



Contribution of Commercial Banks in Financing Small and Medium Enterprises. Applied Study on Commercial Banks in Jordan

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Abstract

Small and medium enterprises (SMEs) play an important role in any economy, especially in increasing Gross Domestic Product (GDP) and in addressing the problems of poverty and unemployment. In Jordan, these projects comprise about 90% of the total projects and occupy about 60% of the workforce and contribute about 50% of the GDP. However, they suffer greatly from the problem of providing the necessary funding to enable them to develop and continue. One of the most important sources of funding for these projects is the commercial banks. The study examined the real role played by these commercial banks in financing these projects in Jordan and found that commercial banks contribute only 10% of their total financing, this ratio is small and does not meet the purpose, The study found that commercial banks are reluctant to lend to small and medium enterprises for fear of failure of such projects and thus affect the volume of liquidity in banks. For these reasons, commercial banks do not offer any advantages to these projects either in terms of the interest rate or in terms of loan duration, grace periods, and guarantees. The results found that the state should intervene through the Central Bank and through the issuance of legislation through which commercial banks are guided to support such projects and increase the proportion of funding at the same time to protect the rights of depositors, and thus, achieve the goals of all parties.

Key words

Small and Medium Enterprises (SMEs), Credit and Finance, Economic Development, Commercial Banks, Financial Services

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1. Introduction

1.1. Background of the study

Small and Medium Enterprises (SMEs) play a major role in economic and Social development in all countries of the world, especially developing countries, these projects are considered to be the backbone of the private sector, accounting for 90% of private sector establishments and employing 50-60% of the labor force. (Magablh and Al-Mahroq, 2007).

The importance of Small and Medium Enterprises is reflected in their role in contributing to economic growth through the different developmental stages of countries, in addition to their contribution to GDP, helping to provide foreign currencies and creating many job opportunities. As a result of the great role played by these projects in the development and promotion of economic and social transformation programs, developed countries such as the United States, Japan, China and Germany have worked to

support and encourage this kind of projects, which has contributed to an important qualitative and economic breakthrough in these countries.

Commercial banks also play an important role in any economy, whether in developed or developing countries. They play a major role in achieving economic and social development programs and contribute to the success of national strategies in reducing the problems of poverty and unemployment by providing diversified and sustainable financial services that meet the needs of different sectors. Commercial banks provide financial services to small and medium enterprises in order to meet their financial needs to increase the productivity of these projects and improve the standard of living of the owners of these projects and employees as well; Thus, achieving the goals of governments in achieving their Economic and Social Programs.

1.2. Statement of the Problem

Small and Medium Enterprises face various problems in gaining funds due to their size, inadequate facilities, lack of education, and poor management in the part of their owners, they need enough capital to finance their projects, lack of enough guarantees to provide and thus, they have to pay higher interest rates and therefore, may be exposed to high risks in different stages of the project's growth. On the other hand, government has failed to provide the SMEs adequate financial and physical facilities, Commercial banks are obliged to provide the necessary liquidity to depositors to face their withdrawals. With this discrepancy between the provision of finance and the size of risk to small and medium enterprises, commercial banks are reluctant to provide the necessary funding for these projects in order to protect the funds of depositors; therefore, due to that, financing of these projects does not exceed only 10% by commercial banks.

1.3. Objectives of the Study

The main objective of this research is to identify the level of contribution of commercial banks in financing small and medium enterprises in Jordan. The specific objectives are to:

1. Identify the main obstacles that face small and medium enterprises in Jordan regarding procurement of loans from commercial banks.
2. Examine the degree at which commercial banks loans and advances have contributed to small and medium enterprises development in Jordan.
3. Provide some solutions that may solve the problem of SMEs financing through commercial banks in developing countries.

1.4. Research Question

The following research question was formulated to guide the research objectives:

To what degree have commercial banks contributed in financing small and medium enterprises in Jordan?

