Financial Gap and Limited Islamic Products Offering to SME's in the Middle East and North African (MENA) Countries: Diagnostic and Responses

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Introduction and Overview:

Small and Medium Enterprises (SMEs) are key contributors to sustainable gross domestic product in all countries, and the Middle East and North Africa (MENA) is no exception. SMEs finance or funding represents a major function of the general business finance market where capital for different types of firms are supplied, acquired, and/or priced . Large number of SME's in MENA region prefer to deal with Islamic rather than conventional banks. However, few Islamic banks have been catering to their needs (Naseem, 2014; Beck and Asli, 2008)

Lack of financing for SME's whether Islamic or otherwise may have been caused by lack of security collateral based bank lending, or because of not having high enough returns to attract venture capitalists and other risk investors (Pupic, 2014). Moreover, markets are characterized by lack of information limiting the lending rate and effective use of credit scoring which has led to claims of an "SME finance gap" (Pearce, 2011; Beck et al., 2008)

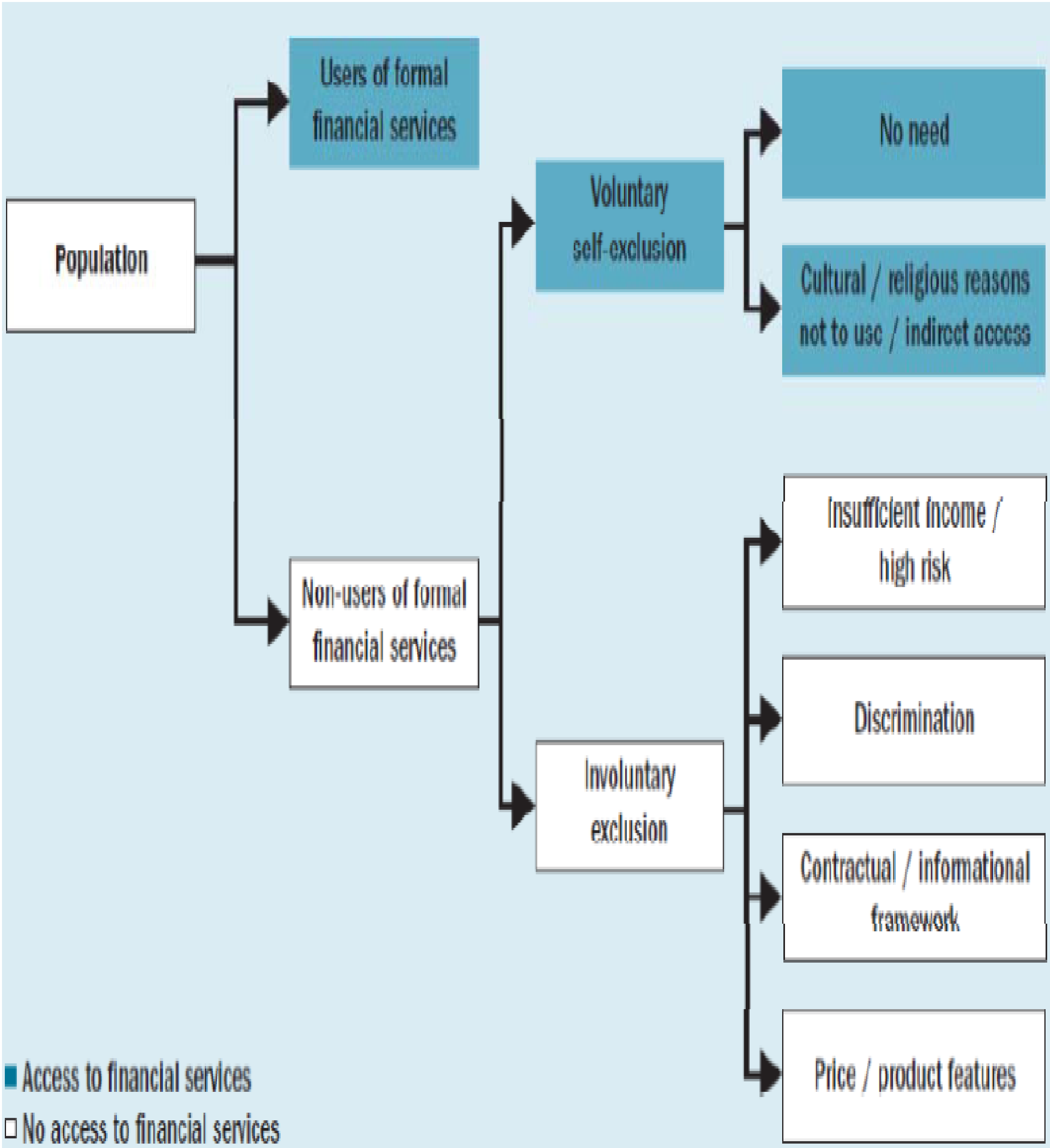
Entrepreneurs and investors from 23 Arab states were reported looking for opportunities to start huge investments near Bangalore, India with facilities to set up SMEs for exports (King, 2013). Why India? Is there a lack of business opportunities in the MENA countries? Are products demanded by SME's as in Islamic products are not being offered?

