



**T.C**

**BİNGÖL UNIVERSITY  
GRADUATE SCHOOL OF SOCIAL SCIENCES  
BUSINESS ADMINISTRATION DEPARTMENT**

**THE ROLE OF PRIVATE BANK IN FINANCING SMALL  
AND MEDIUM BUSINESS (DUHOK AS CASE STUDY)**

PREPARED BY

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**Master's Thesis**

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**KÜÇÜK VE ORTA ÖLÇEKLİ İŞLETMELERİN  
FİNANSLANMASINDA ÖZEL BANKALARIN ROLÜ  
(DUHOK'TA BİR VAKA ÇALIŞMASI)**

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## SCIENTIFIC ETHICAL NOTICE

This work I have prepared in accordance with the thesis writing rules, which I have achieved in the framework of scientific ethics and tradition within the scope of all the information in the thesis, which I have met with the scientific ethics and academic rules carefully until the conclusion of the proposal phase of the master thesis [THE ROLE OF PRIVATE BANK IN FINANCING SMALL AND MEDIUM BUSINESS (DUHOK AS CASE STUDY)] I declare that the works I have shown and utilized for each quotation consist of those shown at the source.

/ /2018

Signature  
ZANA SIDQI MOHAMMED

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[ZANA SIDQI MOHAMMED] This work titled [THE ROLE OF PRIVATE BANK IN FINANCING SMALL AND MEDIUM BUSINESS (DUHOK AS CASE STUDY)] [2018/ / Defense Examination History] Thesis defense exam held on the date of [unanimity / majority of votes: ] was found to be successful by our jury [Master's Degree in Department of Business Administration] has been accepted as a thesis.

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This thesis has been accepted by the jury determined in the / / 2018...  
Session of the Board of Directors of the Institute of Social Sciences of Bingöl  
University.

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## **PREFACE**

[THE ROLE OF PRIVATE BANK IN FINANCING SMALL AND MEDIUM BUSINESS (DUHOK AS CASE STUDY)] has been highlighted in the context of "Iraqi economy". Supervisor who does not spare his help in the preparation of this works [Professor Dr. Sait Patir]; and he did not spare their contribution in the writing and correction of the thesis and who contributed to my education throughout my life.

I offer my relief gratitude to help keep my morale and motivation at a high level in completing my work.

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ZANA SIDQI MOHAMMED

## ABSTRACT

The aim of the research is to explore the role of commercial banks in financing small and medium enterprises, and study the nature of these projects and their importance in the economy.

Based on monitoring the experience experienced by private banks in Iraq and in the Dahuk-Iraq through

The study of a group of banks in the financing of small and medium enterprises and the increase in the volume of loans and the number of projects to achieve the desired goals.

The problem of the study will be to try to answer the following questions: What is the importance of small and medium enterprises? How is the reality of small and medium enterprises in Iraq and the Dahuk- Iraq? What are the commercial bank and its main characteristics? What is the relationship between commercial banks and small and medium enterprises? What is the reality of the financing of small and medium enterprises by banks operating in the Dahuk- Iraq, and in particular the province of Dohuk as a case study?

The hypothesis of the research has been proven and its objectives achieved and a number of proposals, the most prominent ones, have been achieved; Strengthening and monitoring of loan guarantee funds and the non-obligation of small and medium enterprises to provide guarantees at the beginning of their inception, and encouraging banks to provide loans for temporary tax exemptions.

**Key Words:** Small and Medium Enterprises, SMEs, Privet Banks, Industrial Activity, Finance.

## TÜRKÇE TEZ ÖZETİ

Araştırmanın amacı, ticari bankaların küçük ve orta ölçekli işletmelerin finansmanındaki rolünü araştırmak ve bu projelerin doğasını ve ekonomideki önemini incelemektir.

Irak'ta ve Kuzey Irak Bölgesi'nde özel bankaların deneyimlerini gözlemleyerek

Bir grup bankanın küçük ve orta ölçekli işletmelerin finansmanında yaptıkları çalışma ve kredi hacmindeki artış ve istenen hedeflere ulaşmak için proje sayısı.

Çalışmanın problemi aşağıdaki soruları cevaplamaya çalışmak olacaktır: Küçük ve orta ölçekli işletmelerin önemi nedir? Irak ve Kuzey Irak küçük ve orta ölçekli işletmelerinin gerçekliği nasıldır? Ticari banka ve ana özellikleri nelerdir? Ticari bankalar ile küçük ve orta ölçekli işletmeler arasındaki ilişki nedir? Dahuk-Kuzey Irak Bölgesi'nde faaliyet gösteren bankalar, özellikle de Dohuk ilinde bir vaka çalışması olarak faaliyet gösteren küçük ve orta ölçekli işletmelerin finansmanının gerçekliği nedir?

Araştırmanın hipotezi kanıtlanmış ve hedefleri başarılmış ve en çok öne çıkarılan birtakım tekliflere ulaşılmıştır; Kredi garanti fonlarının güçlendirilmesi ve izlenmesi ile küçük ve orta ölçekli işletmelerin, kuruluşlarının başlangıcında güvence sağlamak ve bankaların geçici vergi muafiyetleri için kredi sağlamaları için teşvik edilmesi yükümlülüğü.

**Anahtar kelimeler:** Küçük ve Orta Ölçekli İşletmeler, KOBİ'ler, Özel Bankalar, Endüstriyel Faaliyetler, Finans

## ABBREVIATIONS

BCBS	The Basel Committee on Banking Supervision
GDP	Gross Domestic Product
GCC	Gulf Cooperation Council
ILO	The International Labor Organization
MEs	Medium Enterprises
SMEs	Small And Medium Enterprises
SEs	Small Enterprises
VSEs	Very Small Enterprises

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## **INTRODUCTION**

Small and medium enterprises play an active role in the economies of countries as a result of their contribution to the provision of workers' positions. Technological innovations Achieve economic development and contribute to the global production of goods and services. These institutions express the driving force of different branches of production as well as develop the capabilities of their owners and involve them in achieving development by providing investment climate Appropriate and enhanced by means of the angels' support for the activities of these institutions to continue their growth and development.

The various countries seek to achieve economic efficiency, which ensures a high rate of growth in national income and achieve high levels of employment under a comprehensive economic policy. In this context, the establishment, promotion and promotion of small and medium enterprises is one of the most important economic policy directions. An important role in terms of increasing the growth of the gross domestic product, intensifying the industrial fabric to provide jobs and contribute to economic development to achieve economic and social stability, especially in light of the future challenges of the market economy and link more with the global economy, and There is no doubt that the large implications of this correlation make small and medium enterprises more vulnerable and threatened to disappear if the strategy does not follow the crisis to cope with the new situation. Therefore, the efforts must be accelerated and integrated to raise the economic challenge, depending on the small and medium enterprises of the engine for economic development. Which imposes on various governments the support and promotion of these competitive institutions.

The financing aspect is the most important aspect at all, as there is a lack of mechanisms and formulas

The financing available to small and medium-sized enterprises is different because of the large institutions that have a wide variety of financing options, given their size and financial capabilities, which gives them access to large financial markets and the confidence of most banks.

It is noteworthy that Algeria's small and medium enterprises sector is still below the required level. It also needs radical reforms. Algeria attaches great

importance to the banking system as an effective financing tool. It has established banks to finance such projects.

### **1. The Importance of Study**

Small and medium-sized enterprises (SMEs) are of great importance as one of the most important sources of economic and social development. They contribute to the problem of youth unemployment, increase the pace of employment in the private sector and support economic activities.

Small and medium enterprises have a major and vital role in developing the resources of many countries of the world and developing their human and material resources, according to their needs and development goals, especially since many of the large successful projects that exist today in most countries of the world were originally based on individual ideas and small projects.

### **2. The Problem of Study**

The problem of the study will be to try to answer the following questions:

A Number of sub-questions arise from this main question:

- a. What is the importance of small and medium enterprises?
- b. How is the reality of small and medium enterprises in Iraq and the Dahuk-Iraq?
- c. What are the commercial bank and its main characteristics?
- d. What is the relationship between commercial banks and small and medium enterprises?
- e. What is the reality of the financing of small and medium enterprises by banks operating in the Dahuk- Iraq, and in particular the province of Dohuk as a case study?

### **3. The Hypothesis of Study**

In order to answer these questions, we have relied on a number of hypotheses, which are considered as an initial answer

On the various questions rose:

- a. (H<sub>1</sub>): The high volume of risk leads to a low turnout of banks to finance small and medium enterprises;
- b. (H<sub>2</sub>): There is a link between inadequate safeguards and reduced financing for small and medium enterprises;

- c. (H<sub>3</sub>): The implementation of monetary and financing policy mechanisms for microfinance leads to the exploitation of the proportion of financing of small and medium enterprises, which helps in achieving balanced development;
- d. (H<sub>4</sub>): Small and medium enterprises are needed to correct imbalances in society and thus achieve balanced development.

#### **4. The Objective of Study**

The research aims at the following results:

- a. Presentation of conceptual and academic framework for small and medium enterprises and try to identify the most important characteristics that make these institutions a sector in itself;
- b. Identify the reality of small and medium enterprises in the Algerian economy through its role their importance in economic and social development;
- c. To demonstrate the effectiveness of the banks of the Dahuk - Iraq in the promotion and support of small and medium enterprises and their money from the positives on economic activity;
- d. Proposing a set of solutions to these problems faced by small and medium enterprises.

#### **5. Methodology of Study**

This study has been used in a number of well-known methods in the field of methodology.

The following methods have been used:

- a. We used the analytical descriptive approach to describe various advantages in small and medium enterprises and methods;
- b. Financing and economic development;
- c. We used the historical approach in our follow-up to the development of small and medium enterprises in Iraq and Dahuk;
- d. Finally, the statistical method was used to study and analyze the results of the questionnaire in the applied side of the research

#### **6. Structure of the Study**

- a. Chapter One: Introduction to Small and Medium Enterprises;
- b. Chapter Two: Private Banks and their Relation to Small and Medium Enterprises;

- c.** Chapter Three: The Reality of Private Banks and Small and Medium Enterprises in the Iraqi Economy and in Dahuk - Iraq;
- d.** Chapter Four: Estimating and Analyzing the Effect of Financing Private Banks in Dohuk Governorate on Small and Medium Enterprises.



## **CHAPTER ONE**

### **INTRODUCTION TO SMALL AND MEDIUM ENTERPRISES**

Over the past two decades, small and medium enterprises (SMEs) have been able to demonstrate their economic efficiency in promoting economic activity, despite the economic transformations that have taken place in the world. This has led to increased interest in small and medium enterprises (Mourad: 2008, 23).

It is clear that small and medium enterprises play an active role in economic growth and development. Social and economic development, which makes these institutions a prominent place in the developed and developing economies, despite the interest that these institutions have been entrenched by the States and their increasing role in economic life, but found it difficult to define them because of the different forms of In this work, we have taken the initiative to present the institutions through a clear definition of these institutions in all aspects, from the exposure to the stages of their development and importance in the economy and the most important difficulties facing their growth and development.

#### **1.1. The Concept of Small and Medium Enterprises (SMEs)**

Institutions play a large role in the economies of developed and developing countries. Therefore, giving and defining the concept of these institutions is of great importance, but this concept still raises great debate among researchers in these institutions due to the difficulty of developing and defining a definition that distinguishes them from other institutions and this definition varies from state to state (Mourad: 2008, 23).

##### **1.1.1. Difficulty Identifying Definition**

We shall address the difficulties of defining the concept and the limitations that control the creation of a uniform definition of these institutions. We then conclude a set of criteria adopted by the concept of small and medium enterprises both in defining the concept of the institution itself, or which distinguish these institutions from other sectors, we try to mention the definitions applied in some developed and developing countries (Ma'rouf: 2009, 49).

The difficulty of finding a unified definition is that it is difficult to draw the boundaries between one institution and another or another sector. In terms of

activity, the boundaries differ or the institutions compare the sector between countries with different levels of development (Qureshi: 2005, 14).

Among the constraints that control the creation of a unified definition of these institutions are:

#### **1.1.1.1. Measurement in Economic Growth**

The difference in the degree of growth between developed and developing countries reflect the development of each country, as well as the weight of economic structures, institutions and economic units (Qureshi: 2005, 15).

The small enterprise in Japan, the United States of America or in any industrialized country It can be considered as a medium or large institution in a developing country such as Iraq according to its different economic, monetary and social status, so we reach the conclusion that the definition of small and medium enterprises varies from country to country depending on the degree of economic growth (Qureshi: 2005, 16).

#### **1.1.1.2. Diversity of Economic Activity**

The diversity of economic activities change the size of institutions and distinguish them from one branch to another, institutions that work in the industry other than institutions that work in trade and different institutions that are active in the field.

For example, an organization of (500) workers is considered a large institution in the textile sector, in terms of classification of a small institution in the automotive industry, so it is difficult for the different economic activity of one for small and medium enterprises based on number of workers (Khouni: 2008, 17).

#### **1.1.1.3. The Difference of Branches of Economic Activity**

The economic activity varies and its branches vary. The business activity is divided into retail and wholesale trade. Also, the extension level is divided into foreign trade and internal trade. Industrial activity in turn is divided into several branches, chemical transformation, metallurgy... etc.

Each institution is different in terms of its activity or its branch, because of the labor force and the investment capital. A small or medium enterprise in the automotive industry is different from the other.

### **1.1.2. Definition of Small and Medium Enterprises (SMEs) by International Institutions and Some Countries**

Some studies from small and medium-sized enterprises and industries have shown that there are around (50) SME definitions and that many countries do not have an official definition of what each country's definition of economic growth is related to.

#### **1.1.2.1. Definition of the United States of America**

According to the Small Enterprise Act of (1953), small and medium enterprises are defined as independent owners and management and do not control their area of activity (Al-Sassi: 2006, 398).

#### **1.1.2.2. Definition of Germany**

Germany is one of a member of the European Union, adopts several definitions of small and medium enterprises based on certain qualitative and quantitative criteria. The most important definitions are:

1. Small enterprises are any establishments that engage in economic activity and the number of workers is less than (200) workers;
2. Small and medium enterprises are a project with less than (49) workers;
3. Small and medium enterprises are not dependent on financing the financial market (Ghafoor: 2001, 29).
  - a. And are managed by independent investors who work personally and bear all risks and classify institutions in Germany to the following: (Khouni: 2008, 27).
  - b. The microorganism institution has an individual to 5 individual;
  - c. Small enterprise: (6) to (20) individuals;
  - d. Medium institution: from (21) to (100) individuals;
  - e. Large institution: 101 or more

#### **1.1.2.3. Definition of the Netherlands**

Despite the absence of an official definition therein, but the regulatory procedures contained in both the Law of Institutions and procedures relating to the cessation of activity, and the law on drawing on the number of works, are sufficient to draw the boundaries separating the different types of institutions, depending on the nature of its activity (Abdul Ghafoor: 2005, 68).

1. A small and medium-sized enterprise is an establishment employing (100) workers or less and belongs to one of the following branches (Afafna: 2004, 10):
2. Industry, construction and processing;
3. Wholesale trade, retail trade and service activity of hotel and restaurant;
4. Transport, storage and communication;

#### **1.1.2.4. Insurance**

##### **Definition of Japan**

The Japanese Law on Small and Medium Enterprises was distinguished among different institutions on the basis of the nature of the activity, as shown in table number (1.1).

**Table (1.1): Definition of Japan for Small and Medium Enterprises**

<b>Sectors</b>	<b>Capital Invested (million yen)</b>	<b>Number of Workers</b>
Mining, transformation, transport and other branches of industrial activity	Less than 100	300 or less
Wholesale Trade Est	Less than 30	100 or less
Retail and Services Trading Est	Less than 10	50 or less

(Source: Rabeh Khouni, & Ruqiya Hassani, "Small and Medium Enterprises and their Financing Problems", Itrak printing, distribution and distribution, Cairo, Egypt, 2008, p.27.)

#### **1.1.2.5. Definition of India**

The standard used in India to define Small and Medium Enterprises is the capital invested standard. The value of capital, which is subject to change, in (1978) was set at (750.000.000) rubles for small and medium enterprises, and all underground enterprises with capital of less than (1.000.000) rubles small and medium enterprise (Brahimi: 2011, 5).

#### **1.1.2.6. Definition of Iraq**

The Directorate of Industrial Statistics in the Central Organization for Statistics and Information Technology issued a definition of both small and medium-sized industries. Small enterprises are industrial establishments that belong to the private sector only. These standards are based on the various industrial activities (Ministry of Labor and Social Affairs of Iraq: 2007, 39).

A factor in order to provide statistical and actual information and data indicating the reality of the activity of these establishments and the value of less than



one hundred thousand dinars (Ministry of Planning and Development Cooperation: 2009, 95).

While medium industries were defined as medium industrial establishments are industrial establishments which belong to the private sector only distributed in various industrial activities and the standard adopted in the classification of these (10-29) workers and the value of machinery and equipment more than one hundred thousand (Ministry of Labor and Social Affairs of Iraq: 2007, 45).

In the coming years, Iraq will be in the process of promoting a competitive real economy. In this regard, the main concern of economic policy is to encourage and support small and medium enterprises within the framework of a national economy project aimed at creating a comprehensive strategy for economic growth (Ministry of Labor and Social Affairs of Iraq: 2007, 52).

In this research, we will try to address the concept and stages of the development of small and medium enterprises in the Iraqi economy and its importance and the extent of their contribution to the economy of the country and the problems of development at the level of the national economy.

#### **1.1.2.7. Definition of the European Committee**

There is a great difference in the criteria used to define Small and Medium Enterprises in European countries, which prompted the European countries in (1992) to form a small and medium-sized enterprises complex.

The Commission declared that it was unable to provide a specific and unified definition of small and medium enterprises in line with the economic policy of all European States and that there was no scientific definition of them, but on the other hand, the Small and Medium Enterprises could be identified as follows (Brahimi: 2011, 5):

1. Very small enterprises, (VSEs), from (0) to (9) workers;
2. Small enterprises, (SEs), from (10) to (49) workers;
3. Medium enterprises, (MEs), from (50) to (499) workers (European Commission: 2003, 9).

However, according to this definition, (9.99%) of enterprises in European countries are small and medium enterprises (European Commission: 2003, 14).

In (1996) the European Community revisited this definition or definition and introduced another definition that defined small and medium-sized enterprises such as those that (European Commission: 2003, 16):

1. Operates less than (250) workers.
2. Those whose turnover is less than (250.000.000) French francs (40.000.000) euros;
3. Those that respect the principle of independence and include all institutions that do not exceed the percentage of control in the head (25%) Thus, the new definition has three criteria, because in the European view, the number of workers is insufficient to determine the type of institution.

However, they also believe that it is necessary to identify small and medium enterprises. Small enterprises are those that employ less than (50) workers, while the criterion of independence remains. The number of works does not exceed (7.000.000) euros (European Commission: 2003, 24).

However, because of the different economic capacities of each country, the criterion that can control the definition more is the first criterion based on the number of workers.

