

Islamic Financing Initiatives Stimulating SMEs Creation in Muslim Countries

Müslüman Ülkelerde KOBİ'lerin Oluşturulmasını Teşvik Eden İslamî Finans Girişimleri

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ABSTRACT The challenge for Islamic Finance institutions is to find solutions and develop programs helping to invest these funds in supporting projects, SMEs, and entrepreneurship. In this paper, a documental collection, revision, and analysis were performed to catch the best practices and experiences adopted by these institutions to maintain sustainable development and support SMEs and entrepreneurs. Among other things, the findings showed the adoption of a multitude of mechanisms and programs that not only fund entrepreneurs but also offer technical support to their projects and ideas. The research suggests that different Islamic financing institutions adopt the observed best practices and experiences throughout the world. It also highlights the importance of the collaboration between the financial institutions, the government, the private sector, and NGOs to maintain a climate encouraging entrepreneurs and facilitating entrepreneurship. Findings are supported by the development of a new model showing the keys guaranteeing the success of investment and entrepreneurship.

Keywords: Islamic finance; SMEs; Stimulating entrepreneurship; best practices; programs and initiatives

ÖZ İslamî Finans kurumları için zorluk; projeleri, KOBİ'leri ve girişimciliği desteklemek için bu fonların yatırımına yardımcı olacak çözümler bulmak ve programlar geliştirmektir. Bu makalede, sürdürülebilir kalkınmayı sağlamak, KOBİ'leri ve girişimcileri desteklemek için bu kurumlar tarafından benimsenen en iyi uygulamaları ve deneyimleri bulmak için belge toplama, değerlendirme ve analiz gerçekleştirilmiştir. Diğer şeylerin yanı sıra, bulgular sadece girişimcilere fon sağlamakla kalmayıp aynı zamanda projelerine ve fikirlerine teknik destek sunan çok sayıda mekanizmanın ve programın var olduğunu gösterdi. Araştırma, farklı İslamî finans kurumlarının dünya çapında yaygın olan en iyi uygulamaları ve deneyimleri benimsediğini göstermektedir. Ayrıca, girişimcileri teşvik eden ve girişimciliği kolaylaştıran bir iklimi sürdürmek için finansal kurumlar, hükümet, özel sektör ve STK'lar arasındaki işbirliğinin önemini vurgulamaktadır. Bulgular, yatırım ve girişimciliğin başarısını garanti eden anahtarları gösteren yeni bir modelin geliştirilmesi ile desteklenmektedir.

Anahtar Kelimeler: İslamî finans; KOBİ'ler; girişimciliği teşvik etmek; en iyi uygulamalar; programlar ve girişimler

According to OECD,¹ small and medium-sized enterprises account for about 97% of the business population. They provide between 60% and 70% of net job creation and play a particularly important role in bringing innovative techniques or products to market. To grow, these companies need financing. In the environment characterized by

crowdfunding platforms, banks remain to this day the first lever of credit towards which companies are oriented. Typically, Islamic banking and financial institutions are supposed to guarantee financial inclusion by providing economic opportunities to financially under-served. These institutions can play an important role by contributing to sustainable development and a sustainable future. Classic banks are a significant player in our economy, and their contribution to corporate finance is continuously evolving. Contrarily, Islamic finance is based on the principles of social responsibility and development² thus, the natural question is to situate Islamic finance concerning microfinance. In the traditional banking system, corporate financing takes a significant part in the activity of financial institutions, with nearly 70% of loans granted to companies³. However, according to the Islamic Finance Handbook of the Malaysian Bank Negara⁴, in 2016, about 60% of total Malaysian financing disbursed by Islamic banks was channeled to the household. At the same time, consumer finance benefited only by 14% of the funding. In this paper, we will try to investigate the best practices followed by the different Islamic financing institutions to stimulate entrepreneurship and help entrepreneurs. First, we will look at the experiences aiming at financing skilled, experienced persons, and artisan. Then, we will show how cooperation, governmental initiatives, and programs support the Islamic Financial Institutions. In addition, we will highlight the different actions of Islamic financial Institutions in supporting large projects. Then, we will demonstrate how these financial institutions could support entrepreneurs by offering support, consulting, orientation, training, and development of competencies. Finally, we will dress suggestions summarizing keys guaranteeing the success of investment and Entrepreneurship.

CONCEPTUAL FRAMEWORK

SMEs have been and are considered as the main actor in any economic development. Given their flexibility and rapid response to market requirements, SMEs contribute more to the development of economies in terms of employment and economic growth. According to OECD, these types of firms represent more than 90% of the economy of developed countries about the total number of enterprises. SMEs, also employ between 50% and 60% of the entire workforce in OECD countries,⁵ Financial Institutions play an important role, not only in financing but also in supporting SMEs through counseling, guidance and following. In search of profitability, banks have not neglected SMEs in their customers, and the volume of loans granted has not stopped increasing. This support remains somewhat irregular, especially with the economic instability that the world has experienced since the financial crisis of 2008. Thus, the conditions of the granting of credits are increasingly binding, which penalizes SMEs in the end because of the uncertainty of their socio-economic environment. In 2005, research made by the European Commission⁶ established that 79% of PME's mostly use banks to finance their projects. Another report created by the OECD⁷ showed that SME financing is growing at an average of 10%, which means that financial institutions play an essential

² Mohamed Uthman Khaleefa, "Islamic Banking in Sudan's Rural Sector", *Islamic Economic Studies*, 1993, Vol. 1, No. 1, pp. 1-30.