To answer the latter question, a recent study commissioned by the International Finance Corporation in nine MENA countries (Iraq, Pakistan, Yemen, Kingdom of Saudi Arabia, Egypt, Lebanon, Morocco, Tunisia and Jordan), comprise about 90 per cent of Islamic banking assets, reveals that 32 per cent of formal SMEs (about 1.5 million businesses) remain excluded from the formal banking sector because of a lack of Sharia-compliant products, and 63 percent of SMEs in the region do not have access to finance (IFC and world Bank, 2014*; King, 2013).

Islamic finance which includes the banking system, takaful (Islamic insurance) and capital market products and services offer an alternative to society, with a double-digit annual growth rate annually, and with Islamic banking assets and assets under Islamic management estimated to reach $US One trillion as of 2010 according to McKinsey & Company (2007). Since there is significant demand for Islamic banking services with assets "estimated at $1.8 trillion as of 2014 with a growth rate up to 20 per cent annually" (Nooraslinda et. al, 2013), and in order to enhance Islamic SME offerings, factors affecting the growth of Islamic SME banking will be discussed, and suggestions that " banks in MENA region may consider to align their strategies to the rising demand for Shariah-compliant products, with a clear focus on advancement of Islamic product offerings through effective marketing" (IFC and World Bank,2014*).

Introduction to Financial Inclusion and Overview of Economic Development:

Figure One: Factors of Financial Exclusion:



Source: The World Bank (2008) Finance for All? Policies and Pitfalls in Expanding Access, A World Bank Policy Research Report, World Bank, Washington, DC. USA. In Mahmoud et. al, 2011).

Islamic banking has not developed uniformly across MENA countries since For example, Egypt was the birthplace of Islamic banking, with the first Islamic bank operated in 1960. On the other hand, in Morocco and Lebanon, Islamic banking has just begun to emerge this decade, with the recent government authorization of Islamic banking operations. However, "Egypt's first-mover advantage did not lead to the Islamic banking sector's rapid growth and/or development". On the other hand, "Pakistan and Saudi Arabia, which introduced Islamic banking later, witnessed stronger growth and/or development over the years". Other countries like Jordan, Yemen, Iraq, and Tunisia introduced Islamic banking in the 1970s and 1980s; but due to lack of government support in promoting Islamic banking din negatively affect growth and development prospects (IFC and World Bank, 2014*).

Islamic banking and finance received increased attention since the 2008 economic shock or crisis in the global financial market that caused people around the world to start asking questions and search for alternative financial system. Islamic financial economy or institutions are based in their objectives and operations on the rulings of Islamic law known as *Sharia* law. The Islamic economy most distinguished characteristic is the "interest free" operations which means that traditional debt obligations with a fixed interest rate are avoided (Mahmoud et.al, 2011).

However, the absence of fixed or compounded interest percentage does not mean that transactions in the Islamic economy or law are completely " interest free and are void of any time value" since time value elements are there and usually present in Islamic financial contracts, and "adjustments in price due to timing considerations exist to ensure obligations and rights in a fair and just manner" (Ahmad and Hassan, 2006; Madeddu, 2010).

What is Financial Inclusion:

What is and who usually benefits from financial inclusion which means "the delivery of financial services to low-income population in society at reasonable cost". Financial inclusion can be measured by the proportion of population that is covered by commercial bank branches and ATMs, and deposits and loans made to low income households and SMEs. However, people may voluntarily exclude themselves from these financial services (as shown in Figure one above) for religious or cultural reasons, despite having access and affordability for these services (Beck et. al,2008).

Islamic finance addresses the issue of "financial inclusion" or "access to finance" from two directions—First, through the promoting of risk-sharing contracts that provide a viable alternative means to conventional debt-based financing. Second, specific instruments of redistribution of the wealth in society such as Zakah which complement risk-sharing instruments by targeting the poor segment of society which may not afford these financial services otherwise and by offering a "comprehensive approach to reduce poverty and to build a healthy and vibrant economy" (Mahmoud et.al, 2011; Pearce, 2011).

***** This study by IMF has no date. However, statistics show 2012 date. Therefore, study date estimated as 2014.

Islamic banking Assets as a Small Portion of Global Banking Systems:

In general, there is significant demand for Islamic banking services. However, despite this high demand, Islamic banking assets only represent 3 to 4 per cent of total global banking assets. Several reasons were given to explain this shortfall which include the following as suggested and explained by Mahmoud et.al, 2011:

1. Islamic banks seem to be more conservative than conventional and/or commercial banks. Moreover, products and services that Islamic banks offer simply simulate those of conventional banks.

2. A lack of standardisation and different interpretations of Sharia-compliance products are considered as " impediments to growth".

3. Large number of SMEs, especially in the Middle East and North Africa (MENA) region, would prefer to deal with Islamic banks rather than conventional ones. However, only few Islamic banks are catering to their customers needs.

