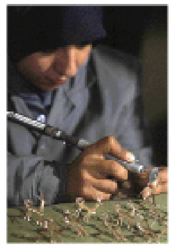

Commercialization of Microfinance in Jordan

Progress and Prospects

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Abstract

The landscape of the global microfinance industry has been changing in recent years. To date, however, microfinance outreach has remained far below its potential in the Middle East and North Africa (MENA) Region. If the full potential of microfinance for employment generation and poverty alleviation is to be realized, it is essential to expand outreach substantially. It is in this context that the commercialization of microfinance has become a subject of in-depth study. Although many stakeholders appear to believe firmly that commercialization is necessary, there is inadequate understanding of the challenges and implications of moving toward a sustainable microfinance industry, in which outreach is more commensurate with demand.

The Achievement of Market-Friendly Initiative and Results (AMIR) Program, funded by the United States Agency for International Development (USAID), was implemented in partnership with the Jordanian private sector and government beginning in 1998. The current phase, launched in February 2002, builds on the impressive success of the original phase of the program, which from 1998 to 2002, promoted economic growth and prosperity in Jordan by developing a more favorable environment for business and investment.

An important component of the AMIR Program is the Microenterprise Initiative (MEI). This component has been working to create an environment that is conducive for microenterprise development by: (a) supporting the growth of a dynamic, sustainable microfinance industry; (b) building the capacity of business development service (BDS) providers and facilitators who assist entrepreneurs; and (c) promoting an enabling environment for micro and small entrepreneurs.

The main objective of this study is to assess the impact of commercialization thusfar and to disseminate the lessons learned from this program and other donor efforts aimed at establishing a sustainable microfinance industry in Jordan. This study was undertaken by Stephanie Charitonenko of Chemonics International, Inc. and Terri Kristalsky, AMIR's MEI Component Leader. It was informed by numerous individual interviews with stakeholders from government and the private sector, including a Roundtable Discussion on the topic, which was held on September 20, 2004 in Amman, Jordan.

It is hoped that this study will contribute to a better understanding of the many facets and issues of commercialization of microfinance and lead to better approaches and practices toward expanded access to demand-driven, sustainable microfinance not only in the MENA Region but also in other regions of the world.

Abbreviations and Acronyms

ACC	Agricultural Credit Corporation
AGFUND	Arab Gulf Fund for United Nations Development Program
AMC	Ahli Microfinancing Company
AMIR	Achievement of Market-Friendly Initiative and Results
BDS	Business Development Services
CGAP	Consultative Group to Assist the Poorest
CHF	Cooperative Housing Foundation
DEF	Development and Employment Fund
EPP	Enhanced Productivity Program
FSS	Financial Self-Sufficiency
GDP	Gross Domestic Product
GGLS	Group Guaranteed Lending and Savings Program
GNI	Gross National Income
GUVS	General Union of Voluntary Societies
IDB	Industrial Development Bank
IPC	Internationale Projekt Consult GmbH
IRADA	Economic and Social Productivity Enhancement Program
JMCC	Jordan Micro Credit Company
JNB	Jordan National Bank
JOHUD	Jordan Hashemite Fund for Human Development
MBB	Micro Banking Bulletin
MEI	Microenterprise Initiative
MEMCC	Middle East Micro Credit Company
MENA	Middle East and North Africa
MFI	Microfinance Institution
MFW	Microfund for Women
MIX	MIcrofinance eXchange
MOPIC	Ministry of Planning and International Cooperation
NAF	National Aid Foundation
NHF	Noor Al-Hussein Foundation
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
SANABEL	Microfinance Network of the Arab Countries
SMTP	Sustainable Microfinance Training Program
SOW	Scope of Work
UNRWA	United Nations Relief and Works Agency
USAID	United States Agency for International Development
WAEDAT	Women’s Access to Entrepreneurial Development and Training
WFF	Wholesale Funding Facility

Exchange Rate

1 Jordanian Dinar (JD) = 1.41 US Dollars (US$)
1 US$ = 0.708 JD

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Executive Summary

Progress towards Commercialization
Commercialization of the microfinance[1] industry in Jordan is a relatively recent trend, but one that has gained momentum since the first market-oriented microfinance institutions (MFIs)[2] were established in the mid-to-late 1990s. Vestiges of the government's historically heavy emphasis on direct provision of targeted, subsidized credit remain but the amount disbursed has dwindled considerably in recent years, indicating positive progress toward microfinance commercialization. Four MFIs that operate on the basis of commercial principles supply the remainder of the market's microcredit. While the public providers lent about 60% of the total amount of microcredit disbursed in 2003, the four market-oriented MFIs provided microloans to slightly less than 80% of the total number of clients.

Commercial Microfinance Providers are Gaining Market Share
The supply of microcredit provided on commercial terms is growing significantly in absolute and relative terms. The effective demand for microcredit is currently estimated to be approximately JD86 million (US$121 million) from about 69,000 registered businesses and about the same number of unregistered microenterprises concentrated in urban areas, mainly in and around Amman (Daly 2002, p. 2). The four commercial MFIs now serve about 20,000 clients and have a combined portfolio of JD10.2 million (US$14.4 million) with an average growth rate of 25% per year. The two remaining large-scale public providers of microcredit now have less than 10,000 active clients and the total amount of microcredit disbursed (JD20.8 million or US$29.4 million) in 2003 represents half the amount of disbursements in 2002. While their remains a substantial demand-supply gap for microcredit, subsidized microcredit is no longer crowding out expansion of commercial microcredit.

Perceptions of Microfinance Commercialization are Generally Positive
Commercialization is widely perceived in positive terms despite semantic issues. Although the term "commercialization" is directly translated in Arabic as "tijari," which carries a negative connotation of sacrificing quality for profit, most practitioners and policymakers accept the positive attributes of commercialization under certain conditions that reduce possibilities for "mission drift" and price gouging. Microfinance commercialization is widely accepted within Jordan as an effective means to expand access to demand-driven, sustainable microfinance services commensurate with demand.

The Operating Environment is Generally Supportive of Commercial Microfinance
With donor encouragement and technical assistance, the government has taken several concrete steps to improve the environment for growth of commercial microfinance. Donor efforts, particularly USAID's, to shift government thinking to a more private-sector approach and the demonstration effects of the successful financial performance of the four market-oriented MFIs has led to significant changes within the government in terms of improving the policy environment, the legal and regulatory framework and the emergence or strengthening

[1] This study considers microfinance to be the provision of a broad range of financial services such as deposits, loans, payments services, money transfers and insurance to the poor and low-income households and their microenterprises. USAID's definition of a microenterprise is a business with less than 10 employees. Microcredit in Jordan generally refers to loans up to JD10,000 (US$14,100) although the industry's average microloan is much lower at JD550 (US$776).
[2] An MFI is defined herein as a single organization (for example, a nongovernmental organization providing microfinance or a credit union) or a unit whose primary business is microfinance within a diversified institution (for example, a microfinance unit within a commercial bank).

of key industry support institutions. Recent steps taken by the Government of Jordan to provide an enabling environment for commercial microfinance include:

- Strengthening the economic environment within which microentrepreneurs operate and providing adequate business development services (BDS) and social services (e.g. education and health);
- Reducing government involvement in direct provision of credit, especially subsidized credit;
- Pursuing agreement on a national strategy for microfinance that would highlight core principles and clarify roles of the public sector and private sector in an effort to reduce the potential for policy backsliding; and
- Assessing the feasibility of creating legal "space" (i.e. license type) for microfinance providers and adapting the regulatory framework to support the new institutional form.

Commercialization of Microfinance Has Had Many Positive Impacts
Commercialization of microfinance in Jordan has had positive impacts on the MFIs, their clients and the industry as a whole. These impacts can be assessed by analyzing the correlation of commercialization with different aspects of outreach. Four of the most commonly considered attributes of outreach are breadth (number of clients served), depth (extent to which the poor are served), scope (range of products offered) and sustainability (permanence of service provision).
Increasing commercialization of the four market-oriented MFIs has facilitated their expansion (*breadth*) of outreach, helped them to increase the *depth* of their outreach, encouraged them to focus on market demand and develop an expanded array of products and services (*scope* of outreach) and enhanced their financial self-sufficiency (*sustainability* of outreach).

As the four subject MFIs have increased their commercialization, they have also made productivity and efficiency gains over time and enhanced their transparency (which has helped them expand their access to commercial sources of funds). As these MFIs have continued to grow, limited competition has emerged in a few localized market areas. Also, there has been no evidence to date that suggests that providers of commercial microfinance have experienced a trade-off between focusing on sustainability and expanding outreach to poor and low-income microentrepreneurs. In fact, the data suggests that the more commercially-oriented and better performing MFIs actually have achieved deeper outreach. Because of this, we have seen little evidence of mission drift.[3] Details on each of these positive impacts follow.

Breadth of Outreach
- Industry growth rates of commercial MFIs are on par with the best performing MFIs worldwide. As of June 30, 2004 the four commercially-oriented MFIs combined had 19,648 clients and an outstanding loan portfolio of JD10.2 million (US$14.4 million). Growth in their loan portfolios averaged about 25% per annum, which is in line with growth rates of highly successful, financially self-sufficient MFIs around the world.
- Rural presence of commercial MFIs is higher than expected. Although 2001 estimates suggested that about 86% (JD74 million) of the demand for microcredit was from urban-

[3] Similar to Christen's (2000, p.5) use of the term mission drift in this report refers to the shift in MFI focus from the poor or poorest to relatively higher-income clients.

based microenterprises, in fact two-thirds of the four MFIs' lending was lent to firms outside Amman in terms of the number of outstanding loans.

Depth of Outreach

- The most commercial MFIs in Jordan have deeper outreach relative to MFIs worldwide. While there is a wide range of average outstanding loan sizes among the commercial MFIs, the two largest MFIs in terms of the number of clients reached are only 33% and 62% of the MicroBanking Bulletin (MBB) average of loans lent by financially self-sufficient (FSS)[4] MFIs, respectively.
- Comparing the outreach of the commercial MFIs with international benchmarks using the average outstanding loan size as a percent of GDP per capita gives an even better sense of the depth achieved. The average GDP per capita in Jordan was US$1,700 in 2003. The most commercial and largest of the MFIs in Jordan in terms of the number of clients has an average outstanding loan size that is only 14.4% of GDP per capita. This compares to an average of 83.0% of 59 FSS MFIs and 45.3% for 115 MFIs reporting to the MBB for this indicator.
- While average outstanding loan sizes are increasing over time, this represents increasing loan sizes to existing clients (positive client impacts) rather than a move to wealthier clients (MFI mission drift).
- Women account for about 80% of clients, higher than the MBB average of 58.9% for all FSS MFIs and 60.6% for the all MBB reporting MFIs.

Scope of Outreach

- The focus of the commercially-oriented MFIs has been on disbursing microcredit rather than mobilizing microsavings mainly due to legal and regulatory constraints but new products have been launched (i.e. microinsurance, taxi loans) and others are being tested,(i.e. microleasing, construction finance and education loans).
- Many savings relationships are being indirectly developed by AMC and JMCC for clients and all MFIs are interested in mobilizing savings (as a funding source, as a means to determine creditworthiness and as a means to assist clients) if they had legal ability to do so.

Sustainability of Outreach

- All four commercially-oriented MFIs have attained FSS.
- The two commercially-focused MFIs that have achieved the highest FSS ratios have also reached the most clients and experienced the highest growth rates in their loan portfolios (in terms of numbers of microloans lent).

Productivity and Efficiency

- All four commercially-oriented MFIs have increased their productivity over time as measured by the number of clients per loan officer at the end of the period.
- Efficiency has dramatically improved over time and is quite high compared to international benchmarks as measured by administrative expense ratios.[5] Each of the four MFIs has an operating cost ratio of less than 25%, which compares favorably to the

[4] Financial self-sufficiency requires microfinance programs to cover all administrative costs, loan losses and financing costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had a commercial cost (MicroBanking Bulletin 2004).
[5] Measured by (operating expense + in kind donations)/average gross loan portfolio.

23.5% achieved by the FSS MFIs worldwide and the 27.5% attained by all MFIs reporting to the MBB globally.

Despite achievements on this end, there is limited downward push on interest rates charged on microcredit. While one of the market-oriented MFIs reduced its lending interest rate by 20% last year, the MFIs generally are still reinvesting profits to fuel growth so they can take greater advantage of economies of scale and scope in the future. The average yield on the loan portfolios of all four MFIs has remained steady at between 26% - 39%. Despite the lack of a downward trend, even the high end of the average yield obtained from the four commercially-oriented MFIs compares favorably with other FSS MFIs worldwide (40.6%). In addition, localized competition is emerging, which should increase pressure to decrease lending interest rates over time.

