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## **The role of Islamic banks in financing small business: KIB case study in Erbil city 2023**

A study submitted to financial and banking department /college of administration and economics /University of Salahaddin – Erbil as a partial fulfillment of requirements for the degree of bachelor degree in financial and banking sciences.

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## **ABSRRACT**

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 musyarakah (joint-venture). Islamic banking differs from conventional banking systems in many ways; the major difference being the use of Interest or usury. Small and medium enterprises (SMEs) are commonly acknowledged as the economy drivers and the Key contributors to gross domestic product (GDP) around the globe. The SMEs growth has also been hindered by Market inflations that keep on altering the commercial banks rates; therefore there is a demand for Islamic Shariah banking and innovations. The banking sector has been in a stiff competition to capture the SME market; this has impacted the growth of the SME business in the country

**Keywords: Small business , Islamic finance , growth.**

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## CHAPTER ONE

### GENERAL INTRODUCTION

#### 1-1 Introduction: -

Islamic banking is an aspect of financial activity that follows by Islamic law's Shariah principle and is dictated by Islamic economic principles, with its primary objective including the equitable distribution of assets and the promotion of social justice. (Over the past forty years, Islamic banking has experienced an incredible growth. (Islamic banking is different from traditional banking in a number of ways, including the usage of interest and the prohibition of participating in any Haram activities being the two biggest differences.

Small businesses are a vital instrument for generating funds and setting up opportunities for employment. These opportunities assist the economy Small businesses are classified based on a number of factors, such as the number of employees, the amount of the capital, or a combination of the two, as well as the use of sales volume or other factors.

The Kurdistan International Bank for Investment and Development (2005), under the supervision and control of the Central Bank of Iraq, is an Iraqi private joint stock company engaged in banking, investment and specialist activities. According to the nature of its activities, the roles performed by this institution differ, varying from social to economic roles.

This research investigates the role of Islamic banks in Erbil on small businesses and how it improves their activities. Also this research tries to measure the ability of Islamic banks and their effectiveness to finance the small businesses.

## **1.2 Problem Statement: -**

Islamic banking is relatively new, its contribution to the country's economy is relatively as well not clear, In addition; researchers have not yet fully covered the impact of Islamic banking to the growth of small businesses in Erbil. There is a need to comprehend how the two fully fledged Islamic Shariah banks are affecting the growth of small businesses in Erbil (with focus on first community bank). With current stiff competition from conventional banks offering same Islamic sharia products through Islamic windows, it's important to understand how Small businesses in Erbil have fully utilized the Islamic banking products to impact on Small business.

## **1.3 Purpose of the Study: -**

The purpose of the study was to determine the effect of Islamic banking on Small businesses in Erbil City.

## **1.4 Research Objectives:**

The study aims at achieving the following objectives:

1. Describing the importance and definition of small businesses in Erbil city.
2. Describing the extent of the contribution of Islamic banks in the financing of small businesses.

## **1.5 Research Questions:-**

From the purpose of the study, it sought to answer the following research questions:

The study aimed to deal with the following research questions as its purpose:

- 1 How has the financial performance of small businesses in Erbil City been impacted by Islamic banking?
- 2 What impact does Islamic banking have on the expansion of small businesses in Erbil City?
- 3 What impact has Islamic banking had on Erbil City's small businesses ability to receive credit?

4 What impact does Islamic banking have on Small businesses financial literacy in Erbil City?

### **1.6 Research Hypothesis:**

The study deals with the following hypotheses:

1. Hypothesis 1: Islamic banks has significant role in financing small businesses.
2. Hypothesis 2: Islamic banks has not significant role in financing small businesses.

### **1-7 The study sample:-**

A sample of Islamic and commercial banks in the city of Erbil.

### **1-8 Literature review: -**

There are a large number of methods that Islamic banks and financial institutions can use in financing operations, and they are of two basic types: financing methods based on participation in the return on investment, and financing methods based on debt. In the financing methods based on participation in a return on investment, speculation stands out, which is one of the most common and practical methods of financing in Islamic banks (Al-Shawarbi, 2002).

Cherqaoui (2022) adds that combining the principles of Islamic finance, the advancements in technology, and Fintech represents an opportunity to contribute significantly to the improvement of the entrepreneurial ecosystem in the Islamic countries and the promotion of small business segment development.

Sojoodi & Jalili (2022) added that (small business) play a major role in the economy. In developing countries, these companies play an important role in creating employment, especially for women. Investing in the development of small business requires having a long-term and effective strategy with returns that are sustainable.



The owners of small business and the workers in them believe that Islamic financing has helped their businesses to acquire the funds required for their businesses to develop and expand beyond existing markets (Abdinur & Ondes, 2022).

(Benbekhti et al ,2021) added that Islamic finance is a golden opportunity and a sufficient alternative financial source for small business. Furthermore, small business contributes to reducing the rate of unemployment through contributing to the labor market.