4. Overall, Lack of focus on the market segment which offer Sharia-compliant products (Sophia, 2014)

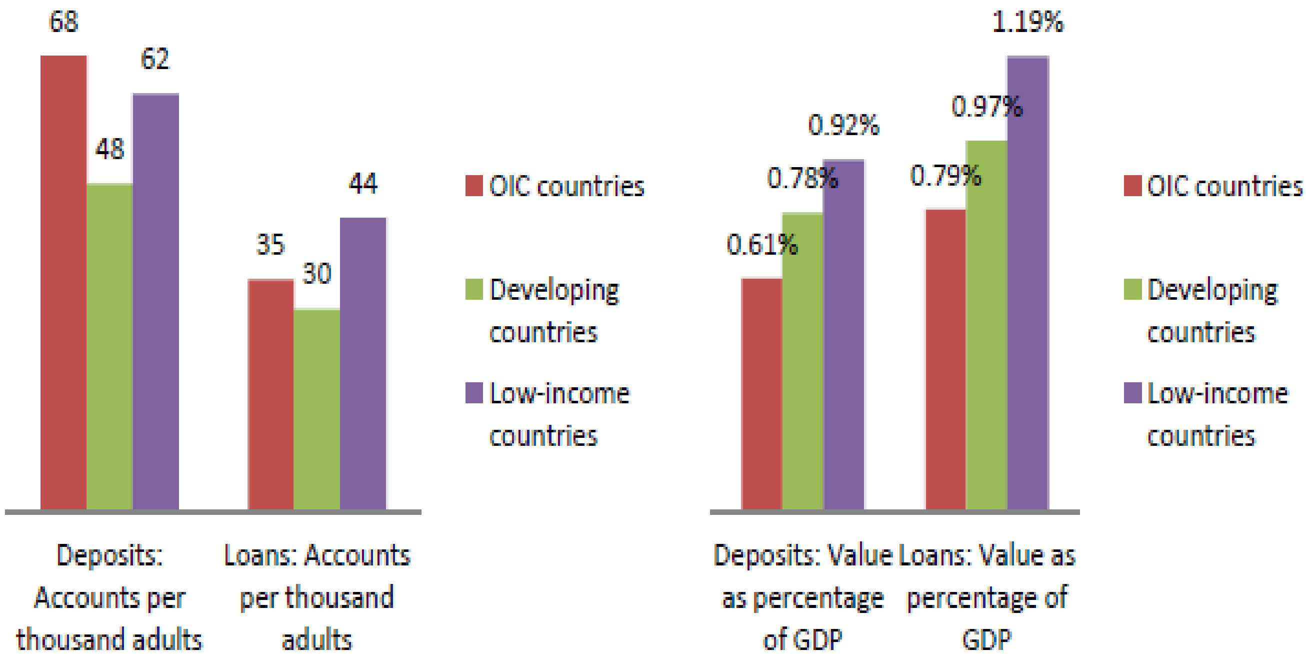
Description of Financial Gap In MENA Countries:

In a study commissioned by the International Finance Corporation in nine MENA countries (including Pakistan), which comprise of more than 90 per cent of Islamic banking assets in the region, focuses on this huge demand for Islamic banking products and services by SMEs. Moreover, approximately 32 per cent of formal SMEs in MENA countries (about 1.5 million businesses) remain excluded from the formal banking sector due to a lack in Sharia-compliant products. This study pointed to a gap of between \$8.63 billion to \$13.20 billion for Islamic SME financing, and a corresponding deposit potential of \$9.71 billion to \$15.05 billion across these countries (Mahmoud et.al, 2011; Pearce,2011).

Figure Two below shows the Limited Scale of Microfinance Deposits and loans:

Figure Two:

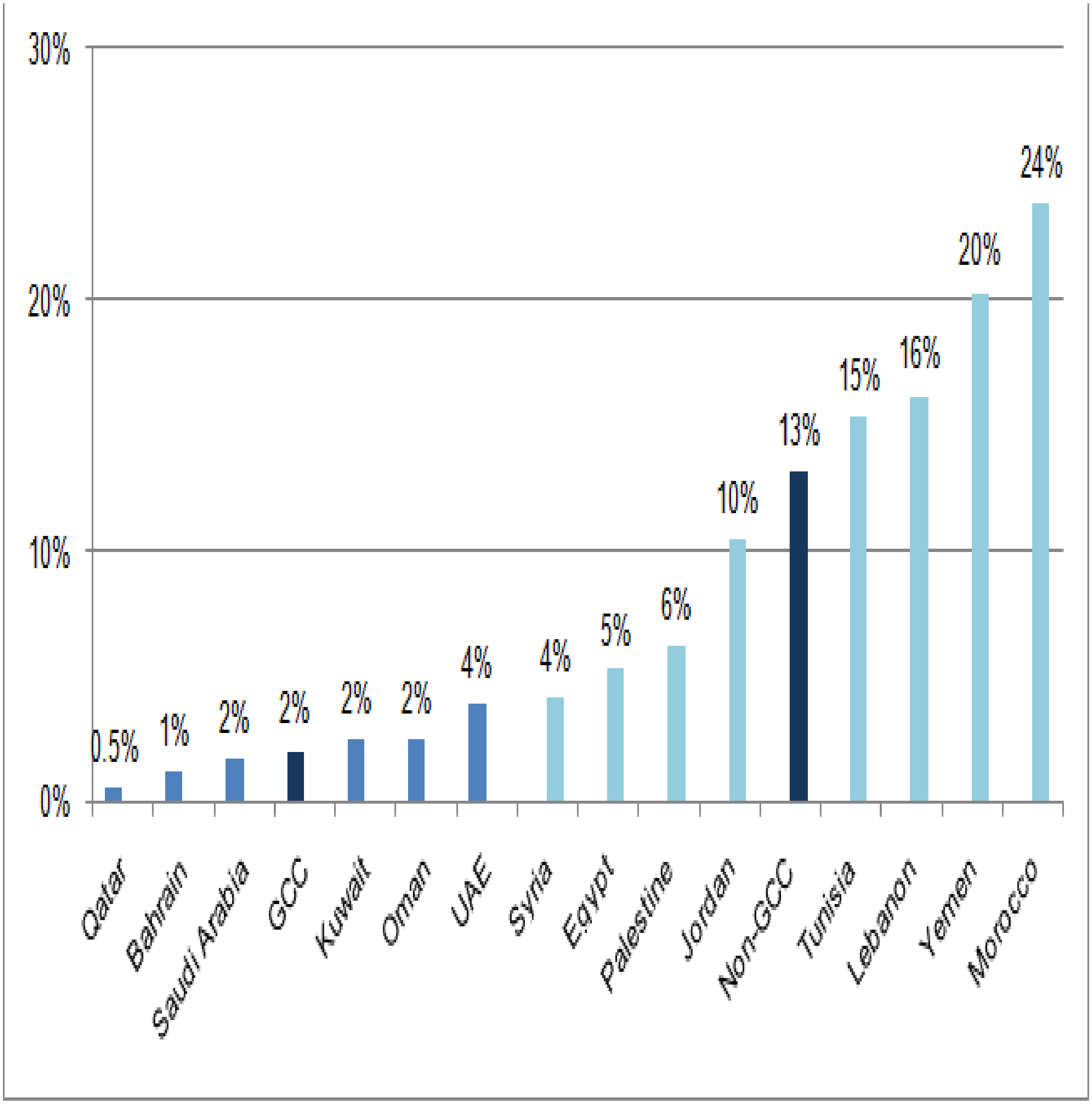
The Limited Scale of Microfinance Deposits and loans:



Source: Cited by Mahmoud et.al., 2011.

According to Mahmoud et. Al., (2011) study, SME offerings by Islamic banks is calculated at 17 per cent, less than half of the 36 percentage of traditional banks. This means that the majority of Islamic banks are not offering Islamic SME products or serving to heir customer or satisfying their customer needs, either because of a "perception of high risk or an unclear business strategy". Moreover, and according to the same study, islamic banks seem to lag behind with regard to the branding or marketing of SME products, since many SMEs institutions and customers seem to be unaware of the availability of such products or services from their banks (Saadani, 2010). Figure Three below shows SME loans as a percentage of total loans in MENA Countries (Rocha et al., 2011; Pearce,2010).

Figure Three: SME Loans/Total Loans (%)*: MENA Countries



Source: Rocha et.al, 2011.

Access To and Depth of Financial Services in MENA Countries:

Looking at figure four, the numbers as cited in Pearce (2011) show that other than OECD countries and East Asia, the MENA region has greater financial depth (as measured by private credit as a proportion of GDP) than all other regions as explained in Figure Four. However, this is not translated to high levels of access to financial services. For example, MENA lags several regions on the key indicators of bank deposits and loans accounts per population of adults.

Figure Four:

Region	Banks Deposit Accounts per 1000 adults	Banks Loan Accounts per 1000 adults	Private Credit as % of GDP
Sub-Saharan Africa	315.5	87.5	23.7
South Asia	653.8	54.2	43.9
Middle East & North Africa	**744.0**	**213.3**	**50.6**
Europe & Central Asia	1,395.4	325.2	45.8
East Asia & Pacific	1,116.9	343.9	58.4
Latin America & Caribbean	1,227.5	366.8	44.7
High income: non OECD	1,865.0	851.5	83.4
High income: OECD	2,383.7	702.4	130.8

Source: CGAP and World Bank Financial Access 2010, International Financial Statistics (In Pearce, 2011).

Moreover, MENA region seem to underperform on access to SME lending compared to financial sector depth and relative to other countries with similar GDP levels, as illustrated in figures sex and MENA financial systems are bank dominated and banks lend to a narrow set of clients. MENA countries also tend to have relatively low access to deposits compared to GDP per person (Ayyagari, 2007; Rocha et al., 2011).

Responding To The Financial Gap By Offering Islamic Products and services

Researching Islamic product development for SMEs financing in MENA countries as well as reviewing the available literature on this significant topic proved to be very difficult. The majority of studies on SMEs financing have focused mainly on developed countries like the USA, Germany, Italy and Japan (Berger, Rosen and Udell, 2007). According to Gerrard & Cunningham , London has put the most effort in becoming a world Islamic financial center followed by Hong Kong, New York and Singapore, where Kuala Lumpur and Dubai are being considered as more established Islamic centers(Gerrard & Cunningham, 1997).

