

MICROFINANCE AS A TOOL FOR POVERTY REDUCTION: A STUDY OF JORDAN

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The aim of this study is to evaluate the impact of microfinance on the poor, particularly in the specific areas of economic and social development of people and their employment. The research was carried out in Jordan, a country with a well-developed microfinance sector. The results have shown that microfinance has led to an improvement in the financial and social situation of the poor, especially for female clients of microfinance institutions. Interestingly, the higher income of clients has not caused higher expenditure on their basic needs, but rather people have generated saving for their future and used the additional money for education. According to the results of the microfinance impact assessment, it can be assumed that people, particularly females, prefer to improve the social situation for future generations. Based on this finding, we consider microfinance an effective tool for breaking the vicious circles of poverty, especially in Jordan. Furthermore, microcredits have facilitated in increasing employment for the poor, mainly through self-employment. It is believed that there exists a direct connection to the future expansion of microcredits that will lead to the development of small businesses with a promising impact on employability throughout the population structure.

microcredit, microfinance institution, microfinance impact assessment, poverty



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INTRODUCTION

The topic of microfinance has been receiving increased attention and has become a centre of discussion among experts in recent decades. Microfinance is often presented as a panacea for poverty alleviation, particularly in developing countries (Hes et al., 2012). According to Robinson (2001), poverty in developing countries is associated with low economic development, high population growth, unequal distribution of resources, wide-spread diseases, etc. This results in low productivity as well as unemployment of the poor.

According to Bassem (2012), microfinance is a response to the debt problems and economic crisis in most developing countries. In this sense, it is seen as one of the tools intended to reduce poverty.

Generally, microfinance can be described as the supply of loans, savings, and other basic financial services to the poor. In 1976, when Muhammad Yunus

in Bangladesh started the experiment with establishing the Grameen Bank, he focused on the very poor. As microfinance grew, it attracted the ‘economically active poor’ people who might be expected to take loans to run a small business, for example (Ledgerwood, 2013).

Microfinance can help low-income individuals start running their own business and build assets, reduce risk, raise productivity, obtain higher returns on investments, increase their incomes and, above all, improve the quality of their lives. The fact that financial services are available to anybody can be considered the biggest benefit of Microfinance institutions (MFIs) to the poor. Providing small loans, so-called microcredits, is generally considered as the basis of microfinance services. Microfinance providers also offer social and technical services. Examples include group formation, the development of self-confidence, training in financial literacy and management, and other non-financial services related to enterprise develop-

ment, such as skill training and marketing as well as social services, such as literacy training, health care, etc. Thus the definition of microfinance should include both financial intermediation and social intermediation. Generally, microfinance is not simply banking; it is a development tool (Ledgerwood, 1999).

The Hashemite Kingdom of Jordan (Jordan) is one of the Islamic countries where microfinance is widespread. Formal, semi-formal, and even informal microfinance institutions operate in the local financial market. According to the Jordan Microfinance Market Study 2012 (<http://www.mop.gov.jo/echobusv3.0/SystemAssets/24092014/Jordan%20Microfinance%20Market%20Study%202012.pdf>), there are five registered not for profit institutions and three commercial companies that are labelled 'microfinance institutions' whose sole activity is providing microcredit. In addition, there is one commercial bank, one donor agency, and one governmental agency that disburse micro- and small loans as well as several smaller non-governmental organizations (NGOs) and informal institutions that grant micro-loans. The average annual growth rate was 28% in 2006–2010, translating into an increase in active borrowers from 76 830 to 203 579 with a total gross loan portfolio of 111.6 million Jordanian dinars (JOD).

Poverty is a problem in Jordan that the government is well aware of. Numerous steps have been taken in order to combat poverty. According to the CGAP Report 2009 (<http://documents.worldbank.org/curated/en/2009/01/14595952/advancing-financial-access-worlds-poor-annual-report-2009>), Jordan was the first Arabian country to develop a national microfinance strategy to guide the development of the microfinance sector with the main objective to provide access to a wide range of financial services to the majority of the economically active poor households and micro-enterprises in Jordan. According to the National Strategy for Microfinance 2005 (http://www.mop.gov.jo/uploads/National_Strategy_for_Microfinance.pdf), this is to be achieved in a liberalized and market-oriented economy where the private sector is the implementer whereas the government provides the enabling environment for the efficient functioning of markets that encourage the participation of the private sector.

