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Microfinance Impact Assessment (Data Assessment)

AMIR II Achievement of Market-Friendly Initiatives and Results

October 2004

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JORDAN AMIR II

Achievement of Market-Friendly Initiatives and Results

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Name of Component: Enhanced Competitiveness Initiative (ECI)

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List of Key Words Contained in Report:

AMIR: Achievement of Market-Friendly Initiatives and Results

MEI: Microenterprise Initiative

MFI: Microfinance Institutions

AMC: Ahli Microfinancing Company

JMCC: Jordan Micro Credit Company

MFW: Microfund for Women

MEMCC: Middle East Micro Credit Company

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1. Introduction

In 1998 AMIR program launched a campaign to create a sustainable microfinance industry in Jordan. Within two years, in addition to Microfund for Women (MFW), three sustainable microfinance institutions: the Ahli Microfinancing Company (AMC), the Jordan Micro Credit Company (JMCC), and Middle East Micro Credit Company (MEMCC, formerly the Jordan Access to Credit Project implemented by Cooperative Housing Foundation International), were established. USAID has committed more than JD28 million (US\$40 million) to developing a sustainable microfinance industry in Jordan. Each of these microfinance institutions (MFIs) has performed remarkably. As of April 2004, the four USAID-supported MFIs had a weighted average financial sustainability of 127 percent and repayment rates of 96 percent. Since their inception, they have extended loans worth more than JD 53 million (US\$75 million) on a cumulative basis. With a combined total of 26 branches around the Kingdom, these institutions serve nearly 15,500 active clients, more than 80 percent of which are women.

Significant information exists regarding the success of the MFIs; however, the primary assessment of client satisfaction has been based on MFI client retention and client growth figures. As both these measures offer limited insight into the actual changes in the entrepreneurs businesses and social impact, a framework whereby a formal investigation into the direct impact the micro loans have had on the clients themselves is needed.

As such, the objective of this consultancy is to establish a frame work to assess the impact micro loans have had on the borrowers, whether economically or socially.

2. Review of Previous Impact Assessment Studies

Assessment studies of the microfinance industry in Jordan tackles two levels; 1) assessment of the performance of the microfinance programs offered in Jordan through the various private, governmental and non-governmental organizations and institutions, 2) assessment of microlending program on its clients, in terms of economic and social impact.

The assessment of the microfinance programs focuses on the role of microlending in alleviating poverty and reducing unemployment, its financial and economic standing, and inclusion of women. Development and Employment Fund (DEF) cadre and other researchers conducted such studies and desk reviews during 2001 - 2002 and tackled the microfinance programs of 14 organizations in terms of offered loan products, interest rate structures, the loan size, the targeted groups, and the offerings of supporting services to beneficiaries.

The only Jordan-specific study addressing the impact of microlending on clients was conducted by DEF and ESCWA during July 1998 - June 1999 and encompassed the projects that were directly and indirectly funded by DEF during the three years preceding the study (i.e. 1993-1996). The study targeted a sample of 25% of those projects that was proportionately distributed per governorate, and business sector. Men and women owned businesses were equally represented in the sample. The total size of the sample was around 800. Only 395 (49%) of those projects were

still operating and provided responses. The others were out of business or could not be located; a total of 109 non-operational businesses were interviewed to obtain reasons behind closure.

The questionnaire adopted for the field work was constituted of seven sections collecting:

1. Basic socio-economic information of borrower
2. Project information
3. Financial business information and feasibility
4. Borrowers preferences re loans and expansion and growth
5. Economic impact of projects in terms of income and effect of the household standard of living
6. Social impact of projects on borrower and household
7. Obstacles and benefits faced and experienced by borrowers in general and women borrowers specifically

The pertinent assumptions considered in assessing the impact were:

