

Enhancement of the Business Environment in the Southern Mediterranean

“SME financial inclusion – Role of Banks and Credit Guarantee schemes”

Amman, 24 August 2016



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Introduction: MSME Definitions

- **Ministry of Industry and Trade (MoIT)**
 - Micro: 1-9 employees; < 30,000 JD paid capital
 - Small: 10-49 employees; > 30,000 JD paid capital
 - Medium: 50-249 employees; > 30,000 JD paid capital
 - Large: 250+ employees; > 30,000 JD paid capital
- **Central Bank of Jordan (CBJ)**
 - Small: < 1 MJD asset value; < 1 MJD sales revenue; 5-25 employees
 - Medium: 1-3 MJD asset value; 1-3 MJD sales revenue; 21-100 employees
- **Additionally, CBJ definitions state that an SME cannot be:**
 - a public shareholding company
 - an insurance company
 - a financial intermediary company



MSME Economic Status



MSMEs account for a substantial share of economic activity in Jordan as few large corporate enterprises exist.

2011 census found:

- 98% of all enterprises are MSMEs
- 66% of which have less than 19 employees.
- Employ 71% of the total private sector labour force (SMEs 33% and microenterprises 39%);
- Contribute 40% of GDP; Account for 45% of total exports.



Doing Business 1



Topics	Egypt			Jordan			Palestine		
	2016 Rank	2015 Rank	Change	2016 Rank	2015 Rank	Change	2016 Rank	2015 Rank	Change
Overall Rank	126	121	-5	113	107	-6	129	127	-2
Starting a Business	73	69	-4	88	83	-5	170	159	-11
Dealing with Construction Permits	113	114	1	103	103	NC	162	168	6
Registering Property	144	145	1	56	55	-1	75	81	6
Getting Credit	111	109	-2	98	96	-2	95	93	-2
Protecting Investors	79	71	-8	185	185	NC	109	118	9
Paying Taxes	122	133	11	163	162	-1	144	143	-1
Trading Across Borders	151	146	-5	52	46	-6	56	52	-4
Enforcing Contracts	157	157	NC	50	49	-1	84	84	NC
Getting Electricity	155	155	NC	126	122	-4	90	90	NC
Resolving Insolvency	119	121	2	146	146	NC	189	189	NC



Doing Business 2



Topics	Lebanon			Marocco			Tunisia		
	2016 Rank	2015 Rank	Change	2016 Rank	2015 Rank	Change	2016 Rank	2015 Rank	Change
Overall Rank	123	121	-2	75	80	5	74	75	1
Starting a Business	114	108	-6	43	52	9	103	100	-3
Dealing with Construction Permits	130	129	-1	29	26	-3	57	56	-1
Registering Property	116	111	-5	55	56	1	38	37	-1
Getting Credit	103	99	-4	76	103	27	86	83	-3
Protecting Investors	109	105	-4	109	105	-4	126	118	-8
Paying Taxes	134	133	-1	105	104	-1	105	104	-1
Trading Across Borders	45	44	-1	62	65	3	81	84	3
Enforcing Contracts	147	147	NC	102	101	-1	91	107	16
Getting Electricity	135	134	-1	59	59	NC	81	81	NC
Resolving Insolvency	134	135	1	130	130	NC	57	54	-3



Doing Business 3



The following table compares Jordan to MENA Peer Countries relative to Secured Lending

- Strength of legal rights index measures collateral and bankruptcy laws protection of borrowers and lenders rights thereby facilitating lending.
- The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a private credit bureau or a public credit registry.

Jordan scored zero concerning the first two indices:

- A new secured lending law has been drafted, although it has not yet been adopted by parliament.
- The country's first bankruptcy/insolvency law – which increases protection afforded to lenders – has also been drafted but revisions are needed to bring the draft law in line with international best practice.

Its credit information has lowest population coverage:

- A private credit bureau, licensed by the CBJ, is also expected to begin operations in 2016/17, which would deal with the gap in credit information in the financial system.



Doing Business 4



Indicator	Egp.	Jor.	Leb.	Mor.	MENA Avg.	OECD + income
Strength of legal rights index (0-12) This index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending.	2.0	0.0	2.0	2.0	1.3	6.0
Depth of credit information index (0-8) This index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public credit registry or a private credit bureau.	6.0	0.0	6.0	6.0	4.1	6.5
Credit registry coverage (% of adults) This indicator reports the number of individuals and firms listed in a public credit registry with information on their borrowing history from the past 5 years.	6.6	2.4	23.9	0.0	10.8	11.9
Credit bureau coverage (% of adults) This indicator reports the number of individuals and firms listed by a private credit bureau with information on their borrowing history from the past 5 years.	20.9	0.0	0.0	23.4	12.0	66.7

Jordanian MFIs, members of the Tanmeyah Network, have been sharing client credit information histories on an informal basis to help prevent over indebtedness and maintain good portfolio quality.



Financial Sector Assessment



Banks:

- The Sector is large; assets equalled 170% of GDP mid-2015.
- At 76% the ratio of private credit to GDP is above the regional average.
- The sector is profitable and CBJ minimum capital adequacy ratio of 12% consistently exceeded over the last years and stood at 18.5% in June 2015.
- Non-performing loans declined to 5.5%, their lowest level since 2008.
- loan-to-deposit ratio is high at 65%
- CBJ requirement to keep liquid assets above the level of short-term liabilities, produces a liquidity ratio well above the required level of 100%, reaching 151% in mid-2015.
- Government substantial refinancing needs have effected banking sector asset structure impacting its making private sector loans.

Future Enterprise Loan situation

- Government will requiring less credit in the future
- Thus, the banks challenge to re-focus its lending activity on the private sector without compromising asset quality.