1.5 Research Hypothesis

The present study will attempt to address itself to answer the following statement of hypothesis:

Commercial Banks play their role in providing an appropriate size of finance for Small and Medium Enterprises that shall make them capable of achieving the development goals of both Entrepreneurs and the Governments.

1.6. Significance of the Study

The importance of the study is illustrated by identifying the contribution of commercial banks in the financing of small and medium enterprises in Jordan to enable them to play their role in the development of economic and social programs and in solving the problems of poverty and unemployment.

2. Literature review

2.1. Introduction

This sections deals with conceptual framework and empirical literatures. The conceptual framework guides the study and summarizes the dependent and independent variables. The empirical literatures reports on the previous research done by different authors on related topics, how the research was conducted, their observations, findings and recommendations.

2.2. Conceptual Framework

2.2.1. Concept of Small and Medium Enterprises

There are several different views and opinions and several criteria for defining small and medium enterprises such as employment criteria, capital and value added. (Al-Beltagy, 2005). Some went on to explain the reasons for not agreeing on a common definition of small and medium enterprises to link each definition to the reasons, practical and necessary motives behind its creation, and some believe that this is due to the different size of each country's economy (Tanch, 2003). The definition of small and medium enterprises "are the projects that creates high risk work to achieve profitability and growth by identifying opportunities and pooling the resources necessary for the establishment of the project, or the project that employs a small number of workers and is managed by the owners and serves the local market" (Al-Attayah, 2002).

What distinguishes small and medium enterprises from other projects is that the project owner as the project manager and clarity of the organizational structure, and there is limited cost of providing job opportunities in addition to weak management and marketing experience for most of these projects. Also, it often does not have financial data or accounting records, and is also characterized by the ease of establishing such projects, It also depends on the efficiency of the owners of the project and their personal skills and organizational relationships, and spread in cities and communities, unlike the large and medium projects that spread outside cities, also the speed of turnover of capital and small investment requirements of equipment and supplies and other production (Khader, 2014).

2.2.2. The Role of Commercial Banks in Financing and Supporting Small and Medium Enterprises

Commercial bank is a type of financial institution whose activities are based on accepting deposits and granting credit. The commercial bank is considered an intermediary between those who have surplus funds and those who need them. Commercial banks are characterized by three important features distinguish them from other business enterprises namely liquidity, profitability and security, This importance is due to their significant impact on the formation of policies related to the main activities of the banks, which are the acceptance of deposits and the provision of loans and investment in securities (Ghimire and Abo, 2013). Commercial banks have almost one-third of the financial assets of all financial institutions in an economy, have the ability to generate funds from reserves generated by public deposits and have the ability to provide all credit needs for individuals, businesses and even governments. Since loans are the primary source of microfinance worldwide, and their source is mostly from commercial banks, these banks play an important role in the development of such projects (Gulani and Osman, 2012).

Commercial banks in developing countries have begun to view microfinance as not only a very important tool in public relations but also a profitable enterprise. The primary objective of commercial banks is to maximize their profits with minimal risk, which leads them to seek high returns for granted loans and sufficient guarantees; and the fact that the loans granted to small projects are usually small and sufficient guarantees on project' assets, which are usually higher than the value of the loan and thus combine their objectives for profit and risk reduction. But this also makes it more difficult for small businesses to get loans from commercial banks (Lahiri, 2012).

2.2.3. Small and Medium Enterprises in Jordan

Small and Medium Enterprises in Jordan contribute to the improvement of economic and social development, they contribute to about 50% of the GDP and absorb about 60% of the labor force and constitute more than 90% of the total institutions operating in different economic sectors (Al-Khasib, 2009).

