

# MICROFUND FOR WOMEN: A CASE HISTORY OF MICROCREDIT IN JORDAN

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## 1. Introduction

In October 2004 the first international summit on Microfinance in the Arab World took place in Amman, the capital of Jordan, conferring an official worldwide recognition of the significant role played by microfinance in this country. All the most famous institutions and experts working in this field participated at the four-day summit, inaugurated by Queen Rania who calls herself the ambassador of microfinance. Prof. Mohammad Yunus was there.

Among all the local initiatives and institutions the Queen chose to visit solely Microfund for Women (MFW), as it is the most representative microcredit provider of the country, the one nearest to the poor. In fact, MFW had performed so well in the last few years it deserved a top position in the market: the Planet Finance March 2004 rating score rose from 2001 B- to A<sup>1</sup>.

Since MFW has been placed in the national and international spotlight, this article intends to analyse this "best practice" institution and highlight some weaknesses and new opportunities.

This article is based primarily on first-hand information, gathered during a field-work in Jordan<sup>2</sup>, and is structured as follows. Sections 2 and 3 present a brief overview of the country and of the Jordanian microfinance sector, in order to contextualise the Microfund for Women activity in its real environment. Section 4 introduces the institution specifying its mission and objectives. After that, the analysis is conducted following the traditional measurement of the three dimensions of microcredit: outreach, sustainability and impact. Thus, outreach is discussed in both Sections 5 and 6, which critically describe the target clientele and the way MFW satisfies its funding needs. Section 7 presents precisely the group lending methodology, that seems

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<sup>1</sup> See Planet Rating Reports November 2001 and March 2004, [www.microfund.org.jo](http://www.microfund.org.jo).

<sup>2</sup> The local currency is the Jordanian Dinar (JD). The October 2004 exchange rate JD/USD is equal to 0.710.

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not to have been examined in previous studies, and Section 8 reports the organisational structure and the linking between decisional and operational levels. Sustainability is handled in Section 9, while the impact analysis was, unfortunately, totally compromised by the lack of specific internal and external information. The paper concludes in Section 10 with the author's consideration on the future planning of the institution.

## 2. The Environment for Microfinance in Jordan

Jordan, located at the centre of a complex political, social and economic system between Iraq, Saudi Arabia, Syria, Palestine and Israel, is one of the best business environments in the Middle East Region in terms of macroeconomic stability, trade access, regulatory climate and public safety. It is classified as a middle income developing country whose economy is characterised by limited arable land and scarce natural resources, primarily water, mineral and energy. Thus, Jordan's human capital is the major factor affecting development opportunities.

The Jordanian population growth rate, after a strong increase over the past 50 years, due to the combination of high growth rates and successive waves of refugees and migrants from Palestine, is nowadays decreasing (2.9% per year), thanks primarily to the decline of the fertility rate (the average number of births per woman dropped from 7.5 to 3.6). The Jordan demographic profile is characterised by young age, high literacy and increasing life expectancy: more than 69% of the population is under 29 years old, more than 90% is educated and the life expectancy at birth is 72 years. Despite this data, which can be interpreted as a positive outcome of investment by the government in basic social services, the real unemployment rate is 15% (the unofficial rate is 25%) and the population below the national poverty line (JD313.5 per person per year<sup>3</sup>) is estimated at around 12% (see Table1).

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<sup>3</sup> The Government of Jordan adopts the World Bank's 2001 study based on the analysis of the 1997 HEIS (Household Expenditure and Income Survey), which sets the absolute poverty line at JD313.5 per person per year. A new poverty line was calculated in 2004 based on the analysis of the 2002/03 HEIS survey, but it is not yet available.

**Table 1: Jordan 2003 at a glance**

<b>POVERTY and SOCIAL</b>			
	<b>Jordan</b>	<b>M. East &amp; North Africa</b>	<b>Lower-middle-income in the world</b>
<b>2003</b>			
Population (millions)	5.2	312	2,655
GNI per capita (USD)	1,850	2,210	1,480
GNI (USD billions)	9.8	689	3,934
<b>Average annual growth, 1997-03</b>			
Population (%)	2.9	1.9	0.9
Labour Force (%)	3.9	2.9	1.2
<b>Most recent estimate (latest year available, 1997-03)</b>			
Poverty (% of population below the national poverty line)	12	-	-
Urban population (% of total population)	79	58	50
Life expectancy at birth (years)	72	69	69
Infant mortality (per 1,000 live births)	27	44	32
Child malnutrition (% of children under 5)	5	-	11
Access to improved water source (% of population)	96	88	81
Illiteracy (% of population age 15+)	9	31	10
Gross primary enrolment (% of school-age population)	99	96	112

Source: World Bank data 2003.

If the analysis is conducted more deeply to understand the gender disparity between men and women, a big gap emerges which is expected, but nevertheless unacceptable. Despite improvements in overall trends, female empowerment and inclusion in the economic society are still too low (see Table 2). A lack of economic empowerment is correlated with a lack of personal empowerment: women involvement in the decision-making roles both at household level and within society has been and still is limited. However, recently things have been changing, and not so slowly.

The majority of the Jordanian economy is concentrated in the service sector (72%), especially in tourism, banking, constructions and trade. The industrial and agricultural sectors achieve respectively 26% and 2% of the total market. Even if the war in Iraq has strongly affected the Jordanian economy, not only because of the devastating impact on tourism and foreign investment, but also because Iraq was its principal trade partner, Jordan's recent economic performance has been respectable (see Table 3).

**Table 2: Women dimension in Jordan**

<b>Gender gap 2002</b>	<b>Female</b>	<b>Male</b>
Life expectancy at birth (years)	72.4	70.6
Adult literacy rate (%)	84.8	94.6
Participation in the labour force (%)	16	-
Unemployment rate (%)	22	14
<b>Progress in women empowerment</b>	<b>1995/97</b>	<b>2002/03</b>
GEM <sup>4</sup> value	0.220	0.297
Seats in lower house parliament held by women (% of total)	1.25	5.5
Women in diplomatic corps (% of total)	-	12.8
Women at the higher level of the legal profession (% of total)	-	3.6
Female administration and managers (% of total)	4.6	9.9
Female professional and technical workers (% of total)	28.7	30.1

Source: UNDP (United Nation Development Programme), Jordan Human Development Report, 2004

**Table 3: Key economic data in Jordan**

<b>Economic ratio</b>	<b>2002</b>	<b>2003</b>
GDP (% average annual growth)	5.0	3.2
GDP per capita (% average annual growth)	2.2	0.5
Inflation (% average annual growth)	1.8	3.5
Exchange rate (JD/USD)	0.714	0.711
<b>Economic ratio long-term trends</b> (average annual growth)	<b>1993-03</b>	<b>2003-07</b>
GDP	3.8	5.6
GDP per capita	0.6	3.0
<b>Structure of the economy (% of GDP)</b>	<b>1993</b>	<b>2003</b>
Agriculture	6.0	2.2
Industry	27.4	26
- Manufacturing	13.3	15.8
Services	66.9	71.0

Source: World Bank data 2003

<sup>4</sup> GEM (Gender Empowerment Measure) gauges the participation of women in economic, political and professional spheres, using the relative share of women in administrative, managerial, professional and technical positions as a proxy for economic participation and decision-making power. Unfortunately, the method of calculating GEM doesn't take into account the role of women engaged successfully in the micro-enterprise sector, voluntary organisations and NGOs.