(Kiran ,2022) added that owners/managers of small business and employees have effective knowledge on the principles of Islamic finance. Although the Islamic financing strategy is deemed new in Oman, most of the participants (including financial experts) have positive attitudes towards its adaption. The study findings also show that there is a positive relationship between operations of Omani small business and Islamic financing. It was concluded that Islamic financing has benefitted small business operations as well as could play a major role in the growth of small business and their operations in the fut

## CHAPTER TWO

### THEORETICAL FRAMEWORK

#### **First : Finance for small enterprises**

##### **2-1 Definition of small business.**

There is no universally agreed definition of an SME. The definition varies from country to country, and in many cases there is a multiplicity of definitions within the same country mainly because of the spread of Small business over different sectors. The problems of defining Small business and how to measure their size have been widely recognized by researchers. In general, they are difficult to define because there are definitions that take into consideration only quantitative measures, such as number of employees, annual turnover, invested capital, market share and value added, and those which consider only qualitative criteria, such as ownership and management (a simple organizational structure), as well as definitions which are a combination of both. One of the most important government inquiries that have focused on the importance of the role of small businesses was the Bolton Report (1971), which adopted a number of different statistical definitions. It recognised that size is relevant to sector - that is a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. (Naimy, 2011,3)

The World Bank defines Small business using the following indices (Ardic et al., 2011):-

1- Micro enterprise: up to 10 employees, total assets of up to \$100,000 and total annual sales of up to \$100,000. 2- Small enterprise: up to 50 employees, total assets of up to \$3 million and total sales up to \$3 million.

3- Medium enterprise: up to 300 employees, total assets of up to \$15 million, and total annual sales of up to \$15 million.

Curran and Blackburn (2001) argued that these definitions, which are based on the number of employees, are open to criticism and have to be set against some serious disadvantages. One of the most obvious disadvantages of the employment standard is that a firm belonging to one sector will require a different number of employees to a firm in another sector

For example, a small oil refinery might employ several hundred people (and be capitalised at several million pounds). Can this be compared with a small independent garage that employs three people besides the owner (and has a capitalisation of perhaps 150,000 pounds) Therefore, the process of defining a small firm according to the number of employees is complicated.

## **2-2The role and importance of small business:-**

In the small business literature, the importance of small business has received considerable critical attention because of the role that they play in economic growth and job creation. A considerable amount of literature has been published on this subject revealing contrasting views. Whilst many researchers have argued that small business play a significant role in the social and economic development of a country other researchers have voiced their doubts about the pro-SME view ([Armeanu et, al, 2015,17](#)).

However, in order to grow and contribute more significantly to the economy, small business face some obstacles. One of the main obstacles faced by small business is the lack of finance ([Hassan, 2014,76](#))

Advocates of the pro-SME view argued that the contribution of small business can be seen from different viewpoints that relate mainly to the important role played by Small businessin relative to job creation, innovation, export, and private-sector production, in

developed 32 countries, as well as in developing and emerging economies ([Al-Disi, 2010,27](#)).

Other researchers have chosen instead to support large enterprises and have stressed their advantages. In particular, they have argued that large firms offer more stable jobs than small firms, with positive implications for poverty alleviation. They also suggested that large enterprises may exploit economies of scale which can influence their productivity indicated that small business have been recognised worldwide as a key source of dynamism, innovation and flexibility, in industrial as well as emerging and developing countries. According to the OECD (2005), small business are responsible for most new job creation in OECD countries and make an important contribution to innovation, productivity and economic growth. In fact, small business make a contribution to economic growth and provide important opportunities for employment in developed countries all over the world, accounting for 95-99% of the business population, depending on the country .

In the EU, 99.8% of all enterprises were Small business in 2013. Small enterprises make up at least 95% of manufacturing businesses in most economies. In Turkey, they constitute 99.9% of enterprises ([Karadag, 2015,26](#)).

In addition, 80% of manufacturers in the United States are Small business(OECD, 2005). Beck and Kunt (2006) suggested that Small business form a large part of the private sector in many developed and developing countries. In the United Kingdom, there were approximately 4 million small business, and 99% of these employed fewer than 50 people, whilst these same small business accounted for around 46% of private sector employment ([Cowling ,2012,778](#)).

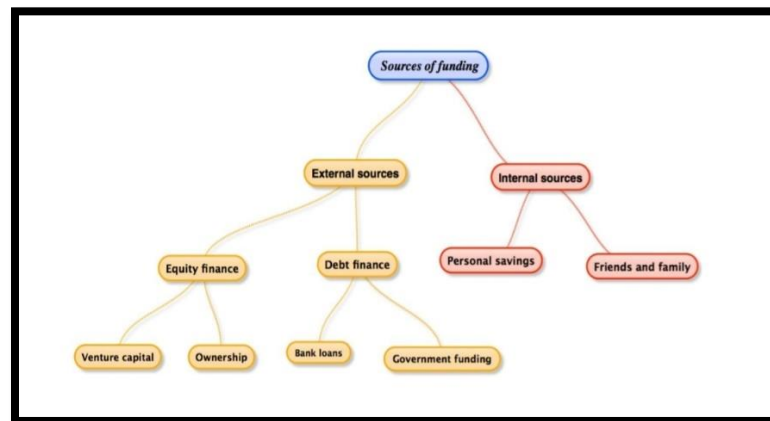
### 2-3-Sources of funding for small business:-

Funding is one of the most important requirements for new small business and sources of finance must be available during the establishment of a project. The small business literature shows that lack of funding is one of the biggest and most significant challenges when starting-up and operating an small business (Shaban et al., 2014.).

