MICROFINANCE REGULATION IN JORDAN: A COMPARATIVE PERSPECTIVE WITH MENA COUNTRIES AND OTHER AREAS
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Abstract. Due to the expansion of microfinance institutions’ (MFIs), it has been increasingly recognized that MFIs activities need to be brought under the financial sector’s regulatory framework. In many countries, this framework is underdeveloped, in others partially applied. To ensure a fully informed policymaking process, it is important to examine the lessons of experience from the countries that have begun to address the legal and regulatory framework for microfinance. One can learn from good practice as well as from misguided practice. This paper aims to provide the necessary comparative data and analysis to support sound regulatory policy for MFIs in Jordan. When it comes to regulating MFIs, one needs to keep in mind the differences between these institutions as a group, on one hand, and the existing regulated institutions on the other hand. Some opinions suggest that institutions which do not take savings do not justify regulation. However, many countries do regulate credit-only institutions, and indeed the need for transparency, market stability, and control of unfair practices suggests that some regulation is often needed. Regulation and supervision need to be targeted in such a way that their benefits in terms of depositor protection and the safety of the financial system generally outweigh the costs and risks involved. This inevitably means that only certain classes of institutions receive full regulation, while others face less strict control, and some will not be regulated at all. This paper concludes lessons to policy makers in the field of regulation of MFIs in Jordan to attain the final goal of expanding access to financial services for the benefit of poverty reduction and economic development.
JEL Codes: O53
Keywords: Microfinance regulation, Jordan, MENA countries

1. Introduction.

“Microfinance” refers to the provision of banking services to lower-income people, especially the poor and the very poor who are excluded from the traditional financial sector (due to lack collateral or a formal credit history). To most people, the term “microfinance” is often used in a much narrower sense, standing principally for microcredit, which is defined as lending small amounts of money for short periods with frequent repayments. Since 1976, when the Grameen Bank(1) in Bangladesh has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity, microcredit came into being. Experience shows that microcredit can help the poor, especially women, to engage in productive activities or to expand tiny existing businesses which will increase their incomes, build viable businesses and reduce their vulnerability to external shocks. Accordingly, it can play an important role in food security, children's education, and other benefits. The clients are not just microentrepreneurs seeking to finance their businesses, but the whole range of poor clients who also use financial services to manage emergencies, acquire household assets, improve their homes, smooth consumption, and

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(1) For more information, look at Grameen Bank home page.
fund social obligations. 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, and have demonstrated an ability to undertake a proposed activity and are committed to repaying their debts. 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. 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. Furthermore, poor people, 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.

The rest of the paper is structured as follows. In section 2, the current status and developments concerning microfinance sector in Jordan are briefly discussed. Section 3 analyses the micro finance sector in the MENA region focusing on the regulatory issues. This is followed by a brief overview of experience from other countries in section 4 which can add value to deliberation on the legal regulatory framework for microfinance in Jordan. The final section provides overall lessons for regulating microfinance sector in Jordan.

2. The Microfinance Sector in Jordan.

Microfinance in Jordan started in the mid-to-late 1990s\(^2\), where the Jordanian economy was threatened by an increasingly high unemployment rate, growing poverty and rising prices. To reduce the effect of these trends on the economy, the Ministry of Planning and International Cooperation (MOPIC) partnered with the United States Agency for International Development (USAID) helped in supporting a sustainable microfinance environment through the UD$ 40 million Access to Achievement of Market-Friendly Initiatives and Results (AMIR) program in 1998. The USAID’s AMIR program has provided funding, technical assistance, and advocacy, and has engaged in broader economic development activities as well. Other bilateral and multilateral organizations have been active in the sector, including IFAD (International Fund for Agriculture Development) that has also provided funding for non-governmental organizations (NGOs) and government providers for agricultural loans.

According to the total potential market for microfinance services in Jordan, it was estimated at around 150,000 micro-enterprise clients before the Iraqi war. Since then, immigrants’ influx could have raised the number of potential clients up to 250,000. The market coverage ranges from a low estimate of 30% to a high estimate of 60%, in both cases one of the highest in the MENA region. At year end 2008, the Jordanian microfinance market consisted of 144,232 active clients and a gross loan portfolio (GLP) of about $127 million, accounting for 8.5% of the regional market according to GLP.\(^3\)

Microfinance industry in Jordan has proven its effectiveness as a vehicle for improving the financial status and living standards of low-income citizens, particularly

\(^3\) Sanabel, Microfinance Industry Profile, Jordan, 2009.
women. AMIR was instrumental in creating three large sustainable Jordanian microfinance institutions (MFIs) in the 1990s: Tamweelcom, Alahli Microfinance Company (AMC) and the Middle East Microfinance Company (MEMCC). Additionally, AMIR was providing support to the Jordanian Women’s Development Society (JWDS), which became Microfund for Women.

The National Microfinance Bank (NMB or Al Watani), also known as the “Bank for the Poor”, was launched in March 2006, followed by new entrant FINCA in 2007. The Development and Employment Fund (DEF), a quasi governmental organization which was created in 1991, has played a strong role as both a wholesale and retail lender in Jordan’s microfinance sector.

The United Nations Relief and Works Agency (UNRWA) began providing microloans in Jordan to Palestinian refugees. Moreover, the private banking sector has been making consumer loans increasingly accessible to those with a salary.

Subsidized providers include the National Assistance Fund (NAF), a governmental program aimed at unemployed poor, and the Industrial Development Bank (IDB), a private bank in operation for several decades authorized under special laws with a mixed public/private sector Board. Funding for agriculture is served by government organizations such as the Agricultural Credit Corporation. A myriad of other smaller government and quasi-government players also exist. Little information is available regarding these institutions.

