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# "FROM CHALLENGE TO OPPORTUNITY: BOOSTING INNOVATION FOR MSMEs' FINANCIAL INCLUSION IN JORDAN."

## WORKSHOP OUTCOMES

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## Event brief

On March 7<sup>th</sup>, the GIZ-implemented project "Innovative Approaches for the Financial Inclusion of Micro, Small and Medium Enterprises (MSMEs) in Jordan" (I-FIN) in collaboration with the Jordan Payments and Clearing Company (JoPACC)'s newly established JOIN Fincubator hosted an event at The Sheraton Hotel in Amman. The event invited relevant stakeholders including financial service providers, fintech companies, the public sector (The Central Bank of Jordan), and business owners to participate.

The objective was to discuss the main challenges that MSMEs face in accessing finance in Jordan and to find innovative solutions. The discussion was based on the results of the "[Financial Inclusion Study for MSMEs in Jordan 2022](#)" which was recently published by the Central Bank of Jordan (CBJ) with support of I-FIN. The study focuses on six key areas to gain a comprehensive understanding of the mismatch between the supply and demand of financial services for MSMEs in Jordan: (1) Accounts, (2) Savings and Investment, (3) Credit, (4) Payments and Transfers, (5) Insurance, and (6) Financial Literacy.

The event was moderated by I-FIN's deputy team lead, Ms. Lorena Zapata, and began with an opening conducted by I-FIN team leader, Mr. Ulrich Hess. H.E Ms. Maha Al Bahou, CEO of JoPACC, then gave an opening speech, emphasizing the importance of the [MSME mastermind Hackathon](#) that will take place on March 16<sup>th</sup> to 18<sup>th</sup>, 2023. In their opening remarks, both speakers announced the strategic partnership between I-FIN and JoPACC and conveyed their gratitude and excitement about it. Following this, Mr. Rashed Najjar from JoPACC presented the newly established JOIN Fincubator. Finally, Mr. Fadi Abu Khadra, a business owner who had taken a loan from Tamweelcom, gave a keynote speech on the financial challenges and difficulties that business owners face.

Following the opening statements, attendees were split into six groups, each representing one of the six pillars of the MSME financial inclusion study. The breakout group discussions focused on their respective pillar and discussed the challenges that MSMEs face in their area of focus. A moderator was assigned to each group to lead the discussion and guide them in answering two main questions:

- 1. What are the challenges faced by MSMEs in Jordan?**
- 2. What innovative solutions exist to overcome those challenges?**

Finally, the participants came back to the plenary and each group presented the outcomes of their discussions and the answers to the two questions from the breakout groups, followed by a rich discussion by all participants.

The objective of this document is to provide a summary of the challenges and solutions that were discussed and concluded during the event for each pillar.

## Executive summary

Pillars	Main challenges	Proposed solutions
<b>Accounts</b>	Cumbersome regulatory requirements on (KYC)	Changes in the regulatory requirements for the KYC process, digitize and streamline(eKYC)
	Lack of trust in digital tools	Offer digital financial literacy programs
<b>Insurance</b>	Limited financial capability and cost constraints for micro and small businesses	Incentivize insurance companies and micro and small businesses through subsidies for insurance premiums.
	Resistance from low-wage employees working in micro and small businesses	Create a unified platform to access insurance services and provide them with a wider range of options to choose from.
<b>Savings &amp; Investment</b>	Limited financial literacy on saving and investment	Offer business and financial capacity building programs
	Limited product relevance for the micro businesses	Develop more tailored savings and investment products that better meet the needs of micro businesses
<b>Financial Literacy</b>	Unsustainable financial literacy and awareness programs: insufficient funding, lack of resources, or a short-term approach to training	Ensure the sustainability of financial literacy and awareness programs by developing long-term strategies and partnerships with key stakeholders
	There is a lack of effective channels to raise awareness and educate MSMEs on financial literacy in Jordan	Develop more innovative and localized financial literacy content to reach a wider audience
<b>Payments &amp; Transfers</b>	Financial service providers (FSPs) overlook the specific needs of the different segments within the group of MSMEs and target them as a single group	Ex. micro-enterprises may require simpler and more affordable payment solutions, while medium enterprises may need more sophisticated payment and transfer services.
	The onboarding process for digital payment systems is complex	Simplify the onboarding process and make it easier for MSMEs to sign up for digital payment services.
<b>Credit</b>	Unclear taxation policies: MSMEs are unaware of tax policies and tax rules	Transparent taxation policies: Simplify taxation policies and rules for MSMEs, inform MSMEs if they earn below a certain income level, they are eligible for tax exemption and provide clear guidance on how to apply for exemptions
	Complex credit application process: The credit application process is often too long and complex, which creates a barrier for MSMEs to access credit	Simplify the credit application process by reducing the number of documents required, providing clear instructions, and streamlining the application process using technology

