

Challenges of Jordan's Microfinance from Points of Views of Microcredit Managers: An Empirical Study

Khalil Elian Abdelrahim
Associate Professor in Economics
Taif University, Saudi Arabia

Abstract-- The study aims at shedding light on the obstacles facing the microfinance (MFI) sector in Jordan. The research's methodology is descriptive and analytical based on collecting and analyzing primary data from a purposive sample of microcredit managers besides the secondary data. The study concludes that the microfinance challenges in Jordan are above average at Likert Scale. T-test shows the significance of the following microfinance challenges: the perception that microcredit is a grant, absence of a credit bureau, sharing private data on borrowers is not permitted, default of microcredit borrowers, inadequate profitability, high leverage ratio, absence of long-term loans, not handling accounting records and Lack of Loan Guarantees. The rest of challenges are insignificant and could be neglected by policy makers. The study recommends: (1) increasing role of microfinance to generate income for the poor, build a viable business and seek self-empowerment. (2) not using microcredit to finance extremely poor people as microfinance will push them more in debt. (3) allow exchange of data among MFIs on risky borrowers (4) neglect clients who practice duality of taking more than on loan each time (5) invest in training clients on how to manage their loans (6) give a short grace period for borrowers before repayment (7) diversify the lending methods (8) establish a National Microfinance Association to provide technical assistance to MFIs

Index Term-- Microfinance Challenges, Microcredit Institutions, Small Enterprise

SECTION I: INTRODUCTION

1.1 Preface

With low economic growth, increasing poverty, inflation and economic austerity measures in Jordan, microfinance becomes a mean of alleviating poverty for the unprivileged individuals and household in Jordan.

The Jordanian policy makers have concentrated their efforts since 2005 on having new strategy for promoting microfinance and getting rid of the obstacles facing the microcredit institutions in providing microfinance for small enterprises, individuals and household in Jordan.

2.1 Research Problem

Due to the gap between the demand of small enterprises and the supply of Microcredit Institutions for loans in Jordan, it is necessary to investigate the obstacles that hinder the MFIs meeting the demand of for microfinance. The research problem could be formed in the following questions: What are the challenges facing the provision of microfinance by MFIs in Jordan from the points of view of microcredit managers? Which of the microfinance challenges in Jordan are

statistically significant? What are the recommended solutions for the microcredit challenges?

3.1 Research Objectives

The study objectives are: (1) To identify the structure of microcredit institutions in Jordan. (2) To find out the characteristics of microfinance in Jordan relating to credit terms, size of microfinance and number of borrowers. (3) To explore the challenging facing Jordanian microcredit institutions in providing microfinance for small enterprises in Jordan. (4) To suggest solutions for the microcredit challenges in Jordan.

4.1 Research Importance

This research on challenges of microfinance in Jordan comes in a critical time when most of Jordanians suffer from low standard of living, poverty and inflation due to the reverse repercussions of the economic crisis which resulted in declining micro credit loans, high default risk and increasing non-performing loans. Moreover, there is a scarcity in research on microfinance obstacles that deter the provision of more microcredit for small enterprises in Jordan. Therefore, the conclusions of this research will be of great benefit for microfinance policy makers in Jordan.

5.1 Research Methodology

The researcher followed a qualitative, descriptive and analytical approach for collection and analysis of the primary and secondary data on the challenges of microfinance in Jordan. To collect primary data, the researcher selected a purposive convenient sample of 15 managers of the following MFIs: Microfinance For Women (MFW), Development & Employment Fund (DEF), Citi Bank Microfinance, Ahli Microfinance Company (Al-Watani), Middle East Microfinance Company (MEMCO), Charitable Microfinance International Organization (FINCA Jordan), Agriculture Credit Corporation (ACC), General Union of Voluntary Society (GUVS), Jordanian Hashemite Fund for Human Development (JOHWD), Jordan Micro fund Company (Tamweelcom), Al-Ameen Microfinance Company, UNRWA Microfinance, Cairo Amman Bank and Microfinance Association.

