Competition	7.4	9.7	0.7
Imported Goods	0.5	0.7	0

Table 4-4. Continued.

Most Significant Constraint Faced in the Business Now	Total Sample	Male	Female
Taxation law	1.1	1.4	0
Government Procedures	1.6	1.4	2.1
Customer Problems	4.3	5.3	1.4
Technology and Equipment	1.3	1.2	1.4
Supplier Problems	0.2	0.2	0
Other	2.0	1.9	2.1
No problem exists	12.9	12.6	14.1

Business Growth and Expansion

None of the SMEs interviewed in Stage II had experienced any growth in size based on initial number of employees. But when asked whether their business had grown in comparison to last year, female entrepreneurs reported an average of 4.3% growth, while male entrepreneurs reported an average decrease of 7%. This may be attributed to the fact that most males run formal businesses at higher operating costs while females run businesses informally from their homes, at lower operating cost, and most are providing labor and some added value to products, thus their higher profit margin and growth of business. The total sample registered an average decrease in growth of 4.2%. The majority of the sample (88%) reported that they would like to expand their businesses and have plans to do so.

Entrepreneurs have varied expectations regarding their business growth next year. On the average, they expect a growth of around 18%. A closer examination of Table 4-5 showing the factors that affect such growth over the next year, interestingly reveals the outlook towards Jordan's economy: 29% of the sample (32% of male operated SMEs) reporting adverse economic conditions that will either decrease, or have no positive effect on their business activity, and 23% of the sample have more of an optimistic view of a better economy and growth. On the other hand, female entrepreneurs, having received their requested loans, are more confident of growth and of successful implementation of their expansion plans, in comparison to male entrepreneurs, but in addition, they suffer from marketing problems and consequently weak demand for their products.

Financial Information

More than two thirds of the entrepreneurs do not keep administrative records or even separate their household cash from their business cash. In fact, females do this even less often than males.

On the average around JD 3,000 was used for the most recent business investment and that usually was for the start up of the operation expenditure. Females used far less amounts at an average of JD 506.

The annual operating cost (excluding labor and purchases) of the SME is JD 1,130, for female operated businesses the average is much less at JD 197. Labor cost is around JD 854, while for the mostly solely female operated businesses JD 127.

On the average, entrepreneurs reported a profit margin of 33%. Interestingly females reported a profit around 50% while males 25%.

The main reported reason that affects the selling price determination at an enterprise is market demand according to more than third of the sample since entrepreneurs are forced to lower their prices in order to sell to consumers with low purchasing power. Other factors are competition and price of input/raw material (Table 4-6).

Table 4-5
Growth and Expansion of the Firms in Surveyed Areas (%)

Factor Affecting Business Growth	Total Sample	Male	Female
As a result of successful implementation of business expansion	16.7	13.8	26.1
No change due to static or worsening economic situation	29.3	32.2	20.0
Growth due to Better and more hopeful economic situation	23.1	27.9	7.8
Competition	1.2	1.4	0.9
Unavailability of raw material	0.8	0.5	1.7
Location of establishment /advertising/ Marketing	2.1	2.4	0.9
Availability of finance / needed equipment	5.6	4.9	7.8
Government decision and practices	0.4	0.5	0
Market Demand	16.7	13.3	27.8
Legality of the establishment (unregistered)	0.4	0.3	0.9
Quality/diversity of merchandise/work	2.3	2.7	0.9
Do not want to expand/grow	0.2	0	0.9
Working independently of middleman	1.0	0	4.3

Table 4-6
Selling Prices at Firms in Surveyed Areas (%)

Effects on Selling Price	Total Sample	Male	Female
Governmental Practices	1.3	1.7	0
Fixed Price	5.5	4.9	7.3
Specific Clients situation	2.1	1.9	2.7
Market Demand	35.5	32.3	45.6
Price of Input/Raw Material and goods	11.3	11.8	10.0
Competition	17.3	19.5	10.7
Lack of liquidity with consumers	7.3	8.1	4.7
Active turnover of merchandise	0.6	0.6	0.7
Legality of enterprise/being unregistered	0.3	0.2	0.7
Seasonality of work	5.0	0	5.3
Lack of finance	4.4	0	9.3
Quality of output/merchandise	5.0	6.2	1.3
Supply	2.3	3.0	0
Political and economic situation	1.1	1.1	1.3
Type of adopted payment (cash vs. credit)	0.6	0.9	0

In conclusion, MFIs may be interested in looking out for entrepreneurs with innovative ideas or even offer incentives for such new projects that are not similar in nature to the existing ones in the market. Also, marketing functions are much needed in East Amman especially among female operated SMEs. Projects that aim to market the produce of women and help them in selling it will play a major role in encouraging microfinance operations.

4.3 Sources of Investment Capital

Across the sample, and for the female and male entrepreneurs, internal sources (cash/savings/sales of assets) are reported as the major and most significant source of funding, followed by informal loans from family and friends, supplier loans, and bank loans consecutively (Table 4-7). This was derived from the SMEs latest experience of funding what they considered an important **new investment**. One quarter of the female entrepreneurs reported having no sources of funding.

The entrepreneurs were further probed to examine whether there is a need among them for more working capital to meet existing market demand for their products. One third of the sample reported that their current capital is not sufficient to meet the demand for their products and that, on average, they need around JD 435 per month to cover their demand (or an average of JD 5,220 annually). Female entrepreneurs reported needing only an average of JD 141 per month (or and average of JD 1,692 annually) to meet demand. This fact supports the existing need for capital as previously discussed, also further on in the analysis; this information will be related to net income to highlight interesting trends.

Table 4-7
Sources of Funds for Firms in Surveyed Areas

Most significant source of funds used for the most important and latest expenditure	Total Sample	Male	Female
Cash/Savings/Sale of assets	70.6%	76.7%	52.2%
Bank loan	3.8%	4.6%	1.4%
NGO Special Program loan	0.9%	0.7%	1.4%
ROSCAs	1.8%	1.2%	3.6%
Supplier loan	6.1%	5.8%	7.2%
Family/Friends loan	9.9%	9.8%	10.1%
Not available	6.8%	1.2%	23.9%
Capital adequate to meet the demand	69.3%	68.4%	71.8%
If capital is not enough, how much is needed per **month** (JD). Mean (Median)	435.5 (250)	525 (300)	141.6 (100)

4.4 Entrepreneur Relations with Suppliers and Customers

Relations with Suppliers

The majority of entrepreneurs in the sample purchased input material from specific suppliers whom they have dealt with for around 8 years on average, indicating a stable relationship (Table 4-8). This is in line with the results of Stage I that over 50% (for all typologies of risk and demand) would consider a supplier as someone who would attest to their good character. The relationship between supplier and entrepreneur typically influences the nature of the sales contract in addition to the characteristics of the entrepreneurs themselves (e.g., fear of repayment, religious beliefs, financial ability, etc.).

Table 4-8 also indicates that, on the average, entrepreneurs annually purchase material for the amount of JD 10,900. Around 40% of SMEs use credit to pay for 84% of their annual purchases, while 60% pay their suppliers in cash for 85% of their annual purchases.

Table 4-8

Characteristics of the Relationship between SMEs and Suppliers

Component	Total Sample
Amount of yearly purchases (JD) Mean (Median)	10,895.33 (3,600.00)
Number of long-term suppliers Mean (Median)	4.98 (3.00)
Longest period of time spent in business relationship with supplier (years) Mean (Median)	8.11 (5.00)
Method of payment for purchases Cash Credit Other	 60.0% 39.6% 0.3%
Percent of purchases in cash Mean (Median)	84.52% (100%)
Percent of purchases in credit Mean (Median)	83.51% (100%)

The box below highlights the same statistics by SME sector. The services sector uses cash more often while the retail trade business use credit more as a method of payment than either services or manufacturing sectors.

Forms of Payment to Suppliers by Sector

Payment	Manufacturing	Services	Trade
Cash	**69.7%**	**73.3%**	**52.0%**
Credit	**29.4%**	**26.7%**	**47.7%**
Other	**0.9%**	**0.0%**	**0.3%**

As Table 4-9 below indicates, of those who do not currently use credit as a form of payment for their suppliers (40% of total sample), almost 74% of them reported that they have never requested credit as a form of payment. The main reason for this was fear of their inability to repay their credit. The remainder (26%) has attempted to use credit as a form of payment, but were turned down for the most frequent reason that credit was not offered by their supplier.

Table 4-9

Credit Use Analysis for SMEs in Surveyed Areas

Component	Total Sample
Requested supplier credit	
Yes	26.3%
No	73.7%
Reasons for not asking for credit	
No need	1.1%
Afraid of inability to repay loan	87.6%
Increased Price of goods bought on credit	7.0%
No relationship with supplier	0.5%
Credit not offered	4.8%
Reasons why credit with supplier turned down	
Supplier's bad credit experience	8.3%
Credit not offered	62.5%
Cannot Provide collateral	29.2%

Goods and services produced by the SMEs were basically sold in their immediate neighborhoods (Table 4-10). Some entrepreneurs (mainly informal SMEs) deal with middlemen who are responsible for providing all input materials and the purchase of all products thereof. Very few reported that they sell on a contract basis (6.3%).

