MINISTRY OF HIGHER EDUCATION AND SCIENTIFIC RESEARCH

ECOLE SUPERIEURE DE COMMERCE

Kolea

A Dissertation submitted in partial fulfillment of the requirements for

Master'sdegree in Financial Science and Accounting

Major: Finance, Money and Banking

Topic:

THE FINANCIAL PERFORMANCE OF ISLAMIC BANKS AND THEIR PLACE IN FINANCING SMEs

Submitted by:

BOUAGUEL AMANI

Supervised by:

PR. ABDELKADER GLIZ

2020/2021

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Thank you

Dedications

This work is dedicated to all of my beloved people who have meant and continue to mean so much to me. To my dear parents, who have always been there for me, to my only sister, and to my two adored brothers.

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List of abbreviations

Abbreviation	Signification
SMEs	Small and medium sized enterprises
AAOIFI	Accounting and Auditing Organization for Islamic Financial Institution
PLS	Profit losses sharing
BBA	Bai bithaman ajil
MIF	Multilateral Investment Fund
OECD	Organization for Economic Co-operate and Development
UNIDO	The United Nations Industrial Development Organization
CBs	Conventional banks
IB	Islamic banks
BNA	Banque Nationale d'Algérie
CPA	Crédit Populaire d'Algérie
BNA TN	Banque Nationale Agricole en Tunisie
BIAT	Banque Internationale Arabe de Tunisie
NBE	National Bank of Egypt
ROA	Return on assets
ROE	Return on equity
LDR	Loan to deposit ratio
NBI	Net banking income
PBT	Profit before tax

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Abstract

The objective of this research is twofold; the first one is to compare the performance of Islamic and conventional banks in order to see how Islamic banks perform in comparison to conventional ones in North African countries during the year 2019, using the CAMEL method. The second goal is to determine the position of Islamic banks in financing the investment of SMEs in comparison to other financial institutions, as well as the reasons for accepting and, more importantly, refusing Islamic financial products offered by Islamic banks and their preferences through a survey conducted to Algerian SMEs.

The results of the CAMELs method allowed us to compare the two types of banks through the different calculated ratios, along with the ANOVA results, which demonstrate that Islamic banks are on an equal level with conventional banks. The analysis of the results obtained from al Barak bank's data show that the level of financing SMEs' investment is very low compared to other types of financing. These results were confirmed by the survey, which shows that the majority of entrepreneurs prefer investing through conventional banks rather than Islamic banks, for a variety of reasons. As a result, when compared to conventional banks in Algeria, Islamic banks do not play a significant role in financing SMEs' investment.

Key words: Islamic banks, conventional banks, SMEs, investment financing, CAMELs method

Résumé

L'objectif de cette recherche est double, le premier est de comparer la performance des banques islamiques et conventionnelles afin de voir comment les banques islamiques se comportent par rapport aux banques conventionnelles dans les pays d'Afrique du Nord durant l'année 2019. Le deuxième objectif est de déterminer la position des banques islamiques dans le financement de l'investissement des PME par rapport aux autres institutions financières, ainsi que les raisons d'accepter et, surtout, de refuser les produits financiers islamiques offerts par les banques islamiques et leurs préférences à travers un questionnaire réalisé auprès des PME algériennes.

Les résultats de la méthode CAMELs nous ont permis de comparer les deux types de banques à travers les différents ratios calculés, ainsi que les résultats de l'ANOVA, qui démontrent que les banques islamiques sont au même niveau que les banques conventionnelles. L'analyse des résultats obtenus à partir des données de la banque al Barak montre que le niveau de financement de l'investissement des PME est très faible par rapport aux autres types de financement. Ces résultats ont été confirmés par l'enquête, qui montre que la majorité des entrepreneurs préfèrent investir par le biais des banques conventionnelles plutôt que des banques islamiques, pour diverses raisons. Par conséquent, par rapport aux banques conventionnelles en Algérie, les banques islamiques ne jouent pas un rôle significatif dans le financement des investissements des PME.

Mots clés : Banques islamiques, Banque conventionnelles, PME, Financement d’investissement, méthode de CAMELS

General introduction

Islamic Banking is defined as a system of banking or activity which complies with the Islamic Shariah law principles, and guided by the Islamic economics whose key objective is premised on the notions of equitable resource distribution and social justice. The presence of Islamic banks in the banking industry is expected to contribute in the real sector; in fact, this is Islamic banks' main purpose.

Islamic banking differs from conventional banking systems in many ways; the major difference being the use of Interest or usury. It involves wider ethical and moral issues than simply ‘interest-free’ transactions. Its advocates argue that these make it more economically efficient than conventional banking and promote greater economic equity and justice (F. Khan, 2010). Unlike conventional banking, Islamic banking is not allowed to engage in any Haram (unlawful or illegal) business activities, this means that any business that has not been permitted by the Islamic Sharia principles or prohibited according to the Islamic books (Quran, Hadith and Fiqh) falls under Haram (illegal or unlawful).

The term Islamic banking has gained a lot of significance in the contemporary world on the basis of provision of zero interest loans coupled with sharing of profits and losses through the principle of Mudharabah (profit-sharing) and Mucharaka (joint-venture). Among other things, banking activities in the real sector channel financing to a large number of businesses, one of these businesses are SMEs.

Small and medium enterprises (SMEs) are commonly acknowledged as the strategic boosters for the economy of a country, they have an impact on the country's economy and society. They represent an essential element to the integration and to the economic diversification, so to the acceleration of the volume of investment, production and jobs. SMEs are not limited to a single industry or service; they are involved in manufacturing, processing, trading, import-export, distribution, retailing, rental, and services, among other things. In fact, it plays a very important role in Algeria in several fields, by consolidating the relations between the various industrial, agricultural and services activities.

Given the stated importance of the economic growth generated by SMEs, it is critical that SMEs have access to financing through financial institutions, particularly Islamic banks. Furthermore, the emergence of Islamic banks and Islamic financial institutions must be playing a significant role in financing these enterprises.

As such, this study is aimed to answer the following main question:

Do Islamic banks, compared to conventional banks help, to promote SMEs investment financing and project creation?

To answer this main question and to give a logical continuation to our research, we ask the following secondary questions:

- Can Islamic banks perform better than conventional banks?
- What is the level of SMEs investment financing by Al Baraka bank?
- What is the level of awareness and attitudes of Algerian SMEs towards the potential use of Islamic investment financing?
- To what extent do SMEs chose Islamic Banks over Conventional banks?

In order to find answers to our main question and secondary questions posed above, we will test the hypotheses listed below:

H1: Islamic banks can perform better than Conventional banks.

H2: the level of SMEs investment financing in al Baraka bank is low compared to other types of financing.

H3: Because of their lack of knowledge about the necessary products, SMEs do not choose to invest using Islamic financial products.

H4: SMEs prefer Islamic banks to finance their exploitation needs.

Research methodology

The following approaches have been adopted to fulfill our research:

- **Descriptive:** after obtaining the statistics results, we will describe the results of the chosen variables.
- **Analytic:** We will analyze the obtained results after applying the CAMELS approach, the survey, and the bank's data to make our judgments and answer the research's main question.

To collect all the elements of response that are likely to provide clarifications to our questions, we used the following descriptive analytical methodological approaches. We conducted a theoretical then an empirical analysis to create a conceptual corpus that will help us to better understand the subject. Thus, we conducted a documentary research in which we could consult and explore various works and supports. In the case of empirical analysis, information has been collected from both primary and secondary sources. Starting with secondary sources, data have been collected from the banks’ financial statements in order to compare the performance of both Islamic and conventional banks, as well as internal documents of al Baraka bank. The primary data was gathered primarily through quantitative method survey.

We will structure our research around three chapters in order to complete this study:

Chapter one: in this chapter we will identify the banking sector in general; its evolution, importance and the financial intermediation, additionally, we are going to represent the definition and the origins of Islamic banking, its development, principles, the way it functions and most importantly the financial intermediation in order to compare it with conventional banks.

Chapter two: in this chapter we will talk about the different types of Islamic financial products and their use in order to understand the mechanism of Islamic financial intermediation and how they finance different businesses. Then we are going to identify SMEs along with their different characteristics, and finally, we are going to determine the impact of Islamic banks financing on SMEs.

Chapter three: In this chapter, we will compare the performance of Islamic banks to that of conventional banks in North African countries using the CAMELs method, then we will represent the data obtained from al Baraka bank and to confirm the results, we will analyze the survey results.

Chapter one:

Generalities on conventional and Islamic banks

Introduction

The banking system plays an important role in the modern economic world. It has always been regarded as one of the most critical to the economy's ability to function. Its significance as the “lifeblood” of economic activity in collecting deposits and providing credit to states and people, households and businesses is undisputable.

When discussing the banking system, we cannot deny that Islamic banking is just as important as conventional one. In the financial world, Islamic banking has emerged as one of the most important alternative forms of funding. There has always been a growing demand among Muslims for Sharia - compliant financial products and services (Islamic law).

In this chapter we will deal with the following sections:

- Section one: Generalities on conventional banks.
- Section two: Islamic banks and their characteristics.

Section one: Conventional banks

In this section we are going to present the definition of conventional banks, their historical development, the importance, the role and the financial intermediation of conventional banks.

1 Bank's definition

The modern word bank derives from the Latin words Banko, Banco, Bangk, Bancus, and so on. Banking operations can be difficult and diverse, but there are simple operational definitions of a bank, according to Xavier Freixas and Jean-Charles Rochet« a bank is an institution whose current operations consist in granting loans and receiving deposits from the public.» (Freixas & Rochet, 2008). A bank is a financial intermediary that accepts deposits and directs these deposits into lending transactions either directly through loans or indirectly through capital markets ("Emergence of banking concept in the world and its backround,").

The primary function of banks is to connect those who have funds**,** such as investors and depositors, with those who seek funds, such as individuals or companies in need of credit. A bank is a link between customers with a capital deficit and customers with an excess of capital.

2 Development of the banking business

The term bank can be traced back to the early stages of human civilization, when it grew up in the cradles of various cultures. Banking and finance concepts emerged at the same time as the first peoples discovered how to exchange goods.

It is very difficult to get the full historical background of banks because it is not possible to know when and how the banking system was born**.** What is certain is that the banking system did not emerge suddenly as a result of a revolution, but was born naturally and gradually (Ullah, 2010).

3 The importance of Banking

The banking system is the beating heart and lifeblood of any functioning economy. It is essential for the economic growth and development. It is critical for releasing wealth, creating opportunities, creating jobs, and facilitating commerce. It encourages individuals and businesses to participate in the global economy. Importantly, when banks do their jobs correctly, they give their customers a vested interest in a strong and stable society (Douglas, 2008).

3.3 The role of a bank

When we examine the role of a bank, we discover that it serves several distinct and critical functions.

1. Banks provide a safe and effective method of storing individual wealth:
   A bank accepts public deposits that are repayable at equal level, either on demand or after a certain period of time.

2. Banks provide efficient means of transferring value:
   Banks create instruments that facilitate the transfer of value from one party to another.

3. Banks Provide an efficient mechanism to pool funds to finance economic activity:
   Funding is required by both businesses and individuals. Individuals require financing to cover major expenses such as education, housing, automobiles, and other major purchases. Businesses must invest in capital, finance inventories, purchase goods and services, and cover expenses.

4. Banks make and facilitate, market-based decisions:
   A bank obtains funds from the general public, which comes at a cost. The cost includes not only interest, but also the costs of attracting funds and running the institution. It makes money by lending and investing money in ways that generate returns that exceed its costs.

5. Banks Facilitate Markets:
   Markets are greatly aided by the use of money. It enables buyers and sellers of goods and services to provide those goods and services while receiving a medium of exchange without the need to locate the specific good or service.

6. Banks Serve as Multipliers of Wealth:
   The term "Deposit Multiplier" (also known as "Multiple Deposit Creation") refers to a bank's ability to transform or multiply cash through its deposit taking and lending activities. In its most basic form, it represents what happens when a person deposits $100 in a bank. Because the depositor will not require immediate access to his or her funds, the bank may lend out a significant portion of the funds it receives (Douglas, 2008).

4 Financial Intermediation in conventional banks

The function of financial intermediation is the operation of connecting non-financial agents with financing capacity known as lenders with other non-financial agents in need of financing called borrowers, in order to achieve the balance between savings and investment.

- Agents with a funding gap return the currency collected in the form of a loan or advance, debt acknowledgements, or primary debt (securities, mortgages, bonds, etc.).
- Initial lenders (depositors, savers) receive remuneration (interest rate) or secondary debt securities (savings book, pot book, and cash order).

Finally, the difference between the two types of securities is the financial intermediary's profit.

The needs of savers and investors can be met thanks to the intervention of these intermediaries. Indeed, household deposits will have to go through some changes to meet capital seeker expectations and be useful to the economy. They relate to maturity and amount, as savings are typically small and short-term, while loans represent large amounts over the long and medium term ("Banks As Financial Intermediaries,").

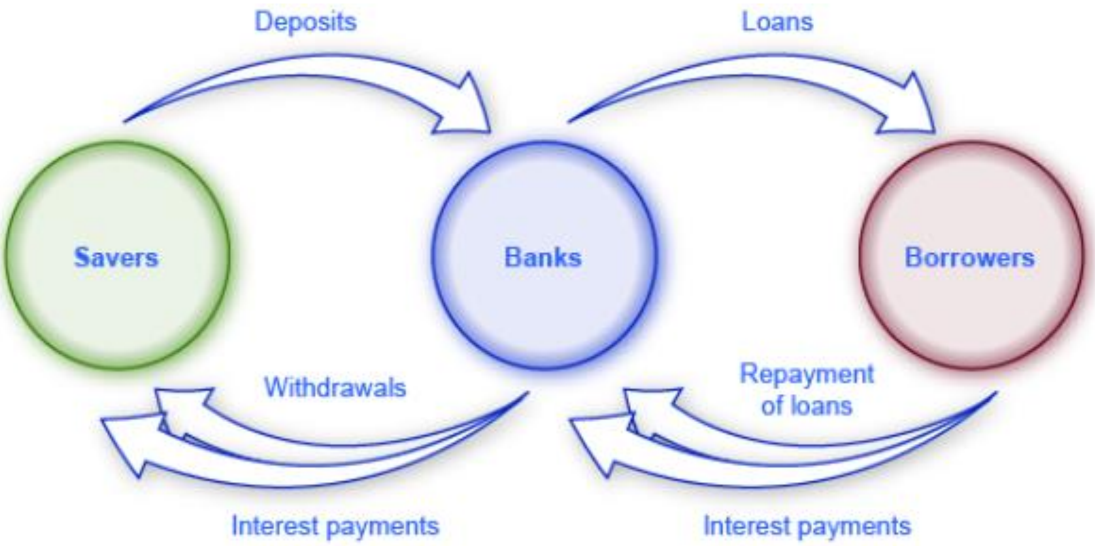


Figure1.1: Conventional Bank’s financial intermediation.

5 Conventional banks' risk exposure

5.3 Definition of risk

Risk can be defined as an uncertain but possible event that could cause losses. The risk originates in the uncertainty, the uncertainty about the deviation from the desired result. The risk is viewed as a phenomenon that can be attributed to circumstances through which the decision maker is able to recognize possible trends / events and even their probability and cannot decide which of these events will actually occur (Apătăchioae, 2015).

In the financial sector in general, but particularly in the banking system, risk only relates to negative deviations from the expected or desired result and is associated with the probability of a loss, while positive deviations are viewed as opportunities. The risk associated with banking activity manifests itself in any operations, transactions, or decisions that imply a degree of uncertainty about the outcome. Since all their banking operations have a degree of uncertainty associated with, all banking operations contribute to the overall risk of a bank (Apătăchioae, 2015).

Banking risk can be defined as a phenomenon that occurs during the course of banking operations and which has a negative impact on these activities through the deterioration in the quality of assets, the reduction in profits or even losses registration, all of which affect the functioning of the bank (Apătăchioae, 2015).

In the course of their operation, banks can be exposed to a variety of events that involve risk, including: customers late or fail to repay loans or interest, depositors require early withdrawal of deposits, market interest rates change significantly, human error, fraud, regulatory changes, system breakdown, bad organization ,etc (Apătăchioae, 2015).

5.4 Types of risk

Many banking risks arise from the common cause of mismatches. If banks had perfectly matched assets and liabilities (ie, identical maturities, interest and currency conditions), then the only risk a bank would be exposed to would be credit risk. However, a matching would be practically impossible and would in any case severely limit the banks' profit opportunities. Mismatch is a key characteristic of banking. With different interest rates on both sides of the balance sheet, an interest rate risk arises (Saunders & Allen, 2010).

5.4.1 Credit risk

Credit risk is the most obvious risk in banking and possibly the most important in terms of potential losses. The default of a small number of key customers could lead to very large losses and in the extreme case, bankruptcy of the bank. This risk is related to the possibility of not paying back the loans, of deteriorating or defaulting investments with consequent loss to the bank. Credit risk is not just limited to the risk that borrowers will not be able to pay; it also includes the risk of late payment, which can also cause problems for the bank. When a company's creditworthiness deteriorates, capital markets respond with higher interest rates on its debt, a drop in its stock price, and/or a lower assessment of the quality of its debt. As a result of these risks, bankers must exercise caution in maintaining a reasonable distribution of liquidity in assets, as well as conducting an accurate assessment of the default risks associated with borrowers. In general, credit risk protection requires maintaining high credit standards, appropriate diversification, good knowledge of the borrower's affairs, accurate monitoring and collection procedure (Saunders & Allen, 2010).

5.4.2 Liquidity risk

Another constant risk in banking is that customer’s demand for funds will necessitate the sale or forced collection of assets at a loss. Liquidity is required by banks for four major reasons:

- As a barrier to compensate for net outflows of funds.
- In order to compensate for the non-receipt of expected inflows of funds.
- As a source of funds when contingent liabilities fall due.
- As a source of funds when new transactions are desired.

Liquidity risk refers to the possibility that banks will be unable to meet one or more of these requirements. Banks must ensure that they have a suitable mix of assets and liabilities to meet their liquidity requirements. The selection of liquidity sources should be based on a number of factors, including:

- Purpose of liquidity needed.
- Access to liquidity markets.
- Management strategy.
- Costs and characteristics of the various liquidity sources.
- Interest rate forecasts.

Liquidity risk is often an inevitable outcome of banking operations. Since a bank typically collects deposits which are generally short term in nature and lends long term, the gap between maturities leads to liquidity risk and a cost of liquidity. The bank's liquidity situation can be captured by the time profiles of the projected sources and uses of funds, and banks should manage liquidity gaps within acceptable limits (Saunders & Allen, 2010).

5.4.3 Interest rate risk

Interest rate risk refers to the fact that banks' earnings are exposed to changes in interest rates that affect assets and liabilities in different ways. If bankers are firmly convinced that future interest rates will move in a certain direction, they have a strong incentive to position bank accordingly: If interest rates are expected to rise, assets become more interest-sensitive to liabilities, and do the opposite if a fall is expected. Obviously, assets and liabilities can be mixed to increase or decrease exposure, and techniques such as Variance Interest Margin Analysis are used to evaluate Project's current and future exposures.

The impact of macroeconomic interest rate changes on bank risk exposure is a major concern for both bankers and regulators. For example, a monetary environment characterized by high interest rate volatility may negatively impact banking stability. Because banks engage in maturity transformation, unexpected and significant market rate changes may lead to an unacceptable number of banks and other financial institutions encountering difficulties, or even failing. It is necessary to be fully aware of such costs in order to evaluate policy alternatives. At the same time, management must understand and manage its own exposure to interest rate risk (Saunders & Allen, 2010).

5.4.4 Market risk

This concerns the risk of loss, which is associated with disadvantageous deviations in the trading book value, which arise, for example, from fluctuations in interest rates, share prices, exchange rates or raw material prices, Instruments in the trading book, or when banks hold stocks as some sort of security . Many large banks have dramatically increased the size and activity of their trading portfolios, which has resulted in increased market risk.

Bessis (2002) defines market risk more precisely as the risk of loss during the time required to complete a transaction (settlement period). This risk has two components, related to volatility and liquidity. Relatively brief deviations can be large in a volatile market. Second, instruments traded in low-volume markets can be difficult to sell without large discounts. The industry standard for dealing with market risk on the trading book is the Value-at-Risk (VaR) model (pioneered by JP Morgan's RiskmetricsTM). This model is used to calculate a VaR-based capital charge. The aim of VaR is to calculate the likely loss a bank might experience on its whole trading book (Saunders & Allen, 2010).

5.4.5 Operational risks

Operational risk is defined as the risk of loss in business operations as a result of a physical disasters, technical failures, or human errors (including fraud, management failures and process errors). It is defined by the Bank for International Settlements as "the risk of direct or indirect losses due to failures of internal processes, personnel and systems, or external events".

Solvency Committee of the International Association of Insurance Supervisors (IAIS) and the Basel Committee of the Bank for International Settlements (BIS) define operational risk as the risk of internal processes, people and systems or external events that result from losses due to inadequate or failed insurance funds. Although designed for financial institutions, the definition should be applied to any department, institution, or individual (Ammi, Bouheni, & Levy, 2016).

The Basel and solvency methodologies for operational risk are divided into seven main categories, 18 sub-categories and 64 sub-categories. The vast majority are not specific to financial services and can provide a good framework for managing operational risk in any industry. Pareto has established the 80-20 rules, with a few exceptions, approximately 10-15 of the 64 categories will represent at least 80% of the organization's risk exposure. According to Basel II (2004), the most important types of operational risk are (Bouheni, Ammi, & Levy, 2016):

A. Physical capital:
   It can manifest as physical asset damage, interruption of activities and system failure, execution and delivery issues, and/or process management issues. Technical failures predominate, with the bank's computer system being the primary source of concern. A computer system failure can have a negative impact on the bank. Most banks have a backup system, and if the main computer system fails, the system will be continuously backed up in a secure location (Bouheni et al., 2016).

B. Human capital:
   Human error, issues with work practices or employee health and safety, and internal fraud all contribute to this type of risk. Banks can be fined for failing to follow health and safety regulations, or they can be taken to an employment tribunal for wrongful dismissal (Bouheni et al., 2016).

C. Legal:
   The main legal risk is the possibility of bank litigation. This could be due to how customers are treated, the sale of products, or business practices. There have been numerous cases where dissatisfied customers have taken legal action against banks.

These businesses claim that they have been misled by the advice they have received or the commercial products they have purchased (Bouheni et al., 2016).

D. Fraud: fraud may be internal or external to the bank:

- Internal fraud: such as unauthorized activities (unreported (informative) transactions, types of unauthorized transactions (with monetary losses), incorrect marking of positions (international), etc.) and theft and fraud (credit fraud, worthless deposit fraud, theft / ransom / misappropriation of public funds / theft, misappropriation of public funds, forgery, cheque writing, smuggling, account recovery / immigration).

- External fraud: such as theft and fraud (theft, forgery, issuing of cheques) and system security (hacking, theft of information (with loss of money), etc.) (Bouheni et al., 2016).

Section two: Islamic banks and their characteristics

In this section we are going to present the origin of Islamic banking, its evolution, and the basics of Islamic banking, Islamic financial intermediation, and risks exposures and finally we are going to represent risk management in financial institutions.

1 Definition of Islamic banking

Islamic banking is a financial intermediation system that avoids the receipt and payment of interest in its transactions and conducts its operations in such a way that it aids in the achievement of the goals of an Islamic economy. Alternatively, this is a banking system whose operations are based on Islamic principles of transactions, with profit and loss sharing (PLS) being a key feature, ensuring economic justice and equity. As a result, Islamic banks are frequently referred to as PLS-banks ("Islamic Banking: Some Conceptual Issues,").

2 Origins and Historical Overview of Islamic Banking and Finance

In the 19th century, Muslims began to realize that the current banking and economic system were based on the Riba, which is forbidden in Islam and categorically forbidden in all its forms, commercial or non-commercial; and there must be an alternative system whose operations, products and services conform to Sharia principles. For this reason, Islamic banks emerged in the mid-1970s (SHAHAR, PUAD, RAFDI, SANUSI, & HASSIN, 2017).

2.3 Pre Islamic era

Before Islam, different types of purchase contracts existed in Arabia, and business and commerce were characterized by a lack of transparency and arbitrariness, such as the requirement to buy an object as soon as one touched it. Typically, landlords and merchants overcharged for goods and services (Reiff).

2.4 Islamic era

The beginnings of Islamic banking, in its wider sense, date back to the early days of Islam and the rise of the Islamic Empire. The rise of internal and external trade at the beginning of Islam led to the creation of Islamic financial instruments such as deposits, money transfers, checks, bills of exchange, etc. To cope with these business developments, Europeans later adopted these Muslim practices and developed them into modern times (SHAHAR et al., 2017).

During this era, the predominant modes of transactions included:

- ✓ Shirkah is Arabic for "collaboration." which is based on profit and loss sharing (PLS).
- ✓ Al qard Al hasan: This means benevolent loan.
- ✓ Salam: Forward contract.

