

AGFUND Link Program

Mr. Nasser Al-Kahtani

Executive Director – Arab Gulf Program for Development (AGFUND)

Dr. Bashar Al-Zu'bi

Assistant Professor – Arab Open University, Jordan Branch

Introduction

The top priority of The Arab Gulf program for Development (AGFUND) is to treat and control issues related to poverty, and help with its eradication out of the belief that poverty and all its negative consequences are real obstacles to the process of economic and social development. In this perspective, HRH Prince Talal launched his initiative to create “Banks for the Poor” in the least developed countries to reduce the burden thrown on governments, to engage members of societies in matters of development, and to stimulate and encourage the private sector to take more responsibility in social development. AGFUND wants this to be achieved through: micro-loans, savings, and insurance. AGFUND is confident that providing these financial services will help combating poverty and will alleviate its impact on developing communities. It will also help raising the living standards of the poor so they become self-reliant, more creative, and productive. To sum up, AGFUND’s main objective of creating a microfinance bank is to provide financial inclusion for poor people.

In perusal of this vision, the AGFUND has established banks in nine (9) countries; Jordan: Al- Watani Microfinance Bank (2006), Yemen: Al – Amal Microfinance Bank (2008), Bahrain: Ibda’a Microfinance Bank (2009), Syria: Ibda’a Microfinance Bank (2011), Sierra Leone: the Bank for Innovation and Partnership (2011), Lebanon: Ibda’a Microfinance Company (2012), Sudan: Ibda’a Microfinance Bank (2013), Palestine: Ibda’a Microfinance Company (2014) and Mauritania: Ibda’a Microfinance Bank (2015).

The AGFUND model argues that microfinance needs to be combined with other actions to effectively improve the living conditions of its beneficiaries. Under this model, AGFUND Microfinance Institutions provide beneficiaries with financial services (credit, savings, insurance) along with non-financial services (coaching, mentoring, training, and counseling) all aim at improving the borrowers’ capacities to develop sustainable

income-generating activities and grow their micro-enterprises into small and medium sized enterprises.

To institutionalize the complementarities between financial and non-financial services, the “AGFUND Link Program” has been established. This program seeks complementarities between financial and non-financial services by embedding them in a hybrid product to be provided to borrowers.

Objective

The main objective of this document is to describe the methodology of “AGFUND's Link Program”, i.e., a process which the owners of micro-enterprises can undergo to help them grow their micro-enterprises into small and medium sized enterprises.

AGFUND wishes to:

- Identify existing micro-enterprises’ owners who have the potential to grow. These micro-enterprises would be identified from the database of the AGFUND Microfinance Institutions (MFIs)\Banks. It has to be highlighted that the focus will be on all micro enterprise owners’ not just entrepreneurs. In other words, we will deal with micro businesses if we believe that they have the potential to grow not just innovative businesses who introduced new ideas.
- Explore; with the micro-enterprises’ owners; how they think they can grow, and together identify the criteria to measure the potential growth and the method required to achieve the desired growth. This will be completed by the MFI but the micro-enterprises’ owners will be the main director of the process.
- Identify needed interventions to address the growth needs.
- Decide what are the desired outcomes and outputs from the various interventions and how do those compare to the growth criteria identified earlier.
- Monitor and evaluate the micro-enterprise to evaluate the efficiency of the various interventions and to assist in improving service delivery to the micro-enterprise.

Process

We have developed the following process to identify potential candidates (micro-enterprises) from the AGFUND Microfinance Institutions/Banks. AGFUND will use the available database of each MFI/Bank and will consult with the loan officers of that MFI/bank as those are the best to provide the knowledge and understanding of the financed projects since they were the first people to interact and approve the first loan and/or financial service that were given to the borrower. **Based on this, the methodology will be as follows:**

- Review and evaluate the exiting MFIs/banks portfolios of micro-enterprises against the following:
 - Formal or informal businesses (Whether registered or not);Sustainable increase of business profits as a result of activities expansion,
 - Ability to create job opportunities which will contribute to reducing unemployment;
 - Benefit from the health insurance services (if any)
 - The owner of micro-enterprise business in terms of:
 - Credibility with the:
 - ✓ Microfinance Bank
 - ✓ The market
 - ✓ His/her Clients

- Based on the above, AGFUND and the Microfinance Bank will select the first group of micro-enterprise owners for financial and non-financial assistance, to help grow micro-enterprises into small and medium enterprises. As earlier said, branch managers and loan officers will make significant contribution to identify micro-enterprises which have the potential to grow. In additions, loan officers will be consulted as they know the details of the projects they continuously follow up and visit.