Key Roles Going Forward

Commercialization of microfinance in Jordan holds the promise of capitalizing on the recent improvements in the policy environment and the achievements in outreach that the four market-oriented MFIs have made to date. Given that the industry is still relatively young, it is far from reaping all the benefits of microfinance commercialization. Many stakeholders have a role to play in moving microfinance commercialization forward in Jordan. Below are suggested roles for the government, donors and commercially-oriented MFIs to play:

Government

- Continued prudent monetary and fiscal management, investment in social services (especially health and education in a way that encourages a spirit of entrepreneurship and includes BDS training and the like).
- Continued liberal approach to financial sector regulation most notably the policy sanctioning market-determined interest rates
- Build support for a national strategy to institutionalize policy efforts thusfar and reduce the potential for policy backsliding and reversal of the trend of declining provision of subsidized credit.
- Investigate feasibility of establishing legal space for microfinance providers (that provide both credit and limited deposit services) and adapting the regulatory framework to support the new institutional form.
- Continue with enabling legislation and licensing for credit bureau establishment.
- Enact or review the Security Interests in Movable Property Law and the establishment of simplified procedures for pursuing legal claims for small loans.

Donors

- Support proposed activities of the government above with technical assistance and training
- Fund innovation challenge grants for continued market research, product development and expansion into less densely populated areas.
- Encourage institutions that lend to microenterprises to participate as members of the proposed credit bureau by partially funding their annual subscriptions for a limited period of time and by conducting a study of the economic value of an MFI's participation in the credit bureau.

MFIs

- Lobby through the local microfinance network for a national strategy for microfinance and the establishment of an appropriate legal and regulatory framework.
- Prudently explore the introduction of new financial products (i.e. microinsurance and microleasing) based on demand assessment and the profit potential.
- Continue efforts to improve productivity and efficiency of microfinance operations through human resources development and implementation of incentive systems for credit officers.

1. Introduction

The objectives of this report are to assess the progress toward commercialization of the microfinance industry in Jordan generally and four USAID-supported MFIs in Jordan specifically. In addition, this report analyzes the impact that commercialization has had on the provision of microfinance with particular attention being paid to potential mission drift of commercialized MFIs. Finally, the report recommends positive approaches to the expansion of commercial microfinance while preserving the social objectives of expanding access by microentrepreneurs to demand-driven, sustainable microfinance services.

1.1 Methodology and Organization

This report is based on theoretical considerations of the "financial systems"[6] paradigm and practical field experience for analyzing the commercialization of microfinance. The examination of issues in this report draws from extensive stakeholder consultations in Jordan through individual and focus group meetings. In addition, the main findings and recommendations of this report incorporate data and analysis from several relevant domestically-produced studies and international publications, as noted throughout.

All institutional and financial data presented in this report is based on self-reporting by the public and private sector microfinance service providers surveyed by the authors, unless otherwise noted. Readers should be mindful that while financial statistics of the four market-oriented MFIs are generally based on audited financial statements, the self-reported data provided by some of the public-sector microcredit programs and included in this report may be based on estimates only. This is particularly an issue with some of the public sector microcredit programs that do not differentiate their microcredit lending from their larger-scale lending in their accounting or operational systems.

The remainder of this chapter elaborates the analytical framework for considering issues surrounding the commercialization of microfinance. Chapter 2 provides an overview of Jordan's progress toward microfinance commercialization with emphasis on the policy, legal and regulatory framework. Chapter 3 analyzes the commercial attributes of the leading MFIs. Chapter 4 analyzes several key issues surrounding the commercialization of microfinance, including its impact on outreach, sustainability and access to commercial funding sources. Chapter 5 elaborates several positive approaches to microfinance commercialization with emphasis on roles for governments, donors and practitioners.

[6] The financial systems approach to microfinance considers microfinance as part of a country's general financial services market, focuses on the development of sustainable (subsidy-free) financial institutions, and recognizes that microfinance clients are willing to pay the full cost of these services, if they are designed and delivered consistent with client's specific needs (Otero and Rhyne 1994; and Von Pischke 1988).

1.2 Framework for Understanding Microfinance Commercialization

Commercialization means different things to different people, but international microfinance professionals increasingly consider commercialization to be "the application of market-based principles to microfinance" or "the expansion of profit-driven microfinance operations" (see for example, Poyo and Young 1999, Christen 2000). There is a growing realization in the international arena that commercialization allows MFIs greater opportunity to fulfill their social objectives of expanding the poor's access to an array of demand-driven microfinance products and services (including not only credit but also savings, insurance, payments, money transfers, etc.). Experience around the world makes it increasingly evident that a commercial approach is essential for microfinance development if the services are to reach the majority of potential clients and to provide a wide array of services on a sustainable basis. Most MFIs that have incorporated commercial principles into their operations have done so with the expectation that it will allow them to grow exponentially on the basis of borrowed or intermediated funds (Christen and Drake 2002, p.3). In the absence of commercial approaches, the prospects are not good for reaching a significant number of potential clients with quality and diverse services on a permanent basis.

This report adopts a comprehensive view of microfinance commercialization. It considers commercialization at micro and macro levels, proposing that it involves both institutional factors (MFI commercialization) and attributes of the environment within which MFIs operate (commercialization of the microfinance industry).

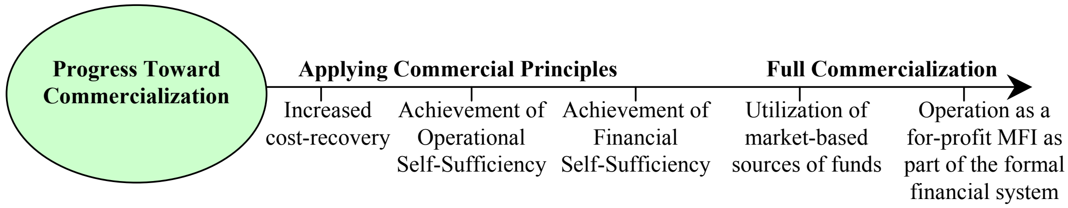
1.2.1 MFI Commercialization

MFI commercialization is not a black and white issue of finally turning a profit or attaining financial self-sufficiency. Rather, it should be considered as progress along a continuum, which is depicted in Figure 1.1 and described below.

- Adoption of a professional, business-like approach to MFI administration and operation, such as developing diversified, demand-driven microfinance products and services and applying cost-recovery interest rates.
- Progression toward operational and financial self-sufficiency by increasing cost recovery and efficiency, as well as expanding outreach.
- Use of commercial sources of funds; for example, non-subsidized loans from apex organizations (wholesale lending institutions) or commercial banks, mobilization of voluntary savings, or other market-based funding sources.
- Operation as a for-profit, formal[7] financial institution that is subject to prudential regulation and supervision and able to attract equity investment.

[7] Providers of institutional financial services can be formal or semi-formal financial institutions. "*Formal institutions* are defined as those that are subject not only to general laws and regulations, but also to banking regulation and supervision. Semi-formal institutions, are those that are formal in the sense of being registered entities subject to all relevant general laws, including commercial laws, but informal insofar as they are, with few exceptions, not under banking regulation and supervision. *Informal providers* (generally not referred to as institutions), are those to which neither special banking law nor general commercial law applies, and whose operations are such that disputes arising from contact with them, often cannot be settled by recourse to the legal system" (Ledgerwood 1999, pp.12-13).

Figure 1.1: Illustrative Attributes of MFI Commercialization



Progress toward MFI commercialization is usually hastened by a strategic decision of an MFI's owners/managers to adopt a for-profit orientation accompanied by a business plan to operationalize the strategy to reach full financial self-sufficiency and to increasingly leverage its funds to achieve greater levels of outreach. The recognition that the key to achieving substantial levels of outreach is building a sound financial institution essentially means that the MFI needs to charge cost-covering interest rates and strive for increasing operational efficiency.

Advocates of this approach rightly argue that charging cost-covering interest rates is feasible because most clients would have to pay, and indeed do pay, even higher interest rates to informal moneylenders. MFIs that charge cost-covering interest rates are an attractive option for this clientele even though the interest rates that an MFI might charge may seem high relative to the corresponding cost of borrowing from a commercial bank. The relevant basis for interest rate comparisons in the eyes of the client is therefore the informal sector where s/he usually can access funds, not the commercial banking sector, which rarely serves this market (*Internationale Projekt Consult GmbH* [IPC] 2002).

As an MFI's interest and fee revenue covers first its operating costs and then the cost of its loanable funds, it may be considered to be increasingly operating on a commercial basis. MFI profitability enables expansion of operations out of retained earnings or access to market-based sources of funds. The more efficiently an MFI operates, the more profitable it will be, which allows the MFI to achieve greater outreach. In this way, outreach, profitability, and efficiency can be considered interrelated and useful indicators to gauge the performance of commercial MFIs. However, it is important to remember that commercialization is no magic formula for success; even a commercial MFI can perform poorly. Having a commercial structure in terms of private ownership and access to market-based sources of funds does not necessarily mean that the management and operational capabilities are sufficient to ensure high performance.

Operating as a for-profit, formal financial institution may be the most complete hallmark of MFI commercialization because this implies subjectivity to prudential regulation and supervision and that the MFI has become fully integrated into the formal financial system. However, MFIs strive for varying degrees of commercialization; not all aim to become formal financial institutions. The degree of profit orientation is primarily driven by the nature of the MFI's funding and the decision to formalize is usually closely linked to a host of external factors, which are discussed next.

1.2.2 Commercialization of the Microfinance Industry

Determination of how "commercial" is a particular industry is not solely dependent on how commercial is the supply of microfinance by a variety of MFIs but rather takes into account elements of the operating environment that enable or constrain the provision of or access to commercial microfinance. These elements are the policy environment, legal framework, regulation and supervision, accessibility of different types of commercial funding sources, and the existence of a range of support institutions. The extent to which a country's microfinance industry may be considered commercial is contingent on the following:

1. Policy Environment

- Lack of government policies that impede the ability of MFIs to make progress toward commercialization (examples of policies that may hamper MFI commercialization are interest rate caps and selective, ad hoc debt forgiveness programs).
- Absence of subsidized (government or donor-supported) microcredit programs that may "crowd out" the development and growth of commercial MFIs.

2. Legal Framework

- The legal framework for secured transactions (the creation [legal definition], perfection [registration], and repossession [enforcement] of claims) as well as for microenterprise formation and growth (Fleisig 1996, p.45; Lyman 2000, pp.39-41).
- The licensing options available to new MFI entrants or semi-formal MFIs interested in transforming into formal financial institutions.

3. Regulation and Supervision

- The prudential regulations and supervision practices that govern MFIs mobilizing voluntary public deposits specifically or financial institutions in the broader financial markets generally, and the institutional capacity of the regulating body to effectively carry out its mandate.

4. Money Markets and Capital Markets

- Availability and access of MFIs to commercial sources of funds such as non-subsidized loans from apex organizations (wholesale lending institutions) or banks, mobilization of voluntary savings, private investment funds, or other market-based funding sources.

5. Support Institutions

- Existence of credit information collection and reporting services such as credit information bureaus and credit rating agencies, that capture information useful to MFIs regarding borrower creditworthiness, loans outstanding, types of collateral pledged, etc., or to potential MFI investors, for example, ratings of MFIs based on their portfolio quality and asset values; microfinance trade associations and networks; local microfinance technical assistance providers and training institutions; and domestic BDS providers.

2. Progress towards Microfinance Commercialization

Jordan's microfinance industry is comprised of both self-sufficient and subsidized microcredit providers (Table 2.1). While the most commercially-oriented providers provide close to 80% of the total microcredit lent in terms of the number of borrowers, the subsidized providers have a significantly higher percentage of the total amount of credit disbursed to microentrepreneurs.

Table 2.1: Private & Public Sector Loan Disbursement in 2003	No. of Loans Disbursed	%	Amount Disbursed (JD)	%	Avg. Loan Disbursed(JD)
Private Sector MFIs					
MFW	19,656	63%	6,458,250	19%	329
JMCC	2,057	7%	2,147,415	6%	1,044
MEMCC	1,805	6%	2,306,914	7%	1,278
AMC	763	2%	2,398,164	7%	3,143
Subtotal	*24,281*	*78%*	*13,310,743*	*39%*	*548*
Public Sector Microcredit Programs					
DEF	3,816	12%	5,934,608	17%	1,555
ACC	3,900	12%	13,200,000	39%	3,385
Subtotal	*7,010*	*22%*	*20,827,598*	*61%*	*2,699*
Total	**31,291**	**100%**	**34,138,341**	**100%**	**1,067**

The four market-oriented MFIs were created in the mid-to-late 1990s and by the end of 2004, they are projected to disburse over 30,000 loans, continuing the 25% average annual growth path they have been on in recent years. At the end of June 2004, they had about 20,000 active clients on a combined basis and a total outstanding portfolio of JD10.2 million (US$14.4 million).

The largest subsidized credit providers are the Development and Employment Fund (DEF) and the Agricultural Credit Corporation (ACC). However, the market influences of the subsidized lenders have decreased over the last several years; by programs removing themselves from the market and/or moving toward "best practice" methodologies. Such best practice include increasing lending interest rates to cover more of the direct and indirect costs of providing credit, employing stricter loan collection practices and designing more demand-driven loan products. For example, in 2002 the estimated amount of subsidized credit disbursed by public and quasi-public lending institutions was JD64 million (US$90 million) (Al Jidara and Tieby 2003, p.5). The amount of subsidized credit available declined by about half over the last couple of years.

