

CHAPTER 7

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CONCLUSIONS**

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7.1 SUMMARY :

This thesis attempts to analyse and assess the activities of different types of financial institutions that help to satisfy the financial needs of manufacturing sector in Jordan. As the above study is devoted to the question of industrial finance, the domestic financial institutions have been analysed and studied in detail within the context of Jordanian economic development.

Jordan , like any other country faces the problem of supply of adequate finance to industries. Much emphasis on this has been laid in the annual five year and seven year development plans of Jordan.

7.1.1 Importance of Sound Financial Structure in Jordan :

Many economists agree that a sound financial structure is a necessary prerequisite for successful development of a country. Economic development is synonymous with overall rise in the standard of living of the people. Hence, problems related to industrial finance and management are of vital importance because the development of the Jordanian economy is largely synonymous with industrial development. The question whether and to what extent, a country benefits from industrial finance is critically dependent on how the sectoral distribution of finance is carried out and how well organized is this channeling in the numerous sectors of the economy.

Theoretically, even though all the finance and management needs can be met through foreign aid, not much reliance is put upon it by any upcoming economy, and ways and means are devised to provide these services domestically.

The need for industrial finance is obvious for a country like Jordan. The development of industries essentially requires the channeling of real resources and finance to the financial intermediaries through which these resources are organised and put to use. For the performance of activities related to production, finance is required for construction, purchase of machines, purchase of raw materials etc., and it is of three types long term, medium term and short term finance.

Production involving the organisation of real resources for producing goods requires finance on a long term basis. Apart from the general need of finance, other reasons for the organisation of industrial finance in Jordan, which also forms the rationale for the subject matter of the present thesis study, have been taken stock of before :

- (1) From a very long time since the establishment of Jordan, commercial banks have been satisfying the financial needs of the country. However, due to a major concentration on the delivery of short term and medium term finance, these institutions did not and could not make available long term finance for meeting all the needs of the industries. It therefore became imperative that various other institutions such as the capital market, development banks and industrial banks be set up for long term lending. Such institutions have come into existence in the country, the versatility of these institutions of which has been studied.

- (2) In Jordan, industrial ethos such as preference of manufacturing activities rather than trading activities, the capability of taking risk in new industrial ventures is not strong enough to bring into existence all those conditions necessary and sufficient for industrial development. This is specially so in case of industrial finance where an immense amount of money is risked.
- (3) As the income of most of the Jordanians can be categorised as low, it was also necessary to devise instruments that would be appropriate for mobilizing small savings of the people.

Industrial Finance is thus a vital medium of organising resources for industries. Therefore the establishment of financial institutions is not only necessary to fill the gaps but also to promote the objectives of planning.

Jordan emerged as an independent state under its present name in 1947, from its initial name of Transjordan. By the turn of two decades, its position has become far more secure than what it was before 1980. After the Arab- Israeli war of 1948, resulting in the defacto partition of Palestine and creation of Israel, a national unity came into being between Transjordan (the present East Bank) and the West Bank in 1949, consequently creating the Hashemite Kingdom of Jordan. Data available indicates that the population growth rate in 1979 rose from 3.8% to 5.3% in 1991.

With regard to the question of employment in the country, information given in 1961 census showed that about 22.9% of the total population of Jordan was employed, whereas by 1991, the total Jordanian labour accounted for 86% of the total population. The percentage of the working age population (15-64 years) also shot up from 20% in

1972 to 54% in 1991. The early nineties also showed an inability of the public sector to absorb more labour, hence availed the private sector for new job opportunities.

It has become clear that the economic development of Jordan has been hampered by relatively poor natural resources and the unfortunate political situation. Nevertheless the country has shown a marked success in recent years. Agriculture's low share is not surprising and the rising share of industry is certainly a sign of healthy growth. However, it should also be stressed that the high level of the Jordanian economy is only possible with the help of a massive influx of foreign capital and financial aid.

Some economic figures concerning GDP give a first impression of the economy, its deformation and problems. Real GDP at factor cost grew at an annual compound growth rate of 11% during 1964-90, whereas GNP at market prices grew by 10.4% during the same period.

The First Five Year Plan (1976-80) was formulated keeping in mind a set of new factors including a large increase in Arab assistance and loans to Jordan in the wake of the oil boom in the Gulf, and the growing demand for Jordanian manpower in the Gulf.

Jordan is inextricably linked with the other Arab countries. Relations have been cemented on the one hand by the positive role played by the trained Jordanian labour force in the Arab Oil producing states and on the other hand, by the financial assistance extended by the Arab countries to strengthen Jordan's steadfastness.

The seven year plan of 1973-80 also highlighted the necessity for developing an institutional framework for the banking system.

The impressive performance of the country's economy came to a standstill during the early Eighties. The growth of GDP dropped from 25.1% in 1980 to a mere 5.8% in 1983. A fall in the oil revenues of the Gulf countries was reflected in the slow development of the Jordanian economy.

Amongst the economic sectors, industrial development is progressing at a satisfying pace. Jordan's economic future rests on its role as a major staging area for supplying goods to the Arab countries. The restoration of internal stability in 1970 had positive effects on the resumption by the industrial and mining sector of its previous dynamism.

After Jordan regained independence, industrialisation progressed at a slow pace with a very small and nascent Jordanian market. Expert opinion had termed "lack of access to medium and long-term capital" as the greatest obstacle to industrial development in Jordan in the Five Year Plan For 1962-67. Ironically, the June 1967 war resulted in the closure of the Suez Canal which had adverse effects on the consumption market for local industrial products.