- Review, modify and validate with the selected micro-enterprises' owners what opportunities they have identified and how they intend to grow their businesses. Based on our previous experience with the clients of the microfinance banks, the micro business owners are realizing their needs and aware of what their projects lack. They are the ones who run day-to-day operations; accordingly, they know the details of their projects and what type of support and intervention are most

needed. Therefore, what we need to discuss with the micro enterprise owners is their specific needs and guide them how to satisfy them.

- Based on this, AGFUND and the MFI/bank will define developmental goals with the micro-enterprises in terms of what is required to achieve the desired growth. This will cover improvement in terms of:
 - Sales
 - Marketing
 - Profitability
 - Expansion and job creation
 - Management
 - Etc.

- Once the needs are identified, AGFUND and the MFI/Bank will determine what types of support and interventions will appropriately address the identified needs. **Actually what we are looking here as AGFUND is Counseling not Consulting. This means that we will work as a facilitator and provide Coaching** The Coaching provided shall be directed at gradually taking the owners to think of the solution themselves and hence ask for the services rather than telling them what to do. In other words, it should be based on best cultivation practices, which helps ensure the success of value-addition activities. **AGFUND will not impose its ideas or provide direct advice to the micro business owners.**

- **AGFUND will apply a custom-tailored approach**, reaching out to micro business owners and helping them to improve their business. It will try to build a relationship with the micro business owners and provide coaching when needed and let the micro business owners decide if that is the best course of action or not based on the business case. For example, we can facilitate the access of micro business owners to new market by coaching her/him to think of participating in an exhibition, but not to suggest that.

- In addition, AGFUND will focus on **Group Counseling**; as this method is considered the most effective and least costly way of creating growth and change in business. In the group counseling, there will be many opportunities for every micro business owners to share their thoughts, ideas, and discuss the challenges and obstacles they usually face. AGFUND will try to form groups who are in the same sector and their activities complement each other in order for discussions to be industry focused Groups can meet once monthly, but

sometimes more often. The idea and support of group counseling is an enriching experience. The group counseling should lead at some stage to create linkages or maybe mergers among the micro business owners.

- When the aggregate and singular interventions are identified, AGFUND and the MFI/Bank will set a plan for execution of the interventions.
- AMU and the MFI/Bank will also work on identifying general desired outputs/impacts for the interventions before implementing them.
- AGFUND and microfinance bank will execute the identified interventions with micro-enterprise owners according to a set schedule.
- Micro-enterprises will be monitored after interventions are delivered against the predefined desired outputs/impacts. This would be recorded and reported and would provide the basis for additional improvements to the AGFUND Link Program process.

Figure (1) below Steps provisioning throughout the life-cycle of the Link Program

