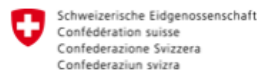




Impact of COVID-19 on microfinance clients in Jordan

Final Report

April 2021



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Abbreviations

AMC	Ahli Micro Finance Company
CBJ	Central Bank of Jordan
CSS	Customer Satisfaction Survey/Study
FIs	Financial Institutions
FJ	FINCA Jordan
FSP	Financial Services Providers
IR	Interest Rate
MAJ	Microfinance Association of Jordan
MFIs	Microfinance Institutions
MFW	Micro-fund for woman
NMB	National Microfinance Bank
SPTF	Social Performance Task Force
TAT	Turn Around Time
VJ	VITAS Jordan

Executive Summary

Tanmeyah in support from Social Performance Task Force SPTF and collaboration with 10 licensed microfinance institutions who are members of its network, conducted a study to assess the impact of COVID-19 on microfinance clients of those institutions in two rounds, the first one between August and September 2020 and the second one between January and February



2021. The COVID-19 client interview tool which was developed by SPTF has been used to conduct this assessment in round one and the same for round two to assess the change during those 5 - 6 months after the first round.

The survey targeted 468 clients, 70% were female clients in the first round and 488 clients 63% of them were females in the second one. The results showed in the first round that the majority (75% of clients) are very much concerned about the COVID-19 and their concerns are mainly related to health, but everything has changed after that. Considering that the level of concern is based on the area of fear and the level of impact related to that area; people got more oriented to the socio-economic crises, also the Covid pandemic is not something new anymore, people now feel that it is not a health threat if they take the necessary precautions, also it worth mentioning that the appearance of vaccines made a huge difference in the areas of concern.

It is predictable that people will suffer even more in the future due to the decline that occurred to the economic situation in the country which became even worse after the pandemic. More than 73% of the surveyed clients are facing financial problems and stated that their financial situation got much worse than before the pandemic at the first round of the study, however; the second-round main focus was the situation after phase I, which means during the last 4 to 5 months. Accordingly; clients who responded that the situation is the same have witnessed worse financial position at the 1st phase of the study.

To cope with the new situation and to be able to manage the shortage in their cash-flow and income, most of the clients according to the survey have managed to secure their financial needs

through, utilizing their savings, postponed their loan repayments, or took a loan from a financial institution, as some clients borrowed from informal money lenders. Those statistics would make decision-makers expect a risky future in the long term.

In terms of food consumption, survey results showed that families' food consumption becomes less due to scarce income resources.

Respondents showed doubts about the future and they are not optimistic at all, their main pain points can be summarized with the costs they have to bear when borrowing money like taxes, loan insurance coverages, prioritizing between food security and the ability to work, children's education, and the confusion they are experiencing about distance learning. Still; they shared ideas and suggestions in terms of services and products that might be aligned with the newly emerged needs.

As a result of the study in its both rounds, it is highly recommended to joint efforts from all the concerned parties to raise awareness about the effect of the COVID-19 pandemic on both Microfinance Institutions and Microfinance Clients; it is essential to consider the importance of the microfinance industry and its role in combating poverty, supporting MSMEs and the positive social impact on clients and communities, besides the sector's title role in the financial inclusion strategy in the country; what is needed is to strengthen the sense of urgency and look in-depth to facilitate and ease any difficulties that would impact the sector and its ability to expand the services and products to meet the newly developed needs, for that; it is highly recommended as well to find solutions to prevent the credit risk by exploring the possibilities of this with guarantee schemes or find alternative resolutions for it.

Reconsidering the product development process and make it more agile to cope with the current and future unpredicted situations is a must, MFIs are highly recommended also to consider providing social products and services that will generally help their clients during the COVID-19 era, and finally utilize the digital financial services to provide their clients with the needed financial and non-financial services which will minimize the risk of being infected with COVID-19 and at the same time ensure being productive by maintaining their health safety.

It worth mentioning that the first round of data collection was done at the time the country was registering almost zero COVID-19 local cases, and the majority of sectors were reopened, however, the results were not positive and unpleasant at all, while the second round of data collection was during the peak of the pandemic and Jordan was registering the highest number of cases and fatalities but the government did not take an extreme measures like total lockdown

like before; this shows how bad was the impact of the pandemic on the sector on both sides – the MFIs and the clients- yet, this is a big proof that the second phase has sorted a better understanding of the situation.

About Tanmeyah

Jordan Microfinance Network – Tanmeyah - was established and formally registered as a non-profit institution at the Ministry of Industry and Trade in 2007 and was incepted to become the official representative for the microfinance institutions (MFIs), replacing the Microfinance Association of Jordan (MAJ), which was operating at that time. The Network’s main objective is to develop a sustainable microfinance industry that will become an integral part of the national financial system in Jordan. It plays an active role in supporting the further development of the microfinance industry, providing advocacy and awareness raising on behalf of its members, promoting information and dissemination of developments and trends in the industry. Most importantly, it supports the implementation of an appropriate regulatory environment, and gathers performance and benchmarking data for the sector.