The small enterprise is between (10) workers to (49) workers, wages, and the middle institution is between (50) to (249) workers and finally independent and independent (European Commission: 2003, 32).

#### **1.1.2.8. Definition of the European Union (EU)**

Small and medium enterprises are defined by this association as follows (1) (Dilger: 2016, 29):

1. Very small enterprises of (1) to (9) workers;
2. Small enterprises from (10) to (99) workers;
3. Medium enterprises of (100) to (499) workers

#### **1.1.2.9. Definition of the Gulf Cooperation Council (GCC)**

In (1994), (GCC) identified small enterprises based on the labor standard: those enterprises with more than (60) workers, and capital of enterprises with investments of less than (1.000000) American dollar (Khouni: 2008, 35).

#### **1.1.2.10. Definition of the International Labor Organization (ILO)**

Small and medium enterprises are units that produce and distribute goods and services and are often composed of independent producers who work privately in urban areas in developing countries, some depend on work from within the family, some hire workers, It operates with a fixed capital, relies on low returns, usually earns irregular income and creates unstable employment opportunities, and adds this definition as an informal sector in the sense that it is an enterprise that is not registered with government agencies or official statistics.

#### **1.1.2.11. Definition of the American Economic Development Committee**

These projects are dependent on the independence of the Department and that the director is the owner of the project and consists of a group of individuals and localization, so that the owners of the project are residents of the project area (International Labour Office: 2013, 11).

### **1.2. Multiple Standards Definition of Small and Medium Enterprises**

The attempt to define a comprehensive and comprehensive definition of small and medium enterprises is challenged by the multiplicity of criteria on which these definitions are based, such as the size of employment, the size of sales, the volume of funds used, the market share of the enterprise, the nature of ownership, a consensus among the writers, institutions, research centers, government agencies, banks and various departments interested in the small and medium enterprises sector to adopt a set of criteria and indicators to define and clarify the boundaries between them and between different institutions (Othman: 2011, 5).

#### **1.2.1. Quantitative Standards**

The definition of small and medium enterprises is subject to a number of standards and quantitative indicators to measure their sizes and try to distinguish them from the rest of the institutions, among which are (Othman: 2011, 5).

1. The Number of Employee;
2. Sales Volume;
3. Value of Assets;
4. Fiscal Composition of Capital;
5. Value Added;
6. Consumed Power;

7. Business Number;
8. Investment Capital... etc

Despite the large number of quantitative standards, the most commonly used in the definition of small and medium enterprises is the criterion of the size of employment and the size of capital because of the easy access to information on these two elements, so we will address each of them in some detail as follows:

#### **1.2.1.1 . The Number of Worker**

1. Major economic institutions;
2. Small enterprises or individual exploitation units;
3. Small and medium foundation

#### **1.2.1.2. Financial (Cash Standard)**

In addition to the numerical or human standard, we find the financial standard which is based on: (Ibrahim, 2001, 169)

1. Capital;
2. Business Number;
3. Sales volume

The reliance on the financial criterion alone in determining what institutions are opposed is the difference in the financial outcome due to the difference in cash sales from one year to the direction of increase or decrease, especially if there is an increase in the rate of inflation (Abdulrahman: 1996, 51).

#### **1.2.2. Quality Standards**

Quantitative criteria alone are not sufficient to define a comprehensive definition of small and medium enterprises because of their relative importance, different degrees of growth and differing levels of technology (Abduallah: 2008, 43).

In order to further clarify the boundaries between small and medium enterprises and other economic institutions, Quality and the most important of which are the following:

##### **1.2.2.1. Responsibility**

We find in small enterprises the manager is the owner sometimes performs several functions at the same time, production management and financing while large enterprises are distributed tool these functions to several people (Buamran: 2012, 39).

#### **1.2.2.2. Ownership**

Most of the small and medium enterprises are owned by the private sector, and the percentage is large individual and family projects (Mohamed: 2003, 82).

The owner plays a large role at all levels. For example, in Iraq, the state has a number of affiliated institutions, which take the form of local public institutions (Qureshi: 2005, 16).

#### **1.2.2.3. The Nature of Industry**

The size of the organization depends on the technical nature of the industry, the extent to which the machines are used to produce the product. Some industries need relatively large units of labor and relatively small units of capital, as in light consumer industries, while some industries need relatively small units Work and relatively large units of capital is the thing that applies to heavy industries (Al-Ameri: 2007, 71).

### **1.3. Characteristics of Small and Medium Enterprises**

Small and medium enterprises are characterized by a variety of characteristics, which appear in many aspects, economic, financial, legal, social... etc (Ibrahim, 2001, 201). The most important of these characteristics are:

#### **1.3.1. Ease of Establishment and Independence in Management**

The institutions are based on the ease of establishing their need for relatively small capital, as they are based mainly on attracting and activating people's savings in order to achieve benefit or benefit to meet local or partial needs in multiple types of economic activity (Al-Sa'eed: 2007, 7).

Most of the administrative decisions of these institutions are based on the owner's personality. In many cases, the owner meets the owner. This makes them flexible and personal to the owner. This facilitates the leadership of these institutions and the objectives that the organization works for convince their employees of the principles, policies and systems governing the institution's work (Abu-Qahf: 2002, 40).

#### **1.3.2. Self-training Center and flexibility to Adapt to the Variables**

The character of the institutions makes it a self-centered training and training center for its owners and employees, as they carry out their productive activities continuously and carry them to the technical and financial levels, which helps them

to obtain more information and knowledge, which develops their abilities and qualifies them To lead new investment operations and expand the opportunities available to them.

Institutions are also characterized by the ability to interact flexibly and easily with investment variables, i.e., the shift to the production of other goods or services commensurate with market variables and requirements (Salman: 2008, 36).

### **1.3.3. The Renewal and Personalization of the Services Provided to the Client**

The institutions are characterized by the localization of the activity, which leads to a kind of familiarity, affection and good relationship between the institution and the customers, which makes the service or product delivery in a friendly atmosphere (Majid: 2006, 19).

This type of institution is also subject to renewal and modernization more than public institutions, because skilled people who create new ideas that affect their profits find incentives that directly drive them to work (Al-Mahrouq: 2006, 37).

### **1.3.4. Support Large Institutions and Different types of Ownership**

Small and medium enterprises can achieve some of the advantages resulting from the separation of jobs or stages of production with large savings, by specializing in some of them and working on an appropriate economic scale, thus providing a network of interventions between large institutions and supporting them while subject to To some extent, to programs, strategies and contracts with the large institutions that operate for them both at the local and external levels and in the field of subcontracting (Khouni: 2008, 46).

In terms of the ownership style of these institutions, they tend to be characterized by individual or family ownership or companies of persons, a pattern that is suitable for small savings and with excellent organizational and management skills (Abdul Ghafoor: 2005, 76). In addition to the following characteristics (Othman: 2011, 17).

1. Freedom of choice of activity and simplicity of organization Small and medium-sized enterprises are characterized by high decision-making with a traditional and simple information system, lack of strategic planning, reliance on personal experience and appreciation in day-to-day management, small and medium enterprises operate low;

2. The choice of markets and the low risk level Small and medium enterprises are attracted to small and limited markets that do not interest large enterprises. The degree of risk in small and medium enterprises is not great, especially market risk. Large enterprises are very risky due to the size of investments and the size of their market share;
3. Depends on the internal sources of capital financing for its growth, because of the small size of capital invested, and we find that the owner of the institution depends on personal resources in financing before resorting to external financing, because of his sense of uncertainty about the risk of the money of others in his work.

#### **1.4. The Importance of Small and Medium Enterprises**

The importance of small and medium enterprises is attributed to the economic and social roles they play, the most important of which is their contribution to the provision of jobs and the achievement of economic development and their ability to resist the economic turmoil and its competitive steadfastness and its role at the social level such as achieving prosperity, satisfying the needs and achieving the ambitions and aspirations of individuals (Khouni: 2008, 46). The following are the most important details of these roles:

##### **1.4.1. Economic Importance**

This economic importance of small and medium enterprises is followed by economic roles at the following levels:

###### **1.4.1.1. Providing Employment Positions**

Small and medium enterprises contribute to providing many job opportunities for workers at a time when most of the world suffers from the problem of unemployment, it contributes to attracting a large number of labor and focuses on the human element in the production process, Who did not receive training and training to work in large institutions (Othman: 2011, 17).

###### **1.4.1.2. Configure Local Framework**

Small and medium enterprises in developing countries contribute to the formation and training of individuals in managerial, production, marketing and financial skills to manage the business of these institutions in light of the weak and weak possibilities of the management treaty and training centers. These institutions

also train workers and qualify them for better jobs in the future. For workers to perform multiple tasks and in short periods of time so that the tasks and responsibilities that they do and thus expand their skills and knowledge and increase their experience to be in the place of making important decisions and this shows and enhances their potential and effective capabilities (Khouni: 2008, 46).

#### **1.4.1.3. Distribution of Industry and Diversification of Industrial Structures**

Small and medium enterprises play a key role in the distribution of new industries in the short term, rural areas and remote communities. This gives them a greater opportunity to use and develop local resources, meet the limited market needs in these places, and also recruit labor in these areas. Diversification of industrial structure where small and medium enterprises work to meet the needs of the market in the field of diversification of the industrial structure;

#### **1.4.1.4. Providing New Products and Services**

Small and medium enterprises are a source of new ideas and innovations, integrating innovative goods and services. This is due to their knowledge of the needs of their customers (Khouni: 2008, 49-50).

#### **1.4.1.5. Providing the Needs of Big Projects**

Small and medium enterprises feed large enterprises with new ideas, which often serve as support for large enterprises with support services that these institutions do not have the power to produce. For example, Japan and the United States of America rely on a series of small and medium enterprises to supply them Lots of spare parts needed (Jawad: 2007, 43).

#### **1.4.1.6. Use Appropriate Technologies**

Small and medium enterprises use simple production techniques and a technical pattern suitable for developing countries. The technologies used in these institutions are labor-intensive, inexpensive and inexpensive for hard currency compared to sophisticated capital intensive technologies;

#### **1.4.1.7. Maintaining the Continuity of Competition**

Through rapid developments, competition becomes the tool of expression through innovation and improvement. Modern competition is manifested in several



forms: price, credit conditions, service, quality improvement in production and conflict between industries in switching, change and innovation;

#### **1.4.1.8. Achieving Economic Development**

Small and medium enterprises are often the source of economic development and the nucleus that develops the national economy later in large institutions, either in the development or ideas that provide (Abdul Ghafoor: 2001, 13-14).

#### **1.4.2. Social Importance**

##### **1.4.2.1. Social Development Justice and Wealth Distribution**

Most economic and social development plans usually aim to redistribute wealth and justice in the distribution of economic and social development gains to different governorates with different population density so that the gains are not concentrated in the more intensive provinces. And the medium and wide geographical spread and able to create a comprehensive regional as a balanced and help them to exploit the resources and local capabilities available and lack of need for a large infrastructure, which contributes to the achievement of social justice (Khouni: 2008, 54-55).

##### **1.4.2.2. Absorption of Unemployment and Job Creation**

Small and medium enterprises play an important role in the economy in all countries where they play a major role in providing job opportunities and absorbing unemployment. The cost of employment is less than the average cost of work in large organizations or institutions. Reflecting its positive role and enhancing its employability.

##### **1.4.2.3. Contribution to the Employment of Women**

Small and medium enterprises are interested in working women in their effective role in the introduction of many works that are suitable for the work of women such as computer work and sewing workshops and clothing, which affects the role of women in the formation of income and contribute effectively In building the national economy.

#### **a. Reducing the Migration of People from Rural to Urban Areas**

The existence of small and medium enterprises in the national economy is one of the main pillars in stabilizing the population and not migrating from the countryside to the cities (Afafna: 2004, 14).

#### **1.4.2.4. Satisfying the Desires and Needs of Individuals**

Small and medium enterprises are an opportunity for individuals to satisfy their needs and desires by expressing themselves and their opinions and translating their ideas and experiences and applying them through these institutions is a tool for self-realization of individuals and achieving psychological satisfaction and achieving power and authority.

#### **1.4.2.5. Community Service**

Small and medium enterprises provide an analytical service to the society in terms of its goods and services commensurate with its capabilities and potentials, increasing its consumer capacities, improving the standard of living, improving the level of welfare and enhancing social relations (Khouni: 2008, 54-55).

### **1.5. Classification of Small and Medium Enterprises**

The diversity and nature of the areas and activities of small and medium enterprises imposed on this type of institution take many forms.

Among the most prominent types of small and medium enterprises, we find:

#### **1.5.1. Classification of Small and Medium Enterprises According to the Legal Standard and the Nature of Ownership**

**a. Classification by Legal Standard** Small and medium enterprises are classified according to this classification to (Afafna: 2004, 14).

- 1.** Individual institutions, an institution owned and managed by one individual, who takes all decisions on the other hand, he receives the profits and is the first and last responsible for the results of the business (profits or losses);
- 2.** Corporations are enterprises owned by two or more persons. Each party undertakes to provide a share of money or work to share any profits or losses that may arise in this institution:
  - b.** People's companies include joint venture companies, small joint-stock companies and limited liability companies;
  - c.** Fund companies, such as stock companies and joint stock companies.

##### **1.5.1.1. Classification by Nature of Property**

Small and medium enterprises are classified according to this classification to (Brahimi: 2011, 10).

1. Public institutions are state-owned enterprises, and those responsible can not dispose of them without the consent of the State;
2. Private institutions are institutions owned by an individual or a group of individuals (companies of persons, money companies... etc);
3. Mixed institutions are institutions that are jointly owned by the public and private sectors, i.e., combining public property with private ownership

### **1.5.2. Classification of Small and Medium Enterprises on the Basis of their Orientation and the Economic Nature of the Activity**

#### **1.5.2.1. Classification by Economic Nature of Activity**

There are two types of small and medium enterprises according to this classification (Jawad: 2007, 81).

1. Service organizations: provide a variety of services that aim to achieve the public interest of the community, such as postal institutions and financial institutions;
2. Productivity Institution: is divided into:
  - a. Industrial establishments that collect equipment, tools and labor so that they can be exploited: In order to satisfy the needs of individuals and the main task of his / her institutions is to achieve production;
  - b. Agricultural institutions are interested in increasing the productivity of the land and reclamation.

**1. Classification of Institutions by Orientation** Three types of small and medium enterprises can be distinguished by this division (Lakhlaf: 2004, 35).

2. Family Establishments Small and medium enterprises are created in this type with the contribution of the family members, usually the residence of the family. They use the family labor to produce traditional products in limited quantities or produce parts of the goods for a factory located in the same area under what is known as the contract Subcontracting;
3. Craft Enterprises: Craft enterprises are not different from the previous type of small and medium enterprises. They are also dependent on family work in addition to market-oriented production. They produce traditional products or pieces for a factory in the form of a private contractual relationship. Is the fact

that its place of residence and activity is an industrial place independent of the house and hired by a worker whom is not a member of the family;

### **1.5.3. Advanced and Semi-Developed Small and Medium-Sized Enterprises**

These institutions rely on the introduction of the modern production techniques used, both in terms of expanding the use of fixed capital or organization of work, or in terms of products that are manufactured according to modern industrial standards.

### **1.5.4. Classification of Small and Medium Enterprises Based on the Organization of Work and the Nature of Products**

#### **1.5.4.1. Classification by nature of Products: Small and Medium Enterprises**

Take three forms (Qureshi: 2005, 39).

**1. Small And Medium Enterprises Producing Consumer Goods** The activity of small and medium enterprises in the system of production of consumer goods depends on the manufacture of several products, and the focus is on them because they fit the characteristics of these institutions. These products are (Qureshi: 2005, 29).

- a. Leather, footwear and textile products;
- b. conversion of agricultural products;
- c. food products;
- d. Paper and wood products and derivatives.

**2. Small And Medium Enterprises Producing Processing Goods** The processing industry requires a large capital, which is not commensurate with the characteristics of the small and medium enterprises. Therefore, the field of work of these institutions is characterized by narrowness and customization to include some simple branches such as the production, repair and installation of simple equipment from imported parts (Qureshi: 2005, 32).

**3. Small and Medium Enterprises Producing Intermediate Goods** The activity of these institutions depends on the production of a group of goods which are in the field of mechanical and electrical industry, chemical and plastic industry, building materials industry, quarries and mines (Lakhlaf: 2004, 35-36).

### **1.5.3.2. Classification Based on the Organization of Work**

In this classification we can distinguish between three types of institutions (Othman: 2011, 25).

1. These institutions shall combine the family production system with the artisanal production system under one artisanal activation, or with the participation of a number of assistants;
2. Manufacturing enterprises, which combine both small and medium enterprises and large enterprises, where they are used.

Modern methods of management, division of labor and the nature of goods produced and characterized by the breadth of their markets (Zaitony: 2006, 41). Another type of small and medium-sized enterprise is the former system of home enterprises or workshops, which is a preliminary stage towards the factory system. This system is very widespread especially in developing countries because of the method of production which is characterized by simplicity and ease of the former two types. It is also characterized by the use of simple and uncomplicated tools in production, where it is not about making a complete product, but only for carrying out a process or certain processes to be completed in another plant, which has been a major development in some industrialized countries, The United States and European countries, under the name of esoteric contracting (Zaitony: 2006, 47-48).

### **1.6. Financing Sources of Small and Medium Enterprises**

The sources of small and medium enterprises financing in terms of capital source can be divided into two types: internal sources, also called self-sources, and external sources.

#### **1.6.1. Internal Resources (Self-Financing)**

The internal or subjective sources of the institution are in fact only a surplus of funds that the institution has achieved and which it can manage. And there is a group of self-financing definitions, including:

1. **Self-financing** is a very important financing method and is more used to allow the institution to fund its activity self-employed without resorting to any other client;

2. **Self-financing** reflects the direct correlation between the consolidation stage, namely the composition of liquidity and between the recruitment stage and the use of liquidity (Al-Shanti: 2007, 5). This consists of unallocated profits and amortized depreciation;
3. **Unpaid Profits:** The net profits earned by the Corporation are divided into two parts, a division distributed to the shareholders and workers and the other part remains as reserves placed at the disposal of the institution called the undistributed profits. The latter is one of the means of financing the self and includes the collection of types of reserves;
4. **Depreciation Premiums:** Depreciation can be defined as a distribution of the purchase price of a long-term asset over its expected useful life, i.e. the institution purchases machinery and equipment not consumed immediately but consumed over a period of time, so the price of these equipment and machines distributed on Estimated number of years of productive life(Jawad: 2007, 91).
5. **Equivalents:** In order to determine the low non-depreciable funds (the goodwill of the shop) and allow for the accounting recording of expenses of an uncertain nature, their value must be known. They should also be used to meet the financial difficulties facing the institution. The allocation of the funds contributes to the formation of funds for Cost or cost components are covered (Aqel: 2000, 99).

Self-financing institutions give them the freedom to choose the type of activities they wish to finance, and at no cost to them. This type of financing will benefit from reducing the tax burden by taking advantage of the tax reduction because of the reinvestment of funds. This method is not enough, so institutions resort to external financing (Hindi: 1997, 5-6).