Sale transactions on the average occur daily with nearly 80% reporting cash payment, 15% on credit, and 5% through advance payments. The majority (91%) of those entrepreneurs who sell their products on credit, encounter difficulties with money collection either due to customers not having enough cash, or have moved out of the area. A small proportion (3.5%) of SMEs reported encountering problems with bounced checks.

Table 4-10 below details the characteristics of the relationship between the entrepreneurs and their clients.

Table 4-10

Characteristics of the Relationships between SMEs and Clients

Component	Total Sample
Number of sale transactions per year	
Mean (Median)	324.71 (340.00)
Form of payment	
Cash	79.9%
Credit	15.1%
Advance payment	5.0%
Sell on contract basis	6.3%
Encounter problems in collecting payments	62.0%
Specific problems encountered in collecting payments	
Difficulty in money collection	96.5%
Bounced checks	3.5%
Client list	
Public enterprise	3.7%
Neighbors	67.8%
Immediate community	12.1%
Proximate community	12.7%
Middleman	0.8%
Local NGO	0.3%
Private subcontractor	2.6%

4.5 Borrowing Alternatives

An entrepreneur may have different sources for financing his/her business transactions. Two borrowing alternatives to formal loans include trade loans in terms of credit from suppliers, and advance payments from customers. This section discusses both.

Credit Transactions with Suppliers

Table 4-11 presents the characteristics of trade (supplier-based) loans by gender and registration. A number of significant results follow. Firstly, the average value of trade credit for the total sample is JD 349 (JD 120 median) comprising 85% of the value of each purchasing transaction done using credit. Secondly, this credit amount is drawn upon by credit-using entrepreneurs as often as 4 to 5 times per month. Thirdly, about 64% of those entrepreneurs reported obtaining goods on credit free of interest charge, the remainder paid interest at nearly 6% over the term of the credit contract, which is on the average 40 days long (median 30 days), or about 52.2% interest per annum.

In addition, Table 4-11 shows that only one-third of the entrepreneurs provided their suppliers with security in the form of promissory notes or delayed checks. In addition, a third of the entrepreneurs using trade credit reported facing problems in paying their debt due to lack of liquidity (resulting from lack of demand) as the main reason. This problem is usually solved amicably through a grant of extension and rescheduling of payments (76%) and sometimes through the use of an informal loan from a friend (22%).

Table 4-11

Characteristics of the Trade Loans by Gender and Registration

Component	Total Sample	Gender	
		Male	Female
No. of times purchased on credit over the past year			
Mean (Median)	65.2 (48)	68.6 (48)	33.5 (12)
Average value of credit purchases/Transaction (JD)			
Mean	409.57	444.22	86.25
Median	150.0	162.5	67.0
Value of credit (JD)			
Mean	348.94	380.15	58.95
Median	120.0	145.0	39.5
Interest charged			
Yes	63.7%	33.3%	63.3%
No	36.3%	66.7%	36.7%
Average Interest When Charged	5.72%	6.0%	2.63%
Duration of credit (days)			
Mean	40	41.95	21.88
Median	30	30.0	17.5
Used security			
Yes	26.6%	12.5%	27.8%
Encountered problems paying credit debts	28.8%	19%	29.1%
Encountering problems			
Insufficient income/cash	91.8%	75%	91.1%
Late in payments	8.2%	25%	8.9%
Solutions to problem			
Loan from friend/supplier	22%	33.3%	22.6%
Negotiated extension	76.3%	66.7%	75.5%
Financed from personal holdings	1.7%	0.0%	1.9%

There is a marked difference in credit characteristics between male and female entrepreneurs. Male operated SMEs tend to have larger credit values (JD 380) amounting to 85% of each credit transaction value and for longer time periods (42 days), with an average interest rate of about 52% annually, when charged. Female SMEs tend to deal with smaller amounts of credit (JD59) and for shorter terms (22 days), with an average interest rate of about 43% annually, when charged. Also females are more often asked to provide security (see Box).

As for the terms and conditions of the supplier credit contracts

Supplier Based Trade Loans by Gender

Item	Male	Female
Average no. of transactions/month	**6**	**3**
Average value of credit (JD)	**380**	**59**
Average duration of loan (days)	**42**	**22**
Average charged interest rate over loan term	**6%**	**3%**
Average charged annual interest rate	**52%**	**43%**
Used security	**12.5%**	**27.8%**

variation according to the size of the SME: small enterprises use larger credit amounts (sometimes reaching 100% of the transaction value) more often than micro and sole enterprises.

Supplier Based Trade Loans by Business Size

Item	Sole	Micro	Small
Average no. of transactions/month	5	6	7
Average value of credit (JD)	212	482	1,200
Average duration of loan (days)	33	50	27
Average charged interest rate over loan term	5%	7%	4%
Average charged annual interest rate	55%	51%	54%

Micro enterprises had longer-term contracts. It should be noted that sole enterprises are charged interest more often than micro and they are asked to provide security as opposed to no security for micro and small.

Upon examining the condition of the supplier trade credit, according to the two typologies of the borrowers, no significant differences are encountered between the two typologies of MR/HP and MR/MP except for the charged interest as shown in the Box.

Supplier Based Trade Loans by Typology

Item	MR/HP	MR/MP
Average no. of transactions/month	5	5
Average value of credit (JD)	337	303
Average duration of loan (days)	38	40
Average charged interest rate	8%	5%

In conclusion, suppliers/customers credit poses an alternative borrowing method to that of formal loans. It also sheds light on the conditions that the entrepreneurs are actually accepting and practicing when they deal in credit, and which are very similar to microfinance best practices. These conditions differ widely from the loan conditions entrepreneurs have reported as most preferable (detailed in the last section 4.9 Potential Loans).

Advance Payment Transactions with Customers

A very small percentage (5%) of the entrepreneur's request advance payments from their customers. The terms and conditions of the customer advance contracts, nonetheless, were examined for the total sample. The value of the credit reached JD 113 comprising nearly 50% of the total value of the transaction. Entrepreneurs dealing with this kind of transaction, took advance payments as often as 6 times per month for an average duration of 21 days.

Advance Payment Transactions with Customers

Item	
Average no. of transactions/month	6
Average value of credit (JD)	113
Average duration of loan (days)	21
Used Security	15%

Informal Loans

From Table 4-12 below, only around one-third of the entrepreneurs in East Amman ever requested an informal loan, and about 58% of those had received at least one in the past year. The requested loans, on the average during the past year, were mainly from family (50%) and friends (41%), and some from colleagues, but none from moneylenders. The average loan amount reached JD 841 (median JD 500) and the loan was given within five days on the average. The average loan period is for 8.5 months (median 60 days) at no interest charge or provision of security.

Table 4-12
Characteristics of Informal Loans by Gender and Registration

Component	Total Sample	Gender		Registration	
		Male	Female	Informal	Formal
Ever requested an informal loan					
Yes	27.5%	29.7%	21.1%	5.7%	28.4%
No	72.5%	70.3%	78.9%	74.3%	71.6%
No. of loans last year					
Mean	1.88	1.81	2.13	2.29	1.68
Median	1.0	1.0	1.0	1.0	1.0
Source of most significant loan last year					
Colleagues	9.1%	9.9%	5.9%	11.1%	8.2%
Friends/neighbor	40.9%	42.3%	35.3%	40.7%	41.0%
Family	50.0%	47.9%	58.8%	48.1%	50.8%
Days between loan request and disbursement					
Mean	4.89	2.8	13.47	9.37	2.84
Median	1.0	1.0	1.0	1.0	1.0
Amount of loan (JD)					
Mean	841	986.43	244.12	290.19	1089.7
Median	500	500	100	200	700
Duration of loan (days)					
Mean	100	94.12	123.24	93.63	103.23
Median	60.0	60	60	45	60
No Interest charged	100.0%	100.0%	100.0%	100.0%	100.0%
Did not provide collateral	100.0%	100.0%	100.0%	100.0%	100.0%

Note: In order to avoid skewness, one case indicating a loan value of JD50,000 was excluded

The differences of informal loan demand and conditions among male and female entrepreneurs is evident in the loan amount, and the term period. Male entrepreneurs requested an average loan of JD 986 vs. JD 244 for female entrepreneurs. The term period was slightly longer for females at an average of 123 days (median 60 days) vs. 94 days (median 60 days) for males. Also, female entrepreneurs have to wait on the average for 13 days to receive the loan vs. 3 days for males.

The same general trends apply for any discussion of informal loans by business registration, as highlighted in the Box below, except the duration for the formal SME is longer.

