NATIONAL STRATEGY FOR MICROFINANCE

Ministry of Planning & International Cooperation

The Hashemite Kingdom of Jordan

CONTENTS

FOREWARD

Under the direction of His Excellency the Minister of Planning and International Cooperation and the Consultative Group to Assist the Poor (CGAP), the Ministry of Planning and International Cooperation (MoPIC) of the Kingdom of Jordan formed a Microfinance Committee and empowered it to prepare a National Strategy for Microfinance Development for the decade ending 2010.

Based on the directives of His Excellency, the Microfinance Committee initiated its work in January 2005. The Committee then developed a working plan and development strategies for the microfinance sector, which became the basis of the present document.

The Microfinance Committee has the pleasure of presenting this document to the Cabinet and hopes (having put forth all possible efforts to fulfill its duty to the fullest) to have succeeded in this effort as a service to the microfinance sector and our beloved country, under the direction of His Majesty King Abdullah bin Al Hussein the great, may God bless him.

INTRODUCTION

Macroeconomic context

Jordan has a generally stable national economy, although it has been suffering from a severe economic downturn since September 2001. With a GDP per capita at current market prices of USD 2,106,[1] Jordan belongs to the middle-income group of countries. Exchange rates are pegged to the U.S. dollar and the country's last devaluation was in October 1995. Inflation has been kept under control, fluctuating between 1 and 3 percent over the past four years. Trade liberalization has greatly improved with the signing of free trade agreements and Jordan's accession to the World Trade Organization. In addition, the government is committed to privatizing parastatal organizations.

The GDP growth rate in real terms is slightly greater than the population growth rate. However, economic growth has been insufficient to significantly impact poverty. Official data indicates that the population living in poverty declined from 21.3 percent in 1997 to 14.2 percent in 2002.[2] The latest poverty surveys in Jordan (2004) note that 14.2 percent of the almost 5.2 million Jordanians continue to live below the poverty line. As is the case in many other countries, the rural poverty rate is higher than urban rate. Official unemployment has persisted in the 14 to 15 percent range since the mid-1990s.

The economy has for years suffered from a chronic trade deficit of around 1.3–1.7 billion Jordanian Dinars (JD), equivalent to almost 30 percent of GDP. Fortunately, this deficit is eased by remittances and grant inflows. The crisis and instability in the Middle East have contributed to the current depression of the Jordanian economy. Since September 2001, tourism

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1 As of January 2005.

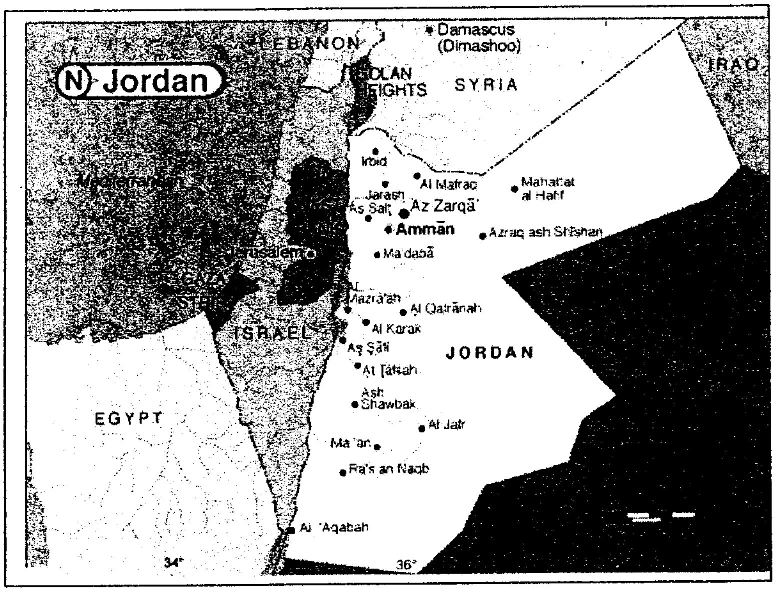
2 There is no generally agreed definition of the poverty line in Jordan. MoPIC and World Bank studies, which define the poverty line at JD 392 per capita and year, estimate that about 14.2 percent of the population lived below the poverty line at the end of the 2002.

inflows have significantly declined, threatening the viability of many establishments in the hotel, catering, transport and leisure sectors. The recent war in Iraq — Jordan's biggest trading partner and source of cheap oil — has further deepened the economic crisis. Foreign direct investments have fallen to insignificant levels and even Jordanians are postponing investment decisions until the economic situation improves.

