



**Access to Finance:
Microcredit and Branchless Banking
in The Hashemite Kingdom of Jordan**

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Acronyms

ACC	Agricultural Credit Corporation
AECID	Spanish Agency for International Cooperation
AFD	Agence Française de Développement (French Development Agency)
AMC	Ahli Microfinance Company
AMIR	Achievement of Market-Friendly Initiatives and Results Program
AML	Anti-Money Laundering
CAB	Cairo Amman Bank
CBJ	Central Bank of Jordan
CFT	Countering Financing of Terrorism
CGAP	Consultative Group to Assist the Poor
DEF	Development and Employment Fund
EIB	European Investment Bank
GUVS	General Union of Voluntary Societies
IDB	Industrial Development Bank
IFC	International Finance Corporation
JD	Jordanian Dinar
JMCC	Jordan Micro Credit Company (Tamweelcom)
JPC	Jordan Post Company
JPSF	Jordan Postal Savings Fund
JOHUD	Jordan Hashemite Fund for Human Development
JWDS	Jordan Women's Development Society (later MFW)
KYC	Know Your Customer
MAJ	Microfinance Association of Jordan
MEMCC	Middle East Micro Credit Company
MFI	Microfinance Institution
MFW	Microfund for Women
MICT	Ministry of Information and Communications Technology
MIT	Ministry of Industry and Trade
MIX	Microfinance Information Exchange
MNO	Mobile Network Operator
MOPIC	Ministry of Planning and International Cooperation
MOSD	Ministry of Social Development
NMB	National Microfinance Bank
SGBJ	Société Générale de Banque - Jordanie
TRC	Telecommunication Regulatory Commission
UNRWA	United Nations Relief and Works Agency for Palestine Refugees
USAID	United States Agency for International Development
USD	United States Dollar

Introduction

From November 4 to November 12, 2008, CGAP conducted a policy diagnostic mission to Amman, Jordan to evaluate the policy and regulatory environment in Jordan for microcredit and branchless banking. This report is based on the analysis of relevant existing regulation and other documentation and interviews with more than 60 representatives of a wide range of stakeholders (see Annex 1), including government ministries, the Central Bank of Jordan, micro-credit service providers, mobile network operators, payment service providers, commercial banks, and others. The CGAP mission was organized by, and undertaken at the request of, the Jordanian Ministry of Planning and International Cooperation (MOPIIC). Part I of this diagnostic report addresses the microcredit sector and Part II addresses mobile phone based and other forms of branchless banking. Both parts of this report highlight the current state of their respective sectors, identify challenges and propose recommendations to meet those challenges.¹

PART I: THE MICROCREDIT SECTOR²

1. Microcredit Demand in Jordan

A number of studies³ have estimated the potential size of microcredit clients in Jordan, though estimates vary widely:

- The Update Credit Demand Survey, sponsored by the Achievement of Market-Friendly Initiatives and Results Program (AMIR) and undertaken by the Community Development Group in June 2002, estimated that the potential demand size at 137,374 micro and small entrepreneurs with estimated loan need of JD 220 million (USD 308 million).
- *Microfinance in the Arab States*,⁴ a 2004 report by the United Nations Capital Development Fund, calculates that microcredit market demand (based on population and

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² The term "microcredit" is used herein to refer to the sustainable provision of financial credit services to the poor and to micro-enterprises. A micro-enterprise is essentially any business bringing revenue to a family. The term refers to both registered and unregistered businesses, including individuals (micro-entrepreneurs) working informally from the home or elsewhere. There is a significant overlap between micro-entrepreneurs and the poor although some micro-entrepreneurs are not poor and many poor are not micro-entrepreneurs. However, even those micro-entrepreneurs who are not poor tend to be particularly vulnerable to economic shocks and could easily become poor.

³ No published study or survey has measured the demand for non-credit financial services, such as savings or remittances or micro-loans for non-business purposes (e.g., consumption, housing, and educational loans).

poverty statistics) is 94,555 households. In this UNCDF report, the Jordanian population was estimated at 5,171,000, the poverty rate estimated at 12 percent and average household size estimated at 7. Reapplying the UNCDF calculation with current figures of the Jordanian government⁵ (population of 5,861,000, poverty rate of 13 percent and average household size of 5.4), estimated micro-enterprise demand is 143,269 households. Assuming small enterprise demand is 50 percent of micro-enterprise demand, total micro and small enterprise demand is estimated at approximately 215,000 (see Annex 2 for detailed calculations).

- Some MFIs, such as NMB and FINCA-Jordan, have carried out their own studies to estimate the potential micro-enterprise market. However, these studies have not been made public. Nevertheless, MFIs in Jordan estimate that there are 200-250 thousand potential micro-enterprises.⁶

The broad discrepancies between the estimates listed above are due to the lack of consensus on the size of informal sector activities and reliance on differing secondary statistics on the labor force and poverty rates. Given the high entrepreneurial spirit prevalent in Jordan and an economy that is dominated by a services sector, the potential size of the microfinance market may substantially exceed current estimates and many in the industry consider 250,000 households a more reliable estimate.

Some experts also estimate there is the potential for another 250,000 loans (in areas such as education, housing improvements, religious tourism and consumption) bringing total microcredit demand to 500,000 loans. Assuming an average loan balance of JD 500 (USD 700),⁷ as much as JD 200 million⁸ (USD 280 million) in capital could be needed.

Today, Jordanian MFIs offer only micro and small loans⁹ and some minor business development services. No MFI is involved in payment transfers. With a current market outreach of 140-150

⁴ Brandsma, Judith and Deena Burjorjee, *Microfinance in the Arab States: Building Inclusive Financial Sectors*, The United Nations Capital Development Fund (2004).

⁵ www.dos.gov.jo (accessed January, 2009)

⁶ The Updated Credit Demand Survey indicates that the percentages of micro enterprises (those with up to two employees) is just above half (51.2 percent) of the micro and small enterprises sector.

⁷ See Table 2. The average loan size among the private MFIs (those most likely to address potential demand for low-value loans related to education, housing improvements, religious tourism and consumption) is JD 430 (USD 602), though it is expected to rise to JD 500 (USD 700).

⁸ This total is the result of 500,000 loans multiplied by expected average loan amount (JD 500), less JD 50 million as the approximate amount of current portfolio of the private MFIs.

⁹ In Jordan, most MFIs lend to both micro and small enterprises. The general guideline accepted in the Jordanian microfinance sector is that a micro-loan has an initial principal amount of JD 100 to 2,000 (USD 140 to 2,800), though some MFIs define a micro-loan as up to JD 3,000 (USD 4,200). A small loan can go up to JD 25,000 (USD 35,000), or even as high as JD 50,000 (USD 70,000) in the case of MEMCC.

thousand clients,¹⁰ Jordan has one of the highest market coverage rates in the region. Still, it is widely understood there is a significant gap between the supply of microfinance and potential demand in the market.

2. Jordanian National Microfinance Strategy

Jordan was the first Arab country to develop a National Microfinance Strategy¹¹ to guide the development of the microfinance sector. The strategy was developed by the Jordanian Microfinance Committee established by MOPIC, with technical assistance made available by CGAP. The strategy was approved by the Jordanian Council of Ministers in the spring of 2005. The stated objective of the strategy is “to provide access to a wide range of financial services to the majority of the economically active poor households and micro-enterprises in Jordan” to be “achieved in a liberalized and market-oriented economy where the private sector is the implementer, and the Government provides the enabling environment for the efficient functioning of markets that encourage the participation of the private sector.”¹²

The strategy also defines the various responsibilities envisioned for each microfinance actor within the sector. MOPIC is envisioned as providing a market-oriented financial and credit policy environment. DEF is identified as an “On-Lending Unit” to provide wholesale funds to MFIs on commercial terms and conditions (including funds sourced from foreign borrowings). The national microfinance strategy also envisions the establishment of a National Microfinance Network/Association to focus on general microfinance industry issues, such as transparency, capacity building, training, and networking.

3. Microcredit Service Providers

Today there are four main categories of microcredit service providers in Jordan: (i) private MFIs, (ii) commercial banks, (iii) governmental MFIs, and (iv) non-governmental organizations (NGOs). These categories include a variety of institutional forms as outlined in the chart below.

¹⁰ If we remove the number of active DEF clients (which are mainly start-ups and rural) and 15-20 percent of the total number of micro loans as “overlapping” MFI clients, the total may be as low as 105,000 active loans. This represents approximately 40 percent of estimated micro and small enterprise demand.

¹¹ An English version is available at http://www.mop.gov.jo/uploads/National_Strategy_for_Microfinance.pdf

¹² Jordanian National Microfinance Strategy, p. 5.

Table 1: Largest Jordanian Microcredit Service Providers: Legal Forms

Category	Private MFIs		Commercial Banks	Governmental MFIs	Non-Governmental Organizations		
Legal Form	Non-profit Company	For-profit Company	Prudentially Regulated Financial Institution		Village Banking, Self Help Groups	Multi-purpose NGO	United Nations Agency
MFI	MFW Tamweelcom MEMCC NMB FINCA	AMC	CAB	DEF ACC	Approx. 200	GUVS JOHUD	UNRWA

These microcredit service providers currently have a total estimated portfolio of approximately 140,000 clients.¹³ Outstanding loan portfolios total approximately JD 92 million (USD 128.8 million) and the average loan balance is JD 652 (USD 913).

Table 2: Largest Jordanian Microcredit Service Providers: Performance (as of September 30, 2008)*

		Active Loans	Active Borrowers	% Women	Outstanding Portfolio (JD)	Average Loan Balance (JD)
	Private MFIs					
1	MFW	36,767	36,767	96%	11,179,297	304
2	Tamweelcom	38,274	36,362	95%	10,662,032	279
3	AMC	2,991	2,991	51%	3,710,615	1,241
4	MEMCC	11,552	11,552	59%	11,270,441	976
5	NMB	20,060	20,060	81%	12,100,933	603
6	FINCA Jordan	8,216	8,216	98%	1,750,393	213
	Sub-total	117,860	115,948	88%	50,673,711	430
	Others					
7	CAB**	2,099	2,099	N/A	1,707,163	813
8	UNRWA	3,562	3,562	10%	2,092,567	587
9	DEF	15,858	15,858	59%	34,301,704	2,163
10	JOHUD	2,004	2,004	N/A	3,400,000	1,697
	Sub-total	23,523	23,523	50%	41,501,434	1,764
	TOTAL	141,383	139,471	84%	92,175,145	652

* Excluding figures for ACC and GUVS for which information is not readily available.

**Information with respect to CAB is current as of December 31, 2008.

¹³ If allowances are made for the estimated 15-20 percent of clients with multiple loans, the total number of active clients is estimated at between 112,000 and 119,000.

