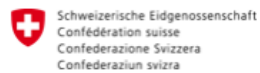




Impact of COVID-19 on microfinance clients in Jordan

Phase I Report

October 2020



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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 will be 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 will be the same for round two to assess the change during those 6 - 7 months after the first round.

The survey targeted 468 clients, 70% were female clients. The results showed in the first round that the majority 75% of microfinance clients are very much concerned about the COVID-19 and their concerns are related to health, ability to work and access to basic needs, lock-down and closures affected negatively business owners, some employees who do not lose their jobs are suffering because of the deductions imposed on their salaries, not to mention the severe negative impact on the day laborers.

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 to cope with the new situation and to be able to manage the shortage in their cash-flow and income, more than 60% of them borrowed money from friends, 47% utilized their savings, 41% postponed their loan repayments and 22% took a loan from a financial institution, some clients borrowed from informal money lenders. Those statistics would make decision-makers expect the sector's risky future in the long term.

In terms of food consumption, survey results showed that families' food consumption becomes less due to the scares resources, the analysis showed 22% reduced the number of daily meals and 35% of them decreased some kinds of food like meat and this affected them negatively.

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, insurance coverages, 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 first-round survey, 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 appeared needs.

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. We believe that the second survey round will sort 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

This project seeks 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 will survey 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 (<https://sptf.info/covid-19/covid-19-client-interview-tool>).

The administration of the survey is designed to be conducted in two rounds. Round one between August 2020 and September 2020, 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.

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 Q1/2020

Active Borrowers	467,805
Active Loans	450,179
Total Gross Loan Portfolio (GLP) JOD	264,855,275
Average Outstanding Loan Balance JOD	588
Women Borrowers (%)	67%
Number of Branches	211
PAR > 30	4.9%
Written Off (%)	0.7%

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 a months of businesses closure due to the lockdown, 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 income. 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.

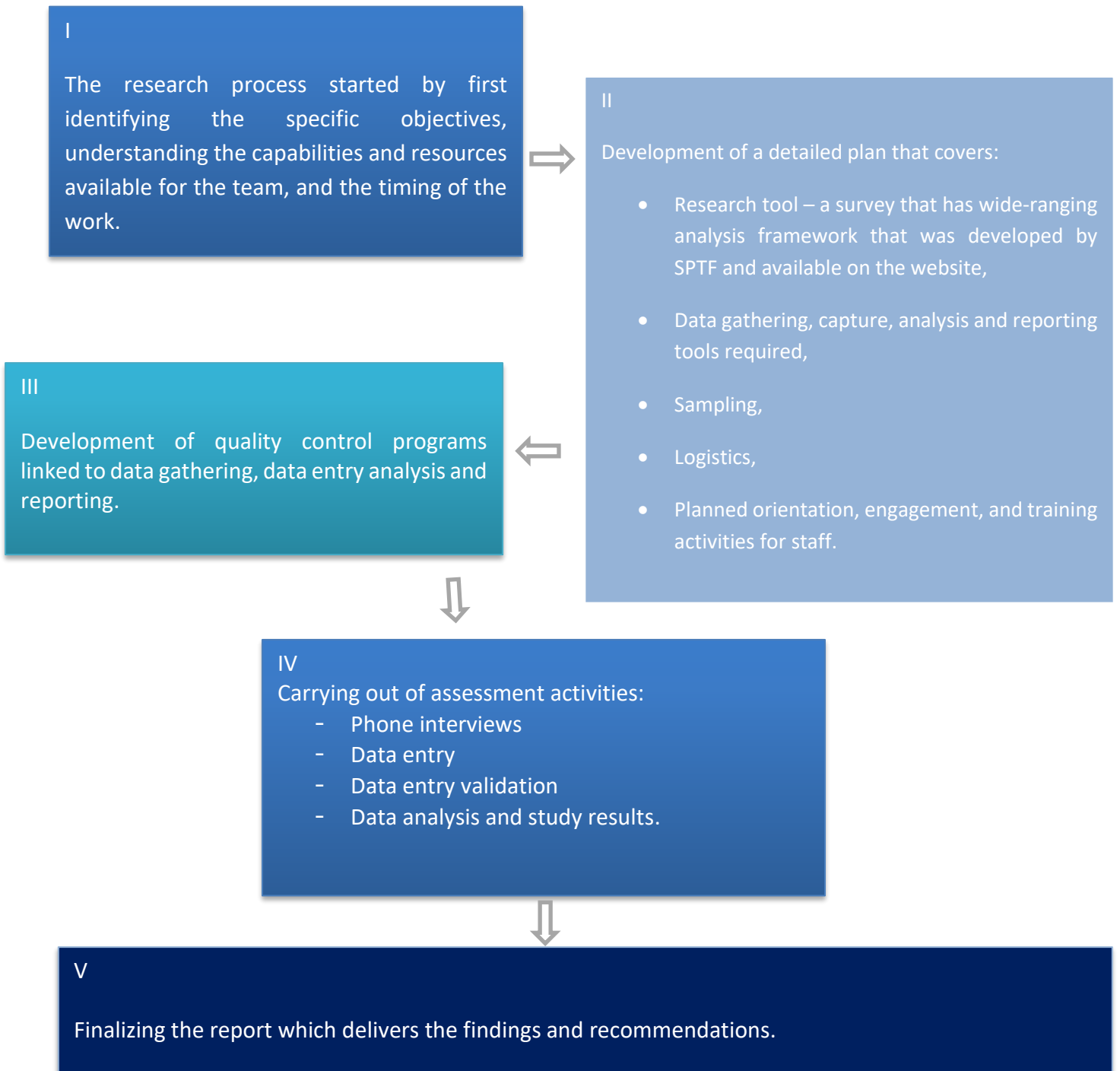
The importance of assessing Covid-19 impact on clients should never be ignored; it should be considered especially while planning and setting business objectives, and mainly due to the absence of a certain time for its end date and the nonappearance of vaccines and medicine as well. It is a long-term 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 phase I. Besides, each MFI - whose clients were surveyed- will receive its own analysis document with the raw datasheet. Make this data available to each MFI separately will help to understand what major challenges affected its clients and develop solutions to overcome these challenges.