³ Miroslav Plasil, Stepan Radkovsky, Pavel Rezabek, "Modelling bank loans to non-financial corporations", *Chapter Thematic Article 5 in CNB Financial Stability Report 2012/2013*, 2013, p. 128-136.

⁴ Malaysia Bank Negara, *Islamic Finance Handbook*, December 2016. Web link <https://www.bis.org/review/r171013d.pdf>

⁵ OECD, *Financing SMEs and Entrepreneurs: An OECD Scoreboard*, 2018.

⁶ European Commission, Flash Eurobarometer 174 "SME Access to Finance", 2005. Web link <https://ec.europa.eu/docsroom/documents/3266/attachments/1/translations/en/renditions/native>

⁷ OECD, *Financing SMEs and Entrepreneurs: An OECD Scoreboard*, 2018.

role in SME financing. However, the funding is not identical for all companies. The conditions of access to credit remain divergent depending on the type of company, such as size or legal status, in addition to purely quantitative criteria such as profitability, market conditions, or risks. Banks and financial institutions in the classical regime have means and tools of verification and monitoring that can develop SMEs.

Despite these positive developments, access to credit remains problematic, especially for new small businesses, start-ups, and microenterprises. These SMEs are often deprived of assets that can be used as collateral for banks. So generally, these enterprises do not have sufficient guarantees and do not meet the predicted risk criteria to be financed⁸. Even when possessing intangible assets, these latter are difficult to envisage in the exchange of financing. So as alternative solutions, young entrepreneurs must lower their development ambitions, seek new financial partners⁹ or deal with participatory banks like Islamic financing institutions as financial intermediaries that generate hybrid funding arrangements between the loan and the investment and seek to consolidate not only the capital but also its yield.¹⁰ For example, these institutions need to develop suitable financial products that involve a yield diversion by the SME leader. Also, the contract needs to be notarized and sets clear dispositions that strictly control the execution of the project.¹¹

Generally, conventional banks do not allow the poor, freshly graduated, or fresh entrepreneurs to get credit to create a new business or to expand a prevailing one¹². By recourse to the Islamic Finance System, entrepreneurs get the opportunity to surpass the significant obstacle of the sourcing capital¹³ ¹⁴. In fact, “building human capacity through social intermediation and designing group-based lending programs are proven to be among the effective tools to reduce transaction costs and lower exposure to numerous financial risks in relation to providing credit to the rural poor.”¹⁵ These entrepreneurs will get an equal opportunity to establish their own business. In such regard, Islamic financial institutions fund projects based on the profitability of one’s idea without regard to their religion.¹⁶ In addition, in theory, Islamic financial institutions do not focus on creditworthiness and the amount of money in borrowers’ accounts, like what we see in conventional banking.¹⁷ To satisfy the different needs of their customers, Islamic financial institutions developed a varied set of products, techniques, and mechanisms¹⁸.

⁸ Sophie Boutillier, “The Russian Entrepreneur Today: Elements of Analysis of the Socialized Entrepreneur”, *Journal of Innovation Economics Management*, 2008, No:1, pp. 131-154.

⁹ Idem.

¹⁰ Amina Hachimi - Abdelouhab Salahddine - Hamid Housni, “SME Financing in Morocco: Issues and Alternatives”, *Journal of Innovation & Business Best Practice*, 2017, Volume: 17, pp. 1-8.

¹¹ Idem.

¹² Munawar Iqbal - David T. Llewellyn, (eds), *Islamic Banking and Finance: New Perspectives on Profit Sharing and Risk*, Edward Elgar Publishing, Northampton 2002.

¹³ Larry Anifowose, The Effects of Non-interest Banking on Entrepreneurship in Nigeria”, *Journal of Entrepreneurship & Organization Management*, 2015, Volume 4, Issue 4, pp. 1-4.

¹⁴ Asyraf Wajdi Dusuki, “Banking for the Poor: The Role of Islamic Banking in Microfinance Initiatives”, *Humanomics: The International Journal of Systems and Ethics*, 2008, Volume: 24, Issue 1, pp. 49-66.

¹⁵ Idem.

¹⁶ Rodney Wilson, “Islamic Finance in Europe”, *Robert Schuman Centre for Advanced Studies Policy Paper*, European University Institute, 2007; Web link https://cadmus.eui.eu/bitstream/handle/1814/7739/RSCAS_PP_2007_02.pdf&embedded=true?sequence=1

¹⁷ Larry Anifowose, The Effects of Non-interest Banking on Entrepreneurship in Nigeria”, *Journal of Entrepreneurship & Organization Management*, 2015, Volume 4, Issue 4, pp. 1-4.

¹⁸ Laib Yasinne - Saïbi Sandra - Abadli Riad “L’intention Entrepreneuriale Chez Les Etudiants Et La Formation Universitaire Cas De La Maison De L’entrepreneuriat De Constantine”, 2018, *Revue des Sciences Humaines*, Volume: 18, No: 1, pp. 255-275.