- ✓ Sarf: it refers to the exchange of money, either gold for gold or silver for silver in the same sitting.
- ✓ Ijara: it means leasing.

2.5 Modern Islamic Era

The first attempt at Islamic banking system can be seen in Malaysia in the mid 1940s and Pakistan in the late 1950s. The aim of this institution, founded in Malaysia, was to invest the savings of budding pilgrims in real estate and plantations in accordance with Sharia law, but this did not succeed. During that time, landowners who obeyed Islamic teachings put their money in the bank, which was then loaned to other landowners for agricultural development. however, their loans, with the exception of a small amount for the purposes of banking, have thwarted the bank's activity due to a number of factors such as the increase in the number of borrowers compared to the funds held there, which resulted in large difference between the available capital and the required credit as well as the problem that the bank employees had no autonomous power over the bank operations, because the depositors of the time expected more advantages in return for the money they lent.

The first interest-free bank, not yet explicitly referred to as an Islamic bank, was introduced in 1963 when the Egyptian doctoral student Ahmad El Naggar founded a bank modelled on the boxes in the village of Mit Ghamr in the Egyptian Nile Delta. The goal of the interest-free savings bank project was to imitate the economic model that transformed ruined post-war Germany into an economic power(Reiff). It essentially functioned as savings bank and not as commercial bank. However, the bank's existence was short-lived. The entire operation of the bank was taken over by the Egyptian National Bank and the Egyptian Central Bank in mid-1967, which changed the overall picture of Bank's operations to the Riba system. But the establishment of the Mit Ghamr Saving Bank marked a new milestone in the revolution of the modern Islamic banking system. This bank was considered the most innovative and successful experiment with interest-free banking(Reiff). With the failure in Mit Ghamr, the idea of Islamic banking did not disappear. Rather, the experience gained from this experiment shaped the further development of Islamic banking on an international level.

In Malaysia the Pilgrims Fund Corporation was established as a saving pool for the Haj pilgrimage in 1962 and later in 1971 the Nasser Social Bank was founded as a non-profit bank for “unbankable” people.

In 1974, the "Islamic Development Bank" was founded by Arab governments. Projects are primarily funded in economically underdeveloped member countries in accordance with Sharia principles. The Kuwait Finance House and the Faisal Islamic Bank in Sudan were the first to call themselves "Islamic banks" at the end of the 1970s. The spread of Islamic banking, however, was not limited to the Islamic world (Reiff).

In the 1980s, the founding of the "Bank Islam Malaysia" saw the focused expansion of the concept into Asia. Since the early 1990s, Islamic banks can be found around the globe. The background to this development is the prosperity that the Middle East has developed since the 1970s, and the growing religious reverberation of Islam in all Arab countries. Also, international financial institutions like for example the Deutsche Bank have recognized the market potential of this banking system and established so-called "Islamic Windows" (Reiff).

Moreover, in some Western countries for example the UK the Islamic Bank of Britain was established in 2004 and for example Germany, where the Islamic Kuveyt Türkbank opened its first banking branch in 2010 (Reiff).

3 Principles of Islamic Banking

Islamic finance bases its activities on the real economy, on identifiable and tangible goods, and requires parties to support the risks associated with the success or failure of the investments they have undertaken. Because of its ethical and unique characteristics, this finance is open and accessible to everyone, Muslim and non-Muslim alike. Islam has established values and goals that meet all of the economic and social needs of human life. The Islamic laws are known as Sharia that means clear path (Franzoni & Ait Allali, 2018).

The modern Islamic banking and finance industry include several principals such as:

- ✓ The prohibition of interest (al riba), understood as predetermined profit, in loans or any economic transactions.
- ✓ Profit and Loss Sharing—PLS principle.
- ✓ Prohibition of uncertainty (al-ghararar).
- ✓ The condemnation of speculation (al_maysir).
- ✓ Ban on the use, trade and investment in prohibited assets or activities (haram).
- ✓ Prohibition of selling what we don't own (Kayed, 2013).

3.3 The prohibition of interest (al riba)

The explicit basis for this prohibition can be found in the Coran, and it gives shape to the substantial goal that characterizes the Islamic economic system, which is that there can be no earnings without the assumption of the associated risks, and earnings must always result from man's active work. As a result, any positive, fixed, and predetermined return rate that is guaranteed regardless of the type or outcome of the investment is strictly prohibited. The riba occurs in particular when there is a positive or negative interest rate, fixed ex ante and linked to the time factor and the amount of the loan, regardless of the economic results obtained from the use of the money borrowed (Franzoni & Ait Allali, 2018).

This conception implies that Islamic Finance must operate without the use of interest, which is a critical component in the operation of traditional finance. To replace interest, Islam specifies profit (defined economically as the rate of profit or the mark up) as a legal substitute for earnings, the profit that results from trade/investment transactions and therefore represents the actual measure of the actual growth obtained of the capital through its use. Lawful earnings are based mainly on Profit and Loss Sharing, which in Islamic Finance is an essential principle and requires the holder of the capital and who uses it to share both the responsibility and the risks of the investment made (Franzoni & Ait Allali, 2018).

3.3.1 Types of Riba

Riba Nasiyah refers to the addition of the premium which is paid to the lender in return for his waiting as a condition for the loan and is technically the same as interest. The prohibition of Riba Nasiyah is one of those issues which have been confirmed in the revealed laws of all the Prophets ("RIBA AND ITS TYPES,").

3.3.2 Riba al Fadl

Riba al Fadl actually means that excess which is taken in exchange of specific homogenous commodities and encountered in their hand-to-hand purchase and sale ("RIBA AND ITS TYPES,").

3.4 Profit and Loss Sharing

The aim of this principle is to ensure that the parties of a transaction (the holder of the capital and the user of the capital) accept their responsibilities in both cases of success and failure. Individuals who provide capital will receive a return that is proportional to the effective goodness of the investment rather than a fixed amount. As a result, the primary distinction between Western and Islamic banks is the substitution of profit sharing for interest (Franzoni & Ait Allali, 2018).

3.5 The Ban on Ghàrar and Maysìr

The Coran expressly forbids profiting from uncertainty (ghàrar). The gharar ban is primarily concerned with the characteristics and purposes of Islamic financial instrument contracts. Contracts must not contain elements of uncertainty in relation to the essential elements of the contract, such as the uncertainty of the contract's purpose or nature, and the price of the goods that are the subject of the trade, in order to be valid.

This principle refers to the preference of Islamic Finance to operate through immediate performance exchange contracts. The aim is in preventing that the deferral of the performance of the contract by one of the parties generates a benefit for said party, or for the other one that is not proportionate to the activity (Franzoni & Ait Allali, 2018).

3.6 The Concept of Haram

Individual behaviour has social, political, and economic ramifications according to Islam, such as relationships with others (based on respect, honesty, good faith, solidarity, and cooperation), clothing (respectful clothing in public spaces), and food (prohibition of many items such as wine and pork meat). Such a regulation necessitates the definition and categorization of actions and activities that are permissible and those that are prohibited. Prohibitions are based on the concept of haram, which means "unlawful" in sharia terms. Thus, the use, consumption, trading, or (direct or indirect) investment in certain goods or activities, such as alcoholic beverages (production and sale); pork (pig breeding, processing, sale, and production of pork-based foodstuffs); weapons; tobacco and gambling and placing bets, is prohibited.

An important implication of this principle is the prohibition on investing in shares of companies, whether publicly traded or not, that are directly or indirectly involved in the trading or production of the identified goods (Franzoni & Ait Allali, 2018).

3.7 Real Economic Activities

In addition to the prohibition on Ribà, Gharar, and Maysir, as well as the adoption of the Profit and Loss Sharing (PLS) principle, which is mandatory in the Islamic financial and economic system, Islam defines the intrinsic characteristics of the activities that can be the subject of financial investments and transactions. As a result, all financial transactions must be supported by real activities rather than simply exchanging money or buying and selling financial debts (as is the case with swaps and derivatives in general).

According to the analysis of the above-mentioned principles, the prohibition on ribà is closely related to monetary and financial activity, whereas the other four prohibitions concern the real economy, the socially responsible behaviour of companies in their business, and investments (Franzoni & Ait Allali, 2018).

4 The functioning of Islamic banks

The Islamic bank provides the same services as the conventional bank; it is an intermediary between capital re-enters and borrowers.

4.3 The financial resources of Islamic banks

In addition to capital and their own capital, which can be substantial, Islamic banks find their primary resources in the following operations:

- Demand deposits:
  Used to fund exchange and payment transactions the bank guarantees their nominal values. Holders of these deposits do not receive profits or income, but they are required to pay fees for the administration of these accounts.
- Savings accounts:
  Manage according to the Wadia Deposit principle. The depositors have agreed to allow the bank to use these funds against its own risks. However, the bank does not guarantee them a fixed remuneration in advance, but rather a proportional remuneration based on the actual investment result after Zakat deduction.
- Investment Accounts:
  This type of account is traditionally the primary source of funds for an Islamic bank. Indeed, no guarantee of nominal value or rate of return is provided in this type of account. Depositors are treated in the same way that shareholders are. In this case, they are entitled to a percentage of the bank's profits or losses. It is a participative investment account based on the principle of profit and loss sharing (3P).

- The accounts of Zakat and the accounts of the social service:

  Where the amounts due to the Zakat obligation are paid, as well as donations to fund social services. The bank administers the use of these funds (DRISSI & ANGADE, 2019).

4.4 The financial intermediation on Islamic banks

Financial intermediation was practiced in the early days of Islam and has its origins in principle from almuḍarib udarib, which translates as: "Whoever mobilizes funds on the basis of profit sharing, can spend those funds on the same basis to the users".

Intermediation occurred when caravan traders who were financed by Murabaha (trust financing) were allowed to sell their wares at higher prices and profit.

In terms of intermediation, Islamic banks are responsible for identifying suitable and reliable projects to finance and overseeing their development. They should not, however, participate in the management and policy-making sections as an intermediary. By delegating that responsibility to the entrepreneur, the bank can maintain an objective perspective on the project's progress.

Islamic banks act as an intermediary by mobilizing funds from their clients and delivering them to businessmen/entrepreneurs with a legitimate business plan seeking investors.

Sharia established specific rules and constraints on economic activity in a community in order to promote a high level of justice and equity in the production, exchange, and distribution of wealth.

As a result, Islamic financial laws place a high value on social and economic justice, making Islamic banks an excellent choice for financial intermediaries; they prioritize the client's interest, the economy's interest, and the society's interest over the bank's interest, in contrast to conventional banks, which only prioritize profit.

To ensure justice, Islamic banks follow one of the fundamental principles of finance: profit and risk-sharing, which requires both the investor and the businessman to split the profit or loss equally. Because they all have something to lose or win, Islamic financial institutions and their clients alike instill regulation and order into the system.

Another requirement for Islamic bank financial intermediation is that once the broker, in this case, the bank, purchases the goods for sale or rent, the financier bears the risk. This ensures that the broker receives a portion of the risk as well as a portion of the profit. It also adheres to the Sharia principle of ‘no risk, no reward ("The role of Islamic Banks as Financial Intermediaries,").

5 Specific risk surrounding Islamic banks

The characteristics of Islamic banks and the modes of financing that they employ include unique risks that must be recognized in order to facilitate risk management. PLS funding modes raise several important considerations. While PLS modes transfer direct risk from Islamic banks to their depositors, they can also increase the overall risk on the assets side of the banks. PLS modes make Islamic banks vulnerable to risks that normally taken by stock investors rather than debtors. This is due to a variety of factors, including:

- PLS mode administration is more complicated than conventional financing. These modes involve various activities that conventional banks do not normally perform, such as determining profit/loss sharing ratios on investment projects in various sectors of the economy.
- When Islamic banks provide funds through their PLS facilities, particularly in Mudaraba contracts, the entrepreneur makes no observable default until the PLS contracts expire. A PLS contract default indicates that the investment project did not deliver what was expected. In this case, the low profit or loss is shared among the parties based on the PLS ratios specified.

Non-PLS modes of financing also carry unique risks that must be recognized. Salam (purchase with deferred delivery) contracts, in particular, expose Islamic banks to both credit and commodity price risk. Because the banks undertake to buy the product at a later point in time against the current payment and to hold the product until it is converted into cash. The possibility of transferring significant opportunities and risks as lease assets to the lessee should be recorded in the banks' balance sheets during the term of the lease.

On the liability side, the specific risk inherent in Islamic bank operations stems from the unique nature of investment deposits, in which the capital value and rate of return are not guaranteed. This feature coupled with asymmetric information resulting from the unrestricted PLS and non-PLS contracts where banks manage deposit of people at their own discretion. This increases the potential for moral hazard and creates an incentive to take risks and operate Islamic financial institutions without sufficient capital (Makiyan, 2008).

6 The General Risks Enclosing Islamic Banks

There are other aspects of Islamic banks that make their transactions more vulnerable to risk and yield less profit than traditional banks. Some of the aspects are enumerated in the following statements:

- Lack of risk fabrication tools – The prohibition of riba in Islamic banks, as well as the consideration of other jurisprudential issues in the interpretation of the term "gharar," indicates that several risk fabrication tools based on traditional tools, such as alternatives, futures, and forwards, are not usable in Islamic banks (Al-Adwan, 2014).
- Underdeveloped money market and government securities based on profit-sharing arrangements. This makes managing liquidity more difficult due to asset-liquidity mismatches, which increases liquidity shocks.

- Central banks have limited access to lender-of-last-resort (LOLR) facilities. The absence of Sharia-compliant LOLR facilities is linked to the prohibition of interest and, as a result, the discount rate.
- Historically, Islamic banks have been forced to keep a larger proportion of their assets in central bank reserve accounts or correspondent accounts than conventional banks. This has seriously affected their profitability as central banks spend little or no returns on these reserves, which in turn affects their competitiveness and increases their potential in the face of external shocks and their consequences (Makiyan, 2008).

7 Types of risks in Islamic banks

Islamic financial products have progressed from basic consumer or retail products to a diverse range of product offerings (e.g., retail, corporate, project financing, and long-term bond instruments) under various Islamic contracts (Mudharabah, Musharakah, Murabahah, Salam, Ijarah, Istisna and Sukuk.). While financial innovation brings improvements and benefits to market participants, there is a possibility that these products may result in multiplicity of risks. While financial innovations bring improvements and benefits to market participants, the potential exists for these products to bring a variety of risks. The risks are more aligned on the basis of contract types as a result of the special structuring of the contracts in IFIs, The types of risks specific to IFIs include (Rahman, Tafri, & Al Janadi, 2010):

7.3 Credit risk

Is the loss of income caused by the counterparty's failure to pay on time or in full as agreed upon in the contract. Such an occurrence can underpin all Islamic modes of finance. For example, credit risk in Murabaha contracts arises from the counterparty failing to pay the debts in full and on time. Non-performance can be caused by external systematic sources, internal financial causes, or moral hazard (wilful default).

In the case of profit-sharing financing arrangements (such as Mudaraba and Musharaka), the credit risk consists in the entrepreneur failing to pay the bank participation when due. This problem can arise in these cases due to the problem of asymmetrical information when they do not have enough information about the real profit of the company (T. Khan & Ahmed, 2001).

7.4 Market risk

Market risks can be systematic, emerging from macro sources, or unsystematic, emerging from asset or instrument-specific sources. Currency and equity price risks, for example, would fall under the systematic category, whereas price movement in commodities or assets handled by the bank would fall under specific market risk. Below, we discuss a key systematic risk and one unsystematic risk that are relevant to Islamic banks.

- Mark-up risk :
  To price various financial instruments, Islamic financial institutions use a benchmark rate. In a Murabaha contract, for example, the mark-up is calculated by adding the risk

premium to the benchmark rate (usually the LIBOR). As a consequence, if the benchmark rate changes, the mark-up rates on these fixed income contracts are unadjustable. As a result, Islamic banks are vulnerable to market interest rate fluctuations. Markup risk can also appear in profit-sharing modes of financing such as Mudaraba and Musharaka because the profit-sharing ratio is based on a benchmark rate such as LIBOR, among other things.

- Commodity/asset price risk:
  Commodity price risk, as opposed to mark-up risk, arises as a result of the bank holding commodities or durable assets, such as salam, ijara, and mudaraba/musharaka. It is important to note that both mark-up risk and commodity/asset price risk can exist in a single contract. For example, in leasing, the equipment itself is exposed to commodity price risk, while fixed or overdue rentals are exposed to mark-up risk (T. Khan & Ahmed, 2001).

7.5 Liquidity risk

Liquidity risk is caused by either difficulties in obtaining cash at a reasonable cost from borrowings (funding liquidity risk) or the sale of assets (asset liquidity risk). Islamic banks are vulnerable to serious liquidity risks for a variety of reasons. First, there is a fiqh restriction on the securitization of Islamic banks' existing assets, which are primarily debt-based. Second, due to the slow development of financial instruments, Islamic banks are unable to raise funds from the markets quickly. This problem is exacerbated by the absence of an inter-Islamic bank money market. Third, the lender of last resort (LLR) provides banks with emergency liquidity whenever it is required. Because existing LLR facilities are based on interest, Islamic banks cannot benefit from them (T. Khan & Ahmed, 2001).

7.6 Operational risk

Is the risk of direct or indirect loss as a result of insufficient or failed internal processes, people, and technology, or external events. In this regard, operation risk arises because banks may not have enough qualified professionals (capacity and capability) to conduct Islamic financial operations. Because of the differences in the nature of the businesses, the computer software available on the market for conventional banks may not be suitable for Islamic banks.

Other sources of operational risk:

- The unique activities that Islamic banks must perform.
- The non-standardized nature of some Islamic products.
- The lack of an efficient and reliable Shari’ah legislation system to enforce financial contracts(Makiyan, 2008).

7.7 Legal risk

Legal risks are also significant for Islamic banks, and they arise for a variety of reasons. First, because most countries have adopted either a common law or a civil law framework, their legal systems lack specific laws/statutes that support the distinctive features of Islamic financial products. For example, while the primary activity of Islamic banks is trading (Murabaha) and investing in equities (Musharaka and Mudaraba), current banking law and regulations in most jurisdictions prohibit commercial banks from engaging in such activities. Second, non-standardization of contracts complicates and increases the cost of negotiating various aspects of a transaction. Financial institutions are not protected from risks that they cannot predict or that may not be enforceable. After the contract is signed, the use of standardized contracts can also make transactions easier to administer and monitor. Finally, lack of Islamic courts that can enforce Islamic contracts increases the legal risks of using these contracts (T. Khan & Ahmed, 2001).

7.8 Withdrawal risk

A variable rate of return on savings/investment deposits creates uncertainty about the true value of the deposits. Asset preservation, or minimizing the risk of loss due to a lower rate of return, may be an important consideration in depositors' withdrawal decisions. From the bank's perspective, this introduces a "withdrawal risk," which is linked to the lower rate of return in comparison to other financial institutions (T. Khan & Ahmed, 2001).

7.9 Fiduciary risk

Fiduciary risk can be caused by breach of contract by the Islamic bank. For instance, the bank may be unable to fully comply with the Sharia requirements of various contracts. The inability to fully comply with Islamic Sharia law, knowingly or unknowingly, creates a lack of confidence among depositors and thus leads to the withdrawal of deposits. A lower rate of return than the market can also introduce fiduciary risk, as depositors/investors interpret a low rate of return as a breach of an investment contract or mismanagement of funds by the bank (T. Khan & Ahmed, 2001).

7.10Equity investment risk

Equity investment risk arises from a potential decrease in the fair value of the Islamic firm's equity position. Equity participation by a bank can range from direct investment in projects or joint venture businesses to indirect Sharia-compliant investment in stocks. If the bank's equity position declines in value, it may lose any potential return on investment and may even lose its invested capital. Additional issues, such as credit and liquidity risks, may arise as a result of this situation (Jamaldeen).

7.11Rate of return risk

Rate of return risk arises from unexpected changes in the market rate of return, which have a negative impact on a firm's earnings. Returns in a traditional financial institution are fixed; both the firm and fund providers know what their returns will be in advance. Returns are uncertain in Islamic firms, and investors share both profits and losses with the institution. If the firm does not respond to the market rate increase, it may face liquidity risk (because customers may withdraw funds too rapidly). If it reacts to market pressure, it creates displaced commercial risk (Jamaldeen).

7.12 Displaced commercial risk

Displaced commercial risk implies that the bank may operate in full compliance with Sharia requirements, but may be unable to provide competitive rates of return in comparison to its peer group, Islamic banks and other competitors. Depositors will once again be enticed to seek withdrawal. To prevent withdrawal, the bank's owners will have to distribute a portion of their profits to investment depositors(T. Khan & Ahmed, 2001). ”This is the transfer of the risk associated with deposits to equity holders. This arises when, under commercial pressure, banks forgo a part of their profit to pay the depositors to prevent withdrawals due to a lower return” (AAOIFI, 1999).

7.13 Reputational Risk

Banking reputation is the sum of a bank's image in the minds of its customers or stakeholders. The public perception of a bank's actions is reflected in its reputation. Reputational risk, on the other hand, arises from negative publicity associated with a bank's activities or negative perceptions of a bank. The reputational risk of an Islamic bank generally arises when the customer is disappointed with an Islamic bank and protests occur either directly (to the Islamic bank) or indirectly (through word of mouth and the media). Bad service, high financing rates, inappropriately dressed employees, insufficient knowledge of Sharia agreements, and other events can negatively impact an Islamic bank's reputation, the most severe one is if the reputational risk arises because of a breach of Sharia compliance. In the short term, reputational risk has no immediate financial impact. However, it will be felt in the long run, gradually eroding the customer's confidence and trust.

7.14 Strategic Risk

Strategic risk stems from the inaccuracy of Islamic banks in formulating and executing strategic decisions and the inability of Islamic banks to anticipate changes in the business environment, including internal and external risks, as well as the inconsistency between strategies and the vision and mission of Islamic banks. These risks can also be due to the lack of a comprehensive strategic analysis of the environment and differences between the strategic levels of the strategic plan. In addition, strategic risks can also arise from the fact that Islamic banks did not anticipate developments. Environmental activities, such as technological changes, changes in macroeconomic conditions and competitive dynamics, Political changes in the market and the competent authorities (Bouheni et al., 2016).

7.15 Sharia non compliance risk

The existence of Islamic financial institutions is due to Sharia compliance. If a company does not follow Sharia principles and guidelines, the consequences can be severe. If one or more Islamic scholars indicate that an Islamic firm is straying from compliance, the company's reputation will suffer (Jamaldeen).

8 Risk absorption/management

Some risks cannot be avoided or transferred and must be borne by banks. The first is due to the risk's complexity and the difficulty in separating it from assets. Second, financial institutions accept risk because it is central to their business. These risks are accepted because banks specialize in dealing with them and are appropriately compensated. Credit risk inherent in banking book activities and market risk inherent in bank trading book activities are two examples of these risks. The following are some issues concerning risk management in Islamic banks (T. Khan & Ahmed, 2001).

8.3 Collateral

Collateral is one of the most important credit-loss-protection securities. Because al-rahn (an asset as a security in a deferred obligation) is permitted in Islamic law, Islamic banks use collateral to secure financing. A debt owed to a third party, perishable commodities, and anything that it is not protected by Islamic law as an asset, such as an interest-based financial instrument, are not eligible for use as collateral, according to Islamic finance principles. On the other hand, cash, tangible assets, gold, silver and other precious commodities, shares in equities and debt due from the finance provider to the finance user is assets eligible for collateral. The overall general quality of collateral in the industry is determined by a number of institutional characteristics of the environment as well as the products offered by the industry. Improvements in institutional infrastructure and precision of Islamic banking products can help to improve collateral quality and reduce credit risks (T. Khan & Ahmed, 2001).

8.4 Credit risk management through contractual clause

In Islamic finance, uncertainty and speculation about the terms of a financial contract are prohibited. These can cause injustices and weaknesses in signed contracts, resulting in payment defaults, either directly or indirectly. Contractual clauses have thus emerged to address these deficiencies. Indeed, the risk can be mitigated by a clause in the contract stating that the two parties have agreed that a certain level of price fluctuation is acceptable. However, if the price fluctuation exceeds this level, the winning party must compensate the other party. The charity clause "band al ihsen" refers to this arrangement, which is a practice that has become common in Islamic contracts (KORBI, 2016).

8.5 The internal rating

An internal rating system is an analytical method for determining the possibility that a debtor will be unable to meet its financial obligations to the bank. It involves associating a default risk class with each contract. Instead of calculating the overall risk associated with the portfolio, this system identifies the credit risks incurred by the bank for each asset item. The internal rating primarily applies to banks with a wide range of financing methods and risk characteristics. This is the case for Islamic banks. Thus, a financing operation offered to a client on the basis of Murabaha exposes the bank to different risks than another type of financing operation (KORBI, 2016).

