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**WOMEN AND MEN IN RURAL MICROFINANCE:
THE CASE OF JORDAN**

by

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The widow who started big... and failed for a lifetime

Rajwa is a 50 years old widow in the area of Karak, with five children. Her husband died 10 years ago. In January 2000, she received a collateral-free loan of JD 2,100 (US\$ 3,000) from the ACC/IFAD Income Diversification Project, repayable over 8 years. She bought 20 sheep, which have increased to 24, and went into dairy production. By September 2001, she had sold only 2 kg of goat butter and 6 kg of jameed. *Everybody produces jameed and butter, there is no market*, she says. She has made two payments of JD 30 each, which covers less than the interest due. ACC keeps writing letters and visiting her, but to no avail. With a loan of JD 200 for 8 months, less than one-tenth of the actual loan amount and period, *Rajwa* could have purchased the equipment and bought milk for dairy production instead of raising sheep. This would have given her the opportunity of testing the market and her entrepreneurial skills at a manageable risk. Now she is stuck with a bad loan and ineligible for another to go into a more profitable line of business. It was the loan terms imposed on her that made her start big - and fail big. She would like to apply for a loan to buy a sewing machine at a cost JD 120; but she is a defaulter, and the amount is too small to be financed from an ACC loan.

Starting small, on JD 150 (\$210),... and growing big

Khuland in the village of Manshiya in Karak is 30 years old, married, and has 6 children. With a loan of JD 150 for six months from Jordan Access to Credit Project, one of four USAID-supported NGOs, she started a small store at her house in 1999. Subsequently she received two loans of JD 200 and JD 250 to increase her stock. Her monthly payments amounted to JD 26, JD 32 and JD 38, respectively. 18 months after the start, in June 2001, she obtained an individual loan of JD 1,500 (\$2,100) with a maturity of 30 months and rented a store. She spent JD 300 on the renovation of the store, JD 500 on a refrigerator and JD 700 on stock. Her monthly installments are JD 62; her monthly net profit is JD 100. The loan is secured by two guarantors. Repayments of all four loans are made individually at a local bank.

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ABBREVIATIONS AND ACRONYMS

ACC	Agricultural Credit Corporation
AMIR	Access to Microfinance and Improved Implementation of Policy Reform
BDS	Business Development Services
CAB	Cairo Amman Bank
CBJ	Central Bank of Jordan
CCFP	Community Credit Funds Program (JOHUD)
CDC	Community Development Centers (JOHUD)
CEDAW	Convention for the Elimination of All Forms of Discrimination Against Women
CHF	Cooperative Housing Foundation
DEF	Development and Employment Fund
EU	The European Union
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GoJ	Government of Jordan
GUVS	General Union of Voluntary Societies
HB	Housing Bank
ILO	International Labour Organization
IFAD	International Fund for Agricultural Development
JACP	Jordan Access to Credit Project
JD	Jordanian Dinar
JMCC	Jordan Micro Credit Company
JNB	Jordan National Bank
JNCW	Jordanian National Commission for Women
JOHUD	The Jordanian Hashemite Fund for Human Development
LLC	Limited Liability Company
MA	Ministry of Agriculture
ME	Microenterprise
MFI	Microfinance Institution
MIS	Management Information System
MFW	Microfund for Women
MoP	Ministry of Planning
MTI	Ministry of Trade and Industry
NCFW	National Committee for Women
NGO	Non-Governmental Organization
OCSD	Organization Canadienne por la Solidarite et le Developpement
ROSCAs	Rotating Savings and Credit Associations
SBDC	Small Business Development Center (JOHUD)
SC	Save the Children
SMI	Sustainable Microfinance Initiative (AMIR)
SPP	Social Productivity Program (Ministry of Planning)
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
WidTech	Women in Development Technical Assistance Project

Exchange Rate: US\$1 = JD 0.708 JD 1 = US\$ 1.41
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1. Contradictions in financial sector and gender policies

1.1 Economic and social context

An urbanized country: The population of Jordan is about 5.2 million in 2001, with an annual growth rate of 2.8%. Jordan is highly urbanized; only one million people (20%) live in rural areas. With an average household size of seven, there are about 153,000 households in rural areas. There are 76,000 landholdings, ie, 50% of rural households. The number of villages is 1097, with an average population size of 1,000 people or 150 households.

A liberalized open economy: The economy and financial system of Jordan are liberalized. Macroeconomic stability is its outstanding feature, with inflation rates below 1% for two consecutive years. New banking and deposit insurance laws have been enacted to promote openness and competition. The basic principle of economic policy in Jordan is *letting the private sector do what it can*, without interference, agricultural finance being one of a few exceptions. Despite unfavorable regional conditions and the virtual loss of major markets such as Iraq, the economy has continued to grow at rates from 2.1% in 1996 to 3.9% in 2000; for 2001, the forecast is 3%. The main GDP contributor is the service sector with 42.9%, followed by transport & communication with 17.8% and manufacturing with 15.8%; agriculture contributed a mere 3.8%. With a per capita income of US\$ 1655, Jordan is a middle-income country, with a relatively high standard of living. Poverty, unemployment and the foreign debt remain as major challenges according to the central bank report 2000. But absolute poverty is not widespread, small farmers being considered as poor. Donor sources point out that Jordan has a positive climate for development.

A well developed banking sector, but with vast excess liquidity: The banking sector is well developed, comprising 675 banking units. Interest rates have been declining: to an average of 3.8% on savings deposits, 6.2% on time deposits and 11.3% on loans. In 2000, bank deposits exceeded loans outstanding by 81%, indicating a huge store of domestic savings but serious weaknesses in financial intermediation on the credit side.

Increases in agricultural productivity despite unfavorable conditions: Of the total land area of Jordan (88,600 km²), 4.7% are used for agriculture, comprising 76,000 holdings with land with land 16,300 without land in rural areas. Jordanian agriculture has been severely afflicted by regional politics, contributing a mere 3.8% to GDP in 2000. Agricultural productivity has greatly increased; but water remains a decisive limiting factor. Only 15% of the land is irrigated. MoA (4/2001) claims that the real total contribution, including agribusiness and agricultural exports, is around 28%.

IFAD's focus on poverty in Jordan: In 1997, 21% of the population were found to be poor. To reduce poverty, the government launched a Social Productivity Programme in 1998. IFAD aims at improving the utilization of land and water resources of poor rural households through credit, better management skills, appropriate technology and marketing. Strategic areas of future interventions are good governance in public institutions with a rural focus, empowerment of the rural poor including women, and the protection of the environment. Rural finance, beneficiary participation, and private sector partnerships, together with technology transfer and gender as cross-cutting issues, have been identified as major thrusts.

1.2 Gender: The contradiction between social equality and economic disparities

Social equality vs. economic disparity: Women make up 48% of the total population of Jordan. Economic growth and social policies since the 1960s have contributed to substantial increases in social equality, resulting in adult literacy rates of 94% for men and 83% for women, respectively, and life expectancies of 69 years for men and 72 years for women (1998). Yet, due to social restrictions, economic disparities have remained, women constituting a mere 17% of the total labor force.

Box 1: A Profile of Jordanian Women in the Microenterprise Sector

- **Share:** 12% (approximately 63,000) of all Jordanian working women, or 1.5% of the total female population, are engaged in microenterprise activities.
- **Rural women:** 13% of women in microenterprises reside in rural areas (less than 5,000 inhabitants). **Age:** About 86% are between 20-49 years old (mean = 35 years).
- **Residence:** 62% live in the densely populated middle region of Jordan, 25% in the north, and 13% in the south. About 33% have resided abroad at some point in time.
- **Education:** Almost 66% have completed primary school or preparatory school, 16% have no schooling and 20% have completed either secondary school or higher education.
- **Marital status:** 64% are married, 11% are divorced or widowed, and 11% are single.

Source: WidTech, 1999)

Negligible outreach of financial institutions to women: Like men, women suffer from the virtual absence of rural deposit services. Of ACC's borrowers, only 5% (3,231) are women (3% if IFAD loans are excluded) – many with rescheduled loans. Commercial banks do not differentiate by sex of borrower; but it is unlikely that they serve more women than ACC does. The four NGOs supported by USAID have an outreach to 8,000 women, 2,400 of them outside of Amman. Together with two socially oriented NGOs, the total outreach of NGOs to women outside of Amman does not exceed 3,000 – the majority of these probably in rural towns. In sum, the percentage of adult women with effective access to credit from formal and semiformal financial institutions in rural areas does not exceed 5%.

