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# SMALL AND MEDIUM ENTERPRISES: IMPORTANCE AND CONSTRAINTS

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***Abstract*— Many economists believe that the development of microenterprises and the promotion of their establishment, as well as medium enterprises, are among the main sources of economic and social development in countries in general, and developing countries in particular, as a basic platform for increasing production capacity on the one hand and contributing to addressing the problems of poverty and unemployment on the other hand.**

**Therefore, many countries have paid increasing attention to these projects, and provided aid and assistance in various ways, according to the possibilities available.**

**In view of the importance of these projects, most developing countries have concentrated their efforts on them.**

**They have encouraged the establishment of small and medium industries, especially after they have proven their ability and efficiency to address the major problems facing different economies and to large extent large industries.**

**The increasing attention, both formal and private, to "Small and Medium Enterprises, SMEs" is due to the fact that, in addition to its large labor capacity, the investment volume is very low compared to large projects. It is also a field for developing managerial, technical, production and marketing skills in the face of individual initiatives and self-employment, easing the pressure on the public sector to create jobs.**

**These projects have found various forms of care and support, both public and private, for their significant contribution to the industrial sector. For example, small and medium enterprises comprise about (90%) of enterprises in the world and employ (50%-60%) of the world's workforce.**

**It was necessary to provide support in all its forms to these vital sectors in view of their importance and to eliminate the most important obstacles facing small and medium enterprises, namely, the inability of their owners to provide the necessary funding for the continuity of their activities and their inability to provide adequate traditional guarantees required by commercial banks to provide funding for them.**

**Commercial banks usually contribute to large projects and prefer to deal and lend to them because of the low risk of these projects on the one hand, and the ease with which banks deal with them on the other, and their ability to provide the required guarantees.**

**The preferential treatment of large industrial projects is the main motive for the introduction of loan risk guarantee programs to facilitate the financing of targeted SMEs and to enable them to obtain credit facilities by guaranteeing the risk of these loans with banks and financial institutions, Banks to grant facilities to a wider segment of investors and entrepreneurs of economic feasibility who do not have sufficient traditional guarantees, and this leads to the growth of these projects, development and continuity.**

***Index Terms*— Small and Medium Enterprises, SMEs, Finance, Obstacles, Institutions, Loans.**

## I. INTRODUCTION

Small and Medium Enterprises is one of the most important elements in achieving economic and social development in all countries of the world as it holds the highest percentage of all types of economic projects. The study aimed to study the importance of small and medium enterprises and identify the financing constraints faced by small and medium enterprises Hindering its growth and development, and identifying the role of banks and financial institutions and their difficulties in financing the SME sector.

**First. The Importance of The Study:**

Small and medium-sized enterprises, (SMEs), are important in the economies of developing countries as they constitute the vast majority of existing projects in the economy. Their share varies from one country to another, and at the turn of the century there has been a significant shift in investment.

In addition, it has started to engage in an effective export activity through access to regional and international markets after it has been able to offer products of great quality and price. This is considered the cornerstone in the development of small and medium-sized enterprises. The process of economic and social development is due to its positive economic impact on the national economy in terms of its leading role in providing new job opportunities and achieving a growing increase in the volume of investment due to its dependence on labor intensity low you need it as money.

This type of project is very important in any country with a high population growth, which makes these projects necessary to absorb employment and reduce the unemployment rates and the national economy in goods and services

These industries suffer from a range of problems related to licensing, financing, marketing, etc. The problem of financing may be one of the main reasons that hinder its growth and development. These projects need financing sources both in the beginning of its activity and in the expansion or renewal of machinery and equipment. Achieve their objectives or ensure that they remain in the market without sufficient capital to meet their needs.

**Second. The Problem of Study:**

Securing funding for the establishment of small and medium enterprises is one of the most important factors in the formation of such projects, despite the fact that the size of the capital is minimal.

Difficulties are the inability of these projects to obtain capital either through personal savings or through banks and financial institutions due to some of the specificities required to finance such projects. The most important aspects of financing these projects are the lack of adequate guarantees and the loss of the owners of these projects for creditworthiness. Lending conditions become a major burden for these projects and are inconsistent with their funding requirements. On this basis, the problem of the study can be posed by a number of points:

What are the methods and mechanisms to finance small and medium enterprises?

What are the difficulties faced by banks in financing small and medium enterprises?

Do mainstream banking systems play a significant role in SME financing?

**Third. Objectives of the Study:**

From the previous presentation of the study problem, this study will focus on the following objectives:

1. Identify the financing constraints faced by small and medium enterprises that hinder their growth, development and knowledge of their causes;
2. Learn about the reality of small and medium enterprises and the problems they suffer from;
3. Introducing possible alternatives to SME development.