The majority of microfinance activity in Jordan is microcredit to both individuals and groups for financing existing projects as well as start-ups. Recently a few MFIs have begun to offer consumer credit products including vehicle, education and construction loans. Islamic loans are mainly designed to meet the market demand for vehicle lending. None of the MFIs currently offers savings or transfer services (4), while some MFIs have partnered with local insurance companies to provide life and health insurance programs to their clients. More recently, leasing products have been launched. According to nonfinancial services, vocational training, primary school educational scholarships for the children of microfinance clients, and business development services are recently offered.

The primary funding sources of microfinance in Jordan were donors and Jordanian government through DEF. But, there has been significant transition from subsidies funding to longer-term lending through commercial banks and microfinance investment vehicles.

The lack of a Credit Bureau, which has been waiting for official authorization since 2003, has been compensated by the creation of an information sharing platform hosted by Delta Informatics early in 2008, which has provided the loan-tracking system for most MFIs. As a positive result, cross-indebtedness decreased from high level of 30%-40% down to 13 %.(5)

2.1. Microcredit Service Providers in Jordan: Today there are four main categories of microcredit service providers in Jordan: (i) private MFIs, (ii) commercial banks, (iii) governmental MFIs, and (iv) non-governmental organizations (NGOs). These categories include a variety of institutional forms as outlined in the table below.(6)

(4) Except banks, currently CAB is the only commercial bank microcredit provider.
(6) For more information, see appendix 2.
Table 1: Largest Jordanian Microcredit Service Providers: Legal Forms

<table>
<thead>
<tr>
<th>Category</th>
<th>Private MFIs</th>
<th>Commercial Banks</th>
<th>Governmental MFIs</th>
<th>Non-Governmental Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Form</td>
<td>Non-profit Company</td>
<td>For-profit Company</td>
<td>Prudentially Regulated Financial Institution</td>
<td>Village Banking, Self Help Groups</td>
</tr>
<tr>
<td>MFI</td>
<td>MFW, Tamweelcom, MEMCC, NMB, FINCA</td>
<td>AMC, CAB, DEF, ACC</td>
<td>Approx. 200</td>
<td>GUVS, JOHUD</td>
</tr>
</tbody>
</table>


Table 2: The Key Jordanian MFIs Providers, 2008

<table>
<thead>
<tr>
<th>MFI Provider</th>
<th>Active Borrowers (#)</th>
<th>Women Borrowers (%)</th>
<th>Gross Loan Portfolio (USD)</th>
<th>Average Loan Balance (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al Watani</td>
<td>20,900</td>
<td>85%</td>
<td>15,311,587</td>
<td>733</td>
</tr>
<tr>
<td>AMC</td>
<td>2,946</td>
<td>50%</td>
<td>4,647,177</td>
<td>1,577</td>
</tr>
<tr>
<td>DEF</td>
<td>17,515</td>
<td>59%</td>
<td>50,138,801</td>
<td>2,863</td>
</tr>
<tr>
<td>FINCAJordan</td>
<td>9,062</td>
<td>98%</td>
<td>2,391,331</td>
<td>264</td>
</tr>
<tr>
<td>Tamweelcom</td>
<td>39,352</td>
<td>95%</td>
<td>14,645,631</td>
<td>372</td>
</tr>
<tr>
<td>MEMCC</td>
<td>11,552</td>
<td>47%</td>
<td>15,873,860</td>
<td>1,374</td>
</tr>
<tr>
<td>MFW</td>
<td>36,944</td>
<td>96%</td>
<td>16,024,254</td>
<td>434</td>
</tr>
<tr>
<td>UNRWA</td>
<td>3,711</td>
<td>11%</td>
<td>3,640,341</td>
<td>981</td>
</tr>
<tr>
<td>Sub-total</td>
<td>141,982</td>
<td>122,672,982</td>
<td>864</td>
<td></td>
</tr>
</tbody>
</table>


The private microcredit sector in Jordan is highly transparent and an industry leader in the Arabic world. Of the three Jordanian MFIs that have been rated in 2007, two were rated A- (MFW and Tamweelcom) and the third (AMC) was rated B+ (7). Additionally, Tamweelcom was ranked the 8th and MFW ranked the 54th in the 2008 MIX Global 100 Composite. (8) All six private microcredit institutions report on their finances and operations to the MIX market, receiving between four and five diamonds (five diamonds indicating the highest level of disclosure possible).

Figure 1 in the Annex show active borrowers in the key Jordanian MFIs in 2008.

2.2. MFIs Legal and regulatory environment in Jordan: Under Jordanian law, there is no requirement to obtain a governmental license or other permission to lend. In addition, any legal entity may engage in lending. There are currently no specific regulations for microfinance or micro-lending in Jordan. MFIs are operating in a relaxed regulatory environment.

(7) This rank was given by Planet Rating, the global microfinance rating agency. Currently, Tamweelcom was received rating A (June 2009 valid until May 2010), while the rating process for other MFIs did not complete until the date of this paper.

(8) See section 3 below.
environment, providing them wide latitude to establish their own governance and management policies.

Accordingly, the regulatory framework affecting the microfinance activities consists of several laws based on the legal structure of the actual microfinance provider. As a result, various governmental bodies are engaged in the supervision of microfinance activities, creating confusion and differences in regulation. 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.

Oversight of the industry until the third quarter of 2009, the largest microfinance providers are private companies supervised by the Companies Control Department at the Ministry of Industry and Trade (MIT). Most of these companies are registered as non-profit, with the exception of AMC. They report to the MIT like any other company - by submitting annual reports of the company's activities and audited annual financial statements. MTI collects quarterly information, but does not publish them, nor does it actually conduct supervisory visits and it is unclear whether those at MIT reviewing submitted reports and statements have the financial expertise and a sufficient understanding of the micro-lending sector to meaningfully evaluate submitted documentation. Although the Ministry of Planning and International Cooperation (MOPIC) plays an important role in supporting the industry and requests MFIs to report certain indicators on a quarterly basis, MOPIC’s mission is not to act as industry regulator and supervisor.