8.6 The internal monitoring process

The establishment of an appropriate supervisory system ensures that banks operate properly, which boosts savers' and investors' confidence in the financial system. Since the crisis, financial institutions have become more wary of risk. As a result, they have an internal control system that makes identifying risks caused by changes in their business environment easier. To that end, these institutions have prepared contingency plans to deal with external threats. Banks, for example, have separated the functions responsible for risk generation from those responsible for risk management and control (KORBI, 2016).

Conclusion

In this chapter, we discussed both conventional and Islamic banks from various perspectives. First, we discussed the definition, the historical development, financial transactions, and risk exposures for each type of bank. We also discussed risk management in Islamic institutions.

The findings of this chapter show that both Islamic and conventional banks play an important role in the economy, especially Islamic banks, due to their characteristics such as basing their activities on the real economy, which means on tangible and identifiable goods, as well as supporting the risks associated with the success or failure of the investments they have undertaken, and most importantly for their ethical and unique characteristics. They also showed that there are differences and similarities between Islamic and conventional banking in terms of how they operate and their role as financial intermediaries.

The most significant differences are found in the concept of financial intermediation, where we find that Islamic banks operate in a distinct manner in order to comply with Islamic finance principles guided by Sharia, which is the absolute opposite of conventional banks.

Because of this distinction between the two types of banks, the exposure to risks differs as well. In addition to the risks that they share with conventional banks, such as credit risk, liquidity risk, market risk, and operational risk, Islamic banks face additional risks such as legal risk, withdrawal risk, equity investment risk, reputational risk, strategic risk, and Shariah noncompliance.

Chapter two:
Financing SMEs by Islamic banks

Introduction

Islamic banking is one of the world's fastest growing financial institutions, a manifestation of both development and the advancement of Islamic economics. Despite the fact that SMEs are the backbone of many economies, many SMEs have limited access to finance. Nonetheless, banks in some countries actively finance SMEs.

Islamic banking, in particular, is a value-oriented ethical proposition aimed at socioeconomic development rather than financialization of the economy. Furthermore, as the major Islamic financial institutions in society, Islamic banks are obligated to provide a diverse range of products and services that meet the needs of all segments of society and ensure that risks and rewards are distributed fairly in society.

Islamic banking and the use of Islamic financial products have increased significantly in recent years. A pure cost advantage is intended to give Islamic banks a foothold in the SME credit market. An additional quality advantage means that this advantage can be more intense in the sense that Islamic banks' market share could increase dramatically, potentially capturing the entire market.

In this chapter, we will deal with the following sections:

- Section one: Islamic financial products.
- Section two: the contribution of Islamic banks in financing SMEs.

Section one: Islamic financial products

In this section we are going to represent the main products and services offered by Islamic banks and their mechanism.

1 Modes of financing in Islamic banks

Islamic banks use a variety of non-interest-bearing financing methods. The use of a specific mode is determined by the nature, purpose, and size of the transaction. The technical expertise and knowledge of the Islamic banker play a significant role in mode selection. The permissible modes of financing have been divided into three categories (Hassan, 1986):

i. Trade-related modes of financing, which include:
   a) Purchase and sale of goods on mark up basis.
   b) Purchase of trade bills.
   c) Purchase of property with buy-back Agreement or otherwise.
   d) Leasing.

ii. Investment type modes of financing, which include:
   a) Musharaka or profit and loss sharing ("PLS").
   b) Mudaraba certificates.
   c) Rent-sharing.

iii. Funding techniques based on charity, which include:
   a) The Zaqât.
   b) Al Qard Al Hassan.
   c) The waqf.

1.1 Financing products (EQUITY-BASED)

Which are Mudaraba and Musharaka. In the banking industry, these are known as trustee project finance and joint venture project finance, respectively. The former entails a combination of entrepreneurship and capital, whereas the latter entails an entrepreneurship and capital partnership.

1.1.1 Trustee Partnership (Mudaraba) Facility

Trustee partnership based on Mudaraba is a type of financing in which the bank provides capital finance for a specific venture specified by the customer. The bank, known as rabb-al-mal, owns the capital, while the customer-entrepreneur, known as mudarib, is in charge of business management and provides professional, managerial, and technical expertise for starting and running a business enterprise or project. Profit is distributed in accordance with a predetermined ratio. Any losses are completely absorbed by the capital provider – the bank (Obaidullah, 2005).

Mudaraba can be classified into two types: restricted and unrestricted. A restricted Mudaraba (mudaraba al-muqayyada) allows the bank or financier to specify a specific business in which investments may be made. Mudaraba can also be unrestricted (Mudaraba al-mutlaqa), in which case the mudarib can invest the capital in any business he sees fit. A simple Mudaraba financing structure is presented in the following figure (Obaidullah, 2005):

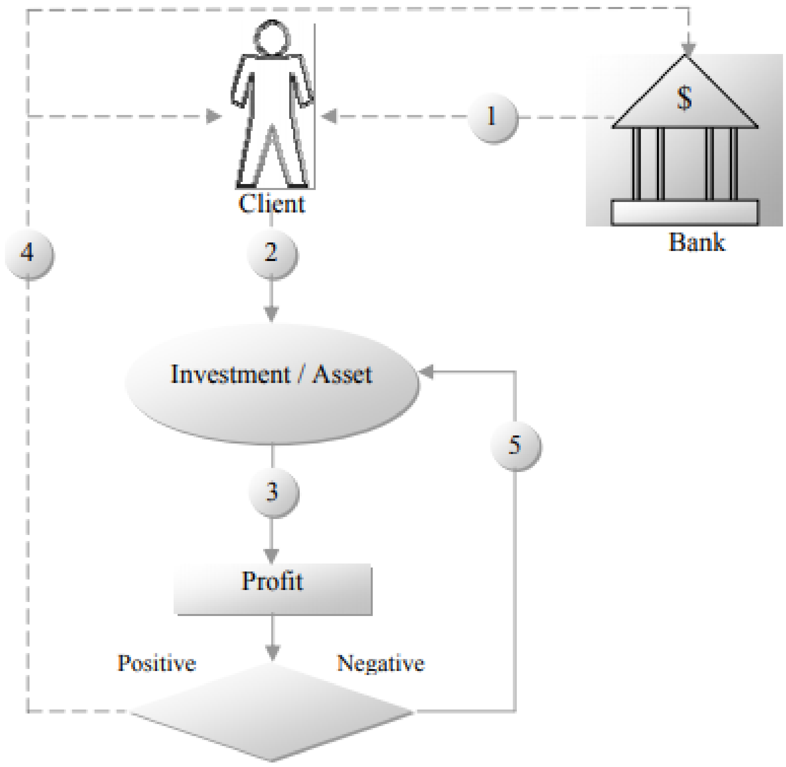


Figure 2.1: Mudaraba financing structure

1: Bank and Client discuss business plan; Bank provides funds to client towards capital investment;

2. Client sets up the business and manages its operations;

3. Business generates positive or negative profits;

4. Profits, if positive, are shared equally between the client and the bank according to a predetermined ratio;

5. If profits are negative, the bank absorbs them, effectively lowering the value of the asset created with its investment.

1.1.2 Joint Venture (Musharaka) Facility

A joint venture based on Musharaka involves a partnership in which both the bank and its customer-client contribute to entrepreneurship and capital. It is an agreement in which the customer and the bank agree to pool their financial resources to launch any type of business venture and to manage it in accordance with the terms of the agreement. Profits are split in the agreed-upon ratio between the bank and the customer. Losses are allocated in direct proportion to their respective capital contributions (Obaidullah, 2005).

The application of this method of financing can take two forms:

- The application of the Mucharaka contract by a contract of permanent participation in the capital (Mucharaka athabita).
- The mode of participation decreasing or digressive.

1.1.3 The permanent Musharakah

In this mode of Musharakah, the Islamic financial institution contributes to the financing of a specific project. As a result, the bank becomes an actual partner in the project. In other words, according to the terms of the Mucharaka contract, it has the right to participate in the management, supervision, and distribution of both profits and losses. In this case, each contracting party is satisfied with its share as defined at the beginning of the agreement until the end of the agreement or the project.

In this category of permanent Musharakah, there are two sub-categories. The first is permanent and time-indefinite: it is directly related to the project that will be self-financing; as for the financial institution, it remains as a full partner since the project is in effect and works perfectly, For example an automotive industry.

The second category is permanent and time-limited: it is a type of permanent Musharakah with opposing characteristics. It shares the permanence criterion with the first category in the sense that the partners always retain the right of ownership and profit and loss sharing. This mode differs from the first in that it limits the funding period of a project; for example, the financing of an agricultural project is limited by the season of sale (DRISSI, ABOUSAID, DEHBI, & ANGADE, 2017).

1.1.4 The declining Musharaka (Muntakisa)

Although the permanent Musharaka is the traditional form of participation in a project in which each partner holds a fixed share until the contract expires, Islamic economic thought has developed a new form of Musharaka known as digressive or participatory ending to allow young entrepreneurs to develop their own project. It is a new version of Mucharaka that allows an acquiring partner, usually a young entrepreneur, to acquire the entire property of the company by purchasing his partner's share in a single transaction or gradually up to the total acquisition of the business (DRISSI et al., 2017).

A simple musharaka financing structure is presented in the following figure:

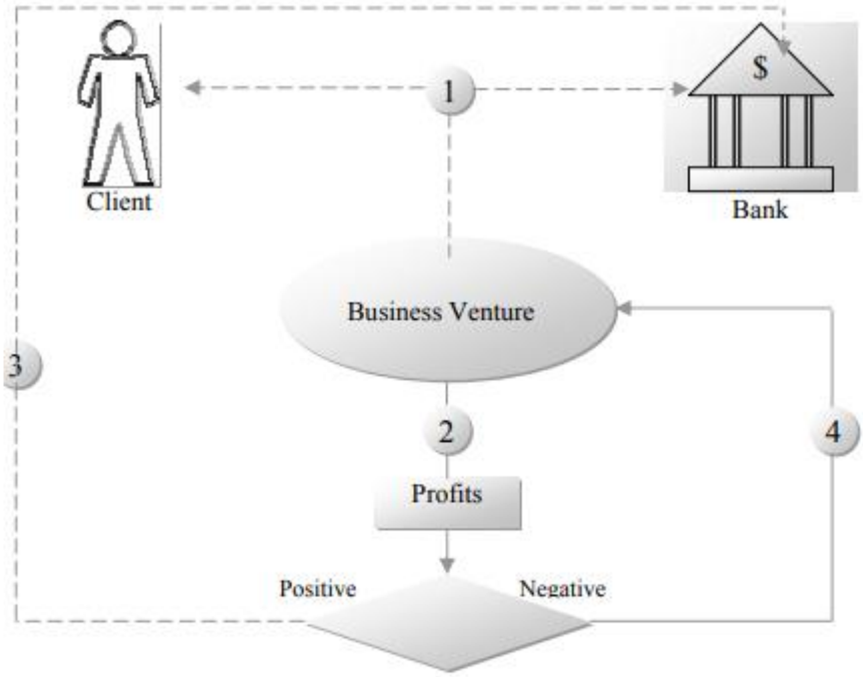


Figure 2.2: Musharaka financing structure.

1: Client and Bank discuss business plan and jointly contribute to capital of the venture;

2. Client and Bank jointly set up the business venture and manage its operations, sharing the responsibilities as per pre-agreed terms; Business generates positive or negative profits;

3. Profits if positive are shared as per a pre-agreed ratio;

4. Profits if negative are shared in proportion to capital contributions; effectively bringing down the asset value while keeping their respective shares in it unchanged (Obaidullah, 2005).

1.2 Islamic financial instruments based on the sale

1.2.1 The Murabaha (Bai Muajjal)

As a financing product, bai mu'ajjal-murabaha- is a very popular, and perhaps the most popular Islamic financing product. A "Murabaha" contract is a profit-making sale contract. The customer instructs an Islamic bank to purchase an asset in cash on its behalf. He then agrees to take this asset on a deferred payment basis, with a margin paid to the bank. This payment can be done all at once or spread out over several deadlines.

To comply with Sharia, the bank must first purchase the asset and then resell it, it is also required that the asset is tangible, that the customer is informed and undertakes to buy at the new price (purchase price plus profit).

When all these conditions are fulfilled, the parties (bank and client) sign a contract of "Murabaha" in which, all terms and conditions are specified (Dalel & Bessem, 2013).

There are several key rules and issues that need careful consideration in relation to the use of Murabaha structures:

- The subject of sale must exist at the time of contracting, be clearly identified prior to purchase, and cannot be obtained from the customer.
- The goods must be in the bank's physical or constructive possession before they are on-sold to the customer, ensuring that the bank bears the risks of ownership.
- The cost price must be known and declared to the customer at the time of sale.
- The date and time of delivery of the goods, as well as the date and time of payment, must be specified (SANDSTAD, 2009).

A) A simple Murabaha financing structure is presented in the following figure:

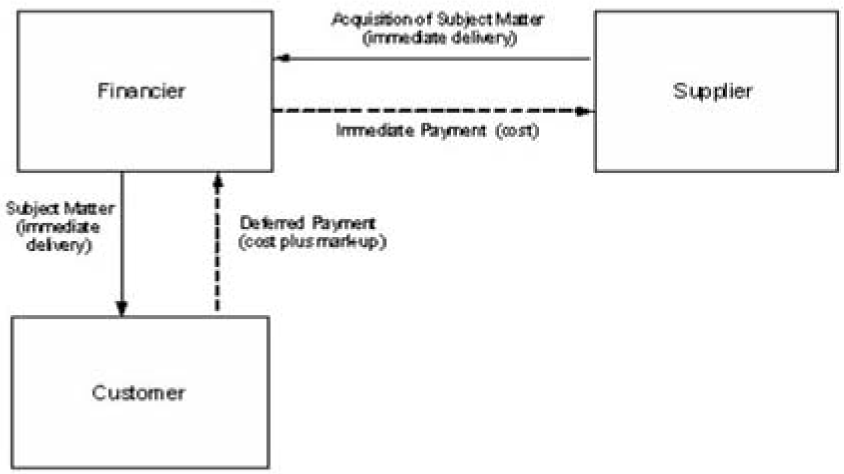


Figure 2.3: Murabaha financing structure

1- The Financier and the customer enter into a sale and purchase agreement in respect of the asset;
2- The Financier purchases the asset from a third party (supplier) on a spot basis for its market value;
3- The Financier sells the asset to the customer on a Murabaha basis, under the terms of which the title to the asset is transferred immediately to the Company but the Company pays the consideration on a deferred basis;
4- The Company grants security over the assets to the Financier in respect of its liabilities to the Financier(SANDSTAD, 2009).

B) The second structure emerges when the transaction involves two parties only – the client and bank. The bank is also a supplier and sells the product to its customer as a deferred payment. From the point of view of Sharia law, such a structure is the most ideal. Recently, this structure has been used in car financing products. In this case, the bank claims to have its own car show rooms where clients can purchase cars on a deferred payment basis. The financing structure, which includes several activities, is shown below:

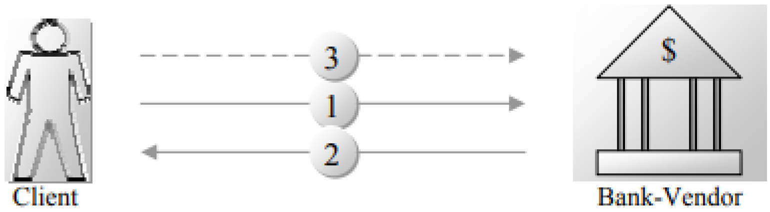


Figure 2.4: BBA-Murabaha Financing Structure.

1. Client approaches Bank-Vendor and identifies commodity, collects relevant information that includes base price and the mark-up;
2. Bank sells commodity, transfers ownership and possession to Client at marked-up price;
3. Client pays marked-up price in full or in parts over future (known) time period(s) (Obaidullah, 2005).

1.2.2 Ijara

An Ijara contract in Islamic finance, or a leasing contract in conventional finance, is a financing technique in which an Islamic bank purchases an asset and leases it to a contractor in exchange for a rent payment. The buyer receives the call option when the contract expires. This option, however, is only available if the customer expresses a desire to purchase the property in question. The significance of this method of financing is that the risk associated with the property is retained by the Islamic financial institution. In terms of cash flow, it is designed to cover the cost of the asset while also providing a reasonable return to the Islamic bank in general.

It can simply sell the asset or sell it at a nominal price to its customer after recovering its cost and fair return. This transfer of the right to acquire the asset is only found in one of the Ijara contract's derivatives, Ijara and Iktina.

The simplest form of Ijara involves the bank as the owner of an asset leasing out the same to its client against predetermined rentals for an agreed period of time. From an Islamic point of view, Structure I presented in Figure6 is the most ideal type of Ijara as it conforms entirely to features of the classical Ijara (Obaidullah, 2005).

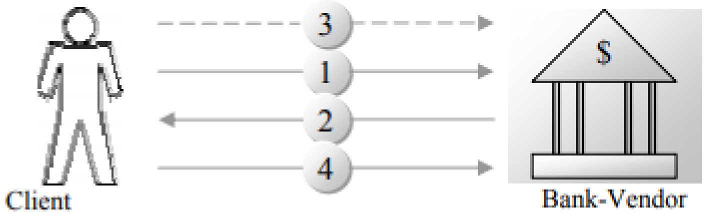


Figure 2.5: Ijara Financing Structure I

1- Client approaches Bank-Vendor and identifies asset, collects relevant information that include rental;
2- Bank leases out the asset to Client, allowing it to take possession and put into specified use;
3- Client pays known rentals over future (known) time period(s);
4- Asset reverts back to the Bank.

This structure is also the least common and least popular. An Islamic bank does not typically deal in a wide range of physical assets. Structure II in Figure 7 depicts the involvement of a vendor in the process. The arrangement in this structure is divided into two distinct phases. During the first phase, the bank purchases the asset required by its client from the vendor. In phase two, the bank, as the asset's owner, leases it to its client at predetermined rents for an agreed-upon period of time (Obaidullah, 2005).

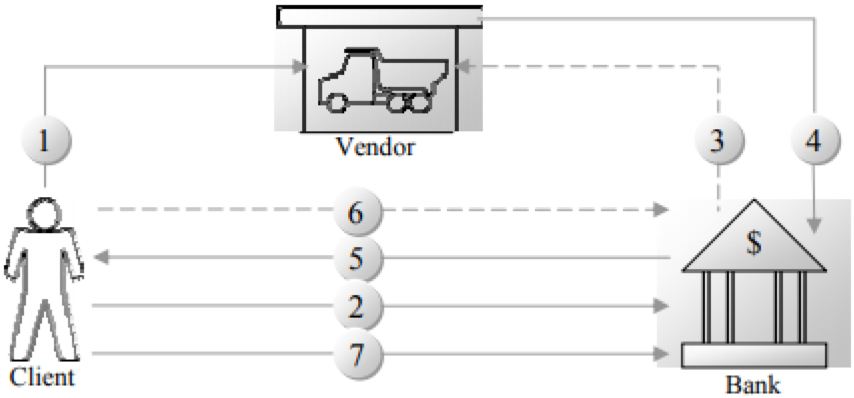


Figure 2.6: Ijara Financing Structure II.

1. Client identifies and approaches Vendor or supplier of the asset that he/ she needs, collects all relevant information;

2. Client approaches Bank for Ijara of the asset and promises to take the asset on lease from the Bank upon purchase;

3. Bank makes payment of price to Vendor;

4. Vendor transfers ownership of asset to Bank;

5. Bank leases the asset, transfers possession and right of specified use to Client;

6. Client pays Ijara rentals over future (known) time period(s);

7. Asset reverts back to Bank (Obaidullah, 2005).

1.2.3 The sale Salam

A Salam is deferred delivery contract. It is essentially a forward agreement in which delivery occurs at a later date in exchange for price payment in the present. Unlike previous mechanisms such as Murabaha and Ijara, Salam or Salaf was originally intended to be a financing mechanism for small farmers and traders. A Salam agreement is a contract in which a trader in need of short-term funds sells merchandise to a bank on a deferred delivery basis. It receives the full price of the merchandise on the spot that meets its current financing needs. It delivers the merchandise to the bank at a predetermined future date. The merchandise is sold in the market by the bank at the market price. Because the bank pays a lower spot price than the expected future price, the transaction should result in a profit for the bank.

Because "selling what one does not have" is generally frowned upon for Gharar reasons, the above structure does not allow the bank to sell X before taking delivery of it. As a result, the bank would have to wait until the time of actual delivery to recoup its investment and profits. Given the bank's financial situation, this may not always be desirable. If the bank does not want to commit its funds for the time period specified, it may enter into a parallel or back-to-back Salam contract with a third party. A simple bai-salam structure is presented in the following figure (Obaidullah, 2005).

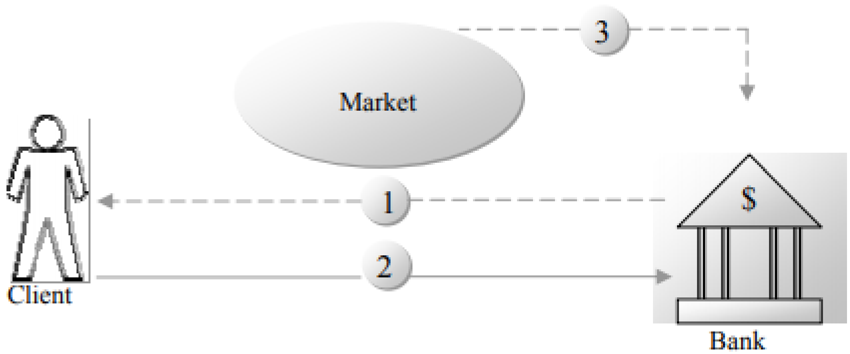


Figure 2.7: Salam Financing Structure

1. Client sells commodity X to Bank on forward basis and receives price P in time period 0;

2. At time period t, Client delivers X to Bank;

3. Bank sells X in the market at time period t or later and realizes S. The amount S-P constitutes profit for the bank (Obaidullah, 2005).

1.2.4 Istinâa

An istisna is a manufacturing contract. A seller under an istisna contract undertakes to develop or manufacture a product with clear specifications at an agreed price and to deliver it after an agreed period of time. Istisna is distinguished by the fact that no money is exchanged on the spot or at the time of contracting. It is a pure, and possibly the only, forward contract in which both parties' obligations are related to the future. The seller and the manufacturer in an istisna may be separate entities. This enables financiers or intermediaries, such as Islamic banks, to engage in istisna by delegating development, manufacturing, or construction to a third party through a parallel istisna arrangement. Istisna thus, is now transformed into a financing product. The simplified structure of istisna is presented in the following figure (Obaidullah, 2005):

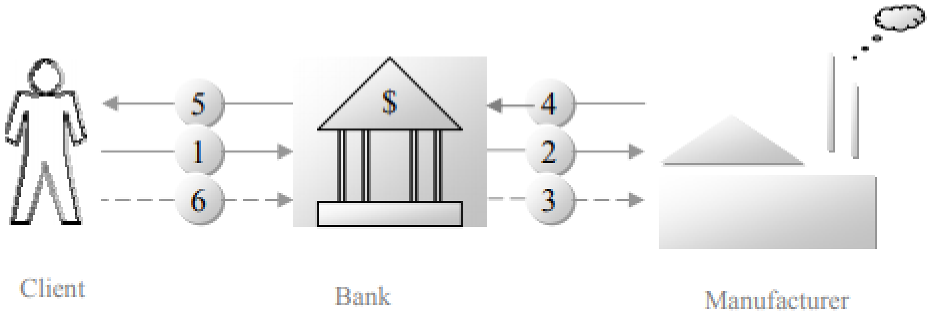


Figure 2.8: Istisna Financing Structure.

1. Client asks the bank to develop or construct or manufacture an asset X with clear specifications;

2. Bank asks Manufacturer to develop or construct or manufacture asset X with same specifications;

3. Manufacturer develops or constructs or manufactures asset X, receives progress payments from the bank as per agreed terms during different stages of manufacturing;

4. The manufacturer delivers the asset to the bank;

5. The asset is delivered to the client by the bank;

6. Client pays in full or in parts over agreed period of time (Obaidullah, 2005).

1.3 Funding techniques based on charity

1.3.1 The Zaqât

The third pillar of Islam, Zaqât, is frequently regarded as a simple religious duty; however, it serves an important economic and social function. It presents a comprehensive economic system that seeks to preserve the dignity of the individual within his society, to improve material needs satisfaction, and to achieve full employment in a dynamic and evolving economy. On the other hand, and contrary to conventional tax, the Zaqât is distinguished by a wider field of application being imposed on income, wealth and latent.

The Zaqât can act as an economic cycle stabilizer in both expansion and depression. To better illustrate the Zaqât's impact on economic phases, it is appropriate to begin with its role as an investment stimulator. Indeed, in an Islamic economy characterized by a large number of capital holders, the obligation to pay Zaqât leads them to invest their capital rather than hoard it. The Zaqât may have an additional impact on investment by transferring funds collected to the beneficiaries of the Zaqât prescribed by the Qur'an. According to El Kettani, the Zaqât funds can be used to finance income-generating projects for disadvantaged or insecure social strata. They increase their consumption rate as their incomes rise, obviously not at the same rate as consumption, but enough to generate global demand that investors do not want to miss. This is an opportunity for them to begin producing goods and services for the benefit of this newly increased income group (DRISSI et al., 2017).

