Social Finance Brief

March 2021

Making Finance Work for Refugees

Microfund for Women, experience in serving refugees and host communities in Jordan

About this publication

The ILO documented the journey of few financial services providers (FSPs). The cases describe the actual decision making process inside the FSPs as it evolves through the various 'stages' of the journey to become inclusive of refugees and host communities. In each one of the cases, we focus on one or more of the stages (identified by the sections' titles) where the FSP think it has a good "lesson learnt" for the global FSPs community with regard to the outreach strategy design and implementation.

Key points

- Microfund for Women is a non-profit MFI, aiming to provide sustainable financial and non-financial services to the entrepreneurial poor, especially women, in Jordan, to empower them socio-economically. In accordance with its mission, MFW initiated a pilot to serve Syrian refugees.
- Recognizing a large information gap, and concerns among staff on how to effectively reach, segment, and appraise refugee clients, MFW started an in-depth pilot project to better understand how to serve the new refugee client segment.
- As a result, MFW designed a new policy on group lending to Syrian refugees, emphasizing the importance of client appraisal and risk management, before diversifying and broadening its product portfolio to meet refugees' needs.
- This positive experience, allowed MFW managers and frontline staff to be more exposed and familiar with the new refugee client segment, and to dramatically shift their mindsets and perceptions on refugees' ability to repay their loans.

Background

The Microfund for Women (MFW) began as a pilot lending program primarily serving Palestinian refugees, initiated by Save the Children in Jordan in 1994. In 1996, it was registered as an NGO, taking over Save the Children's Group Guaranteed Lending Program to provide poor women with access to credit. In 1999, MFW re-registered as a not-for-profit limited liability company. MFW was the first non-profit microfinance institution (MFI) in Jordan to be licensed by the Central Bank of Jordan (CBJ) in April 2018, and is also part of *Tanmeyah*, the Jordan Microfinance network. Holding an estimated micro-credit market share of 30% by December 2019, MFW has a network of 61 branches throughout Jordan with 744 staff members of whom 67% are women.

With the vision of a more equal and just society in which women in particular are empowered to break the cycle of poverty, achieve prosperity and live inclusive lives, the mission of MFW is to provide sustainable financial and non-financial services to the entrepreneurial poor, especially women, in order to empower them socially and economically. Targeting primarily female entrepreneurs, MFW served more than 140,000 clients by the end of 2019, 96% of whom are women, and had a gross loan portfolio of US$80 million. The average loan size was US$554.

Photo : Marcel Crozet / ILO

MFW offers eight individual and two group-guaranteed credit products, a credit-life insurance, and a customized hospital plan, under-written by an Insurance Company, which pays out a cash benefit per night spent in hospital by the client or her immediate family. The group guaranteed loan to women is MFW's oldest and largest product by outreach, while the individual micro-enterprise loan (larger by average amount) is provided to both women and men and is used by 22% of borrowers, 78% of whom are women. On-time repayment (PaR1) has remained stable at around 55%, but the overall Portfolio at Risk ratio (30 days) is 1.8% across all products with an annual write-off ratio of less than 2%. In 2018, MFW established its in-house Learning Academy to consolidate client and staff training and other non-financial services. The Academy offers vocational and financial management trainings and personal development course for clients, and manages MFW's Corporate Social Responsibilities, and non-financial business development efforts. The objective of the Learning Academy is to become a specialized microfinance training and consultancy provider in Jordan and the MENA region. In 2019, MFW became the first CBJ-licensed MFI to introduce the digital e-wallet *Mahfazati* for loan disbursements, settlement of micro-insurance claims, as well as transactional payments.

After years of experience with successfully serving a limited number of Palestinian women, and a less successful pilot project to serve Iraqi refugees in 2009-11, MFW initiated a small pilot project to serve Syrian refugee women in accordance with its mission. To scale up, MFW sought technical assistance in 2016 to support market research, planning, and operational adjustments in preparation for a 12-month pilot project to serve Syrian refugee women in Jordan. The project kicked off with an in-depth feasibility study of MFW's planned inclusion of refugees, and was later expanded to also analyse the feasibility of the entire market segment of foreign-born residents (FBRs) in Jordan, which make up one third of the population. As of end of 2018, MFW served 5,550 FBRs of whom 5,389 are Syrian refugees, and has opened a branch close to the Za'atari refugee camp for Syrians. 1,061 FBRs of whom 60% are Syrian refugees have been onboarded on the e-wallets as of 2018.

Context

The Jordan National Financial Inclusion Strategy 2018-20 targets an increase in the level of financial inclusion and the reduction in the gender gap. In 2017, the share of formal bank account ownership was 14% among FBRs with permanent residence permits, 11% among those with temporary residence permits, and only 8% among registered refugees. A Ministry of Labour by-law permitted short-term (six months) work permits to be issued to Syrian refugees in all occupations, including those normally reserved for Jordanians. Until then, the home-based businesses bylaws had completely excluded Syrian refugees. However, a Cabinet decision in November 2018 waived the restrictions and allowed Syrians to operate formal micro-businesses from their homes.

