



MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

# The Jordanian National Policy Framework for Microfinance: Towards Inclusive Finance

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## VISION STATEMENT

**To provide all Jordanians access to a range of high quality financial services that have the potential to enhance their economic well being and improve the quality of their lives.**

## TABLE OF CONTENT

<b>VISION STATEMENT</b> .....	<b>2</b>
<b>I. FOREWORD</b> .....	<b>4</b>
<b>II. SUPPORT TO THE NATIONAL DEVELOPMENT GOALS</b> .....	<b>5</b>
A. ROLE OF MICRO AND SMALL ENTERPRISE (MSE) FINANCE.....	5
B. BUILDING AN INCLUSIVE FINANCIAL SECTOR.....	6
<b>III. ACHIEVEMENTS TO DATE</b> .....	<b>7</b>
A. STRONG GROWTH AND PERFORMANCE .....	7
B. EVOLVING LEGAL AND REGULATORY FRAMEWORK .....	7
C. DEVELOPMENT OF INDUSTRY INFRASTRUCTURE.....	8
D. COMMERCIALY ORIENTED FUNDING .....	9
E. RATIONALIZATION OF GOVERNMENT INVOLVEMENT .....	9
<b>IV. REMAINING CHALLENGES</b> .....	<b>10</b>
A. ASSURING REGULATORY AND SUPERVISORY COMPLIANCE AND COSISTENCY .....	10
B. UNMET DEMAND.....	10
C. CONTINUED GOVERNMENT INVOLVEMENT IN RETAIL LENDING .....	11
<b>V. POLICY OBJECTIVES</b> .....	<b>11</b>
<b>VI. STRATEGIC PRIORITIES</b> .....	<b>11</b>
A. DEVELOPING A UNIFIED REGULATORY FRAMEWORK.....	11
1. <i>Policy Strategy: Draft Specific Microfinance Legislation</i> .....	11
2. <i>Policy Strategy: Develop a Self Regulatory Regime</i> .....	12
B. PROMOTING SUPPORTIVE INDUSTRY INFRASTRUCTURE .....	13
1. <i>Policy Strategy: Build Capacity of the National Association</i> .....	13
2. <i>Policy Strategy: Promote Financial Literacy</i> .....	14
C. SPURRING MARKET EXPANSION AND INNOVATION .....	14
1. <i>Policy Strategy: Promote New Product Development</i> .....	14
2. <i>Policy Strategy: Explore Innovative Delivery Channels</i> .....	14
D. ENSURING SUSTAINABLE FUNDING: FILLING MARKET GAPS .....	15
<b>VII. ROLES OF STAKEHOLDERS</b> .....	<b>16</b>
<b>VIII. MONITORING AND EVALUATION</b> .....	<b>17</b>
<b>IX. NATIONAL ACTION PLAN</b> .....	<b>18</b>
<b>ANNEX 1: LEGAL STATUS OF MFIS IN JORDAN</b> .....	<b>19</b>
<b>ANNEX 2: INDUSTRY INDICATORS Y/E 2010</b> .....	<b>20</b>
<b>ANNEX 3: G20 PRINCIPLES FOR INNOVATIVE FINANCIAL INCLUSION</b> .....	<b>21</b>

## I. Foreword

The Jordanian National Policy Framework for Microfinance directly supports the Government of Jordan's by aligning strategic priorities with the continued national policy goals of accelerated economic growth, improved standards of living and poverty reduction.

It has been updated under the direction of His Excellency Eng. Emad Fakhoury, the Minister of Planning and International Cooperation (MoPIC), through a consultative process in early 2017 to review the National Strategy for Microfinance in Jordan since its ratification by the Cabinet in 2005 and its previous revision in 2011. As part of this exercise a sector review was undertaken, which identified the following achievements made to date:

- Growth in outreach of around 10% from 2014 to 2015, translating into an increase in active borrowers from 325,744 to 357,777 and a total Gross Loan Portfolio of JD 180 million; strong focus on women who account for more than two-thirds of all clients;
- Establishment of a regulatory and supervisory framework by the Central Bank of Jordan since 2015;
- National microfinance association positioned to take a lead role in promoting sector development; increasing client credit information sharing among MFIs to help prevent against over indebtedness and maintain good portfolio quality;
- Increased diversity of commercial funding sources among MFIs to fund expansion and growth.

In spite of these significant achievements, some challenges are yet remaining for financial inclusion through improved governance, regulation and outreach of microfinance. This National Microfinance Policy Framework is intended to address current challenges in microfinance by defining concrete strategy elements that will be needed to further develop the microfinance industry as part of the financial sector in Jordan; and identifying concrete actions and resources needed to ensure implementation.

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### CORE PRINCIPLES

**Private sector will be a main provider of financial services**

**Market oriented financial and credit policies and pricing will dominate the market and gradually replace direct subsidies**

**Government agencies will continue to cater for local economic development in remote areas, but slowly withdraw from the direct provision of microloans (below JD 5,000) or guarantee programs under the condition that private sector will cover market demand in the withdrawal areas.**

The revised National Microfinance Policy Framework builds upon the previous 2005 National Strategy. Its objective was to provide access to a wide range of financial services to the majority of the economically active poor households and micro-enterprises in Jordan by supporting a liberalized and market-oriented economy where the private sector is the implementer and the Government provides the enabling environment for the efficient functioning of markets.

The policy framework has been informed and endorsed by the major industry stakeholders through their active participation in the Microfinance Steering Committee (**See Annex 4: Contributor List**) as well as the Central Bank of Jordan as an important step in promoting a truly inclusive financial system in the Kingdom. It has been developed based on international principles and practices and is part of an iterative process and ongoing national dialogue among the major stakeholders operating in the sector.

The Government of Jordan is preparing a national financial inclusion strategy (2018-2020) under the supervision of the Central Bank of Jordan and in cooperation with relevant sector stakeholders. The strategy will aim to bridge

financial access gaps while synergizing national efforts in the financial system and harmonizing the policy objectives of inclusion, stability, integrity, and client protection. The National Microfinance Policy Framework will thus be in effect until it is replaced by the expected national financial inclusion strategy.

