

Challenges Facing Micro, Small and Medium-Sized Enterprise (MSMEs) When Accessing Funds from Financial Institutions in the West Bank

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Abstract: The main problem confronting the MSMEs in Palestine is the inadequate access to financial resources and credit facilities and the lack of policies to provide a clear guideline for involved as well as the lack of political vision and strategies. The main research objective of the current study was to explore the challenges facing micro, small and medium-sized enterprise (MSMEs) when accessing funds from financial institutions in the West Bank. The significance of this study is reflected in the fact that there is a need to identify, organize, and acquire new knowledge to discover common threads in business and economic research, and its significance on culture and society. The researcher used a quantitative approach to achieve comprehensive analysis of data. To collect the data, a questionnaire was developed and distributed amongst 200 of the staff working at the MSMEs. The findings of study showed that the key challenges impeding MSMEs from accessing credit facilities are high repayment costs, stringent collateral requirements, not getting the exact amount applied for, lack of guarantors, lack of sufficient collateral, high credit facilities processing fees and short repayment periods. Measures introduced to boost access to credit have been to lower interest rates, extend the loan payment cycle, rethink the collateral security policy, widen the product portfolio and increase customer service.

Keywords: Micro, Small and Medium-Sized Enterprise, MSMEs, Financing, financial institutions, West Bank.

1. Introduction

Due to the increasing interconnectivity, and the rapid globalization, existent amongst the regions of the world today, additional sources of financial capital, beyond the traditional sector, have become necessary for many private and small to medium-sized enterprises to succeed. In recent years, microfinance opportunities have become a critical component in the economic development of Palestine. Were it not for this non-traditional form of financing mechanism, small to medium-sized enterprises in West Bank, on the whole, would most likely have suffered for severe slowdowns and collapse on a massive scale, further contributing to an already desperate situation in terms of shoring up needed financial resources. As a result of this reality, such businesses and entrepreneurs throughout West Bank are growingly increasingly interested in, and perhaps reliant on, microfinance as a means to up needed economic infrastructure within the region.

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Micro, Small and Medium Enterprises (MSMEs) play a significant role in economic and social development for both developed and developing countries (Calice, Chando and Sekioua, 2012). The main indicators of macroeconomic development are employment and GDP growth. In the Occupied Palestinian Territory, unemployment rates are relative, reaching 26.9% in the West Bank and 41.7% in Gaza (ILO, 2018). The MSMEs and economic growth have a causal relationship; however, it is evident that many obstacles impede the growth of this sector where poor formal financing accessibility is most important (Shinozaki, 2014). Financing is a critical input for the development of MSMEs where all categories of business firms require sufficient funds to fill the requirements of working and fixed capitals. Consequently, the majority of the Palestinian small firms are established based on self-funding through personal or family savings with little support from the official agencies (Sabri, 2008). Their motivation is usually related to investing the available savings to find a job as self-employed. Micro, Small and medium-sized enterprises (MSMEs) need finance for their start-up, innovation, growth and survival (Naidu and Chand. 2012). While the development of small businesses in a country is essential; the financing of these businesses is critical to the economy. Small business owners need capital support that can only be provided through loans from banks and other financial institutions. Borrowing money from banks is not an easy task for MSMEs. Banks usually refuse to provide money to start-ups, young entrepreneurs and a business that offers the highest return, but at certain risks. MSMEs need to grow fast. The banks also need to be much more proactive in providing finances to the MSMEs. It is natural to assume that financial institutions can play a significant role in the development of MSMEs (Irwin and Scott, 2010). The majority of developing countries, including Palestine, rely directly on banking institutions to finance the development of the economy and provide liquidity for economic activities. Financial institutions are aware that inherent MSMEs characteristics, recent interest rate, guarantees, exchange rate fluctuation, the business regulatory framework and the legal and contractual environment are the most important constraints around the world are holding back the further involvement of banks with MSMEs in the region (Calice, Chando and Sekioua, 2012). The main problem is the reluctance of the banks to finance this sector because of the high risks (Najjar, 2009). The focus on the MSME sector is also important because of its large participation in growth and employment in the Palestinian economy (Daoudi, 2004). Many developing and developed countries have been encouraged by policies and programs aimed at promoting and supporting small enterprises (Makhool, 2003).

In his study, Abuznaid (2014), determined major issues, challenges and obstacles facing entrepreneurs in Palestine. Besides, Alhabashi (2015) found that to access to finance remains a principal challenge for SMEs in Kuwait where the collateral still is one of the major important problems and challenges they face SMEs in Kuwait. Wang (2016) showed that SMEs perceive access to finance as the most significant obstacle which hinders the growth and success of SMEs. Yoshino and Taghizadeh-Hesary (2016) indicated that SMEs face several barriers and obstacles such as restricted access to finance and lack of databases which are some of the reasons behind the slow growth of SMEs.