### **1.6.2. External Sources (External Financing)**

The institution uses the savings available in the financial market whether local or foreign by means of financial commitments (loans, bonds, shares) to meet their financial needs. The external sources of finance are as follows:

#### **1.6.2.1. Short-term financing**

It is one of the types or sources of external financing. The period of this type is less than one year.

Short-term financing represents the financing used to finance business operations in the project and is related to achieving the objectives of the project in liquidity and profitability.

**1. Private Credit:** Trade credit can be defined as the short-term credit given by the supplier to the buyer when the latter buys the goods for resale, ie trade credit, the company can purchase its raw material and commodity requirements from another company, and the purchase is repaid later (Al-Henawi: 1999, 429).

**2. Bank Credit:** The bank credit consists of the various loans provided by the bank to its customers from the industrial enterprises, i.e. the banks provide the enterprises with the necessary funds to finance their current operations. The bank credit takes several forms which can be summarized as follows (Lesous: 2001, 63).

**a. Current Accounts Receivable:** A facility provided by the bank to its customers and within a certain ceiling, the client can withdraw from this account and within the ceiling granted and the interest is calculated on the amount used from the current ceiling;

**b. Dealing with Private Paper:** The customers who deal with the sale of order to liquidate bills of exchange at the private bank where the bank to calculate the interest on the bill to maturity and deducted from the nominal value of the bill and give the customer net value of the bill;

**c. Letter of Credit (LC):** In this type of financing, the private bank shall pay the amount of the credit on behalf of the importing customer.

#### **1.6.2.2. Medium Term Financing**

Medium term financing is one of the most modern means of production. The short-term and medium-term financing gap is the repayment period where medium-term sources increase their repayment period for the year and less than 5 years and are obtained from institutions such as banks and insurance companies for the purpose of financing fixed-term needs such as investments medium-term financing is in (Lesous: 2001, 63).

**1. Medium-term Bank Loans:** Private Banks play a large role in medium-term financing. Medium-term bank loans consist of loans ranging from 1 to 5 years

and sometimes to seven, and are granted to fund capital transactions of institutions such as: To expand with new units;

**2. Financing by Renting a Rental Credit:** Leasing financing is one of the methods on which financing depends on investment institutions to avoid the intensive recourse to bank loans, bonds and the negative effects on the financial position of the institution.

There are several types of rental credit, the most important of which are:

- a. Sale and re-lease:** is an agreement between an enterprise and another party that may be a bank, financial institution, insurance company or independent rental company, for which the corporation sells the asset to the other party, provided that the party re-leases the asset therefore, the institution obtains the value of the asset for the investment and the asset remains in its possession for use during the leasing period in exchange for abandoning ownership of that asset;
- b. Operational Delay:** It is a source of financing for the lessee of the required asset without having to buy it. It also provides the maintenance service, which is charged in the calculation of the value of the lease payments;
- c. Finance Lease:** It is a financing source for the institution which is compensated for borrowing to own the asset and its obligations are limited to the management of the rent (Ahmed: 2008, 85-87).

### **1.6.2.3. Long-term Financing**

The establishment or the institution is engaged in long term financing as a result of the expansions and improvements that the entity intends to make. This type of financing is worth paying after more than one year. Therefore, it is advisable to agree on the fixed asset, Over a period of more than one year, we see the importance of long-term financing, which determines the direction and pace of growth of enterprises, and the task of obtaining long-term financing is one of the main tasks of the financial manager to meet the needs of the establishment of the necessary funds, or expansion purposes (Omran: 2012, 207).

Long-term sources of finance consist of two main types: property funds and borrowing funds and we shall show each one separately:



**1. Property Funds:** Definition of property monies is the equity of the enterprise, or is the funds of the project and consists of ordinary stocks, retained earnings and preferred stocks.

**a. Ordinary Stocks:** Before identifying ordinary shares, the share must be recognized in general. The share is a bond to the holder and the owner has the right to vote in the general assembly and the right to view the books of the corporation and participate in profits and losses and the right to sell and trade. A common stock represents a title document with a nominal value, a market value and a book value;

**b. Preferred Stocks:** Preferred shares are included in the equity of the project but differ from the ordinary shares in obtaining dividends and have priority in payment in case of liquidation, with payment in nominal value only (Al-Amin: 2011, 23-24).

**2. Long-term Loans:** Long-term borrowing is a burden and indebtedness to the institution and must be met later and long-term borrowing takes two forms: bonds - long-term loans.

**a. Bonds:** are instruments under which the issuers recognize their nationality to the person who owns them in an amount equal to the value specified in the bond and pledge to pay at the end of the period agreed upon in the bond, and the holders of the bonds some rights of them have the right to receive interest before the payment of any distributions of all shares the right to receive all their rights in the event of liquidation of the company. Bonds are characterized by a lower risk level compared with ordinary shareholders and preferred shares;

**b. Long-term Loans:** The entity obtains long-term loans from financial institutions such as insurance companies, insurance companies or external institutions. Unlike bonds, loans represent a means through direct negotiation through which money transfers from the lender to the borrower. Interest is paid periodically (luqret: 2003, 8).

The loan is amortized on a straight-line basis at certain dates or may be repaid once at an agreed maturity date. The effects, benefits and drawbacks of long-term

loans are not different from bonds, both external sources of long-term financing for the entity.



**CHAPTER TWO**  
**PRIVATE BANKS AND THEIR RELATION**  
**TO SMALL AND MEDIUM ENTERPRISES**

Private Banks are one of the specialized financial institutions dealing in money and profit-seeking. Private Banks are the place where money collectors meet demand. They provide an efficient system that mobilizes the deposits and savings of individuals and institutions.

Its profits through the difference between interest and employment and the cost of depositing, as well as through the difference between the interest rate and credit and the debt, his is also highlighted the importance of private banks(Zaitony: 2006, 51).

Small and medium enterprises are among the most important opportunities available to banks because of the many characteristics of institutions that contribute to the achievement of the objectives of banks. These institutions play a positive role in eliminating unemployment, combating poverty and increasing national income(luqret: 2003, 23).

**2.1. Framework Concepts for Private Banks**

The banks, especially private banks, have taken an important place in the economic systems. Private Banks have adopted large savings vessels and major channels of finance. Their types and functions have varied, and their definitions have been characterized by several characteristics and characteristics of other banks(Omran: 2012, 216).

**2.1.1. The Emergence and Concept of Private Banks**

Private Banks are the most important economic agents that contribute to the financing and development of economic activities such as industrial, private and even agricultural activities, where there is a strong and strong association between the bank and its customers, whether natural or moral (Sultan: 2005, 14).

**The Emergence of Private Banks**

The Bank's work is due to the fact that the only financial and banking institutions that can keep current deposits that can be withdrawn are checks on demand and on time.

In order to identify the importance of private banks and their role in economic activities, it is necessary to know how to create and develop them until they reached their current status (Al-Husseini: 2000, 13).

The emergence of private banks historically, the development of the activity of the money changers and industry. At a long time, the cashiers kept the coins that were deposited by the merchants in order to protect them from loss and theft. These funds are placed in their vaults in return for the depositor's delivery of a deposit certificate containing the amount of his deposit. The application shall be made as soon as this certificate is shown and the merchant shall receive interest in return for his services (Al-Sirafi: 2006, 36).

And now the deal between the banking is based on the element of trust and certificate of deposit, which individuals are accustomed to accept the fulfillment of transactions have gradually changed certificates from certificates to certificates worthy of payment to the holder in fulfillment of transactions and increased circulation as these certificates broke checks as a tool to settle transactions (Sheiha: 1999, 87).

The credit process has developed into the exploitation of some of the idle deposits and lending them to investment, after the industry and the bankers lend their own money, and they also lend from their forerunners. In return, the depositor receives a percentage of the interest that comes from the loans granted. As traders and traders have become more specialized in receiving deposits and granting loans from non-existent deposits. They started to create deposits and thus expanded their business. They specialize in receiving deposits and granting loans from deposits that do not have a physical presence. Through this process, it has been able to create new money and increase the size of the means of payment in the community (Al-Sirafi: 2007, 58).

Private banks have developed and are no longer just financial institutions with the ability to influence the supply of money or the quantity of means of payment through their ability to create bank credit And this makes it conservative in the practice of its workers so as not to fall in the risk has increased this reservation after the intervention of the state legislation to ensure that banks to maintain part of their funds in a liquid to the benefit of depositors, and also obliged to pay the proportion

of their funds with the Central Bank and these funds liquid as collateral Additional liquidity to provide.

#### **2.1.1.1. The Concept of Private Banks**

Private Banks can be defined as follows:

1. Private Banks are one of the specialized financial institutions dealing in money and seeking for profit, and private banks are where to meet the offer of funds on demand, as they provide a system of sufficient to mobilize the deposits and savings of individuals and enterprises (Hashish: 1996, 108).
2. Private Banks are those that specialize in receiving deposits and granting loans, besides offering another set of complementary banking services such as buying and selling securities, collecting private paper, discounting and accepting bills, buying and selling foreign currency, opening documentary credits and issuing Letters of guarantee, renting of steel safes... etc (Hendi: 1996, 10).
3. Also known as deposit banks, they have a basic function of accepting private deposits, that is, demand deposits that can be withdrawn by networks by depositors at any time (Mubarak: 1995, 346).
4. It is also known as a financial institution whose operations are concentrated in the collection of excess money from the need of the public or business to impose their lending to others on certain bases or to invest in specific securities (Shafei: 1962, 96).

Based on previous definitions, it is possible to say that private banks are a brokerage institution and a place where the surplus funds meet their needs with their applicants. These may be natural or legal persons. These funds are called deposits and are used in operations lending to individuals and discounting and thus contributing to the establishment and development of projects and the development of sectors and the development of economic sectors (Hanafi: 1991, 119).

#### **2.1.2. Special Features of Private Banks**

The studies have been based on several criteria for determining the characteristics and characteristics of private banks. Here we will address the most comprehensive characteristics without specifying these criteria.

The most important of these are the following (Bothib: 1996, 121).

1. The main feature of private banks is their ability to create credit and add it to the amount of money (book money, i.e. bank money);
2. Private Banks are capital projects whose primary objective is to maximize profits with the lowest possible cost by providing banking services or creating them for deposit money (Al-Assar: 2000, 72).

They are often owned by individuals or projects in the form of joint stock companies, the accumulation of savings, and the completion of loans and financing, they have a significant impact on the economic tourism of the state. In contrast, there is a general trend of state intervention to control them by controlling their capital by participating in them or even directly owning them and nationalizing them (Hashim: 1996, 45).

3. The most popular financial institutions in terms of number, they contribute to the collection of savings, whether small or large, it meets the wishes of all segments of society individuals, enterprises and small and medium enterprises and large and whether private or government, making them willing to pay money to their owners at what time (Abdullah: 1992, 218).

### **2.1.3. Types of Private Banks**

Private Banks are divided into several types:

#### **2.1.3.1. In Terms of Activity and Coverage of Geographical Areas**

It can be divided into what follows:

##### **2.1.3.1.1. General Private Banks**

It means those whose headquarters are located in the capital or one of the major cities, and operates through branches or offices at the state level or outside, and these banks do all the traditional work of banks Trade, short-term and medium-term credit and all foreign exchange and foreign trade financing (Qureisa: 1984, 130).

##### **2.1.3.1.2. Local Private Banks**

These are banks whose activities are limited to a relatively limited geographical area such as a specific governorate, city, state or specific region. These banks are characterized by small size for the sub-bank in the specified area (Al-Sisi: 1998, 19).

#### **2.1.3.1.3. In Terms of Volume of Activity**

It can be divided into what follows:

##### **2.1.3.1.4. Wholesale Banks**

These are meant for banks that deal with large clients and large enterprises (Hussein: 2004, 236).

##### **2.1.3.1.5. Retail Banks**

he opposite of the previous type where dealing with small customers and micro enterprises, but to attract more number of them, characterized by the banks of what are characterized by retail stores, they are spread geographically (Mandour: 2003, 125).

#### **2.1.3.2. In Terms of Number of Branches**

It can be divided into what follows:

##### **2.1.3.2.1. Chain Banks**

With the growth of the size of private banks, and the growth of the volume of business that they finance to provide services to various groups of society, and these banks are preparing their activities through the opening of a chain of complementary branches, which are several banks separate from each other administratively, One main center that sets the general policies to which all the units of the chain are committed. The main center coordinates the unit workers and their activities. There is no such type of private bank except in the United States (Al-Dulaimi: 1990, 98).

##### **2.1.3.2.2. Group Banks**

They are more like holding companies that establish several banks or financial companies. They own most of their capital supervise their policies and direct them. This type of bank has a monopolistic character and has become a characteristic and such banks have spread in the United States and Western European countries (Al-Rifa'i: 1996, 150).

##### **2.1.3.2.3. Local Banks**

Banks are established to operate in a particular geographical area and are normally subject to the laws of that region in case they differ from the laws of the country (Jassim: 1994, 198).

#### **2.1.3.2.4. Individual Banks**

Small enterprises owned by individuals or companies, often confined to a small area or distinct from the rest of the nooks, are limited to the use of their resources on highly liquid assets such as securities, private paper and other convertible assets Money in a short time and without losses, due to the fact that they cannot afford the risk of investing their money in medium or long-term loans for the small size of their resources (Mostafa: 1989, 136).

#### **2.1.4. Functions of Private Bank**

The functions of private banks have multiplied and diversified, no longer as the first banks to lend and borrow (Alan's: 1996, 29).

They are not specialized in certain operations, but are specialized in banking operations that they have acquired through the mediation of two groups of economists (Al-Hourani: 2007, 139).

Therefore, private banks have been very important for a variety of functions which can be arranged as follows:

##### **2.1.4.1. Unusual Banking Functions (Creating Money Deposits)**

When private banks grant credit, they put a range of monetary instruments at the disposal of borrowers. Thus, private banks have a basic function that is not shared by any financial institution other than the central bank, which is to create money, and private banks can play this role by giving the borrower the right to withdraw amounts within the limits of his loan, by checks or remittances. The borrower can use these amounts by checks or remittances to pay the value of the goods and services he wants, If legal criticism is used, an also checks and money orders, like legal money and used to pay off, and here we find a group of payments have been using other money is created by the bank deposits that lead to increase the total amount of money offered several times what the Bank is available from the reserves of cash (Ghazalin: 2002, 136). Through this function - the creation of deposit money, the nature of the core business of banks.

##### **2.1.4.2. Regular Banking Functions**

Private Banks are complemented by many monetary and non-monetary functions that can be grouped into two categories: traditional and modern (Benhalima: 1997, 19).



#### 2.1.4.2.1. Traditional Functions

We are assigned to a range of functions:

**1. Acceptance of Deposits and Opening of Accounts** There is no doubt that one of the most prominent functions of private banks to accept deposits under certain conditions, and the deposit represents a commitment to the bank as its depositor in favor of the depositor who has the right to deposit (Essam Al-Din: 1989, 73).

Deposits are either influential or in movable values. Deposits are the main resources that feed the largest segment and are considered to be the most important of the banks' business. They are also called deposit banks

Deposits in accordance with maturity can be classified as follows (Rashid: 1960, 168).

**a. On-demand Deposits** Is the most important and according to them can be withdrawn from the deposit at any time and do not pay interest and subject to withdrawal by checks or bank transfers (Yahia: 2001, 64).

**b. Non-current Deposits** It takes several forms:

- **Time Deposits:** It shall be deposited with the Private Bank and shall not be withdrawn except upon expiry of a certain period agreed upon by the depositary with the Bank (Al-Issawi: 2000, 96).
- **Deposits with a Notification:** They share with the future deposits in the presence of a certain restriction on the withdrawal of them, which is the need to notify the bank before the withdrawal of a certain period (Khalil: 1982, 89).
- **Savings Deposits:** They represent savings deposited by the owners until the need for them instead of leaving them idle in their own coffers, and consequently to obtain a return for them, and can be withdrawn from them at any time (Nematallah: 1975, 75).
- **Operation of Bank Resources:** After the Private Bank has collected its various resources; it addresses the task of its operation, taking into account the principle of reconciling its core objectives (liquidity, profitability);
- The operational aspects of the Private Bank's resources are as follows:

- Providing loans and advances (Ali: 1986, 44).
- Investments;
- Doing foreign trade services;
- Dealing with securities;
- Dealing in foreign currencies.

#### **2.1.4.2.2. Modern Functions**

This functionality can be divided into the following sub-functions:

- 1. Business and Customer Property Management:** The Bank performs this function through investment management. This service usually requires customers who do not have the time or expertise to manage their money, but in new projects or in securities and the Bank collects and uses the savings of its customers. In assets with high liquidity or investment in productive projects investment in productive projects (Ma'rouf: 2005, 84).
- 2. Personal Housing Finance:** This is through mortgage lending. It is worth mentioning that each private bank has a specific lending ceiling in this area that should not be exceeded (Haddad: 2005, 89).
- 3. Contribution to Economic Development Plans:** Private bank bypasses short-term lending to medium and long-term borrowing (Khalaf: 2007, 91).
- 4. Savings of events:** Banks encourage their customers to make savings to meet certain occasions such as: expenses of marriage, summer season, holidays ... giving them benefits on these savings and granting them special credit facilities commensurate with the size of their savings (Al-Wakil: 2006, 63).
- 5. Credit Card:** It is one of the most famous services developed in private banks through which the customer can deal with many shops realized with the bank to accept and grant credit to the cardholder (Amer: 2010, 73).

#### **2.1.5. The Resources and Uses of Private Banks**

The resources of banks and their uses means the money that these banks receive, which they direct and use in different fields in the form of loans and bank investments.

Bank resources are obligations or liabilities to them, and the channeling of banking resources represents their uses and uses in assets or assets of banks (Awad: 2006, 52).

Therefore, expenditure resources are liabilities and their uses for these resources are assets.

#### **2.1.5.1. Resources of Private Banks**

Private Bank's resources are the sources of various funds, whether internal or external, and can be divided in terms of obligations of the bank to self and non-self and then we will be subject to resources of both types(Yahia: 2001, 132).

##### **1. Self-resources:**

**Paid-up Capital:** The paid-up capital is the amount demanded by the bank and paid by the shareholders, which is shown in the budget, and is not refunded in the event of failure or dissolution of the bank (Ghazalin: 2002, 149).

**2. Legal and Special Reserve:** This is the portion deducted from the deposits accumulated by the Private Bank during its working years, which are two types:

**a. The Statutory Reserve:** is a reserve which the Bank is normally obliged to deduct from a certain amount of deposits determined by the Central Bank. For this purpose, the depositors' funds are guaranteed until an amount equal to the capital reaches the law establishing banks;

**b. Special Reserve:** The Bank has no legal obligation to strengthen the financial position of the Bank to its customers. The general purpose of the reserve is to guarantee against fluctuations in asset values and against bad assets and to seek to expand them(Rashid: 1960, 193).

**1. Non-self-resources:** The Non-self-resources are represented

**Checks, Notes and Periodic Appropriations:** These are obligations and liabilities that the Bank is required to pay on the due date(Jassim: 1994, 206).

