Demand Assessment for Microfinance Services in Jordan

EXECUTIVE SUMMARY

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Highlights:

- There is a **high demand to save money with microfinance institutions** as indicated by survey respondents, suggesting a promising avenue to widen and deepen financial inclusion.
- The overwhelming majority of respondents express **disinterest in participating in financial literacy training**, pointing towards their negative perception among the population.
- **Loan Demand**: Business loan volumes are significantly higher than private loan volumes, women request smaller loans than men, young people need smaller loans than older people, and start-ups request the smallest loans.
- **Loan Purpose**: Private loans are mostly needed for home improvements and asset purchases, while business loans are needed for kickstarting businesses and acquiring working capital.
- **Use of Digital Financial Services**: Almost half of the respondents use mobile wallets. Men make more use of digital financial services than women. Young people's (18-35 years) usage is only slightly higher than that of other age groups. Start-ups use mobile apps much more than other respondents.

1. Context

The Jordanian government as well as the Central Bank of Jordan (CBJ) are strongly committed to increase **financial inclusion** of the Jordanian population. Jordan's *National Financial Inclusion Strategy* defines financial inclusion as "the state wherein individuals and businesses have convenient access to and use affordable and suitable financial products and services that meet their needs, help to improve their lives, and are delivered in a responsible and sustainable way" (CBJ 2018).

The **microfinance sector** in Jordan plays a significant and growing role in enhancing financial inclusion. In late 2022, 6.3% of the Jordanian adult population was served by nine microfinance institutions (MFIs), which are members of Jordan Microfinance Network *Tanmeyah*. MFIs issued more than 450,000 loans valued at 318 million Jordanian Dinar (JOD). In total, 212 branches operated all over the country. Compared with 2012, the number of borrowers almost doubled, while the number of branches increased by 74% (Tanmeyah 2022).

The **German Sparkassenstiftung for International Cooperation (DSIK)** is the development-policy arm of the Sparkassen Finance Group. Its task is to disseminate the successful Sparkasse model across regional borders and around the globe and aims to increase access, usage, and quality of financial services worldwide. DSIK has been operating in Jordan since October 2020 and focuses on conducting financial literacy and business training programmes for individuals and small business as well as the institutional strengthening of its Jordanian partner organisations.

2. Study Objective and Methodology

In May 2022, the German Sparkassenstiftung for International Cooperation commissioned a study to assess the demand for microfinance services in Jordan. From May to July 2022, **2,264 respondents** were surveyed on their demand of microfinance services and products, such as savings, consumption and business loans, and digital financial products as well as their preferences regarding marketing and communication channels.

Both private and business clients as well as MFI and non-MFI clients were included in the sample of this study and different criteria were considered, namely gender, governorate, education level, income level, and several other socio-demographic characteristics (see appendix 1 for an overview).

The sub-sample of business clients varied across registration status, legal form, invested capital, industry, and many other characteristics (see appendix 2). While the sample is not representative of the Jordanian population, it offers manifold and profound insights, which are elaborated below.

3. Key Findings

3.1 Savings and Insurance

Before Covid-19, about 45% of the population had saved money (World Bank 2017). Apparently due to the pandemic, this number dropped significantly to less than 15% (CBJ 2023). Moreover, formal saving in a bank account was only practiced by 4.3% of adults in 2022.

Under Jordanian law, MFIs are not permitted to accept deposits from their clients. However, the present study found that **28.3% of respondents are interested in saving through MFIs**.[1] Furthermore, the younger the respondents the more they are interested in saving through an MFI (see figure 1). Thus, there is clear demand for MFI-issued savings products and it appears an effective strategy to increase both national savings rates and the population share that engages in saving by allowing MFIs to take deposits. Additionally, attracting younger people

