

Mind The Gap

IDENTIFYING POTENTIALS TO EXPAND
THE FINANCIAL OFFER TO MSMES



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About This report



This report was developed on the initiative of the SANAD Technical Assistance Facility (TAF) with research carried out by Bayan Advisers.

About the SANAD TAF:

Managed by Finance in Motion, the SANAD Technical Assistance Facility (TAF) works alongside the SANAD Fund for MSMEs that works closely with partners of the fund to conduct projects that equip the fund's beneficiaries with the knowledge and tools needed to best serve – and improve the potential of – entrepreneurs in the Middle East and North Africa (MENA).

The TAF also develops the capacity of the financial sector across the region through its network of investees. Increasing economic opportunities and equity for female entrepreneurs in the MENA region is core to the TAF.



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Acronyms

CBJ	Central Bank of Jordan
CBOs	Community Based Organizations
CCD	Companies Control Department
CRIF	Jordan's credit bureau
DFS	Digital Financial Services
DOS	Department of Statistics
FSP	Financial Service Providers
FIs	Financial Institutions
GDP	Gross Domestic Product
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit, provider of services in the field of international cooperation
GLP	Gross Loan Portfolio
HBB	Home-based business
IDIs	In-depth interviews
JEDCO	Jordan Enterprise Development Corporation
JLGC	Jordan Loan Guarantee Cooperation
JoPACC	The Jordan Payments and Clearing Company
MoITS	Ministry of Industry, Trade and Supply
MSMEs	Micro, Small and Medium Enterprises
NGOs	Non-governmental organizations
ROSCAs	Rotating Credit and Savings Association

Acronyms

SANAD PIs	SANAD Partner Institutions
SMEs	Small and Medium Enterprises
TA	Technical Assistance



Chapter 1: Introduction

Bayan Advisers was engaged by the SANAD Fund for MSME's Technical Assistance Facility to conduct a study on the demand for financing among micro, small and medium size enterprises (MSMEs) to enhance, to the benefit of the SANAD Fund and its partners, the understanding of developments on the Jordanian market and the current potentials to expand the financial offer to MSMEs in Jordan.

The work approach consisted of two phases:

Phase 1: Market Research: which aimed at developing an understanding of the MSMEs ecosystem in Jordan, mapping the MSMEs finance landscape and identifying the currently available products and services targeting MSMEs. The phase also aimed at defining the main challenges and financial and non-financial needs of MSMEs. The phase involved the following activities:

Supply side market research stage activities

- Reviewing existing studies, reports, and data about MSMEs in Jordan.
- Mapping the MSME ecosystem including identifying the main involved stakeholders, and highlighting the main initiatives and programs developed to support the MSMEs.
- Conducting interviews with SANAD partner institutions (PIs), local MSMEs financial service providers, and other key stakeholders within the ecosystem.



Demand side market research stage activities

- Conducting in-depth interviews (IDIs) with 12 MSMEs.
- Conducting a survey covering 415 MSMEs to identify the MSMEs' characteristics, financial and non-financial needs, access to finance, desired financial product features, use of DFS, and key challenges in accessing finance and in growing.
- Conducting mystery shopping visits or/ calls to five financial institutions to have a firsthand experience and capture further detailed information and specific insights.

Phase 2: Analyzing & Reporting, which aimed at analyzing the information gathered from the market research activities conducted in phase 1, developing findings and recommendations, and producing the final project report. This phase involved:

- Analyzing the data collected from the quantitative and qualitative market research and derive the key insights and findings related to the demand and supply of MSME finance in Jordan.
- Developing and conducting a presentation to SANAD and other stakeholders that includes the study's key findings, outcomes, conclusions, and recommendations.
- Developing a final project report including the study work approach, market research findings, conclusions and recommendations.

This report presents a summary of the findings of the market study.