The forms of these small and medium enterprises are diversified to include all activities such as wholesale and retail trade, hotels and restaurants, manufacturing industries, mining and mineral extraction, commercial real estate activities, transport and communications, construction, medical clinics and service projects such as Internet cafes, it also includes mainly agro-industries and handicrafts, Where these industries constitute a large proportion of small and medium enterprises in Jordan and are considered a main factor in increasing production capacity and play a large role in solving the problems of poverty and unemployment. The Jordanian Government has encouraged and supported small and medium enterprises to achieve economic and monetary stability through the providing development programs and plans since the beginning of the seventies, specifically in the economic and social development plan (1976-1980). In 1984, Jordan Loan Guarantee Company was established with a capital of JD 10 million to protect small borrowers in small enterprises (Al-Mahrouq and Maqableh, 2006).

2.3. Existing studies

The objective of the study " *Financial and administrative problems facing small projects in the southern region*" (Samirat, 2009) was to identify the financial and administrative problems faced by the owners of small projects, where the study reached several results, the most prominent: lack of capital and lack of guarantees as well as lack of administrative and financial expertise and marketing, Which were of the main reasons for the failure of some projects and recommended a set of recommendations, most notably the need to prepare effective and studied programs and work on the training and rehabilitation of small entrepreneurs.

The purpose of the study " *Challenges in Financing Small and Medium Enterprises in Palestine*" (Bayyoud and Sayyad, 2016) attempts to analyze the obstacles and challenges that face small and medium enterprises in Palestine. This study seeks to look at the importance of small and medium enterprises, and to identify the most important constraints faced by small entrepreneurs in obtaining the required funding in Palestine, and what are the most important impediments toward financing of small projects. The investigation helped in identifying the major challenges of financing small and medium business and what to do in order to overcome these obstacles. It was also found that small enterprises are one of the most important key elements in achieving economic development in all countries of the world where it accounts for the highest percentage among all kinds of economic projects of all sizes.

A qualitative closed-ended survey was carried out for collecting data from managers and owners of 35 businesses in Palestine. The responses of 28 statements were collected in five different categories. The findings showed that the Obstacles facing the growth of small enterprises in Palestine by respondents was "Weakness of representative organizations that defend the interests of small businesses, as well as Lack of legal frameworks and incentives for small businesses.

This research " *Assessment of Small Enterprise Financing, Case of Jordan*" (Saymeh and Abu Sabha, 2014) is an attempt to provide some solutions that may help in addressing the financing problem of small projects, especially in developing countries, identification of the main obstacles that small entrepreneurs face in financing their small projects.

The objective of the study " *Measuring the efficiency of government funding for the development of small enterprises in Jordan*" (Al-Nossor, 2008) was to estimate the production function of small projects funded by government institutions in Jordan. The study reached several results. the most important of which was that some of the small projects funded by these institutions are labor intensive and there are other capital intensive projects, and the researcher recommended that the need to work to merge government funding institutions in one body.

The study " *The role of banks and financial institutions in financing small and medium enterprises*" (Haddad, 2006) aimed to identify the concept of small projects from the perspective of Jordan and Algeria and assess the role of banks in financing projects for both countries. The study concluded that small projects are not part of the national economic structure of both countries; one of the most important recommendations of this study is the need to activate the role of commercial banks and financial institutions in Jordan and Algeria to provide suitable and affordable loans for these projects with reduced interest rates and easy guarantees.

3. Research Methodology of research

3.1 Research Design

The study used the method of descriptive statistic in data analysis, the study based mainly on secondary data and information collected from different sources and publications for the purpose of analysis. The Annual Reports of the three commercial banks (sample of the study), publications by various individuals, articles in the daily and periodical newspapers, research works done on this filed by different scholars and the internet have been a great use and great source of assistant.

3.2. Study Sample and Time Coverage

The study population includes all the commercial banks operating in the Hashemite Kingdom of Jordan which are accounted for (13) commercial bank. The sample of the study included a survey sample from three major banks operating in Jordan (Bank of Jordan, Arab Bank, Housing Bank for Trade and Finance). The study attempts to cover a time period from 2009 to 2016; The reason behind selecting this time period is that, it is long enough to analyze the changes and growth of contributions of finance by commercial banks to the SMEs. Moreover this time period has witnessed many economic and political changes in Jordan as well as in the Middle East.

