Access to Microfinance & Improved Implementation of Policy Reform (AMIR Program)

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MICROFINANCE/MICROENTERPRISE STRATEGIC ASSESSMENT

Final Report

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MICROFINANCE/MICROENTERPRISE STRATEGIC ASSESSMENT

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1). EXECUTIVE SUMMARY:

1.1). In compliance with the Scope of Work, the consultant spent approximately ten weeks, both on site and off-site, undertaking this Microfinance/Microenterprise Policy Study. This study was to include a review of the current status of Microfinance /Microenterprise in Jordan, and recommend policies for the strengthening of the sector going forward. The detailed report of the study is attached. The main findings and recommendations, however, are summarized below.

1.2). The microenterprise/microbusiness sector is quite small. Although steadily growing, it is projected to total only approximately 192,000 creditworthy clients, who are willing to borrow, over the next five years. Women predominate in the informal microbusness sector, and generally require smaller loans than men.

1.3). There are a large number of suppliers of credit to the microbusiness market. The loan amounts vary from about 100 JD up to 14,000 JD, with some loans being interest free. The supply of microfinance is dominated by the quasi-public sector lenders, who mainly lend at subsidized rates and have a spotty record regarding loan repayments. This imbalance between supply and demand, together with the unsustainable loan repayment rates, have contributed to a poor credit culture amongst some segments of the population, and quasi-public sector institutions that are heavily reliant on public funds for continued operation.

1.4). Currently there is no shortage of liquidity available to microlenders, and therefore no compelling need for microfinance institutions to mobilize savings in order to finance loan portfolio growth. Moreover, international experience suggests that while non-prudential oversight of microlenders is not essential, if implemented a separate oversight body should not be established.

1.5). Despite the effects of its existing policies, it seems likely that the Government of Jordan will continue to support these quasi-public sector institutions. Eventually this could lead to the AMIR Program supported Microfinance Institutions being “crowded out” of the microfinance market, since they are required to charge interest rates that enable them to be operationally sustainable.

1.6). This imbalance between supply and demand for microfinance can be corrected by consolidation amongst the various lenders (for example between Jordan Micro Credit Company and Cooperative Housing Foundation) but also by a consolidation between various quasi-public sector lenders, some of whom have overlapping goals. Another approach to rationalizing the supply of funds is to segment the market, by lenders specializing in specific market niches.

1.7). There are also various measures that could be taken to stimulate demand for microfinance. These include:

> (i). The mounting of two public relations campaign by the government. They would (a) advertise the availability of microfinance and (b) highlight the benefits and rewards of self-employment, and encourage a spirit of entrepreneurship.

(ii). The identification of business multiplier industries that will create opportunities for microentrepreneurs.

(iii). Deepen the demand for microfinance by the introduction of new financial products.

1.8). Given the resources of the quasi-public sector lenders, Government policies and practices have an enormous impact on both microbusiness and microfinance in Jordan. While the most important role that the Government can play is the creation of an enabling economic, legal and political environment, while not intervening through subsidized interest rates, easy credit conditions or politically targeted lending; the achievement of this goal is unlikely given the current socio/ political/ economic environment in Jordan. Nonetheless, several recommendations have been made for refining government policies, the most important of which are:

(i). Progressively require that the quasi-public sector lenders adopt best practices and lend at operationally sustainable interest rates in conjunction with market segmentation as discussed later.

(ii). Enact or review certain laws relating to microfinance and microbusiness. This would include the legal status of microfinance institutions, the Security Interests in Movable Property Law, and the establishment of a simplified procedure for pursuing legal claims for small loans.

(iii). Strengthen the Department of Statistics so that reliable, accurate data can be gathered on microbusiness and microentrepreneurs.

(iv) Establish clear policies for encouraging microbusiness and microfinance, and the identification of a strong advocate for their interests within the public sector.

1.9). The policy of USAID has been to develop a sustainable non-governmental microfinance industry in Jordan, by supporting four microfinance institutions, establishing a sustainable microfinance training program and creating ancillary services. The policies mainly have been successful. Several recommendations have been made, though, to fine-tune the strategy. These include:

(i). Responding positively to approaches by the quasi- public sector lenders regarding closer cooperation and assistance, particularly in regards to MIS systems.

(ii). The establishment of a National Microlenders Council to encourage greater cooperation amongst microfinance lenders and generate support for the adoption of best practices.

(iii). Cooperating closely with other donors and help establish a Donors Council.

(iv). Continue encouraging the Government of Jordan to adopt best practices and financial reporting in accordance with international accounting standards.

(v). Provide technical assistance to the Government in carrying out some of the afore-mentioned reforms.

(vi). While the existing technical advice and training program is broadly successful, it should be further strengthened by increasing the emphasis on training for microentrepreneurs.

(vii). Review the local government policies for encouraging microentrepreneurs that have been instituted in Russeifa and Irbid, with the aim of replicating them in other urban areas.

(viii). Encourage the smaller institutions that lend to microbusinesses to participate as members of the proposed Credit Bureau by funding their annual subscriptions.

2). ACRONYMS USED IN THIS DOCUMENT

ACC	Agricultural Credit Corporation
AFTZ	Aqaba Free Trade Zone
AGFUND	Arab Gulf Programme for the United Nations Development Organizations
AMC	Ahli Microfinancing Company
AMIR	Access to Microfinance and Improved Implementation of Policy Reform
ANERA	American Near East Refugee Aid Organization
CAB	Cairo Amman Bank
CBJ	Central Bank of Jordan
CBO	Community Based Organization
CHF	Cooperative Housing Foundation
DEF	Development and Employment Fund
DOS	Department of Statistics
ED	Executive Director
EIB	European Investment Bank
EU	The European Union
FAO	Food and Agricultural Organization
FTE	Full Time Employee
FY	Financial Year (October 1 to September 30).
FYE	Financial Year End
GDP	Gross Domestic Product
GGL	Group Guaranteed Lending Product
GOJ	Government of Jordan
GUVS	General Union of Voluntary Societies
HO	Head Office
IBS	Institute of Banking Studies
IDB	Industrial Development Bank
ILO	International Labour Organization
IFAD	International Fund for Agricultural Development
IT	Information Technology
JACP	Jordan Access to Credit Project
JD	Jordanian Dinar
JMCC	Jordan Micro Credit Company
JNB	Jordan National Bank
JOHUD	The Jordanian Hashemite Fund for Human Development
LLC	Limited Liability Company
MFI	Microfinance Institution
MIP	Microfinance Implementation Program
MIS	Management Information System
MFW	Microfund for Women
MTI	Ministry of Trade and Industry
NAF	National Aid Foundation
NHF	Noor Al- Hussein Foundation
NGO	Non Governmental Organization

OF	Orphans Fund
QIZ	Qualified Industrial Zones
ROSCAs	Rotating Savings and Credit Associations
SC	Save the Children
SMI	Sustainable Microfinance Initiative
SO5	Strategic Objective Number 5.
SOW	Scope of Work
HB	Housing Bank
UK	The United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNRWA	United Nations Relief and Works Agency
USAID	U.S. Agency for International Development
US$	United States Dollars
VAT	Value Added Tax
WFF	Wholesale Funding Facility

3). INTRODUCTION AND SCOPE OF WORK:

3.1). Under the terms of the contract with Chemonics International Inc., dated November 16, 2000; the consultant spent 10 weeks during the period November 26, 2000 – April 16, 2001, completing this assignment. The Scope of Work (SOW) is as follows:

> "Undertake a thorough review of the microfinance/microenterprise environment and situation in Jordan and utilize that review as the basis for formulation of a draft policy document containing recommendations for future policy decisions intended to facilitate the expansion of microfinance/microenterprise in Jordan."

3.2). In accomplishing this SOW, the consultant was to review changes in the microfinance policy environment as recommended by various reports, and to consider the impact of the subsidized government and non-government programs. Furthermore, the existing incentives, barriers, and policies at the national, governate, and municipal levels are to be reviewed, and recommendations made to improve the climate for microbusinesses. In this regard, policies and practices implemented in other countries are to be appraised for their applicability in Jordan. In light of these reviews, the need for enabling legislation at the national level is to be considered. Additionally, the need to mobilize savings by Microfinance Institutions (MFIs) is to be analyzed. Finally, the number of MFIs and their most appropriate configuration is to be assessed and recommendations made for going forward.

3.3). This contract was undertaken in three stages, which included 2 missions to Jordan by the Consultant. The enclosed report consists of an executive summary, and a detailed report. The report contains a brief history of microfinance and microbusiness in Jordan, reviews the current status of the major components of the "industry" and its existing strengths and weaknesses, and attempts to project how the industry will grow over the next five years. Those aspects of the economic structure, government policies, and social/economic customs that relate to microfinance/microbusiness in Jordan are identified and discussed. Then, the recommendations made for policy interventions are outlined for your consideration.

3.4). While many people were more than considerate with their time and knowledge regarding the preparation of this study, special thanks is given to Mr. Jamil El-Wheidi regarding his contribution.

4). BACKGROUND OF MICROFINANCE AND MICROBUSINESS IN JORDAN:

4.1). Microbusiness is not a new phenomenon, since its antecedents of loans to small village and cottage industries trace back several millennia. What today is defined as microbusiness[1] most likely was founded in the ancient kingdoms in the region known as "The Golden Crescent", between the Tigris and Euphrates Rivers.

4.2). Within the boundaries of the Kingdom of Jordan, however, the idea of microbusiness and microentrepreneurs may not be as well imbedded into the local culture as it was in the surrounding countries. Until relatively recently, the majority of the Jordanian population were primarily herders and farmers rather than town dwellers and traders, so that the microbusinesses that existed would have been rurally oriented. But, during the last 50 years the demographics of Jordan have changed dramatically, with approximately 78% of the population now living in the four largest governates. Despite this demographic change, the rise of microentrepreneurship in Jordan has been slowed by the creation of a large public sector that has been established during this period, which was used as both a social and public service mechanism. Currently, the combined public sector and the military comprise more than 35% of the employed labor force. Consequently, there is a tendency for school leavers, and the unemployed, to look to the public sector first for employment opportunities, rather than to becoming self-employed entrepreneurs. As a consequence, many microentrepreneurs view self-employment as a stopgap measure, to be abandoned as soon as a public sector job is obtained.

4.3). The provision of loan capital to microbusinesses through a formal structure originated in the Public Sector. The Agricultural Credit Corporation (ACC) was founded in 1959 for the express purpose of making loans for the development of the agricultural sector in Jordan, including small loans. The first formal microlending program, however, was established by the Industrial Development Bank (IDB) in 1965. These microbusiness loan providers were soon followed by other public and foundation lenders, such as the General Union of Voluntary Societies (GUVS) in 1986, and the Development and Employment Fund (DEF) in 1992. Since this time several foundations also have involved themselves in microfinance, the names of which are included in Appendix I. Most of these organizations have social goals and roles, and view microfinance as a tool for achieving those goals, rather than focusing on providing microfinance on an operationally sustainable basis.

4.4). The concept of sustainable microfinance was introduced into Jordan by Save the Children (SC) in 1994, when they commenced the Group Guaranteed Lending and Savings Program (GGL) in the Mahatta and Natheef refugee camps. Encouraged by this success, they established a separate legal entity (the Jordanian Women's Development Society) in 1996, which commenced operations in 1997. Subsequently, three other microfinance institutions (MFIs) were established, Jordan Micro Credit Company (JMCC), Ahli Microfinancing Company (AMC), and Jordan Access to Credit Project (JACP) via Cooperative Housing Foundation (CHF).

[1] For the purpose of this Report, the USAID definition of microenterprise/microbusiness will be used. That is, an enterprise with ten or fewer employees, including the microentrepreneur and any family workers. These enterprises are to be owned by and employing the poor. Microenterprise Development Policy Paper, p.1.

4.5). The AMIR Program commenced operations in February, 1998. One of its key goals is the establishment of a sustainable microfinance industry in Jordan by the time the program closes in January 2002. Since inception, the AMIR Program has helped establish and support three MFIs, and together with the U.S. Agency for International Development (USAID), is working with a fourth MFI. There are considerable differences between these four MFIs, and the other microfinance providers, of which the most important are the commitment to attaining operational sustainability, and to operate in accordance with the "best practices" of microfinance.

5). THE CURRENT STATUS OF MICROBUSINESS IN JORDAN:

5.1). Since the inception of the AMIR Program, there have been a series of market surveys to ascertain the underlying size of the microbusiness industry in Jordan[2]. Amongst other goals, these surveys were conducted to assess the size of the microbusiness industry, the activities in which microentrepreneurs were involved, and where these activities were undertaken. While national market surveys normally are not undertaken when microfinance programs are being established, the MFI in question would normally undertake a demand survey in the area in which it intends to operate. The importance attached to the notion of a nationwide demand survey, both at the time the Sustainable Microfinance Initiative (SMI) was established, and for the purposes of this review, is that the SMI was, and is, envisioned as operating on a national basis.

5.2). The results of these market surveys in relation to the above-mentioned goals are mixed. One of the major concerns about the results of the survey was that some of the studies presumed that the informal sector of the economy was smaller than the formal sector. This understanding is at odds with the findings in most other countries where microfinance/microbusiness is undertaken. Consequently, a variety of extrapolations have been undertaken to assess what is a more realistic measurement of the microbusiness sector in Jordan.

5.3). The recently completed Business Plan[3] for JMCC estimated that the current number of microbusinesses in Jordan was approximately 217,000. Of this total, however, a considerable proportion is not prepared to borrow from financial institutions. This is due to either religious reasons, they already had access to cheap loans from family members, do not need the funds, or preferred to use supplier credit. The Business Plan calculated that those willing to borrow, therefore, would be about 71% of the total microbusinesses, equal to approximately 154,000 businesses. The report further estimated that due to the current demographic profile, and the economic outlook for the medium term, the annual growth rate of operating microbusinesses would approximate 5%. This report then concluded that for the period 2000-2004, the number of microbusinesses willing to borrow would increase from about 154,000 in year 2000 to 192,000 in 2004[4].

5.4). A breakdown of the occupations of these microbusinesses is difficult to assess given the shortcomings of the previously mentioned surveys. However, in the surveys for East Amman, Zarqa and Irbid, the occupations of microentrepreneurs were estimated as follows[5]:

[2] These surveys include:

The CDG Survey, “The Demand for Microfinancial Services in the Micro and Small Scale Enterprises Sector in Jordan.” July, 1998.
The WIDTECH Survey. “Research Finding on Women’s Participation in Microenterprise, Agriculture, and the Formal Financial Sector.” February, 1999.
The CDG Survey. “Market Specifics Survey #1, East Amman.” March, 2000.
CDG/J. Daly Surveys. Target Market Studies for Zarqa, Irbid, and Russeifa, November, 2000.

[3] The Detailed Strategic Plan to Achieve Operational Sustainability for the Jordan Micro Credit Company. G. Perrett, October 2000.

[4] The Detailed Strategic Plan to Achieve Operational Sustainability for the Jordan Micro Credit Company. p. 10.

Sector	Percentage
Garment	4.4- 5.1
Handicraft Production	1.4- 6.9
Food Processing	2.0- 7.5
Hairdressers	5.1- 6.6
Wood-Furniture Manufacturing	1.2- 3.4
Metal Workshops	1.0- 1.7
Retail Trade	58.0-62.7
Restaurants	3.2- 4.0
General Services	11.1-14.2
Total	100.0

5.5). A breakdown of the loan sizes required[6] in these three areas was as follows:

Loan Size	Percentage
< 200-650	7.1- 8.8
651-1000	11.4- 13.0
1,001-2,000	19.7- 21.5
2,001-3,000	14.8- 15.8
3,001-4,500	6.3- 7.6
4,501-7,000	24.3-25.2
>7,000	11.5-12.6
Total	100.0

5.6).The gender ratio of the potential markets of operating microbusinesses was:

Microbusinesses in the formal sector: 97% Men, 3% Women.

Microbusinesses in the informal sector: 37% Men, 63% Women.

5.7). Moreover, the East Amman survey indicated that most of the women wished to borrow between 200 JD-1,500 JD per loan cycle.

5.8). The survey indicated that the borrowers would like loans with a maturity of up to 60 months. In practice, however, the majority of credit available to them is in the form of suppliers' credit, or from family or friends, and normally has a maturity of less than 2 months.

[5] Since details of agricultural loans (for both agribusiness and agribusiness sectors) are unavailable, this Report primarily focuses on the urban and peri-urban areas.

[6] There is likely to be a substantial difference between the amount of the loan requested by the potential borrower and the amount approved by the lender.

5.9) Conclusions Regarding the Existing Microbusiness Industry:

Based on the above studies, the following conclusions are drawn:

1). The existing size of the microfinance industry is relatively small. This reluctance to become an entrepreneur appears to be a factor of the relatively recent advent of widespread commercial activities within the existing geographical boundaries of Jordan, and the major emphasis placed by Jordanian Society on salaried employment in the public sector.

2). Women predominate in the informal sector as opposed to the formal sector.

3). Women tend to borrow smaller amounts of money than do their male counterparts.

4). The overwhelming majority of microbusinesses operate in the service sector. Classically, these industries need working capital loans, rather than long-term loans, after they have incurred their initial start-up capital expenditures.

5). Approximately two thirds of potential borrowers require loans of less than 4,500 JD.

6). Many microentrepreneurs are active as a second career choice, and abandon their microbusiness as soon as they find a salaried position. This means that a large portion of the microbusiness could be counter-cyclical to the mainstream economy. It grows when the economy is in recession, and shrinks when the economy grows.

7). There is a very clear need for better statistics to be gathered and maintained on the microbusiness sector. According to practitioners[7] and Government Officials[8] it is difficult to obtain accurate statistics on the size and structure of the sector. Currently the United Nations Development Program (UNDP) is working with the Department of Statistics (DOS) on upgrading the DOS's capacity to collect unemployment statistics for the 2002 household income and expenditure survey[9]. Possibly this survey could be expanded to include data on microbusinesses.

[7] Meeting with Ms. N. Abboushi, MFW , 12/10/2000
[8] Meeting with the Russeifa Municipal Council, 12/13/2000
[9] Meeting with Dr. H. Amawi, 12/12/2000.