Therefore, the vision of the government of the Kingdom of Jordan is to have a viable and sustainable private microfinance sector that follows microfinance best practices and functions as an integral part of the national financial system. This is very important for the development of the microfinance sector in the long term. The government of Jordan is aware that the sustainability of MFIs is a key factor for the reduction of poverty in the long term.

The research focuses especially on the impact of microcredit in Jordan due to the fact that commercial banks are the only authorized institution that may both extend loans and mobilize deposits from the public

as a source of funds in Jordan (National Strategy for Microfinance 2005). Despite the diversity of definitions, microcredit generally means

- small size loans with shorter repayment periods,
- flexible and easy to understand regulations,
- small scale activities based on local conditions and needs,
- clients and small entrepreneurs and low-income households,
- loans used to generate income, develop enterprises, and used by the community for social services such as health and education (Bliss, 2005).

Due to low economic growth, increasing poverty, inflation, and economic austerity measures in Jordan, microfinance becomes a means of alleviating poverty for the unprivileged individuals and households in Jordan (Abdelrahim, 2014).

Microfinance in Jordan represents a source of finance available for the economically active poor households and micro-enterprises. According to Bassam (2012), microcredits are often used to finance self-employment activities for low-income people and urban and rural micro-entrepreneurs who have limited or no access to formal financial services.

The lack of financial services for the poor and, especially for women, appears to be a problem in Jordan. There are many obstacles to the classic loan provided by commercial banks for these people such as a lack of a guarantee, the issue of loan size and repayments, the location of banks, religious issues plus the distrust and fear of low-educated people relating to taking a loan etc. As already mentioned above, the lack of financial services expands poverty and unemployment.

The unemployment rate has remained persistently high in Jordan over the last decade (averaging 13.5 percent) regardless of changes in economic growth indicators. Unofficial unemployment rates are generally believed to be much higher as many job seekers give up hope and exit the labour market. Employment prospects for women are considerably worse than for the population at large. In 2011, 85% of Jordanian women (in all age groups) were not participating in the labour force (USAID Report 2012, <https://www.usaid.gov/sites/default/files/documents/1883/CDCSJordan.pdf>).

To enable poor people to start small businesses or to develop existing micro- and small businesses by building a stronger position from income-generating activities through access to financial services (microcredits), the overall impact of microfinance will be more important and clients will be able to climb out of poverty and contribute to the economic development of Jordan.

Thus, the objective of the paper is to evaluate the impact of microfinance in Jordan in these specific areas: (1) the impact on the economic and social development of population, and (2) population employment.

Table 1. Profile of sample

Region	Type of residence	Gender		
		women	men	total
Amman	rural	34	38	72
	urban	10	20	30
Amman total		44	58	102
Aqaba	rural	25	29	54
	urban	7	9	16
Aqaba total		32	38	70
Irbid	rural	22	42	64
	urban	19	49	68
Irbid total		41	91	132
Wadi Rum	rural	12	32	44
	urban	4	2	6
Wadi Rum total		16	34	50
Total		133	221	354

source: own processing

Intertwined with setting forth the objectives and the use of the findings, the key research questions are defined:

- Do microfinance services improve the client's capacity to manage, control, and build up their asset base to increase the economic and social status of their household?
- Do microfinance services enable the clients to develop businesses and to increase employment?

According to P e p r a h , K o o m s o n (2014), microcredit can be described in the context of social and financial mobility. The core mandate of microfinance is to reduce poverty. In order to achieve this, MFIs, through their operations, should be able to move clients up the social and financial ladder.

