



# Enhancement of the Business Environment in the Southern Mediterranean

## For: Jordan



A project funded by the European Union



# **Working Meeting of MED SBA Coordinators and Access to Finance Advisors**

## **Preliminary Findings of the Mapping Exercise Brussels – 24 November 2015**



A project funded by the European Union



# 1. Progress of the Mapping Exercise



## 1) Loans & Facilities (Commercial & Islamic Banks and Grants)

- No. of Programmes/Instruments:15
- Total Amounts Committed/Allocated (Euro) – FY 2012 to 2014:  
EUR ~ 600,000,000
- Origin of funds :IFC, EU, USAID, World Bank
- Targets: start ups, micro, small, medium size companies
- Sectors: ICT ,tourism, energy, agriculture, industry
- Terms of the loan: Minimum Loan amount is EUR 6,550
- Minimum Loan tenor is 12 months
- Minimum monthly Income is JD 650
- Maximum DBR 50%
- Minimum age 20 years and not to exceed 70 years at the end of loan tenor



# 1. Progress of the Mapping Exercise



## 2) Guarantees

- No. of Programmes/Instruments:2
- Total Guarantees issued (Euro) – FY 2012 to 2014:  
Euro158,000,000
- Origin of funds :OPIC, USAID
- Targets: start ups, micro, small, medium size companies
- Sectors: ICT ,tourism, energy, agriculture, industry
- Terms of the guarantees:
- Loan size: not less than EUR 23,000.
- Loan tenor: not less than 90 days; not exceeding 7 years.
- Loan repayment: Term declining, revolving.





# 1. Progress of the Mapping Exercise



## 3) Equity and Venture Capital (including business angels' network)

- No. of Programmes/Instruments:4
- Origin of funds : Local
- Targets: (entrepreneurs, start ups,)
- Sectors: All



# 1. Progress of the Mapping Exercise



## 4) Micro-finance

- No. of Programmes/Instruments:5
- Total Amounts Committed/Allocated (Euro) – FY 2012 to 2014: EUR 226,000,000
- Origin of funds :USA,CHF, AECID.
- Targets: women and young entrepreneurs, start ups
- Sectors: All
- Minimum Loan Size : EUR 400 Maximum
- Loan Size : EUR 6,500



# 1. Progress of the Mapping Exercise



## 5) Innovative finance (e.g. crowd funding, group lending, suppliers finance)

- No. of Programmes/Instruments:5
- Total Amounts Committed/Allocated (Euro) – FY 2012 to 2014: EUR 263,000,000
- Origin of funds : EU, USA, Local
- Targets: entrepreneurs, start ups, small, medium size companies
- Sectors: all
- Terms of the finance: Loan size EUR 650-13,000



### 3. Good practices Identified



**Two good practices are identified in Jordan that could be adapted/adopted by other MED countries:**

- 1- CBJ/World Bank/ArabFD programs (2):** Lower interest rates.
- 2- Guarantee Programs (2):** Risk sharing / guarantee programs.





### 3. Strengths and Weaknesses of the instruments



#	Instrument	Strengths	Weaknesses
1	Loans	<ul style="list-style-type: none"><li>• Identified systematic products and banking solution for MSMEs and established SMEs windows</li><li>• Trained employees to raise their capacity for MSMEs lending</li><li>• MSMEs sector is taken into consideration in short, medium and long run strategic plans</li></ul>	<ul style="list-style-type: none"><li>• Interest rates and the cost of lending are often very high, not affordable by MSMEs</li><li>• Repayment periods are relatively short</li><li>• Grace periods on loans are short</li><li>• The unavailability of the instruments needed to manage risk</li><li>• Excessive Paperwork Requirements</li><li>• Decisions are being taken based on collaterals and guarantees</li></ul>



### 3. Strengths and Weaknesses of the instruments Cont.



Instrument	Strengths	Weaknesses	
Guarantees	<ul style="list-style-type: none"><li>• Accredited guarantee programs/companies working based on the international best practices</li><li>• Collaboration with banks on providing training programs for bank credit officers to raise their awareness on decision making (cash flow vs. collateral and guarantee)-</li><li>• Well established relationships with banks</li><li>• Availability of funds for the guarantee programs/companies</li><li>• Innovative guarantee tools dedicated and directly linked with the needs of MSMEs</li></ul>	<ul style="list-style-type: none"><li>• Communication gap between guarantee programs and banks</li><li>• Only 2 programs (JGLF) (JLGC) are operating in Jordan</li><li>• Products needs improvement</li><li>• Low leverage multiplier</li></ul>	