The questionnaire included two parts. Part 1 includes questions relating to personal information on respondents; while Part 2 includes 16 paragraphs relating to challenges facing microfinance in Jordan (Appendix 1). The questionnaire was distributed to several referees to check its soundness and accuracy then its reliability was tested by Cronbach Alpha Coefficient which was (0.853). Respondents returned all distributed questionnaires fully filled. The statistical tools of

the study are frequency distribution, percentages, mean, standard deviation and t-test using SPSS.

6.1: Research Model

The model explain the relationship between independent and dependent variable as in figure (1)

Independent Variables (Challenges of Microfinance)	Dependent Variable
1-Insufficient capital Adequacy	
2-Lack of Loan Guarantees	
3-Not Handling Accounting Records	
4-Insufficient Cash flows	
5-Absence of Long- term loans	
6-High Leverage Ratio	
7-Inadequate Profitability	
8-Limited Liquidity	Size of Microcredit
9- Default of microcredit	
10-Poor Management	
11-High Lending Cost	
12-Weak Marketing Capacity	
13-Sharing private data is not permitted	
14-Lack of reliable feasibility studies	
15-Perception that microcredit is grant.	
16-Absence of credit bureau in Jordan	

Fig. 1. Model of Microfinance Challenges

Source: Researcher Based on Microfinance Literature

7.1 Research Limitation

The scope of this research is limited to investigating the points of view of microcredit managers on microfinance challenges excluding the points of view of borrowers on such challenges.

8.1: Research Organization

The research’ structure includes six sections as follows: (I) Introduction. (II)

Theoretical framework of Microfinance and Previous Studies.(III) Strategy & Structure of Microfinance in Jordan (IV) Characteristics of Microfinance Operations in Jordan.(V) Analysis of Challenges of Microfinance in Jordan.(VI) Conclusions & Recommendations.

SECTION II: THEORETICAL FRAMEWORK OF MICROFINANCE AND PREVIOUS STUDIES

Microsoft means providing the poor with very small loan called microcredit to help him engage in productive activities or to expand tiny existing business. There is no clear definition of microcredit in Jordan. Generally speaking, a microcredit is a loan that does not exceed JD 2106 or \$2940 (Ministry of Planning: 2005).

Microfinance came into prominence in 1980’s and it dates back 30 years ago in Bangladesh, Brazil and a few other countries. It came to avoid the pitfalls of traditional lending

which charges high interest rates, requiring guarantees. Microcredit mostly stresses client groups which is the model used by Grameen Bank in Bangladesh. Microcredit is largely a private non-profit initiative.

The targeted clients of Microfinance are the poor and the vulnerable non-poor who have a relatively stable source of income and who does not have access to conventional formal financial institutions. Therefore, the typical microfinance client is self-employed, often a household-based entrepreneur. In rural areas the microfinance client is small farmers and others who engage in small-income generating activities such as food processing and petty trade. The clients of urban areas are low-income persons including shopkeepers, artisans, service providers and street vendors.

Microfinance can help the poor increase his income and build a viable business. It is a powerful tool for self-empowerment especially women, to become economic agents. Hence, microfinance is provided to those with an economic opportunity and can capitalize on such opportunities if they are provided a small amount of cash. Microfinance can serve the people who demonstrate entrepreneurial capabilities and commitment to loan repayment.

Microfinance is not appropriate for certain extremely poor people who do not have any stable income as microfinance will push them to be in debt that they cannot repay. Extremely poor people should seek help from Safety Net Programs and National Aid Fund in the Ministry of Social Affairs.

The following is an overview of previous studies:

1-The Study of Rebecca N. Coke (2002) “ Microfinance Borrower Default : Evidence from Philippine”, aimed at understanding the factors influencing a borrower’s decision to pay back the microfinance loan as some borrowers more likely to repay than other borrowers, if so, what are the relevant characteristics of borrowers that make repayment more likely?. The study concluded that microfinance institutions can benefit from better understanding of borrowers repayment patterns which may improve profit margins. The study indicates that the average amount of microfinance loan is 3000 pesos, with annual interest between 24%-32%, weekly installment for six month period, microcredit is offered with minimum or zero collateral. In the event of default, MFIs are vulnerable to capital losses. The problem with MFIs is the cost per loan processing and administration that remains high similar to formal financing. The study concludes that connections of microcredit institutions to formal financial market, portfolio diversification, and economy of scale enable MFIs in Philippine to offer loans at lower interest than informal sector.

