

Building Resilience Through Digital Financial Services

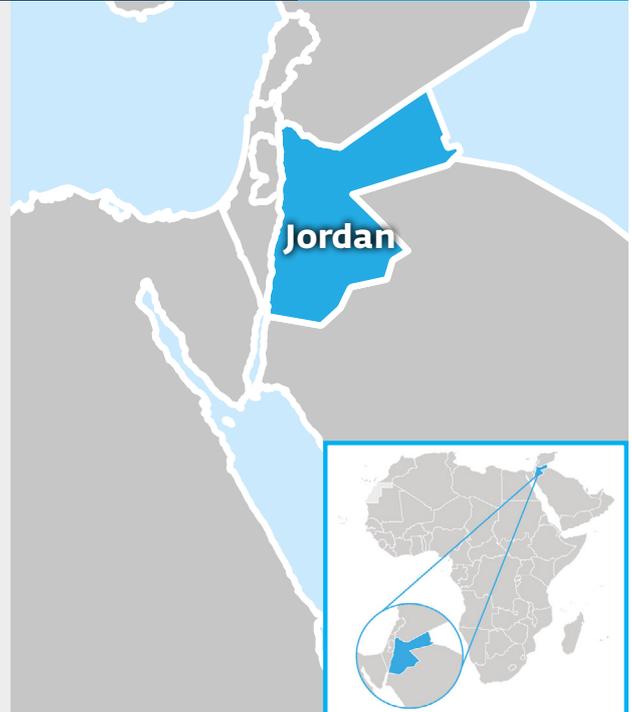
Middle East COVID-19
Digital Finance Market Impact Series

Jordan

The **COVID-19 pandemic** highlighted the important role **digital financial services (DFS)** can play in reducing disruptions to supply chains, maintaining economic activity, supporting social transfers and ensuring safe transactions while maintaining social distancing.

In these challenging times, IFC's DFS advisory has worked with clients to build resilience and capacity through the Covid-19 crisis while designing, building and developing innovative business models for financial inclusion. This DFS market research series endeavors to share the insights gathered through this work.

Jordan is a small, emerging-market, services-oriented economy heavily dependent on external financial support, tourism and remittances from Jordanians working in the Gulf states. The population is young and mostly urban with 53% below the age of 24 and 91% living in urban areas. The rate of financial inclusion stands at 42% with an account ownership rate amongst women at 27% which is lower than the MENA average of 35%. While mobile money is still under-utilized in Jordan (6-10%), the [high penetration](#) of mobile phones and the [low penetration of bank accounts, especially among refugees](#) coupled with the country's high literacy rate indicate enormous potential to increase the use of DFS.



JORDAN: KEY COUNTRY STATISTICS



42%²

Has an account with a financial institution:



30%¹

Gender gap in financial account ownership.

Male: 57% | Female: 27%



78%

Mobile phone penetration



6-10%³

Has a mobile money account



2.5%¹

Has a credit card



67%¹

Internet penetration



8%¹

Makes online purchases and/or pays bills online

Source:

¹ Digital Payments in Jordan, Teknospire (Jan., 2021)

² Demirgüç-Kunt, A., & World Bank, Issuing body. (2018). The global financial inclusion database 2017: Measuring financial inclusion and the fintech revolution. Washington, D.C.: World Bank Group. https://globalfindex.worldbank.org/index.php/#about_focus

³ Each customer is legally allowed to hold 1 or 2 mobile wallets. As a result, we could assume the number of mobile wallet customers are in the range of 600k to 1.2 million, resulting in a mobile money account penetration of 6-10%.

IMPACT OF THE COVID-19 PANDEMIC

Following the pandemic, the Jordan Payments & Clearing Company (JoPACC) played an important role in ensuring the dissemination of financial education material during the crisis but also launched a new platform to enable instant payments.

The Central Bank of Jordan (CBJ) permitted online wallet registration. Together with JoPACC, it issued instructions on salary payment through mobile wallets, encouraging government entities to adopt wallets for wage payments as well as for social assistance.

Many banks joined efforts to facilitate access to wallet services and enabled card-less deposit and withdrawal for mobile wallet users through their ATMs. Some banks offered this service free of charge for a set period of time. Meanwhile, some mobile payment service providers (mPSPs) offered home-delivery of cash withdrawal.

Additionally, after the full lockdown was declared in the country, CBJ enabled international remittances to mobile wallet users through Western Union, facilitated by the eFAWATEER.com platform, noting that this service was, at the time, only available to bank clients.