A new gender policy: In recent years, new efforts are being made to mainstream women into all sector policies and programs. It is one of the main objectives of Jordan's Economic and Social Development Plan 1999-2003 **"to bridge the gender gap in the various social and economic fields."** This would require substantial reforms in the rural & agricultural finance sector.

1.3 Rural, agricultural and microfinance: The paradox of directed agricultural finance in a deregulated economy

Two worlds of finance: There are two worlds of finance in Jordan: The old world of finance is represented by the Agricultural Credit Corporation (ACC), with century-old roots, and other institutions like the Development and Employment Fund (DEF)². Financial

² The Development & Employment Fund (DEF) was established with the mandate of poverty alleviation through microenterprise lending in 1989 and started operating in 1991; but the Fund mostly lends to a target group with at least high school education (75%). DEF was capitalized by grants from the Treasury (JD 14.1m), KfW (JD 7m) and EU (JD 4.7m). During 1991-2000, DEF provided a total of

cooperatives were also part of this old world, but have gone out of business, because the government used them for the channeling of funds which the members considered as grants. The new world of finance in Jordan comprises mainly commercial banks, which are profit-oriented and expanding. But this new world of finance has recently been joined by a new species: microfinance institutions (MFIs), oriented towards sustainability and outreach. In the absence of an appropriate legal framework, they are registered as NGOs.

The paradox of agricultural finance: There is thus a paradox in Jordan between the overall economy and agricultural finance - the economy of Jordan being open and deregulated, while agricultural finance is not; the private sector plays a crucial role in the enterprise and banking sectors, agricultural finance is in the hands of the state; resources in the private sector are allocated by market forces, agricultural credit by political and administrative decision.

ACC between two worlds? ACC has been the major provider of subsidized agricultural credit, but is now an anachronism in a market-oriented economy, experiencing deep problems. ACC is technically bankrupt; and despite legal equality of access, its overall outreach to women is negligible. Should we therefore ignore ACC and let it go the way of financial cooperatives, recommending to IFAD, which cooperates with ACC, to choose other banking partners in Jordan? Or should we encourage, and support, ACC to join a small but growing international community of viable and sustainable agricultural development banks with rapidly increasing outreach to women and the poor? It is hoped that the case study presented in the next section and in more detail in **Annex 1** may induce policymakers and donors to find a definite answer to that question.

The emergence of best practice MFIs with growing outreach to poor women and men: Since 1998, USAID has supported the development of four commercially oriented MFIs in Jordan. Some provide credit to both men and women, some to women only. They have demonstrated rapid growth in sustainability and outreach and may serve as models of *best practice* in Jordan and the region. However, they have largely stayed away from agricultural finance; and the MFIs with a rural clientele are now also moving into urban areas. MFIs will continue to expand and deserve support. But there is little chance that a sizeable portion of the 1100 villages and 153,000 rural households in Jordan will be adequately served by them within the foreseeable future. Without a reformed and healthy ACC, which might also provide wholesale funds to rural MFIs, most rural women and youth are likely to be left without access to financial services.

IFAD's support to MFIs in Jordan: IFAD has supported NGOs in Jordan, among them the Jordanian Hashemite Fund for Human Development, which provides business development services and subsidized credit. Given its social orientation, borrower outreach is small, but

12,600 loans with a cumulative volume of JD 34.4m for productive projects of the poor and unemployed. JD 6.8m were provided for 3500 projects in rural areas, comprising 20% of all its disbursements. Disbursements in 2000 amounted to JD 6.0m for 1605 projects (averaging JD 3740). 27% of the portfolio has been lent to women. Individual and household loans (92% of the portfolio) start at JD 500 and may reach up to JD 10,000. Loans for group projects (3.5%) may reach up to JD 100,000, but not exceeding JD 15,000 per individual partner. DEF also gives loans of JD 10-15,000 to village committees for relending (3.5%) part of which may flow into agriculture. The interest rate is 9% on the declining balance (including 1% for provisioning). All loans have a grace period of one year, during which no payments of principal or interest are due. Loans are collateralized; but no property has ever been seized. Until 1998, DEF had no collection unit and hence had huge arrears. In the absence of a write-off policy, they were rescheduled. DEF now has one collection unit in Amman, while lending throughout the country. Repayments are to be made locally through commercial bank branches. Delinquents are notified by mail and eventually contacted by the police through the Governor. DEF no longer provides agricultural loans; instead, it lent JD 3.4m to ACC for on-lending, on which ACC is in arrears. DEF also finances NGOs (JD 4.5m) as wholesale intermediaries.

includes women with agricultural and microenterprise activities in remote rural areas. With the new move towards sustainability and outreach among MFIs/NGOs in Jordan and access to the USAID-supported AMIR training program, IFAD could support the transformation of NGOs into viable and sustainable MFIs with increasing outreach to women and men in rural areas. It is hoped that government agencies and donors will benefit from the recent experience in Jordan of establishing MFIs oriented towards sustainability and outreach, present in section 3 and **Annex 2**.

1.4 The rural finance market

The market potential of financial institutions: With only 20% of the population living in rural areas, the size of the rural financial market is limited. The primary market comprises here about 150,000 rural households, among them 76,000 with land. The secondary market are approximately 300,000 adults with a potential demand for financial services. Institutionally, there are 1,100 villages with a potential demand for decentralized MFIs or services by an outside institution (like ACC). The average size of a village is 1,000 people or 150 households. Whether MFIs or other institutional arrangements are feasible is controversial; but ultimately, it remains a question of organizational choice and efficiency.

Lack of saver outreach: All adults require access to deposit facilities. In the absence of such services by government institutions and NGOs, we may assume that commercial banks do not serve more than 1-2% of the rural adult population. *Access by small farmers, women and the poor to deposit services is practically absent.*

Shallow borrower outreach: Credit NGOs have 13,000 active clients, among them not more than 3,000 in rural areas. For January 2002, USAID projects an outreach of its four MFIs to 16,000 active borrowers, 50 % (8,000) of them women and 30% (4,800) outside of Amman. The two largest are the Microfund for Women (100% women clients) and the Jordan Access to Credit Project (63% women clients), accounting for about 80% of total NGO outreach. With regard to ACC and DEF, it does not seem reasonable to use the total number of their clients with unpaid loans as an indicator of outreach. Virtually all these loans have been rescheduled, many several times, and many should be written off by banking standards. The number of new loans in 2000 by formal and semiformal institutions is probably below 15,000 – that is 10% of rural households and 5% of rural adults. As ACC only provides agricultural credit, we have to assume that the demand for microenterprise credit (including credit to small traders, who are important providers of microcredit to their customers), consumer credit and emergency loans is largely unsatisfied. Given the lengthy and cumbersome procedures of obtaining an agricultural loan and the shortage of loanable funds, we also have to assume that most of the potential demand for agricultural credit is unsatisfied. We have to conclude that there still is a wide market open. Most importantly, delivery structures are generally inadequate for small loans below JD 500 or JD 1000, except by the few credit NGOs. Therefore, **access by small farmers, women and the poor to credit is severely restricted.**

The challenge to rural finance: How to reach 1100 villages and 300,000 adults in rural areas, 144,000 of them women, with sustainable deposit, credit and other financial services – that is the challenge.

2. The Agricultural Credit Corporation (ACC) of Jordan

Government and donor agencies have the best of intentions when they provide cheap credit for specific purposes and programs in rural areas. However, their intentions need to be checked against the reality of client experience. We will therefore present the ACC from two angles: that of the client and that of the institution.

2.1 Client perspectives

A note to the reader:

According to Karl R. Popper, progress of science is achieved, not through theories proven right, but theories proven wrong. Similarly, in the field of development, more can be learned from accounts of failure than accounts of success. The cases reported below, indicative of success as well as failure, were chosen at random.

IFAD has two projects with ACC: the nation-wide Income Diversification Project and the Karak & Tafila Agricultural Resource Management Project. The case studies reported below are from Tafila and Karak. Most loans have a maturity of eight years at 7% interest p.a. Installments are monthly and in most cases deducted from a salary or pension.