Chapter 2: Overview of the MSMEs segment in Jordan

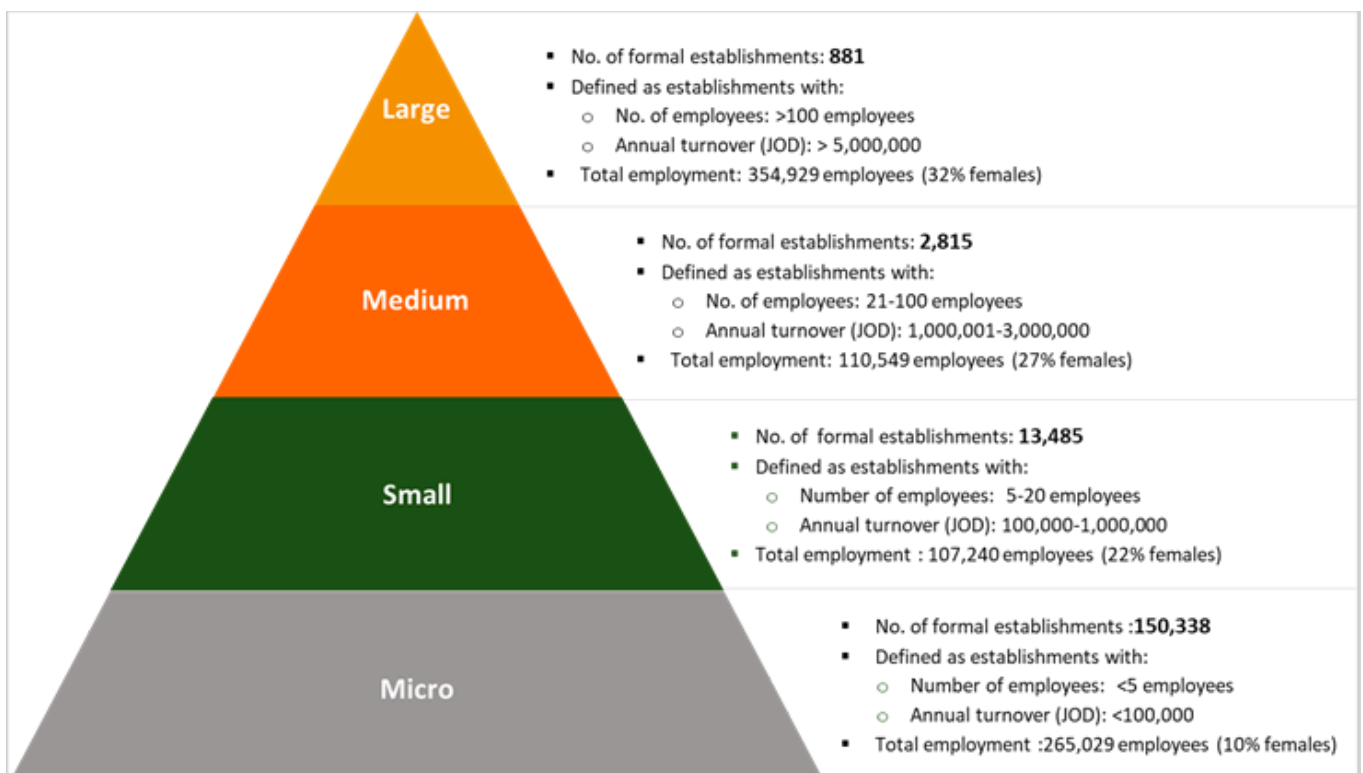
Glance of the MSMEs in Jordan

In Jordan MSMEs are vital to the country's social and economic development. They represent the economy's engines of growth and employment, help reduce levels of poverty, represent tools for capacity creation and innovation, and contribute towards a more equitable distribution of income. Accordingly, MSMEs deserve special attention and must continuously be supported through funding and expert development for them to thrive in any given sector. In Jordan:

- MSMEs are defined as businesses that have up to 100 employees and have annual turnover that does not exceed JOD 3 million, according to the definition of the Central Bank of Jordan.
- The MSMEs comprise 166,638 establishments of the total number of registered establishments (about 99.5%) (Department of Statistics Jordan 2018).
 - o The micro sub-segment accounts for 90% of the MSMEs establishments
 - o The small sub-segment accounts for 8% of the establishments, and
 - o The medium sub-segment account for the remaining 2%
- MSMEs are mostly concentrated in the large, highly populated governorates of Amman, Irbid and Zarqa, whereby 45%, 16% and 15% of MSMEs are found in Amman, Irbid and Zarqa respectively. The rest of MSMEs are scattered almost equally across the remaining nine governorates.
- The majority of MSMEs (56% of MSMEs) operates within the wholesale and retail trade sector, which constitutes 56% of total MSMEs, followed by the services and industrial sectors, which constitute of 29% and 13% of total MSMEs respectively.

- Most of the MSMEs (84%) have an annual revenue of less than JOD 45,000, reflecting small business scale, inadequate resources, and limited outreach.
- The majority of MSMEs (83%) have a registered capital of less than JOD 5,000. This is explained by the fact that most MSMEs operate within the wholesale and retail trade sector, which is not a capital-intensive sector and does not require significant investment.

The MSMEs Sub-segments



MSMEs Ecosystem

Ecosystem Stakeholders

The MSME ecosystem comprises several stakeholders that play various roles in regulating, overseeing, and supporting the MSMEs.

The Ministry of Industry, Trade and Supply (MoITS) is primarily in charge of supervising and regulating the MSME segment. The role of the MoITS is supported by its subordinate institutions, namely the Jordan Enterprise Development Corporation (JEDCO), mandated to support the development and the internationalization of MSMEs, and the Companies Control Department (CCD) which aims at creating a stable and safe environment for investments in the private sector.

The main stakeholders in the MSME sector are organized in the following categories:

- **Sector regulators** who are responsible for licensing, registering and regulating MSMEs activities as well as the financial institutions serving MSMEs.
- **Financial service providers (FSP)** including the microfinance institutions (MFIs), banks, non-bank financial institutions as well as digital financial service providers.
- **Enablers of financial providers** including organizations which support and enable the FSPs to extend credit to MSMEs, such as credit bureaus and loan guarantee programs.
- **Sector support organizations** which provide different types of support to the MSMEs. These organizations include business support organizations and socioeconomic development organizations.

MSME Ecosystem Stakeholders



Main Interventions for MSMEs

There have been many initiatives and interventions conducted by the different stakeholders in both, the public and private sector, to support the growth and development of the MSMEs. These initiatives include:

Regulators' initiatives

- Developing and implementing strategies, policies, legislative frameworks and financial controls.
- Mobilizing funding for the SMEs at competitive interest rates and appropriate maturities.
- Guaranteeing granted loans to SMEs.
- Establishing special programs to enhance access to finance for MSMEs.
- Developing programs to promote financial inclusion for MSMEs.
- Creating programs to promote financial awareness and financial literacy.
- Conducting studies and research about different industries to identify their challenges and needs and capture data and information about the industries.

FSPs' initiatives

- Attending to MSMEs financial needs, evident by growing loan portfolios for this segment
 - Banks' SME facilities grew by around 37% between 2016-2021 to reach JOD 2,717 mn
 - MFIs' total GLP increased by 28% over the period 2016-2021 reaching JOD 273 mn
- Developing dedicated / specialized SME departments by the majority of banks.
- Developing of tailored products to certain segments (e.g., women, start-ups, and youth).
- Expanding use of digital financial services (DFS) to facilitate provision of services to MSMEs.
- Providing non-financial services to MSMEs including capacity building programs, products development programs, financial education workshops, and marketing support.