Hence, in this social and economic environment characterised briefly by a young and well educated population, a quite stable macroeconomic context and positive economic results, microfinance could be very useful and successful to support the creation of jobs, especially for women, through the growth of microenterprises.

### 3. The Microfinance in Jordan

The Jordanian microfinance sector, born in the late 1990s, is the most significant in the Middle East Region. In accordance with the UNCDF<sup>5</sup> 2004 analysis, a realistic estimate of the potential market and the current penetration has to consider not only the number of people living under the national poverty line, but also the considerable proportion of the population just above the poverty line (national poverty line plus 20%). As Table 4 shows, focusing on a more appropriate target of the poor, an apparently semi-saturated market becomes an attractive basin of opportunities for all the microcredit providers which could meet the unsatisfied demand of a further seventy thousand households.

**Table 4: Potential market and market penetration (2003)**

Population	Poverty headcount % (national definition)	N° of poor people	N° of poor households (household average size is 7)	Potential market (40% of poor households is eligible )	Active borrowers	Market penetration (%)
<i>potential market and market penetration based on the national poverty line</i>						
5,171,000	12	620,520	88,646	35,458	24,348	69
<i>potential market and market penetration based on the national poverty line plus 20%</i>						
5,171,000	32	1,654,720	236,389	94,555	24,348	26

Source: UNCDF, *Microfinance in the Arab States*, Sept. 2004.

<sup>5</sup> See UNCDF (United Nations Capital Development Fund), *Microfinance in the Arab States*, Sept. 2004, pp 17-21.



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Since the government has identified microenterprises as a major strategy to combat poverty, several initiatives have been launched, some domestic and some with international cooperation. To give a brief summary of the Jordanian microfinance market, it is necessary to distinguish two different types of actors:

- *subsidized credit providers*: this category includes all the government and quasi-government programmes - the major one is called Development and Employment Fund (DEF) - that provide very soft loans to poor households, which are in effect grants. The total outstanding portfolio was about 90 million dollars (JD64 million) in 2001, against the MIFs' portfolio of only 6 million dollars at that time;

- *market oriented microfinance institutions (MFIs)*: this group is mainly composed of four Jordanian MFIs participating in a programme financed by the United States - USAID's AMIR program - which has allocated 30 million dollars to provide technical assistance and loan capital to Jordanian MFIs. These four best practice institutions have reached 16,879 clients in the first quarter 2004, managing a total portfolio of almost JD9.7 million (see Table 5).

Focusing the analysis on the MFIs, which are the ones truly specialized in micro-credit, as they have smaller loan size and more homogenous internal and external conditions, a brief presentation of the common features and the individual profile of each MFW competitor is essential to understand the competitive context. The Jordanian MFIs, as most of the Arab MFIs, despite their young age, present an excellent portfolio quality, a tight cost control and a positive return on assets. Thus, all of them have already reached an operational sustainability and most of them have also reached financial sustainability. They still remain credit oriented, applying predominantly an individual lending scheme. Voluntary savings, deposit services, insurance and technical assistance are generally not offered. However, among the four MFIs, a kind of market segmentation based on the choice of the target client can be appreciated: the bigger the average loan per client, the lower the MFI depth of outreach (see Tables 5 and 6).

- *Ahli Microfinancing Company (AMC)* is the first private sector financial institution owned 100% by the Jordan National Bank. AMC applies only the individual lending

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\* USAID is the acronym of United States Agency for International Development, while AMIR (Access to Microfinance and Improved Implementation of Policy Reform) is the name of the programme.

methodology and targets micro and small entrepreneurs having an existing business and one or more guarantors as collateral. The loan amount per client varies from JD700 to JD15,000, the absolutely highest of all the MFIs. As a consequence it is clear that the AMC depth of outreach is very shallow: the target client is low income (even middle) more than poor, positioned just in the step before banks' clients;

- *Jordan Microcredit Company (JMCC)* is a no-for-profit company created by the Noor Al Hussein Foundation. JMCC disburses loans to low-income individuals, not necessarily with an existing business, asking only for guarantor as collateral. This institution and MFW are the ones that target the poorer, really "unbankable", client;

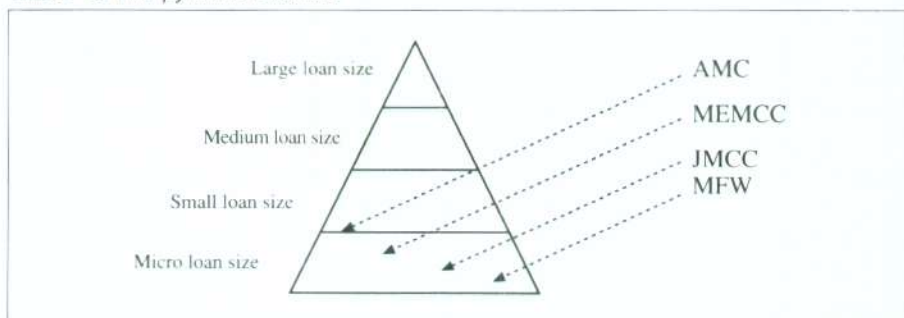
- *Middle East Micro Credit Company (MEMCC)* is the microfinance institution born in a project set up by three main Jordanian banks and a domestic foundation in order to provide microfinance services to low and middle income Jordanians, especially micro and small enterprises. MEMCC applies both group and individual lending methodology, with a loan range from JD100 to JD14,000. Nevertheless, its average loan is still quite high in comparison with the other major competitors.

**Table 5: Jordanian microfinance institutions**

MFI	Active clients	Outstanding portfolio (JD)	Min. loan size (JD)	Max. loan size (JD)	Averag.Out. Loan per client (JD)	Aver. Out. Loan per client (JD) as % of GDP <sup>2</sup>
AMC	1,143	2,213,410	700	15,000	1,936	104.7
JMMC	2,757	1,848,655	500	2,000	888	36.3
MEMCC	2,259	3,097,874	100	14,000	1,371	74.1
MFW	10,720	2,504,074	100	5,000	234	12.6
<b>Total</b>	<b>16,879</b>	<b>9,663,986</b>				

Source: Planet Rating, *Microfund for Women*, Jordan – March 2004.

<sup>2</sup> The average outstanding loan balance as a percentage of GNP per capita is commonly used as a proxy for the poverty level of the client, or, in other words, the depth of outreach: the lower the loan balance, the poorer the client.