In Tafila, 564 new loans were reportedly made (excluding sheep feed relief loans) in 2000; and another 60 during January to August 2001. 40.5% of the loans in 2000 and 72% in 2001 were from IFAD resources. This led to a substantial increase in the number of women-borrowers, who accounted for 34% of new loans in 2000 and 37.8% in 1-8/2001. In Karak, the number of new loans was 1111 in 2000 and 245 in 1-8/2001, 30% and 70%, respectively, from IFAD resources. The share of women-borrowers was 35% and 61%, respectively.

2.1.1 ACC clients from Tafila

(1.1) A mid-term loan for a short-term investment in fast-reproducing sheep

Hamad, in the village of Alain Al-Beda'a, is a retired soldier, 53 years old. He is married and has 10 children between the ages 5 and 27 years. In November 2000, he took the first loan in his life, JD 3,500, with a maturity of 8 years at an interest rate of 7% p.a. Monthly installments of JD 50 are deducted from his pension. He bought one male and ten female Shami goats for JD 2,150; built a shed for JD 800 and bought animal feed for JD 550 – a fully debt-financed investment. Within ten months, the herd has increased to 45 sheep. Why does he take an 8-year loan if the sheep multiply so quickly? *"Eight years, that is the rule."* He estimates his annual net profit at JD 1000. He previously sold vegetables in the market, which he stopped because sheep-raising is more profitable. His wife, *Sabha Al-Odat*, is interested in a loan of JD 1,000 for dairy production, but objects against ACC's concept of interest-taking on religious grounds. There is an Islamic bank in Tafila, where the profit-sharing charge comes to about 14% p.a. **(Fotos: P5/8-12)**

(1.2) Zakiyah would rather raise her rabbits on short-term loans

Zakiyah is 32 years old, married, and has four children, aged 1 to 15. In 1999, she took a loan of JD1,500 repayable over 8 years. Monthly installments of JD 25 are deducted from the salary of her husband, a driver in the Ministry of Health. She used the loans to raise rabbits and pigeons. She now (September 2001) has 300 rabbits and 250 pigeons. Her monthly net income from the investment is JD 60. She would have preferred to repay the loan within a year. For the repayment she would also have used other sources of income, which are not evaluated by ACC. **(Fotos: P5/13-16)**

(1.3) Najah: Growth impeded by guarantee requirements

Najah, 31 years old, is a mother of five, aged 1-15. In April 2000, she received an 8-year loan of JD 1,000 for a chicken farm. Monthly repayments are deducted from her husband's salary, who works for the Ministry of Water. She spent JD 600 on chicken, JD 150 on a shed and JD 250 on chicken feed. Her monthly net income from selling eggs and chicken is JD 80: a 100% return. She would like to take another loan of JD 1,000 to enlarge her poultry farm; but her husband has reached the limit of salary deductions. **(P5/19-20)**

(1.4) Ameenah: a loan to feed the family

Ameenah is 35 years old, married, and has 8 children, 2-18 years of age. In January 2001, she received a mid-term loan of JD 2,000 from the IFAD Income Diversification Project. She spent JD 1,500 for the purchase of 15 goats, JD 400 on a shed and JD 100, on feed. She produces milk, butter and cheese for the family. Her husband is a driver in the military, with a monthly salary of JD 170. He also received an 8-year loan of JD 4,000 in 1996 to build a house. Total deductions from his salary amount to JD 90. Both spouses have no other source of income. **(Fotos: P5/21-22)**

(1.5) The man who keeps planting olive trees, which all dry up

Omar is 55 years old. He has seven children, 16-23 years old, from his first wife, who died. His second wife is pregnant. In 1991 he received a first loan of JD 4,500 with a maturity of 12-15 years from ACC for planting 300 olive trees and building a two-room house. The land is located on a dry plain, and the olive trees died. In June 1992, he received an 8-year loan of JD 6,000 from an ACC goat smallholder project, which is now fully repaid. In the same year, he planted another 250 olive trees – from his own funds, he says. These also dried up. In 1999, at a time of continued drought, he replanted another 150 olive trees, again from his own resources. In May 2000 he received a third loan from ACC: JD 1,500 to add two rooms to his house. Omar says that all the dairy produced is consumed by his family; and that there is no other source of income other than his pension of JD 150, from which JD 90 are deducted every month. “*Here in these villages, women do not work outside the house,*” he added. But why does he keep planting olive trees which all die? “Without an olive tree project, I have to return the loan at once,” he explained. **(Fotos: P5/24-25)**

2.1.2 ACC clients from Karak

(2.1) Tamam: a successful horticultural entrepreneur

Tamam is 40 years old and unmarried. She is a nurse in the Ministry of Health, where she works in shifts. In the village of Zahoum, she plants vegetables in several large plastic-covered greenhouses, which she transports to the market in her own truck and sells to wholesale traders. She employs three workers. In 1995 she received a first mid-term loan of JD 4,000 from the ACC Income Diversification Project to build the greenhouses. JD 800 remain outstanding. In 1997 she took a seasonal loan of JD 2,000 to plant vegetables. She has paid the interest; but as the loan fell under two government-directed reschedulings in 1998 and 2001, she has not repaid the principal. In May 2001, she took an Islamic (profit-sharing) loan of JD 8,543 with a maturity of 8 years to buy a tractor and install an irrigation system. Monthly deductions from her salary of JD 180 are JD 45 for the 1995 loan and JD 116 for the 2001 loan. She lives on the income from her greenhouse operations. Due an oversupply on the market, prices for vegetables are currently low, with monthly net profit of only JD 80 per month. At times of high prices, her monthly profit is between JD 300 and JD 500. She estimates the total value of her investment at JD 20,000. **(Fotos: P5/#26-27 (28?))**

(2.2) Bassam: The sheep farmer who would prefer to repay his loan early

Bassam in the village of Subhehiat Al-Thanieh is a 64-year old retired elementary school teacher, with 10 grown children. His banking experience dates back to 1960 when he took a tractor loan, which he repaid. In October 2000, he took a loan of JD 4,000 for 8 years from ACC, for which JD 60 are deducted monthly from his pension. He invested JD 2,150 in one

male and 10 female goats and JD 1,850 in a shed and fodder, plus another JD 600 in fodder from his own funds. During the 11-month period, 16 sheep were born, 4 died, and 7 were sold at a price of JD 700. His monthly profit from the sale of dairy is JD 80. He considers the loan period far too long and would prefer to repay early. (**Fotos: P5/29-33**)

(2.3) Malakah, who borrowed JD 2,500 for a JD 300 investment

Malakah, a retired teacher, is 40 years old. She has six daughters, 3 to 17 years of age. Her husband is a school administrator. They live in a nice middle class home in a village. Malakah took a course in dairy production at the Ministry of Agriculture; and in July 2000, she received a loan of JD 2,500 at 7% interest, repayable over 8 years, for goat cheese-, butter- and yoghurt-making. Monthly installments of JD 35 are deducted from her salary. She invested JD 300 in equipment and, over time, spent JD 2,400 on the purchase of milk, rather than raising sheep herself. She estimates her annual net dairy income at JD 800 – not counting the value of home consumption. She finds marketing difficult, as all her neighbors produce their own butter and cheese for the family and for retailing. Moreover, her kitchen is too small; and she would have to enlarge her house. She is presently examining the market for bakery products, baking being one of the skills she acquired in the MoA course. She would also like to learn about medicinal plants, which she might grow in her garden. (**Fotos: S5/24-26**)

(2.4) Nuha, an enterprising widow, despite inappropriate loan terms

Nuha is a 40 year old widow, with seven children, 11-22 years of age. She lives in a nice lower middle-class home with a well-kept garden, in which she also keeps a few chicken. After the death of her husband in 1996, she took a course in baking and in cheese-, pickles- and jam-making at the Ministry of Agriculture. The course is part of a women's training program financed from an IFAD loan to the government. In 1998, she took a first loan of JD 2,000 from ACC, repayable over 8 years at 7% interest, and went into pickles production. In 2000, she took another loan of JD 2,000 with the same terms to extend her activities into baking. It is notable that Nuha Bakeer did not go into the very popular production of goat dairy products, including the famous *jameed karaki* – hard balls of sun-dried goat cheese. Only a fraction of the loan amount is actually needed to buy the equipment. The quality of her products is widely known, and she has a monthly net income of JD 200 from the sale of pickles and bakeries. The monthly deductions from her pension of JD 400 amount to JD 45. She also teaches baking at the Ministry of Agriculture; the course includes a session on borrowing offered by the ACC loan officer. Nuha Bakeer has made excellent use of the training and financing opportunities offered in the framework of the IFAD project. (**Fotos: S5/9-10; 11-15**)