The state of the economy is affecting both private-sector consumption and investment, as well as the micro and small business sector. In the last four years, many such businesses have seen much lower turnovers and find themselves in financial difficulty.

Microfinance and poverty in Jordan

Poverty remains one of the most prevalent problems in Jordan. It has impeded the fulfillment of the government's vision for economic progress and, worse, continues to disturb the campaign for peace and order. The incidence of poverty in Jordan increases with household size and lower educational achievement.



Although no statistical evidence positively correlates poverty with gender—mainly because the number of female-headed households in the country is very low—there are many signs that women are more affected by poverty than men.

The government has sponsored several directed credit programs to ease the condition of the poor, but many of these programs have been unable to sustain operations due to high overhead costs and a high incidence of loan nonpayment. Many Jordanians considered loans extended by the government as grants, which they do not need to repay. Direct government funding, moreover, distorts the financial market and suppresses the development of private financing institutions.

In Jordan, commercial banks are the only authorized institutions that may both extend loans and mobilize deposits from the public as a source of funds. These banks prefer to grant credit to the commercial and industrial sector, shying away from loans to the poor due to the high risk and operational cost of such loans. The inability of banks to provide financial assistance to the marginalized sector has been answered by licensed microfinance institutions and informal financing institutions, which include cooperatives and non-governmental organizations (NGOs). Unfortunately, many of these organizations have been unsuccessful in expanding outreach and sustaining operations because of weak institutional capacity. Since they have not been recognized as formal conduits of financial assistance, they have been unable to continuously raise sufficient funds for operations.

The inherent weaknesses of existing financial intermediaries has created a "real demand" for viable financial conduits to assist Jordanians whose financial conditions are considered marginal or below the poverty line. Given that the Jordanian population grows by 2.7 percent annually, the number of people needing financial services is increasing more rapidly than the capacity of existing financial intermediaries to serve them.

The Government of Jordan recently launched a fight against poverty via the Enhanced Productivity Program of MOPIC. This program developed initiatives to enable the poor to have a sustained means of livelihood. Defects in the financial system are prompting the government to encourage the private sector to participate in providing financial services to the poor, with a corresponding reduction in government intervention in this sector. Consequent changes in the financial system will create an environment conducive to the operation of financial institutions that serve the poor. Interest rate, licensing and branching procedures of MFIs have been liberalized since the inception of those MFI's. As a result, competition within the microfinance industry is expected to intensify and new products and services that cater to the needs of people from different sectors should become available.

NATIONAL STRATEGY FOR MICROFINANCE

Policy Framework

The vision of the Government of the Kingdom of Jordan is to have a viable and sustainable private microfinance sector that follows microfinance best practices and functions as an integral part of the national financial system. The government's microfinance policy will be built on the following principles:

1. The private sector will be the main provider of financial services.
2. An enabling policy environment will facilitate the increased participation of the private sector in microfinance.
3. Market-oriented financial and credit policies, e.g., market-oriented interest rates, will be charged on microfinance loans.
4. Government line agencies will not participate in the implementation of credit and/or guarantee programs; existing programs will gradually withdraw from the market after developing the proper exit strategies. All government agencies that provide welfare support (e.g., the National Aid Fund, the Ministry of Social Development) will withdraw from microfinance lending activities.
5. Government support to the micro and small business sector of the economy will be limited to (a) creating an enabling policy framework and (b) providing business and vocational training, identifying business opportunities, creating the necessary infrastructure and simplifying business registration procedures.

The credit demanded by economically active poor households and/ or microenterprises will be met by a variety of innovative financial products provided by a private microfinance market. The government will avoid costly, unsustainable and distorting credit subsidies, as well as debt forgiveness schemes that fail to reach their intended beneficiaries, weaken the rural banking system and saddle the government with a huge fiscal burden.

A distinction will be made between credit and welfare policy. In the past, there has been confusion between the need for welfare assistance on the part of economically non-active poor households and the legitimate demand for credit by economically active poor households and/or microenterprises. Those households needing welfare will be provided assistance by appropriate government departments. Welfare assistance will never be provided in the form of concessional credit, loan quotas or other financially distorting measures, nor will it ever be provided by government-controlled or private-sector financial institutions.

