



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

Policy Brief

The 2021 Global Findex Report: Why is it Important? & What is the Status of Financial Inclusion in Jordan?

August 2022

1. Introduction

Financial Inclusion is clearly defined by the World Bank Group. “Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit and insurance - delivered in a responsible and sustainable way”.

Since 2011, the **“Global Findex Database”**, maintained by the World Bank, has been the source of rich data on the use financial services. The database is based on surveys of representative samples in more than 120 countries across the globe. The Global Findex Database for the year 2021 was launched on 29 June 2022. One of the main indicators in the Global Findex Database is the proportion of percentage of adults (15 years or more) that have an account at a formal financial institution (such as bank, credit union, post office or microfinance institution).

According to the World Bank, financial inclusion is important for several reasons:

1. Financial inclusion allows their owners to store, send, and receive money for everyday needs safely and affordably. As well as plan for emergencies, and make productive investments for the future, such as in health, education, and businesses.
2. People without an account, by contrast, must manage their money using informal mechanisms, including cash, that may be less safe, less reliable, and more expensive than formal methods.
3. Evidence shows that households and businesses that have access to financial services are better able to withstand financial shocks than those that do not.
4. Studies have found that workers who received their wages through direct deposit had higher savings than workers who were paid in cash.
5. For women, accounts can enable financial independence and strengthen economic empowerment.
6. Financial inclusion is the gateway that equips men and women to use financial services in a way that facilitates development.

2. The Importance of Financial Inclusion for Central Banks:

High proportions of financial inclusion facilitate **“consumption smoothing”**. When financial inclusion is high, households would be more able to adjust their savings and borrowings in response to interest rate changes and unexpected economic developments. In other words, when interest rates are high, households save. On the other hand, when interest rates are low, households can borrow. As a result, households can maintain stable consumption / smooth consumption. Within this context, the scholarly research shows that aggregate consumption growth is more stable relative to income growth in countries where financial inclusion is higher.

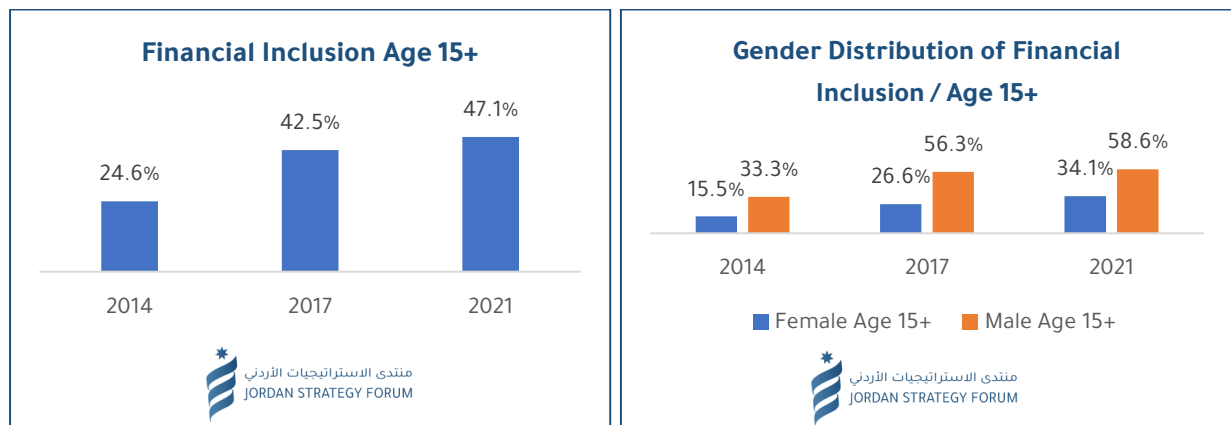
Given that financially included consumers are more able to smooth their consumption by adjusting their saving and investment decisions, and hence insulate themselves from output volatility, central banks can focus more on stabilizing inflation.