**2. Due to Banks:** Banks borrow from each other especially in times of financial distress. A bank may borrow from another bank or other banks to cope with an increase in demand for deposits. The banks' recourse to such emergency borrowing will soon disappear. The disappearance of reasons (Wazzani: 1996, 163).

**3. Deposits:** This section of accounts for the largest amount in the bank's liabilities and is from the balances of demand deposits, (current accounts and credits), in accounts receivable), term deposits balances, (term accounts and

prior risks), and savings deposits balances, (savings accounts), and includes the insurance and values payable for payment (1), and are exposed to different types of deposits:

- a. Deposits in Progress (Deposits under Demand):** Deposits that the Bank commits to pay in value at the time the depositors, as usually called in banks and banking institutions, to the high of the withdrawal thereof and in addition to comparison with other deposits during a certain period, the depositors do not receive interest;
- b. Deposits with Risk:** deposits are to be notified to the bank before the withdrawal of a certain period, so the bank has the opportunity to manage the crisis resources, for such deposits;
- c. Savings Deposits:** The bank provides interest to its owners, which are deposited by the savers in order to obtain interest. These deposits have a slow balance of funds for trading and movement. This allows the bank to pay the owners of these deposits an interest rate that is usually commensurate with the maturity dates. And reserve. This type has no specific duration and operations. The deposit process here is frequent. The following deposit process is doubled to the original deposit amount and withdrawals can also be repeated (Abdullah: 1992, 236).

#### **2.1.5.2. The Use of Private Banks Resources**

The Private Bank's uses are in addition to assets, i.e., it shows us how the funds and resources at the disposal of the Bank are invested. Consideration should be given to the reserve in the selection of assets where their uses include the risk element. At the highest possible rate of profit while maintaining liquidity and in general terms, we find that the Private Bank's budget assets are arranged in descending order according to the degree of liquidity starting with the cash in the bank's coffers ending with the fixed assets (Hashim: 1996, 96).

The assets side of the Private Bank's budget includes the following elements:

##### **2.1.5.2.1. Present Cash Balances**

Cash assets that can be described as the group of assets with full liquidity and appear in cash form the treasury of the Private Bank of the Bank and include on the paper legal and cash money and what is in possession of foreign currencies either

form II The balance of the bank's private bank which may be provided as a private reserve by the Bank as a statutory reserve(Al-Assar: 2000, 149).

**1. Cash in Treasury:** The cash balances are ready at any time to pay the value of the checks calculated on the deposits of the Bank's customers. These include banks, coins, supporting metals and foreign currencies, gold (coins and bullion) With liquid money in his coffers;

**2. Cash Balances Deposited with the Central Bank:** a percentage that the Private Bank is obliged to keep with the Central Bank. This percentage is called the statutory reserve. In other words, these balances represent the legal reserve ratio, which enables the Bank to reach the statutory reserve ratio. They are above the statutory reserve. These balances are held by the private banks of the Central Bank by virtue of the law without interest and are calculated as a percentage of the deposits with each bank. These cash balances are usually referred to as the first line of defense against customer withdrawals(Shafei: 1962, 198).

#### **2.1.5.2.2. Specific Transfers**

**1. Treasury Bills:** These are government bonds that are offered to the Private Bank in return for the government obtaining these loans;

**2. Commercial Papers:** These are used to obtain loans against their discount. The latter impose an interest rate on them (discount rate). These special transfers are the first use of the Bank's resources that generates income and is more liquid than other assets (Al-Sirafi: 2007, 136).

#### **2.1.5.2.3. Due to Banks**

The loans granted by the bank to other private banks, and impose an interest rate on loans granted.

#### **2.1.5.2.4. Securities and Investments**

Private Banks usually invest their resources in purchasing government bonds and securities from one of them, and private sector bonds in pursuit of profit. Such investments enable the bank to obtain high returns. Securities are less liquid than specific remittances, if they are not easy to sell quickly, especially when the recession prevails in financial markets, and may require holders to wait until maturity but yield is large (Zaitony: 2006, 136).

#### **2.1.5.2.5. Loans and Advances**

The essence is the specific amounts short-term credit granted by private banks to finance business activity for the business and trade sector this asset is less liquid but is the most profitable asset. The Private Bank is not entitled to ask the customer to pay the loan amount unless the maturity of these loans is two types (Shafei: 1962, 198).

- 1. Loans against Guarantee:** They are loans accompanied by a guarantee, such as goods, private papers, etc;
- 2. Unsecured Loans:** In the past, banks were hesitant to grant these loans only in narrow terms, but at present such loans have expanded. This may be due to the widening role of the banking sector in the national economy (Al-Henawi: 1999, 486).

#### **2.2. Private Banks and Small and Medium Enterprises**

Small and medium enterprises are the mainstay of any economy because of their importance and role in supporting economic and social development, where their role is highlighted more than by its multiplicity. It plays a strategic role in the local and international economies. In addition to increasing the globalization of sources of finance and the emergence of competition among financial institutions, Looking for new clients including small and medium enterprises (Sultan: 2005, 178).

##### **2.2.1. Relationship of Banks to Small and Medium Enterprises**

###### **2.2.1.1. Specific Core Models of the Small and Medium Enterprises Banking Relationship**

There are two basics models can be distinguished by determining the nature of the relationship between commercial banks and small and medium enterprises as they come:

###### **2.2.1.1.1. American Model**

There are a number of characteristics of this model that are characterized by the following:

- 1.** Each loan process is formed by a separate contract between the bank and the institution;

2. The Bank risks financing by conducting standardized studies that allow it to compare the performance of the institution requesting funding with the model institutions.
3. The impact of funding risk at the depositor level is minimized by diversifying the bank loan portfolio;
4. The loan risk is managed through a set of contractual conditions that guarantee the bank to recover its money in case the institution is able to repay its debts;
5. The Bank's success in this model is subject to the quality of the tools used to measure the loan risk as well as the size and diversity of the loan portfolio, in addition to reducing the operational costs of this relationship;
6. One of the countries that uses this model in the United States is where commercial banks are bound by laws to link long-term relationships with institutions, giving a clear idea of how to turn the role of financial markets into financing the US economy (Al-Wakil: 2006, 148).

#### **2.2.1.1.2. German Model**

The relationship between the Bank and the small and medium enterprises within this model is characterized by the following characteristics:

1. The relationship between the bank and the small and medium enterprises is determined on the basis of financial partnership;
2. The process of remedying a bank's risk of financial partnership requires in-depth knowledge of the institution;
3. The risk of the loan is managed through the intervention of the Commercial Bank in case of problems in the institution;
4. The potential impact of the loan risk at the depositors and savers level is minimized through the Bank's continuous follow-up and monitoring and the exchange of information between the Commercial Bank and small and medium enterprises to build a trustworthy and transparent relationship. For this model, which occupies a privileged position within the external financing sources of small and medium enterprises?(Nematallah: 1975, 96).

### **2.2.1.2. Small and Medium Enterprises as a Strategic Sector for Private Banks**

Despite the strategic importance of small and medium enterprises, it still suffers from a number of problems, the most important of which are the financing problems. Since private banks are considered the most important sources of direct financing for small and medium enterprises, they pay more attention to large enterprises for the following reasons:

1. The high risk level requires commercial banks to provide loans to large enterprises, because they have high potential, while requires dealing with institutions and study the files of multiple and many to enable the latter to obtain amounts of limited value, so tend to commercial banks to finance the first type of Institutions, while reluctant to lend the second type of institutions (Abduallah : 2008, 69).

2. The inability of small and medium-sized enterprises to provide convincing guarantees to private banks and their inability to provide sufficient information about their financial situation, aspirations and future prospects, leaving them in financial straits (Buamran: 2012, 89).

3. The internal administrative procedures required by private banks when small and medium enterprises use them to obtain a loan equal to the same cost as that granted by commercial banks to large enterprises (Abdulrahman: 1996, 96).

4. High interest rates on loans and commissions charged by private banks when they resort to small and medium enterprises, with short repayment period (Mohamed: 2003, 82).

Therefore, small and medium enterprises are a burden on private banks as a strategy to increase interest in the small and medium enterprises sector as a result of the following factors:

1. The emergence of small and medium-sized enterprises as a focus of the economic and strategic processes adopted by private banks. Although the banking service of these institutions is more risky than the bank's service to large enterprises, in comparison to these risks, the banking operations of small and medium enterprises s are more profitable (Al-Ameri: 2007, 62).



2. Private Banks was find a range of solutions to deal with small and medium enterprises, including; Identify credit risk, reduce bank transaction costs, achieve profitability (Mustafa: 2007, 36).

3. The spread of small and medium enterprises in large numbers compared to large institutions, which led to the emergence of organizations and government bodies in most countries, both developed and developing, provide assistance and technical support and financial institutions, which allows the commercial banks to obtain more accurate information (Mustafa: 2007, 38).

4. Due to the rapid economic developments and the expansion of the market economy, the importance of lending to small and medium-sized enterprises has become increasingly important as it has contributed significantly to keeping pace with this development by the banks In addition to the competition between financial institutions, commercial banks are looking for new customers, especially in the small and medium enterprises sector (Al-Ameri: 2007, 63).

5. The globalization of sources of finance has led to the increasing tendency of large institutions to diversify their sources of finance. Making the latter looking for new customers to exploit the various deposits and services available to them, and this is why commercial banks are turning their attention to the sector of small and medium enterprises (Al-Ameri: 2007, 64).

### **2.2.2. The Strategy of Private Banks in Financing Small and Medium Enterprises**

The challenges of the globalization era should seek to provide innovative financing services by diversifying the areas of resource utilization on a basis that is in line with the needs of multiple customers. The expansion of the financing of small and medium enterprises has been one of the most important fields which is a fertile area for developing the financing activity of banks of institutions (Abu-Qahf: 2002, 65).

Most of the institutional fabric in most countries requires the following requirements:

1. Adapting the administrative levels of studies and decision-making to achieve efficiency and effectiveness by paying attention to:

- a. Providing loan management tools and tools;
  - b. Development and development of managerial capacity to analyze the risk of lending to small and medium enterprises;
  - c. To set the Bank's default policy in line with the general objectives set;
  - d. Spreading the credit risk on various economic activities;
  - e. Encourage the establishment of venture capital institutions and financing institutions for leasing.
2. Accompanying and providing permanent assistance to institutions especially in the following fields:
- a. Entry into cooperation and partnership projects;
  - b. Restructuring and getting out of stumbling blocks;
  - c. Accompanying the owners of enterprises in the export and access to foreign markets;
  - d. Access to financial markets.
3. Cooperation and coordination with governmental bodies specialized in supporting institutions in order to provide the necessary information about these institutions (Ibrahim, 2001, 268).

### **2.2.3. Methods of Financing Small and Medium Enterprises by Private Banks**

Private Banks is major financiers for small and medium enterprises, where they intervene to provide a variety of loans that are classified according to the nature of the activity of the financier to the exploitation loans and investment loans (Al-Sa'eed: 2007, 12).

#### **2.2.3.1. Exploitation Loans**

The loans are intended to finance all operations carried out by the institutions in the short period, which is often not more than (12) months and is represented by the Fund's appropriations.

The Fund's credit is an agreement under which the Bank undertakes to make money at the disposal of the person for a specified period of time. It may be agreed that the beneficiary withdraws these amounts in one lump sum or in one payment or in successive installments. Opening the credit may take a simple form or current account form the Fund's appropriations take several forms:

**1. The Fund's Facilities:** These are loans given to alleviate the temporary or very short liquidity difficulties faced by the institution. Such loans are usually resorted to in certain periods such as the end of the month, for example, usually not exceeding a few days;

**2. Bank Statement:** The institution that registers a shortage of treasury is the result of the working capital adequacy. It may be up to the year. This means the amount that the bank allows for the process to withdraw more than the balance of its current account. The period in which amounts are withdrawn in excess of the creditor's balance in the current account, and the calculation of interest shall cease once the balance of the debtor has returned to the creditor;

**3. Loan season:** A loan on the current account may extend to more than 9 months, and is used to finance the seasonal activity of a particular institution, which is directed to meet the needs of the treasury resulting from this seasonal activity;

**4. Commitment Loans:** In this case, the funds are not provided directly to institutions, but only to give the bank confidence. The loan represents the bank's guarantee to the client to enable him to obtain money on the other hand. Customer's inability to meet its obligations (Salman: 2008, 69).

#### **2.2.3.2. Investment Loans**

Itsloans to fund those operations carried out by institutions for long periods and there are two types of investment loans as they come:

**1. Medium-term Loans:** Medium term loans are intended to finance investments that exceed seven years of usage, such as machinery, equipment, transport equipment and production facilities. The life span of the financed asset should not exceed the duration of the loan. Due to the length of time, the bank is exposed to risk. The freezing of funds, not to mention other risks related to the possibility of non-payment, which can occur depending on changes that may occur in the level of financial position of the borrower (Al-Rubaie: 2006, 165).

There are two types of medium-term loans can be distinguished:

**a.** Loans that allow the bank to obtain liquidity when it is needed to wait for the maturity of the loan it gives by repaying this loan with another financial

institution or the issuing institute, which allows it to reduce the risk of freezing the funds for a period long;

- b. Unsecured loans:** The loans in which the bank has the risk of waiting for repayment of the loan because it does not have the possibility of a discount with another financial institution or issuer. Here the risks associated with freezing the funds are greater (liquidity risk). To avoid these risks, The bank should improve the study of the loan files in a timely manner in a manner that prevents the treasury deficit (Al-Rubaie: 2006, 183).

**2. Long-term Loans:** This type of loan is mostly based on long-term external sources to finance all the needs of the permanent nature of the institutions benefiting from them. In most cases, the financing does not exceed 70% of the project amount, and its duration exceeds 7 years. The guarantees required in this type of loan are: the primary mortgage in the first place, the guarantee, the mortgage and sometimes the bank guarantee (Kanjou: 2007, 56).

#### **2.2.4. Modern Methods for Private Banks in Financing Small and Medium Enterprises**

These modern Methods depend on the availability of basic conditions to overcome the problem of high risk and asymmetry in information:

1. Developing ways of providing financial services and diversifying them and adapting them to the needs of these institutions;
2. Reducing the costs of loan administration by applying modern technologies in collecting and processing information to facilitate the lending process, in addition to the possibility of cooperation of banks with professional associations of these institutions as well as various support institutions for this sector in order to obtain with more accurate information or even financial or semi-financial guarantees (Salima: 2006, 139).

Among the most important of these new technologies, which proved to be effective, are:

##### **2.2.4.1. Credit Rating System**

This method was introduced in the early 1990s by large commercial banks in the United States of America specifically for the assessment of consumer loans. It was then circulated worldwide, so that most of these loans are currently being

studied and granted on the basis of this method. Its assessment of the risks that may be successful in granting loans on the basis of statistical analysis that allows predicting the probability of the customer being unable to pay (Majid: 2006, 36).

This method is based on the following principles:

1. The conclusion of a quantitative scale based on statistical models through the study of the statistical sample of the society belonging to the customer and the component of the old borrowers in order to predict its ability to meet commitments;

2. The availability of a large number of customers, i.e. the statistical community; and thus test the sample representative of that community.

This method relies on the exploitation of information gathered about customers in the past to know the performance in the present and forecast in the future, and if large banks are on the crisis conditions to apply this method, the small banks are not in the same situation due to the limited capabilities of the borrower and the small statistical community that deals with it Making the management of the borrowing process difficult in terms of risks and costs. In order to overcome these difficulties, small banks have started to share information among themselves. This allows for the establishment of joint data banks that allow them to apply this method, as well as other automated methods. Banking institutions usually resort to specialized agencies in the collection and processing of information on small and medium enterprises that develop specialized programs in the field of lending and the arrangement of institutions (Al-Fakhri:2001, 14).

Among the advantages of this method are:

1. Improving the monitoring systems in terms of quantity and quality. The evaluation process is done automatically, continuously and in a timely manner. This allows to identify the level of risk in the overall borrowing operations and thus take the appropriate actions on time and determine the borrowing policy objectively;

2. Instead of relying on personal personalization of loan supervisors, whose views are usually subjective;

3. Reduce the cost and duration of processing files;

4. Raise the level of accuracy and objectivity in the loan process, especially as these systems are constantly improving (Amer: 2007, 5).

Despite the advantages and advantages of this method, it is not lacking some of the disadvantages that must be considered, including:

1. This method does not take into account the minority or categories of customers that do not correspond to the characteristics of the statistical societies that were relied upon in the development of these automated systems;

2. That the application of this method may make most enterprises event-dependent or that do not have financial information covering a certain period of time subject to exclusion for subjective reasons;

3. Dependence on the previous information, old, makes the process of circulation of a large risk, especially as the market economy is characterized by economic cycles, and the success of this method requires taking these changes into account and this is not easy (Al-Mahrouq: 2006, 65).

#### **2.2.4.2. The Way Organizations are tabulated by others (External Rating)**

This method determines the future and future status of the institution by assessing its ability to pay and increasing transparency in the borrowers' relationship with the borrowers. Even if the lender evaluates an institution, this external evaluation of the institution is added by specialized institutions in the field or professional associations to which the institution belongs. The borrower is the primary beneficiary of this external evaluation of its position in the market, as its ranking may improve its bargaining position with the lender. This assessment is also a driving force, as is the continuation of the assessment. By strengthening its strengths and addressing its shortcomings (Al-Wakil: 2006, 159).

In Europe, the increasing demand for specialized agency services in the evaluation of small and medium enterprises has increased in recent years and the interest in innovative institutions has grown because they are usually fast-growing and highly profitable. The technological field to assess the importance of innovations and to assess the level of risk and to identify the proportion and probability of success, making them previously prefer not to venture with them (Amer: 2007, 72).

Although there are many attempts to improve external evaluation methods, their development systems are still very expensive, making them unusable by private

banks alone, despite the availability of additional information about the institution (Al-Da'imi: 2009, 93).

#### **2.2.4.3. Risk Sharing Method with Third Party**

The biggest obstacle facing small and medium enterprises when they apply to banks or other financial institutions to apply for loans is the weakness or lack of guarantees. In order to overcome this problem, banks have cooperated with other individuals to share risks (Abduallah : 2008, 83).

An institution have created joint guarantee institutions The European Union, for example, have emerged as a mutual guarantee institution and plays the role of mediator between small and medium-sized enterprises and banks. It guarantees the loans granted to its members, provides them with support in the field of training and consultancy, and often banks provide loans based on the evaluation of institutions To ensure first and on the amount or percentage of guarantees of a second (Buamran: 2012, 102).

In addition to these methods, there are several other methods in this area that have not been addressed due to the low use of these methods, including the method of involving the borrower in the risk assessment and the method of borrowing costs by the level of risk (Abdulrahman: 1996, 96).

#### **2.2.5. Small and Medium Enterprises Financing Constraints**

On the basis that banks are the main source of financing for small and medium-sized enterprises in various countries of the world, the latter usually refrain from granting credit to this type of institution, which requires us to highlight the obstacles that prevent the improvement of the relationship between banks and institutions (Al-Ameri: 2007, 93).

