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Financial Inclusion Diagnostic Study in Jordan 2017

Synthesis Report

Financial Inclusion Diagnostic Study in Jordan 2017, Synthesis Report

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List of acronyms and abbreviations

ABJ	Association of Banks in Jordan
ACC	Agricultural Credit Corporation
ACH	Automated clearing house
AFI	Alliance for Financial Inclusion
AML	Anti-money laundering
APR	Annual percentage rate
ATM	Automatic Teller Machine
BFC	Business & Finance Consulting
CBJ	Central Bank of Jordan
CBO	Community-based organization
CGAP	Consultative Group to Assist the Poor
CFT	Combatting the financing of terrorism
DEF	Development and Employment Fund
DFS	Digital financial services
DOS	Department of Statistics
EBRD	European Bank for Reconstruction and Development
EMP	Emerging Markets Payments
EU	European Union
FI	Financial institution
FLS	Financial literacy score
GDP	Gross Domestic Product
GCC	Gulf Cooperation Council
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
GSM	Global System for Mobile (Communications)
IFC	International Finance Corporation
IMF	International Monetary Fund
JLGC	Jordan Loan Guarantee Corporation
JOD	Jordanian dinar (currency)
KYC	Know your customer
LENS	Local Enterprise Support Project
LLC	Limited liability company
MCF	Military Credit Fund
MENA	Middle East and North Africa
MEPS	Middle East Payment Services
MFI	Micro-Finance Institution
MFS	Mobile financial services
MFW	Microfund for Women
MIT	Ministry of Industry, Trade and Supply
MPSI	Mobile payment services instructions
MSE	Micro and Small Enterprise

MSME	Micro, Small and Medium Enterprise
MNO	Mobile network operator
MTO	Money transfer organization
NBFI	Non-bank financial institution
NFC	Near field communication
NGO	Non-governmental organization
NPL	Non-performing loan
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio at risk
PIN	Personal identification number
P2P	Person to person
POS	Point of sale
PSF	Postal Savings Fund
PSP	Payment Service Provider
RTGS	Real-time gross settlement
SME	Small and Medium Enterprise
TA	Technical Assistance
UAE	United Arab Emirates
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNRWA	United Nations Relief and Works Agency (for Palestine Refugees in the Near East)
USD	United States Dollar (currency)
USAID	United States Agency for International Development
USSD	Unstructured Supplementary Service Data
WB	World Bank

Executive summary

The Government of Jordan defines financial inclusion as "a state wherein individuals and businesses have convenient access to and use affordable and suitable financial products and services that meet their needs and help to improve their lives – payments, savings, credit, transactions and insurance – delivered in a responsible and sustainable way." Studies have consistently shown that increasing financial inclusion has the potential to improve living standards, combat poverty and unemployment, promote equality, and enhance financial stability and integrity. As formal financial inclusion in Jordan is quite low among certain segments of the population, the Jordanian government and international organizations have started to take action to better understand the causes and to find ways to boost the availability, usage and quality of financial services.

This study of financial inclusion in Jordan was mandated by the Central Bank of Jordan and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH for the Promotion of Financial Inclusion. The main objective of the study, carried out by Business & Finance Consulting GmbH (BFC), was to establish a baseline for financial inclusion by assessing the state of access to, usage and quality of financial services; the regulatory, physical and commercial barriers thereto; and the gender, socio-economic, demographic and geographic usage specifics and needs.

Financial access

Jordan has experienced improvements in a number of key indicators of financial access in recent years. Arguably the most important indicator is the share of adults with an account, which increased to 33.1% in 2017 from 24.6% in 2014. Other indicators of financial inclusion are discussed below, organized by product type, customer segment, and method of access. A selection of the most important indicators are presented in the following table. "Demand" indicators are sourced from customer surveys, while "supply" indicators are generated by financial institutions.

Core indicators of financial inclusion

Deposits and savings	Source	Value
Has account at financial institution	Demand	33.1%
Has bank account	Demand	32.0%
Has mobile wallet account	Demand	0.9%
Has postal savings account	Demand	1.1%
Has informal savings account	Demand	13.1%
Has debit card	Demand	27.2%
Saved money at financial institution in past year	Demand	9.3%
Bank deposit accounts per 1,000 adults	Supply	504.0
E-money accounts per 1,000 adults	Supply	1.5
Credit	**Source**	**Value**
Borrowed from financial institution in past year	Demand	9.9%
Borrowed from bank in past year	Demand	4.3%
Borrowed from MFI in past year	Demand	4.2%
Borrowed from any source in past year	Demand	21.6%
Has credit card	Demand	4.8%
Outstanding bank loans per 1,000 adults	Supply	170.2
Outstanding MFI loans per 1,000 adults	Supply	63.2
Total outstanding loans per 1,000 adults	Supply	233.4
Payments and remittances	**Source**	**Value**
Made or received digital payments	Demand	18.3%
Received wages or government transfers into account in past year	Demand	11.8%
Made payment using debit card	Demand	2.8%
Used internet to pay bills or buy things	Demand	5.5%
Received or sent formal domestic remittances in past year	Demand	23.4%
Received or sent domestic remittances in past year	Demand	42.3%
Mobile money transactions per 1,000 adults	Supply	1.4
Retail cashless transactions per 1,000 adults	Supply	13,337.8
Debit cards per 1,000 adults	Supply	366.1[1]
Insurance	**Source**	**Value**
Had any type of insurance in past year	Demand	29.9%
Had health insurance in past year	Demand	27.0%

[1] 2015 data reported

Had life insurance in past year	Demand	2.9%
Insurance policies per 1,000 adults	Supply	315.6
Infrastructure	**Source**	**Value**
Branches of commercial banks per 100,000 adults	Supply	13.9
Branches of commercial banks per 1,000 km2	Supply	10.0
Branches of MFIs per 100,000 adults	Supply	2.7
Branches of MFIs per 1,000 km2	Supply	2.0
ATMs per 100,000 adults	Supply	25.6
Agents of payment service providers per 100,000 adults	Supply	0.3
Mobile agent outlets per 100,000 adults	Supply	4.3
POS terminals per 100,000 adults	Supply	496.0

Sources: CBJ/GIZ survey, CBJ

By product

Deposit accounts: As mentioned above, deposit account ownership from a formal financial institution increased to 33.1% in 2017 from 24.6% in 2014. Most of these accounts were bank accounts, with 32.0% of adults reporting having a bank account, and relatively few adults with accounts from the Postal Savings Fund (1.1% of adults) or e-wallet accounts (0.9%). 13.1% of adults reported that they have some type of informal savings account, such as saving with a group of acquaintances or with a cooperative.

Savings: The share of adults saving money in a bank account in the past year stood at 9.3%, up sharply from the 3.8% rate that was reported in 2014. Only 7.3% of adults have a savings account and 1.8% have a term deposit, but current accounts (22.5% of adults have one) are also used to save money. As to the purpose for saving money, 6.2% of adults stated that they saved for educational expenses, 3.9% saved for old age, and 3.4% saved for business investment; each of these three indicators was up slightly from their 2014 levels.

Credit: 21.6% of adults borrowed from any source in the past year, with 9.9% borrowing from a formal financial institution and 13.3% borrowing from an informal source. The formal borrowing rate of 9.9% was down from a level of 13.6% in 2014, perhaps as a result of higher interest rates in 2017 or uncertainty related to weakening GDP growth rates in recent years. This decline in borrowing should not necessarily be a cause for concern, as the supply side analysis generally demonstrated that financial institutions are not cutting back on their lending activities. Nevertheless, the high proportion of adults that borrowed from an informal source (13.3%) demonstrates that formal lenders are not always meeting the needs and expectations of clients.

Payments and remittances: 18.3% of adults received or made a payment through a digital or electronic channel, such as with a debit or credit card, internet or mobile phone service, or by receiving their salary or government transfers directly into an account. More than half of the 18.3% ratio is accounted for by payments received, as 11.8% of adults received their salary or government transfers directly into an account. With regard to making payments, 5.5% of adults made a payment via the internet, 2.8% made a payment with a debit card, and 0.6% used a mobile phone to make a payment. Although these payment indicators are not high, most of them were up considerably from their 2014 levels. Only 1.4% of adults reported that they had internet banking, 2.1% had mobile banking, and 4.8% had a credit card, all indicators which should be targeted for improvement going forward.

Insurance: Some form of insurance was held by 29.9% of adults in the past year, either because they bought it themselves or because they received it without needing to buy it. Health insurance is by far the most popular product, held by 26.9% of adults. This is followed by motor insurance (8.1%), life insurance (2.8%) and property insurance (1.8%). The majority of clients are not buying insurance voluntarily; most receive it for free (through a family member or government program, for example) or are required to buy it, such as insurance that is required in order to receive a loan.

All products: When considering all the above products, the percentage of adults in Jordan that used any formal financial service in the past year is 62.0%. Adding in the 13.2% of adults that only used informal financial services, the total rate of usage rises to 75.2%. This means that 24.8% of adults didn't use any financial services at all in the past year, and 38.0% did not use any formal financial services.

By segment

Women: Women tend to be less included in the formal financial system for account and remittances products, but have higher levels of formal financial inclusion for loan and insurance products. Account ownership among women

(27.2%) was still well below that of men (37.6%) in 2017 but improved considerably from a 15.5% level in 2014. Encouragingly, women had a higher borrowing rate (12.1%) than men (8.2%), and women were also more likely to have insurance (31.5% of women vs. 28.6% of men).

Youth: Young people – in this report defined as those aged 15-24 – are much less financially included than older people aged 25 and above. Young people had lower inclusion indicators for all key product categories, and the gap was particularly wide for deposit and credit products, while it was narrower for payments and insurance. Only 20.4% of young people had an account and 4.1% had borrowed in the past year.

Non-Jordanian citizens: Non-Jordanian citizens demonstrate much lower usage of formal financial services than Jordanian citizens for deposits, loans, and insurance. The rate of account ownership is especially low at 9.5%, as is the rate of formal borrowing of 1.9% in the past year. Refugees, a special category of foreign citizens, have even lower access and usage levels, as 7.5% had an account and 1.5% borrowed in the past year. Only in terms of remittances do non-Jordanians show active usage of formal financial services, as 31.4% sent or received remittances through formal channels in the past year.

Low income: Lower-income earners (defined as those in the lower 40% of the sample by reported income) are considerably less financially included than wealthier individuals for all product categories. Only 19.3% of adults in the low-income bracket had an account at a financial institution, and only 5.6% of them borrowed from a formal lending institution in the past year.

Microfinance: 4.2% of adults borrowed from an MFI in the past year, only slightly less than the 4.3% that borrowed from a bank, despite the fact that there are about three times as many banks as MFIs in Jordan. MFIs make an outsized contribution to financial inclusion by reaching out to vulnerable groups that often have difficulty getting finance from banks such as women, refugees, young people, students, the self-employed and rural residents.

SMEs: Small enterprises have lower access to credit than medium enterprises, which have lower access to credit than large enterprises. The World Bank Enterprise Surveys of 2013/2014, for example, determined that 12.5% of small enterprises, 25.0% of medium enterprises and 34.2% of large enterprises had a bank loan or line of credit. The same pattern can be seen for account ownership, where 79.0% of small enterprises, 92.2% of medium enterprises and 93.6% of large enterprises reported having a deposit account.

Other segments: The survey also looks at education level, rural versus urban locations, region of the country, and employment status, to determine the level of financial inclusion for these segments. Adults with lower levels of formal education tend to be less financially included, and rural residents tend to be more included, probably due to the high levels of public sector employees in rural areas. With regard to employment status, public sector employees have very high financial inclusion indicators, and retired pensioners also have above-average indicators.

By access point

Survey respondents report that ATMs are the easiest type of financial access point to reach, while mobile banking agents are the most difficult. ATMs were rated as being impossible or difficult to reach by 10.3% of adults; by contrast, the corresponding rate for mobile banking agents was 43.2%. Difficulty of access for other key access points was as follows: bank branches – 12.2% of adults found them difficult or impossible to access; MFI branches – 24.9%; and currency exchange houses – 18.0%.

The branch networks of banks in Jordan are moderately well-developed in comparison to other countries in the MENA region. There were 891 bank branches in Jordan at the end of 2016, and the ratio of branches per 100,000 adults was 13.9, the same as in 2015. The ratio of branches per 1,000 square kilometers was 10.0 at year-end 2016, up from 9.8 a year earlier. In 2016 Jordan ranked seventh out of 13 countries in the region in terms of bank branches per 100,000 adults and ranked ninth in terms of branches per 1,000 square kilometers.

The branch networks of MFIs are reasonably well-distributed throughout the country. The eight MFIs reporting to Tanmeyah, the Jordanian microfinance association, had 175 branches in 2016, roughly one fifth the number of bank branches. Although MFIs have fewer branches overall than banks, they do a relatively better job of reaching governorates other than Amman. Only 34.3% of MFI branches are in Amman, compared to 60.1% for banks.

The ATM networks of banks are not particularly well developed in terms of the density of ATMs per capita and in terms of their functionality. Jordan's ATM density per 100,000 adults of 26.3 ranked it tenth out of 12 MENA countries for which data was available in 2016. The ATM density for Jordan increased from 24.2 in 2015 to 26.3 in 2016. ATM density varies widely by governorate, with the highest results observed for Aqaba and Amman.

Regulatory framework

Banking sector

The Jordanian banking sector is characterized by a sound regulatory framework overall and active supervision by the Central Bank of Jordan. The most noteworthy regulatory barriers with regard to financial inclusion are the absence of an insolvency law and the lack of a comprehensive movable asset registry. The absence of a bankruptcy law contributes to a slow, unpredictable and complex bankruptcy process, which in turn discourages banks from lending, especially to more risky client segments, such as younger applicants and startup firms. The absence of a movable asset registry contributes to inflexible bank collateral policies, which in turn makes it more difficult for MSMEs and individuals to access credit. Government efforts in cooperation with international institutions are underway to try to rectify these gaps. In addition, the CBJ takes the position that banks should not take into account undeclared or unofficial income in their credit analysis; while this position is legally correct, it makes it difficult for the many MSMEs that do not report all of their income to obtain credit in amounts that meet their needs. Until recently, the absence of a comprehensive credit bureau was also a barrier to credit access in Jordan, but the recent launch of private credit bureau CRIF is expected to eliminate this constraint.

Microfinance sector

From the perspective of financial inclusion, the most important regulatory constraints placed on MFI's activities are the prohibition on deposit-taking and, to a lesser extent, restrictions on maximum loan sizes. The absence of an insolvency law and movable collateral registry can also be considered constraints, although they only affect a relatively small portion of MFIs' clientele. The inability of MFIs to offer deposit products is a lost opportunity to increase the low level of account ownership, especially when considering that the core client base of MFIs – women, low-income households and microenterprises – are the same segments that tend to have the lowest levels of account ownership. The recently-introduced restrictions on maximum loan sizes (calculated as 0.2% of the MFI's total gross loan portfolio) could inhibit access to credit for small enterprises that are too large for MFIs to serve but too small to be of interest to banks. However, as this regulation is new, it will take some time before the impact on lending becomes clear.

Payments and digital financial services

Key regulatory issues that impact financial inclusion in relation to payments are the maximum amounts for e-wallet transactions, the unclear tax regime for PSPs, and the minimal capital requirements for PSPs. The limits for P2P mobile wallet transactions (JOD 200 for banked clients and JOD 100 for unbanked clients) are significantly lower than the typical size of an incoming foreign remittance transfer (JOD 800 – 4,000). However, the CBJ anticipates raising these limits over time as the relatively new system matures. The minimum capital requirements for PSPs of JOD 1.5 million are relatively high when compared with other countries, such as in the European Economic Area, where the requirements are roughly a quarter of the level in Jordan. Although the goal of the minimum capital requirements – stability and high service quality – are good ones, the result may nevertheless be limiting the supply of services by excluding smaller entrants. Payment service providers (i.e. mobile wallet firms) lack clarity on the level of taxes that they are subject to, as there are different rates for FinTech firms and financial service providers. There is also a question on whether they are exempt from sales tax (like banking services). Despite the concerns described above, a large number of regulations have been passed in recent years concerning payments and digital financial services that, to the credit of the Jordanian government, are of a very high overall quality and are conducive to the growth of financial inclusion.

Payments, transfers and remittances

Jordan has a sound infrastructure in place for payments, the most important components of which are the real-time gross settlement system, Automated Clearing House for interbank transfers, Electronic Cheque Clearing system, Jo-Net for bank-to-ATM transactions, JoMoPay for mobile payments, and the MEPS and EPS switches for retail payments. A number of international institutions have praised the Jordanian government for setting up these systems, which should eventually lead to high customer usage of fast, convenient digital and mobile methods of making payments, although the usage rate is still low at the present time.

As evidence of the growth in digital payments, the eFAWATEERcom service for online bill paying has experienced very strong growth in transactions, as the number of bills paid through the system rose from 478,281 in 2015 to 2,764,396 in just the first eight months of 2017. The volume of payments through cheques declined in 2016 after many years of growth, indicating that this traditional method of payment may be plateauing as new digital methods increase in popularity.

The rapid increase in internet access and smartphone ownership has made internet banking, mobile phone banking, and e-wallet usage more feasible. The rate of mobile phone ownership is 92.1%, with 76.5% of adults owning a smartphone, and 70.7% having internet access either through a computer or mobile phone. This has so far only translated into 1.4% of adults having internet banking and 2.1% having mobile banking services, so financial institutions will need to improve the usability and features of their platforms in the future.

At the end of 2016, 31,902 POS terminals were in use in Jordan. This is estimated to be a relatively small number when taking into account that the country registered circa 157,000 formal MSMEs in 2014, of which a considerable number could be using more than one POS terminal.

Microfinance

Level of financial inclusion: 4.2% of adults borrowed from an MFI in the past year, only slightly less than the 4.3% that borrowed from a bank, despite the fact that there are about three times as many banks as MFIs in Jordan. MFIs make an outsized contribution to financial inclusion by reaching out to vulnerable groups that often have difficulty getting finance from banks such as women, refugees, young people, students, the self-employed and rural residents. Nevertheless, many MFI clients are not fully satisfied with the services they receive, with the cost of credit (30.9% of MFI clients are dissatisfied), loan maturity (23.9%), and the loan amount received (22.7%) being the main sore points.

Constraints: Major constraints to financial inclusion in the microfinance industry include: the prohibition on deposit-taking, weak accounting and financial management skills of micro enterprises, low operational efficiency of MFIs, and competition from informal sources. The prohibition on deposit-taking makes an inexpensive and abundant funding source unavailable to MFIs while reducing customers' choice in terms of selecting a service provider for deposits. Weak accounting and financial management skills of micro enterprises make it difficult and costly for MFIs to perform due diligence of applicants, contributing to the constraint that MFIs have relatively low operational efficiency. Despite the application of some tactics to boost operational efficiency such as group lending and graduated loan amounts, most MFIs are not yet using all the tools for efficiency that could potentially be at their disposal, such as credit scoring and tablet computers.

Informal microfinance: Informal and semi-formal institutions are a key source of credit in Jordan. This class of financial services covers a range of sources from completely informal finance, such as a loan given by a family member who otherwise would not engage in lending, to semi-formal lending institutions, which are registered businesses that specialize in lending to individuals and MSMEs. Informal borrowing was more common among MFI borrowers than among the rest of the population. 18.5% of those who borrowed from an MFI in the past year also borrowed informally, compared to an informal borrowing rate of 13.1% for non-MFI customers.

Other institutions making microloans: Aside from banks, MFIs and leasing companies, a number of specialized credit-granting institutions make a significant contribution to financial inclusion and can compete with MFIs for the same target market. The most important among these are the Development and Employment Fund (DEF), the Military Credit Fund (MCF), and the Postal Savings Fund (PSF), each of which was initiated or founded by the Jordanian government. These institutions tend to offer much lower interest rates than MFIs but have relatively slower processing times and sometimes must ration credit due to funding limitations.

SME finance

Level of financial inclusion: Medium enterprises have relatively good access to credit, but small enterprises tend to have relatively low borrowing rates. According to a 2015 EBRD survey, 23.7% of small enterprises and 33.0% of medium enterprises had a bank loan. Similarly, the World Bank Enterprise Surveys of 2013/2014 found that 12.5% of small enterprises and 25.0% of medium enterprises had a bank loan or line of credit. Supply-side data does not give a favorable picture of SME finance, as only 7.5% of total outstanding bank loans in 2016 by currency volume were issued to SMEs.

Constraints: The main constraints to SME financial inclusion are: informality and tax avoidance from SMEs, limited capacity for cash flow analysis on the part of banks and the lack of an insolvency law or movable asset registry. Because SMEs (and especially small enterprises) usually do not officially report all of their income in their financial statements, banks face the difficult choice of either ignoring the unofficial income, resulting in low loan amounts or rejection of the application, or analyzing both the official and unofficial income (if data on the latter are available), which is time-consuming, complicated and strongly discouraged by the CBJ. In any case, financial analysis of SMEs is often challenging, and some banks struggle to find and train staff that are capable of conducting a high-quality analysis. The lack of an insolvency law and movable asset registry have already been mentioned as factors which contribute to uncertainty for banks and thus restrain their willingness to lend to marginally risky clients.

SME deposit accounts: As with credit products, smaller enterprises tend to demonstrate lower account ownership levels than medium enterprises. Based on the World Bank's Enterprise Surveys, 79.0% of small enterprises had a checking or savings account, compared to 92.2% for medium enterprises, which was just slightly below the 93.6% rate for large enterprises. Bank account ownership for both small and medium enterprises is much higher than for microenterprises (16.6%) and for the population as a whole (32.0%). On the positive side, Jordanian SMEs have higher account ownership rates than their counterparts in other MENA countries.

Financial literacy and education

Survey results: The CBJ/GIZ demand survey evaluated the level of financial literacy of adults by asking six questions covering the following topics: simple interest, compound interest, risk diversification, simple inflation, complex inflation (the money illusion) and deposit insurance. On average, adults answered 2.55 out of six questions correctly, with no one answering all six correctly. Only for the two questions on inflation were more than half of adults able to answer correctly, with less than 40% answering correctly for each of the other questions. Comparing the results of the survey with the level of financial inclusion shows that there is a correlation. For example, the average financial literacy score for adults with an account was 2.71, higher than the 2.51 average score for adults without an account. Although causality cannot be attributed from the survey results, there is at least some basis for thinking that higher financial literacy could in turn lead to higher financial inclusion levels.

Financial education efforts: In recent years, considerable efforts have been made to advance local financial literacy, with the overall aim of improving financial skills and behavior as well as building awareness in the population of existing financial products and services. In 2014, an ambitious long-term program was initiated at the school level with a detailed curriculum planned for six different class levels (grades 7 to 12). Negotiations are also in progress with universities regarding the potential of introducing financial education courses, which would likely focus on building entrepreneurial skills for university students. Financial education courses are also planned to be rolled out for adults through a new initiative of the Central Bank of Jordan in cooperation with the Jordan River Foundation.

Consumer protection

Constraints: The main constraints to consumer protection are the absence of consumer protection regulations for non-bank financial institutions, lack of diligence from financial institutions in explaining their products and contract terms to clients and low financial literacy on the part of clients. Consumer protection regulations for MFIs should be introduced before the end of 2017, which will go a long way towards alleviating the first constraint. The introduction of consumer protection regulations for insurance companies and leasing companies are also planned. For the banking sector, the consumer protection situation has improved substantially following the introduction of new regulations in 2012.

Transparency: The CBJ/GIZ survey revealed that:

- 42.2% of adults with a bank account reported that they know the costs associated with their bank account
- 47.3% of adults that borrowed from a financial institution reported that they know the costs associated with the loan
- 70.9% of adults that borrowed from a financial institution stated that the lender made the costs and conditions of the loan clear to them before signing the contract
- 85.3% of adults say that they read all the conditions of a contract before signing it

In interviews with financial institutions, some managers acknowledged that their staff could do a better job of explaining the product terms to clients.

Complaint handling: In terms of filing a complaint related to a financial service, the most popular choice among survey respondents was to go to the police (24.7% of adults chose this), a clearly inappropriate channel. The second most popular choice was not to make a complaint at all (20.7% of adults). Further efforts to educate clients are needed in order to ensure that they see value in filing a complaint and that they do so through the appropriate channels – first the financial institution itself, and then the regulator if the financial institution does not handle the complaint to the customer's satisfaction.

Fairness: There was no overwhelming evidence that financial institutions in Jordan are systematically discriminating against particular groups. However, there remain opportunities for financial institutions to make it easier for certain segments – particularly young people and non-Jordanian citizens – to use credit and account products by eliminating additional eligibility criteria that only apply to those segments.

Prevention of over-indebtedness: Financial institutions are generally doing an acceptable job of managing over-indebtedness by applying appropriate credit policies. For retail loans, maximum debt burden ratios (loan payment divided by income) are reasonably conservative, and for business loans, banks apply conservative approaches to measuring cash flows. Most indicators of over-indebtedness are at a moderate level, including the bank NPL ratio of 4.4%, the MFI PAR 30 ratio of 7.9%, the ratio of private credit to GDP of 74.3%, and the share of adults that borrowed in the past year of 9.9%. Over-indebtedness tends to be more of a problem among retail clients and micro, medium and large enterprises, but less of a problem for small enterprises.

Niche, emerging and other industries

Insurance: The main constraints to the development of the insurance sector are mandatory premiums for compulsory motor insurance, lack of trust in insurance companies by the public, low financial literacy among potential customers and poor disclosure of product conditions by insurance companies. Although the low mandatory motor insurance premiums of JOD 95 per year encourage higher motor insurance usage, the losses that insurance companies suffer may lead them to charge relatively higher premiums for other types of insurance, discouraging their use. Distrust towards insurance companies can be traced to the failure to pay legitimate claims by some insurance companies, typically the smaller and less well-capitalized ones. As a result, some experts believe that raising the minimal capital requirement (current JOD 4 million) could be beneficial by helping to weed out the weaker players.

Islamic finance: Islamic financing plays an important role in financial inclusion in Jordan. Receivables of Islamic banks represent 22.0% of total credit receivables of all banks, and 1.5% of adults used an Islamic financial product in the past year. In terms of insurance, Islamic takaful insurance accounted for 10.5% of all gross premiums in 2016. A sizable proportion (21.5%) of respondents in the CBJ/GIZ survey indicated that they did not borrow in the past year for religious reasons, the most commonly selected reason for not borrowing aside from not needing credit. The geographic reach of Islamic banks is modest but growing and currently represents a minor constraint to financial inclusion. Another constraint is the inability of all banks to offer Islamic products (conventional banks are not permitted to do so), which limits customer choice.

Conclusions and recommendations

The current state of financial inclusion: The level of formal financial inclusion in Jordan is low in comparison with high-income countries, but it has been improving over time for most product categories and customer segments and is generally better than the average for developing countries in the MENA region. Positive developments in the regulatory and supervisory framework in recent years provide grounds for optimism about the future of financial inclusion. Financial institutions are also more aware of financial inclusion issues and have been gradually increasing their efforts to reach out to new groups of customers.

Priority segments: The segments that are especially in need of support going forward are low-income groups, foreign citizens (including refugees), young people and MSEs, as these groups demonstrate particularly low usage of various types of financial services. Although women still trail men in some product categories in terms of usage and access, the gap is much smaller than in the past, showing that efforts in recent years by the government, local NGOs and international institutions to boost financial inclusion for women are paying off. Women still face challenges in terms of financial inclusion, but their situation is less urgent than for the other disadvantaged segments mentioned above.

Suggestions for further research: The scope of the study is broad, and some topics were not covered in detail, and several important questions remain unexplored. The following list describes topics for further research that could be undertaken by the government or development institutions:

- A study about what functions are available from how many ATMs, and how that functionality is distributed geographically
- A dedicated survey on consumer protection, to complement the limited number of questions posed in the current survey
- Research on the credit insurance market, such as how the policies are structured, their terms and conditions, to what extent they are required or optional, and the size of the market
- A study focused on informal credit and savings
- A survey on financial literacy designed to expand on the small number of questions dedicated to this topic in the current survey

Suggestions for regulatory changes: A number of potential regulatory changes are presented for consideration for the CBJ and other government ministries. These suggestions include:

- Introduce deposit-taking MFIs to boost account ownership
- Reduce the tax rates on MSEs to reduce informality, which could boost access to credit
- Raise the compulsory motor insurance premium to make other insurance products less expensive
- Require basic bank accounts to attract low-income depositors
- Increase minimum capital requirements for insurance companies to weed out weak players and improve the industry's reputation
- Introduce insurance disclosure requirements to overcome low financial literacy with regard to insurance

Technical assistance programs: The following are recommendations for technical assistance programs and specialized support initiatives that could be implemented by international institutions, the government, or local private organizations:

- Development and use of credit scoring systems to improve efficiency and risk management for lenders
- Staff training on credit analysis — such programs already exist, but more investment would be beneficial
- Online loan applications to make the process faster, easier and more transparent
- Online and mobile banking platforms — assistance to financial institutions to improve the functionality and usability of existing systems or introduce new ones
- Development of online insurance quotes to improve transparency and bridge the financial literacy gap
- Poverty scorecards for microfinance institutions to speed up and simplify income calculation
- Training for MSMEs on financial management, accounting and reporting
- Consumer protection training for staff of financial institutions

1 Introduction

1.1 About financial inclusion in Jordan

The government of Jordan has made a strong commitment to increasing financial inclusion in recent years, with the Central Bank of Jordan (CBJ) taking a leading role in implementing this commitment. According to the CBJ's Vision Statement for financial inclusion, the definition of financial inclusion is "the process of ensuring individual and business access to various financial products and services (payment, savings, credit, transfers and insurance) in a reliable and sustainable manner." It further states that better financial inclusion has the potential to improve living standards, combat poverty and unemployment, promote equality and enhance financial stability and integrity. Jordan's economic situation has considerable room for improvement, as evidenced by a significant poverty rate of 14.4% in 2016 (at the government-defined poverty line of JOD 814 per capita annually), a modest GDP per capita of JOD 2,801 and a high unemployment rate of 15.3%. Therefore, the opportunity to use financial inclusion as a tool to boost economic development is particularly appealing.

Financial inclusion is often described as having the dimensions of access, usage and quality. Access refers to the ability of customers to obtain a certain financial product if they want it. If they can access the product, usage indicates whether or not customers choose to take advantage of that access and use the product. Quality represents all the benefits and costs of the product and is often judged with respect to the customer's expectations. A borrower may have a loan from a financial institution but be dissatisfied with the loan amount, maturity, time spent on the application process, or quality of service, among other factors, in which case the quality of the loan product would be assessed as low by the customer. The concepts of access, usage and quality are used throughout this report to better understand the level of financial inclusion. If two products had the same usage rate but one was of lower quality, the impact on financial inclusion would be assessed differently.

Financial inclusion is measured through the use of financial indicators, such as the share of adults in Jordan that have a bank account or the share of micro, small and medium enterprises (MSMEs) that have a loan. Consistency and comparability are key properties of good financial indicators. Consistent and comparable financial indicators can be benchmarked against previous studies in Jordan and against similar studies in other countries to add depth to the analysis of financial inclusion. In order to ensure comparability, international organizations such as the G20 and the Alliance for Financial Inclusion (AFI) have developed and are promoting the use of a standard set of indicators. The G20 financial inclusion indicators are a set of 35 indicators, including both demand-side and supply-side indicators, covering various product categories such as credit, accounts, and payments, from the perspective of both individuals and MSMEs. The G20 indicators in turn are adapted from other internationally accepted sources, including the World Bank's Findex study and the IMF Financial Access Surveys. The AFI has also issued various sets of indicators, including core financial inclusion indicators, quality indicators, and SME indicators.

Previous studies have revealed that the level of formal financial inclusion in Jordan is quite low for some types of financial products and among certain segments of the population. For example, the World Bank's Findex survey in 2014 found that only about 25% of Jordanians have a bank account, with a much lower rate for women than for men. These disappointing results have prompted the Jordanian government and international organizations to take action to better understand the causes of low financial inclusion in Jordan and to find ways to boost the availability and quality of financial services.

1.2 About this report

This report was written by Business & Finance Consulting GmbH (BFC) for the Deutsche Gesellschaft fuer Internationale Zusammenarbeit (GIZ) GmbH as part of its cooperation with the Central Bank of Jordan. It is part of the assignment 'Financial Inclusion Diagnostic Study in Jordan' under the program "Promotion of the Microfinance Sector in the MENA Region" / "Promoting financial inclusion through improved governance and outreach of Microfinance in Jordan", which is carried out with funding by the European Union and the German Federal Ministry for Economic Cooperation and Development (BMZ). The main objective of this study was to establish a baseline for financial inclusion by assessing the state of access to, usage and quality of financial services; the regulatory, physical and commercial barriers thereto; and the gender, socio-economic, demographic and geographic usage specifics and needs.

The project was carried out from December 2016 to November 2017 by a team of three experts from BFC. An onsite visit for the collection of supply-side data was conducted in March 2017 and included meetings with representatives from financial institutions, development institutions, government organizations, as well as other relevant organizations and experts who could provide insights on the development and advancement of financial inclusion in Jordan. A total of 43 meetings were conducted over a two-week period.

As one of the main components of the project, a survey of 1,000 adults was carried out from June to July 2017 in order to measure the level of financial inclusion and understand the financial needs and constraints that impact the use of financial services. The survey was carried out with the support of a local research company – Ipsos Jordan. An overview of this survey, including the methodology and characteristics of respondents can be found in Appendix 1. As the survey was conducted in June and July 2017, financial indicators that are defined in this report as “in the past year” (e.g. “percentage of adults that borrowed from a bank in the past year”) refer to the period from June-July 2016 to June-July 2017.

Other data sources are used to supplement and complement the results of this demand survey. The most important of these other sources are the World Bank’s Findex survey, a survey by EBRD on MSMEs’ access to finance and the IMF’s Financial Access Surveys. Each of these sources is referenced frequently throughout this report. The Findex survey is a global demand survey on financial inclusion which was most recently conducted in 2014. Many of the questions in the current survey were modeled after the Findex survey so that the results would be comparable. The EBRD demand survey was carried out in 2015 and covered access to finance of MSMEs in Jordan. The IMF Financial Access Surveys are a global supply-side survey of financial institutions, with the most recent results being available for 2015. The G20 financial inclusion indicators mentioned above served as a basis for the core indicators used in this report, and the AFI indicators are also referenced. Appendix 3 provides a bibliography of sources referenced in the report.

At the request of GIZ and the CBJ, special attention is given in this report to certain priority segments which are traditionally thought to have lower levels of financial inclusion. These priority segments are: women, non-Jordanian citizens (including refugees), young people, lower-income households, rural residents and MSMEs. Wherever possible, financial indicators are disaggregated to reflect the different levels of inclusion for each segment. Unless otherwise noted, MSMEs are defined according to the definition adopted by the CBJ: up to 100 employees and JOD 3 million in assets or turnover. Micro enterprises refer to those with up to 4 employees and JOD 100,000 in assets or turnover, while small enterprise have 5-20 employees and up to JOD 1 million in assets or turnover.

The report is structured to match the needs of the working groups that are responsible for developing Jordan’s financial inclusion strategy. Just as there are working groups for microfinance, SME finance, payment systems, consumer protection, and financial education, so the report contains sections on these topics. The report contains a section entitled “financial access” that presents key financial inclusion indicators using mainly the results of the demand survey and supply-side data from the CBJ. There is also a section on the regulatory framework and a section on emerging financial industries and other topics that were not covered elsewhere in the report, such as insurance and Islamic finance.

The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the views of GIZ, CBJ, the European Union or the German Federal Ministry for Economic Cooperation and Development (BMZ).

2 Financial access

This section presents and analyzes quantitative indicators of financial inclusion in Jordan. Indicators are organized by product type (loans, deposits, etc.), customer segment (gender, age, etc.), and indicators related to physical access (such as branch and ATM locations). The primary source for demand-side indicators is the CBJ/GIZ survey conducted in 2017, but other sources are also used, including the USAID LENS survey of MSEs, the World Bank Enterprise Surveys, and an EBRD survey of MSMEs. Supply-side indicators are taken primarily from the CBJ, DOS, and IMF Financial Access Surveys.

Key findings:

- 62.0% of adults used some formal financial service in 2017, and 75.2% used any financial service (including informal services)
- 30.4% of adults used both formal and informal financial services
- The formal account ownership rate was 33.1% in 2017, up from 24.6% in 2014
- The rate of savings in a bank in the past year was 9.3%, up from 3.8% in 2014
- 9.9% of adults borrowed from a financial institution in the past year, down from 13.6% in 2014
- Young people, foreigners, and people with low income levels or low formal education tend to be less included in the formal financial system, although there are exceptions for certain product categories
- For several product categories, rural residents had higher levels of financial inclusion than urban residents, which can be partly attributed to the high rate of public sector employment in rural areas
- Women are less likely than men to have an account or use remittances, but they have higher rates of formal borrowing and insurance coverage; overall, female financial inclusion experienced significant improvements between 2014 and 2017
- People find it relatively easy to reach ATMs and bank branches, somewhat more difficult to reach MFI branches, and very difficult to get to insurance access points and mobile money agents
- Branch networks in Jordan are moderately well-developed in comparison to other countries in the region, but there is a wide disparity in branch density from one governorate to the next

2.1 Overview

The account ownership rate in Jordan, or the share of adults who had an account at a financial institution, was 33.1% in mid-2017, according to the results of the CBJ/GIZ survey. This indicator was up considerably from the level of 24.6% in 2014 as measured by the World Bank's Findex survey. This is arguably the most important single indicator of financial inclusion and is used frequently by countries worldwide as shorthand for financial access, making the improvement in this indicator over the past three years a noteworthy achievement for Jordan's government and financial institutions. The significance of this indicator is explored in more detail below under the heading "deposit accounts".

Other products aside from accounts also contribute to our understanding of financial inclusion. Taking into consideration various categories of financial products, namely credit, deposits, insurance, and remittances, 75.2% of adults in Jordan used some form of financial services in 2017. The most common channel for obtaining financial services was formal financial institutions, as 62.0% of adults in Jordan were customers of formal institutions. This figure includes adults who:

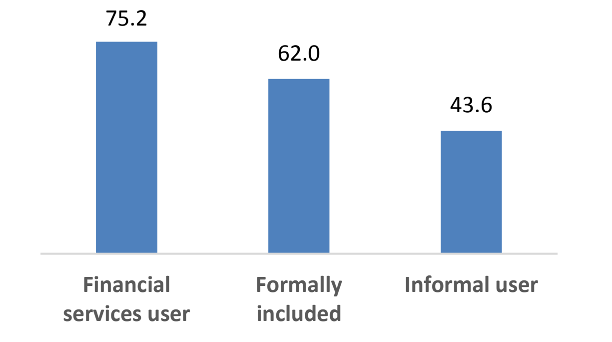
- Had a bank account or mobile wallet at the time of the survey
- Borrowed from a formal financial institution in the past year (including leasing)
- Sent or received domestic remittances through a formal channel in the past year, including bank transfers, specialized transfer services like Western Union and internet services like PayPal
- Had insurance in the past year

The share of adults using some type of informal financial service was 43.6%, significantly lower than the 62.0% rate of formal financial inclusion. Informal financial services covers adults who:

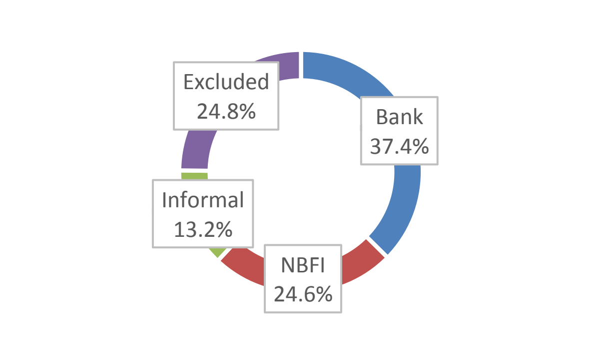
- Have an informal savings account
- Borrowed from an informal source such as family and friends, an employer, a store or a private money-lender
- Sent or received domestic remittances in the form of cash

This means that 24.8% of adults didn't use any financial services – formal or informal – and thus are considered to be "excluded" from the financial system, while 38.0% were excluded from the formal financial system.

Usage of financial services by channel (% of adults)



Mutually exclusive usage by channel (% of adults)

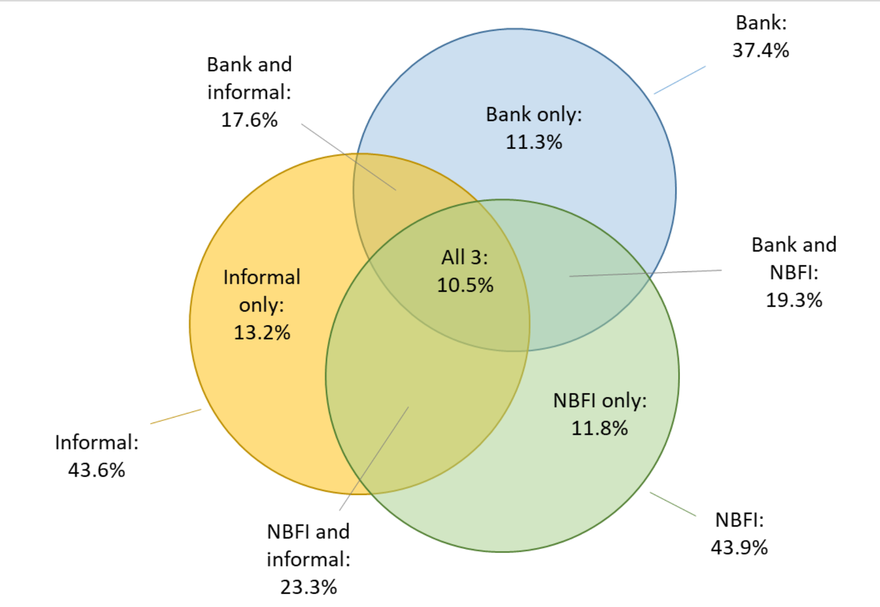


Source: CBJ/GIZ survey

Breaking down the usage of financial services further by bank or non-bank customers reveals that 37.4% of adults are bank customers, 24.6% are non-bank financial institution (NBFI) customers only, 13.2% are informal customers only, and 24.8% are excluded from the financial services sector. This calculation assumes that banks are “above” NBFIs, which are in turn above informal sources, so that a client that used services from all three sources would be counted as a bank customer, and a customer of both NBFIs and informal sources would be counted as an NBFI customer. In this way the entire population of adults can be viewed on a scale that adds up to 100%.

The diagram below presents the figures for usage of bank, NBFI and informal services in a way that shows the overlapping relationships. These overlaps include the share of adults that used all three channels (10.5%) in the past year or that used two channels, such as NBFI and informal (23.3%) or NBFI and bank (19.3%). This diagram emphasizes that the usage of multiple channels is quite common.

Usage of financial services by channel



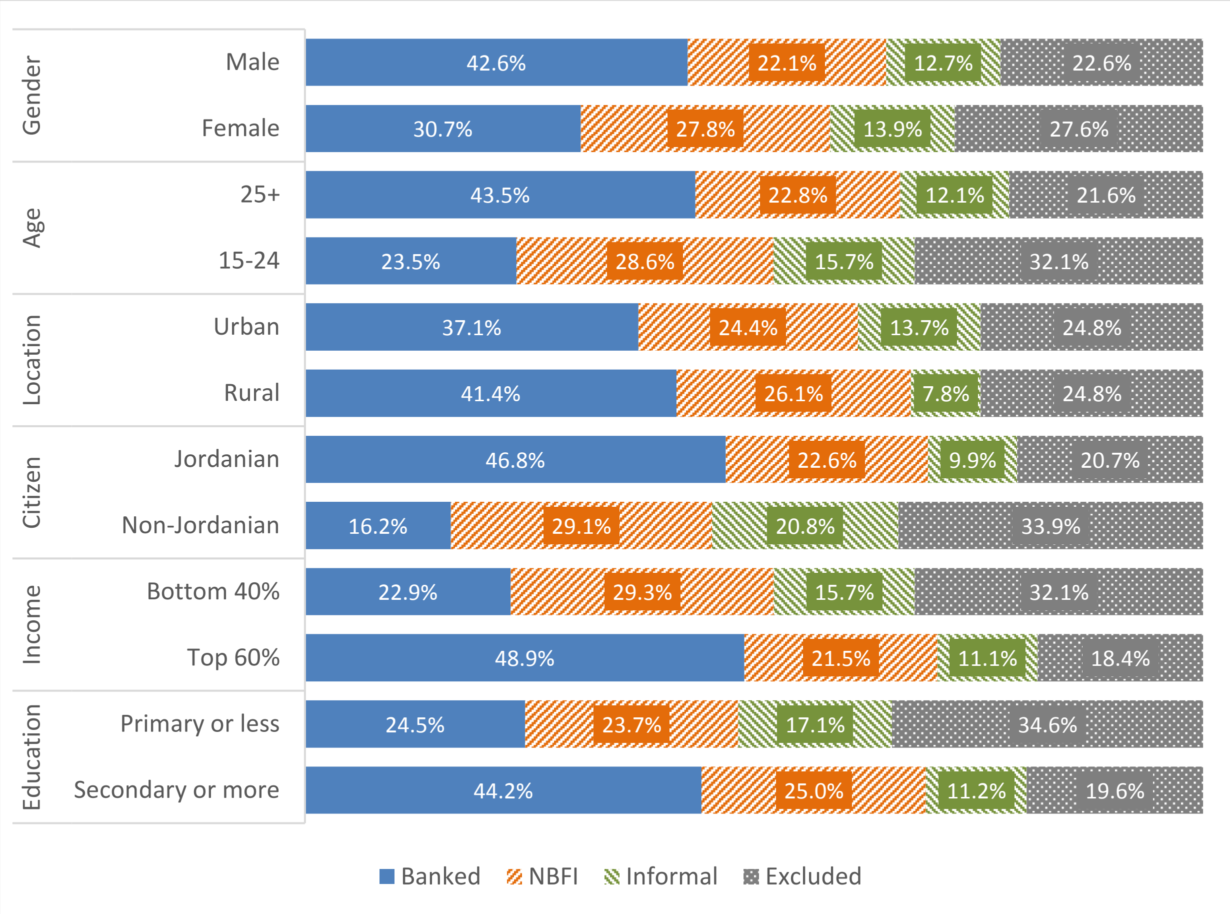
Note: The diagram shows the overlaps among adults who used multiple sources of financial services in the past year. All figures are as a % of adults. The size of the areas is not necessarily scaled precisely to the relevant figures.

Source: CBJ/GIZ survey

It is noteworthy that 30.4% of adults used both formal and informal financial services. This result suggests that even when a particular financial product is available from a formal provider, some other product may be unavailable formally, for example when a bank deposit holder doesn’t qualify for a loan from a bank or MFI. In addition, some clients choose to take the same product from both formal and informal sources. For example, 15.8% of formal account holders also reported participating in an informal savings scheme, and 16.4% of those who borrowed from a formal lender in the past year also borrowed informally. This suggests that the formal sources are only partially meeting the financial needs of customers, leading them to approach informal sources as well.

Different segments tend to use different channels to access financial services. For example, men are more likely than women to be banked and less likely to use informal services. Adults with relatively low incomes, those with less formal education, and non-Jordanian citizens are much more likely to be excluded from formal services. Rural residents are slightly more likely to be banked and to use NBFI services, for reasons that are explained later. The following chart summarizes these results for several key segments. A more detailed discussion of financial inclusion by segment can be found in section 2.3.

Mutually exclusive usage by channel and segment (% of adults)



Source: CBJ/GIZ survey

The figures mentioned above, such as the share of adults that used financial services, are examples of financial inclusion indicators. A wide variety of such indicators will be used in this report to characterize and describe the level of financial inclusion. For the sake of convenience, the following table presents a selection of some of the most important financial inclusion indicators. Each indicator is classified either as a demand indicator, in which case the data is taken from the 2017 CBJ/GIZ survey, or as a supply indicator, which are based on 2016 data from the CBJ unless otherwise noted. All demand indicators are as a percentage of adults aged 15 and above. Indicators which are part of the G20's recommended financial inclusion indicators are marked as such. These and other indicators are discussed in more detail throughout the report. A more comprehensive list of indicators, including time series and breakdowns by segment (gender, age, citizenship, etc.) is presented in Appendix 2.

Core indicators of financial inclusion

Deposits and savings	Source	G20	Value
Has account at financial institution	Demand	✓	33.1%
Has bank account	Demand		32.0%
Has mobile wallet account	Demand		0.9%
Has postal savings account	Demand		1.1%
Has informal savings account	Demand		13.1%
Has debit card	Demand		27.2%
Saved money at financial institution in past year	Demand	✓	9.3%
Savings is main source of emergency funds (1/25 of GDP per capita)	Demand	✓	12.9%
Bank deposit accounts per 1,000 adults	Supply	✓	504.0
E-money accounts per 1,000 adults	Supply	✓	1.5
Credit	**Source**	**G20**	**Value**
Borrowed from financial institution in past year	Demand	✓	9.9%
Borrowed from bank in past year	Demand		4.3%

Borrowed from MFI in past year	Demand		4.2%
Borrowed from any source in past year	Demand		21.6%
Has credit card	Demand		4.8%
Used leasing product in past year	Demand		1.1%
Used Islamic financial product in past year	Demand		1.5%
Outstanding bank loans per 1,000 adults	Supply	✓	170.2
Outstanding MFI loans per 1,000 adults	Supply		63.2
Total outstanding loans per 1,000 adults	Supply		233.4
Getting credit: distance to frontier[2]	Supply	✓	0
Payments and remittances	**Source**	**G20**	**Value**
Made or received digital payments	Demand	✓	18.3%
Received wages or government transfers into account in past year	Demand	✓	11.8%
Made payment using debit card	Demand	✓	2.8%
Used internet to pay bills or buy things	Demand		5.5%
Makes 3+ withdrawals from bank account per month	Demand		5.4%
Received domestic remittances through formal channels in past year	Demand		14.9%
Received domestic remittances through any channels in past year	Demand		33.9%
Sent domestic remittances through formal channels in past year	Demand		14.7%
Sent domestic remittances through any channels in past year	Demand		25.2%
Received or sent formal domestic remittances in past year	Demand		23.4%
Received or sent domestic remittances in past year	Demand		42.3%
Mobile money transactions per 1,000 adults	Supply	✓	1.4
Retail cashless transactions per 1,000 adults	Supply	✓	13,337.8
Debit cards per 1,000 adults	Supply	✓	366.1[3]
Insurance	**Source**	**G20**	**Value**
Had any type of insurance in past year	Demand		29.9%
Had health insurance in past year	Demand		27.0%
Had life insurance in past year	Demand		2.9%
Insurance policies per 1,000 adults	Supply	✓	315.6
Infrastructure	**Source**	**G20**	**Value**
Branches of commercial banks per 100,000 adults	Supply	✓	13.9
Branches of commercial banks per 1,000 km2	Supply		10.0
Branches of MFIs per 100,000 adults	Supply		2.7
Branches of MFIs per 1,000 km2	Supply		2.0
ATMs per 100,000 adults	Supply	✓	25.6
Agents of payment service providers per 100,000 adults	Supply	✓	0.3
Mobile agent outlets per 100,000 adults	Supply	✓	4.3
POS terminals per 100,000 adults	Supply	✓	496.0
Interoperability of ATM and POS networks[4]	Supply	✓	1
Other	**Source**	**G20**	**Value**
Financial knowledge score[5]	Demand	✓	2.55
Has access to mobile phone or internet at home	Demand	✓	94.3%
Disclosure index[6]	Supply	✓	2
Dispute resolution index[7]	Supply	✓	2

Sources: CBJ/GIZ survey, CBJ, World Bank

2.2 By product

2.2.1 Deposit accounts

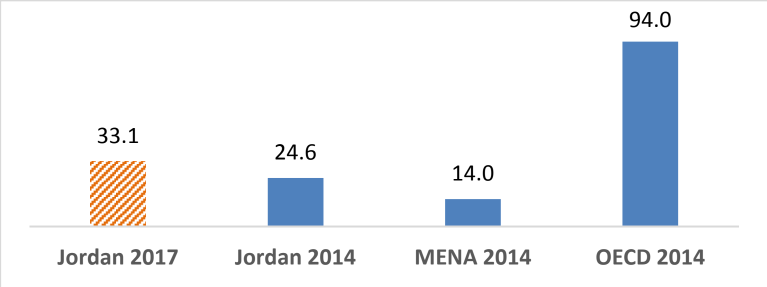
Demand-side data

Account ownership from a formal financial institution increased to 33.1% in 2017 (based on the CBJ/GIZ survey) from 24.6% in 2014 (based on the Findex survey). It is likely that Jordan maintains a strong lead over developing countries

[2] Source: World Bank *Doing Business 2017*
[3] 2015 data reported
[4] 1 if most ATMs and POS terminals are interconnected, 0 if not
[5] Average number of questions answered correctly out of six financial literacy questions
[6] Number of types of laws related to financial disclosures which exist in Jordan out of five possible types
[7] An index reflecting the existence of internal and external dispute resolution mechanisms; the maximum score is 2.

in the MENA region with regard to this indicator, as in 2014 when the average for the developing MENA region was 14.0%. Nevertheless, Jordan remains far behind the 94.0% average for high-income OECD countries.[8]

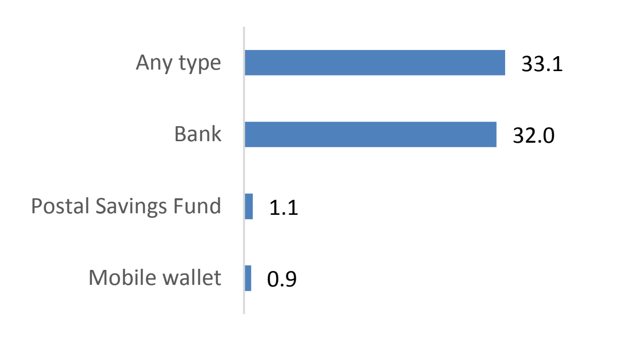
Ownership rates of accounts from formal institutions (% of adults)



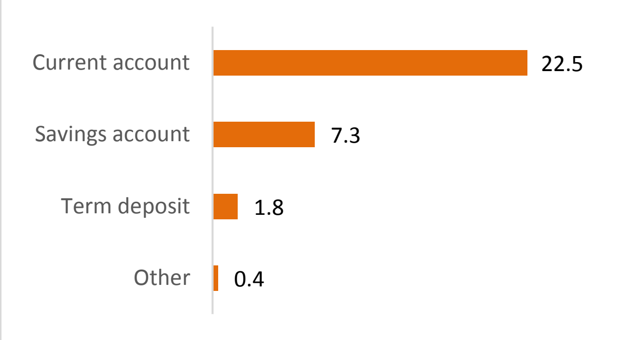
Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

Account ownership consists almost entirely of bank accounts, as the penetration of formal sector alternatives such as mobile wallet accounts and accounts from the Postal Savings Fund is very low. Bank account ownership was 32.0% in 2017, while ownership rates for mobile wallets and Postal Savings Fund accounts was just 0.9% and 1.1% respectively. No other types of deposit products are available from formal institutions in Jordan.