1.3.2 Al Qard Al Hassan

Or free credit, it is mainly part of the social role that the microfinance institute occupies in society. In the context of the loan for use, the object may be fungible goods (alqard), such as silver, or non-fungible (al-ariyat). This last loan is the one with the highest value in Islamic morality because it concretizes an aid to the close. The mechanism is simple: an economic agent borrows a certain amount of money for a specified period of time or not, the repayment is made without interest payment on the agreed date.

Currently, several Islamic microfinance institutions have used the Qard Hassan contract to add it to the list of products available in Islamic microfinance for young entrepreneurs. The most important aspect of this type of contract is that there is no set repayment date, when the lender requests the loan amount; the debtor must immediately repay it. This mechanism is critical in mobilizing debtors' savings in microfinance institutions in a spectacular way. These institutions' savers can become creditors, and so on (DRISSI et al., 2017).

1.3.3 The Waqf

It is a participatory social financing technique because it allows supporting projects of the young entrepreneurs who if necessary, renounce their projects due to a lack of funding. The Waqf like Qard Hassan is a practice that exemplifies the sense of solidarity and social cohesion that exists among the various strata of Islamic society. In terms of the use plan, al-Waqf is a "sadaqa jarriya", which is defined as possession of a property converted from private to social property, and the usufruct of the generated income is allocated to Well-defined beneficiaries (DRISSI et al., 2017).

Section two: Characteristics of SMEs and the impact of Islamic banks on them

In this section we are going to represent the main characteristics of SMEs, their role in the economy, their financing modes and the contribution of Islamic banks in financing them.

The impact of small and medium-sized enterprises (SMEs) on the structure, performance, and future prospects of a nation's economy is gaining traction among policymakers at the national, regional, and global levels. This reflects the fact that in most countries, SMEs constitute the vast majority of businesses and are major sources of employment.

1 SMEs definition

The term "SME" refers to a wide range of definitions that vary depending on factors such as country, geographic region, level of development, and business culture. Definitions may differ or be non-existent even within countries. Furthermore, the definition is frequently linked to national support programs and other regulations, making it difficult to adopt a single definition. International organizations and nongovernmental organizations have contributed to the plethora of country definitions for SMEs (NGOs). Such definitions are frequently driven by the specific needs and environment of their project portfolios. In the definitions of SMEs, three main quantitative parameters are commonly used. A few countries have added qualitative criteria to their definitions of the M/SME sector in addition to these quantitative parameters. It is critical to include both quantitative and qualitative measures (Nega & Hussein, 2016).

1.1 SME's definition criteria: quantitative criteria

The definition of small and medium enterprises is important and useful in the following ways: in the preparation of statistics and the monitoring of the sector's health over time; in benchmarking against other economies and between regions within an economy; in providing arbitrary thresholds for the imposition of tax or other regulations; and in determining eligibility for specific forms of public assistance. The most common criterion to distinguish between large and small businesses is the number of employees.

The European Commission promotes the criterion of the number of employees as the main criterion; however, introducing a financial criterion is nonetheless a necessary adjunct in order to fully understand the true scale and performance of an enterprise, as well as its position in comparison to its competitors. It has been determined that meeting the criteria of the number of employees is required, whereas meeting another of the two financial criteria is a choice of the enterprise. The following table summarizes the definition of SMEs that became effective on January 1, 2005 (Berisha & Pula, 2015)

Table2.1: Definition of Small and Medium Enterprises with European Union standards.

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover		Annual balance sheet total
Medium-sized	< 250	≤ €50 million	or	≤ €50 million
Small	< 50	≤ €10 million	or	≤ €10 million
Micro	< 10	≤ €2 million	or	≤ €2 million

Source: European Commission (2005)

The World Bank defines SMEs using three quantitative criteria: the number of employees, total assets in US dollars, and annual sales in US dollars. To be classified as a micro, small, or medium business, a company must meet the quantitative criteria of employee count and at least one financial criterion.

Table 2.2: Definition of Small and Medium Enterprises by World Bank standards.

Enterprise indicators (2/3)	Number of employees	Total assets		Total annual sales
Medium	> 50; ≤ 300	>$3,000,000; ≤$15,000,000	or	>$3,000,000; ≤ $15,000,000
Small	> 10; ≤ 50	>$100,000; ≤ $3,000,000	or	>$100,000; ≤ $3,000,000
Micro	< 10	≤ $100,000	or	≤ $100,000

Source: Independent Evaluation Group (2008)

When the two criteria are compared, "approximations" in quantitative criteria of employee number are observed, with the exception that the World Bank raises the upper threshold for medium-sized businesses to 300 workers.

Each country has the freedom to define SMEs differently, resulting in a plethora of definitions in today's SME theory. Some of them are shown in the table below (Table 3).

Table 2.3: Distribution of firms by number of employees in different countries

	Micro	Small	Medium	SME	large
EU countries, Iceland, Norway and Switzerland	1-9	10-49	50-249	1-249	250+
Australia	0-9	10-49	50-199	0-199	200+
Canada	0-9	10-49	50-499	0-499	500+
Japan	4-9	10-49	50-249	1-249	250+
Korea	5-9	10-49	50-199	5-199	200+
Mexico	0-10	11-50	51-250	1-250	251+
New Zeland	1-9	10-49	50-99	1-99	100+
Turkey	1-19	20-49	50-249	1-249	250+
United States	1-9	10-99	100-499	1-499	500+
Algeria	1-9	10-49	50-250	1-250	250+

Source: OECD (2010)

We can see from the table that most of the countries have almost the same quantitative criteria definition, with the exception of Canada and Unites States.

1.2 The SME's unnumbering definition: qualitative indicators

Small businesses may be difficult to define precisely on paper, but once observed in operation, the majority are easily identified. Small and medium-sized enterprises (SMEs) can be distinguished from a superficial survey. There are two factors that distinguish small and medium-sized businesses from large ones: "personal principle" and "unity of leadership and capital."

Personal principle implies that the company manager plays a central role in business decision-making processes, that he or she regards the company as a lifelong responsibility, and that he or she maintains direct contact with employees, customers, and suppliers.

The principle of unity of leadership and capital states that the company's manager and proprietor are the same person, and that the manager-owner, in addition to leadership duties, assumes all or at least some of the liability risk (Berisha & Pula, 2015).

Table 2.4: Qualitative indicators in discerning SMEs from large companies

Category	SMES	Larges Company
Management	• Proprietor entrepreneurship • Functions-linked personality	• Manager-entrepreneurship • Division of labor by subject matters
Personnel	• Lack of university graduates • All-round knowledge	• Dominance of university graduates • Specialization
Organization	• Highly personalized contacts	• Highly formalised communication
Sales	• Competitive position not defined and uncertain	• Strong competitive position
Buyer's relationships	• Unstable	• Based on long-term contracts
Research development	• Following the market, intuitive approach	• Institutionalised
Production	•Labor intensive	• Capital intensive, economies of scale
Finance	• Role of family funds, self financing	•Diversified ownership structure, access to anonymous capital market

Source: UNIDO

2 Characteristics of SMEs

The term SME is used in the European Union and other international organizations to designate small to medium enterprises. Small to medium-sized businesses (SMBs) are commonly used in the United States. SME classification is based on the number of employees, which ranges between 10 and 250 to 500, depending on the country in which the business is established. Regardless of industry or location, all SMEs share common characteristics (Carpenter, 2017).

2.3 Dependence on Few Employees

Many SME businesses are quite small and employ only a few people. This small staff is expected to complete all necessary tasks for the entire business, including innovation, production, marketing, sales, and accounting. This can be a disadvantage if employees lack the necessary skills to effectively perform multiple tasks; however, this type of business structure promotes long-term stability rather than focusing on short-term results (Carpenter, 2017).

2.4 Relationships

Most SMEs concentrate on a small number of products and services; this narrow focus allows such businesses to develop strong relationships with their business partners, which provides stability for the SME. An SME typically makes changes to its services or products to meet the needs of its clients; however, the SME depends heavily on existing partnerships and may suffer financially if a relationship is terminated (Carpenter, 2017).

2.5 Simplicity

The SME is a simple business structure that enables the company to be very flexible and makes necessary changes quickly without having to address board members or stockholders for approval. This adaptability, however, does not necessarily imply that the company is complying to local or national regulations that a larger organization's board or legal team would review prior to implementing such changes (Carpenter, 2017).

2.6 Size

The small size of the company can be an advantage when it comes to specializing and filling niche markets with products, but the size can be a disadvantage when it comes to financing the company. Many SMEs rely on the personal assets of the owners and management to fund the business. Due to budget constraints, limited funds also have an impact on marketing and the ability to reach new markets with their products (Carpenter, 2017).

3 The advantages of SMEs

Small and medium-sized enterprises (SMEs) provide numerous advantages to business owners, consumers, employees, and communities. Small and medium-sized businesses, or SME, can accomplish tasks that larger corporations find difficult. SMEs are an important part of the global economic fabric, offering everything from one-of-a-kind products to customized services (Carpenter, 2017).

3.3 Identify and Satisfy Specific Niches

SMEs are in a unique position because they have the ability to identify unique niches that larger companies may be unaware of or unwilling to cover. Identifying a local or very specific niche enables the SME to specialize in that area and offer customers a product or service that few other businesses can (Carpenter, 2017).

3.4 React Quickly to Marketplace Changes

Larger corporations frequently have multiple levels of management. Decisions affecting the company's strategic direction can take weeks or months to make due to the large number of people involved and the various aspects that must be overseen. However, because there are fewer layers of management and less operational oversight in a smaller company, strategic changes in the company's direction can be made more quickly. As a result, SMEs are better able to respond to market changes and capitalize on emerging trends (Carpenter, 2017).

3.5 Build Better Relationships with Customers and Employees

One of the major advantages of SMEs over large corporations is their ability to develop strong relationships with customers and employees. Small and medium-sized businesses can provide a more personal touch to their customers. In many cases, the business owner knows many of the customers by name and is able to attend to their needs while making them feel like they are part of the family.

Employees in a SME can feel a sense of camaraderie because there are fewer staff members and smaller departments, as well as more opportunities to get to know co-workers and managers on a personal level. Employees may feel more invested in their work as a result, because they can see how their performance directly affects everyone in the company (Carpenter, 2017).

4 The importance of SMEs in economic activity

With market globalization, fierce competition, and a complicated environment with a relatively high degree of fluctuation, projecting the future and producing a reasonable return is often problematic, not to mention the bankruptcy risk that comes with every step.

Thus, SME's play a significant role in the economy's strategic planning. They contribute in:

- Reducing the number of unemployed people. Employment is one of the factors that has a significant impact on the process of economic development, and it has the greatest impact on the achievement of the overall goal.

- The expansion of the GDP. Today, SMEs contribute about 60% in GDP. In this sense, the cause of macroeconomic indicators allows for economic growth.

- Large businesses that are growing. The main cause of this situation is that the economy is heavily dependent on small and medium-sized businesses, which are more resilient to the crisis than large corporations. SMEs are more adaptable than large corporations and, as a consequence, have lower capital costs associated with job creation. As a result, SMEs play a critical role in economic development.

- The promotion and development across sectors and markets. SMEs influence the improvement and efficiency of internal markets because they make better use of their financial and human resources (Cania, Nexhipi, & Korsita).

5 Main challenges facing SMEs

Increased competition, technological change, and capacity constraints in knowledge, innovation, and creativity all pose challenges to SMEs. However, many SMEs' potential is often underutilized due to factors related to their small size (Yoshino & Taghizadeh Hesary, 2016).

5.3 SMEs' Difficulties in Accessing Finance

SMEs frequently struggle to find capital for both their start-up and growth due to their family nature and the reluctance of financial institutions to lend them money. Indeed, SMEs face challenges in obtaining bank loans due to a lack of equity, high risk, and a lack of collateral presented to bankers. The latter frequently refuse to finance this type of business.

Furthermore, the lack of a dynamic financial market means that large corporations consume the majority of bank resources. Especially since the financing formulas designed for SMEs are inadequate ("Faiblesses de la PME petite et moyenne entreprise,").

5.4 Lack of Information Infrastructure for SMEs

The financial industry is inherently concerned with information. However, there is an asymmetric information problem between suppliers and demanders of funds in general. To address this issue, information infrastructure is required. Many large corporations list their stock on stock exchanges and issue securities on bond exchanges. As a result, capital market institutional information sharing schemes can facilitate access to a wide range of information required to estimate the creditworthiness of large enterprises. However, the majority of SMEs have no access to capital markets. Financial institutions can closely and continuously monitor borrowers, but doing so is expensive for borrowers of small loans. The provision of collateral in collateral-based lending is the simplest way for SMEs and financial institutions to reduce the risk premium in loan formulations. However, following the implementation of the Basel capital accord, many governments expanded policy-based finance for SMEs in order to alleviate the constraints on SME finance as an immediate countermeasure (Yoshino & Taghizadeh Hesary, 2016).

5.5 Problems related to the size

The size of the SME can also be a disadvantage. Indeed, the SME is vulnerable due to its line of business. If the SME only sells one product, a drop in demand will result in a drop in the revenue that the SME will be unable to compensate for with another product. The SME that is dependent on a single customer, such as in the retail sector, or on a single supplier faces a high economic risk (N DUFFAL, 2005).

5.6 Problems related to new technologies

SMEs are disadvantaged in accessing new technologies because of the market imperfections they face. The compartmentalization of the financial market, the imperfect information on the market of new technologies, the low mobility of the human factor,... as well as the cost of information treatment by new technologies constitute a series of brakes for these companies (Wtterwulghe, 1998).

6 Sources of SMEs Finance

6.3 Equity Financing

Because moral hazard and information opacity are typically more severe during the early stages of SME development, internal equity financing, best represented by owner–manager personal savings, is a critical source of funding for SMEs in these early stages (seed financing and start-up). As a result, in later stages, in order to develop and grow, SMEs tend to reduce their reliance on these sources and start looking for alternative channels of capital rising. Internally generated profits and venture capital are just two of the other equity options that SMEs seek as they expand (Abdulsaleh & Worthington, 2013).

In general, "… equity capital is that capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business" (Ou & Haynes, 2006, p. 156). Equity capital can be raised either internally or externally. Internal equity refers to funds obtained from the current owner–manager(s), family, and friends, or from the firm's retained earnings. External equity, on the other hand, is capital obtained from sources other than the existing partners and their relatives.

6.3.1 Venture Capital

Venture capitalists act as financial brokers. Venture capital is a type of financing in which funds are raised from investors and re-invested in high-risk, informationally opaque firms, most of which are young or start-ups. In addition to their role in monitoring, screening, and contracting, venture capitalists determine the timing and type of investment. Furthermore, by performing these functions, venture capitalists virtually participate in the firm's strategic planning and decision making. The venture capital market includes a variety of organisations, including public corporations, small business investment corporations and private limited partnerships (Abdulsaleh & Worthington, 2013).

6.3.2 Business Angels

Business angel financing, unlike other external sources of funding, is not intermediated. It is, instead, an unofficial market for direct financing. Angels are wealthy individuals with extensive business experience who invest directly in high-growth SMEs with whom they have no prior relationship. This type of investment is typically based on an equity contract, most commonly common stock.

There are three characteristics that make angel financing a viable option for SMEs. First, angels are more active in the early stages of businesses (seed and start-up), helping to close the so-called "equity gap" by acting as a "bridge" between internal financing sources and outside investors. Second, because angel financiers have lower rejection rates and are a more patient form of capital with longer exit horizons, they are more accommodating to the needs of SME owner–managers. Finally, unlike venture capitalists, angel investors prefer to invest in their local economies where the majority of SMEs operate (Abdulsaleh & Worthington, 2013).

6.4 Debt Financing

Debt financing is one of the two primary methods by which a business can finance its operations. It is the process by which a business borrows money to fund working capital, the purchase of specific assets, or other operations. This money is to be repaid with interest at a later date. Debt financing differs from equity financing in that business owners sell equity, or ownership, in their company in exchange for capital (Abdulsaleh & Worthington, 2013).

6.4.1 Trade Credit

Trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. As a result, the firm sees this as a source of financing on the balance sheet under current liabilities, whereas the supplier sees it as an investment in accounts receivable. Trade credit plays an important role as a source of financing for SMEs in countries with less developed banking and financial systems, where asymmetric information problems are more pronounced (Abdulsaleh & Worthington, 2013).

6.5 Bank Finance for SMEs

Banks are the primary source of external capital for the SMEs sector in both developed and developing countries. Although bank financing is more expensive than other sources of finance, it yields a higher rate of return for SMEs. Bank finance can help SMEs achieve higher levels of performance than other types of financing because SMEs use funds more efficiently when they are monitored and accountable to banks.

From a bank's perspective, the SMEs segment represents a strategic profitable part of the bank's business; the most important factor is the high potential for profit associated with involvement with SMEs, as banks perceive this sector as unsaturated with good prospects. Another factor is the ability to find SMEs clients through relationships with large clients. Banks' interest in SMEs is also motivated by intense competition in other sectors, such as large businesses and retail customers (Abdulsaleh & Worthington, 2013).

7 Islamic Finance for SMEs

According to Ibrahim (2003), Islamic financing methods are better suited to meeting the financial needs of SMEs. He explains that the emphasis in Islamic financing and investment is on the transaction itself rather than the creditworthiness of the partner. As a result, entrepreneurs are given funding without being required to provide strict securities or collateral, which SMEs frequently lack. He adds that because profit and loss sharing is so important in Islamic finance, any securities or collateral demanded are not to protect against loss, but rather against possible fraud or repayment evasion. .The most popular Islamic financing methods are: Mucharaka, Murabaha, Mudaraba (Yussuf, 2017).

7.3 Islamic Banking and its Effect on Financial Performance of SMEs

Financial performance measures are the outcomes of a firm's operations that can be individually measured and verified. Financial systems play a significant role in the development, growth, and success of businesses. The majority of small and medium-sized enterprises (SMEs) look to financial institutions to help them perform and grow financially. Bank financing has a positive impact on the financial performance of SMEs. The easier it is to obtain credit, the better the financial performance of SMEs (Yussuf, 2017).

7.3.1 Competitive Advantage

Competitive advantage is usually important for businesses and is a factor in determining financial performance. A company's financial performance is reported to be better if it has a competitive advantage over another. The use of Islamic banking improves a company's competitiveness. Adopting interest-free Islamic banking loans allows SMEs that lack financial resources, primarily due to high interest rates, to gain a competitive advantage. The availability of these interest-free loans also ensures that SMEs gain market share in a market dominated by large corporations (Yussuf, 2017).

7.3.2 Optimal Use of Resources

Having knowledge of various types of financial products enables and assists them in optimizing available resources by utilizing them more efficiently. Not only does having all necessary resources contribute to a company's financial performance, but knowing how to fully optimize these resources is a huge benefit for any company (Yussuf, 2017).

7.3.3 Improved Liquidity

Liquidity refers to a company's ability to meet its short-term obligations as they come due. Because Islamic banks do not have excess liquidity, they are more cost effective than the traditional banking system. In comparison to conventional banks, Islamic banks are more liquid and have better liquidity management practices. This therefore enhances their profitability which improves their financial performance (Yussuf, 2017).

7.4 Islamic Banking and its Effect on Growth of SMEs

The limited access to finance of SMEs reflects the interaction of demand, supply, regulatory, institutional, and other policy factors that impede SMEs' growth. Growth is also hampered in countries where Islamic banking is well-established by a lack of appropriate Islamic finance offerings for SMEs. According to studies, approximately 35% of SMEs in the Middle East and North Africa (MENA) and Pakistan are not borrowing money to grow their businesses despite significant demand due to a lack of Islamic finance (Yussuf, 2017).

7.4.1 Starting Capital

Many SMEs and entrepreneurs are affected in their development due to a lack of funds to start or accelerate the growth of their businesses. This can be mitigated by using Islamic banking as a motivator for financial inclusion and as a source of financial capital for small businesses and individuals. Working capital is a significant constraint for SMEs in channelling entrepreneurs' ideas to actions. In this case, Islamic Banking is even better for start-up capital because of its low interest rates, which do not entice entrepreneurs to seek out informal forms of lending (Yussuf, 2017).

7.4.2 Provision of Funds for Increasing Inventory

Asset financing is defined as financial institutions providing funding to businesses in order for them to obtain the equipment and supplies they require to grow. Islamic banking can have a significant impact in providing these funds because the low interest rates they charge translate into more income and profits (Yussuf, 2017).

7.4.3 Different Banking Products

Lack of financial knowledge is usually exacerbated by a lack of knowledge about the various Islamic financial services and products offered by various Islamic financial institutions. Given the complexity of Islamic financing models, SMEs are generally unaware of the various Islamic financial products that can meet their needs. Islamic banking entails a variety of products and structures designed to meet the needs of various customers. However, despite showing significant potential, Islamic banking is underserved in the SME sector. This is due to a lack of financial knowledge about these various products. Alhafi (2015) in the study titled SMEs opportunities for Islamic Banks indicated that most Islamic banks have branding and marketing lapses of SME products because most SMEs are unaware of the availability of such products from their banks. As a result, despite having appropriate products for SMEs, Islamic banks have been unable to properly service the SME sector. Islamic banks can tap this enormous potential if they focus on the right things and use the right processes, products, and services (Yussuf, 2017).

7.4.4 Investment and Advisory Services

On a global scale, Islamic banks have been providing investment and advisory services to regional banks and other financial institutions in order to build their capacity in SME banking so that they can reach out to the SME sector profitably and sustainably. This is achieved through providing equity finance, lines of credit, risk sharing facilities, trade finance, disseminating best practices, improving processes and products, and streamlining delivery channels (Yussuf, 2017).

7.4.5 Asset Based Financing

Through a portfolio of asset-based financing, Islamic banking bridges the financing gap for SMEs. Clear financing gaps for SMEs that determine growth can be identified through the provision of asset-based financing. This is due to the fact that asset-based financing provided by Islamic banking systems satisfies essential requirements of Islamic financial transactions by ensuring that the financial transaction is part of a real economic activity with a close financial linkage to the financial assets issued to SMEs. Asset based financing is attained through Murabaha, Ijara and Salam (Yussuf, 2017).

7.4.6 Equity Based Financing

This type of financing involves investment bankers and SMEs sharing profits and losses, which promotes alignment of interests, increases risk-sharing, and fosters entrepreneurship, particularly among early-stage start-ups that rely solely on equity financing for their businesses. Musharakah, Diminishing Musharakah, and Mudharaba are the three main types of equity financing offered by Islamic banks to SMEs (Yussuf, 2017).

7.5 Islamic Banking and its Effect on Credit Accessibility among SMEs

According to the International Financial Corporation (IFC, 2013), which conducted a study on Islamic Banking opportunities across Small and Medium Enterprises (SMEs) in Pakistan, access to formal financing channels has always been and continues to be a barrier to SMEs' development and growth. One reason for this impediment is that banks and financial institutions typically refrain from lending to the sector due to a lack of confidence in their ability to repay, among other factors. Several studies have been conducted on Islamic banking and its impact on credit accessibility among SMEs. The studies were based on a variety of factors (Yussuf, 2017).

7.5.1 Aligning Islam Banking processes to fit SMEs needs

Alhafi (2015) identifies that designing SME banking models and tailored customer value propositions that target SMEs is a perfect way to increase credit accessibility. According to the study findings, streamlining Islamic banking transaction execution processes such as credit approval processes to make the execution of Islamic transactions easier for SMEs is a good way to ensure that SMEs have access to funding that is necessary for their growth and development.

According to the International Financial Corporation (IFC), most SMEs lack financial knowledge about Islamic banking and financial products that meet their needs. This lack of financial knowledge is not unique to SMEs. Employees in Islamic banks are also understaffed in terms of employees who are well-versed in financial products, and they are frequently unable to recommend and structure ideal products for clients. Although appropriate products structured to meet the needs of various types of SMEs are available, a lack of financial knowledge prevents SMEs from fully utilizing them (Yussuf, 2017).

7.5.2 Building Relationships with SMEs

Islamic baking that focuses on developing relationships with SMEs would ensure credit delivery in a timely manner. Islamic banks should put in place the necessary infrastructure and capabilities to provide SMEs with a reliable source of revenue. Prudential regulation entails promoting the safety and soundness of firms, in this case the SMEs regulated by banks.

This is an effort to strengthen relationships between Islamic banks and SMEs, as well as to make it easier for businesses to access credit (Yussuf, 2017).

Conclusion

In this chapter, we divided Islamic financial instruments into categories based on their uses and mechanisms. Then we moved on to the SMEs, beginning by defining them and presenting their characteristics, benefits, challenges, and their role in the economy, and their major sources of finance, as well as the most important element, which is financing SMEs through Islamic banking and its impact on SMEs.

