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THE ROLE OF ISLAMIC MICROFINANCE IN THE ECONOMY OF JORDAN

This study aimed at determining the impact of Islamic microfinance on the Jordan Economy through diagnosing its impact on developing the SMEs, measuring the efficiency and productivity levels, and the relative changes in Production Factors Prices in such enterprises in such SMEs. This study is used the econometric method. The study found that SMEs financed by Islamic banks still less capable comparing to other specialized institutions in creating job opportunities. The results showed that SMEs financed by the Islamic banks achieved the lowest economic efficiency, SMEs funded by specialized institutions have more productivity, finally the response rate of SMEs financed by Islamic banks to the prices changes of the production factors is greater than other enterprises in the economy.

Keywords: Islamic Microfinance, Jordan Economy, Employment Efficiency, Productivity, SMEs.

1.1 Introduction:

The Islamic finance was practiced predominantly in the Muslim world through the middle ages, when the role of the Islamic state overtopped in the world economic system. The actual history of the application of Islamic banking dates back to the early 1970s, after the launch of the first international conference on Islamic economics in the United Arab Emirates, followed by establishing The Islamic Development Bank (IDB) in 1975. Many countries adopted the establishment of Islamic banks that were opened, mostly in Egypt, Sudan, Kuwait and Bahrain.

The basis for all Islamic finance lies in the principles of the Shariah, or Islamic Law. Central to Islamic finance is the fact that money itself has no intrinsic value. As a matter of faith, a Muslim cannot lend money to, or receive money from someone and expect to benefit: interest (known as *riba*) is not allowed. To make money from money is forbidden – wealth can only be generated through legitimate trade and investment in assets, and the use of disposable money in a productive manne¹.

Money must be used in a productive way. Islamic believe that instead of a fixed reward there will be a variable reward based on actual return. In this sense in the Islamic system depositors are entitled to share the bank's net profit (or loss) according to the profit-loss-sharing (PLS) ratio stipulated in their contracts. In case of loss the quantity of the deposits can be reduced. Depositors then are somehow like shareholders, who earn profit when the bank turns a profit and lose a part of their savings if it posts a loss. However, depositors do not have voting right and they do not own any part of the equity of the bank.

Financial contracts are based on a PLS principle. Profit sharing is an incentive for both the borrower and the lender to work together to ensure the success of its business venture. Under this idea financing can be equally available to anyone with a productive project. Thus the return of financial and real capital financed will depend both on productivity and on the soundness of the project. The Islamic financial system facilitates lending, borrowing and investment functions on a risk-sharing basis. This allows market forces to determine the productivity of capital rather

¹ Onakoya, A., Onakoya, A. (2013). The performance of Traditional and Islamic banks in the United Kingdom: A comparative analysis. *Journal of Finance and Economics*, Vol. 4, No. 3, 74-87.

than fixing it in priori basis as an "interest rate" through the free market mechanism that encourage speculative use and hoarding of capital.

Though representing only a small portion of the global assets, the Islamic finance market has been growing over 20% annually and is set for continued growth. The volume of Shariah (Islamic law)-compliant assets grew by an average of 28%, rising to over \$1 thousand million in 2010 from \$822 million in 2009. The industry has also continued to expand in terms of the number of institutions. According to the latest figures, the number of Shariah-compliant institutions has reached to 435, with a further 191 conventional banks having Shariah divisions, and targeting non-Muslims also in their preference for this area of finance¹.

Islamic banks still seek to improve and develop their banking business in the light of the financial development witnessed by the international financial sector, they are also trying to adapt to these developments by developing the processes of organization, supervision, implementation methods and practice principles, and performing institutional changes, So as to be able to compete in the international market, and to provide products that meet and promote the needs and desires of depositors and investors alike².

2.1 Literature Reviews:

SMEs are widely recognized as engine of economic growth and key contributors to the sustainable gross domestic product (GDP) of all countries, including developing and emerging economies³. SMEs play an important role in creating employment opportunities for both skilled and unskilled workers across many sectors, including manufacturing and service. However, higher costs and strict regulatory environments do not support SME growth and access to finance in the countries they operate⁴.