*A. Definition of Small and Medium Enterprises*

It is certain that a specific and unified definition of “Small and Medium Enterprises, SMEs” cannot be achieved. In addition, the word "small" and "medium" are words that have relative concepts that vary from state to state and from sector to sector even within the state.(Hassan Abdulrasoul, 2008, 23)

According to one study by the Georgia State Institute, there are more than (55) definitions of SMEs in (75) countries.(Maysa Habib Salman, 2009, 38)

Small and Medium Enterprises, SMEs” are defined by a set of criteria, including number of workers, capital size, or combination of the two criteria. Other definitions are based on sales volume or other criteria.(Shehrazad Zghayeb, 2006, 45)

For example, the World Bank defines “Small and Medium Enterprises, SMEs” using the labor standard, which is an initial criterion, and is considered small if it employs less than (50) workers.(Fathi Abdulsayed, 2005, 39)

There are many countries in the world that use this standard to define small and medium enterprises. In the United States of America, Italy and France are SMEs with up to (500) workers, in Sweden up to (200) workers, in Canada and Australia up to (99) workers, while in Denmark they employ up to (50) workers.(Khalid Al-Rawi, 2000, 37)

The use of the number of workers as a standard for the definition of SMEs has a number of advantages, including:

1. Facilitates the process of comparisons between sectors and countries;
2. A standard and a standard fixed and unified, especially as it is not linked to the changes in prices and their differences directly and exchange rate changes;
3. It is easy to gather information about this standard.(Ashraf Mohamed Douabou, 2006, 27)

Other countries use capital to identify the small and medium-sized enterprises, making it difficult to compare these countries to different exchange rates.

*B. Characteristics and Advantages of Small and Medium Enterprises*

These industries play a significant role in building the national economy and show their importance through the exploitation of capacities and possibilities and the development of expertise and skills as it is considered one of the most important tributaries of the development process.

Despite the controversy over the progress or novelty of small and medium-sized industries, these industries were found to be old because they were the nucleus and the beginning of the manufacturing movement. For example, “United Colors of Benetton” started to work on one sewing machine at the entrance to the architecture He used to gather cloths from the factory and sew them in the form of ready-made clothes.(Mohammed Al-Morsi Lashin, 2004, 16)

The results of these projects are developing and expanding, and they are also new in terms of their acquisition of the greatest interest by those interested in economic, social and developmental issues. Despite this disparity in the order of priority of the small and medium industries, for other industries, they are as follows:

1. The owner of the facility is its owner, who is responsible for the administrative and technical operations, and this status is predominant on these projects because they are of a family nature at times;
2. The absolute size of the capital required for the establishment of small enterprises has declined due to the low volume of savings for these investors in small and medium enterprises;
3. Dependence on primary local resources, which contributes to reducing the cost of production and consequently leads to lower levels of “Capital / Labor Coefficient”;
4. The appropriateness of ownership patterns in terms of capital size and suitability for the owners of these projects, as the decline in capital increases the attractiveness of those who are characterized by low savings on such projects because of the low cost compared to large projects;(Rami Zidan, 2005, 22)
5. Low self-development and expansion due to the negligence of research and development and lack of conviction of its importance and necessity;

6. Improving the levels of savings and investment as a good source of private savings and capital mobilization;

7. Flexibility and ability to deploy due to their ability to adapt to various conditions on the one hand, leading to balance in the development process;

8. Industries are complementary to large industries as well as nutritious to them;

9. The difficulty of marketing and distribution operations, due to the high cost of these operations, and their inability to afford such costs;

10. Lack of an administrative structure, being managed by one person administratively, financially and technically responsible;

11. The cost of job creation is low compared to its cost in large industries.

(Ali Al-Salami, 1999, 47)

It should be noted that the characteristics of SMEs are positive and negative, however, the negative aspects of these projects are not directly related to them, but are related to the problems they face.

It must be emphasized that SMEs can survive for a long time without making profits, but quickly collapse when faced with a critical cash payment that does not accept deferral, therefore, the direct cash flows of such projects are more important than the size of the profit and the benefits of investment.(Hassan, Khader, 20002, 15)

### *C. Role and Contribution of SMEs in National Economies*

The role of small and medium enterprises (SMEs) and their contribution to the economy has traditionally been measured by three main criteria: contribution to employment, production and share of the total number of establishments in the economy.

