

Between Risk and Growth: Challenges in SME Financing for Omani Lenders

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Abstract

Purpose: The purpose of the study was to examine the challenges encountered by commercial lenders in extending finance to SMEs in Oman and to identify the SME-related factors that hinder access to finance from commercial lenders.

Design/methodology/approach: This study adopted a qualitative research approach. The target population for the study comprised financial institutions operating in Oman that provide credit facilities to SMEs, including commercial banks and specialised lending entities. A purposive sampling technique was employed.

Findings: The study finds that lending institutions in Oman face significant challenges in financing SMEs due to stringent documentation requirements, insufficient collateral, irregular cash flows, and weak financial records. While SMEs primarily seek working capital and term loans, banks remain cautious, viewing them as high-risk clients. Lenders mitigate these risks through preventive measures, monitoring, loan restructuring, and advisory support.

Research Implications: The research highlights the need for more inclusive credit assessment models and tailored lending practices. By integrating alternative data sources and adopting risk-sharing mechanisms, financial institutions can expand credit access while maintaining portfolio stability.

Social Implications: Improved SME financing can stimulate entrepreneurship, create jobs, and support Oman's economic diversification under Vision 2040. Addressing financing constraints will empower SMEs to sustain growth, enhance community development, and contribute more effectively to the national economy.

Originality / Value: This study provides fresh insights into SME financing challenges from the perspective of Omani lenders, an area with limited prior research. It contributes to the literature by linking lender risk perceptions with practical strategies to improve SME access to credit.

Keywords: Access to SME finance, SME credit facilities, Challenges in SME Financing, Lending to SMEs in Oman, SME Credit access in Oman.
JEL: G21, L26, O16

Introduction

Small and medium enterprises (SMEs) are widely recognized as engines of economic growth, innovation, and employment creation across the globe. They account for more than 90 percent of businesses worldwide, contributing approximately 50 percent of global employment (Fišera et al., 2017; Cusmano, 2018). Their flexibility, responsiveness to market changes, and entrepreneurial orientation make them critical drivers of sustained economic growth. Globally, it is estimated that there are around 359 million enterprises, of which more than 90 percent are SMEs, employing over half the world's workforce (Cusmano, 2018). Such figures underscore their importance in promoting entrepreneurship, regional development, and inclusive growth.

In Oman, SMEs represent over 90 percent of registered businesses and play a central role in the country's economic diversification agenda. Under Oman Vision 2040, SMEs are expected to reduce dependence on oil revenues by contributing to non-oil GDP, enhancing innovation, and creating employment opportunities. As of mid-2024, there were 141,126 registered SMEs in Oman, with the majority classified as small enterprises, followed by medium and micro-enterprises (Al Balushi, 2024). Their contribution spans manufacturing, trade, tourism, agriculture, and services, making them essential to sustainable economic development. To support their growth, several institutional initiatives have been introduced, such as business incubators, the SME Development Fund, entrepreneurial cards, and land-usufruct programmes, which aim to reduce entry barriers and operating costs (Soutein, 2025).

The definition of SMEs in Oman is set by the Public Authority for Small and Medium Enterprises Development (Riyada) and the Central Bank of Oman. Micro-enterprises are defined as those with fewer than five employees and annual revenues below OMR 100,000. Small enterprises employ 6–25 people and have revenues of OMR 100,000–500,000, while medium enterprises employ 26–99 people and earn OMR 500,000–3 million annually (Adam, 2024). These classifications not only shape eligibility for financial and institutional support but also guide lending practices by commercial banks.

Financial institutions in Oman play a crucial role in enabling SME development by providing loans, trade finance, asset financing, project funding, and advisory support. Commercial banks and specialized financing entities extend credit to SMEs in diverse sectors such as trading, services, manufacturing, agriculture, fisheries, and construction. For instance, working capital loans and overdraft facilities are common in retail and e-commerce, project and lease financing are available in tourism and logistics, while industrial loans and asset-backed financing support small-scale manufacturers (Al Sheibani, 2020; Al Shukaili et al., 2023). These interventions aim to align SME financing with Oman's strategic economic priorities.