Methodology and Objectives

We utilized five steps process to conduct the study, 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 467,805 clients (Number of active clients as of the 1st quarter 2020)

- 464 clients were interviewed, this selection was calculated at a 95% Confidence level and 5% Margin of error.
- A random selection of the portfolio was conducted using MS Excel.
- The average number of client surveys per MFI was 45.

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

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

² We have interviewed 468 clients but due to duplicates; 4 responses were not included in the analysis.

Analysis and Findings

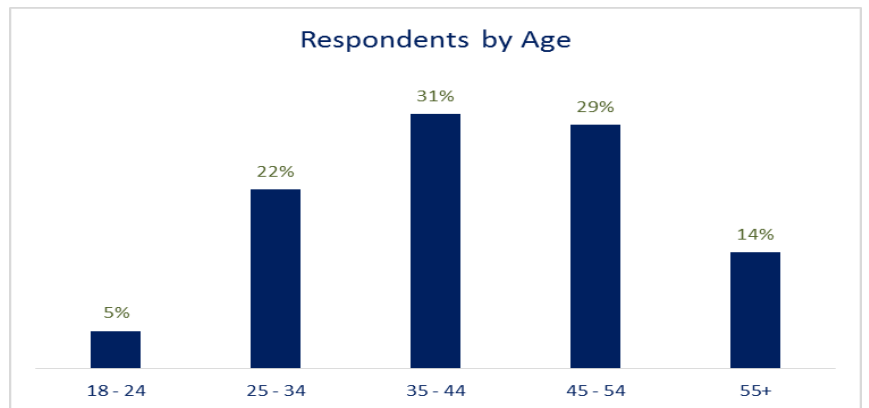
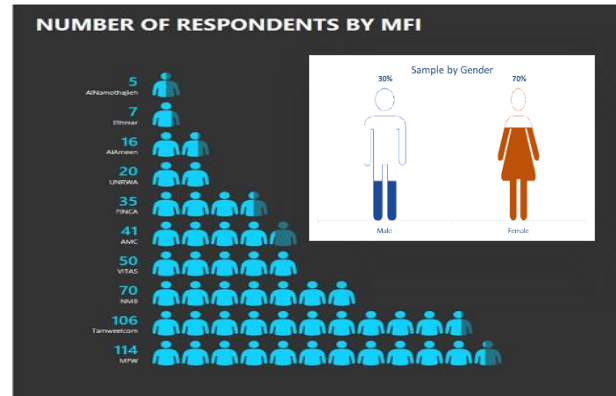
Respondents

The study recorded a response rate of 89%.

