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## Assessment of Small Enterprise Financing, Case of Jordan

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**Study Purpose:** That small enterprises form the backbone of the economy in all countries of the world, without exception. This research 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.

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# Assessment of Small Enterprise Financing, Case of Jordan

Abdul Aziz Farid Saymeh <sup>α</sup> & Dr. Sulieman Abu Sabha <sup>σ</sup>

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**Study Results:** This study sought to identify the most important constraints faced by small entrepreneurs in Jordan as well as assessing present methods of financing these enterprises, through a field study by using a purposeful sample of the owners of these enterprises. The researcher has analyzed 345 questionnaires and through the analysis, a set of results have been reached and are summarized as follows:

- Insufficient amount of funding of these enterprises.
- Militancy in demanding guarantees in return for granting the loans.
- The high interest rates of these loans were the most important challenges faced by entrepreneurs of the study sample.

Based on the results of the study, the researcher recommends the need for the financial institutions to initiate a special policy to encourage entrepreneurs carry out their creative ideas and innovations via small enterprises and this encouragement will be through granting them the needed amounts of funds at low interest rates. This will help them ensure the success of their projects and enables them pay back loan installments. Also the government is urged to ensure loans through specialized foundations to encourage such enterprises as this will lead to growing national GDP and decreasing unemployment.

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## I. INTRODUCTION

Small enterprises are businesses that maintain revenues and/or a number of employees below a certain standard. Every country has its own definition of what is considered a small and medium-sized enterprise. In the United States, there is no distinct way to identify small enterprises. The European Union, a small-sized enterprise is a company with fewer than 50 employees. Small enterprises are said to be responsible for driving innovation and competition in many economic sectors. Successful economic developments have demonstrated that small projects are the main focus in the expansion of the productive base, the increase of exports, and creation of new jobs, especially in rural areas and remote areas. Also it works to transform the rural areas to industrial areas and work to alleviate the imbalances between different regions in the one country and achieve equitable distribution of national income and wealth of the state. The terms of attention and causes to small enterprises differ in developed countries than in developing countries, Developed countries have realized the importance of small enterprises and their role in feeding the major projects of semi finished products and catalytic role in their production process, while the developing countries were interested in this kind of enterprises as a correcting catalyst for their economic reform measures, and a bid to reduce the role of the state in the investment process. (Latha & Murthy, 2009). The importance of small enterprises and their role is due to their spreading, as they form about 90% of the producing plants in the world and they employ between 50 % - 60 % of the workforce in the world (Al Mahrouq, and Magablah, 2006). They help to increase work opportunities and solve the unemployment problem and to increase exports and thus they tend to improve the balance of payments deficits. Also they contribute to the global GDP by about 46%, They represent 65% of the gross national product in Europe, compared with 45 % of U.S.A., while in It is worth to argued that small businesses are considered the backbone of the national economy (Afaneh, and Abu Eid, 2004). As well, small enterprises help to increase national gross product output and economic growth of nations. Most of the people in developing countries rely heavily on the job personal or small businesses as a source of income (Prasad & Tata, 2009), for these reasons, the issue of

small projects has great importance to the economic decision-makers in developed and developing countries, including Jordan both because of its pivotal role in economic development and social development.

## II. LITERATURE REVIEW

### a) *The concept of small enterprises*

Small enterprises are of great importance in all countries of the world, especially developing countries, taking into account the relative inequality between the small enterprises in developed countries compared to the project in the small developing countries, in terms of the amount of capital, productivity and labor used in the United States, Japan and European Union countries, the roof of capital for small projects exceeds 20 million dollars, while all small businesses in developing countries ranges from the size of capital for each of them between 20 thousand dollars and one hundred thousand dollars, and may be less than that.

The concept of small projects raises considerable controversy among those interested in the small enterprise concept, and this due that the term includes a number of projects that can fit underneath it, yet they may differ in their characteristics, as an example an enterprise that may be considered small in the United States may not be so in other developing countries. Also a small enterprise in one industry, steel, for example is not the case in the textile and apparel industry (Almberek, and al-Shammari, 2006).