High proportions of financial inclusion strengthen the case for using interest rates as the main monetary policy instrument. Indeed, when financial inclusion is low, a high proportion of “money” is in “circulation”. Most households save in cash at home or **“under the mattress”**. If financial inclusion increases, a growing proportion of money would be in banks. In other words, given that bank deposits earn interest and bank borrowers pay interest, both depositors and borrowers are affected by changes in interest rates. Consequently, high proportions of financial inclusion increase the monetary policy transmission mechanism.

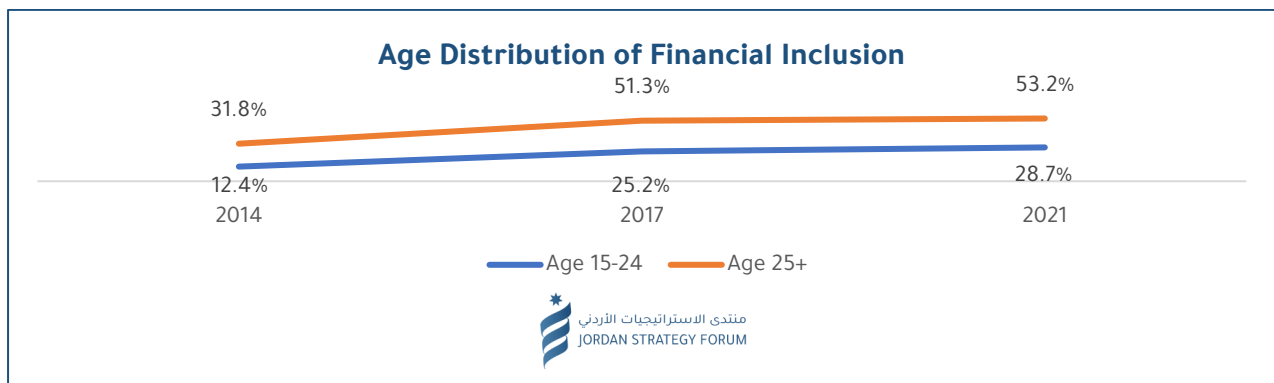
3. Financial Inclusion in Jordan

Relative to the above-mentioned arguments and observations, it is informative to note that the **Based on this report, we outline below few observations about financial inclusion in Jordan.**

1. Over time, it is encouraging to note that the proportion of financial inclusion in Jordan has increased from **24.6% in 2014 to 47.1% in 2021**. While female Jordanians are less financially included than males, their inclusion did increase at a faster rate. Indeed, the proportion of financially included females more than doubled (**from 15.5% in 2014 to 34.1% in 2021**).



2. Over time, it is also encouraging to note that the proportion of financial inclusion among 15-24 years old has more than doubled and increased from **12.4% in 2014 to 28.7% in 2021**. The proportion of financial inclusion among Jordanians who are 25 years old or more, on the other hand, has increased from **31.8% in 2014 to 53.2% in 2021**.



3. Over time, it is particularly encouraging to note that financial inclusion has increased among various categories. For example, among Jordanians with primary education or less, inclusion has increased from **18.2% in 2014 to 38.7% in 2021**. Similarly, among the poorest 40%, inclusion has increased from **16.3% in 2014 to 37.0% in 2021**. Finally, among those who are out of the labor force (unemployed), inclusion has increased from **13.8% in 2014 to 38.6% in 2021**.

Financial Inclusion in Jordan: Account (% age 15+)			
Category	2014	2017	2021
1. Primary Education or Less	18.2%	37.1%	38.7%
2. Secondary Education or More	26.9%	44.6%	50.2%
3. Income / Poorest 40%	16.3%	32.9%	37.0%
4. Income / Richest 60%	30.1%	48.9%	53.9%
5. Out of Labor Force	13.8%	31.2%	38.6%
6. In Labor Force	39.8%	57.1%	55.2%

For those Jordanians who have no account, 87% of them stated that the reason is that they believe that “they do not have sufficient funds”. In addition, on average, 90% of the public sector recipients of wages, get their money transferred to a bank account. In the private sector, this proportion is much lower (35%).