Informal Loans by Business Registration

Item	Formal	Informal
Average loan value (JD)	1,089	290
Average duration of loan (days)	103	94

4.6 Previous Credit Experience

Table 4-13 presents data on the entrepreneurs' previous credit experience. Only about 28% of the entrepreneurs of East Amman have ever requested a formal loan before, and 36% of them actually received one loan in the past year. In addition, 78% of those who received a loan in the past year reported that the loan was from a Bank.

Most entrepreneurs reported using the loan for working capital (44% of sample), while 36% reported receiving a consumer loan. On average, the formal loan took about two weeks to be disbursed and only 11% of the borrowers were loan size rationed (i.e. unable to borrow the amounts actually requested).

The mean value of the received loan size was approximately JD 3,500 (*if consumer loans were discarded from the statistics, the average loan size for business use is JD 2,888*) over 25 months, with mean monthly installments of JD 274 (median JD 100) and a 10% mean interest plus fees rate. Collateral provided were mainly in the form of guarantor (42%) and business license (42%) besides bank accounts/funds, and real estate. Collateral used was 2.5 times the loan value on the average.

When entrepreneurs were asked about their satisfaction with their loan conditions, only 25% reported being dissatisfied and mainly due to high interest rates (54%), complicated procedures (36%) and short repayment period (9%). Also, 19.5% reported being late in paying back and mainly due to lack of cash flow, and have dealt with the situation through obtaining extension for repayment (71%) or through borrowing from friends to pay back their loan (29%).

Those entrepreneurs whose loan was rejected , it was so mainly because they could not provide a collateral (70%).

Table 4-13
Characteristic Credit Experience for Total Sample

Component	Total Sample
Ever asked for a formal loan in the past	
Yes	27.7%
Have asked and received formal loan during previous year	36%
Average number of loans last year	
Mean (median)	1.15 (1.0)
Source of most significant loan	
Bank	78.0%
NGO/PVO	22.0%
Type of last year loan	
Working capital loan	44.0%
Fixed asset loan	20.0%
Consumer loan	36.0%
Average number of days to get loan	
Mean (median)	15.51 (7.0)
% of Rationed Loan size to borrowers	11.8%
Average value of approved loan (JD)	
Mean (Median)	3,492 (1,600)
Average Term of Loan in Months	
Mean (Median)	25 (20)
Average value of installment (JD)	
Mean (Median)	274 (100)
Average interest and fees charged	
Mean (Median)	10.33% (10%)
% of Type of Collateral	
Building	16.4%
Land	3.6%
Machinery	0.0
Inventory	0.0
Bank Account/Pension Account	14.5%
Guarantor	41.8%
Business license	41.8%
No collateral	1.8%
More than one	12.7%
% of value of collateral as % of loan received	
Mean (Median)	241.4% (104.5%)
Satisfied with the loan conditions	74.5%
Reason for dissatisfaction	
High interest rates	54.5%
Complicated procedures	36.4%
Short repayment period	9.1%
Ever been late in repaying the installments	19.5%
Reason for being late	
No Cash Flow	100%
Dealt with the situation by	
Obtaining loans from Friends	28.6%
Obtaining an extension for repayment	71.4%
Reason application for loan was rejected	
Lack of collateral	70.0%
Lack of financial documents	0
Lack of credit experience	0
Business not registered	0
Lack of spouse's approval	0
Bad credit history	0
Other	30.0%

4.7 Alternative Business Financing Sources

The use of cash/internal sources is the most prevalent method of financing business investments among entrepreneurs in East Amman whether males or females. Informal loans are also a significant source that entrepreneurs rely on although for smaller amounts of financing (Table 4-14).

Trade credit in terms of credit with suppliers and advance payment from clients constitute the larger proportion of funds but is used only by about one-third of the entrepreneurs. External formal loans from banks, NGOs, and PVOs are also used by around one-third of the sample and, as expected, in larger amounts by males than females (Table 4-15).

Table 4-14
Current Funding Sources for Total Sample

Item	Total Annual Amount (JD)	Percent of Total Sample using funding source
Cash Sources - Mean (median) value last year, JD	14,765 (6,800)	60%
Trade credit Sources - Mean (median) value last year in JD	10,926 (1,400)	42.9%
Informal Loans Sources- Mean (median) value last year in JD	841 (500)	15.7%
Formal Loans Sources – Mean (median) value last year in JD	3,492 (1,600)	9%

It should be noted that the alternative borrowing method of trade credit composes a relatively big market. Based on the population of 29,600 formal and informal SMEs in the surveyed areas, there are around 11,544 SMEs that use credit (42.9%). Using the mean annual credit value of JD 10,926 a rough amount of JD 138.7 million per annum for the market size of trade credit in East Amman can be estimated.

Table 4-15
Current Funding Sources by Gender

Item	Percent of Sample using funding source		Total Amount (JD)	
	Male %	Female %	Male	Female
Cash Sources - Mean (Median) value last year in JD	60%	78%	1,580 (921)	201 (95)
Trade credit Sources – Mean (Median) value last year in JD	47.7%	21.6%	11,890 (5,700)	1,985 (888)
Informal Loans Sources- Mean (Median) value last year in JD	58%	57%	986 (500)	244 (100)
Formal Loans Sources – Mean (Median) value last year in JD	35%	45%	3,803 (2,000)	320 (150)

Note: In order to avoid skewness, one case indicating a loan value of JD50,000 was excluded

4.8 Savings Channels

The information collected in the survey on savings is presented in Table 4-16. For the total sample, approximately half of the entrepreneurs practice savings (47% of males and 53% of females). Most of the female entrepreneurs and informal businesses that practice savings, keep their savings at home. In addition, Only 12% of female entrepreneurs have accounts in a Bank, vs. 40% of males. For the informal sector, about 83% of the sample reported not possessing an account at a financial institution.

Table 4-16
Characteristics of Savings Channels by Gender and Registration

Component	Total Sample	Male	Female	Formal	Informal
Save or set aside some money for emergencies					
Yes	44.5%	47.0%	53.0%	46.2%	41.1%
Account(s) at financial institutions					
Yes	33.5%	40.6%	12.2%	42.0%	16.3%
Type of Account					
Checking	78%	82.8%	29.4%	84.0%	46.7%
Saving	19.9%	16%	58.8%	14.7%	46.7%
Fixed saving	2.2%	1.2%	11.8%	1.3%	6.7%

4.9 Income and Expenses

This survey attempts to shed some light on the financial status of the micro entrepreneurs in East Amman and their existing capacity for loan repayments. Disposable income, cash flow, and potential demand for loans are examined and compared in this subsection.

Disposable Income and Cash Flow

For the purpose of this survey, two relationships are identified for disposable income (DI) and cash flow (CF):

(i) The DI is considered to be the net annual income generated **from the enterprise** as follows:

DI = Annual Sales – Cost of Sales,

Where cost of sales include the annual operating cost, labor, and annual purchases of the enterprise

(ii) The CF **for the entrepreneur** (Males and Females) is calculated on a monthly basis such that

CF = Total cash income – Total cash expenses,

Where total cash income includes the monthly cash sales, the advance payments from clients, down payments from clients buying on credit, received remittances, and cash contribution of other members of the family. Cash expenses include monthly family expenses, house rent, cash purchases, operating costs, and down payment to suppliers for goods bought on credit.

Disposable Income Analysis

On a macro-level analysis, Tables 4-17 to 4-20 present the average disposable income (DI) estimates for the sample. On the average, approximately JD 3,950 is generated annually by entrepreneurs in East Amman, as net income from the operations of the enterprise.

Table 4-17
Characteristics of Disposable Income (DI) for the Sample

Characteristics	% of Total Sample	Average Value of DI (JD)
Total sample	100	3,949
Female sample	25.4%	1,228
Male sample	74.6%	4,873
Informal sample	33.4%	2,207
Formal sample	66.6%	4,822
MR/HP sample	18.8%	3,267
MR/MP sample	71.0%	3,912

These figures vary widely among male and female entrepreneurs and between formal and informal businesses. On the average, male entrepreneurs generate on the average JD 4,873 in net income which is 4 times more than the net income generated by females from their enterprises (JD 1,228), but are responsible for annual expenses that are 1.5 times more than females. The same applied for formal vs. informal businesses, where the former generate twice as much net income, but are burdened by 1.5 times the expenses of informal businesses.

Females and informal businesses cannot sustain their family expenses and depend on other sources of income. As indicated previously, 54% of female entrepreneurs and 45% of informal businesses reported this fact and they acquire the needed additional cash to meet their expenses mainly from the income generated by other family members as presented in Table 4-18 below.

Approximately one-third of the entrepreneurs reported that their working capital is not enough to meet their current demand. On the average, JD 436 is needed **monthly** to cover deficiency in meeting demand, which is equivalent to 19% of their annual net income.