**Table 6:** *The pyramid of credit*

To finish this brief description of the competition on the microfinance market, it is necessary to mention that a government initiative, the National Bank for Financing Small Projects, better known as the "Bank of the Poor", is underway and expected to provide subsidized credit. Even if the products and prices have not yet been defined, many microfinance actors are concerned about the potential impact of this institution on the supply of microcredit. Since the authorizing law for the bank provides numerous tax exemptions and advantages not accorded to others MFIs, the introduction of the Bank of the Poor will generate an unfair competition. All the local microcredit institutions are waiting to see if the tax exemption status will be extended also to them, as may be possible, or if they have to organise themselves into a protest movement. Specific microcredit regulation is urgently required.

#### **4. Microfund for Women: Historical Background, Mission and Objectives**

Microfund for Women is a private Jordanian no-profit company, operating in the microfinance sector.

It began its operations in 1994 as a pilot program initiated by Save the Children (SC) to provide credit to Palestinian refugees. Since 1994, MFW has been through two major changes in its registration form:



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- in December 1996 the pilot program of SC was registered as an independent NGO under the name "Jordanian Women's Development Association" (JWDS);
  - in December 1999 JWDS changed the legal status of NGO, which limited its freedom in setting financial goals and credit activities for too much, into a no-profit limited liability company (LLC), under the Minister of Trade and Industry and adopted the current legal name of "Microfund for Women".

Since April 2003, MFW has had two shareholders, the present Chairman for 60% and Save the Children for 40%<sup>8</sup>. MFW is planning to turn into a for-profit LLC in order to clarify a current great confusion consisting in the fact that shareholders don't know what their personal liabilities as owners of MFW are<sup>9</sup>. There is no law in Jordan that clarifies the responsibility and immunity of shareholders in no-profit LLC, as there is no specific regulation for the microfinance sector.

The mission of MFW is very clear: to provide sustainable financial services to women microentrepreneurs in Jordan. Providing "sustainable" financial services implies striking a balance between profitability and outreach. As a consequence, the client target is not "the poorest of the poor" who have to satisfy basic needs (as food, water, clothes, housing and other physical needs) and for whom only government subsidies can be useful. MFW, as pure microfinance implies, provides money to finance a microentrepreneurial project, managed by a microentrepreneur without any other collateral than her own work.

Pursuing its mission, MFW sets itself to work toward the achievement of four objectives, which represents fundamental goals in the human development and in the Jordanian society improvement:

1. to provide best-practice sustainable financial services to underprivileged microentrepreneurs;
2. to contribute to women empowerment as they become income earners and

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<sup>8</sup> The involvement of Save the Children is not clear, but was designed to ensure the preservation of the mission. The two shareholders, the Chairman, as a member of the Board of Directors, and SC may not receive dividends and in case of liquidation, all MFW assets are given to a similar MFI or NGO that has the same objectives.

<sup>9</sup> There are some legal ambiguities that should be noted. It is not clear whether the potential liability is proportional to the percentage of ownership or if liability is limited to the absolute value of the shares purchased by the owners, which is only JD33,000 in total (while the outstanding portfolio at August 2004 is JD2, 810,351 or USD3,958,241).

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decision-makers in their households and communities;

3. to contribute to reducing unemployment by enhancing economic opportunities and providing support to microenterprises;

4. to improve the overall economic status of the women microentrepreneurs' families through access to credit.

## 5. Target Clientele

The target market of MFW is well defined and emerges very clearly in the institution name: exclusively women. Jordanian women are in effect the category most excluded by formal banks and, in the same time, the one that manages more than 60% of non registered enterprises. These female microentrepreneurs usually borrow money from the family, or worse from moneylenders, compromising the potential business growth and their personal development. Thus, MFW strongly believes in women empowerment through microenterprise, as a propelling motor to social and economic society growth. Women sense of responsibility in combination with an historical and deep-seated exclusion condition assures that, for any reason, the female potential client will lose the chance of her life: becoming autonomous in managing a business, becoming a decision making member in the business and in the household, increasing family income and achieving better living standards for her and her children. In brief, entering a civilized society.

To be eligible, women have to respect the following characteristics:

- be aged between 18 and 65;
- have no access to the formal lending system (really "unbankable");
- have no assets as collateral;
- have a running home-based business or an independent enterprise that has been running for almost six months (MFW doesn't finance start-up, because it wants to be sure of the borrower's managerial capability);
- live in an urban area (population is highly concentrated in the city, in fact two thirds of the Jordanian population live in the capital Amman);
- have the will to succeed and introduce changes into their lives.

**BOX 1: ARE MFW CLIENTS REALLY ONLY WOMEN?**

Despite the fact that behind a woman client there could be a man who is the one who is actually receiving the loan, the Planet Rating report 2004 carries the news that MFW has begun lending to men for no more than 20% of the clients. In March 2004 the number of businesses financed by the institution and registered to men totalled 30 out of approximately 11,000 active borrowers, i.e. 0.3%.

As Microfund for Women didn't spread this information<sup>18</sup> to the market, for example putting it in evidence on its web site home page or promoting it on the road, and the percentage of men clients out of the total borrowers is extremely low, it makes one assume this has been a pilot experiment, to be carefully evaluated before being promoted.

But, how can lending to men ensure compliance with the mission?

**6. Products**

Microfund for Women started in 1996 offering only group guaranteed loans, as desired by Save the Children. Currently, this is still the most popular product of MFW, even though in 1999 individual loans had been introduced in order to keep on satisfying the needs of graduating group loan members. In fact, as a consequence of a successful credit experience in group, a growth business requires more loans and for a longer period of time.

Nowadays MFW offers its clients three types of products (see Table 7):

1. group guaranteed loans;
2. individual loans;
3. seasonal loans.

*The group guaranteed loans* are a special type of credit disbursed to a group of 4-6 women. The requirements and procedures are very simple, fit for non financially educated clients. All the members have to respect specific conditions imposed by MFW to ensure the repayment loan as much as possible. These conditions are:

- be aged between 18-65, because the institution considers these to be the minimum and maximum correct age to work as an independent entrepreneur;

<sup>18</sup> In accordance with the latest statistics published on MFW web site, male clients at December 2004 are 1.25% out of the total borrowers. Even if this data has been officially communicated to the market, the institution is still quite cautious and has not yet started an advertising campaign focused on men.