According to Drissi,¹⁹ participatory financing techniques are the critical propulsions of entrepreneurship and generally accompany social investments. The spirit of the entrepreneurship participatory is based on the sharing of the risks of an entrepreneurial project, potential benefits raised, and management responsibility. Globally, Islamic finance has the potential most substantial social impact on the environment. It is also considered as the perfect mechanism that supports social entrepreneurs.²⁰

In this perspective, the actual research will focus on the review of best practices followed by Islamic financial institutions around the world, which have contributed to the encouragement of investment and financing small and medium-sized enterprises. The main research objective consists of exploring whether the Islamic Financial Institutions developed sufficient and performant mechanisms that contributed to the encouragement of the funding small and medium-sized enterprises? The research objectives consist of (a) dressing the list of the key experiences and best practices guaranteeing the success of investment and Entrepreneurship, and (b) will determine whether financial institutions need to implement a wave of innovations into their practices, operations, services, and products. Finally, (c) the research will propose a new Model of Keys guaranteeing the success of investment and Entrepreneurship. After the literature review, a documental collection, revision, and analysis are going to be performed to review the efficacy of the main mechanisms used by Islamic financial institutions to finance their customers. The last part of the paper will focus on the lessons learned and make conclusions.

KEYS GUARANTEEING THE SUCCESS OF INVESTMENT AND ENTREPRENEURSHIP

FINANCING SKILLED, EXPERIENCED PERSONS AND CRAFTSMAN

In Tunisia, an Islamic financial institution named Zitouna Tamkeen²¹ created a program facilitating the financing of agricultural inputs. It allows unemployed farmers with skills in the farm field, to buy agricultural raw material and equipment under the formula of Murabaha. Islamic banks use the transaction contracts Murabaha in order to buy commodities and selling them to clients who agreed to pay the bank the negotiated price over installments paid on terms. By using Murabaha, Zitouna Tamkeen, as a financial institution, facilitates the creation of new SMEs through financing the purchase of agricultural fertilizers, seeds, semen, tools, and machinery necessities to cultivate the land. Indirectly, Zitouna Tamkeen contributed to the creation of new opportunities for employment.

Tunisian Institution Zitouna Tamkeen²² also offers financial resources to persons with training or experience in the livestock sector. These skilled farmers will get the opportunity to raise domesticated animals in an agricultural setting to produce labor and commodities such as meat, milk, fur, leather, and wool. Those that are interested in fish farming are also financed.

¹⁹ Salma Drissi, "Islamic Microfinance: Locomotive in the Service of Financial Inclusion", *European Journal of Islamic Finance, Special Issue: Islamic Banking and Finance*, 2017, No: 7, pp. 1-5.

²⁰ Idem.

²¹ Zitouna Tamkeen, "Micro-Financing", 2020. Web link http://zitounatamkeen.com/En/micro-financing_11_38

²² Idem.

Faisal Islamic Bank of Egypt,²³ as the first Egyptian Islamic Bank, is also highly interested in financing small-scale industries, professionals, and artisans under the Islamic Sharia. Through a variety of products, owners of small enterprises, professionals and artisans can obtain appropriate funding. By doing so, Faisal Islamic Bank of Egypt participates in raising the productivity and capability of this category of small entrepreneurs. The bank also provides the opportunity for the establishment and creation of new small projects that could potentially hire new employees and create job opportunities through satisfying the financial needs of the financed projects.

From its side, Jordan Islamic Bank²⁴ focuses on a significant part of its programs on financing and facilitating investment business operations of Craftsmen. So in complete compliance with Sharia principles, the JIB helps financing new or existing projects for diploma holders, professionals, artisans, technicians, doctors, pharmacists, and engineers who are on a high level of fidelity and experience in all economic activities.

ISLAMIC FINANCING INSTITUTIONS BOOSTED BY COOPERATION, INITIATIVES AND PROGRAMS

To promote entrepreneurship and support entrepreneurs', governments and Islamic Financial institutions developed a multitude number of programs. They encouraged cooperation and collaboration at different levels and between several private, public, and charity organizations.

Saudi Arabia's" government conceived several programs helping entrepreneurship and encouraging collaboration between financing institutions, government, and entrepreneurs. The first program was made by the Agricultural Development Fund (ADF) in cooperation with The Saudi Investment Bank (SAIB, 2020). As a governmental entity, the ADF²⁵ was established in February 2008 and aimed to be a national credit institution specialized in financing and guaranteeing finance of various fields of agricultural activity in all regions of the Kingdom. It aims to assist in the development of the farming sector and increase its production efficiency using the best scientific and technical methods. The program offers farmers the possibility of obtaining soft loans without interest and credit facilities to secure the necessary activities such as machinery, pumps, agricultural machinery and equipment for the breeding of cattle, poultry and sheep and equipment, and beekeeping, fish and others. The program conjugated a true collaboration and partnership between ADF, SAIB, Islamic financing institutions, and entrepreneurs. It boots entrepreneurship in the Kingdom of Saudi Arabia, enhances the development of agricultural initiatives through sustainable financing, achieves food security and sustainability of natural resources, and contributes to the development of the economic and farming sector. The Secured Financing Program with the Agricultural Development Fund constitutes an excellent model of ideal partnership between the government and private sectors.

