

# Summary of the National Financial Inclusion Strategy for Jordan

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## ➤ Introduction:

In recent years, inclusive growth and development has gained traction as a development policy paradigm in developing and emerging countries. Parallel to this development has been the wider and increasing recognition of the pivotal role of inclusive finance in development and the need to address head-on the high level of financial exclusion in these countries to harness the potential of finance for inclusive growth and development.

What is remarkable of the developments in the field of finance is that most national-level policymakers including the central banks or other financial sector regulatory bodies have shown an increased willingness to assign top priority to financial inclusion despite the fact that financial inclusion has historically not been within their core remit.

The Governor of the Central Bank of Jordan (CBJ) stated at the launching event for the Financial Inclusion Vision for Jordan in September 2016 that “it is a right for everyone to have access to financial services”<sup>1</sup>. Accordingly, in most developing and emerging countries, the policymakers have made concerted efforts to advance financial inclusion in a systematic manner without compromising the financial stability goal of financial sector regulators. It is widely accepted that under a robust regulatory and supervisory framework, financial inclusion can even substantially strengthen financial stability.

Within these broader developments, National Financial Inclusion Strategies (NFIS) have become a widely used tool for accelerating financial inclusion in most countries. Empirical evidence by the Alliance for Financial Inclusion (AFI) has shown that NFISs are an effective tool: countries with NFISs have done relatively better in promoting and advancing financial inclusion than those without.

It is in this broader global context that the CBJ has been pursuing financial inclusion since 2012 and guided in 2015 the formulation of the National Strategy

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<sup>1</sup> <http://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=197>

for Financial Inclusion in Jordan. The CBJ embarked on a national, multi-stakeholder policy process for enhancing the formal financial inclusion of the entire population, mainly among the low-income segments, women, youth, refugees, and micro, small and medium-sized enterprises. With the NFIS for Jordan 2018-2020, the CBJ and its partners cater to enhance financial inclusion of people and businesses in the Kingdom based on evidence and in a deliberate and prudent manner in view of impacting sustainable economic and social development aligned with the UN SDGs.

➤ **Definition of Financial Inclusion:**

*Financial inclusion is the state wherein individuals and businesses have convenient access to and use affordable and suitable financial products and services – payments, savings, credit, transactions and insurance – that meet their needs, help to improve their lives, and delivered in a responsible and sustainable way.*

➤ **Developing the National Financial Inclusion Strategy:**

The box below demonstrates the journey of developing the National Financial Inclusion Strategy:

- *On November 19, 2015 following the regional High-level Policy Forum on “Financial Inclusion and Employment” at the Dead Sea in Jordan, the Prime Minister of the Hashemite Kingdom of Jordan formed the national Financial Inclusion Steering Committee (FISC) and called upon the CBJ to lead the process for developing and implementing the NFIS for Jordan.*
- *FISC included key public, private and civil society stakeholders with extensive research and technical assistance provided by GIZ.*
- *On July 13, 2016 the Financial Inclusion Steering Committee, under the chair of the CBJ, convened for its inception meeting and endorsed the governance structure, a concept paper, and roadmap.*
- *On September 9, 2016 on the occasion of the AFI’s Global Policy Forum for financial inclusion on the Fiji Islands, the CBJ released its Maya declaration committing to two national goals for financial inclusion,*

*namely: to increase the level of financial inclusion from 24.6% of the adult population to 36.6% by 2020 and, over the same time, to reduce the gender gap from 53% to 35%.<sup>2</sup> The CBJ committed furthermore to nine targets to achieve these goals.*

- On September 25, 2016 the CBJ launched the six working groups for continued multi-stakeholder consultations with all members, i.e. public, private and civil society stakeholders, within the priority policy areas of Digital Financial Services, Microfinance, SME Finance, Financial Capabilities, Financial Consumer Protection, and Data and Research.*
- On November 22, 2016 on the occasion of the regional policy forum on “Advancing Women’s Financial Inclusion in the Arab World” carried out at the Dead Sea under the patronage of H.M. Queen Rania Al Abdullah, the CBJ released the Financial Inclusion Vision for the Hashemite Kingdom of Jordan.*
- In the first half of 2017, a diagnostic study of financial inclusion was conducted covering supply and demand sides to assess 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.*
- On December 4, 2017 NFIS for 2018-2020 was launched.*

### ➤ **Rationale for The National Financial Inclusion Strategy**

The rationale for the development and implementation of the NFIS for Jordan stems from a number of inter-linked key factors:

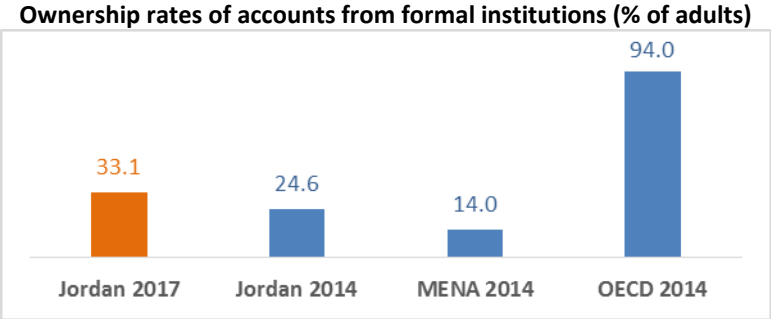
- High level of financial exclusion:**

67% of people in Jordan above the age of 15 years do not have access to the formal financial system in terms of account ownership; 38.0% of adults are excluded from any formal financial services and 24.8% of adults are completely excluded from any formal and informal financial services. The majority of MSMEs are financially constrained.

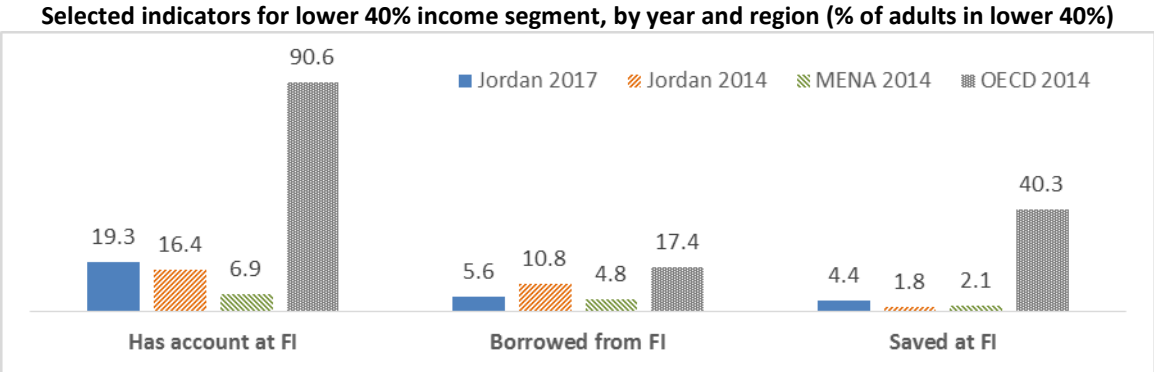
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<sup>2</sup> According to account ownership as indicated by Global Findex data.

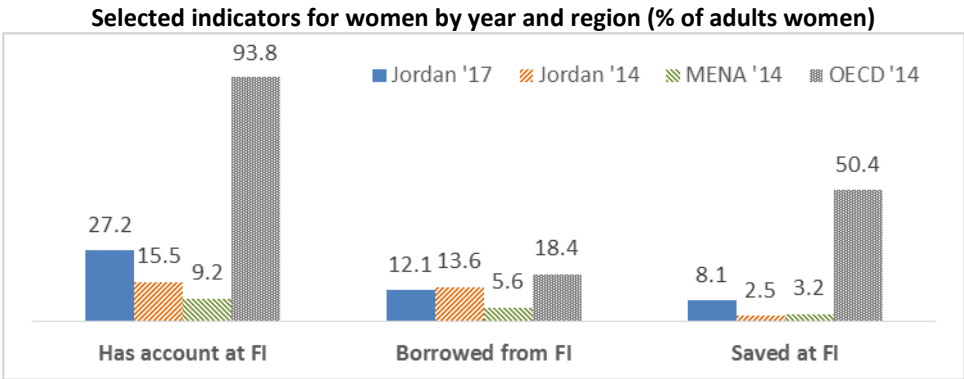
The following figures below highlights the main results of the recently conducted NFIS diagnostic study (2017), a comparison with World Bank Findex (2014) for the bottom 40%, women, youth and refugees<sup>3</sup>.