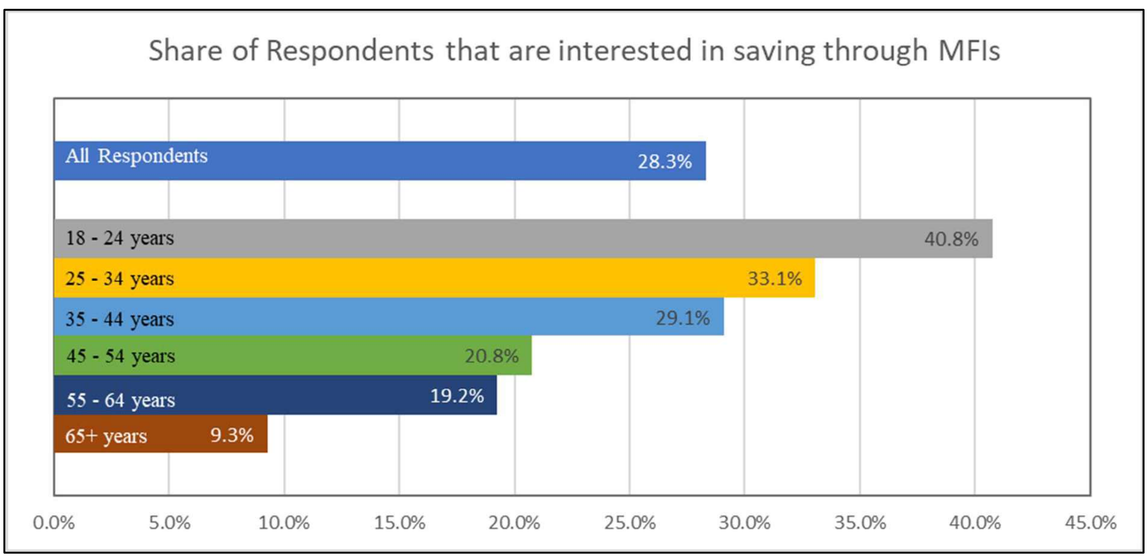


Figure 1: Share of Respondents interested in saving through MFIs

to take up formal financial products, especially savings, may also be achievable in this way. Finally, it should be noted that respondents were equally interested in buying insurance services from MFIs, opening up the possibility to tailor specific combined products.

[1] It may be even assumed that this number would be much higher if people were informed that saving via MFIs may become a real option.

3.2 Financial Literacy

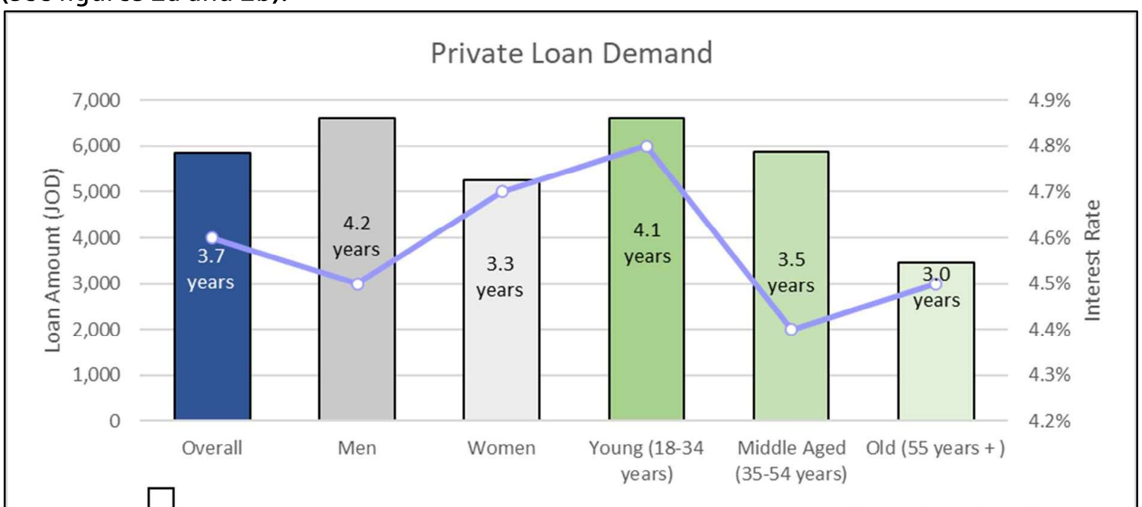
While numerous research studies underscore the prevalent issue of financial literacy challenges in Jordan, the survey has revealed a significant finding: **87% of respondents exhibit disinterest in participating or enrolling in any form of financial literacy activities**. This finding brings to the forefront the crucial matter of the calibre, substance, and methodologies employed by various stakeholders in the process of designing a comprehensive financial literacy program.