Account ownership by institution type (% of adults)



Bank account ownership by product type (% of adults)



Source: CBJ/GIZ survey

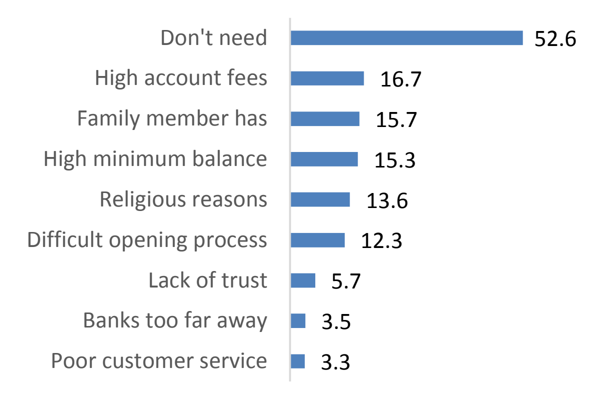
Among bank customers, current accounts are the most frequently selected products (owned by 22.5% of adults), followed by savings accounts (7.3%), term deposits (1.8%) and other types (0.4%). Although current accounts usually do not pay interest, unlike savings accounts and term deposits, their flexibility makes them the top choice, since current accounts can be used for transfers, payments, and various other types of transactional services, and they usually allow unlimited withdrawals at any time.

Most adults without an account (52.6%) state that they don't need one, but the remaining 47.4% are often discouraged by the product conditions and practices of banks. In particular, high account fees (cited by 16.7% of adults with an account) and high minimum balance requirements (15.3%) are the product conditions of greatest concern. The vast majority of account fees are regulated by CBJ instructions. Although some potential customers may be put off by the other (non-regulated) fees, it is likely that some potential customers consider the CBJ's regulated fees too high.[9] With regard to minimum balance requirements, most banks apply a minimum requirement of JOD 100 or 200 for current and savings accounts. These minimum levels are high for some low-income groups, and there is clearly a need for more basic accounts with no minimum balance and lower fees. Although CBJ regulations impose a maximum penalty of just one dinar per month for violating the minimum balance requirement, any penalty at all could be a sufficient reason for low-income clients to choose not to open an account. Religion is mentioned by 13.6% of those without an account, a topic which is discussed in more detail in the section on "Islamic finance" later in this report. 12.3% of those without an account believe that the process of opening an account will be difficult, perhaps in expectation that they will need to present many documents or wait a long time for service.

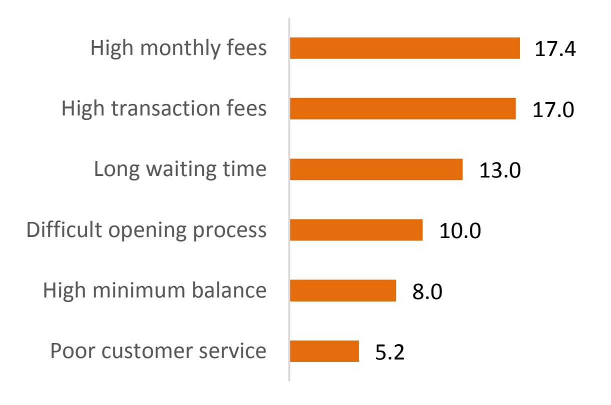
[8] The results of high-income OECD countries are provided in this report as a benchmark towards which Jordanian authorities can strive as a long-term target

[9] The CBJ instructions set a maximum for various types of account fees; banks have the option to offer lower fees at their discretion.

Reasons for not having a bank account (% of adults without a bank account)



Dissatisfaction with bank account characteristics (% of bank account holders)



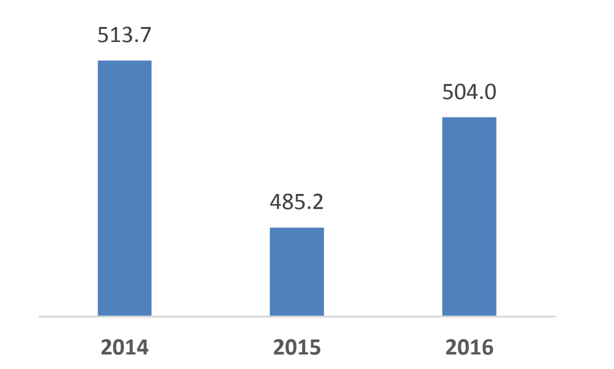
Source: CBJ/GIZ survey

Among adults who do have an account, fees are the main cause of dissatisfaction, with 17.4% of account holders stating that monthly or annual fees are too high, and 17.0% saying the same for transaction fees. The next most commonly cited area of dissatisfaction was long waiting times to make a transaction (13.0%), while another 10.0% find that the process of opening the bank account was difficult. Customer service problems (5.2%) and high minimum balance requirements (8.0%) were the least likely factors to be considered a constraint.

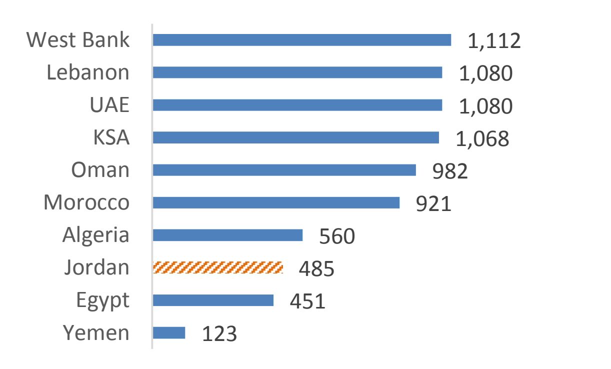
Supply-side data

There were 504.0 bank deposit accounts per 1,000 adults at year-end 2016, up from 485.2 in 2015. Although the total number of bank accounts increased in 2015, the indicator per 1,000 adults decreased compared to 2014, because population growth significantly outpaced the growth in deposit accounts. A comparison with selected MENA countries for which 2015 data was readily available is not favorable to Jordan, which comes in third to last place, ahead of Egypt and Yemen. The supply-side data for bank accounts is not inconsistent with the demand-side data, although the supply data may appear higher (504.0 bank accounts per 1,000 adults on the supply side versus 32.0% of adults with a bank account on the demand side), considering that multiple accounts of one adult and accounts of legal entities are counted on the supply side but not on the demand side.

Bank accounts per 1,000 adults by year (Jordan)



Bank accounts per 1,000 adults by country (2015)



Source: CBJ/GIZ survey; IMF Financial Access Surveys

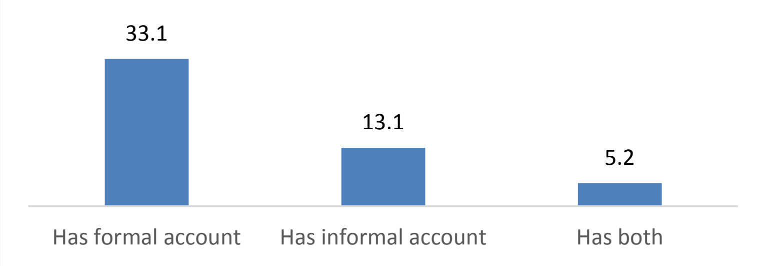
The number of e-wallet accounts (not including bank accounts linked to JoMoPay) was 9,660 at year-end 2016[10], equal to just 1.5 accounts per 1,000 adults. Although this indicator is not reported for most other MENA countries in the IMF's Financial Access Surveys, Egypt reported a much higher value of 63.5 per 1,000 adults, and Qatar reported 115.0 in 2015. In sub-Saharan Africa, where the e-money industry is most developed, the indicator can exceed 1,000 (for example, Uganda: 1,042 accounts per 1,000 adults; Tanzania: 1,837; Kenya: 1,183, and Rwanda: 1,120). Adding in the 57,910 bank accounts linked to JoMoPay at year-end 2016, the total number of mobile money accounts in Jordan would be 10.5 per 1,000 adults.

[10] Source: CBJ

Informal accounts

A surprisingly high 13.1% of adults reported having an informal savings account in the CBJ/GIZ survey. Informal savings accounts refers to a variety of savings mechanisms, such as saving money with an individual who is well-known to the saver or saving among a group of acquaintances. In the former case of saving with an individual, there may or may not be a fee paid by the savers, depending on the closeness of the relationship and the degree of investment made by the "banker" to ensure that the funds are secure (such as purchasing a safe). In the case of saving among a group of acquaintances, the savings are often contributed by group members according to a plan or schedule to ensure the buildup of the savings over time. The savings may or may not be connected to a group lending scheme which allows the savers to access not only their own funds but the funds of other group members for business investment or personal use. Savings may also be collected by an association or cooperative in a semi-formal arrangement, although little is known about the number or structure of such organizations.

Account ownership by channel (% of adults)



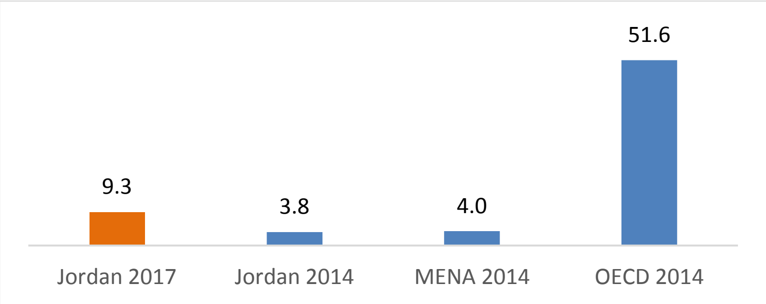
Source: CBJ/GIZ survey

Informal savers are more likely to be women (15.1% of adult women have an informal savings account versus 11.6% of men), Jordanian citizens (14.6% Jordanians versus 9.8% non-Jordanians), living in urban areas (13.4% urban versus 8.8% rural), and in the top 60% by income (15.9% for the top 60% versus 9.6% for the bottom 40%). The latter result regarding income suggests that even some higher-income households, who in theory should not have difficulty meeting minimum balance requirements and paying the relatively low transaction fees charged by banks, are nevertheless finding compelling reasons to prefer informal savings. It is also worth noting that for non-Jordanians, the informal account ownership rate of 9.8% is higher than the 9.5% formal account ownership rate. This further highlights the degree to which the needs of non-Jordanians are not being met by the formal financial sector. For other priority segments (women, youth and those with lower incomes), the formal account ownership rate is considerably higher than the informal account ownership rate.

2.2.2 Savings

Although Jordanians are not very active savers, especially in terms of saving in a financial institution, the propensity to save shows signs of increasing over time. The 2017 CBJ/GIZ survey found that the share of adults saving money in a bank account in the past year stood at 9.3%, up sharply from the 3.8% rate that was reported in the 2014 Findex study. According to the Findex study, 29.2% of Jordanians reported that they saved money, so the 3.8% that saved at a bank represented only a small portion of overall saving activity. Informal channels such as savings clubs or saving with a person outside the family were more popular than banks, with 13.4% of Findex survey respondents indicating that they used informal channels. The remaining savers that did not use a financial institution or informal channels were probably keeping cash at home.

Rate of formal savings in past year (% of adults)

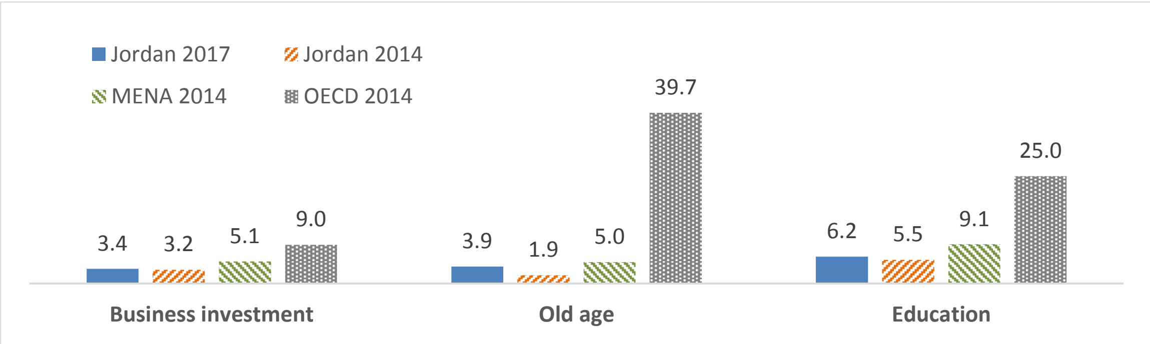


Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

The savings propensity of Jordanians was slightly below the average for developing countries in the MENA region[11] in 2014 and far behind the level of OECD high-income countries. Developing MENA countries averaged 30.5% for saving any money and 4.0% for saving at a financial institution. OECD high-income countries, by contrast, demonstrate high savings rates, with 70.8% of adults saving in general and 51.6% saving at financial institutions.

In terms of the purpose for saving money, Jordanians show a low propensity to save for education, business investment or retirement. Only 6.2% in Jordan saved for education or school fees, 3.9% for old age and 3.4% for business investment over the previous year, each of these figures representing a modest increase over the 2014 results. However, the figures are below the levels observed in developing MENA countries and far behind the high-income OECD countries, especially in terms of saving for old age. In addition to these purposes, the CBJ/GIZ study revealed that 3.7% of adults saved formally to buy real estate and 4.0% saved to buy a car. Although the other purposes for savings were not measured, it is likely that a high proportion of Jordanian savings are set aside for the purchase of household goods, the type of expenditure that is less likely to generate long-term economic benefits than education or entrepreneurial activity.

Formal savings rate by intended purpose for saving (% of adults)



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

The low propensity of Jordanians to save in formal financial institutions is not fully explained by the low levels of account ownership. There is a large gap between the percentage of adults with an account (33.1%) and the percentage that use that account to save money (9.3%). Only about 28% of Jordanian adults with an account use it to save, compared to about 55% in OECD high income countries (where 94.0% of adults have an account). This suggests that increasing the level of account ownership, while important, will not by itself solve the problem of low savings rates in formal institutions. Other potential solutions to addressing the low formal savings rate – such as financial education, improvements to the quality of savings products and improved physical and digital access – are discussed in the "Conclusions and Recommendations" section of this report.

2.2.3 Credit

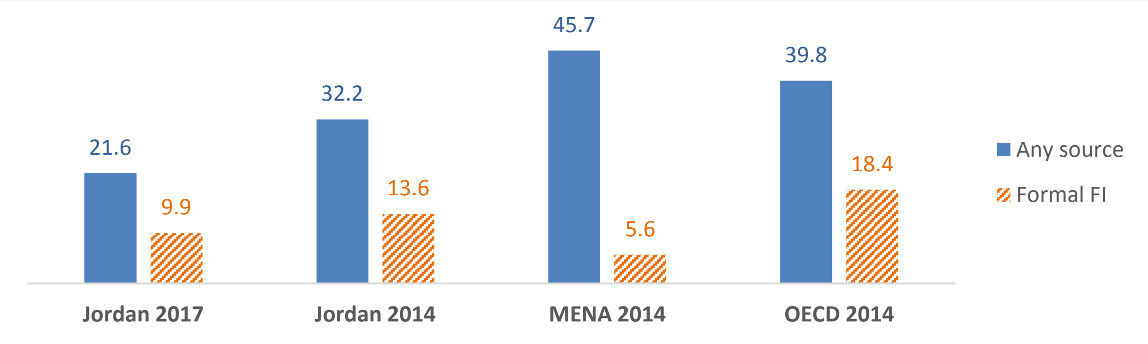
Demand-side data

Based on the CBJ/GIZ survey, 21.6% of adults borrowed from any source in the past year, with 9.9% borrowing from a formal financial institution and 13.3% borrowing from an informal source[12]. The proportion of adults borrowing is lower than the result from the Findex survey in 2014, when 32.2% of adults reported borrowing from any source and 13.6% borrowed from a formal financial institution. The reduction in borrowing may reflect a combination of several factors:

- Increasing market interest rates (see the "SME Finance" section for details), which has reduced demand for loans
- Reduced investment activity related to economic uncertainty, as the real GDP growth rate has declined steadily from 3.1% in 2014 to 2.4% in 2015 and 2.0% in 2016
- Over-indebtedness, as higher borrowing rates in previous years brought some borrowers to the limit of or beyond their repayment capacity, and now they are unable or unwilling to borrow more (see the "Consumer protection" section for more details about over-indebtedness)

[11] Egypt, Iraq, Jordan, Lebanon, West Bank and Gaza, and Yemen
[12] 1.6% of respondents borrowed from both formal and informal sources.

Borrowed in past year (% of adults) by source

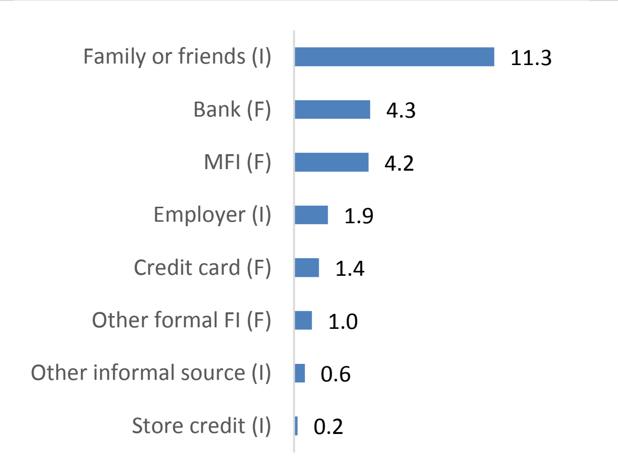


Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

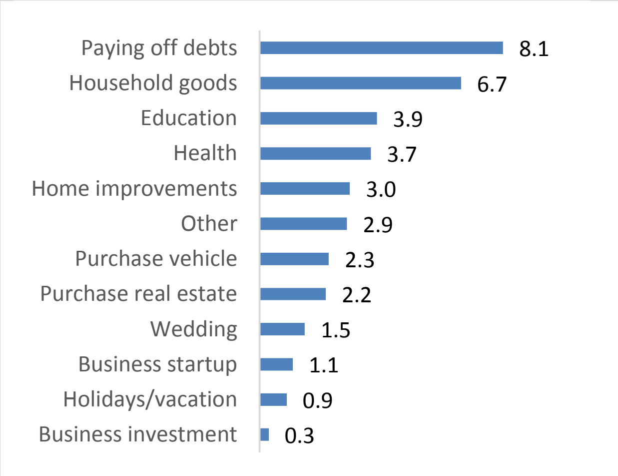
In 2014, Jordan's borrowing rate of 13.6% from formal institutions was well above the 5.6% average for developing countries in the MENA region but below the 18.4% rate for OECD high-income countries. Despite the decline in Jordan's borrowing rate from 2014 to 2017, it is still probable that Jordan's rate remains higher than the developing MENA average, although confirmation will only be possible after the publication of the newest Findex survey, which is expected in spring 2018.

By source of borrowing, the share of adults taking loans from MFIs was only slightly below that of banks, although both were far behind the top choice of family and friends. Among formal institutions, 4.3% borrowed from a bank, 4.2% from an MFI, 1.0% from some other formal institution, and 1.4% borrowed using a credit card. With regard to informal sources of credit, 11.3% borrowed from family or friends, 1.9% borrowed from their employer, 0.2% took store credit, and 0.6% borrowed from some other informal source.

Borrowing source (% of adults)



Borrowing purpose (% of adults)

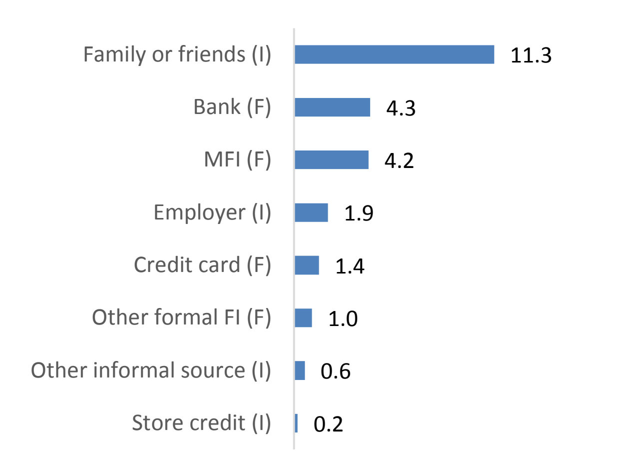


Source: CBJ/GIZ survey. Note: (F) and (I) indicate formal and informal sources of borrowing, respectively.

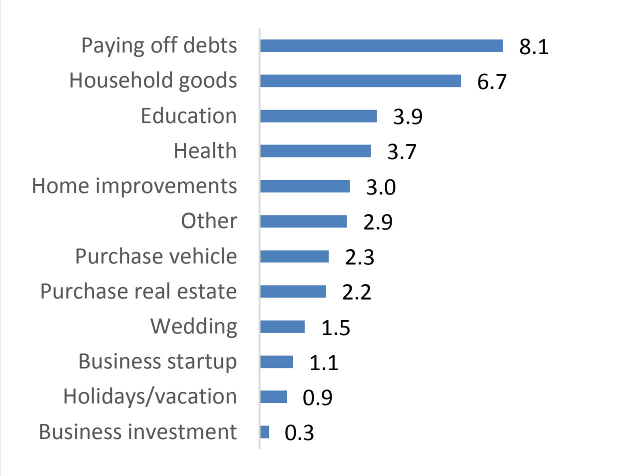
The most common loan purpose was to pay off other debts, with 8.1% of adults borrowing for this reason, a possible warning sign of over-indebtedness. Purchasing household goods (6.7% of adults), education (3.9%) and health (3.7%) were also among the more popular reasons for borrowing. Borrowing to start a new business (1.1% of adults) was even more common than borrowing to invest in an existing business (0.3%), an encouraging sign in terms of entrepreneurial activity.

Although loans are the preferred form of borrowing, leasing, Islamic finance and credit cards are also used, but by significantly fewer people. The share of adults that used a leasing product in the past year was 1.1%, and the share that used an Islamic finance product was 1.5%. Credit cards are becoming more prevalent over time, although usage rates are not particularly high. The proportion of adults with a credit card doubled to 4.8% in 2017 from 2.3% in 2014. According to Findex, the credit card ownership rate of 2.3% in 2014 was better than the 2.1% rate among developing MENA countries, but far behind the 52.9% rate for OECD high-income countries. Usage of credit cards lags behind the ownership rate by a substantial margin, with only 1.4% of adults having used a credit card to borrow (usage of credit cards for payments are discussed in the "Payments" section).

Borrowing source (% of adults)



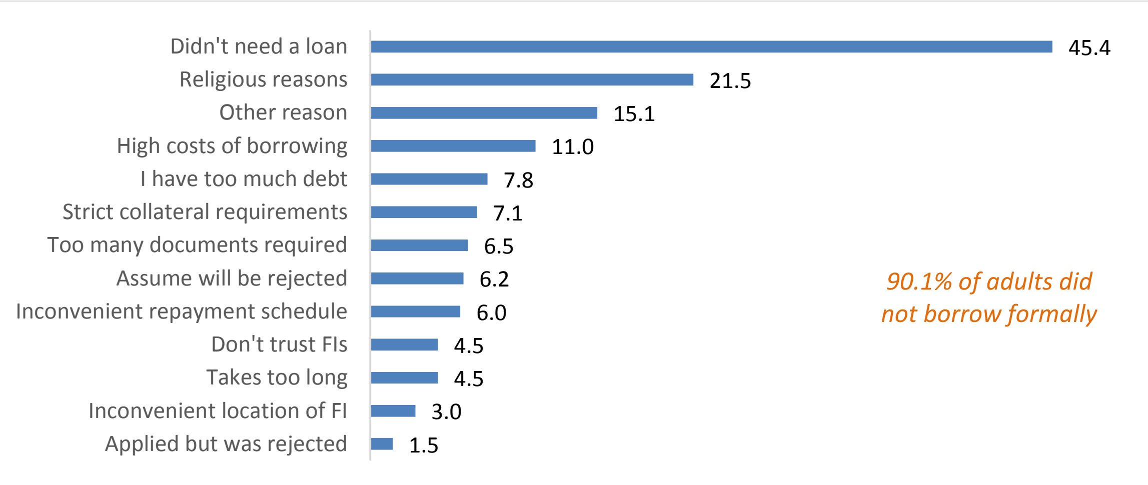
Borrowing purpose (% of adults)



Source: CBJ/GIZ survey

Aside from those who didn't need a loan, religion was the most commonly cited reason for not borrowing in the past year, selected by 21.5% of adults who didn't borrow. The connection between religion and financial inclusion is discussed in more detail in the section of this report on Islamic finance. High borrowing costs (11.0% of adults who didn't borrow), already having too much debt (7.8%), and strict collateral requirements (7.1%) were also among the most frequently cited reasons. Inconvenient location of outlets of financial institutions (3.0%), long processing times (4.5%) and lack of trust in financial institutions (4.5%) were relatively infrequently given as reasons for not borrowing. Among adults who didn't borrow, the share of applicants who were rejected for a loan was relatively small at 1.5%.

Reasons for not borrowing from a formal institution (% of adults who did not borrow in the past year)[13]



Source: CBJ/GIZ survey

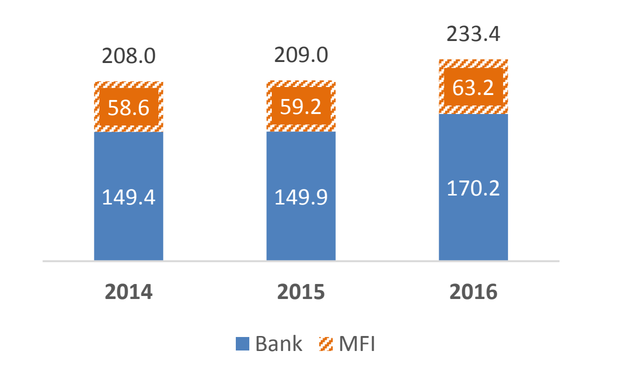
Among those who were rejected for a loan, the most common reasons given by the financial institutions for rejecting the application were: insufficient collateral (31.0% of rejected applicants were given this reason), insufficient income (18.5%), and lack of necessary documents (10.7%).

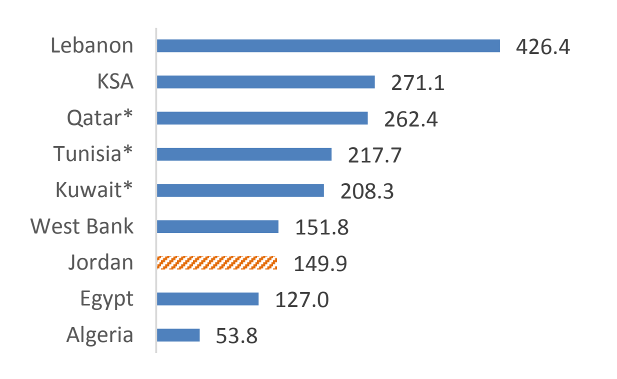
Supply-side data

The number of outstanding loans issued by both banks and MFIs has increased from 2014 to 2016, reaching a combined 233.4 loans per 1,000 adults at the end of 2016. The growth rate of outstanding loans per capita was slow in 2015 due to a sharp jump in population, as the ratio rose from 208.0 to 209.0, but strong growth was observed in 2016. In terms of the number of bank loans per 1,000 adults, as the chart below shows, Jordan falls towards the lower end among selected regional economies for which data was available at year-end 2015, ranking third to last among nine countries.[14]

[13] Percentages sum to more than 100% because respondents could select more than one reason

[14] For several countries, the number of bank borrowers is used in place of the number of loans, since the latter is unavailable, and there are a limited number of countries that report the number of loans.





Source: CBJ (Jordan), IMF Financial Access Surveys (other countries)
** Based on number of borrowers rather than number of loans*

The data highlight the important contribution of the MFI sector to financial inclusion. Despite the fact that there are only eight MFIs reporting (compared to 25 banks) and that the total outstanding portfolio of these MFIs represents just 0.9% of the total credit facilities of banks, the MFIs account for a significant 27.1% of outstanding loans by number in 2016. Furthermore, the MFI loans are often granted to low-income families and other groups that are more likely to be financially excluded, and thus these MFI loans have a disproportionately high impact on financial inclusion.

Although the supply-side indicators appear much higher than the comparable demand-side indicators, the results are not inconsistent with each other. The implied rate of borrowing for MFIs is 6.3% from the supply-side data (63.2 per 1,000 adults) and 4.2% from the demand-side data; for banks, the figures are 17.0% supply-side (170.2 per 1,000 adults) and 4.3% demand side. The supply-side results should be higher than the demand-side data for several reasons:

- The supply data counts multiple loans to a single borrower, while the demand data does not
- The supply data includes loans to legal entities, while the demand data does not
- The supply data is based on outstanding loans, many of which may have been received more than a year ago, while the demand data is based only on loans received in the past year.

The fact that the difference between the supply-side and demand-side figures is more pronounced for banks than for MFIs is due to banks' tendency to make more loans to legal entities and to grant loans with longer average maturities than MFIs.

Another financial inclusion indicator for credit recommended by the G20 is the distance to frontier score for getting credit, taken from World Bank's *Doing Business* report. Jordan's score of zero in recent years is the lowest possible score (it can range from 0 to 100) and reflects the absence of a comprehensive credit bureau, a bankruptcy law and a movable asset registry. As a result, Jordan ranks 185th (where 1 is the best) out of 190 countries for getting credit. The score and ranking for 2017 should improve with the expansion of the private credit bureau CRIF.

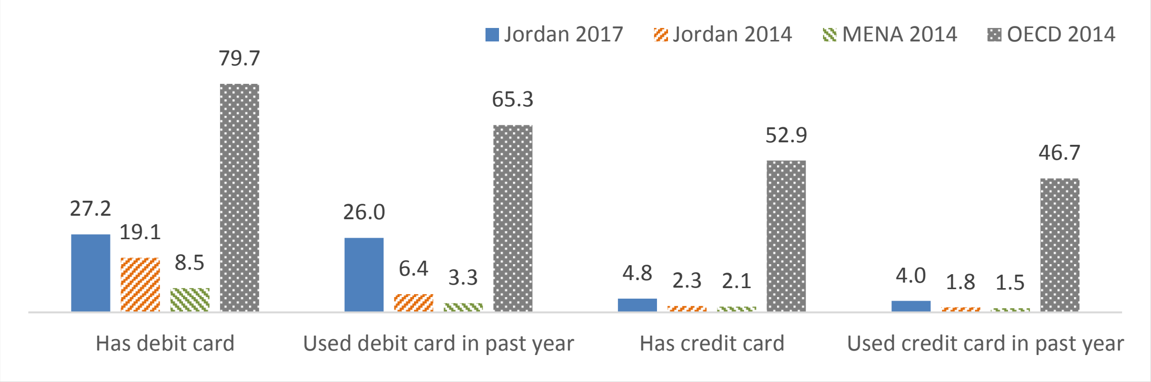
2.2.4 Payments and remittances

Jordanians are not heavy users of electronic methods to make payments, such as debit cards, credit cards and internet and mobile banking platforms. Nevertheless, these tools are being used with increasing frequency over time as the payment infrastructure develops, as financial institutions devote more attention to these services, and as customers become more comfortable with them. Remittances through formal channels, which are at least partly electronic, are already a relatively popular form of sending money, although informal cash transfer methods continue to enjoy widespread usage as well. Overall, the proportion of adults that sent or received payments through digital channels in the past year was 18.3%. This indicator includes receiving a salary or government transfers directly into an account, any payment or remittance received or sent via the internet or a mobile phone, and debit and credit card payments.

Card products

The availability and usage of debit cards is increasing, but they are not being used frequently to make payments. Although debit cards are held by 27.2% of adults, only 2.8% of adults used their debit card to make a purchase in the past year, according to the results of the CBJ/GIZ survey. Since 26.0% of adults reported that they use their debit card at least once per year, up sharply from a 6.4% usage rate in 2014, we can infer that customers are primarily using their debit cards just to withdraw money from ATMs. Even if debit card usage is primarily for withdrawals, the increased usage rate can nevertheless be considered a positive trend that could lead to greater usage for payments in the future.

Ownership and usage of card products (% of adults)



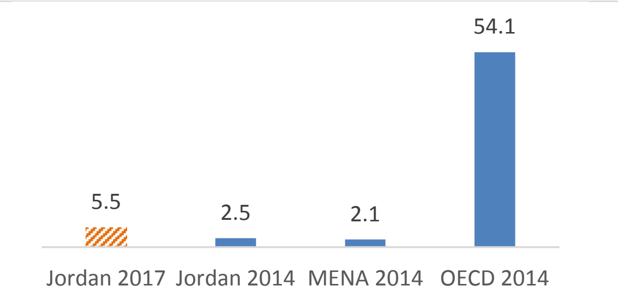
Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

The rate of credit card ownership (4.8%) is much lower than debit card ownership, but credit cards are much more likely to be used to make payments than debit cards. Of the 4.0% of adults who indicated that they use their credit card at least once per year, it is likely that most do so to make purchases, although some may also use their credit cards for cash advances. Both for debit and credit cards, the 2014 indicators for Jordan are higher than the average levels observed for developing countries in the MENA region but far below the benchmarks set by high-income OECD countries.

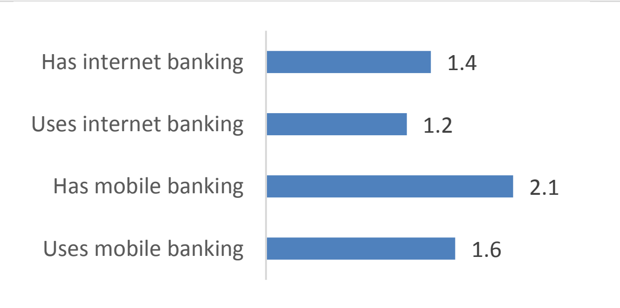
Online transactions

Online shopping and bill payments are increasing from a low level. 5.5% of adults in Jordan used the internet to buy something online or pay bills online in 2017, up from 2.5% in 2014. The 2014 figures for Jordan were slightly ahead of the 2.1% result for the developing MENA region but far below the reference point of high-income OECD countries, which averaged 54.1%. Increased ownership and use of card products could lead to higher rates of online payments, as could increased usage of internet banking and mobile banking services offered by banks to their account holders.

Used internet to pay bills or buy things online (% of adults)



Internet banking and mobile banking usage (% of adults, 2017)



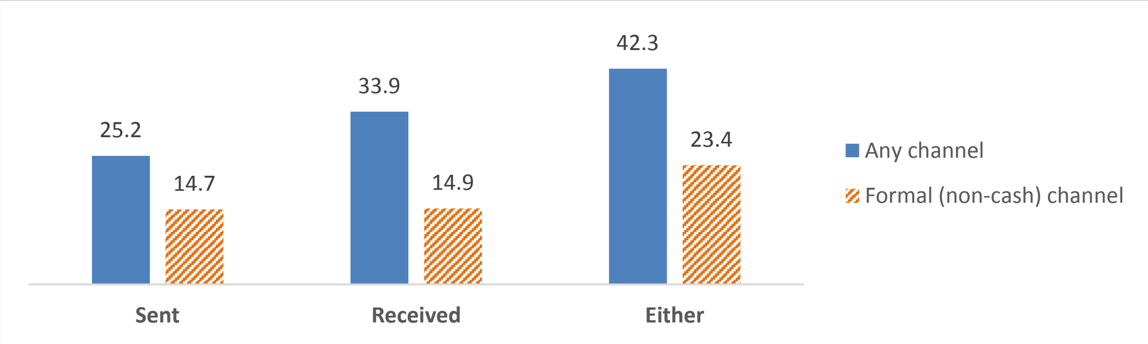
Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

Mobile banking is more popular than internet banking, although neither is used widely yet. Just 1.4% of adults had internet banking and 2.1% had mobile banking, and usage of these services (at least once per year) was even lower at 1.2% and 1.6% of adults, respectively, according to the CBJ/GIZ survey. Low financial and technological literacy among customers plays a key role in explaining the limited use of these services. Nevertheless, banks could contribute to higher usage rates by adding functionality to their internet and mobile banking platforms, designing them for ease of use and promoting them more aggressively.

Remittances

In terms of domestic remittances[15], 23.4% of adults used some form of formal remittances service in the past year[16]. When informal remittances are included, namely through sending cash by hand, the usage rate jumps to 42.3%. People in Jordan are slightly more likely to receive than send remittances, with 33.9% of adults having received and 25.2% having sent remittances. However, the gap narrows to just 14.9% for receiving versus 14.7% for sending when considering only formal channels.

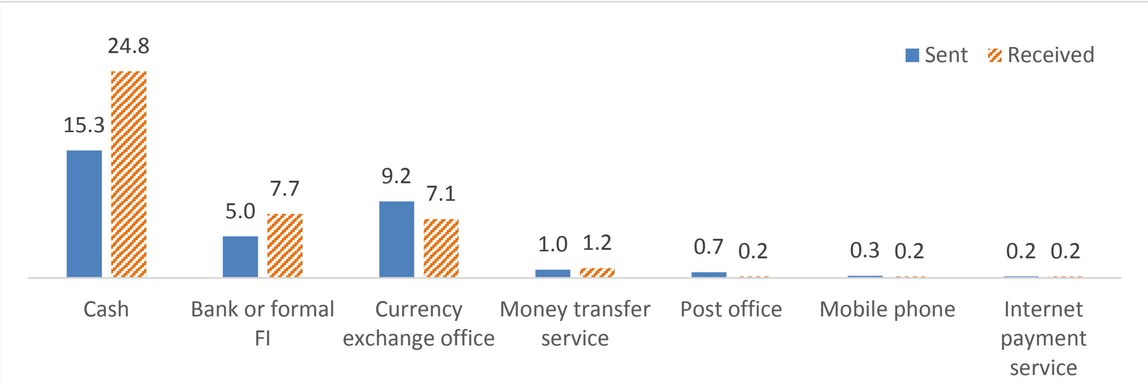
Sent or received domestic remittances in past year (% of adults)



Source: CBJ/GIZ survey

A more detailed breakdown of the means of transfer reveals that cash is the most popular (15.3% of adults sent cash, 24.8% received cash), followed by banks or other formal financial institutions and currency exchange offices. Currency exchange offices were more popular compared to financial institutions (namely banks) for sending money (9.2% versus 5.0%), but financial institutions were more popular for receiving (7.7% versus 7.1%). Other methods of transfer were infrequently chosen: money transfer services like Western Union (1.0% of adults sent and 1.2% received), the post office (0.7% and 0.2%), mobile phone applications (0.3% and 0.2%) and internet payment services like PayPal (0.2% and 0.2%).

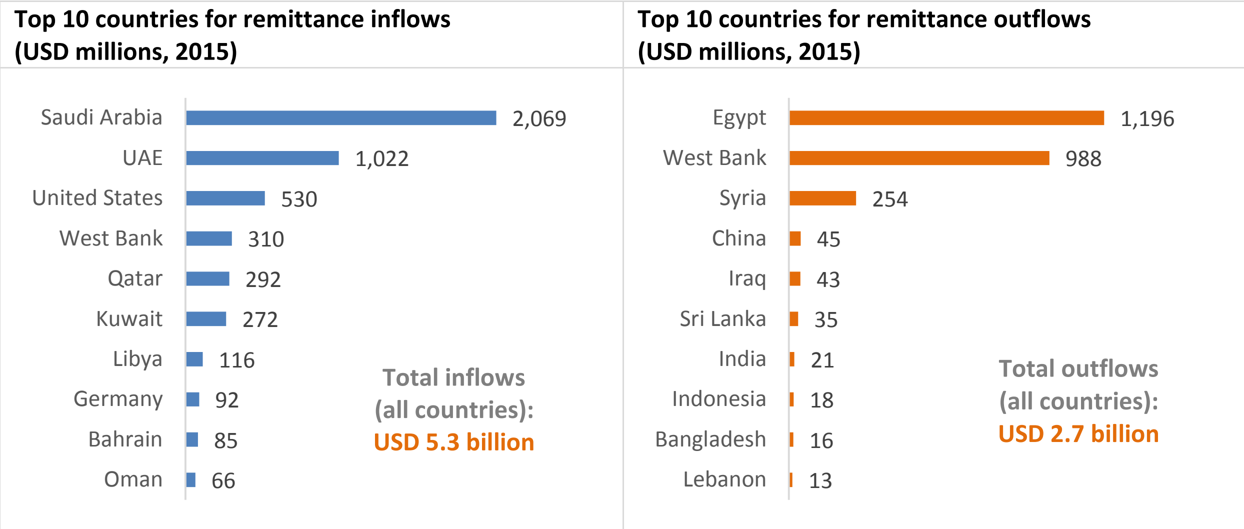
Sent or received domestic remittances in past year by method (% of adults, 2017)



Source: CBJ/GIZ survey

In terms of corridors for remittances, Saudi Arabia, the UAE, and the USA are the main countries for inflows, while Egypt, the West Bank and Gaza, and Syria are by far the main destination countries. These results closely reflect the patterns of worker migration, with many Jordanians traveling to Saudi Arabia and the UAE for jobs, and large numbers of immigrants from Egypt, the West Bank and Syria coming to Jordan to work or as refugees. The following charts present the World Bank's estimates for the top ten corridors for remittance inflows and outflows to and from Jordan in 2015.

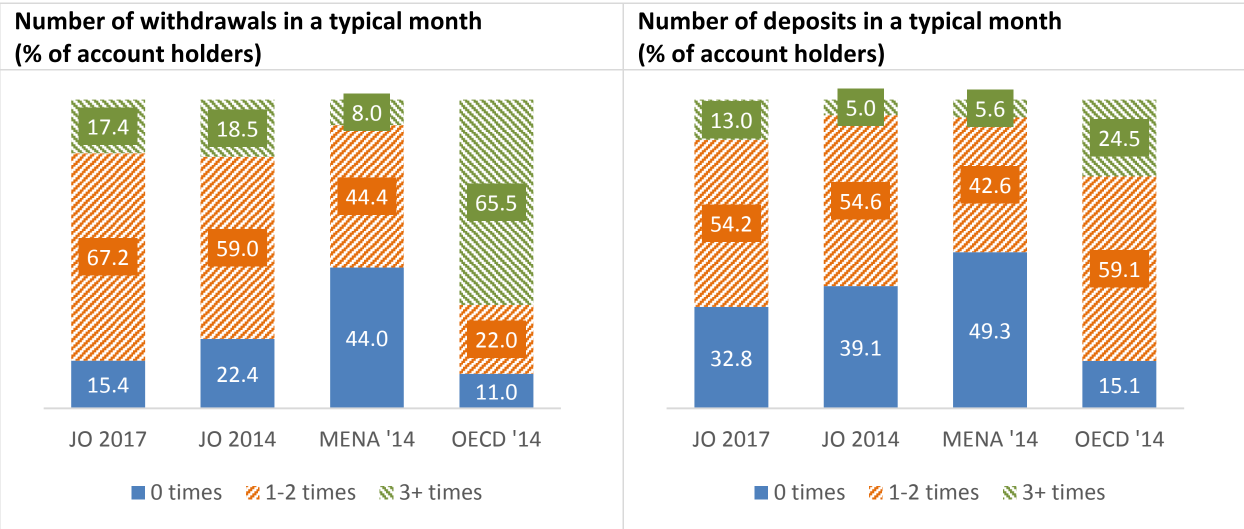
[15] Domestic remittances is used as a baseline for financial inclusion, rather than international remittances, in order to be consistent with the methodology adopted by World Bank's Findex survey.
[16] The concept of formal services here includes mobile apps and internet services like PayPal



Source: World Bank Bilateral Remittances Matrices

Withdrawals and deposits

Survey data suggests that there has been an increase in monthly account usage from 2014 to 2017. The share of adults that don't make any withdrawals[17] or deposits in a typical month dropped from 22.4% to 15.4% and from 39.1% to 32.8% respectively. However, most people report making only 1-2 withdrawals or deposits per month, while high-frequency usage of three or more times is relatively uncommon. This finding is supported by interview feedback suggesting that most people cash out all of their monthly receipts (such as salaries and remittances) in a single monthly operation and continue to use cash on a daily basis. Deposit holders in OECD countries, by contrast, are much more likely to make multiple withdrawals and deposits.



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

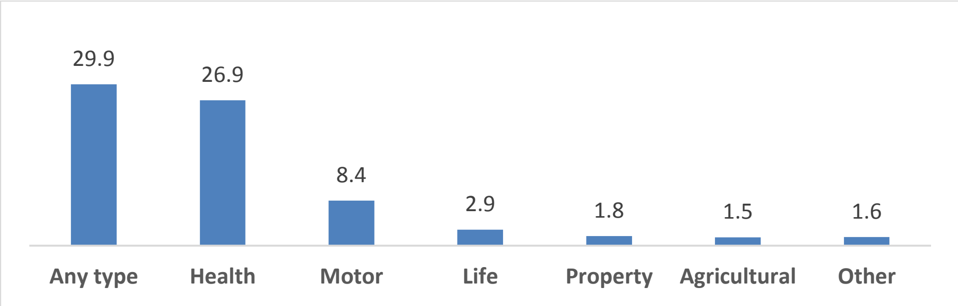
2.2.5 Insurance

Demand-side data

Some form of insurance was held by 29.9% of adults in the past year, either because they bought it themselves or because they received it without needing to buy it, according to the CBJ/GIZ survey. The level of insurance usage is driven primarily by health insurance, which 26.9% of adults owned, followed by motor insurance (8.4%). Life insurance (2.9% of adults), property insurance (1.8%) and agricultural insurance (1.5%) were infrequently used.

Had insurance in past year by type (% of adults)

[17] Includes cash withdrawals in person or using debit card, electronic payments or purchases, checks, or any other time money is removed from accounts by the individuals themselves, or another person or institution.

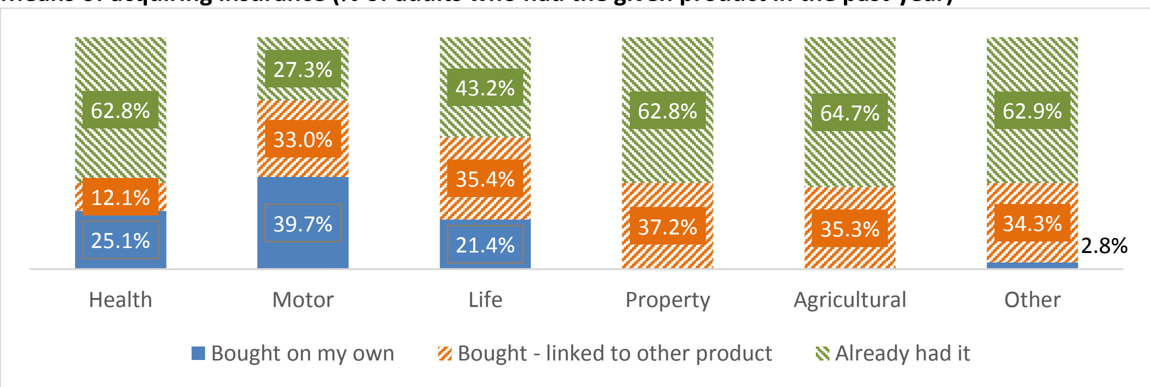


Source: CBJ/GIZ survey

It is possible that the survey results understate the actual degree of insurance ownership in Jordan. The 2015 census found that 55.3% of population had some form of health insurance coverage, more than double the 26.9% rate from the CBJ/GIZ survey. In the census results, most of the health insurance coverage (62.5% of all covered individuals) is through the government, either the Ministry of Health (29.6% of covered individuals) or the Royal Medical Services (32.9%).

Even if the survey results underestimate the true level of insurance coverage, they provide interesting insights into the way that clients obtain insurance. Among clients that had insurance over the past 12 months, less than half actually purchased the insurance for all products except life and motor insurance. Instead, most respondents indicated that they already had insurance without having to buy it in the period. For health insurance, 62.8% didn't buy it; for property: 62.8%; for agricultural: 64.7%; and for other types: 62.9%. This means that clients either bought the insurance in some previous period (more than a year earlier), or more likely that the clients received the insurance without needing to buy it, for example as a result of receiving insurance for free in connection with the purchase of some other product, or getting insurance through a family member's policy, or receiving it for free from one's employer. Furthermore, a substantial share of clients bought insurance in connection with some other financial product, for example when borrowers are required to obtain life insurance as a condition for obtaining a loan. For motor, life, property, agricultural, and other types of insurance, the share of customers that bought the policy in connection with another product exceeded 30% of the total. The share of insurance holders who bought and paid for the product voluntarily was rather low – 39.7% for motor insurance, 25.1% for health insurance, 21.4% for life, 2.8% for other insurance types, and zero for property and agricultural insurance. The relevant figures can be found in the chart below.

Means of acquiring insurance (% of adults who had the given product in the past year)



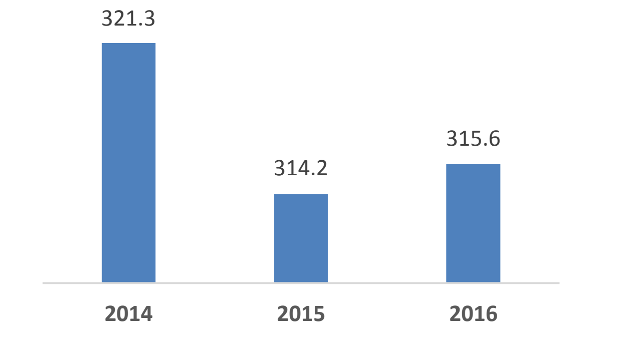
Source: CBJ/GIZ survey

Questions about insurance were not part of the 2014 Findex study, so the change in insurance indicators over time and country comparisons are not possible on the demand side.

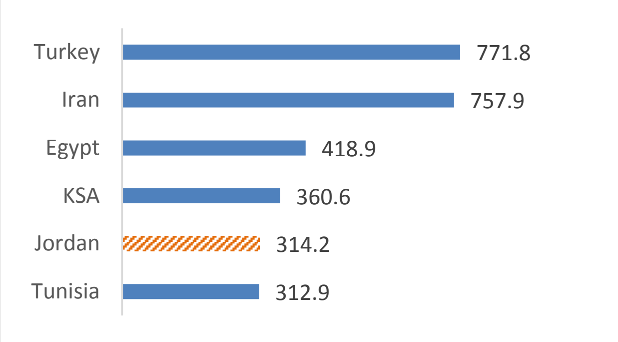
Supply-side data

There were 315.6 outstanding insurance policies from licensed insurance companies per 1,000 adults in Jordan at the end of 2016, up from 314.2 at year-end 2015. The figures are not comprehensive, however, because they exclude the health insurance policies provided the Ministry of Health and Royal Medical Services, for which data was not available. Although the number of insurance policies increased in 2015, the per capita indicator fell, as population growth outpaced the growth in the number of policies.