The Pakistan Prime Minister Youth Business Loan Scheme (PMYBL) is another example of good programs encouraging collaboration between Government and Banks to offer financial support to young entrepreneurs. The program PMYBL²⁶ of the Government of Pakistan aimed at the socio-economic development of the country's youth. The program enables the country's youth to get new

²³Faisal Islamic Bank of Egypt, "Commercial and Productive Transactions in Local Market", 2000. Web link <https://www.faisalbank.com.eg/FIB/english/about-us/bank-Activites.html>

²⁴Jordan Islamic Bank (JIB), "Craftsmen Financing", 2000. Web link <https://www.jordanislamicbank.com/en/content/craftsmen-financing>

²⁵Agricultural Development Fund, ADF, "ADF Secured Financing Program", 2020. Web link <https://eservices.adf.gov.sa/>

²⁶PMYBL, "The Pakistan Prime Minister Youth Business Loan Scheme", 2020. Web link <https://www.ubldigital.com/Banking/SME-Products-And-Services/UBL-Prime-Minister-Loan>

employment opportunities through a broad canvas of financial schemes. The program is not exclusively targeting Islamic financial Institutions. It offers maximal financial support of Rs 2.0 M for up to 8 years to people aged between 21 and 45 years with entrepreneurial potential. The PMYBL is not exclusive for Islamic financial institutions as it is also offered to conventional banks. However, several Islamic financial institutions benefited from the program and got guarantees in financing entrepreneurs.

To decrease the unemployment rates and develop the local economy, another good initiative supporting funding youth entrepreneurs raised in Saudi Arabia under the form of the Centennial Fund. As an independent non-profit foundation, the centennial fund²⁷ conjugates the Saudi Arabia kingdom ambitions and aspiration to encourage business initiatives of small investors and support the youth to start their small and medium-sized projects. By making a strategic partnership with Islamic financial institutions and partners, the centennial fund gives the young Saudis the opportunity to get partial or complete funding in the form of profit-free finance to transform the project idea into a real business. Innovative, creative, and value-added projects proposed by Saudi citizens aged between 21 and 55 years can receive between 50,000 SAR and 5,000,000 SAR The Centennial Fund constitutes an excellent example of collaboration between NGOs and Islamic financing institutions.

Another type of program showing the importance of cooperation between financing institutions comes from the State of Qatar. AL DHAMEEN program²⁸ is the result of the collaboration between Qatar Development Bank (QDB) and Qatar Islamic Bank (QIB). This program encourages small and medium enterprises to get the right Islamic finance from the bank to grow and nurture their businesses. It “aimed at facilitating and speeding up approvals to guaranty the value of the funding provided by the partner bank to small and medium enterprises lacking sufficient guarantees. QDB has prepared a special portfolio guide that describes the terms, conditions, eligibility criteria, due diligence, credit monitoring, applications, and guidelines development, to help QIIB to take the necessary decisions without referring to the QDB.”²⁹

To compensate for the lack of collateral, AL DHAMEEN helps existing companies and start-ups to obtain access to funds for the establishment or growth of their businesses. Qatari projects or joint ventures, including foreign investors covering predetermined sectors of activities whose annual turnover does not exceed 30 million QR, can apply for finance from QIB under the Al Dhameen program. Dr. Abdulbasit Ahmad Al-Shaibei, QIIB Chief Executive Officer, affirmed that “*the results achieved by QIIB through Al-Dhameen program confirm that such initiatives, built on effective cooperation between partners who aim to serve the national economy.[...] The leading Al Dhameen program experience ensures the development of large sectors and creates job opportunities that benefit the community in its various segments.*”³⁰

The semi-governmental organization Tamkeen³¹ is tasked with making the private sector the key driver of economic development in Bahrain. By offering a range of business support solutions,

²⁷ The Centennial Fund (2019). Web link <http://www.tcf.org.sa/en/Pages/default.aspx>.

²⁸ Al Dhameen, “Brief About the Service”, 2020. Web link <https://www.qdb.qa/en/Pages/al-dhameen.aspx>.

²⁹ Financial Services, QDB Renews Al Dhameen Program Portfolio Agreement With QIIB, 12 March, 2018. https://www.zawya.com/mena/en/pressreleases/story/QDB_renews_Al_Dhameen_program_portfolio_agreement_with_QIIB-ZAWYA20180312132102/

³⁰ Idem.

³¹ Tamkeen, “Start-ups”, 2020. Web link <https://www.tamkeen.bh/start-up>.

including grants and financing, Tamkeen supported the development of the private sector, micro-enterprises, and SME's. It also made them the engine of economic growth in the Kingdom. The semi-governmental organization developed several initiatives and assisted students, beginners, seniors, executives, and others in order to start, consolidate, address, and respond to key economic challenges facing Bahrainis entrepreneurs. Tamkeen developed collaboration and partnership with Banks, in order to offer Sharia-compliant financing opportunities at a competitive profit and to support its innovative "Tamweel program" that can help Entrepreneurs to turn their business ideas into reality. By doing so, this program will finance the purchase of fixed assets such as equipment and machinery. It may also support working capital requirements such as rents, employee salaries, or purchase of inventory. Tamkeen can offer financing support ranging between BD 5,000 to BD 500,000 by subsidizing 50% of the annual nominal profit rate capped at an 8% reducing balance.³²

An excellent model of cooperation between institutions comes from Tunisia and is translated into a full-fledged Islamic Microfinance institution named Zitouna Tamkeen³³. As a result of the collaboration between the Islamic development bank, Zitouna Bank, and other partners, this institution aims to promote the financial and economic inclusion of young Tunisian graduates and disadvantaged populations. Based on the Economic Empowerment concept, Zitouna Tamkeen, hopes to participate in the economic integration of disadvantaged groups through Islamic Microfinance, promoting the initiative and supporting self-employment projects. The economic empowerment concept tends to develop poor people's capacities to participate, negotiate, influence, control, and have responsible enterprises that have the impact of changing their lives.