Regarding the definition of small enterprises, there are several points of view and opinions. However, several criteria for the definition of small enterprises are used, such as labor, capital, added value, management properties, specialization, production methods, or market trends, as reported in a study of Gray and Gamser who prefer to use the number of employees criterion to determine the size of the organization, rather than relying on the size of assets and value-added criteria. Some studies have added technology used standard volume of sales, and the legal standards as the basic criteria for the classification of small enterprises (El-Beltagy 2005). The United Nations Industrial Development Organization (UNIDO) defines small enterprises as projects run by the same owners who take the full responsibility and the number of employees is estimated between 10-50 workers, the World Bank describes enterprises that employ between 10 and 50 employees as small. Standards to identify small enterprises vary from one country to another according to their potential, capabilities, economic circumstances, and stages of growth attained. European Commission identifies enterprises which employs not less than 10 workers on a permanent basis and between 10-99 as small enterprise, and which employs between 100-499 as medium. (Alattar, Kouly & Innes, 2009). Arab countries consider projects that

employ from 5-15 workers and invest less than \$ 15,000 as small enterprises. The GCC countries are use the capital standard to distinguish between projects, based on this, small enterprises are defined as those facilities that have capital invested less than 800,000 Bahraini dinars as small enterprises (Internet, Bahraini newspaper Al Wasat).

A study conducted by Georgia Institute of Technology has shown that there are about 75 different definition for small projects in 75 countries, these definitions have been classified into major groups - some of which depends on the size of the project (number of employees or capital), some of which depends on the economic characteristics of the enterprise such as small size, medium size and so on, other enterprises have been classified according to the nature of the administration of the project (by the owner or employees or both) and the other classifications are based on the problems faced by the project, such as the need for support or the level of technology used and the resources necessary to build the project. Some of which rely on the standard annual sales of the project small (Abu Alfahim, 2009).

Jaradat pointed that many countries have based the classification of small enterprises, according to the number of workers involved:

- In India, enterprises are classified as small when the number of workers does not exceed fifty for factories who use energy, and one hundred workers in the case of non-use of energy.
- In Japan and Korea, they specify small enterprises if the number of workers is thirty or less.
- In Sudan, they specify small enterprises if the number of employee is 25 workers or less.
- In Saudi Arabia, specifies small enterprises when the number of employees is less than 25 workers. ,
- Jordan specifies the number of workers between 5-20. Many studies have addressed the number of workers of small enterprises is less than 20 workers. (Jaradat, 2004).

### b) *Importance of Small Enterprises*

Importance of small enterprises has increased in the late seventies as it forms about 94.8% of the total world business. for example, Saudi market constitutes 90% of its economic establishments, 96 percent in the Arab Republic of Egypt, 97% in India, 90% in America, between 85-90% in Europe, and 71% in Japan (Green bank, 2000)) Jordan, constitutes 98% of its total installations as small enterprises. Small enterprises also were seen as vital for the economic growth in all of Latin America, Eastern Europe and Africa. Small projects in developing countries play an important role in reducing the problem of unemployment, especially in rural areas, on the grounds that the big companies and industrial companies, which rely on the urban areas has failed to play a distinct role in addressing the problem of

unemployment (Alam, 2006). Asian Tigers have realized the importance of small enterprises and has taken them a vehicle to achieve their development objectives. According to some statistics that Small Enterprises provided jobs for 50-60% of total work force in South Korea, it is worth to note that the state gives incentives and tax exemptions for the workers of small enterprises and set up a body to develop, especially in the sector of new technologies, services and tourism solidarity. Canada also has realized that this kind of enterprises represents the largest sector to create jobs in the country, i.e. about 80% of total employment opportunities (Beddaoui, Internet). Small projects are considered as the seed of economic activity that starts with small enterprises that grow and create conditions for larger projects to begin. Small enterprises form the lifeline out of the economic crisis; it is the main source which provides the needs of the citizens of needed goods and services. And is a major tributary which feeds the large industries with pre-requisites of mass production, in some industries more than 75% of the main components of the products are provided by the small enterprises. (El-Beltagy 0.2005).