Enablers of financial providers' initiatives

- Providing advocacy and awareness rising about the financial sector.
- Promoting information and disseminating latest developments about the financial sector.
- Launching programs / projects focused on capacity building of the microfinance sector.
- Providing credit information to FIs to help in building informed lending decisions.
- Introducing new value-added services (e.g., in 2019 CRIF launched credit scoring services).
- Providing specialized risk coverage / loan guarantee programs by the Jordan Loan Guarantee Corporation (JLGC).

Sector support organizations' initiatives

- Providing technical and financial support to businesses through special programs targeting certain segments (e.g., home-based businesses, youth, startups, agricultural projects, exports etc.)
- Launching special projects to support MSMEs and to improve the enabling environment.
- Developing capability building programs (including marketing and e-commerce).
- Providing and promoting financial literacy programs.
- Providing national and international linkages to support business development.
- Developing research and studies about the MSMEs segment and the business environment.

Business regulatory framework

The MSMEs in Jordan are subject to the general laws, regulations and instructions governing businesses. There are no clear and tailored regulations that specifically address the MSME segment taking into consideration the specificity of this segment. The main laws impacting MSMEs include the Companies Law, the Professional Licensing Law, Social Security Law, the Labor Law, and the Income and Sales Tax law.

The Impact of COVID-19

The outbreak of the global health pandemic, COVID-19, negatively impacted businesses in Jordan with varying magnitude across different sectors.

The MSMEs, particularly the micro and small sub-segments were hit the hardest and were highly vulnerable and less resilient. Most struggled to sustain and some have been forced to close. This is due to their small scale of business, labor intensity (which makes them more exposed to disruption, especially when employees are in quarantine), limited resources (especially financial and managerial), limited customer base, limited liquidity reserves and financial alternatives in addition to lack of assets which can be disposed of or used as collateral for credit lines.

In response to the pandemic impact, several interventions / initiatives were introduced by the government and other institutions to lessen its repercussions. The main initiatives were provided by the Central Bank of Jordan's (CBJ), Jordan Payments and Clearing Company (JoPACC) and the Financial Institutions.



Chapter 3: Overview of Jordan's Macroeconomy & Role of MSMEs

Jordan's Macroeconomy

Jordan was impacted by the challenging global context, mainly the increase in global commodity prices (food and energy), which was mostly led by the war in Ukraine combined with COVID-19 aftershocks. The rise in prices amplified the inflationary pressures to which the Central Bank of Jordan, has reacted with monetary policy tightening, which is expected to exert an additional drag on the economy.

Despite this challenging environment, the economy started to recover in 2021, whereby GDP grew by 2.2% in 2021 (Central Bank of Jordan 2021), and grew by 2.6% in Q3, 2022 compared to Q3, 2021 (Department of Statistics 2022). The growth was supported by a strong rebound in tourism and exports, the full reopening of the economy, and the easing of COVID-related restrictions. However, the rebound in growth was only modestly reflected on labor market indicators, whereby the unemployment rate stood at 23.3% in 2021, and 23.1% in Q3, 2023.

The current account deficit reached 8.7% of GDP in 2021 (Central Bank of Jordan 2021). The deficit was mainly led by the deterioration in the trade balance which was mainly driven by a surge in imports - mainly oil and grains imports - which was only partially offset by the improvement in merchandise exports and tourism. According to the World Bank, the current deficit is expected to widen to 9.1% of GDP in 2022 (The World Bank Group 2022).

Inflation rates stood at 1.35% and 4.23% in 2021 and 2022 respectively, reflecting elevated international commodity prices, and global economic headwinds, including tighter financial conditions and spillovers from the war in Ukraine (Department of Statistics 2020-2022). According to the World Bank, the inflation rate is forecasted to decline to reach 2.5% in 2023 and 2024 (The World Bank Group 2022).

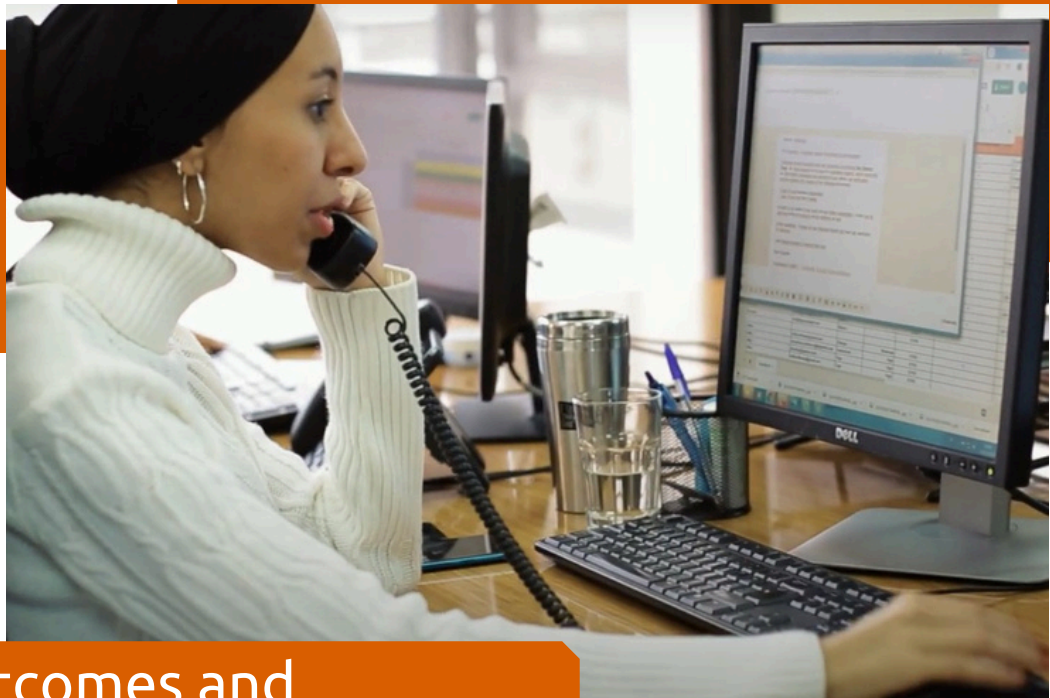
Going forward, Jordan's economic recovery is expected to be driven by the improvement in the services sector, supported by the reopening of the economy and a strong rebound in tourism. However, the highly volatile global fuel and food prices are expected to continue impacting the domestic consumption and the trade balance. To support economic recovery, structural reforms need to be implemented to address the long-standing impediments to private sector-led growth, and labor market reforms are also needed to lessen unemployment and unlock Jordan's human capital potential (IMF 2022).