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- form a solidarity group of 4-6 people, where each member agrees to guarantee the others. No assets are required as collateral, but only the group guarantee that, as is shown by past and current worldwide experience, is more effective than any other physical goods. Delinquency cases are very rare due to peer pressure and to the fact that access to further loans is given on the condition that regular repayments have been made on the previous loan;

- have an existing 6-month enterprise, because this running business period, even if it is very short, testifies the real existence of the enterprise itself and the good or bad management of the potential borrower. As the MFW clients are women and female gender doesn't enjoy a complete freedom and independence from the male head of the family, 75% of the activities financed by the institution are home-based activities. Moreover, as the group loan clientele is really poor, often the enterprise is a family business where the wife is the financed "manager" and manufacturer and the husband is involved in specific roles like, for example, in distributing products made by the woman;

- have separate enterprises, because if more than one member is employed in the same enterprise, the integral and punctual group loan repayment is too dependent on the success of this specific business. Inside a group, women can manage the same type of activity, for example making clothes, but with separate enterprises. For the same reason group members have to be part of different households;

- use the loan to finance working capital, because MFW devises microcredit in the pure meaning of credit to create and support microenterprises and not to finance consumptions. So, MFW doesn't grant emergency microcredit;

- comply with fixed technical loan conditions, because the characteristics and procedures of this product are standardised to simplify and accelerate all the credit process. As borrowers' needs are not only basic, but also very similar, a sole product is the best solution. In fact, there is a reduction of costs for the credit provider and greater clarity in the mind of the clients who gain a better understanding in the way the loan operates. Each member receives an amount of credit variable between JD200 and JD500 – maximum JD200 the first time – for 7 or 8 months, repayable in bi-weekly or monthly instalments.

*Individual loans* are the second product of the MFW's portfolio, launched in 1999 but really promoted only recently, in 2003. They are offered to women who have already experienced the group guaranteed loan twice and are deemed eligible after a credit and financial assessment, similar to the one carried out by the traditional banks. Besides, it is essential that an individual client has the commitment of two eligible gua-

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rantors who must provide a promissory note. A client starts with a JD500 loan to gradually mature to a JD2,000 loan, repayable in monthly instalments over a period of 1-18 months, depending on the loan size and the enterprise cash flow. Microfund for Women has been very cautious in packaging individual loans: previous borrowing experience, specific credit risk assessment, people and not assets as collateral and periodic client visiting to monitor the on-going business ensure a high portfolio quality, but make the process costly and time consuming.

MFW is still mastering the individual lending methodology and working internally on training loan officers. By adding more upmarket clients, including formal businesses that are almost exclusively men, MFW will be in greater direct competition for this target of clientele with some competitor MFIs moving more downmarket and with banks now offering loans at lower interest rates.

*Seasonal loans* are mini group guaranteed loans provided to active group loan borrowers who need additional working capital in certain seasons of high demand, such as at the end of Ramadan when people have the tradition of celebrating by buying presents, toys and sweets, or in the back-to-school period. They work exactly as the group loans, but with smaller proportions: the group is made up of 3-4 people, the amount of credit disbursed varies from JD100 to JD200 for each member and the loan period is at least 5 months. Seasonal loans can be required only by group guaranteed loan clients.

**Table 7: MFW products**

Product characteristics	Group loans	Individual loans	Seasonal loans
Creation date	1996	1999	1999
Client type	4-6 urban women each group	urban women	3-4 urban women each group
Collateral required	group guarantee	2 guarantors	group guarantee
Long term range	28 weeks / 8 months	1-18 months	3-5 months
Repayment schedule	bi-weekly / monthly	monthly	monthly
Loan size range (JD)	200-500 each member	500-2000	100-200 each member
Nominal annualized interest rate	22% flat	21.6% flat	24% flat
Additional fees (JD)	decreasing from 5 to 1	fixed 5	decreasing from 5 to 1
N° of loans and amount disbursed	Group loans	Individual loans	Seasonal loans
N° of loans disbursed in 2003	15,495	963	3,170
2003 total amount in JD	5,090,300	864,200	503,750
2003 total amount in USD	7,169,437	1,217,183	709,507
2003 % on total amount in JD	79%	13%	8%



Independently of the type of loan product, enterprises financed by the institution are concentrated in trade, handicraft and production and manufacturing sectors (93%), where activities can be made at home more easily and with an informal organisation. Only 5% of the clients work in services, activities that require a more professional and formal structure, while 2% work in agriculture and livestock, a sector that is extremely limited in a desert and urban area like the one where MFW operates.

To conclude the product description, Microfund for Women is thinking about introducing new and different products to its clients, such as leasing and microinsurance<sup>11</sup>.

#### **BOX 2: TWO MFW CLIENT SUCCESS STORIES**

*Narina Hefawi* is a well-respected member of the construction community in Irbid. She operates a lumber and construction supplies warehouse which has become a destination for major construction companies across the city. Her entrepreneurial journey started when her husband became too ill to run the company. Though it was a daunting challenge, she took over the management of the construction supply and leasing operation. She runs a highly organised and efficient business. She continues to expand the service she offers her clients with the help of loans from MFW. Next, she hopes to buy a truck to deliver construction supplies to her clients. Narina said "I could not have succeeded without a lot of will power and the assistance of Microfund for Women which didn't just give me a loan to improve and expand my business, but also gave me encouragement and moral support".

*Muzayna Al Moghrabi* and her husband run a mini-market on the outskirts of Jerash. Depending on the season, they cater for the changing needs of picnickers, tourists and travellers; in addition to providing for households and schools nearby. Muzayna said "I am an ambitious lady, always seeking to grow and improve. The loans I received from MFW offered me the opportunity to advance and expand our mini-market. My husband and I are investing our income in the education of our children." Muzayna has big plans for the future which she hopes to realize progressively.

Source: Microfund for Women, Annual Report 2003, pp.8-9.

<sup>11</sup> MFW approached the Microinsurance Centre, which is well renowned and specialized in this field, to work closely on assessing the local demand and the feasibility of introducing a prototype of marketable and profitable life insurance product, suitable to be offered by a microfinance institution in Jordan.



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## 7. The Group Lending Methodology

The group lending methodology applied by Microfund for Women is quite different from the most worldwide used model of the Grameen Bank, that is in effect an individual lending with group guarantee and not a group lending, as is commonly believed by mistake.

The first step of all the credit lending process is to reach potential clients. Demand is not very high: poor women need to be convinced before they borrow. So, marketing and client solicitation become a key activity, that is very well handled by MFW. After five years of success the name of the institution is well known on the local market, but a non-stop promotion on the road, door to door is essential to knock down the wall of women wariness built up by a millenary culture.

Women interested in borrowing money from MFW, both contacted by the loan officers and attracted by word of mouth, must participate to some meetings at the branches in order to know the institution and the loan operating better. This is a fundamental moment because women must meet and know each other and choose their partners, as they commit themselves to guaranteeing all the group members.

When a group is formed, the loan officer starts client evaluation, visiting the business and making each woman fill in a simple initial form to give her personal details, information about her existing activity and the use of the loan. If the woman is illiterate her signature can be substituted by her legally valid finger print. Group loans are approved in the local offices (while individual loan approval and supervision is performed from headquarters). It takes 7 days<sup>12</sup> from the submission of the application to loan disbursement. The loan amount is given to the group and not to the single members in turn. This means that the 4-6 women receive a single payment loan to share among them, not necessarily in the same proportions. Repayments are perfectly symmetrical to disbursement: the group collects the periodic instalment from each member and pays back the institution outright.