These measures have significantly increased the uptake of mobile wallets, **but active usage and adequate access to services remained key challenges to address.** Therefore, CBJ launched a challenge fund for all mPSPs and merchants at the end of March 2020 to increase merchant acceptance of digital payments. A consortium of six mPSPs in Jordan submitted a proposal to the fund, in order to work jointly on incentivizing merchants to accept mobile payments and nurture the use of quick response (QR) code for payments. Moreover, CBJ announced in May 2020 a FinTech Regulatory Sandbox titled "FinTech in COVID19 and Beyond" calling for applications by all types of financial service providers (FSPs). CBJ encouraged the use of QR code technology for both individuals and enterprises to enable contactless payments and curtail the risk of spreading COVID-19 through potentially contaminated cash.

DFS MARKET OVERVIEW

The banking sector concentrates most of the financial assets

With 24 banks, the banking sector in Jordan, contributed approximately 93% of the total assets in 2018. Of these banks, 8 provide digital financial services.

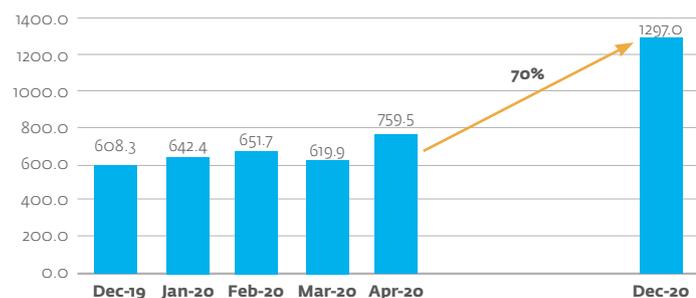
The number of mobile wallets grew significantly since March 2020

- The major international mobile network operators (MNOs), such as Orange, Umniah and Zain, are present in Jordan. Together, they serve about 8,465,000 users, including over half of them with 4G service.
- From April to December 2020, the number of wallets increased by 70% to 1.3 million of which about 40% are active subscribers.
- The total amount of e-money transacted reached **USD 320m** during the pandemic.
- While mobile phone penetration at 78% is high, mobile money is still under-utilized in Jordan (6-10%), despite efforts by CBJ to create a conducive environment.**
- The government's adoption of mobile wallets for aid disbursement from the National Aid Fund (in charge of the social protection program) and salary payment contributed to the exponential growth in mobile wallet usage.

Fintechs are dynamic in the financial landscape

- The key players provide a mix of services. For example:
- Liwwa** is the biggest a peer-to-peer lending platform
- MadfoatCom** is a national bill payment and payment service company; and
- POSRocket** provides cloud-based point of sale (POS) solutions to small and medium-sized enterprises (SMEs)

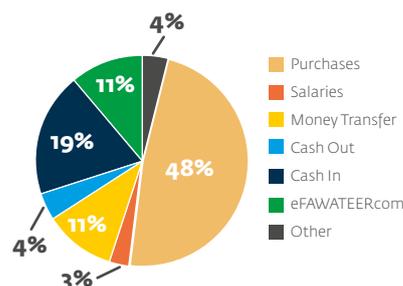
Mobile Wallets in #s in Jordan (000)



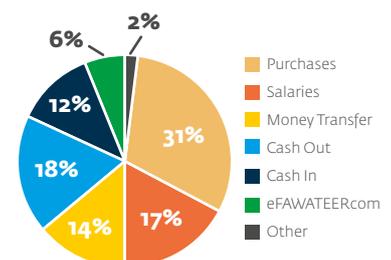
Mobile Wallets in Jordan



Payment Types (Before Covid)



Payment Types (After Covid)



