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**Enhancement of the Business Environment in the
Southern Mediterranean**

National Seminar for Jordan

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

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1. INTRODUCTION

Jordan has established overall policies as well as a number of Financial Institutions, instruments and mechanisms, on Access to Finance (A2F) to enhance, and more fully support the growth of its Micro, Small and Medium Enterprises (MSME). The final objective of this policy is that Jordanian MSMEs operate within a business environment supporting their development, from which jobs will be created.

Studies, however, showed that access to finance for MSME remains insufficient. In Jordan, as only 10% of bank credits are provided to MSMEs, with the Southern Mediterranean countries average being around 20%. Furthermore, formal and informal entrepreneurs continue to experience difficulties when seeking financing for their businesses.

In the framework of the “Enhancement of the Business Environment in the Southern Mediterranean” project (henceforth called the EBESM project) a mapping study was carried out to identify existing public programmes, operational financing mechanisms and instruments supporting the development of MSME in the Southern Mediterranean region, namely, Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, and Tunisia (MED countries). In addition, the study assessed public policies, identified best practices at country level and provided policy recommendations of these existing financial mechanisms and instruments.

The report’s primary results and conclusions were presented and discussed during this seminar.

2. OBJECTIVES

This one-day seminar aimed at:

- Inform national stakeholders as to the availability of existing Jordanian financing programmes, schemes and instruments;
- Share good practices (Regional, European and International) concerning A2F public policies, mechanisms and instruments on topics relevant or those of particular interest for Jordan (e.g. guarantee schemes, risk sharing mechanisms, venture capital, etc.);
- Discuss policy recommendations at national level, from which Jordan specific actionable recommendations could be formulated, to contribute to unlocking A2F tools for MSMEs in a sustainable manner.

Building on an analytical examination of identified financial public policies, mechanisms and instruments for MSMEs in Jordan, the seminar focused on drawing conclusions and recommendations about the reforms needed in this area. As desired, seminar participants discussions deepen the understanding as to the main A2F challenges faced by Jordanian MSMEs. Further to this point the policies and the measures needed to overcome these challenges and help them grow, be more competitive and create jobs were formulated¹.

¹ The agenda, participants lists as well as all presentations made during this seminar are available on the EBESM project website: <http://www.ebesm.eu/posts/smes-financial-inclusion-role-of-banks-and-credit-guarantee-schemes>

3. PARTICIPANTS

This one-day seminar brought together more than 50 participants, representing the public and private sectors. Participants were a mix of (i) high-level public officials such as the Central Bank of Jordan (CBJ), the Ministry of Finance, Ministry of Planning and International Cooperation, Ministry Industry, Trade and Supply; (ii) representatives from main financial institutions, including Banks, Guarantee Funds, Venture Capital, Microfinance Institutions (MFI); (iii) representatives of the private sector, such as the Chambers of Commerce and Industry; (iv) MSME service firms including Incubators; and businesses.

The resource persons, who participated to the focus groups for the in-country report on A2F for Jordan, were also present.

4. SEMINAR SUMMARY

The workshop was articulated around 4 sessions.

4.1. SESSION 1: FINDINGS OF THE REGIONAL MAPPING STUDY AND OF THE FOCUS GROUPS

Mr Christophe Malherbe and Ms Lamia Dabbas, EBESM experts, presented the findings of the study at national and regional levels. They presented as well the outcome of the focus group that was organised in collaboration with Dr Adli Kandah, President of the Association of Banks in Jordan and representatives from JEDCO.

During this session as well, a presentation was made by Mr Doug Aitkenhead and Mr Abdelhadi Shajrawi, EIB Experts on the “**Access to Finance Database at JEDCO**”, a project funded by the MENA Transition Fund. In brief, this project aims at facilitating access to finance to SMEs in Jordan by compiling through an online platform, all financial instruments available in Jordan.

4.2. SESSION 2: STUDY’S PRIORITY ACTIONS SUMMARIZED & ENTREPRENEUR TESTIMONIALS

This session was organised in the form of a debate involving representatives of public and private sectors institutions, as well as Jordanian Entrepreneurs. Their presentations and subsequent participants’ questions focused on priority reforms and associated instruments needed as identified by the study.