3.1 Private Microfinance Institutions

Micro-lending in Jordan began in the 1990s with the Jordanian Women's Development Society (JWDS), a spin-off of Save the Children's Group Guaranteed Lending Program which had already been successfully implemented in two Palestinian refugee camps. JWDS, which eventually became Microfund for Women, was followed by an initiative of USAID and its AMIR program to build a vibrant "best practices" microfinance sector. In addition to providing funding for growth and institutional capacity building to JWDS, USAID established three other sustainable MFIs: the Al-Ahli Microfinance Company (AMC - a subsidiary of Jordan National Bank, a private commercial bank), the Jordan Micro Credit Company (JMCC – known as Tamweelcom, owned by the Noor Al Hussein Foundation and working under the umbrella of the King Hussein Foundation), and the Middle East Micro Credit Company (MEMCC).

In 2003, a special law was passed authorizing the creation of the fifth MFI in Jordan, the National Microfinance Bank (NMB). A private share-holding non-profit company established through a partnership between the King Abdullah II Fund for Development, AGFUND, and two private sector investors. The special law exempts NMB from supervision by the Central Bank and from a wide array of taxes and duties¹⁴ and permits NMB to offer both conventional and Islamic lending products. The bank disbursed its first loan in March 2006 and has rapidly assumed an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market.

These institutions were joined in late 2007 by FINCA-Jordan, a private share-holding non-profit company established by FINCA International. FINCA-Jordan has also rapidly assumed an important place in the microfinance sector in terms of market share, despite its relatively late entry into the market (its first loan was disbursed in November 2007).

The six micro-lenders differ in terms of their size, growth patterns and markets served, and to a certain extent also their methodology and product offerings. However, they are all heavily concentrated in urban and peri-urban areas. All of these MFIs use an integrated computerized Management Information System which was developed by Delta Informatics (a Jordanian IT company) in 2001. As of September 30, 2008, these six private MFIs had disbursed more than 346,000 loans totaling more than JD 202 million (USD 282.8 million) and had more nearly 116,000 active borrowers with an outstanding portfolio of more than JD 50.5 million (USD 70.7 million).

Private microcredit institutions in Jordan have successfully weaned themselves off of donor funding in recent years by accessing both foreign and local sources of commercial finance, namely debt financing through bank loans and specialized microfinance investment funds.

Except for AMC, all private MFIs are nonprofit limited liability companies. All (with the exception of late comer FINCA-Jordan) have been operationally sustainable and profitable for

¹⁴ All the other MFIs in Jordan also benefit from the tax and duties exemption awarded to NMB as per a ministerial Council of Ministers resolution which was issued after the special law. (See Section 8.3)

several years largely due to sustainable pricing and reduction of overhead expenses, in addition to their effective use of commercial financing.

The private microcredit sector in Jordan is highly transparent and an industry leader in the Arabic-speaking world. Of the three Jordanian MFIs that have been rated, two were rated A- (MFW and Tamweelcom) and the third (AMC) was rated B+. Other MFIs are expected to solicit ratings. All six private microcredit institutions report on their finances and operations to the MIX market,¹⁵ receiving between three and five stars (five stars indicating the highest level of disclosure possible).¹⁶

3.2 Commercial. Banks

Currently, 23 banks operate in Jordan, including 15 Jordanian banks and 8 foreign banks (including 5 banks from Arabic-speaking countries). There are no state-owned banks.

Cairo Amman Bank (CAB) is the only commercial bank directly engaged in micro-lending.¹⁷ CAB benefited from technical assistance provided by CGAP's retail advisory service program. CAB began extending micro-loans in April, 2007. As of December 31, 2008, it had 2,099 outstanding loans with an outstanding portfolio of JD 1.7 million (USD 2.4 million). It has disbursed 2,800 loans totaling JD 3.7 million (USD 5.2 million) since beginning micro-lending operations and has a collection rate of 99.7 percent.

No other Jordanian bank has yet been engaged in a significant volume of direct lending to micro-entrepreneurs or poor clients, although the Jordan Loan Guarantee Corporation guarantees bank loans extended to small and medium enterprises. The low level of bank lending of this type appears to be due to the perceived risks and operational costs.

However, many of the commercial banks have established relations with the private micro-lenders, loaning funds to them for on-lending to the micro market. Some of these loans were supported by partial guarantees but others were not.

Also, in order to reduce costs, most of the MFIs use banks (especially Housing Bank which has the widest network of branches) for disbursement and for collection of loan repayments. However, in 2008, Housing Bank asked two large micro-lenders (MFW and Tamweelcom) to begin paying a per transaction fee. Should Housing Bank insist on this fee, extra operational costs estimated at JD 75,000 (USD 105,000) per MFI may be passed on in extra expenses to micro-borrowers.

¹⁵ DEF also reports to the MIX Market. The Arab Benchmarking report provides indicators for the microfinance sector as a whole in Jordan.

¹⁶ Tamweelcom was among the 2006 CGAP Financial Transparency Award Winners, the only MFI from the West Asia/North Africa region to receive such honor. Tamweelcom also ranked 8th in the MIX's 2008 Global Ranking (and was one of only two MFIs from the West Asia/North Africa Region in the top 10).

¹⁷ Ahli National Bank created a wholly owned subsidiary, AMC.

3.3 Governmental Organizations

In Jordan (as in other countries in the region), government institutions traditionally have engaged in direct poverty-focused lending (often at subsidized rates of interest), particularly in rural areas under-served by commercial banks. The most significant of these institutions include:¹⁸

- 3.3.1 The Agricultural Credit Corporation (ACC). In 1959 ACC started by distributing government-directed subsidized credit for poor agricultural sector workers. Since its establishment, ACC has distributed JD 394 million (USD 551.6 million) to 194,000 borrowers. Approximately 85 percent of these loans were below JD 10,000 (USD 14,000). ACC estimates its current loan balance at JD 100 million (USD 140 million) for 37,000 active borrowers. ACC charges 6.5-9 percent as a declining interest rate on their loans which is less than or equivalent to the rate at which ACC borrows. There is no clear data regarding ACC's portfolio-at-risk. ACC does not maintain a loan loss reserve and does not write off any loans as uncollectible.
- 3.3.2 The Development and Employment Fund (DEF). DEF, cited as among the top 50 MFIs by Forbes Magazine, was established pursuant to a January, 1989 decision of the Ministerial Council. As a public "governmental" institution, this fund focuses on the development and finance of small business projects. The fund started its operations in February of 1991 under the umbrella of the Industrial Development Bank. However, it became independent pursuant to a 1992 law¹⁹ and consequently, DEF currently enjoys financial and administrative independence. Since its establishment, DEF has distributed approximately 40,000 loans totaling approximately JD 110 million (USD 154 million). It is estimated that those loans created 50,000 jobs. By the end of September 2008, DEF had approximately 16,000 active borrowers with an outstanding portfolio of more than JD 34 million (USD 47.6 million).

Section 2 of the National Strategy for Microfinance cites DEF as responsible for acting as a governmental on-lending unit to provide wholesale funds to MFIs on commercial terms and conditions (including funds sourced from foreign borrowings). With support from IFC and ILO, DEF went through a restructuring process and DEF acts now as both (i) direct retail lender (mainly in markets where other MFIs are not active, such as in rural areas and start-up businesses)²⁰ and (ii) indirect lender through credit schemes and the financing of MFIs. The minimum size of their retail

¹⁸ Other institutions include the Industrial Development Bank and Cities and Villages Development Bank.

¹⁹ The Development and Employment Fund Law No. 33 (1992).

²⁰ By the end of September 2008, DEF had more than 15,000 active borrowers with an outstanding portfolio of JD 34 million (USD 47.6 million).

loans is JD 2,000 (USD 2,800) with a current interest rate of 6.5-7.5 percent²¹ flat per year. DEF's role in the Jordanian microfinance sector has deviated somewhat from the role of on-lender set forth in the National Microfinance Strategy - according to DEF statistics, less than 10% of DEF's total outstanding portfolio is currently disbursed as wholesale loans to MFIs.

- 3.3.3. The Jordan Postal Savings Fund (JPSF). The JPSF was established in 1966 to accept time deposits. The government guarantees 100 percent of such deposits and all JPSF transactions are tax exempted. By the end of September 2008, JPSF had approximately 54,000 active savings accounts with a balance of JD 14 million (USD 19.6 million). It pays 4.5 percent on the average balance of accounts less than JD 1,000 (USD 1,400) and 5.25 percent on accounts holding greater than JD 1,000 (USD 1,400). Although a customer can open an account with a minimum balance of only JD10 (USD 14), the account has to have a minimum of JD 25 (USD 35) to begin accruing returns on its balance. All JPSF operations are Shari'a compliant.

JPSF conducts its operation through Post Offices pursuant to an agreement between the two parties according to which JPSF pays a certain fee per each deposit or withdrawal transaction. However, it is unclear how the JPSF will function in the event that current plans to privatize the postal service are realized.

The average balance of a JPSF savings account is JD 260 (USD 364) which is relatively high given that the average private MFI loan balance is JD 430 (USD 602) (see Table 2.) Such a high balance suggests that JPSF is not being used by Jordan's poor.

3.4 Non-Governmental Organizations

Various NGOs offer micro-lending as one of several services. Some NGO microcredit programs have been subsidized. However, some (such as programs administered by UNRWA and the Jordan Hashemite Fund for Human Development (JOHUD)) appear to be shifting in the direction of self-sustaining lending in line with industry best practices. According to the National Microfinance Strategy, there are approximately 200 self-help microcredit operations with savings and credit components. Some of these self-help groups are supported by donor funds; others are supported by bigger NGOs.

4. Microfinance Associations: MAJ and Al-Ittihad

In 2001, Jordanian micro-lenders, with support from the USAID-financed AMIR project, formed Microfinance Association of Jordan (MAJ) to (i) represent the sector in advocating reform, (ii) provide a forum for discussion of industry issues, and (iii) provide training to its members. MAJ

²¹ This rate is much closer to market terms than the 4 percent which was charged in the past, though it is still very low compared to what other MFIs are charging on their loans. It is also still arguably below what is sustainable since, according to MFI practitioners, the average commercial cost of funds in Jordan is 8.5 percent.

was hampered by a lack of funding and disagreements within the microfinance community regarding MAJ's membership and its policy positions. Consequently, MAJ effectively ceased to function.

In another effort to unify the sector around a representative body, four MFIs (MEMCC, NMB MFW and Tamweelcom) established another industry body called Al-Ittihad for the Support Microfinance Providers. Al-Ittihad was registered as a non-profit limited liability company in September 2008 in order to, *inter alia* (i) promote a sustainable microcredit industry and raise awareness in the Jordan regarding the development and financing of micro and small enterprise and (ii) define and promote Jordanian standards according to internationally accepted best practices. Al-Ittihad is currently working on the development of its first business plan and the recruitment of its first director. The current active involvement of MFI board members is seen as temporary. Executive directors of the MFIs are expected to eventually replace their board members on the board of Al-Ittihad.