6). THE CURRENT STATUS OF MICROFINANCE IN JORDAN:

6.1). As noted earlier, formal loans to microbusinesses commenced with the establishment of the ACC in 1959. Since then, the number of suppliers of formal loans has increased to 14 well known institutions. These institutions can be divided into two categories; the private sector MFIs affiliated with the SMI program, and the other lenders, who are primarily public and quasi-public sector providers. The former have as key goals the achievement of operational and financial sustainability, while the latter concentrate more on social goals, or a combination of social and financial goals. A brief description of the MFIs and the larger of these other lenders are provided below, while summary details of most of the lenders are included in Appendix I.

The Microfinance Institutions:

Microfund for Women (MFW):

6.2). MFW was founded in 1996 as an affiliate (Jordanian Women's Development Society) of SC; and in December, 1999 registered as a not for profit Limited Liability Company (LLC) with the Ministry of Trade and Industry (MTI). MFW has an exclusive gender focus, and offers a variety of products using both the group loan and individual loan methodologies. Under its new business plan, the loan sizes offered by MFW will range from a minimum of 150 JD (under the group lending methodology) up to 2,500 JD. The tenor of the loans varies from two months for the seasonal loan, up to fifteen months for the individual working capital loan. The loan methodology is for all clients to enter through the group lending product. Then, after establishing a performance history for two cycles, they can graduate to the individual loan products, should they so desire. While the Group loan product is strictly a short-term loan, the individual loan product range provides both short-term working capital loans, as well as capital investment loans. Furthermore, clients can borrow under the seasonal loan product, while still having a loan outstanding from one of the other products. The basic strategy underlying this approach is to focus on the retention of good clients by offering as wide a range of products as possible.

6.3). MFW's pricing strategy is to ensure that all loans contribute to the net income of the institution. Hence all products are priced at a minimum interest rate of 38% annual effective interest rate. Moreover, minimum loan amounts for the group and the individual loans have been identified, below which loans will not be approved.

6.4). The marketing strategy is to focus on Amman and the Central Region, therefore primarily serving the urban and peri-urban areas. MFW's clear market niche is women, and while not servicing the desperately poor, it is focusing on the lower end of the income scale.

6.5). MFW's potential is enhanced by a competent, imaginative management team, who are open to new ideas, supported by a strong financial management team. Its potential weaknesses include some staff resistance to the emphasis placed on commercial practices, a slow build-up in productivity, and a limited MIS system.

6.6). To date, MFW has the largest outreach of all of the MFIs. The total number of loans and loan amounts disbursed are 53,700 and 7.7 million JD respectively. As of 2/28/2001 there are 4,645 active loans, and a loan portfolio outstanding of 704,000 JD. The loan portfolio quality is sound, with the portfolio at risk equal to 0.07% and the loan loss reserve of 3.2% of the portfolio.

6.7). For the month of February 2001, MFW's operational sustainability was 89% and is projected to reach a running rate of 100% operational sustainability during September 2001. At the close of the AMIR Program in January 2002, the number of active borrowers are projected to be 5,129 and a loan portfolio outstanding of 1,059,595 JD.

Al Ahli Microfinancing Company (AMC):

6.8). AMC was founded in July 1999, and is a wholly owned subsidiary of Jordan National Bank (JNB). It is registered as a for profit LLC, and started operations in November, 1999. Their current business plan calls for a focus on clients requiring loans in the 3,000 JD- 5,000 JD range, with the minimum loan size to be disbursed of 1,000 JD, up to a maximum amount of 7,000 JD. AMC will try to achieve a 50% gender mix in its client base. Three products will be offered under the current business plan, with the product differentiation emphasized by the loan maturity, rather than by the loan size. The working capital loans will have a maturity of up to 12 months, the maturity for the intermediary loan product will be 18 months and for the longer term loan product, 24 months. Approximately 65%-70% of the loans will be working capital loans, and borrowers can progress from the working capital loans to the longer-term loan products. The basic strategy is to expand through the inflow of new clients, rather than by client retention, since AMC will act as a feeder for JNB regarding rapidly growing businesses.

6.9). The pricing structure on their loan products is considerably lower than MFW and JMCC. This is due to AMC's low cost of equity capital, so that while its loan pricing and minimum loan sizes are set to achieve operational sustainability, the average effective annual interest rate is between 24%-26% per loan product.

6.10). AMC will be focusing on the urban areas in Amman and northern Cities, and its niche will be the better-established microbusinesses that have need of larger loan amounts than provided by MFW and JMCC.

6.11). The management team have a strong background in banking and finance and have the considerable advantage of being supported by a major commercial bank. Potential weaknesses include their limited experience in microfinance, a possibly limited target market, and the need for a comprehensive MIS system.

6.12). Since the commencement of operations in November, 1999, AMC has disbursed 1.6 million JD in 625 loans. As of 2/28/2001 there are 482 loans outstanding, totaling 887,000 JD. To date the loan portfolio quality is lower than the other MFIs, with the Portfolio at Risk and the Loan Loss Reserve being 10.68% and 2.0% respectively.

6.13). Due to its low cost capital base, AMC is projected to reach operational sustainability quickly. As of 2/28/2001 the operational sustainability ratio (excluding investment income) was

119.5%. At the close of the AMIR program in January 2002, the loan portfolio outstanding is projected at 2,500,000 JD, with 1,238 active clients.

Jordan Microcredit Company (JMCC):

6.14). The history of JMCC dates back to the Noor al-Hussein Foundation's income generating schemes in the late 1980s. These activities evolved into credit extension activities in 1990, under the auspices of a subsidized lending program in the more remote areas of Jordan. As a result of this experience, the need to operate on an economically sustainable basis was recognized, and JMCC was registered in June 1999 as a not for profit LLC under the 1997 Companies Act. According to its current business plan, JMCC will be offering an individual loan product with four loan cycles. The first cycle loan offers between 700-900 JD, with a maturity of 7 months. The following three cycles will offer increasingly larger loan amounts up to an amount of 2,040 JD in loan cycle 4. The loan maturities will increase to 10 months for cycle 2, and 12 months for cycles 3 and 4. All clients will enter the program through loan cycle 1, and can progress through the subsequent loan cycles. The strategy is to achieve a high retention rate of creditworthy clients.

6.15). JMCC's pricing strategy is to achieve operational sustainability as soon as possible. To this end, the minimum loan size has been set at approximately 700 JD and the effective annualized interest rates for the four cycles have been set between 44.9% and 32.6%.

6.16). JMCC's geographic target market is the greater Amman region and the surrounding governates. Branch offices will be opened in Baqa in March 2001 and Zarqa in January 2002. While its formal goal was a 50% gender balance, it is now more realistic to expect that the majority of its clients will be men. This means that while its geographic and loan size markets overlaps with MFW and possibly CHF, its main focus on providing individual loans to men give it some market differentiation.

6.17). The management team faces challenges such as a limited target market, narrow profit margins, and the need for an upgraded MIS system.

6.18). Since commencing operations in September, 1999, JMCC has extended 2,941 loans, totaling 1.296 million JD. As of 2/28/2001 the loan portfolio outstanding was 537,000 JD in 945 active loans. The monthly operational sustainability rate for the month of February was 73%. Under the current business plan, at the close of the AMIR program in January 2002, the loan portfolio outstanding will be 897,000 JD, consisting of 2,207 active loans, and the monthly running rate for operational sustainability will be 107%.

Jordan Access to Credit Project (JACP):

6.19). JACP is an affiliate of the Cooperative Housing Foundation (CHF) of Washington DC. It is registered as a not for profit company with the MTI and became operational in December, 1998. JACP's original target market was the southern region of Jordan, but recently they have initiated steps to expand nationwide.

6.20). JACP operates in partnership with 3 commercial banks, The Bank of Jordan (BOJ), Jordan National Bank (JNB), and Cairo-Amman Bank (CAB). Under the agreements, JACP finances 80% of each individual loan made, while the participating bank extends 20% of the loan. The loans are disbursed by the bank and loan repayments by borrowers are deposited directly into the bank's branch network. The repayment then is apportioned between the bank's own accounts and those of JACP on the 80/20 basis. Any loan losses incurred are shared between JACP and participating bank on an 80/20 basis. JACP undertakes the marketing, loan initiation and approval, and loan management duties for the entire portfolio.

6.21). The current draft business plan calls for JACP to continue providing a wide spectrum of products, ranging from small group based loans in amounts of 100 JD- 500 JD, with a maturity of six months and a flat interest rate of 23%. Loan amounts increase in steps of 50 JD per loan cycle. Collateral is provided by the group lending group guarantee mechanism. The individual loan products range from 500 JD up to 14,000 JD, with maturities of between 6 months and 3 years. The interest rate charged on these individual loans is 16% per annum, calculated on a declining balance basis. Collateral normally is provided by personal guarantors, but other guarantees will be accepted.

6.22). JACP is funded by a US$4 million loan capital grant from USAID, and a technical assistance grant of about US$5.0 million to fund operating costs over the first four years of operations. The loan capital grant applies only to the 80% of the loan portfolio, which JACP is required to fund. When this funding is exhausted, JACP will be looking to the Wholesale Funding Facility (WLF), amongst other sources, to finance future growth.

6.23). The management team, which is based in Aqaba, appear to be well seasoned, and the Country Director has had extensive experience in running similar programs elsewhere. Nonetheless, as they expand their operations nationwide, the existing team may find itself somewhat stretched. The key constraints facing management are the current low client retention rate, possible market saturation in the South and the need for an improved MIS system.

6.24). The current business plan forecasts that JACP will achieve operational sustainability at the end of year 4 of operations (2002) and financial sustainability by year 6 (2004). At the end of 2001, the loan portfolio outstanding is projected at 2.1 million JD and 8,415 borrowers.

6.25). As of 2/28/2001 the total loan portfolio outstanding was 1.948 million JD, consisting of 5,210 borrowers. Loan portfolio quality was good, with a portfolio at risk ratio of 5.6% and a loan loss reserve of 1.17% of the total loan portfolio. Group Loans comprised 20%% of the total amount outstanding, and individual loans 80%. Operational sustainability for the month of February, 2001 was 80%.

The Other Lenders to Microbusinesses:

6.26). Currently there are approximately 10 other microfinance providers operating in Jordan. The larger institutions, which have extended more than 80% of loans made by these institutions, are discussed in detail below:

Development and Employment Fund (DEF):

6.27). DEF was founded in 1992 and commenced lending operations in April, 1993. On establishment, its mandate was set as "to enable poor, low income or unemployed individuals, families and groups to exercise productive work in order to contribute in combating poverty and unemployment"[10]. To achieve this DEF will:

> (i) Provide the necessary concessional funding, directly or indirectly, to beneficiary individuals, families or groups.
>
> (ii). Promote habilitation and rehabilitation to facilitate adoption of occupations outside of previous careers, or to upgrade and refine skills, and to improve performance in occupations already adopted by beneficiaries.
>
> (iii). Assist individuals, societies and non-profit organizations in developing their capabilities to identify and prepare small projects that target DEF's beneficiaries.
>
> (iv). Conduct scientific research and field studies to identify potential projects that enable the beneficiaries to achieve DEF's objectives.
>
> (v). Coordinate efforts with organizations operating in social and productive fields to avoid duplication in financing project development activities.[11]

6.28). A review of the 1999 annual report, together with a meeting with senior management[12] revealed the following information about DEF's performance.

- Since inception DEF has lent 30.6 million JD, of which 73% has been lent directly and 27% through intermediate institutions, such as ACC, NHF, JOHUD, and GUVS.
- 25% of these loans since inception are for agro/agri-business sector, 24% for the industrial sector and 42% for the service sector.
- 80% of all loans disbursed have been for men.
- During 1999, loans disbursed totaled 4.3 million JD, while disbursements for 2000 are expected to be 6.0 million JD.

[10] Article (4) of Law No. (33) for year 1992.
[11] P.9, DEF's 1999 annual report.
[12] Mr. Marzouq Al-Hadid, Director General, 12/5/2000.

- As of 12/31/2000 the loan portfolio outstanding was 26,481,000 JD, with 6,200 current loans.

- DEF has four basic loan products, all of which are to be used for capital investment rather than working capital purposes.

  (i). The household lending project provides loans to home based businesses in amounts between 500-1,500 JD. The loan maturity is for 4 years, with a 6- month grace period.

  (ii). The Village Committee Credit Scheme provides loans in amounts of up to 1,000 JD for business purposes.

  (iii). Small Individual Business loans of between 1,500 JD to 10,000 JD, with a loan maturity of between 1-7 years with a 12- month grace period.

  (iv). Small Enterprise loans up to 100,000 JD, with a loan maturity of 1-7 years with a 12-month grace period.

  (v). Group Owned Enterprise loans of up to 100,000 JD, with a loan maturity of 1-7 years with a 12-month grace period.

- While loans are intended to be used for beneficial/ business purposes, management estimates that 50% of the loans disbursed are used for consumer purposes, 30% are used partially for business purposes, and only 20% are used entirely for business purposes.

- In an effort to put DEF onto a "more businesslike basis"[13], interest rates were increased from 6.5% to 9.0% for group and household projects, and to 11% for development and existing project expansion loans. Loans to intermediaries are charged at 5%.

- During 1999, the loan collection rate increased from 73% of loan repayments due in previous years to 90% for 1999.

- While the financial statements for 1999 indicate that DEF has a surplus of income over expenses of 599,000 JD, the Director General said that he expected DEF to achieve break-even during 2002. This disparity in results probably relates to the fact that income is calculated on an accrual basis, while the Director General was talking in terms of a cash basis revenue measurement for 2002. Furthermore, the operating costs also could be understated due to the use of resources from other government agencies that are not charged to DEF at full cost.

6.29). During discussions with management, it was stated that while DEF was an arm of the Government, there was also a drive to make it more efficient. To this end, they are interested in seeing laws enacted that allowed creditors to more easily enforce their rights. Additionally, they would be interested in co-operating with other microfinance lenders through a consultative

[13] Mr. M. Al-Hadid, 12/5/2000.

council mechanism, particularly since they felt excluded from developments in this regard, and that it would be a useful forum for problem sharing and solving. Management also was interested in the idea of market segmentation between groups of microfinance lenders.

6.30). Regarding their future needs, management suggested assistance regarding capacity building and the upgrading of the MIS system would be extremely useful.

The Orphans Fund (OF):

6.31). The OF was founded in 1988 by a special law. Its goal is to invest the proceeds of intestate estates, or estates where there is no active executor, for the good of the beneficiaries. Its brief is very broad, allowing it to invest in real estate, the capital markets, and other loan opportunities.

6.32). OF utilizes the traditional “murabaha” lending approach, whereby they buy the asset to be financed, and on-sell it to the borrower at a mark-up. This means that their lending program does not include working capital loans, except for inventory stockpiling.

6.33). OF invests nationwide, through a network of 17 branches. There are no minimum and maximum amounts to be lent, and the loan maturities range between 1-7 years. Loans for construction purposes have a maximum maturity of 7 years, while car loans have a maximum maturity of 5 years. In effect, OF lends for investment, consumer and housing purposes.

6.34). The interest rate, or mark-up, is 8.5% flat for all loans regardless of the maturity. Consequently, its effective annual interest rate ranges from 15.3%% for a 1 year loan, to 2.3% for a 7 year maturity.

6.35). Collateral consists of either direct salary transfer, checks, and/or mortgages on assets lent. The loan to value ratios on loans are 50% for land, and 75% for cars.

6.36). The most recent figures (February, 2001) indicate that the loan portfolio outstanding was 30MM JD, and 16,000 active borrowers. 80% of the loans made are for amounts of less than 2,000 JD.

6.37). The loans in arrears are estimated about 1,000 clients and 1,500,000-2,000,000 JD[14]. There have been no loan write-offs.

6.38). For the year 2000 OF expects to have disbursed 10,000,000 JD, with this sum increasing for financial years 2001 and 2002.

6.39). The key problems that OF is facing are the need to revise their own law of establishment so as to widen their mandate, and to upgrade their MIS system.

[14] The management had difficulty in understanding the concept of loans in arrears and portfolio at risk, so these figures are uncertain. This difficulty could be symptomatic of either that such statistics are considered unimportant, or are not available from the MIS system, or both.

The Agricultural Credit Corporation (ACC):

6.40). The ACC was founded in 1959 to help support, develop and improve the agricultural sector of Jordan. This was to be accomplished by, amongst other services, the extension of both short and long-term credit on both the individual and the corporate level[15]. Since extending its first loan in 1960, ACC has expanded to 20 branches throughout Jordan, and has disbursed 266,000,000 JD in loans through December 31, 1999; which were the most recent figures available at the time of our meeting.

6.41). In carrying out its mandate, ACC makes four types of loans: seasonal loans, short term loans, medium term loans and long term loans, with the following maturities;

Seasonal Loans:	up to 1 year
Short Term:	up to 2 years
Medium Term:	up to 10 years
Long Term:	up to 15 years

6.42). The interest rate on these loans varies between 7%-10% per annum simple interest, with the interest rate varying by loan amount rather than by maturity. There are no maximum and minimum loan amounts, although 85% of the loans disbursed are for amounts of less than 3,000 JD.

6.43). For seasonal and short- term loans, the collateral required is normally 2 guarantors, and for the medium and long- term loans, a lien on the land plus the guarantors. The loan to value ratio for lending against land is 70%

6.44). A review of the 1999 annual report, plus a meeting with senior management[16] highlights the following:

- ACC only records interest income as and when it is collected. On this basis ACC had a net income of 1.2 million JD for 1999. Revenues for 1999 were boosted by 393 thousand JD, however, resulting from a reconciliation difference between the old MIS system and the adoption of the new Microbanker MIS system.

- The total amount of loans disbursed during 1999 were 27.4 million JD, with an average loan size disbursed of 2,606 JD. The total loans outstanding as of 12/31/1999 were 104 million JD, representing 47,800 loans. Of this total, 62% were for medium term loans, 16% for long-term loans, and 19% for seasonal loans.

- ACC does not maintain a Loan Loss Reserve and does not write-off any loans as uncollectable. Thus, ACC still maintains as current, loans extended prior to 1967 to farmers in the West Bank totaling 1.576 million JD.

[15] ACC's 1999 Annual Report, p.11.
[16] Mr. Al-Omani and Team, 12/6/2000.