Stakeholder Roles

The Microfinance National Strategy was developed in consultation with all participants in the microfinance sector in Jordan. This includes all microfinance service providers, major donors, relevant ministries and governmental organizations. The respective roles of various stakeholders in microfinance will be determined by the policy framework and the relative comparative advantages of the stakeholders. These roles are envisioned as follows:

- **Microfinance institutions (MFIs):** To provide microfinance services to the economically active poor. This will be undertaken by engaging in sound, sustainable and viable microfinance activities, following internationally recognized best practices

- **Government of Jordan, through the Ministry of Planning and International Cooperation (MoPIC):** to provide a market-oriented financial and credit policy environment that will promote both transparency and efficient financial markets, and to help private microfinance institutions broaden and deepen their microfinancial services.

Specifically, MoPIC will:

- Ensure that the national strategy for microfinance is implemented and that all the relevant parties fulfill their respective roles.
- Provide a policy environment conducive to the effective and efficient functioning of the microfinance market by:
  - implementing a market-oriented interest rate policy for microfinance activities (e.g., adoption of microfinance best practices)
  - pursuing financial policy reforms with the goal of removing existing distortions in the financial market (e.g., loan quotas, earmarking of public funds for direct lending, loan forgiveness programs, etc.)

- rationalizing all existing government credit and guarantee programs with the objective of implementing microfinance programs in a market-oriented setting.

- Provide an appropriate supervisory and regulatory framework for MFIs that will enable them to engage in the development of new and innovative product lines and services in response to the demand of the economically active poor.
- Disseminate and encourage the adoption of existing international standards of performance, business practices, disclosure guidelines, and reporting formats to improve the operations and promote the transparency of microfinance providers.
- Promote broad-based savings mobilization on the part of commercial banks by linking banking technology with microfinance technologies.
- Implement a system of public reporting of audited data on MFI performance (according to the standards, practices, guidelines and reporting formats mentioned above), as well as a regime of borrower protection for MFIs (to the extent that such protection is not adequately provided by existing laws and regulations).
- Facilitate the establishment of the National Microfinance Network/Association, the National Microfinance Forum and task forces needed to implement the national strategy.

- **Development and Employment Fund** (DEF, an independently managed financial institution created by the government): to provide wholesale funds, including those sourced from foreign lenders, on commercial terms and conditions to MFIs that do not have access to wholesale loans from private-sector commercial banks or other private sector sources.

- **Commercial banks:** to provide wholesale funds and financial services to MFIs and selectively take equity positions in for-profit MFIs, non-bank financial institutions (NBFIs), and microfinance banks. Commercial banks may also directly offer financial services to the economically active poor.

- **The National Microfinance Network/Association (NMN):** to be established with the facilitation and encouragement of the government, but to operate under the leadership of microfinance providers. In addition to holding a National Annual Microfinance Forum (NMF),[3] the network will focus on general microfinance industry issues, such as transparency, capacity building training, networking and identification and lobbying for policy reforms.
  Membership of the NMN should be limited to MFIs and microfinance providers. Adherence to best practices, ethical behavior and sound corporate governance will be enforced by expelling those members found in serious breach of these guidelines. A mix of public reprimands and fines may be applied to members found in more minor breaches of the guidelines.

Specifically, the NMN will:

- Provide technical assistance and a capacity-building program for MFIs and commercial banks interested in providing microfinance services directly to the economically active poor. Capacity building will focus on: (1) local deposit mobilization (via coordination with commercial banks), (2) financial and project management, (3) use of information technology, (4) development and establishment of microfinance technology and innovative product and service lines, (5) market surveys, (6) strategic planning, and (7) credit analysis.
- Document practitioner-based training and technical services and disseminate these documents to MFIs and commercial banks.

3 The annual NMF should be open to all microfinance institutions (MFIs), consultants, relevant ministries, donors and MFI lenders. Consideration should also be given to inviting a representative from the Jordan Bankers Association. The Forum will discuss issues of the microfinance industry in Jordan and make recommendations on how all stakeholders should move forward.