This chapter's findings show that Islamic financial products can be used as an alternative to conventional banks credit. These products can be divided into two categories based on their financing nature. The first category is operational financing, and the products used to finance this type of operations are Murabaha, Mussawama, Istisnaa, and Salam, which are essentially sale products. The second one is Investment financing: the products of this category are considered as an alternative to conventional bank credits in terms of investment and project creation, they are based on the law of profit and loss sharing with the bank, these products are Mucharka and Mudaraba.

The findings show that SMEs play a vital role in the economy and play a prominent part in many domains, particularly job creation. However, despite their role and advantages, these businesses face a number of challenges that could potentially present barriers to them, one of the most significant of which is difficulties in accessing finance. Despite this challenge, Islamic banks play an important role in financing them; using the various products they provide to meet their investment and operational needs. Furthermore, these banks have a positive impact on the performance of SMEs, whether financially or in other aspects.

Chapter three: The place of Islamic banks in financing SME's investment.

Introduction

This chapter is divided into three major sections:

In the first section we are going to represent a literal review of the financial performance of both Islamic and conventional banks using CAMELS method, and the bank of the study case (Al Baraka Bank).

In the second section we are going to represent the methodological elements used to fulfil the study: the output and the input used in the study.

In the third section we are going to calculate the different ratios of CAMELS in order to compare the financial performance of the banks, analyse the results of the survey and the bank's data.

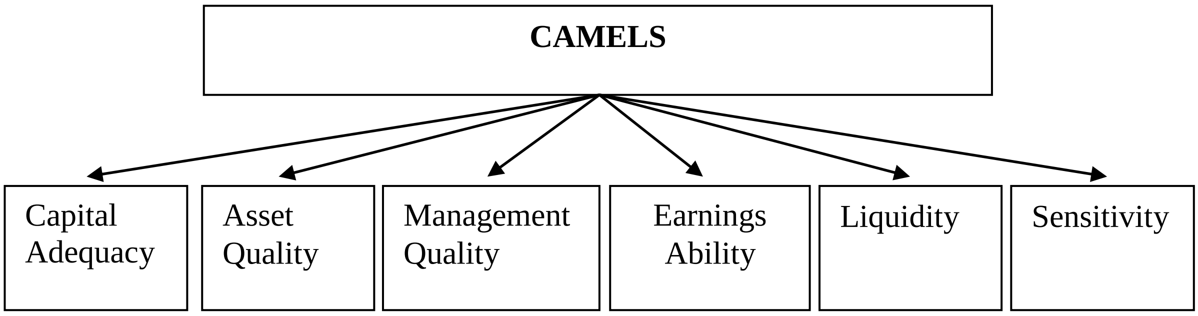
Section one: Presentation of CAMELs method

This section represents the CAMELS methodology and the most important results obtained by researchers about the financial performance of both Islamic and conventional banks using CAMEL method.

1 Definition of CAMELS methodology

The CAMEL method used when it first appeared in 1979 to assess the stability and performance of USA banks during periods of financial distress, the CAMEL method is still considered as a relevant and effective tool for measuring the soundness of financial institutions today (Dang Uyen, 2011). For this purpose, five financial indicators were easily estimated from the financial institution's balance sheet items.

Figure 3.1: CAMELS model



The components shown in the figure above are defined as follows:

- ❖ Capital Adequacy:

  Capital adequacy refers to the capital that is expected to keep up with the financial institution's risk exposures, such as credit risk, market risk, and operational risk, in order to absorb potential losses and protect the financial institution's debt holders. Meeting the statutory minimum capital requirement is the most important factor in determining capital adequacy(Dang, 2011).

- ❖ Asset quality:

  Asset quality determines the healthiness of financial institutions in terms of asset value loss(Dang, 2011).

- ❖ Management quality:

  Management quality is defined as the ability of the board of directors and management to identify, measure, and control the risks associated with an institution's activities in order to ensure safe, sound, and efficient operations in accordance with applicable laws and regulations(Caton, 1997). As management is a qualitative issue, such as the ability for risk taking, it is usually difficult to measure the quality of management.

- Earnings ability:

Earnings ability reflects the quality of a bank's profitability and its ability to earn consistently. It basically determines the profitability of banks and explains its sustainability in the future. Higher earnings show that the bank is healthy(Majumder, Hossain, & Rahman, 2017).

- Liquidity:

This criterion determines a bank's ability to meet its financial obligations. An adequate liquidity position denotes a situation in which an organization can obtain sufficient liquid funds by increasing liabilities or quickly converting assets into cash. A high liquidity ratio indicates that the bank is financially sound (Majumder, Hossain, & Rahman, 2017).

2 Literature review

The analysis of the financial performance of the banking sector using the CAMEL(S) method has been the subject of several studies by researchers, academics and policy makers over the years. For the purpose of the study, Table 1 presents some works that have taken place in several countries.

Table 3.1: Previous works on financial analysis using the CAMEL(S) model

Years	Authors	the objectives of the study	The used ratios	Approachs and methods used	Results
2016	Tawfik Ahmed Moussa	Analyze the performance of three Islamic banks operating in Jordan over the period 2010-2015 using the CAMELS approach.	-**Capital adequacy**: capital/ Risk-weighted assets -**Asset quality**: Non-performing loans/total loans -**Management quality**: (salary+benefits)/average assets -**Earnings**: Net revenue/average asset -**Liquidity**: Total deposits/total assets	Quantitive, descriptive, statistics approach.	Despite slowing economic growth and regional instability, capital adequacy, asset quality and profitability are improving.

2017	Maryam binti Badrul Munir and Ummi Salwa Ahmad Bustamam	Analyze the performance and profitability of 19 banks (10Malaysia and09Indonesia) through CAMEL ratios	-**Capital adequacy**: Debts/capital. -**Asset quality**: ROA. -**Management quality**: expenses/income. -**Earnings**: ROE. -**Liquidity**: interest expense/deposits.	Statistics and descriptive approach. Multiple linear regression method.	There is a significant difference between the Malaysian and Indonesian banks, especially in terms of management quality, earnings ability and liquidity.
2015	Getahun Mulualem.	Analyze the financial performance of 14 commercial banks in Ethiopia, using the CAMELS approach.	-**Capital adequacy**: capital/total assets. -**Assset quality**: provision for unrecoverable. -**Management quality**: other costs then interests/net interest income. -**Earnings**: net interest income/total interest income. -**Liquidity**: total loans/total deposits.	Using panel data from 2010 to 2014; Quantitive approach; Multiple linear regression method; The performace was measured by ROA and ROE.	For ROA, asset quality and management quality have a significantly negative effect on ROA, while earnings and liquidity have a significantly positive effect on ROE.
2014	Jie Liu, Witsaroot Pariyaprasert	Study the impact of the variables composing the CAMEL model on the performance of banks listed on the Shanghai and Shenzhen stock exchanges, from 2008 to 2011.	-**Capital adequacy**: Total equity / total assets. Total equity / risk-weighted assets. -**Asset quality:** total doubtful debts/total assets. Total doubtful debts/ total loans. -**Management quality:** Operating expenses / net profits. -**Earnings:** Net interest margin.	Multiple regression model. Performance was measured by ROA and ROE.	Capital adequacy has a positive effect on ROA and not significant on ROE. Asset quality has a negative impact on ROA and not significant on ROE. La qualité du management

			-**Liquidity:** Loans / deposits. Liquidity / deposits. Liquid assets / Total assets.		a un impact positif sur le ROA et le ROE
2011	Hasan Dincer,Gulsah Gencer, Nazife Orhan et Kevser Sahinbas.	Evaluate the performance of the Turkish banking system after the 2001 global crisis using CAMELS ratios.	-**Capital adequacy**: Equity / risk-weighted assets ; Equity / total assets; Equity / total deposits. -**Asset quality**: Financial assets / total assets ; Permanent assets / total assets. -**Management quality**: Interest expense / total expenses; Interest yields / total revenues. -**Earnings**: Net income / total assets ; Net income / total equity. **Liquidity**: Liquid assets / total assets Liquid assets / current liabilities Liquid assets / total deposits	The use of CAMELS ratios over a period from 2002 to 2009.	A positive development has been observed among banks operating in Turkey after the 2001 crisis and this is due to the restructuring of the sector.

The above literature demonstrates that it is possible to use the CAMELS model to measure and evaluate the financial performance of banks.

However, we note that there is a lack of consensus or consistency in the measurement ratios of the different CAMELS components, which leads to differences in results and analysis.

After examining the different previous researches, in the next part we are going to present Al Baraka bank of Algeria and give an insight on its operations and performance.

Section two: Presentation of Al Baraka bank

1 Presentation of Al Baraka bank

In this part we are going to present Al Baraka bank of Algeria and give an insight on its operations and performance.

1.1 Generalities[1]

1.1.1 History

Al Baraka bank is the first mixed capital establishment (public and private). Al Baraka bank of Algeria was established on May 20, 1991 with a capital of 500.000.000 DA, started its banking activities during the month of September 1991.

Its shareholders are the Bank of Agriculture and Rural Development of Algeria (BADR) and ABG group.

Governed by the provisions of the law n°03-11 august 2003 relative to money and credit, Al Baraka bank of Algeria is authorized to carry out all banking operations, financing and investment, in accordance with the Islamic Sharia law principals.

1.1.2 Development

Active and proactive, since its creation, Al Baraka bank of Algeria keeps evolving and diversifying its activities with the sole aim of satisfying direct and latent needs of all its stakeholders:

1991: Creation of Al Baraka Bank of Algeria.

1994: Financial stability and balance of the bank.

1999: Participation in the creation of the insurance company Al Baraka oua al Amane.

2000: Ranking first among private banking institutions.

2002: Redeployment of the bank in new market segments (professionals and individuals).

2003: Creation of the promotion subsidiary DAR ALBARAKA with social capital of 1.550.000.000 DA.

2006: Increase in the bank's capital to 2.500.000.000 DA.

2009: Second increase in the bank's capital to 10.000.000.000 DA.

2015: Creation of the Islamic funding research and training institute.

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[1] The information about the bank was obtained from its official website , www.albaraka.com

2019: Creation of "SATEC IMMO" subsidiary with a capital of 15.000.000DA.

1.2 The bank's agency.[2]

Being part of Al Baraka agencies implanted on the national territory, the agency Al Baraka 104 Cheraga is located at street Abane Ramdane, Algiers, Algeria.

1.2.1 Objectives

The agency is the basic multipurpose unit of the bank's operation, it is able to satisfy and meet the needs of its clients thanks to its reception structures and efficient treatment, regardless of their nature and their activity areas.

1.2.2 Missions

Under the authority and responsibility of a director, the agency is considered as a point of sale that binds the bank to its customers and its environment. In this capacity it has as its principal tasks (missions) within the framework of powers and competences:

- Identify and meet customers' needs and expectations, on schedule and with the most ideal quality.
- Be the guarantor of the achievement of bank's business objectives within its operating scope and the guarantor of its best competitive position.
- Execute the bank's commercial and financing strategy, taking into account local and regional specifities.
- Be in direct contact with customers.
- Represent the bank at both local and regional level.
- Maintain a permanent contact with the bank's customers and prospects.
- Select and orchestrate local promotional and advertising actions in contact with the relevant structures.

1.2.3 Organizational structure

To accomplish its varied missions and treating the different operations, the agency must be equipped with an efficient type of organisation.

The bank's organizational chart is included in the appendices table.

1.2.4 Presentation of client executive service

At the agency level, a customer manager pole is established for each market segment, one for big accounts (VIP), one for the small and medium sized enterprises (SMEs) and one for professionals and individuals/craftsmen.

[2] The agency's information was obtained from an internal source.

Each account executive has a client portfolio. He must offer and provide them with products and services that meet their requirements.

The account executive is attached hierarchically to the agency director and functionally to the commercial direction concerned by its market segment in order to effectively carry out the 1bank's trade action plan.

The main tasks of the account executive are:

A. In commercial matters

- Pursue the achievement of the agency's business objectives;
- Promote the sale of the bank's products and services;
- Advise clients according to their needs and expectations;
- Inform customers about the status of their orders (exterior trade operations, financing, means of payment, etc.);
- Ensure permanent contact with the bank's customers;
- Pay attention to the local market and keep the hierarchy informed of any new developments in the local environment.

B. In fund and means of payment matters

- Create and operate visit reports in the system;
- Handle complaints with the appropriate departments.

C. In terms of funding

- Receive and confirm the completion of funding applications;
- Ensure that clients funding requests are properly recorded in the information system before submitting physical records to central services;
- Follow up on the treatment of the collected guaranties with the attorneys;
- Receive direct debit requests and entrust them to the back-office in time for processing;
- Follow the terms of use and renewal of open facilities;
- Monitor the evolution of client's commitments on a regular basis(entrusted movements, engagement level, etc.)

1.2.5 The major products of Al Baraka Bank

- Murabaha: It is a contract of sale in which the seller declares his profit and loss. As a financing technique, it entails the client requesting that the bank purchase certain goods on his behalf. The bank does so in exchange for a predetermined profit over the cost.

- Musawmah: It is a customary and regular kind of sale in which rate of the commodity to be traded is bargained between vendor and the customer without any reference to the charge paid or price incurred by using the former. As a result it differs from Murabaha in terms of pricing method. It means a seller in musawamah is not required to declare his price.

- Istisnaa: Istisna'a is a type of sales transaction in which the buyer places an order with the seller to manufacture a specific asset and the sale is completed by delivering the asset to the buyer.

- Salam: It is a sales contract with deferred delivery of the goods. Thus, contrary to the Murabaha, the Bank does not act as a credit seller of the goods, but as a purchaser with cash payment of the good that will be delivered at term.

- Leasing: It is a contract in which goods are rented with the promise to sell them to the lessee.

- Moucharaka: is an agreement between two or more parties to invest in the capital of a company, project, or operation in exchange for an approved distribution of the results (losses or profits). It is based on the client's morality, the trust relationship, and the profitability of the project or operation.

Section Two: Methodological elements.

In this section we are going to represent the methodological elements of our study. We are going to represent the selected banks, the variables choice, the used ratios, and the survey questionnaire.

Table 3.2: Operationalization Table

Research Questions	Data collection instrument	Data Analysis
Can Islamic banks perform better than conventional banks?	CAMELS method.	-CAMEL's Financial Analysis. -ANOVA test.
What is the level of SMEs investment financing by Al Baraka bank?	Internal data of the bank.(Al Baraka)	Descriptive statistics (percentages and averages).
What is the level of awareness and attitudes of Algerian SMEs towards the potential use of Islamic financing methods when they want to create their projects?	Survey	-Descriptive statistics (percentages and averages). - Qualitative analysis.
To what extent do SMEs chose Islamic Banks over Conventional banks?	Survey	-Descriptive statistics (percentages and averages). - Qualitative analysis.

I. CAMELS methodology

Before proceeding to measure the financial performance of conventional and Islamic banks in North African countries using CAMELS method, it is necessary to present the choices of hypotheses prior to the calculation of the ratios.

1 Choice of banks

In the aim of comparing the performance of conventional and Islamic banks in North Africa region(Algeria, Tunisia, Morocco, Egypt) during the year 2019, we have chosen to measure the performance of 16 banks (8 Islamic banks and 8 conventional banks) to see if Islamic banks can perform better than conventional banks.

The table below represents the banks that have been chosen to fulfil the first part of the study.

Table 3.3: The study's sample of banks

BANK	COUNTRY	TYPE OF THE BANK
BNA Algeria	Algeria	Conventional
CPA Algeria	Algeria	Conventional
BNA Tunisia	Tunisia	Conventional
BIAT	Tunisia	Conventional
CFG Bank	Morocco	Conventional
ATTIJARI Bank	Morocco	Conventional
NBE	Egypt	Conventional
Bank of ALEXANDRIA	Egypt	Conventional
Al Baraka bank	Algeria	Islamic
Al Salam	Algeria	Islamic
Al Baraka bank TN	Tunisia	Islamic
Zitouna Bank	Tunisia	Islamic
Umnia bank	Morocco	Islamic
Assafa bank	Morocco	Islamic
Faisal Islamic Bank	Egypt	Islamic
Abudhabi Islamic Bank	Egypt	Islamic

2 Data collection

The data for all banks in the sample was compiled from their respective websites' annual reports (2019). The collated data derived from the bank's financial statements (balance sheet statement and income statement) was transformed into percentages and ratios so that comparison can be made between the different types of banks.

2 Comparison of banks sizes

Table 3.4: Islamic banks (IB) size compared to conventional banks (CB)

In thousands of dollars

	Total Assets IB	Total Assets CB
Algeria	3 297 666	50 452 813
Tunisia	2 253 919	10 679 095
Morocco	748 095	38 383 235
Egypt	10 197 938	6 616 111
Average	4 124 405	26 532 814

Source: Elaborated by our care from the collected data

The size of the banks is measured by its balance sheet. We notice that the size of conventional banks is, in average, six times larger than that of Islamic banks.

3 The used ratios

After identifying the CAMEL model's different components, three ratios have been chosen to measure the performance of each category (Islamic vs. Conventional) in order to compare them.

1) Capital adequacy ratio.

$$\frac{Total\ capital}{Total\ assets}$$

2) Earnings Ability Ratio

- Return on assets (ROA) $\frac{Net\ income}{Total\ assets}$

- Return on equity (ROE) $\frac{Net\ income}{Total\ capital}$

3) Financial intermediation ratios

- Loan to deposit ratio (LDR) $\frac{Total\ loans}{Total\ deposits}$

- Total debt to total assets $\frac{Total\ debt}{Total\ assets}$

II. The Survey

Objective of the survey

In this exploratory quantitative approach, we proceeded to the collection of data through a survey. The aim of this research is mainly to analyse a questionnaire which has allowed us to make an objective judgement of SME's attitude toward Islamic banks.

1 The chosen sample

A sample is a number of individuals selected from a population in such a way, to represent the population and to be used for the assessment of cases of the same kind.

Our survey was conducted on the basis of a sample of 36 SMEs working in various sectors, and selected randomly.

2 Data collection

As part of the data collection, we started with a pre-test using a survey based on a questionnaire with a sample of 3 SMEs in order to correct errors that could prevent the understanding of the questions by the interviewees.

The questionnaire was distributed particularly for the directors of SMEs on LinkedIn in order to collect data. The data collection period lasted approximately one month, from June 27 to July 24, 2021.

3 The construction of the survey

Our survey consists of 18 questions divided into 2 sections:

First section: presentation of the company

It serves to define the company, and allows us, through the six questions it contains, to better know the company surveyed.

Second section: the company's experience with Islamic banks

The goal of this section is to determine whether the entrepreneurs contacted have previously used Islamic banking, and if not, whether they would be interested in the products offered by them.

This section will allow us to better understand the attitude of entrepreneurs towards Islamic banks and their products.

Data processing and analysis

The processing and analysis of the data is carried out using the SPSS (Statistical Package For Social Science) software version 25, and the Excel program. Throughout this analysis, we will use pie charts and bar graphs to illustrate and compare the data.

Section three: Results of the study

1 Results presentation

1.1 Descriptive Statistics

Table 3.5: Table of Variables

		Capital adequacy	Ranking	ROA	Ranking	Debt to total assets	Ranking	LDR	Ranking	ROE	Ranking
BNA	Algeria	8,28	11	0,54	13	79,83	10	96,33	7	6,59	13
CPA	Algeria	8,17	12	0,87	10	87,03	4	95,03	8	10,69	9
BNA TN	Tunisia	11,7	5	0,94	9	71,78	12	120,78	3	8,1	11
BIAT	Tunisia	8,84	9	2,04	5	83,48	8	86,54	10	23,1	4
CFG BANK	Morocco	6,57	16	-1,07	14	54,27	14	108,9	5	-16,33	14
ATTIJARI	Morocco	12,08	4	1,34	7	78,62	11	85,97	11	11,09	8
NBE	Egypt	6,8	15	1,25	8	89,87	2	39,38	15	18,39	7
BANK OF ALEXANDRIA	Egypt	11,12	6	3,2	1	84,38	7	47,55	14	28,814	1
		9.19	8,75	1.13	8,375	78,56	8.5	85.06	9,125	11.30	8,375
Al Baraka bank	Algeria	9,69	7	2,42	4	82	9	90,13	9	24,99	3
Al Salam bank	Algeria	14,51	2	3,05	2	64,71	13	113,33	4	21,07	5
Al Baraka bank	Tunisia	7,3	13	0,63	12	91,02	1	67,16	12	8,65	10
Zitouna bank	Tunisia	8,87	8	0,68	11	85,74	5	100,43	6	7,69	12
Umnia bank	Morocco	8,77	10	-4,34	16	36,86	15	182,77	1	-49,46	16
Assafa bank	Morocco	5,8	16	-2,21	15	34,73	16	180,73	2	-38,16	15
Faisal IB	Egypt	13	3	2,64	3	84,48	6	11,24	16	20,31	6
Abudhabi IB	Egypt	7,2	14	2,03	6	87,37	3	60,07	13	28,26	2
		9.39	8,25	0.61	8,625	70,86	8.5	100.73	7,875	2.91	8,625

Source: Elaborated by our care from the collected data

The table lists the ratios used in our study, along with their rankings, beginning with the highest ratio and progressing to the lowest in order to compare the two types of banks.

1.1.1 Capital adequacy ratio

This ratio is calculated by dividing total shareholders' equity by total assets. The banks have been ranked based on the ratios after calculating them.

Table 3.6: Ranking average of capital adequacy

Bank group	Ranking average
Islamic banks	8.25
Conventional banks	8.75

Source: results obtained from EXCEL

We notice that based on a ranking average, Islamic banks achieved a rating of 8.25, while conventional banks achieved a rating of 8.75, indicating that Islamic banks outperform conventional banks in terms of capital adequacy.

1.1.2 Earnings Ability Ratio

1.1.2.1 Return on assets (ROA)

This ratio is calculated by dividing net income by total assets. The banks have been ranked based on the ratios after calculating them.

Table 3.7: Ranking average of ROA

Bank group	Ranking average
Islamic banks	8.625
Conventional banks	8.375

Source: results obtained from EXCEL

We notice that based on a ranking average, Islamic banks achieved a rating of 8.625, while conventional banks achieved a rating of 8.375. Conventional banks in terms of return on asset outperform Islamic banks at a small proportion.

1.1.2.2 Return on equity (ROE)

This ratio is calculated by dividing net income by total capital. The banks have been ranked based on the ratios after calculating them.

Table 3.8: Ranking average of ROE

Bank group	Ranking average
Islamic banks	8.625
Conventional banks	8.375

Source: results obtained from EXCEL

Alike ROA, Islamic banks achieved a rating of 8.625, while conventional banks achieved a rating of 8.375. Conventional banks in terms of return on asset outperform Islamic banks at a small proportion.

1.1.3 Financial intermediation Ratio (LDR)

This ratio is calculated by dividing total loans by total deposits. The banks have been ranked based on the ratios after calculating them.

Table 3.9: Ranking average of Loan to deposit ratio

Bank group	Ranking average
Islamic banks	7.875
Conventional banks	9.125

Source: results obtained from EXCEL

We notice that Islamic banks achieved a rating of 7.875, while conventional banks achieved a rating of 9.125, indicating that Islamic banks outperform conventional banks in terms of financial intermediation.

1.1.3.1 Total debt to total assets

This ratio is calculated by dividing debt by total assets. The banks have been ranked based on the ratios after calculating them.

Table 3.10: Ranking average of total debt to total assets

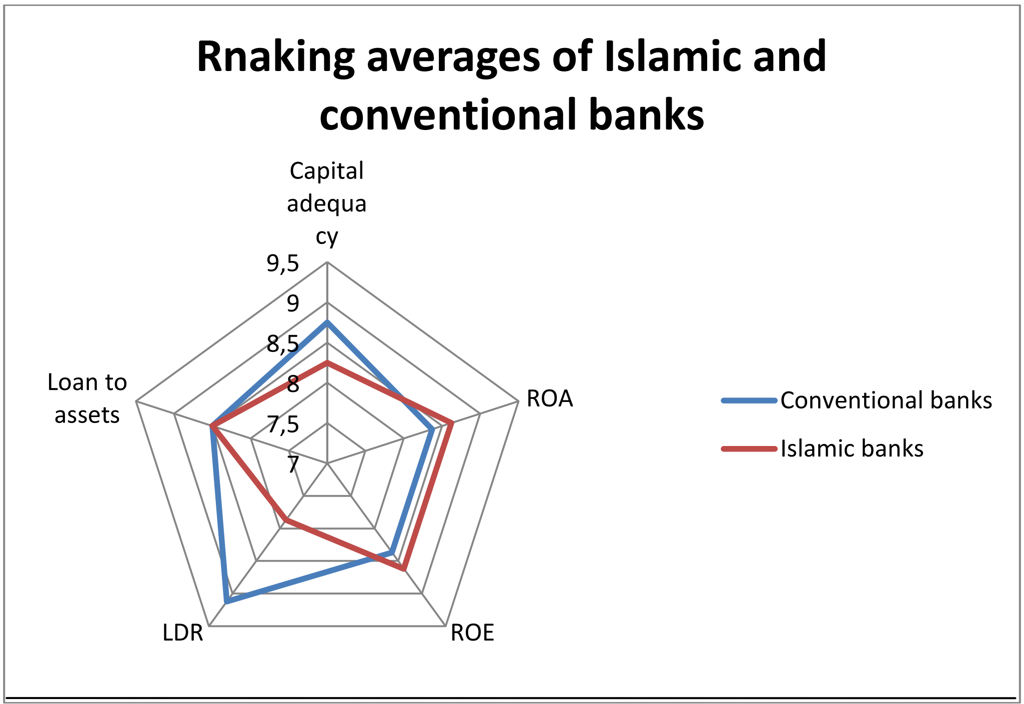
Bank group	Ranking average
Islamic banks	8.5
Conventional banks	8.5

Source: results obtained from EXCEL

We notice that both Islamic and conventional banks achieved a rating of 8.5, indicating that both banks perform equally in terms of total debt to total assets ratio.