It is clear that access to financing is a major issue for the SME sector, especially in Muslim countries. SMEs either do not use conventional financing or only use limited financing due to religious reasons and sentiments. SMEs that do not use available finance due to religious reasons represent a new funding potential for Islamic finance over the next few years. The funding shortage is most acute in countries where local SMEs won't consider conventional banking alternatives. In Saudi Arabia, for example, up to 90% of SMEs are specifically looking for Shariah-compliant banking services, which means a large chunk of them are effectively shut out of the lending market because they are not open to non-Islamic finance. Most banks also avoid regional SMEs, regardless of their religious affiliation, because average SME loans yield relatively low returns and the industry has poor regulatory environments. Islamic financial institutions needs to target this cash deficient SMEs⁵.

SMEs approach banks largely for working capital requirements or asset financing. Even though several products and structures are in place, the sector continues to be underpenetrated by Islamic banks. There is significant potential for Islamic banking products in the SME sector largely due to the religious orientation of many of these companies, especially those operating in rural areas. Banks should look at targeting smaller customers with retail-based offerings and larger customers with more corporate and sophisticated banking services⁶.

¹ Waked, B. (2016). *Access to Finance by Saudi SMEs: Constraints and the Impact on their Performance*. PhD Thesis: College of Business.

² Onakoya, A., Onakoya, A. (2013). The performance of Traditional and Islamic banks in the United Kingdom: A comparative analysis. *Journal of Finance and Economics*, Vol. 4, No. 3, 74-87.

³ Chittithaworn, C., Islam, A., Keawchana, T., Yusuf, D. (2011). Factors Affecting Business Success of Small & Medium Enterprises (SMEs) in Thailand. *Asian Social Science*, *mujo* (7) 5, 180-190.

⁴ Nsour, I. (2009). Measuring The Efficiency of Public Microfinance Oriented to Developing SMEs In Jordan. *Arab Journal of Administrative Sciences*, no. 3. Kuwait.

⁵ Moruf, O. (2013). Evaluation of the Nigerian Microfinance Banks Credit Administration on Small and Medium Scale Enterprises Operations. *International Review of Management and Business Research*, no. 2(2).

⁶ Karim, N., Michael, T., Xavier, R. (2008). *Islamic Microfinance: An Emerging Market Niche*. Report. CGAP.

The increase of Islamic Bank Financing is expected to improve business performance as stated by Gronroos (1990)¹, that the stronger the relationship between small businesses and the bank then will make the better performance. In addition to improving business performance, Islamic bank financings are expected to take effect in improving the SME's well being. So, after getting Islamic bank financing, it is expected venture capital or infrastructure of agribusiness SMEs are fulfilled in facilities, so they can improve performance in performing activities of production to marketing its products in order to achieve growth in assets and profitability. Agribusiness is a business in which agriculture can also be judged performance, which included assets, income, sales and prices.

Based on the data of the main problems of SMEs, hence their lack of capital will reduce the ability of agribusiness in providing raw materials, and this will have an impact on the lack of creative ability or in product innovation. Therefore, it is needed the fulfillment of financing capital including Islamic bank. If SMEs are still experiencing problems such as raw materials, marketing, capital and the other then its business performance will decline. This is due to businesses that lack of capital. Lack of capital will had an impact to difficulty in providing raw material, innovation, etc. So that sales, profits and assets of the business as an indicator of business performance will also decrease.

The Other studies, especially those dealing with Islamic finance, aimed at finding out the impact of this financing on a set of macroeconomic variables ,particularly the rate of economic growth, the volume of domestic investment and the inflation rate. The results of these studies have confirmed the positive and strong impact of Islamic finance in promoting growth in local economies. There are many studies have examined the impact of financial constraints on SMEs, and found that these constraints have clearly affected the profitability of SMEs and have clearly reduced them. Other studies have also examined the impact of Islamic banking on the entrepreneurial motivation, competitiveness and performance of small enterprises. These studies have confirmed the positive impact of the Islamic banking on both the entrepreneurial motivation and the level of competitiveness of the small enterprise, while it is clear that Islamic banking does not affect small enterprises.

For instance, there are a statistically significant positive relationship between Islamic finance and GDP, domestic investment, and economic growth². This means that the Islamic finance contributes significantly to the promotion of the economic activity and it supports the process of economic development. The study confirmed that the statistical significant negative correlation between Islamic finance and inflation rate which that the Islamic finance enhances the production of goods and services in the economy field leading to a decline in the general price level.