##### **2.2.5.1. Transparency of Information**

The lack of transparency of information provided by small and medium enterprises is characteristic of other institutions, because of their special nature towards the information system and structure of ownership. small and medium enterprises link banks with a strong relationship that takes substance from the loan agreement, The information provided by these institutions to banks, because of the conflict between the objectives between them, from the perspective of the institution believes that banks are strict in terms of the size of information required and do not

take into account their privacy, while the bank confirms that this is due to weak management in the production and eloquent information transparent and in line I with the nature of the loan (Mustafa: 2007, 71).

The information system of small and medium enterprises is deficient due to the management's fear of reporting accounting and financial information and the weakness of the financial market in evaluating these types of institutions, making it difficult to take a comprehensive picture of its activity (Al-Ameri: 2007, 106).

In general, the institutions have very few means to report and indicate the status of their investments, if they do not use even the medium and long-term forecasting techniques, and if these techniques are used become related to the quality of the management team produced for them, therefore the information provided by the management of institutions is considered to be not transparent and insufficient for weakness and inefficiency Management in convincing banks of their quality The loan relationship between the institution and the bank shows asymmetry in the information between them. As we have seen previously, the management has more information about the status of the institution and all the variables specific to the profitability of its investments. Therefore, the lender requires a minimum amount of information which enables it to conduct a financial and economic assessment of the use of borrowed funds. The budget and results tables are often the minimum information provided by small and medium enterprises(Ibrahim, 2001, 312).

#### **2.2.5.2. Character and Behavior of Managers (Moral Hazard)**

This factor is closely related to the asymmetry of information in the lender and the borrower, and is the moral hazard related to the small and medium enterprises facilitators, where it is assumed that the process converts the part of the results achieved in order to reduce the financial expenses. Between the lender, the latter cannot observe and monitor the performance of the institution and on this basis shows the problem of financing small and medium enterprises not only related to the lack of solvency, but the results of banks' fear of management and successful in turn, the Department's unwillingness to inform all Related information and activities for up position Bank and banks which are affected by decisions regarding the granting of credit for small enterprises and medium-sized character of the borrower (Al-Sa'eed: 2007, 23).



### **2.2.5.3. Guarantees**

The guarantees offered by banks to economic institutions play an effective role in evaluating the behavior of the manager, which makes the deficit very costly for him, which reduces the risk to the project to the lowest levels, while at the same time make greater efforts and declare the transparency of the results. The loans are based on the decision to finance the availability of guarantees to borrowers without taking into account the size of the institution and the quality of its work, and banks require funding for personal and high personal guarantees (Kadouri: 2009, 36).

### **2.2.5.4. Limited Size and Type of Funding**

The amount of loans available from private banks is often limited and insufficient to develop small and medium-sized enterprises with severe long-term funding shortfalls and a single pattern of treatment in terms of grace periods and duration of repayment, regardless of whether this pattern is first proportional to the nature of these institutions (Abdulrahman: 1996, 109).

The categories that do not have the capacity for investment mobility and do not have the experience and qualifications are not granted funding until there are guarantees, on the contrary the rich groups that get the loans of the required size and therefore the task of banks in these countries limited to help the rich and institutions based on growth and to expand (Buamran: 2012, 113).

**CHAPTER THREE**  
**THE REALITY OF PRIVATE BANKS AND SMALL AND**  
**MEDIUM ENTERPRISES IN THE IRAQI ECONOMY**  
**AND IN REGION-IRAQ**

Private Banks are one of the specialized financial institutions dealing in money and profit-seeking. Private Banks are the place where money collectors meet demand. They provide an efficient system that mobilizes the deposits and savings of individuals and institutions (Hashish: 1996, 136).

The financial sector in Iraq consists of a number of financial institutions, the most important of which are the banks, the Iraqi market for securities, the financial transfer companies and the insurance companies. The banking sector holds the largest share of the financial system. The capital of the banking system is (94%) of the total capital, while the share capital of the Iraqi market for securities (4%) and the share capital of insurance companies (2%)(Central Bank of Iraq: 2016, 2).

**3.1. Development of the Banking Sector in Iraq**

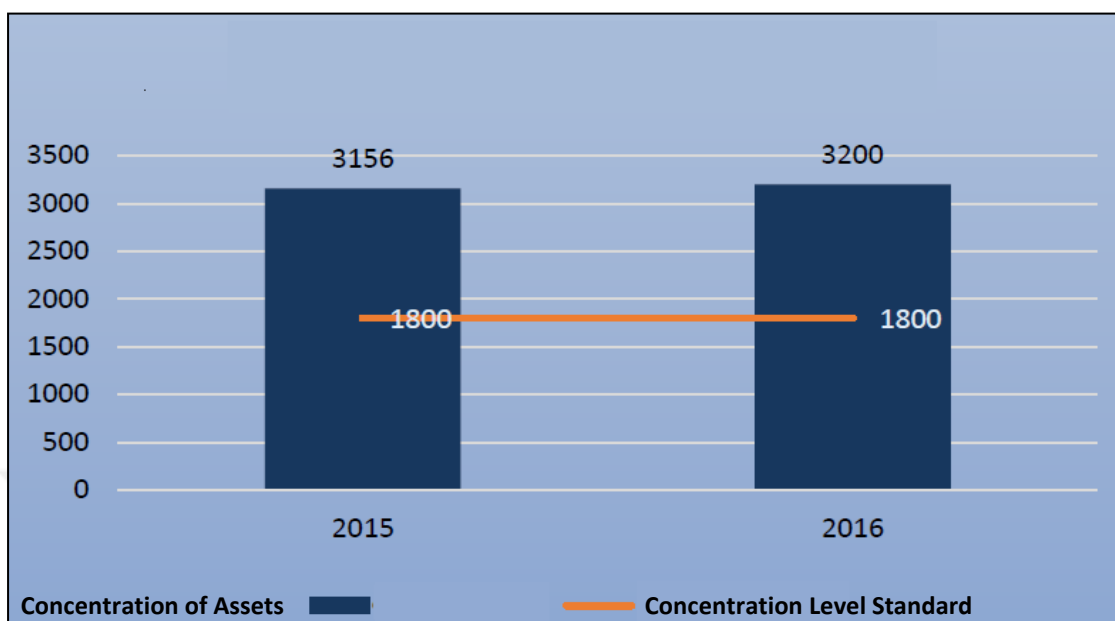
The banking system in Iraq consists of (64) banks, of which (7) are government banks and (57) are local and foreign. The largest number of commercial banks is (43) banks, followed by Islamic banks with (18) banks, and specialized banks with (3) banks(Central Bank of Iraq: 2016, 3).

**3.1.1. Assets of the Banking Sector**

The volume of assets for (2016) decreased to (221.2) trillion dinars by a decrease of (0.7%) for the year of (222.8) trillion dinars. Although the number of government banks is less than the number of private banks, the activity of government banks is much higher than the activity of private banks , The assets of the total banks concentrated in government banks, they hold (89%) of the total assets as in 2016, and concentrated in Al-Rafidain Bank, the Bank of Rasheed and the Iraqi Bank of Trade, as these banks hold by (48%, 28%, 11%) respectively of the total assets of banks and the rest of the share of the rest of government banks and local and foreign private banks (Central Bank of Iraq: 2016, 23).

The concentration of assets of the five largest banks according to the Hirschman Herfindahl index reached (3200) points, indicating a high level of concentration in assets, which means a monopoly in the banking system. This

concentration increased from (3156) points in (2015) to (3200) point in (2016), as in figure (3.1) (Central Bank of Iraq: 2016, 5).



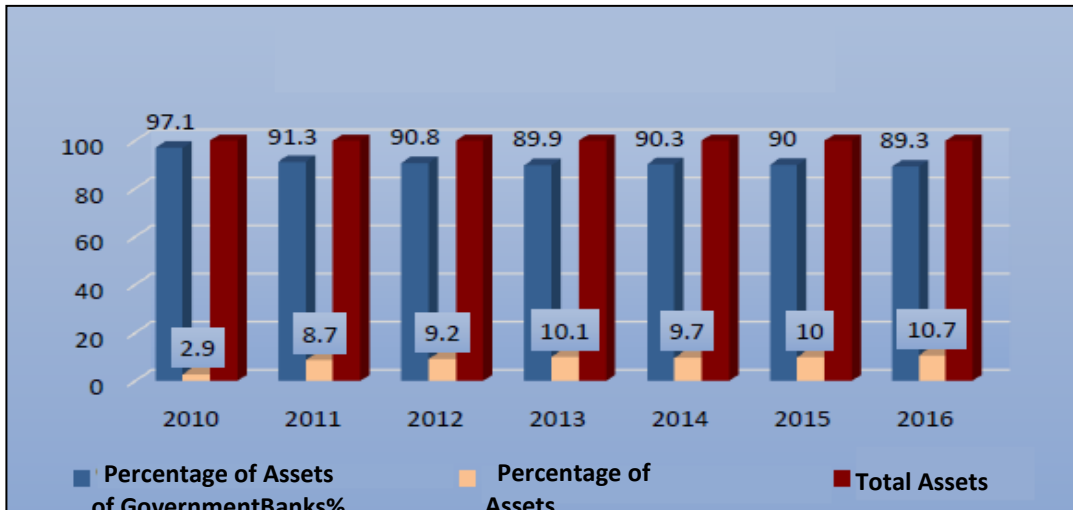
**Figure (3.1): The Concentration of Assets of the Top Five Banks**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

This increase in market share is due to the increase in the assets of the bank to the total assets of the banking system, which increased from (47.1%) in 2015 to (48%) in (2016).

This indicates that Al-Rafidain Bank acquired the largest market share of the banking system as for the assets (HHi) of Al-Rafidain (3200) point in (2016), therefore, any shock exposed to Al-Rafidain Bank reflected negatively on the banking system in Iraq, if the exclusion of Al-Rafidain Bank to know the degree of concentrations in the total banks to show that the concentrations of the total banks be weak and have no clear effect on the banking system according to the index Findel saw the total banks concentrations except Al-Rafidain Bank are (900.85) point and this low level of concentration reflects the state of competition between banks (Central Bank of Iraq: 2016, 6).

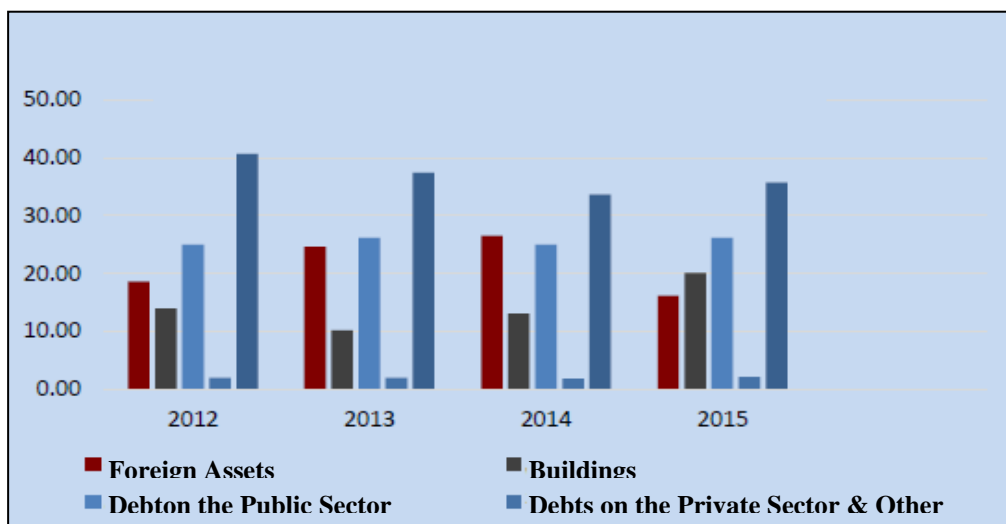
On the other hand, there is a decline in the ratio of the assets of government banks to total assets and the rise in the assets of private banks during the period (2010-2016), a good indicator that reflects the development in private banks, as in figure (3.2) (Central Bank of Iraq: 2016, 6).



**Figure (3.2): Assets of Public and Private Banks**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

The largest proportion of the assets of commercial banks is the other assets item. These assets are different and different, and the proportion of these assets also decreased. The debt sector on the private sector and sectors was relatively stable during the period (2012-2015), the same is true of the debt sector in the public sector as it witnessed growth in (2015) as a result of the financial crisis facing Iraq after 2014, followed by foreign assets, which were volatile due to the situation in the country, especially security and finance, the period after (2014) decreased foreign assets due to the financial situation in Iraq, as in figure (3.3) (Central Bank of Iraq: 2016, 6).

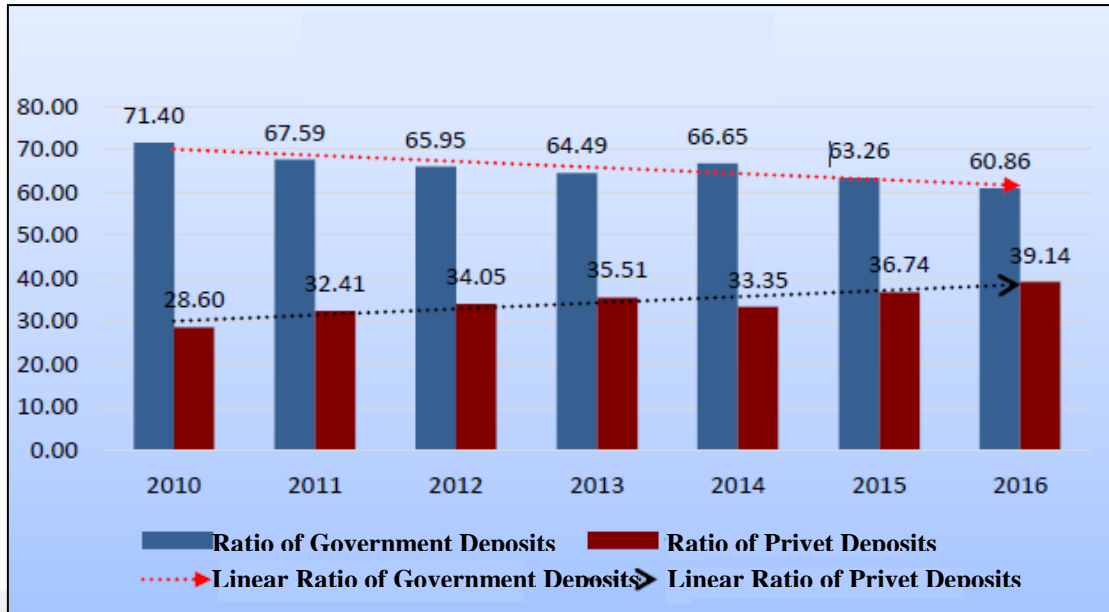


**Figure (3.3): Ratio of Each Type of Asset to Total Assets**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

### **3.1.2. Deposits of the Banking Sector**

The balance of deposits with the banking sector decreased from (64.3) trillion dinars in (2015) to (62.4) trillion dinars in (2016). The reason for this decrease is the reduction of government expenditure after (2014), which was reflected in the decline in the proportion of government deposits in banks, which constitute more than (60%) of the total deposits in banks, especially public banks, to decline from (49.4) trillion dinars in (2014) to (38) trillion dinars in (2016), on the one hand, on the other hand, the decline in expenditure reflected on the reduction of incomes with the thousands Private sector deposits declined from (24.7) trillion dinars in (2014) to (23.6) trillion dinars in (2015), Especially rebounded in (2016) to reach (24.4) trillion dinars to go up a percentage of total deposits to (39%) in (2016), to less than the difference between the percentage of private deposits and the ratio of public deposits, as in figure (3.4) (Central Bank of Iraq: 2016, 7).



**Figure(3.4): Ratio of Deposits to Public and Private Sectors**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

The impact of the 2014 financial crisis in Iraq resulting from the drop in oil prices, the increase in the expenses of the war on terror and the support of the displaced and the displaced has had a negative impact on the rate of growth of public and private deposits after the crisis there was a deterioration in the growth of deposits, especially public sector deposits which fell sharply, while The decline in the growth of private sector deposits was moderate, the deposit growth rate was the lowest in (2015), followed by growth in (2016), especially in private deposits, as in figure (3.5) (Central Bank of Iraq: 2016, 7).



**Figure (3.5): The Growth Rate of Deposits for the Public and Private Sectors for the Period (2010-2016)**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

With this rise in private deposits, the level of concentration of government deposits remains high, according to the Herfindahl-Hirschman Index.

Although the concentration level has fallen from 3090 points in (2015) to (3050) points in (2016), the index remains high, the modern banking system resulting from the possibility of failure of government banks.

The highest market share of deposits was in the Al-Rafidain government bank without which there is no concentration in the deposits of the banking system. The deposits of Al-Rafidain Bank of the total deposits in 2016 amounted to 49% to a concentration level to 2392 points and this level of concentration is high and reflects the seriousness of the impact Al-Rafidain Bank to the rest of the banks in the case of Al-Rafidain Bank to any financial crisis will move quickly to the banking system as a whole (Central Bank of Iraq: 2016, 7).

### **3.1.3. Capital of the Banking Sector**

The capital of banks increased by (16%) in (2016) to reach (11.7) trillion dinars after it was (10.1) trillion dinars in (2015), as this increase in the capital of private banks, which rose from (7.9) trillion dinars in (2015) to (9.5) trillion dinars in (2016), as a result of the entry (8) new private banks during (2016), (7) Islamic banks and one commercial bank (Central Bank of Iraq: 2016, 8).

### 3.1.4. Bank Credit

#### 3.1.4.1. Developments of Bank Credit

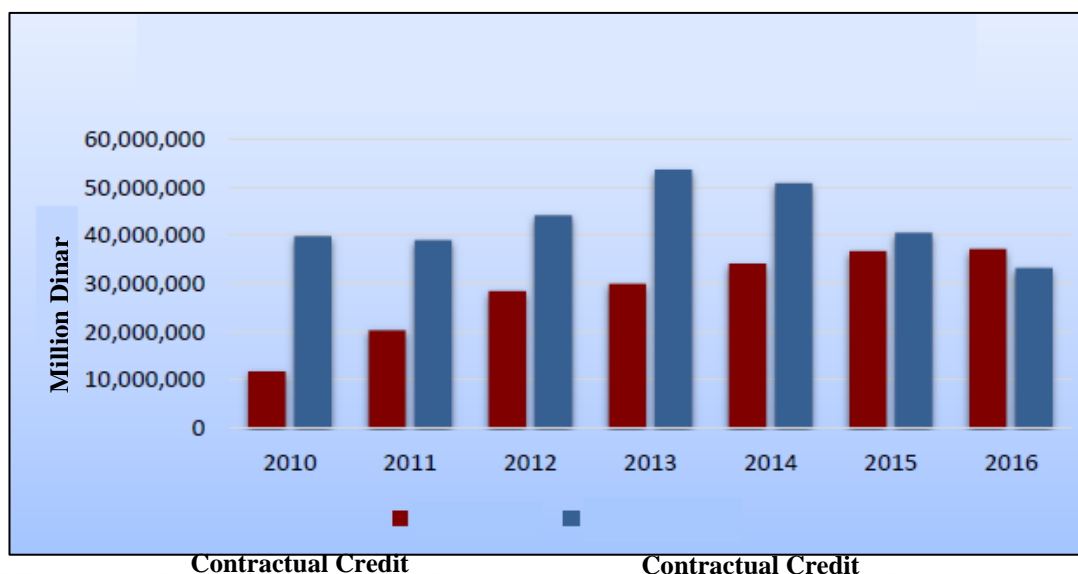
Cash credit provided by banks increased in 2016 compared to 2015, rising from (36.753) billion dinar in (2015) to (37.164) billion dinars in (2016) with an increase of (1.1%) that the credit granted by commercial banks was greater than the volume of cash credit during the period (2010-2015), indicating that Iraq's dependence on imports significantly to fill the acute shortage of domestic production, while the volume of credit contract decline in favor of cash credit in (2016). This is due to a significant reduction in the credit of the contract, which decreased from (40,533) billion dinars in (2015) to (33,270) billion dinars in (2016) due to the decrease in imports from (39,045) million dollars in (2015) to (19,575) million dollars in (2016), the credit is often used to cover imports and this decline In the imports The largest proportion of contractual credit is provided by government banks, accounting for (76%) of the total credit, as the Trade Bank of Iraq acquires the largest percentage of total credit in the banks. On the largest share of the contractual credit provided, which amounted to (67%) of total contractual credit in (2016), as in table (3.1) and in figure (3.6) (Central Bank of Iraq: 2016, 9).