Table 4-18
Characteristics of Disposable Income (DI) by Gender

Item	Total Sample	Males	Females
Average Disposable Income in sample (JD)	3,949	4,873	1,228
Entrepreneurs reporting business income is not sufficient to meet their share in monthly family expenses (%)	30%	22%	54%
Entrepreneurs reporting capital not enough to meet their demand (%)	31%	32%	54%
Average monthly value needed to cover deficiency in meeting demand (JD)	436	580	206
Average monthly needed amount as percent of annual DI (%)	19%	18%	22%

DI across Industry Sectors

Table 4-19 sheds light on the DI per industry sector. Retail Trade generates the highest DI followed by the Restaurant Business, both above the average DI. Metal Workshops and Handicrafts generate the lowest DI, significantly less ten the average DI. When comparing DI to the annual expenses of entrepreneurs operating within each industry sector, retail trade businesses have the highest capacity for savings followed by restaurants, while garment manufacturing, handicrafts, wood, metal, and general services cannot generate annual income to cover their annual expenditures. It should be noted that the garment and handicrafts SMEs are operated predominantly by females as support businesses to augment family's income, also the products are in nature not fast moving in the market.

Table 4-19
Distribution of Disposable Income by Sector

Disposable Income and Expenses	Garment Manufacturing	Handicraft Production	Food Processing	Hairdresser	Wood-Furniture	Metal Workshop	Retail Trade	Restaurant	General Service	Leather, Light Industries
Average DI	1,255	583	3,748	2,637	2,661	517	5,537	4,949	2,230	2,056
Average annual expenses	2,421	2,343	2,803	2,454	3,338	2,464	3,346	3,254	3,405	3,000
(Monthly Average)	(202)	(195)	(234)	(205)	(278)	(205)	(279)	(271)	(284)	(250)

DI Across Survey Areas

On a macro-level analysis, Table 4-20 shows the variation of the average DI across the surveyed area. On the average Jabal Al-Zuhur has the most capacity for savings since it enjoys the highest average DI at JD 8,084, followed by Al-Hussein Camp with DI at JD5,430. The rest of the areas have DI ranging from JD 2,500 to JD5,000. Khraibet Al-Souk and Nazzal have the lowest average DI, and they have the high concentration of handicrafts SMEs. Al-Ashrafiyyah, Sakf Al-Sail, and Nazzal have average annual expenses exceeding their DI.

It should be noted that Jabal Al-Zuhur and Al-Hussein Camp enjoy good markets that are accessible to many clients while Khraibet Al-Souk and Nazzal have a high concentration of handicrafts SMEs, which generates low DI.

Table 4-20
Distribution of Disposable Income by Area of Business

Disposable Income and Expenses	Area of Business									
	Wehdat	Hussein Camp	Al-Ashrafiyyah	Jabal Al-Taj	Sakf Al-Sail	Sahab	Khraibet Al-Souk	Ras Al-Ain	Jabal Al-Zuhur	Nazzal
Average DI	3,502	5,430	4,284	4,994	3,920	3,979	2,804	4,007	8,084	2,552
Average annual expenses	2,834	3,088	4,747	3,517	4,157	2,880	2,465	2,792	3,600	2,643

In order to further examine the disposable income structure of the microentrepreneur in East Amman in details, the sample has been distributed across a bracketed range of DI as shown below in Table 4-21.

Table 4-21
Distribution of Disposable Income (DI) for the Sample

DI Bracket (JD)	< 0	0 – 200	201 – 500	501-1000	1001 – 1500	1501 – 2000	2001 – 3000	3001 – 4000	> 4000
Total Sample									
% of Sample in Bracket	22.2	6.9	11.6	14.8	8.3	6.7	10.2	8.1	11.1
Male Sample									
% of Sample in Bracket	27.2	3.4	4.4	11.4	7.7	8.1	12.8	11.1	14.1
Female Sample									
% of Sample in Bracket	11.2	14.9	27.6	22.4	9.7	3.7	4.5	1.5	4.5
Formal Sample									
% of Sample in Bracket	28.8	3.0	4.5	9.8	8.7	8.7	11.7	10.6	14.0
Informal Sample									
% of Sample in Bracket	11.9	13.1	22.6	22.6	7.7	3.6	7.7	4.2	8.1
Type MR/HP									
% of Sample in Bracket	32.6	5.8	8.1	9.3	7.0	7.0	12.8	8.1	9.3
Type MR/MP									
% of Sample in Bracket	19.0	7.2	13.1	17.0	9.5	4.9	9.8	8.9	10.5

About 22% of the entrepreneurs generate negative disposable income. The profile of those entrepreneurs is characterized by 43 years old entrepreneur who have been operating the business, of median market value JD 1,750, for 11 years (median 9), and two thirds of them in the retail trade and services; 84% of them males and 16% females.

Generating negative disposable income applies for 27% of the male entrepreneurs and 29% of formal businesses, vs. 11% of the female entrepreneurs and 12% of informal businesses. On

the other hand, as will be noted below, almost 25% of the male entrepreneurs and 25% of the formal businesses generate income above JD 3,000 and can cover their family expenses.

As for the female entrepreneurs and informal businesses, nearly half of the respective samples falls within the DI range of JD 200 – JD 1,000, and as indicated below, they are not capable of meeting their personal family expenses. As discussed previously, females in general tend to run support businesses to augment family income and are not the main breadwinners that are requested to cover all of the family expenses mainly from their income. On the other hand only 6% of the female entrepreneurs and 12% of the informal businesses generated enough net income to cover their expenses and still be able to save.

The entrepreneurs of MR/MP typology are more evenly distributed across the DI bracket, but with slight concentration within the negative DI and the JD 500 – JD 1,000 bracket.

Only 11% of the total sample generates a net income of over JD 4,000 annually.

Table 4-22 demonstrates the capacity of the entrepreneurs in meeting their expenses and repayment for potential loans considering both their annually generated disposable income and monthly cash flow. It is to be noted that the rows for the average requested loan size, monthly installment and cash flow are calculated for those entrepreneurs that generate DI according to their respective DI brackets.

Almost 78% of the population generate disposable income that they can spend towards meeting their personal family expenses; however, only the 19% who generate DI above JD 3,000, can afford to cover their annual expenses in full and still have some income to save.

A closer look at the 19% of the total sample that is able to save indicates that it includes about 25% of the male entrepreneurs and 24.6% of the formal businesses. Those males and formal businesses are the ones that generate DI above JD 3,000 and are therefore able to contribute to the average of savings amounting to JD 1,458 and JD 1,314 respectively. (see Box).

Estimated Savings After Subtracting Family Expenses from DI

Characteristics	Estimated savings (JD)
Total sample	809
Female sample	-1,100
Male sample	**1,458**
Informal sample	-196
Formal sample	1,314
MR/HP sample	140
MR/MP sample	881

It is worth noting that only 6% of the female entrepreneurs and 12% of the informal businesses generated enough net income to cover their expenses and still be able to save, as a consequence the average savings of these two samples are in the negative, indicating their need for additional income.

Table 4-22
Distribution of Disposable Income by Bracketed Range

Disposable Income (DI) Bracket	< 0 JD	0 – 200 JD	201 – 500 JD	501-1,000 JD	1,001 – 1,500 JD	1,501 – 2,000 JD	2,001 – 3,000 JD	3,001 – 4,000 JD	> 4,000 JD
Sample in bracket	22.2	6.9	11.6	14.8	8.3	6.7	10.2	8.1	11.1
% Males in bracket	27.2	3.4	4.4	11.4	7.7	8.1	12.8	11.1	14.1
% Females in DI Bracket	11.2	14.9	27.6	22.4	9.7	3.7	4.5	1.5	4.5
Average annual expenses within DI bracket	3,759	2,576	2,391	2,322	2,535	3,085	3,114	3,085	3,192
Average DI within bracket	-2,389	109	353	745	1,255	1,723	2,502	3,510	4,899
Average **Savings** after expenses (family and rent) within DI bracket	-6,148	-2,468	-2,038	-1,577	-1,279	-1,361	-613	425	1,708
Average requested loan size (Loan + Admin. fees) within DI bracket	6,134	3,562	2,807	3,100	3,491	5,526	4,493	4,590	5,744
Average requested repayment period (months) within DI bracket	54	57	61	64	55	53	51	45	50
Average affordable monthly installment JD within DI bracket	128	62	47	70	71	133	93	110	145
Average monthly cash flow (JD) within DI bracket	-140	-142	-52	-49	-94	194	334	496	695

When considering the monthly cash flow of the entrepreneurs falling within the respected DI brackets as a source for covering their loan repayment, only those entrepreneurs with DI above JD 1,500, constituting 36% of the total sample, can sustain their living expenses and their reported loan installments from their monthly cash flow.

Cash Flow Analysis

On a macro-level analysis Tables 4-23 to 4-25 display the cash flow characteristics of the sample. In general, cash flow (CF) poses a problem with the entrepreneurs of the surveyed areas. Lack of liquidity is reported as a reason for being late in repaying trade loans and formal loans and even as reason affecting the growth of businesses. Table 4-23 shows the average monthly cash flow for the total sample, male and female entrepreneurs, and informal and formal businesses in East Amman.