The Panel was composed of:

- Mr Mohamed Amaireh - Central Bank
- Mr Mohamad Al Azzam - Ministry of Finance
- Mr Rami Al-Karmi - F03 Venture Partners
- Mr Faisal Hakki - Oasis 500
- Mr Marwan Shahatit - Ahli Bank

Mr Christophe Malherbe, EBESM Expert, moderated this session.

4.2.1. Access to Finance: Government Perspective

Support Activities:

The government is working on a Financial Inclusion National Strategy, focusing in particular on the importance of non-banking financial institutions. It is deeply involved with supporting public-private policy dialogue (PPD) initiatives and has mobilised about 440 Million USD from international donors, of which 170 Million USD have been lent by banks to MSMEs. In

addition, the Government is providing 125 Million JOD funding to the Governorate Development Fund, which will benefit SMEs.

Challenges:

They are more found not in terms of Access to Finance but in terms of lack of financial literacy, which affects both demand for, and supply of, finance. SMEs need to be aware of the range of financial products available on the market and have adequate levels of skills and transparency to be considered creditworthy.

From the supply side, staff in financial institutions needs to overcome information asymmetries and to improve the quality of financial reporting by SMEs. The activation of Jordan's Credit Bureau will lessen this issue.

4.2.2. Access to Finance: Private Institutions and MSME Perspectives'

Support Activities:

The Government should provide incentive packages to Banks and MSMEs, tax breaks for MSME related activities; banks should provide training to businesses to help them fill a credit request; and large firms should integrate MSMEs into their supply chains to help them grow and guarantee funding to the banks.

Challenges:

They included the need to (i) develop a Business Angels network and a co-funding system-network; (ii) attract FDI to finance local projects; and (iii) the financial eco-system should be improved, in particular, stakeholders could work more effectively together if completed MSME data base existed.

4.2.3. Session 2: Key Seminar Participants Discussion points:

Access to Finance issues:

(i) Non-Amman Bank branches do not know of new MSME facilities or instruments; (ii) Bank employees do not know about the CBJ MSME supported loans; (iii) MSME owners consider bank interest rates high. (NB: CBJ subsidised rates are at 5%); and (iv) Micro Finance Institutions target consumer loans not productive loans.

Non-access to Finance issues:

(i) University Graduates complete their degrees with low entrepreneurship skills; (ii) Need to teach financial literacy at universities; and (iii) There are no problems with A2F in Jordan; the problem is the managerial skills of MSME owners.

Public and private Sector Institutions and SME entrepreneurs must be aware that of the entire MSME eco-system sector in order that both A2F policy decisions and associated MSME financing instruments are effective.

4.3. SESSION 3: GUARANTEE FUNDS & RISK SHARING MECHANISMS

This session focused on guarantee funds and risk sharing mechanisms involving representatives from Jordanian relevant institutions to inform about their respective vision and strategy and to discuss about the reforms needed in this area.

This session started with the testimonials of two young women entrepreneurs who shared their experience with respect to accessing finance. The following issues were raised:

- Banks are not true partners in the exploratory phase of start-ups;
- There is no special treatment for either SMEs or start-up companies. They are generally treated like large companies; No follow-on support post-creation;
- Banks could help more by sharing information as well as working to better understand MSMEs;
- Acquiring premises, company licensing, getting FDA approvals (costs and vague terms);
- Payment delays up to 90 days; with post-dated checks resulting in 120 day receivable;
- Banks terms and amounts offered very high compared to the needs.

Both enterprises need access to secured lending (factoring) in order to minimise their payments (cash-flow) problems.

The Panel was composed of:

- Dr Mohamed Al Jafari Director General, Jordan Loan Guarantee Corp.
- Dr Waleed Qasrawi, Central Bank of Jordan
- Dr Bassam Bitar, Jordan Chamber of industry
- Dr Mohsen Abu Awad, Arab International Islamic Bank

Mr Majdi Abu Arja - EBESM/GIZ, moderated for this session.