## II. Support to the National Development Goals

### A. Role of Micro and Small Enterprise (MSE) Finance

It is widely accepted that increasing access to finance for poor and low-income people is critical for social and economic development. If provided properly, it has the potential to increase household income and economic security, build assets and reduce vulnerability, create demand for other goods and services (especially nutrition, education and healthcare) and stimulate local economies. In addition, untapped savings from the informal sector has the potential to create and expand small businesses thus generating employment and increasing income.

Microfinance is the provision of a range of financial services to economically active poor and low-income people, otherwise excluded from the formal financial sector, to enable them to contribute to their own economic wellbeing. These services include safe savings and appropriately designed credit, insurance and payment systems that help them build assets, manage risk and increase their standards of living.

Poverty continues to be a major challenge for the Government of Jordan. Jordanians living below the national poverty line were estimated at 13.3 % according to World Bank studies. The number of poverty pockets (where the poor constitute more than 25 % of the population) increased from 22 to 32, and the annual poverty gap increased to JD 101 million<sup>1</sup>.

At the same time it was estimated that 30% of the labor force in Jordan, or roughly 570,000 workers, are operating in the informal sector<sup>2</sup> where barriers to entry are low. These activities usually fall outside the legal and regulatory frameworks of a country and are characterized by a high level of vulnerability for workers who lack legal and social protection. In Jordan, these micro and small enterprises are generally defined as those that employ four employees or fewer<sup>3</sup>, and have been estimated to account for almost two-thirds (65%) of total private sector non-agricultural employment in the country<sup>4</sup>.

In spite of the important role micro and small enterprises play in creating employment, access to formal financial services in Jordan is limited, with only around 25% of people having an account compared to the regional average of 14% of people and the average in peer economies of around 70% of people. Table 1 summarizes financial inclusion indicators.

**TABLE 1: FINANCIAL INCLUSION INDICATORS**

<i>4.3 million adults in Jordan</i>	Jordan	Upper Income	Middle
<b>Account, All adults (% age 15+)</b>	24.6 %	70.5 %	
Women	15.5 %	67.3 %	
Poorest 40%	16.4 %	62.7 %	
In rural areas	25.4 %	68.8 %	
<b>Use of account (% age 15+)</b>			
to receive wages	7.9 %	18.1 %	

<sup>1</sup> The International Financial Crisis and the Labour Market: A Review of the Impact and Policy Responses. ILO, February 21, 2011.

<sup>2</sup> Al Quds Center for Political Study. July 13, 2010.

<sup>3</sup> Ministry of Industry and Trade.

<sup>4</sup> Unemployment in Jordan. The European Training Foundation (ETF), 2005.

to pay utility bills	0.1 %	12.3 %
<b>Use of debit card for payments (% age 15+)</b>	6.4 %	19.9 %
<b>Savings in the Past Year (% age 15+)</b>		
Saved at a financial institution	3.8 %	32.2 %
Saved any money	29.2 %	62.7 %
<b>Credit in the Past Year (% age 15+)</b>		
Borrowed from a financial institution	13.6 %	10.4 %
Borrowed any money	32.2 %	37.7 %

Source: Demirguc-Kunt and Klapper (2014): *The Global Financial Inclusion (Global Findex) Database*.

Increasing access to finance for poor and low-income people in Jordan by creating a more inclusive financial sector is deemed critical for human and economic development. Accordingly, a microfinance policy framework that seeks to support poverty alleviation and job creation through sustainable access to finance for micro and small enterprises will be essential to leverage existing resources and help the GoJ meet its national development goals.

## B. Building an Inclusive Financial Sector

In order to build a truly inclusive financial sector it is necessary to have a sound policy, legal and regulatory framework that supports a continuum of service providers offering these services on a sustainable basis. Through the ratification of this document, the Government of Jordan strives to develop the microfinance industry as part of the formal financial sector, which will be characterized by:

- ***A continuum of financial service providers*** (i.e. commercial banks, specialized MFIs, service companies and cooperative societies) with the institutional structure and capacity to service the market in an efficient, cost effective and sustainable manner;
- ***A diversified range of demand-oriented financial services*** (e.g. micro credits, micro savings, insurance, transfer payments, remittances, etc.) at appropriately structured terms using technology such as mobile and agent banking to reduce costs to the clients;
- ***A Competitive Capital Market*** where MFIs have access to a diversity of private debt and equity investments, as well as the possibility of savings mobilization to finance growth;
- ***Financial transparency and a supportive infrastructure*** (e.g. credit bureaus and information exchange services, financial standards, disclosure requirements, member based associations and training institutes, etc.) that supports sector development, competition and increased access to finance through greater accountability and innovation;
- ***Existence of non-financial services to MSE*** such as business development services (BDS), financial literacy and consumer protection mechanisms that support the enhancement of micro and small businesses and their ability to benefit from access to finance.

### III. Achievements to Date

#### A. Strong Growth and Performance

Microfinance sector started its business in Jordan in 1994. MFIs in Jordan have experienced strong and steady growth with an annual average increase in outreach of 16%, growing from 200,754 to 357,777 active clients during the period from 2011 to 2015 (DEF has an additional 41,000 clients that are not reflected in these figures provided by Tanmeyah). The number of borrowers grew by 9.8% from 325,744 borrowers at the end of 2014.<sup>5</sup> Three of the long-standing MFIs continue to drive market growth. MFIs in Jordan have maintained a strong gender focus with more than two-thirds of all clients being women.

Microfinance loans grew by 21.0% in the period 2013 to 2015. The total loan portfolio of the microfinance companies approximated JD 180 million at the end of 2015 compared to JD 149.0 million at the end of 2014. Moreover, the average value of loans increased from JD 650 at the end of 2014 to JD 753 at the end of 2015, at a growth rate of 15.8%.<sup>6</sup>

While there has been some differentiation in the market, namely in the area of insurance and Islamic lending products, by nature of the existing legal framework, the industry remains credit driven, leaving the unbanked population, particularly low-income people, the youth, women and people from remote areas, with limited access to adequate – affordable and needs-based – payments and micro savings products.