### c) *Small enterprises in the Arab world*

The interest of the Arab world of small enterprises was the aim of reducing the problem of unemployment and its high levels in most Arab countries. Unemployment in the Arab countries concentrates mainly in the youth sector, where the average youth unemployment average rate about 53 % of the total volume of unemployment for all Arab countries. It ranges from 2 % in Kuwait, 3% in each of the UAE, Bahrain, Qatar, 7 % in Saudi Arabia and Oman, while it exceeded 11% in all of Egypt, Syria, Lebanon, and about 13 % in Jordan, 14 % in Tunisia and Morocco, 17 % in each of Sudan, Somalia and Yemen. However, unemployment rate exceeds 30% in each of Morocco, Palestine and Iraq (Alotthaim 0.2007). Here comes the importance of small enterprises that represent, on average, more than 90 % of the establishments in the developed and developing worlds. Statistics available describes that some Arab countries have a number of industrial establishments which occupy less than ten workers represent 95% in Egypt and 42% in Tunisia and 50% in Morocco (Galling 2001). The experience of the Arab world in the field of small enterprise sector is relatively new. In the early 90s. It started when Egyptian Government and Private sector have founded the business association in Alexandria Governorate by introducing lending enterprises is relatively recent, in Egypt began in the early nineties by the government and the pr programs for the poor, which later expanded to include suburbs and surrounding cities. As the central bank in Egypt to launch a package of incentives to encourage banks to expand the financing of small and medium enterprises. Amid

growing calls for the need to finance small enterprises which represented about 80% of the gross national product (*Al Masry Al Youm, 2008*). A company has been established in 1991 to ensure the risk of bank credit granted to small enterprises, this company was a joint venture and management of nine Egyptian banks and an insurance company (burned, and interview, 2006). Small and medium enterprises in the Arab countries acquire special importance due to several considerations relating to the characteristics of economic and social structures as well as availability rates of production factors, and the spatial distribution of population and activity. In Yemen, for example, small and medium enterprises contribute to about 96% of GDP in 2005, and about 77 %, 59 % and 25% in Algeria, Palestine, and Saudi Arabia, respectively, during the same year. It also represents this topic projects in Jordan, the proportion of 92.7 % of the total number of projects, and contributes 28.7% of Jordan's GDP, which is considered as low compared with other Arab countries. These projects represent 86.1 % of the total industrial projects in the United Arab Emirates, and about 76% of the total industrial enterprises operating in the Kingdom of Bahrain. And also represent more than 99% of non-agricultural enterprises. About 75% of private sector employment in the Arab Republic of Egypt is from small enterprise projects (Beddaoui, Internet). According to a study by Chen stated that the number of small and medium enterprises in China in 2001 amounted to 4.2 million projects, which represents 99% of the size of the projects registered in China, and equivalent to 75% of the gross industrial output as it has helped to create 79% of the total new jobs at the state level as a whole (Chen, 2006). The number of small and medium enterprises in the world has increased, in the Arab world the ratio has varied from one country to another. In the Arab Gulf states, small and medium industries form the backbone of the industrial sector by an estimated 85% of the total existing industrial installations. In a recent study conducted by the Gulf Organization for investments indicated that the proportion of small and medium factories have reached (94 %) of the size of the factories the United Arab Emirates and (92 %) of the factories Qatar, Oman, Bahrain and (75 %) of the factories Saudi Arabia, (78%) factories of Kuwait. Egypt and Syria constitute Small and Medium almost with the same percentage, but they vary in the nature of investment activity. In Jordan, the services sector occupies the bulk of the volume of small and medium enterprises, which constitutes 70% of the volume of projects in Jordan (Farajat 0.2009). The small and medium enterprises accounted for 97% of establishments registered as a private sector (*Al Rai newspaper, .2008*).

d) *Developing small enterprises in Jordan*

Small and medium enterprises in Jordan constitutes more than 90% of the total enterprises operating in various sectors of the economy, where they absorb about 60% of the workforce and contributes 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 to be a key driver of the national economy development in various fields. The estimated size of the total fund provided by these institutions is about half a billion Jordanian dinars, contributed to the finance the construction and development of (134) thousand projects. These enterprises have provided about eighty thousand permanent jobs (Alkhatib, 2009). Since the end of the last century. Jordan has started to implement the national economic reform and the liberalization of markets. The first achievements of this approach was the signing of a free trade agreement with the European Union in 1997, followed by the accession to the World Trade Organization in April of 2000, with the aim of improving the standard of living of Jordanian citizens through ambitious economic growth at an expected rate of 6.7 %annually, and to reduce unemployment by creating more job opportunities for Jordanians, and the opening of the Jordanian market for more industrial investments, commercial and various service. Also to promote competition in Jordanian market, which will lead to the reduction of high prices and to diversify its products in the local markets at prices that fit the Jordanian consumer (EJAB, 2007).The year 1959 was the beginning of the work to fund small enterprises in Jordan through the Agricultural Credit Corporation to grant loans to farmers. In 1965 was this sector was advocated through the establishment of the Industrial Development Bank (Al-Nabulsi, and Shalabi, 2009).