The Islamic banking is positively associated with economic growth even after controlling for various determinants, including the level of financial depth³. But the bank for international settlements (2014) shows that start-ups which report finance as their greatest constraint receive smaller new loans and evidence that financing constraints reduce start-up profitability. We do not find a similar relationship for older SMEs in pre-crisis data. Therefore, policy initiatives which ease financing constraints for start-ups could play an important role in boosting economic growth. However, following the protracted financial crisis in Europe, we also find that financial constraints reduced profitability in the cohort.

In 2014 a study showed that there is bi-directional long-run Granger causality between real GDP and financial Islamic banking development, reflecting a positive contribution of Jordanian

¹ Gronroos, C. (1990). Relation Marketing Logic. *Asia Australia Marketing Journal*, no. 4(1).

² Alawneh, M., Al-Fawwaz, T., Shawaqfeh, G. (2015). The Impact of the Fiscal and Quantitative Monetary Policies on the Domestic and Foreign Direct Investment in Jordan: An Empirical Study. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, no. 5(4).

³ Imam, P., Kangni, Kpodar (2010). Islamic Banking: How Has it Diffused. *IMF Working Paper*, 10(195).

Islamic banks in financing the process of Jordanian social and economic development. The relation appears to be unidirectional relation between real GDP and DEPT running from real GDP to DEPT reflects the excess liquidity problem that all Jordanian Islamic banks suffer from it. With regarding to short-run causality there isn't any significant relations between FIBD and EG¹.

Hove, Sibanda & Poee² add that Islamic banking has a positive impact on both entrepreneurial motivation and firm competitiveness while the relationship between entrepreneurial motivation and the business performance of SMEs was found not to be significant. Furthermore, the study found that firm competitiveness has a highly significant and strongly positive impact on business performance of SMEs. In view of these findings, the paper concludes with some implications and policy recommendations for both the banks and the government. In Pakistan, the Islamic banking had positive impact on economic development³. Some scholars around the world consider the use of Islamic banking more convenient for economic development. These results also indicate that improving the infrastructure of Islamic finance in Pakistan could benefit economic development. Islamic banks can play an important role in Pakistan today.

There is no doubt that the previous studies have shown the importance of Islamic finance in developing and improving SMEs and seeing it as an effective strategy in achieving growth and development, and its ability to absorb labor supply and creating new opportunities for Job seekers and increasing the incomes, and here⁴ shows that SMEs are considered sustainable solutions that are reflected positively on the economic growth. But the study of Johnson (2013)⁵ showed that Islamic banks are not significantly correlated with economic growth. Most notably, including the Islamic banking instrument affects the strength of beta-convergence.

Generally, a lot of studies have tried to find and identify the impact and the relationship between the concept of Islamic finance, and a lot of economic indicators, and some studies differed in reaching an agreed about outcome. According to the concept of Islamic microfinance still there are a limited number of those studies that have tried to search what this concept and its association with certain variables, which is considered an important justification for conducting this study.

3.1 Data and Methodology :

There are two types of data: primary data and secondary data. The data collection methods are usually different according to the data collected. Primary data, for example, are original and collected for the purpose of the study. Secondary data provide a broader cover for the general framework of the study. The methods which are used to collect primary data are interview and questionnaire, all of which supplement the lack of secondary data or its deficiency on achieving the objectives of the study. The questionnaire is handled to the respondent to answer, while the interview is one of the communication tools through which questions are directed to the respondent, generally in this study the following data sources were used.

This study is considered an econometric one as it uses and applies statistical methods in the practical evaluation of economic relations. It also emphasizes the measurement and analysis

¹ Oqool, M., Okab, R., and Bashayreh, M. (2014). Financial Islamic Banking Development and Economic Growth: A Case Study of Jordan. *International Journal of Economics and Finance*, no. 6(3).

² Hove, P., Sibanda, K., Poee, D. (2014). The Impact of Islamic Banking on Entrepreneurial Motivation, Firm Competitiveness and Performance in South African Small and Medium Enterprises. *Meditation Journal of Social Sciences*, no. 5(15).

³ Sarwer, S., Ramzan, M., Ahmad, W. (2013). Does Islamic Banking System Contributes to Economy Development. *Global Journal of Management and Business Research*, no. 13(2).

⁴ Santos, F. (2009). A Positive Theory of Social Entrepreneurship. *Faculty and Research Working Paper, Social Innovation Centre, INSEAD, 2009/23/EFE*. <<http://knowledge.insead.edu/abstract.cfm?ct=25999#>>.