**Table (3.1): The Growth Rate of Deposits for the Public and Private Sectors for the Period (2010-2016)**

Year	Cash Credit	Change%	Relative Importance %	Contractual Credit	Change%	Relative Importance %
2010	11,721,535	106.00	22.75	39,790,906	-13.63	77.25
2011	20,344,076	73.56	34.26	39,032,461	-1.91	65.74
2012	28,438,688	39.79	39.16	44,174,190	13.17	60.84
2013	29,952,012	5.32	35.82	53,667,025	21.49	64.18
2014	34,123,067	13.93	40.13	50,908,393	-5.14	59.87
2015	36,752,686	7.71	47.55	40,533,154	-20.38	52.45
2016	37,164,036	1.16	52.77	33,281,607	-17.89	47.23

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.





**Figure(3.6): Cash and Contractual Credit for Commercial Banks (2010-2016)**

Source: According to data of table (3.1).

### 3.1.4.2. Sectoral Distribution of Credit

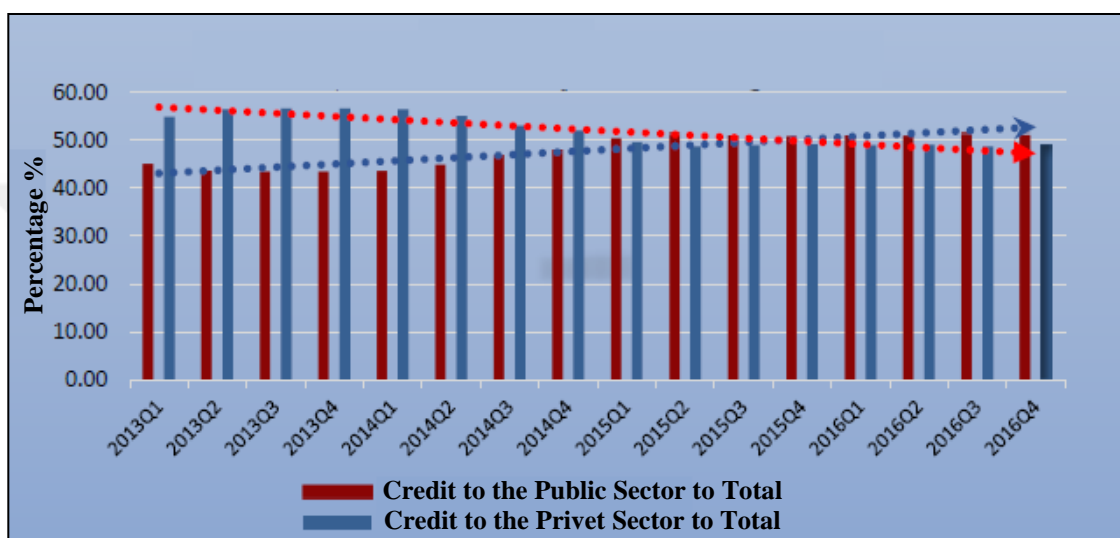
The share of the private sector is declining from the total bank credit granted by banks since the second half of (2015) as a result of the low credit supply to the private sector due to the weakness of Iraq's security stability during the period (2014-2016) and the high level of systemic risk of security risks. Public sector acquisition the largest proportion of credit granted after (2015) is due to increased credit provided by government banks to the central government and public sector institutions. Private Banks do not grant credit to the central government or public sector institutions, as in table (3.2) and in figure (3.7) (Central Bank of Iraq: 2016, 11).

**Table (3.2): The Sectoral Distribution of Credit for the Period (2013-2016)**

Year	Cash for the Private Sector	Cash for the Public Sector	Ratio of Credit to the Public Sector to Total Credit	Total Cash Credit	Ratio of Credit to the Private Sector to Total Credit
Q1-2013	14,975,635	12,327,010	27,302,645	45.15	54.85
Q2-2013	16,286,321	12,608,438	28,894,759	43.64	56.36
Q3-2013	16,470,222	12,640,154	29,110,376	43.42	56.58
Q4-2013	16,947,533	13,004,479	29,952,012	43.42	56.58
Q1-2014	17,184,180	13,255,408	30,439,588	43.55	56.45
Q2-2014	17,973,517	14,664,477	32,637,994	44.93	55.07
Q3-2014	17,738,572	15,743,046	33,481,618	47.02	52.98
Q4-2014	17,745,141	16,377,926	34,123,067	48.00	52.00
Q1-2015	17,537,296	17,815,372	35,352,668	50.39	49.61

Q2-2015	17,565,727	18,540,112	36,105,839	51.35	48.65
Q3-2015	17,986,038	18,750,212	36,736,250	51.04	48.96
Q4-2015	18,070,058	18,682,628	36,752,686	50.83	49.17
Q1-2016	17,908,212	18,667,855	36,576,067	51.04	48.96
Q2-2016	17,806,834	18,542,112	36,348,946	51.01	48.99
Q3-2016	17,770,963	18,716,105	36,487,068	51.30	48.70
Q4-2016	18,164,883	18,999,153	37,164,036	51.12	48.88

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.



**Figure(3.7): Sectoral Distribution of Cash Credit for the Period (2013-2016)**

Source: According to data of table (3.1).

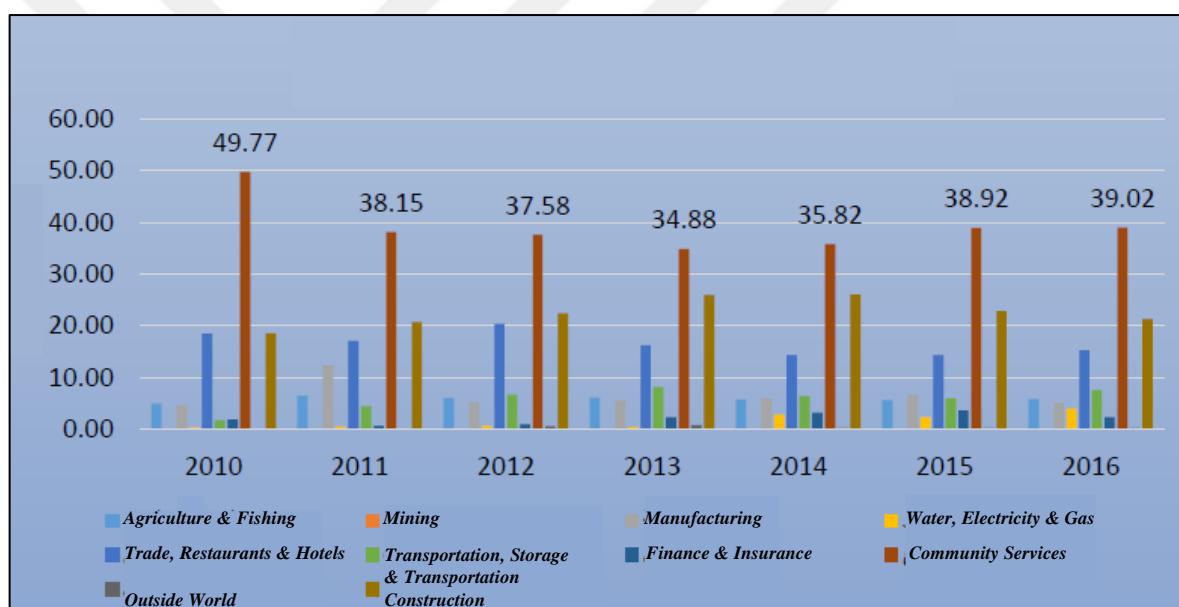
On the other hand, the community services sector accounted for the largest proportion of the total credit granted by banks despite the decline of this percentage from (49.8%) in (2010) to (39%) in (2016) this shows the control of the services sector Central Bank of Iraq: 2016, 12).

And the other sectors, such as industry, agriculture and others, have received lower percentages than the total credit granted. This indicates that the banks rely more on grants Commercial loans and construction and construction because of the guarantees that these sectors can provide compared to other sectors, as in table (3.3) and in figure (3.8) (Central Bank of Iraq: 2016, 12).

**Table (3.3): Sectoral Distribution of Cash Credit by Type of Sector for Duration for the Period (2013-2016)**

Year	Agriculture and fishing	Mining Manufacturing	Water, Electricity and gas	Trade, Restaurants And Hotels	Transport, Storage and communications	Finance And insurance	Community Services	Outside world	Outside World	Construction
2010	4.90	0.00	4.60	0.30	18.40	1.70	1.80	49.80	0.10	18.50
2011	6.40	0.00	12.30	0.40	17.00	4.40	0.60	38.20	0.00	20.70
2012	6.00	0.00	5.20	0.60	20.40	6.60	0.80	37.60	0.50	22.40
2013	6.00	0.00	5.50	0.40	16.20	8.10	2.30	34.90	0.70	25.90
2014	5.70	0.10	5.80	2.80	14.30	6.30	3.10	35.80	0.10	26.00
2015	5.50	0.00	6.50	2.20	14.20	5.90	3.60	38.90	0.10	22.80
2016	5.70	0.00	5.00	3.90	15.20	5.70	3.20	39.20	0.10	21.30

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.



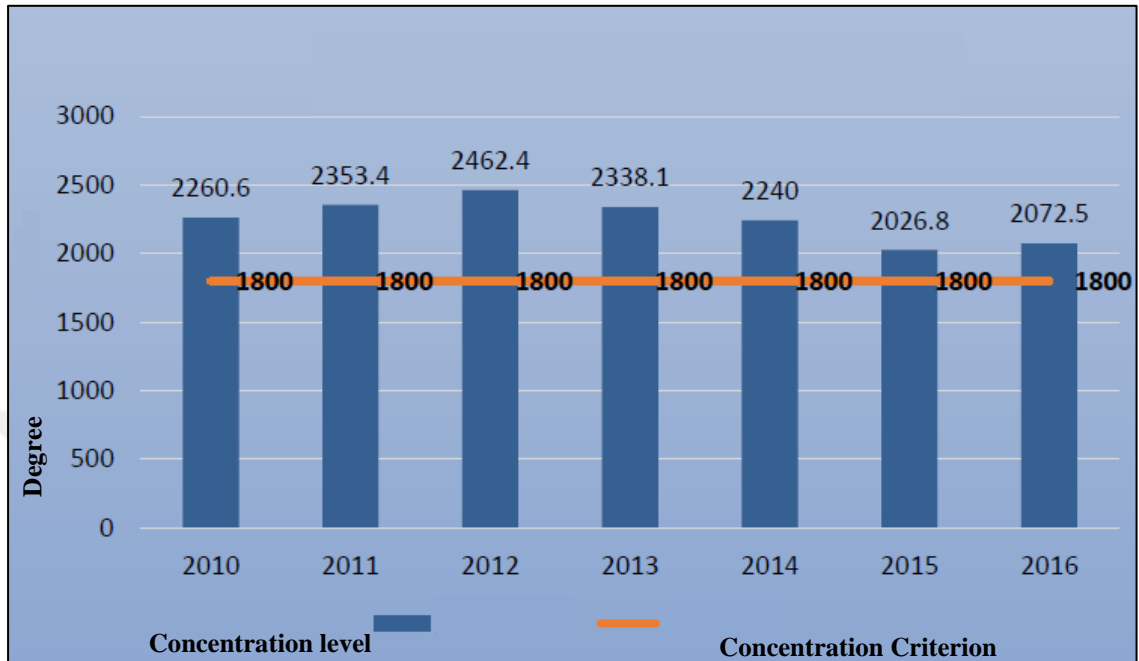
**Figure(3.8): Sectoral Distribution of Cash Credit for the Period (2013-2016)**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

### 3.1.4.3. Concentrations of Bank Credit

Government banks control the large proportion of credit provided by the banking sector. The percentage of credit provided by government banks (80%) of the total cash credit to be high market share in government banks, as the level (concentration 1) of credit in the first five banks was (2010-2016). All of these banks are government. However, despite the continued concentration in cash credit, it

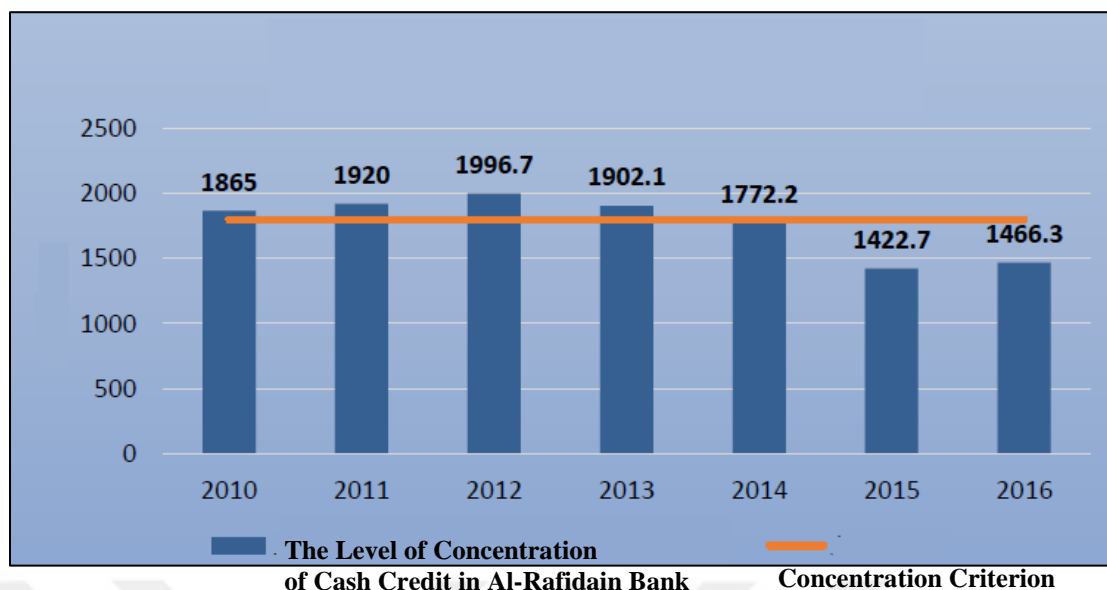
witnessed a decline after (2012), this is a good indicator that increases the competition between banks and supports the level of financial stability in Iraq, as in figure (3.9) (Central Bank of Iraq: 2016, 13).



**Figure (3.9): Concentration of Cash Credit to the Top Five Banks**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

Concentration of cash credit in these the five banks have decreased the concentration of cash credit in Al-Rafidain Bank, which is considered the first in these banks. The percentage of its contribution to cash credit declined to (38%) in 2016 from (49%) in (2012), Al-Rafidain Bank and it's a good indicator because it reduces the risk to the bank itself and the banking system as a whole, as in figure (3.10) (Central Bank of Iraq: 2016, 13).



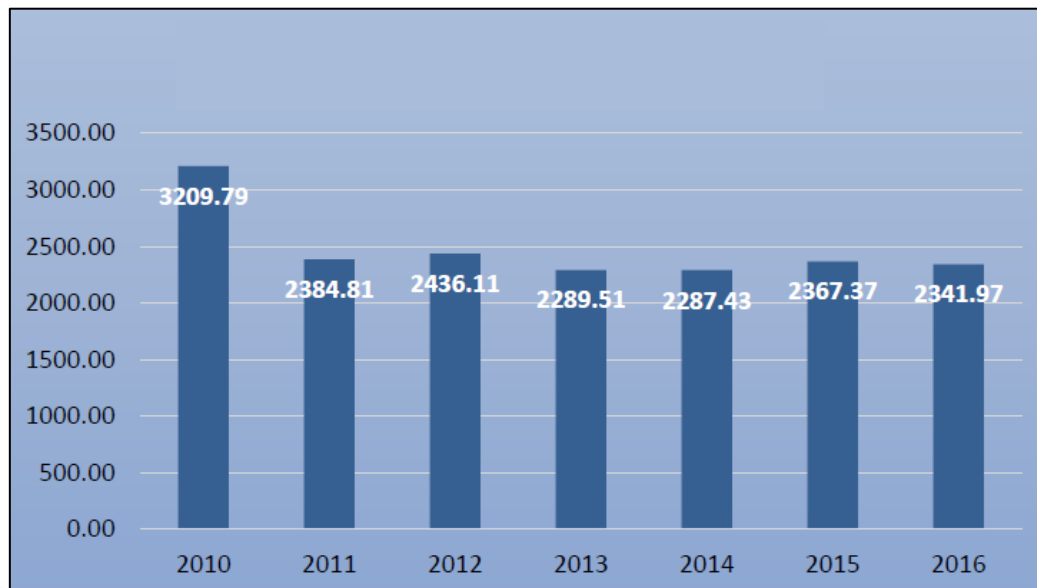
**Figure (3.10): Concentration of cash credit in Al-Rafidain Bank**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

The sectoral concentration of credit was also high, although these concentrations returned after (2010), stabilizing at (2436-2287) point after (2010), indicating a high credit concentration.

The reason for the increase in the credit concentration of the sectors is the existence of a monopoly for cash credit by the community services sector. In 2010, the cash credit ratio of the total credit to the community services sector was (50%).

To reach (35%) in (2013), after which it gradually increased to (39%) in (2016). This reflects the control of the community services sector on monetary credit. Therefore, any change in this sector will have an impact on cash credit, reflecting the risk on the banking system achieved by the control of the community services sector on cash credit in the banking system in Iraq, as in figure (3.11) (Central Bank of Iraq: 2016, 14).