Jordan has begun its campaign to encourage small enterprises in the early seventies, through the Five-Year Economic Development Plan (1976-1980), which encouraged the social and economic development and the trend towards small projects that produce substitutes of imported products. In 1984, Jordan Loan Guarantee Corporation was established with a capital of 10 million dinars (Almahrouq and Magableh, 2006). In 1986 The Union of Charities was established to focus on the promotion of agro-industries and development of handicrafts. In 1989, an economic development program was established aiming to achieve economic and monetary stability, this program included economic and social plans aimed at providing employment opportunities for Jordanians in the field of small enterprises (Al-Nabulsi, and Shalabi, 2009), and in 1998 and in order to fight poverty and unemployment, the government through the Ministry of Planning and International Cooperation launched a program of social security package aimed at improving the living conditions of the poor and to increase their productivity.

In 2003 was the integration of development programs into one package called "productivity software socio-economic", which includes the development of small enterprises, where an equivalent of 17.14 million dinars were spent until 2005 on the development of small enterprises (Ministry of planning and International Cooperation 0.2005). However, the small enterprise sector in Jordan could not employ more than 35 % of the total Jordanian labor. The number of enterprises that occupy four workers or less (small projects) amounted to 87% of all small enterprises in 2005 (Eagles, 2008). According to the indicators available in the Ministry of Planning and International Cooperation, small and medium enterprises in Jordan form more than 98% of all the institutions involved, recruiting (60%) of the workforce with contribution of about (50 %) of the gross domestic product, compared with (80 %) for developed countries (guide microfinance institutions and micro-Jordan, 2006).The high population growth rate in Jordan and the slowdown in economic growth rates over the past years is one of the most important challenges facing the Jordanian economy which will have several implications, especially on the labor market (Eagles, 2008). There are many different financial institutions that provide support and funding for the development of small enterprises in Jordan, such as the Development and Employment Fund, which was established as a government institution in 1989 and began its lending in 1991, the Craftsmen Loan Fund, which is a subsidiary of the Industrial Development Bank was established in 1975, with the aim of microfinance and crafts. Among the leading institutions in the financing of small projects in Jordan is The Jordanian Company To Finance Small Projects (Tamweelcom), which was incorporated as a non-profit organization to support and develop small enterprises as a company owned by the Noor Al Hussein Foundation, the volume of bank loans until 31/12/2009 was 64958074 dinars and the number of loans were 139 286, 127 258 of these loans were for females and 12,028 loans for males, while the total number of clients since inception were 85 286 clients, female accounted for 91.14 %,and 8.86 % males (annual reports).There, in are many institutions that fund small enterprises directly and indirectly, such as fund lending to women, which was founded in 1999 as a private Jordanian non-profit organization to support the productive capacity of small-scale enterprises and works to empower women and strengthen its position as an individual producer in a society where the fund provided 114 thousand loans for about 40 thousand people, 99% of whom are women and in the year 2005.

The Arab uprisings and the global financial crisis and world economic slowdown have negatively impacted the Jordanian economy and highlighted demands for a more level economic playing field and equity in access to economic and social opportunities. Already challenged in providing jobs to the more than

60,000 youth who enter the labor market annually, Jordan has seen unemployment rising. Young men and women were the most affected, with unemployment, reaching 22.8 percent and 22.3 percent, respectively. Moreover, regional disparities continue to pose additional challenges. Limited private sector jobs are available in the outlying governorates, where employment relies largely on the civil service and other public sector jobs. At the same time, the private sector is hampered by difficulties in the business environment and inadequate access to finance. Job creation and economic inclusion are 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; however, they are confronted with numerous hurdles. Inadequate access to finance is frequently cited as one of the main constraints. Financial intermediation, in general, is very low in Jordan compared to other developing economies. Access to finance is substantially more of a challenge for Small Enterprises than it is for large firms. The financial system is dominated by the banking sector, which is less competitive and plays a limited role in financial intermediation, compared to other Middle Income Countries. Small Enterprises often resort to the informal sector or family and friends for needed finance (Nasr, S and El Abd, Y, 2013).