The next figure resume the previous results based on the ranking averages.

Figure 3.2: Ranking averages of Islamic and conventional banks



Source: Elaborated by our care

1.2 One-Way ANOVA

In order to test the set of hypotheses, one-way ANOVA is used to evaluate whether there are significant statistical differences in the performance of Islamic banks and conventional banks based on the CAMEL model measures.

H0: There are no significant differences between Islamic and Conventional Banks.

H1: There are significant differences between Islamic and Conventional Banks.

The general rule is that;

If sig. < 0.05 - Reject H0 If sig. > 0.05 - Do not reject H0

1.2.1 Capital adequacy

Table 3.11: One way ANOVA –Capital adequacy-

	SS	Df	Ms	F	Sig
Between Groups	146,842	1	146,842	1.2226	0.2874
Within Groups	1681,4233	14	120.1016		
Total	1828.2661	15			

Source: results obtained from EXCEL

The p- value = 0.2874, ie >0.05, we accept the null hypothesis and hence we can infer that based on the analysis, there are no significant statistical differences between Islamic and Conventional banks in capital adequacy.

1.2.2 Earnings Ability

1.2.2.1 Return on assets (ROA)

Table 3.12: One way ANOVA –Return on assets-

	SS	Df	Ms	F	Sig
Between Groups	11.2963	1	11.2963	0.8542	0.3709
Within Groups	185.1224	14	13.2230		
Total	196.4188	15			

Source: results obtained from EXCEL

Since the p-value 0 .370>0.05, we do not reject the null hypothesis and hence we can infer that based on the analysis, there are no significant statistical differences between Islamic and Conventional banks in earnings ability (ROA).

1.2.2.2 Return on equity (ROE)

Table 3.13: One way ANOVA –Return on equity-

	SS	Df	Ms	F	Sig
Between Groups	160.3125	1	160.3125	0.3491	0.5639
Within Groups	6427.6277	14	459.1162		
Total	6587.9403	15			

Source: results obtained from EXCEL

Since the p-value 0.563>0.05, we accept the null hypothesis and hence we can infer that based on the analysis, there are no significant statistical differences between Islamic and onventional banks in earning ability (ROE).

1.2.3 Loan to deposit ratio (LDR)

Table 3.14: One way ANOVA –Loan to deposit ratio-

	SS	Df	Ms	F	Sig
Between Groups	2457.3722	1	2457.3722	0.7466	0.4020
Within Groups	42076.1315	14	3291.1522		
Total	48533.5038	15			

Source: results obtained from EXCEL

The p- value =0.4020, ie >0.05, we accept the null hypothesis and hence we can infer that based on the analysis, there are no significant statistical differences between Islamic and Conventional banks in loan to deposit ratio.

1.2.3.1 Total debt to total assets

Table 3.15: One way ANOVA –Total debt to total assets-

	SS	Df	Ms	F	Sig
Between Groups	242.97	1	242.79	0.7387	0.4045
Within Groups	4604.47	14	328.89		
Total	4847.44	15			

Source: results obtained from EXCEL

Since the p-value 0.404>0.05, we do not reject the null hypothesis and hence we can infer that based on the analysis, there are no significant statistical differences between Islamic and Conventional banks in terms of total debt to total assets ratio.

To summarise, even though conventional banks outperform Islamic banks in some CAMELS model components, Islamic banks perform better than conventional banks in terms of capital adequacy and most importantly in financial intermediation (loan to deposit ratio). Furthermore the results of ANOVA tests show that there are no significant differences in the means of the different ratios between Islamic and conventional banks. As a result, Islamic banks are just as important as conventional banks, and they play an important role as a source of financing in North African countries.

After comparing Islamic banks performance with conventional ones, in the next part we will determine the place of Islamic banks in financing SMEs investment and project creation. In order to fulfil this, we are going to represent and analyse the bank's data (Al Baraka bank) from one side and analysing the results obtained from the survey questionnaire from the other side.

2 Descriptive study of the bank's data

2.3 Small and medium-sized businesses compared to other customers

The table and the histogram below represent the total number of funding files received from large companies, small and medium sized enterprises, and individuals, as well as the number of financing files granted to them.

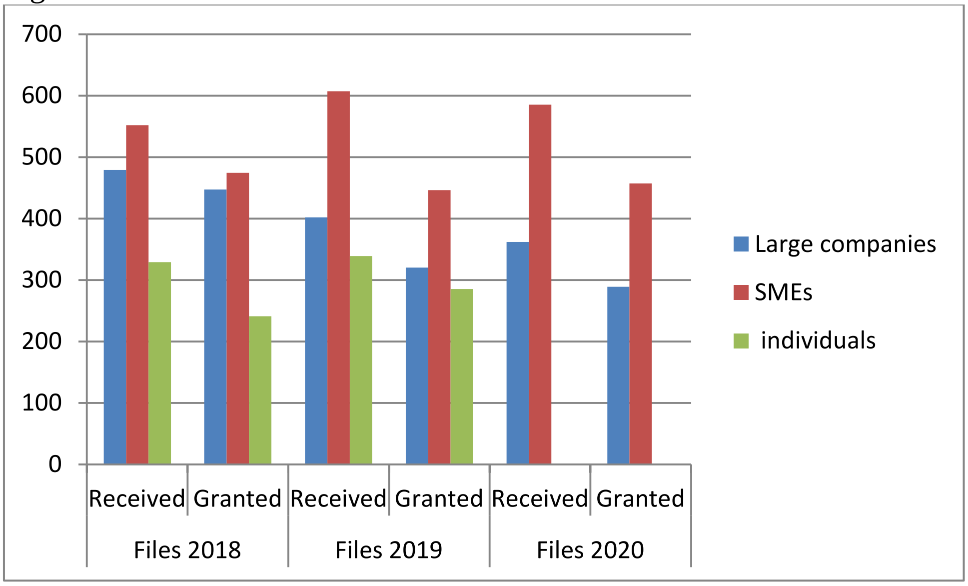
Table 3.16: SMEs in al Baraka Bank[3]

	Files 2018		acceptance rate	Files 2019		acceptance rate	Files 2020		acceptance rate
	Received	Granted		Received	Granted		Received	Granted	
Large companies	479	447	93.31%	402	320	79.60%	362	289	79.86%
SMEs	552	474	85.86%	607	446	73.47%	585	457	78.11%
Individuals	329	241	73.25%	339	285	84.07%	0	0	0

Source: Internal bank document (Annual report 2020).

[3] The unit is expressed by the number of files processed by the bank

Figure 3.3: SMEs in al Baraka Bank



Source: Elaborated by our care from the bank's data.

We observe that financing small and medium sized enterprises outnumbers the large corporations and individuals funding.

We note a decrease in the financing of small companies in 2019 compared to 2018, as it decreased from 474 to 446 and then increasing to 457 in 2020. The number of the large companies decreased after 2018, falling from 487 in 2018 to 320 in 2019 to 289 in 2020. As for individuals, we notice an increase from 214 to 285 in 2019 and then completely absent in 2020.

Based on these results we can say that small and medium sized enterprises have a significant share in the Islamic financing offered by Al Baraka Bank compared to major companies and individuals.

2.4 Annual financing licenses

The table and histogram below demonstrate the Islamic financial products distributed to SMEs in 2020.

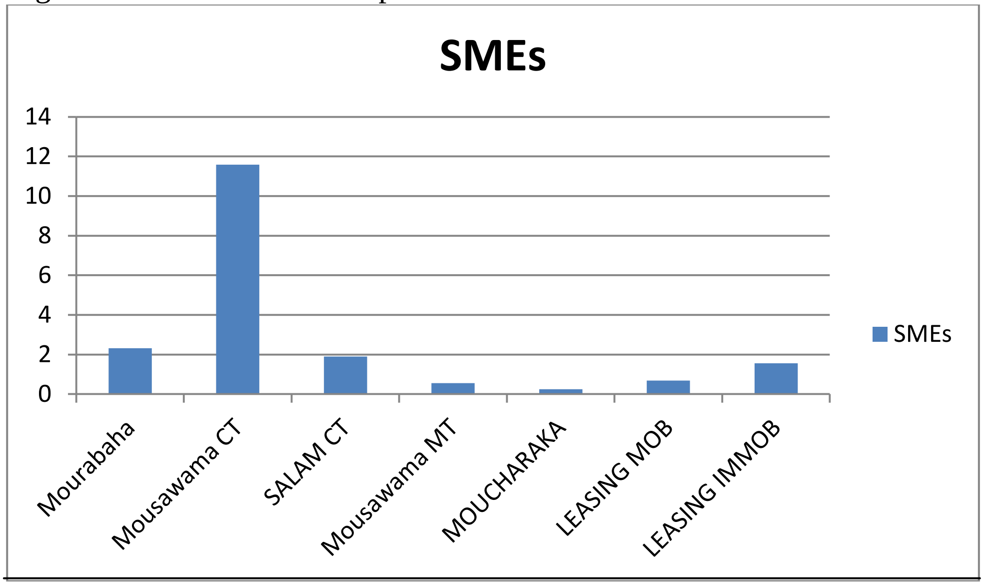
Table 3.17: Islamic financial products offered for SMEs in 2020

In billions of Dinars

	Murabaha	Musawama	Salam	Musawama MT	MUCHARAKA	LEASING MOB	LEASING IMMOB
SMEs	2313	11588	1894	547	125	680	1564

Source: internal bank document (Annual report 2020).

Figure 3.4: Islamic financial products offered for SMEs in 2020



Source: Elaborated by our care from the bank's data.

The table and the histogram below show that the bank finances small and medium-sized businesses primarily through Murabaha, Musawama, and Salam. Musamawa is prevalent in these products. These products are based on sales contracts and intended for financing the operations.

In terms of Investment type modes of financing, which include Mucharaka and Mudaraba and leasing, we notice that the bank's financing through Mucharaka and leasing is so low and almost non-existent, while Mudaraba is absent as it is not available by the bank.

2.5 Investment financing by conventional banks

The table below represents the short term loans and medium term loans granted by conventional banks (state-owned and Privates) in 2018.

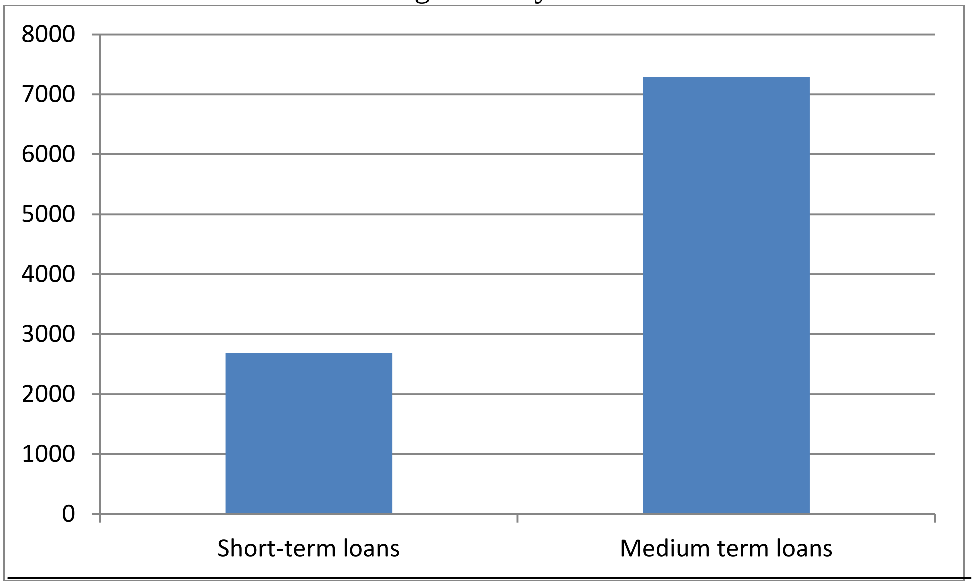
Table 3.19: Short and medium term loans granted by conventional banks

In billion of dinars

	Type of loans	Amount	Percentage
Conventional banks	Short-term loans	268 7,1	26,94
	Medium term loans	728 7	73,06

Source: the site of the bank of Algeria.

Figure 3.6: Short and medium term loans granted by conventional banks



Source: Elaborated by our care.

We notice that conventional banks are diametrically opposed to Islamic banks as they finance investment with a percentage of 73.06 rather than operations with a percentage of 26.94%.

After analyzing the data from both al Baraka Bank and the Bank of Algeria and concluding that Islamic banks cannot compete with traditional banks in financing investment, we will attempt to determine the main reasons for this difference through the survey questionnaire that has been distributed to a sample of SMEs.

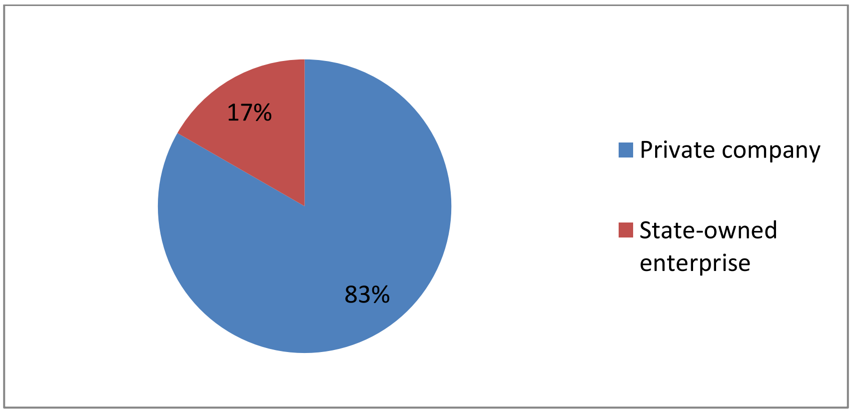
3 Descriptive analysis of the study sample

3.3 Distribution of the sample

Our sample consists of 36 SMEs distributed as follows

3.3.1 Distribution by sector

Figure 3.7: Distribution of the sample by sector



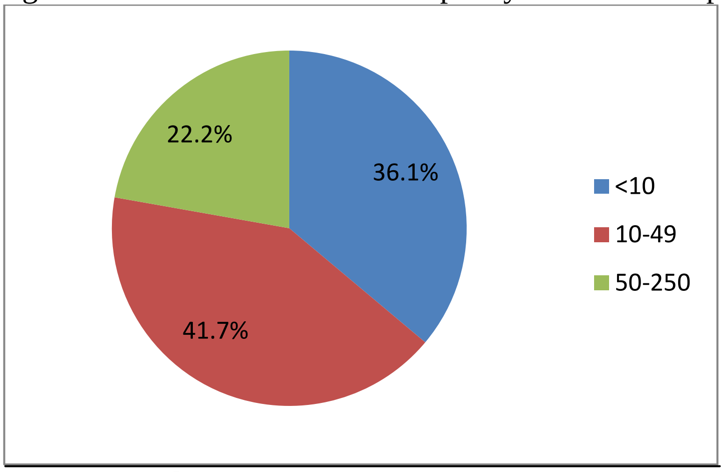
Source: our survey data

Our sample consists of 30 private companies, which represents 83.3 % of the total SMEs surveyed, while state-owned enterprises account for 16.7 % with 6 companies.

3.3.2 Distribution of the sample by the number of employees

Our sample includes 13 companies with 1-9 employees, which accounts for 36.1 percent of all SMEs, 14 companies with 10-49 employees, which accounts for 41.7 percent, and 8 companies with 50-250 employees, which accounts for 22.2 percent.

Figure 3.8: Distribution of the sample by number of employees



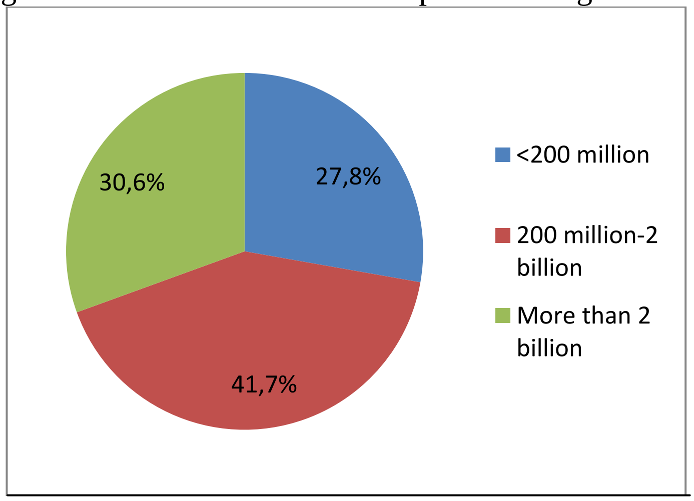
Source: Excel output

3.3.3 Distribution of the sample according to turnover

The turnover is expressed in Algerian dinar

Regarding turnover, our sample includes 10 companies with a turnover of less than 200 million, which represents 27.8% of all the companies surveyed. 41.7% of our sample is made up of companies with a turnover between 200 million and 2 billion, the rest, i.e. 30.6%, represents companies with a turnover of more than 2 billion

Figure 3.9: Distribution of the sample according to turnover

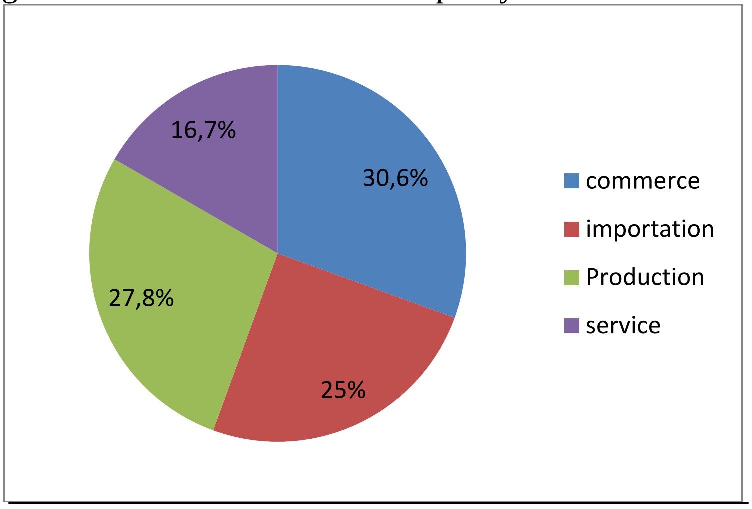


Source: Excel output

3.3.4 Distribution of the sample by sector of activity

Our sample is made up of 10 companies in production, accounting for 27.8 % of the total, 06 companies in services (16.7%), 11 companies in commerce (30.6%), and finally 09 companies in import (25%).

Figure 3.10: Distribution of the sample by the business sector

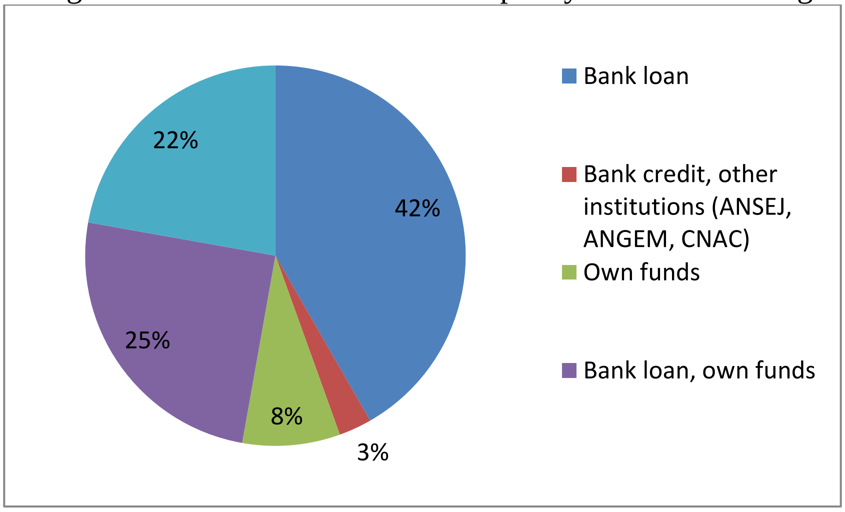


Source: Excel output

3.3.5 Distribution of the sample by source of funding

According to the source of funding, the majority of the sample companies (15) have created their businesses through bank loans, accounting for 41.7% of the total, 9 companies (25%) have chosen bank loans and own funds. Other institutions have financed 8 of our sample companies (22.2%). Only three companies in the sample used their own funds (8.3%), and only one used other institutions (ANSEJ...) to start their business.

Figure 3.11: Distribution of the sample by source of funding



Source: EXCEL output

3.4 The company's experience with Islamic finance

3.4.1 Analysis of the question: "Have you used any Islamic financial products?"

The table and histogram below show the number of companies that have previously used Islamic financial products and those that have never used them.

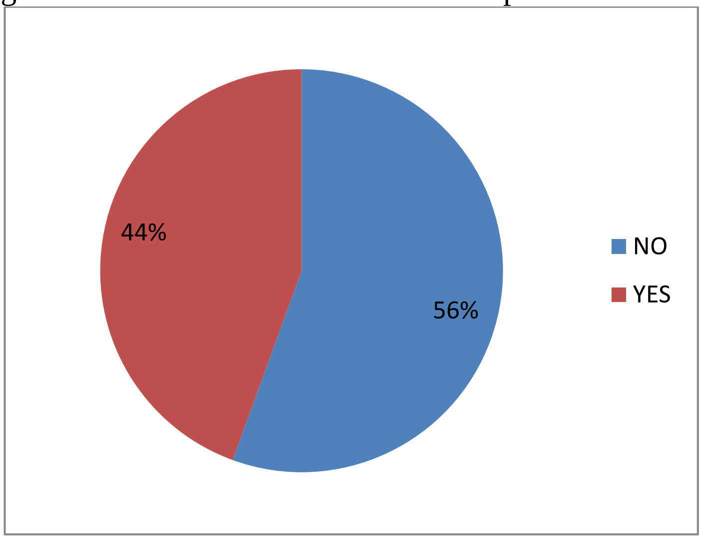
Table 3.20: The use of Islamic financial products

Have you used any Islamic financial products?			
		Frequency	Percentage
Valid	No	20	55,6
	Yes	16	44,4
	Total	36	100

Source: Our survey data (SPSS output)

According to the results of our survey, sixteen entrepreneurs (44.4 % of our sample) have used Islamic financial products. As a result, 55.6% of those in our sample did not use Islamic financial products

Figure 3.12: The use of Islamic financial products



Source: EXCEL output

3.4.2 Analysis of the question: "what is the product that you have used?"

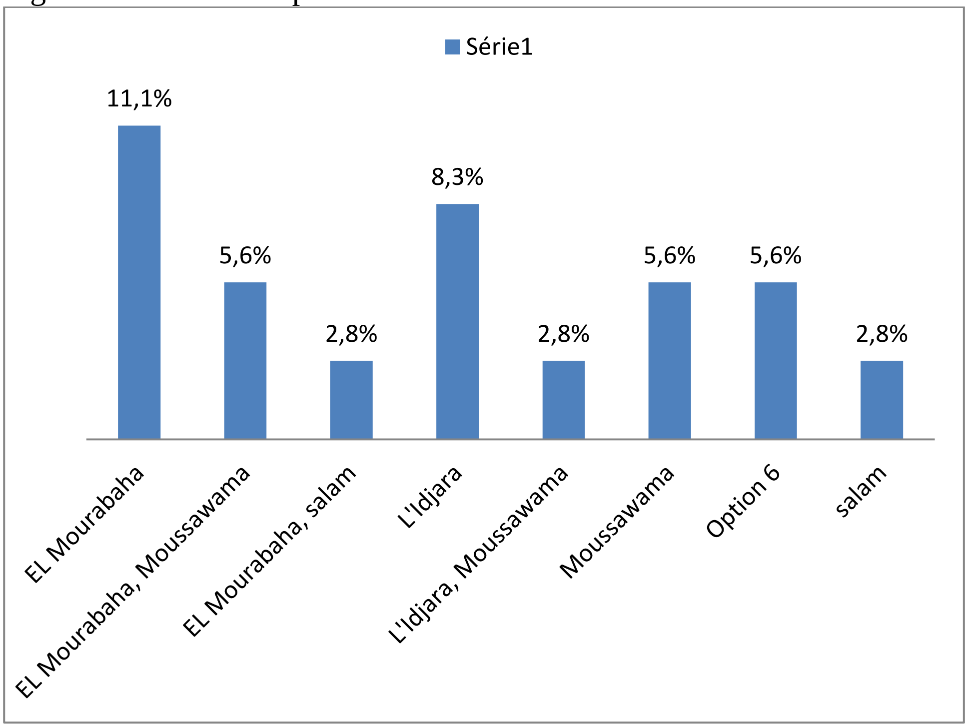
Four of the 16 companies that used Islamic financial products used Murabaha with a percentage of 11.1, followed by Ijara with a percentage of 8.3 used by three companies. Two companies used both Murabaha and Musawah with a percentage of 5.6, Musawaha with a percentage of 5.6. As for Salam, it was used by only one company with a percentage of 2.8.