About the Project

The main objective of this project was to assess the impact of COVID-19 on microfinance clients in Jordan, targeting the formal microfinance sector already members of the microfinance network (Tanmeyah) in Jordan. The members are nine institutions licensed by the Central Bank of Jordan as well as the program of UNRWA.

COVID-19 pandemic affected different business sectors in Jordan which has a very fragile economy as a developing country comparing it to other developed countries that have a very strong economy that can somewhat tolerate such pandemic crises.

The analysis investigates the effects of the pandemic on different segments of microfinance clients, including males and females' owners of registered businesses and home-based ones, in the different governorates of Jordan.

In order to understand the effects of the pandemic on the person and economic well-being of microfinance clients, Tanmeyah surveyed a sample of clients from all of the microfinance institutions in Jordan's microfinance sector using the COVID-19 client interview tool that was developed by SPTF.

The administration of the survey is designed to be conducted in two rounds. Round one between August 2020 and September 2020 and round two will take place sometime between January 2021 and February 2021. The statistical sample would be 0.01% of the total number of active clients in all governorates which forms a sample of (468) active clients for the first round and (488) active clients for the second round.

In order to improve the ability of MFIs members of Tanmeyah to increase their outreach and create positive effects in the lives of its clients, SPTF through the Responsible Inclusive Finance Facility (RIFF) project, made a grant to Tanmeyah to help Tanmeyah support its members in responding to the challenges posed by the coronavirus pandemic by conducting the survey interviews, analyze the results, and conclude a report with all findings and recommendation, also to provide each MFI with its own results and data.

MF sector in Jordan at the end of Q4/2020

Active Borrowers	440,650
Active Loans	411,802
Total Gross Loan Portfolio (GLP) JOD	252,144,945
Average Outstanding Loan Balance JOD	612
Women Borrowers (%)	68%
Number of Branches	202
PAR > 30	10.9%
Written Off (%)	0.73%

Forward

There are many factors that can impact the success or failure of a business, quality of life, and future plans; the most recent one is COVID- 19 pandemic. After more than a months of businesses closure due to the lockdown during March 2020 and the and the consequences of frequent waves of the spread of the virus; both MFIs and the clients have severely suffered economically and socially, and this is considered the worst crises ever that affected microfinance clients, due to being a very vulnerable segment and it will be easily affected from any economic or health crises such as what happened in COVID-19 since they depend in their household income on their own business day to day income¹. As part of its mission and core objectives, Tanmeyah took the initiative of conducting a study to assess the effect of the pandemic on its network's clients, It is important to track this issue and work on helping the MFIs with capturing the results of 2 phases research project by finding ways for improving practices during such crises, find solutions or develop new services and products that would save both the institutions and the clients.

The importance of assessing Covid-19 impact on clients should never be ignored; it should be considered especially while planning and setting business objectives, and mainly due to the absence of a certain time for its end date even with the presence of vaccines of all kinds and availability in Jordan – National vaccination plan have started in February 2021-. It is a long-term pandemic and once it ends the recovery will not be an easy process, principally; it is a new real challenge to our local and even global MF industry that should deal with throughout the next period.