Source: EBRD: Jordan Country Diagnostic 2020

Ideation (market research and screening)

In 2009, there were an estimated 450,000 Iraqi refugees in Jordan, but only 46,600 were registered with UNHCR. MFW initiated a small project to expand the existing group loan project to groups of Iraqi women clients, referred to the MFI by humanitarian agencies, including UNHCR. MFW met the refugees and assessed their loan applications based on its standard eligibility criteria of age, training and business experience, character and repayment capacity, reserving exclusive rights to reject or accept applications. At the time, the inclusion of Iraqi refugees in MFW's portfolio was uncontroversial. MFW's social mission is one of inclusive finance, and there was a generally favourable public sentiment in Jordan towards Iraqis escaping the former Iraqi regime. Furthermore, MFW had had previous good experiences with its non-national (Palestinian) portfolio. For these reasons, the inclusion of Iraqi refugees in the loan portfolio did not generate much client segment research or product adjustment efforts, and MFW did not provide additional risk detection training to loan officers appraising Iraqi refugees' businesses.

Mirroring the experience of Al Majmoua in Lebanon, the take-up by Iraqis of MFW loans was very limited. In total, MFW disbursed three group loans to nine Iraqi women during December 2009-July 2011, while 24 loan group applications were rejected and/or cancelled after high initial defaults. In hindsight, staff commented that the pilot wasn't successful because the referred clients were in transit through Jordan, and/or had 'relief mentality' from their contact with UNHCR and the humanitarian agencies, and did not feel compelled to repay their loans. The experience generated a slightly more wary approach to non-national clients, and made MFW more aware of the importance of client segment research before expansion, and of owning the client appraisal process without relying on protection agencies that may well have a preference for referring clients more vulnerable than appropriate for credit. While somewhat deterred, MFW did not totally exclude foreign-born residents, but did focus on foreign, including Syrian, spouses or relatives of Jordanians, who were felt to be less risky.

Photo : Marcel Crozet / ILO

With the influx of large numbers of Syrian refugees in 2012-13, however, MFW's leadership felt compelled to contribute to solutions of the associated societal problems facing the Kingdom, following meetings with Syrian support organizations and governmental agencies. Simultaneously, MFW faced high and increasing drop-out rates in its national portfolio, as the Jordanian credit market competition was heating up, and some urban markets were becoming saturated. Given that no other FSPs in Jordan were engaging to any great extent in the large, potential refugee market segment, MFW thus saw an expansion opportunity driven by both financial and social goals to become first mover in this new market segment.

Recognizing the large information gap, and the remaining concerns among staff as to how to effectively reach, segment, and appraise refugee clients, the MFW Business Development Department sought grant funding for an 18-months in-depth pilot project (October 2016-May 2018) to better understand how to serve the new refugee client segment.

Product strategy

Informed by the Iraqi pilot, MFW did not immediately launch a 'refugee product,' but brainstorming sessions with branches were held to encourage front line staff to also appraise Syrian refugee clients. Management instructed the relevant departments to issue a new policy on group lending to Syrians, which limited exposure to a maximum of 5% of the portfolio, and required Syrians to join mixed-nationality *Tadamun* loan groups and/or have Jordanian guarantors. Uptake was slow, but a small group loan portfolio began to develop from April 2015, helped by a significant initial loan officer's incentive. This incentive was discontinued by the end of 2016.

Rather than following a formal pilot project protocol, MFW implemented a more organic and gradual roll-out of lending to self-settled, urban Syrian refugees as per branch interests and capacities. MFW had set an interim pilot target to serve at least 500 Syrian refugee women by end of 2017, allocating capital from its own reserves. By end of 2017, 4,349 Syrian clients were accessing group loans and microinsurance from 57 of the then 59 branches, and MFW had attracted additional external loan capital to increase rollout.

Due to the many exceptions requested from branches to the standard policy of requiring mixed groups, the initial policy was adjusted with Board approval in August 2016, and MFW allowed group loans to be issued to groups of only Syrian refugees. By March 2018, 4,423 Syrian refugee women had taken loans in 3,929 purely Syrian groups and 412 mixed-nationality groups. Further, management permitted the appraisal of individual *Tatweer* loans to self-settled urban Syrian refugees, and plans were forming to explore how MFW could serve refugees within the Zaatari refugee camp. Due to access restrictions, MFW instead decided to open a branch 2.5 km from the entrance to Zaatari, serving refugees, and explored a similar approach to serve refugees in the Azraq refugee camp (for Syrians). The *Tadamun* group loan for Syrians was mainstreamed into the Operations Department in May 2018, and two additional, individual loan products were opened for refugee clients.