Role of MSMEs in the Economy

In Jordan, as the case in other countries, MSMEs are considered as the catalyst of economic and social development. MSMEs contribute to around 30% of Jordan's total GDP, (Anup Singh 2017) and constitute about 10% of the total national exports (Economic and Social Council 2020). Moreover, research indicates that the informal sector also contributes significantly to the GDP in Jordan. In 2017, the contribution of this sector to GDP was estimated at around 26% (Dr. Bashar Sobh 2019).

In terms of employment, MSMEs in Jordan contribute to 58% of all private sector employment, with 482,818 employees working within this segment. Out of the MSMEs total employees, 83% are men, and 17% are women. In terms of nationality, the majority (91%) of the MSMEs employees are Jordanians (Department of Statistics Jordan 2018). In addition to the formal MSMEs, the informal sector also contributes to the employment. However, due to the lack of information about the sector's size, the impact on the employment remains unquantifiable.

Accordingly, any future reforms and interventions to support the economic growth need to focus on the MSME segment, to enable its development and allow achieving its potential impact on the socio-economic transformation.



Chapter 4: Outcomes and Conclusions

Study Outcomes

To meet the objective of the study, it was important to understand and identify the emerging characteristics, needs and challenges of the MSMEs. The study utilized the outcome of the interviews conducted with the MSMEs, the survey results in addition to publicly available data about the segment. The study highlighted the following key findings:

MSMEs Characteristics

The MSMEs in Jordan have the following main characteristics:

- **MSMEs are mostly owned by men.** According to the survey 89% of the MSMEs sample are owned by men and only 11 % are owned by women. This is more significant within the formal segment whereby, 93% of the formal MSMEs are owned by men, and 7% are owned by women. On the other hand, 76% of the informal MSMEs are owned by men while 24% are owned by women.
- **MSME owners have secondary educational level or less.** 60% of the survey sample have secondary educational level or less, and the remaining 40% have higher than secondary educational level.
- **MSMEs are usually established by the owner himself/herself.** The survey sample indicated that 77% of the MSMEs were established by the owner himself/herself, and only 23% were established by others including parents and grandparents.
- **MSMEs are non-home-based businesses.** Based on the survey results, only 7% of the MSMEs are home based and 93% work outside their homes (non-home based), mostly from rented offices. The main factors that hinder MSMEs from opening a physical location are the rental expenses, shortage of finance and the utility expenses. Within the informal sector, MSMEs are also non-home based but at a lower percentage of 75%, vs. 100% in the formal sector.

- **The business represents the main source of income for the owner.** The survey showed that the business is the only source of income for 80% of the MSMEs, and the partial source of income for 20%.
- **MSMEs are mostly registered as sole proprietorship/individual establishment.** 90% of total MSMEs according to DOS, and 88% according to the survey are registered at the Ministry of industry, Trade & Supply as sole proprietorship. The dominance of this type of legal registration is attributed to the fact that establishing sole proprietorship is simple, inexpensive, and has limited requirements, while limited liability companies are subject to more complicated requirements.
- **MSMEs mainly provide traditional businesses activities.** This includes vocational activities such as blacksmithing, carpentry (12% of the survey sample), clothes shops (11% of the sample), restaurants and cafes (10% of the sample), supermarkets (10% of the sample) and beauty salons (7% of the sample).
- **MSMEs export and import products/ services to a very limited extent.** Based on the survey results, 98% of the MSMEs do not export their products or services to other countries. This could be mainly due to their small size, limited innovation, insufficient management skills, and inadequate experience and market knowledge which are imperative for exporting. In terms of importing, 93% of the MSMEs owners expressed that they do not import.
- **The majority of MSMEs have only one branch.** This reflects the small business scale, the limited internal sources and limited access to finance which all hinder their growth and expansion. Based on the survey results, 96% of the MSMEs are single branch businesses.
- **MSMEs significantly use cash for the different transactions.** 93% of the MSMEs use cash for salary payments, 96% use cash as main collection method, and 91% use cash as the main payment method for their suppliers (according to the survey results).
- **Most MSMEs either do not maintain the business accounting and financial records or apply basic methods of bookkeeping.** Based on the survey, 38% of the MSMEs do not maintain any records, 25% use notebooks, and 37% use more advanced methods including accounting records or systems. This is more significant in the formal sector whereby 48% of informal businesses do not use any business accounting or financial records (vs. 34% of the formal sector), and 27% of informal businesses use basic methods (notebooks) (vs. 24% of the formal sector), and only 25% of the informal business use more advanced methods (vs. 42% of the formal businesses).
- **The majority of the MSMEs do not have documented business policies and procedures and do not have assigned accountants or auditors.** The survey showed that 91% of the MSMEs do not have documented policies and procedures and 80% of them do not have assigned accountants or auditors.