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



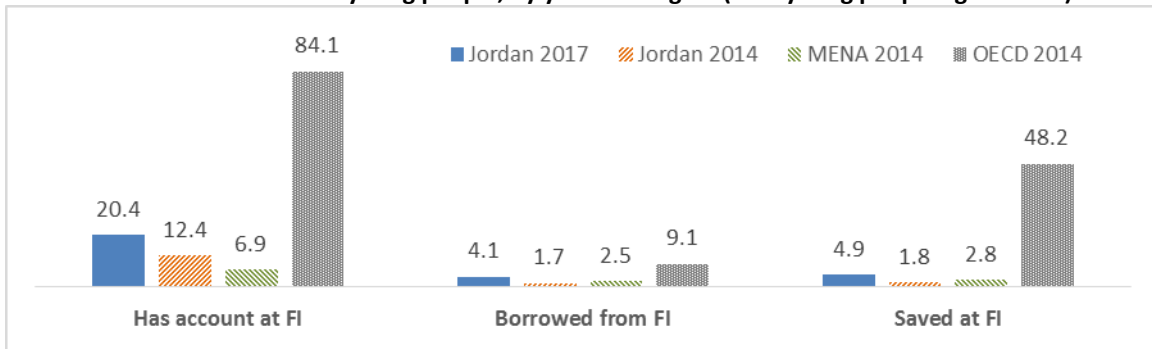
Source: GIZ/BFC survey (2017), World Bank Findex (2014)



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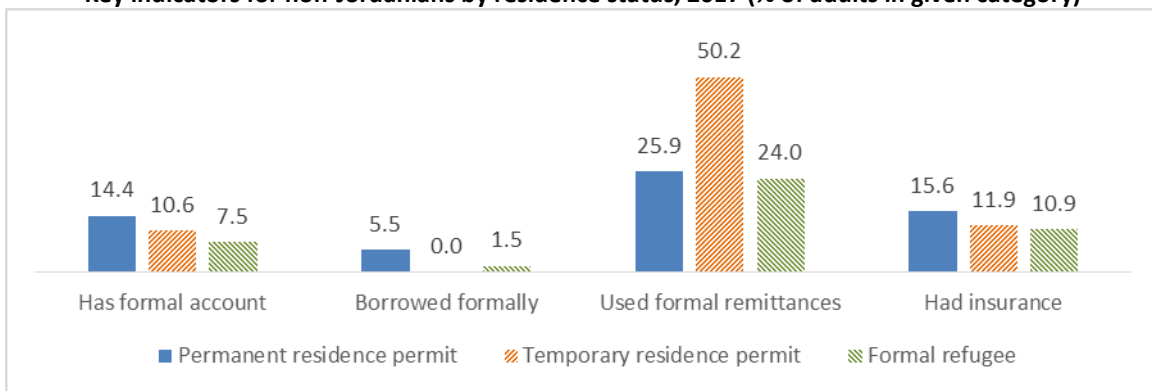
<sup>3</sup> While the methodologies of the two studies are different, they still provide a reasonable benchmark.

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



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

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



Source: GIZ/BFC survey

- **Contribution to National Development Goals:**

The NFIS for Jordan is expected to contribute to reducing socio-economic inequalities in line with the Jordan 2025 Vision and Strategy and the Jordan Economic Growth Plan. The positive effects on equality, or shared prosperity, will be a result of convergence of a number of developments:<sup>4</sup>

1. New and more adequate funding sources and other financial services for the currently largely financially constrained MSMEs will drive the generation of more and better employment including for the low-income segments and the large share of unemployed youth;
2. The strategy promotes gender equality in terms of reducing the gender gap in finance which will help unleash the economic potential of women entrepreneurs and women-led enterprises

<sup>4</sup> "The main impact of finance on income inequality comes through inclusion of a larger share of the population in the formal economy and higher wages" (Demirguc-Kunt, Asli et. al., 2008: Finance for All? Policies and pitfalls in expanding access, p.11).