(2.5) Rajwa, the widow who started big, on inappropriate loan terms, and failed

Rajwa is a 50 years old widow with five children, 20-25 years of age. She lives in a nice lower-middle class home. Her husband, who was in the military, died 10 years ago. In January 2000, she received a loan of JD 2,100 from the Income Diversification Project repayable over 8 years, without a guarantee. She bought 20 sheep, which have increased to 24, and went into dairy production, mainly for home consumption. She sold only 2 kg of goat butter and 6 kg of jameed. Everybody produces jameed and butter, she says, there is no market. She made only two payments of JD 30 each, which covers less than the interest due. ACC keeps writing letters and visiting her, but to no avail – writing off the loan would save ACC time and postage stamps. With a loan of JD 200 for 6-8 months, less than one-tenth of the actual loan amount and period, Rajwa could have purchased the equipment and bought goat milk instead of raising sheep. This would have given her the opportunity of testing the market and her entrepreneurial skills at a manageable risk. Now she is stuck with a bad loan and ineligible for another to go into a more profitable line of business. It was the loan terms imposed on her that made her start big and fail big. Now she is asking for a loan to buy a sewing machine, which would cost JD 120 – too small to be financed from an ACC loan. She missed her chance to start small and grow bigger. (**Fotos: S5/17-19**)

(2.6) Investing in dead cows

Taha is a project manager at the Agricultural University in Karak. He has four loans from ACC. He received his first loan in November 1997: JD 15,000 for 10 years at 8% interest. Monthly deductions from his salary to service the loan are JD 100. He spent JD 7,000 on the purchase of six cows, JD 2,800 on a shed, JD 1,200 on storage rooms, JD 3,000 on a milking machine and JD 1,000 on a cistern and water tank, which he fills from water that he has to buy. The names of the cows are lovingly written at the wall over their respective stands in the shed, and still engraved in the memory of former visitors to this unique dairy cow project. On the plot of land, 27,000 m², there are also 400 olive trees and several unfinished constructions. Less than a year later, in September 1998, three of the cows died. The following month, October 1998, *Taha* received a second loan from ACC, JD 5,000 for 10 years at 7%, to be repaid through a monthly salary deduction of JD 65, for the purchase of another four cows. In the same month, he received a seasonal loan of JD 600 for feeding the cows. This loan has been fully repaid. In June 1999, he received his fourth loan: a seasonal loan of JD 3,500 for feeding the cows, which supposedly give milk to cover the cost of fodder and yield a profit. For the last two loans, no salary deduction was requested. Not a single payment has been made on the last loan. In December 1999, all cows died. *Taha* claims that the project worked well, milk was sold, and his wife and his mother produced butter and cheese for sale. He speaks of a monthly net income of JD 60-70 when the cows were still alive: not much on an overall investment of JD 24,100. Why did the cows die? There are no veterinary services for cows in the area. We had also heard from sheep-holders that the climate is not suitable for cattle. Why did ACC finance cows in an area that is not suitable for cattle? It was a trial – but a trial on which *Taha* keeps paying through his salary deductions. What are *Taha's* plans? *To invest in cows again, or in sheep*, *Taha* says, *milk production is profitable*. During our discussion, he concedes that sheep are a safer investment. However, without a cattle project, he has to repay his loans at once. How much does *Taha* now owe ACC? Neither *Taha* nor the loan officer have the answer: *only the computer knows*. (Fotos: S5/20-23)

(2.7) Money poured down the association drain

In 1984, 120 men founded the *Karak Sheep Smallholders Association*. Omran Al-Meiaytah, now its secretary and our source of information, was one of the founders. Depending on the number of sheep, each member paid contributions of JD 50 to JD 1000, raising a total capital of JD 23,000. The association's main activity was the wholesale purchase of sheep fodder and its retail sale to members, which seems to have been satisfactory. In 1997, the sheep smallholders association changed into the *Association of Yoghurt Makers*. With a grant of JD 200,000 from FAO and WFP, a collateral-free loan of JD 13,000 from the ACC/IFAD Income Diversification Project with a maturity of 10 years, a start-up contribution of JD 6,000 from the National Union of Associations and JD 16,000 from their own resources (7% of the total investment), the association set up a small dairy plant. No payment has ever been made on the ACC/IFAD loan. Yoghurt, cheese and butter are made in the home and also retailed by the housewives. "*Men don't know anything about yoghurt and cheese-making*," the secretary explained. Therefore, the all-male association temporarily employs seven women and one man as overseer. The plant ran into problems of milk shortage and of marketing and works only in April and May each year. In Amman, there is reportedly an identical donor-funded project, with the same problems. (Fotos: S5/15-16)

2.2 Institutional perspectives

How loan subsidies and defaults undermine sustainability and outreach...: *Institutionally*, Jordan needs a differentiated rural financial system with a full range of sustainable financial services to all segments of the rural population, among them small producers, women and the poor. With 23 branch units, 62,000 clients (40% of rural households) on its books and a portfolio of US\$ 150m in 2000, the Agricultural Credit Corporation (ACC) has the potential to play an important role in rural finance. However, its health and effective outreach have been severely curtailed by a political culture of subsidization and defaulting, the magnitude of which has been obscured by interest exemptions and, in 2000, total portfolio rescheduling (instead of provisioning for loan losses). This has reduced its effective outreach to little more than 10,000 customers – many of them ill-served through inadequate loan terms. A more detailed presentation is given in **Annex 1**.

... and how donor support perpetuates bad practices: In two of the ACC branches, Karak and Tafila, IFAD has substantially increased ACC's outreach to women, but in doing so has been one of several donors perpetuating *bad practices*, financial market distortions and procrastination concerning reform. Failure to insist on reform has in fact prevented financial innovations and the overall growth of outreach. The primary concern is thus the transformation of ACC into a dynamic rural bank with demand-oriented financial services to all segments of the rural population. Only when this is accomplished can access to deposit and credit services on adequate terms by women, youth and the poor be vigorously pursued.

How inappropriate loan terms undermine microentrepreneurship of women and men: Institutional reform will not automatically increase access of women and men to financial services. *From a customer perspective*, ACC general loans and IFAD program loans have enabled a number of women and men to start or expand their own business; but even the most successful ones would have done better with adequate loan terms and without rescheduling. Our case studies show that the core problem lies in the standardization of loan terms, which is largely due to a dire shortage of loan officers and the lack of a commercial orientation. Loans tend to be too big and loan periods too long, leading to over-indebtedness and preventing rapid business growth. This is fatal in situations where borrowers start big – and fail big. Tight control over directed credit projects can have perverse effects: investors kept taking new loans for projects doomed to failure (eg, olive trees which kept drying up; and cows which kept dying) in order to keep the resemblance of an ongoing loan project, lest they repay their loan in bulk.

Lessons not learned: The evidence from customer interviews points to a number of *lessons not learned by ACC*:

- ✓ *Standardized loans impede growth and entrepreneurship:* Loans with a maturity of eight years (or more), as agreed upon between the government and IFAD and imposed on ACC, fail to promote rural growth and entrepreneurship. There is no gradual progression in loan size, only an eight-year debt. Inappropriately large loans and long loan periods, coupled with long instalment periods, prevent borrowers from gaining entrepreneurial experience by starting small and going for repeat loans of increasing size. These terms are particularly harmful for new and young entrepreneurs, male or female.
- ✓ *Salary deductions prevent the empowerment of women and the emergence of young entrepreneurs:* Salary deductions are convenient to ACC. But they make women dependent on their husbands; and they impede business growth. The widespread insistence on salary deductions excludes potential entrepreneurs, particularly young ones, who do not have a salary or pension to pledge.
- ✓

- ✓ *How loans make people poorer:* Once an initial oversized loan fails, borrowers are kept in poverty. They are unable to repay the loan in bulk, as their contract stipulates, and therefore have to keep failing projects going, throwing good money after bad. At the same time, payments continue to be deducted from the borrower's or spouse's salary without additional income from the investment.