A considerable amount of literature has been published on the sources of funding for small business. These studies suggest that various sources exist and that they can be broadly classified into internal and external finance. While internal finance includes personal savings and finance from family and friends, external finance consists of debt and equity finance (see figure 1).

**Figure 1**

**Source of funding**



### 2.4 Internal sources: -

Compared to large enterprises, start-up small business experience considerable difficulty in obtaining external finance from banks and financial institutions (OECD, 2006). Thus, the first stage of starting a business involves internal sources of finance. Many small businesses in the early stages use internal funds, such as personal savings and finance

from family and friends, to support the business. The use of external finance is delayed until internal sources of finance are exhausted. (Daskalakis, Jarvis & Schizas, 2013,80)

#### **2.4.1.1 Personal savings: -**

Personal savings are the most common source of finance for most small business start-ups. It is imperative that an entrepreneur has some personal investment in the business, which typically comes from personal savings (Daskalakis, et al., 2013,82).

#### **2.4.1.2 Friends and family: -**

Friends and family are the second most common source of early financing. At the outset of a business, usually friends and family are making an investment in the ownermanager as much as in the company. Friends and family put more than just their financial future on the line; they are also putting an important relationship at risk (Burk & Lehmann, 2004,25).

### **2.4.2 External sources**

External sources of finance are considered by owner-managers as a last resort, to be used only when internal funds are insufficient. However, small business in the early stages of their development face more difficulties than larger companies with regard to obtaining external funding. Credit history, asymmetrical information, potential agency problems, lack of assets and other obstacles limit the access of small business to external finance (Bhaird & Lucey, 2009,357).

#### **2.4.2.1 Debt finance**

(Burk and Lehmann 2004) suggested some advantages and disadvantages of using debt which are as follows: The advantages of debt are:

- 1- The time to secure debt financing is usually shorter than that for equity.
- 2- It is easy to measure the cost of the money (principal and interest).

- 3- Documentation transaction costs would probably be less than for an equity transaction.
- 4- The company is not diluted by new ownership.

The disadvantages of debt are: (Burk and Lehmann2004,27) :-

- 1- The company has to pay the debt back, unlike the equity.
- 2- The company must show the debt on its balance sheet as a liability, which may make it less attractive to some investors.
- 3- If the cash flow of the business is tight, debt servicing can put an undue strain on finances.
- 4- In many small business cases, the commercial lender requires the principal to personally guarantee the debt and possibly pledge personal collateral.

**The most important sources of debt finance for Small business are as follows:-**

#### **2.4.2.1.1 Bank loans :-**

A large and growing body of literature has described banks to be the key external capital provider for small business in both developed and developing countries (Karadage, 2015). A number of factors have been identified to encourage bank finance for small business. These include the great possibility for profitability associated with involvement with SMEs, as banks perceive this sector to be unsaturated with good prospects. Additional factor is the possibility to seek Small business clients through their relations with their large clients. The banks' involvement with Small business is also driven by intense competition in other areas such as the large business and retail consumer sectors. (Beck, et, al. 2011,35)

#### **2.4.2.1.2 Government funding**

Governments of both developed and developing countries have recognised the challenges facing the SME sector in relation to access to external finance, which may negatively affect its crucial role in achieving national development goals. Therefore, many government programmes and schemes have been implemented to ensure easy access to finance for small business.

claimed that such programmers and organizations have the capability to ease the access of Small business to additional credit. Nevertheless, Riding, Madill and Haines (2007) continued that government finance arrangements for small business can be effective only under well-specified conditions. In line with this, Zecchini and Ventura (2009) suggested that, in order for Small business to be active, such arrangements should aim at dropping the degree of discrimination against SME borrowers in terms of lending costs and unmet demand for funds, since these firms are subjected to credit rationing due to their small size and information asymmetry (Boocock & Shariff ,2005,427).

#### **2.4.2.2 Equity finance**

concluded that Small business are usually deeply reliant upon internal funds, have lower levels of debt, and avoid external equity finance, so that they can control the business without outside intervention. However, when internal funds are insufficient, they will select debt funds rather than new equity because debt reduces 39 the risk of losing control over management of the SME. (Daskalakis 2013,80)

**the most important sources of Equity finance for Small business are as follows:**

##### **2.4.2.2.1 Ownership Equity**

financing involves selling a percentage of ownership in the company to an investor. The main advantage of ownership is that the company does not incur a debt obligation that must be repaid. The investor may be paid a dividend when the company makes a profit. The biggest disadvantage of equity finance is that every time the owner sells shares, the



percentage of the company owned by the owner is diluted or falls (Burk & Lehmann, 2004,29).

