

**FINANCING OF COMMERCIAL BANKS  
TO SMALL – SCALE INDUSTRIES IN JORDAN**

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**Abstract**

Jordan is a very fast developing economy; investment from abroad is a mean of bringing the two crucial gaps: The saving and foreign exchange gap. It gets as a catalyst in the process of economic development .However, the unique requirements of nation building in Jordan, with its vast reservoirs of material and human potential, what is more than human the value of foreign investment as a source is that, it acts a vehicle for the transfer of modern technology.

**Key Words:** Commercial Banks. Banking System, Monterey Policy, Economic Growth.

**1.0 Introduction: -**

The banking sector in Jordan is passing through a period of structural change Under the combined impact of financial sector reforms, internal competition, Changes in regulation, new technology, global competitive pressures and fast Evolving strategic objectives of banks and their existing and potential competitors. Until the last decades, banks were regarded largely as institutions rather a kin to public utilities . The market for banking services was monopolized and centralized , while the market place was regulated and banks were expected to receive assured Spreads over their cost of finds. This phenomenon, which was caricatured as 3-6 banking in the United States , meaning that banks accepted deposits at 3 per cent ,

Lent at 6 percent was the result of sheltered markets and administered prices for Banking products. Existence of entry barriers for new banks for banking products. Existence of entry for new banks means that competition was restricted to existing Players, who often operated as a cartel, even in areas where the freedom to price their products existed .

The market place for banks in Jordan as a result of reforms of the financial sector Initiated in the current decade. On account of policy measures introduced to infuse Greater competitive vitality in the system, the banking has entered into a Competitive system but also from non-banking institutions .Lowering of entry barriers deregulation of interest rates and growing sophistication of customers have Made banking far less oligopolistic today. Introduction of capital adequacy and Other prudential norms, freedom granted to enter into new turf's and greater Overlap of functions between banks and nonbanks have forced banks to get out of Their cozy little world and think of the future of banking. Small scale introduce world over including Jordan were facing the on slight of adverse effects globalization in the Stringent requirements ( Stiglitz , 2002 )

It is generally believed that banking in Jordan will never be the same again and Turbulent times are ahead for bankers. Some authors even feel that banks, as we Have come to know them, will soon be obsolete. It is also argued that banking as an Industry is on decline worldwide. What then, is the outlook for banking in Jordan? .. The present study makes an attempt to find out answer to this in the light of Catalytic changes taking place in the financial sector.

The factors contributing to economic development are natural resources labor, Technology, capital and entrepreneurship. New industry formation is the result of Harnessing human skills, with the development technology, added by available capital as

Well as other infrastructure to set in a development process. The key factor in this Development process is the entrepreneur. Entrepreneurship is the coordinator of Production elements. As such, the entrepreneur is the innovator and coordinator so Necessary for the economic development of the country. Entrepreneur is the driving force Behind economic growth as economic development. The lack of entrepreneurship is an Inhibiting factor to accelerate the progress of industrialization in the newly developing Countries. Although there is no such thing as a zero level of entrepreneurship, the Absence of an appropriate industrial climate and industrial base, coupled with lack of Access to relevant technology, has acted as a handicap for such countries to achieve rapid Growth The inadequate availability of entrepreneurial talent has particularly affected the Development of modern small manufacturing enterprise for, while large industries can be Set up with expatriate capital and entrepreneurship, small industries need to have a Domestic entrepreneurial base.

Financial of Commercial Banks to small Scale industries not only in Jordan but also in developed, developing and backward countries of the World. The fact that this project – intensive and labor into account the nucleus of the development of large projects and tool to achieve the development of regional decentralization and balanced addition to the Financial and technical supplies used in these projects that fit with the great features of the Jordanian economy (Janabi,1999:p.246)

## **2. 0 SCOPE OF THE STUDY;**

Having taken a due note of number of restraints in the form of efforts, resources and time the study is confined in two areas of the entrepreneurship / industries engaged in Manufacturing, Non- manufacturing and processing activities / operation in industrial

Sector. The study is restricted to the entrepreneurs / industries units in Jordan.

It was considered desirable to study intensively a limited number of sample informal Sector units of which products / services / utility are by and large manufactured / made Available all over the world, which face managerial skill, finance Government policy, And sickness and other problems due to competition from the Commercial and other Banks inter see and also from organized small and large industry scale sector in Jordan.

It was therefore felt that a study of the financing of commercial banks to small Scale Industries in Jordan could be made, then it could offer some help in devising delivery Mechanism to ensure adequate credit and long –term finance to these enterprises. Capital and skill which might otherwise remain unutilized. ( Hakura ,2004) . This Thought has finally materialized into the present study.

### **3. 0 OBJECTIVE OF THE STUDY;**

In the context of the above, the following are the objectives of the study;

( i ) To identify the industrial and economic background of Jordan , i.e., Jordan an ideal regional base , Jordan`s competitive markets , future regional markets , competitive labor costs , conducive investment climate , Jordan a springboard of middle east and North Africa , economic power , MENA region and the world , Jordan an emerging market , economic environment of Jordan , etc. and to evaluate the nature of small – scale industrial sector in Jordan .