5. Code of Ethics

In September 2008, the six private MFIs and DEF (with MOPIC encouragement) signed a "Code of Ethics" to outline principles governing how the signatories will treat their clients, employees and others. It is based on principles of professionalism, transparency and accountability and sets ethical standards and basic principles of the sector. It also outlines roles and responsibilities of the concerned institutions and the role they play in improving delivery of services, fairness and accountability in the provision of loans through raising awareness of clients as well as maintaining privacy of client information.

The Code of Ethics, understood to be the result of sector wide frustration with alleged "poaching" of MFI staff, is a hopeful sign of a newly entered era of professional cooperation among Jordanian MFIs.

6. Credit Reference Exchange Services

After years of discussion and negotiations among the major MFIs regarding credit information exchange, the six private MFIs and JOHUD signed an agreement early in 2008 to begin sharing certain credit information. Delta Informatics, the IT company which developed the MIS used by most Jordanian MFIs, developed and currently manages the data exchange software. In order to minimize operating costs, the data is stored on a server in the United States. Each MFI has the ability to access the database online, and upload and check borrower information. Currently, MFIs are only able to ascertain how many outstanding loans a potential borrower has with participating MFIs. It is anticipated that a second phase will soon be implemented to permit an MFI to ascertain outstanding loan balances, payment history and final payment due dates.

Until the Central Bank of Jordan issues instruction for licensing of credit bureaus pursuant to the 2003 Credit Information Law (see Section 8.8), MFIs have little choice but to engage in such informal client evaluation systems. While this mechanism provides a temporary solution to securing appropriate credit histories, and though it is an efficient system and can provide the full scope of information that would be available through the credit reporting system (as conceived in

the draft law), this informal method of evaluating potential borrowers still has weaknesses. Some MFIs do not upload their data on a regular basis and the number of hits by some MFIs is very small compared to the average number of loans they disburse each month, indicating that they are not undertaking a vigorous client evaluation prior to granting loans. In addition, participation in the informal system is voluntary and major actors like DEF and UNRWA report only on an annual basis.

7. Donor Funding for Microfinance

The Jordanian microfinance sector has benefited over the past ten years from significant donor funding for technical assistance and loan funds. USAID has been the primary donor supporting microfinance development in Jordan. This support initially went to Save the Children/US for developing JWDS (which later became MFW) and then later for facilitating the creation of three other MFIs (see Section 3.1). The four MFIs benefited from grants to finance both loan capital and operational costs in their early years. USAID has not since undertaken any active support of the microfinance sector.

Other donors have been interested and involved in the microfinance sector recently, mainly providing loans or loan guarantees to finance the growth of the Jordanian MFI portfolios. In some cases, such support was accompanied by grants for technical assistance and/or research.

Donor funding is largely coordinated by the Ministry of Planning and International Cooperation (MOPIC), a key advocate of access to finance in Jordan. Recognizing the importance of microcredit and other forms of microfinance to promote economic development and alleviate poverty, MOPIC has worked to provide an enabling environment in coordination with the national strategy and market players. MOPIC has significantly contributed to the sector by spearheading efforts to exempt MFIs from certain taxes and fees (see Section 8.2), facilitating the provision of both traditional and Shari'a compliant micro-financing and providing JD 5 million (USD 7 million), distributed through DEF, in loans to MFIs.

7.1 Agence Française de Développement (AFD)

AFD originally considered providing direct loans to MFIs for eight years (with a two-year grace period). However, due to the related risk of fluctuating exchange rates which may negatively impact an MFI's ability to repay the loan, AFD offered commercial banks operating in Jordan the option of obtaining a loan in Euro with the understanding that any such commercial bank would on-lend JD loans to local MFIs with a favorable interest rate. Société Générale de Banque - Jordanie (SGBJ) accepted the offer and on lent to MFIs (which in the case of one loan, is approximately 2 percent lower than the rate of a prior SGBJ loan to the same MFI). In order to avoid skewing the market, AFD funds are only to be on-lent for the purpose of developing new products or expanding to unserved regions, though it is unclear what monitoring mechanisms will be established to guarantee that the loans are used as required. AFD has approved a total loan facility of EUR 10 million (approximately USD 13.5 million), however, to date only two loans totaling EUR 3 million (approximately USD 4 million) have been disbursed (to Tamweelcom and MEMCC).

7.2 CGAP

CGAP provided USD 250,000 in technical assistance to Cairo Amman Bank to help implement lending operations aimed at low-income population segments. Such assistance included advisory services, loan officer training and MIS development.

7.3 Grameen-Jameel Pan-Arab Microfinance Limited (Grameen-Jameel)²²

Grameen-Jameel has provided Tamweelcom with a partial loan guarantee of a dinar-denominated loan for three times the amount of the guarantee. Grameen-Jameel is considering more loan guarantees for Tamweelcom and is looking for other potential partners in Jordan.

7.4 Spanish Agency for International Cooperation (AECID)

AECID has signed direct loan agreements with three MFIs: NMB for EUR 5 million (approximately USD 6.7 million), Tamweelcom for EUR 4 million (approximately USD 5.4 million) and most recently in December 2008, MFW for EUR 6 million (approximately USD 8 million). The loans are for nine years (with the first six years being a grace period, meaning the loans will only be paid back starting the 7th year). In addition, the MFIs assume all currency exchange risks in the event the JD is freely floated against the US dollar.

As of November 2008, NMB had already drawn down half of the amount of its loan and Tamweelcom was still unsure if it wanted to proceed with the loan given the currency exchange risk.

7.5 International Finance Corporation (IFC)

IFC provided MFW with a partial guarantee of a JD 2 million (USD 2.8 million) 5-year loan from SGBJ. The IFC is also looking for another investment in another MFI. In addition, the IFC provided funding for the restructuring of DEF and partially contributed to the cost of the visibility study conducted by FINCA-International prior to establishing FINCA-Jordan. They also committed to pay for the development of the business plan of Al-Ittihad (see Section 4).

8. Microfinance Regulatory Framework

8.1 Legal Forms

Under Jordanian law, there is no requirement to obtain a governmental license or other permission to lend. In addition, any legal entity may engage in lending.²³

²² Grameen-Jameel is a Dubai based partnership between the Grameen Foundation and the Abdul Latif Jameel Group that was launched in 2003 to strengthen the microfinance industry in the Arabic-speaking world.

²³ The Associations Law does not explicitly prohibit lending activities. However, MFIs formed as associations were prohibited from engaging in lending activities because of a decision by the Ministry of Social Development (which regulates associations) that the Associations Law does not permit associations to engage in micro-lending. In fact, one of the current MFIs, the Microfund For Women (a nonprofit company with limited liability), was actually

8.1.1 Private MFIs

These entities, both for-profit and nonprofit, are governed by the Company Law and supervised by the Companies Control Department (CCD) at the Ministry of Industry and Trade (MIT). They are subject to modest reporting requirements; namely the submission of annual reports on the company's activities and audited annual financial statements. Although the Central Bank of Jordan (CBJ) is entitled to regulate nonbank financial companies,²⁴ including lending companies, it has to date not been engaged in regulating or supervising micro-lending operations.

Nonprofit companies are described and governed by a special governmental regulation issued pursuant to the Company Law.²⁵ This regulation prohibits nonprofit companies from receiving any non-Jordanian aid, donation, monetary grant or other finance without the prior approval of the Jordanian Council of Ministers.

Recently, a new Associations Law²⁶ effectively declared all nonprofit companies to be the equivalent of associations – with the result that all rules applicable to associations will also apply to nonprofit companies. The new law expressly authorizes the Ministry of Social Development (MOSD) to determine the proper governmental authority responsible for supervising nonprofit companies, which may create a conflict between the Company Law which currently provides that nonprofits are supervised by the MIT. The new Associations Law highlights the lack of supervisory consistency of the microfinance sector. The nonprofit micro-lending companies may fall under the authority of the MOSD, while for-profit micro-lending companies fall under the MIT, while bank micro-lending operations are supervised by the CBJ.

formed in order to transfer the portfolio of the Jordanian Women Development Society (an association) which was forced to dissolve due to MOSD's prohibition of lending operations.

²⁴ Article 2 of the Banking Law no 28 of 2000 defines a financial company as "a company whose memorandum of agreement and articles of association state that its objectives include financial activities, with the exception of accepting unconditional deposits." Article 3(c) of the Banking Law states that "The Central Bank may, if it deems necessary, subject any financial institution to the provisions of this law, by means of special orders issued for this purpose."

²⁵ Nonprofit companies are not sufficiently addressed by the Company Law. Consequently, the [Government of Jordan] issued the Nonprofit Companies Regulation No. 60 of 2007. This regulation states that any generated profit of a nonprofit company "may not be allocated among partners or shareholders therein." The regulation also sets forth, inter alia, registration procedures, reporting requirements, conditions for receiving grants and liquidation procedures.

²⁶ The new Associations Law No. 51 of 2008 was published in the Official Gazette on September 16, 2008 and considered to be effective as of December 16, 2008.

While the new law allows foreign NGOs to operate in Jordan through registered branches, it restricted membership in associations and nonprofit companies to Jordanians.

8.1.2 Cooperatives

Cooperatives are registered under the Cooperative Law and supervised by the Jordanian Cooperatives Corporation.²⁷ A cooperative is allowed to provide loans to its members and accept savings from members and from non-members when permitted by its bylaws and if such services were part of the entity's objectives.²⁸ There are currently no cooperatives in Jordan which accept savings from non-members.

8.1.3 Credit Unions

Credit unions are governed by an instruction issued by the CBJ in 1982²⁹, the Banking Law and the Central Bank Law. According to the instruction, the CBJ is in charge of licensing and supervising the financial activities of credit unions, which must be formed as public companies with a minimum capital of JD 1 million (USD 1.4 million). The instruction sets forth the limited banking services credit unions may provide. It also provides that credit unions are not authorized to accept deposits from the public and are only allowed to accept savings accounts with some conditions and restrictions.³⁰ There are currently no credit unions licensed by the CBJ.

8.1.4 Financial Leasing Companies

Financial Leasing Companies are regulated by the Ministry of Industry and Trade and are governed by the Financial Leasing Law enacted in 2008.³¹ To be able to provide financial leasing services, the new law does not require a leasing company to get a license or to have a minimum capital, as long as providing such services is listed as a company objective in the company's written registration documents. The new law permits MFIs³² to provide micro-lease products without the burden of applying for a license or

²⁷ Reporting requirements for cooperatives are similar to those for companies.