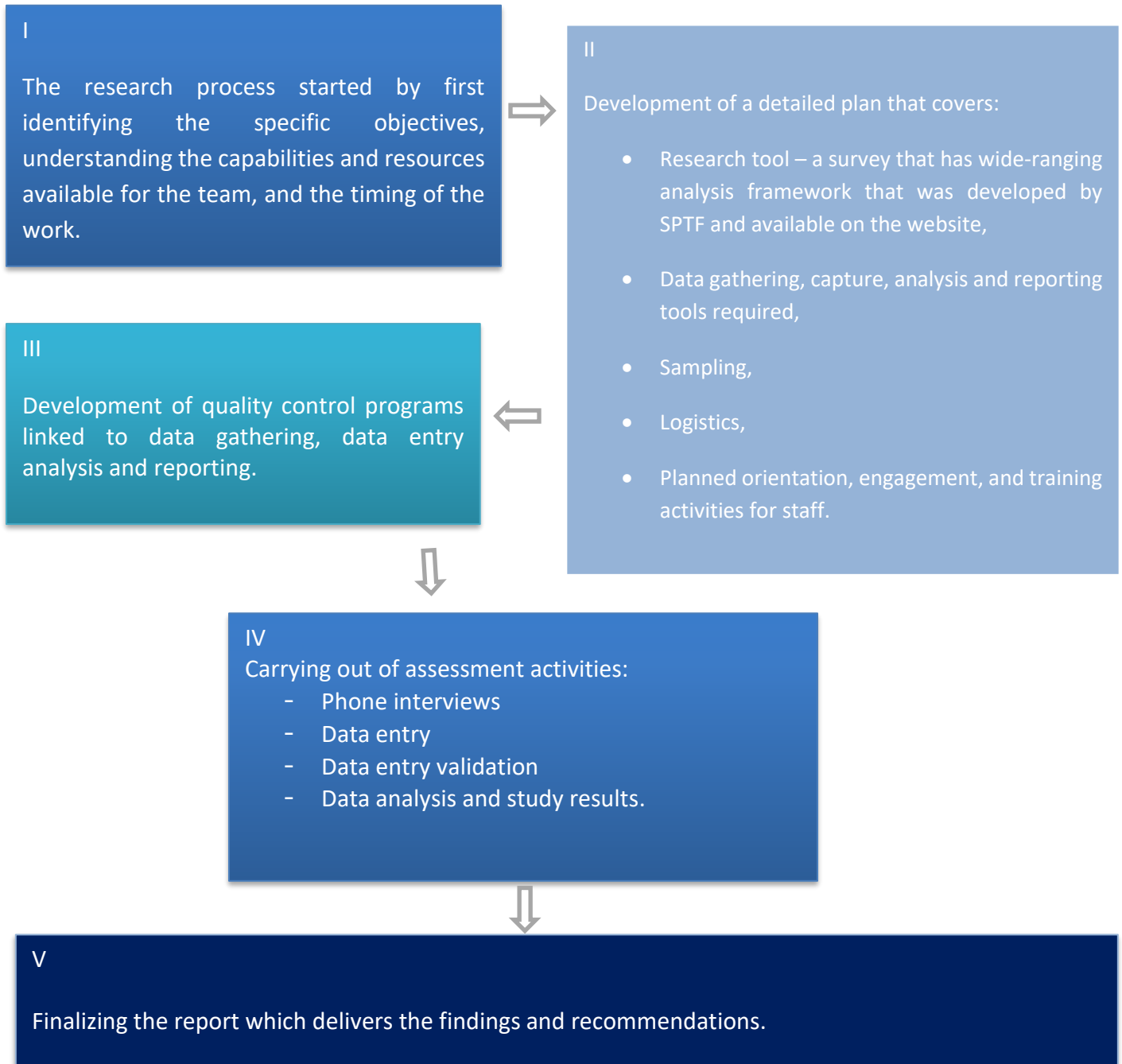
Eventually, the clients are the sector's core capital, for that, we need to investigate everything related to them and impacted their businesses and lives to ensure that we meet our clients' needs and to think about what things we can do better to treat them better during this crises. For that, we decided to conduct this survey to find out the foremost negative impact that occurred to the different types of businesses and tackle clients' major pain points.

This report shows findings, conclusions, and recommendations of both survey rounds. Besides, each MFI - whose clients were surveyed- will receive its own analysis document with the raw datasheet for both phases as well; making this data available to each MFI separately will help to understand what major challenges affected its clients and develop solutions to overcome these challenges.

¹ https://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_749136.pdf

Methodology and Objectives

We utilized five steps process to conduct the study for both survey rounds, the steps are described in the following:



Objectives

The primary objective of any assessment study is to obtain data that can be analyzed to reach insightful information that will help MFIs to use it to enhance their products, services, and operations as per clients' needs maintaining MFI business sustainability. However, the key objectives of Tanmeyah by performing such exercise include the following:

1. This project seeks to assess the impact of the COVID-19 pandemic on microfinance clients in Jordan, and the researched microfinance companies are only the formal ones who are already licensed by the Central Bank of Jordan, which consists of nine institutions in addition to the program of UNRWA.
2. Investigate and evaluate the effects of the COVID-19 pandemic on different segments of microfinance clients, including males and females' owners of registered businesses and home-based ones, in the different governorates of Jordan.
3. Pinpoint the out norms on clients' financial and social situations that have been occurred due to the pandemic; such as, main pain points, future plans, which sectors are most affected, and what is the potentials of new services and products that would work in the new situation.
4. Find policy or regulation changes MFIs could promote, in order to benefit clients.

Methodology

In order to understand the effects of the pandemic on the person and economic well-being of microfinance clients, Tanmeyah surveyed a sample of clients from all of the microfinance institutions in Jordan's microfinance sector using the COVID-19 client interview tool that was developed by SPTF. All of the interviews were conducted over the phone by Tanmeyah employees.

Data Management & Quality Control

Appropriate efforts and procedures were in place to ensure the quality and accuracy of data being collected thus the results. The procedures used in this study were:

- Monitoring of appropriate interviewer behavior: each researcher should sign the research ethics prior to the kick-off of the data collection phase.
- Monitoring of completion of data collection by daily reviewing all completed interviews.

- Using customized software with effective validations to ensure accuracy, relevance, and reliability.
- Full documentation of procedures and methods.

Sampling

A random selection of MFI's portfolio as of which was 440,650 clients (Number of active clients as of the 4th quarter 2020)

- 464 clients were interviewed in phase I and 488 in phase II. This selection was calculated at a 95% Confidence level and 5% Margin of error.
- A random selection of the portfolio was conducted using MS Excel².
- The average number of client surveys per MFI was 46 in the first round and 49 in the second.