4. Data Presentation and Analysis

4.1. Introduction

In this section, information has been collected from three major commercial banks operating in Jordan that provide financing for small and medium enterprises, namely, The Bank of Jordan, The Housing Bank for Trade and Finance, and The Arab Bank. This information is presented in tables and a descriptive analysis of this information is made to determine the size of the contribution of each of these three banks and the ratios of financing in addition to the growth rate of this financing during the period from 2009 to 2016. Comparisons between these ratios have been made to reach an arithmetic mean that indicates the total size of the contribution of commercial banks in Jordan in financing these projects.

The following equations were used in the analysis:

1. $GR = ((Present\ Value - Past\ Value) / Past\ Value) * 100\%$
2. $AAGR = ((Present\ Value / Past\ Value)^{1/n} - 1) * 100\%$
3. $RI = AF / TCF$
4. $PCRI = Year\ on\ Year\ Growth\ Rate\ of\ relative\ importance.$
5. $AGR\ (AF) = Year\ on\ Year\ Growth\ Rate\ of\ amount\ of\ financing\ SMEs.$

Where:

GR: is the growth rate

Present Value: is the amount in the year 2016

Past Value: is the amount in the year 2009

AAGR: is the Annual Average Growth Rate.

RI: is the Relative Importance

AF; is the amount of finance provided by the bank to SMEs in a year.

TCF: is the total amount of finance provided by the bank in the same year.

PCRI: is the Year on Year Growth Rate of relative importance (Percentage Change).

4.2. The Bank of Jordan

Bank of Jordan was one of the first banks to be established in Jordan in 1960. Since that date, Bank of Jordan has adopted a continuous development and improvement approach to all its financial and banking activities. The Bank has followed the rapid developments in the banking industry over more than five decades, both domestically and internationally. It was established in support of the Jordanian investment and economic development through the provision of comprehensive banking products and services to meet the needs of customers and clients from different categories and segments of individuals, companies and institutions.

The bank has established a solid and strong record of developments and achievements at various levels and has won the confidence of local, Arab and international banking, financial and investment institutions. The Bank Group of Jordan includes The Bank of Jordan - Jordan, Bank branches in Palestine, Bahrain, Syria, The wholesale Bank of Jordan, Exxon Financial Investments Company, and Jordan Financial Leasing Company. Today, Jordan Bank has become one of the largest banks operating in the Jordanian Market with a capital of JD 200 million. It also has a variety of distribution outlets including branches, offices and ATMs in Jordan and Palestine, as well as electronic distribution channels that include The Talking Bank, The Internet Bank, The Mobile Bank and The Messaging Service.

The Bank of Jordan provides small and medium enterprises with competitive financing programs with additional and varied benefits in the form of commercial loans for the purpose of working capital financing, financing the various requirements of business activities and business operations for all institutions and projects, regardless of their activities and fields of activity, Import and Export. The customers are given business services from small and medium enterprises for one time and up to a certain amount, and are paid in monthly installments agreed upon between the client and the bank, and according to the cash flows of the client, and ends the loan when it is paid, and the interest is reduced on the balance, Interest and commission are deducted in advance. The loan amount is commensurate with the needs and size of the business and at a competitive interest rate and the ease and speed of the grant procedures.