Considering the aforementioned details, the current paper focus on the challenges facing micro, small and medium-sized enterprise (MSMEs) when accessing funds from financial institutions in the West Bank¹.

¹West Bank, Arabic Al-Daffah al-Gharbiyah, Hebrew Ha-Gadah Ha-Ma'aravit, area of the former British-mandated (1920–47) territory of Palestine west of the Jordan River, claimed from 1949 to 1988 as part of the Hashemite Kingdom of Jordan but occupied from 1967 by Israel. The territory, excluding East Jerusalem, is also

1.1 Statement of the Problem

The main problem confronting the MSMEs in Palestine is the inadequate access to financial resources and credit facilities and the lack of policies to provide a clear guideline for involved as well as the lack of political vision and strategies. Although Oslo Accord 1993 was supposed to build a viable and stable economic system in the Palestinian territories. It can be noted that banks in Palestine focused most of their lending activities on personal loans, rather business ones (See figure 1). The banks' lending policies differ from one bank to another where there is no specific uniform policy to be examined to comprehend the bank's role in financing the MSMEs in the West Bank- Palestine. Besides, the limited access to the international market has reduced the chances of MSMEs in Palestine to grow their businesses. The exposure of Palestinian business sector to Israeli economy creates a great disadvantage for its competitiveness, as Israel tends to limit the growth of MSMEs for its benefits. The occupation has divided the Occupied Palestinian Territories into fragments and established many checkpoints and barriers, which significantly increased the cost of transporting goods (Ministry of National Economy, 2010). Finally, there is a vast literature on the financial institution including Islamic banks, commercial banks and Microfinance institutions for MSMEs development but only a limited amount of research in the case of Palestine.

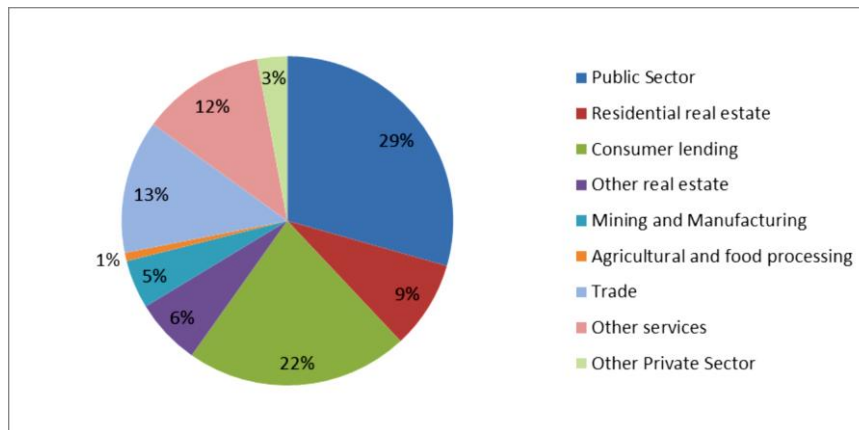


Figure (1): Credit distribution by economic sector 2016

Source: Palestine Monetary Authority Depending on 2016

1.2 Following the research problem, the following main question has been formulated:

What are the challenges facing MSMEs when accessing funds from financial institutions in the West Bank?

The main question lead to the following sub-questions:

1. How the role of the Palestinian financial institutions can be identified in the mechanism of funding MSMEs in Palestine? and how important the role of MSMEs in the Palestinian economy?

known within Israel by its biblical names, Judaea and Samaria (Encyclopædia Britannica, Inc: <https://www.britannica.com/place/West-Bank>).

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2. What are the available sources of fund for MSMEs? and how the MSMEs are financed in Palestine?
3. How the main players can overcome the obstacles in providing MSMEs with access to credit facilities?

1.3 Research Objectives

The main research objective is to explore the challenges facing micro, small and medium-sized enterprise (MSMEs) when accessing funds from financial institutions in the West Bank. Besides, it is intended to achieve the following sub-objectives:

1. Explore the challenges facing MSMEs when accessing credit facilities in the West Bank.
2. Study the role of financial institutions in financing MSMEs in the West Bank.
3. Assess the role of Credit guarantor (European Palestinian Credit Guarantee Fund, Palestine investment fund) in developing and supporting MSMEs in the West Bank.
4. Assess the role of Palestine Monetary Authority (PMA), financial institutions in developing and supporting MSMEs in the West Bank.