CAB’s micro-lending activities are supervised by the Central Bank of Jordan (CBJ) since CAB is a prudentially regulated and licensed bank. NGO micro-lending operations are supervised by Ministry of Social Development (MOSD). Consequently, a number of governmental bodies are involved in the sector (MIT, MOPIC, CBJ and MOSD), none of which takes direct responsibility for monitoring micro-lending activities as a sector.

By September, 2009, the new Associations Law, required non-profit companies to change their name to “association” and start reporting to MOSD. So, MOSD will supervise those non-profit MFIs that were under MIT authority- with the result that for-profit private micro-lending companies would report to MIT, NGO and nonprofit private micro-lending companies would report to MOSD whose ability to evaluate the needs and operations of micro-lending companies is questionable, and commercial banks providing microcredit would report to the CBJ.

2.3. Taxation: The largest MFIs are registered as limited liability companies. Most of these companies are registered as non-profit, with the exception of AMC, which is a for profit company owned by the Jordan National Bank. Until 2004, microfinance companies were subject to 35% income tax applicable to financial institutions. However, in 2004, the Council of Ministers exempted non-profit microfinance companies from all taxes to create a level playing field in the industry given that the newly established National Microfinance Bank (Bank for the Poor) was exempted from all taxes (9). As well, NGOs are exempted from all taxes. On the other hand, CAB, and any other financial institution that are regulated by CBJ if exist, and AMC and any other for profit private company if exist are subject to income tax (30-35%) from which other microfinance companies are exempted, creating higher costs that would need to be passed on to the client.

2.4. Interest Rate Policy: With the exception of banks and financial institutions (all of which may charge interest freely), both the Civil Procedural Law of 1988 and the Usury Regulation of 1926 set an interest rate cap of 9 percent on all civil and commercial transactions. Most MFIs are currently charging interest at a much higher rate, which may constitute a violation of the Civil Procedural Law of 1988 and the Usury Regulation, in case MFIs are not considered and treated as "financial institutions". If challenged in court, MFI interest rates run a risk of being deemed illegal under the Civil Procedural Law and the Usury Regulation. To date however, there have been no known challenges to MFI interest rates.\(^{(10)}\)

3. The microfinance sector in the Arab region-

The microfinance sector in the Arab region (also called the Middle East and North Africa, or MENA, region) intensified its activities, providing access to financial services to more customers while developing the product range offered. While savings remained negligible due to legislative restrictions and limitations, Arab microfinance institutions (MFIs) diversified their lending product mix to include agricultural, consumer, education, housing, and start-up loans, in addition to the working capital loans for microenterprises already on offer. There has been a notable evolution of the microfinance sector in the Arab world. Mainly, Morocco, Egypt, and Jordan which are more mature, and enjoy greater access to funding sources compared to Iraq, Lebanon, Palestine, Sudan, Syria and Yemen, which are young and emerging sectors that are slowly but steadily developing and growing their activities and operations.\(^{(11)}\)(\(^{(12)}\)

Table 2: 2008 MIX Global 100 Composite Ranking

<table>
<thead>
<tr>
<th>Rank</th>
<th>MFI Name</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Tamweelcom</td>
<td>Jordan</td>
</tr>
<tr>
<td>10</td>
<td>Al Amana</td>
<td>Morocco</td>
</tr>
<tr>
<td>18</td>
<td>Enda</td>
<td>Tunisia</td>
</tr>
<tr>
<td>21</td>
<td>Zakoura</td>
<td>Morocco</td>
</tr>
<tr>
<td>30</td>
<td>Inmaa</td>
<td>Morocco</td>
</tr>
<tr>
<td>35</td>
<td>Al Tadamun</td>
<td>Egypt</td>
</tr>
<tr>
<td>38</td>
<td>FBPMC</td>
<td>Morocco</td>
</tr>
<tr>
<td>52</td>
<td>DBACD</td>
<td>Egypt</td>
</tr>
<tr>
<td>54</td>
<td>MFW</td>
<td>Jordan</td>
</tr>
<tr>
<td>68</td>
<td>FONDEP</td>
<td>Morocco</td>
</tr>
<tr>
<td>79</td>
<td>Ameen</td>
<td>Lebanon</td>
</tr>
<tr>
<td>82</td>
<td>ESED</td>
<td>Egypt</td>
</tr>
<tr>
<td>97</td>
<td>ARDI</td>
<td>Morocco</td>
</tr>
</tbody>
</table>

Source: MIX Global 100 Composite Rankings

\(^{(12)}\) See appendix 2.
Data from 48 Arab MFIs has been included amongst the total of 971 MFIs surveyed and, following screening for profitability, 27 Arab MFIs were included among the 652 profitable MFIs ranked in the 2008 MIX Global 100 Composite Rankings. Although representing only 4% of the total sample, Arab MFIs constituted 13% of the top 100.\(^{(13)}\)

### 3.1. Evolution of Microfinance Regulatory Frameworks:

The growing enthusiasm for the Moroccan market is closely related to the regulatory environment in the country, which has undoubtedly created a competitive edge, providing a solid ground for developing activities targeted at new sources of funding in the country. Similarly, the regulatory changes that took place in Syria in 2008 allow MFIs to obtain a license to operate under the direct supervision of the Central Bank of Syria. This step aimed to pave the way for additional investment in Syria in the coming years. Recently, in Yemen, the parliament has approved the amendment of the new law of microfinance. This step is meant to promote, develop and diversify the activities of microfinance in Yemen.