Number of policies per 1,000 adults (Jordan)



Number of policies per 1,000 adults (2015) [18]

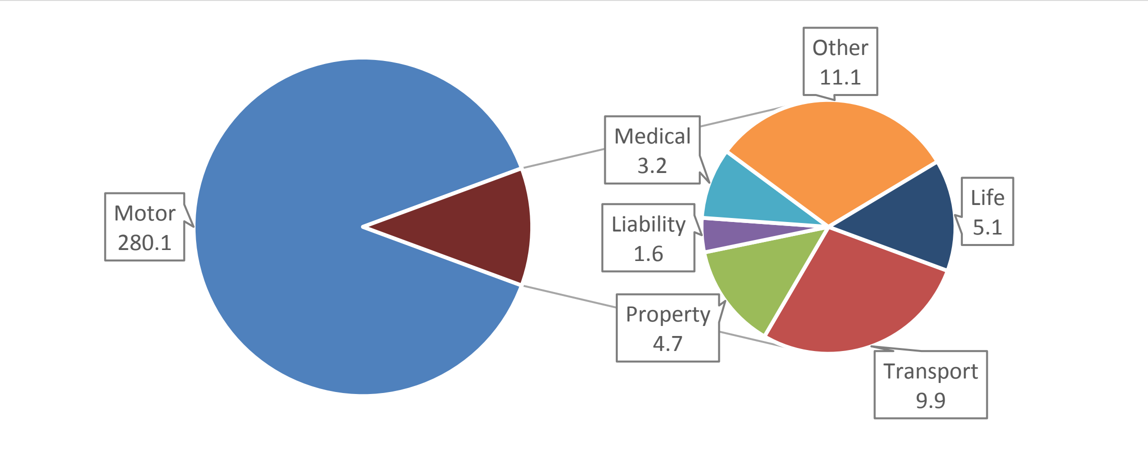


Source: MIT (Jordan), IMF Financial Access Surveys (other countries)

Jordan would probably compare favorably with other MENA countries in terms of policies per 1,000 adults if government-issued insurance were taken into account. Using only data from Jordan's insurance companies and comparing to several other MENA countries for which data was readily available, Jordan appears at the lower end of the scale, with Turkey and Iran far ahead of the other countries. Going forward, the CBJ should coordinate with relevant government bodies to try to obtain comprehensive statistics on insurance, including government-issued health insurance.

The number of policies from insurance companies in Jordan are dominated by motor insurance, which accounts for 88.7% of the total number at 280.1 policies per 1,000 adults. All other products are issued in low numbers, including life insurance, with just 5.1 policies per 1,000 adults (a total of 32,509 life insurance policies for all of Jordan), and private medical insurance (a total of 20,603 policies).

Number of policies by type in Jordan (per 1,000 adults, year-end 2016)



Source: MIT of Jordan

The rate of ownership of motor insurance of 8.4% from the demand-side results seem low in comparison to the implied rate of ownership from the supply-side data of 28.0% (280.1 policies per 1,000 adults). It is possible that the discrepancy is explained by a high number of policies held by legal entities, which would not be reflected in the demand-side figures. Further research would be needed to test this hypothesis, as a breakdown of policies held by individuals and legal entities was not available. Another possible explanation is related to the sampling methodology. In order to control the survey costs, interviews were generally conducted in areas of relatively high population density. It is possible that, in such densely populated areas, people are more likely to use public transportation or even walk and so are less likely to own a vehicle.

[18] For Turkey and Iran, the number of policy holders is the basis of the calculation, whereas it is number of policies for the other countries

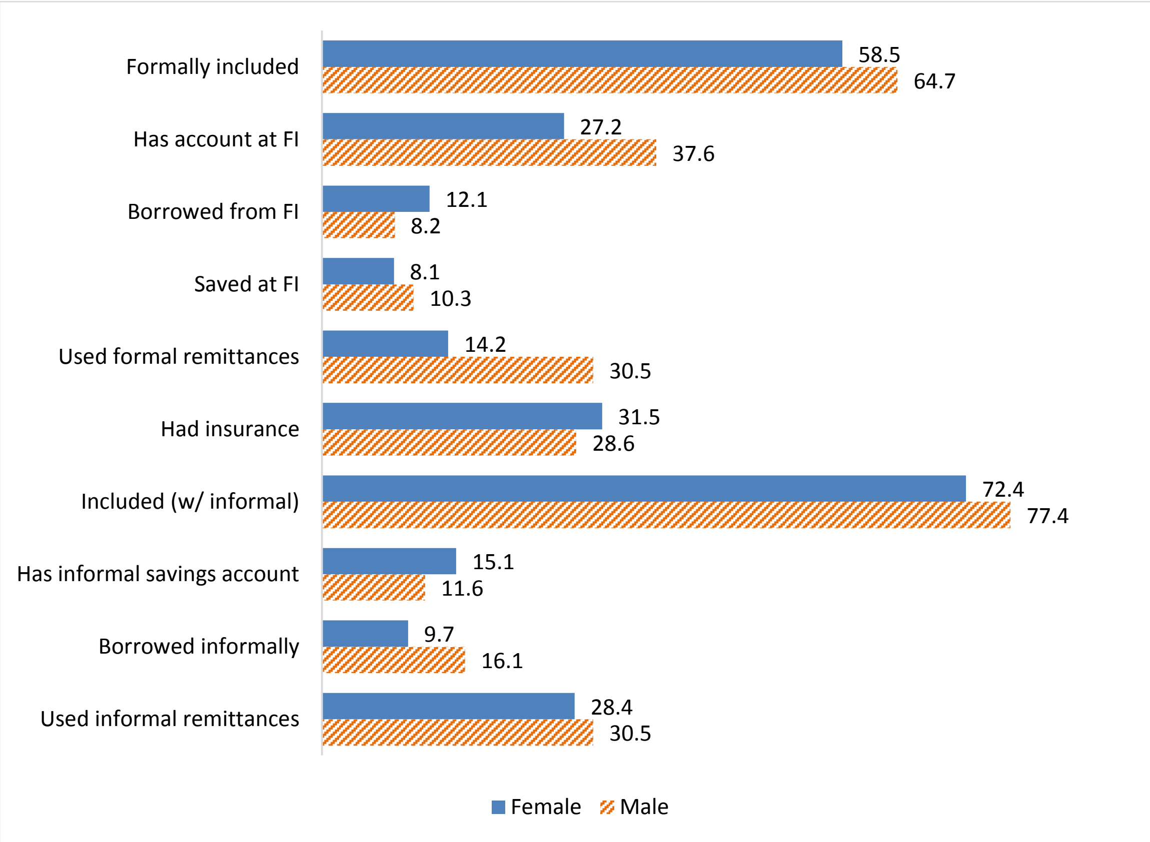
2.3 By segment

2.3.1 Gender

Background: Women make up 47.1% of the Jordanian population but are under-represented in economic activity. Just 16.3% of all employed persons were women in 2016, one of lowest ratios in the MENA region.[19] The female unemployment rate was 24.1% in 2016, much higher than the 13.2% rate for men.

Women tend to be less included in the formal financial system for account and remittances products but have higher levels of formal financial inclusion for loan and insurance products. Overall, 58.4% of adult women used some formal financial service in the past year, compared to 64.7% of men. After including informal financial services, men are still ahead with a usage rate of 77.4% compared to 72.4% for women. The following table presents selected inclusion indicators for women and men, based on the CBJ/GIZ survey.

Key inclusion indicators by gender (% of adult women and men)

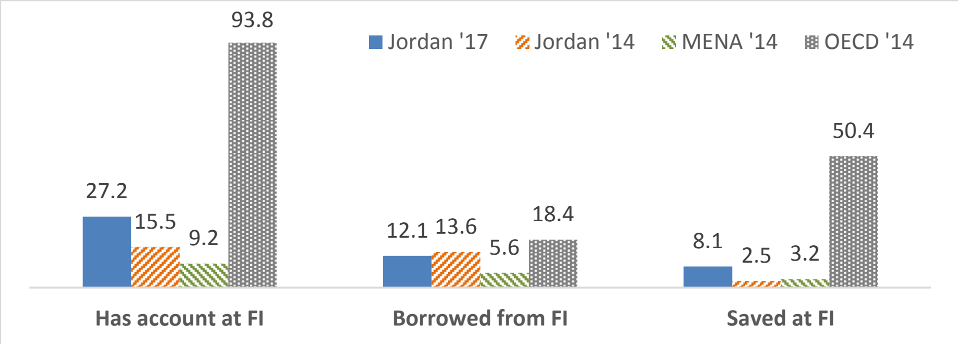


Source: CBJ/GIZ survey

Women's financial inclusion improved considerably from 2014 to 2017 among key indicators for which comparable data from Findex 2014 was available. Formal account ownership jumped from 15.5% to 27.2%, the rate of borrowing from a formal institution increased from 10.3% to 12.1% (while the rate for men fell over the same period), both credit and debit card ownership increased (from 0.9% to 2.4% and from 10.8% to 19.3% respectively), and the proportion of women that saved money in the formal financial system increased from 2.5% to 8.1%.[20] The improvement in these various indicators can be attributed both to increased demand from women for formal financial services as well as greater recognition among financial institutions of the benefits of reaching out to women with targeted advertising and customized products.

[19] Department of Statistics. *Jordan in Figures 2016.*
[20] Data from Findex 2014 on formal remittances usage was not available, so the change could not be measured

Selected indicators for women by year and region (% of adults women)



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

In terms of formal account ownership and borrowing, Jordanian women had higher financial inclusion rates than in the developing MENA region in 2014. Jordan was slightly behind the MENA region in terms of saving money with financial institutions in 2014, although the sharp increase in the savings rate for Jordanian women in 2017 may have put it ahead of other regional countries. The indicators for Jordan are far behind those in OECD high-income countries, with the gap especially noticeable for account ownership and savings rates.
The lower account ownership rates for women relative to men are likely connected to traditional roles assigned to women within the household, whereby the husband opens an account and other family members use that account. The policies of banks with regard to account opening are reasonably simple and objective, so there is little scope for banks to reject women for an account even if they wanted to limit their exposure to female clients. It is important to note that not any evidence was found to suggest that bank staff were biased against women in a way that would affect women's financial inclusion.

The lower rate of sending formal remittances by women is heavily influenced by the fact that there are more men than women traveling to Jordan to work and sending remittances back to their family members. This is reflected in the survey sample: although about 45% of the total sample respondents were women, only 10% of respondents who were in Jordan on a temporary residence permit (the most active group in terms of using remittances) were women.

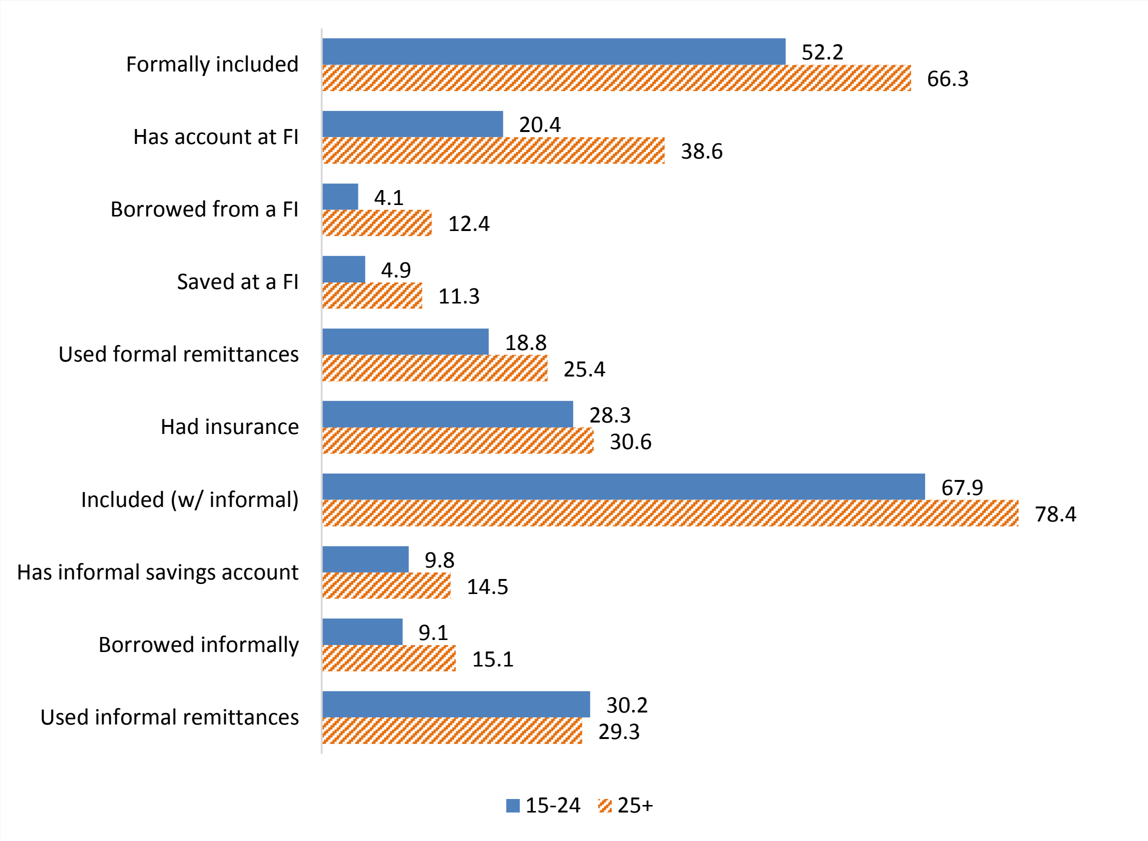
2.3.2 Age

Background: Jordan has a young population; 54.2% of the population is under 25, and 19.9% are in the 15-24 age group. However, young people have not yet reached their potential in terms of contributing to economic development. Youth unemployment is high: more than half (51.2%) of unemployed persons in 2016 were in the 15-24 age group. Youth participation in entrepreneurial activity is low: youth entrepreneurs make up only 10.2% of total business owners[21]. The age group 15-24 is used frequently in this study as a definition of young people in order to be comparable to other studies, such as the World Bank Findex survey.

Young people – here defined as those aged 15-24 – are much less financially included than older people aged 25 and above. Overall usage of formal financial services in the past year was 52.2% among young people, considerably lower than the 66.3% rate among older people. The gap is especially noteworthy with respect to formal account ownership (20.4% for young people versus 38.6% for older people), formal borrowing (4.1% versus 12.4%), and formal savings rates (4.9% versus 11.3%). The gap for formal remittances is not as dramatic (18.8% versus 25.4%), and there is barely a gap at all for having insurance (28.3% versus 30.6%). Young people are less likely than older people to use informal savings and loans, although they are slightly more likely to send or receive remittances through informal channels.

[21] CBJ Vision Document

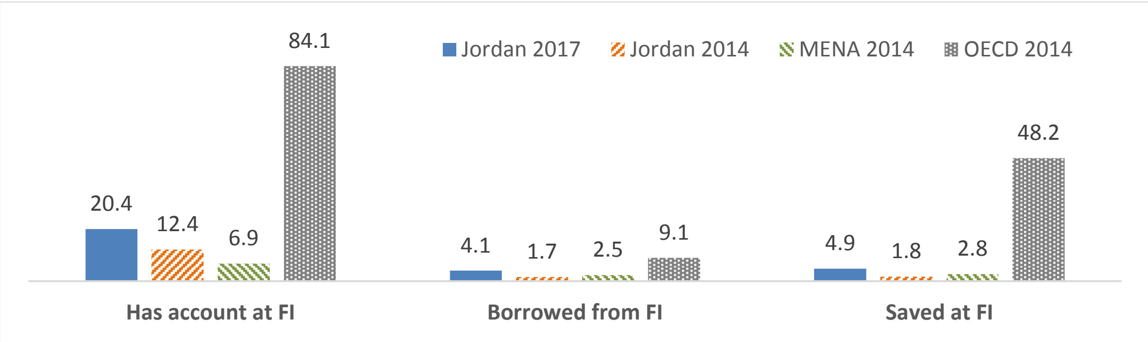
Key inclusion indicators by age group, 2017 (% of younger and older adults)



Source: CBJ/GIZ survey

Key indicators of formal account ownership, borrowing, and savings among young people increased substantially from 2014 to 2017. Account ownership in 2014 was much higher among Jordanian youth than in other developing MENA countries (12.4% for Jordan versus 6.9% for MENA), although Jordan's borrowing rate and savings rate were below the MENA averages at that time. All relevant indicators were far below the averages for high-income OECD countries.

Selected indicators for young people, by year and region (% of young people aged 15-24)



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

It is equally profitable for financial institutions to serve young people with remittances and bears no risk, whereas lending to young people is perceived as more risky, and giving an account to a young person is perceived as less profitable, since they are assumed to have lower account balances on average and make fewer transactions. As a result, the inclusion gap for young people is largest for credit and deposits but relatively smaller for remittances. The fact that there is only a very small gap between younger and older groups for insurance is mainly due to young people who receive coverage through the policies of family members, especially for health insurance.

The eligibility criteria of financial institutions also affect the inclusion gap for credit and deposits. For deposit products, most banks maintain a minimum age limit of 18. At least one bank has a special deposit product for young people aged 18-25. Some banks offer accounts designed for under-18s, but the parent or guardian is the account owner, not the child. Consequently, the account ownership rate among those aged 15-17 is only 9.6%, far less than the rate of 23.6% for those aged 18–24. With regard to loans, banks and MFIs are roughly evenly split in terms of minimum age, with either 18 or 21 as the lower limit. Therefore, the formal borrowing rate is 5.4% among 18–24-year-olds and zero among 15–17-year-olds. There is not much difference in the insurance ownership rates for 15–17-year-olds (24.8%) compared to 18–24-year-olds (29.2%), since both groups are likely to be getting coverage through their parents.

Another important reason for the age gap in financial inclusion is less demand among young people. In terms of deposits, 22.3% of young people report having an immediate need for an account, compared to 35.4% of older people. Similarly, just 6.9% of young people have an immediate need for a loan, compared to 15.9% for older people. Only in terms of money transfers, where the financial inclusion gap is much narrower, do young people show greater demand (7.0% of young people have an immediate need for money transfers, versus 6.4% of older people).

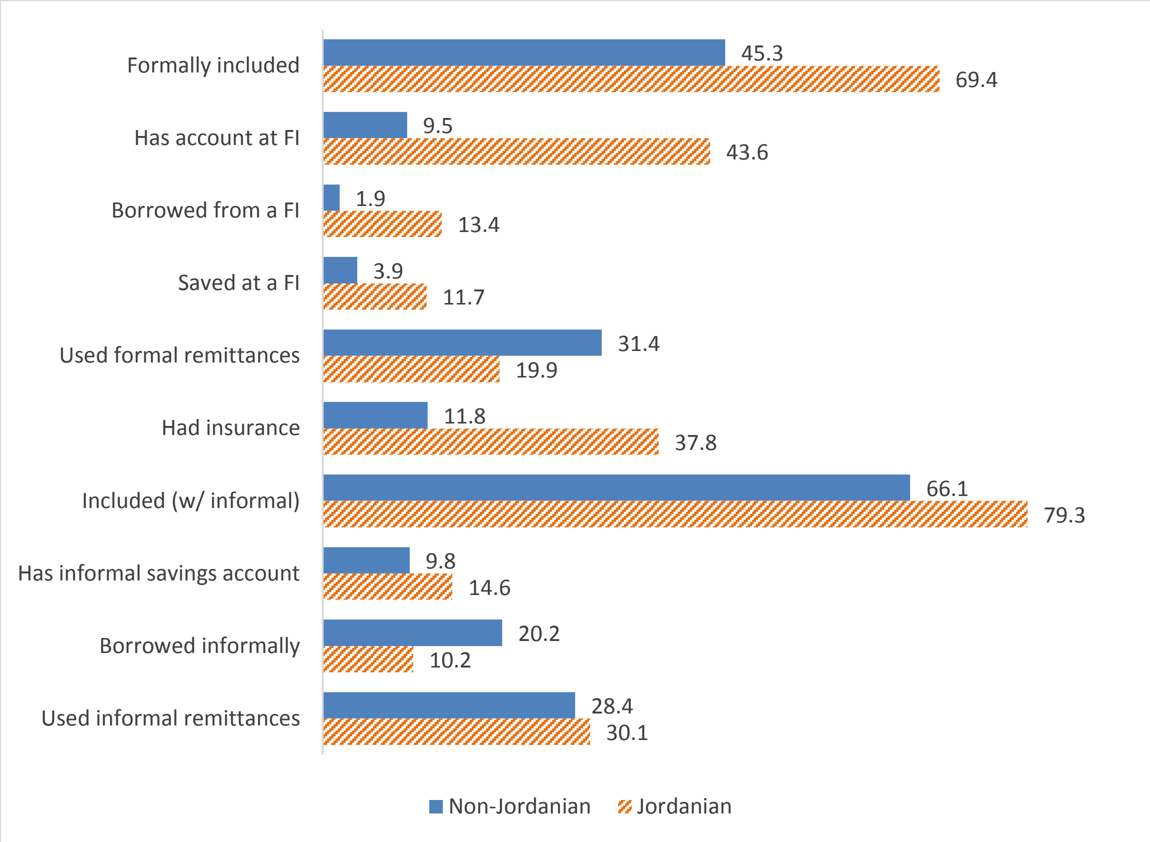
2.3.3 Citizenship[22]

Background: According to the 2015 census, there were 2.9 million non-Jordanian nationals in the country, or 30.6% of the total population. The largest nationalities represented were Syrian (13.3% of the total population), Egyptian and Palestinian (6.7% each) and Iraqi (1.4%). Refugees are a special case of particularly vulnerable non-nationals. According to the UNHCR, Jordan hosts the second largest number of refugees per capita in the world, at 89 refugees per 1,000 inhabitants. As of March 2017, there were 733,210 refugees registered by UNHCR in Jordan, with most of those (657,621) coming from Syria.[23]

Non-Jordanian citizens demonstrate much lower usage of formal financial services than Jordanian citizens for deposits, loans, and insurance. Of all the segments analyzed in this section (women, youth, rural residents, low-income earners, etc.), non-Jordanians have the lowest rates of account ownership, borrowing, and insurance usage. For remittances, however, the situation is quite different, as 31.4% of non-Jordanians sent or received remittances through formal channels in the past year, well above the rate of 19.9% for Jordanians. This result should not come as a surprise, as many immigrants come to Jordan with the specific goal of earning money to send home to family members.

[22] Findex does not report figures by citizenship, so it was not possible to do a comparison by time periods and region, as is done for the other segments in this section.
[23] UNHCR. *UNHCR Jordan Operational Update*. April 2017.

Key inclusion indicators by citizenship, 2017 (% of Jordanians and non-Jordanians)

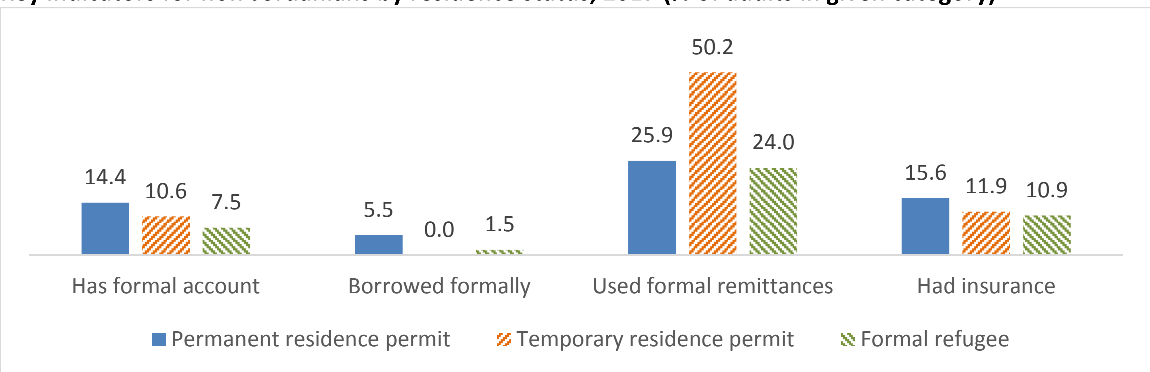


Source: CBJ/GIZ survey

Within the sub-segment of non-Jordanians, financial inclusion differs based on residence status, with refugees tending to have the lowest levels of financial inclusion and permanent residents having the highest levels. Account ownership drops steadily from 14.4% for permanent resident permit holders to 10.6% for temporary residents to 7.5% for formally registered refugees[24]. A similar pattern is seen for insurance, although it is noteworthy that 10.9% of registered refugees reported having insurance, which can be attributed to NGO and government support programs. The main exception to the pattern is seen for remittances, with temporary resident permit holders showing high usage levels at 50.2%, compared to 25.9% for permanent residents and 24.0% refugees. However, none of the same temporary residents reported receiving a loan from a financial institution, whereas even a small share of registered refugees (1.5%) had borrowed formally.

Some financial institutions have made a special effort to reach out to refugees. The UNRWA disbursed 13,293 loans in 2015 in the amount of USD 14.2 million to vulnerable and low-income groups in Jordan, with 53% of beneficiaries consisting of Palestinian refugees.[25] The MFI Microfund for Women (MFW) serves Palestinian and – since April 2016 – Syrian refugees and had about 400 Syrian refugee borrowers in early 2017.

Key indicators for non-Jordanians by residence status, 2017 (% of adults in given category)



Source: CBJ/GIZ survey

[24] Only nine informal (unregistered) refugees responded to the survey, so their results are not shown here.
[25] UNRWA. *UNRWA in Figures*. January 2017.

Supply-side factors, namely the policies and attitudes of financial institutions, are a major reason for the significant financial inclusion gap for non-Jordanians. Banks acknowledge that they are stricter in lending to non-nationals, as they consider this segment to present above-average risk. Non-nationals generally can apply for a loan at any bank but they may be subject to tougher requirements, and credit committees are likely to be more cautious in their decisions, which may result in smaller loan amounts, shorter maturities, and more collateral required. For example, one bank interviewed for this study mentioned that they only lend to nationals of selected countries that are considered less risky and that these non-national applicants must make a higher downpayment and have a longer employment history to qualify.

Somewhat surprisingly, MFIs can be rather strict in their approach to lending to non-Jordanians, despite taking a leading role in lending to other vulnerable segments. One major MFI stated that they only lend to Jordanians, since they consider lending to foreigners too risky and since refugees are "already getting enough support." Another MFI indicated that it can lend to non-Jordanians, but only if they have a Jordanian identification card, present a Jordanian guarantor, and are an entrepreneur (non-Jordanian salary earners are not eligible). There are positive developments to be emphasized as well in terms of outreach to non-nationals. One large MFI that only lent to Jordanians and Palestinians in the past recently announced that it will begin to serve all nationalities in the near future.

In terms of deposits the situation is better than it is for loans, but there are still some inconveniences for non-nationals. One bank mentioned that additional documents are required for non-nationals to open an account: proof of work and a bank statement from the client's home country. Another bank mentioned that they do not allow Syrians to open an account, although not all banks apply such a strict policy.

The citizenship gap is also related to weak demand from foreign citizens. Only 18.1% of non-Jordanians stated that they have an immediate need for a bank account, less than half the rate of 37.3% of Jordanians. For loans the situation was similar: 8.4% of foreigners needed a loan, much less than 15.3% of Jordanians.

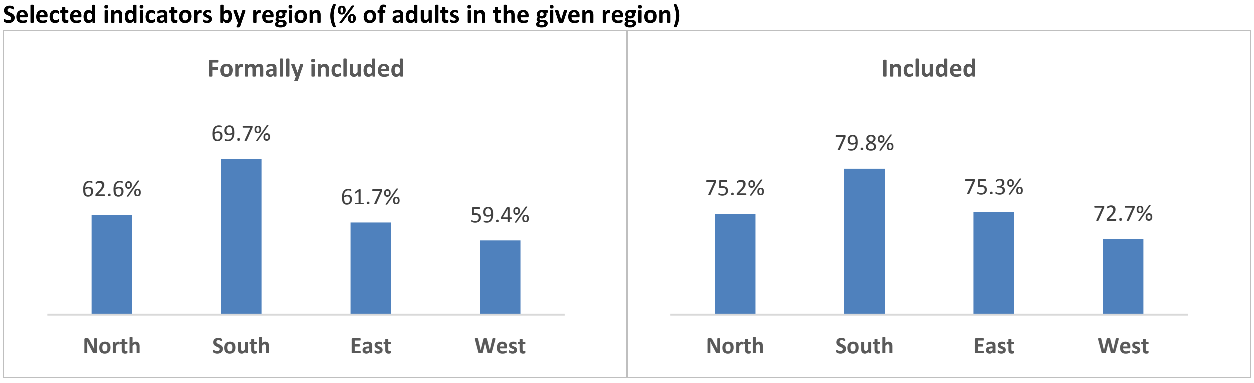
2.3.4 Geographic region

Different geographic regions of the country[26] have different levels of financial inclusion, with the south region (Aqaba, Ma'an and Tafileh governorates) having the highest level of formal inclusion and overall inclusion, when considering both informal and informal services. The south region was notably higher than the others particularly with regard to formal financial inclusion, as the rate for the south of 69.7% was 7.1 percentage points above the next highest region – the north, at 62.6%. The governorates included in each region are as follows:

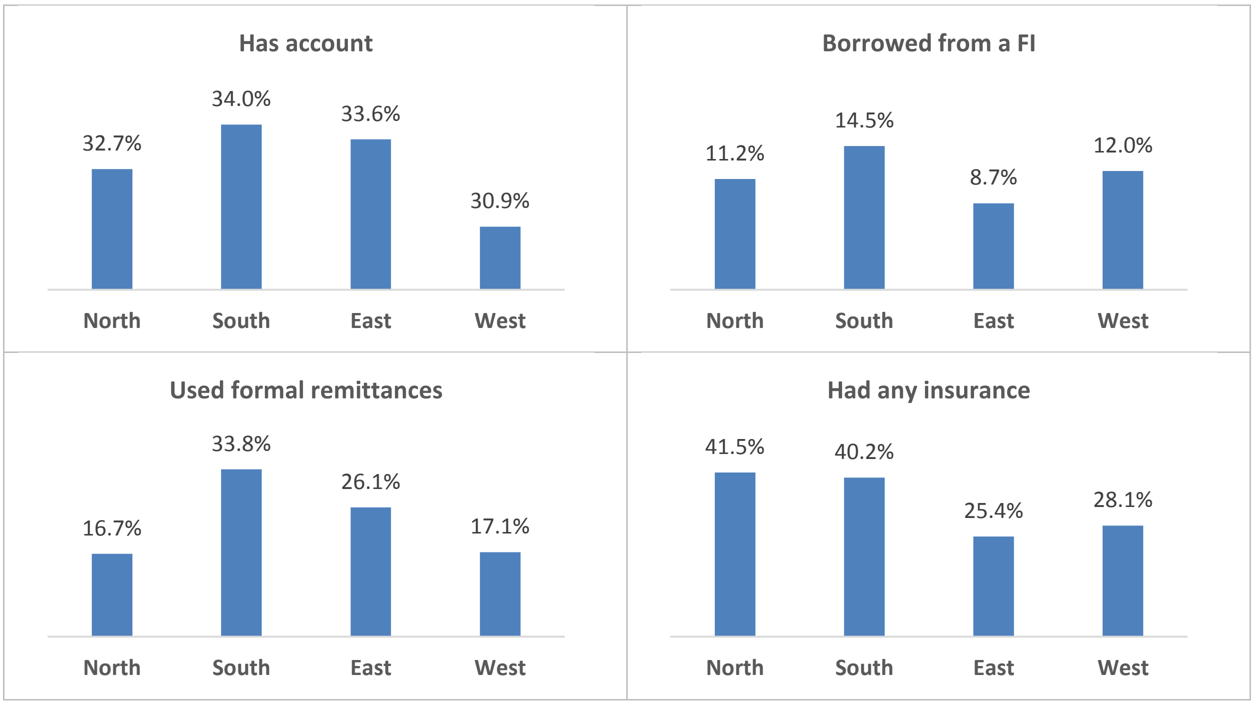
- *North*: Irbid, Jerash, Ajloun
- *South*: Aqaba, Ma'an, Tafileh
- *East*: Amman, Zarqa, Mafraq
- *West*: Balqa, Madaba, Karak

In terms of account ownership, there is not much variance between regions, with the lowest level in the west (30.9%) only a few percentage points behind the leader (the south, at 34.0%). In terms of formal borrowing, formal remittance usage, and insurance, however, there are noticeable differences between the regions. The south remains at or near the top for all product categories, while the east lags behind for formal borrowing and insurance, and the west has the lowest levels for account ownership and formal remittances.

Selected indicators by region (% of adults in the given region)



[26] Individual governorates were not analyzed due to the low number of respondents in some of the smaller governorates, as the results were considered unreliable; combining three governorates into a region brought the number of respondents to a more statistically acceptable level



Source: CBJ/GIZ survey

The main drivers of the differing levels of financial inclusion in different regions are the economic and socio-demographic characteristics of the residents. For example, the best explanation of the high levels of financial inclusion in the south is the fact that among survey respondents there was a high proportion of public sector employees and a low proportion of foreigners in the south. As demonstrated elsewhere in this section of the report, public sector employees have very high financial inclusion levels, while foreigners have very low levels for all products other than remittances. By contrast, the highest share of foreigners (and refugees) were located in the east region, which helps to explain the low borrowing rate, low insurance usage rate, and relatively high remittance usage rate (since foreign residents often send money home to their families).

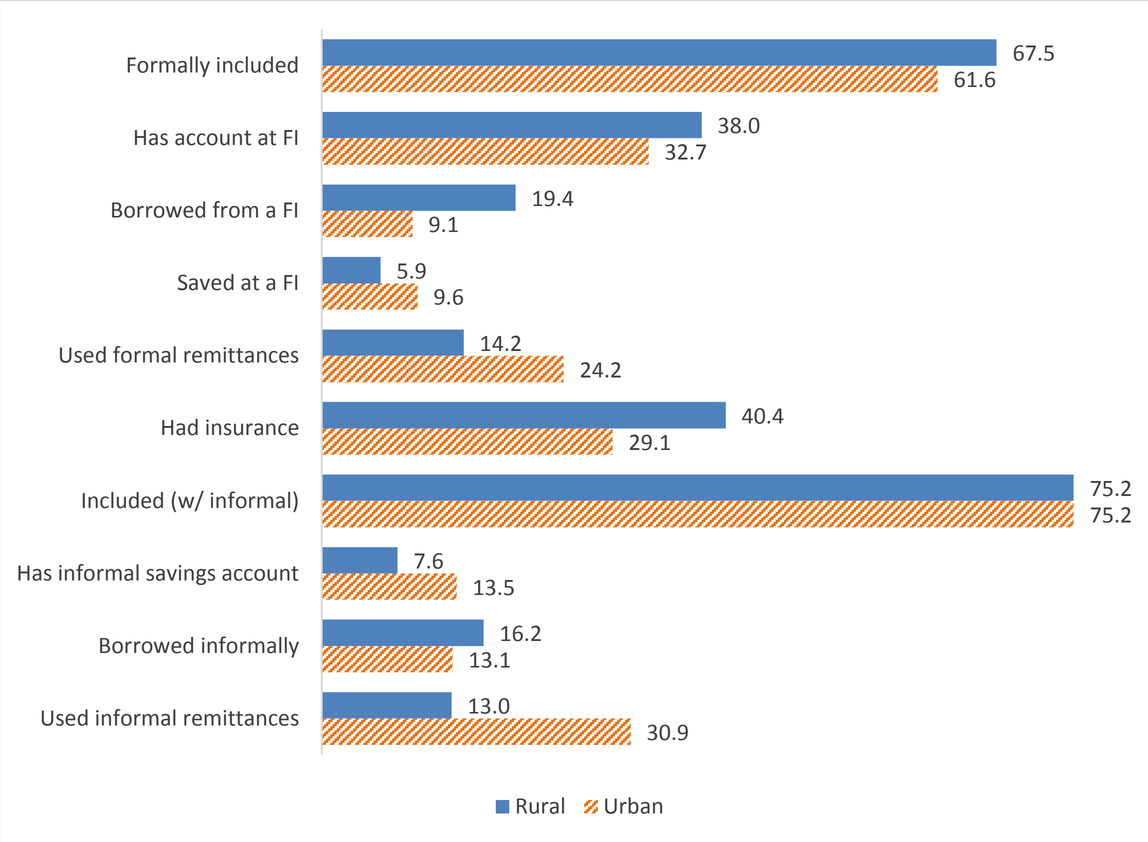
2.3.5 Urban and rural locations

Background: The population of Jordan is highly concentrated in urban areas – only 9.7% live in rural areas. For the purposes of this study, rural residents are defined as those living in settlements with 5,000 or fewer inhabitants, the same definition applied by the Department of Statistics for the national census.

Rural residents were not at a disadvantage in accessing financial services relative to urban residents[27]. In fact, rural residents demonstrated particularly high levels of financial inclusion with regard to formal borrowing (19.4% of rural residents borrowed from a financial institution versus 9.1% of urban residents), account ownership (38.0% versus 32.7%) and use of insurance (40.4% versus 29.1%). They were less likely than urban residents, however, to have saved formally or to have used formal remittance services.

[27] For the purposes of this survey, rural residents are defined as those living in sub-districts with 5,000 or fewer inhabitants, the same definition applied by the Department of Statistics for the national census.

Key inclusion indicators by region, 2017 (% of urban and rural adult residents)

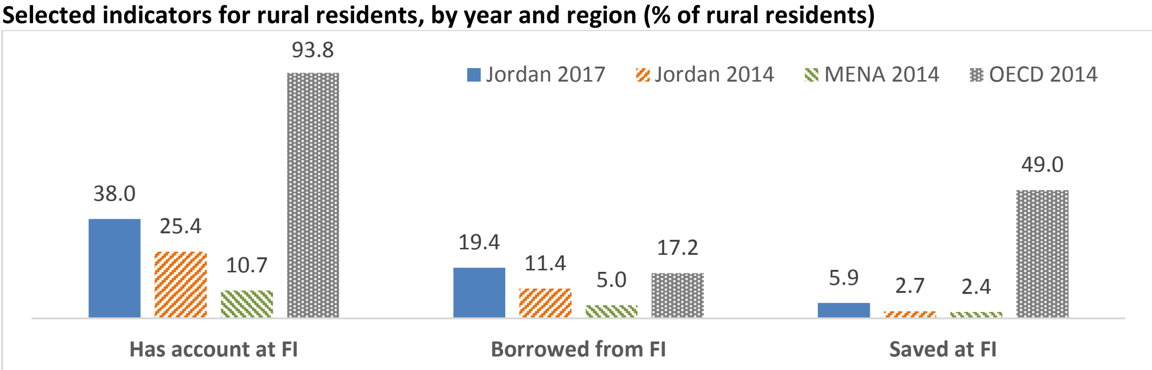


Source: CBJ/GIZ survey

High levels of government employment in rural areas helps to explain the surprisingly strong financial inclusion indicators. The military is a major employer for men in rural areas, and many women work as teachers in public schools. The unweighted distribution of survey respondents shows that 25.6% of rural residents are public sector employees, compared to just 8.2% of urban residents. As discussed in more detail in the “Employment status” section below, government employees have privileged access to a variety of financial services. There is also a lower concentration of foreigners in rural areas, and, as explained in the previous section, foreigners have much lower access to financial services.

Strong growth in financial inclusion was observed for rural residents from 2014 to 2017. Account ownership rates grew from 25.4% to 38.0%, formal borrowing increased from 11.4% to 19.4%, and the formal savings rate increased from 2.7% to 5.9%. Even in 2014, Jordan was already far ahead of developing MENA countries in terms of rural access to accounts and loans and slightly ahead in terms of the savings rate. Although the rural account ownership and savings rates for Jordan are far behind those of OECD high-income countries, Jordan’s rural borrowing rate for 2017 actually exceeds the 2014 OECD rate.

Selected indicators for rural residents, by year and region (% of rural residents)



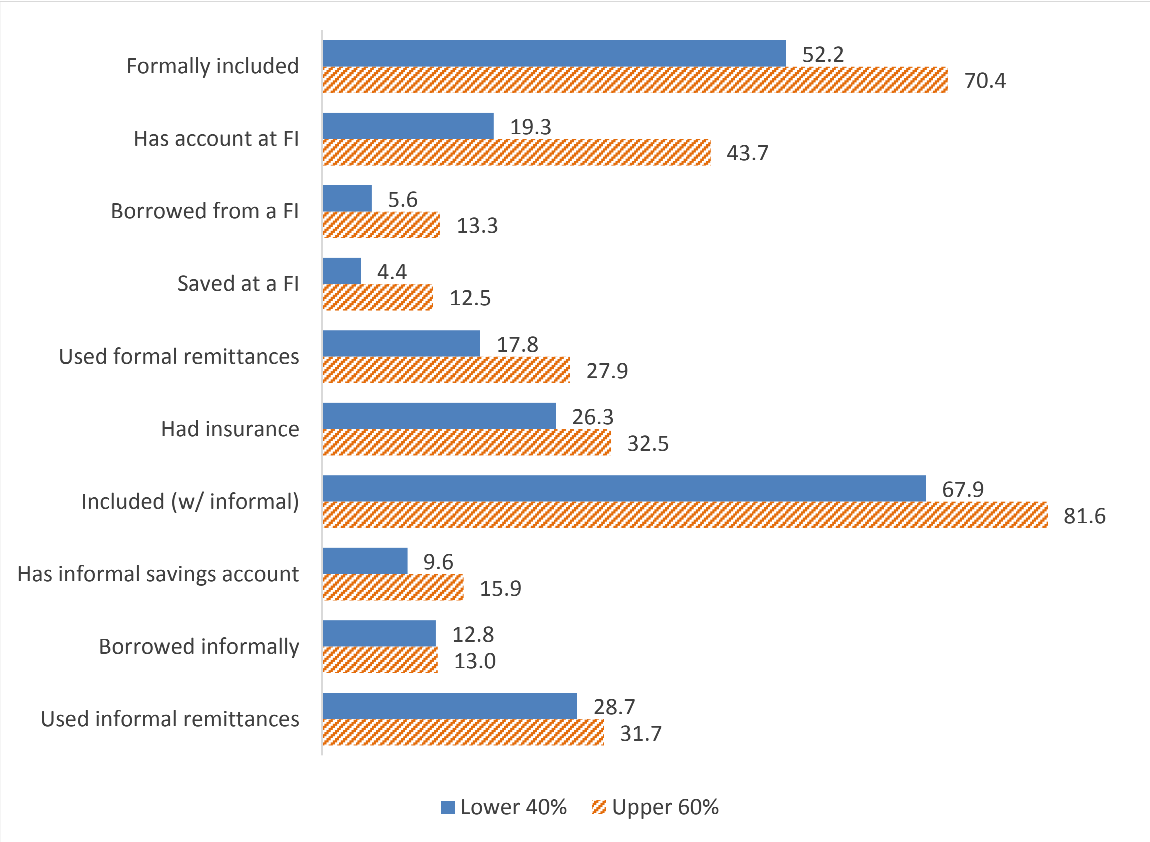
Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

2.3.6 Income

Background: Jordan had a GDP per capita of JOD 2,801 (USD 3,950) in 2016, placing it among the middle-income countries in the World Bank's classification system. The official poverty rate was 14.4% for 2016, with a poverty line of JOD 814 per capita annually.[28]

Lower-income earners (defined as those in the lower 40% of the sample by reported income[29]) are considerably less financially included than wealthier individuals for all product categories. In fact, the lower income segment was the only one among all the potentially vulnerable segments analyzed here (women, youth, etc.) for which every single key indicator, both formal and informal, was lower than for the corresponding "privileged" segment. In terms of account ownership (19.3% for the lower 40% versus 43.7% for the upper 60%), formal borrowing (5.6% versus 13.3%), and saving at a bank (4.4% versus 12.5%), the level of financial inclusion for the lower-income segment is less than half that of the higher-income segment. For use of formal remittances services, the gap is a bit narrower but still considerable (17.8% versus 27.9%). Overall, 52.2% of adults in the lower-income bracket used some type of formal financial service, compared to 70.4% for those in the higher-income bracket.

Key inclusion indicators by income, 2017 (% of lower- and higher-earning adults)



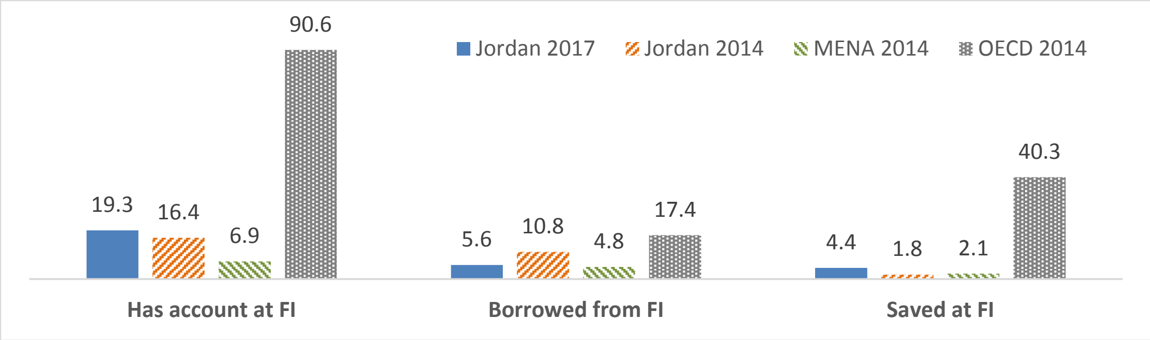
Source: CBJ/GIZ survey

The share of lower-income respondents with a formal account and that saved formally increased from 2014 to 2017, while the rate of formal borrowing decreased. In 2014, the formal account ownership rate of 16.4% in Jordan and the borrowing rate of 10.8% were well above the respective indicators among developing MENA countries (6.9% and 4.8%). The savings rate of 1.8% for Jordan was slightly below the 2.1% for MENA, but far behind the 40.3% rate for high-income OECD countries.

[28] Source: Department of Statistics

[29] Since some income values were repeated (e.g. many respondents reported having the same income), it was not possible to identify a cutoff point that exactly separated the bottom 40% from the top 60%. The cutoff point chosen of JOD 300 per month in fact separates the sample into a bottom 39.1% and top 60.9%. For the sake of simplicity and to conform to the Findex categories, the phrasing "bottom 40%" and "top 60%" is retained, since the actual distribution is quite close.

Selected indicators for lower 40% income segment, by year and region (% of adults in lower 40%)



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

Less demand from lower-income individuals may partly explain their reduced levels of financial inclusion. For example, only 20.8% of those in the lower 40% had an immediate need for an account, compared to 40.2% of those in the top 60%. Immediate demand for a loan was also less, at 10.1% for the lower-income group compared to 16.2% for higher-income. Nevertheless, financial institutions contribute to the imbalance in financial inclusion with their policies and practices. For example, some banks apply minimum income requirements in order to grant a loan, excluding by policy the poorest applicants. Banks also tend to be less active in developing and targeting products towards lower-income groups, although there are several noteworthy exceptions to this general tendency. The biases of financial institutions against poorer customers may in turn discourage applicants and suppress demand, creating a self-reinforcing circle of financial exclusion.

As further evidence of the challenges faced by the poorest applicants, the survey data can be broken down into indicators for those beneath and above the official government poverty line of JOD 814 annually. For those beneath the poverty line, the low levels of financial inclusion are even more extreme than for the lower 40% with regard to account ownership and remittance usage. Formal account ownership stands at just 6.4% for those beneath the poverty line (versus 19.3% for the lower 40%) and formal usage of remittances at 6.2% (versus 17.8%). However, those beneath the poverty line have an advantage in insurance ownership at a rate of 49.2% (versus 26.3%), thanks mainly to government-provided health insurance. Those beneath the poverty line also have higher formal borrowing rates: 6.2% borrowed from a formal institution, exclusively from MFIs, above the 5.6% rate for the lower 40%. Although it is good that these very poor individuals are able to borrow from a formal source, the fact that they do so may be a sign that they are dependent on credit due to their low income.

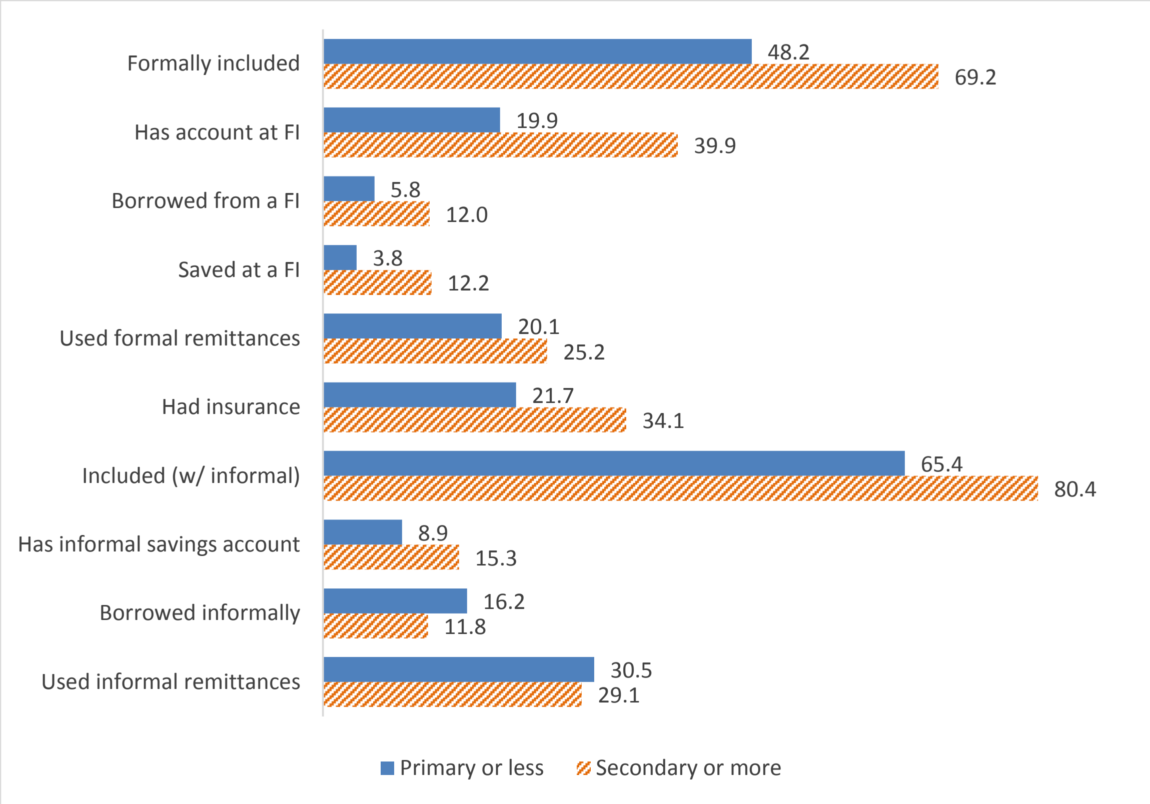
2.3.7 Education

Background: Nearly a third (33.1%) of the Jordanian population were enrolled in some educational program at the time of the census in 2015, reflecting a strong cultural awareness in Jordan of the importance of education and the long-term efforts of the government to increase access to education. 74% of students study in public schools.

Education is an important factor in financial inclusion, with less formally-educated adults demonstrating lower levels of formal financial usage across all major product categories. In order to be consistent with the Findex survey, the sample is divided into those who completed primary school or less and those with secondary or more.[30] The gap between the two groups is particularly wide in terms of account ownership, borrowing, saving, and insurance; only for formal remittances is the gap somewhat narrow. With regard to informal borrowing and informal remittance usage, the results for respondents with less formal education exceed those of respondents with more formal education, although the former group is less likely to have an informal savings account.

[30] One third (33.3%) of the survey respondents (on an unweighted basis) had a primary education or less.

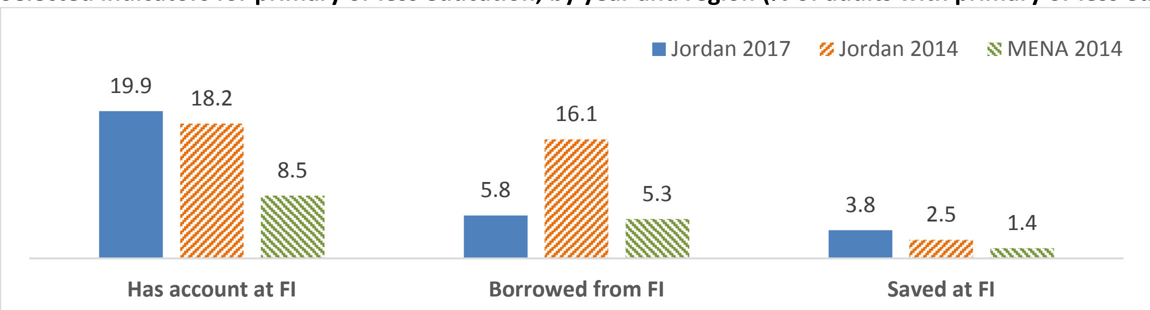
Key inclusion indicators by education, 2017 (% of adults in given category)



Source: CBJ/GIZ survey

The 2014 indicators for Jordan for account ownership, borrowing and saving among those with primary or less education exceeded the averages for the MENA region by a considerable margin. While account ownership and savings among the less-educated segment increased from 2014 to 2017, the borrowing rate declined sharply, from 16.1% in 2014 to 5.8% in 2017. There most likely no systematic reason for this decline, since financial institutions generally do not place much emphasis on education level when making decisions about issuing products. The 2014 Findex result, showing that the less-educated segment had a higher borrowing rate than the more education segment, was inconsistent with the findings for other products and may not have reflected the true borrowing ratio for the population.