1.4 Study Rationale

The significance of this study is reflected in the fact that there is a need to identify, organize, and acquire new knowledge to discover common threads in business and economic research, and its significance on culture and society. The current phenomenon in business development and growth in Palestine, as reflected by existing research and understanding, is correlated to the historical influence of the banking system, combined with modern and innovative means of lending, such as microfinance. The two forces are colliding today perhaps like no other time in the history of Palestine. This phenomenon relates to the developing nature of West Bank economy, largely influenced by a traditional system that is largely fractured and structure against all but those few in the elite, and the ability of a modern-day investor to recapture the excitement and guiding principles that solid business structures can bring to the growth of a country. A proper understanding of how microfinance can influence the micro and small to the medium-sized enterprise is an important topic to research further and combine to demonstrate the significance of this study. This study could potentially have a tremendous impact in regards to helping the reader better understand the influence that microfinance has had, and continues to have, on Palestinian business and society. This should serve to further a mutual understanding on the part of all demographic groups in terms of the importance that microfinance has today in promoting business growth throughout the region. This will potentially serve to minimize or even eliminate many current misconceptions about how principles of microfinance shape the thought process of the modern-day small to medium-sized enterprise in Palestine, and how this continues to guide the nation even to this day.

Although MSMEs have specific strengths, they also have many weaknesses that require special policy responses in terms of management skills, legal frameworks and access to finance. The importance of this thesis is to study the role and importance of financial institutions in financing the MSMEs in the West Bank after the Oslo Accord (1997). The study identifies the available financing resources and their role in the MSMEs development in Palestine. The study investigates academic literature, structural characteristics, constraints, actors and core issues inherent in the Palestinian private sectors.

Reviewing previous studies, there is limited access for micro, small- and medium-sized enterprises (MSMEs) to credit facilities. To help ease the access of MSMEs to finance and boost economic growth and job creation in Palestine and how we can develop credit information infrastructures for MSMEs. This is because of the lack of policies in place to provide a clear guideline and the lack of vision and strategies. Also, there is no specific uniform policy to be examined for comprehending the bank's role in financing the MSMEs in the West Bank- Palestine. Furthermore, there is limited research about the financial institutions for MSMEs in Palestine. Qubbaja (2019) proposed that further research should be done to expand the existing knowledge of SMEs in Palestine, especially regarding the financing problems they encounter. Therefore, the researcher needed to determine the extent to which each type of financial institution, agencies and government facilities contributes to fostering MSMEs that situation would be reflected on economic growth and sustainable development in Palestine.

1.5 Literature Review

The conceptual and theoretical frameworks for this study are drawn from existing literature and economic models and theory related to the effect of microfinance on the business culture of a nation and society. Besides, the framework includes research that correlates the increase in microfinance in Palestine and a systematic change process, combined with individual and group demographic studies. The theoretical basis of the study is intended to provide all interested and affected stakeholders with conceptual evidence supported through research that explains how the increase in microfinance opportunities being realized today has contributed to a different and more invigorating environment under which micro, small and medium-sized enterprises in West Bank can flourish. Furthermore, the conceptual and theoretical foundation of this study serves to enable professionals in the field of investment and economic management to be more aware of the impact that microfinance is having on West Banks society, either positively or negatively, to better understand the future of the region's economic growth and development moving forward.

According to Kawasmi and White (2010), there is no official definition for MSMEs. Also, there is no one generally agreed definition for "micro, small and medium-sized enterprises" applicable in all countries.

The importance of MSME definition for policymakers lies in estimating the categories of businesses and their contribution to employment, gross domestic product and in other macroeconomic indicators, to guide efforts, policies to develop strategies and support programs for small and medium enterprises (Berisha and Pula, 2015). Differences in MSME definition extend in three flanks: definitions by international institutions, definitions by national laws and by industry definitions. Among all MSMEs definitions, the one most implemented in SME studies is that of the European Union (Berisha and Pula, 2015). However, in the Occupied Palestine Territories; enterprises which employ four full-time workers are referred to as micro-enterprises, and enterprises which employ five to nine, are referred to as small enterprises, whereas any enterprise which employs ten to nineteen workers are described as medium-sized enterprises(PCBS, 1998).

In the Palestinian economy, the majority of the Palestinian MSMEs are established based on an individual or family saving with little support from the official agencies (Sabri, 2008). However, the major motivation for establishing new MSMEs is different from one venture to another. Where Micro, small, and medium enterprises constitute 96% of the Palestinian private sector (Althalathini, 2015), but only a quarter of these businesses are owned by women (IFC, 2011).

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MSMEs form a large part of the private sector in many developed and developing countries (Beck, and Demirguc-Kunt, 2006) and have come to represent 99.9% of all registered private businesses. Their economic contribution to the GDP and employment of countries are more than 50%. In OECD economies, over 95% of firms are SMEs and micro-enterprises, accounting for some 55% of GDP (Australian Government, 2011). Therefore, these enterprises have always been considered as an engine behind the economic growth all over the world (Singh Garg and Deshmukh, 2008) and countries are keen on developing SME sector as a major part of their economy (Henderson and Weiler, 2010) and (Wolff, Pett and Ring, 2015). Although conditions are far from stable and safe, MSMEs play a substantial role in the Palestinian economy. The vast majority of the Palestinian workforce are employed in MSMEs at 87% (Kawasmi and White, 2010).