A very noteworthy accomplishment during these period was the setting up of Industrial Development Bank in September 1965 which functioned by extending medium terms loans to industrial projects. Investments in the mining and manufacturing sectors during 1976-80 was JD 317 million of which JD 60 million was in the private sector.

Credit facilities advanced by commercial banks to this sector expanded from JD 15.1 million at the end of 1975 to JD 73.1 million at the end of 1980. During the Five

Year Plan period of 1981-85, the total value of actual investments amounted to only 78.9% of the plan target followed by an economic recession in 1982 which caused a decline in the investments of all economic sectors.

A look at the annual compound growth rate of GDP in the industrial sectors shows the highest growth rate of 19.7% during 1976-80 followed by a decline to 9.2% between 1981-90. The overall compound growth rate per annum, was calculated to be 14.3% between 1976-90. It was observed that the general index of industrial production rose from 66.5% in 1976 to 317.1% in 1990, taking the index number of 1970 = 100.

The extent to which a country's financial system influences the real economic growth is a controversial issue. Numerous empirical studies have emphasised a strong and positive relationship between finance and the country's economic growth. A very vital function of the financial system is to ensure the provision of entrepreneurial talent and financing of technical and industrial innovation. Historical evidence of banking evolution in many countries has shown that commercial banks play a leading role in financing technical innovation and long term requirements of industrial expansion.

7.1.2 Role of Commercial Banks in the Industrial Development of Jordan :

In Jordan, the commercial banks are privately owned and compete with one another for customers. The present thesis examines how well the privately owned banking system has served the purpose of supplying finance to the industrial sector, how has the credit been disbursed and how are the lending policies of the commercial banks consistent with the governments development objectives.

The analysis demonstrated that the commercial banks have played an important though insufficient role in carrying out their intermediation of finance to industries. One area in which a serious functional deficiency was observed was the strict adherence of commercial banks to the provision of short term loans. The argument for long term loan facilities in the case of Jordan has not only been necessitated by the increasing demand for such loans by upcoming sectors but also encouraged by the great demand of the manufacturing sector. Today, as a result of privatization of these banks, the deposits of government bodies occupy a relatively minor portion of the total deposits.

A look at the deposits of commercial banks show that the demand deposits dominated the market upto 1980 because of its highly liquid nature, exhibiting a growth rate of 9.38% during the fifteen year period of study. Its peak growth rate took place between 1976 and 1980 when it exhibited a growth of 15.4% per annum. With regard to time deposits, the increasing demand was again primarily due to the increasing popularity and success of commercial banks in their role as financial intermediaries. Saving deposits occupied a comparatively smaller percentage of the total deposits, its share declining from 16% of the total deposits in 1980 to 12.2% in 1990. It was clear that time and saving deposits represent the less liquid claims on commercial banks. These deposits generally have a stable character as compared to the more volatile demand deposits.

While taking into account the deposits of commercial banks as distributed in the public and private sector in terms of millions of JD, it was observed that the resident private sector grew at a rate of 16.2% per annum during the fifteen year study period

whereas the non-resident private sector grew at a compound growth rate of 21.6% per annum. With regard to the public sector, figures revealed a growth of 17.9% per annum. The non resident private secotor occupied a lesser proportion of the deposits, hence further improvement can be brought about if the private sector is encouraged by different schemes hence bringing about an increase in its share of total deposits. The ownership of outstanding demand deposits of commercial banks reveal that even though Jordan experienced a severe economic crisis not much of a negative impact was observed on the total demand deposits which showed a regular upward trend. This suggested that commercial banks have been successful in institutionalising domestic savings, with its growing importance as a credit institution for the different secotrs of the economy particularly the manufacturing sector.

A bank always strikes to achieve maximum balance between liquidity and profitability in the management of its assets and liabilities. This is clearly evident with respect to the maintenance of liquidity of commercial banks. Moreover, maintaining adequate liquidity is one of the most important constraints upon bank management. The total assets of commercial banks in Jordan has soared at an annual growth rate of 18.2%, of this, the domestic assets accounted for by for the largest portion of assets that is 51.9% of the total assets in 1990. Loans and advances accounted for the largest portion of domestic assets. Foreign assets holding also appear to be of considerable significance as they have recorded the highest compound growth rate of 30.5% per annum during 1976-90. This development can be mainly attributed to the sharp rise in interest rate in the world markets which widened the gap between returns on domestic investments and world interest rates. This has also increased the flow of foreign currencies in the form of

non resident accounts at the commercial banks. The other noticeable development has been the increase in the proportion of fixed assets at the rate of 20.4% per annum.

With respect to the relative share of bank assets to the deposits of GNP, from occupying 58.3% of the total GNP in 1976, bank assets occupied 172.1% of the total national income by the end of 1990. On the liabilities side, it was found that the rise was contributed largely by the private sector deposits which rose at the rate of 16.2% per annum. Liabilities as loans from the Central Bank and other local banks rose from 0.1% to 11% between 1976-90.

On scrutinizing the industrial credit extended by commercial banks, a number of conclusions have been arrived at. Once again, this time period poses an interesting picture in terms of the gradual rise in its credit facility, at 17.1% per annum between 1976-90. This was a result in response to the increasingly important role played by the Three year and Five year Development plans set up by the Government of Jordan. All the principle industries such as phosphate, cement, electricity, paper, and chemicals exhibited a marked increase in production. The commercial banks continued to extend loans through syndicated loans and corporate bonds issued on behalf of the share holding companies. During the early eighties even though there was a slowdown in industrial production, a major portion of the income came from the manufacturing industries. Despite the economic and political instability faced by the country, commercial banks continued to extend loans to the industrial sector, its share increasing from JD 189.3 million in 1985 to JD 236.9 million by the end of 1990.