#### **2.4.2.2.2 Venture capital**

Potter and Porto (2007) and Dakalakis et al., (2013) described that venture capital is a form of finance in which funds are raised from investors and redistributed by investing in high-risk firms that are mostly young or start-up businesses. A variation of organisations exists in the venture capital market, namely: public corporations, small business investment corporations, and private limited partnerships. Compared to other financing sources, venture capital investment is uniformly related with high risk and uncertainty (Dakalakis et al., 2013). As argued by Smolarski and Kut (2011), when providing external finance to firms, venture capitalists encounter a significant adverse selection problem and moral hazard. Berger and Udell (2006) added that another problem that may arise is that of agency, which occurs in the relationship between the venture capitalist and the Small business owner-manager when the latter lacks sufficient information or skills to make optimal production decisions. This problem might also be combined as information about the project is imperfect and revealed over time ( Aly, et al., 2010,182)

### **Second : Islamic banking and finance small business.**

#### **2-1-Effect of Islamic Banking on Financial Performance of small business.**

financial measures of performance as the results of a firm's operation in ways that can be individually measured and verified. Financial systems play a huge role in seeing the development, growth and success of firms. Most small and medium enterprises (SMEs) look up to financial institutions to enable them performs and grow financially. Financing most definitely has the potential to greatly affect the performance of SMEs. (Yahaya and Lamidi 2015,16)

### **2.1.1 Competitive Advantage:-**

A study on the impact of Islamic banking on entrepreneurial motivation, firm competitiveness and performance in South-African Small and Medium Enterprises (SMEs) and concluded that Islamic banking has a positive impact on firm competitiveness. Adopting Islamic banking interest free loans enables businesses to gain competitive advantage over those Small business that lack financial resources mainly due to high interest rates. The provision of these interest free loans also ensures that the Small business gain market share mostly dominated by large businesses. Competitive edge is usually important for businesses and is usually a factor for measuring financial performance. If a company has competitive advantage over another, it is reported to be performing better financially (Sibanda& Pooe 2014,114).

### **2.1.2 Profitability and Sales Growth**

firms tend to perform better and attain better profits when they steer their businesses in a good financial direction. Akinyi (2014) states that one measure of SME performance that can be used is sales growth. Sales growth is the amount by which the average sales of a business or a company's products or services have grown typically over time. Nyangoma (2012) conducted a study on credit terms, access to finance and financial performance of SMALL BUSINESS in Kampala and noted that Small business face difficulty in accessing finance from financial institutions, due to lack of financial knowledge, which prevents them from knowing how and where to get this finance on acceptable terms, and the risk associated with their failure to pay back funds (Omerzel and Gulev ,2011,335)

### **2.1.3 Optimal Use of Resources:-**

Plakalović (2015) states that having information about different types of financial products enables and assist them in optimization of available resources by using them in a more efficient way. Not only does having all necessary resources contribute to the

financial performance of a business but knowing how to fully optimize these resources is a huge bonus for all businesses. Omerzel and Gulev (2011) states that firms perform better not only because they possess better resources but also because of any distinctive financial knowledge they may have that allows them to make better use of this resources. A company may have valuable and unique resources, but it can only create and sustain competitive advantage if it has the capability to use those resources effectively .( [Plakalović 2015,133](#)).

#### **2.1.4 Improved Liquidity:-**

Liquidity refers to the ability of a firm to meet its short term obligation as and when they fall due. Islamic banks do not suffer from excess liquidity and therefore they are more cost effective in comparison to the conventional banking system. This therefore enhances their profitability which improves their financial performance (Safiullah, 2010). According to Ahmednoor (2012) any change in the size of Islamic bank's product will have an effect of the earnings of the bank. Islamic banks are more liquid than CBs and have better liquidity management practices compared to the conventional banks.( [Ika and Abdullah ,2011](#))

#### **2.1.5 Enhanced Capital Structure**

Capital structure refers to an optimal mix of debts and equities of the company to enhance financial soundness. The debts and equity as sources of financing attract different costs. However, since Islamic banking system does not recognize interest on loans, this clearly implies that the capital structures of Islamic banks and the conventional banking systems are different ([Alhafi, Z. 2015,121](#)).

#### **2.2 Islamic Banking and its Effect on Growth of Small business:-**

Alam (2015) states that SMEs' limited access to finance reflects the interaction of demand, supply, regulatory, institutional, and other policy factors that are a hindrance for

the growth of SMEs. Growth is also hindered in those countries with well-established Islamic banking by the lack of appropriate Islamic finance offerings for SMEs.( Alam ,2015)

### **2.2.1 Starting Capital: -**

(Abdulkadir ,2016) wrote a paper on Islamic Finance in Sub-Saharan Africa - new momentum, new opportunities for growth across the continent and stated that some of the challenges in regions businesses include the lack of financing and the need to have a wider access to financial services. Inadequacy of funds to start or accelerate the growth of a business is a hindrance to the development of many Small business and entrepreneurs. This can be countered by using Islamic banking as a stimulant for financial inclusion across Africa and it becoming an important source of financial capital for small companies and individuals(Abdulkadir ,2016,37).