1. SMEs provide a potential source of competition for large enterprises and limit their ability to control prices;

2. These facilities are the main source of employment in both developed and developing economies;

3. These facilities are essential seeds for large projects, e.g. “Benetton”, “Panasonic”…;

4. These projects are characterized by providing an appropriate working environment where the entrepreneur and the workers work side by side for their mutual benefit;

5. This type of project helps in the development of disadvantaged areas in growth and development, low income levels and high unemployment rates;

6. These projects are fertile areas for the development of innovations and serious ideas. (Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 29)

### *D. Constraints and Problems Facing Small and Medium Enterprises*

The growth and development of the SME sector around the world is facing a range of problems. These may vary from one region to another and from one sector to another, but there are some problems that are common and common problems faced by small and medium enterprises around the world.(Sumaya Lokriz, 2008, 19)

The nature of the problems faced by small and medium enterprises is intertwined with each other. In general, some of these problems are internal. These are problems that occur within the institution or because of the owner, while they are considered external problems if they occur due to the influence of external factors or the environment surrounding them facilities.(Wafa Abdulbasit, 2001, 75)

In reviewing the literature and previous studies in this regard, it is possible to summarize the most important problems facing small and medium enterprises and in general in all parts of the world:

1. Cost of Capital: This problem is directly reflected in the profitability of these projects through the demand of small and medium enterprises to pay a high interest rate compared to the price paid by large enterprises, in addition to the dependence of small and medium enterprises to borrow from banks, which leads to increased cost which you bear;

2. Inflation: in terms of its impact on the rise in prices of raw materials and labor costs, which inevitably lead to higher operating costs, and here these enterprises face a major problem is to face competition from large projects, which prevents them and limit their ability to raise prices to avoid the impact of rising wages and labor prices of materials Initial;

3. Financing: Small and medium enterprises face financing difficulties due to their size (lack of guarantees) and their lack of credit score. Consequently, financing institutions are exposed to a range of risks when financing small and medium enterprises in various stages of growth (Establishment - Initial Growth - Actual Growth - Integration).(Sheikh Fouad Naguib, 2000,14)

Due to these risks, commercial banks avoid providing the necessary financing for these projects because they are keen on depositors' money;

4. Government Actions: This is a growing problem in developing countries, especially in the area of regulations and regulations that concern the organization of the work of small and medium enterprises;(Ali Al-Salami, 1999, 53)

5. Tax: The tax system is one of the most important problems faced by small and medium enterprises around the world, and this problem arises from both sides of both small and medium enterprises in terms of high taxes, which is also a problem of taxes, the tax system is tightened;

6. Competition and Marketing: One of the main problems facing small and medium enterprises, and the main sources of competition are imports and large projects;

7. The Scarcity of Raw Materials: in terms of natural scarcity, lack of storage capacity, the need to resort to imports and changes in exchange rates.(Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 32)

## II. Sources of Financing for Small and Medium Industries

There is no doubt that all industrial enterprises at different levels, whether new

The development of small enterprises is an important key to job creation and to equitable social and economic development, especially for poor and disadvantaged groups and communities.(Hassan, Khader, 20002, 19)

It should be noted here that small and medium enterprises need funding in their lifetime, starting with the establishment and launching of the project, during its development, development and modernization, as well as in the case of the readiness of the project or the industry to move towards export markets. Small and medium-sized enterprises need funding for research, training, market follow-up and production developments, as well as cases in which the project is exposed to any exceptional event.

The sources of this funding can be found in the personal savings of the project owner or the total family savings, in addition to borrowing from commercial banks in the case of need, or the specialized banks in directing the financing to a particular bank, specialized in financing the industrial sector, financing the agricultural sector or other sources Usually in specialized lending institutions, usually supported by the government and official bodies.(Mohammed Al-Morsi Lashin, 2004, 23)

The banking sector in any country in the world consists of:

1. The Central Bank: It is the monetary authority concerned with supervising and supervising the banking system;

2. Commercial Banks:(Wafa Abdulbasit, 2001, 83)

The banking system in any country is based on a group of institutions whose activities are based on the collection of the local savings of the members of the community and their availability to the projects and people who wish to obtain the loans. The banking system, which consists of a group of commercial banks and investment banks, A major responsibility is to save the savings of members of society, and directed towards investments in productive projects.(Rami Zidan, 2005, 39)

Commercial banks also provide short and medium term loans to various economic sectors. Commercial banks' contribution to financing for small and medium-sized enterprises is usually low. It should be recalled here that commercial banks usually resort to short-term and relatively short-term lending, while trying to avoid as much as possible the provision and provision of credit Term projects, SMEs have difficulty in obtaining financing from commercial banks. These projects need long-term credit, which commercial banks often prefer not to use, fearing that they cannot provide collateral Required by the Bank.(Rabah Khouni, 2006, 10)

