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# Microloans' Failure of Jordanian Women

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Microfinance was the brainchild in 1976 of Nobel Prize laureate Muhammad Yunus, who intended his Grameen Bank to counter poverty with loans rather than charity. Compared to other regions in the world, Microfinance is a young industry in the Middle East and has existed since the 1990's. In Jordan, it has become crucial for those who don't meet the eligibility requirements for bank loans, especially women.

Moreover, there has been a growing belief among aid organizations, including the US government's United States Agency for International Development (USAID), and European countries that lending women microloans leads to empowerment; that small loans can become the foundation for a small, home-based business. Their successful use would help improve women's lives and reduce poverty. USAID was one of the first organizations to push the trend of microfinance, including in Jordan. Today, there are nine officially licensed microfinance institutions under the Central Bank of Jordan.

However, interviews with women in debt, activists and specialists working in the field reveal that hundreds of unregulated enterprises are operating with little or no oversight and are thriving in Jordan's microloan, or small loan, market. Dubbed as 'predatory lenders', they mainly register as companies, non-profit organizations or even charities. Instead of supporting home-based businesses, they act like A.T.M. machines – a quick way for poor women to get cash to pay rent, electricity, or emergency medication. Unlike A.T.M. machines though, microloans attract an interest rate ranging from 22 percent to 50 percent per loan - and in addition, in some cases, a so-called processing fee. These enterprises continue to operate outside of their official mandate as companies, charities or nonprofits but are legally able to take those who are unable to pay back their loan, mainly poor women, to court for non-repayment and imprisonment.

*High interest rates play a major role in the default in payments. Interest rates may be as high as 50 percent, in addition to processing fees. In Karak, for example, there is an institution that deducts the interest rate of the loan and the processing fee in advance...The lending institutions*

*never validated the legitimacy of the business or the compatibility of the amount borrowed and the business.*<sup>1</sup>

Microfinance executives say bad institutional structures, poor regulations, economic policy and a general financial-system backwardness are hampering growth in the Middle East.<sup>2</sup> A study by the Arab Renaissance for Democracy and Development (ARDD)<sup>3</sup>, a legal aid organization, found debt to be one of the most pressing factors hindering women's economic empowerment in Jordan, and debt continues to increasingly fall on women. In March 2019, the Minister of Social Development, Basma Ishaqat mentioned<sup>4</sup> that around 50,000 women were wanted for charges pertaining to financial fraud but of which 9,000 were delinquent on loans that do not exceed 1400 dollars each or in total 10 million dollars. In addition, nearly 12 percent of the total convict population in Jordan is detained for reasons of non-repayment or debt, according to a national report supported by the UN office on Drugs and Crime<sup>5</sup>.

### *Debt and Legislation*

Jordanian law (Article 87 of the Civil Code) states that a contract is not required to be written, unless it is specified in another article, therefore suggesting it can be a verbal agreement. In case of non-payment the lender can take legal proceedings. This includes the seizure of movable and immovable property.

Jordanian law also stipulates that people in debt can be legally prosecuted and imprisoned.

Moreover, money lending in Jordan often requires the presence of a guarantor – a person who is willing to guarantee that the person borrowing money will be able to pay off their debt. The guarantor can also perform the duties of the person-in-debt. The laws apply to all people residing in Jordan, including Jordanian nationals, foreigners and refugees. Nearly 37 percent of Jordanian households officially obtained a loan. In the northern town of Mafraq, near the Syrian border, more than 50 percent of Jordanians obtained a loan.<sup>6</sup>

Imprisonment for debt is inconsistent with international human rights standards. Article 11 of the International Covenant on Civil and Political Rights states that, "No one shall be imprisoned merely on the ground of inability to fulfil a contractual obligation." In Jordan, people in debt can be sentenced to a maximum prison sentence of 90 days a year, per loan. If the loan is not paid off the following year, the person in debt can be imprisoned again. The cost of hosting an inmate in Jordan's correctional centers for up to 90 days may exceed the actual debt that landed

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<sup>1</sup> "Female Beneficiaries of Microfinance in Jordan: Between Empowerment and Attenuation" by Insaf Daas. Thesis, Faculty of Graduate Studies, The University Jordan. March 2019