The sectoral distribution of outstanding commercial bank credit reveals the fact that there has been a percentage decline in its credit contribution to the agricultural sector, with the highest amount of its credit being absorbed by the general commerce and construction sectors.

Jordan's gold and foreign reserve has soared at the compound growth rate of 30.5% per annum. The Gulf Crisis of 1990 did not show any adverse effects on the Hashemite kingdom of Jordan as reflected by the continuous narrow margin between official and market exchange rates of the Jordanian Dinar.

The vital role played by the commercial banks in terms of serving the population has also been well highlighted. There has been a decline in the population served per bank, which totalled up to 21.5 thousand, that is, 1.13% of the total population in 1976, this being reduced to the level of 11.2 thousand of the total population by the significant branch expansion of commercial banks. On an average, there was a 4.2 percent fall in the population served per branch in Jordan annually.

Therefore the role played by commercial banks particularly with respect to finance to the manufacturing sector demonstrated that these banks have been successful in playing an important though insufficient role in their intermediation between the source of funds and its distribution to the ultimate users. Although there has been a noticeable progress in its deposits as evidenced by the deposit / GNP ratio, there are some aspects which have not shown much of an achievement.

- Firstly, the facility for providing long term loans to the industrial sector has not been adopted effectively. There has been a failure to offer real and attractive returns on

bank deposits. Banks have not ventured to cross their traditional boundaries and in turn have not pursued innovational lending policies, primarily in respect of industrial finance. Commercial banks have again not been very effective in converting their saving and time deposits into instruments of medium and long term finance.

- Secondly, the sectoral distribution of commercial bank credit has not been consistent with a major portion of the credit being extended to the trade and construction sectors. There has been an increasing importance of credit to the industrial sector, however, lack of long term loan disbursement prove to be a bar for further industrialization.
- Thirdly, the increasing liquid behaviour of banks particularly the cash reserves with the central bank of Jordan minimizes the flow of funds into productive channels.

In this context, it can be said that commercial banks credit has played more of a catalytic role in the economic development of Jordan. There is certainly a need to channelize the investment in a more regulatory manner as the industrial growth of Jordan has not met the demands of the five year Development plans due to lack of adequate funds and industrial finance. As explained earlier, commercial banks do not readily invest in industrial projects which require adequate amount of finance on a long term basis, hence a major part of the commercial bank credit has gone to the trade and construction sectors.

7.1.3 The Role of Specialized Credit Institutions in Providing Industrial Finance :

In this context, the specialized credit institutions were set up by the Government of Jordan with the sole aim of providing medium and long term loans to the sector. The

Industrial Development Bank was to function as a gap filler. The outstanding loans of the Industrial Development Bank to the industrial sector rose from JD7.9 million in 1976 to JD 49.6million in 1990, thus rising at the rate of 13% per annum. Moreover, it has been seen that loans extended by the specialized credit institutions to the industrial sector comprised of 14.6% of the total specialized credit insitutions credit in 1976, which in turn has declined to 11.1% in 1980, further to 9% in 1990.

In terms of loan applications, their number has risen from 69 loan applications in 1978 to 169 received by the end of 1990.

The Industrial Development Bank being categorised as a development bank, has not overlooked the essential needs of small scale industries. The percentage contribution of Industrial development bank loans to these small scale enterprises has exhibited an upward trend of 8.79% during 1976-90.

The total assets of specialized credit institutions exhibit a rise from JD 72 million to JD 1029 million that is a growth rate of 19.4% during the 15 year period of the study. A point to be noted is that compound growth rate of the specialized credit institutions total assets averaged 28% and 11.9% during 1976-80 and 1981-90 as against 15.6% and 4.8% of GNP during the same period. Deposits of these institution's with the Central Bank also rose at an alarming rate of 38% whereas those with the licensed banks rose by 23.3%. The liquid assets of specialized credit institutions rose at the rate of 26.7% per annum. A point of major concern is that loans to private enterprises and individuals formed a major bulk of the total assets.

Other sectors particularly the agricultural sector, the housing sector, and municipalities highly benefited from the loans extended by the specialized credit institutions. The significance of Agricultural Credit Corporation is emphasised by the fact that their specialized credit largely was extended to projects with a close connection to development programmes. There has been a relative decline in agriculture's relative share of the total specialized credit primarily due to the improvement in the specialized credit activities of other credit institutions, more so the Industrial Development Bank and Housing Bank.

The percentage contribution of the specialized credit institution's loans to the municipalities and village councils rose during the period by 13.2% per annum. These loans were primarily extended to local governments that in turn financed projects in their respective areas.

On analysing the ratio of specialized credit institutions assets to GNP, the significant aspects of the relationship between the assets structure of specialized credit institution with the overall growth in the economy is brought to light. The ratio has exhibited a linear pattern of growth, rising from 0.12 in 1976 to 0.43 by the end of 1990.

The capital of specialized credit institutions declined in its importance as a source of funds during the later years due to the growing importance of the Housing Bank which accepted deposits on a considerably large scale after its establishment in 1974. Figures of borrowings from the Central Bank, foreign institutions and Government of Jordan indicated a relative decrease in the dependence on these institutions.

Fluctuations in the ratio of specialized credit to the sectoral investments is clearly observed wherein an overall picture exhibits a regular acceleration following a sinusoidal pattern between 1976 and 1985 for all sectors. However, this financial deepening has had no drastic repercussions on the economy.