MSMEs are vulnerable to big external shocks (Laforet and Tann, 2006) as they work in the same setting as their larger counterparts, but without the associated benefits of large organizations such as sufficient funding and expanded human resources (Smit and Watkins, 2012). Sabri (2008) indicated that the most important challenges and obstacles face is the financial part which decreases their abilities to increase against foreign products. as well as he confirmed that, SMEs face many challenges and barriers that influence the development and growth for them. One of the most important challenges in the Occupied Palestinian Territory (OPT) is that MSMEs find it difficult to grow and expand due to their limited ability to obtain the finances they require (Kawasmi and White, 2010).

The MSMEs finance problem is critical because difficulties in obtaining finance can prevent the ability of established smaller firms to invest and grow and of new firms to launch operations. In the available evidence, there is a coincidence that the credit portfolio for the (SMEs) in banks is often limited (Hernández-Cánovas and Martínez-Solano, 2010). Although MSMEs show high potential to grow and contribute significantly in developed economies such as Scotland, yet one of the common problems faced by MSMEs is that they cannot get a large amount of financing for growth and investment projects (North, Baldock and Ekanem, 2010). This problem is especially true of SMEs and is due to a general lack of information about them (Abdulsaleh and Worthington, 2013).

Without solid data, the bank does not have the opportunity to objectively evaluate a company, so it is very difficult to know its future ability to achieve profits. The Public Credit Guarantees reduces the incentives to default on the part of those who receive financing, increases their motivation to strive for the project, and lowers the cost of bankruptcy for the banks. However, it is common for SMEs to lack guarantees to apply for credit (North, Baldock and Ekanem, 2010).

The issue of MSMEs funding is important because financial difficulties will hinder the ability to exist in smaller firms to invest and expand and new firms to start operations. In the available evidence, there is a coincidence that the credit portfolio for the (SMEs) in banks is often limited (Hernández-Cánovas and Martínez-Solano, 2010). Although MSMEs show high potential to grow and contribute significantly in developed economies such as Scotland, yet one of the common problems faced by MSMEs is that they cannot get a large amount of financing for growth and investment projects (North, Baldock and Ekanem, 2010). This problem is especially true of SMEs and is due to a general lack of information about them (Abdulsaleh and Worthington, 2013).

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Some initiatives could be launched to increase MSMEs finance such as public credit guarantees and Crowdfunding.

Credit guarantee schemes are defined as any formal scheme in which an independent third party provides a guarantee to the lender(s). Where, there are three key parties involved: a borrower who can be an MSME; a lender, usually financial institutions and a guarantor, an independent company. A survey of credit guarantees schemes around the world that has been done by Gozzi and Schmukler(2016) showed that over 30 per cent of these schemes have state ownership. Public credit guarantee schemes are important in developing countries, where they are the main guarantee scheme .

Governments also participate in these schemes by funding private guarantee schemes or running their schemes directly. There is some indication that these mechanisms will boost lending and strengthen selected firms ' funding conditions. Nevertheless, poorer creditworthiness and higher losses can also be correlated with them. Banks will simply move from unguaranteed to guaranteed loans, resulting in no or restricted new loans. Although companies receiving guaranteed loans in some countries have increased their performance in other countries, the performance of SMEs has not changed or even worsened (Gozzi et al., 2015).

Stanko and Henard, (2016) indicated that there are several ways to fund the projects, therefore, it will be important and necessary to create and innovation more ways as a result of the external environment is constantly changing. Ordanini (2009) indicated that crowdfunding is an initiative that has been accomplished to increase funds for a new venture which suggested by a person through increasing small to medium-sized investments from different people based on the internet. According to Hemer, et al. (2011) crowdfunding is seen as a way to minimize and decrease the funding gap in the early stages of new projects. This concept according to Rossi and Vismara (2018) started as the alternative for the SMEs who obtain refused by the commercial banks and financial institutions to provide funds to the companies (Rossi and Vismara, 2018). As well as, Stanko and Henard, (2016) in their study, Crowdfunding is one of those ideas which has arisen in the economy of the UK, and it is a combination of finances from the realizable people through the internet. One of the most important advantages of crowdfunding process it is cheaper than the initial Public Offering (IPOs) with the documentation required to run the operation. Collins and Pierrakis, (2012) confirmed that, If the funds provided in the early phases of a company's life cycle by the founder himself, his friends and family are insufficient, the project will face a funding gap.

1.6 Research Methodology

This study followed quantitative approach where Nardi(2018) indicated that using this approach enables the researcher to translate the collected data and facts into numbers and figures and facilitates introduction of information to decision-makers.The quantitative approach was expressed through the questionnaire and secondary data that was collected to understand the MSMEs in Palestine as drawn from the competent authorities in the State of Palestine.

The study population included staff members working at MSMEs operating in the West Bank. The last official census available this population was 68,604 (PCBS, 2017). The sample was drawn from the total number of 68,604 employees, which represents the total population. Based on sample size random table by Krejcie and Morgan (1970), and Raosoft sample size calculator, the sample size was200; 125 (micro-

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entrepreneurs), 45 (small entrepreneurs) and 30 (medium entrepreneurs). Questionnaires were distributed amongst the research sample.