Despite these initiatives, financing remains one of the most persistent challenges confronting SMEs in Oman. From the lenders' perspective, SME loans are considered highly risky due to weak financial records, insufficient collateral, and information asymmetries (Al Musallami & Al Balushi, 2024). The absence of reliable credit risk assessment tools for SMEs, coupled with high default rates, discourages many banks from expanding their SME loan portfolios. For example, data suggests that only about 36 percent of SME loan applications are approved, and SME financing accounts for less than 4 percent of total bank credit in Oman (Oman News Agency, 2024). On the demand side, many SME owners lack adequate financial literacy, formal governance practices, or the ability to prepare robust business plans, which further constrains their access to finance (Ramachandran & Al Yahmadi, 2019).

This dual challenge—financial institutions constrained by risk management considerations and SMEs constrained by weak credit readiness—creates a significant financing gap. While policy frameworks encourage SME development, lenders must balance economic development objectives with regulatory compliance, portfolio quality, and profitability. Understanding these challenges is therefore critical in shaping more effective SME financing practices in Oman. This paper investigates the constraints faced by financial institutions in lending to SMEs and examines the structural and institutional factors that hinder access to finance in the Omani context.

Problem Statement

Small and medium enterprises (SMEs) are widely regarded as a critical engine of economic growth and job creation, particularly in emerging economies such as Oman. In recognition of their role, financial institutions have introduced a variety of credit products—including working capital facilities, term loans, and trade finance solutions—to stimulate entrepreneurial activity and support business expansion. However, despite these initiatives, access to finance continues to be a persistent obstacle for SMEs.

A major reason lies in the cautious lending practices of financial institutions. Commercial banks and other lenders often impose stringent risk management policies, demanding high levels of collateral, comprehensive financial records, and stable cash flows before approving loans. For many SMEs—especially start-ups and micro-enterprises—such requirements are difficult to meet due to limited assets, short operating histories, or weak financial literacy. As a result, a significant financing gap persists, where the demand for credit far exceeds the supply.

From the perspective of lenders, financing SMEs is associated with heightened risk, including the potential for defaults, difficulties in loan recovery, and challenges in accurately assessing creditworthiness. These risks are compounded by regulatory frameworks and internal compliance obligations that emphasize portfolio quality and prudential safeguards. Consequently, many SMEs remain underfunded, limiting their capacity to grow, innovate, and contribute fully to Oman's economic diversification agenda under Vision 2040.

The problem, therefore, is two-fold: (i) commercial lenders face structural and operational barriers in extending credit to SMEs, and (ii) SMEs themselves encounter limitations—such as inadequate documentation, weak governance, and insufficient financial management—that reduce their creditworthiness. Understanding these dual challenges is essential for identifying pathways to strengthen SME financing in Oman. The aim of this research is thus to examine the specific challenges faced by lenders in SME financing and to recommend mechanisms through which credit access can be enhanced, while simultaneously safeguarding the stability of financial institutions.

Research Questions

1. What are the main challenges faced by commercial lenders in financing SMEs in Oman?
2. What challenges inherent within SMEs themselves affect their ability to secure financing from lenders?

Research Objectives

1. To examine the challenges encountered by commercial lenders in extending finance to SMEs in Oman.
2. To identify the SME-related factors that hinder access to finance from commercial lenders.

Review of Literature

Small and medium enterprises (SMEs) play an essential role in economic diversification and job creation in Oman, as emphasized in the country's Vision 2040. Despite their importance, commercial lenders remain cautious in extending credit to SMEs due to perceived and actual risks. The literature identifies a range of challenges encountered by financial institutions in SME financing, including stringent regulatory requirements, high default risk, inadequate collateral, and weak credit histories of borrowers. These challenges shape lending practices and contribute to the persistent financing gap between SME credit demand and available supply.

Perceived Risk and Creditworthiness

One of the primary challenges lenders faced was the high level of risk associated with SME loans. Banks often perceive SMEs as unstable due to volatile cash flows, limited market share, and reliance on a narrow set of customers. According to [Al Musallami and Al Balushi](#) (2024), Omani lenders apply stringent credit assessment procedures, requiring audited financial statements, collateral, and a demonstrated repayment history—criteria that many SMEs are unable to meet. Similarly, [Du and Nguyen](#) (2021) argued that in developing economies, SMEs are disproportionately affected by external shocks such as oil price volatility, which heightens banks' risk aversion and reduces their willingness to extend loans.