Therefore, country studies and researching product innovations in a market segment to be offered by Islamic banks in the Middle East and North Africa regions is even more difficult and beyond the scope of this paper. So, this topic is being researched by looking for product innovations by Islamic banks in any region since in any country the basic reference for new product development in Islamic banking is Shar'ah, *which* is " the Islamic law of human conduct governing business matters which include economic, social, political, and cultural aspects of Islamic societies (Zamir, 1997; Pearce,2010)

Shariah originates from the rules dictated by the *Quran* and its practices, as well as explanations rendered (known as *Sunnah*). Further elaboration of the rules is provided by scholars in Islamic jurisprudence within the framework of the *Quran* and *Sunnah* (Zamir,1997; Rocha, 2011*).*

Islamic banks have to develop financial products that conform to *shari'ah*. It involves the accountability and responsibility of all the key functions (board of directors, Shari'ah committee and management) for implementing the Shari'ah Governance Framework. The banking sectors can be categorized into individual and corporate, which require different products to fulfill their needs (Zamir, 1997;   Imady & Siebel, 2006).

Unlike the conventional banking system, Islamic banks and their clients are partners since both sides of the financial transaction are based on sharing risks and gains. The transfer of funds from client to the bank (depositing) is based on revenue sharing and usually calculated ex post on a monthly basis, while the transfer of funds from the bank to the clients is based on profit sharing (Bujang Masli, 2010). Such ratios (revenue and profit sharing) and rates vary between institutions and may also vary between contracts within the same institutions, contingent upon perceived business prospects and risk (Haron and Wan Azmi, 2019; Imady & Siebel, 2006).

Basic Islamic financial instruments and/or Principles:

The following six basic Islamic principles were commonly discussed in the literature. Also, principles of Islamic financial instruments are proposed and explained by Zamir, Iqbal in his 1997 article about Principles of an Islamic financial systems which include the following:

1. Prohibition of interest (Riba):

Prohibition of interest (riba), a term literally meaning "an excess" and interpreted as "any unjustifiable increase of capital whether in loans or sales" is the central principle of the system. Therefore, "any positive, fixed, predetermined rate tied to the maturity and the amount of principal (regardless of the performance of the investment) is considered riba" and is prohibited (Zamir, 1997). From an Islamic perspective, prohibition is due to what is called 'haram' elements (riba', gharar and maisir) in the conventional financial system (Nooraslinda et.al., 2013).

2. **Trade with markup or cost-plus sale (murabaha).**

One of the most widely used instruments for short-term financing is based on the traditional notion of purchase finance. "The investor undertakes to supply specific goods or commodities, incorporating a mutually agreed contract for resale to the client and a mutually negotiated margin". Most of Islamic financial transactions are cost-plus sales (Zamir, 1997).

3. Leasing **(ijara).**
Leasing accounts for about 10 percent of Islamic financial transactions. This instrument is "designed for financing vehicles, machinery, equipment, and aircraft and so forth. Different forms of leasing are permissible, including leases where a portion of the installment payment goes toward the final purchase" (with the transfer of ownership to the lessee).

4. Profit-sharing agreement (mudaraba).

This is identical to an investment fund in which managers handle a pool of funds (mutual funds). The agent or manager of this fund has "relatively limited liability while having sufficient incentives to perform". The capital is invested in broadly defined activities, and the terms of profit and risk sharing are customized for each investment. The maturity structure ranges from short to medium terms avoiding long or longer time frames for such trade activities.

5. Equity participation (musharaka).

This is similar to or known as "classical joint venture". Both entrepreneur and investor "contribute to the capital or assets for example, or contribute to the technical and managerial expertise, working capital of the operation in varying degrees" and agree to share the returns (as well as the risks) in proportions agreed to in advance. Traditionally, this form of transaction has been used for financing fixed assets and working capital of medium- and long-term duration (El-Galfy, and Khiyar,2012; Beck et.al., 2018)..

6. Sales contracts.

Deferred-payment sale (*bay' mu'ajjal_ _ deferred sale*) and deferred-delivery sale (*bay'salam*) contracts, in addition to spot sales, are used for conducting credit sales. In a "deferred-payment sale, delivery of the product is taken on the spot but delivery of the payment is delayed for an agreed period. Payment can be made in a lump sum or in installments", provided there is no extra charge for the delay. A deferred-delivery sale is similar to a forward contract where delivery of the product is in the future in exchange for payment on the spot market (Zamir, 1997; ISRA, 2011; Mahmour et al., 2011).

However, Islamic banks need to look beyond the traditional 'one-size-fits-all' approach and provide SMEs with customized banking products and solutions, just like many conventional banks (Nooraslinda et al., 2013). Moreover, Islamic banks may think about offering non-borrowing services by broadening product and service offerings such as cash management, payroll management, payments, collections, and trade finance solutions. Internet banking and mobile banking services should also be considered (Gerrard and Cunningham, 1997)

How Important is SMEs Financing??

Research findings from a survey of 91 banks in 45 countries around the world by The World Bank Development Research Group found that banks perceive the SME segment to be highly profitable. However, macroeconomic instability, and competition were perceived as the main obstacles (Rocha, 2011; IFC and World Bank, 2014). Despite different perceptions in SMEs financing between governments, private, and foreign-owned banks, the most significant differences were found between banks in developed and developing countries (where banks seem to be less exposed to SMEs, provide a lower share of investment loans, and charge higher fees and interest rates) according to this study. (Beck et.al., 2008; Rocha, 2010).