Selected indicators for primary or less education, by year and region (% of adults with primary or less education)



Source: CBJ/GIZ survey (2017), World Bank Findex (2014)

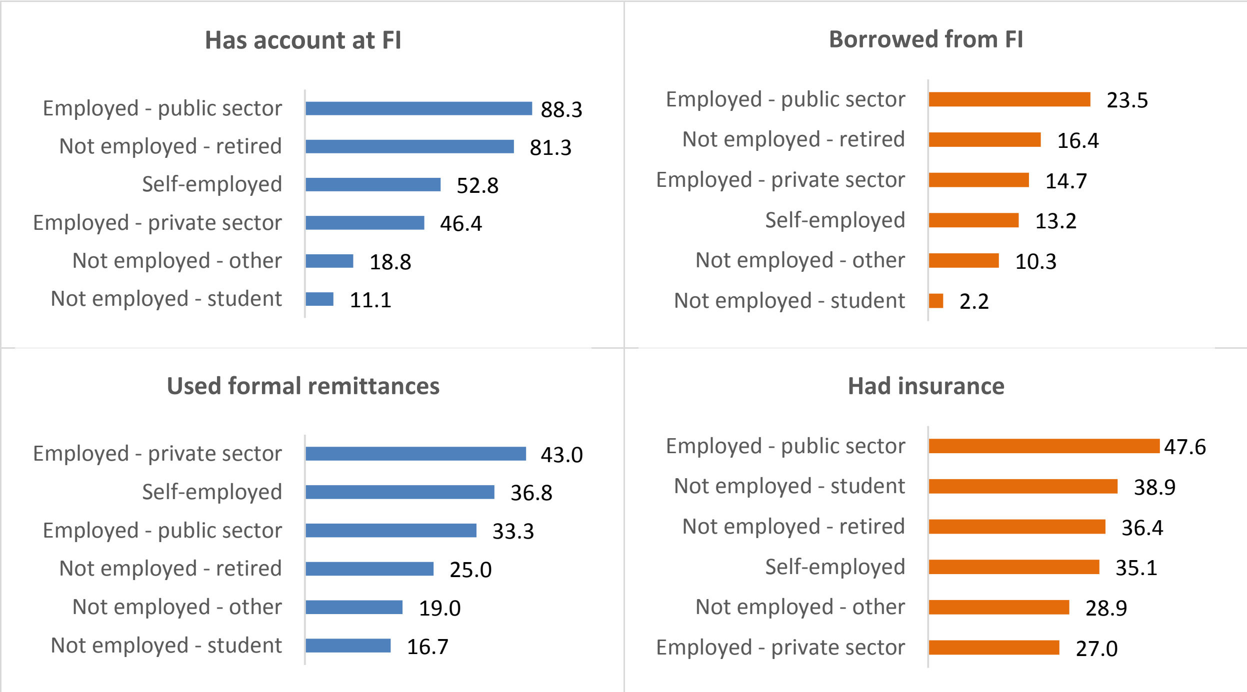
Education levels are highly correlated with income. Survey respondents with primary or less education had a median monthly income of JOD 250 versus JOD 350 for those with higher education. Therefore, the main factors explaining the education gap in financial inclusion are the same as the factors explaining the income gap. As with lower-income individuals, individuals with less formal education demonstrate less demand for financial services. On the supply side, financial institutions do not pay much attention to education levels when making decisions, but, given the lower levels of income on average for lower levels of education, the same supply-side constraints are applicable.

2.3.8 Employment status

Background: A little over a third (36.0%) of adults in Jordan were classified as economically active in 2016. Of those economically active, 86.9% were paid employees and 8.1% were self-employed, with the remaining 5.0% either business owners or unpaid workers. The government is a major employer in Jordan, accounting for 45.3% of all paid employees. The unemployment rate was 15.3% at year-end 2016, up from 13.0% a year earlier.

By employment status, public sector employees tend to have the highest rates of formal financial inclusion, especially with regard to deposit accounts, credit, and insurance, for which they rank in first place. Students, by contrast, rank last in three product categories (deposits, credit and remittances), although they have relatively high rates of insurance usage (38.9% of students have insurance). Retirees have relatively good levels of financial inclusion, particularly in terms of their 81.3% rate of account ownership, second only to the 88.3% rate of public sector employees. Retirees were also second in terms of borrowing, with 16.4% having received loans in the past year, again only lower than public sector employees at 23.5%. Self-employed individuals (micro-enterprise owners) tend to fall in the middle of the pack (third or fourth place) for most indicators, although they rank second in use of formal remittances at 36.8%.

Key inclusion indicators by employment status, 2017 (% of adults in given category)



Aside from retirees, people who are not employed will inevitably have lower levels of financial inclusion, since they have less income than employed persons on average. The same challenges and constraints that apply to low-income groups, therefore, also apply to individuals who are not employed. The high financial inclusion for public sector employees and retirees is as much a question of the certainty and consistency of their income as the amount. The high use of formal remittances among private sector employees is driven by migrants who come to work in Jordan and send money home, as well as those in the regions of Jordan that come to Amman for work.

2.3.9 MSMEs

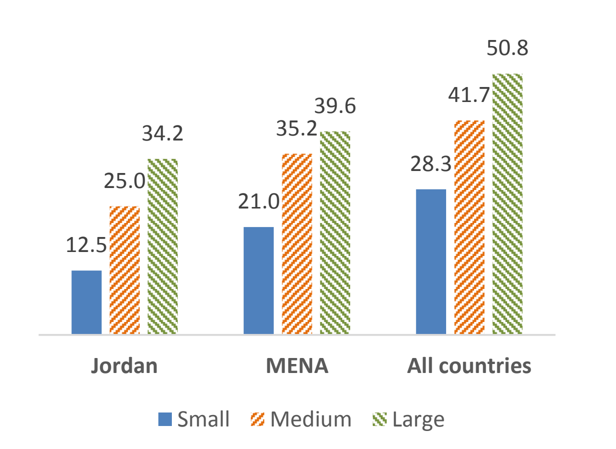
Background: There were 157,211 registered MSMEs with up to 99 employees in Jordan in 2014.[31] These MSMEs represented 99.4% of all registered enterprises in Jordan, with only 916 enterprises having 100 or more employees. A full 85.8% of all registered enterprises were microenterprises with just 1-4 employees. The density of MSMEs per 1,000 inhabitants was 17.9 in 2014, far behind the average for EU countries of about 44.[32] The contribution of MSMEs to GDP is estimated by CBJ at around 40%.

[31] 2014 is the last year data was available from DOS. The official government definition of MSMEs is enterprises with up to 100 employees and up to JOD 3 million in assets or turnover. Small enterprises have 5-20 employees and up to JOD 1 million in assets or turnover, and micro enterprises have up to 4 employees and JOD 100,000 in sales or turnover.

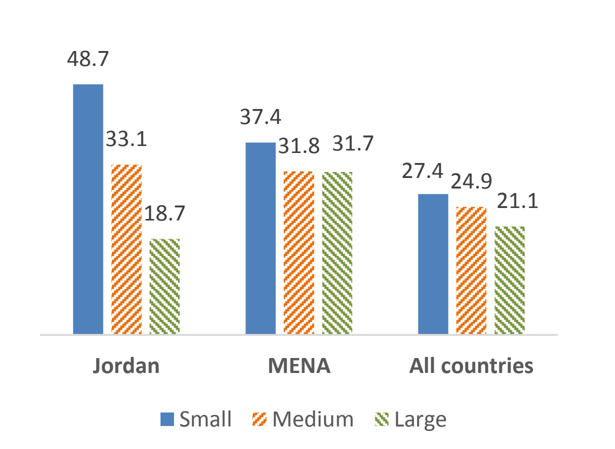
[32] European Commission. *Annual Report on European SMEs 2014/2015.* November 2015. Note: Although the EU counts enterprises with up to 250 employees as MSMEs (versus 100 in Jordan), this difference in definition is not significant – Jordan's MSME density would only be slightly higher if using the EU's definition.

Demand-side data suggests that micro enterprises have less access to credit than small enterprises, which have less access to credit than medium enterprises, which in turn have less access than large enterprises. An EBRD survey from 2015 reported that the percentage of micro enterprises with an outstanding loan was 17.8%, the percentage of small enterprises was 23.7% and the percentage of medium enterprises stood at 33.0%. The World Bank Enterprise Surveys, last done in Jordan in 2013, showed that 12.5% of small enterprises and 25.0% of medium enterprises[33] had a bank loan or line of credit, considerably lower than the 34.2% for large enterprises. At each size category in the World Bank data, the indicators for Jordan are lower than those for the MENA region and for all countries surveyed. Unlike the World Bank survey, the EBRD study included loans from both banks and non-bank financial institutions, which explains why the EBRD results are higher.

% of firms with bank loan/line of credit, 2013



% of firms identifying access to finance as a major constraint, 2013



Source: World Bank Enterprise Surveys

Consistent with the trend for borrowing rates above, 48.7% of surveyed small enterprises identified access to finance as major constraint[34], much higher than 33.1% of medium enterprises and 18.7% of large enterprises.

Given the challenges of access to finance from financial institutions, it is not surprising that many SMEs turn to semi-formal sources of credit. The Enterprise Surveys found that 25.7% of small and 32.0% of medium enterprises used supplier or customer credit to finance working capital needs. For small enterprises the use of supplier and customer credit for working capital was even higher than the use of bank credit (22.0%), whereas for medium enterprises they were roughly at the same level (32.6% used bank financing).

Supply-side data also confirms that the financial inclusion levels of MSMEs with respect to credit are low. The value of outstanding MSME loans from banks represented just 7.5% of total loans in 2016, up from 7.3% in 2015.[35] This compares unfavorably to typical levels of 20-25% in developing countries worldwide[36], although the upper size limit of 100 employees used as a definition of SMEs is low (250 is more commonly used as the upper limit in other countries) and partly explains the weak result. The EBRD study mentioned above estimated that bank credit demand among SMEs was JOD 2.7 billion, while the current SME loan portfolio of the banking sector amounts only to JOD 1.6 billion.

2.4 By access point

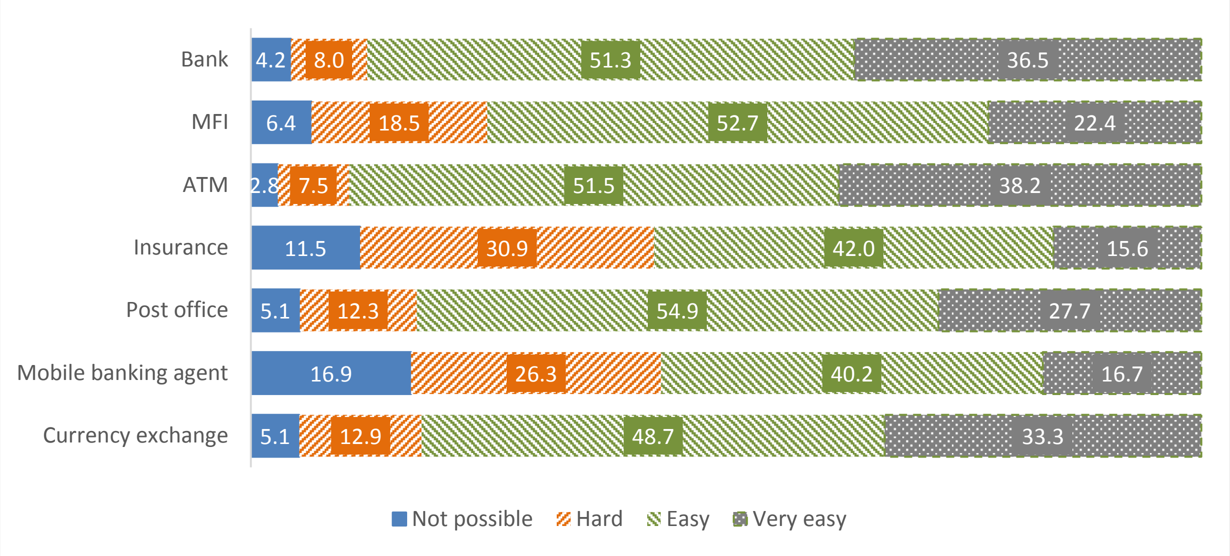
2.4.1 <u>The demand perspective</u>

Survey respondents report that ATMs are the easiest type of financial access point to reach, while mobile banking agents are the most difficult. From easiest to most difficult, ATMs come in first place (10.3% of adults find them either impossible or hard to reach), bank branches come second (12.2%), the post office is third (17.4%), currency

[33] The size categories used by the Enterprise Surveys are the same as those adopted by the CBJ: small is 5-19 employees, medium is 20-99 employees, and large is 100 or more employees.
[34] World Bank Enterprise Surveys
[35] CBJ Financial Supervision Department and CBJ *Financial Stability Report*
[36] This rough estimate is based on BFC's international experience in the MSME sector

exchange offices fourth (18.0%), followed by branches of MFIs (24.9%), insurance company offices (42.4%), and finally mobile banking agents (43.2%). The full set of responses is shown in the chart below, where each type of access point is rated as being not possible, hard, easy or very easy to reach.

Ease of reaching locations of financial services (% of respondents)



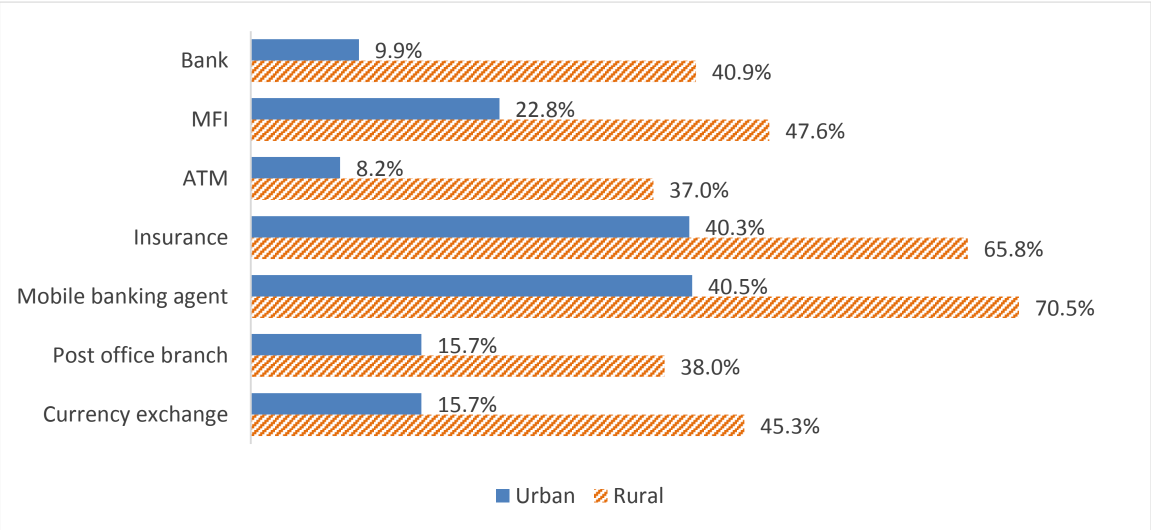
Source: CBJ/GIZ survey

The share of respondents that don't know where to find the nearest location of the given financial institution (not shown in the chart) is generally consistent with the share that find it difficult to reach. For bank branches and ATMs, for example, only 1.4% and 3.4% respectively of respondents didn't know the nearest location, while for insurance companies and mobile banking agents, the share was 19.2% and 27.0% respectively.

In terms of access to specific products, 3.5% of adults who didn't have a bank account indicated that a key reason for not having an account was the distant location of bank branches. Similarly, 3.2% of adults who didn't borrow from a formal source in the past year stated that the distance to branches of formal lenders was a key reason. Given that these percentages are relatively low, it seems unlikely that boosting the number of bank and MFI branches will lead to a significant increase in the usage of deposit and loan products.[37]

Predictably, rural residents find it much harder to reach access points than urban residents. The following chart depicts the share of urban and rural residents stating that it is not possible or difficult to reach various service points.

% of adults finding it difficult or impossible to reach financial access points



[37] It should also be considered that in order to keep the costs of the survey manageable, selection of households is typically done in relatively densely populated districts, not too far away from city centers. Therefore, the share of respondents that find it difficult to reach access points, or that consider distance to be a constraint, may be understated as a result of the sampling methodology.

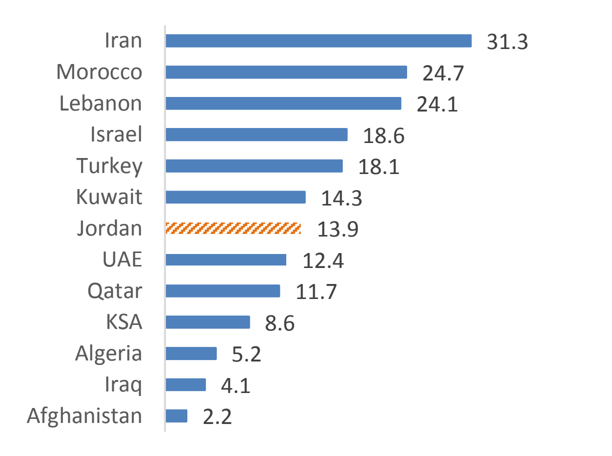
Source: CBJ/GIZ survey

The size of the gap between urban and rural residents is considerable. The share of rural residents finding it difficult or impossible to reach a bank branch is more than four times the share of urban residents (40.9% for rural to 9.9% for urban), while the multiple is more than double for access to MFI branches (47.6% to 22.8%).

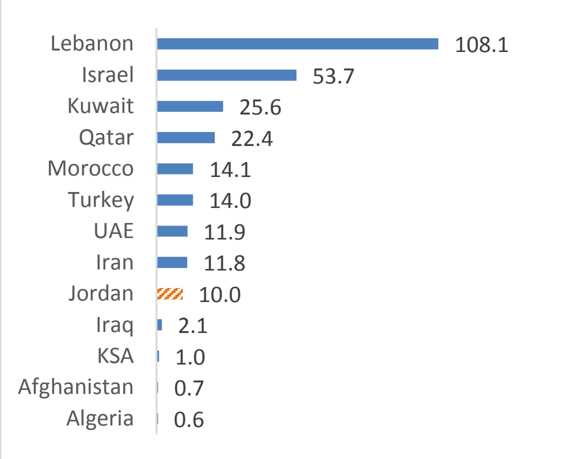
2.4.2 Bank branches

The branch networks of banks in Jordan are moderately well developed in comparison to other countries in the MENA region. There were 891 bank branches[38] in Jordan at the end of 2016, and the ratio of branches per 100,000 adults was 13.9, the same as in 2015. The ratio of branches per 1,000 square kilometers was 10.0 at year-end 2016, up from 9.8 a year earlier. Based on available data from other countries in the region, Jordan ranked seventh out of 13 countries in the region in terms of bank branches per 100,000 adults and ranked ninth in terms of branches per 1,000 square kilometers.

Bank branches per 100,000 adults (2016)



Bank branches per 1,000 km^2 (2016)



Source: IMF Financial Access Surveys; CBJ

Looking outside the MENA region to benchmark Jordan's branch network against high-income countries shows that Jordan is not far behind some countries with high levels of financial inclusion. In fact, Jordan's ratio of bank branches per 100,000 adults actually exceeds that of Austria, a country with a very high 97% account ownership ratio. In the comparison table below, Austria, the Czech Republic, Hungary and Portugal are used as high-income benchmarks, because their population and land area are similar to Jordan's. The fact that Jordan is already close to the level of Austria and Hungary in terms of branch density indicates that it is not necessary to have a huge branch network to ensure financial inclusion. Internet and mobile banking, when implemented effectively and adopted by a technologically literate population, can generate the same impact as a widespread branch network. Portugal has more than three times as many branches as Austria per capita and per square kilometer yet has a significantly lower account ownership ratio of 87%.

Jordan's bank branches compared to selected high-income countries (2016)

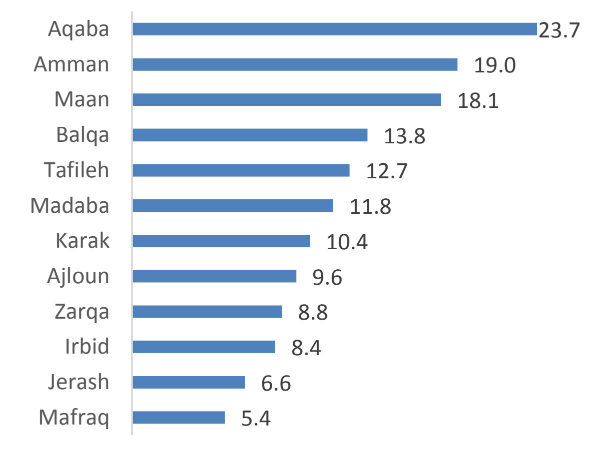
	Bank branches per 100,000 adults	Bank branches per 1,000 km^2	% of adults with account (2014)	Population (millions)	Land area (km^2)
Jordan	13.9	9.8	25%	9.5	88,794
Austria	12.6	11.5	97%	8.6	82,445
Czech Republic	22.4	25.9	82%	10.5	77,247
Hungary	14.7	13.7	72%	9.8	89,608
Portugal	42.7	41.5	87%	10.3	91,470

Source: United Nations Statistics Division, World Bank Findex, IMF Financial Access Surveys, CBJ

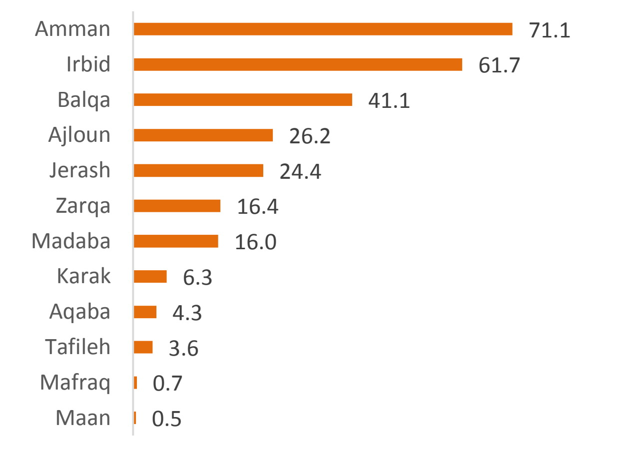
[38] The statistics for Jordan in this section include what are classified as bank "offices", which are small branches with a low headcount that offer a limited set of services. The services offered may differ from bank to bank and office to office – there is no standard definition. Since these offices are likely to offer the basic services that would most likely be of interest to low-income households and MSMEs, they are included in the indicators for branch density.

Of course, access to financial services depends not just on the total number of branches but also on how well distributed they are throughout the country. In this regard Jordan's branch network is less than ideally positioned, as the density of branches differs greatly from region to region. The charts below present the branch density by population and square kilometer.

Bank branches per 100,000 adults (2016)



Bank branches per 1,000 km^2 (2016)

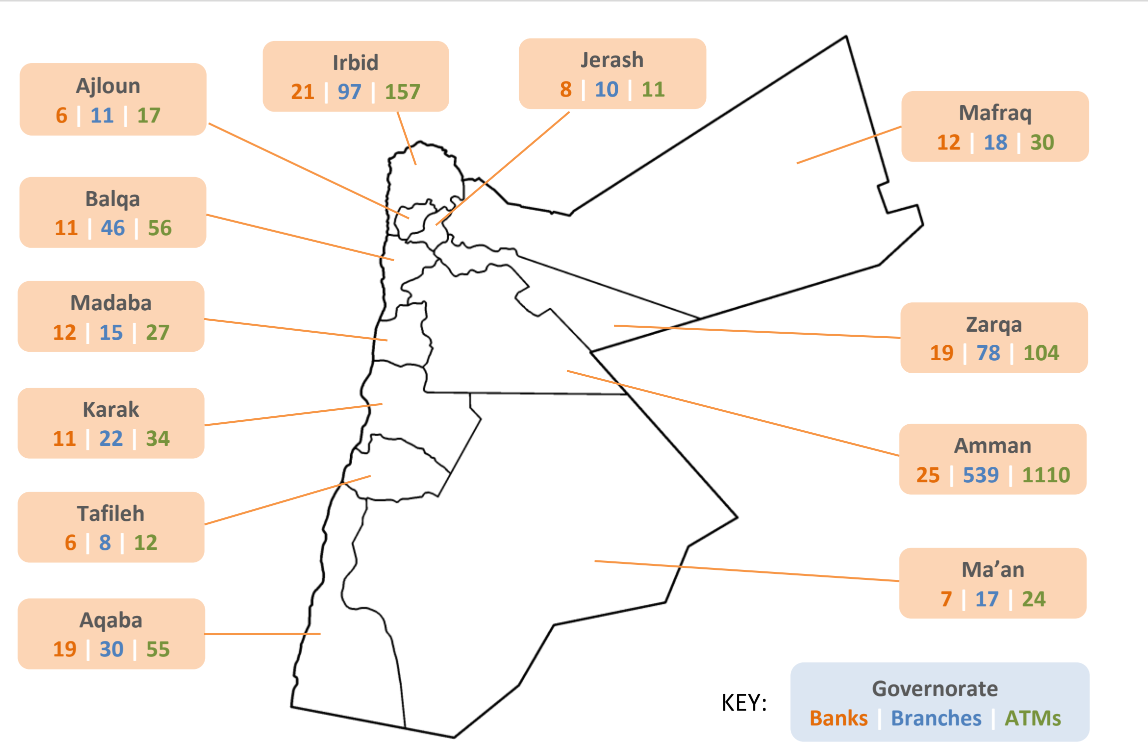


Source: Association of Banks in Jordan

The branch density per capita differs significantly by governorate. In terms of population, the density for Aqaba (23.7 branches per 100,000 adults) is more than four times the value in Mafraq (5.4). In terms of land area, the difference between the governorates with the highest and lowest density – 71.1 in Amman versus 0.5 in Ma'an – is even more dramatic.

Although only Amman can boast the presence of all 25 banks, even the smaller, more remote governorates have at least six banks present, ensuring a reasonable degree of customer choice. The following graphic illustrates the presence of banks in each governorate in 2015 by number of banks present, number of branches, and number of ATMs.

Banks' physical presence by governorate (2016)



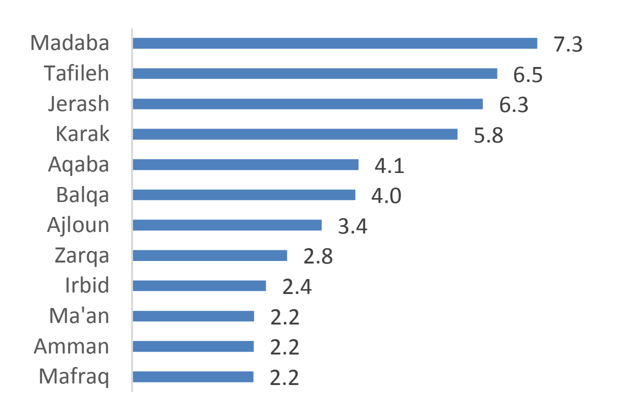
Source: Association of Banks in Jordan

Innovative approaches to providing a personalized interaction with staff without a traditional branch presence are being attempted in Jordan, but on a limited scale. One bank has a mobile branch in a bus that travels the country. Another bank has introduced staff-less "smart branches" with only ATMs and special kiosks that have a high degree of functionality, allowing customers to scan documents and open bank accounts without direct interaction with an employee. Telephone banking is also offered by some banks but reportedly is not very popular among customers.

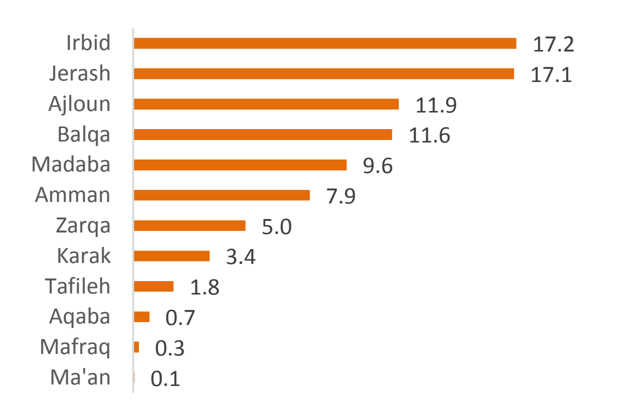
2.4.3 MFI branches

The branch networks of MFIs are reasonably well distributed throughout the country. The eight MFIs reporting to Tanmeyah had 175 branches in 2016, roughly one fifth the number of bank branches. MFIs are less focused on Amman than banks, as only 34.3% of MFI branches are in Amman, compared to 60.1% for banks. Nevertheless, similar to banks, MFIs demonstrate a wide range of branch density per governorate. Relative to population, the MFI branch density goes from a high of 7.3 branches per 100,000 adults in Madaba to a low of 2.2 for Ma'an, Amman, and Mafraq. By area, the difference is even more striking, with Irbid showing the highest density of 17.2 branches per 1,000 square kilometers versus a low of just 0.1 in Ma'an.

MFI branches per 100,000 adults (2016)



MFI branches per 1,000 km^2 (2016)



Source: Tanmeyah

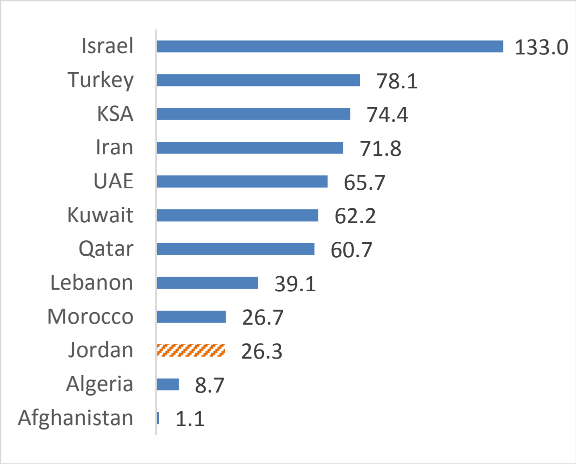
There are only two MFI branches in Ma'an, so customers there are quite limited in their choice. Other governorates with a low number of MFI branches are Tafileh (4 branches), Aqaba and Ajloun (5 branches each), but these numbers are sufficient to provide at least a moderate degree of choice.

Like the banks, some MFIs have attempted using innovative means to reach their customers. For example, one MFI has introduced two mobile branches to reach areas not covered by their branch network.

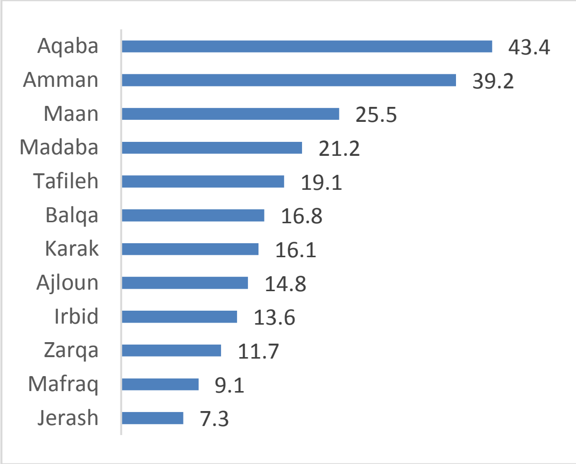
2.4.4 ATMs

The ATM networks of banks are not particularly well developed in terms of the density of ATMs per capita and in terms of their functionality. Jordan's ATM density per 100,000 adults of 26.3 ranked it tenth out of 12 MENA countries for which data was available in 2016. On a positive note, the ATM density for Jordan increased from 24.2 in 2015. ATM density varies widely by governorate, with the highest results observed for Aqaba and Amman.

ATMs per 100,000 adults (2016) by country



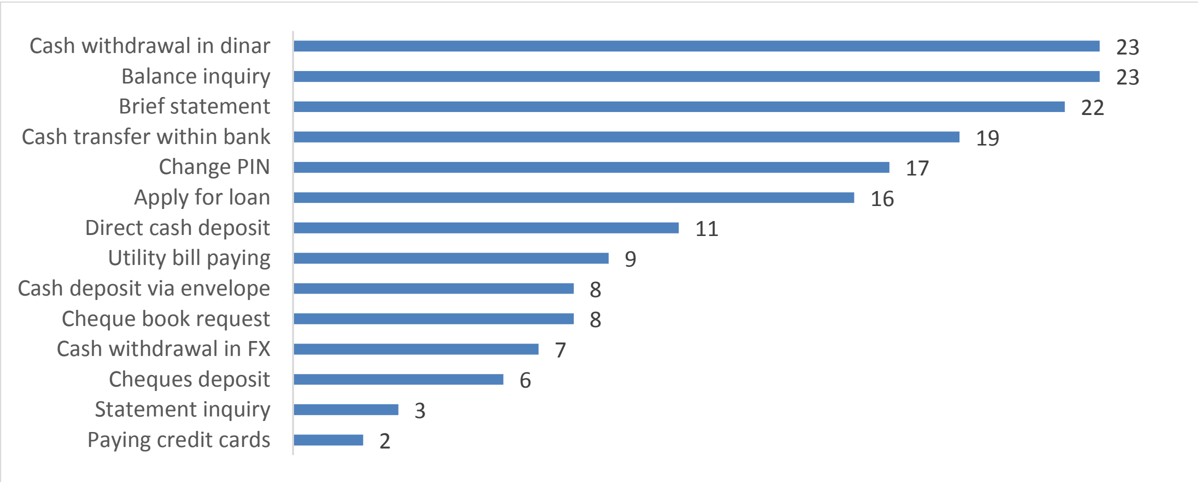
ATMs per 100,000 adults (2016) by governorate



Source: IMF Financial Access Surveys, Association of Banks in Jordan

As a result of less-than-ideal branch coverage and the limited uptake of mobile and internet banking services, the functionality of ATMs can play an important role in supporting financial inclusion. Most banks have the capability to offer some services aside from the standard local currency cash withdrawal and balance inquiry, the most popular being a short account statement, internal cash transfers, PIN code changes and loan applications. It is important to note, however, that although these banks have some ATMs that can perform these functions, not all of their ATMs can do so. Other types of beneficial functions, such as paying bills and credit cards and depositing checks, are only offered by a minority of banks.

Number of banks with given ATM functionality



Source: Association of Banks in Jordan

The functionality of ATMs is gradually increasing over time, and banks are looking at options to offer innovative services through their ATMs. One bank, for example, has recently started installing “smart ATMs” that allow document scanning and processing. Another bank has introduced mobile ATMs installed in vans that travel to different cities, helping to expand the geographic scope of access. Another bank has what it calls “ITMs” (interactive teller machines) that allow customers to have a video chat with a bank representative.

3 Regulatory framework

This section explores the regulatory, supervisory and institutional framework in Jordan as it relates to financial inclusion, focusing on regulation of the banking sector, microfinance sector, and payments and digital financial services. Regulations related to consumer protection and the insurance sector are covered later in the respective sections on those topics.

Key findings:

- The banking sector is well-regulated overall and diligently supervised; the regulatory framework for non-bank financial institutions is incomplete, but many new regulations are under development
- Important regulatory constraints in the banking sector include the absence of a bankruptcy law, the absence of a movable collateral registry, and strict supervision on the treatment of unofficial income
- The inability of MFIs to be able to accept deposits is a lost opportunity to increase financial inclusion
- Maximum loan size limits have been introduced that could make it difficult for some MFIs to work with small enterprises
- The recent launch of a private credit bureau is a major achievement related to the regulatory and institutional framework that should provide a strong boost to financial inclusion in the future
- The regulatory framework for payments is characterized by a strong national payments platform, high taxation on mobile services, and a good variety of mobile financial products and services

3.1 Banking sector

Overview: Then Jordanian banking sector is characterized by a sound regulatory framework overall and active supervision by the Central Bank of Jordan. Bank managers interviewed for this study expressed high levels of satisfaction with the regulatory framework and the quality of supervision. Despite the continued introduction of new regulations over time (such as consumer protection regulations in 2012), for the most part banks have not found them to be especially burdensome or challenging to implement.

Constraints: Although there are only a few problematic aspects of the regulatory and legal environment for banks, those barriers that do exist are significant. These key barriers are:

- The absence of a bankruptcy law
- The absence of a registry for security interests on certain types of movable assets
- Strict supervision regarding the treatment of undeclared income of MSMEs

It is worth noting that the first two – regarding bankruptcy and movable assets registry – are not exclusively banking sector regulations, as they impact other industries as well. It is also worth noting that all three are mainly related to credit products rather than account-related products, such as payments and deposits.

Bankruptcy: The absence of a bankruptcy law contributes to a slow, unpredictable and complex bankruptcy process, which in turn discourages banks from lending, especially to more risky client segments, such as younger applicants and startup firms. The weaknesses in the bankruptcy framework are reflected in Jordan's low ranking of 142nd of out 190 countries in World Bank's *Doing Business* report for resolving insolvency. Bankruptcy takes three years on average, costs 20% of the estate, and results in a recovery rate of 27.4%, according to World Bank. There are provisions for bankruptcy in the Commercial Code of 1966 and the Companies' Code, but they are in need of improvements, as they are more appropriate for sole traders than for legal entities and offer limited options for reorganization.[39] In any case, those provisions apply only to businesses, and there is no insolvency regime for individuals. Efforts to draft a unified bankruptcy law have been underway since 2010, supported by international organizations such as EBRD and IFC. The new draft has been submitted to Parliament, with the possibility of approval by the end of the year.

Movable asset registry: The absence of a movable asset registry contributes to inflexible bank collateral policies, which in turn makes it more difficult for MSMEs and individuals to access credit. Although there is no centralized, comprehensive movable asset registry at which pledges can be recorded, it is possible to register certain types of movable assets as security, automobiles being the most notable example. A law on Placing Movable Property as Debt Security became effective in 2012. Although the pledge law has some strong points (such as allowing the pledge of future debt), it has several weaknesses, the most important of which are not allowing pledge of partial parts of property, not allowing a third party to extend security in favor of someone else, and only including businesses in its scope, with no provisions for the general public to pledge property. Aside from the concerns about the law itself, its

[39] European Bank for Reconstruction and Development. *Commercial Laws of Jordan: An Assessment by the EBRD*. December 2014.

introduction has not resulted in the creation of a centralized registry. The mechanism for registering claims on vehicles is well established and functioning properly, so vehicles can effectively be used as security. For other types of movable assets, however, registration of a security interest is not a practical option. Efforts to introduce a registry are under way and could bear fruit by the end of 2017.

Undeclared income: Restrictions on the treatment of undeclared income from MSME loan applicants prevents banks from expanding their outreach to this segment. Most MSMEs in Jordan under-report their income for tax purposes, and the gap between their actual and reported income can be very large. Like most central banks, the CBJ strongly discourages banks from taking this unofficial income into account when making lending decisions, and can reprimand banks that ignore this guidance. While the CBJ's position on tax avoidance is legally correct and consistent with the approach of most central banks worldwide, the result is that many MSMEs that need and could afford a loan either cannot borrow at all or can only obtain a loan in an amount that is too small to meet their investment needs. Therefore, this restriction must be considered a major barrier to financial inclusion with regard to access to credit. It should be noted that some central banks in emerging markets turn a blind eye to banks' use of unofficial income in their financial analysis, with the understanding that better access to credit may lead to MSME growth, which in turn will support greater employment and higher tax revenue over the long term.

Credit bureau: Until very recently, the absence of a comprehensive credit bureau was another major barrier to credit access. However, the introduction of a credit bureau law in 2010 has led to the licensing of the first private credit bureau in December 2015. Most banks are already using the credit bureau and find the quality and completeness of data to be good, although it is still subject to occasional mistakes in data entry by the banks. Previously, the only source of credit information was a public credit bureau which contained information on loans of JOD 20,000 and above. As more banks sign up and share their data, this barrier will rapidly become irrelevant.

3.2 Microfinance sector

Overview: Regulation of the microfinance sector is difficult to evaluate, as it is still evolving following a series of major changes in recent years. Until 2015, MFIs were registered by the Ministry of Industry, Trade and Supply (MIT) but were not actively supervised. By passing the Microfinance Companies Regulation of 2015, CBJ took the responsibility for licensing, with the expectation that MFIs will be more actively supervised than in the past. Licensing and branching regulations were issued in 2016, and a deadline of June 2017 was set for MFIs to be licensed with the CBJ. As of August 2017, none of the existing MFIs or new companies had been licensed , noting that in accordance with provisions of the article (23) of the Microfinance bylaw in force, the existing MFIs shall adjust their capital, administration, businesses and activities, and undertake the necessary amendments to their memorandum of agreement and articles of association, according to the provisions of the bylaw, during a period that shall not exceed two years from the effective date of the provisions of the bylaw (June 1, 2015), and this period may be extended with prior approval from the Central Bank of Jordan and for no more than one year. Knowing that existing MFIs have requested the approval to extend this period, an approval has been granted to the MFIs according to their request, expecting that the first MFI will be licensed by the end of 2017. Financial consumer protection regulations were drafted and being finalized at the time of writing, as described in more detail in the "Consumer Protection" section of this report. Instructions on corporate governance and internal control systems have also been drafted, with instructions on classification and provisioning of loans and AML/CFT expected by late 2017 or early 2018.

Constraints: From the perspective of financial inclusion, the most important regulatory constraints placed on MFI's activities are the prohibition on deposit-taking and, to a lesser extent, restrictions on maximum loan sizes. The prohibition on deposit-taking is established in the Microfinance Companies bylaw of 2015, and the restrictions on maximum loan sizes are defined in the Regulations of Licensing and Branching for Microfinance Companies of 2016. The absence of an insolvency law and movable collateral registry (described in the previous section) can be considered constraints, although they only affect a relatively small portion of MFIs' clientele.

Deposit mobilization: Considering the low level of deposit account ownership in Jordan, the inability of MFIs to offer deposit products is a critical lost opportunity to increase financial inclusion. This is particularly true given that the core client base of MFIs – women, low-income households and microenterprises – are the same segments that tend to have the lowest levels of account ownership. MFIs would be highly motivated to offer deposit products in light of their social missions to support financial inclusion and because deposit-taking would reduce their cost of funding. MFIs' high cost of funding relative to banks is a constraint to increased lending outreach and represents another negative consequence of the prohibition on deposit-taking. At the same time, the prohibition is understandable, as the CBJ is only just beginning to supervise the microfinance industry, and to immediately open up the industry to deposit-taking would be challenging for the CBJ to manage in a manner that ensures the safety of depositors.

Maximum loan size: The restrictions on maximum loan sizes could inhibit access to credit for small enterprises that are too large for MFIs to serve but too small to be of interest to banks. The maximum loan size is calculated as 0.2% of the MFI's total loan portfolio at the end of the prior month and was determined partly through consultations with MFIs.[40] A relatively small MFI with a portfolio of JOD 10 million, for example, would be able to disburse loan sizes up to JOD 20,000, while a relatively larger MFI with a portfolio of JOD 40 million would be able to disburse up to JOD 80,000.

Closely related to the regulation on maximum loan sizes is a prohibition on lending to medium enterprises, defined as those with more than 20 employees or JOD 1 million in assets or turnover. Medium businesses that are labor-intensive but generate modest revenues and profits, such as production businesses in small towns or rural areas, may find that MFIs are their best or only borrowing option. Although such cases are not likely to be numerous, they represent a lost opportunity for MFIs to support job-creating enterprises.

Bankruptcy law and movable asset registry: The absence of a bankruptcy law and movable asset registry, described in the "Banking sector" section above, is much less relevant to MFIs than to banks, but can nevertheless be considered a minor constraint. Even if a movable asset registry were present, the vast majority of microloans would still be made without collateral, as they are now. However, for those MFI clients needing relatively larger loan amounts, the lack of a unified registration system may restrict access to credit. Similarly, an improved insolvency framework might benefit MFIs that work with small enterprises and take collateral.

Credit bureau: As with banks, the lack of a comprehensive credit bureau was a critical constraint that still impacts recent financial inclusion indicators, but this constraint is expected to become irrelevant in the near future. Two MFIs had already signed on to the new private credit bureau as of mid-2017, and others are expected to follow suit gradually. Previously, MFIs shared data amongst themselves but had no information about their clients' borrowing activity from banks and other financial institutions.

Availability of CBJ funding: Another constraint that is expected to become irrelevant in the near future is the unavailability of inexpensive funding from the CBJ or other government bodies for MFIs. Such funding programs carrying very low interest rates are available to banks, putting MFIs at a relative disadvantage in terms of their cost of funding and, ultimately, their interest rates to end borrowers. Because MFIs will shortly be licensed and supervised by the CBJ, it is anticipated that MFIs will gain access to special programs allowing them to lend at more attractive rates and compete better with banks, especially for small enterprises and salary earners.

3.3 Payments and digital financial services

The main regulatory issues related to payments, transfers, and DFS that hinder greater financial inclusion are summarized here, with the severity of the constraint rated as being severe, moderate, or minor.

- *Taxation (Severe)*: Mobile payment service providers (i.e. mobile wallet firms) lack clarity on the level of taxes that they are subject to. This is due to existing gaps on the classification of their activities. FinTech firms are subject to 5% income tax in Jordan, while the income tax for financial service providers is 35%. There is also a question on whether they are exempt from sales tax (like banking services)[41]. A clarification on this is still pending and would have a direct effect on the cost of services. In the short-term, a facilitating tax regime is recommended in order to encourage market growth.
- *Remittance transaction limits (Severe)*: CBJ should clarify the transaction limits of when a customer due diligence is to be applied for foreign remittances (exchange houses report a lack of clarity on this issue).
- *Mobile wallet transaction limits (Moderate)*: The limits for mobile wallet transactions (P2P: JOD 200 for banked clients and JOD 100 for unbanked clients) are significantly lower than the typical size of an incoming foreign remittance transfer (JOD 800 – 4,000). In the short-term, this isn't a major issue given the nascent stage of the mobile wallet market, yet these limits would need to be revised for a more active transition to digital financial services, and reducing the reliance on exchange houses channel (leading for remittances).

[40] In addition, loans to new borrowers are capped at JOD 20,000 for individuals, JOD 50,000 for micro enterprises (less than 5 employees and less than JOD 100,000 in annual sales turnover or assets), and JOD 70,000 for small enterprises (5–20 employees and JOD 100,000 to 1,000,000 in sales turnover or assets). In regards to newly licensed companies, the maximum loan/ finance granted shall be JD 10,000 to individuals, JD 20,000 to microenterprises, and JD 30,000 to small enterprises, during the first three years of the license or until these amounts become less than the ratio mentioned previously.

[41] http://www.cgap.org/sites/default/files/Working-Paper-Paving-the-Way-for-Digital-Financial-Services-in-Jordan-Aug-2017.pdf (page 16)

The same applies for the domestic P2P payments market where the average transaction size at exchange houses is reported at JOD 2,000.

- *PSP capital requirement (Minor)*: The initial capital requirement for setting up a new mobile payments service provider company (JOD 1.5 million) is estimated to be a barrier to entry given that this level is about four times higher than in countries of the European Economic Area. At the same time, it is considered justified in order to ensure greater integrity of a new market where reputational risk can have a huge impact on the uptake of the new services[42]. Thus, while a higher initial capital requirement is expected to result in more reputable firms entering the market in the short term, it should be revised in the medium term in order to allow new firms to enter the market.

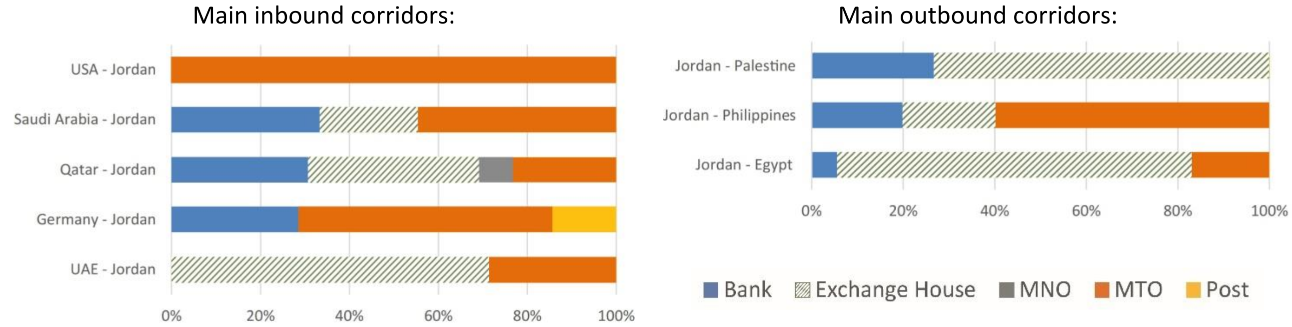
3.3.1 Regulation of general and traditional payments

A 2017 CGAP study[43] focusing on the payments and remittances markets (most significant for the financial inclusion of the low-income population) highlights the following CBJ departments and units as the most relevant to the regulation of both domestic and international payments: (1) Payments Department, (2) Exchange House Department, and the (3) Anti-Money Laundering Unit. The report also emphasizes several regulatory gaps, especially when it comes to the activity of exchange houses, as explained below.

Consumer protection and transparency present gaps in the regulatory environment for domestic payments. There are still gaps regarding the dispute mechanism for consumers, lack of data privacy regulation, and risk of consumers losing their funds in the event of bank failure.

Better regulation of exchange houses is important considering their dominant role as a remittance channel[44]. When analyzing the major incoming and outgoing corridors for remittances (see below figure), it becomes evident that exchange houses dominate the market as the principal customer-facing entity. Depending on the corridor, an exchange house can offer up to three or four different channels for sending funds (e.g., cash-to-cash or cash-to-bank account)[45]. Note that the figure below distinguishes between exchange houses (representing the bilateral partnerships these have directly with other exchange houses and/or banks) and MTOs (mostly also representing exchange houses, yet highlighting the remittances that occur via international money transfer organizations such as Western Union or MoneyGram).

Estimated share for remittances services providers by corridor



Source: CGAP (2017), "Paving the Way for Digital Financial Services in Jordan" (page 24)
Note: MTO = Money transfer organization; MNO = Mobile Network Operator

Some exchange houses (usually the larger or more well-known exchange houses) are able to access the domestic payments systems (like the Real Time Gross Settlement (RTGS) or the Automated Clearing House (ACH)), while others are not. This raises concerns related to anti-competitiveness in the marketplace. Additionally, this further supports the dominant "netting-off practice" (especially for regional remittance corridors)[46] that bypasses the domestic

[42] Ibid
[43] Ibid
[44] In December 2016 there were 140 exchange houses operating in Jordan (with a total of 265 branches). Circa 75% are based in Amman.
[45] Ibid (page 24)
[46] In cases when exchange houses do not transfer remittances via the channel of international money transfer organizations (e.g. Western Union, MoneyGram) they rely on direct bilateral partnership agreements with other foreign banks or exchange houses. In such cases it is common to settle transactions on behalf of customers (individuals and businesses), without moving money internationally. Instead balances are "netted-off" against each other over a period of time. This model is usually used only within the Arab world, where there is also a high incidence of trade-related payments, alongside P2P remittances. The

settlements system infrastructure entirely. Among other things, this also leads to a portion of transactions not to be seen on official balance sheets. It is therefore recommended to actively collaborate with all exchange houses to ensure connectivity to both RTGS and ACH.

There is lack of clarity on when some AML/CFT procedures for exchange houses[47]. According to the Anti Money Laundering and Counter Terrorism Financing Regulation related to Money Exchange Companies (no. 2/2010), it is both below JOD 700, and below JOD 10,000. It's thus recommended for CBJ to reach out to exchange houses to clarify this issue.

3.3.2 Regulation of digital financial services (DFS)

Since the launch of the first mobile money service in 2009 (i.e. Zain Cash), regulators in Jordan have taken a proactive approach towards facilitating the development of this sector, aided by the support of international development organizations. Nowadays, the most notable achievements, documents, and projects related to DFS regulation include:

- **Documents:**
  - **Mobile Payment Services Instructions (MPSI):** Published in December 2013, this document provides a new regulatory framework for mobile money in Jordan. This document also introduced JoMoPay (see below). As a supplement to MPSI, CBJ also issued a Mobile Payment Service Operational Framework that aims to clarify the structure of processes, techniques, limits, and operational environment of the mobile phone payment services[48].
  - **Maya Declaration:** In November 2016, CBJ announced nine commitments on financial inclusion in the framework of the Maya Declaration. Among others, this included a target on consumer protection guidelines for DFS in Q1 2017 (see discussion below).

- **Initiatives:**
  - **JoMoPay:** JoMoPay is a national platform for mobile payments managed by CBJ and ensuring interoperability between all connected MFS providers in the country.
  - **DFS Council:** In an effort to institutionalize a constant and rapid policy feedback process with all DFS stakeholders in the country, in 2016 CBJ coordinated the setup of a DFS Council. This body includes members from: payment service providers, banks, MFIs, card issuers, regulators (e.g. TRC - Telecommunication regulatory committee), CBJ, and international organizations (UNHCR, GIZ (Digi#ances Project hosts the secretariat of the council)).

The following paragraphs discuss the key regulatory observations for MFS:

Market leadership: The MPSI stipulates that the mobile financial services in Jordan is neither bank-led nor telco-led[49], but rather allows for an open playing field among various types of market players, which ultimately allows for a greater variety of MFS products and services. However, this may result in a greater degree of fraud risks (e.g. money laundering) since non-bank institutions usually don't follow strict AML/CFT verification standards characteristic to the banking sector. Although MPSI does include AML/CFT instructions, regular audits are encouraged by CBJ to ensure that new companies follow them so that the potential reputational risk to the new industry is minimized.