Collateral and Loan Recovery Issues

Collateral requirements are a central obstacle in SME financing. Lenders in Oman prefer tangible security such as real estate or fixed assets, but most SMEs lack sufficient collateral ([Tabti](#), 2025). Loan recovery is also a persistent concern: defaults in the SME sector are often higher than in larger corporations, making lenders wary of extending credit. A report by the Central Bank of Oman (CBO) revealed that by mid-2024, SME credit constituted only 3.7% of total commercial bank lending, below the regulatory target of 5%, largely due to lenders' concerns about repayment capacity and asset recovery (The Arabian Stories, 2024).

Regulatory and Institutional Constraints

Financial institutions in Oman also operate within a regulatory environment that emphasizes financial stability. While this is critical for systemic soundness, it restricts flexibility in SME lending. According to [Tabti](#) (2025), risk-weighted capital adequacy requirements and conservative provisioning rules make banks reluctant to expand credit to SMEs, which are viewed as inherently riskier. Moreover, [Hasan et al.](#) (2017) highlight that risk assessment frameworks often fail to differentiate between SMEs with strong prospects and those with weak governance, leading to a blanket conservative approach.

Operational Challenges for Lenders

Beyond financial risk, lenders face operational difficulties in SME financing. Many SMEs lack proper financial documentation, which complicates the loan appraisal process and increases due diligence costs for banks. In addition, as [Al Balushi et al.](#) (2019) note, SMEs in Oman often prefer informal financing methods, which reduces their engagement with formal financial institutions and limits the data available to lenders for credit evaluation. These gaps result in longer processing times and higher transaction costs, making SME financing less attractive compared to corporate lending.

Evolving Role of FinTech and Alternative Financing

Recent literature points to the potential of digital banking and FinTech solutions in easing some of these challenges. FinTech platforms can lower appraisal costs by leveraging alternative credit scoring methods and transaction-based data ([Shaikh](#), 2025). [Al Ghunaimi et al.](#) (2025) also demonstrate that digital payments and mobile banking adoption in Oman provide lenders with additional insights into SME financial behavior, thereby reducing information asymmetry. However, regulatory frameworks and high implementation costs remain barriers to widespread adoption.

Gaps

The literature consistently identifies risk perception, collateral requirements, loan recovery issues, and regulatory restrictions as major challenges for lenders in SME financing. While government initiatives such as the Al Raffd Fund, Oman Development Bank, and Al Azm program attempt to mitigate risks through credit guarantees and subsidized lending, evidence suggests that the financing gap persists ([Muhammed](#), 2024). Further research is needed to explore how lending institutions can balance prudential requirements with innovative credit assessment methods to make SME financing more viable in Oman.

Research Methodology

This study adopted a qualitative research approach to investigate the challenges faced by financial institutions in financing small and medium enterprises (SMEs) in Oman. A qualitative design was particularly appropriate for this research because it enables the exploration of perceptions, experiences, and practices of lending institutions in depth, which cannot be adequately captured through quantitative surveys alone. By allowing participants to share detailed insights, this approach helps uncover patterns, themes, and underlying factors influencing the financing gap between SMEs and lenders.

The target population for the study comprised financial institutions operating in Oman that provide credit facilities to SMEs, including commercial banks (Bank Muscat, Qatar National Bank, Oman Arab Bank, etc.) and specialised lending entities (such as National Finance, etc.). Since not all members of this population were equally positioned to provide relevant information, a purposive sampling technique was employed. This method ensures that only individuals with direct experience and expertise in SME financing—such as credit managers, loan officers, and risk analysts—were included. Purposive sampling was well-suited for qualitative studies that aim to derive rich and relevant information from knowledgeable participants.

