

The Role of Jordanian Financial Institutions' in Supporting Entrepreneurial Success and Cope Up the Challenges

Ahmad A. Al-Naimi¹, Ghaith N. Al-Eitan², Laith Fouad Alshouha³

¹Assistant Professor Department of Finance and Banking Sciences, Faculty of Business, Applied Science Private University, Al Arab st. 21-Amman –Jordan A_alnaimi@asu.edu.jo

²Associated Professor of economics and Finance at Finance & Banking Department, Faculty of Economics & Administrative Science, Al al Bayt University.

Mafrqa 25113-Jordan Ghaith.eitan@aabu.edu.jo

³Phd student in University Malaysia Terengganu laihalshouha@gmail.com

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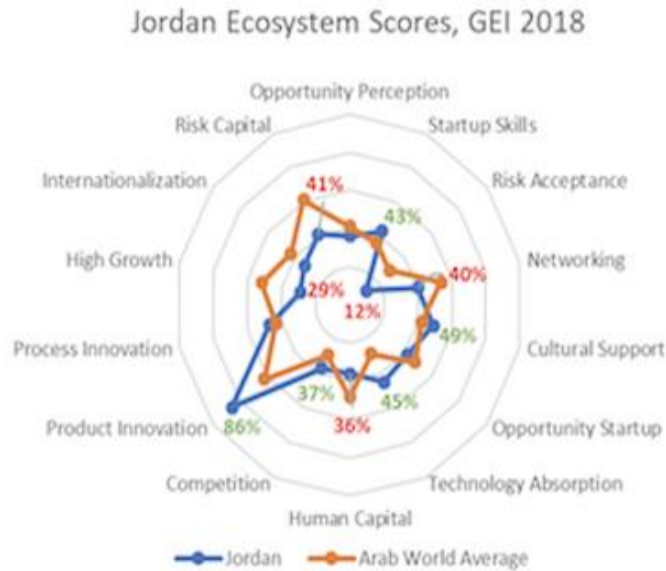
Abstract

Current study investigates the role of Jordanian financial institutions for supporting entrepreneurial success in the country. For this purpose, the study focuses on various tools implemented by Jordanian banks listed on Amman stock exchange to highlight their contribution in supporting entrepreneurs starting their work and attaining SDG (sustainable development goals). The study reports different documents and academic literature for determining various types of financing instruments offered by financial institutions for sustainable development of entrepreneurs. Moreover, instruments, financial policies and financial services of Jordanian banks are reviewed that offer support to entrepreneurs. The study also reports various types of challenges faced by entrepreneurs. It also highlights the role of relationship among financial institutions and other agencies in providing financial support to Jordanian entrepreneurs in different economic sectors.

Keywords: Entrepreneurship, Financial Institutions, Banks, Financial Support, Technical Support, Jordan.

Introduction

Global experience indicates that job creation is stimulated in the economy through entrepreneurship, while the extent of entrepreneur success is driven by the development of an underlying ecosystem. Jordanian government has been encouraging entrepreneurship to accelerate the pace of job creation. Hence, entrepreneurship ecosystem has been emerging in Jordan, over the last decade, but various key challenges hinder its connectedness and growth. Jordan's ranking has been improved in the Global Entrepreneurship Index (GEI) during last year's and attained a score of 37% which is equal to the average score of Arab region. Still Jordan outperforms the Arab region in many indicators like technology absorption, product innovation, competition, cultural support indicator and startup skills. On the other hand, it lags in risk capital, high growth, risk acceptance, human capital and networking (Abukumail 2019).



Source: (Abukumail 2019).