2- Sanabel study (2004) “Shaping the Future of Microfinance Industry in Arab Countries” aimed at discussing the role of microfinance worldwide particularly in Arab countries including Jordan. The study highlighted that Jordan should benefit from the best practices of other countries in microfinance. The study predicted more than 10 million clients of microfinance programs in Arab countries in the coming few years. SANABEL is an Organization of Microfinance Network of

Arab countries that was established in 2002 and designed to serve microfinance of Arab Countries. There are representatives of 12 Arab Countries meeting each year in one of member countries. Jordan is represented in Sanabel by 7 microfinance institutions.

3-The Study of Ministry of Planning and International Corporation (2005) "National Strategy for Microfinance in Jordan" was conducted by the microfinance committee of Ministry of Planning in Jordan which prepared a national strategy for microfinance development for the decade ending in 2010. The microfinance committee developed a working plan and a strategy for the microfinance sector which became the basis for microfinance strategy. The strategy includes a description of the role of microfinance in alleviating poverty, the policy framework and the stakeholders' roles, besides discussing the role of the microfinance institutions in Jordan.

4-The Study PlaNet Finance of Agence Francaise de Development & Ministry of Planning (2007) "National Impact and Market Study of Microfinance in Jordan" aimed at providing data about socio-economics characteristics of microfinance in Jordan in terms of demand, new products, current practices and the impact on household, women empowerment, investment and generation of income. The study concluded that microfinance in Jordan has a positive impact on business start up and development, providing a primary source of finance for the economically active poor, increase the level of employment and investment.

5-The study of Nahil Saqfalhait (2010) "Microfinance Regulation in Jordan: Comparative Perspective" aimed at providing the necessary comparative data and analysis to support sound regulatory for the microfinance intuitions (MFIs) in Jordan. The study concluded that regulating MFIs in Jordan is necessary for expanding access for microfinance services which is the case in other countries that have legal framework of microfinance activities. Such a regulatory framework should be transparent, market oriented and prevent unfair microfinance practices in Jordan.

6-The study of Eleonora Isaia(2010) "Micro fund for Women: A Case of

History of Microcredit in Jordan" aimed at investigating the opportunities, weaknesses and best practices in Micro Fund for Women (MFW) in Jordan. The study describes the targeted clients and the way MFW satisfies its funding needs and sheds light on the goals of MFW which are: proving sustainable financial services for the underprivileged entrepreneurs, to contribute to women empowerment, to reduce unemployment of women by providing them with economic opportunities and to improve the overall status of the women micro -entrepreneurs through access to microfinance. The study concluded that there are three microcredit dimensions: outreach, sustainability and impact.

7-The Study of Mohammed Salim Uddin (2011) on "Role of Microcredit and Community Based Organization in a Wetland Area in Bangla" aimed at assessing the role of microcredit in improving rural livelihood mainly household fishing, identifying the challenges facing MFIs in Bangladesh, exploring the obstacles of sustainability of community based

organizations. The study concluded that clients of microfinance suffer from repaying loans without grace period and insisting on weekly installments, but microfinance has positive impact on increasing household income and reducing poverty, weekly installments of repayment of microcredit obliges clients into multiple borrowing which forces them into vicious poverty. MFIs face obstacles of sustaining their operations due to narrow skills, limited resources, financial instability and the misleading government leasing policy.

8-The study of German Agency for Reconstruction & Ministry of Planning (2012) "Jordanian National Policy Framework for Microfinance: Towards Inclusive Finance" aimed at conducting a survey to assess the potential of MFIs for new products for developing microfinance in Jordan and reviewing the legal regulatory framework of microfinance operations in Jordan. The survey concluded that there is a need for MFIs and beneficiaries to develop new products in the microfinance sector from the points of view of microcredit's clients. The study recommended reorganization of MFIs in Jordan as a first step to lower the cost of microcredit, making microfinance products less expensive, besides recommending the initiation of new legislation for the microfinance in Jordan.

9-The study of Samer Abu Dalo (2012) "The Microfinance Industry in Jordan" aimed at investigating the following the four types of microcredit provided to clients in Jordan: individual loan, group loan, seasonal loan and Islamic Morabaha loan, besides discussing the obstacles facing the MFIs such as: competition, similarity in products and duality of client by getting more than one loan in the same time. Abu Dalo sheds light on Delta Informatics which is an informatics company supporting MFIs by providing them with information on clients to be sure that they cannot go to another company for microfinance unless they finish repayment of loans to previous company.