- Standard of living is proportional to the household income.
- Education is an indicator of the socio-economic situation of the household
- Reason for starting project may be deduced from sources of income before project start-up. (e.g. Those with salaried income start projects because they want to be independent)
- Projects are more likely to succeed if another source of income is available.
- The impact of the loan is greater among those that have no other source of income except their set up project.
- Ways of spending income indicate change in standard of living (e.g. saving, buying consumer products, reinvesting in project, etc.)
- Social impact was measured through indicators such as :
 - Enhancement of social status
 - More independence – financially and socially
 - Increased self confidence
 - Increase in household social status
- Employment impact was measured through number of jobs created and cost for creating the job opportunity (dividing average loan over the average number of created job opportunities).
- Increase in sales (considering average increase in sales per project) is an indication of success and growth.

What was the impact of these borrowers based on the above?

3. Available Information at the MFIs

The concept behind this study is to first assess the available information at the four MFIs supported by AMIR and determine the suitable indicators to measure the microfinance impact.

The four MFIs were contacted and their application forms were discussed in detail in terms of what information is gathered and what is not; the time period the data relates to, how and when the

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data is collected and the type of information in view of what could be useful in assessing impact of the loan.

Each MFI has its own application form layout and information collection periods. Copies of the loan application forms were obtained to further study the information requested from the borrowers and to check what kind of data could be beneficial for the study. Based on the readings of previous impact studies and the meeting held at the onset of this phase with AMIR's expert, the information that may be pertinent in assessing the change in the situation of the microborrower, whether in terms of business success/failure or social change in standard of living, was investigated in depth.

A separate session was then scheduled at each institution to review the MIS system and determine which data elements from the application get entered in the MIS and when.

The following table details the information elements that were considered while reviewing the available data at the MFIs, as well as the rationale behind it.

Potential Indicators	Rationale
Personal Information	
If the borrower owns a house or rents Home assets list	Change is an indication of higher or lower standard of living
Offered Guarantee Type and Financial Information	Improvement if borrower is now able to offer a guarantee that is personal vs. a guarantor
Income for borrower	To gauge that any increase or decrease in Household income comes from the financed project. Unavailability of other sources of income indicates a higher impact of the project on the household/borrower.
Salaried monthly income	
Other sources of monthly income	
Spouses monthly income	
Children's monthly income	
Monthly Expenses	To gauge that any increase or decrease in household income comes from the financed project and not less or more expenses on same items. How borrower spends income may also indicate a change of living standard. What could be afforded now?
Rent	
Family expenses (for JMCC it is detailed)	
Household Net Disposable Income (Income for borrower - Monthly Expenses)	Change is an indication of higher or lower standard of living

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Business Information	Change is an indication of success or failure (consider expansions, net income, assets, more sales, ability to purchase bigger amounts, larger assets, larger operational expenses)
Nature of business	
Employment	
Sales	
Purchases	
Operational Expenses	
Business Net Income	
Business assets value in JD	
Date of Starting business	
Business assets list	
Banking records	Adoption of banking may indicate better management and growing business and savings

The result of the preliminary research of information availability at each MFI is summarized in the following table. The table indicates all the pertinent information that is collected and which of it is kept in the MIS of each MFI.

Available Information and Location

Available Information	MEMCC		JMCC		AMC		MFW	
	File	MIS	File	MIS	File	MIS	File	MIS
Personal Information								
Borrower Personal information	√	√	√	√	√	√	√	√
Borrower Address and contacts	√	√	√	√	√	√	√	√
Spouse information	√		√	√	√	√	√	√
If the borrower owns house or rent	√		√		√	√	√	√
Home assets list							√	√
Offered Guarantee Type and financial Information	√	√	√	√	√	√	√	√
Income for borrower			√	√				
Salaried monthly income	√				√	√	√	
Other sources of monthly income	√				√	√	√	
Spouses monthly income	√				√	√	√	√