Indicator	Proportion
No account because financial institutions are too far away (% without an account, age 15+)	8%
No account because financial services are too expensive (% without an account, age 15+)	27%
No account because of insufficient funds (% without an account, age 15+)	87%
No account because of a lack of necessary documentation (% without an account, age 15+)	9%
No account because of a lack of trust in financial institutions (% without an account, age 15+)	11%
No account because of religious reasons (% without an account, age 15+)	14%
Received public sector wages: into an account (% of public sector wage recipients, age 15+)	90%
Received private sector wages: into an account (% of private sector wage recipients, age 15+)	35%

4. From a relative point of view, however, one must admit that financial inclusion in Jordan is low. The Jordanian proportion (47.1%) cannot be compared with those in the UK, Netherlands, and other countries, never mind those in Denmark and Germany. Regionally, financial inclusion in Jordan is lower than in the UAE and Saudi Arabia.

Proportions of Financial Inclusion (% age 15+) / 2021							
Country	Proportion	Country	Proportion	Country	Proportion	Country	Proportion
Denmark	100.0%	Singapore	97.5%	Kenya	79.2%	Zambia	48.5%
Germany	100.0%	Poland	95.7%	India	77.5%	Jordan	47.1%
UK	99.8%	USA	95.0%	World	76.2%	Morocco	44.4%
Netherlands	99.7%	Croatia	91.8%	S. Arabia	74.3%	Tunisia	36.9%
Sweden	99.7%	Iran	90.0%	Turkey	74.1%	Palestine	33.6%
Finland	99.5%	China	88.7%	Georgia	70.5%	Egypt	27.4%
France	99.2%	Chile	87.1%	Ghana	68.2%	Lebanon	20.7%
Japan	98.5%	UAE	85.7%	Zimbabwe	59.7%	Iraq	18.6%

5. The difference between females and males in financial inclusion in Jordan is large, while in many countries like Denmark, for example, females and males are equally included. In other countries like France, Germany, Sweden, UAE, and others, females and males are almost equally financially included.

Proportions of Financial Inclusion (% age 15+) / 2021					
Country	Female	Male	Country	Female	Male
Denmark	100.0%	100.0%	India	77.6%	77.5%
France	100.0%	98.4%	Kenya	75.4%	83.2%
Germany	100.0%	100.0%	World	74.0%	78.3%
Sweden	100.0%	99.4%	Georgia	70.7%	70.3%
UK	99.9%	99.6%	Saudi Arabia	63.5%	81.7%
Netherlands	99.5%	100.0%	Ghana	62.6%	74.2%
Finland	99.1%	100.0%	Turkey	62.5%	85.3%
Japan	98.8%	98.1%	Zimbabwe	54.0%	65.9%
Singapore	96.9%	98.3%	Zambia	45.0%	52.5%
USA	96.8%	93.1%	Jordan	34.1%	58.6%
Poland	95.7%	95.8%	Morocco	32.7%	56.0%
Croatia	90.0%	93.9%	Tunisia	28.7%	45.1%
China	87.3%	89.9%	W. B & G	25.9%	41.4%
UAE	86.7%	85.4%	Egypt	24.2%	30.6%
Chile	86.6%	87.6%	Lebanon	16.6%	24.7%
Iran	85.1%	94.8%	Iraq	14.9%	22.2%

The importance of women's financial inclusion is that it helps close the gender gap in terms of income, savings, access to credit, and access to insurance (such as health insurance). Constantly sending and receiving payments through digital payment methods contributes to building the credit rating of individuals, enabling them to obtain capital and borrow on concessional terms. This in turn helps women become more financially independent, increases their ability to save and helps them

start their own business, which contributes to Jordan's economic growth. Moreover, with higher percentages of women financially covered, this will positively affect children and allow them better opportunities for education and health care.

Based on the above-mentioned observations, we can outline the following conclusions about financial inclusion in Jordan:

1. Being a female reduces the probability of having a formal account.
2. More educated individuals are more likely to have a bank account.
3. Higher income is associated with more financial inclusion.
4. Older Jordanians are more likely to be financially included.
5. Overall, the proportion of financial inclusion in Jordan is low. The 47.1% of financially included Jordanians is much lower than the 76.2% that prevails in the World.