Table 4-23
Average Monthly Cash Flow in East Amman

Cash Flows	% in Sample	Average Monthly Cash Flow Amount (JD)
Cash flow for total Sample	100%	368
Cash flow for female Sample	25.5%	- 34
Cash flow for male Sample	74.5%	495
Cash flow for informal Sample	33.0%	170
Cash flow for formal Sample	67.0%	456

On the average entrepreneurs have a monthly cash flow of JD 368. Male entrepreneurs and formal enterprises have higher liquidity than female entrepreneurs and informal businesses. In fact 65% of the females suffer from lack of cash flow. Please note that cash flow is calculated similarly for male and female entrepreneurs including all of the family cash expenses and cash income, this combined with the fact that the surveyed women owned enterprises usually are meant to augment family income and not as the sole source of family budget may account for the fact of negative cash flow for females.

Monthly Cash Flow by Survey Areas and by Industry

Table 4-24 below shows the average monthly cash flow within the areas. The area of Al-Zuhur enjoys the highest average monthly cash flow just as it has the highest disposable income. In contrast, Khraibet Al-Souk and Ashrafiyyah have the least average cash flow per month. Interestingly, entrepreneurs of Al-Zuhur request smaller loan sizes/installment amounts than other areas with less monthly cash flow.

Table 4-24
Average Monthly Cash Flow in East Amman Areas

Area	% of Males in Area	% of Females in Area	Average Monthly Cash Flow (JD	Average Requested Loan Size (JD	Average Monthly Requested Installment (JD)
Wehdat	20.3	19	234	4,217	102
Hussein Camp	16	5.6	501	5,124	115
Ashrafiyyah	5	0.7	84	5,700	172
Jabal Al-Taj	7.4	8.5	647	4,198	101
Sakf Al-Sail	19.6	-	603	7,159	192
Sahab	4.8	2.8	492	3,498	134
Khraibet Al-Souk	5.5	26.1	83	2,797	51
Ras Al-Ain	12	10.6	315	4,029	89
Jabal Al-Zuhur	2.4	0.7	927	3,636	78
Nazzal	6.9	26.1	237	3,515	71

Table 4-25 examines the average monthly cash flow for each industry sector. Apparently retail trade generates the highest cash flow followed by food processing. What is worth noting is that only the retail trade, food processing, hairdressing, and restaurants do not suffer from liquidity problem.

Table 4-25
Average Monthly Cash Flow per Industry Sector

	Garment Manufacturing	Handicraft Production	Food Processing	Hairdresser	Wood-Furniture	Metal Workshop	Retail Trade	Restaurant	General Services	Leather, Light Industries
Average Monthly Cash Flow (JD)	-50	-88	345	72	-154	-405	713	241	-58	-398
% of Males in Sector	1.7	0.5	2.6	2.4	2.6	2.4	60.3	6.0	19.4	2.2
% of Females in Sector	22.5	28.2	9.2	6.3	0	0	30.3	0	3.5	0

In order to further examine in details the monthly cash flow (CF) structure of the microentrepreneur in East Amman and their ability to repay their requested loan installment, the sample has been distributed across a bracketed range of CF as shown in Table 4-26 below. It is to be noted that the columns for the average requested loan size, monthly installment, and cash flow are calculated for the entrepreneurs that generate CF according to their respective CF brackets.

Table 4-26
Distribution of Average Monthly Cash Flow in Sample

Monthly Cash Flow Bracket (JD)	% of Sample within Bracket	% of Males within Bracket	% of Females within Bracket	Average Requested Loan Size within CF Bracket (JD)	Average Monthly Requested Installment within CF Bracket (JD)	Average Monthly Cash Flow within Bracket (JD)
< 0 JD	46.3	40.0	64.8	4,413	90	-290
0 – 200 JD	18.5	15.7	26.8	3,052	68	94
201 – 500 JD	9.7	11.3	4.9	4,524	122	345
501 – 1,000 JD	9.9	12.0	2.8	4,361	147	734
1,001 – 1,500 JD	6.3	8.2	0.7	6,257	158	**1,213**
1,501 – 2,000 JD	3.6	4.8	-	4,810	111	**1,722**
2,001 – 3,000 JD	2.5	3.4	-	6,000	150	**2,490**
3,001 – 4,000 JD	1.6	2.2	-	9,000	279	**3,412**
> 4,000 JD	1.8	2.4	-	8,680	312	**4,992**

It is clear that 46% of the entrepreneurs have negative cash flow, also true for 40% of the male entrepreneurs and 65% of the female entrepreneurs. On the other hand 18% of the total sample have only up to JD 200 in cash per month, which is also true for 27% of the female entrepreneurs.

It should be noted that only males enjoy a monthly cash flow above JD 1,500. Bearing in mind that this proportion (12.8%) of the male sample that are generating significantly large monthly cash flow amounts in comparison with the rest of the sample, is distributed over all sectors and areas, and so they are significantly contributing to raising the averages of monthly cash flow.

For the sake of comparison, this table also shows per cash flow bracket, the average monthly installment reported by entrepreneurs having monthly cash flow amounts within the corresponding bracket range. Interestingly, the analysis per CF bracket shows that the average monthly cash flow amount, of 54% of the entrepreneurs, is in general enough to pay their average reported monthly installment.

4.10 Potential Loans

While the assessment of the potential demand for individual loans extent has been covered in stage I of this survey, further examination is conducted in this stage for the most preferred loan conditions among the entrepreneurs of East Amman. It is observed that entrepreneurs are interested in loans that might not be totally within the realm of microfinance best practices as the requested loan amount is rather high resulting in the entrepreneurs' wish to pay the loan over longer periods, especially when considering the low level of cash flow and net income of the previous discussions. Never-the-less, the characteristics of the requested loan size and conditions in addition to the expected consequences of loan use, as declared by the entrepreneurs of the sample, are presented below in order to convey their needs and aspirations, as this is deemed valuable for the purposes of this work.

Table 4-27 below indicates that the entrepreneurs are interested in loans of average size JD 4,528 for the average period of 52 months (4.3 years, which is not common in microfinance).

Entrepreneurs on average will be able to afford per month an installment of JD 110 including fees due to the fact of an estimated average 35.6% increase in sales after use of loan. Also 97% of them prefer a monthly repayment schedule. Only 19% objected on adding an administrative fee to the loan and mainly due to their religious beliefs (84%), but those who did not object reported accepting on average a 6.4% of the requested loan as fee charge over the loan period. The majority (97%) would provide collateral in the form of business license (21%), guarantor (17.5%) among others.

The loan use for 95% of the entrepreneurs is to expand their business and attain a 35.6% increase in revenue. Only 5% wanted a consumer loan.

Lastly, when the entrepreneurs were asked to rank the following incentives to be given for requesting the next loan according to their preference, the following was reported and shown in Table 4-28:

- 37% of the sample was not interested in obtaining a second loan because they do not believe that they will need another loan, while 63% were.

- 40% of the sample reported that a higher amount of second loan would be the most attractive incentive to keep borrowing. 27% of the sample believed that the best incentive would be immediate release of the second loan and 18% preferred a longer repayment period. This last incentive was preferred as second best by 40% of the sample.

- "Returning of the administrative charges of the first loan and a reduction of administrative charges did not elicit high priority in the responses.

Table 4-27
Potential Loan Demand Characteristics for the Sample

Item	Total Sample
Requested size of potential formal loan, Mean (Median) in JD	4,528 (3,000)
Loan term period, Mean (Median) in months	52.5 (48)
Objection to add administration fee	19%
- Reason 1 - Religious beliefs	84%
- Reason 2 - Wants an easy loan	18%
Administrative fee amount added to loan Mean (Median)	6.4% (5%)
Frequency of repayment	
- Monthly	96.9%
- Bi-monthly	0.5%
- Semi-annually	1.1%
- Annually	0.2%
- Other	1.3%
Estimated % increase in sales revenue resulting from loan use	35.6% (30%)
Monthly affordable installment + admin fee, JD	110 (70.5)
Type of loan use 1 - Loan to be used for business expansion	95%
Type of loan use 2 - Consumer loan	5%
Type of collateral	
- Building	10.5%
- Land	3.4%
- Machinery	6.2%
- Inventory	1.7%
- Bank Account/Pension Account	3.2%
- Guarantor	17.5%
- Business license	20.7%
- No collateral	3.0%

Table 4-28

Ranking of Next Loan Incentives

On the assumption that you have repaid the loan in full and on time, and accordingly the lending institution is willing to give you incentives for your next loan, please rank the following incentives by order of importance:	First	Second	Third	Fourth	Fifth
1- Return the administrative charges of the first loan	9.0%	10.0%	12.0%	26.0%	43.0%
2- Allow for a higher loan amount	39.5%	25.0%	18.0%	14.0%	3.0%
3- Allow for a longer repayment period	18.0%	39.0%	25.0%	10.5%	7.0%
4- Lower the administrative charges	6.0%	12.0%	30.0%	37.5%	15.0%
5- Allow for immediate release of requested loan	27%	14.0%	16.0%	11.0%	37.0%
Not interested, since I do not need an additional loan	36.8%				

When considering the variation of the potential loan demand by gender, the most preferred loan conditions vary noticeably. Table 4-29 summarizes these differences.