- Provide information and training on best practices in microfinance, as well as their adaptation and application in the Jordanian context.
- Encourage research and academic institutions to conduct microfinance market and impact studies on beneficiaries and the society and economy in general.
- Draw up a code of ethics
- Act as an information exchange and reporting center for the microfinance sector, a role that could require microfinance institutions to report financial and performance information on a regular basis.
- Act as an advocate for the industry, including performing the role of conflict resolution among stakeholders
- Serve as a focal point for contacts between the government and the sector.
- Identify policy and regulatory issues constraining the development of the microfinance industry, advise the government of suggested changes and lobby to change and implement these policies and regulations

- **NGOs:**[4] to provide technical assistance in linking poor households and microenterprises with microfinance institutions, aid community-based organizations in providing non-credit assistance to the economically active poor and provide capacity building directly to this target group.

- **Donors:** provide assistance to the microfinance sector in broadening and deepening microfinance services. Such assistance could include support for the development of microfinance products, as well as training in microfinance technologies, operating systems and procedures.

[4] Although MFIs that are registered as not-for-profit companies are considered NGOs, the term here refers to those not-for-profit organizations that are not limited to the provision of microfinance services.

ANNEX 1. MICROFINANCE BASICS

What is microfinance?

To most people, microfinance means providing poor and very poor families with very small loans (microcredit) to help them engage in productive activities or to expand tiny existing businesses. There is no clear definition of microcredit or Small and Medium Enterprises (SMEs) in Jordan. Generally speaking, a microloan in the country is a loan that does not exceed JD 2,106 (GDP per capita).

Microcredit came into prominence in the 1980s, although early experiments date back 30 years in Bangladesh, Brazil and a few other countries. The significance of microcredit was that it avoided the pitfalls of an earlier generation of targeted development lending by insisting on repayment, charging interest rates that covered the costs of credit delivery and focusing on client groups whose alternative source of credit was the informal sector. Emphasis shifted from rapid disbursement of subsidized loans to prop up targeted economic and social sectors towards building local, sustainable financial institutions to serve the poor. Microcredit has largely been a private (non-profit) sector initiative that avoided becoming overtly political. As a consequence, it has outperformed virtually all other forms of development lending.

Traditionally, microfinance focused on providing a very standardized credit product. Yet the poor, like everyone else, need a diverse range of financial instruments to be able to build assets, stabilize consumption and protect themselves against risk. Microfinance has thus increasingly come to refer to a host of financial services: savings, loans, insurance, remittances from abroad, and other products. It is hard to imagine that there is any family in the world today for which some type of formal financial service would not be useful. The fact remains, however, that in most people's minds, "microfinance" refers to microcredit.

Who are the clients of microfinance?

Microfinance clients are the poor and vulnerable non-poor who have a relatively stable source of income. For many reasons, access to conventional formal financial institutions is inversely related to income; the poorer a person is, the less likely he or she is to access such institutions. When poor people do have access to financial services, such access is usually expensive or involves onerous informal arrangements. Informal arrangements, moreover, do not always suitably meet certain financial service needs and may exclude the poor altogether. Individuals in this excluded and under-served market segment are the clients of microfinance.

A typical microfinance client is self-employed, often a household-based entrepreneur. In rural areas, clients are usually small farmers and others engaged in small income-generating activities, such as food processing and petty trade. In urban areas, microfinance activities are more diverse. Urban clients include a broad range of low-income persons, including shopkeepers, service providers, artisans and street vendors.

How does microfinance help the poor?

Experience shows that microfinance can help the poor increase incomes, build viable businesses and reduce their vulnerability to external shocks. It can also be a powerful instrument for self-empowerment by enabling the poor, especially women, to become economic agents of change. By providing access to financial services, microfinance plays an important role in the fight against many aspects of poverty. Income generation from a business not only helps the business, it also contributes to household income and its attendant benefits in the form of food security, children's education, etc. For women, especially those in contexts where they are secluded from public space, microfinance can build confidence and empowerment by allowing them to transact with formal institutions.

When is microfinance NOT an appropriate tool?

The most well-known microfinance product—microcredit—is only useful in certain situations and for certain types of clients. As we are finding out, a great number of poor, especially extremely poor, clients exclude themselves from microcredit as it is currently designed. Extremely poor people who do not have any stable income should not become microfinance clients, as they will only be pushed further into debt and poverty by loans that they cannot repay.