Tanmeyah Members Whose Clients Were Surveyed

1. VITAS JORDAN.
2. Micro Fund for Women.
3. Jordan Micro Credit Company "Tamweelcom".
4. National Microfinance Bank "Al Watani".
5. Ahli Micro Finance Company.
6. FINCA Jordan.
7. UNRWA Microfinance Department.
8. Ethmar for Islamic Finance.
9. AlAmeen for Microfinance.
10. Al Namouthajieh

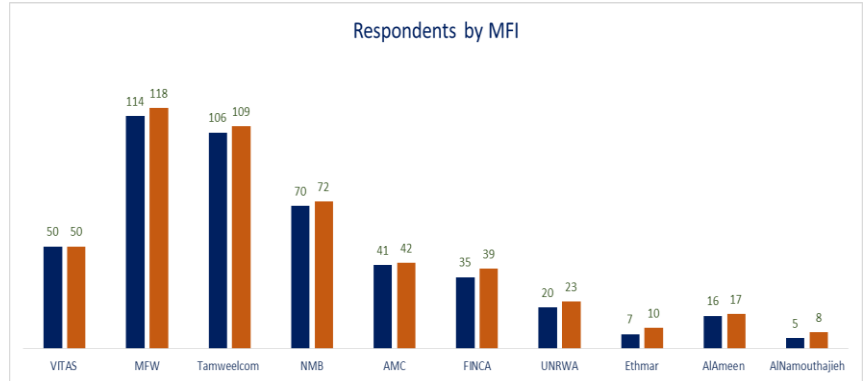
² Extra list was reserved to be used in case the researchers could not interview the clients in the first list for acceptable reasons.

Analysis and Findings

Respondents

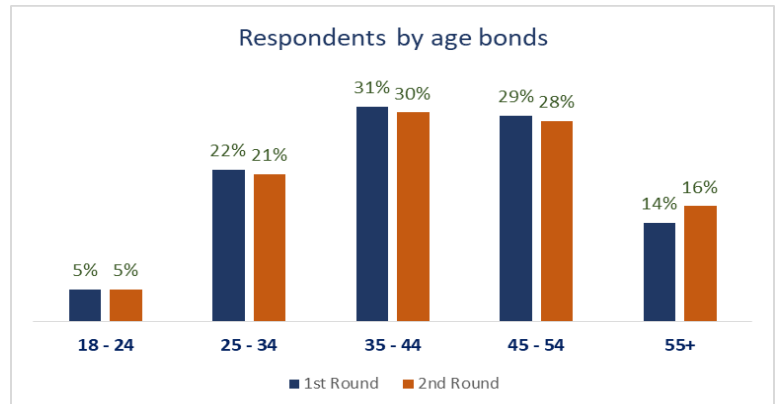
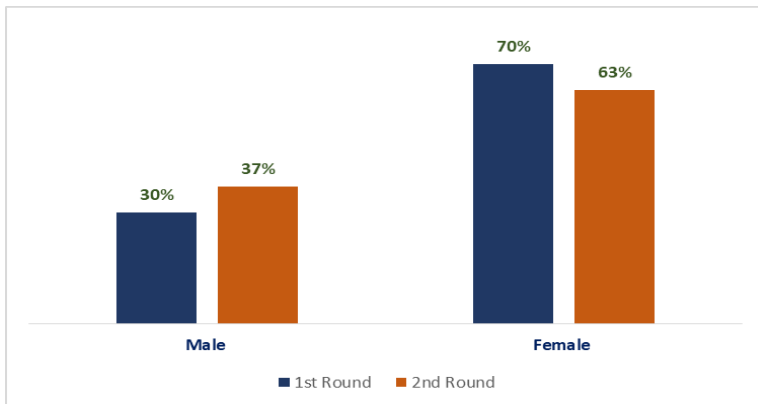
The study recorded a high response rate in both phases that reached 90% on average.

Average of 67% of the respondents were females and this reflects the gender distribution among the MF clients in Jordan. The following chart shows the respondents by age for all MFIs.



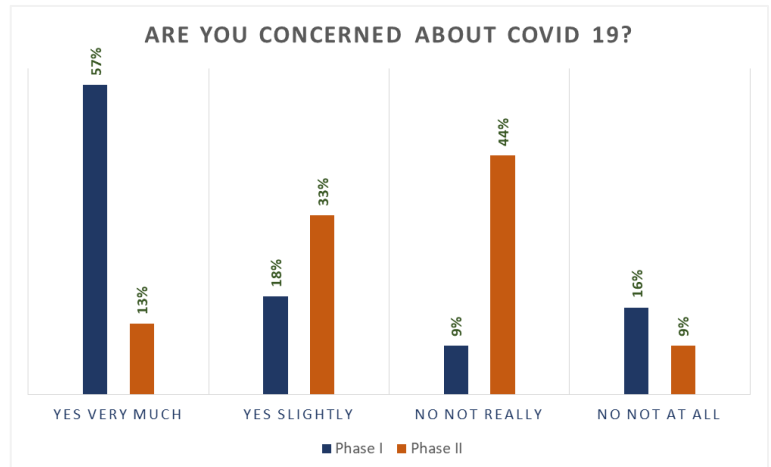
Knowing the majority of the respondents were females, the highest number of respondents were at the age of 35 to 44 years old, and 71% of them are females.