10-The Study of Selina Howe Carter (2013) "Financial Intermediation, Growth and Microfinance in Turkey: A Quantitative Study", aimed at describing the banking sector and microfinance in Turkey from a pooled data of the largest microfinance organization to test if micro loans increase borrowers income in the sample. Using saving deposits as a proxy for borrower income, the result of investigation shows a statistically significant positive correlation between loans and saving behavior. This suggests that microfinance is an effective tool for poverty reduction in Turkey. In the light of Turkey ambition to join EU and increase its per capita income, there is a strong incentive to allow Turkey's microfinance sector to thrive. The study concludes with a recommendation to integrate microfinance into the formal banking.

In sum, the researcher find out that this study is different from the previous studies in terms of scope, objectives and methodology as this study is an empirical research that concentrates on the challenges facing the microfinance sector in Jordan from the points of view of microcredit managers.

CHAPTER III: STRATEGY AND STRUCTURE OF
MICROFINANCE IN JORDAN.

Since the Jordanian Government identified microenterprises as a major strategy for combating poverty, several microfinance initiatives have been launched by the support of domestic and international cooperation. The government has

Sponsored several credit programs to ease the conditions of the poor. The government's microfinance policy is built on the following principles (Ministry of Planning:2005):(1) The private sector will be the main provider of microfinance. (2) The government will facilitate an enabling policy environment. (3) Market-oriented interest rates will be charged on microfinance loans. (4) Government agencies will gradually withdraw from microfinance lending activities after developing the role of private institutions in microfinance.(5) The governmental support for microfinance will be limited to creating an enabling environment, providing vocational training , identifying business opportunities, simplifying business registration procedures and providing necessary infrastructure.(6) The government will avoid credit subsidies and debt forgiveness schemes.(7) A distinction should be made between microcredit and welfare assistance.

The Jordanian microfinance sector was initiated in the late 1990's and currently there are 15 microfinance institutions (MFIs) working in Jordan which are divided into the following categories: the 1st category is banking Microcredit which includes microcredit of Cairo Amman Bank, Citi Bank Microfinance, Ahli Bank Microfinance Company (AMC) and Al-Watani National Microfinance Bank (NMB). The 2nd category is Private Institutions' Microcredit which includes Middle East Microfinance Company (MEMCO), Al-Ameen Microfinance Company, Tamweelcom, Jordan Microcredit Company (JMC) and MFIs Association. The 3rd category is the Nongovernmental Microcredit which includes Charitable Microfinance International Organization (FINCA), Microfinance for Women (MFW) and UNRWA Microfinance. The 4th category is Microfinance of Governmental Institutions which includes Development and Employment Fund (DEF) and the Agriculture Credit Corporation (ACC). The International Donors of MFIs include EU, World Bank, International Financial Corporation (IFC),USAID, French Agency for Development, German Agency for International Corporation (JIZ) and Spanish Agency for Development (See Appendix 2).

Microfinance in Jordan reached \$156.4 million in 2010 with 204336 borrowers which is considered the 4th largest microfinance in the Arab World and a leader in implementation of microfinance program. The largest MFIs is Micro Fund for Women (MFW) established in 1994 by "Save the Children" using Grameen Microfinance Model with 63000 borrowers and \$22 million loans, followed by Tamweelcom initiated by Noor Al-Hussein Foundation and funded by USAID, Alwatani Development & Employment Fund and Commercial Banks' Microcredit including Citi Bank

microfinance (youinjordan.com/the-microfinance-movement-in-Jordan)

CHAPTER IV: CHARACTERISTICS OF MICROFINANCE
OPERATIONS IN JORDAN

The microfinance sector in Jordan is characterized by four large MFIs with strong commercial orientation and about a dozen MFIs that provide microfinance with lesser commitment to industry norms. Local microcredit schemes include village-type, self-help oriented operations with credit components. Some of these schemes are supported by donor foreign countries and large NGOs. Microfinance in Jordan is not regulated by a special law and MFIs are not required to comply by banking regulations and they are not permitted to mobilize savings from public.