3.3 Loan Demand

The survey elicited various dimensions of loan demand across socio-demographic groups in much detail which can be accessed in the full report. A brief summary and a few highlights are provided in the following.

Private clients on average needed a consumption loan of 5,900 JOD, were willing to pay an average interest rate of 4.6% per annum and preferred it to run for around 3.7 years.

Business clients on average needed a loan of 18,200 JOD and were prepared to pay 7.4% interest per year on average over a term of 5.5 years. Men requested higher loans than women, and young adults (below 35 years) needed smaller business loans but slightly higher private loans than other age groups. Start-ups demanded the smallest and shortest loans (see figures 2a and 2b).



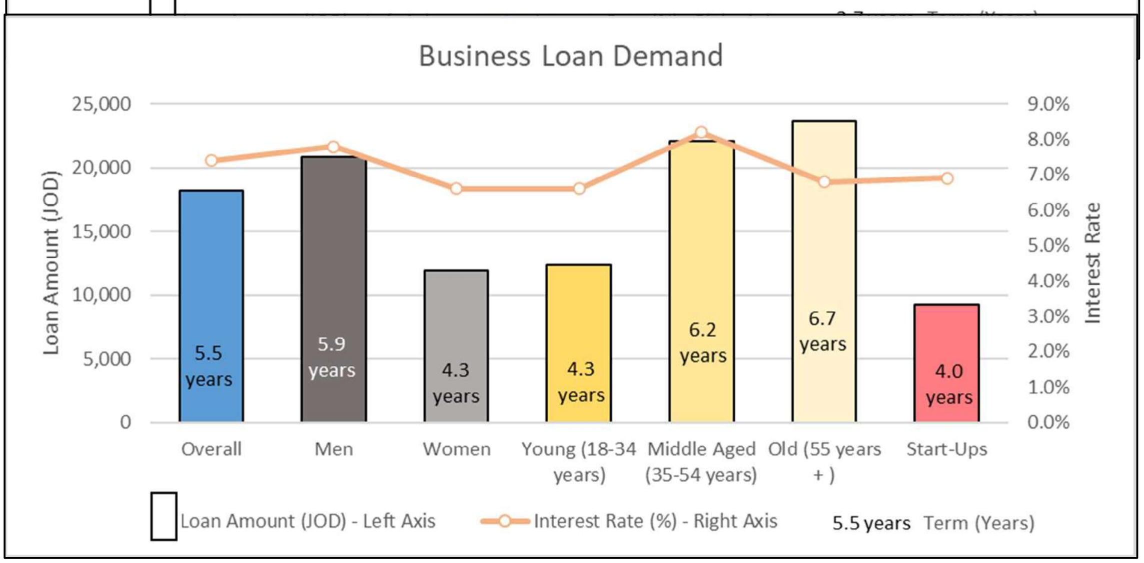


Figure 2b: Business Loan Demand

3.4 Loan Purposes

Private loans were mainly intended for home improvement and private assets. 7% of all private loan requests were for the installation of environmentally-friendly energy savings systems. Business loans were spread across various business operation requirements, with a higher concentration on earliest-stage needs (project study) and working capital (see figures 3a and 3b).