## Pictures



## Accounts

Moderator: Razan Al Sheikh Khalil, GIZ

1. **Challenge: *Cumbersome regulatory requirements:*** MSMEs in Jordan face a challenging regulatory environment when it comes to opening bank accounts. The KYC (know your customer) process is complicated and requires significant documentation, which can be difficult for MSMEs, especially informal micro businesses, to provide. This can create a barrier to accessing formal financial services.

**Proposed solution: *Simplify the KYC process:*** This challenge can be addressed by simplifying the process and making it easier for MSMEs to register. This can be done by implementing eKYC, which would allow for a digital onboarding process, making it more accessible and efficient.

2. **Challenge: *Regulations and policies*** in place that may create barriers for MSMEs to register, such as minimum deposits and other restrictions.

**Proposed solution: *Review regulations and policies:*** There is a way to review the regulations and policies in place to ensure they are not creating barriers for MSMEs to register. This could involve reducing the requirements needed to open an account, such as minimum deposits and other restrictions.

3. **Challenge: *Onboarding process:*** the onboarding process to open an account whether a bank account or an e-wallet is a lengthy process that requires many documents and resources including time.

**Proposed solution: *Digitize onboarding process:*** Digitizing the onboarding process for e-wallets is essential to making it easier for MSMEs to open accounts. This could involve implementing a digital signature process, which would allow for the electronic signing of documents, reducing the need for physical documents.

4. **Challenge: *Limited mobile wallet options:*** Mobile wallets have the potential to be a convenient and accessible financial tool for MSMEs. However, mobile wallets that cater specifically to the needs of micro businesses are limited in Jordan. Even if such wallets existed, there might be inadequate marketing to reach the target audience.

**Proposed solution: *Enhance mobile wallet features:*** Mobile wallets can be a valuable tool for MSMEs, but they need to be designed with the specific needs of this group in mind. Mobile wallet providers need to enhance their tools to accommodate the unique challenges that MSMEs face, such as allowing for bulk transactions, and making it easier to manage finances.

5. **Challenge: *Taxation and social security rates:*** Many MSMEs in Jordan are discouraged from opening bank accounts due to the perceived burden of taxation and social security rates. They may see little benefit in opening a bank account if their income or profit is low, especially if it means having to pay additional fees or taxes.

**Proposed solution(s): *Transparent taxation policies:*** Making taxation policies more transparent and understandable can help alleviate this challenge. For example, MSMEs could be informed about policies that exempt them from paying taxes if they earn below a certain profit level.

**Tax incentives:** Providing incentives related to taxes can encourage MSMEs to open bank accounts. These incentives could include tax breaks or lower tax rates for MSMEs that have a bank account.

- 6. Challenge: *Lack of trust in digital tools:*** There is a lack of trust among some MSMEs in Jordan when it comes to digital financial tools. This may be due to a lack of financial literacy or understanding of how these tools work. The perception that digital tools are unreliable or insecure can discourage MSMEs from using them.

**Proposed solution: *User-friendly mobile wallets:*** Creating user-friendly mobile wallets can encourage MSMEs to adopt these tools. The wallets should be easy to use and navigate, with clear instructions and guidance.

- 7. Challenge: *Resistance to change:*** Jordanian society can have a conservative and traditional culture, which may create resistance to change. MSMEs may be hesitant to adopt new financial tools or products, especially if they are unfamiliar or perceived as risky.

**Proposed solution: *User-friendly mobile wallets:*** Creating user-friendly mobile wallets can encourage MSMEs to adopt these tools. The wallets should be easy to use and navigate, with clear instructions and guidance.

- 8. Challenge: *Lack of value-added services:*** such as financial planning and management tools, which can make mobile wallets less attractive to MSMEs.

**Proposed solution: *Value-added services:*** Offering value-added services, such as financial planning and management tools, can make mobile wallets more attractive to MSMEs. This can help build trust and increase the adoption of these tools.

