

MicroFund for Women pilots group and individual loans for Syrian refugee women in Jordan

1. DEVELOPMENT RELEVANCE

Economic and poverty context

Table 1: Population and Economic indicators: Jordan ⁱ	
Population (2015)	9.5m total 6.57m Jordanians
Gross Domestic Product (GDP) growth (2016)	2%
Inflation (2016)	-0.79%
Economic Freedom Index (Rank among 186 countries) 2018	62 (score: 64.9)
Poverty indicators	
GDP per capita (curr. USD), 2016	4'088
GNI per capita (USD), 2016	3'920
Gini Index (0= equality 100= inequality), 2010	33.7
Poverty rate (at 1,90 USD/day, 2010)	0.1%
National poverty headcount ratio (2010)	14.4%
Rural poverty headcount ratio (2010)	16.8%

The Hashemite Kingdom of Jordan has limited natural resources and an open economy. The Gross Domestic Product is dominated by the service sector (67%), followed by industry (29%) and a small agricultural sector (4%). Despite a difficult external environment, macroeconomic stability has been maintained but public debt has increased. The Jordan Compact agreed with donors in 2016 has unlocked grant and concessional financing to off-set the impact of Jordan's hosting of Syrian refugees since 2011.ⁱⁱ

While ethnically and religiously homogenous, the population of Jordan is multi-national and one third of residents (2.9 million) are not of

Jordanian origin.ⁱⁱⁱ Due to a low labour market participation rate among Jordanians (60% for men and 15% for women), Jordan has for decades depended on a large, low-wage foreign work force, while also receiving large numbers of refugees and immigrants. Overall, the population is young (42% are below 18 years of age), well educated, and largely urbanised (84% reside in urban areas). Jordan is today a middle-income country and less than 1% of the Jordanian population experience abject poverty. However, 14.4% of the Jordanian population lived below the national poverty line in 2010, while 18.6% were vulnerable to seasonal poverty, and among refugees, poverty levels are significantly higher.^{iv}

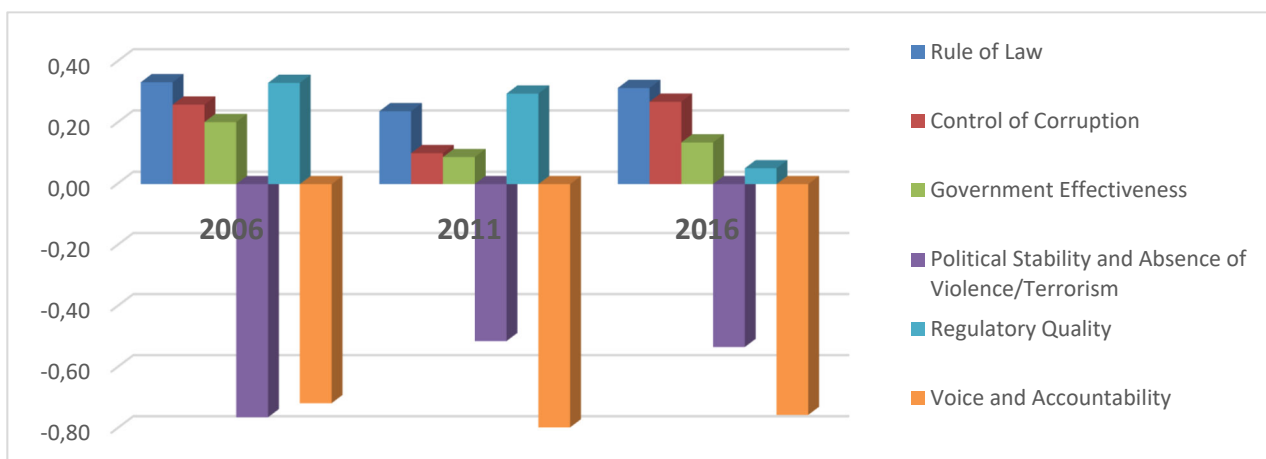


Figure 1: Governance indicators chart (Jordan, 2006, 2011 and 2016)^v

Financial sector context

The banking sector includes 26 banks that are liquid, profitable and well-performing, but highly risk averse. Domestic credit offered by banks to the private sector has decreased since 2008,^{vi} despite active promotion by the Central Bank of Jordan. Small formal enterprises are discouraged by complex application procedures and excessive collateral requirements,^{vii} and banks do not serve the informal economy, estimated to make up 26% of the economy.^{viii} In 2017, Jordan launched its first National Strategy for Financial Inclusion (2018-20), emphasizing digital services. Uniquely, the strategy sets targets for inclusion also of 'financially alienated segments,' including non-Jordanians and refugees'.^{ix} Five telecom providers are partnering with banks and 4 MFIs to pilot mobile wallets for payments, and formal financial inclusion has increased by 18% since 2014 to 43% in 2017.^x The microfinance industry comprises five registered, not-for-profit limited liability companies

