

# Financial inclusion of small and medium sized enterprises in the sultanate of Oman: The bank's view

<sup>1</sup>Samyuktha. P. Suresh, <sup>2</sup>Alyamama Hamood Khamis Hamood Alharrasi, <sup>3</sup>Reham Shinain Salim Alkahali

<sup>1,3</sup>College of Economics and Business Administration, University of Technology and Applied Science, Al Musanna, Oman.

<sup>1</sup>CorrespondingEmail: samyuktha@act.edu.om, <sup>2</sup>Email: itsalyamama@gmail.com, <sup>3</sup>Email: rahoomrahoom208@gmail.com

## ABSTRACT

The present study was conducted to comprehend the role played by banks in the financial inclusion of SMEs in the Sultanate of Oman. The reports of the International Monetary Fund (IMF) say that Small and Medium Sized Enterprises (SMEs) in the Middle East face financial exclusion on a large-scale basis and there is a substantial scope to increase the SMEs access to finance in the Middle East. The situation is not different in Oman too and this urged us to understand the different financial services offered by the banks for SMEs, the initiatives taken by the banks to encourage the SMEs to use their services and understand the reasons for a decreased rate of financial inclusion of SMEs from the point of view of the bankers. Thirty employees of private and government sector banks were chosen using purposive sampling and surveyed using a questionnaire created based on the review of the literature. The survey results interpreted using descriptive statistics and percentage analysis revealed that the banks take initiatives to encourage the SMEs for accessing tailor-made services through a separate dedicated division. Even then, very less respondents agreed to provide loans to SMEs with limited conditions and at reduced transaction processing time. According to the respondents, the SMEs transact less with the banks because, they are reluctant to meet even the reduced bank service charges and find difficulty in understanding the bank policies.

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## 1. INTRODUCTION

Financial access enables daily living as well as facilitates the families and businesses in planning their long-term objectives and means of facing emergencies. According to the World Bank (The World Bank, 2011) financial inclusion means the common people and the businesses have access to different financial products and services which are available in a responsible and sustainable way. These financial products and services are supposed to meet their needs namely transactions, payments, savings, credit and insurance. Same as common people, financial inclusion of Small and Medium Sized enterprises (SMEs) is of prime importance as it promotes economic growth of the country and creation of job along with many other benefits (Blancher et al.) Financial inclusion of SMEs lies at the heart of many nations' economic diversification and growth issues. SMEs make up a large percentage of businesses in the Middle East and Central Asia (MENAP and CCA) areas. Finance for these SMEs are usually made available through central banks, commercial banks, internet banks, capital market authority, insurance companies etc. (Horton, 2019) As per a departmental paper by International Monetary Fund (IMF), the financial inclusion of SMEs in MENAP and CCA are comparatively less than the other regions like Asia Pacific, Europe, Latin America and Caribbean and Sub-Saharan Africa which is 16.5%, 12.5%, 9.9%, 8%, and 7.2% respectively. Financial inclusion of SMEs is the core of growth challenges and economic diversification of many countries and as a result, the need of financial inclusion of SMEs is more and highly recognized by the policy makers. Banking sector plays a significant role in meeting the credit demands of the SMEs which would enable the creation of job openings, decreasing unemployment, increase income levels, refining living conditions etc. But the miserable truth is that, in Middle east countries these SMEs obtain only 7% of total financing from banks (Times News Service, 2019) A survey result published by National Centre for Statistics and Information in Oman (NCSI), reports that, the Central Bank of Oman (CBO) has taken all the necessary measures to improve the access to finance for SMEs in the country. It had urged the banks make available a minimum of 5% of their total lending to the SMEs since 2015. But the figures say that, it had reached only 3.5% in October 2017 (Oxford Business Group, 2018). This situation is strongly supported by a study conducted in Oman during July 2019, which revealed that the SMEs of the country are hesitant to approach formal financial institutions especially banks for finance which results in financial exclusion. It was found that 78% of the interviewed SMEs never approached any banks for finance and also around 49% of them complained that they faced challenges in availing finance.