⁵ Johnson, K. (2013). The Role of Islamic Banking in Economic Growth. *CMC Senior Theses*. <http://scholarship.claremont.edu/cmc_theses/642>.

of realistic economic phenomena in quantitative analysis to assist in policy making, decision-making and predicting the values of future economic variables. The econometric studies can be considered as a scientific application of both economic theories and the mathematical economy, through practical application of the content of economic theories and mathematical relations on economic phenomena¹. This study, using econometric economic models, attempts to identify the effect of the financing granted to small and medium enterprises by the Islamic banks operating in Jordan on a number of variables: the rate of unemployment in the economy, the level of efficiency in small enterprises, the level of productivity in these projects, and finally the effect of relative changes in prices of production factors used by these projects².

4.1 Empirical Findings:

4.1.1 The First Hypothesis: There is a Statistical Positive Impact of Islamic Microfinance on Developing The SMEs in Jordan.

In this hypothesis, it will be used Cobb–Douglas Production Function (C-D). This function is defined as the physical relationship between the quantities of production of the commodity and the quantities of inputs used in the production of each and can be expressed in the following form:

$$Q = AL^{B_0} K^{B_1} \tag{1}$$

Whereas: A : Means technological progress. B₀: elasticity of Production for labor factor. B₁: elasticity of production for capital factor. Q:Value Added (Quantity of Production) in JD. K: capital granted in JD. L: number of workers.

This function will be used to measure the impact of increased funding resources on increasing the employment of workers in SMEs funded by Islamic banks under study after estimating the parameters in formula 7 and converting them into the logarithmic formula, adding the random error limit, which assumes that it achieves the conditions of applying the method of the ordinary least squares (OLS), then calculate returns to scale of those projects and accordingly:

1. If (B₀ + B₁) is greater than one, it means that the returns to scale are increasing.
2. If (B₀ + B₁) is less than one, it means that returns to scale are decreasing.
3. If (B₀ + B₁) is equal to one, then the returns to scale are constant.

Table 1

The Results of Applying Cobb-Douglass Function and Its Statistical Indicators

SMEs Type	B0	B1	Statistical indicators
SMEs Financed By Islamic Banks	0.229 (2.477) 0.048	0.109 (1.147) 0.295	r=0.867 R ⁻² =0.752 F=9.109 Siq.=0.015 D-W=1.545 t*=1.895
SMEs Financed By Specialized Institutions	0.459 (1.941) 0.1	0.663 (3.886) 0.008	r=0.981 R ⁻² =0.95 F=77.607 Siq.=0.0 D-W=1.213 t*=1.895

*The values between the brackets indicate the value of the t test.

*All values of "t" with significant value 0.05. *"t" represents the value of the tabular test.

¹ Pagan, A. (1987). Three econometric methodologies: A critical appraisal. *Journal of Economic Surveys*, no. 1, 5.

² Sim, K. (1980). Macroeconomics and Reality. *Econometrica*, no. 48(1).

Based on the results of the logarithmic estimation of the Cobb-Douglas production function, and after adjusting the estimation process to take into consideration the autocorrelation problem experienced by the initial estimates, the results show that the capital factor (value B1) in SMEs financed by the Islamic banks under study has no effect on production (as measured by value added) and this is shown from the "t" test value (1.147) or by the (significant) which reached (0.295). Such an outcome indicates that SMEs financed by Islamic banks operating in Jordan depend heavily on the labor factor of creating production (value added) more than the capital factor. Based on this result, we accept that SMEs financed by the Islamic banks under study are labor intensive.

Although the results of the assessment have been adjusted to eliminate the problem of self-correlation, the problem remains in the estimation of all SMEs financed from sources of funding. SMEs financed by Islamic banks were found to be characterized by a decrease in volume returns (0.338) compared to SMEs financed by specialized lending institutions (1.122) which is located in the stage of increasing returns. This means that the productivity level of production factors in SMEs funded by Islamic banks under study is low, therefore there is a clear and substantial potential for increasing production levels. Perhaps more training of workers on modern job training methods in work place, as well as improving qualification levels will have the greatest impact on increasing the productivity of SMEs.

In comparison with SMEs financed from various sources in Jordan, it was found that those financed by specialized lending institutions rely on the capital factor in generating the production (value added). The theory of SMEs is argued that SMEs are important in creating employment opportunities and absorbing surplus labor supply as opposed to larger projects which consumes a lot of capital and employs few workers. According to SMEs financed by Islamic banks under study, they are still less capable than their counterparts financed by specialized institutions in the creation and provision of additional employment opportunities for many of the reasons to be discussed later.