The limited contribution of licensed commercial banks to providing financing for small and medium-sized enterprises can be explained by several factors:

a. High degree of banking risk associated with lending to SMEs;

b. The inability of these projects to provide the traditional guarantees necessary to obtain the necessary funding, and these guarantees are one of the most important requirements for obtaining credit from commercial banks;(Rabah Khouni, 2006, 20)

c. The size of the bank's profits that may be affected by the higher administrative cost of lending to small businesses;

d. The bias of commercial banks in favor of large enterprises, where they often have common links and interests, take the form of joint management, joint ownership, and joint transactions;

3. Other factors include the lack of preferential treatment for SMEs from commercial banks, both interest rate and repayment periods, weak experience of small businesses in the area of business administration, insufficient knowledge of marketing methods, and inadequate funding structure which makes the paid-up capital in the budget small in anticipation of tax accountability.(Ashraf Mohamed Douabou, 2006, 34)

Commercial banks tend to tend to credit for large projects, often in the area of current accounts and syndicated loans, both of which are targeted because of their low level of risk.

4. Specialized Lending Institutions: The establishment of specialized lending institutions in most countries of the world in response to avoid banks to go to the provision of long-term credit to small and medium-sized enterprises, while focusing its credit activity in the field of short-term loans, for quick profit. Accordingly, it was necessary to establish specialized financing institutions that provide medium and long-term credit facilities to various economic sectors, in accordance with specific terms and methods distinct from those used in banks, in an attempt to contribute to the economic development process and allow various small and medium enterprises to play its important role in the national economy.

a. Financial Institutions and Funds: These are often government-like and somewhat government-like. Governments create and encourage such institutions to support small and medium enterprises, contribute to their development by providing them with the necessary funding, and increase employment and reduce poverty and unemployment.

b. Voluntary Funds and Organizations and Local NGOs: The establishment of these associations and bodies came in view of the urgent need to provide economic and social services to various members of the society and its many sections. These organizations are usually directed to sectors and groups that are limited in advance. (Wafa Abdulbasit, 2001, 45)

*A. Small and Medium Industry Financing Constraints:*

This is due to the many reasons and factors that we will try to review in a nutshell, which are limited to the obstacles faced by commercial banks in providing financing, as well as obstacles to the progress of the financing activity For specialized lending institutions.

Based on the above, the performance of licensed commercial banks in providing financing for SMEs can be attributed to the following:

1. High administrative costs associated with the implementation of these loans.

2. High bank risk for this type of loan compared to normal lending. Banks usually avoid any type of banking risk. Small

and medium-sized enterprises are generally risked to keep commercial banks away.

3. The low and necessary guarantees that banks accept for loans, and this leads to a decline in the volume of credit extended to SMEs.

4. The difficulty faced by commercial banks in their attempt to liquidate the assets of these projects due to their low side, and social considerations from the other side.

5. The limited banking culture of small and medium-sized entrepreneurs has prompted them to move away from banks to obtain the necessary funding for their projects.

(Yousef Tawfiq Abdulrahim, 2002, 18)

The society did not accept these determinants as a justification for keeping banks away from their role in this area, especially since they enjoy a number of advantages:

a. Efficiency, financial solvency and capital efficiency and transparency.

b. Provides adequate infrastructure and wide spread of its branches, ensuring access to most places, and to needy borrowers.

c. Efficiency of its regulatory and accounting systems and follow-up.

d. Owned by the private sector, making them focused on the efficiency and management of viable projects with fairly certain profitability.

e. Stability of their financial resources.

More able to meet the banking needs of this sector, given the diversity of financial services provided (Wafa Abdulbasit, 2001, 53)

*B. SME financing constraints by specialized lending institutions:*

The intervention of the state in any lending institution creates an idea among borrowers that it is the state that works to support and provide loans through that institution, encourages individuals to obtain and use these loans for purposes other than those previously announced upon receipt, Non-compliance with payment, or not considered as a financial obligation to be paid in time.

It should be recalled that the establishment of specialized lending institutions was an attempt to bridge part of the funding gap and to provide financing for each sector in a specialized manner. Since its creation, these institutions have been trying to correct the credit market, but they have not been able to avoid the risks of risk. Loans, and this part of the risk has been managed by commercial banks by placing guarantees as a barrier to financing small enterprises. In general, any financing activity undertaken by any institution, regardless of its nature, must be subject to certain obstacles. These obstacles vary in the variety of lenders. If a commercial bank is a constraint, it is difficult to provide the borrower with the necessary guarantees to obtain Finance. If the lending institution is specialized, the obstacles are not to adhere to the real purpose of obtaining the loan or not to pay. If the lender is a government entity, the borrower treats the loan as a subsidy that is subsidized and does not need to be repaid.(Ali Al-Khader, 2006, 73)

From the point of view of MFIs, the constraints differ from the point of view of small-scale entrepreneurs. The constraints facing MFIs are:

1. Lack of confidence in small project managers, often resulting from the loss of creditworthiness of the project owner by the entrepreneur.