- **There is a limited use of legal employment contracts and limited enrolment of employees at social security by MSMEs.** Only 18% of the MSMEs have legal employment contracts. In term of social security enrollment, only 21% out of the formal MSMEs who have full time employees enroll employees in Social Security.
- **Most MSMEs do not apply marketing methods to promote their products/services.** According to the survey, only 30% of the MSMEs use marketing methods including social media platforms (Facebook, Instagram, Snap Chat), SMS, events, blog posts, and giveaways. The majority of MSMEs rely on word of mouth, referrals and walk ins to attract customers (68% of MSMEs depend on the word of mouth, 61% on referrals, and 57% on walk ins).

MSMEs' Access to Finance and Technical Assistance

In terms of access to financing, borrowing experience, use of digital financial services and access to technical assistance, the following represent the key findings:

1. MSMEs have limited access to formal financial services and credit. This is reflected by the following:
 - A large proportion of MSMEs (192 out of 415, i.e. 46% according to the survey) do not have bank accounts, whether personal or business accounts. Out of the MSMEs who have bank accounts, a limited number has bank accounts for the business (65 out of 223, i.e. 29%), which are mainly used to purchase materials (27 out of 65: 48%), or to issue cheque books (25 out of 65: 38%). On the other hand, 27% of MSMEs who have personal bank accounts stated that they use their accounts for business purposes, as they meet all the business needs.
 - The majority of the MSMEs owners (91% of the survey sample) referred to informal sources of funding^[1] to finance the establishment of their businesses. The main informal sources include personal savings (used by 259 out of 415 MSMEs), and family & friends (used by 137 out of 415 MSMEs).
 - A very limited number of MSMEs (only 12 out of 415: 3%) refer to formal sources to finance ongoing business needs. The remaining 97% rely on other sources including mainly the business operations itself (381 out of 415). Other sources also include personal savings, family & friends, line of credit from vendors, injection of cash by partners and private lenders.
 - The majority of MSMEs never applied for a personal loan or a business loan for the business (i.e., did not take and do not currently have a loan). The survey indicated that only 14% of the sampled MSMEs (59 out of 415) took or currently have a personal loan for the business, and only 9% of the sample (38 out of 415) took or currently have a business loan.

2. Avoidance of having debt is the main reason that hinders MSMEs from applying for financing, as expressed by the majority of MSMEs owners (69% of the sample). This is followed by concerns related to the economic uncertainty, as cited by 55% of the MSMEs owners.

3. MSMEs have limited interest in borrowing from formal financial institutions in the future (banks, MFIs, SME finance companies), as stated by 52% (216 out of 415) of the MSMEs owners.

4. A considerable portion of MSMEs cannot provide collaterals. Based on the survey, 43% (86 out of 199) of the MSMEs who expressed interest in borrowing clarified that they cannot provide any collaterals to borrow against.

5. Provision of Sharia compliant products is the main factor that impacts MSMEs' decision in selecting an FI to deal with, as indicated by 61% of the MSMEs owners. The second impacting factor is the affordability of the repayment amount (i.e. the monthly installments), as stated by 37% of the MSMEs owners, followed by the loan conditions[2], as indicated by 34% of the respondents.

6. Based on the feedback of the surveyed MSMEs, who expressed interest in borrowing (representing 48% of the sample: 199 out of 415), the typical financing product design would be as follows:

- Designed for the purpose of expanding the business (as expressed by 76% of the MSMEs)
- Has a maturity of 36 months
- Does not require collaterals, whereby 43% of the MSMEs indicated that they do not have any types of collateral
- Has flexible repayment terms (as expressed by 38% of the MSMEs)
- Offers a grace period (as expressed by 29% of the MSMEs)
- Has amounts that range between JOD 3000-10,000 (as expressed by 65% of the MSMEs)

7. There is limited adoption of the digital financial services (DFS) by the MSMEs. According to the survey, 64% (265 out of 415) of the participants indicated that they do not use DFS for their businesses.

8. The main reason MSMEs do not use DFS is the preference for using cash (as mentioned by 55% of the participants: 147 out of 265). The second reason for not using DFS is the limited use of DFS by the MSMEs' clients or suppliers (as mentioned by 39% of the participants: 104 out of 265) which consequently constraints the interest of the MSMEs in using DFS.

9. For those who use DFS (representing 37%: 150 out of 415), the most commonly used services include E-wallets, efawateercom, and ATMs as indicted by 51%, 46% and 45% of the MSMEs who use DFS, respectively.

10. MSMEs mostly use the DFS to pay for the business and utilities expenses (49% of the MSMEs who use DFS), to transfer money (48% of the MSMEs), and to withdraw cash (39% of the MSMEs).

11. There is limited interest in using DFS, whereby 64% (170 out of 265) of the MSMEs that do not currently use DFS indicated that they do not want to use DFS in the future. On the other hand, the remaining MSMEs (95 out of 265) indicated that the most important factor that would encourage them to use DFS is the ease of using these services (as indicated by 60% of them: 57 out of 95).

12. MSMEs have limited access to TA and training whereby the majority of the surveyed MSMEs owners (95%: 394 out of 415) indicated that they never received any training or TA.

13. There is very limited access to governmental technical support, whereby only 2 participants indicated that they received governmental technical support.

14. Obtaining financing and getting training programs represent the main types of support required by MSMEs, as expressed by 36% (64 out of 178 who indicated that they need support) and 25% (44 out of 178) of the participants respectively.

15. Training related to expanding the business, improving productivity and marketing the business is most needed as indicted by 59% (159 out of 268), 49% (130 out of 268) and 39% (105 out of 268) of the MSMEs who indicated interest in receiving training.