Using the conceptual framework for analyzing the microfinance industry described in Chapter 1, Table 2.2 shows that apart from the government's provision of directed, subsidized credit, the operating environment of Jordan is relatively conducive to commercial microfinance operations. For example, no interest rate restrictions are imposed on MFIs and government disbursement of subsided credit has substantially declined in recent years. MFIs are able to access wholesale funds at market-based interest rates. MFI standards exist and there are local and regional microfinance networks that facilitate transparency of MFI operations and encourage exchanges of best practices. In addition, there are several strong local providers of microfinance technical assistance and training.

Table 2.2: Attributes of Microfinance Commercialization in Jordan Key: - zero/no; + few/low/small extent; ++ moderate number/moderate extent; +++ majority/high/large extent	
MFI Commercialization	
The majority of microcredit is provided by MFIs that:	
Attempt to recover costs	++
Have achieved operational self-sufficiency (OSS)	++
Have achieved financial self-sufficiency (FSS)	++
Access commercial sources of funds at market-based rates of interest (commercial bank loans, voluntary savings mobilization, etc.)	+
Are formal, regulated MFIs	+
Conduciveness of the Operating Environment to Commercialization of the Microfinance Industry	
1. Policy Environment	
MFIs are allowed to charge cost-recovery interest rates	+++
Minimal ad hoc debt forgiveness by government	+++
Absence of subsidized, directed microcredit	-
Donors do not offer a lot of soft loans and grants to MFIs for loan capital	++
2. Legal Framework	
Framework for secured transactions allows pledging of non-traditional collateral (movable assets, etc.)	+
Suitable licensing options are available to new MFI entrants or semi-formal MFIs interested in transforming into formal financial institutions	+
3. Regulation and Supervision	
There is specialized regulation and supervision for microfinance	+
The entity authorized to regulate MFIs has capacity to effectively fulfill its mandate	+
4. Money Markets and Capital Markets	
Wholesale loan funds are available at market-based interest rates	+++
Commercial banks lend to MFIs without guarantee mechanisms	++
5. Support Institutions	
Existence of a credit information bureau that captures information concerning microcredit	+
MFI performance standards exist and ratings are conducted regularly	+
Existence of active microfinance network(s)	++
Strong local providers of microfinance training	++

2.1 Historical Development of the Microfinance Industry and Recent Trends

The roots of the microfinance industry in Jordan can be traced back to public sector provision of directed, subsidized credit. The state-owned 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 expressly microlending program, however, was established by the Industrial Development Bank (IDB) in 1965. These microenterprise 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 have involved themselves in microfinance, short descriptions of which are included in Appendix 1; however, their client base is small and has been declining in recent years reflecting the government's progressive reduction in microlending.

Credit unions and cooperatives have existed since 1952 but are not major players in the microfinance industry due to poor management and government intervention (Pohlmeier et al., 1999). Since most of the 850 cooperatives currently registered are associated with large public and private sector employers, their impact on the microenterprise sector is minimal.

Unlike most countries, commercial banks in Jordan are important players in the microfinance industry. Several of the major commercial banks currently provide opportunities for microentrepreneurs to open savings accounts and engage in retail microenterprise lending through a variety of institutional arrangements. For example, with assistance from USAID, three Jordanian commercial banks partnered with the Cooperative Housing Foundation (CHF) of Washington D.C. in 1998 to form what is now called the Middle East Micro Credit Company (MEMCC). In addition, the Jordan National Bank formed a wholly-owned subsidiary, Al Ahli Microfinancing Company (AMC) in 1999 to engage specifically in microenterprise lending. Several commercial banks also wholesale funds to the four MFIs at market rates of interest.

The concept of sustainable microfinance was first introduced in Jordan by Save the Children (SC) in 1994, when they established the Group Guaranteed Lending and Savings Program (GGLS) in the Mahatta and Natheef refugee camps. Encouraged by this success, they established a separate legal entity the Jordanian Women's Development Society (JWDS) in 1996, which commenced operations in 1997. USAID began its microfinance activities in Jordan with its economic development project, the AMIR Program in 1998. Together they launched a campaign to create a sustainable microfinance industry. USAID not only provided funding to support the growth and institutional capacity building of JWDS (which eventually became Microfund for Women) but in less than two years, established three additional sustainable MFIs: AMC, mentioned above; Jordan Micro Credit Company (JMCC), a subsidiary of the Noor Al Hussein Foundation; and the MEMCC also mentioned above.

With USAID-supported technical assistance, these four MFIs have led the industry in terms of achieving operational and financial self-sufficiency[8] through the adoption of cost-recovery interest rates on their demand-driven products and services as well as implementation of cost controls. In addition, other features, such as their registration as non-profit or for-profit limited liability companies and their use of commercial sources of funds (discussed in greater depth in Chapter 3), indicate that these MFIs have advanced considerably along the commercialization continuum.

Creating a policy environment and legal and regulatory framework to support the development of a microfinance industry has only recently caught the attention of policymakers, specifically those at the Ministry of Planning and International Cooperation (MOPIC). The National Bank for Financing Small Projects (AGFUND) is to be established in Jordan and a special law to allow this MFI to operate went into effect in 2003. Initially, the law provided special privileges for the upcoming operations of this private-public partnership MFI, paving the way for easy entry into the competitive microfinance market in Jordan. The government, upon realizing the industry inconsistencies and with a desire to create a level playing field in the microfinance industry, broadened the application of all components of this law to all non-profit MFIs, which include MFW, JMCC and MEMCC. The notable benefits are the elimination of all taxes and fees and the provision that MFIs may engage in both traditional commercial and Islamic Sharia lending, which is prohibited under the Central Bank of Jordan Banking Law (no. 28) of 2000 as it is applied to banks.

Other recent trends include greater MFI access to commercial sources of funds through a USAID designed and funded wholesale funding facility (described in section 4.5) and direct lending from commercial banks. Use of cost-saving technologies is also on the rise

[8] OSS requires MFIs to cover all administrative costs and loan losses from operating income. This is calculated by dividing operating income by operating expenses. FSS requires microfinance programs to cover all administrative costs, loan losses, and financing costs from operating income, after adjusting for inflation and subsidies and treating all funding as if it had a commercial cost (MBB 2004).

(discussed in section 4.3). For example, JMCC has recently started to employ credit scoring as a means to reduce the costs and risks of lending. While already strong, customer focus is becoming increasingly sharper.

Two of the four MFIs are currently updating their market research to determine what their clients want and how to best meet their needs by delivering new and improved microfinance products such as specialized loans, leasing and insurance. MFW continuously strives to remain client-oriented. Market research efforts focus on determining clients' needs and demand in order to make product modifications or new product development as a means to increase customer satisfaction, acquisition and retention. For example, based on market need, MFW introduced its Individual Loan product and the Opportunity Loan in order to expand it targeted segments. Once financial sustainability was reached by JMCC, for example, it went down market and introduced a group lending product dramatically reducing its average loan size and reached a new niche of borrowers catapulting its concentration of women borrowers to new heights. These trends indicate that as commercialization of the microfinance industry continues, the scale and scope of microfinance products and services available will expand to serve a greater number and range of clients.

2.2 How is Microfinance Commercialization Perceived?

Expanding access of poor and near-poor microentrepreneurs to sustainable microfinance is the greatest challenge facing the Jordanian microfinance industry today. Many microfinance stakeholders see the provision of commercial microfinance with its emphasis on client outreach and sustainability as the means to achieve this goal (Box 2.1). As in other regions (for example, South and South East Asia), however, terminology is an issue. The word, "commercialization" carries a negative connotation in Arabic, just as it does in Bengali, English and many other languages. In Arabic, commercialization is translated as "tijari" which implies sacrificing quality for the sake of profit. Despite this interpretation, most microfinance practitioners perceive commercialization as important for the industry and ultimately beneficial for the clients as well.

When polled as part of this study, public officials, donor representatives, and practitioners from MFIs and support institutions generally agreed that commercialization was good for microfinance service providers, the clients and the industry as a whole, but only as long as certain conditions were met. The three most common concerns are related to the type of lending conducted, the presence of competition and access to affordable funding sources. For example, while project lending is considered helpful, consumption lending is seen as helpful to some and adverse to others, especially the poor without economically-viable projects. In addition, it was widely viewed that without adequate competition, microcredit interest rates may remain unnecessarily high and unaffordable for most microentrepreneurs whose profit margins are slim. Further concerns

Box 2.1: Queen Rania Lauds Efforts of the Kingdom's Microfinance Initiatives

On numerous occasions, in Jordan and abroad, Queen Rania has underlined her strong support for microfinance, and her particular interest in the promotion of "best practices" and women's participation in business.

At the 2004 Middle East/Africa Region Micro credit Summit Meeting of Councils, Her Majesty noted the big impact that microfinance has had on many so many peoples lives, by enabling the poor to increase their income leading to their empowerment by providing them with tools to undertake sustainable projects.

For her active role in microfinance Jordan and the world, Queen Rania, who is on the board of directors of the Foundation for International Community Assistance (FINCA), has been invited to be a Global Emissary for 2005 UN Year of Microcredit with the aim of raising awareness on the importance of micro finance.

Source: www.queenrania.jo; News, Oct. 12, 2004 included an increased reliance by MFIs on commercial sources of funds, especially equity investment, which may cause the MFI "mission drift." The concern is that private ownership could lead MFIs to shift their target market away from poor microenterprise clients to higher-income borrowers operating small and medium-scale enterprises.

Microenterprise lending is important for economic development. Based on opinions expressed in MFI interviews, it is generally acknowledged among microfinance practitioners that microcredit is the means by which microentrepreneurs can take advantage of economic opportunities, but that it is not a panacea and can not create the economic opportunities themselves. It was agreed that to lend to those without economic opportunities would be disastrous for the client (leading at best to overindebtedness and at worst to jail time) and harmful to the lending institution (resulting in poor repayment and MFI losses). Hence, commercialization should promote project-oriented, cash flow-based lending rather than consumption credit. In other words, lending by commercial MFIs should be directed to the productive poor – whether formal or informal microentrepreneurs – who have economically viable projects. For example, MFW does not provide start-up loans but rather provides financial support to expand and improve client enterprises. The loans offered are specifically used for working capital and to acquire some business-related assets.

Healthy competition is vital. MFI practitioners understand that commercialization of the microfinance industry in itself does not necessarily imply efficiency in terms of reducing interest rates charged to clients. In cases of monopoly or oligopoly, commercial MFIs might feel free to keep interest rates unnecessarily high either due to fund internal inefficiencies or to extract profits. To avoid this potential pitfall of commercialization, a focus of the government and donor community should be to ensure healthy, free market competition is allowed to flourish in the microfinance industry through pro-competition policy measures, anti-oligopoly laws and the like. Only healthy competition can ensure that an MFI focuses on achieving cost-efficiencies and that downward pressure on interest rates charged increases.

Ease of entry (MFI establishment) and exit is necessary to support the emergence of healthy competition. Legal space should be created for MFIs to operate and there should be ease of entry and exit from the marketplace. Also, to ensure the "right" kind of competition exists (i.e. healthy competition), adequate financial infrastructure or support institutions need to be in place. Key among these is a well-functioning credit bureau that captures information on loans borrowed by microentrepreneurs. Currently, MFW and JMCC undertake a basic form of cross-checking borrowers' credit status and affiliation to one or other of the respective institutions as a means of exchanging information about client viability.

Access to affordable funding sources is necessary. If MFIs had to raise capital by going to profit-oriented equity investors rather than social investors; they could be forced to shift their target market in order to profit sufficiently. Additionally, to mitigate the potential for "mission drift," the legal and regulatory environment ought to include certain incentives for MFIs to stay true to their original target market. Incentives, such as tax breaks, could be embedded in the set-up of a legal form for MFIs, such as requiring a minimum percentage of the loan portfolio comprised of loans under a certain amount (say, JD10,000 or US$14,100 or with a median loan size under 30% of GDP per capita) and being extended under certain terms (cash flow based lending to microetrepreneurs). The government and donor community should ensure that capital and money markets are developed sufficiently to support MFI borrowing from commercial banks or other potential lenders at market rates.

Apart from these conditions, semantics may unnecessarily hinder wider acceptance of the principles underlying commercialization and the development of an enabling environment to achieve it. Although terminology may not explain all the reasons why a few stakeholders do not accept commercialization as a means to expanding microfinance on a sustainable basis commensurate with demand (for some of the reasons elaborated above), alternate phrases such as "development of demand-driven, sustainable microfinance" may be more palatable to a wide variety of industry stakeholders and more conducive to the commercialization of microfinance.

2.3 Is the Policy Environment Conducive?

Like most other sectors, growth of a healthy commercial microfinance industry is assisted by sustained economic growth and low and stable inflation. Despite the challenges posed by recent regional conflicts and the repatriation of Jordanian professionals, **Jordan's economy has been conducive to the commercialization of microfinance**. Jordan registered positive and steady growth, growing on average about 4% annually over the last 10 years. The structure of the economy has been stable over the last 20 years and it remains dominated by the service industry, which accounts for 75% of GDP. Agriculture employs only a minority of Jordanians and contributes less than 5% to GDP (World Bank 2004). Although inflation has been creeping up since 1999, 2002 inflation was still just 3.5%. Even though anecdotal evidence indicates that actual inflation may be somewhat higher, practitioners do not feel it impacts MFIs substantially.