Reforming ACC, with sustainability and outreach as twin objectives: Under coordinated donor influence, the government should face the only reasonable alternative: to close or reform ACC. Along the lines of the *Draft Declaration on Rural Finance of 1993*, reform requires:

- enforcing timely repayment rigidly and revoking loan forgiveness, rescheduling and interest exemptions
- cleaning up its portfolio: enforcing recovery of arrears; initiating judiciary process against defaulters; writing off bad debts as defined by CBJ; replenishing the capital
- adopting prudential norms enforced by internal control and central bank supervision
- adopting bank status under the banking law and central bank supervision
- diversifying ownership and governance by opening the bank and its board to private shareholders
- increasing its outreach to all segments of the rural population, including small producers, the landless, low-income groups, and women
- building up wholesale in addition to retail lending and providing banking services to rural MFIs and self-help groups
- expanding its delivery structure through sub-branches and a substantial increase in highly skilled and motivated loan officers
- decentralizing the organization, converting branches into profit-centers
- providing a full range of financial services, including deposit-taking, lending, money transfer and checking accounts
- offering deposit services, thereby mobilizing its own resources and strengthening the self-financing capacity of small farmers, rural microenterprises and rural industries
- offering a full range of non-directive loan products, expanding in particular its microlending to women and the poor
- diversifying its portfolio in response to rural diversification, providing loans for a variety of purposes according to demand
- rationalizing its procedures for efficient local services
- adjusting its interest rates to market levels, covering all costs, risks and subsidies
- introducing performance incentives tied to real profits of organizational units
- retraining its loan officers in demand-oriented rural banking.

The crucial issue is *the political will* to transform ACC into a viable and sustainable rural bank free of interference. It is in the hands of IFAD and other donors to insist on reform as a prerequisite of further support.

3. NGOs in microfinance

The organizational case studies undertaken for this review illustrate the current practices that reach microentrepreneurs with financial services, and identify advances and shortcomings in microfinance. Jordan Access to Credit Project (JACP) is a USAID-funded project that has built capacity locally and is merging with another advanced MFI, the Jordan Micro-Credit Company (JMCC). Microfund for Women (MFW), a MFI with only women clients, illustrates the spin-off of a project into a local non-profit company. The Jordanian Hashemite Fund for Human Development (JOHUD) is an NGO involved in a variety of revolving funds. It benefits from donor support and subsidized government programs, incorporating best practices in microfinance and business-development services. These three cases exemplify (1) advances in organizational MFI capacity, and (2) challenges for an infant microfinance industry. Building a competitive industry is a challenge for all stakeholders--donors, government, MFIs, and customers. The newly emerging industry can be seen from two perspectives, that of clients and that of the institutions:

3.1 Client perspectives³

(1) Clients of the Microfund for Women (MFW)

Amna: head of household, seamstress, MFW repeat-borrower, ROSCA member

Amna is single and heads a household of eleven relatives, including four orphans. Ten years ago, she established herself as a seamstress, taking orders and doing the sewing in her house. As a member of an MFW group in Al Baqa, a former refugee camp which is now a suburb of Amman, she has gone through a full cycle of group loans, which she invested in her business. She estimates her net income at JD 500 per month. She has reached the maximum loan size of JD 500 and would now need a much larger individual loan to expand her business further, but has been unable to find a guarantor. The group agreed that monthly payments would be more appropriate than instalments every two weeks; this would make it easier for Amna to sell her services on credit. By joining two ROSCAs, Amna has subjected herself to a savings discipline. Her weekly deposits are JD 2 and JD 5, respectively. Rotating allocation of the weekly collection is decided by the group on the basis of need.

Banking with different institutions for diversified microenterprise activities

Turfer, who is in her late 40s and has three children, lives in the outskirts of Madaba. Her husband works with the Madaba government, Turfer is the microentrepreneur in the family. She They have banked with different institutions: (a) In the Housing Bank, they hold joint as well as separate savings accounts and have used their savings to buy land, build a house and purchase a car. (b) With a loan from ACC, they have improved the water irrigation system of their farm. (c) Through four consecutive microloans from an MFW neighborhood group, Turfer has financed new projects such as dairy-making and raising pigeons, turkeys and rabbits and is now applying for an individual loan. (d) Turfer belongs to three ROSCAs, one with 15 and two with 20 members. Monthly contributions are JD 20; in one ROSCA Turfer holds two shares of JD 20 each. She hopes to have her turn from all three groups in January 2002 and use the money to start a sheep-raising project. Turfer is enthusiastic about saving for a specific purpose and about loans for new projects. [*Almeyda Roll 1:13-14*]

(2) Clients of the Jordan Access to Credit Project (JACP)

Entering into business with a microloan of JD 150

Khuland in the village of Manshiya (Karak) is 30 years old, married, and has 6 children from 7 months to 12 years of age. With three successive microloans of JD 150, JD 200 and JD 250 at 10% interest p.a., each with a maturity of six months, she started a small store at her

³ Additional case studies are presented in ***Annex 2-4***.

house in 1999. Her monthly payments amounted to JD 26, JD 32 and JD 38, respectively. 18 months after the start, in June 2001, she obtained an individual loan of JD 1,500 with a maturity of 30 months and rented a store. She spent JD 300 on the renovation of the store, JD 500 on a refrigerator and JD 700 on stock. Her monthly installments are JD 62; her monthly net profit is JD 100. The loan is guaranteed by two guarantors. Repayments of all four loans are made individually at a local bank. Khuland would like to take another loan of JD 1,500 to increase her stock. **(Fotos: P5/34-35)**

Diversifying income-generating activities with microloans

Mayonfe in the village of Manshiya (Karak) is 48 years old, married, and has 7 children 12-22 years of age. Her husband is a mechanic at the university. In 1991 she opened a small store from her own resources. Since 1999, she has received three group loans, which she all repaid on time. With the first loan of JD 150, she bought three sheep; she now owns ten, which are taken care of by her sons. She used the other two loans to buy stock; and is now in the process of taking an individual loan of JD 1,000 for the same purpose. **(Fotos: S5/1-3)**

Financing microbusiness growth with short-term microloans (Karak)

Yusra is 46 years old, married and has eight children, 7-19 years old. Since 1999, she has received five loans, increasing in size from JD 150 to JD 350. With the first loan she bought a sewing machine, which cost JD 150; with the following loans she bought cloth and sewing material. Her monthly net profit is JD 20. She will now apply for an individual loan of JD 1,000 to buy a knitting machine. **(Fotos: S5/4-7)**

Financing small enterprise growth

Mohammed is 28 years old, married, and has two children, two and four years of age. With JD 3,000 from his father, he opened a parabola antenna store in Karak in 1996. In August 2001, he received a loan of JD 14,000 at 10% interest p.a. from JACP repayable over three years. He has two guarantors. It took two weeks to process his loan application. The monthly installments are deducted from his account with Arab Bank. **(Fotos: S5/8)**

A failing family enterprise, a delinquent microloan

Waled and his wife produce shell crafts for tourists, which they used to sell on the beach of Aqaba. They have five children. They started their business four years ago, after Waled had lost two fingers in a furniture company where he had worked for twenty years. Waled's wife became a member of a JACP group and borrowed JD150. Unfortunately, the authorities prohibited street peddling, and the loan is in arrears. Fortunately, it is only a very small loan, and the delinquency does not create a life-time problem.

A young woman becoming self-reliant

Safa is the oldest of 11 children. As a young girl, she learned all about vegetable selling from her father, who had been on the Alshala market of Aqaba for 35 years. Safa took three group loans, repaid on time, and graduated to an individual loan of JD 4,000. She invested the loans in a vegetable store, which she took over from the family. Safa used to be a member of a gam'iyat, a rotating savings association; but JACP has made her bankable: she opened a savings and a checking account in a local bank; she even has an ATM card. Safa is enthusiastic about her experience and encourages other women to work, borrow and invest.