Challenges

Although many initiatives and interventions have been developed to support the MSMEs, the segment still faces a number of challenges that impede their growth and development. The study identifies the following as the main challenges that MSMEs encounter:

Legal and Regulatory Challenges

- Complexity of the existing regulations governing businesses and limited understanding and awareness by the MSMEs of these regulations, coupled with lack of specific laws regulating the MSMEs.
- Complexity of starting a business whereby there is no one-stop window for MSMEs to complete the process of starting their businesses. (JEDCO 2016).
- The cost of registering, starting and doing business in Jordan is high in addition to the complicated requirements related to the registration of some legal statuses. Based on the survey, 58% (71 out of 122) of the registered MSMEs indicated that the cost of registration was the main challenge they faced in registering their businesses.
- Restrictions on the home-based businesses which are allowed to be registered and licensed, which results in preventing them from trading with other businesses and diversifying their markets and hinders their ability to access finance.
- The absence of a bankruptcy law contributes to a slow, unpredictable and complex bankruptcy process (GIZ & CBJ 2017).
- Regulatory restrictions to extending credit whereby the CBJ regulations do not allow banks to extend credit to unregistered businesses and oblige them to use formally recognized sources of income in the credit assessments.
- Very limited implementation of the Movable Asset Law (German Council on Foreign Relations 2019), which makes it difficult for MSMEs to receive financing as the majority of them lack fixed assets, which banks often require as collaterals.

Market Challenges

- The general tough economic situation led by the overall regional instability, which leads to low purchasing power and, accordingly, lower levels of demand.
- High competition imposed by the larger companies which provide higher quality products with very competitive prices. Competition was identified as a top challenge that MSMEs face as cited by 81% of the surveyed participants.
- Limited access to business development services and the lack of qualified personnel for the MSMEs, which in turn restricts the MSMEs' ability to compete with large and foreign companies.
- Limited availability of networking and linkage initiatives provided to MSMEs to connect them to each other and give them access to larger companies and potential investors.
- Limited availability of data, statistics and studies about MSMEs. This hinders the ability of the key players in the ecosystem to clearly understand the segment's real needs, challenges, and opportunities, and accordingly provide relevant services and support.

- Limited access to international markets due to the lack of knowledge in export market procedures and regulations (JEDCO 2016).
- Limited provision and promotion of the TA programs, provided by the government and other organizations, targeting MSMEs. According to the survey, only 21 participants (5% of the sample) received TA from different sources (including NGOs, mentors and networking associations), and only 2 participants obtained governmental technical support.
- High operating expenses, including rent, labor, and utilities. The high utility cost was cited as one of the top five challenges that MSMEs face in running their business.

Financial Challenges

- Limited access to finance from formal financial institutions. Based on the survey, only 9% of the MSMEs referred to formal sources of funding (banks, MFIs and leasing companies) to establish the business, and only 3% used formal sources of funding to finance the ongoing business needs. The main challenges that MSMEs face in accessing finance include:
 - Providing the required guarantees and collaterals to support their credit applications.
 - High interest rates charged by financial institutions, which adds to the burden on MSMEs.
 - Informality and lack of registration of MSMEs, which constraints their access to finance as banks can only lend to registered businesses.
 - Lack of credit data and formal financial records to be used by the FIs to assess the businesses' creditworthiness and provide credit decisions. This is mainly caused by the weak financial management skills of MSMEs owners and their high reliance on cash transactions.
 - Limited financial literacy and credit knowledge by the MSMEs.
- Limited availability of innovative products and services, provided by the financial institutions, that are aligned with the MSMEs' operating models and that are tailored to their needs. In addition, a financing gap exists in the market whereby MSMEs seek loan amounts that are often too big for the MFIs and too small and risky for banks.
- Inadequate credit analysis skills of the staff at the financial institutions to deal effectively with the MSMEs and manage their financial applications.
- Limited availability of loan guarantees and risk sharing programs tailored to the needs and structures of the MSMEs.
- Limited use of digital financial services whereby 64% of the surveyed MSMEs indicated that they do not use digital financial services for their business.

Challenges related to Skills, Knowledge and Resources

- Limited marketing and branding skills of the MSMEs owners, which are profoundly essential to the success of the business. According to the study survey, 70% of the participants indicated that they do not use any marketing methods to promote their products/services.

Additionally, 39% (105 out of 268 who indicated interest in obtaining training) of the MSMEs indicated that they desire to have training on how to market the business.

- Lack of innovation and adoption of new technologies and tools which limits the ability to develop differentiated and value-added products and services.
- Deficient business management and planning skills which are among the most critical entrepreneurial skills that business owners need to have.
- Limited human resources and lack of skilled labor whereby MSMEs rely on low-wage workers who do not possess the necessary technical expertise, education or training. This hinders the MSMEs' competitiveness and limits their long-term chances for growth.
- Limited financial management skills whereby many MSMEs mix their personal finances with business finances which alters their creditworthiness and limits their access to finance.
- Lack of awareness of the existing government funding and supporting programs targeting the MSMEs. This was evident in the study survey. Only 2 MSMEs indicated that they are currently benefiting from such programs.