According to the Global Entrepreneurship Monitor, various fundamental factors mentioned as EFCs (Entrepreneurship Framework Conditions) significantly influence entrepreneurship activity in any economy. Global Entrepreneurship Monitor’s Entrepreneurship Framework Conditions incorporate entrepreneurial finance, government policy, government entrepreneurship programs, entrepreneurial education, R&D transfer, commercial and legal infrastructure, entry regulations, physical infrastructure and cultural and social norms as significant factors that directly or indirectly influence entrepreneurship activity in economies. Entrepreneurial success or failure depends on the accessibility of financial resources like debt, equity, grants and subsidies, the degree to which government policies provide support to entrepreneurship in terms of relevant policy issues and taxes and regulations encouraging new firms, quality and accessibility of programs assisting new firms at various levels, the extent of education and training about establishing new businesses, incorporated the education system of the country, the extent of national R&D leading to novel commercial opportunities, the presence of legal institutions and services supporting new businesses, presence and implementation of entry regulations for entrepreneurs, accessibility of physical resources and cultural and social norms that encourage or discourage individual activities supporting new economic and businesses activities (Arabiyat, Sandri and Alkhatib 2017). Such factors are considered to work well in economies with sound institutional and political frameworks while Jordan faces potential macroeconomic challenges and regional political instabilities which results in critical challenges faced by entrepreneurial firms in Jordan.

Current study focuses on key challenges faced by entrepreneurial firms while establishing their enterprises in Jordan, and the role of Jordanian banks as financial institutions providing supporting to cope up such challenges and achieving success. In order to identify such challenges, the study also highlights the importance of entrepreneurship in Jordanian economy and how governmental and non-governmental institutions provide support for establishing new businesses.

Research Objectives

The study focuses on the key challenges faced by entrepreneurs while establishing their small and medium enterprises (SMEs) and the role of financial banks to cope up such challenges and enabling entrepreneurs moving towards progress and growth. The study aims at highlighting the obstacles impeding entrepreneurial activities in Jordan, so that obligatory measures could be taken for improving entrepreneurial environment and establishing a financial supporting system for them. Moreover, current study aims at highlighting available sources for young entrepreneurs to finance their businesses in Jordan.

Research Question

Aiming at exploring the key challenges faced by young entrepreneurs and the available support for them, current study seeks answer to the following question:

What are the key challenges faced by Jordanian entrepreneurs while starting their projects in Jordan? And how do Jordanian financial institutions provide support to them?

The study investigates the above mentioned question in following ways; it defines the term “entrepreneurship”, and then highlights its importance in Jordan to prove the importance of exploring certain issues and need for working on these. The study also offers a conceptual framework and explores entrepreneurship in Jordan to highlight the initiatives, laws and relevant programs aiming at providing support to young entrepreneurs in Jordan. Study also explores previous literature to find arguments on the concerned matter and presents a research model that incorporates an explanation of financial resources available for the entrepreneurs. Study also provides recommendations to help mitigating the issues and improving supporting resources for creating a more supportive entrepreneurial environment.

Entrepreneurship and Its Significant Role in Economy

In order to highlight the challenges and supporting systems of entrepreneurship, it’s necessary to understand entrepreneurship first. Although there is no unified definition of entrepreneurship, but scholars provide various explanations of the term that help understanding its meanings.

Hattab (2014) defines entrepreneurship as apprehending a novel opportunity of added value and taking necessary actions to avail it regardless of creating a new venture. Such definition focuses on creations and innovations in existing systems rather than focusing on just new venture developments. Metawea (2020) defines entrepreneurship as people capable of realizing and evaluating business opportunities, gathering the required resources for taking advantage of them, and initiating appropriate actions for ensuring success. Above mentioned definitions indicate that entrepreneurship is not merely establishing new ventures but also realizing and availing new opportunities in the existing system and making efforts through available resources for ensuring success.

Lacking Financial Resources

Mkhaiber and Werner (2021) indicate that lack of financial resources is one of the major constraints in SMEs development, while new projects and ventures require certain resources for their success. One of the major hindrances is finding sufficient sources of funds other than self equity, family and friends. SMEs in most of the developing and emerging economies face such constraints of lack of resources. Dar, Ahmed and Raziq(2017) indicates lack of financial resources as one of the major constraints in Indian and Pakistani economies, while Shen et al. (2009) also indicated lack of funding as a major constraint in development and growth of Chinese SMEs. Most of the SMEs are labor based and they have to bear labor cost for successful operations, but lack of financial resources leads them moving towards reducing labor costs which eventually effects their operations.