70% 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.

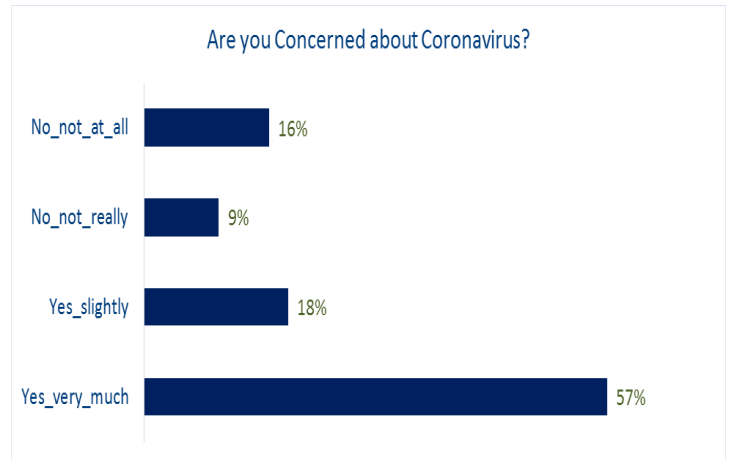
Knowing the majority of the respondents were females, the highest number of respondents were at the age of 35 to 44 years old, and 71% of them are females.

Regarding the place of residence; 73% of the respondents are living in the city and 69% of them are females.



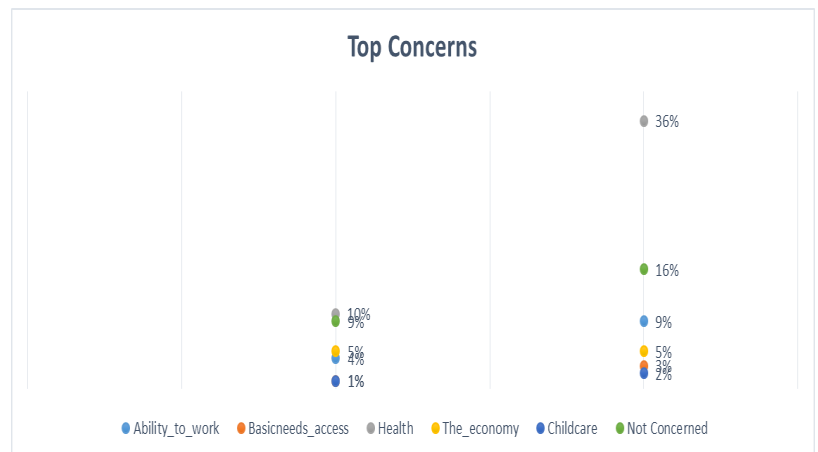
Concerns about COVID-19

We asked the clients if they are concerned about coronavirus; the analysis showed that 75% of the respondents are concerned about Covid-19 -71% of them are females as well-, meanwhile, 25% of them are not really worried. 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. Although the clients stated that health is their priority; they stressed that they are highly afraid of the 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 find 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.