Microfinance in Jordan provides the disadvantaged and poor borrowers with credit and economic opportunity. MFIs accounted for about 33% of total credit for small business in Jordan and it is noticed that MFIs focus more on women than do government-owned institutions.

MFIs operations are characterized by higher interest rates than those of the formal sector, their loans with no grace period, low emphasis on collateral and few of them conduct reliable feasibility studies (Ministry of Planning:2005).

Many of Governmental programs for promoting microfinance in Jordan have been unable to sustain microcredit operations due to high overhead costs and high incidence of loan nonpayment. Moreover, many Jordanians considered microfinance loans extended by the government as grants not be repaid.

Commercial banks in Jordan prefer to provide credit to commercial and industrial enterprises shying away from loans to the poor due to high risk and rising operation cost of microcredit loans. The subsidized credit providers' category is the Development & Employment Fund which provided \$90 million

loans in 2001 for the poor households (Ministry of Planning:2011).

The private and nongovernmental MFIs in Jordan are market oriented microfinance institutions funded by donor countries such as USAID which allocated \$30 million for MFIs which provide microcredit for more than 16879 borrowers. The potential market of microfinance in Jordan could reach within few years 800,000 borrowers or 40% of the poor who represent around 14% of

Jordan population (Isaia:2010).

MFIs total loans reached \$155.4 million with 28% annual growth of outreach.

The active borrowers reached 203579 in 2010 with a focus on women entrepreneurs who account for 71% of clients (www.microworld.org/en/news-from-the-field/article/microfinance-jordan).

The performance indicators of the key Jordanian MFIs are shown in Table I:

Table I
Performance indicators of Key Jordanian MFIs

MFIs	Active Borrowers	Women Borrowers %	Gross Loan Portfolio (US\$)	Average Loan Balance (US\$)
Alwatani	20900	85%	15,311,587	733
AMC	2946	50%	4,647,177	1577
DEF	17515	59%	50,138,801	2863
FINCA Jordan	9062	98%	2,391,331	264
Tamweelcom	39352	95%	14,645,631	372
MEMCC	11552	47%	15873860	1374
MFW	36944	47%	16024254	434
UNRWA	3711	11%	3,640,341	981
Total	141,982		122,672,982	864

Sanabel (2009) Jordan Microfinance Industry Profile

There are four types of microcredit loans offered by MFIs in Jordan (Abu Dallo: 2012): The first type is individual loans provided to men and women as business owners, household, to finance starting a project, existing projects, expanding a business or buying a vehicle with a grace period of 6 months. The second type is a seasonal microcredit provided to borrowers in certain occasions such as Ramadan; start of schools and in the feasts. The third type of microcredit is the group loans provided mostly for women of 2-5 persons who are household for knitting, agriculture, buying sheep, cows and camels. The fourth type of microcredit is Morabaha Loan which is an Islamic microfinance loan provided by FINCA and Development & Employment Fund where no interest is charged but it is a contract between the company, the trader and the client where the company buys the product from the trader and resale it to the client achieving a profit for the microfinance company between 6%-7%. Repayment rates are high and range between 92% to 98% (youinjordan.com/the-microfinance-movement-in-Jordan).

The performance of Jordan's microfinance institutions is seriously hampered by lack of data exchange system on borrowers and defaulters as the legal system does not permit sharing personal data among MFIs on applicants whether they have defaulted on previous loans (Ministry of Planning:2005). Other problems that face MFIs include lack of microfinance regulation, competition among MFIs, lack of entrepreneurial skills particularly marketing and accounting, difficulty of expanding small enterprises in a competitive market, the perception that microcredit are grants not repayable besides the absence of a credit bureau in Jordan.