Taxation: In 2015 a joint study by GSMA and Deloitte identified that mobile consumer and operator taxation in Jordan is among the highest worldwide[50]:

- For consumers, taxation accounted for 40% of the cost of mobile ownership. This included a General Sales Tax (16%) applied to most goods and services, as well as a Special Tax (24%) for mobile services (including calls, SMS and mobile broadband bundles).
- For operators, apart from the 24% corporate tax, the government had a revenue share scheme entitling it to 10% of operating revenues. Only the mobile sector was reported to have such a scheme.

"two-way" traffic that is created generates enough volume within a given corridor for this model to persist. Reference: http://www.cgap.org/sites/default/files/Working-Paper-Paving-the-Way-for-Digital-Financial-Services-in-Jordan-Aug-2017.pdf (page 25)

[47] http://www.cgap.org/sites/default/files/Working-Paper-Paving-the-Way-for-Digital-Financial-Services-in-Jordan-Aug-2017.pdf (page 31)

[48] https://procurementadmin.fhi360.org/Files/JoMoPay_Operational_Framework_635586593682915045.pdf

[49] Telco = Telecommunications company (same as MNO – mobile network operator)

[50] GSMA (2015), "The Mobile Economy. Arab States", www.gsmaintelligence.com/research/?file=7910cff3a3e6f96219cd50e31d6d3e1c&download (point 3.5.2 on page 33)

At the same time, the increased cost of mobile ownership due to high taxes appears to have little effect on the spread of mobile devices, with many people having at least one mobile phone (as discussed in the following section) (CBJ/GIZ survey: 92% of adults have a mobile phone). That being said, it is assumed that the usage of mobile phones (for general communication and MFS) could be higher should the tax regime be eased. More research is encouraged in this area in order to determine Jordanian consumers' sensitivity to the cost of mobile services.

Aside from the taxation of mobile operators, there is also a separate new issue regarding the taxation of mobile payment service providers. As also discussed in the regulatory section on page **Error! Bookmark not defined.**, such firms lack clarity on which tax regime will be applied to them (i.e. 5% income tax as FinTech firms vs. 35% income tax as financial service providers). A lower tax regime is recommended in the short to medium term in order to encourage the growth of the MFS market (until PSPs reach a sufficient scale of operations and show good profitability).

Interoperability: CBJ has taken a leading role in establishing JoMoPay – a centralized platform for all DFS – allowing for multiple market players to use the system. While JoMoPay is a remarkable achievement, the 2017 CGAP report suggests that one element is still missing in this scheme – the connectivity of all exchange houses to the domestic payment systems (see discussion in section 3.3.1).

Licensing: A payment service provider (PSP) license can be granted to a bank, a mobile network operator (MNO), a wallet issuer or a consortium of such firms. Such flexibility allows for a high degree of experimentation with MFS business models and could lead to successful innovations. At the same time, the CGAP 2017 report argues for yet another type entity that could be included in this list – exchange houses[51]. Such a scenario could have a strong effect on digitizing both domestic payments and international remittances, where exchange houses play a dominant role. Alternatively, existing MPSPs could gradually expand their service offer to include international remittances (current tendency), tapping into the market of exchange houses, however, the digitalization of this market niche is expected to be slower.

Consumer protection: While the consumer protection regulations for the banking sector were updated in 2012, until recently this was a gap for the DFS sector. In April 2017 CBJ addressed this by introducing "Instructions on the Protection of Personal Data of the Clients of Payment Services and Electronic Transfer of Funds". In June 2017 another document was issue on the "Regulations of financial Consumer Protection and Mechanism to Handle Complaints for the Jordan Mobile Payment (JoMoPay)". The 2017 CGAP report concluded that existing instructions contain basic consumer protection rules, yet these lack the depth required to ensure consumer protection in complex situations, particularly if significant uptake is achieved. Gaps include mandating transparency, ensuring data protection, and mitigating risks over the loss of customer funds in the event of bank failure[52].

Cross-border transactions: This represents a regulatory challenge for new MFS providers considering that various countries may apply different licensing, AML and KYC policies, or clearance and settlement standards. CBJ is reported to be actively working on signing new agreements with other central banks in order to close any gaps in this area.

Agent networks: Regulations of mobile banking agents might need to be reviewed by adding a typology of agents to reflect existing market practices where some MFS providers apply limits and restrictions for the type of services that an agent may provide depending on several factors (e.g. location, size). See the discussion in the "Payments" section of this report.

[51] http://www.cgap.org/sites/default/files/Working-Paper-Paving-the-Way-for-Digital-Financial-Services-in-Jordan-Aug-2017.pdf (page 52)
[52] Ibid. (page 58)

4 Payments, transfers and remittances

The main issues related to payments, transfers, and DFS that hinder greater financial inclusion are summarized here, with the severity of the constraint rated as being severe, moderate, or minor.

- *Geographic distribution of exchange houses (Severe)*: The majority of international remittances and domestic P2P payments are reported to happen via exchange houses, of which 75% are reported to be concentrated in Amman. This significantly reduces the access of the rural population to such services, but at the same time represents an opportunity for new MPSPs to concentrate on this market niche, assuming that the average transaction volumes here would also be lower than in urban areas (and thus better fit with the current transaction limits regulated for mobile wallets).
- *P2P transfer limits (Severe)*: To advance digital payments, the maximum limits for mobile person-to-person (P2P) transfers needs to be increased since the current limit (JOD 200 (for a banked client)) is well below the average amount reported for a domestic transfer via exchange houses (JOD 2,000).
- *Price disadvantage for PSPs (Moderate)*: Jordan is found to have some of the lowest average prices for sending remittances to other countries, which would make it difficult for new MPSPs to compete with market incumbents. This is especially the case for regional remittance corridors (Arab countries) where the cost of such services is below the global average of 7.6% (of transaction value). Thus (assuming transaction limits are increased) MSPS that also cover remittance payments could concentrate of the corridors to and from Europe or more distant markets (e.g. USA, Philippines).
- *Consumer cash preference (Moderate)*: Jordan is a highly cash-based society, suggesting a slow transition to DFS. Nonetheless, concentrated efforts like marketing campaigns, improving financial literacy, and ongoing collaborations that results in rapid scalability (with government agencies, NGOs serving vulnerable groups and transportation companies) are expected to reach the necessary critical mass of users in the medium-term in order to change perceptions of DFS.
- *Low broadband internet penetration (Minor)*: The usage of internet banking is partially limited by the insufficient spread of internet access. Circa 36% of people were estimated to have (non-mobile) internet access in 2016, of which only 4–5% have a fixed broadband connection. On the other hand the World Bank estimated a 53% internet usage in 2015, highlighting the role of mobile internet access. CBJ/GIZ survey results suggest an even higher significance of mobile phones for internet access (71% accessing the internet via mobile phones and tablets vs 17% doing so via a PC (with a fixed connection)).

4.1 General market overview

4.1.1 Domestic payments

The table below presents an overview of the domestic payment infrastructure, payment volumes, and type of entities involved.

Overview of domestic payment infrastructure in Jordan 2015

Name of the system	System operator	Type of transfer	Annual value	Annual transactions
Real-Time Gross Settlement System (RTGS-Jo)	CBJ	All bank settlements	USD 2.4 trillion (JOD 1.7 trillion)	705 million
Automated Clearing House (ACH)	CBJ	Low-value bank-to-bank transfers	Not available (launched in December 2016)	Not available (launched in December 2016)
Electronic Cheque Clearing (ECC)	CBJ	Cheque clearing	USD 120 billion (JOD 85.2 billion)	22.5 million
Jo-Net	EMP	Bank account to ATM (and vice-versa in approximately 30% of ATMs)	USD 11.4 billion (JOD 8.1 billion) (in and out)	42 million (cash-out only)
JoMoPay	CBJ (*being spun off)*	e-wallet to e-wallet; e-wallet to prepaid card; Bank account to e-wallet (and vice-versa)	Minimal (piloted in 2015)	Minimal (piloted in 2015)
SWIFT	SWIFT	Interbank transfers—domestic and cross-border	n/a	n/a
MEPS Switch	MEPS	Retail payments	n/a	n/a

Source: CGAP (2017), "Paving the Way for Digital Financial Services in Jordan" (page 7)

As also discussed in the "Regulatory framework" section, exchange houses have the dominant share of the domestic person-to-person (P2P) transfers (as well as international remittances), however most are not connected to RTGS or the new ACH system. The biggest exchange houses are estimated to manage up to 13,000 transactions per month. Smaller and mid-sized exchange houses report 400–3,000 transactions a month. The average transaction size for domestic transactions is thought to be around USD 2,800 (JOD 2,000) — although larger transactions of circa USD 5,600 (JOD 4,000) are also common[53].

4.1.2 eFawateer

In 2011, a separate entity (Madfo3atcom) was established to operate eFAWATEER.com, a centralized bill presentment and payment platform owned by CBJ, and hosted by EMP (a PSP company). The eFAWATEER system allows for bill payments via a range of channels (ATMs, tellers, mobile and online banking services, Jordan's post offices, etc.). In 2016, a total of 77 companies or organizations worked through eFAWATEER. While the volume and number of electronic payments via eFawateer keeps growing every year (see table below), there is still plenty of room to grow. Considering a population size of 7.8 million, which may need to settle 3-4 bills for utilities and other services every month (resulting in a theoretical number of 327 million transactions per year), the total number of transactions in the first nine months of 2017 (2.7 million) looks small.

Overview of eFawateer.com transactions

Year	Number of connected billers	Total number of paid bills	Total volume of paid bills (JOD)	Average value of each bill (JOD)	Average Value of the fee per bill (JOD)
2015	43	478,281	41,613,660	87	0.26
2016	77	1,837,214	560,801,885	305	0.39
2017*	103	2,764,396	1,597,262,912	578	0.50

*Source: Madfo3atCom (operator of eFawateer.com e-payments platform); *2017 data as of September 7*

4.1.3 Cheques

Cheques are a classical payment method expected to remain popular. Compared to other countries where the role of this payment mechanism has diminished over time[54], the volume of cheque transactions in Jordan is still significant[55] and has actually increased from 2010 to 2014 (see table below). While it is expected that authorities will encourage a transition to alternative digital payment means, similar to developed countries[56], phasing out cheques completely is likely to take a long time since these are a trusted and preferred payment option, particularly in business and among the older generation (ages 55 and above).

Cheque transactions (JOD million)

Year	Presented for clearing	Returned cheques	% returned
2008	40,176	2,125	5.3%
2009	34,831	2,128	6.1%
2010	34,305	1,878	5.5%
2011	37,449	1,567	4.2%
2012	39,808	1,558	3.9%
2013	42,851	1,524	3.6%
2014	48,380	1,708	3.5%
2015	48,063	1,735	3.6%
2016	46,202	1,832	4.0%

Source: CBJ data

CBJ/GIZ survey results: The conducted survey also suggests that 1.1% of adults currently receive social benefits via cheques (99.5% of the survey respondents were registered as social benefit recipients). In relative terms, the use of cheques is a little higher for receiving salaries in the public sector (2.7%) and private sector (3.1%).

[53] http://www.cgap.org/sites/default/files/Working-Paper-Paving-the-Way-for-Digital-Financial-Services-in-Jordan-Aug-2017.pdf (page 2)
[54] http://www.npr.org/2016/03/03/468890515/is-it-time-to-write-off-checks
[55] The 2016 transaction volume (see table) is comparable to the total assets of licensed banks in 2016 (JOD 48.3 billion).
[56] http://www.bbc.com/news/business-36345676

Payment methods for salaries (public and private employees) and social benefits (%)

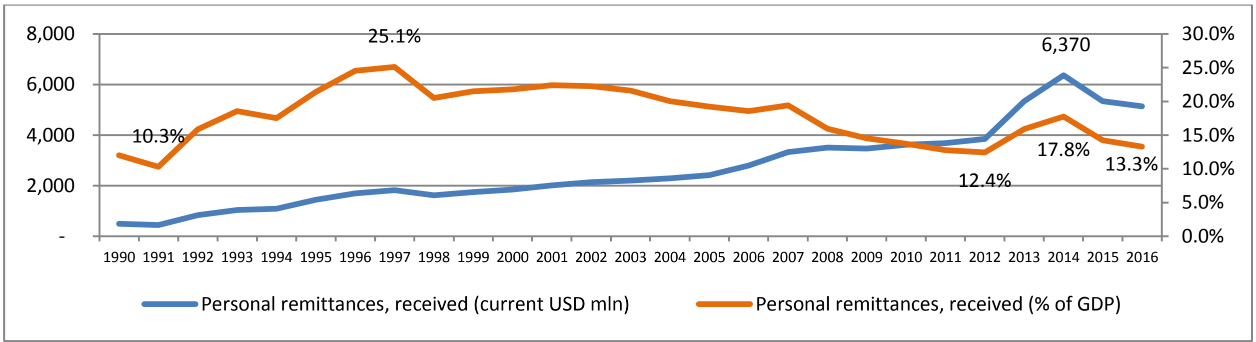
	Public employee salaries		Private employee salaries		Social benefit payments	
Estimated group size[57]	7% of the population		13% of the population		99.5% of the population	
Payment received via…	Yes	No	Yes	No	Yes	No
…bank account	47.6%	52.4%	26.1%	73.9%	5.8%	94.2%
…mobile wallet	-	100%	-	100%	-	100%
…cheques	2.7%	97.3%	3.1%	96.9%	1.1%	98.9%

Source: CBJ/GIZ survey

4.1.4 International remittances

While digitalization is a high priority on the government's agenda, remittances via traditional channels will continue to be popular in the short-term. In an effort to advance financial inclusion in Jordan, considerable efforts have been made in recent years to transition to a greater use of electronic payments and transfers. At the same time the method of sending remittances[58] is expected to experience little changes in the short-term with regard to the significant role played by exchange houses and discrepancy between limits for P2P mobile transaction volumes and current average transaction sizes (as discussed in the summary box on page **Error! Bookmark not defined.**).

Total and relative value of remittances (1990–2016)



Source: World Bank Data[59]

Foreign remittances registered a sharp recent increase and are a significant source of foreign currency. Personal remittances from abroad (including personal transfers and compensation of employees) registered USD 5.1 billion in 2016 (13.3% relative to GDP) and has been gradually increasing the last two decades. The volume of remittances spiked in 2012 with the start of the Syrian refugee inflow (see chart above) and dropped sharply in 2015. This can be partially explained by the fact that most of remittances come from GCC countries (see table on right) where personal revenues were affected by a sharp decrease in oil prices in 2014–2015[61].

Top 10 countries for remittance inflow (2015, USD million)

Country	Value	Share
World	5,348	100%
Saudi Arabia	2,069	38.7%
United Arab Emirates	1,022	19.1%
United States	530	9.9%
West Bank and Gaza	310	5.8%
Qatar	292	5.5%
Kuwait	272	5.1%
Libya	116	2.2%
Germany	92	1.7%
Bahrain	85	1.6%
Oman	66	1.2%

Source: World Bank Data[60]

Efforts are under way for optimization and increased outreach for refugees. It is undeniable that the considerable volume of remittances helps improve the country's balance of payments, easily attracting foreign exchange as well as ameliorating the government's burden in managing the refugee crisis. Therefore, efforts are under way to streamline remittance transactions, reduce the volume of unofficial remittances and digitalize the process.

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[57] Note: The total employment rate in Jordan registered 33.1% in Q1 2017. In the table employment rate adds up to 20% since these questions weren't meant to be asked for respondents indicating "Employed - Other" in the survey (estimated 15% of the sample).

[58] Based on World Bank definition: Personal remittances comprise personal transfers and compensation of employees. Personal transfers consist of all current transfers in cash or in kind made or received by resident households to or from nonresident households. Personal transfers thus include all current transfers between resident and nonresident individuals. Compensation of employees refers to the income of border, seasonal, and other short-term workers who are employed in an economy where they are not resident and of residents employed by nonresident entities. Data are the sum of two items defined in the sixth edition of the IMF's Balance of Payments Manual: personal transfers and compensation of employees.

[59] http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=JO

[60] https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

[61] World Bank (2017), "Migration and Development Brief 27", see page 25. Reference: http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf

Recent examples include the development of an interoperable infrastructure for mobile payments and integration with other payment networks, a new bylaw and instructions for electronic payments by CBJ, and new financial education measures, all of which are intended to improve access to digital payments and remittances for the unbanked population in Jordan, and for refugees in particular.

4.2 Digital Financial Services (DFS)

4.2.1 Potential vs status quo

DFS have great potential to increase financial inclusion. The availability of internet banking and especially mobile banking solutions in a country have a massive potential in reducing the financial inclusion gap. Recognizing this opportunity, in recent years stakeholders in Jordan have made considerable steps in advancing the availability of such digital financial services and solutions (mobile financial services (MFS) are seen as a subset of DFS, see definitions in Appendix 4), being also praised by several international institutions as a positive example. In September 2016 the McKinsey Global Institute stated that "Jordan and Peru are leading the way in building payments architecture that is faster and less costly than many payment systems in advanced economies"[62]. And in December 2016 the international GSM Association published a case study on promoting interoperability based on the experience in Jordan[63].

Nevertheless, the results of the CBJ/GIZ survey, as well as other sources, indicate that the current status of DFS usage is still well below its potential in Jordan. Depending on the type of DFS, some of this may be attributed to general issues like financial literacy, habits (use of cash), lack of awareness, and limited trust of financial institutions, while some of the factors are more specific:

- *Limited usage of cards (debit/credit)*: As shown in the "Financial access" section, 27.2% of people have and 26.0% use debit cards. The total potential here is assumed to be limited to the general figure for bank account ownership (32.0%). Because the great majority of such cards are linked to having a bank account, higher usage is unlikely without increasing bank account ownership in the first place. Infrastructure also plays a role here. ATMs and POS terminals (where a person would normally use the cards) are either concentrated in urban areas (ATMs) or just not widespread (POS terminals), as discussed in the following sections.
- *Limited usage of internet banking*: This is somewhat hindered by the generally limited spread of reliable (non-mobile) internet access. Only 4.2% of the population was estimated to have fixed broadband internet connection in 2015. Additionally, until recently, the ability to pay for things over the internet was limited. Looking at the trends for eFawateer (see above), it is expected to see an increase of internet banking usage since more and more entities and service providers get connected to the system (note that the use of internet to pay for bills and buy things online doubled from 2014 (2.5%) to 2017 (5.5%)).
- *Limited use of mobile banking*: Some remarks here are similar to those for internet banking (expected changes linked to the growing popularity of eFawateer). Yet the prospects are more optimistic since access to internet will mostly be via mobile service providers in the foreseeable future (see discussion below). At the same time, the market of mobile wallets is in a nascent stage in 2017, which also explains the still limited use of mobile banking.

4.2.2 Supporting infrastructure and hardware (traditional DFS)

ATMs: At the end of 2016, Jordan had 1,516 ATMs (a 6.5% increase since 2014). Two thirds of these were concentrated in Amman, followed by the Irbid (10.6%) and Zarqa (6.5%) governorates. The role of ATMs is significant considering that newly installed machines often have greater capabilities, allowing not only for cash withdrawals but also cash deposits (11 out of 25 banks reported having such ATMs at the end of 2015; CGAP's 2017 report estimates 30% of all ATMs to have this functionality). Furthermore, with software upgrades and the use of face-recognition technology, the cameras used in ATM machines allow for an accurate identification of clients, reducing the risk of ATM frauds. An even further step is the use of iris-recognition technology for client identification. Such application of biometric identification already had a significant impact on the financial inclusion of some vulnerable groups such as refugees (e.g. a 2015 UNHCR project which worked with one local bank (circa 165 ATMs)[64]). At the same time, little information is available on the spread of such technologies and ATMs outside urban and refugee centers (i.e. camps). CBJ could have an active role in encouraging such a spread, as well as motivating banks to install more ATMs outside bank branches (where 61% of ATMs were concentrated in 2015).

[62] McKinsey Global Institute (2016), "Digital finance for all: Powering inclusive growth in emerging economies", September 2016, page 13
[63] GSMA (2016), "The long road to interoperability in Jordan: Lessons for the wider industry", December 2016
[64] http://www.unhcr.org/news/latest/2015/3/550fe6ab9/iris-scan-system-provides-cash-lifeline-syrian-refugees-jordan.html

In terms of financial inclusion indicators, it is also worth noting that, while the total number or ATMs in the country is increasing (3.8% in 2015), people in some regions have better access to them than others due to the unequal distribution. Further details can be found in the "Financial access" section.

POS terminals: At the end of 2016, 31,902 POS terminals were in use in Jordan[65]. This is estimated to be a relatively small number taking into account that the country registered circa 157,000 formal MSMEs in 2014[66], of which a considerable number could be using more than one POS terminal. Apart from that, approximately one-third of all POS terminals are reported to have NFC capabilities (allowing for contactless payments). By 2018, local stakeholders expect all POS terminals to have such capability, which is considered an ambitious timeline.

4.2.3 Supporting infrastructure and hardware (internet & MFS)

Internet access: While all reviewed sources indicate a rapid increase in internet access and usage, estimates vary significantly. The World Bank (WB) Development Indicators estimate that over half (53%) of the population used the internet in 2015 (local sources indicate a much higher 83%). These figures included both access via stationary PCs and mobile devices. A separate WB study[67] in 2016 estimated internet access at home at 35% of the population (which is closer to the 32% of internet subscribers reported by local sources). Some inaccuracies are assumed to be linked with a recalculation of the figure for total population in 2015 by the Jordanian Department of Statistics (linked to the refugee influx).

While the dynamics of internet usage looks positive, contributing to greater usage of internet banking in the medium term, it's worth noting that access to fixed broadband internet is stagnating. Only about 4% of the population has access to such service (assumed to be in developed urban areas). Thus, the future of (reliable) internet usage in Jordan is mobile, given its much faster development as discussed below.

Mobile access: By all accounts, the number of mobile phone connections (i.e. using SIM cards) exceeds the number of the population. At the same time, not everyone has mobile phone access. WB estimated 'mobile access at home' at 98% in 2015[71]. A different metric used by GSMA counts 'unique subscribers'[72], which was estimated at 5.7 million at the end of 2015 (74% of population).

GSMA data

	Q4 2015	y-o-y (%)
Connections	10.3M	6.13%
% prepaid	91%	0.19%
% mobile broadband (3G & 4G tech)	47%	10.75%
Total population (UN data)	7.7M	2.21%
SIM penetration (%)	134%[68]	3.84%
Unique subscribers	5.7M	n/a
Penetration rate (% uniq. subsc.)	74%	n/a

Source: GSMA Intelligence[69] [70]

The quality of mobile services in terms of coverage, speed and reliability is also improving rapidly with the evolution of broadband mobile data exchange. In 2015 WB estimated 3G coverage at 98%, although more modest estimates suggest coverage figures closer to half of the territory. At the same time, 4G coverage (allowing for even greater data exchange speed) was introduced in early 2015 and was estimated to cover 14% of the territory in 2016, with forecasts of reaching 70% by 2020[73].

Type of used mobile headsets: Several sources suggest smart phone penetration in 2016 at 60% and rising[74][75] (CBJ/GIZ survey data: 76.5%), which signals long-term changes in customer usage of some services. As an example,

[65] Source: CBJ
[66] Latest available DOS data: 157,211 MSMEs (incl. Micro: 135,731; Small: 18,596; Medium: 2,884). Other reference: 166,000 MSMEs (source: https://www.researchgate.net/publication/303921268_Determinants_of_Sales_Tax_Compliance_in_Small_and_Medium_Enterprises_in_Jordan_A_Call_for_Empirical_Research)
[67] http://wbgfiles.worldbank.org/documents/dec/digital-adoption-index.html
[68] The high variation of figures related to SIM penetration / mobile phone subscribers / mobile penetration (from TRC, WB, and GSMA) is explained by methodological differences, as well as clarifications during onsite interviews that there are a large number of people who use temporary phones and/or multiple phones on a daily basis.
[69] https://www.gsmaintelligence.com/markets/1826/dashboard/
[70] https://www.gsmaintelligence.com/research/?file=9246bbe14813f73dd85b97a90738c860&download
[71] http://wbgfiles.worldbank.org/documents/dec/digital-adoption-index.html
[72] A unique subscriber is defined as a unique user who is subscribed to mobile services at the end of the period. Subscribers differ from connections such that a unique user can have multiple connections (e.g. SIM cards). Source: http://www.gsma.com/mobilefordevelopment/faq/unique-subscriber
[73] https://www.budde.com.au/Research/Jordan-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses
[74] https://www.budde.com.au/Research/Jordan-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses
[75] Data from GSMA Intelligence in Q2 2015 suggest a more modest 30%. Source: https://www.gsmaintelligence.com/research/?file=7910cff3a3e6f96219cd50e31d6d3e1c&download (page 12)

higher smartphone usage and access to mobile internet led to a decrease in SMS service usage (SMS message volumes are in decline in Jordan since 2013[76]), given that customers prefer using messaging apps instead. Going forward, the large availability of modern smartphones with good internet access will also fuel the development and usage of DFS apps and services (as well as apps for advertising, education, social media, or targeting refugees specifically[77]).

Thus, the level of mobile access in Jordan and the type of headsets used are not considered as constraints for greater financial inclusion. At the same time, more efforts are needed in improving digital and financial literacy in order to fully benefit from the increased adoption of mobile phones, and to advance DFS usage. As found in a 2015 survey, 22% of male and 29% of female mobile phone owners in Jordan reported they need help using mobile internet services[78].

4.2.4 Supporting infrastructure (leading institutions)

The DFS market can be reviewed from the perspective of mobile financial service (MFS) and other DFS providers. In terms of the latter, the following institutions and services have a key role in the market:

- **CBJ and Jo-PACC:** The Central Bank of Jordan currently operates the national mobile payments switch (**JoMoPay**), allowing for interoperability between all mobile payment service providers. The service is planned to be fully outsourced in the future to **Jo-PACC** (Jordan Payments & Clearing Company) established by CBJ in 2016 and involving multiple mobile payments market stakeholders. As of Q1 2017 this transition is already in progress[79]. Having a strong commitment to promote interoperability, JoMoPay was designed to easily integrate with other notable CBJ platforms, such as **RTGS-JO**[80] and **JoNet** (the national ATM switch). Additionally, JoMoPay is designed to support transactions via all point-of-sale (POS) machines using NFC technology[81]. According to CBJ, on a technical level, the integration of all the mentioned features is in the final testing stage as of Q1 2017 (i.e. NFC payments, ATM network support, USSD transactions for feature phones).
- **EMP:** The Emerging Markets Payments Group is a regional player active in the sphere of electronic payments services (to banks, retailers, governments and consumer finance institutions across the Middle East and Africa). EMP has several notable DFS initiatives in Jordan:
  - Shareholder of Al Hulool (a PSP)
  - Hosting the eFAWATEERcom bill payment system (see above)
  - Shareholder of Visa Jordan Card Services since 2011.
  - Commercializing and managing point-of-sales (POS) terminals.
- **MEPS:** Middle East Payment Services is a regional PSP established in 2009. It is simultaneously a payment processor, card issuer and merchant acquirer of payment cards in Jordan, Palestine and Iraq. Its specific services include the facilitation of credit, debit and prepaid card transactions through third-party processing, ATM management, merchant acquiring, e-payment gateway solutions, mobile payments and a range of point-of-sale (POS) services. EMP (described above) and MEPS are the two main firms operating the national ATM switch (JoNet), with EMP reportedly having the dominant share of operations.

4.2.5 Main MFS market players

Looking specifically at MFS, it should be highlighted that the market is in a very early development stage, having de facto been re-launched in 2016. The earliest mobile wallet service was pioneered by an existing multinational mobile telecommunications holding as early as 2011. Yet this service didn't grow as expected due to reported difficulties in:

- running a new concept in the country without necessary partnerships
- limited applicability of a platform borrowed from another country to the conditions in Jordan (e.g. technical issues with USSD transactions)
- limited knowledge on mobile wallet use among Jordanians
- lack of a large-scale promotion campaigns

[76] http://www.trc.gov.jo/EchoBusV3.0/SystemAssets/PDF/EN/statistice/stat2016-2015.pdf
[77] http://www.urbanrefuge.org/blog/2016/9/17/smartphone-penetration-in-jordan-and-western-perspectives
[78] GSMA (2015), "The Mobile Economy. Arab States", www.gsmaintelligence.com/research/?file=7910cff3a3e6f96219cd50e31d6d3e1c&download (point 3.5.3 on page 33)
[79] http://paymentsviews.com/2017/03/30/two-remarkable-women-and-the-mobile-payments-systems-they-have-built/
[80] Real Time Gross Settlement System designed to handle credit transfers (Giro system) with a mandatory membership for all operating commercial banks in Jordan. RTGS-JO uses SWIFT network as a high standard secured messaging system. Source: www.cbj.gov.jo/pages.php?menu_id=128/
[81] http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2016/12/GSMA-case-study_Jordan_2016.pdf

- lack of an agent network
- limited corporate support for the idea given that it is not a core activity of the holding (being a MNO)

Given the more structured approach and massive centralized support (CBJ efforts in regulating the market and facilitation via the introduction of JoMoPay and other initiatives), the second rise of MFS services is expected to have a more successful development, with multiple companies developing in parallel and using different business models. As of April 2017, four such companies were active on the market and offering new mobile wallet services. Two of these are seen as relatively small startups that focus on specific market niches. For example, one such company currently concentrates its activity in the region of Irbid (the third-largest city in the country situated along the north-western border with Syria and sheltering a large number of refugees), and specifically targets poor segments of the population (including refugees). The two other mobile wallet initiatives are led by significantly larger entities, one such service being supported by a mobile network operator, while the other one is backed by a consortium of firms (including multiple banks).

4.2.6 Key observations for the MFS market

The new industry and flexible regulatory framework allow for experiments with various business models. Based on desk research and interviews conducted in Amman with several market stakeholders (mainly four mobile wallet firms), several considerable differences in their business models and priorities have been identified when it comes to servicing clients and securing sustainable business operations.

Client attraction: Smaller MPSPs prefer a more careful, one-on-one or individual approach to attracting new clients via individual registrations with authorized agents or working with specific target groups (e.g. working with refugee communities and university-level projects which are facilitating public transport payments for students via mobile phones with NFC tags). In contrast larger MPSPs which have large investors behind them, have an approach of attracting new clients in bulk. For example, one interviewed company currently prioritizes promotion among existing users of its telecom services. However, while such steps in securing a market share are understandable, they result in a large number of inactive initial users. The success of both approaches will need to be proven over time, however the first option (individual approach and target groups) is seen as a better alternative (assuming it can also reach sufficient scale in the medium term) because it should result in a greater share of active users, and also minimizes potential dissatisfaction levels (less users affected) should the service experience technical or other issues during the early growth stage of the market.

Agent networks: Similar to client attraction, MPSPs with large founders have an inherent advantage in the size of their agent networks. The most distinctive in this regard is the company that has multiple banks supporting it and will be using the branch network of these banks. A common term in such cases is 'super-agent' agreements, whereby a single large firm is treated by mobile wallet firms as a single agent but may have hundreds of business locations where MFS services are provided. Such super-agents are also likely to work with multiple mobile wallet providers and include large firms like Jordan Post (circa 350 locations, of which about half reportedly have sufficiently good systems (e.g. reliable internet) to operate as mobile banking agent locations), large money exchange houses, oil firms having multiple gas stations (e.g. JoPetrol – 260 stations), retail chains, etc. However, looking at the broader picture, these are plans that still need to materialize. Official CBJ data suggests that only about 270 mobile agent outlets were active (4.3 per 100,000 adults) at the end of 2016, which is a relatively good number for piloting a service (what all four interviewed firms were reported to be focused on in 2016) yet still an insignificant one in order to achieve large-scale use and popularity.

Lastly, it is reported that most small businesses (e.g. stand-alone local shops) don't see a financial value in becoming agents for PSPs. Hence, some MFS providers are subsidizing fees for cash-in and cash-out operations (making them free for clients and compensating agents with a small amount, depending on the size of transactions). In the short-term, even the subsidy (e.g. JOD 0.75–1.00 paid to the agent for a cash-in/cash-out operation of JOD 50) is a minor incentive for small businesses while the size of the market is still small and little such operations are expected in remote locations in the short-term.

USSD functionality: In cases when clients do not own a smartphone or where 3G/4G coverage is not available, mobile wallet clients have to rely on USSD data exchange systems from mobile network operators. At the same time, this technical difficulty is not a strategic issue for all interviewed firms. Providers that are backed by an MNO are most concerned about it while other providers (given their relatively small initial size) see plenty of room to grow and operate without USSD functionality. The position of the latter is explained by the fact that most people are either already using or will soon switch to using a smartphone in the near future. In fact, one of the interviewed firms reported giving away low-cost smartphones (up to USD 50 in value) to new clients as a promotion strategy. Looking at the broader picture, the results of the CBJ/GIZ survey show that while 92% of people have a mobile phone, circa 76% report having a smartphone. Thus, while its role will decline in the long-term, in terms of ability to use mobile financial services, USSD functionality is currently essential for circa 16% of the population in Jordan.

Link to bank accounts: Connecting mobile wallets to existing bank accounts is seen as an important feature mostly for one interviewed PSP, which has 6 banks as shareholders, while some other providers also have such functionality. There are, however, still some that do not see this as a priority (two interviewed PSPs) as they focus on poorer segments of the population which are currently unbanked.

Complementary cards or NFC tags: As a method to make their service more attractive, and also to compensate for the limited size of the initial agent networks, some MFS providers also provide extra products and/or gadgets when opening a mobile wallet account. One example that is not being actively marketed but is currently being practiced is issuing prepaid debit cards with a one-time-password to new clients. These are useful to clients that do not have an agent near their location for cash-out operations as it allows them to perform this via local ATMs. The same companies are experimenting with NFC sticker tags for mobile phones. These initiatives are mostly associated with projects for mobile wallet payments in public transport. As of April 2017, the projects themselves are reportedly experiencing significant delays. Nevertheless, once more NFC-enabled POS terminals become available in Jordan, clients will be able to use these tags on a daily basis. By 2018, local stakeholders expect all POS terminals to have such capability (one third have it as of April 2017), which is a challenging target.

ATMs: These are an alternative to agents, especially if upgraded to have new technical capabilities. As mentioned above, ATMs are an alternative node for transactions for clients that receive prepaid cards. At the same time, ATMs are increasingly used by other clients as well since new versions are becoming available that also allow for cash-in transactions (apart from the traditional cash-outs). Furthermore, the latest models also have iris recognition technology offering extra security and enabling new service methods (e.g. the UNHCR project for refugees[82]). The greater availability of such multifunctional ATMs (which can also function 24/7 compared to agents) should be encouraged as a means to boost financial inclusion.

Basic MFS products: Given the very early stage of the market, all interviewed MFS providers are currently focused on building sufficient scale to achieve operational efficiency and ensuring a reliable quality of service. Thus, the main MFS products that are currently provided are not very complex and include: in-country person-to-person (P2P) transfers, person-to-business (P2B) transactions like payments to some merchants, business-to-person (B2P) transactions like salary payments, and person-to-government (P2G) payments for public services (e.g. electricity and water). In order to further support the development of the MFS market, the next step will be to facilitate government-to-person (G2P) transactions (e.g. transferring public employee salaries directly to mobile wallets and servicing students). Such initiatives will convey greater trust for MFS among more reluctant people who are unfamiliar with such products and are also a way to achieve greater scale in a short period of time.

Scaling up: Any mobile wallet provider needs a sufficiently large use of their service in order to achieve profitable operations. The government could play a pivotal role here in the short-term by transferring public employee salaries electronically. Ideally employees should be allowed to choose a preference between a mobile wallet and a bank account (to avoid creating an unfair advantage between market players).

The active use of mobile wallets (outside pilot projects) has only started in 2017. Thus, the real test of the system's reliability and interoperability will come once MFS firms increase their number of clients and a more active usage is seen within 1–2 years.

4.2.7 Analysis of survey results linked to DFS

Most people have internet access via phones. Access to internet via personal computer or laptops was registered at 16.7%, mostly among young (23%) and highly-educated individuals (22%; see breakdown per segments in Appendix 7). A much greater share of the population has access to the internet via phones and tablets (70.7%).

[82] http://www.unhcr.org/news/latest/2015/3/550fe6ab9/iris-scan-system-provides-cash-lifeline-syrian-refugees-jordan.html

Results for DFS questions (%)

Survey questions & indicators	Total
Q60. Has access to internet at home Via computer	**16.7**
Q60. Has access to the internet at home Via mobile phone or tablet	**70.7**
Q61. Made payments on bills or bought things online using the Internet	**5.5**
Q62. Has mobile phone	**92.1**
Q63. Has smartphone	**76.5**
Has mobile phone or internet access at home	**94.3**
Q64. Ever heard of a mobile wallet	**15.6**
Q65. Used mobile phone to pay bills or to send or receive money using mobile money service	**-**
Q66. Made any transactions with bank account using mobile phone	**28.2**
Q67. Uses the services of a mobile money agent	**-**

Source: CBJ/GIZ Survey 2017

Very few people pay bills via the internet. Only 5.5% of respondents reported doing so, with the lowest results among refugees (1.2%; the highest was 7.1% among male respondents).

Mobile wallet use is still very low. None of interviewed individuals used the services of mobile money agents. This finding is not surprising given the early stage of the mobile wallets market. Likewise, none of the respondents reported using mobile phones to pay for bills or to send or receive money. Thus, the early adopters suggested during interviews with mobile wallet firms in April 2017 were not captured by the survey. At the same time, some respondents (16%) have heard about mobile wallets (especially young people – 21%). This suggests that the general awareness level is still rather low (especially among non-Jordanians, as only 8% had heard about mobile wallets).

5 Microfinance

This section explores the topic of financial inclusion from the perspective of the microfinance industry. Because microfinance institutions serve salary earners and small enterprises, these segments are considered in this section in addition to the traditional core segment of microenterprises. This section also contains a discussion of certain specialized credit institutions that disburse micro loans and providers of informal finance, since these are direct competitors to the MFIs.

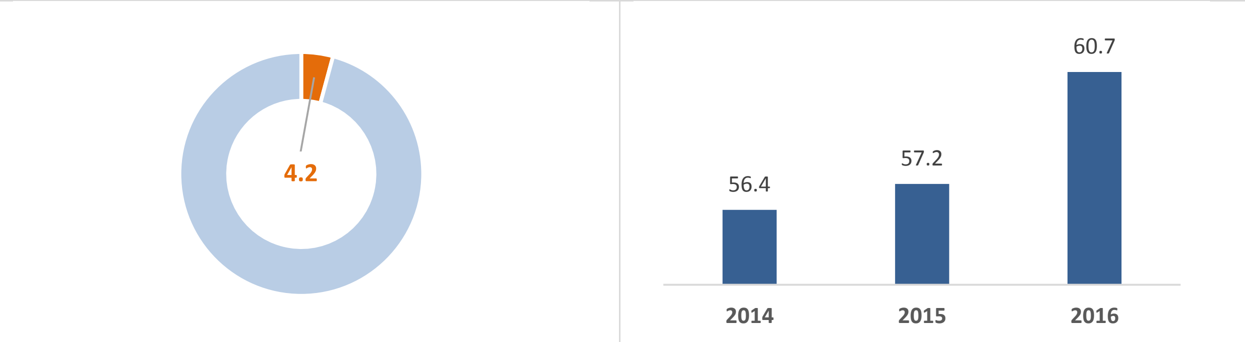
Key findings:

- 4.2% of adults borrowed from an MFI in the past year
- There were 60.7 active MFI borrowers per 1,000 adults in 2016, and the indicator has increased in each of the past two years
- Major constraints to financial inclusion in the microfinance industry include: the prohibition on deposit-taking, weak accounting and financial management skills of MSEs, low operational efficiency of MFIs, and competition from informal sources
- 47.3% of adults state that they don't trust MFIs
- MFIs are much more active than banks in reaching out to vulnerable groups like women, refugees, young people, students, the self-employed and rural residents
- MFI clients are most dissatisfied with the cost of loans, the maturity, and the amount received
- MFIs offer a reasonably diverse range of products highlighted by specialized products such as educational loans, loans for women, medical loans, and small enterprise loans
- Interest rates on loans from MFIs vary widely, but typically fall in the range of 17–32% annually[83]; the pricing is not particularly transparent, as MFIs use a mix of declining balance and flat rates
- MFI clients are less likely to have a deposit account than other segments – 22.3% of MFI clients have an account, compared to 33.5% for non-MFI clients
- Determining the repayment capacity of MSEs is difficult given their informality and weak accounting skills, which increases the risks and costs to MFIs

5.1 Measurement of financial inclusion

The CBJ/GIZ survey conducted in 2017 found that 4.2% of adults borrowed from an MFI in the past year. Supply side data from Tanmeyah[84] shows that there were 60.7 MFI borrowers per 1,000 adults at year-end 2016, up from 57.2 in 2015 and 56.4 in 2014.

Borrowed from MFI in past year, % of adults | **Number of active MFI borrowers per 1,000 adults**



Source: CBJ/GIZ survey | *Source: Tanmeyah*

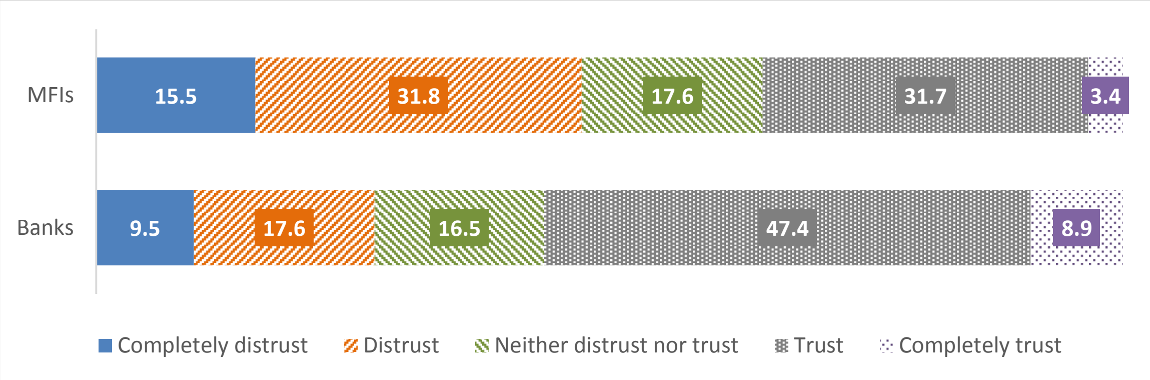
Although the implied borrowing rate based on the supply-side data of 6.1% (60.7 borrowers per 1,000 adults) is higher than the demand-side figure of 4.3%, these results are not inconsistent. The supply-side data is the result of simply adding the number of borrowers from each MFI and could be overstated to the extent that some clients have loans at more than one MFI. In addition, the demand-side data only measures borrowing over the past year, whereas some active MFI borrowers have had their loan for more than one year and so are counted in the supply-side but not the demand-side figures.

83 If calculated on a declining balance basis
84 Tanmeyah. *Members' Performance Report, Q4 2016*. January 2017.

A survey by EBRD found that 4.7% of registered microenterprises have an outstanding loan from an MFI. This finding is generally consistent with the CBJ/GIZ results, keeping in mind the difference in target segment (all adults in the case of CBJ/GIZ versus registered microenterprises in the case of EBRD) and measurement approach (loans taken in past year versus outstanding loans).

A lack of trust may be a key factor holding back the development of the MFI sector. As the following chart shows, based on the CBJ/GIZ survey, almost half of adults (47.3%) either completely or somewhat distrust MFIs, more than the 35.1% that either completely or somewhat trust them. By comparison, just 27.1% of adults distrust banks either somewhat or completely.

Trust in MFIs and banks (% of adults)



Source: CBJ/GIZ survey

The lack of trust towards MFIs may be heavily influenced by the perceived high interest rates and confusing or opaque pricing schemes. The issue of pricing is discussed in more detail below in this section and further in the section on "Consumer Protection". The lack of trust relative to banks may also be simply a result of banks outspending and outperforming MFIs on marketing and public relations, giving them a better perceived reputation among customers. It is also important to keep in mind that the term "trust" may be understood in different ways by different people and can be driven by various factors and reasons that were not explored in this survey. Further research might help to better understand the underlying causes of the lack of trust, with the caveat that trust can be difficult to precisely identify and measure, as it is rooted deeply in attitudes, cognitive procedures and preferences. As the CBJ begins to provide effective supervision of MFIs and improves the regulatory framework for microfinance, the public's trust in MFIs could improve substantially.

5.2 Constraints to financial inclusion

The main constraints to financial inclusion from the perspective of MFIs and their clients are shown in the table below. Constraints are categorized as being related to the regulatory and institutional framework, demand side or supply side. The constraints themselves are discussed in more detail elsewhere in the report; the "reference" column indicates in what section of the report the detailed discussion can be found. Constraints are rated by severity according to the following scale:

- **3**: Severe constraint
- **2**: Moderate constraint
- **1**: Minor constraint
- **T**: Transitional constraint, meaning a potential constraint that might result in the future due to a recent change, or an existing constraint that is expected to become obsolete in the near future

Constraints to financial inclusion in relation to the MFI sector

Constraint	Reference	Severity
Regulatory and institutional framework		
Prohibition on deposit-taking	3.2, 5.5	**2 (Moderate)**
Lack of insolvency law	0	**1 (Minor)**
Lack of movable asset registry	0	**1 (Minor)**
Maximum loan size limits	3.2	**T (Transitional)**
Lack of CBJ funding programs	3.2	**T (Transitional)**
Lack of a comprehensive credit bureau	0	**T (Transitional)**
Demand side		

Weak accounting and financial management skills	5.4.5, 5.4.7	**3 (Severe)**
Distrust of MFIs	5.1	**2 (Moderate)**
Low financial literacy	7	**2 (Moderate)**
Informality and tax avoidance	5.4.7	**1 (Minor)**
Supply side		
Low operational efficiency and high pricing	5.4.7	**3 (Severe)**
Weak capacity for credit analysis	5.4.7	**2 (Moderate)**
Lack of capacity to serve small enterprises	5.4.7	**2 (Moderate)**
Competition from informal sources	5.7	**2 (Moderate)**

A brief explanation of the ratings for each constraint is provided below.

The main regulatory and institutional constraints are:

- *Prohibition on deposit-taking (Severity: 2)* — MFI clients have especially low account ownership levels, so the prohibition of deposit-taking by MFIs represents a lost opportunity to boost financial inclusion with respect to deposits. The prohibition also eliminates a potential source of cheap funding for MFIs, resulting in relatively higher interest rates and reducing demand from clients.
- *Lack of insolvency law (1)* — This constraint is less relevant to MFIs than to banks, since most MFI clients are not registered and would not formally declare bankruptcy in the event of business failure. It is nevertheless a constraint with respect to small enterprise lending by MFIs and lending to registered microenterprises, since both MFIs and clients could potentially benefit from a strong insolvency framework.
- *Lack of movable asset registry (1)* — This is not a constraint for smaller loan sizes, since collateral is rarely taken, so this is rated as a minor constraint. However, the lack of a registry can impact the larger loans for which collateral might be considered.
- *Lack of CBJ funding programs (T)* — This is a relative disadvantage for MFIs compared to banks, since banks can get inexpensive funding from CBJ, while MFIs cannot. This constraint is considered transitional, since MFIs are likely to gain access to CBJ funding in the future after becoming licensed under the new guidelines.
- *Maximum loan size limits (T)* — The limits on maximum loan sizes will only go into effect after MFIs begin to be licensed under the CBJ, so the impact on financial inclusion is not yet clear. In theory, the limits could make it difficult for MFIs to work with some small enterprises, so the effect of this regulation should be watched closely.
- *Lack of a comprehensive credit bureau (T)* — As MFIs start to register with the new credit bureau CRIF, this constraint will become obsolete; however, recent financial inclusion indicators are still negatively impacted by the absence of a comprehensive credit bureau in the past.

The main demand-side constraints are:

- *Weak accounting and financial management skills (3)* — The weak financial skills of entrepreneurs lead to incomplete or inaccurate financial records, making it more difficult and costly to evaluate the repayment capacity of applicants. This in turn contributes to low operational efficiency of MFIs and higher loan pricing.
- *Distrust of MFIs (2)* — Distrust of MFIs lowers demand and pushes clients towards other service providers (such as informal sources), even if those other service providers offer inappropriate products for the client. Survey results show a significant level of distrust towards MFIs, making this a moderate constraint. The significant levels of distrust may be influenced by high pricing and the lack of consumer protection standards, although such standards are expected to be implemented in the near future.
- *Low financial literacy (2)* — Lack of familiarity with and understanding of loan contracts and conditions leads to reduced demand and probably contributes to the high levels of distrust mentioned above. Although low financial literacy is classified as a demand-side constraint, MFIs could also do more to help educate their clients or simplify their products and contracts to make them easier to understand.
- *Informality and tax avoidance (1)* — This constraint is less relevant for MFIs than it is for banks, since MFIs can take into account unofficial income in their cash flow analysis, unlike banks. In addition, MFIs sometimes apply techniques to avoid cash flow analysis entirely (such as group lending combined with graduated loan amounts), further mitigating the severity of this constraint. Nevertheless, informality and tax avoidance should be considered at least a minor constraint, since the lack of clarity and lack of documentation that go along with informality complicate the analytical process.

The main supply-side constraints are:

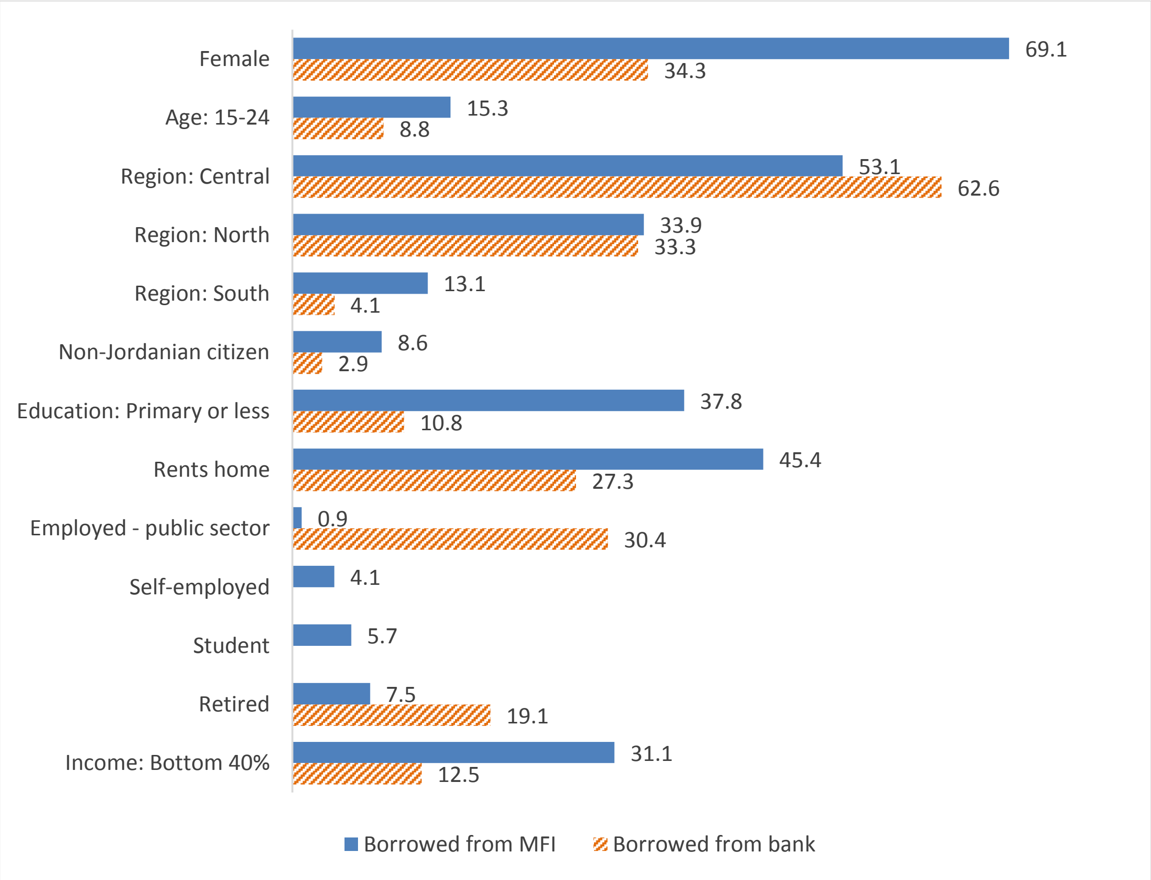
- *Low operational efficiency and high pricing (3)* — On a per loan basis, microlending is subject to low operational efficiency, since the effort and cost required to thoroughly evaluate an application is high relative to the small loan sizes. This in turn leads to high interest rates, reducing demand. Although MFIs use some techniques to increase operational efficiency such as group lending, other possible tools such as credit scoring and advanced data collection methods (using tablets in the field or online applications) are not widely used.