In Egypt a new Law for the Regulation of Non-Banking Financial Markets and Instruments was approved in 2009 to be administered by the Ministry of Investment. This new code is expected to increase the volume of investment in this sector and encourage the emergence of new statutes regarding microfinance and MFIs, specifically non bank financial institutions (NBFIs). Despite that the Jordanian market is still unregulated; it is among the most efficient markets in the region. In Jordan, it is very important to develop microfinance activities gradually, in order to allow the sector to grow in a stable manner.

### 3.2. Microfinance in Morocco:

Even measured in global terms, the development of the sector during its relatively short existence is quite exceptional. In 1999, the government passed the Microfinance Act which provides a legal framework for microfinance in Morocco. By granting explicit authority and certain privileges for microlending by nonprofit associations the law has been a significant factor in the growth of the sector. The evolution of regulatory frameworks for the Moroccan market has undoubtedly created a competitive edge, providing a solid ground for developing activities targeted at new sources of funding in the country.\(^{(14)}\)

The law requires MFIs to register with the Ministry of Finance and, among other stipulations, prohibits MFIs from collecting savings. MFIs are supervised by the Ministry of Finance and are required to be audited. The Ministry also has the authority to impose an interest rate ceiling on microcredit associations. Twelve local nonprofit associations are permitted to operate as microlenders in Morocco under the 1999 Microcredit Associations Law. Under this law, all must be registered as associations. These are effectively the only players in the microcredit market, as the other available legal forms are not able to operate sustainable microlending portfolios due to interest rate caps and related loan pricing controls. Commercial banks have established close links with the microcredit associations. For example, the third largest of the microcredit associations was formed and initially capitalized by the Banques Populaires and enjoys strong ongoing support.\(^{(15)}\) Compared to Arab countries, the Moroccan microfinance sector witnessed remarkable growth in both the number of borrowers and the volume of loan portfolio. Morocco dominated the market in terms of volume of assets and loan portfolio which, in 2007, were significantly higher than those

\(^{(13)}\) Sanabel – Arab Microfinance Network Transparency and Research Department.


\(^{(15)}\) Xavier Reille and Timothy R. Lyman, June 2005.
of its closest peers, including Egypt. Indeed, Morocco has four times more assets and seven times more loan portfolio than Egypt. \(^{(16)}\)

**3.3. Microfinance in Egypt:** Although Egypt boasts three microfinance institutions (MFIs) that rank in the Microfinance Information Exchange’s (MIX) Global 100 Composite Ranking, the country’s microfinance industry overall is underdeveloped relative to the large potential market. The first efforts in establishing microfinance industry in Egypt began in 1990 with the USAID. For almost 20 years, the USAID has provided financial and technical assistant to nine MFIs, each serving a different geographical area with little overlap and minimal competition amongst themselves. During this same timeframe, over 200 additional NGOs began to offer microfinance services. NGO-MFIs are the primary suppliers of microcredit services in Egypt. Fifteen MFIs – mostly NGOs – serve more than 85 percent of the total active clients. The growth levels amongst many of the Egyptian MFIs have quite modest on the past few years. The Egyptian market continued to be underserved. \(^{(17)}\) The vast majority of microfinance activity in Egypt is microcredit, while the microsaving remain non-existent in the Egyptian market. Moreover, few MFIs have introduced microinsurance. The Egyptian government has historically supported microfinance based on its development strategy which lists poverty reduction as one of its major aims. In 2004, the Central Bank of Egypt led a project for the development of the National Strategy for Microfinance in Egypt. As a result, a supportive infrastructure has been developing. The Egyptian Microfinance Network was established in 2006 to act as representative of the MFIs and the first microfinance policy forum was hosted by the Network to discuss key policy issues affecting the industry and advocate for needed changes. The Network also developed a credit information sharing system. Furthermore, banks have been more engaged in providing commercial loans to MFIs. In 2009 a new Law for the Regulation of Non-Banking Financial Markets and Instruments was approved to be administered by the Ministry of Investment. This new law is expected to increase the volume of investment in this sector and encourage new entrants such international microfinance players. \(^{(18)}\)

**3.4. Microfinance in Syria:** The Syrian microfinance sector is young and largely untapped in comparison to other Arab countries in the region with the potential demand side of the market stands out as grossly underserved. There are currently six governmental, non-governmental, and donor sponsored organizations in Syria, operating mainly in rural areas where poverty is highest. Moreover, with respect to product diversification, the current providers offer a limited variety of individual (business, consumption, housing, and rural development) and group loans. The Government of Syria has taken a number of significant steps towards developing the industry over the past few years. The most significant achievements have been setting the strategic pillars for the National Strategy for Microfinance as part of the tenth Five Year Plan (2006-2010), and in February 2007 the ratification of the General Microfinance Decree. Effective 2008, the decree authorizes the establishment of “Social Financial Banking Institutions,” which may be local or foreign-owned microcredit providers, and are permitted to take deposits

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\(^{(18)}\) Microfinance Industry Profile, Egypt, Sanabel, 2009, and Law for the Regulation of Non-Banking Financial Markets and Instruments in Egypt, CGAP web site.
and offer other financial services, including microinsurance. This decree marks Syria as the first Arab country to allow the establishment of deposit-taking MFIs and the transformation of existing programs into regulated institutions. In addition to increasing and diversifying funding sources for Syrian MFIs, the new legal status provided by the decree shall allow Syrian MFIs to provide clients with a wide range of new products and better services. (19)

3.5. Microfinance in Lebanon: There are currently 23 Lebanese microfinance programs, many of which charge subsidized interest rates. USAID has provided funding to the sector. The MFIs have achieved national coverage of Lebanon. In terms of outreach, Lebanon is one of the top five microfinance markets in Arab region. The development of the microfinance sector has been slowed down by political conflict and instability that have been part of the country’s history. The majority of microfinance programs are structured as NGOs. The vast majority of Lebanese microentrepreneurs are restricted to credit. Microsaving does not exist due to the regulatory structure. Moreover, the Lebanese MFIs have not yet begun to offer microinsurance to their clients. Regarding legal and regulatory structure, there is no comprehensive microfinance law in Lebanon. Therefore, entities engaged in microfinance activities are regulated based on their registration type. (20)

