Increasing Financial Inclusion among Religious Individuals in Jordan

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Sector(s): Finance

Location: Jordan

Sample: 6037 individuals

Target group: Urban population

Intervention type: Information

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Partner organization(s): Consultative Group to Assist the Poor (CGAP), Tamweelcom

The lack of financial products that comply with religious beliefs and practices may be one reason for low levels of financial inclusion in some countries. Researchers partnered with Tamweelcom, a microcredit institution in Jordan, to estimate the demand for loans that comply with Islamic law (sharia-compliant loans). Sharia-compliant loans increased the demand for microcredit, and religious individuals were willing to pay more for this product. Results show how non-financial reasons like religion can impact financial decisions, and targeting products to certain groups' preferences might be an effective way to increase access to financial services.

Policy issue

Improving and expanding access to formal financial services is a priority for many policymakers around the world. Although researchers have typically studied the role of economic factors, such as income and interest rates, non-economic factors like religious beliefs may also hinder individuals' access and use of financial services. That is particularly relevant in Muslim-majority countries, where financial inclusion rates are low, especially among low-income populations, due to Islamic law prohibiting dealing with interest. Global surveys have shown that people in Muslim-majority countries are 29 percent less likely to own a bank account and 24 percent less likely to borrow from a bank.

Overall, there is little understanding of how religion affects participation in the financial sector. As a result, banks are not willing to provide products that adhere to religious laws without knowing the demand for these products, potentially excluding religious individuals from formal financial services. Can financial institutions increase financial participation by offering products that adhere to religious law?

Context of the evaluation

In Jordan, 97 percent of the population identifies as Muslim, and 85 percent of respondents in global surveys believe religion plays an important role in the country and to its citizens. Likewise, most (80 percent) of participants in this evaluation considered themselves religious. There are also low rates of financial inclusion in Jordan, as only a quarter of adults have any account at a formal financial institution. Religion may be a factor: nearly one-third (32 percent) of study participants attributed their low levels of financial participation to religious reasons.

Financial service providers are increasingly offering products that adhere to Islamic law, commonly referred to as sharia-compliant. Sharia-compliant products often have the same goal as conventional products, but change parts of the operational details to avoid the direct use of interest, e.g., charging maintenance fees rather than interest. One such provider is Tamweelcom, one of Jordan's largest and fastest growing microcredit institutions. At the time of this evaluation, Tamweelcom was opening a new subsidiary entity, which would become the first sharia-compliant microcredit institution in the country. They were interested in understanding the demand for sharia-compliant loan products.

Outside the Bank of Jordan

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Details of the intervention

The research team partnered with a well-established Jordanian microcredit institution (MFI), Tamweelcom, to evaluate the demand for sharia-compliant loans in Jordan. Tamweelcom offered potential borrowers two types of loans: conventional and sharia-compliant. For sharia-compliant loans, the MFI directly paid the retailer of the asset clients wished to purchase (an in-kind loan), while for the conventional loan, the MFI provided the money to the client after they identified the asset and retailer from

which they planned to buy it. Otherwise, both types of loans were the same, including the price, size of the loan, and period of repayment.

Marketing specialists were hired and trained to market the two loan products across commercial and residential areas in the six largest cities in Jordan. If individuals were interested in hearing about a loan product, the marketer delivered one of eight randomly assigned scripts, which differentiated by the loan offered and marketing pitch.

- *Sharia-compliant loan*: The potential borrower in this group was offered a basic sharia-compliant loan to finance the purchase of a household asset. The loan would have a monthly fee of 1.9 percent with a maximum loan term of 20 months, and could range from 300 to 1,500 JOD (423 to 2,115 USD).
- *Sharia-compliant loan + religious authorities approval*: Individuals in the three following groups were offered a similar sharia-compliant loan, but the marketer added to their pitch a statement about the religious authority that approved the loan–either a government appointed sharia board, a local religious leader, or a bank's sharia board.
- *Choice of sharia-compliant loan or conventional loan at different prices*: Individuals in this group were offered the choice between a conventional or a sharia-compliant loan. Researchers varied the price of the sharia-compliant loan so that it was either cheaper (1.75 percent monthly fee), equal in price (1.9 percent monthly fee), or more expensive (2.2 percent monthly fee) than the conventional loan (1.9 percent interest).
- *Comparison group*: Respondents in this group were offered only a conventional loan product, with the same price and terms as the sharia-compliant product.

Before offering the loan, marketers also collected respondents' basic demographic information. After hearing the product offering, participants had the chance to fill out a preliminary application for the loan. The research team asked participants for their reason if they declined to apply for the loan. In order to gauge individuals' religiosity, marketers asked individuals how much religious television programming they watched.

Results and policy lessons

Demand for the sharia-compliant loans was higher compared to loans that did not align with religious laws. Additionally, religious individuals were willing to pay more for sharia-compliant loans than the non-religious.

There was greater demand for sharia-compliant loans than conventional ones: Participants offered a sharia-compliant loan were 23.4 percent more likely to apply compared to an application rate of 18.4 percent for the conventional loans (a 4.3 percentage point increase in demand). This was also true for individuals who were offered a choice between the conventional loan and a sharia-compliant loan, with a 3.7 percentage point increase (20 percent increase) in demand for loans, relative to those who were only offered the conventional loan.

Religious authority approval of sharia-complaint loans did not seem to influence loan applications: Results showed no effect of providing respondents with a religious entity certifying the sharia-compliance on their take-up of the loan. Researchers suggest that this might be because Islamic microcredit was still new in that context and there were no certifying entities that would lead consumers to assume that any loan was legitimate.

Religious individuals were more interested in the sharia-complaint loan and willing to pay more for the product: Among participants who were offered the choice between the sharia-compliant or the conventional loan, religious participants (i.e., who watched religious TV) were 10.8 percentage points more likely to apply for the sharia-compliant loan compared to 75.3 percent of non-religious individuals (a 14 percent increase). Religious participants were also willing to pay more for sharia-compliant loans. While a 0.1 percentage point increase in price (i.e., monthly fee of 2 percent instead of 1.9 percent) led to a 7.5 percentage point decrease in demand for non-religious people, it only decreased demand by 3.5 percentage points for religious people (46 percent

less).

Taken together, these results show how non-financial reasons like religion can impact financial decisions, and targeting products to certain groups' preferences might be an effective way to increase access to financial services. More research is needed to further understand the role of religion and other non-financial aspects on financial behavior.

Tamweelcom set up a sister organization focused exclusively on Sharia-compliant loans called Ethmar. These results helped Ethmar better focus its communication efforts to better target underserved populations.