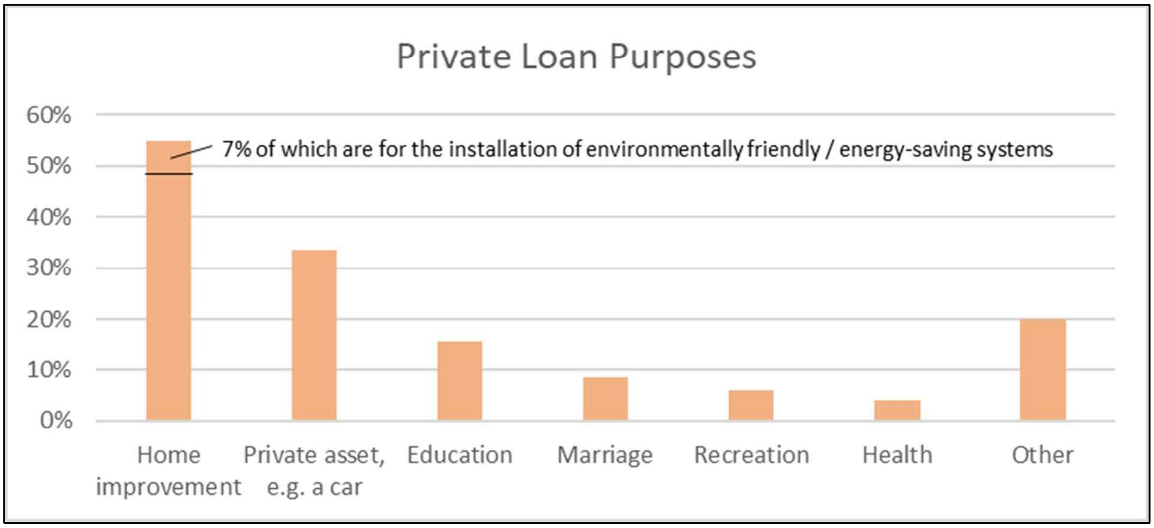


Figure 3a: Private Loan Purpose (Multiple answers possible)

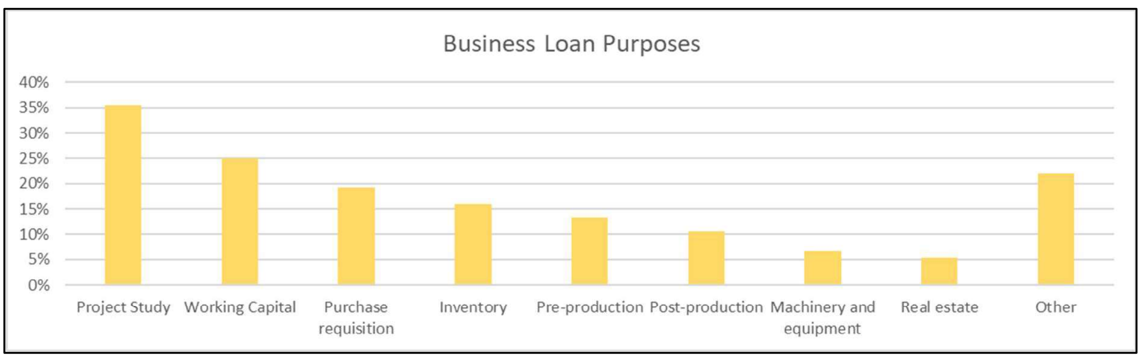


Figure 3b: Business Loan Purpose (Multiple answers possible)

3.4 Use of Digital Financial Services

Respondents were asked about their use of digital financial services. Mobile wallets were used the most (by 48% of all respondents), followed by credit cards (33%), while bank account and mobile apps were least used.

Men generally made more use of digital financial services than women, except regarding mobile wallets. Young people's average technology use was only slightly higher than that of all respondents. Start-ups used mobile applications to pay bills significantly more than all other groups but made much less use of credit cards than all respondents. (see figure 4).