### **2.2.2 Provision of Funds for Increasing Inventory: -**

Alam (2015) also identifies that Small business approach financial institutions for asset financing. Asset financing is described as the provision of funding by financial institutions to enable businesses to obtain the equipment and supplies they need to grow. Islamic banking can be very influential in providing these funds as the low interest rates they charge translate to more income and profits. Akinyi (2015) also states that Small business complain that their growth and competitiveness are constrained by lack of knowledge and access to enough financial resources to expand their businesses by increasing supplies and business infrastructure. The study further noted that that problem exists in many various parts of the world. (Alam ,2015,114)

### **2.2.3 Different Banking Products**

Abdulkadir (2016) states that there is a growing demand for the different Islamic banking products that Islamic financial institutions can offer. Kenya Commercial Bank (KCB)

recently launched Islamic banking with the aim of tapping into this growing demand for these Islamic financial Products across Kenya and East Africa as a whole. Islamic banking tends to provide these different products for different level of businesses and for different customers according to their repayment ability and this becomes convenient for business owners. They can choose from a variety of options to aid in the growth and expansion of their businesses ([Abdulkadir ,2016,34](#)).

#### **2.2.4 Investment and Advisory Services**

On a global scale, Islamic banks have been rendering investment and advisory services to the regions' banks and other financial institutions to build their capacity in SME banking so that they can profitably and sustainably reach out to the SME sector. 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 ([akhshoodeh& Karami 2008, 67](#)).

#### **2.2.5 Asset Based Financing:-**

Islamic banking meets the gap in financing of Small business through a portfolio of asset based financing. Through provision of asset based financing, clear financing gaps for Small businesses that determine the growth can be identified. This is because asset based financing by Islamic banking systems fulfils essential requirements of Islamic financial transaction by ensuring that the financial transaction is part of a real economic activity with a close financial linkage to the financial assets issued to the SMEs. Asset based financing is attained through Murabahah, Ijarah and Salam ([Joint World Bank-Islamic Development Bank Policy Report, 2015](#)).

### **2.3 Islamic Banking and its Effect on Credit Accessibility among Small business**

A number of studies have been carried out on Islamic banking and its effect of credit accessibility among SMEs. The studies have been based on various factors.

### **2.3.1 Low Interest Rates**

Walid (2015) undertook a study on the role of Islamic Banking on economic growth in Kenya and stated that as interest rate contribute to higher economic growth. Whenever interest rates are favorable bank lending increases and this contributes to economic growth. Islamic banks generally provide lower bank rates or no bank rates at all but rather use Islamic model of financing business. This makes it easier for businesses to access funds or credit since the periodic repayments are low. The result is increased spending thus enhanced Gross Domestic Product (GDP) and economic growth. Borrowing usually encourages investment from both the local and international level for all types of businesses in the country. (Wajdi Dusuki ,2008,49)

### **2.3.2 Aligning Islam Banking processes to fit Small businessneeds**

identifies that designing SME banking models and tailored customer value propositions that target Small business is a perfect way to increase credit accessibility. The study findings further state that streamlining Islamic banking transaction execution processes like credit approval processes to make the execution of Islamic transactions easier for Small business is a good way to ensure Small business access funding that is necessary in their growth and development. International Financial Corporation (IFC, 2013) states that most Small business lack financial knowledge about Islamic banking and financial products that suit their needs. This lack of financial knowledge is not only limited to Small business alone. Employees in Islamic banks are not also adequately staffed with employees well conversant in financial products and they are 22 often unable to recommend and structure ideal products for clients. The appropriate products structured to fit the needs of different types of Small business are available but lack of financial knowledge does not allow the Small business to properly exploit them (Alhafi,2015,121).

### **2.3.3 Building Relationships with Small business:-**

International Financial Corporation (IFC, 2013) in their study have identified that Small and medium enterprise (SME) financing in Pakistan has risen over the past couple of years and is gradually gaining momentum due to initiatives by the State Bank of Pakistan (SBP) and the Pakistan government. Some of these initiatives include the introduction of prudential regulations for Islamic SMEs. Prudential regulation involves promoting the safety and soundness of the firms in this case the Small business the banks regulate. This is an effort to enhance the relationships between the Islamic banks and the Small business and make it easier for the businesses to access credit. (Alhafi, 2015, 122)

### **2.3.4 Information Sharing**

There is a clear lack of knowledge concerning the Islamic banking products among most Small business which hinders the uptake of the products. In order to solve this problem, there is a need to provide the SME Islamic finance forum platforms, including standardized documentation, and Shariah standards and operation manuals in multiple languages. Information sharing contributes towards to the development of the financial system which is an important determinant of Small business growth (Wachira, 2015, 121).