As of 2009, and with the increasing demand for of Islamic finance, Islamic financial institutions (IFIs) all over the world are being encouraged to develop and innovate new products to be able to adopt market penetration or market development strategies to meet the demand of its current customers and potential customers. The introduction of new Islamic products does impose some challenges, not only to the practitioners and Shari'ah council members, but also to society at large, as they are the ultimate users of the product (Thorsten et al., 2008;Hesse et.al., 2008)

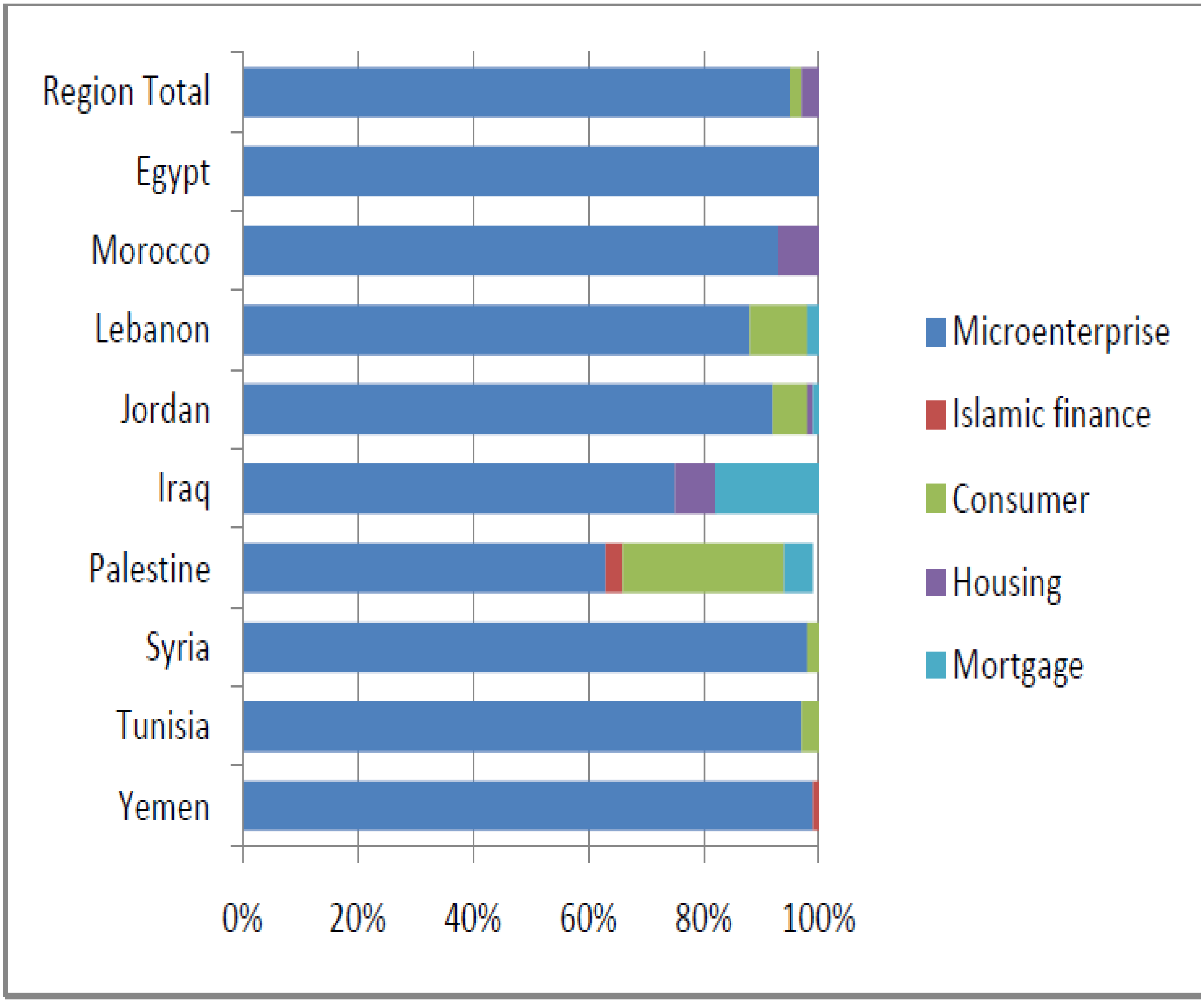
What Other Shariah-compliant Micro-Finance Products can Be Offered:

Providers of Islamic microfinance tend to be small in size since about 80 percent of the global outreach of Islamic microfinance concentrates in only three countries, Indonesia, Bangladesh, and Afghanistan (Mahmoud et. al, 2011). Moreover, islamic microfinance products are also limited in their diversity since, for example, about 70 percent of the Islamic finance products offered are *murabaha* , and the narrow range of products offered is continuously excluding low income and small enterprises from access to *Shariah*-based finance (Mahmoud et.al. ,2011; Zamir,1997). Figure Four below (next page) shows microfinance products offered in several MENA Countries.