In order to improve the level of services provided to the SME sector, and to complete their transactions quickly and professionally, Bank of Jordan has developed 11 specialized SME centers covering various regions of the Kingdom. (Jordan Bank website)

Table 1. Amount of funding granted by Bank of Jordan for SMEs (2009-2016)

Year	Total Credit Facilities (Million JD)	Amount of SME Financing (Million JD)	Relative Importance	Percentage Change of Growth Relative importance	Annual Rate of SME financing
2009	9,174	1,056	11.51%	0.00%	0.00%
2010	10,234	1,236	12.08%	4.95%	17.05%
2011	11,257	1,678	14.91%	23.43%	35.76%
2012	10,281	1,376	13.38%	-10.26%	-18.00%
2013	11,467	1,254	10.94%	-18.24%	-8.87%
2014	11,969	1,311	10.95%	0.09%	4.55%
2015	12,220	1,265	10.35%	-5.48%	-3.51%
2016	12,978	1,480	11.40%	10.14%	17.00%
Average	11,198	1,332	11.94%	0.58%	5.50%
Growth Rate	41.47%	40.15%	-0.93%		
Annual Average Growth Rate	4.43%	4.31%	-0.12%	10.79%	-0.04%

Source: Annual Reports of the Bank

Table 1 shows that the amount of financing in the bank under study increased from JD 9.174 million in 2009 to JD 12.978 million in 2016 (in an average of JD 11.198 million) with a growth rate of 41.5%, in an annual average growth rate of 4.43%. The share of SME financing during this period increased from JD 1.056 million to JD 1.480 million (in an average of JD 1.332 million) with a growth rate of 40.15% in an annual average growth rate of 4.31%. This means that the growth rate of financing of these projects by the Bank of Jordan was growing almost as much as the rate of the total funding granted by the bank.

The relative importance of financing for small and medium enterprises was very close during the years under study, ranging from 10.35% to 14.91% in an average of 11.94% but the growth rate in general was as less as -0.93 with an annual average growth rate of about -0.12%; and was decreasing annually at about -0.04%.

In terms of percentage change of relative importance during this period, noted from the table that the percentage of financing granted to small and medium enterprises increased significantly between 2010 and 2011, from 4.95% to 23.43% and then decreased in the following years until 2016, reaching 10.14% in

an average 0.58% and in an annual average growth rate of 10.79%. The reason for this is that the cost of credit granted to these projects is rather high, as there are no special interest rates for such projects, which led to a decrease in the demand for such credit.

4.3. The Housing Bank for Trade and Finance

The Housing Bank for Trade and Finance was established in 1973 as a limited public shareholding company in Jordan. The bank started its work as a specialized bank in the field of housing finance with a capital of half a million JD, and after 24 years it started a new stage in the bank's march when it became a comprehensive commercial bank in 1997. Its capital has been increased more than once in the past years, the most recent of which was in 2017 with JD 315 million (US\$ 444 million). The successive administrations of the Bank have been keen to strengthen its capital base by strengthening its various reserves until the total rights the property is 1.1 million JD, equivalent to 1.6 million US dollars as is the situation at the end of the month of June 2017.

Since the Housing Bank became a comprehensive commercial bank in 1997, it has started offering various programs to finance and support small projects within various financing options to finance all purposes within the economic activities of all types (financing fixed assets purchase, working capital financing (purchases and sales) Etc.) to meet the needs and requirements of this segment in the form of decreasing loans to be paid in monthly installments, quarterly, semi-annual, or revolving loans repayments in line with the cash flows of customers and within the ceilings and interest rates determined by program and size and nature Project drew Payment data suitable for beneficiaries, ranging from one year up to five years. These include:

- SMIC Financing Program with OPIC Guarantee.
- Emerging Small Business Loans Program.
- The Central Bank's program to support micro, small and medium enterprises in cooperation with the Arab Fund for Economic and Social Development.
- The First Central Bank Program to Support Micro, Small and Medium Enterprises in Cooperation with the International Bank for Reconstruction and Development.
- The Second Central Bank Program to Support Micro, Small and Medium Enterprises in Cooperation with the International Bank for Reconstruction and Development.