1.7 Data Analysis

It is difficult to interpret raw data obtained from the field since it needs to be cleaned, coded and tested (Bryman, 2017). In this study, the quantitative part consisted of the examination, categorization, tabulation and recombination of facts to answer the research questions. Using statistical techniques such as frequency counts, standard deviations, percentages, arithmetic means, pie charts and tabulation, the quantitative analysis was conducted to show differences in frequency of respondents' answer. Descriptively, qualitative data was evaluated using questionnaires. Bar charts showing nominal or ordinal data were used. Version 21.0 of the Statistical System for Social Sciences (SPSS) was used to help in recording, inputting and reviewing quantitative data derived from the questionnaires. Finally, 200 questionnaires were administered by the researcher where 172 questionnaires were completed and returned. This shows a high response rate (86%), which is adequate to continue with the analysis

Reliability and Validity of Data Collection Tool

The face validity method was used to ensure the questionnaire validity and its suitability to the research goals; the questionnaire was evaluated by a group of experts, academics and specialists where they provided suggestions in this regard. The researcher followed their suggestions and modified the questionnaire accordingly.

Besides, internal consistency means of each paragraph of the questionnaire with the entire domain were calculated. In addition, correlation coefficients were calculated between the degree of each paragraph and the total score of questionnaires. The results indicate validity and consistency of internal data in the study where values of correlation coefficient ranged for all phrases between 0.530 to 0.834, and these values were significant at 1% level as illustrated in table (1).

Table (1): Internal Consistency of Questionnaire' Domains.

First Domain			Second Domain			Third Domain			Fourth Domain		
N	Corr. Coefficient	P-value	N	Corr. Coefficient	P-value	N	Corr. Coefficient	P-value	N	Corr. Coefficient	P-value
1	.760**	.000	1	.673**	.000	1	.638**	.000	1	.719**	.000
2	.800**	.000	2	.647**	.000	2	.795**	.000	2	.619**	.000
3	.762**	.000	3	.682**	.000	3	.834**	.000	3	.655**	.000
4	.740**	.000	4	.730**	.000	4	.745**	.000	4	.668**	.000
5	.755**	.000	5	.651**	.000	5	.825**	.000	5	.720**	.000
			6	.595**	.000	6	.744**	.000			
			7	.530**	.000	7	.658**	.000			

****Significant at the 0.01 level**

Furthermore, Cronbach's Alpha method was applied to calculate the reliability in the data collected through the study tool. The reliability variables ranged from 0.702 and 0.870 these results indicate the presence of high reliability in the data of domain. Besides, the total reliability coefficient reached to 0.894, which considered high value of the Cronbach's Alpha as shown in Table (2).

Table (2): Result of Cronbach's Alpha Analysis

Domains	N	Cronbach's Alpha
The first domain	5	0.817
The second domain	7	0.766
The third domain	7	0.870
The fourth domain	5	0.702
All domains	24	0.894

1.8 Results and Discussion

Demographic Information

The results indicated that 66.9% of the respondents were male and 33.1% of them were females. Considering the demographical distribution in the West Bank in terms of males and females' numbers, the number of females working at the MSMEs is high.

Besides, the results revealed that most of the working staff are young as their ages are between 24 to 50 years old. This indicates that MSMEs tend to hire young individuals since they are keen to stay abreast of modern managerial and technological developments.

Moving to the educational level, the results revealed that most of the respondents hold University degree (66.3%) while few of the respondents hold no university degree e.g. high school or less (7%). This could be justified by the MSMEs' high hiring specifications and their interest in highly educated individuals.

MSMEs' Information

Regarding the number of years since the business start-up, most of the studied MSMEs started up around 1-5 years (37.2%). This means that the recent 5 years witnessed a considerable interest in MSMEs investments. 45 of the studied MSMEs started their work more than 16 years ago (26.2%). This indicates that the investors at the West Bank possess proven experience in MSMEs.

In those MSMEs, 62.2% of the founders of the firms act as a manager, while 37.8% of the founders of the firms do not act as a manager. This shows that most of the MSMEs were initiated by one person who, then, broadened the scope of work and managed to grow up the organization especially the results showed that 45.3% of those organizations are owned by individuals, 30.2% owned by families and 24.4% owned by partners. Besides, 33.7% of the MSMEs have 1-4 employees, 29.1% have 5-9 employees, 9.9% have 10-19 employees, and 27.3% have more than 19 individuals.

The study was intended to cover diverse business types to build a clearer image of the studied cases and to avoid bias. Of the target MSMEs, 41.9% work in services, 18% wholesale, 17.4% retail, 9.3% industrial, 5.2% construction and 8.1% craft where 76.2% of them are officially registered while 23.8% are unregistered. This shows the role of government control over organizations who are willing to obtain the necessary licenses to operate.