2. Lack of sufficient guarantees to grant funding for the small project.

3. The lack of experience in the basics of banking transactions.

4. Low ability to market products, which negatively affects the project.

The constraints and financing problems faced by entrepreneurs are:

a. The high cost of financing they wish to receive.

b. This is a particularly important point, because the assets of the small enterprise do not provide sufficient security assets to obtain new financing if it is needed during its period of operation in order to continue the production process.

c. The intervention of financial institutions and the imposition of trusteeship on the small project, in the absence of confidence in it, leading to the emergence of problems between funding institutions and small enterprises, especially in developing countries.(Hala Anaba, 2008, 25)

It is worth mentioning here that the opening of local and international voluntary institutions to their work in the field of financing services for small enterprises came to create a balance in the credit policy.

*C. Commercial Banks and Small and Medium Enterprises*

Loans are the main source of financing for small and medium enterprises around the world. These loans are usually originated by commercial banks and therefore have a very important role in the financing of SMEs. The aim of these banks is to maximize their profits, which leads them to seek the highest possible return on their loans, to maintain appropriate reserves and liquidity, and to combine these objectives, usually by finding the borrower who is able to pay a higher interest rate, Looking forward to a high investment with a high return rate. This in turn makes it more difficult for SMEs to obtain loans from commercial banks.(Diaa' Majeed Al-Moussawi, 2003, 14)

The main factors limiting their ability to borrow include:

a. Scarcity and lack of information on borrowing returns and investment in small and medium enterprises.

b. The inability of these projects to pay a high interest rate or a sufficient guarantee.

(Mohamed Heikal, 2002, 18)

*D. Information and Small and Medium Enterprises*

The main problem facing banks and preventing them from providing the required financing for SMEs is the problem of different information in the credit market. This problem shows that the owner of the project is the best who knows about the factors and factors of success and failure of the project from any party, even if the bank, it should be noted that the analysis of financing of this type of enterprises is based on the virtual view of the paucity and scarcity of information available on small projects And medium. This situation does not exist in large enterprises due to the availability of published financial statements. So the bank's problem here is about the Bank's ability and ability to distinguish between a good and bad borrower.(Sheikh Fouad Naguib, 2000,24)

Previous studies have shown that differing information in the credit market leads to so-called "wrong choice" (the hidden type of borrowers) and to moral risk (hidden borrowers' efforts). The wrong choice is defined as the bank's inability to distinguish between two types of good and bad borrowers, creating a poor (bad) borrower with incentives to show himself as a good borrower. The problem of moral risk is that when the borrower's success is mortgaged and linked to a range of efforts that cannot be effectively monitored, the borrower may be seriously ill. But there must be factors that show the real situation of the borrower. The most prominent of these things in this aspect is the size of collateral and interest rate, which have a distinctive role in the design of the contract granting credit. A good lender has the ability and desire to provide high guarantees and pay a lower interest rate for his high confidence in his project and his potential for good success, while the bad borrower refuses to pledge very high value but accepts a high interest rate. These are indicators used to design a credit contract As well as in revealing the truth to the credit staff in banks.(Hala Anaba, 2008, 22)

Hence the importance of guarantees and their role in the provision of financing for small and medium enterprises. Another problem, however, is that one of the most important problems of SMEs is their inability to provide guarantees for appropriate funding. And thus how these projects can provide their financing needs in the absence of banks and guarantees together. Governments had to intervene here to provide a suitable alternative and to put credit risk at risk.(Ali Al-Khader, 2006, 73)

*E. SME Loan Risk*

Banks and financial institutions operate as a financial intermediary between the owners of savings and deposits on the one hand and the users of these funds on the other hand, and the practice of this financial intermediation between the parties shows the relationship in which the credit arises. Credit is a relationship between two parties, the first of which increases its resources to its needs (savings) (Borrowers), and the nature of the relationship that arises between them takes two forms: direct without the mediation of any external party, or indirectly through a third party often banks.(Wafa Abdulbasit, 2001, 52)

The banks' practice of this activity is characterized by many financial risks that have obvious negative effects. These effects are often caused by the non-payment of money lent by banks to individuals for poor economic conditions affecting borrowers. Hence, the bank has to guarantee its right and recover its money so that it can meet. And to recover these funds, the Bank requires guarantees in return for financing for various small and large projects.(Yousef Tawfiq Abdulrahim, 2002, 23)

In order to facilitate access to and development of financing for small and medium-sized enterprises, a mechanism was adopted to ensure the risk of loans granted by banks to these projects in a more practical and secure manner in order to develop and activate the role of small and medium enterprises. On the other hand, this mechanism encourages commercial banks to provide financing for small and medium-sized enterprises and to avoid the banks' cautiousness towards these projects.