**Figure(3.11): Concentration of Bank Credit by Economic Sector**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

#### **3.1.4.4. Credit Gap Analysis**

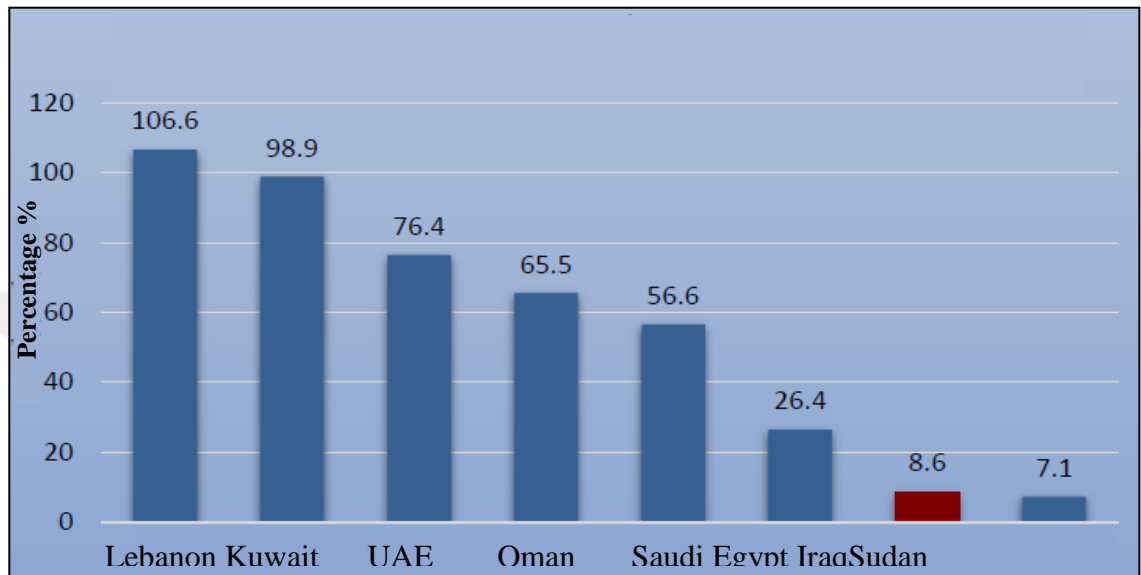
The Basel Committee on Banking Supervision (BCBS) has addressed the analysis of the credit gap to Gross Domestic Product (GDP) to measure the rate of growth of bank credit relative to Gross Domestic Product (GDP), as the decline in this ratio is reflected in the low risk accumulation across the banking system Build-up of System-Wide Risks, and vice versa (Central Bank of Iraq: 2016, 15).

In order to build Countercyclical Buffers to Financial Cycle, the Basel Committee on Banking Supervision (BCBS) proposed a method for measuring these cycles by using Gap.

The positive gap indicates that the rate growth accelerated over its historical direction, noting the need to build buffers of reserve capital to protect the banking system from potential risks. If the value of the gap exceeds the upper limit of (10), this indicates that there is a risk of greater credit granting than the Gross Domestic Product (GDP) growth rate, which requires the construction of a larger amount of additional capital reserves To face potential losses that D exposed the financial system in order to remain able to continue to perform its core functions (Central Bank of Iraq: 2016, 15).

The ratio of bank depth (2) is still low in Iraq, whether measured with Gross Domestic Product (GDP) with or without oil during the period (2010-2016), which is

also low compared with the number of Arab countries in (2015) is (14), although the decline in this ratio is a negative indicator of the contribution of the banking sector to the financing of real activity, but the only positive result is the impact on the reduced risk of the possibility of accelerating the growth rate of bank credit in Iraq, as in figure (3.12) (Central Bank of Iraq: 2016, 15).

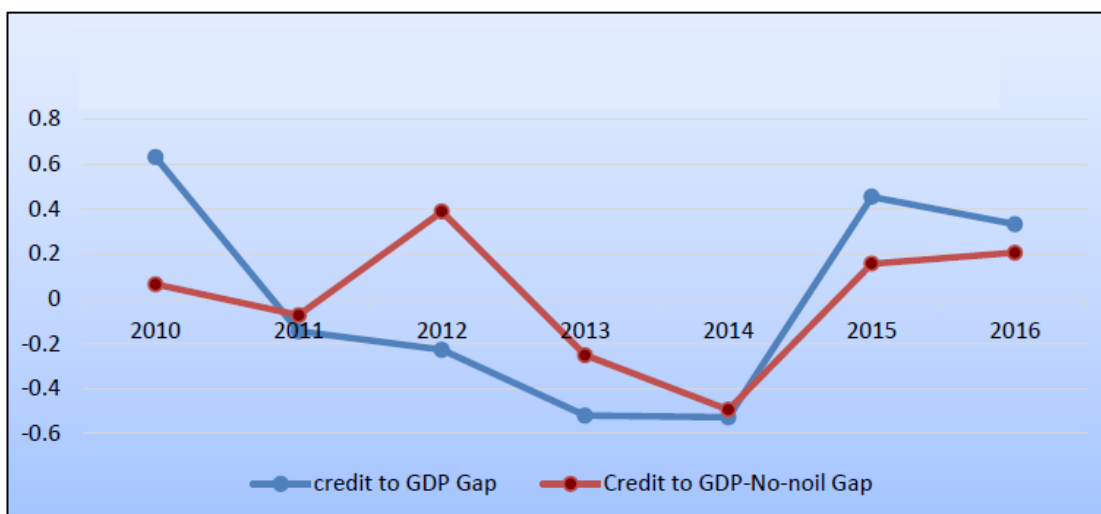


**Figure (3.12): Ratio of Credit to Private Sector to GDP for A Number of Arab Countries in (2015)**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

The Hodrick-Prescott (HP) Filter method proposed by the BCBS Commission was used to calculate the credit gap (3) to GDP in Iraq.

The results indicate that this gap falls below the minimum of less than one whether in the case of the adoption of GDP data with oil or without oil, which indicates that bank credit can increase without concern of creating instability in the Iraqi financial system, Taking into account the basic criteria that must be met when granting credit to different economic sectors, as in figure (3.13) (Central Bank of Iraq: 2016, 16).



**Figure (3.13): Credit Gap to Iraq's GDP**

Source: Annual Financial Stability Report 2016, Central Bank of Iraq, Department of Statistics and Research.

### 3.1.5. The Framework of Private Banks in the Iraqi Economy

Banks play an important role in the national economy. They are financial institutions that play a major role in providing the necessary liquidity to finance investment projects. Banking institutions occupy a prominent place in modern economies. They are directly influencing the financial and monetary policies of any country through financial and monetary transactions in the field of internal and external credit.

It also acts as a mediator between lenders and investors, thus borrowing money from lenders as current accounts and deposits for interest and giving them to investors either in the form of loans or through participation in the capital of investment projects.

That the structure of the banking system in Iraq consists of three types of banks in addition to the Central Bank of Iraq: Public and private sector banks and foreign banks.

The public sector consists of seven banks and the private sector consists of thirty banks and thirteen foreign banks and there are eight Islamic banks owned by the private sector.

Private Banks have a major role in financing investment projects because their main activity is financing, while public banks have other state activities such as foreign trade, treasury operations, government departments, retirees' salaries, etc.



While the activity of private banks is to attract deposits and use them in financing investment projects in addition to credit facilities (Central Bank of Iraq, 2016 ).

**Table (3.4): Privet Banks work in Iraq and Dahuk - Iraq**

<b>Number</b>	<b>Name of Bank</b>
1	Bank Of Baghdad
2	Commercial Bank Of Iraq
3	Iraq Midllest Bank Of Investment
4	Investment Bank Of Iraq
5	United Bank For Investment
6	Dar Essalaam Investment Bank
7	Mosul Bank For Development & Investment
8	Babylon Bank
9	Basrah International Bank For Investment
10	National Bank Of Iraq
11	Credit Bank Of Iraq
12	Economy Bank For Investment & Finance
13	Sumer Commercial Bank
14	Gulf Commercial Bank
15	Warka Bank For Investment & Finance
16	North Bank For Financial & Investment
17	Union Bank Of Iraq
18	Ashur International Bank For Investment
19	Mansour Bank For Investment
20	Iraq Trans Bank
21	Huda Bank
22	Erbil Bank
23	International Development Bank For Investment And Finance
24	Region Trade Bank For Investment And Finance (Formerly Emerald)
25	Iraqi Islamic Bank For Investment & Development
26	Elaf Islamic Bank
27	International Bank For Investment & Development
28	National Islamic Bank
29	Dijlah And Furat Bank For Development & Investment
<b>Number</b>	<b>Name of Bank</b>
30	Islamic Regional Cooperation Bank For Development And Investment
31	AL Bilad Islamic Bank For Investment And Finance

32	Cihan Bank For Islamic Investment And Finance
33	Islamic World Bank For Finance & Investment
34	Al-Janoob Islamic Bank
35	Alrawahel Islamic Bank
36	Alarabiya Islamic Bank
37	Sama Baghdad, The Islamicbank For Investment and Finance
38	Al Nahraeen Islamic Bank
39	Abu Dhabi Islamic Bank
40	Vakif Bank
41	Al-Baraka Turk Katilim Bankası A.S.
42	Bank Melli Iran
43	Parsian Bank
44	Noor Islamic

Source: Central Bank of Iraq, <https://cbi.iq> , 7 / 2 / 2018

### **3.2. The Reality of Small and Medium Enterprises in Dahuk-Iraq**

The importance of small and medium enterprises for long-term economic stability in Iraq derives from the size and structure of small and medium enterprises and allows them, under appropriate conditions, flexibility and resilience to adverse economic conditions. Iraq's current environment remains a major challenge.

Small and medium enterprises believe that this element adds importance to strategic cooperation with its donor partners. Based on extensive research, the market for small and medium enterprises in Iraq is very deep and access to capital for such projects is still not sufficient at all and is not available to many Iraqi entrepreneurs. Targeted lending through private banks is an effective way to deepen support for small and medium enterprises in Iraq while also ensuring consistency with program objectives (White: 2012, 4).

In Iraq, small and medium-sized mature enterprises need a workforce that is larger than larger firms and therefore has less capital costs associated with job creation.

Accordingly, small and medium-sized enterprises will continue to play an important role in supporting income stability, growth and employment. In the long run, transient economic systems such as Iraq will operate as complex corporate networks where the competitive position of the project depends in part on the

efficiency of its equipment. Therefore, the competitiveness of small and medium enterprises will affect the competitive position of the economy as a whole. In addition, small and medium enterprises improve the efficiency of local markets and use scarce resources such as capital as well as contribute to facilitating long-term economic growth (Central Bank of Iraq, <https://cbi.iq>).

### **3.2.1. Economic Importance of Small and Medium Enterprises in Dahuk-Iraq**

1. An important pillar of economic growth is that it ensures that growth and economic efficiency go hand in hand with equality and participation;

2. A large percentage of the total volume of industries in most countries of the world, especially developing countries, including Iraq and Dahuk;

3. Industries, especially small ones, are easily formed because they do not require large capital or advanced technology, in addition to their ability to produce and work in various fields of development;

4. Helps to take advantage of available local resources and resources and imports only a small percentage of production inputs, compared with the large industries in Iraq by relying on a large volume of imported inputs and capital equipment;

5. It is a means of investment of raw materials and a source to provide large industries with many of their needs (White: 2012, 12).

### **3.2.2. Obstacles of Small and Medium Enterprises in Dahuk-Iraq**

At the same time, the consolidation of these industries in Iraq and Dahuk from the positives mentioned above, but as in the rest of the Arab countries there are side effects of these industries can be called negative points short of them.

#### **3.2.2.1. The Financing Obstacles of Small and Medium Enterprises in Dahuk-Iraq**

The financial problems are one of the most important obstacles that limit the activities of these industries. Most economic researchers agree that small and medium industries depend on self-financing and the limited possibility of money. The lack of financial resources is one of the main obstacles in achieving development of these industries. The banks offer different credit facilities to these industries is to use the cash available in the treasury transfers, which generate interest of (7%)

without any risk or risk, did not constitute the loans granted by the Iraqi banks, Al-Rafidain and Rasheed, who possess 80% of the branches of Iraqi banks operating, only about 30% of the total deposits of citizens.

If these banks want to grant the required loans to these industries, the benefits borne by these industries constitute a heavy burden on them, and other difficulties that are subject to the granting of lending by banks, especially government, including the establishment of strict real estate guarantees by the banking system and thus the lack of real estate security at Most of the small industries in particular, which prevents the granting of loans or facilities, which does not exceed in most cases between (10-15%) of the value of the financial guarantee of the customer (Quality International Environmental Company: 2014, 15).

Compounding this is the presence of price fluctuations in the Iraqi dinar exchange rate, which leads banks to give loans in the short term only, which does not exceed 3 years in government banks and one year in private banks (Quality International Environmental Company: 2014, 16).

#### **3.2.2.2. The Financing Obstacles of Small and Medium Enterprises in Dahuk Iraq**

The limited access to high-quality production inputs, the difficulty in obtaining imported inputs and the complexity of import procedures have been among the reasons facing most small and medium industries, in addition to the weakness of the vocational and educational training systems and the exposure of human resources to poor employment, unemployment or emigration, all of which led to the weak competitive position of those industries in the Iraqi market.

Finally, in summary of the above mentioned economic importance, there is no doubt that the small and medium industries are not free of defects or obstacles, but remain more positive than the disadvantages, according to the opinion of most researchers, both at the international level in general or at the level of Iraq in particular (Directorate of Industrial Statistics: 2013, 9).

Among those important pros are

1. contribute to the employment of a large part of the workforce;
2. Contribute to an active role in creating value added;

3. Small and medium enterprises comprise the largest part of the size of economic enterprises(Directorate of Industrial Statistics: 2013, 12).

### 3.2.3. The Contribution of Small and Medium Enterprises in Dahuk-Iraq

Many countries have relied on small and medium-sized enterprises in the process of economic construction and have been able to move from the classification of poor countries or the third world to the classification of developed countries and rich, examples of this are multiple and many at all levels, small and medium enterprises have been credited with the growth and development of the East Asia, the Asian Tigers, China and India. Each of these countries has its own environment in which it has adapted to the experience of successful small and mineral industries, where it has achieved the highest rates of international development.

Therefore, the need of the Dahukeconomy to possess the basic elements for the advancement of the industrial sector and small and medium industries require work on analyzing data, and identify the weaknesses that can be addressed, and then work on their development, which need to see a strategy based on activating the role of small and medium enterprises.

Through the official data obtained, we find that there is a real weakness in those projects, and certainly a report of the economic conditions experienced by Iraq and the Dahuk.

From the table below, there are a small number of projects in especially in Dohuk governorate.

From table (3.5) we can show the number of small enterprises in Duhok had reached (2213)projects, but despite this decline only the output value reached (209837) million dinar(Directorate of Industrial Statistics: 2013, 5).

**Table (3.5): Summary of the Results of the Industrial Statistics of the Small Industrial Enterprises of the Provinces of Iraq(2013)**

Name of Governorate	Number of Enterprises	Number of Workers	Wages Paid to Workers	Total Production Value	Value of Inputs
Dohuk	2213	5788	21403	209837	146328
Sulaymaniya	5799	20534	124759	704210	407711
Erbil	2375	7539	40968	221714	96661
Total Region	10387	33861	187130	1135761	650700

Source: Directorate of Industrial Statistics, Statistics of Small Industrial Establishments of the Private Sector for the Region 2013.

And from table (3.6) we can show the production productivity in Duhok had reached (36254)thousand dinars, and the ratio of production requirements to

production value (70%), but there are very low in Average annual employee wage (6979) thousand dinar (Directorate of Industrial Statistics: 2013, 6).

**Table (3.6): Analytical Indicators of Small Industrial Enterprises of the Governorates of the Iraq for the Year (2013)**

Name of governorate	Production productivity (thousand dinars)	The productivity of the dinar of wages	Ratio of production requirements to production value%	
Dohuk	36254	11	70	6979
Sulaymaniya	34295	6	58	8929
Erbil	29409	5	44	8835
Total Region	33541	6	57	8633

Source: Statistics of Small Industrial Establishments of the Private Sector for the Dahuk2013.

This sharp decline in the number of projects has had a significant impact on the size of their employment in Duhok had reached (2788)thousand worker, according to table (3.7) (Directorate of Industrial Statistics: 2013, 6).

**Table (3.7): Number of Small Enterprises and their Employees and their Wages for the Governorates of Iraq for the Year (2013)**

Name of governorate	Number of Enterprises	Number of Workers			No. of Employees Wages (Million ID)
		With pay	Without pay	Total	
Dohuk	2213	3067	2721	5788	21403
Sulaymaniya	5799	13973	6561	20534	124759
Erbil	2375	4637	2902	7539	40968
Total Region	10387	21677	12184	33861	187130

Source: Statistics of Small Industrial Establishments of the Private Sector for the Dahuk, 2013.

As we show in table (3.8) total production volume in Duhok had reached (209837) million dinar

**Table (3.8): Value of Production and Supplies in the Small Enterprises of the Provinces of Iraq for the Year (2013) (million dinar)**

Name of governorate	Finished products	Non-finished products	Production waste	Non-commodity production	Other	Total production	Production requirements
Dohuk	208968	0.24	186	682	0	209837	146328
Sulaymaniya	687689	488	499	15534	0	704210	407711
Erbil	213403	67	666	7414	164	221714	96661
Total Region	1110060	555	1351	23630	164	1135761	650700

Source: Statistics of Small Industrial Establishments of the Private Sector for the Dahuk, 2013.

As for small industrial enterprises (2014-2015) we can find that increase in indicators for these enterprises as we show in table (3.9) and also to medium enterprises as we show in table (3.10) (Directorate of Industrial Statistics: 2013, 6).

**Table (3.9): Small Enterprises (2014-2015)**

Indicators	2014	2015
Number of small establishments	21809	22480
Manufacturing degree % in small establishments	48.44	53.66
Average wage of workers (paid workers) in small establishments (thousand dinars)	6.29	6.14
The productivity of the dinar of wages in small enterprises	7.41	6.98
Production productivity of the production in small establishments (thousand dinars)	22.84	27.16
Value of Production Requirements in Small Establishments (Million JD)	932470	978754
Total value of production in small establishments (million dinars)	1924980	1823968
Total wages and benefits in small establishments (JD million)	259762	261492
Average number of employees in small establishments	84272	67157

Source: Statistics of Small Industrial Establishments of the Private Sector for the *Iraq* 2013, p.6.

**Table (3.10): Medium Enterprises (2014-2015)**

Indicators	2014	2015
Number of Medium Enterprises	56	159
Number of Employees In Medium Enterprises	923	2431
Wages Paid to Workers (Million Dinars)	3474	12459.6
Total Production Value in Medium Enterprises (Million Dinars)	29081.6	123134.7
Value of Inputs in Intermediate Enterprises (Million Dinars)	14037.1	65852.2
Production Productivity of the Production in Medium Enterprises (Thousand Dinars)	31507.7	50651.9
Dinar Production of Wages in Medium Enterprises (Dinars)	8.4	9.9
Average Wage Per Worker (Wage Workers) in Medium Enterprises (Thousand Dinars)	3763.8	5125.3
Manufacturing Degree (%) in Medium Enterprises	0.48	0.53

Source: Statistics of Small Industrial Establishments of the Private Sector for the *Iraq* 2013, p.6.