Unemployment and poverty remain issues and this translates into a large and relatively constant market for MFIs. Although the official rate of unemployment is 12.5%, it is unofficially estimated to be closer to 25-30%. Official estimates indicate poverty incidence of 14.2% but it is widely accepted that closer to 25% of Jordanians are below the poverty line. While the Gross National Income per capita (GNI/capita) was fairly high at US$1,760 in 2002, unemployment and underemployment remain high, and deep pockets of poverty persist (USAID 2004, World Bank 2004).

The national tax regime has little impact on microentrepreneurs because their level of annual income typically does not reach the level at which taxation begins. Furthermore, the Value Added Tax does not apply to businesses with a turnover of less than JD250,000 (US$352,500) in annual sales, and many food items are excluded from the tax.[9] Hence, most microentrepreneurs are exempt from taxes levied at the national level (Perrett 2001, p. 36), in addition to the fact that it is estimated that nearly 50% of all microenterprises are "informal" and therefore not subject to business taxes.

Commercial microfinance has the most opportunity to flourish in a liberalized financial sector that supports private sector competition and that is not subject to interest rate ceilings or floors. The Jordanian banking system was heavily regulated with respect to market entry and interest rates before the 1990s; however, to increase efficiency and create competition in the financial system, **the government undertook a series of steps to liberalize the financial system in 1993**. The main objective of this program was to establish a Western-type free market economy and to encourage fair competition. Key among the steps were: removal of restrictions on interest rates, reduction of government direct lending, expanded product

[9] Jordan Times, 1/9/2001.

deregulation, and reduction of foreign exchange transaction restrictions (Maghyereh 2003, p.3). Furthermore, at the 2004 Middle East/Africa Region Micro credit Summit Meeting of Councils held in Amman, the Governor of the Central Bank proclaimed that the Central Bank of Jordan will not impose interest rate restrictions on microcredit providers preferring instead to let market forces drive acceptable interest rates.

Box 2.1: Taking a Tougher Stand on Repayment of State-Supported Agricultural Lending

The ACC has referred several farmers to court for defaulting on loans owed to the state-run organization. "The step was taken to protect the right of the corporation to get back its money after several farmers kept ignoring the ACC's call to pay their debts," ACC Director General Tawfiq Habashneh said. The number of defaulting farmers or how much they owe was not disclosed but according to the official, a total of 54,000 farmers throughout the country owe the ACC around JD104 million (US$147 million). In recent years most of the loans have supported non-traditional agricultural projects, such as palm trees, mangoes, grapes, mushrooms and medicinal plants.

Source: Adapted from The Jordan Times, "Farmers Referred to Court for Defaulting on Loans" September 23, 2004.

Positive moves made by DEF and ACC. As mentioned above, while subsidized credit is still provided through DEF and ACC, the total amount disbursed has significantly declined in recent years. Although they are still arms of the government, there are drives to make DEF and ACC more efficient and to reform many aspects of their operations to comply with international best practices in development finance. For example, both DEF and ACC profess to be engaging in tougher loan collection (Box 2.1). DEF recently established a collection department and is changing how they determine who to lend to by concentrating on project credibility and not merely level of poverty. Additionally, DEF has linked with the Ministry of Planning and International Corporation's IRADA Centers[10] to ensure that all clients have a feasibility plan or business plan to support their loan requests (Box 2.2).

Furthermore, DEF has engaged in innovative approaches to improve outreach, namely the Mobile Lending Unit. This practice allows DEF to expand into rural areas without the capital investment required to establish a branch. The contact for loans is through a Memorandum of Understanding with the Knowledge Stations and the IRADA offices. These initial contacts facilitate the credit discussion with DEF, often received electronically, at which time the Mobile Lending Unit goes to the district to visit and evaluate the client. The client, once approved, must only visit the DEF Amman office once to sign the paperwork and collect the check. All repayments are managed via the banking system. DEF is also considering the introduction of ATMs and smart cards to further increase efficiency.

Box 2.2: The Enhanced Productivity Center Program - IRADA Centers

A total of 22 centers distributed across the Kingdom provide consultation services to individuals who wish to venture into an income generating project or small business, by offering to conduct feasibility studies and market research, training programs and hands-on supervision throughout the stages of the project.

The centers are open to all individuals who demonstrate a strong will and commitment to take the initiative to increase their incomes, improve their living conditions and create work opportunities for themselves and possibly for others in their societies.

Source: Ministry of Planning and International Cooperation Website http://www.cpp.gov.jo

Negative moves made by DEF and ACC. Despite these improvements, DEF has also taken one very important step backwards in terms of its lending interest rates. Despite having increased interest rates in the late 1990s from 6.5% (flat) to 9.0% (flat) for group and household projects, and to 11% (flat) for development and existing project expansion loans, in 2004 DEF lowered the interest rate they charge on all their loans to 4% (flat). The rationale given was to follow the decline

10 IRADA is an acronym for an Arabic expression that translates to English as "Economic and Social Productivity Enhancement Program."

in the Prime lending rate in recent years. Rescheduling practices further weaken the commercialization of their practices.

ACC, financed by the Ministry of Finance, continues to provide subsidized loans for productive agricultural purposes. ACC makes four types of loans: seasonal loans, short term loans, medium term loans and long term loans with a maturity of up to 15 years. 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 less than 3,000 JD. ACC does not maintain a loan loss reserve and does not write-off any loans as uncollectible. As such, it continues to carry defaulted loans on its books originating as early as 1967. While ACC's loan repayment rate has improved somewhat over the last nine years from 67% in 1990 to 75% in 1999, it has remained in the 74%-75% range for the last four years.

These findings imply that DEF and ACC have a limited commitment to becoming more market-oriented, and that as public institutions they remain subject to political influences.

Positive changes made by other subsidized credit providers. Other subsidized credit providers have modified their approaches to become more sustainable. These include the National Aid Fund (NAF), the Jordan Hashemite Fund for Human Development (JOHUD) and the Noor Al-Hussein Foundation (NHF).

As part of the Ministry of Social Development, NAF has historically provided heavily subsidized loans to microentrepreneurs and employed lax collection procedures, distorting the market for commercially-oriented MFIs. In early 2004, NAF initiated a significant operational shift and ceased all lending activities, preferring to focus on the provision of welfare support to the poor. The portfolio of performing projects was turned over to DEF. NAF is further helping DEF expand it client base to NAF beneficiaries by guaranteeing the repayment of NAF beneficiary loans acquired under DEF. NAF will apportion a part of the "welfare" payments to the poor to satisfy the monthly loan repayment for their productive projects yielding two distinct benefits: DEF has limited exposure to credit default risk and NAF promotes economic opportunities for the productive poor to work themselves out of poverty. In this way, the productive poor are able to secure loans, pursue income producing activities and generate additional family income.

The Jordan Hashemite Fund for Human Development (JOHUD) has been engaged in microcredit since 1992. Beginning with a revolving loan fund JOHUD did not pay attention to issues of sustainability, charging a minimum interest rate (3% declining). In 1997, JOHUD restructured its operational procedures to introduce more appropriate pricing methodologies, trained loan officer in "best practice" assessment and collection ideology and improved the management information system all with a focus on reaching operational sustainability (FSS was seen as unattainable due to the rural concentration of borrowers). Currently, the credit operation of JOHUD is managed under the direction of the Small Business Development Center (SBDC) team as in independent entity which now employs strong collection procedures, charges appropriate market rates of interest (8% flat) and as of June 2004, launched three pilot areas to test loan products which will result in achieving full financial sustainability of operations.

A similar metamorphosis was seen in the Noor Al-Hussein Foundation (NHF).Operating in 22 villages throughout the Kingdom, the "Quality of Life" program began as a pure poverty alleviation tool without regard to cost recovery of it lending efforts. As the parent company of JMCC, the management of NHF was witness to applications of best practices and effort of commercialization and have managed to adopt some ideas into their operations. For example, while maintaining its rural focus and Islamic lending methodologies, the Quality of Life program now has instituted stronger collection procedures, reschedules loans as opposed to forgiving debts, and insists on comprehensive market assessments of all projects it considers funding. While it may not reach FSS, the commitment to more appropriate fees for services is also seen in it business development services efforts as all training programs require participant fees, albeit minimal, this program is helping to adjust the rural mindset toward sustainable development.

A new player in microfinance is also anticipated to join the industry. Formerly called the Bank of the Poor, the National Bank for Financing Small Projects is expected to commence nationwide operations in 2005. While practitioners welcome additional players in the microfinance industry, much apprehension exists around how the institution will ultimately operate and whether it will fairly compete with the four commercially-oriented MFIs or harm the industry with bad practices, such as charging subsidized interest rates. AGFUND, a regional development institution established in 1980 upon the initiative of Saudi Prince Talal and with the support of the leaders of the Arab Gulf states, is founding the National Bank. AGFUND espouses its commitment to international best practices and a focus on the rural communities of Amman, lessening the potential for unfair competition with the existing market-oriented MFIs.

2.4 Is the Legal and Regulatory Framework Accommodating?

In close coordination with the government's Enhance Productivity Program (EPP), several donors, including USAID and CGAP, are working to create a legal and regulatory framework conducive to the development of a sustainable microfinance industry (Box 2.3). EPP was launched in 1998 by MOPIC to address problems of poverty and unemployment. Primary entrepreneurial support is provided via their IRADA Center located throughout the Kingdom.

Jordan's legal and regulatory framework does not explicitly recognize the microfinance sector. This lack of legal "space" for microfinance providers leads to legal constraints within which local MFIs must operate, notably the inability to mobilize savings. Each of the four commercial MFIs has had to opt for legal structures that are not specific to lending activities and are not adapted to the specialized operations of microfinance providers.

Box 2.3: Government Support of Entrepreneurship

"The time has come to support our people in their effort to enhance their productivity and their contribution to the prosperity of our homeland, in light of our shared vision of a comprehensive and continuous development approach."

-- His Majesty King Abdullah II

Source: Embassy of Jordan in Washington, D.C. October 2004, website, http://www.jordanembassyus.org.

MFW, JMCC and MEMCC are registered under the Ministry of Industry and Trade as Jordanian Not-for-Profit Companies with a limited liability. As non-profit companies limited by guarantee, they have nominal shareholders but they are not entitled to distributions and generally hold governance, rather than ownership prerogatives (Lyman 2004). As a wholly-owned subsidiary of the Jordan National Bank (JNB), AMC registered as a for-profit company with limited liability. All are governed by Article 7 of the Company Law of 1997 and its amendments under law 40 of 2002.

However, this registration remains under the general Law of Companies and its amendments No. 22 of the year 1997 (Al Jidara and Tieby 2003, p.6).

In light of the above restrictions imposed on MFIs registered under the Companies' Law, a draft law has been promulgated in 2001 based on Article 7 of the same law, but with further regulatory details for the governance of a non-profit Jordanian company. The 37 articles outlined in the draft law provide specific regulatory direction for non-profit companies, including the process of transformation from not-for-profit to for-profit, which could be considered an option for MFIs in the medium to long-term in line with the global movement towards the commercialization of the microfinance industry. Also included in the draft law are exemptions for the not-for-profit companies from fees and taxes, which is one of the new constraints causing practitioners concern, which is elaborated on later in this report.

The conclusion of the above update and status of MFIs is that although the first stage of transformation has occurred, NGO to not-for-profit, MFIs still lack the legal identity of a special "lending" institution, as well as a specialized supervisory body. The authorizing body, the Ministry of Industry and Trade, requires very minimal paperwork. The pending confirmation of the not-for-profit companies law would, although welcomed by practitioners, serve as the first step of the process where it is perceived that industry specific regulation will be necessitated should the full potential of the industry be pursued and attained (Al Jidara and Tieby 2003, p.6).

An ambiguous sales tax law existed until official tax exemption of all MFIs was approved on March 30, 2004 via the broadening of the scope of the law for the National Bank for Financing Small Projects to include all non-profit MFI (see section 2.1 for details). However, as certain retroactive liabilities may exist, it is essential that the Government of Jordan clarify this issue for MFIs.

2.5 Is the Financial Infrastructure Adequate?

The support institutions that promote the development and growth of financial service providers are often referred to collectively as financial infrastructure. Specific support institutions that are particularly helpful in the commercialization of a microfinance industry include credit information collection and reporting services, trade associations and networks, local microfinance technical assistance and training providers and domestic providers of business development services to microentrepreneurs. The existence and capacities of each of these types of support institutions in Jordan is discussed below.

2.5.1 Credit Information Collection and Reporting Services

To facilitate the provision of credit to all appropriate sectors of Jordan's economy, including microcredit, a national credit bureau is in the process of being established with support from USAID. One of the first related initiatives was to draft and advocate passage of a credit information law, which was approved in July 2003 as temporary law number 82. The regulatory body, the Central Bank of Jordan, will be issuing the instruction for licensing by the end of 2004, at which time, it is anticipated that several credit bureaus will become active in the marketplace.