Microcredit best serves those who have identified an economic opportunity and who are in a position to capitalize on that opportunity if they are provided with a small amount of ready cash. Thus, the ideal candidates for microcredit are poor people who work in stable or growing economies, have demonstrated an ability to undertake a proposed activity in an entrepreneurial manner and are committed to repaying their debts.

As currently designed, microcredit requires sustained, regular and often significant payments from poor families. At some level, the very cause of poverty is the lack of sustained, regular and significant income. Even though a family may have a significant income for extended periods, it may face months of no income, thereby reducing its ability to enter into the type of commitment demanded by most contemporary MFIs. Some people are just too poor, or have incomes that are too unreliable, for existing microfinance loan products. These extremely poor people (the bottom percentile of those living below the poverty line) need safety net programs, such as Jordan's National Aid Fund and Ministry of Social Development that can help them with basic needs.

Nevertheless, it is important to design background interventions that build the market for microfinance clients. Such interventions can range from building infrastructure to opening up new markets for agricultural produce to providing business development services. Often these interventions will create conditions and opportunities for microfinance and not the other way round. What needs to be avoided is the directed use of microfinance to sort out developmental challenges in situations where the basis of peoples' livelihood is destroyed.

ANNEX 2. THE MICROFINANCE SECTOR IN JORDAN

In the early 1990s, the Jordanian economy was threatened by an increasingly high unemployment rate, growing poverty and rising prices. To help reduce the effect of these trends on the economy, the Ministry of Planning and International Cooperation (MoPIC) helped launch a sustainable microfinance industry in Jordan. Microfinance provides credit and economic opportunity to the disadvantaged and to micro and small entrepreneurs who would not otherwise have access to credit (due to lack collateral or a formal credit history). Over the past 10 years, the microfinance industry in Jordan has proven its effectiveness as a vehicle for improving the financial status and living standards of low-income citizens, particularly women.

Main characteristics of the Jordanian microfinance sector

The microfinance sector in Jordan is characterized by (1) four large MFIs with a strong commercial orientation and commitment to industry norms,[5] (2) about a dozen MFIs that provide microfinance with lesser vigor and commitment as one of many other development activities, and (3) about 200 local microcredit schemes (village-type, self-help oriented operations with savings and credit components, some of which are supported by donor funds and the larger NGOs).

Special laws do not regulate the sector. Donor agencies wishing to provide loans to beneficiary groups are, however, required to seek the approval of the relevant ministry and sign a respective agreement. Local NGOs desirous of offering microfinance services are required to have legal status of some form, but are not subject to specific licensing, registration, reporting or other limiting conditions. On the other hand, as microfinance providers do not comply with banking regulations, they are not permitted to mobilize savings from the public; this restriction is strictly enforced.

[5] All of these MFIs are supported by the donor-funded AMIR project.

MFIs have successfully penetrated the micro and small business sector. In 2000, the MFI sector accounted for about 33 percent of total credit disbursed to micro and small businesses in Jordan[6]. These institutions tend to focus more on women than do government-owned institutions. Their operations are characterized by higher interest rates than those of the formal sector; clear business lines; direct credit officer responsibility for specific portfolios, with positive financial rewards linked to good performance; high repayment rates and low bad-debt provisions; small repeat loans with no grace period; a pronounced emphasis on the viability and reliability of clients and a low emphasis on collateral; and satisfactory institutional viability.

As of year-end 2004, the four largest private MFIs had disbursed around 160,000 loans worth 68 million Jordanian Dinars (JD). In 2003, the government helped in establishing a new "Bank for the Poor," a specialized financial institution that will operate outside the supervision of the Central Bank of Jordan. The bank, which will lend at commercial rates, is expected to start operations during the third quarter of 2005.

Challenges of Jordanian MFIs

The main problems faced by MFIs in Jordan are: (1) lack of appropriate regulation with clear parameters and permission to mobilize client deposits, (2) competition between MFIs in similar market segments, (3) lack of entrepreneurial skills among clients, particularly marketing and accounting, (4) the difficulty of expanding micro and small businesses in a competitive market and a difficult macroeconomic situation, (5) a perception among potential clients that disbursements are grants, not repayable loans, and (6) absence of a credit bureau. Access to refinancing

[6] Restructuring of Agricultural Development Banks: The Case of the Agricultural Credit Corporation in Jordan. Dr. Michael T. Marx, Rural Finance Officer, Investment Centre, Food And Agriculture Organization of the United Nation

facilities, networking, general information sharing, staff training facilities, information technology and software programs are no longer constraints.