²⁸ Cooperatives Regulation No. 13 of 1998, issued in accordance with the Cooperative Law No. 18 of 1997. The Jordan Cooperative Corporation prefers to use the term "savings" instead of "deposits" to avoid conflict with the Banking Law.

²⁹ The CBJ Instruction for the Licensing of Credit Unions (1982)

³⁰ The CBJ instruction states that a credit union may, after one year of operations, offer savings services for the public upon prior CBJ approval. The instruction also set a maximum limit of JD 25,000 (USD 35,000) per account for each client provided that the sum of all savings accounts must not exceed a certain percentage of the union's capital.

³¹ Financial Leasing Law No. 45 of 2008.

³² MFW has commenced micro-leasing operations but information on such operations was not available during the November policy diagnostic mission.

complying with minimum capital requirements.³³ Banks are allowed to provide financial leasing services under the Banking Law and are also required to comply with the Financial Leasing Law.

8.1.5 Banks

There are no legal or regulatory obstacles to direct lending by licensed banks to micro-entrepreneurs or poor clients. However, whereas MFIs are exempted from taxes (see Section 8.2),³⁴ banks are subject to a 35 percent income tax. Moreover, CBJ's loan classification and provisioning requirements limit a bank's ability to grant unsecured loans – a common feature of micro-loans where borrowers have little or no physical collateral.

8.2 Taxation

The income of a nonprofit company with limited liability is generally exempt from income tax except to the extent that the income is generated from commercial activities (such as lending). According to the tax laws, a micro-lending company, whether for-profit or nonprofit, would be categorized as a "financial institution" for tax purposes and would be subject to a 35 percent income tax applicable to financial institutions (versus a 25 percent rate applicable to companies with limited liability in general).

However, taxation is not a barrier for MFIs in Jordan. After NMB was granted tax benefits, the Government of Jordan put all institutions engaged in micro-lending on a level playing field with respect to taxation and issued a resolution³⁵ exempting MFIs from income tax and nearly all other taxes.³⁶ However, although such exemption extended to any MFI, new entities must first have its MFI status verified by government officials. Consequently, FINCA-Jordan was required to expend resources in obtaining documentation attesting to the fact that it was an MFI and therefore qualified to benefit from the tax exemption. In addition, the exemption does not apply to Cairo Amman Bank's micro-lending portfolio, creating differing tax structures for similar activity.³⁷

8.3 Interest Rate Policy

³³ Under the previous Financial Leasing Law any legal entity engaged in financial leasing must be licensed from the Ministry of Industry and Trade to operate as a financial leasing company with a minimum capital requirement of JD 1 million (approximately USD 1.4 million)

³⁴ In 2004, the Jordanian Council of Ministers exempted all institutions then engaged in microfinance, whether for-profit or nonprofit, from income tax and any other fees and taxes.

³⁵ Council of Ministers Resolution No. 3524 (November 23, 2004).

³⁶ Not all purchases and imports of MFIs enjoy 100% exemption from sales tax.

³⁷ Banks are subject to 35 percent income tax.

With the exception of banks and financial institutions (all of which may charge interest freely),³⁸ both the Civil Procedural Law of 1988 and the Usury Regulation of 1926 set an interest rate cap of 9 percent on all civil and commercial transactions. Most MFIs are currently charging interest at a much higher rate, which may constitute a violation of the Civil Procedural Law of 1988 and the Usury Regulation, in case MFIs are not considered and treated as "financial institutions"³⁹. If challenged in court, MFI interest rates run a risk of being deemed illegal under the Civil Procedural Law and the Usury Regulation. To date however, there have been no known challenges to MFI interest rates.

8.4 Foreign Investment

There are no restrictions on foreign investment in lending institutions and other financial institutions

8.5 Deposit Insurance

The Deposit Insurance Corporation was established pursuant to the Deposit Insurance Corporation Law of 2000. Deposit insurance applies only to banks (including local branches of foreign banks) and covers up to a maximum deposit of JD10,000 (USD 14,000). The fees charged to banks include (i) a JD100,000 (USD 140,000) fee paid upon establishment of the bank and (ii) an annual fee equal to 0.25 percent of the bank's aggregate deposits.

8.6 Consumer Protection

Currently there is no consumer protection regulation for MFI clients. Consequently, the only recourse available to MFI clients (and MFIs themselves) is an often lengthy and costly court system. The CBJ has a consumer complaint division for customers of licensed banks only (and consequently available to clients of CAB's microcredit program). However the CBJ's consumer complaint division is rather modest, perhaps understaffed, and does not engage in any substantial effort to educate financial consumers of their rights. The Ministry of Industry and Trade only supervises market conduct to the extent such conduct addresses fair pricing; MIT does not address consumer protections related to "free market services".

8.7 Transformation Issues

³⁸ The Central Bank Law No. 23 of 1971 exempted banks and financial institutions from all interest rate caps set by any other legislation unless such caps are set by the CBJ which has the right to set maximum and minimum interest rates on loans granted by institutions subject to the Banking Law. Since 1994, the CBJ has not issued any interest rate caps and interest is currently determined freely by the market.

³⁹ Article 2 of the Banking Law no 28 of 2000 defines a financial company as "a company whose memorandum of agreement and articles of association state that its objectives include financial activities, with the exception of accepting unconditional deposits."

No Jordanian law explicitly prohibits a nonprofit company to form a commercial affiliate by exchanging its portfolio and other assets in return for shares in the new commercial company. However, the Ministry of Industry and Trade has stated that such an exchange is prohibited.⁴⁰ In contrast, a nonprofit company is permitted to *sell* its portfolio to a for-profit company, provided that the consideration given by the purchasing company is not equity. Moreover, a foreign NGO is permitted to form and invest in a for-profit company. In any case, there would no tax liability under current tax regulations.

8.8 Credit Information Bureau

Although the Jordanian government enacted the Credit Information Law in 2003,⁴¹ there are currently no licensed credit bureaus operating in Jordan. The CBJ is reluctant to issue the needed instruction needed for licensing credit bureaus since there is a draft interim law currently awaiting ratification by the Jordanian Parliament. The interim law permits licensed companies to issue personal credit reports. Under this law, credit bureaus may be accessed (i) by interested persons pursuant to an application and upon the approval of the client or (ii) pursuant to a court order. The law also requires that credit bureaus take all the necessary measures to ensure that the information is up-to-date, accurate and comprehensive.

The CBJ, which is required by law to provide licensed banks with credit information relating to their clients, provides a service known as the Banking Risks Service. Pursuant to the Banking Risks Service, banks, upon receipt of an application for a loan, may notify the CBJ. The CBJ will notify the bank if (i) the loan applicant has been granted a loan by any other bank and (ii) the total debt of such person (of which the CBJ is aware) if such total exceeds JD 30,000 (USD 42,000).

9. Challenges and Recommendations

9.1 Commercial Funding and Liquidity

Microfinance institutions in Jordan have been able to wean themselves from donor funding in recent years by accessing both foreign and local sources of commercial finance, namely debt financing through bank loans and specialized microfinance investment funds.⁴² The amount of liabilities of those MFIs increased from less than USD 4 million in 2004, to USD 5.7 million in 2005 to USD 15.3 million in 2006 to almost USD 27 million in 2007 and reached approximately USD 42 million⁴³ by the end of September 2008. The average debt to equity ratio increased from

⁴⁰ Interview, November 11, 2008.

⁴¹ The Credit Information Law was enacted as an interim law by the Government during the absence of the Parliament.

⁴² Five of the private MFIs have already accessed considerable amounts of commercial debt financing, and expect to borrow more to finance anticipated future growth.

⁴³ Based on debt to equity ratios included in September, 2008 MFI reports.

30 percent in the years 2003-2005 to 65 percent in 2006 to 93 percent in 2007.⁴⁴ It jumped to 158 percent by the end of September 2008. Most of this debt came as loans in local currency from banks operating in Jordan, part of it against partial guarantees from donors. However, another portion of the debt was issued against only the guarantee of the portfolio of the MFI, representing an encouraging sustainable trend of commercial bank involvement based on portfolio strength.

MFI portfolios have been growing by an average of 50 percent over the last four years. Assuming a similar growth rate for the coming three years, it is estimated that financing will be needed to cover an additional USD 150-200 million in micro-loans. There is genuine concern among MFIs about their ability to continue to sustainably obtain debt financing given a high level of existing debt and the global credit crisis which may impact commercial lending.

9.1.1 Recommendation: Maximize Donor/DEF Leverage Through Guarantees

In addition to the possibility of permitting MFIs to mobilize savings from the general public (see Section 9.2), the microcredit sector and the Jordanian Government should consider maximizing donor/DEF leverage through guarantees and long term financing to address liquidity concerns. Donors (like AFD and AECID) should coordinate between themselves (in consultation with MOPIC) to maximize their support to the microcredit sector through the provision of guarantees instead of direct lending (in the case of AECID) or indirect lending (in the case of AFD). The Grameen-Jameel and IFC guarantees (see Sections 7.3 and 7.5) were used to leverage three times the amount of the guarantee. Similar leverage ratios for donor aid could result in approximately USD 80 million of additional liquidity for the microfinance sector. Similarly, DEF should also consider a greater focus on its wholesale facilities to provide MFIs with local currency long term financing and/or to provide partial loan guarantees of commercial bank loans to MFIs in order to maximize liquidity. However, this will require DEF to reevaluate its priorities and place its role as a wholesale facility on an equal footing with its role as a direct lender.

9.1.2 Recommendation: Extended Loan Maturities

In response to the current global credit crisis,⁴⁵ some MFIs around the world have alleviated liquidity concerns through longer term financing, allowing them to remain liquid for longer periods of time. Given foreign exchange risk which may discourage foreign creditors and MFIs from extended maturity loans, DEF would be uniquely positioned to use its funding to extend longer term loans to the MFI sector.

⁴⁴ This ratio was 70 percent for all the Arab MFIs and 120 percent for Financial Self Sufficiency MFIs reporting to the MIX. It was 230 percent for the Moroccan MFIs for the same year according to the Arab Benchmarking Report 2006.

⁴⁵ Anecdotal evidences from around the world suggests that MFIs relying on either savings mobilization and/or long term financing were less affected by the financial crisis.

9.1.3 Recommendation: MFI Transformation into a For-Profit Legal Structure

If increasing equity is not an option without outside investors, nonprofit MFIs should consider transforming into a for-profit legal structure in order to attract outside equity. Such equity could then be leveraged to access greater commercial financing. The lack of clear guidelines on the process of transformation may be a factor discouraging nonprofits from considering addressing liquidity concerns via transformation.⁴⁶ Consequently, government authorities may wish to consider developing a clear road path to transformation which would address matters such as the evaluation of assets of a nonprofit company and limitations if any, on a nonprofit entity holding shares in for-profit company. In addition, anecdotal evidence from the Arabic-speaking world suggests that for profit companies, with engaged investors, were well equipped to address poor internal governance which was understood to negatively impact MFI performance.