4.1.2 The Second Hypothesis: The Efficiency Level of Islamic Microfinance Is Higher Than the Other Specialized Microfinance Institutions in Jordan.

In order to apply this standard on SMEs financed by the Islamic banks under study and their counterparts funded by other sources under comparison, we use the real wages calculated in table (2) as an approximate indicator of the social cost of the labor factor. The interest rate that reflects the social cost of the capital factor is the weighted average on which SMEs financed by the Islamic banks under study, and other sources under comparison, as shown in table (1), by using value added rather than production volume and available data for 2016, the results of this standard are shown in table (2).

Minimum $r \cdot K + W \cdot L / Q$

Table 2

Results of the Farrell standard using the average of real wage for 2016

SMEs Type	Average Actual Wage	Average Real Wage	Farrell Index
SMEs Financed By Islamic Banks	6309	53340.2	10.76
SMEs Financed By Specialized Institutions	5978	8985	3.89

The results showed that SMEs financed by the Islamic banks achieved the lowest economic efficiency compared to the achievements of their counterparts funded by specialized institutions, and this result is different from the hypothesis which says that SMEs financed by those banks are economically more efficient, compared to SMEs funded by government specialized institutions. Generating one JD of value added in SMEs financed by Islamic banks requires (10.8) dinars as the cost of the prices of production factors, and it's higher than those required by SMEs funded by specialized sources (3.89). This means that SMEs which receive financing from other sources in the economy (except Islamic banks) are economically more efficient in generating output as measured by value added. This result is contrary to the second hypothesis. The contradiction between the hypothesis and the result is due to the high cost of the labor factor represented in the real wage in SMEs financed by Islamic banks compared to those funded from other sources, and this is consistent with the data obtained from Islamic banks under study, which showed that the cost of one worker in SMEs financed from those banks up to JD (38) thousand, and at a time this cost reaches less than JD 2,500 in the specialized lending institutions, not to mention the concentration of SMEs funded by those banks in the capital-intensive industrial sectors, and moving away from their ability to run workers and absorb their surplus.

4.1.3 The Third Hypothesis: The productivity level Islamic Microfinance Is Higher Than the Other Specialized Microfinance Institutions In Jordan.

The total measures of Average productivity means the average of total productivity of the production factors, and the average volume of production (measured by value added) of all the productivity factors used in the production process. The table below shows that SMEs funded by the Islamic banks have the least average total productivity of the production factors compared to SMEs funded from other sources under comparison. By this result, we refuse the first hypothesis which sees that SMEs financed by the Islamic banks operating in Jordan have the most efficient productivity. SMEs funded by specialized funding institutions have more total productivity of production factors than those of Islamic banks but less productive than SMEs financed from other sources operating in the economy. The reason for these differences in the average productivity of the production factors is mainly due to the quality of the labor factor in terms of training, skill and experience as well as the quality of machinery and equipment used in production.

Table 3

Average of total productivity of SMEs according to sources of funding for the year 2016.

SMEs Type	VA	L	K	B0	B1	ATP
SMEs Financed By Islamic Banks	156879728	4170	218360000	0.6775	0.3225	2.142
SMEs Financed By Specialized Institutions	35685659	15182	4585952	0.4091	0.591	13.164

In the third hypothesis, we have, formerly, shown that SMEs financed by Islamic banks operating in Jordan are less economically efficient compared to their counterparts funded by other sources under comparison. It was found that the SMEs financed by Jordan Islamic Bank have negative productivity compared with their counterparts funded by the Islamic International Arab Bank. It has become clear that the average total productivity of production factors in SMEs financed by other lending sources (excluding specialized lending institutions and Islamic banks) exceeds the total productivity achieved by other types of projects operating in the economy.

4.1.4 The Fourth Hypothesis: There is a Statistical Positive Impact of Relative Changes in Production Factors Prices on Islamic Microfinance in Jordan.