These SMEs also understand and admit that non-approaching the banks for finance has created great impacts on their businesses. (Ramachandran & Ali AL Yahmadi, 2019). So, it is imperative to find out whether the role played by banks in the country is sufficient to promote financial inclusion of SMEs or not. Financial inclusion also is a basis of achieving 7 out of 17 Sustainable Development Goals. (SDGs) All this calls for a research in this area, especially to understand the various financial services provided by the local commercial banks in Oman specially for the SMEs and to examine the initiatives taken by these banks in promoting financial inclusion among SMEs. Moreover, this study will try to understand the reasons of decreased rate of financial inclusion of SMEs from the point of view of the bankers. It enables to examine the initiatives taken by the commercial banks of the country to promote financial inclusion of SMEs and reasons why the SMEs are avoiding the transaction with the banks as per the observation and experience of the bankers. This will help the respective authorities and policy makers to look into the actual reason why the SMEs are lacking the access to finance and adopt more effective measures to promote financial inclusion of SMEs which can be considered as the back bone of the country. Moreover, this study results, will help the banks to rethink on their initiatives to involve a greater number of SMEs in the process of financial inclusion.

## 2. REVIEW OF RELATED LITERATURE

SMEs account for around 16 percent of the Sultanate's GDP, which is a significant achievement for businesses with less than 100 workers. The development of SMEs is vital to the region's advancement toward a more sustainable and inclusive future. SME survival and development potential are dependent on consistent access to adequate finance sources. However, the reports say that SMEs in the region's bank-dominated economy have limited access to capital, whereby, financial inclusion becomes critical to the growth of SMEs, which are a driver of robust national economy. Financial inclusion initiatives can be taken by the government, banks and other financial centres of a country. The banks can motivate the SMEs to pool up their savings in their banks via opening savings account and against which they can provide credit facilities also. Central Bank of Oman (CBO), the apex bank of the country is having about twenty licensed commercial banks including local and foreign banks (Central Bank of Oman, 2019) with branches across the country. Commercial banks of a country are considered as one of the basic or primary channels through which financial inclusion is made possible. The banks adopt different measures like expansion of branches and much more to meet this target of

financing (Nkuna et al., 2018) But the banks are expected to provide financial products and services to the needy at affordable costs and not at a higher cost. Also, the banks are responsible to create interest among SMEs to transact with them or come up with such initiatives that will encourage the SMEs to approach them, which is not working as expected and as a result the financial inclusion of the SMEs is not happening at its fullest. Even when the banks take initiatives like campaigns, reducing the cost of their products and services etc., ultimately all those will be governed by their profit-making motive. Unless and otherwise there are strict regulatory measures which address the concerns of the banks regarding their profit motives, financial inclusion efforts from their side would not be as effective as expected (Garg & Agarwal, 2014).

It has become necessary to check whether the SMEs are having access to financial products and services like transactions, payments, savings, credit, and insurance in a sustainable way and at affordable costs. According to the Global Partnership for Financial Inclusion (GPII) Report submitted by the World Bank to the G20 Leaders at the Cannes Summit in 2011, the member countries were advised to focus on improving their national policies to give room for enhancing the access of SMEs to finance, giving significant priority to women entrepreneurs and agricultural SMEs, and formulating financial market infrastructure (World Bank, 2012) Even when reports by famous organizations like World Bank, IMF etc. propound about the need of financial inclusion of SMEs, there are researches which prove that role played by banks in the region are not adequate and fruitful. The research on commercial banks in Jordan points out that, they could not provide any concessions on their funding, loan repayment interest rates and supporting collateral securities for availing loans from those banks (Shawaqfeh, 2019) In Greece, the SMEs were seen hesitant to approach the banks, as they do not fund the young entrepreneurs and businesses with risky returns and those businesses who do not have huge collaterals to surrender to the banks for getting credit from them. Lengthy and time-consuming bank procedures also topped the list of reasons why the SMEs set back from contacting the banks which ultimately results in as a hindrance to financial inclusion of SMEs. On the contrary, the banks are of the opinion that financial inclusion of SMEs is happening at a slower pace as the SMEs lacked proper managerial skills in running their businesses, inadequate profits to transact with the banks etc. (Hyz, 2011)