4.3.1. Access to Finance: Government Perspective

Support Activities:

The Government provides supports risk mitigation as continues to work on:

- The revision of a moveable assets and securities laws. That effort remains work in-progress. (See Session 4, PowerPoint Presentation for further information).
- In brief, if an international best practice law is passed, business owners can borrow money against their existing assets, which include Accounts Receivable (Factoring); Inventory (Working Capital).

Further to risk mitigation activities, there is the OPIC programme, with 250 Million USD is available; however, only 60 Million have been used to date. The Government continues to push OPIC programme in order that all eligible MSMEs can benefit from it.

Challenges:

The government needs to continue working on implementing a complete "MSME Ecosystem", based on international best practices.

4.3.2. Access to finance: Public/Private Institutions and MSME Perspectives'

The two presenting guarantee institutions noted that early stage A2F is worldwide problem. Banks are entrusted clients' money and therefore should be conservative in lending it. The solution is therefore to craft policies that are conducive without distorting the market.

Support Activities: Two Guarantee Programmes

Jordan Loan Guaranty Corporation (Government Owned):

The JLGC has developed a vast array of instruments for MSMEs including:

- Covering up to 85% of the loans, with 9 banks, subsidized as premium covers the admin costs, while defaults are covered by a special allowance provided by the CBJ;
- Exporting SMEs can access credit guarantees up to 90% coverage;
- A programme covering renewable energy investment of 500 000 JOD;
- It provides certain MFIs with entire loan portfolio loss coverage.

Jordan Loan Guaranty Facility (Private Facility):

USAID Funded at 250 MUSD for 10 years, launched in 2012, it takes a Private Sector approach and, to date, has guaranteed 320 loans valued at 90 MUSD;

The JLGs guarantees conditions cover:

- 50% Amman granted loans;
- 70% outside of Amman;
- 75% for women, the latter increases were required by participating banks.
- Approvals for loans in excess of 1 MUSD must come from OPIC - USA.

Support Activities:

The Jordan Chamber of Industry (JCI) has 18 000 SME members. To support them, for the last 20 years, it has linked Technology University students to industries, in order to avoid a mismatch ... but there is a need to expand the linkage activities.

Arab International Islamic Bank is a pioneer in Islamic A2F products, operating as follows:

- Has SME operations in ten business centres, supporting clients in structuring sharia compliant loans, employing branch managers trained in these products;
- Work-outs include rescheduling the loans in partnership with JLGC, supported by direct bank follow-on support.
- Mitigates risk via the JLGC sharia (Kafala) compliant window. It covers up to 85% of loan; the remaining 15% loan risk is covered by personal guarantors.

Challenges:

Access to finance issues:

(i) Asset backed financing (Secure lending) will require a law; (ii) Loan guarantees are not required if the promoters have a piece of land; this approach is not insufficiently exploited; (iii) Banks loan primarily to large companies and not to SMEs; and (iv) MSMEs, during their early stage are not eligible for normal bank regular loans, JLGC could cover this risk. An equity guarantee fund, with hands-on support, should be put into place.

Non-access to finance issues:

(i) Low levels of both general and university education; and (ii) Jordanian business mentality is too conservative. (iii) Outreach and training were major issues regarding public awareness. (iv) Technical support programmes for MSMEs, such as Jump II are good, though procedures are extremely complex and difficult as they require many documents difficult to complete by SMEs. It would be advisable to streamline the processes.

4.3.3. Session 3: Key Seminar Participants Discussion points:

The use of 33 BJOD in Banks deposits was noted as follows:

- 22 BJOD is lent to the Government;
- 13 BJOD is lent by CBJ to Government and allowing for CBJ bank reserves
- SME only are lent 1.7 BJOD, which has currently decline to 8% of all bank lending.

As to international best practice, he noted that International Financial Regulations Standards (IFRS) rule # 9 states that:

- Banks should use cash-flow financial analyses techniques, when making loans
- Very few Jordanian SMEs can present their financial statement in cash-flow format.
- Lending expectations are gloomy if banks forget about collaterals.

SMEs are critical for Jordan. It has shown that it can be innovative, notably in its support of micro-finance sector.