<sup>2</sup> The Wall Street Journal, 30.9.2014, (<https://blogs.wsj.com/middleeast/2014/09/30/microfinance-struggling-to-find-its-feet-in-middleeast/>)

<sup>3</sup> ARDD 2019, "Between Poverty and Prison" (<https://www.ardd-jo.org/Publications/between-poverty-and-prison-the-challenges-ofdebt-among-vulnerable>)

<sup>4</sup> Jordan Times, 27.3.2019, (<http://jordantimes.com/news/local/some-50000-women-wanted-charges-pertaining-financial-fraud-otherrelated-charges-%E2%80%94>)

<sup>5</sup> The National Plan for Supporting the Capabilities of Correction and Rehabilitation Centers in Jordan, 2019 (<https://www.unodc.org/middleeastandnorthafrica/en/web-stories/jordan-the-launch-of-the-national-plan-for-supporting-thecapabilities-of-the-correction-and-rehabilitation-centers.html>)

<sup>6</sup> Department of Statistics 2017

women in these centers in the first place. According to the Minister of Interior, the monthly cost to host an inmate is 690 JD's or nearly 1000 dollars.<sup>7</sup>

Over 250,000 Jordanians inside the country and abroad are wanted for failing to pay debts (or bounced checks). Activists and relatives of people in debt protested in Amman, near the Royal Court, on December 21, 2019 calling for a repeal of article 25 in a 2017 Judicial execution law and its amendments that allows a creditor to demand that an indebted person be imprisoned unless a settlement is reached. "Thousands of families suffer when the head of the household is jailed for failing to pay a debt," said parliamentarian Mutaz Abu Rumman. In December 2019, an online campaign was launched appealing to creditors to write off debts, especially to poor families.<sup>8</sup>

### *Women in the Labor Market*

Since its establishment, Jordan's small size and lack of major economic resources have made it dependent on aid from Western and various Arab countries. The kingdom is the third largest USAID recipient in the world and Germany is the second largest bilateral donor to Jordan. In 2019, Germany announced nearly 730 million euros in support. Annual U.S. aid to Jordan has nearly quadrupled over the past 15 years (\$20.4 billion). Nevertheless, unemployment stands at 19.2 percent and public debt has increased to 42 billion dollars.<sup>9</sup>

Women in Jordan are particularly impacted by the lack of participation in the labor market. Less than one fifth of women are active in the labor force, the [lowest rate in the world](#) of a country not at war, despite the fact that more females than males attend to university. The majority of women want to work outside the home, [according to the World Bank](#), yet when they graduate their education is not yielding jobs.

### *Roots of the Problem*

In 2019, the plight of women in debt was brought to the spotlight on March 21, Mother's Day in Jordan. King Abdullah called in on a morning television show urging Jordanians to support women imprisoned for debt. The King personally covered the debts of 1500 women which the Ministry of Religious Affairs confirmed were loans from microfinance institutions and from "other lenders". The appeal raised nearly 10 million dollars and covered 6481 cases of women in debt whose loans ranged from 1550 dollars to 1700 dollars.

Although paying off debts is helpful for women in legal trouble in the short-term, "the roots of the problem are much deeper," explained Sara Ferrer Olivella, UN Development Program

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<sup>7</sup> Jordan Times, 6.3.2018 (<http://www.jordantimes.com/news/local/each-inmate-costs-around-jd8000-year-%E2%80%93-veteran-mp>)

<sup>8</sup> "Jordanians Pressure Government to End Imprisonment of Debtors", (<https://www.almonitor.com/pulse/originals/2019/12/government-pressured-to-end-imprisonment-of-indebted-persons.html#ixzz69doZ8FPA>)

<sup>9</sup> "Fourth Shuffle of Raises Questions About Economic Reforms in Jordan", (<https://www.almonitor.com/pulse/originals/2019/11/jordan-cabinet-reshuffle-economic-reforms-imf-loan.html#ixzz6A44vmpDY>)

director in Jordan.<sup>10</sup>11 “It’s irresponsible to give a loan to somebody who doesn’t know the consequences,” she added. “It’s like giving someone an injection and they don’t know what the side effects will be.” Although the King urged the government, the Central Bank of Jordan and other entities to prevent the reoccurrence of this practice, it continues to be widespread. Donors to microloan enterprises generally do not get involved in the details of Microfinance Institutions (MFI’s) operations and structural issues. They claim it is the responsibility of the Central Bank of Jordan.<sup>11</sup>