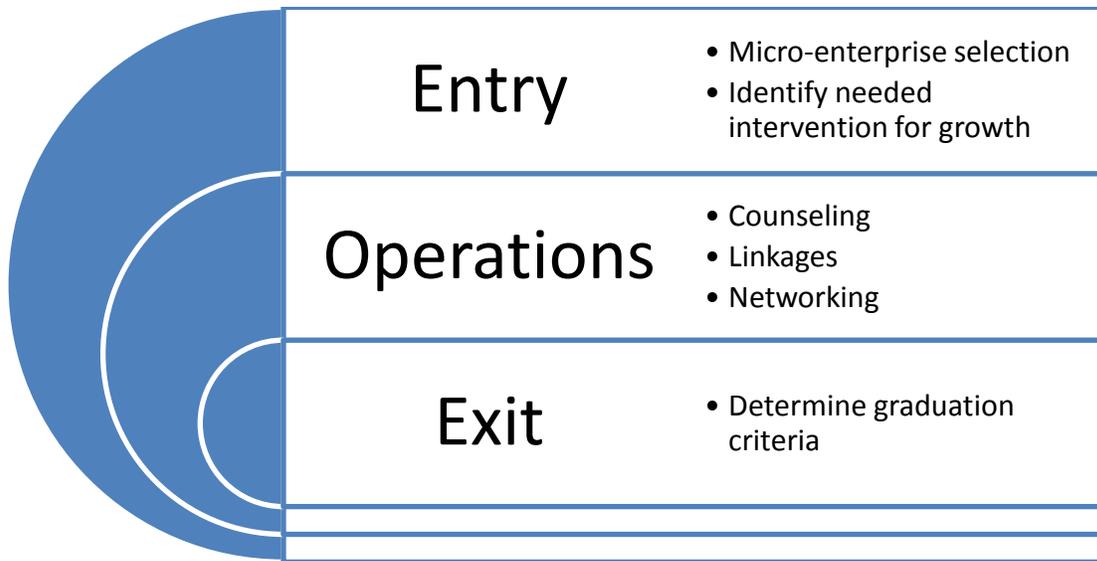
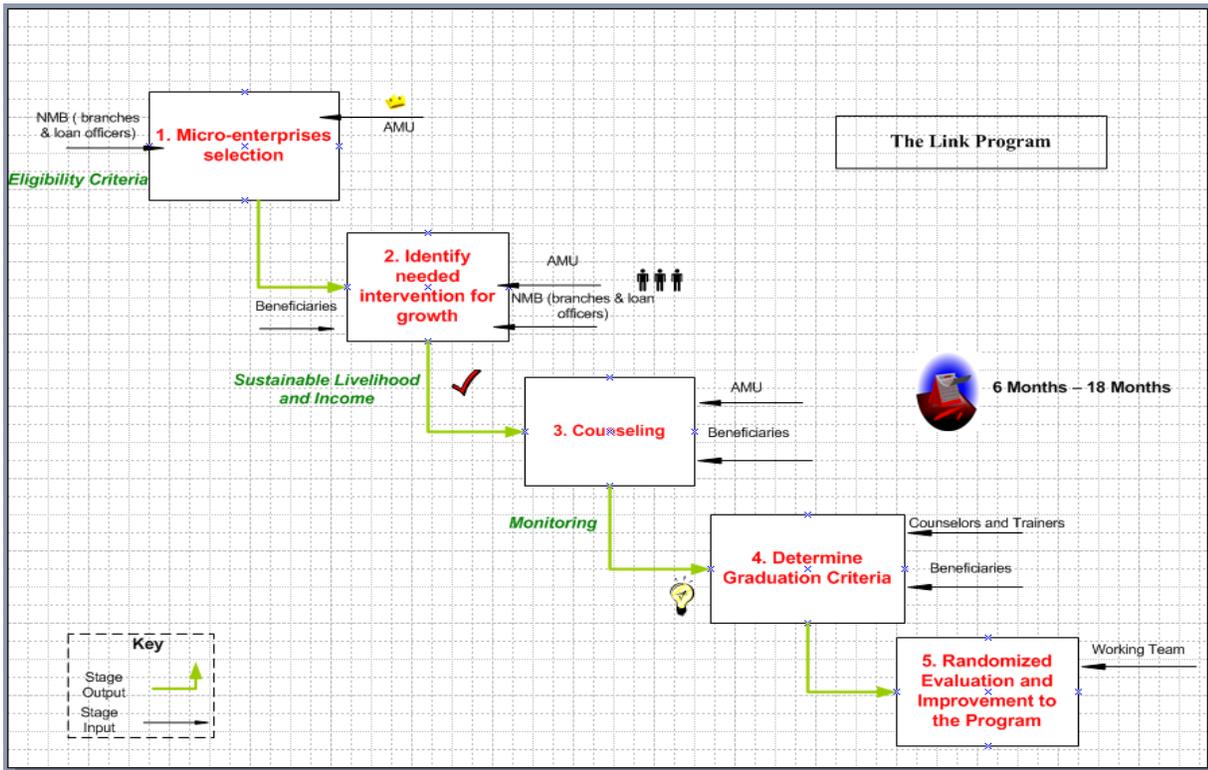


Figure (2) below demonstrates the Operations Process



Design: Baselines & Targets

- **Baselines**
AS-IS situation before implementing changes
- **Targets**
Results To Be reached (in the short/medium/long terms)

Three Stage Approach to the Link Program:

- 1. Analyses:** The purpose of this phase is to understand the “AS IS” environment in the field of non-financial services within the AGFUND MFIs/Banks, to establish baseline and discuss with the crucial stakeholders in which direction should the non-financial services environment be reformed. We will map the services that have been used for moving several enterprises from micro to small and medium.

2. **Modeling and Recommendation:** The goal of this phase is to deliver clear direction about future improvement with specific implementation scenario, outlining the necessary support that best fit the microenterprises, and to make AGFUND and the relevant stakeholders aware about their future impact.