4.4. SESSION 4: INCENTIVE PACKAGE FOR SME FINANCING

This session focused on financing SMEs via the adoption of an SME incentive package resulting from financial sector reforms. (Incentives for financing SMEs are very limited in Jordan, as opposed to Lebanon, Egypt or Morocco).

Similar to the previous sessions, this fourth session started with the testimonials of business owners as they raise the following issues:

- Bank and MFI loans are not well adapted to communities, which cannot provide required legal documents.
- High legal cost and low legal knowledge;
- Low skills of MSME managers-owners;
- Access to information is limited or non-existent;
- MSME Support should focus on making access to finance information available; helping identifying and mitigating risks; legal support case of default;
- Incentives/Rebate: Establish system by banks for their borrowers, using Risk Based Pricing and could Tax rebates; Interest rebates, if loan contract fully honoured; Transport rebate-incentives;
- Establish MSME lending, focusing on Real Estate as collaterals and bank equity finance instead of so much collateral;
- Shared technological platforms by MSMEs, including cloud computing for advertising and accounting to cut cost;
- Enhancement of Credit Bureau to improve cash-flow management via factoring; requires legal changes;
- Supply side platforms, to avoid each MSME working in isolation, and would include crowd-funding and other like type avant-garde MSME funding tools;
- Enhance cash-flow management

Panel discussion

- Ms Maha Abdullat, Central Bank of Jordan
- Mr Ashraf Huidi, Housing Bank of Jordan
- Dr Bassam Bitar, Jordan Chamber of Industry

Mr Richard Crayne, EBESM Expert, moderated this session.

4.4.1. Access to finance: Government Perspective

The government continues to work building-out the existing credit information system.

Support activities:

- Credit Bureau is established and should be operational during 2017;

- MFI can use Islamic Finance if they wish to as requested by borrowers outside Amman.

4.4.2. Access to finance: Private Institutions and MSME Perspectives'

Support Activities:

The Housing Bank of Jordan has centres for MSME in various cities; a tourist loan in development with USAID; and works with OPIC and JLG. In the latter case, it makes loans up to 70,000 JOD guaranteed up to 70% with the following results:

- 50 MJOD in loans for 700 projects and the default is reasonable;
- The procedures are streamlined, requiring bank statements for the last 6 months. The bank reconstitutes the key balance sheet numbers.
- MSME at the governorate level do not approach banks as they cannot provide loan information. This is why the Bank is very active in the regions (135 branches).
- Its interest rates are between 6 & 7%.

Challenges:

Access to finance issues:

Banks have the liquidity with which they could increase their MSME loans. Access to finance is also conditioned by the terms and condition of its pricing;

Non-access to finance issues:

MSME incentive approaches should be sectorial and not only based on sizes (MSMEs). This would allow creating linkages into the value chains.

4.4.3. Key Seminar Participants Discussion points:

Access to finance issues include: Credit Bureau (CB):

(i) Company has been accredited to create it; (ii) it will enhance credit information supply to all interested parties; (iii) CB will work according to good practices (ex. information obtained from utility providers).

The Financial Leasing Law needs to be updated.

Non-access to finance issues:

(i) This is a complex issue and therefore should be viewed from an inclusion standpoint; (ii) Additionally, increasing managerial skills, educating clients, raising awareness must support A2F access; (iii) these points need to be clearly stated in the Financial Inclusion Strategy; (iv) Very important that MSME owners to know that they have an obligation of providing information; (v) In the US or Europe, the owners draw on external legal or financial skill resources. Jordanian companies sometimes cannot even answer very simple questions. This repels bankers.

4.5. WRAP-UP SESSION

4.5.1. Access to finance issues:

- Lack of innovative financial schemes and tools; Advocated developing new instruments.
- Misconception: no real definition for the various terms that are used to define MSME; A law should provide a clear definition and attach incentives to those definitions;
- Most banks apply the corporate rule to SMEs; Need to differentiate;
- Investment board is not efficient, even a repellent; Not their mandate to assist MSME;
- Taxes are erratic and always changing. This is a real issue especially for industrialists.