The National Impact and Market Study of Microfinance in Jordan 2007 (http://admin.planetfinancegroup.org/upload/medias/fr/impact_study_jordan_2007.pdf) concluded that microfinance in Jordan has had a positive impact on business start-up and development providing a primary source of finance for the economically active poor and increasing the level of employment and investment. Furthermore, according to N a s r , A b d i (2013), smaller firms in Jordan grow at faster rates than larger ones and create more new job opportunities. However, they are confronted with numerous hurdles and inadequate access to finance is frequently cited as one of the main constraints.

Thus, relating to the main objectives and literature review mentioned above, the hypotheses are as follows:

Household livelihood improvement:

Microfinance creates an improvement of the financial and social situation of clients. The income of some clients has gone up enabling them to increase expendi-

ture on food, health services, education, shelter and household assets and to cope with livelihood shocks.

Increase in paid employment:

Microcredit has facilitated the expansion of some micro-enterprises and small businesses increasing the paid employment for the poor.

MATERIAL AND METHODS

Data collection

The research was carried out in three governorates (provinces) covering the south (mainly the City of Aqaba and its surroundings and the desert area in Wadi Rum), centre (Amman and its surroundings), and north (Irbid, particularly the City of Irbid) of Jordan. Data were collected both in the cities and rural areas. The total number of respondents was 354. This sample consists of clients (311) and non-clients (43) of microfinance institutions. The sample frame was set up from clients that have been using microfinance services for between 6 months and 3 years. All of them had applied for microcredit for the first time. The sample represents all age categories (18 to more than 61 years) and all levels of education (from less than elementary to bachelor's degree). A profile of the sample according to region, type of area, and gender is shown in Table 1. The primary data were collected in 2009/2010 while the research is still in progress in order to make a secondary analysis.

The following microfinance institutions were selected for the research: DEV (Development & Employment Fund; 12 branches and offices in the various Governorates from south to north); MEMCC (Middle East Micro Credit Company; 13 branches from north to south, a strong position in the south); MFW (Microfund for Women; 17 branches in the various Governorates, north and centre of Jordan); Tamweelcom (13 branches and offices in the various Governorates from south to north); National Microfinance Bank (Alwatani; 10 branches in the various Governorates). These MFIs have been selected as some of the most important providers of microfinance in areas of research and also for their wide reach.

Data processing

The mixed method approach of the Microfinance Impact Assessment (MIA) has been used. According to B a r n e s , S e b s t a d (2000), an impact assessment is a study to identify changes that result from a program by employing methods to establish plausible association between changes experienced and participation in the program. The MIA begins with clearly stated objectives that indicate the types of impacts that will be examined. It covers both qualitative and

Table 2. Crosstab: Income categories

Income category (income/month) (JOD)	Before using microfinancial services		After using microfinancial services	
	count	% within clients of MFI	count	% within clients of MFI
< 150	183	58.8	15	4.8
151–250	110	35.4	76	24.4
251–400	15	4.8	115	37
401–600	1	0.3	85	27.3
601–1000	2	0.6	18	5.8
> 1000	0	0	2	0.6
Total	311	100	311	100

JOD = Jordanian dinar, MFI = microfinance institutions

source: own processing

quantitative impact assessment methods. The quantitative part is based on a survey of the sample through questionnaires. The obtained data were processed using the SPSS statistical program (Version 18.0., 2010) and cross tabulations of simple statistical tests were performed such as the Pearson's chi-squared tests and *t*-tests. The level of significance was set up at 95% for both tests.

The hypotheses were set relating to the impact of microfinance services, against which each part of research was tested using statistical analysis of the data collected.

Economic determinants

During data processing, it was necessary to consider the economic determinants characteristic in areas such as inflation and income tax. According to World Bank 2014 (<http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG>), during the last few years, inflation as measured by the consumer price index was -0.7% in 2009, 5.0% in 2010, 4.4% in 2011, 4.8% in 2012, and 5.5% in 2013. This may have resulted in a certain financial burden for low-income people during these years. Until 2011, personal income tax was levied at progressive rates from 5 to 25% in Jordan (Jordan Tax Guide 2010 – <http://www.pkf.com/media/135491/jordan%20pkf%20tax%20guide%202010.pdf>), although this did not generally affect the MFI clients because their income did not rise enough to raise their income tax rate. Therefore, their income tax rate remained at 5% because for the rate to rise to 10%, the taxable income is supposed to reach 2001 JOD a month. However, since 2012, personal income tax rates have changed. According to the Jordan Tax Guide 2012 (http://www.pkf.com/media/387113/jordan_2012.pdf), taxable income of up to 12 000 JOD/year is taxed at 7% and above 12 000 JOD/year there is the rate of 14%. It follows that the higher income tax rate generally still does not apply to the clients of MFIs.