Needs

Based on the identified challenges, the following represent what MSMEs mainly need to thrive and develop so that they can meet their potential contribution to economic and social growth:

- Enhanced access to finance through the provision of relevant and more tailored financial products and services, at affordable interest rates and repayment amounts, and with simplified requirements and streamlined credit application procedures. Access to finance can also be supported by the provision of MSMEs' tailored risk-sharing facilities/credit guarantee programs to financial institutions to help unlock their financial resources.
- Development and provision of innovative financial products that are segment and sector driven to ensure matching the specific needs of each segment/sector.
- Clear rules and regulations, covering registration, licensing, taxation, trade and bankruptcy, that specifically target MSMEs and take into consideration their nature and needs, in addition to awareness programs about these regulations.
- Capacity building and skills development programs which focus on the managerial, financial, marketing and entrepreneurial skills of the MSMEs.
- Financial literacy/education programs that are undertaken as a coordinated effort of public and private partnerships through government agencies and industry associations, which focus on different financial education topics aimed at enhancing the capabilities of MSMEs, including debt management, bookkeeping, banking services, and budgeting literacy.
- Leverage of business linkages and networking among MSMEs, and with larger companies, to enhance their competitiveness and acquire critical missing assets, such as access to international markets, finance, technology, management skills and specialized knowledge.
- Simplified and standardized registration and licensing procedures and incentive programs to encourage registration of MSMEs.
- Consistent access to updated research about the market trends and developments and consumers' needs, to assist MSMEs owners in developing new and innovative products and services that are market relevant.
- Development and promotion of business development services, TA and advisory support services including training courses, seminars, workshops, incubation programs, etc.

Study Conclusion

The study concludes the following:

- The MSMEs segment is considerably large in Jordan, comprising 166,638 establishments of the total number of registered establishments (about 99.5%)
- The MSMEs are vital to the country's social and economic development. They represent the economy's engines of growth and employment whereby they contribute 30% of GDP and 58% of total employment force in the private sector.
- The MSMEs owners' livelihood depends on the business (80% of the MSMEs owners indicated that the business represents the main/sole source of income for them). Accordingly, if the business performs well, their livelihood improves. In case the business fails, it negatively impacts their personal lives and well-being.
- Accordingly, empowering MSMEs, ensuring they operate efficiently, and facilitating their integration into the local and international markets are fundamental to the development of an inclusive and sustainable economy.
- Therefore, more attention has been provided by the financial institutions towards the MSMEs. In addition, several initiatives and interventions have been introduced, by the public and private sector organizations, to support this segment.
- Yet, the research indicates that MSMEs are still facing persistent challenges, including:
 1. High levels of informality which can have a negative effect on businesses' productivity and development, as it can affect the businesses' investment decisions, technology adoption, and access to finance and capital, among other factors.
 2. Limited financial literacy which hinders the stability and development of the businesses and makes it difficult for the MSMEs to access funding because they are unable to produce financial reports properly due to inaccurate financial management.
 3. Limited access to finance mainly caused by the high level of informality, limited credit data and formal financial records and bookkeeping, inadequate financial expertise and financial literacy, and lack of guarantees and collaterals required by the financial institutions, particularly the banks.
 4. Challenges in managing and growing the business due to limited capital resources, lack of the needed entrepreneurial, management and marketing skills, lack of skilled workforce, limited access and adoption of technology which lead to low levels of innovation, in addition to the fierce competition coming from the larger companies.
 5. Limited awareness of the available TA programs targeting MSMEs, as well as of the financial products and services provided by the formal FIs.
- The research also indicates that there is limited focus by available financial and non-financial supporting programs on specific segments, groups and sectors.

Key Recommendations

Based on the study findings and conclusions, we believe that in order to optimize the effectiveness and the benefits of the supporting initiatives and programs for the MSMEs, and to enable measuring their impact, such programs should be segment and sector focused. Therefore, we identified and analyzed three key potential sub-segments in our study to be targeted with focused programs. These sub-segments include:

- *Informal MSMEs, defined in this study as businesses that are not registered at any official national governmental institution or association such as the MoITS, or municipalities.*
- *Women-owned MSMEs*
- *MSMEs that are interested in growing and expanding.*

Based on the analysis of each sub-segment, key recommendations have been defined for each sub-segment. These recommendations are directed to SANAD, its partner institutions, in addition to other financial institutions and stakeholders within the MSMEs ecosystem.

To ensure effective implementation of the recommendations, and achievement of the desired benefits, stakeholders' roles need to be collaborated and coordinated to avoid overlap, duplication and redundancy of efforts and loss of benefits.

The following represent the main recommendations toward each of the three sub-segments

Recommendations to support Informal MSMEs

Areas of Support	Recommendations
Advocacy	<ul style="list-style-type: none">▪ Assist regulators (government and governmental bodies) to:<ul style="list-style-type: none">○ Set incentives for the MSMEs to encourage them to register (e.g., tax exemptions, lower registration fees, simplified registration procedures)○ Conduct dedicated studies about the informal sector in Jordan to size this sector, measure its impact on the economy and identify its needs and challenges
Awareness campaigns	<ul style="list-style-type: none">▪ Provide focused awareness campaigns/programs on:<ul style="list-style-type: none">○ The importance of business registration in terms of business expansion, growth and access to finance○ Home-based businesses than can be licensed.○ The value proposition of adopting technology and DFS.○ The culture of entrepreneurship by incorporating entrepreneurial learning initiatives
Training programs	<ul style="list-style-type: none">▪ Develop comprehensive training programs that focus on:<ul style="list-style-type: none">○ Business licensing○ How to start a business○ Financial literacy○ Marketing and the role of social media in marketing○ Product development○ Basic accounting○ Role of financing in supporting & building businesses○ Business expansion methods & requirements○ Use of DFS