In the microfinance sector, 69.0% of borrowers, 69.0% of loans and 67.0% of MFI branches are located outside the capitol Amman. The number of borrowers inside Amman grew by 6.0% in 2015 compared to 11.0% outside Amman.<sup>7</sup>

According to a financial awareness and inclusion questionnaire conducted in Jordan in 2016, 11% of respondents reported being clients of MFIs while around 40% of the sample stated to not be aware of microfinance.<sup>8</sup>

#### B. Evolving Legal and Regulatory Framework

The CBJ made the strategic decision to expand its supervisory umbrella to include the microfinance sector. The cabinet approved on December 14, 2014 the Bylaw No (5) for 2015 which became effective on June 01, 2015 and mandates the CBJ to license, control and supervise microfinance companies.<sup>9</sup>

The Bylaw demanded the microfinance companies (MFIs) to be licensed as for-profit (LLCs and private shareholding) or non-profit companies to specific licensing and minimum capital requirements. It covers provisions such as the following:<sup>10</sup>

- By definition, microfinance covers microcredit and other financial services targeted at the poor, unbanked or underserved segments of the population, i.e. individuals, microenterprises or small companies.
- The CBJ has the authority to allow licensed MFIs to offer financial services other than microcredit with the exception of deposits. MFIs may engage in the disbursement of loans, the provision of financing in

<sup>5</sup> CBJ (2016): Financial Stability Report 2015.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Injaz / PKF (2016): Measuring Financial Literacy and Financial Inclusion Survey.

<sup>9</sup> CBJ (2016): Financial Stability Report 2015

<sup>10</sup> CBJ Bylaw no. 5/2015

accordance with Islamic principles, agent services to microfinance clients for the provision of insurance and mobile money services, and any other activities or services approved by the CBJ.

- The minimum capital requirement for MFIs is JD 2 million.
- The licensing application requires the disclosure, amongst others, of the founding shareholders, the company's articles of association, the financial projections for three years, and audited financial statements for two years.
- Fit-and-proper requirements for the board member and executive management.
- The CBJ has to authorize the opening and closing of branches as well as the establishment of subsidiaries.
- The CBJ has the authority to set minimum and maximum limits for interest rates, fees, and commissions charged by the MFIs for products and services provided to clients.
- The CBJ has the authority to exempt cooperatives and charitable organizations from these rules.
- The CBJ has the authority to issue and adopt the necessary executive orders and instructions to enforce this regulation and to supervise licensed MFIs.

In May 2016, the CBJ issued instructions for the licensing of microfinance companies. It plans to issue further instructions to detail the provisions of the Bylaw and to supervise compliance of the sector with the regulations concerning the fair treatment of clients, risk management, internal control systems, governance, financial reports, the exchange of credit information, the combating of money laundering and terrorism financing.

### C. Development of Industry Infrastructure

The Jordan Microfinance Network, Tanmeyah, was established in 2007 to become the representative for the microfinance institutions (MFIs), replacing the Microfinance Association of Jordan (MAJ). The network's main mandate is to develop a sustainable microfinance industry that will become an integral part of the national financial system in Jordan. It plays an active role in supporting the further development of the microfinance industry, providing advocacy and awareness rising on behalf of its members, promoting information and dissemination of developments and trends in the industry. It facilitates the implementation of the regulatory environment and gathers performance and benchmarking data for the sector.<sup>11</sup> Basic aggregated performance data is accessible by various stakeholders.

The vast majority of MFIs operating in Jordan participate in both international and regional transparency initiatives (i.e. the Mix Market Micro Banking Bulletin and Sanabel Annual Market Survey respectively) providing financial data for institutional performance analysis and benchmarking. This, in addition to MFIs individually undertaking ratings by specialized and internationally recognized agencies has helped to ensure adherence to basic financial and accounting standards among industry actors and promote financial sector transparency and accountability.

A private credit information bureau was licensed in December 2015 and has taken steps to become operational throughout 2016. In view of strengthening the infrastructure of the microfinance sector through transparency and information, it is foreseen that MFIs have access to the credit bureau. The bureau's credit database covers bank clients and clients of other financial institutions. Such information would help microfinance institutions take well-informed credit decisions, enhance risk management functions, and boost client changes to access finance.<sup>12</sup>

Before the establishment of the dedicated credit bureau, most MFIs have started to exchange client history data through Tanmeyah in order to help protect the quality of their loan portfolios and prevent against client over indebtedness.

As the new regulatory and supervisory framework is being implemented, MFIs are getting prepared to regularly report performance, solvency and portfolio data to the CBJ, which could inform the future policy dialogue.

<sup>11</sup> Tanmeyah (2016): Members' Performance Report Q1/2016

<sup>12</sup> CBJ (2016): Financial Stability Report 2015

#### **D. Commercially Oriented Funding**

MFIs in Jordan have done a good job diversifying their funding base, financing their portfolio with a mix of debt and equity, the former coming from local banks, international microfinance investment vehicles and to a more limited extent from the Development and Employment Fund (DEF). However, a capital to asset ratio of close to 50%, compared to a global median of 23 percent, shows a continued reliance on donated equity to finance operations.

That said, all but the most recent entrants to the sector have relatively easy access to competitively priced financing in local currency loans, either directly from commercial banks or with the aid of credit enhancements (i.e. guarantees) provided by international donors. Financing from banks continues to be primarily in the form of overdraft facilities, with medium term loans, without a full or partial guarantee being less common. This is reflected in an MFI debt to equity ratio of 1.08, which is at par with the regional average, yet significantly less than the global average of 3.3.

Deposit mobilization, as a source of self-financing is not an option for MFIs under the current Bylaw for microfinance. MFIs have so far been able to cover the cost of their debt funding through their pricing policies. However, as the market becomes more competitive MFIs will need to look at ways to reduce costs.