The classification of the firms shows strong competitiveness in the market as they try to grow and improve their market share; 23.8% of the registered firms are special, 26.7% excellent, 12.8% are ranked first, 4.1% are ranked second, 5.2% are ranked third, 3.5% are ranked fourth. The classification

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is provided by the Ministry of Economy according to the organization activities and capital. This is also associated with the MSMEs efforts to increase their sales where the majority of the studied organizations (37.2%) have sales up to 500,000 Dinar (Around 750,000 US\$).

Fund Challenges Faced the MSMEs

The size of the capital used when establishing their facility 14.5% of the MSMEs started with 5,000 dinars, while 25% started with 5,001 to 10,000 dinars, 20.3% with 10,001 to 40,000 dinars, 12.8% with 40,001 to 100,000 dinars, while 27.3% of them started with more than 100,000 dinars. This fund was obtained through different sources of financing i.e. 51.7% of the MSMEs obtained finance through personal savings, 9.3% of fund from family/friends, and 8.1% of microfinance institutions/Islamic Bank/Commercial Bank. Not all studies MSMEs needed fund during the establishment stage where some organizations needed fund in the establishment stage (40.1%) while 7% needed financing during the purchase of assets and capital resources, 6.4% during the operation working capital, and 4.7% during the production of a new product or new service.

The study found that the majority of respondents received their start-up capital from personal savings followed by Microfinance institutions Islamic Bank/Commercial Bank suggesting that they tend to get their start-up capital from resources that do not have stringent requirements like collateral coverage and high repayment rates. These results are in line with results of Manaye (2018) and Gichuki, Njeru and Tirimba (2014).

During the financing process, 54.7% of the studied MSMEs had difficulties obtaining financing upon incorporation, while 45.3% had not difficulties obtaining financing upon incorporation. To deal with the difficulties, some of the MSMEs applied for loans where 41.3% offered a greater guarantee than the loan amount, 20.9% offered guarantees less than the loan amount, 30.2% offered guarantees equal to the loan amount. However, only 51.7% of the MSMEs received the loan in full value; 16.9% received loan at 50% -60%, 10.5% received loan at 61% -70%, 7.6% received loan at 71% -80%, while 13.4% received loan by more than 80%.

As shown in table (3), the currently available funding sources of finance for financing the MSMEs projects where the "Auxiliary sources from the government" was in the first order, "Commercial credit from suppliers" in the second order, "Specialized financial institutions (such as the Faten Foundation, Vitas)" came in the third order, "Capital invested (partners)" In the fourth order, "Islamic banks" in the fifth order, while "Commercial banks" came in the sixth order, and, finally, "Internal financing (retained earnings, borrowing from family and friends)" came in the seventh and final order.

Table (3): The currently available funding sources of finance for financing the MSMEs projects.

	1		2		3		4		5		mean	Rel. weight	Ranking
	#	%	#	%	#	%	#	%	#	%			
Internal financing (retained earnings, borrowing from family and friends)	68	39.5	30	17.4	29	16.9	22	12.8	21	12.2	2.40	48%	7
Commercial banks	39	22.7	43	25.0	32	18.6	28	16.3	21	12.2	2.69	54%	6

Islamic banks	42	24.4	35	20.3	34	19.8	25	14.5	29	16.9	2.78	56%	5
Specialized financial institutions (such as the Faten Foundation, Vitas)	44	25.6	27	15.7	23	13.4	25	14.5	44	25.6	2.99	60%	3
Commercial credit from suppliers	30	17.4	24	14.0	32	18.6	36	20.9	42	24.4	3.22	64%	2
Auxiliary sources from the government	32	18.6	18	10.5	28	16.3	30	17.4	49	28.5	3.29	66%	1
Capital invested (partners)	45	26.2	21	12.2	28	16.3	29	16.9	38	22.1	2.96	59%	4

Regarding the difficulties they faced when applying for funding, as the order of these difficulties were: 40.1% High interest rate, 23.8% Repayment conditions, 12.8% documents required, 7.6% Time taken to approve finance, 3.5% Short loan duration, and 2.9% Insufficient amount of finance as shown in table (4).

Table (4): The difficulties they faced by MSMEs when applying for funding.

	Frequency	Percent
High interest rate	69	40.1
Repayment conditions	41	23.8
Time taken to approve finance	13	7.6
Insufficient amount of finance	5	2.9
Short loan duration	6	3.5
documents required	22	12.8
I did not face any difficulty when applying for a loan	16	9.3
Total	172	100.0

Some of the studied MSMEs who applied for fund got their requests rejected. The reasons for rejection varied according to the status where 33.7% of the requests were refused due to lack of guarantees, 14% the project is new, 11% the project is very risky, 7.6% lack of financial information, 7% the project cash flow does not meet the requirements of banks or other financial institution, 6.4% lack of a credit history, 5.8% insufficient sources of payment, and 4.7% lack of accurate and comprehensive financial information (Table 5). The results show that 33.7% of the refused requests were due to the lack of guarantees and this shows the need for governmental support. In other words, the government should support the MSMEs to improve their guarantees or to guarantee their loans.