Economic empowerment is considered as introducing the transition from relief, assistance, and aid approach to a support and development approach. In 2016, Zitouna Tamkeen Microfinance, in partnership with the private "Delice Group," launched an innovative project through a program named "gate of milk; lever of regional development."³⁴ The project aims at enhancing and supporting the productive capacity of small farmers by providing training workshops and technical accompaniment services in the field of dairy cows. It will also help small-scale agricultural projects by financing the purchase of cows, milking equipment, and milk-cooling tanks. Through a participative approach to micro-enterprises for family farming, this pilot project mainly targets vulnerable groups of small cattle breeders. The focus of the project is primarily oriented through high skilled persons, unemployed, job seekers, and rural women.

BOOSTING ENTREPRENEURSHIP THROUGH SUPPORTING COLOSSAL PROJECTS

Limiting the activities of the Islamic Financial institutions in only supporting SMEs could affect their sustainability model. In fact, in the absence of interest, these institutions need to diversify their activities in order to generate more funds by financing colossal projects. Among the essential benefits of the Islamic banking system, we can mention its contribution to bringing benefits to all strata of society. One of the important Islamic financial institutions funding large enterprises and

³² Idem.

³³ Zitouna Tamkeen, "Micro-financing", 2020. Web link http://zitounatamkeen.com/En/micro-financing_11_38

³⁴ ISDB, "Zitouna Tamkeen: The innovation in the service of employment and poverty alleviation", 2018. Web link <https://www.isdb.org/news/zitouna-tamkeen-the-innovation-in-the-service-of-employment-and-poverty-alleviation>.

big projects is located in the Sultanate of Oman. In 2017, the branch of Bank Muscat and the pioneer of Islamic banking in Oman, Meethaq, allocated more than OMR30 million to finance and set up the Islamic project “Osool Poultry” at Al Ghaftain in Al Wusta region.³⁵ By collaborating with the Osool Poultry project, the Islamic financial institution Meethaq contributed to guarantee food security in the country, offering savings in foreign exchange, favoring economic diversification in the Sultanate and maintaining the economic development of the country. This partnership also led to the development of Omani skills and generated the creation of employment opportunities in the agricultural sector.

Also, in 2017, Bank Muscat’s Islamic banking window Meethaq signed an agreement with A’Saffa Foods Company valued at RO 31.5 million³⁶. The partnership will allow the company to finance its expansion plans. The long-term financing of the expansion project will make a significant contribution to Oman’s food sufficiency, food security, and economic diversification.

Recently in 2018, Meethaq for Islamic finance signed Shari’a compliant term finance agreements with Muscat National Development and Investment Company.³⁷ The term finance agreements valued at RO 16 million will serve to build an upscale three-star hotel in Muscat and a crew-reporting terminal at the Muscat airport. Muscat National Development and Investment Company (ASAAS) is a closed joint-stock company composed of governmental entities. By making such an agreement, it showed the importance of initiating and developing economically sustainable projects. Also, such cooperation and partnership between the public and private sectors will enhance the government’s efforts to achieve the desired economic diversification.

By signing an interesting number of agreements with diverse private and public partners, the Omani Islamic Financial institution, Meethaq, has crossed a milestone of over RO1bn in assets in only four years of operations.³⁸ It appears that this institution plays a leadership position in Oman and contributes significantly to the growth and development of the Sultanate’s economy. Another excellent example showing the capacity of the Islamic financial institution to finance important and consequent projects comes from the Sultanate of Oman.

In 2017, Oman Educational Services (OES) and Alizz Islamic Bank made a Sharia-compliant financing agreement permitting the expansion of the German University of Technology in Oman (GUtech) ’s facilities and student accommodation.³⁹ This kind of partnership demonstrates the role that can play Financial Islamic institutions in supporting the growth of the nations in general and the educational sector in particular.

³⁵ Reuters, “BRIEF-Delmon poultry says Meethaq Bank extends over OMR 30 mln to finance Osool Poultry Project”, 2017. Web link www.reuters.com/article/brief-delmon-poultry-says-meethaq-bank-e/brief-delmon-poultry-says-meethaq-bank-extends-over-omr-30-mln-to-finance-osool-poultry-project-idUSFWN1HY0QF

³⁶ A’Saffa, “A’Saffa Foods SAOG and Bank Muscat Meethaq ink RO 31.5 Million Rial Financing Agreement”, 2017, Web link <http://www.asaffa.com/en/press-release/asaffa-foods-saog-and-bank-muscat-meethaq-ink-ro-315-million-rial-financing-agreement/271>

³⁷ Muscat Daily, “Meethaq Signs Ro16mn Term Finance Agreements With ASAAS”, 2018. Web link <https://muscatdaily.com/Archive/Business/Meethaq-signs-RO16mn-term-finance-agreements-with-ASAAS-56w5>

³⁸ Press Reader, “Bank Muscat plays key role in nation-building”, 2017. Web link <https://www.pressreader.com/oman/muscat-daily/20171115/281535111278450>

³⁹ Alizz Islamic Bank, “Alizz Islamic Bank signs agreement with Oman educational services to finance expansion of gutech facilities”, 2017. Web link <http://alizzislamic.com/Media-Centre/Press-Releases-Details/snmid/628/snmida/631/snid/2210/sname/Alizz-Islamic-bank-signs-agreement-with-Oman-educational-services-to-finance-expansion-of-gutech-facilities>

SUPPORT, CONSULTING, ORIENTATION, TRAINING AND DEVELOPMENT OF COMPETENCIES

Is the role of Islamic financing Institutions limited only to finance public and private organizations? By reviewing the different experiences and web sites of several Islamic financial institutions, we discovered that among them, an important number of institutions overcome the expectations and offer a range of services that usually come to support the financing purpose. They can also be qualified by additional guarantees that will optimize the partnership established under the sharia-compliant agreements.