#### **E. Rationalization of Government Involvement**

The GoJ continues to be engaged in direct lending to micro and small enterprises, supporting segments of the market still not served by mainstream MFIs. The Development and Employment Fund (DEF) and the Agricultural Credit Cooperation (ACC) both provide direct retail financing to meet what they have identified as market gaps in underserved rural areas, providing loans to start ups and poor agricultural workers, above the normal start up size for MFIs.<sup>13</sup> At the same time, the Ministry of Social Development (MoSD) provides direct financing to families for productive projects perceived as too risky by most MFIs.

Due to the different target markets and vastly divergent lending criteria and methodology, these programs are not considered to be direct competitors by specialized MFIs in the sector. However, it is important that the government develops clear policies with specific conditions that will incentivize MFIs to gradually fill the lending gap in rural areas in order to allow these agencies to transition into a more supportive role to the sector. However, the government will keep implementing the activities of direct lending in the areas which are not served and will not be served by MFIs. Furthermore, the government preserves the right to return to deliver direct lending to enterprises in remote areas which withdraw from whenever the lending gap is not filled by mainstream MFIs.

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<sup>13</sup> JD 2,000 - JD10,000

## IV. Remaining Challenges

### A. Assuring Regulatory and Supervisory Compliance and Consistency

There has been no specific, unified regulatory and supervisory framework for providers of microfinance under a single supervisory authority. This has resulted in a fragmented market with range of divergent institutional types (i.e. for profit companies, not for profit companies, commercial banks, quasi-governmental organizations, donor programs, multi service NGOs and a special purpose MFI) each with separate supervisory bodies<sup>14</sup> based on their specific legal forms.

The Central Bank of Jordan has the authority to supervise financial service providers under the respective legislation. With the passing of Bylaw No (5) of 2015 the CBJ is mandated to license and supervise microfinance companies (for-profit or non-profit) and to issue the necessary instructions to detail and enforce administrative, governance, operational, financial, product, and disclosure requirements for microfinance providers.

MFIs need to be licensed and compliance be enforced with the new or upcoming regulations for the fair treatment of clients, risk management, internal monitoring and control, governance, financial reports, the exchange of credit information, the combating of money laundering and terrorism financing. Setting up the supervisory function as well as the operational implications in MFIs require a transition period. MFIs have two years since the Bylaw became effective, extendable to another year with prior approval from CBJ, to apply for a license and to conform with the licensing requirements.

Instructions will not apply for government institutions, e.g. the Development and Employment Fund (DEF), or such institutions that operate under international or specifically tailored national laws or decrees, e.g. the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) or the National Microfinance Bank / Al Watani.

### B. Unmet Demand

The outreach of Tanmeyah member MFIs alone was just over 360,000 clients by the end of 2015. The microfinance markets of Jordan is projected to grow by around 15%.<sup>15</sup> Yet, three quarters in the population are financially excluded, i.e. they neither have a bank, nor a mobile money account.<sup>16</sup> At the same time, the majority of micro loans are for consumer lending, the average loan balance in Jordan is JD 753, and the product variation is limited. A wider range of products and services including digital payments (agent services) and mobile banking, small enterprise finance, housing finance, insurance, education loans, Shari'a compliant products, paired with non-financial services would better meet the heterogeneous needs of the youth, women, low-income and rural population as well as of growing micro or small businesses.

Increasing the access to finance for low-income people is critical for social and economic development. It has the potential to increase household income and social-economic well-being, to strengthen the resilience of vulnerable groups. Given the increasing youth population in Jordan (more than 70% of the population is under 30 years of age), the high levels of youth unemployment (15.8%),<sup>17</sup> a public sector that is limited in its absorption capacity, access to finance and financial capability can support people to become economically more active, thereby improving both their financial and occupational perspectives. Yet, youth face many barriers in accessing financial services, including legal restrictions, limited awareness about their rights and options in finance, and inappropriate products and services.

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<sup>14</sup> The Ministry of Industry and Trade (MIT) for companies, the Central Bank of Jordan (CBJ) for banks, and the Ministry of Social Development (MOSD) for NGOs.

<sup>15</sup> Microfinance Market Outlook 2015 – ResponsAbility

<sup>16</sup> Demirguc-Kunt and Klapper (2014): The Global Financial Inclusion (Global Findex) Database.

<sup>17</sup> According to figures published in January 2017 by the Department of Statistics.

### C. Outreach and Continued Government Involvement in Retail Lending

The government has continued its operations in retail lending particularly in remote areas where efforts to encourage the private sector MFIs to fill the market gap have not materialized yet. In order to help meet key governmental development objectives, governmental institutions such as the DEF will continue to be engaged in direct lending to small and medium enterprises, supporting segments of the market still not served by mainstream MFIs. The DEF provides direct retail financing to meet what they have identified as market gaps in underserved rural areas. The DEF will continue to deliver the direct finance programs and will work on developing and improving these programs and products to serve the interests and needs of the Fund as well as those of the target groups. In particular, the Fund will increase outreach to poverty pockets and rural areas, strategically identify target segments for direct SME funding and define their financing needs, and diversify financial services and delivery channels to meet target segments' needs.

However, the growing demand for finance services and the liquidity needed to fund the expected growth in the portfolio limits the DEF's capacity to increase its direct lending activities. It is projected that DEF will grant loans with annual values between JOD 34 million and JOD 43 million from 2016-2020, which could negatively affect the fiscal deficit in 2016, 2017, and 2018. Therefore, as DEF withdraws from retail micro-lending (loans below JD 5000) it needs to reallocate internal resources to direct SME lending (loans from JD 5000 to 100,000).

## V. Policy Objectives

The specific objectives of this Policy Framework are to:

1. Increase access to a range of inclusive financial services to all poor and low-income people in Jordan;
2. Support innovation in new product development and alternative delivery channels;
3. Ensure the efficient and responsible growth of the industry as part of the formal financial sector.

## VI. Strategic Priorities

### A. Developing a Unified Regulatory Framework

The unrestricted operating environment in Jordan has allowed for the organic growth of the sector, where a small core of specialized MFIs have evolved to serve the market in a professional and profitable manner. However, as the industry continues to mature and more commercially oriented actors come on the scene, a clearly defined supervisory and regulatory structure will be important for ensuring sustainable and responsible growth, as well as facilitating the entrance of private-sector capital to expand their scale of operations.