### **2.3.5 Credit Terms**

Credit terms refers to the standards that commercial banks apply in determining the ability of clients to repay their loans and when it matures. Credit terms help financial institutions in gauging the credit worthiness of the customers while hedging against the risk of loss in case of non-repayment from the side of the borrower. Funds for Small business growth from different financial institutions come with different terms. Credit terms usually state the credit period, the credit limit, the interest rate, and method of calculating interest and frequency of loan installments especially in a non muslim banking institution.

# CHAPTER THREE

## Empirical Results and Discussion

### 3.1 Introduction

This chapter covers the research design that was used in the study. It also covers the target population and the sample procedure that was used to determine the sample size. Lastly it covers the research instruments used for the study, the data analysis and interpretation methods and the ethics considered while carrying out the study.

#### 3.1.1 Research Design:-

This study employed a descriptive research design to study the effect of Islamic banking on growth of Small businessin Kurdistan region: a case study of KIB Bank. The choice of the research design usually must be able to answer the research questions. Descriptive research portrays an accurate profile of people, events or situations.

by (32) forms of this questionnaire for the year 2023. We processed the results through SPSS and we analysis average standard deviation, mean, frequency, percentage.

### **3-2 Analyse data related to general information about respondents: -**

#### **Section 1: General Information**

In this section, we will show and analyses the personal information about questionnaires respondents: -

**3-2-1 Gender:** through the following table, we will analyze the gender of the sample respondent:

**Table 3-1 Distribution of respondents by gender**

		N	%
Gender	Male	17	<b>53.1%</b>
	Female	15	46.9%
		<b>32</b>	<b>100%</b>

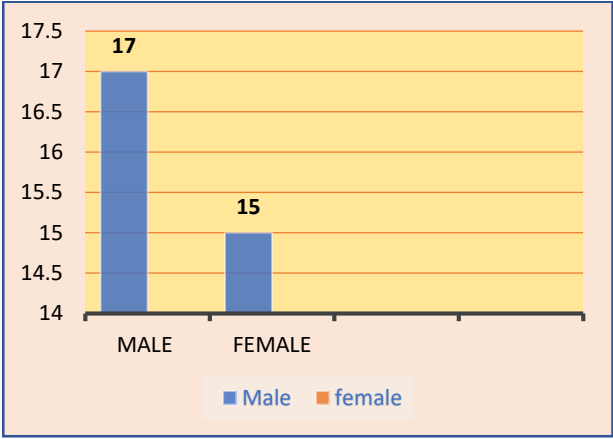
Source: researcher, depending on questionnaire data



As shown in table 3-1, (53.1%) of the sample respondents are male, while (46.9%) of the respondents are females, this indicates that males have more opportunities to compared to females.

**Figure 2**

**Distribution of respondents by gender**



Source: researcher, depending on questionnaire data

**3-2-2-Educational level:** through table 3.2, we will indicate to the educational level of the sample respondents:

**Table 3-2 Distribution of respondents by educational level**

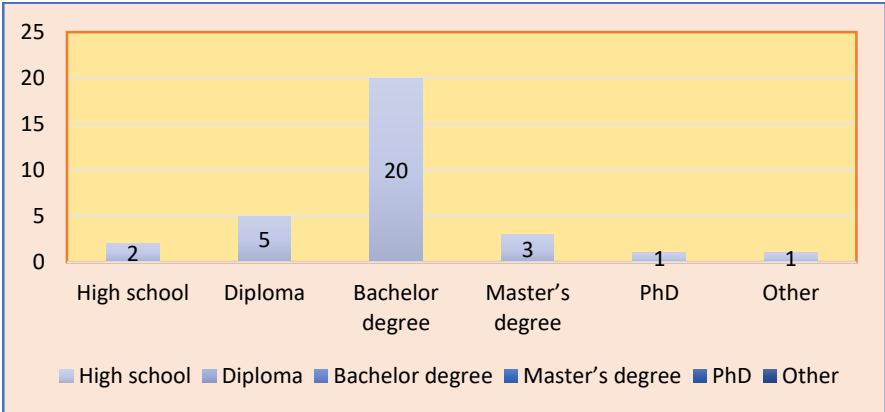
		N	%
Edu	High school	2	6.3%
	Diploma	5	15.6%
	Bachelor degree	20	<b>62.5%</b>
	Master’s degree	3	9.4%
	PhD	1	3.1%
	Other	1	3.1%
		<b>32</b>	<b>100%</b>

Source: researcher, depending on questionnaire data.

As shown in table 3-2 Most of the participants in this survey have Bachelor degree (62.5%), followed by Diploma (15.6%), Master (9.4%), High school (6.3%), PhD and Others (3.1%) respectively. Most of them are always use electronic banking service (28.1%) while (56.3%) of them.