Meanwhile, a comprehensive study is underway by UNDP and Sisterhood is Global Institute, a Jordanian non-profit organization working in education, awareness and advocacy in Jordan. The study focuses on analyzing the current situation of women facing legal persecution for debt and present interventions to prevent the incarceration of women (and men) for owning debts up to 4232 dollars. The study is expected to be released in 2020.

### *No Oversight*

Fatima Shetawi, a resident of the town of Abu Alanda in northern Jordan, is living in hiding. An arrest warrant has been issued against her for a debt of less than 706 dollars. Nearly a year ago, she took out a microloan for 564 dollars. Instead of using the loan to open a home-based business, she used the money to pay for rent. “We thought it’s a solution to help us, a way to survive,” Fatima said by telephone.<sup>12</sup>

Since 2005, Mohammad Abu Soufeh<sup>13</sup>, a businessman registered a national association for the care of those in correctional facilities and prosecuted for debt. His association mentors families on the dangers of spiraling into debt and discourages those who are unable to manage loans, especially women, from repeating the same mistake.

The association has an open-door policy – mothers, wives and middle-aged men – fill in forms and then present their case to the manager. A list of conditions for bail is listed on a white thick placard nailed to the entrance wall. One condition is the association will only provide help one time, per case. Another is the amount of debt should not exceed 705 dollars. Some people phone in, like Fatima Shetawi, too afraid to leave their homes because an arrest warrant was issued and beg for help and legal counsel.

Even in cases where women are succeeding in growing a home-based business, financial mentoring, family support and marketing were crucial to their success. Meanwhile, the lack of knowledge about legal rights, financial literacy, lack of oversight by loan officers and poor management skills continue to put women at a legal risk.

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<sup>10</sup> Interview with Sara Ferrer Olivella, October 30, 2019 <sup>11</sup> Financial Inclusion Diagnostic Study in Jordan, 2017

(<http://www.cbi.gov.jo/EchoBusv3.0/SystemAssets/PDFs/2018/Financial%20Inclusion%20Diagnostic%20Study%20in%20Jordan%202017.pdf>)

<sup>12</sup> Telephone Interview Fatima Shetawi, October 2, 2019

<sup>13</sup> Interview Mohammad Abu Soufeh, October 2, 2019

Interviews with women in debt who were offered microloans (including from the 9 registered Microfinance Institutions MFI's) said there was little or no oversight by loan officers or financial literacy guidelines or workshops. Analytical reports support the women's claims:

*Major constraints to financial inclusion in the microfinance industry include the prohibition on deposit taking, weak accounting and financial management skills of micro enterprises, low operational efficiency of MFIs, and competition from informal sources. Weak accounting and financial management skills of micro enterprises make it difficult and costly for Microfinance Institutions to perform due diligence of applicants, contributing to the constraint that MFIs have relatively low operational efficiency... Although causality cannot be attributed from the survey results, there is at least some basis for thinking that higher financial literacy could in turn lead to higher financial inclusion levels.*<sup>1415</sup>

The average monthly salary for an individual in Jordan is 637 dollars.<sup>16</sup> The figures also estimated the monthly expense for a single person in Jordan at \$676 and \$2,468 for a family of four members, excluding rent. This comes amidst a report issued by The Economist Intelligence Unit which ranked Amman as the most expensive Arab city to live in. Having a monthly income that fails to cover basic expenses – including rent, food, medical and educational expenses– pushes some Jordanians not only to search for extra income (including husbands and partners pressuring female family members to take out one or more microloans) but other several loans, from relatives, neighbors and shop owners.

When Jordanians are unable to pay back the debt, it may lead them to resort to other income like pension or family assets and a descent back into poverty. In some cases, the poor like Hanan Hassan, a mother of four, increasingly take out more than one microloan to cover repayments of previous microloan debts.