#### *e) Constraints faced by small enterprises*

Many small enterprises faced several constraints stand as obstacles in achieving its goals of economic and social. These constraints vary pertaining the nature of the project activity exercised by the state in which they operate. Being a new concept, small enterprises faces difficulties, especially in Arab countries (Hawat 0.2007). Small enterprises face obstacles, with regard to access to capital and lack of appropriate distribution channels (Prasad & Tata, 2009). United Nations has declared that 2005 is the year of small enterprises financing in order to provide funds for more than 20 million households in developing countries (Prasad & Tata, 2009). A main obstacle for small enterprises is its need for funding from third parties where it is difficult to rely on self-financing, and the high cost of financing as compared with the rate of return of the project, which in most cases leads to the loss or suspension of the project (El-Beltagy, 2005). Small and medium enterprises paid higher interest rates than other competitors on the same type of loan and the amount ranges between 2% -4% (Qandah 0.2009).

Many studies show that owners of new projects suffer from inadequate funding and bad product and marketing is effective (O'Dwyer, & Ryan, 2000), consumers usually prefer foreign products over the domestic products similar foreign motivated by tradition,

and the lack of adequate incentives for local products to strengthen its competitiveness compared to the product of foreign and a policy of dumping by some foreign institutions and weaken significantly the ability of the product to the local competition.

We must not lose sight of inflation, which is considered a major cause of the high prices of raw materials and wages of workers and therefore higher operating costs for this type of projects, leading to higher prices for their products and that means not being able to cope with intense competition from large facilities (Qandah, 2009) as well, we should consider government higher tax rates on these projects among the main obstacles to the development of this sector.

These projects are suffering in general from its inability to provide financial statements, (Alzerra, and Rashdan 0.2005) In China, it was the lack of information of the main reasons that led to the failure of small enterprises (Alattar, Kouly & Innes, 2009), in a study for Gebru, he found that there is a positive relationship between the extent to which it is to use the information available and the performance of small projects. As well as information asymmetry existing between financial institutions and small enterprises, and to obtain the required financing is considered one of the main obstacles for small and micro enterprises, also he found that the lack of adequate safeguards that can cover the value of the requested loan, which is considered one of the main foundations for the banks to agree to grant the loan, creating a major problem for small businesses that they do not have fixed assets sufficient, especially in the beginning -of-life for these projects, the banks rely on capital facility and not on income established to take the credit decision to grant the loan or rejected (Gebru, 2009).

During the last fifty years the Arab Economic Planning was relying on the public sector to finance small enterprises, and they used to think of the quick profit small enterprises such as real estate and trade without thinking about what is provided in the project of job opportunities (Hawat 0.2007). As well, there were lacks of clear legislation and government policies, and specific to support and organize small projects, and the lack of these projects to the plans, strategies and organizational structures that ensure proper growth and continuity. The adoption of these projects on traditional skills, and the low level of technology in the management of business. (AlKhaseeb, 2009). All of these obstacles are the major constraints facing small enterprises.

### III. PREVIOUS STUDIES

A Study by Dickinson, P., (2000), titled "The transformation of the economies of Eastern Europe: an assessment of the role and contribution of small enterprises in the private sector" Researcher conducted

this study to examine the role and the contribution of small enterprises of the private sector in the economic growth in Poland, referring to the importance of restructuring programs and the need to consolidate their role in economic growth through appropriate legislations and appropriate framework for their work. The researcher recommended the need to provide adequate managerial skills and tendency to take risks within the availability of appropriate economic environment in Poland compared with the other countries of Eastern Europe, however, the researcher confirmed the need for the government to encourage establishing more private small industrial enterprises. Study by Alwadi, (2004), titled "Small Projects: what are their reality and the challenges they faces with special reference to their role in development in Jordan,". The researcher suggested the need to distinguish between the growing and stable small enterprises, and that the main challenge for these projects due to lack of skills and management capabilities in order to develop these enterprises, in addition the researcher focused on the role of government in diminishing the challenges of funding. A study by Dawaba, A., (2006), titled "The problem of financing small and medium enterprises in the Arab countries," The researcher aimed to identify the importance and reality of small enterprises in the Arab countries and the problems of funding and methods by relying on the Islamic financing methods. It was one of the recommendations of the study is to implement the Islamic financing methods to fund small enterprises, and work on activating the role of the Arab Union for small enterprises and provide a regulatory environment to achieve and effecting collective efforts amongst the Arab countries.