The credit information law permits licensed companies to issue personal credit reports. Credit bureaus will furnish credit providers with access to the information required to assess

the credit-worthiness of borrowers, including borrowers' credit histories and current debt levels. With such information available, providers will be able to assess creditworthiness more efficiently, which in turn should increase access to financial services and ensure appropriate pricing for said services.
While the instruction from the Central Bank of Jordan is pending, the four commercial MFIs continue to engage in an informal client evaluation system. For each new client, the MFIs inquire if others have had experiences with the borrower or if they presently are on their credit roster. This activity provides a temporary solution to securing appropriate credit histories that will be resolved once the emerging credit bureau is completed.

2.5.2 Trade Associations and Networks

Most of the MFIs are members of a local microfinance network and all four are active in a regional microfinance association.

Local Microfinance Network. With the maturation of the microfinance industry in Jordan, the development of an association is part of the industry's natural evolution. Established in 2001, the Microfinance Association of Jordan (MAJ) was formed by sustainable microfinance practitioners to assume advocacy for the industry, to provide a forum for discussion of industry issues, and to deliver training. To date, MAJ's activities have been limited to participating in the organization of the first international microfinance conference in Jordan in December 2003 and being the marketing arm for several training programs as there are no committed employees to staff the Association. The network is still in an embryonic phase and its long-term viability is questionable as potential membership is limited and funding sources are unclear.

Regional Microfinance Network. SANABEL is the Microfinance Network of the Arab Countries (including Egypt, Jordan, Lebanon, Morocco, Palestine, Tunisia and Yemen). The mission of this network is to maximize outreach by providing MFIs in the Arab countries with a forum for mutual learning and exchange, capacity building and advocacy for best practice microfinance. Services provided include technical assistance and training, policy advisory services, monitoring and benchmarking, knowledge and information exchange, among others. The four sustainable MFIs in Jordan are all members of SANABEL, which seems to be taking the regional lead in training, advocacy and benchmarking activities. Two of the four commercially-oriented MFIs also participate in the MIcrofinance eXchange (MIX) which also provides benchmarking services through the MicroBanking Bulletin it produces on a semi-annual basis.

2.5.3 Providers of Business Development Services to MFIs and Microentrepreneurs

Responding to the lack of local microfinance technical assistance providers and training institutions, one of the major pillars of the USAID-supported microfinance initiative in Jordan is human resource development for microfinance practitioners as well as directly to microentrepreneurs.

BDS Provision to Microfinance Service Providers. In cooperation with the Institute of Banking Studies, the AMIR Program created the Sustainable Microfinance Training Program (SMTP) in April 1999. The SMTP is the only training program of its kind in the region, offering participants, in Arabic, a practical understanding of sustainable microfinance and the tools to create and operate a successful and sustainable microfinance program. The SMTP involves two course levels - basic at the field officer level and advanced at the senior administrative level - designed to provide a comprehensive understanding of microfinance, including operational and financial management, loan portfolio management, marketing and management information systems.

At the start of the program, 16 microfinance specialists were trained and certified to conduct the eight-week Basic and Advanced courses. Recently, six of these trainers were recognized as master trainers for their outstanding work as trainers, in curriculum redesign and the training of an additional eight local trainers. Trainees from Jordan's sustainable MFIs, the banking community and government subsidized microlending institutions as well as from institutions throughout the MENA region attend this program. Since its inception, the SMTP has graduated over 400 trainees from Jordan, Egypt, Gaza and the West Bank, Lebanon, Iraq and Yemen.

BDS Provision to Microentrepreneurs. Donor and government efforts have also been concentrated on building up a base of domestic providers of BDS targeting microentrepreneurs. The Jordanian American Business Association is the focal point for the implementation of the "Start Your Business," "Improve Your Business," and "Expand Your Business" entrepreneur training programs. Delivered collaboratively by its partner institutions, Jordan River Foundation, the Noor Al-Hussein Foundation and the Small Business Development Center of JOHUD, this program aims to develop and institutionalize a comprehensive business training program for potential and existing microentrepreneurs. This program, supported by USAID, the United Nations Development Program and MOPIC, has trained 1,668 entrepreneurs as of September 31, 2004.

MOPIC's EPP launched its IRADA Centers in 2002 to provide entrepreneurs with local access to relevant financial and non-financial services that enable the establishment or expansion of sustainable micro and small enterprises (see also Box 2.2). Twenty-two centers throughout the Kingdom, each staffed with a senior and junior business development specialist, offer services, including preparing feasibility studies and business plans, linking to funding sources and training on various business topics. Although the IRADA Centers presently provide these services free of charge, plans are underway to develop a fee for service plan for long-term sustainability.

USAID, via the AMIR Program, has further invested in the development of BDS for microentrepreneurs. Following a comprehensive assessment of the BDS market (supply and demand), a competitive grants program resulted in the development of at least four innovative BDS programs for microentrepreneurs.

- **The Women's Access to Entrepreneurial Development and Training Program (WAEDAT) is a comprehensive and holistic entrepreneur training program for women.** For a fee, WAEDAT provides a training and consultancy system to develop the skills of women to improve their businesses via a core business management program, an overlay of advisory and mentoring services culminating with sector based training for the food processing, health care and cosmetics and handicrafts sectors that this program targets. The trainers and advisors for this program, who have undergone extensive training themselves, are business owners, consultants, professional trainers or other service professionals.

- **The Turath Program is designed to strengthen the skills of women artisan microentreprenuers through training and regional and international networking leading to new businesses creation or the expansion of existing businesses.** Responding to a comprehensive market analysis for artisan products in Jordan, this program offers artisans training on product design, quality, IT solutions, market access options (including Internet sales), and works to preserve the Jordanian art and craft cultural heritage through initiating the Label of Excellence for handcraft products

- **JMCC developed a business to business linkage system which supports the development of a Kingdom wide supply chain for micro and small business owners.** This web-based program lists local suppliers of various commercial inputs and for a fee, business owners can access not only information on appropriate suppliers but also view product and price lists. To date, JMCC has accumulated over 5,000 business files and has attracted new loan clients through their business linkage system.

- **MFW pursues a linkages approach to BDS provision for its clients.** With the existence of several players in the market providing BDS, MFW has opted to creating linkages through a cooperative framework governed by MOUs in order to refer its clients to the BDS providers or receive referrals. So far, MFW has signed MOUs with the IRADA Centers and WAEDAT. An MOU with JABA should also be signed soon. MFW also uses its branch network to encourage networking and linkage development among clients.

3. Commercial Attributes of Major MFIs

Four MFIs have become the leaders in the microfinance industry in Jordan by basing their operations on international best practices and promoting the philosophies of sustainable microfinance - Ahli Microfinancing Company (AMC), Jordan Micro Credit Company (JMCC), Microfund for Women (MFW) and the Middle East Micro Credit Company (MEMCC). Together, these market-oriented MFIs meet the borrowing needs of over 20,000 Jordanian microenterprises while the publicly-supported microcredit programs have dwindled in recent years.

MFW and JMCC represents perhaps the furthest advancement on the continuum of microfinance commercialization due to their respective achievements in financial self-sufficiency, access to commercial funding sources, development of a range of products and services to meet customer needs, and operation as limited liability companies. While the operations of AMC and MEMCC are highly market-oriented and their achievements in terms of providing commercial microcredit are noteworthy, these two MFIs may be seen as slightly behind MFW and JMCC due to their less stellar performance in terms of limited product development, narrow client outreach and accessing commercial funding sources. Further details on the commercial characteristics of each of these leading MFIs are provided below.

3.1 Microfund for Women

MFW was originally founded in 1996 as an affiliate of Save the Children, called the Jordanian Women's Development Society, to take over a Save the Children program started in 1994. Originally registered under the Ministry of Social Development, in a move toward

Box 3.1: MFW's View of Commercialization

Since inception, MFW has been focused on commercialization. , keeping in mind there will come a time to reduce dependence on donors funding and to insure long term sustainability. From its beginnings with the adoption of "best practices" to the most recent access to market-based sources of funds, MFW's growth and sustainability have largely been due to its commercial focus. Commercialization has reinforced the need for the MFW to focus on the clients, to have solid institutional capacity to serve them and transparency to enhance institutional credibility and viability.

-- Bassem Khanfar
Managing Director, MFW

commercialization, it was re-registered as MFW with the Ministry of Industry and Trade as a private Jordanian not-for-profit Limited Liability Company in October 1999 and modified operations in December 1999. MFW has progressed along the commercialization continuum in that it has transitioned from a program run by an international NGO to a non-profit financial institution focused on microfinance. MFW has indicated its commitment to commercial viability and a market-based approach to microfinance in a variety of ways, which are highlighted in Box 3.1.

MFW is committed to financial self-sufficiency. MFW remains committed to serving women, as is evident from its portfolio analysis which reflects that over 98% of its current active clients are women. However, to ensure increased outreach and improve viability, MFW expanded its mission-driven exclusive focus on women to include lending to family businesses where males are direct recipients of the loans. MFW started to extend such loans in February 2004. In addition to broadening its client base, MFW ensures its sustainability by charging full cost recovery interest rates. As of December 2003, the effective annual interest rate, taking into account interest payments and fees, is between approximately 37% and 39% for the group and individual loan products. The average yield on MFW's gross loan portfolio was 39.2%

MFW's growth has helped it to achieve a financial self-sufficiency ratio of 148.3%, demonstrating that it is able to cover the full costs of its operations, adjusting for inflation and subsidies. At the end of June 2004, MFW had 10,929 loans outstanding totaling JD2.7 million (US$3.8 million). This growth is sustainable, as indicated by MFW's low portfolio at risk over thirty days (PAR_{30}) of only 0.25%.

MFW's products are increasingly demand-driven. Over time, MFW has become increasingly focused on client demand and preferences, in line with a commercial approach to microfinance. For example, MFW offers a variety of group and individual loan products, graduating group clients to individual loans tailored to meet their business needs over time and lending to individuals on a first-time basis using more in-depth creditworthiness assessments. MFW also offers seasonal loan throughout the year, the Ramadan loans that are disbursed through the holy month of Ramadan and the Back-to-School loans. The products have changed over time to accommodate client requests, such as monthly as well as bi-weekly repayments, declining administrative fees by cycle, and an overall reduction in interest rates. In addition, MFW recently commissioned a market research study on microinsurance and is considering this and additional loan products (i.e. microleasing and an education loan) for the future.

MFW is moving toward commercial funding. MFW's funding base, almost exclusively donor equity from USAID until 2001, has grown to include 21% liabilities and 17% retained earnings as of the end of 2003. To finance future growth, MFW has secured several new lending sources that will meet needs through the coming year and perhaps beyond and achieve greater leverage with regards to equity. MFW has diversified its funding sources to attract local and international investors, including different loans from Citibank, Jordan through a

Box 3.2: JMCC's View of Commercialization

Commercialization, by definition, fosters greater competition. Commercialization has allowed JMCC to expand its products and services and enhanced our incentives to innovate in order to lower our cost per loan made. Drawing on the ideas of commercialization, JMCC, as a leading microfinance company, is able to promote sustainable operations while providing more clients with access to improved financial services. Empirical evidence has showed that commercially-viable MFIs have been able to expand their outreach and provide a more extensive range of financial services to clients. JMCC has done just that. Following our achievement of full financial sustainability, efficiencies allowed JMCC to downscale its loan sizes, introduce group loans, add more than three specialty loans products and a life insurance product to better meet the needs of our clients.

-- Khaled Al-Gazawi
Managing Director, JMCC

USAID/AMIR Wholesale Funding Facility, and direct loans with Blue Orchard, Société Générale, Jordan Kuwait Bank as well as Jordan's Housing Bank for Trade and Finance. In addition, there are other identified sources for financing that MFW could pursue when needed.

3.2 Jordan Micro Credit Company

JMCC was created in September 1999 by NHF as a not-for-profit shareholding company.

Target clientele and products. JMCC initially started operations in Amman lending to both men and women using the individual loan methodology. In order to broaden their market base, JMCC introduced group lending in early 2004 and now group loans comprise approximately 10% of their portfolio. Activities funded thus far range from commercial retail shops to services and manufacturing. By targeting a wide variety of micro and small-scale enterprises and investing in the innovative provision of BDS to their clients, JMCC has been able to maintain high loan portfolio quality and enhanced the potential for their clients' business to continue to grow (Box 3.3). Retaining a wide variety of good clients has been a profitable business model for JMCC and the MFI expects that continued pursuit of this strategy will allow them to expand their market base to other Governorates in Jordan (i.e. Aqaba, Karak and Tafeelah). At the end of June 2004, JMCC had 4,692 loans outstanding totaling JD2.2 million (US$3.1 million). The average yield on JMCC's loan portfolio was 23.9%. Their portfolio at risk over thirty days (PAR_{30}) was only 0.79%. At the end of 2003, JMCC had achieved an FSS ratio of 106.2%.

Box 3.3: Investing in BDS to Strengthen Demand for Microfinance

In addition to the provision of microfinance services, JMCC introduced a business linkage unit in an effort to provide a wide range of BDS. The new unit is responsible for helping clients to vertically or horizontally integrate to better run their own businesses and reach sources of inputs with a minimum cost

JMCC's funding is mostly non-commercial. As with MFW, JMCC's funding base was also almost exclusively donor equity from USAID until 2001. It has grown to include 54% liabilities and 5% retained earnings as of the end of 2003. JMCC graduated from the Wholesale Funding Facility (WFF) in 2004 and has since managed to attract funding through different sources; however these have mainly been obtainable at preferential interest rates. For example, JMCC received an interest free loan of JD400,000 (US$565,000) funded by the European commission in Jordan via DEF. Other loans (total JD270,000) were provided to JMCC directly through DEF at 5% annual interest rates to help in lending to start-up businesses. Most recently, JMCC signed a new loan agreement of JD1 million (US$1.4 million) in June 2003 with the Ministry of Planning to start financing micro-small and small-medium businesses with loans ranging from JD5,000 to JD25,000.