The onlending funds of most MFIs have come from donor agencies. Since 1992, the DEF has channeled JD 9 million of its own and donor funds to various MFIs and local credit schemes. Initially, these loans were granted at 0 percent (during the donor funding stage). In the year 2002 the MoPIC granted DEF amount of JD 2.5 million in order to establish a wholesale lending unit, the rate is 5 percent per annum. During the period 1994–1997, these loans were an important source of refinancing for the industry, but fresh lending was almost entirely terminated with the suspension of the project in 1998? Recently, DEF has again begun lending to selected intermediary organizations. Another source of funds for the four bigger MFIs was a Citibank facility under which donors offered guarantees to commercial banks to encourage them to lend to MFIs on commercial terms. Eligible MFIs have already drawn on this facility, but are careful not to borrow beyond their treasury requirements so as to minimize interest expense.

The formal banking sector

Jordan has a fairly well-developed financial infrastructure. The Central Bank of Jordan (CBJ), established in 1964, supervises the entire banking system with the exception of government-owned financial institutions. The banking system consists of 24 banks: 14 commercial banks, two Islamic banking institutions and eight foreign banks. In addition, there are four specialized financial institutions, three with public ownership and one with joint public-private sector ownership. Total branch density, including mini-branches, of the entire system is 456, implying a ratio of about 11,600 inhabitants per branch. In addition, there are 81 officially licensed moneychangers. Other major non-banking financial institutions include the Jordan Loan Guarantee Corporation, which has guaranteed about 6,525 commercial banking sector loans worth JD 146 million.

As of year-end 2004, total deposits at licensed banks in Jordan were approximately JD 11.5 billion. Commercial banks in Jordan have traditionally been characterized by excess liquidity; only around three-quarters of their total deposits in JD are used for lending. This percentage indicates weaknesses in both the private sector's ability to absorb credit and the commercial banks' ability to find suitable avenues for excess liquidity. Commercial banks have recently become somewhat more aggressive in marketing credit facilities and now offer such new products as consumption loans. They have also lowered their formal credit requirements.

The performance of the banking industry is seriously hampered by lack of a data exchange system on borrowers and defaulters. The national legal system does not permit public sharing of private data, which makes it difficult for financial institutions to check whether loan applicants have already borrowed or are about to borrow from other institutional sources, and whether these applicants have already defaulted on previous loans. Therefore, public financial institutions request all loan applicants to produce confirmations that they are not indebted to other financial institutions, a procedure that, although necessary, is very time consuming. In addition, it can be assumed that the lack of a credit bureau implies that banks are incurring unnecessary costs for which all borrowers ultimately pay through higher interest rates.

Specialized financial institutions

Specialized financial institutions fill important gaps in Jordan's financial system. Each such existing institution was set up for specific purposes and provides lending facilities to clients not adequately served by the commercial banking industry, i.e., they promote public services and amenities, industrial development and housing construction through long-term loans and agricultural and small enterprise credit. These services are extended to groups not served by commercial banks. Specialized financial institutions are characterized by a high share of paid-up capital and reserves; significant borrowing from the central government, the CBJ and licensed banks; insignificant deposit mobilization from the public; relatively substantial liquid assets; and high utilization of assets in loans as opposed to fixed assets.

Government control over these financial institutions appears rather strict. They must submit annual budgets to the cabinet for ratification and must obtain clearance to deviate from the approved budget. However, no government-owned financial institution is subject to CBJ supervision. Salaries and wages are fixed in accordance with civil servant scales, which results in rather good salaries for middle-ranking staff, but comparatively low wages for upper management. In addition, bonus systems are only marginally linked to performance — annual bonuses are paid to performers as well as non-performers. Negotiations with defaulters are hampered by the inflexibility of the law on public debts, which does not permit write-offs or debt forgiveness of publicly funded loans.