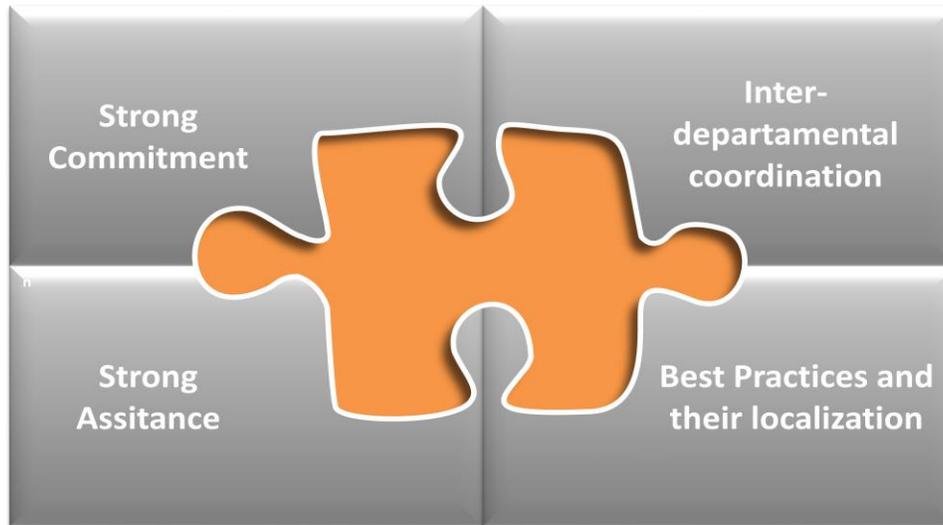
3. **Acceptance:** The goal of this phase is to obtain acceptance of the new approach by all the relevant stakeholders and be ready for further implementation.

Figure (3) below display the design and target

Phase	Deliverable
Analyses	Baseline: Analyses of the “ AS IS ” situation as to the non – financial services in the AGFUND Banks, process mapping. Focusing on the process already implemented in supporting enterprises to move from micro to small and medium.
Modeling and Recommendation	Target: Modeling and Recommendation of the future “ TO BE ” Process of non – financial services from a policy, personal, marketing, investment and business structure aspect.
Acceptance	Final: Compilation of all the findings related to the non – financial service road map, endorsement by all stakeholders, commitment to embark into the new service.

Approach

The overall Link relies upon strong commitment, inter-departmental consensus on the ultimate support, strong assistance as well as application of best practices on the local micro – enterprises.



The Case of National Microfinance Bank (Alwatani)

National Microfinance Bank (Alwatani) is a Jordanian private shareholding not-for-profit company that finances income generating projects for underserved segments of society, spreads a culture of micro credit and entrepreneurship and carries out mission driven activities. NMB was established as a partnership between King Abdullah II Fund for Development (KAFD), Arab Gulf Program for Development (AGFUND), and two private sector investors. The concept of NMB stems from His Royal Highness', Prince Talal bin Abdul-Aziz's initiative to establish banks for micro and small entrepreneurs throughout the Arab World.

NMB also aims to apply financial inclusion concept to offer all its clients' needs and requirements; therefore, it has provided many lending products and methodologies to fulfill this mission throughout offering loans for education, home improvements and healthcare in order to help the clients to improve their living standards.

On March 27, 2006 under the patronage of Her Majesty Queen Rania and His Highness' and Prince Talal bin Abdul-Aziz, NMB disbursed its first loans in parallel with the opening of three branches.

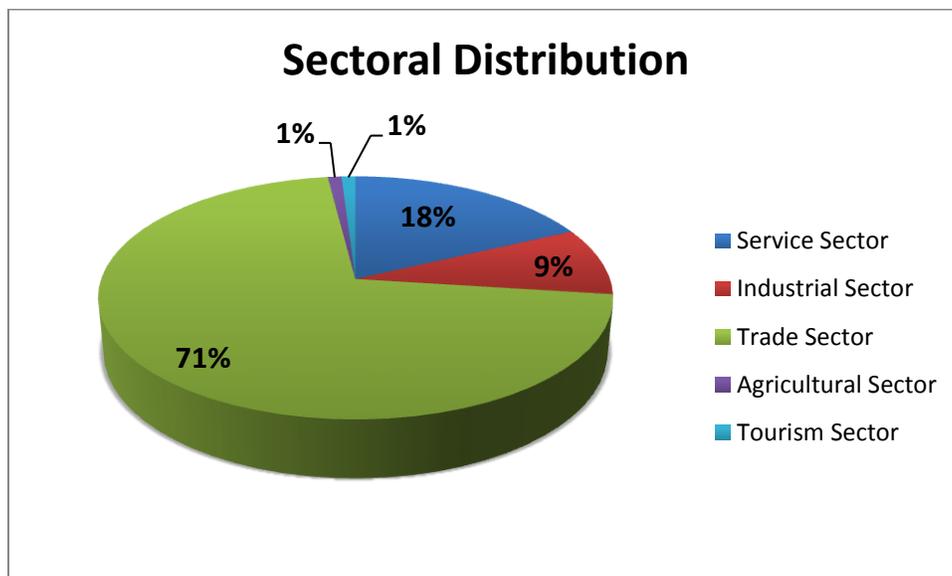
Today, NMB have more than **56,000 clients with 24 branches** distributed over different regions in the country.