The Role of Jordanian Government in Sustaining Entrepreneurial Success

Government of Jordan is well aware of the fact that entrepreneurship accelerates the rate of job creation in economy, that’s why Government of Jordan encourages entrepreneurship (Abukumail 2019). Government of Jordan has accelerated economic reforms in recent years aiming at boosting private participation and investments in many projects. Due to such reforms, Jordan’s financial services sector in general and banking sector in particular has been a major source of strength for economy. Jordan has made significant progress in key areas while reducing its fiscal deficit. Jordanian government is focusing on Jordan Economic Growth Plan 2018-2022 which aims at improving business environment in the economy (OBG, 2021).

The government of Jordan, along with other financial institutions of the state, large enterprises and non-governmental organizations (NGOs) focuses on supporting entrepreneurship and growth of small and medium sized entrepreneurs, but still there is a room for improvement in this focus (Bawaneh and Al-Abbadi 2017). The government of Jordan along with World Bank facilitates the participation of Jordanian entrepreneurs at international forums. In May 2019, Jordanian government introduced Ministry of Digital Economy and Entrepreneurship for supporting digital entrepreneurship, digital skills development and electronic payments. Moreover, government of Jordan has taken critical steps for supporting and flourishing

digital economy through endorsing PPP model to expand national broadband network, providing digital skills development to youth, launching a government e-payment plan, and supporting access of entrepreneurs to global markets and growth finance (Abukumail 2019). For supporting digital economy development in the Mashreq region and in Jordan, the Government of Jordan hosted digital Mashreq Forum in June 2019 at Amman. The event served as a platform for discussing the role of digitalization for shaping region's business future. The forum provided a networking opportunity for entrepreneurs in Jordan to make business relations with local and global investors (AbuKumail 2019).

Jordanian government with the support of EU finalized National Entrepreneurship and SME Growth strategy while such policy agendas by Jordanian government are highly influential by the increased number of refugees from Syria and Iraq. Jordanian government is also focusing on implementing a long term strategic plan; Jordan 2025: A National Vision and strategy. The main focus of this program is to improve the business environment and enhancing the accessibility of capital for SMEs. The SME strategy of Jordanian government incorporates a complete policy framework with six strategic pillars: 1) entrepreneurship culture building and awareness, 2) more favorable regulatory and legal environment, 3) business development services and entrepreneurial skills, 4) access to funding 5) technology and innovation development and adoption and 6) access to markets (OECD 2020).

Jordanian government focuses on improving the regulatory frameworks and eliminating administrative burdens for entrepreneurial firms and SMEs. For this purpose, Jordanian government has established SME policy index 2014 which is concerned with the facilitation of practices necessary for creating new enterprises. Moreover, the efficiency of business registration process is improved by the Companies Control Department and the Ministry of Industry and Trade by implementing a Local enterprise support project established by USAID. In April 2018, a legal framework naming Reorganization, Bankruptcy and Liquidation was established for distressed companies (OECD 2020).

Jordanian government is continuously working on enhancing business environment through implementation of donor sponsored projects for establishing an SME test and a regulatory impact assessment. In terms of access to finance, a new credit bureau CRIF was launched during December 2015 which provides necessary information about individuals and businesses provided by microfinance organizations, financial institutions, public agencies and insurance companies. Another development in terms of access to finance is the Government Development fund (GDF) that has supported almost hundred projects since 2019. Jordan has achieved progress in the policy area of SME growth and nurturing entrepreneurship that results in the extension of business support services (Alharbi 2020).