Therefore, the specialized credit institutions, particularly the industrial development bank has to a major extent been able to bridge the gap between upcoming industrial and other establishments and their demand for medium and long term loans. The industrial development bank has assisted in shouldering the assigned responsibilities by purchasing a large amount of the floated shares of the industrial projects. The industrial sector as such has depended to a large extent on the advances extended by the Central Bank of Jordan. Hence, it is the Central Bank of Jordan that has been successful enough in promoting the industrial development bank for the same purpose, through the permanent Law No 5 of 1972. According to the law, the Bank is empowered to offer banking services and functions related to industrial development.

Tourism projects have also been largely benefited, these projects accounting for 12.2% of the approved loans, by the end of 1990, this being a vital source of foreign exchange earnings. The small scale industries and handicrafts sector also benefited tremendously from the Industrial Development Bank, loans to the small scale enterprises rising by 8.79% between 1976 and 1990.

7.1.4 The Role of the Central Bank :

The Central Bank of Jordan has performed its responsibilities very effectively by providing advances to the Industrial Development Bank. Since these advances are soaring ever year, this gives an indication to the Industrial Development Bank of the confidence which the Central Bank of Jordan is putting the in Industrial Development Bank, to promote the industrial sector. Certainly, the specialized credit institutions are supplying a larger amount of finance to the industrial sector as compared to the agricultural sector. In order to achieve expansion of industrial products, finance should be readily available for the industrial sector. The government of Jordan allocate a fixed percentage of the total deposits as industrial finance to these institutions. Since interest rate plays a vital role in the ability of upcoming industries to approach for loans, a responsible rate of interest should be levied on such loans, for easy availability of finance to industries.

The economy of Jordan has witnessed significant growth in all sectors, particularly the industrial sector. These positive developments show that Jordan's economy has largely recovered from the mere negative repercussions of the Gulf crisis. This has been reflected in the economic programme of 1986-90. The demand for establishing new projects showed a large increase. Therefore, there should be continual efforts by the government to support the industrial sector by concluding bilateral trade agreements to open new markets and promoting and organising export trade. An attempt should be made by the Industrial Development Bank to emphasise more on factors that lead to production stabilization, that is, industrial production should be directed toward those products which meet the domestic demands of Jordan and for export purposes.

7.1.5 Amman Stock Market :

The present thesis has also attempted to assess the structure and overall performance of the Amman Stock Market and its contribution in raising long term capital. Jordan's stock exchange has followed a demand-supply pattern of evolution as is the case with all developing countries. The planners have been well aware of the fact that such an institution would adopt a slow process in meeting the long term growth requirements of Jordan's financial structure.

With the stock market having attained the position of one of the most regularised and systematic market amongst the Arab countries, its annual turnover is estimated to be U.S \$ 5.4 million. This market has been primarily dominated by the industrial sector, exhibiting a market upward trend over its seventeen year life span. The structure of Amman Stock Market clearly shows that its role is not only that of a stock exchange but a body around which the entire proceedings of the market depend upon. Today, the Amman Stock Market is a government agency which is given the power of financial and administrative independence. It has been a vehicle in the hands of the government run with the primary responsibility of promoting and regularising transactions of both the primary and secondary markets.

The inflow of investment occurs by way of primary and secondary securities introduced in the market and the markets engaged in these activities being Primary and Secondary Markets. A remarkable increase in the volume of trading at the Stock Market over the past fifteen years can be largely attributable to the exceptional performance of the Jordanian economy. The number of shares in the market rose at a remarkable rate of

36.4% between 1978 and 1990, their value also experiencing a similar multiplefold increase of 34.6% annually. The four-year period between 1980 and 1983, exhibited a growing intensity in the trading movements due to various economic and monetary measures taken by the government of Jordan, when the value of shares showed a significant increase from JD 41.4 million in 1980 to JD 141.4 million in 1983. However, economic and operational slowdown had its after affects on the trade movements of the stock market as a result of which the number of shares declined to JD 40.8 million in 1980 from JD 61.1 million in the previous year, that is a decline of 33.2%. Similarly value of shares traded too dropped by 58%.

One important factor that might have affected the trade at the stock market was a decrease in the share market value in comparison with its book value. The market was able to successfully overcome the international crisis. Consequently by 1989-90 the trading activities of Amman Stock Market exhibited a record high, the number of shares traded rising 72% over the previous year. New records were established in 1989, since 1978 when the value of shares traded recorded the highest figure of JD 367.5 million that is a 177.1% increase over the figures of 1988.

As for the general price index of the market, it reached a maximum price index of 203.5 points in 1982, after which no such noticable change could be observed. The new public issues of stock and shares are generally dealt with by the Primary Market. Majority of new issues in the primary market comprise of share issues and bond issues. One of the ways via which a new issue of shares can be placed in the Primary Market is through finance companies or financial institutions where shares may be directly purchased.

Equity shares have been considered the most vital and important form of security. The number and value of shares offered as well as covered by the Primary Market have clearly revealed a negative growth rate, which can be attributable to the speculative mood of the international market. There was an overall decline in the Dollar exchange rate, rise of gold and precious metals prices and a rise in the interest rates on the dollar and long term treasury bills caused a lot of traders to sell their portfolio in equities and invest in bank deposits and fixed income securities. By 1987, the Amman Stock Market passed through a stage of adjustment and revival following the International Depression that influenced the Arab world during the early eighties, thereby encouraging a suitable investment climate.