- 9. Challenge: *Lack of financial literacy:*** The general level of financial literacy among MSMEs in Jordan is low. Financial institutions may find it challenging to convey the benefits of savings and investment products to MSMEs. This can make it difficult to attract and retain MSME customers.

**Proposed solution: *Financial literacy:*** Improving financial literacy among MSMEs is critical to addressing the challenges they face. This can be reached through training programs, workshops, and other educational initiatives which allow MSMEs to build the knowledge and skills needed to manage their finances effectively.

#### **Other challenges:**

- ***Informal micro businesses do not prioritize bank accounts:*** In Jordan, there is a prevailing mentality among informal micro businesses that they do not need to open bank accounts. They may rely on cash transactions and informal channels for financial services. This creates a challenge for financial institutions to reach this segment of the MSME market.

## Insurance

Moderator: Dura Abu Sharar, GIZ

In identifying the main insurance needs for MSMEs, the insurance working group has categorized them into three distinct categories, namely **(1)** the needs of the MSME owner, **(2)** the needs of employees, and **(3)** the need to insure the company's assets.

It's important to have clear insurance terms and conditions for the demand and supply side.

- 1. Challenge: Limited financial ability and cost limitations for micro and small businesses:** Micro and small businesses often struggle with limited financial resources and face difficulties in affording insurance coverage. This is particularly challenging for businesses that operate on low profit margins or face high operational costs.

**Proposed solution: Incentivize** insurance companies and micro and small businesses to increase the uptake of insurance. This could include tax breaks for businesses that provide insurance coverage for their employees or subsidies for insurance premiums.

- 2. Challenge: Lack of specialized products:** Many micro and small businesses in Jordan struggle to find insurance products that meet their specific needs. This can be due to a lack of specialized insurance products designed for MSMEs, which can leave them vulnerable to risks that are not covered by standard insurance policies.

**Proposed solution(s): Develop specialized insurance products** that cater to the needs of micro and small enterprises. These products should be designed to meet the three different categories of insurance needs mentioned earlier.

**Create a unified platform** for all insurance companies in Jordan. This platform would make it easier for micro and small businesses to access insurance services and provide them with a wider range of options to choose from.

- 3. Challenge: Fragmentation of the insurance market:** The insurance market in Jordan is fragmented, with multiple companies offering different products and services. This can make it difficult for MSMEs to navigate and find the insurance products that are best suited to their needs.

**Proposed solution: Create a unified platform** for all insurance companies in Jordan. This platform would make it easier for micro and small businesses to access insurance services and provide them with a wider range of options to choose from.

- 4. Challenge: Lack of proper insurance awareness campaigns:** The lack of proper insurance awareness campaigns and education makes it difficult for (potential) clients to fully understand insurance plans and their benefits, which may result in inadequate coverage or uninformed decisions.

**Proposed solution: Launch national awareness campaigns** in collaboration with the CBJ. Since all insurance companies are under the CBJ's umbrella, they are in a unique position to lead these campaigns.



5. **Challenge: *Religious reasons:*** Some individuals may have religious objections to certain types of insurance services, such as life insurance or compensation for damages caused by theft or fire. This may limit their willingness to purchase or accept insurance coverage.

**Proposed solution: *Collaborate with Islamic banks*** to provide Sharia-compliant insurance products, including micro-insurance for businesses with five employees or less.

6. **Challenge: *Resistance from low-wage employees:*** Low-income employees may resist having insurance premiums deducted from their salaries due to concerns about affordability and financial security.

**Proposed solution: *Provide financial education offerings*** to employees to help them understand the benefits of insurance coverage and the impact on their financial security. This could be done through workplace training or partnering with financial education organizations.

7. **Challenge: *Limited capabilities of bankrupt micro and small businesses:*** Micro and small businesses that are bankrupt may struggle to fulfill their financial obligations, including payment of insurance premiums, which can result in the cancellation of insurance policies and limited access to future coverage.

**Proposed solution: *Flexible payment options:*** Allow bankrupt businesses to continue their insurance coverage by providing flexible payment options, such as installment plans or deferred payments. This would help ensure that businesses remain insured during their recovery period.

8. **Challenge: *Waiting periods:*** Insurance policies may have waiting periods before coverage becomes effective, which can pose a challenge for micro and small businesses that need immediate coverage to protect against potential risks or losses.

**Proposed solution: *Offer short-term insurance policies*** with no waiting periods to provide immediate coverage for micro and small businesses that need protection against potential risks or losses.