The government of Jordan also invests in entrepreneurial human capital through investments in entrepreneurial education and learning. Entrepreneurial learning promotion is an important part of Jordan economic growth plan for 2018-2022. Government makes collaborations with private and non-governmental organizations and the Ministry of Education, to run entrepreneurial education programs at various institutional levels, while women's entrepreneurship training is also among the top priorities of Jordanian Government (OECD 2020).

Entrepreneurial Financing Sources

Some popular financing sources for entrepreneurs are as follows:

Financial Bootstrapping

The term of financial bootstrapping is used to indicate various methods adopted for avoiding the use of external investors' financial resources. It incorporates risks for the entrepreneurs but provides more freedom for venture development. Financial bootstrapping methods include sweat equity, owner financing, joint utilization, minimizing accounts payable, minimizing inventory, subsidy finance, and personal debt and delaying payments.

External Financing

Some useful external financing sources are; venture capital, angel investment, crowd funding, alternative asset management, hedge funds etc. Another external financing source is the private equity earned through buyouts, growth and turnaround investments in typical industries and sectors.

Business Angels

Business angels are the private investors who invest their time and money at early stage of innovative companies. Mostly, angel investments exceeds many times than the venture capital.

Venture Capital

Venture capital is the technique of corporate financing through which financial investor participates in the capital of young or new private firm in terms of cash or strategic advice. Such investors look for companies having low leverage capacity, fast-growth potential and high performing management. Venture capitalists expect to sell their stake at any point of time when they may get higher returns by taking the risks of making investments in new ventures.

Buyouts

Buyouts are the type of corporate finance used for changing the ownership or the kind of ownership through different means. Once the company is freed from regulatory and other burdens of being a public firm, the main focus of buyout is to explore the means for building such value. Such focus may incorporate selling non-core assets, refocusing company's mission, uplifting product lines, replacing management and streamlining processes.

Leveraged Buyouts

Leverage buyouts incorporate an amalgamation of equity and debt financing for enhancing the company value through adding substantial amounts of debt to company's balance sheet.

Management Buyouts

Management buyouts (MBO), Buy in management buyout (BIMBO) and Management buy in (MBI) are various kinds of sponsored management teams through private equity when the purchaser identifies an opportunity that has excess value than the team's wealth.

Other Financing Sources

B&B (buy and built) is the acquisition of different small firms for creating a new leader, Recaps; re-leveraging of a firm that has paid much of its leverage buyout debt, SBO(secondary buyouts); is the sale of LBO firm to any other private equity company. P2P,(Public-to-Private); is the takeover of a public organization being punished by the market for not reflecting its true value in its price.

Financing Sources for Jordanian Entrepreneurs

Accessibility of financing sources is among the significant factors contributing in entrepreneurial success. Global Entrepreneurial management (2017) reports that entrepreneurs in Jordan are less likely to gain public offerings and crowd funding while debt financing is likely to be more available for them. It indicates that there is a well developed and sound banking system in Jordan.

Various institutions provide funding to micro, small and medium enterprises in Jordan including private institutions, commercial banks, governmental financial institutions and non-governmental organizations (NGOs) (Schiff, Schmidt and Troncoso 2015).

Jordanian economy has various initiatives of financing MSMEs (micro, small, medium enterprises) which incorporate;

- Loan guarantee schemes (Jordan loan guarantee fund, Jordan loan guarantee corporation),
- Microfinance providers/programs (development and employment fund),
- JEDCO (government grant and subsidy scheme),
- Angel investor networks and venture capital funds (capital for growth fund, Oasis 500, Badia impact fund, Bedaya angel network),
- SME banking window of JEDCO
- Donor funded projects (World Bank project for enhancing banking systems' capacity for expanding SME lending).

Microfinance for SMEs

USAID (VITAS-JORDAN)

It initially started as a program for global communities to bring microfinance for southern Jordan. In order to cope with the increasing demand from communities it has been transformed into an institution; Middle East micro credit company (MEMCC), serving people across Jordan.