Female entrepreneurs on the average request smaller loans (JD 2,050 vs. JD 5,374 for males), for longer periods (average term of 56 months vs. 51 months for males), and for less percentage of charges (5% vs. 6.9% for males).

More female entrepreneurs objected to added charges (22%) vs. males (18%). The most cited reason for both was religious beliefs.

Also females were willing to pay less monthly loan installments (average JD 40 vs. JD 134 for males) and 85% of them can provide collateral (vs. 98% of males).

Monthly repayment schedule was most preferred both males and females.

The most prevalent collateral among females is a guarantor (49%) while for males it is business license (38.6%) followed by guarantor (20%).

Table 4-29

Potential Loan Demand Characteristics by Gender

Item	Males	Females
Requested size of potential formal loan (JD) Mean (Median)	5,374 (5,000)	2,050 (2,000)
Loan term period (months) Mean (Median)	51 (45)	56 (51)
Objection to add administration fee	18%	22%
- Reason 1 - Religious Beliefs	81%	87%
- Reason 2- Wants an easy loan/not like a bank which they can afford	19%	13%
Administrative fee amount added to loan as % of loan Mean (Median)	6.9% (5%)	5% (4.8%)
Frequency of repayment - Monthly	96%	99%
Estimated percentage of increase in sales revenue resulting from loan usage Mean (Median)	33% (25%)	42% (35%)
Average monthly affordable installment including administrative fee (JD) Mean (Median)	134 (100)	40 (35)
Type of loan (loan use)		
- Loan used for business expansion	96%	92%
- Consumer loan	4%	8%
Type of collateral		
- Building	15.8%	16.1%
- Land	5.3%	4.3%
- Machinery	11.0%	3.1%
- Inventory	2.8%	2.0%
- Bank Account/Pension Account	4.8%	5.0%
- Guarantor	20.0%	49.7%
- Business license	38.6%	5.0%
- No collateral	1.7%	15.0%

Table 4-30 presents a profile of the characteristics of the entrepreneurs' demand for loans. It is distributed by the requested loan size range. It shows for each range (bracket) of loan size the expected average affordable installment that entrepreneurs can pay considering their increase of revenue as the result of loan usage, the average percentage of the administrative fee and the average repayment period.

Table 4-30

Profile of Reported Loan Conditions by Loan Size

Loan size bracket	% of entrepreneurs within bracket	Average installment amount (JD)	Average repayment period (months)	Average percent of admin. fee	% reporting no availability of collateral	% of male entrepreneurs in bracket	% of female entrepreneurs in bracket	% of formal businesses in bracket	% informal businesses in bracket
<200 JD	0.4	9.5	13.5	4	50	0	100	0	100
200 - 650 JD	6	28	18	5.4	33	31	69	22	78
651 – 1,000 JD	10	43	31	6	6	60	40	51	49
1,001- 1,500 JD	6.5	54	38	6	9	47	53	42	58
1,501- 2,000 JD	14.5	60	48	8	4	70	32	54	46
2,001- 3,000 JD	18	65	58	5.5	4	68	32	60	40
3,001- 4,500 JD	5	106	59	6	6	76	24	66	34
4,501- 7,000 JD	26	135	59	7	1	92	8	84	16
Above 7,000 JD	14	291	73	6.5	-	100	1	99	1

Analysis of potential demand according to the entrepreneurs' affordability

As an alternative perspective for the analysis of the potential demand for loans Table 4-31 below attempts to determine microfinance loan terms and conditions based on the reported installment amount the entrepreneurs wish to pay monthly. It should be noted that this amount has been reported in answer to the question "What is the amount that you can afford to pay as installment and in view of the expected increase of your sales due to loan use?"

Table 4-31
Estimated Loan Conditions Based on Installment Amount

Reported Monthly Installment Bracket	% of entrepr. within bracket	% females within bracket	% males within bracket	Average reported install. amount (JD)	Average monthly-added admin. fee (JD)	Admin. fee as percent of average install. size
0 - 25 JD	13	67	33	19.5	1.8	9.2%
26 - 50 JD	30	45	55	43	2.3	5.3%
51 - 75 JD	10	13	87	64	4	6.3%
76 - 100 JD	20	8	92	94	6	6.4%
101 - 200 JD	18	3	97	152	10.3	6.8%
Above 200 JD	9	0	100	444	25	5.6%

Table 4-31 above shows for each range of affordable installment amount reported by the entrepreneurs, the actual monthly average of installment within the bracket, and the average monthly administrative fee amount that the entrepreneur can afford to add to the loan repayment.

Therefore, as an example, for those entrepreneurs who can pay up to JD 25 per month, a loan size of JD 19.5 including an added amount of JD 1.8 (at 9.2% of the loan) as administrative fee can be offered for a one month loan term. For a three-month loan term, these numbers can be multiplied by three (i.e., JD 58.5 loan size including JD 5.4 administrative fee for 3 months loan term) and so on as shown in the Table 4-32 below.

Table 4-32
Loan Condition Calculations For Three and Six Months

Three Months Loan		Six Months Loan	
Affordable Average Loan size (JD) Including Fees	Average Admin value added per month (JD)	Affordable Average Loan size(JD) Including Loans	Average Admin value added per month (JD)
58.5	5.4	117	10.8
129	6.9	258	13.8
192	12	384	24
282	18	564	36
456	30.9	912	61.8
1,332	75	2,664	150

Analysis of potential market size according to the entrepreneurs' affordability
Table 4-33 below estimates the lower end of the market size for micro-loans depending on the entrepreneurs actual affordability of *principle* loan repayment installments, as discussed previously, versus their requested loan size, and based on a population of 22,631 SMEs wanting a loan.

A total market size of nearly JD 29.1 million can be estimated to be the actual and more realistic figure of the East Amman microfinance market. This "low-end" market size, when compared to the "high-end" size market based on the preferred and aspired for potential loan size which amounts to nearly JD 101.8 million, is nearly at 28% of its size.

Table 4-33
Market Size according to Affordability of SMEs

Reported Principle Monthly Installment Bracket	% of entrepreneurs within bracket	Estimated Population of SMEs	Estimated Annual Market Size (Million JD)
0 - 25 JD (avg. JD 19.5)	12.9	2912	0.65
26 - 50 JD (avg. JD 43)	30.6	6925	345
51 - 75 JD (avg. JD 64)	9.5	2150	1.6
76 - 100 JD (avg. JD 94)	20.0	4526	4.9
101 - 200 JD (avg. JD 152)	17.9	4051	7.0
Above 200 JD (avg. JD 444)	9.1	2059	10.6
Total	100		28.2

Disbursement of Microfinance Information

In response to how would the entrepreneur like to hear about information on loan disbursement, the SMEs reported that of the four options presented, all were acceptable, with the direct solicitation method being the most preferred. The information is presented in Table 4-34.

Table 4-34
Preferred Options for Hearing about MFI Activities

Option	Total Sample (%)
Newspapers	19.9
TV/Radio	23.7
Community Organizations	27.2
Bank Officers/direct solicitation	29.2

5
CONCLUSIONS AND RECOMMENDATIONS

The overall goal of this survey was to provide useful and accurate information to assist the three MFIs in developing demand driven loan products based on sound information of the market they are to operate in. The two-stage approach of the survey was able to determine the characteristics of the potential demand for loans, its estimated market size, based on one hand, on the entrepreneurs' perception of the loan amount they need and would request, and on the other hand, based on the entrepreneurs' affordability of repayment installments of the principle loan. In particular, the First Stage determined the general characteristics of the microfinance, and the typical profile or typology of the micro-entrepreneurs in East Amman. The second Stage focused on the typical micro-entrepreneurs identified in Stage I and determined the specific characteristics of this potential market , it studied the socioeconomics of the entrepreneur, the business specifics of the enterprises s/he operates, the borrowing practices and previous credit experience details, and the micro-entrepreneurs preferred loan conditions and affordability.

The final section herein concludes the report by presenting the major results of the work and subsequent recommendations for MFIs working in East Amman.

The In conclusion, the profile that is most prevalent for the entrepreneur in East Amman can be described as follows:

- Mostly SME is solely operated by owner
- Market value of business around JD 1,500
- A ratio of sales to cost of sales (profitability) about 1.5
- Have no access to sufficient financing from moneylenders
- Mostly have no access to sufficient financing from friends and relatives
- Mostly have access to trade loans
- Mostly are unable to finance business expansion from internal sources
- Very few have previous formal credit experience
- Nearly half will have character reference being a supplier
- Nearly quarter will have other sources of income than current business
- Entrepreneur older than 35 years
- Mostly entrepreneur will have dependents in school
- More than half owns real estate or fixed assets
- Has been operating the business more than 3 years.