- *Weak capacity for credit analysis (2)* — Financial analysis of microenterprises can be complex and requires that staff are well trained and highly motivated. While there many highly capable individuals working in MFIs, the capacity level is not consistent and varies widely from MFI to MFI and from branch to branch. This constraint is somewhat mitigated by techniques such as group lending with graduated loan amounts, and it is not relevant for salary earners who are served by MFIs. Therefore, this constraint is rated as moderate rather than severe.
- *Lack of capacity to serve small enterprises (2)* — MFIs have greater capacity to serve micro enterprises than small enterprises. Lack of staff with relevant experience and lack of appropriate credit policies and procedures targeted towards small enterprises, along with self-imposed maximum loan sizes that are lower than the regulatory limits, all contribute to this constraint. As discussed later in this report, banks are also not effectively serving the small enterprise segment overall, so the limited contribution of MFIs to small enterprise finance is significant.
- *Competition from informal sources (2)* — Survey results demonstrate that MFI clients use informal borrowing sources more frequently than formal ones, with loans from family and friends being especially prominent. Informal sources can meet the financial needs of clients in many cases with appropriate services, so this constraint should not be considered severe. However, often informal borrowers are being taken advantage of or are receiving inferior services in comparison with that of MFIs, so the constraint should be considered moderate.

5.3 Target segments

MFIs are much more likely than banks to serve segments that are traditionally thought of as being more vulnerable. This is demonstrated in the chart below, based on survey data, showing the percentage of MFI and bank borrowers in the given demographic category. MFIs are more likely to lend to women, youth, residents of southern governorates, non-Jordanian citizens, people with less formal education, renters, the self-employed (i.e. entrepreneurs), students and low-income earners.

% of MFI and bank borrowers by demographic group



Source: CBJ/GIZ survey

The only group sometimes considered vulnerable to which banks are more actively lending than MFIs is retirees, who make up a considerable 19.1% of bank borrowers. From the banks' perspective, retirees are a low-risk segment because they have steady and reliable pension income. Otherwise, banks are much more focused on reaching the more privileged segments, including high-income groups, government employees, and Jordanian citizens, among others.

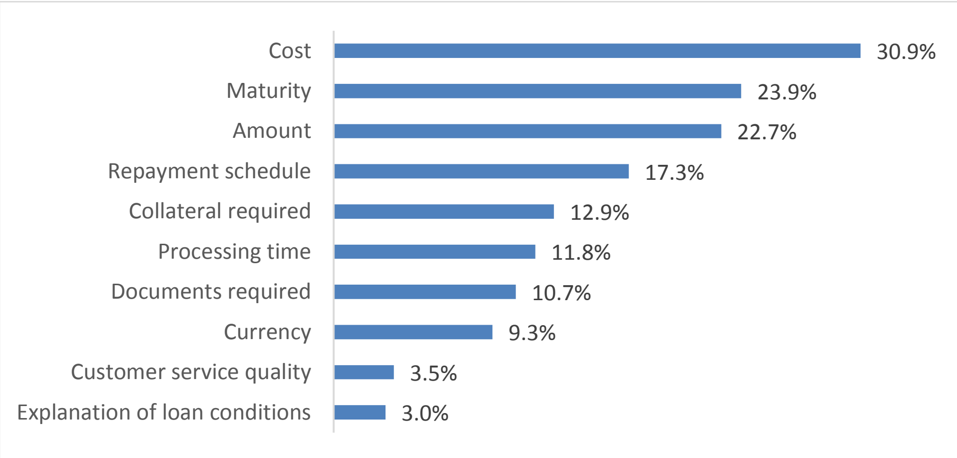
Other important segments that are not reflected in the survey data are salary earners and small enterprises. Although micro enterprises are perceived as being the core market of MFIs, nearly all MFIs lend to salary earners as well. The share of salary lending varies greatly from MFI to MFI. One MFI interviewed this study reported that about 40% of their customers are salary earners; for another, the proportion of salary earners was about 5–10%, and another reported a very high 70%. With regard to enterprise size, most MFIs are making loans to small enterprises; this topic is discussed in more detail in the section on loan amounts below. According to CBJ regulations, MFIs are not permitted to serve medium-sized enterprises.

5.4 Products and policies

5.4.1 The demand perspective

Adults that borrowed exclusively from an MFI in the past year identify the cost of borrowing, maturity and loan amount as the top three aspects of the borrowing experience that leave them dissatisfied[85]. By contrast, dissatisfaction levels are very low with respect to customer service quality and the explanation of loan conditions by staff before contract signing, either because the MFIs are doing very good work in these areas or because customers do not find these areas to be particularly important. The figures in the chart below show the percentage MFI borrowers that expressed dissatisfaction with the given aspect of the borrowing process.

Dissatisfaction levels with loans (% of MFI borrowers)



Source: CBJ/GIZ survey

5.4.2 Product diversity

MSEs can choose from a relatively diverse set of credit products from MFIs, which are gradually increasing the scope of products offered over time. The following table categorizes the availability of credit products from MFIs based on a review of the six MFIs for which information was available. Products are categorized as high availability (five or six of the MFIs offer the product), moderate availability (three or four offer the product), low availability (one or two offer it) and no availability.

Availability of loan products from MFIs

Availability	Products
High	Standard installment loan for working capital or fixed asset financing; education loans
Moderate	Women-only loans; group loans; loans for medical purposes; SME loans
Low	Factoring; energy efficiency loans; agriculture loans; murabaha Islamic finance
None	Real estate loans

Source: Interviews with MFI staff; websites of MFIs

Despite their small size, MFIs tend to offer a diverse product mix. One MFI markets 13 different credit products on its website. The high availability of educational loans is particularly noteworthy, with almost all MFIs offering them.

85 This analysis includes borrowers of MFIs only, excluding those that borrowed from both MFIs and banks, in order to isolate the effect of the institution type on satisfaction levels.

Several MFIs have more than one education-related loan, such as separate products for vocational and university students. The presence of specialized products for women and for medical expenses is also a positive aspect of the product mix. There are opportunities for MFIs to increase their offering of energy efficiency loans and agricultural loans, although the MFIs state that the level of demand for these products is still low. The moderate availability of SME loans reflects the growing interest of MFIs in upscaling to reach larger enterprises, although not all MFIs offer such products yet. Although this product is usually marketed as “SME loans” by the MFIs, in fact it is only available to small enterprises (up to 20 employees) in accordance with CBJ regulation. About half of MFIs offer group loans, but the importance of group lending is gradually declining over time, although it still remains a key product for several institutions.

Although most MFIs are lending to salary earners, this is not reflected in specialized products for salary earners. Most MFIs try not to draw attention to this aspect of their business model, partly due to the perception that it reflects a mission drift away from the traditional “core business” of MFIs. Loans for consumer purposes are offered, such as education and medical loans, but these are usually available to both salary earners and entrepreneurs.

5.4.3 Loan amount

MFIs make very small loans and are limited in terms of the maximum amount. As explained in the regulatory analysis section of this report, MFIs face maximum loan size restrictions set by the CBJ as part of the recently introduced licensing regulations. In addition, most MFIs voluntarily limit their maximum loan size to a level which is well below the regulatory limit. Out of seven MFIs for which data was available, two had a maximum loan size of JOD 10,000, two had a maximum of JOD 50,000, and others had maximum limits of JOD 15,000, 20,000 and 70,000. For two MFIs the maximum loan size was deliberately set at a low level because an affiliate company in the same group – either a bank or another MFI – worked with larger amounts. One recently launched MFI has a minimum loan size of JOD 10,000 and is the sister company of the MFI with a low maximum amount of JOD 10,000. Considering that banks are not reaching their potential in terms of serving small enterprises (see the section on SME finance for details), the combination of regulatory and voluntarily limitations from MFIs on their maximum loan sizes means that some small enterprises struggle to find a loan from either a bank or MFI.

Several MFIs apply graduated loan amounts, for which the maximum loan amount depends on how many times the customer has borrowed in the past. This approach makes the credit analysis faster and less expensive, since the MFI typically does not carry out a cash flow analysis. However, there is a greater chance that graduated loan amounts will not reflect the repayment capacity of the enterprise. As a result, applicants may receive an amount that is much less than they could have received if their financial capacity had been properly evaluated. On the other hand, those applicants that do need larger amounts probably have the option to choose a different product from the MFI for which a full cash flow analysis is conducted. Consequently, the graduated approach tends to be applied only to the smallest of microenterprises in connection with group loans. While the approach has its drawbacks, it probably has had a positive impact overall on outreach to the poorest borrowers who need very small amounts.

5.4.4 Maturity and repayment schedule

As mentioned above, maturity and repayment schedule were the second and fourth most dissatisfying aspects of MFI loans, cited by 23.9% and 17.3% respectively of MFI clients in the CBJ/GIZ survey. MFIs usually offer maximum maturities of three or four years for their products with the largest loans sizes, but for smaller amounts the maximum maturity may be one or two years. For micro enterprises that wish to make investments in fixed assets, these maximum maturities may be insufficient. Furthermore, it is reportedly common for credit committees to approve loans with maturities that are well below the level requested by clients. Similarly, most MFIs have the ability to offer grace periods (up to three or six months is typical among MFIs) and flexible repayment schedules[86], but credit committees are likely to set the grace periods at less than requested and do not always approve flexible schedules. As a result, some delinquency can be attributed to inappropriately structured repayment schedules.

5.4.5 Pricing

Nominal interest rates from MFIs generally range from 17–32% annually if calculated on a declining basis. Some MFIs apply flat rates, some use the declining balance method, while others use both methods depending on the product. Although the draft consumer protection guidelines require the disclosure of the effective interest rate for all loans, the different methods of reporting the nominal rate (flat or declining balance) could still potentially be a source of

[86] Referring to repayment schedules in which the payments may vary from month to month to match the business cash flows

some confusion for clients. Ideally, all MFIs would be required to report their nominal rates based on the declining balance approach.

Practices for charging a one-time loan commission fee at the time of loan disbursal fee vary greatly – some MFIs do not charge a commission fee at all, while others charge a fee ranging from 1–3% of the loan amount. This is important, since commission fees have a disproportionally high impact on effective interest rates, especially for short-term loans. For example, a 3% fee on a one-year loan would usually translate to a nearly 6% increase in the effective interest rate.

Although rates from MFIs are a key point of dissatisfaction from clients, there is little or no evidence that MFIs are engaging in predatory or exorbitant pricing. As discussed in more detail in the "Consumer Protection" section of this report, MFIs are generally not earning outsized profits. The high rates are primarily the result of the low operational efficiency of MFIs and high funding costs relative to banks.

5.4.6 Collateral

MFIs generally place little emphasis on the use of physical assets as collateral. Microenterprises needing relatively small loans up to JOD 10,000 are usually not required to present any collateral. At most, a guarantor may be required, and MFIs are usually willing to accept another entrepreneur as guarantor (rather than a salaried individual). As the loan size increases, additional guarantors may be required, sometimes with the requirement that a salaried person is a guarantor. For the largest loan sizes (relative to the MFI sector), physical assets may be required as collateral. This generally applies to loans above JOD 15,000 or 20,000, although much discretion is given to credit committees to select the appropriate collateral, and there is rarely a strict policy in place. Two MFIs were using guarantees from JLGC as an additional form of protection, with the outstanding guaranteed amount comprising just 1.6% of total loans of MFIs at year-end 2016[87]. Typically the JLGC guarantees are used for relatively larger loan sizes (above JOD 5,000). Some MFIs report taking post-dated checks from clients as way to reduce the likelihood of late payments, so this could also be considered a type of collateral.

Group lending is practiced by several MFIs, in which the guarantee is provided by a group of borrowers, usually a small group of two to five individuals. MFIs report that they do enforce the group guarantee by requiring group members to cover the missed payments of other group members. Group lending probably has a positive overall impact on financial inclusion, as it makes lending to very small, very informal microenterprises with no collateral more feasible, thus expanding access for a segment that might otherwise not be able to borrow. However, there can be a negative aspect to group lending, as poor people may be forced to pay back the loans of other group members, further impoverishing families that are already struggling financially.

5.4.7 Credit analysis

Credit analysis for MSEs represents a significant barrier to financial inclusion as a result of both supply-side and demand-side factors. Unless MFIs are using the graduated lending approach (see above), they are typically expending considerable time and effort to produce financial statements on behalf of clients using whatever information is available. It is rare for MFI clients to maintain standardized financial records; at best, MFIs can hope for some partial records of sales or inventories kept in notebooks that can be used as a basis for making calculations. Frequently, MFI staff are simply interviewing the applicants and relying on their memory and honesty to obtain the necessary data. One survey of MSEs found that 35.8% of them don't know the exact amount of profit they make.[88] In most cases a visit to the business place of the applicant is conducted, sometimes to the home as well, in order to determine the value of business assets and judge that the sales and expenses given by the applicant are realistic. This visit is time-consuming and adds to the inefficiency of the analytical process, although it is arguably a necessary part of the risk management process. Overall, the challenges of credit analysis add to the cost of MFI services and to the duration of the credit process, making microfinance slower and more expensive. This is an important factor in the dissatisfaction levels of clients with regard to cost (30.9% of MFI borrowers are dissatisfied) and processing time (11.8% are dissatisfied).

An analysis of operational efficiency indicators of MFIs shows mixed results. In terms of the number of borrowers per loan officer, Jordanian MFIs are doing moderately well, based on the average of 374 borrowers per loan officer among three MFIs for which data was available from the MIX Market[89] in 2016. This is better than the weighted

[87] Jordan Loan Guarantee Corporation. *Annual Report 2016*.
[88] USAID Jordan Local Enterprise Support Project (2015)
[89] Source: Microfinance Information Exchange, Inc., www.themix.org

average of 324 borrowers per loan officer for 21 MFIs in other developing countries in the MENA region[90] for which data was available. However, Jordan had relatively weak results for the ratio of operating expenses to gross loan portfolio (20.5% for Jordan versus 15.1% for others) and for the ratio of operating expenses to the number of active borrowers, or cost per borrower (USD 128 for Jordan versus 76 for the others). The results are summarized in the following table.

Operational efficiency indicators of selected MFIs in Jordan and MENA region

	3 Jordanian MFIs	21 MENA MFIs
Operating expenses to gross loan portfolio	20.5%	15.1%
Operating expenses per active borrower (USD)	128	76
Active borrowers per loan officer	374	324

Source: MIX Market

An unpublished study by BFC of 43 international MFIs found that the median ratio of operating expenses to gross loan portfolio was 12.7% in 2016, a significantly better result than in Jordan. In summary, while the operational efficiency indicators for Jordanian MFIs are not at a critical level, they suggest that there is room for improvement.

MFIs are just starting to embrace technology and data-driven approaches to speed up and simplify credit analysis, such as data entry on tablet computers, online applications, customer relationship management systems and credit scoring. At least two MFIs are already using tablet computers in the field to collect client data, so progress is being made in this area. Although several MFIs have an online application function, typically this is little more than a contact request, as the applicant only is able to input a fraction of the data that would be required for the MFI to properly evaluate the application. One MFI is considering using poverty scorecards, a tool for estimating a client's income based on easily observable characteristics, therefore avoiding the need for a detailed cash flow analysis.

Credit analysis of salary earners is relatively simple in comparison. Most MFIs obtain several recent payslips and offer loans with a maximum debt burden ratio of around 50%.[91] The relatively simplicity of this approach helps to explain why lending to salary earners constitutes a substantial share of MFI lending.

5.5 Funding

Access to funding can be a constraint for some small MFIs, while the cost of funding creates a disadvantage for MFIs relative to banks. Larger MFIs have no difficulty obtaining funding from local banks and international institutions to support the growth of their loan portfolios. However, one of the smaller MFIs reports having difficulty attracting bank funding. Most MFIs report that they are currently able to borrow at rates in the range of 5.0% to 6.5%. Although these rates are not high in comparison with non-deposit-taking MFIs in most other countries, they put the MFIs at a disadvantage relative to banks, which have significantly lower funding costs. MFIs are not able to take advantage of very inexpensive CBJ funding lines at present, but they are expected to be able to do so in the near future after becoming licensed under the new regulations.

5.6 Non-credit products

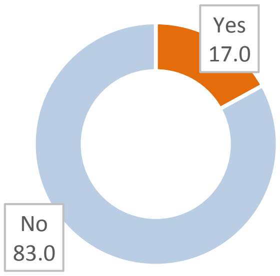
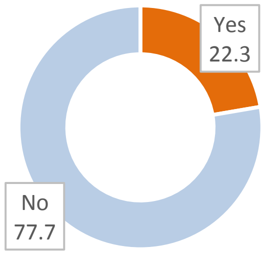
Aside from conventional loans, MFIs are permitted to issue Islamic financing (see "Islamic finance" section for details) but no other types of products, although they can act as agents for insurance companies and mobile payments service providers. Although not specifically mentioned in the Regulation of Microfinance Companies of 2015, MFIs reportedly may also issue leases, although none are doing so at present, according to Tanmeyah. Since MFIs are prohibited from accepting deposits (see "Regulatory framework" section), it is worth considering the extent to which this prohibition detracts from financial inclusion. If MFI clients tend to have high levels of account ownership, then there would be little benefit to permitting deposit mobilization by MFIs. However, if clients of MFIs have low levels of account ownership, allowing MFIs to offer deposit services could provide a boost to financial inclusion levels.

Account ownership among microenterprises and MFIs' clients is indeed low relative to other segments. According to the USAID LENS survey, 17.0% of microenterprises had a bank account at the time of the survey in 2014–2015, well below the 2014 Findex result of 24.6% of adults with an account from a financial institution. More recently, from the 2017 CBJ/GIZ survey, among adults who received an MFI loan in the last year and so can be considered MFI customers, 22.3% reported having a bank account, again well below the 33.5% of non-MFI customers that had a

[90] 5 MFIs in Egypt, 4 in the Palestine territories, 3 in Iraq, 3 in Morocco, 2 in Syria, 2 in Yemen, 1 in Lebanon and 1 in Tunisia

[91] The debt burden ratio is calculated as the amount of the loan payment divided by the gross income for the period (usually monthly)

bank account. This evidence of low account ownership rates among MFI clients and microenterprises provides support for the case that allowing MFIs to accept deposits could be beneficial to financial inclusion.

Has bank account, 2014/15 (% of microenterprises)	Has bank account, 2017 (% of MFI borrowers)
	
Source: USAID LENS[92]	*Source: CBJ/GIZ survey*

Although the sample for the two surveys is different (microenterprises in the case of LENS and MFI borrowers in the case of CBJ/GIZ), and thus the results are not exactly comparable, the fact that there was an increase in the account ownership rate from 2014/2015 to 2017, from 17.0% to 22.3%, can be counted as a positive sign.

5.7 Informal finance and other competitors

5.7.1 Informal finance

The landscape of informal finance providers

Informal and semi-formal institutions are a key source of credit in Jordan. The term informal credit is used here to refer to a broad range of providers that offer financial services but are not specifically licensed as financial institutions and are unsupervised. At one extreme, this class of financial services covers completely informal finance, such as a loan given by a family member who otherwise would not engage in lending; at the other extreme, it includes semi-formal lending institutions. These semi-formal institutions are registered businesses (usually as an LLC) that specialize in lending to individuals and MSMEs.[93] They may have websites, advertise their services in mass media, and have reasonably well-developed policies and procedures. However, they are not specifically licensed as a financial institution (such as an MFI or leasing company) and are not supervised in any way. There are at least a few such semi-formal lenders operating in Jordan. In between these two extremes of semi-formal lending companies and family members, there are a variety of other institutions and individuals providing credit. The following list is roughly organized from less formal to more formal, and is not intended to be comprehensive:

- Family and friends
- Private individual moneylenders
- Pawn shops
- Stores offering credit to buyers
- Suppliers offering credit to their buyers
- Buyers offering credit to their suppliers
- Cooperatives and associations that provide credit to their members
- NGOs not licensed as MFIs
- For-profit financial services companies not licensed as an MFI, leasing company or other type of formal financial institution

Little is known about these various categories of informal financial service providers, so further research would be beneficial.

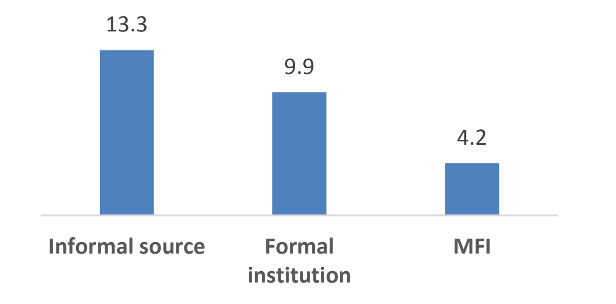
Usage of informal finance

Both individuals and microenterprises are more likely to borrow from informal than from formal sources, although small enterprises demonstrate greater usage of formal sources. Based on the CBJ/GIZ survey, 13.3% of adults borrowed from some informal source in the prior year, more than the 9.9% that borrowed from a formal financial

[92] USAID Jordan Local Enterprise Support Project (2015)
[93] Examples are First Finance Company, (ffc.jo), Jordan Trade Facilities Co (www.jtf.com.jo), Bindar Trade and Investment Co (www.bindar-jo.com)

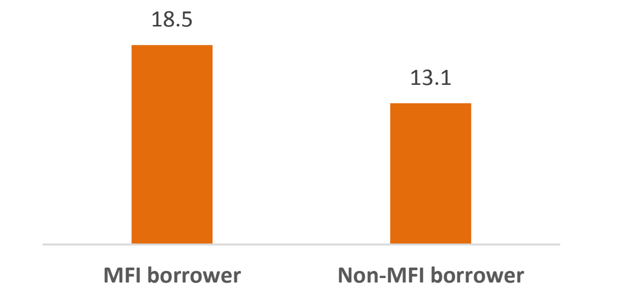
institution and 4.2% that borrowed from an MFI. Somewhat surprisingly, informal borrowing was more common among MFI borrowers than among the rest of the population. 18.5% of those who borrowed from an MFI in the past year also borrowed informally, compared to an informal borrowing rate of 13.1% for non-MFI customers.

% of adults borrowing from formal and informal sources, 2017



Source: CBJ/GIZ survey

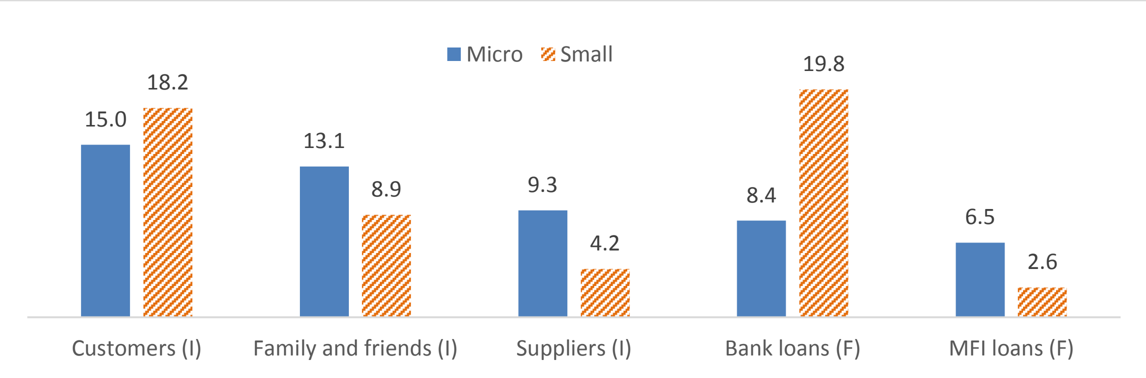
% of adults borrowing from informal sources



Source: CBJ/GIZ survey

Informal borrowing exceeding formal borrowing among microenterprises as well, according to the EBRD survey. 15.0% of registered microenterprises identified their own customers as a main financing source, followed by family and friends (13.1%) and suppliers (9.3%). Borrowing from formal sources was lower at 8.4% for bank loans and 6.5% for MFI loans. For small enterprises, the dynamic changes somewhat, as bank financing becomes prominent (19.8% of small enterprises consider this a main financing source) and family and friends (8.9%) and suppliers (4.2%) become less important, although their own customers remain an important source of informal finance for small enterprises as well.

Main financing sources for micro and small enterprises (% of enterprises)



Source: EBRD. Note: (I) = informal source, (F) = formal source

Reasons for the high usage of informal finance

The popularity of informal sources of credit is an indication of weaknesses in the formal financial system. The advantages of informal finance may include the following:

- Better geographic distribution of informal providers, especially in villages and small towns
- Faster processing times, especially when the lender personally knows the borrower
- Lower interest rates, again when there is a personal relationship between lender and borrower
- The absence of collateral requirements or other risk mitigation control mechanisms
- The fact that delinquency will not be reported to the credit bureau

However, consumer protection mechanisms are absent, and customers may have to deal with hidden costs, unexpected changes or lack of clarity in the loan conditions, and extremely aggressive collection techniques upon default. Even when borrowing interest-free from family and friends, informal finance has the disadvantage of placing a social obligation on the borrower to reciprocate by lending to the relative or friend at some later date.

Competition from informal financial service providers tends to be more harmful to MFIs than to banks, since the users of informal services are mostly microenterprises and low-income households, the core target markets of MFIs. Several MFI managers interviewed for this study acknowledged that some microenterprises and low-income households prefer the relative convenience of informal borrowing. The degree of success of the microfinance industry competing with informal lenders will have a profound impact on the development of financial inclusion in Jordan.

5.7.2 Other institutions

Aside from banks, MFIs and leasing companies, a number of specialized credit-granting institutions make a significant contribution to financial inclusion and can compete with MFIs for the same target market. The most important among these are the Development and Employment Fund (DEF), the Military Credit Fund (MCF), and the Postal Savings Fund (PSF), each of which was initiated or founded by the Jordanian government. These institutions tend to offer much lower interest rates than MFIs but have relatively slower processing times and sometimes must ration credit due to funding limitations.

Development and Employment Fund (DEF)

DEF was established primarily to provide credit and other support to unemployed individuals. DEF had around 40,000 borrowers and a portfolio of around JOD 89 million at the end of 2016. The average loan size of JOD 2,225 puts DEF squarely in the same market as MFIs. Most of its borrowers are unemployed and could not otherwise obtain credit, so its contribution to financial inclusion is meaningful. Financing is structured as murabaha with flat markup rates of 3-5% annually, quite low considering that many of the clients are unemployed. All borrowers receive credit life insurance with their loan, so DEF contributes to insurance as well as credit access. DEF does not conduct visits to the home or business place of applicants, making the application process simpler than that of MFIs, but the loan processing time is nevertheless slower at two weeks to a month on average.

Military Credit Fund (MCF)

MCF was established in 2011 to serve members of the armed services and their families. Like DEF, MCF had around 40,000 borrowers at the end of 2016, although its average transaction size is larger, resulting in a larger portfolio of about JOD 190 million. The maximum financing amount is JOD 32,000 for officers and JOD 16,000 for other enlisted personnel, structured as murabaha or ijara leasing. Pricing is low, with a flat 2.75% markup on personal loans. MCF faces funding constraints, as all of its resources comes from the different branches of the military, with no commercial borrowing. As a result, MCF often grants clients less money than they need, so many turn to banks to complete their financing. The limited branch infrastructure that covers just four governorates (Irbid, Zarqa, Karak, and Amman) is an inconvenience for clients in other locations, who may need to travel far to apply for a loan.

As the payer of all military salaries, MCF contributes to deposit account ownership by requiring that all military personnel must open a bank account to receive their salary. Prior to 2011, most military personnel didn't have accounts and all received their salary in cash.

Postal Savings Fund (PSF)

PSF had a loan portfolio of approximately JOD 14 million in 2016, which puts it on a similar level with some of the smaller MFIs. It offers murabaha financing, like most of the other specialized institutions, with a 6–7% markup. Although PSF serves a wide clientele, it tends to favor lending to government employees. PSF has a deposit portfolio of about JOD 24 million and benefits from its relationship with Jordan Post, which allows PSF clients to make deposits at Jordan Post's more than 300 branch locations.

Agricultural Credit Corporation (ACC)

ACC is a government-owned lending institution established by a special law in 1963 to support the agricultural sector. It provides both convenentional loans and Islamic finance. Most loans are granted at subsidized interest rates, with some special programs offering interest-free loans. The ACC had an outstanding finance portfolio of JOD 131.7 million at year-end 2016, up from JOD 122.7 million a year earlier. The average disbursed loan size in the first half of 2016 was JOD 5,197, demonstrating that the ACC's target segment overlaps with that of the MFIs.

6 SME finance

This section considers the level of financial inclusion as it relates to SMEs. Because the provision of financial services by MFIs to small enterprises was already discussed in the previous section, here the focus is placed on bank financing of SMEs. Credit products are given most of the attention in this section, because access to credit is considered the main gap in financial inclusion for SMEs, but other products such as deposits and leases are also discussed.

Key findings:

- SME lending by banks is low, comprising 7.3% of total outstanding bank loans in 2015 by currency volume
- Small enterprises have lower levels of financial inclusion than medium enterprises; 23.7% of small enterprises and 33.0% of medium enterprises had a bank loans, according to an EBRD survey in 2015
- 48.7% of small enterprises and 33.1% of medium enterprises identify access to finance as a major constraint
- The main constraints to SME financial inclusion are: informality and tax avoidance from SMEs, limited capacity for cash flow analysis on the part of banks, and the lack of an insolvency law or movable asset registry
- Small enterprises tend to receive much smaller loan amounts than they request – less than half of what they request in one study
- 88% of small enterprises and 91% of medium enterprises provided collateral for their recent loan; the ratio of collateral value to loan amount was 122% for small and 144% for medium enterprises
- Small enterprises demonstrate lower levels of bank account ownership; 79.0% of registered small enterprises and 92.2% of medium enterprises have a deposit account
- Leasing has the potential to contribute to SME finance, but leasing should be exempted from VAT charges, which makes some types of leasing more expensive relative to borrowing

6.1 Constraints to financial inclusion

The main constraints to financial inclusion for SMEs from the perspective of lenders and their clients are shown in the table below. See the previous section on microfinance for an explanation of the "reference" and "severity" columns.

Constraints to financial inclusion in relation to the MFI sector

Constraint	Reference	Severity
Regulatory and institutional framework		
Lack of an insolvency law	3.1	**2 (Moderate)**
Lack of a movable asset registry	3.1	**2 (Moderate)**
Lack of comprehensive credit bureau	3.1	**T (Transitional)**
Demand side		
Informality and tax avoidance	6.3.6	**3 (Severe)**
Weak accounting and financial management	6.3.6	**2 (Moderate)**
Low financial literacy	7	**2 (Moderate)**
Supply side		
Weak capacity for credit analysis	6.3.6	**2 (Moderate)**
Conservative decision-making	6.3.6	**2 (Moderate)**
Competition from informal sources	5.7	**1 (Minor)**

The main regulatory and institutional constraints are:

- *Lack of an insolvency law (2)* – A more streamlined, efficient bankruptcy process could encourage banks to lend to more marginal clients, thus increasing the level of financial inclusion. A new draft insolvency law is under consideration by Parliament; depending on its prospects for approval, this constraint could be reclassified as transitional.
- *Lack of movable asset registry (2)* – This is a significant constraint, since insufficient collateral is a reason that some loan applications are rejected. However, given the preference that banks have for real estate collateral, the presence of a movable asset registry alone will not necessarily solve the collateral constraints for all clients, particularly those that don't have real estate to offer as security.
- *Lack of comprehensive credit bureau (T)* – This constraint will soon become obsolete, as banks are already signing up to the new credit bureau CRIF; however, recent financial inclusion indicators are still negatively impacted by the absence of a comprehensive credit bureau in the past.

The main demand-side constraints are:

- *Informality and tax avoidance (3)* – Many SMEs choose to operate on a semi-formal basis by not reporting their full income. Even if lenders wanted to use the unreported income in their cash flow analysis, it would be more difficult to do so, since this income is usually not well-documented. This constraint is rated as severe because it is so common and because the share of unreported income is so high relative to total income, according to bank managers interviewed.
- *Weak accounting and financial management skills (2)* – The weak financial skills of entrepreneurs lead to incomplete or inaccurate financial records, making it more difficult and costly to evaluate the repayment capacity of applicants. This in turn contributes to higher loan pricing. This constraint is more relevant to sole proprietorships, as they are not required to have audited financial statements.
- *Low financial literacy (2)* – Lack of familiarity with and understanding of loan contracts and conditions leads to reduced demand. Although low financial literacy is classified as a demand-side constraint, banks could also do more to help educate their clients or simplify their products and contracts to make them easier to understand. This constraint is most relevant for small rather than medium enterprises and for sole proprietorships rather than legal entities.

The main supply-side constraints are:

- *Weak capacity for credit analysis (2)* – Financial analysis of SMEs can be complex and requires that staff are well-trained and motivated. While there many highly capable individuals working in credit departments, the capacity level is not consistent and varies widely from bank to bank and from branch to branch.
- *Conservative decision-making (2)* – Although conservative decision-making by credit committees provides the benefits of less systemic risk in the banking sector and less over-indebtedness, it can also contribute to reduced financial inclusion. In particular, conservative decision-making is most harmful when it is used to compensate for weak capacity (see above) or when it is motivated by biases (see the "Consumer protection" section).
- *Competition from informal sources (1)* – This is less of a concern in relation to SME finance than it is to microfinance, since informal sources are more suited to work with micro enterprises than small or medium ones. Nevertheless, for some small enterprises, particularly those that operate less formally, financing through family, friends, clients or suppliers can be an attractive option in some cases.

6.2 Target segments and eligibility criteria

Banks serve a wide variety of SMEs in terms of the characteristics of the businesses and their owners, but some sub-segments face restrictions or challenges in access to financial services. Startup companies and sole proprietorships are among the groups that find it difficult to obtain credit, and unregistered enterprises are not eligible for a loan at all. On the positive side, there is some evidence to suggest that women-owned SMEs do not find it more difficult to access credit than male-owned SMEs.

Registration status: Banks can only lend to registered businesses, so unregistered SMEs have no choice but to work with MFIs or informal sources. Both banks and MFIs report that there are a significant number of small enterprises that operate without registration. Among registered businesses, those licensed as sole proprietorships (making up the vast majority of SMEs) have greater difficulty accessing credit than limited liability companies and other legal forms. Sole proprietorships tend to operate more informally than other types and are not required to have their financial statements audited, so banks usually consider lending to sole proprietorships more risky. It is common to find even medium enterprises registering as sole proprietors; one bank stated that about half of its medium enterprise clients are sole proprietors.

Startup companies: Startup companies are less likely to have loans than more mature companies. An EBRD survey found that only 11.8% of startups (defined has having less than two years of operational history) had an outstanding loan, compared to 23.0% for companies with 2–5 years of operating history. Startup companies do have higher failure rates than older companies, so the lower rates of access to credit are not necessarily unfair. Nevertheless, the level of startup financing could certainly be boosted to some degree without exposing the banking sector to excessive risk. One possible means to achieve this would be making additional investments and offering more attractive conditions in the startup finance guarantee programs already operating in Jordan, such as the one provided by JLGC.

Female-owned SMEs: Although there are fewer women-owned SMEs than male-owned ones, women-owned SMEs were found to have higher borrowing rates in an EBRD survey. 29.7% of female-owned enterprises had an outstanding loan, compared to 23.9% for male-owned enterprises.[94] This finding supports the statements of SME managers interviewed for this study, many of whom affirmed that they are actively trying to reach out to female entrepreneurs.

6.3 Credit products

6.3.1 Product diversity

SMEs can choose from a relatively diverse set of credit products, and financial institutions are gradually increasing the scope of products offered over time. The following table categorizes the availability of credit products from banks based on a review of the ten largest banks by asset size. Products are categorized as high availability (all or nearly all of the banks offer the product), moderate availability (some offer the product), low availability (one or two offer it) and no availability.

Availability	From banks to MSMEs
High	Standard installment loan for working capital or fixed asset financing; overdraft
Moderate	Loans targeted to specific sectors (industrial loan, agriculture loan, etc.)[95]; store credit
Low	Factoring; startup loan; loans targeted to microenterprises; loans targeted to self-employed people
None	Energy efficiency and green loans

Aside from generic personal loans for individuals and installment loans for MSMEs, nearly all banks offer products for real estate, automobiles, and overdrafts. Education loans and store credit are also offered by a significant and increasing number of banks. However, banks have been somewhat slow to adopt sector and segment-specific products, such as for energy efficiency, women, young people and startup enterprises. Nevertheless, such products are available and the combination of competitive pressures and specialized funding and guarantees from CBJ and JLGC are likely to encourage more banks to introduce these products going forward. A survey by the ABJ[96] published in 2016 found that 60% of banks also offered unfunded products such as letters of guarantee and letters of credit to SMEs.

6.3.2 Amount

Banks generally avoid the smallest loan sizes – many have a minimum loan size of JOD 5,000, both for retail and MSME clients. However, a few banks have specialized microfinance products with minimum amounts as low as JOD 300. Even when the minimum is JOD 5,000, however, this is typically sufficiently low for nearly all SMEs.

The constraint related to loan amounts for SMEs is not in the product itself but in the decisions taken by credit committees. Even though most banks can make SME loans as small as JOD 5,000, in practice they are often very selective and conservative at lower loan sizes. An applicant for a loan of JOD 20,000, for example, might find it more difficult to get a bank loan than an applicant for JOD 200,000, even if both applicants are equally qualified for the given amount. The difficulty that smaller enterprises have getting the desired loan amount is illustrated by the EBRD survey, which revealed that the amount small enterprises received on their most recent loan is less than half (46.7%) of the amount they would like to apply for with their next loan. By contrast, medium enterprises received a larger loan amount than they wish to get for their next loan (a 128.0% ratio of received to intended request). While the smallest of enterprises within the SME spectrum tend to be less formal and therefore perhaps more risky than the larger enterprises, there is nevertheless a strong reason to think that some bias on the part of banks is affecting the decision-making process.

[94] The authors of the EBRD study partly attribute the higher borrowing rate for women to the larger average size of the surveyed female-owned MSMEs in terms of number of employees. Nevertheless, results indicate at the very least that women are not worse off than men in terms of access to credit.
[95] The sector-specific loans are often connected to CBJ/JLGC lines
[96] Association of Banks in Jordan. *Survey Study on SMEs in Jordan*: *Analysis of Supply-Side and Demand-Side Focusing On Bank Financing*. April 2016.

6.3.3 Maturity and repayment schedule

Banks have the ability to offer sufficiently long-term loans with flexible repayment schedules to SME borrowers, but often they choose not to do so. According to their credit policies, maximum maturities generally range from five to eight years at most banks. In practice, however, risk aversion can lead credit committees to set much shorter maturities. It is also interesting to note that some banks have longer possible maturities for some consumer loan products than SME products. For example, one bank interviewed for this study can offer eight-year maturities on salary transfer loans but only up to five years for SME loans, despite that fact the SME loans are much larger on average. Similarly, while most banks can in theory offer reasonable grace periods (up to six months or a year is common) or flexible payment schedules, credit committees often only approve short grace periods or none at all, accompanied by regular monthly payments. The EBRD survey found that SMEs would request a loan term of 5.2 years with their next loan, but they received a lower loan term of 3.5 years on average on their previous loan. Although the majority of SMEs are undoubtedly receiving an appropriate maturity and repayment schedule that match their financial capacity and investment goals, there are also some clients that are not receiving the desired conditions, forcing them to abandon or change their long-term investment plans.

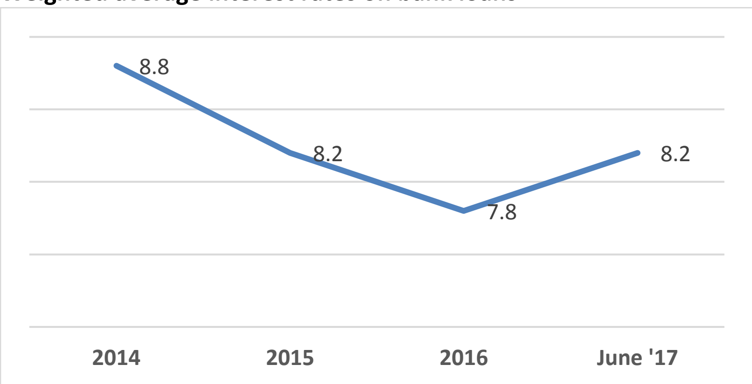
6.3.4 Pricing

Bank pricing is not a significant barrier to credit access. Banks interviewed for this study reported offering rates typically in the range of 9–11% on a nominal basis for SME loans. Loans offered in connection with special financing programs of CBJ or development finance institutions may be at lower rates. Both fixed and variable rate loans are available, with variable rate loans typically linked to CBJ's Jodibor index. Most banks charge a 1% one-time commission fee for SME loans.

The substantial gap in pricing between banks and MFIs (see section 5.4.5) may be an indication of a gap in outreach to the target market. There appears to be little or no loan supply in the range of about 12–16% annually on a nominal basis, with banks offering lower rates and MFIs offering higher rates. Some of the pricing gap can be attributed to MFIs' higher cost of funding compared to banks. Nevertheless, the pricing gap suggests that MFIs are targeting micro enterprises while banks are targeting relatively larger enterprises within the SME segment (in other words, focusing more on the medium than the small and micro enterprises), leaving a middle ground of small enterprises that are not an ideal fit for either banks or MFIs.

Interest rates declined in recent years up to 2016, helping to make credit more affordable and increasing demand, but rates rose again in early 2017. The chart below shows the weighted average interest rate on bank loans from 2014 to June 2017. The average rates are somewhat lower than the current rates offered on SME loans, as the average includes lower-priced products such as corporate loans and home mortgage loans.

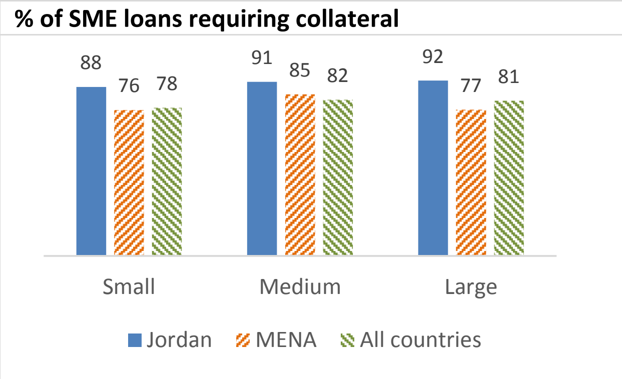
Weighted average interest rates on bank loans

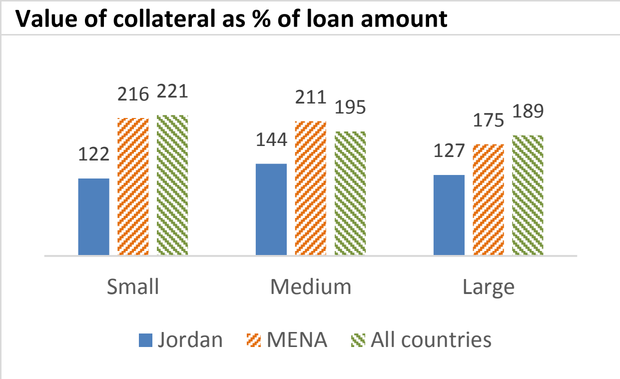


Source: CBJ

6.3.5 Collateral

Collateral is required for a high proportion of bank loans to SMEs, but the ratio of the collateral value to the loan amount is moderate. This conclusion is based on data from the World Bank Enterprise Surveys, which show that the percentage of SME loans requiring collateral is higher in Jordan than the average for the MENA region and for all countries, but the value of collateral as a percentage of the loan amount is much lower in Jordan than the MENA region and all countries. The following graphs present the results, broken down by small, medium and large enterprise sizes.



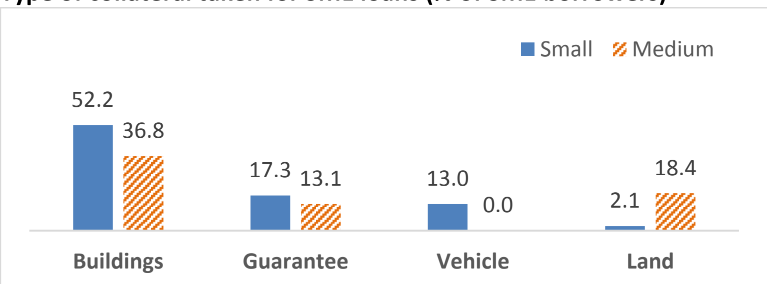


Source: World Bank Enterprise Surveys

The OECD SME Policy Index found that the average ratio of collateral value to loan amount for SMEs was 123%, in line with the World Bank figures. This is also consistent with anecdotal evidence reported by banks. Banks interviewed for this survey reported that their minimum required ratio of collateral to loan amount varied from 100% to 150%, depending on the particular bank and the characteristics of the applicant. Many banks also reported a high reliance on real estate as collateral.

The EBRD survey sheds some light on the type of collateral taken by banks.[97] Buildings were the most common type, taken for 52.2% of small enterprise loans and 36.8% of medium enterprise loans. Land was taken on 18.4% of medium loans but only 2.1% of small loans. Guarantees were taken for 17.3% of small loans and 13.1% of medium loans, and vehicles were taken for 13.0% of small loans but were not used as collateral for medium loans. Overall the results indicate that despite much smaller loan sizes, small enterprises do not have any advantages over medium enterprises in terms of the type of collateral they must present.

Type of collateral taken for SME loans (% of SME borrowers)



Source: EBRD

At the end of 2016, 12 banks had outstanding loans that were guaranteed by the Jordan Loan Guarantee Corporation (JLGC). Most banks reported that they were satisfied with the cooperation with JLGC, and that the guarantees allowed them to extend credit to borrowers that otherwise might not have received loans. However, a few banks consider the fees (1.0% of the guaranteed amount) to be high, and this limited their usage of the guarantee product. The total outstanding balance of guaranteed loans is estimated to represent about 3.8% of total outstanding SME loans of banks[98], suggesting that there is substantial opportunity for additional guarantee funding in the market. It is worth noting that banks usually take collateral in addition to the loan guarantee, since the guarantee is partial and covers 70–80% of the loan balance. The more recent OPIC Guarantee Fund was also active and has supported USD 73 million in funding to 316 SMEs since its inception.

6.3.6 Credit analysis

Credit analysis for SMEs is a challenging and often inefficient process that represents a significant barrier to financial inclusion. Cash flow analysis of SMEs, in particular, is problematic mainly due to inaccurate financial statements. Inaccuracies in the financial statements produced by SMEs may be deliberate, in order to mislead tax authorities, or accidental, due to poor accounting and financial management skills. Some SMEs produce dual sets of financial reports (one accurate set for internal use and one inaccurate set for tax purposes), and some banks in turn spend time

[97] The sample size was not large – 46 small and 38 medium enterprises – so the results should be interpreted with caution
[98] The estimate assumes that all loans classified as "productive" or "industrial finance" in the JLGC Annual Report are SME loans

analyzing both sets of financials, further complicating the cash flow analysis. Some banks simply ignore the real financials and only analyze the official ones, even though they know that they are inaccurate, resulting in very conservative lending decisions.

In recent years new regulations have made it mandatory for legal entities to produce financial statements which are audited by a certified accountant. The general impact of these regulations is an improvement in the quality of SMEs' financial statements; the deliberate and accidental errors remain but are less frequent. These regulations do not apply, however, to businesses registered as individual enterprises, many of which produce inadequate financial records or no records at all. Such individual enterprises tend to be more common at the small end of the SME spectrum, another possible explanation for the lower levels of financial inclusion observed among small enterprises.

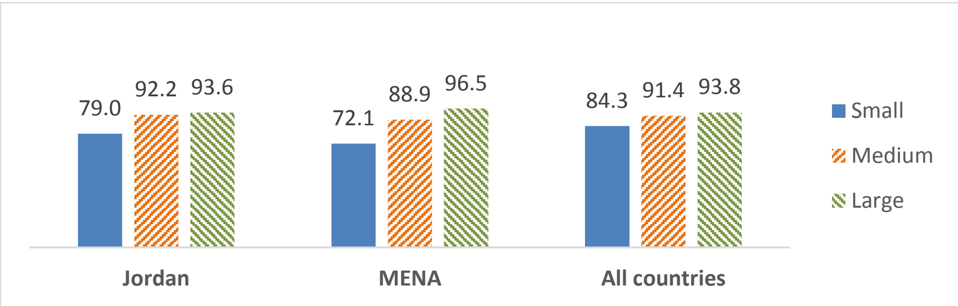
Banks are attempting to upgrade their capacity to work with SMEs by establishing specialized SME units with dedicated staff. According to an ABJ study[99], 62.5% of banks have a specialized unit and 71% have specialized staff. However, other potential means for improving efficiency and managing risk better, such as credit scoring and real-time application processing systems, are still not being used widely by banks for SME lending. Although some banks have online application links on their websites, typically these are not truly functional, and the applicant simply inputs contact information so that a staff member can get in touch with them to take an application the traditional way.

6.4 Non-loan products

6.4.1 Deposits

As with credit products, smaller enterprises tend to demonstrate lower account ownership levels than medium enterprises. Based on the World Bank's Enterprise Surveys, 79.0% of small enterprises had a checking or savings account, compared to 92.2% for medium enterprises, which was just slightly below the 93.6% rate for large enterprises. Bank account ownership for both small and medium enterprises is much higher than for microenterprises (16.6%)[100] and for the population as a whole (32.0%)[101]. Although data are not available, SME usage of fixed deposit accounts is reportedly low, with the vast majority of fixed deposits held by large enterprises.

Ownership of checking or savings account (% of enterprises)



Source: World Bank Enterprise Surveys

Jordanian SMEs have higher account ownership rates than their counterparts in other MENA countries. The 79.0% rate for small enterprises compared favorably to 72.1% in MENA countries, likewise the 92.2% rate for medium enterprises in Jordan was higher than 88.9% in the MENA region. Jordan's small enterprises trail behind the average for all countries in the World Bank sample (84.3%), but Jordan leads the average for all countries with respect to medium enterprises of 91.4%.

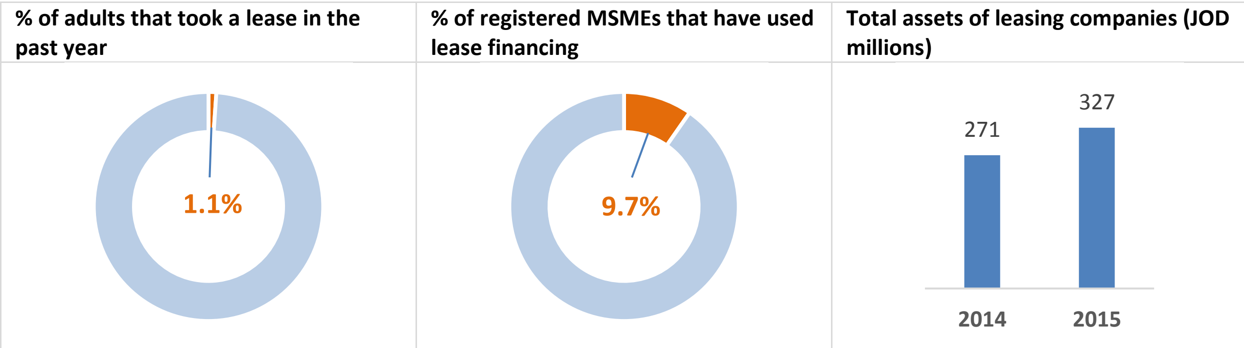
Medium-sized enterprises are unlikely to be sensitive to the pricing of account-related services and related requirements, such as minimum balance limits. By contrast, at least some small enterprises, particularly the smallest within the segment, may be sensitive to price, making them less likely to open an account. Transparency and informality are other factors that would discourage small enterprises from opening an account more so than medium enterprises. Because a greater proportion of small enterprises operate informally or semi-formally (either by not registering or under-reporting their income) compared to medium enterprises, the small enterprises would be more concerned about exposing their financial transactions to the potential scrutiny of the tax authorities or other regulators by working through a bank account.

[99] ABJ. *Survey Study on SMEs in Jordan: Analysis of Supply-Side and Demand-side Focusing on Bank Financing*
[100] Based on the USAID LENS survey
[101] Based on the CBJ/GIZ survey

6.4.2 Leasing

Contribution to financial inclusion

The contribution of leasing to financial inclusion is low among the general population but important in the SME sector. The CBJ/GIZ study found that only 1.1% of adults used a leasing product in the past year, much lower than the 4.3% that received a bank loan or 4.2% that received an MFI loan. However, a survey by EBRD[102] found that 9.7% of registered MSMEs had used leasing services[103], and 19.5% were interested in doing so in the future. Although that particular survey did not provide a breakdown of micro and SME usage, anecdotal evidence suggests that leasing is much less common in the micro enterprise segment and much more common among SMEs. One reason for the greater adoption of leasing among SMEs than individuals and micro enterprises is the stricter collateral requirements to which SMEs are subject when taking a loan; leasing is often a better option than loans for SMEs without much collateral to offer. Another reason is the relative tax disadvantages that individuals and many micro enterprises have when leasing, as explained below. Finally, leasing companies generally do not actively target very low-income households and micro enterprises, as their minimum lease sizes usually start in the range of JOD 5,000 to 10,000.



Source: CBJ/GIZ survey; CBJ Financial Stability Report 2015

Supply-side data shows that the amount of finance provided by leasing companies is very small compared to bank lending. The assets of the 34 registered leasing companies in Jordan of JOD 327.1 million represented just 0.7% of bank assets at year-end 2015.[104] However, although data are not available, the share of SME leasing to SME lending would be considerably higher.

Constraints

Although there are some positive indicators in terms of the leasing sector's contribution to financial inclusion, the leasing sector is hampered by a lack of product diversity, a disadvantageous tax regime, low financial literacy, and limited geographic outreach. Each of these constraints is discussed in more detail below.