3.3 Ahli Microfinancing Company

AMC was established in 1999 as a for-profit, limited liability company that is a wholly-owned subsidiary of JNB, one of Jordan's leading commercial banks. The management team has a strong background in banking and finance and has considerable advantages in being supported by a major commercial bank. For example, they can reduce costs by building off the reputation and systems of the bank as well as access loans for its parent company with ease. Moreover, JNB has agreed to let AMC use the bank premises in a move to cut down rent cost and increase AMC's outreach through JNB existing branches around the kingdom.

AMC focuses on higher end clients for commercial reasons. JNB originally began providing microfinance services in southern Jordan through its partnership with the Cooperative Housing Foundation in December 1998. AMC's niche has been focusing on better-performing microenterprises that need larger loans (JD3,000 – JD5,000) than provided by MFW or JMCC, with approximately 30% female clients. This approach of targeting the "missing middle" made more strategic sense than targeting the lower end of the microentrepreneur market in terms of the bank downscaling its traditional products. Loan growth has been robust and the approach has been quite profitable. AMC's funding base was also almost exclusively donor equity from USAID until 2001. It has grown to include 13% liabilities and 24% retained earnings as of the end of 2003. At the end of June 2004, AMC had 1,175 loans outstanding totaling JD2.3 million (US$3.2 million). The average yield on AMC's gross loan portfolio was 20.6%. Their portfolio at risk over thirty days (PAR_{30}) was 7.47%. At the end of 2003, AMC had achieved an FSS ratio of 77.3%. Now, AMC's services are expanding to urban areas in and around Amman and in northern cities of Jordan as part of AMC's strategy to expand its customer base to include microentrepreneurs - a market previously untapped by commercial banks in Jordan.

3.4 Middle East Micro Credit Company

MEMCC was registered as a non-profit limited liability company in January 2003 and officially started operations in June 2003.. It spun off from the Jordan Access to Credit Project (JACP) which was initiated and implemented in Jordan by CHF international since1998 in partnership with the Jordan River Foundation (JRF) (for non-financial services) and four commercial banks: Cairo-Amman Bank, Jordan National Bank, Bank of Jordan and the Housing Bank for Trade and Finance.

MEMCC's strives for institutional sustainability. JACP was originally designed to provide microfinance to low and middle income Jordanians, especially micro, small and medium enterprises, and to create a permanent institution to continue providing these services beyond the life of the project. JACP's original target market was group lending in the southern region of Jordan, but as the social environment proved unsuitable for group lending with a high proliferation of default, the project gradually expanded its mission to cover other areas of the Kingdom with 10 branches presently offering individual loan products. MEMCC is a live example of successful rural outreach, operating in areas untapped by other MFIs due to its low density of population and difficult environment, for example MEMCC's Kerak branch alone operates in Kerak downtown, 10 surrounding villages and 5 villages in the Jordan Valley, this applies in all remaining southern branches.

Today, MEMCC lends to both men and women utilizing exclusively an individual lending methodology, MEMCC provides loans ranging from JD 245 up to JD 25,000 to a diverse range of businesses, from retail shops to tourist boats, animal husbandry to beauty salons, covering all the economic sectors (Table 3.1).

Table 3.1: MEMCC Client Types

Loan Type	Loan Amount	Loan Duration	Targeted Sectors
Household Loans	JOD 245 - 1000	8 - 20 months	Livestock breeding, Agriculture & services
Small Loans	JOD 1001- 5000	6 - 36 months	Retail shops, handcrafts, services
Business Loans	JOD 5001 - 25000	6- 36 months	Trade, manufacturing, services
Golden Loans	JOD 245 - 5000	6 - 36 months	All sectors

The different types of loans, areas and economic sectors require different blend of risk and credit analysis, MEMCC has acquired the experience and skills to manage this diversity.

The strategy of market research and carefully planned diversification and geographic expansion has paid off. By the end of 2003, the project had more than 2,700 active clients with a JD3.1 million (US$4.45 million) outstanding portfolio and a financial self-sufficiency ratio of 74.8% in 2003. In fiscal year 2004 ended on September 30, 2004, MEMCC has achieved an over all self-sufficiency ratio of 128%, a significant improvement from the 2003 ratio.

MEMCC increases it usage of commercial funding sources. JACP initially received US$4 million in loan capital through a USAID Cooperative Agreement. The USAID capital fund was augmented by a minimum 20% capital contribution by all participating financial institutions except for the Housing Bank for Trade and Finance. Today, MEMCC has expanded utilization of market based sources of fund through adding a new relationship with Société Générale Bank based on 50:50 capital matching arrangement and also obtained a loan of USDUS$115,000 from the McArthur Fund- USA at an interest rate of 0.6%. MEMCC's unique approach of capital matching is a fine model in microfinance practice, since they have succeeded in convincing conservative banks to share risk and advance loan capital into microfinance portfolios, as opposed to exclusively obtaining additional capital via a direct bank loan. CHF additionally obtained a JD500,000 loan from Citibank as part of the WFF. MEMCC also has a JD1 million (US$1.4 million) line of credit from DEF at a subsidized annual interest rate of 4% (determined on a declining balance basis)

As access to commercial funds grows, MEMCC is considering adding new products. MEMCC recently conducted, in partnership with CHF Jordan, a comprehensive study on the construction sector and home improvement loans demand. As a result, they are reviewing the feasibility of launching new loan products targeting construction contractors and related businesses (such as building material trader, electricians, plumbers, etc.) as well as a home improvement loan product for Microfinance clients. These new loan products will be funded by additional access to commercial funds and additional capital materializing from the WFF graduation.

4. Impact of Microfinance Commercialization

Commercialization of microfinance in Jordan has had positive impacts on the MFIs, their clients and the industry as a whole. These impacts can be assessed by analyzing the correlation of commercialization with different aspects of outreach. Four of the most commonly considered attributes of outreach are breadth (number of clients served), depth (extent to which the poor are served), scope (range of products offered) and sustainability (permanence of service provision). Increasing commercialization of the four market-oriented MFIs has facilitated their expansion of outreach (*breadth*), helped them to increase the *depth* of their outreach, encouraged them to focus on market demand and to develop an expanded array of products and services (*scope* of outreach) and enhanced their institutional financial self-sufficiency (which translates into enhanced *sustainability* of outreach).

As the four subject MFIs have increased their commercialization, they have also made productivity and efficiency gains over time and enhanced their transparency, which has helped them expand their access to commercial sources of funds. As these MFIs have continued to grow, limited competition has emerged in a few localized market areas. Also, there has been no evidence to date that suggests that providers of commercial microfinance have experienced a trade-off between focusing on sustainability and expanding outreach to poor and low-income microentrepreneurs. In fact, the data suggests that the more commercially-oriented and better performing MFIs actually have achieved deeper outreach. Because of this, we have seen little evidence of mission drift. Details on each of these positive impacts follow.

4.1 Outreach Breadth

Analyzing MFI achievements in outreach breadth must be done in consideration of the size of the market. The effective demand for microcredit is currently estimated to be approximately JD86 million (US$121 million) from about 69,000 registered businesses and about the same number of unregistered microenterprises concentrated in urban areas, mainly in and around Amman (Daly 2002, p. 2). These findings are corroborated by current poverty statistics. If one multiplies a 20% poverty incidence by the population of 5.5 million, then there would be approximately 1.1 million poor people. One can then divide this by the average household size of 5.7 persons to estimate that there are about 193,000 poor families. A conservative estimate might suggest that 70% of poor families actually have a microenterprise, which translates into 135,000 potential clients that could benefit from access to microfinance. Of the total amount of microcredit demanded, the 2002 survey findings suggested that JD54 million (US$76 million) (63%) was attributed to registered businesses and JD32 million (US$45 million) (37%) to non-registered concerns. As regards urban-rural location, JD74 million (US$104 million) (86%) of demand was estimated to be generated from urban-based establishments and JD12 million (US$17 million) (14%) from firms located in rural areas.

Table 4.1: Outreach Breadth Statistics for Commercial Microfinance Providers

MFI	No. of Outstanding Loans	Outstanding Portfolio (US$ million)	% women	% outside Amman
MFW	10,929	3.8	99.0	69.4
JMCC	4,692	3.1	70.6	49.5
MEMCC	2,852	4.3	34.7	96.0
AMC	1,175	3.2	30.0	32.3
Total	**19,648**	**14.4**	**78.8**	**66.3**

Notes: Data self-reported as of June 30, 2004 by the MFIs. Total % women and Total % outside Amman are weighted average percentages based on the number of outstanding loans.

Table 4.1 shows that the supply of microcredit provided on commercial terms is growing significantly in absolute and relative terms. The four commercial MFIs now serve over 20,000 clients and have a combined portfolio of JD10.2 million (US$14.4 million) with an average growth rate of about 25% per year. The two large-scale public providers of microcredit now have less than 10,000 active clients combined and their total amount of microcredit disbursed in 2003 (JD20.8 million or US$29.4 million) represents half the amount of disbursements in 2002. While there remains a substantial demand-supply gap for microcredit, subsidized microcredit no longer crowds out expansion of commercial microcredit.

Industry growth rates of commercial MFIs are on par with the best performing MFIs worldwide. As of June 30, 2004 the four commercially-oriented MFIs combined had 19,648 clients and an outstanding loan portfolio of JD10.2 million (US$14.4 million). Growth in their loan portfolios averaged about 25% per annum, which is in line with growth rates of highly successful, financially self-sufficient (FSS) MFIs around the world.

Rural presence of commercial MFIs is higher than expected. Although 2001 estimates suggested that about 86% (JD74 million) of the demand for microcredit was from urban-based microenterprises, in fact two-thirds of the four MFIs' lending was lent to firms outside Amman in terms of the number of outstanding loans.

4.2 Depth of Outreach

The most commercial MFIs in Jordan have deeper outreach relative to MFIs worldwide. MFIs have kept their focus on their original target market despite becoming increasingly commercialized over time. Table 4.2 indicates that while there is a wide range of average outstanding loan sizes among the commercial MFIs, the two largest MFIs (in terms of the number of clients) are only 33% and 62% of the MBB average of loans lent by FSS MFIs, respectively. For example, about half (49%) of MFW's loans and half (50%) of JMCC's loans are below US$300 (MBB 2000), indicating strong depth of outreach for both these MFIs.

Table 4.2: Outreach Depth Statistics for Commercially-Oriented Microfinance Providers

MFI	Average outstanding loan size (US$)	% of MBB Average for FSS MFIs	% of MBB Average for all MFIs
MFW	346	33	54
JMCC	658	62	103
MEMCC	1,506	142	235
AMC	2,763	260	432

Notes: Data provided as of June 30, 2004 by the MFIs. MBB average outstanding loan for 116 MFIs is US$453. The MBB average outstanding loan for 60 FSS MFIs is US$752.

Comparing the outreach of the commercial MFIs with international benchmarks using the average outstanding loan size as a percent of GDP per capita gives an even better sense of the depth achieved. The average GDP per capita in Jordan was US$1,700 in 2003. Table 4.3 shows that there is a wide range of outreach depth achieved among the commercial MFIs, but that the most commercial and largest of these in terms of the number of clients, MFW, has an average outstanding loan size that is only 20.3% of GDP per capita. MFW, JMCC and MEMCC all report lower average outstanding loan size to GDP per capita as compared to the average of the 115 MFIs (45.3%) and the 59 FSS MFIs (83%) reporting to the MBB for this indicator. These findings suggest that these three MFIs are very strong at reaching poor clients (i.e. achieving depth of outreach) per this indicator.

Table 4.3: Outreach Depth Statistics for Commercial Microfinance Providers

MFI	Average outstanding loan size as a % of GDP/capita
MFW	20.3
JMCC	38.7
MEMCC	88.6
AMC	162.5

Notes: Data provided as of June 30, 2004 by the MFIs.

While average outstanding loan sizes are increasing in nominal terms over time, this mostly represents increasing loan sizes to existing clients (positive client impacts) rather than a move to wealthier clients (MFI mission drift). As of June, 2004, the subject MFIs cumulatively boasted client retention rates in excess of 65%; this together with the success that many clients have achieved, (an example is given in Box 4.1) may be top reason for this. Some market-oriented MFIs are also experimenting with small business lending (MFW is reaching this market through its individual loan product, for example) as part of MFI diversification, but they are doing so without losing sight of their core clientele – microentrepreneurs.

Women account for about 80% of clients, higher than the MBB average of 58.9% for all FSS MFIs and 60.6% for the all MBB reporting MFIs. This finding shows that the Jordanian MFIs are quite effective in reaching female entrepreneurs.