Source: Global Data, Jordan Payments & Clearing Company

EVENTS SHAPING DFS GROWTH

Political	Economic
<ul style="list-style-type: none"> The CBJ launched its National Financial Inclusion Strategy (NFIS) for the years 2018-20 in 2017, which: <ul style="list-style-type: none"> builds on three priority areas, DFS, MSME finance and Micro finance prioritizes the bottom 40% of households in terms of income; women, the youth and refugees 	<ul style="list-style-type: none"> The Jordanian economy contracted by 1.6% in 2020 (World Bank, 2020) Unemployment in the second quarter of 2020 edged up to 23%, 3.8% higher than at the same period in 2019. <ul style="list-style-type: none"> The youth (15-24 years), young women in particular were strongly affected by the crisis
Social	Technological
<ul style="list-style-type: none"> 91% of urban population and 98% of literacy rate Jordan's young population is enthusiastic about technology, as demonstrated by the high rates of internet and smartphone use There were an estimated 662 000 refugees in Jordan of which 20% are in camps as of November 2020 (UNHCR, 2020) 	<ul style="list-style-type: none"> Jordan's digital financial infrastructure includes: <ul style="list-style-type: none"> Real-Time Gross Settlement System, Automated Clearing House, Electronic Cheque Clearing System, Mobile Payments Switch (JoMoPay), Electronic Bill Presentment and Payment System ATM switch
Legal/Regulatory	
<ul style="list-style-type: none"> The Mobile Payments Instructions of 2017 enacted to ensure the safe development of the mobile money and digital payments ecosystem 	

GAPS AND CHALLENGES

- Over half (57.5%) of Jordanian residents lack access to formal financial services accounts.** This is particularly true for Jordan's poorest 40% of the population, which includes mainly women, youth and refugees. Minimum deposit requirements and balances, and strict civil documentation requirements make the process of opening a bank account challenging, especially for refugees.
- While mobile phone penetration is high at 78%, mobile money is still under-utilized in Jordan** although interoperability between solutions is enabled.
- Although the SME sector is the engine of economic growth and one of the main providers of jobs in Jordan, access to finance is a key obstacle for these businesses resulting in a financing gap estimated at USD 2 – 3 billion** affecting approximately 43% of Jordanian firms as there are only 9 microfinance institutions (MFIs) in the country.

Barriers to Mobile Wallet Adoption	Entity Experiencing the barrier		
	Merchants	PSPs	Consumers
Cultural and socio-economic barriers:			
Cultural affinity to cash and lack of compelling incentives	●		●
Lack of Financial literacy	●		●
Economic Barriers:			
High cost of acquisition	●	●	
Lack of compelling product value proposition for merchants to use the system	●		
Lack of compelling product value to consumers to use the system			●
Unclear tax liability for agents and tax concerns	●		
Regulatory barriers:			
Regulatory requirements of being recognized as a merchant	●		
Distribution:			
Merchants accepting wallet/QR code is limited		●	
Infrastructure to support payments	●	●	

Source: The info is gathered through the interviews with stakeholders in the DFS sector.



Source: MEPS Company data.

- Around **200,000 addressable merchants**
- Large portion of the merchants are **informal**
- Card payment acceptance at 30k-40k (30k at beginning of 2020)

OPPORTUNITIES FOR MARKET GROWTH

DFS growth opportunities can be pursued by targeting specific user groups such as women, youth, refugees and SMEs, by focusing on various use-cases such as government payments, merchant payments, digital remittances as well as by continuing to strengthen the payment ecosystem through strategic partnership, developing agency banking and increasing financial education amongst the population.

MERCHANT ELECTRONIC PAYMENTS

- Market is shifting to alternative payments methods - not just cards
- **Expanding use cases**, specifically through enabling small payments for goods and services through merchants
- **Prioritize lowering barriers** to merchants and PSPs

PARTNERSHIPS

- **Integration and embedding third-party services in mobile, web and ATM channels**
- **Partnerships with banks and MNOs for account opening and digital savings and lending**

AGENT BANKING

- Banks need to leverage alternative low-cost distributions channels to penetrate in areas where financial services are not available

DIGITIZATION OF PAYMENTS (G2P, P2G, P2B, B2P, P2P)

- Increase volume & value of digitized:
 - **G2P and G2B payments**
 - **P2G and B2G payments**
 - **P2B and B2P payments**
 - **P2P, B2B, G2G payments**
- Reduce cost of transaction for government payments

DIGITIZING REMITTANCES

- **Remittances could be digitized** and integrated into the JoMoPay platform

FINANCIAL AWARENESS AND LITERACY/ EDUCATION/ NFS

- **Increase awareness of digital financial services among vulnerable groups**
- **Increase share of women** in financial inclusion through **education programs**
- Third-party services may offer educational content, seminars, workshops, local news covering events and cultural activities, in addition to offering career and entrepreneurial support services

June 2021

Authors: Ebru Engin and Kokoévi Sossouvi

Acknowledgments: The team would like to extend special thanks to Lesley Denyes, Fahima Said Bille, Maxim Valeriev Roussinov, and Minakshi Ramji from IFC for their valuable feedback on this note.