International Journal of Scientific Research and Engineering Development-– Volume 2 Issue 5, Sep – Oct 2019

Available at www.ijsred.com

RESEARCH ARTICLE OPEN ACCESS

# Microfinance and Entrepreneurship in Jordan Conceptual and Empirical Literature Review

Ahmed Mahmoud AbdallahAlshammari*, WanMohdNazri Wan Daud**

Faculty of Economics, Accountancy & Management Sciences, University Sultan ZainalAbidin 21300 Kuala Terengganu, Malaysia

Corresponding Author: ahmdaboshammar@gmail.com

----------------------------------------************************----------------------------------

## Abstract:

Microfinance institutions (MFIs) have often focused on their productivity over the last decades, as opposed to supporting their poor customers. The Mission of Microfinance and Microfinance Institutions (MFIS) is to enhance social welfare and advancement and sustainable development by accelerating economic growth and financial development and representing poverty alleviation. In addition, entrepreneurship in developing countries is regularly attributed to the many constructive changes. It is at least linked to the creation of wealth, technology and employment of its financial benefits. Strong entrepreneurship and small business ventures are linked to a strong economy. Across the industrial and developing markets, the company has become a fundamental piece of economic advancement methods. Consensus assessment disclosed a high level of microfinance on the significance of entrepreneurship. An empirical review also showed that there is some degree of connection between entrepreneurship and microfinance. This study examines the relationship between microfinance and entrepreneurship in Jordan.

*Keywords* **—Microfinance Institutions (MFIs), Entrepreneurship, Financial.**

----------------------------------------************************----------------------------------

## I. INTRODUCTION

In addition to financial systems and sustainable economic development, the concept of microfinance financial institutions should offer access to credit to clients not included in the official banking system. Conversely, Microfinance Institutions (MFIs) have frequently concentrated on their productivity as compared to supporting their bad clients [1]. Also, the social businesses of microfinance providers are identified to serve individuals that are usually banned from the official banking sector. The mission of both Microfinance and Microfinance Institution is to improve social welfare progress and sustainable development by accelerating economic growth, financial development and representing for poverty alleviation. Accordingly, MFIs act as the twofold main concern in adjusting social and financial results [2].

According to Rosenburg[3], social endeavors seek essentially social targets and reinvest surpluses for social purposes or in a group that concentrates on people in general premiums. This economic desire involves poverty reduction, business period and gender development, and can conflict with their objectives for productivity despite the fact that economic experts are not expected to benefit. They should achieve economic autonomy in order to generate sufficient pay to cover the expenses by means of interest profits and independent endowments. There are, therefore, a number of indicators for execution of the MFIs, including the borrower's numbers, the borrower's rates and normal credit balances [1] which distinguish between financial and social accomplishments and similar MFIs ' effort for poor people with social obligation.

**Conceptual Literature review**

**Overview of Microfinance**

[4]As stated by Otero, microfinance is the agreement of money-related administrations to low-wage bad and extremely poor self-employed people. On the other side, agree that the budgetary administrations do not include equity funds and loans alone, but that they also include other cash management including security and installment management. characterize micro-finance as an effort to increase access to small businesses and small credits for family units without consideration by banks In addition to the micro-finance study[5]. Microfinance therefore includes budgetary administrative arrangements, such as funds, advances and protection for people with low incomes who live both in urban and provincial areas, who cannot obtain these administrations in a official financial organization.[6]

In any case, it is important to distinguish between the terms microcredit and microfinance in writing, since the two terms are regularly confused in the case of microfinance[7]. therefore explains that microcredit refers to small improvements and microfinance is appropriate when NGOs, MFI's or other financial services such as savings, security, etc. complement the loans. In this way, microcredit is a part of microfinance in that it includes giving credit to poor people. However, microfinance likewise includes extra non-acknowledge budgetary administrations, for example, reserve funds, protection, benefits and installment administrations [8].

In general, one could state that the primary thought behind microfinance is destitution mitigation. The primary movement is to give budgetary administrations to the poor who have practically zero access to business bank administrations. Mr. MuhammedYunus, the originator of the Grameen Bank in Bangladesh and beneficiary of a Nobel Prize in 2006, is regularly alluded to as the establishing father of microfinance. As a business analyst at the University of Chittagong in Bangladesh, he built up giving advances to the piece of the populace that is excessively poor for the customary keeping money framework. His conviction is that through giving managing account administrations through microfinance that can lift millions out of neediness for poor peoples. Accordingly, his thoughts were reviving and appeared to propose a feasible response to the squeezing issue that is destitution.