(MFIs), 2 companies, UNRWA’s microfinance program, and a new Shariah-compliant NGO, estimated to cover 85% of the market from some 125 mostly urban branches. The central bank recently issued regulations for non-prudential licensing of all microfinance companies and non-profits. Licensed MFIs are allowed to disburse loans and offer Shariah-compliant financing, be insurance and mobile banking agents, but not to take deposits.^{xi} The conventional micro-credit market serving Jordanians is fiercely competitive, and appears saturated in some urban centres, resulting in a high level of price sensitivity among clients, significant cross-borrowing, relatively high dropout rates and decreasing growth of the major MFIs. There is of yet no competition for the potential new market segment of foreign-born residents in Jordan.

Partner financial institution:

The Microfund for Women (MFW) is Jordan’s largest not-for-profit microfinance institution dedicated to empowering the entrepreneurial poor, especially women. Founded in 1994, MFW was the first MFI in Jordan to be licensed by the Central Bank in April 2018. It has increased its network from 54 branches in 2016 to 60 in May 2018, including one branch close to the Za’atari refugee camp for Syrians. MFW employs 713 staff (67% women), and serves 137,500 clients of whom 96% are women, holding an estimated micro-credit market share of 35%.

MFW offers 11 credit products, two of which are group guaranteed and the other nine being individual loan products, a credit-life insurance, and a hospital cash plan. It is piloting an endowment product linked to a savings plan, and is gradually building in-house capacity for client and staff training. Since introducing the e-wallet Mahfazati in 2017, 13,745 e-wallets have been opened (530 of which for staff), including 434 for Syrian refugees and other foreign born residents as of April 2018. E-wallet transactions include loan disbursements and settlement of claims on the credit-life and hospital plan.



Figure 2: MFW Branch Network

2. INTERVENTION APPROACH

Capacity building needs

MFW started a small pilot lending to Syrian refugee women through mixing them into Jordanian women’s lending groups in April 2016. Based on this experience, MFW wanted to up-scale its services to refugees, driven primarily by social goals, but also by the need to ensure growth in an increasingly competitive market for Jordanian nationals. MFW did not know enough about refugees as clients to establish the business case for this expansion, and felt the risks were very high. MFW therefore requested technical assistance from the SCBF in June 2016.

Main activity areas

The project aimed to support MFW to improve the livelihoods of 6’000 Syrian refugees by the end of 2018, develop a business case for such lending models, and provide a demonstration effect in Jordan. The technical assistance to the Business Development Department of MFW supported internal project management and planning processes, focusing on familiarizing the organisation with the new client segments.

A first in-depth feasibility study documented the refugee populations and their demand for loans and non-financial services. It confirmed a large viable market segment of Arabic-speaking refugee women who are socio-economically similar to MFW’s existing core clientele of low-income women, albeit more fragile. Instead of developing refugee-specific products, careful client segmentation (selection) for existing products was recommended, based on legal residency and economic participation rather than nationality, which is not a good indicator for successful usage of financial services. In training of management and staff, the perceptions of refugees as ‘high risk’ were gradually replaced with a more evidence-based understanding of the new clientele, and the needs to adjust eligibility and appraisal criteria to enable refugees to access MFW services. Local SCBF-funded TA developed non-financial service materials separately. Three pilot training courses in gender awareness, financial literacy, and small business planning specifically for Syrian refugee women were developed and tested with clients, and MFW staff were trained as trainers in the materials.

A second complementary feasibility study identified an additional potential market segment among other ‘foreign-born residents’ in Jordan. Together, the studies provided recommendations for how MFW could adjust lending policies, procedures and formats, strengthen client segmentation skills at the pilot branches, adapt the management information system, and the risk management and internal control systems to enable non-nationals to be mainstreamed into MFW’s clientele. All recommendations and new tools were consolidated

into a draft Strategy and Action Plan for Financial Inclusion of Foreign-Born Residents, which included a monitoring framework to track progress.