There appears to be some inconsistency regarding the management of government-owned financial institutions. During the first two years of operation of the Development and Employment Fund (DEF), for example, the Fund was entirely managed by the Industrial Development Bank (IDB, another government-owned financial institution). It was then transferred to autonomous management. To cite another example, the main business of the IDB is term lending for industrial purposes. However, this bank still manages the "Small Scale Industry and Handicraft Fund," which was transferred to it in 1975.

Leading private microfinance institutions in Jordan

The main four private MFIs in Jordan are briefly described below.

Jordan Micro Credit Company (JMCC). Eestablished in 1999, JMCC is affiliated with the Noor Al-Hussein Foundation (NHF), but has a separate board and management. It was established to cover the gaps of the credit program managed by the NHF, which suffered from lack of viability, low repayment rates and unprofessional management. JMCC provides loans to individuals for any viable business except seasonal agriculture in amounts ranging from JD 120 to JD 15,000 for a duration of 7–24 months. A flat monthly interest rate of 1.7 percent is deducted from the loan amount.

As of December 2004, JMCC had made cumulative disbursements of JD 11 million to 15,962 projects. Total loans outstanding were valued at JD 2.7 million, the on-time repayment rate was 99.2 percent, and the amount portfolio in arrears was 0.1 percent. Operational sustainability stood at 154 percent and financial sustainability, at 133 percent. JMCC states that group lending does not work in Jordan because people do not want others to know that they are indebted and because few people will accept joint liability for the loans of others.

JMCC selects clients very carefully using a credit-scoring system to avoid delinquency. Loan repayment enforcement is strict; clients in arrears pay JD 5 per day, regardless of the amount in arrears. Personal guarantees and salary transfers are common practices; mortgages are used as collateral in some cases. JMCC selects a business area for lending, then expands in concentric cycles if one credit officer can no longer manage the loan portfolio that has been created.

Ahli Micro Finance Company (AMC). This MFI is a 100 percent–owned subsidiary of Jordan National Bank, which prefers to grant loans to microenterprises through this window instead of through its branches. Operations began in 1999 and lending is concentrated on clients with projects that have existed for at least two years. Clients are selected on the merits of their businesses. Personal guarantees, promissory notes and pre-dated checks are the main types of required collateral. Loans range from JD 120 to JD 15,000 for durations of 4–48 months and are granted for industrial, commercial, professional or service-oriented businesses.

AMC has equity funds of about JD 0.7 million and received a donor grant of JD 2 million for onlending and operational costs. Operational sustainability increased from 113 percent in 2001 to 118 percent in 2004. As of December 2004, AMC had 1,269 active clients, an outstanding loan volume of JD 2 million and an on-time repayment rate of 98 percent. A flat 8-15 percent interest rate is deducted upfront from all loans depending on the loan type and purpose, in addition to a commission of 1 percent of the loan amount for each six-month term. Although AMC is not permitted to mobilize savings, it is interested in turning all borrowers into savers with the Jordan National Bank.

Micro Fund for Women (MFW). The MFW started in 1994 as a project of Save the Children Foundation, became a registered NGO in 1997 and transformed into a not-for-profit limited liability company exclusively managing microcredit in 1999. At the end of 2004, MFW had an outstanding loan portfolio of JD 2.62 million and 11,870 active clients. Cumulative disbursements at that time were JD 29.2 million, involving 120,579 loans.

MFW focuses exclusively on women, has rather low average loan amounts and quick loan turnover. It offers three products: group loans (JD 100–500, 32 weeks, bi-weekly repayment, no collateral, 1.75 percent monthly interest); individual loans (JD 500–5,000, 1–24 months, monthly payments, collateral required, 1.4 percent monthly interest); and seasonal loans for women with outstanding loans (JD 100–500, 3–5 months, no collateral). At the end of 2004, portfolio in arrears greater than 30 days (PAR >30 days) fluctuated between 0.1 and 0.3 percent. Operational and financial sustainability stood at 166 and 160 percent, respectively. Bad debt provisions for 2004 were approximately 0.18 percent of the portfolio.

Middle East Micro Credit Company (MEMCO). This MFI began operations in 1998 in Aqaba. As of year-end 2004, MEMCO had an active portfolio of

JD 3.08 million (2,900 active loans), managed by a staff of 62. Operational and financial sustainability stood at 152 and 132 percent, respectively, and the loan loss provision was 3 percent of the total loan portfolio outstanding. MEMCO provides individual loans ranging from JD 245 to JD 25,000, repayable in monthly installments. (Loan ceilings have been increased to JD 25,000 for special clients.)