Findings

Table 1. Demographic Characteristics of the Respondents

		Frequency	%
Gender	Female	7	70.0
	Male	3	30.0
Location	Muscat	10	100.0
Financial Institutions	Banks	7	70.0
	Other Financial Institutions	3	30.0
Department	SME	7	70.0
	Loans	3	30.0

Table 2. Interview responses

#	Questions	Responses
1	What are the requirements for new start-ups (SMEs) applying for the credit facilities?	One of the bankers mentioned that the bank supports Omani entrepreneurship and innovation through dedicated SME financing solutions. New start-ups seeking credit facilities must typically provide: - A valid Commercial Registration (CR) and all relevant licenses - A detailed business plan demonstrating viability and sustainability - Promoters' profile and experience - Quotation or pro-forma invoices for equipment or working capital use - Capital injection proof (equity contribution from owners) - Feasibility study or cash flow projections. - Personal guarantees and/or collateral depending on the facility amount and risk profile. Financial institution representatives mentioned that business plan, credit history, financial Statements, and collateral were needed. Two other bankers mentioned that the clear loan purpose for the new businesses, financial statements, bank records, a business strategy, and business registration documents were needed when applying for credit facilities. Collateral, credit history, and evidence of income or estimates may also be required. Funding was facilitated by industry experience and personal assurances. Besides, lender-specific requirements differed. Three of the bankers mentioned that CR, business model, business requirements, bank statements for 6 months, and justification of payment, including amount, purpose end use, besides registration documents, need to be provided.
2	What are the conditions for renewing/ or giving additional credit facilities for SMEs who are already availing credit facilities with you?	One of the bank representatives mentioned that for SMEs who already have credit facilities, the conditions for renewal or enhancement include: - Satisfactory repayment track record - Updated audited financial statements, recent bank account statement, turnover, and conduct - Updated KYC documents and business performance review - Justification for additional limits (e.g., expansion, increased working capital) - Review of credit grading and risk categorisation Financial institution representatives mentioned that timely repayment history, current financial health, and cash flow and revenue growth were needed. Two of the bank representatives mentioned that business performance, financial stability, and payback history all play a role in SMEs' capacity to renew or receive new credit facilities. Cash flow, revenue growth, updated financial accounts, and prompt loan repayment were all evaluated by

		lenders. Important factors include - correct use of prior funds, adherence to loan terms, and a high credit score. Further, guarantees or collateral need to be provided. Enterprises must exhibit a sustained demand for credit, a feasible strategy for growth, and the capacity to repay additional debt. Before approving the application, lenders additionally considered industry risks and market conditions. Terms and conditions differ from jurisdiction and lender. Three of the bank representatives mentioned that justification for the additional facilities/improved finances, the required amount, and the use of funds, repayment of the outstanding debt, business growth, and healthy cash flows were mainly considered.
3	What is the most common reason for the denial of credit facilities?	One of the bank representatives mentioned that the most common reason was: - Inadequate documentation or incomplete application - Poor financial performance or lack of profitability - Weak repayment capacity or poor cash flow - Unsatisfactory credit history or existing overdue loans - Lack of a viable business model or industry risk concerns Two of the bankers mentioned that Low credit scores or bad credit histories are the most frequent grounds for denying credit facilities. Unstable financial records, inadequate cash flow, large levels of outstanding debt, a lack of collateral, and poor business planning are further reasons. Additionally, applications may be denied by lenders for reasons such as unclear repayment plans, noncompliance with documentation requirements, or industry hazards. Other bankers mentioned that report main causes were unhealthy financials, unclear purpose of sources of repayment, and delay in settlements/payments.
4	What type of financing is available to SMEs?	One of the bankers mentioned that the bank offered a range of SME financing solutions, such as: - Working capital finance (overdrafts, short-term loans) - Term loans for asset/equipment purchase - Project financing - Trade finance (LCs, LGs, trust receipts) - Contractor finance Another banker mentioned that short-term loans and personal loans, and business lines of credit were available. Two other bankers mentioned that SMEs have access to a range of funding options, such as Government grants, trade credit, venture capital, invoice financing, equipment financing, working capital loans, term loans, and overdraft facilities. Lines of credit, peer-to-peer lending, and crowdfunding. The decision is based on creditworthiness, repayment ability, and business demands. Three bankers mentioned the working Capital loan – Capex.
5	What type of financing do most SMEs opt for?	One of the bankers mentioned that the majority of SMEs opted for: - Working capital finance, particularly overdraft facilities and short-term loans, to manage daily