As to the national SME Strategy:

- It is awaiting cabinet approval; there is no real deadline.
- After its approval, the Government plans to produce an SME law.

NB: An operational EU Funded, 35 MEUR (2014-2018) Direct Budget Support Programme supports the National Microfinance Strategy implementation, approved by Cabinet in 2012.

4.5.2. Non-access to finance issues:

- Problem of capacity of entrepreneurs in accessing finance;
- Information is also key;
- Coordination needs improvement: what is coordination?
- Not very confident about a public umbrella: we could focus on the various options;
- MSME counselling, support centres could be opened in all Governorates.

An MSME working group could be formed and be convened regularly.

- It would develop an overall MSME invention framework. But this would take time...
- This group would establish a unit covering all sectors and differentiating incentives including kick-back, rebates. the Association of Bank in Jordan should lead this process.

Conclusion

There is a need to strategize quick-wins... and a need to sit together with the public sector to define a MSME Short to Medium Term Strategic Framework.

5. SEMINAR OUTCOMES

The following matrix presents the list of follow-on activities that was submitted to participants for discussion in view of determining priority actions (presented in section 6).

Title	Nature	Objectives	Results	Resources	Comments
<p>SME National Steering Committee</p> <p>Structure charged with mapping all financial institutions vis-à-vis their existing financial/future planned products versus EBESM Jordanian Report quantified gaps</p> <p>Identify innovative SME financing solutions based on a quantified gap analysis per company growth stage</p> <p>Produce complete list of all exiting MSME A2F products, by FI,</p> <p>Sustain dialogue on MSME financing; Contribute to raising</p>	<p>Study / dissemination</p> <p>Working sessions supported by ST TA and dissemination</p>	<p>Assist in the setting up of a dialogue platform on SME financing, which will map all MSME A2F financing options, whatever the product; whatever the source.</p> <p>List all terms and conditions necessary to obtain said products</p> <p>Develop an outreach plan once, disseminate literature, organize seminars and events</p>	<p>An SME Finance task force is created and coordinates information dissemination A2F other MSME good practices</p> <p>MSME have information necessary to apply for A2F funding;</p> <p>cost / benefits of these various options, appraised disseminating this MSME sector wide</p> <p>An awareness raising plan is developed by the ABJ, JEDCO and relevant stakeholders and</p>	<p>60 – 80 days</p> <p>Presentation; Logistics</p> <p>Communication budget</p>	<p>Pros: expressed need; inform the debate and future decision; easy to implement</p> <p>Cons: can become sensitive; absence of obvious owner; may not materialize (low visibility)</p> <p>Pros: aligned with the financial inclusion strategy; high visibility; great demand</p> <p>Cons: second rank support, risk of not mobilizing necessary resources to execute the plan may not be mobilized</p> <p>Pros: high visibility; natural follow-on action; allowing to take a deep dive into specific subjects</p> <p>Cons: absence of natural owner (JEDCO? CBJ?), may</p>

Title	Nature	Objectives	Results	Resources	Comments
awareness on existing financing			launched operationalization of the financial inclusion strategy is facilitated develop printable literature, build cooperation with other stakeholders		not result in ST concrete actions Pros: direct result of the mapping; aligned with FI strategy; a lot of good practices to draw on Cons: may bear results only over the MT; complexity of mechanisms
Specialized loan guarantee funds Establish specialized funds sector and geographical	Working sessions supported by ST TA and dissemination	To encourage financial institutions, private sector and donor organization in establishing these CGF	Get few donors or interested organization to establish CGF,	50 -60 days	Pros, increase competition to produce better rates; country wide development; CGC industry development Cons, Resistance from existing CGF; Smaller size CGF's May lose some of CBJ support
Moveable assets law Support Law s establishment; Support Asset Registry creation.	Working sessions supported by ST TA and dissemination	Help finalize the proposed law and its associated enabling legal support documents.	Get involved with the law preparation, editing; promote it once passed Help MIT with asset registry establishment -	60 – 80 days Presentation; Logistics Communication budget	Pros: High visibility & important to make factoring a useful A2F product. Cons: Existing work/institutions may not may sensitive to new actors entering this process