RESULTS

Household livelihood improvement

Following Johnson, Rogaly (1997), we used income as a poverty line where poverty reduction could then be measured by counting the number or proportion of people who cross that line – who are promoted out of poverty. However, attention to annual income can obscure fluctuations of income during the year. Poor people often have to deal with vulnerable downward fluctuations in income. Such fluctuations can be relatively predictable, such as the seasonal decline in employment for agricultural workers or the shortage of income and trading opportunities before harvest, etc. Therefore, the MIA provided in Jordan was calculated with monthly income. The income category for those using microfinance services was calculated 6 months before becoming a MFI client.

The financial improvement among the clients of MFIs in Jordan has been proved. The most represented income category (58.8%) of clients before using microfinance services is the lowest category at “less than 150 JOD a month”, while the most represented income category (37%) of clients after using microfinance services is between ‘251–400 JOD a month’ (according to the Central Bank of Jordan the JOD/USD exchange rate = 0.709 – http://www.cbj.gov.jo/currency_table.php, accessed 1 October, 2014). Only 29.2% of current MFI clients have a lower income than 250 JOD a month compared to 94.2% of clients before using microfinance services within the same category. It shows a major improvement in the financial situation of clients. Relating to cross tabulation, comparing the average income before and after using microfinance services, the Pearson's chi-square (χ^2) was calculated 322.0169 with P -value = 2.2×10^{-16} . Hence it has confirmed with a 95% statistical significance that there is a positive relationship between the income before and after using microfinance services.

Table 3. Crosstab: Income categories: Average income vs Client of MFI

What is your average monthly income? (JOD)		Are you client of MFI?		Total
		YES	NO	
< 150	count	15	13	28
	% within Are you client of MFI?	4.8	30.2	7.9
151–250	count	76	8	84
	% within Are you client of MFI?	24.4	18.6	23.7
251–400	count	115	9	124
	% within Are you client of MFI?	37.0	20.9	35.0
401 JD–600	count	85	10	95
	% within Are you client of MFI?	27.3	23.3	26.8
601–1000	count	18	2	20
	% within Are you client of MFI?	5.8	4.7	5.6
> 1000	count	2	1	3
	% within Are you client of MFI?	0.6	2.3	0.8
Total	count	311	43	354
	% within Are you client of MFI?	100.0	100.0	100.0

JOD = Jordanian dinar, MFI = microfinance institutions

source: Own processing

For the matrix, the Pearson’s chi-squared test data from Table 2 were used.

Fig. 1 shows the difference between representation within each income category before and after using microfinance services. The minimum legal wage set by the Labour law had been 150 JOD a month in Jordan until 2013. Therefore, it can be said that microfinance is used mostly by the poor and lower-income people.

In order to verify that microfinance is used mostly by the poor and lower-income people, cross tabulation was done to identify if any significant association exists between the average income a month and a ‘Client of MFI’. Thus, relating to Table 3, the Pearson’s chi-square (χ^2) = 35.737 with the *P*-value = 0.000. Therefore,

it is confirmed with a 95% statistical significance that there is some association between the amount of income and clients of MFI.