- Approximately 60% of the total loans outstanding have been rescheduled at some stage.
- In 1999 ACC waived 50% of interest payments due by farmers in response to the drought conditions. This shortfall, 3,100,000 JD, was paid by the government to ACC.
- While ACC loan repayment rate has improved somewhat over the last nine years, from 67% in 1990 to 75% in 1999, it has remained stalled in the 74%-75% range for the last four years.
- ACC receives the majority of its funding from the Central Bank of Jordan, (CBJ) 31%; the European Investment Bank (EIB), 10%; and The International Fund for Agricultural Development (IFAD), 13%.
- The 1999 external audit report was qualified on the grounds of the auditor's inability to confirm loan amounts from government departments amounting to 30,000,000 JD.
- The business plan for 2000 includes increasing the authorized capital from 23 million JD to 50 million JD, with increased emphasis to be placed on loan collections, and studying the need for restructuring ACC's overall operations.
- Senior management expressed considerable interest in financial assistance and help in upgrading of their MIS system.

The National Aid Foundation (NAF):

6.45). Contrary to its title, NAF makes loans rather than grants to small borrowers. While meetings were not held with NAF, the following statistics were obtained from the Ministry of Social Planning report[17] on its activities:

- NAF's available capital for lending is 13,000,000 JD.
- Outreach is provided from 31 branches located throughout the Kingdom.
- Loan sizes range from 500-4,000 JD, with an average loan size of 1,500 JD.
- The loan maturity is 10 years.
- No interest is payable on these loans.
- Total number of loans disbursed since inception, 15,000.
- The number of active borrowers is 4,667.
- The loan portfolio outstanding is 7,000,000 JD.

[17] The SSP Comprehensive Analysis of Sustainable and Subsidized Microfinance Sectors, June 1999.

- The loan repayment rate is 43%.

The General Union of Voluntary Societies (GUVS):

6.46). GUVS was founded in 1959 to act as an umbrella organization for private charitable societies interested in supporting the poorer segments of Jordanian society. Its role was to coordinate their activities in a cohesive manner, and to act as a link to the government sector. Since 1982, however, it has become more directly involved in actually managing projects, rather than just providing technical assistance and financial support. Today GUVS undertakes a wide range of activities, including childcare, poverty alleviation, care for the disabled, health care services and general community services.

6.47). GUVS is funded by the national lottery system, organized charity drives, and an unused items collection drive, similar to the Salvation Army collection drives. The microfinance loan services are part of the poverty alleviation program.

6.48). GUVS microfinance loan programs are extended and administered by the Community Based Organizations (CBOs), which report to elected boards in each governate. These boards have representatives on GUVS' General Assembly, which is the body that elects the Executive Council.

6.49). GUVS' primary mission is to fight poverty and create employment opportunities. Consequently, its loan terms and conditions are very generous. It extends both individual and group loans, with loan sizes under both products ranging between 200 JD – 1,000 JD. The loan maturities are for 3-5 years and include a grace period of 2 months for individual loans, and up to 12 months for loans with a 5-year maturity. The interest rate on loans is 6.5% flat per annum. The collateral required consists of personal guarantees, promissory notes, and checks. All loans are meant to be for business purposes. The loan repayment rate is 88% for direct loans and 92% for loans through CBOs. The total amount of loans disbursed during financial year 2000 was 1.466 million JD.

6.50). The key needs identified by management were assistance with their MIS system, staff training, and legal clarification about debtors responsibilities regarding returned checks.

<u>Other Sources of Credit:</u>

6.51). In addition to the above lending institutions there are several other potential sources of credit for microentrepreneurs and small borrowers.

Rotating Savings and Credit Associations (ROSCAs):

6.52). ROSCAs are widespread in Jordanian society, but are mainly concentrated in the formal business sector, and are usually associated with government and private sector employees. Statistics are extremely sketchy, but one knowledgeable estimate[18] is that up to 80% of

[18] Mr. J. el-Wheidi, meeting of 1/10/2001.

employees in the formal sector participate in ROSCAs[19]. In the informal sector, particularly in the rural areas, up to 50% of the population could participate in ROSCAs at some stage. The amount contributed to ROSCAs by each participant in the informal sector probably ranges from 10-15 JD per month in the rural areas, and up to 30 JD a month in the urban sectors. The loan default rate is projected to be extremely low.

Cooperatives/ Credit Unions:

6.53). There is a long history of a credit union/cooperative movement in Jordan, dating back to 1952. According to a recent World Bank report[20], the success of the cooperative movement has been limited, partially due to poor management and government interference. Despite this history, enthusiasm for cooperatives remains strong, with approximately 50 new cooperatives being registered annually. Currently, there are about 850 registered cooperatives in Jordan, of which 16 specialize in Credit and Savings. The latest figures available indicate a membership of this latter group of 4,400, with accumulated paid-up capital of 1.5 million JD, and a total annual profitability of 21,000 JD. Since most of these cooperatives are associated with large public and private sector employers, their impact on the microenterprise sector is minimal.

Professional Associations:

6.54). Many of the professional associations within Jordan operate loan programs for the benefit of their members (e.g. The Jordan Engineering Association). These institutions extend loans to their members for a variety of reasons, and some also accept savings. However, given their restricted membership, they have a negligible impact on the microenterprise sector.

Other:

6.55). Due to socio/religious norms in Jordan society, there are very few professional individual moneylenders who charge interest on loans. On the other hand, more than 40% of business transactions are undertaken on a credit basis through the use of trade receivables. Quite often this credit is extended on the basis of post- dated checks.

6.0). Conclusions Regarding the Current Status of Microfinance Supply in Jordan:

1). Based on the defined goals of the quasi-public-sector lenders, the GOJ is committed to providing subsidized credit, in one form or another, as a strategic social objective. Furthermore, this policy is not likely to be altered in the near future.

2). The subsidized lenders have a much larger market share than the MFIs, and will continue to do so for the immediate future. This could lead to the subsidized lenders "crowding out" the operationally sustainability oriented MFIs.

3). The "soft credit terms" of the quasi-public sector institutions have a major distorting effect on the market, particularly in the geographic areas where they compete with the MFIs.

[19] For example, there is a ROSCA at the office of The AMIR Program.
[20] Cooperative Sector, Agenda for Renewal and Growth.

4). The easy credit terms, and the low loan repayment rates of the quasi-public sector lenders' loan portfolios is creating a poor credit culture amongst the borrowing population at large, as well as being a drain on the national Treasury.

5). Nearly all lenders expressed the need for assistance in improving their MIS systems. It is quite likely that some, but not all, of the loan portfolio problems relate to their inability to closely track individual loan performance.

6). The overwhelming majority of the lenders supported the idea of a national coordinating body for microfinance lenders. Some, however, stressed the importance of this body being a non-government institution.

7). All lenders interviewed supported the idea of the establishment of a national credit bureau open to both the public and private sector.

7). SUMMARY, CONCLUSIONS AND RECOMMENDATIONS OF THE MICROBUSINESS/MICROFINANCE SUPPLY/DEMAND RATIO IN JORDAN:

Based on the above review of the supply/demand for microfinance/microbusiness in Jordan, the following overall conclusions are drawn:

Summary:

7.1). There is no shortage of funds for the small and micro entrepreneur in Jordan. The quasi-government sector has considerable resources at its disposal. These include advances from the Central Bank of Jordan (ACC, DEF), lottery proceeds (GUVS), international loans channeled through the Government (DEF), and funds from intestate estates (OF). These sources of funds derive from political decisions made by the Government of Jordan (GOJ) to support the lending practices of these institutions. Hence, it must be assumed that nearly limitless funds will be available to them, as long as the GOJ wishes their lending practices to be continued. Regarding the MFIs, the projected capitalization of the Wholesale Funding Facility (WFF) of 4.25 million JD from USAID, plus additional amounts from other possible donors should be sufficient to meet their needs for the foreseeable future.

7.2). Funds are available to even the smallest microentrepreneur who needs them. OF and ACC has no minimum loan size requirement, MFW will lend amounts as small as 150 JD, JACP 100 JD, and GUVS 250 JD. Therefore, the “poorest of the poor” are not excluded from accessing debt capital. Their inability to access such funds seems to be more the result of a lack of awareness about the availability of these funds, and social pressures; rather than the availability of credit itself.

7.3). Loans are available for consumer as well as for business purposes. OF specifically makes loans for consumer purposes, and DEF acknowledges that 50% of its loans are probably used for consumer purposes.

7.4). There are loan funds available for short and long term maturities. Both DEF and OF will lend for up to 7 years, while ACC will lend for up to 15 years. Nearly all institutions make short-term working capital loans.

7.5). The loan portfolio quality of many of the quasi- public institutions is below international standards. ACC has rescheduled approximately 60% of its loan portfolio, NAF’s loan repayment rate is 43%, and DEF’s loan repayment rate has improved from 73% to a still unimpressive 90%
.

7.6). The charge that the poor cannot afford to pay the interest rate on available loans, and are therefore excluded from borrowing, is incorrect. NAF’s loans are interest free, OF charges an effective annual interest rate of 2.3% for a 7-year loan, and DEF charges 6.5% for certain loans.

7.7). The quasi-public sector institutions are substantially larger than the USAID/the AMIR Program supported MFIs. Short of a change in political will, this situation is likely to continue for the foreseeable future.

7.8). All institutions interviewed expressed the need for an improved MIS system to effectively manage their loan portfolios.

7.9). All institutions expressed interest in improving communications with the other lending institutions.

7.10). Many institutions do not provide for potential loan losses (OF, ACC).

7.11). There is a need for the compilation and maintenance of reliable statistics on the microbusiness sector of the economy.

Conclusions:

The following conclusions have been drawn from the above analysis:

7.12). That if "best practices" were applied to the quasi-government institutions, many of them could be insolvent. For example, if non-performing loans were adequately provisioned for, and then written off after they were uncollected for, say, 180 days, the impact on the following institutions would be as follows:

> (i). If ACC, with 60% of its loan portfolio already restructured, wrote-off its pre 1967 West Bank loans of (1.6 million JD), the reported net income for 1999 would be eliminated. If it wrote-off the current proportion of non-performing loans, its equity would be reduced from 37 million JD to 11 million JD.
>
> (ii). If DEF provisioned for the full 10% of loans that are not current, instead of the current reserve of 1%, its reported net income for 1999 would decline from 1.8 million JDs to 200,000 JDs.
>
> (iii). If NAF was required to fully provision for the 57% of the loan portfolio that is not being repaid, it is difficult to imagine that they could continue to be solvent without a major capital injection.

7.13). Nearly all institutions said that MIS weaknesses were a major problem for them. This problem could be one of the contributory factors to the poor loan portfolio management. If senior management were made aware of the problems before they become irreparable, they could implement timely corrective loan recovery procedures. But that can be done only if their MIS systems can generate this information in a timely manner.

7.14). There is a considerable imbalance between the projected demand and supply for microfinancial services. The potential demand is seen as rising to approximately 180,000 businesses in Jordan who are creditworthy and desirous of borrowing over the next five years.

This potential market is being serviced by approximately 13 institutions which, in the case of some of the quasi-government institutions, have potentially unlimited resources. This imbalance has resulted in several negative side effects.

(i). A poor credit culture amongst borrowers. Many do not feel obligated to repay the loans, given the political circumstances under which they are extended[21]. This then creates a ripple effect whereby borrowers feel they do not have to repay any loans regardless of who are the lenders.

(ii). There is a considerable cannibalization of the markets by all of the borrowers. In many sectors and regions of the economy there are multiple lenders servicing the same potential clients. This leads to cutthroat pricing, and credit decisions being made which are based on portfolio growth rather than loan quality. Paradoxically, in other sectors there are no lenders at all.

(iii). It increases the possibility of borrowers “kiting” loans, a tendency which is exacerbated by the lack of a credit bureau.

7.15). Communications between borrowers and lenders appears to be poor. As the above analysis indicates, there is an excess of debt capital available to potential microentrepreneurs, who are offering a very broad range of loan products. But the refrain of no funds being available to the poorest of the poor, or for special circumstances is regularly heard[22]. A better information awareness campaign needs to be mounted on an industry wide basis.

7.16). Nearly all lenders understand the need for greater cohesion and better communication amongst the lending institutions themselves. There was general support for the idea of a Microfinance Lenders Society, through which a better understanding of problems and greater cohesion could be encouraged. For this to be successful, however, both the MFIs and the Quasi-governmental institutions would have to be included. This same level of cooperation will be necessary if the proposed Credit Bureau is to be a success (See Section 15 on the Role of the Credit Bureau).

It is interesting to note that recently, a Microfinance Association of Jordan has been established. However, the scope and potential for this organization seems to be limited and therefore will not serve the purpose of that which is noted above. Only open to the “sustainable MFI’s” for voting membership, it is feared that this association will be viewed as exclusionary and elitist. The intention of the Association in the original discussions was to purport the benefits of “best practice” and practitioner and entrepreneur training as well as act as an advocate for the industry as a whole. As the founding members (JMCC, AMC Microfund and JACP) have decided to limit the voting membership and in essence exclude all other organizations and individuals involved with the delivery of microfinance services and training from having direct impact in the direction of the Association, it is believed that another forum will be necessary to accomplish the tasks identified above.

[21] This problem is not unique to Jordan. The consultant has seen the same issue in countries and societies as varied as Ghana, Bolivia, Albania, Haiti and Tanzania.
[22] This belief is still widespread amongst some of the staff of the MFIs.

7.17). Several of the quasi-government institutions, in particular DEF and ACC expressed the need for them to commence operating in a "more business-like manner". This approach should be encouraged through their involvement in the Microfinance Lenders Society, and through the provision of targeted technical assistance to these institutions.

7.0) Suggestions for Improving the Supply /Demand Equation and Improving the Credit Culture in Jordan:

While some of these suggestions may not be realistic in the context of the current political/socio/economic environment of Jordan, at least they should be presented for consideration.

1). Clearly, a decision by the GOJ to require the quasi-public sector credit providers to lend on non-subsidized terms and insist that they become operationally sustainable, would have the greatest positive impact. Not only would this end much of the market distortion for microfinance, but would also reduce the burden placed on the Treasury by these institutions. This, however, would require a complete review of the current accounting and financial policies and practices, as well as a recapitalization of the institutions themselves. It would also entail the adoption of management practices that would be independent of political pressure.

2). If (1) above is not possible, these institutions should be empowered to recover all past due loans to the maximum extent permissible under the law.

3). The quasi-public sector institutions should be encouraged to adopt international practices regarding accounting and financial reporting. Since this would result in substantial write-downs of the loan portfolios, a major recapitalization of these institutions would be required.

4). Legislation should be written into law to strengthen creditors rights regarding collecting loans that are past due.

5). There is a clear demand/supply imbalance of credit. With a population of 4.5-5.0 million people and a possible microfinance market of 180,000 potential microenterprises, the market is clearly oversupplied. While competition is good, the scales are heavily tilted towards the quasi-public sector providers who, as noted above, have unlimited resources, and lend at subsidized rates. To encourage a sustainable microfinance industry, and to enable the MFIs to compete on a sustainable basis, the following suggestions are made:

> *(a). Reduce the supply of credit. This could be achieved by merging some of the providers in both the public and private sectors. For example, talks are already underway between JMCC and JACP, with the aim of strengthening both institutions. This will result in 3 stronger MFIs rather than 4 weaker ones. In the quasi-public sector, it is unclear why GUVS, NAF, and OF[23] all make funds available to small borrowers as loans. All of these institutions have partially overlapping objectives, are reliant on some form of public sector funds, and to varying degrees have loan portfolio quality problems. Consideration should be given to merging some of these organizations.*

[23] Given the goals of OF, it is unclear as to why it is making loans at rates that bear no resemblance to the risks assumed by such loans.

(b). Increase the demand for credit. This appears to be a viable option for certain sectors of the economy. Various approaches are discussed in detail in the section "Possible Approaches to Increase the Demand for Microfinance".

(c). The creation of a microfinance industry- wide marketing campaign. The goal being to educate the general public regarding what financing is available, where it is available, on what terms, and for which circumstances. This could be mounted through a television campaign (possibly modeled on MFW's Bahiya campaign), supported by a carefully crafted follow-up strategy.

It is also advised that focus group are considered as a means by which to not only inform the public of the opportunity and benefits of microfinance but also get them to feel "involved" with the growth and direction of the industry.

(d). Undertake a market segmentation supply strategy. Under this approach each institution would agree to focus on a particular sector of the marketplace, based on an active marketing strategy. This would not prevent an institution accepting applications from businesses outside its segment from "walk in clients", but it would not actively market these clients. For example, a potential market segmentation would be

ACC: Focus on agricultural loans
DEF: Focus on initial capital start-up loans (therefore not making repeat loans to the same client). And/or, they could act as a loan wholesaler to other lending institutions.
MFIs: Concentrate on the short-term working capital and medium term loans, while retaining their own market segmentation between each other.
OF and GUVS: Concentrate on consumer loans, or very small loans (less than 100 JD).
NAF: Converted from being a lending agency to a grant agency[24].
The Smaller Lenders: These would continue with their current operations.

(e). Introduce new financial services products. Discussions are already underway by some MFIs for providing insurance products. These could be expanded by the introduction of credit cards and money transfer services. If these services were operated on a sub-contracted basis, there would be little incremental cost incurred by the lender.

6). Currently, GUVS and some other smaller lenders, receive funding from DEF, which also makes loans directly. Hence it plays a role as both a wholesaler and a retailer of loans. In regards to its policy towards microfinance, a possibility would be for it to relinquish its role as a retailer and become solely a wholesaler of funds.

[24] This might seem to be an extreme step, but with 57% of its loan portfolio non-performing, in reality it already is a grant agency. By redefining its operations, it will help differentiate in clients' minds the difference between a loan and a grant.

7). DEF should increase its wholesale lending rate to other institutions from 5% to a more free market rate. This would help DEF strengthen its own finances, as well as forcing the retailers to lend at closer to microfinance market rates.

8). Establish a national coordinating body for microfinance providers, including the quasi-public sector institutions. Many of the latter feel excluded from the Microfinance activities in Jordan and are anxious to participate in them. This would be an excellent opportunity to introduce them to Microfinance "best practices", as well as provide an opportunity to discuss mutual problems.

9). Unsatisfactory MIS systems appear to be an industry wide problem, and probably contributes to the poor loan portfolio quality. Consideration should be given to providing, on an industry wide basis, technical assistance for upgrading the MIS systems.

10). Several institutions have expressed the desire to become more business- like in their approach. Technical assistance should be made available to these institutions, which possibly could be channeled through the proposed national coordinating body, The Microfinance Lenders Society.