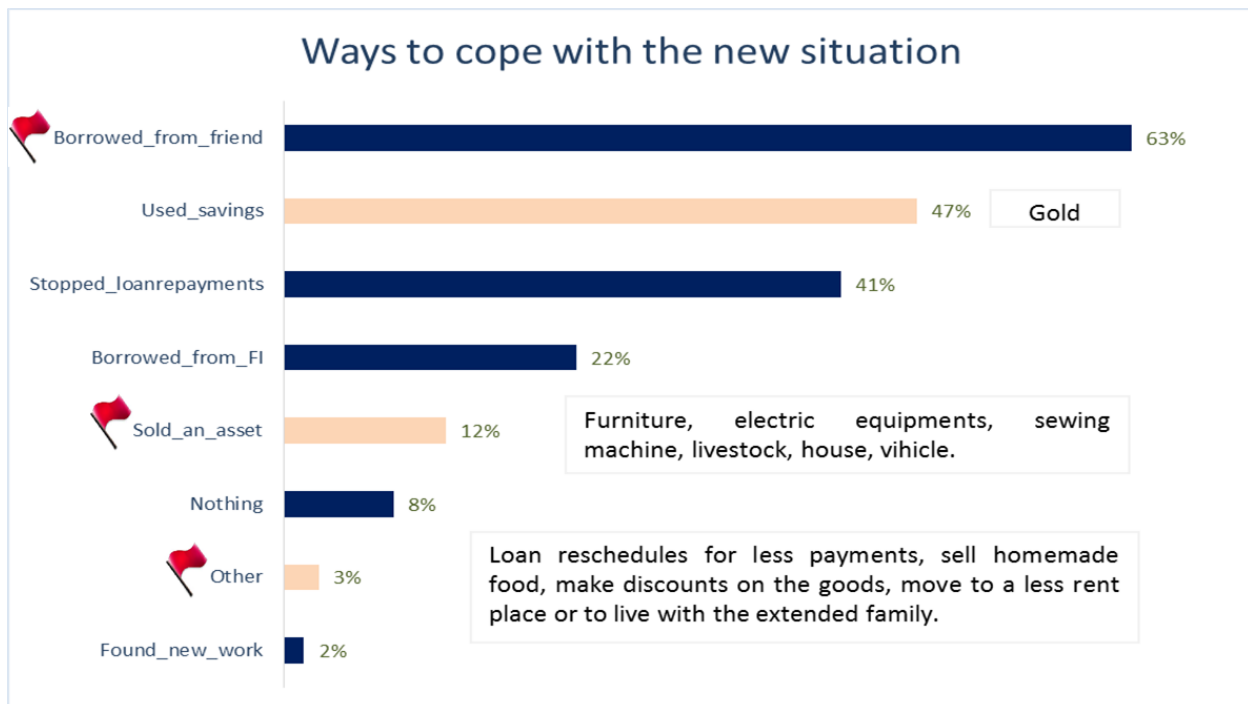
Despite the fact that the female sample is almost 2.3 double the male sample, female respondents showed higher anxiety regarding COVID-19 in all areas of concern, yet respondents from age between 41 – 60 showed higher concern than others and in all areas. Around 56% of the respondent's ages are above 41 years old and this justifies that the main top concern for the MF clients is health since they might be



suffering from certain diseases and these diseases might be chronic ones, so age and health history play a major in determining the major top concern of COVID-19. It is also worth mentioning that the insurance does not cover COVID-19 and any interruption caused by it whether on the level of health or business.

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:



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, and the challenge will come over again due to the recent situation 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 lend 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.

Clients' financial situation

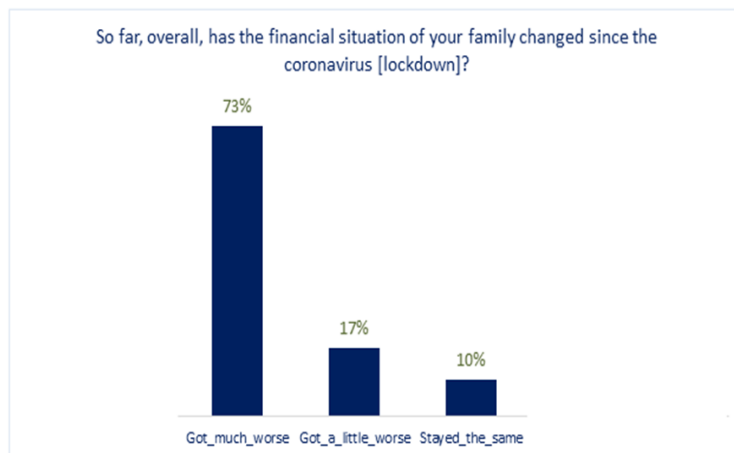
Besides the fact of the poor economic situation in Jordan, it is understandable that the clients have undergone several negative changes due to the pandemic especially with regard to the financial situation. 90% of the respondents - 64% of them are females - stated that their financial situation got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

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.