In such regards, the first good model highlighting the importance of the support activity of the financing act comes from Saudi Arabia through the Centennial fund.⁴⁰ This fund supports under-served young Saudi Arabians to set up and grow businesses and create new productive opportunities for employment.⁴¹ Thus, the centennial fund offers the young entrepreneurs the opportunity to start their own business by providing mentoring, training, and financial support. As a prerequisite for the funding of any project, The Centennial Fund made it mandatory to nominate a mentor that is going to support the project owner both morally and cognitively. Through the Centennial fund programs, the project's owner will be guided for up to 3 years, starting from the launch of the project. Also, the project owners receive training on how to be independent, how to manage, and how to make decisions involving the project. Finally, to guarantee the full success of the project, the centennial fund offer to the financed projects, the full access to the services provided by the Investor comprehensive service centers that are part of the Saudi General Investments Authority.⁴² These centers will enable entrepreneurs to accelerate the creation of their projects by facilitating administrative procedures.

The Tunisian Islamic Financing Institution Zitouna Tamkeen⁴³ believes that Capacity Building is a fundamental pillar for successful micro-projects. As a unique model, this institution hosts a central directorate specializing in project engineering. Its role consists of renewing the level of project ideas, integrating users into sustainable structured projects, providing support and support services, and being close to customers. In such regard, this institution offers training tailored to the skills of the entrepreneurs and the needs and challenges of the micro project. The training covers the technical and managerial aspects and can include soft-skills training, sales technique, marketing, finance. Coaching is also an essential component of the services offered by Zitouna Tamkeen. Indeed, the support of funding recipients allows them to benefit from the expertise of the bank business agents in terms of advice to detect difficulties encountered by customers at an early stage, which facilitates the planning of adapted training. In such regard, we assume that the key success of the Zitouna Tamkeen relays mostly on its capacity to change the shared vision towards the poor or the unemployed. This institution considers them as real business partners and not as beneficiaries who only seek funding.

In the same line of ideas, Tamkeen Bahrain⁴⁴ does not limit its services only to the financing of projects. This institution would like that the financed projects be more productive and ready to respond to challenges more effectively. In doing so, Tamkeen offers entrepreneurs a range of business support solutions, including grants, advice, business development and mentorship, international placement, training, and wage support and information sharing.

⁴⁰ The Centennial Fund, 2019. Web link <http://www.tcf.org.sa/en/Pages/default.aspx>

⁴¹ G20 Young Entrepreneurs' Alliance, 2019. Web link <https://www.g20yea.com/members/saudi-arabia>

⁴² Saudi General Investments Authority (2020) Web link <https://sagia.gov.sa/en>

⁴³ Zitouna Tamkeen, "Training and Support", 2019. Web link http://zitounatamkeen.com/En/training-and-support_11_40

⁴⁴ Tamkeen, "Scale-ups & Mature", 2019. Web link <https://www.tamkeen.bh/scale-ups>

Practically speaking, the Bank of Khartoum,⁴⁵ through IRADA Microfinance organism financed the ‘Moringa and Jatropha agricultural project’ by introducing innovative products in the agricultural sector. The support of the bank is not only limited to the financial aspect, but it also includes providing families with supportive investment conjugated in services, security, and production facilities. The bank also made a smart partnership with a private company named Green Ishraqa Co.; its role consisted of ensuring production quality by providing projects and families with technical support.

The same Sudanese Bank made a partnership through Murabaha by financing the ‘Wad Ballal Cattle Fattening Project.’ The project offers financing services to 100 families and their respective members. It also provides non-financial support through Management, training, capacity building, and marketing.

Another example of the non-financial support of SMEs development comes from Oman. To support SME development, to foster national talents and create meaningful employment opportunities, Meethaq Islamic Banking has launched various initiatives in Oman. One of them, in complete partnership with Thomson Reuters,⁴⁶ Meethaq signed an agreement regarding the expanding of the network partners of the ‘Accelerate S.M.E. Oman portal.’ Through this portal, Entrepreneurs, start-ups, and SMEs will have access to the most comprehensive source of business resources, services, and funding solutions. Besides, the facility offers a ‘Trust rating’ tool that helps companies to benchmark against peers and measures their financial health. As part of its commitment to spotlight investment opportunities available for in Oman, Meethaq Islamic Banking signed, in 2018, an agreement with the Little India project by which it will serve as a financial advisor. The project launched by the Indian company in Oman will cost RO288 million and supposed to host five stars hotel, resorts, yacht marina, residential, and commercial complexes. By offering its financial advising services, Meethaq Islamic Banking aspires to be a window that facilitates the attractiveness of investment opportunities in Oman.”

SUGGESTIONS GUARANTEEING THE SUCCESS OF INVESTMENT AND ENTREPRENEURSHIP (FIGURE 1)

The Islamic financial institutions developed several innovative tools, mechanisms, programs, and products that will help them to fulfill their missions and objectives. The review of experiences and practices showed us also that these institutions were able to finance and offer solutions for financing to large projects as well as to SMEs, commercial, and charity projects. The success of the Islamic financing institutions is not the only tributary to financing projects. Still, it also relays on the capacity of these institutions to support and follow investors and investments. Providing support, orientation, consulting, training, and development of the competencies of the investors will undoubtedly offer an additional guarantee to the success of the financed projects and consequently secure the funds allocated by the financial institution. The notoriety of Islamic financial institutions is not limited to financing projects and following them. It also relays on the capacity of supporting projects through making partnerships and collaborations with diverse national and international organizations. Establishing alliances and seeking support from the governments and NGOs will undoubtedly lead to the success of the financing activities. It will also give additional guarantees to the projects and will spread confidence through young investors.