Tanmeyah-Jordan Microfinance Network

It mostly provides micro finance to women with a gross loan portfolio of more than \$158 million with more than 0.26 million active borrowers.

The National Microfinance Bank-KAFD

Jordanian government welcomed Saudi prince Talal bin Abdul Aziz's project for establishing fund in Jordan as a regional initiative commenced by AGFUND(Arab Gulf Program for United Nations Development Organization) under the umbrella of KAFD. It has managed providing almost 20 thousand loans to Jordanian citizens.

Banks

The Central Bank of Jordan

The central bank of Jordan makes provisions for commercial banks and facilitates those initiating loans to SMEs. Central bank of Jordan also provides several privileges to commercial banks for using services offered by Jordan Loan Guarantee Corporation. Commercial bank's assets used for loans are considered as preferred assets by central bank of Jordan and weighted average of capital adequacy is also reduced by the central bank.

Commercial Banks

Banks are among the significant sources of finance or SMEs but unfortunately Jordanian banks provide less loans to SMEs i.e. 11% as compare to the 25% of emerging markets. Large disparities prevail in terms of access to the credit through the size of firm.

Jordan Commercial Bank

Jordan commercial bank is among the most significant financial institutions supporting SMEs by providing direct and indirect credit facilities to SMEs. The bank offers financial services to SMEs through specialized business departments working in different branches across the country.

The Housing Bank of Trade and Investment

The bank has established specialized departments relevant to small and medium enterprises for providing all necessary competencies. The bank provides a variety of banking services and has adopted flexible banking policies in favor of SMEs for responding according to their needs and requirements.

Al Ahli Bank

Al Ahli bank in partnership of International Financing Corporation helps the small and medium sized corporations in acquiring necessary skills required for expanding and growing their businesses and creating jobs in economy. Jordan Ahli bank has also launched SME Academy unit for providing business workshops, seminars, training sessions to entrepreneurs, SME founders and other business professionals.

Banks with International Partnerships

Some banks in partnerships of some international corporations have also launched some financing schemes for small and new businesses in Jordan. Like Bank Al Etihad, Cairo Amman Bank, Capital bank of Jordan, Invest bank and Jordan Ahli Bank in cooperation with international financial institutions like European bank for reconstruction and development (EBRD) and international finance corporation (IFC) offer financing services to entrepreneurs and SMEs in the country.

Challenges for Entrepreneurs

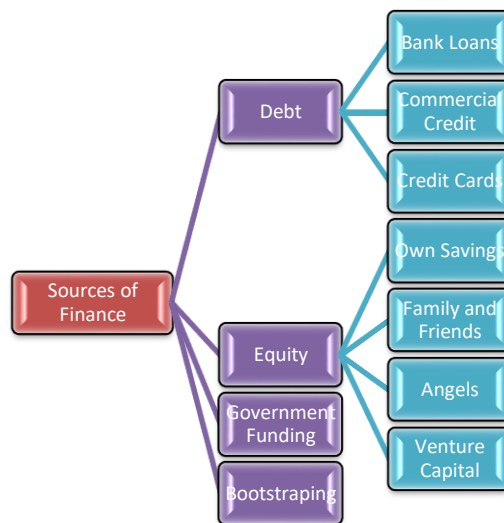
Entrepreneurs in Jordan have to face many challenges for starting a new business or availing a new opportunity. One of the major challenges faced by Jordanian entrepreneurs is weak entrepreneurial culture because Jordanian youth is encouraged to do jobs rather than doing their own businesses. Another important challenge is the lack of innovation, entrepreneurial and management skills in youth; because most of the Jordanian SMEs are family owned and lacks financial, management and strategic planning skills. Mostly new businesses are started by entrepreneurs having limited entrepreneurial knowledge. Although government has started many initiatives to facilitate entrepreneurial education and learning but these are still insufficient.