5.1 Survey Results and Recommendations

The major results of the survey with corresponding recommendations are indicated in the Table below. The results are intended to equip the MFIs with sound data for demand-driven loan products. The recommendations are intended to assist the MFIs in focusing their efforts when for optimal microfinance activities.

Results of Survey	Conclusions & Recommendations for MFIs
Potential Loan Demand Issues	
The survey indicated that at least 76% of the population of East Amman would want to have loans from MFIs. Willingness to borrow was reported by 22,631 formal/informal establishments (specifically, around 15,265 formal establishments and around 7,462 informal establishments). The **mean** value of the requested loan size was approximately **JD 4,500**. More than 90% of the entrepreneurs need business loans.	? Most of East Amman SMEs are ready to listen to MFIs and borrow business loans. Only 27% were not willing to borrow due mainly to their religious beliefs and their perception of not needing a loan, in addition the fear of inability to repay and the intrinsic cultural issue of preferring not to be in debt to anyone. ? The survey indicated two major aggregates of requested loan size categories, with 30% of the sample wanting a loan of JD 1,500 – JD 3,000, followed by 24.5% requesting a loan of JD 4500 - JD 7000. ? Based on the reported loan size that entrepreneurs perceive to need and would request if made available, the potential market demand for individual loans in the surveyed areas could be estimated at nearly JD 101.8 million in total. ? Based on the actual affordability of loan repayment installments as reported by the entrepreneurs, the market size for micro-loans could be estimated at nearly 28% of the perceived demand market size, i.e. at nearly JD 28.2 million.

The willingness to borrow across the 10 surveyed areas was nearly similar, ranging from 67.4% to 87% with Al-Taj and Sahab having the highest demand percentage at 87% and Ras Al-Ain the lowest at 67.4%. The major demand for loan sizes "< JD 200" - JD 1,000", and "JD 1500 - JD 3000" came from Al-Wehdat area. The major demand for loan size of "JD 650 – JD 3,000" mainly originated from Wehdat, Khraibet Al-Souk and Hussein Camp. The demand for loan size of "JD 3,000 – JD 7,000" mainly originated from Sakf Al-Sail, and for loan size " > JD 7,000" from Wehdat.	? Jabal Al-Taj and Sahab have the highest potential. However when this demand was categorized by loan size it was evident that the entrepreneurs in Wehdat demand wide range of loan sizes and thus is a lucrative market for all MFIs.
Demand across Industry Sectors was more or less similar with manufacturing sector such as handicrafts, dressmaking, wood and metal workshops and food processing showing a slightly higher demand in comparison with retail trade and services and Restaurants. Distribution of loan sizes by industry sector: - Garments, Handicrafts and Food Processing up to JD 650 and within JD 1,500 – JD 3,000; - Hairdressing > JD 1,500; - Wood Workshops and General services JD 1,500 - JD 2,000 and above JD 4,500; - Metal workshops above JD 4,500; - Retail Trade and Restaurants > JD 1,500. A close examination of the loan sizes requested per industry sector reveals that most Garment Manufacturing SMEs, Handicrafts and Food Processing SMEs require small loans up to JD 650 and loans within JD 1,500–JD 3,000 category. This coincides with the fact that the majority of the entrepreneurs within these sectors are females running informal businesses. The remaining industry sectors (retail trade, wood and metal workshops, restaurants and services) are dominated by male entrepreneurs operating formally and requesting a loan size of JD 4,000 or higher.	? MFIs need to target manufacturing businesses according to the loan sizes indicated and against the loan products they offer. For example, JMCC might want to target females in handicrafts, food and garment manufacturing who are requiring smaller loan sizes (< JD 650), while JWDS to target females as mentioned but requiring larger sizes (JD 1,500 – JD 3,000). ? Since most restaurant businesses are operated by males and nearly half of them wants loans of size JD 650- JD 3,000, then they are a probable new product market for AMC and JMCC.

Gender and Business Registration Issues More willingness exists from informal businesses vs. formal and from female entrepreneurs vs. male entrepreneurs Female entrepreneurs requested smaller loans on the average reaching JD 2,258, while male entrepreneurs requested an average loan size of JD 5,178. Smaller loan size up to JD 650 is requested mainly by the informal SMEs, while loan sizes above JD 1,500 are requested predominantly by the formal sector. As for the loan size ranging from JD650 – JD 1,500, formal and informal SMEs have equal demand. A closer examination of the difference in loan size range requested by the informal businesses reveals two groups of demanded ranges, one that demands small size loans below JD 2,000 (24% of the informal sector) and the other requests larger loans (76% of the informal sector) above JD 2,000. Among the formal and informal sectors, around 90% of the entrepreneurs indicated that they need loans to support their business.	? MFIs offering loans above JD 1,500 should target formal SMEs while those offering loans below JD1,500 should target informal SMEs. ? MFIs expecting to provide loans greater than JD 1,500 have a lucrative market in East Amman especially among the male entrepreneurs. ? The fact that the informal SMEs request larger loans (exceeding JD 2,000) mainly to expand the business may be an indication that informal businesses would want to be registered businesses in the future.
General Characteristics of Potential Market The formal sector is dominated by males at 97% while the informal sector by females at 63%. Retail trade is the most prevalent in all areas followed by services (except for Sahab, where it is followed by garment manufacturing). *Industry Concentration*: Garment manufacturing is concentrated in Sahab, handicrafts in Nazzal, food processing and metal workshops in Wehdat, wood and furniture in Khraibet Al-Souk and light industries in Ashrafiyyah. Female entrepreneurs in the surveyed areas mainly operate on their own and out of their homes. They are running retail trade business	? MFIs targeting women should concentrate on the informal manufacturing sector, and should devise ways of locating the homes of the female entrepreneurs.

(28% of female respondents) and handicraft production (24%); while approximately 19% of them are in garment manufacturing, 14% in food processing, and 18% in services and hairdressing. In contrast, 65% of male entrepreneurs in the surveyed areas run retail trade businesses. mostly on their own and out of stores.	
Typologies Issues Fourteen criteria were developed to identify the ideal borrower profile in terms of credit risk and potential for loan demand. Seven typologies were constructed: Type LR/HP - Low Risk, High Potential demand (IDEAL Profile) Type LR/MP - Low Risk, Moderate Potential Type LR/LP - Low Risk, Low Potential Type MR/HP - Moderate Risk, High Potential Type MR/MP -Moderate Risk, Moderate Potential Type MR/LP - Moderate Risk, Low Potential Type HR - High Risk The most prevalent type was the MR/MP at 67% followed by the MR/HP at 12% of the population.	? The majority of entrepreneurs in East Amman is Moderately Risky and has Moderate Potential for loan demand, i.e. Type MR/MP at 67% of the population or 19,832 SMEs. ? In conclusion, the profile that is most prevalent for the entrepreneur in East Amman can be described as follows: ▪ Mostly SME is solely operated by owner ▪ Market value of business around JD 1,500 ▪ A ratio of sales to cost of sales (profitability) about 1.5 ▪ Have no access to sufficient financing from moneylenders ▪ Mostly have no access to sufficient financing from friends and relatives ▪ Mostly have access to trade loans ▪ Mostly are unable to finance business expansion from internal sources ▪ Very few have previous formal credit experience ▪ Nearly half will have character reference being a supplier ▪ Nearly quarter will have other sources of income than current business ▪ Entrepreneur older than 35 years ▪ Mostly entrepreneur will have dependents in school ▪ More than half owns real estate or fixed assets ▪ Has been operating the business more than 3 years. ? MFIs should target entrepreneurs that have the identification parameters of the MR/MP and MR/HP types and apply to them the loan program developed on the basis of the most preferred loan conditions and variables of the market as discussed in the report.

Specific Characteristics of Potential Market The microentrepreneurs of East Amman tend to be responsible for large families (7 dependents). 40% rent their home for JD 65 per month. The average monthly living expenses of the family amounts to JD 237. The vast majority of the entrepreneurs depend only on income from their establishments (8% have other businesses or are salaried employees). Only 7% of SMEs receive remittances. Furthermore, 30% of the entrepreneurs reported as being unable to meet their monthly family expenses from their businesses. More so reported by females at about 54%. 97% of businesses are non-seasonal. The majority of entrepreneurs purchased input material from specific suppliers, whom they have dealt with for 8 years on average, indicating a stable relationship. 30% of the entrepreneurs manufacture for others without buying input materials. (56% of females vs. 12% of males). 62% cited their lack of finance a reason for not buying their input material and manufacturing for themselves. 30% reported working capital not enough to meet existing demand; an average JD 436 is needed monthly. (Females need JD 142, Males need JD 525) Lack of finance is the foremost problem for one-third of the SMEs, second is weak market demand. Females also suffer from lack of marketing and distribution. Females operate businesses that run at much lower costs than males. They report a profit margin around 50% and business growth of 4.3% growth. Male entrepreneurs report profit margin of 25% and an average growth decrease of 7%.	In terms of understanding their markets, MFIs should consider that: ? The male entrepreneurs mainly depend on their businesses to cover their family expenses. Female entrepreneurs run support businesses and more than half depends on other family members, such as their husbands, to cover their family's expenses. ? Most entrepreneurs run stable SMEs and wish to expand but are constrained with lack of finance. From these results it may be deduced that there exists a need for working capital among the entrepreneurs of East Amman. ? With the use of their requested loan, entrepreneurs expect a business growth of 35% on average. ? MFIs may be interested in looking out for entrepreneurs with innovative ideas or even offer incentives for such new projects that are not similar in nature to the existing ones in the market. Marketing functions are much needed in East Amman especially among female operated SMEs. Projects that aim to market the produce of women and help them in selling it will play a major role in encouraging microfinance operations. ? This may be attributed to the fact that most males run formal businesses at higher operating costs while females run businesses informally from their homes, at lower operating cost, and most are providing labor and some added value to products, thus their higher profit margin and growth of business. ? The survey revealed the outlook of the entrepreneurs towards the future and what will affect their business growth. Jordan's economy is the major factor.