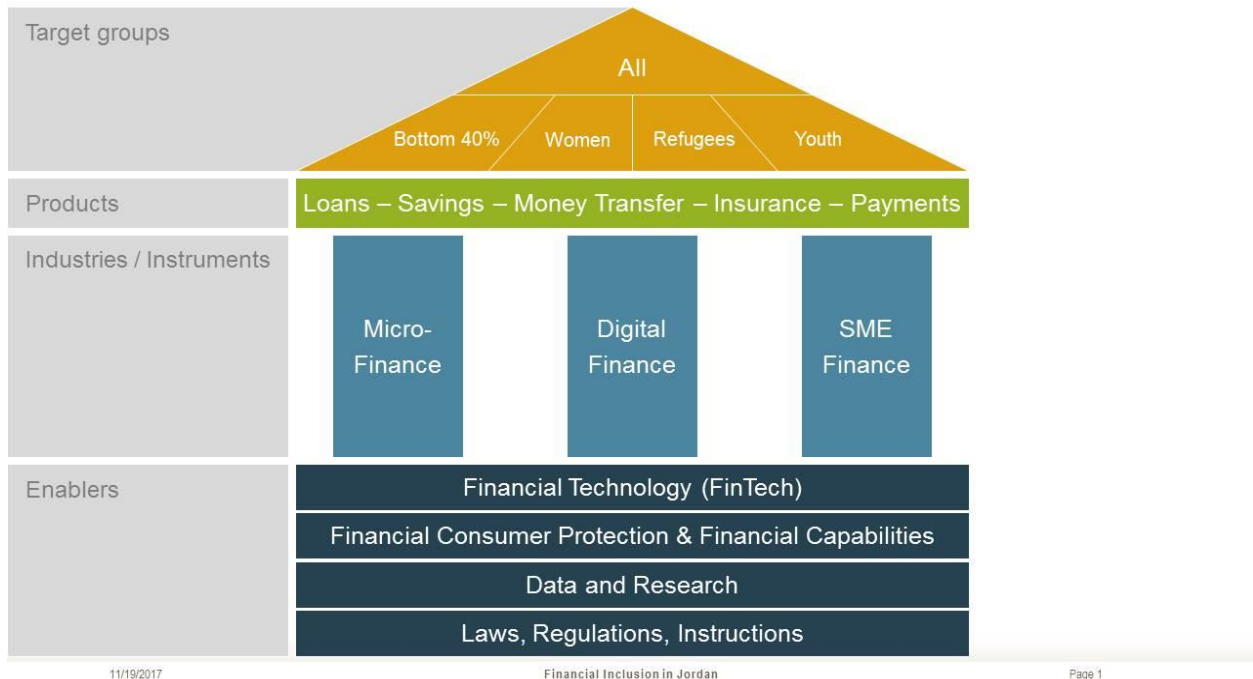
3. Greater access to and usage of financial services by refugees will impact socio-economic inequalities in host communities by enhancing their self-reliance and enabling them to contribute to economic activity;
4. Reductions of geographic disparities in access to and usage of finance will reduce socio-economic inequalities across the country.

➤ **Vision and Framework for Financial Inclusion in Jordan**

The NFIS for Jordan overall builds on a set of priority policy areas, three of which form the core industry pillars: Microfinance; Digital Financial Services; and Small and Medium-sized Enterprise (SME) Finance. Four areas are considered as cross-cutting enablers that facilitate the development of industries and make them more robust: Financial Technology; Financial Consumer Protection and Financial Capabilities; Data and Research; and Laws, Regulations, and Instructions.

While financial inclusion targets all segments of the population and micro, small and medium-sized enterprises, the NFIS for Jordan gives special attention to certain priority segments, the most vulnerable groups which traditionally have lower levels of financial inclusion, namely: the bottom 40% of households in terms of income (at the so-called bottom of the pyramid); women ; the youth (15 to 24 year-olds in general; 15 to 18 year-olds in particular), and refugees.

**Figure: Framework for Financial Inclusion in Jordan**



**Small and Medium-sized Enterprise Finance** plays an important role for spurring economic growth and job creation. Micro and Medium-sized Enterprises (MSMEs) represented 99.4% of all registered enterprises in Jordan with majority of Microenterprises leaving Small and medium-sized enterprises (SMEs) roughly making up to 10% of businesses in Jordan. Yet, they are financially constrained. Incentive based instruments like lending at preferential rates and appropriate maturities and guarantee programs executed in public-private partnerships support access to funding and open up new, long-term growth prospects for SMEs.

**Digital Financial Services (DFS)** including payment and money transfer systems are an essential component of the financial infrastructure. A modern, secure, and efficient national payment system, including JoMoPay, Jo-Net and eFAWATEERcom, creates a level playing field for financial services providers and empowers financial customers, benefiting them through cost and risk reductions. DFS bear the potential to speed up financial inclusion of people and businesses. They are a convenient, effective gateway to the formal financial system for the

listed priority segments, and are a driver for the digitalization of Business-to-Person and Government-to-Person transactions.

**Microfinance** is primarily essential for the economically active low-income people, otherwise financial underserved or excluded, as it allows them to build assets, manage risks and increase their income levels thereby to contribute to their own socio-economic wellbeing. Microfinance products and services historically covered microcredit and insurance. Emerging technology and new business models move forward the convergence of DFS and microfinance.