As a consequence, in case of eligibility, partners are called all together into the

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<sup>12</sup> This is due to the fact that Microfund for Women has organised the working week dedicating every day to a different activity, for example marketing and promotion, loan disbursement, instalment payment, weekly cash flow analysis. Thus, it can perform each activity better and optimise cash flow management.

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loan office to review the contract orally and to elect two leaders, who will be in charge of dealing future contacts between the group and the institution. All members' presence at the disbursement meeting and at every repayment day is essential to involve women in the process, controlling "cash" transfer personally and being periodically reminded of the policies. Nevertheless MFW doesn't deal with cash: all disbursement and repayments are made through a partner bank, the Housing Bank for Trade and Finance, eliminating cash-handling risk. This operating rule materialises in the substitution of money with cheques. The loan officer gives the two leaders one cheque equal to the total group loan, then the group goes to the bank to convert it into cash. Only the leaders can touch cheque and money, while the others supervise their actions. Loan sharing must not be done directly by the banker, but by the leaders under the banker's eyes, i.e., as a witness.

Instalment repayment works in the same way, but in the opposite direction: the two leaders raise each instalment from each member, deposit the total amount in the MFW bank account and deliver the payment invoice to the institution on the same day, obviously under the physical control of the group partners.

Thus, the loan officer knows about client delinquency very quickly, given that they will pick up a copy of the repayment slip from the bank or, in case of an office with experience using the Management Information System recently installed in the branches, by accessing the common database updated daily via electronic data transfer from the bank. Delinquency cases are very rare: firstly because the solidarity guarantee is applied immediately when a group member is delinquent, secondly because peer pressure assures this happens in very few cases. The group loan product maintains a very high portfolio quality with delay in payments and write off ratio that are both extremely low ( $PAR^{12} > 31 = 0.2\%$ ; write off ratio after 180 days = 0.1%, December 2003). To discourage delinquency, the institution applies late penalties of about JD3 per day, as well as "punishment periods" restricting client access to a loan renewal for a certain duration.

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<sup>12</sup> PAR (Portfolio at Risk = the outstanding balance of loans with overdue payments divided by the total outstanding balance) is the international standard ratio for measuring bank loan delinquency. This ratio is deemed to be the best delinquency rate because it considers the outstanding balance of all loans that are not being paid on time against the outstanding balance of total loans. The degree of lateness can be pegged at discretion. Thus, PAR captures the risk of not recovering the part of the credits disbursed which are still in the borrowers' hands and not regularly repaid. It helps to predict how much of the portfolio will eventually be lost because it never gets recovered.

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The group lending methodology is very strictly defined: long term range can be 28 weeks or 8 months with a repayment schedule that is respectively bi-weekly or monthly. MFW clients do not ask to know the nominal interest rate rather than the real one, as they are not able to interpret financial concepts. They need to verify if their bi-weekly or monthly income is sufficient to cover their business operational costs, families expenses and the loan instalment. If, for example, a 4 women group receives an 8-month loan of JD1,200 -JD300 each- the interest rate used by the loan officer to calculate the monthly instalment is 14%. Nevertheless, the percentage rises to 42.7% transforming this interest rate into the equivalent effective annual interest rate (see box 3). A similar result has been obtained if we consider the same loan but over a period of 28 weeks, repaid in bi-weekly instalments calculated with an interest rate of 12% which changes into 44.6% (see box 4).

The fact that the effective annual interest rate is very high is not so surprising, since microfinance institutions are generally obliged to charge a high interest rate if they want to be sustainable. Making microloans is more costly than making macroloans, not so much because of the client creditworthiness and the absence of collateral, but because of the huge of administrative expenses.

**BOX 3 : 8-MONTH LOAN INSTALMENT CALCULATION**

Consider, for example, the following loan:

- group component: 4 women
- loan size: JD1,200 (JD 300 each)
- loan term: 8 months
- instalment payment: monthly
- interest rate: 14%

The institution calculates the instalment applying the periodic interest rate to the capital and dividing the total amount by the number of repayments, as follows:

$$\frac{1,200 \times (1+0,14)}{8} \cong \text{JD171 group monthly instalment (JD 42.75 each member)}$$

The 8-month interest rate can be easily transformed in the corresponding nominal annual interest rate, considering that in one year there are one and a half 8-month periods:

$$(1+0,14)^{1.5} - 1 \cong 21,7\%$$

The calculating methodology used by the institution is very elementary and easy to explain to non financially educated borrowers. Nevertheless, the real cost of the loan, called effective annual interest rate, doesn't correspond to the nominal interest rate (21,7%). It is determined by applying the financial calculating methodology, according to which the actual value of the loan disbursed must be equal to the sum of the actual values of all the periodic repayments.



$$1,200 = \frac{171}{(1+i)^{1/12}} + \frac{171}{(1+i)^{2/12}} + \frac{171}{(1+i)^{3/12}} + \frac{171}{(1+i)^{4/12}} + \frac{171}{(1+i)^{5/12}} + \frac{171}{(1+i)^{6/12}} + \frac{171}{(1+i)^{7/12}} + \frac{171}{(1+i)^{8/12}}$$

Solving the equation, the discount rate that verifies the equality is the effective interest rate:

**Effective annual interest rate =  $i = 42.69\%$**

The real annual cost of the loan is 42.7%, against the almost 21% declared by the institution. The percentage is more than double.

**BOX 4: 28-WEEK LOAN INSTALMENT CALCULATION**

Consider now the following loan:

- group component: 4 women
- loan size: JD1,200 (JD 300 each)
- loan term: 28 months or 7 months
- instalment payment: bi-weekly
- interest rate: 12%

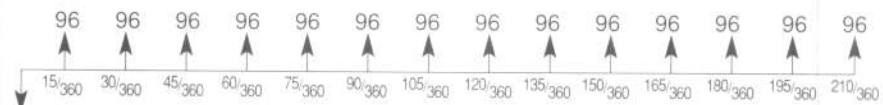
Following the same procedure adopted in the previous example, Microfund for Women calculates the instalment multiplying the capital by the interest rate and dividing the total amount by the number of periodic payments :

$$\frac{1,200 \times (1+0,12)}{14} \equiv \text{JD96 group bi-weekly instalment (JD 24 each member)}$$

Considering that in one year there is a one 7-month period and five months more, i.e. the fifth part of a 7-month period, the nominal annual interest rate is:

$$(1+0,12)^{1,71} - 1 \equiv 21,4\%$$

To determine the effective annual interest rate, considering that the loan repayment is bi-weekly for 8 months, the equation is defined as follows:



$$1200 = \frac{96}{(1+i)^{15/360}} + \frac{96}{(1+i)^{30/360}} + \frac{96}{(1+i)^{45/360}} + \frac{96}{(1+i)^{60/360}} + \frac{96}{(1+i)^{75/360}} + \frac{96}{(1+i)^{90/360}} + \frac{96}{(1+i)^{105/360}} + \frac{96}{(1+i)^{120/360}} + \frac{96}{(1+i)^{135/360}} + \frac{96}{(1+i)^{150/360}} + \frac{96}{(1+i)^{165/360}} + \frac{96}{(1+i)^{180/360}} + \frac{96}{(1+i)^{195/360}} + \frac{96}{(1+i)^{210/360}}$$