SECTION V: ANALYSIS OF EMPIRICAL RESEARCH ON CHALLENGES OF MICROFINANCE

The analysis of the primary data shows that the sample respondents mostly hold bachelor degree (60%), followed by post-graduate degree (20%). A high percentage of respondents' age is between 25 and 40 years (53%), followed by the age 41-55 (33%). About 40% of the respondents have

experience more than 10 years, followed by experience 6-10 years (33%) as shown in Table II:

Table II
Characteristics of Sample's Respondents

Variable	Category	Frequency	Percentage
1-Age	Less than 25	1	7%
	25-40	8	53%
	41-55	5	33%
	More than 55	1	7%
	Total	15	100%
2 - Experience	Less than 1year	1	7%
	1-5	3	20%
	5-10	5	33%
	6-10	6	40%
	More than 10	15	100%
3- Education	Less than Secondary	1	7%
	Secondary level	2	13%
	Bachelor Degree	9	60%
	Graduate studies	3	20%
	Total	15	100%

Source: Researcher's Computation

Relating to the research question: what are the challenges facing the provision of microfinance by MFIs in Jordan? the researcher could reach the following conclusion: the total average of the microfinance challenges in Jordan is 3.68 which is above average at Likert Scale and the following averages of the microfinance challenges are also above average which indicate the respondents approval: perception that microcredit is grant (4.29), absence of credit bureau in Jordan (4.17), not handling accounting records (4.08), inadequate profitability (4.01), no permission for sharing private data on borrowers (3.92), default of microcredit borrowers (3.80), absence of long-term loans (3.79), lack of reliable feasibility studies (3.63), weak marketing capacity (3.58), high leverage Ratio (3.44), lack of loan guarantees (3.37), insufficient cash flows (3.32), limited liquidity (3.23), high lending Cost (3.18) and insufficient capital Adequacy (3.07).

In relation to the second research question: which of the microfinance challenges in Jordan are statistically significant? the researcher could reach the following conclusion: t-test shows that the following microfinance challenges are significant and could be considered by policy makers as important challenges of microfinance in Jordan: perception that microcredit is grant, absence of credit bureau, sharing private data is not permitted, default of microcredit borrowers, inadequate profitability, high leverage ratio, absence of long-term loans, not handling accounting records and lack of loan guarantees. The rest of challenges are insignificant and could be neglected by the policy makers as shown in Table III:

Table III
Analysis of Challenges of Microfinance in Jordan

No	Paragraphs of Microfinance Challenges	Mean	Rank	STD	T-test	Sig.
1	Insufficient capital Adequacy	3.07	15	1.263	1.240	0.623
2	Lack of Loan Guarantees	3.37	11	1.049	3.446	*0.042
3	Not Handling Accounting Record	4.08	3	1.004	5.917	*0.031
4	Insufficient Cash flows	3.32	12	0.762	1.794	0.529
5	Absence of Long- term loans	3.79	7	1.317	2.645	*0.049
6	High Leverage Ratio	3.44	10	0.603	6.947	*0.026
7	Inadequate Profitability	4.01	4	1.207	8.172	*0.000
8	Limited Liquidity	3.23	13	1.317	1.609	0.061
9	Default of microcredit borrowers	3.80	6	1.083	7.229	*0.029
10	Poor Management	2.84	16	0.607	1.017	0.894
11	High Lending Cost	3.18	14	1.137	1.544	0.975
12	Weak Marketing Capacity	3.58	9	0.787	2.131	*0.047
13	Sharing private data is not permitted	3.92	5	1.211	3.876	*0.037
14	Lack of reliable feasibility studies	3.63	8	0.873	2.272	0.051
15	Perception that microcredit is grant.	4.29	1	1.127	11.170	*0.000
16	Absence of credit bureau in Jordan	4.17	2	0.957	9.987	*0.001
	Grand Average	3.608		0.953	4.437	

Notes: Likert used in this research has been given five point scale of Strongly agree (5) Agree (4) Neutral (3) Disagree (2) Strongly disagree STD = Standard Deviation. *=sig.

Source: Researcher Computation

SECTION VI: CONCLUSIONS & RECOMMENDATIONS

The study aims at shedding light on the obstacles facing the microfinance sector in Jordan from the points of view of microcredit managers. The research methodology is descriptive and analytical based on collecting and analyzing primary data from a purposive sample of microcredit managers besides the secondary data.

The study concludes that the microfinance challenges in Jordan are above average at Likert Scale which indicates the respondents' approval of the these challenges. T-test shows the statistical significance of the following microfinance challenges: perception that microcredit is grant, absence of credit bureau in Jordan, sharing private data is not permitted, default of microcredit borrowers, inadequate profitability, high leverage ratio, absence of long- term loans, not handling accounting record and lack of loan guarantees. The rest of challenges are statistically insignificant and could be neglected by the policy makers in Jordan.