Most of entrepreneurs and SMEs are established through self financing or through family and friends, so having limited growth potential. Banks in Jordan have started many initiatives for providing loans to SMEs

and new ventures but still their lending capacity is less than the requirement of entrepreneurs and SMEs. Moreover, bank loans incorporate rigid guarantee requirements even guaranteed by Jordan Loan Guarantee Scheme. Accessibility to finance is a major challenge especially for women and young entrepreneurs because of lack of collateral, credibility and track record.

Today's dynamic business environments require innovations and new technology adoption, but SMEs lack such innovations and technology adoption because of scarce resources. Therefore, they also remain incompetent with rapidly changing business environment and their growth potential is affected. Moreover, entrepreneurs and SMEs face difficulty in accessing new markets due to the scarcity of required knowledge and information about consumer and regulatory requirements of market. Most SMEs directly sell to the end users are do not become a part of supply chains of large enterprises. Entrepreneurs and SMEs have to face legal, administrative and regulatory challenges as well. Cost, time and complexity of registering a firm, gaining required licenses and dealing with initial costs puts inconsistent burden on new ventures and small businesses.

Research Model



Source: The Researcher

Recommendations and Conclusion

Entrepreneurship is a significant source of job creation, growth and innovation for Jordanian economy. Strong and dynamic entrepreneurial sector can open new areas of development and growth for whole economy and can break the traditional boundaries of businesses in economy. There is a significant strong relationship between entrepreneurship and economic growth that is indicated by the global entrepreneurship index and global entrepreneurship monitor. Although Jordanian government and private sector offers many facilitations for entrepreneurs and SMEs development, but still there is a wide gap that can be filled through focusing on new ways and strategies for easing the ways for establishing new businesses for entrepreneurs. Some recommendations are as follows:

Changing Entrepreneurial Mindset

The initial and most important need for establishing an entrepreneurial environment in Jordan is to change the mindset of Jordanian public. Most of them are encouraged to do jobs, so they should be motivated going towards new ventures and realizing and availing novel business opportunities. There is a need for developing risk taking attitude in Jordanian youth so that they can move for new opportunities.

Knowledge Infrastructure for Entrepreneurship and Innovations

Innovation and value creation are among the most important components of entrepreneurial success, but both require significant and sufficient knowledge to be the positive contributor of entrepreneurial success. Government, although already working on knowledge and learning programs about entrepreneurship in

youth, but still such programs require to be implemented on large scales. Youth should be made aware of the need and benefits of entrepreneurship. Jordanian youth is no doubt consisted of knowledgeable academicians and researchers but their knowledge does not find exposure to national or international levels. Thus their ideas remain limited to their academic world. They should be given opportunities for implementing their ideas through proper channels, commercializing them and contributing in the economy.

Skills Development

Along with technical knowledge, managerial skills should also be incorporated to the entrepreneurs for properly managing their entrepreneurs and new ventures. Entrepreneurs equipped with necessary managerial skills and knowledge can flourish their businesses very well and can be a significant contributor of economic development.

Sufficient Support

Governmental and non-government institutions provide support to new ventures, entrepreneurs and SMEs, but all of them are working in their individual capacities. There is a need to coordinate governmental and non-governmental support systems so that the resulting strategies would be in sufficient favor of new businesses and would fill the gap of inefficiencies in support system.

Financial Support

Funding is among one of the major constraints faced by major new businesses. But in most cases, funding sources are available but they not adequately advertised, hence the lack of information about adequate sources of finance creates a gap for dissemination of financing to the potential beneficiaries. Funding networks are required to be developed for facilitating the accessibility of sufficient funds.

Knowledge Based Economy

Knowledge is one of the significant factors of production that shapes the future orientation of economic growth. Along with traditional manufacturing processes, that is necessary for the support and growth of production processes, the infusion of knowledge in existing and nascent businesses results in growing ventures, value adding products and highly innovative businesses. Jordan requires being knowledge based economy.

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