#### 1. Policy Strategy: Draft Specific Microfinance Legislation

The development of specific microfinance instructions within the Central Bank of Jordan's authority and mandate to oversee all MFIs will help to rationalize activities in the sector and to support subsequent supervision. The necessary resources need to be ensured to build up the Central Bank of Jordan's capacity to perform this function adequately.

Given the current stage of the industry's development and the credit only nature of MFIs operating in the sector, this legislation will be supportive of non-prudential regulation, with the main objective of creating a level playing field for all institutions operating in the sector. This will help ensure basic adherence to internationally accepted reporting and professional standards, strengthening the credibility of strongly performing MFIs and promoting greater confidence

among the private sector investors. This will be particularly important for domestic investors who may have little understanding of the business of microfinance, but who value the importance of regulation and supervision in reducing financial institution risk. The Bylaw and instruction shall cover basic aspects supportive of these goals such as:

- Classification of specialized MFIs, including the possibility of a special deposit taking form of MFI in the future, if and when institutions can meet clear performance and registration criteria set by the CBJ;
- Clear guidelines for registration and licensing of microfinance companies, including interest rate treatment, application of auditing and accounting standards and basic reporting requirements;
- Ownership, capital and management criteria that encourage private investment and the development of innovative models of service delivery;
- Standardized tax treatment for all financial transactions regardless of institutional type that follow common standards on the exemption of value added tax on loan contracts, while holding private MFIs responsible for taxes on net profits.
- Compliance guidelines and sanctions in the case of non-compliance;
- Role if any of governmental apex bodies;

## 2. Policy Strategy: Develop a Self Regulatory Regime

Given the non-prudential nature of the regulations and the relative size of the microfinance industry vis-à-vis the formal financial sector in terms of total assets,<sup>18</sup> the national microfinance association can provide additional self-regulatory provisions as well as services for the industry, which can include:

- Basic institutional information on MFI location, legal status, capital structure, officers and board;
- Quarterly reporting of financial statements, following industry standards for treatment of grants, in-kind contributions and any other subsidies;
- Social performance monitoring according to evolving standards in the field;
- Application of internationally accepted accounting standards and disclosure, including the treatment of loan portfolio;
- Submission of annual audited financial statements;
- Performance evaluations through ratings.

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<sup>18</sup> The total assets of the microfinance industry in 2009 (JD 89.5 million) while significant regionally constituted only .28% of total banking sector assets (JD 31.2 billion).

## B. Promoting Supportive Industry Infrastructure

### 1. Policy Strategy: Build Capacity of the Support Institution and Association

The Development and Employment Fund (DEF) will continue to provide direct retail financing to meet what they have identified as market gaps in underserved rural areas, providing loans to start ups and existing projects, above the normal start up size for MFIs. Also its strengthened focus on SME would assign the DEF a crucial role for an effective promotion of the private sector, because also in Jordan the SME represent the “Missing Middle” that is not properly served by banks or MFIs. However, the Fund suffers a big finance gap in light of the growing demand for finance services and other constraints that will surely prevent the provision of cash liquidity needed to self-finance the expected growth in the portfolio. Budget of training in 2014 mounted to JOD 20,000 and JOD 25,000 in 2013. These are very low benchmarked with the international standards that can reach about 3% of annual profits and compared with the training needs of the Fund. Capacity building must be provided for the employees of DEF especially in the technical areas that govern the Fund’s performance in order to improve credit analysis and collection processes. In addition, non-financing services have to be complemented with the financing services aimed at capacity building for targeted groups to ensure success of their projects. For example, training and habilitation to clients to enable citizens to operate and manage their own projects or improve their chances to join the labor market.

The national association can play a vital role in developing a more inclusive financial sector in Jordan by providing MFIs with services that will help them improve their institutional performance and promote a self-sustaining and responsible industry. And while MFIs in the sector are supportive of this fledgling institution, resources need to be dedicated to help build its capacity to help push the boundaries of the industry along the latest developments in the field. Specific areas to be developed include:

- **Consumer protection mechanisms** – ensuring the further development of the existing industry wide code of ethics and practices among its members that ensure adherence to the six widely held principles of consumer protection:
  - a. Avoidance of over-indebtedness
  - b. Transparent pricing
  - c. Appropriate collections practices
  - d. Ethical staff behavior
  - e. Mechanisms for redress of grievances
  - f. Privacy of client data
- **Information hub** – developing the association as a storehouse of knowledge for the sector, facilitating information exchange and promotion of industry standards and developments among its members. Particular emphasis will be paid to better understanding evolving market demand and innovation in new product development;
- **Research and development** – aimed at promoting more client-responsive and cost effective services for MFIs, including the use and adaptation of new technologies such as mobile banking;
- **Social performance monitoring** – promoting the understanding and use of the latest tools in the field (i.e. social ratings, audits, assessments, poverty scorecards, wealth ranking tools, etc.) among its members to assess and monitor their progress toward achieving clear institutional social objectives.
- **Information exchange** – supporting the inclusion of MFIs in the soon to be established national level credit bureau under the Central Bank of Jordan, approved under the new law of 2010, by encouraging active participation by its members.

## 2. Policy Strategy: Promote Financial Literacy

It is important to ensure that consumers have the skills, knowledge and understanding to manage their borrowing and investment strategies. The Development and Employment Fund (DEF) through its partnership with the Ministry of Labour on the one hand, and the national microfinance association as well as other national stakeholders on the other hand, can play a key role in implementing financial education, helping to build the capacity among low-income clients to ensure that they benefit from access to microfinance through the effective use of these services. Specific efforts will be undertaken to address:

- **Savings, debt and money management** – helping clients understand how and where to save, how to avoid over-indebtedness and properly manage investments;
- **Financial negotiations** – strengthening clients’ bargaining position vis-à-vis financial institutions, input suppliers and members of their own household;
- **Accessing bank services** – helping clients understanding how banks work and structure their fees, how to negotiate loans and best utilize the services available to them.