3.6. Microfinance in Yemen: MFIs are quite small - majority of programs have less than 3,000 clients, and most MFIs struggling to cover costs. (21) While both average number of borrowers and volume of loan portfolio declined in 2007, the Yemeni sector total asset base increased by 40 percent, signifying increased capital investments that are expected to be translated into higher growth levels in the coming years. Yemeni Government has issued a law for the year 2002, establishing the first Microfinance Bank in Yemen (and the region) under the name of (Al-Amal Microfinance Bank (AMB)), which Started officially in January 2009, but people has little sometimes no information about it. (22)

Recently, the parliament In Yemen has approved the amendment of the new law of microfinance banks which authorizes microfinance banks to provide banking service to families, small businesses and smaller projects in the urban and rural sectors in the republic. The law assures the role of the microfinance banks in achieving more economic growth and more social stability. In addition, microfinance banks are expected to contribute in reducing unemployment and poverty. (23)

4. Experience and Lessons from Other Countries:

Other countries have had different experiences in their approach to regulation of microfinance business. This section gives summary of the experiences of a few selected countries.

4.1. Microfinance in Bolivia: The leading MFIs were founded in (1986) and operated as microcredit NGOs. In 1992, a transformation process of the leading NGOs into regulated financial intermediaries process began. Over the next several years, the industry achieved

(21) Deena Burjorjee, Sanabel Fourth Annual Conference.
(23) Central Bank of Yemen web site.
relatively high growth rates, but also began to suffer from significant systemic risk due to the over-indebtedness of a large number of clients. During that period the Bolivian banking authorities generated the special non-bank license for finance companies. The Bolivian case, one of the best-known in the field, illustrates the importance of a patient market-development strategy implemented by a highly capable supervisory agency. The Supervisor allowed experimentation, and engaged the sector in ongoing dialogue while elaborating its regulatory approach. Gradually MFIs were brought into the regulated sector – with the prospect of increasing their range of services from that point. Both the supervisor and the sector avoided promotional schemes and subsidies. This helped bring about a 20-fold increase microfinance portfolios in the 1990s, and steady downward pressure on interest rates. The gradual introduction of deposit services in the sector led to an expansion of savings, which cover some 60% of the overall loan portfolio in 2006. By that time, regulated MFIs had a total of 145 branches in urban areas, and 61 in rural areas, while unregulated MFIs had an additional 106 in urban and 117 in rural areas. Over the past two decades, the Bolivian case has been amply recognized as a source of best practices for the rest of the world. In particular, Bolivia has been a leader in innovations in lending technologies and in the creation of appropriate institutional and regulatory frameworks. Actually, neither the history of the microfinance industry in the world could be written without referencing the exceptional achievements of the Bolivian microfinance institutions and their global contributions, nor the recent economic history of Bolivia could be written without mentioning the significant contributions of microfinance institutions to the development of the country’s financial system.

4.2. Microfinance in Brazil: This is a case of disappointed expectations resulting from a restrictive policy framework overlaid on a relatively underdeveloped sector. The microcredit industry has reached only about 2 to 3 percent of the total potential market. This is despite the fact that the first microenterprise credit program in the continent was started in Recife, Brazil in 1972, and despite the fact that the government has undertaken a number of initiatives to stimulate the sector over the past two decades. Growth has been painfully slow for the last 25 years and only recently has begun to accelerate more rapidly. Indeed, the absence of competition and crowding out by public sector, government policy and intervention in the market, lack of well defined legal and regulatory framework and lack of macroeconomic stability represent the most significant barriers in the microfinance sector.

4.3. Microfinance in Ghana: Ghana’s early ventures into microfinance policymaking were unsuccessful. In particular, the framework for rural banking led to rapid entry and expansion that brought large numbers of small institutions under Bank of Ghana supervision – far exceeding its available capacity. This inevitably led to failure and restructuring in the sector, with subsequent policy severely tightening entry and prudential standards. During the same period (mid-1990s), the government implemented an anti-poverty strategy with a focus on microfinance. Unfortunately, this encouraged subsidized credit programs rather than a focus on developing a framework for sustainable market development. More recently, the Bank of Ghana issued new rules that reflect

greater understanding of the sector and that may support growth with discipline.\textsuperscript{(27)} In fact, prudential requirements including high reserve requirements and high minimum capital requirements in addition to low interest rates requirements and directed subsidized lending constitute the major constraints facing the provision of microfinance services in Ghana.

4.4. Microfinance in Indonesia: Indonesia has a century-long history in microfinance that dates back to Dutch colonial times at the close of the 19th century. It represents a successful case of microfinance sector with some 44 million depositors, 30 million borrower, and U.S. $141 billion in assets \textsuperscript{(28)}. Indonesia was one of the first countries to develop commercial microfinance in Asia, with regulated financial institutions providing the bulk of microfinance services throughout the archipelago. In addition to the success of commercial microfinance providers, Indonesia has also been a favorable ground for the development of numerous subsidized government programs, local and community-based financial institutions, cooperatives and NGOs. In fact, Indonesia has a diversified microfinance sector with a wide array of providers – from village banks to local microfinance banks and rural banks. There have been some weaknesses in governance and oversight in these sectors, but since the early 1990s, Indonesia has been addressing these by harmonizing standards, and delegating supervision while building mainline supervision capacity in Bank Indonesia, the central bank of Indonesia. This dispersed and decentralized system provides deep outreach to the most distant communities and to the poor (if not the poorest). Current efforts focus on continued harmonization of standards for village banks and local microfinance banks, and elaboration of a microfinance strategy. NGOs play a less significant role in microfinance in Indonesia than in virtually any other country in the world.