		Operational expenses and cash flow cycles. Financial institution representative mentioned that traditional bank loan and business lines of credit was opted for. Two other bankers mentioned that to control cash flow and operations, the majority of SMEs choose overdraft facilities, term loans, and working capital loans. Some of them opted for venture capital and equipment financing, invoice financing, and trade credit for short-term needs.
6	What rules/ guidelines do SMEs face when granting credit facilities, and how are they managed to prevent credit repayment problems?	One banker mentioned that SME credit facilities follow internal risk management and Central Bank of Oman (CBO) guidelines. These include: - Credit assessment based on financial ratios, industry risk, and repayment history - Exposure limits based on turnover and net worth - Due diligence and site visits - Collateral and personal guarantees where applicable Risk is managed through periodic reviews, early warning signals, and portfolio monitoring systems. Two bankers mentioned that SMEs must adhere to lender-specific regulations and standards when applying for financing, which include proving their ability to repay debt, submitting financial statements, and keeping a high credit score. Lenders evaluated collateral, business stability, and debt-to-income ratios prior to approval. Three bankers insisted that SMEs must adhere to lender-specific regulations and standards when applying for financing, which included proving their ability to repay debt, submitting financial statements, and keeping a high credit score.
7	What are the main challenges faced by banks in financing SMEs? What are the causes of these challenges?	One of the bankers mentioned that challenges include: - Lack of financial transparency - many SMEs do not maintain audited financials - High risk of default - due to market fluctuations, poor cash flow, or over-leveraging - Insufficient collateral - especially with start-ups or micro-businesses Two of the bankers mentioned that high credit risk, a lack of financial transparency, insufficient collateral, and erratic cash flows made it difficult for the banks to finance SMEs. These problems made lending riskier and were brought to them by inadequate record-keeping, lack of company expertise, unstable economic conditions, and determining the challenging creditworthiness of SMEs. Three of the bankers mentioned that weak finances and lack of Credit /cost, performance, and monitoring, insufficient guarantees were the key challenges.
8	What measures do you take to support companies facing difficulties in repaying their credit?	One of the bankers mentioned that the bank adopted a proactive and supportive approach, such as: - Restructuring of facilities to ease repayment terms - Temporary moratoriums or grace periods in genuine hardship cases

		- Offering financial counselling and advising clients on business improvement strategies - Regular follow-up and dialogue to assess business recovery Three of the bankers mentioned that flexible payment plans, debt restructuring programs, and regular monitoring and check-ins were deployed. Two of the respondents mentioned that banks provided interim payment moratoriums, longer payback terms, reduced interest rates, and loan restructuring. Additionally, they offered financial advising services to help struggling SMEs manage their debt and cash flow. Three of the bankers mentioned that restructuring financial, modified repayment schedules, and longer repayment periods (justified) were used to support SMEs.
9	What measures are taken to prevent credit defaults, credit deterioration, credit misuse, or fraud?	One of the bankers mentioned that preventive measures include: - Comprehensive credit appraisal and risk scoring - Strict monitoring of fund utilisation - Regular account review and field visits - Automated alerts for overdue accounts or suspicious transactions - Enhanced due diligence, particularly for high-risk sectors - Training relationship officers to detect early signs of distress Financial institution representatives mentioned that - Thorough Credit Assessment - Creditworthiness Evaluation - Affordability Checks - Personal Guarantees - Credit Insurance Two bankers mentioned that banks used tight credit assessments, regular monitoring, risk-based pricing, fraud detection technologies, borrower education, and regulatory measures to prevent credit facility defaults, misuse, or deterioration. Three other bankers mentioned that financial control, regular monitoring and follow-up, stronger KYC, frequent customer receipts, and backing transactions by evidence (bills, invoices) were used.
10	What steps do you take to recover bad debts?	One of the bankers mentioned that recovery actions include: - Personal and business follow-ups by collection teams - Rescheduling or restructuring when appropriate - Escalation to legal action if voluntary efforts fail - Asset repossession or collateral liquidation - Coordination with collection agencies and legal counsel Most of the bankers mentioned that to successfully recover bad debts, banks employed collection agencies, legal action, debt restructuring, and negotiation.