**CHAPTER FOUR**  
**ESTIMATING AND ANALYZING THE EFFECT OF FINANCING PRIVATE**  
**BANKS IN DOHUK GOVERNORATE ON SMALL AND MEDIUM**  
**ENTERPRISES**

In this chapter, the study will attempt building a model to explain the form, direction and the strength of the relationship between the number of small and medium enterprises as a dependent variable within the model, and the financing private banks as independent variable

**4.1. Hypotheses**

1. **H<sub>0,1</sub>**: the high volume of risk leads to weak turnout of banks to finance microenterprises.
2. **H<sub>0,2</sub>**: There is a link between inadequate safeguards and a decrease in financing for small and medium enterprises
3. **H<sub>0,3</sub>**: The implementation of monetary and financing policy mechanisms for microfinance leads to the exploitation of the proportion of financing of small and medium enterprises, which helps in achieving balanced development.
4. **H<sub>0,4</sub>**: Small and medium enterprises (SMEs) are needed to correct imbalances in society and thus achieve balanced development.

**4.2. Build a Questionnaire**

**4.2.1. Sample Study Size**

The original study community was selected from the staff of the banks under the management of investment and research (Dar es Salaam / Baghdad / Investment / Dahuk International / Ceyhan), a ratio of their knowledge of investment; they represent the segment that can answer the questionnaire.

In order to reach the results of the research, the questionnaire was distributed to the senior management and investment staff of these banks. The researcher distributed 100 questionnaires to the respondents. 94 respondents answered all the required information (94%) of the target population. This percentage is high, leading to acceptance of the sample results.



#### 4.2.2. Stability Test

An analytical test of the questionnaire was carried out prior to finalization to ensure that it was suitable for measuring the objectives of the study by being judged by its specialists in their field's identification data for respondents:

##### 4.2.2.1. Age

**Table (4.1): Duplicates of Study Sample Members by Age**

Age	Duplicates	The Ratio
Less than 20 years	1	1.1
From 21 to 30 years	16	17.0
From 31 to 40 years	36	38.3
From 41 to 50 years	28	29.8
50 years and over	13	13.8
Total	94	100.00

##### 4.2.2.2. Scientific Specialization

**Table (4.2): Duplicates of the Study Sample by Scientific Specialization**

Scientific Specialization	Duplicates	The Ratio
Accounting	27	28.7
Business Administration	12	12.8
Economic	29	30.9
Banking Studies	11	11.7
Other	15	16.0
Total	94	100.00

##### 4.2.2.3. Academic Certificate

**4.2.2.4. Table (4.3): Duplicates of the study Sample by Academic Certificate**

Academic Certificate	Duplicates	The Ratio
Diploma	3	3.2
Bachelor	48	51.1
Higher Diploma	9	9.6
Master	30	31.9
Doctorate	4	4.3
Total	94	100.00

##### 4.2.2.5. Job Title

**Table (4.4): Duplicates of the Study Sample by Job Title**

Job Title	Duplicates	The Ratio
Director	6	5.3
Vice of Director	10	10.6
Head of Department	26	27.7
Employee	52	55.3
Total	94	100.00

#### 4.2.2.6. Years of Experience

**Table (4.5): Duplicates of the Study Sample by Years of Experience**

Years of Experience	Duplicates	The Ratio
Less than 5 years	11	11.7
From 6 to 10 years	22	23.4
From 11 to 15 years	20	21.3
From 16 to 20 years	25	26.6
From 21 to 25 years	16	17.0
Total	94	100.00

To implement the methodology, the collected data were analyzed to identify the problems that hinder banks in financing small and medium enterprises. The answers of the respondents were coded so that they can be easily entered into the computer for statistical analysis according to the following weights:

**Table (4.6): The Weight of Phrase of the Study**

The Weight	Phrase
5	Strongly Agree
4	Agree
3	Neutral
2	Disagree
1	Strongly Disagree

$$\text{Mean} = \text{Total Weights} = 1 + 2 + 3 + 4 + 5 / 5$$

$$\text{Mean} = \text{Total Weights} = 15 / 5$$

$$\text{Mean} = \text{Total Weights} = 3$$

#### 4.2.3. Analysis of Hypotheses

We will discuss in below and analyze the results of hypotheses that based on the questions in the distributed questionnaire forms.

**H<sub>0.1</sub>: The high volume of risk leads to a low turnout of banks to finance small and medium enterprises.**

**Table (4.6): The Arithmetic Mean and the Standard Deviation as well as the Degrees of Freedom and the Probabilistic Value of a Quantitative  $\chi^2$  Test for the Responses of the Study Sample Members on the First Hypothesis Terms.**

	Phrases	Arithmetic Mean	Standard Deviation	The Value Of $\chi^2$	Degrees Of Freedom	Probability Value
1	Weakness of the return on SMEs affects their funding	4.0	1	71.2	4	0.01
2	The Bank's lack of modern technology compounded the risk of financing	3.7	1.1	48.9	4	0.02
3	High bank defaults related to the financing of these projects	3.7	1	52.7	4	0.01
4	High follow-up costs and difficulty in recovering funds from microfinance clients	3.5	0.9	55.8	4	0.01
5	There is no way to share risks with other parties related to finance	3.9	0.9	86.7	4	0.01
6	There is no protection for these projects from competitors imported products	3.9	0.9	65.9	4	0.01

	Phrases	Arithmetic Mean	Standard Deviation	The Value Of $\chi^2$	Degrees Of Freedom	Probability Value
7	Most of the activities associated with microfinance are medium-sized	3.5	1.1	29.4	4	0.01
8	The limited banking culture of microfinance clients and their association with the culture of support and aid	4.1	0.9	68.6	4	0.04

Note from Table (4.6) that the mean of all expressions is greater than the mean arithmetic mean (3), this indicates that the respondents' responses to these statements are moving in the positive direction, that is, their approval.

The standard deviation of these terms ranges from (1.1-0.9), this indicates the homogeneity of the respondents' answers.

Given the probabilistic value of all terms, it is less than the (0.05), this indicates that there are statistically significant differences; the answers of the respondents are biased to answer only.

In this way the validity of the hypothesis is confirmed: The high volume of risk leads to a low turnout of banks to finance small and medium enterprises.

**H<sub>0.2</sub>: There is a link between inadequate safeguards and reduced financing for small and medium enterprises.**

**Table (4.7): The Arithmetic Mean and the Standard Deviation as well as the Degrees of Freedom and the Probabilistic Value of a Quantitative  $\chi^2$  Test for the Responses of the Study Sample Members on the Second Hypothesis Terms.**

	Phrases	Arithmetic Mean	Standard Deviation	The Value Of $\chi^2$	Degrees Of Freedom	Probability Value
1	Banks' reluctance to deal with small producers because of their limited guarantees.	4.0	1	73.9	4	0.03
2	The difficulty of liquidating the guarantees of these projects in case of failure to pay the funding granted to them	3.9	1	77.2	4	0.01
3	Bank decisions are primarily related to guarantees before any consideration	3.7	1.1	45.5	4	0.03
4	There is no mechanism to save insolvent clients in the event of failure to pay	3.5	1.1	39.1	4	0.01
5	Non-acceptance by the Bank of non-traditional guarantees based on social guarantees	3.8	1	54.2	4	0.04
6	The feasibility of projects is the real guarantee for him	4.0	1	62.6	4	0.01
7	Banks do not want real estate collateral for big cities.	3.4	1.1	27.9	4	0.01
8	Non-insurance of financing operations makes banks reluctant to finance them	3.7	1	32.6	4	0.01

Note from Table (4.7) indicates that respondents' responses to these terms are moving in the positive direction, their agreement.

The standard deviation of these terms ranges from (1-1.1) and this indicates the homogeneity of the respondents' answers.

Given the probabilistic value of all terms, it is less than the (0.05), this indicates that there are statistically significant differences; the answers of the respondents are biased to answer only.

From the above, it is clear that: There is a link between inadequate guarantees and a decline in financing for small and medium enterprises financing

**H<sub>0.3</sub>: The implementation of monetary and financing policy mechanisms for microfinance leads to the exploitation of the proportion of financing of small and medium enterprises, which helps in achieving balanced development.**

**Table (4.8): The Arithmetic Mean and the Standard Deviation as well as the Degrees of Freedom and the Probabilistic Value of a Quantitative  $\chi^2$  Test for the Responses of the Study Sample Members on the Third Hypothesis Terms.**

	Phrases	Arithmetic Mean	Standard Deviation	The Value Of $\chi^2$	Degrees of Freedom	Probability Value
1	The establishment of a microfinance unit for banks contributes to financing the target segment of financing	4.0	1	71.2	4	0.01
2	In order to exploit the target, there must be electronic banking services in all cities and rural areas.	3.7	1.1	48.9	4	0.02
3	The establishment of financing institutions by small and medium enterprises in Dohuk governorate helps banks provide financing services to the sectors of society	3.7	1	52.7	4	0.01
4	Providing incentives from the Central Bank to banks that are committed to the exploitation of the target ratio, leading to the sustainability of funding	3.5	0.9	55.8	4	0.01
5	Establishment of specialized SME financing banks that provide funding to target groups	3.9	0.9	86.7	4	0.01
6	Supporting capacity building programs for bank employees is important to improve the efficiency of their role	3.9	0.9	65.9	4	0.01
7	Allowing banks to open branches without reference to the central bank increases the mobilization of savings	3.5	1.1	29.4	4	0.01
8	The presence of infrastructure and infrastructure for Dohuk governorate contributes to the expansion of the financing of small and medium enterprises	4.1	0.9	69.6	4	0.04

Note from table (4.8) that the mean of all expressions is greater than the mean arithmetic mean (3). This indicates that the respondents' responses to these statements are moving in the positive direction, their approval.

Given the probabilistic value of all terms, it is less than the (0.05), this indicates that there are statistically significant differences; the answers of the respondents are biased to answer only.

The premise of this is that the implementation of the monetary and financing policy mechanisms of microfinance leads to the exploitation of the proportion of financing of small and medium enterprises, which helps to achieve balanced development.

**H<sub>0.4</sub>: Small and medium enterprises are needed to correct imbalances in society and thus achieve balanced development.**

**Table (4.9): The Arithmetic Mean and the Standard Deviation as well as the Degrees of Freedom and the Probabilistic Value of a Quantitative  $\chi^2$  Test for the Responses of the Study Sample Members on the Fourth Hypothesis Terms.**

	Phrases	Arithmetic Mean	Standard Deviation	The Value Of $\chi^2$	Degrees Of Freedom	Probability Value
1	The ability of SMEs to adapt in remote areas, enabling them to reduce migration to cities and thus achieve balanced development	4.0	1	73.9	4	0.03
2	SMEs contribute to the development of large enterprises	3.09	1	77.2	4	0.01
3	It achieves the best use of available resources and through it the greatest added value is obtained	3.7	1.1	45.5	4	0.03
4	Personal security and exemptions for financing Small and medium enterprises contribute to increasing the volume of funding granted	3.5	1.1	39.1	4	0.01
5	SMEs increase the rate of economic growth and thus reduce unemployment rates	3.8	1	54.2	4	0.04
6	The creation of a supportive environment that contributes to the spread of small and medium enterprises	4.0	1	62.6	4	0.01

Phrases		Arithmetic Mean	Standard Deviation	The Value Of Chi <sup>2</sup>	Degrees Of Freedom	Probability Value
7	Small and medium enterprises reduce the imbalance of payments by reducing the volume of imports and thus saving hard currency	3.4	1.1	27.9	4	0.01
8	Contribute to the achievement of social development justice through its access to small investors	3.7	1	32.6	4	0.01

Note from table (4.9) that the mean of all expressions is greater than the mean arithmetic mean (3). This indicates that the respondents' responses to these statements are moving in the positive direction, their approval.

The standard deviation of these terms ranges from 0. (1.3). This indicates the homogeneity of the respondents' answers.

Given the probabilistic value of all terms, it is less than the (0.05), this indicates that there are statistically significant differences; the answers of the respondents are biased to answer only.

Based on this, it can be said that: Small and medium enterprises are necessary to correct imbalances in society and thus achieve balanced development.

## **THE CONCLUSIONS**

### **First: Theoretical Conclusions**

- 1.** Small and medium enterprises are the most important sectors of economic activity and their success is an important factor in the development of the latter through economic and social development through the provision of new jobs, alleviation of poverty and rural displacement, in addition to contributing to raising national income and added value. Economic development of each country.
- 2.** Small and medium enterprises went through several stages according to the economic systems that were followed, where there have been several changes and developments in recent years by the government for the development of the national economy.
- 3.** Commercial banks play a leading role in activating the mobility of economic activities of small and medium enterprises by showing that the functions of commercial banks are considered the place where investors meet the demand for money, as they provide a sufficient system that mobilizes the deposits and savings of individuals and institutions and thus contribute to Revitalize the economy.
- 4.** Commercial banks contribute to the provision of many bank loans to small, medium and in many sectors by adopting various support methods and methods for small and medium enterprises.
- 5.** The banks operating in Dahuk facilitate the access of small and medium-sized enterprises to bank loans, but this depends on the requirement to provide all the guarantees required by the bank in order to ensure the repayment of the loan.
- 6.** The difference of countries in defining a uniform definition of small and medium enterprises refers to the degree of economic growth and technological development. In addition, the majority of countries rely on two criteria in their definitions of this sector: capital and labor standards.
- 7.** The SME sector is one of the most dynamic sectors as it forms the majority of the existing economic fabric.



8. Despite the importance of small and medium enterprises, they encounter a number of obstacles that limit their performance such as financial difficulties, legal difficulties, ocean problems, marketing and competition.
9. The contribution of the banks in Duhok to the financing of these small and medium-sized enterprises has been reduced due to the low return on financing, the risk of non-refundable financing to customers and the high costs of monitoring and supervision.
10. The low value of the necessary guarantees negatively affects the financing of these projects.

### **Second: Applied Conclusions**

1. From the first hypothesis the high volume of risk leads to a low turnout of banks to finance small and medium enterprises”, and it is confirmed.
2. From the second hypothesis there is a link between inadequate guarantees and a decline in financing for small and medium enterprises financing, and it is confirmed.
3. From the third hypothesis the premise of this is that the implementation of the monetary and financing policy mechanisms of microfinance leads to the exploitation of the proportion of financing of small and medium enterprises, which helps to achieve balanced development, , and it is confirmed
4. From the fourth hypothesis small and medium enterprises are necessary to correct imbalances in society and thus achieve balanced development and it is confirmed.

### **THE RECOMENDATION**

1. To strengthen the position and position of SMEs in the national economic ladder, encourage them and provide them with services and specialties, demonstrating the importance of their position in the overall economic concerns.
2. The need to help small and medium enterprises in obtaining the necessary technology to develop their competitiveness.
3. Funding should be provided to small and medium enterprises and new approaches should be taken into account
4. Type of institutions such as venture capital and Islamic finance.

**5.** Urging and motivating banks to continuously expand financial innovations and diversify banking products and make them in favor of indirect financing for small and medium enterprises.

**6.** Strengthening and monitoring of loan guarantee funds and the non-obligation of small and medium enterprises to provide guarantees at the beginning of their inception, and encouraging banks to provide loans for temporary tax exemptions.



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## THE APPENDEX

Age	Duplicates	The Ratio
Less than 20 years		
From 21 to 30 years		
From 31 to 40 years		
From 41 to 50 years		
50 years and over		
Total		

Scientific specialization	Duplicates	The Ratio
Accounting		
Business Administration		
Economic		
Banking Studies		
Other		
Total		

Academic specialization	Duplicates	The Ratio
Diploma		
Bachelor		
Higher Diploma		
Master		
Doctorate		
Total		

Job title	Duplicates	The Ratio
Director		
Vice of Director		
Head of Department		
Employee		
Total		

Year of experience	Duplicates	The Ratio
Less than 5 years		
From 6 to 10 years		
From 11 to 15 years		
From 16 to 20 years		
From 21 to 25 years		
Total		

<b>The First Hypothesis:</b> The high volume of risk leads to a low turnout of banks to finance small and medium enterprises.						
Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Weakness of the return on SMEs affects their funding					
2	The Bank's lack of modern technology compounded the risk of financing					
3	High bank defaults related to the financing of these projects					
4	High follow-up costs and difficulty in recovering funds from microfinance clients					
5	There is no way to share risks with other parties related to finance					
6	There is no protection for these projects from competitors imported products					
7	Most of the activities associated with microfinance are medium-sized					
Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8	The limited banking culture of microfinance clients and their association with the culture of support and aid					

Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The Second Hypothesis: There is a link between inadequate safeguards and reduced financing for small and medium enterprises.						
1	Banks' reluctance to deal with small producers because of their limited guarantees.					
2	The difficulty of liquidating the guarantees of these projects in case of failure to pay the funding granted to them					
3	Bank decisions are primarily related to guarantees before any consideration					
4	There is no mechanism to save insolvent clients in the event of failure to pay					
5	Non-acceptance by the Bank of non-traditional guarantees based on social guarantees					
6	The feasibility of projects is the real guarantee for him					
7	Banks do not want real estate collateral for big cities.					

Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8	Non-insurance of financing operations makes banks reluctant to finance them					
The Third Hypothesis: The implementation of monetary and financing policy mechanisms for microfinance leads to the exploitation of the proportion of financing of small and medium						

enterprises, which helps in achieving balanced development.						
1	The establishment of a microfinance unit for banks contributes to financing the target segment of financing					
2	In order to exploit the target, there must be electronic banking services in all cities and rural areas.					
3	The establishment of financing institutions by small and medium enterprises in Dohuk governorate helps banks provide financing services to the sectors of society					
4	Providing incentives from the Central Bank to banks that are committed to the exploitation of the target ratio, leading to the sustainability of funding					
Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5	Establishment of specialized SME financing banks that provide funding to target groups					
6	Supporting capacity building programs for bank employees is important to improve the efficiency of their role					

7	Allowing banks to open branches without reference to the central bank increases the mobilization of savings					
8	The presence of infrastructure and infrastructure for Dohuk governorate contributes to the expansion of the financing of small and medium enterprises					
<b>The Fourth Hypothesis:</b> Small and medium enterprises are needed to correct imbalances in society and thus achieve balanced development.						
1	The ability of SMEs to adapt in remote areas, enabling them to reduce migration to cities and thus achieve balanced development					
Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2	SMEs contribute to the development of large enterprises					
3	It achieves the best use of available resources and through it the greatest added value is obtained					
4	Personal security and exemptions for financing Small and medium enterprises contribute to increasing the volume of funding granted					

5	SMEs increase the rate of economic growth and thus reduce unemployment rates					
6	The creation of a supportive environment that contributes to the spread of small and medium enterprises					
7	Small and medium enterprises reduce the imbalance of payments by reducing the volume of imports and thus saving hard currency					
Phrases		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8	Contribute to the achievement of social development justice through its access to small investors					

## RESUME

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Institution He is Working at
Duty / Position
Experience Time

### ATTENDED

Courses
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