We asked the clients about the main reasons behind the negative change on their income and the answers were exactly as expected, however, it was because of the businesses closure for a long time and the restrictions after the reopening, also the reductions made to the salaries,

bonuses and privileges and some of them were terminated from their jobs, not to mention part-time jobs, daily workers and informal employees.

Despite the bad economic situation, it is obvious that the systems of FSPs are well established and the clients have no complaints regarding the availability of them.



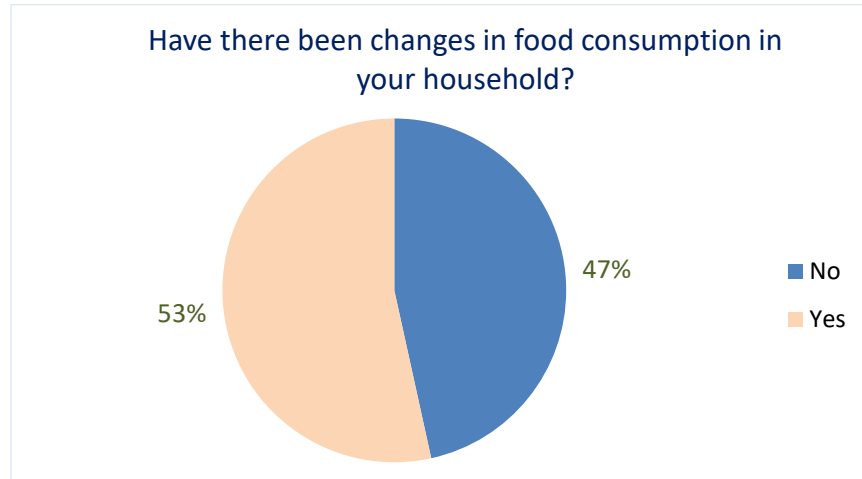
Even with the bad economic situation and the conditions that customers are going through due to the limited sources of their income and in many cases it stopped, but access to cash was not a problem for them; When we asked customers about the ability to access cash, the result was that 84% of customers had no problem accessing ATMs and banks due to their availability, spread, and closeness, of course in the event of availability of cash in their accounts. 13% 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.

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.

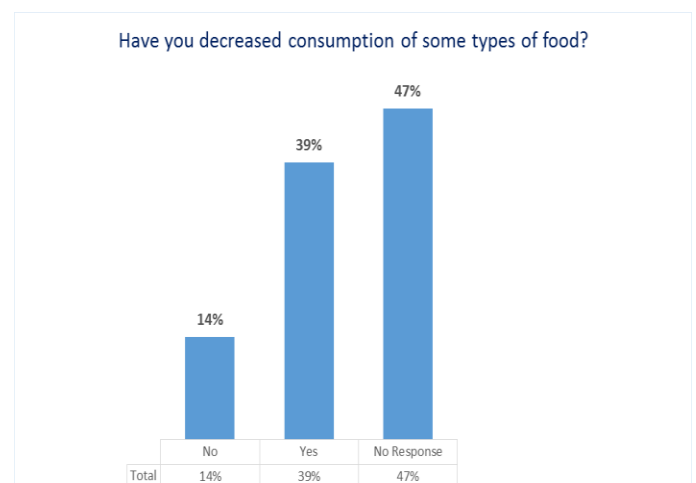
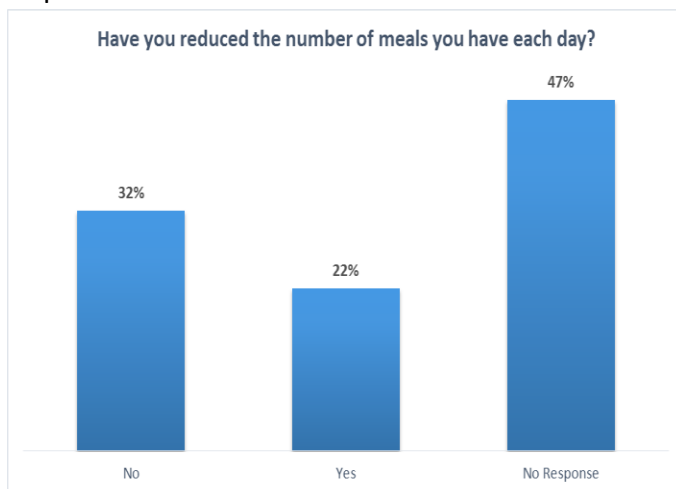
Food Security