9.2 Lack of Financial Services Diversity, especially Savings

Although the low-income segment of the Jordanian poor require financial services in addition to the provision of credit, no Jordanian MFI today (except arguably JPSF but its high average balance indicates it is not being used by the poor), offers savings to the public nor does any offer remittance or insurance services. This is in part due to legal restrictions - only CBJ licensed deposit-taking institutions (i.e., banks) are permitted to take deposits from the public⁴⁷ and only banks participate in the payment system. Jordanian savings and credit cooperatives are permitted to take members' and others savings (see Section 8.1.2), but no MFI is registered as a cooperative. Although MFIs could, in theory, partner with banks to provide clients with access to deposit accounts and remittance services, this has only occurred with respect to AMC.

Although in Jordan the ratio of bank branches to population is relatively high (approximately one branch for every 9,500 people), banks do not leverage this outreach to promote access to finance through developing a substantial business in small-balance deposit accounts. Banks largely view the poor as not "bankable" or at least not a source of profitable business. Poor people face relatively high entrance barriers. For example, the average minimum amount to open a checking account is 16.5 percent of GDP per capita, which ranks Jordan among the top 10 of 56 countries surveyed by the World Bank in 2007.⁴⁸ In addition, for poor people who live in remote or rural areas, it is not easy to travel to bank branches (which are located in the main cities). Thus far, the banks in Jordan have not been innovative in attempting to lower the cost of taking deposits.

At least three institutions (DEF, MFW, and Tamweelcom) offer an alternative type of microfinance product, a credit life/total disability insurance underwritten by Jordanian insurance

⁴⁶ Please see "Transforming NGO MFIs: Critical Ownership Issues to Consider" at http://www.cgap.org/gm/document-1.9.4213/OccasionalPaper_13.pdf

⁴⁷ MFIs are not permitted to engage in deposit taking without 'transforming' into a regulated financial institution.

⁴⁸ Beck et al. (2007) "Access for All: Barriers to Banking Access and Usage" World Bank.

companies.⁴⁹ DEF is also considering the introduction of health insurance as a new product. In addition, MFW is in the preliminary stages of offering a micro-leasing and two institutions (DEF, Tamweelcom) offer non financial services such as business training.

9.2.1 Recommendation: Research Demand and Business Viability of Savings Mechanisms

MFI representatives indicated a desire to mobilize savings as a means of addressing liquidity concerns. However, given the capital outlay required (including relatively high overhead such as salary, training, and constructing and maintaining access points), many MFIs also expressed doubt as to whether offering savings services would be the most cost-effective means of providing liquidity.

Savings is a very important financial service for the poor and, given that savings needs of the poor are not being met by commercial banks, government authorities (perhaps in coordination with private entities such as Al-Itihad) should spearhead efforts to understand the nature and level of demand for micro and small savings services and the types of products which would best serve the low-income market. Such efforts should include:

- Coordinating a market study/survey to ascertain nature and level of demand and shortcomings in current savings option in Jordan. Based on the findings of the initial study, a second study to ascertain cost-effective means for MFI provision of savings schemes may be in order. Such study should build on prior evaluations to explore the possibilities of using cooperatives, village banking and self help groups to promote savings, particularly in rural areas.⁵⁰
- Coordinating with JPSF to develop strategies for expanding JPSF's outreach to low-income savers, including a strategy to increase capacity and institutional development for JPSF and its management and staff.
- Encouraging MFIs and licensed deposit-taking institutions to explore partnerships in which MFIs would effectively act as agents for commercial banks and facilitate the opening of savings accounts for micro-clients.
- Promoting branchless banking mechanisms by which the operational costs of providing savings (and remittance) options is significantly reduced so as to become economically viable. (See Part II).

9.3 No Clear Regulatory Regime Governing Micro-Lending Operations

There are currently no specific regulations for microfinance or micro-lending in Jordan. Other than the annual reporting requirement to the Ministry of Industry and Trade (MIT), MFIs are operating in a relaxed regulatory environment, providing them wide latitude to establish their own governance and management policies. However, the lack of regulatory attention raises

⁴⁹ In the case of Tamweelcom, the credit life/total disability insurance is offered free of charge and is considered part of the services covered by the interest rate the borrower pays on the loan.

⁵⁰ Cooperatives could of course also be used to promote micro-lending as well.

certain issues which could impact the long-term success of the sector: (i) lack of effective consumer protection mechanisms addressing proper disclosure, data privacy and recourse, (ii) lack of streamlined processes by which MFIs may qualify for exemptions from the interest rate cap imposed by the Civil Procedural Law and the Usury Regulation,⁵¹ (iii) lack of regulated and effective data registries/credit bureau to prevent client over-indebtedness and minimize the credit risk for MFIs and most notably, (iv) the lack of a trained and empowered supervisory authority with the ability to regulate the sector .

9.3.1 Recommendation: Create a Micro-Lending Category of Companies Under its Own Regulatory Regime

A number of factors weigh in favor of a single regulatory regime in order to put all actors providing microcredit and other microfinance services on a level playing field. The CBJ should invoke its powers under Article 2 of the Banking Law (which gives the CBJ wide discretion to designate what falls under its jurisdiction) and recommend to the Jordanian Council of Ministers⁵² a regulation creating a micro-lending category of companies providing for:

9.3.1.1 Standard Exemptions.

- The interest rate cap of 9 percent set by the Civil Procedural Law and the Usury Regulation on all civil and commercial transactions, is potentially prohibitive to MFIs engaged in sustainability-oriented micro-lending due to the high cost of micro-loans compared to other loans. Registered micro-lending companies should be deemed financial institutions under the Banking Law and thereby **exempted from interest rate caps**.
- The **right to provide unsecured lending** should be automatically granted to any registered micro-lending company.
- Currently, **tax exempt status** (see Section 8.2) is not provided automatically, requiring new entrants into the market to seek such exemption before starting operations. A more streamlined approach by which all registered micro-lending companies automatically qualify for the same tax exemption would facilitate the entry of new market players.⁵³

A clear regulatory regime identifying standard exemptions provided to registered micro-lending companies (which could be either nonprofit or for-profit) could

⁵¹ The Usury Regulation of 1926 set an interest rate cap of 9 percent on all civil and commercial transactions.

⁵² Article 99(a) of the Banking Law states that “The Council of Ministers shall, upon the recommendation of the Central Bank, lay down the regulations necessary for the implementation of the provisions of the law.”

⁵³ Support for the standardization of tax-exempt status should not be viewed as CGAP endorsement of providing MFIs with tax exemptions – only to standardize such exemptions since a decision has already been made to grant them.

also encourage commercial banks to downscale operations through subsidiaries (such as AMC).

9.3.1.2 Consumer Protection

There is no regulation governing rights and responsibilities of micro-borrowers. Unlike bank customers, they do not have recourse to the CBJ or MIT. There is no regulation governing consumer rights and responsibilities. The lack of a consumer protection regime for the microfinance sector leaves clients of MFIs with an often costly and lengthy court system as their only recourse. Given low incomes and the relatively low disputed amounts, MFIs clients are among the least equipped to pursue their rights in court. A robust consumer protection regime would promote consumer confidence in the micro-lending sector. Such regime should address (i) the form and content of disclosures required to be made by micro-lenders to prospective customers, (ii) safeguarding consumer privacy, (iii) informing customers of their rights and (iv) easily accessible consumer recourse mechanisms supported by well-trained and knowledgeable staff.

9.3.1.3 Information Sharing

The establishment of a private credit bureau is typically very helpful in bringing down the costs associated with lending. A credit bureau can (if well run, with accurate and up-to-date information) provide a lender with an inexpensive means of assessing the creditworthiness of many potential new borrowers. Provided that the data are accurate, this can reduce lending risks and thereby ultimately reduce loan delinquency. However, (i) given current delays in implementing credit bureau regulation (see Section 8.8) and (ii) the possibility that credit bureaus may only require reporting for amounts higher than the average micro-loan, the microcredit sector could benefit from a mandatory and regulated information sharing system (setting forth what, how and when information must be submitted, including negative and positive payment histories). Such system could be based on the system currently being expanded by Delta Informatics (see Section 6).

9.3.1.4 Standardized Reporting

Currently, all Jordanian MFIs report to the Microfinance Information eXchange (MIX) using the standard business reporting procedures as defined by the MIX.⁵⁴ In addition, all MFIs report to MOPIC on a quarterly basis (except UNRWA and DEF which report on an annual basis) using less stringent reporting requirements (though the increased reporting frequency does provide reliable information on a more timely basis). However, enhanced and standardized reporting requirements required of all registered micro-lending companies and overseen by a specialized

⁵⁴ The MIX is a global, web-based, microfinance information platform providing information on microfinance institutions (MFIs) worldwide based on standardized microfinance financial benchmarks. See http://www.mixmarket.org/en/home_page.asp.

authority like the CBJ would provide authorities with a more thorough basis for more efficiently monitoring the sector.⁵⁵

9.4 No Clear Oversight Authority

Currently, the private MFIs are registered as nonprofit or for-profit companies with the Ministry of Industry and Trade (MIT). They report to the MIT like any other company - by submitting annual reports of the company's activities and audited annual financial statements. No special reporting related to micro-lending activities is required and it is unclear whether those at MIT reviewing submitted reports and statements have the financial expertise and a sufficient understanding of the micro-lending sector to meaningfully evaluate submitted documentation. Although MOPIC requests MFIs to report certain indicators on a quarterly basis, MOPIC's mission is not to act as industry regulator and supervisor.

CAB's micro-lending activities are supervised by the CBJ since CAB is a prudentially regulated and licensed bank. NGO micro-lending operations are supervised by MOSD.

Consequently, a number of governmental bodies are involved in the sector (MIT, MOPIC, CBJ and MOSD), none of which takes direct responsibility for monitoring micro-lending activities as a sector. The new Associations Law only exacerbates the murkiness of micro-lending supervision by suggesting that MOSD will supervise those non-profit MFIs currently under MIT authority- with the result that for-profit private micro-lending companies would report to MIT, NGO and nonprofit private micro-lending companies would report to MOSD and commercial banks providing microcredit would report to the CBJ.