Financial Sector Assessment



Microfinance Institutions (MFIs)

Jordan service providers composed as follows:

- private microfinance institutions (MFIs);
- commercial banks;
- government institutions;
- non-governmental organizations (NGOs).

Private MFIs cover approximately 85% of the market with 121 branches concentrated in urban areas.

Characteristics

- Growing rapidly with annual outreach increases reaching 28%;
- Nearly 300,000 borrowers; portfolio at risk (>30 days) of 1.8%.
- Gross loan portfolio 254.2 UUSD equivalent to approximately 0.5% of GDP 2013.



Finance instruments: Existing access



Bank Loans:

- Enterprises using banks to finance investments is below 10%.
- Rural areas access to finance is worse; 2/3 of branches are in Amman.
- Loans to SMEs account for between 6% and 12% of total lending.
- loan applications are typically rejected due to insufficient collateral
- firms often do not have fixed property to secure a loan.

Interest Rates Comparison

- Representative interest rates for SME lending are in the range 9 to 11%.
- Rates for housing loans of 6-7% housing, and 7-8% for corporate clients.
- CBJ interest subsidies for eligible projects SME yield more rates of around 5%.



SME Product Gap Assessment



Product Overview:

- SME credit, trade finance, and leasing products are all widely available.
- Short/Medium/Long term credit is widely available (local/ foreign currency).

Access Constraints:

- 30% of SMEs unable avail themselves of these financial products, stating A2F their greatest obstacle; FEMIP region firms at 10%.
- The JLGCC provides guarantees on one-by-one approval process; the total guarantee portfolio was only some 3,500 guarantees 2014,
- Private equity funds focus on specific sectors real estate/IT; They have short term Exit strategies. Some currently finance SMEs sector with limited impact.
- Start-ups do not have access to finance and to debt financing.

Future:

Legal and institutional issues require government initiatives, improving the business environment from which private sector incentives can/will improve “Access to Finance”.



Access to Finance: Funding Sources



- **Owner/(Firm); Family; Friends (FFF) Funding:**

Source	Funding Type	
Owner/Firm	Equity/Profits	Loans
Family	Equity	Loans
Friends	Equity	Loans

- **FFF sources finance:**
 - + 80% of working capital;
 - + 60% of fixed investment



Access to Finance: Funding Sources



- **Other People's Money (OPM):**

Financial Institutions (FI)	Funding Type	
Banks; Non-Bank FIs	Loans	Leasing/Export
MFIs	Loans	
Venture Capital	Loans	Equity

- **Banks finance:**

- 9% of working capital;

- 26% of fixed investment; exceeding FEMIP regional average

- **Non-bank FIs/ Equity Investors contribute:**

- < 5% working capital;

- < 5% Fixed investments



Finance instruments: Existing access



SME Product Type Preference:

Country	MSME A2F Product Preferences or Not		
Palestine 2014 (400 MSMEs)	Conventional 28%	Islamic Products 49%	Neither 23%
Syria 2006 (650 MSMEs)	Conventional 10%	Islamic Products 34%	Neither 56%

Jordan Islamic sources:

- Arab Islamic International Bank; Other Commercial Bank Islamic Dep.
- MFIs



Finance instruments: Existing access



Trade (Supplier) Credit Contributes:

- 10% of working capital
- 7 % of investment finance.

Later percentage points to constraints in the long term funding availability.

Export Finance:

- Jordanian banks participate in EBRD and IFC Export programs, which aim to:
 - increase trade finance products availability;
 - reach a broader range of importing/exporting enterprises;
 - reduce the political and commercial payment risks
 - provide TA.
- Jordan is also a member of the International Islamic Trade Finance Corporation.



Finance instruments: Existing access



Secured Lending (Factoring):

The Jordanian legal framework allows taking Moveable Property as Debt Security.

However, further from Doing Business Slides

Legal framework for secured lending remains outdated, resulting

- **Weak Enforcement mechanisms;**
- **Unclear priority scheme for creditors;**
- **Neither uniform nor centralized collateral registry:**
 - limiting transparency
 - increasing creditor rights uncertainty of when lending against movable collateral.

Impact on Factoring is seen in following slide



Finance instruments: Existing access



Factoring: No recent market data

2015: IN MILLIONS OF USD			
Country	Domestic	International	Totals
Egypt	494	93	587
Lebanon	437	118	555
Morocco	2 845	115	2 960
Tunisia	368	19	387
Jordan	N/A	N/A	N/A

IN MILLIONS OF USD			
Country	2009	2010	2011
Egypt	110	200	200
Lebanon	420	450	327
Morocco	910	1,071	1,406
Tunisia	276	295	340
Jordan	43	43	12



Finance instruments: Existing access



Leasing:

- Leasing legislative framework established in 2002.
- Law revised/ effective since September 2008, meets international best practice
- Amendments to clarify tax aspects tabled.

Outcome: 12 companies and Leading volumes as follows:

Financial Institutions (FI)	Number
Banks	7
Islamic Banks	4
Non-Bank FIs	5
Leasing Volumes	1 200 M JOD

- 80% of this amount is dedicated for real-estate financing;
- 20% typical leases, equal to 200 MJOD



Finance instruments: Existing access



Innovative finance:

- **Governorate Development Fund**
 - Makes a minimum project cost investment of JOD 100 000 (EUR 133 300)
 - Participation share ranges from 26% to 49% if it takes an equity stake.
 - Participation share up to 80% if it finances debt (convertible bonds/quasi equity).
 - Selects in projects/companies to
 - to cover the Fund's operating costs;
 - to distribute moderate profits and returns to the investors.

- **Ipark: VC; Business Angels**



Thank you for your attention

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