11). The existing ongoing assistance to the Department of Statistics be continued and expanded so that they can expand the 2002 household income and expenditure survey to include data on microfinance activities. This will help in better assessing the true demand for microfinance.

8). POSSIBLE APPROACHES TO INCREASE THE DEMAND FOR MICROFINANCE:

8.1). As noted earlier in this study, there is an imbalance between the fundamental demand for credit by microentrepreneurs, and the supply of financing. Moreover, with the current policies of the Government and certain donors expected to continue, this imbalance is likely to remain unchanged for the foreseeable future. While certain suggestions have been made about rationalizing this supply, in all likelihood the implementation of these ideas is uncertain, and will take time to have an effect. Therefore, consideration needs to be given about increasing the demand for microfinance loans. There are two approaches to doing this: (i). broadening the market or, (ii). deepening the market. Broadening the market implies the creation of new microbusinesses who, therefore, will need financing; while deepening the market calls for the supply of additional financial products to the same base of customers, or the strengthening of the clients themselves.

Broadening the Demand for Microfinance:

8.2). A review of the market surveys indicate that within the current socio-economic climate there will be approximately 192,000 microbusinesses wanting to borrow by the end of 2004. The primary reason for this relatively low number is the lack of an entrepreneurial culture, which is discussed in the Section 4, "Background to Microfinance and Microbusiness in Jordan". Various ideas and approaches have been researched about how to encourage the unemployed, or the underemployed, to consider becoming career microentrepreneurs. A major roadblock preventing this is that while not being great "originators" of ideas, the Jordanian microentrepreneurs are excellent "copycats", who then end up undercutting each other in the marketplace (the 35 tomato sellers in the marketplace syndrome). Then, when all of entrepreneurs (tomato sellers) fail, the whole idea of microentrepreneurship receives a bad name.

8.3). Several ideas for creating original ideas for microentrepreneurs are detailed hereunder:

The Creation of Business Multipliers:

8.4). Many industries, when they reach a certain critical mass, require support services. These services can be provided either in house, or be sub-contracted out to external suppliers. Many of these support services could be provided by microentrepreneurs at a lower cost than the in-house alternative. In Jordan, the following industries have been identified as possible "business multipliers":

The Qualified Industrial Zones (QIZ):

8.5). Jordan has established 5 QIZs, 3 of which are privately owned, while 2 remain within the Public Sector. The idea behind their establishment is to encourage overseas investors to establish operations in the QIZs, who in return gain certain customs and tax advantages. To access these concessions, the product must receive a value added component of 35% of the value of the product produced in the QIZ. 8.0% of the value added must be sourced exclusively from Israel and 11.7% from Jordan (currently met by services such as water and electricity)[25]. The

[25] Meeting with Mr. Hussein Dabbas, Jordan Investment Board, 12/14/2001.

remaining 15.3% local content amount must be sourced from Jordan, Israel, The West Bank, Gaza or the U.S.

8.6). These QIZs are expanding rapidly, with the Al Tajamouat QIZ planning to employ 4,000 Jordanians by March 2001. This labor force is expected to grow to 15,000 employees by the end of 2002. With this concentration of employees, there are numerous possibilities for microentrepreneurs, particularly since many of the employees are women, and there are few services within the estates themselves. The most obvious possibilities appear to be in small retailing, food providers, and minor service industries. The general manager, Mr. Fakhoury[26] is anxious to encourage the development of services in the QIZ, and will welcome any collaboration in this regard. Furthermore, he is prepared to outsource services to small businesses located outside the QIZ. Apparently, there are no tax or registration implications for microbusinesses operating in the QIZs. If arrangements could be made with all five QIZs, this would represent an excellent opportunity for creating microbusiness opportunities.

The Free Trade Zone at Aqaba (AFTZ):

8.7). The AFTZ was established as of January 1, 2001. Preparatory to its establishment, and in order to prevent congestion in the downtown and tourist areas of Aqaba, the transport truck services were moved from their former, centralized, down town site to a large terminal on the outskirts of the City. Most of the direct trucking services (repair shops, tire stores, spare parts outlets etc. were moved from their old locations to the new terminal. However, many of the ancillary services for the drivers were not re-located. As a result, the truck drivers who use the site, which can number up to 1,500 trucks per week, have few services. At a meeting with 5 truck drivers[27], they reported the lack of the following services: garbage collection, drinking water, transportation outside of the truck stop, food, restaurants, barbers, mobile phones, medical/ pharmaceutical services, washrooms, TV/videos, a rest house, and general grocery stores[28]. This lack of services provides potential opportunities to microentrepreneurs. During a meeting with the Manager of the site[29], it was acknowledged that the site lacked basic services for the drivers, but it was stated that the Aqaba local government had responsibility for encouraging the establishment of these services, but to date had not done so. The Manager professed openness to ideas about encouraging the establishment of support services for the drivers.

8.8). This truck stop represents an excellent opportunity for microbusinesses. Its exploitation, though, will require liaising between the truck stop management and the Aqaba local government. At the time of the visit JACP had 10 clients at the truck stop, 8 of which were truck drivers and 2 were truck repair shops.

8.9). Another opportunity created by the AFTZ for microentrepreneurs is the servicing of the 300 customs and clearance agents, who will be working in the Zone. Currently, there are no established plans for providing them with small consumer services[30].

[26] Meeting 12/20/2000.
[27] Meeting 12/18/2000.
[28] During the visit to the site the only service seen was one newspaper vendor.
[29] Mr. Al Aqarawey, 12/18/2000.
[30] Meeting with Ms. C. Rosenow, Trade Attorney, 16/1/2001.

The Tourist Industry:

8.10). The tourism industry is the largest employer in the world, as well as being one of the fastest growing international industries. Furthermore, it is very labor intensive. While the national tourism drive has been halted by the unrest in the region, it remains a priority of the GOJ. Microentrepreneurs can play a key role in providing services to the tourist industry. These services not only include the usual handicraft activities but also as suppliers of food and drinks, gift shops, tourist services and costume figures at the historical sites[31]. Additionally, microentrepreneurs could provide support services to larger tourist operations such as Hotels and Tour Operators. Services could include towel embroidery, uniform tailoring, home- made deserts for restaurants, and flower arranging. Operators within the industry recognize the openings for microentrepreneurs, but stress that extensive training will be required to bring service standards (health, cleanliness, punctuality, the emphasis on quality, and the attitude towards foreigners) up to international standards. Moreover, government regulations and its general approach often are counterproductive towards effectively servicing the tourist sector. For example, kiosks are not permitted near many antiquity sites, and only local inhabitants are encouraged to work at the major tourist locations. This latter, unofficial, policy closes off the local inhabitants to external ideas about the tourist industry, ideas that are sorely needed. This situation clearly could benefit from the establishment of a conduit between the potential suppliers and users of these services. This role is normally played by a facilitator (see below).

8.11). Another key player in developing microbusiness opportunities in the tourist industry is the Ministry of Tourism and Antiquities. They should be approached about encouraging the creation of microbusiness opportunities at tourist sites, in which the Ministry would play a dual role. Firstly they could advertise the possibility of microbusinesses, and secondly they could ensure that such businesses do not detract from the site itself.

Technical Training Institutes:

8.12). The American Near East Refugee Aid Organization (ANERA) is in the process of establishing training centers for new and/or current employees of the Information Technology (IT) sector. To this end, ANERA is piloting training centers in the West Bank. If these centers are successful, additional centers will be opened throughout Jordan. While ANERA will be responsible for the funding of the facilities themselves, in Jordan the custom is that the employees are responsible for paying the fees charged for the training. But the employees may lack the resources to pay for the course in cash, and to attend may need a loan. This presents the MFIs with the opportunity to broaden their market to include loans of up to 36 months maturity to these employees, who would repay the loan through automatic deductions from their salaries. The individual loan amounts could range up to 3,000 JD, and initially 200 students would be involved. Should the student leave his employment before final repayment, the remaining balance owing would be deducted from his severance pay.

[31] A classic example of this would be to copy the entrepreneurs outside the Coliseum in Rome, who dress as Centurions, and for a fee pose for photos by tourists.

8.13). This scheme would provide the MFIs with a pre-screened low risk group of potential clients. Moreover, should the scheme be successful, training centers for other industrial sectors might be opened, whose attendees might also avail themselves of loan products.

The Inception of Microbusiness Facilitators:

8.14). In some circumstances the lack of microbusinesses is not caused by the lack of demand for their services, nor by the shortage potential microentrepreneurs, but rather by the lack of communication between the two parties. This role is often played by a “facilitator” who brings together the two sides, and matches needs against supply. The specific knowledge that facilitators bring to this problem is their knowledge of both the business multiplier industry and microbusiness, their connections to both sides, and their ability to communicate with, and between, the two groups.

8.15). Internationally, there are several institutions and programs who are attempting to fill, or develop, this role:

> (i). In Jordan itself, the Chamber of Industry has established an office to encourage the development of small and medium size businesses by exposing members to entrepreneurial ideas. This office could be expanded to encourage the establishment of microbusinesses by linking them with larger institutions that need support services, which the latter would prefer to outsource.
>
> (ii). The Inter American Development Bank (IADB) is in the process of approving a “business multiplier program” in Uruguay. Under this pilot two year program, locomotive industries have been identified (including the Agribusiness, Utilities, Banks, Tourist and Construction industries) and requested to participate in the program by calling on a combination of their business sense and feeling of social responsibility. Under the program they will give priority to microbusinesses for the provision of certain services, which will have been identified by a University study. The Personnel Directors will be these large institutions’ link to the program, while a to-be established Association of Microentrepreneurs will gather and maintain the database for the microbusinesses. The program estimates that during the pilot stage 200 microbusinesses will be created, and 50% of them will qualify for bank loans.
>
> (iii). The consulting firms, Technoserve and ADI, have undertaken a study in Uganda to ascertain how potential microbusiness opportunities can be identified and budding entrepreneurs encouraged to exploit them.
>
> (iv). Jade Mountain Inc., a U.S based institution specializes in identifying microbusiness opportunities. They have been contacted to assess whether their expertise is applicable to the Jordanian environment.
>
> (v). Pride Africa has recently undertaken a study in Guinea on how to generate new business activities. The consultant employed for this project was Ms. J. Bass, who has worked for CHF.

(vi). Another consulting firm that has expertise in helping create new microbusiness activities is Enterprising Solutions Global Consulting. An initial contact has been made with them by Ms. T. Kristalsky of the AMIR Program.

Creating a More Favorable Image of Self Employment:

8.16). As noted earlier, there is a cultural bias in Jordanian society against self- employment, which will need to be overcome if micoentrepreneurship/ self employment is to be viewed as a long term career opportunity. A government publicity campaign could be mounted on a national basis, which would highlight the benefits and opportunities of self-employment. This effort could be modeled on the INJAZ program and/or the "Jordan; small country, big ideas" campaign. One possible sponsor of such an effort would be the Social Productivity Program Unit of the Ministry of Planning.

Deepening the Market for Microfinance:

8.17). The concept of deepening the demand for microfinance focuses on providing a broader range of financial products to the existing customer base or strengthening those existing clients , rather than on increasing the overall customer base. This deepening approach has two facets:

Introducing New Loan Products:

8.18). A review of the microbusiness/ microfinance market indicates that there could be considerable demand for more innovative financial products. Several ideas for such products were identified during the course of this review, some of which are discussed here:

(i). Home Improvement Loans. CHF established a successful home improvement loan program in Gaza, which might be adaptable to Jordan. Clients who have legal title to their houses could be eligible for the loans. While mortgaging the property to the lender probably isn't practicable, loan portfolio quality could be maintained by assiduous use of sound loan to value ratios and careful credit analysis.

(ii). Revolving lines of credit for experienced retailers and small traders. This product would enable retailers/traders to bulk-purchase items so as to gain quantity discounts, or seasonal pricing opportunities. They could then pay down the loan on an irregular basis over a set time period. As soon as the loan is repaid in full, they could re-activate it.

(iii). Insurance products. Some of the MFIs already are exploring this option. A variety of insurance products could be offered to the clients of the MFIs on a sub-contractual basis, with the MFIs earning a commission on the premiums charged for the insurance policies. Such policies could include, life insurance, personal accident insurance, and health insurance.

Strengthening the Operations of Existing Clients:

8.19). Studies indicate that targeted technical assistance for helping microentrepreneurs better manage their businesses can generate an increase in the loan demand by these clients combined with a lowering of the risk of lending to them. These programs, which focus on subjects such as marketing, business planning, cash management, price setting, and customer relations can have a real impact on individual business growth and profitability. There are several organizations that undertake these training programs, including the United Nations Development Programme (UNDP) and Freedom from Hunger[32]. The introduction of workshops for clients on these topics could be useful.

8.0.) Conclusions Regarding Increasing the Demand for Microfinance:

1). There appear to be several business multiplier industries (Tourism, QIZs, Aqaba Free Trade Zone) that could create start-up opportunities for microbusinesses as they expand.

2). Given the historical lack of an entrepreneurial spirit in the Jordanian culture, there is a need to inject facilitators, who will match potential microentrepreneurs with business possibilities. This bringing together of the two parties will not only identify opportunities, but also create links between small businesses and larger ones, to the benefit of both.

3). There are other, specific industry opportunities, which could create openings for microfinance demand.

4). There is a potential role for the Government to play, by mounting a public relations campaign highlighting the possibilities and benefits of being a self employed entrepreneur.

5). The demand for microfinance can also be increased by deepening the demand from existing clients. This can be achieved through the introduction of new products and by providing technical assistance to microentrepreneurs in how to expand and better manage their operations.

6). The MFIs and other non quasi-public sector lenders are best positioned to capitalize on openings created by these activities.

[32] In the interests of transparency, it is mentioned that the author worked for this organization for three years.

9). THE ROLE OF GOVERNMENT AND ITS IMPACT ON MICROBUSINESS AND MICROFINANCE:

9.1). Government policy impacts microbusiness and microfinance on a variety of levels, but mainly at the national level and the municipal level. National government policies tend to impact the microfinance providers more than the microentrepreneurs, while municipal governments tend to have a greater impact on the microentrepreneurs than the national government.

The Government Impact at the National Level:

Enabling Economic Environment:

9.2). The most critical contribution the GOJ can make at the national level to the development of the microbusiness industry is to provide a stable, predictable, economic and social environment where all businesses can undertake normal commercial activities, including the preparation of long term business plans. This stability is particularly important in Jordan, where more than 40% of business transactions are undertaken on a credit basis. Such an environment requires sound fiscal and monetary policies, and a functioning transparent legal system that protects the interests of all parties. Moreover, there should be a minimum of bureaucratic interference.

9.3). Business in general, and microbusiness in particular, flourishes best when government financial policies encourage low inflation, low interest rates on loans, low taxation levels and the payment of real interest rates on savings. While the economy has been in recession for the past 18-24 months, this has been caused by a tight monetary policy, which has resulted in a low inflation rate, and real interest rates on both borrowings and savings. Furthermore, despite the ongoing budget deficit, the real interest rates have been falling over the past few months, as monetary policy is being used to stimulate the economy. With inflation expected to remain at less than 3% and real interest rates are expected to stabilize at around their existing levels for the immediate future, the economic outlook currently is reasonably positive for microbusinesses.

9.4). The national tax regime is relatively unobtrusive to the microentrepreneur, because their level of annual income does not reach the level at which taxation begins[33]. Furthermore, the VAT tax will not apply to businesses with a turnover of less than 250,000 JD in annual sales, while many food items are excluded from the tax[34]. Hence, most microentrepreneurs are exempt from taxes levied at the national level.

9.5). On the other hand, national tax policies regarding the microfinance providers are less clear-cut. While the quasi-government lenders are not subject to national taxes due to the specific registration laws, the situation for the MFIs varies with the each institution. AMC, which is registered as a for profit LLC, clearly will be subject to income tax. But the situation regarding the other MFIs is somewhat problematic. This confusion originates from the advice given to MFW by its external auditor that it needs to provide for the payment of a turn-over tax, even though it is registered as a not for profit LLC. This raises the possibility that the other non-profit

[33] Mr. J. El-Wheidi, meeting 12/18/2000.
[34] Jordan Times, 1/9/2001.

MFIs could also be subject to this tax. While clarification is being sought on this issue, it does indicate that the legal position is unclear. A clear ruling on this situation is needed, or better still, specific legislation needs to be passed regarding the rights and responsibilities of not for profit LLCs.

9.6). On the issue of creditors rights regarding microfinance lending, though, the response from the lenders was unanimous. Under current legislation, lenders have considerable difficulty in enforcing their legal rights to collect loans in default. This difficulty relates to the fact that the Magistrates Courts only handle claims of up to 750 JD, and only when the borrower acknowledges that the debt exists. If either one of these requirements are breached, the only recourse to the lender is to pursue the borrower through the formal Courts. This formal legal system does not differentiate between small loans that are subject to dispute, and larger loans. Thus, all loans in dispute are treated in the same way, with no expedited, or simplified, procedures for pursuing the recovery of disputed small amounts. Hence, very rigid procedures have to be followed by microlenders, with resultant high legal costs, that in many cases exceed the JD amount of the loan. This reinforces many microlenders' reluctance to take recalcitrant borrowers to court. Most of the microlenders interviewed support the idea of introducing a U.S style Small Claims Court, or a U.K. style Court of Petty Sessions. These courts specialize in small debts and disputes, and utilize simplified procedures that don't necessitate the hiring of legal counsel. Also worthy of consideration is legislation which would liberalize collection agency practices.

9.7). Another domain that impacts the ability of creditors to enforce their legal rights is their position regarding certain types of collateral. Currently, provision is lacking for lenders to accept tangible movable assets as collateral, and to repossess these assets in case of default. A "Security Interests in Movable Property Law" has been drafted, and is awaiting parliamentary approval. When it is passed, it will provide for the creation of a "Movable Property Register", possibly to be maintained by MTI. This register will record all liens against movable assets, thereby facilitating the location of such assets, and preventing multiple pledges of the same asset to various lenders.

The Issue of Prudential Oversight:

What is an Appropriate Level of Prudential Oversight of Lending Institutions by the Government?