9.4.1 Recommendation: Neutralize Possible Negative Impact of New Associations Law Through MOSD Decision to Leave Nonprofit MFIs Under MIT Oversight

The new Associations Law places nonprofit MFIs under the supervisory authority of MOSD whose ability to evaluate the needs and operations of micro-lending companies is questionable. There is a risk that MOSD will supervise nonprofit MFIs as social welfare organizations rather than sustainable business enterprises. Being a law, the new Associations Law cannot be easily repealed or amended, if at all, by a regulation. However, the new law gives MOSD the ability to place nonprofits under another governmental body's oversight powers. In order to remove nonprofit MFIs from the authority of MOSD and to help facilitate the eventual transfer of authority over all MFIs to the CBJ (see Section 9.4.2), the MOSD should invoke its power under the new Associations Law to issue a decision expressly denying oversight authority over

⁵⁵ Until such mandatory reporting is implemented under the CBJ, MOPIC may wish to increase its capacity to more efficiently monitor the micro-lending sector by improving its knowledge of financial analysis, financial benchmarks and ratio usage. This would permit MOPIC to encourage transparency as well as enhance MOPIC's ability to evaluate when governmental intervention is necessary. The MIX could provide valuable assistance and software on benchmark production and dissemination (the MIX and Sanabel, the Microfinance Network of Arab Countries, have collaborated on benchmarking standards and materials which are available in Arabic).

nonprofit MFIs and leave them under the authority of the MIT until authority can be transferred to the CBJ.

9.4.2 Recommendation: CBJ Oversight Authority Over Micro-Lending Activities

Oversight of micro-lending activities⁵⁶ should be undertaken by a body with sufficient financial expertise and ability to review financial and other reports related to lending activities. Consequently, the CBJ is currently the most qualified Jordanian authority to oversee micro-lending operations. The CBJ is also the only body to have any experience in consumer protection matters, though its consumer protection division would benefit from increased capacity and proactive efforts at consumer education and awareness. In the event the micro-lending sector expands its services to include savings (see Section 9.2), the CBJ would be the most experienced and appropriate supervisory body to implement and oversee any necessary prudential regulation.

Despite the qualifications of the CBJ, a central bank may approach non-deposit taking micro-lenders as it would a deposit taking institution, such as a commercial bank. Consequently, while it would be advisable to create separate division within the CBJ to monitor micro-lending, there is still a risk that the CBJ may over regulate the sector by imposing burdensome and unnecessary prudential regulations (despite the fact that non-deposit taking micro-lending poses no systemic risk). Such regulations would not only burden the micro-lending sector, but the increased costs of complying with unnecessary regulation will force microcredit providers to pass on extra costs to the borrower in order to remain sustainable.

⁵⁶ This recommendation is aimed at all providers of microcredit and not just microfinance companies. With respect to governmental bodies like DEF or JPS which operate pursuant to their own specific legislation, it would be difficult to bring their operations under the authority of the CBJ. However, with respect to banks like CAB which offer microcredit services, the CBJ may wish to require them to separate their microcredit portfolios from other operations so that the CBJ could monitor such operations as they would monitor microfinance companies. In Syria for example, commercial banks are required to submit a business plan for microcredit operations which stipulates “procedures for the separate accounting, monitoring and reporting of the micro-credit portfolio.”

PART II: BRANCHLESS BANKING

“The main barrier to e-commerce in Jordan is a psychological block. Businesses, academics and public servants are waiting for someone or something to take e-commerce initiatives.”

- Excerpt from E-Commerce Strategy, TRC

10. Introduction: Branchless Banking Models

CGAP defines branchless banking as the delivery of financial services outside conventional bank branches using information and communications technologies and retail agents. Due to the potential to radically reduce the cost of delivery and increase convenience for customers, branchless banking can expand coverage to new, previously underserved segments of the population. Technology can help a range of market actors to push the boundaries of access to finance, including not only banks but also microfinance institutions, mobile phone operators, and technology companies.

Two models of branchless banking—bank-based and nonbank-based—can be distinguished. Both use retail agents, such as merchants, supermarkets, or post offices, to deliver financial services outside traditional bank branches. In the bank-based model, every customer has a direct, contractual relationship with a prudentially licensed and supervised financial institution—whether involving an account or a one-off transaction—even though the customer may deal exclusively with a retail agent who is equipped to communicate directly with the bank (typically using either a mobile phone or a point-of-sale (POS) terminal).

In the nonbank-based model, customers have no direct contractual relationship with a fully prudentially licensed and supervised financial institution. Instead, the customer exchanges cash at a retail agent (or otherwise transfers, or arranges for the transfer of, funds) in return for an electronic record of value. This virtual account is stored on the server of a nonbank, such as a mobile operator or an issuer of stored-value cards. The balance in the account can be used for making payments, storing funds for future use, transferring funds, or converting stored value back to cash at agents. If the system relies on a POS network and plastic cards, customers must visit a participating retail agent to conduct a transaction. If the system is mobile phone-based, customers need to visit a retail agent only to add value or to convert stored value back into cash. A more limited version of the nonbank-based model can be found in payment networks, which involve a technology provider or other nonbank institution offering a network of "payment points" (e.g., payment terminals, ATMs, or retail agents equipped with POS devices) where a customer can make payments to third parties or a governmental entity can make payments to beneficiaries. For purposes of this report, stored value issued by a non-prudentially regulated entity is referred to as “e-money”.

11. State of Play: Government Authorities

Branchless banking is a relatively new concept for many Jordanian government authorities. Although MOPIC plays an important role in advocating for the more traditional forms of

microfinance (microcredit and savings), it has only recently started to explore the potential of branchless banking for increasing access to finance.

The CBJ appears wary of taking responsibility for authorizing nonbank led branchless banking models. In 2007, the CBJ rejected the application of a nonbank to operate an e-money scheme, stating only that the CBJ found, without specifying details, that such a scheme would be inconsistent with the Banking Law. However, a senior CBJ representative stated that, as long as such e-money issuers did not intermediate collected funds, such activity would not constitute “banking” for purposes of the Banking Law and consequently, such scheme would be outside CBJ jurisdiction. Nevertheless, the MIT, responsible for registering incorporation documents, refused to amend the bylaws of mobile network operator to add mobile funds transfer and based such refusal on lack of authority from the CBJ.

Branchless banking appears to have greater support at the Telecommunication Regulatory Commission (TRC) and the Ministry of Information and Communication Technologies (MOICT). The TRC recently formulated a national e-commerce strategy with a corresponding action plan. Even though its definition of e-commerce itself excludes bill payments and money transfers, the strategy still contains objectives conducive to promoting branchless banking – mostly by identifying mobile phones as a promising channel for e-commerce. The TRC action plan proposes, *inter alia*, establishing a fully functional payment gateway which may include mobile phone payment mechanisms.

The MOICT has taken a leadership role in developing this e-government gateway and it is expected to be launched in early 2009. By partnering with a variety of payment service providers, including the Jordan Postal Company and eventually mobile network operators, the gateway will offer a means by which Jordanians may pay public charges ranging from traffic fines to taxes. MOICT plans to conduct “e-literacy” campaigns aimed at broadening the pool of potential users. The action plan proposes a governing body for the implementation and coordination of the strategy, which includes the membership of MIT, MOICT, MOF and CBJ. Such governing body would provide a valuable platform for critical intra-ministerial coordination to promote branchless banking.

12. State of Play: Industry

12.1 The Banking Sector

There are currently 23 banks in Jordan operating through 68 offices and 589 branches.⁵⁷ Although in Jordan the ratio of bank branches to population is relatively high (approximately one branch for every 9,500 people), the commercial banking sector has shown limited appetite to expand its services to low-income customers (see Section 9.2).

Two banks (CAB and SGBJ) provide a narrow range of products outside their branches by using the post offices operated by the Jordan Post Company (JPC). In the context of recent efforts to downscale its operations to small businesses and individuals, CAB uses some 20 post offices

⁵⁷ As of October 31, 2008.

throughout the country, to market and process loan and credit card applications. The work is done by CAB employees who act primarily as loan officers (processing applications and related verifications). In rare cases, they process applications for account opening. However, the CAB employee does not handle any cash transactions. Loans are neither disbursed nor are they repaid at the post offices.

SGBJ offers “personal computer loans” through JPC’s offices. Clients file the loan applications with a post office employee who then passes them on to SGBJ and the computer store. After SGBJ’s approval, the computer store delivers the computer to the post office where it is picked up by the customer. Loan repayments can be made at an SGBJ branch or at a post office.⁵⁸ SGBJ does not offer any other service through JPC.

12.2 Payment Service Providers

Cash is the most important payment instrument for individuals in Jordan. According to some payment service providers, retail payments processed by banks do not rely on real time settlement which leads to public concern over meeting payment deadlines.⁵⁹ Bill payment through banks faces strong competition by nonbank service providers playing a significant payment role for unbanked and low income people. JPC currently offers collection of bill payments for private and public service companies (such as mobile network operators and utility companies) through its 356 post offices. A JPC money transfer service in cooperation with Western Union is planned for 2009. A payments service competitor is Payment Centric, a private clearinghouse offering two products: E-Jaby and E-Sal. E-Jaby offers electronic bill payment (primarily for mobile phone accounts and utility companies) through some 420 bank branches. E-Sal offers electronic small value payments up to a maximum of JD 40 (USD 56). Customers can make payments at 1,200 service points throughout the country, including shops, supermarkets and other merchants. Merchants usually work on pre-paid accounts with Payment Centric. An estimated 80 percent of Jordan’s population has access to one of these two payment products. Payment Centric recently signed a contract with the MOICT to collect payments on its behalf for the e-government gateway expected to be launched in early 2009 (see Section 11).

12.3 Mobile Network Operators (MNOs)

With reportedly the highest mobile phone penetration rate in the Arabic-speaking world outside the Gulf, Jordan has significant potential for mobile phone based branchless banking.⁶⁰ Mobile phone penetration is estimated at 80 percent,⁶¹ though allowance must be made for an unknown number of inactive mobile subscriptions and multiple subscriptions held by one individual. Prepaid schemes account for 80 percent of mobile phone use, while 20 percent is post paid. Currently, there are four MNOs operating in Jordan: Zain, Orange, Umniah and Xpress – with

⁵⁸ Article 11 of the Postal Services Law No. 5 (2002) permits JPC to provide payment and money transfer services.

⁵⁹ Jordan does have a CBJ-operated real time gross settlement system for large value payments between banks.

⁶⁰ The Gulf Times, (August 24, 2008)

⁶¹ The Gulf Times, (August 24, 2008)

the first three roughly accounting for a third of the market share and Xpress having a negligible market share. None currently provides any kind of branchless banking at the moment, mostly due to legal risk stemming from legal ambiguity around e-money issuance and airtime taxation (see Sections 13.2 and 13.3).