⁴⁵ Bank of Khartoum, “Introducing Innovative Products in Agriculture Sector by Smart Financing”, 2020. Web link <https://bankofkhartoum.com/sudan/moringa-and-jatropha/>

⁴⁶ Thomson Reuters, “Accelerate SME Oman”, 2020. Web link <https://meethaq.acceleratesme.om/en/benefits>

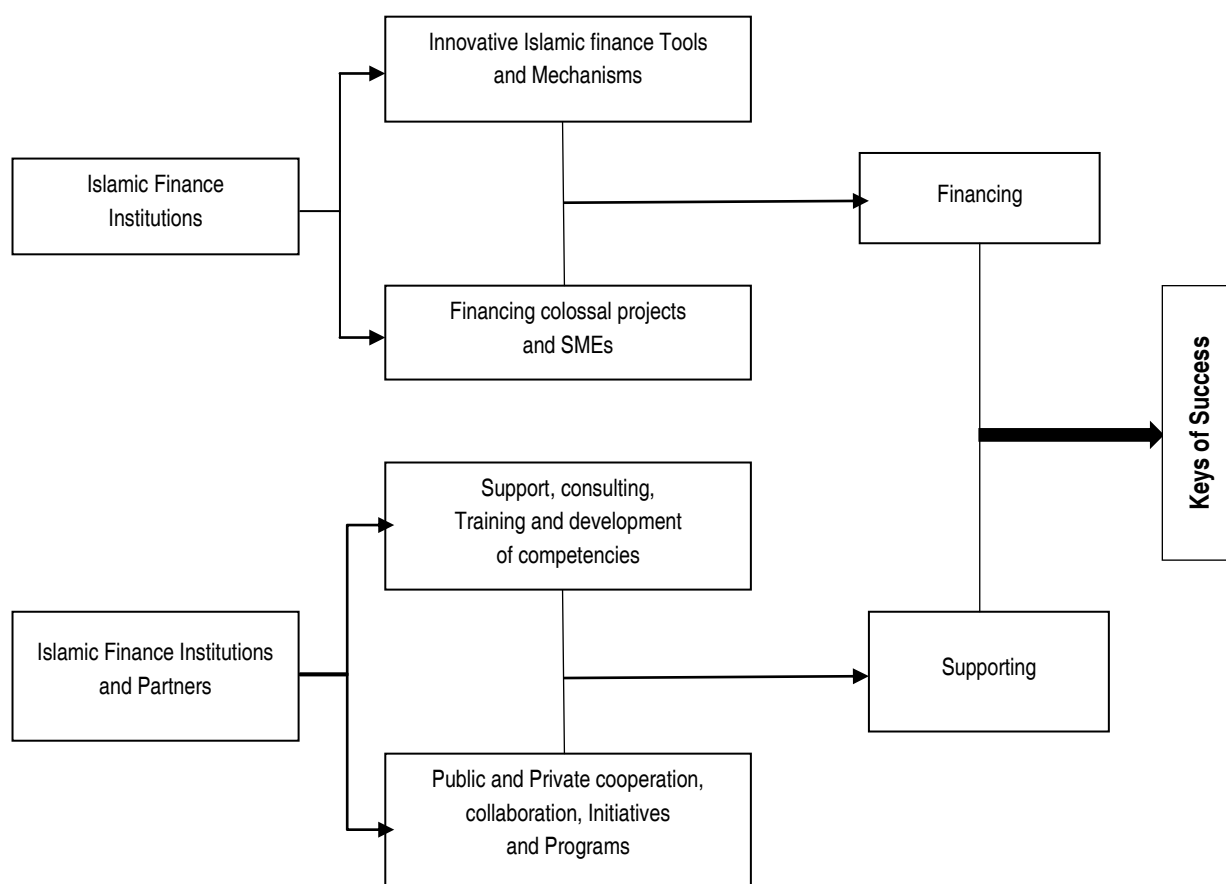


FIGURE 1: Keys guaranteeing the success of investment and entrepreneurship.

DISCUSSION

The aim of our study consisted of reviewing the best practices followed by Islamic financing institutions around the world, which have contributed to the encouragement of financing for small and medium-sized enterprises. The central research question of the study was: did the Islamic Financing Institutions develop sufficient and performant mechanisms that contributed to the encouragement of financing small and medium-sized enterprises?

This research aims to summarize and share the experiences and best practices and programs offered by the Islamic financial Institutions. The objective is to draw a general image of the efficiency of these institutions and their products and make a benefit by sharing their experiences. Thus, we conclude that the summative analysis of experiences and best practices adopted by Islamic financing Institutions generates a general Image about the performant programs, tools, and mechanisms adopted by these institutions to encourage financing small and medium-sized enterprises. Sharing these experiences and best practices will help financial institutions to take these performant mechanisms and consequently strengthen the use of Islamic financing around the world.