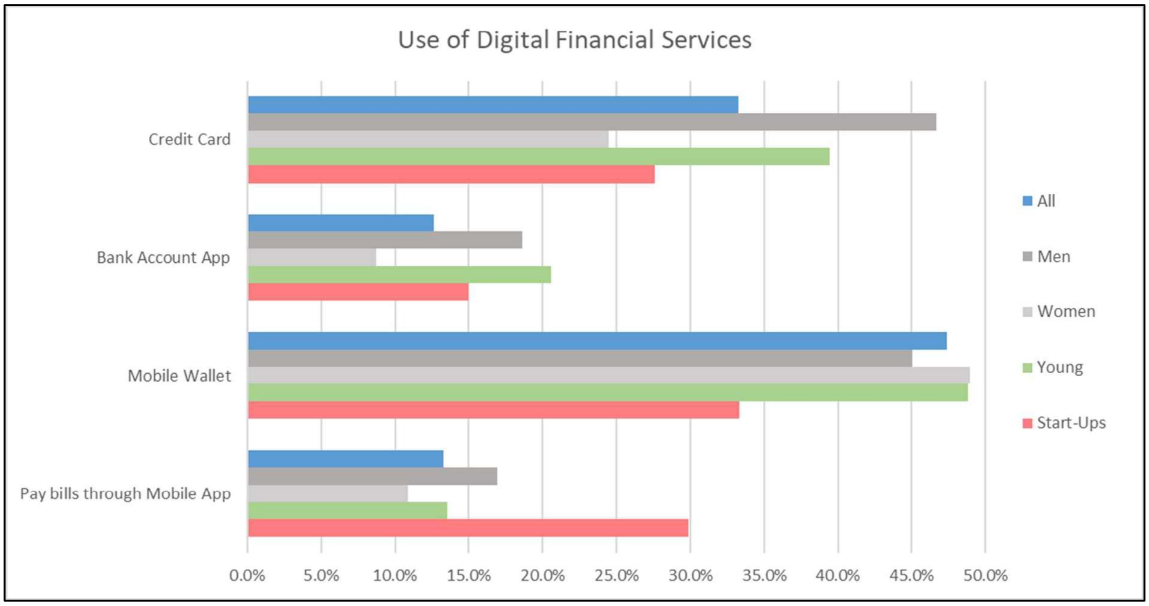


Figure 4: Use of Digital Financial Services

4. Recommendations and Outlook

Following from the survey and analysis illustrated above, it is recommended that the Government of Jordan and Central Bank of Jordan consider a regulatory change that allows MFIs to accept deposits, as it would enable many more segments of society to formally save and would also increase the national savings rate. In general, MFIs are capable and prepared to facilitate microsavings, but additional investments and careful supervision mechanisms are needed.

Additionally, it is suggested that MFIs carefully analyse the demands of their current and potential clients, especially with regards to loans, to better cater to their needs and tailor their products accordingly.

Special attention is needed to better serve women, young people, and start-ups. It is expected that the continued improvement of regulation as well as the incremental professionalisation of MFIs coupled with the strong commitment of the government to improve the livelihoods of the population will lead to increased financial inclusion, if the appropriate steps outlined here and in other studies are taken by all actors.

References

CBJ (2018). National Financial Inclusion Strategy 2018-2020.
CBJ (2023). Financial Inclusion Diagnostic Study in Jordan 2022.
Tanmeyah (2022). Industry Performance Report. Final. Q4 “2022”.
World Bank (2017). Global Financial Inclusion (Global Findex) Database. Jordan.

APPENDIX

Total	2,261	100.0%

Gender		
Male	1,237	54.7%
Female	1,024	45.3%

Age group		
18 – 24 years	238	10.5%
25 – 34 years	626	27.7%
35 – 44 years	650	28.7%
45 – 54 years	491	21.7%
55 – 64 years	213	9.4%
65 + years	43	1.9%

Nationality		
Jordanian	2,181	96.5%
Other	80	3.5%

Education		
Below secondary	400	17.7%
Secondary	684	30.3%
Intermediate Diploma	319	14.1%
Bachelor	673	29.8%
High Diploma	97	4.3%
Master or higher	74	3.3%
Other	14	0.6%

Governorate		
Capital	809	35.8%
Al Balqaa	144	6.4%
Al Zarqaa	305	13.5%
Irbid	276	12.2%
Al tafeeleh	15	0.7%
Aqaba	152	6.7%
Al Karak	111	4.9%
Mafraq	128	5.7%
Jarash	64	2.8%
Ajloun	118	5.2%
Madaba	53	2.3%
Maan	86	3.8%

Social Status		
Single	592	26.2%
Married	1,560	69.0%
Divorced	64	2.8%
Widowed	45	2.0%