The following is a presentation of the international experiences in guaranteeing the risks of loans, the Jordanian experience in its different stages and details in this field, and the achievements of this program and its effects in various aspects. .(Mohammed Al-Morsi Lashin, 2004, 34)

First: International experiences in the field of loan guarantee: Due to the importance of SMEs, and their effective contribution to the national economy, many developed and developing countries have increased the effectiveness and efficiency of these projects, especially in terms of finance, through the contribution or work of creating programs or institutions and companies to guarantee the risks of loans granted to these projects , Some of which were in collaboration between the public and private sectors

1. The reasons for the establishment of micro-credit guarantee programs: Small and medium enterprises suffer from difficulties in arranging their transactions with banks and financial institutions. This has been demonstrated by the tendency of commercial banks and financial institutions to deal with large enterprises because SMEs lack the foundations of banking transactions, The degree of risk in dealing with it. The main reasons for the limited capacity of these institutions to obtain loans from banks and financial institutions are:

a. The decision to grant loans to such projects is subject to a high degree of risk due to the uncertainty of the work of these projects and the high rate of failure and their ability to collapse and faltering due to economic changes in the market, which creates a kind of reluctance in dealing with these projects, In addition to the accompanying reluctance of the same projects in dealing with banks;

b. Banks and financial institutions are trying to limit their work in providing financing for large enterprises and projects, possibly due to the nature of their private relations, in terms of joint ownership, joint management and other linkages;

c. The higher administrative costs of providing financing to SMEs, resulting in an impact on the profit levels of the Bank or the financial institution;

d. SMEs are often unable to provide the necessary accounting data and records to be submitted to the Bank in the event of a desire to obtain funding, in addition to their desire to provide guarantees in order to obtain such financing.(Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 67)

To overcome these constraints and to reduce the obstacles that prevent small and medium-sized enterprises (SMEs) from obtaining the necessary funding, the creation of loan risk guarantee programs was initiated. On the basis that these programs provide guarantees to encourage commercial banks to lend to targeted projects after verifying their economic feasibility.

2. Objectives of Loan Guarantee Programs: Loan risk guarantee programs for SMEs are designed to achieve a set of objectives and can be summarized as follows:

a. Cover part of the losses resulting from any failure of the borrower who can not pay, and in such a case, these programs encourage banks and financial institutions to lend to the owners of these projects.

b. These programs provide guarantees to banks and financial institutions to finance fixed assets, including those directed to working capital financing. This situation varies from one country to another. Some countries guarantee their guarantee programs to provide credit for fixed assets, Money working together.

c. These programs share the risks between the bank, the financial institution and the guarantee institution, providing security for economically viable projects, whose owners cannot obtain funding because they cannot provide the necessary guarantees.

d. These programs reduce the requirements of banks and financial institutions for loans from collateral requirements by the small project borrower, who is often unable to provide these guarantees, which are often conventional.(Yousef Tawfiq Abdulrahim, 2002, 35)

*F. The Experiences of Some Countries in the Field of Guaranteeing the Risks of Microcredit:*

The world has over 70 loan risk programs in both industrialized and developing countries, some of which have been over 50 years old, while others have been operating for a short period of time not exceeding several years. The following is a brief review of a number of international experiences in this area:

*1) The American Experience:*

This program operates in the United States of America through the Small Business Administration (SBA), which was created in 1953, meaning that the American experience is about 46 years old. The loan guarantee program for small and medium-sized enterprises (SME) works by relying on the following three criteria:

A. Size of Establishments

This standard is based on a number of aspects, the most important of which are the number of workers in the project and the annual returns of the establishment.

- Industries employing less than (500) workers.
- Establishments with annual retail sales of less than ($5) million.
- Establishments providing annual services of less than ($5) million.
- Wholesale facilities with fewer than (100) workers.
- To implement construction agreements of less than ($17) million annually.
- Private trade with annual sales of less than ($7) million.
- Farms and agricultural establishments with annual sales of more than (500) thousand dinars.(Ali Al-Khader, 2006, 79)

B. Nature of Establishment: All enterprises are targeted by the SBA, except those that are not for profit, those that are not legal in their practice of any type of activity, speculations on stock exchanges and financial markets, and the financing of various financial institutions.(Yousef Tawfiq Abdulrahim, 2002, 35)