The findings show that the role of Islamic financing institutions is not limited to offering financing services; it also englobes the support and follows of investors and investments. To guarantee the success of the financed projects and consequently secure the funds allocated, the Islamic financial institution

must provide support, orientation, consulting, training, and development of the competencies of the investors. To offer meaningful customer experience and guarantee greater sustainability, some Islamic financial Institutions reshuffled the delivery of products and services to SMEs. The desire to assist aspiring entrepreneurs and reflect a deep understanding of SME's needs and circumstances pushed these innovative Islamic financing institutions to develop a more holistic financing model. The inclusion of entrepreneurship infrastructure support adapted training, and consulting services are the key success of this model.

Additional findings provide more insight into how financing skilled, experienced persons and artisans constitute a value-added investment that is not expensive and relying on the knowledge of these persons as a guarantee of the success of projects. By relying on the skills of these professionals, funding institutions make inexpensive investments. Besides, it generates a large number of new employment opportunities.

Findings also showed that cooperation, initiatives, and programs could boost Islamic financial Institutions. In order to stimulate entrepreneurship and support entrepreneurs, governments and Islamic Financing institutions developed a multitude number of programs and encouraged cooperation and collaboration at different levels and between several private, public, and charity organizations. In the majority of cases, the programs and initiatives offer investors the possibility of obtaining soft loans without interest and credit facilities in order to secure the necessary activities. They also offer complementary guarantees to the financing institutions.

In other cases, certain organizations boosted activities of Islamic financial institutions and entrepreneurs by funding them and contributing to their capital. In such regard, the Islamic development bank constitutes an excellent example. The ideology of Economic empowerment made it possible to establish programs, initiatives, and Cooperation mechanisms that generally participate in the economic inclusion of disadvantaged groups. By doing so, Islamic Microfinance benefited from these collaboration programs by decreasing the unemployment rates, developing the local economy, promoting the initiative, and supporting self-employment projects. In such regard, the government is encouraged to continue its efforts in implementing programs financing and guaranteeing the success of entrepreneurship initiatives. The Islamic development bank is also encouraged to continue its support and participation in funding organizations involved in the promotion of the Islamic microfinance. The IDB can also assist governments and secure supplemental funds to innovative and accessible projects that rely on economic empowerment through Islamic microfinance. The IDB can also promote and encourage good practices by giving annual awards to the best initiatives.

Despite the fact showing the importance of the participation of the Islamic financing Institutions in funding SMEs, another finding of our research shows that Islamic financing Institutions need to support large projects. By doing so, these financial institutions will generate the necessary funds that will help them to support SMEs. Also, to achieve the desired economic diversification, economies of Islamic countries need to initiate and to develop economically sustainable projects. In such order, the research showed that certain financing institutions and especially in the Sultanate of Oman, participated the funding of the colossal project by becoming partners. This demonstrates the capacities of the Islamic financing institutions to fund and become a real partner and contributor in the process of economic development. Here, this circumstance is emphasized almost as if it were exceptional. But it should be

remembered that the typical model of implementation of participatory finance, following the shariatic precepts, is that whoever provides credit, does so by becoming a partner in the project and not a simple lender. This aspect should be less emphasized and better harmonized in a system logic. It also reflects the raising of the degree of trust showed by the entrepreneurs and governments concerning Islamic mechanisms of financing, whether in Muslim or non-Muslim countries. The fact of being involved in the funding of colossal projects raised the degree of trust of funders in the Islamic financing institutions. Indirectly, the trust feeling among the Islamic finance mechanisms and institutions will generate more donors and more funding. The trust feelings and the funds generated will offer more opportunities for investments and entrepreneurship financing. From another point of view, investing in colossal projects will create new and substantial income and financial resources for Islamic financial institutions. By financing enormous projects, we secure investments and funds necessary to finance SMEs and small projects.

This research faced lots of challenges and limits and especially in terms of access to the information. Only a few institutions advertise and show their projects and realizations. In several cases, we were able to collect information's through newspapers as they shared the details of the partnerships. In addition, in several instances, the financial institutions announced their partnerships but did not give more information about its value or the mechanism based on it; they agreed. These Institutions only informed that they made a share-based partnership. Future research can also focus on the annual reports of the Islamic financial institutions to get a real image of the specific repartition of the financing activities based on the different mechanisms and programs.

In summary, research findings hint at the importance of the collaboration between the financial institutions, the government, the private sector, and NGOs to maintain a climate encouraging entrepreneurs and facilitating entrepreneurship. The research suggests more impact on Islamic financing best practices research in a global context. We highly recommend governments, NGOs, and IDB to continue to support Islamic financial institutions through funding, the participation of the financing, and program development to continue to help entrepreneurs and entrepreneurship. Also, we want to make a strong plea for taking into account the crucial role the Islamic financial institutions can play in developing entrepreneurship initiatives, not only by making available the necessary funding but also by providing entrepreneurs with the required coaching, counseling, supporting and training. By doing so, The Islamic financial institutions provide the main tools necessary for the success of the entrepreneurship projects and the securing of the development of the funds invested.

CONCLUSION

The contribution of the Islamic financial institutions in stimulating the growth of SMEs and boosting entrepreneurship is essential, but the fair use of mechanisms of financing is unequal, mitigated, and not always visible. In this study, the focus is on the learning from the experiences and best practices adopted by the stakeholders through the analysis of websites and press releases of an important number of Islamic Financial Institutions situated in different parts of the world. The findings reveal new insights into the practices and mechanisms used by Islamic financing Institutions. Results and ideas can also be relevant for the enhancement of the performance of these financing institutions. They can also stimulate entrepreneurship and provide new sharia-compliant solutions for SMEs' financing.

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