Lack of product diversity: The leasing industry is characterized by a heavy focus on real estate and automobile leasing. One leasing company estimates that real estate leasing accounts for 60–70% of the total leasing portfolio for the industry as a whole, with car leasing making up most of the remainder. The popularity of real estate leasing is explained in large part by the ability of clients to avoid the transfer tax they would have to pay if purchasing the property with a loan. Although equipment leasing is available, the variety of equipment that can be financed is limited and the leasing companies are not strongly promoting it. It is estimated that at most 5% of all leasing is for equipment leasing (excluding vehicles). One leasing company reported that they originally were more active in equipment leasing but cut back due to high NPLs. The high NPLs, in turn, were probably exacerbated by inappropriate product design or weak credit analysis, problems which could potentially be rectified with technical assistance. In additional, nearly all leasing contracts are structured as finance leases, with almost no availability of operational leases, further contributing to the lack of product diversity.

Disadvantageous tax regime: VAT is charged on equipment lease payments[105] but not on loan payments. Although legal entities can write off the VAT charges, individuals and sole proprietors (who make up a large share of SMEs) cannot, making it relatively expensive for them to finance a purchase by leasing rather than a loan. Changes to the

[102] Barker, Natalya et al. *Jordan MSME Framework – In-Depth Market Study of MSMEs in Jordan*.
[103] This does not imply that 9.7% of MSMEs had an outstanding lease, simply that they had used the product at some point in the past
[104] CBJ. *Financial Stability Report 2015.*
[105] Real estate leases and used car leases are exempt from VAT, so it only applies to equipment and new cars

legal framework for leasing could help to increase the outreach of the sector, namely by exempting all lease payments from VAT.

Low financial literacy: The terms and conditions of lease contracts differ substantially from those of a loan contract. Even clients who are very familiar with loan contracts may have little understanding of how leasing works. This lack of familiarity on the part of clients reduces demand for leases. Leasing should be given a more prominent place in the ongoing financial education efforts of the government and development institutions in order to close the knowledge gap between lending and leasing.

Limited geographic outreach: Leasing companies tend to be small and have few branches, so their geographic outreach is limited. Most major leasing companies are subsidiaries of banks and are able to offer their services in the parent banks' network; however, even in such cases, they only do so in selected branches. Some leasing companies have just one branch in Amman and effectively ignore the rest of the country. Customers in rural areas and smaller cities, therefore, are less likely to have convenient access to leasing services.

Outlook

Despite these constraints, the sector is growing relatively quickly and shows potential for making a significant contribution to financial inclusion in the future. Total assets of insurance companies grew by 20.6% in 2015 following 8.9% growth in 2014, well above the 5.0% and 4.8% growth rates for banks' assets in those years. Profitability has been sound, with leasing companies earning a 5.3% return on average assets in 2015, slightly above the 5.1% level in 2014.[106] Pricing of lease products does not differ much from SME lending rates, generally falling in the range of 8–12%, so this does not represent a disadvantage for leasing companies compared to banks. Unlike banks, leasing companies have the flexibility to offer Sharia-compliant ijara products along with conventional products, and they can work with unregistered businesses.

[106] CBJ. *CBJ Annual Report 2015*

7 Financial literacy and education

The following items are seen as key constraints to improving the financial literacy and education, rated along a scale of severe, moderate, or minor:

- *Lack of integration (Moderate)*: Financial education elements are rarely integrated with general micro-finance-focused programs initiated by donors, preventing the greater use of microfinance products based on well-informed financial decisions.
- *Long-term viability of existing program (Moderate)*: The ambitious introduction of financial education courses in practically all classes nation-wide from grade 7 is currently being done with CBJ financial support. However long-term availability of such financing is uncertain, which could potentially impede any achieved progress and may result in rolling back the scale of the initiative in later years.
- *Repetition of content (Minor)*: The almost simultaneous introduction of financial literacy courses in multiple grade levels means that these need to have some introductory elements to financial topics at all levels. Over time this curriculum may become somewhat redundant and too repetitive to students that started the course at an early grade level. Thus, the decision to introduce the financial literacy course across multiple classes in a short timeframe may eventually entail for a redesign of the curriculum in the medium-term to reduce such overlaps.

7.1 Financial literacy and behavior

In recent years Jordan has achieved significant improvements in the level of general literacy, which registered 98% in 2015 (compared to 93% just five years earlier), with little differences in gender and a relatively high rate among young people[107]. While this is also a top result for the MENA region, it speaks little of the specific knowledge on financial issues among the population.

More specific data on the latter is available from the 2014 S&P Global FinLit Survey[108], which estimated the financial literacy in Jordan at 24% (lower than in most Arab countries in the region). More detailed survey results per segments in Jordan, allow for similar conclusions as in other emerging economies, including the fact that results among women and elderly population are lower than national averages (results for men: 25%, women: 22%; age 15–34: 28%, age 35–54: 20%, age 55+: 16%)[109].

Regional financial literacy (%)

Country	Score
Algeria	**33**
Bahrain	**40**
Egypt	**27**
Jordan	**24**
Iran	**20**
Iraq	**27**
Kuwait	**44**
Lebanon	**44**
Saudi Arabia	**31**
Tunisia	**45**
Turkey	**24**
United Arab Emirates	**38**

Source: S&P Global FinLit Survey 2014

However, a more significant observation is that low financial literacy does not necessarily mean a similarly low use of financial services. In emerging economies only circa 30% of account owners were estimated to be financially literate (compared to 57% in advanced economies). Similarly, only about a quarter of people who use credit (loans or credit cards) in emerging economies are financially literate. What this means is that, due to poor financial literacy, most of the financial services users in emerging economies are exposed to higher risks, not having the ability to fully estimate the conditions of used financial products. Thus, for example, many short-term credit users do not fully understand that the speed at which interest compounds can inflate total amounts owed, potentially leading to over-indebtedness. Additionally, poor financial literacy doesn't allow consumers to fully estimate the benefits and savings that may be gained by switching from informal to formal financial service providers.

[107] World Bank (2017), World Economic Indicators, databank.worldbank.org/data/reports.aspx?source=2&series=SE.ADT.LITR.FE.ZS&country=JOR

[108] World Bank Development Research Group & George Washington University School of Business (2015), "Financial Literacy Around the World: insights from the Standard & Poor's ratings services global financial literacy survey", http://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x87657

[109] AMF & GIZ (2016), "Financial Education Initiatives in the Arab Region: A stocktaking report", www.amf.org.ae/sites/default/files/Studie_Arab.Region_190417_v5-FINAL.pdf (page 19)

7.1.1 Analysis of CBJ/GIZ survey results

Inflation is well understood, yet most people find more complex financial concepts difficult. The conducted survey also included several questions on financial knowledge and behavior. Results for the first group (knowledge) are summarized in the table on the right, highlighting that most of the respondents were generally able to answer up to two (31%) or three (34%) questions correctly, and that the concept of inflation was found to be the easiest among the questions (87% correct answers on simple inflation). The lowest results are observed on the knowledge on deposit insurance in the country[110]. A more detailed breakdown in Appendix 6 also highlights variations per additional segments of the population. None of the respondents in the sample was able to answer all six questions correctly.

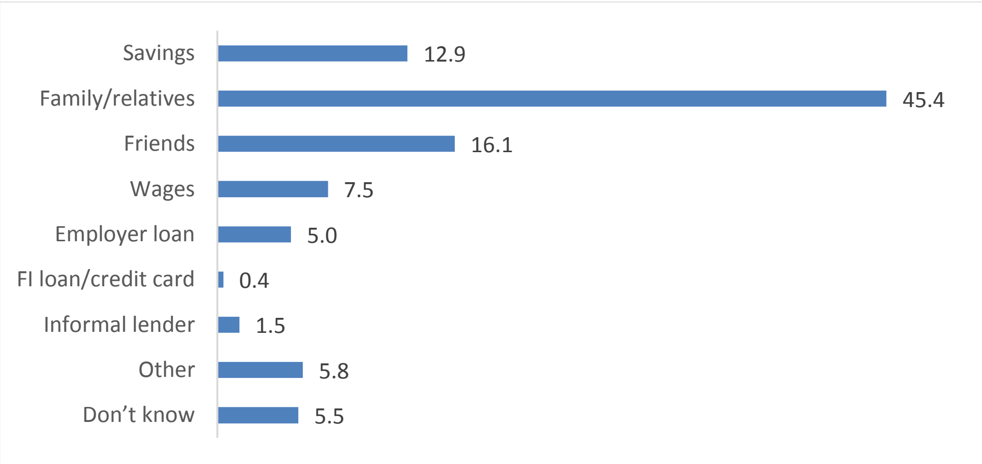
Financial knowledge (correct, %)

Type of question	ALL
Calculating simple interest	**30.7**
Calculating compound interest	**37.6**
Diversification	**31.3**
Simple inflation	**86.9**
Complex inflation	**60.3**
Deposit insurance	**8.6**
Fin literacy score (0)	**3.0**
Fin literacy score (1)	**13.2**
Fin literacy score (2)	**30.8**
Fin literacy score (3)	**34.0**
Fin literacy score (4)	**16.5**
Fin literacy score (5)	**2.5**

Source: CBJ/GIZ survey

Refugees have lowest savings. The analysis of questions on financial behavior also provides several insights. Looking at sources for covering an unexpected need for funds, the survey shows that only about 13% of the population could rely on savings even for a relatively small amount of JOD 150 (lowest result: 6.4% for refugees; see detailed breakdown in Appendix 6). As an alternative, it is not surprising to see family (45%) and friends (16%) playing a significant role here.

Source for JOD 150 (% of adults)



Source: CBJ/GIZ survey

Women track expenses significantly better than men. Another insight comes from questions on keeping written budgets and regularly tracking planned and actual expenses. Here female respondents show better practices in both cases. Circa 38% of women keep a budget compared to 23% of men (national result: 30%), and 63% vs. 40% compare planned and actual expenses (national result: 50%). For both questions, these results represent the minimum and maximum figures among all analyzed sample segments (see Appendix 6).

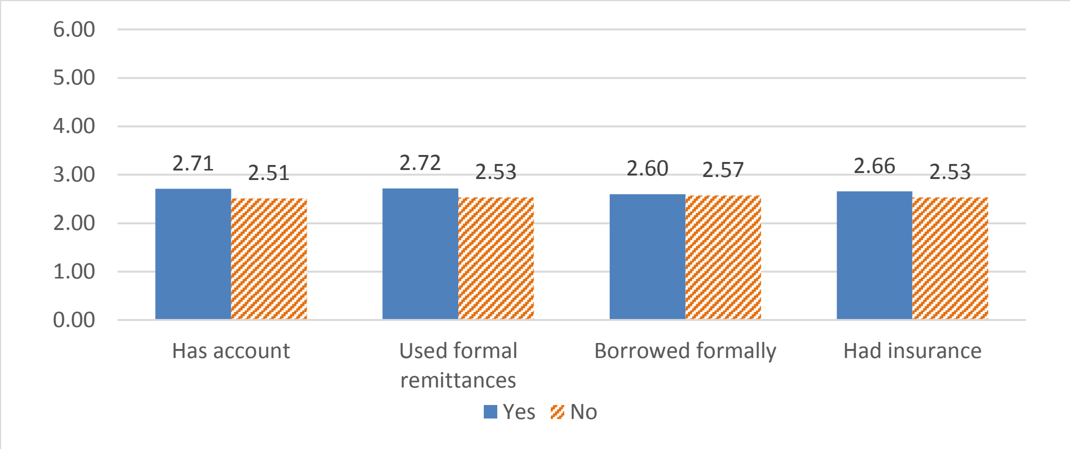
Good practices in rural areas. The rural segment of the population showed best results in two areas: (1) highest reliance on savings for emergencies (17% vs. 13% national average), and (2) highest tendency to read all contract conditions (91% vs. 85% national average).

People without secondary education and rural dwellers have the lowest average financial literacy scores. As shown in Appendix 6, the majority of the population segments show little difference in their average financial literacy scores compared to the national average. The worst average is among rural dwellers and people without higher education, followed by people with lower income, refugees, and women (men have the highest average score after people with at least a secondary degree).

[110] JD 50,000 is insured by the state. Source: http://www.dic.gov.jo/Welcome.aspx

Higher financial literacy scores are correlated with the use of financial products. The analysis from the chart below shows that people that use such financial products as bank accounts, insurance, loans, or remittances, are consistently better at answering financial literacy questions. This is highlighted by higher average financial literacy scores, calculated as the sum of the six financial literacy questions that were answered correctly. The average number of questions answered correctly by all surveyed adults was 2.55 out of 6.

Financial literacy scores and use of basic financial products



Source: CBJ/GIZ Survey 2017 (Note: Financial literacy score = # of questions answered correctly)

7.2 Financial education

In recent years, considerable efforts have been made to advance local financial literacy, with the overall aim of improving financial skills and behavior as well as building awareness in the population of existing financial products and services. On a country level, the CBJ made a strong commitment to improve financial literacy as part of the Maya Declaration in November 2016[111]. Specific measures for various target groups also predate this commitment, as discussed below:

a) <u>At a school level – Seeds have been planted for potential huge changes in the future</u>

In 2014, a massive and ambitious long-term program was initiated with a detailed curriculum planned for six different class levels (grades 7 to 12), with separate books planned for each grade. The first major achievement in the program was the launch of a financial education course in 2015 for school students in grade 7. The course was designed to run for one semester (four months) at one hour per week, which translates into a large volume of class hours. Given the absence of specialized teachers, the task of leading the classes was assigned to around 4,400 individuals who were specially trained by INJAZ experts (a local NGO). These were mostly current teachers with various backgrounds and core specializations who received bonus compensation for the extra hours added to their usual workload. The Ministry of Education also contributed to the program in monitoring the development of the general framework of the curriculum, revising the curriculum for all grades and training teachers of the subject at a national level. Financial support of the project came from the Association of Banks in Jordan, Abdel Hameed Shoman Foundation and Al Hussein Fund for Excellence. The described setup of the new program also comes with a set of long-term implications:

- **Budgetary implications & strategic choices:** As such courses are introduced to more grade levels (within 1–2 years), it will lead to more teacher work-hours. Currently, part of the costs associated with the extra workload is covered by CBJ and other program partners. In the long-run, these costs are expected to be covered by the Ministry of Education, something the Ministry still needs to plan for. At the same time, the Ministry will need to make strategic choices on which courses to keep and which ones to reduce in the likely event of budget limitations. Currently, the financial education program has the full support of the Ministry; however, this support cannot be guaranteed in the long-term.
- **Family effect**: It is assumed that, following the financial education courses, students will pass on the new knowledge and skills to members of their immediate family, thus contributing not only to improvements in financial literacy among pupils but also among the adult population, which necessitates further in-depth research.

[111] http://www.afi-global.org/news/2016/11/central-bank-jordan-makes-bold-maya-commitment-financial-literacy-access-refugees

- **Change in financial behaviour**: The curriculum includes cases highlighting the dangers of over-indebtedness and unjustified consumerism, potentially leading to changes in the spending propensity of the population, more rational financial decisions, a greater willingness to try more advanced financial products and a reduction of tax avoidance.
- **Effect on universities:** In advanced grades (i.e. 11 and 12), the program envisions training on entrepreneurship and business planning. This is expected to have a direct impact on specialized business universities, which may need to adapt and upgrade their curriculum in light of the new curriculum at the secondary level of education.

See Appendix 5 for details on the curriculum per each class and an implementation timeline.

b) **At a university level – Focus on entrepreneurship**
Negotiations are also in progress with universities regarding the potential of introducing financial education courses. However, the efforts here are expected to mostly focus on building entrepreneurial skills for university students who would like to pursue a self-employment career by launching a company linked to their specific field of study. In this regard, it is recommended that such financial education courses be complemented with other support measures for start-ups such as business plan competitions and business incubators.

c) **Courses for adults – Pilot projects in development**
Apart from the focus on students described above, financial education courses are also planned to be rolled out for adults. In this regard, the Central Bank of Jordan is coordinating with the Jordan River Foundation to launch a new joint initiative. This is planned to have three training levels (basic, intermediary and advanced) of financial skills. Similar to other JRF projects, this initiative will have a close collaboration with local community-based organizations (CBOs)[112] that will take the lead in attracting potential training beneficiaries. A pilot of this initiative is scheduled for 2017.

d) **On-demand online courses – An alternative new channel**
Complimentary to the mandatory financial education program in schools and tailored trainings for specific target groups, there are also opportunities for individual, self-paced study via new e-learning websites. One such example is EdRak – an initiative of the Queen Rania Foundation – which offers online courses such as 'Planning your Personal Finances' (from 2016) and 'Principles of Investing' (planned for launch in May 2017)[113].

7.2.1 Donor-supported financial education programs

Reviewed data suggest that most of the donor activities in this area focus on general education, with little specific emphasis on financial education. Some exceptions are:

- **GIZ:** A 2015–2018 project focused on improving access to remittances (Digi#ances project) also includes a component on improving financial literacy via information campaigns and training courses tailored to the target groups in order to promote the responsible use of digital financial services (focused on Syrian refugees, low-income Jordanians and women)[114]. GIZ is also collaborating with CBJ on the development of a financial inclusion and education strategy.
- **Child Finance International:** Prior to 2014, Child Finance International has been working with Jordan River Foundation and Madrasati (with funding from CITI Foundation) to provide training to teachers and organize financial education workshops at school level[115].

[112] Arabic "jamaiyya"; http://eeas.europa.eu/archives/delegations/jordan/documents/news/mapping_study_executive_summary_bilingual_en_ar.pdf
[113] https://www.edraak.org/en/courses/
[114] https://www.giz.de/en/worldwide/38566.html
[115] http://www.childfinanceinternational.org/resources/partners/201405-aflatoun-report-summary.pdf

8 Consumer protection

This section explores the topic of financial consumer protection and its impact on financial inclusion, including a discussion of the regulatory framework for consumer protection.

Key findings:

- Consumer protection regulations for banks are already in place and are sound, while regulations for MFIs and other non-bank financial institutions are under development
- Five MFIs in Jordan have endorsed the SMART campaign principles, a set of international standards for consumer protection
- Only 42.2% of account holders stated that they knew the costs of their bank account, and 47.3% of borrowers knew the costs of their loans; this probably reflects a combination of negligence and forgetfulness on the part of clients combined with low financial literacy and weak disclosure from banks
- 70.9% of borrowers stated that the lender made costs and conditions of the loan clear before signing the contract, leaving significant room for improvement
- 85.3% of adults state that they read financial contracts before signing, although managers of financial institutions state that the majority of customers don't read contracts
- Over-indebtedness is a moderate concern, especially in the retail and corporate segments; 7.8% of adults that didn't borrow in the past year didn't do so because they had too much debt already
- Banks receive about 1,500 complaints in aggregate from customers each year; the most common complaints are related to processing time, the cost of financial services, and being rejected for a product

8.1 Overview and key constraints

The consumer protection framework can have a major impact on the level of financial inclusion. On the one hand, strict and burdensome consumer protection rules can increase the operating costs of financial institutions, potentially leading to higher prices for clients and reducing demand. But well-designed, appropriate rules can give clients more confidence in the financial services industry, increasing demand. Key elements of any consumer protection framework are transparency, fairness, prevention of over-indebtedness, responsible pricing, privacy, and complaint resolution. The main elements of consumer protection are captured in the SMART campaign, an initiative to establish international standards for consumer protection. The principles of the SMART campaign have been endorsed by five MFIs in Jordan.

The main constraints with regard to consumer protection are:

- The absence of consumer protection regulations for MFIs and other non-banking financial institutions, which decreases the public's trust in such institutions, reducing demand. However, regulations for MFIs are expected to be implemented in the near future, so this constraint is temporary.
- Lack of diligence from financial institutions in explaining their products and contract terms to clients
- Low financial literacy on the part of clients, as a result of which they may not understand contract conditions even if they read them carefully
- Negligence on the part of clients who do not even attempt to read financial contracts or understand the product conditions
- The past absence of a comprehensive credit bureau, which has contributed to some over-indebtedness, particularly in the consumer and microfinance segments. However, the recent launch of the credit bureau CRIF should eliminate this problem going forward.

8.2 Regulations

The regulatory framework for consumer protection is strongest in the banking sector, but is still in a nascent stage of development in the microfinance, insurance and leasing sectors. The CBJ has a relatively new consumer protection department created in 2017 with three divisions – complaint, supervisory, and legislation – that develops regulations and supervises their implementation. Now that the CBJ is in the process of licensing MFIs after they had been regulated since 2013, and the insurance sector is to be subjugated to the supervision umbrella of the CBJ in the middle of 2018, improvements are expected in the consumer protection regulation for those industries that will bring them in line with the banking sector.

Banks: Banking regulation offers a variety of important protection mechanisms which are to the benefit of customers and are not overly difficult for banks to implement. The primary banking regulations related to consumer protection are the Instructions on Dealing with Customers Fairly and Transparently, issued in 2012. Some key elements of these instructions are the introduction of an effective APR calculation for loan costs, a plain, local language requirement, interest rate caps on credit cards (1.75% per month), fixed account-related fees set by CBJ, the existence of the complaint handling division within the financial consumer protection department and various disclosure requirements. Aside from these instructions, the banking law contains a short section which assures the confidentiality and data safety of clients (articles 72-75).

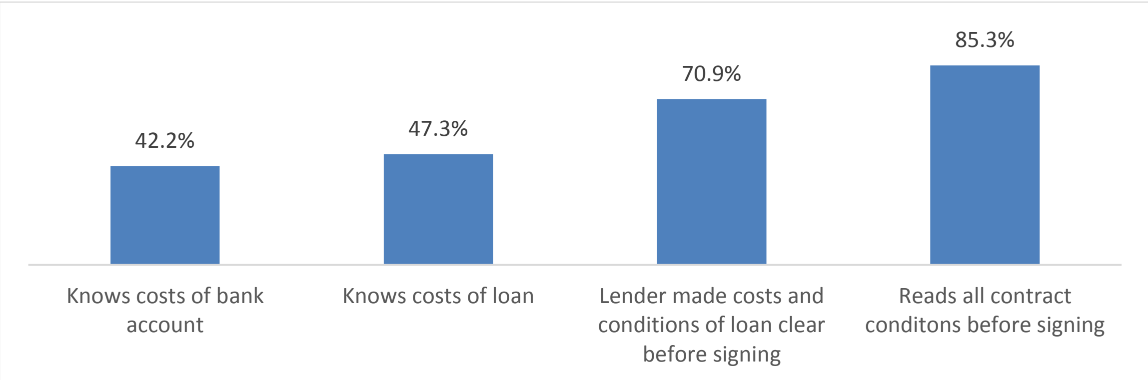
MFIs: The MFI sector was not previously subject to any consumer protection regulations, but the CBJ has recently drafted a set of consumer protection guidelines that will apply to MFIs in the future. Similar to the regulations for banks, the draft instructions introduce important protections without being extremely burdensome to the MFIs. The draft instructions require the disclosure of the effective interest rate, an especially critical provision in light of the propensity of MFIs to offer flat rates. In addition to various disclosure requirements, the topics of data protection, fairness and complaint handling are also covered.

Expected changes: In terms of upcoming regulations, instructions for internal procedures for dealing with complaints of clients have already been launched and will apply to all financial institutions regulated by the CBJ, not just banks. These instructions will provide more practical details about complaint handling than are present in the Instructions on Dealing with Customers Fairly and Transparently mentioned above. The CBJ is also studying the possibility to establish an independent financial ombudsman that will deal with complaints, although this project could take a year or two to finalize and implement.

8.3 Transparency

The degree of transparency and the quality of disclosures in the financial services industry in Jordan has seen improvements in recent years, but there are gaps in some areas, particularly among non-bank financial institutions. The following table presents transparency-related indicators from the CBJ/GIZ survey. Each indicator is calculated as a share of respondents who had the relevant product.

Transparency-related indicators from survey (% of adults with given product)



Source: CBJ/GIZ survey

Awareness of the costs associated with financial products, which is closely connected to disclosure practices, is low. Less than half of respondents with a loan or deposit reported knowing the costs of that product. Among adults having borrowed from a formal source, only 47.3% knew the costs associated with the loan[116]. Similarly, only 42.2% of bank account holders knew the costs of the account. On the side of financial institutions, the low level of cost awareness is probably associated with weak disclosure in written documents and in poor verbal communication between staff and clients. Lack of effort on the part of clients to read and understand the information presented to them almost certainly contributes to the low awareness as well. Financial literacy is also likely playing a role. As a result of low financial literacy, even when relevant pricing information is presented by financial institutions and carefully reviewed by clients, clients may not understand that information. An example would be effective interest rates, which many clients reportedly do not fully understand despite making an attempt.

[116] 48.5% of bank borrowers knew the cost of the loan, slightly above 45.2% for MFI borrowers

Financial institutions can do a better job of presenting loan information, according to clients. Only 70.9% of borrowers indicated that the lender made the costs and conditions of the loan clear to them before signing the contract, leaving 29.1% who found the disclosures inadequate.[117] In interviews with financial institutions, some managers acknowledged that their staff could do a better job of explaining the product terms to clients. Staff do not have much incentive to spend time explaining the contract conditions in detail to clients, which is why strong consumer protection regulation is needed to compensate for this lack of incentive.

Banks appear to be doing a better job of explaining the loan conditions than MFIs. 92.1% of bank borrowers stated that loan conditions were made clear to them compared to 72.8% for MFIs. Again, the presence of consumer protection guidelines for banks may partly explain the gap. As an extreme example, one MFI manager stated in an interview that their staff do not disclose the interest rate to borrowers at all, instead only disclosing the total amount of interest (in currency figures) to be repaid. However, such practices should not be taken as the standard practice for the industry, and there are MFIs observing high standards of disclosure. For example, one MFI stated that they observe the disclosure guidelines for banks, even though they are not required to do so.

A full 85.3% of respondents that signed a financial contract indicated that they read the contract completely before signing. This contrasts sharply with statements from managers of financial institutions, who consistently reported in interviews that customers very rarely read the contract for a financial product. Survey respondents may be overstating their propensity to read contracts in order not to appear financially irresponsible. Alternatively, the managers may be putting too much blame on the clients in order to absolve themselves from the complexity of the contracts or the poor job that their staff are doing in explaining the contracts. Of course, even if such a high proportion of clients are in fact reading contracts, they may not fully understand what they read, so the benefits of reading contracts may be limited.

8.4 Prevention of over-indebtedness

The degree of over-indebtedness in Jordan is moderate at present: not severe enough to be a major concern but worth attention from regulators to ensure that it does not increase further. There have not been any dedicated studies on over-indebtedness in Jordan, but a few supply-side and demand-side indicators are helpful to understand the level of over-indebtedness. In terms of supply side data, the NPL ratio[118] for banks of 4.4% and the PAR 30 ratio[119] for MFIs of 7.9% at year-end 2016 are moderately high, and the ratio of private sector bank credit to GDP was moderate at 74.3%.

Indicators of over-indebtedness

Demand-side indicators	
Borrowed from FI (% of adults)	9.9%
Borrowed from any source (% of adults)	21.6%
Borrowed to pay off debts (% of borrowers)	8.1%
Has too much debt to borrow (% of non-borrowers)	7.8%

Supply-side indicators	
Bank NPL ratio	4.4%
MFI PAR 30 ratio	7.9%
Private sector bank credit to GDP	74.3%

Source: CBJ; CBJ/GIZ survey

From demand-side data, the CBJ/GIZ survey reveals that 9.9% of adults borrowed from a formal financial institution and 21.6% borrowed from any source, figures which are also judged to be moderate and are down from the levels of the 2014 Findex survey (see the “Financial access” section for a more detailed discussion). Among adults who borrowed in the past year, the most popular reason for borrowing was to pay off other debts (mentioned by 8.1% of borrowers), which is a strong indicator of over-indebtedness, although some clients may have borrowed for this reason just to get better loan terms. Another relevant finding from the survey is that 7.8% of adults that didn’t borrow in the past year said that the main reason they didn’t borrow was due to already having too much debt, a figure which is noteworthy but not alarming.

Although the degree of over-indebtedness is moderate overall, it differs from segment to segment. Industry insiders interviewed for this study generally agreed that over-indebtedness is more of a problem among corporate, individual, and microfinance segments than among SMEs. As explained in more detail in the section of this report on SME finance, SMEs face greater barriers in access to credit than other segments, particularly the small enterprises, and so are less likely to borrow excessive amounts or to receive loans from multiple sources.

[117] The fact that only 47.3% knew the costs of their loan, much lower than the 70.9% for whom the costs were made clear, suggests that many borrowers forget the costs after receiving the loan.
[118] The ratio of loans overdue 90 days or more; source: CBJ
[119] The ratio of loans overdue 30 days or more; source: Tanmeyah

Financial institutions are generally doing an acceptable job of managing over-indebtedness by applying appropriate credit policies. For retail loans, maximum debt burden ratios[120] are reasonably conservative, hovering around 50% on average, helping to reduce excessive borrowing. When evaluating business loans, banks apply conservative approaches to measuring cash flows, either ignoring or discounting unofficial income not reported for tax purposes. By contrast, MFIs usually include this unofficial income, which may partly explain why over-indebtedness is believed to be more severe in the microfinance sector than in the SME sector.

The recent introduction of a comprehensive, private credit bureau should lead to better control over excessive borrowing in coming years, as banks and MFIs will have accurate, up-to-date information about the borrowing activities of all potential clients. Previously, it was relatively easy for clients to conceal their borrowings from other institutions and borrow from multiple sources simultaneously.

8.5 Fairness

As it relates to financial inclusion, fairness refers to the extent to which clients have equal opportunities to access financial services. Certain segments, such as foreigners and young people, exhibit lower ownership and usage levels for certain product categories, as described in the "Financial access" section of this report. But lower ownership and usage alone are not necessarily evidence of unfairness. Groups with lower usage of financial products may simply have less demand for those products, or they may be objectively more difficult or risky to serve. For example, statistical evidence from credit scoring studies conducted by BFC in other countries usually shows that young borrowers and startup companies have the highest default rates, so it is not necessarily a sign of unfairness that lenders are more cautious when approving loans to them.

There was no overwhelming evidence that financial institutions in Jordan are systematically discriminating against particular groups. Surely some discrimination is taking place at the individual level, as it does in any country, with particular employees allowing their biases to interfere in decision-making. At the institutional level, however, competitive pressures and the desire for profit maximization at least to some extent counteract any discriminatory tendencies. Financial institutions simply cannot afford to ignore potentially profitable segments, unless those segments are very small.

The microfinance sector has made an outsized contribution to fairness on the credit side, leading the effort to expand outreach to women, low-income groups, refugees, and other traditionally disadvantaged groups. Banks are catching on as well, as shown by the increasing number of specialized products being introduced for women, micro-enterprises, young people, startups, and other segments.

Nevertheless, some practices of financial institutions raise concerns that certain segments are being treated unfairly, perhaps not in a systematic, wide-scale and abusive manner, but in a more subtle and low-impact manner. For example, financial institutions that will only lend to persons aged 21 and over may be demonstrating a bias (not fully justified by risk management concerns) in refusing to consider a 20-year-old who has a stable job and can offer collateral or guarantors. Similarly, banks that refuse to open an account for Syrians or other particular nationalities are probably motivated (whether consciously or sub-consciously) by more than just risk and profitability concerns. The general trend in Jordan is clearly towards greater fairness and equal opportunities, but there remain opportunities for improvement.

8.6 Responsible pricing

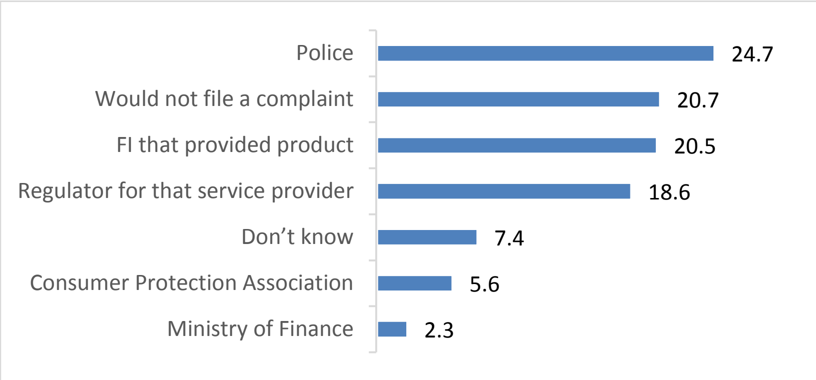
The pricing practices of banks and MFIs are generally consistent with the principle of responsible pricing. Banks earned a modest 8.8% return on equity in 2016, suggesting that they are not earning outsized profits at the expense of clients. Three MFIs that reported their financial results for 2015 produced returns on average equity of 14.4%, 14.2% and 12.4%, none of which is exceptionally high. Although clients may consider interest rates to be high, especially from MFIs, this does not appear to be translating into excessive profits for financial institutions. The most promising path to lower interest rates is by improving the operational efficiency of the lenders with technical assistance and by maintaining low inflation to keep funding costs low. On the deposit and payments side, fees for retail customers are heavily regulated by the CBJ, so there is little scope for financial institutions to extract excessive profits from clients.

[120] The ratio of the loan payment to the borrower's income

8.7 Complaint resolution

Many clients do not appear to have a good understanding of the appropriate channels for filing a complaint. The most frequently selected channel in the CBJ/GIZ survey was the police (24.7% of adults), a clearly inappropriate choice. More than one fifth (20.7%) would not file a complaint at all, probably in the expectation that the process would be burdensome and not lead to a beneficial result. On the positive side, a considerable portion of respondents selected appropriate channels, with 20.5% intending to file with the financial institution that provided the product and 18.6% intending to file with the regulator for that service provider.[121] The CBJ prefers that customers first contact the service provider to complain, only approaching the CBJ as regulator if the complaint is not satisfactorily resolved by the service provider.

% of adults that would file a complaint through the given channel



Source: CBJ/GIZ survey

Advertising by the government or the financial institutions themselves (compelled by regulation) could help to alleviate this problem. The recent addition of a consumer protection section on the CBJ's website is a good first step towards awareness-building.

Bank managers responsible for credit and deposit products that were interviewed for this study demonstrated a good awareness of the volume and nature of complaints submitted. All were able to describe the most common types of complaints submitted and seemed to take the topic seriously. In terms of credit, the most common complaints are related to high interest rates, slow decision-making or rejected loan applications. On the deposit side, the most common complaints are related to account fees. Since the vast majority of fees are prescribed by the CBJ and are identical from bank to bank, these complaints probably do not reflect any serious wrongdoing on the part of banks.

Banks receive about 1,500 complaints in aggregate from customers each year. The CBJ tracks complaints to banks, but the system is still rudimentary and does not permit detailed statistics to be produced in an efficient manner. Plans to upgrade the system are already in place.

[121] However, the survey did not attempt to establish if clients know what institutions regulate what types of financial institutions, a possible topic for future research.

9 Niche, emerging and other industries

This section covers topics of importance to financial inclusion that do not fit elsewhere in this report. These are: the insurance industry, Islamic finance, and FinTech.

Key findings:

- The moderate level of insurance usage is driven by health insurance and motor insurance, with limited usage of other forms of insurance
- Key issues that constrain the development of financial inclusion in the insurance sector are: mandatory premiums for compulsory motor insurance, lack of trust by the public, low financial literacy, poor disclosure of product conditions, and limited geographic reach
- Islamic finance receivables of banks accounted for 22.0% of total receivables of the banking sector in 2016, and 1.5% of adults used Islamic finance in the past year
- Takaful insurance represented 10.5% of gross insurance premiums in 2016
- Limited geographic outreach of Islamic finance access points and regulatory restrictions on bank Islamic financing activity both represent minor constraints to financial inclusion

9.1 Insurance

Background: There were 24 insurance companies in Jordan in early 2017 with combined assets of JOD 915.6 million, about 1.9% of the total assets of commercial banks. Gross premiums written in 2016 were JOD 582.9, up 5.9% from the previous year. The ratio of premiums to GDP was 2.1% in 2016, just above the 2.0% average for the Middle East and Central Asia region but well below the 6.1% worldwide average. The insurance sector was profitable in 2016, earning a return on average assets of 3.0%, up from 2.6% in 2015. There were 638 insurance agents and 168 brokers at the end of 2016.

As mentioned in the "Financial access" section of this report, some form of insurance was held by 29.9% of adults in the past year, either because they bought it themselves or because they received it without needing to buy it. The level of insurance usage is driven primarily by health insurance, which 26.9% of adults owned, and by motor insurance, which makes up 88.7% of outstanding policies issued by insurance companies. Life insurance and other forms of insurance are only used by a small share of the population, mostly by upper-income segments.

The main constraints to the development of the insurance sector are:

- Mandatory premiums for compulsory motor insurance, which boosts motor insurance usage at the expense of other types of insurance
- Lack of trust in insurance companies by the public
- Low financial literacy among potential customers
- Poor disclosure of product conditions by insurance companies
- Under-developed agent/broker networks

These constraints are discussed in more detail below.

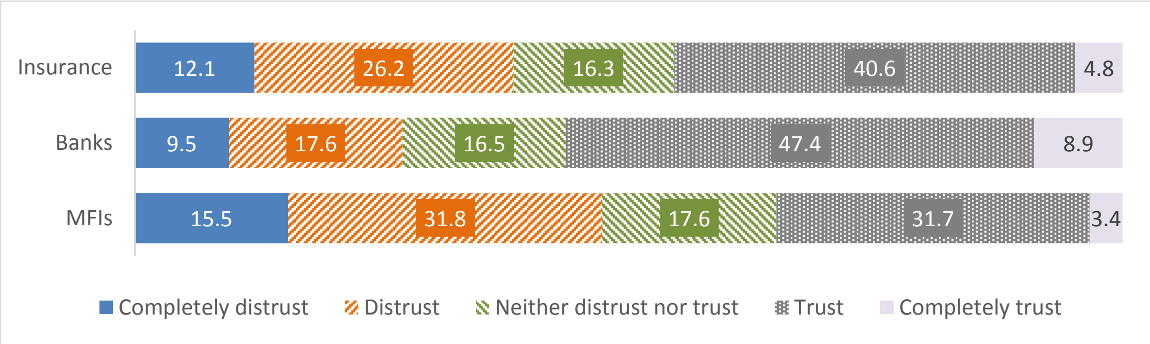
The insurance regulation that currently has the most impact on financial inclusion is the cap on compulsory motor insurance premiums. This premium limit, which stood at JOD 95 annually in 2017 for passenger cars, has made the product unprofitable for insurance companies. According to the Jordan Insurance Federation, insurance companies suffered an aggregate loss of JOD 10.1 million on the compulsory motor product in 2015 (equal to 2.5% of total revenues), following a loss of JOD 6.3 million in 2014 (1.6% of revenues).[122] Cumulative losses from 2005 to 2015 are estimated at JOD 220 million. These losses are a key factor in explaining the weak financial performance of the insurance industry in 2015, which generated a return on equity of 6.8%. While the regulation on premiums contributes to increased ownership of compulsory motor insurance, it probably contributes to lower ownership of other types of insurance. In order to compensate for the losses on motor insurance, insurance companies must charge higher rates on other types of insurance than they otherwise would have. This in turn may discourage customers, especially low-income segments, from using these products. However, even if the price cap on compulsory motor insurance were lifted, it is possible that insurance companies would use the opportunity to increase their profitability without any change in the premium rates for other products.

[122] Jordan Insurance Federation. *Annual Report: Insurance Business in Jordan 2015*.

Some industry insiders argue that the minimum capital requirement for insurance companies of JOD 4 million is too low, and this contributes to weaker financial inclusion. This argument at first seems counter-intuitive, since lower capital requirements should lead to more insurance companies in the market and more intense competition, which ultimately should benefit customers. The number of insurance companies – 24 as of early 2017 – can be considered high for a market of Jordan's size. However, several experts interviewed for this study claim that some of the smaller and weaker insurance companies have struggled with poor performance and reportedly reject a high proportion of claims, sometimes with limited justification. The ill will of customers towards these companies has affected the reputation of all companies and reduced the public's level of trust in the insurance industry as a whole.

The following chart illustrates that lack of trust is a concern for the insurance industry, as 38.3% of adults indicated that they somewhat or completely distrust insurance companies. This is notably worse than the 27.1% that distrust banks but better than the 47.3% that distrust MFIs.

Trust levels in insurance companies, banks and MFIs (% of adults)



Source: CBJ/GIZ survey

Some industry experts argue that higher minimum capital requirements would weed out the smaller, weaker companies, leading to better average service quality and fewer failures to pay legitimate claims. Better service quality and fairness in claim processing would strengthen trust in the sector and increase demand over the longer term. As evidence of the struggles of some insurance companies, three companies had their licenses revoked in recent years, while another surrendered its license voluntarily.

Low financial literacy has a detrimental impact on demand for insurance. Many potential clients do not have a strong understanding of the features, conditions and benefits of insurance. Although the ownership rates of health and motor insurance are relatively high, most clients were either required to take this insurance (in the case of compulsory motor) or received it for free through their employer or a government agency (in the case of health). As demonstrated in the "Financial access" section of this report, only a small proportion of insurance holders actually purchased the insurance voluntarily. Since insurance is often mandatory or free, there is not much incentive for clients to carefully study the terms and conditions of their insurance in order to better understand it. In any case, each type of insurance is very different, so understanding how life insurance works, for example, gives one no knowledge of how property insurance works, further complicating the issue of financial literacy.

The low level of financial literacy can be partly attributed to the poor job that insurance companies are doing with disclosure of product conditions. Most insurance companies have very basic websites that offer very limited information about the products they offer. In many developed countries, by contrast, customers can get a reasonably accurate quotation for insurance by entering some details in an insurer's website, and they can read or download the standard policy terms and conditions. No Jordanian insurers are known to offer such functionality. When such websites are present, this enables the creation of insurance comparison websites that allow customers to get quotes simultaneously from different insurance providers and compare the prices and features.

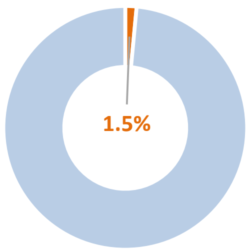
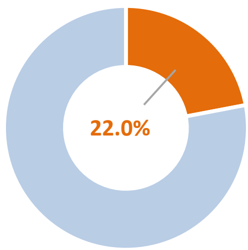
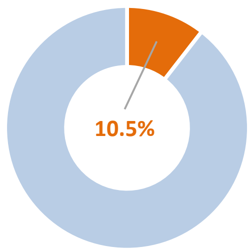
As with the microfinance sector, the insurance sector is undergoing changes in the regulatory and supervisory framework that could have a major impact on financial inclusion in the future. In February 2016, the government announced that supervisory authority for the sector would be transferred to CBJ from MIT. This transfer is likely to take place in the second half of 2017. The CBJ has indicated that it intends to make updates to the Insurance Regulatory Act of 1999 and the accompanying regulations and instructions, but the process of updating is just starting and the nature of the upcoming changes are not yet known.

9.2 Islamic finance

Background: Islamic financing is offered by four specialized Islamic banks and one specialized Islamic MFI in Jordan. Conventional banks are not permitted to issue Islamic products. Conventional MFIs are permitted to issue Islamic products, and several have experimented with such products in the past, but overall the non-specialized MFIs do not make a meaningful contribution to Islamic finance.

9.2.1 Measurement of financial inclusion

Islamic financing plays an important role in financial inclusion in Jordan. From the CBJ/GIZ survey, 1.5% of adults reported having obtained Islamic finance in the past year, roughly one third of the share of adults that took a bank loan (4.3%). In terms of supply, the volume of Islamic receivables of banks was JOD 5.0 billion at year-end 2016, representing 22.0% of banks' total credit facilities. Murabaha is by far the most commonly-used product, followed by ijara and istisna. Mudaraba and musharaka products are not currently available, although some banks have expressed an interest in introducing these products.

Received Islamic finance in past year (% of adults), 2017	**Islamic bank receivables to total bank receivables, 2016**	**Gross takaful insurance premiums to total premiums, 2016**
		
Source: CBJ/GIZ survey	*Source: CBJ*	*Source: Jordan Insurance Federation*

In terms of insurance, Islamic takaful insurance accounted for 10.5% of all gross premiums in 2016.[123]

9.2.2 Demand conditions

An experiment done by CGAP and an MFI[124] in Jordan concluded that there is higher demand for murabaha loans than conventional loans at the same pricing levels, if only one or the other is offered. 18% of applicants who were offered the conventional loan applied, compared to 22% who applied for murabaha. When both products were offered simultaneously, 90% of those who applied preferred murabaha.

Despite the positive indicators in terms of the supply of Islamic receivables, a sizable proportion (21.5%) of respondents in the CBJ/GIZ survey indicated that they did not borrow in the past year for religious reasons, the most commonly selected reason for not borrowing aside from not needing credit. Possible explanations for this finding are that customers who want Islamic financing:

- Are not aware of its availability
- Cannot conveniently reach an Islamic financial institution (e.g. distance from branch)
- Find the terms of the financing (such as pricing or maturity) to be unacceptable
- Consider murabaha, the type of Islamic financing usually offered, not to be truly Sharia-compliant
- Used an Islamic financial product, but do not consider that to be "borrowing" in the conventional sense

The second reason (difficulty in reaching a branch) seems unlikely, considering that respondents in Amman, where branches are plentiful, were even more likely than average to cite religion as a reason for not borrowing (25.1% of Amman residents versus 21.5% overall). Pricing of Islamic financial products tends to be lower on average than their conventional counterparts, so this is also unlikely to explain the results. According to a study by the Association of

[123] Jordan Insurance Federation. *Annual Report: Insurance Business in Jordan 2016*.
[124] CGAP. "Understanding Demand for Sharia-Compliant Loans: Results of a Randomized Experiment in Jordan." March 2016.

Banks in Jordan[125], SME interest rates are 8–14% from conventional banks, but only 5–12% from Islamic banks. Further research would be needed to evaluate the validity of the other possible explanations.

Demand-side results from other surveys indicate that religion is an important factor for MSMEs as well as individuals. A few key takeaways from these surveys are:

- A study by IFC[126] found that 25% of SMEs in Jordan prefer Islamic to conventional financing
- In an EBRD survey, 20.3% of MSMEs stated that Sharia compliance is a key factor in cooperation with a bank
- From a survey by USAID's LENS, 26.9% of MSEs not taking loan in last 12 months cited religious reasons for not doing so

It is worth noting that religion also has an impact on customers' demand for deposit products. Among survey respondents without a bank account, 13.6% stated that they didn't have an account for religious reasons. Possible explanations for this finding are that the people who object on religious grounds:

- Incorrectly assume that all conventional deposit products pay interest and thus are forbidden
- Are not aware that deposits are available from Islamic banks
- Cannot reach an Islamic bank branch or consider the product terms (such as fees) unacceptable
- Do not consider the deposit products offered by Islamic banks to be truly Sharia-compliant

As with the religious objections to borrowing, further research would be needed to better understand the thought process of potential customers. However, Islamic deposit products are structured to pay out a share of profits (usually from the murabaha portfolio rather than the entire bank operations) instead of interest, so it is unlikely that customers would consider this to be in violation of Sharia principles.

9.2.3 Constraints

The prohibition on conventional banks issuing Islamic products is a minor constraint to financial inclusion. Several other countries in the region allow banks to offer both conventional and Islamic financing, usually through a dedicated "Islamic window" after obtaining a special license. Yemen, Morocco, Pakistan, Egypt, and Saudi Arabia are among the countries that allow this practice. If Jordan were to authorize such Islamic windows in conventional banks, it would be likely to lead to a modest increase in the volume of Islamic finance, according to several local experts interviewed for this study. The impact on financial inclusion would also be modest, since it would only be an incremental benefit for those customers who want Islamic products but for some reason cannot or choose not to get them from existing providers of Islamic finance.

The geographic reach of Islamic banks is modest but growing and currently represents a minor constraint to financial inclusion. Islamic banks had 141 branches at year-end 2015, 17.9% of the total number of branches in the banking system. 56.0% of Islamic branches were in Amman governorate. Branches of at least two Islamic banks were present in every governorate, although some governorates (Mafraq, Tafileh, Jerash and Madaba) only had two Islamic branches each.

9.3 FinTech

9.3.1 Regulation of FinTech

Recent regulatory initiatives aim to address the development of innovative market niches such as new FinTech applications (e.g. crowdfunding, peer-to-peer lending, crypto-currencies). In this regard, a proposal is currently under consideration for a "regulatory sandbox", which would allow innovators to test their products and business models in a live environment without following some or all existing legal restrictions. The UAE (a recognized FinTech leader in the region) is the first MENA country to have already introduced a FinTech regulatory sandbox in Q4 2016. According to a report from May 2017, Egypt, Jordan, and Lebanon are all following closely in terms of FinTech startups and investments, and all still lack a regulatory sandbox in this area in order to stimulate new developments.[127] In the medium-term, MFS regulations might need to be reviewed and considered under the broader definition of FinTech solutions given the evolving complexity of business models in this area.

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[125] Association of Banks in Jordan. *Survey Study on SMEs in Jordan: Analysis of Supply-Side and Demand-side Focusing on Bank Financing.* April 2016.
[126] IFC. *Islamic Banking Opportunities Across Small and Medium Enterprises in MENA.*
[127] https://cache.wamda.com/api/v1/downloads/publications/fintech-mena-unbundling-financial-services-industry

9.3.2 Crowdfunding

Apart from the active development of digital and mobile financial services (discussed in section 4), in recent years Jordan also witnessed the evolution of other innovative financial technologies. A specific niche of such technologies which has a notable potential to improve financial inclusion is crowdfunding.

Traditional vs. modern crowdfunding

Speaking of the crowdfunding topic in Jordan, as well as other countries, it has to be highlighted that it's not an area originally associated with high tech. Crowdfunding has been successfully used for centuries, with the Statue of Liberty in New York being the most famous example[128]. Looking at Jordan today, it is also worth mentioning that some of the most notable crowdfunding initiatives aren't linked to a high tech platform. For example, in 2015 the local UNDP office launched a crowdfunding initiative in order to raise funds for host refugee communities[129], targeting projects from USD 5,000 to USD 50,000 across 36 municipalities[130].

At the same time, in recent years crowdfunding is seen more and more as an integral part of modern FinTech solutions. Over the last decade, the successful evolution of such international platforms as Kiva (2005), IndieGoGo (2008), and Kickstarter (2009), have led to multiple similar developments. And while there will always be projects which seek the support of the international community and thus prefer international crowdfunding platforms[131], there are also a number of regional and local crowdfunding platforms and initiatives that seek to address local needs via local or regional support[132].

Modern crowdfunding for business development

Many crowdfunding platforms have a broad range of focus topics, often started as an alternative option to fund not-for-profit creative art or social projects. However, in recent years these are increasingly used to support the growth of new businesses. Some online platforms, like Liwwa in Jordan and the UAE, choose to specialize solely on the business side, being seen as an alternative to traditional financial institutions, and also using Islamic financing principles[133].

There are however certain challenges for the broader development of such platforms. A significant one is that only investors from the MENA region are eligible to support projects (reportedly due to regulatory reasons). In effect, this means that crowdfunding projects have less capital for growth (to support more projects or larger ones). In October 2017 Liwwa reported having made 195 loans totaling circa USD 6 million (in two countries)[134], which translates to an average loan size of about USD 30,000 , which is typical for local SMEs – the stated focus niche of the platform. As an alternative to overcome the funding gap, the platform is also collaborating with some banks, which are currently reported to cover over half of the funding needs (potentially increasing the cost of funding). This approach is less common for international crowdfunding websites, and thus makes Liwwa more of a traditional financial institution with an innovative loan application solution.

While the development of such platforms is welcome in order to provide an alternative funding channel for businesses, there are some additional regulatory issues which need to be addressed. A notable one is customer protection and better disclosure of the true cost of funding[135]. Lastly, more specific regulation of such solutions could also enable them to provide seed capital (typical for international platforms).

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[128] In 1885, when government sources failed to provide funding to build a monumental base for the Statue of Liberty, a newspaper-led campaign attracted small donations from 160,000 donors. Reference: www.bbc.com/news/magazine-21932675

[129] www.jo.undp.org/content/jordan/en/home/library/poverty/Crowd_Funding.html

[130] www.jo.undp.org/content/dam/jordan/docs/Publications/Poverty/Crowdfunding%20Booklet.pdf?download

[131] Example: Urban agriculture project focusing on building rooftop gardens in the Gaza (Jerash) Refugee Camp, Jordan. www.indiegogo.com/projects/urban-agriculture-in-jerash-refugee-camp

[132] Examples:

- Afkarmena: Based in Jordan. Targeting Jordan and Palestine.
- Aflamnah: Based in Dubai. Targeting artistic projects across MENA. Website experiencing technical issues during BFC review.
- Zoomal: Based in Lebanon. Global focus and broad range of projects. www.zoomaal.com/browse/country/Jordan/92
- Liwwa: Based in Jordan. Focused on SMEs in Jordan and UAE. www.liwwa.com

[133] Funding only small business assets and trade goods. After a small business asset has been fully funded, Liwwa purchases the asset and provides it to the small business owner. The asset is owned by Liwwa for the duration of the repayment period.

[134] Website data as of October 4, 2017.

[135] During the review, the Liwwa platform did not specify the interest rates applied to borrowed funds. Instead a range of month repayments is shown during the loan application, without an explanation for the minimum or maximum monthly payments.