( i i )To examine financial system in Jordan and to suggest a line of action for overcoming them.

( iii) To find out an information about the nature and extent of financing of commercial banks to small scale industries in Jordan and to suggest the ways and means for their revival/ rehabilitation or otherwise .

(iv) To study the incidental or collateral and pertinent issues that could not be accommodated in either of the above objectives.

(v) To suggest policy and other measures that can have explicative value in other parts of the world technology development in small scale industries can be achieved through in – house innovation as well as inter –firm linkages with large firms. ( Subramanian , 1995) .

#### **4. 0 RESEARCH DESIGN AND METHODOLOGY;**

To test the correctness of the hypotheses and for getting firsthand knowledge of banking small scale industries , preliminary discussions were held with the representatives / industrialists / proprietor / partners / managers of Commercial banks and Small scale informal sector units and also with organizations offices and institutions connected with Commercial banks and industries development and promotion in Jordan .

Further, lack of finance is also most formidable problem because; through finance other problems can be tackled to a significant extent. Having practically few assets and therefore no security to offer and suffering from several handicaps like illiteracy, ignorance, poverty and backwardness, many of these industries struggle to make both ends meet.

At present these industries served by local banks, co-operative banks and some extent by commercial banks. They also fall under “priority sector “earmarked for institutional finance.

The industries are selected mainly on the basis of emphasis laid on the financing problems of organization structure. Managerial skills, Finance marketing, and its allied issues pertaining to the products produced in these industries / units.

In order to achieve, the objectives states above a study of different small – scale industries / units / entrepreneurs in Jordan were conducted. The study encompasses both the types of data viz., primary i.e. first hand data from the questionnaire and the second data from the official statistics. The secondary data for the study was drawn from books /

articles in Journals / reports / dissertations, published and unpublished. In addition to the above the various reports published by Government and Quasi Government agencies / independent research organizations were the sources of information.

## **5.0 DATA COLLECTION;**

The work of collection of relevant data was started in October 2000 and actual data collection started in the month of November 2001 and data concluded in January 2002. Each of the information / data was given in by the Commercial banks and industrialists. All data were filled scrutinized carefully and discrepancies. If any, were corrected after discrepancies with industrialists. As such with few modifications.

## **6. 0 DATA INTERPRETATION;**

The Research tools applied are simple count table, co-relation table and other statistical methods. Besides, charts and diagrams are included to emphasis and highlight growth of commercial banks. For the sake of tabulation, the year wise data are presented and analyzed both industrial group wise and banks wise as the case may be. As far as period for data / information of the study is concerned efforts have been intensified to make it updated to current situation. As such the references are made up to 2002-2003 that is latest one and as the case may be. The period – wise average was worked out per year, per commercial banks growth, per unit as the case may be , with a view to make a comparison of data pertaining to financing of commercial banks to small – scale industries in Jordan .

## **7. 0 CHAPTER SCHEME;**

This study consists of five chapters, the chapter 1 the light on the introduction and background of the Jordan. Chapter II gives the methodology and objectives of the study. Chapter III is devoted to financial system in Jordan. Chapter IV gives a comparative analysis of financing of commercial banks to small scale industries in Jordan. The summary of the finding and recommendations of the study are presented in the last chapter V. It offers certain guidelines for further creative research in the field of the financing of commercial banks to small – scale industries and highlights certain important thrust areas for further research to be undertaken in the concerned academic discipline.

The select bibliography on financing of commercial banks to small scale industries is also provided at the end. In the end are the Appendices detailing among other things for the study.

## **8. 0 RESEARCH CONTRIBUTION**

The finance and banking sector in Jordan are large and well developed. Its impressive growth rate over the last three decades indicates that this sector is showing staggering prospects for expansion and diversification. Marketing has been identified as one of the major problem areas of the small scale industries and it has been ranked as the second most reason for the closure of small units .( Sala and Artadi ,2002 ) The banking and financial sector accounted for 52% of total stock market capitalization, and contributed 155 to GDP.

Fifteen Commercial banks are currently operating in Jordan of which ten are domestic and five are foreign. In addition, there are six private investment banks and one industrial development bank (IDB), along with the specialized credit institution. Scale industries in Jordan, Jordan had structural network of 445 banks and branches will distributed to service many parts of the kingdom. The five foreign banks that are currently operating in Jordan include the Arab Bank, Rafidain Bank, British Bank, the ANZ Grindlay (s standard chartered) and Citibank NA. The Central Bank of Jordan periodically updates regulations of commercial banks in order to ensure a free banking system devoid of current speculation to protect the interests of the public.

Expatriates are permitted to open accounts at Jordanian banks in either demand deposits, time –fixed or saving deposits in both Jordanian Dinars and foreign currencies. The Central Bank of Jordan has liberalized almost all direct controls on interest rates, applying fiscal, monetary and commercial deregulation. This has exposed Jordanians Banks to increase foreign competition. The challenge of providing local competitive banking services is on the increase. Computerization and modernization of banking service is under way in most of local banks, enabling them to adapt to their new integral role in world economies. To protect new foreign investors in Jordan, the Central Bank allows the implementation of provisional Jordan Dinar / foreign currency swap facilities throughout commercial banks.