The figures achieved by the total equity offerings of already established and newly established companies reflect the significant role of the Amman Stock Market in attracting savings and absorbing liquidity such that this could be channeled towards investment in the Jordanian Capital Market.

During the first four months of 1990, the trading movements of the primary market witnessed a distinguishing growth in its various activities in response to the comprehensive economic reformation programmes adopted by the government. However, equity offerings resulted in a rapid decline in share prices in addition to weak demand for investment in securities. This was primarily due to the Gulf crisis which engulfed the world economy and international markets. Hence, in 1990 only one new shareholding company was established.

The Amman Stock Market identifies itself as a securities stock exchange in the Secondary Market, which can be further subdivided into Four Markets - The Parallel Market. The Regular Market, Bond Market and legal Transfers. The secondary Market has been established with the view of enabling the companies waiting to be listed to trade on the floor of the market without fulfilling any prerequisites or special requirements. Today, the primary market has established itself as a highly versatile market that is meeting the ever increasing demands of the companies as well as investors. The number of industrial shares traded at the parallel market rose slightly from 1.4 million in 1982 to 1.6 million in 1990. The gradual decline in the activities of the share traded at the Parallel Market (-18.8% per annum) later confirms the superiority of the Regular Market in which the major bulk of the trading activities are carried out after formal enlistment of the companies. A similar trend may be observed in case of value of shares traded by various companies of the economic sectors at the Parallel Market which slopped from 16 million in 1982 to 2.5 million in 1990, declining at 18.6% annually.

The number of listed companies at the parallel Market decreased substantially by the end of 1985, only the companies of the industrial sector maintaining a more or less stable position in its share of the total value traded, exhibiting an upward trend from a mere 13.8% in 1982 to 45.8% in 1985 and finally occupying 96% of the total by the end of 1990.

Transactions in a Regular Market are governed by some standard procedures, it being a central meeting place for buyers and sellers in which all the business is authoritatively governed by the established rules and regulations thus determining a

continuous relationship between demand and supply. Available data provides ample evidence on the total number and volume of shares traded amongst various sectors at the Regular Market. The industrial sector has risen as the sector playing the most active role on the Regular Market floor, in comparison with the banking and services sectors.

The total shares traded as well as the volume of trade undergone in the Regular Market have shown a dramatic upward trend between 1978 and 1990. The total number and value of shares have risen by 35.8% and 34.5% respectively per annum, during the fifteen year period of this study. A year wise evaluation of the distribution of shares among various sectors in the Regular Market show that the industrial sector has occupied a major portion of the shares traded, the number of shares traded at the industrial sector rising from 36% in 1978 to 52.8% in 1990, at an annual growth rate of 39.9%. Its value of shares also rose significantly from 51.8% of the total volume of shares traded in 1978 to 59.3% of the total at the end of 1990, exhibiting a compound growth rate of 36% per annum during the same period. Today, in the circumstances of the stringent financial structure, increasing attention has been paid to their role as financiers of private industries. The Stringent financial theory of banking has been left far behind and commercial banks have entered new fields of term lending and underwriting.

The banking and the financial institutions occupied 17.5% of the total number of loans traded at the Regular Market by the end of 1990, its volume of trade being 26.7% during the same time period. Increase in the number of shares traded on the Regular Market was also contributed significantly by the services sector which soared at a 39% annual increase. Improvement in the industrial activities at the Regular Market floor could be largely attributed to the keen interest taken by the government of Jordan to

encourage working as well as protection of these companies, along with exemption from excise and other duties. The share of industrial companies dominated the market from 1985 to 1990, this sector showing a record high of JD 129.7 million in 1989, occupying 67.4% of the total shares.

The developmental process of the Amman Stock Market may be clearly reflected in terms of the listed companies at the Regular and Parallel Markets, as well as the number of companies waiting to be listed. Here too, the Regular Market occupied a clear monopoly, the number of companies rising from 57 in 1978 to 115 in 1990. It was only after the year 1981 that the Regular Market faced competition, its percentage share of the total listed companies being 100% before 1982. The Parallel Market established itself in 1982 with 13 companies occupying 10.2% of the total 128 companies listed in the same year. Its percentage share declined to 5.2% by the end of 1990.

Between 1985 and 1990, there was a major upturn in the trading of industrial shares, with more and more companies undergoing formal enlistment in the Regular Market. The supremacy of the Secondary Market with respect to the total value of shares is evident on observing figures of 1990 which reveal that the Secondary Market occupied 88.3% of the total in comparison to a mere 11.7% by the primary Market.

Ample evidence from the study carried out reveals that over the years, investors have preferred to invest in government bonds in spite of the great variety of other ownerships available, primarily because of price stability and guaranteed payment. Development bonds have occupied a major bulk of the total number of bonds followed by corporate bonds. By 1990, due to the Economic slow down in the country, its effects

were also evident in the case of bonds traded on the market floor, the number declining by 69.7% in 1990 over the figures of the previous year, the market value of bonds also experiencing a slope by 86% as compared to figures of 1989.

On analyzing the market capitalization of the Amman Stock Market, it has also been observed that registered capitalization has expanded over the years with more companies opting for enlistment in the market in order to conduct trading activities. Here the value of shares occupied by the banking sector and finance companies was the highest (56.9% by the end of 1990), followed by the industrial sector (34.9% by the end of 1990).