Since starting to offer the e-wallet *Mahfazati* in 2017, MFW has opened 530 e-wallets for staff and 11,983 for clients, including 286 for Syrian refugees and other FBRs by May 2018. E-wallet transactions include loan disbursements and settlement of claims on the credit-life and hospital plan. Uptake among refugees has been slow, but faster for camp residents whose mobility is more restricted, and who are familiar with digital services from cash assistance. MFW innovatively used the e-wallet to enable a humanitarian INGO to provide cash transfers to 400 refugees, while MFW offered loans to refugee women with home-based businesses.

Photo : Marcel Crozet / ILO

MFW expected non-financial services (NFS) to be a vital part of successfully upscaling their outreach to refugee clients. MFW partnered with the International Rescue Committee that offered financial literacy training to Syrian refugees, but initially, referrals were limited. Partnerships with additional INGOs were explored to provide NFS in a more sustainable manner and at a larger scale to refugee clients through MFW's new Learning Academy, which was under development, supported by a local business development services provider and a grant from the USAID LENS programme. In May 2018, refugee-specific training materials developed and tested during the project were handed over from the Business Development Unit to the Learning Academy for integration in the menu of 30 trainings to be delivered by MFW to clients.

Organisational culture – mindset change

In 2016, the initial internal response to the financial inclusion of Syrian refugees was mixed. Some middle managers and field staff had and/or knew of Syrian relatives who could benefit from financial inclusion, whereas others thought the risks were too high. A staff survey conducted in early 2016, documented that 63% of staff saw the initiative as a social effort to support refugees, whereas only 29% saw it as a business opportunity with potential financial benefit to MFW. A quarter of staff surveyed (26%) did not think refugees were 'settled' or stable enough to be served, while 17%

were concerned with refugees' dependency on grants, and 9% felt credit could over-indebt refugees. The core concerns of surveyed staff were the demand–side 'instability' of Syrian refugees (52%), and the supply-side difficulty that staff would experience by serving different nationality groups in the same area (17%), whereas only 8% of staff overall had concerns related to the legal status of refugees. Nearly half of surveyed staff perceived refugees to be an increased credit risk, while 45%, felt that these concerns might be overcome by the common FSP risk mitigation measures of continuing to include Jordanians as group members and guarantors, and to seek credit guarantees from UNHCR.

During the early days of the pilot project, frontline staff initially found it difficult to establish an appropriate risk profile for new and 'unknown' FBR segments. Especially 'character,' 'potential success,', 'stability,' and 'reliability' among refugees were more difficult to assess due to a lack of familiarity with their social, cultural and community networks. To assist in the appraisal of new clients, MFW applied alternative 'stability' or location consistency indicators, including family ties in the area, the commitment to future housing (signed contract, pre-payment), the enrolment of children in local schools, and the engagement in local social, business or leisure activities. In addition, usage of the same phone number over time also indicated consistency in availability among refugees in Jordan.

At the branch level, loan officers acknowledged that first-time Syrian refugee borrowers were nervous and required more time and often asked for terms and conditions to be explained several times. However, many experienced that Syrians therefore were also much less likely to omit or hide information and to ask for more credit than they were sure they could manage to repay on time.

▶ Changing perceptions of Syrians

MFW Loan officers, Oct 2016: *"We can't know if they'll leave. They can't work so how can they repay a loan?"*

MFW loan officers, Jul 2017: *"Syrians? They pay on-time, they are more honest and transparent and easier to work with. More have home-based businesses and they won't ask for more funds than they can manage."*

Sources: interviews at MFW branches

During 2016-17, staff perceptions shifted. Staff remained wary about possible Portfolio at Risk spikes due to the sudden departure of refugees from Jordan, but many staff readily acknowledged that refugee clients did not seem as risky as they initially thought. The growing portfolio of Syrian refugee women who performed very well, the greater exposure, contact and increased familiarity with a formerly unknown client segment dramatically shifted the mind-set of many MFW managers and front-line staff (see Box 1). Across the FSP, there was much less concern about serving the new client segment and the Syrian refugees were considered by several branches to be "better clients than Jordanians." Essentially, staff went from considering refugees to be a potentially "catastrophic flight risk" to assessing them as "better than usual clientele" in 12 months!

Photo : Marcel Crozet / ILO

In January 2017, MFW drafted its first three-year strategy to serve as a key change driver for the institution. The Strategy confirmed the milestone shift approved by the Board for MFW to extend its outreach to include "all non-Jordanians under the same [existing] product portfolio," initially up to a capital exposure level of 1 million Jordanian dinars (US$1.4 million).

The ILO would like to thank Lene Hansen for documenting this experience as well as MicroFund for Women management and staff for sharing their inputs, experiences and views.

About “Making Finance Work for refugees and host communities”

This case and the others from the same series have been developed in the framework of the management course “Making finance work for refugees and host communities”. It targets managers of FSPs that currently serve or consider serving refugees and host communities with financial services. Click here for more info.

Contact details

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

T: +41 22 799 7239
E: socialfinance@ilo.org

© International Labour Organization 2021