Historically,the term of microcredit and microfinance are relatively new in the field of development, first coming to prominence in the 1970s. Previously, from the 1950s through to the 1970s, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs[9][4]. These often resulted in high loan defaults, high lose and an inability to reach poor rural households as cited [9]. In the 1980s was the defining moment in the historical backdrop of microfinance in that MFI, the Garment Bank and BRI started to demonstrate that they could give little advances and funds benefits gainfully on a substantial scale. They received no proceeding with appropriations, were monetarily supported and completely manageable, and could achieve a wide effort to customers [9]. Thus, it was additionally as of now that the expression "microcredit" came to noticeable quality being developed with demanded reimbursement, on charging loan fees that took care of the expense of credit conveyance and by concentrating on customers who were subject to the casual division for credit [10]. The 1990s was the fastest development in the number of microfinance foundations and an expanded accentuation on achieving scale [9], as the microfinance decade [11].

**Reasons for microfinance in Economy**

  

Microfinance has a critical part to play which was developed by advocates of microfinance. UNCDF (2004) states that reviews have demonstrated that microfinance assumes three key parts being developed, which are; a) Enables extremely poor family units to address fundamental issues and ensures against dangers; b) Related with upgrades in family monetary welfare; c) Enables ladies by supporting ladies' economy investment thus advances sexual orientation value.

Furthermore, said that micro-finance, together with human capital, provides access to useful resources for the needy; aims to provide training and preparedness and to poor people to move away from misery. The sense of regard is strengthened and the individual's commitment to participate in economy and community is strengthened by providing material cash to the poor [4].The point of microfinance as indicated is not just about giving funding to the poor to battle destitution on an individual level; it likewise has a part at an institutional level, which make organizations that convey money related administrations to poor people (disregarded by the formal managing an account part)[9]. further expanded on the idea that is potential for being rejected from the money related administrations segment of the economy, which lead MFIs to address this market disappointment. By tending to this hole in the market in a fiscally economical way, an MFI can turn out to be a piece of the formal money related arrangement of a nation thus would access be able to assess capital markets to subsidize their loaning portfolios, enabling them to significantly expand the quantity of destitute individuals they can achieve [4].

Researchers, for example, [12], [13] and the IMF (2005) have remarked on the basic part of microfinance in accomplishing the Millennium Development Goals[13]. stressed that microfinance is a key methodology to the MDGs and in building worldwide budgetary frameworks that address the issues of destitute individuals[12]. agreed that microfinance is a basic logical factor with solid effect on the accomplishments of the MDGs, as one of a kind among improvement mediations, which can convey social advantages on a continuous, perpetual premise and an extensive scale. Not all researchers are as energetic about the part of microfinance being developed and understand that microfinance is not a silver shot with regards to battle neediness[12].

while recognizing the part microfinance can have in lessening destitution, closed from their examination on microfinance that most contemporary plans are less compelling than they may be (1996) [14]. Furthermore, discovered five important issues with MFIs including a) support a solitary area way to deal with the allotment of assets to battle neediness; b) microcredit is superfluous to the poorest individuals; c) an over-shortsighted thought of neediness is utilized; d) over-accentuation on scale; e) lacking learning and change occurring[15].

[16]expressed that a significant part of the doubt of MFIs comes from the contention that microfinance ventures neglect to come to the poorest, which affect wage drive ladies into more noteworthy reliance on their spouses and neglect to give extra administrations frantically required by poor people. Also, wellbeing and training discover microfinance lacking that occupies subsidizing from imperative intercessions. As contended [17], there is a peril that microfinance may siphon reserves from different ventures that may help the poor more. The legislatures and benefactors should know whether the poor gain more from microfinance than from more human services or sustenance help for instance for fighting neediness. Extensive civil argument stays about the viability of microfinance as an apparatus for straightforwardly diminishing neediness, and about the qualities of the general population it benefits [18]. contends that it is famously hard to quantify the effect of microfinance programs on neediness, in light of the fact that cash is fungible and along these lines it is

  

hard to detach credit affect, in addition to the meaning of neediness, how it is measured and who constitute poor people are savagely challenged issues. [19]