Solving the equation, the discount rate that verifies the equality is the effective interest rate:

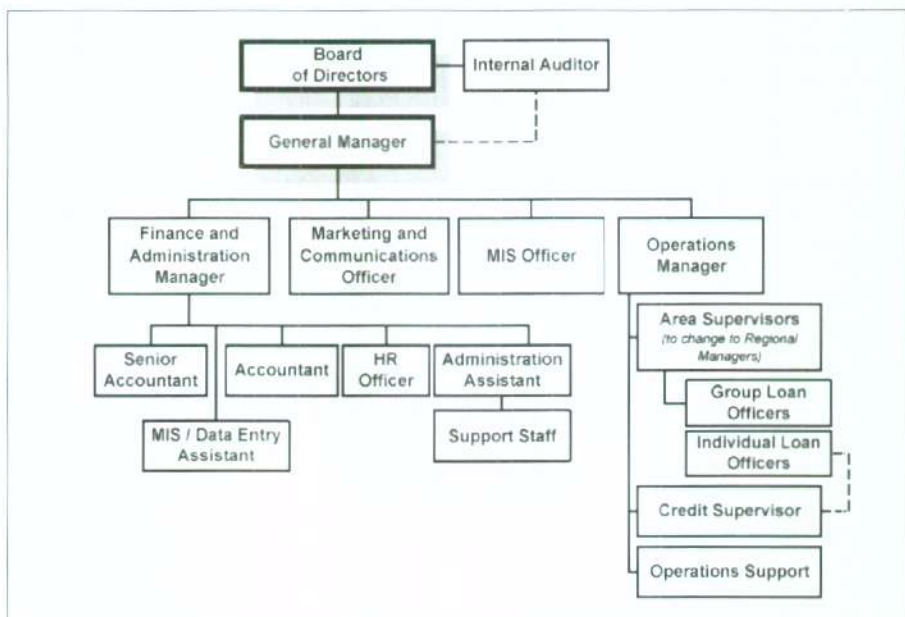
**Effective annual interest rate =  $i = 44.59\%$**

The real annual cost of the loan is 44.6%, against the almost 21% declared by the institution. The percentage is more than double, like in the previous example.

## 8. The Organisational Structure

The MFW is a medium microcredit institution with 70 employees, 70% of whom are loan officers. The organisation chart shows the structure of the institution and the linking between the decision-making centres involved in all the company functions, especially in the credit lending process.

**Table 9:** *MFW organisation chart*



Source: Planet Rating, *Microfund for Women, Jordan* - March 2004, p. 13.

The current decision-making process is managed by the management team, but actively supervised by the Board of Directors. The team includes a General Manager, a Finance Manager, an Operations Manager, an Internal Auditor with the participation



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of a Communications and Marketing Officer and a MIS Officer. To fulfil a gap in market research expertise, MFW is currently recruiting a Market Research Officer. The definition of rules among the team is clear and each manager has its own appropriate job description.

Field operations are the responsibility of the Operations Manager. Currently, he supervises a head office in Amman and 9 branches serving the major cities in Northern and Central Jordan: Raghadan, Russaifa, Zarqa, Wehdat, Balqa, Irbid, Zana, Madaba and Jerash. Each branch has a strategic location, near to the client and to the housing bank. All the branches offer group guaranteed loans and seasonal loans, while only the head office and very few pioneer branches offer individual loans. As a consequence, the Operations Manager is assisted by a Credit Supervisor to oversee the individual loan process and by Area Supervisors, one for each branch, to perform administrative duties and supervise group loan officers.

It is exactly at this middle management level that the greatest challenges are emerging. Firstly, the expanding individual loan demand could cause some bottlenecks at headquarters. Secondly, in order to improve the efficiency of operations at its branches, Microfund for Women initiated a gradual decentralisation process, giving the branches increased responsibility and autonomy in portfolio tracking and management. The first step of the decentralisation process was linking the branches to the head office Management Information System (MIS) and email system, by setting up necessary infrastructure and developing staff's computer operating skills. On the one hand, the introduction of automated data management system should have a positive impact on the timely response and processing of loans, as well as on the improvement of quality of services provided to the clients. On the other hand, it should decrease the vast amount of administrative work at branches and make it possible for only one person to control more than one office. This is the reason why the best Area Supervisors are being transformed in Regional Managers, who would each oversee two branches and have a more strategic role on the portfolio quality supervision.

Data is entered at branch level and transferred to Area Supervisors physically or through the MIS. These experts analyse dossiers and approve group loans, but they don't issue cheques which are an exclusive competence of the Headquarter. Area Supervisors also carry out control and monitoring activities, meeting each new group and being present at disbursement moments. They have to report to the Operations Manager that they have performed at least two client visits per month per loan officer.

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The loan officer is a key figure of the lending process, as he is the link between MFW and the clients. He represents the institution among the people, so he must be well trained, responsible and motivated, but also able to understand and manage the frailty and sometimes the shrewdness of the human soul. MFW deals with women in a region where the female role is a very particular one. This impacts strongly not only on the product packaging, but also on the structure composition, as female loan officers are the best, and in certain cases, the sole people who can approach female potential and actual clients in their houses where they manage their microbusiness. Nevertheless, in Jordan it is difficult to employ and retain female loan officers who often leave for family obligations.

## 9. MFW Evaluation

The traditional evaluation of a microcredit activity consists in measuring the three dimensions of microcredit: outreach, sustainability and impact. As in many other cases all over the world, this methodology can be only partially applied to Microfund for Women, because of lack of data and information produced both by external evaluators and internal MFW staff.

Impact analysis is impossible with the information actually published, but a local agency is currently collecting data to produce a microcredit impact assessment on a national level.

Outreach analysis can be only based on few elements like the loan average size and the number of clients compared with the other MFIs. In fact, MFW description of its clientele doesn't highlight fundamental aspects like the percentage of borrowers under the poverty line or the percentage of illiterate clients, in order to better understand if the institution reaches a segment of the population which is really poor and excluded by the formal financial system. Moreover, the fact that MFW borrowers are women, the group guaranteed loan size is around the national poverty line and the number of clients is three or four times the one of the other microcredit institutions operating in Jordan makes a positive appraisal possible. MFW is surely the MFI nearest to the poor, even if its strategic choice of not financing start-up, but only running enterprises, moves the institution away from the maximum depth of outreach.