10 Conclusions and recommendations

10.1 The current state of financial inclusion in Jordan

The level of formal financial inclusion in Jordan is low in comparison with high-income countries, but it has been improving over time for most product categories and customer segments and is generally better than the average for developing countries in the MENA region. Positive developments in the regulatory and supervisory framework in recent years provide grounds for optimism about the future of financial inclusion. Financial institutions are also more aware of financial inclusion issues and have been gradually increasing their efforts to reach out to new groups of customers.

A 2017 survey commissioned by GIZ found that 33.1% of adults living in Jordan have an account, 9.9% borrowed in the past year from a formal financial institution, 29.9% use insurance, and 23.4% used formal remittance services. Overall, 62.0% of Jordanians used some type of formal financial service in the past year. The account ownership rate was up from 24.6% in 2014 as measured in the World Bank Findex survey. The rate of formal borrowing was down from 13.6% in 2014. This decline is not necessarily a cause for concern, as it may be related to cyclical economic factors rather than fundamental, long-term supply-side or demand-side weaknesses. Usage of remittances was up sharply from 2014 levels, driven mainly by increased migration to Jordan. Although comparable demand-side data was not available for insurance usage, supply-side data indicates that insurance usage increased in 2016 after falling in 2015 as a result of the sharp increase in population.

Many constraints to financial inclusion are present that limit the potential for growth of the indicators above. Constraints in the regulatory framework include, for example, the absence of a movable asset registry, the absence of an insolvency law, the prohibition on MFIs taking deposits and high taxation of mobile services. Financial institutions are constrained in terms of their capacity to evaluate the creditworthiness of their clients and in terms of their decision-making processes, which can be overly conservative or occasionally biased against certain customer segments. Customers and potential customers also contribute to these constraints by deliberately operating informally, avoiding taxes, by having limited capacity in accounting and financial management and by their limited levels of financial literacy.

10.2 Priority segments and products

The segments that are especially in need of support going forward are low-income groups, foreign citizens (including refugees), young people and MSEs, as these groups demonstrate particularly low usage of various types of financial services. Although women still trail men in some product categories in terms of usage and access, the gap is much smaller than in the past, showing that efforts in recent years by the government, local NGOs and international institutions to boost financial inclusion for women are paying off. Women still face challenges in terms of financial inclusion, but their situation is less than urgent than for the other disadvantaged segments mentioned above.

Product categories (deposits, credit, payments and insurance) should also be taken into account when setting priorities, since each of the segments identified above has different levels of financial inclusion and different needs with regards to different products. The table below presents a priority matrix for segments and products. Priorities are rated as either a top priority, if the gap is considered critically wide and needs immediate attention, or as an alternative or secondary priority, if the gap is smaller and requires less urgent intervention. Cells that are blank indicate that the given segment-product combination should not be a priority. The "payments" category is meant to include remittances, transfers and similar services.

Matrix of priority segments and products

	Deposits and savings	Credit	Payments	Insurance
Low-income	+	+	+	✓
Foreigners	+	+	✓	+
Youth	+	+		✓
Micro enterprises	+	✓	+	✓

	Deposits and savings	Credit	Payments	Insurance
Small enterprises	✓	⊕	⊕	
Women	✓		✓	

⊕ = top priority; ✓ = alternative/secondary priority

Some segments that were discussed in this report (see the section on "Financial Access") do not appear in the matrix because they are not recommended as priority segments for any product type. For example, rural areas are not recommended as a priority target, since the survey results show relatively high inclusion levels for rural residents. Targeting those with limited formal education is also not recommended as a priority since there is a high correlation between education and income, and targeting the low-income segment will support those with less formal education by default.

In most cases, the justification for the segment-product priority rating can be derived from the core financial indicators as presented in the "Financial Access" section of the report. For example, the fact that foreigners, young people and low-income earners are rated a top priority for deposits and credit is clearly linked to the very low financial indicators that these segments have for account ownership and rate of borrowing from formal sources. Similarly, the fact that women are not considered a priority with regard to credit and insurance is linked to their above-average rates of formal borrowing and insurance usage. However, to avoid confusion, some additional explanation for each segment is provided here:

- *Low-income*: Insurance is rated as a secondary priority, because the rate of insurance usage is only slightly below average, thanks mainly to government and donor-supported projects offering inexpensive or free health or life insurance.
- *Foreigners*: Foreigners demonstrate high usage of remittances but low usage of digital payments services; the balance between these two conflicting results leads to the rating of payments as a secondary priority.
- *Youth*: Payments is not proposed as a priority, because the rate of remittance usage among young people is not far below the average, and because young people tend to be more comfortable with digital payments than older people. Insurance use among young people is only slightly below average, so this is not a top priority; however, some attention should be given to insurance because most young people obtained their insurance through their parents and would not be likely to renew their policies if they had to pay for it themselves.
- *Micro enterprises*: Credit is rated only as a secondary priority, because micro enterprises have good access to credit through MFIs, but the quality of the credit services is less than ideal due to relatively high interest rates and in some cases issues with short or inflexible repayment schedules. In terms of payments, the high priority is intended to spur an increase in official, documented payments as well as increased use of digital methods to pay suppliers and employees.
- *Small enterprises*: The high priority for payments refers both to the ability of small enterprises to accept digital payments from customers as well as to make digital payments. Usage of insurance by small enterprises is not well-understood and would be a good topic for further research.
- *Women*: Deposits and payments are rated as secondary priorities because the gaps between men and women for relevant indicators are not especially large and have narrowed sharply in recent years.

It is important to note that product categories that are not prioritized could still be viewed as a "gateway" product to promote other financial services. For example, since women have above-average credit usage rates, and therefore credit is not in itself seen as a priority, credit could still be used as a means to boost deposit usage through, for example, a cross-selling or bundling program that links credit to deposits.

10.3 Suggestions for further research

The present study covers much ground in relation to financial inclusion in Jordan, including various product categories, thematic topics, industries and target segments. Inevitably, some important questions remain unanswered by the study. The following list describes topics for further research that could be undertaken by the government or development institutions.

ATM functionality: ATMs are the most numerous type of access point in Jordan and thus play a major role in financial inclusion. However, information about what functions are available from how many ATMs and how that functionality is distributed geographically is not available. This information could be accessed through a supply-side survey of banks. Ideally, data on the number of ATMs with given functions would be accompanied by the number of transactions per function, making it possible to assess the level of usage for each function. If that is not possible, demand-side surveys of account holders could also shed light on how ATM functions are being used and by what types of clients.

Consumer protection: The current survey included just a few questions related to consumer protection, not enough to gain a deep understanding of the issues and constraints. A dedicated survey on consumer protection would be beneficial in guiding future legislative efforts. On the demand side, examples of the topics that could be covered are:

- Awareness of legal rights related to collections practices
- Awareness of right to privacy
- If clients were given a copy of the contract
- If contracts were explained in detail by staff
- If borrowers were given a chance to ask questions at loan closing

A supply-side survey of client-facing staff could also be conducted to determine if they know the consumer protection regulations and if they are carrying them out in practice.

Credit insurance: Credit insurance (that protects a lender from default) is an important driver of financial inclusion both for credit and insurance products. However, there is limited information available on the credit insurance market, such as how the policies are structured, their terms and conditions, to what extent they are required or optional, the size of the market, and in which situations clients can choose their own provider, among other topics.

Financial literacy: As with consumer protection, there were only a few questions on financial literacy in the survey, and they focused on generic concepts like inflation, risk diversification, and compound interest. A dedicated financial literacy survey could explore questions more specific to financial inclusion, such as clients' understanding of:

- Effective versus nominal interest rates
- Variable interest rates and the indexes on which they are based
- Flat versus declining balance rates
- Difference between leases and loans
- Consequences of filing bankruptcy
- Consequences of missing payments
- Risks and disadvantages of informal financial services
- Guarantee programs, such as those offered by JLGC

Informal credit: The market for informal credit is very large but not well-understood. This study sheds some light on informal lending but is far from comprehensive. A more detailed, focused study on informal credit could further illuminate the following areas: the types of providers in the market, the overall size of the market, the product terms and conditions available, and the reasons that customers choose these sources instead of formal ones.

Informal savings: Although 13% of adults have an informal savings account, little is known about how they are structured, who provides them, and what are the benefits and disadvantages in comparison to formal accounts. Surveys and focus group discussions targeting informal savers could provide information that would help providers of formal savings accounts improve their products.

Islamic finance: Research studies including this one have consistently found that a substantial share of potential users of financial services exclude themselves for religious reasons. Given the presence of Islamic banks, MFIs and other financial institutions offering Sharia-compliant products in Jordan, it is not entirely clear why so many potential clients continue to be dissatisfied with or lack access to these offerings. Questions to be addressed include:

- Are potential clients not aware of the existence of such products and institutions?
- Do they lack physical access due to fewer branch locations?
- Are they dissatisfied with the conditions of Islamic products, such as pricing and maturity?
- Do they consider the product offerings by Jordanian financial institutions not to be truly Sharia-compliant?

A study focusing on the demand side could clarify these issues and potentially lead to improved Islamic financial services.

MSME finance survey: The last major surveys of MSMEs in Jordan were done several years ago: the World Bank Enterprise Surveys in 2013, the EBRD survey in 2015, and the USAID LENS survey in 2014-2015. Furthermore, each of these surveys did not attempt to cover the entire MSME spectrum, as the World Bank did not cover micro enterprises, LENS did not cover medium enterprises, and EBRD only covered registered enterprises. A new survey could provide more accurate and comprehensive data, especially important in light of recent regulatory and supervisory changes for non-bank financial institutions that may have affected MSMEs' usage of financial services.

10.4 Suggested improvements to the data collection methodology

The CBJ and other government organizations involved in the financial sector have gradually been making improvements in the scope of data they collect on financial inclusion. However, collecting high-quality, comprehensive data from both the demand and supply side requires considerable effort and investments in human resources and technology, and some gaps remain. Some information that was sought was not available. The indicators in the table below can be considered to represent the most critical gaps in data availability that could be addressed in the near future.

Supply-side indicators should be collected at least on a quarterly basis, and demand-side indicators either in full at least every third year or, for regular monitoring purposes, on a selected basis annually or in even more frequent intervals. They should be stored in a centralized financial inclusion database that can be accessed through the CBJ website by the general public in order to facilitate financial inclusion research. Where breakdowns by citizenship and age are requested, in order not to overcomplicate the data request, the citizenship could be a binary option of Jordanian or not, while the age groups could also be a binary option of younger (up to 24) or older (25 and above).

The table indicates the side of the data (S = supply and D = demand) and the source, where:

- B = banks
- P = PSPs
- M = MFIs
- L = Leasing companies
- I = Insurance companies
- G = Government agency or ministry

Suggestions for financial inclusion data to be collected

	Side	Source
Deposits		
Number of deposit holders	S	B, P
Number of MSME deposit accounts (or account holders)	S	B, P
Breakdown of number of accounts by gender, citizenship, governorate and age group	S	B, P
Credit and leasing		
Number of active borrowers	S	B
Number of outstanding MSME loans	S	B
Breakdown of number of loans by gender, citizenship, governorate and age group[136]	S	B, M
Breakdown of number of MFI loans by micro, small, and consumer	S	M
Breakdown of number of MFI loans by group and individual loans	S	M
Number of outstanding leases issued by banks and leasing companies	S	B, L
Volume of outstanding leases issued by banks and leasing companies	S	B, L
Average bank loan interest rates to include breakdowns for corporate, retail, and SMEs	S	B
Average DBR (debt burden ratio) for outstanding loans of individual and MSME clients	S	B, M
Breakdown of NPL ratio by corporate, retail, and SMEs	S	B, M
Insurance		
Number of insurance policies issued by government bodies, such as Ministry of Health and Royal Medical Services	S	G
Breakdown of number of insurance policies by individuals, MSMEs and corporations	S	I
Number of group vs. individual policies with breakdown by type (health, life, etc.)	S	I
Number of credit insurance[137] policies by type	S	I

[136] MFIs are already reporting the breakdown by governorate and gender to Tanmeyah, so they would only need to add citizenship and age group

[137] Referring to policies designed to pay off loans issued by financial institutions

	Side	Source
Infrastructure		
Database of addresses and coordinates for various access points: bank branches, MFI branches, ATMs, insurance company offices, leasing company branches, insurance agents and brokers, and mobile money agents	S	B, M, P, L, I
MSME survey		
Has bank account	D	MSMEs
Has outstanding loan or had one in the past year with breakdown by source (bank, MFI, family and friends, supplier, etc.)	D	MSMEs
Most common form a payment to suppliers (bank transfer, cash, card, etc.)	D	MSMEs
Most common form a payment to employees (bank transfer, cash, etc.)	D	MSMEs
Most common form of receipt of payment from customers (bank transfer, cash, card, etc.)	D	MSMEs
Has some form of insurance with breakdown by type	D	MSMEs
Has POS terminal	D	MSMEs

It is anticipated that the MSME survey would be a comprehensive survey exploring various topics in financial inclusion, similar to the level of detail of the 2015 EBRD survey. The limited number of indicators shown in the table above for the MSME survey represents just the minimal base to establish core indicators of financial inclusion for MSMEs.

It would not be realistic to expect that the CBJ or DOS could organize the collection of all these data in the near future. Rather, this table should be thought of as a long-term target, starting with a limited number of indicators in 2018 and gradually adding more indicators over time. The initial set of indicators could be determined in consultation with the financial institutions themselves, considering the degree of difficulty they would have in reporting the information and the relative importance of that information.

10.5 Suggested regulatory initiatives

The following are possible changes in the regulatory framework that could be implemented by the government to boost financial inclusion. Many of these changes would require coordination among various departments and ministries; not all could be implemented directly by a regulatory authority.

Proposal **Allow deposit-taking MFIs**	*Problem it solves* **Low account ownership rate**	*Potential drawbacks* **Supervisory burden; systemic risks**
Allowing MFIs to take deposits has the potential to provide a major boost to account ownership, since the low-income households and microenterprises that comprise the core customer base of MFIs have below-average levels of account ownership. In introducing a regulatory framework for MFIs, the CBJ would be able to build from the numerous examples and best practices from other countries.		

Proposal **Reduce tax rates on MSEs**	*Problem it solves* **Limited credit access due to informality and unreported income**	*Potential drawbacks* **Reduced government revenues in the short term**
The World Bank estimates that a typical Jordanian company pays out around 27.6% of its profits in taxes.[138] Academic studies have found that decreasing and simplifying taxes has a positive impact on business registration and reported revenues. For example, in Brazil the reduction of the tax rate for MSEs by up to 8 percent of annual revenue and the consolidation of six separate tax payments into one payment increased the share of micro enterprises that are registered with the tax authorities by 7.2 percentage points and increased firm revenues by 37%.[139] Increased business registration and reduced tax avoidance would in turn lead to increased financial inclusion, since lack of formality and under-reporting of income are key constraints.		

Proposal **Raise the compulsory motor insurance premium**	*Problem it solves* **Low usage rates of non-motor insurance**	*Potential drawbacks* **Less usage of motor insurance**
Raising the statutory premium on compulsory motor insurance may reduce its usage but at the same time may result in lower premiums for other types of insurance, increasing their usage. The value of this initiative, therefore, would depend upon the extent to which reduced motor insurance usage is offset by increased usage of other		

[138] World Bank. *Doing Business 2017.*

[139] Bruhn, Miriam. "Reforming Business Taxes." Viewpoint Note Number 330, World Bank Group, December 2011.

insurance. It can be expected that motor insurance usage would only decline by a small margin, since there is such high demand for car ownership. In any case, the Jordanian government could start with a moderate increase in the premium and measure the effect this has on both motor and other insurance for a certain period of time. If the outcome is positive overall, the maximum value for the motor insurance premium could be increased further or eliminated completely.

<table>
<tr><th>Proposal
Require basic bank accounts</th><th>Problem it solves
Low account ownership rate</th><th>Potential drawbacks
Dissatisfied premium account holders</th></tr>
<tr><td colspan="3">The CBJ could require banks to offer basic accounts with no minimum balance and reduced account fees to clients meeting certain criteria including low income, rural residents and non-Jordanian citizens. Banks would have the option to limit the features available to such account holders, such as by not automatically issuing debit cards or checkbooks. Some banks have complained that this will result in higher fees for other products, such as account products for enterprises, as the banks must compensate for the increased service costs related to the basic account by raising costs on other products. However, given the low level of account ownership among low-income segments and the lower price sensitivity of business customers, this tradeoff is arguably an appropriate one to make.</td></tr>
</table>

<table>
<tr><th>Proposal
Limit discrimination against foreigners</th><th>Problem it solves
Very low account ownership rate among foreigners</th><th>Potential drawbacks
Difficult for banks to enforce at branch level</th></tr>
<tr><td colspan="3">The CBJ could limit the scope of discriminatory policies that can be applied by banks to foreigners, for example by not allowing banks to reject clients simply on the basis of their nationality, and by limiting what additional documents (aside from the standard set of documents) can be requested of foreigners in order to open an account or receive a loan.</td></tr>
</table>

<table>
<tr><th>Proposal
Increase minimum capital requirements for insurance companies</th><th>Problem it solves
Low trust towards insurance companies</th><th>Potential drawbacks
Less competition within the industry</th></tr>
<tr><td colspan="3">Raising the minimum capital requirements for insurance companies (currently JOD 4 million) would help to weed out smaller, weaker players, many of which have contributed to the industry’s reputation for not paying out legitimate claims. Less negative press and word of mouth about insurance companies could help to improve the public’s trust in the sector, leading to higher demand.</td></tr>
</table>

<table>
<tr><th>Proposal
Introduce insurance disclosure requirements</th><th>Problem it solves
Low financial literacy with respect to insurance</th><th>Potential drawbacks
Limited effectiveness</th></tr>
<tr><td colspan="3">Require insurance companies to disclose detailed product conditions and terms on their websites and encourage them to develop the functionality to offer quotes online. This intervention would make it easier for customers to educate themselves about insurance, as financial literacy is believed to be low with respect to insurance. There are no potential drawbacks other than the possibility that improved disclosure alone might not be enough to overcome the financial literacy gap.</td></tr>
</table>

10.6 Technical assistance programs and other initiatives

The following are recommendations for technical assistance (TA) programs and specialized support initiatives designed to increase financial inclusion. These programs could be designed and implemented by international institutions, by the government, or by local private organizations such as the Association of Banks in Jordan or Tanmeyah.

Development and use of credit scoring systems
Credit scoring is not widely used in Jordan as a tool for credit analysis and decision-making. When used properly, credit scoring has the potential to improve the accuracy of risk assessment for credit applications, leading to lower default rates. Credit scoring can also be used to automate the decision process for retail loans, with the scoring system automatically approving or rejecting applications that meet certain parameters. This speeds up the credit cycle and reduces operating costs for lending institutions. More accurate risk measurement and lower operating costs in turn can lead to lower interest rates for borrowers and greater outreach to segments that are traditionally considered to be more risky. Technical assistance programs supported by international development institutions could enable banks and MFIs to develop and implement credit scoring systems.

Staff training on credit analysis
Numerous TA programs have been implemented by the government and international institutions to provide training to the staff of lending institutions on credit analysis, including cash-flow-based approached to financial analysis and risk measurement techniques. Although some of the past and current programs have been quite successful, the need for training is so great that more programs are needed, covering a wider scope of topics in greater intensity for even more staff. Programs should be customized for different institutions (banks, MFIs and leasing companies), different staff functions (credit officers, credit administrators, credit managers, and training of trainers), and different segments (micro, small and medium enterprises).

Online loan applications
Few lenders in Jordan offer a fully functional online loan application system. Although many have a website link for online applications, typically this only allows for entry of contact details, after which the staff of the financial institution would call the applicant and take the application in the traditional way. A true online application would enable the applicant to submit all relevant data needed to process the application, including online submission of scanned documents. Not only can online applications reduce processing time and costs for the lender, they are preferred by some borrowers, so their availability raises demand for financial services. A technical assistance program designed to assist banks and MFIs to implement online loan application systems has the potential to increase the demand and supply of credit.

Online and mobile banking platforms
Although many leading banks have developed online portals and mobile applications where customers can execute transactions electronically, the functionality and usability of these digital services is often substandard. A TA program designed to help banks introduce or upgrade their mobile and online systems could greatly boost the level of financial inclusion through digital channels. This could be achieved through the creation of model wireframes showing suggested designs and functions for various services, which would assist institutions to upgrade their platforms to match best practice standards.

Online insurance quotes
Survey data shows that very few clients buy insurance voluntarily. Although low income is a major factor in the limited demand for insurance, lack of awareness about insurance terms and conditions, especially pricing, is also a major barrier. The ability of insurance companies to offer online quotes would greatly increase the transparency of pricing and encourage customers to explore their options. The online quote system should be accompanied by online, downloadable disclosure of all terms and conditions for the insurance policies, which is currently not available from most insurers' websites. Once many insurance companies have such functionality in place, the next potential TA follow-up project would be to support the creation of an insurance quote comparison site that aggregates the quotes from various companies.

Poverty scorecards
Not to be confused with the credit scoring systems mentioned above, poverty scorecards are a tool for estimating someone's income based on easily observable factors, such as the size of their home, what types of appliances they own, and whether or not they have a car. Some MFIs in other countries use poverty scorecards as a substitute for the financial analysis of low-income microenterprises, since the applicant may not have any financial records and may not know how much revenues or profit they earn. Use of the poverty scorecard in place of traditional financial analysis speeds up and simplifies the application process, increasing the MFI's operational efficiency. Of course, the poverty scorecards must be accurate, otherwise they could lead to increased credit risk. Poverty scorecards developed on a national level can be used by any institution in the country, making the TA to develop them relatively cost-effective. Some training would need to accompany the development of poverty scorecards to ensure that financial institutions use them properly.

Training for MSMEs on financial management, accounting and reporting
There are already programs initiated by the Jordanian government, NGOs and international organizations that provide training to MSMEs on the topics of financial management, accounting and reporting. The need for such training is so great, however, that additional investments in existing programs or the creation of new programs would be very beneficial.

Consumer protection training for staff of financial institutions
While the introduction of consumer protection regulations in the banking sector and soon in the microfinance sector are important milestones for the quality of financial inclusion, the way that these regulations are applied in practice

by staff of financial institutions is arguably more important that the regulations themselves. Special training programs for bank and MFI staff would be beneficial in order to emphasize the importance of these regulations for financial inclusion, the benefits for users of financial services, the potential consequences of not complying with the regulations, and to provide concrete guidance for how the regulations should be implemented in practice.

Adult financial literacy training

As the Ministry of Education's financial literacy work in schools continues to expand in scope, adult financial literacy programs would benefit from increased investment going forward. While successful programs are underway with the support of local NGOs and international institutions, the need for additional support greatly exceeds the current supply. Financial literacy training efforts in Jordan have typically focus on credit and savings products; while those products should continue to be emphasized, going forward more attention should be given to alternative products such as leasing, insurance and Islamic finance.

Appendix 1: Demand survey

Methodology

BFC conducted a demand survey of 1,000 adults in Jordan to measure financial inclusion. Interviews were carried out by local market research company Ipsos Jordan.

The survey consisted of face-to-face interviews with adults aged 15 and over residing in Jordan. The questionnaire was developed by BFC with input from GIZ, CBJ and Ipsos. Interviewers used tablet computers to record the responses. The skip pattern was programmed into the tablets, helping to ensure high data quality. All interviews were conducted in the Arabic language, and all were recorded to facilitate quality control.

The sample design included the following quotas:

- All respondents must have lived in Jordan for the past two years
- All respondents must be at least 15 years old
- At least 5% of respondents should be from each governorate
- At least 45% female
- At least 10% rural
- At least 25% aged 15–24
- At least 25% non-Jordanian nationals

All interviewers received training on the survey instrument and methodology. BFC staff attended one training session and were satisfied with the quality of the training. The trainings included discussion of each question in the survey, role playing exercises, and general communications skills. A pilot test was conducted in Amman which was attended by BFC staff.

Geographically, the survey covered all 12 governorates. At a smaller level, surveying took place in a total of 247 subdistricts. As interviewers travelled in a given direction from a pre-specified starting point in each survey location, they choose blocks based on a random interval depending on the size of the district. After selecting a block, to select the household, interviewers selected every fifth household in urban areas, and every third household in rural areas. The "next birthday" method, adapted to achieve age and gender quotas for the study, was applied at the household to select the study participant. If that person was not available, the interviewer would ask when they would be available and return at that time. Up to three visits to a house were made to complete an interview if no one was available on the first attempt.

Extensive control measures were implemented by Ipsos. The main control procedures consisted of the following:

- 30% of surveys were checked by listening to the recording of the interview and verifying that answers are recorded correctly for a sample of questions
- Using GPS data, it was checked that interviews were done within the prescribed geographic areas
- 30% of all interviews were accompanied by managerial staff from Ipsos
- 40% of the sample were called back by telephone to verify a selection of responses
- 5% of interviews were checked by supervisors using maps and GPS data to ensure that the proper pattern for selecting the homes to be approached is being observed
- After completion of surveying, Ipsos conducted a logic check of the data, which involves using human judgment to identify results that don't seem logical (for example, students whose age is over 50). Where such illogical results were found, Ipsos attempted to improve the data quality through callbacks to the respondent or reviewing the audio recording of the interview.

BFC also supported these control procedures by attending several interviews and performing logic checks of the data upon receipt of the final database. Although the process of data analysis is still ongoing, BFC's initial impression is that the data quality is very good. The number of refusals to answer individual questions is low, and there are very few cases of illogical or inconsistent responses.

Profile of survey respondents

The following tables present the unweighted demographic characteristics of survey respondents as a frequency. The total number of observations is 1,000, so a percentage of 72.2% would correspond to 722 respondents. The column "valid percent" ignores any refusals or responses of "don't know". Where available, the results from the 2015 census for adults 15 years old and above is provided for comparison.

The sample distribution is generally consistent with the actual population distribution, although for some segments the actual population is not known. For young people, the sample share (25.0%) is somewhat lower than the population (30.3%). For non-Jordanian citizens, the sample share (25.1%) is somewhat lower than the population (30.8%). Due to the sampling criteria that least 5.0% of the sample should come from each governorate, Amman is under-represented in the sample (at 30.1% of the sample versus 44.0% of the population), while the smaller governorates like Tafileh, Ma'an, Aqaba and Ajloun are over-represented in the sample. For other segments, either the population share is unknown or the sample is rather close to the population (less than five percentage points difference).

Gender

	Percent, unweighted	Valid percent, unweighted	Census 2015 percent
male	55.1	55.1	53.8
female	44.9	44.9	46.2

Age group

	Percent, unweighted	Valid percent, unweighted	Census 2015 percent
15–24	25.0	25.0	30.3
25–64	68.8	68.8	64.1
65 and more	6.2	6.2	5.6

Governorates

	Percent, unweighted	Valid percent, unweighted	Census 2015 percent
Amman	30.1	30.1	44.0
Irbid	12.9	12.9	18.0
Zarqa	11.0	11.0	13.8
Balqa	5.1	5.1	5.2
Madaba	5.0	5.0	2.0
Jerash	5.0	5.0	2.4
Ajloun	5.0	5.0	1.8
Mafraq	5.8	5.8	5.1
Karak	5.0	5.0	3.3
Tafileh	5.0	5.0	1.0
Ma'an	5.0	5.0	1.5
Aqaba	5.1	5.1	2.0

Location

	Percent, unweighted	Valid percent, unweighted	Census 2015 percent
urban	87.9	87.9	90.6
rural	12.1	12.1	9.4

Jordanian citizenship

	Percent, unweighted	Valid percent, unweighted	Census 2015 percent
Yes	74.9	74.9	69.2
No	25.1	25.1	30.8

Other citizenship

	Percent, unweighted	Valid percent, unweighted
Egypt	7.3	7.3
Iraq	1.1	1.1
Palestine	1.7	1.7
Syria	15.6	15.6
Yemen	0.3	0.3
other citizenship	0.5	0.5
no other citizenship	73.5	73.5

Resident status of non-Jordanians

	Percent, unweighted	Valid percent, unweighted
permanent residence permit	20.3	20.3
temporary residence permit	27.9	27.9
formal refugee	48.2	48.2
informal refugee	3.6	3.6

Number of people in household

	Percent, unweighted	Valid percent, unweighted
1–3	25.0	25.0
4–5	32.7	32.7
6–7	29.7	29.7
8 and more	12.6	12.6

Education level

	Percent, unweighted	Valid percent, unweighted
none	3.3	3.3
incomplete primary	9.1	9.1
primary	20.9	20.9
secondary	21.5	21.5
vocational	1.5	1.5
incomplete higher	6.3	6.3
complete higher	13.2	13.2
more than higher	24.2	24.2

Marital status

	Percent, unweighted	Valid percent, unweighted
single	30.8	30.8
married/living with partner	63.0	63.0
divorced/separated	2.1	2.1
widowed	4.1	4.1

Ownership status of the place where you currently live

	Percent, unweighted	Valid percent, unweighted
owned by me (incl. co-ownership)	16.2	16.2
owned by other household member	37.9	37.9
the place is rented	45.8	45.8
the place is provided by the government (or a donor)	0.1	0.1

Employment status

	Percent, unweighted	Valid percent, unweighted
employed – receiving a salary or wages – public sector (e.g. government, military)	10.3	10.3
employed – receiving a salary or wages – private sector	11.4	11.4
employed – self-employed or own my own business	3.8	3.8
employed – doing unpaid work (volunteering)	0.2	0.2
employed – doing unpaid work (helping in a family business)	0.3	0.3
employed – other	15.1	15.1
not employed – seeking work	2.4	2.4
not employed – student	9.1	9.1
not employed – retired/pensioner	11.2	11.2
not employed – other	35.8	35.9
unpaid housekeeper	0.2	0.2
refused	0.2	0.0

Individual income group

	Percent, unweighted	Valid percent, unweighted
0–149	12.9	13.6
150–249	15.1	15.9
250–349	24.6	26.0
350–449	17.1	18.1
450–649	14.9	15.7
650 and more	10.1	10.7
refused	5.3	0.0

Household income group

	Percent, unweighted	Valid percent, unweighted
0–149	4.4	4.9
150–249	14.3	15.8
250–349	24.2	26.7
350–449	15.4	17.0
450–649	17.1	18.9
650 and more	15.1	16.7
refused	9.5	0.0

Appendix 2: Financial inclusion indicators

Supply side indicators

SUPPLY SIDE INDICATORS	G20	2016	2015	2014
ACCOUNTS/DEPOSITS				
Bank deposit accounts per 1,000 adults	Y	504.0	485.2	513.7
E-money accounts per 1,000 adults	Y	1.5	n/a	n/a
E-money accounts and bank accounts linked to JoMoPay per 1,000 adults		10.5	n/a	n/a
CREDIT				
Outstanding bank loans per 1,000 adults	Y	170.2	149.9	149.4
Outstanding MFI loans per 1,000 adults		63.2	59.2	58.6
Total outstanding loans per 1,000 adults		233.4	209.0	208.0
Active MFI borrowers per 1,000 adults		60.7	57.2	56.4
Credit cards per 1,000 adults			50.6	43.2
Volume of bank SME loans to total loans			7.3%	8.5%
Getting credit: distance to frontier	Y	0	0	0
PAYMENTS				
Mobile money transactions per 1,000 adults	Y	1.4	n/a	n/a
Retail cashless transactions per 1,000 adults	Y	13,337.8	n/a	n/a
- Checks		2,663.7	n/a	n/a
- Transfers		232.2	n/a	n/a
- Payment cards		9,707.9	n/a	n/a
- e-money		734.1	n/a	n/a
Debit cards per 1,000 adults	Y		366.1	475.0
Percentage of bank accounts linked to JoMoPay		1.8%	n/a	n/a
INSURANCE				
Insurance policies per 1,000 adults	Y	315.6	314.2	321.3
- Life insurance	Y	5.1	17.9	3.4
- Medical insurance		3.2	3.0	2.9
- Other		307.4	293.3	315.0
- Total non-life	Y	310.6	296.3	317.9
INFRASTRUCTURE				
Branches of commercial banks per 100,000 adults	Y	13.9	13.9	14.6
Branches of commercial banks per 1,000 km2		10.0	9.8	9.5
Branches of MFIs per 100,000 adults		2.7	2.6	2.7
Branches of MFIs per 1,000 km2		2.0	1.9	1.7
ATMs per 100,000 adults	Y	25.6	24.2	24.6
Agents of payment service providers per 100,000 adults	Y	0.3	n/a	n/a
Mobile agent outlets per 100,000 adults	Y	4.3	n/a	n/a
POS terminals per 100,000 adults	Y	496.0	n/a	n/a
Interoperability of ATM and POS networks	Y	1	n/a	n/a
MARKET CONDUCT AND CONSUMER PROTECTION				
Disclosure index	Y	2	n/a	n/a
Dispute resolution index	Y	2	n/a	n/a

Demand side indicators

DEMAND SIDE INDICATORS	G20	2017	2014
ACCOUNTS/DEPOSITS			
Has account at a financial institution	Y	33.1%	24.6%
- Female		27.2%	15.5%
- Youth (15–24)		20.4%	12.4%
- Youth aged 15–17		9.6%	n/a
- Youth aged 18–24		23.6%	n/a
- Non-Jordanian		9.5%	n/a
- Refugees		7.0%	n/a
- Poorest 40%		19.3%	16.4%
- Primary education or less		19.9%	18.2%
- Rural		38.0%	25.4%
- MSME	Y	n/a	n/a
Has bank account		32.0%	n/a
Has mobile wallet account		0.9%	0.5%
Has postal savings account		1.1%	n/a
Has informal savings account		13.1%	n/a
Saved money in past year		n/a	29.2%
Saved money at FI in past year	Y	9.3%	3.8%
- Female		8.1%	2.5%
- Youth (15–24)		4.9%	1.8%
- Youth aged 15–17		5.9%	n/a
- Youth aged 18–24		4.5%	n/a
- Non-Jordanian		3.9%	n/a
- Refugees		2.3%	n/a
- Poorest 40%		4.4%	1.8%
- Primary education or less		3.8%	2.5%
- Rural		5.9%	2.7%
- MSME		n/a	n/a
Made withdrawal from bank account in past year (% of adults with bank account)		84.2%	81.1%
Makes 3 or more withdrawals from bank account in typical month	Y	5.4%	4.6%
CREDIT			
Borrowed from financial institution in past year	Y	9.9%	13.6%
- Female		12.1%	10.3%
- Youth (15–24)		4.1%	1.7%
- Youth aged 15–17		0.0%	n/a
- Youth aged 18–24		5.4%	n/a
- Non-Jordanian		1.9%	n/a
- Refugees		1.4%	n/a
- Poorest 40%		5.6%	10.8%
- Primary education or less		5.8%	16.1%
- Rural		19.4%	11.4%
- MSME		n/a	n/a
Borrowed from any source in past year		21.6%	32.2%
Borrowed from informal source in past year		13.3%	n/a
Has credit card		4.8%	2.3%
Used leasing product		1.1%	n/a
Used Islamic financial product		1.5%	n/a
SMEs with outstanding loan or line of credit	Y	n/a	n/a
% of SMEs required to provide collateral on last bank loan	Y	n/a	n/a
PAYMENTS			
Made or received digital payments	Y	18.3%	n/a
Made payment or sent money using mobile phone	Y	0.6%	0.2%
Made payment or sent money using the internet	Y	5.5%	2.5%
Made payment using debit card	Y	2.8%	n/a
Made payment using credit card		n/a	1.8%
Received wages or government transfers into account	Y	11.8%	n/a
Received wages into account		6.7%	7.9%

Received government transfers into account		5.8%	0.7%
Has debit card		27.2%	19.1%
- Female		19.3%	10.8%
- Youth (15–24)		17.5%	9.0%
- Youth aged 15–17		4.6%	n/a
- Youth aged 18–24		21.4%	n/a
- Non-Jordanian		8.2%	n/a
- Refugees		6.5%	n/a
- Poorest 40%		13.8%	10.7%
- Primary education or less		13.9%	9.7%
- Rural		31.8%	20.9%
- MSMEs		n/a	n/a
Received domestic remittances		33.9%	9.5%
- Female		31.5%	9.7%
- Youth (15–24)		33.4%	8.6%
- Youth aged 15–17		32.6%	n/a
- Youth aged 18–24		34.0%	n/a
- Non-Jordanian		35.5%	n/a
- Refugees		31.0%	n/a
- Poorest 40%		29.9%	7.7%
- Primary education or less		34.5%	7.8%
- Rural		21.1%	7.5%
- MSMEs		n/a	n/a
Received domestic remittances through formal channels		14.9%	n/a
Sent domestic remittances		25.2%	11.4%
- Female		17.5%	6.9%
- Youth (15–24)		23.4%	14.6%
- Youth aged 15–17		22.0%	n/a
- Youth aged 18–24		23.7%	n/a
- Non-Jordanian		28.8%	n/a
- Refugees		21.0%	n/a
- Poorest 40%		21.5%	5.2%
- Primary education or less		21.6%	6.1%
- Rural		13.8%	10.4%
- MSMEs		n/a	n/a
Sent domestic remittances through formal channels		14.7%	n/a
Sent or received domestic remittances		42.3%	n/a
- Female		35.7%	n/a
- Youth (15–24)		40.5%	n/a
- Youth aged 15–17		35.6%	n/a
- Youth aged 18–24		42.4%	n/a
- Non-Jordanian		46.4%	n/a
- Refugees		39.8%	n/a
- Poorest 40%		39.8%	n/a
- Primary education or less		42.1%	n/a
- Rural		23.8%	n/a
- MSMEs		n/a	n/a
Sent or received domestic remittances through formal channels		23.4%	n/a
Share of MSMEs that have a POS terminal	Y	n/a	n/a
INSURANCE			
Has any type of insurance		29.9%	n/a
- Female		31.5%	n/a
- Youth (15–24)		28.3%	n/a
- Youth aged 15–17		24.8%	n/a
- Youth aged 18–24		29.2%	n/a
- Non-Jordanian		11.8%	n/a
- Refugees		10.2%	n/a
- Poorest 40%		26.3%	n/a
- Primary education or less		21.7%	n/a

- Rural		40.4%	n/a
- MSMEs		n/a	n/a
Had health insurance		27.0%	n/a
Had life insurance		2.9%	n/a
Had auto insurance		8.4%	n/a
Had property insurance		1.8%	n/a
FINANCIAL LITERACY & CAPABILITY			
Financial knowledge score	Y	2.55	n/a
- Female		2.49	n/a
- Youth (15–24)		2.55	n/a
- Youth aged 15-17		2.59	n/a
- Youth aged 18–24		2.52	n/a
- Non-Jordanian		2.54	n/a
- Refugees		2.49	n/a
- Poorest 40%		2.46	n/a
- Primary education or less		2.37	n/a
- Rural		2.40	n/a
- MSMEs		n/a	n/a
Simple interest question correct		30.7%	n/a
Compound interest question correct		37.6%	n/a
Risk diversification question correct		31.3%	n/a
Simple inflation question correct		86.9%	n/a
Complex inflation question correct		60.3%	n/a
Deposit insurance question correct		8.6%	n/a
All 6 questions correct		0.0%	n/a
First 5 questions correct		0.6%	n/a
Savings is main source of emergency funds (1/25 of GDPPC)	Y	12.9%	n/a
CONSUMER PROTECTION			
Knows costs of bank account (% of a adults with a bank account)		42.2%	n/a
Knows costs of loan (% of adults that borrowed in past year)		47.3%	n/a
Lender made costs and conditions of loan clear before signing (% of adults that borrowed in past year)		70.9%	n/a
Reads all conditions of contracts before signing (% of adults that signed a contract)		85.3%	n/a
OTHER			
Access to mobile phone or internet at home	Y	94.3%	n/a
- Female		92.7%	n/a
- Youth (15–24)		90.8%	n/a
- Youth aged 15–17		86.4%	n/a
- Youth aged 18–24		92.3%	n/a
- Non-Jordanian		97.2%	n/a
- Refugees		96.9%	n/a
- Poorest 40%		90.7%	n/a
- Primary education or less		90.3%	n/a
- Rural		93.4%	n/a
- MSMEs		n/a	n/a
Access to internet at home via computer		16.7%	n/a
Access to internet at home via mobile device		70.7%	n/a
Has mobile phone		92.1%	n/a
Has smartphone		76.5%	n/a

Appendix 2: Bibliography

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Appendix 3: Basic DFS definitions and classification

Given the relatively recent evolution of this industry, the realm of DFS is full of new terms, which are sometimes used interchangeably and in a confusing way given certain overlaps. For a more specific discussion, the overview below provides more details on the main terms and classification of DFS used in this report[140]:

- **Digital financial services (DFS)** include methods to: electronically store and transfer funds; make and receive payments; borrow, save, insure and invest; and manage a person's or enterprise's finances. The most simple DFS sub-groups distinguished are:
  - **Mobile financial services (MFS)** are those services offered for mobile devices (features on phones or smartphones) by bank and non-bank providers. By type of complexity, these include:
    - **Mobile payments:** The most basic type of financial service where transactions can be managed by non-bank institutions (e.g. person-to-person (P2P) transfers, bill payments).
    - **Mobile banking:** Usually includes the participation of formal financial institutions since the type of services go beyond simple payments are linked to a bank account and can also include savings, lending, insurance, etc.
  - **Other DFS** include internet banking services without the use of mobile headsets or devices (e.g. via simple PCs or laptops) as well as card-based services (e.g. non-bank prepaid cards, debit/credit cards), ATM operations, payments via POS devices, etc.

- **E-money (mobile money or electronic money)** is a record of funds or value available to a consumer stored on a payment device such as chip, prepaid cards, mobile phones or on computer systems as a non-traditional account with a banking or non-banking entity. Most e-money systems are traditionally controlled by a centralized operator (e.g. bank, firm) and denominated in an international or local currency. However, new decentralized models are also emerging using crypto-currency (e.g. Bitcoin).

- **Mobile wallet (digital wallet or e-wallet)** is a transaction account held at a non-bank. The value in such an account is referred to as e-money.

- **Mobile banking agent** is a person or company that offers cash-in and/or cash-out services for owners of mobile wallets as well as other services for such clients (e.g. opening a mobile wallet).

- **Payment service provider (PSP)** is an entity that provides services enabling funds to be deposited and withdrawn from an account; payment transactions involving transfers of funds; the issuance and/or acquisition of payment instruments such as checks, E-Money, credit cards and debit cards; and remittances and other services central to the transfer of funds. Payment service providers include banks and other deposit-taking institutions as well as specialized entities such as money transfer operators and e-money issuers. MPSPs (mobile PSPs) are considered as a subcategory of firms that are specialized on providing MFS.

[140] Sources:
- ITU (2017), "Digital Financial Services Glossary", www.itu.int/en/ITU-T/focusgroups/dfs/Documents/201701/ITU_FGDFS_DFS-Glossary.pdf
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Appendix 5: Overview of financial education curriculum in schools

The following table presents on overview of the current and proposed financial education topics per each class, together with a current status of the implementation of the course in each school year.

Overview of financial education program in Jordanian schools

Target	Status	Curriculum (semester 1)	Curriculum (semester 2)
Grade 7	Introduced nationally in 2015	Importance of money in our lives; The role of money in human happiness; Commodity money and coins; Cash and credit; Currency; Financial awareness between past and present; Reasons behind personal money management; Financial records	Needs and desires; Financial decisions; Consumerism; Options for money management; Learn how to spend; Good spending; Learn to save; Savings difficulties; Saving forms; Money means or purpose
Grade 8	Introduced nationally in 2016	Money and work; Volunteerism; Future careers; Communication skills; Technology and money; Supply and demand; Responsible consumption; Financial planning; Payment methods	Save on your resources; Recycling; Saving decisions; The Central Bank of Jordan; Types of banks; Bank accounts; Bank forms; practical implementations
Grade 9	Planned for launch in September 2017	The concept money value; The rational consumer; Planning and making purchasing decisions; Demand, supply and pricing; The concept and Importance of lending and borrowing; Appropriate loan size; Funding and its institutions; Advantages of bank loans; Risk management	The qualities of the leader; Entrepreneurship; Team work; e-commerce; Types of e-commerce; Cybercrime; Electronic marketing; Electronic payment systems
Grade 10	Expecting launch in 2018	Money in our lives: the association between work and money; Money management: bank account sheets, electronic banking services	Wise consumption: savings and expenditure; Money and risks; Money protection
Grade 11	Small pilot planned for 2017	The origin and development of money; Financial awareness and the tendency to consume; Currencies; Personal and family resources; Preparing personal budget; Corporate, institutional, and state resources; Modern economic concepts and problems; Value for money; The rational consumer; Making purchasing decisions; Supply, demand and pricing; The emergence of the Jordanian banking system and its development; Banks and currency in Jordan; Non-bank financial institutions; The Central Bank of Jordan; Social security institution; Amman financial market; Foundations and criteria of investment; Services offered by commercial banks; Bank accounts and their characteristics; Islamic banking services; Applications on banking transactions; Review and audit the bank statement; Electronic payment methods; Bank loans; Calculating interest and bank commissions; Risk of loans and dealing with financial institutions	The concept of entrepreneurship; The importance of entrepreneurship; The qualities and journey of an entrepreneur; Misconceptions about leadership; Success stories; Effective team; Problem solving; Project identity (vision, mission, name); Smart goals; Evaluate and present the project; Organizational structure; Types of companies; Steps to establish and register a company; Feasibility study and action plan; Marketing; Budgeting and sources of funding; Evaluation and presentation of projects; Liquidation and bankruptcy
Grade 12	Planned for launch in September 2017	Accounting; Accounting principles and terminology; Budgeting; Financial records; Accounting cycle; Ledger; Trial balance; Inventory; Financial statements; Restrictions on closing accounts; Cash flow; Financial management; Financial analysis; Risk; Insurance	(Not applicable)

Appendix 6: Financial knowledge and behavior results

Results for financial knowledge questions (%)

Survey questions & indicators	Total	Gender		Age		Citizenship		Is refugee		Income		Education		Location	
		Male	Female	25+	15–24	Jordanian	Non-Jor.	Yes	No	Bottom 39.1%	Top 60.9%	Primary or less	Secondary or more	Urban	Rural
Q14. Simple interest	**30.7**	34.4	25.8	29.8	32.6	31.5	28.7	20.8	32.5	21.3	35.0	19.1	36.7	31.4	21.6
Q15. Compound interest	**37.6**	41.2	33.0	36.8	39.4	35.9	41.6	38.4	37.5	41.9	35.6	34.7	39.2	37.4	40.9
Q16. Diversification	**31.3**	32.2	30.2	32.4	28.7	29.0	36.4	39.0	29.8	32.2	28.6	35.2	29.3	31.5	28.8
Q17. Simple inflation	**86.9**	85.0	89.3	90.1	79.4	90.5	78.6	81.7	87.9	79.8	91.1	78.3	91.3	87.1	84.1
Q18. Complex inflation money illusion	**60.3**	59.4	61.4	58.5	64.3	60.0	61.0	66.4	59.1	61.5	58.3	60.3	60.3	60.4	58.8
Q19. Deposit insurance	**8.6**	7.6	9.8	8.0	10.1	9.1	7.5	2.6	9.7	9.1	8.5	10.0	7.9	8.8	6.0
Fin literacy score (0)	**3.0**	2.9	3.1	2.2	4.8	2.6	3.9	4.5	2.7	3.6	2.7	5.1	1.9	3.0	3.3
Fin literacy score (1)	**13.2**	14.4	11.7	13.0	13.6	13.0	13.7	14.8	12.9	16.3	12.1	16.0	11.8	13.1	14.4
Fin literacy score (2)	**30.8**	27.6	35.0	32.2	27.7	30.3	32.0	32.2	30.6	31.7	31.1	36.1	28.1	30.4	36.9
Fin literacy score (3)	**34.0**	33.7	34.4	34.7	32.3	36.4	28.5	27.2	35.3	30.5	35.8	24.8	38.8	34.3	30.4
Fin literacy score (4)	**16.5**	18.1	14.3	15.2	19.4	15.5	18.8	19.0	16.0	15.2	15.9	15.2	17.2	16.7	13.7
Fin literacy score (5)	**2.5**	3.3	1.4	2.6	2.2	2.2	3.0	2.5	2.5	2.7	2.4	2.8	2.3	2.6	1.2

Note: Red and green highlights minimum and maximum scores per indicator.

Results for financial behavior questions (%)

Survey questions & answer options		Total	Gender		Age		Citizenship		Is refugee		Income		Education		Location	
			M	F	25+	15-24	Jor.	Non-Jor.	Yes	No	>39.1%	<60.9%	Primary-	Secondary+	Urban	Rural
Q20. Main source to come up with JD 150 within next month	Savings	**12.9**	13.5	12.0	13.0	12.4	15.0	7.9	6.4	14.1	10.8	14.8	8.5	15.1	12.5	16.9
	Family / relatives	**45.4**	35.5	58.4	43.4	50.2	51.7	31.2	39.2	46.6	43.8	43.7	43.6	46.4	44.5	57.0
	Friends	**16.1**	23.0	7.0	16.7	14.7	9.3	31.5	28.4	13.8	18.5	15.7	20.0	14.1	16.6	9.4
	Money from working or a loan from an employer	**7.5**	9.5	4.8	8.2	5.9	6.3	10.1	9.1	7.2	5.7	9.3	6.6	8.0	7.8	3.8
	A loan from an employer	**5.0**	5.9	3.7	4.3	6.4	3.7	7.9	6.2	4.8	5.1	5.3	7.2	3.8	5.1	3.5
	A credit card or borrowing from a formal financial institution	**.4**	.3	.5	.5	.2	.6	.0	.0	.5	.4	.5	.2	.5	.2	2.9
	An informal private lender or pawn house	**1.5**	1.0	2.0	1.3	1.8	2.0	.3	.6	1.6	1.2	1.4	1.6	1.4	1.4	1.8
	Some other source	**5.8**	5.9	5.7	6.1	5.2	7.1	2.9	1.6	6.6	6.2	6.2	4.4	6.5	6.0	3.7
	Don't know	**5.5**	5.3	5.8	6.5	3.3	4.3	8.2	8.5	4.9	8.3	3.3	8.0	4.2	5.9	1.0
Q21. Has written budget for household		**29.6**	22.9	38.5	31.9	24.5	31.7	25.1	24.2	30.7	24.5	33.3	25.3	31.9	29.7	28.9
Q22. Regularly compares actual and planned expenditures		**50.2**	40.4	63.1	53.2	43.4	54.0	41.8	44.5	51.3	45.9	51.2	42.6	54.2	50.7	44.8
Q23. Reads all the conditions of contracts before signing	No, usually don't read the conditions	**6.7**	8.2	4.3	7.7	3.7	5.9	8.4	7.3	6.5	9.7	5.5	8.4	5.9	6.9	3.6
	Depends of the contract / Read only the important conditions	**8.1**	9.2	6.3	9.0	5.5	8.4	7.3	4.4	8.7	6.0	9.5	9.5	7.4	8.3	5.0
	Yes, read all conditions	**85.3**	82.5	89.3	83.3	90.8	85.7	84.3	88.3	84.7	84.3	85.0	82.1	86.7	84.8	91.4

Note: Red and green highlights minimum and maximum scores per indicator.

Appendix 7: Survey results for questions on digital financial services

% of adults

Survey questions & indicators	Total	Gender		Age		Citizenship		Is refugee		Income		Education		Location	
		M	F	25+	15–24	Jor.	Non-Jor.	Yes	No	>39.1%	<60.9%	Primary-	Secondary+	Urban	Rural
Q60. Has access to internet at home Via computer	**16.7**	16.1	17.4	14.0	22.8	21.0	6.9	7.9	18.3	12.2	19.9	5.9	22.3	16.6	18.0
Q60. Has access to the internet at home Via mobile phone or tablet	**70.7**	71.8	69.3	68.9	74.8	68.1	76.5	72.4	70.4	66.4	72.8	57.2	77.8	71.4	61.4
Q61. Made payments on bills or bought things online using the Internet	**5.5**	7.1	3.5	5.0	6.6	7.0	2.5	1.2	6.4	4.8	6.0	3.4	6.3	5.7	3.3
Q62. Has mobile phone	**92.1**	93.6	90.1	94.8	85.9	90.5	95.7	94.7	91.6	88.5	95.2	88.2	94.1	92.1	92.5
Q63. Has smartphone	**76.5**	76.3	76.9	76.1	77.5	75.3	79.4	77.9	76.3	68.9	82.0	61.8	84.2	77.0	70.6
Has mobile phone or internet access at home	**94.3**	95.6	92.7	95.8	90.8	93.0	97.2	96.9	93.8	90.7	97.1	90.3	96.4	94.4	93.4
Q64. Ever heard of a mobile wallet	**15.6**	16.9	13.8	13.1	21.2	19.0	7.9	9.1	16.8	10.2	18.7	8.3	19.3	16.0	10.2
Q65. Used mobile phone to pay bills or to send or receive money using mobile money service	**.0**	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Q66. Made any transactions with bank account using mobile phone	**28.2**	44.3	7.1	11.2	53.6	28.5	.0	.0	28.2	74.7	6.1	.0	28.2	31.2	.0
Q67. Uses the services of a mobile money agent	**.0**	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0

Note: Red and green highlights minimum and maximum scores per indicator.