Regarding the place of residence; 73% of the respondents are living in the majors' cities of the Kingdom governorates and 69% of them are females.

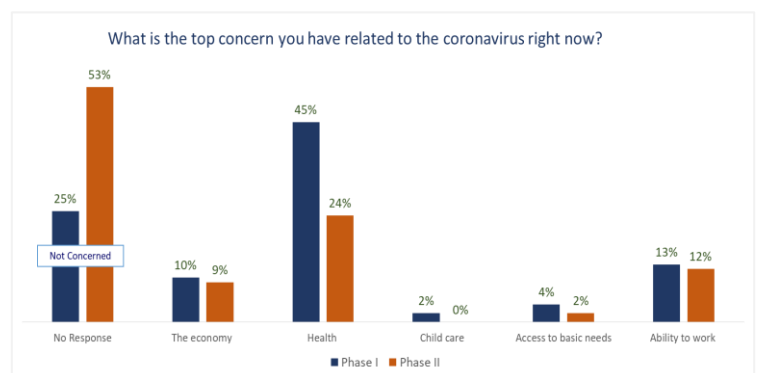
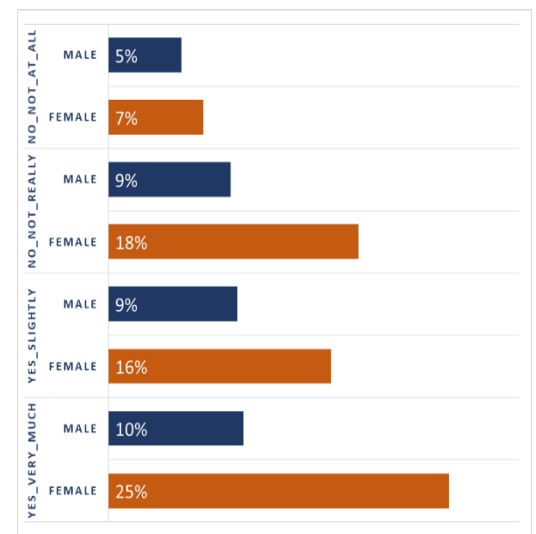


Concerns about COVID-19

We asked the clients if they are concerned about coronavirus; the analysis showed that the majority of respondents are concerned with percentage of 75% at the first survey round, this percentage have decreased to be 46% at the second, and the percentage of people who are not concerned have increased significantly, this can be considered as major shift in the degree of fear of the pandemic, feasibly the causes centered around the following:



1. People got more oriented to areas that have direct and severe impact on their daily life, like the socio-economic crises that they are experiencing now and this is obvious when we look how the biggest area of concern have changed from health to other areas.
2. It is noticeable – from the clients’ answers- that people begin to feel that the epidemic is not as dangerous as they initially thought, and that it is possible to remain healthy and protected by taking the necessary measures.
3. The appearance of the vaccines; this might have impacted the level of fear especially that vaccines have become available and that the national vaccination plan is witnessing an increase in demand day after day.
4. At the time of data collection at the 1st round; the insurance was not covering COVID-19 and any interruption caused by it whether on the level of health or business, but now most of the insurance plans have a COVID-19 coverage plans.



However; the level of concern for the clients is based on the area of fear and the level of expected impact related to that area.

Respondents who confirmed that they are concerned were asked to detail their biggest concerns; Health was the largest first response with 45% (36% of them were females) followed by the ability