Table (5): The reasons given by the banks or other financial institution refused to finance MSMEs.

	Frequency	Percent
Lack of guarantees	58	33.7
Lack of financial information	13	7.6
Lack of a credit history	11	6.4
The project cash flow does not meet the requirements of banks or other financial institution	12	7.0

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The project is new	24	14.0
The project is very risky	19	11.0
Insufficient sources of payment	10	5.8
Lack of accurate and comprehensive financial information	8	4.7
Missing	17	9.9
Total	172	100.0

Finally, the findings revealed that the access to credit facilities is influenced by the availability of information on finance. These results support the findings of the Onyonyi study (2016), in which some entrepreneurs felt it was difficult to obtain loans because they had to show credit records and they did not fully understand the requirements to obtain and pay loans.

The current MSMEs financing system

As shown in table (6), when asked to evaluate the current MSMEs financing system in West Bank, the respondents highlighted the major constraints that face them when seeking financing for their projects. The results showed that the interest rates are a major constraint for small enterprises (78%). The difficulty to provide adequate guarantees was amongst the major obstacles as well (74%). Besides, the lack for regulations to support the MSMEs was another major constrain (73%). This shows the need for establishing regulations for supporting the MSMEs work and enable them have further governmental guarantees when seeking fund from finance institutions.

Table (6): Respondents' evaluation of current financing system in West Bank

	Strongly Disagree		Disagree		Normal		Agree		Strongly Agree		mean	Rel. weight	Ranking
	#	%	#	%	#	%	#	%	#	%			
inadequacy of traditional bank financing formats for MSMEs	22	12.8	19	11.0	44	25.6	52	30.2	31	18.0	3.30	66%	5
High Interest rates are a major constraint for small enterprises	9	5.2	17	9.9	16	9.3	69	40.1	58	33.7	3.89	78%	1
Loan repayment conditions are a major constraint for small enterprises	7	4.1	20	11.6	35	20.3	72	41.9	35	20.3	3.64	73%	3
Difficult to provide adequate guarantees	6	3.5	14	8.1	43	25.0	68	39.5	37	21.5	3.69	74%	2
Lack of regulations supporting MSMEs	14	8.1	19	11.0	28	16.3	60	34.9	48	27.9	3.64	73%	3
All items											3.63	73%	

In the same context, the respondents were asked about the status of current MSMEs in West Bank where they indicated that MSMEs are an important part of the national economy (78%) as they provide a significant source of income for low-income people (76%). However, the results indicated that the availability of government logistical support for MSMEs is low (59%) as shown in table (7).

Table (7): The current status of the MSMEs system in Palestine

	Strongly Disagree		Disagree		Normal		Agree		Strongly Agree		mean	Rel. weight	Ranking
	#	%	#	%	#	%	#	%	#	%			
MSMEs are an important part of the national economy	16	9.3	5	2.9	23	13.4	61	35.5	64	37.2	3.90	78%	1
MSMEs are a source of income for low-income people.	6	3.5	19	11.0	25	14.5	72	41.9	48	27.9	3.81	76%	2
MSMEs have features such as flexibility, the ability to change rapidly, and the ability to innovate and develop	6	3.5	14	8.1	40	23.3	81	47.1	29	16.9	3.66	73%	3
The ability of MSMEs to compete in the local market.	5	2.9	26	15.1	47	27.3	76	44.2	15	8.7	3.41	68%	4
The extent of opportunities for MSMEs to export outside Palestine.	20	11.6	25	14.5	60	34.9	57	33.1	8	4.7	3.05	61%	6
Availability of the infrastructure for the operation of MSMEs	12	7.0	30	17.4	71	41.3	51	29.7	7	4.1	3.06	61%	5
Availability of government logistical support for MSMEs.	21	12.2	37	21.5	52	30.2	50	29.1	10	5.8	2.95	59%	7
All items											3.41	68%	

Furthermore, the results showed that the MSMEs play a role in the Palestinian economy through increasing job creation (80%), enhancing the spirit of innovation and inventions (79%) and creating links between them and other economic sectors (70%). Table (8) provide further details on the key role of MSMEs in the Palestinian economy. These results stress the significance of supporting the MSMEs sector through funding and all other types of support.