The study recommends the following measures for overcoming the microfinance challenges in Jordan: (1) increasing the role of microfinance to generate income, build a viable business and seek self-empowerment. (2) Not using microcredit to finance extremely poor people who do not have stable income as microfinance will push them to debt and poverty. (3) Establishing a legal system that allows exchange of data among MFIs on risky borrowers. (4) Neglecting clients who practice duality of taking more than on loan each time. (5) Investing in training the microcredit clients on how to manage their loans. (6) Giving a short grace period for the microcredit borrowers before repaying their installments. (7) Diversifying MFIs' lending methods to include individual,

group, seasonal and Islamic Morabaha. (8) Establishing a National Microfinance Network Association to provide technical assistance and capacity building programs to MFIs. Finally the researcher suggests having a further research to investigate the appropriate methods of Islamic banking to finance micro-enterprises in Jordan.

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Appendix 1

Questionnaire on Microfinance Challenges in Jordan

Part I: Personal Information

1-**Qualification:** Less than Secondary Secondary Bachelor Graduate studies

2-**Age:** Less than 25 25-40 41-55 More than 55

3-**Years of Experience** 1-5 6-10 11-15 More than 15

Part II: Questionnaire Paragraphson Microfinance Challenges

1- Insufficient capital Adequacy

Strongly agree Agree Neutral Disagree Strongly disagree

2- Lack of Loan Guarantees

Strongly agree Agree Neutral Disagree Strongly disagree

3- Not Handling Accounting Record

Strongly agree Agree Neutral Disagree Strongly disagree

4- Insufficient Cash flows

Strongly agree Agree Neutral Disagree Strongly disagree

5- Absence of Long- term loans

Strongly agree Agree Neutral Disagree Strongly disagree

6- High Leverage Ratio

Strongly agree Agree Neutral Disagree Strongly disagree

7- Inadequate Profitability

Strongly agree Agree Neutral Disagree Strongly disagree

8-- Limited Liquidity

Strongly agree Agree Neutral Disagree Strongly disagree

9- Default of microcredit borrowers

Strongly agree Agree Neutral Disagree Strongly disagree

10- Poor Financial Management

Strongly agree Agree Neutral Disagree Strongly disagree

11- High Lending Cost

Strongly agree Agree Neutral Disagree Strongly disagree

12- Weak Marketing Capacity

Strongly agree Agree Neutral Disagree Strongly disagree

13- Sharing private data is not permitted

Strongly agree Agree Neutral Disagree Strongly disagree

14- Lack of reliable feasibility studies

Strongly agree Agree Neutral Disagree Strongly disagree

15- Perception that microcredit is grant.

Strongly agree Agree Neutral Disagree Strongly disagree

16- Absence of credit bureau in Jordan

Strongly agree Agree Neutral Disagree Strongly disagree

Appendix 2

The Profile of Leading Microfinance Institutions in Jordan
(Source: Ministry of Planning, 2005 and Nahil Saqfalhait,2007)

A) Private Microfinance Institutions in Jordan

1-Jordan Micro Credit Company (JMCC)

It is established in 1999 and affiliated with Noor Al-Hussein Foundation to cover the gap of microcredit. It provide microcredit to individuals ranging between JD120 to JD 15000 for a duration from 7-24 months at a monthly interest rate of 1.7 % which is deducted from the loan account. The value of loans until 2004 reached JD 11 million to 15962 borrowers. It select its client very carefully using credit – scoring system.

2-Ahli Micro Finance company (AMC)

It was established a subsidy of Jordan National Bank which started operations in 1999 to grant loans to micro enterprises of 2 years old. It concentrates on clients with projects and they are selected on the merits of their business. Its microcredit from D 120 to JD 15000 for a duration 4-48months and granted to industrial, commercial, professionals and services oriented business . Its outstanding loans is JD 2million and the repayment rate is 98% at an interest rate 8-15% deducted from the loan and the duration is for 6 months term.