For the past 15 years, Hanan has taken microloans from six different regulated and unregulated enterprises but she never opened a home-based business. Since then, her family has continued to sink further into debt and poverty.

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<sup>14</sup> Financial Inclusion Diagnostic Study in Jordan, 2017

(<http://www.cbi.gov.jo/EchoBusv3.0/SystemAssets/PDFs/2018/Financial%20Inclusion%20Diagnostic%20Study%20in%20Jordan%202015.pdf>)

<sup>16</sup> Jordan Times, 7.4.2017, (<https://www.jordantimes.com/news/local/kingdom%E2%80%99s-average-monthly-salary-stands-637-%E2%80%94-report>)

"All these are legal warnings," she said of the scattered papers that were laying across the floor. She pointed to additional pocket-sized cards that had scheduled monthly loan repayments. She revealed a text message on her phone in Arabic, warning her that due to non-repayment of a microloan, legal action would be taken against her. "It was the only way for us to pay our bills," she said.

Hanan uses her embroidery skills to make traditional dresses at home but makes only 3.5 dollars for each dress, which can take her up to one week to finish. Hanan's husband drives a taxi and makes on average 10 dollars a day in winter and 20 dollars per day in summer. Hanan was pressured to take out a loan by her husband when she married him and other male family members.

### *Social and Patriarchal Pressure*

Insaf Daas, EU MADAD Fund/Country Manager Jordan, a trust fund that provides assistance to refugees and host communities in Jordan, collected data of 48 women in debt from the north, center and south of Jordan for her Master's dissertation. She found that social and patriarchal pressure on women had a great impact on their work and sustainability. The majority of the women she interviewed applied for microloans to help their husbands generate more income in order to increase family finances. For some the women who ran a home-based business, their husbands were unhappy with their success but later accepted it. The majority of male partners, even if they were unemployed themselves or retired, expected their wives to do all the housework and childcare.<sup>17</sup>

Meanwhile, the social impact on women who both fail in their home-based business or are imprisoned for failure to repay their debt is severe and often leads to humiliation, depression and despair.<sup>18</sup> "When women are released from prison, they isolate themselves and sink into depression because they are perceived by their neighbors and society as a failure," explained Dima Karadsheh, a consultant and researcher on gender issues who interviewed dozens of women who were released from prison for debt.

Even when women are working and managing their microbusiness, she explained, they're still expected to do all the housework and be solely responsible for their children's needs. Therefore, "Sometimes a husband divorces his wife while she is in prison and the family breaks down. It's the complete opposite of women empowerment."

Social norms continue to hinder the advancement of women and even those who succeed in homebased business. Since many of the women are being pressured to take out a microloan by a male relative, systemized financial literacy workshops for families, not only for women, need to be enforced.

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<sup>17</sup> "Female Beneficiaries of Microfinance in Jordan: Between Empowerment and Attenuation" by Insaf Daas. Thesis, Faculty of Graduate Studies, The University Jordan. March 2019

<sup>18</sup> Interview Dima Karadsheh, November 19, 2019

The World Bank has conducted surveys that reveal a need to advise on contracts and types of loans, “instead of more funds and funding opportunities; sometimes they are unable to pay back loans because they didn’t fully understand what they were signing.”

### *Seeking the Vulnerable*

Predatory lenders continue to seek out women who are financially vulnerable and lack knowledge. These lenders use law 22 which allows the imprisonment of a person in debt for up to 90 days. They threaten and harass lenders with legal action. Microloan enterprises (loan officers) are falling short from conducting progress reports or home visits to evaluate the progress of the home-based business. None of the women interviewed for this report, mainly from the impoverished town of Russiefeh, were visited by loan officers to monitor the progress of their home-based business. There was initial visits by loan officers prior to the approval of the microloan and when they were late in paying the debt.

“The lack of financial literacy, the lapse in oversight and care about the sustainability of home-based projects is astonishing,” said Ali Suleibi, a legal counsellor at the Justice Centre for Legal Aid, a non-profit legal centre. “A lot has to be examined on the policy level but also on the social and legal level when it comes to micro lenders for poor women in Jordan.”<sup>19</sup>

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<sup>19</sup> Interview with Ali Suleibi, December 1, 2019