Other Shariah compliant microfinance institutions actively adopted various Islamic financial tools, such as trade and project finance, Murabahah, as well as non-financing instruments such as Waqf and Qard al-Hassan, in the process of absorbing savings and making loans. Some of these institutions also gained funding support from Zakah collection. (Mahmoud et.al, 2011; Zamir,1997).

Another tool that can be used is *Takaful which* is a cooperative insurance mechanism that evolved in the late 1970s in Sudan and Egypt. The concept is similar to conventional mutual risk mitigation, in which risk sharing is expressed as ta'awuni (mutual cooperation and protection) (Kwon, 2007). Micro*Takaful* distinguish itself from *Takaful* by targeting the low-income individuals who are living slightly above the poverty line and usually work in informal sectors (Beck et. al., 2007). As of January 2010 Micro-*Takaful* providers exist in Lebanon, Indonesia, Malaysia, Sri Lanka, Bahrain and Pakistan (Kwon, 2010). Figure Five below shows the different microfinance products that are offered in MENA countries:

Figure Five:Microfinance Products Offered in MENA Countries:



Source: Sanabel 2010 (in Pearce, 2011).

Qard-al-Hasan as another tool to be used**:**

Qard-al-Hasan (QH henceforth) is defined in *Shariah* as an interest free loan. It is usually granted from well off lenders to poor borrowers. It can also be directed from borrowers to intermediaries that can redirect it on their behalf to poor borrowers. QH is therefore a non rewarding loan (with no expected return) and the borrower is under obligation to repay the loan depending on the borrower's financial capacity to do so. Loan procedures are usually informal and social capital is the basic collateral for this instrument (Kwon, 2007; Mahmoud et.al, 2011).

Waqf (pl. *awqaf*) or Edowments ;

Are basically real non perishable properties that are voluntarily donated for philanthropic purposes. Awqaf are dominated by fixed property mainly land or buildings, but can be applicable also to cash, shares, stocks, and other assets. The concept of Awqaf is a well practiced phenomenon in recent times in both the Muslim and non-Muslim world. 'Awkaf' by definition needs an institutional setup to ensure perpetuity and good governance (Dusuki and Bouheraoua, 2011; Kwon, 2010)

Securitization and Growth of Islamic Microfinance:

The growth of Islamic microfinance will depend to a large degree on whether financial institutions can develop sufficiently attractive financial products and services, which are competitive when compared with conventional products in terms of pricing, transparency, processing time, and burden on the client (IFC, 2010; Gerrard & Cunningham, 1997).

There is no reason why the financial engineering cannot be used in the area of financial inclusion and to enhance the financial access. One way could be to introduce the application of securitization to securitize assets generated by micro-finance and SMEs. Sukuk (Islamic bonds) are a successful application of securitization and working on the same lines, a **<u>marketable instrument</u>** can be introduced to provide funding for much needed Mirco-finance and SME financing (Cant,2012). With the introduction of securitization of Micro and SMEs, financial institutions would be able to pool their assets and issue marketable securities. In this way, they will share the risks with the market as well as free-up the capital for further mobilization of micro and SME financing (Mahmoud et al., 2011; Hesse, Jobst, & Sole , 2008;).

Islamic Banking Product Development:

Islamic banking products are recognized based on the contracts instead of the commercial orientation. The current Islamic banking products can be categorized as shown in Table One below which shows Islamic banking products offered to Customers:

Table One

Islamic Banking Products To Customers:

CONSUMER SEGMENT	PRODUCT NAME	CONTRACT USED
Deposit	Current account Saving account	• *Wadiah* (safe keeping) • *Mudharabah* (profit sharing)
	Staff deposit account	*Qard Hassan* (benevolent)
Credit	Credit card	*Tawarruq* (cost plus sale)
Financing	House financing	• *Bai Bithaman Ajil - BBA* (deferred payment sale) • *Musharakah Mutanaqisah* (diminishing partnership)
	Personal financing	• *Murabahah* (cost plus) • BBA (deferred payment sale) • *Bai Inah* (immediate cash)
	Vehicle financing	• BBA (deferred payment sale)
	Staff financing	*Qard Hassan* (benevolent)
CORPORATE SEGMENT	**PRODUCT TYPE**	**CONTRACT USED**
	Trade financing	• *Wakalah* (agency) • *Mudharabah* (profit sharing) • *Murabahah* (cost plus)
	Asset based financing	• *Ijarah* (leasing), • *Istisna* (purchase order)
	Corporate investment	• *BBA* (deferred payment) • *Ijarah* (leasing) • *Istisna* (purchase order) • *Murabahah* (cost plus) • *Mudharabah* (profit sharing) • *Musharakah* (profit and loss sharing)

Source: Cited by Nooraslinda, 2013.

Defining New Product:

According to Nooraslinda et.al, “a product that is being offered by the financial institution in a certain place or country for the first time or a combination of or variation to an existing product that results in a material change to the risk profile of the existing product”.

New product must also have the element of consumer protection to ensure that risk is managed properly for the sake of justice for all. This is in line with the Islamic teaching that IFIs should be built based on a societal foundation or upon religious principles that may help institutions introduce products designed and price-based on the principle of societal equality brotherhood and solidarity (Kwon, 2007 ; Imady & Siebel, 2006).