The table (4) shows that the productivity of the worker from the quantity produced (the share of one worker) in SMEs financed by Islamic banks is decreasing over time. This result is shown by test "t" (2.718) and is also decreasing in the total of SMEs funded from other sources under comparison, while it was found that the productivity achieved by the worker increases over time. The substitution elasticity of SMEs financed by Islamic banks was found to be less than their counterparts funded from other sources in the economy. This means that the response of the projects funded by those banks to the relative changes in the prices of the production factors severally is less than those financed by other sources. The existence of the negative relationship in the substitution rate of SMEs financed by Islamic banks or specialized institutions explains that the increase of any factor of production requires the reduction of the other factor to maintain the same level of production, and this explanation corresponds with the economic theory in this place.

Table 4

Results of SMAC Function ($\text{Log}Q/L = \text{Log}a + b\text{Log}w + g\text{t} + \text{Log}e$) and Its Statistical Indicators

Source	Value g	Value b(s)	Statistical Indicators
SMEs Financed By Islamic Banks	-0.15 (-2.718) 0.035	-0.156 (-1.856) 0.113	r=0.893 R² = 0.781 D-W = 1.031 F=11.875 Sig.=0.008
SMEs Financed By Specialized Institutions	0.032 (6.054) 0.001	-0.047 -0.689 0.516	r=0.952 R²=0.875 D-W= 1.249 F=28.982 Sig.=0.001

In order to measure the effect of the relative changes in the prices of the production factors on the cost of employment in SMEs funded from different sources, SMAC function was calculated after offsetting the substitution elasticity (b), (estimated S) from the formula, assuming that it satisfies the conditions of applying ordinary least squares (OLS) and using the published and estimated data, we conclude the following.

The table (5) below shows that high cost of wages in total of SMEs financed from other sources (excluding Islamic banks and specialized lending institutions) leads to higher employment costs. The same applies when interest rates rise by 10%. The high cost of wages in SMEs financed by Islamic banks or in their counterparts funded by specialized lending institutions means reducing the cost of employment. The increase in the prices of any factor of production (wages or interest rates) used in SMEs financed by the Islamic banks under study leads to a reduction in the cost of employment, as this includes the optimal utilization of resources available to this category of projects. The rise in the cost of wages or interest rates in SMEs financed by Islamic banks under study led to a reduction in the cost of creating job opportunity more than their counterparts from other sources under comparison.

As for the measurement of the effect of changes in both relative wages and relative interest rates on employment levels in SMEs financed from various sources, the table (6) indicates that the level of employment in all SMEs financed from other sources under study is higher than their counterparts financed by Islamic banks.

Table 5

**The impact of the increase in the prices of the production factors by 10%
on the cost of job opportunity.**

SMEs Type	Increasing Wages by 10%	Increasing Interest Rate by 10%
SMEs Financed By Islamic Banks	-122.9	-118.7
SMEs Financed By Specialized Institutions	-80.1	-10.6

Based on the results of tables (5) and (6), we can conclude that SMEs financed by Islamic banks under study are the most affected by the increase in the cost of the labor factor to the capital, and the reduction of the employment rate in them by a ratio exceeding both sources. According on such result, we accept the fourth hypothesis in the case of stable wages and high interest rates, knowing that the response of SMEs financed from Islamic banks under study to the prices of the production factors is greater than that financed from other sources under study.

Employment levels in SMEs financed from other sources under comparison are the most affected by rising wages due to the high cost of job opportunity and the high level of employment at the same time. While we find that SMEs financed by specialized lending institutions are the least affected due to the low cost of job opportunity and low employment level in these category. The substitution of the capital factor in place of labor factor in SMEs financed by the Islamic banks under study leads to reducing the cost of job opportunity from the constant capital, as well as a reduction in employment levels at the same time. This result also applies to SMEs financed by specialized lending institutions.

Table 6

**The effect of 10% increase in production factors prices on employment levels
in SMEs funded according to the source.**

SMEs Type	Increasing wages by 10%	Increasing interest rate by 10%
SMEs Financed By Islamic Banks	-122.9	-118.7
SMEs Financed By Specialized Institutions	-108.1	-105.6

5.1 Conclusion:

In this research we find that the percentage of small enterprises operating in the economy, according to the statistics of 2016 is about (70.7%) of the total enterprises operating in the economy, while the value added reached only (35.9%) of the total value added of the economy as a whole. These enterprises also contributed to the employment of (39.8%) of the total labor force in the whole of economy. According to the SMEs financed by the Islamic banks under study in 2016, they amounted to about (1.77%) of the total number of small enterprises operating in the economy. They also contributed about (0.76%) a new job opportunities, or (0.3%) of the total job opportunities generated by the economy as a whole, and the returns of workers in these enterprises reached about JD (26.3) million for the year 2016 too.

