

Microfinance in the Arab World: Shaping the Industry's Future

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Regulatory Environment The Jordanian Experience

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Policy Environment in Jordan



- Types of Policy Constraints Identified:
 - Regulatory
 - Legal
 - Financial

Regulatory Constraints



- Subsidized Credit
 - Special Laws
- Structure of MFI's
 - Lack of standardized structures
- Islamic Banking Practices
 - Accessible to Islamic Banks Only
 - Non accessible to MFI's and Commercial Banks
- Security Interests in Moveable Assets
- Encouragement of Investment Law
- Sales Tax Law

Legal Constraints



- Enforcement of Claims
 - Duration
 - Cost
- Promissory Notes
 - Symbolic “collateral”
 - Perception “non-binding”
 - Enforcement through the Court System

The Options



- To Regulate the industry of MF in Jordan
- To move towards the commercialization of the MF industry
- To maintain status quo

To Regulate or Not..



- Advantages:
 - Increased access to capital
 - Ability to provide a broader product mix, including savings
 - Improved credibility
 - Governance
- Disadvantages:
 - Direct Costs:**
 - Transformation costs
 - Adding / training staff
 - Replacing / upgrading MIS systems
 - Indirect Costs:**
 - Decreased flexibility
 - Increased workload
 - Divided focus

Commercialization ..



- Definition* ...
 - The movement of micro finance NGO's out of the heavily donor-dependent phase of subsidized operations, to the MFI's that manage themselves on a business basis

 - Followed by the eventual move to become part of the regulated financial system

** As defined by ACCION International*

Commercialization..



Advantages

- Higher efficiency levels
- Improved customer services

Disadvantages

- Mission drift
- Increased competition
- Legal transformation (fees and time)

The Objective



- Removing current policy constraints to the development of the MF Industry:
 - Mobilizing available resources
 - Drawing on regional and global experiences
 - Advocacy and government buy-in
 - Reaching the industry's full potential

The Conclusion



To mainstream Microfinance Services into the Financial Sector in Jordan