Table 2. Amount of funding granted by Housing Bank for SMEs (2009-2016)

Year	Total Credit Facilities (Million JD)	Amount of SME Financing (Million JD)	Relative Importance	Percentage Change of Relative importance	Annual Growth Rate of SME financing
2009	2,493	0.276	11.06%	0.00%	0.00%
2010	2,629	0.268	10.20%	-7.78%	-2.90%
2011	2,720	0.356	13.07%	28.14%	32.84%
2012	2,941	0.284	9.65%	-26.17%	-20.22%
2013	2,977	0.286	9.61%	-0.41%	0.70%
2014	2,979	0.282	9.47%	-1.46%	-1.40%
2015	3,777	0.289	7.66%	-19.11%	2.48%
2016	4,313	0.348	8.07%	5.35%	20.42%
Average	3,104	0.299	9.85%	-2.68%	3.99%
Growth Rate	73.00%	26.09%	-27.03%		
Annual Average Growth Rate	7.09%	2.94%	-3.86%	-5.21%	-33.42%

Source: Annual Reports of the Bank

Table 2 shows that the amount of financing in the Housing Bank increased from JD 2.493 million in 2009 to JD 4.313 million in 2016 (in an average of JD 3.104 million) with a growth rate of 73%, in an annual average growth rate of 7.09%. The share of SME financing during this period increased from JD 0.276 million to JD 0.348 million (in an average of JD 0.299 million) with a growth rate of 26.09% in an average

annual growth rate of 2.94%. This means that the growth rate of financing of these projects by the Housing Bank was not growing as much as the rate of the total funding granted by the bank.

The relative importance of financing for small and medium enterprises was uneven during the years under study, ranging from 8.07% to 13.07% in an average of 9.85% but the growth rate in general was as less as -27.03% with an annual average growth rate of about -3.86%; and was decreasing annually of about -33.42%.

In terms of percentage change of relative importance during this period, noted from the table that the percentage of financing granted to small and medium enterprises increased between 2010 and 2011, from -7.78% to 28.14% but then decreased in the following years until 2016, reaching 5.35%, in an annual average growth rate decrease of -5.21%. The reason for this is that the cost of credit granted to these projects is rather high, as there are no special interest rates for such projects, which led to a decrease in the demand for such credit.

4.4. The Arab Bank

Founded in Amman, Jordan, in 1930, Arab Bank is the largest Arab banking network with more than 600 branches across five continents. The Bank has a presence in major markets and financial centers in the world such as London, Dubai, Singapore and Geneva Paris, Frankfurt, Sydney and Bahrain.

Arab Bank offers a wide range of banking products and services to meet the needs of individuals, businesses and other international financial institutions. The banking services include the following areas: retail banking, corporate services, financial institutions and treasury operations.

Arab Bank loans provided jobs for more than 100,000 employees. In Jordan, Arab Bank loans for cement, textiles and modern food industries boosted the country's growth rate to second in the Middle East after oil-rich Kuwait. In addition to commercial loans for major projects, the Bank provides commercial services to small and medium enterprises through specialized services provided by the Bank to small and medium-sized companies. Arab Bank has designed two Star and Star Plus packages on easy terms to meet all SME business needs through a wide range of features and services including: Debit accounts, subordinated loans, credit cards, documentary credits (import and export), guarantees, collection orders issued and received, as well as other groups of banking services with competitive commissions.

Table 3. Amount of funding granted by Arab Bank for SMEs (2009-2016)

Year	Total Credit Facilities (Million JD)	Amount of SME Financing (Million JD)	Relative Importance	Percentage Change of Relative importance	Annual Growth Rate of SME financing
2009	10.521	0.678	6.44%	0.00%	0.00%
2010	10.687	0.707	6.62%	2.73%	4.28%
2011	10.733	0.713	6.65%	0.42%	0.85%
2012	10.836	0.696	6.42%	-3.42%	-2.38%
2013	11.375	0.849	7.46%	16.24%	21.98%
2014	11.939	0.897	7.51%	0.69%	5.65%
2015	12.161	0.931	7.65%	1.89%	3.79%
2016	12.186	1.05	8.61%	12.45%	12.67%
Average	11.300	0.815	7.17%	3.88%	5.86%
Growth Rate	15.83%	54.72%	33.70%		
Annual Average Growth Rate	1.85%	5.61%	3.70%	24.21%	16.79%