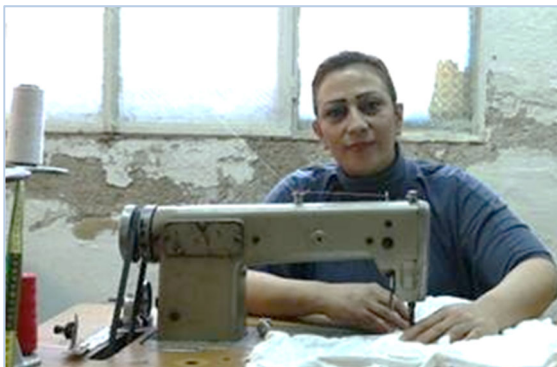
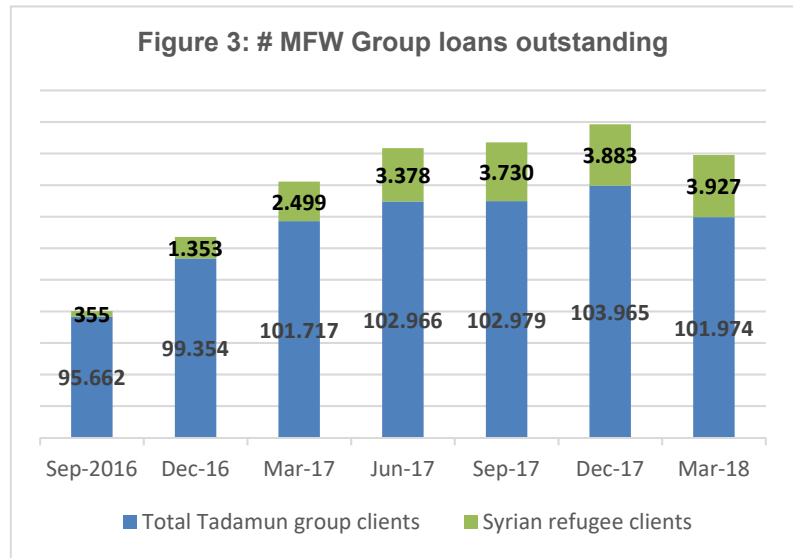
During the project, MFW began offering their largest group-loan product 'Tadamun' for groups composed exclusively of Syrians. Their generally excellent repayment performance reinforced MFW's comfort level in serving refugees. As at May 2018, MFW opened up the individual business start-up loan Intilaqati as well as the educational loan Taleemi to Syrians and other foreign-born residents.

3. RESULTS ACHIEVED AND NOT ACHIEVED

3.1. Client level

From a pilot portfolio in September 2016 of 355 Syrian refugee clients in groups mixed with Jordanian women, MFW served 3,927 Syrian refugee women, both in all all Syrian lending groups and in mixed Jordanian-Syrian groups (Figure 3).

A survey in January 2017 found that 20% of Syrian clients had used their MFW loan to pay off existing (likely more costly) debt, while 19% had used the loan to start a business and 29% to improve their living conditions. 85% of the Syrian women surveyed were satisfied with the MFW loans and confirmed no other FSPs would serve them.



Starting up a business with an MFW loan

Reem (name changed) fled the war in Syria with her husband and four children, arriving to Jordan in 2013. When her husband lost his informal job due to illness, Reem remembered her old hobby of sewing and took a sewing course in return for volunteer work in an NGO. When a neighbour told her about MFW, she applied for a loan with her son to buy a sewing machine and accessories. With the loan, Reem rented a small shop and turned it into a modest workshop. "The ladies at the branch were so welcoming and friendly," she said, adding, "MFW is the only organisation in Jordan that offers loans to Syrian refugee women, and I am

honoured to be one of their clients." She and her son, Suleiman, who had to drop out of college, work long days to mend clothes. "I accept the little hoping that something big will happen in the future," says Reem. She wants to buy new machines and add dry cleaning to her services. She also hopes to save enough money to return her son to his Political Science studies and fulfil his dream of a job with the United Nations one day.

Focus group discussions in May 2018 confirmed a continued high level of satisfaction with MFW's products (and the lack of alternative sources of loans). Most refugees interviewed were happy with the JD300-400 (max. USD 562) group loan size as they were afraid to incur more debt, but about 30% demanded a higher loan amount to start a business or to consolidate debt into one loan. About 20% of Syrian clients interviewed demanded individual loans, as groups were difficult to manage due to members moving (within Jordan) or not wanting to continue borrowing. Syrians also expressed interest in the non-financial training offerings, in particular household budgeting and business start-up, preferring training in two-hour sessions on weekday afternoons. The group loan is likely too small to impact business performance directly, but being financial included and served by a Jordanian microfinance institution has positively affected the women's self-esteem.