Table 3.21: The used products

If so, what is this product?			
		Frequency	Percentage
Valid			
	EL Mourabaha	4	11,1
	EL Mourabaha, Moussawama	2	5,6
	EL Mourabaha, salam	1	2,8
	L'Idjara	3	8,3
	L'Idjara, Moussawama	1	2,8
	Moussawama	2	5,6
	Option 6	2	5,6
	Salam	1	2,8

Source: Our survey data (SPSS output)

Figure 3.13: The used products



Source: EXCEL output

3.4.3 Analysis of the question:" what is your level of knowledge of the following products?"

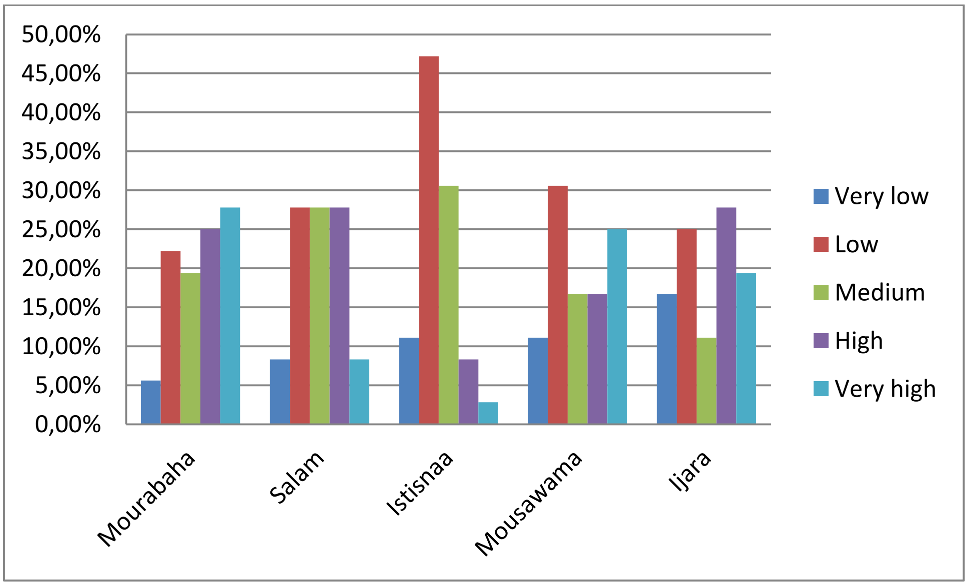
The table and histogram represent the level of knowledge of each product used by our sample companies.

Table 3.22: Knowledge level of Islamic financial products

	What is your level of knowledge of the following products?				
	Murabaha	Salam	Istisnaa	Musawama	Ijara
Very low	5,60%	8,30%	11,10%	11,10%	16,70%
Low	22,20%	27,80%	47,20%	30,60%	25%
Medium	19,40%	27,80%	30,60%	16,70%	11,10%
High	25%	27,80%	8,30%	16,70%	27,80%
Very high	27,80%	8,30%	2,80%	25%	19,40%

Source: Our survey data (SPSS output)

Figure 3.14: Knowledge level of Islamic financial products



Source: EXCEL output

According to the survey, Murabaha represents the most known Islamic financial product with a percentage of 27.8, followed by Musawama with 25%, then Ijara with 19.4%. As for Istisnaa and Salam their level of knowledge is low with 47.20% for Istisnaa and 27.80% for Ijara.

Their level of knowledge corresponds to the products they have used.

3.4.4 Analysis of the question: "Do you know the Musharaka and Mudharaba products?"

The goal of this question was to determine whether these two products were well known by the companies, as shown in the following table and histogram.

Table 3.23: Knowledge level of Mucharaka and Mudaraba

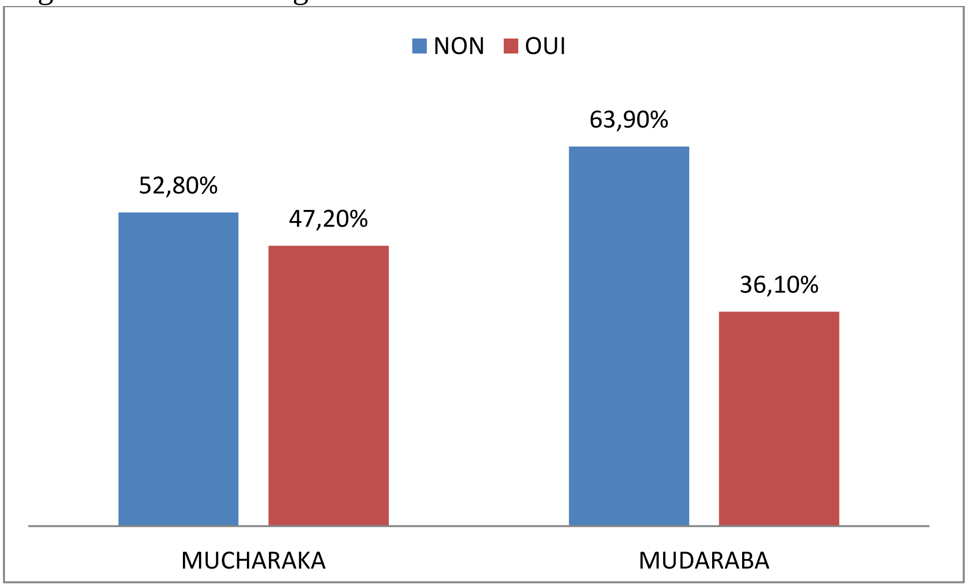
Do you know the Musharaka and Mudaraba products?				
	Mucharaka		Mudaraba	
	Frequency	Percentage	Frequency	Percentage
NO	19	52,8	23	63,9
YES	17	47,2	13	36,1

Source: Our survey data (SPSS output)

We notice that 52.8% (19 companies) of the sample don't know the product Mucharaka while 47.2% of them do. In the other hand, 23 companies (63.9%) don't know Mudaraba and the rest of them 13 companies with a percentage of 36.1 know the product.

Mucharaka is better known than Mudaraba.

Figure 3.15: Knowledge level of Mucharaka and Mudaraba



Source: EXCEL output

3.4.5 Analysis of the question: "What is your level of awareness of these two products?"

The table and histogram below show how well these companies understand the two products Mucharaka and Mudaraba.

Table 3.24: Knowledge level of Mucharaka and Mudaraba

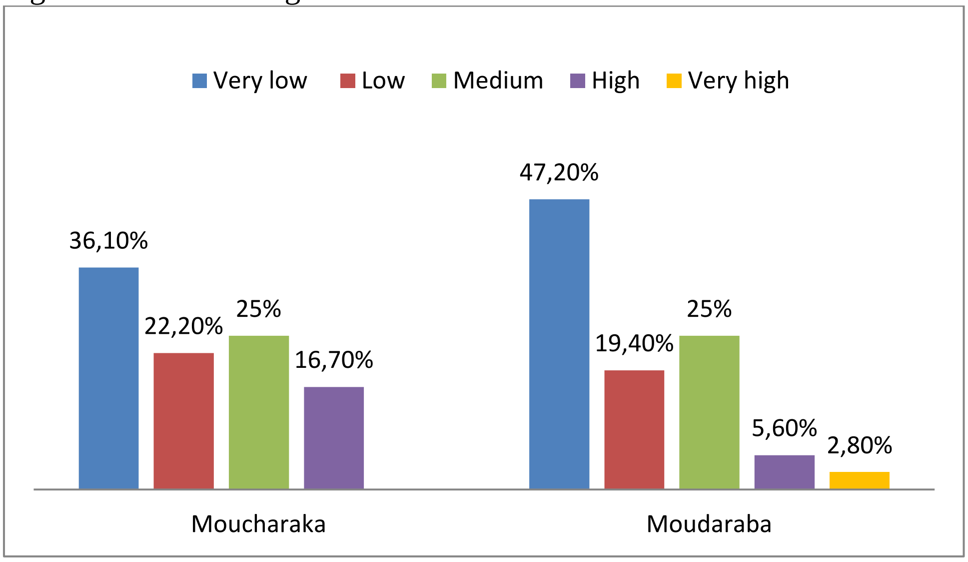
What is your level of awareness of these two products?				
	Mucharaka		Mudaraba	
	Frequency	Percentage	Frequency	Percentage
Very low	13	36,10%	17	47,20%
Low	8	22,20%	7	19,40%
Medium	9	25%	9	25%
High	6	16,70%	2	5,60%
Very high	0		1	2,80%

Source: Our survey data (SPSS output)

Our survey shows that most companies have very low knowledge of both Mucharaka and Mudaraba, starting with Mucharaka, 13 (36.10%) companies have very low knowledge, followed by 8 companies with a share of 22.20% who have low knowledge. Medium level with 25% and finally the high level, which is the lowest proportion with 16.7%

In terms of Mudaraba, its knowledge rate is lower than Mucharaka, with 47.20% of the total sample having very low knowledge of this product, followed by 19.40% who have low knowledge, 25% of those polled have average knowledge. Finally, 5.60 percent have high knowledge (2 companies), and only one company (2.8%) has a very high knowledge of Mudaraba.

Figure 3.16: Knowledge level of Mucharaka and Mudaraba



Source: EXCEL output

3.4.6 Analysis of the question: "Have you ever used any of these two products?"

The table and histogram below show the number of companies that have previously used Mucharaka and Mudaraba and those that have never used them.

Table 3.25: The use of Mucharaka and Mudaraba

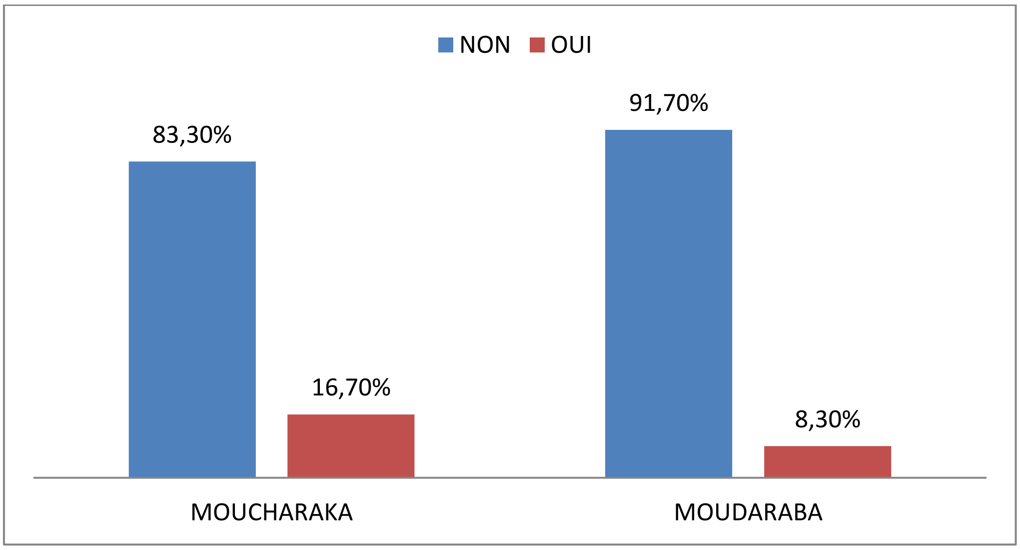
Have you ever used any of these two products?				
	Mucharaka		Mudaraba	
	Frequency	Percentage	Frequency	Percentage
NO	30	83,3	33	91,7
YES	6	16,7	3	8,3

Source: Our survey data (SPSS output)

According to the survey results, the percentage of non-use of both products is very high, as 83.30% haven't used MUcharaka and 91.70% haven't used Mudaraba, While 16.70% have used Mucharaka and 8.30% have used Mudaraba.

As we can see from the previous results, the lack of use of these two products is related to their lack of product knowledge.

Figure 3.17: The use of Mucharaka and mudaraba



Source: EXCEL output

3.4.7 Analysis of the question: "in your opinion, what are the advantages of these products?"

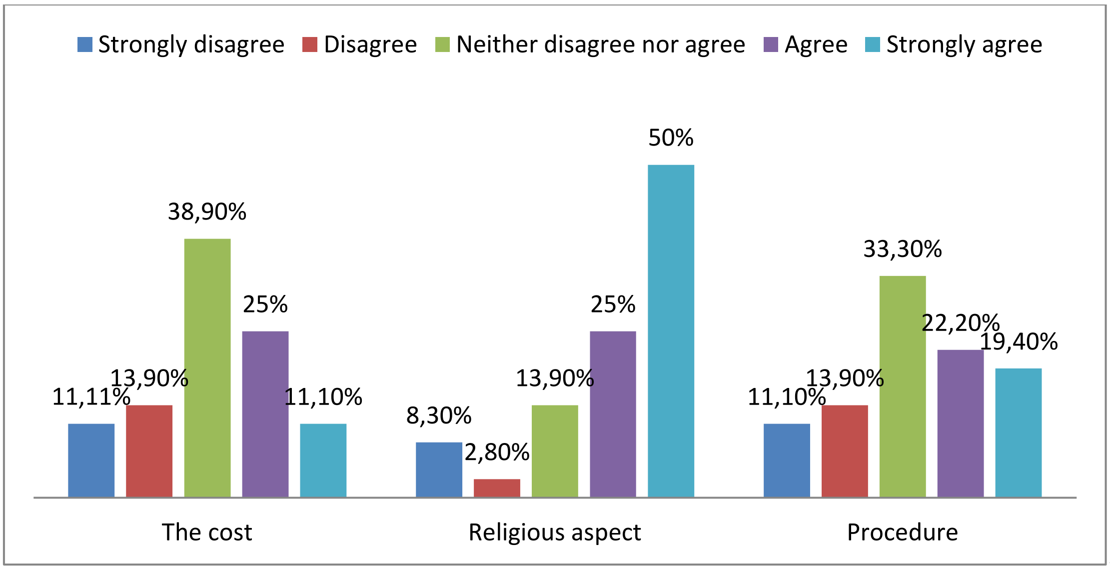
Table 3.26: The advantages of the Mucharaka and Mudaraba

	The cost		Religious aspect		Procedure	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly disagree	4	11,11%	3	8,30%	4	11,10%
Disagree	5	13,90%	1	2,80%	5	13,90%
Neither disagree nor agree	14	38,90%	5	13,90%	12	33,30%
Agree	9	25%	9	25%	8	22,20%
Strongly agree	4	11,10%	18	50%	7	19,40%

Source: Our survey data (SPSS output)

Based on theoretical research, the most significant advantages of Islamic financial products were the cost, religious aspect, and procedure. To begin with, the majority of companies (38.9%) are neutral, while 25% agree and 11.10% strongly agree that the cost is an important advantage of these products. Second, when it comes to the religious aspect, half of the sample (50%) strongly agrees that it is very important, while the level of disagreement is very low at 10%. Finally, for the procedure, the proportions are somehow close, with the largest proportion of neutrals (33.30 %), followed by 22.10% of companies who agree and 19.40% who strongly agree with the procedure's advantage, while the rest disagree (13.90%) and strongly disagree (11.10%).

Figure 3.18: The advantages of the Mucharaka and Mudaraba



Source: EXCEL output

3.4.8 Analysis of the question:"Are you ready to invest or create a new project with these two products?"

The results of this question show how many business owners are willing to use one of these two products to start a new project.

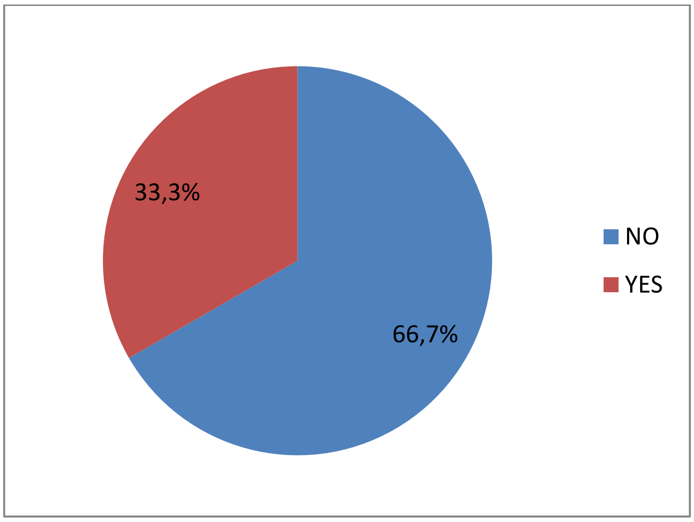
Table 3.27: Investment financing by Mucharaka and Mudaraba

Are you ready to invest or create a new project with these two products?			
		Frequency	Percentage
Valid	NO	24	66,7
	YES	12	33,3
	Total	36	100

Source: Our survey data (SPSS output)

According to our survey, the majority of the sample with a percentage of 66.7% is not ready to invest or create new projects using the two financial products Mucharaka and Mudaraba, while 33.3% are ready to invest using these two products.

Figure 3.19: Investment financing by Mucharaka and Mudaraba



Source: EXCEL output

3.4.9 Analysis of the question "If no, is the reason"

The following results are the main reasons why business owners refuse to start a new project with the two products.

Table 3.28: The reasons of not using Mucharaka and Mudaraba

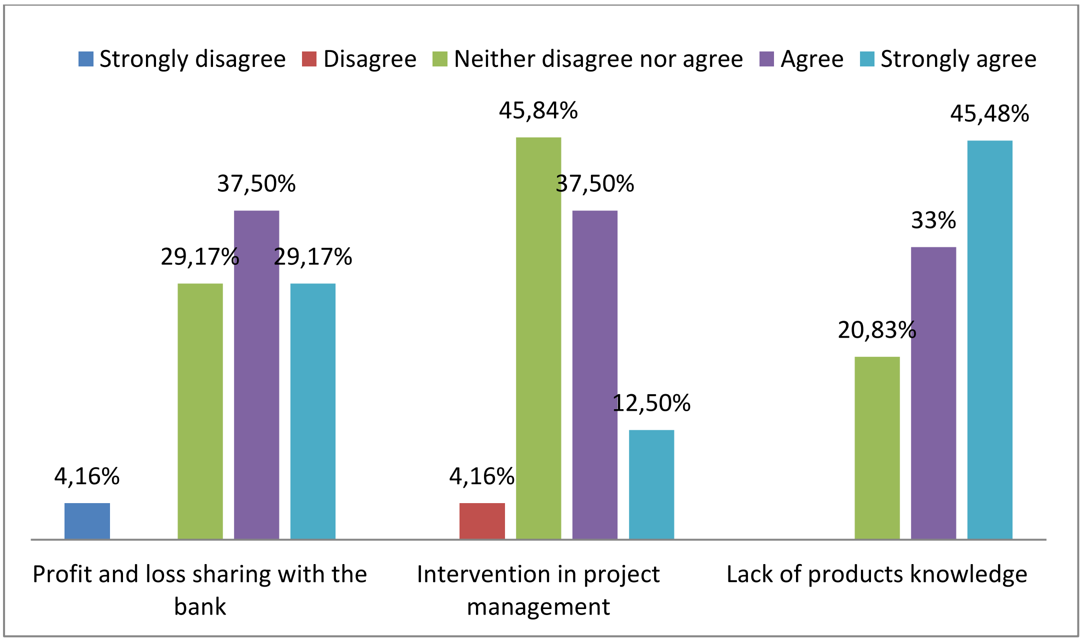
If not, is the reason

	Profit and loss sharing with the bank		Intervention in project management		Lack of products knowledge	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly disagree	1	4,16%				
Disagree	0		1	4,16%		
Neither disagree nor agree	7	29,17%	11	45,84%	5	20,83%
Agree	9	37,50%	9	37,50%	8	33%
Strongly agree	7	29,17%	3	12,50%	11	45,84%

Source: EXCEL output

According to the findings, the main reason why SMEs are not ready to invest using Mucharaka and Mudaraba is their lack of knowledge of these two products where 78.81% of the sample agree, followed by the law of profit and loss sharing (cost of financing) with the bank with a percentage of 66.67% and finally because of the intervention in the project management with a percentage of 33.3%.

Figure 3.20: The reasons of not using Mucharaka and Mudaraba



Source: EXCEL output

3.4.10 Analysis of the question "You see Islamic banks as a financing source for:"

The purpose of this question is to discover entrepreneurs' perceptions toward Islamic banks.

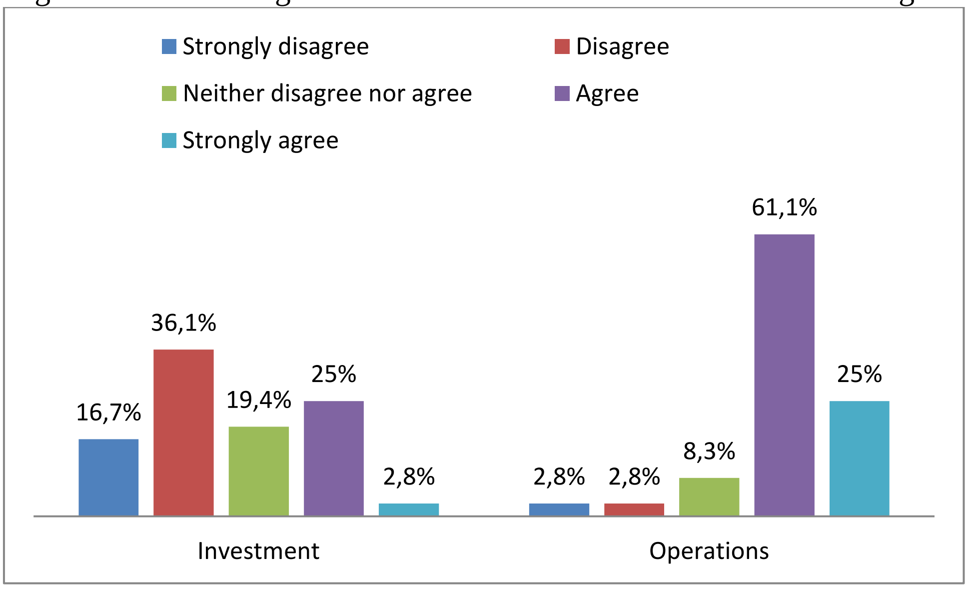
Table 3.29: Selecting Islamic banks as a source of investment funding

You see Islamic banks as a financing source for:				
	Investment		Operations	
	Frequency	Percentage	Frequency	Percentage
Strongly disagree	6	16,7	1	2,8
Disagree	13	36,1	1	2,8
Neither disagree nor agree	7	19,4	3	8,3
Agree	9	25	22	61,1
Strongly agree	1	2,8	9	25

Source: Our survey data (SPSS output)

When comparing Islamic banks as a financing source for operations versus investment, our survey found that 86.1 % agree that Islamic banks are ideally equipped to finance exploitation than investment, while only 27.8 % agree that Islamic banks are a financing source for investment. And this is consistent with our previous findings, in which nearly all of our sample used the products based on sales contracts while refusing to use the two investment products (Mucharaka and Mudaraba).

Figure 3.21: Selecting Islamic banks as a source of investment funding



Source: EXCEL output

3.4.11 Analysis of the question: "Do you think that Islamic banks could be considered as alternative systems to conventional banks?"

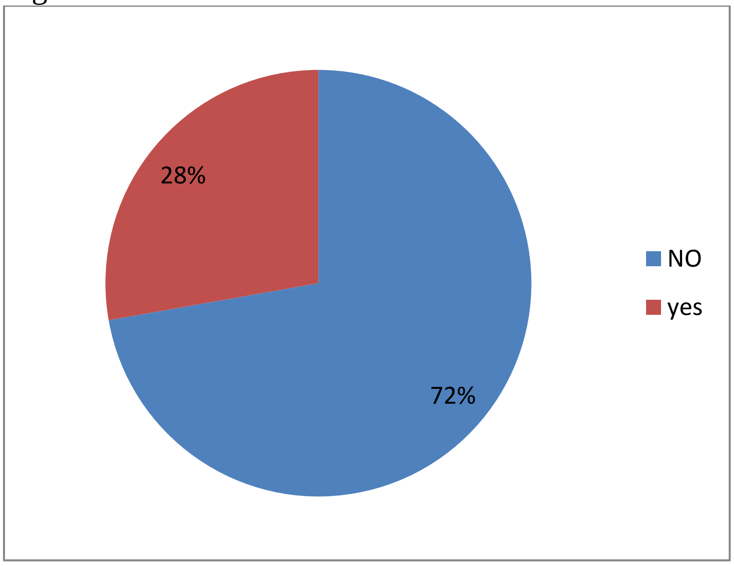
The table and histogram below show the percentage of businesses that think Islamic banks could be a viable alternative to conventional banks.