Sustainability analysis is the only one really feasible. MFW is a completely self-sufficient institution, having reached its operational sustainability in 2001, two years after

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its beginning, and its financial sustainability one year later (see Table 10). This positive performance is due to the combination of three main elements:

- a very high portfolio quality: MFW has consistently been extremely careful and cautious in product definition and client selection. All the delinquency ratios confirm it: 2003 repayment rate exceeds 99%, PAR<30 days is 0.6% for group guaranteed loans and 1.7% for individual loans, while PAR31 drops respectively to 0.1% and 0.6%. Besides, write-off ratio is around 0.6% and all loans at risk are covered by the loan loss reserve;

- a very strong portfolio yield: in the last three years the lending activity has been very profitable, never less than 43%. Retained earnings are becoming an increasing source of fund for the institution, even if the reduction of the interest rate has brought down the portfolio yield in 2004. Given the expectation of interest rate cuts and potentially greater competition in the future, it is expected that the portfolio yield will decline in 2005 too;

- a significant decrease in operating expenses: the operating expenses ratio has dropped from 40% in 2001 to 25% in 2003, as portfolio growth in this period has permitted MFW to reach greater economy of scale, although individual loan development will require significant changing at a middle management level and specific training for an increasing number of staff members. In fact, despite strong profitability, MFW staff productivity could be improved. The introduction of individual loans has made average productivity decline. The goal is 400 clients per group loan officer and 150 clients per individual loan officer. In March 2004, the first goal was almost reached with 313 loans, but the second was completely missed with only 55 clients per loan officer.

It is expected that MFW will continue to remain financially self-sufficient, but it may not reach the same level in the future.

Due to its good financial status, for the first time in 2003, MFW financed its portfolio growth with two commercial loans. The first loan for USD1,056,000 was contracted with Citibank/Jordan under the USAID 100% guarantee, and issued at 6.75%. The second loan for USD150,000 was received from Blue Orchard Finance (Dexia Microcredit Fund), without any collateral or guarantees.

Until that moment, the funding source was almost exclusively donated equity from USAID, while in 2003 liabilities accounted for 21% and retained earnings for 17% (see Table 11).

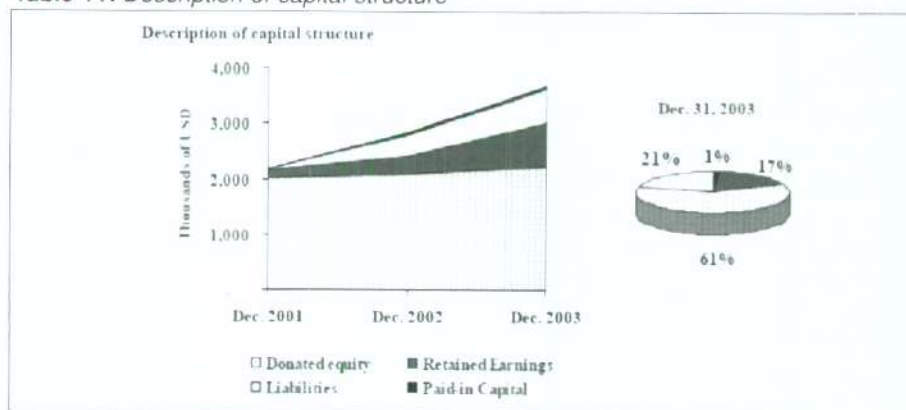
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**Table 10: Efficiency and profitability**

Ratio	Dec. 2001	Dec. 2002	Dec. 2003	Formula
<b>Productivity</b>				
Staff Productivity	98	126	140	Active borrowers / number of personnel (end of period)
Loan officer productivity	175	214	208	Active borrowers / number of loan officers (end of period)
<b>Profitability</b>				
ROA	2.4%	7.3%	14.1%	Net operating income before donations / average assets
ROE	2.4%	7.9%	16.7%	Net operating income before donations / average equity
Portfolio Yield	43.8%	44.1%	43.3%	Portfolio revenue / 13-month average gross outstanding portfolio
Operating expenses	39.5%	33.3%	25.0%	Operating expense / 13-month average gross outstanding portfolio
Funding expense ratio	0.0%	0.0%	1.4%	Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
Outstanding loan portfolio assets	72.3%	71.0%	83.8%	Net portfolio total assets
<b>Self-sufficiency</b>				
Operational self-sufficiency	110.0%	129.3%	163.8%	Revenue from operations / (financial expense + loan loss expense + operating expense)
Financial self-sufficiency	83.4%	102.4%	133.0%	Operating self-sufficiency after adjustments to expenses

Source: Planet Rating, Microfund for Women, Jordan - March 2004

**Table 11: Description of capital structure**



Source: Planet Rating, Microfund for Women, Jordan - March 2004, p.28

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## 10. Final Considerations

The main strategic decision for the next future seems to be the expansion of the offer of individual loans. This is justifiable for several reasons. Microcredit demand in Jordan is not so active and consequently reaching potential clients is a costly and time consuming activity. Besides, it would be economically penalizing to lose the best clients who have conducted their business profitably and have moved to a higher income level. Under the current conditions, MFW offers individual loans only to previous group guaranteed borrowers, but its strong conviction to make this product grow will call for the need for greater loan officer involvement and a bigger amount of capital, to the detriment of group loans. It can even be supposed that this slow movement towards a higher market segment will gradually eliminate the obligation of the previous group experience. In such a case MFW could finance new individual clients directly for the first time, exactly like the other MFIs and some commercial banks which are including lower income people in their portfolio.

On the basis of information collected in the field, in order to boost individual loan offers, it seems that the lending procedure will be simplified. The most important problem that borrowers complain about is the commitment of two or three guarantors. MFW could solve it and lighten the whole procedure by accepting assets as collateral and eliminating the previous group loan participation, at least for the applicants with the best credentials.

MFW does not seem to have sufficiently considered that now it is the market leader, but offering individual loans, the more intense competition and the consolidated experience of the major competitors could reduce its profit margin. The institution should learn from its past and present experience which has been successful thanks to the implementation of a unique microcredit model in Jordan. So, rather than pushing individual loans strongly, MFW should offer new instruments that are not already present on the market, such as leasing or microinsurance. In fact, the Jordanian microcredit market is actually credit oriented, so products like these are extremely new in a virgin land. Indeed MFW is studying the feasibility of the introduction of these instruments, but it could give them a primary importance, and not a marginal role, as it seems.

The recent movement towards individual loans and consequently towards men affects another aspect: MFW activity compliance with its mission.

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The target on which MFW has been concentrating its activity are women for the reasons already explained in this document. In a society like the Jordanian one, where women are traditionally not free to act independently, it is easy to deduce that they have to obtain authorization or consensus from fathers or husbands to become MFW clients. There is the possibility that women may have to share the borrowed money with their men. MFW doesn't verify the absolute independence of its clients and doesn't care if they are single, married, divorced or widowed. In fact, even if, in the worse scenario, the woman was a pure instrument in the male hands, she should be obliged to have relations with MFW and the other members of her group and therefore she should inevitably be involved in the process. Becoming conscious of money and business management and learning from the different experiences of the other MFW clients improve certainly her empowerment.