It should be mentioned that non-financial services provided by MFIs play a considerable role in this result. MFIs provide non-financial services which help clients start or develop their business, mostly through training programs or promoting clients’ services and products. Most MFIs provide training programs where clients learn how to produce some goods or products relating to their projects, etc. Other frequently offered non-financial services include help with the marketing, promoting and selling of clients’ products and services or the emerging micro-insurance services. Most non-

Fig. 1. Income categories before and after using microfinancial services (income/month)

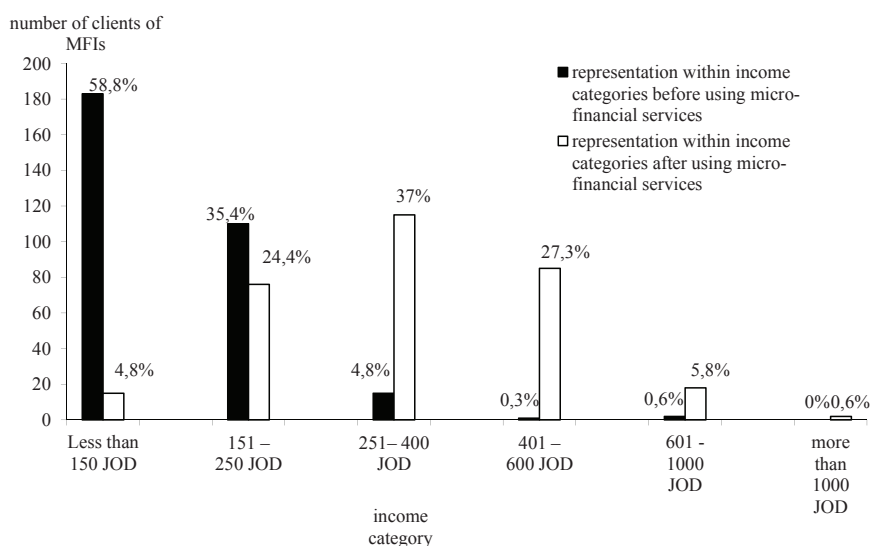


Table 4. Crosstab: Are you able to save money from higher income after receiving a loan from MFI? vs Gender

			Gender	
			man	woman
Are you able to save money after receiving a loan from MFI?	YES	count	67	80
		% within gender	33.8	70.8
	NO	count	131	33
		% within gender	66.2	29.2
Total	count	311	198	113
	%within gender	100.0	100.0	100.0

MFI = microfinancial institution

source: own processing

financial services are free of charge for clients. Some MFIs have a policy where clients do not need to pay for non-financial services in the cases where they take out a loan up to a certain fixed amount of credit.

In terms of saving money by clients, approximately half of the clients (47.3%) are able to save some of their income. However, a significant difference between males and females has been proved. The significant association between genders and their ability to save money after receiving microcredit has been identified and generally, females have a much greater ability to save money compared to males. As shown in Table 4, 70.8% of females were able to save money vs only 33.8% of males. Thus it can be assumed that males tend to invest more in their businesses than into their households. Because of their ability to save money, it can be said that there is a larger social improvement among female clients. Relating to Table 4, our results show a strong association between savings and gender ($\chi^2 = 39.424$, P -value = 0.000).

Most of those clients with the ability to save money use this additional money to save for the future in order to cope with livelihood shocks. The categories 'education' and 'helping the family' were also selected, although less than the category 'savings for the future'. Unexpectedly, no clients use the money for increased expenditure on food and only minimally for spending

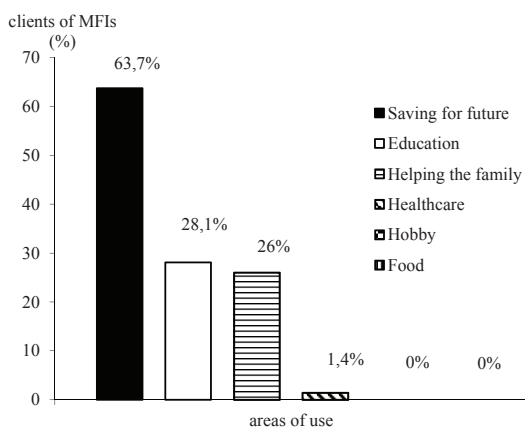


Fig. 2. Areas of using money from income relating to microcredit

In result, the general hypothesis was accepted with a specific information: microfinance causes an improvement of financial security and therefore a partial improvement of social situation, especially for female clients. The income of some clients has gone up enabling them to increase expenditure mostly on education, shelter and household assets and other family help and to cope with livelihood shocks.