**Figure 3**

**Distribution of respondents by educational level**



Source: researcher, depending on questionnaire data

**3-2-3-Age:** through table 3.3, we will indicate to the Age of the sample respondents:

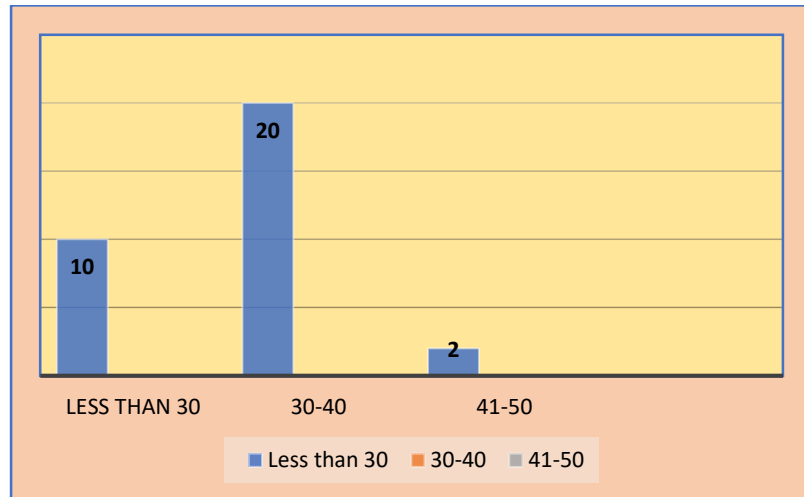
As shown in table 3-3, Most of the participants are aged between 30 and 40 years (62.5%) followed by more less than 30 years (31.3%), and between 41 – 50 years (6.3%) respectively.

**Table 3-3 Distribution of respondents by Age**

		N	%
Age	Less than 30	10	31.3%
	30-40	20	62.5%
	41-50	2	6.3%
		<b>32</b>	<b>100%</b>

Source: researcher, depending on questionnaire data

**Figure 4**  
**Distribution of respondents by Age**



### **3-3 Analyse data related to the problem of the research:-**

In this section, we will show and analyses the data related to the research problem: -

**Table 3-4 Descriptive Statistics for the Islamic Banking Affected Financial Performance**

	Strongly disagree		Disagree		Undecided		Agree		Strongly Agree		Mean	Standard Deviation	Result
	N	%	N	%	N	%	N	%	N	%			
Q1	0	0.0%	3	9.4%	3	9.4%	8	25.0%	18	56.3%	4.281	0.991	Strongly agree
Q2	1	3.1%	1	3.1%	4	12.5%	13	40.6%	13	40.6%	4.125	0.976	Agree
Q3	0	0.0%	5	15.6%	6	18.8%	14	43.8%	7	21.9%	3.719	0.991	Agree
Q4	1	3.1%	1	3.1%	12	37.5%	12	37.5%	6	18.8%	3.656	0.937	Agree
Q5	1	3.1%	2	6.3%	8	25.0%	11	34.4%	10	31.3%	3.844	1.051	Agree
Q6	0	0.0%	2	6.3%	7	21.9%	18	56.3%	5	15.6%	3.813	0.780	Agree
Q7	1	3.1%	1	3.1%	9	28.1%	17	53.1%	4	12.5%	3.688	0.859	Agree
Q8	1	3.1%	6	18.8%	6	18.8%	10	31.3%	9	28.1%	3.625	1.185	Agree
Q9	2	6.3%	2	6.3%	17	53.1%	10	31.3%	1	3.1%	3.188	0.859	Neutral
Q10	0	0.0%	4	12.5%	9	28.1%	8	25.0%	11	34.4%	3.813	1.061	Agree
Q11	1	3.1%	3	9.4%	7	21.9%	13	40.6%	8	25.0%	3.750	1.047	Agree
Q12	0	0.0%	1	3.1%	10	31.3%	10	31.3%	11	34.4%	3.969	0.897	Agree
Q13	1	3.1%	5	15.6%	11	34.4%	10	31.3%	5	15.6%	3.406	1.043	Agree
Q14	0	0.0%	3	9.4%	9	28.1%	15	46.9%	5	15.6%	3.688	0.859	Agree
Q15	1	3.2%	0	0.0%	9	29.0%	11	35.5%	10	32.3%	3.935	0.964	Agree
Q16	0	0.0%	2	6.3%	19	59.4%	7	21.9%	4	12.5%	3.406	0.798	Agree
Q17	0	0.0%	3	9.4%	6	18.8%	13	40.6%	10	31.3%	3.938	0.948	Agree
Q18	0	0.0%	0	0.0%	2	6.3%	21	65.6%	9	28.1%	4.219	0.553	Strongly agree
Q19	0	0.0%	3	9.4%	11	34.4%	15	46.9%	3	9.4%	3.563	0.801	Agree
Overall											3.770	0.926	Agree

Table 3.4 shows the descriptive statistics about the Islamic Banking Affected Financial Performance, Q1 has the highest mean (4.281) followed Q18 (4.219), Q2 (4.125), Q12 (3.969), Q17 (3.938), Q15 (3.935), Q5 (3.844), Q6 (3.813) and so on as shown on figure 3.1.