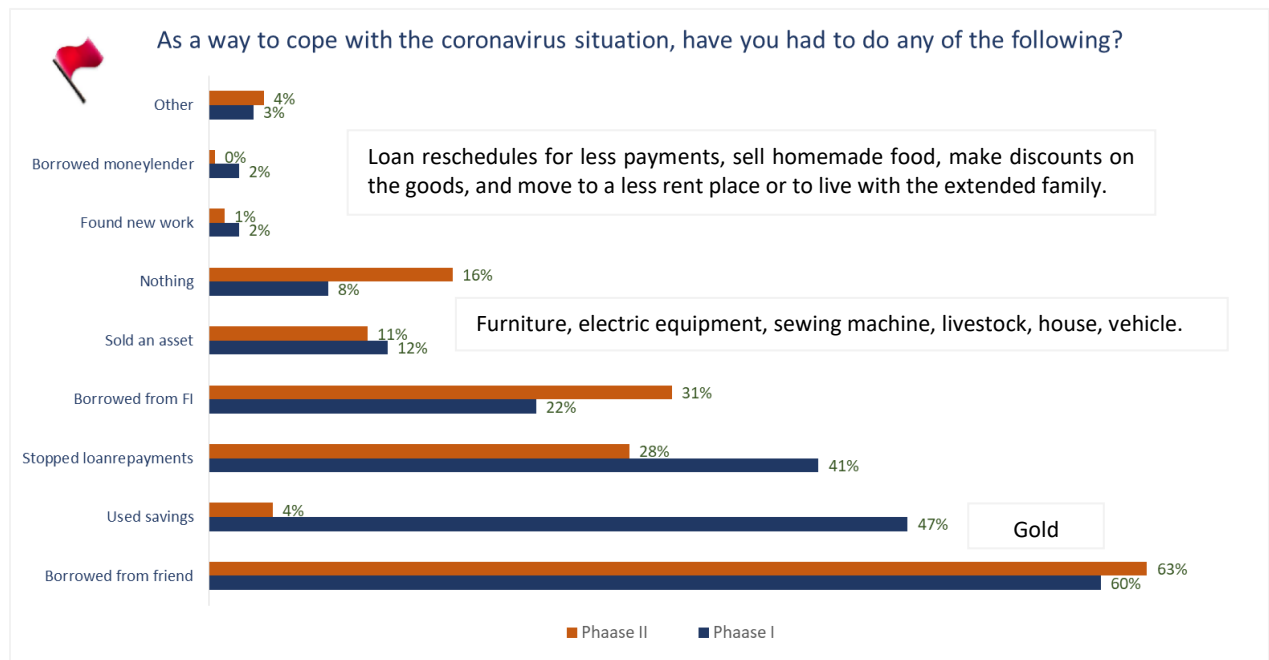
to work and earn income with 13%, and 10% of them stated that they are highly concern about the economic situation at the first survey round; after that and after we have analyzed the responses of the second round, things have changed and as it has been mentioned before percentage of people who are not concerned have increased while the concern about the economy and the ability to work recorded between 9% to 12%, followed by access to the basic needs which is apparently in the lowest between the concerns with 2%, although the level of concern have decreased and some of the respondents replied that they are not concerned at all; we have noticed – while talking with the clients and upon their answers to the open questions - that clients are really highly concerned about the future consequences of the pandemic and all the distresses that derived because of it.

A noteworthy decrease of the percentage of concern about health at the second phase which was 21%. Although the clients stated that health is their priority; they stressed that they are highly afraid of the long-term consequences of the lockdown and its impact on their lives especially their businesses and income. During the interviews, clients shared their fears openly and stated that they are afraid that someday they won't be able to put food on their tables. As for MF clients, it is a significant area of fear especially if they are business owners and that business is the main source of income to the household.

Despite the fact that the female sample is almost 2.3 double the male sample, female respondents showed higher anxiety regarding COVID-19 in all areas of concern, yet respondents from age between 41 – 60 showed higher concern than others and in all areas.

Coping With the Situation

The COVID-19 pandemic is a new situation that affected all spectrums of society all over the country, MF clients suffered a lot due to the closure for their businesses during the lockdown and curfews, even after the lockdown, businesses are still forced to operate at a limited capacity. Many clients detailed that they had to take several actions to cope, the majority of the clients had to use their personal savings, stopped loan repayments, and borrow money. We asked the respondents what measures they took to overcome the situation, and reported the following:



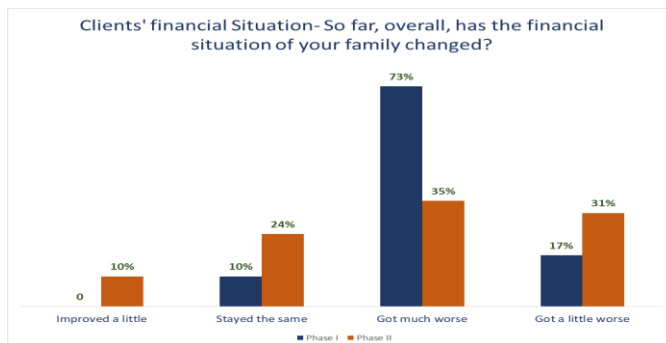
Nothing have changed; clients' ways to cope with the new situations are the same as they don't have any other options.

It is well known that one of the biggest challenges that the Jordanian MF sector is facing is clients' over-indebtedness due to many reasons, and lots of measures, practices, and initiatives are being executed recently to overcome this challenge by both MFIs and Central Bank of Jordan. This problem will be exacerbated because of the remarkable change in the financial and economic situation - from bad to worse - because of COVID-19, and one look at the above chart that shows how clients choose to cope with the new circumstances makes us raise several warning flags. The majority of MF clients tend to borrow money, in general; to cope with the current situation, yet what raised the flag that those are active MF clients and during the COVID-19 period they also borrowed money from other financial formal or informal resources and this will affect active clients' DBR negatively and at a later stage, the MF portfolios will be affected, still - and as an observation after talking with respondents- the tendency to borrow cash whatever the source is high and expected because of the tough financial positions the clients are facing, this for sure will make the mission even harder and microfinance industry would suffer even more. Not to

mention how it will get worse due to the monetization of assets especially the productive one as up to 12% of the respondents have chosen it to handle the new situation and the percentage is almost the same in both survey rounds.