We find also that the SMEs financed by the Islamic banks has no effect on production or value added. Such an outcome indicates that SMEs financed by Islamic banks operating in Jordan depend mainly on the labor factor of creating production more than the capital factor. So, we accept that SMEs financed by the Islamic banks under study are labor intensive despite the low percentage of new job opportunities were created. There is no doubt that the previous studies have shown the importance of Islamic finance in developing and improving SMEs and seeing it as an effective strategy in absorbing labor supply, creating new job opportunities and increasing the incomes, and here¹ shows that SMEs are considered sustainable solutions that are reflected positively on the economic growth. But the study of Johnson² showed that Islamic banks are not significantly correlated with economic growth. Most notably, including the Islamic banking instrument affects the labor market indicators.

Despite the huge finance directed to SMEs by Islamic banks operating in Jordan, but these SMEs financed by such banks achieved the lowest economic efficiency compared to the SMEs funded by other sources. This result reflects distortions (wage structure and structure of interest rates) in the markets of production factors in Jordan, which are in favor of private financial institutions and commercial banks and because of these distortions economic efficiency of SMEs funded by Islamic banks is the lowest. Therefore small enterprises cannot be considered generally more efficient compared to large projects. That study has interpreted these results in the fact that small businesses in Korea are more likely to operate manpower with less training or skill, in addition to the partial operation of the production of energy for reasons of demand for their products³.

On the hand, the results indicate that SMEs financed by Islamic banks recorded the least average total productivity of the production factors compared to SMEs funded from other sources. The study of Kharabshah & Malkawi⁴ has pointed out that the productivity of labor and capital for large projects of more than 20 workers. The small industries in Jordan have economic and social efficiency; outweigh what large industries possess, and they achieved higher productivity of elements of production⁵.

Finally, the productivity of the worker from the quantity produced in SMEs financed by Islamic banks is decreasing over time. SMEs financed by Islamic banks are the most affected by the increase in the cost of the labor factor to the capital, and the reduction of the employment rate in them by a ratio exceeding both sources. As mentioned previously, we have been pointing to the important role that small businesses play in absorbing surplus labor supply to the applicants, in a relatively small size of the investment without that contrasts with the high rates of production. The main points of this place is that 67% of the employment opportunities that are provided in the European Union in 2008, were due to small projects⁶, they were also able to contribute about 85% of the jobs during the period 2002-2010 in Australia (Banerjee, 2014). In another study in Japan, these enterprises have accounted for 99.7% of the total institutions operating in the economy, and got 51% of the added value for the entire industrial sector, providing nearly 70% of total employment in 2013 (Ministry of Economy, 2013). As it appeared that the small projects are

¹ Santos, F. (2009). A Positive Theory of Social Entrepreneurship. *Faculty and Research Working Paper, Social Innovation Centre, INSEAD, 2009/23/EFE*. <<http://knowledge.insead.edu/abstract.cfm?ct=25999#>>.

² Johnson, K. (2013). The Role of Islamic Banking in Economic Growth. *CMC Senior Theses*. <http://scholarship.claremont.edu/cmc_theses/642>.

³ World Bank (1985). *Employment and Development of Small Enterprises, Sector Policy Paper*. Washington DC: World Bank.

⁴ Kharabsha, A., Malkawi, A. (1988). The Productivity in Industrial Firms which employ More Than 20 workers. *Dirasat Journal, no. 15(2)*.

⁵ Abu Haija, A. (1991). *Small Enterprises In Jordan and Its Role In The Economic Development*. Master Dissertation. Jordan: Irbid, Yramouk University.

⁶ Carnazza, G. (2011). The Role and the Main Developments of SMEs in the European Economy.

focused by 99.1% in the Organization of Economic Co-operation and Development countries, and provided approximately 61.2% of the jobs in these countries, compared with about 79.2% and 41% and 33% of jobs provided by the East Asian nations, Latin America and Arab countries respectively¹.

There is no doubt that the previous studies have shown the importance of Islamic finance in funding SMEs enterprises in economies that adopted it seeing it as an effective strategy in achieving growth and development, and its ability to absorb labor and providing opportunities for employment and increasing the benefits. But in my point of view the experience of Islamic banks in financing SMEs still younger and it is need more patience to avoid all obstacles and distortions that facing them.

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