4.5. Microfinance in Mexico: One might characterize this as an intermediate case, one where there are growth trends and promising regulatory developments that have not yet completed. Mexican microfinance has taken a range of forms, primarily financial cooperatives (savings and loan coops, credit unions, and others), but also small credit-only finance companies and NGO-MFIs. In 2001, government and advocates from the sector launched a high-profile policy initiative that shortly led to a law, and then to a complex implementation process. Because the implementation of the 2001 Law has been delayed as supervisory matters are sorted out, it is not yet fully clear how these regulatory changes will affect the sector. The sector has grown 20\% annually since the law was approved – but there is insufficient evidence to attribute this positive result to the new law’s impact. The reform process may have contributed, but a host of other factors did so as well \textsuperscript{(29)}.

4.6. Microfinance in The Philippines: The Philippine experience in microfinance provides a number of valuable lessons for other countries striving to integrate microfinance into the financial sector. Despite that the market-oriented and commercially-focused microfinance in the Philippines is a relatively new development in comparison to other countries, these institutions have achieved strong outreach. There is a diverse array of microfinance providers including NGOs, rural banks, and cooperatives. The challenge here has been to counteract a previous policy emphasis on

\textsuperscript{(28)} Meagher, Patrick and others, 2006, and The Banking with the Poor Network, 2009.
\textsuperscript{(29)} Trigo Louibi\`ere, 2004, and Meagher, Patrick and others, 2006.
state intervention through heavy regulation and subsidized credit provision. Since the mid-1990s, the Philippines has articulated a microfinance policy and enacted an amended banking law enabling MFIs to take deposits and to set the terms of their financial services independently. A number of agencies have stepped in to push forward the processes of market development and strengthening of sectoral governance. This includes the Bangko Sentral ng Pilipinas (BSP), the Central Bank of the Philippines, which has played a lead role in tailoring certain regulatory norms to support MFI operations, providing market infrastructure, and, very importantly, building sufficient internal supervisory capacity to deal effectively with the sector. BSP has also delegated some responsibilities, notably putting the credit unions under the supervision of their apex institution, and less formally encouraging standard-setting and creditor oversight of the NGO-MFIs. Other agencies include the National Credit Council, which has guided microfinance policy, the Microfinance Council of the Philippines, which has helped generate voluntary standards for NGO-MFIs, and Credit and Finance Corporation, a government–owned finance company, which has played a key role in wholesale financing for the sector. Through all this, the Philippines has developed a market with some 1.5 million clients and U.S. $1.3 billion in loans—with relatively low barriers to entry, and notably without a specific law on microfinance.\(^{(30)}\)

**4.7. Microfinance in South Africa:** In the early 1990s, South Africa decided to legalize the existing informal moneylending industry, which was growing rapidly, under an exemption to the usury limit. This led to even more explosive growth, with attendant problems of abusive practices, over-indebtedness, and a widespread perception that the sector was overcharging and failing to meet the investment needs of the majority population. In response, the Micro Finance Regulatory Council (MFRC) was created in 1999 to monitor micro lending activity and to register micro lenders interested in achieving an exemption to the 1992 Usury Act. The MFRC has been an active (non-prudential) regulator, pushing the limits of its jurisdiction in the interest of helping develop a sound market through the strict application of standards. Among its areas of activity are enforcing consumer protection rules, addressing over-indebtedness, and setting-up and running a National Loan Registry. The MFRC has also played a major role in information, research, and policy advocacy. Partly as a result of its efforts, South Africa started considering a new legislative framework providing for a higher-profile credit regulator, consumer credit standards that apply to all financial transactions, and a new law on narrow banks to serve the lower end of the market. Under these policies and the MFRC’s stewardship, South Africa has developed a microlending market comprised of some 5.5 million loan accounts and U.S. $3 billion in outstanding loans. The major challenge facing South Africa’s microfinance industry is that there is no comprehensive national microfinance policy.\(^{(31)}\)

**5. Overall Lessons for Jordan**

From the analysis of the current situation of MFIs in Jordan, and the experiences of Arab and other countries, we can draw the following lessons for MFIs Regulation in Jordan:

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\(^{(30)}\) UN Advisors Group, 2008, and Meagher, Patrick and others, 2006.

\(^{(31)}\) Patrick Meagher, the IRIS Center, 2005 and Meagher, Patrick and others, 2006.
1. The special features of microfinance that need to be accommodated within the regulatory structure include: a) its attempt to deepen financial markets to serve micro-enterprises and poor households; b) its high unit costs of lending; c) its approach of physically taking banking services to clients who have few other options to receive financial services; d) the relatively undiversified and sometimes volatile nature of MFI credit portfolios; e) the fact that most MFIs began as unregulated credit NGOs, with a focus on social goals rather than financial accountability and sustainability; f) diversity of institutional types, with some MFIs clearly profit-oriented while others are committed to providing services to the poorer segments of the population on a non-profit basis, creating very different cost structures and funds sources; g) and the market risk posed within the microfinance sector itself when MFIs (especially large ones) are not properly managed and monitored.

2. For regulation to be reasonable, sequence of questions about a proposed plan of regulation should be answered such as:
   a) What are the existing market conditions? What are the related issues or problems? Whom does it affect?
   b) What would happen if no action were taken? What is the risk and how great is it?
   c) To what degree is it feasible to solve the issue or problem through regulation – can government realistically do anything about it?
   d) Are there mechanisms other than regulation, which would achieve the intended objectives more cost-effectively?
   e) What are the likely direct and indirect costs of fulfillment with each alternative?
   f) Are the proposed enforcement mechanisms practical, realistic, and cost effective?
   The answers to these questions have implications for the decision whether to regulate, as well as the scope and design of any regulatory regime.