The impact of COVID-19 on families' food consumption was not positive at all, the analysis showed that 53% of the respondents stated that there have been changes in food consumption, 22% reduced the daily meals and 35% of them decreased some kinds of food like meat.



Hope and future prospects

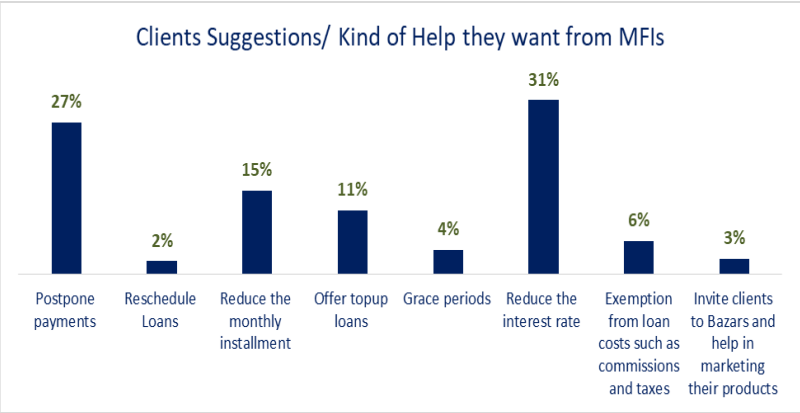
It is essential that during this type of crises to ask people if they are still hoping for a better future and if they have plans to overcome the challenges, what the analysis revealed that more than 50% of the respondents have no hope, in addition, most of those who don't have any kind of hope stated 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. 10% of the 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.

Kind of help clients need

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 27% of the respondents requested for 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 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.

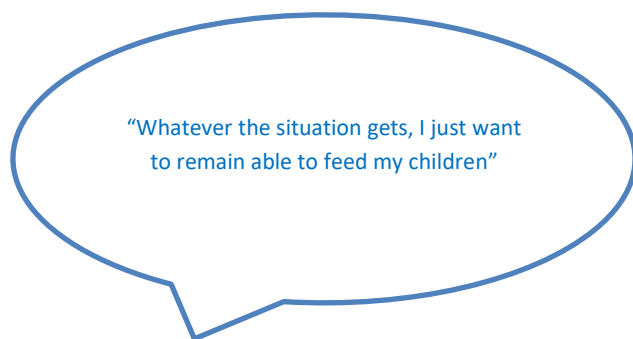
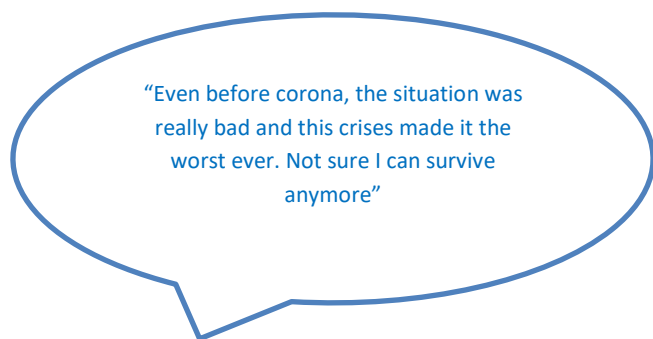
Clients' main pain points

It is unquestionably a bad economy combined with a crisis. We conducted the interviews while the country was registering zero local cases sometimes, and most of the sectors were reopened but clients shared - during the interviews- lots of pain points that worth considering:

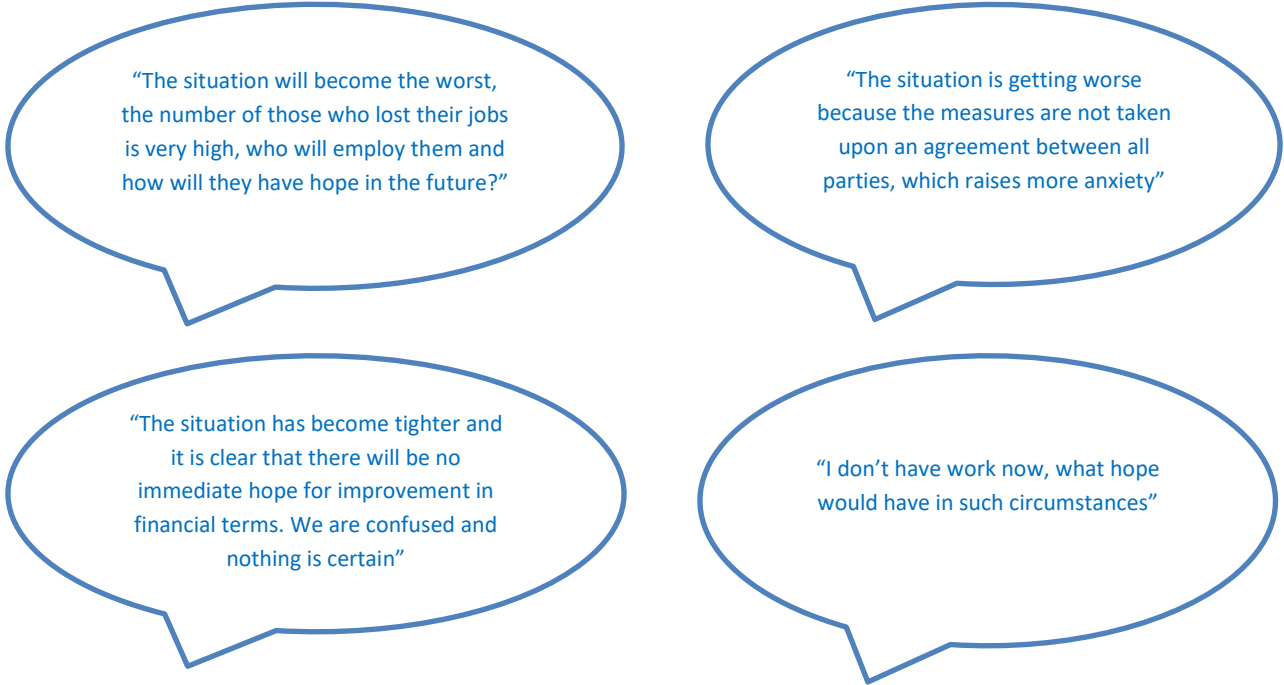
1. The costs that they have to bear as a result of borrowing, especially the taxes and commissions.
2. Clients stated that they are dissatisfied because they cannot borrow at a low-interest rate from MFIs while banks offer their clients loans with 2% IR.
3. Charges and extra interest as a cost on differing the installments are a big concern.
4. Lack of services and products that aligned with the new needs. It is
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. Food security, ability to work, and access to the basic needs for households became bottomless issues. Clients are concerned about their health as they know if they got to suffer from any kind of disease would affect their work, their quality of life, and most of all their dependents.

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:



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



“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?”

“The situation is getting worse because the measures are not taken upon an agreement between all parties, which raises more anxiety”

“The situation has become tighter and it is clear that there will be no immediate hope for improvement in financial terms. We are confused and nothing is certain”

“I don’t have work now, what hope would have in such circumstances”

Recommendations

It takes a combined effort and a clear channel of communication between all parties to overcome the bad eras. 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.

- Most of the MF clients were not able to pay their monthly installments; MFIs should provide an agile and fixable repayment methodology to help their clients in need during this situation and the same time to be able to manage their financial cash flows.
- 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.
- It's important for the Eco-system of the microfinance to have a dedicated loan guarantee services, in which have a good understanding about the unique business model of the microfinance sector and includes the targeted entrepreneurs within its services, to become financially independent and included within the formal financial sector.