

# 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