Table 3.30: The attitude of SMEs toward Islamic banks

		Frequency	Percentage
Valid	NO	26	72,2
	yes	10	27,8
	Total	36	100,0

Source: Our survey data (SPSS output)

Figure 3.22: The attitude of SMEs toward Islamic banks



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Source: EXCEL output

Most of the respondents companies (72%) believe that Islamic banks cannot be considered as an alternative system to traditional banks, while only 28% believe otherwise.

3.4.12 Analysis of the question" What will you do if Islamic banks' financial services are more expensive than those of conventional banks?

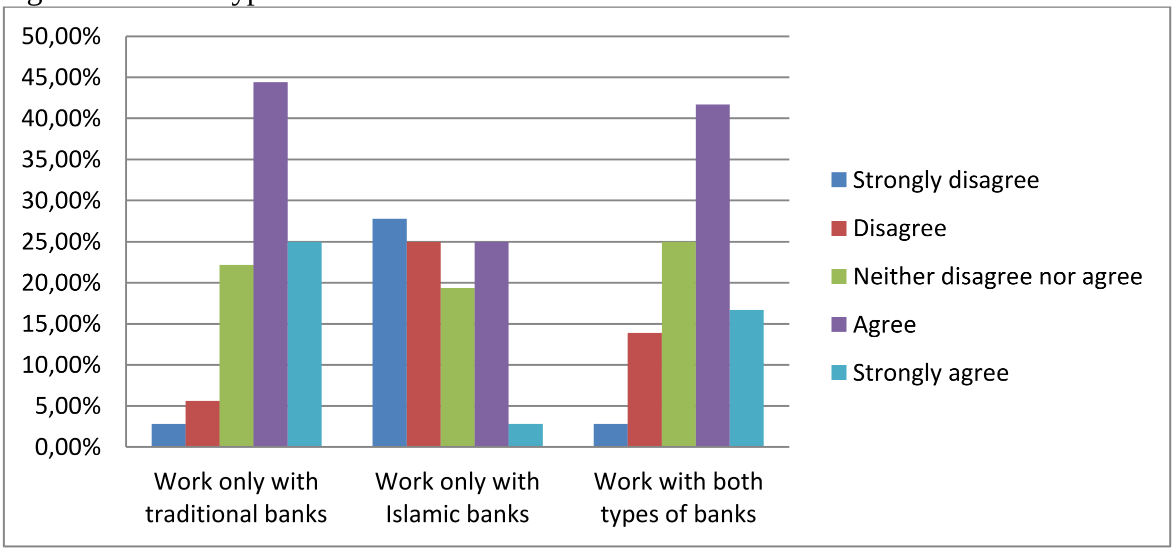
The table and histogram below show how commonly Islamic banks are accepted by SMEs.

Table 3.31: The type of the chosen bank

	Work only with traditional banks		Work only with Islamic banks		Work with both types of banks	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
Strongly disagree	1	2,80%	10	27,80%	1	2,80%
Disagree	2	5,60%	9	25,00%	5	13,90%
Neither disagree nor agree	8	22,20%	7	19,40%	9	25,00%
Agree	16	44,40%	9	25,00%	15	42%
Strongly agree	9	25,00%	1	2,80%	6	16,70%

Source: Our survey data (SPSS output)

Figure 3.23: The type of the chosen bank



Source: EXCEL output

Starting with the first option, which is working only with conventional banks, 44% of companies agree and 25% strongly agree. The second option was to only work with Islamic banks; the statistics for this option are diametrically opposed to the first, with 27.80% strongly disagree and 25% disagree, despite the fact that 25% agree but the proportion of disagreement is significantly higher. The last option which is working with both types of banks, the level of agreement is higher than the level of disagreement, as we can see: 42% agree and 25% strongly agree, while 13.90% disagree and 2.80% strongly disagree.

Conclusion

According to the third chapter, the application of the CAMELS method has enabled us to measure and compare the various ratios that determine the performance of both Islamic and conventional banks in North African countries. The results show that after ranking all the banks (conventional and Islamic) based on the calculated ratios, Islamic banks outperform conventional banks in terms of capital adequacy and loan to deposit ratio, while conventional banks dominate in earnings ability and total debt to total assets. Besides, the ANOVA test results show that there are no significant differences between Islamic and conventional banks. This comparison shows that even Islamic banks play an important role as a financial institution.

According to Al Baraka Bank data, SMEs have a significant position in the bank once compared to large corporations and individuals. The data allowed us to identify the most commonly used products by these businesses, and we discovered that the most commonly used products are those based on sales contracts, such as Murabaha, Salam, Mussawama, and Istisnaa, as opposed to Mucharaka, Mudaraba, and Ijara, which are very week. This difference in how these products are used explains the significant difference between the two types of financing “Investment and Operations,” where Al Baraka Bank finances operations in a higher percentage than investment. Algerian conventional banks, on the other hand, are diametrically opposed to Islamic banks, which focus on financing investment rather than operations.

The analysis of the survey questions revealed that the majority of Algerian SMEs use Islamic financial products offered by Islamic banks to finance their operational needs rather than investments for a variety of reasons, with the majority of them agreeing that lack of knowledge of these products is the main reason why they refuse to invest or create new projects using the two products Mucharaka and Mudaraba, plus the intervention of the bank in the project management and the law of profit and loss sharing with the bank. All of these factors have led Algerian entrepreneurs to prefer conventional banks when it comes to meeting these types of needs, and they are convinced that Islamic banks will never be a viable alternative to conventional banks.

GENERAL CONCLUSION

General conclusion

The objective of this study was to determine whether Islamic banks have a significant role in financing SMEs, specifically their investment and project creation after demonstrating that even Islamic banks can perform and play an important role as a financial source compared to conventional banks not only in Algeria but also in other North African countries. In order to answer the research's main question "**Do Islamic banks, compared to conventional banks help, to promote SMEs investment financing and project creation ?"** we used the data obtained from Al Baraka bank-Algeria- to determine the level of the bank's contribution in financing these businesses, followed by the survey questionnaire to obtain their opinion on the use of Islamic financial products offered by Islamic banks, and understand the main reasons why they have chosen or refused these products.

We were able to find answers to our main questions asked in the general introduction and confirm or disprove our hypotheses through the results obtained from the survey, the bank's data, and the CAMELs method.

Based on the CAMELs method, which was used to determine both Islamic and conventional banks' performance in order to compare them, the first hypothesis: **H1: "Islamic banks can perform better than Conventional banks"** is disproved, where we find that conventional banks outperform Islamic banks in terms of earnings ability and debt to total assets, while Islamic banks outperform conventional banks in terms of capital adequacy and financial intermediation (loan to deposit ratio). Moreover, the findings of the ANOVA test revealed that there are no significant differences between the averages of the various ratios of both types of banks, implying that Islamic banks are on an equal level with conventional banks and play an important role as a financial intuition in North African countries.

After demonstrating that they are as important as conventional banks and outperform them in terms of financial intermediation, we attempted to determine the position of Islamic banks in investment financing compared to other types of financing.

Based on the financial products offered by al Baraka bank to SMEs over the last three years and the consolidated licences granted based on the nature of the financing, the level of investment financing through this bank is very low in comparison to operations. The data show that almost all of its financial intermediation goes to operational financing, using Mussawama, Murabaha, and Salam, while Mucharaka and Leasing are virtually non-existent, so our second hypothesis **H2: "the level of SMEs investment financing in al Baraka bank is low compared to other types of financing"** is confirmed.

The survey results show that the majority of Algerian SMEs do not rely on Islamic banks to invest or start their businesses using Mucharaka and Mudaraba for a variety of reasons, the most important reason is the entrepreneurs' lack of knowledge of these two products, as their knowledge is limited to sales contract products (Mussawama, Mudaraba and salam).Where we notice that Islamic banks in Algeria devote a large proportion of marketing to these products compared to others, making Algerian entrepreneurs believe that conventional banks are a better source of financing for their investments. In addition to a lack of knowledge, the law of profit and loss sharing, as well as the bank's intermediation in project management, present a significant barrier to entrepreneurs. So our third hypothesis **H3: “Because of their lack of knowledge about the necessary products, SMEs do not choose to invest using Islamic financial products.”** is confirmed.

To determine the selection of Islamic banks by SMEs, the survey shows that more than half of our sample agree that Islamic banks are a source of funding for operations, which is confirmed by the bank's data regarding the Islamic financial products selected (Mousavama and Murabaha) and the type of financing (operations) it means that SMEs only choose Islamic banks to finance their operations needs and prefer conventional banks to meet their investment financing needs, so we can say that our latest Hypothesis **H4: "SMEs prefer Islamic banks to finance their operations needs** is confirmed.

The answer to our research's main question: **“Do Islamic banks, compared to conventional banks help, to promote SMEs investment financing and project creation?”** Is that, Islamic banks do not have a significant role in financing SMEs investment; however, they do play an important role in financing operations through the various financial products they offer.

Limits and recommendations

Limits

During our research, we had to deal with a number of obstacles, including:

- Incompatibility across countries' balance sheets caused difficulties in creating a homogenous balance sheet that includes all the necessary elements.

- Obtaining internal bank data was very difficult, due to the confidentiality of most information.

- The lack of literature on our subject, where most of the subjects discuss Islamic banking in general.

Recommendations

- There has to be cooperation between Islamic banks and monetary authorities in a country where there are several Islamic banks in order to build an Islamic financial market, as this market offers great advantages for the economy.

- Because the bank plays an important role in economic development, which aids in the prosperity and development of investment projects, Islamic banks must focus on developing this process.

- It is necessary to extend and revive the role of Islamic banks in order to enter the fields of Islamic investment, as Islamic banks are regarded as one of the most important institutions for implementing the practical framework for investment in the Islamic economy.

Future research may broaden the scope of Islamic banks' ability to develop investment financing. Furthermore, they should demonstrate the impact of Islamic banks on businesses' performance after investing with these banks, as well as the benefits of these banks. They can also compare the financial performance of businesses that have dealt with Islamic banks versus conventional banks to see which bank has a strong positive influence on these businesses.

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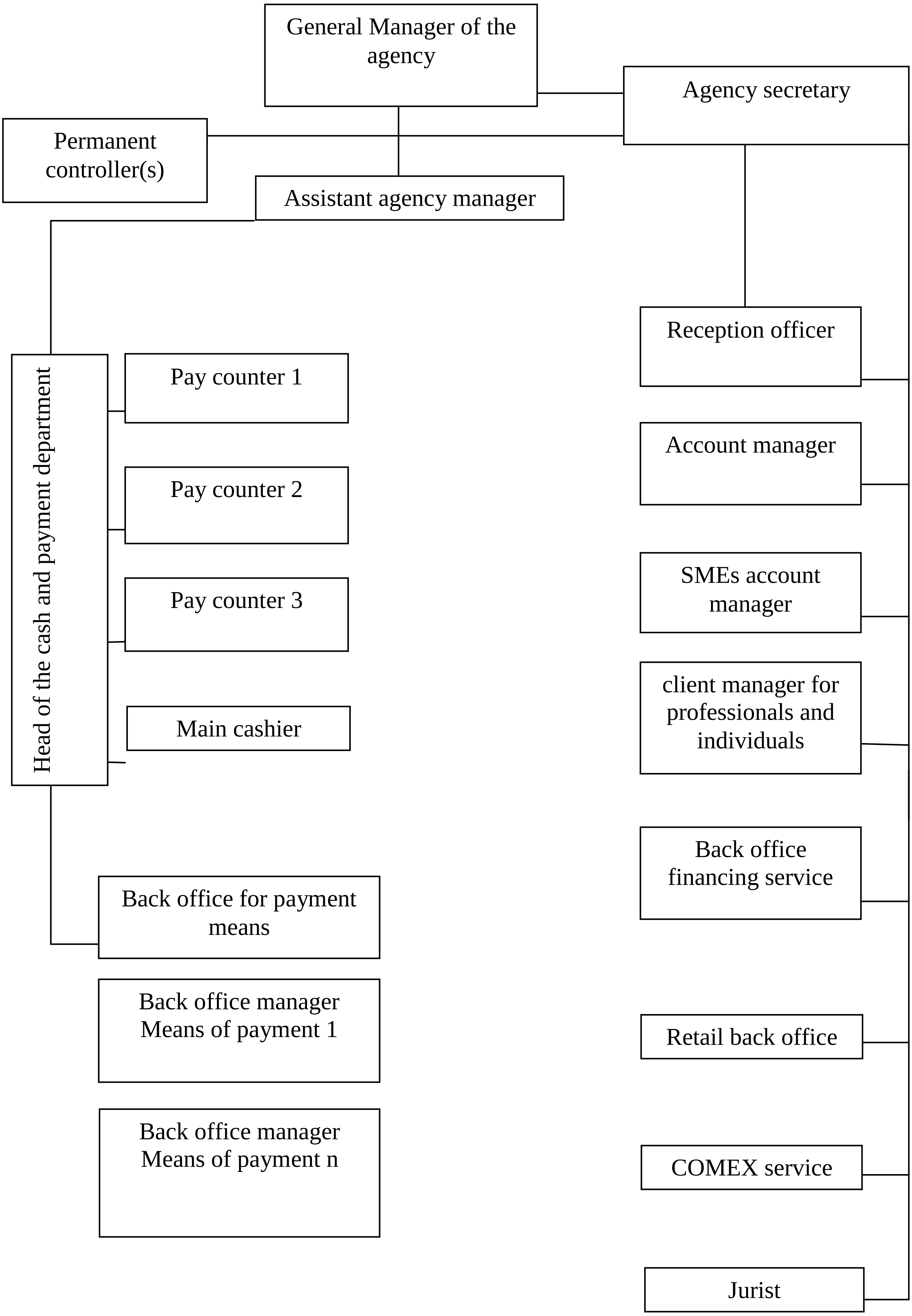
Appendices

Appendix 1: Organization chart of the bank's agency



Appendix 2: Balance sheet of Islamic banks (Assets)

In thousands of Dollars		Assets									
BANKS	COUNTRY	Treasury	Other assets	Banking and financial institutions loans	Loans and advances to customers	Taxes	Regulatory account	Participation	Tangible assets	Intangible assets	Total Assets
BNA	ALGERIA	3,622,077	478,564	3,523,831	17,173,527	114,291	466,718	232,007	190,665	728	29,332,070
CPA	ALGERIA	2,124,441	83,462	4,503,781	12,618,506	83,116	411	102,465	141,394	3,098	21,120,743
BNA TN	TUNISIA	144,653	100,962	30,069	3,730,918						4,648,284
BIAT	TUNISIA	526,099	217,808	599,467	3,697,327				137,787	27,661	6,030,811
CFG BANK	MOROCCO	16,286	28,054	41,669	408,114	30,990	77,902	0	55,527	20,119	760,946
ATTIJARI	MOROCCO	1,091,393	405,096	3,471,165	20,791,409			2,009,562	386,173	251,629	37,622,289
NBE	EGYPT	49,478	2,334	153	32,156			486			100,939
BANK OF ALEXANDRIA	EGYPT	3,448,477	85,494		2,614,241				39,635	9,506	6,515,172
	12/31/2019										
	1USD=119,05 DZD										
	1USD=2,8 TND										
	1USD=9,59 MAD										
	1USD=15,99 EGP										

Appendix 3: Balance sheet of Islamic banks (Liabilities)

In thousands of Dollars

		Liabilities											
BANKS	COUNTRY	Central Bank	Deposits and holding of banking and financial institutions	Customers' deposits	Borrowing and special resources	Other liabilities	Provisions	Share capital	Reserves	Results of the year	total shareholders' equity	Total liabilities
BNA	ALGERIA		3,816,274	17,669,254	190,183	1,168,720	269,550	1,259,975	960,992	160,136	20,403	29,332,070
CPA	ALGERIA		5,415,590	12,600,829	367,035	197,729	209,958	403,192	1,138,027	184,582	14,496	21,120,743
BNA TN	TUNISIA	564,630	64,962	3,048,914	222,775	203,095		114,286	370,622	44,083	543,909	4,648,284
BIAT	TUNISIA	429	449,986	4,514,801	70,267	282,530		60,714	349,146	123,132	532,994	6,030,811
CFG BANK	MOROCCO		47,438	365,554			39	46,175	64,195	-8,168	50,007	760,946
ATTIJARI	MOROCCO		3,909,559	24,309,580		1,759,807	383,413	218,832	3,628,173	504,704	474,176	37,622,289
NBE	EGYPT		8,817	73,208	8,695	2,614	506	2,189	1,555	1,264	6,871	100,939
BANK OF ALEXANDRIA	EGYPT		28,576	5,469,157	5677.1732332708	104,538	17,236	50,031	114,723	560,049	724,803	6,515,172

Appendix 4: State of result of Islamic banks

In thousands of Dollars

BANKS	COUNTRY	NBI	Operating Profit	Operating result	PBT	Net income
BNA	ALGERIA	790,228	594,634	238,298	238,298	160,136
CPA	ALGERIA	680,882	528,877	240,791	240,809	184,582
BNA TN	TUNISIA	235,040		92,680	61,139	44,083
BIAT	TUNISIA					123,132
CFG BANK	MOROCCO	23,719	-4,704	-5,918	-6,351	-8,168
ATTIJARI	MOROCCO					504,704
NBE	EGYPT				1,723	1,264
BANK OF ALEXANDRIA	EGYPT				227,293	208,841

Appendix 5: Balance sheet of conventional banks (Assets)

In thousands of Dollars

BANKS	COUNTRY	Assets									
		Treasury	Other assets	Banking and financial institutions loans	Loans and advances to customers	Taxes	Regulatory account	Participation	Tangible assets	Intangible assets	Total Assets
Al Baraka bank	Algeria	804,250	18,549	12,999	1,285,622	20,553	4,771	14,455	35,823	107	2,197,129
Al Salam bank	Algeria	231,703	8,471	4,330	802,878	987	4,309	101	39,880	1,881	1,100,537
Al Baraka bank	Tunisia	67,019	4,168	127,929	376,463			19,034	28,529	2,320	848,954
Zitouna bank	Tunisia	95,084	56,847	89,012	1,120,178				29,937		1,404,964
umnia bank	Morocco	40,934	36,511	3,746	356,448				5,312	4,409	313,959
Assafa bank	Morocco	17,962	34,651	791	376,290				4,342	99	434,136
Faisal IB	Egypt	535,111	150,116		606,560				75,784	2,529	6,425,284
Abudhabi IB	Egypt	317,583	79,447	11,314	1,921,599						3,772,654

Appendix 6: Balance sheet of conventional banks (Liabilities)

		Liabilities										
BANKS	COUNTRY	Central Bank	Deposits and holding of banking and financial institutions	Customers' deposits	Borrowing and special resources	Other liabilities	Provisions	Share capital	Reserves	Results of the year	total shareholders' equity	Total liabilities
Al Baraka bank	Algeria		262	1,435,074	351,271	105,053	7,170	125,997	33,338	53,198	1,788	2,197,129
Al Salam bank	Algeria		977	708,551		21,148	2,970	125,997	7,600	33,662	1,341	1,100,537
Al Baraka bank	Tunisia	4,166	208,215	542,808	21,766	9,969		42,857	13,805	5,368	62,030	848,954
Zitouna bank	Tunisia	14,711	1,205	1,202,749	698	60,189		62,631	25,691	9,591	124,676	1,404,964
umnia bank	Morocco			198,539		68,228	677	62,565		-13,630	2,873	313,959
Assafa bank	Morocco		41,874	103,885	5,050	118,113	468	52,138		-9,626	2,630	434,136
Faisal IB	Egypt		12,937	5,382,976	32,471	160,598	531	190,536	211,551	433,684	52,268	6,425,284
Abudhabi IB	Egypt		17,692	3,199,569	79,001	102,227		125,078	27,706	76,825	271,756	3,772,654

Appendix 7: State of result of conventional banks

In thousands of Dollars

BANKS	COUNTRY	NBI	Operating Profit	Operating result	PBT	Net income
Al Baraka bank	Algeria	111,640	79,855	72,359	72,359	53,198
Al Salam bank	Algeria					33,662
Al Baraka bank	Tunisia	30,144		7,355		5,368
Zitouna bank	Tunisia	60,869		10,613		9,591
umnia bank	Morocco	5,325		-13,641		-13,630
Assafa bank	Morocco	7,348	-6,171			-9,626
Faisal IB	Egypt					169,784
Abudhabi IB	Egypt				106,813	76,813

Appendix 8: The survey

End-of-study questionnaire on the place of Islamic banks in the financing of small and medium-sized enterprises (SMEs)

Within the framework of the elaboration of a dissertation in view of obtaining a master's degree in commercial sciences, option "finance, money and banks" at the business school,I am carrying out a study which relates to "the place of Islamic banks in financing SMEs". Therefore, we request your collaboration in order to carry out this study.

We would appreciate it if you could spare a few minutes of your precious time to answer our questionnaire, while assuring you that the answers will remain anonymous and that the results will be used only for academic purposes in the framework of this Master's dissertation. We thank you in advance for your precious help in the completion of this research work.

1. Do you work in a:

- Private company
- State-owned enterprise

2. Number of employees

- <10
- 10 to 49
- 50-250

3. Turnover (in Algerian dinar)

- <200 million
- 200 million-2 billion
- more than 2 billion

4. business sector:

- Commerce
- Importation
- Production
- Service

5. Legal status:

- State-owned enterprise
- One person limited liability undertakings
- (EURLs). Limited liability company(LLC)
- Joint-stock company

6. What is the primary source of funding for the establishment of your business?

- Own funds
- Bank loan
- Other institutions (ANSEJ, ANGEM, CNAC)

The company's experience with Islamic finance

In this section, we want to know how the Algerian entrepreneur perceives al mucharaka and al mudaraba, his attitudes and knowledge of al mucharaka and al mudaraba, and whether he is willing to invest based on these two Islamic products, which are considered as an alternative to conventional bank credits interms of investment and project creation.

7. Have you used any Islamic financial products?

- Yes
- No

8. If so, what is this product?

- ○ Murabaha
- ○ Ijara
- ○ Salam
- ○ Mussawama
- ○ Istisnaa

9. What is your level of knowledge of the following products?

	Very low	Low	Medium	High	Very high
Murabaha	○	○	○	○	○
Salam	○	○	○	○	○
Mussawama	○	○	○	○	○
Ijara	○	○	○	○	○
Istisnaa	○	○	○	○	○

10. Do you know the Musharaka and Mudharaba products?

○ Yes

○ No

11. What is your level of awareness of these two products?

	Very low	Low	Medium	High	Very high
Mucharaka	○	○	○	○	○
Mudarab	○	○	○	○	○

Definitions

The mucharaka is an association between two (or more) parties in the capital, project or operation in return for a distribution of the results (losses or profits) in agreed proportions.

The Mudaraba is an investment partnership where the bank plays the role of the investor (Rab el Mal), by committing to finance the project in full. In return, the entrepreneur (Moudarib) must ensure the management of the project.

12. Have you ever used any of these two products?

	Yes	No
Mucharaka	☐	☐
Mudaraba	☐	☐

13. In your opinion, what is the advantage of these two products?

	Strongly disagree	disagree	Neither disagree nor agree	agree	Strongly agree
The cost	☐	☐	☐	☐	☐
Religious aspect	☐	☐	☐	☐	☐
Procedure	☐	☐	☐	☐	☐

14. Are you ready to invest or create a new project with these two products?

◯ Yes
◯ No

15. If not, is the reason:

	Strongly disagree	disagree	Neither disagree nor agree	agree	Strongly agree
Profit and loss sharing with the bank	☐	☐	☐	☐	☐
Intervention in project management	☐	☐	☐	☐	☐
Lack of products knowledge	☐	☐	☐	☐	☐

16. You see Islamic banks as a financing source for :

	Strongly disagree	disagree	Neither disagree nor agree	agree	Strongly agree
Investment	☐	☐	☐	☐	☐
Exploitation	☐	☐	☐	☐	☐

17. Do you think that Islamic banks could be considered as alternative systems to conventional banks?

- ◯ Yes
- ◯ No

18. What will you do if Islamic banks' financial services are more expensive thanthose of conventional banks?

	Strongly disagree	disagree	Neither disagree nor agree	agree	Strongly agree
Work only with conventional banks	☐	☐	☐	☐	☐
Work only with Islamic banks	☐	☐	☐	☐	☐
Work with both types of banks	☐	☐	☐	☐	☐

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