3-Micro Fund for Women(MFW)

MFW started in 1994 as a project of the Save the Children Foundation then became a registered NGO in 1997 and became non-profit company for microfinance in 1999 with a loan portfolio of JD 2.62 million and 11870clients. With cumulative disbursement of JD29.2 million involving 120579 loan.It focus only on women. It offers three products :goup loans (JD100-500), for 32 weeks , bi-weekly repayment with no collateral but with 1.75% monthly interest and seasonal loans for women with outstanding loans (JD 100-500) for 3-5 months, no collateral. Bad debt provisions for 2004 were 18% of the portfolio.

4-Middle East Micro Credit Company (MEMCO)

MEMCO started operations in Aqaba in 1998 and had a portfolio of JD 3.08million with active loan of 2900 and

financial sustainability stood at 152%. It provides individual loans ranging from JD 245 to 25000 repayable in monthly installement. A group loan scheme was terminated due to low repayment rates > It charges 17% on loans up to JD 14000 and 1% fee and a Pre-dated checks are the main form of collateral.

5-National Microfinance Bank (NMB)

It is a joint venture of King Abdulla II Fund for Development, Arab Gulf Program for UNDP and other two private investors. It started providing microcredit in 2006 and it has an important market share in microfinance in Jordan. It provides loans, training and consulting services.

6-FINCA Jordan

FINCA stands for the Foundation for International Community Assistance which was established in 1984 but entered Jordan in 2007. It has a good market share of microfinance in Jordan. It provides its microcredit to lowest-income entrepreneurs.

7-Jordan Microcredit Company (JMCC or Tamweelcom)

It was established in 1999 by Noor Al-Hussein Foundation for disbursing Microcredit loans to low-income individuals who do not have access to formal banking loans. It’s main source of funding is grants. It provides loans, training and consulting services.

8-Cairo Amman Bank (CAB)

CAB is the only commercial bank in Jordan engaging in microfinance. It began its microcredit loans in 2007 and in the year 2008 it had 2099 outstanding loans with an amount of JD1.7 million or \$2.4 million.

B) Governmental Microfinance Providers in Jordan

1-Agriculture Credit Corporation (ACC)

ACC supports agricultural projects, finances agriculture exports, provides technical consultation, offers seasonal loans besides conducting feasibility studies. Moreover, it offers short term loans,medium term loans and long term loans . The interest rate ranges between 7% and 10%.

2-Development & Employment Fund (DEF)

It was established in 1989 under the umbrella of Industrial Bank. It initiated operation in 1991then became independent

in 1992 and his director is appointed by the Prime Minister. Its funds come from the Government and foreign funders. It offers several direct programs for household, individuals and groups and indirect lending program to other organizations which finances groups targeted by DEF. It charged an annual interest rate of 6.5% deducted from the loan.

3-Industrial Development Bank (IDB)

It is a specialized credit institution established in 1965. It finances industrial and touristic projects. As of 2004, the paid capital was JD 24million. It is managed by a board of directors from the public and private sector. The bank has a special fund to finance handicraft and small enterprises with up to 5 workers in all regions of Jordan. Its loan does not exceed JD 15000 with interest rate 6.5% and repayment term between 3 and 7 years. IDB also offers lease financing and medium and long term capital financing and provides syndicated loans for large industries to finance working capital and fixed assets. It also invests in venture capital of industries up to 50% of investors share. In the time being IDB ceased its operations in Jordan.

C) Non-Governmental Microfinance Institutions in Jordan

1-General Union of Voluntary Societies (Guvs)

It is an NGO founded in 1959 to combat poverty and unemployment, address local community and less fortunate particularly the disabled. It provides financing to small enterprises and it funds projects up to JD 1000 at 9% interest rate plus 1% application fee. It also funds charitable loans to finance college education and supports 849 voluntary societies.

2-Jordanian Hashemite Fund for Human Development (JOHUD)

JOHUD was established in 1977 to alleviate poverty and unemployment. The fund implements its activities through 48 community centers around the 12 administrative districts in Jordan. It carries its activities through more than 8000 volunteers mainly women. Its lending schemes are offered to low income people, social, health and environment projects besides supporting literacy classes, vocational skills training, agricultural projects and dental and family services.

3-UNRWA Microfinance

It provides self-sustaining lending in line with microfinance best practices and it finances the small projects of the needy Palestinian refugees in Jordan.