(3) Clients of the Jordanian Hashemite Fund for Human Development

A women's group enterprise

The JOHUD satellite in Ma'in under the Community Development Center of Madeba, focuses on childcare, youth and women's programs. With support from the Embassy of The Netherlands, 35 women have participated in a dairy project since 1989. During the start-up phase, the women were employed by the project, earning JD 80 per month. They are now semi-independent producers, keeping 50% of their sales. They have access to loans of JD 1,000 for 36 months, repayable monthly at the Bank of Jordan.

Starting a family business

Majah is 31 and has four children, 6-16 years of age. Her husband is a teacher in Ma-in. With savings of JD 2,000 and a loan of JD 1,000 from JOHUD to Majah, they built a kiln to produce ceramics. Husband, wife and the two older daughters are all involved in the production. For the past three months, they stopped production, because there is plenty of competition and sales are slow. [Almeyda Roll 1: 31]

3.2 Institutional perspectives

3.2.1 NGOs in microfinance: from charity to sustainability with outreach

NGOs are of recent origin in Jordan, born out of a concern, mostly by the royalty, for poverty alleviation and social welfare. Their approach has been broad, encompassing a variety of services such as education, business development services and credit. Subsidized credit was one of several instruments used. As their services are either free or heavily subsidized, outreach has been limited. In 1998, USAID introduced a new approach, with a focus on (a) the entire microfinance industry; and (b) financial sustainability with outreach (see Box 2). As these new institutions are, on principle, profit-oriented and charge market rates of interest, their potential growth in outreach is theoretically unlimited. How and when this will affect the charitable NGOs remains to be seen.

Box 2: Elements of building a microfinance industry in Jordan

- Four sustainable microfinance institutions, employing international “best practices”: Microfund for Women, Jordan Micro Credit Company, Ahli Microfinancing Company and Jordan Access to Credit Project.
- A national Credit Information Bureau, which will stimulate Jordan’s entire economy by facilitating the provision of lender, retailer and wholesaler credit.
- A comprehensive, ongoing program of formal training for the microfinance industry, which attracts participants from throughout the MENA Region, as well as Jordan.
- The Microfinance Association of Jordan, to deliver microfinance training, assume advocacy for the industry, and provide a forum for discussion of industry issues.
- A Wholesale Funding Facility, to facilitate the provision of loan capital for the microfinance institutions from the commercial market, now that their grants are exhausted.
- A comprehensive technical assistance program, addressing the needs of all components of Jordan’s sustainable microfinance industry.
- An ongoing program of targeted market surveys to assist the microfinance institutions with their strategic planning.
- A program of new product development designed to enable the microfinance institutions to better serve their clients while enhancing their revenues.
- A common MIS, which by being common, lowers the development cost for the microfinance institutions, as well as allowing them to more easily share data.
- A Strategic Sector Assessment which examines in depth Jordan’s microenterprise and microfinance sectors and makes recommendations intended to frame future National Policy.
- A cooperative arrangement with the Government of Jordan’s Development and Employment Fund, to provide the MFIs with capital for lending specifically to start-up businesses.
- Research to inform the design of a Microbusinesses Multiplier Initiative, intended to stimulate the establishment of small and micro businesses.
- With the Jordan Investment Board and Zarqa Chamber of Industries, a joint backward linkages pilot program to match the outsourcing requirements of manufacturers with the supply capabilities of small and micro businesses.
- The Jordan Donors Coordination Council, to enhance the effectiveness of donor-supported micro and small business programs by exchanging information and seeking areas of cooperation.

Source: USAID Brief

The box below provides a comparative summary of MFIs as of February 2001 and the JOHUD microcredit projects. JACP and MFW have the largest number of outstanding loans, the highest ratio of operational sustainability (98% and 81% respectively as of February/01) and the highest participation of women clients. JACP and MFW are the only other specialized MFIs with countrywide networks. They have tried to collaborate in areas such as Madaba where JACP does not have group loans and the loan portfolio is invested in individual loans with higher average loan size. The other MFIs (ACM and JMC) currently concentrate in Amman. JOHUD uses 50 community centers to provide services to rural populations. JOHUD's involvement in microcredit started in 1999 and is part of a wide variety of activities.

Box 3: MFIs in Jordan and JOHUD Microcredit Projects, 2/ 2001					
	MFIs in AMIR				Micro-credit Projects
	Microfund For Women MFW	Ahli Micro-financing Co AMC	Jordan Micro Credit Co JMCC	JACP-Cooperative Housing Foundation	JOHUD SBDC & ACCFP (1)
Starting date as an MFI	1996	Nov-99	Sep-99	Dec-98	July-99
<i>Women clients</i>	100%	15%	34%	63% (groups)	64%
No. loans disbursed since inception	58,330	625	2,941	11,218	600
Volume loans disbursed since inception: million JD (million US\$)	9.1 12.8	1.6 2.3	1.3 1.8	4.19 5.8	0.4 0.5
Portfolio at risk (as of 2/28/2001)	0.07%	10.7%	0%	5.6%	
Loan loss reserve	3.2%	2.0%	N.a.	1.2%	N.a.
Operational sustainability (July 2001)	98%	78%	66%	81%	N.a.
(1) Data consolidated for the CCFP and SBDC projects.					

3.2.2 Three case studies of MFIs

(1) Microfund for Women (MFW): sustainable financial services for poor women-only

Microfund for Women (MFW) is a spin-off from a parent organization. Founded in 1996 as an affiliate of *Save the Children*, it was registered in 1999 with the Ministry of Industry and Trade as a non-profit company, with the objective of achieving sustainability. It is an example of the commercialization of an MFI which targets women-only and focuses on the poorer microentrepreneurs. MFW offers its clients a variety of loan products, using both the group and individual loan methodologies, with loans ranging from a minimum of \$280 to a maximum of \$3,530. MFW now has an outstanding loan portfolio of JD 979,714 (US\$1.3 million) and 5,691 loans; its operational sustainability was 95%. A detailed account is given in **Annex 2**.

What has made MFW successful in achieving sustainability with outreach?

- *Client incentive system*: A group member with a good track record can move to the individual lending category, resulting in an increase of the loan size from JD 500 to JD 2,500 and of the loan period from 6 to 12 months.

- *Branch image and set-up:* Women feel comfortable in the branch because it is run by women and is less intimidating than other MFIs.
- *Branch location:* Branches are located in close proximity to where clients live, work, cash loan disbursements, and repay their loans.
- *Credit officers:* Credit officers come from the communities where they work. They know the neighborhood and the clients, who trust them.
- *Working toward demand-driven products:* MFW has changed its products over time in order to respond to changing demand. Loan amounts have increased and loan terms have been extended. Women can borrow to finance a variety of business and household investments.
- *Internal control and linkages with banks:* Every operation involves checks or direct bank transactions. The staff does not handle cash.

Issues and challenges:

- *Strategic alliances with NGOs and other programs:* Awareness about microfinance has been increasing in Jordan as MFIs become more operationally advanced and financially successful. Other NGOs and programs, both public and private, want to be part of this nascent industry. MFW can play a leading role and develop linkages with other organizations that are providing business development services (BDS) to women entrepreneurs.
- *MIS:* MFW will be integrated into an MIS that is being created by AMIR. This system, scheduled to be available in the next few months, is expected to contribute to greater operational efficiency.
- *Client impact:* MFW is more flexible in accepting women's demands for financial services for business and household investments (e.g., children's education). MFW should continue to maintain a portfolio that provides an array of financial products.
- *Research needs:* More research is needed about the provision of savings services to low-income women and their households.

(2) Jordan Access to Credit Project (JACP) of the Cooperative Housing Foundation

Established in December 1998 as the Southern Jordan Access to Credit Project (SJACP) by the Cooperative Housing Foundation of the US, the decision was recently taken, for reasons for sustainability, to cover all promising parts of Jordan; and it was renamed. JACP operates in partnership with three commercial banks, utilizing both group and individual lending technologies, with loan ranging from \$140 to \$20,000. With US\$4 million funding from USAID since its inception, JACP has disbursed over 11,200 loans amounting to US\$5.7 million. As of September 2001, its current outstanding loan portfolio was US\$3.2 million, representing over 5,000 clients. As of September 30, 2001, its repayment rate averaged 94% and operational sustainability was at 88%. A detailed account is given in **Annex 3**.