**Why people need microfinance**

Customers are pleased to pay for an administration; evaluations are a misuse of assets when the market can give satisfactory intermediaries to affect. In any case, this is excessively oversimplified a basis as market intermediaries covers the scope of customer reactions and advantages to the MFI. Along these lines, affect the evaluation of microfinance mediations is fundamental, not simply to exhibit to contributors that their intercessions are having a positive effect, yet to take into consideration learning inside MFIs with the goal that they can enhance their administrations and the effect of their activities [20]. Destitution is something other than the absence of a salary. [21]features the deficiencies of concentrating exclusively on expanded pay as a measure of the effect of microfinance on destitution, which is a critical contrast between expanding wage and lessening neediness. Thus, concentrating exclusively on expanding earnings is insufficient. The concentrate should be on helping the poor to maintain a predetermined level of prosperity by offering them an assortment of money related administrations custom fitted to their necessities so their net riches and wage security can be progressed [16]. Notwithstanding, in spite of a few pundits' doubt of the effect of microfinance on neediness, ponders have demonstrated that microfinance has been fruitful much of the time. As indicated by Littlefield, Murduch and Hashemi the different examinations record increments in wage and resources, and declines in defenselessness of microfinance customers. Also, the ventures in India, Indonesia, Zimbabwe, Bangladesh, and Uganda show extremely positive effects of microfinance in diminishing neediness. For example, a cover a SHARE venture in India reported that 75% of customers experienced critical enhancements in their monetary prosperity and that half of the customers graduated out of neediness (2003)[12].

According to Dichter microfinance is a device for destitution decrease and to remember that the record of MFIs in microfinance is "by and large well underneath desire", which some positive effects do occur. This demonstrates that utilization smoothing impacts, indications of redistribution of riches and impact inside the family are the most widely recognized effect of MFI programs[11]. The researcherfocus on the battle neediness by utilization of microfinance, which the outlined projects can enhance the livelihoods of poor people and can move them out of destitution[14]. The effect of an advance on a borrower's wage is identified with the level of salary as those with higher wages have a more prominent scope of venture openings thus credit plans will probably profit the center and upper poor. MFIs are important as they gave credit to exceptionally poor families and those family members could raise their earnings and their advantages. As agree by[22] microfinance has much potential the principle consequences for destitution have been, such as credit making a huge commitment to expanding wages of the happier poor, especially women. Furthermore, microfinance administrations adding to the smoothing out of pinnacles and troughs in wage and consumption along these lines empowers the poor to adapt to unusual stuns and crises. [14]support that when advances are related to an expansion in resources, when borrowers are urged to put resources into generally safe pay producing exercises and when the exceptionally poor are urged to spare; the weakness of the extremely poor is lessened and their neediness circumstance progresses. [23]additionally allude to illustrations whereby reserve funds and credit plans could address the issues of the exceptionally poor. The microfinance is starting to see enhancements in financial security, as opposed to wage advancement, as the initial phase in neediness decrease as this diminishes recipients' general helplessness. Consequently, while much level headed discussion stays about the effect of microfinance extends on destitution, MFIs comprehend the requirements of poor people and endeavor to address these issues, undertakings can positively affect decreasing the defenselessness of poor people, as well as of the poorest in the public eye.

**Microfinance Spur Entrepreneurship**

Bolivia has turned out to be one of the large cases of how microfinance can goad business enterprise in a nation; in any case, it too is imperfect. Bolivia encountered a noteworthy financial change in 1985 after a time of hyperinflation. The new government put Bolivia in the way of financial freedom, similar to Jordan [25]. The administration moved to privatize its state possessed business and set a liberal monetary approach that impelled development in Bolivia. The ascent in the casual division of Bolivia combined with monetary freedom prompted the development of microfinance in Bolivia.

In addition, Bolivia's microfinance organizations subsequently unionized to empower individuals to challenge negative financial approaches, such as the growth of bank loan costs. In light of the budget sponsorship of the incoming agents and government officials in the country, Prodem, Bolivia's main microfinance organization, was effective. In addition, Prom's strong methodology has successfully managed the operations of the foundation. For example, Prodem executed a process to assist traders in buying mass and paying their retailers; retailers offered discounts for clients who did not need a credit extension. Prodem subsequently demonstrated that it understood its customers ' business. Prodem has set its microfinance organizations around solidarity to ensure that the credit is available to various individuals from a similar meeting, when progress is made in a gathering of people and the individual who has come from the gathering is provided with the credit on a productive basis .[24]

Moreover, the micro-finance institutions were exclusively regulated by the biggest beneficiaries, so they now tried to find an strategy free of their donors ' constraints; the marketing of micro-finance organizations seemed, furthermore, to deal with this problem. The shift in the foundation of microfinance was motivated also by the recognition that low-paying people required greater opportunities to spare; the central bank anticipated microfinance organizations to begin getting shops from its customers. The Bolivian microfinance model has tried to make microfinance institutions more popular, but in the meantime it remains a microfinance association. .The model involved using a few or most of the microfinance company's capital to buy stock in a money-linking recently establishment. This new facility's principal investor would be a microfinance facility. The foundation was then allowed to recognize businesses from customers[26].