**Financial Technology** (FinTech) is recognized as the convergence of newly emerging, often disruptive technology as well as the financial system's infrastructure, the services therein and their providers and recipients. FinTech firms are assumed to be important drivers of competition, access to finance, economic growth and job creation. Key for emerging, disruptive FinTech services is a regulatory environment that is conducive to innovation while protecting clients, and that provides regulatory certainty for FinTech to evolve as technology is rapidly evolving.

**Financial Consumer Protection** (FCP) and **Financial Capabilities** are considered enablers for responsible financial inclusion in that they contribute to empowering financial consumers, thereby creating sustainable demand (absorption capacity) for enhanced usage of formal financial services. The protection of financial consumers and promotion of financial literacy, both aligned with the G20 Principles for Innovative Financial Inclusion, enable the priority segments to make informed decisions.

**Data and Research** play a crucial role in enabling policymakers and regulators to identify financial usage specifics by clients and barriers on the side of providers as well as in developing well-informed policies based on evidence. It is valuable for the private sector in developing new business opportunities and products based on market potential. It enables to set national targets for financial inclusion and measure progress along the way. Under the NFIS, the relevant stakeholders will set in place a data dashboard and infrastructure aimed at improving the organizational and national capabilities for demand and supply side data collection.



**Laws, Regulations, Instructions** are recognized as the key elements for an enabling environment for financial sector development in general and financial inclusion in particular, covering a broad range of topics that concern financial institutions and consumers relevant to financial inclusion.

➤ **National High-level Financial Inclusion Goals and Sub-Goals**

The National Financial Inclusion Strategy for Jordan has two high-level goals, namely:

1. To increase the level of financial inclusion from 24.6% in terms of account ownership by the adult population (Global Findex 2014) to 36.6% by 2020 and,
2. Over the same time, to reduce the gender gap from 53% to 35%.

The tables below pinpoint sub-goals, set by the concerned providers (industries) and enablers in order to achieve the high-level national goals. Detailed targets and strategic measures are outlined in the NFIS document.

**Industries:**

Microfinance Sub-Goals
Enabling an environment of sustainable growth of the microfinance sector in its developmental role
Develop the financial and human capacities in MFIs for enhanced product development and increased outreach
Enhance awareness and financial capabilities of microfinance clients
Digital Financial Services Sub-Goals
Expand DFS Coverage
Provide comprehensive financial services
Enhance payment system safety and integrity
Small and Medium-sized Enterprise Finance Sub-Goals
Increase the share of financing (percentage of loans) provided by banks and MFIs to micro, small and medium enterprises from 8.5% to 15% by 2020

## Enablers:

<b>Laws, Regulations, Instructions Sub-Goals</b>
Promote account opening for the priority segments of the youth (15-18 year-olds), women, refugees, low-income people
Promote tax incentives for priority businesses segments
Promote credit information sharing
Implement the movable asset registry
Enhance the insolvency regime for businesses
<b>Financial Consumer Protection Sub-Goals</b>
Implement legal and regulatory framework for financial consumer protection based on the principles of fair treatment, transparency, responsible finance, data privacy, and redress.
Strengthen the financial consumer protection framework, for financial institutions regulated by the CBJ, based on the principles of fair treatment, transparency, responsible finance, data privacy, and consumer redress.
Enhance the financial capabilities of priority segments in the framework of financial consumer protection
<b>Financial Capabilities Sub-Goals</b>
Promoting financial education for schools, financial capabilities for target groups (women, refugees, micro and SME clients), and financial awareness and literacy for the public.
<b>Data and Research Targets</b>
To build a comprehensive, accurate, data framework for financial inclusion by end of 2018.

### ➤ **Next Steps to be taken:**

#### **1- Developing a detailed and comprehensive action plan**

The Financial Inclusion Technical Committee (FITC), and the working groups will develop a detailed action plan that will specify actions to be taken in order to achieve goals, targets, and implement the strategic measures; in other word, the action plan will lead the way through 2018-2020 for implementation. The action plan will set a detailed timeframe for actions, indicators of accomplishment, and responsible entities for each action. The action plan will be published after the

endorsement of the Financial Inclusion Steering Committee (FISC) in the first quarter of 2018.

## **2- Monitoring and Evaluation**

To assure impact and the right strategic direction, a constant process of monitoring and evaluation will be conducted by CBJ Financial Inclusion unit. This process consists of the following steps

- Biannual collection of a comprehensive data set from industry stakeholders
- Distillation of key performance indicators from industry data
- Comparison of results with defined indicator targets
- Analysis of gaps and trends
- Annual reporting to Financial Inclusion Committee and National Economic Council
- Suggestion of necessary measures, changes in priorities or partial review of strategic direction to increase rate of indicator achievement