The responders are totally **agree** for all questions about **Islamic Banking Affected Financial Performance**, its objectives and importance because their averages are close to 4 as well as the overall of average is 3.770 which is close to 4.

## **CHAPTER FOUR**

### **Conclusion and Recommendation**

#### **1- Conclusions: -**

##### **1- Effect of Islamic Banking on Financial Performance of Small business:-**

The study concludes that the management team of Small business is able to improve the financial

profitability. Furthermore, Islamic banking has led to growth of Small business financially. Islamic banking has improved the level of competitiveness of Small business on the market.

##### **2- Effects of Islamic Banking on Growth of SMEs**

The study concludes that Islamic banking offers Small business with different banking product from the formal banking products. Furthermore, Islamic banking has ensured equitable access to credit for my business growth. Islamic banking has improved SME's compliance with regulatory provisions.

##### **3- Islamic Banking and Credit Accessibility among SMEs**

The study concludes that Islamic banking customizes its products for SMEs. Nevertheless, Islamic banking has relationship officers who keep in touch with Small business continuously. Islamic banking has also diversified collateral needed for loans by SMEs.

##### **4- Effects of Islamic Banking on Financial Literacy of SMEs**

The study concludes that Islamic banking has improved SMEs' financial decision making processes. Islamic banking has enlightened SMEs' on financial products available on the market. Islamic banking has also improved the SMEs' problem solving skills.

## **2- Recommendations**

1- The study recommends that Islamic banks should use new SME banking models to target SMEs. The use of mobile banking to enhance financial inclusion and reduce the cost of

administering an account could be a good initial step. The management of Small business should

also seek to enhance their financial performance by increasing their uptake of the Islamic banking products.

2-The study recommends that to utilize Islamic financing schemes in SME financing, one of the problem that should be overcome is asymmetric information. The government can play roles in decreasing the asymmetric information by acting as strategic partner for Islamic bank to identify the potential SMEs. Furthermore, Small business should enhance their growth by actively substituting the different banking products given by Islamic banking system.

3-As the SME sector develops, the needs are likely to evolve. Expansion and development of SME operations would lead to the demand for more long-term and financially sophisticated products. Banks should recognize these issues and look to enhance and develop their Islamic product offerings to meet the needs of the SME sector. The study further recommends that the management team of Small business should seek highly customized financial products from Islamic banks to enhance credit accessibility.

4-A majority of Small business do not have sufficient knowledge about finance and management,

business skills (such as financial modeling, future planning, and forecasting) and information related to government rules and regulations that impact their functioning.

Furthermore, Small business should make prudent and rational decisions in connection to Islamic

banking products as a way of enhancing their financial literacy.

5-The study found out that Islamic banking play a critical role in Small business segment of the

economy. As such it is important to carry out a study on the potential for Islamic banking in enhancing economic growth.



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## Appendix

### Questionnaire

Regarding the completion of a graduate research entitled **(The role of Islamic banks in financing small business: KIB case study in Erbil city 2023)** that your answer to the paragraphs of the questionnaire will play a major role in conducting the research, knowing that the information that will be used for the purposes of graduation research for students of the fourth stage in the department - finance and banking - in the Faculty of Management and Economics - Salaheddin University only I wish you success and success.

Please mark (✓) in front of the option that you believe represents your required answer in all questionnaire fields: -

#### **Section A: General Information**

##### **1. Gender:**

Male  Female

##### **2- Educational :**

High school  Diploma  Bachelor's degree

Master's degree  PhD

**3 – Age: -**

Less than 30  30-40  41-50

**Section B :- Islamic Banking Affected Financial Performance.**

Below are several statements regarding the effect of Islamic banking on financial performance of SMEs.

Please put a tick (✓) in front of the option you see fit.

N	Dimensions of use	Strongly -Agree	agree	Undecided	Disagree	Strongly-Disagree
1	Islamic banking has provided the required capital for my business.					
2	Islamic banking has shared profits with me at the end of the loan repayment.					
3	Islamic banking has improved my financial management Skills.					
4	Islamic banking has enhanced my accessibility to capital					
5	Islamic banking has improved my level of competitiveness on the market					
6	Islamic banking has facilitated the growth of my business market share					
7	Islamic banking has improved the sales growth rate of my Business					

8	Islamic banking has facilitated better use of my resources.					
9	Islamic banking has led to growth of my Small financially					
10	The management team is able to improve the financial profitability					
11	Adopting Islamic banking interest free loans enables businesses to gain competitive advantage					
12	Small business have gained market share due to interest free loans					
13	Islamic banking has facilitated my accessibility to greater market					
14	Islamic banking has improved my compliance with regulatory provision					
15	Islamic banking has provided me with the required capital for my business expansion					
16	Islamic banking has connected me with other businesses to share business experiences					
17	Islamic banking has offered me inventory loans to expand my business					
18	Islamic banking has ensured equitable access to credit for my business growth					
19	Islamic banking has offered me a different banking product from the formal banking products					