Notwithstanding the existing regulatory challenges, MNOs seem to be the most motivated and therefore the most promising players in the success of any potential branchless banking schemes. They are cognizant of the business opportunities, particularly with respect to the significant market for foreign remittances. According to the World Bank, foreign nationals make up 39 percent of Jordan's population, one of the highest rates in the world. Just over one percent of the Jordanian population works abroad. Inward remittance flows in 2007 totaled an estimated USD 2.9 billion, an impressive 20 percent of GDP. Outward remittances in 2006 were approximately USD 400 million, or 2.8 percent of GDP. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be even larger.⁶²

Remittances are currently provided by banks, money exchange companies and international remittance companies like Western Union and Money Gram. Orange (owned by France Telecom) is currently developing a mobile banking project with PlaNet Finance supported by a USD 1.7 million grant from the Bill & Melinda Gates Foundation. The project is piloted in Senegal and there are plans to expand it to three other countries: Jordan, Egypt and Ivory Coast.⁶³ Another MNO is currently piloting a mobile wallet in Tanzania, but regulatory obstacles are preventing a similar roll out in Jordan. Zain recently offered a service through which pre-paid airtime accounts could be topped up through Visa credit card per SMS. The service was discontinued.

13. Legal and Regulatory Challenges to Branchless Banking

In Jordan branchless banking has the potential to increase poor people's access to financial services if, *inter alia*, regulation: (i) permits the use of a wide range of agents for a variety of services offered outside bank branches, thereby increasing the number of service points; (ii) eases Know Your Customer (KYC) requirements for account opening (both on site and remotely) while maintaining adequate AML/CFT security standards and (iii) permits a range of players (subject to appropriate supervision) to provide payment services and to issue e-money, thereby enabling innovation from multiple sources.

13.1 Use of Agents

Both banks and MNOs express low levels of comfort with the idea of entrusting nonbank retail agents with handling cash operations on their behalf. Their main concerns seem to center around the perceived likelihood of abuse and fraud. There is no specific regulation which explicitly deals with the topic of nonbank agents. Article 3 of the Banking Law stipulates that its provisions shall apply to anyone who engages in banking activities. Article 2 defines banking

⁶² World Bank, Migration and Remittances Factbook 2008

⁶³ Joint press release by Planet Finance and Orange, October 27, 2008

activities as: “accepting deposits from the public *and* using these deposits in full or in part to grant credit or for any other activities designated by the Central Bank as banking activities pursuant to special orders issued for this purpose” (emphasis added). Articles 4a and 4b state that: “No person shall engage in banking activities without first obtaining a final license from the Central Bank ...” and that “no person that is not licensed to engage in banking activities shall accept deposits without prior written approval of the Central Bank.”⁶⁴ Despite the stated definition of banking activity as requiring some form of intermediation (see Section 13.2), it is commonly understood that agents are not permitted to accept deposits without prior approval of the Central Bank. This could be relevant for financial inclusion, given that banking agents have shown to be an interesting channel for governments to provide social welfare and other payments, by reducing transmission costs and corruption while offering convenience to the recipient.⁶⁵

13.1.1 Recommendation: Permit Use of Agents for Broader Financial Services

Countries around the world have made major strides in using branchless banking to promote access to finance by allowing banks to use retail agents to distribute various types of banking services. These vary from a general outsourcing mandate which allows a bank wide discretion to outsource most types of services to nonbank third parties, including receiving deposits on behalf of clients (such as in South Africa), to itemizing specific services which can be outsourced (such as in Brazil). In most cases, regulators were comfortable with such agency schemes since banks maintained ultimate liability to the customer agent activities. The CBJ could consider opening an experimental regulatory window for such a regime, permitting transactions, including deposits, to be outsourced by banks to retail agents. Given JPC’s outreach and already existing cooperation with some banks, a program with JPC could serve as a pilot program which could ultimately lead to a broader range of actors to serving as bank agents.

13.2 E-Money Issuance

Jordan has no law or regulation governing e-money issuance by nonbanks.⁶⁶ Article 3 of the Banking Law stipulates that it applies to anyone who engages in banking activities. Article 2 defines banking activities as “accepting deposits from the public and using these deposits in full or in part to grant credit, or for any other activities designated by the Central Bank as banking activities (emphasis added)”. Deposits are defined as: “funds turned over by any medium of payment by one person to another person who agrees to return said funds upon demand or in accordance with agreed-upon terms. The depository thus acquires ownership of the funds and the

⁶⁴ The Banking Law states that in the case of “the depository acquires ownership of the funds and the right to dispose of them” which would not be the case of an agency relationship where an agent does not acquire ownership or the right to dispose of funds. These rights would still be maintained by the bank.

⁶⁵ In Brazil, the Ministry of Social Development reaches 12 million recipients of Bolsa Familia (a financial assistance program that represents 25 percent of Brazilian families) through an arrangement with Caixa Economica, which uses a total of 11,000 agents.

⁶⁶ There are no regulatory obstacles to the issuance of electronic stored value by a bank.

right to dispose of them, with the obligation to return to the depositor the equivalent amount in the same currency as that of the deposit (emphasis added).”⁶⁷

Consequently, by the terms of the Banking Law and according to oral statements made by a senior CBJ official, the issuance of e-money is not a “banking activity” subject to CBJ oversight as long as e-money issuers do not engage in the granting of credit or other intermediation of deposited funds. The issuance of e-money by a nonbank also does not qualify as a deposit under the Banking Law as long as the MNO does not acquire ownership of the entrusted funds. This can be easily monitored by putting deposited funds in an account segregated from monies received from the sale of prepaid airtime. Such segregated account would be considered the property of the depositor and held immune from issuer creditors in the event of bankruptcy. The funds therein would not be intermediated. Furthermore, in Jordan the provision and the collection of payments by nonbanks do not require licensing by the CBJ.

Notwithstanding this seemingly unambiguous wording of the laws, the CBJ rejected an application for the provision of e-money by an interested nonbank provider on the grounds that it violated the Banking Law. The rejection did not provide any analysis on how exactly the Banking Law would be violated. Similarly, the MIT declined to amend the bylaws of a nonbank payment service provider which requested to add the same e-money scheme to its list of core objectives. The resulting lack of legal certainty is proved to be a primary deterrent to the entry of nonbank e-money issuers into the Jordanian market.

13.2.1 Recommendation: CBJ Should Publicly Clarify that E-Money Issuance Does Not Constitute a Banking Activity and Regulation Should be Issued Outlining the Terms of E-Money Issuance.

The CBJ,⁶⁸ in coordination with other government bodies such as the TRC and MOICT, should provide legal certainty surrounding e-money issuance through the promulgation of regulation. Such regulation should clearly stipulate that such activity, as long as collected funds are not intermediated, does not constitute “banking activity” subject to prudential regulation under the Banking Law. It should also however, outline how prudential risks, if any, will be managed, including whether collected public funds must be (i) held in a prudentially regulated institution, (ii) held separate from other issuer funds and in trust for the depositor, (iii) held immune from claims by the e-money issuer’s creditors and (iv) protected by national deposit insurance for the benefit of the depositor. In order to mitigate the possibility that the public will use e-money accounts as an alternative to the prudentially regulated banking system, the CBJ should consider whether (i) to cap or

⁶⁷ The EU’s E-Money Institutions Directive (2000) defines e-money as: “monetary value as represented by a claim on the issuer which is: (i) stored on an electronic device; (ii) issued on receipt of funds of an amount not less in value than the monetary value issued; (iii) accepted as a means of payment by undertakings other than the issuer.”

⁶⁸ Article 29 of the Electronic Transaction Law No. 85 (2001) gives the CBJ authority over electronic funds transfer: “The CBJ shall issue the instructions for regulating the electronic transfer of funds, including the approval of the electronic means of payment, verification of the documents pertaining to an illegal transfer, correction of errors, disclosure of information and any other matters relevant to electronic banking activities . . .”

prohibit the payment of interest to the depositor on collected funds,⁶⁹ (ii) to cap the amount permitted to be deposited into an e-money account, and/or (iii) to limit the amount of time funds may be stored electronically. To mitigate liquidity risk, e-money issuers could be required to hold a certain proportion of funds in liquid forms to mitigate liquidity risk. The CBJ and other governmental bodies should study e-money issuance regulation from around the world (including the Philippines) as models which can provide guidance.

13.3 Taxation

MNOs are concerned that deposits made to e-money accounts would be treated for tax purposes like funds used to purchase prepaid airtime and therefore be considered as income derived from the provision of telecommunication services. Such income is subject to the “special telecommunication tax” of four percent and a value added tax (VAT) of 16 percent. Such taxes do not apply to financial services (including payments).

13.3.1 Recommendation: Do Not Tax Funds Used for Payments Services via Mobile Phones as MNO Income

The relevant tax authorities should clarify that monies deposited to fund payments via mobile technology are not to be taxed as income to the MNO and will instead be taxed as any financial payments services are taxed. This recommendation reflects the TRC’s e-commerce strategy which also identifies the need to “establish a means of making payments for goods and services via mobile phones that does not incur any of the taxes or other charges that are normally incurred by phone users or mobile operators . . .” The strategy goes on to say that “At this stage it is not anticipated that payments will be made directly from a mobile phone account or prepaid mobile phone card because of banking regulations and the differential tax on mobile phone services.”⁷⁰

13.4 AML/CFT

Jordan is a member in the UN International Convention for the Suppression of the Financing of Terrorism and the Arab Treaty for the Combating of Terrorism. It issued an Anti Money Laundering Law (AML Law) in 2007, and in 2008, the CBJ issued Instruction 42 under the AML Law.

KYC for bank-based model. Instruction 42 stipulates that banks must identify and verify customer identity. To comply, banks require customers to present their national ID and a proof of address in order to open an account. Instruction 42 stipulates that the supporting documents must be checked by a “bank employee”, implying that face to face customer verification is required.⁷¹

⁶⁹ Any interest paid to the e-money issuer should not be paid into the segregated account held in trust for customers so as not to co-mingle depositor and issuer funds.

⁷⁰ There is precedent for exempting mobile payments from taxation – JD 1 donations made to Al Hussein Cancer Foundation.

⁷¹ Article 3/2.

However, the ability to open an account without face to face verification greatly facilitates extending access to finance beyond the reach of traditional bank branches. KYC can be conducted remotely by an agent faxing documentation to the bank. Anecdotal evidence indicates that compliance with these KYC procedures does not pose an obstacle to low income population segments. The vast majority of poor people are able to provide a national ID and to give satisfactory proof of their address. Instruction 42 exempts wire transfer transactions below JD 700 (USD 980) from KYC procedures.⁷² However it does not offer relaxed KYC procedures for the opening of low value accounts.