### C. Spurring Market Expansion and Innovation

#### 1. Policy Strategy: Promote New Product Development

In order to extend the reach of microfinance to underserved populations and meet the unrealized demand for services beyond enterprise credit, MFIs will strive to offer their clients a full range of products and services that meet existing and evolving needs. This will require product refinement and development on an ongoing basis, starting with:

- **Market research** – quantitative and qualitative demand studies to assess the potential for new product development in the areas of housing finance (including energy savings improvements), remittances, youth products, leasing, Shari’ a compliant products and finally micro savings;
- **Product design and development** – with a focus on research and innovation to increase efficiency of operations drawing from international experiences and lessons learned;
- **Pilot testing and final rollout** – to ensure that the benefits and unique aspects of the products are fully understood by the target market.

#### 2. Policy Strategy: Explore Innovative Delivery Channels

In an effort to further increase efficiency and reduce costs, MFIs will adopt a culture of innovation, looking to a range of markets for new systems and distribution channels to promote expansion. Alternative delivery channels that use information and communication technology to reduce the costs of service delivery for the client should be pursued to increase access to previously underserved areas.

- **Mobile banking** – has been identified as a major opportunity in Jordan, given the high penetration rate of mobile phone usage in the country.<sup>19</sup> Efforts will be made to promote the use of nonbank-based models now that it has been expressly defined under the E-Wallet Circular number 10/2/6492 issued by the Central Bank on June 9, 2010. This circular allows licensed telecommunications companies to cooperate in the field of payment and electronic transfers of small sums of cash money to electronic money units within its national network, as long as there is no intermediation of funds. Further action to support this development includes clear regulations outlining the terms of E-Money issuance, as well as guidelines on taxation, consumer protection and transparency.

#### D. Ensuring Sustainable Funding: Filling Market Gaps

While most MFIs in Jordan maintain good access to local currency loans from commercial banks, the newer entrants to the field are finding it more difficult to source debt or equity without an established track record. Furthermore, as the more mature MFIs grow and expand their product offerings, particularly into housing and SME financing, they may find the current supply insufficient to meet their growing financing needs. DEF funds can be used to either help new entrants into the market who cannot secure commercial financing but show good potential, or to support new and existing MFIs that are willing to move into frontier markets, where costs of entry are high and subsidies would help incentivize innovations.

DEF will transit from direct micro lending to SME direct lending. the DEF will work on developing and improving SME programs and products to serve the interests and needs the target groups, and will develop its capacity accordingly.

**Developing financing terms and incentive schemes** – DEF will continue to deliver the direct finance programs and will increase outreach to poverty pockets and rural areas in the kingdom;

- **Establishing clear and unified financing criteria** – that consider MFI past performance (i.e. productivity, profitability, portfolio quality, cash flow, etc.) as well as the business plans and projections of new MFI entrants to the market;
- **Building up DEF's internal capacity** – to diversify and develop its financing and non-financing services as well as its outreach channels to the satisfaction of the target group needs.
- In addition, the government will use other available facilities such as the Jordanian Loan Guarantee Corporation (JLGC) to provide guarantees to help MFIs further extend services to the growing micro and small enterprise sector.

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<sup>19</sup> The number of mobile phone accounts in Jordan is equivalent to 103% of the population

## VII. Roles of stakeholders

In carrying out the vision stated in this document, the various actors will assess their comparative advantage in terms of organizational structure, technical capacity and financial resources to leverage private sector interventions and accelerate innovative market solutions wherever possible.

The **Government of Jordan**, through the **Ministry of Planning and International Cooperation (MoPIC)**, will continue to provide a market oriented financial and credit policy environment that will promote both transparent and efficient financial markets supportive of innovation and growth. It will also work with relevant bodies to pass legislation necessary to rationalize the sector and give the Central Bank of Jordan the legal authority to enforce resulting regulations for the sector.

- **The Central Bank of Jordan (CBJ)** will follow up on its commitment to work with MoPIC to create a clear legal framework for microfinance that will give the CBJ the direct oversight authority of the microfinance industry and jurisdiction to revoke licensing in the event of non-compliance. The Central Bank will further commit to creating adequate internal capacity to play this oversight role and to develop its supervisory capacity to support a range of institutions operating in the banking sector.
- **Ministry of Industry and Trade (MOIT)** – will continue to be responsible for registering financial companies and supporting the transformation of not-for profit companies into for profit entities.
- **Ministry of Social Development (MoSD)** – will continue to provide critical social protection to poor and marginalized groups through cash transfers, food assistance, enterprise training, skills upgrading and financial education. However, MoSD will abstain from direct provision of microfinance lending schemes, instead linking potential clients with professional microfinance providers using graduation approaches as an alternative to direct lending.
- **Development and Employment Fund (DEF)** – will continue to phase out of direct micro lending and focus on direct SME lending. DEF will use its available resources saved from withdrawal from direct micro lending to lend to SMEs directly.
- **Agriculture Credit Corporation (ACC)** – will continue to fund agricultural projects for farmers, contributing to their improved living standards and the development and enhancement of the agricultural sector, as long as there is an unmet demand for these services in the rural areas.

**Microfinance Association (Tanmeyah)** – will act as a self-regulatory body for MFIs operating in the sector, gathering performance and benchmarking data for the industry. It will also play an active role in supporting the further development of the microfinance industry, providing advocacy and awareness raising on behalf of its members, promoting information and dissemination of developments and trends in the industry, as well as hosting events and building partnerships with regional and international networks.

**Microfinance Providers** (non-bank and banking institutions) – will commit to providing a diverse range of market oriented, cost efficient products and services to poor and low-income clients in a socially responsible manner. Non-bank financial institutions will strive for financial sustainability and increasingly tap sources of private sources of funding (debt and equity). Banks entering the market will use their own funds to capitalize new microfinance portfolios and will dedicate necessary human resources to add microfinance to the bank's product offerings.