9.9). This is a controversial subject in which it is hard to obtain agreement[35]. Much of this debate focuses on MFIs who mobilize savings, and whether these institutions need to be regulated by the Central Bank (for example, in Bangladesh, MFIs which mobilize savings are not subject to regulatory oversight by the Central Bank[36]). But since the quasi –government lenders were incorporated under special legislation, and the MFIs are not expected to mobilize savings in the near future (See Section 14, the Issue of Savings Mobilization), the need for Central Bank regulation of MFIs is moot.

[35] CGAP Occasional Paper No. 4, The Rush to Regulate. April, 2000.
[36] Principles and Practice: Myths of Regulation and Supervision.

9.10). Rather, the issue is whether there needs to be any specific regulation and oversight (non-prudential oversight) of MFIs, and other non quasi-government lenders, as a unique subset of providers of credit. In assessing this issue, literature and articles discussing the pros and cons of non-prudential oversight, and the current and proposed legislation of two countries, Morocco and Uganda, were reviewed.

> (i). The Microfinance Law in Morocco has been enacted recently, so there has been little experience by the Moroccan MFIs in working with it. The law functions very much as an oversight role, with non-prudential supervisory duties undertaken by a Consultative Microcredit Council consisting of nominees from the MFIs themselves, commercial bankers, professional societies and the government. It defines Microfinance both quantitatively and qualitatively, identifies who can operate a MFI, and resides authority for establishing interest rate ceilings with the Ministry of Finance.
>
> (ii). The draft Microfinance Law for Uganda, differentiates between MFIs which mobilize savings, and those that are solely credit providers. The three categories of MFIs which mobilize savings in any form are subject to the oversight of the Central Bank of Uganda, in accordance with the Financial Institutions Legislation, and deposits will be covered by the Deposit Protection Fund. The credit-only MFIs, will be monitored by a Microcredit Council, whose members will be appointed from all sectors of Ugandan society, including the Central Bank and the Department of the Treasury. There are no specific additional reporting requirements, only those for all entities registered with the Registrar of Companies. These MFIs, though, will have to use the prescribed Central Bank accounting format.

9.11). A review of the literature basically concludes that in countries where there are a limited number of non-government institutions extending loans, thereby posing little systemic risk to the financial system, there is little benefit to be had in establishing a system of regulatory oversight. Furthermore, the creation of a separate regulatory body to undertake this role is not recommended.

The Issue of Non-Prudential Oversight:

9.12). Under the current structure, the reporting requirements for the quasi-governmental institutions are outlined in the individual laws specifically written for their establishment. For example, DEF reports to the Ministry of Planning[37], while GUVS reports to the Ministry of Social Development. Thus, there is no one government body charged with oversight over these institutions.

9.13). The national government' s impact on the MFIs is more severe. Firstly, each MFI has to register with a Government Department, as well as with the Controller of Companies. Secondly, they then have to meet the reporting requirements of those Departments. Thirdly, if they mobilize savings, they would be subject to the regulatory oversight of the CBJ.

[37] It is interesting to note that the Annual Report for 1999 does not appear to be prepared in accordance with Internationally Accepted Accounting Principles.

9.14). Currently, the four MFIs are registered as different of legal entities.

MFW, JACP, and JMCC are registered with the MTI as not for profit LLCs.

AMC is registered as a for profit LLC with the MTI.

9.15). Based on the history to date, registering with the MTI has resulted in little involvement by the public sector in the operations of the MFIs. It appears that the main requirement is the lodging of an annual report with the Controller of Companies. Registering with other Government Departments, however, can involve a more intense level of oversight. For example, when MFW was registered with the Ministry of Social Development, it was called upon to meet the social goals of that Ministry, rather than being permitted to pursue its own goal of operational sustainability.

Government Oversight at the Municipal Level:

9.16). As noted above, government policies, practices and procedures at this level mainly impact the microentrepreneur rather than the MFI. This is the consequence of the devolution of government responsibility down to the municipal level of many factors that affect microbusinesses' daily operations, but with little impact on the activities of MFIs and other lenders. Anecdotal evidence, and a large volume of complaints, indicate that the municipal enforcement of many of these regulations, such as traffic flow, business sites, health regulations, building codes, and operating permits, can result in a maze of red tape and bureaucratic harassment. The combination of these requirements can actively discourage microentrepreneurs from commencing or continuing operations.

9.17). Nonetheless, there are several municipalities that appear to have created a more conducive environment for microentrepreneurs. Two of them are the municipal governments in Russeifa and Irbid. These Councils report the establishment of 760 and 700 new businesses respectively in the year 2000. Meetings with representatives of both Councils identified the following actions taken by them that appear to have contributed to a local enabling environment:

(i).The designation of special zones for small business. These zones can be industry specific, or just general industrial zones. These zones are connected to the electrical grid.

(ii). The zones are located conveniently to their clients and have fast moving traffic patterns.

(iii). The cost of operating out of these zones, either through the purchase or renting of space, is low.

(iv). Business licenses are cheap (30 JD in both Russeifa and Irbid), and are prorated on an annual basis.

(v). Licenses are granted quickly. In Russeifa for example, the goal is to grant both the Municipal and Chamber of Commerce licenses for grocery stores within one day. For restaurants it takes 3-4 days, however, due to the need for a health license.

(vi). Investment is encouraged, supplemented by a major effort to provide responsive, honest, local government

(vii). The Council members are readily available to their constituents and investors, and follow-up on problems.

9.18). Suggestions by the Council Members to further improve the local environment for microbusinesses/ microentrepreneurs were as follows:

(a). Some businesses, such as computer stores, need a higher level of security clearance by the municipal government. This stretches out the approval and licensing time to several weeks. The need for such security clearances should be reconsidered

(b). Many potential microentrepreneurs lack start-up capital. Possibly this could be made available either as loans from DEF, or by grants from NAF.

9.0). Conclusions Regarding The role of Government in Microfinance and Microbusiness:

1). On the National Level, the Government should restrict itself to creating an enabling economic, legal and political environment, which is conducive to the development of business investment in general, and establishment of microbusinesses in particular. There should not be any interference in terms of subsidized interest rates, easy credit conditions, or politically targeted lending.

2). While prudential oversight is necessary for deposit institutions, there is not a compelling case for non-prudential oversight on credit- only microfinance institutions at this stage.

10). ALTERNATIVES FOR GOVERNMENT INTERVENTION TO CREATE A MORE ENABLING ENVIRONMENT FOR MICROBUSINESS/MICROFINANCE:

10.1). Regardless of whether GOJ adopts an active or passive strategy towards the development of microfinance businesses or MFIs, several policies have been identified which, if adopted, would encourage their further growth and expansion. These measures could be applied at both the national and municipal levels.

Strategies at the National Level:

Economic Policies:

10.2). International experience emphasizes that the most important role a national government can play is the creation and maintenance of a steadily growing economy with low inflation, real interest rates and minimum interference in the creation and undertaking of business and financial activities. Microeconomic policy needs to be conducted in a transparent and consistent manner, thereby enabling the private sector in general to make medium and long-term business plans with some confidence that there will not be radical changes in policies over a 4-5 year period. Such policies benefit all of the private sector, and consequently both microbusinesses and the MFIs. Over the last 3-4 years GOJ has been quite effective in this regard, and this approach needs to be continued.

Social Attitudes:

10.3). The social standing of entrepreneurs within Jordanian society is low, particularly when compared to the prestige associated with full time employment in the public sector. For entrepreneurship in general, and microentrepreneurship in particular, to flourish, this negative viewpoint by society at large will have to change. Changing perceptions is necessarily a long-term project, which would need to be conducted on a national basis. In any such program, the GOJ would have a key role to play, since it has the capacity to mount a nationwide campaign to highlight the benefits of self-employment. Moreover, GOJ would be a direct beneficiary of a successful self-employment program, through decreased unemployment and an increased taxation base.

10.4). Consideration should be given to mounting a nationwide campaign to highlight the benefits of self-employment, possible modeled on the "Jordan, small country big ideas" campaign. The campaign , which could play on television, radio, the print media and billboards, would aim at raising the social status of self employment within Jordanian society by emphasizing the productive nature of entrepreneurship, the contribution to society and the potential financial rewards[38]. Such a campaign, though, would need to co-ordinate carefully with the establishment of support facilities for micro-entrepreneurs (see below). Unless the cultural bias towards entrepreneurship can be improved, it will be difficult to foster a successful microbusiness sector and financially viable MFIs.

[38] Singapore has been very successful in mounting public campaigns to mould social attitudes.

Encouraging the Spirit of Entrepreneurship:

10.5). Consideration should be given to encourage entrepreneurship through the formal educational structure. Classes in entrepreneurship and vocational training could be introduced into the curriculum of secondary schools highlighting the benefits of self-employment, and teaching the basic principals of running a small business (sometimes called “business math”), thereby building on the INJAZ program.

10.6). At the adult level, technical skills could be taught at Technical High Schools or Polytechniques. These could be linked to a support system for small business entrepreneurs, modeled on the U.S. Small Business Administration.

10.7). A program for encouraging the employment of apprentices could be launched, whereby established small entrepreneurs and craftspeople would hire apprentices and train them in the skills of their respective trades. A special public sector program could be designed to pay the entrepreneur for hiring the apprentice and pay for some of the outlays by the apprentice, such as for tools, technical training etc.[39]

10.8) Annually, the AMIR program hosts an “Entrepreneur of the Year” Award program wherein it acknowledges and awards the top microfinance practitioners, microfinance clients and announces an entrepreneur of the year. The selection is based upon strict quantitative criteria and input from the MFI’s. This event could be capitalized on and the selected borrowers and certainly the entrepreneur of the year could be showcased in the media or on the billboards where the “Jordan, Small Country, Think Big” campaign is publicized.

Establishing a Clear Policy for the Encouragement of Small and Microbusinesses:

10.9). Formal measures need to be adopted to support the development of small and microbusinesses within Jordan. These would include:

> (i) Setting aside a proportion of all government tenders for services to be filled by small and microentrepreneurs[40]
>
> (ii). A simplified registration procedure for small and microbusinesses
>
> (iii). Giving priority to small and microbusinesses in granting service industry contracts at the government owned Qualified Industrial Zones.

Authorizing the Quasi-public Sector Lenders to Establish Lending Rates and Extend Loans Free of Any External Interference:

[39] IFAD, in conjunction with the National Government, has established quite an effective program for apprenticeship training in the Kumasi Region of Ghana.
[40] A possible model for this would be the US Government’s policy of special contracting arrangements for Minority Owned Businesses.

10.10). The adoption of commercial lending practices, in terms of the interest rates charged on loans, loan approval procedures and loan recovery policies will enhance efforts to create a sustainable microfinance industry and improve the credit culture amongst borrowers. Furthermore, it will help improve the GOJ's finances by reducing the level of financial assistance that is currently extended to these institutions.

Legal Issues:

10.11). A completely transparent legal system is one of the key foundations for building a vibrant private sector economy. While Jordan has largely achieved this, several recommendations for further improvement are noted below:

> *(i). Clarifying the Legal Standing of Microfinance Institutions:* The status of the taxation liabilities of the MFIs that are registered as not for profit LLCs, needs to be clarified. The GOJ should react quickly to proposals AMIR Program has had Dr. S. Bashir (Attorney at Law) put forward regarding revision of the Companies Law.
>
> *(ii). The Issue of Collateral and the "Security Interests in Movable Property" Law:* The issue of being able to accept pledges of collateral is an extremely important issue to the financial services industry, and in particular to the MFIs. The prompt passing of this legislation will enable all lenders to register their liens on fixed assets thereby assisting in tracking those assets, and preventing the multiple pledging thereof. .
>
> *(iii). The Restructuring of the Magistrates Court Regarding Suits to Enforce Creditors' Rights:* The monetary ceilings for claims through the Magistrate's Court should be increased to, say, 15,000 JD. Moreover, the restriction that only uncontested claims regarding the existence of the debt can be heard under this court should be removed.

Strengthening the Department of Statistics:

10.12). The assembly of a comprehensive database on microbusiness and microfinance activities will enable better decision- making at both the government and MFI level regarding the impact of possible policy initiatives. The most appropriate location for this database would be the Bureau of Statistics, which would need an incremental budget allocation and technical support.

Creating a Coordinated GOJ Policy Towards Microfinance, and Strengthening the Advocacy Role for Microfinance within the Public Sector:

10.13). Currently, the GOJ lacks a coordinated policy towards microfinance and microbusiness, with each individual Ministry establishing guidelines within the bounds of their own authority. Coordinating all of these existing policies would enhance the development of the microfinance/ microbusiness sectors. In this regard, reviewing the mandate of the Productivity Planning Unit to ascertain whether it should undertake this role should be considered. Meanwhile, its role of advocate within the GOJ, is important since it makes known the impacts that government policies and procedures have on both microbusinesses and microlenders. Additional assistance in terms of budgetary support and technical assistance need to be provided to this Unit to ensure that it can effectively carry out this role.

Strategies at the Municipal Level:

A Transparent, Co-Coordinated, Government Policy:

10.14). Municipal governments will need to be completely transparent in formulating and implementing their policies regarding microbusinesses and MFIs. This will require close co-ordination between the various departments involved.

Simplified Registration Procedures:

10.15). A simple registration and licensing procedure needs to be introduced, whereby licenses will be issued at a low cost and within 1-2 days of application. In addition the capacity to issue combined licenses from one window (such as health, taxation, safety, and workplace requirements) would be enormously helpful.

The Establishment of Business Zones Convenient to the Microbusinesses' Client Base:

10.16). Business zones for Microbusinesses need to be established close to their clients, and with a convenient traffic pattern for entry and exit to and from the business zone. Parking also will need to be available.

A Business Friendly Attitude by the Municipal Government Employees:

10.17). Microbusinesses and MFI's should receive courteous, professional treatment from the municipal authorities, and not be considered an impediment to the smooth operations of the government office in question.

11). THE ROLE OF DONORS/ SOFT LOAN PROVIDERS IN MICROFINANCE AND PROPOSALS FOR FUTURE ASSISTANCE:

11.1). As is the case with microfinance internationally, donors/ soft fund providers have played a key role in the establishment of microfinance in Jordan. Their contributions include start-up and operational funding for microfinance programs, technical assistance and training, the supply of infrastructure, and acting as an advocate for MFIs in the latter's dealings with the GOJ.

11.2). In Jordan donors have provided assistance to all categories of microfinance providers; namely the MFIs, Foundations, the UN Refugee Agencies, and to the other providers of microfinance in the quasi-public sector. The most important of those donors who are currently actively involved in microfinance are briefly described below:

USAID:

11.3). USAID Jordan's innovative approach to microfinance has been to facilitate the establishment of an entire industry consisting of complementary, mutually supporting, components. The most visible of those components are the four USAID-supported sustainable microfinance institutions (MFW, AMC, JMCC, JACP) for which USAID both directly (JACP) and through the AMIR Program (MFW, JMCC, AMC) has provided loan capital and operational funding, as well as appropriate technical and managerial assistance as required. Other industry components consist of the Wholesale Funding Facility, the Sustainable Microfinance Training Program, the Credit Bureau, and the Microfinance Association of Jordan.

11.4). USAID's underlying goal is to establish a sustainable microfinance industry in Jordan.

The European Union (EU):

11.5). The EU has provided a considerable amount of assistance for microfinance development, primarily through the quasi-government institutions. The main recipients of these grants have been[41]:

DEF	Grant Funding	JD 4,600,000
	Loans	JD 7,400,000
	Social Development Project Training Grant	JD 445,000[42]
	Direct Loan for general lending purposes	JD 2,500,000
ACC:	Direct Loan from the European Investment Bank:	
	Loans	JD 3,250,000
	Interest Subsidies	JD 642,000

[41] It is not suggested that all of these loans were used to fund microfinance projects. It is reasonable to assume, though, that some of this funding was used by recipients for funding microfinance.
[42] Probably earmarked for microfinance

IDB:	Loans	JD 1,750,000
	Interest Subsidies	JD 3,200,000
CARE/ Near East Foundation:	Grants and Training	JD 1,250,000[43]

11.6). Since these institutions are lending at below market rates, and in some cases have high levels of loan payment arrearages, it is reasonable to assume that the EU is indirectly providing subsidized credit to the microbusiness sector.

Individual European Governments:

11.7). The Governments of EU members are also active with grant funding for microfinance, including the Netherlands, Italy, Germany and Norway. Their funding includes the following:

UNRWA:	Grants for microfinance loans at below market rates	JD 346,000
	Madba and Talbieh Refugee Camps for subsidized microfinance loans	JD 126,400
DEF	Loan to DEF (Germany)	JD 7,000,000

DEF:

11.8). DEF extends loans to other quasi-public sector institutions such as JOHUD, NHF, GUVS and IDB. These loans are made at below market rates. The amount lent to these institutions as of 12/31/1999 was JD 7.3 million. These institutions on-lend to their clients at below market rates.

UN Agencies:

11.9). These include:

UNDP	Grant to JOHUD for their small business loan program	JD 140,000
IFAD	Loan to ACC at 13% p.a. for on-lending to small farmers and women	JD 2,900,000
FAO	Technical Assistance Grant to ACC	JD 199,000

[43] Conversion from Euros to JDs calculated on cross rates as of April 4, 2001

ILO	Training program funded by UNDP/USAID	JD 350,000

Possible Future Donors:

11.10). In addition to the above donors, the Arab Gulf Programme for the United Nations Development Organizations (AGFUND) has signaled its intention to establish a "Bank for the Poor". Details of its creation, policies and goals are sketchy at this stage, but they include the idea of lending in both urban and rural areas, and will use the Grameen style village banking methodology. Furthermore, the goal will be to achieve operational sustainability rather than rely on subsidies. Given that AGFUND is financially supported by Prince Talal Ben Abdul Azziz, it will be adequately funded.

Potential Future Impacts:

11.11). The above statistics, while probably incomplete, indicate that there are a considerable number of donor-supported activities for microfinance in Jordan. Moreover, this support covers a wide range of activities and recipients. But it is also noteworthy that various donors are directly or indirectly supporting clashing goals regarding microfinance. USAID, and perhaps AGFUND, are committed to establishing sustainable MFIs which set market related interest rates. On the other hand, however, the EU, the individual European Governments and GOJ (acting through DEF and ACC) are directly, or indirectly, supporting subsidized microfinance. Moreover, the impact of pursuing different goals is exacerbated by both groups often targeting the same categories of clients, thereby adding to the confusion in clients' minds as to their expectations and roles and responsibilities regarding loans. This approach of supporting many small lenders limits their ability to achieve economies of scale and outreach. This can lead to infighting amongst current and potential donors, with arguments over who "owns" certain projects and the associated credit, encouraging their recipients to steal clients from other institutions, and deliberately undermining other programs. The author recently visited one country, considered to be a leader in developing microfinance, and found that donor infighting apparently had been raised to the level of formal government protests, and parallel programs have been established by different donors. As a result, the development of microfinance has suffered. Recently, however, the situation has improved somewhat with a Donors' Forum being created, through which contacts and better understanding should be fostered[44].