Applying the “Link Program” on the NMB

When we reviewed and evaluated the exiting NMB portfolio of micro-enterprises; we found 8000¹ clients out of 56000 clients who own productive micro-enterprises and took productive loans. Focusing on the process already implemented by the NMB in supporting enterprises to move from micro to small and medium, the “AS IS” situation as to the non – financial services in the NMB includes the following services:

- Counseling by loan officers,
- Networking,
- Supporting to participate in products exhibitions and promotion

These non – financial services have led to the graduation of 1095 clients during 6 – 18 months. The sectoral distribution of the graduated projects is shown in the chart below:



The improvements in terms of things in these projects during 6 – 18 months are the followings:

- Finishing 3 loan periods with excellent credibility and commitment of re-payment (\$3000, \$5000, more than \$10,000).

¹ The NMB has more than 8000 clients who obtained loans for production purposes; however, we selected clients who are eligible for entering the LINK program.

- Sustainable profit growth rate obtained as a result of activities expansion; the growth rate reached to 10% - 45% based on the sector.
- Formalize the business by officially registering it. Creating jobs for local employment. The graduated projects provided 1,749 job opportunities.
- Benefit from the health insurance services provided by NMB

Selected Success Stories from NMB

Mohammed Saboba:

Mohammad is a 40 years old businessman. He was a salesman in one of the frozen food companies, and then took his expertise to establish his own business as a food distributor.

By the first loan taken from Alwatani he bought the first vehicle and later on, he added more cars and upgrade the business to manufacture food under his own brand. Alwatani worked with him in all expansion phases, and is still supporting the business which reached around \$ 1.5 Million.

Saboba started his own journey in 2007 by taking a loan of \$14,000 from the National Microfinance Bank. His first loan gave him the ability to succeed in expanding his project depending on only one vehicle that he used to distribute his products.

At first, he faced many challenges in marketing his products. Then he started to get a good market share with different consumers in Amman and Zarqa, as well as restaurants and supermarkets in East Amman.

After Saboba noticed the good profit he earned from his hard work, he decided to expand his project more by taking a second loan of \$30,000 from the NMB in 2008 in order to start expanding his business.

Mohammad followed this plan for 7 years continuously with raising the amount of each loan that he took year after year. Now, the total amount of the loans that he took during the past 7 years has reached to \$280,000 that made him currently owns more than 10 distribution equipped vehicles covering his activities with more than 250 point of sales for Saboba products.

Terez Samawi

Terez is a hard working 48 years old married woman who is well known for her high ambition and her love for children. Her husband is a retired man who currently works at a farm. She has been working as a teacher in the past 15 years. She also participated with young girls' voluntary association for about a year and a half. She was helpful and supporting woman and was taking care of children who faced problems with learning without asking for any recompense.

Terez did not have any chance to have any children. Her love to her work and to children has made her come up with the idea of opening a kindergarten, a place where she can fill her life with children and do the work she loved. She took a loan from NMB and rented a house that she later on turned into a kindergarten.

At first she was facing some problems with gaining parents trust. But because she is a positive woman, this issue has been resolved in a short period. Terez was able to provide the kindergartens with a bus which serve the children with the utmost condition of safety for the young children; this bus was also financed by the National Microfinance Bank. Terez has employed 21 girls from her area and the areas nearby.

The Future “TO BE” Process of Non – Financial Services

Concept Map

This concept map describes the 7 categories used for the “TO BE” Non-Financial Support framework.



Acknowledgements:

We are grateful for all the support we received from different individuals and organizations. In particular, we owe all our gratitude to:

- **Mr. Khaled Muhiesen** – General Manager, National Microfinance Bank
- **Mr. Sameh Mahariq** – Director of Credit and Risk Analysis, National Microfinance Bank
- **Mr. Ahmad Al Arabiat** – Regional Branch Manager, National Microfinance Bank

We would like to acknowledge

- **Dr. Hayel Fakhoury** – Business Program Coordinator, AOU, Jordan Branch

Finally, we would like to thank

- **Dr. Khaled Algazawi** – General Manager, Ebdaa Bank, Bahrain