New products for Islamic banking institutions must adhere to the *shari’ah proncipIes*. One of the initial requirements to submit new products for approval is that the product must be endorsed by the IFIs Shari’ah Advisory Board . This is to justify that only those qualified can advise on the compliance of a product to the *shari’ah* principles **(**(Nooraslinda et.al, 2013).

Islamic Product Variation – HOUSE FINANCING:

Financing products can be classified depending on the Islamic contract such as *mudharabah*, *murabahah*, *musharakah*, *Bai’ Bithaman Ajil (BBA)*, *ijarah*, *wakalah* and/or *Qard Hassan*. For deposit products, the contracts normally used are *wadiah* and *mudharabah*. All these products must be approved prior to its introduction (in Nooraslinda et.al, 2013).

However, it is acknowledged that variations exist in Islamic banking products although the names may be similar. This is due to the fact that the Islamic bank’s may have a different interpretation of the contracts, principles, and jurist and scholar views used in defending the product applicability and compliance to the *shari’ah*. This also includes the variation in the rates, ratios, terms and other benefits (Dusuki and Bouheraoua, 2011; Berger, 2007).

<u>Recommendations:</u>

To compete on a level playing field with other financial institutions, Islamic banks would need to be competitive and this means producing and having more innovative products that meet the demands of the individual and businesses. The Islamic products developed must comply not only with *shari’ah* requirements but also with the country’s legislation, guidelines and circulars (El-Galfy, and Khiyar, 2012; Nooraslinda et.al, 2013).

The following principles aim to help create an enabling policy and regulatory environment for innovative financial inclusion. The enabling environment will critically determine the speed at which the financial services access gap will close for the more than two billion people currently excluded. To build effective and sustainable SME banking operations). Islamic banks will need to do the following as mainly described by Pearce (2011) :

1. Adopting market segmentation approaches to better understand the market niches and dynamics to seek business opportunities.

2. Broadening product and service offerings by developing product programmes, and providing non-borrowing services (cash management, payroll management, payments, collections, and trade finance solutions) (Pearce, 2011; Cant, 2012)

3. Designing SME banking models that fit prospective customers.

4. Using IT tools like mobile banking and other channels to enhance financial inclusion and reduce the cost of delivery and administering an account.

5. Realign their transaction and processes to make it easier for SMEs to use.

6. Provide SMEs with advisory services to aid and facilitate their creditworthiness and bankability (Pearce, 2011; Cirasino and Nicoli, 2010)

7. Incorporate appropriate credit evaluation techniques and collections frameworks to target and manage SMEs better, price products more effectively, and reduce risk exposure(Pearce, 2011; Alvarez, 2010).

8. Streamline credit approval processes and focus on building relationships with SMEs (existing and prospective customers), which would ensure quick delivery of credit. (Mahmoud et.al, 2011; Pearce, 2010)

9. Strategic Operational Adjustments can Help Islamic Banks Target SMEs More Effectively.

Islamic banks need to acquire the required proficiencies for building and managing a successful "Islamic SME Banking" business, Offering non-borrowing services and broadening products and services offered like Internet banking and mobile banking services along with provisions for SME specific debit cards with daily limits (IMF and World Bank, 2014). Other suggestions offered by IMF and World Bank executive summary include the following:

a. Islamic banks should use new SME banking models to target SMEs.

b. Focus on advisory services since the majority of SMEs do not have sufficient knowledge about finance and management, business skills, and information related to government rules and regulations that impact their functioning ((IFC and World Bank, 2014; El-Galfy, and Khiyar, 2012).

c. Better training for SME human resource personnel .

d. Financial institutions need to " incorporate appropriate credit evaluation techniques, and collections frameworks to target and manage SMEs better, price products more effectively, and reduce risk exposure".

e.“Streamline loan application processes for SMEs”. Most SMEs seem to lack the appropriate documentation required to apply for a loan. “It is imperative that the approval process be shortened”.

f. SME banking is a “line of expertise hardly available in the Middle East and North Africa (MENA) region and banks have not been able to champion this segment due to a lack of understanding about SME banking disciplines, best business, and risk management practices”.

g. Banks are generally incapable of servicing the needs of the SME sector effectively due to” gaps in their current operating model. Most commercial banks are not geared efficiently to deal with SMEs and are structured to meet the needs of large businesses”.

In summary, to target the SME sector, Islamic banks need to adopt the above mentioned strategy framework, which involves” building capabilities on all fronts – human, procedural, and institutional. This strategy would have to be gradually implemented, as the process would require a paradigm shift in processes, strategy, and attitude” (Sofia, 2014; IMF and world Bank, 2014*)

New SME Product Offering Example:

Craig Moore, founder of Dubai Beehive, the region’s first peer-to-peer (P2P) finance platform. He connects responsible investors with credit-worthy small businesses, and has become the first P2P platform in the world to be granted a Sharia compliance certificate. This certificate was issued by the Shariyah Review Bureau (SRB), a third party which has independently confirmed that the platform’s processes are compliant with Sharia principles. Since the launch in November 2014, Beehive has channeled over ($4 million) worth of finance to more than 32 SMEs (Pubic, 2015).

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