Increase in paid employment

The important role in terms of reducing poverty from a global point of view is the reduction of unemployment. Small and micro-enterprises can be considered as one of the basic determinants of economic development in many countries. This is especially true in developing countries where these enterprises account for the highest percentage among all types of enterprises that contribute to economic productivity. According to S a y m e h , S a b h a (2014), small enterprises have been the focus and attention of most governments in developing countries due to the role they play in increasing production and employment in addition to their active contribution in increasing the rates of economic growth and national income.

Since microfinance is used mostly by micro- and small enterprises, a current positive trend can be seen through self-employment. This is because people are now able to obtain a small loan to start their business and therefore become self-employed. The percentage of clients who were out of work before using microfinance and that currently own a business is relatively high (approximately 64%). Regarding self-employment according to gender, there was no confirmation of any statistically significant association between unemployment before using microfinance and gender.

The t -test was done to identify if there are any statistically significant differences between gross turnover after and before taking a loan from MFIs. The time gap is 1 year.

To answer this question, paired t -test was calculated to find if there are any significant differences between the 2 means as in Table 5. It is important to

Table 5. Results of the Paired-samples *t*-test – difference between the gross turnover before and after taking a loan from microfinancial institution

	Mean	<i>n</i>	SD	<i>t</i> -value	df	<i>P</i> (2-tailed)
Pair 1 turnover after loan	472.02	242	195.26	19.959	241	0.000
turnover before loan	241.16	242	146.62			

source: own processing

add that only MFI clients doing business in the test were included.

Table 5 shows that there are statistically significant differences at the 5% level of significance between the means before and after in favour of after. Than it can be assumed, that according to the basic economic relationships, the increased turnover causes an increase in business profitability.

In terms of increasing paid employment, a positive trend in the future can be assumed. This assumption is based on the fact that the turnovers of MFI clients' small businesses have been increasing. Furthermore, according to frequency tables, more than 58% of clients owning business (58.3% from the total number of 242 clients having their own business) noted that they are thinking of hiring additional staff in the future.

Microcredits have facilitated in increasing the employment for the poor people mainly through self-employment and the future expansion of some into micro-enterprises and small businesses may cause an increase in paid employment. The expansion of business subsequently causes an increased demand for manpower. However, can it be applied also to clients of MFI? According to statistical test results, no association between business size relating to the number of employees and an increase in paid employment has been confirmed. Most of the MFI clients owning a business (approximately 78%) have not been hiring new people since receiving a microcredit. Nevertheless, as written above, a high percentage of clients owning their own business do intend to hire new employees in the future.

In result, general hypothesis was partly accepted with a specific information: microcredits have facilitated in increasing the employment for poor people, especially by self-employment and the future expansion of some micro-enterprises and small businesses that may cause an increase in paid employment.

DISCUSSION

The results of the MIA have proven the positive effect of microfinance on the target group. The improvement of the financial situation is absolutely proven without any discussion (there is a consensus in the National Impact and Market Study of Microfinance in Jordan 2007). Moreover, results published by C o p e s t a k e et al. (2005) suggest that participation in a microfinance

program has had a significant effect on individual and household income.

On the other hand, the issue of an improvement in a client's social situation is questionable. Interestingly, the higher income of clients has not led to higher expenditure on their basic needs but people have instead generated saving for the future and used the additional money for education. More than 66% of men sampled are not able to save money, while more than 70% of women are. People, mostly female, save the additional money from higher income for the future which helps cope with livelihoods shocks. This may lead to improving social situation in the future, but what about the current social situation of these people? Unexpectedly, they do not use this additional money for better food or even healthcare. According to the results of the MIA, it can be assumed that people, particularly females, prefer to improve the social situation in the future for the next generation. Based on this finding, we consider microfinance as an effective tool for breaking the vicious cycles of poverty in Jordan.