11.12). The other issue concerning donors relates to the demand-supply equation of microbusinesses and microfinance suppliers in Jordan. As highlighted in the section "Summary and Conclusions of the Microbusiness/ Microfinance Supply/Demand Ratio in Jordan" there is a substantial excess of microfinance suppliers relative to creditworthy microbusinesses in Jordan, and if AGFUND is established, the imbalance will become greater. This developing scenario highlights the need for better co-ordination amongst donors, and a clearer segmentation of potential roles for certain donors.

11.13). The third issue impacting donors is the policies of GOJ which, with its support of DEF and ACC via below market loans and interest holidays for borrowers is, in many ways, the largest donor to microfinance activities in Jordan. Given the scope of its resources, it could

[44] Author's personal opinion based on nearly 4 weeks in the country.

"crowd out" microfinance programs that charge market rates on loans (e.g. the sustainable MFI's) by the ongoing provision of loans and grants to those institutions that provide subsidized credit. While it may not be politically possible for GOJ to require that these quasi-public sector lenders charge interest rates better aligned with the market, it might be more politically acceptable if donors which extend loans to these institutions, require that on-lending be conducted at market interest rates.

Suggestions to Improve Donor Co-ordination:

11.14). A Donor's Council be established which would act as a forum to allow donor's to exchange ideas and allow for a more co-coordinated approach by donors to developing microfinance. This could lead to co-funding of certain projects, and act as a single portal for future donors which wish to support microfinance projects.

11.15). The establishment of a donor database of projects and funding, that would enable current and future donors to measure and evaluate microfinance projects in Jordan.

11.16). Encourage other donors to invest in the Wholesale Funding Facility.

11.17). Through the Donor's Council request that lenders to the quasi- public sector institutions require those institutions to set interest rates at market levels, and adopt other best practices.

11.18). Consider the issue of market segmentation by lenders.

11.0). Conclusions and Suggestions Regarding the Role of Current and Future Donors/ Funders:

1). There are a considerable number of donors/ funders in Jordan which are financing a wide range of activities.

2). These funders can be generally categorized into two group; those which are committed to achieving operationally sustainable programs through the charging of market driven interest rates, and those that directly or indirectly are supporting subsidized credit programs.

3). Both groups of donors are operating in a limited demand environment for microfinance, thereby running the risk of oversupply and cannibalization of individual programs.

4). This combination of contrasting goals and limited demand could lead to infighting amongst the various donors, to the detriment of microfinance development in general.

5). The GOJ is a main (indirect) donor/ funder of microfinance in Jordan. While it continues the existing policy of supporting subsidized credit to microbusinesses, it could eventually "crowd out" and eventually force the closure of the programs that charge market driven interest rates. To prevent this occurring inadvertently, GOJ should establish a government wide policy towards microfinance, possibly through the Social Productivity Program Unit.

6). To help improve co-ordination amongst donors, and to help prevent mis-understandings, it is suggested that a Donor's Council be created to act as a forum to exchange ideas, identify common goals, and to resolve differences that arise.

7). To help the smooth functioning of the Donor's Council, and to better identify areas of future intervention and co-operation, a donor's database should be established.

8). Donors should consider including a covenant in their loan agreements with the quasi-government organizations that on-lending to microbusinesses be extended at market interest rates.

9). USAID should actively encourage current and future donors to participate in the Wholesale Funding Facility.

10). Discussions should be held amongst the various donors as to how to encourage market specialization/segmentation by lending institutions.

12). THE CURRENT STATUS OF TECHNICAL ADVICE AND TRAINING, AND SUGGESTIONS FOR FUTURE INTERVENTIONS:

12.1). The field of microfinance in Jordan is somewhat unique in that, as part of a donor-funded program, a specialized Sustainanble Microfinance Training Program has been established in cooperation with a formal bank training institute. Hence, the local microfinance practitioners have the benefit of a localized formal training program, as well as the more prevalent types of formal and informal technical assistance.

The Formal Training Program:

12.2). The Sustainable Microfinance Training Program (the Training Program) has been created by USAID/AMIR Program, and is operated in conjunction with the Institute of Banking Studies (IBS). The Training Program originated from a USAID study[45], which identified that there were both quantitative and qualitative training needs that are crucial to the success of microfinance, which at that time were unmet. In response to the finding of the study, the Training Program was designed and became effective with the first training course held in August 1999.

12.3). The Training Program consists of two levels:

> 1). The initial course is aimed at training field and midlevel staff in the central concepts of best practices, client screening techniques, and analytical tools for running sustainable and effective microfinance programs. The modules of this course include market analysis and product design, credit analysis, lending methodologies, marketing and customer interface, and the intercorrelation of all of these skills for institutional management. The course lasts for approximately 8 weeks, and is offered at least twice a year. After the successful completion of the course, the graduate is considered to be a qualified "microfinance practitioner".
>
> 2). The advanced course focuses on training for managing a growing program, and establishing systems and performance measures to detect problems and opportunities as they arise. The management of credit and savings is covered in greater depth than in the initial course. The modules include profitability, institutional sustainability, managing credit and controlling risk, managing savings, staff management and institution building, forecasting and budgeting, MIS, and skills application. This course also lasts for approximately 8 weeks, and successfully completing the practitioner course or commensurate experience is a pre-requisite. Successful candidates are qualified as "microfinance specialist"[46].

12.4). The strategy adopted by USAID/AMIR Program was to nationalize the training program as much as possible. This was to be achieved by (i). adopting a "train the trainers" approach, (ii). housing the program within a nationally recognized institution of higher education (the IBS), and (iii). to aim for minimum 100% cost coverage by end December 2001.

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[45] Jordan Training Initiative Concept Paper- 11/1/1998
[46] The AMIR Program website-Sustainable Microfinance Training Program.

12.5). As of 12/31/2000, 121 individuals had attended the basic course. Of these, 89 attendees had registered to become microfinance practitioners, and 88 had successfully completed the course. As of the same date, 35 individuals had registered for the advanced course, and of these 33 were accredited as microfinance specialists.

12.6). The surveys and interim reviews of the training program indicate that, to date, it has been successful. Attendees have indicated a high level of satisfaction with both the curriculum and the trainers. Furthermore, the training program has been successful in attracting candidates from outside Jordan (Yemen, Gaza, and the West Bank) as well as attendees from the formal financial sector and quasi-government institutions. The success of the training program is borne out by the proposed scheduling of 6 basic courses in calendar year 2001 and 4 basic courses in calendar year 2002, with a projected combined attendance of 220 candidates. Over the same period, 5 advanced courses have been forecast, with 100 participants projected.

Direct Technical Assistance:

12.7). Several donors are providing direct technical assistance to microfinance providers, normally in response to an identified need of the recipient. A brief summary of the better known of these programs is detailed below:

The AMIR Program:

12.8). The AMIR Program has provided considerable technical assistance to the MFIs that participate in the Sustainable Microfinance Initiative. This assistance normally comprises the fielding of experts to work with the individual MFIs to strengthen certain sectors of their operations and management procedures. Subjects covered by this technical assistance include governance, internal control procedures, product design and marketing, savings, business planning, and a proposed workshop on treasury management. Initially, AMIR Program was responsible for the facilitation of the start-up of two new MFI's and developed their operations and procedure manuals, assisted in the implementation of their business plans, staff hiring and provided extensive training in operations and field work. Additionally, the AMIR Program has financed the attendance by selected staff from the MFIs at the Boulder and New Hampshire Microfinance Courses along with study tours to various microfinance institutions around the world.

12.9). Furthermore, the funding of the establishment of the Credit Bureau (Section 15, The Role of the Credit Bureau) will be extremely useful to all participating providers in managing their loan portfolios.

12.10). Finally, the AMIR Program has financed several surveys relevant to microbusiness and microfinance, which have been made available to the MFIs.

The European Investment Bank:

12.11). The EIB has provided considerable amounts of technical assistance to quasi-public sector providers such as ACC and DEF, some of which has been specifically earmarked for microbusinesses.

The UN Organizations:

12.12). Several UN organizations, such as the ILO, UNDP and FAO, have established specifically tailored technical assistance programs for targeted recipients.

Individual Government Programs.

12.13). Several governments (Germany, Canada, Japan, and the UK) also have active technical assistance programs operating within Jordan.

Indirect Technical Assistance:

12.14). Many donors provide informal technical assistance to participants under the respective donor programs, which usually is provided by those permanent staff who are based in Jordan. Because of its nature, this assistance is difficult to quantify, but oftentimes is the most valuable form of technical assistance. Normally, it is readily available, has a rapid response time, and is relevant to the daily problems confronted by microfinance providers. Consequently, it is highly regarded by the microfinance providers and should be a feature of any continuing technical assistance program. On the negative side, however, the ready availability of such external informal advice which, while extremely useful in the short term, can breed technical donor dependence and create long-term difficulties once access to this advice is ended.

Identified Future Needs of Technical Assistance:

12.15). The provision of technical assistance and training is of critical importance to the further development and strengthening of microfinance in Jordan. In the longer term, it should replace the provision of operational and portfolio funding as the main role for donors in microfinance activities in Jordan.

12.16). The Training Program appears to be successful in meeting most attendees needs and, while subject to ongoing curriculum and methodology reviews, should be continued. The long term plan and financial projections for its financial sustainability, however, will need to be reviewed on a regular basis.

12.17). The provision of formal technical assistance in response to microfinance providers' needs will continue to be important. There is, however, scope for greater donor co-ordination and co-operation to see if certain types of technical assistance can be provided in a generic format to the sector as a whole, rather than by multiple tailor-made programs. A Donors' Council would play a useful role in this regard.

12.18). Both the results of the evaluations of the training program, and from meetings with the individual microfinance providers, it is clear that the greatest need for technical assistance is in the area of MIS systems. Again, a co-coordinated approach by donors to pool resources would yield greater results than the ongoing individual efforts that are currently underway.

12.19). The provision for informal technical assistance is essential for the short term, and its continued provision should be designed into any future assistance program. For the medium to long term, though, it will be necessary to discourage long-term dependency by the management of the microfinance providers on this type of advice. Such a change in approach could be implemented gradually, possibly through a mechanism of progressively charging the recipients for this service, thereby encouraging management to take critical decisions themselves.

12.20). As noted in the Section 7, " Summary and Conclusions of the Microbusiness/ Microfinance Supply/ Demand Ratio" technical assistance should be provided to the quasi-governmental institutions that are anxious to adopt a more business-like approach to their activities. Moreover, additional technical assistance should be provided to the Department of Statistics to enable it to better track the activities of the microbusiness sector.

12.21). Consideration should also be given to strengthen those programs (such as JOHUD and the ILO/UNDP Entrepreneurial Training Program) that provide technical assistance and support to microentrepreneurs themselves, thereby encouraging their initiation and growth. This could be linked to private sector initiatives, such as the small business entrepreneurial office of the Chamber of Industry.

12.0). Summary and Conclusions Regarding Technical Advice and Training:

1). The current tri-level approach of providing technical advice and training to microfinance providers appears to be broadly effective, and should be continued.

2). The provision of such assistance, which is being funded by a large number of donors using a wide variety of methods, would benefit considerably from closer co-ordination between the funders/ providers of such assistance, possibly through the Donors' Council.

3). Consideration needs to be given concerning the best approach to assure the continued financial viability of the Training Program. Furthermore, while the provision of informal technical assistance needs to be continued, steps need to be taken to reduce the recipients' dependency on it for regular advice on routine management decisions.

4). Increased emphasis should be placed on providing technical assistance to microbusinesses themselves, to encourage their establishment and growth.

5). A major component for any future Technical Assistance must include the development of an appropriate MIS system for microfinance providers.

6). Specific technical assistance should be provided to the quasi-public sector providers who are endeavoring to adopt a more business-like approach to microfinance.

13). THE CURRENT AND FUTURE SOURCES OF FUNDING FOR MICROFINANCE AND THE ROLE OF USAID:

13.1). There are more sources of funding for microfinance in Jordan than what is usually encountered in other countries. This is due to the long- standing policies of the GOJ supported quasi-public sector institutions to make small (micro) loans widely available.

13.2). As a result of these policies, the microbusiness/ microfinance industry has at least four, and possibly five, sources of funding.

(i). Quasi-government funding, which is subsidized, and until there is a change in government policies, is probably available in unlimited amounts.

(ii). The donor community, which has made available approximately JD 55,000,000 in operational and administrative funding, and technical support, to institutions undertaking microfinance activities.

(iii). Potential donors/ lenders, such as the proposed AGFUND.

(iv). Funding from the formal financial sector, such as JNB's support for AMC.

(v). The Wholesale Funding Facility.

13.3). While the GOJ continues its policy of providing soft loans to the quasi-public sector institutions, there is no willingness by, nor need for, them to seek loans for portfolio funding and administrative expenses.

13.4). The other microfinance lenders, however, could face a narrowing range of options over the medium term, if donor interest in Jordanian microfinance should wane. These institutions then would have to turn to institutions such as AGFUND, to commercial banks if they have developed a relationship with a bank, or to the Wholesale Funding Facility.

13.5). As noted earlier, the market for microfinance is somewhat limited, so the demand for loan capital will be constrained. Consequently, there should continue to be adequate financing available to microfinance lenders, even if existing donors withdraw from the market. Under this scenario, the key goal of the potential borrowers then probably would be to borrow at the lowest price, which could be from AGFUND. While AGFUND is at liberty to set its own terms and conditions for lending, USAID should encourage AGFUND to implement its declared policy of avoiding subsidies and, therefore, lend at market rates. This would compel the microfinance lenders to charge microbusinesses market rates on loans in order to remain financially viable. Should these microfinance lenders prefer to use commercial banking facilities, they will also be required to raise their interest rates on loans or suffer substantial losses.

13.6). The MFIs and other institutions will be faced with the same situation if they borrow from the Wholesale Funding Facility. USAID, therefore, could be in a position to use access to liquidity as a way of encouraging the adoption of best practices amongst the non quasi-public sector lenders. This will require USAID actively following up on its offer to AGFUND to help the latter establish itself[47].

13.0). Summary and Conclusions:

1). There is a considerable amount of liquidity available to the microfinance sector in Jordan from a variety of sources. Moreover, while GOJ continues to support the quasi- public sector providers, this situation is unlikely to change.

2). Donor funds are still entering into the Jordanian microfinance market, but it is unclear as to how long this will continue given the developing global economic downturn. One possible outcome of a reduction in the flow of donor funds is that the AGFUND and USAID sponsored schemes would comprise an even larger proportion of donor funding than is currently the case.

3). AGFUND is likely to become a major provider of financing for microbusiness/ microfinance providers. Its establishment, therefore, represents an opportunity for USAID to strengthen the development of best practices in Jordan amongst the other microfinance lenders. Thus, it is recommended that USAID commence building a positive relationship with AGFUND.

4). USAID`should market actively participation in the Wholesale Funding Facility as an excellent, cost effective way for other donors to support private sector microfinance in Jordan.

[47] Meeting held on 2/3/2001.

14). THE ISSUE OF SAVINGS MOBILISATION:

14.1). Recently a comprehensive report, "Review of Options for Savings Mobilization Amongst the AMIR Supported MFIs"[48], was completed for the AMIR Program. The report was comprehensive, but relative to this Review, its conclusions can divided into the following components: Whether MFIs need to mobilize savings; the regulatory requirements governing savings; whether microbusinesses benefit from savings; and the potential alternative savings vehicles available to microbusinesses.

The Need for MFIs to Mobilize Savings as a Source of Loan Funds:

14.2). The report concluded that it is not essential for the MFIs to mobilize savings, since there are a variety of other options for sourcing funding for portfolio expansion. Initially, the Report notes the high volume of liquidity that is available in the overall banking system, so there should be no liquidity squeeze within the economy itself.

14.3). To date, two of the four MFIs, AMC, and JACP, already have close contacts with commercial banks, which in the case of JACP should be capable of further expansion. Moreover, as the MFIs become operationally sustainable, they should become increasingly attractive to commercial banks as creditworthy clients.

14.4). Based on a study undertaken in November-December, 1999[49] the WFF, for facilitating loans to the MFIs for portfolio funding purposes, is in the process of being established. The funding of the WFF originally was estimated to be in the range of 4,000,000- 10,000,000 JD and loans would be available to the MFIs at or near market interest rates. Subsequent to this proposal, it is now expected that the WFF will act as a guarantor to commercial banks, so that the interest rate at which MFIs will be able to access the commercial market should now match the commercial rates[50]. Furthermore, the potential need for debt capital by the MFIs has been revised downwards during the last 12 months, so that the demand from this facility will be less than anticipated. The projected funding via the WFF is now quantified as 4.5 million JD.

14.5). With the ability to access the financial markets at market rates, and the reduced amount of debt capital required, the cost advantage of mobilizing deposits to fund the loan portfolio has evaporated. A major reason for mobilizing savings is that they are viewed as a cheap source of funds. But there are high capital start-up costs, plus high fixed operational costs, necessary to service the needs of depositors. Chief among these costs are the creation of branch network, the need to install a sophisticated MIS system, the establishment of a Treasury Function, and the high operating costs of servicing a mass of small borrowers. These costs can be justified only when institutions can achieve huge economies of scale, which appears to be highly unlikely in the case of the MFIs.

[48] The Report was written by Hugh Allen and dated November, 2000.
[49] Alternative Funding Facility for Microfinance Institutions in Jordan. G.Perrett, March, 2000.
[50] The prime rate as of 4/9/2001 was 9% p.a.. Lenders normally charge a spread above this rate.

The Regulatory Requirements Governing the Mobilization of Savings:

14.6). If MFIs wish to mobilize savings, the only incremental regulatory requirement they would be subject to is monitoring and oversight from the Central Bank of Jordan (CBJ). The legal advice received is that credit –only institutions are not subject to CBJ oversight, as long as they comply with other relevant statutes.