A study by Abboud, K, (2007), titled "investment and finance strategies of small enterprises - a field study of small businesses in the city of Aleppo, Syria" The researcher highlighted the most important problems afflicting these projects and obstacles to their development and growth, the researcher found that the problems of lack of funding and weak management experience were the most important problems facing these enterprises, so the researcher recommended the need to find new funding formulas for dealing with these enterprises on non-traditional bases. The study of, Junjie,W., (2008), entitled "The empirical evidence to finance small projects in China," the researchers worked in providing evidence for a sufficient funds to finance small and medium enterprises with reference to the funding problems facing these enterprises in developing their businesses, and the end, the researchers found that financing options these projects vary according to the size and stage of the business cycle on the grounds that funding at the beginning of the project comes through private resources while in the advanced stages of the project, their much need for more funds of which the bulk relies on bank loans. A study by Slam, S.

(2009), entitled "impediments to the beginning and growth of small enterprises in Bangladesh", the researcher looked at the reasons for starting small enterprises and analyzed the obstacles facing these projects at the beginning and aftermath. Among the findings of the study was the fear of unemployment, family traditions and previous experience in the same field. The lack of Higher education was a prime reasons for the start of these projects. As for the obstacles facing these enterprises at their beginning and its sustainability was the lack of funds to start and working capital, the lack of training and skill, inadequate loans collateral, and the shortage of skilled manpower. At the end of the study, the researcher recommended the need for the Government to sensitize individuals about the economic opportunities available, and the need to provide corporate finance at low-interest to encourage workers in these projects through financial incentives, and the government to guarantee the loans of small enterprises. A Study by Singh, R., (2010), entitled "competitive small and medium enterprises in the globalized economy" .The study aimed to analyze the challenges faced by small and medium enterprises in both India and China after globalization. Researchers studied the development of these enterprises, the policies and strategies for governments concerned for the sake of developing a competitive edge. The study found that both India and China have developed several encouraging programs in this regard, however, the study recommended the need for more work on developing the managerial skills and their relationship to cut costs while working to improve the quality, which is strongly linked to improving competitiveness. Study of Mugava,M.et al, (2012), titled , Tax System Impact on the Growth of Small and Medium Enterprises (SMEs): With Reference to Shinyanga Municipality, Tanzania. Study was based on the survey of 120 managers/ Executive officers of the selected Small and Medium Enterprises in the Shinyanga Municipal region in Tanzania. Findings indicate that majority of the respondents perceive the adverse impact of existing tax policies on the growth of SMEs and suggest for reforming the tax policies in the Country.

#### IV. RESEARCH PROBLEM AND HYPOTHESES

##### a) *Research Problem*

Small enterprises play a vital role in the economic development of all countries. Today, small businesses are the heart of market economy with their buying and selling of products and services in most of developed and developing countries. Most small scale industries play an important role in the economic development of any country because of its productivity, employment provision for a given level of investment. Despite the significant role and vital role of small enterprises in the economy, which constitutes more than

90 % of the establishments in most countries of the world (Almahrouq and Maqableh, 2006), however, it is facing some obstacles that limit the development and progress of these countries. It is important to know that the success of small enterprises depends mainly on several factors, including the provision of adequate funding and to provide administrative efficiencies that can ensure the success of this kind of projects and support their official bodies. The problem in this research lies in how to identify the point view of small-scale entrepreneurs in relation to the financial and administrative problems and try to find some solutions that can help increase the support for these enterprises and to provide the necessary funding and work to develop and increase the spread of these enterprises due to their vital role to the economic development and solving the unemployment problem. However, this research is intended to answer the following questions:

1. Do High interest on loans and the lack of collaterals represent the most important obstacles facing small enterprises?.
2. Do financing institutions provide required funds for small enterprises?.
3. Are repayment period and inadequacy of funding amounts represent major constraints of small enterprises
4. Are administrative procedures and the lack of advisory services constraints to finance small enterprises?
5. Do government and commercial banks provide support to finance small enterprises?

#### *b) Hypotheses of the study*

Based on problems of the study, the researcher has developed the following study hypotheses:

$(H_{o1})$  high interest on loans and the lack of guarantees are the most important obstacles facing small enterprises.

$(H_{o2})$  financing institutions provide the required funds to small enterprises.

$(H_{o3})$  repayment period and the inadequacy of funding are among the major constraints of small enterprises.

$(H_{o4})$  administrative procedures and the lack of advisory services are among the major constraints to finance small enterprises.

$(H_{o5})$  Both government and commercial banks provide enough support to finance small enterprises.

#### *c) Research Methodology*

This a field study, the researcher had prepared a questionnaire and distributed copies to a represent able purposeful sample.