Syrians are happy with MFW loan conditions but some could use larger loans

Samar and Amani (names changed) fled from Dera'a in Syria and settled in Mafrqa town in northern Jordan in 2012. They learned about MFW from loan officers doing marketing in the town centre. They formed a group and took a loan to buy supplies for their home-based businesses, selling clothes and cleaning products.

“The monthly loan instalments are easy to repay, but the loan amount is not enough to grow the business”, says Amani. Samar agrees: “I am looking forward to apply for an individual start-up business loan when we finish the current loan cycle to really see a difference in my life”, she says. “MFW is the only institutions that offer loans to us refugees – it’s nice to feel that we’re also considered good clients,” adds Amani.

...and others should probably not have been offered a loan

Heba (name changed) joined a neighbour and took an MFW group loan last year. She used it to pay of other (interest free) debt, pay her rent and buy groceries. This made it difficult to repay the instalments. “I feel poorly treated when the MFW loan officer mentioned that I might be issued with a legal notice if I am late with my repayments again,” she says.

3.2 Partner financial institution level

MFW had set an interim pilot target to serve at least 500 Syrian refugee women by end 2017, allocating capital from its own reserves. By that milestone, 3,800 Syrian clients were accessing group loans and microinsurance, and MFW had attracted additional external loan capital to increase rollout. Rather than following a formal pilot project protocol, MFW implemented a more organic and gradual roll-out of lending to self-settled, urban Syrian refugees as per branch interests and capacities, and had nearly 4,000 active Syrian women refugee clients by March 2018. The Syrian refugee portfolio has performed very well in terms of repayment, but the retention of Syrian clients has been lower than for Jordanians (see Table 2). This might be related to limited client segmentation skills of branch staff. In addition to technical assistance from SCBF, support from Frankfurt School of Finance and Management funded by the ERDB enabled MFW to pilot test a new client segmentation and appraisal tool in early 2018 to strengthen MFW’s targeting of economically active clients, and gain further insights into transactional costs to refugee clients of the financial services availed.



Loan group preparing repayments

The policy and procedural review pinpointed criteria and formulations in MFW’s documentation that inadvertently excluded or disadvantaged refugees and other foreign-born residents, and could be adjusted by applying additional acceptable personal ID and residency documentation, adding MIS reports to track performance, and adjust procedures to equalise access. As an example, MFW negotiated identical terms of access for refugees to the credit-life and hospital plan insurance product offered to Jordanians with its insurance provider, and standardised the Tadamon loan amounts for all clients.

Table 2: Performance indicators	Sep-16	Dec-16	Jun-17	Mar-18
PaR(30days) MFW overall	1.47%	1.3%	1.29%	1.32%
PaR(30days) Tadamon group loans	1.03%	0.89%	0.94%	1.07%
PaR(30 days) Syrian refugee group loans	n.a.	0.0%	0.11%	0.32%
Avg. loan balance, MFW overall (USD)	551	530	537	543
Avg. loan balance, Tadamon (USD)	413	426	424	422
Avg. loan balance, Syrian clients (USD)	539	475	385	274
Retention, Tadamon clients overall	74.3%	82.2%	85.1%	80%
Retention, Syrian refugee group clients	n.a.	99.9%	71.7%	65.2%

The Tadamon group loan for Syrians was brought into the Operations Department in May 2018 and two other individual loan products, as well as to the e-wallet Mahfazati, were opened up to refugees. Partnerships with three INGOs facilitated graduation of their beneficiaries to become MFW clients, and MFW used the e-wallet to enable a humanitarian INGO provide cash transfers to 400 refugees, while MFW offered loans to refugee women with home-based businesses. The refugee-specific training materials developed and tested during the project were handed over from the Business Development Unit to the internal MFW Learning Academy in May 2018 for integration in the menu of 30 trainings to be delivered by MFW to clients.

MFW has begun exploring options for serving encamped refugees, as well as other segments of the large non-national population in Jordan, through the Strategy and Action Plan. The Plan is being reviewed by all departments, but has not yet been submitted for management approval. The MFW Board has however, rescinded the 2016-17 disbursement ceiling for Syrians and indicated its support for the expansion. The goal of building a business case for MFW to serve ‘foreign-born residents’ is thus well under way to being achieved. Based on results to date, MFW has demonstrated that appropriately segmented and appraised refugee populations can become successful microfinance borrowers and contribute to improving their livelihoods. This in turn has attracted grant, guarantee, and debt finance from several additional investors, including EBRD and Sanad/Finance in Motion.