9. **Challenge: *Limited information about credit health:*** Without access to information about their credit health, MSMEs may struggle to access insurance products that are best suited to their needs. This can limit their ability to protect themselves against risk and may result in higher insurance premiums.

**Proposed solution: *Develop a credit health scoring system:*** that allows businesses and individuals to have their history in one place. This would help insurance companies assess risk and tailor their products to better meet the needs of their clients.

#### **Other Challenges:**

- ***Limited access to insurance for people with chronic illnesses:*** Individuals with chronic illnesses often face limited access to insurance coverage, as insurance companies may offer limited coverage or exclude certain conditions. Moreover, some loans require a full medical check-up, which can negatively impact loan amounts and access to finance for micro and small businesses that employ such individuals.

## Savings and investment

Moderator: Luma Ghoul, GIZ

1. **Challenge: *Slow cash flow for savings and investment:*** Many MSMEs in Jordan face a challenge in generating a steady cash flow that would allow them to allocate funds for saving and investment purposes. This is particularly true for micro enterprises, which often have limited resources and depend heavily on their daily operations to generate income.

**Proposed solution: *Provide local tax exemptions and incentives*** for MSMEs to save and invest: Governments can provide tax exemptions or incentives for MSMEs that save or invest, in order to encourage more businesses to engage in these activities. This can include reduced tax rates or tax breaks for MSMEs that invest in certain sectors or geographic areas.

2. **Challenge: *Low financial literacy on saving and investment:*** MSME owners in Jordan may lack the necessary knowledge and skills to effectively manage their finances, including how to save and invest their funds. This can lead to suboptimal financial decisions and missed opportunities for growth.

**Proposed solution(s): *Offer business and financial capacity building programs:*** Capacity building programs can provide training and support to MSMEs, including financial literacy education and mentorship opportunities. This can empower MSMEs to make better financial decisions and take advantage of available investment opportunities.

***Increasing awareness:*** Financial institutions and government agencies could develop targeted education and awareness campaigns to highlight the benefits of savings and investment products for MSMEs. This could help to increase demand for these products and encourage more MSMEs to take advantage of them.

3. **Challenge: *Limited investment options:*** MSMEs in Jordan may have limited investment options to choose from, which could hinder their ability to grow their businesses and generate returns. This could be due to factors such as market constraints or lack of knowledge about available investment options.

**Proposed solution: *Offer investment channels tailored to the needs of MSMEs:*** Financial institutions can create investment products that specifically cater to MSMEs, such as investment funds that are accessible and affordable for small business owners. This can help bridge the gap between the limited investment options available and the needs of MSMEs.

4. **Challenge: *Limited interest in acquiring these products:*** Among MSMEs that do not have savings or investment products, the level of interest in obtaining these products in the future is not particularly high. This could be due to a lack of awareness about the benefits of these products, it could also be lack of trust. MSMEs may be hesitant to invest in formal financial institutions due to a lack of trust or confidence in these institutions.

**Proposed solution(s): Increase trust:** This may require the development of more transparent and user-friendly investment products that are easy to understand and use, as well as the establishment of clear regulatory frameworks that can help to build trust in the financial sector.

**Encouraging innovation:** Financial institutions could encourage innovation in the development of savings and investment products for MSMEs by offering incentives for new product development or partnering with fintech companies to develop innovative Solutions. This could help to address the perceived lack of relevance of certain types of products and increase demand for savings and investment products overall.

5. **Challenge: Limited access to formal financial services:** Informal micro enterprises in particular may face challenges in accessing formal financial services, such as savings accounts or term deposits. This can limit their ability to save and invest, which could in turn impact their growth and profitability.

**Proposed solution: Expanding access:** Financial institutions could explore ways to expand access to formal financial services for MSMEs, particularly those that are currently excluded. This could include developing partnerships with microfinance institutions or other organizations that work with informal MSMEs.

6. **Challenge: Limited product relevance:** Certain types of savings and investment products, such as certificates of deposit, stocks and bonds, appear to be of less relevance to MSMEs in Jordan. This suggests that financial institutions may need to develop more tailored products that better meet the needs of MSMEs.

**Proposed solution: Developing tailored products:** Financial institutions could develop more tailored savings and investment products that better meet the needs of MSMEs, considering factors such as their size, formality level, and sector. For example, products that offer more flexibility in terms of withdrawal and deposit amounts could be particularly relevant for informal micro enterprises.