Banks can also deal in buying, selling and maintaining account in foreign currency under the supervision of the central Bank of Jordan. Many other currency exchange offices also operate under the guidelines of the central Bank of Jordan. Jordan`s Banks have remained local in nature with the exception of the Arab Bank ( with 64 branches abroad ) and the Jordan National Bank , which acquired a regional status . Nevertheless, many Jordanian banks opened branches in the PNA territories in order to capitalize on the long – term potential and growth stimulated by peace. More than ten Jordanian banks established branches in the PNA territories, forming a network of over 40 branches which have succeeded in attracting deposits from the Palestinian population. The trend in banking expansion is still underway.

Although the financial system in Jordan is well developed, credit rating procedures are usually lengthy. This is due to the lack of credible rating institutions that would expedite financial transactions, minimize transaction costs and safeguard the interest of the banks. Modern banking data communication network involving a complete digital fiber optic data transmission is also needed to improve the reliability and speed of data transmission within banks and other information-driven institutions and business.

The industrial sector is mainly composed of mining and manufacturing industries. Large scale industries in Jordan include mining of mineral resources and the industrial production of cement, fertilizers and refined petroleum.

Jordan`s natural resources are scarce. So far, no minerals other than phosphates and potash have been discovered and exploited on a commercial basis . Jordan ranks among the top three exporters of phosphates in the world. Two joint ventures have been established in this sector. A US\$160 million Indian – Jordanian joint venture (with 52% these securities in Jordan compared to the situation in Ireland. It is in part due to the Central Bank in Ireland imposing a secondary liquidity ratio that requires the licensed banks to invest 25% of their deposits in government bills and stocks.

The proportion of capital employed to total commercial bank liabilities is lower in Jordan than Ireland. That is due to the Central Bank allowing the licensed banks in Ireland to treat loan capital as part of capital employed. This increases the Irish banks ability to lend, because the larger the bank's capital, the greater is their ability to accept deposits and other liabilities, and to lend medium and long term loans.

The p-proportion of demand deposits to total commercial bank liabilities is higher in Jordan than the proportion of equivalent current accounts to total licensed bank liabilities in Ireland. That is due to the new system of paying interest in Ireland on deposit account which in practice can be drawn at will, directly from the bank or at any time from cash dispensing machines.

Commercial bank credit and advances are concentrated in the capital, Amman, which is the centre of industry and commerce and where most of the large firms are located. The banks thus develop the centre only. A similar situation obtained in Ireland until recently. Then the banks transferred a major part of their deposits to London. The Irish banks, in that way, helped to develop Britain rather than Ireland.

There are fewer bank branches in Jordan than Ireland, with many more people being served per branch in Jordan than in Ireland. This hinders deposits and the spread of the banking habit in Jordan.

Commercial banks do not provide venture capital for the major sectors in Jordan, unlike the situation in Ireland, where the licensed banks do so equity participation in subsidiaries. As a result, the initiation of industrial and agricultural projects is hampered in Jordan through a shortage of capital.

Jordan`s commercial banks can increase the proportion of medium and long term loans to total loans by;

**(a)** Applying different interest rates according to loan type and maturity to give the banks a risk margin as in Ireland;

**(b)** Training staff in the appraisal, analysis and evaluation of projects. This would benefit the customers as well as the banks;

**(c)** Establishing regional management, with each regional manager empowered to approve loans of up to 50.000, following study of the loan application by the regional specialist section. This makes possible more careful study of the loan applications, reduces centralization of loan approval, and allows head office to concentrate on the largest loans and on major bank policy issues;

**(d)** establishing subsidiaries specializing in making medium and long term loans to the industrial and agricultural sectors , as in Ireland ;

**(e)** Issuing medium to long term debentures so that they can use the funds for medium and long term loans as in Japan ;

**( f)** considering loan capital as part of the capital base . That would increase the banks` ability to lend more, as in Ireland.

**(g)** receiving government guarantees for the repayment of medium and long term loans extended to high risk projects which government desires to encourage , as is done by the Industrial Development Authority in Ireland ;

( h ) securing from the Central bank the liquidity required in respect of their medium and long term assets to spare the banks the problems that can result when their resources are committed long term .

The Central Bank in Jordan can encourage the commercial banks to increase their investment in Treasury Bills and Development Bonds by raising the interest rate on these assets, or by imposing a secondary liquidity ratio that requires the banks to invest 25% of their deposits in government securities, as in Ireland. By doing so, the Central Bank will place at the disposal of government the funds required to implement necessary projects and to underpin financial guarantee schemes.

Commercial banks should be encouraged to reduce their investment in the real estate and construction sector because of the vulnerability of this sector to falling real estate prices. This is especially likely because present prices depend on the demand for land by Jordanians working abroad. .

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