Source: Annual Reports of the Bank

Table 3 shows that the amount of financing in the Arab Bank increased from JD 10.521 million in 2009 to JD 12.186 million in 2016 (in an average of JD 11.300 million) with a growth rate of 15.83%, in an annual average growth rate of 1.85%. The share of SME financing during this period increased from JD 0.678 million to JD 1.05 million (in an average of JD 0.815 million) with a growth rate of 54.72% in an average annual growth rate of 5.61%. This means that the growth rate of financing of these projects by the Arab Bank was growing at a higher rate than the total funding granted by the bank.

The relative importance of financing for small and medium enterprises was very close during the years under study, ranging from 6.42% to 8.61% in an average of 7.17% but the growth rate in general was as high as 33.70% with an annual average growth rate of about 3.70%; and was increasing annually of about 16.49%.

In terms of percentage change of relative importance during this period, noted from the table that the percentage of financing granted to small and medium enterprises increased between 2012 and 2013, from -3.42% to 16.24% but then decreased in the following years until 2016, reaching 12.45%, in an annual average growth rate of 24.21%. The reason for this is that the cost of credit granted to these projects is rather high, as there are no special interest rates for such projects, which led to a decrease in the demand for such credit.

The following is a comparison between the three banks under study to reach an average of the size of the financing of small and medium enterprises by commercial banks and then could generalize the results to the size of the contribution of commercial banks in Jordan.

Table 4. Amount of funding granted by the three Banks for SMEs (2009-2016)

Bank	Total Credit Facilities (Million JD)	Amount of SME Financing (Million JD)	Relative Importance
Bank of Jordan	89.580	10.656	11.90%
Housing Bank	24.829	2.389	9.62%
Arab Bank	90.438	6.519	7.21%
Total	204.847	19.564	28.73%
Average	68.282	6.521	9.55%

Source: The researcher depending on the bank's under study reports

It is clear from table (4) that the total amount of credit facilities provided by the three banks during the years under study was JD 204.847 Million out of which only JD 19.564 Million were provided to financing the SMEs with an average relative importance of only 9.55% which concludes that despite the importance role of the SMEs in Jordan but still the commercial banks are not contributing enough to financing them.

5. Conclusions and Recommendations

5.1. Conclusions

Small and Medium Enterprises in Jordan contribute 50% of GDP and absorb about 60% of the labor force, accounting for more than 90% of all institutions operating in different economic sectors. Despite the importance of the contribution of commercial banks in Jordan is still small and reluctant to provide credit facilities for such projects and these banks do not give them special concessions in terms of size of funding or interest rates or even to overcome obstacles to provide guarantees required by banks to grant loans, The results showed that the volume of SME financing by commercial banks ranged from 6.42% in Arab Bank to 14.91% in Bank of Jordan. The calculation of the average amount of financing of the three banks during the period under study reached 9.55% which is considered very low and also instable; this means that commercial banks in Jordan do not play an active role in financing small and medium enterprises, despite their importance in playing an important and real role in the Economic and Social Development Strategies in solving the problems of poverty and unemployment.

5.2. Recommendations

Based on the results, the study recommends the intervention of the governments represented by the central banks to play a more active role in supporting small and medium enterprises through the formation of an independent unit to support and finance these projects, and to direct commercial banks to provide a larger amounts of credit at appropriate interest rates, give them longer grace periods, provide reasonable guarantees that fit the size of the project, and through the granting of tax exemptions to entrepreneurs especially at the beginning of the project, as well as, the creation of legislation and laws working to support these projects and overcome obstacles to them.

Small business owners should take specialized courses in how to manage and account for small and medium enterprises and how to prepare feasibility studies for their projects and try to rely as much as possible on their personal savings in financing their projects in order to preserve creditor's rights as well as reduce the cost of financing.

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