4. Conclusion and JSF Recommendations:

Today, the world is witnessing technological innovation that has resulted in significant progress in financial services within new and innovative solutions known as financial technology (Fintech). Jordan has been able to make good strides with regard to financial technology, such as transferring money via the Internet, electronic payment, licensing a number of virtual banks and electronic wallets, among others, which contributed significantly to the high rate of financial inclusion, especially in light of the fact that nearly 81% of residents of the Kingdom own a smartphone. (According to a study conducted by Data Report in 2020.)

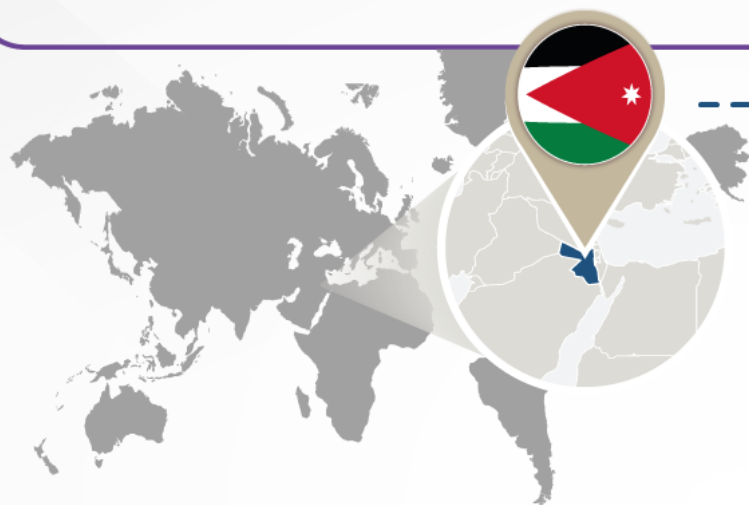
There is no doubt that the launch of the **“Financial Inclusion Strategy for Jordan: Moving Forward Towards Inclusive Growth / 2018-2020”** by the Central Bank of Jordan) at the Financial Inclusion Policy Forum was instrumental in increasing financial inclusion in Jordan. Naturally, this effort should be maintained and strengthened in future years so that all Jordanian are financially included. In addition, the private sector should be encouraged to transfer the wages on their employees to bank accounts. Indeed, this is the only way to realize the benefits of **“Financial Inclusion”**.

Jordan Strategy Forum recommendations to promote financial inclusion in Jordan:

1. Lowering the age limit for opening a separate bank account to 16 years old to align with the minimum work age limit which is also 16 years old.
2. Encouraging all companies to transfer wages and salaries to bank accounts and eliminate cash payments to employees.
3. Encouraging the use of digital and electronic banking at points of payment which will ease business transactions.
4. Strengthen existing financial education for school and university students.
5. Raise awareness about the importance of making digital transactions to improve credit information and the role of this in reducing the terms and conditions when granting credit.

Financial Inclusion:

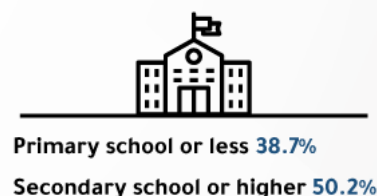
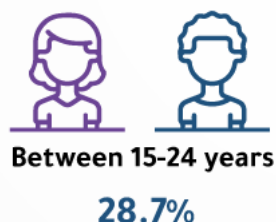
The ability to access useful and affordable financial products and services that meet their needs - transactions, payments, savings, credit, and insurance - delivered in a responsible and sustainable way".
(World Bank)



Financial inclusion
in Jordan **47.1%**

While the global average
76.2%

The proportion of financial inclusion



Jordan Strategy Forum Recommendations:



Lowering the age limit for opening a separate bank account to 16 years old.



Encouraging all companies to transfer wages and salaries to bank accounts.



Encouraging the use of digital payment methods.



Strengthening existing financial education for school and university students.



Raising awareness about using digital banking and financial technology.



منتدى الاستراتيجيات الأردني
JORDAN STRATEGY FORUM

www.jsf.org

www.jsf.org  /JordanStrategyForumJSF  @JSFJordan