14.7). Under Article 4 (b) of the Banking Law of 1999, the mobilization of savings in any form by any non-bank financial institution or firm is forbidden. In effect, this means that if the MFIs wished to mobilize savings, regardless of the purpose or structure, they would have to register as a bank and be incorporated into the banking system. This will be an extremely expensive and time- consuming procedure, as well as necessitating raising 20,000,000 JD in capital to meet the regulatory requirements.

14.8). These issues argue strongly against any plans for MFIs to mobilize savings.

Whether Microbusinesses/ Microentrepreneurs Need and/or Benefit from Savings:

14.9). Numerous studies have indicated that the poor can, and do, save[51]. The benefits of savings accrue to both the microentrepreneurs themselves, and to the lending institutions.

14.10). The benefits to the microentrepreneurs are well documented. They include the creation of an emergency fund, the possibility of earning interest, partial protection from inflation, a lower level of risk than saving in real assets such as livestock or housing, and protection from the demands of friends and relatives for cheap loans or financial assistance.

14.11). There are benefits from savings mobilization to the lending institutions as well. The fact that a current, or potential, borrower has a savings account indicates that they are familiar with the needs and advantages of saving, and have confidence in saving in monetary assets as opposed to real assets. Furthermore, it can indicate the level of financial discipline that the borrower has attained regarding building up savings, and what are his/her spending patterns.

14.12). The above issues make a strong case for encouraging MFI clients to operate savings accounts.

Potential Alternative Savings Vehicles:

14.13). During the course of the study, various commercial banks were approached regarding their policies for opening savings accounts for small savers. The results were as follows:

[51] For example, see "The Poor and Their Money", . Stuart Rutherford, 1999.

Jordan National Bank (JNB)[52]*:*

Minimum Balance: 100JD
Service Charges: None
Interest Rate: 5%
Accept direct deposits: Yes.
Can automatically debit repayments: Yes

The Housing Bank (THB)[53]*:*

Minimum Balance: 200 JD to waive service fee. 1 JD per month fee if balance < 200 JD.
Interest Rate: 3%-4% depending on the balance
Accept direct deposits: Yes.
Can automatically debit repayments: Yes

Cairo Amman Bank (CAB)[54]*:*

Minimum Balance: None
Service Charge: None[55]
Interest Rate: 4%[56].
Accept direct deposits: Yes
Can automatically debit repayments: Yes

14.14). These interviews indicate that there is a sufficient level of interest amongst the banking sector at large to indicate several possible alternatives through which MFIs could encourage borrowers to accumulate savings. Moreover, it seems likely that, based on the above responses, there could be considerable cost savings to the MFIs if loan disbursements and repayments can be channeled through these savings accounts.

14.0).Conclusions Regarding Savings Mobilization:

Based on the above, the following conclusions are drawn:

1). For the foreseeable future, the MFIs will not need to mobilize savings for the purpose of funding their portfolio. There are alternative sources of funds that will be cheaper over the medium term.

2). To mobilize savings, the MFIs will have to apply for a banking license. The cost of meeting the requirements for a banking license are likely to be costly in terms of both time and money.

[52] Meeting with Mr. J.Kattan, Dec.11, 2000.
[53] Meeting with Mr. A. Fadayel, Dec. 11, 2000.
[54] Meeting with Mr. I. Elmuhtadi, Dec. 10, 2000.
[55] It was emphasized, though, that service fees and minimum deposits were market driven, and that if competitors introduced them, so would CAB.
[56] Interest rates may have varied subsequent to these meetings.

3). The MFIs will have to undertake considerable restructuring as well as incurring incremental capital and operating costs in order to mobilize savings.

4). Several of the banks currently provide opportunities for microentrepreneurs to open savings accounts. Some of these links could be formalized, whereby potential clients would have to open a savings account with a bank before they are eligible for a loan from an MFI.

5). It seems possible that the MFIs can use the commercial banks' existing savings accounts to disburse and collect loans.

15). THE ROLE OF A CREDIT BUREAU:

15.1). The idea of establishing a credit bureau in Jordan is not new, with previous efforts being undertaken by a group of Jordanian Banks and The Arab Credit Bureau. In general, though, these initiatives have failed, due to the conflict of interest between the establishers of the Bureau and the suppliers of the information[57].

15.2). The benefits of a Credit Bureau to any institution extending credit are enormous, particularly when the economy is in a downturn. For instance, in Jordan during 1999 approximately 591,000 checks for 500 million JD were returned by banks to payees. This amounts to 9.7% of Jordan's nominal Gross Domestic Product (GDP)[58].

15.3). In response to this need, the AMIR Program has funded preparatory studies for establishing a privately owned stand-alone Credit Bureau. A proposal has been prepared by a consortium consisting of Abu-Ghazaleh & Co., Trans Union of the USA, CRIF of Italy, and MATCO of Jordan, and has been accepted in principle. The proposal envisages three levels of subscribers, and there would be an annual subscription fee as well a fee per report. Currently, the appropriate legislation for the establishment of the Credit Bureau has been prepared by AMIR Program, and is under review by appropriate government departments prior to its submission for parliamentary approval.

15.4). An overwhelming majority of the lending institutions that were surveyed as a part of this report stressed the usefulness to their operations of a reliable Credit Bureau. All of the existing MFIs, and many of the other lenders, are focusing on profitability and understand the importance of good loan portfolio quality in accomplishing this goal[59]. However, for the Credit Bureau to be especially effective for microfinance lenders, it is key that all lenders contribute to the database, including the large public sector lenders. This will necessitate the public sector institutions becoming subscribers to the Credit Bureau, in particular, DEF, ACC, GUVS and NAF. This will necessitate them making available to the bureau information that they might consider confidential. Needless to say, it will also be important for the various utilities, such as the telephone companies and the Governmental Electricity and Water Boards to subscribe.

15.5). Since cost will be an issue for the MFIs, they could subscribe as Silver members, whose proposed annual subscription rate is 200 JD. The subscription cost also may be a problem for some of the smaller other lenders, and since their participation is important, assistance in paying their annual subscription might have to be considered.

15.0). Conclusions Regarding the Credit Bureau:

1). The Credit Bureau has a key role in helping maintain good credit quality for all microfinance lenders.

[57] Business Plan for a Jordanian Credit Bureau, Abu-Ghazaleh International, p. 4.
[58] Ibid, p. 9.
[59] DEF and ACC were particularly supportive of the idea.

2). There is wide support amongst all microfinance lenders for the establishment of a credit bureau.

3). For the Credit Bureau to be truly useful, all microfinance lenders in both the public and private sectors need to be subscribers, despite possible concerns about confidentiality.

4). That assistance be provided to the microlenders to pay for their subscription costs to the Credit Bureau.

16). USAID's STRATEGIC APPROACH TO MICROFINANCE IN JORDAN:

Background:

16.1). The US Government's economic assistance program in Jordan dates back to the early 1950s. Since that time the level of assistance has varied, but since the early 1990s the level of assistance risen considerably. Currently, Jordan is the third to fourth largest recipient in terms of both the total assistance level and in terms of per capita assistance.

16.2). The funding for microfinance is included within this Economic Opportunities Program, the goals of which are outlined in USAID's Strategic Objective 5 (SO5). One of the key goals of SO5 is to sustain and expand economic opportunities within Jordan, particularly in regard to improving the depth and quality of that expansion. To achieve these goals, SO5 identified the need to increase the access to business services by a wider segment of the population than was the then current case, including greater access to financial services. Accordingly, funds were made available to promote and support sustainable microfinance programs. This assistance was to take the form of grants to microfinance providers and also to support other important business services, taking into account best practices. The declared goal being to have a sustainable microfinance industry established by December 2004[60].

Implementation:

16.3). To achieve the goal of developing a sustainable microfinance industry and to develop lending capacity amongst mainstream Jordanian financial institutions, the AMIR Program established the Sustainable Microfinance Initiative (SMI) Component to oversee the achievement of this goal. In parallel with The AMIR Program, direct funding support was provided by USAID to JACP via CHF, which was originally established in the southern area of the country.

16.4). The basic strategy adopted was to focus on four MFIs, with the aim of making them operationally sustainable by the original closure date of the AMIR Program (January 2002). This approach would be supported by the establishment of a financially viable, institutionalized, microfinance training program, which would provide a steady stream of well-trained microfinance practitioners who would service the expected growth of the industry. This would help insert microfinance as a standard commercial product, as well helping establish Jordan as the regional center for microfinance training. Further support to the microfinance sector is to be provided by the establishment of the Wholesale Funding Facility, the Credit Bureau, and the Microfinance Association of Jordan.

16.5). To date, the strategy has been successful, and the following statistics indicate that the goals set by SO5 are in the process of being met.

[60] Strategic Objective 5: Increased Economic Opportunities for Jordanians.

(In JDs)

Statistic	MFW	JMCC	AMC	JACP
Cumulative Amount of Loans Disbursed	7,775,558	1,296,302	1,656,425	3,879,256
Cumulative Number of Loans Disbursed	53,759	2,941	625	9,390
Amount of Individual Loans Outstanding	31,197	536,562	887,919	1,549,174
Amount of Group Loans Outstanding	673,096	N/A	N/A	399,461
Total Amount of Loans Outstanding	704,293	536,562	887,919	1,948,635
Number of Active Individual Loans	64	945	482	816
Number of Active Group Loans	4,581	N/A	N/A	4,394
Total Active Loans	4,645	945	482	5,210
Portfolio at Risk	0.07%	0.00%	10.68%	5.6%
Loan Loss Reserve as Percentage of Portfolio	3.2%	5.38%	2.0%	1.17%
Monthly Operational Sustainability	89.4%	73.0%	119.5%	79.9%

N/A = Not Applicable

16.6). The number of Graduates from the Training Program:

Microfinance Practitioners	89
Microfinance Experts	33

The Approach to Implementation:

16.7). The strategy of establishing a sustainable microfinance industry, established in accordance with microfinance best practices, complies with SO5 and the overall general objectives of USAID in Jordan. Moreover, this approach would meet with wide international approval. This is particularly the case regarding the creation of the Wholesale Funding Facility, the establishment of a Credit Bureau, and the Microfinance Association of Jordan.

16.8). The situation on the ground in Jordan regarding lending institutions, however, is somewhat different than what is normally found in most countries where microfinance is practiced. The difference being the GOJ's policy of making available considerable amounts of subsidized credit to a large proportion of its citizenry[61], as a matter of social policy. Furthermore, this policy is likely to continue despite pressure from external financial institutions.

16.9). Thus, it is realistic to assume that these institutions (DEF, GUVS, ACC, OF) will continue to make subsidized loans to clients, and will continue to accept poor loan repayment rates, as long as GOJ is prepared to continue funding them. Since GOJ has both the will, and adequate resources to continue this policy indefinitely, it raises the possibility that the flow of cheap credit will eventually overwhelm the MFIs or, at best, severely limit their potential for expansion.

16.10). The approach that has been taken is to encourage the four USAID-supported sustainable MFIs to market themselves based on the quality of service, rather than on price, which often is an appropriate strategy. But in Jordan this strategy did not fully take into account the small size of the microbusiness marketplace, and the inclination of the Jordanian population to look to the public sector for any assistance that they may need. Moreover, when discussions were held by USAID with the quasi-public sector lenders, any efforts to encourage co-operation between the two types of lenders were unsuccessful. During the last few years, relations have not improved.

16.11). As noted elsewhere in this report, several of the quasi- public sector lenders are interested in co-operating more closely with MFIs, want to adopt more business-like practices, and have asked for some technical assistance. Since these institutions will continue to be the major providers of funding to microbusinesses, the timing could be opportune for considering working with these institutions and try to have them adopt best practices, rather than treating them as rivals. Such an approach could yield considerable benefits to both parties. For GOJ, it could strengthen the financial position of these institutions, thereby relieving the pressure on the Ministry of Finance for additional funds, as well as helping improve the credit culture within the country. For USAID/ AMIR Program, it would broaden the acceptance of best practices, enable the sustainable MFIs to better compete with these institutions, and encourage the further development of a sustainable microfinance industry.

16.0). Summary and Conclusions Regarding USAID's Strategic Approach to Microfinance:

1). USAID's strategic goal is to create a sustainable non-governmental microfinance industry in Jordan. This is in accordance with microfinance best practices.

2). The main thrust of this strategy was to create a sustainable microfinance program. This was to be accomplished by funding the operations of 4 MFIs, to establish a sustainable microfinance training program and to create ancillary services that would strengthen a sustainable microfinance industry.

3). To date the approach adopted has been successful. But it is questionable as to what level of market penetration the MFIs can achieve, due to the amount of resources available to the quasi-public sector lenders, and the socio-cultural bias of Jordanians for dealing with the public sector as a matter of choice.

[61] The provision of subsidized credit by governments is frequently encountered, but is usually targeted to specific population groups or regions.

4). With some of these quasi-public sector lenders desiring to adopt more business like practices, and to co-operate more closely with the MFIs, this could be an ideal opportunity for USAID to consider a change in policy. This could include working closely with these institutions on common problems, encouraging their adoption of best practices, and providing selective technical assistance.

17). PROPOSALS FOR USAID'S MICROFINANCE/MICROENTERPRISE STRATEGY GOING FORWARD:

17.1). The following suggestions are proposed to "fine tune" USAID's strategy towards the establishment of a sustainable microfinance/microenterprise strategy.

1). Efforts should continue to influence GOJ to change its approach for using the quasi-public sector lenders as instruments of social policy, and require them to adopt more sustainable interest rates on loans. These institutions should also be encouraged to adopt best practices, and to adopt international accounting standards.

2). Technical assistance should be offered to GOJ to undertake the following proposals:

i). The enactment Parliament of the Moveable Properties Law and Credit Bureau enabling legislation.

ii). Propose that the current structure of the Small Claims Courts be revised.

iii). Clarify the legal position of the MFIs.

iv). The mounting of public awareness campaigns regarding the availability of microfinance and advocating the idea of self-employment.

3). Encourage closer relations between the quasi-public sector lenders, the MFIs and the other lending institutions by encouraging the establishment of a National Council of Microlenders.

4). Support the establishment of a Donors' Council, possibly by offering secretarial services to the Council.

5). Provide technical assistance to all microlenders regarding the installation of effective MIS systems.

6). Encourage further rationalization of the market place by supporting consolidation between the MFIs, and between the quasi-public sector lenders.

7). Provide technical assistance to the quasi-public sector institutions who wish to adopt more business like approaches to lending.

8). Discuss with all lenders the possibility of market segmentation/specialization.

9). Undertake a study of the strategies adopted by the councils in Russeifa and Irbid for encouraging small and microbusinesses.

9). Strengthen the microbusiness training programs.

10). Provide technical and start-up assistance to AGFUND.

11). Finance the annual subscriptions of the smaller lenders to the proposed Credit Bureau.

12). Undertake a major program to facilitate the creation/expansion of microbusinesses.

18). SUMMARY OF THE CONCLUSIONS AND RECOMMENDATIONS OF THIS REPORT:

18.1). While some of the below mentioned recommendations may not be realistic in the current political/ socio/ economic environment of Jordan, nonetheless they are presented for consideration and discussion.

18.2). Conclusions Regarding the Existing Microbusiness Industry:

1). The existing size of the microbusiness industry in Jordan is relatively small. The reluctance of individuals to become entrepreneurs appears to be a factor of the relatively recent advent of widespread commercial activities within the existing geographical boundaries of Jordan, and the emphasis placed by Jordanian society on salaried employment in the public sector.

2). Women predominate in the informal microbusiness sector, while men dominate the formal microbusiness sector.

3). Women tend to borrow smaller amounts of money than do their male counterparts.

4). The overwhelming majority of microbusinesses operate in the service sector. Classically, these industries need working capital loans, rather than long-term loans, after they have incurred their initial start-up capital expenditures.

5). Approximately two thirds of potential borrowers require loans of less than 4,500 JD.

6). Many microentrepreneurs are active as a second career choice, and abandon their microbusiness as soon as they find a salaried position. This means that a large portion of the microbusiness could be counter-cyclical to the mainstream economy. It grows when the economy is in recession, and shrinks when the economy expands.

7). There is a very clear need for better statistics to be gathered and maintained on the microbusiness sector. Apparently it is difficult to obtain accurate statistics on the size and structure of the sector. Currently the UNDP is working with the DOS on upgrading the DOS's capacity to collect statistics for the 2002 household income and expenditure survey. This survey should be expanded to include data on microbusinesses.

18.3). Conclusions Regarding the Current Status of Microfinance Supply in Jordan:

1). The GOJ appears committed to providing subsidized credit to a wide segment of society, in one form or another, as a strategic social objective. Furthermore, this policy is not likely to be altered in the near future.

2). The subsidized lenders have a much larger market share than the MFIs, and will continue to do so for the time being. This could lead to the subsidized lenders "crowding out" those other institutions that are focused on achieving operational sustainability.

3). If the quasi-government institutions adopted best practices and reported on the basis of international accounting standards, it is possible that some of them could be insolvent.

4). The "soft credit terms" of the quasi-public sector institutions have a major distorting effect on the microfinance market, particularly in the geographic areas where they compete with the MFIs.

5). The easy credit terms, and the low loan repayment rates of the quasi-public sector lenders' loan portfolios is creating a poor credit culture amongst the borrowing population at large, as well as being a drain on the national Treasury.

6). Nearly all lenders expressed the need for assistance in improving their MIS systems. It is quite likely that some, but not all, of the loan portfolio problems relate to their inability to closely track individual loan performance.

7). The overwhelming majority of the lenders supported the idea of a national coordinating body for microfinance lenders. Some, however, stressed the importance of this body being a non-government institution.

8). All lenders interviewed supported the idea of the establishment of a national credit bureau, open to both the public and private sector.