A group loan scheme was terminated two years ago due to low repayment rates. MoPIC recently extended a credit line of JD 1 million to the MFI. MEMCO charges an interest rate of 17 percent on loans up to JD 14,000 and one percent less for loans above that amount. Applicants pay an upfront application fee and a one percent processing fee is deducted from the loan amount. Pre-dated checks are the main form of collateral.

Governmental microfinance provider

The three financial institutions created by the government of Jordan that offer microfinance services are described below.

Agriculture Credit Corporation (ACC). The mission of the Agriculture Credit Corporation is to support, develop and improve agriculture in the Kingdom. It offers loans of all types and promotes the creation, improvement and expansion of agricultural-related projects, manufacturing and inputs. It also finances the marketing and export of Jordanian agricultural products, conducts economic feasibility and technical studies on agricultural products and provides technical consultation. ACC offers seasonal loans (repayment within 12 months); short-term loans (repayment within 2 years); medium-term loans (repayment within 3 to 10 years); and long-term loans (repayment within 10 to 15 years). The interest rate on seasonal, short-, medium-, and long-term loans ranges between 7 and 10 percent.

Development and Employment Fund (DEF). The DEF was established in 1989 as a public "governmental" establishment to develop and finance small business projects. The fund initiated operations in February 1991 under the umbrella of the Industrial Development Bank (IDB). However, it became independent as a result of a special law enacted in January 1992. DEF source of fund came from Government and foreign funders, managed as a financially and operationally independent institution, but working under the supervision of GOJ "the General Manager should be assigned by the Cabinet". The DEF offers several credit programs, including direct lending (household, individual, group, and "upgrading" loans) and indirect lending (loans to other organizations that have the organizational and financial ability to re-lend the monies to groups targeted by the DEF). A flat 6.5 percent annual is interest rate deducted upfront from all loans.

Industrial Development Bank (IDB). The IDB was established as a specialized credit institution in 1965 to finance projects in the industrial and tourist sectors. As of 2004, the Bank's paid-up capital was valued at JD 24 million. It is managed by a board of directors consisting of members of both the private and the public sectors. The Bank has a special fund to finance handicrafts and small projects that employ five or less workers in various regions of the Kingdom, using soft financing terms. The maximum handicraft loan does not exceed JD 15,000, with an interest rate of 6.5 percent per annum and a repayment term of 3 to 7 years.

The IDB provides lease financing, long-and medium-term capital financing, and syndicated loans for large-scale industrial and commercial products. Specifically, the IDB offers project financing (working capital loans for raw materials); fixed-asset financing (for machinery, lands, buildings, furniture, etc.); venture capital (up to 50 percent of investors' shares or contributions in capital for industrial and tourist projects); and facilities such as discounted bills of payment, letters of credit, letters of guarantee, and export financing.

Non-governmental microfinance institutions in Jordan

The two principal NGOs that offer microfinance in Jordan are described below.

General Union of Voluntary Societies (GUVS). Founded in 1959, the mission of GUVS is to combat poverty and unemployment, address the needs of local communities and help the less fortunate, disabled and under-served. The NGO provides mostly financial support to small microenterprise projects, charitable loans to finance college education, grants to needy students at schools, and support to 849 voluntary societies. Maximum funding per individual project is JD 1,000 at a 9 percent flat annual interest rate, plus applicable administrative and application fees.

Jordanian Hashemite Fund for Human Development (JOHUD). The Jordanian Hashemite Fund for Human Development (JOHUD) was established in 1977 to alleviate human suffering caused by poverty and unemployment. The Fund's activities are implemented through 48 community development centers located in the country's 12 administrative districts. It is run in partnership with local organizations, societies and councils. Eighty five percent of JOHUD's staff is assigned to the field and its activities are carried out by more than 8,000 volunteers, mainly women, who form the women's committee at each center and act as the liaison between JOHUD management and the community.

JOHUD provides services in the areas of early childhood education; children's clubs; youth committees; women's committees; social, health, environment and general awareness educational programs; literacy classes; vocational and business skills training; credit lending schemes (low-income and poor families); agricultural projects; and medical, dental and family services.