#### **Other challenges:**

- **Lack of collateral:** MSMEs often struggle to access traditional loans due to a lack of collateral or credit history, which can make it difficult for financial institutions to create investment products that cater to their needs.
- **Savings accounts not considered in credit assessment:** Financial institutions in Jordan may not consider savings accounts as a reliable indicator of creditworthiness for MSMEs. This can make it difficult for MSMEs to access credit, even if they have accumulated savings.

## Financial literacy

Moderator: Nad Sarabi, JoPACC

1. **Challenge: *Limited channels for financial literacy awareness*:** There is a lack of effective channels to raise awareness and educate MSMEs on financial literacy in Jordan. Although there are some initiatives in place, such as training programs and workshops, these may not be accessible to all MSMEs due to limited outreach and resources. As a result, many MSMEs remain unaware of the importance of financial literacy and the benefits it can bring to their businesses.

**Proposed solution(s): *Channels for financial literacy awareness*:** Financial service providers should develop more innovative and localized financial literacy content to reach a wider audience. Financial service providers should also utilize various channels for financial literacy awareness, such as social media, mobile applications, radio and TV programs, workshops, and community outreach programs.

Increasing the *capabilities of financial institutions* to provide financial education to MSME owners and employees.

2. **Challenge: *Unsustainable financial literacy awareness programs*:** Financial literacy awareness programs may not be sustainable in the long term due to insufficient funding, lack of resources, or a short-term approach to training. Some MSMEs may also not be motivated to attend such programs, as they may not see the immediate benefits or may have other competing priorities. This makes it challenging to create a lasting impact on financial literacy levels among MSMEs.

**Proposed solution: *Sustainable financial literacy awareness programs*:** To ensure the sustainability of financial literacy awareness programs the financial service providers (MFIs) should develop long-term strategies and partnerships with key stakeholders, such as financial institutions, educational institutions, NGOs, and the government. To incorporate financial literacy education into the school curriculum to ensure that future generations are financially literate.

3. **Challenge: *Lack of perceived need for financial literacy*:** Some MSMEs may not recognize the importance of financial literacy in their business operations, either due to a lack of understanding or because they prioritize other aspects of their business. This makes it difficult to scale financial literacy initiatives as MSMEs may not be willing to invest the time and resources needed to improve their financial knowledge.

**Proposed solution: *Scalability when it comes to financial literacy*** by Developing targeted campaigns to raise awareness about the importance of financial literacy among MSME owners and the benefits it brings to their businesses. Moreover, partnering with influential business owners to champion financial literacy and its importance to the wider business community.

4. **Challenge: *Lack of collaboration on a national level*:** The lack of collaboration and coordination among different stakeholders involved in promoting financial literacy among MSMEs can lead to duplication of efforts, inefficient use of resources, and a fragmented approach. This is not sustainable in the long term, as it may lead to confusion among MSMEs and a lack of impact on financial literacy levels.

**Proposed solution: *Collaboration on a national level:*** this could be achieved by encouraging collaboration between financial institutions, government agencies, NGOs, and other key stakeholders to ensure a coordinated approach towards improving financial literacy among MSMEs in Jordan. Moreover, establishing a national financial literacy council or task force to oversee financial literacy initiatives and coordinate efforts between different organizations.

5. **Challenge: *Lack of financial literacy due to social and religious reasons:*** Some MSMEs may face cultural or religious barriers to financial literacy, such as a lack of trust in financial institutions or a preference for informal financial practices. This can hinder efforts to improve financial literacy levels, as MSMEs may not see the relevance or value of financial literacy in their daily lives or may prefer to rely on traditional practices.

**Proposed solution(s): *Develop culturally appropriate financial literacy programs:*** Addressing cultural and religious barriers to financial literacy by developing culturally appropriate financial literacy programs that take into account local customs and practices.

6. **Challenge: *MSME mistrust in financial institutions:*** Without a clear understanding of financial concepts such as interest rates, credit scores, and loan terms, business owners may feel \ confused when interacting with financial institutions. This can lead to a perception that financial institutions are intentionally trying to exploit or take advantage of them, further eroding trust.

**Proposed solution: *Encouraging responsible finance practices*** among financial service providers by promoting ethical business practices and discouraging predatory lending.

7. **Challenge: *Lack of financial education:*** Many MSMEs, especially informal and smaller ones, lack the necessary knowledge and skills to manage their finances effectively.