Table (8): The key role of MSMEs in the Palestinian economy

	Strongly Disagree		Disagree		Normal		Agree		Strongly Agree		mean	Rel. weight	Ranking
	#	%	#	%	#	%	#	%	#	%			
Increase job creation	7	4.1	11	6.4	13	7.6	80	46.5	60	34.9	4.02	80%	1
Increase the volume of exports	6	3.5	23	13.4	47	27.3	71	41.3	24	14.0	3.49	70%	6
Contribute to creating links between them and other economic sectors	7	4.1	18	10.5	46	26.7	77	44.8	22	12.8	3.52	70%	4
Offers lower prices products and services	3	1.7	24	14.0	54	31.4	61	35.5	29	16.9	3.52	70%	4
Enhance the	11	6.4	24	14.0	37	21.5	75	43.6	23	13.4	3.44	69%	7

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competitiveness of the country													
increase the value added to the GDP	5	2.9	16	9.3	48	27.9	76	44.2	26	15.1	3.60	72%	3
Enhance the spirit of innovation and inventions	3	1.7	11	6.4	30	17.4	77	44.8	50	29.1	3.94	79%	2
All Items											3.65	73%	

Moreover, the respondents indicated that MSMEs lending policies differ from one bank to another and they showed that lowering interest rate is more important than reducing the collateral required.

With respect to the Islamic finance, 87.2% of the respondents have adequate knowledge about the Islamic finance methods where 72.7% of them opt for such methods as 37.2% of them prefer Murabahah²; 33.1% prefer Musharakah³, 14.5% prefer Mudarabah⁴, while 6.4% prefer Ijarah⁵.

Furthermore, the results revealed that the key challenges impeding MSMEs from accessing credit facilities are high repayment costs, stringent collateral requirements, not getting the exact amount applied for, lack of guarantors, lack of sufficient collateral, high credit facilities processing fees and short repayment periods. Measures introduced to boost access to credit have been to lower interest rates, extend the loan payment cycle, rethink the collateral security policy, widen the product portfolio and increase customer service. Those methods were also endorsed by Alang'o, Kiplagat and Owembi(2018).

The study found that not all MSMEs had access to loan facilities. Many respondents opted to use personal savings and donations from relatives and friends because they find it difficult for financial institutions to obtain credit. Therefore, they study recommends that the institutions' management should increase their portfolios of products offered to MSMEs. The marketing departments need to examine the preferred choices of the consumers and be able to include the possible and practical alternatives on the list. This will help reach out to those MSMEs who are unable to use credit facilities. Those findings are similar to findings of Rostamkalaei and Freel (2017).

Although some of the MSMEs have access to credit facilities, they still could not achieve the desired business goals. This could be due to lack of important knowledge of the field in which they work. Therefore, MSMEs are encouraged to conduct a thorough research to have clear knowledge and understanding of the field they plan to invest in. When ample information is gathered about the sector involved, the MSME will be able to draw up a better business plan that will boost the chances of receiving funding from financial institutions (Omondi and Jagongo, 2018).

The majority of the studied MSMEs in West Bank are owner-managed where a person makes all decisions. Which means that such an individual's absence due to illness or death can contribute to the business failure. One of the financial institutions' key requirements/criteria for accessing credit is a

²Murabaha, also referred to as cost-plus financing, is an Islamic financing structure in which the seller provides the cost and profit margin of an asset.

³Musharakah is a joint enterprise or partnership structure in Islamic finance in which partners share in the profits and losses of an enterprise

⁴The term refers to a form of business contract in which one party brings capital and the other personal effort.

⁵ A lease agreement whereby a bank or financier buys an item for a customer and then leases it to him over.

good management team. If the numerous MSMEs set up good management teams and good succession strategies, financial institutions will see the company as a good prospect and continue into the foreseeable future, and thus have a good chance of credit facilities being issued.

While government and other non-governmental organizations have put a great deal of effort into promoting the MSMEs' access to financing, there is still a lot to do. The government need decrease the base interest rate for loans provided to MSMEs and ensuring that the financing institutions follow the regulations. Besides, the government need to establish special regulations for financing the MSMEs in a way that facilitate the entire process.

1.9 Conclusion

It is an indisputable fact that MSMEs, particularly in Palestine, are engines of the economy. These also form the foundation from which to grow most of today's big companies. Therefore, it is a legitimate argument that the MSMEs' progress would help improve the country's entire economy.

In the theoretical framework, it was evidently shown by reviewing previous research studies that the MSMEs are faced with several challenges when accessing credit fund from the financial institutions. This evidence has been confirmed by the empirical framework of this study. Financial institutions have put in place various requirements which are not easily met by the MSMEs and financial institutions have to act toward this to contribute to the Palestinian economy through facilitating the funding process.

The results of the current study showed that the major challenges hampering MSMEs from receiving credit facilities are high repayment costs, stringent collateral requirements, not getting the exact amount applied for, lack of guarantors, lack of sufficient collateral, high credit facilities processing fees and short repayment periods. MSMEs could follow some measures to increase their opportunity to access fund i.e. lowering interest rates, extending the loan payment cycle, rethinking the collateral security policy, widening the product portfolio and increasing customer service.

Finally, the current study highlighted the major constraints and challenged that encounters the MSMEs when accessing fund from financing bodies. Besides, it provided some recommendations that could help alleviation such challenges.

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