This fact was also confirmed by studies from Bangladesh indicating that credit supplied to women is more likely to have an impact on a girl's schooling, food expenditure, and child welfare than credit supplied to men. Women tend to invest more in their households and men tend to invest more in their businesses (G u l l i , 1998). Furthermore, B a s e m (2012) in his study argues that women are less likely to misuse the loan and are more likely to share the benefits with others in their household, especially their children.

The result, that microfinance in Jordan has had a positive impact on micro-enterprises development and thus on decreasing the level of unemployment, coincides with the results of the National Impact and Market Study of Microfinance in Jordan 2007). According to this study, 37% of micro-enterprises employ other labourers, of which 64% employ full-time paid labour vs 13% in part-time paid labour. The average number of full-time employees is significantly higher for long-term clients (0.44 employees on average per micro-enterprise) than for medium-term clients (0.39) and new clients (0.24). Therefore, according to the results of this study, it is possible to observe that the duration of participation in a microfinance program increases the level of employment.

The importance of a small enterprise development to the national economy of Jordan was confirmed by a study published by S a y m e h , S a b h a (2014).

According to them, small and medium enterprises in Jordan constitute more than 90% of the total enterprises operating in various sectors of the economy, where they absorb about 60% of the workforce and contribute by nearly 50% of GDP. This indicates the need to give these institutions a great deal of attention and assistance to overcome the obstacles that limit their growth in order for them to be a key driver of the national economy development in various fields. The estimated size of the total funds provided by these institutions is about half a billion Jordanian dinars. These contributed to finance the construction and development of 134 thousand projects. These enterprises have provided about eighty thousand permanent jobs.

In addition, the Ministry of Planning and International Cooperation (MoPIC) decided to do a market survey in early 2012 to assess the potential for new product development beyond enterprise credit. These would meet the existing and evolving needs of poor and low-income people. Furthermore, according to the Jordan Microfinance Market Study 2012, MFIs display a confident stance regarding their activity. They believe they have a sustainable activity that is in constant growth. Thus, for that year the country registered over 200 000 clients and this contributes to the reduction of unemployment and helps improving the living standard of the low-income part of the population.

In connection with a possible increase in paid employment in the future relating to microfinance, more than 58% of clients owning business intend to hire new employees in the future. This implies a larger proposed expansion of micro-enterprises and small enterprises and therefore assumes a positive trend in increasing paid employment in the future, thus having a positive effect on poverty reduction. There is agreement with S a y m e h , S a b h a (2014), who consider job creation and economic inclusion as key priorities for Jordan today. These goals will be advanced by improving access to finance, enhancing competitiveness, and fostering sustainable, private sector-led growth. Smaller firms in Jordan grow at faster rates than larger ones and create more new job opportunities.

The positive impact of microfinance is also mentioned in some randomized studies which report evidence of a number of positive impacts of microfinance on the lives of poor clients. For example, B a n e r j e e et al. (2009) find that the introduction of microcredit in Hyderabad, India, supports household borrowing and investment and supports the creation and expansion of small businesses.

CONCLUSION

Regarding Jordan, microfinance can be described as a factor which has had a positive effect on poverty

reduction. It was demonstrated through the MIA that microfinance leads to an improvement of the financial situation which also leads to a partial improvement of the social situation of poor and lower-income people, especially women. Furthermore, microfinance has facilitated in increasing employment opportunities for the poor. This is done mainly through self-employment and the future expansion of some micro-enterprises and small businesses that may create opportunities for paid employment. However, is microfinance such a truly global revolutionary determinant for poverty reduction? Surely it could be said, and it was also demonstrated in this study, that the positive effect on the target group, which includes many who are poor, exists. Therefore, microfinance appears to be a way to escape from poverty. Nevertheless, it should be noted that although microfinance can play an important role in poverty reduction, it is only a partial tool for poverty reduction. According to G u l l i (1998), the effectiveness of microfinance programs as tools of poverty reduction depends, among other things, on whether and on how successfully they address the real constraints faced by the poor.

The political and economic environment of a country plays a very important role which affects how microfinance is provided, and in this respect the development of a functioning microfinance sector is well facilitated in Jordan.

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