**Proposed solution(s): *Increase financial literacy:*** Given the low levels of financial literacy among micro and informal MSMEs, there is a need to develop financial education programs to improve their knowledge of financial management and accounting.

Taking a ***customer-centric approach*** to financial literacy by understanding the needs and challenges faced by MSMEs and tailoring financial literacy programs to meet their specific needs.

8. **Challenge: *Limited access to finance:*** MSMEs, particularly micro enterprises, may face difficulties in obtaining financing due to the lack of formal financial records or business plans.

**Proposed solution: *Encourage business planning:*** To improve their access to finance, MSMEs need to prepare written business plans that detail their objectives, financial projections, and growth plans. Financial institutions and business development organizations can offer training and support to help MSMEs develop these plans.

## Payments and transfers

Moderator: Ali Nasir, JoPACC

1. **Challenge:** *The onboarding process* for digital payment systems is complex, and there is a lack of awareness and education about it among MSMEs in Jordan. This can lead to reluctance and avoidance of using digital payment methods.

**Proposed solution:** *Simplify onboarding processes:* Simplifying the onboarding process and making it easier for MSMEs to sign up for digital payment services can encourage them to use them more.

2. **Challenge:** Due to *taxation policies*, some micro businesses in Jordan are hesitant to use digital payment systems and transfers. They may worry about potential tax implications and feel more comfortable with cash transactions.

**Proposed solution:** *Collaboration between stakeholders:* Collaboration between stakeholders such as banks, mobile network operators, and government entities could help to create an ecosystem that supports digital payments for MSMEs

3. **Challenge:** *Resistance to change* is a major issue in Jordan when it comes to adopting new payment methods. Some MSMEs may find it difficult to adapt to digital payment systems and prefer traditional methods.

**Proposed solution(s):** *Raise awareness about digital financial tools:* MSMEs need to become more aware of the benefits and ease of using digital financial tools. FSPs can conduct awareness campaigns through various channels such as social media, ads, influencers, and public focus groups to help them understand how to use digital payment services and the advantages they offer.

**Incentives for digital payment adoption:** Incentives such as reduced fees or other rewards could encourage MSMEs to adopt digital payments.

4. **Challenge:** There is a *low rate of financial inclusion* among MSMEs in Jordan, with many lacking accesses to basic financial services such as bank accounts and payment cards. This can make it difficult for them to engage in digital payment transactions.

**Proposed solution:** *Increase adoption of digital payment wallets:* FSPs can work on increasing the adoption of digital payment wallets among MSMEs by offering user-friendly and convenient services. They can also incentivize the use of digital wallets through rewards and promotions.

5. **Challenge:** Financial service providers (FSPs) in Jordan may *overlook the unique needs of MSMEs* and target them as a single group, rather than addressing their specific needs based on size, formality, and other factors.

**Proposed solution(s):** *Offer tailored solutions for MSMEs:* Rather than treating micro, small, and medium enterprises as a single group, FSPs should offer tailored solutions for each group based on their unique needs and characteristics. For example, micro-enterprises may require simpler

and more affordable payment solutions, while medium enterprises may need more sophisticated payment and transfer services.

**Customized solutions for micro-enterprises:** Tailored solutions such as mobile payment apps or simplified payment systems could help to address the low adoption rates among informal micro enterprises.

- 6. Challenge:** There is a **lack of tailored products** and services available to MSMEs in Jordan, which can make it difficult for them to find the right payment solutions for their specific business needs. This can lead to frustration and reluctance to adopt digital payment methods.

**Proposed solution: Increase adoption of digital payment wallets:** FSPs can work on increasing the adoption of digital payment wallets among MSMEs by offering user-friendly and convenient services. They can also incentivize the use of digital wallets through rewards and promotions.

## Credit

Moderator: Nabeel Ammari, GIZ

- 1. Challenge: Tax and social security regulations:** The regulations related to tax and social security are quite complex and high for micro and small business owners. This creates a burden for them as they have to invest a significant amount of time and resources to comply with these regulations, which in turn affects their ability to grow and expand their businesses.

**Proposed solution: Transparent taxation policies:** Simplify taxation policies for MSMEs, by informing MSMEs the policies that exempt businesses from taxes if they earn below a certain profit level and providing clear guidance on how to apply for exemptions. Provide grace periods and realistic deadlines for repayment, to make credit programs more manageable for MSMEs.