Despite this, the institution has decided to lend also directly to men. In one year the percentage of male borrowers is 1.25% and the decision of promoting individual loans leads one to think this number will augment. The original mission defined by Save the Children seems to be changing its skin to obey purely the logic of the profit. The name of the institution doesn't adapt itself to this change that appears imminent. If it is really so deep, MFW should think about modifying its name, maybe by taking advantage of a change in its registration form.



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**Abstract**

*Microfinance in the Arab World is a quite recent phenomenon, as the first microfinance institution appeared at the end of 1990s. Despite their young age in comparison with the global industry, but at the same time thanks to their delayed birth that permits them to learn from the previous international experiences, Arab MFIs have generally experienced a rapid growth, achieving good outreach and sustainable operation conditions.*

*Among all the Arab countries, in particular in the Middle East, the Jordanian microfinance market is one of the most developed and significant, thanks to the quite stable macroeconomic conditions and the national government belief that microcredit initiatives can be a good instrument to reduce poverty. This is particularly true among women, the part of the population most excluded by the official banking system but, at the same time, the most involved in running unregistered – home based enterprises.*

*A small number of descriptive studies on Arab microfinance are available, nevertheless they usually offer a brief description and the main data of the institutions, without showing how the credit activity is technically organized and, in particular, how the lending process is defined. This study, basically descriptive, aims at contributing to fill this gap, illustrating the working process of Microfund for Women, the Jordanian institution that is both the biggest and the most highly focused on the poor. This best practise institution, as its name suggests, is especially addressed to female microentrepreneurs, applying a particular group lending methodology, tailored to the Jordanian society characteristics and needs of the Jordanian women clients.*

*In order to understand the social, economic and political context and the level of competition in the microcredit field, a brief overview of Jordan and the local microfinance market precedes the analysis.*

**KEY WORDS:** informal sector, poverty, microfinance, women entrepreneurs, group guarantees loan, effective annual interest rate, Jordan.

# Book Review

## Revue bibliographique

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### **Currency, Credit and Commerce: Early Growth in Southeast Asia**

by P.J. Drake

Ashgate Publishing Limited, Aldershot, 2004 pp ix + 257

This volume is a selection of 15 studies from Peter Drake's contributions ranging from the 1960's to the 1990's to the international literature on the economic development of Southeast Asia. They are grouped in three sections treating successively the origins of growth, the associated evolution of money and financial institutions, and the emergence of security markets. Each part has an excellent introductory overview.

The first part focuses upon the origins of growth in Malaya from its colonisation in the early nineteenth century up to the 1920's. The second chapter is a gem. It gives a concise economic history of that period and could well have been placed first to orient readers. It tells how, whilst the majority of Malays continued with their "affluent subsistence", non-nationals provided the essential ingredients for the development of the export sector. The British provided the backdrop of good government and the physical and commercial infrastructure (discussed in Chapter 3) for trading; Chinese entrepreneurs and migrant workers developed tin mining and, with the coming of the pneumatic tyre, Indian, Indonesian and Chinese labour worked the foreign-managed rubber plantations.

In the first chapter, reprinted from *The Economic Journal* 1972, Drake shows, using Hla Myint's adaptation of Adam Smith's "vent-for-surplus" model, that in the first phase with the export of agricultural produce and tin, Malaya drew upon a latent excess capacity in the peasant economy to develop an export surplus. By contrast other British colonies typically had import surpluses and long term foreign borrowings. The fourth chapter also uses the Myint model. It explains how, with foreign trade and migrant labour, the traditional forms of money had to be supplemented by acceptable international money and the supply of this depended upon the export surplus.

That theoretical chapter makes a bridge to Part II's five studies of the evolution of local money. The first describes the polyglot mix of interchangeable foreign coins, such as the Mexican and Spanish silver dollars, used in Southeast Asia in the nineteenth century. Then follow accounts of the role of commercial banks with their issues of private bank notes and, from 1899, their displacement by the Straits government's own currency. Drake explains that the strict reserve requirements for these local note issues gave them stability, and he spells out the resource and wealth effects of those

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requirements.

There are also interesting historical cameos, such as the populace's rejection of the early official attempt to impose the Indian currency as sole legal tender, and the illustration of Gresham's law when, during the war-time occupation, the Japanese authorities sought to substitute their "banana" and "coconut" currency for the solid notes issues by the pre-war Currency Board of Malaya.

Chapters 7 to 9 trace the history of the official currencies of Malaya and Singapore through variants of the currency board system and then, after independence, the creation of national central banks. The numerous constitutional and institutional changes consequent upon the couplings and separations of Malaya, Singapore, Sarawak, Sabah and Brunei are complex and a couple of tables in an appendix would have assisted readers, as also would a subject index in addition to the index of names.

Part II concludes with the survey of the monetary issues facing "tiny open under-developed economies" originally published in this journal in 1983. It remains a useful homily on the virtues of "some modified version of the currency board system."

Part III covers the more recent developments of use of the corporate structure with the issue of bonds and equities and the parallel establishment of exchanges and regulatory authorities. Drake shows that, even in the early phases, there were ample local funds available. But the domestic corporate form was slow to develop.

Retarding factors were the dominance of foreign companies, the ready availability of bank loans (often at regulated non-competitive rates) and the preference of local people for family or "clan" enterprises whose owners could retain tight control, give little information, and avoid tax.

Chapter 13 extends the study beyond Malaya and Singapore to give a comparative study of eight other national security markets in the Western pacific region. A major theme is the limited success of the mish-mash of regulatory measures (often inconsistent) ostensibly designed to stimulate the use of the corporate form, and to increase indigenous participation and economic growth. Chapter 14 considers the advantages and problems flowing from the new security markets: the bi-polar behaviour of investors, the paucity of accurate market information and the never-ending quest of regulators to achieve clean markets. But those are universal problems.

The final chapter considers a contemporary problem: in the financing of develo-

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ping economies has the correct balance between bank lending and bond issues been struck? Following Ronald McKinnon, Drake is uneasy about reliance upon bank loans for long-term finance. He cites the successes of the pre-1914 capital market which facilitated the extensive use of bond issues by developing countries. But then adds some balance by pointing out that the reduction of sovereign risk in that era was forfeited by the military supremacy of the British navy and such practices as the provision of loans to a foreign government on condition that the lender could garnish the revenues of the borrowing nation in the event of a default. He could also have mentioned that, as late as 1932, in his home state of New South Wales, the elected government was dismissed by the British-appointed governor when it decided not to maintain the scheduled payments on its British borrowings.

Overall this book is a most readable blend of economic history and economic analysis spiced with fascinating case studies and shrewd judgements. In the foreword Charles Kindleberger wrote: "I enjoyed this collection greatly, learning a lot both forgotten and new." Me too.

Robert Wallace  
Faculty of Social Sciences  
Flinders University, Adelaide



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