C. Use of Funding: Secured loans are usually used by the SBA to create and establish diversified projects, but loans obtained from existing projects are usually used for one of the following purposes:

a. Purchase of raw materials or assets;

b. Buying furniture and various equipment;

c. Buying land for a residence on which the children live;

d. Improvements and improvements;

d. To finance capital requirements and refinance debt.(Hala Anaba, 2008, 29)

The guarantee provided by this program is usually 90% of the value of the loan, but not more than ($500,000). Note that the guarantee fees charged by the program vary according to the stages of implementation of the loan. 1% of the loan is charged at the time of withdrawal of the loan (which is of course the loan amount). After that, (0.5-2.25%) term of less than (7) years, or (2.75%) for the loan that is longer than that.(Yousef Tawfiq Abdulrahim, 2002, 38)

The sources of funds for this program, as well as income from its various operations and investment operations, are to allow commercial banks to deduct part of the loans secured in the secondary money market, ie banks can sell loan applications in secondary markets, accordingly, funding sources and additional funds are channeled to grant more loans.(Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 72)

*2) Indonesian Experience:*

The Public Institution for Securing Finance and Credit was established in Indonesia in 1971 with a government decision and contribution to cover the risks of defaulting loans to small and large enterprises alike. Through the Bank of Indonesia, a unit was established to provide financing and credit to SMEs in the field of working capital financing only, with a guarantee rate of 75% of the value of the loan, which is worth about $ 15,000. The guarantee rate, 3% of the value of the loan is paid once for loans ranging from 3-5 years, and 1% for loans with duration of less than one year.

*3) The Egyptian Experience:*

In the Arab Republic of Egypt, the bank credit risk guarantee company for small projects was established as a public shareholding company in accordance with “Egyptian Companies Law No. (159) of (1981)” with the contribution of nine Egyptian banks and joint ownership, this was in (1991).

The company aims to encourage and develop small enterprises in various productive and service fields and develop them by facilitating the access of these projects to the bank credit required for the establishment of the project, the development of its performance or the facilitation of its activity, By banks, the company exercises Its work through an agreement signed with thirty-two banks in Egypt.(Hala Anaba, 2008, 24)

The company shall cover (50%) of the required financing value, provided that the minimum value of the guarantee for the establishment is 10,000 pounds and the maximum amount is (700) thousand Egyptian pounds. Accordingly, the company can obtain funding ranging from (20,000-1.4).(Hala Anaba, 2008, 25)

The guarantee period is between six months and five years as a maximum and may be extended, and there may be a grace period. The Company charges 1% per annum of the loan balance or facilitates administrative expenses. The company offers various types of guarantees such as guarantees of doctors, pharmacists, medical centers, analysis laboratories, Social Fund loans and a number of other activities. The loan risk program implemented in this company has achieved great results during the first five years of its work, enabling it to provide financing of LE 697 million, of which the company secured (335) million pounds, and the average value of one loan is 143 thousand pounds for small projects And medium.(Hala Anaba, 2008, 27)

The company's current policy requires that no project be guaranteed unless it is self-financed at (30-50%) of the total investment value Jordanian experience in the field of guaranteeing loan risk.(Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 72)

*G. Small and Medium Enterprises:*

The economic and social importance of the loan risk guarantee program: The main idea of introducing loan risk guarantee programs for small and medium enterprises was to create a balance between the volume of loans directed at small and medium enterprises on the one hand, and large ones on the other, and to reduce the bias of commercial banks and financial institutions in favor of projects Due to the low level of these projects, their ease of dealing with the bank, and the ability to provide the required guarantees, unlike the small and medium enterprises that are unable to provide these guarantees, and to meet their obligations.

Available information on the activity of commercial banks in Jordan shows how limited the share of SMEs in the total credit volume provided by these banks is compared to the volume of credit extended to large enterprises.(Wafa Abdulbasit, 2001, 59)

Hence, the interest of the loan guarantee program implemented by the Jordan Loan Guarantee Company has come to support small and medium-sized enterprises with economic feasibility, given the importance of this sector and its contribution to the national product. By supporting the financing of small and medium enterprises, the company seeks to achieve a set of economic and social objectives which are as follows:

1. Encourage meaningful investment;
2. Increase the productive capacity of small and medium-sized enterprises to enable the Jordanian economy to become more dependent on local production;
3. Increasing the production capacity of these projects will reduce dependence on foreign imports and the consequent provision of part of foreign exchange reserves;
4. Encouraging local production through these projects and increasing it to make it look for foreign markets to market their products, which will lead to increasing Jordanian exports and enhancing the status of foreign exchange reserves;
5. Working to provide funding for these projects is working to reduce the unemployment problem and contribute to creating more job opportunities;
6. The aim of the project is to promote the development of remote areas, which will lead the company to support projects outside the Municipality of Amman, in line with the objective of creating balanced development throughout the Kingdom;
7. To increase the role of women and their contribution in the economic field, by encouraging and encouraging projects owned by Othadha;
8. Therefore, interest in the projects targeted by the loan guarantee program comes from the fact that these small and medium enterprises are important and important in all aspects of economic life in Jordan. (Saleh Al-Ameri, Mahdi Al-Ghalbi, 2008, 72).