Title	Nature	Objectives	Results	Resources	Comments
			provide best practices samples		
MSME Tax incentives	Study and dissemination	Determine best international versus Jordanian situation	Propose MSME tax incentive to GoJ	40- 50 days (may need more days)	Pros: High visibility & important to make factoring a useful A2F product. Cons: Gov. Budget deficit;

6. CONCLUSIONS AND NEXT STEPS

6.1. OVERVIEW

This section's content is based on the Jordan report's findings and the Seminar participants' testimonials. As well, the discussion points presented under section 4, added to which, the possible actions to undertake found in section 5, have impacted this section's content.

The following conclusions and next steps take into account their coherence with existing Jordan National MSME policies, the existing gaps, as identified in the Jordan National Report, which indicated specific implementation issues to resolve.

Finally, closing section 5, the phasing takes into consideration realistic execution time frames and focuses on quick wins whose implementation could be facilitated by the stakeholders mobilized during the seminar.

6.2. PHASING CONSIDERATIONS

6.2.1. Short Term Activities (ST)

They would focus on:

- Developing the capacity of banks and non-banking financial institutions to supply adequate SME finance (through internal scoring tools, risk management systems, lending skills),
- Providing specific MSME risk mitigating products to FIs to encourage FIs to extend MSME loans,
- Strengthen financial and operational leasing companies and raise public awareness,
- Credit Bureau strengthening and market wide involvement.

It was stressed that the implementation of these activities will require more funding than the Jordanian Government can support. This highlights the importance of the international cooperation under which concessionary loans, risk-sharing mechanism and technical assistance could be mobilized.

6.2.2. Medium Term Activities (MT)

Taking longer to execute, while needing to be in harmony with the ST actions, they valuably could focus on:

- **Regulatory framework:** producing a Secured Assets Law, supported by an electronic Movable Assets Reregister. Likewise, an international best practice Bankruptcy Law could be implemented.

Both will take time to implement, if the leasing legal and regulatory history is any guide. That process took more than 6 years, from the 1st International Finance Corporation support in 2002 until the law was in place in 2008. This remains work in process.

These two legal changes would allow the Government to provide incentives to FI such as they would be in a position to develop and promote innovative financing instruments (e.g. Factoring Financing).

SMEs access to equity finance: Actions are recommended to broaden existing Venture Capital focus on more sectors than just Real-estate and IT companies

Thus, a strengthening of the Jordanian Stock Exchange must take place, such that IPOs are attractive investments, there are no existing laws for establishing VC funds or companies (help in legislation is needed).

- **Financial and Operational Leasing Companies**, availing low cost sources of funds to the sector.
- **Information gap reduction:** Finally, but perhaps most important of these medium term action, concerns the existing, on-going information gaps, faced by both MSME supply and demand sides.

FIs must work better, in a more focused manner to understand their MSME clients'. The latter must work harder to understand the FIs and the documents that the MSMEs must provide to FIs so that they receive their much needed A2F.

6.2.3. Long Term Activities

The focus is on, synchronization with both Short and Medium activities, the following key aspect:

- The Jordanian Government establishing an MSME legal and regulatory framework. That framework would include tax and other financial incentives, following international and/or MED regional best practices.

6.2.4. Seminar Consensus Activities

From the above, the Seminar produced activities are in conformity with its objectives, which were to produce potential "quick wins", from which the on-going MSME A2F can be improved.

- **Establishing a SME financing focal point:**
 - Enhancing public/private cooperation in terms of dialogue, reforms and policy design
 - Disseminating information on existing instruments
 - Promoting financial innovation
 - Assisting FIs in raising appropriate resources.
- **Moveable Assets Law and its associated register**, in view of:
 - Facilitating lending to SMEs without collateral
 - Strengthening creditors' rights
 - Supporting the development of SME leasing.
- **Strengthening Kafala - a 'Sharea' compliant - Loan Guarantee Scheme.**
 - Either centrally or
 - Through the promotion and creation of regional mutual guarantee funds.

