Introducing Jordan's First Fully-Fledged Credit Information Bureau

Jordan banks on a credit bureau to spur lending. Oliver Cornock, managing editor at Oxford Business Group, explains.

Jordan's inauguration of its first fully-fledged credit information bureau, whose enabling legislation was passed more than five years ago, is aimed in part at loosening up the Kingdom's credit market by providing lenders with centralized data, enabling them to better quantify and manage the risks attaching to loan applicants.

Poor access to financing has been a perennial obstacle for Jordan's private sector, especially the tech startups and other small and medium-sized enterprises (SMEs) that policymakers are counting on to drive growth and cut youth unemployment rates. In the "getting credit" category of the World Bank's 2015 Doing Business report, the Kingdom ranks 185th out of 189 economies surveyed, and "depth of credit information" figures heavily among the criterion.

At the official opening ceremony, Prime Minister Abdullah Ensour said his government was focused on building a better business climate, emphasizing efforts to attract more investment and pursue further reforms. He said that by providing lending institutions with reliable information on would-be borrowers, the bureau would help increase access to credit for SMEs.

The information, communication and technology (ICT) sector has emerged as something of a star in the Kingdom's economy, accounting for an estimated 12% of GDP thanks in part to both early public investment and the recent proliferation of private venture capital firms. Indeed, one of its earliest champions, Specialized Technical Services, was selected to build the infrastructure for the bureau's data center private sector's demand for capital, and a 2014 study by the European Bank for Reconstruction and Development found that less than 17% of Jordanian companies had a bank loan or a line of credit.

Also speaking at the inauguration ceremony, Central Bank of Jordan (CBJ) Governor Ziad Fariz attributed the credit bureau's lengthy gestation period to careful planning by his institution and the commercial banking industry, with the IFC, the private sector arm of the World Bank, contributing as a strategic partner. With a local portfolio worth $1.3 billion, the IFC has become a significant stakeholder in Jordan's economy, its soft loans and investments giving it a presence in everything from tourism and manufacturing to energy and pharmaceuticals. It also specializes in helping clients to develop financial tools designed to manage risk, and advises companies seeking to access credit markets.

Expressing his own hope that the bureau would result in "more financing opportunities to small business," Fariz also highlighted several other moves the CBJ has taken to make the banking system more efficient and more responsive to the private sector's needs, including introduction of eFAWATEER, an electronic bill-payment system. Launched in mid-2014, the system now handles e-payments for almost 200 services offered by dozens of public and private institutions, most recently adding the crucial ministries of interior, municipal affairs and trade.

Apart from expected efficiency savings and encouraging greater public buy-in of e-government, eFAWATEER also empowers the CBJ's oversight role by giving it a clearer picture of payment flows. And as an added benefit, it is managed on behalf of the CBJ by Madfoo3atCom, another graduate of Jordan's tech boom.

The credit bureau is part of Fariz's continuing efforts to foster more bank lending to the private sector, especially SMEs. Speaking at the Arab Banking Forum in Amman in February 2015, he highlighted "the importance of increasing credit to SMEs due to their role in capital investment, providing work opportunities, and contributing to overall economic growth."

Alongside the central bank's efforts, recent government policies on the fiscal and taxation fronts likewise indicate greater emphasis on growth. The 2016 budget draft published in November, for example, increases capital spending by 20%, while sweeping tax and customs incentives for the ICT and transport sectors, free zones and investments in less developed regions were announced at the end of October.

These and other moves indicate a growing sense of urgency among policymakers as they seek to maintain economic momentum in the face of strong headwinds. The Kingdom managed to avoid an economic contraction during the 2008-09 global financial crisis, but repeated external shocks have moderated growth. After having averaged growth of more than 8% in the five years up to and including 2008, GDP slowed to 5.5% in 2009, and if the latest World Bank forecast of 2.5% for 2015 (down from an original figure of almost 4%) proves accurate, the pace since 2010 will have averaged under 3%.

IFC country manager Ahmed Attiga said the new credit bureau – which he describes as the first of its kind in the Arab region to be entirely privately held – would help prime the pump, predicting that it would increase access to finance and provide a "qualitative" boost for the Kingdom's business environment.

While overseen by the CBJ, the bureau is owned and operated by Italy-based CRIF, one of the world's largest banking and credit information companies. According to its website, CRIF has helped develop and administer similar capabilities for several emerging markets, including the Czech Republic, India, Slovakia, and Turkey. It also provides other business and risk-management systems for clients in about four dozen countries.

CRIF Jordan General Manager Ahmad Amoudi said operations in the Kingdom would cast a wide net, compiling relevant information on firms and individuals operating in sectors across the economy, and that the bureau would eventually develop more precise tools such as a credit scoring system.

The presence of a credit bureau is conventionally regarded as particularly important for startups and other SMEs, which lack the collateral that more established companies can put up to compensate for poor or incomplete credit records. A 2008 study published by the US Agency for International Development stated that the absence of a credit bureau "creates grave doubts in the minds of creditors considering SME financing," contributing to banks' "relying excessively on immoveable property as collateral from SME loans."

The new bureau is expected to help alleviate this situation, but it will take time for it to build the necessary data sets, so the CBJ is pushing for greater transparency to lubricate other links in the credit chain as well. In November it issued a circular on best practices for banks when collecting client financial data, and in December it urged them to accept only information that has been independently audited.