3. Microfinance sector institutions are no longer solely socially motivated. Due to the growing perception that it is possible to earn high returns through microfinance lending, commercially driven entities are also being attracted to the sector. This further underlines the need for supervision and consumer protection.

4. The development of legal and regulatory frameworks for microfinance is, like all policy ventures, a question of trade-offs. The touchstone is the achievement of sustainable financial deepening, and extension of services to the unbanked and the less well-off. The key trade-offs, then, concern how much of an increase in access can be gained, at what cost, using which policy tool. Hence, careful impact assessment (RIA) is needed.

5. In order to reach significant scale and to provide adequate service to clients, microfinance institutions need to go beyond government and/or donor support to attract private capital and to mobilize savings. To achieve this goal, MFIs need proper, facilitative legal and regulatory environment.

6. An independent body needs to be set up with clearly defined powers for the enforcement of rules and regulations. The board of the regulatory authority should be fully representative of all stakeholders. Once regulation put in place, it is essential to ensure the availability of sufficient regulatory capacity with trained and empowered supervisory authority. Regulator capacity is key in the success of any regulation.

7. Prudential regulation must be avoided to non deposit takers. For prudential regulation, it is also vital to avoid licensing very weak institutions that cannot be
effectively supervised. A special (non-prudential) regulation, focusing on consumer protection and good business conduct, is necessary as the MF industry grows. The laws and regulations should be strong and enforceable though non-prudential in nature.

8. Standard banking regulation and supervision tend to impose ineffective and overly heavy requirements on MFIs if applied without modification. It is equally important to allow for innovation at the lower levels, especially among small informal institutions, by exempting them, in whole or in part, from full registration and regulation.

9. Preventing over-regulation is at least as important as putting well-tailored rules and systems in place. Regulation of microfinance is likely to create problems. Consequently, microfinance regulation should be “light-touch,” focusing on market safety and soundness principles applicable to the financial markets as a whole.

10. Savings is a very important financial service for the poor and, given that savings needs of the poor are not being met by commercial banks, government authorities should organize efforts to understand the nature and level of demand for micro and small savings services and the types of products which would best serve the low-income market.

11. The lack of regulatory awareness raise certain issues which could influence the long-term success of the sector including consumer protection mechanisms addressing appropriate disclosure, safeguarding consumer privacy and rights, procedures by which MFIs may qualify for exemptions from the interest rate cap imposed by the Civil Procedural Law and the Usury Regulation, and the lack of regulated and effective credit bureau to prevent client over-indebtedness and minimize the credit risk for MFIs.

12. Currently, tax exempt status is not provided automatically, requiring new entrants into the market to seek such exemption before starting operations. A more streamlined approach by which all registered micro-lending companies automatically qualify for the same tax exemption would facilitate the entry of new market players.

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1. www.planetrating.com, Planet Rating, the Global Microfinance Rating Agency.

Acronyms

ACC Agricultural Credit Corporation
AMC Ahli Microfinance Company
AMIR Achievement of Market-Friendly Initiatives and Results Program
CAB Cairo Amman Bank
CBJ Central Bank of Jordan
CGAP Consultative Group to Assist the Poor
DEF Development and Employment Fund
FINCA Foundation for International Community Assistance
GUVS General Union of Voluntary Societies
IFAD International Fund for Agriculture Development
IDB Industrial Development Bank
JD Jordanian Dinar
JMCC Jordan Micro Credit Company (Tamweelcom)
JOHUD Jordan Hashemite Fund for Human Development
JWDS Jordan Women’s Development Society (later MFW)
MEMCC Middle East Micro Credit Company
MENA Middle East and North Africa region
MFI Microfinance Institution
MFW Microfund for Women
MIT Ministry of Industry and Trade
MIX Microfinance Information Exchange
MOPIC Ministry of Planning and International Cooperation
MOSD Ministry of Social Development
NAF National Assistance Fund
NBFIs Non Bank Financial Institutions
NGOs Non-governmental organizations
NMB National Microfinance Bank (Al Watani)
UNRWA United Nations Relief and Works Agency for Palestine Refugees
USAID United States Agency for International Development
USD United States Dollar

Annex on line at the journal Website: http://www.usc.es/economet/aeid.htm
Annex

Figure 1: Active Borrowers in the key Jordanian MFIs in 2008

<table>
<thead>
<tr>
<th>Arab Region Total Outreach</th>
<th>2005</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
<td><strong>Clients</strong></td>
<td><strong>Region %</strong></td>
</tr>
<tr>
<td>Egypt</td>
<td>549,699</td>
<td>36.3</td>
</tr>
<tr>
<td>Morocco</td>
<td>632,310</td>
<td>41.7</td>
</tr>
<tr>
<td>Tunisia</td>
<td>109,332</td>
<td>7.2</td>
</tr>
<tr>
<td>Jordan</td>
<td>50,873</td>
<td>3.4</td>
</tr>
<tr>
<td>Lebanon</td>
<td>46,070</td>
<td>3.0</td>
</tr>
<tr>
<td>Iraq</td>
<td>14,690</td>
<td>1.0</td>
</tr>
<tr>
<td>Yemen</td>
<td>23,674</td>
<td>1.6</td>
</tr>
<tr>
<td>Palestine</td>
<td>27,484</td>
<td>1.8</td>
</tr>
<tr>
<td>Sudan</td>
<td>7,233</td>
<td>0.5</td>
</tr>
<tr>
<td>Mauritania</td>
<td>4,210</td>
<td>0.3</td>
</tr>
<tr>
<td>Syria</td>
<td>45,175</td>
<td>3.0</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>2,000</td>
<td>0.1</td>
</tr>
<tr>
<td>Bahrin</td>
<td>2,175</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,514,925</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Microfinance Industry Profile, Jordan, Sanabel, 2009
Market Share by Gross Loan Portfolio, 2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>45.3%</td>
</tr>
<tr>
<td>Egypt</td>
<td>20.8%</td>
</tr>
<tr>
<td>Jordan</td>
<td>8.2%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6.7%</td>
</tr>
<tr>
<td>Sudan</td>
<td>5.1%</td>
</tr>
<tr>
<td>Palestine</td>
<td>4.6%</td>
</tr>
<tr>
<td>Yemen</td>
<td>3.2%</td>
</tr>
<tr>
<td>Mauritania</td>
<td>3.3%</td>
</tr>
<tr>
<td>Syria</td>
<td>3.2%</td>
</tr>
<tr>
<td>Iraq</td>
<td>1.2%</td>
</tr>
<tr>
<td>Lebanon</td>
<td>0.7%</td>
</tr>
<tr>
<td>Bahrain</td>
<td>0.3%</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>0.5%</td>
</tr>
<tr>
<td>Sudan</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: Microfinance Industry Profile, Sanabel, 2009