7.1.6 A comparative Study of Industrial Finance in India and Jordan :

A comparative study on the many facts of industrial finance involved both in India and Jordan has also been attempted with a view to understand the role of various financial institutions in providing finance to industry in Jordan. In order to understand this concept more clearly and distinguish the structural differences in both the countries the sources of industrial finance in India which include six types of financial institutions viz State Financial Corporations, Industrial Financial Corporation of India, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India, Unit Trust of India, Life Insurance Corporation have been studied whereas in Jordan it has mainly covered commercial banks and the Industrial Development Bank of Jordan.

External finance of an industry is generally raised through the sale of shares, debentures, through commercial banks and from financial institutions meant for providing finance to industries. Fixed deposits with companies has gained ground in

India and has become a very easily accessible means of financing short term, medium term and long term credit. Commercial banks being important elements of the Jordan financial structure, increasing attention has been paid on their role as financiers of private industries. Today, the Stringent financial theory of banking has been left far behind and commercial banks have entered new fields of term lending and underwriting. The commercial banks in India have adopted the American Model to term lending in which these banks recognise short and medium term loans. The total credit given by these commercial banks amounted to 48.9% of the total credit given to industry in 1976-77, the share remaining almost unchanged, that is, 48.8% by the end of 1989-1990. It implies that the share of commercial banks has remained more or less the same, the percentage credit extended to the industrial sector being slightly lower than 50% of the total bank credit disbursed. The total credit given by commercial banks increased from 48.9% in 1976 to 49.1% in 1980-81, which was recorded an all time high during the period under study. This data clearly revealed that the contribution of commercial banks in terms of the total credit to industry has remained significant since 1975-76 and therefore the role of commercial banks in bringing the industrial growth cannot be ignored. The introduction of liberalisation in the banking industry has helped in imparting a great deal of flexibility in its operations.

The role of specialized credit institutions in India can well be defined as helping to bridge the gap between normal financial activities. The specialized credit institutions have assisted in providing investment in fixed assets, thus widening the channel of real investment. Lack of proper supply of finance to all segments of the industrial sector compelled the government of India to set up specialized credit institutions. Of them

presently eighteen state Financial Corporations are operating in the respective states and union territories with their overgrowing and diversified activities, State Financial Corporations have come to occupy an eminent position in the institutional set up for the industrial development in the country. The total loans sanctioned by the State Financial Corporations in India rose from Rs 162.3 crores in 1975-76 to Rs 1561.6 crores in 1989-90, growing at an annual growth rate of 16.2%. On the other hand, the total loans disbursed by the State Financial Corporation rose by 17.7% per annum during the same time period. However, it can be implied that the finance given by state financial corporations to industry has increased at a diminishing rate, because in terms of percentage, the performance of State Financial Corporations has shown a downward trend in the total amount of loans sanctioned and disbursed to industry.

The Industrial Finance Corporation has been the first long term financial institution set up in India which initiated the provision of long term financial assistance to large scale and some of the small scale industries. Data on loans sanctioned and disbursed by the industrial Finance Corporation shows that the total financial assistance was sanctioned to industries of high national priority such as cotton textile, fertilizer industry, cement, paper industry and machinery. The loans sanctioned and disbursed by the Industrial Finance Corporation grew at an annual compound growth rate of 28.7% and 26.1%.

The institution which was setup for the introduction of sophisticated foreign technology was the industrial credit and investment corporation of India which was primarily imparted the task of arranging easily available foreign credit to upcoming industries. Most of the undertaking of the Industrial credit and investment corporation of

India are done with foreign currencies, the main source being the World Bank and foreign commercial banks. Underwriting of issues has also become an important task for the Industrial Credit and Investment Corporation of India more so because it was neglected by the Industrial Finance Corporation of India, inspite of its being one of its major goals.

The operations of the Industrial Credit and Investment Corporation of India has shown a sizeable growth in terms of loans sanctioned and disbursed over the past fifteen years. The compound growth rate per annum of the loans sanctioned and disbursed by the Industrial Credit and Investment Corporation of India has been 27.2% and 22.9% between 1976 and 1990.

In India, overall economic development has been a major object of concern, where the development banks assisted by Industrial Development Bank of India have taken balanced steps to promote the economy. The Industrial Development Bank of India has been considered the apex institution for assisting term finance to the industrial sector. Available data on the total advances sanctioned and disbursed by the Industrial Development Bank to industry indicates an impressive performance in its operations with the total effective sanctions going up at a growth rate of 26.2% over the period under study. The total disbursed too grew at a similar rate of 25.1% per annum between 1976 and 1990. The amount of financial assistance has increased considerably in terms of loans sanctioned and as well as loans disbursed. The total financial assistance sanctioned doubled between 1985-86 and 1988-89, thereby experiencing the highest growth rate of 107% over the proceeding years. This implies that finance sanctioned and disbursed by

Industrial Development Bank of India to industry has been maximum in absolute as well as relative terms between 1976 and 1990.

The Unit Trust of India (UTI) being a non-banking financial intermediary raises funds from the public, directly or indirectly. The growth of Unit Trust of India business in terms of advances sanctioned and disbursed shows its strong position in the Indian Market. The Unit Trust of India has recorded an impressive performance which can be judged from its financial position. The total loans sanctioned experienced a growth rate of 42.8% where as its disbursements grew at the rate of 44.3% during the period under study.

Another institution that has enjoyed a monopoly in the field of insurance has been the Life Insurance Corporation of India. The importance of Life Insurance Corporation of India as a financial intermediary has grown over the years, with not less than 75% of the funds being invested in the central government and state government securities. The total loans sanctioned as well as disbursed have grown at a compound growth rate of 18.6% and 23.7% annually during the given time period of the study. Data available also helps to reveal that the share of Life Insurance Corporation of India in the total finance given to industry is low in comparison with other financial institutions and has not shown any significant change during the fifteen year period of this study.