**Donor Agencies** will use their comparative advantage to add the highest value to the sector, taking necessary risks where needed to fill existing gaps. This will involve prioritizing capacity building support in their funding strategies at

all levels of sector development, providing direct technical assistance to new and existing MFIs as well as national level bodies supporting the sector (i.e. CBJ and Al Ittihad). Industry support activities will focus on supporting the evolving regulatory framework and promoting new product development through the use of trained specialists. Financial support to intermediaries will be based on private investment criteria and structured in such a way as to encourage the phasing in of private capital. Direct financing in the form of refinancing will be flexible enough to support new product development (i.e. longer term loans, local currency, etc.).

### **VIII. Monitoring and Evaluation**

The Steering Committee will be responsible for the implementation of the detailed Action Plan developed to support the national policy framework articulated in this document. The Action Plan builds upon the priority areas identified and will define key activities to be undertaken, identifying the lead institution responsible for its implementation and the indicative timeframe for completion.

MoPIC will play a critical role in the successful implementation of the Action Plan through its oversight function and general advocacy and coordination role. Technical support will be provided to MoPIC to facilitate the action planning process and effectively monitor the implementation of the Policy Framework through the SC.

**IX. National Action Plan**

**Annex 1: Legal Status of MFIs in Jordan**

Category	Name
<b>Not-for-Profit Company</b>	
	Al Watani National Microfinance Bank (NMB)*
	Vitas Jordan*
	Microfund for Women (MFW)*
	Tamweelcom*
<b>For Profit Company</b>	Al Ahli Microfinance Company (AMC)*
	Ethmar*
	FINCA Jordan*
<b>Commercial Banks</b>	Cairo Amman Bank (CAB)
<b>Donor Agency</b>	UNWRA*
<b>Governmental Agencies</b>	Development and Employment Fund, Reyada*

\*Sanabel Members

## Annex 2: Industry Indicators

Performance	Q4 2015	Q4 2016	Growth
Active Borrowers	357,833	390,417	9%
Active Loans	370,247	406,783	10%
Total Gross Loan Portfolio (GLP) JD Million	180,191,279	211,272,933	17%
Average Outstanding Loan Size JD	487	519	7%
Number of Branches	165	175	6%
PAR 30<	11.0%	7.9%	-3.2%
Written Off %	0.42%	0.40%	-0.02%

*Source: Tanmeyah Data*

### Annex 3: G20 Principles for Innovative Financial Inclusion

Innovative financial inclusion means improving access to financial services for poor people through the safe and sound spread of new approaches. The following principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. These principles for innovative financial inclusion derive from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries.

1. **Leadership:** Cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
2. **Diversity:** Implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
3. **Innovation:** Promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing infrastructure weaknesses.
4. **Protection:** Encourage a comprehensive approach to consumer protection that recognizes the roles of government, providers and consumers.
5. **Empowerment:** Develop financial literacy and financial capability.
6. **Cooperation:** Create an institutional environment with clear lines of accountability and coordination within government; and also encourage partnerships and direct consultation across government, business and other stakeholders.
7. **Knowledge:** Utilize improved data to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulator and service provider.
8. **Proportionality:** Build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation.
9. **Framework:** Consider the following in the regulatory framework, reflecting international standards, national circumstances and support for a competitive landscape: an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime; conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection.

These principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

### Annex 3: Client Protection Principles

The Client Protection Principles for microfinance and the accompanying Smart Campaign are part of a collaborative initiative endorsed and led by a broad coalition of microfinance institutions (MFIs), networks, funders, and practitioners. The purpose of the Campaign, which is housed at the Center for Financial Inclusion, and the Principles, is to ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly. There is now broad consensus that it is critical for the industry to join together and proactively safeguard the interests of microfinance clients through appropriate policies, practices, and products. As the Campaign gains momentum, MFIs that have embedded the principles into their core business activities will have a competitive advantage—not just with clients but with investors, donors, governments, and policy makers.

The Client Protection Principles describe the minimum protection microfinance clients should expect from providers. These Principles are distilled from the path-breaking work of providers, international networks, and national microfinance associations to develop pro-consumer codes of conduct and practices. While the Principles are universal, meaningful and effective implementation will require careful attention to the diversity within the provider community and conditions in different markets and country contexts. Over the past several years, consensus has emerged that providers of financial services to low-income clients should adhere to the following six core principles:

- ***Avoidance of Over-Indebtedness.*** Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that only appropriate non-credit financial products (such as insurance) are extended to clients.
- ***Transparent and Responsible Pricing.*** The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for financial institutions.
- ***Appropriate Collections Practices.*** Debt collection practices of providers will not be abusive or coercive.
- ***Ethical Staff Behavior.*** Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.
- ***Mechanisms for Redress of Grievances.*** Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
- ***Privacy of Client Data.*** The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).

**Annex 4: Contributors in Preparing the National Strategy for Microfinance Sector in Jordan****Key Summary :**

Category	Number of Institutions	Number of Participants	Females
Governmental Agencies	8	26	8
Microfinance Institutions	10	30	12
Donor's Partners	10	18	9
Private Sector	2	5	0
<b>Total</b>	<b>30</b>	<b>79</b>	<b>29= 37%</b>