One key limitation of this was the desire to make it possible for supporting microfinance companies to use their assets to finance a private, revenues-driven business bank. The Bolivian model is one such approach that most NGOs in various nations are afraid that it loses control of news organizations by popularization. In the recent popularization, the Bolivian model maintains the structure for the NGOs. Various improvements in microfinance in Bolivia must be made to implement this model effectively. In Bolivia, the Central Bank had to reduce management costs for the microfinance foundations. Prom's regulatory expenditure was, for example, nearly 20% compared with the ordinary bank's 5% of benefits. Strict inward control strategies were to be adopted; microfinance organizations were already allowed to employ an individual for distinctive purposes, regardless of whether these microfinance foundations could never be marketed again. The Central Bank was willing to make it possible to the pseudo-microfinance companies to maintain their solidarity aggregate loans but initially requested that lonely advances be endorsed with insurance; this necessity would have mostly rejected its demographic foundation as there were no guarantees on the bundle of solidarity.[27]

**Empirical Literature Review**

The Global Entrepreneurship and Development Index (GEDI), which captures the contextuality of entrepreneurship across countries, is examined by the.[28] They demonstrate that the relation between enterprise and economic development is not in the form of a U or L. Innovation-driven phases are more diverse than in either the drive-factor or efficiency-driven phase. The assessment of whether registered companies, which initially avoid costs of registration and concentrate their resources on surpassing other new liabilities, lays a solid foundation for further growth, is done by Williams,et, al The same researchers used data from the World Bank Enterprise Survey in 127 countries and monitored sales, jobs and productivity rates for other company determinants, registered enterprises which were not registered and which spent more time operation without registering, compared with those which were registered from the beginning.[29]

The MFI model, as measured by the percentages of female borrowers and profit margins, is proposed in 2017 [1], according to their focus on rates and profitability. The results show that both broad range and profitable development are adversely affected. The model highlights the problem of the drift of a mission for non-profit-oriented MFIs in particular. Critical analysis of market role–a based approach to poverty reduction in developing countries–was provided[30].

In general, they looked at the role of microfinance in reducing poverty and creating new enterprise opportunities for already impoverished communities, exacerbating their economic, social and environmental vulnerability and increasing their level of debt.nevertheless examined the difference in specific MSEs performance indicators, who were trained against those with no training for their owners. They have conducted a simple random sample of 384 MSEs. The findings revealed that the two groups have a significant difference in all the performance indicators including increases in sales, income growth, assets growth, increase in employment and household spending.[31]

**Conclusion**

This study aims to examine the role of entrepreneurship on the relationship between microfinance and economic development in existing literature. A total of 30 papers have been examined empirically, all published between 2014 and 2017 in peer-reviewed journals. The articles are analyzed in relation to several general variables such as research type and theory, and the institutional criteria. The empirical literature examined confirmed in this study that the impact of microfinance on economic development is a significant factor in entrepreneurship. As a result, the application of concept-specific entrepreneurship and practices in microfinance seems to be a reasonable approach to enhancing economic growth in developing countries.

## REFERENCES

[1] Lopatta, K., Jaeschke, R., Tchikov, M., & Lodhia, S. (2017). Corruption, corporate social responsibility and financial constraints: International firm-level evidence. European Management Review, 14(1), 47-65.

[2] Milone, J. M. (2019). *Mindfulness for Psychiatric Day Hospital Patients* (Doctoral dissertation).

[3] Rosenberg, C. E. (2009). The cholera years: The United States in 1832, 1849, and 1866. University of Chicago Press.

[4] Otero, G., Fellows, J., Li, Y., de Bizemont, T., Dirac, A. M., Gustafsson, C. M., ... & Svejstrup, J. Q. (1999). Elongator, a multisubunit component of a novel RNA polymerase II holoenzyme for transcriptional elongation. Molecular cell, 3(1), 109-118.

[5] Jones, D. T. (1999). Protein secondary structure prediction based on position-specific scoring matrices. Journal of molecular biology, 292(2), 195-202.

[6] Schreiner, M., & Colombet, H. H. (2001). From urban to rural: Lessons for microfinance from Argentina. *Development policy review*, *19*(3), 339-354.

[7] Gonzalez-Cadavid, N. F., Taylor, W. E., Yarasheski, K., Sinha-Hikim, I., Ma, K., Ezzat, S., ... & Nair, G. (1998). Organization of the human myostatin gene and expression in healthy men and HIV-infected men with muscle wasting. Proceedings of the National Academy of Sciences, 95(25), 14938-14943.