18.4). Recommendations for Improving the Supply /Demand Equation and Improving the Credit Culture in Jordan:

1). There is a clear demand/supply imbalance of credit. With a possible microfinance market of only 192,000 potential creditworthy microenterprises, the market is clearly oversupplied. While competition is good, the scales are heavily tilted towards the quasi-public sector providers who, as noted above, have unlimited resources, and lend at subsidized rates. To level the playing field, and to enable a sustainable microfinance industry to flourish, the following suggestions are made:

> *(a). Consolidation. This could be achieved by merging some of the providers in both the public and private sectors. The merger of JMCC and JACP, if consummated, will result in 3 stronger MFIs rather than 4 weaker ones. In the quasi-public sector, consideration should be given to combining some of these lending institutions (GUVS, NAF, OF), all of which have overlapping goals. .*
>
> *(b). Increase the demand for credit. This appears to be a viable option for certain sectors of the economy, and is discussed in detail in the section below entitled "Possible Approaches to Increase the Demand for Microfinance".*
>
> *(c). The creation of a microfinance industry- wide marketing campaign. The goal being to educate the general public regarding the purpose and availability of microfinance. Such a campaign could be modeled on MFW's Bahiya campaign.*

(d). Reduce Supply of Credit. Undertake a market segmentation supply strategy, under which each institution would agree to focus on a particular sector of the marketplace, based on an active marketing strategy. For example, a potential market segmentation would be

ACC:	*Focus on agricultural loans.*
DEF:	*Focus on initial capital start-up loans, and/or they could act as a loan wholesaler to other lending institutions.*
MFIs:	*Concentrate on the short-term working capital and medium term loans, while retaining their own market segmentations between each other.*
OF/GUVS:	*Concentrate on consumer loans, or very small loans (less than 100 JD).*
NAF:	*Converted from being a lending agency to a grant agency.*
The Smaller Lenders:	*These would continue with their current operations.*

2). DEF should increase its wholesale lending rate to other institutions from 5% to a more free market rate.

3). Establish the National Microlenders Council. Many of the quasi-public sector lenders feel excluded from the microfinance activities in Jordan and are anxious to cooperate.

4). Several institutions have expressed the desire to become more business- like in their approach. Technical assistance should be made available to them, which could be channeled through the proposed Microfinance Lenders Society.

5). Expand the assistance being currently provided to the DOS so that accurate data on microbusinesses can be compiled and maintained.

<u>18.5). Conclusions and Recommendations Regarding Increasing the Demand for Microfinance:</u>

1). There appear to be several business multiplier industries (Tourism, QIZs, Aqaba Free Trade Zone) that as they expand could create start-up opportunities for microbusinesses.

2). Given the historical lack of an entrepreneurial spirit in the Jordanian culture, there is a need to introduce facilitators, who will match potential microentrepreneurs with business possibilities.

3). There is a potential role for the GOJ to play, through mounting a public relations campaign highlighting the possibilities and benefits of being a self employed entrepreneur.

4). The demand for microfinance also can be increased by deepening the demand from existing clients. This can be achieved through the introduction of new products, and by providing technical assistance to microentrepreneurs for expanding and managing their operations.

5). The MFIs and other non quasi-public sector lenders are best positioned to capitalize on openings created by these activities.

18.6). Conclusions and Recommendations Regarding the Role of Government in Microfinance and Microbusiness:

1). On the National Level, the Government should restrict itself to creating an enabling economic, legal and political environment. There should not be any interference in terms of subsidized interest rates, easy credit conditions, or politically targeted lending.

2). A decision by the GOJ to require the government supported credit providers to lend on non-subsidized terms and become operationally sustainable, would have the greatest positive impact in establishing a sustainable microfinance industry. Not only would this end much of the market distortion for microfinance, but also would reduce the financial burden these institutions place on the Treasury. This change, however, would require a complete review of the institutions' current policies, procedures and practices, as well as their recapitalization. It would also require the implementation of management practices and decision making that would be independent of political pressure. Overlap and saturation of market could be avoided by the institution of segmentation plan.

3). If (2) above is not possible, these institutions should be empowered to recover all past due loans to the maximum extent permissible under the law.

4). The quasi-public sector institutions should be encouraged to adopt international practices regarding accounting and financial reporting.

5). While prudential oversight is necessary for deposit institutions, there is not a compelling case for non-prudential oversight on credit- only microfinance institutions at this stage.

6). Clarification of the legal and tax positions of not for profit companies is needed, including the ability for companies to transition from not for profit to for profit status.

7). Consideration should be given to the creation of a Small Claims Court/Court of Petty Sessions legal system, to help expedite the enforcement of creditors rights for small sums of money. Alternatively, the legislation covering the existing Small Claims Court should be revised.

8). The policies and practices adopted by the Municipal Governments in Russeifa and Irbid should be studied in greater detail for possible replication elsewhere.

9). The need for higher levels of approval/ clearances than those required by municipal governments for certain small and microbusinesses (internet cafes) needs to be reviewed.

10). Encouraging the Spirit of Entrepreneurship: Consideration should be given to encourage entrepreneurship through the formal educational structure. This can be undertaken by expanding the INJAZ program at the secondary level, by technical schools at the tertiary level and by a microentrepreneur apprenticeship program.

11). Establishing a Clear Policy for the encouragement of Small and Microbusinesses: Formal measures need to be adopted to support the development of small and micro businesses within Jordan. These would include:

> *(i) Setting aside a proportion of all government tenders for services to be filled by small and microentrepreneurs.*
>
> *(ii). A simplified registration procedure for small and micro businesses and clearer regulatory structure.*
>
> *(iii). Giving priority to small and micro businesses in granting service industry contracts at the government owned Qualified Industrial Zones.*

12). Creating a coordinated GOJ policy towards microfinance, and strengthening the advocacy role for microfinance within the Public Sector. Consideration should be given to help strengthen the role of the Social Productivity Program Unit of the Ministry of in Planning as an advocate of microbusiness and microfinance.

13). Legal Issues:

> *These will include:*
>
> > *(i). Clarifying the Legal Standing of Microfinance Institutions: .*
> >
> > *(ii). The prompt approval of the "Security Interests in Movable Property" Law.*
> >
> > *(iii). The Restructuring of the Magistrates Court Regarding Suits to Enforce Creditors' Rights.*
> >
> > *(iv). Revision of the Companies Law.*

14). Strengthening the Department of Statistics:

15). At the Municipal Level:

> *(i). The establishment of transparent, coordinated, municipal government policies.*
>
> *(ii). Simplified registration and licensing procedures:*
>
> *(iii). The establishment of business zones convenient to the microbusinesses' client base.*

(iv). A business friendly attitude by the Municipal Government employees:

<u>18.7). Conclusions and Recommendations Regarding the Role of Current and Future Donors/ Funders:</u>

1). There are a considerable number of donors/ funders in Jordan who are financing a wide range of activities.

2). These funders can be generally categorized into two groups: (i) Those who are committed to achieving operationally sustainable programs through the charging of market driven interest rates, and (ii). Those that directly, or indirectly, support subsidized credit programs.

3). Both groups of donors are operating in a limited demand environment for microfinance, thereby running the risk of oversupply and cannibalization of individual programs.

4). This combination of contrasting goals and limited demand could lead to infighting amongst the various donors, to the detriment of microfinance development in general.

5). The GOJ is a main (indirect) donor/ funder of microfinance in Jordan. While it continues the existing policy of supporting subsidized credit to microbusinesses, it could eventually "crowd out" and force the closure of the programs that charge market driven interest rates.

6). To help improve coordination amongst donors, and to help prevent mis-understandings, it is suggested that a Donor's Council be created to act as a forum to exchange ideas, identify common goals, and to resolve differences that arise.

7). To help the smooth functioning of the Donor's Council, a donor's database should be established.

8). Donors should include a covenant in their loan agreements with the quasi-government organizations that on-lending to microbusinesses only be undertaken at market interest rates.

9). Discussions should be with the various donors about encouraging market specialization/ segmentation by the micro-lending institutions.

<u>18.8). Conclusions and Recommendations Regarding Technical Advice and Training:</u>

1). The current tri-level approach of providing technical advice and training to microfinance providers appears to be broadly effective, and should be continued.

2). The provision of technical assistance and training would benefit considerably from closer coordination between the funders/ providers, possibly through the Donors' Council.

3). Consideration needs to be given concerning how to assure the continued financial viability of the Training Program. Furthermore, while informal technical assistance needs to be continued, *steps need to be taken to reduce the recipients' dependency on it for regular advice on routine management decisions.*

4). Increased emphasis should be placed on providing technical assistance to microbusinesses themselves, to encourage their establishment and growth.

5). Specific technical assistance should be provided to the quasi-public sector providers who are endeavoring to adopt a more business-like approach to microfinance.

6). Provide technical assistance on an industry wide basis for upgrading the MIS systems.

18.9). Conclusions and Recommendations Regarding Liquidity:

1). There is a considerable amount of liquidity available to the microfinance sector in Jordan from a variety of sources. Moreover, while GOJ continues to support the quasi- public sector providers, this situation is unlikely to change.

2). Donor funds are still entering into the Jordanian microfinance market, but it is unclear as to how long this will continue given the developing global economic downturn.

3). AGFUND is likely to become a major provider of financing for microbusiness/ microfinance providers. Its establishment, therefore, is an opportunity for USAID to strengthen the development of best practices in Jordan by close cooperation with them.

18.10). Conclusions Regarding Savings Mobilization:

1). For the foreseeable future, the MFIs will not need to mobilize savings for the purpose of funding their portfolio.

2). To mobilize savings, the MFIs will have to incur considerable incremental operating and capital costs, as well as having to restructure their operating procedures.

3). Several of the banks currently provide opportunities for microentrepreneurs to open savings accounts. Some of these links could be formalized, whereby potential clients would have to open a savings account with a bank before they are eligible for a loan from an MFI. Moreover, it seems possible that the MFIs can use the commercial banks' existing savings accounts to disburse and collect loans.

18.11). Conclusions and Recommendations Regarding the Credit Bureau:

1). The Credit Bureau has a key role in helping maintain good credit quality for all microfinance lenders.

2). There is wide support amongst all microfinance lenders for the establishment of a credit bureau.

3). For the credit bureau to be truly useful, all microfinance lenders in both the public and private sectors need to be subscribers, despite possible concerns about confidentiality.
4). Assistance should be provided to the microlenders to pay for their subscription costs to the credit bureau.
5) Support for passing the enabling legislation.

18.12). Conclusions Regarding USAID's Strategic Approach to Microfinance:

1). USAID's strategic goal is to create a sustainable non-governmental microfinance industry in Jordan. This is in accordance with microfinance best practices.

2). The main thrust of this strategy was to create a sustainable microfinance program. This was to be accomplished by funding the operations of 4 MFIs, to establish a sustainable microfinance training program and to create ancillary services that would strengthen a sustainable microfinance industry.

3). To date the approach adopted has been successful. But it is questionable as to what level of market penetration the MFIs can achieve, due to the amount of resources available to the quasi-public sector lenders, and the socio-cultural bias of Jordanians for dealing with the public sector as a matter of choice.

4). Recently, some of the quasi-public sector lenders have said that they would like to adopt more business like practices, and to co-operate more closely with the MFIs. This development represents an ideal opportunity for USAID to consider a change in policy toward these institutions. This new policy should include working closely with these quasi-public sector lenders on common problems, encouraging their adoption of best practices, and providing selective technical assistance.

18.13). Proposals for USAID's Microfinance Strategy Going Forward:

1). Continue existing efforts to convince GOJ to change its approach towards the quasi-public sector lenders by requiring them to implement sustainable interest rates on loans, and adopt best practices and international accounting standards.

2). Provide technical assistance to GOJ to undertake the following proposals:

> *(i). The passing of the Parliamentary Bill establishing the Moveable Properties Register.*
> *(ii). Propose that the current structure of the Small Claims Courts be revised.*
> *(iii). Clarify the legal position of the MFIs.*
> *(iv).The mounting of the public awareness campaigns regarding the availability of microfinance and advocating the idea of self-employment.*

3). Encourage closer relations between the quasi-public sector lenders, the MFIs and the other lending institutions by encouraging the establishment of a National Microlenders Council.

4). Support the establishment of a Donors' Council, possibly by offering secretarial services to the Council.

5). Provide technical assistance to all microlenders regarding the installation of effective MIS systems

6). The provision of technical advice to the quasi-public sector institutions who wish to adopt more business like approaches to lending.

7). Consider further rationalization of the market place by encouraging the ongoing consolidation between the MFIs, and market segmentation by all lenders.

8). Undertake a study of the strategy toward small and microbusinesses adopted by the Councils in Russeifa and Irbid.

9). Strengthen the microbusiness training programs.

10). Provide technical and start-up assistance to AGFUND.

11). Finance the annual subscriptions of the smaller lenders to the proposed Credit Bureau.

12). Undertake a major program to encourage/facilitate the creation/expansion of microbusinesses.

Appendix I
Review of Other Microfinance Lenders

Marketing Competition
Up to Date: February 28, 01

Organization	Area Of	# of Borrowers	Outstand.	Loan Size	Methodology	Loan maturity	Interest Rate	Terms of Repayment	Security Collateral
	Operation	(Active)	Portfolio (JD)	(JD)	Group or Individual			(Weekly, Monthly,etc	Required (Guarantee)
Near East Foundation (NEF)	All Jordan	400	210,000	1,000-1,500	Individual + Group	2 to 3 Years	8 to 12% Flat	Monthly	LA+ PN or BC
UNWRA	All Jordan	261	991,228	500-7,000	Individual	1 to 3 years	12% DB	Monthly	LA+ ST(2) UNRWA or Gov.
Development and Employment Fund (DEF)	All Jordan	6,200	26,481,221	1,000-10,000	Individual	up to 7 years with GP	9% to 11% DB	Monthly or quarterly	LA+PUR or BC or B or Land
Industrial Development Bank (IDB)	All Jordan	645	2,054,250	1000-10,000	Individual and Companies	2 - 7 Years wit GP	9% DB	Monthly or Quarterly	LA+ST(2) or B or Land
The Jordanian Hashemite Fund for Human Development (JOUHD)	All Jordan More in N	1,583	4,118,658	300-6,000	Individual	6 months to 6 Years With GP	12 to 18% Flat	Monthly	LA+ Library Cheque LA+ST or BC or B Or Land
Noor Al Hussein Foundation (NHF)	All Jordan	666	450,790	300-1000	Group + Individual	6 months to 3 years	8% Flat	Monthly	LA+PN or LA+BC
General Union of Voluntary Societies (GUVS)	All Jordan EX. Zerqa	1,177	84,488	100-1,000	Individual	1.5 - 3 Years	6.5% flat	Monthly	LA+ST or BC or B Or Land LA+ BC or PN
Orphans Fund	All Jordan	16,000	30,000,000	200-10,000	Individual	up to 7 years	8.5% Flat	Monthly	LA+ST or BC or B Or Land
Total		**26,932**	**64,390,635**						

Notes
NEF numbers are approx. numbers and as of Feb. 28, 2001
UNRWA numbers are as of Feb. 28, 2001
DEF numbers up to December 31, 2000 and represents only direct lending

IDB numbers up to December 31, 2001
JOUHD numbers up to Feb. 28, 2001
NHF numbers up to January 31, 2001
GUVS numbers are approx. numbers and as of Feb. 28, 2001
Orphan Fund numbers are approx. numbers and as of Feb. 28, 2001

LA: Loan Agreement
BC: Bank Cheque
B: Building
PUR: Payment Upon Request from the Employer of the Employee
PN Promissory Note
GP: Grace Period
ST (2): Salary Transfer of two Government Employee
More in N: More Concentration now on the Northern part of Jordan
Z: Zerqa
K: Kerak
W: Wehdat
I: Irbid

APPENDIX II:

INDIVIDUALS MET/CONTACTED DURING THE ASSIGNMENT:

Ms. R. Atalla, *Chief of Staff, Office of H.M. Queen Rania Al-Abdullah.*

Mr. A. Fadayel, *Executive Manager, The Housing Bank for Trade and Finance.*

Dr. J.N. Kattan, *Deputy General Manager, Jordan National Bank.*

Mr. A. Al Rababeh, *Director General, Orphan Funds.*

Mr. I. Elmuhtadi, *Unit Head, Cairo Amman Bank.*

Mr. P. Rippey, *Executive Director, Al—Amana Credit Program.*

Mrs. N. Abboushi Sharaf, *General Manager, Microfund for Women.*

Mr. F. Sharaf, *Manager, Investment and Research Department, Export and Finance Bank.*

Mr. N.S. Al-Nabulsi, *Director General, Agricultural Credit Corporation.*

Mr. Al-Omani, *Deputy General Manager, Agricultural Credit Corporation, and Team.*

Mr. M. Al-Hadid, *Director, The Noor Al Hussein Foundation, and Team.*

Mr. M. Hadid, *Director General, Development and Employment Fund, and Team.*

Dr. A. Al Tamemi, *Deputy Secretary General, GUVS, and Team.*

Ms. R. N. Fariz, *Director, Small Business Development Center, JOHUD.*

Mr. N. Fakhoury, *General Manager Al Tajamouat QIZ***.**

Members of the Municipal Council, *Russeifa Municipality.*

Five Truck Drivers at the Aqaba Truck Terminal.

Mr. N. Al Aqarawey, *Manager, Aqaba Truck Station.*

Mr. N.A. Al-Kofahi, *The Mayor of Irbid Municipality.*

Mr. H. Dabbas, *Advisor, Jordan Investment Board.*

Ms. H. Ayoubi, *Secretary of Young Entrepreneurs Association, and General Manager of Jordan International for Travel and Tourism.*

Mr. J. Padilla, *Independent Consultant in Microfinance*.

Ms. T. Christianson-Wagner, *Mission Director, USAID.*

Mr. R. Grohs, *Regional Economic Advisor, USAID.*

Mr. G. Andersen, *Senior Private Sector Advisor, Economic Opportunities Office, USAID.*

Ms. R. Dababneh, *Project Management Specialist-Microenterprise, Economic Opportunities Office, USAID.*

Mr. S. Bashir, *Legal consultant to the AMIR Program.*

Mr. S. Wade, Director, *AMIR Program.*

Mr. J. Whitaker, *SMI Component Leader, AMIR Program.*

Ms. T. Kristalsky, *SMI Deputy Component Leader, AMIR Program.*

Mr. J. El-Wheidi, *Microfinance Specialist, AMIR Program.*

Ms. H. Derhalli, *Administrative Assistant, AMIR Program.*

Mr. B. O'Shea, *Policy Component Leader, AMIR Program.*

Ms. C. Rosenow, *Trade Attorney, AMIR Program.*

Mr. Z. Ayoubi, *BAI Component Leader, AMIR Program.*

APPENDIX III.

DOCUMENTS READ AS PART OF THE ASSIGNMENT:

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