KYC for nonbank-based model. It is unclear if e-money schemes would fall under the AML Law. The AML Law stipulates that financial companies which, *inter alia*, provide payment and collection services, must comply with Article 14 (compliance with KYC procedures, reporting suspicious transactions and complying with all instructions issued by competent regulatory parties).⁷³ Even if the operation of an e-money scheme is interpreted to be a “payment and collection service”, the application of the law still requires it to be provided by a financial company. Since MNOs are not considered financial companies, the wording of the AML Law currently would not cover mobile banking. However, MNOs are themselves required to conduct KYC procedures including verification of client identity.⁷⁴ The KYC requirement was implemented after many mobile subscriptions had already been sold, forcing MNOs to conduct retroactive KYC procedures. In some cases, where it is impractical or otherwise difficult to conduct a face to face verification, MNOs are permitted to obtain missing ID information over the telephone and verify such information against the national database.

13.4.1 Recommendation: Create a risk-based approach to AML/CFT for both bank-based and nonbank-based models that (i) offers relaxed KYC requirements for low value accounts (with defined balance caps and/or transaction limits) and (ii) allows for remote compliance by nonbank retail agents.

In the event e-money issuance becomes permitted, the applicability of the AML Law to operators of such schemes should be clarified. Given the reliability of the national ID system and the relatively small population of the country, the non face to face KYC procedure used by some MNOs (ID information collected over the phone and verified against a national database) could serve as good model for relaxed KYC procedures for branchless banking. Such simplified procedures would be particularly appropriate for low value accounts.

13.5 Consumer Protection

Depending on the service provider, the Jordanian legal and regulatory framework offers customers different levels of protection. Bank-based branchless banking would grant a consumer

⁷² Article 3

⁷³ Article 13.e.3

⁷⁴ MNOs require their clients to present their national ID (for Jordanians) or passport (for non- Jordanians).

the protection of Article 44 of the Banking Law⁷⁵ and permit grievances to be filed with the consumer protection division of the CBJ. It is unclear what level of consumer protection a customer of nonbank-based branchless banking would enjoy but it is clear that a wide array of consumer protection matters unique to mobile phone based branchless banking or e-money issuance are not adequately addressed under current Jordanian regulation.

13.5.1 Recommendation: The CBJ, in coordination with other governmental bodies such as TRC and MOICT, should issue regulation to address the wide gaps in consumer protection matters related to branchless banking.

Every jurisdiction is unique with respect to consumer protection needs, and the Electronic Transactions Law and other telecom regulation addresses some aspect of consumer protection. Nevertheless, the following questions give an indication of the consumer protection matters raised by branchless banking that are not currently addressed:

- What consumer recourse mechanisms will be made available to consumers and how will it be publicized?
- What qualifications should be required to act as a bank agent?
- How will a customer know if an agent truly is an agent?
- Will agents be required to provide written receipts for transactions?
- What disclosures will be required with respect to mobile payment services?
- May mandatory disclosure be provided via a subscriber's mobile phone?
- How long will a sender be required to wait for an electronic confirmation message before assuming a failed transaction and having the ability to resend without fear of double payment?
- What is the customer duty of due care?
- How is a case of mistaken recipient identity resolved? (This can be highly problematic if all that is needed to effect a payment is the recipient's phone number since, unlike lengthy and unrelated bank account numbers, phone numbers can often be only one digit away from that of a different person.)
- How will data privacy be protected, particularly if such data is transferred overseas as part of the authorization process?

13.6 Retail Payment Systems

There are approximately 800ATMs⁷⁶ in Jordan, which are interoperable between all four private switches in the country: Visa, Master Card, International Cards Corporation (ICC) and National Express.⁷⁷ The ATMs are connected via Jo-Net, a national switch owned by Visa. Together, the four private switches account for approximately 30,000 POS devices in the country though POS

⁷⁵ Article 44 grants interest rate transparency on deposits and loans and the right of customers to see copies of contracts, notices, information or statements concerning their accounts.

⁷⁶ As of December 31, 2007.

⁷⁷ Visa Jordan is owned by 13 commercial banks in the country and accounts for about 80 percent of the market.

devices are only occasionally interoperable. It is not uncommon to have two or more POS devices in the same retail store. The four switches do not participate in the national Real Time Gross Settlement (RTGS) system owned by banks and operated by CBJ, but rather settle their accounts bilaterally. The main providers for payment services for people without access to other payment mechanisms are JPC and Payment Centric.

13.6.1 Recommendation: CBJ Should Encourage Greater Interoperability Among POS Networks

Given the large number of POS devices relative to ATMs, greater interoperability among POS networks would significantly increase the number of payment access points throughout the country. The CBJ has indicated that is considering mandating interoperability of POS networks, though given the fact that some POS networks are already interoperable, the CBJ may wish to first research what factors have motivated current interoperability and evaluate what the CBJ could encourage greater voluntary interoperability. Mandating interoperability may ultimately be required.

LIST OF PEOPLE INTERVIEWED

I. GOVERNMENTAL BODIES

1	Ministry of Planning and International Cooperation	1	Suhair Al-Ali	Minister
		2	Ahmad Mohammed Al Hawyan	Head of European Relations Division and Microfinance Sector Coordinator
		3	Anas N. Abu Ghonmy	European Relations Division International Relations Dept.
		4	Zina Khalid Jinini	Microfinance Senior Researcher
2	The Royal Hashemite Court	5	Tania Jordan	Director of Community Outreach
		6	Noor Homoud	Community Outreach Manager
3	Central Bank of Jordan	7	Bassam Farmawi	Executive Manager Domestic Payments & Banking Operations Dept.
		8	Ziad Asa'ad Ghanma	Assistant Executive Manager Banking Supervision Dept.
		9	Sawsan Jarrar	Head of Banking Operations Follow-Up Division, Banking Supervision Dept.
		10	Jamal H. Al-Homsi	Department of Research and Studies
		11	Mousa Alaraj	Legal Counsel
		12	Farah Al-Zo'bi	Member, Legal Consultations Dept.
		13	Samya Abu Sharif	Legal Consultations Division (AML Unit)
4	Ministry of Industry and Trade	14	Mohammad Al-Amawi	Assistant of Companies General Controller
		15	Rula Haddadin	Director of Central Registration
		16	Mohammed Al-Khaldi	Head of SME's Section
5	Ministry of Information and Communications Technology	17	Hasan Hourani	Director of e-Government
		18	Ruba Kajo	Acting Head of Strategy & e-Services
6	Telecommunications Regulatory Commission	19	Al-Ansari M. Al-Mashagbah	Director of Regulatory Department
		20	Hassan Al-Majdub	Head of IT Regulatory Section
7	Development and Employment Fund	21	Ali Ghezawi	Director General
		22	Salah Salem Al-Qudah	MSc Marketing, Planning & Training Manager
8	Agricultural Credit Corporation	23	Tawfiq Z. Habashneh	Director General
9	Jordan Post	24	Belal Mirza	Marketing Department Manager
10	Jordan Postal Savings Fund	25	Dr. Wael Akayleh	Director General
11	Irada	26	Bassem Khatib	Director
		27	Awni Kloub	Development Initiatives Supervisor

II. MICROCREDIT & RELATED INSTITUTIONS

12	Ittihad	28	Muna Sukhtain	MFW Board Member
13	FINCA Jordan	29	Edward Greenwood	Country Director
14	National Microfinance Bank (NMB)	30	Bassem Khanfar	Managing Director
15	Jordan Microcredit Company (Tamweelcom)	31	Ziad Al Refai	General Manager
16	Ahli Microfinance Company	32	Yousef M. Kandah	General Manager
17	Middle East Microcredit Company LLC (MEMCC)	33	Moutasm Mismar	Deputy General Manager
		34	Jamal Sousan	Regional Manager/North
		35	Marwan Habahbeh	Regional Manager/South
18	MicroFund for Women	36	Maher Abu-Salma	Senior Business Manager
		37	Ahmad Al-Amoudee	Planning Manager
19	The Jordanian Hashemite Fund For Human Development (JOHUD)	38	Amal Abdul-Razeq	Director Small Business Development Center
20	Delta Informatics	39	Marwan Hamdan	General Manager
21	United Nations Development Programme	40	Rania Tarazi	Poverty Analyst

III. MOBILE NETWORK OPERATORS

22	Orange	41	Raslan Deiranieh	Chief Financial Officer
		42	Wasfi Al Safadi	Marketing Director
		43	Samar Al-Banna	Senior Product Leader
23	Zain	44	Omar Rassas	Business Support Director
		45	Luna Kawash	Customer Lifecycle Manager
		46	Mervette Al-Shihabi	

IV. PAYMENT SERVICE PROVIDERS

24	Payment Centric	47	Sameer G. Mubarak	General Manager
		48	Rola Ghawanmeh	Operations Manager
25	Visa Jordan Card Services	49	Radwan Darwish	General Manager
		50	Inam Ali	Deputy General Manager

V. DONORS

26	International Finance Corporation	51	Ahmed Ali Attiga	Resident Representative
27	Agence Française de Développement (AFD)	52	Gérard Larose	Directeur/Representative
			Ghada Shaqour	Deputy Director/Project Officer

28	European Union	53	Patrick McClay	Trade Economist
29	United States Agency for International Development (USAID)	54	Mohammed A. Yassien	Senior Program Officer
		55	Maha Mousa	Program Management Specialist/SMEs Office of Economic Opportunities
30	Spanish Agency for International Cooperation for Development (AECID)	56	Gregorio Maranon Garrido	General Coordinator

VI. BANKS

31	Cairo Amman Bank	57	Diaa M. Qitesh	Banking Services Supervisor
		58	Seif A. Madanat	Manager, Banking Services
32	Société Générale de Banque – Jordanie	59	Ali Kooli	General Manager & Chief Executive Officer
		60	Dana Jaradat	Marketing and Communication Manager
33	Housing Bank for Trade and Finance	61	Zaid W. Khatib	Head of Product Management for Retail Loans and Cards
34	Jordan Islamic Bank for Finance and Investment	62	Mohammed Adnan Abu Hijleh	Advisor-Marketing
		63	Abdel-Razzaq Al-Nabulsi	Financing Professionals and Entrepreneurs

Estimating Demand for Microcredit in Jordan

			UNCDF report 2004	Updated January, 2009
A	Population		5,171,000	5,861,000
B	Average Number of Persons per Household		<u>6.5</u>	<u>5.4</u>
C	Number of Households	A divided by B	738,714	1,085,370
D	Poverty Rate (%)		<u>12%</u>	<u>13%</u>
E	Number of Poor Households	C multiplied by D	88,646	141,098
F	Number of Near Poor Households	20% of C	<u>147,743</u>	<u>217,074</u>
G	Total Number of Poor and Near Poor Households	E plus F	236,389	358,172
H	Number of Micro-enterprises Represented in Poor and Near Poor Households#	40% of G	<u>94,555</u>	<u>143,269</u>
I	Number of Small Enterprises Represented in Poor and Near Poor Households	50% of H		71,634
J	Total Micro and Small Enterprise Demand			214,903