The SMEs of Uganda Lango sub-region, used various financial products and services of the bank like for making payments, Automated Teller Machines etc., but they found it difficult to use certain services because of its high technical level. So, even when financial inclusion plays a dominant role in growth of SMEs, the lack of education and understanding of the technicality of using certain financial products of the banks, hinder the complete financial inclusion. And most of the SMEs find it difficult to go through the process of banks to assess their credit worthiness and expect the banks to provide services at a very less cost and with a lesser amount of intricate procedures. So, if the financial providers like banks can ease these stages it shall automatically promote more financial inclusion among the SMEs (Eton et al., 2021) Across the world, lack of access to various financial products and services and suitable management skills of the owners of the SMEs are also, considered to be the major reasons for the failures of SMEs. The quantum of funds made available by the banks for SMEs, willingness of the banks to provide the finance, the different ways adopted by the banks in smoothly handling their customers and appropriate technology used by the banks etc. have a significant influence on the percentage of SMEs getting financially included (Oshora et al., 2021) The bank lending to SMEs depend on various factors like collateral provided by SMEs, risk associated with SME projects, previous loan performance profile of the SMEs which are purely SME side factors and bankside factors like various costs to be borne by the banks like administrative costs, legal costs etc., ownership structure and bank sizes, technology used for lending, profitability of banks etc. Even then, there are studies which reveals that in certain situations the private local banks can promote more financial inclusion than large, foreign owned banks (Ekpu, 2015) Based on the review of literature, careful initiatives from the banks can improve the access of finance to SMEs. This study attempts to understand various financial products and services offered by the banks for SMEs and the initiatives taken by local Omani banks to encourage the SMEs to approach them for varied financial services, which would eventually promote financial inclusion of SMEs. Furthermore, the aim is to understand the reasons of SMEs not contacting the banks for financial services much, based on the observations of banks.

### 3. METHODOLOGY

The study was based on descriptive research design and made use of both primary and secondary data. The services offered by the banks were

analyzed using secondary data. Purposive sampling was used for collecting survey data from the bank employees who were the respondents of the study. The questionnaire was prepared purely based on the review of literature. Thirty respondents (bankers) were contacted from the government and private sector local commercial banks in Oman based in Muscat, North and South Al Batinah. The reliability of the questionnaire was tested using Cronbach Alpha test and the score was 0.7 which indicated the internal consistency among the questions of the questionnaire. The bankers were asked random questions on the importance of SMEs transacting with the banks, holding savings and loan accounts etc. They were asked whether the SMEs receive payments from their customers through banks and also use the bank account as a means to make payments to their suppliers. Furthermore, they were asked questions on the initiatives taken by their respective banks to promote access of financial products and services for SMEs. At the end they were asked the reasons why the SMEs avoid accessing the bank services as per their observations. The survey results were analyzed using descriptive statistics and percentage analysis.

### 4. RESULT

The local commercial banks in Oman are Bank Dhofar, Bank Muscat, National Bank of Oman, Oman Arab Bank, Sohar International, Ahli Bank, Bank Nizwa, Oman Development Bank etc. There are many other foreign banks also. The review of literature enabled us to understand some of the financial services offered by the selected banks in Oman for SMEs which are summarized as follows:

**Table 1.** Services offered by banks for SMEs

Banks	SME Services
Ahli Bank	"Tamkeen" is an initiative by the bank to make available finance to the SMEs ranging between OMR 20,000 and OMR 80,000 on a quick and unified basis with simple procedures, flexible repayable terms without providing equity or collateral. They also aim to ensure sustainable financial inclusion.
Bank Muscat	Al Wathbah program offers term loans and trade finance facilities. If the business is an established one, then the loans are made available without collaterals. They also provide purchase order finance, receivables finance and asset finance programs with certain conditions. They also provide internet and mobile banking for the SMEs. Meethaq Banking is another program that offers tailored financing services to the SMEs based on their needs. In addition, they also provide, working capital finance, contract finance, term and project finance and currency exchange services. Diminishing Musharaka is practiced by Bank Muscat also which allows the SMEs to purchase the assets in partnership with Meethaq. Ijarah financing helps them to acquire property, equipment, vehicles etc. for the business. They assure quick approval process with minimal documentation process.
Bank Nizwa	Murabaha Financing facilitates short term financing and Wakala Bil Istithmar provides short to medium- and long-term financing. They offer diminishing Musharaka where by both bank and SMEs contribute capital and later share the profit in an agreed ratio. In addition, they provide lease financing, foreign exchange services, letter of credit etc.
National Bank of Oman	Tijarati program by the bank enables asset financing, trade and working capital service, construction finance, overdraft facility, different types of loans etc. at flexible repayment terms as well as easy documentation process.
Bank Dhofar	They provide term loans, overdraft facilities, import and export letters of credit etc.
Oman Arab Bank	They provide project financing, trade financing, treasury services and cash management services for the SMEs.