### 3. Strengths and Weaknesses of the instruments Cont.



Instrument	Strengths	Weaknesses
<b>Equity and venture capital</b>	<ul style="list-style-type: none"><li>• There is potential for investments and growth, should the necessary capital be provided (quality deal sourcing).</li><li>• Catalyze entrepreneurial ecosystem</li><li>• Experienced teams in managing fund</li></ul>	<ul style="list-style-type: none"><li>• Not regulated market</li><li>• Equity financing is mainly limited to ICT companies</li></ul>



### 3. Strengths and Weaknesses of the instruments Cont.



Instrument	Strengths	Weaknesses
<b>Islamic finance</b>	<ul style="list-style-type: none"><li>• Use of movable collaterals</li><li>• Fixed financing rate during financing term</li><li>• Ideally overcomes collateral requirements through enforcing sale of asset in the case of default</li><li>• Simple documentation and processes</li></ul>	<ul style="list-style-type: none"><li>• Still relatively small in terms of size compared to conventional finance,</li><li>• Limited to meet demand of Islamic oriented MSMEs</li></ul>
<b>Micro-finance</b>	<ul style="list-style-type: none"><li>• Increased ability to service rural areas, through the branches and mobile financing</li><li>• MFIs are currently being regulated by CBJ</li><li>• Innovative financing tools</li><li>• DEF has signed an agreement with JLGC</li></ul>	<ul style="list-style-type: none"><li>• Supply of credit not meeting demand</li><li>• Excessive Paperwork Requirements</li><li>• Credit decisions are based on collaterals and guarantees</li></ul>



## 4.1 Key challenges identified



### 1. Demand side

- Lack of credit histories and collateral
- Lack of entrepreneurship skills
- Not unified definition of MSMEs
- Limited managerial and technical skills
- deficient of one stop shop service
- The governmental and regulatory approvals harms the development and establishment of projects
- High investment costs
- The unavailability of funding
- The unavailability of infrastructure at the governorates might hinder the development of projects, increase establishment costs, and increase costs





# Key challenges identified and proposed solutions



## Supply Side

- Risk averse managerial decisions
- Credit decisions are based on the availability of collaterals and guarantees
- The unavailability of the early stage funding (between seed finance and capital for growth funds)
- Lack of Legal Supervisory Consistency There are currently no restrictions under the Jordanian law that limits the types of institutions that can engage in microfinance lending.
- lack of data and information sharing
- Insufficient risk sharing mechanisms
- No credit scoring system



## 4.2 Measures Needed



- Strengthen risk sharing mechanisms to encourage supply to invest more capital for MSMEs financing
- Activate range of Incentives to encourage supply to direct more loan funds to MSMEs such as taxes exemptions
- Islamic finance can play a significant role in meeting financing-gap for MSMEs and therefore, policy-makers and stakeholder should give serious considerations of promoting asset-backed and equity financial instruments to leverage Islamic finance. By developing an enabling environment for asset-based and equity-based finance, markets could attract excess liquidity available in Islamic financial markets especially in the Middle East seeking attractive investment opportunities.
- Create a unified data source for supply side



## 4.2 Measures Needed



- Create a business directory targeting the demand side that includes all the information about the available access to finance instruments (including costs, repayments and type of financing).
- Building the Capacity of MSMEs: it is important that the government provide Capacity-building for MSMEs to improve their skills and capabilities. this could be done at two different levels:
  - Provide mentoring and training programs on technical, managerial and financial skills; and
  - Enhancing their creditworthiness through the introduction of credit guarantee schemes, state banks and funds, and supply chain finance linked to public procurement and payments.



## 4.2 Measures Needed



- Enabling environment for MSMEs finance, which includes providing the legal and regulatory framework in support of MSME access to finance, although the government of Jordan reduced reserve requirements to lower interest rate for MSMEs, it could be urged that the government can design more tools to make finance more affordable to MSMEs.
- Building the capacity of the financing sector: by providing the credit officers trainings on financial and credit analysis for SMEs, and to change the mindset of the managerial levels to have a decision making based on the projects' cash flows rather than the availability of collaterals and guarantees.



## 4.3 Priority reforms needed



MSMEs Access to finance in Jordan needs to be improved by collaborating the efforts of the government, the private sector and the international donor community; to reduce the financing and communication gaps between supply and demand, accordingly various interventions on different level of effort should be implemented.

- **In the short term** by building the capacity of the supply side, while ensuring that credit continues to flow to MSMEs, strengthen risk sharing mechanisms and attract more donors' funds.
- **In the medium term**, improve the regulatory and incentives provided for MSMEs, reinforce its guarantees and venture capital facilities, reduce the information gap faced by MSMEs in accessing finance and to facilitate their access to capital markets.
- **In the long term**, establishing the legal framework including the appropriate legal and tax treatments in accordance with international best practices.





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