*H. Jordan Loan Guarantee Company*

The Jordan Loan Guarantee Company was established as an executing agency for the loan guarantee program with a capital of KD (10) million in (1994).(Hala Anaba, 2008, 25)

Accordingly, it aims at achieving a set of goals and objectives:

1. To provide the necessary guarantees to cover the risks of small and medium-sized enterprises loans granted by banks and financial institutions participating in various periods and types of coverage in whole and in part, aimed at establishing or expanding economic projects in order to raise their productive and marketing efficiency, Foreign exchange savings;
2. Providing the necessary guarantees to cover the risks in the field of Jordanian export credit in any economic sector in general, in any sector or in the interests of the company in particular;
3. For the return of the guarantee and to obtain a guarantee against all of the risks related to the loans that the Company undertakes to cover;
4. Provide warranty operations for the account of the private company and other entities;
5. Conduct economic feasibility studies and evaluate projects, as well as studies necessary to perform the company's work, and review and adjust their policies in line with the development of various economic sectors in Jordan;

6. Develop or modify innovative and innovative tools or tools, and train them in various areas related to the company, including the development of means or tools to ensure financing operations that comply with the provisions of the Islamic Shariah, and to achieve the goals and objectives of the company. .(Fathi Abdulsayed, 2005, 43)

*1) Mechanism of work in the loan guarantee program implemented through the Jordan Loan Guarantee Company:*

As the nature of the company's work and its implementation of the loan guarantee program is closely linked to the commercial banks, by guaranteeing the credit extended by these banks to the different borrowers, there has to be a framework that defines and regulates the relationship that arises between the company as an executing agency to guarantee loans from Banks, Inter-Commercial Banks A guarantee agreement has been concluded between the company and the banks participating in the umbrella of the guarantee, specifying the duties of the company and the duties of the participating bank, and also specifying the fees and the ceiling of the guarantee and the claims of the value of the guarantee, the acceptable and unacceptable projects, Targeted projects. The agreement also contains other general provisions and detailed annexes regulating the relationship between the company and the participating bank.(Mohammed Al-Morsi Lashin, 2004, 47)

Conclusion

1. Poor SME capacity to provide required financial data.
2. Weak credit capacity in these projects.
3. Lack of a culture of borrowing among SME owners.
4. The prevailing banking systems and the role of small and medium enterprises play a handicap in financing operations
5. The inflexibility of the banking operations system with regard to the nature of guarantees required from SMEs.
6. The inflexibility of the banking system in relation to interest rates applied to loans granted to small and medium enterprises.
7. The inflexibility of the banking operations system in relation to the subject of commissions applicable to SMEs.
8. The inflexibility of the banks' system of operations with respect to the repayment terms of loans granted to SMEs.
9. The lack of a specific definition of small and medium enterprises in Syria, which hinders the existence of a legal and legislative framework regulating the work of these projects.
10. The lack of confidence between the bank and the client due to the lack of awareness of the client to the extent of commitment to pay the amounts due on time, prompting banks to follow multiple methods in the study of collateral and other confirmations, which affected the ability of the project owner to obtain the necessary funding.
11. The high risk of financing these projects, which is due to a number of difficulties and obstacles to the collection process
12. Banks rely on short-term financing at the expense of the medium and long term, where most projects need more than short-term financing, especially projects under construction

Suggestions

1. Encourage banks to finance small and medium-sized enterprises at low interest rates by granting them financial concessions as tax exemptions on the profits earned from their financing activities.
2. Adapting the banking system to the current needs and developing financing methods and tools to suit the nature of small and medium enterprises.
3. A fund that provides appropriate financing for small and medium enterprises and participates in the capital of these projects to avoid the risks of non-payment.
4. Establish a specific specialized entity responsible for developing an integrated program to support existing and new SMEs and provide appropriate mechanisms to assist them in obtaining the necessary funding.
5. Encourage the establishment and provision of specialized companies in the marketing and export of small and medium enterprises products to provide self-financing.
6. Establishing an information bank that provides a database of everything related to the establishment and establishment of small and medium enterprises where they can be continuously fed by new employment opportunities, legislation and developments.
7. The allocation of part of the state budget to support institutions and bodies of microfinance and medium, and develop the work of these institutions according to the plans of the future state.

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