Source: Review of literature

The banks have provisions to help the SMEs on working capital, equipment financing, export and import, construction, trading etc. The banks facilitate various avenues to finance SME requirements but still there is something that holds back the full course involvement of SMEs in the process of financial inclusion. The following results of the survey, will enable to bring more insights on the same from the point of view of the bankers. Among the respondents 47% of them belonged to government sector banks and the remaining 53% to private sector banks. Considering the purpose of the study, the respondents were asked some random questions to check their opinion on the importance of SMEs operating a bank account, whether the banks encourage the SMEs to operate the bank accounts, also whether the SMEs use their bank accounts for receiving payments from their customers and also making payments to their suppliers. The details of the responses are as follows:

**Table 2.** Responses on random questions

Responses from bankers	Yes	No	Maybe
SMEs should operate a bank account	87%	7%	7%
Bank encourage the SMEs to operate bank accounts	93%	3%	3%
SMEs receive payments from their customers through bank	87%	13%	0%
SMEs make payments to their suppliers through bank	87%	13%	0%

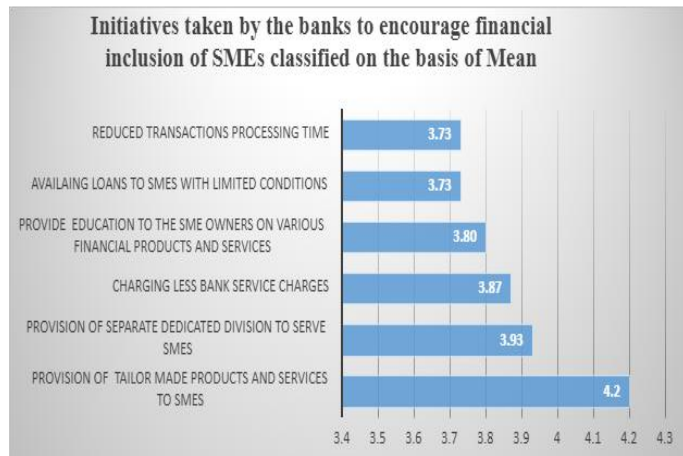
Source: Survey result

More than 85% of the respondents strongly agree to the importance of SMEs to operate a bank account. Similarly, the respondents strongly agree that they encourage the SMEs to operate bank accounts. Also, they acknowledge that SMEs make use of the bank accounts for receiving and making payments. The second part of the questionnaire mainly focused on the initiatives taken by the banks to encourage the financial inclusion of SMEs. The results are as follows:

**Table 3.** Initiatives taken by the banks to encourage the financial inclusion of SMEs

Initiatives	Mean	Standard Deviation
Provision of tailor-made products and services to SMEs	4.2	0.55
Provision of separate dedicated division to serve SMEs	3.93	0.69
Charging less bank service charges	3.87	0.82
Provide education to the SME owners on various financial products and services	3.80	1.00
Availing loans to SMEs with limited conditions	3.73	0.94
Reduced transactions processing time	3.73	1.08

Source: Survey result



**Figure 1.** Initiatives taken by the banks to encourage the financial inclusion of SMEs

Source: Survey result

The banks are taking initiatives to promote the financial inclusion of SMEs. The prominent among them is the provision of tailor-made products and services which suits the varied needs of the SMEs with the highest mean score of 4.2. This was followed by provision of separate dedicated division in the banks for the SMEs, charging less bank charges, educating the SME owners on the various financial products and services offered, availing loans to the SMEs with limited conditions and reduced processing time of transactions with a mean score of 3.93, 3.87, 3.80 and 3.73 respectively. The third part of the questionnaire focused on the reasons why the SMEs avoid accessing the financial products and services offered by the banks, based on the bankers review. The survey results are as follows:

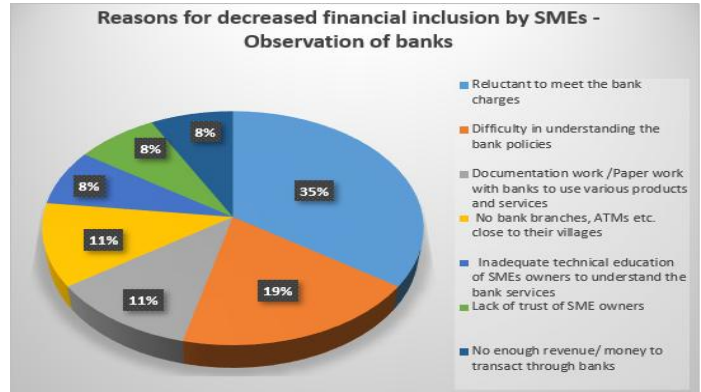
**Table 4.** Reasons for decreased financial inclusion of SMEs – Observation of the banks

Observations of the respondents (bankers)	Percentage
Reluctant to meet the bank charges	35%
Difficulty in understanding the bank policies	19%
Documentation work /Paper work with banks to use various products and services	11%

No bank branches, ATMs etc. close to their villages	11%
Inadequate technical education of SMEs owners to understand the bank services	8%
Lack of trust of SME owners	8%
No enough revenue/ money to transact through banks	8%

Source: Survey result

**Figure 2.** Reasons for decreased financial inclusion of SMEs – Observation of the banks



Source: Survey result

According to 35% of the respondents (the bankers), the main reason why the SMEs do not approach the banks for finance is that they are reluctant to meet the bank charges. This is thought-provoking, because why the SMEs are unwilling to meet the bank charges even when the banks claim to offer the services at reduced charges. One of the other strongest reasons, agreed by around 19% of the respondents is the difficulty of SMEs in understanding the various bank policies. These reasons were followed by long documentation or paperwork from the side of the banks and not having enough branches of banks or ATMs etc. near to them 11% of the respondents each. The other reasons were technical difficulty in understanding various bank services, lack of trust of SME owners in the bank and not having enough revenue to transact through the banks which were reported by 8% of the respondents each.

**5. CONCLUSION**

The SMEs of Oman hold bank accounts and they use these accounts for monetary transactions with their customers and suppliers. But still, it is not 100%. Also, most of the banks of the country are doing their best in encouraging the SMEs to engage with the banks. They try to attract the SMEs to use their products and services by various initiatives, popular ones among them are opening a separate dedicated division for SMEs with tailor made products and services addressed to meet the needs of the SMEs. The banks also try educating the SMEs on their financial products and services. But most of the banks fail to reduce the transaction processing time, bank charges and offering loans with limited conditions even when they claim to do so. This is in line with the results of the studies conducted in Jordan in 2019 and Greece in 2011 (Shawaqfeh, 2019; Hyz,2011) If this part can be improved by the banks, more SMEs can be made financially inclusive. Also, there are some reasons spotted by the bank employees regarding the non-usage of their financial products and services by at least some of the SMEs like difficulty in understanding various bank policies which topped the list, followed by reluctant in doing documentation or paperwork with bank and some of them also mentioned about the lack of ATMs and branches of banks in their remote villages which obviously reduces the accessibility. This result is in alignment with the study results conducted in Uganda Lango sub-region (Eton et al., 2021) Very few pointed out problems with inadequate trust of SME owners on banks, lack of proper technical education of SME owners and insufficient funds to be transacted through banks.

**6. RECOMMENDATION**

Even when the banks in Oman play a fantastic role in financially including the growing number of SMEs, it is helpful if the banks pay more attention and try to improve some of the situations like offering the financial services at reduced processing time and bank charges and trying to offer the bank loans with limited conditions and complicated policies. It would attract more young entrepreneurs who will not have more collateral security to be pledged with the banks for availing loans. But overall, Omani

banks are trying to improve the financial inclusion of SMEs at their best. Henceforth, this study will enable the bankers to rethink on their initiatives to encourage the SMEs to use their services. Also, it will help the banks and the government to work on the reasons why the SMEs are not approaching the banks for services and take effective steps to improve the situation. There is immense scope for the policy makers to work on those impeding reasons and bring up such policies whereby the banks themselves will be forced to work on improving it. The biggest limitation of the study was lack of cooperation from the side of the respondents. And therefore, only few banks were contacted as a representative of all the banks in Oman. Also, this study focuses only on the role played by the banks in financial inclusion of SMEs, i.e. supply-side factors, whereas a future study can be conducted by including other financial institutions responsible for financial inclusion in a country. Further studies can be conducted by considering the part of SMEs i.e., the demand side factors and also by including a larger sample.

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