Therefore, it can be said that out of the total amount of loans disbursed by different financial institutions, Industrial Development Bank of India has been a leading financial institution which fulfills 47.6% of the total credit requirements.

The growth of a capital market is dependent upon the quantum of available savings that in turn determine the extent of industrial investment. Analysis of the India's Capital Market during the time period of this study clearly indicates the rapid progress made by the market from an early stage of development. The late Eighties saw the Capital Market witnessing erratic movements in its equity prices. However with the continuation of pragmatic policies by the governments and growing institutional support, a comfortable investment climate was created by the end of the 1980 era. The number of new capital issues through prospectus rose from 93 in 1975-76 to 188 in 1989-90, whereas the number of issues through rights soared from 24 to 216 in 1989-90. Equity shares occupied a major portion of the issues until 1987-88, subsequently after which debentures exhibited a sharper rise. The slackening of equity prices staged a recovery by the end of 1988, following the announcement of various tax concessions to the industrial sector.

The financial system of Jordan has passed through several stages of development since the establishment of the Kingdom. Jordan has followed the pattern of financing directly the industrial sector for promoting industrial development. According to major statistical estimates, economic growth experienced in Jordan particularly after the 1967 middle East war has been considered one of the most significant "success stories" concerning the lesser developed countries of the world. The principal sources of finance to Industries in Jordan include the commercial banks, Industrial Development Bank of Jordan (IDBJ), finance companies and other non-banking institutions such as insurance companies and other specialized credit institutions responsible for activities related to the

manufacturing sector. Moreover industry in Jordan has also had access to the Arab and foreign financing institutions.

The activities of commercial banks of Jordan can be best be analyzed with reference to their balance sheets which reveal their efficiency as specialized financial intermediaries in the mobilization of funds as well as channelling them into appropriate uses. As discussed earlier in different parts of the study, Jordan followed the British banking policy as a result of which the commercial banks confined themselves to the traditional approach of extending short term loans to industries. The traditional practice was adopted because of insecurity realized by banks in 'term lending', that is, medium and long term loans which had maturities over one year unlike short-term lending which is usually extended for a period upto one year. Today, it is a well known fact that banks in Jordan extend loans and advances even of a medium term nature especially to sectors of trade and commerce.

The demand for term lending in Jordan has been fulfilled by specialized credit institutions such as the Industrial Development Bank (IDB) in case of manufacturing and the Agricultural Credit Corporation (ACC) in case of agriculture. After 1976-78, commercial banks started participating actively in development and started planned operations along the lines laid down in economic development strategies with the pursuance of specific central banking innovations. On observing the percentage share of commercial bank credit to different sectors of the economy, preferably to the industrial and mining sectors, the total credit facilities given by commercial banks showed a rise of 356.8 million JD. Among all the sectors, general trade and commerce occupied a major bulk of the total credit. The share of industry in comparison with the other sectors was

marginal, the percentage share of industry increasing from 10.7% in 1976 to 13% in 1980, which is not very significant. Between 1986 and 1990, there was a decline in the credit facilities extended by the commercial banks to the industrial sector from 15.8% to 12.7%. This implies that although the credit facilities provided by commercial banks to different sectors increased in absolute terms, industry received the minimum share.

The five year plan of 1976-80 emphasised the role of specialized credit institutions towards restructuring the economy through rapid industrialization. It has been realized that the specialized credit institutions have an eminent role to play in the economic and social development of the country. Presently there are six specialized credit institutions serving various sectors of the economy but the focus of this discussion has been on the Industrial Development Bank of Jordan which caters to the need of long term financing of industrial establishment and entrepreneurs of Jordan. The sectoral distribution of loans granted by the Industrial Development Bank to the industrial and tourism sectors between 1976 and 1990, show that the bulk of the total specialized credit by three institutions was extended for purchasing machinery and equipment followed by the use of loans for factory construction. Between 1976 and 1980, the industrial credit increased at a regular interval, the overall compound growth rate being 13.02% per annum whereas the compound growth rate with reference to industrial loans granted was 15.08%. This shows significant and positive change in terms of loans approved in favour of industry. Figures of 1982 indicate that the Industrial Development Bank loans to industrial projects increased by 33.8%. Between 1986 and 1990, industrial production of major industries increased with the number of industrial projects shooting up. The total specialized credit institution's credit allocated to the industrial sector rose at a compound

growth rate of 10.4% per annum during this period. By 1990, the industries succeeded in boosting exports to neighbouring countries and continued their endeavour to open new channels of export to other countries.

In terms of finance, the granting of loans has been the Industrial Development Bank's largest sector of activity. These specialized loans extended by industrial development bank were very vital for the economic development of the country. Data reveals that the total number of loans granted by the industrial development bank of Jordan has increased from 74 in 1976 to 97 in 1990, that is an increase of 23 loans. As far as the value of the total amount of loans approved is concerned, it can be seen that it rose from 3.5 million JD to 15.18 million JD between 1976-90 indicating a compound growth rate of 10.27% per annum. The highest number of loans granted by the industrial development bank of Jordan was in 1985 that is 129, of which 118 loans were for the industrial sector and the remaining 11 loans were directed towards the tourism sector.

The information regarding equity investment of the industrial development bank of Jordan shows a consistent upward trend, the compound growth rate per annum of these paid equity investment attaining a percentage of 14.68% over the 15 years of the study period. By entering the equity market, the industrial development bank of Jordan has helped in building confidence in other financial agencies and private investors to participate in industrial ventures of new companies.