Entrepreneurs have varied expectations regarding their business growth next year. On the average, they expect a growth of around 18%. Factors affecting growth: 29% cited adverse economic conditions that will either decrease, or have no positive effect on, their business activity, while 23% of the sample has more of an optimistic view of a better economy and growth. The majority of the entrepreneurs (88%) reported that they would like to expand their businesses and have plans to do so. The average annual disposable income from operations of SME is JD 3,950. Males generating JD 4,873 while females JD 1,228. 22% of SMEs have a negative disposable income (DI). More so among male entrepreneurs, and formal businesses. Average monthly cash flow of entrepreneurs is JD 368. Male entrepreneurs and formal enterprises have higher liquidity than female entrepreneurs and informal businesses. In fact 65% of the females suffer from lack of cash flow.	? Female entrepreneurs, having received their requested loans, are more confident of growth and of successful implementation of their expansion plans, in comparison to male entrepreneurs, but in addition, they suffer from marketing problems and consequently weak demand for their products. ? Most of those SMEs that are below the red line are somewhat older males of more than 43 years old, running the formal businesses mostly in retail trade for the long period of 11 years on average. Their establishment size is on average JD 5000 and they have no other source of income. This may indicate that these businesses have not been loosing for 11 years or else they would have been out of business, but currently their situation is bad due to the economic downturn.
Borrowing Alternatives/Practices Issues **Trade Loans** In terms of borrowing alternatives, around 40% of SMEs use supplier credit as a form of payment and only 5% require advance payments for their sales. The value of payment credit is on the average JD 349 (JD 120 median) comprising 85% of the transaction value. This credit amount is drawn upon by credit using entrepreneurs as often as 4 to 5 times per month, and mostly free of interest charge, but when requested it is nearly at 6% over the term of the credit contract which is on 30-40 days long. Mostly no security is asked for.	? Trade credit and informal loans shed light on the ongoing implicitly accepted loan conditions by entrepreneurs. MFI may use this as guidelines for their loan programs targeting male and female entrepreneurs. ? Entrepreneurs are willing to pay 6% interest rate (52% per annum) over small loan amount of JD 349 over the short period of 40 days, in form of supplier credit. Male operated SMEs tend to have larger credit values and for longer time periods. Female SMEs tend to deal with smaller amounts of credit and for shorter terms. Females are more often asked to provide

Informal Loans Only around one-third of the entrepreneurs in East Amman ever requested an informal loan, and less than half of those had received one in the past year. The average loan amount reached JD 840 (males JD 986, females JD 244). The loan was given within five days on the average (males 3 days, females 14 days). The average loan period is for 3 months (males 3 months, females 4 months) and free of interest charge or provision of security.	security but are charged less interest. ? Based on the above it can be deduced that the nature of the credit that is available is already following microfinance best practices (short credit term, small loans, high interest rate and quick disbursement) and that micro-loans could fill the gap especially since those sources are usually limited and rationed.
Previous Credit Experience Issues Only about 28% of the entrepreneurs of East Amman have ever requested a formal loan before. On average, the formal loan took about two weeks to be disbursed and only 11% of the borrowers were loan size rationed (i.e., unable to borrow the amounts actually requested). The mean value of the received loan size was approximately JD 3,500 (median JD 1,600) over 24 months, with mean monthly installments of JD 274 (median JD 100) and a 10% mean interest plus fees rate. Guarantor is the main type of collateral.	? MFIs will be dealing mainly with entrepreneurs with no previous experience in formal loans and no pre-conceived notions. ? Of those that have dealt with formal loans before 25% reported being dissatisfied and mainly due to ? high interest rates. ? complicated procedures ? short repayment period In both cases MFIs have a prime market which they can gain its trust and establish good rapport. Good selling points will be to alleviate the dissatisfaction reasons, such as adopting simple procedures, which will convince the entrepreneurs of the program merits.
Income and Expenses Issues **Disposable Income** On the average approximately JD 3,950 is generated annually by entrepreneurs in East Amman, as disposable income from the operations of the enterprise. Of that amount, an average of JD 3,140 is needed to cover family expenses and house rent, leaving JD 810 for annual savings.	MFI should be aware that: ? The annual disposable income of nearly 80% of the SMEs in East Amman is less than JD3000, and that even before covering any of the basic family expenses, implying little saving capacity. ? The entrepreneurs basically live day to day from their daily revenue and only 37% keep separate their business cash

	from their family cash.
As for the female entrepreneurs and informal businesses, nearly half of the sample falls within the disposable income range of JD 200 – JD 1,000. Only 6% of the female entrepreneurs and 12% of the informal businesses generated enough net income to cover their expenses and still be able to save.	? MFIs targeting female entrepreneurs and informal businesses must consider in their product planning the fact that their monthly cash flow is less than JD 200 and their income is not sufficient to meet their expenses.
Variation of DI across the industry sectors reveals that Retail Trade generates the highest DI and cash flow. The Restaurant business also enjoys good DI and cash flow. Metal Workshops and Handicrafts generate the lowest DI and suffer from lack of cash flow along with the garment manufacturing, wood workshops and general services. What is worth noting is that only the retail trade, food processing, hairdressing and restaurants do not suffer from liquidity problem. The area of Jabal Al-Zuhur enjoys the highest average monthly cash flow just as it has the highest net disposable income. Khraibet Al-Souk and Ashrafiyyah have cash flow problems, as well as Sakf Al-Sail and Nazzal.	? Jabal Al-Zuhur has the most capacity for saving. Ashrafiyyah, Nazzal, and Sakf Al-Sail are the poorest. MFIs should take this into consideration when planning their loan programs per area. ? MFIs will find SMEs in Jabal Al-Zuhur most able to repay their loans from their savings and cash flow. The same applies for retail trade businesses and restaurants.
Cash Flow Issues Almost 46% of the entrepreneurs have negative cash flow, which includes 40% of the male entrepreneurs and 65% of the female entrepreneurs. On the other hand 18% of the total sample have only up to JD 200 in cash per month including 27% of the female entrepreneurs.	? The lowest credit risk SMEs are those that can generate net income above JD 1,500, since those are able to generate monthly cash flow that can cover their requested installments. ? It should be noted that only males enjoy a monthly cash flow above JD 1,500. ? When comparing monthly cash flow vs. potential monthly loan installments reported by entrepreneurs, interestingly and for 54% of the entrepreneurs, the average monthly cash flow amount is in general enough to pay the reported monthly installment.

Potential Loan Demand Conditions	
Entrepreneurs are interested in loans of average size JD 4,528 for the average period of 52 months (4.3 years). Most report that they will be able to afford on average JD 110 as monthly installments due to the fact of increasing sales after use of loan. Only 19% objected on adding an administrative fee to the loan and mainly due to their religious beliefs, but those who did not object reported accepting on average a 6.4% of the requested loan as fee charge over the loan period. Only 3% of the entrepreneurs cannot provide collateral, the most common collateral provided was a guarantor.	? In view of the fact the potential loan conditions reported by the entrepreneurs may not be within the realm of microfinance best practices, MFIs, while planning for their loan product, may consider the reported affordable installment as their base for deciding the loan conditions in terms of the loan size and the administration fee.
When considering the variation of the potential loan demand by gender, the most preferred loan conditions vary noticeably. Female entrepreneurs on the average request smaller loans (JD 2,050 vs. JD 5,374 for males), for longer periods (average term of 56 months vs. 51 months for males), and for less percentage of charges (5% vs. 7% for males). Also females were willing to pay less monthly loan installments (average JD 40 vs. JD 134 for males) and 85% of them can provide collateral (vs. 98% of males), which is usually a guarantor.	? MFIs may consider offering different loan products, one for males and another for female entrepreneurs. ? Most preferred incentives for more loans : Higher amount of second loan, Immediate release of second loan, and longer repayment period ? 37% of the entrepreneurs believe that they will not need a second loan altogether. ? Based on the actual affordability of loan repayment installments as reported by the entrepreneurs, the market size for micro-loans is estimated at nearly JD 28.2 million