There has been no evidence to date that suggests that providers of commercial microfinance have experienced a trade-off between focusing on sustainability and expanding outreach to poor and low-income microentrepreneurs. In fact, the data suggests that the more commercially-oriented and better performing MFIs actually have achieved deeper outreach. For example, the MFI that has advanced most along the commercialization continuum – MFW – has consistently served a low-end clientele over the last few years (PlanetFinance 2003). It has exclusively targeted women until February 2004 when it began lending to family businesses where the direct recipients of the loans are men.. However, lending to men will not exceed 20% of all MFW clients (as of June30, 2004 MFW had 100 male clients, or 1.1% of total microcredit clients).

Box 4.1: Microentrepreneur of the Year for 2003

Fatima was honored by Her Majesty Queen Rania at the Fourth Annual Microentrepreneur Awards in December 2003, where she won the Microentrepreneur of the Year Award. A client of JMCC, Fatima first borrowed JD250 (in March 2001) to start her microenterprise producing artificial waterfalls and springs. As of June 2003, Fatima was borrowing her third loan amounting to JD 900. Her business income has grown from JD150 in 2001 to JD800 in 2003. Her products are now purchased by wholesalers across Jordan and are being exported to several Arab Gulf countries.

Source: JMCC 2004.

4.3 Scope of Products and Services

The focus of the commercially-oriented MFIs has been on disbursing microcredit rather than mobilizing microsavings, mainly due to legal and regulatory constraints but new products have been launched (i.e. microinsurance, taxi loans) and others are being tested,(i.e. microleasing, construction sector products and education loans). In light of these regulatory and legal constraints, MFW tries to encourage savings among its clients, but requires no mandatory obligation from the clients to do so.

Credit Products. As the market-oriented MFIs have grown over time, they have adjusted their credit products based on client demand and their ability to fund product development. For example, the microcredit product that JMCC started operations with is totally different from what JMCC is providing today. JMCC started with a maximum initial loan amount of JD200 (US$282). This amount could increase by up to 30% upon the customer's repayment of the first loan, his/her project needs and analysis of cash flow. The repayment mode was bi-weekly and the loan carried a five-month maturity. Those loans were solely directed to existing projects and not for start-up businesses. Now, JMCC offers six loan products with different purposes and terms (see Box 4.2), which resulted from continuous market research and client feedback.

Box 4.2: JMCC's Current Loan Products

Group Loan: Directed to home-based projects. A loan of small amount and easy repayment terms with concentration on group guarantee. Loan term is 12 months to be disbursed to a group of four persons, regardless of gender.

Start-up Loan: Directed to start-up businesses. A loan enough to cover maximum 50% of the project initial establishment cost. Loan term is 18 months with possible grace period.

Existing Business Loan: Directed to working capital refinancing. Loan term is between 1 month (balloon payment) and 24 months with no grace period.

Cars Registration Loan: A loan to cover costs of insurance, registration and maintenance of public cars used as a source of income. Loan term is 12 months with no grace period.

Amal Loan: Directed to women-headed households, unemployed people and home-based businesses. An individual loan, but with easy installments and minimum collateral, with possible grace periods.

Pioneers Loan: Directed to micro, small or medium-sized businesses (either start-ups and/or existing)., similar in nature to the Existing Business Loans.

Source: JMCC 2004.

In response to client needs for capital assets acquisition and the longer tenor required of such loans, AMC has introduced a specialty loan targeting taxi drivers. Working collaboratively with an automobile broker, AMC now offer Taxi Loans to support the needs of many of the 15,000 licensed taxis in Amman.

Accordingly, MFW's credit program and loan diversification has also evolved over the years. Initially, MFW only offered Group Guaranteed Loans with an initial loan size of JD75, a large group size, and bi-weekly repayments. The Group Loan methodology changed drastically where now the initial loan size has increased to JD200 and groups of 4-6 clients have the choice to make their repayments either in bi-weekly or monthly installment. In response to client needs, MFW also introduced Individual Loans and the Opportunity Loan to expand in more depth to the higher and lower ends of it target market. MFW is now exploring offering of microinsurance, leasing and an education loan product.

How the commercially-oriented MFIs deliver loans has also changed. In an effort to reduce costs and provide better customer service, the MFIs have adapted their loan delivery technologies and marketing strategies. MEMCC has engaged in several initiatives which increased efficiencies and reduced overall operational costs. They introduced a new loan application form which reduced paper costs by 25%; by unifying repayment due dates throughout the portfolio, they cut transportation costs in rural areas by 25%; and they manage the Ma'an branch from the nearby Wadi Mousa branch thereby raving on all related branch operational costs.

JMCC provides another example. Upon the startup of the company, JMCC followed a door-to-door marketing strategy. Loan officers used to knock on doors, explain the idea of JMCC's loan product, hold meetings and develop relationships with the local community. Promotional materials consisted of brochures and flyers that were distributed by loan officers and disseminated to key relationships that JMCC developed with the local community leaders in their areas of operations. Only in the last couple of years has JMCC launched a website as a new marketing window. The website is a new tool to serve clients who need to know more about JMCC and its current performance, and who prefer to apply for loans and information via the Internet. In addition to being more convenient for some of its clients, JMCC expects that this will also be a cost-saver.

In addition, MFW performs periodic reviews of client needs and preferences. In a Customer Drop-out survey conducted under a USAID grant in 2003, MFW learned that one client concern in continuing with the loan program addressed the perceived rigid repayment schedules. In response, MFW now offers its clients the alternative of either bi-weekly or monthly repayments to correspond with their business cash flow. It was during this same period that MFW performed an efficiency and profitability audit and reduced interest rates in two ways – an overall 20% reduction in interest rates for all clients and an additional incentive to repeat borrowers through lower interest rates and fees. Additionally, MFW is currently conducting an assessment of its delivery mechanisms to identify levels of client satisfaction as well as triggers and trends for client acquisition.

Savings. To date, the four commercially-oriented MFIs have not been pressed to engage in savings mobilization since they have had a variety of other options for funding portfolio expansion. Two of the four MFIs – MFW and MEMCC – already have close contacts with commercial banks from which they should be able to access more loans if needed. As the MFIs have demonstrated their financial self-sufficiency and participated in the WFF, they have demonstrated their attractiveness to commercial banks as creditworthy clients.

With the ability to access loans at market rates, the cost advantage of mobilizing deposits to fund the loan portfolio has become less significant. A major reason for mobilizing deposits is that savings 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.

If the MFIs wished to mobilize savings, regardless of the purpose or structure, they would have to register as a bank and be subject to regulation by the Central Bank of Jordan. This would be an extremely expensive and time-consuming procedure, and would necessitate raising JD30 million ($42.3 million) in capital to meet the regulatory requirements.

However, numerous studies have indicated that the poor can, and do, save. The benefits of savings accrue to both the clients, and to the lending institutions. The benefits to clients include the creation of an emergency fund, the possibility of earning interest, partial protection from inflation, and a lower level of risk than saving in real assets, such as livestock or housing. Lending institutions can also derive benefits from savings mobilization by monitoring the level of financial discipline that the borrower has attained regarding building up savings, and what his/her spending patterns are. These benefits make a strong case for offering savings accounts.

Several of the banks currently provide opportunities for the poor 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 (Perrett 2001, p. 59). JMCC and MEMCC have facilitated thousands of such savings relationships and there is potential to expand this practice. MFW also informally encourages savings among its clients, many of whom have established such accounts in various banks while others choose to invest their savings in gold or land. All MFIs are interested in mobilizing savings directly (as a funding source and as a means to determine creditworthiness and to better serve clients) if they can acquire the legal ability to do so in the future.

Microinsurance. Microinsurance is presently offered by JMCC and under consideration at other institutions. JMCC insurance is a “add on” benefit for all clients in the portfolio and is underwritten by a local insurance company. JMCC offers credit life insurance with an extra benefit to cover funeral costs. MFW is also considering offering credit life insurance and possibly a health insurance product, as well.

Microleasing. Many microentreprenuers find that typical loan products do not meet their need for the acquisition of capital assets as these long term assets do not generate sufficient cash flow to meet short term loan structures. In response, MFW is undertaking an investigation to develop a microleasing product and launch it early in the coming year (2005). As in practice, leasing resembles Islamic lending, MFW can offer a product that meets the criteria of Islamic lending without having to call it an Islamic product and possibly damaging its current portfolio.

Education Loan. MFW is also in the process of investigating the feasibility of introducing an Education Loan product early in 2005. Targeting university students and their parents, MFW hopes to fill a niche with this short term loan product.

Construction and Home Improvement Loans. Based on a recent market survey, MEMCC is assessing the viability of designing and launching loans targeting the construction sector. These products will address construction related businesses such as builders, electrician, plumbers and the like but also consider the demand side in the way of home improvement loans. .

Collectively, these product innovations demonstrate a market orientation to microfinance, an integral part of microfinance commercialization.

4.4 Sustainability and Efficiency of Operations

All four commercially-oriented MFIs have attained FSS within a relatively short time. Table 4.4 shows that all four MFIs reached 100% FSS by June 2004. The MFIs achieved FSS in less than four years on average. This is a testament to their commercial focus and the effectiveness of technical assistance provided to the market-oriented MFIs as part of the AMIR Program.

Table 4.4: FSS Ratios (%)

MFI	2002	2003	June 2004
MFW	123.6	150.3	165.98
JMCC	107.44	107.6	108.58
MEMCC	67.1	74.8	131.47
AMC	68.8	77.3	109.6

The two commercial MFIs that have achieved the highest FSS ratios have also reached the most clients and experienced the highest growth rates in their loan portfolios in terms of numbers of microloans lent (Table 4.5).

Table 4.5: No. of Loans Disbursed

MFI	2002	2003	June 2004
MFW	16,320	19628	10,338
JMCC	1,752	2,057	2,825
MEMCC	1,482	1,805	1,237
AMC	697	763	502

All four commercial MFIs have increased their productivity over time but it remains low compared with international benchmarks. This finding demonstrates how the commercial approach does consistently produce greater results. One of the most commonly used indicators of productivity is the number of clients per loan officer. Table 4.6 highlights the increasing productivity achieved by the four commercially-oriented MFIs in recent years; however, these results are below international benchmarks. For example, MBB data for 34 MFIs shows that they had on average 276 individual loan clients per credit officer (MBB 2004). For the 49 reporting MFIs that followed a group lending methodology, their average was 301.

MFI age does not explain the difference. The average for 16 new (1-3 years old) MFIs reporting to the MBB was 237, although this statistic combines individual and group lending and therefore may be slightly skewed upward.

Table 4.6: No. of Clients per Loan Officer, at the end of the period			
MFI	**2002**	**2003**	**June 2004**
MFW	214	225	232
JMCC	77	86	127
MEMCC	146	150	143
AMC	41	55	53

Even the MFI with the best productivity indicators has considerable opportunity for improvement. Despite strong profitability, MFW's staff productivity could be significantly improved. At the end of 2003, for example, the group loan officers had on average 313 clients while the individual loan officers had on average only 55 clients (resulting in an average of 225). The newness of both the individual loan product and the personnel in these positions contributes to this low productivity. High staff turnover and the introduction of new products in the last couple of years also explain most of the low productivity of the four MFIs. Nevertheless, the trend toward increasing productivity is positive and expected to be continued in the future as these MFIs gain a better footing in their respective market niches and experience increased client retention.

Efficiency has dramatically improved over time and is high compared to international benchmarks as measured by administrative expense ratios. While the four MFIs have relatively low productivity, their efficiency is quite high compared with international benchmarks. A common indicator of efficiency is the administrative expense ratio which is calculated as [operating expense + in-kind donations] / average gross loan portfolio. Each of the four commercial MFIs has an operating costs ratio of less than 25% by the end of 2003 which compares favorably to the 23.5% achieved by the FSS MFIs worldwide and the 27.5% attained by all MFIs reporting to the MBB globally (Table 4.7).

Table 4.7: Administrative Expense Ratios (%)			
MFI	**2001**	**2002**	**2003**
MFW	44.8	26.4	19.0
JMCC	82.0	17.1	13.7
MEMCC	20.8	17.1	13.1
AMC	84.1	15.0	15.9

Despite achievements on this end, there is limited downward push on interest rates charged on microcredit. While one of the market-oriented MFIs – MFW – reduced its lending interest rate by 20% last year, the MFIs generally are still reinvesting profits to fuel growth so they can take greater advantage of economies of scale and scope in the future. The average yield on the loan portfolios of all four MFIs has remained steadily between 26% - 39%. Despite the lack of a downward trend, even the high end of the average yield obtained from the four commercially oriented MFIs compares favorably with other FSS MFIs worldwide (40.6%). However, the average yield for all MFIs that report to MBB is lower (27.8%), suggesting that the Jordanian MFIs have slightly higher interest margins than the average MFI. Nonetheless, localized competition is emerging, which should put pressure to decrease lending interest rates over time.