430 questionnaires were distributed to a sample of intended micro-entrepreneurs in Jordan, who have already succeeded in obtaining a loan by microfinance institutions operating in Jordan. Researcher obtained

420 questionnaire out of which 415of were valid, exception 5 in response to a lack of suitability for the purposes of analysis, and after unloading the data obtained and processed statistically using the Statistical Package for Social Science (SPSS).

## V. RESEARCH RESULTS

### *a) Distribution of the study sample by sample characteristics*

Through table (1) we note that the study sample were concentrated among 78 % of males and 22 % females , and for the age group was highest in the first category between 20-25 years and 28% , followed by the age group the last 41 years and above , while the lowest age group was 16% for the class the second and fourth.

With regard to educational level was the highest participation rate for bachelor holders and 34% and the least was to drive a master's degree and doctorate and 2% and 0 % , respectively. For the general form of ownership of the project was the individual property for the project and 44% is the highest among other forms of ownership (family and share with others), and the percentage of the commercial sector 74% the highest among the various economic sectors of the study sample and the least of the artisanal sector and 2% . With regard to the way the acquisition of the project site, the percentage of rental 85 % compared to other methods, i.e acquisitions and investment.

### *b) Problems and the reasons for rejection of microfinance*

As can be seen from Table 2 that 62% of the sample had experienced a problem in getting adequate funding at the beginning of the enterprise life, and that 44% of the sample had been refused funding request them by microfinance institutions. The study also found that the main reason for the rejection of the loan application was due to the lack of adequate collaterals. This result is the same as the findings of Assmeerat study (Assmeerat, 2009).

### *c) The most important impediments to finance small enterprises*

We notice from the results contained in the table (3) that the most important constraints that guide the borrower is the strictness in collateral demands up to 44% of the study sample, followed by high interest rates of loans in some cases to more than 26%, this means accepting the first hypothesis (H1), which states that "the high interest on loans and the lack of guarantees form the most important obstacles facing small enterprises. In addition, the ratio of only 6% of the respondents who responded that the most important obstacle for them is the lack of a sufficient grace period ,however, this may be justified by the micro financing institutions due to the small size of the loan.

#### d) Testing of hypotheses

By considering table, (4) We note that the mean and standard deviation for all the answers were close and within the normal distribution of the sample, and this shows a lack of significant differences in the answers of the study sample, and also if we compare this value with the overall average for all the answers we find it also close, as the value of significance values for all the results of the study were 0.000, which means that the results of the statistical analysis shows significance for all the questions that have been addressed to the study sample.

Through the question No. (1), We note that 44% of the sample approved that microfinance institutions should provide full funding, and that 32% of the sample were not approving it which means that the second hypothesis ( $H_{0_2}$ ) has been accepted, which states that "financing institutions provide the required funds to small enterprises". As for the stresses in the request for collaterals 84% of the sample has approved it, as for the rise in interest rates, 76% of the of the sample supported it and here comes the emphasis on the acceptance of the first hypothesis, ( $H_{0_1}$ ). For the inadequacy of the repayment period and the amount of funding, the results of the study demonstrated that 60% of respondents confirmed that the repayment period is not enough and 70% said that the amount of funding is not sufficient, and that means accepting the third hypothesis ( $H_{0_3}$ ), which states that: ", repayment period and the inadequacy of funding are among the major constraints of small enterprises". With regard to administrative procedures and procedures for the approval of the loans' approvals, the rate has ranged between 50% - 80% of the study sample and therefore accepted the fourth ( $H_{0_4}$ ) hypothesis, which stipulates that "administrative procedures and the lack of advisory services are among the major constraints to finance small enterprises".

As for the government and commercial banks roles in directing financing small enterprises, the role of the government has been supported by 48% of the study sample, in turn, 28 % of the sample did not support the government's role, as for commercial banks and their role in providing the necessary funding was approved by 60 % of the sample ( $H_{0_5}$ ), which states that: "Both government and commercial banks provide enough support to finance small enterprises". It is to be concluded from this study that small enterprise finance in Jordan suffers from a variety of obstacles, the most important obstacle is the non sufficient funds and the high lending rates, in addition the enterprise financing institutions have high rigidity in demanding guarantees faced by limited guarantees owned by small enterprise owners, the last obstacle is the absence of the active role of the government and routines administrative procedures which are considered as fatal funding constraints.