Discussion

The findings reveal that lending institutions in Oman apply stringent requirements when processing SME loan applications. Commonly requested documents include commercial registration, business licenses, audited financial statements, six-month bank records, and updated KYC documentation. Lenders also require a clear business plan, feasibility studies, proof of capital injection, collateral, and personal guarantees. For renewal or enhancement of facilities, banks emphasize repayment history, financial stability, cash flow strength, and adherence to loan terms. Factors such as business performance, industry conditions, and accurate use of previous funds further influence lenders' decisions. Inadequate documentation, poor credit history, weak financial performance, and insufficient collateral were cited as the most common reasons for loan rejections.

The study further highlights that SMEs in Oman typically seek working capital loans, overdraft facilities, and term loans to manage day-to-day operations and cash flow requirements. Other financing options include project finance, trade credit, equipment financing, venture capital, and government grants. Despite this variety, banks remain cautious due to perceived risks. The challenges identified by lenders include inadequate financial transparency, erratic cash flows, insufficient collateral, weak business models, and poor record-keeping. These issues, compounded by broader market volatility and industry-specific risks, heighten lenders' reluctance to expand SME financing portfolios.

To address repayment difficulties and mitigate risks, financial institutions employ a combination of supportive and preventive measures. Support strategies include loan restructuring, extended repayment periods, temporary moratoriums, reduced interest rates, and financial advisory services for distressed SMEs. Preventive measures involve comprehensive credit appraisal, strict monitoring of fund utilization, enhanced due diligence, automated alerts, and regular follow-ups. Recovery mechanisms range from negotiated settlements and restructuring to legal enforcement, collateral liquidation, and the use of collection agencies. Overall, while banks actively support SMEs in line with Oman's economic diversification goals, their lending practices are shaped by a careful balance between promoting entrepreneurship and safeguarding institutional financial stability.

Conclusion

This study demonstrates that while small and medium enterprises (SMEs) are widely acknowledged as key contributors to Oman's economic diversification agenda, financing them remains a cautious undertaking for lending institutions. The findings reveal that banks adopt stringent documentation requirements, collateral demands, and rigorous assessment procedures due to the perceived high-risk profile of SMEs. Loan rejections are often linked to insufficient financial transparency, weak record-keeping, irregular cash flows, and inadequate collateral. Although SMEs primarily seek working capital and term loans to sustain operations, banks continue to be selective, weighing entrepreneurial potential against institutional risk exposure.

At the same time, lenders employ a variety of support mechanisms, including loan restructuring, repayment extensions, and advisory services, to sustain SMEs already in their credit portfolios. Preventive and recovery measures such as enhanced credit appraisal, regular monitoring, and legal enforcement further reflect banks' efforts to strike a balance between supporting entrepreneurship and safeguarding financial stability. The analysis highlights a dual reality: SMEs require greater financial access to drive economic growth, while banks remain constrained by risk management considerations. Bridging this gap is therefore critical for strengthening the SME financing ecosystem in Oman.

Recommendations

Based on the above, the following recommendations have been suggested:

- **Strengthen SME Financial Literacy:** Training programs should be developed to improve SME owners' financial planning, record-keeping, and reporting skills, thereby enhancing their ability to meet banks' credit requirements.
- **Enhance Credit Appraisal Systems:** Banks could integrate alternative data (e.g., transaction histories, digital payments, supplier relationships) into credit assessment models to reduce reliance on collateral.

- **Promote Risk-Sharing Mechanisms:** The government and development agencies may establish guarantee schemes or co-financing arrangements to reduce lenders' risk exposure in SME lending.
- **Encourage Tailored Financial Products:** Banks should design sector-specific loan products with flexible terms to match the unique cash flow patterns of SMEs in industries like trade, tourism, and manufacturing.
- **Strengthen Monitoring and Advisory Services:** Regular monitoring, coupled with advisory support, can help SMEs remain financially disciplined and reduce default risks.
- **Leverage Technology in Lending:** Adoption of digital credit platforms and automated risk assessment tools can streamline loan processing and improve access for SMEs.

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