Clients' Financial Situation

Besides the fact of the poor economic situation in Jordan, it is understandable that the clients have undergone several negative changes due to the pandemic especially with regard to the financial situation. 90% of the respondents - 64% of them are females - stated that their financial situation got worse than before and 10% of them answered that their income is the same at the first survey round.



Respondents have mainly suffered from the change of their primary source of income because of the negative impact of the pandemic, however; 39% of the interviewed have a second income and it is negatively impacted as well.

The second round main focus was the situation after phase I, which means in the last 4 to 5 months after the 1st round of the survey. Accordingly; clients who responded that the situation is the same have witnessed worse financial position at the 1st phase of the study.

Also, clients showed a huge confusion in assessing their status as 10% of the respondents have stated that it have been improved BUT after analyzing the responses we noticed that 58% of them have borrowed from FIs, Informal lending channels or stopped loan repayments, while 44% almost did nothing to cope but the reopening of the economy made their situation a little better.

We asked the clients about the main reasons behind the negative change on their income and the answers were exactly as expected, yet, it was because of the businesses closure for a long time and the restrictions after the reopening³, also the reductions made to the salaries, bonuses and privileges and some of them were terminated from their jobs⁴, not to mention part-time jobs, daily workers and informal employees.

Despite the bad economic situation, it is obvious that the systems of the FSPs are well established and the clients have no objections regarding the availability of their services. Even with the bad

³ The opening hours were reduced due to the curfew and businesses have to implement strict measures to prevent any potential of infection like masks, sanitizers and gloves which caused extra costs.

⁴ Employers reduced the salaries and the government stopped the bonuses and privileges for the public sector employees until further notice.

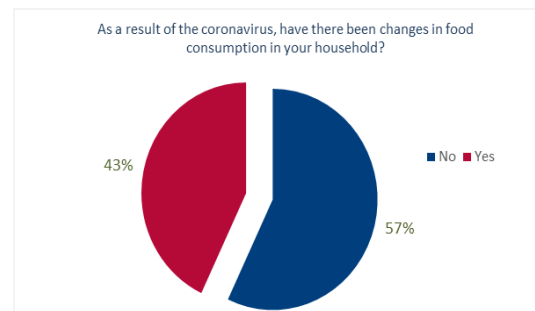
economy and the conditions that customers are going through due to the limited sources of their income in which in many cases was stopped not replaced with any other income resources.

But access to cash was not a problem for them; When we asked customers about the ability to access cash, the analysis showed that 90% of customers had no problem accessing ATMs and banks due to their availability, spread, and closeness, of course at the event of availability of cash in their accounts. While 6% of the respondents stated that the access to cash was harder due to the curfews and sometimes, they have to walk for long distances to reach the bank or the ATM, rather than that the hardest for them was the absence of resources and money.

Food Security

The impact of COVID-19 on families' food consumption was not positive at all, the analysis showed that 43% of the respondents stated that there have been changes in food consumption.

31% of them have decreased consumption of some kind of food like meat.



Hope and future prospects

It is essential that during this type of crises to ask people if they are still hoping for a better future and if they have plans to overcome the challenges, what the analysis revealed that more than most of respondents have no hope, in addition, most of those who don't have any kind of hope stated that the situation will get even worse because of the absence of awareness, government measures, and restrictions and most of all the weak collaboration between all sectors in the face of the crisis. While still some of respondents do not have any answers or any predictions to share.

On the other hand, some of the respondents are moderately optimistic, and they appreciate that the government have taken measures that would ease the effect of the pandemic on the society especially the ones related to health. People are trusting to be back to their situation before the pandemic and hoping things would change positively if the restrictions got eased by the government.

Kind of Help Clients Need

Nothing changed between both survey rounds; we asked the respondents if they have suggestions that might help MFIs explore the new needs that occurred as a result of the current situation, the majority of clients stressed on the reduction of interest rate, even those who asked for payments' deferring; they want it without or with less interest, also clients asked for a reduction on the amount of the installments and some clients asked if the MFIs can offer top-up loans so they can cover the cash needs that occurred.

Clients also stressed that they are looking forward to new services that would be aligned with the new needs that emerged due to the new situation, some of them gave suggestions like if MFIs can partnership with some businesses to rescue them from closure or failure as a result of the bad economic situation, another suggestion was if the MFIs can offer a product that would be grounded on the principle of splitting the loan amount and giving it to the customer in portions so that the payment increases as the amount increases and according to the progress and growth achieved by the business. In addition, clients asked if there is a possibility that MFIs can make partnerships with their providers to ease the collaboration between them and make access to goods, raw materials, or any needed machines, tools, or even technologies.

