



CASE STUDY

A Small-Loan System Graduates

Microfinance institutions get a boost and become self-sustaining



Photo: Al Madineh Studio

Executive Director Khaled Al Gazawi holds a plaque announcing JMCC's graduation from the Wholesale Funding Facility.

Khaled Al-Gazawi, executive director of the Jordan Micro Credit Company says, "We now have track record with major banks, and can secure financing through the commercial lending system, which will enhance our ability to expand our operations throughout the Kingdom."

Challenge

In 1998, USAID began an initiative in Jordan to create a sustainable microfinance industry, which provides small loans to borrowers who cannot access traditional resources because they lack collateral or credit history. Part of the initiative sought to help microfinance institutions end their reliance on donors for capital. Aside from helping the institutions build capacity and plan sustainable operations, USAID also provided grants for loans and expenses as the institutions established themselves. The loans were extremely popular, however, and the institutions were soon in danger of exhausting their funds. Without more loan capital, Jordan's microfinance institutions would be unable to meet the growing demand for their services.

Initiative

Rather than supply additional grants, USAID developed the Wholesale Funding Facility. Capitalized by \$4.2 million in USAID grants, the facility acts as cash collateral that institutions can use to guarantee lines of credit from commercial banks. Despite strong performance and high repayment rates, microfinance institutions have limited credit history, and banks are reluctant to lend to them without guarantees. With the Wholesale Funding Facility, microfinance institutions can develop a relationship with the banks and solid repayment record, replacing the need for collateral. Once this happens, the institution "graduates" and receives its share of facility funds.

Results

In May 2004, the Jordan Micro Credit Company (JMCC) became the first graduate of the Wholesale Funding Facility, having demonstrated 12 consecutive months of financial and operational sustainability and six consecutive months of independence from guarantees. JMCC now secures capital from commercial lending sources, enabling it to serve more clients and spread the benefits of microfinance. The other three institutions participating in the Wholesale Funding Facility — Microfund for Women, the Middle East Micro Credit Company Access to Credit Project and Ahli Microfinance Company — are well on their way to achieving the same goal.