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Children's monthly income	√							
Monthly Expenses ¹								
Rent	√		√		√	√		
Family expenses (for JMCC it is detailed)	√		√				√	
Household Net Disposable Income (Income for borrower - Monthly Expenses) ²	√	√					√	√
Business Information								
Nature of business	√	√	√	√	√	√	√	√
Employment								
No. of employees at start	√		√	√			√	√
No. of employees from family/Unpaid			√		√	√	√	
No. of paid employees			√		√	√	√	
No. of employees - women			√	√				
Sales								
Sales JD - Yearly					√	√		
Sales JD - Monthly	√		√	√			√	√
Sales JD – Daily / Weekly							√	
Purchases								
Purchases JD – Yearly					√	√		
Purchases JD – Monthly	√		√				√	
Purchases JD – Daily/Weekly							√	
Operational Expenses	√		√		√	√	√	√
Business Net Income								
Net Annual Business Income					√	√		
Net Monthly Business Income	√		√				√	√
Date of Starting business	√		√		√	√	√	
Business assets value in JD	√		√		√		√	
Business assets list	√		√		√		√	
Banking records	√		√		√	√	√	√

¹ Not a reliable indicator since it gets affected by inflation and price increase, and changes in family size

² Should be calculated for JMCC from detailed values Is this the same for AMC?

Mostly all data related to personal information, and detailed data related to loan and its disbursement are recorded in the MIS at all MFIs. The more detailed income information and the business financial analysis information are kept in the files only and not entered in MIS.

As for drop out or exit interviews; none of the MFIs keeps records. JMCC only obtains a written request from the client that s/he does not request another loan. Also, JMCC adopts the procedure that all data in the loan application form be filled again every time the client wishes to obtain another loan. Therefore, the change in the client status may be tracked if all his or her application forms are reviewed chronologically.

ANNEX A includes a photocopy of the application forms.

<http://www.microfinancegateway.org/section/resourcecenters/impactassessment> - there is a lot of good information contained at this site.

4. Targeted Population

MFIs were requested to provide the number of borrowers that have active loans for more than one year and less than two and those that have been active for more than two years. To achieve this the month of October 2002 (Active borrowers with loans first disbursed between Oct 2002 and Oct 2003 and Active borrowers with loans first disbursed before Oct 2002) was the cut-off point. Those borrowers will constitute the population from which a sample will be drawn to assess the impact of the loan.

The table below shows the distribution of active borrowers according to the MFI and their location. A total of 10,673 active borrowers constitute the targeted population of this study.

Active Borrowers					
MFI	Active for more than one year & less than two years Between Oct 2002 and Oct 2003		Active for more than two Years Before Oct 2002		Total Clients
	Amman	Outside Amman	Amman	Outside Amman	
MFW	1,298	2,350	1,711	2,704	8,063
AMC	677	336	89	0	1,102
JMCC	111	58	387	82	648 ³
MEMCC	30	434	21	385	870
Total clients	2,118	3,178	2,216	3,171	10,673

The appropriate sample that will give accurate results up to +/- 5% with a confidence level of 95% is around 375 clients to be distributed proportionally as follows:

Sample Distribution		
MFI	Weight in Sample	Size of targeted sample
MFW	76%	283
AMC	10%	39
JMCC	6%	22
MEMCC	8%	31
Total Sample Size	100%	375

³ Total does not include Taxi Loans

5. *Next Steps for Impact Assessment Survey*

To conduct the impact assessment survey, the indicated number of clients per MFI will have to be selected randomly from the list of clients that match that above criteria along with a statistically representative sample of those who have opted to not take a follow on loan. This list will be generated through the MIS of each MFI. For each selected client, the information residing in the MIS will be printed out and his/her file will be pulled out to gather the rest of the base information that is not kept in the MIS (please refer to information table above).

It is recommended that economic and social impact be assessed through the survey questionnaire and economic indicators such as employment generation, increased household income and enterprise profit be accompanied by social indicators such as perceived social status change, satisfaction with work, increased confidence and independence etc.