The following are some of the most useful lessons from JACP's experience:

- *Poorer clientele vs. a mixed clientele:* JACP was designed to focus on the poorer governorates in the south: Aqaba, Tafila, Karak and Ma'an. Poorer **women** constitute 70% of the clients for the group loans and 22% in the individual loan portfolio. The average size of the group loans is US\$185 (11% of GDP per capita) and of the individual loans is US\$4,173 (250% of GDP per capita). A large percentage of micro- and small entrepreneurs accessing individual loans had been considered "unbankable" by commercial banks. A mixed clientele contributes to higher levels of operational viability.
- *Combining rural and urban clients:* Some international cases of advanced MFIs started with an urban clientele and, after reaching operational and financial sustainability, branched out to rural areas. The JACP Microfinance project, however, started out with a combined urban/rural focus. In order to reach higher levels of sustainability, its loan

portfolio is more concentrated in urban areas, since 75% of the country's population is urban.

- *Group and individual loans:* JACP tried both group and individual loans. As of September 2001, its total outstanding loan portfolio was US\$3.2 million (74% in individual loans and 26% in group loans) and 4,053 loans (86% to group borrowers and 14% to individuals). Group loans have provided a non-traditional guarantee to the economically viable poor who lack real collateral. Group lending by banks has proven to be more difficult than individual loans. In order to reach full operational sustainability and ultimately financial sustainability, JACP has expanded into densely populated urban areas and is only offering individual loan products.
- *New inter-institutional strategies:* JACP and another Jordanian MFI, the Microfund for Women (MFW), which targets only women, have agreed to join forces to develop the microfinance market. This joint strategy has proven useful in reaching a larger number of microentrepreneurs of both genders and in developing higher levels of outreach and operational viability.
- *Leveraging commercial banks vs. going solo:* In the search for sustainable institutional models, working with banks that offer economies of scope and scale is a way to reach sustainability more quickly. Since its inception, JACP worked with three commercial banks—the Bank of Jordan, the Jordan National Bank and the Cairo-Amman Bank—and recently added a fourth, the Housing Bank for Trade and Finance. Of the initial three partners, the relationship has been most successful with the Jordan National Bank (JNB). In less than a year, JACP has been able to build an outstanding loan portfolio of US\$983,445 with the Housing Bank (32% of total outstanding loan portfolio).

JACP is part of a core group of MFIs that constitute a nascent Jordanian microfinance industry mainly supported by USAID. The challenge for JACP is to make the transition from a USAID-supported project to a self-reliant MFI able to build its capacity and deliver microfinancial services in a sustainable way. JACP has taken the following steps in this direction:

- *Building local MFI organizational capacity:* JACP is in the process of merging with a local MFI, the Jordan Microcredit Company (JMCC). This option builds on the local MFI capacity already being developed by JMCC.
- *Linking with commercial banks:* JACP's experience has demonstrated to banks that microentrepreneurs are "bankable." However, to improve viability it was better for JACP to move out of banks and build its own separate operations: loan disbursement is faster and JACP can increase its outreach. The JACP-Housing Bank relationship has the greatest outreach capacity and an on-line electronic banking system that enables JACP to access loan repayment data at the exact time the loan is due.
- *Building a competitive microfinance industry:* Through its participation in the Access to Microfinance & Improved Implementation Policy Reform (AMIR), a USAID-funded project, JACP was a founding member of the guarantee mechanism, the National Credit Bureau, and the MIS system for MFIs. Working together to develop support mechanisms for a nascent microfinance industry can make each of the MFIs more effective and efficient in their operations and in reaching financial sustainability.

(3) The Jordanian Hashemite Fund for Human Development (JOHUD)

Two programs are summarized below, sponsored by JOHUD with the support of FED and other international donors (CIDA, UNDP, European Union, Japanese Fund): (1) the

Community Credit Funds Programs (CCFP), mainly targeting rural communities; and (2) the Small Business Development Center (SBDC), which is currently implementing programs in business development services (BDS) and a microcredit pilot program in east Amman. The case study of JOHUD provides lessons on: the need for specialization – either on microfinance or microenterprise development; access to subsidized wholesale funds; integrated community development activities; the process of learning about microfinance *best practices*; services to rural communities; focus on poverty alleviation and economic development; targeting women, particularly in rural areas. A detailed account is given in **Annex 4**.

JOHUD's experience in the provision of credit shows that its outreach is low. Achieving operational and financial sustainability in microfinance does not seem feasible at this time. Furthermore, households in rural areas need financial services for a variety of purposes, not just microenterprise investments. The provision of financial services in rural areas should be left to ACC and specialized MFIs. ACC, not JOHUD, should provide loan funds to local communities and societies. JOHUD can play a role as a *social intermediary* in BDS with linkages to ACC.

Issues and challenges

For JOHUD:

- Assign microenterprise development and microfinance to SBDC.
- Stay out of microfinance and explore institutional alternatives.
- Link with financial institutions (MFIs, banks) instead of becoming an MFI.

For SBDC:

- Continue to develop BDS capacity
- Link with MFIs and banks instead of becoming an MFI.
- Act as an intermediary between MFIs and JOHUD's CDCs and local communities.
- Explore alternative financing mechanisms to support start-up enterprises.
- Continue to serve women and men in order to achieve higher levels of outreach (in BDS)
- Maintain an awareness of gender issues in order to improve the quality of services. A gender perspective helps to evaluate how social and cultural factors may affect women and men differently in their demand for BDS and financial services.

Donors:

- Support JOHUD's efforts to transfer microenterprise development activities (BDS and credit) to SBDC.
- Adopt *best practices* in BDS and microfinance; MFIs in Jordan are developing a culture of non-subsidized interest rates and of full and timely repayment. Donors should avoid creating perverse incentives.
- Promote linkages between specialized MFIs and NGOs such as JOHUD involved in rural community development. This can generate more innovative and efficient financial services than isolated micro-credit projects.
- Identify and promote alternative mechanisms for savings schemes in remote rural areas rather than continuing to emphasize *microcredit-first-and-only*.
- Support changes in institutions such as ACC so that they can play a more effective and efficient role as providers of wholesale funds.

3.2.3 Building a microfinance sector with outreach to women and the poor: lessons learned

(1) Building a competitive microfinance industry

Networking and apexing: Through their participation in the Access to Microfinance & Improved Implementation Policy Reform project (AMIR), JACP and MFW have been among

the founding members of the Microfinance Association, the Guarantee Mechanism, the National Credit Bureau, and a Management Information System for MFIs. Working together to forge support mechanisms for a nascent microfinance industry can make each of the MFIs more effective in attaining their mission goal and more efficient in their operations.

Microfinance standards: MFIs are still in the process of creating their products and striving for full sustainability. The industry of four core MFIs needs to agree on operational and financial indicators and make them public. More transparency about the industry can help increase credibility in the microfinance sector.

Participation in international networks: As a recently established industry, does microfinance benefit from local MFIs being part of international networks? The case of MFW provides an ongoing example for donors' identification of capacity building models, particularly spin-offs from international NGOs.

Donor commitment: USAID, the leading donor in Jordan's nascent microfinance industry, has committed approximately \$30 million to the development of microfinance in Jordan. In addition to direct support to four MFIs, USAID supports a Credit Information Bureau, a Wholesale Funding Facility, a MIS, a Microfinance Association, a comprehensive training program, a Donors Coordination Council, and a Strategic Sector Assessment of microenterprise and microfinance in preparation of a national microenterprise and microfinance policy.

(2) Building microfinance institutions with sustainable services

Operational sustainability: The crucial challenge for MFIs is to make the transition from USAID-supported projects to fully sustainable MFIs. JACP and MFW reached operational sustainability within three years (1999-2001). They demonstrate that it is possible to charge interest rates that cover operational expenses and provide a margin for positive returns and growth, reaching at the same time a considerable number of women with sustainable financial services

Group and individual loans: JACP and MFW provide both group and individual loans. Group loans have provided a non-traditional guarantee to the economically viable poor, particularly women without physical collateral. Individual loans are offered to successful microentrepreneurs with developed businesses or good prospects of growth.

Demand-driven flexibility in product design: MFW and JACP have changed their products in order to respond to demand. For example, MFW's loans originally started at JD 75. Now, the starting amount for group loans has been increased to JD200, and the loan period extended from 11 to 28 weeks. Loan uses have been differentiated: women can now borrow for a variety of business and household purposes (e.g., children's education).