Since most of respondents requested differing payments we asked them if they have enough information about the costs and charges that they will bear in case of differing installments and 40% of them stated that they don't know anything about it at the first phase while the percentage have decreased slightly at Phase II to be 36%, and those who stated that they know they will be charged extra interest for postponing the repayments stated that they don't know how it is calculated or planned.

Clients' Main Pain Points

It is unquestionably a bad economy combined with a crisis. We conducted the first round of interviews while the country was registering zero local cases sometimes, while the second round of interviews was conducted during the worst wave of the spread of the virus and the country reached the highest number of infections and fatalities, although most of the sectors are open but Jordan is still imposing lots of restrictions like night curfews and Fridays lockdown, but clients shared - during the interviews and in both rounds - lots of pain points that worth considering:

1. The costs that they have to bear as a result of borrowing, especially the taxes and commissions.
2. Clients stated that they are dissatisfied because they cannot borrow at a low-interest rate from MFIs while banks offer their clients loans with 2% IR⁵.
3. Charges and extra interest as a cost on differing the installments are a big concern.
4. Lack of services and products that aligned with the new needs.
5. No insurance coverage that compensates stop of income and or business interruption.
6. Education and schools are a tangible pain point, clients have lots of concerns regarding children's education due to the lack of resources when schools switched to distance learning.
7. After being the top concern, health became bottomless issue, Clients are concerned about Food security, ability to work, and access to the basic needs for households. People know that if they got to suffer from any kind of disease it would affect their work, their quality of life, and most of all their dependents, but all what they want now is any kind of help to be back to the situation prior to COVID-19.
8. Clients are still experiencing the uncertainty feelings, which makes them not sure about the situation and makes things unpredictable for them.

From the Client's Talk

Clients were willing to talk and share concerns, hopes, and depression, and below is a list of some words we have caught:

- “Even before corona, the situation was really bad and this crisis made it the worst ever. Not sure I can survive anymore”
- “Whatever the situation gets, I just want to remain able to feed my children”
- “The situation will become the worst, the number of those who lost their jobs is very high, who will employ them and how will they have hope in the future?”

⁵ CBJ launched this initiative with JOD 500m for the banks only.

- “The situation is getting worse because the measures are not taken upon an agreement between all parties, which raises more anxiety”
- “I don’t have work now; what hope would have in such circumstances”
- “Even if the government imposes strict measure, if people do not understand the risk and comply; nothing would work”

Recommendations

It takes a combined effort and a clear channel of communication between all parties to overcome the challenging situations. MFIs, government, decision-makers, and regulators have a duty to create joint efforts to rescue the sector and its clients. MFIs have suffered a lot as well; please see the Study [the Impact of COVID-19 on the efficiency of microfinance institutions](#).

Below we listed a number of suggested recommendations to work on it by MFIs during this period to cope with the current and near-future COVID-19 consequences.

- A new study for client emerging needs: after a year of suffering due to the pandemic and its results on the economy there must be a rescue plan for both MF sector and its clients and this plan should be holistic and the best start is to research and study the clients' needs, ways to understand the changes have occurred in their behavior and their focus of attention.
- Managing cash flows from the clients' side is important to allow them to split their obligations especially with the lenders (MFIs) as most of the clients were not able to pay their monthly installments.
- MFIs/ Tanmeyah to prepare advice or a consulting program to support MF clients who were affected financially or socially by the pandemic, this program will help MF clients to better manage their business and its financial resources and help them find better solutions for their businesses.
- MFIs should think to provide different types of insurance policies or provide it as an added value service to their clients and to include different insurance policies such as health, loss of pay, hospitalization insurances, and many more insurance types.
- Provide more financial and digital financial services that satisfy clients' needs with an ability to make the product development process to be more agile that service the dynamic demand of change from the client-side.
- On a policy level, CBJ considers the microfinance sector as one of the main essential stones in achieving the National Financial Inclusion Strategy, so it is recommended from CBJ to provide financial facilities similar to what has been offered to the banking sector to support the sector and its beneficiaries which also will have a positive impact on Jordanian macroeconomy at large.
- It is recommended from CBJ to clearly differentiate when it comes to formal communication messages between banking sector clients and microfinance sector clients as during the pandemic period there were some misunderstood messages.
- It is recommended from the government side also to reconsider the taxation strategy for the microfinance sector, as we all know microfinance clients' considered as a very vulnerable, unbanked, and underserved segment, therefore lowering taxation in all kinds will help to leverage their business and social wellbeing and the Jordanian

economy as this segment considered one the main important engines of job creation and self-employment.

- As a way to help MFIs to continue with their strategic plans, there must be a credit risk insurance plans that would mitigate or transfer the risk of defaulted loans. The insurance providers in Jordan are not willing to provide such plans even the licensed ones because it is still risky for them; for that it is highly recommended to combine efforts to have a plan through a representative for all the sector who can negotiate it with providers or to assign a pool under the supervision of CBJ to play the role of credit risk insurance.