**Governmental Agencies:**

Acronyms	Institution	Name	Position
<b>MOPIC</b>	Ministry of Planning and International Cooperation	H.E Dr. Jafar Hassan	The Minister
		H.E Dr. Saleh Kharabsheh	Secretary General
		Ms. Zeina Toukan	Director, International Cooperation
		Ms. Majdoulin Abu-Dalhoun	Head of Civil Society Institutions and Microfinance Section
		Mr. Jamal Al- Rafa'yah	Acting Director of Local Development Department.
		Mr. Safa El-Nasser	European Relations Division, International Cooperation Dept.
<b>MOSD</b>	Ministry of Social Development	H.E Dr. Mohammad Khasawneh	Secretary General
		Mr. Omar Hamzeh	S.G Assistant for development
		Mr. Mohammad Omoush	Director of Enhancing Productivity Dept.
<b>MOIT</b>	Ministry of Industry and Trade	H.E. Mrs. Maha Al-Ali	Secretary General
		Dr. Loy'i Sehwiel	Director of Industrial Development
		Mrs. Abeer Zhair	Industrial Development Department
		Mrs. Lubna Aqad	
		Mr. Jamal Mahasneh	
<b>MOF</b>	Ministry of Finance	Dr. Mahmoud Abu-Ghoush	Minister's Consultant
<b>JEDCO</b>	Jordan Enterprise Development Corporation	H.E Eng. Ya'roub Al-Kudah	Executive Director
		Mr. Adi Ghuneim	Head of Financial Support Schemes
		Mrs. Hana' Uraidi	Cross Cutting Support Directorate
<b>CBJ</b>	Central Bank of Jordan	H.E Mr. Fares A. Sharaf	The Governor
		H.E Mrs. Kholud Al-Saqaf	Deputy Governor
		Mr. Ziad Ghnama	Director, Banking Supervision Dept.
		Mr. Waleed Qasrawee	Banking Supervision Department
<b>ACC</b>	Agriculture Credit Corporation	H.E Eng. Tawfeeq Habashneh	General Director
		Mrs. Lubna Hashash	Director of Projects and International Cooperation Dept.
<b>DEF</b>	Development and Employment Fund	H.E Mr. Omar Omari	General Director
		Mr. Salah Al-Qudah	Assistant to Director General for Technical Affairs

**Microfinance Institutions:**

Acronyms	Institution	Name	Position
<b>AMFI's</b>	MFI's Association	Mr. Mustafa NasserEdien	Current Chairman
		Mr. Giath Sukhtian	Pervious Chairman \ MFW Board Chairman
<b>NMB</b>	National Microfinance Bank	Mr. Bassem Khanfar	General Manager
		Mr. Sameh Mahariq	Risk Management Officer
<b>MFW</b>	Microfund for Women	Mrs. Muna Sukhtian	General Manager, Board Member
		Mrs. Fatina Abu Ekab	Deputy General Manager
		Mr. Ahmad Amoudi	Senior Administration Manager
		Mrs. Najwa Kopti	Executive Support Officer
		Mrs. Lama Zawati	Chief Financial Officer
		Mrs. Lama Totah	Financial Reporting Specialist
<b>TAMWEEL COM</b>	The Jordan Micro Credit Company	Mr. Ziad Al-Refa'i	Chief Executive Officer
		Mrs. Niveen Aboushi	Board Member, Expert in the Sector
		Mr. Firas Saqfelhait	Financial Director
		Mr. Mo'ad Al yakoub	Financial Analyst Officer
		Mrs. Nada Bader	CEO Office Assistant
<b>MEMCC</b>	Middle East Microfinance Company	Mrs. Suha Tleel	Board Chairman
		Mr. Naser Darweesh	Managing Director
		Mr. Mu'tasem Mismar	DGM/CCO
		Mrs. Sandy Salkham	Chief Financial Officer
<b>AHLIYA</b>	Al-Ahlia Microfinance Company	Mr. Fadi Shalabi	General Manager
		Mr. Tamer Halasah	Chief Financial Officer
		Mrs. Rasha Dababneh	Manager Office Assistant
		Mrs. Tala Fakhouri	Chief Financial Officer
<b>FINCA-Jordan</b>	Charitable Microfinance International Organization	Mr. Edward Greenwood	Chief Executive Officer
		Mr. Saddam Amayreh	Chief Financial Officer
<b>Al-AMEEN</b>	Al-AMEEN Microfinance Company	MR. Mohammad Saleh	General Manager
		Mr. Hasan Al-Azza	Al-AMEEN Microfinance Company
		Mrs. Ameerah Tarteer	Financial and Administrative Director
<b>CAB</b>	Cairo Amman Bank	Mr. Seif Madanat	General Manager
<b>UNRWA</b>	United Nations Relief and Works Agency for Palestine Refugees	Mr. Victor Siryani	Director of Microfinance Department.

**Donor's Community-Partners in Development:**

Acronyms	Institution	Name	Position
<b>KFW</b>	German Federal Government Development Bank	Mrs. Deena Burjorjee	Independent Consultant
		Dr. Daniela Beckmann	KFW- Project Manager North Africa and Middle East- Germany
		Mrs. Bettina Tewinkel	Director, KFW Office Amman
		Mrs. Sawsan Arouri	Deputy Director, KFW Office Amman
<b>GIZ</b>	German Agency for International Cooperation	Mrs. Natalija El-Hage	GIZ Country Director Jordan & Iraq
		Mrs. Jasmin Sadoun	Head of Administrative
		Mr. Dieler Rothenberg	Program Manager
		Mr. Johannes Majewski	Advisor, Financial Systems Development
<b>EU</b>	European Union	Mr. Olivier Boudart	Programme Manager, Local Development and Governance
<b>USAID</b>	U.S. Agency for International Development	Mrs. Nujoud Serhan	Project Management Specialist, Economic Growth Office
		Mrs. Kenana Amin	Office of Program Management
<b>WB</b>	World Bank	Mr. Jamal Mazahreh	
<b>IFC</b>	International Finance Corporation	Mr. Ali Attiga	Resident Representative, Country Manager for Iraq & Jordan
<b>AFD</b>	French Agency for Development	Mr. Hervé Breton	Director, AFD Office Amman
		Mrs. ROSE Juliette	Project Officer
<b>AECID</b>	Spanish Agency for International Development Cooperation	Mr. Carlos Lopez	Project Officer
<b>UNRWA</b>	United Nations Relief and Works Agency for Palestine Refugees	Mr. Alex POLLOCK	Country Director Jordan and Palestine
<b>CGAP</b>	Consultative Group to Assist the Poor	Mr. Mohammed Khaled	Consultant, CGAP

**Private Sector:**

Acronyms	Institution	Name	Position
<b>ALO</b>	Abbassi Law Office	Mr. Alaa Abbassi	Managing partner, Policy Advisory Consultant, CGAP
<b>JLGC</b>	Jordan Loan Guarantee Corporation	H.E Dr. Jamal Salah	General Director
		Mr. Jalam Ja'fari	Director, Industrial Finance Dept.
		Mr. Hekmat Mohana	Director, Loans Guarantee Dept.
		Mr. Rami Al-Sarmadi	Head of Small Business Section