In a country like Jordan, the development of small-scale industries cannot be sidelined specially when a major portion of the manufacturing sector in the kingdom is composed of small scale industries and handicrafts. In accordance with the Technical

Report of the Regional Development Planning Projects of Jordan, 1988 numerous strategies have been adopted to ensure smooth growth of the small scale industries which include identification of new industrial opportunities, encouragement of the private enterprise and the provision of essential inputs and consultancy services.

The largest number of loans approved by the small scale Industries and Handicrafts Fund was that of 404 in 1986, its value totaling upto 1.239 million JD. The Industrial Development Bank continued to direct the Funds policy to achieve more even distribution of small scale and handicrafts projects in the kingdom, and encouraged the establishment of projects with new ideas. During 1990 the bank expanded the fund activities to cover lending to small scale activities in medical services. The compound growth rate per annum of the number as well as amount of loans over the past fifteen years was calculated to be 0.525% and 8.79% respectively.

A noteworthy development of the past few decades following the influx of Arab cash into the Jordanian economy has been the ability of the Jordanian industries and entrepreneurs to meet their capital requirements in the Amman Capital Market. As explained earlier in the chapter, the commercial bank's inability to raise medium and long term loans facilitated the Amman Financial Market to continue its activities of strengthening the Capital Market. Today the Amman Financial Market is a government agency vested with the power of financial and administrative independence. There has been a remarkable increase in the volume of trade at the Amman Financial Market over the past fifteen years, with the number of shares traded rising from 2.4 million J.D. in 1978 to 136 million J.D. in 1990, experiencing a compound growth rate of 30.8% per annum. Volume of shares traded at the Amman Stock Market too rose at a compound

growth rate of 29.4% per annum during the fifteen year period of study. The number of shares distributed to the industrial sector has shown a regular upward trend from 0.9 million in 1978 to 129.7 million in 1989 which however declined to 71 million in 1990. Value of shares increased from 2.9 million JD in 1978 to 240.3 million JD in 1989 which subsequently declined to 158 million JD in 1990. A major improvement in the industrial activities was reflected in shares traded in 1987 which rose by 83.3% over the 1985 level.

Indications of 1989 reveal that it was this year when the industrial sector occupied the largest number and value of shares totalling upto 129.7 million and 240.3 million JD respectively, that is the highest percentage increase of 50% and 68.2% respectively over the previous year. Ironically this considerable improvement was once again interrupted in 1990 by a severely hit economic depression in the kingdom in response to the gulf crisis. This was reflected in the number and value of shares traded at the Amman Stock Market which declined by 82.6% and 52% respectively over the 1989 level.

7.2 CONCLUSIONS :

The detailed explanation and critical evaluation of the data available on industrial finance in Jordan depicts that there has been a gradual change in the structure of financial framework since independence thereby leading to growth of industrial sector. The role played by different banking and non-banking financial institutions has shown an overall upward trend but the contribution of banking institutions is not as significant as it should be. Therefore it can be concluded that the role of financial institutions in the economic and industrial development of Jordan needs to be examined in terms of :

- (1) The financial intermediaries in Jordan, particularly the commercial banks, have to adjust their operations within the defined framework of development programme and increase their participation in industrial development and economic development by providing the required finance for medium as well as long term. For this, the Central Bank of Jordan has to create an appropriate climate and provide other necessary facilities that can encourage the financial adjustment processes to take place. Commercial banks, for example, cannot be expected to venture into term lending when the CBJ is not prepared to provide rediscounting facilities for long term financial instruments to secure their liquidity in need. It is also difficult to put blame only on the commercial banks for being unable to actively institutionalise domestic savings and lengthen their maturity because their ability to do so is restricted by rigidities in the structure and levels of interest rates.
- (2) Central banks in developing countries should vigorously act as developmental agencies for their respective governments; they have, first of all, to pave the way and provide the conditions most conducive to financial development, then they should make sure that domestic resources are sufficiently mobilised and appropriately allocated in manners consistent with the selected development strategies.

Most important among these are

- (3) The adoption of a positive and purposive interest rate strategy aiming at influencing the size and structure of financial savings.
- (4) The selective use of a differential reserve requirements system to vigorously change the composition of bank assets in favour of developmental activities.

- (5) It is believed that the active pursuit of such innovations would assist the adaptation process of the financial system and further augment the benefits of interaction between financial and economic development.
- (6) The non-banking financial intermediaries i.e. specialized financial institutions have been started by the Central Bank initiative and Government support in Jordan and they have consolidated themselves and they try to satisfy the needs for long term and middle term finance. But now in the changed circumstances the private enterprise also should be allowed to enter into this field. In the past, Central Bank initiative was necessary because supply of finance was to be ahead of its demand and it was meant to create demand and satisfy it. However now demand has been created and in this age of globalization and free economy, some of the specialized credit institutions should be denaturalized and some more should be allowed to be created in the private sector. This will give a boost to industrialization in Jordan.
- (7) The Amman Stock Exchange also was evolved with the initiative of the Central Bank and the Government support. It was a very wise step. Now the Amman Stock Exchange has developed appreciably, however it should be given more autonomy in the framework of better rules for its more efficient working.
- (8) When we compare the banking and financial institutions of India and Jordan, we realize that Jordan has to learn many lessons from the more varied experience of India, as the Indian institutions have got the experience of both public and private enterprises in this field, have been older in age and have been working on a larger scale.