Outreach to the poor-only vs. a mixed clientele: To effectively reach a poorer clientele including women, JACP had to increase average loan size and expand its individual lending program. Among the customers of the group lending program are 70% poor women; among the customers of the individual lending program are 78% non-poor. The group loans have an average size of US\$185 (11% of GDP per capita); the individual loans, US\$4,173 (250% of GDP per capita).

Outreach to rural and urban clients: JACP, MFW and JOHUD operate in both urban and rural areas. To achieve higher levels of sustainability, JACP and MFW have loan portfolios more concentrated in urban areas, where the majority of Jordan's population lives. As overall outreach grows, a move into urban markets does not necessarily mean neglecting

rural areas; to the contrary, it may enable an institution to cross-subsidize its rural expansion.

(3) Reaching women

Women in MFI management: JACP-Jordan and MFW have developed highly qualified technical and managerial teams that include women in leading roles. Based on performance, women have been promoted to positions with greater responsibility. JACP and MFW have made women more visible as microfinance professionals and role models.

Women clients: Through smaller group loans and substantially larger individual loans, JACP and MFW give poorer women a chance to first establish, and then expand, their business. Helping women to borrow both smaller and larger amounts contributes to their economic growth and empowerment. Many microfinance programs in other countries have been criticized because they limit the amount that poor women can borrow, leaving them without a growth option.

Making women bankable: Linkages of JACP and MFW with banks have demonstrated that lending to women can be good business. Interviews with women clients have highlighted the benefits of learning about banks and becoming their clients. Bank staff interviews have underlined the importance of women as clients.

Focus on microentrepreneurs as a market segment: Lending to microentrepreneurs, particularly those in the informal sector with a large participation of women, is a viable business proposition: revenues can cover expenses, sustainability is feasible. With only women clients, MFW is now at 95% of operational sustainability.

Strategic alliances with NGOs and other programs: Awareness of microfinance has been increasing in Jordan as MFIs become operationally more advanced and financially more successful. Public programs and other NGOs want to be part of the nascent industry. MFW can play a leading role and link with other organizations (e.g., JOHUD) that are providing business development services to women entrepreneurs.

Competitive gender orientation: Under competitive conditions, MFIs become more aware of the relevance of gender considerations in assessing their clients (e.g. gender-specific reasons for dropping out of loan programs, occupational differences, preferred loan sizes and terms of different occupations such as trade and agriculture. For example, MFW has decided to maintain a focus on women, taking into consideration that poorer women are mainly in trade, lack collateral and prefer to start with small short-term loans.

(4) Challenges: Reaching the maximum number of women and men with sustainable financial services

The following factors contribute to maximum outreach to women and, simultaneously, to maximum overall outreach:

- Institutional health and sustainability, based on cost-covering interest rates and full loan recovery
- Self-reliance, based on domestic resource mobilization including savings deposits as an unlimited source of funds
- Transformation into deposit-taking MFIs, based on the enactment of a microfinance law or amendment which integrates MFIs into the regulated financial system.
- Offering both voluntary savings deposit and credit services, without a credit bias and without ceilings

- Flexibility in product design (based on debt capacity and cash flow rather than a standard-size loan product)
- Providing group loans for start-ups and individual loans for farm and microenterprise growth
- Using graduation as an incentive: from small group loans, particularly for start-ups, to larger individual loans, based on track record, for farm and microenterprise growth
- Services to a mixed-income clientele: poor and none-poor
- Services to rural and urban clients
- Collaboration among MFIs with complementary services and strategies
- Linking with ACC, once transformed into a viable financial intermediary
- Linking with commercial banks such as the Housing Bank

3.2.4 Recommendations

The best way to secure women's access to financial services is to support MFIs striving for sustainability and self-reliance and the development of a competitive microfinance industry – weak institutions in an ailing industry would not be able to reach women and men, the poor and the non-poor in significant numbers and with adequate services. General recommendations based on our case studies include:

Recommendations to the Government of Jordan

Continuing dissemination and adoption of sound microfinance practices: Currently, the Ministry of Planning has a leadership role in promoting sound microfinance practices through its Social Productivity Program and its component for Small and Micro Enterprise Development. The GoJ should continue these efforts, making them the bases of the policy framework with donors, and promote communication between line ministries.

Supporting linkages between public institutions and MFIs: For microfinance to grow, the role of public institutions in delivering retail and wholesale microfinance needs to be redefined. According to a recent assessment of the microfinance industry (AMIR, April 2001), "several of the quasi-public sector lenders are interested in co-operating more closely with MFIs, want to adopt more business-like practices, and have asked for some technical assistance."

Recommendations to donors

Broadening the scope of microfinance: Jordanian microfinance is still an infant industry in a country with approximately 5 million inhabitants. For donors, the challenge is to create competitive financial services for the whole population including the poor. Microfinance should not be restricted to microcredit, but include savings, insurance, money transfer, and other financial services. A broader range of clients and products contributes to economies of scale and scope.

Adopting sound microfinance practices: Rather than promoting more revolving funds, donors should be part of a broader framework to strengthen a sound microfinance industry. Key areas for support are microfinance industry support programs (promoted by AMIR and USAID) and good governance practices, including mentoring and training MFI managers and board members.

Adopting sound business development services (BDS) practices: There is a multitude of programs in business development services geared to women microentrepreneurs. Sound practices are required to improve microenterprise profitability. Improved BDS can produce more knowledgeable microfinance clients. Donors need to develop a joint framework and strategies to establish successful BDS. Given women's increasing participation in the informal sector, their access to sound BDS contributes to their businesses viability and their use of microfinance. Donors involved in a variety of revolving funds in Jordan should

encourage linkages with NGOs and foundations providing business development services for low-income women and men.

Making the microfinance industry inclusive, not exclusive: In this incipient stage, microfinance in Jordan is in the hands of an exclusive group of MFIs. A more inclusive industry, comprising all types of public, private and international programs and institutions, can bring scale and visibility. Fragmentation can weaken efforts. Donors can propose incentives for cooperation among local organizations involved in microfinance and microenterprise development.

Supporting policy for gender mainstreaming: Donors should recognize and continue to support the GoJ efforts to mainstream women in policies and programs. Consultation and participation of NGOs and women's groups should be encouraged.

Sharing leadership: USAID has been a lead donor in the development of MFIs and the microfinance sector. However, this industry is still young. USAID needs to be joined by other donors, who agree on *best practices* for the Jordan rural and microfinance sector as a whole and together work towards a conducive environment.⁴ This will help to avoid fragmentation of programs into a multitude of revolving and non-revolving funds.

Donor coordination: Their efforts to share information and build a common framework and strategies are crucial for a sound microenterprise sector and microfinance industry. They can bridge the gaps between commercial and poverty approaches to microfinance.

Women Microentrepreneurs: Women microentrepreneurs are becoming more visible in Jordan. Through microfinance and BDS, conditions for women's businesses are improving. The government's policy framework is gradually evolving into an enabling environment for women in society. Donor support can provide incentives -- on a competitive basis-- to MFIs and BDS providers. Quality of financial services (reflected in prices, services, delivery systems and gender considerations), not just numbers of women, should continue to be a concern for IFAD. Incentives to organizations that work with women microentrepreneurs could be provided in areas such as:

- ✓ Mainstreaming women into government policy and programs,
- ✓ Collecting statistics about women's informal and home-based activities,
- ✓ Building BDS capacity,
- ✓ Incorporating subsector approaches in BDS,
- ✓ Identifying, assessing, and disseminating specific microfinance lessons and sound practices that reach women entrepreneurs, and
- ✓ Promoting international microfinance standards.

Promoting inter-institutional linkages: IFAD is supporting programs that target women in several projects in Jordan. The case studies of JACP and MFW provide evidence that it is possible to reach low-income women entrepreneurs. These MFIs might be able to collaborate with rural organizations and the Ministry of Agriculture in defining new ways to support rural women's income-generating activities. Lessons from these MFIs should be incorporated into IFAD's other Jordanian projects.

⁴ AMIR's Microfinance/Microenterprise Strategic Assessment provides a detailed list of recommendations for donors.

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