Appendix 2. The Major Microfinance Service Providers in Jordan

Non-Profit Private Microfinance Institutions:

- National Microfinance Bank (NMB or Alwatani)
  A private share-holding non-profit company established through a partnership between the King Abdullah II Fund for Development, AGFUND (Arab Gulf Program for United Nations Development Organizations), and two private sector investors. The special law exempts NMB from supervision by the Central Bank and from a wide array of taxes and duties and permits NMB to offer both conventional and Islamic lending products. The bank disbursed its first loan in March 2006 and has rapidly assumed an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market. The main funding sources are loans and shareholder capital. It provides loans, training, and consulting services.

- FINCA – JOR
  A private share-holding non-profit company established by FINCA International. FINCA stands for the Foundation for International Community Assistance. Established in 1984, FINCA is best known for having pioneered the "Village Banking method"--one of the major forms of microcredit--and for leadership in
microfinance overall to provide financial services to the world's lowest-income entrepreneurs. FINCA entered Jordan in late 2007 and is not present in any other countries in the Arab region. FINCA-Jordan has also rapidly considered as an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market. Its main funding sources are grants and shareholder capital. It mainly provides loans.

- **Middle East Microcredit Company (MEMCO)**
  MEMCO started as a Cooperative Housing Foundation (CHF) affiliate program in 1998, transforming in 2003 into a Limited Liability Company, with plans to operate in rural areas. It was born in a project set up by three main Jordanian banks and a domestic foundation to provide microfinance services to low and middle income Jordanians, especially micro and small enterprises. Its main funding sources are grants and loans. It mainly provides loans.

- **Microfund for Women (MFW)**
  MFW began as a pilot lending program initiated by Save the Children in Jordan in 1994. Later, in 1996, it operated as a local NGO known as the Jordanian Women's Development Society (JWDS) which took over the Group Guaranteed Lending Program with the dual purposes of testing the feasibility of group lending in Jordan and providing poor women with access to credit mechanisms. And finally, in 1999 Microfund for Women was registered as a not-for-profit limited liability company. MFW is a leading microfinance institution in Jordan. It is a pioneer in microcredit, both nationally and regionally. Primarily, MFW targets female entrepreneurs who require financing to expand or improve their existing income-generating projects or businesses. Its main funding sources are loans and it mainly provides loans.

- **The Jordan Micro Credit Company (Tamweelcom or JMCC)**
  Tamweelcom was established in 1999. The company is fully owned by Noor Al Hussein Foundation (NHF), which operates as an independent entity under the umbrella of the King Hussein Foundation (KHF). Tamweelcom disburses loans to low-income individuals and unbankable clients. Its main funding sources are grants and loans. It provides loans, insurance, training and consulting services.

**For-Profit Private Microfinance Institutions:**

**Ahli Microfinance Company (AMC)**

AMC was established in mid 1999, and it is considered to be the first for-profit private microfinance institution that operates in this field. It is owned 100% by Jordan National Bank, a private commercial bank. Its main funding sources are grants and shareholder capital. It provides loans, training, consulting, and services.
Financial Institutions:

Cairo Amman Bank (CAB).

CAB is the only commercial bank directly engaged in micro-lending. CAB benefited from technical assistance provided by CGAP’s retail advisory service program. CAB began extending micro-loans in 2007. At year end 2008, it had 2,099 outstanding loans with an outstanding portfolio of JD 1.7 million (USD 2.4 million).

Governmental Organizations:

Development and Employment Fund (DEF).

DEF was established after a minister’s council decision on 1989. As a public “governmental” establishment, this fund takes care of development and finance of small business projects. The fund started its operations in February of 1991 under the umbrella of Industrial Development Bank. However, it became independent after inaction of its private law on 1992. Consequently, the fund has been enjoying its financial and administrative independence. DEF acts as both a direct retail lender and governmental wholesale lender to MFIs. Between (1991-2007) DEF total lending amounted to JD (95.9) million to finance more than 33250 projects, created 41048 seasonal and permanent job opportunities. The main funding sources are grants. It provides loans, training, consulting, and fund transfer services.

Non-Governmental Organizations:

Various NGOs offer micro-lending as one of several services. Some NGO microcredit programs have been subsidized. However, some (such as programs administered by UNRWA and the Jordan Hashemite Fund for Human Development (JOHUD)) appear to be shifting in the direction of self-sustaining lending in line with industry best practices. According to the National Microfinance Strategy, there are approximately 200 local microcredit schemes operating as village banking. Some of these self-help groups are supported by donor funds; others are supported by bigger NGOs.