- 2. Challenge: Lack of differentiation in regulations:** The current regulations treat MSMEs the same, regardless of their size. This lack of differentiation makes it difficult for micro and small businesses to access credit as they are not evaluated based on their individual financial capabilities.

**Proposed solution: Differentiation in regulations:** Create a separate set of regulations for micro and small businesses, that are tailored to their financial capabilities, and that take into account their individual needs and requirements.

- 3. Challenge: Lack of verified financial data:** There is a lack of verified financial data for MSMEs, which makes it difficult for financial institutions to evaluate their creditworthiness. This, in turn, makes it harder for MSMEs to access credit.

**Proposed solution: Verified financial data:** Encourage the use of digital platforms and technology to collect and verify financial data for MSMEs and create a central database that FSPs can access to evaluate creditworthiness.

- 4. Challenge: MSMEs negative perception of MFIs:** MSMEs may be discouraged by MFIs because of their lack of awareness and understanding of the financial services offered. Interest rates of MFIs are higher compared to traditional banks which can seem deterring for MSMEs that are already struggling to

generate revenue. Also, MFIs may offer smaller loan amounts than traditional banks, which can limit the ability of MSMEs to fund their growth or invest in new projects.

**Proposed solution(s): *Create a positive perception of MFIs*** by increasing awareness. MFIs could work to increase awareness of their services and eligibility criteria among MSMEs through targeted marketing campaigns and outreach programs.

***Improving financial literacy***: MFIs could expand financial literacy training and resources to help MSMEs better understand the loan application process, interest rates, and loan terms.

***Offering flexible loan products***: MFIs could offer loan products that are tailored to the unique needs of MSMEs, including flexible repayment options and longer loan terms.

- 5. Challenge: *Low financial literacy***: MSMEs, especially micro enterprises, often lack financial literacy, particularly when it comes to digital services. This makes it harder for them to access credit and other financial services.

**Proposed solution: *Increase financial literacy***: Develop financial literacy programs specifically designed for micro and small business owners, that provide them with the knowledge and skills they need to access credit and other financial services.

- 6. Challenge: *Lack of innovation***: The regulatory framework does not encourage innovation, which leads to a lack of creative and innovative solutions for MSMEs to access credit.

**Proposed solution(s): *Encourage innovation*** by creating a regulatory environment that supports new and creative solutions for MSMEs to access credit, such as digital lending platforms and mobile banking services.

Create ***tailored digital credit*** products that take into account the cash flows of MSMEs, to provide more flexible and realistic credit options.

- 7. Challenge: *Incomplete information***: The information provided by FSPs is not complete or sufficient, which makes it difficult for MSMEs to take informed decisions about accessing credit. There is a lack of transparency and clarity in the information provided, which makes micro businesses hesitant to take credit.

**Proposed solution: *Improve transparency*** and clarity in the information provided by FSPs, by ensuring that all relevant information is provided to MSMEs, and that it is presented in an easy-to-understand format.

- 8. Challenge: *Lack of differentiation in treatment***: FSPs often treat micro businesses the same as medium and large enterprises, which is not appropriate as the needs and capabilities of these businesses are different.

**Proposed solution(s): *Differentiation in treatment***: FSPs should develop credit products that are tailored to the specific needs of micro businesses, such as lower interest rates, flexible repayment terms, and smaller loan amounts.



**Alternative credit scoring:** There is a need for innovative tools to assess creditworthiness, particularly for MSMEs that may not have traditional credit histories. Alternative credit scoring models that consider non-traditional factors, such as social media activity, can be used to evaluate creditworthiness.

9. **Challenge: *Complex credit application process:*** The credit application process is often too long and complex, which creates a barrier for MSMEs to access credit.

**Proposed solution: *Simplify the credit application process*** by reducing the number of documents required, providing clear instructions, and streamlining the application process through the use of technology.

10. **Challenge: *High cost of financing and guarantees:*** The cost of financing and guarantees is often high, which makes it difficult for MSMEs to access credit. This is particularly true for micro and small businesses, as they have limited financial resources.

**Proposed solution: *Explore alternative financing models,*** such as peer-to-peer lending or crowdfunding. These models can help to reduce the cost of financing and guarantees for MSMEs, while also providing additional benefits such as access to a wider pool of investors or lenders.

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Innovative approaches for the financial inclusion of micro, small and medium enterprises (MSMEs) in Jordan (I-FIN)

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