3.3. Financial sector level

While still limited to around 4’000 Syrian refugee clients, MFW’s expansion is contributing directly to the goals and targets set by the Central Bank of Jordan in its National Financial Inclusion Strategy. MFW has earned a well-deserved reputation with the Central Bank as the most “professional, responsive and dedicated MFI in Jordan with regard to financial inclusion.”^{xii} Like its “sister MFI” Al Majmoua in Lebanon, MFW has attained the position as first mover on financial inclusion of foreign-born residents in Jordan, and competitors are watching closely. MFW has shared its experiences in international forums, including the European Microfinance Week, and the United Nations. MFW is considering long-term opportunities through expanding relationships with MFIs in Syria (and elsewhere) – MFW is currently piloting the BanQu alternative credit scoring tool – to facilitate clients’ access to finance upon return, and potentially develop cross-border products.

4. LESSONS LEARNT

The compilation of data on the socio-economic and demand profiles of refugees was important, but the key contribution of the SCBF project was to help change the institutional mindset of MFW by challenging the perception of refugees as ‘high risk’ clients, advising on performance during the gradual roll-out of loans to refugees, and highlighting the reputational gains of financial inclusion of refugees. Key lessons learned include:

1. **Risk-willing leadership and process management** is critical. A Board and management able to take a longer-term, patient approach and not be dissuaded by the inevitable ups and downs of interim portfolio analyses is helpful. A duly authorised *champion team* positioned within or including key operational departments to lead, monitor and document the expansion process can facilitate the sequencing of implementation steps and ensure documentation of lessons learned.
2. **Practical experience builds confidence, but buy-in is an ongoing process.** As refugees performed better than Jordanians in terms of repayment, MFW grew more confident in its ability to serve the new client segment effectively. Communication and coordination among staff at all levels and across departments is important to ensure that learning is shared and the entire organisation buys into mainstreaming. Otherwise, ‘nationality silos’ can emerge and resistance can go undetected.
3. **Familiarizing the organisation with new clients takes a lot of time, effort and new skills may be required, which are not always recognised in a target-driven MFI.** Softer skills and tasks related to qualitative changes in operations will be more effectively implemented if they are reinforced by adjustments to the staff incentive system. In addition to setting (incentivised) quantitative targets for the achievement of growth (# clients/loans, etc.), it is helpful if staff is rewarded for implementing tasks to improve the quality of the expansion, e.g. marketing, information sessions, client segmentation and non-financial services.
4. External reputational risk like a negative media campaign can impact expansion, even if it is completely unrelated to the refugee portfolio, as MFW experienced during the project period. It is important to have **risk mitigation plans** in place, so that the focus on continued, responsible outreach to clients, including refugees, can be maintained and the MFI will appear to new clients as a reliable provider of needed services.

ⁱ The World Bank Group (2016). World Development Indicators database. Washington, DC. <https://data.worldbank.org/indicator/> and Government of Jordan: General Population and Housing Census, 2015.

ⁱⁱ World Bank: Middle East Economic Monitor – Jordan, fall, 2016.

ⁱⁱⁱ Government of Jordan: General Population and Housing Census, 2015.

^{iv} <https://data.worldbank.org/indicator/>. Because the incidence of abject poverty is so low, the incidence of deprivation chart for Jordan has not been included in this report. It is available at: http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings

^v <http://info.worldbank.org/governance/wqi/index.aspx#reports>

^{vi} <https://data.worldbank.org/indicator/FD.AST.PRVT.GD.ZS?locations=JO>

^{vii} EIB: Jordan Neighbourhood SME financing, February 2016.

^{viii} IMF: Regional Economic Outlook: Middle East and Central Asia, Update as of April 2016, <http://www.imf.org/external/pubs/ft/reo/2016/mcd/eng/pdf/mreo0416.pdf>

^{ix} <http://www.cbj.gov.jo/EchoBusv3.0/SystemAssets/PDFs/2018/The%20National%20Financial%20Inclusion%20Strategy%20A9.pdf>

^x <https://globalindex.worldbank.org/sites/globalindex/files/countrybook/Jordan.pdf>

^{xi} The Official Gazette of Jordan: Regulation No. 5 of 2015: Regulation of Microfinance Companies.

^{xii} As stated by the Executive Manager for Payment Systems & Domestic Banking Operations and Financial Inclusion Department, Maha Bahou in an interview in May, 2018.