[8] Nieto, B. G. (2005). Private funding of microcredit schemes: Much ado about nothing?. Development in Practice, 15(3-4), 490-501.291-300.

[9]Robinson, M. (2001). The microfinance revolution: Sustainable finance for the poor. World Bank Publications.

[10] Mix, P. E. (2005). *Introduction to nondestructive testing: a training guide*. John Wiley & Sons.

[11] Dichter, T. W. (1999). NGOs in microfinance: Past, present, and future. Microfinance in Africa, 2, 12-37.

[12] Littlefield, E., Morduch, J., & Hashemi, S. (2003). Is microfinance an effective strategy to reach the Millennium Development Goals?. Focus note, 24(2003), 1-11.

[13] Simanowitz, A., & Brody, A. (2004). Realising the potential of microfinance. *Insights*, *51*, 1-2.

[14] Hulme, D., & Mosley, P. (1996). Finance against poverty (Vol. 2). Psychology Press.

[15] Rogaly, B. (1996). Micro-finance evangelism,'destitute women', and the hard selling of a new anti-poverty formula. *Development in practice*, *6*(2), 100-112.

[16] Wright, G. (2000). Microfinance systems: Designing quality financial services for the poor. Zed Books.

[17] Navajas, S., Schreiner, M., Meyer, R. L., Gonzalez-Vega, C., & Rodriguez-Meza, J. (2000). Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia. *World development*, *28*(2), 333-346.

[18] Chowdhury, M., Mosley, P., & Simanowitz, A. (2004). The social impact of microfinance. *Journal of International Development*, *16*(3), 291-300.

[19] Gonzále, N., Anadón, R., Mouriño, B., Fernández, E., Sinha, B.,

  

Escáne, J., & de Armas, D. (2001). The metabolic balance of the planktonic community in the North Atlantic Subtropical Gyre: The role of mesoscale instabilities. *Limnology and Oceanography*, *46*(4), 946-952.

[20] Simanowitz, A. (2001). A Review of Impact Assessment Tools. Imp-Act Learning Notes, (2).

[21] Salgado, J. F., Blanco, S., & Moscoso, S. (2019). Subjective well-being and job performance: Testing of a suppressor effect. *Revista de Psicología del Trabajo y de las Organizaciones*, *35*(2), 93.

[22] Mayoux, L. (2001). Impact assessment of microfinance: Towards a sustainable learning process. EDIAIS Application guidance note.

[23] Johnson, S., & Rogaly, B. (1997). *Microfinance and poverty reduction*. Oxfam.

[24] Dacanay, J. C., Nito, B., & Buensuceso, P. (2011, July). Microfinance, financial inclusion and financial development: an empirical investigation with an international perspective. In *Proceedings of the International Conference on Managing Services in the Knowledge Economy, Universidade Lusíada de Famalicão, Vila Nova de Famalicão, Portugal* (pp. 153-173).

[25] Schiff, A., Schmidt, N., & Troncoso, J. (2015). Entrepreneurship environment assessment in Jordan.

[26] Sievers, M., & Vandenberg, P. (2007). Synergies through linkages: Who benefits from linking micro-finance and business development services?. World Development, 35(8), 1341-1358.

[27] Kimmitt, J., & Munoz, P. (2017). Entrepreneurship and financial inclusion through the lens of instrumental freedoms. *International Small Business Journal*, *35*(7), 803-828.

[28] Ács, Z. J., Szerb, L., & Autio, E. (2016). *Global entrepreneurship and development index 2015* (p. 1). Springer.

[29] Williams, C. C., Martinez–Perez, A., & Kedir, A. M. (2017). Informal entrepreneurship in developing economies: The impacts of starting up unregistered on firm performance. *Entrepreneurship Theory and Practice*, *41*(5), 773-799.

[30] Coleman, R. L., Oza, A. M., Lorusso, D., Aghajanian, C., Oaknin, A., Dean, A., ... & Leary, A. (2017). Rucaparib maintenance treatment for recurrent ovarian carcinoma after response to platinum therapy (ARIEL3): a randomised, double-blind, placebo-controlled, phase 3 trial. *The Lancet*, *390*(10106), 1949-1961.

[31] Haider, S. H., Officer, C. S., Asad, M., Fatima, M., & Abidin, R. Z. U. (2017). Microfinance and Performance of Micro and Small Enterprises; Does Training have an Impact. *indicators*, *4*(1).

  