Work		
Employment	1,027	45.5%
Private sector employee	352	15.6%
Public sector employee	165	7.3%
Industrial	42	1.9%
IT	11	0.5%
Professional*	139	6.2%
Crafts	80	3.5%
Doctor	89	3.9%
Educational	43	1.9%
Service	106	4.7%
Self-employed	572	25.3%
Farming	20	0.9%
Business owner (company)	434	19.2%
Business owner (home based)	118	5.2%
Both employed and self-employed	216	9.6%
Private sector employee and business owner	143	6.3%
Public sector employee and buiness owner	73	3.2%
Not employed	426	18.9%
House Wife	303	13.4%
Unemployed	44	1.9%
University Student	22	1.0%
Retired	57	2.5%
Other	17	0.8%

* Lawyer, engineer, pharmacist, laboratory, veterinary

No. of dependent family members		
0	301	13.7%
1-4	1,277	58.0%
5-8	597	27.1%
More than 8	26	1.2%

Individual monthly income level (JOD)		
1 – 260	1,005	53.7%
261 – 500	834	44.5%
> 500	34	1.8%

Family monthly income level (JOD)		
1 – 260	898	41.5%
261 – 500	820	37.9%
501 - 750	249	11.5%
751 - 1500	160	7.4%
> 1500	36	1.7%

Nature of Residence		
Rented	615	27.2%
Owned	1,113	49.2%
Family household	533	23.6%

Appendix 1: Summary Statistics of All Survey Respondents

Total	1,236	100.0%

Business Registration		
Registered	864	72.5%
Unregistered	327	27.5%

Age of Business		
Conceptual phase	147	12.5%
1 month - 3 years	353	29.9%
3 - 5 years	298	25.3%
5 - 10 years	252	21.4%
> 10 years	129	10.9%

Legal form		
Individual organization	978	91.1%
Other	95	8.9%

Industry /Sector		
Commerce	508	41.9%
Craftsman	72	5.9%
Agriculture	47	3.9%
Services	220	18.2%
Food Manufacturing	80	6.6%
Professional*	137	11.3%
Industrial	72	5.9%
Other	75	6.2%

* Lawyer, engineer, doctor, pharmacist, laboratory, etc.

Number of Employees		
1 - 5	982	88.5%
6 - 10	109	9.8%
> 10	18	1.6%

Number of Equity Owners		
1 - 2	920	84.8%
3 - 5	160	14.7%
> 5	5	0.5%

Are all Equity Owners Family Members?		
Yes	588	48.6%
No	623	51.4%

Capital (JOD)		
< 1,000	159	13.9%
1,000 - 10,000	455	39.7%
> 10,000	238	20.8%
Unregistered	294	25.7%

Annual Revenue (5-year average) (JOD)		
< 100,000	798	74.4%
> 100,000	274	25.6%

Average salary level of employees (JOD)		
1 - 260	842	54.5%
261 - 500	556	66.0%
501 - 1,000	126	22.7%
> 1,000	20	15.9%

Type of Workplace		
Home	299	25.2%
Market	509	42.9%
Online Store	19	1.6%
Private Clinic	81	6.8%
Personal Office	72	6.1%
Restaurant	47	4.0%
Factory / Industrial Complex	40	3.4%
Handicraft Complex	20	1.7%
Other	99	8.3%

Ownership of Workplace		
Owned	389	25.2%
Rented	625	40.5%
investment	17	1.1%
Leasing	122	7.9%
Other	11	0.9%

Production Cycle Days**		
1	267	23.6%
2 -7	768	67.8%
8 - 15	67	5.9%
> 15	31	2.7%

** Period between obtaining raw materials and producing final product

Marketing and Sales Channels		
Direct (Shop/ Sales Reps)	1,019	64.4%
Online	548	34.6%

Business Promotion Channels		
Facebook	852	45.3%
Instagram	464	24.7%
TikTok	159	8.4%
Email	77	4.1%
SMS	68	3.6%
Print	169	9.0%
Radio, TV, Other	93	5.0%

Appendix 2: Summary Statistics of Business Owner Survey Respondents