Competition, while still limited to a few market areas, is on the rise. Although in the past, the four commercially-oriented MFIs in Jordan served relatively different market segments (based on either geography or target group), they are adopting strategies that put them in more direct competition with each other in northern Jordan. MFW's market presence was focused exclusively on low-income female clients, but over the past couple of years has been progressively expanding to include more registered businesses and even family businesses where the direct loan recipients are men. Initially, MEMCC had been exclusively lending in the south. Turning its attention to the Central and Northern part of the country, MEMCC is in competition with AMC for its larger, formalized clients. One other local MFI, JMCC, has begun offering individual loans at amounts equivalent to the group loan amounts offered at MFW. Additionally, banks are now offering consumer loans at lower interest rates than MFIs for clients with sufficient salary guarantees. To address client concerns as noted in a client drop-out survey, MFW has lowered interest rates, provided more incentives for repeat clients, and offered the option of monthly loan payments.

4.5 Access to Commercial Sources of Funds

As a means of ensuring the sustainability of the MFIs after the completion of USAID assistance, the WFF was established in late 2001 to build bridges to commercial funds. USAID capitalized the Facility with US$4.2 million, which facilitated the access for loan capital for the four USAID-supported MFIs at commercial rates of interest. Citibank-Jordan manages the Facility on a fee-for-service basis. WFF's capital collateralizes guarantees, issued by the Facility manager, to support term loans the MFIs have obtained from local commercial banks. As the commercial banks develop favorable credit histories with the MFIs, it is expected that the guarantees will become unnecessary and that the MFIs will "graduate" from dependence on the Facility and receive, as capital contributions, their pro-rata shares of the WFF's capital.

To "graduate" from the Facility, an institution must achieve 12 consecutive months of full financial and operational sustainability, as well as not require WFF guarantees for six consecutive months. Furthermore, the MFI must show the establishment of commercial banking relationships while continuing to employ sound operating practices. Following the formal submission of audited financial statements attesting to the above financial requirements, it will receive the entire balance of its escrow account as a loan capital grant and cease to be a Facility participant. One MFI, JMCC, has already graduated from the facility (see Box 4.3) with current performance trends indicating the three remaining institutions will readily graduate by July 2005 when the facility concludes. In the event an MFI does not graduate the facility, its pro-rata share of the Facility will be distributed amongst those MFIs who have already graduated.

Box 4.3: Access to Commercial Funds

In May 2004, JMCC became the first MFI to graduate from the WFF, having met the rigorous conditions for successful graduation.

The graduation is a major achievement – JMCC now secures its lending capital from commercial lending sources, which greatly enhances its ability to serve more clients and spread the benefits of microfinance. This type of arrangement also serves as a model for private sector investment of development projects. The other three MFIs participating in the WFF – MFW, MEMCC, and AMC – are well on their way to achieving the same goal.

The WFF has already achieved its objective of facilitating access to funding. Currently, all four MFIs enjoy ample access to funds. While one MFI (MFW) funds its lending primary through market-based borrowing (over JD600,000 or US$846,000 in recent years) from several local banks and international microfinance investment funds (Blue Orchard, for example), others enjoy continued access to cheap funds from DEF and the MOPIC. For example, JMCC has several lines of credit with DEF amounting to JD1.67 million to funds various loan programs at a weighted average annual interest rate of 3.2% (paid on declining balance basis). MEMCC obtains a line of credit of (JD 1 million) from DEF at an annual interest rate of 4% (declining basis) as well as a loan of USD 115 K from the McArthur Foundation- USA at a fixed annual interest rate of 6%. Despite JMCC, AMC and MEMCC's borrowing from subsidized sources, it is expected that both institutions could borrow from local commercial banks at slightly higher, market-based interest rates due to their successful participation in the Facility and the transparency of their solid financial performance. AMC benefits from its subsidiary relationship with JNB and therefore has adequate access to capital. Positive retained earnings have accumulated over the past several years at each of the MFIs and as at 2003 year end, contributes 17% of funding sources at MFW, 5% at JMCC and 24% at AMC.

5. Prospects for Increasing Microfinance Commercialization

Commercialization of microfinance in Jordan holds the promise of capitalizing on the recent improvements in the policy environment and the achievements in outreach that the four market-oriented MFIs have made to date. Given that the industry is still relatively young, it is far from reaping all the benefits of microfinance commercialization. Many stakeholders have a role to play in moving microfinance commercialization forward in Jordan, including the government, the donor community and the MFIs themselves. This chapter recommends key roles for these actors to increase access to the commercialization of microfinance while preserving the social objectives of the industry and draws conclusions from the study.

5.1 Role of the Government

- Continued prudent monetary and fiscal management, investment in social services (especially health and education) that encourage a spirit of entrepreneurship
- Continued liberal approach to financial sector regulation most notably the policy sanctioning market-determined interest rates
- Build support for drafting a national strategy to institutionalize policy efforts thus far and reduce the potential for policy backsliding and reversal of the trend of declining provision of subsidized credit
- Investigate feasibility of establishing legal space for microfinance providers (that provide both credit and limited deposit services) and adapting the regulatory framework to support the new institutional form
- Continue with enabling legislation and licensing for credit bureau establishment.
- Enact or review the Security Interests in Movable Property Law and the establishment of simplified procedures for pursuing legal claims for small loans.

5.2 Role of the Donor Community

- Support proposed activities of the government above with technical assistance and training.
- Fund innovation challenge grants for continued market research, product development and expansion into less densely populated areas.
- Encourage institutions that lend to microenterprises to participate as members of the proposed credit bureau by partially funding their annual subscriptions for a limited period of time.

5.3 Role of MFIs

- Come together in the local network to effectively lobby for a national strategy for microfinance and an appropriate legal and regulatory framework

- Prudently explore the introduction of new financial products (microinsurance and microleasing) based on market demand assessments and the potential for profit

5.4 Conclusion

What has been accomplished in Jordan in just the last few years is striking. While the microfinance industry is still very young by international standards, it now has a solid footing and an environment that is increasingly becoming more conducive to the development and growth of commercial microfinance. With the assistance of USAID and other donors, it is clear that significant achievements have been made with regard to the increased provision of commercial microcredit and other indicators of outreach.

Perhaps most noteworthy is the finding that the most commercial MFIs in Jordan have been able to achieve deeper outreach relative to the average of MFIs worldwide. While there is a wide range of outreach depth achieved among the market-oriented MFIs, MFW which is the most commercial and largest of these (in terms of the number of clients) has an average outstanding loan size that is only 20.3% of GDP per capita. This compares to an average of 83.0% of 59 FSS MFIs reporting to the MBB worldwide. This finding disputes the misconception that there is a trade-off between commercialization and outreach and reinforces the complementarity of a commercial approach to microfinance and providing access to financial services on a continuing basis to the productive poor.

To capitalize on the improvements in the policy environment and the achievements in outreach that the four market-oriented MFIs have made to date, implementation of the recommendations above will be critical over the next 2-3 years. Of utmost importance will be avoiding the potential for policy backsliding and establishing a legal and regulatory framework that moves beyond being relatively benign to one that actively creates adequate legal space for commercial microfinance to evolve as an important part of the financial sector.

Equally important will be ability of the market-oriented MFIs to build on achievements made to date in outreach and sustainability. Prudent piloting of new products will help the commercially-oriented MFIs to maintain or exceed their average 25% growth per annum. Emphasis on training and retention of personnel will be an integral part of MFI plans to enhance efficiency and productivity in order to take better advantage of economies of scale and scope in the future.

Appendix 1: Summary of Public and Quasi-Public Microfinance Providers

Project Name: **ACC**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	4,669	3,900	N/A
Total Amount Disbursed (JD)	17,199,522	13,200,000	N/A
Year End Data			
Total Active Number of Clients	68,550	62000*	54,000
Total Portfolio Outstanding (JD)	106,470,769	104,000,000*	104,000,000

Refer to 2. Progress towards Microfinance Commercialization for more information on ACC

Project Name: **Orphan's Fund**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	3,474	5,804	N/A
Total Amount Disbursed (JD)	14,796,374	27,865,166	N/A
Year End Data			
Total Active Number of Clients	N/A	N/A	N/A
Total Portfolio Outstanding (JD)	N/A	N/A	N/A

Orphan's Fund

The Orphan's Fund was established in 1972 aimed to develop orphan's rites and invest it in all legal areas that would in return maximize their own wealth through implementing Islamic lending techniques. The lending has to be secured by collateral for large size loans or a guarantor for small size loans. Orphan's fund does not engage in microfinance activities because in principle all of its investments have to be secured.

Project Name: **DEF (Retail)**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	2,905	3,816	3,900
Total Amount Disbursed (JD)	4,640,870	5,934,608	8,337,300
Year End Data			
Total Active Number of Clients	6,735	8,235	11,960
Total Portfolio Outstanding (JD)	18,550,805	22,899,072	31,036,275

Refer to 2. Progress towards Microfinance Commercialization for more information on DEF

Project Name: **UNRWA**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	N/A	619	1059

Total Amount Disbursed (JD)	N/A	376700	737600
Year End Data			
Total Active Number of Clients	N/A	445	866
Total Portfolio Outstanding (JD)	N/A	177309	617800

UNRWA Microenterprise Credit Programme
The program was established in Nov 2002 and their first loan was disbursed in Mar 2003. The program was first launched in Gaza in 1993, then the west bank in 1998 then Syria in June 2003. The program serves refugees and Jordanian citizens. They are currently based in Wehdat area servicing 866 clients and are targeting eastern amman residents. A new branch will be expected to open early 2005 in Zarqa and another to be opened in Rusaifa Refugee camp. Their loan product, the fast operational loan, is designed to build a credit history for the clients, it is 5-level loan scheme where the borrower starts with the first level and based on his repayment he moves to the second level where he can double his loan amount up to 4,800 JDs.

Project Name: **NHF**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	291	268	2,184
Total Amount Disbursed (JD)	190,350	201,000	1,009,514
Year End Data			
Total Active Number of Clients	1,321	1,589	1,794
Total Portfolio Outstanding (JD)	647,054	847,360	956,681

NHF
NHF was established in 1985 to consolidate the administration of the Queen's diverse and expanding development initiatives. The Foundation initiates and supports national, regional and international projects in the fields of integrated community development, women and gender, children's welfare and family health, education, heritage and enterprise development through its credit program the Quality of Life Project. NHF programs have successfully advanced and modernized development thinking in Jordan by progressing beyond traditional charity-oriented social welfare practices to integrate social development strategies more closely with national economic priorities, especially through the empowerment of women. NHF projects promote individual and community self-reliance, grassroots participation in decision-making and project implementation, equal opportunity with special emphasis on the empowerment of women, and inter-sectoral cooperation.

Project Name: **GUVs**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	303	570	149
Total Amount Disbursed (JD)	155,349	376,386	103,976
Year End Data			
Total Active Number of Clients	N/A	N/A	3,085
Total Portfolio Outstanding (JD)	N/A	N/A	2,050,033

General Union of Voluntary Societies (GUVS)
GUVS was established in 1959 to combine all voluntary societies under one umbrella and coordinate their work around the governorates of the kingdom. GUVS represent 750 charitable societies and twelve unions. GUVS started the execution of the Credit Fund Program (CFP) in 1992, the program is aims to direct targeted groups towards the work field and production to help reduce their reliance on governmental loans and aids by providing micro-credit loans to individuals from both genders. It also focuses on enhancing the administration and financial capacities of the voluntary societies.

Project Name: **NEF**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	1,300	1,600	2,000
Total Amount Disbursed (JD)	1,170,000	1,520,000	1,900,000
Year End Data			
Total Active Number of Clients	650	800	1,000

Total Portfolio Outstanding (JD)			

Near East Foundation – Jordan

The Near East Foundation (NEF) in Jordan provides information, training, and technical assistance to promote the growth of small and micro-enterprises. NEF has helped establish more than 200 community-based credit funds in rural and urban settings. Low-income residents use the loans to set up small businesses or home-based workshops. The Foundation's Community-based Credit (CBC) program strengthens the ability of local institutions to understand and nurture a sense of shared responsibility within their community. Many communities manage a variety of resources, including land, water, information and technology to meet individual and collective needs. CBC builds on these local management systems. It combines appropriate capital inputs with training and technical support which enables community leaders to design and operate their own programs of financial support for small and micro-enterprises and income-generating activities.

Project Name: **JOHUD**

	2002	2003	year to date 2004
Annual Disbursements			
Number of Loans Disbursed	154	290	62
Total Amount Disbursed (JD)	2,988,860	263,930	58,530
Year End Data			
Total Active Number of Clients	1,050	900	700
Total Portfolio Outstanding (JD)	1,350,000	1,150,000	979,000
* Estimated			
** Info not shown on year to year basis			

Jordanian Hashemite Fund for Human Development (JOHUD)

JOHUD operates across Jordan through a network of 50 Community Development Centers, providing partnership support to local communities to promote sustainable development and self-reliance among people in under-served locations. JOHUD promotes community involvement through volunteer programs, to develop a strong sense of social responsibility among youth who learn to exercise their rights whilst respecting the rights of others.

In response to the changing dynamics of the Jordanian economy and the growing need for services to alleviate problems of poverty and unemployment, in the early 1990s JOHUD launched an Enterprise Development Programme which today operates several credit schemes. Participants are offered loans according to certain criteria and are provided with the necessary technical and managerial training. The Small Business Development Centre (SBDC) was established in 1996, with the aim of providing financial services, primarily credit and non-financial services such as training and consultancy to low-income entrepreneurs with a particular emphasis on women.