Recommendations to support Women-owned MSMEs

Areas of Support	Recommendations
Advocacy	<ul style="list-style-type: none"> ▪ Assist regulators (government and governmental bodies) to: <ul style="list-style-type: none"> ○ Set incentives for women owned MSMEs to encourage them to register (tax exemptions, lower registration fees, simplified registration procedures) ○ Establish networking and linkages projects to support women in starting and running businesses and reaching out to clients.
Awareness campaigns	<ul style="list-style-type: none"> ▪ Provide focused awareness campaigns / programs on: <ul style="list-style-type: none"> ○ The importance of business registration in terms of business expansion, growth and access to finance ○ Home-based businesses than can be licensed. ○ The value proposition of DFS as means to achieve financial independence and build financial records. ○ Employment as a way of expanding the business and distributing responsibilities. ○ Promoting a culture of entrepreneurship by incorporating entrepreneurial learning initiatives
Training programs	<ul style="list-style-type: none"> ▪ Develop comprehensive training programs that focus on: <ul style="list-style-type: none"> ○ Business licensing ○ How to start a business ○ Financial literacy ○ Marketing and the role of social media in marketing ○ Product development ○ Bookkeeping, basic accounting & financial reporting ○ Role of financing in supporting & building businesses ○ Business expansion methods & requirements ○ Use of DFS as means of financial independence
Product development	<ul style="list-style-type: none"> ▪ Develop customized financing products with MFIs for: <ul style="list-style-type: none"> ○ Women-owned small and medium sized businesses for financing working capital or expansion, with suitable amounts, collaterals, requirements, and grace periods. ○ Registered home-based businesses (HBB) ▪ Develop clear and simple loan application and granting procedures at the FIs to facilitate granting the loans
Funding and risk sharing	<ul style="list-style-type: none"> ▪ Explore the possibility of developing tailored risk-sharing programs for women whether small and medium sized or the micro and HBB. ▪ Develop funding programs for MFIs to assist them in providing loans to MSMEs owned by women
Capacity building for financial institutions	<ul style="list-style-type: none"> ▪ Increase the financial institutions' understanding of women-owned businesses' specific requirements and needs, cultural and social responsibilities, and challenges and how such challenges impact the businesses and the financial needs. ▪ Train FIs on any new customized financing products

Recommendations to MSMEs Interested in Expanding

Areas of Support	Recommendations
MSMEs interested in expanding, but have limited readiness to expand (have low or medium readiness for expansion)	
Training programs	<ul style="list-style-type: none"> ▪ Provide training programs that focus on the following: <ul style="list-style-type: none"> ○ Financial literacy ○ How to expand a business ○ Marketing ○ Advanced accounting & financial reporting ○ Product development ○ Role of financing in supporting business expansion ○ Use of DFS as means to expand a business. ○ Fostering innovation
Awareness campaigns	<ul style="list-style-type: none"> ▪ Promote awareness on role of FIs in supporting businesses to grow. ▪ Promote awareness on the importance of DFS in business growth
MSMEs interested in expanding, and are ready to expand (have high readiness for expansion)	
Training programs	<ul style="list-style-type: none"> ▪ Provide training programs that focus on the following: <ul style="list-style-type: none"> ○ Product development, and innovation ○ Advanced accounting & financial reporting ○ Advanced marketing ○ How to export ○ Use of DFS
Awareness campaigns	<ul style="list-style-type: none"> ▪ Build awareness of the role of FIs in supporting business growth and the available financial products provided by the FIs. ▪ Promote awareness on the importance of DFS in reducing business costs and enhancing efficiencies.
Risk-sharing programs.	<ul style="list-style-type: none"> ▪ Explore the possibility of designing risk-sharing programs/facilities that meet the nature and needs of the MSMEs to encourage financial institutions to expand their MSME portfolios.
Product development	<ul style="list-style-type: none"> ▪ Develop and introduce customized financing products for different sectors based on different financing needs. ▪ Provide lending programs for Sharia' compliant products. ▪ Develop or create clear and simple loan application and granting procedures at the FIs.
Capacity building for financial institutions	<ul style="list-style-type: none"> ▪ Provide capacity building programs for the financial institutions including training and direct TA support to improve their innovation, knowledge and skills in analyzing MSMEs loan applications, coverage and outreach, use of DFS, etc.

The analysis also identified MSMEs who show readiness for expansion but did not show interest in expanding the business. For this segment, we believe that the lack of awareness of the importance, impact and ways of growing the business, and the lack of awareness of the available financial and TA programs targeting MSMEs represent the main factor hindering the desire of these MSMEs to grow. Accordingly, the establishment of awareness campaigns to increase 1) awareness of the importance of business expansion and ways to do that and 2) awareness of the available financial and non-financial programs and the role of FIs in supporting the business growth is recommended for this segment.

General recommendations

In addition to the recommendations related to the three identified sub-segments, the study also indicated that in terms of financial products, the financial institutions need to focus more on designing and developing the following products:

- **Segment-driven loans:** which target certain segments that are identified to be under-served (e.g. women, youth, certain professions, startups, etc.). Such loans should be designed with features that are tailored to the specific needs of the targeted segments.
- **Sector-driven loans:** to direct the lending towards specified priority sectors and activities in the economy, which have national importance and potential impact on the economic development. Such sectors include agriculture, renewable energy, and technological innovations.
- **Home-based business financing programs:** which aim at providing financing products that are aligned with the nature and needs of the HBBs. This entails suitable amounts, affordable interest rates, simple procedures and requirements, flexible repayment terms, etc. In addition to financing, the programs addressing HBBs need to incorporate business and financial management assistance, training, coaching, consultation in addition to other types of technical assistance.
- **Sharia-compliant financing:** which will encourage MSMEs owners to apply for financing. Based on research, religious reasons are among the main reasons why businesses and individuals alike avoid taking loans (based on the study survey, 37% of MSMEs owners mentioned the religious reasons as a factor for not taking loans). Accordingly, more focus should be given to developing and introducing Sharia-compliant financing products that match the needs of the MSMEs.



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