## VI. CONCLUSIONS

1. Small enterprises face a militancy problem in the request for collaterals by donors, (approval of 84% on Q.-2), and that the interest rates on granted loans to small enterprises are high (approval of 76% on Q.- 3).
2. 76 % of the sample of the study confirmed that the repayment period is not considered enough (question - 4), and the loan amount is not enough to finance the needs of the enterprise (approval reached 70% on Q.- 5).
3. Approval of the loan application includes long administrative and routine procedures (80% approval on Q (6) and 50 % On Q. (7).
4. 60 % of the study sample approved the establishment of commercial banks to provide funding for small enterprises (Q.9), but 48% feel the absence of the government's role in providing the required support for small enterprises (question - (10).
5. 50% of the study sample faced the problem of loan repayments in a timely manner, and that 47 % of the sample suffered from the rejection of their loan applications in advance.

## VII. RECOMMENDATION

1. There is a deem need for commercial banks and microfinance institutions to grant adequate loans for small enterprises in order to achieve economic development and work on solving the problems of unemployment.
2. It is deeply important to urge microfinance institutions to ease the required collaterals for their loans and to accept the project itself as the collateral without the need for other guarantees or collaterals.
3. In a bid to broaden the base of beneficiaries of loans, it is necessary that the Micro Financing Institutions(MFI) to reduce their interest rates, which is considered one of the most important funding constraints faced by the owners of these small enterprises. So MFI can take advantage of increasing the number of borrowers in this situation and achieve better profit.
4. A deem important issue is that the government establishes an institution to guarantee loans granted to finance small enterprises.

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## APPENDIX

*Table 1* : The characteristics of the study sample

Statement	Percentage
Gender	
Male	78%
Female	22%
Age Group	
20-25	28%
25-30	16%
30-35	18%
35-40	16%
41-above	22%
Education Level	
Less than High School	%14
High School	%24
Deploma	%26
Bachelor	%34
Masters	%2
P.hd.	0
Project Type	
Individual	%44
Family	%34
Partnership	%22
Distribution of projects among the various sectors	
Commercial	%74
Industrial	%8
Crafting	%2
Services	%16
Way acquisition project site:	
Investment - ensuring	%1
Rental	%14
Ownership	%85

*Table 2* : illustrates the problems and the reasons for rejection of micro-finance

QUESTION	PERCENTAGE
Have you encountered financing problems when you start the project?	
YES	78%
NO	22%
Have you ever refused a loan application by the Foundation funded?	
YES	44%
NO	56%
What are the reasons for rejection?	
Nature of the enterprise	4.5%
Lack of adequate safeguards	86.5%
The size of the loan is high	4.5%
Term of Loan	4.5%

*Table 3 :* shows more obstacles facing small enterprises

Question	Percentage
What are the most obstacles facing micro-finance?	
Term of the loan is not sufficient	8%
The loan amount is not enough	16%
Militancy in collateral demand	44%
Lack of sufficient grace period	6%
Loan interest high	26%

*Table 4 :* shows the results of the field study of impediments to finance small projects

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Std. Dev.	Mean	Sig.
1- Microfinance institutions working to provide full funding required for the project	22%	22%	24%	28%	4%	1.171	3.227	0.0
2- Stringent microfinance institutions to request guarantees.	26%	58%	14%	2%	0%	0.667	4.111	0.0
3- The benefits of micro-finance loans are considered very high.	30%	46%	20%	4%	0%	0.815	3.974	0.0
4- The period of repayment of loans of small projects is insufficient.	14%	46%	28%	8%	4%	0.849	4.026	0.0
5- The proportion of the requested loan is considered low compared to the size of the loan required (margin rate)	20%	50%	20%	8%	2%	0.825	3.412	0.0
6- There are a lot of routine administrative procedures when applying for the loan	28%	52%	12%	8%	0%	1.096	1.096	0.0
7- The approval of the loan application needs to be a long period of time by the management.	12%	38%	30%	16%	4%	1.014	3.326	0.0
8- The microfinance institutions to provide advisory services to borrowers.	12%	30%	16%	34%	8%	0.877	3.512	0.0
9- Commercial banks are considered the best of microfinance institutions specialized in the provision of funding for the project.	12%	48%	22%	14%	4%	0.922	3.521	
10- The government, in turn, is required to provide support and encouragement to finance small projects	16%	32%	24%	20%	8%	0.954	3.643	0.0
11- Loan application was rejected in advance prior to obtaining the required financing	23%	24%	20%	30%	3%	1.15	3.12	0.0
12- Facing difficulties and persistent problems in the payment of installments due in a timely manner.	6%	44%	44%	2%	4%	1.156	3.162	
General Average						0.958	3.484	

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